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Farmers Face Phase IV

The nation's farmers face mixed prospects as they enter the Phase IV period. A bumper harvest now appears probable, because of the much-improved weather and a sharp increase in planted acreage. The export picture looks very promising—too promising, in fact, since it is necessary to ration foreign customers to ensure adequate feed-grain supplies for the domestic market. But shortages and high prices will probably continue to beset the livestock sector, because the industry's earlier problems have now been aggravated by the cost-squeeze pressures generated by the price freeze.

In view of the strong public demand for a quick end to the price freeze, the new Phase IV control program was introduced on July 18. Prices for food products (except beef) were released from the freeze immediately upon the announcement of the new program, to allow the pass-through of the costs of raw agricultural products since the pre-freeze date of June 8. The shift in controls was designed to alleviate the problems of the cost-price squeeze and to encourage the expansion of farm production.

Price problems

Consumer food prices have increased sharply and almost without interruption since the turn of the year. The all-food price index during the first half of 1973 showed the most rapid rise since the early Korean-war period, averaging 1.8 percent per month. Moreover, farm commodity prices increased even more rapidly, with a spectacular 3.9-percent monthly rate during this period, suggesting that strong upward pressures on retail food prices will occur during the months to come.

These advances in farm prices were much larger than most analysts had anticipated. During the early months of the year, it had been expected that the actions to augment farm output, along with the incentive of rising prices, would bring about larger supplies of crops and livestock products, particularly in the second half of the year.

However, the forecast turned out to be overly optimistic, as farm operations were hit by a number of disasters—a harsh winter, plus spring storms and floods, leading to the late planting of feed grains and soybeans, and heavy losses of cattle and calves in flooded areas. Other disturbing factors included the consumer meat boycott and scattered shortages of fuel, fertilizer and seed. The consequent shortfall in food supplies, coupled with an anticipated record demand for major farm commodities at home and abroad, has considerably altered the earlier optimism about food prices.

The nature of the price problem also may have changed from largely a "demand pull" situation during 1972 to a mixed phenomenon of both "demand pull" and "cost push" in 1973-74. When farm product prices first took off about the middle of last year, increases

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were due primarily to the short-run consequences of a strong and growing economy at home and a widespread failure of crop production overseas. The price situation was affected also by the low phase reached in the livestock cycle last year and by the reduction in domestic crop acreage.

Export upsurge
The export boom has contributed to the price upsurge, even as it has supported the improvement in the balance of payments. Export prospects have become unusually strong because of the worldwide expansion of population and incomes, the dwindling of grain in other producing countries, and the export stimulus created by two devaluations and later a downward-floating dollar. Because of all these factors, farm exports are expected to approach $12 billion in 1973—considerably higher than earlier 1973 estimates and very much higher than the $9½-billion total of 1972. However, the phenomenal rise in export demand, along with weather-related planting difficulties and a sharp decline in grain stocks, has also led to a 20-percent increase in prices received by farmers between January and June of 1973.

Massive price increases for feed grains and high-protein crops have brought about higher feed costs to livestock producers. Over a six-month period (November-May), production costs jumped from $37.50 to $47.90 per hundredweight for fed beef, from $26.45 to $44.85 per hundredweight for dressed broilers, and from 32.5 to 48.5 cents per dozen for eggs. These cost-push pressures increased in severity as the months progressed, and the freeze then brought the problem into even sharper focus.

Cost squeeze
Freeze II differed somewhat from the 1971 freeze, primarily because no pass-through existed for buyers to adjust their ceiling prices if they had to pay higher prices for their ingredients. Consequently, a serious price-cost squeeze developed for farmers, food processors and retailers—and still exists for the beef sector, where the freeze remains intact until next month. Producers were able to minimize their losses only by curtailing production or altering normal production processes, and these cutbacks accentuated the problems created by the earlier cutbacks of last winter and spring.

Red-meat production dropped 5 percent between January-May 1972 and the same period of 1973; placement of cattle and calves on feed dropped 11 percent in major reporting states between the second quarter of 1972 and the comparable period of 1973; hogs and pigs on farms fell 1 percent between June and June; and broiler-chick placements fell 2 percent over the same period. Obviously, the introduction of Phase IV will help farmers solve this supply problem by permitting the expansion of future production, but the improvement is likely to come about only gradually because of the market distortions developing during the freeze.

Improved harvest

In contrast to the situation in the livestock sector, the nation's crop situation has improved greatly in the past several months. The July crop condition report points to a sharp increase in output, including 5.9 billion bushels of corn (up 6 percent over 1972), 1.6 billion bushels of soybeans (up 24 percent), and 1.8 billion bushels of wheat (up 13 percent). Both the soybean and the wheat production estimates are higher than the Department of Agriculture's earlier estimates, while the projected corn output is only slightly lower than the original 6-billion bushel target.

The USDA believes that this situation will result in supplies adequate to meet both domestic and overseas demand over the coming year. More pessimistic observers believe, however, that a tight supply situation will continue even though bumper crops are harvested this year. They point out that the massive increase in grain exports to date has come from existing stocks, whereas future export demand must be met from 1973 crops alone.

On the other hand, the USDA recently reported that more land will be brought back into production for the 1974 crop year. Planted acreage in 1973 will total 321 million acres—25 million acres (9 percent) more than in 1972. On top of this, another 19 million acres will be released for production in 1974, so that the acreage available for planting will reach the highest level of the postwar period. Given the immense productive power of the nation's farm economy, crop production may well increase sharply again in 1974.

Unfounded fears?

A realistic look at the present farm situation suggests that the danger of serious food shortages is largely unfounded. However, it may take a while for consumer confidence to recover from the events described in recent headline stories—namely, the post-freeze price bulge (and the panicky upsurge in grocery buying), the sharp decline in the nation's grain stocks, and the unexpected upsurge in farm export bookings. Consumer confidence should improve, however, as this season's bumper crops are harvested and as more meat animals reach feedlots.

In the longer run, however, the implementation of a strategic grain-reserve program appears to be strongly desired. The present carryover of major farm commodities (notably soybeans, wheat and feed grains) is generally inadequate to counteract the problems created by variations of world crop production, weather-caused fluctuations in yields, and shifts in demand caused by worldwide business cycles. Consequently, at least two more good crop years may be required to bring about farm price stability and a more abundant food supply.

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