ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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FARM PRICES IN 1977

FINANCIAL AND CROPPING PLANS FOR 1977 ARE BEING FINALIZED. These plans need to include some general ideas of price patterns for next year's corn and soybean crops. Corn and soybeans are primarily livestock feed. Their value is derived from the value of livestock. Livestock value, in turn, is derived from the ability and willingness of consumers to spend money for livestock products. Consumer expenditures and available supplies of livestock products determine livestock prices.

In terms of general economic activity, rate of gain was high in late 1976. This should carry over into the first quarter of 1977. The new administration is undertaking tax and expenditure programs that should continue the stimulus to the economy through the second quarter; but after that, the picture is clouded. We expect the real growth in disposable income per capita to be 2 to 3 percent, with a general inflation rate of about 6 percent.

Livestock prices are likely to show moderate strength in 1977. The increase in hog numbers appears to be moderate enough to provide a long-term average of 65 pounds of pork per capita. The big increase during 1976 in broiler and turkey production will not be repeated. Cattle liquidation in 1975 and 1976 has reduced the beef-production base. Beef supplies in 1977 will depend on this lower production base and on the extent of further liquidation, which will be affected by the weather in the range areas and which could keep supplies high through the first quarter. Overall for 1977, we expect less beef per capita by 3 to 5 percent and cattle prices higher than the current ones.

Increased real consumer income, inflation, and fairly stable livestock product supplies should result in an increase of 7 to 8 percent for livestock and livestock product prices, and a strong demand base for feed.

Corn and soybean production is uncertain. January 1 planting intentions and the six-year average yields indicate a corn crop of 6.3 billion bushels and a soybean crop of 1.4 billion bushels. Yields at the 1972 level would produce 7.1 billion bushels of corn; at the 1974 level, 5.2 billion. At the 1975 yield level, the expected soybean acreage would produce 1.5 billion bushels, or 1.2 billion at the 1974 level. The extremes of these ranges would result in very high or very low prices, showing again the importance of weather during the past six years. For planning purposes, we should look at the center of the yield range.

Since the trend is for an increase in the world demand for feed, we can think in terms of 1.8 billion bushels of corn for export. Normal domestic use for food and industry would result in a feed availability of about 4 billion bushels. This compares to expected feed use from the 1976 crop of 3.7 to 3.8 billion, but the carryover will be increased. Current supplies and potential production suggest the need to price corn at levels that will encourage an increase in feed use.

A soybean crop of 1.4 billion bushels would almost equal the 1976-77 usage, which was reduced from the year before by limited supplies. Unless soybean acreage is significantly increased from the January 1 intentions, soybeans will remain scarce and prices will remain high in relation to those for corn.

Feed prices have been high relative to livestock prices for several years. On a base period of 1958-1971, one index of feed costs had increased 121 percent by January of 1977. A similar index of livestock and livestock product prices increased by only 68 percent. Had soybean meal and corn prices gone up only as much as livestock prices, the meal price would have been $137 instead of $207, and corn would have been $1.84 instead of $2.37. In 1977, if livestock prices go up 7.5 percent, the equilibrium price of meal and corn will be $147 and $2, respectively. This is not to say that prices will decline to such levels. What it probably means is that if corn and soybean yields are large, prices will decrease substantially from the current levels.

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