ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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PRICE OUTLOOK MIXED

AGRICULTURAL PRICE OUTLOOK SPECIALISTS from several universities in the Midwest recently met to discuss the price outlook for the major agricultural commodities during the year ahead. There was no consensus on a specific price outlook, but here is a brief rundown on current thinking.

The outlook for agricultural prices must be evaluated in the context of general economic conditions. Mike Evans, President of Evans Economics, Inc., told the group that the economy is currently in the first stages of a recession. Recent economic growth has been spurred by consumer spending, resulting in large consumer debts. Debt repayment is curtailing consumer spending, which is not being offset by increases in business spending. The recession is expected to be more severe than the average postwar recession, but not as severe as in 1974-75. The trough of the downturn may be reached in the first quarter of 1980, but the recovery could be abnormally sluggish. Unemployment is expected to reach a high of 8.5 percent, but the rate of inflation could moderate somewhat in 1980.

HOGS. The decline in hog prices resulting from extremely large increases in production will continue at least through the fall and early winter. The number of pigs farrowed in the March-May period this year was 22 percent higher than a year ago. Those hogs will be coming to market before the end of the year. If the farrowings for June through November are anywhere near as large as the June intentions, prices will remain under substantial pressure through next spring. Prices below $30 per hundredweight are possible. Farrowings are not expected to show a year-to-year increase in the winter quarter and may decline next spring. Prices should recover during the last half of 1980.

CATTLE. The liquidation of cattle herds has ceased and the rebuilding phase of the cattle cycle has begun. Beef supplies will be shrinking. Production has declined by about 11 percent so far in 1979 and may decline another 5 percent in 1980. Considerable uncertainty exists about the impact of large pork and poultry supplies on beef prices. Consumer spending choices will also have an effect. Cattle prices are expected to increase from current levels, perhaps averaging in the mid-$70 range in 1980. Prices above $80 are certainly possible. Higher prices for fed cattle and moderating feed costs will push feeder cattle prices considerably higher.

Current projections indicate a minimum carryover of 270 million bushels of soybeans, up from about 155 million this year. Projected disappearance adds up to 2.015 billion bushels, compared to 1.864 billion for this crop year. Embodied in the projection is an increase in the domestic use of soybean oil of 5.7 percent, a rise in soybean oil exports of 3.8 percent, a 6.8 percent increase in the domestic use of soybean meal, and 6.5 percent greater exports of soybean protein.

Europe is the biggest importer of soybean protein. Demand there will probably decline because of the importation of less manioc, which requires heavy protein supplementation. In general, we should expect a smaller increase in livestock numbers outside of the United States.

The domestic demand for soybean meal will be held up during the first half of the year by large increases from a year ago in the number of hogs, broilers, and turkeys; but those numbers may decline during the second half. The first-half increases will be offset by low to negative profits. Hog producers who are losing money are not good meal customers. To get the projected major increase in meal use, meal will have to be priced at levels hog producers can afford.

These things boil down to the prices livestock producers can afford for meal and to prices for soybeans and soybean oil at which inventories will be accumulated. Attudes toward inventories will be affected by inflationary expectations and the prospective size of the 1980 soybean crop. Such weak underpinnings for the market make major strength from current prices unlikely and imply a lot of downside risk.

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