



WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

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PRICE PROSPECTS FOR 1981-82

IN MANY RESPECTS 1980-81 HAS BEEN A DISAPPOINTING year for many farmers. Weak domestic and foreign demand has resulted in lower than expected grain and livestock prices. With the approach of the 1981 harvest, it's time to evaluate price prospects for 1981-82.

For the year ahead, the general economic situation will probably be of greater importance than in recent years. Four major policy changes are being introduced. A planned reduction in the increase in government spending will reduce the share of GNP moving through government. A reduction in the tax rates should lead to additional capital formation and increased productivity. Reduced government regulation should lower costs and increase competitiveness. And a slower increase in the money supply is designed to reduce inflation.

At least two areas of uncertainty surround the proposed reversal in economic policy. First, will the policies be left in place long enough to be fairly tested? Cuts in social programs and continued high interest rates will create substantial pressure to abandon some policies. Second, can the goals of real economic growth and price stability be achieved without suffering through a major recession? Success may depend on needed changes in corporate and labor price policies that will allow prices to go down as well as up.

For agricultural prices, the impact of these policies will most directly affect the demand for and the price of livestock and livestock products. These prices will influence the demand for and price of feed.

If the economic policies are successful, consumers should have more real income and be less subject to inflationary pressures. While the weakness in consumer demand discussed in an earlier *Weekly Outlook* will probably not be completely overcome, some improvement is expected, which should help beef prices more than those for other meats.

On the supply side, meat availability in 1982 should stabilize or decline from the extremely high levels of 1980 and 1981. Projections suggest a

1 to 3 percent increase in beef supplies, a 3 to 5 percent increase in broiler supplies, a 5 to 7 percent reduction in pork supplies, and a stable supply of turkeys, eggs, and milk.

This broad overview points to a significant improvement in cattle and hog prices in 1981-82. Our projections suggest an annual average price of about \$73 for cattle and \$53 for hogs, a 15 percent increase from 1980-81. As the prices of other livestock commodities stabilize, an increase of about 10 percent in aggregate livestock and livestock product prices may occur.

With large grain crops, corn and soybean meal should be priced attractively to the livestock producer. Based on livestock price projections, the feed value of corn can be calculated at about \$2.85 (at the farm). Soybean meal would be worth about \$200 per ton (bulk at Decatur, Illinois). With oil priced at 24 to 25 cents per pound, soybeans would be worth \$6.90 to \$7.00 per bushel, at the farm.

Darrel Good

Issued by *Darrel Good*, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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