WEEKLY OUTLOOK
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WILL DEMAND IMPROVE?

MUCH ATTENTION IN THE GRAIN MARKET is currently focused on crop conditions and the upcoming September Crop Production report. Once the crop size is known, prices during the year ahead will be determined by demand. Now is a good time to examine trends in the size of the grain and oilseeds market.

Exports of grains and oilseeds from the United States increased rapidly in the 1970s. Exports were stimulated by a series of world crop problems from 1970 to 1974. In addition, the decade was a period of major economic expansion worldwide. Grain and oilseed prices were generally high during the entire decade.

The high prices of the 1970s stimulated grain production around the world. Between 1973 and 1984 the combined production of coarse grains, wheat, and rice outside of the United States increased about 45 percent. Soybean production in South America increased from essentially zero in the early 1970s to over 20 million tons in 1984. The increase in grain production finally exceeded the increase in population. World economies stagnated in the late 1970s and early 1980s.

U.S. agricultural exports peaked in 1979-80 and have declined significantly since then. Nonetheless, the world market for agricultural products will continue to grow, and the United States has a comparative advantage in the production of many grains and oilseeds. However, within the current environment of expanding world production, slow economic recovery, and protectionist trade policies, expansion of U.S. exports may be slow.

As important as exports are, the key to grain prices may well be consumer demand for livestock products. The domestic livestock market is still the end point of most grain and oilseed production, so it is in this market that grain prices are determined.

Consumer demand for livestock products has increased during most of the post-World War II period. This increase has been the main source of strength for the agricultural industry. In the past four years, however, evidence suggests that consumer demand for livestock products has weakened.

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The weak demand may be illustrated by examining the trends in meat consumption per capita, consumer expenditures for meat, disposable personal income, and the price of meat. Expenditures, income, and prices must be compared in constant-valued dollars. For example, during the 1960s, per-capita meat consumption rose by 18.5 percent, and incomes increased by 28.2 percent, but expenditures for meat grew by only 8.7 percent, and real meat prices actually declined.

From 1969 to 1979, per-capita consumption increased by 8.1 percent, incomes increased by 22.6 percent, expenditures went up 20.6 percent, and real prices *rose* by 11.5 percent. That decade may have been the golden era of consumer demand for meat, and it coincided with a rapid increase in export demand.

From 1979 through 1983 per-capita meat consumption was steady, and incomes rose by 3.1 percent; but meat expenditures declined 17.8 percent, and real prices declined 18.7 percent. Real-term meat prices are now at record lows, and expenditures for meat have declined to the 1969 level. The percentage of income spent for meat decreased from 4.8 percent in 1974 to 3.4 percent in 1983.

The weak export market for grains and oilseeds and declining domestic consumer demand for meat contributed to low grain prices from 1981 to mid-1983. These factors have also contributed to the poor performance of prices over the past ten months in the face of significant decline in grain supplies.

While current estimates for 1984-85 do not suggest a large grain supply according to historic perspectives, prices are relatively low. Unless demand prospects improve, increases in grain and oilseed prices will be very modest.

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