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Improving a Harsh Climate

Clayton K. Yeutter
Assistant Secretary of Agriculture

U.S. Department of Agriculture
Office of the Secretary

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Improving a Harsh Climate

America's livestock industries currently are facing a harsh climate. I refer not just to the weather problems that lowered feedstuffs production this year -- though the weather has certainly been bad enough. We started the year with drought in the Southwest that hit grain sorghum production and a good bit of feed wheat. Then the heavy rains delayed corn planting -- and the long, hot dry spell struck those late-planted crops and nearly finished some of them. Now we have had problems with early frost.

All of this bad weather in 1974 comes on the heels of the adverse weather that tightened the world grain supply in 1972 and 1973. It also comes on the heels of dollar devaluations, which may have fundamentally altered our grain price structure. It comes at the same time as peaks in the cattle cycle...not only in the U.S., but in Australia as well, and perhaps in Western Europe.

Perhaps the worst climate of all at the moment is the consumer climate. Livestock production has peaked just when consumers are suffering serious losses in buying power because of double-digit inflation. Consumers in this country and around the world are trimming back their budgets and often their diet expectations. They are spending more of their incomes for gasoline, the electric bill and medical care, which makes it difficult to spend more for food too.

Speech by Assistant Secretary of Agriculture Clayton K. Yeutter before the Annual Seminar of the American Feed Manufacturers Association, Minneapolis, Minnesota, September 26, 1974

We will produce another feed grain crop next year, and the odds are strongly in favor of better weather. We could have a repeat of 1974, which in some areas of the U.S. gave us the worst crop weather we've had since 1934. But it is unlikely that this will occur. With normal weather and adequate fertilizer the trend lines indicate we could even top the 100 bushels per acre mark on our national corn average for the first time. If we do, we would obviously have the feed grain supply for next year's requirements, and would also have taken a big step toward restoring feed grain stocks.

We are far less certain of whether consumer buying power will be resurrected next year than we are of our corn-growing ability. The livestock industry has been building on the demonstrated desire of consumers for more livestock protein. The desire is still there, but there is some question about effective demand. Consumers are having to tighten their belts, in the U.S., in Western Europe, in Japan, in most of our major markets. With livestock demand softening, and with so many cattle and hogs available for the world market, the short-run profit outlook for our livestock industries is poor.

It is a difficult time for livestock producers to become accustomed to a new plateau for grain prices. Higher production costs have raised the fundamental world price range for corn, sorghum and soybeans. Our crop farmers will probably never again be able to produce livestock feeds at the price levels of 2 or 3 years ago. We want them to make a good living too. That means that the future of the livestock industry will depend heavily on the re-generation of consumer demand.

There is no way to alter the reality of tight feed supply this year. Our corn crop is unlikely to go much above 5 billion bushels. And the feed grain carryover this year is record low, so we must simply stretch less grain over more livestock.

Fortunately, some other important grain-producing areas are getting good crops this year, and are helping take some of the pressure off our short crop. The Soviet Union has evidently harvested the second-biggest grain crop in its history, somewhere around 200 million tons. Western Europe's grain crops were excellent, and they will have wheat to feed. The Southern Hemisphere harvested good feed crops this spring, and seem to have good conditions for their next crops.

Even so, the rest of the world will be stretching its feed supplies just as we will. The Common Market countries I just visited expect to cut their overall feed use by 10 percent, and their feed grain imports by considerably more than that. Most of the adjustment will come in cattle and hogs.

The Japanese also expect to make adjustments in response to the current situation. We are continuing a series of contacts with all of our important markets, to make sure that we are abreast of the needs and that there will be no unforeseen demands on our supplies of feed-stuffs.

Overall, we expect U.S. feed grain exports this year to be down 57 percent. This is ~~the volume of~~ a very large decline in volume, and we must be careful not to lose any of our foreign markets in the process.

In the meantime, we must make the most of the feed we do have. It is important to remember that we are harvesting a large feed grain crop, even if it is not as large as we would like. In fact, it is the fourth largest we have ever had. We do have a great deal of forage in this country, and we will undoubtedly use it more extensively than in the past. Ensilage falls in this category, and I expect that live-stock producers will put up more ensilage this fall than ever before. We will also market many more cattle directly off grass next year; already this year we have slaughtered more than 3 million non-fed steers and heifers, compared with perhaps ~~four hundred thousand~~ 400,000 for all of 1973.

The efficiency and cost of feed rations, of course, becomes more critical than ever. I am sure your researchers are already deeply into efforts in this direction.

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~~As a consequence,~~ broiler production is already being cut back. We expect a ten percent cut in placements for the fourth quarter of 1974, and that cutback may well continue into early 1975. Since feed costs will remain relatively high, the keys to future profitability in the poultry sector will be consumer demand and competing supplies of red meat.

For early 1975, we expect pork production to be down 5 to 10 percent with smaller farrowings this fall and next year. For beef, marketings will be up at least 5 percent, even though fed marketings will be down.

Dairymen are now facing an exceptionally low milk-feed ratio. Prices will have to rise to compensate for higher production costs. Last year, in a similar cost-price squeeze, milk prices rose $1.61 between August and December. Hopefully, a similar trend will develop this year.

We do not believe that raising milk price supports is a solution to the dairy problem, any more than the new cattle loan program is a long-term solution to the problems of the beef industry. Both industries must in the long run depend on the market for their returns. Producers will never do well if they must sell to the government.

That makes the anti-inflation fight just about the most important thing in this world to U.S. livestock producers and the feed industry.

President Ford has clearly given this fight his top priority. He is working through the economic summit meeting and the preliminary "foothill" meetings to define for the American people the roots of inflation and a broad consensus on the measures we must take to curb it.

Some general conclusions seem to be emerging already. For example, there seems to be consensus that the inflation problem started with too large an increase in the money supply in recent years. The money supply since 1963 has increased roughly 125 percent, with the real output of the economy increasing less than half that fast.

There is general agreement that the government seriously aggravated the problem by spending more than it took in in taxes. We have had budget deficits in 14 of the last 15 years.

Now, on top of these problems, we have had bad weather for the world's agricultural crops, and four oil price increases in the past year. Economists agree that we cannot return to a high rate of money growth without heating up inflation all over again.

Most conference participants agree that a top priority should go to cutting the Federal budget for fiscal year 1975 as much as we can, and for tightly controlling the 1976 budget.

The curbing of inflation is desperately important. It will require all of us to reassess what is possible and desirable for our own life-styles and for the country as a whole.

We must re-create an economic climate in this country that will reward savings and investment, rather than rewarding those who spend money faster than it can be earned.

Only then will we have a solid basis for new growth -- for the country and for its livestock and feed industries.

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