

POTATO OUTLOOK 1974

by
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Farmers in 1974 are faced with decisions which are somewhat different than any they have faced in recent years. Prices for virtually all farm commodities in the past year have been favorable to very favorable. The current situations certainly suggest some continuation of this type of situation during the current year. If we could expect prices to remain in their same relative position for the current year as appeared last year, it might ease the decisions on what should be planted and how much should be planted. Unfortunately, we cannot rely completely on history for determination of what prices will be in the future. Owen has just finished giving you a rundown of some of the expectations as far as the world situation is concerned, so I will try to switch gears and take a look at potatoes.

As you are all very keenly aware, it is the dollars taken home at the end of the year that really count, not the total amount that has been taken in. Production costs do show definite prospects of rising, in many cases sharply during the current year over last year. This, of course, is going to have a definite impact on the amount of dollars finally brought home.

I perhaps have the easier of the two topics to deal with when it comes to trying to make some projections as to where things may finally shake out this year. With potatoes we are primarily concerned with the domestic production and domestic markets as opposed to the world production and world markets for wheat.

If we followed historic patterns it would seem likely that potato production would increase in 1974. Past patterns have suggested two years of good prices followed by one to three years of somewhat lower prices. I have often tried to figure out why this should come out this way and the best explanation I have been able to come up with is that this pattern is associated with the availability of seed. In years of so called good prices, much of the seed moves into commercial channels and it is not available for subsequent production. Higher prices tend to encourage greater seed production in the second year. The result often turns out to be a substantially higher commercial production in the third year. With higher production comes lower prices.

Since we are now in the second year of quite favorable prices it would suggest that if past patterns hold, production would rise substantially in 1974. Prices would probably be adversely affected. There are, however, three major things which may cause us to deviate from past patterns. 1) Processor demand is likely to remain strong. 2) Other crops offer very favorable alternatives for the coming year. 3) Other major producing areas are likely to continue declining both in absolute production and as a proportion of total U. S. production. Now let's look a little further at each of these items.

Stocks of processed products are down substantially from historic levels in the face of increasing demand. I see virtually no possibility that these stocks will be replenished during the current year. Quite understandably, processors do not like to pass up sales because they don't have the product available. Hence, I expect to see them move fairly aggressively to try to line up enough potatoes that they can rebuild their stocks during the current year. A heavy rebuilding of stocks, however, at sharply increased prices is not a likely prospect. Hence, I would expect to see a resistance to sharply higher prices for the simple reason the processors don't want to get themselves in a position where at some future date they will have to try to reduce the contract price. We have a bit of mixed bag here.

Alternative crops will, I believe, have considerable influence on the plantings and the ultimate production of potatoes in 1974. If present prices hold, grains and wheat in particular offer

very attractive alternatives to potatoes. Net income could approach that which might be expected from potatoes. The energy situation also enters the picture here. I realize that agriculture has been assured of a 100% of its fuel needs for the year. If, however, we come up with some temporary shortages at crucial times, it could have a very adverse affect on potato production. Grains offer an attractive alternative. If this should develop, not only do they require less fuel for planting and harvesting, but they require very little during the period between planting and harvesting. Potatoes on the other hand require heavy inputs of fuels throughout the entire season. A temporary shortage could have a very adverse effect on yields. Fertilizer, likewise could be a limiting factor on the production of potatoes. Some farmers are almost certain to run into restricted supplies of fertilizer and given this type of situation, grains again offer an attractive alternative.

A third factor I mentioned was that of declining production in other major producing areas of the United States. Over the past decade, most of these other producing areas have been declining both in absolute production and as a portion of the U. S. total production. The Pacific Northwest has been the principal exception to this trend. Given these two factors, I have just discussed, I would seriously question that other areas will increase their production substantially, if at all. I also have some question as to whether we will see sharp increases even in the Pacific Northwest.

If things develop as I have just outlined, then it would not appear that we would be in trouble with potatoes from the supply side. Demand, however, also enters into it and has an important bearing on the price which is ultimately received. Demand in the current situation is more difficult to project. Current forecasts suggest some slowdown in the U. S. economy during 1974 with rising unemployment and a continuation of the inflationary binge that we are presently on. Whether the slowdown will extend into the period when the current crop is marketed is difficult to anticipate. As I see it, consumers are now faced with much of the same type of situation that farmers have been confronted with for a number of years. Namely, a cost price squeeze.

Costs of many items, food in particular, rose sharply last year. This has called for some dramatic adjustments of consumer budgets. They are having to put an increased share of their budget into food and from the standpoint of the farmer, this is good. Consumers are, however, making some adjustment in their food mix as a result of the sharply rising prices.

Meat consumption declined somewhat in 1973 and at the moment I would see little prospect for an appreciable increase in 1974. But what does this have to do with potatoes? At first glance, one would think a decline in meat consumption would be accompanied by an increase in potato consumption. A look at patterns in the United States, however, reveals that we are a meat and potatoes population. Does the consumer use a potatoes dish in lieu of a meat dish? I think generally the answer to this question is no. Instead they would tend to move to such dishes as macaroni and cheese, spaghetti and meat balls, or similar types of dishes as substitutes for meat. Will potatoes accompany such a diet?

There have been suggestions that the energy crisis could have an adverse effect on demand for potatoes and potato products, particularly at the drive-in type facilities. We have been experiencing a steady increase in meals away from the home and most of these meals include some type of processed potato product. Fuel shortages could result in some decline in the number of meals taken away from home because people can't drive to the drive-in restaurant or other dining places. I'm not sold on this line of reasoning because I think the American population is very adept at coping with the situation of this type. Unemployment could, however, have an impact. The unemployed are much more likely to have meals in the home rather than away from home.

In summary, I expect to see returns to potato growers in 1974 as very favorable compared with other alternatives they may have. At this point, it does not appear that production will be expanded appreciably due to tight seed supplies, possible shortages of fuel and fertilizer, and competition from alternative crops. Processor demand will continue strong and, while a slow-up in the national economy may have some negative effect on demand, it is not likely to cause disastrously low prices.