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### Introduction

A scant year ago, world agricultural prospects were the tightest in 5 or 6 years. Bad weather damaged crops in many areas, most severely in the United States, and prices were rising. It looked like economic recovery would boost demand and strengthen prices further.

Then a series of developments reversed this picture. Weather was favorable over the winter and spring of 1981. U.S. economic activity weakened after the first quarter, but interest rates rose beyond expectations. With widely favorable weather continuing this summer and fall, particularly in the United States, crop production has rebounded. Yet, sluggish global economic conditions still prevail. These developments have produced prospects much different from those of a year ago.

The agricultural outlook is currently dominated by abundant supplies. Prices are under pressure. Stocks are rebuilding sharply following reductions over the past year.

These circumstances, coupled with the impacts of high interest rates and rapid inflation, have made 1981 a difficult year financially for the Nation's farmers.

Going into 1982, supplies of farm products will continue to be large relative to demand in domestic and world markets. Yet developments in the weather, world economy, agricultural and trade policy, and other key areas could certainly modify this picture for better or worse.

For example, although we now have a good idea of the magnitude of 1981 Northern Hemisphere harvests, weather will still be influential in determining the outcome of Southern Hemisphere grain, oilseed, and other crops. As Northern Hemisphere farmers, especially in the United States, plant their crops next spring, expectations of 1982 harvests will also begin to affect supply prospects and prices.

Perhaps the most important variable in the agricultural outlook, barring unexpected weather developments, is the performance of the domestic and world economy. The United States is taking very strong steps to achieve a sustainable economic recovery. Many other governments are also moving to bring inflation under control and revitalize growth. These moves give us a basis for optimism that 1982 will be a better year in many nations. Even so, the extent and speed of recovery in world economic conditions will be crucial.

With this in mind, let's look at the highlights of the world and domestic agricultural situation and consider the variables that will come into play during 1982.

## Current Situation

Some expansion in area and especially good weather have triggered strong increases in 1981 world production of grains, oilseeds, and fibers. Strikingly, most of this year's gains took place in the United States, where crop production jumped by 14 percent and livestock output expanded by 2 percent. Although U.S. farm exports should expand in the next 12 months to meet record needs, U.S. supply increases in feed grains, rice, oilseeds, and cotton are well ahead of projected use, pointing to sharp stock buildups.

Poor economic performance, both here and in most non-oil-exporting countries, is sharply accentuating the effects of large supplies on American farmers. Slack demand is both weighing on livestock product prices and moderating exports of farm commodities.

The export picture is especially complex. Not only have weak economic conditions and rapid inflation abroad cut into agricultural product demand, but the stronger dollar in 1981 has somewhat offset lower commodity prices, while high interest rates here and abroad have forced most users to buy on a hand to mouth basis.

High interest and inflation rates have affected farmers in other ways, by sharply raising the cost of storage and boosting farmers' outlays overall.

Faced with larger supplies and weak demand, farm prices have declined through 1981. Farm commodity prices this fall are about 6 percent lower than a year ago. Cash receipts from sales of crops and livestock for 1981 will be only modestly higher than last year, and are not expected to keep pace with farm production expenses, continuing the squeeze on cash incomes. However, because of larger commodity inventories this year, farm income after inventory adjustment may be a little better in 1981 than last year's \$19.9 billion.

Since the farm sector is far from homogeneous, the actual financial condition of individual farmers depend on the type of farming enterprise, other family income sources, and the cash flow and credit balance sheets of the farm business.

Undoubtedly, with farm production expenses rising faster than cash receipts now for the second year, some farmers are caught in a cash-flow squeeze. And borrowing to cover may be tougher for some, since credit availability is affected by the combination of record interest rates, low crop prices and slower rise in land values. Producers whose credit is already heavily extended may encounter the most problems, but all farm borrowers are paying record charges for money.

At the same time, there are some positive factors to consider. Equity per farm has appreciated by nearly \$80,000 since 1979. And income from nonfarm sources, which accounts for over 60 percent of farm family income, has continued to rise, easing the impact of low farm income in 1980 and 1981.

## Factors Affecting the 1982 Outlook

Weather Developments. Turning now to some of the major variables in the 1982 outlook, recent global weather developments have generally favored crop production in the Northern Hemisphere. Southern Hemisphere weather has been more variable.

In the Northern Hemisphere, generally favorable fall moisture has aided the establishment of the new winter grain crops, except in India, where the summer monsoon stopped earlier than usual.

In the Southern Hemisphere, moisture continues generally favorable for most of Australia, but dryness has reduced potential wheat yields in northern wheat belts.

Argentina, now in a prolonged dry spell, has seen its wheat yield potential sharply reduced. Rain will be necessary to complete planting of spring crops in November, and timely rains will be essential thereafter because soil moisture is depleted.

In northern Brazil, recent summer rains benefited the previously dry coffee, corn, and soybean areas. But, with soil moisture reserves ranging from average to very limited, Brazil will need continued generous weekly rain to avoid yield losses. On balance, however, significant yield reductions are most likely in Argentina.

Planted Acreage. Farmers will base their planting decisions for 1982 crops on market expectations, their financial situation, and policy developments. The actual outcome and acreage mix, of course, will be influenced by planting-season weather. Our assessment at this early stage, is that U.S. farmers will plant slightly less wheat, especially in the Southeast, in response to the announced acreage reduction program. They are likely to put in more feed grains and sunflowers, while reducing soybean and cotton acreage a little.

Information about planting for 1982 crops elsewhere is still spotty. In Western Europe, precipitation has been favorable for winter grain prospects.

In the Soviet Union, the area of grains for 1982 harvest should increase to a more normal level. Last season's grain area was the smallest since 1972. With the Soviet planting season for winter grains just getting underway, the level of topsoil moisture crucial to earlier development is generally adequate. But good precipitation through fall and early winter will be essential to replenish depleted subsoil moisture levels.

Economic Developments. Economic prospects will play a key role in shaping the 1982 agricultural outlook. World economic activity should pick up somewhat next year. However, the outlook is still clouded by high interest rates, a large amount of unemployment, reduced rates of economic growth, higher prices for almost all goods and services, and a serious balance of payments deficit for most non-oil exporting countries.

In developed countries, GNP growth is likely to improve from 1981's sluggish 1.25-percent pace. We look for growth of around 2 percent next year, with most of the pickup likely in the second half. Japan will probably show the best performance and the United Kingdom the weakest. Economic growth, which has been poor in Western Europe in 1981, may recuperate to 2 percent.

Next year should prove a little better for the United States as we slowly recover from the poor economic performance of the past 18 to 24 months. We don't think the present recession will be very deep or very long. GNP is likely to grow about 2 percent for the year as a whole, with stronger growth during the second half. Real disposable income per person should gain about 2

percent, again mostly in the second half, lending some strength to farm product demand.

Economic growth in developing countries probably won't match historical rates next year. But there is great diversity. OPEC countries, for example, are trying to slow down their hectic pace of expansion. On the other hand, low-income developing countries have had some rough years since 1979. Many have drawn down reserves, suffered high debt-service ratios, and grown more dependent on external aid. Next year won't bring much improvement.

For a group of non-oil-exporting, but rapidly expanding developing countries, growth is likely to maintain its present fairly strong pace next year. Recent bouts with inflation have been met with restrictive monetary policies in some countries, with some success.

Trade with the Soviet Bloc. A major factor shaping agricultural trade prospects in 1982 will be developments in the Soviet bloc countries. Sales of U.S. grains and oilseeds to the Soviet Union in coming months will be an important market factor. Larger grain and protein imports will be critical in maintaining Soviet livestock numbers. The level of livestock numbers is a key element in longer term trade prospects with the United States.

For the third consecutive year, poor weather cut deeply into Russian grain production. We project that Soviet grain imports, which have grown without fail in recent years, may reach an unprecedented 43 million tons. The United States recently negotiated sales of up to 23 million tons of grain to the Soviets under the last year of our long-term bilateral grain agreement. So far the Soviets have purchased 4.3 million tons of wheat and an equal amount of coarse grains in this sixth agreement year that ends with September 1982.

The sensitivity to overall food availability in Eastern Europe has been heightened by a smaller total grain harvest, burdensome debt service commitments, and in Poland, continuing political and economic difficulties. Tight food supplies have made rationing measures necessary in Poland and more recently Romania. No decision has yet been made by the U.S. Government on Commodity Credit Corporation loan guarantees to four eligible East European countries.

Policy Changes. Agricultural and trade policy decisions, both here and abroad, will greatly influence the impact of adjustments to current large supplies and sagging economic conditions.

In order to help bolster grain markets, the Secretary has already opened the farmer-owned grain reserve to 1981-crop wheat and feed grains.

Consideration of new farm legislation to replace the expiring Food and Agriculture Act of 1977 is still underway. Congressional debate continued after passage of two laws of great potential significance to agriculture, the Omnibus Budget Reconciliation Bill of 1981 and the Economic Recovery Tax Act of 1981. The first law signaled a redirection of Federal spending policy after years of rapid growth; the second enacted many tax reforms of importance to farmers. Both are key to the Administration's economic recovery program.

Farmers will reap the benefits of new tax provisions for lower personal and corporate income tax rates, more rapid depreciation timetables, encouragement of equipment leasing, and liberalization of inheritance tax provisions.

At the same time, they will benefit from the added savings and investment that the tax package will generate.

Congress has been considering new farm legislation at a time when every program in Federal Government is being closely scrutinized for cost and effectiveness. Although the final provisions of the new farm bill are not known at this date, it is likely that dairy support prices will hold steady through fiscal 1982 and rise much more modestly in the future in an effort to try to bring milk production into better balance with consumption. However, we will have to wait until the conferees complete their work this week to know the final provisions for dairy and the other commodities.

### World Grain Prospects

Let's take a look now at some highlights of the outlook for major commodities.

Record global crops of wheat, coarse grains, and rice this season are leading to a 4-percent increase in world grain output. The increase comes largely from the United States, and is expected to boost total supplies for 1981/82 by around 2 percent. These large supplies, coupled with a continued large world output of animal products and some recovery in global economic activity, will help provide at least modest advance in consumption.

World grain stocks at the close of 1981/82 are likely to recover sharply from the previous season, and about match the large 1979/80 levels. This suggests ending stocks equal to about 13 percent of annual consumption. Three-fourths of the stock increase will likely take place in the United States, which holds about two-fifths of the world's grain stocks.

### Coarse Grains

Coarse grains are providing most of the expansion in global grain supplies, trade, and stocks in 1981/82. Current estimates point to a 5-percent increase in the world's coarse grain crops to 767 million tons. A record U.S. crop is more than offsetting poorer crops in the Soviet Union and Western Europe. Prospects are mixed for other exporters. Canada has record output and Australia's crop will recover from last year's drought-reduced level, but smaller crops are likely in Argentina and South Africa.

After two flat years, world coarse grain consumption may rise modestly, mostly reflecting greater usage expected in the United States. Reduced foreign crops and increased consumption could boost world trade by 6 percent to a record 111 million tons, with the Soviets alone projected to import 24 million.

Even with increased consumption, world coarse grain stocks may rise by one-fifth, virtually all in the United States.

The U.S. coarse grain crop may total 246 million tons, a fourth above last year, mostly because of sharply higher corn yields. Even with a much smaller carryin, total U.S. 1981/82 coarse grain supplies will be 12 percent larger than last season.

Domestic coarse grain use may increase 7 percent, thanks to expected pickup in fed cattle and broiler output and more normal winter temperatures, which would increase feeding rates from those of last winter. What's more,

U.S. exports should increase by over a tenth, to 74 million tons. Even so, our coarse grain ending stocks are likely to rise sharply to 50 million tons. We expect about half of this to be isolated from the market in the farmer-owned reserve and CCC inventory.

U.S. corn prices fell to around \$2.50 in October, and for the 1981 crop year may average between \$2.60 and \$2.90 per bushel, down from the record \$3.10 average for the 1980 crop.

### Food Grains

In contrast to the concern over a big buildup in world coarse grain stocks, coming from record U.S. feed grain crops, the world and U.S. wheat picture is much brighter.

We forecast a 2-percent gain in world wheat production this year, with sharp gains in some major exporting countries more than offsetting smaller crops in Western and Eastern Europe and the Soviet Union. Even with reduced availability and use in the Soviet Union, global wheat usage is holding to the level of the last 2 years. Although U.S. wheat stocks are expected to fall slightly, there may be only a small stocks buildup in the rest of the world.

World trade in wheat may jump by one-tenth to a record 103 million tons. Major stimulants will be huge Soviet imports, reentry of India into the world market, and larger import needs in Egypt, Brazil, South Korea, and other rapid growth developing countries.

U.S. wheat producers harvested 16 percent more this year, turning out a record 2.75 billion bushels. However, with both domestic use and exports expected to rise, stocks are likely to fall below last season's level.

Larger supplies and lower prices encouraged wheat feeding earlier this season and are helping boost total domestic use. Additionally, strong export demand is expected to push U.S. wheat exports ahead by almost one-fourth, to a new high of 1.9 billion bushels.

Early season farm wheat prices have been down, but allowing for increases in coming months, 1981/82 prices could average between \$3.85 per bushel and last season's \$3.96.

World rice production in 1981/82 could rise by 3 percent because of widespread favorable weather. Production could reach a record 408 million tons, on a rough basis. Larger supplies and continued population growth will maintain the uptrend in consumption. Trade during the next calendar year, however, will slacken. World rice stocks are accumulating, primarily in the United States.

U.S. rice production will rise nearly a fourth to 5.9 million tons (milled basis) reflecting new highs for both acreage and yield. Smaller carryin stocks will moderate the increase in overall supplies, but exports are likely to lag by as much as a tenth. Carryover stocks will likely reach an unprecedented 1.8 million tons.

Rice prices have slipped as crop prospects have increased and may average \$9 to \$11 per hundredweight in 1981/82, off from \$12 last season.



## Oilseeds

World oilseed production for 1981/82 is expected to be up about 9 percent to 176 million tons. With carryover stocks in major exporting countries only slightly below the previous year's record highs, and with a sluggish world economy, use of oilseeds and products will lag the increase in supply, and stocks will build further.

Larger U.S. oilseed crops, especially soybeans, have increased U.S. oilseed supplies from the drought-reduced 1980/81 level to an estimated 77.1 million tons, nearly matching the 1979/80 record.

U.S. soybean production is forecast to jump 15 percent to 2.1 billion bushels, boosting total supplies to 2.3 billion bushels. While use could rise by 9 percent, reflecting stronger domestic crush and exports, record carryout stocks of 420 million bushels would remain.

U.S. soybean and product prices are currently under pressure, although improved export prospects could help later on. Even so, soybean prices are expected to average between \$5.50 and \$7.00 per bushel for 1981/82, compared with \$7.61 last season.

## Livestock Prospects

World meat output in 1982 is likely to be near the 1981 level. Poultry will remain on its long uptrend, but the increase will be much slower than that of the last few years. Beef and pork output will be about unchanged. On a per capita basis, however, this means another year of decline.

U.S. meat output in 1982 should remain near the high 1981 level, with more beef, veal, and poultry but less pork. Next year may be a little more favorable than the last two, when constrained consumer budgets held down livestock and poultry prices. But most of the improvement expected next year will come in the last half of the year.

Large feed grain and oilseed crops this fall mean lower cost feed well into next year. However, they will also encourage a high level of meat output that may prove burdensome from the producer's point of view, especially if demand doesn't rally.

Most of this year's 2-percent increase in beef production is from the nonfed sector. But cattle feeding is likely to begin picking up this fall. Since nonfed slaughter is likely to remain large, total beef output could increase 2 to 4 percent in 1982.

This year, Choice fed steer prices are expected to average a little lower than in 1980. Next year, prices are likely to strengthen modestly, as the economy improves in the second half.

Pork production may drop 4 to 6 percent next year, following a 6-percent decline in 1981. The larger part of the decline will occur in the first half. Then, as producers respond to lower feed costs, output may build to near year-earlier levels by late 1982. For the year, barrow and gilt prices may average in the mid and upper \$40 range compared with an expected average \$46 this year.

Large poultry output has held prices down this year. But even with larger broiler production, we look for 1981 broiler prices to average near the 1980 level. A strong export market for broilers has been a price-strengthening factor. Broiler meat exports, which jumped by 40 percent last year, were up 43 percent through August of this year. Turkey prices, on the other hand, may be down about 3 cents per pound as cold storage stocks have become burdensome.

For 1982, a limited increase in broiler production, coupled with anticipated strong export demand, is expected to result in some price increase. Burdensome cold storage turkey stocks are expected to be carried over, preventing a price increase in the first half, but prospects could pick up later as stocks are worked off and production reduced.

### Dairy Prospects

Milk output will probably be up about 3 percent in 1981, boosted by both a larger herd and increased output per cow. With milk output well ahead of commercial use, the Government has made substantial purchases of dairy products.

The 1982 dairy outlook is still riddled with question marks, including the Federal support price level and farmers' response to it. Congress' long delay in completing new farm legislation has created regrettable uncertainty in a market that needs some very consistent signals right now.

Milk cow numbers remain larger than a year ago, and a large number of replacement heifers are available. Even if supports are not increased in 1982, milk output will continue to top year-earlier levels, at least through mid-year. Reduced off-farm employment opportunities for dairy farmers and lower feed prices in the face of depressed cull cow prices limit producer alternatives.

Commercial use of milk is expected to increase next year, especially if the milk support price does not increase, but disappearance is not likely to keep pace with expanding production through next spring, suggesting that large Government purchases will continue.

### Cotton

The 1981/82 world cotton situation is highlighted by record production, sluggish consumption, rising stocks, and weaker prices. Global production is forecast to rise by 5.5 million bales to 70.9 million, but mill use may gain only 1.5 million bales, adding over 3 million bales to ending stocks next summer.

The U.S. cotton outlook mirrors this situation, with forecast production of 15.5 million bales more than 2 million above total use. Competitive prices will contribute to a 5-percent gain in mill use exports of 7 million bales, up a fifth. Yet stocks may double to around 5 million bales.

Domestic and world prices have weakened substantially. U.S. farm prices are now below the target price of 70.87 cents per pound, indicating possible deficiency payments on calendar year 1981 sales.

## Sugar

We expect record 1981/82 world sugar production, currently estimated at 95.8 million tons. Consumption will rise, too, but not enough to prevent a major stock increase.

With large 1981 U.S. cane and beet sugar production, 1981/82 output could rise about 7 percent to 6.2 million short tons, on a raw-value basis. Sugar production prospects for 1982 will depend on the level of world prices, which have dropped precipitously from 1980 highs, whether or not a sugar program is legislated, and competition from high fructose corn sweeteners, which continues to expand rapidly.

The world raw sugar price reported by the International Sugar Organization averaged below 12 cents a pound in September, sharply under last September's 35 cents. Some rise can be expected in 1982, if new crop sugar production does not increase much.

However, market prices will still be too low to maintain U.S. planted acreage, which will likely drop considerably. Assuming yields return to average levels from 1981/82 highs, U.S. sugar output in 1982/83 could drop 10 to 15 percent.

Imports of raw sugar are likely to drop next year, in part because U.S. sugar exports, close to a million tons in the current year, will drop sharply and could even be negligible. Domestic sugar consumption is expected to fall about 200,000 tons, to 9.6 million tons in 1982. The final outcome on sugar legislation could have important market impacts.

## Agricultural Trade Prospects

In the last quarter of fiscal year 1981, July-September, U.S. agricultural exports slowed significantly from the year-earlier pace. Export volume for all of fiscal year 1981 was an estimated 163 million tons, no larger than in fiscal year 1980. The fiscal year farm export value at \$43.8 billion was a little lower than anticipated, but more than \$3 billion ahead of the previous year's record. U.S. agricultural imports have also slowed recently, mainly due to lower coffee prices. Fiscal year 1981 imports probably were close to the \$17.3 billion of the previous year.

World agricultural trade in fiscal year 1982 will increase because of lower prices and larger exportable supplies of most commodities, heightened grain import needs, notably in the Soviet Union and India, and limited gains in oilseed production outside the United States.

U.S. farm export volume could rise 5 to 10 percent, as record shipments of wheat are augmented by recovery in corn, soybean, cotton, and tobacco shipments. Volume gains may more than offset a likely decline in the overall price level, to boost the value of U.S. agricultural exports 3 to 5 percent for the year.

## Farm Income for 1982

The net farm income outlook for 1982 at this time is highly volatile. Current prospects could be aggravated in coming months by large crops in the Southern Hemisphere and weak economic conditions throughout the world. Large 1982/83 crops would further compound a large supply situation. In contrast,

if Southern Hemisphere crops are sharply reduced, if foreign buyers begin to aggressively bid for available supplies, and if world economic conditions improve dramatically in late 1982 in the face of small 1982/83 crops, a much stronger income picture would emerge. The magnitude of potential swings in inventories and prices under such conditions are large and will be a key determinant of the level of 1982 net farm income. Without knowing the level of 1982/83 U.S. commodity output or the potential usage based on world crop developments and economic conditions, the magnitude of the swings in commodity prices and inventories make any forecast at this time highly tentative.

Despite the uncertainties, there is little evidence at this time for predicting a good year for farm income in 1982. It would seem quite likely that cash income could be down another \$1 to \$3 billion and net farm income may be further reduced by inventory adjustments reflecting 1982/83 crop developments.

### Food Price Prospects

Food prices moderated in 1981. We are forecasting a rise of more than 8 percent for the year but less than the 8.6 percent increase of 1980. Higher marketing charges are contributing two-thirds of this year's food price increase. Higher farm prices account for one-sixth, and higher prices for imported foods and fish, the rest.

A preliminary look at 1982 suggests that retail food prices may average somewhere between 5 and 9 percent higher for the year. Prices of food consumed away from home in restaurants, cafeterias, and institutions may increase about a twelfth, a little slower than in 1981, and grocery store food prices may rise on the order of 5 to 8 percent.

The rise in grocery store food prices will be tempered by large supplies of farm foods. Most livestock foods except perhaps pork will be abundant, moderating price increases for these foods.

Smaller harvests of both citrus and noncitrus fruit this fall and winter will raise prices at the grocery store, but a large potato crop will reduce fresh vegetable prices. Overall retail price increases for processed fruits and vegetables during 1982 may well prove moderate.

Adding in the price effects of abundant harvests of vegetable oils, grains and sugar, the farm value of domestically consumed foods may rise very modestly. Thus, more rapidly rising food marketing costs will provide most of the impetus for higher food prices. Even so, economic conditions, especially slowing inflation and high unemployment, coupled with less rapid inflation in energy prices, point to a slowing in selected food processing and marketing cost components.