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FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

ISSN 0002 - 1512

October 15, 1982

Number 1588

THE MILK SUPPORT PRICE will remain at $13.10 per hundredweight for fiscal 1983 (October-September) as a result of recent legislation. However, starting in December producers will be assessed 50 cents per hundredweight to cover part of the government's cost of purchasing dairy products. Another 50 cents may be assessed beginning in April 1983, but that could be refunded to dairy farmers who show that they have reduced their production sufficiently. These assessments, however, may not result in a significant reduction in the supply of milk if dairy farmers try to avoid lower receipts by increasing volume. Also, low feed prices and abundant forage supplies will slow the erosion in dairymen's earnings that would otherwise result in faster adjustments in operations.

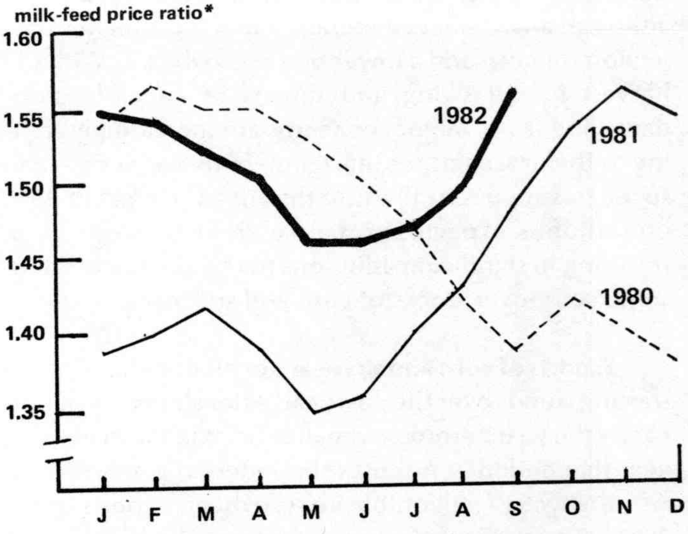
Milk production in the first three quarters of 1982 totaled 102.4 billion pounds, up 1.7 percent from the year-earlier level. The year-to-year increase widened in the third quarter, a disconcerting development in light of the oversupply of milk that has plagued the dairy industry for several quarters. Favorable weather this summer resulted in excellent grazing conditions, and—along with plentiful supplies of low-priced grains—contributed to higher milk output per cow. Output per cow in the third quarter averaged 1.4 percent higher than a year ago, up from increases of less than 1 percent in the previous two quarters. Despite heavier culling during the first half of the year, dairy cow numbers still averaged about 1 percent above the year-earlier level in the third quarter. A large number of replacements were available to sustain larger dairy herds. Dairy cow numbers have exceeded year-earlier levels since spring of 1980.

Milk production was up during the nine-month period in all District states except Wisconsin. In Wisconsin, which accounts for nearly a fifth of total U.S. milk production, milk production was down 0.5 percent. Increases for the other District states ranged from 1.5 percent in Iowa to 2 percent in Illinois.

Government purchases of manufactured products have continued to increase, as milk production exceeds commercial disappearance. From January through September, the CCC removed the equivalent of 12.2 billion pounds of milk from commercial market channels through its price-support purchases of manufactured dairy products. In comparison, CCC purchases during the same months amounted to 11.2 billion pounds, milk equivalent, in 1981 and to 7.4 billion pounds, milk equivalent, in 1980. The dollar volume of government purchases has risen in tandem with the quantity of dairy products purchased. For fiscal 1982 (which ended in September), net CCC expenditures to purchase dairy products exeeded $2 billion, up from $1.97 billion in 1981 and $1.28 billion in 1980.

In order to reduce surpluses and help defray some of the cost of the dairy support program, producers will be assessed 50 cents per hundredweight beginning in December. Recent legislation required the assessment if government purchases in fiscal 1983 were expected to exceed 5 billion pounds. The assessment could produce about $600 million annually to help offset government expenditures. Also, the Secretary of Agriculture has the

Milk-feed price ratio is at a very favorable level



*Pounds of 16 percent-protein ration equal in value to one pound of milk.

discretionary authority to assess producers another 50 cents per hundredweight starting in April if government purchases are expected to exceed 7.5 billion pounds annually. Either assessment would be dropped as soon as projected government purchases fell below the trigger levels. In addition, producers could be eligible for a refund of the second assessment if they reduce their production sufficiently. The required cut in production will likely be comparable to the estimated surplus—i.e., an estimated 10 percent surplus in production would likely mean that dairy farmers would have to trim production by 10 percent in order to be eligible for a refund of the second assessment.

Some dairy interests have suggested that lowering the support price would be a more effective means of attacking the milk surplus problem than instituting the assessments. In addition to discouraging production, lower support prices would result in lower retail prices and presumably trigger some increase in consumption. If nothing else, a lower support price would have been easier to administer than the assessment mechanism.

The extent to which dairy farmers will trim production in response to the lower prices that will follow the imposition of the initial assessment remains uncertain. Although milk prices received by dairy farmers through September averaged 1.8 percent lower than the year before, the rise in milk production was virtually offsetting. As a result, gross earnings of dairymen were little changed during the first three quarters of this year relative to a year ago. Furthermore, net earnings of dairy farmers remained at fairly high levels because of lower feed costs, which make up nearly half of the costs of dairy operations. In September, dairy ration costs were 6 percent below the year-earlier level, holding the milk-feed price ratio well above the favorable level of a year ago.

In light of lower feed costs, the initial assessment may not be sufficient to halt the slow rise in milk production in the near term. However, if the second assessment is imposed, its refunding possibilities may cause producers to consider cutting production. For now, many analysts expect that milk production in 1983 will hold near this year's estimated 135 billion pounds. This implies that the size of the dairy herd will decline modestly, since productivity gains in output per cow normally average at least 1 percent per year. But unless commercial disappearance increases appreciably, it also implies that a sizable surplus will still result in 1983 even with the assessments in force.

Jeffrey Miller

RECORD CROP PROSPECTS were reconfirmed in the USDA's latest projections of the 1982 harvest. The estimates—which are based on conditions as of October 1—point to an 8.3 billion bushel corn harvest and a 2.3 billion bushel soybean crop. The estimates were only nominally lower than those of the month before, although analysts had generally expected a higher projection for corn and a lower one for soybeans. With the harvest in full swing and threats of an early crop-damaging frost waning, concerns are increasingly shifting to the prospects for utilization of the large corn and soybean supplies in the months ahead. Unfortunately, utilization is expected to fall far short of production, resulting in significant additions to the already burdensome carry-over stocks of corn and soybeans.

Exports of corn and soybeans exhibited sharply contrasting trends over the past year. After slumping significantly the year before, soybean exports in the marketing year that ended in August rebounded to a new record. At roughly 930 million bushels, soybean exports in the 1981/82 marketing year were 28 percent higher than the year before and 6 percent higher than the previous peak two years ago. In contrast, preliminary estimates suggest that corn exports in the marketing year that ended in September fell to 1.98 billion bushels, down 16 percent from the previous year and down 19 percent from the 1979/80 record.

U.S. corn exports to several major foreign markets fell sharply last year. Figures through August indicate that corn shipments to Japan were off 19 percent from the year-earlier pace, while shipments to the ten countries of the European Community were off a fourth. Similarly, U.S. corn exports to Eastern Europe and Canada were off about 45 percent from the year-earlier pace, while shipments to Mexico were off about 85 percent. In the 1980/81 marketing year, these five markets accounted for 56 percent of U.S. corn exports. In the year just ended, their share fell to 44 percent.

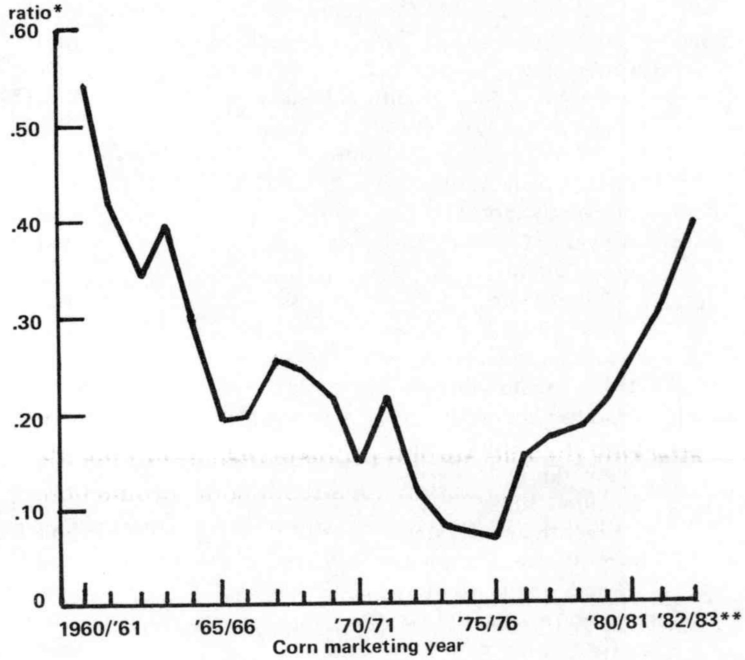
The United States dominates world exports of corn and feed grains. It is, therefore, not surprising that the sharp decline in U.S. corn exports was not fully offset by increased shipments from other exporting countries. Yet, it is noteworthy that a sharp decline in corn exports from Argentina held the combined export shipments of corn, sorghum, and barley from Argentina, Australia, Canada, South Africa, and Thailand 1 percent below the previous year in the 12 months ending in September. In the view of the long-proclaimed need for more feed grains to accommodate higher meat diets in other areas of the world, the implications of a substantial one-year decline in world demand for feed grains are somewhat disconcerting. At least for the short run, however, importing countries apparently economized on their imports of feed grains by increasing their use of alternative livestock feeds, drawing down their internal stocks of feed grains, and trimming their livestock and poultry production.

As the 1982/83 marketing years for corn and soybeans commence, many of the same fundamental problems that hindered overall U.S. export shipments the past year are still present. World grain supplies remain abundant, which often foreshadows less aggressive buying by importers. The value of the U.S. dollar remains very high relative to other currencies. Most major countries of the world continue to experience problems of slow economic growth and high levels of unemployment. The decline in interest rates and the availability of more government financing may help spur exports. However, the credit problems facing several countries have deteriorated over the past year, raising concerns about the overall availability of new export financing by commercial lenders. The Soviet Union has been given clearance to purchase up to 23 million metric tons of U.S. corn and wheat in the 12 months ending next September. But estimates of Soviet grain imports from all sources have been lowered and it remains questionable whether Soviet purchases of U.S. grains will even reach the 14 million metric tons of the past year.

The latest USDA export projections point to increases in both corn and soybean exports, although the projected increase for corn has been scaled back from that of a month ago. The USDA is projecting that exports of soybeans in the 1982/83 marketing year that started in September will rise 3 percent to 960 million bushels. In the year that started this month, the USDA is expecting corn export shipments of 2.25 billion bushels, still well short of the 1979/80 peak but up 14 percent from the disappointing year just completed.

Estimates of domestic utilization also point to increases for the current marketing years, but the increases, particularly for corn, will be held in check by the extensive cutback in hog production which will limit the overall rise in livestock feed demand. The USDA expects that around 1.18 billion bushels of soybeans will be used domestically by crushers or as seed and feed, up about 5 percent from the 1981/82 marketing year. Domestic utilization of corn is expected to rise to 5.25 billion bushels, up 3 percent from the year just completed. The estimate for domestic corn utilization just barely exceeds the 1979/80 record, while that for soybeans still lags the peak of 1979/80.

Stocks-to-utilization ratio for corn reaches the highest level since the early 1960s



*Ratio of carryover stocks to utilization in the preceding 12 months.

**USDA forecast.

On balance, the estimates of harvest and projected utilization portray a huge oversupply of corn and soybeans. An 8.3 billion bushel corn harvest this fall would exceed projected utilization of corn for the 1982/83 marketing year by more than 800 million bushels. Adding the residual to the already huge reserve implies that carryover stocks of corn next fall would approximate 3 billion bushels. That would be equivalent to about 21 weeks of utilization, the highest relative carryover since the early 1960s. For soybeans, the estimate of this fall's harvest of 2.3 billion bushels exceeds projected 1982/83 utilization by more than 160 million bushels. That would boost soybean carryover next fall to 430 million bushels, equivalent to about 16½ weeks of utilization and the highest stocks-to-utilization ratio since the burdensome levels of the late 1960s.

Gary L. Benjamin

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	September	256	+ 0.8	+ 9
Total loans at agricultural banks†	1972-73=100	September	282	+ 1.1	+ 5
Production credit associations					
Loans outstanding					
United States	mil. dol.	August	22,077	– 0.2	– 2
Seventh District states	mil. dol.	August	4,489	+ 0.1	– 3
Loans made					
United States	mil. dol.	August	2,118	– 4.6	+ 2
Seventh District states	mil. dol.	August	425	–11.4	– 3
Federal land banks					
Loans outstanding					
United States	mil. dol.	August	46,817	+ 0.5	+13
Seventh District states	mil. dol.	August	11,172	+ 0.4	+13
New money loaned					
United States	mil. dol.	August	368	– 6.9	–41
Seventh District states	mil. dol.	August	77	–15.2	–50
Interest rates					
Feeder cattle loans††	percent	2nd Quarter	17.25	+ 0.8	+ 1
Farm real estate loans††	percent	2nd Quarter	16.74	+ 0.5	+ 5
Three-month Treasury bills	percent	10/7-10/13	7.58	– 7.1	–44
Federal funds rate	percent	10/7-10/13	9.60	– 6.5	–36
Government bonds *(long-term)*	percent	10/7-10/13	11.02	–10.2	–23
Agricultural trade					
Agricultural exports	mil. dol.	August	2,492	+ 1.9	–15
Agricultural imports	mil. dol.	August	1,357	+18.7	+ 4
Farm machinery sales[P]					
Farm tractors	units	September	6,353	+29.8	–12
Combines	units	September	1,823	+39.3	–34
Balers	units	September	729	–25.6	–34

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks at beginning and end of quarter.

[P]Preliminary.

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