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FEDERAL RESERVE BANK OF CHICAGO

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THE AGRICULTURAL OUTLOOK FOR 1983 was summarized last week at the U.S. Department of Agriculture's 59th Annual Conference in Washington, D.C. The tone of the conference foreshadowed another difficult year for agriculture. Somewhat guarded optimism for the income prospects of livestock producers in 1983 was again overshadowed by a consensus that crop farmers may experience another dismal year for earnings. Agricultural exports may decline another $1.5 billion to $37.5 billion with prices under pressure from large global crop supplies and a weakened world demand. Food prices are not expected to increase more than this year's moderate 4.5 percent.

The USDA did not specify any range for net farm income in 1983 in keeping with recent policy to withhold farm income forecasts until near the end of that year. However, net realized farm income in 1983 is not expected to improve much, if any, from the $19 billion estimated for 1982. As a result, 1983 would be the fourth consecutive year of low farm earnings. After declining this year, total cash receipts may rise slightly next year. Although crop marketings may be somewhat higher than this year, crop receipts are expected to be down from this year's estimated $72 billion because of lower prices. In contrast, cash receipts to livestock producers may improve slightly from 1982's estimated record $70 billion as total red meat and poultry production continues to lag year-earlier levels and prices are buoyed by an improving consumer demand.

Further advances in production costs may offset the higher gross receipts to farming in 1983. Current estimates suggest that farm production expenses rose only 2 percent this year to $144 billion. Production expenses may show a similar modest increase in 1983 despite indications that farmers are scaling back on the use of some purchased inputs. Interest expenses are expected to level off next year, but in view of the acreage reduction programs, expenditures for petroleum-based inputs such as fuel, fertilizer, and chemicals may decline from year-earlier levels.

Farm exports may decline 4 percent to $37.5 billion in fiscal 1983. This would follow an 11 percent year-to-year decline in fiscal 1982—the first decline since 1969. The volume of farm exports is expected to increase 3 percent—with a recovery in grain and soybean meal shipments more than offsetting declines in wheat, rice, and cotton. However, export prices overall may average about 7 percent below last year because of significantly lower prices for grains, oilseeds, and products. Agricultural imports are expected to be virtually unchanged from 1982's level. As a result, the agricultural trade surplus is expected to be $22 billion, down 7 percent from last year and nearly a fifth below fiscal 1981's record. Nevertheless, the agricultural trade surplus will continue as a large offsetting factor to the overall U.S. trade deficit. A number of events could still affect farm exports in 1983, including worldwide economic developments, trends in the value of the dollar, credit difficulties of importing countries, and crop developments in the Southern Hemisphere.

The world coarse grain outlook reflects record production and sharply higher grain stocks. World coarse grain production for 1982/83 is forecast at a record 780 million metric tons. (The estimate includes production in the Southern Hemisphere that will be harvested this spring.) This rise in production results from higher yields in most areas that more than offset a decline in global acreage from year-earlier levels. In particular, production increases in Western Europe, Eastern Europe, and the United States exceeded crop shortfalls in Mexico and the USSR. U.S. feed grain production in 1982 was about 248 million metric tons, up a fourth from last year and 4 percent above the previous record of two years ago. U.S. corn production, which accounts for 85 percent of feed grains, is now estimated at a record 8.33 billion bushels. Much of the sharp buildup in world grain stocks is attributable to this record U.S. production, with U.S. stocks estimated to represent about seven-tenths of world stocks.

Total utilization of corn may reach 7.2 billion bushels in the U.S. in the 1982/83 marketing year

(October-September), a 6 percent increase from the depressed 1981/82 level. Corn exports are projected to rise nearly a tenth this year, reflecting increased shipments to Mexico, China, Japan, and Egypt. Domestically, corn used for feed is expected to increase 3 percent, while corn used for food and industrial purposes may be up a tenth. The increase in utilization, however, will not be sufficient to draw down carryover stocks. As a result, carryover stocks of corn in the fall of 1983 are expected to rise to a very burdensome level of 3.4 billion bushels, equivalent to nearly 48 percent of projected utilization. The buildup is expected to drop the 1982/83 farm price of corn to a range of $2.15 to $2.35 per bushel, down from the $2.45 in 1981/82. Corn prices recently have recovered to $2.25 per bushel, in part due to tight holding by farmers.

The food grain situation also is characterized by record production. Harvests have been at record levels in the U.S., the European Community, and Canada, and a near record harvest is forecast for Argentina this winter. Despite a sharp decline in Australia's production and another shortfall in the USSR, production worldwide will exceed requirements, resulting in a buildup in world stocks. Exports of U.S. wheat for the 1982/83 season are estimated at 1.65 billion bushels, down 7 percent from the year-earlier level. Domestic use, at 865 million bushels, may be up modestly because of a slight pickup in food use. Ending stocks of wheat are expected to climb to 1.46 billion bushels—nearing the 1961 record. These larger supplies have exerted downward pressure on wheat prices, which are now expected to average between $3.40 and $3.50 per bushel for the 1982/83 year, down from $3.65 per bushel the year before. As with feed grains, however, price developments will depend a lot on prospects for the size of the 1983 crop and the level of participation in the 1983 farm program.

The world oilseed outlook hinges on an improving world demand. World oilseed production for 1982/83 is estimated at a record 185 million metric tons, up 6 percent from the previous record of 1979/80. Most of the increase resulted from the larger U.S. soybean crop. The U.S. accounts for about two-fifths of world oilseed production and nearly two-thirds of world soybean production. Soybean production in the U.S. was up 15 percent from the year earlier to an estimated 2.3 billion bushels. Domestic crush in the 1982/83 marketing year is anticipated to increase about 6 percent from the previous year, while exports are expected to increase nominally from 1981/82's record of 929 million bushels. Carryover stocks of soybeans next fall are projected to rise to 450 million bushels, two-thirds higher than the previous year's carryover. As a result, the soybean stocks-to-utilization ratio for 1982/83 is forecast at 21 percent, well above the normal 10 to 14 percent. Although the Southern Hemisphere oilseed crops being planted now and the ultimate strength in world demand may change the outlook later in the year, soybean prices currently are forecast to average between $5.25 and $5.75 per bushel, down from $6.08 per bushel last year.

U.S. meat production is expected to decline further in 1983, following this year's estimated 2 percent decline. Pork production, which began to decline in 1981 and fell another 11 percent in 1982, may be down about 3 percent next year. Poultry production, in contrast, is expected to be larger, encouraged by ample feed supplies and low feed costs. Beef production, which rose 1 percent this year, is expected to be unchanged to down nominally in 1983. The bulk of the decline in meat production is expected to occur in the first and second quarters of 1983 as red meat supplies continue to lag year-earlier levels. Per capita consumption of red meat, which fell from 157 pounds in 1981 to an estimated 149 pounds in 1982, may decline to 144 pounds in 1983, its lowest level since the early 1960s. Per capita poultry consumption, which exceeded pork consumption for the first time this year, is expected to account for a somewhat greater share of total meat consumption in 1983.

The moderate expansion in beef herds that began in 1979 apparently has ended. This suggests that the inventory of cattle and calves on January 1, 1983 may be nominally below last January's 115.7 million head, though still 4 percent above the 1979 low. Beef cow numbers are likely to be down about 4 percent from the year earlier in line with indications that some herd liquidation has taken place due to financial stress. Cow/calf operators endured a nearly three-year string of negative or low returns until early this year. With the smaller cow herd expected on January 1, an even smaller calf crop is anticipated than in 1982. Coupled with the lower number of yearlings evident this fall, this suggests that the feeder cattle supply also will tighten in 1983. Nonfed steer and heifer slaughter in 1983 is expected to trail this year's level by about a fifth, while fed cattle slaughter is expected to rise 1 to 2 percent, with all of the increase in the first half. The sharpest year-to-year decline in beef production is expected next fall. Choice steer prices at Omaha in 1983 are expected to average $2 to $3 per hundredweight above 1982's $65 per hundredweight. Upward pressure on cattle prices could result if prospects for employment and income growth improve next year.

The hog outlook focuses on the second half of next year since first-half slaughter is largely determined. Preliminary indications of a 10 percent reduction in the June-November pig crop portend a similar decline in hog slaughter during the first half of 1983. Pork production in the second half of 1983 is uncertain since producers may adjust to changing costs and returns. However, feeding margins have been positive this year, ending a two-year string of losses. Consequently, producers may begin to expand their operations this winter. Based on intended farrowings for this winter and other estimates, second half 1982 hog slaughter is expected to be up 2 to 4 percent. Hog prices are forecast to average $58 to $62 per hundredweight in the first half, and in the upper $50s in the second half. This year, hog prices averaged $52 per hundredweight in the first half and about $58 per hundredweight in the second half as prices in August topped $60 per hundredweight, the highest since 1975. Although pork production in the second half is expected to rise, prices may be buoyed by an improving consumer demand.

Milk production is headed for a new high this year and is expected to increase next year despite assessments on producers' receipts for overproduction. Preliminary estimates suggest that milk production rose 2 percent to 135 billion pounds this year. Milk production could show a sizable increase next year if producers delay their reaction to the assessments until after next spring's flush production period. The milk-feed price ratio is still very favorable for heavy concentrate feeding because of low feed costs and will likely encourage dairy farmers to further expand production. Funds obtained from the 50 cents per hundredweight assessment which began December 1 and from the second assessment scheduled for April 1 are to be remitted to the CCC to offset part of the cost of the milk price support program. (The second assessment, however, may be refunded to producers who lower their output by an amount yet to be determined.) As a consequence, milk producers could contribute about $900 million toward the $2.3 billion estimated as the cost of government purchases of dairy products in fiscal 1983. Net government removals in 1983 may approach 13 billion pounds, milk equivalent, above this year's 12.2 billion pounds. Although farm milk prices in 1983 are expected to average about the same as this year's estimated $12.60 per hundredweight, the assessments could reduce average returns per hundredweight to farmers by 6 percent or more from 1982's level.

Retail food price increases have moderated appreciably. Retail food prices in 1982 probably will average about 4.5 percent above a year ago, the smallest increase in six years. Abundant supplies of farm products and moderating costs of processing and marketing have helped stem the rise in food prices. With similar conditions likely to prevail in 1983, retail food prices are expected to increase in the range of 3 to 6 percent. Highly processed food items, sugars and sweeteners, and meats are expected to pace the rise in retail food prices, with pork likely to experience the sharpest increase of any item in the market basket. Fruit and vegetable price increases will be very sensitive to weather developments. Marketing costs are expected to increase 4 to 7 percent next year with the fuel and power component showing the sharpest rise.

The financial outlook for 1983 is guarded. The USDA did not issue specific forecasts for a number of key farm financial measures. Nevertheless, given the low rates of return to farming and cash flow difficulties, farmers are expected to follow a much less expansionary financial strategy, relying less on debt financing. Because of the erosion in land values and the declining equity base, both of which are likely to continue in 1983, some farmers also may find it more difficult to finance their operations as lenders become more concerned with loan quality.

Balance sheet estimates for the farming sector serve to illuminate the financial difficulties faced by farmers. Total assets of the farm sector at the end of this year will likely be down 4 percent from a year ago because of lower prices for farmland, which accounts for three-fourths of farm assets. On the liabilities side, real estate and nonreal estate debt will be up about 6 percent. However, based on information on farm debt outstanding at reporting lending institutions, at the end of the third quarter farm debt was up a tenth from a year ago. Total farm sector equity, the residual estimate of farmer's worth, will be down about 6 percent. It seems, however, that estimates of the decline in farm asset values and farmers' equity may be understated.

Without improvements in both farm income and the financial outlook in 1983, it seems unlikely that agricultural suppliers, particularly the farm machinery and equipment industry, will see any improvement either. However, further declines in interest rates and three years of postponed purchasing may stimulate increased unit sales of farm equipment in late 1983. Even though sales in 1982 are down substantially for the third year, few analysts look for a recovery in sales in 1983 to a level comparable to that of 1979.

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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	November	261	+ 0.5	+ 8
Total loans at agricultural banks†	1972-73=100	November	282	− 0.7	+ 5
Production credit associations					
Loans outstanding					
United States	mil. dol.	October	21,328	− 2.5	− 3
Seventh District states	mil. dol.	October	4,429	− 1.7	− 4
Loans made					
United States	mil. dol.	October	2,031	− 2.3	−12
Seventh District states	mil. dol.	October	397	− 5.2	− 8
Federal land banks					
Loans outstanding					
United States	mil. dol.	October	47,088	+ 0.3	+10
Seventh District states	mil. dol.	October	11,240	+ 0.3	+10
New money loaned					
United States	mil. dol.	October	277	− 5.2	−60
Seventh District states	mil. dol.	October	60	− 9.1	−60
Interest rates					
Feeder cattle loans††	percent	3rd Quarter	16.38	− 5.0	−10
Farm real estate loans††	percent	3rd Quarter	16.15	− 3.5	− 5
Three-month Treasury bills	percent	12/2-12/8	7.93	+ 0.4	−23
Federal funds rate	percent	12/2-12/8	8.84	− 6.5	−27
Government bonds *(long-term)*	percent	12/2-12/8	10.49	− 0.5	−20
Agricultural trade					
Agricultural exports	mil. dol.	September	2,388	− 4.2	−25
Agricultural imports	mil. dol.	September	1,298	− 4.3	+ 1
Farm machinery sales[P]					
Farm tractors	units	October	7,242	+13.5	−36
Combines	units	October	3,013	+65.5	−46
Balers	units	October	527	−26.0	−52

†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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