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AGRICULTURAL LETTER

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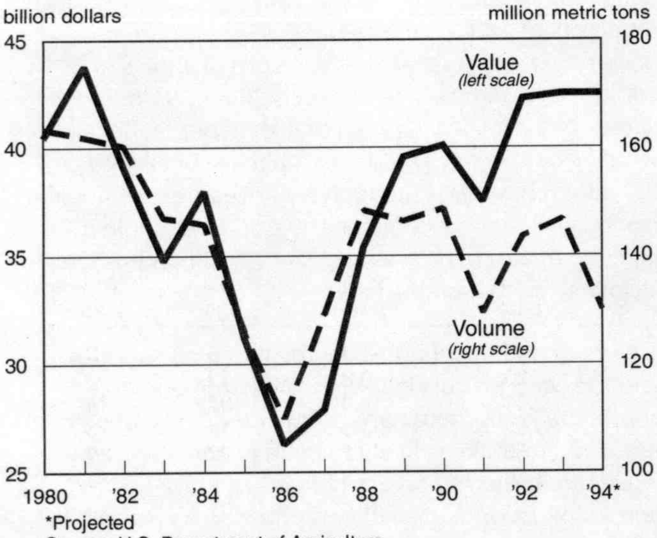
USDA hosts annual outlook conference

The U.S. Department of Agriculture recently hosted the 70th annual Agricultural Outlook Conference. This year's conference was somewhat shorter in length and it devoted considerable attention to environmental and food safety issues. But within the conference theme of "Outlook '94," the speakers were reasonably upbeat about the prospects for the year ahead given the weather-related setbacks of this year.

The macroeconomic variables influencing agriculture were expected to be stronger next year. The domestic economy was expected to record the strongest economic growth in six years, while interest and inflation rates remain low. These prospects are expected to sustain and strengthen domestic demand for food and fiber while helping to hold the line on farm production expenses. From a more global perspective, the expectations were for stronger foreign markets as the envisioned pickup in economic growth in most developed countries and the start of trade under the NAFTA agreement more than offsets continued weakness in the former Soviet Union and Eastern Europe. Nevertheless, tight grain and oilseed supplies are likely to trim the volume of U.S. agricultural exports in fiscal 1994.

Agricultural exports



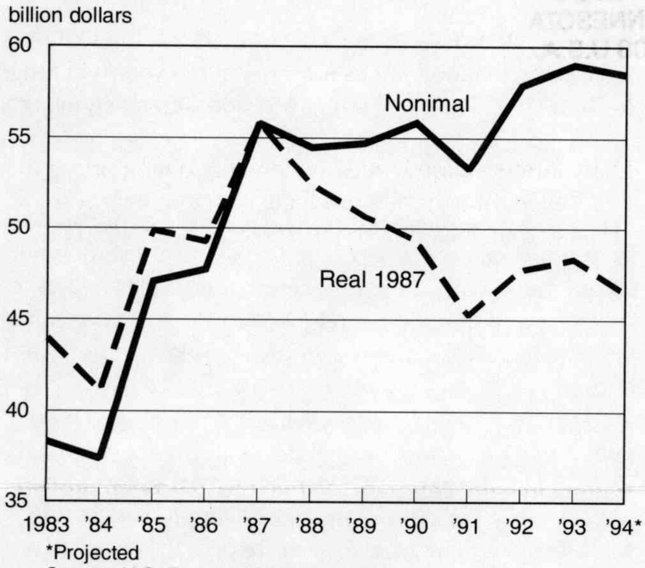
*Projected
Source: U.S. Department of Agriculture.

The broad measures that track farm sector performance for producers, consumers, and taxpayers are somewhat mixed, but mostly favorable. From a consumers perspective, and assuming a return to more normal weather patterns in 1994, generally ample supplies are expected to hold the lid on food prices for another year. Retail food prices for all of 1993 are likely to average a little over 2 percent above the 1992 level. The increase has widened to about 2.5 percent in recent months, in part because weather conditions have disrupted vegetable supplies. For next year, analysts expect the index to average between 2 and 4 percent higher, with the lower end of the range viewed more likely assuming no major weather disruptions to food supplies.

From the perspective of taxpayers, various measures of the government costs for farm income and price support programs show an upturn this year with prospects for a decline next year. Direct government payments to farmers increased to an estimated $11 billion in 1993 from just over $9 billion last year, reflecting sharply higher deficiency payments early in the year and large disaster payments. High crop prices will lower deficiency payments next year but disaster payments will expand as final disbursements are made against the losses from weather problems of recent months. The mid point of the projected $8 to $12 billion range in direct government payments to farmers for 1994 foreshadows a retreat from this year's high level.

Alternative measures of farm sector earnings reveal contrasting trends this year and next and may somewhat mask the outcome for those farmers hit hard by the adverse weather patterns of the past year. On balance, net cash farm income—which gauges earnings on the volume of farm commodity marketings and ignores changes in inventories—is currently forecast to have edged about $1 billion higher in 1993, surpassing last year's record of $57.7 billion. A wide range of between $55 and $62 billion is projected for next year. The estimate for total net farm income—which gauges earnings more on the basis of production in a given year by accounting for inventory changes—shows a decline for 1993 of nearly 10 percent from the 1992 record of $48.6 billion and a rebound next year to somewhere between $47 and $54 billion. Higher livestock receipts and increased government payments helped to

Net cash farm income



*Projected
Source: U.S. Department of Agriculture.

strengthen gross farm earnings in 1993, while the rise in production expenses was held in close check for the third consecutive year. For 1994, crop receipts are expected to rebound to a new high while feed costs pace another modest rise in overall production expenses.

From a balance sheet perspective, the forecasts point to a continuation of the modest gains in both asset values and farm debt. USDA analysts currently forecast a 2 percent rise in farm asset values this year and a rise of 2 or 3 percent again next year. The rise in farm debt is expected to be 2 to 3 percent this year, followed by a rise of 1 to 2 percent next year. Following four consecutive years of a slight downtrend, real (inflation-adjusted) farm sector equity may change only nominally next year.

While the measures that track farm sector earnings and balance sheet performance are reasonable in an aggregate sense, they also mask some of the adverse consequences that will follow from the extensive flood and drought losses that gripped some areas this year. Farmers in the Midwest who suffered the bulk of the flood losses, and those in the Southeast hit by drought and an early freeze will be partially compensated by such things as disaster assistance and—in some cases—crop insurance. And sharply higher prices will help to offset the crop losses for those who harvested only a partial crop. Nevertheless, in most cases these forms of earnings or assistance won't compensate for a normal harvest nor fully cover the structural damage to buildings and facilities and the productivity losses to land. As such, depressed earnings, slower loan repayments, and lower discretionary spending patterns will likely be evident among farmers in the harder hit areas.

With respect to individual commodities, USDA analysts believe high crop prices will ration consumption and—along with lower set-aside restrictions—lead to expanded crop acreage and production (weather permitting) next year. Higher feed costs and increased production are expected to trim operating margins among livestock, poultry, and dairy farmers. The curtailed corn and soybean harvests—as summarized in the November issue of ***Agricultural Letter***—will lead to the smallest available market supplies of corn and soybeans in several years. The resulting higher prices will slow export and domestic usage rates and hold the drawdown in carryover stocks to what hopefully will be an acceptable level. With continuing weakness in shipments to the former Soviet Union, the improved supply picture in southern Africa and other exporting countries, and continuing growth in exports out of China, U.S. corn exports in the 1993/94 marketing year are forecast to decline nearly a fifth to a 7-year low. The decline in domestic use of corn is expected to be a more modest 5 percent as alternative feed sources help supplement a slightly larger inventory of grain-consuming animal units. Total use of corn in 1993/94 is now expected to decline to less than 7.8 billion bushels, down from the record 8.5 billion used during the last year. Carryover stocks of corn at the end of the 1993/94 marketing year will be down sharply and perhaps the lowest since the mid 1970s.

Following a belated surge, corn prices in November and December averaged about $2.70 a bushel, the highest post-harvest prices in ten years. For the entire 1993/94 marketing year, USDA analysts believe corn prices will average around $2.60 a bushel, up from $2.07 last year. With prospects for high prices to extend through the winter and spring months, and with (acreage) set-aside requirements cut to zero for price support program participants, USDA analysts believe corn plantings in 1994 could rise to somewhere between 79 and 81 million acres. A "normal" year with that level of plantings would be expected to result in a harvest of around 8.8 billion bushels. Alternatively, a year resembling the contrasting patterns of either 1992 or 1993 could translate into a corn harvest as large as 9.6 billion bushels or as low as 7.1 billion bushels.

The soybean market is also facing curtailed supplies and the need for cuts in usage. With another large Southern Hemisphere harvest expected, most of the reduction in usage is likely to be in export shipments which are projected to retreat nearly a fifth. The reduction in the amount of soybeans processed (crushed) in domestic plants is likely to be much smaller, perhaps around 4 percent. Total disappearance (usage) of soybeans in the 1993/94 marketing year is now projected to decline to a three-year low of 1.97 billion bushels and carryover stocks are likely to retreat to a 15-year low of less than 170 million bushels. Soybean prices for the 1993/94 marketing year are forecast to average about $6.50 a bushel, up from $5.60 last year and close to the average of recent weeks. The higher prices will likely result in a marginal increase in soybean plantings next spring. USDA analysts expect some 60 to 61 million acres planted to soybeans in 1994. With normal abandonment and trend-adjusted yields, that level of plantings would generate a harvest of roughly 2.1 billion bushels in 1994. Alternatively, the contrasting benchmarks in yields of the past two years would point to a harvest as low as 1.85 billion bushels or as large as 2.25 billion bushels.

The entire livestock, dairy, and poultry complex will experience higher feed costs and tighter operating margins in the months ahead. However, the USDA analysts don't expect these developments to trigger a significant liquidation of breeding (foundation) stock, as long as weather patterns hold promise of a normal crop harvest in 1994. As a result, the past ten years of uninterrupted growth in per capita production of all meats is expected to extend into the foreseeable future. Poultry accounted for all of the increase this year and is forecast to lead the rise next year.

Beef production is expected to turn up in 1994, the first year-over-year gain on a per capita basis since 1986. Following declines earlier in the year, beef production has been on the upswing since mid 1993. Marketings from the increased inventory of cattle in feedlots have accounted for the bulge in slaughter this fall and the prospects for continued large gains in beef production through the first half of next year. Although the gains in beef production will likely narrow considerably during the second half, the projected rise for all of 1994 is in excess of 3.5 percent. The expansion will likely hang heavy on cattle prices well into next year. Choice steer prices this fall have retreated to the low $70s per hundredweight, more than $10 below the monthly highs of last spring and considerably below this year's likely average of less than $76.50. Cattle prices for next year are projected to range mostly in the low- to mid-$70s.

Pork production in 1993 registered an unexpected downturn, with preliminary tallies pointing to a decline of about 1.5 percent. Continued declines are forecast through the first half of 1994, followed by an offsetting upturn next summer that will leave pork production essentially unchanged for the year. Annual average hog prices jumped from $43 per hundredweight in 1992 to approximately $46.25 this year. For 1994, the USDA is suggesting that hog prices for most of the year will range from the mid $40s to the low $50s per hundredweight.

Dairy farmers experienced widely fluctuating prices in 1993 even though milk production for the year was virtually unchanged from the 1992 level. Regionally, gains in California and elsewhere offset a sizable (7 percent in recent months) decline for Wisconsin. Milk prices followed erratic seasonal patterns and for the year averaged about $12.80 per hundredweight, down 3 percent from the year before. Prospects for this year are somewhat clouded by bST, the synthetic growth hormone recently approved for use in dairy cattle starting in early February. While bST has been proven to be a very cost efficient means of significantly increasing production among treated cows, it remains uncertain as to how fast dairy farmers will adopt the new technology and whether consumers and dairy processors will accept the products from treated cows. The USDA is assuming that only about a tenth of the dairy herd will be receiving bST treatments a year from now. The slow adoption rate may limit the rise in milk per cow to about 2 percent in 1994. With dairy cow numbers still retreating, milk production is expected to rise only 1 percent in 1994. Even so, a continuing imbalance between production and commercial use could cause milk prices to average around $12 a hundredweight in 1994.

Gary L. Benjamin

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Public Information Center
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago, IL 60690-0834
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Selected agricultural economic indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(index, 1977=100)*	November	143	−1.4	5	3
Crops *(index, 1977=100)*	November	129	−0.8	12	4
Corn *($ per bu.)*	November	2.61	14.0	32	14
Hay *($ per ton)*	November	83.60	1.3	14	23
Soybeans *($ per bu.)*	November	6.56	9.2	22	20
Wheat *($ per bu.)*	November	3.36	4.3	2	3
Livestock and products *(index, 1977=100)*	November	157	−1.3	1	3
Barrows and gilts *($ per cwt.)*	November	44.10	−7.4	6	15
Steers and heifers *($ per cwt.)*	November	71.60	−1.1	−5	−1
Milk *($ per cwt.)*	November	13.40	2.3	2	−4
Eggs *(¢ per doz.)*	November	62.6	4.3	−3	0
Consumer prices *(index, 1982-84=100)*	November	146	0.1	3	6
Food	November	142	0.2	3	4
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	2,113	N.A.	92	39
Soybean stocks *(mil. bu.)*	September 1	292	N.A.	5	−11
Wheat stocks *(mil. bu.)*	September 1	2,156	N.A.	2	6
Beef production *(bil. lb.)*	October	1.98	−2.3	−2	−6
Pork production *(bil. lb.)*	October	1.47	2.3	−7	−4
Milk production* *(bil. lb.)*	November	10.0	−3.5	−2	1
Receipts from farm marketings *(mil. dol.)*	August	14,208	5.1	4	5
Crops**	August	6,306	4.1	4	1
Livestock	August	7,832	6.5	7	9
Government payments	August	70	−34.6	11	6
Agricultural exports *(mil. dol.)*	September	3,220	9.3	−5	13
Corn *(mil. bu.)*	September	139	40.6	−10	3
Soybeans *(mil. bu.)*	September	30	22.1	−40	12
Wheat *(mil. bu.)*	September	109	5.8	14	9
Farm machinery sales *(units)*					
Tractors, over 40 HP	November	5,418	2.6	17	46
40 to 100 HP	November	3,075	3.2	11	57
100 HP or more	November	2,343	1.8	25	34
Combines	November	1,180	26.7	−2	17

N.A. Not applicable
*21 selected states.
**Includes net CCC loans.

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Public Information Center
P.O. Box 834
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