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USDA Agricultural Outlook Conference

The U.S. Department of Agriculture hosted the 69th edition of the annual Agricultural Outlook Conference earlier this month. The tone of this year's conference was more upbeat than many had expected. For instance, the latest USDA revisions point to an increase in farm sector cash earnings for both this year and in 1993. Previous projections had indicated a decline in earnings for this year. U.S. agricultural exports, which rebounded more than expected in fiscal 1992, may drift lower in the current year. But the recently revived GATT negotiations and hopes for acceptance of the NAFTA agreement led USDA analysts to conclude that the 1990s should be a period for relatively strong growth in agricultural exports.

An upward revision in the USDA estimates of farm sector earnings provided one of the convention highlights. Previous forecasts had indicated that net cash farm income would decline for the second consecutive year in 1992. But stronger-than-expected livestock prices this fall and—until recently—the unanticipated record-large fall crop harvest prompted an upward revision in the estimates of cash receipts from farm commodity marketings for 1992. In addition, updated readings imply that lower interest rates and lower input prices will pull cash operating expenses for this year below earlier expectations and below the level of the last two years. Accordingly, USDA analysts revised their forecast of net cash farm income for 1992 upward by $4.5 billion to around $60 billion. For 1993, lower commodity prices are expected to result in a nominal decline in cash receipts while rising input prices and expanding livestock production may add marginally to cash production expenses. However, the negative influence of these developments on net farm earnings may be more than offset by a rise in government payments to farmers. The mid-point of the USDA's projected range for net cash farm income in 1993 is $61 billion; a level which, if achieved, would nearly match the 1990 record.

U.S. agricultural exports, as expected, also turned up in fiscal 1992. But the magnitude of the recovery was somewhat stronger than had been projected during the year. Final tabulations show the value of farm commodity exports rose to $42.3 billion during the year ending September 30, up from the weak performance of $37.5 billion the year before and second only to the record of $43.8 billion set more than a decade ago. The recovery was led by another year of strong growth in exports of higher-valued products (mostly meats and horticultural products) and a rebound in exports of wheat, soybeans, and soybean products. To the disappointment of Midwest farmers, however, corn exports retreated further in fiscal 1992.

In looking ahead, conference speakers focused on both the near-term and the longer-term export prospects. For fiscal 1993, the USDA is expecting the tonnage of all agricultural export shipments to hold close to the improved level of last year. But due to the likelihood of lower commodity prices—mostly for feed grains and oilseeds—the value of U.S. agricultural exports is projected to edge down to $41.5 billion. A much more optimistic note was voiced for the longer-term outlook. USDA analysts cited prospects for continued economic growth abroad—especially among newly industrialized countries—and reforms in farm and trade policies—as reflected in the NAFTA and GATT negotiations—as foreshadowing strong growth markets for U.S. agricultural exports during the middle and the later-half of the 1990s. Other analysts, while acknowledging the potential for stronger growth, were more cautious in their longer-run export assessment. These observers tended to cite the uncertainties still surrounding the final outcome of the NAFTA and GATT negotiations, the numerous financial, political, and other difficulties that might weigh on shipments to the former USSR as it undergoes a major restructuring, and concerns that the move toward market economies in both the former Soviet Union and Eastern Europe may lead—in the long run—to a sizable weakness in future U.S. grain exports.

The conference discussion regarding recent and prospective developments in the farm sector balance sheet was mixed. When measured in current dollar terms, the projected year-ending values for all three major components of the balance sheet—assets, debt, and net worth—point to gains of less than 1 percent for both this year and next. Alternatively, the values of the three balance sheet components are expected to register declines of 1 to 2 percent when measured in inflation-adjusted dollars. On a more positive note, however, several measures of financial performance for the farm sector remain quite favorable. For instance, the projected income return to equity for the farm sector in both 1992 and 1993 is expected to hold at a relatively high level. Moreover, the share of gross cash earnings needed to service farm debt obligations will remain well below the levels that prevailed during the financially-stressed 1980s.

Retail food price pressures eased again last year as rising farm output contributed to abundant food supplies while a lower rate of inflation eased the rise in food processing and distribution costs. The latest USDA assessment indicated that the index of retail food prices this year will probably average a little over 1 percent above the 1991 level. If that is the case, it would mark the smallest annual rise in retail food prices in 25 years. Declines in retail prices for red meats, poultry, eggs, and fresh fruits contributed the most to last year's smaller food price rise. For 1993, the USDA believes that lower farm commodity prices will continue to moderate the rise in retail food prices. Nevertheless, in acknowledging the many uncertainties that exist—especially those related to weather patterns and the potential for seasonal disruptions in food supplies—the USDA suggested that the 1993 food price rise may return to the 2 to 4 percent range.

The conference discussion regarding major Midwest farm commodities focused on the strong gains in production over the past year and the prospects—at least for livestock—for further gains in the year ahead. Despite the extensive weather delays that still plague many farmers, the fall harvest of corn and soybeans was of banner proportions. The 1992 corn crop is expected to surpass 9.3 billion bushels, a fourth more than a year earlier and over 450 million bushels greater than the previous high set in 1985. The huge harvest was mostly due to an extraordinary increase in yields, which pushed the national average to 129.3 bushels per acre, nearly 10 bushels higher than the 1987 record. The rise in production offset the effect of smaller beginning stocks and drove the total supply of corn for the 1992/93 marketing year upward by nearly a sixth.

The demand for corn during the upcoming year is expected to be underpinned by gains in domestic consumption of nearly 6 percent. Lower corn prices and higher livestock numbers will likely contribute to solid gains in the amount used for feed. Corn used for food, seed, and industrial purposes is expected to increase nearly 4 percent. Approximately one-half of this gain will come from greater production of ethanol. Corn exports—which fell 8 percent last year and were down a third from two years ago—are expected to show a modest rise of about 4 percent during the 1992/93 marketing year. Despite a reduction in exports to the former Soviet Union, lower prices are expected to contribute to larger shipments overall.

The widening gap between supply and use will result in a sharp rise in ending corn stocks, which are expected to reach their highest level in five years. Consequently, the midpoint of the price range predicted by the USDA for the 1992/93 marketing year is 13 percent lower than the average price of $2.37 a bushel recorded last year. The combination of lower prices and an increase in the set-aside requirement for participants who enroll in the price support program is likely to result in a slight decline in planted corn acreage in 1993.

The 1992 soybean harvest rose 9 percent from a year earlier to 2.17 billion bushels, the third-largest on record. Lower beginning stocks held the increase in total supply for the 1992/93 marketing year to 6 percent. The large 1992 crop was attributed to a record national average yield of 37.3 bushels per acre, up significantly from the previous high of 34.2 bushels per acre set the year before. On the demand side, total use of soybeans during the past year posted a solid gain of 11 percent from the previous year. A comparatively large share of the increase came from a rebound in exports. For the upcoming year, the USDA expects total use to increase at the more modest rate of 3 percent. Soybean exports are forecast to increase about 8 percent to reach the highest level in five years. In contrast, domestic crush may grow only 1 percent during 1992/93. However, the demand for soybean oil is expected to receive a boost from a pick-up in domestic use of fats and oils. Oil exports will also rise to fill a trade gap left by the weather-related shortfall of rapeseed production in Canada and the European Community. In contrast, soybean meal disappearance is expected to show little change as increased domestic use—stemming from continued expansion in hog and poultry herds—is offset by a decline in meal exports.

The comparatively large rise in production is expected to boost ending soybean stocks by over a fifth and contribute to lower prices. Following a slight decline to $5.60 a bushel last year, the USDA believes the average soybean price will range somewhere between $5.20 and $5.60 during the 1992/93 marketing year. Despite this decline, soybean prices will be stronger relative to corn, suggesting that farmers may choose to shift some acres from corn to soybeans in 1993.

The 1992 wheat crop rebounded to post a 24-percent increase over the previous year, mostly on the strength of higher yields. Yet production remained below the level recorded two years earlier. Furthermore, lower beginning stocks limited the year-over-year gain in total supply to only 3 percent. Domestic use is expected to grow about 4 percent during 1992/93 as an increase in food use more than offsets a decline in the use of wheat in livestock feed. The USDA anticipates that world trade in wheat will post a moderate decline as China and the former Soviet Union experience production gains enabling them to trim imports. However, the U.S. is still expected to post a marginal increase in exports over the prior year. In contrast to corn and soybean prices, wheat prices are expected to be up during the 1992/93 marketing year, aided by historically low levels of stocks. Prices are expected to average somewhere between $3.15 and $3.35 a bushel during the

U.S. corn and soybean balance sheets

	1990/91	1991/92	1992/93*
	(---------------million bushels---------------)		
Corn			
Beginning stocks	1,344	1,521	1,100
Imports	3	20	3
Production	7,935	7,474	9,329
Total supply	9,282	9,015	10,432
Feed & residual	4,669	4,897	5,200
Food, seed, & industrial use	1,367	1,434	1,485
Exports	1,725	1,584	1,650
Total use	7,761	7,915	8,335
Ending stocks	1,521	1,100	2,097
Average farm price	$2.28	$2.37	$1.90-2.20
Soybeans			
Beginning stocks	239	329	278
Imports	3	3	2
Production	1,926	1,987	2,167
Total supply	2,168	2,319	2,447
Crush	1,187	1,254	1,265
Exports	557	685	740
Seed & residual	95	102	102
Total use	1,839	2,041	2,107
Ending stocks	329	278	340
Average farm price	$5.74	$5.60	$5.20-5.60

Source: U.S. Department of Agriculture.
*USDA estimate.

1992/93 marketing year, up from $3.00 last year. Winter wheat plantings are expected to increase over last year due to a reduction in the set-aside requirement and the stronger fall prices. However, a reduction in spring wheat plantings may hold total wheat acreage unchanged in 1993.

The USDA also reported that red meat and poultry production rose between 3 and 4 percent—on a per capita basis—to reach a record level in 1992. Further gains are expected in 1993 on the strength of rising pork and poultry production. The large per capita production will likely weigh on livestock prices and producer net returns. However, some relief is expected as feed costs decline in response to lower corn and soybean prices. Furthermore, the USDA estimates indicate the U.S. reversed a long-standing trend in 1992 by becoming a net exporter of meat. This resulted from a diminishing trade deficit in beef and pork combined with a rising poultry trade surplus. This trend will likely continue through 1993 as moderate livestock prices and favorable exchange rates contribute to another gain in meat exports.

Beef production posted a modest increase of 1 percent in 1992 as slaughter numbers were flat and dressed weights rose marginally. With the beef cattle industry in the midst of a mild expansion phase, the USDA expects total cattle numbers to be up about 2 percent at the beginning of 1993. This will result in another modest increase in beef production of 1 to 2 percent for the year. Net imports of beef registered a decline of over a tenth in 1992 and are projected to fall again during the upcoming year. Fed cattle prices are expected to average between $71 and $77 dollars per hundredweight in 1993 after averaging about $75.50 per hundredweight during the past year.

The rate of increase in pork production is expected to moderate from about 8 percent this year to 3 percent in 1993. On a per capita basis, production will likely exceed 69 pounds for the first time since 1980. On the trade side, net imports of pork have been declining steadily since 1987, and are expected to narrow to 200 million pounds in 1993. The average hog price is expected to fall between $39 and $45 dollars per hundredweight in 1993 after coming in at about $43.50 in 1992.

The gain in poultry production is expected to narrow to 3 percent in 1993, about half the increase this year. On a per capita basis, 1992 marked the tenth consecutive year of expanding production. Poultry exports, which have been rising since 1984, were up over 17 percent this year and are expected to gain another 2 percent in 1993. The average broiler price was little changed in 1992, and is expected to remain stable during the upcoming year.

Milk production was up slightly over 2 percent in 1992. Much of the annual gain came during the third quarter, when milk per cow posted a sharp year-over-year increase of over 5 percent in response to the mild summer weather. Production is expected to show little change in 1993. The USDA projects the average milk price to fall between $12.00 and $13.00 per hundredweight, compared to the 1992 average of about $13.15.

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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	137	–1.4	–1	–6
Crops *(index, 1977=100)*	November	115	–0.9	–7	–7
Corn *($ per bu.)*	November	1.96	–3.9	–14	–9
Hay *($ per ton)*	November	74.10	5.1	7	–8
Soybeans *($ per bu.)*	November	5.33	1.3	–3	–8
Wheat *($ per bu.)*	November	3.36	4.7	3	41
Livestock and products *(index, 1977=100)*	November	157	–1.9	3	–5
Barrows and gilts *($ per cwt.)*	November	41.60	–1.7	8	–18
Steers and heifers *($ per cwt.)*	November	75.90	–1.0	5	–7
Milk *($ per cwt.)*	November	13.30	–0.7	–4	5
Eggs *(¢ per doz.)*	November	64.9	14.1	4	–11
Consumer prices *(index, 1982-84=100)*	November	142	0.1	3	6
Food	November	138	0.0	2	3
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	1,100	N.A.	–28	–18
Soybean stocks *(mil. bu.)*	September 1	278	N.A.	–16	16
Wheat stocks *(mil. bu.)*	September 1	2,090	N.A.	2	–13
Beef production *(bil. lb.)*	October	2.01	1.0	–5	–1
Pork production *(bil. lb.)*	October	1.59	5.2	4	14
Milk production* *(bil. lb.)*	November	10.3	–2.8	3	3
Receipts from farm marketings *(mil. dol.)*	July	12,855	6.8	1	–1
Crops**	July	6,055	20.2	7	6
Livestock	July	6,720	–1.9	–3	–7
Government payments	July	80	–43.3	7	54
Agricultural exports *(mil. dol.)*	September	3,377	9.3	18	22
Corn *(mil. bu.)*	September	154	13.6	14	47
Soybeans *(mil. bu.)*	September	50	27.8	87	80
Wheat *(mil. bu.)*	September	95	–8.2	–4	–13
Farm machinery sales *(units)*					
Tractors, over 40 HP	October	5,645	52.2	5	–13
40 to 100 HP	October	3,516	29.9	22	6
100 HP or more	October	2,129	112.5	–15	–33
Combines	October	1,322	61.0	4	–4

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

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