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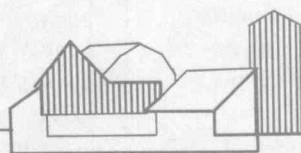
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USDA agricultural sector outlook for 1992

The current situation in the agricultural sector and possible developments for the upcoming year were discussed at the USDA's 68th Annual Outlook Conference in early December. Considerable attention was focused on recent and near-term trends in production, consumption, and prices of major U.S. farm commodities. Overall, production agriculture appears to be headed toward a second consecutive year of declining net cash income in 1992 following the record-high set in 1990. However, considerable uncertainty still surrounds agriculture's prospects for both the year ahead and the longer term. For 1992, much will depend upon the performance of the general economy and the degree to which events in the former Soviet Union affect U.S. agricultural exports. In addition, issues surrounding food labeling, the GATT negotiations, and efforts to bring Mexico into the North American Free Trade Agreement could have longer-term effects on U.S. agriculture.

The value of U.S. agricultural exports, following a decline last year, is expected to recover somewhat in fiscal 1992. For the fiscal trade year ending September 30, 1991, the value of U.S. agricultural exports was down over 6 percent from the previous year. The decline stemmed mostly from weaker shipments of grain, with total export tonnage of corn, soybeans, and wheat falling by about 18 percent. Agricultural exports for fiscal 1992 are projected to increase about 4 percent to \$39 billion. In particular, export tonnage is projected to be up for wheat, soybeans, and to a lesser extent, meat and horticultural products. In contrast, corn exports are projected to be off considerably for the second consecutive year. With prospects for an upturn in exports and a slight decline in imports, the overall agricultural trade surplus is expected to increase 14 percent to \$17 billion for fiscal 1992.

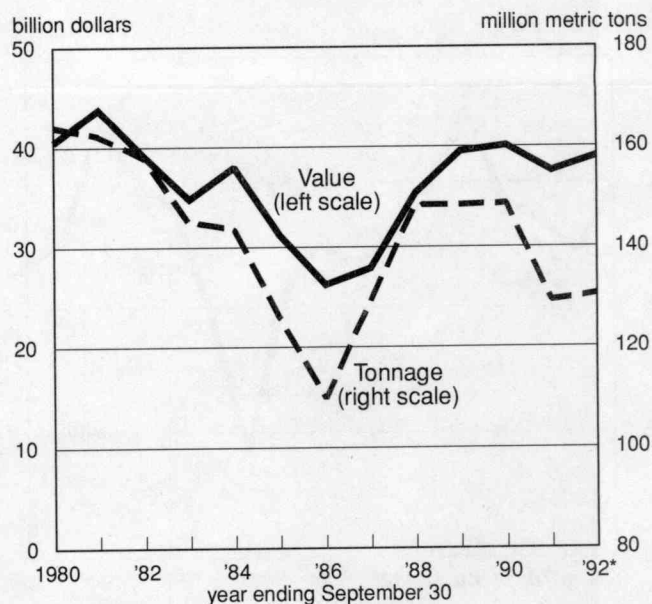
The export figures for fiscal year 1991 reveal the relative importance of various nations and regions to U.S. agriculture. The value of U.S. agricultural products exported during fiscal 1991 is estimated at about \$37.5 billion. Japan remained the single largest buyer of U.S. agricultural products, accounting for just under \$8 billion, or over one-fifth of the total. All Asian nations, including Japan, accounted for just under 40 percent of the value of U.S. agricultural exports. The European Community and Latin America (including Mexico) are also important U.S. customers, accounting for approximately 18 percent and 15 percent, respectively, of the value of U.S. agricultural exports during

the fiscal year 1991. Mexico and Canada, our closest neighbors, accounted for about 8 percent and 12 percent, respectively. The former Soviet Union's share of the value of U.S. agricultural exports declined to less than 5 percent in fiscal year 1991.

The USDA estimates that the corn harvest for 1991 fell just short of 7.5 billion bushels, down about 6 percent from the previous year. The production drop occurred because of reduced yields from an unusually dry growing season in the Midwest, which more than offset a rise in harvested acres. The lower production contributed to a decline of about 3 percent in the U.S. supply of corn for the 1991/92 marketing year as compared to the previous year. Total usage of corn in the 1991/92 marketing year is expected to be unchanged as a modest rise in domestic consumption is offset by a further decline in exports. Domestic usage is forecast to rise about 3 percent in 1991/92 in response to greater feed use and continued growth in food and industrial use of corn. However, corn exports—which registered a 27 percent plunge last year—are projected to decline an additional 9 percent in the 1991/92 marketing year.

With reduced supplies and little change in total usage, corn stocks at the end of the 1991/92 marketing year are

U.S. Agricultural exports

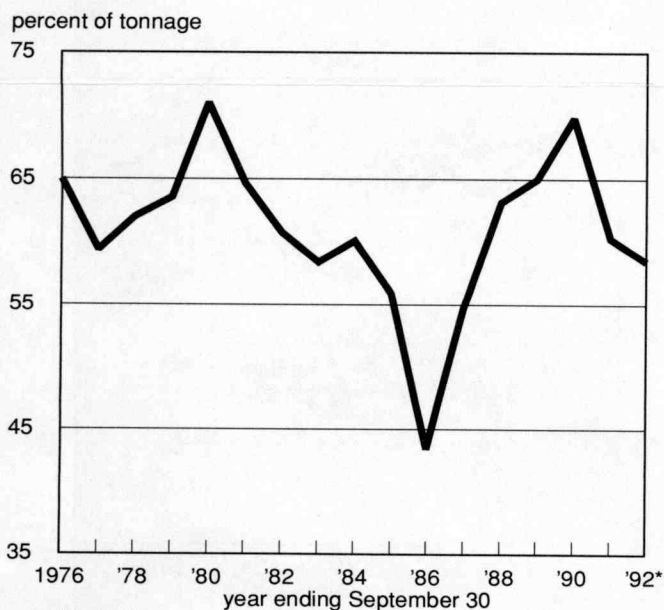


*Projection
SOURCE: USDA.

projected to decline nearly 19 percent from a year earlier to about 1.2 billion bushels. Such a level would be the lowest in eight years and equivalent to less than 16 percent of annual usage. The narrowing of the gap between supply and use would seem to foreshadow somewhat higher corn prices and a slight rise in plantings for 1992. After averaging \$2.28 per bushel last year, the USDA believes the average corn price for the 1991/92 marketing year will fall in the range of \$2.20 to \$2.60 per bushel. U.S. corn plantings in 1992 are expected to rise 1 to 3 million acres above the 1991 seedings of 75.9 million acres.

The U.S. soybean harvest for 1991 is estimated to be approximately 1.96 billion bushels, up nearly 2 percent from the previous year. With beginning stocks up well over a third, the total supply of soybeans for the 1991/92 marketing year is estimated to be up 6 percent. Total usage is expected to increase nearly 8 percent, incorporating a 17 percent hike in soybean exports and a 4 percent increase in the amount of soybeans crushed into oil and meal. Part of the export gain stems from the short supply in Brazil, which is considered to be a temporary situation given the recent increase in Southern Hemisphere plantings. The increase in crushings is attributed to larger feed demand resulting from increasing numbers of hogs and poultry. Although total usage is expected to marginally exceed production, ending stocks of soybeans are projected to remain at the relatively high level of 315 million bushels. Soybean prices, after averaging \$5.69 and \$5.75 per bushel the past two years, are projected by the USDA to average somewhere between \$5.25 and \$5.75 during the 1991/92 marketing year.

U.S. share of world coarse grain trade



*Projection.
SOURCE: USDA.

Due to fewer acres and lower yields, U.S. wheat production in 1991 fell to 1.98 billion bushels, down 27 percent from the year before and the second smallest wheat harvest since 1978. On the demand side, domestic wheat use is projected to decline by about 9 percent, due entirely to a sharp reduction in the amount of wheat used as livestock feed. Feeding wheat to livestock had been attractive during the past year due to its relatively low price. Recent and expected price strength suggests the high feeding rate will not continue. On the other hand, wheat exports are expected to increase about 15 percent over the previous marketing year as shipments to China and the former Soviet Union rebound. Despite a slight decline in total usage, ending stocks of wheat are projected to drop to 414 million bushels. The low stocks are expected to push average wheat prices for the 1991/92 marketing year to within the range of \$2.85 to 3.05 per bushel, up from \$2.61 during the past year.

Total meat production and per capita meat consumption are estimated to have increased by about 3 percent and 2 percent, respectively, in 1991. For 1992, the gains are forecast to ratchet up to 4 percent and 3 percent, due to increases for pork and poultry. The levels of expected 1992 meat production and consumption would both be record highs.

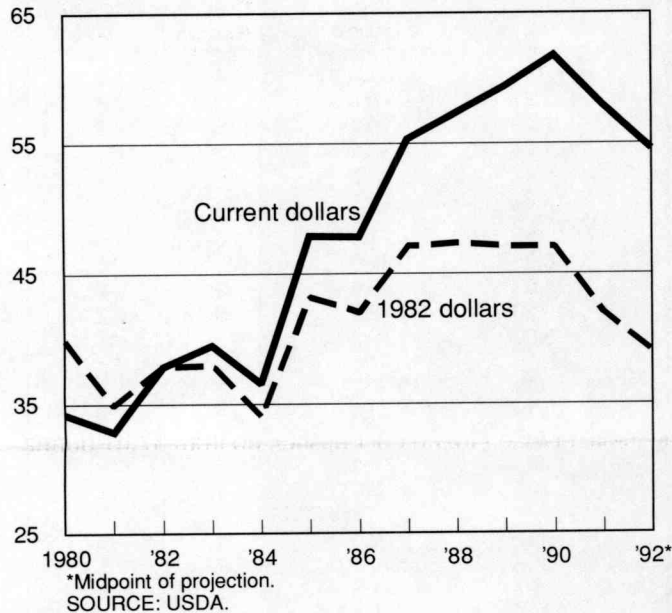
Beef production rose marginally during 1991 as heavier dressed weights more than offset another decline in the number of cattle slaughtered. Cattle slaughter is expected to increase nearly 2 percent in 1992, reflecting a rise in both fed cattle marketings and cow slaughter. Total beef production is expected to be up a little over 1 percent. Net imports of beef are projected to decline in 1992, largely because of continued growth in exports. Overall, per capita supplies of beef will remain at a cyclical low in 1992. However, larger supplies of pork and poultry will help keep a lid on cattle prices. After averaging \$75 during 1991, choice steer prices for 1992 are expected to average somewhere between \$73 to \$79 per hundredweight.

Pork production is estimated to have increased about 4 percent during 1991, and is projected to increase nearly 7.5 percent in 1992. On a per capita basis, pork production in 1992 is expected to be the largest since 1981. In addition, the trade picture is expected to worsen with net pork imports increasing about 5 percent in 1992 and adding marginally to available pork supplies. The 1992 prices for barrows and gilts are projected by the USDA to average between \$39 and \$45 per hundredweight, compared to about \$49 for 1991. Lower hog prices and ample meat supplies will likely pressure producers to lower hog production in 1993.

Poultry production is expected to expand again in 1992, but at a lower rate than in 1991. Production increased nearly 6 percent during 1991. Primarily due to falling net

Net cash farm income

billion dollars



returns received by turkey and broiler producers, next year's rise in poultry production is expected to slow to 4 percent.

Milk production, following a sizeable upturn in 1990, leveled off this past year as dairy farmers responded to low prices with stepped-up culling of the dairy herd. Milk prices received by dairy farmers were at unusually low levels during the early part of 1991 but have rebounded faster than expected this fall. For the past 12 months, milk prices received by dairy farmers averaged about \$12.25 per hundredweight, down a tenth from the previous year and the second lowest annual average since 1979. For 1992, the USDA is projecting that milk production will be little changed from this year and that prices will average somewhere between \$11.90 and \$12.90 per hundredweight.

Farm earnings turned lower this year and a further decline appears likely in 1992. The USDA's preliminary estimate shows that net cash farm income in 1991 approximated \$58 billion, down from the record high of \$61.8 billion now estimated for 1990. The decline stems from lower livestock receipts (due to lower prices for milk, cattle, and hogs) and a modest rise in cash production expenses. Buoyed by large gains for fruits and for greenhouse and nursery products, receipts from crop marketings rose for the fifth consecutive year in 1991. Net cash farm income in 1992 is expected to decline to somewhere between \$52 and \$57 billion. In terms of the purchasing power of 1982 dollars, that would put real net cash farm income for next year somewhere between \$36 and \$42 billion, down from \$42 billion in 1991 and the tightly clustered range of

\$47.0 to \$47.8 billion that prevailed from 1987 to 1990. In comparison, net cash income (again using 1982 dollars) averaged about \$37 billion annually for the period 1980 through 1984.

The balance sheet of the farm sector recorded small gains in total assets, total debt, and equity during 1991. Modest gains are expected for 1992. Total assets increased a little over 1 percent to an estimated \$845 billion in 1991, and are projected to increase by a similar amount during 1992. Farm debt is estimated to have risen marginally to about \$137 billion during 1991, ending 6 consecutive years of annual declines. The USDA projections suggest that total farm debt will again show a small increase in 1992. The equity of the farm sector increased a little over 1 percent during 1991 to an estimated \$708 billion, and is projected to show a change of between 0 and 2 percent during 1992. Equity has been on the upswing since 1986 when measured in current dollars. However, when measured in real or inflation-adjusted terms, farm sector equity declined nearly 3 percent in 1991, and is expected to decline further during 1992.

Retail food prices in 1991 averaged a little over 3 percent above the year-earlier level, well below the gains of nearly 6 percent in each of the previous two years. The moderate increase is attributable to generally depressed economic conditions as well as ample supplies of meat. Increased production of beef, pork, and poultry had a dampening effect on food prices as total meat production reached a record high. Higher farm production contributed to lower milk and dairy product prices. On the other hand, weather problems during 1991 contributed to significant price increases for fruits and vegetables, and overall processing and distribution costs increased by 6 percent. For 1992, the USDA projects that retail food prices will average 2 to 4 percent higher as meat prices decline and the upward pressure on fruit and vegetable prices moderate.

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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 (1977=100)					
Crops (1977=100)					
Corn (\$ per bu.)	November	141	-1.4	-4	-3
Oats (\$ per bu.)	November	127	0.0	2	1
Soybeans (\$ per bu.)	November	2.29	-0.4	6	2
Wheat (\$ per bu.)	November	1.20	-3.2	3	-19
	November	5.42	-1.3	-6	-4
	November	3.21	3.9	34	-14
Livestock and products (1977=100)					
Barrows and gilts (\$ per cwt.)	November	155	-1.9	-8	-6
Steers and heifers (\$ per cwt.)	November	38.90	-12.0	-23	-15
Milk (\$ per cwt.)	November	74.00	-0.4	-9	-2
Eggs (¢ per doz.)	November	13.70	2.2	8	-12
	November	64.0	0.3	-12	-19
Prices paid by farmers (1977=100)					
Production items	October	189	0.0*	1	6
Feed	October	173	0.0*	-1	5
Feeder livestock	October	123	2.5*	-1	-4
Fuels and energy	October	203	-5.1*	-7	4
	October	200	2.0*	-16	9
Producer prices (1982=100)					
Agricultural machinery and equipment	November	122	0.0	0	6
Fertilizer materials	November	126	0.9	3	6
Agricultural chemicals	November	97	-1.5	-5	5
	November	125	-0.6	3	8
Consumer prices (1982-84=100)					
Food	November	138	0.3	3	9
	November	136	0.3	2	7
Production or stocks					
Corn stocks (mil. bu.)	September 1	1,521	N.A.	13	-21
Soybeans stocks (mil. bu.)	September 1	329	N.A.	38	81
Beef production (bil. lbs.)	October	2.12	9.1	3	4
Pork production (bil. lbs.)	October	1.53	16.7	10	8
Milk production (bil. lbs.)**	November	9.9	-2.9	-1	3

N.A. Not applicable.

*Prior period is three months earlier.

**21 selected states.

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