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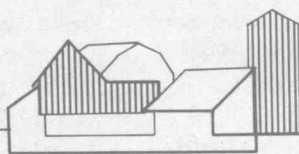
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USDA Agricultural Outlook

The U.S. Department of Agriculture hosted the 66th annual Agricultural Outlook Conference in late November. As summarized below, the conference speakers provided an in-depth focus on 1989 trends and 1990 prospects for U.S. agriculture. In general, the consensus view depicts a fairly strong picture as the farm sector continues to recover from the widespread financial problems of the early- to mid-1980s. In addition, considerable attention was devoted to issues that will highlight the policy debate related to agriculture in the early 1990s. These issues included such things as agricultural trade and the ongoing GATT negotiations, the rapidly growing focus on food safety and environmental concerns, rural development, and considerations likely to surface in this year's debate on a new, multi-year farm bill.

The forecasted trends for various measures of overall farm sector performance, while mixed, point to another fairly strong year in 1990. Following three years of substantial recovery, U.S. agricultural exports are projected to decline slightly. However, aggregate farm earnings are likely to remain comparatively high and the farm sector balance sheet is expected to strengthen further in 1990.

In the fiscal year that ended September 30, 1989, the value of U.S. agricultural exports was up 12 percent from the year before and up more than 50 percent from the fiscal 1986 low. At nearly \$39.7 billion, last year's exports were also the highest since fiscal 1981. While exports of meat and horticultural products will likely match—or exceed—record levels, the value of all U.S. agricultural exports is expected to decline to around \$38 billion in fiscal 1990. The decline will stem mostly from lower prices for coarse grains and oilseeds and a smaller volume of wheat shipments. The volume of all U.S. agricultural exports, after rising 35 percent from fiscal 1986 to 1988, leveled off at just under 148 million metric tons in fiscal 1989 and may edge nominally lower in the current year.

In contrast to the anticipated decline in exports, net cash farm earnings are expected to turn up next year. Following recent downward revisions suggested by the 1987 Census of Agriculture, the USDA's latest estimates show that net cash farm income reached a record of \$57 billion in 1988 and then retreated to a

preliminary estimate of \$53 billion this year. For next year, net cash farm income is expected to total somewhere between \$52 and \$57 billion. If that is the case, it would mark the fourth consecutive year that farm sector earnings, even adjusted for inflation, have held well above the depressed levels of the early- to mid-1980s.

The anticipated upturn in net cash farm earnings for next year incorporates expectations of another new high in cash receipts from farm commodity marketings which will more than offset the third consecutive annual decline in government payments to farmers. Increased marketings are expected to buoy crop receipts while livestock receipts stabilize at this year's record. Despite prospects for higher feed grain and wheat deficiency payments, total government payments may decline about 14 percent to around \$9.5 billion. Cash expenses, after rising 6 percent in each of the past two years, are projected to stabilize in the year ahead. Livestock and poultry farmers are especially likely to benefit from lower feed expenses in 1990.

The prospects for fairly strong farm earnings probably foreshadow a continuing uptrend in capital expenditures by farmers next year and further strengthening in the farm sector balance sheet. Following sizable upward revisions to land values from the benchmark provided by the 1987 Census of Agriculture, the latest USDA estimates show that farm sector asset values totaled \$810 billion as of the end of 1988, up 6 percent from the year before. Current expectations point to a rise of about 5 percent this year, followed by a gain of 4 percent or more next year.

While farm asset values continue to edge upward, the recent downtrend in farm debt appears to be leveling off. Current projections suggest that farm debt at the end of this year will approximate \$136 billion, down 1.5 percent from a year earlier and down nearly 30 percent from the ending of 1983 peak. For next year, the USDA expects farm debt will increase about 1 percent, with modest gains for both real estate and nonreal estate debt.

With the strengthening in the balance sheet of recent years, the farm sector has recaptured over 60 percent of the huge equity losses that occurred during the widespread, financial distress that characterized

mid-1980s. Moreover, the sector's debt-to-asset ratio has retreated to about the lowest level for any year since the mid-1960s.

The anticipated market conditions for major Midwest farm commodities in the year ahead are somewhat mixed. This year's rebound from the drought-reduced harvest of 1988, coupled with eased drought concerns for the year ahead and gains in foreign production, are expected to hold corn and soybean prices well below year earlier levels. For the 1989/90 marketing year that started September 1, the USDA is projecting that corn prices will average about \$2.20 a bushel, down from \$2.54 in 1988/89 but still above the 1987/88 market year average of \$1.94 a bushel. The price projection incorporates expectations that corn exports, supported by another year of large shipments to the USSR, will rise an additional 4 percent this year. At the projected 2.15 billion bushels, corn exports for the 1989/90 marketing year would be up more than 70 percent from the cyclical low of 1985/86 but still 11 percent short of the 1979/80 peak. Domestic use of corn is expected to rise about 5 percent this year but remain 8 percent below the peak of two years ago. Total corn usage for 1989/90, now projected at 7.6 billion bushels, would about match the current estimate of the 1989 harvest. As such, carryover stocks next fall are expected to be unchanged at 1.9 billion bushels. From an historical perspective that would represent a "normal" carryover for corn relative to annual usage.

The outlook for U.S. soybean exports is dimmed by prospects for continued large supplies from other major exporting countries in the Southern Hemisphere. Consequently, after declining a third in the 1988/89 marketing year, soybean exports are forecast to rise only 8 percent during the year that ends September, 30, 1990. At the projected 575 million bushels, U.S. soybean exports this year would be the second lowest for any marketing year since 1976/77. Domestic crushings of soybeans (into meal and oil) are projected to rise 5 percent this year but remain below the highs of two and three years earlier. Total soybean usage for the 1989/90 marketing year, currently estimated at 1.78 billion bushels, would be third lowest for any year since 1977/78. The implications are that carryover stocks of soybeans will rise from 182 million bushels in 1989 to 335 million bushels next year. Such a level, judged both from an historical perspective and in light of the uptrend in foreign production of soybeans and other oilseeds in recent years, will likely prove burdensome to prices. Therefore, the USDA believes that soybean prices during the 1989/90 marketing year will average about \$5.50 per bushel, down from \$7.35 in 1988/89 and \$5.88 in 1987/88.

In line with anticipated prices and market conditions for corn and soybeans, USDA analysts believe corn plantings will rise next spring while soybean plantings will decline. For 1990, planted corn area is projected to rise to around 75 million acres, up from 72.3 million this year and 67.6 million in 1988. Soybean plantings next spring are projected to retreat to the 1987 and 1988 levels of 58 to 59 million acres, down from 60.5 million this year. Wheat acreage for the 1990 harvest is also expected to rise, both in the Midwest and nationwide. Largely because of relaxed set-aside requirements, planted area for the nation's 1990 wheat crop is expected to rise 5 percent to about 80 million acres.

Meat production in the year ahead is projected to rise about 3 percent. The anticipated rise encompasses expectations of only a 1 percent rise for red meats and a 7 percent rise for poultry. Per capita consumption of all meats, after being held in check this year by smaller imports and larger exports, is expected to rise 2 percent in 1990 to another new high.

Cattle slaughter in 1990 will likely be little changed from the reduced level of this year. Dressed weights, however, will probably remain at record levels as the mix of cattle moving to slaughter plants is expected to contain more cattle finished in commercial feedlots and fewer cows and grass-fed steers and heifers. Beef production, after declining an estimate 2.7 percent this year, is projected to edge up 1 percent next year. However, per capita beef consumption, which is hovering at the lowest levels in nearly three decades, may edge lower again next year as net beef imports retreat further. Largely because of rapid gains in exports, net beef imports may only augment domestic production by about 4 percent next year, down from nearly 7 percent as recently as 1988. With smaller per capita domestic supplies of beef, cattle prices in 1990 will likely set new highs for the third consecutive year. Fed steer prices at Omaha are expected to average about \$74 per hundredweight in 1990, up from an estimated \$72.50 this year and \$69.50 last year.

Pork production is also expected to register a nominal rise of about 1 percent in 1990, duplicating the gain recorded this year and extending the current cyclical uptrend that began in 1987. The bulk of the increase will likely occur late next year if producers—as expected—expand late winter and spring sow farrowings in response to recently improved operating returns. The improved operating returns reflect unexpectedly high hog prices in recent months as well as lower feed costs. Paced by second-half gains, hog prices for all of this year are likely to average about \$44 per hundredweight, up from \$43.39 in 1988 but well below the 1987 average of \$51.70. While possibly re-

treating late next year, hog prices for all of 1990 are projected to average about \$45 per hundredweight.

Following a year and a half of highly unusual developments, the dairy sector is expected to return to more normal conditions in 1990. After holding 2 percent above year-earlier levels during the first five months of this year, milk production in major states during the June-October period fell 2 percent below year-earlier levels. The unexpected decline reflected both a slight cut in dairy cow numbers and a rare drop in milk output per cow that is largely attributed to low-quality forage. The cut in production coincided with, and contributed to, uncharacteristic shortages for some dairy products. Nonfat dry milk supplies were especially tight as a result of a rare surge in export shipments. These developments triggered a sharp second-half rise that boosted milk prices received by farmers to new highs of over \$15 per hundredweight in November. For all of this year, farm level milk prices are expected to average about \$13.40 per hundredweight, up from average annuals that held in a tight range of \$12.24 to \$12.54 in the past three years.

High milk prices and lower feed costs are providing strong incentives for increased milk production. While there is considerable uncertainty as to when a production response might occur, the USDA currently believes milk production for all of next year will rise about 2 percent. The combination of increased production and a weakening in foreign sales of nonfat dry milk could trigger an unusually large seasonal decline in milk prices during the early months of next year. And for all of next year, farm level milk prices may return to the 1988 average of \$12.25 per hundredweight.

The index of retail food prices averaged nearly 6 percent higher this year, up from gains of 4.1 percent in each of the previous two years. A number of food components contributed to the faster rise. Early in the year, comparatively tight supplies of eggs, poultry, and some fruits and vegetables dominated the faster rise in food prices. Throughout the year, cereal prices also registered comparatively strong gains as manufacturers scrambled to meet the growing consumer demand for cereals high in fiber and other nutritional benefits. During the latter half of this year, rare shortages for some dairy products also added considerable pressures.

For next year the USDA projects that the rise in retail food prices will fall back into the 3 to 5 percent range. Expectations for lower poultry and egg prices account for much of the anticipated slowing. But most other food categories are also expected to register a smaller rise next year.

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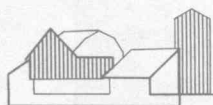
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)	July	12,269	-1.9	1	11
Crops*	July	5,593	-2.1	-1	52
Livestock	July	6,473	-1.2	4	1
Government payments	July	203	-13.6	-40	-80
Real estate farm debt outstanding (\$ billions)					
Commercial banks	June 30	15.0	3.1 [†]	8	18
Farm Credit System	September 30	26.5	-0.5 [†]	-8	-14
Life insurance companies	June 30	8.68	-0.9 [†]	-3	-10
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	June 30	29.1	8.2 [†]	2	1
Farm Credit System	September 30	9.70	2.6 [†]	4	-2
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	October 1	12.19	-1.9 [†]	4	8
Real estate loans	October 1	11.34	-1.8 [†]	3	6
Commodity Credit Corporation	December	7.87	-3.1	-5	15
Agricultural exports (\$ millions)	September	3,011	8.8	-5	28
Corn (mil. bu.)	September	116	6.4	-25	-15
Soybeans (mil. bu.)	August	18	9.4	-51	-66
Wheat (mil. bu.)	September	160	15.5	23	29
Farm machinery sales^D (units)					
Tractors, over 40 HP	October	6,255	35.9	3	13
40 to 139 HP	October	3,671	25.4	-6	-7
140 HP or more	October	2,584	54.3	21	62
Combines	October	1,711	36.6	73	11

*Includes net CCC loans.

[†]Prior period is three months earlier.

^DPreliminary



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