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**Agricultural sector outlook for 1988**

The current situation in the agricultural sector and likely conditions in the coming year were recently summarized at the USDA's 64th Annual Outlook Conference. The consensus forecast suggests continued improvement from the depressed conditions of the first half of the decade as stocks of major commodities are worked down. World crop production in 1987/88 is projected to be down about 4 percent from a year earlier. The decline is attributable to drops in both feed grain and food grain production, although these declines are expected to be partially offset by year-to-year increases in cotton and oilseed output. Global crop consumption, on the other hand, is expected to register a slight increase from last year due to continued economic growth and expanding world livestock production. With output down and consumption expanding, the huge commodity stocks that have depressed markets over the last several years are expected to recede. U.S. agricultural exports are expected to show continued strength in the coming year, with competitive pricing policies and production shortfalls in some competing countries leading to increased world market shares for U.S. grains.

World coarse grain production during 1987/88, based on USDA December estimates, is projected to total 798 million metric tons, down more than 4 percent from the year-earlier level. Virtually all of the expected decline is attributable to lower production in the United States, off almost 14 percent from last year. Output among major exporting countries other than the United States is expected to be up about 2 percent with a large increase in Argentina. Production in major importing countries is projected to drop about 1 percent as a sharp 13 percent decline in output in Eastern Europe is partially offset by 8 percent greater output in the Soviet Union. Recent upward revisions in coarse grain output estimates for the European Community now suggest little change from last year's crop.

U.S. coarse grain production this year is pegged at almost 218 million metric tons compared to 253 million metric tons last year. U.S. corn production, which accounts for the bulk of coarse grain output, fell about 13 percent. However, the record carryover stocks limited the drop in corn supplies to about 2 percent. Output of sorghum and barley also recorded substantial declines but record carryin stocks limited the declines in overall supplies. The supply of oats, however, continued to tighten. Carryin stocks are at a 50 year low and reduced harvested acreage and weak yields dropped oats production to the lowest level in more than 100 years. As a result, the supply of oats is expected to be augmented this year with about 35 million bushels of imports.

Global use of coarse grains in 1987/88 is predicted to rise almost 2 percent from a year earlier, with about two-thirds of the 818 million metric tons devoted to feeding livestock. Use in the United States, where feeding accounts for 80 percent of coarse grain utilization, will be up about 1 percent. Foreign coarse grain use in 1987/88 is forecast to show a 2 percent gain from last year. Much of the increase is accounted for by projections of nearly 7 percent gains in utilization in Japan and the Soviet Union.

U.S. corn production this year is estimated to total just under 7.2 billion bushels, down 13 percent from last year. With average yields reaching a new record high of 120.3 bushels per acre, the drop is due to acreage reductions associated with widespread participation in government support programs and to longer term acreage retirement under the Conservation Reserve Program. Despite the sharp decline in output, corn supplies will be down only slightly due to the huge carryin of corn stocks. At a record 4.9 billion bushels, beginning stocks were up almost 21 percent from last year and contributed to total supplies of almost 12.1 billion bushels compared to 12.3 in 1986/87.

Although supplies are near the year-ago level, corn utilization is expected to rise in 1987/88. Domestic utilization is expected to register a year-to-year gain of 2 percent due to greater feed use and continued growth in food and industrial use of corn. U.S. exports of corn, however, will provide a substantially greater boost to utilization, increasing another 13 percent in 1987/88 to 1.7 billion bushels. The likely export gains are based on estimates of reduced foreign corn and coarse grain production, particularly among competing exporters. Production shortfalls in Eastern Europe are expected to switch that region to a net importer of corn in 1987/88, and a drought stressed crop in Thailand will sharply curtail that country's corn exports.

With more than 7.7 billion bushels of domestic utilization and exports boosting total use above output, stocks of corn in the United States at the end of the marketing year are expected to drop. At just over 4.3 billion bushels, projected ending stocks would be 11.4 percent below the record carryin of this year. While this would still represent more than a half year's supply, the stocks-to-use ratio would be well below the 66 percent level of last year. With the somewhat less burdensome ending stocks, the September-to-August marketing year average corn price is projected to range from $1.60 to $1.90 per bushel, up from last year's average of $1.50.

U.S. soybean production in 1987/88 approached 2 billion bushels, 1 percent above a year earlier. The increase was due to a record tying average yield of 34.1 bushels per acre offsetting an almost 3 percent drop in planted acres. With carryin stocks down almost a fifth from a year earlier, total soybean supplies for the marketing year that began in September are down 3.2 percent from 1986/87. Soybean crushings are expected to be up about 2 percent this year with strong domestic and foreign demand for soybean meal. Exports of soybeans and soybean meal are expected to be up slightly from a year ago after substantial upward revisions in the estimates since November. Recent purchases by the Soviet Union account for the improved export prospects for these products. In addition, soybean oil exports are projected to record a one-third increase from a year ago, largely due to Export Enhancement Program sales to North African countries, and strong import demand in China and India. However, soybean and soybean product exports are expected to come under competitive pressure in the second half of the year from increased Southern Hemisphere production. With utilization up and stocks tightening, the U.S. average soybean price is expected to range between $5.10 and $5.70 per bushel this marketing year compared to $4.80 in 1986/87.

Domestic wheat production for the 1986/87 marketing year that began in June totaled 2.1 billion bushels, up slightly from a year earlier. However, a smaller carryin cut total wheat supplies for the marketing year by about 2 percent. In addition, expected modest growth in domestic use and a sharp increase in exports is projected to boost total use more than a fifth from last year. As a result, ending stocks will likely be down almost 30 percent, leaving the lowest wheat inventory since 1982. With increased domestic use and exports tightening supplies, the average wheat price for the marketing year is forecast to range from $2.45 to $2.65, up from the $2.42 average of last year.

U.S. wheat exports are benefiting from lower world production and a greater use of domestic export subsidies. Total foreign wheat output is projected to be down 6 percent from last year, with declines in both major exporting and importing countries. However, world wheat consumption is expected to exceed production for the first time since the beginning of the 1980s. Lower production and continued strong demand is expected to contribute to a 7 percent increase in world wheat trade in 1987/88. U.S. wheat exports are expected to continue to gain market share this year, accounting for about 38 percent of world wheat and flour trade compared to a 31 percent share in 1986/87. Most of the gains in recent years, however, are associated with subsidies under the Export Enhancement Program which lower the effective price of U.S. wheat.

U.S. red meat production is projected to total 39.0 billion pounds in 1988, up slightly from this year's output but down from 1986. The increase is attributable to gains in pork production offsetting an expected drop in beef production. The decline in beef output in 1988 is expected to reach 4.6 percent, with much of the decline occurring during the second half of the year. Fed cattle marketings in 1988, although likely to be down from the year-earlier level, will remain large and will account for a larger proportion of total cattle slaughter. The declines in beef production will exert upward pressure on prices, but will be limited by substantial increases in supplies of other meats. Current USDA projections for the year put annual average choice steer prices in the mid-to-upper $60 per hundredweight range, up slightly from 1987 levels.

Favorable returns over the past two years have spurred an expansion in hog production. The September *Hogs and Pigs* report indicated that producers continued to expand their herds and intend to have more sows farrow during the fall and winter months than a year ago. Current indicators point to a sharp jump in pork production in 1988. Based on September 1 conditions, estimates of first quarter output point to a 9 percent year-to-year gain, while pork production in the second and third quarters is projected to jump 15 percent and 13 percent, respectively. The sharp increase in pork output is expected to place substantial downward pressure on prices, with the annual average price for barrows and gilts at the seven major markets ranging between $37 and $43 per hundredweight compared to an average in the low $50s in 1987.

The increase in red meat supplies will be augmented by continued gains in poultry output. Strong returns over the last several years have spurred a substantial expansion in the industry and, while gains in 1988 will not match the earlier rates of increase, poultry production is forecast to rise 5 percent in the coming year. With increased broiler and turkey output and ample supplies of other meats, downward pressure on poultry prices in 1988 is expected to begin to squeeze producers' returns.

Milk production in 1987 is estimated to have dropped about 1 percent from the year earlier. The decline is due to the Dairy Termination Program, which substantially reduced cow numbers as producers exited the industry. However, the drop in cow numbers was largely offset by increases in milk output per cow. Milk production in 1988 is expected to rise more than 1 percent from the previous year. Commercial disappearance is expected to register another year-to-year gain in the coming year, rising 1 to 3 percent. Government purchases of manufactured dairy products, the mechanism by which the milk support price is maintained, are expected to approach 6 billion pounds on a milk equivalent basis in 1987. If projected removals in 1988 exceed 5 billion pounds a 50 cent per hundredweight cut in the milk support price will become effective in January. A cut in the support price of that magnitude would likely dampen gains in milk per cow in the coming year, but probably would not stop total milk production from rising.

Retail food prices are expected to rise 2 to 4 percent in the year ahead, somewhat less than the 4.1 percent increase forecast for 1987. The moderation in food price increases next year is attributable to ample supplies of most food commodities. Retail prices for pork and poultry are forecast to show substantial declines, with other meats showing little change from 1987. In addition, more moderate increases in fruit and vegetable prices will limit overall retail food price increases. As has been the case for several years, much of the projected gain in the consumer price index for food is attributable to food consumed away from home, which is expected to be up 3 to 5 percent from 1987 levels. In contrast, food prices in grocery stores next year are forecast to show little change from a year earlier.

The financial outlook for the agriculture sector points to some decline in income from the record 1987 level but stability in the sectors balance sheet. Net cash income, a measure of the income available to service debt and meet family living expenses, is expected to total $57 billion this year. After accounting for inflation in the intervening years, 1987 net cash income is well above the average level of the second half of the 1970s. Net farm income, a conceptual measure of the income generated by the sector's production in a given year, shows a similar trend. At a record $45 billion, net farm income in 1987 has rebounded sharply from the depressed levels of the early 1980s. Much of the rebound of recent years is attributable to strong livestock returns, sharply lower production expenses, and the high level of government support payments to farmers.

In 1988 farm sector earnings are expected to remain at a high level but perhaps down somewhat from this year. Net cash income is forecast to fall to the $50 to $55 billion range, while net farm income in 1988 is forecast to be down about 5 percent from a year earlier. Although an increase in crop receipts is expected to more than offset a decline in livestock receipts, gross income is forecast to register a slight decline due to lower government payments. Additional pressure on income in 1988 is coming from an estimated 1 to 3 percent increase in cash production expenses, ending the steady decline of the last several years.

After several years of substantial declines, the farm sector balance sheet began to show some signs of strengthening in 1987. The value of farm assets rose 3 percent from a year earlier while liabilities registered a decline of 9 percent. As a result, farm sector equity rose nearly 6.5 percent. Nevertheless, the level of wealth in the sector is far below the levels that prevailed in the late 1970s and early 1980s.

In 1988, farm asset values are expected to stabilize near the previous year's level. Some decline in the value of farm machinery and equipment inventories is expected to be offset by further, but moderate gains in farm real estate values in 1988. Farm debt is forecast to continue the substantial reductions of the last several years. Current projections point to additional declines in debt of between 5 to 10 percent next year. With stable land values and further debt declines, farm sector equity in 1988 is forecast to rise about 2 percent. Moreover, the debt-to-asset ratio of the sector is likely to drop to about 18 percent, a significant improvement from the 23 percent level reached earlier in the decade.

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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)* | August | 10,021 | -3.6 | -4 | -8 |
| Crops* | August | 3,302 | -16.1 | -4 | -35 |
| Livestock | August | 6,334 | 2.5 | -2 | 15 |
| Government payments | August | 385 | 37.0 | -28 | 31 |
| **Real estate farm debt outstanding** *($ billions)* | | | | | |
| Commercial banks | June 30 | 13.8 | 5.2† | 14 | 30 |
| Federal Land Banks | June 30 | 34.5 | -3.9† | -17 | -28 |
| Life insurance companies | August 31 | 10.2 | -0.4 | -12 | -16 |
| Farmers Home Administration | June 30 | 10.2 | -0.8† | -3 | -1 |
| **Nonreal estate farm debt outstanding** *($ billions)* | | | | | |
| Commercial banks | June 30 | 30.4 | 5.7† | -11 | -24 |
| Production Credit Associations | June 30 | 9.88 | 2.5† | -22 | -41 |
| Farmers Home Administration | June 30 | 16.6 | 1.7† | -7 | -8 |
| Commodity Credit Corporation | June 30 | 14.3 | -23.9† | -20 | 62 |
| **Interest rates on farm loans** *(percent)* | | | | | |
| 7th District agricultural banks | | | | | |
| Operating loans | October 1 | 11.29 | 2.5† | 0 | -12 |
| Real estate loans | October 1 | 10.70 | 2.2† | -1 | -14 |
| Commodity Credit Corporation | December | 6.87 | -14.1 | 20 | -13 |
| **Agricultural exports** *($ millions)* | September | 2,334 | 9.3 | 22 | 24 |
| Corn *(mil. bu.)* | September | 136 | 21.5 | 68 | 69 |
| Soybeans *(mil. bu.)* | September | 57 | 4.0 | 88 | 80 |
| Wheat *(mil. bu.)* | September | 124 | 5.3 | 20 | 60 |
| **Farm machinery sales**P *(units)* | | | | | |
| Tractors, over 40 HP | November | 3,468 | -37.3 | 14 | -8 |
| 40 to 139 HP | November | 2,435 | -38.0 | 9 | -8 |
| 140 HP or more | November | 1,033 | -35.3 | 31 | -7 |
| Combines | November | 3,468 | 124.5 | 483 | 205 |

*Includes net CCC loans.
†Prior period is three months earlier.
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