FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

ISSN 0002 - 1512

November 27 Number 1539

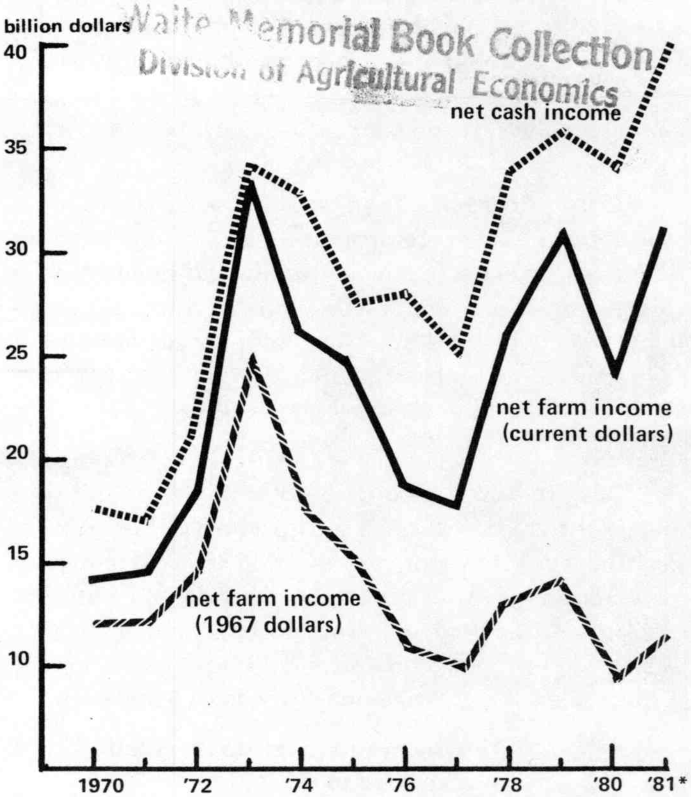
THE AGRICULTURAL OUTLOOK FOR 1981, as summarized at the USDA's 57th Annual Conference last week, points to a better year for farmers in 1981. Net farm income is expected to improve significantly, perhaps regaining all of the large decline of this year. Agricultural exports, despite a sluggish world economy and a short U.S. coarse grain and soybean harvest will likely grow 20 percent over the fiscal 1980 record of $40.5 billion. Farm debt will continue to increase but may benefit from declining interest rates. Higher food prices will result as both marketing costs and the farm value of food increase.

Net farm income before inventory adjustment could exceed $30 billion in 1981, up a fifth or more from the $25 billion estimated for 1980. A 10 percent reduction in the 1980 crop production along with a continued strong export demand suggest crop prices might average 12 to 16 percent higher next year. Although marketings in 1981 will likely be lower than this year, price increases may boost cash receipts from crop marketings 6 to 10 percent higher. In addition, livestock receipts are expected to rise 16 to 20 percent as total red meat and poultry production decline and prices move higher. With little change anticipated in government payments and other income, gross farm income could approach $176 billion.

Higher production costs will offset some of the improvement in gross farm income. Current estimates suggest farm production expenses this year rose 11 percent to $131 billion. A comparable increase is projected for next year. Among farm-origin inputs, higher prices paid for feeder cattle and feed will add significant increases to farm production expenses in 1981. Expenditures for petroleum-based inputs, such as fuel, fertilizer and chemicals, may rise another 20 percent following the large gains of this year. Interest expenses are expected to level-off next year after jumping 25 percent this year. Most other production expenses are projected to rise less than a tenth next year.

Farm exports may grow to nearly $50 billion in value and 170 million metric tons in volume as the U.S. fills the wide gap between foreign production and utilization. In contrast, agricultural imports are forecast to show relatively little growth. As a result the agricultural trade surplus is expected to rise from the fiscal 1980 record of $23 billion to around $30 billion in fiscal 1981. Prices will contribute heavily to the spurt in export value, but the volume of agricultural commodities is still expected to increase 4 percent—with an increase in grain shipments more than offsetting declines in soybeans and cotton. Prices of corn, sorghum and soybean exports may average at least 35 percent higher than last year while the price of wheat may be about 3 percent to 10 percent greater.

Net farm income may recover in 1981



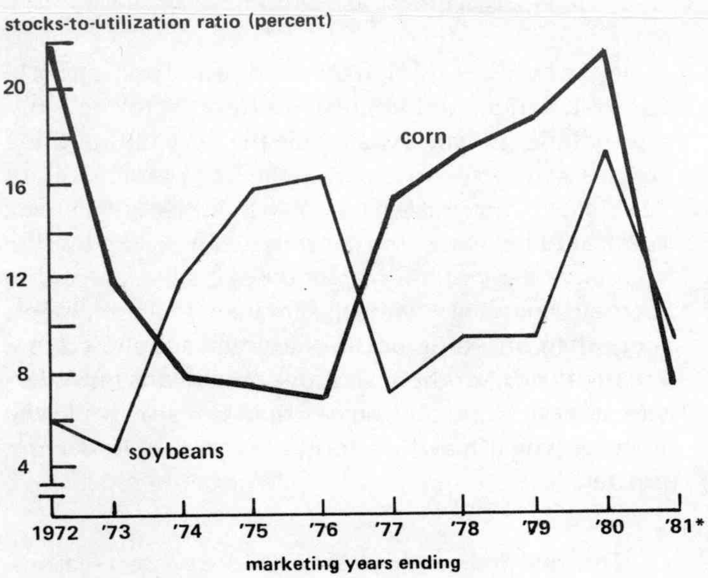
*USDA forecast

The feed grain outlook hinges more on next seasons crop outturn than in recent years. A severe drought this summer reduced the U.S. feed grain crop to an estimated 192 million tons, 18 percent below last year and the smallest crop since 1976. U.S. corn production—accounting for 85 percent of feed grains—is now estimated at only 6.46 billion bushels. However, the largest carryover stocks of corn since 1964—1.6 billion bushels—will cushion the effects of lower production on utilization. Total utilization of corn in the 1980/81 marketing year may reach 7.5 billion bushels, up nominally from the 1979/80 record. Corn exports are projected to rise nearly 7 percent, offsetting the 2 percent decline anticipated for domestic utilization. Domestically, corn used for feed is expected to be down 4 percent from last year, while that used for food and industrial purposes is expected to be up 14 percent. The high level of total utilization coupled with lower production may draw carryover stocks of corn down 1 billion bushels to 550 million bushels by the fall of 1981.

Corn prices have been climbing since last summer and currently average around $3.15 a bushel. Further increases are expected through early next summer when prospects for new crops worldwide become more certain. The average farm price of corn in 1980/81 is expected to range from $3.35 to $3.75 per bushel, substantially above the $2.50 average in 1979/80.

Despite lower production of feed grains and soybeans, the U.S. harvested a record wheat crop in 1980, as did the European community. But major declines in production in Australia, China, India, and—for the second consecutive year—in Russia will mean a rising world wheat import demand and reduced global stocks. Export sales of U.S. wheat may exceed 41.5 million tons,

Corn and soybean carryover stocks will be low relative to utilization



*USDA estimate

setting a new record. Domestic use at 730 million bushels may rise 6 percent because of continuing growth in food use and some expansion in wheat feeding. Ending stocks of wheat are expected to be near last year's level. The tightening world situation has advanced wheat prices which are now expected to average from $3.95 to $4.25 per bushel in the 1980/81 marketing year, up 10 to 40 cents over last year's price. The rising prices probably led to a substantial rise in winter wheat seedings this fall.

The world oilseed outlook reflects a 10 percent decline in output due primarily to reduced production in the United States and Canada. Soybean production was down 22 percent in the United States alone. The smaller crop will lead to sharply higher prices which will be needed to ration exports and domestic crushing activity. Both domestic crush and exports are anticipated to be down about 6 percent in the 1980/81 marketing year. Carryover stocks of soybeans next fall are projected to be only one-half the high level of this year, but the stocks/utilization ratio will likely remain above earlier lows. Although developments in the Southern Hemisphere oilseed crops being planted now, and the ultimate strength in world demand are important factors, soybean prices are forecast to average $8.50 per bushel, up substantially from $6.25 per bushel in the 1979/80 marketing year.

U.S. meat production, which may exceed 53 billion pounds in 1980, could decline to about 52 billion pounds next year. This year's record level of meat output reflects a sharp increase in pork production, slightly more poultry, and little change in beef output. Pork production, which began to drop in the second half of 1980, is expected to be down sharply next year. Poultry production may be somewhat larger although higher feed costs will be a factor. Beef production in 1981 may remain virtually unchanged from the levels of the previous two years. The bulk of the decline in meat production is expected to occur in the second and third quarters of 1981 as red meat production drops off. Per capita consumption of meat, which reached an estimated record of 212 pounds in 1980, may decline to a six year low in 1981 because of smaller production and a rising population. Poultry is expected to account for an increasing share of total meat consumed—30 percent in 1981, up a fourth from 1970.

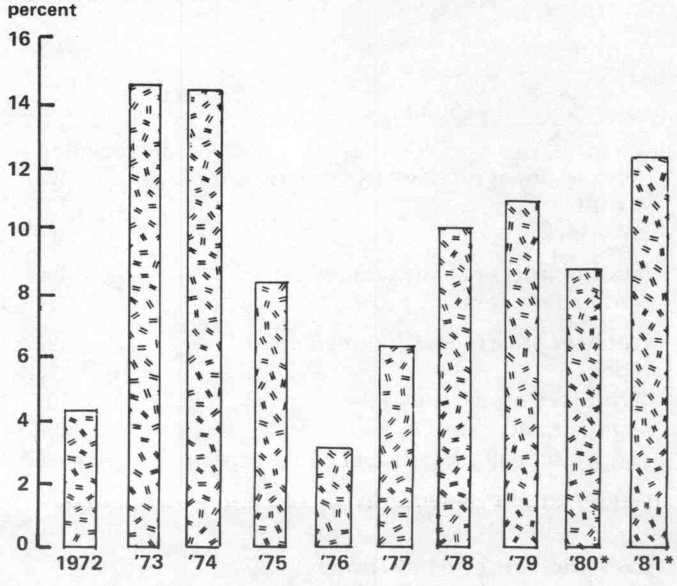
A moderate expansion in beef herds suggests that 115 million cattle and calves will be in inventory on January 1, 1981. While this is well below the 132 million record inventory, it is 4 percent above the cyclical low in January 1979. Future herd expansion may be slowed by the smaller supply of land for grazing and the price of inputs. The 1981 calf crop may only increase by 2 to 4 percent next year as opposed to an estimated increase of 6 percent this year. However, the feeder cattle supply mix is likely to change substantially in 1981 as the continued large nonfed steer and heifer slaughter this fall and winter will reduce the yearling feeder cattle supply. Nonfed steer and heifer slaughter is expected to decline next year while fed cattle slaughter recovers from the lower level of 1980. Choice steer prices at Omaha are projected to average about $78 per hundredweight, up from a preliminary estimate of $67.80 this year.

The hog outlook focuses on the second half of next year since first half slaughter is largely determined. Preliminary indications of a 10 percent reduction in the June-November pig crop portend a similar decline in hog slaughter during the first half of 1981. There is some speculation that the summer's heat may have led to some conception problems which might result in an even larger decline in slaughter during the first half. Pork production in the second half of 1981 is uncertain since producers can adjust to changing costs and returns. However, any expansion of breeding inventories is not expected until the second half. Based on intended farrowings for this winter and other estimates, second half 1981 slaughter is expected to be down 5 to 10 percent. Hog prices are forecast to average near $50 per hundredweight in the first half of 1981, and in the upper-$50s in the second-half. This year, hog prices averaged $33.75 per hundredweight in the first half and about $46.50 in the second half.

Milk production is headed for a new high this year and a further increase is forecast for next year. Preliminary estimates suggest milk production rose 3 percent this year to more than 127 billion pounds. Milk cow numbers may increase slightly next year, but the rise in milk output per cow may be tempered by a lower milk-feed price ratio. Another adjustment in support prices mandated for April 1981 may induce operators to keep marginal cows and sustain a low rate of culling. Farm milk prices are expected to average a tenth higher next year over 1980's price.

Retail food prices, owing to higher marketing costs and a surge in commodity prices since June will probably average about 9 percent higher this year than in 1979. For 1981, the increase is expected to be even larger, perhaps over 12 percent according to the USDA. Much of the increase will likely stem from higher livestock prices that will push the farm value of food upward 12 to 20 percent. Along with meats, eggs may show a considerable gain but sugar is likely to be the single most inflationary item in the market basket. Fruits and vegetables price increases will be most sensitive to weather developments. Marketing costs are expected to match the rate of inflation rising 9 percent to 11 percent although some components face considerable uncertainty.

Retail food prices in 1981 may show the largest annual gain since 1974



*USDA forecast.

The financial outlook for 1981 is brighter. The USDA does not expect a repetition of this past spring's financial crisis as rural banks have become more liquid and higher interest rates have restrained borrowing. Commercial banks' loan-to-deposit ratios have been declining since spring in contradiction to past seasonal trends. Increased farm income expectations and projections of lower interest rates on new real estate financings imply continued appreciation in farm real estate of 11 percent to 16 percent in 1981. This year, farm real estate values are estimated to have risen about a tenth. Real estate debt may increase from $96.1 billion to $108.3 billion by the end of the year, a somewhat smaller rate of increase than estimated for this year. Improving incomes and lower interest rates on nonreal estate debt—estimated to be down 20 percent—should encourage heavy capital purchases by farmers. The resurgence in purchases and higher production costs may boost nonreal estate farm debt 18 percent next year, compared with a preliminary estimate of a 12 percent rise this year.

Improvements in both the farm income and financial outlook should benefit agricultural suppliers, particularly the farm machinery and equipment industry. With sales of equipment down substantially this year, some analysts are now looking for a recovery in 1981 back to a level comparable to 1979's performance.

Jeffrey Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Index of prices received by farmers	1967=100	October	262	+ 0.4	+11
Crops	1967=100	October	260	+ 0.4	+16
Livestock	1967=100	October	265	+ 0.8	+ 7
Index of prices paid by farmers	1967=100	October	288	+ 0.7	+12
Production items	1967=100	October	284	+ 0.7	+11
Producer price index* *(finished goods)*	1967=100	October	252	+ 1.3	+12
Foods	1967=100	October	246	0	+ 8
Processed foods and feeds	1967=100	October	255	+ 2.2	+14
Agricultural chemicals	1967=100	October	260	– 0.2	+16
Agricultural machinery and equipment	1967=100	October	263	+ 0.1	+10
Consumer price index** *(all items)*	1967=100	October	254	+ 0.9	+13
Food at home	1967=100	October	260	+ 0.4	+11
Cash prices received by farmers					
Corn	dol. per bu.	October	3.03	+ 0.7	+26
Soybeans	dol. per bu.	October	7.82	+ 3.0	+23
Wheat	dol. per bu.	October	4.19	+ 5.0	+ 5
Sorghum	dol. per cwt.	October	5.35	+ 4.5	+37
Oats	dol. per bu.	October	1.68	+ 3.1	+28
Steers and heifers	dol. per cwt.	October	67.80	– 0.3	– 1
Hogs	dol. per cwt.	October	47.70	+ 3.2	+41
Milk, all sold to plants	dol. per cwt.	October	13.60	+ 3.0	+ 8
Broilers	cents per lb.	October	31.7	– 1.2	+50
Eggs	cents per doz.	October	58.5	– 5.5	+10
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	3rd Quarter	143	+ 6.1	+ 9
Net farm income	bil. dol.	3rd Quarter	23	– 0.4	–25
Nonagricultural personal income	bil. dol.	October	2,145	+ 1.1	+11

*Formerly called wholesale price index.

**For all urban consumers.

FEDERAL RESERVE BANK OF CHICAGO
Public Information Center
P. O. Box 834
Chicago, Illinois 60690
Tel. no. (312) 322-5112

FEDERAL RESERVE BANK OF CHICAGO
AGRICULTURAL LETTER

MR.O.B.JESNESS AGL-IL
INSTITUTE OF AGRICULTURE,
UNIVERSITY OF MINN.
ST.PAUL,MN 55108