FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

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THE 1979 FEED GRAIN PROGRAM was announced by the U.S. Department of Agriculture last month. With only a few minor exceptions, next year's program will operate much the same as the 1978 program. Loan rates were left unchanged, but target prices were raised slightly. The land diversion for payment option was kept for corn and sorghum, but the payment rate was reduced. On balance, it would appear that the program may attract slightly more participation in 1978, but the acreage removed from production may be less.

Loan rates for all four feed grains (corn, sorghum, oats, and barley) remain at the same levels as in the 1978 program. Loan rates represent the price farmers receive when they pledge their grain as collateral for loans from the Commodity Credit Corporation. In essence, loan rates provide a floor for market prices.

Target prices, which are used in determining payment rates when deficiency and disaster payments are made, were raised slightly. The target price for corn, for example, was raised from $2.10 a bushel to $2.20. Deficiency payments are made to program participants when the average price received by farmers during the first five months of the crop marketing year is less than the target price.

Set-aside requirements were left unchanged at 10 percent for corn and sorghum and raised from 10 to 20 percent for barley. Producers must comply with the set-aside requirements if they want to be eligible for program benefits. As with the 1978 program, the requirement is assessed against the acreage actually planted for harvest. Hence, a farmer that plants 200 acres of corn will have to set aside 20 acres to comply.

The land diversion for payment option was left unchanged at 10 percent for corn and sorghum. For barley, the option was removed from the 1979 program. This option allows the producer to take additional acreage out of production—over and above the required set aside—equivalent to 10 percent of the acreage planted for harvest. Unlike the 1978 program, which required participants that selected the diversion for payment option to limit their plantings to no more than in 1977, the 1979 program contains no such restrictions.

Few changes in the 1979 feed grain program

	Corn	Sorghum	Oats	Barley
Average loan rate		*(dollars per bushel)*		
1978	2.00	1.90	1.03	1.63
1979	2.00	1.90	1.03	1.63
Target price				
1978	2.10	2.28	0	2.25
1979	2.20	2.30	0	2.40
Required set-aside		*(percent)*		
1978	10	10	0	10
1979	10	10	0	20
Diversion for payment				
1978	10	10	0	10
1979	10	10	0	0
Diversion payment rate		*(cents per bushel)*		
1978	20	12	0	12
1979	10	10	0	0
Voluntary acreage reduction		*(percent)*		
1978	5	5	0	20
1979	10	10	0	30

The diversion payment rate was lowered for both corn and barley. The rate for corn was reduced from 20 cents a bushel to 10 cents. The rate for sorghum was reduced from 12 cents to 10 cents. As in the 1978 program, the diversion payment is based on the normal production from the acreage planted for harvest. For a participating farmer that plants 200 acres of corn and has a normal yield of 100 bushels per acre, the diversion payment will be $2,000. This amounts to $100 an acre for the 20 acres removed from production through the paid diversion option and is equivalent to $50 an acre for the land removed from production through both the set-aside requirement and the paid diversion option.

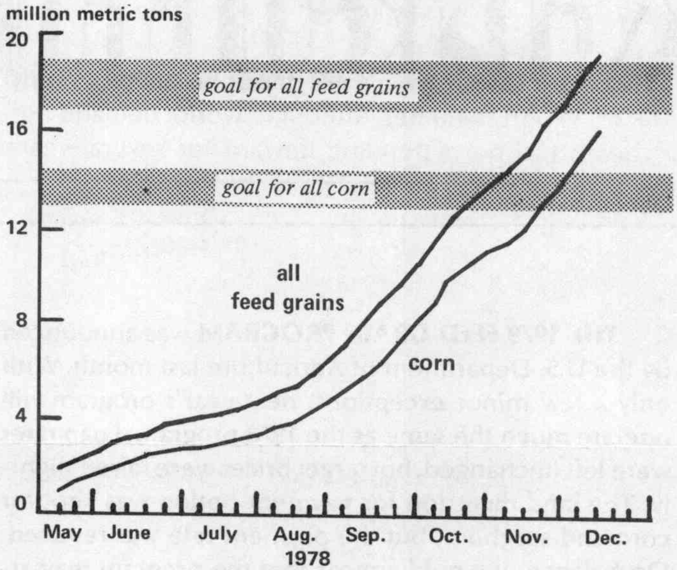
The voluntary acreage reduction option was increased from 5 to 10 percent for both corn and sorghum and from 20 to 30 percent for barley. This option is assessed against the previous year's acreage. For instance, participants that comply with this option will have to hold next year's corn plantings to 10 percent less than the sum of the corn acreage planted in 1978 and—if applicable—the acreage removed from production in 1978 for compliance with set aside and paid diversion. Compliance with this option assures participants that they will receive a full (100 percent) deficiency payment, provided such payments are made. Otherwise, deficiency payments could be reduced to a minimum coverage of 80 percent of the normal production from the acreage planted for harvest. Preliminary measures suggest the allocation factor for the 1978 corn program will fall somewhere between 85 and 90 percent.

Participation in the 1979 feed grain program will hinge on many factors, particularly commodity price relationships and weather conditions at planting time. But all other things equal, it does not appear that the new program will impact much differently than the 1978 program. The raising of target prices may attract slightly more participation. But at the same time, the one-half reduction in the diversion payment rate for corn will probably discourage more farmers from complying with the paid diversion option. This, coupled with the substantial amount of field preparations completed this fall and the possibility of a faster completion of the planting season next spring, suggests the 1979 feed grain program may not remove as much acreage from production as the 1978 program.

THE FEED GRAIN RESERVE has topped the Administration's goal and it is still growing. On December 8, over 19 million metric tons of feed grains had entered the reserve. Of that amount, corn accounted for 16 million tons (631 million bushels). Together with the 11 million tons in the wheat reserve, the new domestic grain reserve programs are now isolating over 30 million metric tons of grain from free market supplies as long as prices remain below the release levels. For corn, the release price is $2.50 per bushel, about 50 cents above recent farm level prices.

Although the wheat reserve has topped out, the feed grain reserve is expected to continue growing for a brief period. The Administration's announcement late

The feed grain reserve exceeds the Administration's goal



last month that direct entry of 1978 corn would not be accepted in the reserve after November 30 apparently triggered a rash of applications. Because of the resulting backlog of paperwork and the amount of old crop grains still under CCC loan but not yet in the reserve, the USDA now expects the feed grain reserve to reach 24 million metric tons, including 18 million tons (710 million bushels) of corn. For both corn and total feed grains, such levels—should they materialize—would represent over 45 percent of the carryover stocks projected for next year.

Beyond the presently expected enrollments in feed grains, further accumulations are not likely in either the feed grain or the wheat reserve. Although the Secretary of Agriculture has a great deal of flexibility in administering the reserve programs, it will probably require very depressed grain markets before he would permit further entries into either reserve. Many observers, therefore, feel that the reserve programs will be permanently closed to any further entries of 1978 grain.

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AGRICULTURAL EXPORTS rose to a new high in fiscal 1978, benefiting from strong foreign demand and the decline in the value of the U.S. dollar. Slightly lower average prices were offset by an 18 percent rise in the volume of shipments. For the year ended September 30, exports of U.S. farm products totaled $27.3 billion on a volume of 127 million metric tons. The sharp increase in exports dwarfed the nominal rise in agricultural imports, leaving a record $13.4 billion agricultural trade surplus.

For the current fiscal year, the USDA estimates that higher average prices could boost agricultural exports to still another record of $29 billion. Up 6 percent over the previous year, this would be the tenth consecutive year-to-year increase.

Export volume of most commodities rose in the October-September period, paced by large grain shipments. Wheat exports totaled 32 million metric tons

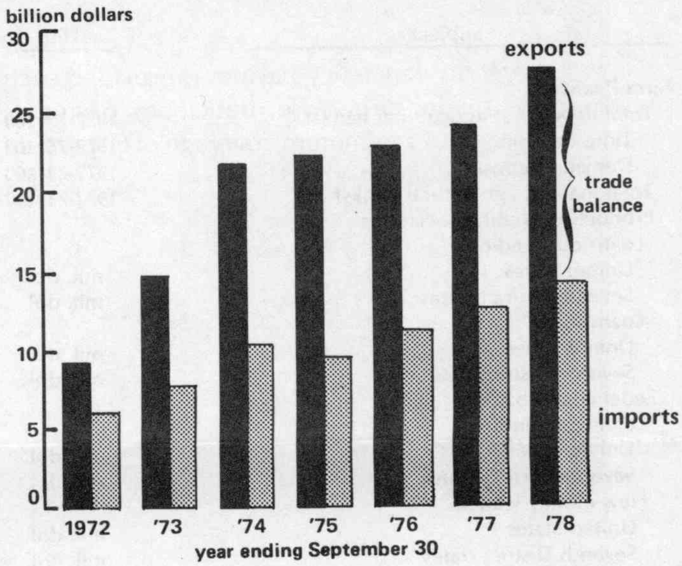
(1,169 million bushels) in fiscal 1978, a 34 percent increase from the year before and second only to the 1973 record of 36 million metric tons. Exports of soybeans rose 30 percent to a record of nearly 20 million metric tons (723 million bushels), marking the third consecutive yearly rise in export volume. Although world demand for soybeans has been trending upward for several years now, this year's surge in shipments also reflected the production shortfall in Brazil. The amount of corn shipped abroad also set a record, rising 16 percent to 49 million metric tons (1,933 million bushels).

Average prices for most farm products were up from a year earlier. Lower prices for soybeans and feed grains, however, were primarily responsible for holding the percentage gain in export value below that for volume. The total value of U.S. agricultural exports in fiscal 1978 rose 14 percent, compared with 18 percent in export volume. Exports of corn, soybeans, and wheat combined were valued at $13.7 billion, 18 percent more than in fiscal 1977. This accounted for half the total value of farm exports.

Exports to Japan, the largest importer of U.S. agricultural commodities, rose to $4.2 billion, up a tenth. Purchases by the European Community were down 3 percent at $6.6 billion. Other western European countries, however, more than offset the decline with purchases of $2.1 billion, an increase of 17 percent. The top ten importing countries bought nearly three-fifths of U.S. farm exports in fiscal 1978, an increase of 8 percent in dollar purchases but a slight decline in their combined share of the total. Of the ten largest importers of farm products, the Soviet Union (ranked third) boosted purchases most, both proportionately and in actual dollars, with an increase of roughly three-fourths to $1.9 billion. Fifth ranked West Germany, on the other hand, reduced purchases nearly a fourth to $1.5 billion—the biggest percentage drop. Although not among the largest purchases, the $365 million in products bought by the People's Republic of China was especially noteworthy following that country's virtual absence from our markets the previous three years.

The value of agricultural imports totaled roughly $14 billion, 4 percent more than the record set in fiscal 1977. A 15 percent reduction in coffee imports, the major import commodity, to less than $4 billion helped counterbalance larger imports of most other products. Second largest of the agricultural imports was beef and veal, which, at just over $1 billion, was up almost a third. There were also substantial year-to-year increases in imports of cocoa, rubber, fruits, vegetables, wines, and animals and other animal products.

Record $13.4 billion agricultural trade surplus in fiscal 1978



The outlook for fiscal 1979 U.S. agricultural exports is optimistic. The USDA currently projects exports to total about $29 billion this year, 6 percent more than in fiscal 1978. Despite large grain harvests worldwide, the demand for agricultural commodities is expected to remain strong because of continued economic growth, rising incomes, and growing population in major markets. In addition, recent grain purchases by the People's Republic of China have been surprisingly large. Crop conditions in the Southern Hemisphere, foreign exchange rates, world economic developments, and ongoing trade negotiations are major factors that could impact on the export market for U.S. farm products as the year progresses.

Agricultural exports in the first month of the new fiscal year set a record for October by a wide margin. October exports, valued at $2.7 billion, were up 56 percent from a year earlier. Since October, weekly export inspections of wheat, corn, and soybeans suggest the volume of shipments has continued at a record-setting pace. Recent steps taken by the government to promote exports of farm products, including an increase in export credits and the authorization to open several trade offices for the purpose of helping identify and develop markets, will likely have positive effects on the volume of exports. The recent volume of shipments, however, is not expected to continue throughout the year. Prospects for larger competing supplies of grains and oilseeds from other countries are likely to hold fiscal 1979 export volume below last year's level.

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Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	November	189	+ 0.5	+10
Time deposits	1972-73=100	November	219	0	+10
Demand deposits	1972-73=100	November	139	+ 1.8	+10
Total loans at agricultural banks†	1972-73=100	November	233	+ 1.2	+14
Production credit associations					
Loans outstanding					
United States	mil. dol.	October	14,743	– 1.4	+ 7
Seventh District states	mil. dol.	October	2,892	– 1.5	+ 8
Loans made					
United States	mil. dol.	October	1,804	+14.4	+36
Seventh District states	mil. dol.	October	343	+ 3.9	+42
Federal land banks					
Loans outstanding					
United States	mil. dol.	October	24,211	+ 1.1	+15
Seventh District states	mil. dol.	October	5,175	+ 1.6	+21
New money loaned					
United States	mil. dol.	October	385	+10.7	+40
Seventh District states	mil. dol.	October	98	+ 8.9	+47
Interest rates					
Feeder cattle loans††	percent	3rd Quarter	9.26	+ 2.8	+ 6
Farm real estate loans††	percent	3rd Quarter	9.46	+ 2.9	+ 6
Three-month Treasury bills	percent	11/30-12/6	8.93	+ 0.9	+48
Federal funds rate	percent	11/30-12/6	9.87	+ 1.0	+52
Government bonds *(long-term)*	percent	12/4-12/8	8.79	– 0.1	+13
Agricultural trade					
Agricultural exports	mil. dol.	October	2,665	–17.5	+56
Agricultural imports	mil. dol.	October	1,229	+10.1	+13
Farm machinery sales					
Farm tractors	units	September	9,918	+35.1	+ 6
Combines	units	September	5,185	+51.5	+ 8
Balers	units	September	2,036	– 9.7	– 3

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks.

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