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IDAHO AGRICULTURAL OUTLOOK

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This report discusses the current agricultural situation, the outlook for 1998, value-added agricultural industries, agricultural personal income and the future of agricultural production and processing.

SUMMARY OF 1997

Estimated 1997 farm and ranch revenue is \$3.1 billion, down 8% from last year's record (Table 1). Livestock production makes up 43% and crop production is 57% of total 1997 farm-gate revenue.

Livestock

The **beef** industry (cattle & calves) is in every Idaho county. The 1997 revenue from cattle and calves was up 9% due to higher prices.

Idaho's **dairy** industry has been growing rapidly, but revenue flattened in 1997. Lower prices offset the larger volume of production.

Sheep industry revenue increased for the fifth consecutive year, due to higher prices. Idaho sheep industry revenue has doubled since 1991.

The "other livestock" category in Table 1 includes hogs eggs, poultry, wool, and mink. The Idaho trout industry, the nations largest, is not included in Table 1.

Crops

Table 1 reports crop revenue on a *calendar year basis*. For storage crops, that means that part of two or more crops are sold in the Jan-Dec calendar year. For example, part of the 1997 potato crop was sold in the summer and fall of 1997, but the rest will be sold out of storage in the winter, spring and summer of 1998.

Apple producers, located mostly in Idaho's southwestern counties, produced 130 million pounds of apples in 1997, down from 180 million-pounds a year earlier.

Barley revenue was down due to lower prices. Eastern Idaho is the largest producing region. Idaho's crop is split evenly between malting and feed varieties.

Bean revenue was about the same. Lower prices offset increased production. Magic Valley growers produce nearly three-fourths of Idaho's dry beans.

Idaho's greenhouse & nursery industry remains stable. Nursery growers market high-quality landscaping plants across western North America.

Hay growers, located in every Idaho county, increased revenue because of higher prices. Idaho's booming dairy industry pushed up demand for high-quality hay.

Idaho's onion industry is growing but volatile. Receipts jumped from \$34 to \$79 million in 1993, then settled into the middle of those extremes the last several years.

Idaho potato growers sold old-crop potatoes at money-losing prices. Fall 1997 prices were double year-earlier prices. Calendar-year 1997 potato revenue is estimated at \$500 million, well below the record of \$715 million in 1996.

Sugar beet grower revenue in the 1990s has been steady at about \$200 million. Growers recently purchased a sugar processor and operate it as a cooperative.

Wheat revenue decreased due to lower prices. Growers produce 40% of the state's wheat in Eastern Idaho, 26% in the Magic Valley, 11% in Southwestern Idaho and 23% in Northern Idaho.

The "other crops" category in Table 1 includes corn, oats, sweet corn, cherries, peaches, plums, prunes, and mint as well as grass seed and other crops for which USDA does not estimate Idaho value of production.

OUTLOOK FOR 1998

GENERAL ECONOMY: Idaho's economy is expected to grow 3.3% in 1998, which is more than the 2.9% growth expected in the US economy. Economists expect inflation, unemployment and interest rates to be stable. The international outlook is mixed. Canada and Mexico will continue to grow, but there are serious economic problems in Asia. Due to the strong dollar, US consumers will pay less for imported goods, but our overseas customers will pay more for US products.

BEEF: Reduced US beef supplies will increase 1998 cattle prices in Idaho. Prices of 400- to 500-pound steers will be \$87 to \$94 per cwt, up from \$76 in 1997, \$55 in 1996 and a long-term average of \$75. Steers weighing 700 to 800 pounds will sell

sell for \$74 to \$81 per pound, up from \$64 in 1997, \$61 in 1996 and a long-term average of \$70.

DAIRY: Idaho's dairy industry, currently ranked sixth in the US, will continue to grow. Idaho dairy operators are expected to increase milk production 7 to 10 percent in 1998. Prices will continue to be volatile, due to dependence on the market rather than government subsidies, but will likely higher in 1998.

GRAINS: Prices will decline due to an increase in world grain stocks. Wheat prices will be hardest hit, but feed grain prices will also decline. US wheat stocks for the end of the 1997-98 marketing year are forecasted to be up 46%. Wheat prices are expected to drop 17%.

HAY: Hay production is up due to increased acreage and yields, but strong demand from Idaho dairies is boosting prices. Premium hay will continue to sell in the \$100 to \$120 per ton range. Lower quality hay will sell in the \$75 to \$90 per ton range. These prices are 30 to 40 percent higher than year-earlier prices.

POTATOES: Idaho 1997-98 open market prices will be up substantially. Prices may go as high as \$7.00 to \$8.00 per cwt late in the marketing season. Year-earlier prices for many growers were in the \$1.00 to \$2.00 per cwt range. Demand for dehydrated potatoes is up, but frozen processing will be down.

VALUE-ADDED AGRICULTURE

Many Idaho agribusinesses add value to raw product purchased from farmers and ranchers. French fries, sugar and cheese are some examples of Idaho's value-added agricultural products.

Data on value added to Idaho agricultural production is not readily available, but generalizations can be made. For example, a great deal of value is added to Idaho's potato crop. Fresh shippers wash, sort and package potatoes for the fresh market while processors make fries and dehydrated potatoes. On the other hand, Idaho wheat is shipped as raw product and little value is added in state.

The fifteen agricultural commodities in Table 1 are grouped into three value-added categories below:

1. Much value added in Idaho: potatoes, onions, apples, sugar beets, dairy products, and greenhouse/nursery.
2. Some value added in Idaho: barley, cattle, beans, other crops, and other livestock.
3. Little value added in Idaho: wheat, sheep, peas & lentils, hay.

Using this arbitrary classification, about 50% of Idaho commodities are purchased by businesses that add "much" value in Idaho. About 30% are purchased by

businesses that add "some" value and 20% purchased by businesses that add "little" value.

Idaho farmers and ranchers also add value to raw product purchased from other farmers and ranchers. For example, Idaho livestock producers buy hay from Idaho growers and use it to increase value in their livestock operations. Table 1 includes hay sales going to Idaho producers as well as out-of-state buyers. Data by market destination is not available.

AGRICULTURAL PERSONAL INCOME

Farm proprietor income during 1991-95 ranged from \$339 million to \$880 million. As a percentage of total Idaho personal income, farm proprietor income ranged from 1.7% to 4.7%. The US Department of Commerce provides these figures based on analyses of income tax returns and other data. The latest year for which Idaho data is available is 1995.

Since agriculture is an important part of Idaho's economy, the farm income figures seem surprisingly low. There are several explanations for this. First, the figures do not include families who operate their farms as corporations. Corporate farm income and owner salaries are not included in the Commerce Department numbers.

Second, farm and ranch profit margins are notoriously low and risky. Since agricultural production is a very competitive industry, average profits are thin. Due to market structure, farmers do not reap the hefty profit margins that would be possible if they operated as monopolies or oligopolies.

Agriculture's contribution to Idaho's economy includes more than farm profits. Even when producers don't make money on a commodity, they stimulate economic activity. An example is the 1996 Idaho potato crop. In spite of money-losing prices, Idaho growers paid their workers, suppliers and property taxes. They were able to do this with previous profits and increased borrowing. Growers also provided raw product for potato processors who in turn paid their employees and suppliers.

Although farm income is volatile, agriculture's overall impact on local and state tax revenues is more stable. Farmers and ranchers pay property taxes each year regardless of profits or losses. Volatile farm income makes up a small part of state income tax revenue and is more than offset by stable income from the agricultural supply and food processing industries.

FUTURE AGRICULTURAL PRODUCTION

Agriculture is a very competitive business. Producers have two ways to improve their competitive position. One is to sell at a higher price than the competition does. This is done by making a product superior in the minds of the buyers. The Idaho

fresh potato industry has successfully done that for decades. Idaho agribusinesses have also done that with some of their new products.

Another way to become more competitive is to reduce production costs. Idaho is blessed with smart farmers and ranchers who continually improve the efficiency of their operations. On-going research and education programs are vital to future improvements in cost efficiency.

Agriculture will ride the waves of biotechnology and electronic technology. Both will enable Idaho producers to control pests at lower costs, increase yields, reduce environmental risk and provide consumers with low-cost, superior-quality food. Biotechnology will do it by genetically modifying plants and animals. Electronic technology will do it with global positioning systems (GPS) that allow growers to precisely apply water, nutrients and pesticides according to what is needed in different parts of the field.

OUTLOOK FOR FOOD AND KINDRED PRODUCTS

The structure of Idaho's agricultural marketing and processing industries is changing. Two important forces of change are acquisitions and vertical integration.

Recent acquisitions include Lamb-Weston's purchase of Universal Frozen Foods and McCain's purchase of Ore-Ida's foodservice business. Acquisition opponents claim that increased buyer concentration puts growers at a market-power disadvantage. Supporters say larger firms invest more in technology and product development and provide Idaho producers with a vital link to global markets.

The other force, vertical integration, works in two directions. Backward integration involves buyers strengthening links to agricultural production, such as with grower contracts. Increased contracting can reduce market risk for both buyers and sellers.

Forward integration involves agricultural producers controlling other links on the marketing chain. Idaho producers are actively doing that. Sugar beet growers recently bought Amalgamated Sugar and now operate it as Snake River Sugar Company, a cooperative. Idaho grain producers formed Pro-Mar, a cooperative that markets a special new wheat variety. Idaho potato growers developed Snake River Potato Growers, a potato marketing cooperative.

Acquisitions and vertical integration will strengthen Idaho's economy. McCain's, one of the largest food companies in the world, is now processing Idaho potatoes. Their global network of production and marketing expertise will help Idaho producers. Since Ore-Ida kept its retail operations, the McCain's acquisition means that there is one more successful agribusiness added to Idaho's list of processors. The grower cooperative movement will also strengthen Idaho's economy, by increasing value-added activities and business ownership by Idaho citizens.

TABLE 1
IDAHO CASH RECEIPTS FROM FARM MARKETINGS
(Million Dollars)

	1993	1994	1995	1996	1997	Percent Change
LIVESTOCK						
Cattle & Calves	692	652	618	574	625	+9%
Milk	388	456	508	653	625	-4%
Sheep & Lambs	15	16	18	20	22	+10%
Other Livestock	72	75	77	82	80	-2%
TOTAL LIVESTOCK	1,167	1,199	1,221	1,329	1,352	+2%
CROPS						
Apples	17	17	15	22	22	0%
Barley	125	125	145	155	140	-10%
Beans	39	53	44	46	45	-2%
Greenhouse/Nursery	49	51	53	56	55	-2%
Hay	190	179	188	198	230	+16%
Onions	79	51	42	47	50	+6%
Potatoes	557	573	676	716	500	-30%
Sugar Beets	195	213	191	184	190	+3%
Wheat	310	324	399	484	390	-19%
Peas & Lentils	20	22	32	15	16	+7%
Other Crops	140	141	147	158	155	-2%
TOTAL CROPS	1,721	1,751	1,932	2,081	1,793	-14%
TOTAL CASH RECEIPTS	2,888	2,950	3,153	3,410	3,145	-8%

SOURCES:

1993-96: Idaho Agricultural Statistics Service

1997: Forecasted by J Guenthner and R Loughmiller, University of Idaho