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World Agricultural Outlook Board, USDA

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U.S. AGRICULTURAL OUTLOOK

Agriculture is undergoing very severe adjustments in production and markets. Next year promises to be one of further adjustment, but we should see a more even distribution of improved conditions in agriculture.

This year the farm sector was hard hit by a severe drought. Low yields, combined with U.S. acreage reduction programs, are sharply reducing surplus global crop supplies.

The impact of reduced production on the farm sector is very uneven. U.S. crop farmers participating in acreage reduction programs and achieving good yields are doing well. But others are facing severe financial losses because of the drought. Farmers in many other countries have had weather favorable to large harvests and are receiving prices above last year.

Livestock producers are suffering low returns brought on by large meat supplies that have depressed prices in the face of rising feed costs.

In 1984, a continued recovery in the global economy will stimulate demand for agricultural products without unduly increasing costs. Global commodity supplies still are large, but sharply lower U.S. production will bring supplies into much better balance with demand.

For farmers, the coming year promises to be one of greater market returns. We should see increased crop production and marketings and higher prices for both crop and livestock products. Increases also are in prospect for production expenses, if 1984 crop acreage expands and input use and prices respond as expected. On balance, after accounting for the likely expansion in 1984 crop output and the expected higher value of inventories, 1984 net farm income could exceed the \$24-26 level billion expected for 1983, while net cash income could lag. Income in 1982 was at a reduced level of about \$22 billion.

For consumers, the new year is likely to be one of continued adequate food and fiber supplies, but at moderately higher prices than in 1983 because of improved supply and demand balances. Stronger demand that will accompany the economic growth, along with increased marketing costs and

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higher farm prices, suggests a food price increase in the 4-7 percent range. This follows an increase of only 2-3 percent expected for 1983, which is being held down by a drop of 4-5 percent in prices of food commodities.

Any look at the agricultural outlook for 1984 must recognize underlying concerns about the future economic vitality of agriculture. These concerns remain on both the supply and demand side, despite improved conditions brought about by record U.S. crop acreage reduction and last summer's drought.

The 1980's have seen slowed growth in global demand for agricultural products. Depressed world-wide economic conditions and financial constraints have cut into demand. While some improvement is expected in 1984, economic recovery is likely to be slow and some countries will continue to have debt problems. So, next year is likely to be one of modest expansion in demand for agricultural products.

This sluggish demand of the early 1980's contrasts with sharply increased output and production capacity, built up in the 1970's in response to rapidly growing demand. It is likely that with normal production conditions, agriculture's capacity to produce at recent price levels will continue to outpace demand over the next several years. The implications of this imbalance are of concern to farmers and policymakers alike.

Compounding the problem from the U.S. standpoint is the loss of export market shares in the early 1980's, reflecting increased competition from other exporting countries and actions by some countries to limit imports, as well as the strong U.S. dollar. U.S. market losses, along with good growing conditions in 1981 and 1982, led to a reduced level of farm income, although Government expenditures for price support programs rose rapidly.

The challenge for agricultural leaders in the 1980's is to provide an environment for moving agriculture to greater prosperity--an environment where producers around the world can better respond to signals from well-functioning and growing markets.

U.S. COMMODITY SITUATION AND OUTLOOK

The current U.S. crop situation is one of large stocks, sharply reduced production, and much higher prices for corn, soybeans and cotton, and some improvement in demand. Meat output is at record levels because of a sharp expansion in pork production, but livestock feed-price relationships are now unfavorable to hog and cattle producers. Despite depressed livestock prices, the overall level of farm prices in mid-September was slightly above a year ago, after being down over 4 percent in July, prior to effects of the drought. Price levels for both corn and soybeans were more than 50 percent above September 1982.

Demand appears to be improving but has been hurt by sluggishness in worldwide economic performance and financial constraints in some countries. U.S. exports have been further dampened by increased competition from other producing countries and a relatively strong U.S. dollar.

Domestic demand gains have been moderated by a lagging U.S. economy, although the recent pickup in activity and expanded livestock requirements have helped demand. Both the volume and the price of U.S. exports dropped in fiscal 1983. The value of around \$34-1/2 billion was \$4-1/2 billion below 1983 and nearly \$10 billion below the 1981 record.

The value of U.S. exports was down for most commodities. Exports to Western Europe, the Soviet Union and China showed declines amounting to around \$5 billion in fiscal 1983. In addition to economic factors, the drop also reflected political considerations, particularly for China.

The outlook for 1983/84 is for smaller global supplies because of the sharply reduced U.S. crop and some pickup in demand for most crops. Crop prices will benefit from tightening supplies relative to use, while livestock prices should be supported by improved global economic conditions and lower production by the second half of 1984. Higher commodity prices should mean a substantial increase in the value of U.S. agricultural exports in fiscal 1984.

Crop Supplies

Large carryin stocks and increased foreign production will add to crop supplies in 1983/84. Global grain supplies are down only 3 percent, even though U.S. production is down 38 percent. World cotton supplies are down only 1 percent despite a drop of 38 percent in the U.S. crop. Global grain production in 1983/84 will decline from last year, due mostly to drought-reduced U.S. coarse grain prospects. World wheat production, may surpass last year's record level, even with a smaller U.S. crop. Hot, dry weather also has damaged crops in Canada and Western Europe. But good weather in Australia, China and India has improved prospective outturns there, and the Soviet grain crop appears to be the best since 1978. So, world wheat supplies will exceed last year's burdensome level. Hot, dry weather stressed many U.S. crops at crucial growing stages and, coupled with acreage reduction programs, reduced U.S. feed grain production by more than two-fifths.

World soybean production in 1983/84 is forecast down nearly 20 percent from last year's record, with the U.S. crop down around one-third. Global supplies are down about one-tenth, and higher prices are expected to encourage larger plantings in South America.

A substantially lower U.S. cotton crop is being nearly offset by larger foreign production--1983/84 world output will be down less than one million bales--and total supplies will be down only 1 percent. Prospects are for a much larger crop in the Soviet Union and for a further increase in Chinese production, while the Brazilian crop is down slightly from last year.

Consumption

World commodity consumption in the 1980's has been hurt by depressed economic conditions. Foreign consumption in 1983/84, except for soybeans, is expected to rise modestly from current depressed levels, but not much stimulus is likely to U.S. export volumes.

Total foreign grain consumption is expected to be up about 2 percent, with feed grains accounting for most of the increase. Much of the increase in feed grain use is in the Soviet Union, where livestock inventories are at record levels.

Tighter supplies and higher prices will hurt the competitive position of soybean meal, and foreign soybean consumption may be down slightly from the 1982/83 level. Cotton should benefit from continued large supplies abroad and the improvement in economic activity. Foreign use in 1983/84 is projected over 2 percent larger.

U.S. crop consumption is expected to be supported by further gains in the economy. Total use of feedstuffs will decline, although large supplies of wheat will mean greater feed use.

Stocks

Even with slow expansion or declines in crop consumption, global production levels for feed grains and soybeans will be well below use. The cotton crop will be moderately short of use, while the wheat crop again will exceed anticipated use.

Most of the 1983/84 global stock reduction will be in the United States. Total U.S. grain carryover stocks will be cut in half, from about 140 million tons. Feed grain stocks may be cut to one-third of beginning stocks. Still, projected feed grain stocks represent about 13 percent of estimated 1983/84 use, above around 10 percent in the mid-1970's. The stocks/use ratio for corn of 9 percent compares with about 7 percent in 1973/74, 1974/75 and 1975/76.

The very sharp reduction in U.S. soybean stocks will leave the stocks/use ratio at around 7 percent, about the same level as the lowest recorded in 1976/77. Even with the prospective sharp reduction, U.S. cotton stocks are projected to represent nearly 40 percent of annual use.

Demand for stocks in foreign countries can be affected both by large supplies and relatively low prices or by tightening supplies and rising prices. In the former case, a significant buildup is projected for Soviet wheat stocks. In the latter case, early and heavy sales of corn and soybeans have been recorded to Japan.

Trade

Following rapid expansion in the 1970's, world trade has dropped in the 1980's. Trade has suffered from global recession and high unemployment, debt burdens in Third World food importers, and from good weather and government policies which have reduced import needs in some countries. Even with improving economies abroad and a relatively high level of meat production, global trade prospects are not bright for 1983/84.

The volume of U.S. exports will be hampered further by tightening U.S. commodity supplies and continued strength of the dollar. However, higher commodity prices should mean an increase in the value of U.S. exports from 1982/83's depressed level. The new 5-year agreement with the Soviet Union and the settlement of the textile dispute with China also should mean greater exports to those countries.

Total U.S. grain export volume should remain near the 1982/83 level, as the increase for feed grains offsets most of the decline for wheat. Cotton exports may increase slightly, but a sharp drop is likely in U.S. soybean exports, mainly reflecting a decline in the prospective crush in importing countries such as the USSR, Eastern Europe and the European Community.

The value of U.S. animal product exports dropped around one-tenth in 1982/83, dampened by poultry product subsidy policies of other countries and higher U.S. pork prices much of the year. Large meat supplies in much of 1983/84 could slightly stimulate export movement.

The value of U.S. agricultural imports may continue to be supported in 1983/84 by the U.S. economic recovery and higher domestic prices. Global sugar prices should benefit from a closer balance between production and use in 1983/84.

Prices

Even with record or near-record crop supplies on hand, the combination of a one-fourth reduction in PIK-crop acreage and hot, dry summer weather has led to sharp increases in prices for most feed grains, soybeans and cotton. In mid-September, the farm price of corn was up more than 50 percent from a year ago; soybeans were up more than 60 percent, while cotton prices were up about 15 percent.

Season-average crop prices in 1983/84 will be sharply higher for corn and soybeans, while wheat prices are likely to remain near the loan level. Cattle and hog prices are under pressure from record meat supplies, while feed costs are rising. Livestock and poultry product prices in 1984 should benefit from reduced pork and beef supplies, particularly in the second half. Continued improvement in the economy also would support prices.

U.S. FARM INCOME

Net farm income is expected to increase in 1983 to \$24-\$26 billion from the reduced 1982 level, due to reduced production costs and larger Government payments. The drought is having a mixed effect on farm income in 1983. Smaller crop production has helped crop prices, while increased livestock slaughter has hurt prices, but provided the base for a faster recovery in livestock prices. The reduction in the inventory value will be greater with the drought because of much smaller production and stocks. The 1984 outlook is for gains in marketing receipts and increases in crop inventories, while production expenses will be higher and Government payments lower.

Farm Prices

The overall level of farm prices in 1983 is likely to increase slightly, reflecting declining crop prospects and supplies. Increased meat supplies in the second half will mean lower average prices. Prices for both crops and animal products should average considerably higher in 1984, as supplies tighten and demand improves.

Cash Marketing Receipts

The one-fourth drop in crop output and lower livestock prices will cut marketing receipts 1 or 2 percent in 1983. Larger crop output and higher prices for both crops and livestock products should push up total cash receipts in 1984.

Farm Production Expenses

Production expenses are expected to decline 3 percent in 1983--only the third time expenses have declined since 1940. Only a modest increase of around 1 percent is expected in farm prices paid for inputs, while overall input use may decline around 5 percent. Prices paid for fertilizer, fuels and energy will average below 1982 levels. Input use is down with the 20-percent cut in acreage planted to major crops.

Production expenses are likely to rise substantially in 1984, responding to increased crop acreage and expanded demand for inputs.

Net Farm Income

Farm income dropped to around \$22 billion in 1982, one-fourth below 1981. Despite a decline in 1983 in marketing receipts, net farm income (after adjustment for inventory change) should be up 10-15 percent. Production expenses are down, while Government payments are up sharply due to the large volume and value of PIK crops.

Farm income in 1984 could exceed 1983 based on increased farm prices and larger crop marketings. Also, the value of crop inventories is likely to increase next year, if crop production expands as expected from the reduced 1983 level. Net cash income could lag the increased 1983 level.

FOOD PRICES

Current food price forecasts for 1984 are tentative at best. But it does seem likely that the food price increase will be above this year's exceptionally small advance. Costs of processing and distributing food will continue to rise in 1984, although at a modest pace relative to a few years ago. Labor, which represents the largest element in food processing and distribution costs, will continue to exert a moderating influence on overall food marketing costs. Prospects for further economic growth enhance the likelihood of rising consumer incomes and larger per capita food expenditures.

Unlike the past few years of price-depressing commodity supplies, food supplies and demand in 1984 are expected to be in closer balance as a result of smaller planting of some crops, production adjustments in the livestock industry, and last summer's drought. Average farm prices of food commodities in 1984 are expected to rise moderately, following this year's decline of 4-5 percent which is mainly responsible for the very small rise in retail food prices in 1983.

Before the drought, the 1984 food price increase was expected to about double this year's low rate, responding to increases in marketing costs, slight higher farm prices, and the stronger demand accompanying economic recovery. Currently, a food price increase of 4-7 percent is projected for 1984, with about 1-1.5 percent of the increase attributable to the drought.

While the drought's impact on the yearly increase in food prices is relatively small, it will have a much greater impact on the pattern of prices during the year. Early in 1984, food prices will rise at a slower rate than forecast before the drought. This is because of an expected increase in meat animals sent to market in response to the drought and higher feed costs. But food prices, particularly meat, likely will rise in the summer and fall 1984 when the adjustment in livestock production reduces beef and pork supplies. Red meat prices in the third quarter of 1984 could be a tenth above prices expected this fall and early winter.

U.S. FARM PROGRAMS

Government outlays for price support activities have risen from around \$4 billion in fiscal 1981 to around \$20 billion in 1983. Underlying causes of this rise relate to losses in export markets and good weather and large crops in 1981 and 1982. Farm program decisions and proposals for 1984 center around increasing the competitive position of U.S. commodities in world markets and reducing price support outlays.

Commodity Programs

Provisions of the 1984 wheat program were announced on August 9. The loan rate has been reduced to \$3.30 per bushel, while the target price is up to \$4.45. The higher target price for 1984 should encourage program participation, although the lower loan rate, a reduced PIK payment rate and the higher acreage reduction percentage are likely to be more than offsetting. So, 1984 compliance is likely to be well below the high level of 75 percent in 1983.

Program provisions for feed grain crops include a reduction in the loan rate and an acreage reduction program. There will not be a PIK program for corn. Cotton and rice program provisions have or will reflect the need for less acreage reduction in 1984. Also, Congress is considering further changes in 1984 crop program provisions.

Dairy program costs have risen sharply in recent years, with expansion in output, weak demand and a buildup in surplus stocks. Current dairy program provisions for 1983/84 include a support level of \$13.10 per cwt. and a \$1.00 deduction from producer marketings. Congressional proposals to bring supplies into better balance with demand include a milk production reduction program that would compensate producers for reducing output from a base level.

Export Programs

Losses in U.S. trade shares are of intense concern. These losses have led to depressed commodity prices, reduced farm income and rising Government costs. Proposed commodity loan rate reductions reflect concern that loan rate levels have kept market prices too high to bring about a better balance between production and market needs.

U.S. export market losses and other actions to maintain shares include: The increase in export assistance programs, such as the blended credit program, along with subsidized sales of wheat flour to Egypt; discussions with other exporters about using subsidies to expand market shares, such as the European Community; and negotiations with other countries to open their markets to U.S. exports, especially Japan.

Beyond '84

Secretary of Agriculture Block already has begun a dialogue among agricultural leaders about future farm programs. Current legislation expires with 1985 crops.

Experience so far in the 1980's indicates that agricultural production capacity built up in the 1970's exceeds market requirements at recent price levels. An unusual combination of developments has magnified the imbalance problem: depressed economic conditions and financial problems led to weak demand; while good weather favored high yields and increased production in many countries. Also, the supply-use balance can shift sharply, as it did this year with the U.S. drought. Still, the outlook over the next year

appears to be one of slow recovery in economic conditions and modest growth in global agricultural markets, and the potential for faster expansion in acreage and production in response to higher price levels. This would suggest future build-ups in inventories and increased Government costs.

So, U.S. agricultural programs for 1985 and beyond will take into account:

1. International aspects, including the importance of export markets to U.S. farmers, slow growth in global demand in the 1980's, trends toward protectionism in some countries, and the impact of U.S. policies on competitors;
2. U.S. budget constraints and program costs; and
3. The inherent instability of supply, demand and costs.

We need ideas and invite your input into this program-development process. We all have a common objective--economic prosperity for agriculture in the years ahead.

Prospects for 1983/84

Supplies

- Global Crop Supplies Large
- U.S. Crop Supplies Tighten
- U.S. Livestock Output High

Demand

- Stronger U.S. Economy Boosts Demand
- Foreign Recovery Lags U.S.

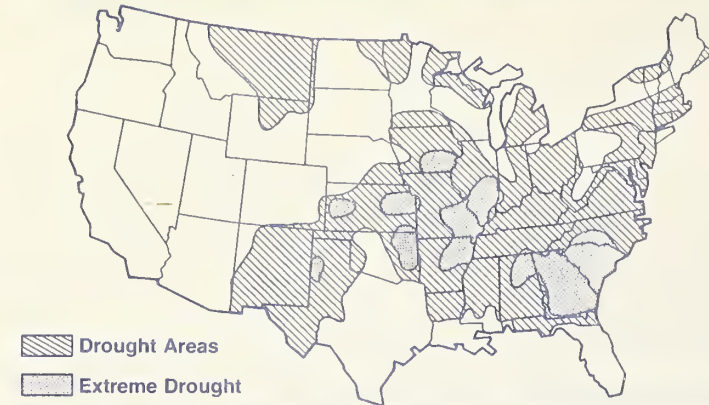
Farm Outlook

- Higher Crop Prices
- Livestock Prices Under Pressure
- Farm Income Prospects Improving

Farm Policy

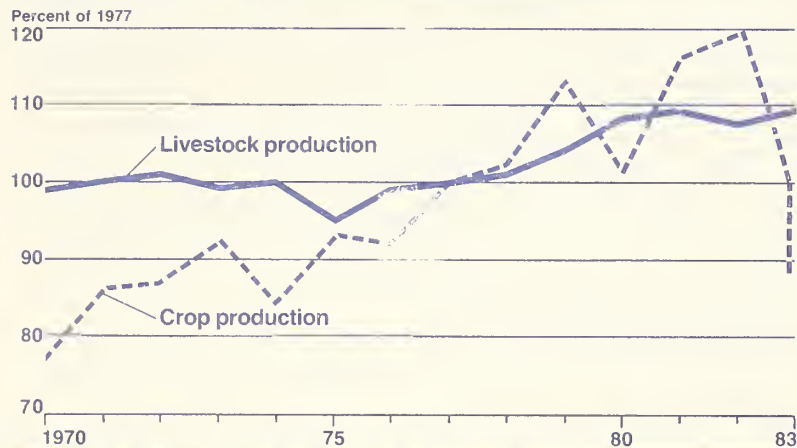
- Major Adjustments Needed

States Affected by 1983 Drought

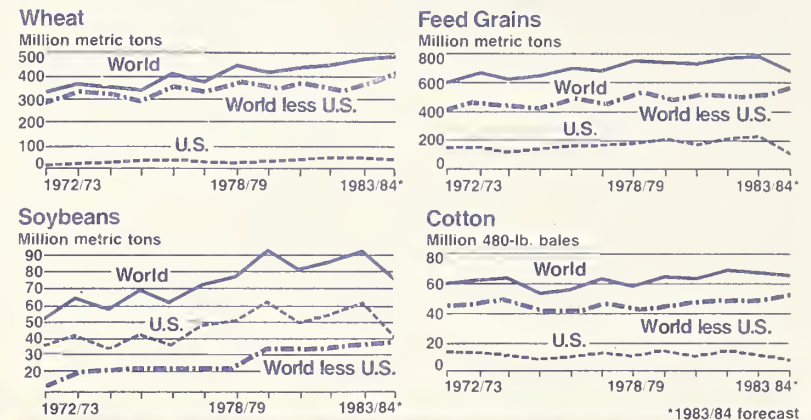


Based on CMI Through August 20, 1983

U.S. Crop and Livestock Production

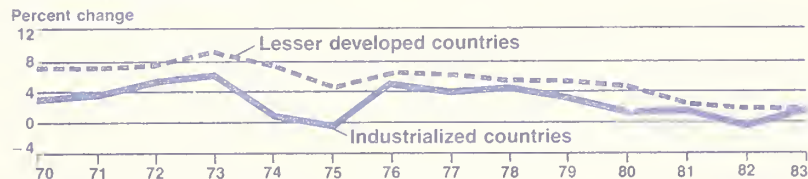


World and U.S. Commodity Production, 1972/73-1983/84*

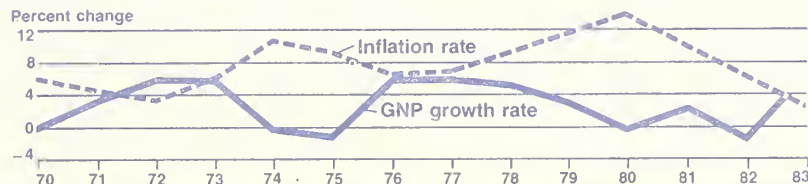


World Economic Indicators, 1970-1983

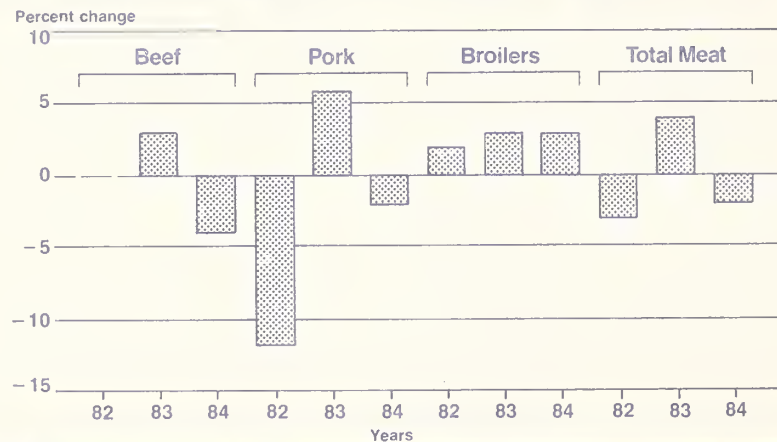
World GNP Growth Rate



U.S. GNP Growth Rate and Inflation Rate

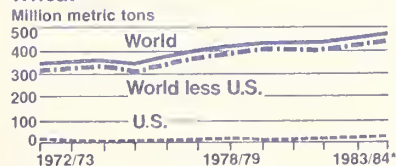


Livestock Production Changes, 1982-1984

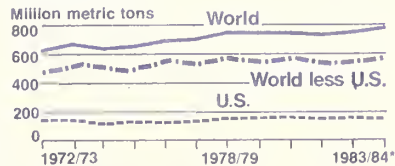


World and U.S. Commodity Consumption, 1972/73-1983/84*

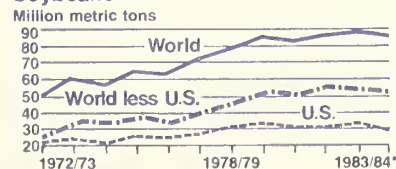
Wheat



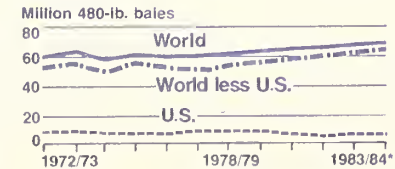
Feed Grains



Soybeans

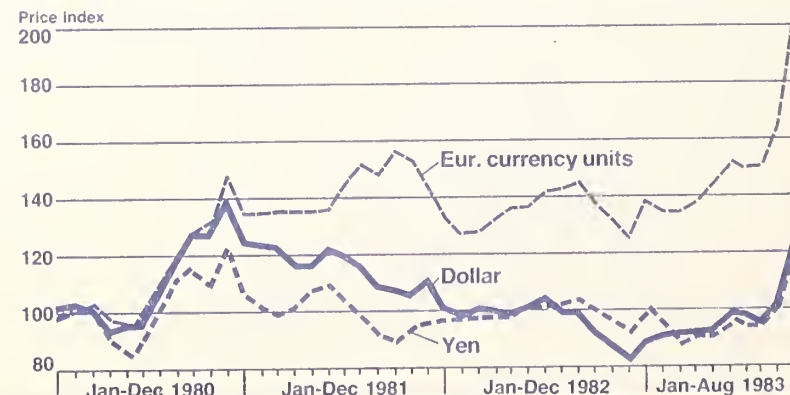


Cotton

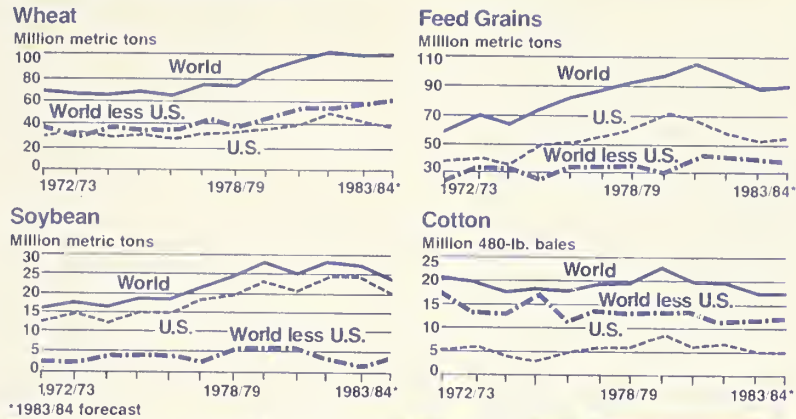


*1983/84 forecast

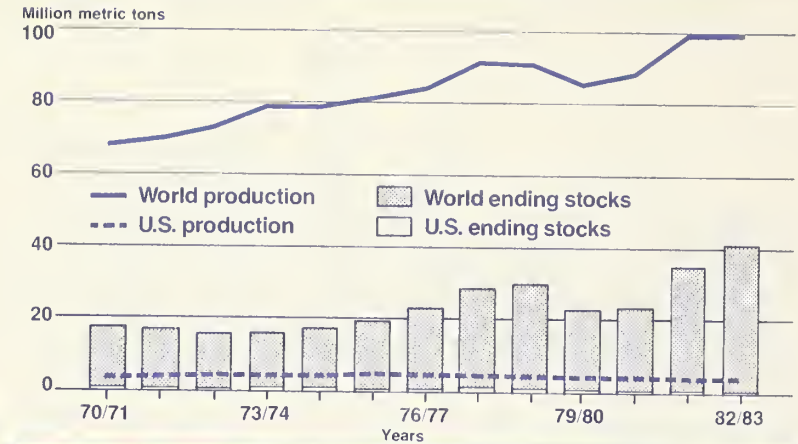
Effect of Exchange Rate on U.S. Soybeans Export Price, Gulf Port, First Quarter 1980=100



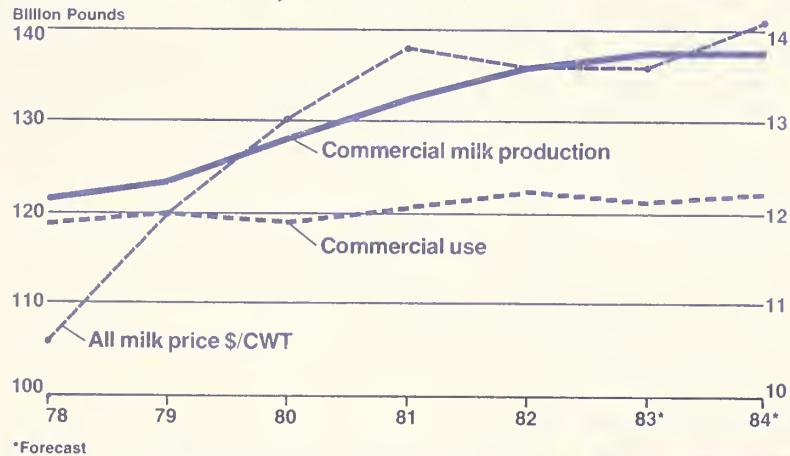
World and U.S. Commodity Trade, 1972/73–1983/84*



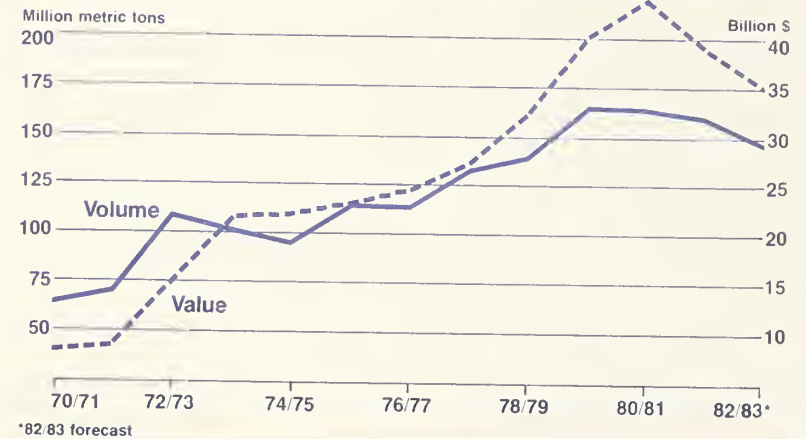
Sugar Production and Stocks, 1970–1983



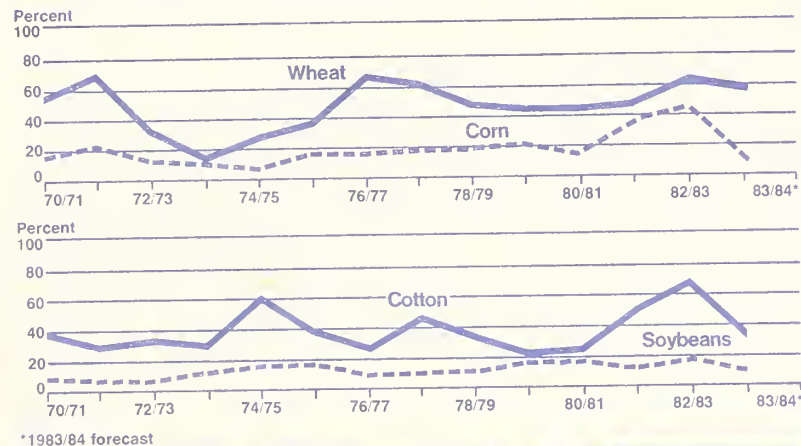
Milk Production, Use and Prices



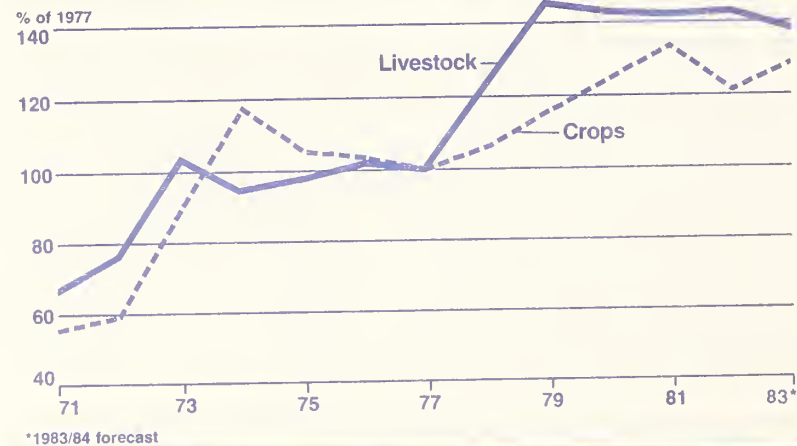
U.S. Agricultural Exports Volume and Value



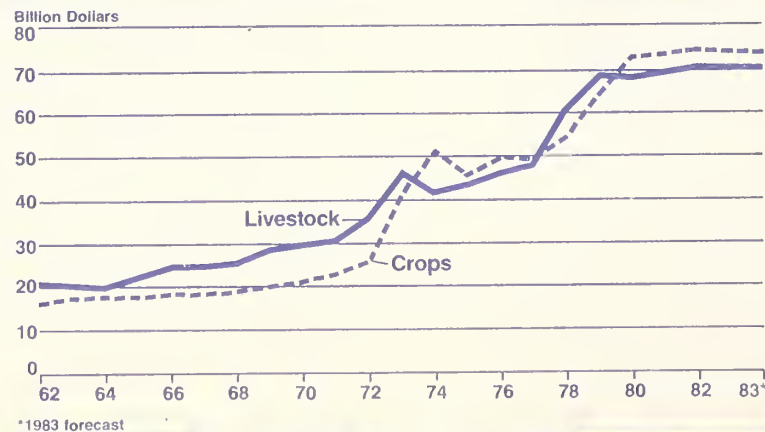
U.S. Stocks/Use Ratio, 1970-1984*



Prices Received for U.S. Farm Products

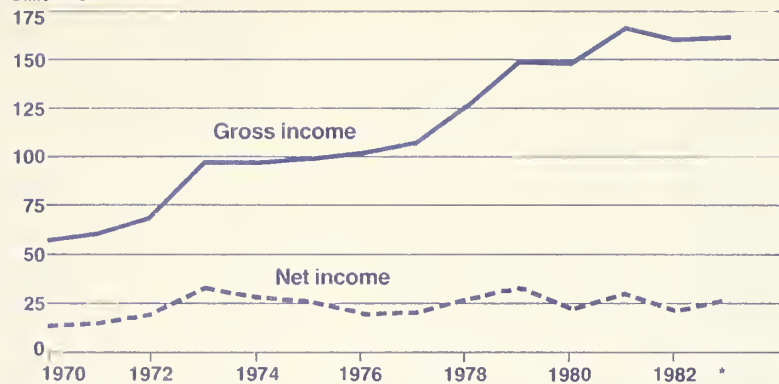


Cash Receipts From U.S. Farm Marketings



U.S. Farm Income

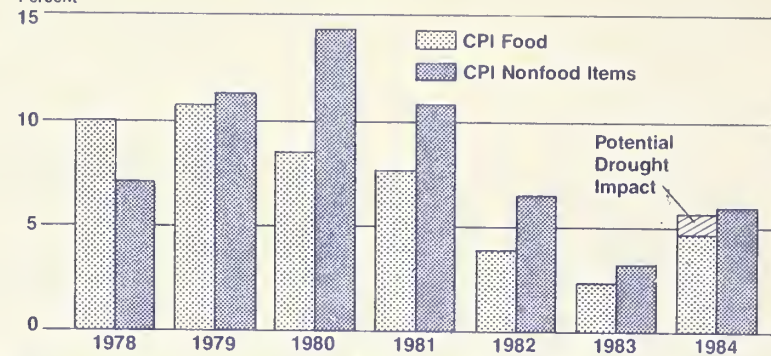
Billion Dollars



*1983 forecast

Increases in Consumer Price Indexes Food Versus Nonfood Items

Percent



Source: Consumer Price Index: Bureau of Labor Statistics

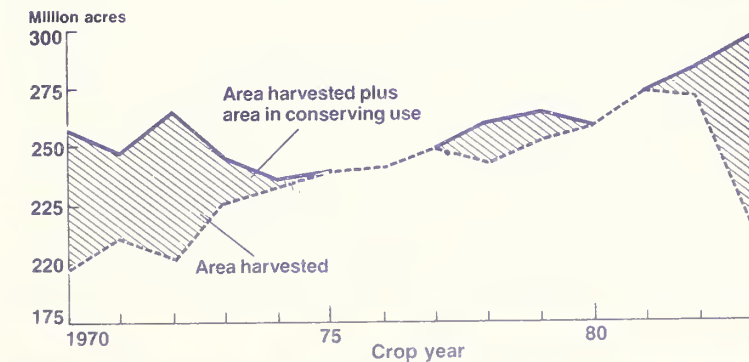
Program Participation in Acreage Reduction Programs: Actual 1982 and Indicated 1983*

Item	1982	1983	
		Total Participation	PIK
		—Percent of base—	
Wheat	48	75	50
Corn	29	65	60
Sorghum	47	65	60
Rice	78	98	85
Cotton	78	95	75

¹Percent of base acreage utilizing PIK program.

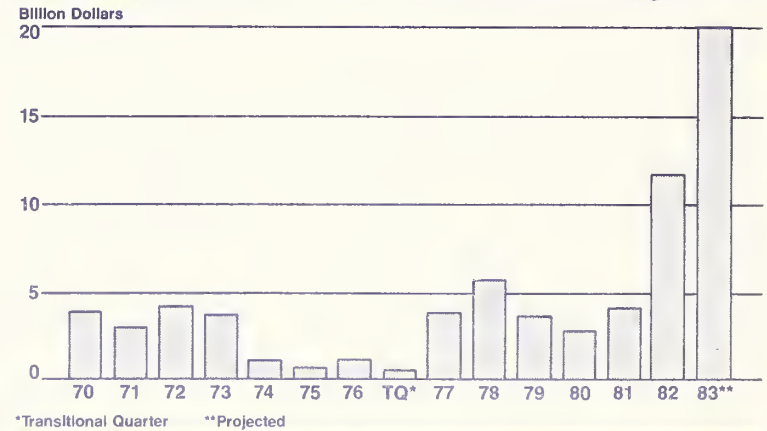
*Producers removed a total of about 75 million acres from production in 1983, up from about 11 million in 1982.

Area Harvested Plus Conserving Uses, 1970-83



Note: Shaded area shows acreage in conserving use.

Net Outlays for Farm Price Support Programs



Major Factors Shaping Agricultural Outlook

Supplies

- Global Crop Response to Higher Prices
- Livestock Production Adjustments

Demand

- Pace of World Economic Recovery
- Changes in Debt Levels, Interest Rates, Inflation

Policy

- Domestic Farm Program Adjustments by U.S. and Other Countries
- Trade Policy Adjustments by U.S. and Other Countries