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WORLD AND U.S. AGRICULTURAL OUTLOOK

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Large global crop supplies are expected in the coming year, boosted by record output abroad and large 1986/87 U.S. carryin stocks. World crop use should benefit from economic growth and expanded livestock and poultry output. Even so, use will remain below the level of production, causing a further buildup in stocks.

In 1987, American farmers will benefit from higher income and consumers will continue to see modest increases in food prices. While U.S. crop prices will remain under pressure, farmers' income from crops will be supported by Government price support programs. With cattle and hog prices higher, livestock producers should earn more. Low inflation should help hold farm production expenses in check.

Food prices rose only about 3 percent in 1986. In 1987, retail food prices may increase only 2 to 4 percent, in line with a continuing low rate of inflation and relatively large commodity supplies.

Record crop harvests are expected abroad in 1986/87. This record harvest will about offset a smaller U.S. crop and keep global output around 1985/86's record level. U.S. output is down substantially because of producer participation in Government acreage-reduction programs and lower yields for some crops.

Global crop consumption should show a gain in the coming year, responding to population gains, economic growth and higher animal-product output. Even with this modest gain, consumption is not expected to reach the level of production; global carryover stocks will continue to grow. Stocks would still represent only 3 months of use.

Global trade is expected to expand moderately for grains and soybeans, with a sharp increase for cotton. The increase in global trade and lower U.S. prices point to a larger volume of U.S. agricultural exports.

Domestic demand for U.S. crops will benefit from higher livestock prices, but total feed consumption will slip. Total meat output will be a little lower and

the share of poultry in the production mix will increase further. Combined domestic and export demand for feed grains and soybeans will be below production, while greater use than output will bring down stocks of wheat, rice, and cotton.

Cash receipts from crops are likely to continue lagging in 1987, if prices and production remain at reduced levels as expected. Livestock receipts will be up as higher prices for cattle and hogs offset lower total meat production and reduced poultry prices. Gross farm income will be boosted by large Government payments, while net income will benefit from lower production expenses stemming from a continued low rate of inflation and, possibly, reduced acreage. Net cash income in 1987 may exceed the 1986 high of about \$44 billion by 5 to 10 percent. Net farm income also is projected to show a rise of perhaps one-tenth from the approximate \$29 billion in 1986.

Looking beyond 1987, the U.S. agricultural outlook over the next several years is for:

- o A slow expansion in U.S. agricultural exports, in response to global economic growth and competitive prices;
- o Farm income supported by Government programs, as provided in the Food Security Act of 1985; and
- o Exposure of the Government to large outlays under price support programs.

Global Setting

Projections call for continued large global crop supplies in 1986/87 and moderate demand expansion. Feed grain and soybean crops are projected to more than match use, pointing to a further buildup in stocks, while wheat, rice, and cotton stocks may be reduced from very high levels.

Global trade should expand, with increased consumption in several countries, larger crop shortfalls in a few importing countries, and some building of stocks in competitor countries.

Crop Production

Global crop output is projected to almost match the 1985/86 peak as record crops abroad offset smaller U.S. output. Reduced acreage and lower yields are causing smaller U.S. crops, while production abroad is likely to be boosted by a larger wheat crop in Canada, a bigger feed grain crop in China, and recovered soybean production in Brazil.

World feed grain production may show a moderate decline as larger production in Canada, China, and South Africa is more than offset by smaller crops in the United States and Western Europe. World wheat production may be up in 1986/87 as bigger crops in Canada, Argentina, the Soviet Union, and China more than offset smaller U.S. output.

World soybean production may increase if soybean yields recover in Brazil. More acreage could mean a slightly larger crop in Argentina, while lower U.S. acreage and yields have reduced U.S. output.

A smaller U.S. cotton crop will help to reduce global production in 1986/87. Production abroad also is expected to decline, with lower yields in the Soviet Union and reduced acreage in China.

Demand Factors

Global economic conditions in 1987 are likely to be at least modestly better than in 1986, partly because of lower oil prices. The outlook for a pickup in economic growth and slow rates of inflation is supportive of increased use of agricultural products. Large crop supplies and lower prices also will stimulate consumption.

Economic activity in developing countries will benefit from exports to industrialized countries. Economic growth has been lagging in the United States, but the growth should strengthen in 1987 as the U.S. economy responds to lower interest rates, the weaker dollar, and reduced oil prices. This should result in larger exports, smaller imports, expanded investment, and continued relatively strong consumer spending. Inflation is expected to remain at a dampened level with ample capacity for expanded demand.

World animal-product output is expected to increase slightly in 1987, with continued expansion in poultry production in a number of countries and larger pork production in a few, especially in China, Japan, and the EC. Global beef production will be dampened by smaller U.S. output. Lower feed prices and better returns to livestock producers should keep feeding rates at high levels.

The U.S. dollar has continued to weaken slightly in 1986, with lower interest rates and a sluggish economy. Dollar stabilization efforts of central banks of several countries and a pickup in economic growth may help support the dollar, but the large U.S. trade deficit could be somewhat offsetting. In any case, U.S. agricultural exports should benefit from earlier declines in the dollar in some markets. Also, U.S. agricultural exports stand to gain because of lower prices resulting from reduced loan levels, marketing loan programs for rice and cotton, and the Export Enhancement Program.

Commodity Outlook

The global commodity outlook is for continued large supplies and some strengthening in demand. Crop production likely will be up abroad, but U.S. exports should expand in response to lower U.S. prices which will increase competitiveness as well as stock building in some importing countries which will expand total imports.

Wheat

The global wheat outlook includes prospects for at least modest recovery in trade and an increase in the U.S. share of trade.

The outlook for U.S. wheat in 1986/87 is for further contraction in production, improvement in exports, and stocks slipping below the record carryin level.

A number of factors have depressed world wheat trade and U.S. exports in recent years, including growing competition abroad, rising output in nontraditional exporting countries, and rising debt and falling commodity prices in developing countries. Although the dollar has weakened in the past year, lowering prices to importers, it remains strong against currencies of many wheat importing countries and also some competitors. Soviet import needs, a major source of demand for U.S. wheat, dropped sharply last season, and the U.S. share of the Soviet wheat market fell to near zero because the Soviets switched to lower-priced sources. Soviet import needs are likely to slip further in 1986/87.

With high participation in acreage reduction programs since 1982, harvested wheat acreage has dropped from 81 million acres to 61 million acres and production has fallen from nearly 2.8 billion bushels to near 2.1 billion. Domestic wheat use has been bolstered by population growth and by a high level of wheat feeding following the 1983 drought. Exports, however, have dropped precipitously from a 1982/83 peak of 1.8 billion bushels to only 915 million bushels last season, and stocks rose to a record 1.9 billion bushels.

The institution of sharply reduced loan rates under the 1985 Farm Act will lead to adjustments in both grain producing and consuming countries. Farm wheat prices are likely to average around \$2.20 to \$2.40 cents per bushel this season, compared with \$3.16 last season. U.S. wheat exports should rise significantly in 1986/87, even with continuing large supplies abroad.

Over the next few years, reduced prices should constrain output growth abroad and may stimulate shifts in cropping patterns away from wheat in some countries. A major uncertainty is the reaction in the EC to large budget deficits from grain surpluses and subsidies. Also, the level of Soviet dependence on imported grains could diminish if both productivity and wheat quality improve. For the near future, however, continued Soviet dependence on imports is likely.

Rice

Global rice consumption could be a little larger than production in 1986/87, slightly reducing stocks, with trade levels dependent on needs in key countries. Competitive U.S. prices resulting from the marketing loan program should lead to much larger U.S. exports, up almost 40 percent in the 1986/87 marketing year. The U.S. share of global trade should be over one-fifth in calendar year 1987, up from 18 percent in 1986.

U.S. exports should rise moderately over the next several years. In the late 1980's, use may again exceed annual production levels, allowing stocks to drop to a reasonable level relative to use and prices to rise.

Feed Grains

World feed grain stocks are projected to further increase in 1986/87. Even though the smaller U.S. crop likely will help bring down global output, expanded demand will not match the level of production. Global trade should expand and U.S. exports should increase, with the U.S. share of global trade rising slightly.

Domestic feed grain use is likely to hold nearly steady, even though livestock inventories will be down, reflecting high rates of feed use, more poultry, and rising industrial use. Total feed grain use will still fall well short of the reduced 1986 crop, propelling ending stocks from about 125 million tons to nearly 170 million tons at the end of 1986/87.

The U.S. corn carryover is expected to exceed 5-1/2 billion bushels by September 1, well above beginning stocks and the 3.5-billion-bushel carryover in 1983. In recent years, demand for corn and feed grains has been severely weakened by lower exports. Even with the increase in 1986/87 corn exports, the projected level is over 40 percent below 1979/80. In addition to the U.S. markets' loss to competitors, the level of global trade has been reduced one-fourth from the 1980/81 peak by reduced feed demand and increasing competition from other feed grains and wheat.

Over the next few years, large debt in some developing countries, the trade-restricting policies of many countries, and large supplies of competitive grains may limit the expansion in world trade. Thus, large carryovers and low prices appear likely. Eventually, however, the reduced level of global prices should constrain expansion by competitors and stimulate use, strengthening the outlook for feed grain demand and prices. Major uncertainties in the U.S. export outlook include purchases by the USSR, China, and sales by the EC.

Oilseeds

Global soybean production in 1986/87 may again substantially exceed use, if Brazilian yields recover. World trade should increase slightly, but the U.S. share may slip because of expanded competitor supplies of soybeans and other oilseed crops.

Record world oilseed crops are forecast for 1986/87 despite a sharp drop in U.S. production. U.S. farmers are harvesting 6 percent fewer soybeans this season, with declines in both acreage and yield, partly resulting from drought in southern states. Peanut yields and production also were reduced by drought. A smaller cotton crop will reduce cottonseed supplies.

Oilseed production abroad may rise moderately. Soybeans will gain most as Latin American production recovers from the 1985/86 drought.

Large inventories of vegetable oil and slow growth in world meal production are expected to limit growth in world oilseed crush and trade in 1986/87. With supply gains in the EC, Eastern Europe, and several other importing countries, along with renewed competition from South American exporters, U.S. soybean exports may increase only modestly, while meal exports are likely to decline. U.S. soybean meal use could rise modestly as supplies of other meal feeds decline and poultry output grows, even though corn may be more competitive. The Soviet Union is expected to maintain a high level of protein imports and use. Meal use may expand over the next few years in order to improve feeding efficiency.

U.S. soybean oil exports could drop in the face of large supplies of competing oils, financial constraints in a number of traditional importing countries, and an increase in India's oilseed production after last season's drought. The Soviet Union, on the other hand, is expected to show a good rise in vegetable oil imports as dry weather has reduced prospective yields and production for the Soviet sunflowerseed crop. Mexico's imports also may rise under U.S. Government assistance programs. Also, it should be noted that the growth in Malaysian palm oil output has slowed sharply in recent months and a continuation of this slowdown could change the outlook for U.S. soybean oil exports and prices.

Domestic prices for oilseeds, meals and oils are expected to drop in 1986/87 and stocks will remain at very high levels. The U.S. soybean loan rate is \$4.77 per bushel, while the effective loan is \$4.56 because of Gramm-Rudman. The 1985 crop loan rate was \$5.02 per bushel. Even at these reduced levels, soybean prices would be relatively high in relation to grains, perhaps causing acreage shifts to soybeans in countries such as Argentina.

Livestock and Poultry

World animal-product output likely will increase modestly over the next 12 to 18 months, with continued growth in poultry production and larger pork output. In spite of prospects for lower beef output in 1987, total meat production in the United States may remain relatively large, as poultry output expands. U.S. livestock producers should see favorable returns as meat supplies tighten in the first half, demand strengthens, and feed costs remain at reduced levels.

After 5 years of decline, the January 1, 1986 U.S. cattle inventory was at the lowest level since 1963. The high levels of beef cow and heifer slaughter in 1986 indicate a further decline. For 1987, the smaller inventory and sharply lower dairy cow slaughter point to a continuing decline in beef production. With feed costs low, fed beef production may continue near this year's level while nonfed output declines. Choice steer prices are expected to strengthen further in late 1986, as red meat output declines, and continue strengthening next year.

Hog numbers have continued to decline this year. Breeding hog numbers on September 1 remained at a low level, following the lowest June 1 estimate since USDA established the June 1 inventory estimates in 1964. The low inventory coupled with farrowing intentions suggest there will be year-over-year declines in pork output through much of next year. Favorable returns to pork producers should stimulate a turnaround in pork production; but based on the September Hogs and Pigs report, it will be at least the fall of 1987 before output increases.

Hog prices are averaging well above year-earlier levels and likely will continue at increased levels in the first half of 1987. Prices by next summer may not match this year's levels, but they should still be at a relatively high level.

Strong demand is supporting increased poultry output at higher prices. Broiler and turkey producers both enjoy favorable returns. Broilers are benefiting from strong demand, partially because of the introduction of several new

chicken dishes to the menus of restaurants. Turkey is also benefiting from the introduction of several new products. Continued good returns are expected to result in production gains for broilers and turkeys in 1987.

Egg production is increasing in 1986 and another increase is likely for 1987. Lower feed costs and tightening red meat supplies will support returns in 1987.

Dairy

The Dairy Termination Program (DTP) is a part of the Food Security Act of 1985. Under this program, producers could bid to sell out their entire dairy herd and receive payments from the Government. Producers who had their bids accepted agreed to remain out of dairying for at least 5 years. This program is resulting in a reduction in milk production. However, the duration of this reduction is very much in question. The milk price support level has been reduced and another reduction is scheduled for the beginning of 1987. But, lower feed costs have and will largely offset these lower milk prices.

Many producers not participating in the DTP may expand their output. However, with the reduction in cow numbers that is resulting from the DTP, milk production in 1986/87 is expected to decline about 3 percent. Low feed costs will be conducive to high rates of concentrate feeding and output per cow will increase. However, the decline in cow numbers will more than offset the increase in output per cow. Commercial use is expected to continue to increase during 1986/87, but the rate of increase is likely to slow from the 1985/86 pace. This combination of reduced milk production and increased commercial use should result in much lower levels of Government purchases of dairy products in 1986/1987.

Cotton

Prospects for 1986/87 are for global cotton demand to moderately exceed production. Output is projected down nearly one-tenth from 1985/86, owing primarily to smaller crops in the United States, China, the Soviet Union, and India, while world use is projected to increase about 3 percent. World trade may rise by more than one-tenth.

With the 1986 cotton program encouraging smaller production and making U.S. prices competitive in domestic and export markets, U.S. stocks are projected to decline sharply this season. Output is down one-fourth, while total disappearance is expected to rebound to nearly 14 million bales. Ending stocks are projected at about 5-1/2 million bales, 3.8 million below the beginning level.

Longer term U.S. export prospects appear fairly bright. Continuation of competitive prices under the auspices of the Food Security Act of 1985 suggests that U.S. exports should be able to maintain the current market share of about 30 percent of world trade during the late 1980's. This compares with a projected 29-percent share for 1986/87 and a depressed 10-percent share in 1985/86 when U.S. prices were not competitive in international markets. U.S. exports over the next few years may remain at an increased level, partly depending on competition from China and Pakistan.

Global Trade

Combined global exports of wheat, feed grains, and soybeans are expected to be up about 4 percent in 1986/87, following a decline of 15 percent in 1985/86. The volume of U.S. exports is projected to increase around one-tenth and the U.S. global share may increase to around 43 percent, from 40 percent in 1985/86. The rise in global trade and more competitive prices will boost U.S. exports.

For fiscal year 1986, the value of U.S. agricultural exports fell around 15 percent to \$26.3 billion. The volume of exports should move higher in fiscal year 1987. Crop prices likely will be at lower levels, while animal product prices should be higher.

U.S. agricultural imports totaled about \$20.9 billion, up from fiscal year 1985 primarily because of larger coffee imports. The export trade balance fell to about \$5-1/2 billion.

Crop Stocks

Global crop stocks likely will be at record levels by the end of the 1986/87 marketing year. Projected feed grain stocks are over 220 million tons, up from estimated record carryin stocks of around 180 million. Projected stocks would represent about one-fourth of annual use. Wheat stocks also are projected at a record level and at one-fourth of annual use. Most stocks will be held in the United States, where stocks-to-use ratios will be much higher, at nearly 80 percent for corn and 85 percent for wheat.

World soybean stocks are projected at a new record, of 25 million tons, with record U.S. soybean stocks to represent more than one-fourth of use. Global cotton stocks likely will fall, with U.S. stocks representing about 40 percent of annual use.

U.S. Commodity Prices, Farm Income, and Food Prices

U.S. Commodity Prices

Large crop supplies will keep pressure on prices in coming months. For livestock, the 1987 outlook is for sharply lower beef output and lower pork output through the first half. Cattle and hog prices should average above 1986 levels, even with continuing increases in poultry product output. Crop prices likely will remain at reduced levels through mid-1987, with second-half prices depending on production and trade prospects for 1987 crops. In the absence of significant changes in U.S. Government programs and severe crop shortfalls in several other countries, prospects for continued large supplies likely will keep pressure on crop prices.

Farm Income

This commodity outlook suggests 1987 marketing receipts below 1986, as lower crop prices and output more than offset larger poultry output and higher livestock prices. However, crop receipts will be supplemented by record Government payments of some \$14 to \$16 billion, boosting gross cash income to around the \$150 billion of 1986.

Producers also will benefit from reduced prices for inputs, including fuel, fertilizer, and interest rates. Total cash expenses of \$101 to \$105 billion, down from \$106 billion in 1986, would leave farmers with net cash income exceeding last year's \$44 billion by 5 to 10 percent.

Estimated net farm income of \$29 to \$34 billion is above 1986's estimated \$29 billion. The value of inventories may be reduced \$2 or \$4 billion in 1987.

Food Prices

Food prices in the second half of 1986 have reflected tightening meat supplies and higher prices. Still, with the slow rate of inflation in the economy, marketing costs (the primary component of food prices) will be held in check. The expected 1986 increase in all food prices of around 3 percent is only slightly above 1985's 2.3-percent increase.

The 1987 food outlook includes a sharp reduction in beef output and higher prices. But meat supplies will be supplemented by larger poultry meat production and generous crop-food supplies. Also, inflation in the economy is expected to remain at a dampened growth rate of 3 or 4 percent and retail food prices may be up only 2 to 4 percent.

The Global Agricultural Supply-Demand Imbalance and U.S. Government Outlays

The Food Security Act of 1985 became effective with the 1986/87 marketing years for most commodities (rice and milk began in 1985/86). The Act was designed to deal with concerns stemming from losses in farm exports, including farm financial stress and mounting budgetary costs for agricultural programs.

Agricultural prospects for 1986/87 suggest that the volume of agricultural exports will increase, but crop prices likely will remain at reduced levels. Several years will be needed for the lower level of world prices, resulting from the reduction in U.S. loan rates and the weaker dollar, to significantly impact on crop production and use in both competing and importing countries. Too, productivity gains likely will continue around the world, making more difficult a narrowing of the supply-demand imbalance.

U.S. farm income is somewhat protected by Government payments in this interim period of slowly growing global demand and slightly dampened production expansion. So, U.S. Government outlays for price support programs likely will remain at high levels.

Acreage

Global acreage of wheat, feed grains, and soybeans has been slowly declining in the 1980's, about 0.3 percent per year. The U.S. decline also has been about 0.3 percent.

U.S. acreage has declined because of Government acreage reduction programs. Under annual programs, producers removed 40 to 45 million acres of cropland from production in 1986, up from 31 million in 1985 and a little over one-half

of the record 77 million removed in 1983. Even with reduced acreage, increasing crop yields have kept U.S. production near or above use levels that declined over 1 percent annually. Thus, a faster expansion in demand will be needed over the next several years to offset productivity gains, assuming no additional significant cuts in acreage. Faster demand expansion than production gains should eventually increase prices and reduce Government price support outlays.

Productivity

Yield gains have been the source of crop output expansion in the 1980's, although acreage has grown for crops in some countries, such as wheat acreage in Canada. Combined world production of wheat, feed grains, and soybeans has grown about 2.7 percent annually in 1980 to 1985 (average 1979-80/81 to 1984/85-85/86), all of which resulted from yield increases, since acreage declined nearly 0.3 percent annually.

Production in countries abroad increased 2.6 percent yearly, all due to yields, since acreage declined 0.3 percent annually. The 1.6-percent annual increase in U.S. production was due to higher yields, since acreage declined 0.3 percent. The yield gain in other countries of 3 percent annually is 50 percent above the 2-percent U.S. increase.

Productivity gains are particularly dramatic for some crops. To illustrate, wheat production abroad gained 3.5 percent annually, in spite of 0.2-percent downturn in acreage because of 3.7-percent annual yield gains. U.S. yields rose at a 2.3-percent rate, more than offsetting declining acreage of 1.6 percent annually, pushing up U.S. production 0.6 percent. Wheat productivity gains in other countries are increasing 60 percent faster than in the United States, reflecting growing use of higher-yielding varieties in other countries as well as improved management practices.

Even with yield gains, however, crop production abroad is increasing less in the 1980's, at 2.6 percent yearly, than the 2.8 percent in the 1970's.

Demand

The growth in world consumption of major crops in the 1980's has slowed to 1.4 percent yearly, from 3 percent in the 1970's. The worldwide recession and financial problems of the early 1980's caused the slowing rate of use. Too, this caused the expansion of consumption in other countries to slow from 3.5 percent yearly to about 1.3 percent.

Thus, the imbalance between consumption and production in the 1980's has been due to the slower growth in consumption. For grains, the consumption drop has been the greatest in industrialized countries abroad and in centrally planned economies.

World trade in major crops has declined 0.4 percent annually in the 1980's, down from annual increases of over 6 percent in the 1970's. The decline in trade in the 1980's reflects dampened consumption, greater self-sufficiency in several countries, and barriers to trade in some countries.

Agricultural imports have declined for both industrial countries and in countries with centrally planned economies. To illustrate, in the 1980's, industrial countries have shown a steep decline in imports of wheat and feed grains, 6.4 percent annually, as EC imports have fallen sharply. The centrally planned economies also have shown a significant decline, reducing imports 2.8 percent annually.

Developing countries have expanded imports 3.9 percent annually in the 1980's, although well below the 9.4 percent in the 1970's. The rate of increase in consumption of grains in the developing countries has continued to outpace production in the 1980's. Assistance from industrialized countries has supplemented supplies and consumption in these countries. In 1986/87, these countries will account for over one-half of world grain trade.

Countries with centrally planned economies have shown a dramatic turnaround in grain imports from the 1970's to the 1980's, with an annual growth of 5.1 percent in the 1970's turning into a yearly decline of 2.8 percent in the 1980's. Consumption growth slowed to less than 1-percent growth in the 1980's from 3.6 percent.

So, even in centrally planned economies, there has been almost no growth in consumption, partly due to financial constraints. Also, policy changes have caused import reductions. In Eastern Europe, debt problems have led to a cutback on agricultural consumption and imports in the 1980's. In China, expanding crop production has led to a sharp reduction in imports, reducing levels of global trade for both grains and cotton. In contrast, the Soviet Union has continued to heavily depend on grain imports to expand meat production, providing support to, and instability in, the level of global grain trade.

Meat production and consumption are expanding in both the Soviet Union and China, with Soviet per capita use about three-fifths of the U.S. level and China only about one-fifth. Per capita meat consumption likely will continue growing over the next few years. The Soviets may meet some of the extra feed-stuff demand through better yields from more intensive production practices, but grain imports are expected to remain substantial. Potential demand for meat consumption and feed use are considerable in China; but China now seems intent on exports of grains (corn), rather than imports. This export surplus could well continue over the next few years, or until the demand for feed and meat again outpaces domestic supplies.

U.S. Implications

The sharp decline in U.S. agricultural exports in the 1980's, thus, has been due to developments abroad related to: expanding agricultural output, especially the growth in productivity; dampened consumption expansion, caused by the worldwide recession of the early 1980's; and increased self-sufficiency in food production, resulting from policy changes. Over the next several years, competition will remain intense for world markets, but lower prices should slow productivity gains and market growth should pick up as global economic growth recovers.

U.S. farm income has come increasingly from the Government in the 1980's, with the decline in agricultural exports and in farm prices. Direct payments alone in 1986 are expected to amount to \$12 or \$13 billion, accounting for over one-fourth of net cash income of some \$44 billion. In the 1970's, direct payments accounted for about 7 percent of cash income.

The outlook for the next few years is for a continuation of large Government payments. Market prices likely will remain under pressure because of slowly growing demand and relatively large commodity supplies.

U.S. net outlays for price support programs, thus, likely will remain at increased levels. Outlays rose to a new record of around \$25.5 billion in fiscal year 1986, up from nearly \$17 billion in 1985 and the previous record of around \$19 billion in 1983. Exposure to large Government outlays likely will continue for the next few years, particularly for deficiency payments. For wheat and feed grains, for example, payments likely will remain relatively large because target prices can be reduced only 2 to 5 percent annually to a maximum of 10 percent for 1990 crops. At the same time, loan rate reductions generally would be covered by payments since market prices may not average much above loan levels.

Government outlays over the next several years, thus, will depend importantly on the level of prices resulting from the interaction of global commodity supply and demand. Or, more specifically, outlays will be directly related to the level of U.S. crop prices that will be determined by productivity gains here and abroad, and by the expansion in world agricultural consumption, trade, and the U.S. trade share.