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AgLetter

OUTLOOK FOR THE AGRICULTURAL SECTOR

The U.S. Department of Agriculture held its annual Agricultural Outlook Forum in late February to discuss the prospects for U.S. agriculture in the near and longer term. For this year, global economic growth is expected to support strong gains in the value of U.S. agricultural exports. Low stocks and strong demand will allow grain producers to benefit from exceptionally high prices. But in spite of these developments, net cash farm income is expected to decline this year to a relatively low level as feed costs rise and gains in production cause livestock and poultry prices to weaken. A decline in direct government payments is also expected to help reduce farm income from last year.

The USDA released a detailed series of economic projections at the conference. Though not intended to be a specific forecast, they provide some insight into economic trends, especially in the near term. For the domestic economy, real gross domestic product and disposable personal income are both expected to register annual increases in 1996, albeit at slower rates than last year. Growth in consumer spending and business investment is also expected to slow from last year. Consumer food prices are expected to rise less rapidly than the overall rate of inflation, held back by declines in retail prices of red meat, poultry, and eggs.

On the international front, the growth of real output in developed countries is expected to be near 2.4 percent, while developing nations are anticipated to show a much larger gain of 4.9 percent. In general, Asian nations are expected to experience the most rapid growth, with Latin America a distant second. In particular, it is believed that Mexico's economy will reverse last year's disastrous decline and grow at a rate similar to the U.S. this year—about 2.3 percent.

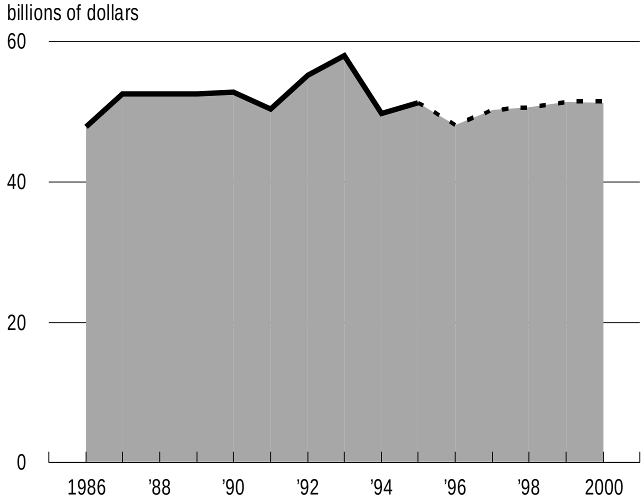
The strong economic growth in developing nations—particularly those in Asia—is expected to help fuel major gains in the value of U.S. agricultural exports during the current fiscal year ending September 30. If recent projections are met, new highs will be established for both U.S. agricultural exports and the agricultural trade surplus. At $60 billion, the value of farm-related exports would rise more than a tenth from last year. The potential gain is mostly attributable to higher grain prices, which will likely offset a decline in export volume. Furthermore, agricultural imports are expected to show little change from last year, leaving a trade surplus of $30.5 billion, over a fifth larger than last year.

Though foreign grain sales are an undeniably important part of U.S. agricultural exports, their performance has been overshadowed in recent years by the sustained growth in exports of higher-value items such as red meat and poultry products. Since 1986, the volume of pork exports has risen ten-fold. Poultry exports have increased seven times while beef exports have quadrupled. As a result of these gains, the U.S. is expected to be a net exporter of both red meat and poultry this year. An important factor helping to fuel this growth is the rising disposable income in developing nations that enables residents to upgrade their diets by purchasing and consuming additional quantities of meat. Relatively low U.S. meat prices and foreign exchange rates have also encouraged exports. Finally, trade agreements have helped U.S producers open the door to sales in other nation's food stores.

The USDA expects net cash farm income this year to be the lowest since 1986. Projected at $48.2 billion, it would be 6 percent below last year. Higher grain prices are expected to boost crop receipts to a record level, but lower farm prices will keep livestock receipts flat despite larger output. Direct government payments to farmers are forecast to drop by a third from last year, but this outcome is more uncertain than usual given that Congress had yet to approve new farm legislation at the time the projection was made. The gains in cash expenses are expected to be fueled by higher feed costs and increased purchases of crop inputs. Interest costs are projected to be similar to last year, as rising debt levels are offset by lower interest rates on farm loans.

Looking at the farm sector balance sheet, the value of farm assets at the end of this year is projected to post an annual gain of 3.5 percent. A recovery in the value of

Net cash farm income to fall in '96



Source: U.S. Department of Agriculture.

stored crops—assuming that grain inventories are replenished by a reasonably good crop harvest this year—and a projected 4-percent rise in the value of farm real estate are expected to pace the increase in farm asset values. On the debt side, USDA analysts think that farm sector liabilities will rise about 2.5 percent to $155 billion. This would be the largest debt level since 1986, and would mark the fourth consecutive year that farm liabilities have increased. Given the above changes in assets and liabilities, farm sector equity would expand 4 percent.

The near-term outlook for corn shows no wavering from the view that ending stocks for the marketing year that closes this August will be drawn down to their lowest level since 1974. In fact, the supply and demand tables released by the USDA the past two months (February and March) have each contained upward revisions for exports and downward revisions for ending stocks. This provided additional support for corn prices, which are expected to average $3.15 per bushel for the 1995/96 marketing year, a 40 percent rise from the prior year and the highest in twelve years.

Furthermore, both cash corn and corn futures prices are relatively strong compared to soybean prices, which should help boost the number of acres planted to corn this spring. Improved planting weather relative to last year, no acreage set-asides, and potential early-outs from the Conservation Reserve Program may also contribute to increased corn acreage. Consequently, corn seedings may rise as much as 10 million acres from last year, and farmers could end up planting the most acres to corn since 1985. Assuming "normal" weather, the projected trend yield is 127 bushels per acre, which—if achieved—would be the third largest on record. The increase in acreage and yield translates into a significant projected production increase of over one fourth from last fall. But with low initial stocks, supplies would be up a more moderate amount.

Given the expected rebound in corn production, projected utilization of corn for the 1996/97 marketing year also stands to register solid year-over-year gains and could reach the second-largest level ever recorded. Gains in livestock feeding, and in food, seed, and industrial use would more than offset a predicted drop in corn exports. Ending stocks are projected to show a strong year-over-year increase, yet would still be at a relatively low level. The average corn price is projected at $2.75 per bushel, well below the current year's estimate, but still high by historical standards.

Ending soybean stocks for the 1995/96 marketing year ending this August are expected to register a significant drop from last year. At 200 million bushels, ending stocks would be the lowest since the 1988/89 marketing year. A recent USDA report revised the projected average marketing year soybean price from $7.00 down to $6.80. However, this would be the highest level in eight years.

But despite relatively strong prices, the number of acres planted to soybeans is expected to register a modest year-over-year decline this spring. USDA analysts believe that soybean acreage will decline in the Midwest, but that double-crop beans will boost seedings in the Southeast and Delta regions. The projected trend yield of 37 bushels per acre would be well above last year and may push production slightly higher. A small production gain would not be enough to offset the impact of lower initial stocks, however, so that total supplies would likely register a modest decline.

Utilization of soybeans is expected to register a modest year-over-year decline in the 1996/97 marketing year, as exports experience a contraction but soybean processing shows little change. The domestic crush is expected to be flat as stronger meal prices in the U.S. help constrain use. World meal use is also expected to be flat, helping to dampen gains in meal exports. In contrast, soybean oil exports are expected to rise slightly. Ending soybean stocks for the 1996/97 marketing year are expected to be pared down, perhaps by as much as a tenth from the prior year. This is expected to raise the average soybean price somewhat from the current year's average.

The USDA expects wheat stocks for the 1995/96 marketing year ending this May to be down nearly a third from last year and the lowest since 1973. This has boosted the projected average price for the marketing year to $4.45 per bushel, a dollar higher than last year's average. Relatively strong prices last fall, along with good planting conditions, pushed winter wheat acreage up by about 7 percent from the previous year. However, spring plantings are expected to rise only slightly. Wheat yields and production are both expected to reverse a three year decline this summer, with total supplies for the 1996/97 marketing year registering a moderate gain.

Total wheat utilization is projected to show a modest gain, as an expected decline in exports is offset by greater feed use. Wheat exports are expected to drop as foreign production picks up, particularly among our major competitors. In contrast, feed use will likely rise as wheat is substituted in rations due to strong corn prices. Ending stocks are expected to rise by about one fourth, while farm prices for the 1996/97 marketing year are projected to average near $3.90, down a tenth from this year. However, it would still be the second largest average price in over fifteen years.

The combined production of beef, pork, and poultry—on a per capita basis—is expected to register an annual gain of 3 percent in 1996. The gains in per capita supplies will keep downward pressure on livestock and poultry prices, and—combined with higher feed costs—have an adverse effect on producers' operating margins. This type of environment will be hardest on high-cost producers, and will tend to encourage further industry consolidation and adoption of technology as producers seek to reduce unit costs in order to stay competitive.

Per capita pork production is expected to rise 2 percent in 1996 after coming in flat last year. Recent USDA quarterly projections indicate that most of the gain will occur in the second half. However, pork production registered fairly solid year-over-year growth—about 4 percent—during the first two months of this year. But despite these output gains, hog prices were up relative to a year ago. Hog prices at Iowa-Southern Minnesota markets were above $49 per hundredweight in mid March, compared to about $39 a year earlier. Nevertheless, widening year-over-year production gains in the second half are expected to weigh heavily on markets. Hog prices are expected to average about $38 per hundredweight in the second half, a decline of 17 percent from last year.

The USDA analysts also see per capita beef production registering an annual increase of 2 percent. If realized, it would mark the third consecutive annual per capita production gain for beef, following a seven-year string of annual declines. Over half of this year's projected gain was concentrated in the first quarter, pushing average fed cattle prices down about a tenth below last year's level. Year-over-year production gains are anticipated to moderate throughout the rest of the year, averaging between one and two percent each quarter. For the year, Nebraska direct fed cattle prices are expected to average about $63.50 per hundredweight, 4 percent lower than last year and the lowest since 1986.

In comparison, per capita poultry output is projected to rise by 5 percent, continuing the remarkable string of annual production gains that date back to 1983. Wholesale broiler prices are expected to register a year-over-year rise of 5 percent in the first half, but continued gains in production and competing supplies of red meat will help push prices down sharply in the second half. For the year, wholesale broiler prices are projected to average about 54 cents per pound, a drop of 4 percent from last year and the lowest level in four years.

Milk production is projected to edge up about 1 percent in 1996, about the same as last year. The long term trends of declining cow numbers and gains in milk produced per cow are expected to continue. However, higher feed prices are expected to limit the growth in concentrate feeding and limit productivity gains this year. Milk prices have been supported in recent months by limited year-over-year production increases, but output growth is expected to be stronger in the second half. First-quarter milk prices were up about a tenth from last year, but the year-over-year gains will moderate throughout 1996 as production expands. For the year, the milk prices received by farmers are expected to average about $13.40 per hundredweight, up 5 percent from last year and the highest since 1990.

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SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(index, 1990–92=100)*	February	106	–1.9	9	2
Crops *(index, 1990–92=100)*	February	121	–0.8	20	9
Corn *($ per bu.)*	February	3.33	7.8	49	19
Hay *($ per ton)*	February	81.20	–0.6	–3	–8
Soybeans *($ per bu.)*	February	6.90	1.8	28	3
Wheat *($ per bu.)*	February	5.03	4.1	39	40
Livestock and products *(index, 1990–92=100)*	February	93	–1.1	–1	–7
Barrows and gilts *($ per cwt.)*	February	46.90	9.1	18	–3
Steers and heifers *($ per cwt.)*	February	61.20	–2.2	–15	–16
Milk *($ per cwt.)*	February	13.80	–1.4	10	3
Eggs *(¢ per doz.)*	February	76.5	–4.1	24	20
Consumer prices *(index, 1982–84=100)*	February	155	0.3	3	6
Food	February	151	–0.1	2	6
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	6,101	N.A.	–24	3
Soybean stocks *(mil. bu.)*	December 1	1,833	N.A.	–13	18
Wheat stocks *(mil. bu.)*	December 1	1,338	N.A.	–10	–16
Beef production *(bil. lb.)*	February	2.05	–7.7	13	14
Pork production *(bil. lb.)*	February	1.42	–8.6	5	11
Milk production* *(bil. lb.)*	February	10.8	–4.6	3	8
Receipts from farm marketings *(mil. dol.)*	November	21,017	–4.6	2	7
Crops**	November	12,475	2.1	–3	24
Livestock	November	8,014	2.3	7	2
Government payments	November	528	–73.4	487	–69
Agricultural exports *(mil. dol.)*	December	5,345	2.4	6	31
Corn *(mil. bu.)*	December	185	–8.0	–11	30
Soybeans *(mil. bu.)*	December	90	4.8	–14	21
Wheat *(mil. bu.)*	December	103	–3.9	–6	–18
Farm machinery sales *(units)*					
Tractors, over 40 HP	February	4,503	–9.5	1	14
40 to 100 HP	February	2,431	–11.0	7	12
100 HP or more	February	2,072	–7.6	–4	17
Combines	February	360	–14.7	–17	–3

N.A. Not applicable
*22 selected states.
**Includes net CCC loans.

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