FRBSF Weekly Letter

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District Agricultural Outlook

Farmers in the Twelfth Federal Reserve District had a tough year in 1991. In California and parts of Oregon and Washington, last winter's severe freeze destroyed several important crops, and continued drought conditions also took a toll. Furthermore, the whitefly infestation ravaged numerous products in southern California and Arizona. Add to these the problems of low prices for some basic commodities and increasing government regulations, and throw in a recession, and 1991 becomes a year many Twelfth District farmers might like to forget.

This *Letter* assesses the prospects for District agriculture in 1992, which depend in large part on the recovery from the lingering effects of last year's troubles. Already the freeze-damaged areas show some signs of rebound, but the threat of another year of drought dims the outlook significantly for some areas. Other important issues facing western farmers in 1992 will be the continued expansion of export markets, the level of prices for some basic commodities, and government regulations.

Field crops

Prospects for District field crops are mixed in 1992. Cotton growers face a glutted market in 1991/92, with world production at record levels and U.S. production the highest since 1937. Cotton prices have already fallen about 30 percent from winter 1991 levels. In California, market conditions and expected tight water supplies will likely prompt an 18 percent reduction in the number of acres of cotton planted this year compared to 1991 (1991 acreage was down 13 percent from 1990). In the 1991/92 season, wheat farmers in eastern Washington and Idaho look to recover from several consecutive years of dry weather and last winter's devastating freeze. Both world and U.S. wheat production in 1991/92 are forecast down significantly and prices already have increased in expectation of lower supplies. Drought conditions also forced an 18 percent reduction in rice acreage harvested in California in 1991, as many rice farmers chose to sell their water allotments to the state's Water Bank. U.S. rice production in 1991/92 is expected to increase 3 percent, but prices should remain strong because of continued solid domestic demand and export growth. Potato farmers are expected to face lower prices in 1991/92 as a result of increased fall production. Fall potato production rose 3 percent in Idaho and 8 percent in Washington from 1990.

Vegetables

District vegetable production should remain solid in 1992 and could improve significantly with increased water supplies and progress on the whitefly infestation. In general the continued drought hurt most vegetable growers in 1991. However, production of processing tomatoes was larger than normal in California because many farmers switched to this less water-intensive crop. If California's drought persists, the 1992 processing tomato crop should be large again, although price disputes with processors last summer may lessen growers' interest.

For a successful 1992 season, lettuce, broccoli, and cauliflower growers in Arizona and southern California will need progress on containing the whitefly. 1991 crop losses from the whitefly were estimated to be about $100 million in California's Imperial Valley and much less in other areas. Prices for these vegetables rose substantially initially, but are currently down near their year-earlier levels.

Fruits and nuts

Most District fruit and nut crops should have another strong year in 1992, but for citrus fruits the outlook will depend on recovery from last winter's freeze damage. The freeze lowered production of California citrus fruit last year, especially navel oranges. Estimates of the 1991/92 crop are for a solid rebound from 1990/91, with production of navel oranges up 103 percent (still 21 percent below 1989/90) and production of Valencia oranges up 155 percent (4 percent above 1989/90). Damage to lemon trees in the San Joaquin Valley was more serious and total recovery is not expected for up to five years. Citrus fruit production in Arizona should continue to expand in 1991/92, increasing 20 percent for oranges and 12 percent for lemons. Prices should remain strong for most citrus fruit for the 1991/92 season.

Conditions for wine producers and some nut growers in 1992 will depend in part on the recovery of the overall economy, since these items often are dropped from tight consumer budgets. Barring larger cuts in water deliveries and a repeat of the extreme heat that reduced table and raisin grape production last summer, California grape production should remain strong in 1992. Grape prices will be greatly influenced by the strength of the economy. Similarly, solid production of nuts should continue in 1992, putting downward pressure on prices if weak domestic demand continues.

Non-citrus fruit markets will be buoyed by continued export growth in 1992. Apple prices increased this fall and should remain high because of strong export demand (mostly from Canada, Europe, and Asia) and an expected 4 percent drop in apple production in Washington in 1991/92 from last season. Pear production in the U.S. is projected to fall 9 percent in 1991/92 from 1990/91. The smaller crop, strong domestic processing demand, and continued export growth (especially to Canada, Mexico, and Sweden) are expected to keep pear prices high in 1992.

Livestock and dairy

Livestock and dairy producers in the District struggled with low prices and changing government regulations in 1991. The outlook for 1992 depends on these issues as well as on the strength of domestic and export demand. A Congressional proposal to hike grazing fees on federal lands was narrowly defeated with the help of an intense lobbying effort by western ranchers. The grazing fee issue will be revisited in 1992 and another tough battle is expected. The cattle industry faces a difficult year in 1992 as retail beef prices will most likely remain soft because of weak domestic demand, ample supplies of substitute meats, and slower than expected sales to Japan.

Dairy farmers faced extremely low milk prices for most of 1991, forcing many producers out of business. Legislation that would have raised the milk support price was defeated this fall. In 1992, prices are expected to increase only slightly and production should remain near last year's level. As a result, dairy farmers face another year of weak income growth.

Issues

In addition to growing and marketing their products, District farmers will be challenged by a variety of environmental and governmental questions in 1992. Of primary concern to farmers in California and eastern Washington and Oregon will be the continued drought. A sixth year of drought in California would put considerable pressure on California farmers, who have shown remarkable resiliency through the drought's first five years. While the amount of rainfall cannot be controlled, several federal and state proposals have been made to reform the complex water delivery system in California. Many of the proposed changes could help farmers by improving the system's ability to adjust to changes in water supplies.

Continued drought conditions will focus further attention on environmental issues. Federal legislation is still before the House and Senate that would take some water from some California agricultural users in order to address fish and wildlife concerns. In addition, there will be a battle over the renewal of the Endangered Species Act this spring. Farm interests are expected to be vocal in pointing out the costs imposed by the act.

The continued expansion of export markets for District agricultural products also will be a major issue in 1992. Further opening of Asian markets and progress with the European Community in the GATT talks should help keep agricultural exports growing. Negotiations continue between the U.S. and Mexico on a North American Free Trade Agreement. Removing trade barriers with Mexico should benefit most farmers, but growers of many winter fruits and vegetables and some specialty products may be adversely affected. In the final agreement, tariffs likely will be phased out gradually on these sensitive District products.

Conclusions

1992 should be a solid year for the District's agricultural sector, barring any repetition of 1991's troubles. Strengthening wheat prices, some rebound in production in the areas hit by the whitefly infestation and the freeze, and further expansion of export markets are the positive forces that should help District farmers. The continued threat of drought and tougher environmental regulations remain the most significant negative factors.

Stephen O. Dean
Senior Research Associate

DISTRICT INDICATORS
(Seasonally Adjusted)

	91Q4	91Q3	91Q2	91Q1	90Q4	90Q3	90Q2	90Q1	% CHANGE FROM: 91Q3	90Q4
AGRICULTURE										
U.S. CROP PRICES, 1985=100	110.9	115.3	117.1	114.0	115.0	116.7	117.4	118.1	-3.76	-3.51
DISTRICT CROP PRICES, 1985=100	106.8	121.1	130.6	107.4	111.0	112.7	110.6	131.6	-11.79	-3.78
FARM CASH RECEIPTS, MILLION $	N/A	2454.4	2597.2	2475.1	2632.6	2627.6	2634.3	2621.9	N/A	N/A
CATTLE ON FEED, 1985=100	79.9	83.9	92.6	93.1	86.4	88.3	88.8	89.8	-4.79	-7.54
CATTLE PRICES, CALIFORNIA, $/CWT.	63.3	62.6	66.4	64.5	63.9	65.9	66.6	63.6	1.01	-0.99
FORESTRY										
LUMBER PRODUCTION, MILLIONS BOARD FEET	1419.5	1556.5	1524.3	1397.3	1347.0	1550.9	1654.3	1751.9	-8.80	5.39
NORTHWEST LUMBER INVENTORY, MIL. BOARD FEET	2308.1	2426.3	2318.1	2362.7	2344.2	2475.8	2617.0	2606.9	-4.87	-1.54
U.S. LUMBER PRICES, 1986=100	137.2	131.2	138.3	113.8	120.6	129.6	131.6	130.6	4.61	13.82
ENERGY										
SPOT PRICE OF OIL, $/BARREL	21.8	21.6	20.8	22.1	32.1	26.2	17.8	21.8	0.85	-31.91
U.S. RIG COUNT	789.1	802.6	924.3	951.1	1096.3	1003.5	1050.8	895.9	-1.69	-28.03
DISTRICT RIG COUNT	60.9	73.3	83.8	73.2	74.5	75.1	73.7	55.2	-16.91	-18.20
FUEL MINING EMPLOYMENT, 1985=100	69.8	72.7	73.6	74.9	73.7	74.1	74.2	75.0	-4.07	-5.35
U.S. SEISMIC CREW COUNT	92.3	98.1	110.6	117.9	120.2	122.3	128.4	127.2	-5.86	-23.21
MINING										
MINERAL PRICES, 1986=100	103.2	105.6	109.2	108.2	112.2	129.0	127.4	124.2	-2.24	-8.03
METAL MINING EMPLOYMENT, 1985=100	184.1	184.3	185.2	192.9	198.1	197.5	199.0	196.6	-0.10	-7.05
CONSTRUCTION										
NONRESIDENTIAL AWARDS, 1985=100	103.7	93.1	103.5	106.8	100.2	111.4	111.6	123.9	11.46	3.50
RESIDENTIAL PERMITS	19253	18519	20675	17576	18219	22860	26468	31871	3.97	5.68
WESTERN HOUSING STARTS, THOUSANDS	19.4	24.1	25.5	15.6	18.6	29.1	31.2	30.7	-19.50	4.30
CONSTRUCTION EMPLOYMENT, THOUSANDS	987.2	1009.2	1018.5	1041.7	1043.0	1058.2	1068.5	1066.8	-2.18	-5.35
MANUFACTURING										
WAGES, CALIFORNIA, $/HOUR	12.0	11.9	11.8	11.7	11.7	11.5	11.4	11.3	0.50	2.66
EMPLOYMENT, THOUSANDS	2988.1	3014.7	3037.1	3081.4	3097.7	3124.8	3143.6	3158.3	-0.89	-3.54
DURABLES, 1985=100	94.9	96.1	97.0	98.4	99.7	101.3	102.2	103.0	-1.19	-4.80
CONSTRUCTION DURABLES, 1985=100	98.1	100.4	101.0	103.2	104.3	108.0	110.1	112.0	-2.27	-5.92
AEROSPACE, 1985=100	104.8	106.2	108.3	110.8	113.1	115.3	117.7	118.3	-1.32	-7.34
ELECTRONICS, 1985=100	88.7	89.9	91.3	92.2	92.4	92.7	93.1	93.8	-1.29	-3.93
SEMICONDUCTOR ORDERS, MILLIONS $, NOT S.A.	1395.4	1262.5	1296.1	1217.9	1206.9	1235.7	1236.6	1200.0	10.53	15.62
WHLS/RETAIL TRADE EMPLOYMENT, THOUSANDS	4771.2	4807.4	4810.9	4836.9	4823.7	4827.2	4805.6	4773.0	-0.75	-1.09
RETAIL SALES, PACIFIC DISTRICT, MIL. $	25012	25175	24949	24412	25138	25195	24979	24720	-0.65	-0.50
SERVICES EMPLOYMENT, THOUSANDS	5617.1	5605.1	5570.4	5547.7	5509.4	5474.7	5400.7	5320.3	0.21	1.95
HEALTH CARE, 1985=100	131.5	130.2	129.2	128.4	127.6	125.7	124.1	122.7	0.99	3.10
BUSINESS SERVICES, 1985=100	116.9	117.4	118.9	118.6	115.7	115.7	116.1	115.0	-0.38	1.07
HOTEL, 1985=100	138.6	137.3	137.5	138.2	139.7	136.3	135.0	133.5	1.00	-0.78
RECREATION, 1985=100	142.6	139.7	140.1	141.0	142.0	138.1	135.8	133.1	2.11	0.43
FINANCE, INSUR. AND REAL ESTATE EMPLOYMENT	1267.1	1268.9	1271.3	1274.5	1270.2	1269.7	1264.6	1256.2	-0.14	-0.24
GOVERNMENT EMPLOYMENT, THOUSANDS										
FEDERAL GOVERNMENT	612.5	618.3	614.9	619.8	616.7	636.4	655.0	629.0	-0.94	-0.69
STATE AND LOCAL	2896.4	2917.6	2879.1	2860.7	2833.1	2825.9	2777.9	2755.8	-0.72	2.24

Data are weighted aggregates of available 12th District state data and are expressed as monthly rates unless otherwise noted. District indicator data are constructed by FRBSF research staff from public and industry sources.

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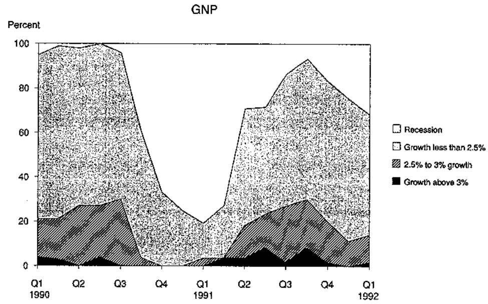
Research Department
Federal Reserve
Bank of
San Francisco
P.O. Box 7702
San Francisco, CA 94120

PERSONAL INCOME
ANNUALIZED PERCENT GROWTH RATES

	91Q3	91Q2	91Q1	90Q4	90Q3	ANNUAL GROWTH 1991*	1990	1989
ALASKA	2.2	-3.3	8.8	6.1	5.8	2.4	6.6	10.5
ARIZONA	4.8	3.9	6.4	3.3	6.5	5.0	6.1	5.7
CALIFORNIA	2.3	1.8	-0.7	4.4	6.3	1.1	7.5	7.1
HAWAII	3.3	4.1	4.7	8.9	12.4	4.0	11.0	11.1
IDAHO	1.9	11.3	-6.1	15.1	-1.0	2.1	8.5	10.2
NEVADA	3.6	5.1	3.0	4.5	12.8	3.9	9.8	13.0
OREGON	4.5	4.5	2.7	5.9	6.0	3.9	7.1	9.8
UTAH	5.0	8.3	4.9	6.7	9.3	6.0	8.6	7.5
WASHINGTON	2.2	5.1	2.3	8.3	7.7	3.2	8.6	10.4
12TH DISTRICT	2.7	2.8	0.6	5.2	6.7	2.0	7.7	7.8
U.S.	2.7	4.6	0.4	3.8	5.4	2.5	6.1	6.9

* Year-to-date

Twelfth District Business Sentiment*
GNP



* Expectations for national GNP growth during the next four quarters based on a survey of approximately 75 business leaders in the 12th Federal Reserve District.

NON-AGRICULTURAL EMPLOYMENT
ANNUALIZED PERCENT GROWTH RATES

	91Q4	91Q3	91Q2	91Q1	90Q4	ANNUAL GROWTH 1991	1990	1989
ALASKA	4.4	-4.4	-0.1	7.6	-0.9	1.9	3.6	5.4
ARIZONA	-2.0	4.3	-0.2	1.9	0.8	1.0	2.7	2.4
CALIFORNIA	-3.6	0.4	-1.5	0.5	-2.0	-1.0	1.1	3.3
HAWAII	2.8	0.8	0.3	0.5	3.3	1.1	3.1	6.4
IDAHO	3.5	0.7	-0.6	6.4	4.5	2.5	5.4	4.9
NEVADA	3.4	0.6	-3.6	0.4	6.6	0.2	6.9	8.0
OREGON	1.0	3.2	-2.4	3.5	0.7	1.3	2.3	4.0
UTAH	2.2	0.9	2.4	4.3	5.5	2.5	4.3	5.0
WASHINGTON	-0.9	-1.1	-2.4	3.7	2.8	-0.2	3.8	5.7
12TH DISTRICT	-2.1	0.7	-1.4	1.5	-0.3	-0.3	2.0	3.8
U.S.	-0.2	0.5	-1.2	-2.3	-1.4	-0.8	0.7	2.1

UNEMPLOYMENT RATES
AVERAGE QUARTERLY DATA

	91Q4	91Q3	91Q2	91Q1	90Q4	ANNUAL AVG. 1991	1990	1989
ALASKA	9.9	8.3	7.3	7.4	7.0	8.2	6.9	6.7
ARIZONA	7.4	5.2	4.6	5.3	5.5	5.6	5.3	5.2
CALIFORNIA	7.6	7.5	7.8	7.4	6.5	7.6	5.6	5.1
HAWAII	3.1	2.7	2.6	2.6	2.7	2.8	2.8	2.5
IDAHO	6.4	5.9	6.4	6.1	6.2	6.2	5.9	5.1
NEVADA	5.8	5.7	5.9	5.6	5.7	5.8	5.0	5.0
OREGON	6.6	5.8	5.8	6.1	5.9	6.1	5.5	5.7
UTAH	5.3	5.3	4.6	4.3	4.3	4.9	4.3	4.7
WASHINGTON	6.6	5.9	6.3	6.2	5.3	6.2	4.9	6.2
12TH DISTRICT	7.2	6.8	6.9	6.7	6.1	6.9	5.4	5.2
U.S.	7.0	6.8	6.8	6.5	5.9	6.7	5.5	5.3