

# FRBSF WEEKLY LETTER

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## 1995 District Agricultural Outlook

The record production of many crops during 1994 is expected to hold down overall farm prices and income in 1995. The impact on farm income should be most noticeable for growers of field crops and fruits, while conditions should be slightly better for vegetable and livestock producers. The recent storms and severe flooding in California damaged many important crops, adding an increased degree of uncertainty to the outlook for 1995.

This *Weekly Letter* adapts the U.S. Department of Agriculture's (USDA) national outlook to the unique characteristics of the agricultural economy in the Twelfth Federal Reserve District. In general, Twelfth District farmers will fare only slightly better than the national average in 1995. While this winter's heavy rains have eased drought conditions in most parts of the District, the resulting flooding in California caused substantial crop losses, although at this point the effect on overall farm income is still unknown. On a more positive note, overall agricultural exports should remain high, although the economic problems in Mexico will temper one source of the strong export growth the District enjoyed in 1994. On the congressional front, the agricultural sector could see a mix of eased regulations and cuts in farm programs, although the impact of any actions are likely to be minor in 1995.

### **Water**

Record precipitation fell in many parts of the District this winter. The rains eased drought conditions in Idaho, eastern Oregon, and eastern Washington, but caused severe problems in the Salinas and Central Valleys in California.

The January floods in California caused an estimated \$97 million in crop losses. Losses from the March storms are still unknown, but are likely to reach several times the January figure because of when and where the flooding occurred. Beyond the actual crop losses, much of the cost of the floods will come from the additional expense of draining fields and fighting an expected increase in crop diseases.

### **Trade**

U.S. agricultural exports are expected to reach a record \$45 billion in 1995, up 3.5 percent from 1994. Asian markets continue to expand and now account for about 40 percent of U.S. agricultural exports. U.S. agricultural exports to Mexico also have grown steadily in recent years and currently make up about 10 percent of total agricultural exports. The USDA forecasts exports to Mexico to rise 7.3 percent in 1995, but this figure was estimated before the Mexican economic troubles and the sharp decline in the value of the peso. Since the implementation of NAFTA in January 1994, District exports to Mexico have grown rapidly, but recent anecdotal information suggests that some current orders have been cancelled and future orders have been reduced. Idaho, Oregon, and Washington ship the largest shares of their agricultural exports to Mexico followed by Arizona and California.

The USDA forecasts the growth in exports to span a wider range of commodities than in the past several years. Exports of cotton and rice should increase slightly, but the absence of Japanese rice purchases this year will mean lower income growth for California rice farmers. Meat exports to Asian markets will remain strong, but the growth in sales to Mexico has already begun to slow. Likewise, 1995 should bring record fruit and vegetable exports to Asia, but exports to Mexico will be sluggish.

### **Congress**

Changes in congressional leadership will have a mixed effect on the longer-term outlook for District farmers. In 1995, the general move to reduce the size and scope of government could bring a reduction in regulatory burdens facing farmers, but also sharp cuts in federal farm programs. Any lowering of the regulatory burden on farmers should help District farmers relatively more than farmers in other areas because of the District's comparatively larger share of federal lands and endangered species actions. Reform of the Endangered Species Act will be considered in 1995, but the extent of the changes may be limited.

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In addition to regulatory reform, cuts in USDA spending, especially on commodity programs, are being discussed. District farmers receive relatively less government support than farmers in other parts of the nation. In 1993, the share of gross farm income that came from government payments was 2.9 percent in the District, compared with 4.9 percent in the U.S. as a whole. As a result, the cuts in USDA spending should lower District agricultural income relatively less than in other areas. Some of the income losses from the California floods will be limited by federal disaster relief payments.

## **The 1995 outlook for specific commodities**

*Field crops.* Export demand is expected to remain high for many District field crops, but prices for some important crops will be lower because of higher production. As a result of the lower prices, income for District field crop producers should come down slightly from last year's strong levels.

This fall, potato production was up 4 percent in the western states, which account for two-thirds of the U.S. crop. Potato prices in January were down over 20 percent from a year earlier, but prices are not likely to fall much further during 1995 because of strong processor demand. Record rice production has pushed rice prices sharply lower. In California, rice production in 1994/95 is expected to increase 14 percent because of increased acreage and higher yields.

Current cotton prices are at the highest level since 1984 and are expected to remain strong because of robust demand. District farmers will have less cotton to sell at the higher prices as production is forecasted to fall 1 percent in Arizona and 7 percent in California this season. Wheat production is expected to be off sharply in Idaho, Oregon, and Washington, but rising wheat prices will limit income losses.

Rice exports are forecasted to rise by about 13 percent in 1995, but the absence of purchases by the Japanese this year and the resulting lower export prices will make income gains more modest. Last year California rice farmers exported about one-third of their crop to Japan. Cotton exports will be boosted this year by continued strong sales to China, although sales to Mexico, which had been expanding rapidly, are likely to slow somewhat.

*Vegetables.* Flood damage in California adds substantial uncertainty to the outlook for vegeta-

ble producers in 1995. The outlook for the entire year depends on how soon production recovers, since many of the affected crops are harvested year-round. Vegetable growers who can produce will see strong fresh market conditions. Prices for processing vegetables are expected to remain low, however. Strong growth in vegetable exports, especially to Asian countries, is expected.

Much of the lettuce crop grown in California's Salinas Valley was destroyed in the March floods. Lettuce prices are likely to remain high for the next several months depending on production in Arizona, Southern California, and the production recovery in the Salinas Valley. California's broccoli and cauliflower crops also were heavily damaged in the floods. Much of the artichoke crop was wiped out by the March floods in Monterey and neighboring counties.

Increased production of District processing vegetable crops will weaken prices through the first half of 1995. In Washington, green pea production expanded 30 percent in 1994, and prices, which are currently down 20 percent from a year ago, are expected to remain low through the summer. Snap bean prices also are expected to remain low into 1995. California's processing tomato crop, which accounts for 92 percent of U.S. production, continues to expand in response to record levels of processor demand.

Exports of vegetables are forecasted to reach another record level in 1995. Canada remains the largest market for U.S. vegetable exports, but other areas show considerable growth. Rising Japanese purchases of asparagus, broccoli, and cauliflower will provide a boost to California growers. Processed vegetable products also are expected to find expanded markets in Asia and Mexico.

*Fruits and nuts.* High production of many District fruit and nut crops was expected to push prices and incomes in 1995 below last year's levels. The effects of the California floods on several important tree crops are likely to limit overall production gains this year. Income is still likely to be lower in 1995 as replacing damaged trees and dealing with the effects of flooded fields adds substantially to farmers' costs. Exports will continue to expand to Asian markets, but sales to Mexico, which had been expected to rise rapidly, will be sluggish.

U.S. apple production in 1994 hit a record level, with production up 10 percent in Washington

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and 5 percent in California. In Washington, the amount of apples in cold storage at the end of 1994 was 12 percent above a year earlier. Apple prices were down 15 percent this past fall and will remain low through the spring. Similarly, increased pear production during 1994 will keep prices low into 1995.

Increased Florida orange production this winter will keep orange prices low in 1995; currently, they are 23 percent below a year earlier. Navel orange production in California is expected to increase just slightly from last season, and production in Arizona is forecasted to fall. Heavy rains and flooding in California in December and January stretched out the orange harvest and helped smooth the normal seasonal drop in prices.

January's flooding caused an estimated \$8.5 million of damage to the strawberry crop in Ventura County. The effects of the March floods on Monterey County's larger strawberry crop are expected to be several times higher. In the Central Valley, tree crop production will be lower, because acres of almond trees were lost to high winds and because flooded orchards portend an increase in tree diseases. Flood waters also filled vineyards in Napa and Sonoma counties, but the effects on wine grape production are still unknown.

Export markets for fruit and nut crops have been expanding rapidly, but problems in Mexico dampen the outlook for District growers. Fruit exports to Asia continue to boom. Japan finally will allow U.S. apples to enter its market in 1995. Strong growth in apple and pear exports to Mexico was expected in 1995, but actual exports will fall far short of those expectations.

*Livestock and dairy.* Income for District livestock and dairy producers will remain close to last year's levels, as improving prices for cattle producers offset weakening conditions for dairy farmers.

Beef supplies remain high, but prices are expected to rise during 1995. Production costs should be

lower this year, as feed grain prices remain low and pasture and range conditions improve. Flooding caused the loss of over 700 head of cattle in California, with most of the loss reported in Humboldt County.

Dairy production is forecasted to expand in 1995. Milk production is expected to increase about 2 to 3 percent in 1995, as higher yields from increased use of the hormone bST offset a small decline in the size of the milk cow herd. As a result, milk prices are forecasted to fall about 6 to 8 percent in 1995.

Beef exports will continue to expand in 1995, as strength in Asian markets offsets weaker demand from Mexico. Japan is expected to remain the leading market for U.S. red meat exports in 1995. Beef exports to Mexico had grown rapidly since the enactment of NAFTA, but growth in 1995 will be limited. Some reports from Arizona and California indicate that beef exports to Mexico dropped substantially after the Mexican economic crisis began.

#### **The bottom line**

In 1995, the District agricultural economy will be hard pressed to repeat 1994's strong performance. Income gains will be minimal, as relatively strong conditions for vegetable growers barely offset weaker returns to field crop and fruit producers. Severe flooding in California in January and March adds substantial uncertainty to the outlook. Production of several vegetable crops will be sharply lower in the next several months. Effects for 1995 as a whole depend upon the speed and cost of returning the damaged fields to production. Storm-related damage also will limit production and raise costs for growers of several important fruit and nut crops in California. District agricultural export growth should continue to expand overall, although the rapid growth in exports to Mexico will slow markedly. Changes in regulations and government spending should benefit District farmers on balance.

**Stephen O. Dean**  
Associate Economist


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# Research Department Federal Reserve Bank of San Francisco

P.O. Box 7702  
San Francisco, CA 94120

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