

Federal Reserve Bank of Dallas May 1984

Texas Farmers' Planting Intentions: Good Guides To Acres Planted?

The U.S. Department of Agriculture (USDA) surveys farmers every winter regarding acres of crops to be planted in the spring. These intentions are published early enough that farmers can refigure their plans in light of other farmers' prospective plantings. Actual plantings do vary from intentions. Simple econometric models predict that in 1984, farmers in Texas will plant 10.1 percent more cotton, 21.7 percent less corn, and 1.4 percent less sorghum than they originally intended.

Planting intentions and farmer options

The USDA surveyed some 40,000 growers nationwide in late January of 1984. The planting intentions report was released February 16, before the sign-up period for the government acreage reduction program ended and well before planting. Using this planting information, farmers have the opportunity to alter their production strategy. For example, if the nationwide planting intentions for corn show another bin-busting record crop, some farmers planning to plant corn may decide that corn prices will be depressed and—if they have the proper equipment, conditions, and experience—may switch to another crop.

In an economic information sense, it would be surprising if planting intentions were exactly realized. In 1976, Texas corn farmers planted 26 percent more acres to corn than they had indicated only a few months before. Conversely, a year later Texas corn farmers planted only 90 percent of originally in-

tended acres. It can easily become a gaming situation for the farmer, trying to figure out what other farmers will do after learning of the planting intentions estimates.

1984 Planting intentions and actual plantings

To estimate the impact of this year's Texas planting intentions on actual acres planted, the Federal Reserve Bank of Dallas research staff constructed some small econometric models. These models, using data for 1976 through 1983, predict actual acres planted for a given crop based on the intentions of Texas and U.S. farmers. These models track well, generally predicting for the 1976-83 period within 3 percent of actual plantings.

The 1984 Texas planting intentions for cotton, sorghum, and corn are 5.0,

4.0, and 1.7 million acres, respectively. The models predict 5.5, 3.9, and 1.3 million acres will actually be planted. Many analysts believe the USDA's Texas cotton planting intentions are too low. The results here suggest that farmers will adjust their plantings upward by 10 percent. The model suggests that large national planting intentions for corn in 1984 will play a major role in causing Texas farmers to reduce their actual plantings of corn by 22 percent. Actual plantings of sorghum should about mirror intentions. However, it should be kept in mind that the weather, availability of production inputs, and changing market conditions also play a role in making actual plantings different from intentions.

—Hilary Smith
—Steve Prue

Farm Workers Covered By Workers' Compensation

On February 23, 1984, a district court judge ruled that farm and ranch workers cannot be excluded from protection under Texas workers' compensation law. As a result, farmers and ranchers are obtaining workers' compensation insurance policies that provide benefits to agricultural workers injured on the job. This threatens to increase Texas agricultural production costs measurably for commodities requiring relatively large amounts of labor. The burden, however, will be eased as portions are shifted to consumers and middlemen through higher product prices and to

farm workers through reduced wages and employment opportunities. With this shifting and the low labor-cost share of most Texas crops, the ruling will not have a major financial effect.

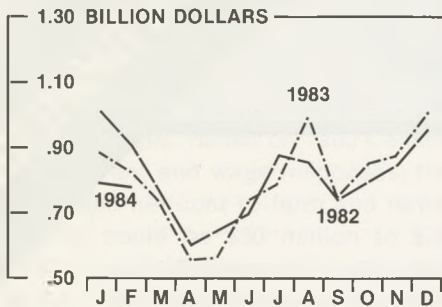
Program administration and costs

Before the court decision, injuries to agricultural workers were covered by an owner's general liability insurance. Only injuries resulting from an owner's negligence were in the scope of the policy. Workers' compensation differs in that all injuries, regardless of fault, are covered. Consequently, premiums

(Continued on back page)

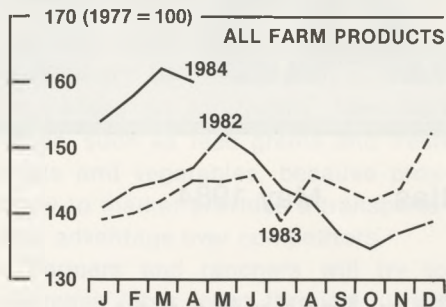
PRIME INDICATORS OF THE TEXAS AGRICULTURAL ECONOMY

TEXAS CASH RECEIPTS



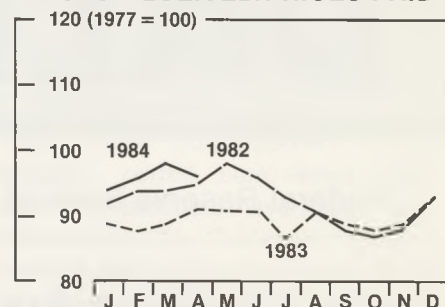
SOURCE: U.S. Department of Agriculture.

INDEX OF PRICES RECEIVED: TEXAS



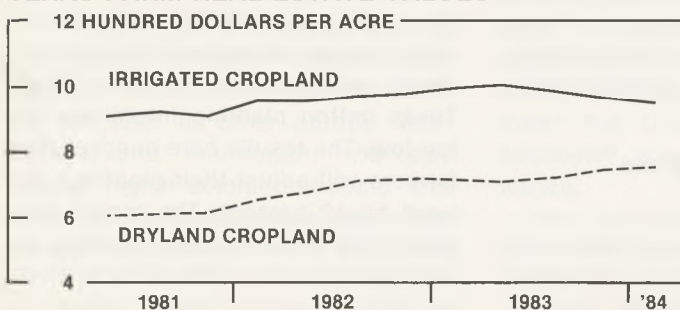
SOURCE: U.S. Department of Agriculture.

PRICES RECEIVED/PRICES PAID¹



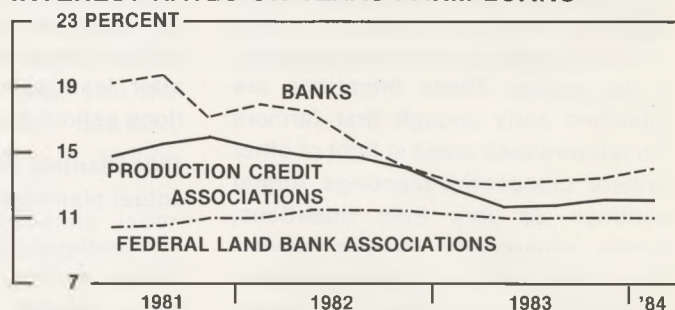
1. Prices received by farmers in Texas divided by prices paid by farmers nationwide (No separate series exists for prices paid in Texas).
SOURCES: U.S. Department of Agriculture.
Federal Reserve Bank of Dallas.

TEXAS FARM REAL ESTATE VALUES¹



1. 3 quarter centered moving average.

INTEREST RATES ON TEXAS FARM LOANS¹

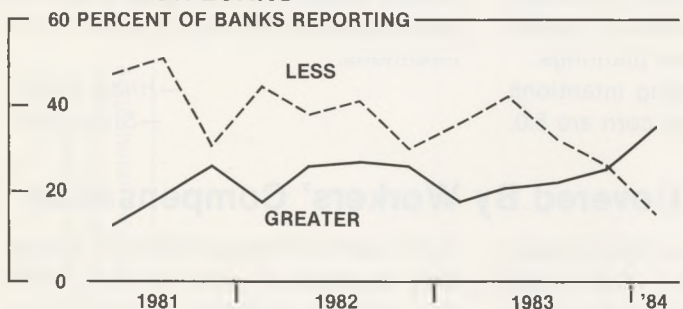


1. FLBA rates are for farm real estate loans.

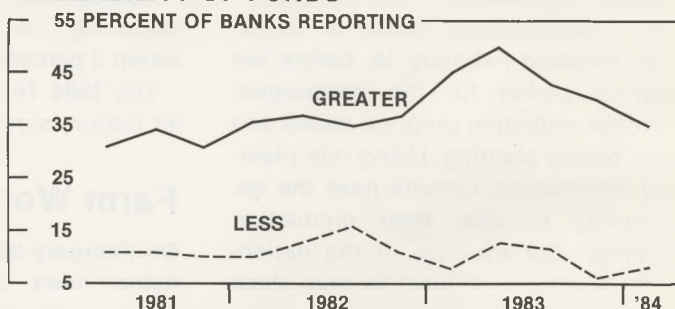
ELEVENTH DISTRICT AGRICULTURAL LOANS

Bankers report whether the variable is "greater," "the same," or "less" than a year ago. Percent reporting "greater" or "less" are depicted below.

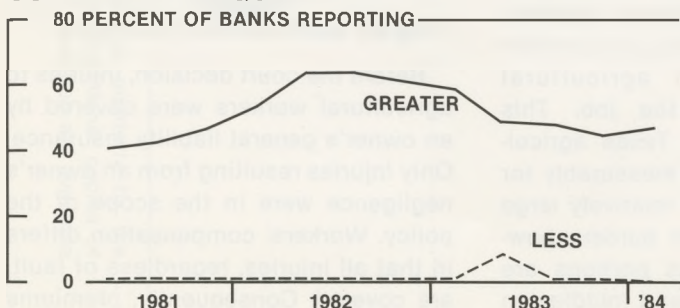
DEMAND FOR LOANS



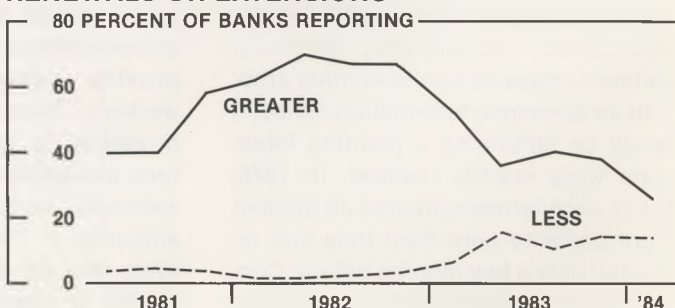
AVAILABILITY OF FUNDS



COLLATERAL REQUIRED



RENEWALS OR EXTENSIONS



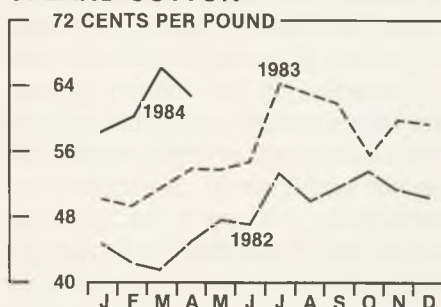
AGRICULTURAL BRIEFS

Higher interest rates, less rain, good outlook for cattle and cotton

- Interest rates charged by District banks on loans to agricultural borrowers continued to increase during the first quarter of 1984. The average interest rate reported in the April 1 Quarterly Survey of Agricultural Credit Conditions conducted by the Federal Reserve Bank of Dallas was 14.08 percent, or 60 basis points over the previous quarter. This rise was in line with the recent upward movements in interest rates in national credit markets because of increased loan demand.
- Drought indexes show the drought that afflicted West Texas last year was not really broken by the wet autumn weather. Moderate drought still exists in some parts of South and Far West Texas. The drought area is not a major cropping region of the state, but many hard-pressed farmers in the drought area need a good year just to stay in business. At this stage, a few adequate rains could change the outlook considerably.
- The April "Cattle on Feed" report shows that cattle on feed nationally declined 5.7 percent from January 1. Marketing intentions for the second quarter, however, declined only 0.4 percent over the same period, suggesting that the flow of fed beef to market will be little changed in the coming months. If the supply of nonfed cattle (dairy and pasture- or range-fed cattle) falls, as some analysts predict, and second-quarter fed cattle marketing intentions are realized, then cattle prices may move higher than current levels.
- The outlook for Eleventh District cotton producers continues bright, with moderately increasing domestic consumption and brisk export demand. Acreage planted to cotton has rebounded from reductions brought on by the payment-in-kind program. Despite the increase in plantings, the December 1984 cotton futures price is in the range of 73 to 78 cents per pound. This level of futures prices indicates expectations that District cotton prices will be at profitable levels through harvesttime.

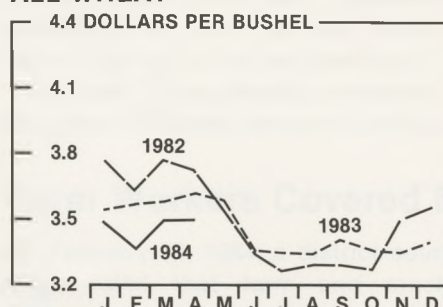
TEXAS COMMODITY MARKET PRICES

UPLAND COTTON



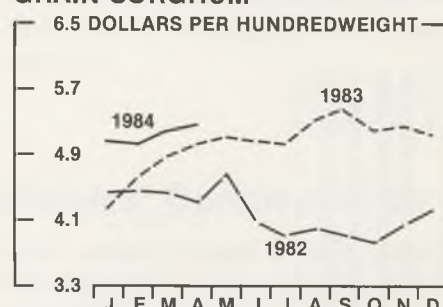
SOURCE: U.S. Department of Agriculture.

ALL WHEAT



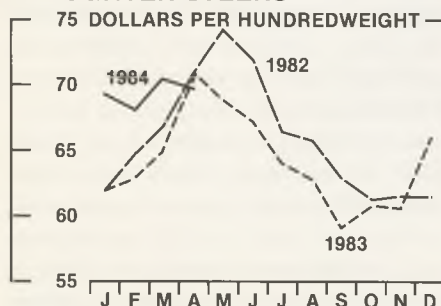
SOURCE: U.S. Department of Agriculture.

GRAIN SORGHUM



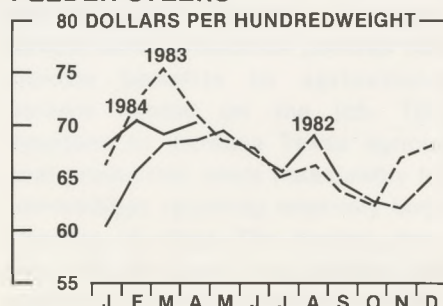
SOURCE: U.S. Department of Agriculture.

SLAUGHTER STEERS



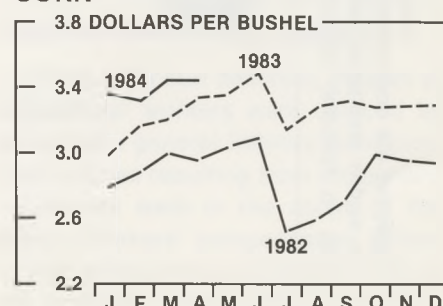
SOURCES: Texas Department of Agriculture, Federal Reserve Bank of Dallas.

FEEDER STEERS



SOURCES: Texas Department of Agriculture, Federal Reserve Bank of Dallas.

CORN



SOURCE: U.S. Department of Agriculture.

Farm Workers (cont.)

are higher for workers' compensation than for general liability insurance.

The rate for coverage under workers' compensation varies depending on the job category. For most agricultural employees the premium is \$6.56 per \$100 of wages. Based on 1980 Census employment and wage responses, the estimated net cost to farm and ranch owners could be \$30 million to \$35 million, about 5 percent of total labor costs. This includes savings from dropping employee coverage under general liability insurance.

Shifting of costs

While the farm or ranch owner pays the actual workers' compensation premium, the burden is shared by shifting the cost to other parties. Consumers and middlemen will pay through higher commodity costs, and farm workers through lower wages and reduced employment. The extent of

this shifting will vary by crop. Because cotton and beef compete in national and world markets, for example, it is unlikely that increased costs of production will be passed on. Costs can be passed on for locally consumed crops, such as feed grains and fresh fruits and vegetables, because proximity to market provides a transportation advantage over competitors.

Farmers and ranchers will try to decrease labor input through further mechanization or reduced wages. Success in these attempts depends on the sensitivity of labor to wage changes. Where labor is relatively scarce or has other employment opportunities, a wage reduction probably will not work. In high-unemployment areas like the lower Rio Grande Valley, however, employers may be able to reduce wages.

The incentive for reducing labor costs increases with a higher labor

proportion of total production costs. For Texas farming the labor-cost shares for fruits and vegetables, broilers, and eggs are high, ranging from 25 to 50 percent. About 20 percent of agricultural cash receipts come from these commodities. Grain sorghum, cotton, corn, wheat, beef, and dairy products have lower labor-cost shares, 10 to 15 percent. These six commodities account for most of the remaining 80 percent of Texas cash receipts. The lower labor costs for the state's major crops, combined with the farm or ranch owner's ability to shift those costs, are likely to mute the overall financial effect of workers' compensation for Texas agriculture.

—Roger Dunstan



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