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# Agriculture

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## AN EIGHTH DISTRICT PERSPECTIVE

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WINTER 1985

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### Increased Production and Lower Net Income Loom Ahead for Agriculture

Large world supplies of all major commodities and continued moderate demand growth point to a small decrease in 1985 for the average price of all U.S. farm products. Although receipts from product marketings likely will rise because of increased sales volume, larger increases in production expenses suggest a decline in U.S. net farm income. In this issue of *Perspective*, we review these projections and specific commodity forecasts for the coming year as presented recently at the U.S. Department of Agriculture's 61st Annual Outlook Conference.

#### Farm Income

The index of prices received for all farm products is expected to decline 0 to 4 percent in 1985 as small increases in red meat prices are offset by larger average declines in crop prices. Based on expectations of slightly higher crop and livestock marketings and these price trends, cash receipts for all farm products should range between \$142-47 billion, an increase of between 1 and 5 percent over 1984 values. Smaller government payments and higher production expenses, however, are likely to put nominal net farm income between \$19 and \$24 billion, near 1982 levels. Moreover, as the data in chart 1 indicate, this income level translates to real farm income between \$8 and \$10 billion, about one-half of 1981's real income.

#### Red Meat

Cattle and hog producers are expected to benefit in 1985 from lower feed costs and higher meat prices resulting from 1984's herd liquidations and the smaller supplies they imply for this year. Both beef and pork production should average 3 percent less than 1984. The effects of these declines on prices will be moderated, however, by the continuing downward trend in per capita red meat consumption; in 1985, consumption is expected to fall another five pounds (3.5 percent) to an average of 138 pounds per capita.

In light of these factors, hog prices should range between \$48-52 per cwt. in the first quarter of 1985 and increase to between \$51-55 per cwt. in the third quarter before returning to the \$48-52 range in the fourth quarter. Fed steer prices are expected to peak near \$70 per cwt. in the second quarter before declining seasonally in the second half of the year to \$65-69 per cwt. These increases imply 2 to 4 percent increases in the retail prices of beef and pork, most of which will occur in the third and fourth quarter.

#### Soybeans

With planted acreage of 68.5 million acres and trend yields near 31 bushels per acre, the 1985 soybean crop would be near 2.1 billion bushels. Although past years have seen planted acreage affected by provisions of the corn program and crop shifting between corn and soybeans, the extent of this shifting is expected to be minor this year. In fact, recent years have shown the size of the soybean crop to be much more sensitive to yields than to planted acreage. At this time, however, without any good indication of weather patterns and yields, a crop slightly below 2.1 billion bushels is expected. A harvest of this size would put soybean meal prices near a \$155/ton (about \$6.50/bu.) average for the 1984-85 season.

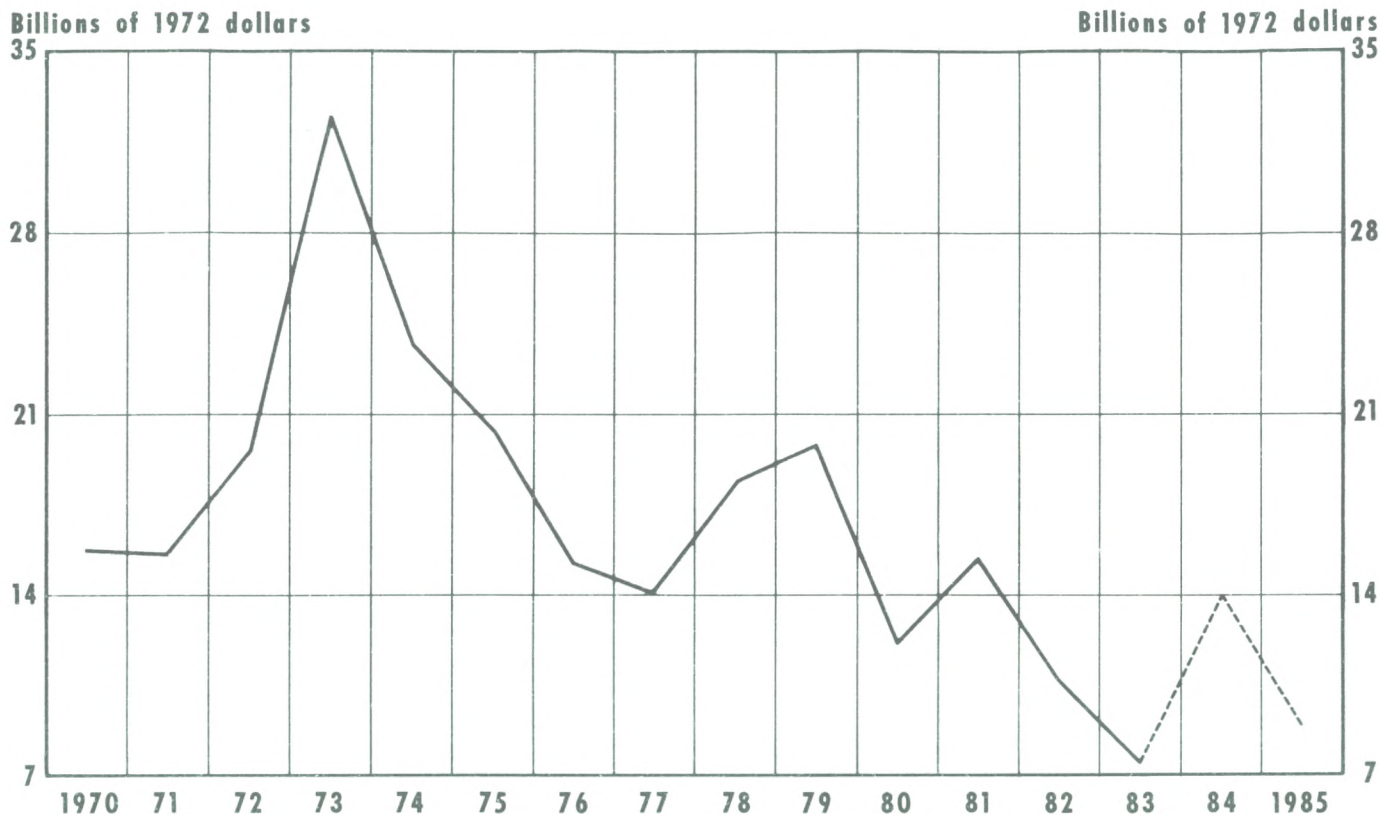
#### Coarse Grains

U.S. coarse grain (corn, sorghum, barley and oats) production is expected to be 789.3 million tons in the 1984-85 crop year, about 100 million tons more than the 1983-84 level associated with PIK and the drought. Prices, however, will be affected by a variety of offsetting factors. Increased livestock feeding and export demand, on one hand, will contribute to higher prices, but an expected 14 percent increase in world production and more substitution of less expensive wheat in livestock feeding will offset some of these price gains. In view of all conflicting supply and demand shifts, corn prices should





# Real Net Farm Income



NOTE: Dashed line represents projected real net farm income.

range between \$2.65-2.95 per bushel, down from the \$3.20 average price for the 1983-84 crop year.

## Wheat

The expectation for another large (2.6 billion bushel) crop in 1985 and no significant increase in export demand points to wheat prices only slightly above the \$3.30/bu. loan rate. Consistent with these supply-demand projections is a deficiency payment at the \$1.08 per bushel maximum provided by current law.

## ADDITION OF AGRICULTURAL FINANCE DATA

This issue introduces a new set of Eighth District agricultural finance data to replace the annual crop production data formerly on page 4. The change reflects the importance of both debt usage by farmers and the volume of

farm loans made by District lenders.

The non-real estate farm debt and farm interest rate sections provide detail on the two most important sources of operating loans for farmers: commercial banks and Production Credit Associations (PCAs) of the Farm Credit System. PCA interest rates are not adjusted for stock purchase requirements which can cause the effective rates to be from .5 to 1.5 percentage points higher depending on the provisions of individual PCAs. Interest rate data are not available for the same date. The section on agricultural loan performance tracks the record of farm borrowers at commercial banks. The first of two performance indicators measures the proportion of farm loans that are overdue a minimum of 30 days. These are loans that have not yet been "written off" by banks, but this information provides a rough indication of expected future losses. The remaining new section compares the actual "write offs" of loans by agricultural banks over the last two years.

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## EIGHTH DISTRICT AGRICULTURAL DATA

<u>Prices and Costs<sup>1</sup></u>	Sept. 1984	Oct. 1984	Nov. 1984	Average for 1983	Percent Change	
					Year-To-Date 1984 <sup>2</sup>	Same Period Year Ago
CONSUMER PRICE INDEX (% change)						
Nonfood	0.4%	0.4%	0.2%	0.3%	3.8%	4.1%
Food	-0.3	0.4	0.1	0.2	3.4	3.9
PRODUCTION COSTS FOR FARMERS (% change)						
All inputs	-0.6	-0.6	0.0	0.3	-1.3	-0.6
Fertilizer	0.0	-4.1	0.0	-0.2	3.7	5.2
Agricultural chemicals	0.0	0.0	0.0	0.3	2.4	2.4
Fuels and energy	0.5	0.5	-0.5	-0.3	-0.5	-1.5
PRICES RECEIVED BY FARMERS (% change)						
All products	-2.8	-0.7	-0.7	0.8	-2.1	1.5
Livestock	-1.4	-1.4	2.9	0.3	0.0	5.1
Crops	-5.6	1.5	-5.8	1.6	-4.4	-3.0
FEEDER CATTLE						
Wholesale price - Kansas City (\$/cwt.)	\$63.98	\$65.06	\$65.42	\$63.71	2.8	7.2
FEEDER PIGS						
Wholesale price - So. Missouri (\$/head)	\$34.95	\$33.23	\$35.72	\$33.96	29.2	45.6
BROILERS						
Wholesale price - 12-city (¢/lb.)	53.54¢	48.77¢	52.14¢	50.39¢	-8.7	-9.5
TURKEYS						
Wholesale price - New York, 8-16 lb. young hens (¢/lb.)	76.18¢	82.61¢	91.59¢	60.48¢	21.8	37.9
CORN						
Wholesale price - No. 2, yellow - St. Louis (\$/bu.)	\$ 3.09	\$ 2.84	\$ 2.77	\$ 3.27	-19.7	-21.5
SOYBEANS						
Wholesale price - No. 1, yellow - Central Illinois (\$/bu.)	\$ 6.21	\$ 6.27	\$ 6.21	\$ 7.06	-20.1	-24.3
WHEAT						
Wholesale price - No. 1, hard winter - Kansas City (\$/bu.)	\$ 3.89	\$ 3.86	\$ 3.85	\$ 3.95	0.0	0.8
LONG-GRAIN RICE						
Wholesale price - Arkansas (\$/cwt.)	\$18.25	\$18.25	\$18.25	\$18.40	-3.9	-3.8
COTTON						
Average price received by U.S. Farmers (¢/lb.)	64.60¢	64.60¢	66.00¢	62.86¢	-0.3	-1.5
					Percent Change	
<u>U.S. Exports</u>	July 1984	Aug. 1984	Sept. 1984	Average for 1983	Year-To-Date 1984 <sup>2</sup>	Same Period Year Ago
Corn (mil. bu.)	130.0	136.0	109.0	157.6	-38.1	-24.5
Soybeans (mil. bu.)	39.1	30.6	18.9	69.5	-74.6	-64.9
Wheat (mil. bu.)	138.0	148.0	245.5	125.7	86.7	90.8
Rice (rough equivalent, mil. cwt.)	4.8	5.7	8.1	5.9	60.5	-6.7
Cotton (thou. bales)	387.9	478.7	279.8	459.7	-57.8	-17.5
<u>Receipts<sup>3</sup></u>						
CROPS (millions of dollars)						
United States	\$5,706	\$5,801	\$5,429	\$5,851	-0.2	-7.4
District (seven-state total)	1,076	875	1,059	1,277	1.6	-19.5
LIVESTOCK (millions of dollars)						
United States	5,588	5,766	5,499	5,771	-8.3	-1.2
District (seven-state total)	889	877	870	934	-12.8	-2.0



**Non Real Estate Farm Debt Outstanding (millions of dollars)**

	<b>Banks</b>			<b>PCAs<sup>4</sup></b>		
	<b>9/84</b>	<b>Percent Change From</b>		<b>9/84</b>	<b>Percent Change From</b>	
		<b>9/83</b>	<b>9/82</b>		<b>9/83</b>	<b>9/82</b>
U.S.	41,625	6.4%	12.4%	19,410	-5.1%	-13.7%
Eighth District <sup>5</sup>	3,212	10.5	18.1	NA	NA	NA
Arkansas	628	21.0	23.4	463	7.7	-14.1
Kentucky	740	10.9	12.6	403	-13.3	-34.6
Missouri	1,545	1.4	9.3	447	-4.3	-16.1
Tennessee	398	0.8	4.5	368	-14.0	-31.5

**Agricultural Production Loan Interest Rate<sup>6</sup>**

	<b>Banks</b>		<b>PCAs</b>	
	<b>11/7/84</b>	<b>11/7/83</b>	<b>10/1/84</b>	<b>10/1/83</b>
	Eighth District Average	13.3%	12.9%	13.0%

**Agricultural Bank Loan Performance<sup>7</sup>**

	<b>Percent of Overdue Farm Loans at Agricultural Banks</b>		<b>Percent of Net Loan Charge-Offs at Agricultural Banks</b>	
	<b>9/84</b>	<b>9/83</b>	<b>9/84</b>	<b>9/83</b>
	U.S.	2.6%	2.3%	.68%
Eighth District <sup>5</sup>	3.0	2.4	.56	.39
Arkansas	1.3	2.2	.33	.28
Kentucky	3.1	2.3	.48	.56
Missouri	3.9	2.7	.91	.53
Tennessee	2.7	3.3	.90	.76

<sup>1</sup> The consumer price index and its components are seasonally adjusted. All other data are not seasonally adjusted.

<sup>2</sup> Percent change from December 1983, based on the most recent month available.

<sup>3</sup> Data for receipts are seasonally adjusted by this Bank.

<sup>4</sup> Source: Farm Credit Banks of Louisville and St. Louis.

<sup>5</sup> Includes all of AR and parts of IL, IN, KY, MO, MS and TN.

<sup>6</sup> Interest rate data are for different dates. PCA rates are weighted averages for Arkansas and Missouri, not adjusted for stock purchase requirements. Source: Farm Credit Banks of St. Louis.

<sup>7</sup> Agricultural banks are defined as those with more than 25 percent of total loans in agricultural loans.