
Agriculture

AN EIGHTH DISTRICT PERSPECTIVE

WINTER 1986

The Outlook for Agriculture in 1986

To understand the outlook for agriculture in 1986, it is instructive to look at the sector's status at the end of 1985. Bumper harvests, not only in the U.S. but around the world, produced large additions to U.S. surplus stocks and a worldwide decline in agricultural trade; it is now estimated that crop supplies in the U.S. at the end of 1985 will far exceed total usage during 1986. Livestock prices were relatively weak in 1985 as a number of factors led to a larger slaughter of heavier animals. Overall, most farm prices declined in 1985 and, as a consequence, real net farm income fell from \$15.5 billion in 1984 to an estimated \$11 to \$13 billion in 1985, near its 1982 value. With falling commodity prices and income, real farm asset values fell by 4 to 8 percent. Finally, at the time official price and production forecasts were released by the U.S.D.A. in early December, Congress had not yet passed new farm legislation which, of course, could have substantial effects on prices, output and income. In this environment of uncertainty, we report brief summaries of the outlook for farm income and major commodities in 1986.¹

Farm Income

The table on the next page shows that, except for a one-time increase in 1984 associated with inventory rebuilding after PIK, real net farm income continues along its persistent secular decline. Although forecasts for 1985 and 1986 place real net farm income near \$11 billion, only slightly below the \$11.9 billion figure for 1982, several important changes in the composition of farm income must be noted. While production expenses have been fairly constant since 1982, cash receipts from product marketings have declined about 5 percent and direct government payments have more than

doubled to between \$6 to \$10 billion. In fact, net outlays for price support programs are estimated to be \$16.8 billion for 1985, only slightly lower than the record of \$18.9 billion in 1983. Moreover, with bin-bursting stock levels, it is reasonable to expect a larger share of farm income to be derived from government support in 1986.

Crops

For both feed and food grains, stocks in excess of pre-PIK levels and uncertainty concerning potential reductions in loan rates and target prices dominate the outlook. With an expected 4 percent increase in world coarse grain production over this year's record level and world wheat production only slightly below the previous record high, world grain trade continues to decline, and price competition among exporters is keen. So long as the U.S. loan rate serves as an effective price floor, many U.S. producers will find it more profitable to place grain under loan while foreign producers expand exports by selling below the U.S. loan rate. Moreover, if acreage reduction programs are employed to retard growth in U.S. stocks and to minimize the costs of price support programs, U.S. exports of the major grains will continue to decline. Finally, it is important to note that, despite a 20 percent decline in the value of the dollar since March, grain exports have been flat or declining, and it is expected that grain exports in 1986 will be at or below the levels of a decade ago.

Red Meats and Poultry

Cattle prices and beef production have been dominated in recent years by producers holding cattle on feed longer in anticipation of higher prices. The higher prices failed to materialize and resulted in large inventories of overweight cattle. Thus, despite reduced slaughter numbers, beef production

¹These forecasts are taken from printed materials distributed at the U.S. Department of Agriculture's Annual Outlook Conference held in Washington, D.C., from December 3-5, 1985. Some important Eighth District commodities are not included in the summary because printed copies of the relevant outlook speeches were not distributed.



1986 Farm Outlook Summary

	Year ^A				
	1982	1983	1984	1985 ^F	1986 ^F
Farm Income (\$ bil.)					
Net	24.6	15.0	34.5	25 - 29	22 - 26
Real net (\$1972)	11.9	7.0	15.5	11 - 13	9 - 11
Commodity Prices					
Corn (\$ per bu.)	2.68	3.38	2.65	2.65	2.35 - 2.55
Wheat (\$ per bu.)	3.55	3.56	3.38	3.05 - 3.25	3.00 - 3.20
Soybean meal (\$ per ton)	182.52	187.19	188.21	125.40	120 - 150
Choice Fed Steers (\$ per cwt.)	64.22	62.37	65.34	58.00	65.00
Retail-choice beef (\$ per lb.)	2.43	2.38	2.40	2.33	2.40
Barrows and gilts (\$ per cwt.)	55.07	47.33	48.86	44.50	45 - 48
Retail-pork (\$ per lb.)	1.75	1.70	1.62	1.62	1.68
Broilers (¢ per lb.)	0.28	0.29	0.57	0.50	0.50

^A For corn, wheat and soybean meal, the years are marketing years; for example, the figures for 1986 actually apply to the 1985-86 marketing year.

^F Denotes forecast.

increased. At the same time, poor returns to hog producers have led to sharp reductions in breeding inventories despite low feed costs. In contrast, poultry production was up 5 percent in 1985.

With a continuation of changes in production costs and consumer demand that favor poultry over red meats, poultry production is expected to expand 4 percent in 1986 while red meat output will remain unchanged. As the data in the table indicate, these production levels imply some increase in cattle and hog prices, but little change in retail red meat prices. Broiler prices are expected to hold near their current levels.

farm debt are expected to reduce the volume of outstanding farm debt 3 to 4 percent in 1985, with further reductions expected for 1986. Real estate debt is expected to fall between \$2 to \$7 billion in 1985, the largest annual decline since 1944, while nonreal estate debt should fall \$1 to \$5 billion. The largest declines will be at Federal Land Banks and PCAs, respectively, while FmHA and, to a lesser extent, commercial banks expand market share. Return to assets for farmers is expected to be unchanged at about 4.3 percent in 1985, while total return to equity is expected to fall slightly. For 1986, equity is expected to fall again while debt/asset ratios rise slightly.

Farm Credit

Farmer paydowns of existing debt and write-offs of bad

—Michael T. Belongia

Agriculture—An Eighth District Perspective is a quarterly summary of agricultural conditions in the area served by the Federal Reserve Bank of St. Louis. Single subscriptions are available free of charge by writing: Research and Public Information Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, Missouri 63166. Views expressed are not necessarily official positions of the Federal Reserve System.

EIGHTH DISTRICT AGRICULTURAL DATA

<u>Prices and Costs¹</u>	Sept. 1985	Oct. 1985	Nov. 1985	Average for 1984	Percent Change	
					Year-To-Date 1985 ²	Same Month Year Ago
CONSUMER PRICE INDEX (% change)						
Nonfood	0.2%	0.3%	0.5%	0.3%	3.7%	3.9%
Food	0.3	0.2	0.9	0.3	1.0	1.4
PRODUCTION COSTS FOR FARMERS (% change)						
All inputs	-1.3	0.0	0.7	-0.1	-2.0	-2.6
Fertilizer	0.0	-3.7	0.0	0.2	-6.5	-7.8
Agricultural chemicals	0.0	0.0	0.0	0.2	-0.8	-0.8
Fuels and energy	0.0	-0.5	1.5	-0.1	3.5	2.5
PRICES RECEIVED BY FARMERS (% change)						
All products	0.0	1.7	-2.4	-0.3	-6.7	-7.4
Livestock	0.0	4.7	3.0	0.1	-4.8	-3.5
Crops	-1.8	-0.9	2.7	-0.7	-8.8	-11.6
FEEDER CATTLE						
Wholesale price - Kansas City (\$/cwt.)	\$60.28	\$62.36	\$62.86	\$65.28	-5.2	-3.9
FEEDER PIGS						
Wholesale price - So. Missouri (\$/head)	\$31.10	\$36.49	\$31.67	\$39.12	-11.0	-13.5
BROILERS						
Wholesale price - 12-city (¢/lb.)	52.20¢	48.30¢	53.70¢	55.54¢	10.0	3.0
TURKEYS						
Wholesale price - New York, 8-16 lb. young hens (¢/lb.)	82.37¢	90.20¢	NA	74.46¢	-7.3	9.2
CORN						
Wholesale price - No. 2, yellow - St. Louis (\$/bu.)	\$ 2.38	\$ 2.27	\$ 2.50	\$ 3.27	-9.1	-9.8
SOYBEANS						
Wholesale price - No. 1, yellow - Central Illinois (\$/bu.)	\$ 5.19	\$ 5.05	\$ 5.19	\$ 7.05	-13.1	-16.3
WHEAT						
Wholesale price - No. 1, hard winter - Kansas City (\$/bu.)	\$ 3.07	\$ 3.15	\$ 3.35	\$ 3.80	-10.9	-13.0
LONG-GRAIN RICE						
Wholesale price - Arkansas (\$/cwt.)	\$17.50	\$17.35	\$17.25	\$18.43	-4.6	-5.5
COTTON						
Average price received by U.S. Farmers (¢/lb.)	55.00¢	56.70¢	56.00¢	65.58¢	-0.2	-9.7
					Percent Change	
<u>U.S. Exports</u>	July 1985	Aug. 1985	Sept. 1985	Average for 1984	Year-To-Date 1985 ²	Same Period Year Ago
Corn (mil. bu.)	97.0	92.0	81.0	162.1	-61.1%	-25.7%
Soybeans (mil. bu.)	19.2	26.3	31.5	59.6	-63.9	66.7
Wheat (mil. bu.)	69.0	90.0	77.0	134.2	-42.5	-68.7
Rice (rough equivalent, mil. cwt.)	5.0	5.4	6.7	5.4	45.9	-17.4
Cotton (thou. bales)	268.0	206.9	200.3	580.4	-69.7	-28.4

NonReal Estate Farm Debt Outstanding

	Banks			PCAs ³		
	Outstanding (\$ millions)	Percent Change		Outstanding (\$ millions)	Percent Change	
		9/84 - 9/85	9/83 - 9/85		9/84 - 9/85	9/83 - 9/85
U.S.	\$39,086	-5.9%	0.0%	\$16,020	-18.7%	-3.7%
Eighth District ⁴	3,075	-4.3	5.8	NA	NA	NA
Arkansas	557	-11.3	7.4	355	-24.6	7.3
Kentucky	652	-12.0	-2.4	326	-28.0	-17.0
Missouri	1,380	-10.7	-9.3	347	-24.5	-3.9
Tennessee	377	-5.3	-4.4	314	-25.1	-17.3

Agricultural Bank Loan Performance⁵

	Percent of Farm Loans Overdue at Agricultural Banks			Percent of Total Loans Written Off at Agricultural Banks		
	9/85	9/84	9/83	9/85	9/84	9/83
U.S.	3.1%	2.6%	2.3%	1.26%	.68%	.45%
Eighth District ⁴	3.5	3.0	2.4	.94	.55	.39
Arkansas	1.9	1.3	2.1	.72	.33	.29
Kentucky	3.9	3.0	2.3	.52	.44	.55
Missouri	4.3	3.9	2.7	1.77	.91	.53
Tennessee	3.1	2.4	3.4	.75	1.05	.79

Agricultural Production Loan Interest Rate⁶

	Banks		PCAs	
	11/85	11/84	9/85	9/84
Eighth District Average	11.9%	13.3%	11.7%	12.6%

¹ The consumer price index components are seasonally adjusted. All other data are not seasonally adjusted.

² Percent change from December of previous year, based on the most recent month available.

³ Source: Farm Credit Banks of Louisville and St. Louis, Farm Credit Administration.

⁴ Includes all of AR and parts of IL, IN, KY, MO, MS and TN.

⁵ Agricultural banks are defined as those with more than 25 percent of total loans in agricultural loans.

⁶ 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.