Agriculture

AN EIGHTH DISTRICT PERSPECTIVE

SUMMER 1987

Marketing Loan Program Boosts Rice Exports

Declining farm exports have been one of the farm sector's most publicized problems in recent years. Rice exports peaked in the 1980/81 crop year and then steadily declined through 1985/86. In 1986/87, however, rice exports are projected to increase 36 percent. Much of the gain in rice exports is attributed to the farm policy tool of marketing loans which took effect in 1986. In addition to being notable for its unique farm policy aspects, rice is of interest because it is one of the major crops in the Eighth District.

The Eighth District produces large shares of the nation's corn, soybean, wheat, sorghum and tobacco crops. The District, however, holds its largest share in the nation's rice production. In 1986, the Eighth District accounted for more than half of all rice produced in the United States. Arkansas, the single most important rice-producing state in the country, accounted for 41 percent of U.S. rice production while Mississippi and Missouri contributed 8 percent and 2.6 percent, respectively, of national production in 1986.

California and Louisiana are the second and third most important rice-producing states. In 1985, rice was the twelfth most valuable crop in the United States and the seventh most important agricultural export.

On an international scale, the United States produced only 1.3 percent of the world's rice but was the second most important exporter of rice; the United States accounted for 18.6 percent of all international rice trade in 1986. Thailand is the leading rice exporter with 33.7 percent of the rice trade. In the 1986/87 crop year, 59.5 percent of U.S. rice production is projected to be exported.

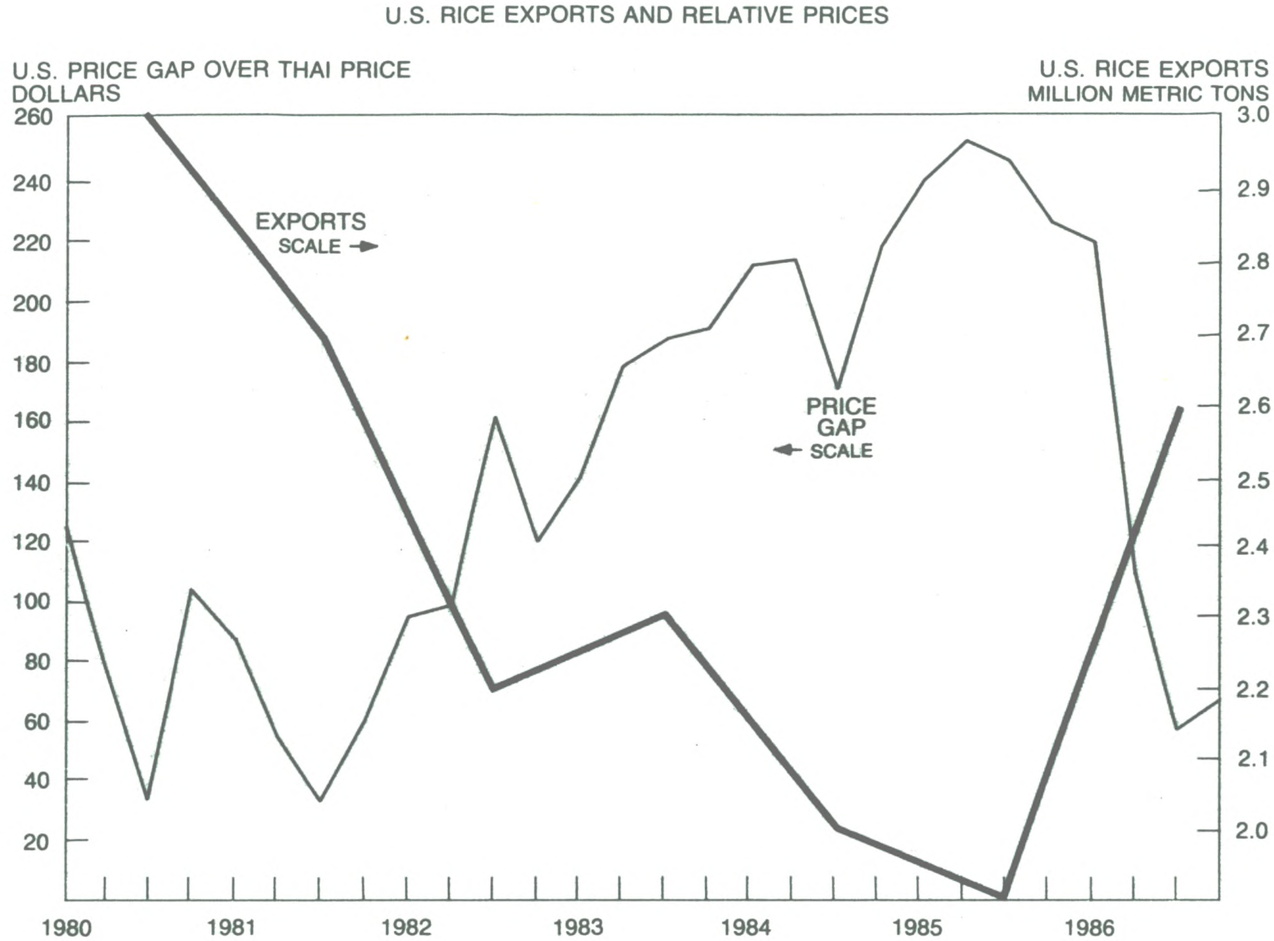
The Marketing Loan Program

The single most important factor in the U.S. increase in rice exports is the lower price for rice brought about by the marketing loan program. The 1985 Farm Bill adopted marketing loans for rice and cotton because it was felt that the traditional price support loan program kept U.S. commodity prices above world market levels and led to reduced exports. Under the traditional loan program, which is still used for many crops, farmers turn their crops over to the government's Commodity Credit Corporation (CCC) when the market price is below the support price (also known as the loan rate). In return, farmers are paid an amount equal to the support price multiplied by the number of bushels (or other units). These payments are considered a loan to the farmer.

If the market price later rises above the loan rate, a farmer can redeem the crops by paying off the CCC loan plus interest and then selling on the market. If the market price does not rise above the price support level, the farmer can keep the loan proceeds and surrender the crop to the CCC. The CCC then must store the crop until the market price rises to the release price (which is above the price support level) at which the CCC inventories can be sold on the market. Because of the CCC inventories, domestic market prices are unlikely to fall below the support prices, regardless of world price levels.

The rice marketing loan allows farmers to repay rice support loans at either the initial loan rate or the higher of the prevailing world market price for rice or one-half of the announced support loan rate for rice. In 1987, for example, rice farmers will receive CCC support loan payments of $6.84 per hundredweight (cwt) but will be able to repay the loan for as little as $3.42/cwt and then sell their rice on the open market.

In addition to the price support loan that guarantees farmers a minimum price of $6.84, farmers are guaranteed a total price of $11.66/cwt through the target price mechanism. Farmers receive direct payments to make up the difference between the loan rate of $6.84 and the target price of $11.66. These payments are known as deficiency payments. To receive the benefits of the program, however, farmers are required to reduce their rice acreage by 35 percent. Despite the required acreage cutback, the United States Department of Agriculture estimates that 92 percent



of rice acreage was enrolled in the program in the 1986/87 crop year.

The marketing loan program took effect in April 1986 and its consequences were quickly apparent. The average market price received by farmers fell from $7.60/cwt in March 1986 to $3.86/cwt four months later. The price fell because the marketing loan program allowed large quantities of rice to reach the open market rather than remain unavailable in CCC storage.

From 1980 to 1985 the U.S. share of the rice export market fell from 23 percent to 17 percent. This year, however, the export share is projected to be 20 percent. Much of the initial market share loss can be attributed to the large price gap between U.S. rice and rice from Thailand. In the summer of 1985, for example, the price of U.S. rice was more than twice the price of comparable quality rice from Thailand. The graph above shows how U.S. rice exports fell as the price of U.S. rice rose relative to the price of rice from Thailand in the 1980s, and also how exports quickly rebounded as the relative price fell sharply in 1986 due to the marketing loan provisions.

Program Costs

While the rice program has been successful in increasing rice exports, the cost of the program is substantial. According to the USDA, costs for the program in the 1986/87 crop year have been estimated at more than $900 million. This amount includes $545 million in deficiency payments to farmers, $370 million for the cost of the marketing loan program plus other costs for storage and administration. One means of gaining perspective on these costs is to compare the total cost of the program ($915 million) to the total amount of rice produced (134 million cwt) in the 1986/87 crop year. This indicates that each hundredweight of rice produced costs the government $6.83; almost twice the current market value of the commodity.

—Kenneth C. Carraro

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

Prices and Costs[1]	Mar. 1987	Apr. 1987	May. 1987	Average for 1986	Percent Change: Year-To-Date 1987[2]	Percent Change: Same Month Year Ago
CONSUMER PRICE INDEX (% change)						
Nonfood	0.5%	0.5%	0.3%	0.1%	2.5%	3.6%
Food	−0.4	0.4	0.9	0.3	1.7	5.5
PRODUCTION COSTS FOR FARMERS (% change)						
Agricultural machinery and equipment	0.1	−0.2	0.0	0.1	0.1	0.5
Mixed Fertilizers	1.1	0.5	−0.9	−0.3	3.1	−0.8
Other Agricultural chemicals	0.6	0.3	0.3	0.4	−0.3	0.3
Gasoline	−0.1	5.5	0.9	−4.3	24.1	3.6
PRICES RECEIVED BY FARMERS (% change)						
All products	0.8	1.6	3.2	−0.5	6.6	4.9
Livestock	−1.4	3.5	2.0	0.3	6.4	14.5
Crops	3.0	0.0	5.9	−1.4	9.1	−6.1
FEEDER CATTLE						
Wholesale price - Kansas City ($/cwt.)	$71.13	$72.90	$73.38	$62.79	12.9	21.5
FEEDER PIGS						
Wholesale price - So. Missouri ($/head)	$54.98	$56.00	$51.66	$45.61	8.3	29.3
BROILERS						
Wholesale price - 12-city (¢/lb.)	48.53¢	48.64¢	50.53¢	56.90¢	1.2	−7.4
TURKEYS						
Wholesale price - New York, 8-16 lb. young hens (¢/lb.)	60.34¢	58.33¢	55.26¢	71.92¢	−19.0	−17.6
CORN						
Wholesale price - No. 2, yellow - St. Louis ($/bu.)	$ 1.65	$ 1.74	$ 1.93	$ 2.08	14.2	−24.6
SOYBEANS						
Wholesale price - No. 1, yellow - Central Illinois ($/bu.)	$ 4.92	$ 5.12	$ 5.52	$ 5.23	11.3	1.5
WHEAT						
Wholesale price - No. 1, hard winter - Kansas City ($/bu.)	$ 2.90	$ 2.90	$ 3.02	$ 2.93	12.7	−11.2
LONG-GRAIN RICE						
Wholesale price - Arkansas ($/cwt.)	$11.88	$11.63	$11.50	$13.78	−3.2	−13.2
COTTON						
Average price received by U.S. farmers (¢/lb.)	50.00¢	52.60¢	64.80¢	54.67¢	−18.5	10.8

U.S. Exports	Mar. 1987	Apr. 1987	May. 1987	Average for 1986	Percent Change: Year-To-Date 1987[2]	Percent Change: Same Period Year Ago
Corn (mil. bu.)	145.0	185.0	N.A.	89.8	66.7%	219.0%
Soybeans (mil. bu.)	67.8	53.9	N.A.	65.3	−38.9	−33.0
Wheat (mil. bu.)	73.6	N.A.	N.A.	82.1	26.7	−0.5
Rice (rough equivalent, mil. cwt.)	5.4	N.A.	N.A.	6.3	17.4	54.3
Cotton (thou. bales)	633.0	N.A.	N.A.	252.4	16.4	236.7

Non-Real-Estate Farm Debt Outstanding

	Banks			PCAs[3]		
	Outstanding ($ millions)	Percent Change 3/86 - 3/87	Percent Change 3/85 - 3/87	Outstanding ($ millions)	Percent Change 3/86 - 3/87	Percent Change 3/85 - 3/87
United States	$28,792	−14.9%	−24.7%	$10,423	−19.2%	−37.5%
Eighth District[4]	2,024	−16.3	−24.2	NA	NA	NA
Arkansas	364	−9.1	−16.4	157	−26.5	−47.0
Kentucky	393	−30.7	−30.3	176	−27.8	−45.9
Missouri	970	−16.6	−31.8	117	−52.0	−67.3
Tennessee	271	−12.5	−19.8	203	−16.1	−34.8

Agricultural Bank Loan Performance[5]

	Percent of Farm Loans Overdue at Agricultural Banks			Percent of Net Loan Losses at Agricultural Banks		
	3/87	3/86	3/85	3/87	3/86	3/85
United States	4.8%	6.8%	6.1%	.28%	.40%	.34%
Eighth District[4]	7.0	8.6	7.1	.21	.28	.30
Arkansas	5.5	6.9	8.5	.10	.24	.42
Kentucky	7.0	6.9	6.3	.11	.17	.13
Missouri	5.4	8.6	8.3	.36	.37	.44
Tennessee	4.8	6.3	5.8	.00	1.00	.27

Agricultural Production Loan Interest Rate[6]

	Banks		PCAs	
	5/87	5/86	3/87	3/86
Eighth District Average	10.1%	10.8%	11.1%	11.8%

[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.