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# Agriculture

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## AN EIGHTH DISTRICT PERSPECTIVE

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WINTER 1988

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### 1988 Agricultural Outlook Is Positive

The recent agricultural outlook conference sponsored by the U.S. Department of Agriculture provided a generally optimistic forecast for U.S. farmers and focused on issues of international agricultural trade. Sources of the optimistic outlook include increased farm exports, continued high levels of farm income, stabilizing farmland values, increasing crop prices and falling crop surpluses.

A common theme expressed at the conference was the positive influence of the 1985 Farm Bill. The bill led to increased agricultural exports and fostered a new willingness among other countries to discuss and negotiate agricultural price support programs. The 1985 Farm Bill had its greatest impact on price support loan rates which provide a price floor for major crops. If a farmer cannot obtain this floor price on the market, the government will pay the farmer the equivalent of the loan rate price and store the crop. It is considered a loan because if prices later go above the loan rate, a farmer can repay the loan and sell the crop on the market. Under previous farm bills, crop loan rates rose to levels which allowed competing exporters to undersell the U.S. and thus gain new markets at the expense of the U.S.

#### Exports Improve

The 1985 Farm Bill lowered rates sharply yet continued to financially support farmers through direct payments. By doing this, the U.S. shifted from providing a price support to competing exporters to providing a subsidy to domestic and foreign consumers. As a result, U.S. competitiveness in farm export markets was enhanced. In 1987, the volume of farm exports rose 18 percent and the value of those exports rose by 7 percent. In 1988, export volume is forecast to rise by 6 percent and the value of exports to rise by 13 percent. In addition to the positive influence of the lower loan rates, farm exports have increased due to the export enhancement program which subsidizes export sales. As exports increase, the U.S. share of world feed grain

exports will rise, going from only 44 percent in the 1985/86 crop year to an estimated 60 to 65 percent in the 1987/88 crop year.

The lower loan rates of the 1985 Farm Bill resulted in lower global commodity prices. The lower prices have, in turn, resulted in a series of predictable responses. The quantities of agricultural products demanded have increased. Agricultural production has fallen, consumption has increased and surplus stocks have been drawn down. The lower prices have placed increased attention on reducing production costs which should benefit producers with comparative advantages.

Another effect of the lower price levels has been to put pressure on other exporting countries. The lower prices have made it more costly for other countries to continue subsidizing farm production and exports. As a result, major producer countries have agreed to focus on agricultural subsidy programs in the current Uruguay round of the General Agreement on Tariffs and Trade (GATT) negotiations.

In July of 1987, the U.S. proposed that virtually all agricultural subsidies and import barriers be phased out over a 10-year period. Since then, the European Community and other country groups have submitted independent proposals on agricultural trade policy. The GATT secretariat will now attempt to tie together these and any other proposals to focus the subsequent debate. While the duration of this round of the GATT is not fixed, a mid-term review is scheduled for the end of 1988. The effects of any agreements, however, can be expected to be felt only over a period of many years.

#### Farm Finances

Thanks to the turnaround in farm exports, the generous income support features of the farm programs and the abundant harvests of the past two years, the farm financial picture is considerably brighter than it has been in many years. Net farm income in 1987 rose to a record high of \$45 billion (current



dollars) and is projected to fall only slightly to the \$40 to \$45 billion range in 1988. Farm production expenses fell by 4 percent in 1987 but are forecast to rise by as much as 2 percent in 1988 due to higher fuel and feed costs.

In response to the income strength, farmland values have stabilized and are expected to increase in some cases. The balance sheet of the farm sector will improve as farm asset values stabilize and as farm debt is projected to fall in 1988 for the fourth consecutive year. During the four-year period from 1985 to 1988, the farm sector is projected to have reduced its total debt by \$60 billion or more than 30 percent. This reduction has occurred through the actions of individuals as well as through debt restructuring and debt write-offs on the part of farm lenders. The lower debt levels and the resultant savings in interest expense have been critical in the farm income gains.

An important part of the Farm Bill was the provision to maintain high levels of direct income supports to farms while the loan rates were reduced. This led to greatly increased dependence on direct government payments. In 1987, government payments of \$18 billion accounted for 40 percent of net farm income. This percentage is expected to increase in 1988 because net farm income will be slightly lower and payments are unchanged. While U.S. agriculture is becoming more competitive in world trade, it remains extremely dependent on government subsidization.

## District Livestock Outlook

In 1987, livestock producers benefited from relatively high prices and relatively low feed costs. In 1988, however, profits from livestock production are expected to decline as U.S. meat production attains record levels leading to lower meat prices. The high level of meat production will be due to increased pork and poultry production. Beef output is expected to decline by 4 percent in 1988 following a 4 percent decline last year. The lower beef production is expected to help stabilize beef prices, but the large supplies of competing meats will limit any price gains.

Pork production increased sharply in the fall of 1987 and is expected to increase by 11 percent in 1988. As a result, prices are expected to decrease sharply from the very profitable levels of the past two years. While feed costs also have risen, the USDA anticipates that pork producers will be able to cover cash expenses. The outlook for poultry production is much the same as that for pork. Production

increases of 5 percent in 1988 are forecast to lead to lower broiler prices and a squeeze on producer returns.

## District Crops

Soybeans are the most valuable District crop. Due to the recent profitability of livestock, the use of soymeal as feed is expected to remain strong. The strong domestic usage and export demand will continue to reduce government-held stocks. As a result, soybean prices should remain at their recent high levels through the first quarter of 1988. U.S. soybean prices will be most strongly influenced by the size of the South American harvest which begins this spring.

World corn usage is expected to reach a new record in 1988 and exports should increase by 10 to 15 percent following a 21 percent rise in 1987. Corn prices are expected to range from \$1.60 to \$1.90 per bushel, only slightly higher than in 1987. Within this range, the supply of generic certificates will be the most significant influence. Generic certificates are used as an alternative to paying farmers in cash. The certificates represent rights to be given government-owned surplus commodities. Large surpluses will prevent corn prices from rising much above this range.

Wheat consumption will exceed production in 1988 bringing ending stocks to their lowest level since the 1981/82 crop year. Due to the lower loan rates and to the resulting lower levels of foreign production, U.S. exports rose by 14 percent in 1987 and are forecast to increase by 30 percent in 1988. Prices are expected to be as much as 10 percent above the loan rate.

Global rice production in the 1987/88 crop year declined by 5 percent due to drought in the Asian rice-growing regions. While U.S. rice production also fell, the price of rice and the U.S. market share of rice exports rose. As global production recovers in the coming year, rice prices will decline but the U.S. export share will remain steady.

U.S. cotton production in 1987 increased beyond expectations due to record yields. Use of cotton, however, also exceeded expectations and led to a reduction in carryover stocks. U.S. cotton production and usage are forecast to be nearly equal in the coming year. The U.S. export share should be maintained due to the marketing loan program which keeps U.S. cotton competitive on international markets.

—Kenneth C. Carraro

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**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.

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## EIGHTH DISTRICT AGRICULTURAL DATA

<u>Prices and Costs<sup>1</sup></u>	Sept. 1987	Oct. 1987	Nov. 1987	Average for 1986	Percent Change	
					Year-To-Date 1987 <sup>2</sup>	Same Month Year Ago
CONSUMER PRICE INDEX (% change)						
Nonfood	0.7%	0.3%	0.2%	0.1%	4.8%	5.0%
Food	0.6	0.3	0.0	0.3	2.9	3.0
PRODUCTION COSTS FOR FARMERS (% change)						
Agricultural machinery and equipment	0.0	0.2	0.1	0.1	0.4	0.2
Mixed Fertilizers	2.2	2.4	-0.2	-0.3	9.5	9.8
Other Agricultural chemicals	1.8	1.7	-1.7	0.4	3.1	3.0
Gasoline	-4.8	-1.6	1.0	-4.3	28.6	30.5
PRICES RECEIVED BY FARMERS (% change)						
All products	1.6	-1.6	3.2	-0.5	8.3	5.7
Livestock	0.7	-3.3	-2.0	0.3	2.1	-0.7
Crops	1.9	1.0	12.3	-1.4	20.2	15.5
FEEDER CATTLE						
Wholesale price - Kansas City (\$/cwt.)	\$81.50	\$77.00	\$79.50	\$62.79	22.3	24.9
FEEDER PIGS						
Wholesale price - So. Missouri (\$/head)	\$47.28	\$41.53	\$36.56	\$45.61	-23.3	-26.9
BROILERS						
Wholesale price - 12-city (¢/lb.)	47.33¢	43.20¢	N.A.	56.90¢	-13.5	-29.9
TURKEYS						
Wholesale price - New York, 8-16 lb. young hens (¢/lb.)	56.10¢	54.70¢	N.A.	71.92¢	-19.8	-34.2
CORN						
Wholesale price - No. 2, yellow - St. Louis (\$/bu.)	\$ 1.65	\$ 1.78	N.A.	\$ 2.08	5.3	21.9
SOYBEANS						
Wholesale price - No. 1, yellow - Central Illinois (\$/bu.)	\$ 5.27	\$ 5.32	N.A.	\$ 5.23	7.3	8.8
WHEAT						
Wholesale price - No. 1, hard winter - Kansas City (\$/bu.)	\$ 2.78	\$ 2.90	\$ 2.90	\$ 2.93	8.2	8.2
LONG-GRAIN RICE						
Wholesale price - Arkansas (\$/cwt.)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
COTTON						
Average price received by U.S. farmers (¢/lb.)	64.90¢	64.10¢	65.00¢	54.67¢	18.8	22.9

<u>U.S. Exports</u>	Sept. 1987	Oct. 1987	Nov. 1987	Average for 1986	Percent Change	
					Year-To-Date 1987 <sup>2</sup>	Same Period Year Ago
Corn (mil. bu.)	136.0	139.0	N.A.	89.8	25.2%	11.2%
Soybeans (mil. bu.)	56.7	97.9	N.A.	65.3	11.0	9.1
Wheat (mil. bu.)	124.3	105.5	N.A.	82.1	81.6	14.6
Rice (rough equivalent, mil. cwt.)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Cotton (thou. bales)	319.0	N.A.	N.A.	288.6	-44.0	-17.6

### Non-Real-Estate Farm Debt Outstanding

	Banks			PCAs <sup>3</sup>		
	Outstanding (\$ millions)	Percent Change		Outstanding (\$ millions)	Percent Change	
		9/86 - 9/87	9/85 - 9/87		9/86 - 9/87	9/85 - 9/87
United States	\$30,685	-9.1%	-21.6%	\$10,518	-16.0%	-37.3%
Eighth District <sup>4</sup>	2,379	-14.4	-22.6	NA	NA	NA
Arkansas	527	-1.9	-5.5	185	-23.0	-47.9
Kentucky	425	-32.5	-35.0	181	-22.8	-44.6
Missouri	1,040	-10.9	-24.7	119	-49.8	-65.6
Tennessee	295	-14.2	-21.8	212	-11.6	-32.5

### Agricultural Bank Loan Performance<sup>5</sup>

	Percent of Farm Loans Overdue at Agricultural Banks			Percent of Net Loan Losses at Agricultural Banks		
	9/87	9/86	9/85	9/87	9/86	9/85
United States	2.2%	3.1%	3.1%	.85%	1.49%	1.27%
Eighth District <sup>4</sup>	2.5	3.2	3.5	.69	.89	.96
Arkansas	1.1	1.2	1.9	.38	.59	.72
Kentucky	4.1	4.4	3.9	.44	.63	.52
Missouri	2.3	3.0	4.3	.85	1.42	1.82
Tennessee	1.7	1.6	3.1	.82	1.23	.75

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

	Banks		PCAs	
	11/87	11/86	9/87	9/86
Eighth District Average	10.6%	10.0%	11.1%	11.1%

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

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

<sup>3</sup> Source: Farm Credit Banks of Louisville and St. Louis, Farm Credit Administration.

<sup>4</sup> Includes all of AR and parts of IL, IN, KY, MO, MS and TN.

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

<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.