Briefs

Ag Economy

U.S. Ag Markets Show Signs of Improvement

U.S. agricultural markets continue to show some improvement from the large supply/weak demand conditions of the late 1990's. Although markets for major field crops continue to have plentiful supplies, export demand is improving slowly and market prices appear to be picking up. Markets for livestock are generally stronger than for field crops, as 2000 witnessed gains in average prices for cattle and hogs.

Despite continued weak market prices for field crops in 2000, net farm income for the year has been forecast in the mid-$40 billion range, up from $43.4 billion in 1999. Producer income was bolstered in 2000 by direct payments to producers of major field crops under the 1996 Farm Act (e.g., production flexibility contract, loan deficiency, and Conservation Reserve Program payments) and a third infusion of emergency government assistance. Record government payments in 2000 helped keep farm income near the 1990-99 average. Even with the addition of recently enacted emergency assistance (fiscal 2001 appropriations), government payments to the sector will decline in 2001, likely resulting in lower farm income.

As in recent years, government loan deficiency payments (LDP's), which provide government support payments to major field crop producers when farm prices drop below local loan rates, will continue to supplement returns from the marketplace.

Fuel expenses for the U.S. farm sector in 2000 were over $8 billion, about 40 percent above 1999. Total production expenses were up 5 percent to $178 billion. Costs for fuel and other energy-related inputs will continue to concern producers in 2001.

Agricultural exports are forecast at $53 billion in fiscal 2001, up from $51 billion in 2000. Tonnage is forecast up for bulk commodities, but large global supplies of many commodities continue to limit price gains. Cotton is the exception. A major drag on U.S. exports has been the rising value of the dollar, which has boosted the price of U.S. farm exports in foreign markets (see "Agricultural Economy: Exchange Rate Indexes and U.S.Agricultural Trade," p. 4).

A main reason for continued low domestic prices for major field crops is favorable weather in major U.S. producing areas and many foreign countries. The markets reflect record corn and soybean crops harvested in 2000. Domestic use of most crops is anticipated to remain strong in 2000/01, and exports should improve somewhat. Nevertheless, ending stocks will expand for soybeans and corn, keeping downward pressure on prices for the fourth consecutive year.

A key exception to favorable weather in 2000 was in the southern and central Great Plains, where hot and dry weather last summer and fall produced severe drought conditions. Many crop producers in this region (particularly cotton) lost a substantial portion of their production and income. Cattle producers in the region encountered animal losses due to the heat and lack of water and experienced rising costs for feed as local feed supplies dried up.

Red meat and poultry production is forecast to reach a record high in 2000, and output is projected to edge even higher in 2001. Feed costs remain relatively low, keeping production expenses in check for many livestock producers.

Despite record total meat supplies, the robust U.S. economy continues to fuel demand and sustain farm prices. Hog prices are expected to average in the lower $40's per cwt in 2001, after a $10 rebound in 2000 ($44 average). Likewise, cattle prices, despite large supplies of competing meats at relatively low prices, have rebounded from the lows reached in the mid-1990's. Modest gains in broiler production in 2000 and 2001 will lead to slightly lower prices—forecast in the mid-$0.50's per pound for both years, down from $0.58 in 1999. AO

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Net Farm Income in 2000 Is Near 1990's Average

	1990-99	1996	1997	1998	1999	2000
			$ billion			
Crop receipts	94.2	106.3	111.1	102.5	93.1	94.1
Livestock receipts	90.5	92.8	96.5	94.1	95.5	100.3
Government payments	10.3	7.3	7.5	12.2	20.6	23.3
Net farm income	45.2	54.9	48.6	44.6	43.4	45.6
U.S. ag exports[1]	48.2	59.9	57.4	53.7	49.2	50.9
			Million metric tons			
World stocks[2]	351.0	318.8	369.2	397.1	386.1	341.1
			$ per bu.			
Wheat price[3]	3.29	4.30	3.38	2.65	2.48	2.50-2.70
Corn price[3]	2.36	2.71	2.43	1.94	1.82	1.65-2.05
Soybean price[3]	5.89	7.35	6.47	4.93	4.63	4.50-5.10

2000 forecast made in September 2000.
1. Fiscal year ending September 30. 2. Ending stocks of major grains and oilseeds for season beginning in year indicated. 3. U.S. season-average farm price for marketing years beginning in years indicated.

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See the ERS website for the latest farm income forecasts.
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