Agricultural Economy

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Outlook for the Farm Economy In 2000

Overall conditions in the farm economy in early 2000 are largely a replay of last year. Markets for major commodities, particularly crops, are very weak. Agricultural exports are moving sideways, forecast at $49.5 billion in fiscal 2000, only $0.5 billion above last year's level. Export volume this year is projected down—by 4 percent—as wheat and corn tonnage declines.

Forecast U.S. farm prices illustrate the severity of the market downturn for many producers, but an overall farm economic crisis has not materialized, due in large part to built-in government support and supplemental emergency economic and disaster assistance. Prices for soybeans in the 1999/2000 marketing year are expected to be the lowest since 1972/73; cotton prices so far have been the lowest since 1974/75; corn and wheat prices are expected to be the lowest since 1986/87; milk, the lowest since 1990/91; and rice, the lowest since 1992/93.

While these statistics may generate pessimism for U.S. producers, the reduced prices provide a measure of benefit to many consumers, and a number of positive developments in U.S. agriculture are noteworthy. Also, cattle and hog prices in 2000 are expected to be higher than a year ago.

Global economies are improving. World economic growth in 2000 is forecast to exceed 3 percent, a rate not seen since 1997. Southeast Asian economies are expected to grow 6 percent this year, in contrast to a 6-percent contraction in 1998. And Latin America is expected to post a 2.7-percent gain, emerging from recession in 1999. U.S. exports to these regions should improve, but overall export recovery will be slow, as little import growth is expected from major, or formerly major, markets such as Japan, China, Russia, and the European Union. The strength of the U.S. economy has raised domestic demand for many commodities. For instance, per capita meat consumption was record-high in 1999 despite rising prices for red meat.

The national farm balance sheet is fairly strong, a considerable plus, because the more solvent the average farmer, the greater the resiliency to face weak markets. Record-high prices in the mid-1990's helped strengthen financial positions coming into this market downturn. Farmers helped themselves by holding back on equipment purchases, paying off debt, and curtailing debt expansion. At the same time, farm real estate values have continued to rise, up 18 percent over the past 5 years. Record-high government payments have shored up farm income the past 2 years—contributing to the second-highest level of U.S. net cash farm income ever in 1999—which has helped support real estate values and reduced the degree of leverage on farm real estate. However, little to no growth in farmland values is expected over the next couple of years.

Agricultural banks generally are in good shape, with a fairly low level of delinquent and nonperforming loans. The share of such loans in the portfolio of agricultural banks in late 1999 was one-fifth the level of the mid-1980's.

Growth in farm production costs has been slow, due to low inflation, relatively low interest rates, and low feed costs. One detrimental cost component is the large increase in oil prices, which could raise farmers' fuel and oil costs by up to several billion dollars in 2000, depending on the actions of oil-producing nations (see forthcoming *AO*).

Improvement in productivity and efficiency continues in U.S. agriculture. These gains bolster the U.S. competitive position in global markets, make better use of productive resources, and benefit those producers employing the efficiency techniques. And while some think that structural changes such as consolidation and dislocation must accompany any efficiency gains, the number of U.S. commercial-size farms has declined only 0.4 percent annually since 1993.

Crop surpluses do not rival past surplus levels. This year's ratio of world carryover stocks to total use for feed grains, for example, is about the same as it was during the first 5 years of the 1990's, and 20 percent below the average of the 1980's. This means that while global demand is recovering somewhat slowly, a weather disaster could easily cause a substantial runup in feed grain prices. Global wheat stocks are also well below highs of the mid-1980's.

Projections and discussions in this article are drawn from a presentation at USDA's 2000 Agricultural Outlook Forum held in Arlington, VA, on February 24-25, 2000. See the following article for a summary of long-term prospects for U.S. agriculture.

Cash Receipts for Major Crops To Fall

Despite the positive elements, the farm economy picture for 2000 remains clouded by the prospect of very weak farm income. USDA forecasts that farm cash receipts will fall to $190 billion in 2000, $2 billion below last year and $18 billion below the record set in 1997. Lower receipts and lower government payments than last year are forecast to reduce net cash income for 2000 to $49.7 billion, down nearly 20 percent from 1999 and the lowest since 1986.

Government payments have been offsetting much of the decline in cash receipts for major crops. Total government payments increased from $7.5 billion in 1997 to a record $23 billion last year. In calendar 2000, government payments, without any new legislation, will likely exceed $17 billion, the second-highest ever.

Reviewing a few major commodities illustrates why 2000 prospects look so weak. In 1999, U.S. producers planted the lowest wheat acreage since 1972, and even lower acreage and production are likely in 2000. On top of that, low precipitation and soil moisture in the Plains states are likely to reduce the yield on winter wheat below trend. With lower acreage, U.S. production could fall 200 million bushels below last year. The weather pattern since last fall has looked similar to 1996, which saw below-trend wheat yields. A reduced U.S. wheat crop may lead to slightly stronger prices, but wheat prices will remain under pressure, as weather has generally been favorable elsewhere in the world. The largest U.S. carryover stocks since 1988 will also limit price gains.

The corn market has been strengthening, driven by record-high total use for the 1999 crop, but the price is still expected to average only $1.90 a bushel, slightly below 1998. While corn acreage is likely to be down slightly in 2000, higher yields will keep next season's total supplies near this year's level. With total use also near this year's level, keeping ending stocks about the same, corn prices are expected to show only modest improvement next season.

U.S. Farm Economy at a Glance

	1996	1997	1998	1999	2000
			$ billion		
Cash receipts	199.1	207.6	196.8	191.9	189.9
Government payments	7.3	7.5	12.2	22.7	17.2
Cash expenses	159.9	169.0	167.8	170.0	171.5
Net cash income	57.5	58.5	55.0	59.1	49.7
Farm debt	156.1	165.4	172.9	172.8	172.5
Farm assets	1,003.9	1,051.6	1,064.3	1,067.2	1,072.8
			Percent		
Debt-to-asset ratio	15.6	15.7	16.2	16.2	16.1
			$ billion		
Agricultural exports	59.8	57.3	53.6	49.0	49.5
Agricultural imports	32.6	35.8	37.0	37.5	38.0
			1990 = 100		
Value of dollar*	101.0	109.6	115.5	112.0	108.7
			Percent change		
Consumer price index for food	3.3	2.6	2.2	2.1	2-3

1999 estimate. 2000 forecast.
*Agricultural trade-weighted, inflation-adjusted.

Economic Research Service, USDA

In January, the farm price of soybeans continued to recover from the low $4-per-bushel range of last summer, the lowest in three decades. For the 1999 crop, prices are forecast to average $4.70 per bushel, a little below the previous year. Expanding soybean acreage was the story of the 1990's, and area is likely to expand again in 2000, as relative returns (including government marketing loan benefits) look preferable to some other crops (*AO* May 1999 and December 1999). With trend yields, we could see record production, another year of rising carryover, and prices even lower than for the 1999 crop.

Cotton and rice prices have been very low this year as carryover stocks of both are rising. In 2000, cotton production is expected to be up, but price prospects could possibly improve, especially if China continues to reduce production and stocks. China lowered its procurement prices on cotton as much as 40 percent for the 1999 crop, which should restore some balance to cotton markets in China and in the U.S. For rice, carryover stocks on August 1 are expected to be nearly double last year's. The 33-percent drop in this year's farm price should reduce acreage and production in 2000, but the large carryin will likely continue to pressure prices.

Other crops face mixed prospects in 2000. Cash receipts for fruit, vegetables, and greenhouse and nursery crops are expected to rise $1.2 billion to $42 billion. While fresh vegetable prices are likely to increase from last year's reduced levels, fresh citrus prices are settling back to normal levels after the December 1998 freeze. Exports of horticultural products are likely to rise slightly in 2000 after 2 flat years, as Asian economies strengthen and U.S. citrus supplies recover.

Tobacco producers continue to struggle; receipts will decline again in 2000 to $1.8 billion, down $0.4 billion from last year. Higher retail cigarette prices and reduced use are causing sharp farm quota reductions. Peanut production may decline slightly, with a return to trend yields, lowering cash receipts somewhat. Sugar production is likely to flatten, due in part to lower prices, but there is increasing uncertainty over 2000/01 imports, supplies, program costs, and international trade obligations.

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WINDOW on the PAST

Excerpts from USDA publications

US Agricultural Export Outlook Mixed

U.S. agriculture continues subject to the whims of weather and economic conditions around the world. Currently, the world agricultural economy is characterized by generally large food supplies and increasing consumption. Recent export levels demonstrate the strengthening of foreign demand for many U.S. farm products. Export value is up dramatically for several major commodities, including cotton, soybeans and soybean products, animal fats, cattle hides, and vegetables. On the other hand, growing world grain supplies have depressed prices and are restraining U.S. exports. Wheat exports are down sharply this marketing year.

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Livestock Prices Projected Up

The picture for livestock and poultry is more encouraging than for crops. Cattle prices are projected to average about 5 percent higher in 2000 following last year's nearly 7-percent increase, as liquidation of the U.S. cattle herd finally leads to reduced beef production, which is forecast down by 1 percent. Lower hog numbers are expected to reduce pork production about 3 percent this year, which could push hog prices to around $40 per cwt for the year and enable many producers finally to operate in the black. Broiler prices this year are projected to be off about 3 percent from last year, but producer net returns are expected to continue positive due to lower feed costs.

Milk is a key part of farm income accounts, with producer sales of $22-$23 billion in recent years. Milk prices were record high in 1998 and near-record high in 1999, which caused last year's milk production to register the highest year-to-year gain of the decade. This surge will pressure farm milk prices for several months, with the 2000 all-milk price forecast to average 12 percent below 1999.

U.S. consumers will enjoy an abundant, affordable food supply again in 2000. The consumer price index for food during the 12 months ending in January rose only 1.5 percent, the smallest 12-month increase since 1992. In 2000, an increase in the range of 2 to 3 percent is expected. Upward pressure will come from beef and pork, reflecting tightening supplies. On the other hand, dairy products and citrus should be better buys this year, and fresh vegetables are likely to be plentiful again, based on winter acreages.

Because the farm economy faces weak markets, the role of government will be prominent again this year. First, substantial government payments will be made under current programs. For example, payments under the marketing assistance loan programs, which were nil in 1996 and 1997, are forecast at $8 billion for the 2000 crops. Second, USDA has announced five new initiatives using the Secretary's discretionary authority. These are in various stages of implementation and include a bioenergy program, farm storage facility loan program, enhanced Conservation Reserve Program incentives, a freeze for the 2000-crop loan rates, and another large humanitarian assistance package. Third, the administration has offered a legislative proposal for providing additional income support, conservation benefits, and risk management assistance.

In addition to government action, many uncertainties will affect the marketplace, including global weather disruptions; biotech acceptability; continuing structural changes such as expanding supply chains, contracting, and market segmentation; and economic growth and policies in areas like Japan and China. AO

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Upcoming Reports—USDA's Economic Research Service

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

April

11 *World Agricultural Supply & Demand*
12 *Cotton & Wool Outlook (4 pm)***
*Oil Crops Outlook (4 pm)***
*Rice Outlook (4 pm)***
13 *Wheat Outlook (9 am)***
19 *Agricultural Outlook**
*Tobacco**
21 *Vegetables & Specialties**
24 *Feed Yearbook**
25 *U.S. Agricultural Trade Update (3 pm)*
27 *Livestock, Dairy & Poultry (4 pm)***

*Release of summary, 3 p.m.
**Available electronically only