Agricultural Economy


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The Ag Sector: Yearend Wrap-Up

The U.S. farm sector saw cash receipts slide in 1999 as supplies rose and farm prices fell overall. But record government payments are forecast to pull up net cash income to just under the 1997 record.

With national average crop yields high and export demand stagnant over the last 3 years, stocks of key commodities—including wheat, corn, soybeans, cotton, and rice—are mounting. Total meat production is also forecast record large in 1999. Although farm financial conditions on average remain strong, regional fortunes differ significantly, depending on the mix of production and local weather. Income prospects were threatened in areas suffering late-summer drought, particularly eastern portions of the country. Also, earnings from farm marketings have varied with marketing strategies and timing of sales—some farmers have done extremely well, while others have sold at very low prices.

Season-average prices for major field crops have fallen from record or near-record levels in 1995/96 and 1996/97 to the lowest in many years, with steep price drops in 1998 for major field crops and for hogs. While some livestock prices, particularly cattle, are showing signs of recovery, prices of many commodities have dropped further in 1999.

For some commodities, improvement in receipts is likely in 2000. But significant improvement in overall sector performance may be at least another year away.

Near-Record Farm Income Despite Low Prices

Total cash receipts for 1999 are forecast to drop 3 percent from last year to $192 billion, down 8 percent from the 1997 peak. Extremely low prices for field crops are the major reason for the decline—cash receipts for these commodities are falling 14 percent from last year and 24 percent from the 1997 record. Wheat, corn, and soybean prices for the 1999/2000 marketing year are expected to be the lowest in more than a decade.

Cash receipts for the livestock sector are forecast up nearly 2 percent in 1999 to the second-highest level of the 1990's, driven by larger receipts for cattle and calves and for broilers. Dairy receipts remain strong despite somewhat lower prices. But with large hog supplies continuing, year-over-year prices are down 7 percent from 1998 and are 40 percent off the 1997 average. As a result, cash receipts to hog producers have fallen from $13 billion in 1997 to $9 billion in 1999.

Grower receipts from specialty crops are higher in 1999, with a strong domestic economy continuing to fuel sales of greenhouse and nursery products. The grower price index for fruit and nuts has remained above year-earlier levels, largely reflecting significantly lower citrus supplies during 1998/99 and smaller apple and pear crops in 1999. On the other hand, vegetable growers have been harvesting large crops in 1999—particularly tomatoes, lettuce, and broccoli—and fresh-market prices have been relatively low for much of the year.

For the U.S. farm sector, net cash income this year is expected to total $57.9 billion, up nearly $3 billion from 1998 and just $600 million less than the 1997 record. Income would have been significantly lower without a large cash infusion from government payments, almost double the 1998 level and a forecast record-high $22.5 billion. Government payments this year will equal 12 percent of cash receipts and 39 percent of net cash income.

In calendar 1999, direct government payments for major field crops include: production flexibility contract payments ($5.1 billion) under the 1996 Farm Act; emergency assistance under separate legislative packages signed by the President in October 1998 (about $2.8 billion of a nearly $6-billion package) and October 1999 (about $5.9 billion of an $8.7-billion package); and loan deficiency payments—LDP's—($6.6 billion). These payments should reduce cash-flow problems for many farm businesses in 1999.

The largest impacts of increased payments are concentrated in regions with the highest proportion of producers who signed a production flexibility contract, which has also served as the delivery mechanism for much of the emergency assistance the past 2 years. Average net cash income is now forecast down only 1 percent in 1999 in the Heartland, compared with the 11-percent drop expected prior to the October 1999 legislation. Average net cash income in the Northern Great Plains and in the Prairie Gateway will rise 19 percent and 17 percent in 1999, compared with earlier forecasts of 2 percent or less. Income prospects remain poor in the Southern Seaboard; adverse weather along with low prices for tobacco and hogs (commodities not covered by production flexibility contract payments nor market loss assistance payments) will result in a 10-percent decline in average net cash income. (See *AO* June-July 1999 for resource region map at www.econ.ag.gov/epubs/pdf/agout/june99/.)

Very low inflation has kept farm expenses from rising significantly in 1999. For most farm businesses, stronger cash flow positions in 1999 should reduce debt repayment problems. Nationwide, only 11 percent of farm businesses are expected to experience severe debt repayment problems, down from 13 percent in 1998. In the Northern Great Plains and Prairie Gateway, which has had persistent problems with debt repayment, the proportion of farm businesses with severe debt repayment problems, while still high (about 15 percent), is not expected to increase.

With Government Payments Record High, Net Cash Income Is Up

	1990-95	1996	1997	1998	1999
			$ billion		
Crop receipts	88.3	106.2	111.1	102.2	95.7
Livestock receipts	87.7	93.0	96.5	94.5	96.0
Government payments	9.2	7.3	7.5	12.2	22.5
Net cash income	53.6	57.5	58.5	54.9	57.9
U.S. ag exports[1]	43.5	59.8	57.3	53.7	49.0
			Million metric tons		
World grain stocks[2]	317.0	293.8	330.0	347.6	346.9
			$ per bu.		
Corn price[3]	2.45	2.71	2.43	1.95	1.80

1999 forecast. 1. Fiscal year ending September 30. 2. Ending stocks for season beginning in year indicated. 3. U.S. season-average farm price for marketing year beginning in year indicated.

Economic Research Service, USDA

Mounting Supplies Hold Down Prices

Despite this year's local and regional weather problems, national yields have not been severely affected—nor have weather problems pulled down yields since 1995. Large crops and stagnant export demand over the last 3 years have caused stocks to rise steadily, driving down prices. By yearend 1999/2000, U.S. stocks will be more than double 1995/96 levels for wheat, coarse grains, and soybeans. Stocks of rice and cotton are also forecast up sharply from 1995/96.

Good weather has not been limited to the U.S. Crops outside the U.S. have also been large since 1995/96, when poor harvests and tight supplies sent prices to extremely high levels. Following the high prices of the mid-1990's, U.S. and foreign crop acreage expanded swiftly, and large output—in both exporting and importing countries—has limited U.S. exports. Prices began to decline, but world plantings have been slow to adjust, although world acreage is down in 1999/2000 for wheat and coarse grains.

Producers in the Southern Hemisphere, notably Argentina but also Brazil, have continued to step up production, particularly of soybeans. In Argentina, soybean area is up about 25 percent since 1995/96, and USDA forecasts an 18.5-million-ton crop in 1999/2000, 45 percent above 1995/96. Brazil's soybean area is also up nearly 15 percent in this period, and the current crop forecast is 26 percent over 1995/96, because Brazil's yields, like Argentina's, are sharply higher. In both countries, new soybean varieties, infrastructure investment, and policy reform are the driving forces behind production expansion (*AO* March 1998, May 1998).

China made a significant policy shift in the mid-1990's toward greater self-sufficiency in basic foodstuffs, exerting a strong impact on global demand. Grain output has risen sharply in recent years, while growth in domestic consumption has slowed. The world's largest importer of wheat in 1995/96, China is now importing only small amounts. Over the same time period, the country has shifted from net importer to net exporter of corn and rice. China's imports of soybeans, however, are up sharply. The country remains a leading importer of soybean oil and other vegetable oils, and a key market for soybean meal. The strength of the Chinese market for soybeans and products helps explain relatively strong soybean prices in recent years.

The global financial crisis and its impacts on Asia, Russia, and Brazil also play a role in market weakness. The crisis and associated U.S. dollar appreciation in 1998 reduced overall demand for imports in affected countries. But this year, many of these economies have begun to recover, and the U.S. dollar has depreciated against currencies of major importers. Overall, the crisis has been less of a shock to U.S. ag exports than initially feared.

The volume of U.S. agricultural exports in fiscal 1999 (October 1998-September 1999) rose by more than 10 percent as foreign competition declined, although shipments were well below levels of the mid-1990's. U.S. export value, however, was down again in 1999 as export prices declined further. USDA expects a further increase in export volume in fiscal 2000, with export value near last year's level.

U.S. beef, poultry, and dairy producers are faring better than their field crop counterparts, as low crop prices translate into reduced feed costs. After several years of losses for beef cattle producers, particularly cow-calf operators, beef cattle numbers are declining and price prospects are turning up. Price gains are limited by lackluster U.S. meat and poultry exports, which have leveled off after growing at double-digit rates during much of the 1990's. Decline in the Russian economy, together with the ruble's sharp drop in value last year, has severely cut into U.S. livestock product exports to Russia, once a fast-growing market for U.S. pork and poultry.

When Will the Price Slump End?

USDA forecasts season-average farm prices will rise modestly for hogs and cattle in 1999/2000 and will be lower for many other commodities. Across most of the field crop-livestock complex, prices remain low, suggesting only modest improvement, if any, in cash receipts during 2000. Improvements in producers' market returns will therefore depend on the price effects of developments in a number of areas.

As always, weather next year will be critical. At some point, the stretch of good

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Ag Policy: Marketing Loan Benefits Supplement Market Revenues for Farmers

Low levels of market prices for many field crops have triggered the availability of *marketing loan benefits* to farmers. Total government marketing loan benefits for 1998 crops have reached \$3.8 billion and could exceed \$5 billion for 1999 crops.

1998 crops	Season-average price	Marketing loan benefit*	Average per-unit revenue	Commodity loan rate
		$/bu.		
Soybeans	5.00	0.44	5.44	5.26
Wheat	2.65	0.19	2.84	2.58
Corn	1.95	0.14	2.09	1.89
Sorghum	1.70	0.12	1.82	1.74
Barley	1.98	0.23	2.21	1.56
Oats	1.10	0.12	1.22	1.11
		$/lb.		
Upland cotton	0.602	0.086	0.688	0.5192
		$/cwt		
Rice	8.83	0.07	8.90	6.50

Based on cumulative LDP and loan activity data through November 17, 1999, from Farm Service Agency's PSL-82R report. *Weighted average, based on portions of crop receiving marketing loan gains, loan deficiency payments, and no benefits. Not adjusted for benefits paid for silage, etc.

Economic Research Service, USDA

Farmers can receive marketing loan benefits in two ways: through loan deficiency payments and marketing loan gains. Generally, whenever the market price for an eligible field crop drops below its applicable commodity loan rate, a farmer may opt for a revenue-boosting *loan deficiency payment* (LDP) in lieu of securing a commodity loan. (Commodity loans provide interim financing to producers of eligible commodities, regardless of market prices; farmers pledge crops as collateral and receive loans at a specified rate—the loan rate—per unit of the commodity.) The loan deficiency payment rate equals the difference between the applicable commodity loan rate and the posted county price for wheat, feed grains, and oilseeds and the adjusted world price for upland cotton and rice (*AO* October 1998). Alternatively, eligible farmers realize a *marketing loan gain* by repaying outstanding commodity loans at a per-unit rate—posted county price or adjusted world price—that is below the loan rate.

LDP's and marketing loan gains augment market receipts for eligible field crops and result in national average per-unit revenues that exceed season-average prices and commodity loan rates. Marketing loan benefits for the 1998 soybean crop illustrate how this works. Through mid-November 1999, about 89 percent of the 1998 soybean crop had received a marketing loan benefit—nearly 78 percent had received an LDP, with an average payment rate of \$0.41 a bushel; and more than 11 percent had received a marketing loan gain averaging \$1.06 a bushel. The rest of the 1998 soybean crop did not receive a marketing loan benefit, although some 1998 soybean commodity loans were still outstanding. Average benefit rates differ for the two options because a large portion of 1998-crop soybean marketing loan gains was taken in the spring and summer of 1999 when soybean prices were lower than in the fall of 1998, when most LDP's were received.

Accounting for LDP's, marketing loan gains, and the portion of the crop with no marketing loan benefit, the weighted-average marketing loan benefit for the 1998 soybean crop was about \$0.44 a bushel. This benefit augmented the season-average price of \$5 per bushel, raising the average per-unit revenue for soybeans to \$5.44 a bushel, \$0.18 above the 1998 national soybean loan rate of \$5.26 per bushel.

Similar benefits went to other field crops with marketing loan provisions—wheat, corn, grain sorghum, barley, oats, rice, upland cotton, and several minor oilseeds. For all of these crops, marketing loan benefits supplemented market receipts, resulting in average per-unit total revenues exceeding the respective national loan rates. As with soybeans, marketing loan benefits for grain sorghum and oats raised the average per-unit revenue above the loan rate from a season-average price that was *below* the loan rate.

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For more information about marketing loan benefits, see Online Reports, Price Support Division, Farm Service Agency/USDA at http://www.fsa.usda.gov/dafp/psd.

weather will end, crop output should drop, and prices rise. However, large U.S. stocks of field crops will weaken the response of prices to reduced production.

Planted acreage of field crops around the world has dropped somewhat over the last several years, and further declines are likely next year after another year of low prices, both inside and outside the U.S. Supply adjustments in the U.S. livestock sector, which have already started, will mean smaller supplies and higher prices for both beef and pork next year.

The continued recovery of crisis-affected countries will also have an impact on export prospects and prices. Recovery has been faster than initially expected in countries like South Korea and Thailand. But difficult issues of structural reform remain, and the future strength of recovery in some countries remains in question. The economies in Russia and other countries of the former Soviet Union continue to slide backward, with no fundamental turnaround in sight.

Continued strong macroeconomic performance in developed countries remains indirectly critical to U.S. agricultural exports, prices, and farm income. While demand for farm commodities in developed countries is generally unresponsive to income changes, many developing countries depend on healthy markets in developed countries to support their economic growth. This growth, in turn, builds demand for agricultural products in developing countries, the most important growth markets for U.S. agricultural exports. AO

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