Briefs

Field Crops

Grain & Soybean Prices Forecast Lower in 1998/99

Large U.S. supplies in 1998/99 will reduce season-average farm prices for most field crops from 1997/98, based on USDA's first 1998/99 forecasts of U.S. and world supply and demand. After surging to record highs during 1995 and 1996, grain prices are forecast to return to the levels of the early 1990's, while soybean prices will return to levels last seen in the 1980's. The slump also reflects weaker foreign demand. Although lower prices will encourage gains in domestic consumption in 1998/99, export growth will be relatively limited because of larger supplies in some competing countries and weak import demand resulting from the Asian economic crisis.

Planted area for field crops, except winter wheat, is based on USDA's Prospective Plantings *report for 1998, released on March 31. Harvested area is based on historical averages of harvested-to-planted ratios, and yields are derived from historical trends or averages, with the exception of winter wheat where survey results are used. Since planting is still underway and harvest is several months away for most crops, growing conditions could change substantially, resulting in significantly different production. U.S. crop prices will be influenced not only by weather conditions in the U.S. and other countries, but also by changing demand conditions, both in the U.S. and globally.*

U.S. *soybean* production is expected to top last year's record. Foreign supplies are already huge, with a record South American soybean harvest nearly complete. As a result, soybean farm prices are projected at $4.75 to $5.75 per bushel, the lowest level in over 10 years. U.S. acreage is forecast record large as farmers, particularly in the Corn Belt, shift toward soybeans. The estimated 1998/99 yield of 39.5 bushels per acre would be the highest since the 1994/95 record. Soybean yield growth has accelerated in recent years, due in part to increased narrow-row plantings.

USDA projects higher U.S. soybean exports in 1998/99, but gains will be smaller than last year as competition with South American supplies remains strong in the early stages of the crop year. A smaller gain is also projected for domestic crush, primarily due to greater competition from foreign protein meal suppliers in the world market and some slowing in foreign demand, particularly in Asia. Larger carry-in stocks and record output will outweigh increases in domestic and foreign demand, boosting projected ending soybean stocks to the highest level since 1986/87.

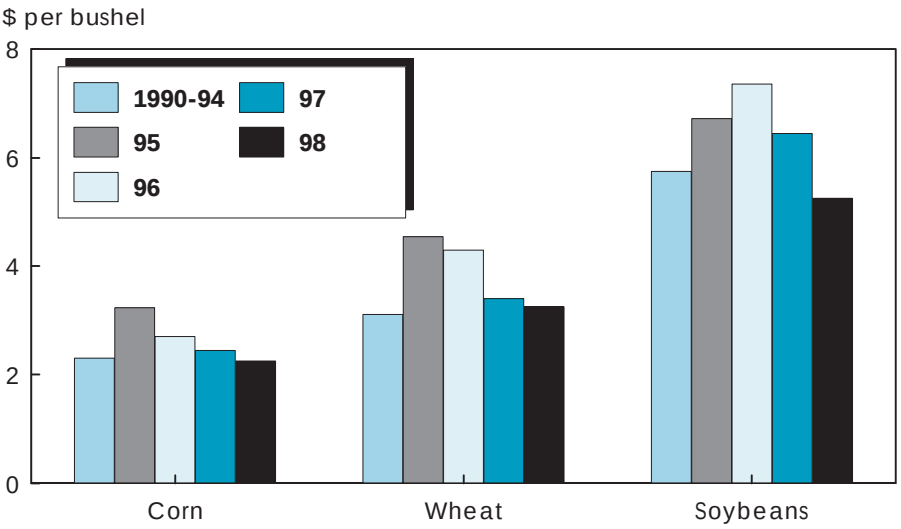
Reflecting a healthy increase in expected supply and the likelihood of continued export weakness, *corn* prices are expected to decline in 1998/99. The season-average farm price is projected at $2.05-$2.45 per bushel, compared with $2.40-$2.50 estimated for 1997/98 and the $2.63 average of the last 5 years (including 1997/98).

The 1998 U.S. corn crop is forecast to be the largest since the 1994/95 record—yields are projected to rebound to the long-term trend and acreage is also forecast higher. Ending stocks of corn are expected to climb to the highest level since 1992/93, despite a projected rise in use in 1998/99 (with total demand second only to the 1994/95 record). Moderate growth in domestic use reflects slowing growth by livestock and ethanol producers. Reduced competition from Eastern Europe and China will contribute to higher U.S. exports in 1998/99. However, gains will be muted with continued strong competition from Argentina, along with slack demand from East Asia due to the economic crisis, and reduced imports from Taiwan because of a smaller hog population (see **Commodity Spotlight**).

Lower acreage and yields will reduce the U.S. *wheat* crop 7 percent in 1998. In response to price drops, farmers are reducing wheat area and seeking alternative crops. Wheat prices declined in 1997/98 as global wheat production reached a record level, with the U.S. harvesting its largest crop in 7 years.

Despite the smaller 1998 U.S. crop, large carry-in stocks will expand total supplies to the highest level since 1990/91 and push down the average farm price for wheat to $3.05-$3.45 per bushel for 1998/98, compared with $3.40 estimated for 1997/98.

Corn and Wheat Prices To Return to Levels of the Early 1990's



1998 forecasts. Corn bushel = 56 lbs., wheat = 60 lbs., and soybeans = 60 lbs.
U.S. season-average farm prices for marketing season beginning in year indicated.
Economic Research Service, USDA

Briefs

U.S. Field Crops—Market Outlook

	Area								
	Planted	Harvested	Yield	Output	Total supply	Domestic use	Exports	Ending stocks	Farm price
	Mil. acres		*Bu/acre*	*Mil. bu*					*$/bu*
Wheat									
1997/98	71.0	63.6	39.7	2,527	3,060	1,260	1,035	766	3.40
1998/99	67.0	60.5	38.9	2,356	3,211	1,320	1,125	766	3.05-3.45
Corn									
1997/98	80.2	73.7	127.0	9,366	10,259	7,525	1,475	1,259	2.40-2.50
1998/99	80.8	74.4	129.6	9,640	10,909	7,725	1,575	1,609	2.05-2.45
Sorghum									
1997/98	10.1	9.4	69.5	653	701	460	200	41	2.15-2.25
1998/99	9.0	8.0	68.5	545	586	335	200	51	1.90-2.30
Barley									
1997/98	6.9	6.4	58.3	374	519	332	75	112	2.35
1998/99	6.8	6.4	59.8	380	527	382	25	120	1.90-2.30
Oats									
1997/98	5.2	2.9	60.5	176	353	270	2	81	1.60
1998/99	5.2	3.1	58.9	180	361	270	2	89	1.05-1.45
Soybeans									
1997/98	70.9	69.9	39.0	2,727	2,865	1,710	915	240	6.45
1998/99	72.0	70.9	39.5	2,800	3,046	1,711	925	410	4.75-5.75
			Lbs./acre	*Mil. cwt (rough equiv.)*					*$/cwt*
Rice									
1997/98	3.06	3.03	5,896	178.9	215.4	106.9	84	24.5	9.60-9.80
1998/99	3.09	3.06	5,980	183.0	217.2	108.9	83	25.3	9.20-10.20
			Lbs./acre	*Mil. bales*					*c/lb.*
Cotton									
1997/98	13.8	13.3	680	18.8	22.8	11.5	7.5	3.8	64.9
1998/99	13.22	12.3	650	16.7	20.5	11.5	6.0	3.0	*

Based on May 12, 1998 *World Agricultural Supply and Demand Estimates.*
*USDA is prohibited from publishing cotton price projections.
See table 17 for complete definition of terms and data for prior years.

Economic Research Service, USDA

Domestic use for wheat is projected to increase in 1998/99. Food use continues its long-term growth trend, and the greater availability of wheat makes wheat feeding an attractive option. Wheat exports are also projected to be higher for 1998/99 as reduced supplies from competitors such as Argentina and Canada allow the U.S. to regain some market share. However, the U.S. will face continued strong export competition in 1998/99 from both Australia and the European Union, whose supplies are projected to be unchanged or larger.

Rice production is projected to be 2 percent greater in 1998/99, the second-largest crop ever produced. Unlike soybeans, corn, and wheat, the expectations for rice in 1998/99 are considerably more favorable as demand, both domestic and foreign, is projected to remain strong. As a result, the average farm price is projected to remain firm at $9.20-$10.20 per cwt, compared with $9.60-$9.80 in 1997/98.

Domestic rice consumption has continued to expand because of a growing share of the U.S. population with Asian and Latin American heritage and a greater emphasis on healthier diets. U.S. rice exports have risen with strong demand for rough rice from Latin America.

Cotton production for 1998/99 is projected to be 11 percent lower than 1997/98 because of acreage declines and lower expected yields (returning to the 1993-97 average). With cotton prices down for the second straight year, intended cotton acreage is down in both the Delta region and the Southeast for 1998.

Domestic mill use is projected to remain unchanged from 1997/98, as rising textile imports are expected to offset growth in retail cotton consumption. Cotton exports are projected to be 20 percent lower in 1998/99 because of reduced U.S. supplies and greater foreign competition. Nevertheless, total cotton demand is projected to exceed production during 1998/99, resulting in lower ending stocks.

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June Releases—USDA's Agricultural Statistics Board

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

June

1 *Crop Progress (after 4 p.m.)*
3 *Broiler Hatchery*
Dairy Products
4 *Egg Products*
Poultry Slaughter
5 *Cheddar Cheese Prices (8:30 a.m.)*
Minn.-Wisc. Base Month Price, Final 1995-97
8 *Crop Progress (after 4 p.m.)*
10 *Broiler Hatchery*
12 *Cheddar Cheese Prices (8:30 a.m.)*
Crop Production (8:30 a.m.)
15 *Milk Production*
Crop Progress (after 4 p.m.)
16 *Turkey Hatchery*
17 *Broiler Hatchery*
19 *Cheddar Cheese Prices (8:30 a.m.)*
Cattle on Feed
Cold Storage
Livestock Slaughter
22 *Crop Progress (after 4 p.m.)*
23 *Chickens and Eggs*
24 *Broiler Hatchery*
Catfish Processing
25 *Cherry Production*
26 *Cheddar Cheese Prices (8:30 a.m.)*
Hogs and Pigs
Peanut Stocks and Processing
29 *Agricultural Prices*
Crop Progress (after 4 p.m.)
30 *Acreage (8:30 a.m.)*
Grain Stocks (8:30 a.m.)

Briefs

Livestock, Dairy & Poultry

Large U.S. Meat & Poultry Production In 1999

Red meat and poultry production in 1999 is forecast at 79 billion pounds, about unchanged from 1998. Increases in pork and broiler production will likely offset a sharp decline in beef production. Primary market prices for hogs and poultry are expected to be about the same as in 1998, while cattle prices rise. Hog prices likely will remain in the high $30's per cwt, wholesale broilers near 55 cents per pound, turkeys near 60 cents per pound, while average Choice steer prices will likely rise from the mid-$60's per cwt in 1998 to the low $70's next year. Despite stagnant hog and poultry prices in 1999, producer returns are expected to improve as feed costs decline. The general inflation rate is expected to rise only about 2 percent, keeping costs of other inputs in check.

In 1999, U.S. exports of red meat and poultry are forecast to rise about 3 percent, up from only about a 2-percent rise in 1998, but well below the double-digit growth during the first half of the 1990's. Meat import growth is expected to taper off to 3 percent in 1999 from 10 percent this year. Rising beef imports account for the increases, as more processing beef is imported to offset low domestic cow slaughter. Red meat imports generally declined in the early and mid-1990's.

Beef production should begin to decline sharply in 1999, reflecting reductions in the cattle inventory since 1996. Despite the near 6-percent drop, production will remain historically large. With the exception of the near-records during 1994-98 (ranging from 24.3 to 25.4 billion pounds), production in 1999 will be the largest since 1978. (The record is 25.7 billion pounds in 1976 when cattle inventories were liquidated rapidly.) Beef production is forecast nearly unchanged this year from 1997, supported by increased heifer slaughter and record slaughter weights. Declining cattle inventories will continue to reduce feedlot placements over the next couple of years. Lower feeder cattle supplies will combine with increased heifer retention (for herd rebuilding) to reduce beef production sharply beginning this fall through at least 2000.

Strong heifer retention—encouraged by relatively low feed costs and good forage and grazing prospects—is expected this summer, beginning the initial phase of stabilizing the cattle inventory. An expected increase in corn and soybean plantings, favorable moisture and planting conditions in most grain- and soybean-producing areas, and continued slow grain export sales will likely hold down feed costs for the next year. Present moisture conditions also suggest much improved grazing and forage prospects.

Last summer, grazing conditions deteriorated and grain prospects were clouded by poor weather at the very time many producers had to decide whether to retain heifers for herd replacements or sell them. Many heifers were sold and placed in feedlots throughout the fall, bolstering beef supplies in the first half of 1998. Unless grazing and grain prospects decline sharply, many more heifers will be bred this summer to calve in 1999, setting the stage for at least modest herd expansion beginning in 2000.

Fed-cattle prices remain under pressure from large beef and record total meat supplies. A slowdown in the pace of beef exports, particularly to South Korea and Japan, is also moderating price gains. Prices have strengthened from the low $60's per cwt in first-quarter 1998 to the mid-$60's this spring. Prices will likely remain there until rising to the low $70's this fall as beef supplies tighten. Last year, prices averaged nearly $66 per cwt in every quarter. Record total meat supplies (with prices of other meats declining relative to beef) will hold down price gains in 1999. Fed-cattle prices are likely to average in the low to mid-$70's.

As supplies decline this fall and in 1999, retail prices for Choice beef are likely to rise into the mid-$2.80's, up from a forecast $2.80 in 1998 (unchanged from the 1996 and 1997 averages), but well below the $2.93 record in 1993. This record may be safe even in 2000, when per capita beef supplies are likely to be the tightest, as continued large supplies of pork and poultry at relatively lower prices stifle price advances. In addition, a larger proportion of Prime and Choice beef has entered the hotel-restaurant and export markets in recent years. A trend toward offering beef with lower and more variable quality at retail makes it increasingly difficult to maintain consumer acceptance and raise prices. Meanwhile, improved eating quality consistency and increased cut sizes have made both white-meat chicken and pork loins more competitive with beef.

The financial crisis in Asia will likely remain a drag on beef trade through 1999, but it could ease in the latter part of the year if financial reforms stimulate consumer confidence. Stagnating demand is expected to limit U.S. sales to Korea. But continued strong growth in exports to Mexico and an expected modest increase to Japan could boost U.S. beef exports by 3 percent to 2.1 billion pounds in 1999.

Tightening supplies of processing beef in the U.S. are expected to increase demand for imported beef. If the Australia-U.S. exchange rate remains at its current level, imports from Australia should increase. Given the increased price of domestic processing beef, the U.S. will likely be a destination for foreign product squeezed out of Asia. U.S. imports in 1999 could increase about 5 percent to 2.8 billion pounds.

Pork production is expected to rise about 2 percent in 1999, after posting a nearly 10-percent gain in 1998. Although per capita pork supplies are expected to rise, hog prices are expected to be about the same as in 1998 due to the sharp reduction in beef supplies. With abundant pork supplies and reduced beef available, retailers will likely favor pork over beef for featuring. Retail pork prices could edge lower in 1999 due to this increased featuring and to a narrowing of the farm-retail price spreads from record-wide spreads in 1998.

This year, the nearly double-digit rise in pork production, along with a 3-percent

U.S. Livestock and Poultry Products—Market Outlook

		Beginning stocks	Production	Imports	Total supply	Exports	Ending stocks	Consumption		Primary market price
								Total	Per capita	
		Million lbs.							*Lbs.*	*$/cwt*
Beef	1998	465	25,396	2,675	28,536	2,085	350	26,101	67.6	65-68
	1999	350	23,931	2,800	27,081	2,155	350	24,576	63.1	70-76
Pork	1998	408	18,917	600	19,925	1,075	470	18,380	52.8	36-38
	1999	470	19,380	570	20,420	1,120	490	18,810	53.5	36-39
										c/lb.
Broilers	1998	607	27,964	4	28,575	4,925	650	23,000	73.9	56-59
	1999	650	29,141	4	29,795	5,025	650	24,120	76.9	55-59
Turkeys	1998	415	5,448	1	5,864	557	425	4,881	18.1	59-62
	1999	425	5,359	1	5,785	600	400	4,784	17.5	60-64
		Million doz.							*No*	*c/doz.*
Eggs*	1998	7.4	6,631.9	4.5	6,643.8	236.0	10.0	5,470.9	242.9	75-78
	1999	10.0	6,765.0	4.0	6,779.0	243.0	10.0	5,556.0	244.5	70-76

Based on May 12, 1998 *World Agricultural Supply and Demand Estimates.*
*Total consumption does not include eggs used for hatching.
See appendix tables 10 and 11 for complete definition of terms.

Economic Research Service, USDA

rise in competing meat supplies and a lackluster pork export market, is expected to pressure hog prices down about a third from 1997. Hog producers, particularly those with higher costs, are facing a profit squeeze, though lower feed costs are softening the effect of low hog prices. Declining feed costs may push cash costs down into the low to mid-$30's per cwt, forestalling a liquidation of the breeding herd. Modest expansion by large, lower-cost producers is expected to continue, while the exit of higher-cost producers may have accelerated.

Pork exports are expected to increase 3 percent in 1999 as Mexico and Russia purchase attractively priced lower-value products. Despite the appreciation of the dollar against the yen, shipments to Japan are expected to remain relatively steady. Japan is the largest U.S. customer for the higher-valued pork products.

Broiler production is expected to continue growing slowly in 1999, up 4 percent after increases of 3.5 percent in 1997 and 1998. Broiler producers are expected to remain cautious when making production decisions, as there will continue to be very large domestic meat supplies and uncertainty in the export market. Lower feed costs in 1998 will more than offset lower broiler prices and improve net returns to broiler producers.

Broiler exports in 1999 are expected to reach 5.025 billion pounds, up only slightly from 1998's forecast 4.924 billion pounds. Slower growth is expected in shipments to Russia, other Newly Independent States (plus the Baltics), Mexico, South Africa, and a number of Asian markets (chiefly Japan). U.S. poultry exports to Hong Kong are forecast to rebound somewhat in 1999, but remain below 1997. U.S. poultry exports will also face strong competition from U.S. pork exports and foreign poultry producers—U.S. pork exports compete as a prime ingredient in processed products and sausage.

Turkey production is expected to decline in 1999 after 3 years of negative returns for turkey producers. Modest export demand and competition from large pork supplies in the domestic market are expected to prevent price rises. Some turkey production facilities will convert to chicken production. Turkey exports are expected to grow to 600 million pounds in 1999 after falling to a forecast 557 million pounds in 1998. Continued growth in the Mexican market and higher shipments to Hong Kong will be behind the increase. Exports to Korea are expected to remain depressed due to its financial problems.

Egg production is expected to continue increasing in 1999. Lower feed costs are expected to offset lower wholesale egg prices, maintaining attractive net returns for producers that began in 1995. Large increases in chicks hatched for table-egg production signal a continuation of larger flock sizes for next year. Egg exports are forecast to reach 243 million dozen in 1999, up 3 percent from 1998's forecast. Higher projected shipments to Canada and rebounding exports to Hong Kong are expected to provide most of the increase.

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Briefs

Specialty Crops

Dry Bean Plantings Up for 1998, But Little Change in Potato Acreage

When planting this year's dry bean and potato crops, producers have had to assess both the current market situation and the possibility of unusual weather continuing as the result of El Niño. USDA's *Prospective Plantings* report indicates U.S. *dry bean* growers intend to plant 1.94 million acres in 1998. This would be 5 percent more than a year ago and 1 percent more than the average for the 1990's. Improved prospects for exports to Mexico, the United Kingdom, and Iraq in the coming year are likely the driving force in increasing dry bean planted acreage this spring.

Most of the indicated gain in dry bean acreage will be in North Dakota (up 17 percent to a record high) and Minnesota (up 18 percent). North Dakota farmers grow primarily pinto and navy beans, while Minnesota growers plant kidneys, navies, and pintos. Farmers in Nebraska and Utah are also expected to plant more dry beans (up 5 and 3 percent). Pinto beans are grown in both these States, and Nebraska is also the principal producer of Great Northern beans, which are expected to see strong export growth to Iraq this year. A recent United Nations resolution will permit Iraq to sell more oil to earn revenue for food purchases in 1998.

Increased dry bean acreage is anticipated despite a 25-percent decrease in average grower prices for the first 7 months of the 1997/98 marketing year (September-March) compared with the same period a year ago. However, grower prices have strengthened 30 percent from their harvest lows last fall. Most of the gain in prices came when Mexico, where bean production fell short last year, auctioned import licenses for up to 100,000 tons of beans during the year (Mexico imports mainly pinto and black beans).

Reduced dry bean area is expected in California (down 11 percent), Michigan (5 percent), and Colorado (4 percent). California's large stocks of lima beans are behind the acreage reduction in that State, while heavy stocks and low prices for navy beans are encouraging Michigan growers to consider alternative crops like soybeans.

The current overall market situation indicates little change in *potato* acreage from last fall's 1.2 million planted acres. Planted acreage may increase slightly in some high-yielding areas in western States, but will likely decrease in Maine and the Red River Valley of North Dakota and Minnesota. Increased plantings of dry beans, sugar beets, and soybeans—substitute crops in several important potato growing States—also seem to signal little increase in fall potato acreage.

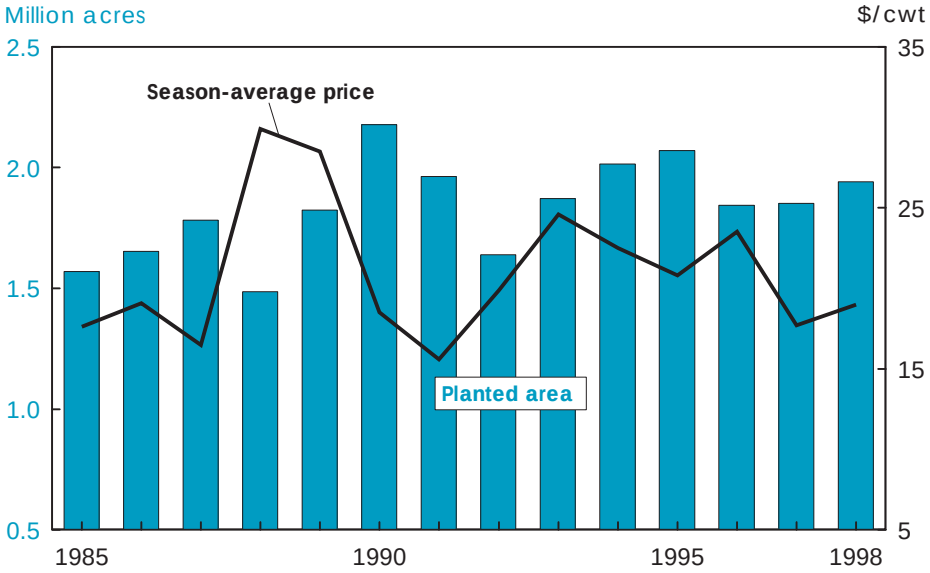
Prices for the 1997 crop (marketed through August 1998) have rebounded significantly following a year of the lowest prices since 1987. Record production in 1996 caused grower prices to fall to $4.93 per cwt for the 1996/97 marketing year. Reduced production last fall has since helped to raise grower prices (September to February) for all potatoes 19 percent above year-earlier levels. Prices for fresh potatoes, up a dramatic 53 percent from a year ago, account for most of the increase. Prices for processing potatoes, up only 1 percent from the same period a year ago, are limited by contracts with processors made prior to last fall's growing season.

Retail prices have not reflected the significant increase in grower prices for fresh potatoes. Average retail prices for fresh potatoes from September through February were up only 6 percent.

Although reduced production last fall boosted grower prices, inventories of both fresh potatoes and frozen potato products (mostly french fries) remain high. Fresh stocks this spring, although below last year's record levels, are 5 percent above the average of the last 5 years. Additionally, higher prices this season have contributed to lower disappearance—down 2 percent through April from last year's record. Processor use through April was down 7 percent from last year's record, although only 1 percent below the level of 2 years ago.

The recent increase in processing use has helped contribute to record-large stocks of frozen potato products. Much of the recent inventory buildup has occurred in the Pacific States (California, Washington, Oregon), especially Washington and Oregon. With inventories at such high levels and a forecast for lower domestic consumption of fries in 1997/98, exports are likely to become increasingly important to fry producers in the Pacific States this year.

Dry Bean Acreage To Increase As Prices Turn Up



1998 planted area based on USDA's *Prospective Plantings* report. 1998 prices projected.
Economic Research Service, USDA

Although french fries are still the predominant potato export, the upward trend in fry exports has slowed somewhat in the past 2 years. French fry export volume increased just 3 percent from 1995 to 1996, recovering its pace in 1997 with a 13-percent increase. This is still a marked decline from the 27-percent average annual growth of the previous 4 years and the 51-percent average during 1985-95. North American markets continued strong in 1997, with exports up 48 percent from 1996, but growth in East and Southeast Asian countries (including Japan) slowed to 13 percent from the 688 million pounds exported in 1996. East and Southeast Asian countries still account for about 85 percent of U.S. french fry export volume.

Competition in export markets will likely remain rigorous through much of 1998 for potatoes and potato products, with record production in Canada and a return to normal production in Europe (both large exporters of french fries) in the fall of 1997. Tightness in export markets in East and Southeast Asia is also likely to continue due to economic crises in the region. For the 6-month period ending in February 1998—the first half of the new marketing year—U.S. french fry export volume to East and Southeast Asia was up just 3 percent from a year earlier, and export value was down. Total U.S. french fry export volume to all markets was up 5 percent during the period, while value was up close to 2 percent.

Based on overall market conditions and estimates of current-season prices, acreage of planted potatoes for 1998 (all seasons) is projected to be about unchanged from last year. Given recent trend yields and average acreage abandonment, total production for 1998 (all seasons) would be about 460 million cwt—virtually unchanged from last year. However, given the disappointing winter and spring crops due to the El Niño weather pattern, growers may plant more acreage for fall harvest as a precaution. USDA's first official estimate of planted acreage for fall potatoes, to be released in July, should provide a clearer indication of production, prices, and trade potential in the coming year.

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Prices Could Rise for Some Stone Fruits This Summer

Heavy rains in California in February and hailstorms in late March and early April have affected the State's 1998 production of stone fruits, especially plums and nectarines. Because California is a major production region for peaches, plums, and nectarines, prices for these stone fruits are likely to be higher this summer than a year ago. California produced, on average, 71 percent of U.S. peach output and 89 percent of the Nation's plums during 1995 through 1997, according to USDA's *Noncitrus Fruit and Nut 1997 Preliminary Summary*. The 1992 Census of Agriculture indicates that California growers produce about 93 percent of U.S. nectarines.

Preliminary estimates from the California Tree Fruit Agreement (CTFA)—a grower-funded organization that promotes fresh-market stone fruits—put California's 1998 plum shipments about 30 percent below last year, nectarine shipments about 9 percent lower, and peaches about 3 percent lower. Last year, USDA reported California production of plums, nectarines, and peaches at 486 million, 528 million, and 1.9 billion pounds. Last year's nectarine crop was a record; output of plums was the largest since 1994, and peach production was the largest since 1980.

Lower production of stone fruit is expected to combine with other factors to drive prices higher this season. California's relatively cool spring weather—about 10 degrees below normal—is delaying fruit development about 7-10 days for plums and 12-14 days for nectarines and peaches. The CTFA anticipated California's plum harvest to begin in mid-May, and the first peaches and nectarines could be ready for picking around May 27.

In South Carolina and Georgia, a 3-day freeze in the second week of March brought significant bloom damage to early peach varieties in these key producing States. The likelihood of smaller peach shipments from the Southeast this summer, coupled with delay in all stone fruit development in California, will help push up prices, notably in May and June, the early part of this year's stone fruit season.

The spring hailstorms contributed to the projected drop in California's plum output this year, damaging about 15 percent of the crop. In addition, the peak bloom period for many California plum orchards occurred in late February, and the cool, rainy weather at that time hampered pollination and resulted in a light fruit set.

Despite the heavy rains in February, California peaches and nectarines escaped significant damage. Peak bloom for most peach and nectarine orchards occurred in early March—later than for plums—and the crops benefited from 3 consecutive days of dry weather. Because peaches and nectarines, unlike plums, are self-pollinating (bees are not necessary), the wet, cool weather on some days during the peak bloom period did not disrupt the pollination process, and the blooms came in heavy.

The nectarine crop was affected by the spring hailstorms, though peaches suffered little damage because the fruit's fuzzy skin affords protection. Another factor in the production outlook is that both nectarines and peaches have had two consecutive bumper crop years. Given the alternate bearing nature of these fruits, this could signal lower output this year.

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The next issue of *Agricultural Outlook* will be published in August.

Briefs

Taking Measure of the Dollar's Value: New Exchange Rate Indexes

How best to measure the value of the dollar is a constant question in international economics. The correct answer is that no single measure fits all situations, and selecting a measure often depends on how it will be used.

Some measures are straightforward. Bilateral rates measure the value of the dollar against another currency. These are helpful in understanding what affects exports to particular markets. For example, analyzing changes in the yen-dollar exchange rate helps explain changes in beef exports to Japan. If the dollar's value rises against the yen, the price of U.S. beef to Japanese consumers would increase (assuming pass through by marketers) and imports from the U.S. would likely decline.

The "value" of the dollar becomes more complex when considering overall U.S. agricultural exports or even a single commodity because there are few instances in which a commodity is exported to a single country. For this, the analyst needs a measure of value that accounts for how the dollar is performing against the currencies of many countries.

In economics, such a measure is referred to as an effective exchange rate index. This measure of value is constructed by taking weighted averages of several bilateral exchange rates and combining them into a single index. The countries and the weighting scheme would depend on the market (commodity) being examined.

Agriculture-Based Exchange Rates

Since 1988, the Economic Research Service (ERS) has published measures of the dollar's real value through a set of indexes focused on world agricultural markets. The original set covered agricultural products in total, as well as wheat, corn, soybeans, and cotton. These exchange rate indexes covered both customer and competitor currency values. ERS recently added more categories, including high-value, consumer-oriented products (one of the fastest growing U.S. exports), vegetables, red meats, fruits and fruit juices, and poultry. The 20 indexes are available for months beginning in January 1970 (the original set of indexes began in 1976).

A fixed-weight scheme is used, with the weights calculated as 5-year averages (1990-94). For customer indexes, the weights are the shares of U.S. exports during the 1990-94 period for a particular commodity. For the competitor indexes, weights are country shares during the 1990-94 period of world exports (excluding U.S. exports) for a particular commodity.

The actual construction of an exchange rate index is simple. First, real bilateral rates are calculated by multiplying the U.S. dollar exchange rate by the ratio of consumer price indexes in the U.S. and the foreign country. This real rate is then divided by its average 1990 exchange rate to form an index. Next, each country's real exchange rate (now in index form) is multiplied by its share of trade in the particular commodity category. The final step is to sum all of the weighted rates to get that commodity's indexed exchange rate.

New Calculations Reflect Changes in World Market

Values for some of the indexes in the original set have changed in the new ERS calculations. This is due in part to changes in weights, and in part to a change in the mix of countries. A few small developing countries have been dropped since they fell below 1 percent of trade in the particular commodity category. This affected mainly the cotton indexes for customers and competitors. More significantly, Russia was added to customer indexes for wheat and for total agriculture.

The new *customer* index for total agricultural products has the dollar's value averaging about 2 percent above the original index for 1992-95, and about 0.8 percent higher the following 2 years. The wheat index has a more significant change, averaging 5 percent higher over the 1992-95 period. Finally, the value of the dollar averages about 3 percent lower over the 1976-85 period in the cotton index.

Two *competitor* indexes were altered. The cotton index shows the dollar's average value lower by almost 8 percent in 1976-89. The new competitor soybean index values the dollar somewhat higher overall, and with a significantly higher value—20 percent—beginning in 1994. This change results from Brazil rebasing its consumer price index.

What Do the Indexes Tell Us?

Both the customer and competitor indexes are constructed so that an upward movement indicates a rise in the dollar's value and a subsequent loss of price competitiveness for U.S. exports. The extent of the loss depends on how much of the rise an exporter is willing to pass on to customers; a U.S. exporter could cut prices to ameliorate some of the adverse competitive effects of the dollar movement.

Interestingly, a loss in U.S. competitiveness can occur even without a rise in the dollar vis-a-vis *customer* currencies. This is because agricultural exports from U.S. *competitors* are generally priced in U.S. dollars. For example, U.S. price competitiveness in the world poultry market apparently improved when the customer-based dollar declined 4.5 percent in 1996/97. But because the dollar also appreciated 13 percent against *competitor* currencies during the same period, competitors could cut their dollar export prices by up to 13 percent and not impact their home currency-denominated profits. If they cut dollar prices 10 percent, U.S. relative price competitiveness declines 10 percent. At the same time, home currency-denominated profits would still rise about 3 percent.

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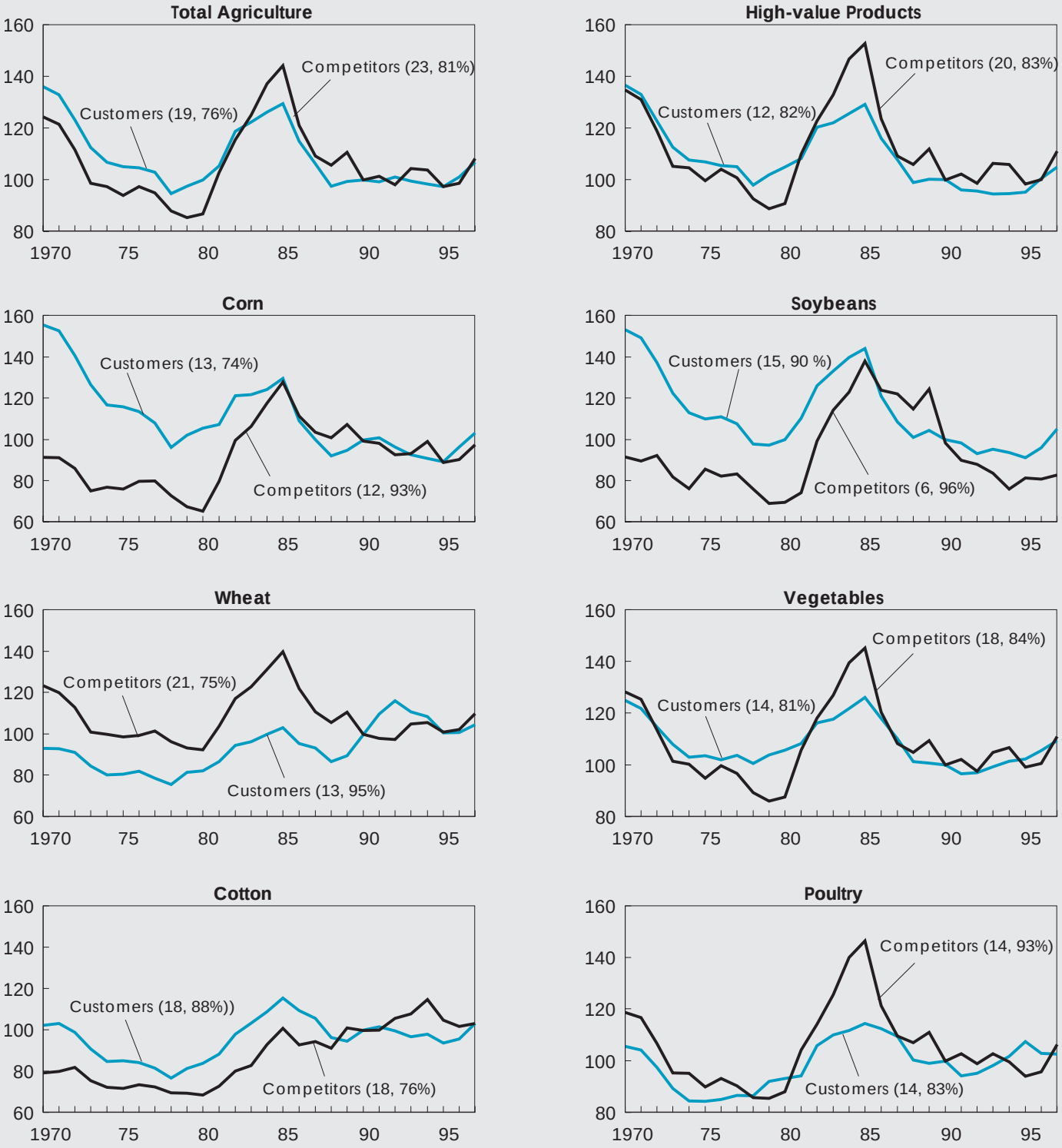
Internet users can find the complete data set and country list of exchange rate indexes at http://mann77.mannlib.cornell.edu/data-sets/international.

Real Agricultural Exchange Rates Vary By Commodity

Index of foreign currencies/US$ (1990=100)



Data in parentheses indicate the number of countries in the index and either the share of U.S. exports (for customers) or the share of world market, excluding the U.S. (for competitors) covered by the index.

Economic Research Service, USDA