Will the Wild Ride for U.S. Agriculture Continue in 1997?

By Mark Drabenstott

U.S. agriculture formally entered a new era in April 1996 when a new seven-year farm bill was signed into law overturning 60 years of commodity programs. The new bill set agriculture on a new course where markets, not government programs, will determine agriculture's products and its bottom line. The new path was underscored by one of the wildest years in commodity markets in recent memory. Grain prices soared to new heights, while cattle prices sank to new lows. The market swings pointed to the variations in income that agriculture may experience under the new farm bill. Nevertheless, a new record for U.S. agricultural exports also suggested that the market trend for the industry is decidedly up.

For most of U.S. agriculture the year just past was a good one. Crop producers had a banner year, with high prices and the first year of transition payments under the new farm bill. In contrast, livestock growers had a difficult time due to high feed costs, with problems especially pronounced for cattle producers. In the end, the boost to crop producers prevailed and U.S. farm income was up sharply, while increasing much less in the district due to the cattle situation.

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The year ahead should be another good one for U.S. agriculture, though probably not as good as 1996. A bigger than expected 1996 harvest will weigh on crop markets, keeping prices below 1996 levels. Still, the 1997 harvest will have a major bearing on prices since grain stocks remain low by historical standards. The lower crop prices will help fatten livestock profits, and the livestock industry could have its best year in the past four. Overall, farm income will probably decline in the nation but remain relatively strong. In the district, where cattle profits are particularly important, farm income will probably rise. With export markets staying strong and commodity markets more settled, agriculture will generally have smooth sailing in the new market era.

I. A WILD RIDE FOR AGRICULTURE IN 1996

The year just past for U.S. agriculture was remarkable for its wild swings in prices. Grain prices soared to record highs by midyear, only to plummet as farmers brought in a bigger than expected fall harvest. Cattle prices plunged midyear, yet staged a strong comeback. For the year as a whole, grain producers had strong earnings. However, the high grain prices and a severe drought in the Southwest led to a big cattle liquidation, sending cattle prices in late spring

Chart 1
U.S. NET CASH FARM INCOME

* Forecast
Source: U.S. Department of Agriculture, Economic Research Service, *Agricultural Income & Finance*.

to their lowest point in many years. The low prices left some cattle producers with losses for the year. Other livestock producers, meanwhile, managed thin profits due to relatively stronger prices for poultry and pork. On balance, the high crop prices and abundant harvest led to a sharp jump in farm income in the nation. In the Tenth District, where cattle production is much more important, the gain was more modest.

Improved farm finances

U.S. net cash farm income, a broad income measure which nets cash expenses from cash receipts, climbed almost $10 billion to $57.4 billion in 1996 (Chart 1). The gain came almost entirely from record receipts from crop production. Livestock receipts also rose, although livestock profits fell due to the losses among cattle producers. In nominal terms, net cash income is within $1.5 billion of the record set in 1993. Adjusted for inflation, farm income also posted a sizable gain in 1996 but remains well below the levels of the mid to late 1980s. Net farm income, another measure of farm income which takes into account changes in farm inventories, surged ahead 49 percent due a big buildup in grain stocks.

Farm income rose modestly in the Tenth District on average, but some farmers posted big gains while others suffered sizable losses. Crop pro-

Table 1

FARM BALANCE SHEETS ON DECEMBER 21

(Billions of dollars)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Assets										
Real estate	583.7	600.9	618.4	624.4	642.8	673.4	706.9	755.7	808.6	865
Nonreal estate	205.9	214.4	220.4	218.0	226.1	231.2	231.2	222.3	226.4	231.0
Total assets	789.6	815.3	838.8	842.4	868.9	904.6	938.1	978.0	1,035.0	1,096.0
Deflated	917.1	908.9	896.2	865.8	868.9	881.7	894.3	908.9	941.8	974.2
Liabilities										
Real estate	77.8	76.0	74.7	74.9	75.4	76.0	77.7	79.3	81.6	83
Nonreal estate	61.7	61.9	63.2	64.3	63.6	65.9	69.1	71.5	73.7	76
Total liabilities	139.5	137.9	137.9	139.2	139.0	141.9	146.8	150.8	155.3	160.0
Deflated	162.0	153.7	147.3	143.1	139.0	138.3	139.9	140.1	141.3	142.2
Proprietor's equity	650.1	677.4	700.9	703.2	729.9	762.6	791.3	827.2	879.7	937
Deflated	755.1	755.2	748.8	722.7	729.9	743.3	754.3	768.8	800.5	832.9
Debt-to-asset ratio (percent)	17.7	16.9	16.4	16.5	16.0	15.7	15.6	15.4	15.0	14.6

Note: Figures for 1996 and 1997 are forecasts. Also, table excludes operator households.

Source: U.S. Department of Agriculture.

ducers in the district had one of their best years in memory. After a poor wheat crop, district farmers harvested excellent fall crops and many marketed their crops at favorable returns. The district corn crop was especially large, up by half over 1995 and the largest in more than a decade. District cattle producers, meanwhile, endured another difficult year. Cattle feeders staged a rebound in the last half of the year and returned to profitability while cattle ranchers lost money all year. Despite high corn prices much of the year, hog producers fared well overall.

The jump in farm income nationwide bolstered farm balance sheets. U.S. agriculture's balance sheet posted healthy gains in 1996 (Table 1). Farm assets climbed 5.8 percent, the biggest rise since 1980. Farmland, which makes up nearly three-quarters of total farm assets, increased significantly in many parts of the nation, led by double-digit gains in many parts of the Corn Belt. In the Tenth District, where losses in the cattle industry were more telling, nonirrigated farmland values rose 5.3 percent for the 12 months ended September 30, 1996. Farmland values were up the most in Nebraska, where irrigated corn producers had a banner year. They advanced the least in Missouri.

Notwithstanding a strong year in their income statements, farmers generally held their debt level in check in 1996. For the nation, farm debt edged up 3.0 percent in 1996 to $155 billion. With assets increasing at an even faster rate, the sector's debt-asset ratio edged down to 15.0 percent, the lowest in more than three decades.

While agriculture's balance sheet has improved overall, many cattle producers experienced a further erosion of capital in 1996. Debt levels increased somewhat faster in the cattle industry than the rest of U.S. agriculture as many producers extended repayment schedules. While some producers have been forced from business, the percentage remains small, and smaller than expected earlier in the year.

Overall, 1996 was a good year financially for U.S. agriculture. Excellent crops, generally high crop prices, and the first payouts to farmers under the new farm bill led to a banner year for crop producers. The high corn prices put a damper on the livestock industry, but pork and poultry producers did well overall. The biggest source of weakness was the cattle industry, yet even there conditions were on the mend as 1996 drew to a close.

A banner year for crop producers

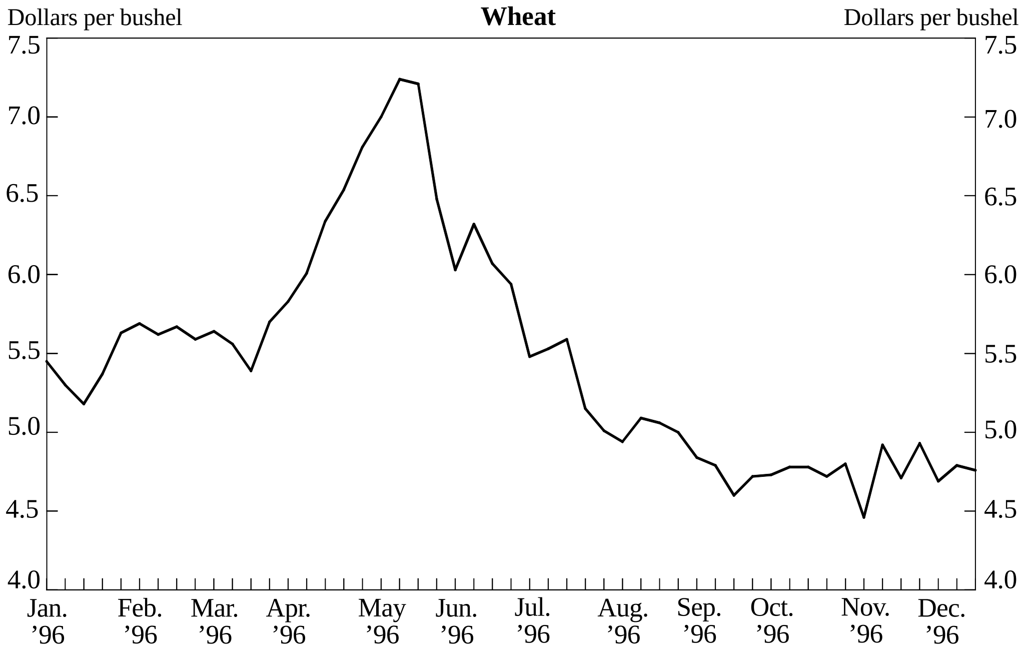
Crop producers generally had a banner year in 1996. The only negative in an otherwise bullish year was a sharp fall in winter wheat production due to drought conditions. Drought in a number of southwestern states, including Oklahoma and Kansas, led to a sharp reduction in the winter wheat crop, which was partly offset by a big spring wheat crop. The remaining principal crops turned out to be excellent. Wheat and corn prices hit record highs in the summer due to concerns about the size of the 1996 crops (Chart 2). The market was concerned because carryover stocks were very low when the year began. In the end, those concerns faded—and crop prices fell—as good growing conditions yielded a large fall harvest. Crop income was up sharply in the district despite the shortfall in wheat production. Many wheat farmers were able to partially recover their wheat earnings by planting their wheat fields to grain sorghum.

The nation's wheat producers harvested another mediocre crop in 1996 (Table 2). While production inched ahead of the 1995 crop, it still fell short of the three previous years. Production totaled 2.28 billion bushels, about 5 percent above the year before. Production of winter wheat, which is concentrated in the district, fell 7 percent due to drought and generally poor growing conditions. Production of spring and durum wheat, on the other hand, jumped 29 percent. Northern growers increased plantings in response to high prices and then enjoyed an excellent growing season. Overall, the nation's wheat yield was 36.3 bushels an acre, up a half bushel from the previous year.

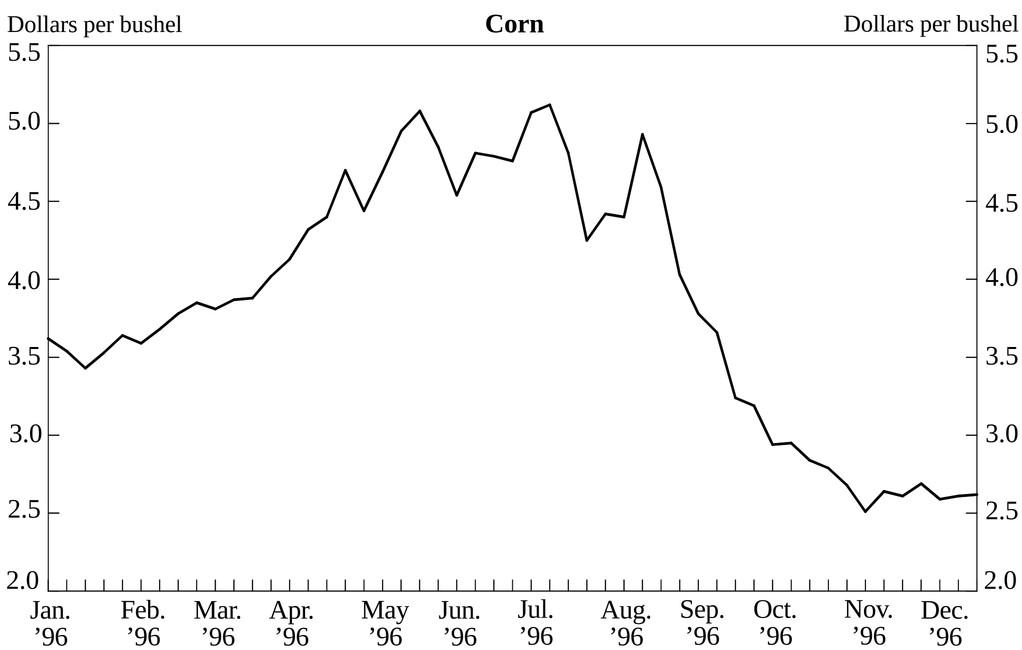
Wheat prices climbed to record levels in 1996 before settling back as the year progressed. In late spring and early summer, fears that the drought would leave wheat stocks thin pushed wheat prices over $7.50 a bushel, a record high. Another factor supporting prices was strong export demand. During the summer, however, prices began to slide as the winter wheat harvest began and conditions for the spring crop remained excellent. By fall, swelling supplies of wheat and other grains pushed prices below their year-beginning level. For the 1995-96 marketing year that ended May 31, wheat prices averaged $4.55 a bushel, up nearly a third from the previous year (Table 3).

Corn prices followed a similar pattern due to concerns about tight supplies. Carryover stocks of corn were only 426 million bushels at the end of the 1995-96 marketing year, the lowest in more than three decades. Some corn processing plants shut down in mid-summer due to tight supplies. Thus, the market watched the 1996 crop with special interest, wondering if the crop

Chart 2
GRAIN PRICES



Source: U.S. Department of Agriculture.



Source: U.S. Department of Agriculture.

Table 2

U.S. AGRICULTURAL SUPPLY AND DEMAND ESTIMATES

(December 12, 1996)

	Corn (bu.)			Feedgrains (mt.)		
	Sept. 1-Aug. 31			June 1-May 31		
	1994-95	1995-96	1996-97	1994-95	1995-96	1996-97
Supply						
Beginning stocks	850	1,558	426	27.4	45.3	14.4
Production and imports	10,113	7,390	9,275	287.9	211.9	269.8
Total supply	10,962	8,948	9,702	315.2	257.2	284.2
Demand						
Domestic	7,227	6,294	6,645	207.5	179.7	194.7
Exports	2,177	2,228	1,900	62.4	63.0	54.8
Total demand	9,405	8,522	8,545	269.9	242.8	249.5
Ending stocks	1,558	426	1,157	45.3	14.4	34.7
Stocks-to-use ratio (percent)	16.6	5.0	13.5	16.8	5.9	13.9

	Soybeans (bu.)			Wheat (bu.)		
	Sept. 1-Aug. 31			June 1-May 31		
	1994-95	1995-96	1996-97	1994-95	1995-96	1996-97
Supply						
Beginning stocks	209	335	183	568	507	376
Production and imports	2,522	2,181	2,407	2,413	2,251	2,352
Total supply	2,731	2,516	2,590	2,981	2,757	2,728
Demand						
Domestic	1,558	1,482	1,510	1,287	1,140	1,343
Exports	838	851	900	1,188	1,241	950
Total demand	2,396	2,333	2,410	2,475	2,381	2,293
Ending stocks	335	183	180	507	376	435
Stocks-to-use ratio (percent)	14.0	7.8	7.5	20.5	15.8	19.0

Note: Data represent millions of bushels or metric tons.
Source: U.S. Department of Agriculture.

Table 3
U.S. FARM PRODUCT PRICE PROJECTIONS
(December 12, 1996)

Livestock	Calendar years 1995	1996*	1997+	Percent change
Choice steers	$66.24/cwt.	$64.99/cwt.	$64-69/cwt.	2.3
Barrows and gilts	$42.35/cwt.	$53.58/cwt.	$51-55/cwt.	-1.1
Broilers	$.56/lb.	$.61/lb.	$.54-.59/lb.	-7.4
Turkeys	$.66/lb.	$.66/lb.	$.64-.69/lb.	.8

Crops	Marketing years 1994-95	1995-96*	1996-97+	Percent change
Wheat	$3.45/bu.	$4.55/bu.	$4.20-4.40/bu.	-5.5
Corn	$2.26/bu.	$3.24/bu.	$2.50-2/80/bu.	-18.2
Soybeans	$5.48/bu.	$6.77/bu.	$6.30-7.00/bu.	-1.8

*Estimated.
+Projected.

Source: U.S. Department of Agriculture.

would be big enough to replenish stocks to a more comfortable level. The crop got off to a bad start due to an extremely wet planting season in the eastern Corn Belt. From then on, however, conditions were excellent. Estimates of the crop improved monthly. In the end, farmers harvested 9.27 billion bushels, the second biggest crop on record. The national corn yield hit 126.5 bushels an acre, the third best on record.

The driving factor in corn prices in 1996 was scarce carryover stocks. After the wet spring, prices shot up as concerns mounted that stocks could remain tight into 1997. Prices in May soared above $5 for the first time in history and generally held at that level throughout the summer. By fall, however, prices began to slide as expectations about 1996 improved steadily. By yearend, prices had settled into the $2.50 a bushel range, a dollar lower than when the year began. Nevertheless, for the marketing year that ended August 31, prices averaged $3.24 a bushel, almost a dollar higher and 43 percent better than the previous year.

The soybean market had similar concerns over carryover stocks and the size of the 1996 crop, but the concerns were not as great as for corn. U.S. producers harvested an ample soybean crop of 2.4 billion bushels, second largest on record. The crop was boosted by a 3 percent increase in plantings to a new high of 64.3 million acres. Many farmers in the eastern Corn Belt shifted from corn to soybeans because the wet spring prevented timely corn planting. Weather conditions throughout the nation and the district were generally favorable to soybean production. The national average yield was 37.9 bushels per acre in 1996, second only to 1994.

Soybean prices followed a pattern similar to corn and wheat prices. As in corn, carryover stocks were lean coming into 1996, though to a lesser degree. After the wet spring, fears of a poor 1996 crop lifted soybean prices above $8 for the first time in nearly ten years. Prices stayed in the $8 range until early fall, when the market began to significantly increase its estimate of the 1996 crop. By yearend, prices had settled back to around $7 a bushel, again below the level when the year began. For the 1995-96 marketing year ended August 31, farm-level soybean prices averaged $6.77 a bushel, 24 percent above the previous year.

Another tough year for the livestock industry

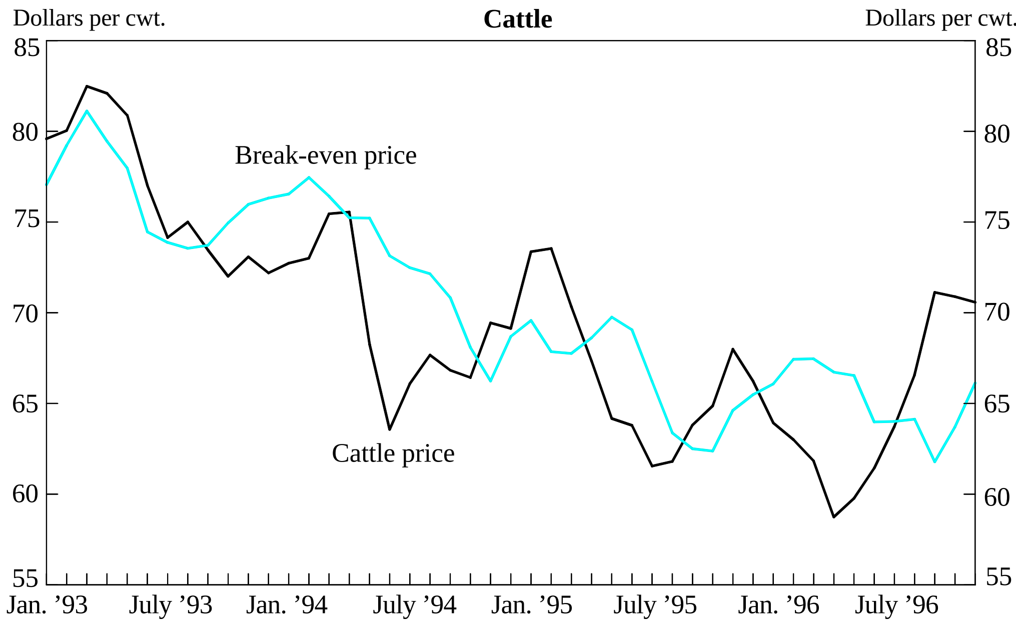
Livestock producers had another difficult year, punctuated by losses in parts of the cattle industry. Drought conditions in the Southwest in early 1996 forced many cattle producers to trim herds, and the glut of cattle forced prices for finished steers down to the mid-$50 a hundredweight range, the lowest level in many years. In addition, feed costs stayed high throughout much of the year, pushing break-even prices higher for producers. As beef supplies dwindled in the fall, prices recovered and profits returned for many cattle feeders. Despite the high feed costs, pork and poultry producers earned profits in 1996 due to healthy consumer demand and strong prices.

The cattle industry endured its third loss-plagued year in a row. The industry battled twin problems for much of 1996—low cattle prices and high feed costs (Chart 3). The year began with most producers at breakeven profit levels but soaring corn prices soon began to erode profit margins. In addition, drought conditions led to herd liquidations and tumbling prices. For the year, beef supplies increased 1.5 percent to a new record level. As financial conditions worsened for cattle feeders, prices also plunged for calves and yearlings, pushing ranchers into the red. By fall, the supply of cattle moving to market had eased, corn prices had fallen, and cattle feeders had returned to profitability. Ranchers, on the other hand, suffered losses the whole year.

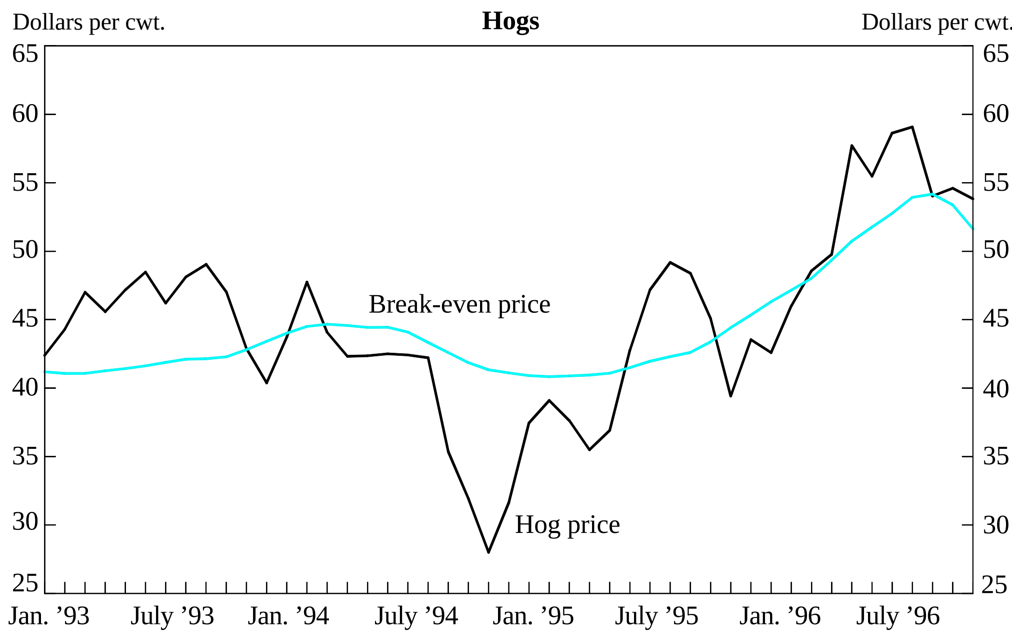
Prices for finished cattle ranged widely in 1996, but generally held below their 1995 level. For the year as a whole, prices for choice steers in the Nebraska direct market averaged $64.99, down 2 percent from the year before. The year produced wide swings in net earnings, and most cattle feeders probably broke even or managed slim profits for the year. Ranchers fared much worse. Calf prices dipped in the high $50 a hundredweight range in the summer months, the lowest levels in a decade.

Pork producers had a good year in spite of record corn prices. As corn prices climbed in the early months of 1996, pork producers became more nervous about their profits. Those concerns were allayed, however, as pork prices moved higher too (Chart 3). Consumer demand for pork products was especially strong in 1996. A contributing factor to the strength was the introduction of many bacon-enhanced hamburger products at many quick-service restaurants. On the supply side, pork output fell 3.8 percent in 1996 as producers were cautious to maintain or expand their production in the wake of high corn prices. The combination of surging demand and smaller supplies sent pork prices soaring. Prices for barrows and gilts in the benchmark Iowa-southern Minnesota market averaged $53.58 a hundredweight, up 27 percent from 1995. During the summer months, prices were in the low $60 range, creating the rare occurrence of hog prices above cattle prices. Most pork producers earned solid profits for the year.

Chart 3
LIVESTOCK RETURNS



Source: Kansas State University, AG-UPDATE.



Source: Iowa State University, Estimated Livestock Returns.

Poultry producers had a much better year than was expected early in the year. While broiler producers are especially vulnerable to rising corn prices, they can scale back production plans more quickly than cattle or hog producers. So, as feed costs soared, broiler producers throttled back their expansion plans. Consumer demand for both chicken and turkey products remained strong, helped by surging demand abroad. By the second half, when feed costs started coming down, producers saw profit margins widen. For the year, broiler production increased 5.7 percent, slightly faster than the year before but less than forecast. Broiler prices averaged 61 cents a pound, a nickel higher than in 1995 and the highest prices in many years. Broiler producers earned solid profits, though down somewhat from the year before.

Turkey producers were slower to cut back on their expansion plans and prices suffered as a result. Turkey production climbed 6.5 percent in 1996, more than double the growth in 1995. While demand was fairly strong, including a 30 percent jump in exports, the growth in consumption was not enough to lift prices. For the year, turkey prices averaged 66 cents a pound, the same as in 1995. Stable prices and higher feed costs left most turkey producers substantially in the red for the year as a whole.

II. ANOTHER GOOD YEAR IN 1997

U.S. agriculture looks forward to another good year in 1997. Commodity markets will probably not produce the wild swing in prices that characterized 1996, and prices should remain generally favorable. Crop prices will again be hostage to weather developments since grain supplies remain quite tight by historical standards, despite the better than expected harvest in 1996. Barring adverse weather conditions, crop prices should remain below 1996 averages. Still, strong export demand will keep prices strong relative to the experience of the 1990s, and many crop producers will receive an income boost from their payments under the new farm bill. Livestock producers look forward to much better profits in 1997 due to stronger prices and lower feed costs. In developing the outlook for 1997, it is useful to first consider the principal backdrop for the farm economy—expanding export markets and contracting government programs—before discussing prospects for crops, livestock, and farm finances.

Export strength and receding government programs

U.S. agricultural exports were exceptionally strong in 1996, setting a new record (Chart 4). While sales may weaken slightly in the year ahead, exports remain a vital underpinning for both crop and livestock markets. Export demand remained brisk last year despite record grain prices. Indeed, markets were generally surprised by how long sales held up in the face of high prices. The strong demand and high prices meant that sales of bulk commodities—mostly grains and oilseeds—were the highest since the export boom of 1981. Meanwhile, foreign demand for processed foods such as meat products continued to grow. This trend to so-called value-added exports remains a major force reshaping the world food market, and U.S. food companies appear well-positioned to benefit from it.

Export prospects for U.S. grains and other bulk commodities are strong in 1997, though off the record pace set in 1996. The major reason that trade may ease is that improved world grain supplies may result in lower demand for bulk commodities. From 1993 through 1995, world consumption of grain had outstripped world production. In 1996, the tables turned due to generally good weather throughout the world. Thus, with more grain in the world granary as 1997 begins, export sales from the United States are

Chart 4
U.S. AGRICULTURAL EXPORTS

* Forecast
Source: U.S. Department of Agriculture, Economic Research Service, Outlook for U.S. Agricultural Exports.

expected to decline modestly. Still, compared with annual use, world grain stocks remain near their lows over the past three decades. And demand remains fundamentally strong. Economies in Asia and Latin America are surging ahead, and consumers in these markets have been buying a lot of grain in recent years. Overall, U.S. bulk commodity exports are expected to fall about 10 percent in volume terms and about 12.5 percent in value terms.

Prospects for value-added exports appear bright. Sales of these products have marched steadily higher over the past decade, setting another record high in 1996. Demand has been especially strong in the Pacific Rim, Mexico, and other countries in Latin America. Booming meat exports illustrate both the strong foreign demand and the competitiveness of U.S. exports. U.S. exports of beef, pork, and poultry hit $7.1 billion in 1996, up 13 percent from the year before. With demand strong throughout the world, U.S. meat exports are expected to climb another 12 percent in 1997, reaching $7.9 billion. A recovering economy in Mexico, the third largest single buyer of U.S. farm and food products, will lend strength to sales of meat and other processed foods. Overall, value-added exports are expected to total $33.4 billion in 1997, an increase of 5 percent from 1996.

The new farm bill signed into law in 1996 will support further export market development. The bill ended 60 years of commodity programs. While these programs were intended to boost farm income, they also had the unintended consequence of tying many U.S. producers to bulk commodities. As recent trends clearly demonstrate, the strongest growth in the world food market has been in value-added products. By liberating farmers from restrictions on what they can plant, the new farm bill will allow more farmers to pursue the new market opportunities. In contrast to past commodity programs, farmers can now plant what they want and as much as they want.[1] Farmers will almost certainly explore new ways to add more value to the commodities they grow. A wave of new cooperatives throughout the Midwest aimed at processed foods underscores a renewed emphasis on value. In addition, the new farm bill will encourage the production of crops in those geographic areas where the competitive advantage is greatest in world markets. This will help to maintain the competitiveness of U.S. bulk products in a highly competitive global market.

The new bill does not leave producers entirely without federal support. Through the year 2002, producers of major commodities can receive "production flexibility contract payments." These payments are intended to compensate producers for the elimination of the commodity programs. Lawmakers feared that the sudden elimination of the programs might undercut farmland values and ignite a new round of farm financial problems. Thus, the new bill provides for seven years of payments, with payments steadily declining over that period. To receive the payments, farmers had to sign a seven-year contract and agree to continue the soil-conserving farming practices that were required under the previous farm bill. While the law does not prescribe what the federal government's role will be in agriculture after 2002, there is a strong presumption that agriculture will be even more dependent on markets than it is now.

Overall, U.S. agricultural exports will post another good year in 1997. Sales of bulk and value-added products are expected to total $55.5 billion, off 7 percent from the record pace of 1996 but still among the best years on record. These sales will lend strength to both grain and livestock markets in the United States.

A good year for crop producers

Crop growers are unlikely to repeat the bell-ringer profits of 1996, but 1997 promises to be generally strong. Prices will be lower on average than in 1996, yet high relative to the record of the 1990s. Export demand remains robust, providing a strong undertone to crop prices. The second year of payments under the new farm bill will help bolster the bottom line. And grain stocks remain sufficiently tight that commodity markets may provide some good selling opportunities if weather developments introduce new concerns about the size of the 1997 crops.

The wheat outlook is weaker than a year ago, due mainly to more sluggish export demand. Importing nations began to cut back on purchases in the world market when prices hit record highs in the spring and early summer. In addition, world production of wheat increased markedly in 1996. In fact, 1996 was the first time in four years that world wheat production exceeded consumption. With the United States facing large competing supplies from other major wheat exporters like Australia, Canada, and France, U.S. wheat export shipments are expected to drop by a quarter in 1997.

Stronger domestic use will offset some of the slump in exports. Domestic use is expected to climb 18 percent as consumer demand increases and more cattle feeders return to more wheat in their rations. Feed use dropped sharply in 1996 due to high wheat prices. U.S. consumers are buying more cereal-based products in pursuit of healthier diets. The continued rise in consumption of wheat in 1996 in the face of record prices underscores the strength of this trend.

On balance, total demand for wheat will fall about 4 percent, while wheat supplies will be little changed. As a result, U.S. ending stocks of wheat are forecast to jump 16 percent. The stocks-to-use ratio will rebound from an extremely low 15.8 percent to 19.0 percent, somewhat below the levels of the early 1990s. With more ample stocks, prices are expected to ease from the high levels of 1996. For the 1996-97 marketing year, wheat prices are forecast to average $4.20 to $4.40 a bushel, still strong by historical standards.

The corn market will also have more ample stocks in 1997 due to the better than expected 1996 crop and easing foreign demand. Foreign demand was exceptionally strong in 1996, despite record prices. Because global supplies of feed grains were scarce, buyers continued to purchase even as prices climbed. In the year ahead, the supply picture has improved, with Canada, Australia, and the European Union all exporting more barley, a feed grain that often substitutes for corn. As a result, U.S. corn exports are projected to fall 15 percent in 1997.

Improved domestic use will offset the drop in export demand. Livestock feeders are expected to buy more corn in 1997 due to lower prices in late 1996. Feed use dropped sharply in 1996 as livestock producers trimmed herds and lightened rations in the wake of record prices for feedstuffs. In 1997, as livestock producers gear up production once again, domestic use is expected to increase 6 percent.

Overall, total demand for corn may be unchanged. With steady demand and bigger supplies from the 1996 crop, the stock of corn in U.S. grain bins at the end of the 1997 marketing year will be much larger than the scant levels a year ago. Carryover stocks are forecast at 1.2 billion bushels, nearly triple the 1996 level and the largest in four years. And reflecting the rebound in inventories, the stocks-to-use ratio will be a much more comfortable 13.5 percent instead of the record-low 5 percent last year. The bigger supplies will drive corn prices down to an expected range of $2.50 to $2.80 a bushel. While a sharp drop from the record $3.24 a bushel in the 1995-96 market year, the projected prices would still be the second-best this decade.

The soybean outlook is probably the strongest of the three major crops due to tighter stocks and strong demand. Export demand for U.S. soybeans remains brisk despite relatively high prices. Global demand for soybeans as a feed supplement is strong, and China will be an important buyer of U.S. soy products in the coming year. Soy oil exports are expected to be especially strong, despite strong competition from competing oils such as Indonesian palm oil. U.S. soybean exports are expected to reach 900 million bushels in 1997, a 6 percent increase and the largest volume of shipments this decade.

Domestic soybean demand will be generally robust in the coming year. Demand for soy oil is increasing steadily as it is used in a growing variety of foods and industrial products. Demand for soy meal in feed rations may be held back in 1997 due to corn prices that will be lower than in 1996. Soy meal can replace corn in many livestock feed rations.

Overall, total demand for soybeans will be about 2.4 billion bushels, the heftiest this decade. While demand is strong, the big 1996 crop will provide a corresponding lift in total supplies. Carryover stocks, therefore, are projected unchanged in 1997 at 180 million bushels.

Stocks will be tight at this level and will keep prices relatively strong. Farm level prices are expected to average $6.30 to $7.00 in the 1996-97 marketing year, little changed from last year's healthy levels.

A better year for livestock producers

Livestock producers should post big earnings gains in 1997. Feed costs will be well below the extraordinarily high levels of 1996, and cattle prices should be moving higher as supplies fall more in line with demand. Continued expansion may lead to lower pork and poultry prices in 1997, but profit margins may actually rise due to an even bigger drop in feed costs. Exports of U.S. meat products will continue to increase in 1997, providing general support for livestock prices in the United States.

The cattle industry looks forward to a much better year in 1997, leaving behind three straight difficult years. Beef production will edge lower by an estimated 0.4 percent in 1997 as producers recover from the losses of recent years. The cattle herd will be slow to rebuild because cattle ranchers, who provide breeding stock and calves to the industry, have suffered the biggest losses.

Beef demand should be quite strong in 1997. Domestic demand will be boosted by favorable retail prices for beef. As in 1996, retail beef prices will be attractive compared with pork and poultry. Export demand is projected to particularly strong. Exports of U.S. beef are expected to jump 18 percent in 1997 due to higher shipments to both Japan and Mexico. While Mexico is exporting more live cattle to the United States in the wake of NAFTA, the United States is shipping more beef products. This is a major benefit to the Tenth District, which produces much of the boxed beef headed to Mexico.

With strong demand and steady supplies, cattle prices are expected to strengthen from weak 1996 levels. Prices for finished steers in the Nebraska direct market are expected to average $66.50 a hundredweight in 1997, up about $1.50 from 1996. Prices may be weaker in the spring, when large numbers of cattle may be marketed from feedlots. Feeder cattle prices will also recover in 1997, though profitability may remain elusive for most ranchers. Prices for feeder steers at Oklahoma City are expected to average $64, $4 higher than the depressed market in 1996.

Pork producers will also benefit from cheaper feed in 1997. After trimming production in 1996 as corn prices hit record highs, producers seem likely to boost production again in 1997. Expansion was already being indicated in late 1996. After corn prices had settled lower in the fall, producers reported intentions to boost their farrowings in the first half of 1997. If those plans hold up, pork production is expected to increase 2 percent for the year as a whole.

The demand for pork will remain quite strong in 1997. The pork industry has effectively marketed its product to U.S. consumers, both in groceries and in restaurants. And exports will surge ahead an estimated 18 percent in 1997. Foreign demand remains strong in Russia and throughout the nations of the Pacific Rim. U.S. pork shipments are projected to top 1 billion pounds for the first time in 1997. Export sales now take 6 percent of U.S. pork production, a share that is rising rapidly.

Notwithstanding healthy demand, the bigger pork supplies appear likely to result in slightly lower prices in 1997. For the year, hog prices are expected to average $53, about $.50 less than the record high average set in 1996. Prices will probably be strongest in the first half of the year and then move somewhat lower as the year progresses and additional pork supplies come on line. With corn prices well below 1996 levels, most pork producers will probably earn bigger profits in 1997 than the year before.

Poultry producers can also expect bigger profits in 1997. After a profit squeeze in 1996, producers are likely to respond to lower corn prices by boosting production. Broiler production will continue its long-standing expansion in 1997, with output expected to increase 5.8 percent, roughly the same growth as the previous year. Turkey production, meanwhile, is expected to rise only 2.0 percent after a year of losses in 1996.

Demand for poultry products remains strong, but probably not strong enough to keep poultry prices from sliding in the face of bigger supplies. Domestic demand continues the steady expansion that has been underway for more than a decade. The poultry industry continues to broaden its product offerings at quick-service restaurants and in the grocery meatcase, and the consumer response has been quite strong. Export demand for U.S. poultry products is expected to weaken slightly in the new year due to large competing supplies from other exporting nations. Total U.S. poultry shipments are projected to increase 11 percent in 1997 after a 20 percent jump in 1996. With exports slowing and supplies still growing, poultry prices may be under some downward pressure in the coming year. Broiler prices may average 56 cents a pound, down 5 cents from the record prices in 1996. Despite that drop, producer profit margins should widen due to the bigger relative drop in feed costs. Turkey prices may be steady in 1997 due to a much smaller increase in supplies. Turkey producers should trim their losses in 1997, although the projected average price of 66 cents may not be high enough to restore profitability.

Strong farm finances in 1997

Farm finances should remain strong in 1997 despite lower farm income for the nation as a whole. Crop producers are unlikely to repeat the banner year they had in 1996, yet their incomes will be strong by recent standards. Crop prices are unlikely to reach the heights seen in 1996, but tight grain stocks may still provide farmers some attractive marketing opportunities in the futures markets if weather developments threaten the 1997 crops. And the second year of fixed payments under the new farm bill will keep crop incomes relatively high. Livestock producers will post sizable gains in 1997, as cattle prices strengthen and feed costs stay well below the high level in 1996. With farmland values on the rise, farm balance sheets should stay healthy.

Farm income will fall for the nation in 1997 but likely increase in the Tenth District. Most crop producers will record lower income in 1997 than in 1996. Most producers may see little change in the size of their crops, but prices will be significantly lower. The one exception may be for winter wheat producers, who had a poor crop in 1996 and may make up for that in 1997. In the nation, cash receipts from the sale of crops could drop nearly 7 percent. Livestock producers will earn bigger profits in 1997. While livestock cash receipts may be little changed from 1996, a drop in expenses will pad profits substantially. For the nation, the drop in crop receipts will be the telling factor. Net cash income is expected to fall more than $6 billion to $50.8 billion. Notwithstanding the downward trend for the nation, farm income may actually rise in the district. Livestock accounts for two-thirds of farm income in the seven district states, with cattle alone accounting for just over half. Thus, the improving cattle picture will likely be the telling factor in leading district farm income modestly higher in 1997.

The farm balance sheet should post marked gains in 1997. Farmland values are rising at a strong rate in many parts of the nation. While gains in the district have trailed other regions over the past year, a recovering cattle industry could help turn the tables in 1997. Farm debt may creep up as farmers increase their purchases of farmland and expand their livestock operations. Still, farm debt begins the year low relative to both farm assets and the capacity to service debt from farm income. Overall, a strong rise in farm assets will likely outweigh a modest rise in farm debt, leading to a healthy gain in farm equity.

III. SUMMARY

U.S. agriculture had a wild ride in 1996, with grain prices hitting record highs in the summer before settling lower, while cattle prices sank to new lows before staging a solid comeback. The gyrations in commodity prices were watched carefully as the industry finished its first year under a new farm bill devoid of the commodity programs that were long the hallmark and safety net of government policy. When the year was done, banner earnings for crop farmers more than offset another tough year for livestock producers, leading to a big increase in farm income nationwide and a modest gain in the district.

After a roller coaster year in 1996, agriculture looks forward to a good year in 1997, and one that promises calmer commodity markets. Crop producers will not repeat the record earnings from 1996, but still tight grain stocks will keep prices relatively strong. Livestock producers could have their best year in the past four, as feed costs come down and demand continues to grow at home and abroad. Overall farm income should rise moderately in the district while falling in the nation.

The year just past may have been a fitting herald of agriculture's new era. The new farm bill clearly pins the industry's fortunes on exploiting opportunities in the U.S. and world food markets. As events of 1996 plainly show, those markets provide some outstanding opportunities—and a fair share of challenges as well. The producers most likely to succeed are those who manage the market opportunities well. In the year ahead, market opportunities overall appear bright.

ENDNOTES

[1] There are limits on the ability of farmers to plant contract acres to fruits and vegetables. Planting of fruits and vegetables is prohibited unless the farmer has a history of planting them.