U.S. Agriculture: Review and Prospects

By Mark Drabenstott and Alan Barkema

An old maxim holds that too much of a good thing can be bad for your health. That maxim pretty well sums up U.S. agriculture's predicament in 1994. The nation's crop producers harvested record crops, with bins overflowing onto Farm Belt streets. Livestock producers sent record amounts of meat to the nation's meat counters. The abundance of food, however, brought the industry back to its traditional problem—record supplies bring low prices. Hence, farm income declined in 1994. Fortunately, most farmers and ranchers had healthy balance sheets to cushion the fall.

In the year ahead, the farm economy should stabilize. With bigger grain stocks overhanging the market, crop prices probably will stay low in 1995. Export markets should lend some support to crop prices, however, as recovering economies in Europe and Asia boost world food demand. Also, relatively low feed prices will brighten livestock prospects, particularly if cattle and hog prices continue to recover from 1994 lows. A new farm bill will be written in 1995 and, while the new bill will have little if any effect on the farm economy in 1995, the major overhaul of farm programs that now seems possible will have a lasting impact in years to come.

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A PRODUCTION BOOM IN 1994

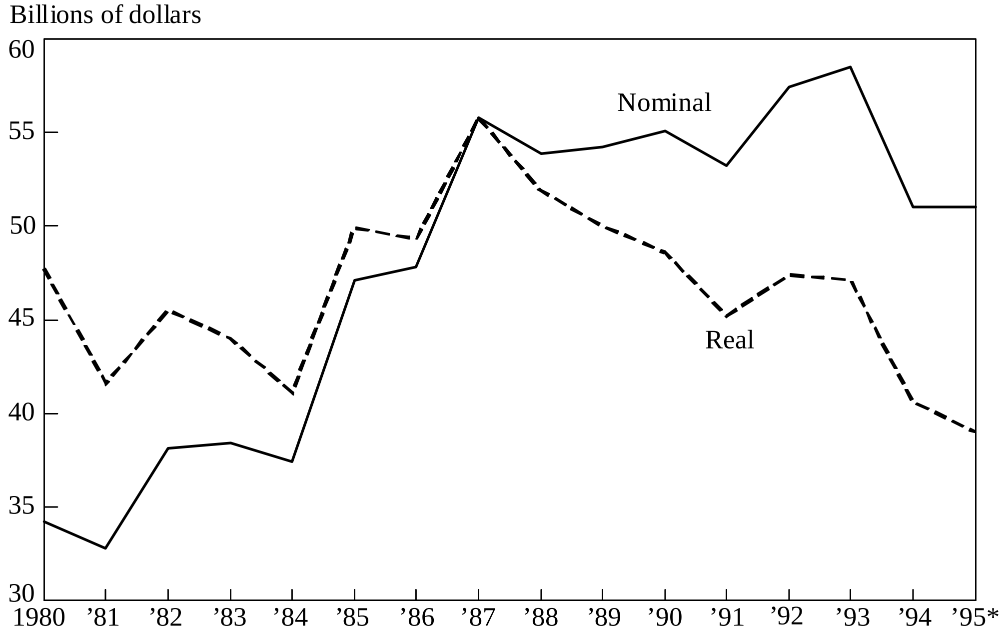
In many respects, 1994 was a record year for the nation's farmers. Crop producers harvested the biggest corn and soybean crops on record. Livestock producers sent more beef, pork, and poultry to market than ever before. But much to farmers' chagrin, the production boom quickly drove down farm prices to the lowest levels in years. The result was a sharp fall in farm income, cushioned only by the industry's strong balance sheet.

A down year for farm finances

Farm financial conditions turned down in 1994, although returns were quite mixed across the industry. Most crop producers had strong profits after harvesting record crops, a welcome turnaround from the weather-damaged crops the previous year. Livestock producers, on the other hand, had a difficult year as cattle and hog prices sank to levels not seen in recent years.

The nation's net cash farm income, which nets cash expenses from cash receipts, was $51 billion in 1994. That was down nearly 13 percent from

Chart 1
Net Cash Farm Income



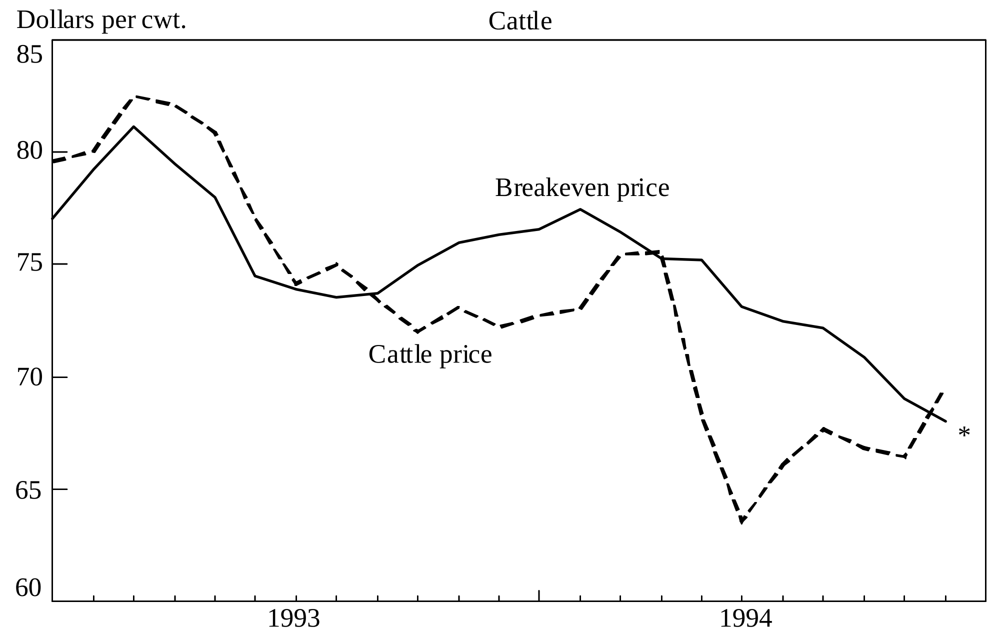
* Forecast.
Source: U.S. Department of Agriculture, Economic Research Service, Agricultural Outlook.

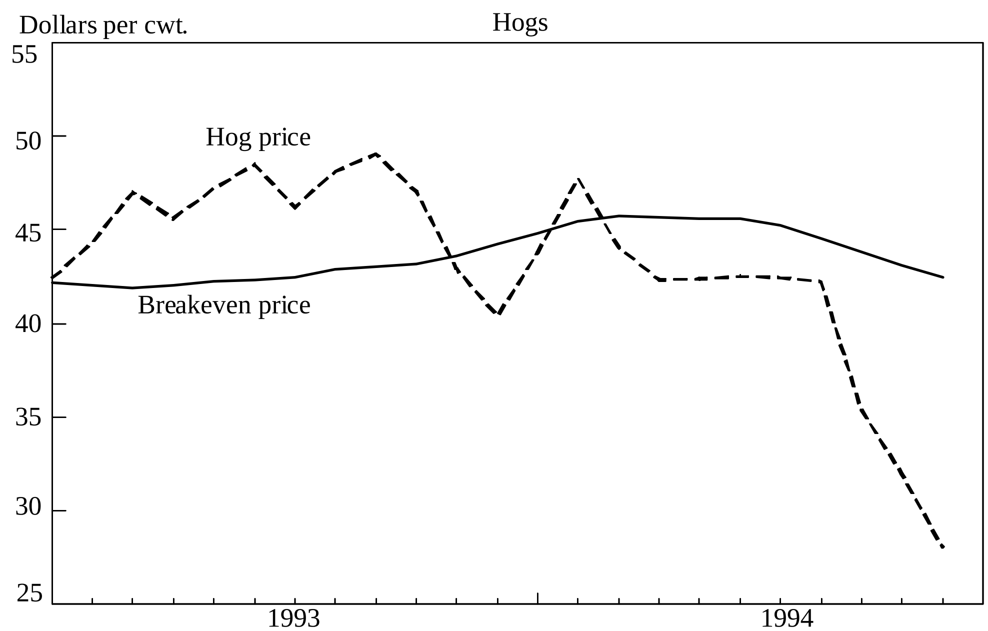
1993 and was the lowest since 1986 (Chart 1). Adjusted for inflation, cash income was down 14 percent. A sharp drop in livestock earnings and government payments to crop producers accounted for most of the drop. Net farm income, an alternative income measure which takes into account changes in farm inventories, was almost unchanged from 1993 due to the huge 1994 harvest, which refilled farm granaries to overflowing. The district’s net farm income in 1994 fell even more than in the nation due to the importance of the livestock industry in the region.

District livestock producers bore the brunt of the income drop in 1994. In the cattle industry, most feedlots began the year operating at a small loss, which quickly widened to $100 to $150 per head in early summer when big meat supplies triggered a sharp slide in fed cattle prices (Chart 2). Feedlot losses quickly pushed down the price of feeder cattle, dragging down incomes for district ranchers. The big meat supplies put gradual downward pressure on hog prices until September, when prices plunged to the lowest levels since the early 1980s, triggering big losses for pork producers.

District crop producers fared better than livestock producers in 1994, a switch from recent years. Crop prices remained high during the first half of the year, boosting incomes for those farmers who waited to sell the small crop harvested in 1993. The strong first-half prices also offered farmers an opportunity to boost incomes further by selling in advance their newly planted 1994 crops. Anecdotal

Chart 2
Livestock Returns





* Preliminary
Sources: Kansas State University, AG-UPDATE (top panel). Iowa State University, Estimated Livestock Returns (bottom panel).

Table 1

Farm Balance Sheets on December 31

(Billions of dollars)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Assets										
Real estate	542.3	578.9	595.5	615.7	628.2	623.2	633.1	656.0	682.0	682.0
Nonreal estate	182.1	193.7	205.6	214.1	220.2	219.1	228.4	229.0	238.0	235.0
Total assets	724.4	772.6	801.1	829.7	848.4	842.2	861.5	886.0	920.0	917.0
Deflated	747.6	772.6	771.8	764.0	748.8	716.2	712.6	717.4	729.0	707.0
Liabilities										
Real estate	90.4	82.4	77.6	75.4	74.1	74.6	75.6	76.0	77.0	79.0
Nonreal estate	66.6	62.0	61.7	61.9	63.2	64.3	63.6	66.0	66.0	71.0
Total liabilities	157.0	144.4	139.4	137.2	137.4	138.9	139.3	142.0	143.0	151.0
Deflated	162.0	144.4	134.3	126.3	121.3	118.1	115.2	115.0	113.3	116.4
Proprietor's equity	567.5	628.2	661.7	692.4	710.9	703.3	722.2	744.0	776.0	765.0
Deflated	585.7	628.2	637.5	637.6	627.4	598.0	597.4	602.4	614.9	589.8
Debt-to-asset ratio (percent)	21.7	18.7	17.4	16.5	16.2	16.5	16.2	16.0	15.5	16.5

Note: Figures for 1994 and 1995 are forecasts.
Source: U.S. Department of Agriculture.

evidence suggests, however, that relatively few farmers sold the new crops before prices plunged at midyear. The missed opportunity was made worse when the high first-half prices led to a decline of more than $5 billion in government subsidies designed to compensate farmers for low prices. Despite the lower prices, most farmers will still net more income from the big 1994 crop than they did from the disappointing 1993 harvest.

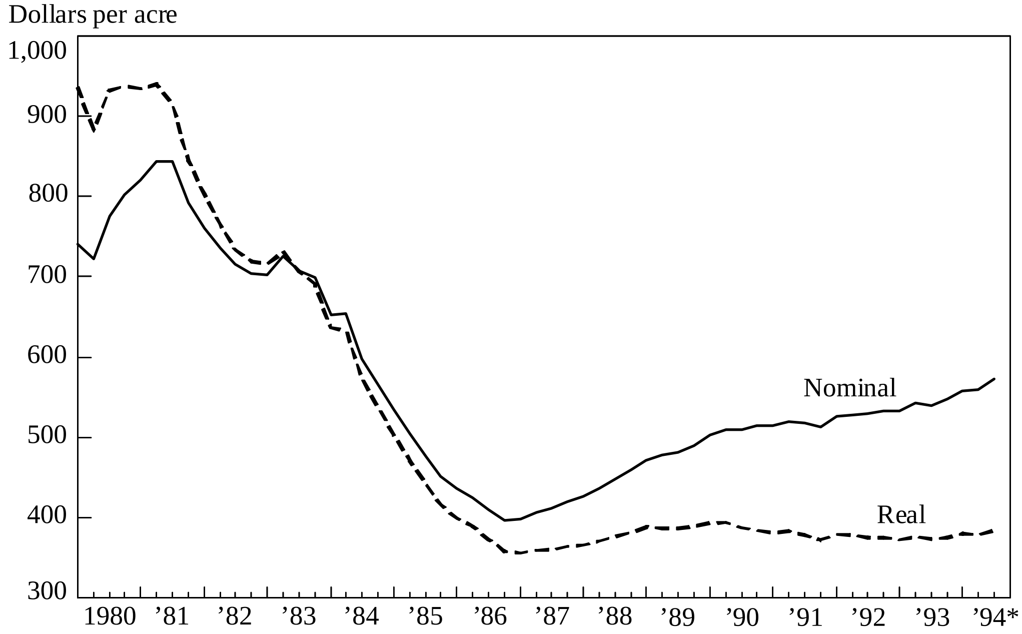
Despite an overall dip in farm earnings, agriculture's balance sheet suggests the industry remains in solid financial condition (Table 1). Further gains in asset values outpaced a modest increase in debt, boosting equity on the nation's farms and ranches to $776 billion. In the district, the value of farm real estate, which is about three-fourths of the industry's asset base, rose 5.6 percent during the year ending September 30, outpacing general price inflation (Chart 3). Gains in cropland values were strongest in Missouri, where harvest of record corn and soybean crops marked a major turnaround from the previous year. Rapid gains in ranchland values in Colorado, New Mexico, and Wyoming underscored investor interest in scenic mountain lands.

Farmers remained cautious financial managers during the year, increasing their debt load only slightly. As a result, the industry's debt-to-asset ratio remained a relatively low 15.5 percent. Farmers

Chart 3

Farmland Values

Tenth District



*Through September 1994.
Note: Values include only nonirrigated cropland.
Source: Federal Reserve Bank of Kansas City, *Agricultural Credit Survey*.

began paying more for credit during the year, though, as the five-year slide in farm interest rates came to an end. In the district, farm interest rates rose 78 basis points by the end of the third quarter. Despite higher interest rates, district bankers saw their loan demand strengthen gradually throughout the year. The average loan-deposit ratio in a survey of agricultural banks in the district climbed above 60 percent for the first time in a decade.

Overall, most financial indicators paint a picture of an industry in sound health, but that picture conceals the wide disparity in financial outcomes for crop and livestock producers in 1994. With a rebound in crop production, the year was one of recovery for crop producers. With slumping livestock prices, however, the year was one of substantial losses for cattle and hog producers. Those losses wore down the substantial equity cushion livestock producers had built in recent years of strong earnings.

Livestock profits tumble

Livestock producers suffered setbacks in 1994. First cattle prices and then hog prices sank to lows not seen for several years due to a major expansion in beef and pork production. Despite falling feed costs in 1994, livestock prices were so low that most producers had their worst losses in several years. Notwithstanding the red ink for red meat producers,

Table 2

U.S. Farm Product Price Projections

(December 9, 1994)

Livestock	1993	1994*	1995+	Percent change
	Calendar years			
Choice steers	$76.36/cwt.	$68.81/cwt.	$65-69/cwt.	-2.4
Barrows and gilts	$46.10/cwt.	$39.67/cwt.	$34-37/cwt.	-12.5
Broilers	$.55/lb.	$.56/lb.	$.50-.54/lb.	-7.1
Turkeys	$.63/lb.	$.65/lb.	$.59-.63/lb.	-7.6
Lamb	$65.85/cwt.	$66.17/cwt.	$63-68/cwt.	-.9
Milk	$12.83/cwt.	$13.00-13.10/cwt.	$11.75-12.55/cwt.	-7.3

Crops	1992-93	1993-94*	1994-95+	Percent change
	Marketing years			
Wheat	$3.24/bu.	$3.26/bu.	$3.35-3.55/bu.	5.8
Corn	$2.07/bu.	$2.50/bu.	$1.95-2.35/bu.	-14.0
Soybeans	$5.56/bu.	$6.40/bu.	$5.00-5.60/bu.	-17.2
Cotton	$0.55/lb.	$0.59/lb.	N/A	N/A

* Estimated.
\+ Projected.

Source: U.S. Department of Agriculture.

poultry growers turned in another profitable year in 1994. Overall, livestock profits in the seven Tenth District states were down substantially because the region produces far more beef and pork than poultry.

With cattle accounting for roughly 60 percent of farm sales across the region, the woes in the cattle industry were the leading factor in the downturn of the district farm economy in 1994. While most analysts had expected more beef in 1994, the actual 5.7 percent increase caught the market unprepared and sent prices tumbling. Production was especially strong in the first quarter, setting the stage for a slump in prices in the second quarter. In addition, the cattle slaughtered in 1994 were heavier than usual, further swelling beef production.

Prices for finished cattle started off the year comfortably in the mid $70 a hundredweight range. A huge supply of beef in the second quarter then sent prices tumbling to the low $60s. Prices struggled to recover throughout the remainder of the year and finally moved above break-even levels in the fourth quarter. For the year as a whole, prices for finished steers averaged $68.81, down more than $7.50 from the year before (Table 2). Nearly all cattle feeders lost money in 1994.

Pork producers also expanded production in 1994 and consequently suffered sharply lower pork prices. Pork production jumped 3.6 percent, as producers took advantage of relatively cheap corn prices to expand their hog herds. The rapid increase in production also reflected a major expansion on the part of large-scale commercial operators.

Pork prices held in the low $40 a hundredweight range in the first half of the year but then broke in the third quarter as red meat supplies started to weigh down the market. By the start of the fourth quarter prices had dipped to around $30, the lowest level in several years. The price drop continued to the mid $20s, creating big losses for nearly everyone in the industry. For the year as a whole, average prices for barrows and gilts in the benchmark Iowa—Southern Minnesota market sank to $39.67 a hundredweight, handing pork producers their biggest losses in more than five years. Following a multiyear string of profits, however, most producers still enjoy a financial cushion. Nonetheless, the extremely low prices seem likely to continue for a while and will probably drive some producers out of business.

The only bright spot in the livestock industry in 1994 was poultry. Broiler production increased 7.3 percent, continuing the persistent upward rise in chicken production and consumption. Demand was strong in both domestic and foreign markets. Aggressive marketing of rotisserie chicken led to a higher demand for chicken in food service establishments, one reason that per capita consumption of chicken rose to a record 70 pounds in 1994. Robust foreign demand led to a 39 percent surge in broiler exports. Exports now account for more than a tenth of domestic production. The strong demand kept broiler prices at 56 cents a pound, slightly higher than the previous year. With feed prices low, most broiler producers garnered better profits in 1994 than in 1993.

Turkey production rose 3.3 percent in 1994 as producers responded to healthy profit margins. As with chicken, demand was strong at home and in the world market, where U.S. turkey exports were up a fourth, posting a new record. Mexico has become the leading market for turkey exports. Turkey prices averaged 65 cents a pound, up 2 cents from 1993. The strong prices and low feed costs added up to strong profits for turkey producers.

Crop production bounces back

The district's crop producers enjoyed a stellar 1994, a welcome turnabout after the disappointing harvest in 1993. Most farmers eyed the spring planting season warily, with memories of the wet weather and flooding that disrupted planting and destroyed many crops in 1993. But spring 1994 was warm and dry, and farmers raced to plant their crops well ahead of the usual pace in case the torrential rains returned. When the rains arrived, however, they were at the right time and in the right amounts. As a result, the 1994 harvest was the biggest ever, quickly replenishing the nation's shrunken crop inventories.

Wheat farmers harvested a good crop overall, although the crop fell well short of yield or production records. At 37.6 bushels per acre, the national average yield was down about a bushel from the year before and almost two bushels below the 1990 record. Wheat acreage was also down slightly, resulting in a wheat crop 3 to 4 percent smaller than the previous year's (Table 3).

Ample supplies and sluggish exports held wheat prices down during much of the year, with prices at the Kansas City Board of Trade languishing below $3.50 a bushel through the summer harvest season. But then a gradual tightening of global wheat supplies began pushing prices up. During the 1993-94 crop marketing year ending May 31, farm-level wheat prices averaged $3.26 a bushel, up slightly from the previous year.

Corn farmers, recalling the wet weather and flooding that prevented them from planting some fields the year before, welcomed the warm, dry spring that enabled them to plant their crops rapidly

Table 3

U.S. Agricultural Supply and Demand Estimates

(December 9, 1994)

	Corn (bu.)			Feedgrains (mt.)		
	September 1-August 31			June 1-May 31		
	1992-93	1993-94	1994-95	1992-93	1993-94	1994-95
Supply						
Beginning stocks	1,100	2,113	850	34.0	63.1	27.4
Production and imports	9,489	6,365	10,015	278.7	190.9	284.4
Total supply	10,589	8,478	10,865	312.7	254.0	311.8
Demand						
Domestic	6,813	6,299	7,185	198.6	186.3	205.2
Exports	1,663	1,328	1,750	51.1	40.3	51.4
Total demand	8,476	7,628	8,935	249.7	226.6	256.6
Ending stocks	2,113	850	1,930	63.1	27.4	55.2
Stocks-to-use ratio percent	24.9	11.1	21.6	25.3	12.1	21.5

	Soybeans (bu.)			Wheat (bu.)		
	September 1-August 31			June 1-May 31		
	1992-93	1993-94	1994-95	1992-93	1993-94	1994-95
Supply						
Beginning stocks	278	292	209	472	529	570
Production and imports	2,190	1,875	2,528	2,529	2,512	2,405
Total supply	2,468	2,167	2,737	3,001	3,041	2,975
Demand						
Domestic	1,406	1,369	1,472	1,118	1,243	1,207
Exports	770	589	785	1,354	1,228	1,250
Total demand	2,176	1,958	2,257	2,472	2,471	2,457
Ending stocks	292	209	480	529	570	518
Stocks-to-use ratio (percent)	13.4	10.7	21.3	21.4	23.1	21.1

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

and much earlier than normal. Freed from the requirement to hold land out of production under the government farm program and encouraged by strong corn prices, farmers planted 7.9 percent more acres than in 1993. Weather throughout the growing season was nearly ideal, with the dry spring followed by ample and timely rainfall during the summer.

As harvest neared, crop forecasters steadily ratcheted up estimates of the crop's size. The most recent estimate pegs the national average yield at a record 138.4 bushels per acre, surpassing the previous record by 7.0 bushels. With the large acreage and big yield, the crop is expected to be slightly more than 10 billion bushels, the biggest crop ever and 58 percent larger than the weather-ravaged harvest in 1993.

Corn prices skyrocketed in the early weeks of summer, as an anxious market worried the dry spring would turn to drought and shrivel the crop needed to replenish a dwindling inventory. Despite the high prices, many farmers who had harvested far less than expected the year before were reluctant to risk selling the prospective crop until they were more certain of its size. Others waited for still higher prices, which never came. The rains arrived in time for the critical pollination period, and prices plunged as markets quickly recognized a huge crop in the offing. Despite the mid-summer slide, corn prices averaged \$2.50 a bushel during the 1993-94 marketing year ending August 31, well above the \$2.07 average the previous year.

The 1994 growing season also proved ideal for the nation's soybean crop. During the favorable spring planting weather, farmers raced to plant the most acres to soybeans since 1986. Nationally, the crop averaged a record 41.5 bushels per acre, exceeding the old record established in 1992 by almost four bushels. With planted acreage up and a record yield, a crop of more than 2.5 billion bushels is expected, the biggest ever and more than a third larger than the 1993 crop.

With a small stockpile of soybeans left from the year before, soybean prices during the planting season were unusually sensitive to changing weather patterns that could affect crop prospects. Concerns about dry weather drove prices to a momentary peak in mid-June, giving farmers one last chance to capitalize on higher prices. But then prices plunged, falling by mid-July to the lowest levels in more than two years. Despite the precipitous summer drop, soybean prices averaged \$6.40 a bushel during the 1993-94 marketing year ending August 31, up 84 cents a bushel from the previous year.

A STABLE YEAR AHEAD

Agriculture is poised for a more stable year in 1995. With grain bins filled to overflowing, improvement in crop prices will be slow. But farmers will net more income from bigger government payments plus carryover sales of the big 1994 crop than they did from the poor crop the previous year. Cattle and hog producers should return to small profits as cheap feedstuffs ease pressure on the bottom line. In contrast to the record production and low prices of 1994, the rewriting of U.S. farm policy may be the headline event of 1995. A new Congress and a growing perception that a change in farm policy is due suggest that a significant reworking of U.S. farm policy may be in store.

Steady farm finances

The year ahead promises neither much improvement nor much deterioration in farm finances. Replenished inventories of most major crops promise to hold down crop prices and profits, prompting crop producers to look to the government farm program for a bigger share of their incomes. Likewise, expanding supplies of red meat and poultry in an already weak market point to continued low livestock prices and profits. The farm balance sheet should remain steady, with gains in farmland values and a modest accumulation of debt.

Farm income may be steady in 1995. With crop inventories newly replenished, major weather concerns will be needed to boost crop prices in 1995. Much of the big 1994 harvest will be sold in the first half of the year, keeping crop receipts even with 1993 despite lower crop prices. The government farm program will lessen the sting of lower prices, however, rewarding farmers with an estimated $10 billion to $12 billion in payments, nearly half again as much as in the previous year.

Weak feed grain and soybean prices should hold down feed costs for livestock producers, easing bottom line pressures. But expanding supplies of red meat and poultry may hold down livestock prices, confirming the livestock producer's slogan, "Cheap grain makes meat cheap." Overall, net cash farm income could be steady in 1995 at about $51 billion, while edging down slightly in real terms. Net farm income, which accounts for inventory changes, could decline by 15 percent as farmers cut grain stocks.

With farm incomes flat, limited improvement is likely in the farm balance sheet in 1995. Weak crop prices and concerns that future government payments will be cut back in the new farm bill may slow gains in farmland values. But farm debt could continue its gradual increase, crossing the $150 billion threshold for the first time since 1986. With a bigger debt load and only modest gains in asset values, farm equity could edge down slightly.

Credit conditions in 1995 may be slightly tighter than last year. Entering the new year, farm interest rates are about three-quarters of a percentage point higher than 12 months ago. While credit will be somewhat more expensive, most agricultural lenders signal that ample funds are available to fund solid credit requests. But with loan-deposit ratios up, agricultural banks may eye credit requests more carefully.

The biggest question mark in the farm financial outlook is when livestock prospects will improve. While few producers have exited the industry thus far, many enter the new year with their financial strength sapped by large losses in 1994. If market weakness persists in 1995, farm lenders could face a new round of business failures.

A new farm bill in 1995

Agricultural policy will be hotly debated in 1995 as Congress considers a new farm bill. Farm bills are written under a five-year cycle, so much has changed since the last one was enacted. First, farm programs have cost about $12 billion a year under the 1990 farm bill, a level of spending that continues to attract budget scrutiny, especially with the costly Conservation Reserve Program up for renewal. Second, the world food market has grown considerably since 1990, but value-added products are selling much better than the nation's traditional mainstay—bulk commodities. And third, the rural economy remains weak, raising questions about the efficacy of farm legislation in addressing rural economic problems.

These changes frame three questions that will be central to the upcoming debate. Will the farm program budget be cut? Will traditional commodity programs be scrapped in favor of other approaches? Will there be new legislation aimed at rural issues?

Will the farm program budget be cut? The cost of U.S. farm programs has fluctuated somewhat over the past five years, but on average has cost $11.9 billion annually for all Commodity Credit Corporation programs. Most of the funds have been spent on commodity programs, disaster programs, and export subsidies. In an attempt to rein in a rapid increase in ad hoc disaster payments, Congress passed legislation in October that reforms the crop insurance program and discourages disaster payments in the future.[1]

With steps underway to control disaster spending, commodity programs are likely to come under the most budget scrutiny in 1995. Traditionally the most expensive of all farm programs, commodity programs may be questioned on three counts. First, by their very design commodity programs tend to benefit larger farms. In 1990, the last year for which comprehensive data are available, the largest 6 percent of all farms (those with annual sales greater than $250,000) received a third of all commodity program payments. While that was less than their share of net cash farm income, it still meant that billions of dollars were sent to farms with an average net worth of $1.5 million.

Second, the ten-year old Conservation Reserve Program (CRP) is up for renewal, and dollars to fund the program will be difficult to find. The CRP was enacted in 1985 as a means of taking marginal cropland out of production and putting it into conserving use.[2] Although conservation has always been a goal, in 1985 the primary goal was boosting farm income at a time when enormous surpluses were depressing crop prices. Thus, the CRP was a serendipitous partnership between farm groups and environmental groups.

The CRP land contracts are now expiring and there is great pressure from landowners and environmental groups to renew the program. The problem is the budget. The CRP has cost taxpayers roughly $2 billion a year, dollars that were excluded from the farm program budget when the program was enacted. With greater budget pressures in Washington, Congress will renew the CRP only if it becomes part of the farm program budget, essentially forcing cuts elsewhere in the farm budget. Thus, a major budget battle looms on the CRP. Environmental groups will be supportive, but it remains unclear how much taxpayers will pay to keep marginal land out of production when farmers are in good financial condition.

Third, some may question why billions of dollars are being spent on commodity programs when a growing number of farmers no longer grow commodities. In many segments of U.S. agriculture, farmers are growing special products under contract. Among other things, these special products may be super lean hogs or white corn for tortilla chips. In any case, the farmer's income is tied to consistent delivery of a narrowly defined farm product, not a broadly defined commodity. Commodity programs are simply not as important to the incomes of these farmers and thus play a smaller role overall in U.S. agriculture.

Will traditional commodity programs be scrapped in favor of other approaches? The 1995 farm bill debate may be the first time when proposals to scrap the system first adopted in the Great Depression will be given any weight. Senator Richard Lugar, the new chairman of the Senate Agriculture Committee, stated in late 1994 that policymakers need to consider other approaches to farm policy, a rare public statement for the chairman of a Congressional agriculture committee.

The argument to scrap commodity programs is based on the simple premise that they are a policy tool whose time has come and gone. Changes in the world food market point out some notable drawbacks in the programs.

U.S. commodity programs encourage foreign producers to expand production, hurting the U.S. share of the world commodity market. By their very design, commodity programs take U.S. acres out of production in an attempt to restrict supplies and raise crop prices. Recent history suggests that as U.S. acreage has decreased, foreign acreage has increased. Foreign producers watch U.S. Department of Agriculture announcements on acreage idling guidelines as keenly as U.S. farmers do. In short, U.S. farm programs have idled roughly 60 million acres annually in recent years and the result has been a smaller share of the world market for U.S. farmers.

Commodity programs tend to tie farmers to bulk commodities, which have been the slowest growing portion of the world food market. To receive program benefits, farmers must plant the same commodity—year in, year out. This discourages farmers from moving to other commodities that may have greater market potential.

Commodity programs also hinder the export of value-added farm products, which have been the fastest growing part of the world food market. By supporting commodity prices, commodity programs thereby increase the input costs for firms that are producing processed food products like wheat flour or pasta. This makes such products less price-competitive in the world food market.

Against all these drawbacks is the fact that commodity programs have been the primary means of boosting farm incomes over time. This stream of government payments is extremely popular among a wide range of farm and commodity groups and is viewed as an entitlement with a major impact on rural families.

It is unclear what would replace commodity programs if they were scrapped. Some may argue for not replacing them at all. The real issue lies in asking what goals remain for public policy as it relates to agriculture and the rural economy. Among the many goals that may come forward, two seem likely to have strong support. Stabilizing farmers' income and consumer food prices are both long-standing goals that can be met with tools other than commodity programs. Revenue assurance programs are receiving more attention, for instance, as an unconventional way to stabilize farm income without using commodity programs.

Another goal with wide public support is responsible stewarding of rural America's natural resources. There is little test of how much taxpayers are willing to pay for this, but conservation programs like the CRP will probably remain part of the mix.

Will there be new legislation aimed at rural issues? The farm recovery of the past several years has left farmers in strong financial health while leaving many rural communities struggling. It has become ever more clear, therefore, that neither farm policy nor the farm economy can provide a sustainable rural economy. This creates a policy paradox because farm policy has always been viewed as the framework for making rural policy.

In the 1995 farm bill debate, some policymakers may argue for new approaches to rural policy that might use dollars previously earmarked for farm programs on innovative rural programs. These programs might include investing in rural infrastructure, creating an extension service to assist rural entrepreneurs, and enhancing education for rural youth and adults. Such legislative initiatives are made difficult by the lack of a galvanized rural coalition and the opposition of some farm groups anxious to preserve the policy status quo. Notwithstanding these difficulties, if commodity programs do come under serious scrutiny, rural initiatives may become one of the more popular alternatives.

Export outlook

Exports of U.S. farm products could surge to a new record in 1995. The big 1994 crops will boost supplies of farm products available for export, while a stronger world economy will increase global food demand. Agricultural exports during the 1995 fiscal year, which began October 1, 1994, are expected to climb to $45 billion dollars, up from $43.5 billion the previous year and topping the record set in 1981. Farm imports are also expected to rise to a record $28 billion, leaving a farm trade surplus of $17 billion, down slightly from the previous year.

The long-term shift in exports from bulk commodities to higher value products may slow temporarily, as more plentiful crop supplies boost grain and soybean exports. The volume of corn and soybean exports could climb about a fourth, but low prices will limit gains in export value. Exports of higher value products, the dominant source of export strength in recent years, will continue to grow at a healthy pace, anchored by strong sales of fruit and vegetables, meat, and poultry.

The direction of U.S. farm exports will also continue to shift, with some traditional markets slowing or fading and new markets emerging. In Russia and other nations of the former Soviet Union (FSU), once a leading market for U.S. farm products, falling incomes and declining livestock production point to weak demand for U.S. feed grains and other products. Farm exports to the FSU could remain nearly 40 percent less than in the late 1980s. While Japan and Europe will still be U.S. agriculture's best customers in 1995, growth in these two big markets has slowed in recent years. Japan's purchases are expected to remain steady at about $9.2 billion, while European purchases may climb to $6.8 billion, up 3.8 percent from the year before.

Emerging markets in Latin America and Asia are generally much smaller than U.S. agriculture's traditional markets, but the emerging markets promise faster growth in the years ahead. In these rapidly developing countries, consumer populations are large and growing rapidly and consumer incomes are on the rise. With newly affluent consumers intent on improving their diets, these developing markets promise strong demand for U.S. farm products. In 1995, farm exports to Asia could be up more than 4 percent, anchored by strong growth in sales to South Korea and China. Sales to Latin America could climb 5 percent, bolstered by a record $4.4 billion in sales to Mexico under the second year of the North American Free Trade Agreement.

Livestock outlook

The livestock outlook calls for steadier conditions than in loss-plagued 1994. Although meat supplies will rise again in 1995, the increase is expected to be less than in 1994. Following the record corn crop, feed costs will stay low in the coming year. Demand should remain robust, especially in light of a particularly bright outlook for U.S. meat exports. Poultry growers will probably enjoy the widest profit margins. Cattle producers should post narrow profits, while pork producers will struggle to return to breakeven levels in 1995.

Following a tough year in 1994, cattle production will probably increase only modestly in 1995. Beef production is expected to increase 0.9 percent, considerably less than 1994's increase. The size of the cattle herd on January 1, 1995 was expected to be unchanged to slightly greater than in the previous year. Thus, the industry appears to have shrugged off 1994's losses and decided to maintain the current expansion. Cheap feedstuffs have undoubtedly discouraged aggressive cutbacks despite lackluster cattle prices.

With large beef supplies on the market, cattle prices may move little from the high $60s posted in the fourth quarter of 1994. Continued healthy growth in the general economy should bolster beef demand. But consumers will have many tempting choices in the meatcase from competing meats. As a result, prices for finished steers in Nebraska are expected to average $67 a hundredweight in 1995, down more than a dollar from 1994. Prices should be strongest in the second quarter, when prices may top $70. Strong export demand will help support prices throughout 1995.

Pork production is likely to increase in 1995; the only question is by how much. An expansion in the herd in 1994 has placed more pigs in the pipeline for 1995. In the most recent indication of their intentions, producers indicated that farrowings would dip 1 percent in the first quarter of 1995, partly in response to extraordinarily low hog prices and huge losses in the fourth quarter. Although not evident at the time this article was written, producers may begin an aggressive liquidation of their breeding stock. Such sales would swell pork production in the near term while holding out the promise of smaller supplies—and higher prices—in the longer term.

In either event, pork producers face financial difficulties in 1995. Pork prices are currently expected to average $35.50 a hundredweight, down more than $4 from 1994. Prices will be weakest in the first quarter, as the market works off big supplies that may be swollen as some producers liquidate their breeding stock. Depending on the size of that liquidation, prices could recover to the low $40s by summer or early fall. With a price forecast of $35.50 for the year as a whole, some of the most efficient producers could earn slim profits, although most producers will probably post losses.

Poultry producers look forward to another good year in 1995. No one in the livestock industry benefits more from lower feed prices than broiler and turkey growers, and corn prices promise to stay low all year long. Broiler producers are expected to boost production 5 percent in 1995, roughly in line with the trend rate of increase in recent years. Spurred on by wide profit margins in the last half of 1994, turkey producers are expected to grow 5.7 percent more turkey in 1995, nearly doubling 1994's increase.

Consumer demand for poultry should remain generally strong in 1995, although prices will still be pressured by large supplies of red meat and poultry. Broiler prices are expected to average 52 cents a pound, four cents less than 1994. Turkey prices are expected to drop to around 61 cents a pound. Prices for both broilers and turkey would probably fall even further were it not for export markets that will remain exceptionally strong in 1995. Overall, with prices falling somewhat more than feed costs, poultry producers will enjoy solid profits, though slightly smaller margins than in 1994.

Crop outlook

The outlook for the major crops produced in the district varies widely. District wheat producers look forward to stronger wheat prices, buoyed by tighter supplies of wheat at home and abroad. In contrast, producers of corn and soybeans face much weaker prices, pushed down by ample supplies remaining from the bumper 1994 harvest.

The outlook points to a stronger global market for U.S. wheat. Wheat production is down in most of the major wheat producing nations, especially in Australia where drought slashed the crop by almost half. Overall, global wheat inventories are expected to shrink by nearly a fifth, pushing up world wheat prices. Although higher prices may encourage some foreign buyers to trim their imports, U.S. wheat exports are still expected to increase slightly.

In contrast to a slight gain in wheat exports, domestic wheat use may edge down due to a sharp drop in wheat feeding. The amount of wheat fed to livestock is expected to fall nearly 20 percent, as ample supplies of low-cost corn and other feed grains crowd out more expensive wheat from livestock rations, a marked turnabout from last year. The drop in wheat feeding will more than offset further steady gains in the amount of wheat processed into consumer foods.

Overall, total demand for U.S. wheat—both foreign and domestic—will be little changed from a year ago, despite a smaller wheat supply. As a result, the U.S. wheat inventory is expected to shrink by almost a tenth. With a tighter inventory, wheat prices are expected to average $3.35 to $3.55 a bushel during the 1994-95 marketing year, a range extending well above the previous year's average.

In contrast to a tighter balance between supply and demand in the wheat market, the huge U.S. corn crop will fuel a rebound in exports and domestic use and replenish the corn stockpile. Corn exports are likely to surge as foreign buyers substitute ample supplies of low-cost U.S. corn for shrinking supplies of competing feed grains. Drought slashed Australia's production of wheat and barley, both of which compete with U.S. corn in the world marketplace. China, the world's second-leading corn exporter after the United States, will also offer less competition in the world market, as steady gains in domestic demand shrink Chinese corn exports.

With alternative sources of feed grains shrinking, global demand for U.S. corn will strengthen. Bolstered by the North American Free Trade Agreement, U.S. corn sales to Mexico are expected to double. Sales to South Korea, the second-leading customer for U.S. corn after Japan, could increase more than a fourth. In contrast, sales to the former Soviet Union, once a leading customer, will shrink further to the lowest level in two decades as livestock production continues to decline. Overall, U.S. corn exports could increase more than 22 percent from the previous year, when the small U.S. crop and high prices trimmed corn exports.

The nation's use of corn in 1995 could be the highest on record. Bigger hog and beef herds and poultry flocks are expected to consume more corn than ever, as cheap corn crowds out higher priced wheat from livestock feed. Other domestic uses of corn are also expected to grow. Further increases in corn used to make fuel alcohol, high fructose sweeteners, and starch could boost food and industrial use of corn 6 percent. In total, domestic corn use could climb to a new record of well over 7 billion bushels.

Despite sizable gains, exports and domestic use will fall well short of using the entire 1994 crop. Instead, the nation's corn inventory will balloon to nearly 2 billion bushels, about two and half times as large as the alarmingly lean inventory of the previous year. With markets reassured that supplies will be ample, corn prices are expected to average \$1.95 to \$2.35 a bushel during the 1994-95 marketing year, about 35 cents below the previous year's average.

The soybean outlook also points to sizable gains in exports, domestic use, and inventory. Soybean exports, bolstered by the rebound in U.S. production and a slight decline in foreign production, could be up nearly a third from a year ago, when the small U.S. crop curtailed exports. Mushrooming demand for soybean meal and soybean oil, the main products produced when soybeans are crushed by processors, may boost the soybean crush to more than 1.36 billion bushels, a new record. More than 80 percent of the meal and oil produced from the U.S. crop will be used domestically. The meal will help satisfy the burgeoning appetite of the nation's growing livestock herds and poultry flocks, while the oil will be used in a wide range of food and industrial applications. Even so, exports of both meal and oil are also expected to be up sharply from a year ago.

Despite the record crush and the recovery in exports, the huge 1994 crop will more than double the soybean inventory to 480 million bushels, the biggest inventory in eight years. With an ample supply on hand, soybean prices are expected to average \$5.00 to \$5.60 a bushel during the 1994-95 marketing year, down \$1.10 a bushel from the previous year. The soybean meal inventory may also double, pushing down meal prices to \$145 to \$165 a ton. Only a modest recovery is likely in the inventory of soybean oil, due to the surge in oil exports. Thus, soybean oil prices may remain relatively strong at 25 to 28 cents a pound.

CONCLUSIONS

The farm economy turned down in 1994 as prices for farm commodities sank under the weight of record output of meat and crops. For most crop producers, profits went up as the rise in output outweighed the drop in prices. More telling for district and U.S. farm incomes, however, was an even bigger drop in livestock profits. Fortunately, strong balance sheets cushioned the drop in incomes. That strength is revealed in farmland values, which have risen briskly over the past year.

U.S. agriculture could see limited gains in 1995. Sizable carryover stocks of grain will weigh down crop prices, although an anticipated increase in government payments will serve as a partial offset. Livestock producers are expected to recover to small profits in 1995, helped in large part by cheap feedstuffs.

Agricultural policy will command considerable attention in 1995. For the first time in recent memory, Congress may seriously consider wholesale overhaul of the programs that for more than 60 years have been at the heart of the nation's farm policy. Changes in the world food market increasingly reveal drawbacks in commodity programs that require the idling of millions of acres. And, Congress may pay close attention to the distribution of farm program payments, particularly as it relates to a rural economy that is struggling.

ENDNOTES

[1] Farmers will pay a nominal processing fee to participate in a federally sponsored catastrophic insurance program. To encourage farmers to use the insurance program, farmers must participate in order to be eligible for USDA commodity programs.

[2] CRP land was taken out of production for ten years, with the government essentially paying the landowner an annual rent check.