The Farm Recovery Back on Track

By Alan Barkema and Mark Drabenstott

The farm recovery regained its stride in 1992 after stumbling in 1991. Buoyed by huge crops and healthy livestock earnings, farm income made up some of the ground lost the year before. The year was hardly uneventful, though, as crop prices soared due to a weather scare and then plummeted when yields of most crops eclipsed previous records. While the farm balance sheet recorded almost no further gains, the industry ended the year in solid financial condition.

Agriculture should stay on track in 1993. Prospects for farm earnings appear relatively bright, aided by strong livestock earnings and a marked increase in government payments. The year may also prove pivotal in determining the industry's longer term prospects. The Uruguay Round of global trade negotiations is finally drawing to an end after more than six years of contentious negotiation, and the new North American Free Trade Agreement may be approved. The outcome of these negotiations will set the stage for agriculture's performance in world markets for years to come.

A SURPRISINGLY GOOD 1992

The past year was full of surprises for U.S. agriculture. Shifting weather patterns and gyrating prices perplexed farmers and ranchers all year long. In the end, farm income turned up, despite a widely anticipated decline. Livestock prices and earnings proved surprisingly strong, notwithstanding record supplies and forecasts of weak demand. And despite a late-spring frost and the threat of drought, farmers harvested the biggest crops ever.

Improved farm financial conditions

Farm financial conditions improved in 1992, confounding most observers. Farm finances had turned down in 1991, and the slide was generally expected to continue in 1992. But big crops, strong livestock earnings, and a drop in expenses led to higher farm income. Looking back, 1991 still marked a downturn in the farm economy, but the dip followed record income in 1990. With earnings recovering in 1992, it is now clear that farm incomes have stayed healthy for five straight years. In short, agriculture's recovery may have leveled out over the past two years, but it has stayed on a high plateau.

Farm income rebounded in 1992 due to record crops, solid livestock earnings, and lower expenses. At 346 million metric tons, the U.S. grain crop posted a new record. Although prices slumped in the second half of the year, farmers enjoyed good prices in the first half. Livestock profits were hardy as meat production also hit a new record. Meanwhile, farmers actually spent less on production inputs due to lower outlays for fuel, interest, and feeder livestock.

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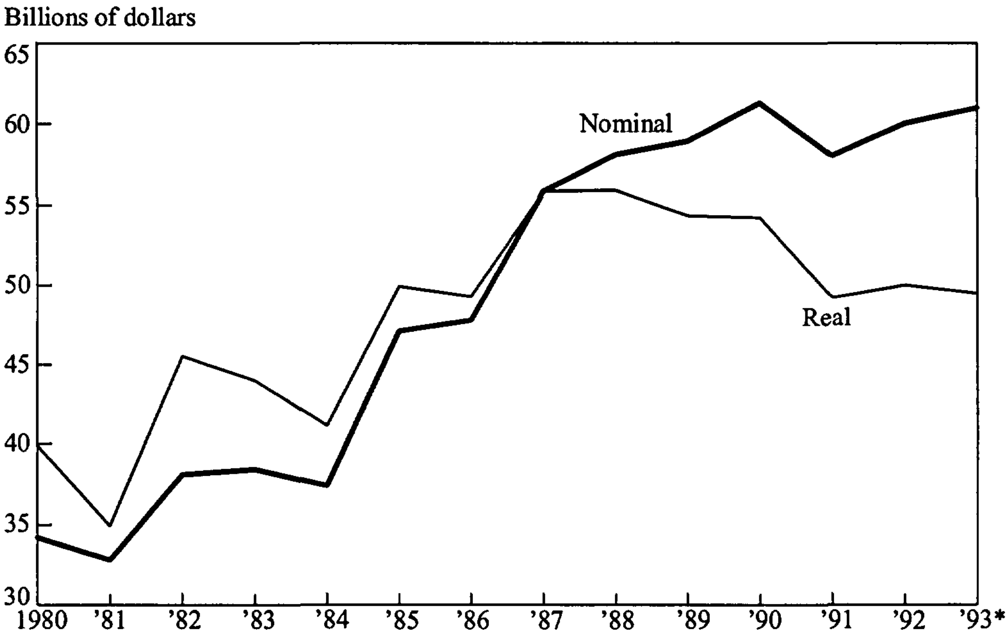
Chart 1
Net Cash Farm Income



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

Net cash income hit $60 billion in 1992, up 3.5 percent from 1991 (Chart 1). In nominal terms, it was the second highest income on record, with the highest being $61.3 billion in 1990. In real terms, it marked the eighth consecutive year when earnings were near or above $50 billion (1987 dollars).

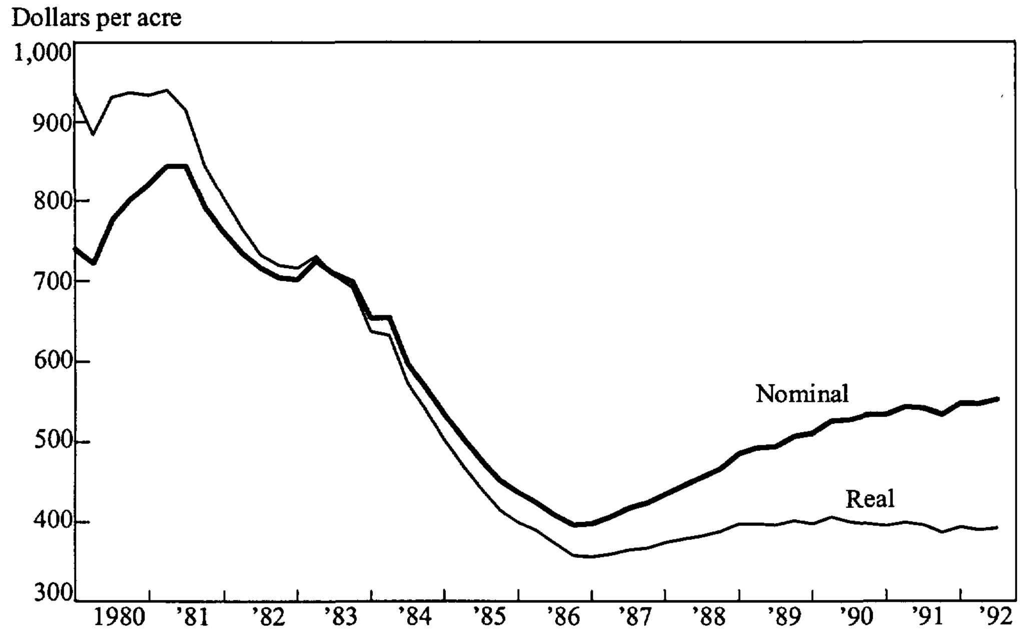
The rise in income, however, was only partly reflected in other farm financial measures. Land values in the Tenth District by the third quarter of the year had risen just 2.5 percent from the year before. In real terms, values stayed essentially flat (Chart 2). Land values in the district have climbed 37 percent from the market low at yearend 1986 but remain well below the peaks of the early 1980s.

The farm sector balance sheet was flat in 1992, as both farm assets and farm debt grew slightly (Table 1). Nationwide, farm assets and farm debt both inched up less than 1 percent. Farm debt remains low after a dramatic drop over the past several years. Farmers and ranchers are now using only 16 percent of their cash income to make principal and interest payments, compared with 27 percent in 1983 when farm debt peaked. Farm net worth edged up in 1992, but fell slightly after adjusting for inflation. The farm balance sheet is solid but has not made clear gains for two years.

Record meat output in 1992

U.S. producers brought record meat supplies to market in 1992. Beef production inched up, poultry production continued its long expansion, and pork production surged to an all-time high. Meat demand was strong despite the weak U.S.

Chart 2
Farmland Values
Tenth District



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

economy, and per capita consumption hit a record high of 209 pounds. Overall, livestock prices held up better than many analysts had expected, while a drop in feed costs in the second half of the year boosted producer profits.

Beef production was up 1 percent, as the cattle industry continued its modest expansion. Marketings from feedlots increased, as did beef cow slaughter. The U.S. cattle inventory stood at 109.2 million head on July 1, 1992, unchanged from the previous year. But beef cow numbers were up, reflecting an effort by ranchers to rebuild the cattle herd.

Cattle prices were relatively strong in 1992, especially in light of more output and a sluggish economy. Finished cattle prices held steady throughout the year in the mid-$70 a hundredweight range. Prices for choice steers at Omaha averaged $75, up slightly from the year before (Table 2). Feedlots made profits in 1992, especially in the second half of the year when grain prices were weak.

Ranchers enjoyed another good year in 1992, despite a drop in feeder cattle prices. Prices for feeder steers at Oklahoma City averaged $85 a hundredweight, down 8 percent from record prices the previous year. Ranchers still earned profits, though, marking five straight profitable years. Ranching is important in the Tenth District, and ranching profits are a key reason why farm financial conditions remain solid there.

Pork production hit a record high in 1992 as producers continued a strong expansion. Output surged to 17.3 billion pounds, topping last year's supply by 8 percent and breaking the record set in

Table 1

Farm Balance Sheet Excluding Operator Households and CCC Loans on December 31

(Billions of dollars)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Assets										
Real estate	661.8	586.2	542.3	578.9	595.5	615.5	627.5	623.0	625.0	628.0
Nonreal estate	195.2	186.5	182.1	193.7	205.4	213.4	219.0	218.8	221.0	222.0
Total assets	857.0	772.7	724.4	772.6	800.9	828.9	846.5	841.8	846.0	850.0
Deflated	940.7	818.5	747.6	772.6	770.8	764.0	747.8	714.6	705.0	690.0
Liabilities										
Real estate	106.7	100.1	90.4	82.4	77.6	75.4	73.7	74.4	75.0	75.5
Nonreal estate	87.1	77.5	66.6	62.0	61.7	61.8	63.1	64.4	65.0	65.5
Total liabilities	193.8	177.6	157.0	144.4	139.4	137.2	136.8	138.8	140.0	141.0
Deflated	212.7	188.1	162.0	144.4	134.2	126.5	120.8	117.8	116.7	114.5
Proprietor's equity	663.2	595.1	567.4	628.2	661.5	691.7	709.7	703.0	707.0	710.0
Deflated	728.1	630.4	585.7	628.2	636.8	637.6	627	596.8	589.2	576.4
Debt-to-asset ratio	22.6	23.0	21.7	18.7	17.4	16.6	16.2	16.5	16.5	16.6

Note: Figures represent billions of dollars. Figures for 1992 and 1993 are forecasts.
Source: U.S. Department of Agriculture.

1980. Bigger production kept prices weak the whole year. Prices for barrows and gilts at the six major markets averaged $43 a hundredweight, well under the 1991 average. Many small and mid-sized pork producers lost money in 1992, but a bigger share of pork output comes from large commercial enterprises whose unit costs are quite low. Those large enterprises probably still made money.

The poultry industry expanded further in 1992. Broiler production jumped 6 percent, turkey output climbed 4 percent, and poultry production was up 5.8 percent overall. Given the sluggish economy in 1992, those supply increases would normally have led to lower prices. But the poultry industry is adept at spurring growth in consumption, and consumption reached a record 87 pounds per capita. Broiler prices held steady at 52 cents a pound, while turkey prices slipped 2 cents to 59 cents a pound. The drop in turkey prices meant losses for many producers in 1992.

A roller coaster for crop producers

Changing weather took crop prices and crop producers for a wild ride in 1992. The roller coaster began with a dry spring in the southern Wheat Belt and a late frost in the northern Corn Belt. Then a bone-dry May and June, which recalled vivid memories of the droughts of 1983 and 1988, threatened the corn and soybean crops across the Corn Belt. With crop inventories down and new crops imperiled, crop prices soared. But the roller coaster plunged when the weather turned favorable after the Fourth of July. In the end, most crops

Table 2

U.S. Farm Product Price Projections
(December 10, 1992)

Crops	Marketing years 1990-91	1991-92*	1992-93+	Percent change
Wheat	$2.61/bu.	$3.00/bu.	$3.15-3.35/bu.	8.33
Corn	$2.28/bu.	$2.37/bu.	$1.90-2.20/bu.	-13.50
Soybeans	$5.74/bu.	$5.60/bu.	$5.20-5.60/bu.	-3.57
Cotton	$.68/lb.	$.58/lb.	N/A	N/A
	Calendar years			
Livestock	1991	1992*	1993+	Percent change
Choice steers	$74.28/cwt.	$75-76/cwt.	$71-77/cwt.	-1.99
Barrows and gilts	$49.69/cwt.	$43-44/cwt.	$39-45/cwt.	-3.45
Broilers	$.52/lb.	$.52-.53/lb.	$.50-.56/lb.	.95
Turkeys	$.61/lb	$.59-.60/lb.	$.57-.63/lb.	.84
Lamb	$53.21/cwt.	$59-61/cwt.	$57-63/cwt.	.00
Milk	$12.24/cwt.	$13.10-13.20/cwt.	$12.00-13.00/cwt.	-4.94

*Estimated.
+Projected.

Source: U.S. Department of Agriculture.

logged record or near-record yields.

Wheat prices climbed early in the year amid concerns about dry growing conditions in Kansas, dwindling wheat inventories, and strong export demand. High prices encouraged farmers in the northern Plains states to plant a fourth more spring wheat than the year before. Favorable spring and early summer rains quickly hiked wheat yield prospects across the nation, and spring wheat yields in the northern Plains hit record levels. Overall, the nation's average wheat yield of 39.4 bushels per acre fell just shy of the 1990 record. Near-record yields on the bigger acreage boosted total production to almost 2.5 billion bushels, a fourth larger than the year before (Table 3).

As the large wheat crop ripened, export demand tapered off and low-cost corn crowded wheat out of livestock rations. The combination of a big crop and weaker demand pushed wheat prices down as harvest neared. In some areas, harvesttime prices fell as low as $2.60 a bushel. Despite the sharp second-half slump, prices still averaged $3.00 a bushel for the marketing year ended May 31, up from $2.61 a bushel the year before.

The abnormally dry spring enabled farmers to plant the nation's corn crop well ahead of schedule. But farmers' delight with the early planting soon gave way to concern that drought would sear the crop, the nation's most important feed grain. As the drought scare spread, corn prices soared.

July's cooler temperatures and above normal rainfall, however, proved ideal for the growing crop. The good weather held, boosting the average yield to a record 129.3 bushels per acre. The 9.3

Table 3

U.S. Agricultural Supply and Demand Estimates

(December 10, 1992)

	Corn (bu.)			Feedgrains (mt.)		
	Sept. 1 - Aug. 31			June 1 - May 31		
	1990-91	1991-92	1992-93	1990-91	1992-92	1992-93
Supply						
Beginning stocks	1,344	1,521	1,100	45.5	47.7	33.9
Production and imports	7,938	7,494	9,332	231.8	220.3	274.5
Total supply	9,282	9,015	10,432	277.3	268.0	308.4
Demand						
Domestic	6,036	6,331	6,685	178.1	184.4	195.9
Exports	1,725	1,584	1,650	51.5	49.7	52.0
Total demand	7,761	7,915	8,335	229.6	234.1	247.9
Ending stocks	1,521	1,100	2,097	47.7	33.9	60.5
Stocks-to-use ratio (percent)	19.60	13.90	25.16	20.78	14.48	24.41

	Soybeans (bu.)			Wheat (bu.)		
	Sept. 1 - Aug. 31			June 1 - May 31		
	1990-91	1991-92	1992-93	1990-91	1991-92	1992-93
Supply						
Beginning stocks	239	329	278	536	866	472
Production and imports	1,929	1,990	2,169	2,773	2,022	2,509
Total supply	2,168	2,319	2,447	3,309	2,888	2,981
Demand						
Domestic	1,282	1,356	1,367	1,375	1,135	1,183
Exports	557	685	740	1,068	1,281	1,300
Total demand	1,839	2,041	2,107	2,443	2,416	2,483
Ending stocks	329	278	340	866	472	498
Stocks-to-use ratio (percent)	17.89	13.62	16.14	35.45	19.54	20.06

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

billion bushel corn crop eclipsed the 1985 record by more than half a billion bushels. As the crop's potential became apparent, prices plunged in midsummer and sank further through harvest. The strong early summer prices boosted the average farm-level price for the 1991-92 marketing year ending August 31 to $2.37 a bushel, about a dime more than the year before.

The nation's soybean crop netted almost 2.2 billion bushels, the biggest since 1982, due to almost perfect midsummer weather and a shift of soybean acreage from the South to higher yielding midwestern fields. The drought scare pushed prices up in early summer, but prices tumbled a dollar a bushel when crop prospects brightened after the Fourth of July. Farm prices averaged $5.60 a bushel for the 1991-92 marketing year ending August 31, down slightly from the previous year and the lowest in four years.

ON COURSE IN 1993

The farm economy should hold its course in 1993. A healthier national economy should boost consumer incomes, which will strengthen the demand for meat as record supplies of red meat and poultry reach the market. Although most crop prices are likely to average less than the year before, most farmers will have more bushels to market from the big 1992 crop. Moreover, bigger government payments should help cushion the decline in crop prices. While farm income may edge up, little improvement appears in store for the industry's already strong balance sheet.

Farm income and financial conditions

U.S. farmers seem likely to stay on a high plateau of healthy finances in 1993. Another good year for livestock, only a small increase in expenses, and a substantial jump in government payments should work together to nudge farm income higher. But continuing the pattern of the last few years, strong income will be matched by little adjustment in balance sheets, largely because farmers and ranchers remain cautious about the future.

Farm income in 1993 may nearly match the record set in 1990. Crop receipts should stay strong, as farmers continue to market the large 1992 crop they carried over into the new year. In addition, low crop prices will probably spark a big rise in direct government payments, probably from $8 billion in 1992 to $11 or $12 billion in 1993. The rise in payments, the first in six years, will come mainly in bigger deficiency payments to feed grain and wheat producers. Livestock receipts may slip slightly in 1993, but should remain at a high level due to record forecast meat production. Expenses, meanwhile, should increase only modestly, as low inflation continues to benefit farmers and ranchers. Overall, net cash income may hit $61 billion in 1993, up 1.7 percent from 1992.

The strong earnings may have little impact on farm balance sheets. Farmland values, the lion's share of total farm assets, will probably stay relatively flat, especially in real terms. Farm debt gives little sign of resuming rapid growth anytime soon. Farmers recognize that U.S. agriculture still has excess capacity, and they and their bankers are still smarting from the painful financial lessons of the past decade. Overall, the farm balance sheet should remain solid in the year ahead, with few gains in assets, debt, or net worth.

Farm credit conditions will be shaped in 1993 by plentiful funds, relatively low interest rates, and few problem loans. Agricultural banks continue to report low loan-deposit ratios. At the end of the third quarter, banks responding to the Tenth District survey of agricultural credit conditions reported an average loan-deposit ratio of 54.5 percent. During the 1993 spring borrowing season, interest rates on farm loans should be favorable. Money-market interest rates rose during the fourth quarter of 1992, but interest rates on farm loans could remain low during the first quarter of 1993. Most farm lenders will carry few, if any, problem loans into 1993, due to strong farm earnings in 1992.

Food prices outlook

Food prices are expected to creep up slowly in 1993, although not as slowly as they did last year. In 1992, food prices—measured by the food component of the Consumer Price Index—rose slightly more than 1 percent, the smallest rise since the mid-1960s. In 1993, food prices may rise between 2 and 4 percent. Prices of food items prepared at home, which account for more than 60 percent of food purchases, are likely to edge up 1 to 3 percent. Prices of food prepared in restaurants and other away-from-home establishments may rise slightly more.

Three factors appear responsible for dampening food price gains. First, slow growth in consumer incomes in the sluggish economy has encouraged consumers to "buy down," or switch to lower priced food products that may require more at-home preparation. In the year ahead, stronger growth in the national economy should help consumers gradually step back to higher priced food products. Second, low inflation is holding down the costs of food processing and distribution, which account for about 70 percent of retail food costs. Third, ample supplies of most farm products, especially red meat and poultry, are holding down farm-level prices, which account for the other 30 percent of the consumer's food bill.

Farm policy outlook

The coming year may be quiet in the area of domestic farm policy, but it could be pivotal internationally. Farm policy in the United States is constructed in five-year pieces, and because 1993 marks the midpoint of the 1990 farm bill, little action is expected. But agriculture has much at stake in two trade deals that may be signed in 1993. The prospective North American Free Trade Agreement (NAFTA) awaits congressional approval, and decisive action may occur in the Uruguay Round of international trade negotiations.

Negotiations to form the new NAFTA among Canada, Mexico, and the United States concluded in August of last year. If approved, the NAFTA would offer significant benefits to U.S. agriculture by prying open the door to a booming Mexican food market. Food demand in Mexico is on the rise, as growing incomes encourage Mexican consumers to upgrade their low-quality diets.

The NAFTA will create both winners and losers. U.S. feed grains producers may reap the largest benefits from freer access to the Mexican market. Solid gains in sales also await U.S. livestock producers, but some U.S. horticultural producers may face stiffer competition from Mexican producers. Overall, the industry's prospective gains under the NAFTA appear to outweigh the losses.

The Uruguay Round of global trade negotiations was stalled all year by a long-running dispute between the EC and the United States over farm subsidies. The dispute reached its zenith in November, when the United States threatened restrictive tariffs on certain farm imports from the EC, mainly white wine. The U.S. threat came in response to EC oilseed subsidies, which have raised the ire of U.S. soybean growers. A last-minute compromise before Thanksgiving averted the tariff crisis and broke the stalemate in the broader negotiations.

The compromise spanned the oilseeds dispute and other key farm trade issues that had bedeviled the Uruguay Round since its beginning. Anchoring the new compromise is a 21 percent reduction in the quantity of subsidized farm exports by the end of the decade. Previously, the United States had held out for at least a 24 percent reduction, the EC for no more than 18 percent.[1] The EC also agreed to reduce its oilseeds acreage 15 percent in the first year of the agreement and at least 10 percent every year after that. The United States had hoped to limit the tonnage of oilseeds grown in the EC but ultimately settled for the less stringent acreage limit.

The compromise between the EC and the United States reduced, but did not eliminate, the risk that farm trade issues could sink the Uruguay Round. France, the EC's largest farm producer and exporter, objects strongly to the compromise, fearing it may force the EC to make further changes in its Common Agricultural Policy (CAP).[2]

The farm-trade deal between the EC and the United States has enabled negotiators to turn to other thorny trade issues in such widely diverse industries as pharmaceuticals, telecommunications, and banking. Even if overall agreement is achieved among the 108 participating countries—no small undertaking—the French, still smarting from the farm trade compromise, could torpedo the entire agreement.

If successful, the Uruguay Round will fall far short of the United States' initial goal of eliminating all trade-distorting farm policies by the end of the decade. But the Round still promises to nudge global farm policy in the right direction.

Export outlook

The outlook for U.S. farm exports hinges on the shape of the world economy in the year ahead. Although the International Monetary Fund projects stronger world economic growth, the outlook is clouded by slowing economies in Germany and Japan. A pickup in economic growth from the sluggish pace of a year ago would brighten prospects for farm exports, especially high-value foods like meat and horticultural products. But further decline appears likely in low-value bulk exports, partly due to low prices of grains and soybeans. Overall, U.S. farm exports are expected to total $41.5 billion in fiscal 1993, down slightly from the year before. Farm imports are also expected to edge down to $24 billion, leaving a net farm trade surplus of $17.5 billion, $0.5 billion less than a year ago (Chart 3).

Global markets for U.S. farm products are shifting geographically. Japan, the EC, and Canada again are expected to rank first, second, and third as U.S. agriculture's biggest markets. But the fastest growing markets in recent years have been the newly industrialized countries of the Pacific Rim—the NICs—where rapid income growth has pushed up food demand. Mexico and other Latin American nations may soon emerge as the next growth market for U.S. farm products. Mexico, already U.S. agriculture's fourth-largest market, is expected to buy about $4.1 billion of U.S. farm products in 1993, up a third from two years ago. Stronger growth in the Mexican economy and freer trade under the prospective NAFTA should boost exports even more in coming years.

The former Soviet Union remains an important market for U.S. farm exports, but prospects have dimmed in recent months. The region harvested a large crop in 1992. Meanwhile, soaring inflation has riddled incomes and savings, reined in meat demand, and triggered a cutback in livestock production. In combination, the larger crop and smaller feed requirements point to less demand for U.S. grain in the year ahead.

The availability of credit dominates the near term outlook for farm exports to the former Soviet Union, however. Since December 1990, nearly $6 billion of government-backed loans have financed the sale of U.S. farm products to the former Soviet Union. But the U.S. Department of Agriculture recently announced that Russia, the largest of the 15 former Soviet republics, was suspended from the credit program because loan repayments fell behind schedule. How Russia's suspension from the credit program will affect future food sales is uncertain. If Russia meets its current loan obligations, additional credit may be forthcoming. Otherwise, other forms of assistance may be required to maintain the flow of U.S. food to the former Soviet Union.

Livestock outlook

Livestock producers look forward to a profitable 1993. Meat supplies are expected to climb 2 percent to another record, but improving consumer incomes should help bolster prices. Feed costs, meanwhile, will likely stay low due to weak prices for corn, soybeans, and other feed crops. Profits probably will be weakest for pork producers due to another jump in pork supplies that is expected to drive down prices.

Beef production could edge higher in 1993 as the cattle industry continues its modest expansion. The nation's cattle herd is expected to be 102 million head on January 1, 1993, up 2 percent from the year before. The herd expansion is likely to continue for at least another couple of years. As ranchers hold back calves to increase future output, demand for calf imports from Canada and Mexico should remain strong. Feedlot operators can be expected to keep their lots quite full in 1993 due to low feed costs and steady final prices. Overall, beef production may increase 1.5 percent in 1993.

Cattle prices in 1993 may follow 1992's steady pattern. The rise in beef output is likely to be matched by some improvement in consumer demand as the economy continues to improve in 1993. Prices for finished steers may stay in the mid-$70 range through most of the year, although prices will probably be weakest in the first quarter due to big competing supplies of meat. The year-average price for steers at Omaha may be $74 a hundredweight, off $1 from 1992. Oklahoma City feeder cattle prices may average $84 in 1993, off $1.50 from the 1992 level.

Pork producers give every indication of continuing their aggressive expansion in 1993. The December 1992 inventory of hogs and pigs was nearly the largest on record. The expansion in 1993 will be fueled by two factors. First, corn prices are very low, more than compensating for weak hog prices. Second, the pork industry continues to consolidate; large producers have substantially lower costs and can maintain profits when many farm-sized producers are losing money. Overall, pork production may jump 3.4 percent in 1993, marking the second straight year of record pork supplies.

Hog prices will likely sag from the bigger supplies. Pork producers, following the lead of the poultry industry, have been quite successful in boosting demand for their product. The "other white meat" campaign, along with a drive to cut the amount of fat in retail cuts, has led to steadily rising pork consumption. Notwithstanding the positive demand factors, hog prices are still expected to slump due to the big pork supply. Prices for barrows and gilts at the six major markets may average $39 to $45 a hundredweight in 1993.

The poultry industry is expected to expand again in 1993, although the rate of expansion is expected to be slower than in recent years. Despite favorable feed costs, broiler profits were squeezed in 1992, which will moderate growth in 1993. Broiler production is expected to increase 3.9 percent, well below the 5 to 6 percent growth over the past decade. Turkey producers could cut back their expansion even more due to losses in 1992. Turkey production may increase less than 2 percent in 1993, half the increase in 1992.

Profits should be favorable for poultry growers in the coming year. Prices are expected to hold steady due to the slower rate of growth in poultry output. Broiler and turkey prices may average 52 cents and 59 cents, respectively, unchanged from the 1992 averages. Even though final prices may be steady, 1993 poultry profits should improve due to falling feed costs.

Crop outlook

Crop inventories are expected to increase during the 1992-93 marketing year, despite soaring domestic demand and steady exports. With inventories up, most crop prices are expected to average lower than the year before. Still, inventories are far smaller than in the mid-1980s. Thus, crop prices may still be relatively sensitive to the development of crops this spring and summer.

World wheat production will be up slightly from a year ago, mainly due to the large U.S. crop. Meanwhile, weak incomes will constrain consumption in Eastern Europe and the former Soviet Union. The result will be a modest buildup in the world wheat inventory from the relatively low level of a year ago.

With global wheat reserves up, competition will be keen in the world wheat market. The EC still holds the largest stores of exportable wheat supplies in the world, even though the worst drought in a century cut wheat yields in northern and Eastern Europe. Canada, Australia, and Argentina will also compete aggressively with the United States for wheat sales. Thus, government-guaranteed credit for the former Soviet Union and export subsidies for northern Africa under the Export Enhancement Program (EEP) will play a major role in U.S. wheat sales. In the end, U.S. wheat exports may climb slightly to 1.3 billion bushels.

Wheat use at home may also edge up. Increased grinding for flour and other food uses could bump up domestic wheat use to about 1.2 billion bushels, up 4 percent from the year before. But cheap corn, which is likely to remain a low-cost alternative to wheat in livestock rations, will constrain further gains in domestic use.

Despite the modest pickup in total wheat use, the nation's wheat stockpile is expected to grow slightly to 498 million bushels, still a relatively lean inventory by historical standards but probably large enough to cushion most unforeseen surges in demand. All of the expected increase in the wheat inventory is in hard red spring wheat. Stocks of all other kinds of wheat (hard red winter, soft red, white, and durum) are expected to shrink further. Thus, with inventories of most kinds of wheat still lean, farm-level wheat prices are expected to average $3.15 to $3.35 a bushel, a range higher than the average of $3.00 a bushel a year ago.

In contrast to the slight buildup of wheat inventories, the nation's corn stockpile is expected to double in the year ahead. A small gain in exports and a surge in domestic use will fall well short of absorbing the huge 1992 harvest, pushing up the corn stockpile.

Corn exports in the 1993 marketing year may be up only slightly from the year before, despite a quick start. From September through November, corn exports were up more than a third compared with the same period the year before. But the fast pace may be hard to maintain. The former Soviet Union, previously the world's largest corn buyer, has cut back imports due to a larger domestic crop, declining livestock production, and hard times financially. Large exportable supplies of feed wheat from Canada, where an early frost left much of the wheat crop suitable only for livestock, will also be stiff competition in the world feed grain market. Sluggish exports from other countries, however, might push up the U.S. share of the world corn market. In the end, U.S. export tonnage is expected to be up only slightly from a year ago, which was the smallest in five years.

Domestic corn use may be brisk. Lower corn prices will encourage further expansion by pork and poultry producers. The nation's larger herds and flocks are expected to devour about 5.2 billion bushels of corn, surpassing the record set a year ago. Record quantities of corn may also be used in food and industrial uses, including high-fructose corn syrup and fuel alcohol. In all, more than four bushels of corn will be used domestically for every bushel shipped abroad.

Despite further gains in domestic use, the huge crop and weak exports point to a bigger corn stockpile. Less than a year ago, grain analysts worried that the corn inventory had been drawn down dangerously low, especially with a drought threatening. But the record crop will easily meet the year's needs while rebuilding the corn inventory to nearly 2.1 billion bushels, roughly enough for about three months' use. With more corn on hand, farm-level corn prices during the 1992-93 marketing year are expected to average $1.90 to $2.20 a bushel, about 14 percent less than a year ago.

The soybean outlook also suggests the huge 1992 crop will more than meet strong demand at home and abroad. Of the two main products obtained from soybeans, the outlook is somewhat brighter for soybean oil than for soybean meal.

Smaller foreign production of competing oilseeds, such as rapeseed and cottonseed, ensures brisk exports of U.S. soybeans. Drought in the EC and early frost in Canada riddled the rapeseed crop, while drought withered the Chinese cottonseed crop. With global oilseed stocks down, U.S. soybean exports got off to a fast start in the 1993 marketing year. But export sales are expected to slow following the harvest of the South American crop in the spring. Overall, exports of whole soybeans and soybean oil could rise about 8 percent from a year ago. But meal exports could slip about 12 percent, mainly because shrinking livestock herds in the former Soviet Union need less feed.

The feed requirements of growing domestic livestock herds and poultry flocks anchor strong demand for soybeans at home. Consumption of soybean meal in the United States is expected to rise to a record 24 million tons, with roughly three-fourths of the total fed to hogs and broilers. But domestic consumption of soybean oil, used in a wide range of foods from salad dressing to soy sauce, is also on the rise. As consumer incomes strengthen, soybean oil consumption could edge up about 1 percent in the year ahead.

The strong foreign and domestic demand for soybeans, however, will not be large enough to fully absorb the huge crop. Thus, the soybean inventory is expected to grow about a fourth to 340 million bushels, enough for about two months' use. With the bigger inventory, soybean prices may average $5.20 to $5.60 a bushel during the 1992-93 marketing year, down about 4 percent from year ago. Soybean oil prices may average 19 to 23 cents a pound, up slightly from a year ago. With soybean meal exports expected to weaken, meal prices may average $165 to $190 a ton, well below a year ago.

CONCLUSIONS

The past year proved to be much better than expected for U.S. agriculture, despite extremes of weather and farm prices. Although a modest decline was widely anticipated, farm income edged up. Still, almost no gains were recorded in the farm balance sheet. Farmland values rose just enough to keep up with inflation, and farmers remained cautious borrowers. Thus, the industry held on to its strong financial gains from the late 1980s, a better outcome than most expected when the year began.

Agriculture anticipates another good year in 1993. Its balance sheet is strong and farm income will probably be up. While most crop prices are down—due to the huge 1992 crop—most producers have more bushels to sell. Meanwhile, continued improvement in the national economy points to stronger demand for the biggest red meat and poultry supplies on record.

Agriculture enters the new year on solid financial footing, but the industry's longer term prospects hinge on its performance in world markets. The year ahead could shape the global trading environment for years to come. If approved, the NAFTA will gradually open the door to the rapidly growing food market in Mexico. And a successful conclusion to the Uruguay Round could give the global economy a much needed shot in the arm while strengthening global markets for U.S. farm products. Agriculture's gains from either agreement will unwind slowly. But even these modest improvements in farm trade rules will be a turn in the right direction.

ENDNOTES

1 The agreement between the EC and the United States also included a 36 percent reduction in the amount of money spent to subsidize exports, a 20 percent reduction in domestic farm income supports, and a 36 percent reduction in farm import barriers. Each of these farm policy reforms was included in the compromise proposed in December 1991 by Arthur Dunkel, Director General of the GATT. The Dunkel proposal also included a 24 percent reduction in the quantity of export subsidies, which was the proposal's main stumbling block until the recent compromise between the EC and the United States. Thus, the new compromise embraces most of the year-old Dunkel proposal.

2 Last spring, the EC reformed the CAP—over the objections of thousands of vocal French farmers—for the first time in the EC's 30-year history. The CAP reform cuts government-supported grain prices and requires EC farmers to idle 15 percent of their cropland. The French objections notwithstanding, the EC found no conflict between the CAP reform and the recent compromise struck with the United States.