# The Farm Slump Continues

*By Alan D. Barkema*

The century's final year was one of frustration for U.S. agriculture—certainly not the way the industry had hoped to close the millennium. Farmers took pride in their productivity, turning out the fourth bin-busting crop in a row and more red meat and poultry than ever before. But the big production collided with a still sluggish world market, holding down farm commodity prices. Still, farm income held up well above the average for the past decade, due to another big financial assistance package from Washington.

The farm slump will likely continue in the year ahead, although prospects for livestock and crop producers diverge widely. Livestock producers could have a very good year, with low feed costs and robust consumer demand boosting profits, but weak crop prices could drag down farm income. The farm export picture is beginning to brighten again, but too gradually to offer much relief in 2000. With exports soft and the nation's granaries still full, weak crop prices could be the norm. As in the last two years, help from Washington may determine whether farm income in 2000 rises or falls.

## I. BIG SUPPLIES AND WEAK PRICES IN 1999

In many respects, the nation's farmers had a good year in 1999. Crop producers dodged numerous weather problems to produce record or near-record crops. The big crops drove down crop prices and profits, however, cushioned only by another big package of government financial help. Livestock producers turned out more beef, pork, and poultry than ever before. Cheap feed grains and robust consumer meat demand boosted their profits, drawing to a close the big losses of the year before.

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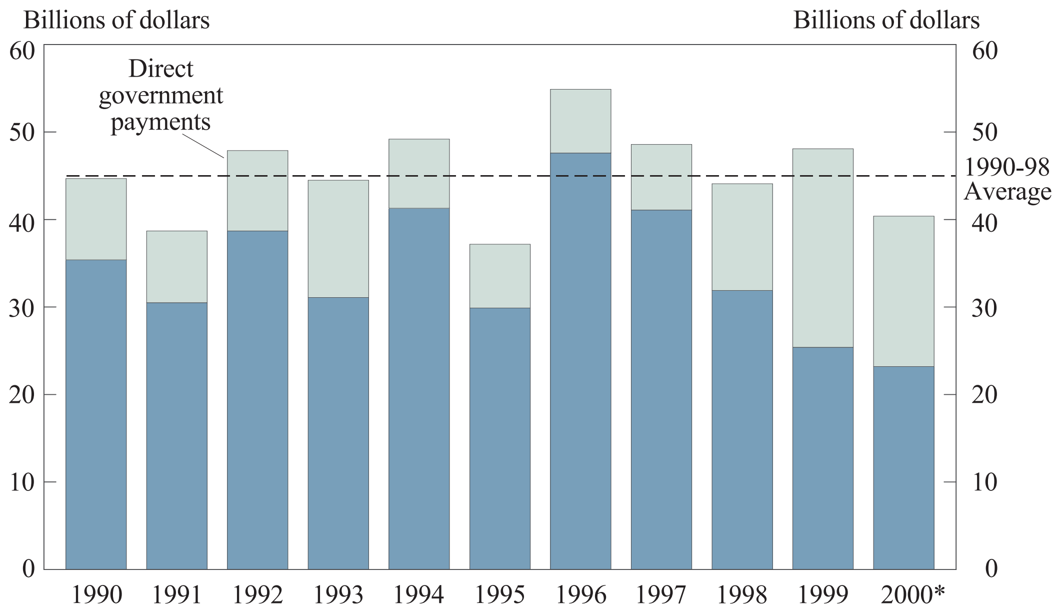
### *Washington bolsters farm income*

Farm financial conditions improved in 1999, compared with the 1998 downturn. Weak crop prices continued to define the industry's slump, but farm income for the year was surprisingly robust and the farm balance sheet steady—thanks to generous help from Washington. Incomes varied widely across the industry, with farmers reaping good crops and marketing them successfully faring better than others. Crop prices slid through the year, challenging producers to price their crops profitably. For many crop producers, government payments spelled the difference between modest profits and big losses. Livestock producers generally fared better than the year before, when weak hog and cattle prices triggered huge losses.

In the end, farm income turned up in 1999, landing well above the average for the previous years of the decade. Net cash farm income, which measures cash receipts less cash expenses, is expected to total a solid \$59.1 billion, up 7½ percent from 1998. Adjusted for inflation, cash

*Chart 1*
U.S. NET FARM INCOME




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

income was up about 5 percent. Net farm income, a broader measure that also takes into account depreciation and inventory changes, was up about 9 percent from the year before, at $48.1 billion (Chart 1).[1]

A turnaround in livestock profits, fueled by cheaper feed and stronger livestock prices, accounted for part of the renewed strength in farm income. Cattle feeders saw slim profits at the beginning of the year gradually widen to more than $60 per head, a welcome rebound from losses of $100 to $150 a head the previous year. Lower feed costs also helped hog producers, but the industry's big expansion in recent years held hog prices at barely break-even levels for most farmers. Nevertheless, break-even was a big improvement from the year before, when the industry's expansion outran slaughter capacity and drove hog prices to the lowest level in decades.

The year was a rough one for crop producers. Prices for the nation's major crops slid throughout the year, offering only an occasional uptick as a short-lived marketing opportunity. Farmers who priced their crops early generally fared better than those who waited. Many held their crops after collecting government "loan deficiency payments," which pay the difference between a government support price and the lower market price. But the continued slump in prices eroded the value of their crops further after they cashed in on the government safety net.

The key source of farm income strength in

*Table 1*

U.S. FARM BALANCE SHEET

*(Billions of dollars)*

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999* | 2000* |
|---|---|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | | | |
| Real estate | 624.8 | 640.8 | 677.6 | 704.1 | 740.5 | 769.5 | 808.4 | 822.8 | 831.1 | 835.2 |
| Nonreal estate | 219.4 | 227.5 | 232.6 | 231.4 | 226.2 | 234.4 | 243.2 | 241.5 | 236.1 | 237.6 |
| Total assets | 844.2 | 868.3 | 910.2 | 935.5 | 966.7 | 1,003.9 | 1,051.6 | 1,064.3 | 1,067.2 | 1,072.8 |
| Deflated | 940.5 | 946.9 | 966.7 | 973.1 | 984.5 | 1003.9 | 1,034.4 | 1,034.7 | 1,021.9 | 1,013.0 |
| Liabilities | | | | | | | | | | |
| Real estate | 74.9 | 75.4 | 76.0 | 77.7 | 79.3 | 81.7 | 85.4 | 89.6 | 90.3 | 90.8 |
| Nonreal estate | 64.3 | 63.6 | 65.9 | 69.1 | 71.5 | 74.4 | 80.1 | 83.2 | 82.5 | 81.7 |
| Total liabilities | 139.2 | 139.1 | 142.0 | 146.8 | 150.8 | 156.1 | 165.4 | 172.9 | 172.8 | 172.5 |
| Deflated | 155.1 | 151.7 | 150.8 | 152.7 | 153.6 | 156.1 | 162.7 | 168.1 | 165.5 | 162.9 |
| Proprietor's equity | 705.0 | 729.3 | 768.3 | 788.7 | 815.9 | 847.8 | 886.2 | 891.4 | 894.4 | 900.3 |
| Deflated | 785.4 | 795.3 | 816.0 | 820.4 | 830.9 | 847.8 | 871.7 | 866.6 | 856.5 | 850.1 |
| Debt-to-asset ratio (percent) | 16.5 | 16.0 | 15.6 | 15.7 | 15.6 | 15.5 | 15.7 | 16.2 | 16.2 | 16.1 |

*Figures for 1999 and 2000 are forecasts as of December 10, 1999.
Table excludes operator households.
Source: U.S. Department of Agriculture.

1999 was aid from Washington. In mid-October, Congress and the Clinton administration agreed on a package of emergency farm financial assistance totaling $8.7 billion, and about $5.8 billion of that amount was expected to reach farmers before yearend. With the additional aid, government payments to farmers rose to $22.7 billion, easily eclipsing the previous record of $16.7 billion paid to farmers in 1987 at the trough of the last farm financial bust.

While the industry was heavily reliant on government help in 1999, agriculture's balance sheet remained solid. The value of farmland, which is about four-fifths of all farm assets, remained steady or softened only slightly during the year. A survey of farm bankers in the seven-state Kansas City Federal Reserve District (Colorado, Kansas, Missouri, Nebraska, New Mexico, Oklahoma, and Wyoming) indicated farmland values on September 30 were unchanged from the year before. Other industry contacts indicated demand for farmland by large, expanding farms and by nonfarm investors—especially in the scenic mountain states—continued to support farmland values, despite low crop prices.

Cautious borrowing also helped keep the farm balance sheet strong. Farm debt remained almost steady at $173 billion in 1999, and with a slight gain in farm assets, the industry's debt-asset ratio edged down slightly to a relatively healthy 16.2

percent (Table 1). Farm interest rates also remained relatively stable throughout the year, with the average price of operating credit in the Kansas City district edging down about ten basis points during the year ending September 30.

Overall, most financial indicators suggest agriculture finished 1999 in better shape than the year before, though financial conditions varied widely across the industry. Livestock producers benefited from a marked profit turnaround in cattle feeding and a less pronounced rebound for hog producers. Weak crop prices held down incomes for crop producers, but government payments helped make up the shortfall. While relatively few problem farm loans surfaced during the year, the healthy gain in farm income did little to relieve anxiety about the year ahead for farm borrowers and their lenders. A major source of concern was the recognition that the fair weather in farm finances was mainly due to government assistance.

### *A better year for livestock producers*

The year was an extraordinary one for livestock producers, who pushed production of red meat and poultry to a new record. More notable than the production surge, however, was the strength of consumer demand. Per capita meat consumption climbed to new records in 1999—almost 54 pounds of pork, 69 pounds of beef, and 96 pounds of poultry. The surge in demand could not have come at a better time, offsetting weak export markets and giving a welcome boost to livestock prices and profits.

When the year began, most analysts expected the size of the nation's cattle herd to drop to a new cyclical low and beef production to decline modestly. The first part of the early prognostication rang true, but not the second. The beef herd shrank a bit further—the fourth consecutive yearly decline. But cattlefeeders confounded the forecasters, boosting beef production to a record 26.5 billion pounds, nearly 3 percent more than in 1998. With feed grains cheap, feedlots fed cattle to heavier weights, adding up to more pounds of beef from a smaller herd. The production surge eclipsed the old record set in the mid-1970s.

Prices for finished steers started the year in the low \$60 a hundredweight range, enabling many cattle feeders to begin breaking even after a year and a half of big losses. Strong consumer demand in the healthy U.S. economy readily absorbed the bigger beef supplies and pushed fed cattle prices higher during the year. After a brief summer dip, prices eventually broke \$70 a hundredweight in the fourth quarter. For the year, fed cattle prices averaged \$65.55 a hundredweight, up from \$61.48 the year before (Table 2). Most cattle feeders made money in 1999, with profits topping \$60 a head in the second and fourth quarters.

Hog producers weathered a lackluster year in 1999, but still fared favorably compared to the huge losses of 1998. Pork production was up less than 2 percent, a marked slowdown after the 10 percent jump in 1998. Still, the additional expansion on the heels of huge losses in 1998 underscored the industry's continued structural shakeout. As production shifts into the hands of larger-scale producers, many smaller producers are leaving the industry and many others are joining "supply chains"—tightly orchestrated production, processing, and marketing arrangements stretching from genetics to grocery. As a result, production responds to weak profits less quickly than before.

Early in the year, hog prices bounced back from the 30-year lows reached in December 1998. The industry's huge expansion in recent years was telling, though, with hog prices stalling under \$30 a hundredweight through the spring. In the second half of the year, continued strength in consumer demand helped lift prices above \$35 a hundredweight, and the industry avoided the slaughter-capacity shortages that

*Table 2*

U.S. FARM PRODUCT PRICES

*(January 12, 1999)*

| Livestock | Calendar years 1998 | 1999* | 2000† | Percent change |
|---|---|---|---|---|
| Choice steers | $61.48/cwt | $65.55/cwt | $67-72/cwt | 6.0 |
| Barrows and gilts | $34.72/cwt | $34.00/cwt | $37-40/cwt | 13.2 |
| Broilers | $.63/lb. | $.58/lb. | $.55-.59/lb. | -1.7 |
| Turkeys | $.62/lb. | $.69/lb. | $.67-.71/lb. | .0 |
| **Crops** | **Marketing years 1997-98** | **1998-99*** | **1999-2000†** | **Percent change** |
| Wheat | $3.38/bu. | $2.65/bu. | $2.50-2.60/bu. | -3.8 |
| Corn | $2.43/bu. | $1.94/bu. | $1.70-2.10/bu. | -2.1 |
| Soybeans | $6.47/bu. | $4.93/bu. | $4.50-5.00/bu. | -3.7 |

*Estimated.
†Projected.
Source: U.S. Department of Agriculture.

had triggered the disastrous price plunge the previous year. With feed costs down, many producers were able to break even or notch slim profits after months of losses. Nevertheless, with the weak first half, hog prices averaged only $34.00 a hundredweight for the year, down from $34.72 in 1998.

Poultry producers had a good year in 1999, although profits for broiler producers were not quite as strong as the year before. Driven by the preceding year's big profits, broiler production increased more than 6 percent. During much of the 1990s, a substantial part of the industry's additional production each year was aimed at foreign markets. Poultry exports in 1999, however, were limited by continued weak incomes in Russia and Asia. Fortunately for broiler producers, domestic consumers absorbed the additional supplies, boosting per capita consumption by nearly 5 pounds. With the strong domestic demand, wholesale broiler prices averaged 58 cents a pound, down a nickel from the year before but still a profitable level for most producers.

Turkey production remained steady in 1999. Turkey exports were weak, especially to Russia, but strong domestic consumption boosted turkey prices. Wholesale hen prices in the eastern region averaged 69 cents a pound in 1999, 7 cents higher than in 1998.

### *Another big harvest for crop producers*

Farmers in the district and much of the nation harvested another big crop in 1999, the fourth in a row. Weather problems plagued many growers throughout the year, with a wet spring

*Table 3*

U.S. AGRICULTURAL SUPPLY AND DEMAND ESTIMATES

*(January 12, 1999)*

| | Corn ( million bu.)* | | | Feedgrains (million mt.)† | | |
|---|---|---|---|---|---|---|
| | 1997-98 | 1998-99 | 1999-2000 | 1997-98 | 1998-99 | 1999-2000 |
| Supply | | | | | | |
| Beginning stocks | 883 | 1,308 | 1,787 | 27.0 | 38.1 | 51.3 |
| Production and imports | 9,216 | 9,778 | 9,452 | 263.0 | 274.2 | 265.7 |
| Total supply | 10,099 | 11,085 | 11,239 | 290.0 | 312.3 | 317.1 |
| Demand | | | | | | |
| Domestic | 7,287 | 7,318 | 7,550 | 206.6 | 205 | 212.1 |
| Exports | 1,504 | 1,981 | 1,975 | 45.3 | 55.9 | 54.9 |
| Total demand | 8,791 | 9,298 | 9,525 | 251.9 | 261 | 268.3 |
| Ending stocks | 1,308 | 1,787 | 1,714 | 38.1 | 51.3 | 48.8 |
| Stocks-to-use ratio (percent) | 14.9 | 19.2 | 18.0 | 15.1 | 19.7 | 18.2 |

| | Soybeans (million bu.)* | | | Wheat (million bu.)* | | |
|---|---|---|---|---|---|---|
| | 1997-98 | 1998-99 | 1999-2000 | 1997-98 | 1998-99 | 1999-2000 |
| Supply | | | | | | |
| Beginning stocks | 132 | 200 | 348 | 444 | 722 | 946 |
| Production and imports | 2,694 | 2,744 | 2,646 | 2,576 | 2,650 | 2,402 |
| Total supply | 2,826 | 2,944 | 2,994 | 3,020 | 3,373 | 3,348 |
| Demand | | | | | | |
| Domestic | 1,753 | 1,795 | 1,764 | 1,257 | 1,385 | 1,301 |
| Exports | 873 | 801 | 865 | 1,040 | 1,042 | 1,075 |
| Total demand | 2,626 | 2,595 | 2,629 | 2,298 | 2,427 | 2,376 |
| Ending stocks | 200 | 348 | 365 | 722 | 946 | 972 |
| Stocks-to-use ratio (percent) | 7.6 | 13.4 | 13.9 | 31.4 | 39.0 | 40.9 |

Source: U.S. Department of Agriculture.

* Marketing years beginning June 1 for wheat and September 1 for corn and soybeans.

† Marketing years beginning June 1 for barley and oats and September 1 for corn and sorghum.

and a dry summer in the Corn Belt, a searing drought in the Northeast, and a series of late summer hurricanes in the Southeast. While periodic weather problems created temporary concerns about the size of the growing crops, the harvest still proved one of the biggest on record.

Wheat farmers harvested fewer acres in 1999. Many growers switched some land to other crops, hoping for better profits. Others grazed their wheat, recognizing that rising cattle prices and weak wheat prices made the crop more valuable as forage than grain. Others—especially in the northern Plains—could not plant or harvest as many acres as planned due to waves of bad weather. In the end, the year's wheat harvest totaled just under 54 million acres, down almost 9 percent from 1998. Overall, wheat yields were excellent, with the national average yield of 42.7 bushels per acre falling less than a bushel below the 1998 record. With the sharp reduction in harvested acreage, however, the wheat crop was nearly 10 percent smaller than the year before (Table 3).

Despite prospects for a smaller crop, ample carryover supplies and sluggish exports continued the long slide in wheat prices that began the year before. The decline was broken only momentarily during brief weather scares in the spring and late summer. For the 1998-99 marketing year ending May 31, the nation's farm-level price averaged just $2.65 a bushel, down sharply from $3.38 a bushel the previous year and the lowest since the 1990 crop.

Faced with low crop prices, Corn Belt farmers carefully weighed their options on what to plant as good weather arrived last spring. They recognized that low corn prices did not compare favorably to the relatively high soybean loan rate—the government's support price for soybeans—and they elected to shift a few more acres from corn to soybeans. Corn plantings dropped more than 3 percent from the year before to a still sizable 77.4 million acres.

The good planting weather did not hold, however, with torrential rains hitting the western Corn Belt and hot dry weather hitting the East. Nevertheless, as harvest neared and weather risks eased, crop forecasters ratcheted up their yield projections. The most recent estimate pegs the national average corn yield at 133.8 bushels per acre, slightly below the previous year's yield.

Corn prices seesawed throughout the summer as the growing crop's prospects shifted with changes in the weather. Prices fell sharply after the planting season, soared when rough weather hit in midsummer, and then fell steadily into harvest. Despite the summer run-up, corn prices averaged $1.94 a bushel during the 1998-99 marketing year ending August 31, down sharply from $2.43 the year before.

Spring planting weather was generally good for soybeans, too, and farmers boosted their soybean acreage to 73.8 million acres, the biggest ever. Soybean acreage increased in most of the top soybean producing states, more than offsetting acres shifted from soybeans to cotton or rice in a few southern states. Many of the additional soybean acres were previously planted to corn or wheat. Farmers concluded that the soybean loan rate of $5.26 a bushel made soybeans their most profitable crop prospect, regardless of likely low prices at harvest time.

As the crop matured, it escaped with only minor damage from the hot, dry stretch during the late summer months. The national average yield of 36.5 bushels per acre combined with the big acreage to produce a crop of more than 2.6 billion bushels, the third largest on record.

Soybean prices were already hovering at a low $5.00 a bushel at planting time, held down by a big inventory from the previous crop. After planting, prices plunged even lower, remaining below the loan rate and probing levels not seen in three decades. Prices recovered somewhat only when the big crop was threatened by the late summer drought. For the 1998-99 marketing year ending August 31, farm prices averaged just \$4.93 a bushel, down sharply from \$6.47 the year before.

## II. ANOTHER DIFFICULT YEAR AHEAD

Agriculture's struggle with big crops and weak exports is likely to continue in the year ahead, pointing to another debate on how much the public should support farm incomes. The livestock industry is the notable bright spot in the 2000 outlook. Nevertheless, a downturn in farm incomes and some erosion in the farm balance sheet seem likely.

### *Farm finances hinge on markets and Washington*

With bins bulging from the 1999 harvest, the 2000 outlook points to weak crop prices and profits, barring an unfavorable weather development that could send crop prices soaring. With normal weather, the key question in the financial outlook for crop producers is whether Washington will step forward with another package of farm income supplements, as in each of the past two years.

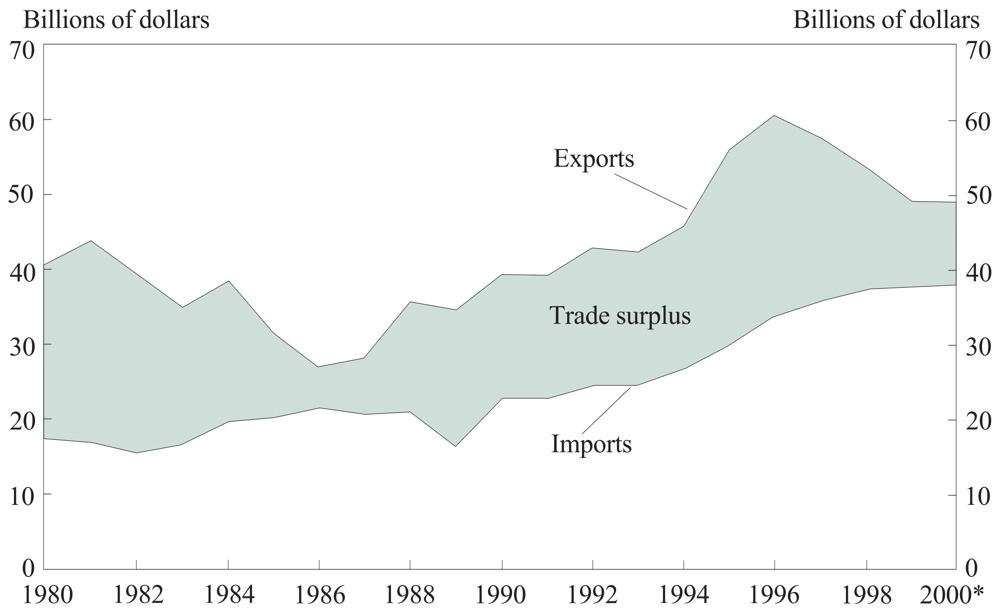
Despite the gloomy outlook for grain prices, livestock producers are likely to have a good year, perhaps a very good one. The livestock price outlook suggests the nation's livestock receipts could top the healthy level of about \$97 billion attained in 1999. Low grain prices would carry the strength in livestock sales to solid bottom-line profits for cattle and poultry producers and further improvement for hog producers.

Overall, the farm financial picture for 2000 suggests a sharp drop in farm income—unless Washington allocates additional financial assistance. Current projections indicate weak crop profits may be partially offset by the government assistance provided under the current farm law and by emerging strength in livestock profits. Net cash farm income, the industry's cash flow measure, could drop to \$49.7 billion, down about 16 percent from the year before. A similar 16 percent drop would lower the broader net farm income measure to \$40.4 billion (Chart 1). Both farm income measures include \$17.2 billion in direct government payments that are expected under current legislation. In the previous two years, however, Washington provided add-on financial bailout packages totaling about \$15 billion. Thus, a solid precedent is in place for additional government aid in 2000 that could mitigate the sharp decline now foreseen in farm income.

With weak crop prices still a drag on farm income, some further erosion is likely in the farm balance sheet. Cropland values that generally held steady during the previous year could soften as farmers await better times to expand their businesses and off-farm investors seek better returns elsewhere. A brightening outlook for ranching profits, however, could support ranchland values. In addition, the value of ranchland that is attractive for its scenic amenities in the Intermountain West and elsewhere will likely diverge further from farmland values based on farming and ranching alone.

Entering the new year, problems in farm loan portfolios remain relatively modest. In the Kansas City district, farm bankers indicate loan repayments improved during the year ending September 30, due to the big government payments and the profit turnaround in the cattle industry. Still, farm lenders remain wary that farm loans could sour if farm income weakens in the year ahead, but they indicate credit should be readily available to creditworthy farm borrowers at a price roughly comparable to the year before. Farm debt has probably reached a plateau, however, as farmers and their lenders hunker down to await better times.

*Chart 2*
U.S. AGRICULTURAL TRADE




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

Overall, agriculture enters the new century with a solid balance sheet, despite the recent slump. With a debt-asset ratio of a healthy 16.1 percent, the industry's relatively modest financial leverage enables it to ride out rough times. Still, the outlook points to another year of weak earnings and substantial reliance on the government safety net. With some softening in farm asset values and steady debt levels, some erosion in farm equity is likely in 2000.

### *Signs of recovery in the world market*

Exports of U.S. farm products are expected to hold steady in fiscal 2000, extending the industry's slump in foreign sales. Ample supplies of domestic crops and livestock products will be available for the nation's foreign customers, and sales volumes will be solid for many products—especially corn and soybeans. Stiff competition from big global supplies, however, will continue to hold down product prices and sales values.

With weak prices still offsetting solid sales volumes, U.S. farm exports are expected to total $49 billion in fiscal 2000, the same as the year before and down nearly 20 percent from the 1996 crest. Farm imports are expected to edge up to $38 billion, driven by a strong dollar and robust consumer demand for foreign-produced fruits, vegetables, and wine. With exports flat and imports nudging up, the farm trade surplus is expected to shrink slightly to $11 billion, the smallest since 1987 (Chart 2).

Despite the lackluster export projection, positive signs are beginning to reemerge in international markets. The wave of financial crises that gripped much of the developing world in recent years has subsided. The global economy is regaining its health, pushing up incomes and purchasing power in key markets for U.S. farm products—especially Asia and Latin America. Weak sales to Asia accounted for nearly four-fifths of the drop in U.S. farm exports since 1996. Thus, the Asian recovery, which has come much more quickly than many analysts expected, brightens the long-term outlook for the industry's foreign sales.

Looking farther ahead, the recent downturn in U.S. agriculture underscores the industry's reliance on the global marketplace. Trade policies that promote an open and growing world market enhance incomes in the developing world, boosting demand for U.S. agriculture's bounty. Thus, the industry has much at stake in efforts to launch a new round of global trade negotiations focused on improving the worldwide flow of farm products. A successful outcome in these negotiations is U.S. agriculture's best bet to bolster its future.

### *Further gains for livestock producers*

A good year appears in store for livestock producers, building on the improvement posted since 1998. A favorable combination of low feed costs, smaller supplies of beef and pork, and continued strength in consumer spending should yield solid livestock industry profits.

The long anticipated decline in beef production—which has failed to materialize for the past two years—could begin in earnest in 2000. Beef production is expected to drop to about 25 billion pounds, down about 5 percent from 1999 and the lowest level in five years. The size of the nation's cattle herd is reaching a cyclical bottom, and beef production could shrink as ranchers expand their herds with animals that might otherwise be sent to slaughter. Thus, the industry's concerted effort to begin expanding the beef herd again could actually trigger a sharp—though temporary—drop in beef production.

With beef production down, continued strength in consumer meat demand could push cattle prices higher. The price of slaughter steers in Nebraska is expected to average $67 to $72 a hundredweight in 2000, up nearly $5 from 1999 (Table 1). The higher cattle prices and ample supplies of cheap feed grains could give another boost to feedlot profits. With the size of the cattle herd down, however, feeder cattle are likely to be in scarce supply. Thus, cattle feeders are likely to bid a sizable portion of their profits into the price of feeder cattle, brightening the profit outlook for ranchers.

Pork production will probably drop in 2000, but how much remains an open question. The big losses of 1998 and slim profits in 1999 appear to be getting a belated grip on the industry's production plans. By last fall, the nation's swine breeding herd had shrunk 8 percent from the year before, and producers planned to farrow 5 percent fewer litters. Production efficiency has soared in recent years, however, enabling the industry to produce more pork from a smaller swine herd. The rapid structural shift to larger-scale producers with expensive investments in technologically sophisticated buildings and equipment has also limited the industry's flexibility to trim production schedules. Thus, the expected decline in pork production could be smaller than the drop in the breeding herd would otherwise suggest. The most recent projection indicates pork production may decline slightly less than 4 percent in 2000.

The financial outlook for hog producers looks considerably brighter for 2000 than in the previous two years. The smaller pork supplies should be greeted with robust consumer demand, shoving hog prices gradually higher throughout the year, although a seasonal increase in production could soften prices somewhat in the late fall. For the year, barrow and gilt prices are expected to average $37 to $40 a hundredweight, up about 13 percent from 1999.

Further expansion is in store in the poultry industry in 2000. Broiler production will probably increase about 5 percent, a bit slower than the 1999 surge but about average for the 1990s. Turkey growers are expected to boost production a bit more than 2 percent.

Demand for poultry products should generally remain strong. A gradual rebound in poultry exports to Asian markets should help offset a continued slump in sales to Russia. At home, smaller supplies of beef and pork will make more room for the bigger domestic poultry supplies. Nevertheless, competition for space in the consumer's shopping cart will remain keen and keep a lid on poultry prices. Wholesale broiler prices are expected to average 55 to 59 cents a pound, compared with 58 cents in 1999. Turkey prices are expected to drop to an average of 67 to 71 cents a pound, bracketing the 69 cent average from 1999.

### *Another rough year for crop producers*

The crop outlook for 2000 points to another year of big supplies and weak prices. If current projections prove true, farmers will again rely on loan deficiency payments to help offset weak prices. Weather concerns, however, add more uncertainty than usual to the crop outlook. If La Niña triggers dry weather in the grain belts of North and South America—as many weather observers suggest—the 2000 harvest could be much smaller than projected. Under this scenario, grain and soybean inventories, which have grown big but not yet onerous in recent years, would shrink quickly, and crop prices would rise sharply. Thus, with the spring planting season still some months away, the range of prospective outcomes is even wider than usual.

Assuming normal weather, the outlook suggests another year of ample wheat supplies and soft wheat prices. Another big global wheat crop is expected, only slightly smaller than the large crops of recent years. With big crops abroad and stiff competition from other exporting countries, U.S. wheat exports are expected to remain relatively sluggish for the fourth consecutive year, edging up only slightly to about 1.1 billion bushels (Table 3).

Domestic wheat use may decline, mainly due to a decline in wheat feeding. Ample supplies of corn and other cheap feed grains are expected to crowd some wheat out of livestock rations. Still, the amount of cheap wheat included in livestock rations is likely to remain relatively large, though down about 10 percent from the year before.

With domestic use down and exports still sluggish, total use of U.S. wheat could fall slightly. The drop in wheat use is expected to result in a further buildup in wheat inventories to 972 million bushels. The big inventories are likely to push down the average farm-level price for the 1999-2000 marketing year ending May 31 to $2.50 to $2.60 a bushel, 5 to 15 cents below the previous year and reaching slightly below the national wheat loan rate of $2.58 a bushel.

Unlike the wheat market, the needs of consumers at home and abroad are expected to use the big corn crop, trimming the nation's corn inventory slightly. Still, the big carryover is expected to keep a lid on corn prices for another year. With the price down, corn exports are likely to remain relatively large, edging up slightly from the year before. China could play the spoiler in the international corn market, however. After harvesting two large corn crops in a row, the Chinese may be more aggressive export competitors and steal some sales from U.S. corn producers.

Corn use at home could climb for the fifth year in a row to another record. Expanding poultry flocks and dairy herds are expected to eat more corn, offsetting a drop in consumption by slightly smaller hog and beef herds. The steady growth of food and industrial uses of corn could also continue, with such uses as fuel alcohol, starch, high fructose corn syrup and other sweeteners increasing about 3 percent. Overall, total domestic corn use could edge up almost 3 percent to 7.6 billion bushels.

With the big corn use at home and abroad, the corn inventory is expected to shrink slightly to about 1.7 billion bushels. The still large inventory is expected to hold the average farm-level price in a range from $1.70 to $2.10 a bushel during the 1999-2000 marketing year ending August 31, bracketing the $1.94 average of the year before and the national corn loan rate of $1.89.

The soybean outlook points to bigger inventories and weaker prices, despite a healthy rebound in exports. Soybean exports are expected to jump 8 percent from the previous year, in part due to less competition from South America. The recent surge in South American production appears to be tapering, and low prices have made U.S. soybeans more competitive in the global market.

The domestic soybean crush, which transforms soybeans into soybean meal and oil, could edge up slightly to another new record. Meal exports are expected to hold steady, with nearly 80 percent of the nation's meal production used domestically, mainly as poultry and livestock feed. Soyoil exports, however, could plunge more than a fourth from the year before in a world market saturated with competing vegetable oils, including palm, rapeseed, and sunflower oils.

Despite healthy gains, the big crush and strong soybean exports will fall well short of using the entire 1999 crop. Instead, current projections indicate the nation's soybean inventory will swell to 365 million bushels, the biggest since the mid-1980s. With the big carryover, farm prices for the 1999-2000 marketing year ending August 31 are expected to average $4.50 to $5.00 a bushel, a range that reaches well below the previous year's average and the national soybean loan rate of $5.26 a bushel. The soybean meal inventory could shrink by nearly a fourth, enabling meal prices to average $140 to $165 a ton, up from $138.50 the year before. The soybean oil inventory could swell by more than a third, pushing soybean oil prices down to an average of 15 to 17 cents a pound, down from 19.9 cents a pound the previous year.

## III. SUMMARY

The nation's farm economy remains in a slump that will probably continue in 2000. How deep and how long the slump will be depends on how soon farm exports recover. Key Asian markets are beginning to bounce back, signaling an eventual but gradual rebound in farm exports. But that rebound appears at least a year away.

With export markets still soft, big supplies of the nation's major crops promise to hold down crop prices, limiting profitable marketing opportunities for crop producers. Livestock producers could fare considerably better, however, as low grain prices pull down feed costs and as strong meat demand in the nation's robust economy boosts livestock prices. Overall, another year of weak farm income is in prospect, although further government assistance could be forthcoming—if the past two years are a guide to the future.

Despite the recent slump, problem farm loans remain relatively few and the industry enters the new century with a solid balance sheet, providing a financial reserve to ride out the rough times. With farm incomes still weak and heavily dependent on government help, farm asset values are likely to soften. Some erosion in farm equity appears likely in 2000, hastening the exit of some producers who wish to preserve their capital and further consolidating the industry in the hands of the most financially secure.

## ENDNOTES

[1] Farm finance and commodity projections in this article are from the U.S. Department of Agriculture.