Another Troubled Year for U.S. Agriculture

By Mark Drabenstott and Marvin Duncan

United States agriculture began 1984 with renewed hopes for a stronger farm recovery, and the record will show farm income did rebound sharply. But the financial stress evident among farm producers, agribusinesses, and rural mainstreet merchants suggests that the farm recovery is far from robust. Farm liquidations and declining farm asset values are visible symptoms of ongoing adjustments to market forces.

When will agriculture see a full recovery that will restore its financial health? Current market factors indicate that farm income will decline in 1985 as softening crop prices and lower government payments more than offset improved livestock profits. Farm financial stress, therefore, will remain visible in 1985. Although a new farm bill will be written next year, farm financial conditions are likely to reinforce the view that agriculture's financial health depends heavily on an appropriate mix of macroeconomic policies, lower real interest rates, and moderation in the exchange value of the U.S. dollar.

This article reviews the performance of the farm sector over the past year and considers the outlook for 1985. The article focuses on farm income, credit conditions, the farm policy agenda, and market conditions for crop and livestock commodities.

The year in review

The year began with several positive factors pointing to improved farm earnings. The PIK program coupled with a severe drought had sharply reduced carryover stocks of major crops, setting the stage for improved crop prices. The nation's economy was expected to continue its strong expansion, aiding demand for food and especially meat products. The dollar was expected to decline somewhat during 1984, providing a needed boost to farm exports.

As the year unfolded, these factors proved less positive. Large spring plantings, despite

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The outlook for 1985

The improved economic performance turned in by the Tenth District in 1984 is not expected to maintain its momentum in 1985. The slower economic growth expected nationwide in 1985 will likely impinge on district performance. Moreover, the effects of slower national growth will be reinforced by continued weakness in energy and agriculture, sectors that are especially important in the district. Thus, district income and employment likely will grow less rapidly in 1985 than in 1984, and overall district growth may lag behind that of the nation. Among the seven district states, the more diversified ones may outpace the national pattern in 1985, while growth may lag in states greatly dependent on energy and agriculture.

The major reason for slower district growth in 1985 stems from the nationwide slowdown. In line with this moderation, U.S. real personal income is projected to grow only about 3.0 percent in 1985, compared with an estimated 5.5 to 6.0 percent in 1984, while employment is projected to grow about 2.4 percent, compared with an estimated 3.5 to 4.0 percent in 1984.[3] The slowdown in national economic growth will be especially felt in the district construction and automobile manufacturing industries. Also, some slowing in the district's high technology manufacturing sector is suggested by recent layoffs and financial problems experienced by some firms.

Also supporting the outlook for slower district growth in 1985 is the dependence of the district economy on energy and agriculture. Weak world demand and soft energy prices are expected to postpone a rebound in U.S. and district energy exploration and development activities. It appears that the recent decline in world crude oil prices may become general in the industry. In addition, natural gas prices may decrease somewhat during 1985, despite continued deregulation, because of a substantial gas surplus and competition from foreign suppliers.

In the district's agricultural sector, a large crop acreage and only slow growth in exports mean continued large stocks and soft prices in 1985. Moreover, financial stress will remain a problem and farm income is likely to weaken somewhat in 1985.

The combined weakness in energy and agriculture has implications for manufacturing in the district. Both oilfield and farm equipment manufacturing are likely to remain weak through 1985. This, along with continued softness in general aviation manufacturing, contributes to the outlook for slower economic growth in the district during 1985.

Each of the district states will be impacted differently by economic forces, depending on its particular industry mix. Those states with more diversified economies—New Mexico, Colorado, and Missouri—are likely to match and possibly outperform the nation during 1985. Other states more dependent on agriculture and energy—Kansas, Nebraska, Oklahoma, and Wyoming—may lag the nation.

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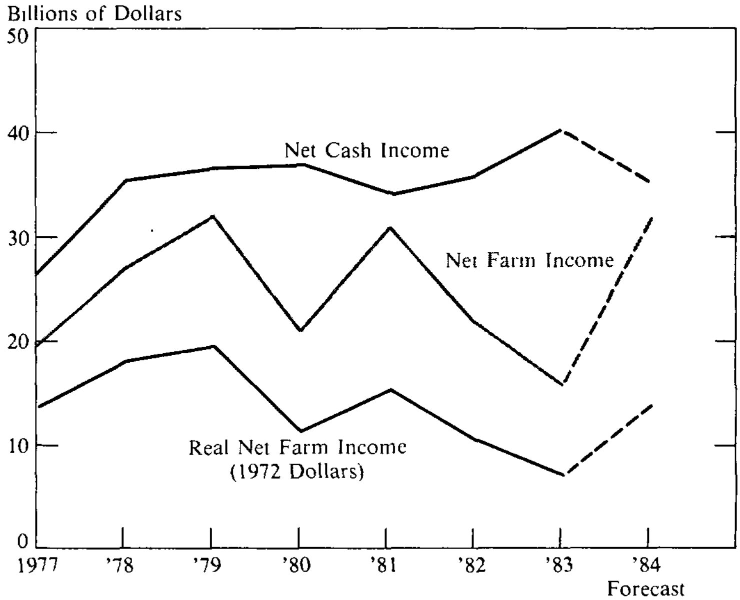
[3] These forecasts of U.S. real personal income and employment growth for 1985 were made using the Chase Econometrics macroeconomic model. The forecasts are consistent with a 3.0 percent growth in real GNP from the fourth quarter of 1984 through the fourth quarter of 1985, which is the midpoint of the range projected by the members of the Federal Open Market Committee. See the transcript of the statement of Paul A Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Joint Economic Committee, July 30, 1984.

CHART 1
Farm income



continue to watch debt levels due to financial stress. With these shifts, proprietors' equity will decline further to perhaps $786 billion. The debt-asset ratio is expected to change very little.

While aggregate indicators provide a useful frame of reference, the farm stress of 1984 has been more apparent in credit conditions at the farm level. These conditions reveal that farmers and ranchers across the United States underwent far more financial stress than normal in 1984, and more than in 1983.

According to agricultural bankers responding to a survey of agricultural credit conditions in the Tenth Federal Reserve District, farm liquidations were much higher than normal in 1984. For the six months ended October 1, full liquidations due to financial stress were 4.5 percent of all farms and ranches, a rate bankers considered nearly three times normal (Chart 2). Partial liquidations over that period totaled 5.7 percent, more than three times normal. Although the greatest stress may have been in the western Corn Belt and Great Plains states, evidence of mounting financial stress has spread to the Northwest and Southwest too.

The real source of the stress is the debt-service problem many producers face. In simple terms, over the past decade a noticeable subset of farmers and ranchers has built up debts that cannot be serviced in the current market environment. In aggregate measures, the farm sector debt-income ratio has risen from about three in the early 1970s to about ten now. That means the amount of debt supported by one dollar of income has increased more than threefold in the past ten years.

administration acreage reduction programs, and favorable weather soon pointed to large crops in 1984, and commodity markets soon lowered prices in expectation of larger supplies. The U.S. economy was strong in 1984, especially in the first half of the year, but stronger consumer spending did not translate quickly into the strength expected for red meat demand. Consequently, livestock prices were weaker than expected. The U.S. dollar not only failed to depreciate, it set records in mid-1984, keeping U.S. farm products at a substantial price disadvantage in world markets.

Farm income

Net farm income will show a dramatic improvement in 1984. It is currently estimated at about $31 billion, nearly twice the revised $16.1 billion in 1983 (Chart 1).[1] In real terms, farm income will be about $14 billion (1972 dollars) compared with $7.5 billion in 1983. Higher average crop prices, larger crop production, and higher average livestock prices will all contribute to a rise in farm earnings. Importantly, direct government payments will again be very large, possibly $6 to $10 billion. With a strong general economy, off-farm income was again large in 1984—a record $43 billion. Most of that amount was earned by small farmers.

The comparison of 1984 with 1983 is distorted somewhat, however. The major distortion is that more than half of the $11 billion in commodities distributed to farmers in the PIK program were marketed in early 1984, adding to farm cash receipts this year. A large inventory adjustment also complicates the comparison. The value of farm inventories declined a record $11.7 billion in 1983 because of PIK and drought-reduced production. With large crop output in 1984, inventories will again rise sharply. The increase is currently estimated at $7 to $11 billion.

Despite improved net income, farmers were worse off in 1984 in terms of cash income. Net cash income declined from 1983's record $40.1 billion, to $36 billion, largely due to higher production expenses. Farm cash receipts increased sharply to $141 billion from the PIK-reduced level in 1983. Crop cash receipts increased moderately, while livestock receipts rose substantially. Total cash expenses increased significantly to $142 billion, with most of the increase due to greater quantities of purchased inputs as farmers returned to pre-PIK planted acreage.

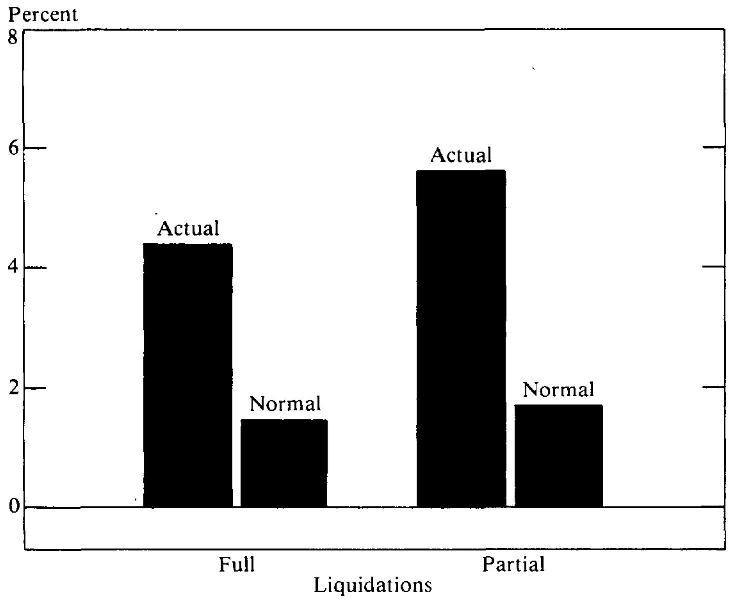
Because of the increase in purchases, input suppliers were able in many cases to post profits in 1984, after substantial losses in 1983. Fertilizer, seed, and chemical dealers gained back most of the fourth to a third drop in sales the PIK program brought about in 1983. But demand for machinery and equipment was still very weak. High costs of carrying debt, weak income, and substantial amounts of used equipment on the market, resulted in another poor sales year in 1984 for many machinery and equipment dealers.

Credit conditions

The farm balance sheet is expected to show some further deterioration at the end of 1984. The farm sector statement for January 1, 1985 will likely indicate a 2 to 4 percent decline in total farm assets, the fourth straight year of decline (Table 1). Total liabilities probably will decline very slightly as farm producers

[1] The revision of 1983 net farm income was very large. At the end of 1983, net farm income was estimated initially at about $25 billion. Later, the substantial downward revision resulted primarily from farmers shifting the marketing of more than half their PIK commodities into early 1984 and from a record large negative inventory adjustment, due almost entirely to PIK and the drought

CHART 2
Financial stress
(liquidations for six months ended October 1, 1984)



percent, feed grains 10 percent, and cotton 25 percent. A wet spring followed by a late summer drought trimmed yields in the western Corn Belt but this was largely offset by excellent growing conditions in the eastern Corn Belt. With a large harvest, carryover supplies of nearly all major crops began increasing again in 1984.

Wheat production increased in 1984 due to large acreage and good yields. Total production was nearly 2.6 billion bushels, with yields just under last year's record high. Wheat prices averaged $3.54 a bushel in the 1983-84 marketing year, almost the same as the year before (Table 2). Large stocks held prices down, but strong feed demand provided more overall support to prices than had been expected.

Production of feed grains bounced back sharply in 1984. With large plantings and good yields, corn production totaled 7.5 billion bushels, up four-fifths from 1983's drought-stricken crop but still less than 1982's record output. Average farm-level corn prices increased sharply to $3.20 a bushel for the 1983-84 marketing year due to the unusually small 1983 harvest. Corn prices peaked, however, by the end of 1983, and then began a general decline in response to the large crop in prospect for 1984.

Soybean production increased in 1984 to about 1.9 billion bushels. An early frost followed by wet harvest conditions reduced yields, but output remained large by historic standards. Farm level soybean prices averaged $7.75 a bushel in the 1983-84 marketing year, but most of the price strength came in the fourth quarter of 1983. The large 1984 crop

Table 1
Farm balance sheet on January 1
(billions of dollars)

	1981	1982	1983	1984	1985f
Assets					
Real estate	828	819	769	764	733-749
Nonreal estate	219	220	228	267	270-278
Total assets	1,090	1,083	1,045	1,031	990-1,010
Liabilities					
Real estate	96	106	110	112	110-113
Nonreal estate	86	96	107	103	101-104
Total liabilities	182	202	216	215	211-217
Proprietors equity	908	882	829	816	773-799
Debt-asset ratio	16.7%	18.6%	20.7%	20.8%	20.9-21.9%

f = forecast
Source: U.S. Department of Agriculture, 1985 Agricultural Outlook Conference

Adding to the financial stress is the continued decline in farmland values. High real interest rates and weak prospects for farm income have brought substantial declines in farmland values that in turn sharply reduced farmers' creditworthiness. In the Tenth District, farmland values dropped 6 percent in the first quarter, 2.5 percent in the second, and 7 percent in the third (the last quarter for which data are available).[2] Thus, 1984 already has produced the steepest declines in values since the market peaked in 1981. Farmland values in the Tenth District are off 27 to 32 percent from their market highs, depending on the category of land. In some isolated areas across the nation, especially where there have been weather problems in recent years, values may have dropped 50 percent or more from their peaks. Land value data must be interpreted carefully, however. Much land is for sale currently, but relatively little is changing hands, except under distress sale circumstances.

Agricultural lenders also felt the increased farm financial stress in the past year. Loan repayment rates slowed throughout the year and, more importantly, loan delinquencies and losses increased. Commercial banks and Farm Credit System outlets charged off more farm loans than in any year in the postwar period. However, despite increasing loan repayment problems, capital positions of most agricultural lenders remain adequate.

Crops

Crop production returned to near pre-PIK levels in 1984. Farmers seeded large acreages of all major crops, thwarting administration programs aimed at reducing wheat acreage 30

[2] Agricultural Credit Survey, Federal Reserve Bank of Kansas City.

expected supplies of beef and poultry. Prices for barrows and gilts at the seven regional markets averaged about $48.50 per hundredweight in 1984, 1 percent more than in 1983.

Broiler production increased 4 percent in 1984 as producers responded to positive margins during most of the year. Continued strong demand for broilers pushed average prices to 55 cents a pound. Turkey production, meanwhile, remained large but unchanged from 1983. Turkey prices, however, averaged about 71 cents a pound this year, up nearly a fifth because of stronger demand.

Lamb and mutton production is expected to decline 2 percent in 1984, continuing the long-term trend toward lower output. Poor range conditions caused additional herd liquidations in the first half of the year. Prices farmers received averaged an estimated $62.50 per hundredweight for lambs, up moderately from 1983.

Dairy producers reduced dairy output in 1984 for the first time in six years. Although fewer producers than expected signed up for the dairy diversion program, those that did contributed to a 3 percent decline in dairy production from the record level in 1983. Government purchases of dairy products declined for the first time in three years. Milk prices to producers were lowered by a 50 cent a pound deduction imposed on producers for excess milk production. As a result, milk prices averaged about $13.35 a hundredweight, down slightly from the year before.

The year ahead

The outlook for U.S. agriculture is dominated by lower farm income, continued financial stress for debt-burdened producers, and larger supplies of major crops. Farm income is likely to decline in the year ahead, due largely to reduced crop prices. Debt service problems will remain as agricultural lenders continue dealing with troubled loans. Farm export volume probably will improve, but the value of exports is expected to decline. The farm policy agenda will be crowded, as policymakers consider the Farm Bill. With no program in place to reduce supplies substantially, another large crop is likely to add further to stocks already enlarged in 1984. Thus, 1985 begins with some clear concerns.

Farm income and financial conditions

Farm income is expected to decline in 1985. Some improvement in livestock profits will be more than offset by lower crop prices and lower direct government payments. Prices for red meat should improve as meat supplies decline and demand improves, while lower feed costs will further widen profit margins. Crop prices will decline due to larger carryover supplies, although a weaker dollar would strengthen export demand and, thereby, prices. As large crops are expected again next year, yearend inventory adjustment to farm income should be positive and significant. Overall, net farm income could decline $7 to $10 billion next year, with as much as a $5 billion decline in net cash income. Adjusted for inflation, farm income may fall below the $11 to $15 billion range (1972 dollars) that has characterized U.S. agriculture thus far in the 1980s.

That level of farm income means financial stress will grow more serious in the year ahead. With current interest rates and incomes, many producers with debt-asset ratios much above 40 percent will have difficulty servicing their debt. In 1984, 18 percent of all U.S. farms had debt-asset ratios greater than 40 percent. As a group, these producers controlled only 15 percent of farm assets but owed 56 percent of farm debt.[3] These numbers

Table 2
U.S. farm product price projections

Crops	Marketing Years 1983-84	Marketing Years 1984-85	Percent Change
Wheat	$3.54/bu	$3.35-3.55/bu	-2.5
Corn	$3.20/bu	$2.65-2.95/bu	-12.5
Soybeans	$7.75/bu	$5.75-7.25/bu	-16
Cotton	$0.67/lb	N/A	N/A

Livestock	Calendar Years 1984	Calendar Years 1985	Percent Change
Choice Steers	$ 65/cwt	$65-69/cwt	3.0
Barrows & Gilts	$48-49/cwt	$50-52/cwt	5.1
Broilers	$54-56/lb	$48-54/lb	-7.3
Turkeys	$70-71lb	$65-69/lb	-5.7
Milk	$13.25-13.45/cwt	$13.50-14.10/cwt	3.4

Source: U.S. Department of Agriculture, 1985 Agricultural Outlook Conference

and weak export demand led to softer prices as the year progressed.

Cotton production totaled 13.4 million bales, well above production in 1983. Yields were near their record high, despite wet weather that delayed harvest and lowered crop quality in the Delta states. Farm-level cotton prices increased to 67 cents a pound due to strong export demand and tight carryover supplies as the year began.

Overall, the crop situation changed dramatically in 1984. Large production and still weak export demand caused carryover supplies to increase again and prices to fall. Thus, crop producers look with concern toward 1985, when another large crop would swell supplies even more.

Livestock

Contrary to expectations, livestock production continued to rise in 1984, with total meat output up 1 percent from the record level in 1983. The increase was due largely to higher than expected beef slaughter and rising broiler production. Pork producers cut back their production.

Beef and veal production increased about 2 percent this year. A year ago, the forecast was for beef production to decline in 1984. Cow slaughter was high most of the year. Trimming of dairy herds was partly responsible, but probably more important were the financial stress on cattle producers and drought conditions in some areas that led to herd liquidation. Because the beef supply was large, cattle prices were weaker than expected, but higher than the year before. Slaughter steer prices at Omaha averaged an estimated $65 per hundredweight in 1984, up from $62.50 in 1983.

Pork production dropped 4 percent in 1984 as producers responded to narrower profit margins. Despite smaller supplies, pork prices were much weaker than expected due to large Canadian pork imports and larger than be eligible for Farmers Home Administration (FmHA) disaster assistance. Interest rates for farm borrowers, which rose slowly in 1984, should decline somewhat in early 1985 as the easier money market conditions prevailing in late 1984 begin lowering the cost of funds for rural lenders. But stronger U.S. economic performance and high public credit demand could put rates back on an upward trend by midyear.

Export outlook

The value of U.S. agricultural exports increased in 1984, reversing three straight years of decline. The value of farm exports was $38.0 billion in fiscal 1984, up 9 percent from 1983 (Chart 3). But more importantly, 1984 marked the fourth consecutive year of decline in the volume of exports. Volume totaled 141 million metric tons, 3 percent less than in 1983 and the lowest volume since 1979. The agricultural trade balance, meanwhile, increased to $20.0 billion, despite more food imports all year.

Even with the improvement in export value, some negative market fundamentals remain. With volumes declining, the increase in value was due entirely to higher average prices. The dollar remained strong throughout the year, keeping U.S. farm products at a significant price disadvantage in world markets. Soybeans in late 1984, for instance, were the same price in U.S. dollars as three years earlier, but priced in most foreign currencies they were dramatically more expensive (Table 3). The still weak economies of developing countries limited growth in world demand. Finally, competing world grain supplies remained large, as world grain production outside the United States increased 1 percent.

Still weak export markets emphasize the need to reexamine policies that influence U.S. agricultural trade. Macroeconomic policies in the United States, particularly the huge federal budget deficits that keep real interest rates high and the dollar strong, account for a large part of the problem. A weaker dollar alone, however, will not return the United States to its full stature in world food markets. Competitive pricing of U.S. farm products and a long-range strategic plan for expanding foreign markets also will be critical.

The outlook for farm exports in 1985 is mixed. Export value is expected to decline slightly to perhaps $36.5 billion as farm product prices soften. Meanwhile, export volume is expected to increase moderately, the first increase in five years. A strengthening world economy will be a major factor in boosting demand. The large supplies available, however, will keep world prices lower than a year ago. A decline in the exchange value of the dollar would provide a boost to farm exports, but the timing and size of any prospective decline is currently an unknown.

An important force during the 1984-85 marketing year will be the amount of Soviet grain purchases. The Soviet Union had its third poor crop in a row in 1984. Because of adverse weather, a harvest of 170 million metric tons is currently expected, 25 tons less than in 1983. As a result, the Soviets are expected to import a near-record 45 to 50 million metric tons of grain, with up to half of that coming from the United States. Although the pressure of the Soviets in the market has strengthened commodity prices, prospective sales probably are fully accounted for in futures markets and world supplies are still large. Thus, U.S. export sales are not likely to be strong enough in 1985 to prevent crop prices from sagging if grain stocks climb.

Farm policy outlook

Farm policy actions in 1984 have been

include part-time farmers, who often repay farm debt with off-farm income, and very large commercial farms with annual sales greater than $500,000, most of which are quite profitable. Thus, these data likely overstate the severity of the debt situation. Nevertheless, many farm businesses in this category will survive only by restructuring their debts, assets, or both.

The most highly leveraged farm businesses have an even more difficult problem. In most cases, producers with debt-asset ratios exceeding 70 percent cannot survive in the current market environment. In 1984, 6.6 percent of all farmers had debt-asset ratios exceeding 70 percent. This group controlled less than 4 percent of farm assets but owed nearly one-fourth of all farm debt. With the debt service problem facing these producers, full and partial farm liquidations will continue to run well above normal in 1985, as producers sell assets to relieve financial pressure.

Most liquidation decisions, whether full or partial, will be made jointly by borrowers and lenders. Agricultural lenders were slow to adjust to the farm recession that began in 1980. They must now address troubled farm loan portfolios. Concerns by the regulators of financial institutions—and the institutions' own stockholders—over persistently high farm loan delinquencies and losses will keep pressure on lenders to resolve the most seriously troubled loans. Although the capital of most lending institutions is not endangered by troubled farm loans, a larger share of bank failures in 1984 were connected to farm loan losses. That trend is almost certain to continue in the year ahead.

Farm asset values are expected to remain under downward pressure in 1985. High real debt-carrying costs are expected to continue, contributing to lower land values. Pressure on land values will be greatest during winter and early spring months when loan decisions are made and liquidations increase. Important unknowns at this point are how many farm assets will be liquidated and how well rural factor markets will absorb these assets. Current indications are that liquidations will be greater than a year ago. And while it seems clear that farmland values will decline further, precipitous declines do not appear likely except in isolated circumstances.

Three things will lend stability to farmland values. First, if the administration's debt restructuring program runs smoothly, it could provide some breathing room for farmers approaching the time when severe action must be taken to resolve financial stress. Although the current loan guarantee authority probably is not adequate for the size of the problem, further increases in this authority seem likely. Second, lenders can be expected to show restraint in putting foreclosed property on the market. Rather than dispose of the property immediately, as may have been typical in the past, lenders are increasingly holding farmland in their investment portfolios. That practice reduces the volume of assets for sale, cushions the decline in asset values, and allows the lending institution to liquidate the assets later when the losses may be less. Third, current farm product prices and interest rates seem likely to support land prices at about 50 percent of their previous market high. Continued declines in values could bring land prices at yearend close to levels supported by market fundamentals.

Otherwise, agricultural credit conditions will be similar to those in 1984. Loanable funds will be ample, but the main criterion for borrowers will again be their creditworthiness. Some counties that were declared disaster areas because of the late-season drought will

[3] Source: U.S. Department of Agriculture.

Table 3
U.S. soybean prices in foreign currencies
(price per bushel)

	Prices on October 1, 1981	Prices on October 18, 1984	Percent Change	Dollar Price As Seen By Foreign Buyers
Dollars (Chicago cash price)	6.21	6.22	+0.2	—
British pounds	3.39	5.24	+55	9.63
French francs	34.5	59.5	+72	10.68
West German marks	14.4	19.4	+35	8.38
Mexican pesos	156.6	1,244.0	+794	49.31
Japanese yen	1,447.9	1,547.9	+7	6.64

Source: Iowa State University

ing farm financial problems, put in place a FmHA program to ease the farm debt problems. Initially covering Missouri, Kansas, Iowa, Nebraska, and Minnesota, the program will probably be extended to other states where farm financial problems are severe. The program has four major provisions.

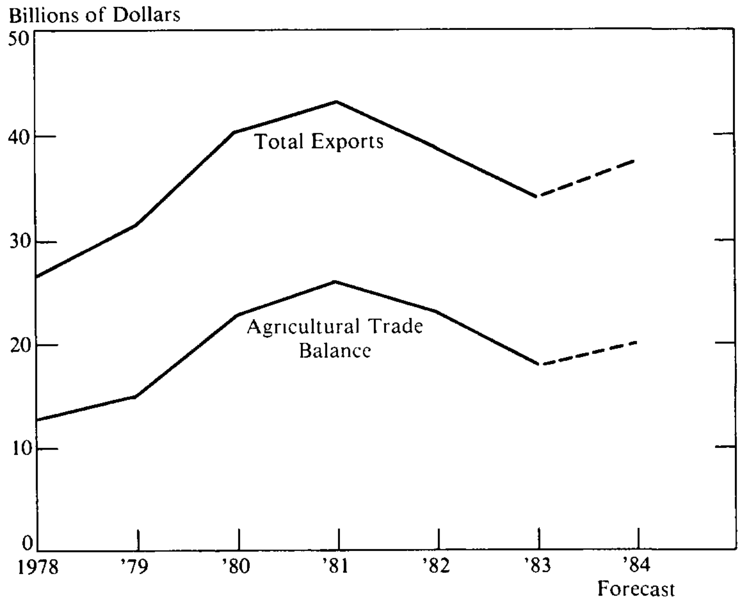
One provision is that the FmHA can set aside as much as 25 percent of a FmHA borrower's debt—not to exceed $200,000—for up to five years. Payments are then rescheduled on the indebtedness not set aside. The amount set aside is rescheduled over the remainder of the loan, with payments beginning after five years. No interest is charged on the set-aside amount for the whole five years, likely resulting in interest lost to the government of well over $1 billion. All FmHA borrowers that are good managers and are in financial distress are eligible for the program, provided that it allows the borrower to create a positive cash flow on his operation.

Another main provision makes debts of family farm owner-operators held by other lenders also eligible for restructuring. To be eligible for federal assistance, both the borrower and the lender must agree to new loan terms entailing a writeoff by the lender of at least 10 percent of the loan principal. The writeoff must be enough to give the farmer a positive cash flow. A new note is then written with the FmHA providing a guarantee of up to 90 percent of the new loan balance. There are limits of $400,000 per borrower on guarantees for operating purposes and $300,000 for real estate purposes. A total of $630 million in loan guarantee authority has been made available from the FmHA.

The other two provisions of the program involve credit management. The FmHA is taking steps to provide financial and management services to farmers under financial stress. In addition, the FmHA will contract with private lenders to assist in servicing FmHA-insured farmer program loans.

The farm policy action agenda will be crowded in 1985. The nation's farm financial problems likely will require substantial assistance from the government. Assistance could take the form of a much expanded FmHA loan

CHART 3
U.S. agricultural exports



fairly low key and routine. Federal budget constraints and the realization that major farm policy legislation will be enacted in 1985 have limited actions in 1984. Policy discussion, on the other hand, has been unusually vigorous. Nearly all segments of agriculture have been rethinking their positions in anticipation of the coming 1985 legislation.

Farm policy changes that have been made largely affected commodity programs in 1984 and 1985. An effort has been made to limit federal budget exposure and send clearer market price signals to farm producers. For example, target price payments scheduled under the 1981 Agriculture and Food Act have been scaled back or frozen. As a result, wheat, corn, upland cotton, and rice target prices will be lower in 1985 than otherwise. To ease farmer cash flow, advance partial payments of expected acreage diversion and target price payments for those crops will be made at program signup time. While probably helpful, that plan had an unexpectedly negative impact in 1984 when farmers had to refund overpayments totaling $300 million.

Because of the severe drought in some parts of the country in 1983, the government provided that farmers in counties adjoining those counties declared eligible for natural disaster emergency loans also were eligible for such loans. Also, additional funding of at least $310 million was to be made available in fiscal 1984 for insured economic emergency loans, with the Secretary of Agriculture having discretion to disburse the credit.

One agricultural credit program instituted in 1984 was neither low key nor routine. The Secretary of Agriculture, in response to grow-

Table 4
U.S. agricultural supply and demand estimates
December 12, 1984
(millions of bushels, bales, or metric tons)

	Corn (bu) Oct. 1-Sept. 30		Feed Grains (mt) Oct. 1-Sept. 30		Soybeans (bu) Sept. 1-Aug. 31		Wheat (bu) June 1-May 31		Cotton (bales) Aug. 1-July 31	
	1983-84	1984-85	1983-84	1984-85	1983-84	1984-85	1983-84	1984-85	1983-84	1984-85
Supply										
Beginning stocks	3,120	722	97.3	31.4	345	175	1,515	1,398	7.9	2.8
Production & imports	4,168	7,528	136.7	232.4	1,636	1,902	2,424	2,575	7.8	13.4
Demand										
Domestic	4,700	5,050	146.8	156.7	1,066	1,087	1,112	1,067	5.9	5.3
Export	1,866	2,075	55.7	61.3	740	775	1,429	1,525	6.8	6.3
Total	6,566	7,125	202.5	218.0	1,806	1,862	2,541	2,592	12.7	11.6
Ending Stocks	722	1,125	31.4	45.9	175	215	1,398	1,381	2.8	4.7

Source: U.S. Department of Agriculture

Soviet buying. World trade in wheat is expected to reach a record high. But because of large wheat crops elsewhere, notably the European Economic Community, U.S. wheat exports will increase only 10 percent. Some improvement in world demand will limit the price softening effect of very large U.S. and world wheat supplies. Farm level prices are expected to average $3.35 to $3.55 a bushel in the 1984-85 marketing year, down slightly from a year earlier.

Feed grain supplies also will be large next year. Corn supplies, the main feed grain, will be more than 8.2 billion bushels, over a billion bushels more than last year. While still less than the record supply of two years ago, carryover stocks will rise to 1.1 billion bushels. Free stocks, supplies outside of FOR and CCC ownership, will increase more than fourfold. That will still be an historically tight free market supply situation.

Although tight free stocks will support prices somewhat, demand is not likely to increase enough to keep prices from easing. Corn exports and domestic use both will improve some in 1985, but supplies will be more than adequate. Farm level corn prices may average $2.65 to $2.95 a bushel in the 1984-85 marketing year, well below the $3.20 in 1983-84. Sorghum prices are expected to average $2.40 to $2.65 a bushel at the farm level, down from $2.75 a year earlier. Barley prices are expected to average $2.15 to $2.45 a bushel, down from $2.50.

The soybean outlook is influenced by a weather-reduced 1984 crop and weak export demand. Adverse harvest weather cut yields in 1984, and the final crop was less than earlier expected. As a result, total soybean supplies will increase only modestly from a year ago. Total carryover stocks may be only moderately higher than last year's 175 million bushels, a tight supply.

The demand for soybeans, however, is expected to be weak. Domestic feed use is expected to be down because of cuts in meat guarantee program, perhaps a few billion dollars in total authority and possibly with easier rules on loan writedowns by bankers and cash flow requirements for farmers. Lenders might, for example, be allowed to spread their writedown on principal in the form of a reduction in the interest charged the borrower. Lenders could then take their loss in the form of reduced earnings rather than an upfront reduction in bank capital, a change much more acceptable to banks.

Writing major new farm legislation to replace the 1981 Agricultural Act will be difficult in light of the farm financial stress and stringent budget constraints. Policymakers are not likely to approve a program as costly as those of recent years. They could well put a much tighter constraint on program costs, maybe to less than $10 billion.

Most policy analysts agree that program emphasis should be shifted from income transfer and price support spending to market development and short-term adjustment assistance. There is general recognition of the need to put more program dollars into market development, which would have higher payoffs. The returns to producers from such spending will be earned in the long run. There could be short-term costs to some farmers as income transfers are cut back. Continued income pressures from high real debt-carrying costs and loss of export competitiveness due to a strong dollar could make farmers less willing to abandon current programs. It seems unlikely that farmers and policymakers will agree to more than modest shifts in emphasis for the upcoming legislation. Somewhat more likely will be an effort to cap total spending on farm programs. Such a cap is almost certain to create great pressure among commodity groups to determine how the limited program benefits are divided.

Of overriding importance to agriculture, compared with any purely agricultural issues, are the continuing huge federal budget deficits. Those deficits keep real interest costs and the exchange value of the U.S. dollar unusually high, sharply increasing farm production costs, reducing farm asset values, and reducing farm product prices by limiting U.S. agriculture's competitive position in world markets. Without a prompt and reasonable solution to federal budget deficits, U.S. agriculture faces more financial stress and a shaky recovery.

The crop outlook

The crop outlook has changed markedly from a year ago. Then, drought and PIK-induced production declines reduced carryover supplies to tight levels. Now, the large 1984 harvest—large both here and abroad—has again pushed up available supplies. And while stocks are still well below the record levels of two years ago, another large crop in 1985 poses a threat to crop prices, next year and beyond.

The outlook for U.S. wheat is based on record supplies and record disappearance. The 1984 crop, the third largest ever, coupled with already large carryover stocks will mean a record wheat supply next year, nearly 4 billion bushels. Carryover stocks will total 1.4 billion bushels, just less than a year ago. Three-fourths of that total, however, will be in the Farmer Owned Reserve (FOR) or Commodity Credit Corporation (CCC) stocks (Table 4).

Demand for wheat in the 1984-85 marketing year will be strong, both here and abroad. Feed use will be at a record high for the current marketing year, as the result of livestock producers switching from corn to wheat during the summer of 1984, the first quarter of the wheat marketing year. World consumption will be quite strong, boosted by increased production. Exports had been expected to increase, but reduced shipments of soybean exports in the last quarter of 1984, usually the heaviest period, suggest that world demand is still weak. The People's Republic of China, an important buyer of world-traded soybeans, had a large crop and may not purchase any soybeans in world markets during the coming year. With a large 1985 crop in prospect, farm level soybean prices are expected to average only $5.75 to $7.25 a bushel, far below the $7.75 a year earlier.

Cotton supplies also will be more than adequate in the coming year. Total U.S. cotton supplies will increase 2.5 percent. World cotton supplies, boosted by a record Chinese crop, will jump to a record level. Slower U.S. economic growth and increased textile imports will contribute to a reduction in domestic mill use. Exports also will decline as competing world supplies prevent growth in sales. Without a large acreage reduction program in 1985, production may be high again. Thus, cotton prices are expected to weaken in the 1984-85 marketing year from the 67 cent a pound average the previous year.

The livestock outlook

Livestock producers should enjoy improved profits in 1985. Reduced red meat supplies, stronger consumer demand, and lower feedgrain prices will contribute to better profits. For the year as a whole, red meat supplies will decline about 2 percent, but increased poultry production will leave total meat production unchanged. Consumer demand is expected to improve slowly as the economic expansion continues. Feed costs are likely to remain low throughout the year.

Beef production is expected to decline 4 percent in 1985. The recent pattern of large cow and heifer slaughter may continue during the first quarter, in part spurred by continuing financial stress. For the remainder of the year, however, nonfed slaughter should drop back to a more normal rate, accounting for nearly all the expected reduction in beef production. Fed cattle placements are likely to remain large, and fed cattle marketings are expected to change little. Consistent with declining beef production, the cattle inventory should decline during the year.

Choice steer prices at Omaha may be fairly steady in 1985. Prices are expected to range between $64 and $70 a hundredweight throughout the year. Prices should be strongest in the second quarter, when beef output will decline most sharply from year-earlier levels. Large competing pork and poultry supplies in the second half may lead to prices nearer the lower end of the range. Cattle feeder profit margins should widen next year, especially if another large corn crop pushes feed prices lower. Favorable feeding margins may boost feeder cattle prices in 1985, with a wider premium to fed cattle prices likely most of the year.

Pork production is expected to be unchanged in 1985. Output will likely decline in the first half as producers continue their cutbacks, but with cheaper feed as the year progresses production probably will begin increasing by the fourth quarter. If the dollar remains strong, Canadian pork imports could remain an important supply factor in 1985.

Continued economic expansion should improve pork demand, but pork may not benefit from growth in consumer income as much as other meats. A potential structural change in consumer preferences for meat may limit growth in demand for pork products in 1985. Per capita pork consumption declined 2.3 percent during 1984, despite strong economic growth.

Prices for barrows and gilts at the seven major markets probably will average $48 to $52 a hundredweight in the first half. Seasonal declines in red meat production during the summer should push prices into the $51 to $55 range in the third quarter. Prices should then retreat to the earlier range in the fourth quarter, when total meat supplies will be larger.

Broiler producers face generally favorable conditions in 1985. The improved profit margins of the past year will encourage large production in 1985. For the year, output could rise 5 percent. Smaller supplies of competing red meats along with continued strong demand will bolster broiler prices in the first half. The 12-city broiler price is expected to average in the mid-50 cent a pound range in the first two quarters. Larger total meat output in the second half could lead to weaker broiler prices then.

Turkey producers are expected to increase supplies 3 to 5 percent in 1985. Strong profits in 1984 and lower feed costs will encourage expansion. With these additional supplies, turkey prices may average 65 to 69 cents a pound, down from 71 cents in 1984.

With the dairy paid diversion program over, dairy output may increase again in 1985. With cheaper corn available, dairy producers are likely to increase feeding in 1984. One-fourth of the 1984 reduction in milk production resulted from less output per cow. Higher grain feeding rates, then, could add quickly to total production. Producers also have retained large numbers of dairy heifers. If these are added to the total number of milk cows when the dairy diversion program ends, production could rise substantially. Or, if the heifers only replace cows culled from herds, output might rise only modestly. In that case, however, beef production would increase as cull cows are slaughtered. So, while the government support prices will be lower, production may increase as much as 1 to 2 percent, pushing market prices below 1984 levels.

Conclusion

This was a year of contrast for U.S. agriculture. Higher crop production, strong crop prices early in the year, higher livestock prices, and generous government subsidies lifted net farm income sharply from the depressed level of a year earlier to a near record of $31 billion. But farm asset values—indeed asset values across agriculture—continued to decline and farm financial stress was at the greatest level since before World War II.

The year ahead could present a different contrast. Large planted acreage could keep major crop prices under continued downward pressure. The volume of farm exports will improve, but export value will decline because of lower prices. Government subsidies likely will be less generous than in other recent years. Higher livestock prices will not be enough to offset other adverse market factors, and farm income will fall somewhat from the 1984 level. Farm financial stress will remain high, with many highly leveraged operators leaving the farming business.

Yet by the end of 1985, a sense of optimism may begin spreading across agriculture. The downward adjustment in asset values could then be about complete. With continued world economic growth, export demand could be strengthening. Prompt and prudent action to reduce the federal budget deficit would likely result in declining real interest rates and an easing in the exchange value of the U.S. dollar. As 1985 ends, therefore, the stage could be set for higher future farm profits, stable or slowly rising farm asset values, and increased competitiveness in world markets.