The Outlook for Agriculture: Is Recovery on the Way?

By Marvin Duncan and Mark Drabenstott

The past year proved another disappointment to U.S. farmers. As in 1981, farm product prices generally declined because of abundant supplies and weaker than expected domestic and foreign demand. As a result, farmers experienced their third year in a row of sharply depressed farm income and, more recently, declining asset values.

Total cash receipts from farm marketings in 1982 are expected to decline slightly from the record level of 1981. Cash receipts from livestock marketings—a bright spot in an otherwise gloomy picture—reached a record high in 1982. That gain was more than offset, however, by lower cash receipts from crops. Although production costs did not increase as much as in 1981, net farm income, at about $19 billion, was off some 24 percent from the previous year.

1982 IN REVIEW

Prospects for improved farm income in 1982 had been based on an early recovery from the recession and improvements in the economic performance of trading partner countries that would increase export demand for U.S. farm products. Efforts by farmers to reduce meat and grain production were expected to raise farm product prices. Lower inflation was also expected to bring relief on farm production costs.

Developments that could have led to stronger farm income, however, failed to materialize. The expected economic recovery did not come in early 1982. As the year draws to a close, the economy has apparently still not begun to recover. Moreover, the economies of many trading partner countries remained weak throughout the year. Organization for Economic Cooperation and Development (OECD) countries expect the real value of the output of their goods and services to have shrunk 0.5 percent in 1982. Thus, stronger domestic and foreign demand did not materialize.

Farmers were only partially successful in reducing production as a means of obtaining higher prices. Production of beef and especially pork fell short of year-earlier levels, resulting in a welcome improvement in livestock prices. Farmers were reluctant to cooperate in government efforts to reduce acreage of major crops, however, and with favorable weather major grain crops reached record levels. World grain production was also expected to register an increase over 1981.

Moderating increases in production costs were a source of optimism for farmers. Pro-

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Table 1
BALANCE SHEET FOR MAJOR CROPS
(Millions of Bushels, Bales, or Tons)

	Corn (bu) Marketing Year Oct. 1-Sept. 30		All Feed Grains (metric tons) Marketing Year*		Soybeans (bu) Marketing Year Sept. 1-Aug. 31		Wheat (bu) Marketing Year June 1-May 31		Cotton (bales) Marketing Year Aug. 1-July 31	
	1981-82	1982-83†	1981-82	1982-83†	1981-82	1982-83†	1981-82	1982-83†	1981-82	1982-83†
Supply										
Beginning Carryover	1,034	2,366	34.6	73.0	318	268	989	1,163	2.7	6.6
Production and Imports	8,202	8,331	248.7	252.8	2,000	2,300	2,796	2,813	15.6	12.1
Total	9,236	10,697	283.3	325.8	2,318	2,568	3,785	3,976	18.3	18.8
Demand										
Domestic	4,903	5,100	151.7	156.3	1,121	1,188	849	865	5.3	5.4
Exports	1,967	2,100	58.6	61.3	929	950	1,773	1,600	6.6	5.4
Total	6,870	7,200	210.3	217.6	2,050	2,138	2,622	2,465	11.9	10.8
Ending										
Carryover	2,366	3,497	73.0	108.2	268	430	1,163	1,511	6.6	8.0

Source: U.S. Department of Agriculture.
*Marketing Year begins October 1 for corn and grain sorghum, July 1 for barley and oats.
†Preliminary USDA estimates as of November 1982.

gress against inflation was even faster than forecast. Increases in production costs of farmers are usually correlated with increases in the general price level. As inflation slowed this past year, increases in farmers' production costs have also slowed. Cost increases in 1982 were the lowest in several years.

Crops

Farmers harvested bumper crops for the second year in a row, setting new records for wheat, corn, and soybean production. While favorable weather played an important part in the large crops, only about half the nation's wheat base acreage and 29 percent of its corn base acreage were included in the government's acreage reduction program in 1982. About three-fourths of the cotton base acreage was included.

Farmers are rarely enthusiastic about reducing planted acreage to cut back crop production. Fixed costs of ownership for land and equipment not fully used must then be spread over the smaller number of planted acres, raising average per-acre production costs. Because much of the wheat crop was planted before the U.S. Department of Agriculture (USDA) announced the acreage reduction program, wheat producers were particularly reluctant to destroy crop acres and comply with the program. Cotton producers, however, typically have higher compliance rates with farm pro-

Table 2
U.S. AVERAGE FARM LEVEL PRICES

Commodity	1981-82	1982-83 (Forecast)	Percent Change From One Year Ago*
Crops			
Wheat	$3.65/bu.	$3.40-3.50/bu.	−5.5
Corn	$2.45/bu.	$2.15-2.35/bu.	−8.2
Soybeans	$6.08/bu.	$5.25-5.75/bu.	−9.5
Cotton	54.7 cents/lb.	N/A	N/A
Livestock			
Choice Steers (Omaha)	$64-66/cwt.	$64-70/cwt.	3.1
Barrows and Gilts (7 major markets)	$55-57/cwt.	$56-62/cwt.	5.4
Broilers (9 city average)	43.45 cents/lb.	43-49 cents/lb.	4.6
Turkeys (NY young hens)	61-63 cents/lb.	62-68 cents/lb.	4.8
Milk	$13.45-13.55/cwt.	$13.30-13.70/cwt.	0.0

*Percent change is calculated from the midpoint of the 1982-83 range.
Source: USDA World Agricultural Supply and Demand Estimates, November 12, 1982.

grams than do food and feed grain producers.

Many feed grain and wheat producers stayed out of compliance, hoping market prices would exceed the price and income benefits provided in the program. These producers were counting on production shortfalls elsewhere in the world, production cutbacks by neighbors participating in the program, or increases in export demand to raise wheat and feed grain prices above Commodity Credit Corporation (CCC) loan levels.[1] Record U.S. production, however, drove crop prices below CCC loan levels. Financially, farmers that participated in the acreage reduction program now appear to have fared better than those that did not.

The nation's wheat production reached a record 2.8 billion bushels in 1982 from harvested acres only slightly less than last year (Table 1). With the carryover stock, total supplies for the 1982-83 marketing year are up about 5 percent from a year earlier. These large supplies together with somewhat weaker export demand have held the average farm price for wheat below the year-ago level (Table 2).

Feed grain production totaled 253 million metric tons from an acreage only slightly smaller than a year earlier. Including carryover, total supplies in the 1982-83 marketing year are

[1] CCC loan rates for 1982 crops were wheat, $3.55 per bushel; corn, $2.55 per bushel; grain sorghum, $2.42 per bushel.

up nearly 15 percent. The rapid increase in U.S. feed grain supplies poses a potentially serious price-depressing threat to markets that could extend well beyond the current marketing year.

Corn production topped the year-earlier output to set a new record of 8.3 billion bushels in 1982. With carryover stocks added in, total corn supplies available in the current marketing year are up 16 percent from a year ago. Burdensome supplies and weaker export demand in the 1981-82 marketing year held the average U.S. farm level corn price sharply below the year-ago level.

The soybean crop reached a record 2.3 billion bushels from a harvested acreage slightly larger than in 1981. Including carryover, total supplies available for the 1982-83 marketing year are about 11 percent higher than a year ago. Consequently, the average U.S. farm level price for soybeans in the 1981-82 marketing year was off sharply from the previous year.

Cotton production in the United States declined sharply in 1982 to 12.1 million bales. The decline resulted from both a one-third reduction in harvested acreage from a year before and adverse weather in Texas, a major producing state. Due to large carryover stocks, however, total supplies in the 1982-83 marketing year are slightly larger than a year ago. With larger supplies and somewhat weaker demand, the average U.S. farm level price of cotton was off more than one-fourth in the 1981-82 marketing year.

It seems clear that stock levels for major crops are now well in excess of prudent reserve levels and as a result are a marked depressant on prices.

Livestock

Meat production in 1982 declined nearly 3 percent from the year-earlier level. For this reason most livestock producers were able to earn higher prices for livestock sold in 1982 despite weakness in demand.

The key element in reduced meat output was an almost 12 percent reduction in pork production, which reflected fewer hogs on farms than in 1981. Compared with a year earlier, producers farrowed between 10 and 13 percent fewer sows each quarter of the year. Producers have also given little indication of future production increases despite profitable cost-price relationships. The December inventory of breeding hogs was well below year-earlier levels. As a result, hog prices averaged over 5 percent more than in 1981 (Table 2).

Cattle producers benefited from reduced pork production. Although beef production was up slightly in 1982, prices for choice steers at Omaha averaged about 3 percent higher than a year earlier (Table 2). The combination of somewhat improved fed cattle prices and lower feed costs resulted in positive margins for cattle feeding during most of the year. There was also some improvement in feeder cattle prices, although prices probably remained below full costs of production for most ranchers.

Lamb and mutton production rose 8 percent in 1982 to the highest level since 1976. However, with overall meat production down, choice lamb prices averaged about the same as in 1981.

Poultry production rose about 1 percent in 1982. All the increase was in broilers. Turkey production was down slightly. Increased poultry production caused broiler prices to average about 5 percent less than in 1981. As a result of reduced output, turkey prices averaged about 5 percent higher than in 1981.

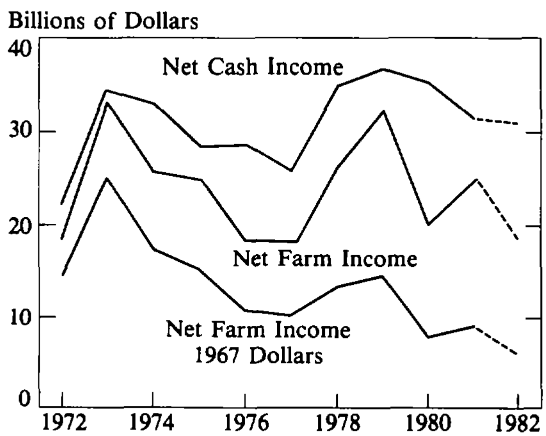
Dairy producers, in response to favorable dairy support prices, increased milk production almost 2.5 percent in 1982. The number of cows in the dairy herd was up slightly at midyear. Milk production again exceeded market demand at support price levels in 1982. As a result, CCC uncommitted inventories of butter and cheese at yearend were 35 and 32 percent, respectively, above year-earlier levels.

Prices and Income

Sluggish domestic and export demand coupled with large grain stocks served to temper upward movement in farm commodity prices in 1982. As a result, the November index of prices received by farmers was 0.8 percent lower than a year earlier. Prices paid by farmers, responsive to increases in the general price level, rose 4.0 percent over the same period.

Total cash receipts from farm marketings slipped below last year's record level to about $142 billion. Record livestock receipts were more than offset by lower crop receipts. Direct government payments to farmers totaled $4 billion in 1982, more than twice the amount of payments in 1981. Other farm income from such sources as recreation, custom work, and the imputed rental value of farm operator dwellings exceeded year-earlier levels, boosting total gross income to a record $163 billion. Record high production expenses, however, reduced net farm income to only $19 billion (Chart 1). The value of inventory adjustment was not expected to change that figure. Net cash income for the year, the difference between cash receipts and cash expenditures, was $31 billion, only 1.6 percent less than in 1981.

Chart 1
NET FARM INCOME



Source: U.S. Department of Agriculture.

Off-farm income continues to be an important source of family income to the farm sector, exceeding that earned from farming in recent years. Farm families are estimated to have earned an average of $17,000 in off-farm income in 1982, up about $850 from 1981. Total income per farm in 1982—including both farm and nonfarm income sources—is estimated at $24,900, compared with $26,456 in 1981. Off-farm income accruing to farm families is considerably more important to smaller and middle-size farmers than to large farmers.

Farm real estate values declined in 1982 for the second year in a row. The decline was in response to depressed net farm income, the high real cost of carrying debt, and reduced inflationary expectations. Agricultural bankers, responding to a quarterly agricultural credit survey conducted by the Federal Reserve Bank of Kansas City at the end of the third quarter of 1982, indicated that values for nonirrigated cropland in the Tenth District were off about 15 percent from the market highs reached in the first half of 1981. Values of irrigated cropland were off 17 percent, and values of ranchland were down 13 percent. Consequently, real farm equity declined in 1982 for the third year in a row—the first time this has happened since before 1940. Government income transfers, commodity price supports, and credit programs for farmers all serve to put a safety net under farmland values. Moreover, recovery in the farm economy can be expected to lead to firming and eventually increasing farmland prices.

Farm Policy

Some changes in farm commodity programs have been made for 1983. Highlights of the programs are outlined in Table 3.

Table 3
1983 COMMODITY PROGRAM HIGHLIGHTS

	Wheat	Corn	Grain Sorghum	Barley	Oats	Rye	Upland Cotton
1983 crop	$/bu.						¢/pound
Target price	4.30	2.86	2.72	2.60	1.60	None	76.00
Regular loan rate	3.65	2.65	2.52	2.16	1.36	2.25	55.00
	Percent						
Acreage reduction[1]	15	10	10	10	10	None	20
Paid land diversion[1]	5	10	10	10	10	None	5[2]

1 There are two feed grain bases—one for corn and sorghum, one for barley and oats.
2 Optional.
Source: Agricultural Outlook, October 1982, p. 20.

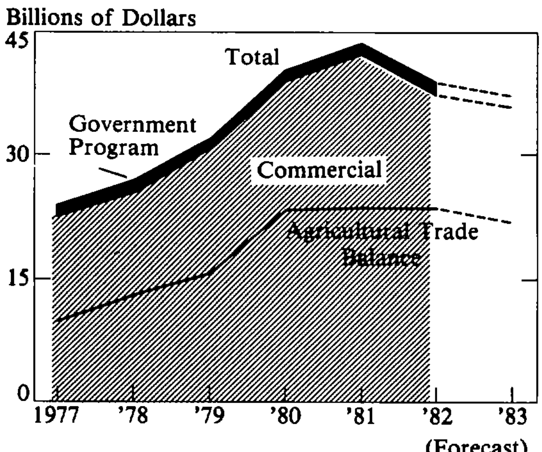
Acreage reduction provisions will be in effect for several major crops in 1983. To be eligible for program benefits, including CCC loans and target price protection, producers will be required to participate in acreage reduction and diversion programs where applicable. Wheat and feed grain producers will have to participate in both acreage reduction and paid land diversion to qualify for program benefits. Cotton producers need participate only in the acreage reduction. Land diverted from production must be put to approved conservation uses.

The 1982 Budget Act, reflecting Congressional concern over lagging farm export sales and subsidization of sales by foreign competitors, requires the Secretary of Agriculture to use between $175 million and $190 million a year in CCC funds for fiscal 1983, 1984, and 1985 to increase exports. The Secretary has decided to use much of the funds to "buy down" interest rates charged foreign buyers on credit sales of U.S. farm products. Under this program, $100 million a year in interest free loans will be provided to countries buying U.S. farm products. This will be in addition to $400 million a year in U.S. government commercial credit guarantees reassigned to the program. As a result, the effective interest rate on the $500 million in credit will be reduced by one-fifth.

Congress, after lengthy consideration, reached agreement on a major reform of the water reclamation law in effect since 1902. Revisions to the law raise the ownership limit for receiving federally subsidized water for irrigating up to 960 acres for single owners and small corporations (up to 25 stockholders). The limit had been 160 acres. That limit had not been enforced, however, until recent years. Single owners and small corporations have also been given federal water for unlimited amounts of land, whether owned or leased. But for more than 960 acres of owned land, they have to pay the full-cost price. Large corporations (more than 25 stockholders) that received subsidized water before October 1, 1981, are still eligible for subsidized water up to 320 acres. They can receive unlimited amounts of water from federal reclamation projects at the full-cost price of water. Corporations that did not receive federal water before October 1, 1981, can receive irrigation water for on up to 640 acres, but only at full cost.

The dairy price support program has been changed to freeze the minimum price support for milk (3.67 percent milk fat) at $13.10 per hundredweight through September 30, 1984. Plans call for the minimum support for fiscal 1985 to be set at the same parity level that $13.10 represented on October 1, 1983. If net price support purchases meet or exceed a trigger level of 5 billion pounds of milk during a fiscal year, the Secretary of Agriculture can assess 50 cents per hundredweight on any milk that producers market commercially. That assessment became effective December 1, 1982. An additional 50 cent assessment is expected to be made, starting April 1, 1983, if estimated federal purchases of at least 7.5 billion pounds

Chart 2
U.S. AGRICULTURAL EXPORTS



Source: U.S. Department of Agriculture.

are expected during a fiscal year. The second assessment can be refunded if dairy producers reduce production. Moreover, legislation gives the Secretary of Agriculture increased authority to donate dairy products to the needy in the United States and elsewhere through government or humanitarian organizations.

Despite more severe farm financial stress in 1982 than at any time in the 1970s, the Administration did not use its authority to extend to farmers another large infusion of government subsidized credit, as was done with the livestock and economic emergency loan programs of the 1970s. Moreover, Congress did not increase the CCC loan rate and target price levels for major crops.

THE YEAR AHEAD

With large supplies of grain being carried over into 1983, a farm recovery next year will depend both on improved markets for agricultural products and a reduced harvest. Performance of the general economy will influence meat demand and grain use in 1983. Current grain supplies are so large, however, that an economic recovery by itself is not likely to raise grain prices substantially. Expanded exports will also be needed to raise grain prices. Since forecasts indicate that total grain demand, foreign and domestic, may increase only slightly in 1983, a sharply reduced 1983 U.S. grain crop will be essential in restoring crop prices to more profitable levels.

Livestock production is again likely to be more profitable than crop production, making 1983 a repeat of 1982. Expected reductions in meat supplies, availability of inexpensive feedstuffs, and possible improvements in demand point to profits for most livestock producers at least through the first half of the year. Crop producers, on the other hand, may encounter unsatisfactorily low grain prices throughout 1983.

Export Sales

The value of U.S. agricultural exports is estimated to have declined to $39.1 billion in fiscal 1982 from $43.8 billion a year earlier (Chart 2). This decline, the first since 1969, interrupted a pattern of rapidly expanding exports that dominated U.S. agriculture in the 1970s. The value of agricultural exports more than quadrupled during that decade. The agricultural trade balance decreased slightly in fiscal 1982 to $26 billion. The volume of U.S. agricultural exports also declined in fiscal 1982, to 158 million metric tons.

The export outlook for 1983 is clouded by the same negative factors that influenced foreign sales this year—a strong U.S. dollar, limited credit to finance farm export sales, Soviet reluctance to buy U.S. grain, and weak economies abroad. The dollar remains strong relative to other currencies despite some recent decline in value, especially against the Japanese yen. This continued strength is due in part to interest rates in other countries having declined along with U.S. rates. In addition, the dollar has been a preferred currency during the recent period of world political and financial stress.

After more than a decade of rapidly growing credit sales of farm products financed by loans from the U.S. government and commercial lenders, the upward trend of such credit expansion has slowed markedly. Disappointing economic growth and political instability in many debtor countries have resulted in delinquent loans and the need to reschedule debt. Thus, new credit extensions for export sales will probably be limited until economic growth in debtor countries recovers enough to accommodate debt service requirements.

U.S. grain sales to the Soviet Union have been disappointing in recent years as political relations between the two nations chilled. The embargo on grain sales to the Soviet Union in retaliation for their invasion of Afghanistan—although later lifted—and continued U.S. economic pressure, such as efforts to limit Russian access to Western technology for construction of the European gas pipeline, have adversely affected agricultural trade relations between the two countries. Until relations improve, U.S. agricultural sales to the Soviet Union can be expected to remain weak.

The world economy continues weak, both in developed and developing nations. After negative growth in 1982, only modest real economic growth is expected for OECD countries in 1983. Until the economies of the United States and other developed countries recover, the economies of developing countries that do not produce oil are not likely to improve. Consequently, world demand for U.S. agricultural products is not likely to increase much in 1983.

Another factor compounding the problems of U.S. agricultural exporters in the year ahead is the growing number of nontariff barriers to world trade. Nontariff barriers between developed countries, such as the United States and the European Common Market or Japan, will be difficult to remove even under favorable economic conditions. During the worldwide recession, keeping major trading partners from sliding further into protectionism may be the best outcome that can be expected.

Prospects for a decade of U.S. farm prosperity in the 1980's supported by rapid growth in export sales appear to have been overly optimistic. Relatively restrained current projections for economic growth in the industrialized and developing countries of the world during the first half of the decade have resulted in significant downward adjustments in farm export sales forecasts.

On balance, the value of U.S. agricultural exports could decline further next year. The current forecast is for export sales of $37.5 billion in fiscal 1983. Despite the discouraging outlook, the United States remains the single most important grain exporter in the world.

Should world supplies fall short of world demand in 1983, the United States will be well positioned to increase exports.

The Crops Outlook

The U.S. crop outlook for the year ahead is burdened by very large stocks of many commodities, including unprecedented stocks of wheat and corn. Wheat producers may not see much price improvement in 1983. The total U.S. wheat supply for the 1982-83 marketing year could reach a record of nearly 4 billion bushels. Even with heavy feed use and exports at a near record volume next year, carryover stocks are expected to increase about one-fourth on June 1, 1983, rising to their highest level since the early 1960s. Free stocks—stocks outside of CCC ownership and the Farmer Owned Reserve (FOR)—will account for only about 23 percent of the total stocks. Thus, even a moderate increase in demand could raise farm prices above CCC support levels to bid additional stocks out of CCC loans and FOR programs.

Although U.S. wheat exports were expected to benefit in the 1982-83 marketing year from a 50 percent reduction in Australian wheat production, surpluses in Argentina, Canada, and the Common Market may be more than enough to offset reduced Australian exports. So, while U.S. wheat exports next year may nearly match the record shipments in the 1981-82 marketing year, no significant increase is expected.

With too little demand expected in 1983 to forestall further buildup in wheat stocks, price improvement may depend on the effectiveness of the 1983 government acreage reduction program. If participation in the program is high—as now expected because of unfavorable wheat price forecasts—and if growing conditions are less favorable in 1983 than in 1982, a smaller crop might raise wheat prices above the currently expected range of $3.40 to $3.50 a bushel.

Feed grain producers face similar prospects for 1983—fairly weak demand and growing stocks. Feed use next year may increase only marginally because of prospective reductions in livestock numbers. Feed grain exports are expected to equal the 1981-82 level and remain below the record level of 1980. Moderate increases in demand will not be enough to prevent a nearly 48 percent increase in feed grain stocks. With the additional buildup in 1983, feed grain stocks will have tripled since 1981 with corn accounting for over 80 percent of the total feed grain stocks.

Feed grain prices are expected to fall below the 1982 average. U.S. farm level corn prices will likely average $2.15 to $2.35 a bushel in 1983. Sorghum prices are expected to be in the range of $2.15 to $2.30 a bushel. Barley prices are expected to be between $2.10 and $2.25. With free stocks accounting for less than a fourth of total feed grain carryover stocks—the remainder being held in FOR and CCC stocks— prices will be stronger than now expected if demand exceeds current expectations.

Large supplies and weak demand also dominate the outlook for soybean producers in 1983. Domestic utilization and exports are expected to increase only modestly next year, despite low soybean prices. As a result, total soybean carryover stocks at the close of the 1982-83 marketing year are estimated to be more than 60 percent greater than when the year began. This record supply will likely depress prices in 1983 to a range of $5.25 to $5.75 a bushel.

One positive factor in the soybean outlook is that these large stocks may be comparatively less burdensome than stocks of other grains. The expected soybean carryover stocks in 1983 will represent only 20 percent of total annual use compared with 61 percent for wheat and 49 percent for feed grains. As a result, soybean prices may respond more than wheat and feed grain prices to any increases in demand.

Cotton supplies are expected to remain high in 1983. Domestic mill use will probably increase only marginally, while exports may decline slightly. Carryover stocks at the end of the 1982-83 marketing year are expected to total 8.0 million bales, slightly more than the previous year. Cotton prices, therefore, may show only small improvement in 1983. Consequently, a high proportion of producers are expected to participate in the government program. Another small crop next year could, however, help raise prices during the latter part of the year.

The Livestock Outlook

Livestock producers are expected to fare somewhat better than crop producers in the upcoming year. Red meat supplies in 1983 are now expected to fall somewhat below 1982 levels. Increases in production costs in 1983 will be modest. For example, feed costs are not expected to increase substantially and interest costs could decline somewhat further. Finally, as recovery occurs in the general economy, some increase in demand for meat products is likely.

Beef production may increase only 1 percent in the first half of the year when compared with the same period in 1982. Increased fed cattle marketings in the first six months of 1983 may be offset by a significant reduction in nonfed slaughter. Cattle prices will be helped by continued reductions in pork supplies during the first two quarters of 1983. On balance, cattle feeders can probably expect relatively strong cattle prices throughout much of 1983. As a result, ranchers should also see improvements in feeder cattle prices as cattle feeders bid for somewhat smaller numbers of feeder cattle than were available last year.

However, a note of caution is in order. High feedlot placements in the fourth quarter of 1982 could pose the threat of large fed cattle supplies in the first quarter of 1983, especially if cattle are fed to heavy weights. This could weaken cattle prices in the first quarter below those now expected, especially if consumer demand remains soft.

Choice steers in Omaha may average in the mid-60 dollars per hundredweight range during the first quarter of 1983 and in the high 60 dollars per hundredweight range during the second and third quarters. The average could drop to the mid-60 dollars per hundredweight range in the fourth quarter if beef supplies increase as expected.

Pork producers can expect another profitable year in 1983. Despite sizable profit margins during all of 1982, producers have not expanded farrowings. Hog slaughter in the first quarter of 1983 is expected to be down by 10 to 12 percent from a year earlier. Slaughter will be off 6 to 8 percent in the second quarter. While there is much conjecture as to why pork producers have not yet increased farrowings, since production is quite profitable, currently there is little evidence of a production increase prior to the fourth quarter. The delayed upturn in production expected next year may reflect more concentration of hog production among large producers, who apparently prefer profitability to a quick increase in production.

Prices for barrows and gilts at the seven major markets are expected to average in the high 50 dollars to low 60 dollars per hundredweight in the first three quarters of 1983. Later, if pork supplies increase significantly, prices could decline to the mid 50 dollars per hundredweight range in the fourth quarter. As with cattle prices, however, increases in consumer incomes in the second half of 1983 could bolster hog prices.

Broiler producers may see modest improvement in prices in 1983 as a benefit from lower total meat output. Broiler production is likely to increase 1 to 3 percent as producers respond to low feed costs. Demand for poultry products will increase from prospective gains in consumer income. Turkey production is expected to increase 4 percent in 1983. Nonetheless, prices may range slightly higher than a year earlier.

Farm Income

Current signals suggest any increase in 1983 farm income will be modest. Crop prices may not improve significantly next year because of the huge carryover grain stocks, but grain prices are not likely to move lower than current levels and there should be some seasonal strengthening in prices as summer approaches. Livestock prices will probably remain at profitable levels throughout much of the year, suggesting that livestock cash receipts will be the brightest feature of the farm income situation. Farmers and ranchers will continue to benefit from a slowing rate of increase in prices of agricultural inputs. On balance, net farm income may be a little higher than the $19 billion estimated to be earned in 1982.

Despite financial stress in the farm sector, most farmers will survive the recession with their businesses intact. However, a small proportion of farmers will probably be forced from business or will liquidate part of their businesses to relieve financial stress. A Tenth Federal Reserve District survey of agricultural bankers indicated the proportion of farmers going out of business or filing for bankruptcy in the second and third quarters of 1982 was 40 percent more than normal. The bankers indicated the proportion of farmers selling part of their businesses during that period to relieve financial stress was about three times normal. Low commodity prices and declining farmland values will force additional farmers and ranchers into at least partial liquidation in coming months, but with lower interest rates, reduced production cost increases, and the possibility of somewhat improved farm income in 1983, the time of greatest stress for the farm sector may be about over.

Credit availability at commercial banks and Farm Credit System outlets will be adequate to meet the expected demand of farm borrowers in 1983. Since the volume of government subsidized loans from the FMHA is not likely to increase in 1983, farmers that do not qualify for normal commercial credit will have difficulty obtaining financing. As in 1982, CCC commodity loans to farmers complying with government commodity programs will be an important source of farm operating credit. On September 30, 1982, farmers had $10.4 billion in CCC credit secured by farm commodities outstanding, an increase of 175 percent over CCC credit outstanding a year earlier. That represented 12 percent of all nonreal estate farm credit outstanding. Farm loan interest rates are expected to average well below the near-record levels of 1982. Average interest rates on farm operating loans in the Tenth Federal Reserve District declined 2.5 percentage points between midyear and November 1, 1982, reaching a 14 to 15 percent range. Further declines could occur if inflation continues to moderate.

Farm real estate values are expected to remain soft in 1983. The amount of land offered for sale may increase in the spring due to some continued liquidations. As a result, farmland values may decline further in 1983. Lower costs of carrying debt and government farm programs, however, will probably prevent dramatic declines. Land values may begin to stabilize and strengthen later in the year if prospects continue for a farm recovery in 1984.

Food Prices

Consumers will benefit from low farm commodity prices in 1983. Retail food prices in 1982, as measured by the CPI, are expected to rise 5 percent, the lowest rate of increase since 1976. The outlook for 1983 is for retail food prices to increase only 4 to 5 percent, with most of the increase due to higher food marketing costs.

SUMMARY

The past year was a disappointment to most farmers. The expected recovery from recession did not occur. Farm income declined further from the depressed levels of the previous two years. Farm real estate values declined. Grain stocks increased again, building to very burdensome levels. On the positive side, however, livestock producers—particularly hog farmers—received higher prices and production cost increases continued to slow.

The prospect of modest improvement in farm income in 1983 is based on stronger livestock prices, somewhat higher crop prices, and further easing in inflation. Better price performance for farm products will depend on increases in both domestic and export demand, which should come as economies of the United States and other industrial countries move into a period of recovery in 1983.

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