The Farm Slump Eases

By Alan Barkema and Nancy Novack

Another big package of government financial aid cushioned the farm slump in 2000 but did little to lift agriculture's spirit. Overall, the industry's major financial indicators stayed remarkably healthy. Farmers delivered more red meat and poultry to supermarkets than ever before, and strong consumer demand in the robust U.S. economy boosted livestock prices and profits. But another big crop swamped still sluggish global markets, and weak crop prices held down farm incomes. In the end, help from Washington propped up the industry's financial indicators for the third consecutive year.

Some signs of improvement have emerged, but like the year before, the industry's outlook for 2001 hinges on the weather and Washington. Global food consumption has caught up with agriculture's recent production surge, tightening world grain supplies and brightening prospects for farm exports. Nevertheless, normal weather and another big crop could keep U.S. granaries full and crop prices low. Livestock producers are likely to have another good year, but weak crop prices could hold down farm income. As in the past three years, agriculture's prospects in 2001 may rest on financial assistance from Washington.

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I. THE FARM SLUMP CONTINUED IN 2000

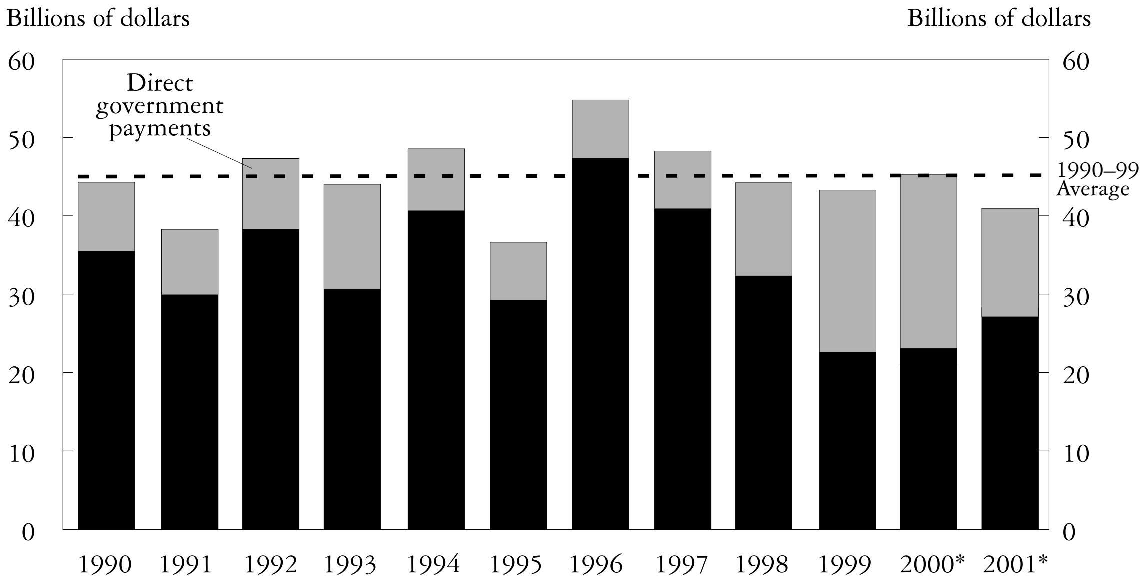
Although most financial indicators remained remarkably stable in 2000, the farm slump continued. Thanks to financial aid from Washington, farm incomes and asset values climbed. The year was generally a good one for livestock producers, with consumers buying more meat than ever before. But crop producers were unable to sell their huge crop at a profit, setting the stage for still more government help.

Farm finances steady—with government help

Farm financial conditions stayed on a remarkably even keel in 2000. Farm incomes and asset values edged up despite weak crop prices, which lingered as the sole reminder of agriculture's continued slump. Despite an early warning of widespread drought, crop producers turned out the nation's fifth consecutive bumper harvest. The big crop swelled crop inventories and held down crop prices, but generous assistance from Washington lifted incomes. Livestock producers notched solid profits, with cheap feed holding down costs and robust consumer demand buoying livestock prices.

When all the numbers are in, the nation's farm income for 2000 compared to 1999 is expected to be up slightly. The U.S. Department of Agriculture

Chart 1
U.S. NET FARM INCOME



* Forecast
Source: U.S. Department of Agriculture.

pegs net cash farm income, a cash flow gauge that measures the difference between receipts and expenditures, at $56.4 billion, up more than 3 percent from the year before. Net farm income, a broader measure that takes into account inventory swings and depreciation, could total $45.4 billion, up more than 4 percent from the year before and slightly above the decade average (Chart 1).[1]

Livestock producers generally fared well in 2000, with profits fueled by cheap feed and strong livestock prices. The strong prices and big production boosted livestock receipts to a record $99.5 billion, up more than 4 percent from 1999. Hog producers earned strong profits through the year, in a welcome turnaround from two years of substantial losses. Profits for cattle feeders see-sawed through the year, solidly in the black at the beginning of the year, deeply in the red by summer, and back in black in the fall. Despite the swing in feedlot profits, high feeder cattle prices kept profits steady for ranchers.

Crop producers had a brief opportunity to market their crops at better than break-even prices, when an early spring warning of widespread drought rallied the markets. The price surge was short-lived, however. The summer weather in the southern Great Plains was dry and harsh, but many other areas dodged the drought. By midsummer, prices plunged to their lowest levels since the mid-1970s for soybeans and since the mid-1980s for corn and wheat. The low prices held crop sales at a relatively low $96.6 billion, up about 4 percent from 1999.

As in the year before, financial assistance from Washington anchored farm incomes in 2000. Government payments to farmers are expected to total a record $22.1 billion, adding up to roughly half of net farm income. Underscoring Washington's concern with the industry's lingering slump, nearly 25 percent of the year's big farm subsidy came from emergency assistance authorized by Congress and signed by the Clinton administra-

Table 1
U.S. FARM BALANCE SHEET
(Billions of dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000*	2001*
Assets										
Real estate	640.8	677.6	704.1	740.5	769.5	808.2	841.8	870.0	874.4	883.1
Nonreal estate	227.6	232.7	231.3	227.1	235.2	244.9	243.8	246.5	246.6	249.0
Total assets	868.3	910.2	935.5	967.6	1,004.8	1053.1	1085.5	1116.6	1121.0	1132.1
Deflated	945.4	967.8	974.4	986.3	1004.8	1033.0	1051.6	1065.8	1046.7	1033.9
Liabilities										
Real estate	75.4	76.0	77.7	79.3	81.7	85.4	89.6	94.2	97.3	98.6
Nonreal estate	63.6	65.9	69.1	71.5	74.4	80.1	83.2	82.2	83.2	84.2
Total liabilities	139.1	142.0	146.8	150.8	156.1	165.5	172.9	176.4	180.6	182.8
Deflated	151.5	151.0	152.9	153.7	156.1	162.2	167.5	168.4	168.6	166.9
Proprietor's equity	729.3	768.3	788.7	816.8	848.7	887.7	912.7	940.1	940.4	949.3
Deflated	794.1	816.9	821.5	832.6	848.7	870.7	884.2	897.3	878.1	866.9
Debt-to-asset ratio (percent)	16.0	15.6	15.7	15.6	15.5	15.7	15.9	15.8	16.1	16.1

* Figures for 2000 and 2001 are forecasts as of January 17, 2001. Table excludes operator households.

Source: U.S. Department of Agriculture.

tion in midsummer. Another 14 percent was spillover from similar emergency assistance authorized in 1998 and 1999.

With Washington's help underpinning farm incomes, the industry's balance sheet remained solid. The value of farmland, which accounts for about four-fifths of the nation's farm assets, firmed and started climbing again after softening the previous year. A quarterly survey of farm bankers in the Kansas City Federal Reserve District (Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma, and Wyoming) indicated an average gain of more than 3 percent in district farmland values during the year ending September 30. A similar survey reported a 7 percent gain in the Chicago Federal Reserve District (Iowa and parts of Indiana, Illinois, Michigan, and Wisconsin). Ranchland values in the mountain states climbed the most, influenced more by nonfarm investors' demand for scenic mountain views than by ranchers' demand for additional grazing land.

Farm debt edged up just over 2 percent to $180.6 billion, as farm borrowers and their lenders hunkered down to await better financial times (Table 1). With farm assets nearly steady and farm debt up slightly, the industry's debt-asset ratio inched up to a still solid 16.1 percent. Farm borrowing costs climbed, with the average interest rate on farm operating loans rising about 75 basis points during the year ending September 30. But big government payments and healthy livestock profits enabled most borrowers to repay operating loans and keep payments up to date on machinery and farm real estate loans. Nevertheless, farm borrowers and their lenders remained uncomfortable with the notion that government assistance was at the root of agriculture's financial stability.

A good year for livestock producers

The year was generally a good one for livestock producers, with low grain prices holding down feed costs and strong demand at the supermarket absorbing big meat supplies. High feeder cattle prices boosted returns for ranchers but cut into feedlot profits, as beef production swelled to another record. In contrast, pork production edged down despite strong profits, as producers began rebuilding their breeding herds. Poultry producers continued their persistent expansion, but at a more moderate pace.

Beef producers fooled most analysts again in 2000, boosting beef production more than 1 percent to a record 26.9 billion pounds. Early predictions had looked for a drop in beef production of nearly 5 percent from the year before. A widespread drought in the southwestern states played a key role in foiling the early forecast. With southern Great Plains pastures and rangeland parched by the relentless summer heat, many ranchers chose to trim their breeding herds, postponing an expected expansion in the nation's cattle population. As ranchers shipped cows and heifers to slaughter plants rather than breeding pastures, beef production swelled and the national cattle herd shrank for the fifth consecutive year.

Cattle feeders rode a profit roller coaster through the year. Prices for finished cattle started the year in the upper $60s a hundredweight, and steady strength in consumer meat demand shoved prices higher through the spring. With cattle prices up and feed costs low, most cattle feeders notched solid profits of $20 to $40 a head through midyear. But those profits quickly turned to losses of more than $60 a head in late summer, when the drought drove a glut of cattle into feedlots and shoved down cattle prices. In the fall, cattle prices rebounded, restoring modest profits to feedlots. For the year, fed cattle prices averaged $69.65 a hundredweight, up from $65.56 the year before (Table 2).

Hog producers began rebuilding equity lost the previous two years with solid profits in 2000. With two years of heavy losses seared in memory, producers trimmed production about 2 percent from the year before. The modest production decline and solid consumer pork demand combined to boost hog prices through the year. Prices quickly climbed from break-even levels at the beginning of the year to more than $50 a hundredweight by spring and then sagged somewhat in the fall. For the year, prices averaged $44.70 a hundredweight, nearly a third higher than the $34 a hundredweight average from the year before.

The poultry industry continued its long expansion in 2000 but at a more moderate pace than before. Broiler production rose slightly more than 2 percent, down from a gain of nearly 7 percent in 1999. An export rebound helped absorb the modestly bigger broiler supplies and accounted for a sixth of the industry's production. In recent years, weak incomes in Asia and Russia had hurt exports, but in 2000 broiler exports climbed more than 11 percent. Still, broiler prices averaged slightly below the 1999 level, as ample supplies of beef and pork competed aggressively for space in the consumer's shopping cart. The 12-city benchmark price averaged 56.2 cents a pound in 2000, down a couple pennies from the 58.1 cent average in 1999.

Turkey producers boosted production just over 2 percent in 2000, encouraged by a rebound in exports and healthy demand at home. Wholesale hen prices in the eastern region averaged 70.5 cents a pound in 2000, up slightly from the year before.

Table 2
U.S. FARM PRODUCT PRICES
(January 11, 2001)

Livestock	Calendar years 1999	2000*	2001†	Percent change
Choice steers	$65.56/cwt	$69.65/cwt	$72-77/cwt	7.0
Barrows and gilts	$34.00/cwt	$44.70/cwt	$40-43/cwt	-7.2
Broilers	$.58/lb.	$.56/lb.	$.54-.58/lb.	0.0
Turkeys	$.69/lb.	$.71/lb.	$.66-.70/lb.	-4.2

Crops	Marketing years 1998-99	1999-00*	2000-01†	Percent change
Wheat	$2.65/bu.	$2.48/bu.	$2.55-2.75/bu.	6.9
Corn	$1.94/bu.	$1.82/bu.	$1.65-2.05/bu.	1.6
Soybeans	$4.93/bu.	$4.63/bu.	$4.50-5.00/bu	2.6

* Estimated.
† Projected.

Source: U.S. Department of Agriculture.

Another big crop

The year 2000 brought farmers another round of big supplies, stiff global competition, and weak crop prices. After an abnormally dry fall and winter raised concerns about the winter wheat crop, the National Weather Service issued a severe drought forecast in March. Soils were dry as spring approached, allowing farmers to plant the corn and soybean crops ahead of schedule. But the weather outlook raised the risk of a smaller harvest. Drought concerns eased when timely rains fell in the nation's big corn and soybean producing areas, leading to another bumper harvest.

Wheat farmers harvested fewer acres and a smaller crop in 2000. Acreage dropped more than 1 percent from the previous year to 53 million acres, the smallest area harvested since 1972. The low prices of the last few years prompted producers to shift acreage to relatively more profitable crops such as oilseeds and feed grains. Acreage was trimmed further when dry soils at planting time encouraged some producers to fallow more land. In the end, yields were excellent and averaged 41.9 bushels per acre, the third largest on record. Nevertheless, the smaller acreage pushed wheat production down more than 3 percent from the previous year (Table 3).

Weak demand and big supplies held down wheat prices again in 2000. Food use and exports edged up from the previous year. But wheat feeding plummeted more than a fourth as ample supplies of corn and other feed grains crowded wheat out of livestock rations. With big supplies of wheat and other grains readily available, the nation's farm-level wheat price for the 1999-2000 marketing year ending May 31 averaged $2.48 per bushel, down more than 6 percent

Table 3
U.S. AGRICULTURAL SUPPLY AND DEMAND ESTIMATES
(January 11, 2001)

	Corn (million bu.)*			Feedgrains (million mt.)†		
	1998-99	1999-00	2000-01	1998-99	1999-00	2000-01
Supply						
Beginning stocks	1,308	1,787	1,718	38.1	51.3	48.8
Production and imports	9,778	9,446	9,978	274.2	265.6	276.8
Total supply	11,086	11,233	11,696	312.3	316.9	325.6
Demand						
Domestic	7,318	7,578	7,740	205.0	211.7	214.3
Exports	1,981	1,937	2,150	55.9	56.4	60.8
Total demand	9,299	9,515	9,890	260.9	268.1	275.1
Ending stocks	1,787	1,715	1,806	51.3	48.8	50.5
Stocks-to-use ratio (percent)	19.2	18.1	18.3	19.7	18.2	18.4

	Soybeans (million bu.)*			Wheat (million bu.)*		
	1998-99	1999-00	2000-01	1998-99	1999-00	2000-01
Supply						
Beginning stocks	200	348	290	722	946	950
Production and imports	2,744	2,658	2,773	2,650	2,394	2,318
Total supply	2,944	3,006	3,063	3,372	3,340	3,268
Demand						
Domestic	1,791	1,743	1,768	1,385	1,300	1,329
Exports	805	973	975	1,042	1,090	1,125
Total demand	2,596	2,716	2,743	2,427	2,390	2,454
Ending stocks	348	290	320	946	950	814
Stocks-to-use ratio (percent)	13.4	10.7	11.7	39.0	39.7	33.2

* 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.

Source: U.S. Department of Agriculture.

from the year before and the lowest price since the mid-1980s.

Corn growers harvested another record crop in 2000 despite concerns of drought throughout the growing season. A dry spring allowed farmers to plant early and even encouraged them to plant more acres than expected. Harvested acreage was up more than 3 percent from the previous year. The drought forecast notwithstanding, generally favorable weather boosted the national average yield to 137.1 bushels per acre, only 1.5 bushels below the 1994 record.

The early drought forecast raised concerns about the size of the corn crop and pushed prices up in the spring, offering farmers a brief marketing opportunity. But timely rainfall improved growing conditions through the early summer months, boosting production expectations and driving prices down. For the 1999-2000 marketing year ending August 31, the farm-level corn price averaged $1.82 per bushel, down from $1.94 the year before and below the government loan rate of $1.89.

Expanded soybean acreage yielded another bin busting crop in 2000. Farmers boosted harvested acreage to a record 72.7 million acres. Favorable planting conditions contributed to the boost in acreage, but farmers also realized that government programs make soybeans relatively more profitable than other crops, prompting them to shift additional acreage into soybeans. The hot, dry weather in late summer trimmed soybean yields only slightly, but crop quality in some areas suffered. In the end, record acreage along with good yields combined for a 2.8 billion bushel crop, the largest ever.

Although beginning soybean stocks were lower entering 2000, competition from abroad kept a lid on soybean prices. South American countries led the surge in global production, boosting their 2000 crop 9 percent from the year before. The big global supplies held down soybean prices, which averaged $4.63 per bushel for the 1999-2000 marketing year ending August 31, well below the government support price of $5.26.

II. MODEST IMPROVEMENT LIKELY IN 2001

Signs are emerging that the industry is gradually working its way out of its long slump. Global food consumption has caught up with agriculture's recent production surge, tightening world grain supplies and brightening prospects for farm exports. But normal weather and another big crop could hold down crop prices and incomes for crop producers. Livestock producers look forward to another good year, but probably not as strong as in 2000.

Farm finances still keyed to Washington

Agriculture enters the new year in generally solid financial health, thanks mainly to the large doses of government financial aid received over the last three years. The industry's 2001 outlook points to more of the same. Only modest financial gains are in prospect, with farm income still heavily reliant on government assistance.

Crop producers face another challenging year in 2001, although prospects for crop prices are brightening. A tighter balance of global crop supplies and prospective demand points to big swings in crop prices, as crop prospects shift with changing weather patterns during the year. But with U.S. granaries already filled to the brim by the 2000 crop, normal weather and prospects for another big harvest in 2001 could limit gains in crop prices. Crop receipts are expected to climb to $100.2 billion, up almost 4 percent compared to 2000.

Livestock producers may have another good year in 2001, but probably not as solid as in 2000. The outlook points to mixed outcomes—stronger profits for beef producers but weaker profits for pork and poultry producers. Bigger meat supplies are likely, with expanding pork and poultry supplies outpacing a cutback in beef production. But with slower growth expected in the nation's economy, consumer demand may ease a notch from the record levels of recent years. Like the year before, livestock receipts may fall just short of the $100 billion benchmark.

As in recent years, help from Washington will be a big part of farm income in 2001. How big a part remains an open question, however. Current projections suggest net farm income could total $41.3 billion, down 9 percent from the year before. Stronger crop receipts and steady livestock receipts would boost the market-based portion of the total to $27.2 billion, a welcome improvement over the previous two years. Nevertheless, the total also includes $14.1 billion in government payments expected under current legislation. Moreover, during the past three years Washington provided add-on payments totaling nearly $20 billion, setting a strong precedent for additional aid that would limit the drop now foreseen in farm income.

How much government aid the industry will receive in 2001 is an open question. But the industry's continued reliance on government support is almost certain to fuel a vigorous debate on the farm policy that will replace the current legislation, which expires in 2002. The central theme of the current farm law, the Federal Agricultural Improvement and Reform Act (FAIR), is a seven-year phaseout of the industry's government support in exchange for fewer government controls on farm production decisions. Farmers have quickly embraced the additional flexibility in deciding what crops to produce. Backtracking to government production controls that throttle the industry's competitive advantage in global markets seems unlikely. Still, the industry's slump has put the bold spirit of FAIR to a critical test, and the result is the recent surge in farm subsidies. The experience suggests that the transition to a market-based agriculture is more than a seven-year undertaking and that Washington may consider a stronger safety net for the industry in the meantime.

Little change is likely in the farm balance sheet in 2001. The value of farmland, by far the industry's biggest asset component, may edge up further. Weak crop prices could hold down returns on farmland investments, triggering some erosion in farmland values, but a significant slide in farmland values seems unlikely. Big government payments have supported farmland values the past three years, and in some areas demand for land with scenic mountain views and recreational uses continues to push up farmland values. Still, prospective gains in farmland values will be limited by the sobering recognition that the size of future government payments remains uncertain.

Farm debt may edge up slightly in 2001. Entering the year, farm lenders attribute the generally good health of farm loan portfolios to the large government payments many of their borrowers received in recent years. Both borrowers and lenders remain concerned, however, that subsidies are a poor substitute for market-based earnings, especially since future subsidies could be trimmed in the scheduled 2002 rewrite of U.S. farm programs. As a result, little expansion is likely in farm debt, as farmers and their lenders wait for better times to expand farm businesses.

Overall, the 2001 outlook points to still modest financial gains, although a bit stronger than in 2000. With farm income heavily dependent on government assistance, only small changes are likely in asset and debt levels. But gains in farm assets may outpace farm debt, opening the door to a modest increase in farm equity.

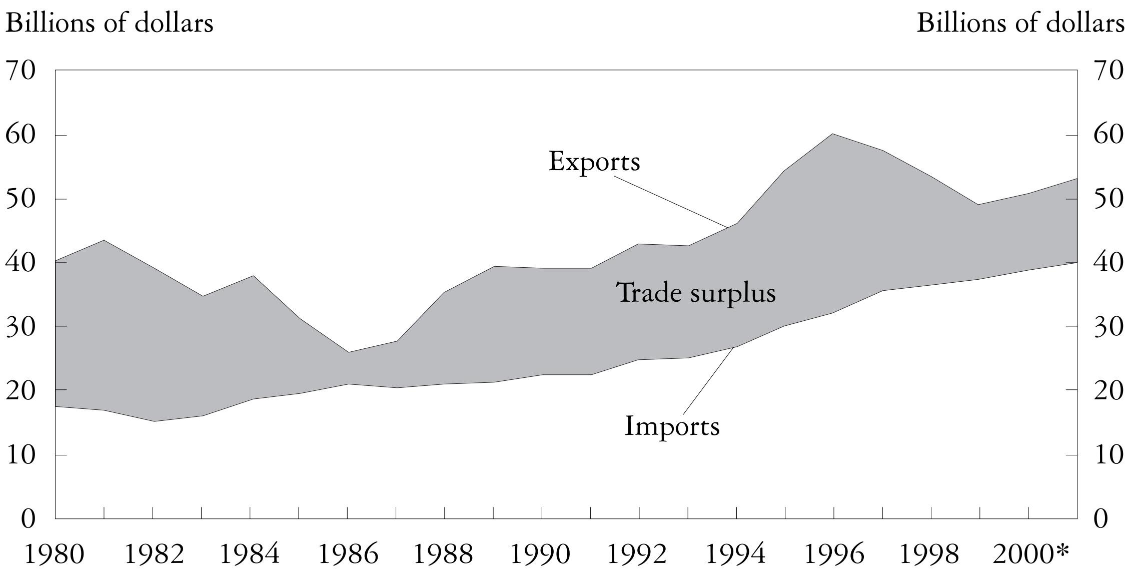
Export prospects brighten

Agricultural exports are expected to climb in fiscal 2001, as the industry's foreign sales gradually claw back from the late 1990s slump. The outlook points to a gain of almost 7 percent in export volume. But big supplies of grains and oilseeds promise to hold down export prices. With prices still weak, the value of farm exports may climb only 4 percent to $53 billion (Chart 2).

Imports of farm products are also likely to edge up to $40 billion, driven in part by growing demand for foreign wine and cheese. On balance, exports should climb more than imports, nudging up the farm trade surplus to $13 billion, a solid 8 percent gain over the 2000 level but still less than half the 1996 record.

Healthy income gains in a strong global economy lie at the root of the gradual improvement in the industry's foreign sales. Especially promising is the continued recovery of important markets in the developing world, particularly in Southeast Asia and Latin America. In the late 1990s, finan-

Chart 2
U.S. AGRICULTURAL TRADE BALANCE



* Forecast.
Source: U.S. Department of Agriculture.

cial turbulence in Southeast Asia quickly spread to Latin America and Russia, weakening currencies and consumer incomes. These areas have bounced back faster than expected, however, gradually rebuilding demand for U.S. farm products.

Strong foreign incomes are especially important to support sales of high-value food products, mainly meat and horticultural crops. Exports of livestock, poultry, and dairy products are expected to increase to a record $11.9 billion in fiscal 2001, following a 16 percent jump the previous year. Higher red meat prices, in the wake of an expected decline in U.S. beef production, may more than offset a slight decline in beef and pork export volume. Poultry meat exports could be down slightly, despite a solid rebound in sales to Russia. Foreign sales of horticultural products are expected to climb to $10.9 billion, up more than 3 percent from 1999.

With the rebound in the world economy, global food consumption has caught up with agriculture's recent production surge. As a result, foreign grain and oilseed inventories have been drawn down sharply, strengthening prospects for U.S. commodity exports—especially corn, the nation's biggest crop.

At this writing, however, a cloud hangs over the otherwise brightening outlook for U.S. corn exports. In 2000, the nation's corn supply was discovered to be contaminated by a genetically modified corn variety—called StarLink—that had been approved for livestock feed but not human food. As a result, corn exports to some of the nation's leading customers who remain skeptical of genetically modified crops—especially Japan and South Korea—have fallen sharply. Efforts are now under way to ensure that contaminated corn is excluded from sensitive export channels and shipped only to domestic poultry and livestock feeders. Overall, the StarLink incident blemishes the promise of the new genetic technology while alerting the industry to manage the technology more carefully.

Mixed prospects for livestock producers

The 2001 outlook points to stronger profits for beef producers but weaker profits for pork and poultry producers. Consumer meat demand—which was unusually strong in recent years—again plays a big role in the livestock industry's prospects. With the nation's long economic expansion slowing to a more moderate pace, a softening in stronger consumer meat demand may be in the offing. Still, consumers will find an ample supply of an ever-widening variety of meat products at the supermarket, with bigger pork and poultry production offsetting smaller beef production.

As in the year before, the 2001 outlook for beef production rests heavily on weather prospects for the nation's rangeland. Assuming the drought in the southern Plains has ended, the Agriculture Department expects beef production to drop almost 5 percent from the 2000 level. With rangelands and pastures blooming again, ranchers are likely to expand their herds, sending cows and heifers to pasture and range rather than the slaughterhouse. The result is a temporary decline in beef production. But if the drought continues, ranchers might send more breeding stock to slaughter, boosting beef production and again surprising industry analysts.

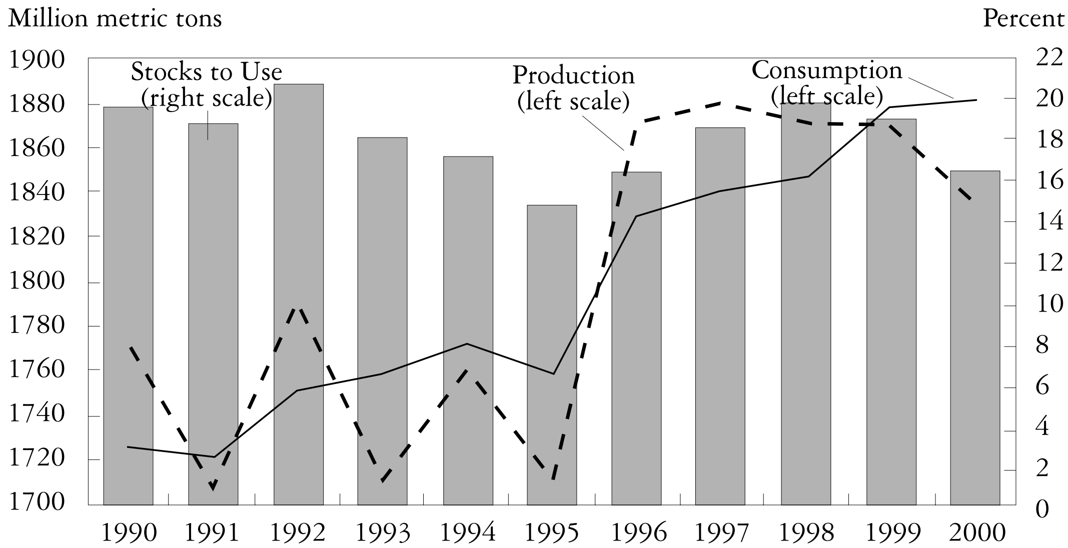
The outlook points to higher cattle prices, with the odds favoring smaller beef production and consumer meat demand still relatively strong. Fed cattle prices could climb during the year, as the backlog of cattle in feedlots at yearend 2000 gradually clears. For the year, the price of slaughter steers in Nebraska is expected to average $72 to $77 a hundredweight, up almost $5 from the 2000 average. Gains in feedlot profits, however, could be limited by high feeder cattle prices. With ranchers intent on expanding their breeding herds, feeder cattle could be in scarce supply in 2001, requiring feedlots to bid part of their profits into feeder cattle prices.

For hog producers, the strong profits earned in 2000 could slip away in the year ahead. After a brief respite, the industry is ramping up production again, despite the lingering memory of the production surge that triggered big financial losses in 1998 and 1999. Current estimates suggest pork production in 2001 could climb almost 2 percent from the year before. With production accelerating through the year, slaughter capacity could be tight by the fourth quarter, reminiscent of the bottleneck that crushed hog prices in December 1998. For the year, hog prices are expected to average $40 to $43 a hundredweight, down about $3 from the year before.

An outlook for smaller profits is expected to moderate the poultry industry's expansion in 2001. Broiler production may climb nearly 3 percent, faster than the 2000 gain but still slower than the industry's 40-year trend of 5 percent growth a year. Turkey production could be up more than 3 percent.

Despite the relatively moderate increases, the bigger poultry production may face fierce competition from other meats. In recent years, new packaged beef and pork products have gradually won broader consumer acceptance, cutting into the poultry industry's expansion. A decline in beef production in 2001 could make more room for poultry products in the consumer's shopping cart, but bigger pork supplies could also compete aggressively for that space. In foreign markets, only marginal gains in U.S. poultry sales are in store, following bigger gains the past two years. With sluggish sales likely, wholesale broiler prices in the 12 city markets are expected to average 54 to 58 cents a pound in 2001, bracketing the 2000 average. Turkey prices could sag to 66 to 70 cents a pound, compared to 70.5 cents in 2000.

Chart 3
WORLD GRAIN PRODUCTION AND CONSUMPTION



* Forecast
Source: U.S. Department of Agriculture.

Big crop supplies hold down prices

U.S. crop producers are likely to face many of the same challenges of recent years, although some encouraging signs have emerged. Global consumption over the past few years has caught up with the industry's recent production surge, trimming the world's grain inventories bit by bit (Chart 3). At a relatively lean 16.5 percent, the world grain stocks-to-use ratio is the lowest since 1996, when inventories were drawn down by the disappointing 1995 harvest. With global inventories down, crop prices may surge and plunge abruptly with shifting weather and production forecasts. Still, with normal weather big crops could keep a lid on overall crop price gains in 2001.

The wheat outlook suggests a slightly tighter balance of global supply and demand and an uptick in wheat prices. Global wheat production is expected to decline about 1.5 percent, slightly off the pace of the bumper crops of recent years. With the world crop down slightly, U.S. wheat exports could edge up, continuing the gradual improvement from the year before. A slight gain is expected in domestic wheat use, although cheap corn and other feed grains may remain stiff competition for wheat in livestock rations.

With production down slightly and total use up, the nation's wheat inventory could shrink to 814 million bushels, down more than 14 percent. Farm-level wheat prices for the 2000-01 marketing year ending May 31 could average $2.55 to $2.75 per bushel, higher than the year before and extending well above the government loan rate of $2.58.

Domestic corn consumption and exports are expected to use most of the big crop harvested in 2000. Expanding pork and poultry production may boost feed use. Food and industrial uses of corn could also climb, boosted in part by more ethanol production. With the rebound in the Asian economy, current estimates point to a 11 percent jump in corn exports, which account for about a fifth of the big U.S. crop. If this projection isn't torpedoed by the StarLink contamination problem, exports would be the fourth largest on record.

While the demand picture for corn is brightening, corn use at home and abroad will not be enough to whittle down corn inventories, and the big supplies will likely keep corn prices soft. Corn prices may average $1.65 to $2.05 per bushel for the 2000-01 marketing year ending August 31, a range that spans the low prices of the previous two years and the government loan rate.

The 2001 outlook for soybeans points to bigger inventories and weak prices, despite strong soybean use. Global soybean use may climb in the year ahead, but ample supplies are available following the bumper crops of recent years. Some countries will meet their soybean needs from their own production, limiting gains in U.S. soybean exports. Current estimates peg U.S. soybean exports at 975 million bushels, unchanged from the year before.

The U.S. soybean crush that turns soybeans into soybean meal and oil could edge higher to a new record of 1.6 billion bushels. Domestic use of soybean meal should continue to rise, driven by the growing feed needs of expanding hog herds and poultry flocks. Soybean meal exports should remain solid, as some European countries substitute soybean meal for meat and bone meal, recently banned due to concerns about the spread of Creutzfeldt-Jakob disease. Exports of soybean oil may climb only slightly from the low 2000 level, still limited by competition from oil supplies produced by the bigger crush expected in South America.

Overall, big soybean supplies could hold soybean prices down for another year. The big 2000 crop coupled with little or no change in overall use may swell soybean inventories to 320 million bushels, up 10 percent from the previous year. With ample supplies available at home and abroad, soybean prices at the farm gate are expected to average $4.50 to $5.00 per bushel for the 2000-01 marketing year ending August 31, suggesting little improvement from the $4.63 average posted the previous year. Similarly, bigger soybean oil stocks are expected to hold down oil prices, which could average 13.25 to 15.25 cents per pound. The outlook is somewhat brighter for soybean meal prices, however, which are expected to average $170 to $195 a ton, a range reaching well above the $167.70 a ton average from the year before.

III. SUMMARY

The biggest package of government financial assistance in history cushioned the nation's farm slump in 2000. As a result, agriculture's major financial indicators remained remarkably stable. Farm income edged above the average of the past decade, farmland values resumed their gradual climb, and farm loan portfolios stayed healthy.

Welcome signs emerged during the year that the industry could be gradually working its way out of its long slump. A stronger global economy enabled world food consumption to catch up with the industry's recent production surge. U.S. farm exports turned up. Global grain inventories were whittled down.

Nevertheless, farm income prospects for 2001 may depend on additional aid from Washington, following the precedent of the past three years. With normal weather and another big crop, weak crop prices could hold down incomes for crop producers. For livestock producers, low feed costs and strong meat demand point to another good year, although probably not as strong as in 2000. As the debate begins on the next generation of farm policy, the industry will grapple with the notion that the industry's recent financial stability rests on government support.

ENDNOTE

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