



January 2000

The Main Street ————— Economist

Commentary on the rural economy



Can Agriculture End Its Slump in 2000?

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

The farm slump will likely continue in the year ahead, although prospects for livestock and crop producers diverge widely. Livestock producers could have a very good year, with low feed costs and robust consumer demand boosting profits, but weak crop prices could drag down farm income. As in the last two years, help from Washington may determine whether farm income in 2000 rises or falls.



A better year for livestock producers

The past year was an extraordinary one for livestock producers, who pushed production of red meat and poultry to record highs. But even more notable than the production surge was the strength of consumer demand. Per capita meat consumption climbed to new highs in 1999—almost 69 pounds of beef, 54 pounds of pork, and 100 pounds of poultry. The consumption surge couldn't have come at a better time, offsetting weak export markets and giving a welcome boost to livestock prices and profits.

An even better year appears in store for livestock producers in 2000, with a favorable combination of low feed costs and continued strength in consumer spending boosting industry profits. The long expected decline in beef production—which has failed to materialize for the past two years—could begin in earnest in 2000. Beef production is expected to drop to less than 25 billion pounds, down more than 5 percent from 1999 and the smallest total in five years. With beef production down, strong consumer meat demand could boost cattle prices and feedlot profits (Table 1). A portion of the feedlot profits are likely to be bid into the price of scarce feeder cattle, however, increasing ranchers' share of industry profits.

Pork production will also probably drop in 2000, with the most recent projection indicating a decline of slightly less than 4 percent. The smaller pork supplies should be greeted with robust consumer demand, shoving hog prices gradually higher throughout the year, although a seasonal increase in production could soften prices somewhat in the late fall. The stronger hog prices will provide welcome relief to producers who have endured nearly two years of prices below breakeven levels.

In contrast to smaller beef and pork

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

If the periodic global weather disturbance called La Niña triggers dry weather in the grain belts of North and South America—as many weather observers suggest—the 2000 harvest could be much smaller than projected. Grain and soybean inventories that have grown big but not yet onerous in recent years would shrink quickly, and crop prices would rise sharply. Thus, with the spring planting season still some months away, the range of possible crop prices is even wider than usual.

Assuming normal weather, the outlook suggests another year of ample wheat supplies and soft wheat prices. With big crops abroad and stiff competition from other exporting countries, U.S. wheat exports are expected to remain relatively sluggish for the fourth consecutive year. At home, ample supplies of corn and other cheap feed grains could crowd wheat out of livestock rations. As a result, the wheat inventory remaining at the end of the current marketing year could climb above the billion-bushel mark for the first time in a dozen years, holding down wheat prices (Chart 1, Table 1).

The big 1999 corn crop is also expected to exceed the needs of consumers at home and abroad during the coming year, resulting in a further buildup of price-depressing inventories. With corn prices down, exports are likely to remain relatively large, although down slightly from the year before. Corn use at home could climb for the fifth year in a row to another record high. The big corn use at home and abroad, however, will not use the entire 1999 crop, and carryover supplies could swell to more than 2 billion bushels, the biggest since the 1992 crop.

The soybean outlook also points to bigger inventories and weaker prices, despite a healthy rebound in exports. Soybean exports are expected to jump 8 percent from the previous year, in part due to less competition from South America. The domestic soybean crush, which trans-

**Table 1
U.S. Farm Product Price Projections
(December 10, 1999)**

	Calendar Years			Percent Change
	1998	1999*	2000+	
Livestock				
Choice steers	\$61.48/cwt	\$65.52/cwt	\$67-72/cwt	6.1
Barrows and gilts	\$34.72/cwt	\$33.55/cwt	\$37-40/cwt	14.8
Broilers	\$.63/lb.	\$.58/lb.	\$.54-.58/lb.	-3.4
Turkeys	\$.62/lb.	\$.69/lb.	\$.66-.72/lb.	0.0
	Marketing Years			Percent Change
	1997-98	1998-99*	1999-2000+	
Crops				
Wheat	\$3.38/bu.	\$2.65/bu.	\$2.45-2.55/bu.	-5.7
Corn	\$2.43/bu.	\$1.94/bu.	\$1.60-2.00/bu.	-7.2
Soybeans	\$6.47/bu.	\$4.93/bu.	\$4.45-4.95/bu.	-4.7

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

four years. Demand for poultry products should generally remain strong, although keen competition for space in the consumer's shopping cart will keep a lid on poultry prices.

Big crop supplies

The nation's farmers harvested another big crop in 1999, the fourth in a row. Weather problems plagued many growers throughout the year, with a wet spring and dry summer in the Corn Belt, a searing drought in the Northeast, and a series of late summer hurricanes in the Southeast. The periodic weather problems created temporary concerns about the size of the growing crops, but the harvest proved one of the biggest on record.

The crop outlook for 2000 points to another year of big supplies and weak prices. If current projections prove true, farmers will again rely on government payments to help offset weak prices. Nevertheless, weather concerns add more uncertainty than usual to the crop outlook.

forms soybeans into soybean meal and oil, could edge up slightly to another new record. The bigger crush and exports, however, will still fall well short of using the entire 1999 crop. Instead, current projections indicate carryover supplies will swell to 395 million bushels, the biggest since the mid-1980s.

Signs of recovery in the world market

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

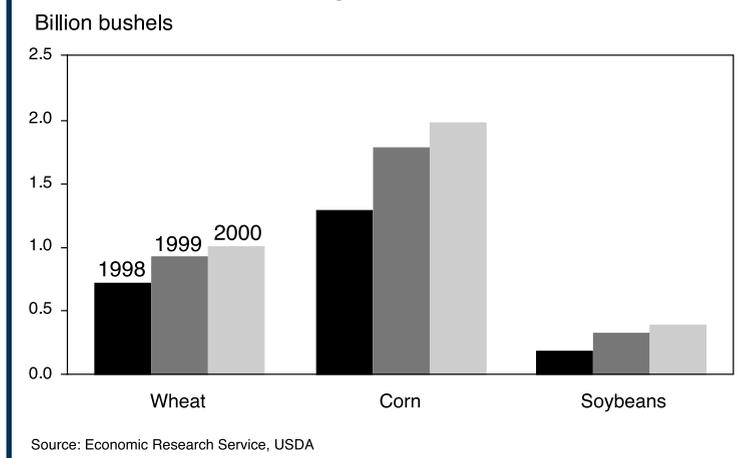
With weak prices still offsetting solid sales volumes, U.S. farm exports are expected to total \$49 billion in fiscal 2000, the same as last year and down nearly 20 percent from the 1996 crest. Farm imports are expected to edge up to \$38 billion, driven by a strong dollar and robust consumer demand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

Despite the lackluster export projection, positive signs are beginning to reemerge in international markets. The wave of financial crises that gripped much of the developing world in recent years has subsided. The global economy is regaining its health, pushing up incomes and purchasing power in key markets for U.S. farm products—especially Asia and Latin America. Weak sales

to Asia accounted for nearly four-fifths of the drop in U.S. farm exports since 1996. Thus, the Asian recovery, which has come much more quickly than many analysts expected, brightens the long-term outlook for the industry's foreign sales.

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

Chart 1
U.S. Crop Inventories



Farm finances hinge on markets and Washington

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

Despite the gloomy outlook for grain prices, livestock producers are likely to have a good year, perhaps a very good one. The

livestock price outlook suggests the nation's livestock receipts could top the healthy level of about \$97 billion attained in 1999. Low grain prices would carry the strength in livestock sales to solid bottom-line profits for cattle and poultry producers and further improvement for hog producers.

With weak crop prices still a drag on farm income, however, cropland values could soften as farmers await better times to expand their businesses and off-farm investors seek better returns elsewhere. But a brightening outlook for ranching profits—and demand for scenic mountain lands—could support ranchland values. In the seven states of the Kansas City Federal Reserve District, for example, cropland values were nearly unchanged during the year ending September 30, while ranchland values edged up 1.3 percent (Table 2).

Entering the new year, problems in farm loan portfolios remain relatively modest. In the Kansas City district, loan repayments improved during the year ending September 30, probably due to the profit turnaround in the cattle industry and the big government payments. Farm lenders remain wary that farm loans could sour if farm income weakens in the year ahead, but they indicate credit should be readily available to creditworthy farm borrowers at a price roughly comparable to the year before. At the end of the third quarter, farm interest rates averaged slightly lower than the year before, despite edging up in recent months (Table 3). Nevertheless, farm debt has probably reached a plateau, as farmers and their lenders hunker down to await better times.

Overall, agriculture enters the new century in generally solid financial health, despite the recent slump. With an overall debt-asset ratio of a healthy 16.5 percent, the industry's relatively modest financial leverage enables it to ride out rough times. Still, the outlook suggests further government support to prop up farm income. With some softening in farm asset values and steady debt levels, some erosion in farm equity is likely in 2000.

* Kendall McDaniel, Associate Economist, and Nancy Novack, Research Associate, helped prepare this article.

Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City

September 30, 1999

Highlights from the third quarter survey

- Changes in average farmland values during the third quarter of 1999 were mixed. Ranchland values edged up 0.9 percent and cropland values held nearly steady. Compared to the year before, ranchland values were up 1.3 percent and cropland values were steady (Table 2).
- Average interest rates on farm loans increased 9 basis points during the third quarter. At the end of the quarter, interest rates for new loans averaged 9.07 percent on farm real estate loans, 9.62 percent on feeder cattle loans, 9.75 percent on operating loans, and 9.59 percent on intermediate loans (Table 3).
- Ample funds were available for farm lending. Though the average loan-deposit ratio among the banks edged up to almost 68 percent, less than a third of the respondents indicated their ratio was higher than desired. Nearly three-fourths of the bankers were actively seeking new farm loans.
- Problems in farm loan portfolios appeared to be easing. Repayment rates on farm loans continued to improve, after hitting bottom late last year, and requests for loan renewals or extensions declined.

NOTE: 316 agricultural bankers in the Kansas City Federal Reserve District responded to the third-quarter survey.

Table 2
Farm Real Estate Values
September 30, 1999
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	\$612	\$950	\$340
Missouri	929	1,169	572
Nebraska	844	1,404	351
Oklahoma	505	754	350
Mountain states*	325	1,096	200
Tenth District	\$664	\$1,135	\$350
Percent change from:			
Last quarter+	0.17	-0.34	0.90
Year ago+	0.29	-0.06	1.26
Market high	-21.29	-21.19	-13.82
Market low	67.75	66.90	109.52

*Colorado, New Mexico, and Wyoming combined.

+Percentage changes are calculated using responses only from those banks reporting in both the past and the current quarter.

Source: Federal Reserve Bank of Kansas City.

Table 3
Selected Measures of Credit Conditions
at Tenth District Agricultural Banks

	Loan demand (index)+	Fund avail- ability (index)+	Loan repayment rates (index)+	Average rate on operating loans (percent)	Average loan-deposit ratio* (percent)
1998					
Jan.-Mar.	120	108	93	9.93	65.9
Apr.-June	123	100	78	9.92	68.0
July-Sept.	112	99	58	9.84	68.4
Oct.-Dec.	107	108	55	9.55	66.9
1999					
Jan.-Mar.	105	113	56	9.50	65.7
Apr.-June	107	107	71	9.68	66.5
July-Sept.	103	90	74	9.75	67.7

*At end of period.

+Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

Source: Federal Reserve Bank of Kansas City.