Less than Encouraging . . .

THE AGRICULTURAL OUTLOOK FOR '82

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The U. S. Department of Agriculture's top level economists analyzed this year's prospects for the nation's agriculture, and the implications for retail food prices, at the 1982 Agricultural Outlook Conference early last November. A brief rundown of the outlook, as they saw it then, shapes up this way.

There is little encouragement in the 1982 outlook for the nation's farmers at this time. Consumers, however, are apparently assured of abundant supplies of food at prices moderately higher than in 1981.

While there are many uncertainties in the outlook, there is currently little evidence that 1982 will be a good year for farm income. This prospect comes on the heels of two consecutive years of disappointing net farm income. Many farmers, as a result, have developed serious cash-flow problems and have had to borrow heavily against their equity.

Going into 1982, supplies of farm products are likely to continue large relative to demand in both domestic and world markets. Farm prices are expected to remain under pressure, at least through midyear. Moreover, a sharp rebuilding of stocks is indicated.

Barring unexpected weather developments, the most important variable in the agricultural outlook for 1982 is probably the performance of the domestic and world economies. While there are still some clouds in the picture, economic activity abroad should increase somewhat this year. Growth of around 2 percent, with most of the pickup likely in the second half, is indicated in the developed countries.

Some improvement in economic activity here in the United States is also indicated for 1982. Expectations are that the present recession will not be very deep or very long. Growth in GNP will likely amount to about 2 percent for the year as a whole, with the strongest performance also coming in the second half. Real disposable income per capita should increase about 2 percent, again largely in the second half, lending some strength to demand for farm products.

Little Improvement in Farm Income Likely The nation's farmers have experienced two consecutive years of unfavorable net farm income and are faced with prospects for little improvement in farm income in 1982, particularly during the first half of the year. Current forecasts suggest no improvement in crop and livestock prices over 1981 levels, at least through midyear. Larger marketings of both crops and livestock are indicated, however. Farm cash receipts, as a result, may record a modest 4 to 6 percent increase in 1982. While moderate gains in crop receipts are indicated during the first half of the year, returns in the second half will be determined largely by the size of 1982 crops.

Modest gains over last year are anticipated in receipts from beef cattle, hogs, soybeans, fruits and nuts, and possibly food grains. Somewhat larger increases are indicated for corn and broiler receipts. Returns from tobacco and dairy products may hold near the 1981 level. But vegetable receipts, particularly from potatoes and dried beans, may decline slightly.

The rise in farm production expenses last year was the smallest since 1977, and further slowing seems likely in the year ahead. Reflecting some moderation in the underlying rate of inflation, price increases of farm inputs, especially those for energy-based inputs such as fuel, fertilizer, and chemicals, should also begin to moderate. Because of the squeeze on farm income during the past two years, farmers' use of inputs will probably not increase significantly. Farm production expenses in 1982 therefore may rise only 6 to 9 percent, compared with 9 percent last year. An increase of this magnitude would be the smallest year-to-year advance in farm production expenses since 1975. But despite the expected moderation, farm production expenses will likely rise as much or more than cash receipts, pointing to a continued squeeze on net farm income in 1982.

Expectations for the costs of farm-origin inputs in 1982 point to little or no change in feed costs, a slower rate of gain in seed costs, but a significant increase in expenses for both feeder cattle and feeder pigs. As noted earlier, the growth in expenses for inputs of nonfarm origin is expected to moderate this year, provided there are no unforeseen disruptions in the Mideast. Slower rates of increase are indicated not only for fuel, energy, and fertilizer costs but also for pesticide and other agricultural chemical expenses and for the costs of labor.

What are the prospects for interest expenses? Last year total interest costs on real estate and non-real-estate debt jumped nearly 20 percent over those in 1980. With this increase, interest expenses now make up about 13 percent of farmers' total production costs as against around 7½ percent ten years ago. Current indications are that with moderation, or even some decline in the nominal interest rate on farm loans in 1982, the average rate on total debt outstanding will continue to increase because new loans carry a higher rate of interest than the loans retired. The higher average interest rates, combined with a continued rise in total farm debt outstanding, point to further substantial increases in farmers' total interest expenses in 1982.

Generally, farmers' cash costs have risen faster than their farm cash receipts during the past two years, resulting in dramatic declines in both cash incomes and in net farm incomes. While there are many uncertainties in the farm income picture for 1982 at the present time, it seems likely that farmers' cash income may fall another $1 to $3 billion. Declines in net farm income after inventory adjustment could be even greater.

Export Outlook Uncertain Although surrounded by considerable uncertainty, the outlook for U. S. agricultural exports in fiscal 1982 is currently expected to total about $45.5 billion.[1] Export value, at this level, would be 4 percent above fiscal 1981 and at a new high for the thirteenth consecutive year. While export volume may rise about 10 percent to around 180 million tons, lower prices anticipated for grains and oilseeds will be partially offsetting. The value of agricultural imports will probably remain at $17 billion, same as last year. Should these indicated export and import values be realized, the agricultural trade surplus could exceed $28 billion, up from $26.6 billion last year.

Three factors, together with a generally sluggish worldwide economy, dampened foreign demand for U. S. farm products last year and will most likely continue to affect agricultural trade in fiscal 1982. These factors are: high interest rates; the stronger dollar, which made U. S. farm exports more expensive in foreign markets; and increasingly restrictive world market conditions.

Nonetheless, there are a number of positive elements in the fiscal 1982 agricultural export picture. Foremost, perhaps, are the abundant exportable supplies of most commodities at lower prices; heightened grain import needs, particularly in the Soviet Union and India; and moderate gains in foreign production of oilseeds, especially soybeans. Furthermore, the Department of Agriculture, with the full support of the administration, has launched a vigorous effort to expand new markets, maintain old markets, and to meet foreign competition effectively. The first step in this direction was taken last April 24 when the President lifted the partial embargo on sales of farm products to the Soviet Union.

Much of the expansion in U. S. exports this year will be in shipments of wheat, feed grains, and soybeans. Wheat exports may be at a record level, almost one-fifth above last season. Exports of cotton may also rise about one-fifth. Larger shipments of tobacco, fruits, nuts, and vegetables are also indicated. Exports of livestock, poultry, and their products are another bright spot in the overall agricultural trade picture, with shipments expected to rise from $4.2 to $4.8 billion, or about 14 percent.

Record-large farm exports to the Soviet Union are indicated for fiscal 1982. Shipments to the centrally planned countries, in fact, may rise $1 billion, or some 17 percent over a year ago. The developing countries have constituted a growing market for U. S. exports in recent years and are likely to continue to boost their share of the total. While agricultural exports to the developed countries—Western Europe, Japan, Canada, and Oceania—may not match the $21 billion in fiscal 1981, they are expected to continue large, accounting for 45 percent of total shipments. But sluggish economies in many developed countries are limiting exports despite lower prices for feedstuffs and wheat.

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[1] The outlook for agricultural exports has become even more uncertain than it was at the time of the Outlook Conference last November. The U. S. Department of Agriculture, as of mid-February, indicated that the value of U. S. agricultural exports and imports may decline in fiscal 1982.

Farm Finance Outlook Net incomes of the nation's farmers have varied significantly over the past two years. Generally, crop farmers have fared better than livestock producers. Because of this income variability, the financial positions of farmers at the beginning of 1982 also varied widely. Some farmers are well established, have a large equity base, and need minimal credit. Others are overextended on debt.

Net income is but one measure of economic conditions in the agricultural sector, however. Proprietors' equity is another important measure. While net farm income has fallen substantially over the last two years, equity per farm has risen 25 percent.

Many farmers also have significant amounts of off-farm income. More than 60 percent of total farm family income in 1980, for instance, came from off-farm sources.

On balance, however, many farmers have developed serious cash-flow problems over the last two years and have been forced to borrow heavily against their equity to finance farm operations. In attempting to cope with their cash-flow problems, these farmers have assumed more debt, rescheduled debt payments, and postponed large capital expenditures. While high interest rates and depressed farm prices have tended to reduce the demand for farm loans in recent months, total farm debt has almost doubled in the last five years, becoming a major source of rising cash-flow problems. Farmers who have been faced with two years of restricted cash flow are finding it increasingly difficult to service existing debt. Besides, many who have deferred capital expenditures during this period now find that their machinery and equipment need to be replaced.

While indications point to increases in delinquencies, defaults, and foreclosures in 1982, the percentage of farm borrowers facing such problems is expected to remain low. The major exception seems to be at the Farmers Home Administration (FmHA) where delinquencies on farm loans are up sharply. Some farmers with cash-flow problems are expected to avoid delinquency or default by refinancing.

Farm borrowers who are highly leveraged—those who have little or no equity in their land and equipment to support more debt—will experience the most difficulty in borrowing money this year. Moreover, commercial lenders most likely will no longer be able to transfer problem borrowers to the FmHA as they have in past years. Some commercial lenders may thus be forced to foreclose on borrowers who are in severe financial trouble.

Qualified farm borrowers should continue to find ample credit available in 1982. Fund availability will likely vary by type of lending institution, however. In addition, the availability of credit through merchants and dealers may also expand. But should the farm real estate market remain sluggish and lenders become less willing to extend credit secured by farmland, the availability of credit could become a greater problem for some farmers.

Interest rates on farm loans may decline at some lending institutions and rise at others. There are indications suggesting that for the first time in five years, the interest rate advantage the Farm Credit System has had over other lenders will be reduced.

Food Prices to Moderate Further Retail food prices moderated last year, and some further moderation is anticipated for 1982. The current outlook suggests that retail prices for all food may average from 5 to 9 percent higher than in 1981, but a gain of about 7 percent is most likely. Such an upturn would compare with the indicated 8.2 percent rise last year and would represent a significant decline from the double-digit increases in 1978 and 1979. Biggest gain, probably around 8 percent, is expected to be in prices for food consumed away from home in restaurants, cafeterias, and fast-food establishments. Grocery store food prices may average in the neighborhood of 5 to 8 percent above 1981, but current expectations suggest an advance of around 6 percent. Such an increase would compare with a gain of 7.8 percent last year.

Rapidly rising food marketing costs, probably on the order of 8 to 10 percent, are expected to provide most of the impetus for higher food prices in 1982. Most of the increase in food marketing costs will likely come from higher charges for labor, packaging materials and containers, and transportation. Nevertheless, slowing inflation and high unemployment, together with a less rapid rise in energy prices, suggest a slowdown in selected components of food marketing costs.

By contrast, the farm value of domestically consumed foods may show only a modest increase over last year, probably on the order of 1 to 4 percent. The large supplies of farm foods will keep farm-level prices low, thus tempering the rise in grocery store food prices. Most livestock foods, with the exception of pork, will be abundant, moderating price gains for these foods. The smaller indicated pork production, however, could lead to increases of double-digit proportions in the prices of ham, sausage, pork chops, and other pork products.

Record wheat and rice crops, large soybean and peanut crops, large carry-overs of vegetable oils, and a continued recovery in world sugar cane production will keep prices for these products low. A large potato crop will reduce prices for fresh vegetables. Moreover, retail price increases for processed fruits and vegetables may prove to be moderate because of large carry-over stocks of canned fruit and greater production of frozen orange juice concentrate. Higher grocery store prices are likely for both fresh citrus and noncitrus fruit, however, because of smaller harvests.

Food consumption per capita is expected to rise slightly in 1982, primarily because the larger production of cereals, beef, dairy products, and fresh vegetables will temper the rise in grocery store food prices. The larger consumption, combined with the smaller rate of increase in food prices, implies that real per capita expenditures on food purchased for home use will probably remain about the same as last year's level.

Outlook Highlights for Commodities What are the prospects for the major money-making commodities produced by Fifth District farmers? Summaries of the Department of Agriculture's forecasts for 1982, presented below in capsule form, provide some indications.

Tobacco: A bumper tobacco harvest, improved leaf quality, stronger demand, and average prices well above a year earlier characterized the tobacco situation last fall. With the larger crop and beginning stocks up fractionally, supplies are about 5 percent above a year ago. Loan holdings have been reduced considerably, however.

The size of the 1982 tobacco crop will depend in part on the Department of Agriculture's decisions regarding quotas. The basic marketing quota for flue-cured tobacco, announced December 1, was set at 1,013 million pounds, the same as last year. Overmarketings will reduce the basic quota by about 32 million pounds, however, putting the effective national quota in the neighborhood of 980 million pounds. This figure would compare with 1981's effective quota of some 1,112 million pounds. Quotas for other kinds of tobacco will be announced later.

U. S. tobacco trade prospects point to small gains in total disappearance (domestic use plus exports). Domestic cigarette output and sales may increase slightly, despite continued antismoking publicity. Tobacco export prospects also look better because of the improved quality of last season's large crop. Foreign demand for U. S. leaf will continue to be affected, however, by such factors as higher export prices, less favorable foreign currency exchange, and competition from lower cost producers.

Soybeans and Peanuts: The outlook for soybeans in 1981-82 is dominated by larger supplies and lower prices. Supplies, in fact, are only fractionally below the record level of 1979-80. With this season's larger supplies and lower prices, total usage of soybeans is expected to rise almost 10 percent above a year earlier. But despite the stronger domestic crush for oil and exports, a record carry-over equal to 21 percent of total usage would remain.

Soybean prices are projected to fall sharply, primarily as a result of this season's larger supplies and declining oil and meal prices. Prices at the farm are expected to average from $5.50 to $7.00 per bushel, down from an average of $7.61 last season. Lower corn prices will also tend to keep soybean prices down.

The projected export demand for soybeans and soybean products indicates that the U. S. will increase its share of world soybean trade in 1981-82, regaining some of the market lost last year. The U. S. share of world soybean exports is expected to reach 80 percent, for example, compared with 76 percent a year ago.

With last year's sharp recovery from 1980's drought-reduced peanut crop, U. S. peanut production was just 2 percent short of the record-large outturn in 1979. Since peanut supplies this season are 28 percent larger, food use is expected to rise as retail prices of peanut products slow. Last season, use of peanuts in all food categories was lower, and retail prices of peanut butter and other peanut products rose substantially.

This season's larger supplies also point to the likelihood of an increase in peanuts crushed for oil. By the same token, peanuts available for export will likely rise. The export volume is not expected to reach the 1979-80 level, however.

Many peanut producers contracted a portion of their 1981 crop at premium prices above the support level. But because of the large output, a significant share of the crop will probably sell close to the support price. Farm prices could average around 23.7 cents a pound, or slightly under the 1980-81 figure.

House-Senate conferees, after much debate, agreed to make several changes in the government peanut program for the 1982-85 crops. The basic structure of the program was preserved, however.

Cotton: With last season's sharply larger cotton crop and the likelihood of only modest improvement in demand, ending stocks next August 1 could increase sharply to about 5.4 million bales. Cotton prices have trended downward in response to the much larger 1981 crop and slow textile mill activity. Because of the significantly lower cotton prices, deficiency payments will likely be made to growers. Such payments are made to growers participating in the cotton program if the national average farm price of cotton in calendar year 1981 is below the target price of 70.87 cents per pound. The payment rate is the difference between the target price and the average U. S. farm price, regardless of the price an individual farmer received for his cotton.

The combined domestic mill use and exports of U. S. cotton this season are expected to rebound moderately from last season's depressed levels, probably reaching 13.0 million bales. The anticipated growth in cotton disappearance in 1981-82 reflects the much larger supplies of cotton and the continued favorable cotton price competitiveness in both domestic and foreign markets.

Domestic mill use of cotton in 1981-82 may total 6 million bales. While up slightly from last season, the rate of growth in cotton mill use this year will be determined to a great extent by the state of the nation's economy. Consumer spending on nondurables has been aiding cotton consumption, however.

Export prospects for the 1981-82 season are much brighter than in 1980-81 and may total some 7 million bales, nearly 20 percent above last year's level. Much of the anticipated increase can be attributed to the fact that U. S. cotton is competitively priced in world markets.

Looking ahead to 1982-83, current expectations point to little change in U. S. supplies of cotton but moderate increases in both domestic mill use and exports. With this set of circumstances, stocks of U. S. cotton could decline slightly from the anticipated beginning level of 5.4 million bales.

Poultry and Eggs: Lower feed costs and somewhat higher prices will probably improve the returns of poultry and egg producers in 1982. The likelihood of a continued rise in costs other than feed will offset some of the decline in feed costs, however.

Broiler producers are planning to limit the increase in production to about 1 percent over 1981. This slight gain in broiler output, coupled with anticipated strong export demand, is expected to strengthen prices. While broiler prices may remain slightly weaker than in 1981 during the first half of the year, prices are likely to strengthen in the second half as the economy begins to respond to the midyear tax cut.

Stocks of frozen turkeys were expected to remain burdensome at the beginning of the year, probably continuing large into the first quarter. Turkey prices as a result will likely be depressed throughout the first half of the year. Despite much lower feed prices, returns to producers can be expected to be unfavorable. With this situation, hatchery activity will probably be reduced, leading to a decline in turkey production of from 4 to 6 percent in 1982. Should production be cut back as expected, cold storage turkey stocks would likely be much lower than last year and help to support prices in the second half.

Because of unfavorable returns during most of 1980 and 1981, egg producers have been reducing the number of replacement pullets added to the flocks for at least a year. Replacement pullets will probably continue below last year's reduced level through the first quarter. Egg production for the year as a whole may thus be about the same as that in 1981, or perhaps a little under last year's level. If output is reduced during the first half, egg prices may rise slightly. Some further improvement in prices may occur in the second half if the economy improves as anticipated and demand for high-protein foods increases.

Meat Animals: Lower feed costs, moderating interest rates, and considerably improved forage conditions will help hold down production costs for cattle producers in 1982. Beef production rose slightly last year, and a further increase of 3 to 4 percent is likely this year with most of the rise coming in the second half. Fed cattle prices are expected to show only modest improvement over last year's average. Feeder cattle prices may show a little more improvement, however, as production costs decrease. These developments are likely to improve feedlot demand for replacement cattle. Stocker operators with good forage supplies for overwintering programs may provide strong competition for cattle feeders, however.

The larger feed supplies can also be expected to give pork producers a break on production costs in 1982. Cutbacks in pork production of 4 to 6 percent are indicated, with the largest declines coming in the first half; second-half output may be near that of a year earlier. Pork output at this level would still be relatively large in view of the anticipated supply of both beef and poultry and consumers' purchasing power. Hog prices are expected to strengthen in 1982, but the rise will be limited by large total meat supplies and continued weakness in the general economy. With the possibility of improving consumer incomes in the second half, however, hog prices would be expected to rise modestly from the level in the first half.

Dairy Products: The dairy outlook for 1982 is still uncertain because of Congress' long delay in completing new farm legislation. Both the Senate and House have passed legislation to hold the milk support price at the current $13.10 per hundredweight through the 1981-82 marketing year. The agreement ends there, however.

The number of milk cows continues above a year ago, and a sizable number of replacement heifers are available to enter the milking herd. While gains in output per cow could slow as older cows are culled from the herd, total milk output in 1982 may be about the same as last year's record production. Increased output during the first half will most likely be offset by reduced production later in the year. Dairy farmers can expect only small gains in milk prices, probably on the order of 1 to 2 percent above 1981.

Commercial use of milk in 1982 may rise slightly, particularly if the support price is not increased. But disappearance will probably not keep pace with expanding output through next spring, indicating that large government purchases will continue heavy.