Another Difficult Year . . .

THE 1983 OUTLOOK FOR AGRICULTURE

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The U.S. Department of Agriculture's analysis of this year's prospects for the nation's farm economy and the implications for retail food prices were presented at the 1983 Agricultural Outlook Conference late last November. The outlook as USDA's leading economists viewed it then is summarized below.

This year promises to be another difficult one for the nation's farmers. But consumers seem assured of larger supplies of food and continued moderation in food price increases.

While still highly uncertain, the outlook for agriculture in 1983 suggests continued low returns to farmers for the fourth consecutive year. Large worldwide crop supplies, together with a weak global economy, point to low crop prices and poor income prospects. Modest gains in livestock prices are indicated.

Weak domestic demand and sluggish export markets have been among the major factors behind the difficult economic conditions prevalent in the farm sector. The dramatic slowdown in the growth of global demand for farm products has coincided with the record U. S. and world crop harvests of the past two years, thus compounding the difficulties. While forecasts for 1983 indicate a modest upturn in general economic activity here at home, leading to some strengthening in domestic demand, they do not suggest any significant improvement in foreign demand. Since export markets have become an increasingly important outlet for U.S. farm products, the farm economy has become more sensitive to global crop and economic developments. Improvements in international conditions will thus have an important role to play in the recovery of the farm economy.

Agricultural production costs are moderating. Reduced inflation and lower interest rates should ease the pressure on farmers' expenses and borrowing costs in the year ahead. These same factors can also be expected to encourage demand.

Farm Income Outlook Not Encouraging

Last year marked the third successive year of low farm income and growing cash-flow difficulties in the farm sector. While significant reductions in inflation and interest rates, capital expenditures, and the use of inputs provided some relief in farmers' expenses in 1982, cash-flow problems persisted as cash receipts declined and production expenses continued to rise, albeit at a slower rate. Net farm income, net cash income, and personal disposable income all declined in the aggregate. These financial indicators varied among individual farms and geographic regions.

While still highly uncertain, prospects do not promise much improvement in these aggregate farm income indicators in 1983. Currently, it appears that total cash receipts from farm marketings will show only a slight rise over last year's level. While crop receipts may decline, livestock receipts could increase and be offsetting. On the brighter side, indications are that farm production expenses will continue to moderate, perhaps rising only 2 to 3 percent. Prospects that point to further progress against inflation and lower interest costs are, indeed, encouraging. Even so, these current indications provide little reason to believe that farmers' cash flow and net income in 1983 will show much improvement over 1982 levels.

The weather and the extent of economic. recovery will be major factors affecting the farm income situation in 1983. A sudden change in weather patterns that might affect worldwide crop output, for example, could alter the outlook materially.

Farm Financial Conditions and Outlook

With the cumulative effects of three years of low farm income, increasing cash-flow difficulties, and the continued rapid growth in the use of debt capital, many farmers are now facing severe financial problems. Many are heavily leveraged-that is, they have little or no equity in their land and equipment to support more debt. This situation suggests that farmers' financial strategy in 1983 will be essentially conservative, with less reliance on debt financing.

Farm loan funds will apparently continue to be adequate in 1983, for there are no indications that agricultural lenders will have difficulty in obtaining loanable funds. Banks indicate, however, that only those farmers with adequate equity will qualify for credit. Given current farm commodity prices and interest rates, many farmers, especially those who are heavily in debt, will find it difficult to qualify for a loan on a cash-flow basis. Moreover, the pace of debt restructuring, loan extensions, and renewals to marginal farm borrowers will probably slow from that of the past two years. Should interest rates continue to fall, however, chances of refinancing to reduce the current burden of debt would be greatly improved for many farmers.

Delinquencies, farm liquidations, and bankruptcies are up, according to a midyear farm credit survey conducted by the American Bankers Association in 1982. Furthermore, the survey pointed out that a larger proportion of farmers are reaching practical lending limits and are therefore likely to have their financing discontinued in 1983. But the survey also revealed that more than 95 percent of banks' farm customers are managing their financial stress well enough to have their bank financing continued.

The financial health of the farm sector, as measured by balance sheet statistics, provides yet another picture of the difficulties faced by many farmers. The farm sector's wealth, or nominal equity, declined in 1982 for the second year in a row, primarily because of falling farmland values. With the drop in nominal farm equity, farmers' borrowing capacity declined further.

The nominal value of the farm sector's assets, including farm households, fell 2 percent in 1982, the first such decline since 1953. Total farm debt continued to rise, increasing around 6.6 percent during the year and causing farmers' equity to fall about 4 percent below a year earlier. The 1982 decline in nominal equity is the largest percentage decrease in farm-sector wealth since 1940, the year that balance sheet statistics were first collected. Equity per farm dropped some 3 percent from the 1981 level.

Because of the decrease in asset values and the increase in debt, the farm sector's debt-to-asset ratio -a measure of the sector's indebtedness-is estimated to have risen from 18.5 percent at the beginning of 1982 to a record 20.1 percent on January 1, 1983. Although the farm economy's debt-to-asset ratio is at a record level, it is still low compared with those of other industries.

Value of Farm Exports May Fall

U. S. agricultural exports in fiscal 1982 fell for the first time in thirteen years, and some further decline is anticipated in fiscal 1983. Export volume dipped some 2 percent last year, but value of exports plunged 11 percent because of sharply lower prices. While export volume may rise slightly this year, reaching about the same level as in 1980 and 1981, the value of farm exports could fall further to about $37.5 billion or some 4 percent. The value of U. S. agricultural imports is expected to total about $15.5 billion, roughly the same as last year, so the agricultural trade surplus will probably fall to around $22 billion, down some 17 percent from the record $26.6 billion in fiscal 1981.

Many of the problems that plagued U. S. farm exports last year are expected to remain in fiscal 1983. Large global crop supplies, especially in the United States; weak foreign demand; and low domestic farm prices will continue to hamper export growth. The likelihood of only a modest decline in the value of the U. S. dollar and a sluggish worldwide economic recovery will also limit foreign demand. Moreover, the financial problems of many developing countries and the worldwide tendency toward restrictive trade policies will continue to be major factors restricting U. S. farm exports. The European Community's trade policies have become a particular problem. By subsidizing their excess production into exports that compete with American farm 'products, the EC is seriously undercutting our farm export markets. The U. S. poultry industry, for example, had considerable success at building export markets during the seventies. U. S. poultry exporters today, however, are losing large chunks of the world's import business primarily because of export subsidies paid by other nations such as those of the European Community.[1]

Regional highlights of foreign trade prospects for 1983 reveal this picture: The value of farm exports to the developed countries is expected to be down, led by drops of around 10 percent in exports to the European Community and 13 to 15 percent in those to non-EC Western Europe. The value of shipments to the centrally planned economies may fall sharply, with declines of around 25 percent projected for both the USSR and China and some further slippage in exports to Eastern Europe. Modest expansion in purchases of U. S. farm exports by the developing

[1]Jim Gruff, "Subsidies Hurting U.S. Poultry Exports," **Foreign Agriculture,** Vol. XX, No. 12, USDA, Foreign Agricultural Service (Washington, December 1982), p. 10.

nations is anticipated, however. Among these countries, significant boosts in exports to Mexico and India are likely.

Most of the slight expansion anticipated in U. S. export volume in fiscal 1983 will probably be in shipments of feed grains and soybean cake and meal. Soybean exports may rise slightly to a record volume. Tobacco shipments are expected to hold near the 1981 and 1982 volumes. Somewhat smaller wheat and rice shipments are also indicated. Meanwhile, the volume of cotton exports is likely to fall about 15 percent, primarily because of smaller sales to China. While the volume of beef exports may rise about a tenth, poultry meat exports are likely to be down by roughly the same percentage.

Moderate Gains in Food Prices Likely

Retail food prices continued to moderate last year, rising about 4.5 percent for the smallest annual increase since 1976. Factors that helped slow the cost of food at retail were the large supplies of farm products, stagnant consumer incomes limiting food demand, and moderating food marketing costs that reflected the lower general inflation rate. A similar situation is expected to prevail in 1983, indicating that the moderating trend in food price increases will continue. The outlook now suggests an overall rise of from 3 to 6 percent in food prices in 1983. But within this range, the current assessment points to an increase of about 4 percent. Moderate gains in prices for both food at home and food consumed away from home are expected. Grocery store food prices-the at-home component-may average in the neighborhood of 3 to 6 percent over those last year. A somewhat larger increase, probably from 4 to 6 percent, is indicated for prices of food consumed in the away-from-home market.

Food marketing costs moderated significantly last year. With the general inflation rate likely to slow further in 1983, continued moderation in food marketing costs, probably on the order of 4 to 7 percent, can be expected. Biggest increase will likely come from higher energy prices, especially those for natural gas. Food industry labor costs, which account for nearly half of all food marketing costs, may slow again in 1983, rising from 5 to 7 percent versus a 7 percent advance last year. Transportation and packaging costs are also expected to show slight increases over last year.

The farm value of domestically produced foods sold in grocery stores, accounting for slightly more than one-third of the retail cost of the market basket, has increased slowly for the past three years. Expectations are that the farm value of foods will again show only a modest gain in 1983, perhaps on the order of 1 to 4 percent. These expectations largely reflect both weak domestic demand for food and weak export demand for farm products, with only slight improvement anticipated during 1983.

In general, abundant food supplies from crops and larger fruit supplies will tend to keep farm-level prices low and temper the rise in grocery store food prices. On the other hand, no expansion in livestock supplies is anticipated, thus retail meat prices will likely rise moderately. Retail pork prices could prove to be an exception, however, with indications pointing to a 4 to 7 percent increase over last year.

Commodity Outlook

Both farmers and farm lenders will likely find the outlook for the Fifth District's principal money-making commodities to be of special interest. The summaries below of the Department of Agriculture's forecasts for these products provide outlook highlights for each commodity or commodity group. Readers should note that export data in this section are on either a marketing- or calendar-year basis and therefore may vary considerably from the fiscal-year statistics used in the section on foreign trade.

Tobacco: Declining demand-both domestic and foreign-highlights the U. S. tobacco outlook for 1983. Last year's crop was 6 percent under the year-earlier level, largely because of reduced acreage. The outlook for 1983 points to a further cutback in production since effective quotas are lower for flue-cured and burley.

Despite the smaller 1982 crop, increased carryover means that total supplies for the 1982-83 marketing year are 3 percent larger than last season. The reduced crop now indicated for 1983, when added to prospective carryover, may mean a slight reduction in 1983-84 supplies, however.

Reductions in total tobacco use in 1982-83 are anticipated because of expected declines in both exports and domestic use. Exports of unmanufactured tobacco during 1982 probably did not equal the volume shipped in 1981. Moreover, exports in calendar 1983 are likely to decline from the 1982 level. Weaker demand, prospects for only a modest decline in the value of the U. S. dollar, and larger production overseas at prices attractive to foreign tobacco manufacturers will probably limit U. S. sales.

Reduced domestic use of U. S. tobacco is also indicated. Factors behind the expected decline include weaker demand for cigarettes, continued reductions in tobacco used per cigarette, and continued use of imported flue-cured and burley in cigarettes.

U. S. imports of unmanufactured tobacco leaf and processed scrap have grown significantly in recent years and now comprise 31 percent of the tobacco used by U. S. manufacturers. While total imports in 1982 were somewhat below a year earlier, indications suggest that manufacturers in 1983 may increase the use of cheaper imported tobacco to hold down costs, despite greater domestic supplies.

Both total and per capita consumption of cigarettes are expected to decline in 1983, despite an increase in the smoking age population. Cigarette consumption per capita will be continuing a downward trend, as will the per capita consumption of cigars and smoking tobacco.

Soybeans and Peanuts: The outlook for soybeans in 1982-83 is dominated by large supplies and low prices. Both domestic use and exports are expected to rise this season, but the increase will likely fall far short of the expansion in supplies. Expectations point to a sizable buildup in stocks, with real soybean prices probably falling to their lowest level in many years. With prospects for weak economic growth in 1983 and further cutbacks in hog production-the major factor limiting domestic use-soybean producers will have to cut output to bring stocks and prices back to more normal levels. Even though soybean acreage will probably decline in 1983, supplies are expected to continue large relative to demand.

This season's record-large soybean supplies add up to 2.57 billion bushels, some 11 percent above a year earlier. Lower soybean prices are expected to stimulate usage, but only a moderate increase of about 3 percent is forecast. Domestic processors will probably crush about 6 percent more soybeans than in 1981-82, while exports could be up 1 percent above last season's record volume.

Last year's 14 percent smaller peanut crop combined with sharply larger beginning stocks to reduce total supplies for 1982-83 by only 5 percent. Domestic use of peanuts for food this season is expected to rise by 5 percent, but peanut crushings are likely to decline by some 18 percent. Last season, all major use categories were higher.

While peanut exports during the 1982-83 season may climb some 28 percent above a year ago, they will still be substantially below pre-1980 levels. Supplies of peanuts available for export will no doubt exceed demand, leading to lower farm prices this season.

Cotton: This season's U. S. cotton outlook is being shaped by rising supplies and falling demand. Last year's larger than expected crop and large carryin stocks have boosted supplies for 1982-83 to the highest level since 1967-68. At the same time, sluggish domestic and foreign demand have pushed prospects for total cotton use in 1982-83 down to 11.2 million bales, 0.7 million below 1982 production and the lowest since 1975. This season's ending stocks on August 1, 1983 are thus expected to rise to 7.5 million bales, a 16-year high.

Domestic mill use continues to reflect the weak economy and strong competition from imported textiles. The domestic outlook for the season, therefore, is not bright. Low and more stable cotton prices and higher retail sales of textile products during the first half of 1983 may strengthen mill use slightly. Cotton mill use for the 1982-83 season is forecast to reach 5.4 million bales, only 2 percent above 1981-82.

U. S. cotton exports this season are expected to drop to 5.8 million bales, 12 percent below a year ago and the lowest since 1977-78. The major cutback in cotton exports, as noted earlier, is expected to be in sales to China. China's import needs have been greatly reduced by an excellent harvest in 1982. As a result, some analysts believe that China may buy virtually no U. S. cotton this year. Sluggish use of cotton in other major Asian markets has also lowered export prospects.

Farm prices for cotton have been forced down toward the, loan rate. Since stocks are expected to increase, farm prices could continue near the loan rate for the 1982-83 season. The outlook for another increase in U. S. cotton carryover stocks suggests that a large adjustment in supplies will be necessary this year.

Poultry and Eggs: Poultry and egg producers can look forward to lower feed costs in 1983, with poultry and egg prices averaging near last year's levels. Expectations for a slow recovery in the general economy and the implied high unemployment suggest that prices will remain weak despite reduced supplies of red meats.

Broiler producers are likely to increase production slightly in 1983, probably by 1 to 3 percent. Lower feed costs and the expected declines in red meat supplies during the first half of the year should encourage the expansion in output. But the sluggish economy will probably continue to limit sales and moderate the expansion. Broiler prices may average near 1982 levels. Price gains, however, are likely to be limited by consumers' tight budgets and their reluctance to pay higher prices when their incomes are growing very little.

Turkey supplies have been reduced over the past nine months to a less burdensome level. Furthermore, production costs in 1983 are expected to remain near those last year. Given this situation, it appears that turkey producers will increase production in 1983, expanding by about 6 percent during the first half of the year and by around 2 percent in the second half. Without large stocks of frozen turkey and reduced supplies of red meats, turkey prices in 1983 may be stronger.

Egg producers had unfavorable returns during most of 1980 and 1981 and for much of 1982. Because of these losses, producers will probably remain cautious about expanding egg output in 1983. They can be expected to continue to keep their old hens in the flock as long as they are producing to offset the reduction they have made in the number of replacement pullets. Egg output for the year may be about the same as in 1982, since low feed costs will help moderate production costs. The low number of replacement pullets may keep production in the first half slightly below the year-ago level. But if the general economy shows signs of recovery during the first half of 1983, and if interest rates decline enough to encourage purchases of additional pullets, egg producers can be expected to increase output in the second half.

Meat Animals: Because of financial pressures and economic uncertainty, many hog and cattle producers have been reluctant to expand their operations. Despite low grain prices, producers appear to have been more interested in reducing debts and improving their cash flow than in increasing their breeding herds.

On balance, commercial pork production in 1983 may be 3 percent under the 1982 level. Small hog inventories suggest a sharp cut in first-half pork output. The reduced hog production indicated for the first six months of the year, if realized, would be the lowest first-half output since 1978 and result in the smallest per capita consumption of pork since 1976. The low production will likely strengthen hog prices, but weak consumer purchasing power will probably limit the gains. While pork production may increase in the second half of the year, supplies will still be relatively tight and hog prices will likely average in the upper $50's per hundredweight. Some strengthening in hog prices could occur, however, if the increase in consumer purchasing power, now indicated to begin in the second half, is realized.

All indications suggest that the expansion in the current cattle cycle which began in 1979 has ended. While the expansion could resume in 1983, there is a greater possibility that cattle numbers will remain the same or perhaps show only a slight decline for the year. Because of the weak financial situation in the farm sector, beef cow herds in many areas are being culled closely or liquidated, especially on farms where cattle are a supplementary enterprise.

Lower feed and feeder cattle prices, plus higher fat cattle prices, encouraged cattle feeders to increase feedlot placements last fall. Placements are expected to remain near or somewhat above year-earlier levels through the winter but may fall slightly below 1982 for the remainder of the year. Fed cattle production can thus be expected to rise 1 or 2 percent this year and comprise a larger proportion of total beef production. Nonfed steer, heifer, and cow slaughter will likely decline, however, and could reduce total beef output slightly. Sharpest year-to-year decreases in beef production are expected to occur in the fall. Fed steer prices are likely to rise modestly through the winter, with prices of Choice fed steers at Omaha for the year probably averaging from $64 to $70 per hundredweight, compared with around $65 last year.

Dairy Products: The dairy situation for 1983 promises to be similar to that in 1982. Milk production will probably increase again since output per cow is likely to continue upward and the number of milk cows may average about the same as last year. Commercial use of manufactured and fluid dairy products is also likely to improve. But the gain in commercial use will probably not be large enough to offset the increase in production. So, the Department of Agriculture will continue to remove large amounts of dairy products from the market, keeping farm prices for milk and retail prices for dairy products near year-earlier levels.

Dairy farmers' effective returns per hundredweight received for milk in 1983 could average 6 percent or more below 1982 because of new legislation authorizing a 50-cent deduction from producer marketings beginning December 1 and a second 50-cent deduction starting April 1. This new program has been implemented in an effort to offset part of the costs of the dairy price support program. Dairy farmers' reactions to the effects of these deductions will play an important role in determining actual milk production in 1983.