THE AGRICULTURAL OUTLOOK FOR 1987

. . . Financial Turnaround Unlikely

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After a mediocre 1986, the outlook for agriculture this year promises only a slight improvement in income and further declines in asset values for the nation's farmers. For crop producers, large harvests worldwide continue to depress market prices and limit export opportunities; and although lower energy and interest expenses will likely lessen production costs, the incomes of crop farmers will remain heavily dependent on federal crop support payments. Livestock producers, however, should enjoy wider margins due to low grain prices and relatively strong demand. Lower energy and interest expenses will likely lessen production costs, although overall financial conditions in agriculture will probably continue to weaken.

The United States Department of Agriculture (USDA) held its annual Outlook Conference in December. Aware of continuing problems in agriculture, analysts at the conference discussed current conditions in this sector and outlined their expectations for this year. A consensus of their assessments of agriculture's performance in 1986 and their forecasts for 1987 are summarized below, following a brief review of the behavior of agricultural exports and the features of current federal farm programs.

I. FOREIGN TRADE AND DOMESTIC AGRICULTURAL POLICY

The present condition of the agricultural sector has been greatly affected by trade developments and domestic agricultural policy. In many ways these two influences are difficult to separate, so intertwined are their effects on one another, but an effort at such a separation is made here.

Exports

As agricultural exports from the United States increased in the 1970s through early 1980s, domestic crop producers became more dependent on world developments. A combination of factors caused domestic exports to increase, including higher earnings and greater access to credit by foreign nations and more emphasis on improving their diets. As a result, the rest of the world came to rely on the United States-the holder of a major portion of the world's available grain reserves-for its purchases. Increased exports reduced domestic carryover stocks and boosted grain prices and the incomes of American farmers.

Farmers increased their investments in land and equipment on the premise that the strong world demand would continue. In recent years, however, world demand has grown less rapidly than anticipated while world production has exceeded expectations. Both developments lowered foreign demand for U.S. agricultural goods. Underlying these general developments are three primary factors pressuring agricultural exports.

First, increased foreign supplies have partly displaced U.S. exports. The annual growth rate of agricultural production abroad increased from 2.2 percent in the 1970s to 2.6 percent in the 1980s.

A second factor has been slow economic growth worldwide. Growth slowdowns have effectively reduced real incomes in many nations, lowering the growth rates of food consumption in these nations. Worldwide growth in demand dropped sharply, falling from an average yearly increase of 34 million tons of grain in the 1970s to 19 million tons in the 1980s. A third factor is the decreased availability of foreign exchange to foreign nations that purchase U.S. goods. With the higher interest rates that prevailed in the early 1980s, many nations in debt found more of their foreign exchange committed to debt service, leaving less available for imports.

Domestic agricultural policy may have hampered exports as well. Federal price supports in the early 1980s priced domestic grain well above prevailing world prices. Also, increased availability of grain from other nations allowed importing countries to buy on a least cost basis in the world market. That relatively expensive domestic grain supplies faced cheaper foreign substitutes undoubtedly contributed to decreased exports.

Agricultural Policy

The U.S. Food Security Act of 1985, usually referred to as the Farm Bill, has two primary objectives-to support the income levels of American farmers and to reduce the surpluses of many agricultural commodities. These objectives conflict, as the efforts to support farm incomes tend to encourage more production and accumulation of surplus commodities. Policymakers at USDA have attempted to reduce the conflict by offering farmers price subsidies only in exchange for limiting commodity production.

In the crop sector, attempts to limit production have generally taken the form of acreage reduction programs (ARPs). Under these programs, farmers who agree to limit planted acreage of eligible crops and place the removed acreage in an approved conservation use for one year become eligible to receive nonrecourse loans and deficiency payments from the Commodity Credit Corporation (CCC).[1] Participation in ARPs was strong in 1986. Preliminary estimates by USDA indicate that 45 million acres were removed from crop production under the program.

In an effort to reduce dairy production, the Dairy Termination Program (DTP) was enacted in 1986. Under the terms of this program, dairy farmers agreed to sell their dairy cows and remove their dairy facilities from production for 5 years in exchange for a lump sum payment from USDA. USDA accepted a substantial number of these offers. About 14,000 dairy farmers participated in the program, receiving $1.8 billion and sending 1.5 million head of dairy cows to market in 1986. Of the total payment, about one-third is being paid from an assessment against all dairy producers and two-thirds by USDA.

In addition to limiting production, USDA is trying to expand the export of commodities by using federal loan guarantees. Under this plan, credit extended to foreign purchasers is guaranteed by the federal government. A second export program is that embodied in U.S. Public Law 480. This program, which has been in effect a number of years, authorizes government-held food stocks to be transferred to "deserving" nations. The transfers can occur by direct donation, or by United States-backed credit purchases.

Federal farm programs also provide credit to some farmers and rural areas. Under the Farmers Home Administration, for example, qualified farmers may receive farm ownership and operating loans, emergency disaster loans, and loan buydowns. In addition, rural communities are eligible for rural housing and community development grants. Loans must be repaid, of course, but the terms of these loans are usually favorable compared to the private financial market alternatives.

[1] Eligible producers are allowed to borrow from the Commodity Credit Corporation using their crops as collateral. Should producers choose not to repay these loans, ownership of the crop is passed to the CCC. Eligible producers may also receive direct government payments called deficiency payments which are based on crop production allowed under the program.

II.
A REVIEW OF THE AGRICULTURAL SECTOR IN 1986

Entering 1986, analysts were guardedly optimistic that the policy changes embodied in the 1985 Farm Bill, together with a declining dollar exchange rate, would encourage stronger exports. However, real export volume was apparently little changed in 1986, and with prices lower than in 1985, the nominal balance of agricultural trade continued to deteriorate. In the absence of improved export earnings, farm income continued to be dominated by government support payments and by continued efforts to reduce production costs. The value of farm land fell further in 1986, though generally not quite as rapidly as in 1985. Agricultural lenders continued to experience stress, but as the year progressed there were some signs that conditions were steadying.

Agricultural Trade Remains Sluggish

Despite a lower foreign exchange value of the dollar and export incentive programs, the agricultural trade balance deteriorated sharply in 1986. The value of exports was sharply lower, falling to $26.3 billion, almost $5 billion less than in 1985. Import value increased about $1 billion, largely due to higher coffee prices. In light of these changes, the agricultural trade balance registered a surplus of only $5.5 billion, less than half the level of a year earlier. Since peaking at $26.5 billion in 1981, the agricultural trade surplus has trended downward, due primarily to lower exports.

Farm Income Measures Mixed

Agricultural policy and sluggish exports were important determinants of farm income in 1986. Table I shows cash receipts from farm marketings were sharply lower in 1986, falling 7 percent to $138 billion, Responsible for the decline was the fall in crop cash receipts which, including the net change in CCC loans, decreased over $10.7 billion dollars. Lower crop cash receipts resulted in part from farm policy initiatives which acted to lower production, and from lower market prices.

Livestock cash receipts were higher in 1986 as strong demand helped boost prices and the DTP encouraged cattle marketings. Increased direct government payments helped soften the impact of lower crop cash receipts to farmers. Direct payments totaled $12 billion in 1986, up sharply from the $7.7 billion of 1984. Higher crop deficiency payments accounted for most of the increase.

Reduced plantings, lower livestock inventories, and lower input prices contributed to a 5 percent drop in expenses over 1985. Total expenses including some noncash categories fell to $129 billion, the lowest level since 1979.

Table I

FARM INCOME STATISTICS

(Billion dollars)

	Item	1980	1981	1982	1983	1984	1985	1986F	1987F
1.	Farm receipts	142.0	144.1	147.1	140.9	146.4	148.5	138	130
	Crops (incl. net CCC loans)	71.7	72.5	72.4	67.0	69.2	72.7	62	58
	Livestock	68.0	69.2	70.2	69.5	72.9	69.4	71	71
	Farm related[1]	2.3	2.5	4.5	4.4	4.3	6.4	5	5
2.	Direct Government payments	1.3	1.9	3.5	9.3	8.4	7.7	12	16
	Cash payments	1.3	1.9	3.5	4.1	4.0	7.6	8	9
	Value of PIK commodities	0.0	0.0	0.0	5.2	4.5	0.1	4	7
3.	Total gross farm income (4+5+6)	149.3	166.3	163.4	152.4	174.4	166.6	158	156
4.	Gross cash income[2] (1+2)	143.3	146.0	150.6	150.2	154.9	156.2	150	150
5.	Nonmoney income[3]	12.3	13.8	14.1	13.2	13.3	11.5	10	9
6.	Value of inventory change	−6.3	6.5	−1.3	−10.9	6.3	−1.1	−3	−3
7.	Cash expenses[4]	109.1	113.2	113.8	113.0	115.6	112.1	106	103
8.	Total expenses	133.1	139.4	140.7	139.5	141.7	136.1	129	124
9.	Net cash income (4−7)	34.2	32.8	36.8	37.1	39.3	44.0	44	47
10.	Net farm income (3−8)	16.1	26.9	22.7	13.0	32.7	30.5	29	32
	Deflated (1982$)	18.8	28.6	22.7	12.5	30.3	27.3	26	27
11.	Off-farm income	34.7	35.8	36.4	37.0	37.9	40.8	43	44
	Loan changes[5]:								
12.	Real estate	9.3	9.4	4.0	2.5	−0.8	−5.6	−5	−3
13.	Non-real estate	5.9	6.2	3.4	1.0	−0.8	−9.2	−6	−3
14.	Rental income plus monetary change	6.1	6.4	6.4	5.7	7.8	8.0	7	7
15.	Capital expenditures[5]	18.0	16.8	13.7	13.0	12.5	10.1	8	7
16.	Net cash flow (9+12+13+14−15)	37.5	37.9	37.0	33.3	33.0	27.1	32	41

F = midpoint of forecast range.
[1] Income from machine hire, custom work, sales of forest products, and other misc. cash sources.
[2] Numbers in parentheses indicate the combination of items required to calculate a given item.
[3] Value of home consumption of self-produced food and imputed gross rental value of farm dwellings.
[4] Excludes capital consumption, prerequisites to hired labor, and farm household expenses.
[5] Excludes farm households.

Note: Totals may not add due to rounding.

Source: U.S. Department of Agriculture, Economic Research Service.

The net cash income received by farmers totaled $44 billion in 1986, unchanged over the previous year as lower cash receipts were almost exactly offset by higher government payments and decreased expenses. The 1986 cash income level, though not the highest on record, is above the average levels of the early 1980s.

The Balance Sheet Deteriorates

As shown in Table II, farm assets totaled an estimated $702 billion in 1986, a 9 percent drop from the previous year. As in most years, the change in asset values was primarily due to the change in the value of farmland. Farmland asset values fell 9.8 percent, accounting for $55.6 billion of the total asset value decrease of $69.4 billion. Weak market conditions and uncertainties about the long-run prospects for government support continues. As economist Emanuel Melichar at the Federal Reserve Board has pointed out, however, lower farm debt has partially resulted from the transfer of farmland from heavily-indebted operators to financial institutions and less-indebted farmers through foreclosure and other actions.

The value of non-real estate farm assets also fell sharply in 1986, to $198 billion, a decrease of 6.5 percent. Machinery and motor vehicles accounted for $3.2 billion of the decrease, as sluggish replacement rates pushed farm equipment numbers down and the average age up. Crops in storage fell $7.1 billion in value, due primarily to lower values of corn and wheat.

Farm liabilities also decreased in 1986, although much less than the drop in asset values. Real estate debt showed the largest fall, decreasing $8.3 billion to $89 billion (Table II). The declines were due to the repayment of loans and the write-off of loans by lenders. Non-real estate loans totaled $87 billion at the end of 1986, 8.2 percent below the level of 1985. The volume of Commodity Credit Corporation (CCC) loans rose over 12 percent to $19 billion due to low grain prices.

Farm equity decreased 9.2 percent in 1986, falling to $526 billion. That was the sixth consecutive decline, with the 1986 level the lowest on record in nominal terms since 1976, and as low as the levels of the late 1960s when adjusted for inflation.

Table II

BALANCE SHEET OF THE U. S. FARMING SECTOR

(Billion dollars)

Item	1980	1981	1982	1983	1984	1985	1986F	1987F
Assets								
Real estate[1]	779.2	780.2	745.6	736.1	639.6	559.6	504	468
Non-real estate	224.0	225.0	232.2	220.4	216.5	211.9	198	195
Livestock and poultry	60.6	53.5	53.0	49.7	49.6	45.9	45	48
Machinery and motor vehicles	96.8	103.0	103.7	100.9	95.0	92.2	89	86
Crops stored	36.5	36.1	40.6	33.2	33.7	37.1	30	27
Financial assets	30.1	32.4	34.9	36.5	38.1	36.7	34	34
Total farm assets	1,003.2	1,005.2	977.8	956.5	856.1	771.4	702	663
Liabilities								
Real estate	87.9	97.2	101.2	103.7	102.9	97.3	89	86
Non-real estate	82.5	91.6	102.4	98.7	95.8	94.8	87	79
CCC loans	5.0	8.0	15.4	10.8	8.7	16.9	19	13
Other non-real estate	77.5	83.6	87.0	87.9	87.1	77.9	68	65
Total farm liabilities	170.4	188.8	203.6	202.4	198.7	192.1	176	165
Total farm equity	832.9	816.4	774.2	754.0	657.3	579.3	526	498
					Percent			
Selected ratios								
Debt-to-assets	17.0	18.8	20.8	21.2	23.2	24.9	25.1	24.9
Debt-to-equity	19.7	22.3	25.1	25.6	28.6	31.0	NA	NA
Debt-to-net cash income	497.7	576.1	553.0	545.5	505.8	436.2	NA	NA

[1] Excludes farm household.

F = midpoint of forecast range.

NA = Not available.

Source: U. S. Department of Agriculture, Economic Research Service.

Farm Credit Stabilizes

Farm credit conditions were steadier in 1986. Total debt shrank, both in the real estate and non-real estate categories. Several factors depressed debt levels including debt write-offs at financial institutions, debt paydowns by farmers with strong cash positions, and lower operating debt requirements of farmers participating in federal ARP programs.

Interest rates on farm loans fell sharply. According to the Federal Reserve's quarterly survey of the terms of bank lending, the rate of interest on non-real estate loans at commercial banks averaged 10.8 percent in November 1986, 4 percentage points below that reported in August of 1984, the most recent peak.

Farm loan delinquencies and chargeoffs at agricultural banks showed signs of stabilization in 1986. Although chargeoffs as a percentage of the total loans outstanding increased slightly in 1986 compared to 1985, delinquency rates appear to have peaked early in the year and then declined by year-end to a level below that of late 1985. In the fourth quarter, loan chargeoffs at agricultural banks also were down from a year earlier.

III. PROSPECTS IN 1987

Lower production expenses and large federal outlays will influence farm income again in 1987. Low market prices projected for crops in 1987 should increase USDA program participation, with a total of 65 to 70 million acres expected to be removed from production. This level of acreage reduction would be second only to that achieved in 1983 under the payment-in-kind program.

More emphasis will be placed on the longer-term retirement of land in 1987. This will be accomplished through the Conservation Resource Program (CRP). The CRP is similar to the ARP, but applies to highly erodible land and is effective for a lo-year term. Farmland enrolled under this program is expected to total 15 million acres but should impact little on crop supplies in 1987 as much of this land is of low productivity. A larger impact can be expected if enrollment grows to 40 million acres as expected by 1990.

If planted acreage is reduced by the amount currently projected in 1987, less farm production inputs will be required, further reducing production costs. Large participation would also increase government payments.

Cash Receipts May Fall Slightly

Total cash receipts for 1987 are expected to fall slightly to $130 billion, as crop prices and production continue to decline. Crop cash receipts, including net CCC loans, are projected to total $58 billion in 1987, $4 billion below 1986. Total livestock cash receipts will likely remain unchanged, at $71 billion, as higher production offsets generally lower prices.

Forecasters anticipate that increased farmer participation in federal programs and the carryover of payments owed from 1986 programs will increase government. payments in 1987.[2] Direct government payments may add $16 billion to farm income in 1987, up from the $12 billion paid in 1986.

Total production expenses are projected to fall about 4 percent this year. Production expenses for the crop sector will fall due to lower planted acreage, as well as to lower prices of seed, fuel, fertilizer and other inputs. Large reductions in planted acreage are anticipated as low market prices will encourage farmers to participate in government ARPs.[3]

Net farm income is forecast to rise in 1987 in nominal and real terms. The projected $32 billion of net income will represent an increase of $3 billion over the 1986 figure. Measured in 1982 dollars, net farm income in 1987 will increase by $1 billion, but will still fall short of incomes received in 1984 and 1985.

Farm Balance Sheet May Deteriorate Further

Despite a slight improvement in income, farmers' net worth will likely decrease by the close of 1987. Farm asset values will be generally weaker as the future income prospects remain uncertain. While higher farm income is expected in 1987, this income remains dependent on government payments. Uncertainty surrounding the continued receipt of high levels of direct government payments combined with weakness in the outlook for agricultural exports have made many potential farmland buyers wary of future farm income prospects. Weaker farm asset values have resulted.

The value of farm assets may fall another 5.5 percent in 1987, totaling $663 billion. As in 1986, a large part of the decrease is expected to be a result of lower farm real estate values. Non-real estate asset values may also fall slightly.

Liabilities will likely come down in 1987 with lower non-real estate debt accounting for most of the decrease. Total liabilities shown in Table II should decline by $11 billion, to $165 billion.

Farm equity will likely fall by $28 billion to a level of $498 billion in 1987, making it more difficult for farmers

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[2] Many USDA programs operate on a fiscal year or some other basis that does not correspond to a calendar year. Because of this, a calendar year could reflect overlapping payments from government programs.

[3] Government programs provide price supports to farmers in exchange for reduced plantings by farmers. When crop prices fall, participation in government programs usually rises as more farmers opt to receive higher government payments and agree to reduce production.

to borrow as their collateral shrinks. Thus, although lower interest rates have made debt service more affordable, shrinking equity has made credit expansion more difficult.

As shown in Table II, the debt-to-asset ratio, which had been rising for eight years, topped 25 percent in 1986 but is expected to fall to 24.9 percent in 1987-a level equal to that of 1985. A projected decrease in this key ratio is a welcome sign to the agricultural sector as it may reflect emerging stability in the equity position of farmers.

Trade Outlook Should Be Slightly Brighter

The dollar value of agricultural exports is not likely to rise in 1987. Lower domestic prices and a weaker dollar may push the quantity of exports up slightly from 1986 but the adverse revenue consequences of price weakness will likely outweigh any quantity increases, possibly lowering the value of exports from 1986's $26.3 billion to the $26 billion range.

Imports are expected to fall to $20 billion in 1987, a decrease of $900 million from 1986. The decline, due chiefly to lower coffee prices, would be the first in four years.

The agricultural trade surplus should widen slightly to $6 billion in 1987. Though improved from 1986's $5.5 billion, the trade surplus remains well below the peak level of $26.5 billion achieved in 1981. The continued low level of exports and relatively high level of imports holds little promise for reducing United States' grain stocks in the near term. It is encouraging, however, that the agricultural trade balance is now stabilizing after trending sharply downward during the early 1980s.

IV.
COMMODITY OUTLOOK

Commodity analysts attending the Outlook Conference discussed market conditions surrounding individual agricultural commodities in 1986 and expectations for 1987. A summary of their comments for some of the major commodities produced in the Fifth District is presented below.

Hogs

Low feed prices and strong retail pork demand widened margins considerably for pork producers in 1986. Nevertheless, total pork production fell about 6 percent from the previous year. Analysts normally expect high margins to quickly translate into increased hog production, but many pork producers are in poor financial condition due to weak profits over the last few years and this is limiting expansion ability. Analysts do expect moderate production increases to occur late in 1987 or early in 1988, however. For 1987, total commercial pork production is expected to total 13.8 billion pounds, 1 percent less than in 1986. Slaughter should be down about 5 to 7 percent in the first two quarters of the year as breeding stocks are held back and high returns encourage producers to overfeed. Strong production gains should appear in the second half of the year.

Cattle

Large supplies of competing meats, a reduction in dairy herd liquidations, and retention of breeding animals are likely to limit cattle production in 1987. Large poultry supplies are likely to constrain consumer demand for beef in 1987. At the start of the year cattle numbers were 4 percent below year earlier levels. Although overall slaughter rates were up 1 percent in late 1986, the slaughter of cows was down 6 percent and heifer slaughter was down 8 percent from a year earlier as producers began retaining breeding stock.

Total beef production will likely fall 5 to 7 percent in 1987, with the sharpest declines in cow slaughter. A tighter supply will help boost prices, with feedlot finished cattle rising to the $60s per hundredweight by spring. Further price increases will be difficult because of the abundance of competing meat supplies.

Poultry and Eggs

Higher production of poultry and eggs is projected in 1987. Low feed costs should widen margins to producers and boost output even in light of anticipated lower prices. Broiler production was 4.7 percent higher in 1986, with bird slaughter up 3.9 percent and slaughter weights 1.2 percent above 1985 levels.

Broiler production should increase about 6 percent this year, encouraged by higher prices of meat substitutes and additional demand arising from fast food outlets. Foreign demand for broilers was up sharply in 1986, and is expected to remain at those levels in 1987.

Turkey production rose 12 percent in 1986 with favorable margins encouraging expansion by producers. Large stocks of frozen turkeys on hand in addition to anticipated increases in production will likely lead to lower prices. Prices could be down as much as 6 cents per pound, probably ranging from 59 to 65 cents per pound in the first half of the year, then rising to 70 to 75 cents per pound in the second half as the holidays boost demand.

Egg production is expected to rise 1 percent in 1987 after increasing sharply in 1986. Producers may retain older laying hens longer as low feed costs provide wider margins. Average price per dozen eggs is expected to fall about 1 to 5 cents in 1987.

Tobacco

Production was sharply lower in 1986, down about 21 percent compared to the previous year. Additionally, carryover stocks were somewhat lower, reducing total supply about 8 percent, to 5 billion pounds. Lower prices prevailed despite lower supplies partly because quality was lower and partly because exports decreased.

Production should increase in 1987 as the effective production quota for tobacco increases by 5 percent. Prices should hold at their 1986 levels as normal weather increases quality and domestic consumption offsets declines in export demand.

Corn

Domestic usage is stagnant and export prospects are weak for corn in 1986/87. Usage expanded 20 million bushels in 1986/87 compared to normal annual growth of 80 to 100 million bushels. Exports for 1986/87 fell 9 percent, totaling 1.13 billion bushels. As a result, carryover stocks are at record levels, 5.8 billion bushels in 1986/87-surpassing the previous record of 4 billion bushels.

Corn prices have fallen 35 percent since the beginning of the 1986/87 marketing year. For 1986/87, corn prices are expected to average between $1.35 and $1.65 per bushel.

V. FOOD PRICES

As a final note, the paragraphs below review food prices for 1986 and present the outlook for 1987.

Modest increase in 1986...

Food prices rose only 3.1 percent in 1986, at about the same annual rate as over the last four years. The modest increase was the result of small increases in the components that influence food prices. Lower farm price supports limited the increases in the prices of many farm products. Lower inflation limited increases in both processing and transportation cost. Modest economic growth fostered a slightly lower unemployment rate and somewhat higher disposable income level causing strengthened consumer demand. Although the rise in the general level of food prices was modest, individual food categories exhibited a broad range of price changes.

Red meats and poultry showed stronger price increases than did food overall. Beef and veal prices fell over the first 5 months of 1986 as large supplies kept downward pressure on prices. Over the second half of 1986, beef liquidations eased and prices adjusted upward. But the yearly average price of beef rose less than 1 percent in 1986. Pork prices rose 7.5 percent in 1986 as production and stocks remained low throughout the year. Because buyers switched to cheaper substitutes, poultry benefited from increasing prices of beef and pork. Poultry also benefited from wider usage at fast food chains. Poultry supplies were reduced somewhat by extreme heat in the Southeast, which diminished weight gains and fertility rates. Retail poultry prices rose 6.4 percent in 1986. Demand for fish and seafood was strong in 1986 as domestic consumption reached a record high. This component of food prices showed the strongest gain in 1986, rising 9 percent.

The prices of dairy products were unchanged in 1986 as attempts to reduce surpluses did not affect consume] prices. The Dairy Termination Program (DTP) reduced dairy cow herds but not enough to raise prices of milk and other dairy products in 1986.

Cereal and vegetables showed only slight price increases in 1986. Grain supplies were abundant because the domestic harvest was large and export sales relatively small. The resulting lower grain prices had only a small impact on the cost of cereal and bakery products because processing and marketing costs dominate the retail price:. Cereal and bakery product prices rose about 3 percent in 1986.

Fresh fruit and vegetable supplies were higher in 1986. Citrus production was strong as trees damaged by cold weather several years ago began to recover. Vegetable price increases were dampened by a large potato harvest in late 1985, leading to large supplies carried over into 1986. Fresh fruit prices rose 2.3 percent and vegetable prices 3 percent in 1986. Processed fruit prices were down 2.9 percent in 1986 due to lower frozen orange juice prices. Processed vegetable prices were unchanged.

... And Again in 1987

For 1987, food prices are again expected to increase about 3 percent. As was the case in 1986, stronger price increases will likely occur in food consumed away from home while price increases in food consumed at home will be more modest.

The farm value of meats is again expected to exceed increases in grain and vegetable prices in 1987. Beef and pork prices are expected to rise 5 and 4 percent, respectively, as supplies are expected to be below 1986 levels. Rapid expansion of poultry production should lead to slightly lower prices at the retail level.

Strong consumer demand for fish and seafood will likely continue in 1987, driving prices up another 7 to 10 percent. The prices of imported foods, especially coffee, should rise only moderately, averaging 1 percent higher.

The prices of dairy foods are expected to be unchanged to slightly higher. Supplies are expected to be little changed despite dairy herd reductions. Fruit prices will probably remain level, while vegetable prices are projected to rise 7 to 10 percent. A smaller supply of potatoes and vegetables is expected in 1987 as producers reportedly intend to reduce acreage planted. With low inflation and low grain prices expected, cereal product prices should rise only modestly.

Consumer demand for food should be slightly higher in 1987 if economic growth is somewhat stronger than in 1986. Such demand expansion would place some upward pressure on prices. On the other hand, a continued low rate of inflation would limit upward price movements in the labor, processing, packaging, and distribution components of retail food cost.