AGRICULTURAL SUMMARY AND OUTLOOK

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After deteriorating rapidly in the early 1980s, the financial condition of agriculture leveled off by the middle of the decade. Since then, most measures of the sector's financial condition have strengthened. In 1987, total farm income was higher and production expenses were lower than in the previous year. The improved financial condition of farmers was also apparent in the expanded equity position of their balance sheets, which resulted from a combination of increased asset values and reduced debt burdens.

The turnaround in the agricultural sector was discussed recently at the annual Outlook Conference sponsored by the United States Department of Agriculture (USDA) in Washington, D.C. There, analysts from the public and private sectors assessed the current condition of agriculture and gave their views of its future. Most analysts at the conference believed that the recent financial turnaround was likely to be the start of a longer-term economic improvement for U.S. agriculture. What follows summarizes their consensus view.

World Supply and Demand

Conference analysts cited tightened world supply and demand conditions for agricultural products as a primary reason for an improved farm income picture. Worldwide grain production fell short of consumption of some commodities in 1987, leading to reductions in carryover stocks. Worldwide production was lower due to fewer planted acres and lower yields for some grains. Lower planted acreage resulted from larger acreage set-asides in the United States and the withdrawal of some crop land in other nations. Crop yields held up well in the United States in 1987, but dry weather and storm damage curtailed yields in some other parts of the world.

While production was lower, world coarse grain usage rose in 1987 as the expansion of meat production raised feed usage. Wheat consumption was flat and rice usage was down slightly. Oilseed production matched usage.

World red meat and poultry production rose 1 percent in 1987. Consumption increased by a similar amount so that carryover stocks were unchanged.

The U.S. Agricultural Trade Position

One of the most encouraging developments of 1987 was the rebound in agricultural exports. The total value of agricultural exports rose to $27.5 billion in 1987, an increase of over $1 billion from 1986. The volume of agricultural exports rose by 20 million metric tons to 129.2 million metric tons. Both wheat and corn exports rose sharply, although lower prices dampened increases in export values. Increased crop sales were primarily responsible for the higher export value, but additional meat and horticultural exports accounted for about 40 percent of the value increase. The increase in value for agricultural exports was the first since 1980, when a peak value of $43.8 billion was reached. The value of agricultural imports fell $875 million in 1987 to $20.0 billion. The decrease was the first since 1981/82.

A higher value of exports combined with a lower value of imports to widen the 1987 agricultural trade surplus to $7.2 billion, almost $2.0 billion above the 1986 figure. While improved from 1986, the trade surplus nevertheless remains low by historical standards. As recently as 1981, the agricultural trade surplus stood at $26.5 billion.

Farm Income

Analysts from USDA reported that farm cash income totaled about $57 billion and net farm income reached about $45 billion in 1987. As shown in Table I, the income measures were boosted by higher cash receipts from the sale of livestock, record levels of government payments, and lower production expenses (lines 1, 2, and 7). Farm production expenses fell in 1987 primarily due to decreased usage of crop inputs and lower costs for feed used by livestock producers. After adjusting for inflation, net farm income reached a record level in 1987.

Crop sales were buoyed by larger than expected domestic usage and exports. A total of 129.2 million tons of grains moved out of U.S. ports in 1986/87 compared to just 109.5 million tons in 1985/86. The higher tonnage figures translated into a higher world market share for U.S. agricultural products. Lower prices, a weaker dollar, and government export

Table I

FARM INCOME STATISTICS

(Billions of dollars)

Item	1981	1982	1983	1984	1985	1986	1987F	1988F
1. Farm receipts	144.1	147.1	141.1	146.7	149.2	140.2	137	138
Crops (incl. net CCC loans)	72.5	72.3	67.1	69.4	74.4	63.6	58	62
Livestock	69.2	70.3	69.4	72.9	69.8	71.6	74	71
Farm related[1]	2.5	4.5	4.5	4.4	5.0	5.1	5	5
2. Direct Government payments	1.9	3.5	9.3	8.4	7.7	11.8	17	15
Cash payments	1.9	3.5	4.1	4.0	7.6	8.1	9	7
Value of PIK commodities	0.0	0.0	5.2	4.5	0.1	3.7	9	8
3. Total gross farm income (4+5+6)[2]	166.3	163.5	153.1	174.7	166.0	159.5	163	162
4. Gross cash income (1+2)	146.0	150.6	150.4	155.1	156.9	152.0	155	153
5. Nonmoney income[3]	13.8	14.3	13.5	13.4	11.8	10.8	10	8
6. Value of inventory change	6.5	−1.4	−10.9	6.2	−2.7	−3.3	−1	1
7. Cash expenses[4]	113.2	112.5	113.3	116.3	109.6	100.1	97	99
8. Total expenses	139.4	140.0	140.4	142.7	133.7	122.1	118	118
9. Net cash income (4−7)	32.8	38.1	37.1	38.8	47.3	52.0	58	52.5
10. Net farm income (3−8)	26.9	23.5	12.7	32.0	32.3	37.5	45	42.5
Deflated (1982$)	28.6	23.5	12.2	29.7	29.1	32.9	39	36
11. Off-farm income	35.8	36.4	37.0	38.3	42.5	44.7	48	49
Loan changes:[5]								
12. Real estate	9.4	4.0	2.5	−0.8	−5.6	−7.3	−6	−6
13. Non-real estate	6.2	3.4	1.0	−0.8	−9.2	−10.5	−9	−5
14. Rental income plus monetary change	6.4	6.3	5.3	8.9	8.8	7.8	7	8
15. Capital expenditures[5]	16.8	13.3	12.7	12.5	9.6	8.6	7	8
16. Net cash flow (9+12+13+14−15)	37.9	38.4	33.6	33.6	31.6	33.4	44	42.5

[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.

F = midpoint of forecast range.

Note: Totals may not add due to rounding.

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

subsidies were, in part, responsible for the increase in export usage. A second factor spurring crop sales was increased domestic usage for livestock. Domestic grain sales were boosted by low feed prices and increased livestock production in 1987.

The net effect of generally lower grain prices dominating higher grain usage was a reduction of crop cash receipts in 1987. Cash receipts totaled just $58 billion, down from the 1986 total of $63.6 billion.

Livestock cash receipts were up moderately in 1987, as higher production and strong prices coincided. Strong demand for meat led to expanded production and generally higher prices for producers. Livestock cash receipts rose to a record $74 billion in 1987, up from $71.6 billion in 1986. Direct government payments totaled $17 billion in 1987 compared to $11.8 billion in 1986. Both figures are large by historical standards. As recently as 1981, direct government payments were only $1.9 billion.

Total farm production expenses fell in 1987. Cash expenses were pressured downward by reduced crop plantings by farmers attempting to qualify for government price support programs. Cash expenses totaled $97 billion in 1987, down $3 billion from 1986.

Balance Sheet

Farmers' total equity, as shown in Table II, rose in 1987 for the first time in the 1980s. Stable to slightly higher farm real estate values (line 1) and lower farm debt burdens (line 10) contributed to the increase.

The value of farm real estate peaked at $785 billion in 1981 but then declined steadily to $510 billion in 1986. According to the Department of Agriculture estimates, this decline was reversed in 1987 when the total value of farm real estate rose to $530 billion. Improved farm income prospects and lower interest

Table II

BALANCE SHEET OF THE U. S. FARMING SECTOR

Item	1981	1982	1983	1984	1985	1986P	1987F
				$ billion			
Assets							
1. Real estate[1]	784.7	748.8	739.6	639.6	558.9	510.1	530
2. Non-real estate	212.0	212.2	205.4	208.9	191.2	181.5	179.5
3. Livestock and poultry	53.5	53.0	49.7	49.6	46.3	47.6	48.5
4. Machinery and motor vehicles	101.4	102.0	100.8	96.9	87.7	80.4	76
5. Crops stored[1]	29.1	27.7	23.7	29.6	23.1	18.4	19
6. Financial assets	28.0	29.5	31.3	32.8	34.2	35.0	36
7. Total farm assets	996.7	961.0	945.0	848.5	750.1	691.6	709.5
Liabilities							
8. Real estate[2]	98.7	102.5	104.8	103.7	97.7	88.1	83
9. Non-real estate[3]	83.6	87.0	87.9	87.1	77.5	66.8	58
10. Total farm liabilities	182.3	189.5	192.7	190.8	175.2	155.0	141
11. Total farm equity	814.4	771.5	752.3	657.7	574.9	536.6	568.5
				Percent			
Selected ratios							
12. Debt-to-assets	18.3	19.7	20.4	22.5	23.4	22.4	20
13. Debt-to-equity	22.4	24.6	25.6	29.0	30.5	28.9	25
14. Debt-to-net cash income	556	497	519	492	370	298	245

[1] Non-CCC crops held on farms plus value above loan rates for crops held under CCC.

[2] Excludes debt on operator dwellings, but includes CCC storage and dryng facilities loans.

[3] Excludes debt for nonfarm purposes.

P = preliminary

F = midpoint of forecast range.

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

rates may have assisted the rebound. While the 1987 increase in farmland value is not large in percentage terms, it accounts for the rise in total farm asset values from $692 billion in 1986 to around $710 billion in 1987.

Farm liabilities were lower in both the real estate and non-real estate categories in 1987. Lower debt loads resulted from loan paydowns by farmers with available cash and further farm debt writedowns by financial institutions. Real estate liabilities fell an estimated $3 to $7 billion to about $83 billion and non-real estate liabilities declined $8 to $10 billion to about $58 billion.

Total farm equity reached an estimated $568 billion in 1987, up from $537 billion the year before. While far short of the $829 billion equity peak reached in 1980, the 1987 figure is encouraging: stabilization in the farm balance sheet is one of the most important developments of 1987.

OUTLOOK FOR THE FARM SECTOR IN 1988

Trade

The outlook for agriculture in 1988 bears some similarities to the summary for 1987. A primary similarity is that agricultural trade should continue to improve. Agricultural exports are projected to reach $31 billion in 1988, up sharply from last year's $27.9 billion. The higher export value is anticipated to result from a combination of increased volume and higher prices. Export volume is expected to reach 137.0 tons in 1988, up from 129.2 tons in 1987. Volume growth should be centered in larger quantities of grains and cotton. Demand for these commodities will be helped by the Export Enhancement Program that subsidizes U.S. agricultural exports to qualifying purchasers. Higher prices are anticipated in grains, cotton, and soybeans as world supply tightens relative to demand.

Imports of agricultural commodities are expected to remain level or decline slightly. In 1987, $20.6 billion of agricultural commodities were imported into the United States. The Department of Agriculture is forecasting this value to fall to $20.5 billion in 1988.

Income

Farm income prospects are bright in 1988. Net farm income is projected to range between $40 and $45 billion, only a little below the record $45 billion of 1987. Total government payments are likely to contribute significantly to net income in 1988, accounting for about $13 billion. Production expenses should remain about even with 1987.

Balance Sheet

If all goes as predicted, the farm balance sheet should be stronger by the end of 1988. Asset values are projected to rise further provided farmland values increase in response to strong farm income prospects, as most analysts believe they will. Further, debt reductions are anticipated as farmers pay down more of their existing debt and financial institutions continue to charge off some of their uncollectible farm loans.

Farm Policy

The provisions of the 1985 Farm Bill remain in effect in 1988. Under these provisions, farmers will continue to operate under programs which provide crop price supports in exchange for reduced plantings. Smaller crop plantings should reduce production and pressure crop prices upward. Since direct government payments are the difference between the target and actual market prices farmers receive, rising grain prices should reduce the differential and thus also direct government payments.

Livestock producers will also feel the effects of these government programs. Such programs, which push grain prices up, affect livestock producers' profit margins. Rising grain prices, for example, translate into higher feed costs, which reduce the profit margins of livestock producers.

The cost of farm policy has risen dramatically in recent years. While USDA expects these costs to fall somewhat in 1988, they still will remain high by historical standards. The increasing concern over the federal budget deficit has focused attention on farm program outlays and many analysts warn that the current expenditures may be subject to reductions in the next several years.

Food Prices

Conference analysts look for only modest food price increases in 1988. Stronger grain prices will place some upward pressure on cereal-based foods, but expected expansion in meat production and only slight increases in the prices of fresh fruit and vegetables should limit the overall increase in food prices.

Nonfarm factors, including processing, packaging, and distribution costs should show only modest increases in 1988. The net effect of farm and nonfarm influences on food prices should be a 2 to 4 percent increase.