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AGRIBUSINESS POLICY AND OUTLOOK FOR 1989

Department of Agricultural Economics and Rural Sociology
The Ohio State University

SLIDE 1: 1989 ECONOMIC POLICY AND OUTLOOK FOR AGRIBUSINESS

A. A new approach this year

1. Expanded teaching team
2. A "new look" outlook guide
3. Exciting visuals
4. Lousy jokes (except mine, of course), and
5. The best of the department's thinking on what's ahead for:
 - * agriculture in a changing world food system
 - * public policy and how it affects the economy, trade and agriculture
 - * farm income, production expenses and financial conditions
 - * agricultural trade and competition with Brazil, Argentina and Mexico
 - * milk and eggs
 - * meat, poultry, cattle and hogs
 - * corn, soybeans and wheat

B. But, you still have to take the exam!

SLIDE 2: 1988 PRICE FORECASTS

A. Here's our record from last year

B. Major errors:

- missed the extent to which prices would actually increase for soybeans, corn and beef

C. Grade point average = B+

- room for improvement
- that's why we called in all of the "heavy hitters" this year

WORLD FOOD SYSTEMS: A NEW PERSPECTIVE ON AGRICULTURE

by

Norman Rask and Dennis Henderson

Agricultural Economists, The Ohio State University

QUESTION 1--The U.S. exports mostly corn, wheat and soybeans because we haven't learned how to sell meat, bread, and other processed foods in international markets.

SLIDE 3: WORLD FOOD SYSTEMS: A NEW PERSPECTIVE ON AGRICULTURE

- A. We will start this year's program by discussing some of the changes that have taken place in the role of American agriculture in world markets
- B. This sets the stage for up-coming discussions on policy and trade
- C. The purpose is to broaden your perception of how our farms and agribusinesses are affected by what goes on around the globe
 - * We tend to be more familiar with the consequences of global change in the food system than with the underlying causes

SLIDE 4: FOOD SYSTEM DYNAMICS

- A. Numerous global events are evident:
 - Western Europe - from market to competitor
 - New markets in the Pacific Rim
 - Tropical country competition - Brazil in soybeans
 - EEP - \$1 bil. - market share not fully regained
 - Increased exports of high value commodities
- B. These changes are harbingers of increasing global interdependence in food and agriculture
 - * A key question is: "Why are they happening?"
- C. First we will look at how these types of changes affect the general nature of our export business
- D. Then, we will turn to the question, "what are the driving forces behind the these changes?"
- E. Finally, we will examine some of the implications of these global changes on:
 1. American farmers
 2. Agribusinesses and other food-related firms
 3. Public policy

SLIDE 5: U.S. AGRICULTURAL EXPORTS

- A. The trend in exports demonstrates the changing and uncertain nature of foreign markets for basic agricultural commodities (green line)
- B. In comparison, the trend in high-value and value-added agricultural exports (red line) demonstrates:
 - 1. less volatility and uncertainty
 - 2. the potential for greater market opportunities in the future
- C. Let's look at some of the reasons for these divergent trends in food and agricultural exports

SLIDE 6: U.S. FOOD AND AGRICULTURAL EXPORTS

- A. Trends in food and agricultural exports are different for countries at various stages of development
 - 1. Here, we have divided the world into three groups of countries, based on their stage of economic development
 - 2. These divisions are strongly related to average income levels
 - * EICs--Established Industrial Countries--relatively high incomes
 - * NICs--Newly Industrialized Countries--medium to high incomes
 - * NONs--Non-industrialized Countries--very low incomes
 - 3. We will characterize these groups of countries in a few minutes
- B. U.S. exports of food and agricultural products (on a value basis) demonstrate the linkage between economic development and trade in:
 - 1. basic agricultural commodities (green bars)
 - * over time, more important to the NONs, less important to the NICs, EICs
 - 2. high-value and value-added food products (orange bars)
- C. As development progresses in both the NICs and the EICs, U.S. exports are increasingly high-value and value-added products
- D. For the NONs, trade is more heavily weighted toward basic commodities

SLIDE 7: ECONOMIC DEVELOPMENT AND FOOD SYSTEMS

- A. Let's examine in more detail these three groupings of countries

1. EICs (green) - established industrial countries - predominantly temperate, northern hemisphere countries of North America and Europe, plus Oceania
 2. NICs (red) - newly industrialized countries - Predominantly Latin America, Southeast Asia, and the oil economies of Northern Africa and the Middle East. and
 3. NONs (yellow) - non-industrialized countries - Most of Africa, Southern Asia and China
- B. In terms of development, the:
1. EICs - are well established
 2. NICs - are still evolving
 3. NONs - have yet to start
- C. While there are often substantial differences between countries in each group, there are important commonalities within each of these three categories that help us understand the dynamics of global food system interdependencies

SLIDE 8: GLOBAL FOOD SYSTEMS

- A. Over one-half of the world population resides in non-industrial countries
- * Population growth rates are generally very high, especially in Africa, though the average is held to 2.0% because of strong efforts to control population growth in China (1.4%) and India (1.8%)
- B. The remaining two fifths of the world population is divided equally between the NICs and the EICs
- * Low rates of population growth achieved primarily in established industrial countries and more advanced NICs
- C. Income per capita is very low (under \$400 per year) for most people of the world (NONs)
- * Income growth, however, when it occurs is a principal change driving the dynamics of food interdependency. This is evident in the newly industrialized countries where income per capita varies from \$1,000 to \$10,000
- D. The dynamics of income growth are evident in the dramatic differences in per capita food consumption and production (measured in grain equivalents) between these groups of countries
1. Both production and consumption increase at least 5 times (per capita) as countries pass through the development process

2. These increases in per capita food consumption (grain-equivalents) come largely from changes to diets rich in livestock products
 - * requires large amounts of feedstuffs
3. On balance it appears that:
 - * NONs are largely self-sufficient in food
 - * NICs are deficit food producers, and
 - * EICs are surplus food producers
4. This development - food self-sufficiency relationship helps explain differences in the organization of the food industries in each of these groups of countries
5. In turn, differences in food industry organization help explain the changing interrelationships between American farmers and others in the global food system

SLIDE 9: GLOBAL FOOD SYSTEMS

- A. One significant difference is the extent to which the food systems in these groups of countries is industrialized
 1. the EICs have 70-75% of their food system in non-farm industries-- essentially processing and distribution
 2. for the NICs, farming actually accounts for slightly less of their food system than in the EICs
 - * reflects the constraints on agricultural resources, mainly cropland, and the abundance of labor for food processing in many of these countries
 3. NONs rely on farm production for most of their food supply
 - * do relatively little value-adding beyond the farm gate
 - * a large share is consumed on farms and never reaches the farm gate
- B. Industrialization is the process of specialization in work roles, which allows resources to be used more efficiently, and thus is an integral part of the process of economic development

i.e. separation of chemical production for weed control from crop production, in turn separated from cattle feeding, in turn separated from slaughtering, meatcutting, boxing, cooking, etc.
- C. Interdependence is the "flip side" of specialization

* implies a loss of independence in economic activity

SLIDE 10: INDEPENDENCE

- A. In the parlance of the American farmer, independence means produce first, then find someone who wants what was produced

SLIDE 11: INTEGRATION

- A. Interdependence means economic integration, that is, organizational coordination over separate but interdependent activities
1. many forms of economic integration between farms and other in the food system
 2. not limited to common ownership, or even production contracts
 3. includes implicit marketing agreements and private treaties, e.g.
 - * delivering 300 head of "your type" of hogs to the same packer every Monday morning in exchange for a price that is "\$1 over the market", or
 - * feeding a pen of cattle in accordance with the wishes of a packer-buyer who visits the feedlot regularly, or
 - * raising a certain variety of soybean in exchange for a commitment for a price premium from a Japanese importer
- B. In the parlance of an industrialized food system, integration means sell first, then produce what the market demands
- C. As incomes increase, people consume:
1. more value-added foods
 2. less basic agricultural commodities
 3. relatively more foods that require a coordinated farm and food system
- D. For countries that have not yet started the process of industrialization and economic development, food consumption is more heavily weighted toward basic, low value commodities
1. in essence, these countries provide a residual demand for basic commodities
 2. that residual demand fluctuates with changes in:
 - local agricultural production

--availability of foreign exchange, credit, other macro-economic factors

- E. For farmers who want to be independent producers of basic commodities, the NONs--with all their uncertainties--are becoming the primary market

SLIDE 12: THE GLOBAL CHALLENGE TO U.S. FOOD SYSTEM

- A. This perspective presents many challenges for the U.S.
- B. Farmers must cast off the "produce first, then sell" mentality and with it their reliance on basic commodity markets
- C. Agribusiness and food firms must become more aggressive in applying their organizational, product development, and merchandising skills in foreign markets
- D. Public policy must become at least as concerned with trade barriers on value-added food products as it is with the multilateral elimination of price and income supports for basic farm commodities

ANSWER--DISAGREE

SLIDE 13:

PUBLIC POLICY: MACROECONOMICS, TRADE, AND AGRICULTURE
 by
Luther Tweeten
Agricultural Economist, The Ohio State University

QUESTION 2--With normal weather in 1989 and subsequent years, agriculture will be back to the large surpluses and extensive government involvement characterizing the mid-1980s.

SLIDE 14: PUBLIC POLICY

SLIDE 15: THE GENERAL ECONOMY

- A. Economic vital signs of the U.S. economy mostly strong in 1988. Economy at full employment
- B. For the 1989 U.S. economy, predictions call for:

SLIDE 16: PERCENT ANNUAL GROWTH IN GNP

Real GNP to increase 1.9 to 3.3 percent per year with a "best guess" of 2.5 percent. Compares to GNP growth of just over 3 percent in 1987 and 1988, hence modest slowing forecast

- 2. Inflation to average near 5 percent, partly because of lingering effect of drought. Most of drought effect was in 1988, when the drought increased:
 - a. Farm prices nearly 15%
 - b. Food prices less than 5%
 - c. CPI (Consumer Price Index) for all commodities less than 1%
 (food prices and CPI went up more but for other reasons)
- 3. Unemployment to average less than 6 percent

C. Some imbalances that could bring on recession include:

SLIDE 17: THE TWIN DEFICITS

Federal budget deficit (\$155 billion in 1988) and trade deficit (\$140 billion) are not sustainable but doing something about them could slow the economy

- 2. Business downturns sometimes follow Presidential elections
- 3. Other

- a. Some industries operating near capacity
- b. Some labor shortages appearing
- c. Many consumers and businesses are overextended with debt
- d. Drought, underlying wage inflation cause price pressure
- e. Federal Reserve could tighten credit to stop inflation but less than 40 percent chance of recession in 1989

SLIDE 18: AGRICULTURAL TRADE

A. U.S. farm export rebound in 1987 and 1988

- 1. One-third gain in volume exactly equaled proportion lost from 1981 to 1986

SLIDE 19: THE EC-12 AND JAPAN ARE MAJOR EXPORT MARKETS

Export gains broad-based among countries

SLIDE 20: VALUE OF FARM EXPORTS IN FISCAL 1987 AND 1988

Export gains broad-based among commodities. Gains large for soybeans, feed grains, and wheat, our largest exports. But, over the years, high-value commodities such as processed foods, livestock and livestock products, and horticultural commodities have made gains

B. Sources of export gains from 1986 to 1988:

- 1. More competitive U.S. prices including export assistance programs
- 2. Lower dollar
- 3. Strong economic growth abroad; exception is Subsahara Africa and Latin America experiencing debt crisis
- 4. Weather and administrative decisions

C. Export volume will decline in 1989 due to drought

D. Long-term export prospects. Three percent annual overall gain likely in 1990s, but rate could average 5 percent for aggregate U.S. farm exports

E. In 1990s, over half of farm exports will be:

- 1. In high-value commodities
- 2. To Asia

3. To less developed countries

SLIDE 21: FARM POLICY

- A. Drought and strong export demand have reduced government profile in agriculture
 1. Direct payments down
 2. Government commodity program expenditures down

SLIDE 22: EXCESS CAPACITY AS PERCENT OF FARM OUTPUT

Excess production capacity down

SLIDE 23: DISPOSITION OF EXCESS CAPACITY IN 1987

Acreage diversion nearly equaled inventory change in 1987. That means that to maintain stocks, acreage diversion must be small if other programs are retained. Combination of slower productivity growth, higher export growth to service debt, and reduction of excess capacity could mean better times for agriculture in the 1990s than in the 1980s

SLIDE 24: CCC NET OUTLAYS

The cost of commodity programs to the government has been cut in half since 1986, making programs more politically acceptable

- B. Debate beginning on 1990 farm bill
 1. Current bill working with help of drought
 2. Incoming President faces strong pressures to cut agriculture budget
 3. Congress could view 1990 as unique opportunity for market orientation
 4. Or Congress could view 1990 as good opportunity for cheap increase in supports
 5. Democrats and Republicans will differ in policy but mostly in degree, not substance
 6. Neither party will extend mandatory controls
 7. Likely reforms -
 - i. More flexibility to plant soybeans
 - ii. Protection of groundwater
 - iii. Gradual reduction in target prices?

FARM INCOME, PRODUCTION COSTS AND FINANCIAL SITUATION

by

Warren F. Lee

Agricultural Economist, The Ohio State University

SLIDE 25: NET INCOME

QUESTION 3--The 1988 drought caused a sharp drop in farm income.

- A. The much publicized drought of 1988 will have no perceptible impact on U.S. farm cash income
1. Net cash income (red line) in 1988 will be about the same as last year's record high \$57 billion
 2. Net farm income (green line) an accrual measure which accounts for inventory changes and other noncash items such as depreciation, and income-in-kind (rental value of farm dwellings, home consumption of farm products, etc.) will be \$40 billion, down from \$46 billion in 1987
 3. This pattern (lower net farm income but relatively stable net cash income) is typical in a drought year (see 1980 and 1983). Lower yields are offset by higher grain prices, liquidation of inventories and higher livestock culling rates

SLIDE 26: GROSS FARM INCOME

- A. Crop receipts (in blue) for 1988 will be \$67 billion up from \$62 billion in 1987
- B. Livestock receipts (in red) in 1988 will be \$78 billion, or \$2 billion above 1987
- C. Government farm program payments (in green) will be lower than expected because grain prices are up; however, there will be \$4 billion in Disaster Assistance Program payments, so total government payments in 1988 will be \$16 billion which is nearly the same as 1987
- D. Other receipts (in orange) include farm related income (machine hire, custom work, forest products sales, etc.), income-in-kind, and inventory changes which can be + (increase) or - (decrease). Inventory change for 1988 will be -\$7 billion (i.e. a \$7 billion decrease in inventories) compared to a \$1 billion decrease in 1987. Farm related income and income in kind will be \$15 billion in 1988, the same as 1987
- E. When we add all of these cash and noncash items together, we get a total gross farm income of \$170 billion in 1988, which is about the same as 1987

SLIDE 27: FARM PRODUCTION EXPENSES

- A. Farm origin inputs (feed, seed and feeder livestock, shown in blue) will total \$35 billion in 1988, up from \$31 billion in 1987. This is a drought-driven increase in feed and seed costs
- B. Manufactured input expenditures (fertilizers, fuels, electricity, pesticides, shown in red) will total \$17.5 billion in 1988, up by \$1 billion over 1987, but still well below the 1982 peak of \$24 billion
- C. Interest expense (yellow) of \$14.5 billion in 1988 is down again for the sixth year in a row. In 1982, when farm debt and interest rates were both much higher, interest expense was a record \$21.8 billion
- D. Other operating expense (orange) which includes repairs, contract & hired labor, machine hire and custom work, marketing, storage, transportation & misc., will be \$31.5 billion this year, with little change in this category over the past 8 years
- E. Capital consumption or depreciation (in purple) will be \$17.5 billion in 1988, slightly higher than in 1987, but far below the \$24 billion annual average in the early 1980's. Why? Because farmers have drastically cut capital outlays since the early 1980's. They are now spending \$8 to \$9 billion per year on machinery, equipment etc. compared to \$20 billion per year in the late 1970's and early 1980's. Their stock of farm machinery and equipment is now valued at \$74 billion, compared to over \$100 billion 5 years ago. Capital consumption expenditures are probably approaching their low point and will turn upward after 1990. You cannot live on depreciation forever!
- F. Other overhead expenses (taxes, insurance, etc., shown in green) have been fairly level at about \$12 billion per year since 1980
- G. When you add them all up, total farm production expenses will be \$128 billion in 1988, up from \$123 billion in 1987, but still well below the \$142 billion recorded in 1984

Farm production expenditures will rise sharply to the \$134-136 billion range in 1989 because:

1. Reduced set-aside acres will increase the amount of inputs used, and
2. With one or two exceptions, the per unit prices of farm inputs are rising

SLIDE 28: PRICES PAID AND RECEIVED

- A. Some indication of input price trends is given by the USDA's index of prices paid (IPP) which is shown here for July 1988, along with the indexes of prices received (IPR) for crops and livestock/livestock products, all on a 1977=100 base. As of July, 1988:

1. IPR (crops) = 136

2. IPR (livestock) = 147
 3. IPP (all inputs) = 168
- B. Since 1977 prices paid have gone up more than prices received. Prices received for livestock and products have been relatively constant at 40-50% above 1977. Prices received for crops have been highly variable and in the two years prior to the 1988 drought, only slightly above the 1977 levels

SLIDE 29: PRICES PAID: SELECTED ITEMS

- A. Here are PPI trends for a few of the more important farm inputs since 1980, with forecasts for 1989. Notice the stable or slightly downward trends for most items in 1983-87, slight increases this year and even larger increases next year. The PPI-feed is lower for 1989 because the PPI-feed for 1988 is for July when feed grain prices were overstated due to the drought panic. Nevertheless, feed prices will be much higher in 1989 than in 1986-87

SLIDE 30: FARM AND NONFARM INCOME

- A. Here we are showing (in blue) net farm income, the accrual measure incorporating cash and noncash items and income-in-kind. Recall that it will be \$40 billion in 1988 down from \$46 billion in 1987
- B. Off-farm income (in orange) will be nearly \$50 billion in 1988 compared to \$47 billion in 1987. So farmers receive more income from off farm sources than they do from their farms. Also notice that off-farm income grows at a fairly constant rate over time, compared to the ups and downs in net farm income.
- C. The white line shows net farm plus off-farm income adjusted to the purchasing power of 1982 dollars. The inflation adjusted figure for 1988 is \$73 billion, down from the record high \$79 billion in 1987. So despite the worst drought in over 50 years, when farm and nonfarm income are considered, U.S. farmers are having one of their best years ever
- D. It is important to note that these aggregate income figures mask wide variations in the impacts of a drought on individual producers. Those with near normal yields or sizeable beginning inventories are enjoying an unusually profitable year. Others with greater than average production losses and low inventories will have sharply lower earnings which will be only partially offset by Disaster Assistance Program payments and crop insurance indemnities

SLIDE 31: FARMLAND VALUES IN THE EASTERN CORNBELT

- A. The long slide in farmland values that began in 1981 appears to be over, at least for now
1. U.S. farmland values rose 3% between Feb. 1, 1987 and Feb. 1, 1988

2. In Ohio, land values rose 5% to \$991, still far below the 1981 peak of \$1831
3. Similar increases were recorded in Indiana and Illinois. In Iowa, land values shot up 19%
4. Farmland values have continued to decline in the Mountain, Pacific and Southern Plains states
5. The drought may have temporarily depressed land prices in some severely affected local markets; however, land values have increased another 2-4% in 1988

SLIDE 32: FARM ASSETS

- A. Since farm real estate constitutes three-quarters of farm assets, the recent increase in land values is reflected in a similar trend in total assets
 1. The market value of all farm sector assets is \$725 billion as of year-end 1988, up \$15 billion from a year earlier and \$33 above 1986
 2. Farm real estate is now worth \$539 billion, down from a year end 1981 peak of \$785 billion
 3. Nonreal estate assets are now worth \$186 billion, down from the 1982 peak of \$212 billion

SLIDE 33: NONREAL ESTATE FARM ASSETS

- A. There has been much publicity about declining land values but we also need to look at the decline in nonreal estate farm assets
 1. Since 1982, the value of farm machinery (in blue) has fallen from \$102 billion to \$74 billion. Farmers have been buying very little machinery so they have been living on depreciation
 2. Since 1983-86, the value of livestock and poultry (in red) has increased from less than \$50 billion to \$61 billion
 3. The value of stored crops (in yellow) is now \$16 billion, less than half the 1980 value
 4. The value of financial assets (in purple) -- mostly bank deposits and their investments in cooperatives -- have risen slowly but steadily since 1980

SLIDE 34: FARM SECTOR DEBT

- A. Farm sector debt is now \$140 billion, \$50 billion below the year-end 1983

peak of \$193 billion. Loan charge-offs represent less than one-third of this decline

SLIDE 35: FARM SECTOR BALANCE SHEET

A. Here we see the large drop in farm asset values and the smaller decline in farm debt, but things appear to be turning around

1. Farm sector equity is now \$585 billion -- which is nearly 10% above the year-end 1986 low
2. The debt-to-asset ratio is below 20% again for the first time in 6 years

SUMMARY OUTLOOK FOR 1989

1. Total cash receipts will be about the same as 1988 but inventories will be replenished. Gross farm income: \$175-180 billion
2. Increased use and higher unit prices of inputs will push farm production expenditures up sharply: \$134-136 billion
3. Net farm income: \$39-46 billion with increases in inventories favoring the mid-to upper side of this range
4. The value of farm assets will rise to \$740-750 billion. Farm debt will rise slightly to \$145-150 billion

ANSWER 3--DISAGREE

SLIDE 36:

BRAZIL, ARGENTINA, AND MEXICO: PROSPECTS FOR AGRICULTURAL TRADE
by

Norman Rask
Agricultural Economist, The Ohio State University

QUESTION 4---Farmers in the Argentine Pampas, the Brazilian Cerrado and the U.S. Cornbelt are strong competitors because they have similar production conditions.

SLIDE 37: LATIN AMERICA (map)

- A. Brazil, Argentina, and Mexico are the three largest countries in Latin America
1. Together, they contain over one-half of the land area in Latin America, over three-fourths of the cropped area, and more than 60% of the people
 2. Compared to the U.S. they have twice as much land, the same area under crops (though they have substantially more permanent crops and correspondingly less annual crops), the same area of permanent pasture and 10% more people

SLIDE 38: POPULATION, DEBT AND AGRICULTURAL TRADE

- A. Population:
- | | |
|---------------|---------------|
| Brazil | - 150 million |
| Mexico | - 86 million |
| Argentina | - 32 million |
| Latin America | - 435 million |
| U.S. | - 247 million |
- B. International Debt:
- | | | | |
|--------------------------|-----------------|---------|-------------------------------|
| Brazil | - \$115 billion | -(14%) | - largest in developing world |
| Mexico | - \$105 billion | -(12%) | - second largest |
| Argentina | - \$50 billion | -(6%) | |
| Latin America | - \$400 billion | -(47%) | |
| All Developing Countries | - \$850 billion | -(100%) | |
- C. Agricultural Self-sufficiency:
1. Argentina increased it's agricultural self-sufficiency from 130% in 1960 to 140% in 1985. With a small population, high per capita food consumption levels and underutilized agricultural resources, Argentina will probably continue to increase it's level of self-sufficiency
 2. Brazil also increased self-sufficiency in this period from 100% to 120%. However, with a large and rapidly growing population and with per capita food consumption levels at about one-half those of high

income countries, continued high self-sufficiency levels are less certain

3. Mexico has already dropped from 105% to 80% self-sufficiency and with a large and rapidly expanding population and rising incomes will probably need ever increasing imports of food
4. Ability to import food however, is constrained by high international debt. Brazil needs to earn \$20.bil. annually just to service it's debt

D. Agricultural trade:

1. Latin America supplies over one-third of U.S. farm imports (\$7.4 bil. in 1987) principally non-competitive tropical commodities but also a growing quantity of off-season fruits and vegetables
2. Latin America is the third largest U.S. regional market taking 13% of U.S. agricultural exports to supply 50% of their needs
3. Mexico is the most important trade partner, Brazil is an important import source and Argentina has almost no trade with the U.S

SLIDE 39: U.S. AGRICULTURAL IMPORTS - 1987

- A. Latin America does not compete in the U.S. market with traditional U.S. exports
1. Brazil supplies coffee, sugar, cocoa, and orange juice
 2. Mexico supplies fruits, vegetables and feeder livestock

SLIDE 40: U.S. AGRICULTURAL EXPORTS

- A. Latin America imports traditional U.S. exports
1. Brazil is currently a very small market, in past has been important wheat market, could be future corn market. Large debt is one problem
 2. Mexico takes one-half of U.S. exports to Latin America principally feedgrains, oilseeds and livestock products

SLIDE 41: WORLD SHARES - 1986

- A. Argentina is an important competitor for the U.S. in international corn, soybean, and wheat markets, yet in terms of production, the U.S. produces 15 times as much corn, 8 times as much soybeans and 5 times as much wheat
- B. Brazil produces more corn than Argentina (third largest producer behind the U.S. and China), but with a large and growing internal

market does not export corn. Brazil is the second largest producer of soybeans and is a strong competitor in international markets with a growing share of the market

- C. Brazil also has impressive livestock numbers with a larger cattle herd than the U.S. (second behind India) and growing numbers of poultry and swine

SLIDE 42: LATIN AMERICA - (map)

- A. Principal production region in Argentina is the Pampas, a region very similar to the U.S. Corn Belt in soil, climate and topography
- B. In Brazil, the principal production region is in the southern states, but crop production and especially soybean production is spreading rapidly into the central plateau in a vast undeveloped region called the "Cerrado"

Note how similar the Pampas of Argentina and the U.S. Corn Belt are in terms of Latitude, and conversely, how well Brazil is doing to produce soybeans in a very tropical environment

SLIDE 43: ARGENTINE PAMPAS -- UNREALIZED POTENTIAL

- A. The Argentine Pampas is a good example of how agricultural policies can overshadow natural productive conditions
 1. Discriminatory tax policies including an agricultural export tax, import tax (fertilizer) and a special (unfavorable) export exchange rate combine to reduce farm level prices to two thirds of U.S. levels
 2. Result is predictable, with little fertilizer use, low yields (especially corn) and a large part of the land in pasture and forage crops, partly to rebuild fertility. One-half of soybean acreage is double cropped with wheat
 3. A policy change leading to higher farm prices, though presently unlikely, could result in significant crop output increases both from more land cropped and from higher yields due to increased input use

SLIDE 44: BRAZILIAN "CERRADO" - A NEW AGRICULTURAL FRONTIER

- A. In sharp contrast to the Argentine situation, Brazil through a favorable economic climate and assistance from farmer cooperatives is rapidly developing the new "Cerrado" region
 1. Soils are low in fertility and require heavy chemical input
 2. Farmers are coming from established regions with capital, technology and an entrepreneurial orientation

3. Farmer cooperatives in established regions are setting up supply and marketing infrastructure during and often before farmer movement to the new regions, facilitating rapid and successful development
4. In traditional areas, soybeans are double cropped with wheat, nationally, about one-fourth of soybean area is double cropped

SLIDE 45: MEXICO - GROWING MARKET INTERDEPENDENCE

- A. Because of geographical nearness to the U.S., Mexico is more integrated into the U.S. economy
 1. Most Agricultural exports are non-competitive, while imports are largely typical U.S. exports (feed grains, oilseeds and livestock products)
 2. Mexico is an important supplier of off-season fruits and vegetables to the U.S. Market
 3. Mexico is only 80% food self-sufficient, in addition, food self-sufficiency has declined in recent years, providing a growing market for U.S. exports

SLIDE 46: LATIN AMERICA (map)

- A. If we expand our focus beyond these three countries, we find that much of the rest of Latin America (in a trade sense) is more like Mexico than like Brazil or Argentina
 1. In the Caribbean, Central American and Andean countries of Latin America, many do not have the natural or economic resources to remain self-sufficient. As incomes grow in these regions additional food imports will be needed. Here, development assistance, including an early resolution to burdensome debt problems is clearly in U.S. agricultural trade interests

ANSWER 4--DISAGREE

SLIDE 47:

DAIRY OUTLOOK
by Robert E. Jacobson
Agricultural Economist, The Ohio State University

QUESTION 5--Price support levels will be important in holding up the level of milk prices in 1989 and 1990.

SLIDE 48: PER CAPITA CONSUMPTION OF MILK PRODUCTS

- A. Per capita consumption was 597 pounds in 1987, slightly higher than 1986 but up 50 pounds from 1980
- B. Per capita commercial consumption was 554 pounds in 1987 up 46 pounds from 1980
- C. The difference, 43 pounds, is government donations from CCC stocks and has grown from 36 lbs. in 1980

SLIDE 49: MILK PRODUCTION, COWS, AND MILK PER COW

- A. The number of milk cows declined 1.1% in 1988
 - 1. Due to lower milk prices and the drought
 - 2. Contrasts with a 3.6% decline in 1987 due to the diversion program
 - 3. For 1989, a slight decrease of about 1.0% in cow numbers seems likely
 - a. The ratio of replacement heifers per 100 cows = 42.9 on July 1, 1988
 - b. This is well above the historic standard of 35
 - c. Milk cow prices are up 15% in late 1988 over mid 1988
 - d. Milk-feed price ratio deteriorated badly in mid-1988 to 1.15 level but has recovered sharply late in the year
- B. Production per cow
 - 1. Following the 1984 down-turn, has returned to the growth trend established since 1978
 - 2. 1988 = 14,180 lbs/cow, + 2.8% from 1987
 - a. Ohio = 13,330 in 1988
 - i. 94% of national average

- ii. Up 2.5% from 1987
- 3. Another 1-2% increase appears likely in 1989
 - a. Milk-feed price ratio is a factor in lower feeding rates
 - b. Many of the less productive herds went out in the Dairy Termination Program

SLIDE 50: U.S. MILK PRODUCTION, COMMERCIAL DEMAND, CCC PURCHASES

- A. Total milk production
 - 1. 1988 milk production = 144.9 billion pounds, up 1.7% from 1987
 - 2. 1988 production forecast to be up 1%
 - a. Slight decrease in cow numbers
 - b. Modest increase in per cow production

SLIDE 51: MILK: U.S. BLEND AND SUPPORT PRICES

- A. The CCC purchases reflect the amount of excess milk production over commercial demand
 - 1. CCC purchases peaked at 16.8 billion pounds or 12% of total production in 1983
 - 2. Declined sharply in 1984 to 8.6 billion lbs. (6.4% of production) with 1984's production cut-back
 - 3. Have trended downward since the 1983 peak despite production increases
 - a. Due primarily to increased commercial use
 - b. Commercial disappearance in 1988 = 137 billion lbs. + 1.0% over 1987
 - 4. Will be at 8.2 billion pounds in 1988 and up slightly in 1989
 - 5. CCC purchases will increase to the 8.5 billion lb. level in 1989
- B. Note the relationship between government purchases and the premium between blend price and support price
 - 1. When purchases increase, premium narrows
 - 2. Vice versa
- C. Support price

1. Peaked at \$13.49 cwt during 1981
2. July 1, 1985 = \$11.60
3. January 1, 1987 = \$11.35
4. October 1, 1987 = \$11.10
5. January 1, 1988 = \$10.60
6. For 1989 and 1990
 - a. Support price = \$10.60 in 1st quarter of 1989; \$11.10 in 2nd quarter; and back to \$10.60 in last 2 quarters. In 1990, the support price will drop to \$10.10 if CCC purchases are projected to exceed 5 billion pounds m.e.

D. Blend prices in Ohio

1. 1988 = \$12.10 minimum Federal order blend
 - a. Under 1987 prices until the last quarter; then 50¢ over 1987.
2. For 1989
 - a. The average support price will be 13 cents higher than in 1988.
 - b. Blend prices will start 1989 above \$13.00 per cwt. and drop below \$12.00 in late 1989.

SLIDE 52: EGG LAYING FLOCK SIZE

A. Supply

1. Egg laying flock size down by 7% since late 1987
2. Egg production in 1988 down by 2% in 1988 from 1987
3. Ohio share of national egg production doubled since 1980 to over 6%
4. Egg production in 1989 down by another 1%
5. Number of eggs per layer per year up from 230 eggs in mid 1970's to record 250 eggs in 1988

B. Demand

1. Per capita egg consumption continues to drop, from more than 300 eggs annually in the early 1970's to 242 eggs in 1988
2. Egg products (liquid, frozen, dried) account for an increasing share (17%) of egg demand

3. Egg exports to Japan and other countries have been growing and now account for 2 percent of egg production
4. Ten percent of egg production continues to be allocated to hatching egg use

C. Price/returns

1. Wholesale prices were low at 55 cents a dozen in early 1988, moved to 80 cents in late summer, and currently have dropped to 65 cents
2. Breakeven prices at relatively high feed costs for egg producers are about 73 cents a dozen
3. Although egg demand will continue to be weak in 1989, the short supply of eggs should mean wholesale egg prices averaging about 75 cents for the year
4. Farm prices for eggs run about 17 cents per dozen below the wholesale price; retail prices average 16 cents per dozen above the wholesale price

ANSWER 5--AGREE

SLIDE 53:

THE OUTLOOK FOR MEAT ANIMALS
by
Scott Irwin
Agricultural Economist, The Ohio State University

QUESTION 6--The liquidation phase of the current cattle cycle will end in 1989.

SLIDE 54: PER CAPITA MEAT CONSUMPTION

A. Basic trends since the mid-1970s

1. Falling per capita consumption of beef

- a. Over 1976-1988 beef consumption declined from 94.4 to 71.8 lbs., a loss of almost 25%
- b. 1989: 68.9 lbs., down 3 lbs.

2. Relatively constant per capita consumption of pork

- a. 1970: consumption of 62.3 pounds per capita
- b. 1989: projected consumption of 62.8 pounds per capita
- c. Note that beef consumption per capita in 1989 is projected to be only 6 pounds, or 10%, greater than pork consumption
 - i. In 1976, beef consumption per capita was 42.1 pounds, or 80%, greater than pork consumption per capita

3. Rapidly rising per capita poultry consumption

- a. Over 1976-1988 poultry consumption increased from 52.3 to 81.7 lbs., a gain of 56%
- b. 1989 poultry consumption per capita is expected to increase to 83.6 pounds, an increase of just over 2%
- c. In 1989, poultry consumption per capita will be 21% larger than beef consumption per capita

B. The most immediate impact of the rise in poultry consumption is in the determination of red meat prices

- 1. Supply of poultry is of much greater importance to the level of beef and pork prices

2. For example, a one percent increase in poultry production has twice as large an impact on hog prices as does a one percent increase in beef production

SLIDE 55: YOUNG CHICKEN PRODUCTION

- A. Broiler production in the first half of 1988 was up 5%
 1. This rate is in line with long-run growth rate of 4%
 2. Sharp drop in production starting in July
 - a. Production for July-September quarter up only about 3%
 - b. Drop in rate of growth occurred simultaneously with drought
- B. Did drought "cause" drop in broiler production?
 1. Popular explanation
 2. Production actually dropped due to smaller hatchings and pullet placements in late 1987 and early 1988
 3. Also, heat-related death-losses were not reported in any significant number
- C. Must look to profit situation to understand production changes

SLIDE 56: BROILER PRICES AND COST OF PRODUCTION

- A. Over the period 1987 I-1988 II, broiler prices have moved substantially over same period
 1. 1987 I: 50 cents/lb.
 2. 1987 IV: 42.5 cents/lb.
 3. 1988 II: 55.3 cents/lb.
- B. Negative returns occurred in 1987 IV & 1988 I
 1. The result of large increases in poultry production during same periods
 2. This caused producers to cut-back hatchings and placements
 3. Cut-back showed up in summer production
- C. Prices rose even further in the third quarter of 1988
 1. Averaged about 67-68 cents/lb.

2. Why the increase?

a. Production cut-backs

b. Increasing demand

i. further processed chicken parts (fast food)

ii. strong employment and income growth

D. Given substantial profits earned by broiler producers since summer and moderating feed costs, stage is set for an up-trend in rate of growth of broiler production

1. 1988 IV: +3%

2. 1989 I & II + 3 - 4%

3. 1989 III & IV + 5 - 7%

SLIDE 57: TURKEY PRODUCTION

A. Turkey production has been on a roller coaster the last two years

1. Production increased enormously over 1987

a. January about 200 mil. lbs.

b. October about 400 mil. lbs.

2. Caused substantial losses as prices dropped

B. Production in 1988 has been much more steady than in 1987

1. 250-320 million lbs. per month

2. July-September: 320-360 million pounds

C. Turkey prices have followed strength in broiler prices

1. August 1988: 70 cents/lb.

2. August 1987: 56 cents/lb.

D. Return to profitability sets stage for return year-over-year increases in production

1. 1st half 1989: + 0-2%

2. 2nd half 1989: + 3-5%

E. Prices

1. 1st half 1989: 60-68 cents/lb.
2. 2nd half 1989: 65-75 cents/lb.

SLIDE 58: FARROW-TO-FINISH HOG RETURNS

- A. A two year period of hog profits came to an end in late summer 1989
 1. The first half of 1988 was a reasonably profitable period
 - a. The first half of 1988 was a reasonably profitable period
-- profits averaged \$6.25/cwt.
 2. Losses of \$1 to \$3/cwt. sustained in late summer early fall
 - a. Double-digit increases in production drove down prices
 - b. Drought increased feed costs
- B. Losses are not likely to persist beyond early 1989

SLIDE 59: HOGS AND PIGS INVENTORY, 10 STATES

- A. Cyclical upturn in hog inventories occurred in 1987
 1. Declining trend in inventories and production over 1979-1987
 2. Large year-over-year increase in inventories in 1988
 - a. March: + 5%
 - b. June: + 8%
 - c. September: + 5%
 3. Production has increased at a more rapid rate
 - a. 88 I: + 7%
 - b. 88 I: + 12%
 - c. 88 III: + 12%
- B. September Hogs and Pigs Report indicates producers have cut back production plans in response to changed profit situation.
 1. September-November 1988 farrowing intentions: + 4%
 2. December 1988-February 1989 farrowing intentions: + 2%

C. Production forecasts

1. 1988 IV: +6%
2. 1989 I: +2%
3. 1989 II: +1%
4. 1989 III: +0%

SLIDE 60: HOGS: BARROW AND GILT PRICES AT 7 MARKETS

A. Normal seasonal pattern for hog prices

1. Highs in winter and summer
2. Lows in spring and fall

B. Prices in 1986 and 1987 closely followed this normal pattern

C. Prices over the first half of 1988 followed normal pattern

1. February: \$49/cwt.
2. April: \$42/cwt.

D. But prices peaked in June at \$49/cwt. and have declined since

1. Price drop caused by large production increases
2. Key question: Is large production due to liquidation of breeding herd?
 - a. Cyclical-effects
 - b. Drought-effects

3. Answer holds key to 1989 price outlook

E. Price forecasts based on "conservative" liquidation assumptions

1. 1988 IV: \$38-42/cwt.
2. 1989 I: \$42-46/cwt.
3. 1989 II: \$45-50/cwt.
4. 1989 III: \$42-46/cwt.

F. Hog production should return to profit column early in 1989

SLIDE 61: CORN BELT CATTLE FEEDING RETURNS

- A. The past year has been a modestly favorable time to be feeding cattle
 - 1. Feeding returns averaged \$0.84/cwt. over the first half of 1988
 - 2. Returns went sharply in the red starting in June
 - a. Prices were not the problem
 - i. \$69/cwt. over July-September 1988
 - ii. recently in low 70s
 - iii. Two problems
 - profits have been bid into feeder cattle prices
 - rise in feed costs
- B. Raises question of whether liquidation phase of cattle cycle will end in 1989

SLIDE 62: JULY 1 CATTLE INVENTORY

- A. July 1, 1988 cattle inventory estimates indicate that cyclical decline continued over the first half of 1988
 - 1. Total inventory was 107.9 million head: - 1% from 1987
 - 2. This is a decline of 25% from peak in 1975
 - 3. Breeding herd shrunk slowly, down only 0.6%
 - 4. 1988 calf crop projected to be down less than one-half percent
- B. Underlying economic forces suggest liquidation may be ending
 - 1. Cow slaughter for the first three quarters of 1988 was down 7% from 1987 level
 - 2. Third quarter was down 4% from 1987
 - a. Summer drought did result in more culling than normal
 - b. Effect is likely to continue through end of 1989
 - 3. Cow-calf producers earned returns of \$50/hd. in 1988
 - 4. Expecting similar levels of return in 1989
 - 5. Incentives for expansion are in place

C. July inventory provides basis for projecting remainder of 1988 and first half of 1989 beef production

1. 1988 III: + 2%
2. 1988 IV: + 0%
3. 1989 I: +2%
4. 1989 II: - 8%

SLIDE 63: FED CATTLE PRICES

A. Normal seasonal pattern for fed cattle prices is a single peak in prices in late spring and early summer

1. Almost opposite occurred in 1986
2. Weakness due to Dairy Herd Termination program

B. Prices in 1987 and 1988 have followed normal seasonal pattern

1. Price peaks in spring of about \$75/cwt.
2. Prices for remainder of 1988 are expected to \$70-72/cwt.

C. Key to 1989 pricing pattern is the behavior of cow/calf producers

1. Given profit incentives, may choose to expand faster than current data suggest
 - a. Cattle slaughter will be smaller than expected
 - b. Record-breaking prices in spring 1989
2. If further liquidation occurs, then price appreciation in 1989 will be limited

D. Good demand base for beef in 1989

1. Employment growth
2. Income growth: + 2-3%

E. Prices: based on modest expansion of breeding herd

1. 1989 I: \$71-74/cwt.
2. 1989 II: \$75-79/cwt.

SLIDE 64: JULY 1 FEEDER CATTLE SUPPLIES

A. Feeder cattle supplies continue to shrink

1. Total supplies down 3% in 1988
2. Yearlings: - 6.4%
3. Calves: - 1.4%

B. Sets stage for strong feeder cattle market through 1989

SLIDE 65: FEEDER STEERS, MONTHLY PRICES

A. Feeder prices have reflected higher fed cattle prices since Fall 1987

B. Prices have been at historically high levels for most of 1988

1. 400-500 lbs.: 1988 I = \$102.25/cwt.
1988 II = \$96.35/cwt.
1988 III = \$91.25/cwt.

C. Forecasts

1. 1988 IV: \$95-97/cwt.
2. 1989 I: \$105-110/cwt.
3. 1989 II: \$100-105/cwt.

ANSWER 6--AGREE

SLIDE 66:

OUTLOOK FOR FIELD CROPS
by
Dennis R. Henderson
Agricultural Economist, The Ohio State University

* Corn, Soybeans and Wheat

SLIDE 67: WORLD GRAIN PRODUCTION AND USE

- A. Since 1987, world grain situation has shifted from stocks accumulation to depletion
- B. First time this decade we have had two consecutive years with use exceeding production
- C. The U.S. has accounted for all of the production decline
- D. Changes the psychology of world markets from "surplus" to "rationing"

SLIDE 68: CORN: SUPPLY AND USE

	<u>1987/88</u>	<u>1988/89</u>	<u>change</u>
planted acreage (mil)	65.7	67.5	+2.7%
harvested acreage (mil)	59.2	56.7	-4.2%
yield	119.4	80.2	-32.8%
production (mil bu)	7,064	4,553	-35.5%
carry-in (mil bu)	4,882	4,260	-12.7%
total supply (mil bu)	11,950	8,817	-26.2%
domestic use (mil bu)	5,970 (+1%)	5,650-5,750	-3 to -5%
exports (mil bu)	1,720 (+14%)	1,625-1,725	N/C to -5%
total use (mil bu)	7,690 (+4%)	7,275-7,475	-3 to -5%
carry-out (mil bu)	4,260 (202 day)	1,400-1,500	-66%

SLIDE 69: CORN STOCKS SITUATION

- A. Roughly 1,900 mil. bu. of corn stocks are currently isolated from the market under either the Farmer Owned Reserve or owned by CCC

- B. This leaves available supplies about 400-500 mil. bu. short as of next Sept. 1st
- C. Thus, about 1 bil. bu. of FOR and CCC stocks will have to be made available before next fall
- D. National average market price must reach \$2.93 at least briefly to release FOR stocks
- E. 1988/89 pricing target = \$2.93 plus 5-10 cents Ohio basis

SLIDE 70: CORN: OHIO AVERAGE FARM PRICES

- A. 1986/87 is typical of the price pattern in a normal marketing year
- B. 1987/88 shows the impact of an early summer drought
- C. Typical seasonal pattern following years of drought represented by 1983/84 (adjusted to the actual Sept. 1988 price)
- D. For 1988/89:
 - 1. Once prices hit the FOR release, prices will probably trail off through winter
 - 2. By spring, price trends will be driven by
 - a. Production response in Argentina this year
 - * Argentine exports currently projected +12% on 1989 production +6%
 - * considerable uncertainty due to early spring (Sept.-Oct.) droughty conditions
 - b. Expectations for the 1989 U.S. crop

SLIDE 71: 1989 CORN PROGRAM

- A. 1989 crop will depend in part on government policy
- B. Major changes from 1988:
 - 1. ARP = 10% vs. 20% in 1988
 - 2. no PLD
 - 3. Loan rate and target price at statutory minimums of \$1.65 (-7%) and \$2.84 (-3%)

- C. Limited preservation of acreage base with oats, soybeans and sunflowers
- D. For typical Ohio producers, participation is financially attractive at market prices for 1989 crop of about \$2.65 or less

SLIDE 72: SOYBEANS: SUPPLY AND USE

	<u>1987/88</u>	<u>1988/89</u>	<u>change</u>
planted acreage (mil)	57.4	58.5	+1.9%
harvested acreage (mil)	56.4	56.8	+0.7%
yield	33.7	26.4	-21.7%
production (mil bu)	1,923	1,501	-21.9%
carry-in (mil bu)	436	302	-30.7%
total supply (mil bu)	2,359	1,803	-23.6%
domestic use (mil bu)	1,257 (-2%)	1,100-1,150	-8 to -12%
exports	800 (+6%)	550-600	-25 to -30%
total use (mil bu)	2,057 (+1%)	1,650-1,750	-15 to -20%
carry-out (mil bu)	302 (54 day)	85-125	-64%

SLIDE 73: SOYBEAN MEAL AND CORN: PRICE AND DOMESTIC FEED DISAPPEARANCE RATIOS

- A. Domestic soymeal use appears to be decreasingly sensitive to changes in relative prices
- B. Until the mid-1970s, soymeal prices averaged 1.5-2 times the price of corn (per pound basis)
- C. Apparent shift in the relative demand for feed protien in mid 1970s
- D. Another upward shift is possible in the past couple years
- E. 1988/89 supplies suggest that there will be about 6.3 lb. of corn for each 1 lb. of SOM available for domestic feed use (SOM = 13.7% of corn use)
- F. This should support a SOM price around 2.8-3 times the price of corn, or around \$260/ton (basing point Decatur, IL)

SLIDE 74: 1988-89 SOYBEAN PRICE PROSPECTS

- A. Soybean prices returned to the mid-20 cent area last year from the upper teens of the 2 previous years
- B. Soybean values look to range around the \$260 level
- C. Total value of 1988 soybeans after crushing: \$8-9.50
- D. Deduct a 50-75 cent crush margin and transportation cost differentials from Decatur to Ohio = average Ohio farm-level soybean value in the \$7.50-8.75 range

SLIDE 75: SOYBEANS: OHIO AVERAGE FARM PRICES

- A. 1986/87 is fairly representative of the seasonal price pattern in a normal marketing year
- B. 1987/88 shows the impacts surprisingly strong early season exports and then the early summer drought
- C. Typical seasonal price pattern in marketing years following a serious drought is represented by 1983/84 (adjusted to actual Sept. 1988 price)
- D. For 1988/89:
 1. Prices continued to tail off through October (\$7.67) due to
 2. Prices probably will not drop much further through late winter/early spring
- E. By early spring, price trends will be determined primarily by availability of the new South American crop
- F. By late spring/early summer, prospects for the 1989 crop become a key price factor

SLIDE 76: WHEAT: SUPPLY AND USE

	<u>1987/88</u>	<u>1988/89</u>	<u>change</u>
planted acreage (mil)	65.8	65.9	+0.2%
harvested acreage (mil)	55.9	53.3	-4.7%
yield (bu/ac)	37.6	34.0	-9.6%
production (mil bu)	2,105	1,812	-13.9%
carry-in (mil bu)	1,821	1,256	-31.0%
total supply (mil bu)	3,943	3,083	-21.8%
domestic use (mil bu)	1,095 (-8%)	1,075-1,125	-2 to +3%

exports (mil bu)	1,592 (+59%)	1,350-1,450	-10 to -15%
total use (mil bu)	2,687 (+22%)	2,425-2,575	-4 to -8%
carry-out (mil bu)	1,256 (171 days)	500-600	-56%

SLIDE 77: WHEAT: STOCKS-PRICE/LOAN RELATIONSHIP

- A. The size of the year-ending carry-out is a generally reliable predictor of season average wheat prices relative to the price support loan rate
- B. 1987/88: carryout = 1,256 mil. bu.
national season avg. price = \$2.57
national avg. loan rate = \$2.28
price:loan ratio = 1.13
- C. 1988/89: carryout = 500-600 mil. bu.
loan = \$2.21
stocks:price relationship is less precise with stocks below about 800 mil. bu.
season avg. price in the \$3.70-\$3.90 range = 1.7-1.8 times the loan rate

SLIDE 78: WHEAT: MARKET AND SUPPORT PRICES

- A. Support prices followed market prices up between 1973 and 1981
- B. Market prices have followed support prices down since early 1980s

SLIDE 79: WHEAT: OHIO AVERAGE FARM PRICES

- A. Neither 1986/87 nor 1987/88 represents a typical seasonal price pattern
- B. 1987/88 showed unusually strong price up-turn between late summer and mid-winter
- C. 1988/89:
1. June: + 53 cents
 2. June-October: + 44 cents
 3. Dec.-Feb. Ohio price target around \$4+ seems reasonable

4. Ohio/SRW prices will trail national averages by 10-15 cents because of 29% increase in SRW availabilities vs. 28% decrease for all other wheat

SLIDE 80: 1989 WHEAT PROGRAM

A. Major changes form 1988:

1. ARP = 10%, down from 27.5%
2. loan = \$2.06, down from \$2.21 (-7%)
3. target = \$4.10, down from \$4.23 (-3%)

- B. For typical Ohio grower, participation is financially attractive at market prices for the 1989 crop of about \$3.75 or less

SLIDE 81: 1989 OHIO CROP COMPARISONS

A. Market returns clearly favor soybeans

- B. With government payments added, still nearly a draw between soybeans and corn

- C. Should encourage planting soybeans on corn base acreage up to whatever limit is ultimately announced by USDA (allowable range = 10-25%)

SLIDE 82: 1989 SUPPLIES AND PRICES

- A. This is a summary of what we have said!

- B. This will be next year's grade card

ANSWER 7--DISAGREE

SLIDE 83: PRODUCED BY...