

November, 1983

ESO - 1056

1984 ECONOMIC POLICY-OUTLOOK

for

AGRIBUSINESS PERSONNEL

Dennis R. Henderson and Wallace Barr

Agricultural Economists, Ohio State University

I Purposes

- A - Present some information and apply economic principles that may be useful
 - 1 - for decision making in the firm or farm
 - 2 - to help you do a better job
 - 3 - to help your business become more profitable

SLIDE 1: ECONOMIC POLICY AND OUTLOOK FOR 1984

- A - Economic, trade and farm problems are changing
 - 1 - People looking for solutions
 - 2 - Our effort will be to improve your understanding and suggest some solutions
- B - Summary -- What We Will Say!
 - 1 - People are cautiously optimistic about the economy
 - a - employment is at record levels even with high unemployment
 - b - retail sales are improving
 - 2 - Farm income has improved in 1983
 - a - due primarily to reduced production expenditures and large government payments
 - b - but many farmers are under severe financial stress
 - c - Farmers run the risk of producing themselves into a weaker income situation in 1984

QUESTION 1 — The current economic recovery has been driven by business investment: a prolonged upturn in consumer spending will be necessary to maintain it.

SLIDE 2: GROSS NATIONAL PRODUCT

A - GNP on a current dollar basis has increased nearly 9.5% in 1983

1 - Marks a sharp turn-around from the 1981-82 recession when real GNP declined nearly 2%

a - Economic recovery began in late 1982, and has continued throughout 1983

2 - On a real, deflated basis, GNP in 1983 is up about 5.7%

a - largest real increase since 1976

3 - Difference between the 9.5% increase in current dollars and the 5.7% real increase is inflation

a - inflation = 3.8% in 1983 (GNP implicit price deflator), up slightly from 1982's 3.1%, which was the lowest since 1967

B - 1983's GNP gain was due largely to a significant increase in consumer spending

1 - Consumer spending = +10.5%

a - compares to government spending +7.1% and essentially no change in business investment

2 - Consumer spending increase resulted largely from pent-up demand for housing and automobiles

a - due to deferred spending during 1981 and 1982 when interest rates were exceptionally high

3 - Was financed in part by an 8% drop in savings

a - first savings decline since 1977

C - Business investment was sluggish:

1 - despite "supply side" tax incentives to encourage such spending

2 - largely because of excess capacity following the 1982 production cut-back

Plant utilization rate:	<u>1982</u>	<u>1983</u>
	69.8%	73.0%

- D - Unemployment lags changes in production by about 6 months
 - 1 - exceeded 10% for the first 5 months of 1983
 - 2 - began to decline about 6 months into the current recovery, and will approach 9% by year-end
 - 3 - Thus, consumer incomes going into 1984 will be boosted by higher employment
 - a - gives consumer spending an additional "kick" to prolong recovery until business investment picks up
- E - Despite relatively low plant utilization rates, renewed business spending is needed to maintain economic expansion
 - 1 - Much of the current idle capacity (as well as some being used) is antiquated
 - 2 - Thus, productivity gains will be relatively low without new investment
 - 3 - Low productivity creates inflationary pressures in times of demand growth
 - 4 - Inflation, in turn, stems demand and shortens the recovery cycle

SLIDE 3: GNP FOR 1984/1983

- A - Biggest gains in 1984 are expected in consumer and government spending
 - 1 - Consumer spending increases from higher employment and modest wage increases should extend through at least the first 2 quarters
 - 2 - Government spending will benefit from
 - a - recovery-related increases in tax receipts
 - b - election-year politics which encourages bigger deficit spending
 - c - federal deficit projected to climb by another \$170 billion after increasing by a record \$195 billion in FY'83 (averaged \$39 billion in previous 7 years)
- B - Business investment is unlikely to increase as rapidly as the consumer and government sectors
 - 1 - primary reason is uncertainty in financial markets which keeps borrowing costs high

- a - uncertainty and relatively high interest costs are due in large part to government borrowing to cover gigantic budget deficits
 - b - in 1983, federal deficit = 63% of loanable funds available from all sources (business retained earnings, personal savings, increase in money supply, and capital inflows from foreigners)
- 2 - Partially offsetting the impact of financial market uncertainty are higher profits and investment tax incentives
- a - after-tax business profits up 15% in 1983, another 7-8% gain expected in 1984, but still will be 8-10% below the level as recently as 1980
 - b - investment tax credits included in the 1981 Economic Recovery Tax Act should encourage investment for the first time since its enactment
 - c - until this year, profits were declining so there was relatively little need for tax credits
 - d - economic recession and 30% idle plant capacity until this year further offset the tax credit incentives
- C - Foreign trade has not yet recovered from the recession
- 1 - Trade depends upon economic growth abroad, which almost always trails the U.S. by 6-24 months
 - 2 - Merchandise trade deficit will exceed \$60 billion in 1983, probably greater in 1984 (averaged \$10.5 billion annual deficit in the 1970's)
 - 3 - High valued U.S. dollar, economic troubles abroad, and international financial difficulties all contribute to our trade problem
 - 4 - More will be said about this later, specific to agricultural trade
- D - 1984 GNP, in total, projected to be up 7-9%, compared to a 9.5% gain in 1983
- 1 - Largest gains now look to occur during 1st half with growth slowing in 2nd half unless we get an unexpected boost in business investment
 - 2 - Inflation in the 5-6% range will put real GNP gains in the 3-4% range, down from 5.7% in 1983

- a - but still a substantial improvement from the 1980-82 period of no real growth

ANSWER 1 - DISAGREE

QUESTION 2 -- Consumption of meat per capita continues to increase.

SLIDE 4: PER CAPITA FOOD USE BY SOURCE

A - Use of plant products increased erratically and is now 7% above 1967

B - Animal products (includes meat, poultry, dairy) are 7% below 1967

1 - Use increased thru 1972 but something catastrophic occurred in 1973. That includes

a - U.S. exports exploded and prices jumped

1) Poor weather and world food shortages

2) Legitimized trade with Soviet Bloc

3) Devalued Dollar: our exports became cheaper to foreign buyers

b - Export embargoes on soybeans

c - Price ceilings on meat

d - other

SLIDE 5: SPENDING ON MEAT

A - Share of disposable (after tax) income spent on meat declined by 0.65 percentage points (4.22-3.57)

B - Share declined for all meats

1 - Beef = 63% of total decline

2 - Pork = 25% " " "

3 - Poultry =12% " " "

C - Why?

1 - Household budgets have been squeezed severely since 1979

a - Unemployment affected incomes

b - Rising utility costs

c - Meat substitutes

d - Dietary changes

SLIDE 6: CHANGES IN CONSUMER PREFERENCES

A - For each 1% increase in disposable income the % increase in use of various meats is shown over time

B - Meaning

1 - Beef: people spending much less of increased income for beef in 1979, 1977 than 1975

2 - Pork: people spending a little less of their increased income for pork in 1979 than 1975

3 - Poultry: people spending more of their increased income for white meat

C - If data were available for 1980-82 --- the relationships probably would be maintained

SLIDE 7: CHOICE BEEF PRICES AND SUPPLIES

A - Shows consumers response to changing supplies and prices (price deflated to 1967 = 100) for beef

1 - Slightly sloping line (1960's): - line is relatively flat meaning that large increases in beef supplies/person were consumed at small decreases in price, or vice versa

2 - Sloping line (1970's): Small changes in beef supplies per person were consumed at bigger price changes than in the earlier period (more inelastic)

3 - Note 1979, 1980, 1981, 1982 points: A vertical line

SLIDE 8: WHAT'S HAPPENING TO MEAT USE?

A - Chart shows retail weight and use per person since 1960

B - Use of various meats

1 - Beef

a - Grew to the record (retail weight) use in 1976 of 96#/person

2 - Pork

- a - Use follows hog cycles
- b - 1976 was a cyclical low point

3 - Poultry

- a - Use has grown consistently throughout the period

4 - Total meat down 4% since 1976

C - Some comparisons

1 - Beef

- a - Use down 17% per person
- b - Price of beef up 92¢/lb or 62% in current dollars

2 - Pork

- a - Use down 4%
- b - Price up 40¢/lb or 30% in current dollars

3 - Poultry

- a - Use up 23%
- b - Price up 8¢/lb or 14% in current dollars

4 - Consumer price index increased 76% from 1976 to 1983

D - Reasons for differences between species

1 - Feed conversion rates (concentrate per lb gain)

- a - beef 7 - 8#
 - 1) an average of about 250# of gain comes from grain per animal slaughtered
- b - hogs 3 - 4#
- c - poultry 2.1#

2 - Technologies needed

- a - multiple calving
- b - genetics to improve feed conversion

c - other

E - Cattle industry faced with a challenge to remain competitive

1 - Alternative is to lose share of market

ANSWER 2 - DISAGREE

QUESTION 3 -- The overvalued dollar has been a major factor in the recent declines in farm exports.

SLIDE 9: FARM SITUATION WITH OPTIONS

A - The "tank" visualizes the grain situation in 1982 and 1983

1 - The excess supply and low price problem in the grain industry

a - Supply

1) The output valve was wide open

2) The import value is not applicable to grains

b - Demand

1) Domestic valve is open with many programs designed to increase use (food stamps, school lunch, etc.)

2) Export valve is open with many export expansion efforts used

2 - Overflow bin (CCC and Reserve) was full

a - Drawing depicts that grain must flow back into the market

3 - Price is shown as low

a - Reflects the fullness of the bin

b - How supplies impact farm prices

1) For all products: a 1% change in supply means an average of about a 3% decline in farm prices

2) Each farm product reacts differently and at different times there can be a different relationship

B - Visual is a useful tool

1 - To describe the situation

2 - To discuss options to solve problem

SLIDE 10: WORLD GRAIN PRODUCTION AND USE

- A - World food grain, feed grain and soybean production
 - 1 - These products supply about 75% of the world's food supply
 - 2 - Production and use parallel over time
 - a - Production stays "one half step ahead of use"
 - b - Shortfalls are frequent
 - c - 1983 shortfall is totally U.S. reduced as non U.S. output increased
 - 3 - World is growing more dependent (at least thru 1982) on U.S. food
 - a - In 1982 - U.S. share of output was 25% of world total
 - b - In mid '70's - U.S. share ran 18-20% of total output
 - 4 - U.S. farmers have grown more dependent upon world markets
 - a - Share of U.S. farm output that is exported has grown to about 1 out of each 3 acres of cropland harvested
 - 1) U.S. share of world trade in late '70's
 - a) corn was 70%
 - b) Soybeans accounted for 65% of total
 - c) Wheat share was about 45%
 - 2) Decline in share of U.S. world trade since late '70's has been 5 to 8% for each product
 - 5 - Rest of world is expanding production
 - a - Export competitors are increasing their share of world market
 - b - Importers desire for self sufficiency

SLIDE 11: CHANGES IN EXPORT DESTINATIONS

- A - Chart is in MMT or volume of U.S. farm product shipments
- B - Three categories of destinations over 13 year period
 - 1 - Developing countries - poor nations

- a - Biggest importers of U.S. farm products
 - b - Biggest growth since 1970 and has continued upward into 1983
- 2 - Developed countries - industrialized and wealthy nations
- a - Perceived to be our best and biggest customers - not so; good customers
 - b - Some competitors increasing output
 - 1) EC, Canada, and Australia are exporters and competitors in world markets
 - c - Increasing self-sufficiency because of high priced U.S. farm products
- 3 - Centrally Planned - Communist Bloc countries
- a - Note change from 1970 to 1981
 - 1) Legitimatized Soviet trade in 1972-73
 - b - Decline since 1981 to 1983
 - 1) Embargo reaction
 - 2) View U.S. as unreliable supplier

SLIDE 12: VOLUME EXPORTED: VALUE EXPORTED

- A - Chart shows exports by major grains and all other in both volume and value over time
- B - U.S. exports on volume basis
 - 1 - We export bulk commodities
 - a - 3 grain groups equal 85% of volume exported
 - b - Peak exports were in 1980 at 165 MMT
 - c - 1983 exports were 150 MMT
 - d - Decline = 11%
 - 2 - Other category includes cotton, rice, tobacco, fruits, vegetables and meat products
 - a - not big volume

C - Value of exports

- 1 - Bulk commodities account for 65% of value
- 2 - Note size of "other" category
 - a - Processed products have been important to market growth
 - b - Maintained its total value well
 - c - "Other" products very important to positive trade balance
- 3 - Total value of farm exports
 - a - Peak in 1981 at \$43.5 billion
 - b - 1983 = \$34.5 billion
 - c - Decline = 21%
- 4 - Does a 11% decline in the volume of exports and 21% decline in the value of exports tell you something!

SLIDE 13: CAUSES OF U.S. EXPORT DECLINE

A - Slowed world demand

- 1 - Global recession has been severe, reducing demand for U.S. products
 - a - Energy costs contributed
- 2 - Debt burdens have been severe
 - a - Some countries overextended their borrowing
 - b - Creditors were liberal and have tightened the "screws" on some countries, i.e., Mexico, Brazil, etc.
 - 1) World recession, lower inflation in U.S., lower energy prices for OPEC and oil producers etc., contributed to debt repayment problems

B - Foreign Policy: Embargo retaliation

- 1 - USSR-Afghanistan: U.S. embargo
 - a - recent 5 year trade agreement has softened the blow
 - b - USSR increased SBOM imports by 2,500 MMT from 1980 to 1983
- none imported from U.S.

c - Signed long term agreements with other countries

2 - China: U.S. banned Chinese textiles; China retaliated by refusing to buy U.S. wheat, soybeans, cotton

3 - Neither country is the buyer they might have been without the embargoes and quotas

C - High priced dollar

1 - The biggest single factor

2 - To be discussed with slides later

D - U.S. price supports

1 - Our price supports placed a price floor under world grain markets

a - Guarantees a price to other exporting countries

1) Canada, Australia, etc. expanding production and pricing under U.S.

2 - Price supports not sole cause

a - Supports intertwined with high valued dollar

E - Self-Sufficiency

1 - EC has long had this goal

a - Variable levy system has been used to support EC farm prices

2 - Currency-short countries

a - Objective is to save foreign currency or to more adequately feed people

SLIDE 14: COST OF U.S. DOLLAR

A - Biggest single factor in declining U.S. exports

B - Share of 1980 and 1981 farm exports to each country

1 - 7 country total is 47%

2 - 11 country total is 57%

3 - Excludes USSR (non convertible currency)

D - Exchange values in 1980 and 1983

1 - \$ increased in value against each currency shown

2 - To buy U.S. products a foreign buyer must first buy \$; then product paid for by \$

3 - 7 countries farm trade weighted value of the \$ was up a whopping 92%

4 - 11 country trade weighted value of \$ was up 87%

E - What does this mean as to the costs of U.S. farm products?

1 - Much higher priced!

SLIDE 15: U.S. DOLLAR AND CORN PRICES

A - Change from 1980 to 1982 and 1983

1 - Some startling results

B - In August 1982

1 - Corn price per bushel was 25% below August 1980 to U.S. farmers

2 - Farm trade weighted value of \$ was 35% above August, 1980

3 - Foreign corn buyer paid 10% more for corn in 1982 as in 1980

C - August, 1983

1 - U.S. farmers received 18% more for corn than in 1980

2 - Value of \$ up 87%

3 - Corn cost to foreign hog producer, poultry producer was 105% higher

a - What do people do when prices double?

SLIDE 16: CORN PRICE AND SUPPORT PRICES

A - A historical picture of support prices and annual corn prices

1 - Corn prices and support prices follow each other closely in 1961 to 1971 period

- 2 - 1972 corn prices escalated because of
 - a - Poor weather and food shortages around world
 - b - Devalued the \$
 - c - Legitimatized trade with Soviet Bloc
- 3 - Ratcheting of support prices upward because
 - a - It was politically easy when corn prices were strong
 - b - Incentive or guarantee to farms to expand production to meet world demand
 - c - Assumed inflation would continue

SLIDE 17: PRICE AND INCOME SUPPORTS

- A - Price and income supports have cost U.S. treasury in every year shown
 - 1 - Magnitude of 1982 and 1983 costs are the shocking aspect
 - a - 1982 and 1983 reflects
 - 1) Declining exports (value of \$ and supports)
 - 2) Use of farmer owned reserve as income tool
 - b - The \$23 billion in 1983 does not include PIK costs to treasury
 - 1) Revised downward to \$19.2 billion

ANSWER 3 - AGREE

QUESTION 4 --- Agricultural policy adjustments are needed and will be controversial.

SLIDE 18: FARM POLICY BASED ON ASSUMPTIONS

- A - Agricultural policy has followed essentially the same philosophy for 50 years: since the enactment of the Agricultural Adjustment Act of 1933
- B - Basic tenets have been
 - 1 - Low farm incomes result primarily from low commodity prices
 - 2 - Low commodity prices result primarily from market surpluses
 - 3 - Market surpluses result primarily from excessive production

C - Basic public policy approach has been

- 1 - Minimum price supports for basic commodities, mainly through nonrecourse loans
- 2 - Voluntary acreage restrictions to limit crop production in times of market surpluses
- 3 - Direct payments to farmers in times of depressed farm incomes
- 4 - Supplemented at times by other policies aimed at:
 - a - expanding domestic demand
 - b - building or depleting public stocks
 - c - promoting or discouraging exports

D - The current farm program (Agriculture and Food Act of 1981) continues this basic philosophy, but was based on three additional assumptions that have proved to be invalid

- 1 - Assumed: agricultural exports would continue to increase in the 1982-85 period at or near the rate experienced in the 1978-81 period
 - a - fact: exports peaked in 1981 and have declined precipitously since then
- 2 - Assumed: domestic price support levels could increase by 4-6% per year without exceeding world market price levels
 - a - fact: a 10% increase in average price support levels since 1980 has combined with an 87% increase in the cost of the U.S. dollar to raise prices for U.S. farm products well above competitors prices in world markets
- 3 - Assumed: farmer-held and government-owned reserve grain stocks would not accumulate but would vary with changes in production and demand
 - a - fact: FOR and CCC stocks of corn and wheat grew rapidly between 1980 and 1983

Corn stocks:	+204%
Wheat stocks:	+56%
 - b - stocks accumulation was due largely to changes in FOR rules following the 1980 Soviet export embargo that
 - 1) established a higher FOR loan rate than price support level

- 2) allowed immediate entry upon harvest
 - 3) eliminated the ability to call grain out of the reserve
- E - The 1983 PIK program was devised to mitigate problems created by these previous policy decisions
- 1 - Combined with poor weather, PIK has relieved pressure on government storage programs
 - 2 - But, has not resolved the fundamental problems of
 - a - weak export sales
 - b - high target prices and large government payments to farmers
 - c - political realities that limit the ability of government to call reserve grain onto the market

SLIDE 19: MAJOR POLICY OPTIONS

- A - Most policy alternatives fall into one of three general categories
- 1 - Economic policy -- those policies that affect agriculture by influencing aggregate economic development in the U.S. and throughout the world
 - 2 - Trade policy -- those policies that alter the flow of commerce in international markets
 - 3 - Farm policy -- those policies aimed specifically at the agricultural economy
- B - Policy prescriptions offered by some are little more than bromides (trite propositions that are unlikely to solve fundamental problems)
- C - Others could resolve important and pressing issues, but may be politically unfeasible
- D - Still others offer both realistic and workable options

SLIDE 20: MAJOR POLICY OPTIONS -- ECONOMIC POLICY

- A - Much of the economic problem in the agriculture -- and all export industries -- rests in the international market
- 1 - the high-valued U.S. dollar
 - 2 - economic recession abroad
 - 3 - high interest rates and international debt repayment problems

- B - The first response by many is, if something is wrong in the international economy, we should fix things there
- C - Several policy actions have been suggested, some with and some without merit
 - 1 - Devalue the U.S. dollar
 - a - basic idea is to stimulate exports by lowering the cost of the dollar
 - b - major limitation: world trade is denominated in U.S. dollars, mainly because world traders have confidence in the worthiness (or value) of the U.S. dollar
 - c - to devalue the dollar is to revalue (upward) the currencies of other countries, which creates substantial international political resistance
 - d - because the value of the dollar is market determined, the most direct way to lower its value is to increase its supply (increase the money supply) which is inflationary and generates substantial domestic political resistance
 - 2 - Reduce Federal Budget Deficit
 - a - another way to lower the market value of the dollar is to reduce demand for it
 - b - borrowing by the federal government to cover \$200 billion annual deficits is the single largest demand for U.S. dollars
 - c - there has been no evidence of the political will to either
 - 1) cut federal spending
 - 2) raise taxes sufficient to significantly cut the deficit
 - d - such political will is unlikely to emerge during an election year (1984)
 - 3 - Economic development abroad
 - a - spurring economic growth in developing countries has proven to be a successful formula for increasing U.S. exports
 - b - four development countries -- Mexico, Korea, Taiwan and Spain -- that received much of the U.S.'s economic aid in the 1950's and 1960's became leading customers for U.S. farm products during the 1970's

- c - increasing IMF funds and risk-sharing loans to developing countries between government and commercial banks are possible approaches

SLIDE 21: MAJOR POLICY OPTIONS -- TRADE POLICY

- A - These policy options deal directly with exports, rather than indirectly through general economic policy
- B - Export Assistance -- includes both financial and technical assistance
 - 1 - Financial assistance: mainly PL-480 long term concessional credit and CCC short-term export credit, including blended credit
 - a - in FY 1983, PL 480 = \$1.25 billion, + 11% from 1982
 - b - FY 1983, CCC export credits = \$5.0 billion, + 260% from 1982 (\$1.9 billion)
 - c - thus, total direct financial assistance for agricultural exports = \$6.25 billion
 - d - compares with about \$6 billion in export subsidies by the EC (European Community) and lesser amounts by other exporting countries including Canada and Australia
 - e - considerable resistance in OMB for comparable appropriations in FY 1984 (\$8 billion requested by USDA, about \$3.5 billion approved by OMB)
 - 2 - Technical assistance: mainly sales promotion through FAS activities such as
 - a - agricultural attaches and counselors
 - b - industry cooperator program (more than 50 industry groups)
 - c - foreign agricultural trade centers (7)
 - d - trade leads
- C - Reduce trade barriers
 - 1 - GATT (General Agreement on Trade and Tariffs) is the international organization through which multilateral agreements on trade rules are negotiated
 - 2 - Substantial gains have been made on reducing trade barriers on industrial goods, which is promoted by most industrialized countries

- 3 - U.S. is almost alone among industrialized nations arguing for lower agricultural trade barriers
 - a - other countries more interested in expanding industrial exports
 - b - also generally interested in protecting their agricultural sectors, for both domestic farm income and food security reasons
 - c - few gains in lower agricultural trade barriers have been achieved

- D - Protectionism -- this is the antithesis of the previous option
 - 1 - Much pressure in several U.S. industrial sectors for protection from lower cost imports (autos, steel, textiles)
 - 2 - Reciprocity is the "flip side" of protectionism, that is, if U.S. restricts industrial imports, other countries are likely to retaliate by restricting their imports of U.S. agricultural products
 - a - much discussion of further restricting Japanese auto imports, but Japan is our largest customer for farm products
 - b - China reneged on its long-term grain purchase agreement in 1983 because of U.S. restrictions on imports of Chinese textile products
 - 3 - Potentially, protectionism could be economically devastating to U.S. agriculture

SLIDE 22: MAJOR POLICY OPTIONS -- FARM POLICY

- A - The "Free Market" Option
 - 1 - Implies a minimum of government involvement in agriculture
 - 2 - Would include elimination of programs such as
 - a - target prices
 - b - deficiency payments
 - c - farmer owned reserve
 - b - all forms of acreage and production controls

- 3 - CCC crop loans might be retained as minimum price protection
 - a - but nonrecourse feature would have to be dropped to prevent accumulation of government stocks
 - 4 - Must include free market policies toward agricultural exports and imports to be a true "free market" system
 - a - would encourage exports, particularly in years of large production and relatively low prices
 - b - imports of products such as manufactured dairy products and utility-type beef would increase
 - 5 - Farm product prices and agricultural incomes would be more variable
 - 6 - Government costs would be cut sharply
 - 7 - Farmers and agribusinesses who can best adjust to increased economic risks would be the most likely survivors
- B - Mandatory production controls (rather than none, as with the free market option or voluntary, as now)
- 1 - Most (only) effective method is marketing quotas
 - a - acreage controls have "slippage" associated with increased yields
 - b - marketing quotas, based on historic production patterns, give "windfall" gains to those with a production base
 - c - expected future income gains from production controls get capitalized into the value of whatever the quota is tied to (land, farms, etc.)
 - 2 - Tendency is to restrict quotas to levels that enhance price, which
 - a - discourages sales growth, particularly exports
 - b - encourages increased production by non-quota producers (foreigners, growers of substitute products, etc.)
 - 3 - Most popular when farm incomes are depressed and threatened to fall lower
 - a - once established, they develop strong support among those who own the production and marketing rights

- b - once they become effective, strong opposition sets in from aspiring producers and consumers

C - Modifications to the current program: "fine tuning"

1 - Reduce price support levels

- a - basic idea is to stimulate demand and encourage farmers to match production with market demand by allowing them to "feel the market"

- b - has been done to some extent for 1984

Wheat: -10%

Corn: -4%

- c - some promote the "soybean model" where support price = 75% of 5 year moving average of historic market prices (less high and low years)

- d - biggest problem now: is it feasible to lower price supports enough to offset the impact of an 85% increase in the cost of the dollar to our foreign buyers?

2 - Revise the rules for operating the farmer owned reserve

- a - basic concept of the reserve is sound (acquiring stocks when supplies are abundant and prices low, and vice versa)

- b - problems occur when acquisition price is high enough to attract production (as with a reserve loan above the price support level)

- c - or, when supplies aren't released to the market when prices are relatively strong (such as when farmers raise strong political opposition to call sales on an "up" market)

3 - Numerous possibilities for "self help" programs for farmers

- a - put more of the responsibility on farmers for farm stabilization programs

- b - producer assessments, already in use for tobacco and dairy, help defray public costs -- act effectively as a decrease in price support level

- c - pool marketwide returns over several years and pay farmers average prices each year (similar to Canadian and Australian wheat board pools)

- d - strengthen rules for collective action by farmers, such as collective bargaining units, stronger cooperatives, and expanded market order authority
- D - This is a much different policy option: isolate agricultural exports from the deleterious impacts of fluctuations in the value of the dollar
 - 1 - Aimed at stabilizing the demand side of the market -- specifically exports -- rather than the supply side as is current policy
 - 2 - Impact of the high valued dollar on exports has already been demonstrated
 - 3 - The question is: what has caused the dollar to be overvalued?
 - a - and, what can be done about it from the viewpoint of agricultural trade?

SLIDE 23: INTEREST RATES AND THE VALUE OF THE DOLLAR

- A - A major factor explaining the value of the dollar: real prime interest rates
 - 1 - Theoretically, merchandise trade balance determines the dollar value
 - a - trade deficit means more dollars being spent internationally than being earned
 - b - thus, the dollar should decline in value
 - c - merchandise trade deficit has averaged more than \$40 billion per year since 1980
 - 2 - Since 1980, however, the U.S. has had a net inflow of dollars despite the huge trade deficit
 - a - inflow has been investment capital
 - b - encouraged by extremely high levels of real earnings (interest rates) possible in the U.S.
 - c - plus, the "safe haven" of U.S. investments compared to many other countries
- B - A related issue is, what has caused the significant jump in real U.S. interest rates in the past 3 years?

SLIDE 24: FEDERAL DEFICITS, AVAILABLE FUNDS AND INTEREST RATES

- A - The most significant cause of high interest rates: a shortage of liquidity or "borrowable" funds in the U.S.
- B - Liquidity drain = annual federal budget deficit minus the increase in loanable funds (money supply + personal savings + business profits)
- C - Thus, sharply higher budget deficits have pushed up real interest rates
 - 1 - this, in turn, has overvalued the dollar relative to merchandise trade
 - 2 - and the overvalued dollar has sharply cut farm exports --- and prices --- and incomes
- D - Our proposal for a policy to mitigate these impacts
 - 1 - Subsidies on agricultural exports and taxes on agricultural imports
 - 2 - Based on difference between short-term and long-term exchange rates between the dollar and the currency of each of our agricultural trade partners
 - 3 - Triggered by a deviation in short-term interest rates from their longer term equilibrium
 - 4 - Thus, when interest rates are abnormally high, and
 - a - when the dollar is overvalued as a result
 - 5 - Agricultural exports would be subsidized by enough to offset the impact of the overvalued dollar
 - a - and vice versa for an undervalued dollar
 - 6 - Result would be to offset the impact of interest rate-caused changes in the dollar value on agricultural trade
 - 7 - Not a self-correcting mechanism
 - a - but, would increase government expenditures and raise the deficit during times when subsidy is in effect
 - b - which would increase pressure on policy-makers to reduce the deficit and thus moderate the fundamental problem

ANSWER 4 - AGREE

QUESTION 5 --- Improved net farm income of 15 - 20% in 1983 means a return to rapid exhalation in land values and substantial sales gains for the input industries.

SLIDE 25: NET FARM INCOME: A ROLLER COASTER

A - The chart depicts a major farm problem: the instability in incomes; due to price instability and output instability

B - 1983 net farm income will be in the \$26 - 28 billion range

1 - Higher grain prices offset lower yields

2 - PIK reduced input costs

3 - Big PIK payments, dairy supports, etc.

4 - Livestock profits adversely impacted by drought

C - 1984 Prospects

1 - Plant large acreage

2 - Lower grain prices

3 - Lower government payments

4 - Less livestock to sell

5 - Large volume of inputs

6 - Net farm income down \$1 to \$4 billion

a - may be ± \$26 billion

SLIDE 26: INCOME OF FARM OPERATOR FAMILIES

A - Off-farm income now supplies about 2/3 of farm family incomes

1 - 100% + on small farms (\$<40,000)

2 - 2/3 of family income on medium size farms

3 - 15 - 20% of family income on farms with sales over \$100,000

B - Over last decade on a per capita disposable income basis

1 - Farm families had incomes running about 90% of the income of nonfarm families

SLIDE 27: RETURN TO U.S. FARMERS EQUITY

- A - Capital gains: lower line
- B - Current income: difference between total and capital gains
- C - Returns near long term (10 year) average
 - 1 - Income at 4.6%
 - 2 - Total at 7.9%
- D - Note the instability and deficits
 - 1 - Most vulnerable people to instability are
 - a - beginning operators
 - b - heavily indebted full time farmers
 - c - Expanding full time, medium sized farms

SLIDE 28: USE OF SELECTED FARM INPUTS

- A - All categories, except labor, have shown long term up trend as U.S. farmers expanded output to meet both the domestic and foreign needs
 - 1 - In 1983 the PIK program severely impacted the input industries and handlers of grain products
- B - 1983 is a one year aberration; 1984 will see an increase in sales of the inputs as farmers plant fence row to fence row

SLIDE 29: FARM INPUTS: FARM ORIGIN

A - Feed	<u>1983/82</u>	<u>1984/83</u>
An. units	+4%	-3 to -5%
Feeding rate	+3	-5 to -10%
Price	+7	+25 to 30%
B - Placements		
Beef No.	+2	-3
Hogs, No.	+10%	0 to -4%
Poultry, No.	-2%	0 to -2%
C - Seed		
Acreage	-15%	+15%
Price	0	+5 to 15%

SLIDE 30: PRICE OF INPUTS: NONFARM ORIGIN

	<u>1983/82</u>	<u>1984/83</u>
Fertilizer	-7%	+7%
Machinery	+5	+6
Fuel: All	-2	+7
Chemicals	+4	+6
Wages	+3	+3 to 5
Interest Rate	+1	High
Taxes	+7	Up
Total Expenses	-4%	+8 to 12%

(Vol. x price)

SLIDE 31: FARMLAND PRICES

A - Land devaluation in Ohio has been larger than U.S.

1 - Land prices in Ohio back to 1978 levels

a - Poor weather and low grain prices for 2 - 4 years

b - Interest rates and availability of credit

c - Lack of demand for land

B - 1984 may see a leveling off of Ohio land values

1 - Land prices in many cases are higher than the ability of the land to support the value

ANSWER 5 - DISAGREE

SLIDE 32: WHAT WE SAID: SUPPLIES AND PRICES: 1983

A - Missed corn prices: PIK and drought escalated prices to an average of \$2.79/bushel compared to \$2.45 one year earlier

1 - We said corn prices would be down

2 - Magnitudes of declines or increases may have been different

a - Projected directions well

B - 6 out of 7 (13 out of 14) gives a batting average of .857 (.928)!!

QUESTION 6 - PIK and drought have solved the long term excess supply and low price problem in the corn market.

SLIDE 33: CORN SITUATION: WITH PIK AND DROUGHT

- A - In 1983, combined impact of PIK acreage reduction and drought has been a sharp cut in the "fill rate"
- B - Flush valve has been opened on both government and FOR stocks
 - a - PIK
 - b - Market prices above release levels
- C - Demand values are open as far as we can get them
- D - Sinking reservoir has buoyed-up price levels

SLIDE 34: CORN: SUPPLY AND USE

- A - 1983-84 total supply will be 7.4 billion bushels (down from 7.8 billion on chart), 31% less than last year
 - 1 - Acreage: -30% (51.4 million vs. 73.2 million)
 - 2 - Yields: -28% (82.9 vs. 114.8)
 - 3 - Carryover: +37% (3.1 vs. 2.3 billion bushels)
- B - Use is projected in the 6.6-6.8 billion bushel range, down about 10-12%
 - 1 - Use will be reduced due to
 - a - limits on supply
 - b - substitution of wheat in feeding rations
 - c - relatively weak export market
- C - Carryout = 500-800 mil. bu., down 75-80%
 - a - equal to a 4-6 week supply next Oct. 1

SLIDE 35: CORN: OHIO AVG. PRICE

- A - Last fall we said corn prices to Ohio farmers would average around \$2.50 in 1982-83
 - 1 - Actual average was \$2.79

- 2 - The expected price appreciation trend from harvest received unexpected boosts:
 - a - in April from the PIK participation announcement
 - b - in August from drought
- B - 1983-84 price expected to average in the \$3.30-\$3.60 range
 - 1 - Highest prices likely in the immediate post-harvest months
 - a - prior to the end of the free PIK storage period in March
 - 2 - Prices are limited on the upward side by abundant wheat supplies
 - 3 - Prices are limited on the downward side, at least through spring, by the need to keep FOR in release status
 - a - \$3.25 on '82 reserves
 - b - \$3.15 on '81 reserves
 - 4 - Prices in the last quarter of the Oct.-Sept. marketing year will be heavily influenced by the prospects for the 1984 crop

SLIDE 36: 1984 CORN PROSPECTS

- A - Three weather scenarios: poor, average, and good
- B - 1984-85 use assumed at 6 yr. average (+5% from this year)
- C - Acreage reflects modest participation (40-50%) in the 10% ACR program
- D - Another drought year would cause a significant supply short-fall and upward price trend going into 84-85 marketing year
- E - Average to good weather will generate some stock rebuilding and related price weakness as harvest approaches
 - 1 - substantial with good weather

SLIDE 37: 1984 CORN ACR: PARTICIPATE OR NOT?

- A - Main features:
 - 1 - 10% ACR (average conservation reserve)
 - 2 - Loan rate = \$2.55, -4% from 1983 (\$2.65)
 - 3 - Target price = \$3.03, +6% from 1983 (\$2.86)

- 4 - Maximum deficiency payment = \$0.48/bu. (up from \$0.21)
- 5 - No PIK or paid diversion
- B - Break-even price for typical Ohio situation = \$2.85
 - 1 - At higher price for '84 crop, nonparticipation is more profitable, but not by much
 - 2 - Below this price, participation is quite a bit more profitable
- C - Many producers may figure most profitable action is to participate
 - 1 - Expected harvest reduction is less than the 10% ACR due to retirement of poorer land
 - 2 - Contract part of expected harvest before planting
 - 3 - If market price declines by harvest, reap double benefits of higher contract price + program deficiency payment

SLIDE 38: SEASONAL PRICE PATTERNS; 1965/66 - 1980/81

- A - Short crops, such as 1983 for corn and soybeans, show "long market tail"
 - 1 - Price holds longer for soybeans than corn due to
 - a - more rapid substitution of other feedstuffs for corn
 - b - fairly rapid liquidation of hogs by hog-corn growers
 - c - thus, longer period required to stem soybean demand than for corn
 - 2 - Patterns in 1983-84 may show less rapid decline for first 8-9 months, then final "tail" will depend on how the '84 crops shape up
- B - Odds favor a normal- or large-crop price pattern for 1984-85, thus relatively weak prices next fall

ANSWER 6 - DISAGREE

QUESTION 7 - Wheat is a feedgrain.

SLIDE 39: WHEAT: SUPPLY AND USE

- A - 1983-84 supply = 3.95 billion bushels, -0.7%, second largest supply ever
 - 1 - Production = 2.4 bil. bu., -14%

a - acreage down 23% (61 mil. harvested) due largely to PIK
(1982 = 79 million acres)

b - yield up 11% (39.5 bu./acre) due to ideal growing weather
(1982 = 35.6 bu./ac.)

2 - Carryin = 1.54 bil. bu., + 33%, largest ever (1982 = 1.16 bil.)

a - previous high = 1.41 bil. bu. in 1961

B - Utilization during 1983-84 = 2.5 - 2.7 bil. bu., + 3-9%

1 - Domestic use = 1.1 - 1.2 bil. bu., + 20-30%

a - substantial increase in feed use -- could double from last
year's 213 mil. bu. -- due to large wheat supply and
relatively small feedgrain supply

b - increase in seed use

c - relatively stable food use

2 - Export demand = around 1.4 bil. bu., down 5-10%

a - slowdown in world wheat trade due to increased production
in many nations

b - U.S. price disadvantage due to high valued dollar, EC and
Canadian export subsidies

C - Carryout = 1.3 - 1.5 bil. bu., down 5-15% from carryin stocks

1 - About 1.9 bil. of 1983 crop was eligible for price support loan
at \$3.65

2 - 1.2 bil. bu. of carryin was CCC or FOR

3 - Thus, 3.1 bil. bu. of the 3.9 bil. supply is potentially or
actually tied into government programs

4 - Assuming about 700 mil. bu. free stock carryout, than roughly
2.4 bil. bu. of the 3.1 bil. must be redeemed or kept out of
loan

5 - This translates into an effective floor price for wheat in the
\$3.35-3.40 range

SLIDE 40: WHEAT PRICES AND STOCKS

A - This slide shows the negative relationship between carryout stocks
and season average prices

- B - 1983-84 year-end stocks will be nearly as large as 1982-83, but with somewhat higher price
 - 1 - Greater substitution of wheat for corn will transfer feedgrain price strength to wheat market
 - 2 - Impact of \$3.65 support price
- C - Note change in stocks-price relationship from 1970's to early 1980's
 - 1 - Probably reflects the impact of the FOR on the willingness to carry larger stocks at a given price
 - 2 - Incentives for that change included storage payments, storage facilities loans, and for 2 years, higher reserve loan rates

SLIDE 41: WHEAT: OHIO AVERAGE PRICES

- A - Last fall we said 1982-83 season average price = \$3.00-3.40 - actual average = \$3.08
- B - 1983-84 price moved up in August as drought impacts on corn, soybeans became apparent
- C - Prices should parallel corn prices through early spring, until 1984 crop prospects are known
- D - Prices are likely to be in the \$3.50-3.80 range through winter
 - a - then most likely begin to tail off toward mid spring
- E - Season average Ohio price = \$3.40-3.70

ANSWER 7 - AGREE

QUESTION 8 - Price will ration soybean use during the 1983-84 market year.

SLIDE 42: SOYBEANS: SUPPLY, USE

- A - 1983-84 supply = 1.9 billion bushels, down 23%
 - 1 - Production = 1.5 billion bushels, down 31% (1982 = 2.2 bil.)
 - a - acreage = 61.4 mil., down 13% (1982 = 70.8 mil.)
 - b - yield = 24.7 bu./ac., down 21% (1982 = 31.2 bu./ac.)
 - 2 - Carryin = 387 mil. bu., up 45% (1982 = 266 mil. bu.)

- B - Expected use in 1983-84 = about 1.8 bil. bu., down about 14%
 - 1 - Use will be limited primarily by the availability of supplies
 - a - allowing for minimum pipeline stocks next September
 - 2 - Prices will be bid up enough to cause demand to be cut back consistent with supply availability
 - 3 - Export demand = 720-770 mil. bu., down 15-25%
 - a - curtailed by high domestic prices
 - b - plus, other trade-related problems, including possible import levy on soy products in EC
 - 4 - Domestic demand = 1.0-1.1 bil. bu., down 10-12%
 - a - domestic crush will claim the residual between exports and available supplies
- C - Carryout = 100-120 mil. bu., down 70-75%
 - a - minimum pipeline stocks: 2-3 week supply

SLIDE 43: SOYBEAN PRICING

- A - Prices shown are FOB Decatur, Illinois
- B - Crushing costs and transportation differential to Ohio markets = 40-60 cents/bushel
- C - Points to a season average price to Ohio farmers in the \$8.25-9.25 range

SLIDE 44: SOYBEANS: AVG. PRICES

- A - Last fall we predicted 1982-83 prices to average in the \$5.25-5.75 range
 - 1 - Actual average = \$5.79
 - 2 - Late season (August) upward "kick" due to drought was the unexpected factor
- B - 1983-84 prices should trade in the \$8.50-9.50 range for first half of the marketing year
 - 1 - Takes 4-6 months of relatively high prices to bring about a downward use adjustment

2 - Prices in the spring will be influenced by South American crop

a - current information points to a 10-15% acreage expansion this year in South America

3 - Price is likely to tail off after mid year

a - market tail is normal in "short crop" years as demand is stemmed by higher price

b - barring serious weather problems for the 1984 crop

ANSWER 8 - AGREE

QUESTION 9 - Farmers know their grain production costs.

SLIDE 45: OHIO CROP COSTS (300 ACRES)

A - Corn yield	90 bu.	120 bu.	150 bu.
variable	1.54	1.38	1.30
Fixed + Land	<u>1.35</u>	<u>1.36</u>	<u>1.41</u>
Total	2.89	2.74	2.71

B - Soybean yield	28	38	48
variable	3.68	2.92	2.46
Fixed + Land	<u>4.11</u>	<u>4.12</u>	<u>4.23</u>
Total	7.79	7.04	6.69

C - Wheat (grain) yield	30	45	60
variable	2.67	2.04	1.77
Fixed + Land	<u>3.19</u>	<u>3.03</u>	<u>3.02</u>
Total	5.86	5.07	4.79

D - Points

1 - High yields reduce costs of production

2 - Not shown: Larger acreages reduce costs

- 3 - Most farmers dislike record keeping, don't calculate costs of production on specific enterprises

ANSWER 9 - DISAGREE

QUESTION 10 - Most hog farmers will have "lean pickings" for a year.

SLIDE 46: CHANGES IN PIG CROP

- A - Expansion in the hog business during 1983 was set in place by good profitability
 - 1 - Low feed prices in 1982
 - 2 - Strong hog prices
 - 3 - Expanded breeding herd
 - 4 - Mild winter meant more pigs raised per sow
- B - Sows farrowing (Sept-Nov and Dec-Feb '84) may be lower than intentions show
 - 1 - Lack of profitability due to higher feed costs and more pork production
 - 2 - The turn around in hog numbers will occur in mid-1984

SLIDE 47: PORK OUTPUT AND PRICES

- A - Shows hog cycle in a different way
 - 1 - Plots total pork production (horizontal axis)
 - 2 - Annual average hog prices (vertical axis)
- B - Trace cycle
 - 1 - 1974 to 1975 aberation growing out of
 - a - drought
 - b - high feed prices
 - 2 - 1978-79-80 expansion unusually long
 - a - beef marketings at low point, helping pork demand and price
 - 3 - 1983 and 1984 output-price combination at lower level due to
 - a - reduced inflation rate
 - b - shifting demand for meat

SLIDE 48: HOGS: B AND G AVG. PRICES

A - Late 1983 price prospects

- 1 - Marketings up ± 15%
 - a - herd liquidation
 - b - selling higher proportion of gilts
- 2 - Price prospects
 - a - low '40's; dipping into 30's
- 3 - 1983 price will average \$47-49
 - a - profitable for year when production costs to average producer with medium age facilities is near \$45
 - b - at current feed costs average production cost near the mid \$50's

B - 1984 Price prospects

- 1 - First half of 1984
 - a - move to mid to high \$40's in winter
 - b - decline in spring
- 2 - Last half of 1984
 - a - marketings should start their long term decline due to fewer farrowings
 - b - prices should move toward ± \$50 in late 1984
 - 1) still lots of hogs; declines will be from a large base one year earlier
 - c - fewer hogs to market plus high probability of lower feed costs in late 1984 will temper cost-price squeeze

ANSWER 10 - AGREE

QUESTION 11 - Returns to cow-calf operators should improve in 1984 and feedlot operators may obtain some dollar profit in addition to experience and manure.

SLIDE 49: BEEF OUTPUT FOR 1984

	<u>1984/83</u>
A - Slaughter (+35.5 mil.)	-2 to -3%
1 - Calf crop	-1%
2 - Feeder Supply	-3%
3 - Some further liquidation	
B - Weights (1050 to 1070)	-1 to -2%
1 - More heifers (200# less) marketed	
2 - Nonfeed slaughter up	
C - Beef output	-1 to -3%
First Half	-2 to -4%
Second half	
1 - Fewer placements (lack of profit)	
2 - Lower weights	
D - Imports	same
1 - Countercyclical formula permits 1.28 bil. pounds	
E - Beef/Person	-3 to -4%
Retail weight	77-78 lbs.
1 - 1983 weight was 80#/person	
F - Retail price/lb.	\$2.40-2.50
1 - Jan-June '83 price was \$2.43	
2 - July-Dec '83 price estimated at \$2.40	
3 - at \$2.50/lb. consumers "back off" of buying beef (current incomes etc.)	

a - Wholesale carcass price of \$1.10 to \$1.15 per lb. cannot be maintained

b - at \$.90-\$1.00 per lb. consumer purchases recover

SLIDE 50: FEMALE SLAUGHTER AS % OF STEER SLAUGHTER

A - % under 100 is herd expansion and profitable

B - % over 100 means liquidation

1 - Unprofitable

C - 1983 will show a still higher %

1 - Low feeder prices

2 - High feed costs

3 - Sell to maintain cash flow

D - 1984 prospects: lower rate of female slaughter

1 - Higher feeder prices

2 - More profitable

3 - Herd maintenance

SLIDE 51: DAIRY SLAUGHTER AND BEEF PRICES

A - Dairy cows will be slaughtered in large numbers in next couple years.
The program possibilities

1 - Dairy slaughter indemnity program

2 - Milk diversion program

3 - Lower price supports; net milk price decline

4 - Regardless of program, culling will occur

B - Let's look at some studies that give us clues as to the impacts

1 - Study	Cull cows	Slau. steers
I	-1.91	-0.24
II	-1.09	-0.60
III	-1.08	XX

- 2 - Meaning: Import 1 lb./person/yr
 - a - Impact on cull cow prices (beef or dairy)
 - 1) -1.08 to $-1.91¢/lb.$ or
 - 2) $-\$1.08$ to $-\$1.91/cwt.$
 - b - Slaughter steers
 - 1) -0.25 to $-0.60¢/lb.$
- 3 - Increase dairy cow slaughter 1 mil. head
 - a - 400,000,000 lbs. of beef (400#/head dressed wt.)
 - b - 400,000,000 lbs. = 1.7#/person
 - c - cows
 - $1.7\# \times -\$1.08 = \1.83 per cwt, or
 - $1.7\# \times \$-1.91 = \3.25 per cwt
 - d - steers
 - $1.7\# \times \$-0.24 = \0.41 per cwt
 - $1.7\# \times \$-0.61 = \1.02 per cwt
- 4 - Slaughter of 1 million head of dairy cows is very conservative estimate
 - a - Impacts of increased slaughter over 1 year versus two years
 - 1) aggregate impacts eventually the same

SLIDE 52: CATTLE: CHOICE STEERS, 900-1100 LBS., OMAHA

A - 1983

- 1 - Jan.-Sept. average was \$63.17
 - a - decline accentuated due to
 - 1) rising feed costs
 - 2) more pork
 - 3) more beef

a) liquidation

b) more fed beef

2 - Prices should average in low \$60's for this fall

a - larger nonfed slaughter will keep average carcass weight down

b - large portion of heifers in fed slaughter keeps weight down

B - 1984 prospects (First Half Year Only)

1 - Beef production down 2-4%

a - fewer placements in fall of 1983

1) low feeder prices: keep to background

2) credit problems

3) high feed costs

4) lower average slaughter weights

2 - Prices for fed cattle should go into high \$60's (maybe \$70) in spring

a - less beef

b - less poultry

c - pork cutbacks

3 - Last half of 1984

a - beef slaughter down

b - less pork

c - improved economy

d - stronger beef prices

SLIDE 53: FEEDER STEER PRICES: KY. MED. NO. 1, 500-600 LBS.

A - Cow calf operators have had negative returns

1 - Low feeder prices: below costs

a - drought and roughage shortages in 1983

b - high grain costs translate into low feeder cattle prices

2 - Financial stress forced selling of heifers and cows

3 - Upward price pressure comes from

a - large feedlot capacity

B - 1983 prices

1 - Ave. for Jan.-Sept. was \$63.50

a - August-September ave. was \$58.00

2 - Cost in Ky - ave. - \$56-60

Transportation 1.50-2.00

Feedlot cost \$57.00 - 62.00

C - 1984 feeder prices (500-600#)

1 - Should follow fed cattle prices upward

a - peak in spring as grass becomes available, near \$70.00

2 - Cow-calf operators - strategy

a - if feed available

1) backgrounding for sale next spring will be profitable

3 - Reduced herd size in 1984

a - fewer calves

b - less pork, will help fed beef prices

c - improved feeder prices next fall

ANSWER 11 - AGREE

QUESTION 12: A "belt-tightening" year faces dairymen as costs escalate against declining net farm milk prices.

SLIDE 54: MILK PRODUCTION

A - Production has increased appreciably since 1978, after a decade of relative stability

1 - production will total 138.5 bil. lbs. in 1983, +2%

- 2 - number of milk cows has increased since 1980, reversing a long-term down trend

B - Major factors causing production increase

1 - Favorable milk-feed price ratio

a - from 1980 through mid 1983, ratio was equal to or exceeded 1.5:1

b - ratio exceeding 1.3:1 encourages production

c - since the 50¢ + 50¢ assessment started in September, 1983 and drought/PIK-related feed cost increases, ratio has dropped well below 1.3:1

d - thus, price-cost incentive for further expansion no longer exists

2 - Cull cow prices have not been high enough to attract cow liquidations

3 - More dairy replacement heifers are available

a - ratio of replacement heifers to milk cows reached a record high of 44:100 in mid 1983

b - historic ratio is in the 32-35:100 range

4 - Average cost of a milk cow has dropped (mid 1983 down 15% from record of \$1240 in Jan. 1981)

C - Production has substantially exceeded commercial demand for milk since 1979

1-	<u>surplus as % of production</u>
1979	1.7%
1980	6.8%
1981	9.7%
1982	10.5%
1983	12.1%

2 - Result has been large government expenditures on surplus milk acquisition, and pressure to change dairy support program

a - FY 1983 dairy program expenditures = \$2.75 bil.

SLIDE 55: OHIO MILK PRICES

A - Average producer milk prices have drifted modestly downward from 1981's peak of \$13.80

- 1 - Averaged \$13.60 in 1982
- 2 - Averaged about \$13.50 in 1983
- B - Price support has remained at \$13.10 since October 1, 1980
- C - Class I utilization rate has declined, due largely to increased production, lowering the blend price
- D - "Effective" price support was cut by 50¢ (nonrefundable) on April 1, 1983 and by another 50¢ (refundable) on September 1, 1983
 - 1 - puts effective support at \$12.10 for 1984
 - a - effective blend price in Ohio will be about \$12.40 for 1984
 - 2 - 2nd 50¢ is refundable to those producers who cut production by 8.4% from Oct. 1, 1980 - Sept. 30, 1982 base
- E - Much current uncertainty about federal dairy policy
 - 1 - for planning purposes, best assumption is that current situation will hold through 1984
 - a - modest upward adjustment in support price on Oct. 1, 1984 to reflect the same percent of parity that \$13.10 was on Oct. 1, 1983 (about 58.5%)
 - 2 - With continued strong feed prices, this means a cost-price squeeze for most dairymen in 1984
 - a - and probably some production cut-back for the first time in 6 years

ANSWER 12 - AGREE

QUESTION 13 - High costs are discouraging egg production.

SLIDE 56: EGGS: RATE OF LAY, PROD. AND NO. OF LAYERS

- A - Egg production continued its 3 year decline in 1983
 - 1 - Due largely to a prolonged period of unprofitable price-feed cost relationships
 - 2 - Hatch of egg-type chicks in 1983 will total about 8% below 1982
 - 3 - But, hatch turned up by 2.5% in Sept., indicating that the bottom has probably occurred and some production expansion is likely during the first half of 1984

- B - Forced molting has increased this year, keeping some hens around for additional laying cycles
 - 1 - this has kept production from declining proportionate to reduced hatch
 - 2 - but as hatch increases, molting is likely to decline to more normal levels, thus moderating the output gain from larger hatch

SLIDE 57: CARTONED EGG PRICES, N.Y.

- A - Prices were exceptionally weak during much of 1982 and early 1983
 - 1 - Main factor was weak export demand
 - a - strong dollar overprices U.S. eggs in world markets
 - b - abundant supply of European eggs has kept world demand satisfied
 - 2 - By mid 1983, lower production had cut inventories
 - a - hot summer weather also reduced egg size, further cutting supplies available to egg product manufacturers
 - b - this set the stage for some price improvement
- B - Prices have improved steadily during the last 4-5 months of 1983
 - 1 - gain is entirely due to production cut-back rather than rebound in demand
 - 2 - In 1983, prices have increased, on average, 4% for each 1% cut in supplies
 - a - this is the normal price-quantity relationship when demand is barely steady to weak
- C - Prices through the first quarter of 1984 should show reasonable strength, then ease seasonally in April-June period, with modest seasonal gains through summer

ANSWER 13 - DISAGREE

SLIDE 58: SUPPLIES AND PRICES: 1984

See slide for summary

QUESTION 14 - Farmers in general are excellent production managers but are less successful in managing their marketing and financial affairs.

SLIDE 59: MARKETING TIPS

- A - Follow cash and futures market closely
 - 1 - Record Wed. or Thurs. futures price
 - 2 - Record local cash prices
 - 3 - Calculate basis weekly
- B - Use costs to set price objective
 - 1 - Know costs per acre; translate to cost on estimated yields. Be conservative
 - 2 - Better than \$4 for corn and \$10 for soybeans
- C - Know basis: when to sell, store, hedge
 - 1 - Basis will help establish your marketing strategy
 - 2 - Basis is a guide to prifitability of storage
- D - Market ahead of delivery
 - 1 - Maybe before harvest or after harvest
- E - Use storage as a forward pricing tool
 - 1 - Provides additional marketing options
 - 2 - Storage of grain does not always pay: sometimes better to leave storage empty
- F - Hedge a year ahead when profitable
 - 1 - Good opportunity to sell '84 soybeans in '83
 - a - In Sept., the November '84 soybean futures prices was at a \$2.89 discount to May '84
 - b - when the spread improves (narrows), move sale to '84 Nov. futures
- G - Price crop in several lots
 - 1 - Pre-plant, post-plant, pre-harvest, harvest, post-harvest as profits and money needs dictate

H - Be satisfied with a good return

- 1 - You may miss "bragging rights" but will make a profit
- 2 - Don't look back. If it was a good decision when made, it is still a good decision

I - Avoid pricing below breakeven point

- 1 - Requires planning: that's management of
 - a - marketing
 - b - financial affairs (cash flow)

J - Use government programs to reduce risk

- 1 - Breakeven price point for participant and non-participant in 1984 corn program is \$2.85
 - a - producers who cannot afford the financial risk of lower price might participate

SLIDE 60: DIVERSIFIED PRICING PLAN FOR SOYBEANS

A - Example of marketing strategies based on

- 1 - Price trend expectations of
 - a - increase
 - b - decrease
 - c - uncertain
- 2 - Storage versus no storage
- 3 - Percentages are illustrative

SLIDE 61: PRICING 1983 CORN: 1984 CROP

A - Pricing opportunities for a crop cover 24 months

- 1 - 1983 crop
 - a - preplant and preharvest period of September 1982 to October, 1983
 - 1) pricing options
 - a) forward contract

- b) hedge
- c) basis contract

b - harvest

- 1) sell at harvest
- 2) delayed price

c - post harvest

- 1) sell out of storage

2 - Need is great for producers to become sophisticated marketers

- a - marketing workshops
- b - seminars

SLIDE 63: MANAGEMENT TIPS

A - "Uncertainty is certain"

- 1 - Weather: drought
- 2 - PIK
- 3 - Demand in world
- 4 - Uncontrollable factors

B - Assess financial health (sensitivity analysis)

- 1 - Budget alternatives
 - a - assume 10 and 20% change in price
 - b - assume 10 and 20% change in quantity
 - c - combinations
- 2 - Protections for 1984
 - a - forward price some 1984 crop
 - b - participate in 1984 acreage reduction program
 - c - diversify
 - 1) crops and cropping patterns
 - 2) pricing of planned and actual production

C - Better record keeping

1 - The "survivors" will be managers and records are a necessity

D - Carry insurance

1 - Always tempting when under financial stress to drop insurance

a - term life

b - other to reduce risk

E - Storage costs money

1 - Operating - 2-3¢/month

2 - Forgone interest

a - 3.5¢ per month interest on corn

b - 8.5¢ per month interest on soybeans

F - Crop or flexible share lease

ANSWER 14 - AGREE

SLIDE 63: CREDITS