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1985 ECONOMIC POLICY AND OUTLOOK

for

AGRIBUSINESS

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I Purposes

A - Present some information and apply economic principles and logic to:

- 1 - increase your understanding of the economic environment within which your firm is operating
- 2 - gain insights into how your business and the markets in which you deal are affected by public policies
- 3 - help you anticipate the kinds of economic and policy issues with which you must deal, and
- 4 - improve the profit opportunities for your business

SLIDE 1: ECONOMIC POLICY AND OUTLOOK FOR 1985

A - Economic conditions are changing in significant ways

- 1 - Macroeconomic policies are of increasingly direct concern to agriculture and agribusiness
- 2 - There are fewer common characteristics among people in agriculture
 - a - large, commercial farmers vs. small "hobby" farms
 - b - livestock vs. grain producers
 - c - farm operators vs. absentee landlords
 - d - etc.
- 3 - And, less agreement on both issues and solutions

- 4 - Increasingly so,
 - a - the only certainty is uncertainty
 - b - the only constant is change

B - These factors create new, complex and often confusing dimensions to the business of agriculture

- 1 - Our efforts are aimed at improving your understanding and suggesting some solutions for your consideration

C - Summary -- What we will say!

- 1 - In general, people are seeing a strong economy
 - a - both employment and incomes have increased appreciably
 - b - inflation has remained in check
 - c - industrial productivity is up
- 2 - But, not all sectors of the economy have shared in this prosperity
 - a - import substitution industries and export industries have fared much worse than have other industries
 - b - agriculture, as a major export industry, continues to experience serious economic problems
 - 1) commodity markets are soft and farm income is in the "doldrums"
 - 2) growing numbers of farmers and agribusinesses are experiencing severe financial stress
 - 3) but, as usual, prospects differ by enterprise and among individuals

QUESTION 1 -- Federal fiscal policy has "primed the pump," stimulating rapid economic growth, large federal budget deficits, and a widening crack in the nation's economic foundation.

SLIDE 2: GROSS NATIONAL PRODUCT

A - Since the end of the 1981-82 recession, the U.S. economy has grown more rapidly than at any time since the end of the Korean War

- 1 - GNP in nominal terms (current dollars):
 - a - up 7.7% in 1983
 - b - up 11.6% in 1984

- 2 - GNP in real terms (deflated to 1972 dollars):
 - a - up 3.7% in 1983
 - b - up 7% in 1984
- 3 - Inflation, the difference between nominal and real growth, has improved significantly
 - a - peaked at 13.5% (CPI) in 1980
 - b - about 4% (CPI) in 1984
- 4 - Employment:
 - a - gained 5.2 million jobs in 1984
 - b - compares to a decline of nearly 1 million in 1982
- 5 - 1984 economic gains have been widespread
 - a - particularly noteworthy is a substantial (34%) increase in business investment, which was sharply depressed in both 1983 and 1982
 - b - business investment was encouraged by:
 - 1) investment tax incentives of the 1981 federal income tax reforms, combined with higher business profits (+25% in 1984), thus more income to shelter from taxes
 - 2) increase in plant utilization rate from 75% in 1983 to 82% in 1984
- B - GNP is expected to continue to grow by 3-5%, annual rate, in real terms during first half of 1985
 - 1 - high interest rates are likely to result in sluggish performance in interest sensitive sectors (housing, autos, appliances, business equipment, etc.)
 - 2 - by the last quarter of 1985, could be back to a "no growth" situation

SLIDE 3: FEDERAL BUDGET AND DEBT

- A - The single most important factor behind the economy's rapid growth over the past 2 years has been stimulative federal fiscal policy
 - 1 - About \$200 billion of deficit financing per year has put the domestic economy into "overdrive"

2 - Compares to average annual deficits of:

1977-1980: \$45 bil.

1973-1976: \$33 bil.

1969-1972: \$11 bil.

B - Annual federal deficit is projected to continue in the \$200-300 billion range through the next four years

1 - Can be reduced only by increasing tax receipts, lowering federal spending, or combination of both

2 - 92% of federal expenditures are for programs that are very difficult to cut

a - National defense = 28%

b - Social programs, medicare, and income security = 57%

c - Interest on the national debt = 15%

C - Since 1980, the federal budget deficit has been financed primarily by borrowing in the capital market (sale of U.S. Treasury securities) rather than by expanding the money supply as in the 1970's

1 - Treasury issues in 1982 and 1983 averaged 3.7 times larger than in 1978 and 1979 (\$170 bil./yr. compared to \$46 bil./yr.)

2 - Purpose of the switch to borrowing was to stabilize the rate of growth in the money supply and thus moderate a major cause of inflation

SLIDE 4: INTEREST RATES

A - An impact of the switch to a slower relative growth rate in the nation's money supply in 1980 has been higher interest rates

B - The impact of the large increase in government borrowing (treasury issues) since 1981 has been an even sharper jump in real interest rates

1 - Real interest rates are the true cost of borrowing money

2 - They are equal to the nominal interest rate less the rate of inflation (which is the rate of depreciation in the value of a dollar borrowed today when paid back at a future date)

3 - The real cost of borrowing, or earnings on financial securities, is now 7-8 times its historic level

SLIDE 5: U.S.: NET WORLD DEBTOR IN 1985

A - High real interest rates have attracted large amounts of foreign capital to the U.S.

- 1 - In 1984, there has been a net inflow of capital into the U.S. of \$75 billion
 - 2 - As recently as 1981 there was a net capital outflow from the U.S. exceeding \$35 billion
 - 3 - Thus, U.S. is rapidly becoming a net debtor nation
 - a - some projections show a net national debt to foreigners exceeding \$200 billion by 1986
 - b - this would make the U.S. the largest debtor nation in the world (Brazil = \$100 billion is currently the largest)
- B - This big inflow of capital is in the form of dollars, which has increased the demand for U.S. dollars by foreigners
- 1 - At the same time, the supply of U.S. dollars has not grown as rapidly due to relatively restrictive U.S. monetary policy
 - 2 - This has combined with other factors, such as the perception of the U.S. dollar as a "safe" currency and the continuing demand for dollars to pay for world oil market transactions which are denominated in dollars
 - 3 - The result has been a rapid increase in the value of the dollar vis-a-vis currencies of other countries

SLIDE 6: U.S. TRADE BALANCE

- A - The major impact of the high-valued dollar is on the U.S. trade balance
- 1 - Exports are discouraged, as the effective price of U.S. products abroad increases proportionately to the increases in the value of the dollar
 - 2 - Imports are encouraged, as the effective price of foreign goods is lowered by the declines in the relative values of foreign currencies
- B - The result is, despite a sizeable agricultural trade surplus, the nation's total trade balance has reached a record deficit of more than \$130 billion

SLIDE 7: INFLATION AND VALUE OF THE DOLLAR

- A - The high valued dollar, however, has been a big help in getting inflation rates down
- B - Lower cost of imports has slowed the overall rate of increase in average prices paid by Americans

SLIDE 8: GNP FOR 1985/84

- A - For 1985, the biggest cloud over the economy is the foreign trade sector -- export and import substitution industries
 - 1 - Another \$100+ billion trade deficit is likely
- B - The rate of growth in business investment and consumer spending on big-ticket items is expected to slow due to persistent high real interest rates
 - 1 - Could be headed for a recessionary down-turn by 1986
- C - Government spending is "locked in" to sizeable increases
- D - Inflation will probably creep-up into the 5-6% range
- E - Result will be real growth next year as low as 2%
 - 1 - Down sharply from 1984's 7% real growth

ANSWER 1 - AGREE

QUESTION 2 -- Food production is increasing more rapidly in low income countries than in industrialized countries, creating a serious barrier to expansion of U.S. agricultural exports.

SLIDE 9: VOLUME EXPORTED - VALUE EXPORTED

- A - First, let's look at the record for U.S. farm product exports
- B - Between 1972 and 1980, the volume of U.S. agricultural exports tripled, to nearly 170 million metric tons (MMT)
 - 1 - Several important reasons:
 - a - opened trade relationships with the USSR, Peoples Republic of China
 - b - poor weather in much of the northern hemisphere in 1972 and 1973 cut food supplies in many countries, encouraging them to import significant quantities for the first time
 - 1) once started, its hard to stop
 - c - rapid economic growth in some countries with large populations (S. Korea, Taiwan, Mexico, Spain)
 - 1) generated significant increases in personal income and thus in the demand for food
 - d - devaluation of the U.S. dollar
 - e - abundant credit for poorer nations, due to large supplies of petro dollars deposited in international banks

- f - both d and e, above, were associated with OPEC's sharp increase in world oil prices
- 2 - About 85% of all exports are feed grains, wheat and soybeans
 - a - These are the farm commodities that are the most important, overall, to Ohio agriculture
- C - Since 1980, export volume has declined by nearly 20%
- D - Value of exports is more volatile than is volume, due to price changes
 - 1 - value peaked at \$43.8 billion in 1981
 - 2 - dropped to \$34.8 billion in 1983, down \$9 billion
 - 3 - has recovered about 40% of that in 1984 (up to \$38 billion) due entirely to higher prices
- E - There is little reason to believe that any appreciable up-turn in exports is likely in 1985

SLIDE 10: VALUE OF THE U.S. DOLLAR

- A - The rapid increase in the value of the dollar is perhaps the single most important factor that has constrained exports since 1981
- B - Graph shows the value of the dollar compared to its value in 1979-1980, when it is was at its lowest point in recent years
 - 1 - 1979-80 represents the period when the value of the dollar most favored agricultural exports
 - 2 - This shows the changes in the average cost of U.S. dollars to the foreign buyers who purchase U.S. products
 - 3 - It is different for different products because different groups of countries buy different products in various mixes of quantities
 - a - the dollar changes in value compared to each other currency more-or-less independently
 - b - thus, while the dollar has increased by just 90% relative to British pound since 1980, it has jumped by 4,300% relative to the Brazilian cruzeiro
- C - On a trade weighted basis, the dollar on average costs foreign buyers of corn and soybeans more than twice as much as it did in 1979-80
 - 1 - this compares to an average 65% increase for buyers of industrial products

2 - thus, because agricultural products are shipped more to developing than developed countries, compared to industrial goods, they have suffered a much larger cost disadvantage due to the strong dollar

D - Fundamentally, exports are not likely to show sustained growth until the dollar falls in value

SLIDE 11: WORLD GRAIN PRODUCTION AND USE

A - Another factor affecting farm exports is the relative rate of growth in food consumption, and in U.S. and non-U.S. production

1 - Food grains, feed grains and oilseeds account, directly and indirectly as livestock feed, for about 75% of all human foodstuffs around the world

B - From 1976 to 1980, the rate of increase in non-U.S. production was less than the rate of increase in world use

1 - This created an expanding world market for the U.S.

C - Since 1981, however, non U.S. output has exceeded the rate of increase in world consumption

1 - This equates with a shrinking world market for a residual supplier such as the U.S.

D - Also note the projected build-up in world stocks in 1985 (production well above consumption), which is a major price depressant on world markets

SLIDE 12: CHANGES IN WORLD AGR. PRODUCTION

A - Much of the increase in world production has come in the developing nations

B - However, because of rapid population growth, per capita output has increased only marginally

C - In industrialized, developed countries, output has grown more slowly

1 - But, because of even slower population growth, per capita production has increased appreciably

2 - Overall, therefore, the developed countries are producing an exportable surplus; the developing countries are not

SLIDE 13: DEVELOPING COUNTRIES AND ECONOMIC DEVELOPMENT

A - This shows the relationship between economic development and food consumption

1 - As low income countries become middle income countries, expenditures on food increase rapidly

2 - As middle income countries become high income countries, expenditures on food stabilize

B - The combination of income effect on food consumption and relatively constant per capita food production means that developing countries are probably the largest potential markets for agricultural exports

SLIDE 14: WORLD POPULATION AND INCOME

A - Most of the world's population is in less developed (low income) or developing (middle income) countries

B - Thus, the potential to significantly expand world agricultural trade is obvious

1 - But, economic development in poor countries is an essential ingredient

SLIDE 15: BUYERS OF U.S. AGR. PRODUCTS

A - The customer mix for U.S. farm exports is, albeit slowly, reflecting the greater potential in developing nations

1 - the gap between sales to developed countries, our traditional customers, and the lower income countries has tended to narrow in recent years

2 - by 1985 or 1986, the developing countries may be our most important customers

B - However, because other developed countries are also increasing their output of exportable surpluses, competition for the developing country markets is increasingly fierce

SLIDE 16: U.S. AGRICULTURAL EXPORTS AND FARM PRICES

A - This slide dramatically illustrates the impact of changes in agricultural exports on the value of U.S. farm products

1 - and, indirectly, on the entire agricultural economy

ANSWER 2 - DISAGREE

QUESTION 3 -- Due to modest inflation rates and small price increases for inputs, 1985 net farm income will be much improved.

SLIDE 17: FARM FAMILY INCOME: ALL SOURCES

A - Lower portion of slide depicts the instability in farm incomes due to both output and price instability.

1 - + 15% fluctuation in net farm incomes is common because

a - grain output and prices are influenced by weather

b - livestock adversely impacted by wide grain price fluctuations.

2 - 1984 net farm income estimated at \$23 billion

B - 1985 Prospects

1 - Plant large acreage -- low prices

2 - Government payments low

3 - Less livestock to sell -- higher prices

4 - Net farm income + \$1 to \$3 billion and be \$24-26 billion

a - not sufficient to rescue farmers in financial stress

C - Off farm income now accounts for nearly 60% of farm family incomes.

1 - Farms selling under \$40,000 subsidize farm operations from off-farm earnings.

2 - off-farm earnings provides 1/2 or more of family income on medium sized (\$40,000-\$199,000) farms.

3 - About 20% of total family income from off-farm sources on farms selling over \$200,000 per year.

D - Farm families income from all sources is running about 80% of non-farm population -- down from late 70's.

SLIDE 18: PRICES FOR FARM INPUTS

A - Livestock Placements

1 - Units	<u>1984/83</u>	<u>1985/84</u>
Beef No.	+1-2%	-4-6%
Hogs No.	-8-10%	-3-5%
Poultry No.	+2-3%	+3-4%

2 - Price		
Beef	+1%	+10-15%
Hogs	-1%	+3-6%

B - Feed	<u>1984/83</u>	<u>1985/84</u>
An. Units	0	-3.5%
Feeding Rate	Down	Up
Price	+13%	-20%

C - Seed

Acreage	+11%	0-+1%
Price	+7%	+2-4%

SLIDE 19: QUANTITY OF SELECTED FARM INPUTS

- A - Cropland fluctuates around index of 100: 345 million acres in 1977
 - 1 - 1983 - PIK reduced acreage 15% to below 295 million acres
 - 2 - 1985 - same acreage as 1984 to up slightly
- B - Labor continues decline: -2-3%/year
- C - Fertilizer use on a roller coaster: associated with incomes and land retirement
 - 1 - Note PIK in 1983 reduced use to index of 82
 - 2 - 1985 - up 1-2 points from index of 95 in 1984
- D - Machinery, Units
 - 1 - Decline from 1979 peak to 1983 of 11%
 - 2 - 1984 shows a modest increase of 3 points over 1983
 - 3 - 1985: Probably up modestly as machinery is aging and needs replacement
- E - Pesticides not shown on chart
 - 1 - Continue upward trend of 2 to 3%/yr.
- F - Output
 - 1 - Shows upward trend from 1977 thru 1982
 - 2 - Reflects
 - a - 1980 adverse weather
 - b - 1983 PIK program and drouth
 - 3 - Productivity in U.S. agriculture continues to improve

SLIDE 20: PRICES FOR PURCHASED INPUTS

- A - Chemical prices increased the least over time period: good buy
 - 1 - 1985 price increase may be 3 to 5%
- B - Interest rates (price) increased the most since 1977
 - 1 - Explosion in price accelerated by tightened monetary policy in 1979
 - a - Money costs have leveled off since 1982

- 2 - Not much prospect for big decrease in interest rates in 1985
- C - Fertilizer prices leveled off from 1981 to 1984
 - 1 - May see a 3 - 5% increase in 1985
- D - Machinery prices continue to increase at a steady rate
 - 1 - 1985: price increase of 3 - 4% expected
 - a - Wage settlements will put upward pressure on prices
- E - Taxes in U.S. did not increase as in 1984 as in previous years
 - 1 - Modest increase in 1985 expected
- F - Discounts on seed, fertilizer and chemicals may be good this winter
 - 1 - "Cash up front required"

ANSWER QUESTION 3 - DISAGREE

QUESTION 4 -- About 71% of Ohio farmers are financially secure, 16% are in a resolvable position, and the remaining 13% have unresolvable financial difficulties.

SLIDE 21: CAPITAL GAINS IN U.S. AGRICULTURE

- A - Chart shows annual change in the value of both real estate and other physical assets (machinery, equipment, etc.)
 - 1 - Inflationary growth period of 1970's shows dramatically
 - a - Result of increasing land values due to
 - 1 - inflation and low interest rates
 - 2 - devaluation of dollar and strong exports providing good incomes to farming
 - 2 - 1980 to present shows loss of equity by U.S. agriculture
 - a - Reflects
 - 1 - reduced land values and reduced expectations for earnings in farming
 - b - Result of
 - 1 - Disinflation and high interest rates
 - 2 - high value of dollar and lower exports

SLIDE 22: LAND VALUES IN OHIO, INDIANA AND ILLINOIS

A - Land values "on a roll" until 1981 peak

- 1 - Huge increases in land values annually in each of the states shown as
 - a - Exports grew 10% per year due to undervalued dollar
 - b - "Real" interest rates were low or negative
- 2 - Land speculation occurred as some producers saw an opportunity to expand
 - a - They were willing to assume the "risk" of failure

B - Land devaluation has taken place

- 1 - Now back to 1978 levels as
 - a - High value of dollar has reduced exports and
 - b - Higher interest rates increased costs
- 2 - Land price declines from 1981 peak to 1984 has been
 - a - Ohio -28%
 - b - Indiana -28%
 - c - Illinois -21%

SLIDE 23: DEBT/ASSET BY AGE

A - Generally, younger farms have the most financial stress

- 1 - 13% of all farmers are in an unresolvable financial situation
 - a - 25% of those under 35 years have serious financial problems
 - b - 17% of those 35-49 years have difficulties
- 2 - 42% have no debt
 - a - 78% of those over 65 years of age have no debt
 - b - 49% of those 50-64 years of age
 - c - 23% of those 35-49 years of age, and
 - d - even 16% of those under 35 years of age have no debt
- 3 - When combining those with no debt and 1-25% debt-asset ratio, 71% are financially secure
 - a - by age under 35 = 41% seem financially secure

- b - 35-49 years = 56%
- c - 50-65 years = 79%
- d - over 65 years 93% are financially secure

SLIDE 24: DEBT/ASSET RATIO BY FARM SIZE

- A - Generally, the larger farms have higher debt/asset ratio and have the most serious financial problems
 - 1 - 25-30% of Ohio's larger farms may not survive without making major changes or adjustments
 - a - Does not mean 1/4 to 1/3 will be foreclosed or forced into bankruptcy
 - b - Does mean changes such as
 - 1 - Voluntary and partial liquidation of some assets such as selling off some land
 - 2 - Most smaller farms (up to 250 acres) seem to be financially secure
 - a - Over 80% have debt/asset ratio below 25%

SLIDE 25: RATIOS: DEBT/ASSETS AND NET INCOME/DEBT

- A - Ohio farmers debt/asset ratio below U.S.
 - 1 - In 1983, Ohio 18.2%
 - 2 - In 1983, U.S. 21.4%
- B - Net income/debt-ratio is a measure of repayment capacity
 - 1 - Ohio farmers ability to repay loans from net farm income has declined dramatically
 - a - Decline in repayment capacity result of
 - 1 - Higher interest rates and rising costs of production
 - 2 - Weak commodity prices
 - 3 - Low yields from drought

ANSWER QUESTION 4 - AGREE

QUESTION 5 -- Farm debt restructuring and agricultural credit will dominate in the debate over the 1985 farm bill.

SLIDE 26: CREDIT POLICY ALTERNATIVES

- A - In light of the severe financial stress facing many of the nation's larger farms and younger farm operators, considerable political attention has focused on publicly-assisted credit programs for agriculture.
- B - Basic idea is to establish a policy that, through some type of government action will reduce the cash out-flow required to service a farmer's debt portfolio.
- C - Often a "triage" approach is suggested:
 - 1 - No help for those who will survive financially without it
 - 2 - No help for those who are in such deep financial difficulty that they are unlikely to survive even with credit assistance
 - 3 - Programs aimed at those in between
 - a - need financial help
 - b - have a reasonable chance of financial survival if they receive some type of assistance
 - 4 - This usually means some professional farm financial management expertise is involved, in order to determine who is eligible for proposed benefits
- D - Several different types of programs have been proposed
 - 1 - Loan guarantees
 - a - Essentially what FmHA has been doing on all of its nondirect operating loans and many of its long-term loans
 - b - Basic principle is to guarantee repayment of most (FmHA = 90%) of principle and lost interest to lender in case of default
 - c - won't reduce debt service cost, but can result in a credit extension to a farmer who would not otherwise receive a loan
 - 2 - Buy-down plans
 - a - Intent is to reduce debt service costs by lowering either the loan principle or interest rate or both
 - b - Lender typically has to agree to "write off" a portion of the loan (i.e., 10-25%)
 - 1) alternative for the lender is often to write off the entire loan
 - 2) incentive to lender is to minimize loss
 - c - Lender is offered a guarantee or swap of government securities for remaining portion of loan

3 - Stretch-Outs

- a - Intent is to lower immediate debt service costs by re-amortizing loan over an extended time period
- b - Includes plans to defer payments on principle and/or interest on a portion of a loan for a specified number of years

4 - Access and terms of credit restructuring policies will be debated at length in Congress

- a - Outcome is speculative, regarding
 - 1) who will be eligible
 - 2) what do they have to do to receive benefits
 - 3) how much financial assistance will they receive
 - 4) probably the biggest question: how much will it cost the government

5 - Several other options may also be discussed

- a - Foreclosure moratoria
- b - Financial ombudsman
- c - Marketable federal income tax credits

SLIDE 27: MAJOR AGR. POLICY ISSUES

A - Despite much discussion and concern over financial stress, credit won't dominate the farm policy debate in 1985

B - Agriculture and Food Act of 1981 is the current legislative authorization for virtually all federal farm programs and domestic food programs

1 - This law expires on Sept. 30, 1985

2 - Thus, 1985 crops are the last that will be subject to its provisions

3 - If there is no 1985 farm bill, farm programs will revert to those provided for in basic legislation: the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949

a - price supports for basic commodities at 75-90% of parity, 60-90% of parity for dairy products, wool, potatoes and honey

corn:	\$4.00-4.80
wheat:	\$5.60-6.72

milk: \$14.00-21.00
 potatoes: \$5.53-8.29

- b - provisions for producer referenda on mandatory marketing quotas
 - c - no provision for:
 - 1) farmer owned reserve
 - 2) target prices
 - 3) deficiency payments or
 - 4) food stamps
- C - Many people, however, want a significant change from the 1981 act
- 1 - 1981 farm bill was based on erroneous assumptions
 - a - agricultural exports would continue to expand as they had in the previous four years
 - b - real interest rates would continue at low levels
 - 2 - Many conflicting points of view
 - a - some want stricter production controls and higher price supports
 - b - some want no production limits and lower price supports
 - c - some blame ineffective acreage controls for low prices and financial stress in agriculture
 - d - others blame effective acreage controls for lost business by agribusiness firms
 - e - some want government out of agriculture all together
 - f - others want higher target prices and deficiency payments
 - g - ad infinitum
 - 3 - But, there is general recognition that farm programs have become more expensive than Congress and the Administration are likely to tolerate in the future
 - a - budget impact of the 1981 farm bill was estimated, at the time of its passage, at \$19 billion over its 4 year life
 - b - in 1983 alone, over \$21 billion was actually spent on its provisions

- 4 - Major change in the basic philosophy or approach to farm policy is unlikely to change in 1985
 - a - too little time to reach agreement among so many conflicting points of view
 - b - thus, most of the discussion will turn on current programs and issues
 - c - cost containment, however, will be an overriding consideration
- D - The most significant issues on which there will be debate and upon which legislative action is likely include:
 - 1 - Price support levels
 - a - Historically (1938-1973) these were based primarily on a specified percent of parity
 - 1) range of percentages (i.e. 60-90%) specified in law
 - 2) exact level within that range specified by the Secretary of Agriculture
 - b - For basic commodities, base was change in 1973 and 1977 farm bills to a cost-of-production criteria
 - 1) base support price was specified
 - 2) Secretary adjusted, based upon changes in production costs
 - c - Since 1981, price support levels have been set in law, by Congress
 - d - Now, there is much interest in tying support price levels to historic market prices
 - 1) i.e., the "soybean model," where support price = 75% of the average of the prices for the previous five years, less the highest and the lowest
 - 2) this approach provides protection against a precipitous price decline, e.g. safety net
 - 3) but, also keeps support prices in touch with market conditions
 - 4) surveys show that it is popular with both farmers and members of Congress
 - 5) the yet-to-be resolved question is, what formula is used?

2 - Production controls

- a - Current program of voluntary acreage set-asides and diversions is claimed by some to be ineffective (due to slippage) and by others to be overly restrictive
- b - The basic philosophy is to restrict output of certain crops, thus boosting market prices
- c - Proponents (mainly wheat growers) of more rigid controls argue that they are needed to generate profitable price levels
 - 1) Marketing quotas, established on a historic production basis, are most frequently proposed
 - 2) Quotas would probably require approval at producer referendum
- d - Opponents of acreage controls argue that, when U.S. cuts production, other countries expand, resulting in a loss of export sales
- e - Voluntary acreage controls are likely to be continued as an eligibility requirement for other farm program benefits
 - 1) primarily as a means of limiting federal budget exposure on farm programs

3 - Farmer Owned Reserve

- a - Became very expensive in the 1980-82 period due to rapid accumulation of stocks
 - 1) Reserve loan was set above price support loan
 - 2) Lack of a firm policy on calling stocks out of reserve
 - 3) High government cost was one thing that prompted PIK -- as a means of reducing the reserve
- b - FOR is popular with farmers -- both crop and livestock producers
 - 1) limits price declines by entry of grain into reserve
 - 2) limits price increases by releasing grain from reserve
- c - Will probably be continued, but with a limit on its size in order to constrain government expenditures

4 - Farm Income Assistance

- a - Income assistance has been separated, in part, from price supports through direct payments to eligible farmers

- b - Principle mechanism is the target price/deficiency payment program
 - 1) direct payments made when market price falls below the target specified by Congress
- c - Two major problems are perceived:
 - 1) expensive: deficiency payments are a major component of farm program costs
 - 2) are paid disproportionately to larger farmers, who many feel need them the least
- d - Currently there is considerable interest in "targeting" income payments to those considered "most in need"
 - 1) problem is in determining who is "most in need"
 - 2) generally perceived to be mid-sized family farms
 - 3) very difficult to implement, due to efforts by farmers to restructure their farm units in order to qualify
- e - Most likely change: efforts to lower the present \$50,000/participant limitation on payments

5 - Soil Conservation

- a - There is growing awareness both in and out of agriculture concerning the need to husband soil and water resources
- b - Cross-compliance provisions, requiring farmers to adopt approved conservation practices to be eligible for other farm program benefits, is a likely outcome
 - 1) this is surprisingly popular with farmers
 - 2) also popular with politicians

6 - Disaster Protection

- a - Disaster protection policy was changed in 1981 from emphasis on direct payments to subsidized crop insurance
 - 1) insurance approach is much less expensive to the government than disaster payments
 - 2) has reduced average annual federal outlays by about 2/3rds
 - 3) essentially is a way of shifting more of the cost for disaster protection to those protected -- farmer
 - 4) popularity of insurance approach among farmers is yet to be demonstrated

- b - Some have are now proposing "revenue insurance" as a substitute for income assistance
 - 1) the major problem is "moral risk," that is, the management decision to not attempt a harvest because insurance pay-off is better
 - 2) some type of a pilot revenue insurance program may be authorized in the 1985 farm bill

- 7 - Control of farm programs: by government (as now) vs. by farmers through a farmer-elected board
 - a - Basic idea is to "depoliticize" farm programs
 - b - Farmers would be given more "self-determination" through some type of a board of control
 - c - This concept is popular with farmers
 - d - Politicians are unlikely to give up political control
 - e - An "advisory board" made up of farmers may be a viable compromise

- 8 - Credit Policies
 - a - Major alternatives have already been discussed

- 9 - Foreign Trade Policy
 - a - Most trade policy issues will not be dealt with directly as a part of farm policy
 - 1) major issues include international rules dealing with such things as export subsidies and protectionism
 - 2) resolution of these issues requires new GATT negotiations, which are not yet scheduled
 - b - Trade issues that are likely to be dealt with in farm policy include:
 - 1) Export subsidies and blended credits for farm exports (about \$6 billion spent in FY 1984)
 - 2) Anti-embargo provisions
 - 3) Extension of the PL480 "Food for Peace" program
 - 4) Plus, much discussion of the need to lower price support loan rates to keep U.S. export prices competitive in world markets

- 10 - Macro-economic policy: Federal fiscal (tax and spending) policy and monetary (money supply) policy
 - a - These are clearly the most important public policy decisions affecting U.S. agriculture
 - b - They are critical determinants of both interest rates and the value of the U.S. dollar
 - 1) since 1980, the increase in the value of the dollar has been 9 times more significant in terms of relative impact on effective prices of agricultural exports than have been changes in price support loan rates
 - 2) prosperity in U.S. agriculture is unlikely to materialize until federal budget deficits are sharply reduced
 - c - Essentially, the macro-economic policy challenge is to significantly reduce the federal budget deficit without rekindling rapid inflation. Requires:
 - 1) tax increase, possibly a value added tax (VAT)
 - 2) federal expenditure cuts
 - 3) or some of both
 - d - While macroeconomics policy issues won't be resolved as part of farm policy
 - 1) they will constrain expenditures on farm programs, and
 - 2) they will be prominent in the policy debate as virtually every farm organization has something to say

SLIDE 28: AGR. ORG. -- WHERE THEY STAND

- A - Despite general agreement in agriculture on the need for sound federal fiscal policies, there is little agreement on farm policy issues themselves
- B - This slide represents the positions of 13 agriculture-related organizations on various farm policy issues
 - 1 - 5 national general farm organizations (Am. Agr., AFBF, NFO, NFU, Grange)
 - 2 - 6 national commodity organizations (Soybeans, Wheat, Cattle, Corn, Milk, Peanuts)
 - 3 - 2 trade organizations of farm supplies (Fertilizer Institute, Independent Bankers)

SLIDE 29: AGR. ORG. -- WHERE THEY STAND (#2)

A - Note that the organizations are pretty well split on most major issues

B - Unanimity exists on no issue

C - General agreement exists only on:

- 1 - maintaining a farm program that includes price support loans, target prices and voluntary acreage diversions
- 2 - extending the life of the farm bill beyond 4 years
- 3 - (not on slide) expanding export credits and other export assistance programs

ANSWER 5 - DISAGREE

QUESTION 6 -- Meat consumption patterns have little meaning to the demand for feedstuffs.

SLIDE 30: PER CAPITA FOOD CONSUMPTION BY SOURCE

A - Use of plant products has increased erratically, but surely, since 1967

- 1 - Use of plant products now about 6% above 1967

B - Animal product (includes meat, poultry and dairy) use is 5% below 1967

- 1 - Net balance = 1% gain in food use per capita

- 2 - Something catastrophic occurred in 1973

a - Grain exports exploded and grain prices jumped

- 1) Poor weather around world
- 2) Legitimatized trade with communist bloc countries
- 3) Devalued dollar

b - Price ceiling on meat

c - Negative returns to livestock sector and cutbacks

- 3 - Substitution is taking place in diet of U.S. citizens

a - Human foods needs are for

- 1) 1450 lbs/yr per person (includes water)
- 2) Dry matter basis; 550 lbs/yr, or
- 3) 1.5 lbs/day per person

- b - Declining animal product use/person may be due to
 - 1) Cost of meat and animal products relative to substitutes
 - 2) Incomes and employment
 - 3) Health concerns
 - 4) Changing lifestyles
- c - Egg usage on a weight basis has declined 7 lbs or 15% in the time period shown
- d - Dairy product use, on a weight basis, has declined over 10% from 1967 to date
- e - No indications of change in trend

SLIDE 31: PER CAPITA CONSUMPTION OF MEAT

A - Chart depicts shifting use patterns since 1967

- 1 - Poultry use per person has trended upward through the nearly two decades shown
 - a - Expectations are that we will increase poultry meat use 3-5% in 1985
 - b - Use will continue upward for the foreseeable future
- 2 - Beef usage per person expanded to its peak in 1976 and is now running 20% below the peak
 - a - Decline in per capita use in 1985 may be 5-7% below 1984 as fewer cattle are slaughtered
- 3 - Pork consumption per capita has been more volatile than either poultry or beef
 - a - Adjustments to profits or losses much quicker in hog production than beef

B - Recorded red meat consumption (retail weight) per capita occurred in 1971 at 170 lbs

- a - Use has declined to around 150 lbs/person in the 1980's

C - Record total meat (red plus white) use per capita reached its record in 1981 at 221 pounds

D - Seafood use has increased from about 15 lbs to 17 lbs from 1971 to date

SLIDE 32: RETAIL MEAT PRICES

A - Price relationships

- 1 - Beef was 3 times price of broilers in 1977, and in 1980's beef is about 4.8 times price of broilers
- 2 - Pork was 2.5 times poultry price in 1977, and in 1980's pork is about 3 to 3.5 times price of broilers
- 3 - Beef and pork relatively more expensive than poultry today

B - Let's look at demand

SLIDE 33 - RETAIL BROILER PRICES (DEFLATED) AND SUPPLY OF BROILERS PER PERSON

A - Each dot shows deflated prices and supply of "ready to eat" broiler per person for one calendar year

1 - The sloping line is a demand curve

B - Many people believe demand curve has shifted -- not true

1 - Prices over time have been declining (real terms) as production (consumption) increases

2 - Note the "neat" fit of dots around the line

a - Low production of 1960s and high prices (real) at upper left hand corner

b - Higher production and lower real prices of 1980s at lower part of line

3 - Broilers meat has become progressively cheaper over a quarter century because of

a - Technology: genetics has lowered feed conversion rate to about 2 lbs feed to 1 lb meat that has meant lower real costs to producers and lower real prices to consumers

SLIDE 34: PORK PRICES (DEFLATED) AND SUPPLY OF PORK PER PERSON

A - Each dot represents one year's per capita supply and average pork price deflated (real)

B - Two sloping lines illustrates a shift in demand

1 - The tendency illustrated by the 1975-1983 line is a decline in demand

2 - Dots not moving neatly up and down a single sloping demand curve as shown in broiler slide

3 - Not enough years experience as yet to categorically say demand for pork has declined

4 - Let's look at trends in beef demand

SLIDE 35: CHOICE BEEF PRICES (DEFLATED) AND SUPPLY OF BEEF PER PERSON

A - Each dot represents pounds (carcass weight) of beef used per person and average annual deflated price

1 - Note the 1960s line and the neat consistency

a - Annual dots follow a pattern that gives a demand curve

2 - Things changed in the 1970's

a - Demand shifted upward or to the right

b - Slope of line changed indicated greater inelasticity (more price change with small changes in supply)

3 - 1980s

a - Slope even steeper in 1980s and line moved to left (decline) from 70's

b - Why changing slope of lines

1) changing lifestyles

a) Women working with less time to prepare beef

b) Eating out more extensively

c) Changing fast food franchise operations (greater menu variety, breakfasts, salad bars, etc.)

2) Health concerns

a) Heart, cholesterol

3) Resistance to price levels seems to be about \$2.50/lb for choice beef at retail

SLIDE 36: U.S. MEAT AND FEED GRAIN CONSUMPTION

A - % change in three time periods shown for

1 - Real (deflated) disposable personal income

a - growing less rapidly over time period shown on chart

2 - Real per capita spending on meat

a - Expanded in 1969-79 vis-a-vis 1960-69, but

b - Big decline into 1980s from 1969-79

- 1) Competing demand for use of income
 - a) Higher unemployment and lowered incomes
 - b) Rapidly rising energy costs impacting utility and auto expenses
 - c) Health concerns
 - d) Lifestyle
- 3 - Per capita red and white meat consumption declined in each period from previous period
- 4 - U.S. feed grain consumption declined over entire period
 - a - Better feed conversion rates
 - 1) particularly for poultry (1:2)
 - 2) some improvement in pork (1:4)
 - 3) little change for beef (1:8)

ANSWER QUESTION 6 - DISAGREE

SLIDE 37: WHAT WE SAID! SUPPLIES AND PRICES: 1984

A - Good record

1 - 6 out 7 = .857 average

- a - The miss was in dairy where milk production declined substantially and prices declined as we predicted
- b - Hogs were "to close to call" last year and we "hedged"
 - 1) The actual results in the first half of 1984 show a 9% increase in slaughter and lower prices in the first half of 1984
 - 2) The second half of 1984 will show a 7-8% decrease in hog numbers with prices near last year
 - 3) Largely offsetting

QUESTION 7 -- With 54% participation in the 1984 corn acreage diversion program, 1984-85 corn supplies are in good balance with expected use.

SLIDE 38: CORN SUPPLIES AND USE

A - The 1984-85 total supply will be 8.3 billion bushels or 14% above year ago

- 1 - Acreage harvested for grain; 71.1 mil. or 38% above 1983
 - 2 - Yield: 105.5 bu/ac or +30% in U.S., in Ohio 110 bu/ac compared to 80 bu/ac in 1983
 - 3 - Carryover Oct. 1 1984; 788 mil. bu. vs 3.1 billion one year ago
 - a) PIK-drouth reduced output and use sufficiently large to reduce carryover
- B - Use for 1984-85 is projected in the 7.0 to 7.22 billion bushel range; up 8 to 11% over 1983-84
- 1 - Domestic use of corn will expand
 - a - Industrial, food and seed use has expanded at an average annual rate of 9.5% in the last five years
 - 1 - May reach 1.05 billion bushels; up 75 million from last year
 - 2 - Increase associated with high fructose corn syrup and fuel alcohol (ethanol)
 - b - Feed use may increase even though there will be 2.5 to 3.5% fewer animal units
 - 1 - Lower prices and improved livestock profits will encourage higher feeding rates
 - 2 - Less substitution of wheat for feedgrains
 - 2 - Exports of corn will reach 2.0 - 2.2 billion bushels, up 10 to 15% over the poor record of 1983-84
 - a - Major reason is increased needs of USSR
 - 1) Total import needs of USSR may be 46-50MMT--topping the previous record
 - b - US has given permission to USSR to import 23MMT tons of grain; half may be feedgrains
 - c - Increase to USSR in 1984-85 over 1983-84 may be 6MMT of corn; this accounts for most of the increase in US corn exports for market year
- D - Corn carryout on October 1, 1985 projected at 1.1 to 1.3 billion bushels; up from 788 million bushels on October 1, 1984
- 1 - Carryout in 1985 is a 2 month supply and not burdensome
 - 2 - Another good crop year may mean further buildup in corn stocks

SLIDE 39: GRAIN CONSUMING ANIMAL UNITS

A - Decline in 1984-85 of 3.5% reflects negative returns to livestock sector in 1983-84

1 - Liquidation occurring

a - Dairy - diversion program

b - Cattle and hogs - cost-price squeeze

B - Decline and feed use: what does it mean?

1 - $78.3 - 75.6 = 2.7$ million animal units

2 - $11.76 \text{ lbs feed/day} \times 365 \text{ days} = 4292 \text{ lbs/yr}$ or 2.1 tons per year

3 - 2.1 tons to 2.7 an. units = 5.67 MMT

4 - Feed loss in 1984-85 of 5.67 MMT compares to 6.0 MMT gain to USSR in exports

SLIDE 40: CORN: CARRYOUT AND PRICE:LOAN RATIO

A - Price:loan ratio is annual average price divided by loan rate for each market year

1 - Ratio plotted against carryout stocks

B - Dramatically illustrates the level of carryout and annual prices

1 - Small carryout means strong prices

2 - Large carryout means lower price

a - Ratio has never been below 1.0 in period shown: loan supports cash price to farmers

SLIDE 41: CORN: OHIO AVERAGE FARM PRICE

A - Last fall at this meeting we said corn prices to Ohio farmers would average in the \$3.30 to \$3.60 range

1 - Actual average was \$3.37 per bushel

2 - Correctly predicted flat or declining price pattern for year

a - storage does not pay in short crop years

B - For 1984-85, expectations are for corn prices to average in the \$2.65 to \$3.00 per bushel range

1 - Prices supported on low side by the \$2.55 loan rate

3 - ASCS yield 110 bu/ac

4 - Variable costs

Planted acres \$170/ac

Diverted acres 20/ac

B - Return (\$000) above variable costs at various corn prices for 100 acre corn base plotted for participant and nonparticipant

1 - Breakeven price for typical Ohio situation is \$2.85 per bushel

a - At higher price for 1985 corn crop, nonparticipation is more profitable

b - Below \$2.85 participation is quite a bit more profitable

C - For 1984 crop, participation and forward pricing of corn in the winter or spring of 1984 was good, profitable strategy

1 - This strategy may or may not work for the 1985 crop

a - Watch for \$2.90 - \$3.00 pricing opportunity

b - Then act to lock in a price on 1/4 to 1/3 of 1985 crop

ANSWER QUESTION 7 - DISAGREE

QUESTION 8 -- Soybean prices are under stress due to weakness in the meal market.

SLIDE 44: SOYBEANS: SUPPLY AND USE

A - 1984-85 supply = 2.1 billion bushels, up 8%

1 - Production = 1.97 billion bushels, up 20%

a - acreage = 66.8 million, up 8%

b - average yield = 29.5 bu./ac., up 11%

2 - Carryin = 175 million bushels, down 49%

B - Expected use in 1984-85 = about 1.9 billion bushels, up about 5%

1 - Domestic use = 1.03 - 1.13 billion bushels, little changed from last year's 1.06 billion

a - domestic demand for meal may increase marginally from last year due to significantly lower prices

1) 1983-84 meal use was down 10% on a 1.5% increase in average price

- 2) thus, responsiveness of use to price change was not very great
- 3) also moderating domestic use in 1984-85 is the significant 3.5% decline in grain consuming animal numbers
- b - Largely offsetting is an expected decline in demand for soyoil, due mainly to increased world supplies of other edible oils
- 2 - Exports = 760-860 million bushels, up from last year's 740 million
 - a - but well below the record level of 929 million in 1981-82
 - b - increase reflects mainly a response in world demand to markedly lower prices for U.S. soybeans
 - c - Carryout = 200-300 million bushels, up appreciably from 1983-84's 175 million

SLIDE 45: SOYBEANS: A JOINT PRODUCT

- A - Prices are shown FOB Decatur, Illinois
 - 1 - Oil prices down about 15% from 1983-84's average of 31 cents, due mainly to recovery of world palm oil production
 - 2 - Meal prices down 10-15% from last year's average of \$190
 - a - ended 1983-84 with the 2nd largest stocks of soymeal ever
 - b - stocks will likely increase by 60-70% at end of this year due to sluggish demand
- B - Crushing costs and transportation differential to Ohio markets = 40-60 cents/bushel
- C - Translates into a season average price to Ohio farmers in the \$6.00-6.50 range, compared to last year's \$7.73

SLIDE 46: SOYBEANS: AVERAGE OHIO FARM PRICES

- A - For 1983-84, we said prices highest at or near harvest, then tailing off with a second pricing opportunity in late winter/early spring
 - 1 - Spring "kick" was higher than expected, due largely to uncertain marketing strategy by Brazil
 - 2 - Rapid tail-off during summer, typical of short crop followed by normal crop
- B - Beginning 1984-85 with prices around the \$6 level
 - 1 - Loan rate at \$5.02, national average, helps farmers avoid making "distressed" sales at prices much below the \$6 level

- 2 - Prices should strengthen after harvest by roughly the monthly cost of carrying stocks (10-12 cents/bu./month) through early spring, when South American crop will begin to dominate price movements
- 3 - This puts the March price expectation in the \$6.50-6.70 range, subject to a relatively normal South American crop expectation
- 4 - Some price weakness from this trend line may be apparent in January or February as sales pick-up to meet farmers' cash-flow needs to service loan commitments

ANSWER 8 - AGREE

QUESTION 9 -- Strong exports should make storage of wheat until spring pay big dividends.

SLIDE 47: WHEAT: SUPPLY AND USE

A - 1984-85 supply = 3.97 billion bushels, about the same as last year's 3.94 billion

1 - Production = 2.57 billion bushels, up 6%

a - acreage = 66.2 million, up 8%

b - average yield = 38.8 bushels/acre, down from a record 39.4 bushels last year

1) but, still the second highest on record

2) 15% above the 5 year average

3) reflects, in part, the increased production of higher yielding hybrid yellow wheat in the southern plains

2 - Carryin = 1.4 billion bushels, down from 1983-84's record carryover of 1.5 billion bushels

a - 3rd largest carryover ever

B - Projected use during 1984-85 = 2.6-2.7 billion bushels, up around 4%

1 - Domestic use = 1.05-1.10 billion bushels, down from last year's 1.12 billion

a- decline due mainly to a reduction in feed use from last year's record level of 382 million bushels

b - feed use this year probably around 300-325 million bushels

1) large by historic standards of 150-200 million bushels/year

- 2) supported by heavy feeding during the summer and early fall of 1984, plus shift of cattle feeding to major wheat states of Texas and Kansas
 - 3) down from last year, however, due to bigger feed grain supply plus reduction in livestock numbers
- 2 - Exports = 1.55-1.60 billion bushels, up 10-12%
- a - increase due mainly to a significant jump in sales to the Soviet Union during first half of the marketing year
 - b - helped by smaller crops this year in Canada, Australia and Argentina
 - c - but, record large western European crop will increase competition for U.S. in the world market from late fall on
- 3 - Carryout = around 1.3 billion bushels, down somewhat from 1.4 billion carryin

SLIDE 48: WHEAT: STOCKS-PRICE/LOAN RELATIONSHIP

- A - Chart shows that when carryout exceeds about 1.1 billion bushels, season average price falls close to the price support loan rate
- 1 - About 55% of 1984 crop eligible for price support loans at a national average rate = \$3.30/bushel
- B - 1984-85 carryout of around 1.3 billion bushels indicates a season average price close to loan rate
- 1 - for Ohio, this means a season average price in the \$3.20-3.40 range
 - 2 - in addition, for those who participated in the 1984 wheat program, will be an estimated 98 cents/bushel deficiency payment

SLIDE 49: WHEAT: OHIO AVERAGE PRICES

- A - Last fall we said a season average price for 1983-84 in the \$3.40-3.70 range
- 1 - actual Ohio average = \$3.40 with relatively little seasonal variation
- B - For 1984-85, prices were probably strongest during the summer, when both domestic feed demand and Soviet purchases were the greatest
- 1 - until the 1985 crop perspective begins to materialize, prices hereafter will be determined primarily by the loan rate
 - a - subject to any unexpected large foreign purchases

2 - Spring price recovery, as in past 2 years, seems unlikely this year unless 1985 crop is seriously damaged

a - for soft red wheat, delay or failure to plant this fall due to adverse weather could prove to be a price strengthening factor

SLIDE 50: 1985 WHEAT PROGRAM

A - Program details are very similar to the 1984 program, except there is no PIK option

B - However, if the average price for the 1984 wheat crop exceeds 105% of the \$3.30 loan rate (\$3.465), then the 1985 loan rate must be raised to \$3.55

SLIDE 51: PARTICIPATE: 1985 WHEAT PROGRAM?

A - Economic analysis of the program for typical Ohio conditions, in terms of maximizing returns to the grower above variable costs

B - Break even price = \$3.68: a market price above this for 1985 wheat crop would favor nonparticipation, a lower price favors participation

ANSWER 9 - DISAGREE

SLIDE 52: CROP PRODUCTION COSTS 600 ACRES

A - These are typical Ohio production costs for corn, soybeans and wheat with somewhat above average yields, for the more efficient operators

1 - Variable costs plus labor, management and machinery charges, less land costs (green bar)

2 - Total costs, including land, with average annual land cost = \$70/acre (blue bar)

a - this is below the average cash rent in Ohio of about \$83/acre but above the average land debt service cost in Ohio (would service \$500-600/acre debt: average debt/acre in Ohio = \$340)

B - These costs are for 600 crop acres, a size at which most scale economies in production have been achieved

1 - Relatively small cost reductions are achieved from production efficiencies on larger operations

2 - But, larger operations often achieve pecuniary economies to size that are much greater than these production efficiencies, due to:

a - larger price discounts on purchased inputs

b - higher market prices for products sold

C - Differences between costs with and without land charges are substantial

- 1 - Corn = 58 cents/bushel (\$2.09 vs. \$2.67)
 - 2 - Soybeans = \$1.84/bushel (\$4.86 vs. \$6.70)
 - 3 - Wheat = \$1.56/bushel (\$3.19 vs. \$4.75)
- D - With typical land charges included, average market prices this year are unlikely to cover full production costs for soybeans or wheat, barely so for corn
- E - Implications:
- 1 - Cost-price structure currently favors corn production in Ohio
 - 2 - Returns to crop production are, in general, not sufficient to support land costs based on current market values

QUESTION 10 -- Lack of profitability in feedlot enterprises means another year of beef herd liquidation.

SLIDE 53: BEEF PRODUCTION FOR 1985

		<u>1985/84</u>
A - Slaughter (35.0 - 35.5 Mil)		-4%
Feds	+3%	
Nonfeds	-23%	
B - Weights (1070-1080 lbs)		+1%
1 - More fed and less nonfed keeps upward pressure on slaughter weights		
2 - High heifer slaughter keep average weight down as they get slaughtered at about 200 lbs below steers		
C - Beef output (22-23 mil. lbs)		-3%
1 - First half	-4-6%	
2 - Second half	-1-2%	
a - Fewer placements available for placement		
1) calf crop - 1%		
2) yearling feeders - 1%		
b - Profits non-existent in feeder calf operations for 3-4 years		
1) Liquidating breeding herd		
2) October cattle on feed report showed 12% more heifers in feedlots than one year earlier		

- D - Imports Same
 - 1 - Near quota level
- E - Beef/Person -4%
 - 1 - Supply -3%
 - 2 - Population Growth +1%
 - 3 - Retail weight 74-75 lbs
 - a - 1984 about 77.5 lbs
- F - Retail Price/lb for choice beef \$2.45-2.55
 - 1 - Jan.-June '84 price was \$2.43
 - 2 - July-Dec. '84 price may be \$2.45
 - 3 - \$2.50 resistance point for consumers historically
 - a - But with less beef, less pork and higher incomes, we may break through the \$2.50/lb. barrier in 1985

SLIDE 54: COW HERD GROWTH RATE

- A - Chart shows % change from year ago in cow (beef & dairy) herd
 - 1 - Beef herd has changed more than shown
 - a - Example - 1983 to 1984 = - 3.6%
 - 1984 to 1985 (proj) = - 5.0%
 - 2 - Occurrences since July 1 influencing cow herd
 - a - Cow slaughter large in summer and this fall
 - b - Heifers on feed October 1, 12% above last fall
 - c - Steers on feed October 1 were up 3%
 - d - More beef this fall but a lot less beef next summer
 - 3 - Reasons
 - a - Lack of profits in cow-calf operation for about 4 years
 - b - Maintain cash flow for cow-calf operators

SLIDE 55: FED CATTLE PRICES: CHOICE STEERS, 900-1100 lbs., OMAHA

- A - Resume of 1984

1 - Jan.-Sept. '84 steer prices averaged \$66.14/cwt. or \$2.97 above same period of 1983

a - Increase due to

1) Improved incomes of 11% more than offset 2% increase in competing meats

b - Feedlot operations were profitable in early 1984

1) bought feeders low enough to offset higher feed costs

c - Fed beef prices have been "soft" this fall

1) Expect prices to remain in low \$60's this fall as more beef comes to market

a) Incomes and employment improved

b) Much less pork

c) Heavier cow slaughter and higher proportion of heifer in slaughter will keep average slaughter weight down

B - 1985 prospects (first half year)

1 - Beef output down 5-6%

a - Fed slaughter maintained near last years level but higher proportion heifers reduces output

b - Nonfed slaughter may decrease 30% because of no dairy slaughter program

c - Heavy slaughter in late 1984 or early 1985 means less beef later in 1985

2 - Prices for fed cattle should trend upward into spring and exceed \$70/cwt

3 - Average for first six months may be near \$70 per cwt.

C - Last half of 1985: Price prospects

1 - Fed cattle may average in high \$60s

a - Less beef, but

b - Increasing pork supplies

c - Increasing poultry

SLIDE 56: FEEDER STEER PRICES: KY, MEDIUM NO. 1 500-600 Lbs.

A - Review of 1983 and early 1984

1 - High grain prices and low fed cattle prices depressed feeder calf prices in late 1983 and 1984

a - Average price of feeders Sept-Dec '83 was \$59.03 per cwt.

b - So far in 1984, feeder prices followed fed cattle prices upward, but at \$2-5/cwt. lower price

1) Average price Jan-Sept 1984 was \$63.10/cwt.

B - Cow-calf operators have experienced 3-4 years of negative returns

1 - Drought and roughage shortages in 1983

2 - Higher grain costs in 1983-84

3 - Higher interest rates raises cost of calf

a - 8% to 16% rate means costs of interest double per calf or per cwt.

4 - Higher energy costs

5 - Decline in land values means loss in equity and borrowing capacity

6 - Result: herd liquidation to maintain cash flow

C - Prospects for KY Medium No. 1 feeder cattle (500-600 lbs) prices for fall of 1984

1 - 500-600 lb. steers expected to average \$62-66 per cwt

2 - Feeder prices should follow fed cattle prices upward into spring of 1985

a - Feeder cattle prices may exceed fed steer prices as feed costs remain relatively low

b - Feeder cattle prices probably peak in spring

2 - Cow-calf operators strategy

a - If feed is available, and

b - If facilities are adequate, and

c - If management and experience is adequate

d - Backgrounding feeders to get about 1.5# gain per day until spring should be profitable

e - Tradeoff: Risk for Profit

ANSWER QUESTION 10 - DISAGREE

QUESTION 11 -- The corn-hog ratio and the hog cycle are obsolete concepts.

SLIDE 57: HOG PROSPECTS

A - Liquidation brought on by severe financial losses in late 1983 and early 1984

1 - Pig crop was down 9-10% in the first half of 1984

2 - Last of 1984 shows

a - Pig crop was 4% below year a earlier in June-August period

b - Farrowing intentions for Sept-Feb '85 show further declines, but at a lower rate

3 - A measure of profitability or losses in the swine enterprise is the corn-hog ratio

a - Ratio is the number of bushels of corn that equals the value of 100 pounds of pork

b - Note Dec '83 thru August '84

1) Ratio low when farrowing down

c - Note increasing ratio and decline in intentions to farrow Sept. '84 to Feb '85

1) Breakeven ratio on average is about 20:1

2) The more the ratio exceeds 20:1 the faster the expansion in farrowings and pig crop and vice versa

B - Farrowing intentions Mar-May and June-Aug '85 may not increase based on hog corn ratio

1 - Assume in fall of 1984

a - \$50 hogs : 2.60 corn = 19.2:1

b - \$50 hogs : 2.75 corn = 18.2:1

c - \$48 hogs : 2.60 corn = 18.5:1

2 - Little incentive this fall to breed more gilts

SLIDE 58: PORK PRODUCTION AND HOG PRICES

A - Slide shows annual pork output and annual average hog price over a quarter century

1 - Note two different scales on chart

- a - This was done to better visualize the relationships
- 2 - Annual pork supply has varied widely since 1961
 - a - Low of 17 billion pounds in 1975 following 1974 drouth
 - b - High of 23.5 billion in 1980
 - c - That is a 38% swing in supplies
- 3 - Annual pork prices fluctuates up or down in the expected way with changing pork supplies
- B - Hog cycle concept is that hog numbers from peak to peak or low to low will be about 4 years in length
 - 1 - Price cycle will be in opposite direction and be about 4 years in length
 - a - Most obvious is the period of 1971 to 1979: when people thought the hog cycle no longer existed
 - 1) Decline from 1971 peak for output to low point in 1975 was 4 years in length
 - a) Turbulent period in the meat industry
 - (1) Rapid expansion in beef output
 - (2) Growth in grain exports
 - (a) USSR grain sale
 - (b) devalue dollar
 - (c) meat price ceilings
 - (d) US 1974 drought
 - b) Pork prices rose in period of 1971 to late 70's
 - (1) Inflation
 - (2) Increase in output from 1975 low of 15 bil. lbs to 1980 peak of over 23 bil. lbs.
 - (a) Grain prices were below the 1971-75 period
 - (b) Cutback in beef output
 - (c) Hog prices remained strong

b - Note price cycles

- 1) 1964-1968 (low to low)
- 2) 1968-1971 (low to low)
- 3) 1978-1982 (high to high)
- 4) PIK-Drought in 1983 with high grain prices interrupted cycle. Without PIK-drouth, production and prices probably would have continued in the direction established

3 - Are the corn hog ratio and hog cycle obsolete concepts?

a - corn:hog ratio -- reliable and consistent

b - hog cycle -- "messed up" by unusual conditions in 1970's, but still viable idea.

SLIDE 59: HOGS: B & G AT SEVEN MARKETS

A - Late 1984 hog situation

1 - Marketings may be down 6-8%

a - Mar-May pig crop down 11% but marketings may be down only 6-8% as liquidation continues.

b - Canadian imports placing downward pressure on live hog prices and will continue to do so. Canadian \$ worth U.S. 76 cents

1) Powerful incentive to export to U.S.

2 - Price prospects

a - Fall '84 hog prices may average \$45-47/cwt. for barrow and gilts at seven markets

1) More beef

2) Less pork

b - Annual average for 1984 may be \$48-50/cwt.

B - 1985 Prospects

1 - First half of 1985

a - Should have

1) 5-7% less pork produced in U.S.

2) Some increase in Canadian imports

3) Less beef; more poultry

4) More income

- b - Prices should move into low 50's in winter and decline modestly in the spring

2 - Last half of 1985

- a - Marketings should continue to decline modestly in the summer
- b - No reason to expect an expansion in breeding this fall for increased farrowings next spring

1) Thus no expansion in marketing in late 1985

- c - B&G prices may go toward mid 50's in the summer but will decrease seasonally into fall as more pork comes to market
- d - Average price for the year maybe near \$50/cwt.

ANSWER QUESTION 11 - DISAGREE

QUESTION 12 -- The milk diversion program has put the dairy industry on the path to economic health.

SLIDE 60: MILK PRODUCTION, COWS, AND MILK PER COW

A - In 1984, for the first time since 1977, milk production has declined

1 - Production in 1983 = 140.0 billion pounds

2 - Production in 1984 = 135.5 billion pounds

B - Several factors are involved. Major factors were:

1 - Milk diversion program

a - began Jan. 1, 1984, terminates March 31, 1985

b - producers representing 22% of U.S. production participated

c - result has been an estimated 200,000 head reduction in the number of milk cows during 1984

1) This was the first decline in milk cow numbers since 1978

2 - A rare decline in production per cow

a 12,510 lbs. in 1984 vs. 12,587 lbs. in 1983

b - grain fed per cow per day dropped from 15.7 lbs. in 1983 to 14.9 lbs. in 1984

c - reflects a decline in the milk-feed price ratio due to lower effective milk prices and higher feed costs

C - Production is expected to increase somewhat in 1985

- 1 - Milk diversion program ends at the end of first quarter
 - 2 - The number of dairy replacement heifers per 100 milk cows has reached a record high of 45.6
 - a - this suggests that producers may be positioning themselves to expand production quickly as the diversion program comes to an end
 - 3 - lower feed grain, oilmeal prices this fall and winter, combined with stabilizing milk prices, point to a more favorable milk-feed price ratio in 1985
 - 4 - per cow production should be back on the upswing, due in large part to reduced feed costs
 - 5 - strengthening commercial demand for milk and dairy products
 - a - demand up about 3% in 1984, to 126.5 billion lbs.
 - b - this has reduced government surplus purchases by about 50%, to around 6% of production compared to 12% in 1983
 - c - stronger consumer demand is in response to:
 - 1) lower milk prices, associated with the drop in support prices
 - 2) higher incomes
 - 3) intensified market promotion -- since May 1, 1984 producers have been assessed 15 cents/cwt. for promotion
- assessment will end Sept. 30, 1985 unless extension is approved at producer referendum next August

SLIDE 61: OHIO MILK PRICES

- A - Prices have drifted irregularly lower since their peak at about \$13.80/cwt. in 1981
 - 1 - Reflects a cut in the support price from \$13.10 in October 1980 to \$12.60 in 1984
- B - 1984 prices have averaged about 20 cents below last year's average of about \$13.40
 - 1 - Effective (realized) price is 50 cents less due to the producer assessment that is in effect to pay the costs of the milk diversion program

- 2 - Assessment is scheduled to end on April 1, 1985, when diversion program ends
- 3 - But, price support can also be reduced by 50 cents, to \$12.10 on same date
 - a - unless government surplus purchases by April 1 have fallen to an annual rate equivalent to 6 bil. lbs. (8.5 bil. lbs. in 1984)
 - b - price support can be further lowered to \$11.60 on July 1, 1985 unless government purchase rate has fallen to 5 bil. lbs.
- C - Despite the drop in support prices, producer prices should decline relatively little in 1985, on average
 - 1 - during first part of the year, prices are likely to be somewhat above the 2nd half of 1984, due to strong commercial demand
 - 2 - could be some weakening in producer prices later in the year if, as expected, production picks up with the expiration of the diversion program
 - a - but, no substantial drop seems likely, as current price levels appear to have revitalized consumer demand

ANSWER 12 - AGREE

QUESTION 13 -- "Sell them or smell them" means international trade is relatively unimportant to egg producers.

SLIDE 62: RATE OF LAY, PROD., AND NUMBER OF LAYERS

- A - Egg production was cut-back in 1983 for economic reasons (operator losses)
- B - Late in 1983 and early 1984, egg production was cut sharply as about 8 million laying hens were liquidated as part of the avian influenza eradication measures
- C - This encouraged a production increase in late 1984
 - 1 - Egg placements in incubators were above year earlier levels from September 1983 through August 1984
 - 2 - During the first half of 1984, eggs in incubators were 31% higher than a year before
- D - Rate of lay leveled out in 1984
 - 1 - higher feed costs constrained feeding rates
 - 2 - increased forced molting put relatively more older hens into the laying flock during the first half of the year

E - For 1985, production should continue to increase, due primarily to build-up in layer numbers during 1984 and increased rate of lay, reflecting a larger share of relatively young birds in the flock

1 - 1st half of 1985: output up 2-4%

2 - 2nd half of 1985: output even to up 2%, compared to a year earlier

SLIDE 63: CARTONED EGG PRICES, N.Y.

A - Prices were exceptionally strong in late 1983 and through Easter season, 1984

1 - Prices in the fall of 1983 were responding to reduced production last year due to economic reasons

2 - Prices moved sharply higher in early 1984 as avian flu production cut-backs were compounded on top of economic cut-backs earlier

a - thus, there was an insufficient supply of eggs to meet consumer demands

b - consumer demand strengthened psychologically from the "scarcity syndrome"

B - In the second half of 1984, prices have declined to around the 70 cents level, due primarily to expanded production

1 - In 1984, prices have declined about 8% for each 1% increase in supply, which indicates a weakening demand for eggs (steady demand = about a 5% price change for each 1% production change)

C - Continued build-up in output should push prices below the 70 cents level for the 1st half of 1985, further discouraging production expansion next year

SLIDE 64: EGG EXPORTS AND IMPORTS

A - Despite the perceived perishability of eggs, foreign trade is an important market dimension

B - When production was relatively high in the '80-'81-'82 period, and before the dollar strengthened appreciably, exports were removing 3-4% of the domestic supply

C - Higher prices in late '83 and early '84, plus strong dollar, have discouraged exports and increased import competition

ANSWER 13 - DISAGREE

SLIDE 65: SUPPLIES AND PRICES: 1985

A - See slide for summary

QUESTION 14 -- To survive the current economic stress, farmers need a blend of high yields, a strong marketing program, and sound financial management.

SLIDE 66: CORN PRICING ILLUSTRATION

A - Prices are illustration only; not actual prices

1 - Livestock producers objective "buy cheap"

a - Price in feed price zone of chart.

1) Every year different price pattern, but usually lowest price near harvest

2 - Crop farmers objective: sell high

a - About 60-65% of all corn is sold in the lowest 1/3 of price range each year

b - Marketing requires constant and skillful attention:

1) 1983 short crop price pattern much different than 1984 crop price pattern

2) Each producer should develop a marketing plan that includes

a) knowing cost of production

b) establishing a realistic price objective

c) establishing trigger points for sale

d) implementing plan

SLIDE 67: AVERAGE DISCOUNTS RECEIVED BY OHIO FARMERS

A - Chart shows average discounts received by farm size for four important inputs

1 - Small farms (110-179 acres) get 1-2% discounts on inputs

2 - Modest size farms (260-499 acres) get 2-5% discounts

3 - Large farms (over 1000 acres) get 6-11% discounts

B - Pattern in discounts

1 - All input discounts increased as farm size increased

2 - Fertilizer and pesticides discounts for large farms increased most dramatically

- C - Wide variations occurred in discounts within any size group
 - 1 - More bargaining or shopping around most likely reason
- D - Meaning of discounts applied to cost of producing corn per acre
 - 1 - Smallest (100-179 acres) = \$2.34/ac.
 - 2 - Small (180-259 acres) = \$3.05
 - 3 - Medium (260-499 acres) = \$4.12
 - 4 - Large (500-999 acres) = \$5.77
 - 5 - Largest (1000 & over) = \$9.70

SLIDE 68: PRODUCTION EXPENSES AND CASH RECEIPTS

- A - Graph shows ratio of receipts/expenses by gross farm sales in two time periods (1960 and 1982)
 - 1 - Note gross sales in each year to gain comparability
 - 2 - Small farms ratio of expenses and receipts
 - a - in 1960 was 0.78 and means a profit from farming
 - b - in 1982 the ratio was 1.78 meaning off-farm income was necessary to finance the farming operation
 - 3 - Medium size farm ratio
 - a - in 1960 ratio was 0.74 or profitable farm operation
 - b - in 1982 ratio was 0.96 or slightly below breakeven point
 - 1) Family would require off-farm income to meet living expenses
 - 4 - Large farms had
 - a - in 1960 a ratio of 0.75
 - b - in 1982 a ratio of 0.76 and profitability
 - 5 - Helps explain growing financial stress on medium sized farms and why they seek off-farm employment

SLIDE 69: BEST MANAGED FARMS: CHARACTERISTICS

A - Years farming	21
B - Forward price: Output	46%
Inputs	36%

C - Use computers	41%
D - Average Assets/Farm	\$2.8 mil.
E - Debt:Asset Ratio	.25
F - Returns/\$ of Operating Expense	\$2.00
G - Hours/week devoted to marketing	18

ANSWER QUESTION 14 - AGREE

SLIDE 70: CREDITS