

# THE CURRENT STATE OF THE U.S. AGRICULTURAL ECONOMY

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### **Introduction**

Thank you, Mr. Chairman for the opportunity to appear before these Subcommittees to provide information concerning the current state of U.S. agriculture. The Food and Agricultural Policy Research Institute (FAPRI) is a joint project between the University of Missouri and Iowa State University. Furthermore, we have formal relationships with Texas A&M University to examine market and policy changes at the farm level, with the University of Arkansas to analyze the world rice market, and with Arizona State University to examine the fruit and vegetable sector.

During 1999, attention continues to be focused on the downward pressure on prices for many of the major agricultural commodities. This is occurring at the same time that some regions of the country have experienced severe drought conditions, with the combination of the two putting even greater pressure on some producers. In regards to the lower prices, no single cause can be identified, but rather a combination of fundamental developments in the supply and demand of the commodities.

### **Current Agricultural Situation**

World grain and oilseed prices are continuing to be pressured by large production levels that have allowed stocks to rebuild from the tight levels of 1995 and 1996. The higher production is due both to increased area and generally favorable yields. In response to strong price signals in 1995 and 1996 the area devoted to the major crops has shown a significant increase. For the 1996-98 period, world wheat area averaged 3.4% above the 1991-94 period. A similar story can be seen in other crops as well. Likewise, world red meat production is 14% higher over the 1997-99 period relative to the 1990-92 period.

Coupled with increased area, world markets have also seen generally favorable yields since 1995. World coarse grains have seen three successive years of above-average yields. In the past thirty years we can only find one example, the 1984-87 period, when there were as many consecutive years above trend.

Price pressure due to increased supplies is not isolated to the crop markets. For livestock, the most notable example is pork. After seeing strong prices in 1996 and much of 1997, pork producers responded with increased herds and additional production. For 1999, pork production is expected to remain at historically-high levels. As a result, the annual average price is projected to be as much as 40% below the 1997 number.

### **The Outlook for Commodity Prices**

Barring any major production problems, crop and livestock prices will average substantially lower in 1999 and 2000 than what was observed in the 1991-95 period. However, we must remember that prices in those years were well above historical levels. In addition, those prices brought increased area that together with good yields resulted in more production. The additional supplies have fallen upon a demand picture that has been weakened as a result of the general economic problems centered around the Asian crisis. Both additional supplies and weak demand for agricultural commodities are responsible for the lower prices we see today.

FAPRI's current estimate of commodity prices through 2005 shows continued weakness in many cases. Corn prices, for example, are expected to average \$2.25 per bushel over the 2000-2005 period, far less than the 1996 average of \$2.71 per bushel. It should be noted that FAPRI's projections are conditioned on average yields that result from normal weather patterns. If yields were to deviate from the average, prices would move accordingly. Wheat and soybean prices over the 2000-05 period are also expected to average far below their 1996 level.

Pork prices are also expected to remain below historical averages over the 2000-05 period. FAPRI projects pork prices will average slightly more than \$42 per hundredweight over the 2000-05 period which would be the lowest level observed for a six-year period for many years. Structural change will continue to be one of the big drivers of the pork industry.

Other areas of agriculture are expected to see higher prices over the next few years. The beef industry is expected to see prices over the 2000-2005 period that will be near those seen over the 1991-95 period as the cattle cycle results in less beef production over the next few years.

### **The Outlook for Agricultural Aggregate Measures**

Although many commodity prices are at low levels, 1999 net farm income is currently expected to exceed \$48 billion. That is \$4 billion higher than the 1998 level. Even though some commodities, like beef, are showing higher commodity prices the increase in farm income expected for 1999 can be traced in large part to increased government payments occurring as a result of the recent agricultural appropriations bill. Farm income in 1999 is still expected to fall over \$6 billion from the record level obtained in 1996 yet it remains above the average of the 1991-95 period by over \$5 billion.

One crucial point regarding the outlook for farm income is that unless additional government payments are legislated for 2000, FAPRI's current estimate of farm income would suggest a decline of over 15% to near \$40 billion. This decline in farm income would only add to the current stress seen in agriculture.

While the news sounds rather bleak and certain regions are under tremendous stress, the U.S. agricultural economy, as a whole, is still in much better shape than in the early- to mid-1980s. Income levels are well above those of the earlier period and debt-to-asset ratios have remained at relatively low levels.

In closing, Mr. Chairman, I would like to thank you for the opportunity to address these Subcommittees and welcome any questions.

Table 1. U.S. Commodity Prices

	1981-85	1986-90	1991-95	1996-99	2000-05*
<b>Season Average Farm Prices</b>					
		(Dollars per Unit)			
Wheat, per bu	3.42	3.01	3.50	3.23	3.26
Corn, per bu	2.62	2.12	2.49	2.25	2.25
Soybeans, per bu	6.10	5.90	5.95	5.89	5.30
Cotton, per lb	0.589	0.603	0.635	0.625	0.597
Rice, per cwt	8.02	6.38	7.48	8.65	7.26
<b>Annual Average Prices</b>					
		(Dollars per Cwt)			
NE direct steers, 11-1300#	63.99	69.83	72.20	64.43	71.66
Barrows & Gilts, 51-52% lean	51.21	51.97	46.29	44.47	42.08
All milk	13.44	12.91	12.80	14.55	12.98
<b>Farm Income</b>					
		(Billion Dollars)			
	23.91	39.31	42.97	47.87	

\* Projections by the Food and Agricultural Policy Research Institute (FAPRI).