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OUTLOOK FOR THE FARM ECONOMY

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This morning, Under Secretary Schumacher and I are teaming up to help launch Forum 2000 with an overview of the U.S. and global agricultural outlook. We hope our remarks will help provide a context for the many, wide-ranging Forum sessions available to you over the next two days. I will begin with a brief description of the outlook during the next 12 to 18 months, focusing on the financial situation farmers are expected to face this year and providing a few comments on commodity markets.

Overall conditions in the farm economy at this point are similar to last year. Markets for major commodities, particularly crops, are very weak, but an overall farm economic crisis has not materialized, in large part due to built-in and supplemental emergency economic and disaster assistance. Farm exports are still moving sideways along the trough of the current export cycle. This morning, we updated our FY 2000 export forecast, raising it from $49 billion to $49.5 billion, excluding exports resulting from the recently announced additional 3-million-ton humanitarian assistance program. The slight increase mainly reflects stronger cotton and livestock product exports. The new forecast remains only marginally above 1999's $49 billion. And export volume this year is projected to be down 4 percent from last year, as wheat and corn tonnage declines.

Our forecasts for average U.S. farm prices for the 1999/2000 marketing year illustrate the severity of the market downturn for many producers; prices are sobering for producers although a measure of benefit to many consumers. Soybean prices are expected to be the lowest since 1972/73;

cotton prices so far have been the lowest since 1974/75; corn and wheat are expected to be the lowest since 1986/87; milk, the lowest since 1990/91, and rice, the lowest since 1992/93.

While these statistics may generate pessimism for the Nation's producers, the positive developments in U.S. agriculture should be recognized. Here are a half-dozen. First, global economies are improving. World economic growth in 2000 is forecast to exceed 3 percent, a rate not seen since 1997. Southeast Asian economies are expected to grow 6 percent this year, compared with a 6-percent contraction in 1998. And Latin America is expected to post a 2.7-percent gain this year, after being in recession in 1999. U.S. exports to these regions should improve, but overall export recovery will be slow, as little import growth is expected from major, or formerly major, markets such as Japan, China, Russia or the EU. And do not overlook the strength of our own economy, which has raised domestic demand for many commodities, for instance meat, which had record-high per capita consumption in 1999, even with rising red meat prices.

A second positive sign for U.S. agriculture is a fairly strong, national balance sheet. We like good farm sector balance sheets because the more solvent the average farmer, the greater the resiliency to deal with weak markets. Record-high prices in the mid 1990s helped put farm balance sheets in a good position coming into this market downturn. Farmers helped themselves by holding back on equipment purchases, paying off debt and curtailing debt expansion. At the same time, farm real estate values have continued to rise, up 18 percent over the past 5 years. Record-high government payments have shored up farm income the past 2 years–contributing to the second highest level of U.S. net cash farm income ever in 1999–and that has helped support real estate values and reduced the degree of leverage on farm real estate. However, we do expect little to no growth in farm land values over the next couple of years.

A third positive factor has been the generally good shape of agricultural banks and a fairly low level of delinquent and nonperforming loans. The share of such loans in the portfolio of agricultural banks in 1999 was one fifth the level of the mid 1980s.

A fourth positive factor is slow growth in farm production costs due to low inflation, relatively low interest rates and low feed costs. One detrimental cost component is the large increase in oil prices which is expected to raise farmers' fuel and oil costs by $1 billion in 2000. Even so, we expect farm cash production expenses this year to rise only 1 percent for the third consecutive year, after rising more than 4 percent each year from 1993 to 1997.

A fifth positive development is the continual improvement in efficiency and productivity in U.S. agriculture. In fact, one recent study cited growth in farm productivity as one of the 25 "miraculous achievements" of the 20th century. These gains improve our competitive position in global markets, make better use of our productive resources and benefit those producers employing the efficiency techniques. And while some think efficiency gains can only come with structural changes such as consolidation and dislocation, the number of U.S. commercial-size farms has declined only 0.4 percent annually since 1993.

A sixth positive factor is that while we do have crop surpluses, they do not rival the surplus levels of the past. For example, the ratio of world carryover stocks to total use for feed grains for this year is about the same as it was during the first 5 years of the 1990s and 20 percent below the average of the 1980s. The point is that while global demand is recovering somewhat slowly, a weather disaster could easily cause a substantial runup in feed grain prices.

Despite this report of some of the good things going on, the picture of the farm economy for 2000 remains dominated by the prospect for very weak farm income. USDA forecasts that farm cash receipts will fall to $190 billion in 2000, $2 billion below last year and $18 billion below the record of $208 billion set in 1997. Lower receipts and lower government payments under current legislation are forecast to reduce net cash farm income for 2000 to $49.7 billion, down nearly 20 percent from 1999 and the lowest level since 1986.

Government payments have been offsetting much of the decline in cash receipts for major crops. Total government payments increased from $7.5 billion in 1997 to a record $23 billion last year. In calendar 2000, government payments, without any new legislation, will likely exceed $17 billion, the second highest ever.

I would like to illustrate why year 2000 prospects look so weak by reviewing a few major commodities. Starting with crops, in 1999, U.S. producers planted the lowest wheat acreage since 1972, and even lower acreage and production is likely in 2000. On top of that, low precipitation and soil moisture in the Plains States is likely to reduce the yield on winter wheat below trend. With lower acreage, U.S. production could fall a couple of hundred million bushels below last year. The weather pattern since last fall has looked similar to 1996 when we had a below-trend wheat yield. Then, we had a lingering El Nino; now, we have a languishing La Nina. A reduced U.S. wheat crop may lead to slightly stronger prices, but the wheat market will remain under much pressure. Weather has generally been favorable elsewhere for example, in the EU, where with an acreage increase, they could have a record-high crop in 2000. Prices also will be limited by large carryover stocks this June, which will be the highest since 1988.

The corn market has been strengthening, driven by record-high total use for the 1999 crop, but the price is still expected to average only $1.90 a bushel, slightly below the 1998 crop. For the 2000 crop year, corn acreage is likely to be down slightly but offset with higher yields, giving total supplies near this year's level. Total use also may be near this year's level, so with little change in ending stocks, corn prices are expected to show only modest improvement next season.

In January, the farm price of soybeans continued to rebound from the low $4.00 per bushel range of last summer, the lowest soybean farm prices in three decades. For the 1999 crop, prices are forecast to average $4.75 per bushel, a little below the prior year. Growing soybean acreage was the story of the 1990s, and area is likely to expand again in 2000, as relative returns look preferable to some other crops. With trend yields, we could see record production, another year of rising carryover and prices even lower than seen for the 1999 crop.

Cotton and rice prices have been very low this year as carryover stocks of both are rising. In 2000, cotton production is expected to be up, but price prospects could possibly improve, especially if China continues to reduce production and stocks. China reduced its procurement prices on cotton as much as 40 percent for the 1999 crop and we think that policy change will restore some balance to their cotton market and to ours. For rice, carryover stocks on August 1 are expected to be nearly double last year. The 33-percent drop in this year's farm price should reduce acreage and production in 2000, but the large carryin will likely continue to pressure prices.

The picture for livestock and poultry is more encouraging than that for crops. Cattle prices are projected to average about 5 percent higher in 2000 following last year's nearly 7-percent increase, as the liquidation of the Nation's cattle herd finally leads to reduced beef production, which we think could be down by 2.5 percent. Lower hog numbers are expected to reduce pork production over 3 percent this year, which could push hog prices to around $40 per cwt. for the year, and enable many producers finally to operate in the black. Broiler prices this year are projected to be off about 2 percent from last year, but producer net returns are expected to continue positive due to lower feed costs.

Milk is a key part of the farm income accounts, evidenced by last year's sales of milk by dairy farmers of $23 billion. Milk prices were record high in 1998 and near record high in 1999, which caused last year's milk production to register the highest year-to-year gain this decade. This surge will pressure milk prices for several months, with the 2000 all-milk price forecast to average 13 percent below 1999.

Other crops face mixed prospects in 2000. Sales receipts of fruit, vegetable, greenhouse and nursery crops are expected to rise $1.2 billion to $42 billion. While fresh vegetable prices are likely to increase over last year's reduced levels, fresh citrus prices are coming down to normal after the December 1998 freeze. Exports of horticultural products are also likely to rise slightly in 2000 after two flat years, as Asian economies strengthen and U.S. citrus supplies recover. Tobacco producers continue to struggle; receipts will decline again in 2000 to $1.8 billion, down $0.4 billion from the year before. Higher retail cigarette prices and reduced use are causing sharp farm quota reductions. Peanut production may decline a little with a return to trend yields, lowering cash receipts somewhat. Sugar production is likely to flatten in part due to lower prices, but there is increasing concern over 2000/2001 imports, supplies, program costs and international trade obligations.

American consumers will be blessed again in 2000 with an abundant, affordable food supply. We are happy to report to that the Consumer Price Index for food during the 12 months ending in January rose only 1.5 percent, the smallest 12-month increase since 1992. In 2000, an increase in the range of 2 to 3 percent is expected. Upward pressure will come from beef and pork, reflecting tightening supplies. On the other hand, dairy products and citrus should be better bargains this year and, based on winter acreages, fresh vegetables are likely to be plentiful again this year.

I would like to conclude by mentioning several factors that will affect the outcome for the farm economy this year when all is said and done. Because the farm economy faces weak markets, the role of government will once again be a prominent factor. First, substantial government payments will be made under current programs. For example, payments under the marketing assistance loan programs which were nil in 1996 and 1997 are forecast at $8 billion for the 2000 crops. Second, the USDA has announced five new initiatives using the Secretary's discretionary authority. These are in various stages of being implemented and include a bioenergy program, farm storage facility loan program, enhanced Conservation Reserve Program incentives, a freeze for the 2000-crop loan rates and another large humanitarian assistance package. Third, the administration has offered a legislative proposal for providing additional income support, conservation benefits and risk management assistance.

In addition to government action, there are many uncertainties about how the forces of change will affect the marketplace. These include global weather disruptions; biotech acceptability; continuing structural changes such as supply chains, contracting and market segmentation; economic growth and policies in areas like Japan and China; and so on. I urge you to attend the many sessions that will deal with these issues today and tomorrow, including the one on the long term outlook for U.S. and world agriculture, which will get into longer term forces that will shape the global farm economy in the early part of the new millennium. Thank you.