
FRBSF WEEKLY LETTER

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The Twelfth District Agricultural Outlook

Agricultural conditions in the Twelfth Federal Reserve District are expected to improve modestly in 1993 helped by increased water supplies and firming prices. The U.S. Department of Agriculture's (USDA) annual outlook projects increases in production and cash receipts for many important District crops, but also forecasts rising costs. The USDA expects 1993 gross cash income to rise about 1 percent, but projects net cash income to fall 1 percent from 1992 levels in the West (including the Twelfth District and Rocky Mountain states). In its outlook, the USDA indicates that total U.S. agricultural exports in 1993 are expected to remain close to last year's \$42 billion, as increased exports of higher-value crops offset declines in commodity exports. Since many of these high-value crops are District products, District farmers are expected to continue to benefit from strong agricultural exports in 1993.

In general, the USDA's outlook forecasts higher production and rising costs for many District farmers in 1993. Several developing issues are likely to alter this outlook, including the improving water supply situation, the response to the North American Free Trade Agreement, and the potential for changes in access to grazing on federal lands.

Field crops

Production of several important District field crops is expected to increase in 1993 as improved water supplies allow increased plantings. Wheat production in 1992-1993 is forecast to increase substantially over the 1991-1992 season, which was affected by the drought and freeze. The USDA projects production to rise over 20 percent in California, Idaho, and Washington, and about 10 percent in Arizona and Oregon, but prices are expected to remain firm during 1993. California cotton production for 1992-1993 is expected to increase 12 percent from last season because of higher acreage and record yields. The USDA expects an 8 percent decline overall in the U.S. cotton crop this season, which should

help support prices. Similarly, the USDA predicts that increased plantings and higher yields will boost rice production in California in 1992-1993 by 21 percent, while rice prices are expected to be lower.

Production declines for field crops that have faced poor market conditions in the past several years could be reversed this year as prices begin to improve. The recent firming of potato prices, following a decline in production in Idaho and Washington last year, is expected to lead to increased potato production in the District during 1993. Similarly, dry bean production, which dropped 27 percent in California, 46 percent in Idaho, and 36 percent in Washington in 1992, is projected to improve on expectations of higher prices in 1993.

Vegetables

Poor market conditions and continued insect problems in some areas weaken the outlook for the District's vegetable crop. The USDA's outlook projects reduced plantings for many important vegetables. Continued low prices prompted California farmers to cut the number of acres of processing tomatoes and celery planted this season by 20 percent and 15 percent, respectively. Farmers also reduced plantings of several vegetables in response to the whitefly infestation in California's Imperial Valley and in parts of Arizona. The number of acres of lettuce planted this season dropped 6 percent in California and 35 percent in Arizona. Lower broccoli and cauliflower plantings in the Imperial Valley were offset by increased planting in other parts of California, pushing the total number of acres up about 15 percent for both crops. Prices for lettuce, celery, and tomatoes currently are well above last year's levels and are expected to remain relatively high in 1993.

The District's melon crop has been significantly affected by the whitefly infestation in the Imperial Valley and Arizona. For the 1992-1993 season, the USDA expects Arizona farmers to plant

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fewer acres of cantaloupe or honeydew melons. In California, no plantings of cantaloupe or honeydew melons were reported this winter.

Fruits and nuts

Increased production and lower prices are expected for many of the District's important fruit and nut crops in 1993. Citrus fruit production in California has almost completely recovered from the December 1990 freeze. According to the USDA, total orange production in California for the 1992-1993 season is expected to increase 3 percent from 1991-1992. In Arizona, orange production is expected to drop 20 percent, however. Orange prices are expected to remain low in 1993. Lemon production is projected to rise 13 percent in California and 12 percent in Arizona.

The USDA projects apple production in 1992-1993 to rise 9 percent in Washington and 5 percent in California. Production of pears in the Northwest also is expected to be strong this season, leading to a 4 percent increase in total U.S. production. Prices for both apples and pears are forecast to fall in 1993.

District nut production generally is projected to remain strong in 1993. Production of California's valuable almond crop is expected to increase 12 percent this season. The USDA forecasts walnut production in California to fall 19 percent, however. In Oregon, hazelnut production is projected to increase 5 percent to reach a record level.

Grape production in 1992 increased throughout the District, rising 12 percent in California, 30 percent in Oregon, and 10 percent in Washington. The USDA expects production to increase again in 1993 as domestic demand continues to expand. California's wine grape industry faces an infestation of *Phylloxera*, an aphid-like insect that attacks the root system of grapevines. Wine grape production is expected to be lower, especially in the Napa and Sonoma areas, for the next several years as growers replace their vineyards with more resistant vines.

Livestock, dairy, and fishery

The USDA expects much of the strength in the livestock industry to continue to come from in-

creased exports in 1993. In 1992, U.S. exports rose 50 percent for turkey, 11 percent for chicken, and 13 percent for beef. Beef prices are expected to hold steady this year despite increased competition. Demand for dairy products is expected to remain soft in 1993. Milk prices appear to have stabilized after falling in 1991 and the first half of 1992. In Alaska, the salmon catch was large, but down from 1991's record haul. Salmon prices are expected to be strong in 1993, however.

Updating the outlook

The USDA's outlook suggests that agricultural production and cash receipts will be higher in 1993, although net farm income likely will fall because of rising costs. Several issues could alter this outlook. Substantial precipitation so far this winter has eased the drought conditions that plagued farmers in California, the Pacific Northwest, and intermountain states during 1992. The USDA's most recent analysis of conditions as of January 1, 1993 shows snowpack levels to be above to well above normal and forecasted spring and summer streamflow to be about normal for most parts of the District. This forecast suggests that water deliveries likely will be higher than during the last several years. Already state water officials in California have announced that water deliveries will be 40 percent of contracted amounts, up from 10 percent announced early in December. This level of deliveries assumes that the remainder of the winter is dry, so if December and January's precipitation pattern continues through February and March, water deliveries are likely to be higher, boosting production and lowering irrigation costs.

Increased water supplies also would improve range conditions and lower feed costs, helping District ranchers. Ranchers could face additional costs this year if Congress decides to raise grazing fees on federal lands this term. District cattle exports could be lower than expected because of a recent tariff imposed by Mexico.

The agricultural trade picture for the District is made more complex by the North American Free Trade Agreement. Production and prices of some crops could be lower than expected if imports from Mexico increase significantly. Most vulnerable crops, including many California fruits and vegetables, have substantial protection built into the current agreement.

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DISTRICT INDICATORS
(Seasonally Adjusted)

	92Q4	92Q3	92Q2	92Q1	91Q4	91Q3	91Q2	91Q1	% Change From:	
									92Q3	91Q4
AGRICULTURE										
U.S. crop prices, 1985=100	109.5	107.8	108.1	109.5	111.0	114.7	116.1	113.2	1.60	-1.30
District crop prices, 1985=100	115.0	110.7	101.9	113.7	108.5	120.7	128.9	107.6	3.80	5.92
Farm cash receipts, million \$	N/A	2,543.4	2,478.9	2,501.0	2,694.2	2,529.5	2,698.3	2,529.0	N/A	N/A
Cattle-on-feed, 1985=100	91.2	91.1	86.8	86.0	81.2	84.2	91.9	92.0	0.11	12.40
Cattle prices, California, \$/Cwt.	60.1	60.2	58.4	60.9	62.1	62.6	66.4	64.5	-0.12	-3.17
FORESTRY										
Lumber production, millions board feet	1,419.7	1,381.1	1,287.1	1,417.9	1,351.9	1,428.7	1,467.7	1,359.0	2.79	5.02
Northwest lumber inventory, millions board feet	2,098.8	2,205.1	2,285.1	2,187.6	2,308.9	2,400.3	2,309.8	2,390.7	-4.82	-9.10
U.S. lumber prices, 1986=100	162.9	147.9	153.1	156.8	137.9	131.6	137.6	113.5	10.18	18.16
ENERGY										
Spot price of oil, \$/barrel	20.6	21.7	21.1	18.9	21.8	21.6	20.8	22.0	-5.12	-5.68
U.S. rig count	891.7	893.1	906.7	906.9	912.1	923.3	938.8	957.7	-0.15	-2.23
District rig count	63.9	60.8	65.9	54.6	63.2	74.5	80.4	72.2	5.03	1.09
Fuel mining employment, 1985=100	67.3	68.3	70.3	70.1	69.9	72.7	73.6	74.8	-1.38	-3.76
U.S. seismic crew count	75.1	71.2	81.3	80.2	89.7	98.4	110.2	117.9	5.39	-16.30
MINING										
Mineral prices, 1986=100	99.2	105.3	107.0	105.9	104.1	104.5	108.8	108.6	-5.80	-4.78
Metal mining employment, 1985=100	176.0	175.2	177.4	180.9	180.7	184.1	185.9	193.1	0.46	-2.62
CONSTRUCTION										
Nonresidential awards, 1985=100	98.7	95.5	104.1	115.0	103.7	93.4	103.1	106.3	3.37	-4.77
Residential permits	21,051	19,586	19,182	19,780	19,496	18,524	19,833	17,667	7.48	7.98
Western housing starts, thousands	22.7	26.3	26.7	21.9	19.5	24.1	25.5	15.6	-13.79	16.41
Construction employment, thousands	891.7	893.1	906.7	906.9	912.1	929.3	938.8	957.7	-0.15	-2.23
MANUFACTURING										
Wages, California, \$/hour	12.2	12.3	12.2	12.1	12.0	11.9	11.8	11.8	-0.65	1.66
Employment, thousands	2,835.1	2,871.3	2,908.6	2,948.0	2,956.4	2,982.4	3,005.8	3,050.3	-1.26	-4.10
Durables, 1985=100	88.9	90.2	91.7	93.1	94.0	95.3	96.4	97.9	-1.46	-5.36
Construction durables, 1985=100	91.3	91.3	93.4	94.3	93.7	95.4	95.6	97.7	0.04	-2.51
Aerospace, 1985=100	92.4	95.8	99.1	103.2	105.6	107.1	109.4	111.9	-3.52	-12.48
Electronics, 1985=100	85.2	86.0	87.3	87.8	88.6	90.6	92.2	92.8	-0.96	-3.78
Semiconductor orders, mil. \$, not s.a.	1,940.2	1,711.8	1,543.0	1,439.3	1,378.4	1,272.1	1,298.9	1,216.3	13.35	40.75
Whls/retail trade employment, thousands	4,645.4	4,652.6	4,675.7	4,701.4	4,693.0	4,713.4	4,725.7	4,725.7	-0.16	-1.02
Retail sales, Pacific District, mil. \$	26,363	25,818	25,696	25,881	25,078	25,445	25,321	24,655	2.11	5.12
Services employment, thousands	5,532.3	5,511.0	5,502.6	5,497.5	5,488.5	5,471.9	5,445.0	5,404.5	0.39	0.80
Health care, 1985=100	134.0	133.0	132.5	131.8	131.2	129.8	128.9	127.6	0.77	2.16
Business services, 1985=100	112.8	112.6	113.5	113.4	112.0	112.7	113.6	113.1	0.17	0.69
Hotel, 1985=100	132.2	130.9	132.3	133.3	134.5	131.7	132.1	132.1	1.02	-1.66
Recreation, 1985=100	141.7	140.9	139.6	139.5	140.7	139.1	140.1	138.2	0.56	0.65
Finance, insurance, and real estate empl., thousands	1,233.0	1,234.4	1,239.2	1,244.3	1,242.3	1,245.1	1,247.2	1,247.9	-0.12	-0.75
GOVERNMENT EMPLOYMENT, THOUSANDS										
Federal government	603.5	602.7	601.6	609.7	611.5	614.1	610.7	614.5	0.14	-1.31
State and local	2,916.9	2,945.7	2,906.0	2,901.6	2,883.8	2,888.9	2,863.2	2,851.0	-0.38	1.15

Data are weighted aggregates of available 12th District data constructed by FRBSF staff from public and industry sources.

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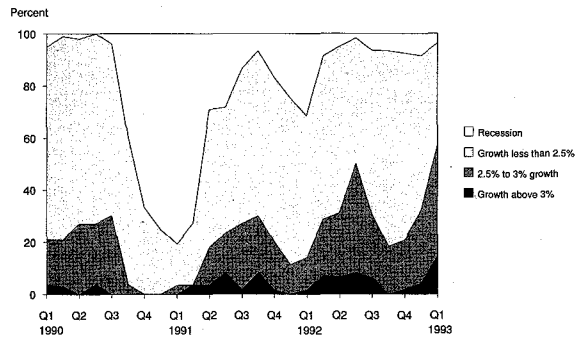
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PERSONAL INCOME Annualized Percent Growth Rates

	92Q3	92Q2	92Q1	91Q4	91Q3	Annual Growth		
						1992*	1991	1990
Alaska	3.2	-1.0	13.2	4.8	5.0	5.0	4.1	6.7
Arizona	5.5	6.2	8.5	5.6	1.9	6.7	4.2	5.7
California	3.3	4.5	3.5	1.6	4.2	3.8	1.7	7.4
Hawaii	-24.0	2.8	10.7	2.2	3.8	-4.7	2.2	11.3
Idaho	2.8	8.6	4.6	13.9	2.3	5.3	4.7	7.9
Nevada	4.4	1.9	11.1	4.1	6.2	5.7	4.3	10.6
Oregon	4.7	3.0	9.0	5.2	6.9	5.6	4.7	7.1
Utah	5.1	3.9	10.5	6.3	5.3	6.4	5.8	8.2
Washington	3.4	3.7	9.5	7.6	5.9	5.5	5.7	9.1
12th District	2.9	4.3	5.4	3.1	4.4	4.2	2.7	7.6
U.S.	2.7	4.0	6.1	5.4	3.5	4.2	3.4	6.3

* Year-to-date

Twelfth District Business Sentiment* GDP



* Expectations for GDP growth during the next four quarters based on a survey of approximately 75 business leaders in the 12th Federal Reserve District.

NON-AGRICULTURAL EMPLOYMENT Annualized Percent Growth Rates

	92Q4	92Q3	92Q2	92Q1	91Q4	Annual Growth		
						1992	1991	1990
Alaska	7.9	-0.8	-7.1	3.6	7.5	0.7	2.1	5.2
Arizona	0.3	4.0	-1.2	0.6	-0.2	0.9	0.6	1.6
California	-3.5	-1.6	-1.7	-0.5	-3.3	-1.8	-2.9	0.4
Hawaii	-2.9	-3.3	-1.3	1.2	1.5	-1.6	1.0	3.8
Idaho	4.3	1.6	-2.8	6.1	6.0	2.2	3.5	4.9
Nevada	5.1	0.6	-1.6	4.3	4.3	2.1	1.5	5.3
Oregon	2.5	-0.4	0.1	3.6	1.5	1.4	-0.1	2.5
Utah	2.8	4.5	1.9	3.0	2.0	3.1	2.3	4.4
Washington	4.7	-1.4	-2.2	1.9	2.9	0.7	1.0	3.3
12th District	-1.1	-0.8	-1.5	0.6	-1.3	-0.7	-1.4	1.4
U.S.	0.4	0.3	1.1	-0.2	-0.2	0.4	-1.0	0.3

UNEMPLOYMENT RATES Average Quarterly Data

	92Q4	92Q3	92Q2	92Q1	91Q4	Annual Average		
						1992	1991	1990
Alaska	9.0	9.4	9.1	9.1	9.8	9.2	8.6	7.0
Arizona	7.3	6.4	7.3	8.7	7.3	7.4	5.7	5.3
California	9.9	9.4	8.7	8.4	7.7	9.1	7.6	5.6
Hawaii	4.8	4.6	4.0	3.5	3.0	4.2	2.7	2.8
Idaho	6.6	6.3	6.2	6.3	6.2	6.3	6.1	5.9
Nevada	6.3	7.2	6.2	6.6	5.7	6.6	5.5	5.0
Oregon	7.4	7.0	6.7	8.1	6.5	7.3	6.0	5.5
Utah	5.5	5.1	4.8	4.6	5.3	5.0	4.9	4.3
Washington	7.9	6.8	6.8	7.3	6.8	7.2	6.3	4.9
12th District	8.9	8.4	7.9	8.0	7.2	8.3	6.9	5.4
U.S.	7.3	7.6	7.5	7.2	7.0	7.4	6.8	5.5