

PN-ABL-902
78633

SCHNITTKER ASSOCIATES

3101 GARFIELD STREET, N.W.
WASHINGTON, D.C. 20008
(202) 337-0200

THE FARM DROUGHT: IMPLICATIONS FOR AGRICULTURE, TRADE, AND FOOD AID

A briefing prepared by

Schnittker Associates

for

Agency for International Development

<u>Title</u>	<u>Page</u>
Summary	1
Principal Crops	2-9
Livestock and Dairy	10-11
Farm Income	12-13
Macroeconomic Impact	14
World Crops	15-16
1989 Crop Programs	17-20

August 12, 1988
Washington, D.C.

#

SUMMARY AND CONCLUSIONS

- o The corn crop is estimated at 4.5 billion bushels, leaving ending stocks of 1.6 billion. Acreage will have to expand to around 73 million in 1989 and again in 1990 to meet demand.
- o The soybean crop is estimated at 1.5 billion bushels, leaving ending stocks around 100 million. Acreage will have to expand to around 62 million in 1989 and 1990; special legislation has been approved to encourage this.
- o The wheat crop is estimated at 1.8 billion bushels, leaving ending stocks around 600 million. Acreage will have to expand to around 73 million in 1989 and 1990--close to full capacity, given the 10% acreage reduction in effect for 1989.
- o Livestock liquidation is expected to intensify this fall if the drought continues. Range and forage conditions, rather than feed prices, will determine the extent of the liquidation. Total red meat and poultry supplies will stagnate or fall slightly in 1989 after 6 years of uninterrupted gains--causing high prices.
- o National farm income and financial conditions will not change markedly as a result of the drought--special relief legislation will replace lower deficiency payments. However, there will be significant local pockets of stress. Income will be redistributed by region and farm type.
- o The main net farm income effect will show up as a large inventory reduction in 1988 followed by a modest increase in 1990. Net cash income will drop in 1989, largely due to higher production expenses, but will be high by historical standards.
- o The recovery in farm asset values, primarily farmland, will be slowed somewhat but not derailed.
- o The drought will not halt the recovery in farm machinery and equipment sales. Lost sales from this year will be postponed into next year. The evidence suggests that continued high farm incomes and acreage expansion will aid the industry's recovery.
- o The macroeconomic impacts of the drought will be small--at most another 1/2-2/3 point of CPI inflation and a small loss of disposable consumer income and jobs. However, as with the farm economy, there will be significant negative regional multipliers from lower agricultural production.
- o The drought will bring a net gain in agricultural trade as higher prices offset lower volumes. One critical area to watch is the potential for losing market share in soybeans to South American production.

CORN SUPPLY, DEMAND, AND PRICES

USDA estimated the 1988/89 corn crop at 4.5 billion bushels August 1. Perhaps one should reduce the crop slightly, to account for a week of adverse weather in early August.

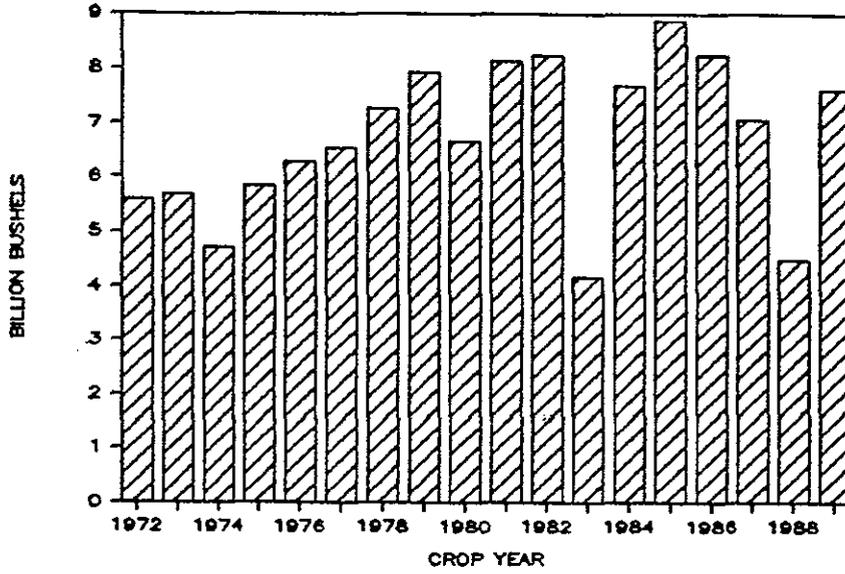
A crop of 4.5 billion bushels will draw down 1988/89 ending stocks to about 1.6 billion bushels, which is only 22% of expected use.

Our estimates suggest a 1988-89 season average farm price of bu.

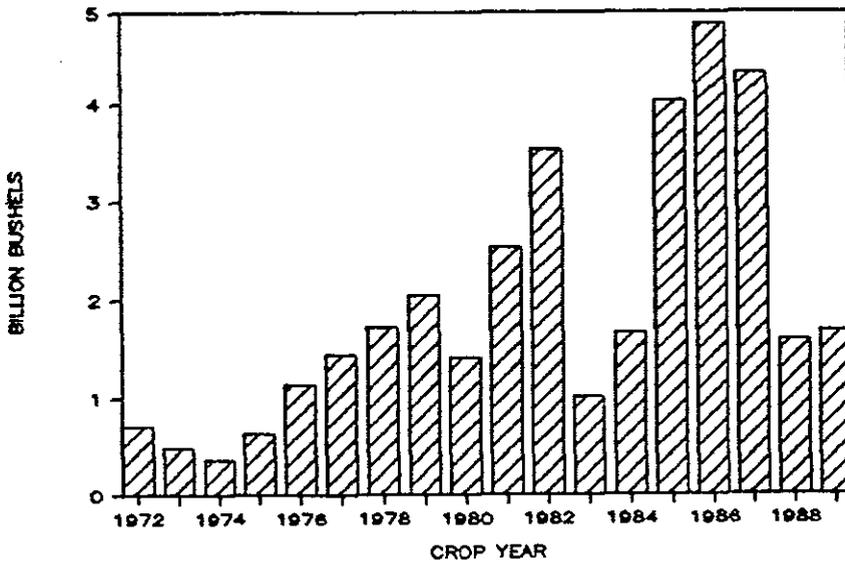
CORN: SUPPLY, DEMAND, & PRICES (Sept/Aug)	1986/87	1987/88	1988/89	1989/90
	-----	-----	-----	-----
Planted Acres (mil.)	76.7	65.7	67.5	73
Harvested Acres (mil.)	69.2	59.2	57.1	66
Yield (bu./acre)	119.3	119.4	78.5	115
Beginning Stocks (mil. bu.)	4,040	4,880	4,352	1,576
Production (mil. bu.)	8,250	7,064	4,478	7,590
Total Supply (mil. bu.)	12,290	11,951	8,836	9,170
Domestic Use (mil. bu.)	5,906	5,874	5,610	5,800
Exports (mil. bu.)	1,504	1,725	1,650	1,700
Total Demand (mil. bu.)	7,410	7,599	7,260	7,500
Ending Stocks (mil. bu.)	4,880	4,352	1,576	1,670
Target Price (\$/bu.)	3.03	3.03	2.93	2.84
Loan Rate (\$/bu.)	1.92	1.82	1.77	1.68
Market Price (\$/bu.)	1.50	2.05	2.85	2.65

1.5 - 2 b. 60.
 expected to be
 "adequate" reserves
 hard to determine

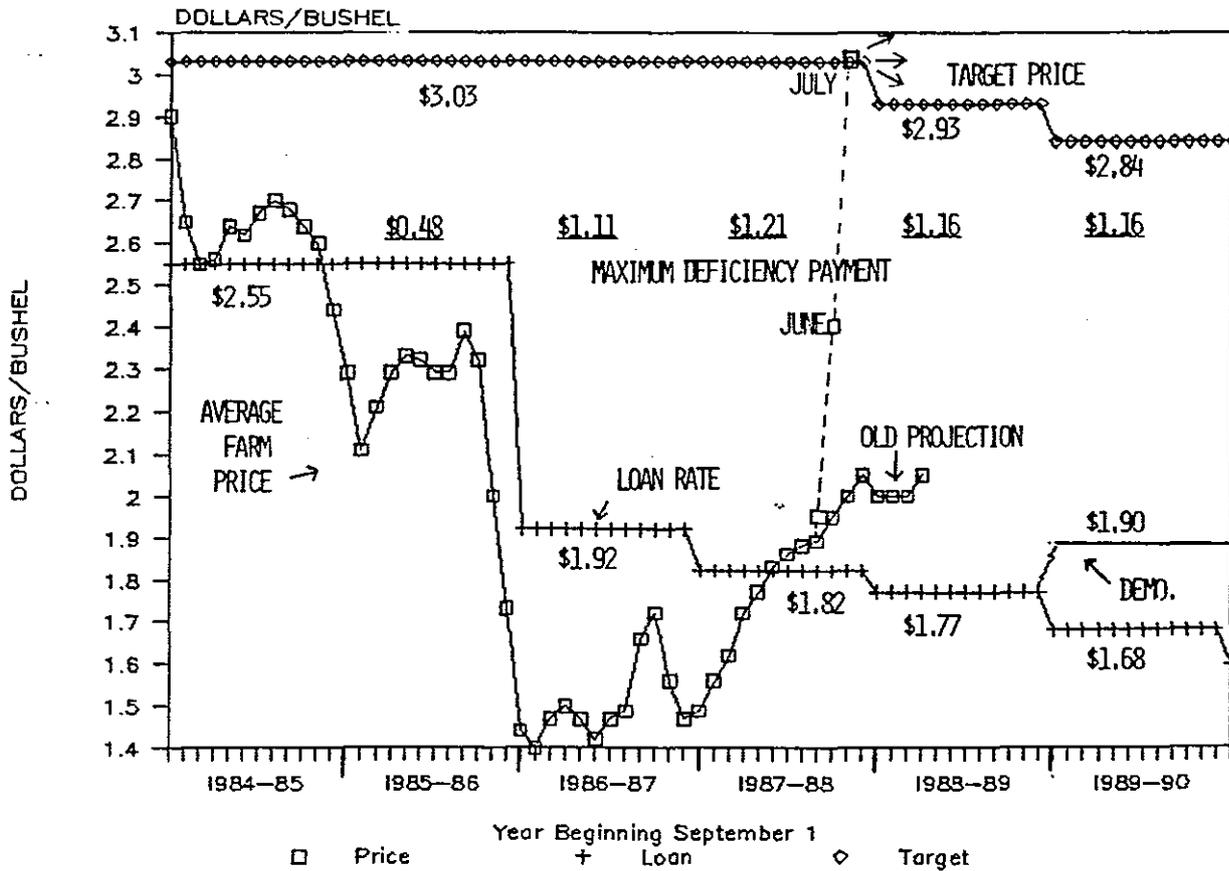
CORN PRODUCTION



CORN: ENDING STOCKS



CORN SUPPORTS AND PRICES



 U.S. FEED GRAINS: SUPPLY, DEMAND, & PRICES (Sept/Aug)
 1986/87 1987/88 1988/89

Planted Acres (mil.)	119.8	106.5	101.5
Harvested Acres (mil.)	101.9	86.7	78.8
Yield (mmt./acre)	2.48	2.48	174
Beginning Stocks (mmt.)	126.3	152.1	137.6
Production (mmt.)	252.3	215.2	137.3
Total Supply (mmt.)	379.4	368.4	276.3
Domestic Use (mmt.)	181.0	178.7	169.0
Exports (mmt.)	46.3	51.8	48.1
Total Demand (mmt.)	227.2	230.4	217.1
Ending Stocks (mmt.)	152.1	137.9	59.2

SOYBEANS: SUPPLY, DEMAND, AND PRICES

We concur with August USDA's estimate of the soybean crop at around 1.5 billion bushels--assuming normal August weather. The yield could be reduced slightly to account for slightly negative weather in early August, but that can wait until September.

This will draw down ending stocks to a critical level of around 100 million bushels--less than 6% of expected use, causing a very tense and volatile market, with price rationing between domestic crush and exports.

Even with expanded plantings next year, ending stocks will be just above 8% of expected use.

This suggests a season average farm price of about \$8.25/bushel this year, with prices falling in 1989/90.

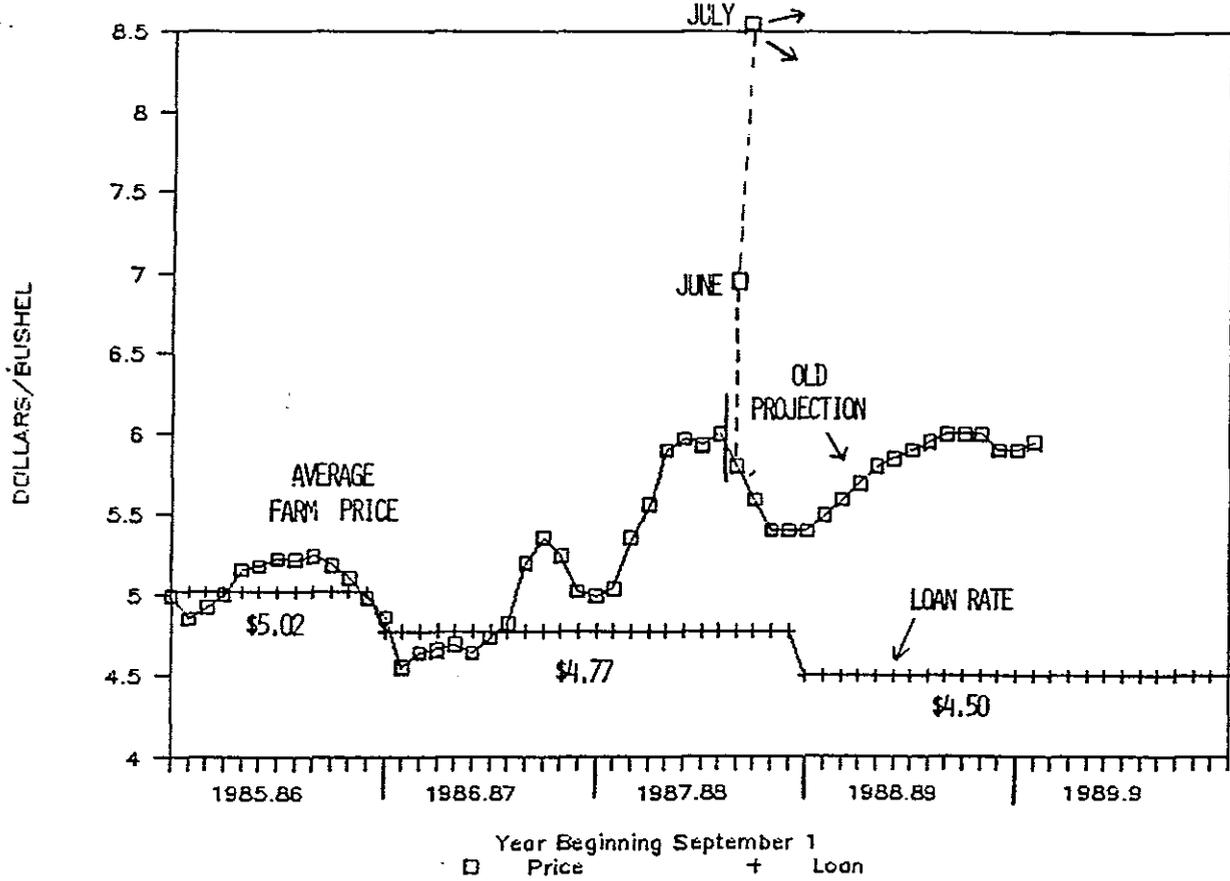
There seems to be little chance that the Secretary would estimate 1989-90 soybean prices at below \$5.50, so the provision designed to increase soybean plantings should be used in 1989, and probably in 1990.

SOYBEANS: SUPPLY, DEMAND, & PRICES (Sept/Aug)	Sept ¹			
	1986/87	1987/88	1988/89	1989/90
	-----	-----	-----	-----
Planted Acres (mil.)	60.4	57.4	58.5	62
Harvested Acres (mil.)	58.3	56.4	56.5	61
Yield (bu./acre)	33.3	33.7	26.1	33
Beginning Stocks (mil. bu.)	536	436	280	100
Production (mil. bu.)	1,940	1,905	1,474	2,013
Total Supply (mil. bu.)	2,476	2,341	1,754	2,113
			1000	
Domestic Use (mil. bu.)	1,283	1,180	1,175	1,175
Exports (mil. bu.)	757	785	560	775
Total Demand (mil. bu.)	2,040	2,061	1,654	1,950
Ending Stocks (mil. bu.)	436	280	100	163
Loan Rate (\$/bu.)	4.77	4.77	4.77	4.77
Market Price (\$/bu.)	4.78	6.25	8.25	6.95

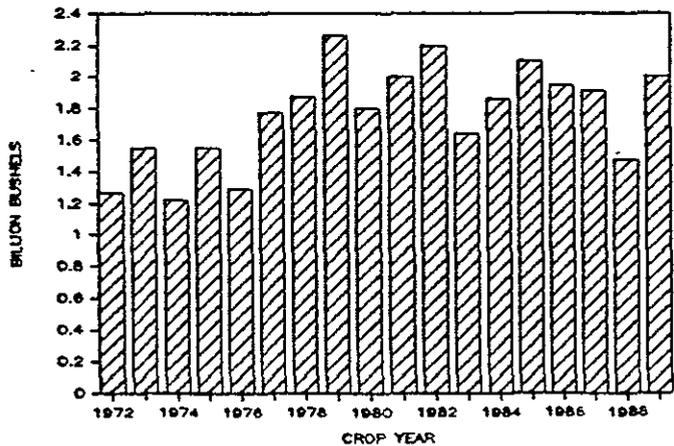
*soybeans
will be in
tightest
supply -
ration of exports
by pricing
increases*

*-Carryover stocks
very low to
start -*

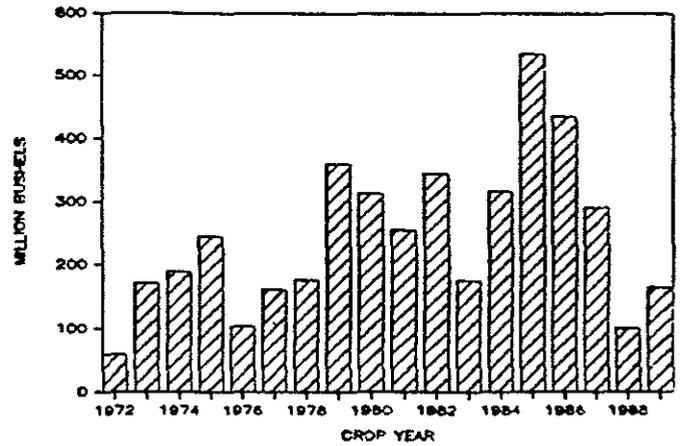
SOYBEAN SUPPORTS AND PRICES



SOYBEAN PRODUCTION



SOYBEAN: ENDING STOCKS



WHEAT: SUPPLY, DEMAND, AND PRICES

The good news is that the drought was too late to materially affect the winter wheat crop. The bad news is that the spring wheat crop, particularly pasta-quality Durum, has been devastated with a 50% loss. USDA estimates a total U.S. wheat crop of 1.82 billion bushels. This is the smallest crop since 1978, and will leave ending stocks at below 600 million bushels.

This calls for a very large--perhaps 10 million acres--increase in plantings for harvest in 1989. Secretary Lyng had confirmed a 10% acreage reduction, which should generate planted acreage of 75 million. Over 10 million acres of wheat base is in the Conservation Reserve, and the new soybean acreage provision may limit wheat plantings slightly.

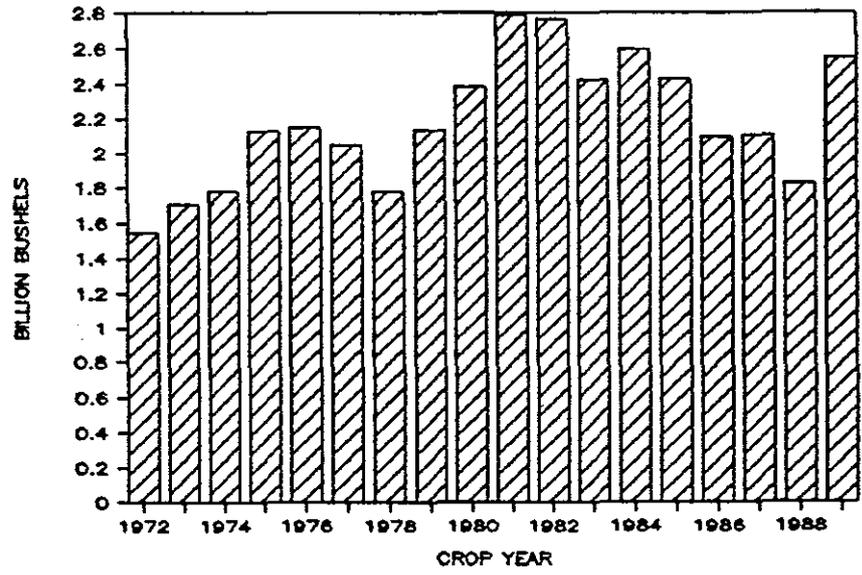
WHEAT: SUPPLY, DEMAND, & PRICES (June/May)

	1986/87	1987/88	1988/89	1989/90
Planted Acres (mil.)	72.1	65.8	65.9	75
Harvested Acres (mil.)	60.7	55.9	52.9	66
Yield (bu./acre)	34.4	37.6	34.4	38
Beginning Stocks (mil. bu.)	1,905	1,821	1,266	597
Production (mil. bu.)	2,092	2,105	1,821	2,508
Total Supply (mil. bu.)	3,997	3,926	3,102	3,110
Domestic Use (mil. bu.)	1,193	1,075	1,105	1,100
Exports (mil. bu.) <i>wheat equiv.</i>	1,004	1,600	1,400	1,500
Total Demand (mil. bu.)	2,197	2,675	2,505	2,600
Ending Stocks (mil. bu.)	1,821	1,266	597	515
Target Price (\$/bu.)	4.38	4.38	4.23	4.10
Loan Rate (\$/bu.)	2.40	2.28	2.21	2.10
Market Price (\$/bu.)	2.42	2.57	3.95	4.00

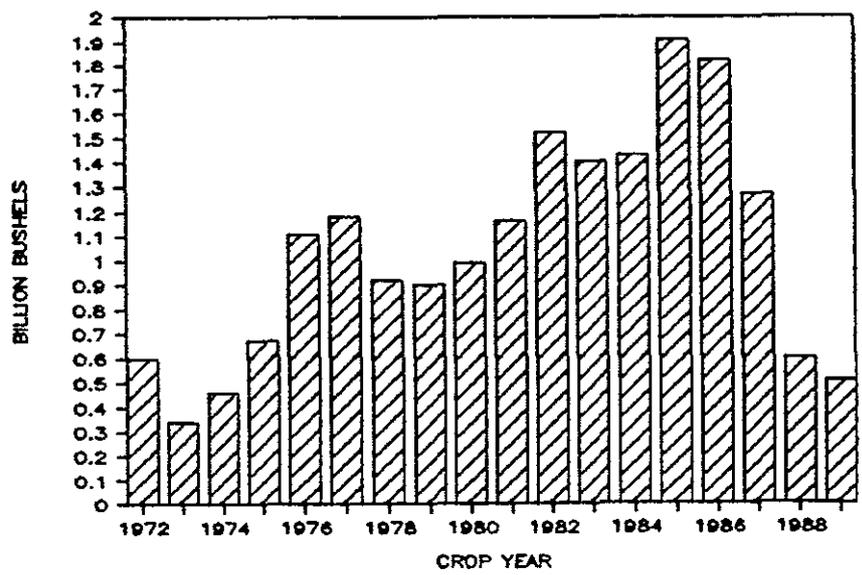
*durum wheat
flour prices up
100%*

*"adequate"
stocks
7-10 \$*

WHEAT PRODUCTION



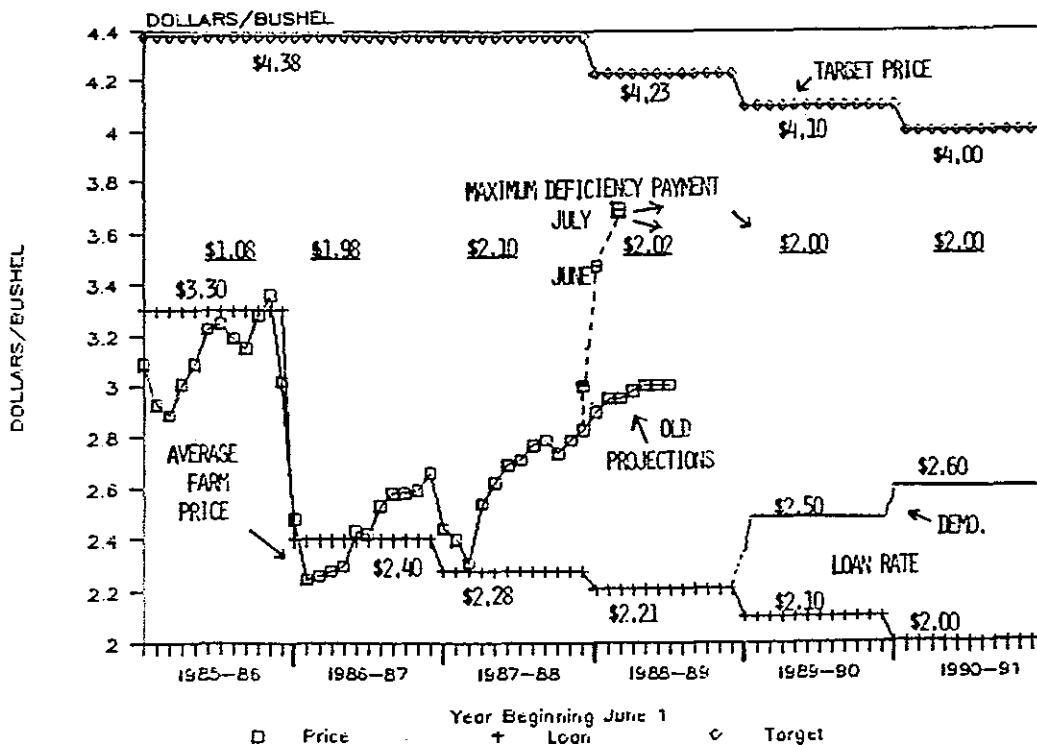
WHEAT: ENDING STOCKS



U.S. Wheat by classes: Supply and Disappearance

	Hard Winter	Hard Spring	Soft Red	White	Durum	Total
(million bushels)						
<u>1987/88</u>						
Stocks	973	490	77	185	95	368
Production	1,019	431	348	216	93	2,105
Supply, total	<u>1,991</u>	<u>928</u>	<u>425</u>	<u>404</u>	<u>193</u>	<u>3,941</u>
Domestic use	507	278	190	59	50	1,084
Exports	<u>905</u>	<u>255</u>	<u>160</u>	<u>210</u>	<u>62</u>	<u>1,592</u>
Use, total	1,412	533	350	269	112	2,676
Ending stocks	579	394	75	135	83	1,266
<u>1988/89 Projected</u>						
Beginning stocks	579	394	75	135	83	1,266
Production	894	188	462	222	55	1,821
Supply, total	<u>1,473</u>	<u>589</u>	<u>537</u>	<u>360</u>	<u>143</u>	<u>3,102</u>
Domestic use	523	186	258	82	56	1,105
Exports	<u>685</u>	<u>235</u>	<u>250</u>	<u>190</u>	<u>40</u>	<u>1,400</u>
Use, total	1,208	421	508	272	96	2,505
Ending stocks	265	168	29	88	47	597

WHEAT SUPPORTS AND PRICES



LIVESTOCK PRODUCTION AND PRICES

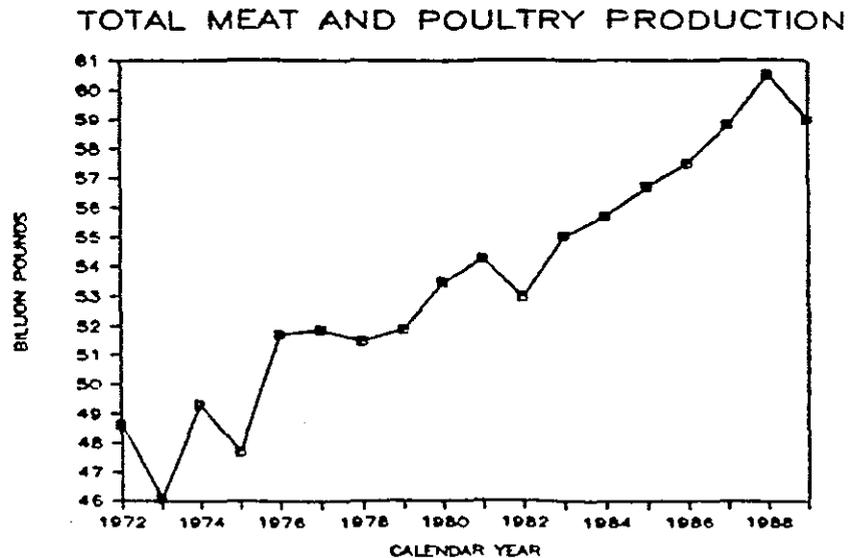
So far, the only evidence of livestock liquidation is increased slaughter of dairy cows--primarily from the upper mid-west. The bulk of the expected liquidation will be in beef cattle this fall. While high feed prices have already locked us into a liquidation scenario, it will be mild. However, continued drought would destroy additional range and forage this fall, causing a larger liquidation. Pasture conditions will be more important than feed prices in determining the extent of the cattle liquidation.

We expect the nation's cattle herd to fall by another 2 million head by January 1, 1989. This will leave the herd at about 97 million head--the smallest in over 20 years. Beef production will fall by about 5% in 1989 to 21.4 billion pounds. Prices will rise about 10%. Beef expansion will be delayed until 1990 or even 1991.

Pork production will fall slightly in 1989 to just over 15 billion pounds, ending the 2-year expansion which began in 1987. Unlike with beef, pork expansion will resume in 1990. The relentless poultry expansion will be muted but not stopped, with 1989 production forecast at 21.8 billion pounds. Higher beef and pork prices will support higher broiler prices.

Total meat supplies will drop to around 59 billion pounds in 1989, from an estimated 60.5 billion in 1988. Trend increases in total production to meet growing demand have been 1-2 billion pounds annually. This implies relatively tight supplies and high prices beyond 1989.

Dairy production will drop in 1989, while demand increases on trend--causing 1989 production and use to be almost in balance.



LIVESTOCK: PRODUCTION & PRICES

	1986	1987	1988	1989
	----	----	----	----
Beef (bil. lb.)	24.4	23.6	22.9	21.4
Cattle (Jan.1, mil. head)	105.5	102.0	99.0	97.0
Omaha Steers (\$/cwt.)	57.8	64.6	68.5	74.5
Pork (bil. lb.)	14.1	14.4	15.7	15.1
Hogs (Jan. 1, mil. head)	52.3	50.9	53.8	53.5
7-Market Barrow&Gilt(\$/cwt)	51.2	51.7	44.5	46.5
Other Red Meat (bil. lb.)	0.86	0.74	0.74	0.72
Poultry (bil. lb.)	18.2	20.1	21.2	21.8
12-City Broiler (\$/cwt.)	56.9	47.4	52.5	57.0
Total Meat&Poult. (bil. lb)	57.6	58.8	60.5	59.0
Dairy Cows (mil.)	10.8	10.3	10.3	10.1
Output per Cow (thou. lb.)	13.3	13.8	13.8	14.1
Milk Production (bil. lb.)	143.6	142.1	143.5	142.4
Commercial Use (bil. lb.)	133.4	135.7	138.0	140.1
All Milk Price (\$/cwt.)	12.5	12.5	12.2	12.5

MILK AND DAIRY PRODUCTS

Milk production declined by enough during the period October 1986 to September 1987, to cut CCC acquisitions under the price support program to 5.4 billion pounds (of milk equivalent). This barely met the needs of domestic and foreign food distribution programs, reducing CCC inventories sharply a year ago.

Milk production in the current marketing year (ending 9/30/88) will be about 144 bil. pounds, almost 3 bil. above a year ago. Net removals will be about 9 bil. pounds (milk equivalent). Domestic food programs and strong export demand, however, will keep CCC's uncommitted inventory to zero on September 30, 1988 (except for some surplus butter). Milk powder acquisitions in the 1987-88 season will be just under 400 mil. pounds. School Lunch programs require about 40 mil., and TEFAP has taken 50-80 mil. That leaves roughly 250 mil. pounds to allocate to other programs, including commercial or semi-commercial exports (subsidized milk powder sales to Mexico, for example).

Milk production and surplus removals will decline sharply in the 1988-89 season. It seems doubtful that much milk powder will be available for foreign programs in 1989, but it is possible. USDA estimates that 3 bil. pounds of surplus will cover school lunch requirements for processed products. The newest estimate of CCC removals for the season ahead is 5.4 bil. pounds. That leaves room for the product from about 2 bil. ~~to~~ 5.4 bil. pounds of surplus milk to be allocated among foreign programs.

CSM was originally developed in these circumstances

(Billion Pounds)	1986/87	1987/88	1988/89
Milk Production	141.4	144.0	142.3
Surplus Removals	5.4	9.4	5.4

FARM SECTOR INCOME AND BALANCE SHEET

The fears of a dramatic loss in farm income are grossly overstated. First, higher market prices are more than offsetting production losses so that total cash receipts will rise this year and next. Cash receipts will rise from \$137.5 billion last year to \$145.3 billion this year and \$151.0 billion in 1989. Second, additional drought relief of about \$4 billion will offset most of the \$6-8 billion loss in deficiency payments.

Some squeeze on net cash income will occur in 1989 due to higher production expenses. Higher input prices (especially feed, seed, and feeder livestock) and larger planted acreage will cause expenses to jump from an estimated \$124 billion in 1988 to about \$134 in 1989. Nevertheless, net farm income (\$40-45 billion) as well as net cash income (\$50-55 billion) will remain high by historical standards.

Farm asset values will continue their recovery, but at a somewhat slower pace. The overall impact of the drought on the sector's asset base is likely to be small. Droughts are a regular part of farming, occurring every 3-5 years, and are reflected in long-run asset values. In fact, for areas not covered by the drought, land prices will be boosted by higher market prices for crops.

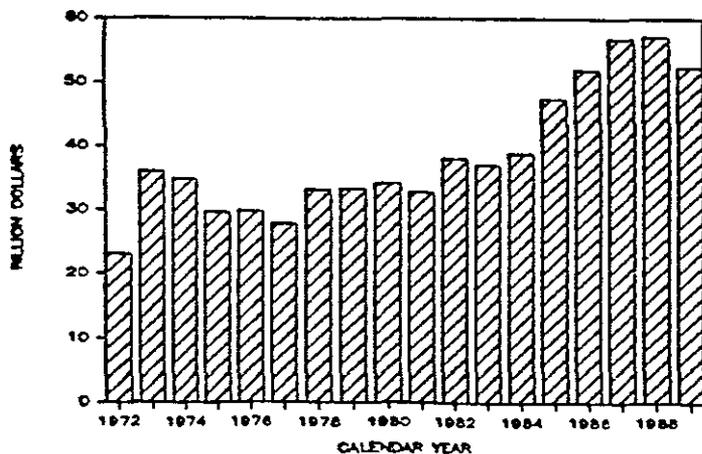
Farm debt will begin to expand in 1989, as higher acreage will result in increased demand for operating loans. This will be the first expansion of farm debt since the \$60 billion liquidation began in 1984. This will allow for significant strengthening of farm lenders, provided they follow prudent cash-flow lending practices. While some deterioration of credit quality will occur this year, the expanded market next year will more than offset any drought-related losses this year.

Because farm incomes will remain high and acreage will expand, we expect continued recovery of the farm machinery and equipment industry. Research shows that acreage is just as important as incomes (and perhaps more so) in determining the demand for farm capital equipment. Given the capital stock depletion of the past 7 years, there is a tremendous pent-up replacement demand. While the drought is expected to dampen sales this year somewhat, strong machinery demand will be evidenced by early next year. This will be enhanced by additional cash-flow provided by drought relief measures.

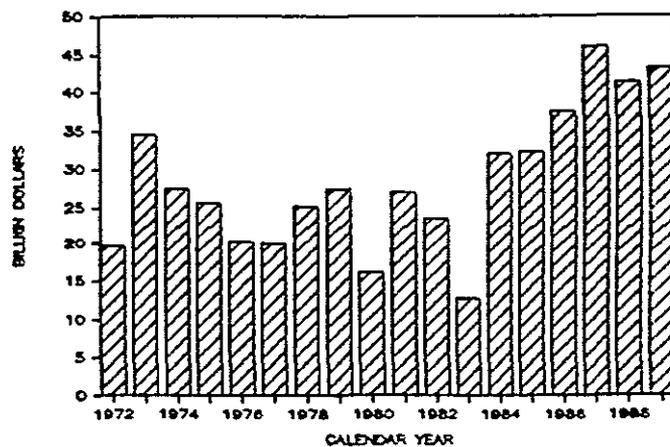
 FARM SECTOR INCOME AND BALANCE SHEET (billion \$)

	1986	1987	1988	1989
Crop Receipts	63.6	61.3	69.5	72.5
Livestock Receipts	71.6	76.2	75.8	78.5
Total Receipts	135.2	137.5	145.3	151.0
Government Payments	11.8	16.7	12.8	6.8
Inventory Change	-3.3	-0.6	-7.6	2.7
Other Income	15.9	15.7	15.1	16.8
Production Expenses	122.1	123.2	124.1	134.0
Net Farm Income	37.5	46.1	41.5	43.3
Net Cash Income	52.0	56.8	57.2	52.5
Assets	691.6	713.8	728.5	764.9
Debt	155.0	142.5	136.5	140.2
Equity	536.6	571.3	592	624.7
Debt/Asset Ratio (%)	22.4	20.0	18.7	18.3
Capital Expenditures	8.6	8.1	9.8	11.2

NET CASH INCOME



NET FARM INCOME



MACROECONOMIC IMPACTS

The macroeconomic impacts from the drought will be small, but not insignificant. There will be some increase in the overall CPI as food prices increase 6% in 1989. The drought will add 1-2 points to food price inflation in 1988, and 2-3 points in 1989. It will add 1/2 point to 2/3 point to the overall CPI in the next 18 months, beginning July 1, 1988. Food prices account for 17.6% of the total CPI, and the farm value share of the food dollar is just under 30%.

Consumers currently spend about \$525 billion on food and beverages, so the drought will cost them \$5 billion or more in 1988, and \$10 bil. or more in 1989. This will reduce consumer purchasing power for other products by about the same amount, assuming consumers do not dip into already-depleted savings. Experiments with macroeconomic models indicate that there will be a negative multiplier of about 2 associated with this, so that real GNP may be about \$10 billion less in 1988, and \$20 billion less in 1989 than it would have been without the drought.

There will also be negative income and employment multipliers directly associated with reduced agricultural output. In constant 1982 dollars, the direct loss will be about \$10 billion, for a total loss to 1989 real GNP of about \$20 billion from what it otherwise would have been--a loss of 0.5 percentage points.

Our model experiments suggest that this will create a national loss of total employment of about 200,000 jobs.

WORLD CROP CONDITIONS

World grain production at 1,545 mil. tons, will be down about 137 mil. tons from the 1986-87 peak, and down 46 mil. tons from last year's small crop. Production will lag consumption by 114 mil. tons.

U.S. and World Grain Production

(million tons)	<u>1986-87</u>		<u>1987-88</u>		<u>1988-89</u>	
	<u>U.S.</u>	<u>World</u>	<u>U.S.</u>	<u>World</u>	<u>U.S.</u>	<u>World</u>
Wheat	57	530	57	504	50	505
Coarse Gr.	253	834	216	787	138	718
Rice	<u>4</u>	<u>318</u>	<u>4</u>	<u>305</u>	<u>5</u>	<u>322</u>
All Grains	314	1,682	277	1,601	192	1,545
Soybeans	53	98	52	102	48	97

World trade in grains may be around 217 mil. tons, down from 222 mil. tons last season.

U.S. and World Exports

(million tons)	<u>1986-87</u>		<u>1987-88</u>		<u>1988-89</u>	
	<u>U.S.</u>	<u>World</u>	<u>U.S.</u>	<u>World</u>	<u>U.S.</u>	<u>World</u>
Wheat	27	102	43	117	38	107
Coarse Gr.	46	97	52	95	48	98
Rice	<u>3</u>	<u>13</u>	<u>2</u>	<u>11</u>	<u>2</u>	<u>12</u>
All Grains	76	212	98	223	89	217
Soybeans	21	28	21	30	15	26

World grain stocks will be at or near what are generally considered to be minimum reserve levels by mid-1989: Wheat -- 22.5% of a year's consumption (82 day's supply), and 15.9% of a year's consumption for coarse grains (58 day's supply). All grain stocks will be 17.4% of a year's needs (64 day's supply).

U.S. and World Ending Stocks

(million tons)	<u>1986-87</u>		<u>1987-88</u>		<u>1988-89</u>	
	<u>U.S.</u>	<u>World</u>	<u>U.S.</u>	<u>World</u>	<u>U.S.</u>	<u>World</u>
Wheat	50	176	35	148	16	120
Coarse Gr.	153	233	138	213	60	128-58
Rice	<u>2</u>	<u>50</u>	<u>1</u>	<u>40</u>	<u>1</u>	<u>41</u>
All Grains	204	458	174	403	289	277
Soybeans	12	20	8	18	2	10

82 day supply
64 day
second yr. of drought would be bad - using reserve stocks, not surplus stocks

WORLD WEATHER AND CROPS

China remains a major concern, but damage so far is not severe. Dryness over the winter wheat area during the spring reduced that crop, but indications are the losses are small. Dryness and high temperatures have developed over the central China Plain, threatening rice and cotton production and to a lesser degree coarse grains and soybeans. A shortfall of 5% (6 mil. tons) for rice would add about 3-4 mil. tons to wheat trade in 1988-89, but this is not yet apparent.

Canada experienced drought similar to the U.S. wheat and coarse grain crops were seriously damaged, but recent cool and moist days helped. Damage to the coarse grain crop may be only 25%. Damage to wheat is 1/3 so far.

In the Soviet Union, spring grains in the New Lands will be at least average. Total Soviet grain production now looks like 210 mmt., with coarse grains down 3 mmt, and wheat down 2 mmt. by August. Other major crops regions are generally in good shape. Rainfall over Western and Eastern Europe have been sufficient to date to ensure good crops, but August prospects are down slightly. The Indian monsoon is under way, and indications are that it will be "well developed". However, August is the critical month.

World Wheat Production

	(mmt)		
	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
Canada	31	26	19
EC-12	72	71	75
USSR	92	83	91
China	90	88	88
U.S.	<u>57</u>	<u>57</u>	<u>50</u>
World	530	505	505

World Coarse Grain Production

	(mmt)		
	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
Canada	25	26	20
EC-12	81	82	86
E. Europe	74	64	68
USSR	106	114	105
U.S.	253	216	<u>138</u>
World	834	787	718

World Rice Production

	(mmt)		
	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
China	121	123	121
India	60	47	60
Thailand	<u>13</u>	<u>10</u>	<u>13</u>
World	318	305	322

SUMMARY: 1989 CROP PROGRAMS

By July 31, crop production and prospective ending (1989) stocks will be about as follows:

(Bushels)	<u>Production</u>	<u>1989 Stocks</u>
Corn	4,500	1,650
Soybeans	1,600	100
Wheat	1,800	600

Nearly full production of all crops is virtually assured in 1989, and probably 1990-91, as shown below:

AREA PLANTED TO CROPS AND IDLE

(Millions Acres)	<u>1985</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Corn	76.7	66.0	67.5	73.0
Soybeans	63.1	58.7	58.5	63.0
Wheat	75.6	65.8	65.8	75.0
Other	<u>126.8</u>	<u>114.9</u>	<u>114.1</u>	<u>127.0</u>
Total	342.2	304.5	305.9	338.0
Idled	44	74	78	35

(1990 Prospects; Good 1989 Crops Scenario)

	<u>Corn</u>	<u>Soybeans</u>	<u>Wheat</u>
Beginning Stocks (Mil. bu)	1,400-1,800	165	500
Area Planted (Mil. a.)	72-77	62-63	74-76
Production (Mil. bu.)	7,400-8,000	1,900-2,100	2,500-2,600
Demand (Mil. bu.)	7,500-7,800	2,000	2,600

STOCKS

Nearly all USDA owned stocks of all commodities, except the emergency wheat reserve, will be used in the next year. Nearly all the Farmer Owned Reserve will be marketed in the next 8-12 months. Grain storage paid by CCC will be negligible by mid-1989. The Security Reserve of 4 mil. tons wheat may be tapped in the season ahead, for food aid. It is to be used only when the Secretary determines that supplies are not adequate for domestic use, commercial exports, and a reasonable carryover. Soon 300,000 tons of wheat could be used for emergency feeding abroad, if Title 2 funds are exhausted.

Composition of Remaining Stocks
(August 1, 1988; Million bushels)

	<u>Corn</u>	<u>Wheat</u>	<u>Soybeans</u>	<u>Sorghum</u>
CCC-Owned	890	270	11	467
Reserve (FOR)	1,259	401	-	73
Loan	1,355	97	84	72

THE 1989 CORN PROGRAM

For Corn, the acreage reduction will be about 10%, since 1989 stocks will fall to about 1.6 bil. bu. With soybean planting permitted on corn base acres, 77 mil. acres planted is "tops", with no acreage reduction. A good harvest on that acreage could add slightly to stocks. A 10% ARP is the best bet for 1989. This decision will be announced in mid-September, just after the next crop report.

U.S. Corn Supply - Demand Estimates
(September - August)

	<u>1987-88</u>	<u>-- Projection --</u>	
		<u>1988-89</u>	<u>1989-90</u>
Planted Ac. (Mil)	65.7	67.5	73
Yield (Bu/Acre)	119.4	78.5	115
	---- million bushels ----		
Beginning Stocks	4,880	4,352	1,576
Production	7,064	4,478	7,590
Domestic Use	5,874	5,610	5,800
Exports	1,700	1,650	1,750
Ending Stocks	4,352	1,576	1,666

THE 1989 SOYBEAN PROGRAM

Soybean area should rise to 62 mil. acres, if farmers can substitute 20% soybeans on corn or wheat bases (which total about 165 mil. acres). Making even 10% of grain base acres available to soybeans may be enough, if soybeans prices remain above \$7.00 at the farm. Without the acreage amendment, soybean area may remain around 60 million acres.

U.S. Soybean Supply - Demand Estimates
(September - August)

	<u>1987-88</u>	<u>-- Projection --</u>	
		<u>1988-89</u>	<u>1989-90</u>
Planted Acres (Mil.)	57.4	58.5	62
Yield (Bu./A.)	33.7	28.0	33
	---- million bushels ----		
Beginning Stocks	436	280	100
Production	1,905	1,474	2,013
Crush	1,180	1,000	1,175
Exports	785	560	775
Other	96	100	100
Ending Stocks	280	100	165

THE 1989 WHEAT PROGRAM

Wheat to be planted for 1989 is substantially determined. The 10% ARP already announced may be confirmed, if world wheat and rice output remain near 505 and 322 mil. tons as estimated in August. But if those numbers fall closer to 500 and 315 mil. tons, respectively, in August, USDA could increase 1989 wheat area slightly early in 1989.

U.S. Wheat Supply - Demand Estimates

	(June - May)		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Planted (mil.a.)	65.8	65.9	75-77
Harvested (mil. a.)	55.9	52.9	66-68
Yield (bu. a.)	37.6	34.4	35-38
	---- million bushels ----		
Beginning Stocks (mil. bu.)	1,821	1,266	597
Production (mil. bu.)	2,105	1,821	508
Domestic Use	1,075	1,105	1,100
Exports	1,600	1,400	1,500
Ending Stocks (mil. bu.)	1,266	597	505

THE EEP FOR WHEAT AND FLOUR

The EEP will continue to be used indefinitely--extensively for wheat, and sparingly for flour and other products. A wish to keep some price pressure on the EC, the pending election, and the fact that wheat is not yet physically scarce, explain our export subsidy actions. High cost per ton and questionable cost effectiveness explain the limits on flour subsidies. The EEP will continue in 1988 and 1989 despite the drought, until surplus wheat stocks are used up, unless a serious world grain shortage develops. It would be used more actively if the EC exports aggressively, and less actively if we have a clear-cut seller's market.

For 1988-89, watch for wheat subsidies in the \$10-25 range, not \$30-40/ton, unless the EC becomes aggressive. And watch for a lot of EEP activity in August-October this year.

We will recognize in a few months that it costs no more, or saves just as much, to use cash for export subsidies as to use commodities. If export subsidies represented an appropriate long-term trade policy when we had surplus stocks and idle land, they must certainly be considered appropriate as we expand acreage and production, and negotiate for improved rules in world trade.

RICE: SUPPLY, DEMAND, AND PRICES

U.S. rice supplies this season will be up from last year as a result of increased area planted. This, in turn is the result of a lower acreage reduction percentage (ARP) for the 1988 crop. Rice acreage could be increased again for 1989, especially if world wheat stocks fall further.

RICE: SUPPLY, DEMAND, & PRICES (August/July)				
	1986/87	1987/88	1988/89	1989/90

Planted Acres (mil.)	2.38	2.35	2.88	2.88
Harvested Acres (mil.)	2.36	2.33	2.85	2.85
Yield (pounds/acre)	5,651	5,482	5,521	5,600
Beginning Stocks (mil. cwt.)	77.3	51.6	31.5	28.8
Production (mil. cwt.)	133.4	127.7	152.6	160.0
Total Supply (mil. cwt.)	213.3	182.3	187.3	188.8
Domestic Use (mil. cwt.)	76.3	80.8	83.5	85.0
Exports (mil. cwt.)	85.4	70.0	75.0	75.0
Total Demand (mil. cwt.)	161.7	150.8	158.5	160.0
Ending Stocks (mil. cwt.)	51.6	31.5	28.8	28.8
