Here's USDA's Farm Outlook For 1988

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WASHINGTON — Despite all the doom and gloom stories about the financial health of American agriculture in the last few years, the nation's farmers enjoyed a record level of cash income in 1987 and should do so again in 1988, according to forecasters for the U.S. Department of Agriculture.

The upbeat tone of Outlook '88, held Dec. 1-3 in Washington, D.C., was set by Secretary of Agriculture Richard Lyng's keynote address and repeated by virtually every speaker. More than 500 USDA analysts, agribusiness forecasters and university economists met to discuss the outlook for commodities from turkeys to timber and issues from trade to Farm Credit.

In a half-hour speech devoted mainly to the trade issue, Lyng said the free-market policies of the Reagan administration are beginning to pay dividends in the world marketplace. From a low point in 1984-85, U.S. agricultural exports have rebounded the past two marketing years, climbing 18 percent in volume last year, Lyng said. They are expected to increase again in the marketing year that began Sept. 1; James Donald, a USDA analyst, predicted a 10-percent increase in volume led by a 30-percent gain in wheat sales.

In addition, the U.S. is beginning to win support for its proposal to eliminate agricultural subsidies and world trade barriers in discussions on the GATT (General Agreement on Tariffs and Trade), according to Lyng and several other speakers at the conference.

The secretary also credited the 1985 farm bill for its "fundamental departure" from past government policy. Allowing grain prices to fall toward world market levels has not only boosted exports, but the domestic livestock industry as well — most of which experienced record profits in 1987, according to USDA. Together with the generous amount of government support payments to grain farmers, this has produced a record $43-46 billion in cash income in 1987 and should produce only slightly less in 1988, Donald said.

USDA's optimistic outlook received little rebuttal from the many non-department speakers at the conference. Dean Kleckner, for instance, the president of the American Farm Bureau Federation, urged a continuation of current policies.

Indeed, about the only negative notes dealt with the unlikelihood of continuing the current level of government support payments. These amounted to $49 billion in the last two fiscal years, Lyng said, and represent "a mammoth transfer of wealth to the farm sector" that USDA is under constant pressure to reduce. The budget-cutting package currently under consideration is designed to save $900 million in agricultural outlays in fiscal 1988, for instance.

The main savings would arise from a two-percent reduction in the target prices for farmers who participate in the government's acreage reduction programs. (This reduces the amount of the deficiency payments the government provides.) Other savings would come from decreasing the size of the paid land diversion to be offered to feedgrain producers, expanding the so-called "50-92" provision in the acreage reduction programs to "0-92" and cutting costs in other government programs, including dairy.

The conference was conspicuous for its lack of comment on dairy issues. Lyng, for instance, did not discuss the dairy industry in his address or in later remarks to journalists. James Miller, the USDA economist who presented the department's dairy outlook, was vague about future price prospects and did not predict the level of Commodity Credit Corporation purchases of surplus dairy stocks in 1988.

The latter estimate — assuming Congress clears the way by approving some kind of budget package to replace the across-the-board cuts now in effect under the Gramm-Rudman-Hollings law — will determine whether Lyng can reduce the government's support price by 50 cents Jan. 1. An estimate above the 5-billion-pound mark will trigger the cut.

Most private economists now agree the estimate will exceed the trigger level. USDA's official estimate is expected shortly.

However, the dairy price outlook also is clouded by the Nov. 20 implementation of across-the-board cuts. They include reductions in the prices the CCC pays for surplus butter, cheese and non-fat dry milk that effectively reduce the support price 94 cents.

Without being specific about prices, Miller did predict a slight rise in feed costs for dairymen and the continuation of relatively high prices for cull cows. He also predicted a two-percent increase in commercial use of dairy products in 1988, a lower gain than those recorded in the past few years.

"The three-year-old step-up in promotion efforts may be losing the ability to further accelerate expansion," Miller said.

The outlook for other livestock producers generally calls for tougher times in 1988 after a profitable year in 1987. The prices of most commodities will be lower as production rises and costs will be higher as grain prices increase, according to several USDA analysts.

Nationwide, pork production should climb 11 percent, said economist Leland Southard. Prices should stay in the $40 a hundredweight range.

Broiler production should increase five percent, according to economist Jack Ross. Both prices and costs are expected to average 43 cents a pound.

Ross said turkey production, which rose 17 percent in 1987, will gain another six percent next year. Prices will stay below profitable levels for much of the year.

"The outlook for eggs is not very high in '88," Ross added. "We're looking for returns not to be very different than they were in 1987," when they were close to zero. As a result, the number of major producers, now estimated at 1,800, should continue to decline.

The one exception to this downbeat scenario may involve cattlemen. Although the overall reduction in cattle numbers appears to have bottomed out, 1988 beef production should lag four percent behind 1987's total, according to USDA analyst Ronald Gustafson. Thus, prices should remain fairly high; he predicted the low-$60s for slaughter cattle and the mid-$70s for feeder cattle. However, the ample supplies of lower-priced pork and poultry will keep a lid on any increase.

"Returns to the beef sector over the next couple of years will increasingly be affected by large supplies of competing meats at even lower prices," he said.