THE SECRETARY OF AGRICULTURE
WASHINGTON, D.C.
20250-0100

July 12, 1999

MEMORANDUM FOR THE PRESIDENT

From: Secretary Glickman

Dan Glickman

Subject: The Agricultural Outlook

This morning, USDA released its most up-to-date forecast for crops and livestock. In a word, the outlook is bearish. There is nothing in today's *World Agricultural Supply and Demand Estimates* – USDA's primary and most watched such report – indicating any significant recovery in prices; instead, these estimates, absent some major and unforeseen event, suggest weakness continuing through the end of next year.

The Department's chief economist provides me a summary of each month's report and based on our conversation today, I thought you would like to see it, so I have attached a copy; its highlights:

- WHEAT: Wheat surpluses grew again in June and this year's harvest, though smaller in acreage, may set a per acre yield record; as a result of these factors and continuing sluggish exports, USDA lowered its price projections 15 cents per bushel from those one month ago.

- RICE: US rice production will set a record this year, but slack overseas' sales and growing domestic supplies pushed prices down again in June; USDA lowered its forecast 5 to 15 cents per hundredweight, which would be the lowest since the 1992-1993 crop.

- CORN: Domestic corn supplies climbed by 212 million bushels in June to their highest level since 1992-1993, and USDA dropped its price projection by 15 cents per bushel – portending the lowest corn prices since 1986-1987.

- SOYBEANS: This year's harvest will be up 6% from last year, setting another record, and the harvest may still grow if yields also trend up, meaning that this year's $4.30 per bushel average price will be the lowest since 1971-1972, and could go lower.

- COTTON: While USDA is prevented statutorily from projecting precise cotton price forecasts, USDA projects prices this year will fall to their lowest level since the early 1970's.

- BEEF: USDA's next authoritative forecast of beef prices will be released July 16, but today's report indicates that production and supplies continued to grow in June, indicating lower prices.

- HOGS: After recovering slightly in recent months, today's report sees larger production and as a result, USDA dropped its price projection $5 from June's level.

- DAIRY: Dairy prices actually held stead in June; however, they fluctuate annually and will, in all likelihood, drop again next spring.

In sum, this report adds urgency to the need to address the income pressures farmers face, and will to continue enduring through the end of 2000.

attachment

USDA

United States Department of Agriculture

Office of Secretary

Office of the Chief Economist

14th & Independence Ave., SW
Washington, DC 20250

INFORMATIONAL MEMORANDUM FOR THE SECRETARY

FROM: Keith Collins
Chief Economist Keith Collins JUL 12 1999

SUBJECT: July 12 Lockup Reports

ISSUE:

Today's forecasts of 1999/2000 production and use for U.S. crops and dairy, 1999 and 2000 production and use for animal products, and revisions to 1998/99 supply and use data. The reports generally show larger production than last month--notably wheat, rice, corn, cotton, and pork--and lower prices.

DISCUSSION:

The July 12 *World Agricultural Supply and Demand Estimates* report uses U.S. area, yield, and production forecasts for winter wheat, durum, other spring wheat, barley, and oats released today by the National Agricultural Statistics Service (NASS) in *Crop Production.* Forecasts of area planted and harvested for other crops (area planted only for cotton) are taken from the June 30 *Acreage* report, but yields reflect time series analysis and judgment. Today's WASDE report also includes projections of U.S. livestock and dairy supply and use for the coming year (2000 for animal products and 1998/99 for milk); U.S. sugar supply and use; the first USDA forecasts for 1999/2000 supply and use of wheat by class; and the first individual country 1999/2000 supply and use forecasts for soybeans and products, rice, and cotton.

Winter Wheat. Winter wheat production is forecast at 1.67 billion bushels, up 4 percent from June, but down 11 percent from last year. Yield is forecast to be 47.0 bushels per acre, up 2.3 bushels from last month and, if realized, a record. Record yields are forecast for the SRW states of Arkansas, Indiana, Kentucky, Louisiana, Mississippi, Alabama, and Tennessee.

Spring wheat. Durum production is forecast at 132 million bushels, down 6 percent from 1998, despite a projected 9 percent increase in harvested area, as yields are down 5.1 bushels per acre to 32.7 bushels. Lower 1999 production in California, Arizona, and Montana more than offsets a rise in North Dakota, where the late-planted crop trails average development. Other spring wheat production is forecast at 527 million bushels, down less than 1 percent from 1998.

All Wheat. Total U.S. wheat production is forecast at 2.33 billion bushels, 50 million above the industry estimate. Projected U.S. 1999/2000 ending stocks of wheat are up 48 million bushels from last month as the larger crop and increased imports more than offset lower beginning stocks and larger domestic use. Carryover stocks on June 1, 2000 are now forecast at 913 million bushels compared with 945 million on June 1, 1999. The 1999/2000 projected price range is down 15 cents on each end to $2.45 to $2.95 because of lower than expected early-season price and larger, ending stocks. The midpoint is $2.70 per bushel, compared with $2.65 for 1998/99.

Rice. U.S. production in 1999/2000 is projected at a record high 211 million cwt, up 4 million cwt from last month and an increase of 23 million cwt from 1998/99. Planted area is up from last month and yield is adjusted slightly higher because of a change in the distribution of reported area by State and type of rice. Ending stocks in 1999/2000 are projected at 55.6 million cwt, up 4.5 million cwt from last month and an increase of nearly 25 million cwt from 1998/99. The 1999/2000 season-average price range is lowered $0.50 per cwt on each end to $5.50-$6.50 per cwt. In addition, the season-average price for 1998/99 is lowered $0.05 per cwt on the low end and $0.15 per cwt on the high end to $8.70-$8.80 per cwt.

Corn. Projected 1999/2000 ending stocks of corn are raised 212 million bushels this month to 1,994 million bushels. If realized, this would be the highest carryout since that of 1992/93. Reflecting excellent crop conditions, prospective corn yield was raised to 135.8 bushels or over, higher than the trend yield used last month of 131.8. This yield change raises 1999 production by 205 million bushels. Total use for 1999/2000 is up only 10 million bushels, as a 75-million-bushel increase in exports is largely offset by lower domestic use. The projected price range for corn is down 15 cents on each end to $1.65 to $2.05 per bushel, with a midpoint of $1.85 compared with $1.95 in 1998/99.

U.S. 1998/99 corn exports are up 50 million bushels because of larger imports by a number of countries and lower forecast Chinese exports. The bigger exports are more than offset by reductions in food, seed, and industrial use and feed and residual use. The estimated price of $1.95 is down 5 cents from the midpoint of last month's forecast price range.

Soybeans and products. Soybean production is projected at a record 2,935 million bushels, more than 6 percent above last year, using a trend yield of 40 bushels per acre. As of early July, growing conditions are very similar to 1994/95 when yields set a record of 41.4 bushels per acre.

Despite larger production than indicated last month, ending stocks of soybeans and other oilseeds are little changed, with projected soybean stocks of 590 million bushels slightly below a month ago. Improved U.S. soybean crush and export prospects, mainly for 1998/99, cut carryin stocks by 35 million bushels to 395 million bushels. U.S. soybean and soybean meal exports in 1998/99 are increased to reflect dwindling soybean export supplies in South America. Lower new-crop supply prospects for that region bode well for U.S. exports in 1999/2000.

The U.S. soybean season-average producer price for 1999/2000 is lowered slightly this month to $3.90 to $4.70 per bushel, with a midpoint of $4.30, the lowest since the early 1970's. The soybean meal price range is projected at $125 to $145 per short ton, sharply below last year but slightly improved from last month. Soybean oil, projected at 15.0 to 18.0 cents per pound, is off sharply from last month and last year and would be the lowest since 1986/87.

Cotton. U.S. cotton projections for 1999/2000 include larger production, exports, and ending stocks relative to last month. The production forecast is raised 0.7 million bales to 18.7 million, based on larger area reported in the June 30 *Acreage* report. Exports are raised slightly due to the larger available supply. Ending stocks are now projected at 6.0 million bales, nearly 37 percent of total use, and the largest since 1988/89.

Sugar. Projected fiscal year 1999/2000 U.S. sugar production is increased 60,000 short tons, raw value, to 8.46 million this month based on higher sugarbeet area. Projected deliveries are increased 100,000 tons to 10.25 million, based on revised trend increases. Sugar production in fiscal year 1998/99 is estimated at 8.23 million tons, up 1 percent from last month and 2.6 percent above 1997/98. Exports and domestic consumption are increased due to larger than expected movement in April and May. The ending stocks-to-use ratio is 14.5 percent, compared with last month's 14.3 percent.

Livestock. The beef production forecast for 1999 is increased this month reflecting the large number of animals placed on feed early in the year are marketed. Slaughter is estimated to remain above last year through the third quarter and continued heavy weights will boost 1999 production over 1998. Large supplies of meat are expected to pressure cattle prices; forecast cattle prices are lowered slightly from last month. The release of USDA's *Cattle* report on July 16 will provide a basis for reevaluating beef production into 2000.

Farrowings in the second quarter and farrowing intentions for remainder of the year as reported in the June 25 *Hogs and Pigs,* report are lower than a year ago, but higher than anticipated, prompting increases in forecast pork production for 1999 and 2000. Stocks are forecast to rise from their already high levels. Increased supplies will pressure prices; consequently, forecasts for hog prices are reduced from last month. The 1999 hog price was reduced $5 per cwt to about $31, and the 2000 price was reduced $6 to $36.

Poultry supply and use estimates are little changed from last month.

Dairy. Demand for dairy products remains strong and the supply and use estimates are little changed from last month. Milk price forecasts for 1998/99 are raised to reflect recent strength in product prices.

SUMMARY:

Wheat 1999/2000 production, use, and ending stocks are forecast higher this month. The wheat price forecast for 1999/2000 was reduced and is now only slightly above 1998/99. Corn production is raised, but domestic use is forecast down and stocks are up sharply. Soybean production and domestic use is raised for 1999/2000, but forecast ending stocks are down slightly. Cotton production and exports for 1999/2000 are raised. Meat supplies and consumption are still forecast to increase in 1999, but fall in 2000, but supplies in both years are higher than previously forecast. Hog price forecasts were sharply reduced. Higher dairy prices are encouraging milk production and increases are forecast for 1998/99 and 1999/2000.

Regarding prices:

Crop	1999/00 Price Forecast	Lowest Since
Rice	$6.00 per cwt	1992/93
Corn	$1.85 per bu.	1986/87
Soybeans	$4.30 per bu.	1971/72
Cotton	Not published	Early 1970's

cc: Gus Schumacher, FFAS
Mike Dunn, MRP