

for FY1996 and \$200 million annually thereafter to assist crop and livestock producers with conservation improvements on farms (At least half of the funding must go to livestock producers.). These five or ten-year contracts allow a 75 percent cost-share program, but the payments are limited to \$10,000 per year and \$50,000 over the life of the contract. Large operations, as defined by the Secretary of Agriculture, will be ineligible for cost-share assistance to construct animal waste facilities. But, these large producers would be eligible for technical and educational assistance, as well as cost shares on other approved practices.

- Conservation Farm Option combines Production Flexibility Contract, CRP, WRP, and EQIP payments or any combination of the four. The producer would receive the payments in return for pursuing conservation practices that protect soil, water, and wildlife in environmentally sensitive areas.
- Flood Risk Reduction contracts—producers on frequently flooded farms could get 95 percent of PFC payments and agree to forego other commodity programs, not apply for crop insurance, comply with conservation requirements, and not apply for disaster payments.
- The “Fund for Rural America” is established to provide additional funding to rural development and research. Total funding of \$300 million was authorized over the first three years.
- Budget assessment of about \$0.11 per hundred-weight on milk production is eliminated immediately. Dairy programs are only extended through 1999, and the support price for milk is phased down 15 cents each year from \$10.35 per hundred-weight in 1996 to \$9.90 by 1999. This is to be achieved by appropriately adjusting the support prices for butter, nonfat dry milk (NFD), and cheese. Beginning in 2000, the price support system is replaced with a recourse loan program for butter, NFD, and cheese at the 1999 price support level. Continued support will be provided for exports of dairy products under the Dairy Export Incentive Program up to the maximum levels allowable under GATT. In addition, the Secretary of Agriculture is required to consolidate the 33 milk marketing orders to 10 to 14 over the next three years.
- Establishes a new Office for Risk Management as a separate agency for administration of crop insurance programs. Also requires USDA to provide research and education about risk, insurance, and risk management.

CARD/FAPRI Analysis

FAPRI 1996 Baseline: Projections under the FAIR Act

(William H. Meyers, 515/294-1184)

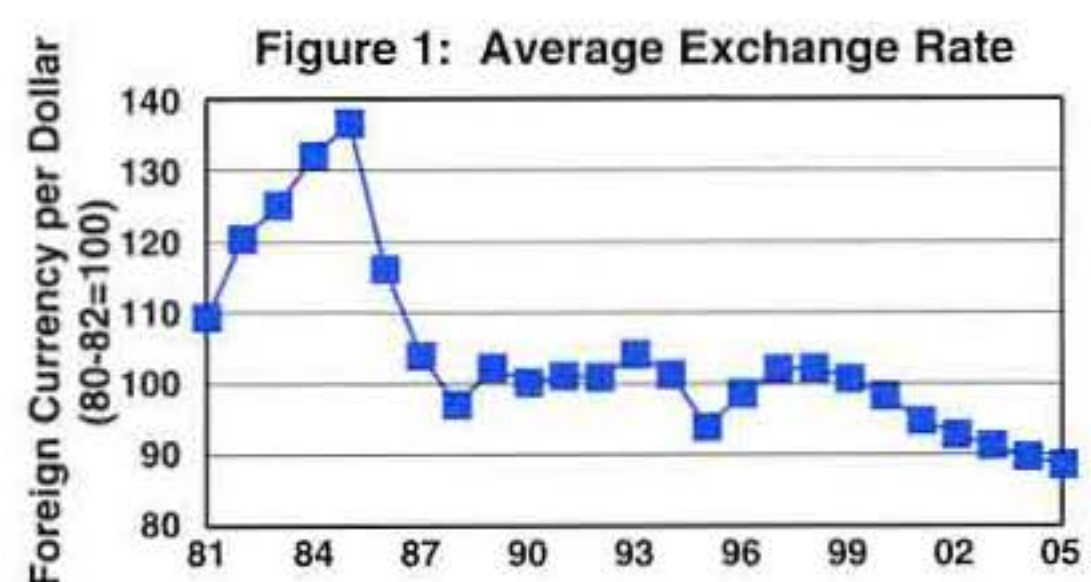
(Darnell B. Smith, 515/294-1184)

(Steven L. Elmore, 515/294-6175)

The 1996 FAPRI baseline results, a subset of which are discussed in this article, are the first to incorporate full planting flexibility between major crops. Essentially, this represents a decoupled income support program, assumed to decline slightly over the projection period (1996-2005). Some of the more important U.S. policy provisions used as a basis for this baseline came from the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (see the article on page 1 for specifics on the 1996 Farm Bill).

This article presents a summary of the baseline results, but more complete details and projection tables are available on the FAPRI web site: <http://www.ag.iastate.edu/card/fapri>. Note that this annual baseline, normally completed in January, was delayed this year until the 1996 Farm Bill was finalized.

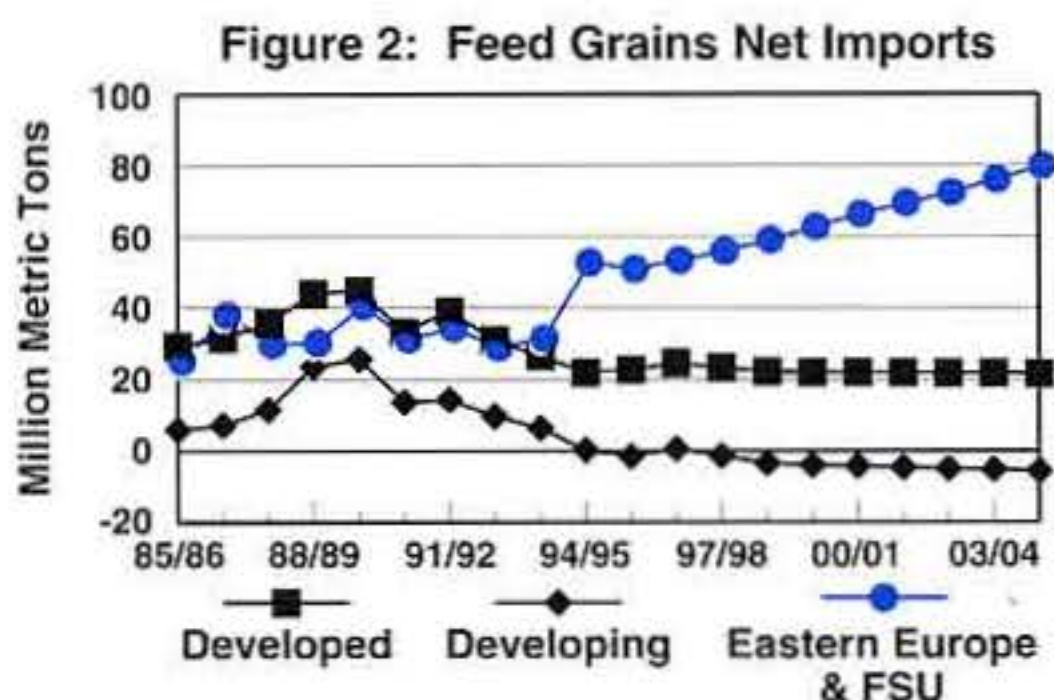
Macroeconomic assumptions that went into this baseline include modest worldwide economic growth. Asia continues to be a high-growth region with an assumed growth rate of approximately 7 percent. Growth rates for the developed countries are more moderate with the U.S. assumed growth rate averaging 2.5 percent over the projection period. The U.S. prime rate is expected to decline by almost 100 points in 1996 and shows slight but continued declines in most of the remaining years of the baseline period. After 1998, the dollar is expected to decline relative to the weighted market basket of the other world currencies (Figure 1).



World Crops

The United States gains market share in the world feed grain trade, increasing its share by approximately 5

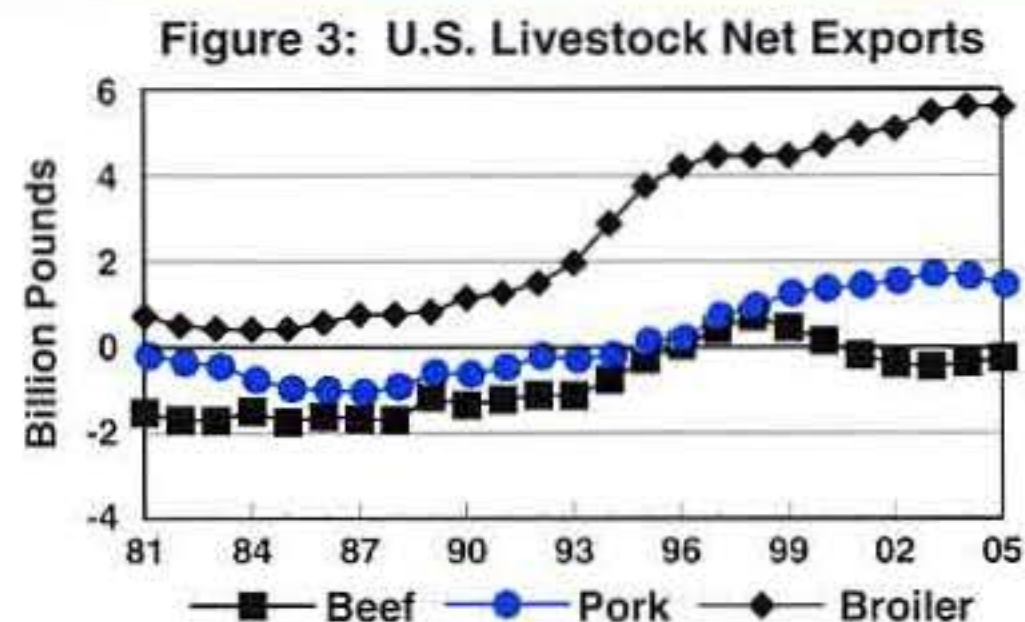
percent over the ten-year period (Figure 2). Income growth in the Pacific Rim fuels an increase in the demand for meat that translates into increased feed grain imports required for meat production. Eastern Europe remains a net exporter, and Russia is still a small net importer of feed grains. World wheat trade increases, but U.S. exports remain relatively unchanged, due to increased competition from Argentina, Australia, Canada, and the European Union (EU). World rice net exports increase, but the U.S. share in world exports continues to fall from 17.4 percent in 1995 to 9.5 percent by 2004.



The U.S. share of the world soybean sector is expected to remain relatively flat as increased production moves into domestic markets. Argentina continues to expand soybean, meal, and oil exports. Brazil has stable exports of soybeans, but meal and oil exports continue to increase.

World Livestock and Dairy

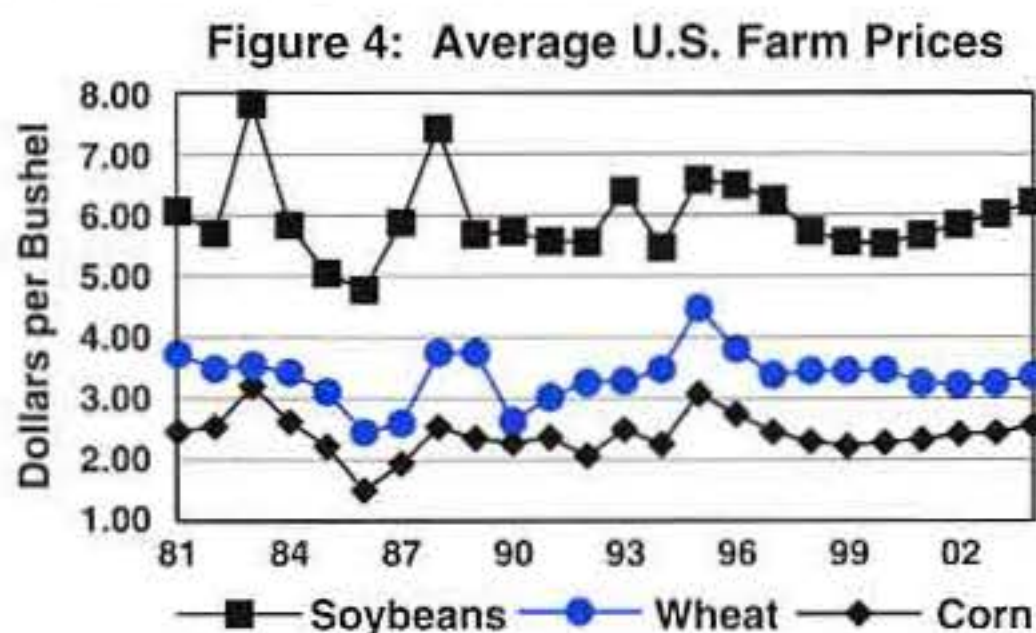
Japan and South Korea continue to be the dominant meat importers, with continued strong growth in imports over the entire projection period. Mexico and the Former Soviet Union (FSU) also remain significant net importers of meat. Beef net exports by major exporters, led by Australia, increase by 17 percent over the period. The United States becomes a small net exporter of beef in the early years and reverts to a small net importer in the later years. Pork net exports by the major exporters increase by 33 percent from 1995-2005. The United States, which moved from being a net importer of 500,000 metric tons in 1987 to becoming a net exporter in 1995, has continued strong export growth over the entire period. Japan accounts for much of the total increase with imports rising by 200,000 metric tons over the baseline. U.S. broiler exports increase 49 percent or 830,000 metric tons from 1995-2005, fueled primarily by strong import growth in the Pacific Rim (Figure 3).



World dairy trade continues to grow, with the EU and Oceania dominating international exports while the United States plays only a small role.

U.S. Crops

The corn planted area in the U.S. increases to 80.8 million acres in 1996/97 and then remains between 79 and 82 million over the projection period. Soybean area remains constant for the next two crop years and then increases due to stronger relative net returns between soybeans and corn, and increased crop rotation under the FAIR Act. Farm price for corn drops to \$2.75 per bushel in 1996/97 and then averages \$2.38 per bushel over the rest of the decade. U.S. soybean farm price is projected at \$6.50 per bushel in 1996/97 and then averages \$5.86 per bushel from 1997/98 to 2004/05 (Figure 4).



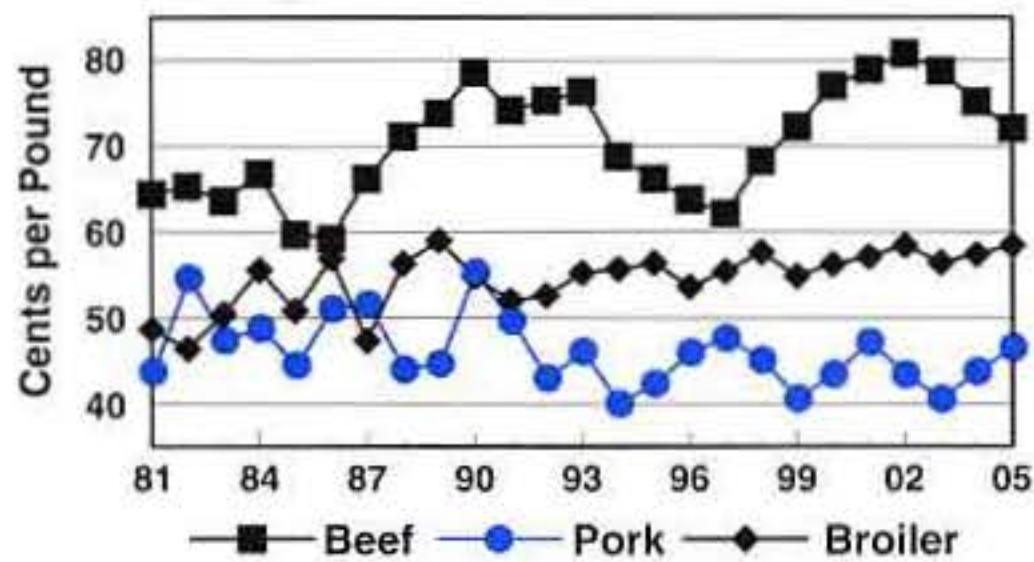
U.S. wheat area is expected to exceed 72 million acres in 1996/97 and peak at 74.4 million acres in 2000/01. Total use of wheat also increases to 2000/01 and then decreases as EU wheat exports expand. Prices fall accordingly after 2000/01 and average \$3.26 per bushel in the last four years of the baseline compared to an average of \$3.49 per bushel over the five years prior to 2000/01.

U.S. Livestock and Dairy

Total meat production, led by broiler production, in the United States expands over the period. Beef production increases 1 million pounds, pork production rises 2.2 million pounds, but broiler production

increases 9.7 million pounds. Steer price continues to decrease to \$62.18 in 1997 and then rebounds and peaks at \$80.76 per hundredweight in 2000. Barrow and gilt price peaks in 1997 at \$47.70 per hundredweight, but never falls below the \$40.00 mark over the projection period. Broiler prices remain relatively stable between 54 and 58 cents per pound (Figure 5).

Figure 5: U.S. Livestock Prices

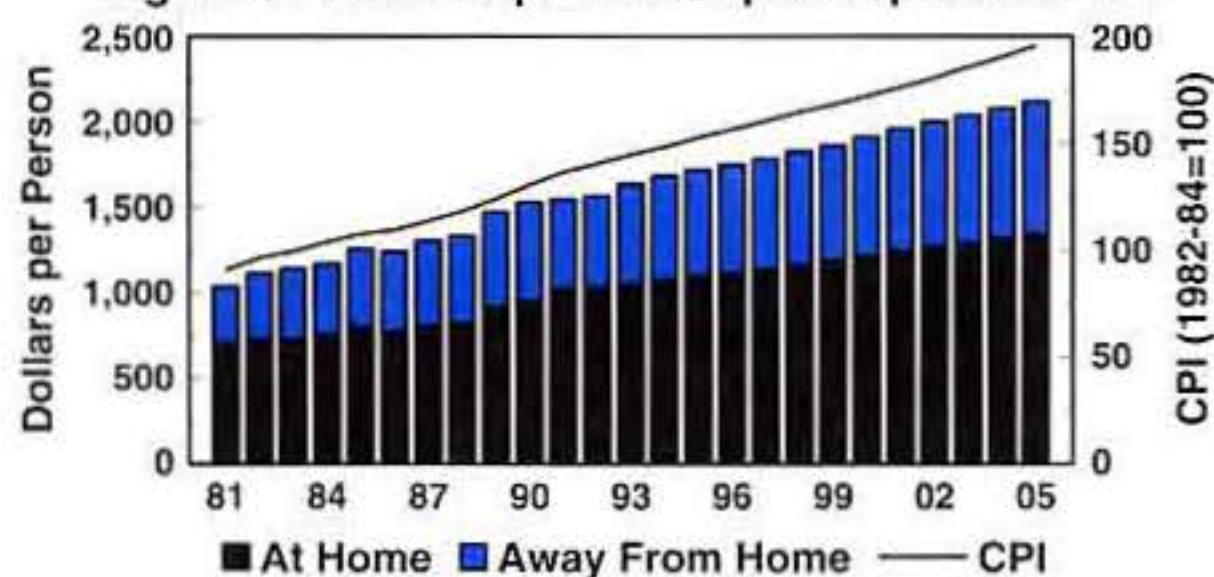


Milk prices range from \$12.78 to \$12.89 per hundredweight from 1995 to 1999. After the milk price support program is ended under the FAIR Act in 1999, milk prices drop by \$0.40 per hundredweight in 2000. Then prices ease back up into the previous range in 2003 and continue to increase to the end of the period and reach \$12.92 per hundredweight by 2005.

Food Expenditures

While total U.S. food expenditures increase from \$453 billion to \$613 billion from 1995 to 2005, food expenditures only increase by an average of 2.4 percent per annum, which is less than the general inflation rate of 2.8 percent annually over that period (Figure 6). Per capita food expenditures are expected to increase from \$1,719 to \$2,120 (or 23.4 percent) from 1995 to 2005. While both increase, dollars spent at home for food increase 22.0 percent and dollars spent away from home increase 25.5 percent.

Figure 6: Food Expenditure per Capita and CPI

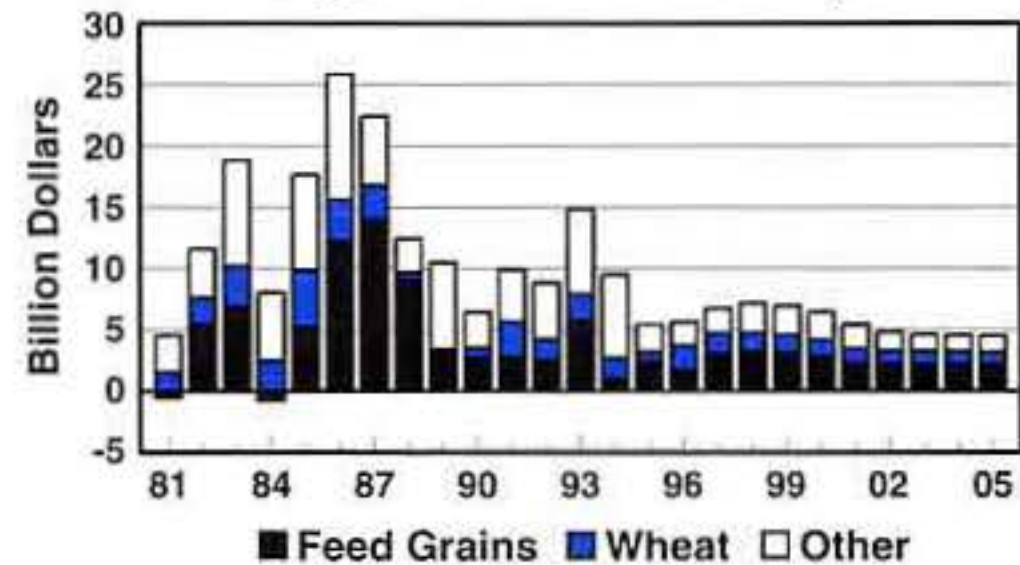


Government Costs and Farm Income

Net CCC outlays in FY1996 rise to \$5.64 billion from \$5.45 billion in FY1995. Contract payments rise in FY1997 and FY1998, raising CCC outlays to a peak of

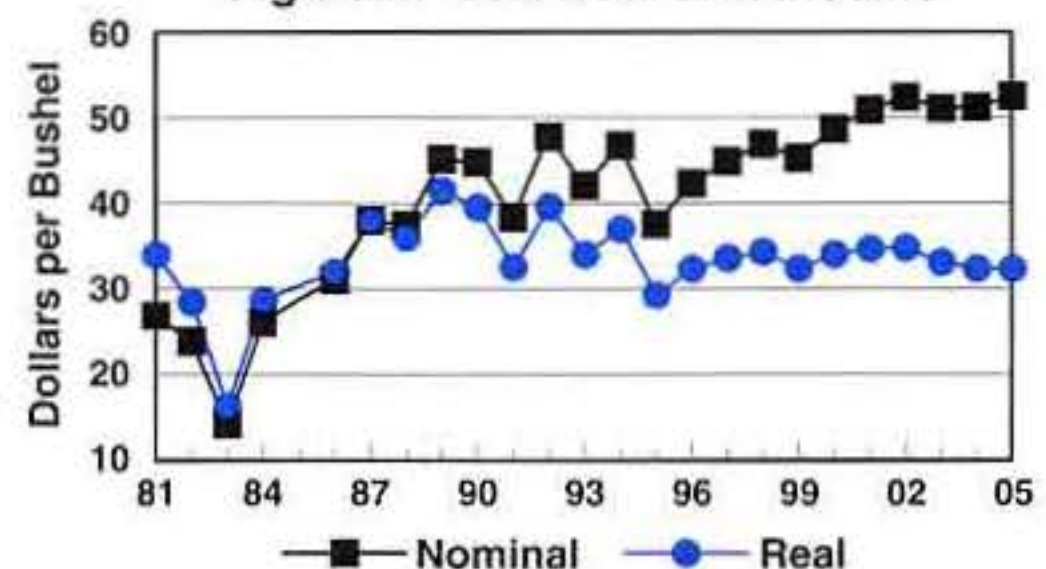
\$7.19 billion, coinciding with the contract payment peak of \$5.80 billion. Net CCC outlays fall to \$4.53 billion by the end of the period when contract payments are just over \$4 billion (Figure 7). CRP contract payments fall from \$1.8 to \$1.53 billion over the period.

Figure 7: Net CCC Outlays



High crop prices this year and increasing production in later years allow crop receipts to grow to almost \$100 billion in 1996, remain relatively flat through 2001, and expand again to \$113 billion by 2005. Livestock receipts decline in 1996 fueled by losses in the beef sector. Receipts have steady growth from 1997 to 2002 and then stabilize thereafter. Production expenses rise in 1996 due to increased acres planted. They fall back in 1997, but then grow by an average of 1.5 percent until the end of the period. Farm income growth mirrors the growth in the livestock sector. Real net farm income remains stable in the \$32 to \$34 billion dollar range from 1996 to 2004 (Figure 8).

Figure 8: U.S. Net Farm Income



In summary, the 1996 FAPRI Baseline results indicate an optimistic scenario with real net farm income relatively stable over the entire ten-year period. As stated elsewhere, we do, however, expect markets to be extremely volatile for a number of years, given the critically low levels of world stockholdings today. Thus, marketing of row crops will be more difficult over these volatile years, and will require more management expertise.