

WEEKLY OUTLOOK

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PRICE SUPPORTS REEVALUATED

THE COST OF U.S. FARM PROGRAMS for the year ending September 30, 1983, may exceed \$21 billion, an increase of about 75 percent from last year and 250 percent more than two years ago. A large part of that increase is associated with the farmer-owned reserve, acreage reduction, and PIK programs for feed grains, wheat, rice, and cotton, and with the dairy program.

Inventories of dairy products that are owned by the Commodity Credit Corporation (CCC) are still growing, in spite of give-away programs. On April 30, 1983, CCC stocks of butter totaled 447.6 million pounds, up 17 percent from April 30, 1982. Stocks of cheese totaled 784 million pounds, up 21 percent, and nonfat dry milk inventories stood at 1.24 billion pounds, up 24 percent in one year.

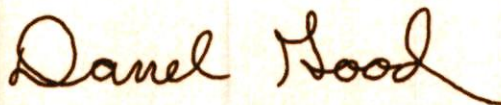
In an effort to reduce the surplus of dairy products, changes have been proposed in the dairy price support measures. The U.S. Senate Agricultural Committee recently approved a bill that contains three major changes from the current dairy programs. First, dairy producers would be paid to reduce the number of dairy cows. This measure would be financed, for the most part, from an assessment of 50 cents per hundredweight of milk sold. The bill calls for this program to be in effect for 15 months, beginning October 1, 1983. Second, the price support for milk would be lowered from \$13.10 to \$12.60 per hundredweight. The reduction would be effective for 15 months, beginning October 1, 1983, but could be increased in 1985 if surpluses continue to mount. Third, dairy farmers would be assessed up to 15 cents per hundredweight of milk produced in order to promote dairy products.

While the surplus of grain is expected to decline during the year ahead, there is some concern that production and surpluses could grow once again in 1984-85. The current U.S. Department of Agriculture administration feels that the proposed increases in target prices for feed grains and wheat could contribute to increased production and surpluses. Current legislation calls for the minimum target price on corn to increase as follows: 1982-\$2.70 per bushel; 1983-\$2.86; 1984-\$3.03; and 1985-\$3.18 per bushel. For wheat, the scheduled increases are 1983-\$4.30; 1984-\$4.45; and 1985-\$4.65 per bushel.

In the absence of major acreage reduction programs, which have proven to be expensive, the production of grains is likely to rebound sharply in 1984-85. Stated simply, we have the capacity to produce 8.4 billion bushels of corn annually, but use totals only about 7.3 billion bushels.

In an effort to reduce budget exposure and production incentives, the current administration has proposed legislation that would freeze target prices at the 1983 level (\$2.86 for corn and \$4.30 per bushel for wheat). The proposed freeze has not yet been voted on by the Senate Agricultural Committee.

The Secretary of Agriculture has some discretion in setting the loan price on most commodities. In the case of corn, for example, the minimum loan is \$2.55 per bushel. Higher levels can be established that are based on judgements about supply and demand and cost of production. The loan rate can be lowered if the average price received is less than 105 percent of the minimum. The loan rate can be lowered by as much as 10 percent per year, but the absolute minimum is \$2. For wheat, the standard loan is \$3.55 with an absolute minimum of \$3. The loan rates for 1983 crops are \$2.65 and \$3.65 for corn and wheat, respectively. The loan rates for 1984 crops will likely be lowered.



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