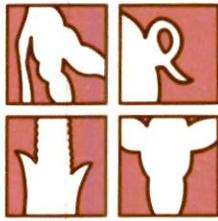




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

Department of Agricultural Economics
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December 23, 1987

YEAR IN REVIEW AND QUESTIONS FOR 1988

Several significant events occurred in U.S. agriculture in 1987. Three of these major developments are outlined below, followed by the identification of two issues that will be important for U.S. agriculture in the years ahead.

One of the most encouraging trends in 1987 was the apparent strong consumer demand for pork and beef. After very poor performance in 1985 and the first half of 1986, meat demand rebounded in the last half of 1986. The demand structure remained strong in 1987. The strength was partially masked by burdensome supplies of poultry and a cyclical increase in pork production during the fourth quarter of the year.

Although consumers continue to spend an increasingly smaller percentage of their incomes on meat products, large quantities of meat were purchased in 1987 at relatively high prices. In addition, the burdensome supply of poultry had a smaller-than-expected impact on beef and pork prices. The inroads that poultry has made into the demand for beef and pork in recent years appears to have halted in 1987. Meat demand seems to be less dependent on relative prices than in the past.

A second factor characterizing U.S. agriculture in 1987 was a dominant role of the federal government in the crops sector. The U.S. Department of Agriculture (USDA) aggressively pursued the mandate of the 1985 Farm Bill: increase exports and reduce the level of government-owned stocks. The acreage reduction, paid diversion, and conservation reserve programs idled an estimated 74 million acres of cropland in 1987. The commodity certificate program kept corn prices low and contributed to expanded corn exports.

The wheat market became the most influenced by government intervention. The export bonus program was expanded to more countries, including the Soviet Union and China. Subsidies for wheat exports approached \$1.00 per bushel. When free-market supplies of wheat became tight, the USDA made additional quantities of Commodity Credit Corporation (CCC) stocks available through a weekly auction program.

A third significant factor in 1987 was the continuation of growth in the world demand for soybean meal. World soybean meal consumption totaled 72.12 million tons in 1986-87, up 17 percent in three years. The Soviet Union entered the U.S. soybean market in a significant way in 1987, purchasing about 30 million bushels of soybeans and 1.43 million tons of soybean meal. Growth in soybean meal demand has allowed the soybean market to recover without significant government intervention.

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Two issues will become increasingly important in 1988 and beyond. The first issue is the rate of withdrawal of government programs and money from the grain markets and a greater dependence on market determination of production and prices. In the near-term, budget considerations will apparently force a faster rate of reduction of direct government payments than required by the 1985 Farm Bill. Longer term policy issues are not as clear. If the concept of decoupling is embraced, traditional commodity programs would be replaced with more direct income transfer payments at lower levels over time. Government programs would have less direct impact on production and prices.

The second major future issue is the area of foreign competition and trade barriers. There is renewed optimism that some of the existing barriers to U.S. exports can be reduced or perhaps eliminated. The rate at which that occurs will determine how rapidly, or if, surplus production capacity in the United States can be brought back into production.

Notice: *Weekly Outlook* will not be published for the next two weeks. The next issue will be January 13, 1988.



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