

AGRICULTURAL OUTLOOK



The Wine Institute



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2 Commodity Briefs

Field Crops: Sharp Rise in U.S. Soybean Acreage Planted For 1997

Livestock, Dairy & Poultry: Falling Grain Prices to Fuel Expansion In Meat Supply

Specialty Crops: Exports Bolster Sweet Cherry Prices

8 Commodity Spotlight

Seasonal Rise Ahead for Wheat Prices

Dennis A. Shields, James N. Barnes, & Ed Allen

The U.S Wine Market Uncorked

John Love

15 Food & Marketing

Marketing Costs for Food Rose Slightly in 1996

Howard Elitzak

18 Special Article

Farm Act '96: Managing Farm Resources in a New Policy Environment

Lyle P. Schertz & Warren E. Johnston

Statistical Indicators

Statistical Indicators can be found in the printed version of the August 1997 issue of Agricultural Outlook. For more information, please contact Randy Schnepf at (202) 219-1281.

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Field Crop Acreage. . . Wheat Outlook. . . the Wine Industry. . . & Impacts of the Farm Act

Planted Soybean Acreage Up Sharply in 1997

U.S. soybean acreage planted in 1997 is the largest in 15 years and the third highest on record, according to USDA's *Acreage* report released June 30. The report—based on a survey of planted acreage conducted during the first 2 weeks of June—represents the first estimate of U.S. planted and harvested field crop acreage. The estimate for 1997 soybean plantings is 70.9 million acres, 10 percent above last year. The increase is a reaction to robust soybean prices, favorable weather at planting, and the 1996 Farm Act which eliminated most acreage restrictions for farm program participants. Farmers are expected to produce a record 2.69 billion bushels.

Corn plantings also increased in 1997, to an estimated 80.2 million acres, up 1 percent from last year and the highest planted corn acreage since 1985. Area planted to cotton, sorghum, and small grains was lower, with the exception of rice, which increased by 9 percent in response to favorable prices.

Seasonal Rise Ahead For Wheat Prices

The average price received by farmers for wheat in 1997/98 is forecast between \$3.10 and \$3.70 per bushel, down from \$4.35 in 1996/97. Monthly-average wheat prices for 1997/98 are expected to hit seasonal lows from June through September as U.S. wheat production, spurred by favorable weather in the central Plains states, is forecast at 2.43 billion bushels, up 7 percent from 1996 and the highest level in 5 years. In addition, large old-crop supplies in Canada and Australia are expected to provide stiff export competition during the U.S. harvest. However, relatively strong demand—both domestic and global—and an expected second-half slowdown in foreign export competition are expected to support higher U.S. wheat prices as the season progresses.



A Good Year for U.S. Wine

Booming demand coupled with limited supply has boosted U.S. grape and wine prices recently, and imports are pouring in to fill supply gaps created by several years of limited U.S. wine-type grape production. In addition, exports have jumped in the last 18 months as improvements in quality and marketing have increased the competitiveness of U.S. wine in Northern Europe.

In 1997, producer prices for U.S. wine have continued rising despite a forecast 16-percent increase in California's grape crop. But U.S. grape growers are concerned that maturing vineyards in the next several years will curtail the current boom, as increased production and imports pull down prices. In the years ahead, the U.S. wine industry hopes to take advantage of expanding foreign markets, free of trade barriers.

Managing Farm Resources Under New Farm Act

The 1996 Farm Act quickly and dramatically changed the decision-making environment for farm operators, landowners, and managers. Early indications of the act's impact are reflected in a study funded by USDA's Economic Research Service. Farm operators and managers on eight panels in several regions reported on changes they had made or might make in their farm management decisions following implementation of the farm act.

Panelists' responses disclosed that farm operators and managers have taken advantage of the elimination of acreage limitations to adjust their crop mixes. The value of now-predictable program payments (production flexibility contract payments) showed up in panelists' reports of higher land prices, higher rental rates, and changes in the provisions of leasing arrangements. Panelists expressed a high level of interest in strategies for marketing and for managing price risk.

Rise in Food Marketing Costs Slower Than Usual

Food marketing costs accounted for 77 cents of every dollar U.S. consumers spent on food in 1996, down marginally from 1995. Food marketing includes expenses associated with processing, wholesaling, distributing, and retailing of foods produced by U.S. farmers. It is the difference between the value farmers receive for food commodities and the amount consumers spend on food. Food marketing costs rose only about 2 percent in 1996, substantially below the average annual increase of almost 5 percent during the last decade. Higher farm prices and flat consumer expenditures reduced the marketing growth rate in 1996, with the food industry absorbing much of the farm price increase.

Commodity Briefs



Jack Harrison

Field Crops

Sharp Rise in U.S. Soybean Acreage Planted for 1997

U.S. soybean acreage planted in 1997 is the largest in 15 years and the third highest on record, according to USDA's *Acreage* report released June 30. Moreover, it marks the first time that U.S. soybean planted acreage has surpassed wheat plantings. The estimate for 1997 soybean plantings is 70.9 million acres, 10 percent above last year. Farmers are expected to harvest 69.8 million acres of soybeans and produce a record 2.69 billion bushels.

The *Acreage* report—based on a survey of planted acreage conducted during the first 2 weeks of June—represents the first estimate of U.S. planted and harvested field crop acreage. It provides a more accurate estimate of crop plantings than the March 31 *Prospective Plantings* report, which was based on a survey of farmers' spring planting intentions rather than on actual plantings.

Of the 29 soybean producing states, all but one had higher estimated acreage than last year. Iowa expanded soybean plantings by an estimated 1 million acres, while Minnesota followed closely with an 850,000-acre, year-to-year increase.

Favorable weather at planting allowed midwestern farmers to complete corn seedings ahead of normal and thereby plant soybeans sooner. The acreage increase was also facilitated by the 1996 Farm Act, which eliminated most acreage restrictions—producers participating in farm programs are no longer tied to base requirements for a specific program crop or limited by annual acreage reduction program requirements.

The new soybean planting estimate is 3 percent higher than the *Prospective Plantings* level and is a reaction to robust soybean prices. Soybean prices rose for several months, before release of the June 30 *Acreage* report which indicated the potential for a record U.S. crop. New-crop soybean futures prices then dropped precipitously. New-crop prices between now and harvest will depend on weather and crop conditions.

In contrast, prices for old-crop soybeans are higher, reflecting strength in domestic and foreign demand and a tightening of stocks. Ending stocks for the 1996/97 September-August crop year are projected at 125 million bushels, with a 5.1-percent stocks-to-use ratio, the lowest ratio since 1972/73. As a result of short supplies, some soybean imports from Brazil are expected.

Corn plantings also increased in 1997, to an estimated 80.2 million acres, up 1 percent from last year and the highest planted corn acreage since 1985. Corn acres harvested for grain are expected to increase to an estimated 74 million, also up 1 percent from 1996. The *Prospective Plantings* report had indicated corn plantings of 81.4 million acres in 1997; the lower actual acreage is likely due to larger soybean plantings.

U.S. Field Crops—Market Outlook

	Area		Yield	Output	Total supply	Domestic use	Exports	Ending stocks	Farm price
	Planted	Harvested							
	—Mil. acres—		Bu./acre	—Mil. bu. —					\$/bu.
Wheat									
1996/97	75.6	62.9	36.3	2,282	2,748	1,309	995	444	4.35
1997/98	70.8	63.5	38.3	2,431	2,975	1,275	1,050	650	3.10-3.70
Corn									
1996/97	79.5	73.1	127.1	9,293	9,731	6,990	1,825	916	2.70
1997/98	80.2	74.0	131.0	9,700	10,626	7,380	2,050	1,196	2.30-2.70
Sorghum									
1996/97	13.2	11.9	67.5	803	821	565	210	46	2.33
1997/98	10.3	9.5	67.6	643	689	410	200	79	2.05-2.45
Barley									
1996/97	7.2	6.8	58.5	397	533	392	31	110	2.75
1997/98	6.8	6.4	58.1	372	522	417	35	70	2.15-2.55
Oats									
1996/97	4.7	2.7	57.8	155	322	252	3	67	1.95
1997/98	5.3	3.2	56.7	183	349	280	3	66	1.40-1.80
Soybeans									
1996/97	64.2	63.4	37.6	2,382	2,586	1,571	890	125	7.35
1997/98	70.9	69.8	38.5	2,690	2,820	1,605	930	285	5.40-6.60
Rice			Lbs./acre		—Mil. cwt (rough equiv.)—				\$/cwt
1996/97	2.82	2.80	6,121	171.3	207.4	106.5	77.0	23.9	9.90
1997/98	3.07	3.04	5,795	176.0	210.9	108.4	79.0	23.5	9.00-10.00
Cotton			Lbs./acre		—Mil. bales —				c/lb.
1996/97	14.6	12.9	707	18.9	22.0	10.9	7.1	4.1	69.4
1997/98	14.0	12.9	670	18.0	22.1	11.0	7.1	4.0	*

Based on July 11, 1997 *World Agricultural Supply and Demand Estimates*.

*USDA is prohibited from publishing cotton price projections.

See table 17 for complete definition of terms and data for prior years.

Economic Research Service, USDA

Commodity Briefs

Acreage Up Sharply for Soybeans, Slightly for Corn

	1996 acreage			1997 acreage		
	Prospective	Planted	Harvested	Prospective	Planted	Harvested
<i>Million acres</i>						
Corn	79.9	79.5	73.1	81.4	80.2	74.0
Soybeans	62.5	64.2	63.4	68.8	70.9	69.8
Wheat	73.1	75.6	62.9	69.2	70.8	63.5
Sorghum	10.6	13.2	11.9	10.9	10.3	9.5
Barley	7.2	7.2	6.8	7.0	6.8	6.4
Oats	5.3	4.7	2.7	5.3	5.3	3.2
Rice	3.0	2.8	2.8	2.9	3.1	3.0
Cotton	15.2	14.7	12.8	14.5	14.0	NA

1997 harvested acreage forecast.

NA = Not available. The June *Acreage* report does not estimate cotton harvested acreage.

Economic Research Service, USDA

Among Corn Belt states, Ohio showed the largest increase in 1997 corn acreage—700,000 acres—as farmers returned to normal planting levels. Substantial switching of corn acres to soybeans had occurred in 1995 and 1996 because of excessive spring moisture that delayed planting. In both Iowa and Minnesota, corn plantings declined by an estimated 500,000 acres in 1997, and by lesser amounts in several southern states as farmers shifted from corn to soybeans.

Despite a cool spring that delayed plant development, warmer weather in June has boosted corn growth throughout the Corn Belt. At the end of June, USDA reported that 74 percent of the nation's corn crop was in good or excellent condition.

Sorghum plantings dropped significantly in 1997 to an estimated 10.3 million acres, down 22 percent from 1996. Acreage is down in every state except North Carolina, South Dakota, Oklahoma, and Georgia. The largest declines occurred in Kansas and Texas, following a large rise in sorghum acres last year as sorghum was planted on wheat and cotton acres that had failed because of drought in the Southern Plains. In South Dakota, plantings were up 17 percent from 1996, as sorghum was planted on winter wheat acres abandoned due to winterkill.

Barley acreage also declined in 1997—to an estimated 6.8 million acres, the second-lowest planted acreage on record. The steepest decline was in North Dakota, the largest producing state. Barley plantings were down from March planting intentions, due partly to higher spring wheat prices, as

well as to extreme weather conditions this past winter and spring, including below-normal temperatures and flooding.

Durum and other spring wheat acreage for 1997 was down 5 percent from last year's very high level to 21.9 million acres, with North Dakota showing the largest decline for both crops. North

Dakota is usually the largest producer of durum and other spring wheat in the U.S. Although flooding in that state in the early part of this year raised fears of planting delays, extremely dry conditions since May have returned crop planting progress to normal. But with higher relative returns for oilseeds expected in 1997, some North Dakota farmers have shifted away from barley, spring wheat, and durum to soybeans and sunflowers.

Rice planted acreage is estimated at 3.07 million acres, 9 percent above 1996, in response to favorable prices. Five of the six major rice producing states showed increases. Texas was the exception as rice acreage continued its long-term downward trend in that state. Plantings in Texas this year were lower, in part because cold, wet weather delayed rice planting this spring. In contrast, a warm, dry spring in California contributed to early completion of plantings. Early-planted rice tends to have less insect, weed, and disease problems than later plantings.

World Commodity Market Outlook

	Year	Production ¹	Exports ²	Consumption ^{1,3}	Carryover ¹
<i>Million tons</i>					
Wheat	1996/97	583.0	113.2	578.0	109.7
	1997/98	586.8	109.5	576.4	120.1
Corn	1996/97	589.7	68.3	571.0	84.7
	1997/98	595.3	72.0	592.2	87.8
Barley	1996/97	153.7	15.8	148.9	23.7
	1997/98	150.0	15.4	152.9	20.8
Rice	1996/97	381.5	18.8	377.0	55.0
	1997/98	379.4	19.3	380.7	53.7
Oilseeds ⁴	1996/97	257.2	46.2	216.5	16.6
	1997/98	275.3	49.1	222.9	22.4
Soybeans ⁴	1996/97	131.7	35.5	135.5	13.1
	1997/98	146.7	37.4	140.8	19.1
Soybean meal ⁴	1996/97	91.2	33.3	91.2	4.0
	1997/98	95.4	34.8	95.2	4.0
Soybean oil ⁴	1996/97	20.4	5.7	20.4	2.4
	1997/98	21.6	5.9	21.5	2.5
<i>Million bales</i>					
Cotton	1996/97	88.1	26.7	86.4	36.6
	1997/98	86.9	27.5	88.1	35.2

NA = Not available.

¹Aggregate of local marketing years. ²Wheat, July-June; coarse grains, October-September; cotton, August-July. Rice trade is for the second calendar year. All trade includes trade among countries of the former Soviet Union. All grain trade excludes intra-EU trade; oilseed and cotton trade include intra-EU trade. ³Crush only for soybeans and oilseeds. ⁴Brazil and Argentina adjusted to October-September.

Economic Research Service, USDA

Commodity Briefs

Area planted to *cotton* for 1997 is estimated at 14 million acres, 4 percent below last year and 500,000 acres less than the March *Prospective Plantings* report. The largest estimated reductions in cotton acreage occurred in Louisiana, Mississippi, and Tennessee, with the acreage going largely to soybeans. Above-normal precipitation and cool temperatures in the Delta region also discouraged planting. In Texas, the cotton acreage level is similar to 1996 as farmers overcame wet conditions in May to finish plantings on schedule by the end of June.

Although 1997 planted acreage of cotton is down slightly in Arizona and California, farmers finished planting well ahead of the 5-year average because of warm, dry spring conditions. In the Southeast, 1997 cotton acreage was reduced as several states increased soybean plantings with the expectation of higher relative returns; only Georgia showed higher planted cotton acreage.

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Livestock, Dairy & Poultry

Falling Grain Prices To Fuel Expansion In Meat Supply

Increased feed grain production this year is expected to lower 1998 feed costs from the previous 2 years. As grain and soybean meal prices decline, some parts of the meat complex will resume expansion in 1998. Poultry and pork producers, with short production cycles, are expected to be able to take advantage of feed cost savings to expand production in the upcoming year. Beef producers, on the other hand, with a production cycle of

7-10 years, will take initial steps toward a long-term herd rebuilding process.

Expectations of continuing relatively high hog prices and lower feed costs, as well as favorable returns over other variable expenses, are fueling an expected 8-percent increase in *pork* production in 1998, the largest since 1992. Before the current restructuring of the U.S. pork industry, such an optimistic scenario would likely have led to an even larger short-term increase in production, but the trend toward consolidation into fewer and larger operations may be tempering producers' expansion plans—the size of these operations requires a longer planning horizon. Increased public concern over waste management issues may also be constraining expansion plans.

The downward price pressure that might be expected from this production increase will be largely offset by higher exports, declining beef supplies, and continued rising personal income. Hog prices in 1998 are expected to average in the low- to mid-\$50's per cwt, \$2-\$3 lower than this year's projected price. Retail pork prices in 1998 are expected to be about unchanged from this year, as farm-to-retail spreads remain wide. In addition, the all-fresh beef price is expected to rise relative to the composite retail pork price, which would benefit

pork as an alternative to beef. Abundant poultry supplies, on the other hand, could pressure pork prices downward.

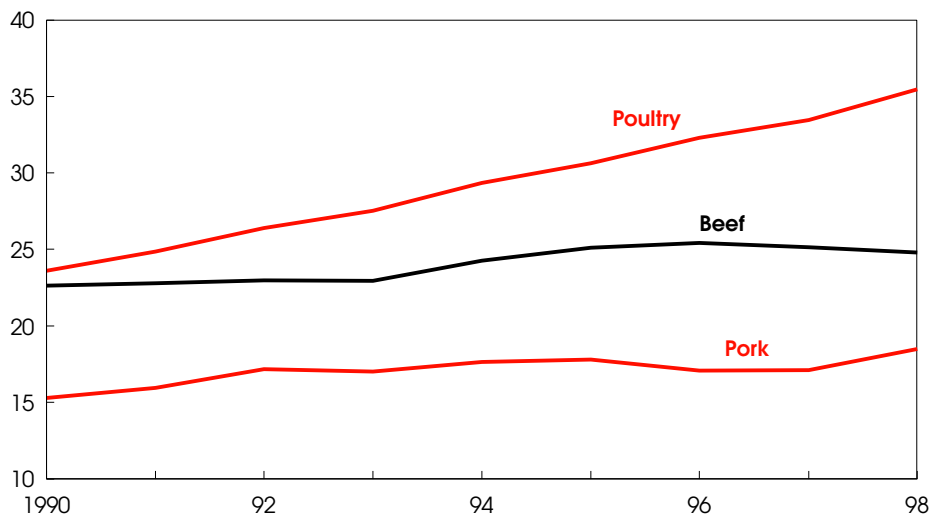
Feed costs considerably below a year ago will keep *broiler* returns positive. Lower beef supplies should provide an opportunity for increased domestic sales of chicken at prices little changed from 1997. Wholesale broiler prices are expected to average around 60 cents per pound in both 1997 and 1998.

Broiler production in 1998 is expected to increase 6-7 percent, the highest rate since 1994. Increases in the hatchery supply flock appear ready to support this growth. The pullet chick hatch for the broiler hatchery supply flock was 7 percent above last year in first-quarter 1997, following 1-percent annual increases in both 1995 and 1996.

Table-egg production is expected to increase 2-3 percent in 1998 as lower feed costs keep egg production profitable. Strong net returns to egg producers over the last year have encouraged increased production. Placements for the layer hatchery supply flock are down in first-half 1997, however, indicating production expansion plans could be more conservative in the future.

Pork and Poultry Production to Rise, While Beef Drops Slightly

Billion lbs.



1996 preliminary; 1997, 1998 forecasts.

Economic Research Service, USDA

Commodity Briefs

U.S. Livestock and Poultry Products—Market Outlook

		Beginning stocks	Production	Imports	Total supply	Exports	Ending stocks	Consumption		Primary market price
								Total	Per capita	
		Million lbs.							Lbs.	\$/cwt
Beef	1997	377	25,243	2,376	27,996	1,915	375	25,706	66.7	66-68
	1998	375	24,906	2,400	27,721	2,140	350	25,231	64.8	70-76
Pork	1997	366	17,151	593	18,110	1,250	400	16,460	47.7	55-56
	1998	400	18,507	605	19,512	1,465	380	17,667	50.7	51-55
Broilers*	1997	641	27,300	4	27,945	4,580	700	22,666	73.5	c/lb. 59-61
	1998	700	28,953	3	29,656	4,750	750	24,156	77.6	57-62
Turkeys	1997	328	5,370	1	5,699	535	350	4,814	18.0	66-68
	1998	350	5,656	1	6,007	565	325	5,116	18.9	62-67
Eggs**	1997	8.5	6,511.8	4.9	6,525.2	264.7	12.0	5,366.2	No. 240.3	c/doz. 79-81
	1998	12.0	6,680.0	4.0	6,696.0	259.0	10.0	5,487.0	243.5	72-78

Based on July 11, 1997 *World Agricultural Supply and Demand Estimates*.

*Cold storage stocks previously classified as "other chicken" are now included with broiler stocks. **Total consumption does not include eggs used for hatching. See tables 10 and 11 for complete definition of terms.

Economic Research Service, USDA

Turkey production is expected to increase about 5 percent in 1998 as positive net returns during fourth-quarter 1997 and lower feed costs encourage producers to raise more birds. Strong export demand should help turkey prices average 66-69 cents per pound in 1997. Prices will likely average lower in 1998 as production rises.

Expectations for *beef* production, unlike pork and poultry production, are for continued declines over the next couple of years, particularly for processing beef, as cow slaughter declines during the herd rebuilding phase of the cattle cycle. The cow herd was culled heavily during the last few years as the previous cattle cycle ended. The remaining cow herd will be in strong demand for rebuilding over the next couple of years. For the year, cow slaughter is likely to decline 13-15 percent, and another 10-12 percent in 1998. The reduced cow numbers and weather extremes—the Northern Plains' harsh winter and the Southwest's drought last summer—will produce a smaller calf crop in 1997, and possibly in 1998.

Beef prices are expected to rise later this fall and throughout 1998, as supplies are

reduced and export demand strengthens. Retail Choice beef prices are expected to average \$2.84 per pound this year and reach near \$2.90 a pound by late fall. Prices in 1998 are likely to average in the low \$2.90's, near the record 1993 average of \$2.93 a pound. However, the higher price of beef relative to other meats, and expected increases in pork and broiler production, will hold down further price gains.

Milk production is expected to grow slowly during the rest of 1997 and 1998. The slower decline in milk cow numbers and a recovery in increases in milk output per cow following several years of low or no increases is expected to lead to increased milk supplies. Delayed effects of record 1996 milk prices and expected late-1997 recovery from price declines earlier this year should spur renewed expansion by some producers, while the number of producers leaving the industry may ease slightly.

Unlike other sectors of the livestock complex, dairy farmers are facing high prices and tight supplies of feed, particularly dairy-quality forage, that may substantially limit growth in milk production.

Supplies of dairy-quality hay from the 1996 crop were tight, leading to record prices during the winter and spring of 1997. May 1 hay stocks were at a record low. Forage problems, in addition to precipitating a reduction in net returns to dairy farmers, have discouraged individual herd expansion and have limited growth in milk per cow. Normal substitutions of concentrate feed to mitigate forage problems have not been profitable because of high prices of concentrates.

Cool spring weather in many areas both delayed and reduced the first cutting of hay. Unless later cuttings are at least average and the silage crop is good, forage problems may eliminate the expected increase in milk production during the rest of 1997 and much of 1998.

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Commodity Briefs

Specialty Crops

Exports Bolster Sweet Cherry Prices

Favorable growing conditions in most U.S. sweet cherry producing regions this year are expected to boost output and ensure high quality for the 1997 crop. For the last 2 years, rainy weather had made cherries extremely vulnerable to skin cracking and fruit splitting, reducing quality and output. USDA forecasts this year's U.S. sweet cherry production to increase 24 percent from 1996 to 382.5 million pounds. Production increases are anticipated in all sweet cherry growing states, with significant gains in California, Washington, and Oregon—where about 85 percent of U.S. sweet cherries are produced.

Tart cherry production, on the other hand, is expected to decline 10 percent to 242.2 million pounds. Cold spring weather damaged the crop in the major growing states of Michigan, Utah, Washington, Oregon, New York, and Pennsylvania. Tart cherry production tends to be unpredictable, alternating between “gluts” and “shortages” that make prices unstable and producer revenue highly variable. The unstable market prompted the establishment of a Federal marketing order for tart cherries beginning with this season's production.

USDA's National Agricultural Statistics Service surveys sweet cherry production in nine states and tart cherry production in eight states. In 1997, 44 percent of the U.S. sweet cherry crop is expected to be produced in Washington, 23 percent in Oregon, 18 percent in California, 13 percent in Michigan, and the remaining 2 percent in Idaho, Montana, New York, Pennsylvania, and Utah. Michigan ranks first in tart cherry production, supplying nearly three-quarters of the nation's output last year. New York, Utah, and Washington follow with 6 percent each, and Colorado, Oregon, Pennsylvania, and Wisconsin account for the remainder.

About half of the U.S. sweet cherry crop is marketed for fresh use, while almost all tart cherries are processed. Washington

and California supply mainly dark, sweet Bing cherries for fresh use, while Oregon and Michigan provide light-colored Royal Ann (Napoleon) cherries for the maraschino process. Nearly 70 percent of processed sweet cherries produced domestically are brined and used in candies, ice cream, and fruit cakes, for example. The rest are canned, frozen, or processed into juice. Nearly two-thirds of the volume of processed tart cherries is frozen, and about one-third canned. Small quantities are also brined or processed into juice and wine.

While all sweet cherry producing states market their product domestically, the state of Washington typically accounts for the bulk of export supplies. Cherries are marketed during the months of April through August, with the heaviest shipments during June and July. Early-season varieties are supplied by California, and northwestern states follow in the summer months. Tart cherry harvesting begins in early July in most areas and extends into August, with active harvesting lasting about 2 weeks in each area.

On average, Americans consume less than 1.5 pounds of fresh and processed cherries per year, and consumption, especially of fresh cherries, varies widely from year to year. Fresh consumption is largely tied to the size of the domestic crop, export

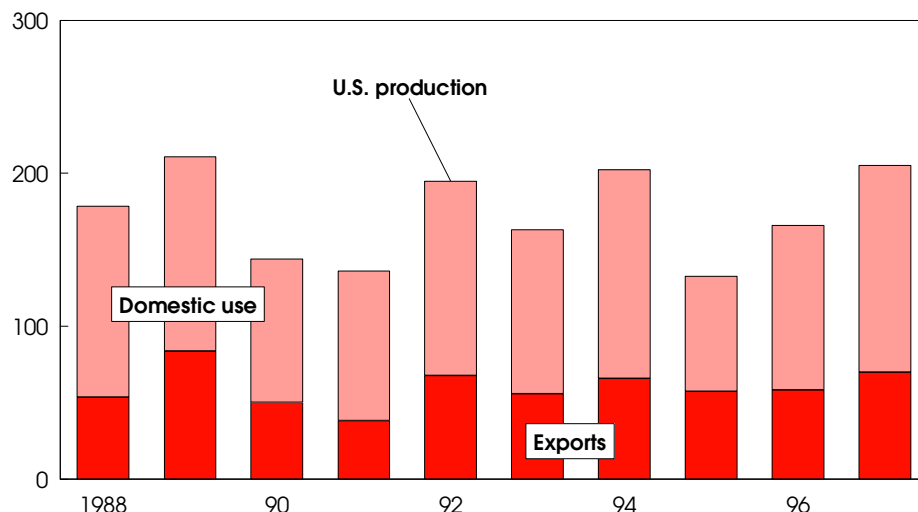
demand, and prices. Since 1987, per capita consumption of fresh sweet cherries has ranged from a high of 0.7 pounds in 1987 to a low of 0.3 pounds in 1995. This year's larger sweet cherry crop could help boost domestic consumption again, as there should be adequate high-quality supplies for domestic and export markets.

Tart cherry consumption is more stable, as most are consumed in processed form, allowing for longer storage than fresh product. Americans typically consume about three-quarters of a pound per person of tart cherries each year, most in frozen product.

Grower prices for fresh sweet cherries are likely to average slightly lower than last year's \$1.06-per-pound average, given the larger crop. However, the high quality of the crop and continued strong demand, especially from overseas markets, are expected to keep prices strong. The season-average grower price for sweet cherries reached a record \$1.12 per pound in 1995, over one and a half times the 1994 level, as fresh use supplies, which have the highest value, decreased with a decline in overall output and larger export volume to Japan. Prices in 1996 held strong but averaged lower than the 1995 record because of an increase in fresh-use supply and overall lower quality of the crop.

Over a Third of U.S. Fresh Sweet Cherry Output Is Exported

Million lbs.



1997 forecast.

Economic Research Service, USDA

The higher grower prices of recent years have reflected rising export demand for sweet cherries. Between 1990 and 1996, the U.S. exported about 35 percent of its fresh-use supply, compared with 25 percent in 1985-89 and 14 percent in 1980-84. Japan is the largest market for U.S. fresh sweet cherries, importing an average of 56 percent of U.S. export volume over the last 3 years. Canada, the European Union, Taiwan, and Hong Kong are also important export markets for fresh cherries. During January-May 1997, sweet cherry exports were up 27 percent from the same time a year ago.

The recent opening of two significant markets could help keep export demand strong. In June of this year, Washington State growers sent the first-ever shipment of U.S. fresh cherries directly to China. This followed China's agreement in April 1995 to grant access to U.S. cherries, with the trade protocol finalized in June 1997. Washington is currently the only cherry producing state which has been allowed access to Chinese markets, but Idaho and Oregon may soon follow.

The quantities shipped to China are likely to be small at first, as the market for cherries develops. China does not produce cherries domestically, so many consumers will be unfamiliar with the product. High tariffs imposed by the Chinese government could be another barrier to entry of large quantities. Despite these obstacles, the cherry industry has a potentially large new market for its product.

Mexico could become another important market for the U.S. sweet cherry industry. On February 27, 1997, an agreement was signed allowing unfumigated U.S. sweet cherry exports from Washington, Oregon, and California to enter Mexico. Cherry

Federal Marketing Order for Tart Cherries To Begin in 1997

Starting this year, production and marketing of tart cherries in the U.S. will be covered under the terms of a Federal marketing order (*Federal Register* 61:186). Unpredictable crop sizes and inelastic demand for the product have translated into wide price swings. The idea behind the marketing order is to control the supply of tart cherries on the market, accomplished primarily through an inventory reserve system—overproduction of processed cherries in one year is stored and used during years of underproduction.

If supply is successfully controlled, price swings will be moderated and the market will gain a measure of stability. Stability in the tart cherry market is considered necessary to guarantee the survival of a large number of the industry's small producers and handlers.

The Cherry Industry Administrative Board consists of 17 growers and handlers and one public member elected by the marketing board. The marketing board will review actual production and set marketing and reserve tonnages no later than September 15 of each year. Additional considerations may include the quality of the crop, likely export demand, supplies of competing commodities, and the estimated tonnage already held in reserve. If the marketing board determines that reserve tonnage needs to be released, the release must take place prior to November 1 of the same year.

exports to Mexico had virtually ended in 1991, when Mexican plant and health officials determined that U.S. cherries posed a risk of introducing pests, such as the apple maggot and plum curculio, into Mexican orchards. All imported cherries had to be fumigated with methyl bromide, which causes the fruit to deteriorate rapidly and makes it virtually unmarketable.

In 1995, the North American Free Trade Agreement's agricultural dispute panel decided that unfumigated U.S. cherries posed no danger to Mexico. Under the new work plan, Sanidad Vegetal—Mexico's equivalent of USDA's Animal and Plant Health Inspection Service (APHIS)—conducted a pre-season inspection of cherry orchards to assure

that the agreed-upon systems approach to regulating pests is adequate. APHIS conducted the inspections for the remainder of the season.

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Commodity Spotlight



Seasonal Rise Ahead for Wheat Prices

U.S. wheat production, spurred by favorable weather in the central Plains states, is rebounding in 1997 to the highest level in 5 years. U.S. exports in 1997/98 are expected up, although growth will be slow, with early-season competition from foreign exporters.

Total U.S. wheat production is forecast at 2.43 billion bushels, up 7 percent from 1996 and 8 percent above the first forecast in May. With larger beginning stocks and steady year-over-year imports, the U.S. wheat supply in the 1997/98 June-May marketing year is forecast to rise 8 percent, marking the first increase in 4 years.

Under the weight of larger supplies and lackluster early-season demand, futures prices for wheat sank to 3-year lows this summer after temporarily spiking in April following a freeze in the Southern Plains and Kansas. Cash wheat prices in Kansas City dropped \$1.08 per bushel during the last 3 weeks of June as harvested area expanded and growing conditions improved in the central Plains. In addition, USDA's June 30 *Acreage* report

confirmed what the market suspected—that farmers had planted more spring wheat than first anticipated.

However, relatively strong demand—both domestic and global—is expected to support U.S. wheat prices as the season progresses. Domestic food use continues to march steadily upward, while expanding global imports and reduced competition are expected to push up U.S. exports by 6 percent.

Unlike last season when prices peaked early, monthly-average prices received by farmers are expected to follow a more normal seasonal pattern in 1997/98, hitting seasonal lows from June through September as large old-crop supplies in Canada and Australia provide stiff export competition during the U.S. harvest.

Last year (1996/97), U.S. winter wheat production problems and strong export sales supported wheat prices early in the crop year. Prices tumbled through early fall as production prospects improved first for U.S. winter wheat and then for spring wheat in both the U.S. and Canada. Prices remained under pressure during the rest of the season as wheat production rose to record levels in the major Southern Hemisphere wheat exporting countries.

Prices are likely to climb gradually through the rest of this season, reflecting both the cost of storing grain and an expected slowdown in foreign competition in the second half of 1997/98. Spring wheat area intentions are down in Canada, area planted is expected to decline in Argentina, and reduced production is forecast in Australia.

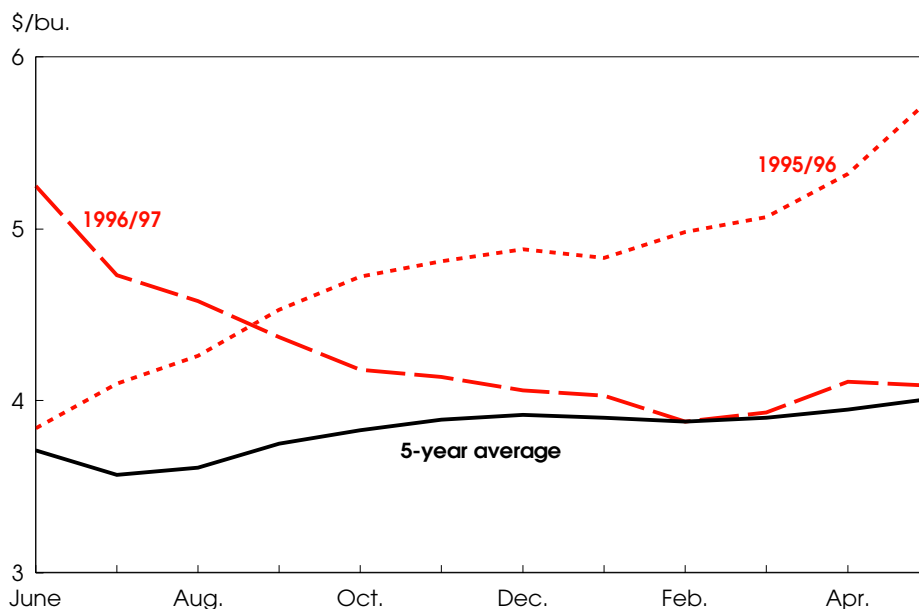
Domestic feed and residual use are projected to decline this season as expected larger corn supplies will likely weigh on corn prices this summer, making wheat feeding less attractive. Ending stocks are forecast to hit 650 million bushels, the highest since 1990/91.

The average price received by farmers for wheat in 1997/98 is forecast between \$3.10 and \$3.70 per bushel, down from \$4.35 in 1996/97 and \$4.55 in 1995/96. This would be the largest year-over-year drop since the \$1.11-per-bushel decline in 1990/91 when bumper yields followed a 1989 drought in the Southern Plains.

Output Rebounds In the Southern Plains

Weather conditions have been extremely favorable during the *winter wheat* growing season, with the exception of a mid-April freeze that hit portions of Texas,

Seasonal Wheat Prices in 1996/97 Peaked Early



Economic Research Service, USDA

Commodity Spotlight

Oklahoma, and Kansas. The freeze curtailed what many observers thought would be extraordinarily large crops. Although many fields sustained considerable damage, especially where there was no snow cover for protection, weather after the freeze was nearly ideal for the wheat plants to recover. Consequently, average yields and harvested areas are expected to be higher than last year in each of the freeze-damaged states, which together account for almost three-quarters of projected Hard Red Winter (HRW) wheat production in 1997.

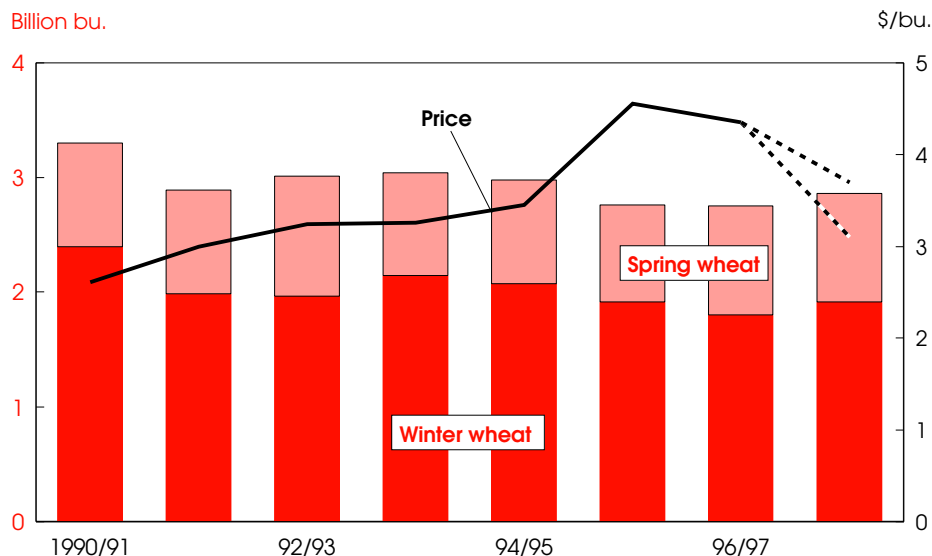
The revival in this year's crop is testimony to the resilience of the wheat plant. Based on conditions as of July 1, 1997, the U.S. winter wheat yield is forecast at a record 42.8 bushels per acre, up 3.5 bushels from the June 1 forecast, and up 5.6 bushels from last year.

Production prospects continued to improve through May and June, especially in Kansas and Oklahoma, with yield forecasts based on July 1 conditions up 10 bushels and 7 bushels per acre, respectively, from the first forecasts made in May. Total HRW output is forecast at 1,062 million bushels, up a robust 18 percent from the May forecast and up 39 percent from last year's drought-afflicted crop. HRW is used in a wide variety of products, particularly bread, and normally accounts for about 40 percent of the total U.S. wheat crop.

The winter wheat harvest has lagged behind the average pace in both the Southern and Northern Plains due to wet weather. Yields have reportedly been highly variable, reflecting pockets of freeze damage, but generally appear above average. However, protein content is reportedly below normal, so price premiums for higher protein spring wheat are rising.

Soft Red Winter (SRW) wheat production is forecast at 455 million bushels in 1997, up 33 million from last year. Higher average yields are expected to offset lower harvested acreage. Crop prospects have been excellent in Ohio and Illinois, two of the leading SRW producers. Incidences of scab and other diseases are reportedly much lower than last year. SRW exports

U.S. Wheat Prices to Fall as Supply Builds



Season-average farm price for all wheat. June-May marketing year. 1997/98 forecast.

Economic Research Service, USDA

are forecast to increase this year as a higher proportion of the crop is bid away from domestic feed buyers. SRW production normally accounts for about 18 percent of the U.S. wheat crop, and is used primarily for cakes, cookies, and pastries.

White Winter (WW) wheat production is forecast at 264 million bushels, down 10 percent from 1996 due to planting problems in both the Pacific Northwest and Michigan. Last fall, heavy rains in the Pacific Northwest slowed planting, while late field crop harvests in Michigan limited winter wheat seedings.

WW harvested area is forecast down 6 percent, and yields are expected down from last year's high levels in Washington, Oregon, and Idaho, which together account for about 90 percent of WW production. WW wheat, typically used for noodles, cakes, and cereal, normally accounts for about 11 percent of the U.S. crop.

From December 1996 to May 1997, farm prices for winter wheat broke from their historical pattern and rose above spring wheat prices as supplies of winter wheat tightened relative to Hard Red Spring supplies. This farm price relationship is expected to return to the more normal

spring wheat price premium in 1997/98 as winter wheat output advances while spring wheat output declines.

Based on July 1, 1997 conditions, the *spring wheat* crop is forecast to decline 19 percent to 650 million bushels, despite higher-than-expected harvested area. Generally dry weather in the Northern Plains since mid-May resulted in below-average yield prospects. The first survey-based forecast indicates an average yield of 30.4 bushels per acre for "other spring" wheat (i.e., excluding durum), down nearly 5 bushels from 1996 and the lowest since 1989.

The spring wheat crop is not expected to decline to the extent observers expected earlier in the season. According to the June 30 *Acreage* report, farmers planted 22.4 million acres of spring wheat (including durum), up from the March forecast of 21 million. Area had been expected to drop back to the 1995 level after increasing sharply in 1996 due to strong spring wheat prices. However, another spring price runup—this year due mostly to the mid-April freeze in the Southern Plains and Kansas—apparently provided farmers sufficient incentive to increase plantings above their March intentions.

Commodity Spotlight

Delayed spring planting in the Northern Plains, where a large portion of the U.S. spring wheat crop is grown, contributed to April-May price fluctuations. Chilly temperatures, along with extremely wet field conditions following spring storms and snowmelt, especially in the Red River Valley, slowed spring wheat planting in the region. By May 11, farmers had planted only 33 percent of the spring wheat crop, compared with the 5-year average of 56 percent. But by early June, planting progress pulled even with the 5-year average as dry conditions persisted across the region beginning in mid-May.

Yield Growth Prospects Improving?

Yield growth is a crucial factor in future U.S. wheat supplies. A noticeable slowdown in growth of overall U.S. yields—some would call it a stall—has occurred in the last 15 years. Weak prices contributed to a financial squeeze for many wheat farmers during the 1980's. This, in turn, led to lower fertilizer expenditures and contributed to lackluster yield growth.

Because market prices have been much stronger in recent years and prospects for continued market strength are expected as world demand remains vibrant, average yields may be poised to resume growth. Although weather problems prevented a rise in yields in 1995 and 1996, cash expenditures for fertilizer on wheat ground have increased in recent years.

In 1997, the U.S. winter wheat yield is forecast at a record 42.8 bushels per acre, surpassing the 1983 record of 41.8 bushels. Wheat prices, while down sharply from last year's highs, are forecast to remain above the levels of the early 1990's through the turn of the century. Favorable returns would be expected to encourage increased fertilizer use, which could boost yields in the coming years. *Dennis A. Shields (202) 219-0768 and James N. Barnes (202) 219-0711*
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CRP: A Potential Supply Factor

The Conservation Reserve Program (CRP) exerts a potentially significant effect on land availability for wheat plantings. About 9 million acres of land currently in the CRP has a cropping history of wheat. On October 1, 1997, CRP contracts will expire on about 21.4 million acres (from all crops). However, about 11.7 million of these acres were accepted for new contracts during the 15th CRP sign-up in May, along with about 4.4 million acres of new land.

In addition, a sign-up is planned for this fall in which producers can enroll land for the 1998 crop year. Small amounts of acreage can also be added to the program on an ongoing basis under certain provisions—e.g., installation of filter strips. As a result, total CRP acreage is expected to decline by several million *less* than the 5.3-million difference resulting from the 15th sign-up. Consequently, U.S. wheat production is not expected to be substantially altered in the next few years.

Excluding the additional enrollments expected to occur in this fall's sign-up, land under CRP contract in the top 10 wheat states (based on harvested area) would decline just 3 million acres this fall. These states accounted for nearly 80 percent of U.S. harvested wheat acreage during the last 5 years. Total CRP acreage in the top five wheat states will be essentially unchanged at 11.3 million acres, with gains in North Dakota and South Dakota offsetting reductions in Kansas, Montana, and Oklahoma. Each of the remaining top 10 states will lose CRP area, especially Texas (down 1.02 million acres), Minnesota (down 770,000 acres), and Washington (down 613,000 acres).

Another 740,000 acres of former CRP acreage would become available for planting in the six next-highest wheat producing states, which account for another 10 percent of wheat production. If the entire net CRP decline of 3.74 million acres (excluding fall sign-up acres) is planted to wheat (an extreme assumption) and average yields by state prevail, additional U.S. wheat production would total about 150 million bushels, or 7 percent of 1996 output.

U.S. Wheat Exports To Rise in 1997/98

U.S. wheat exports are expected to grow modestly in 1997/98, up 6 percent, while world trade is expected to expand by 3 percent. Unlike in 1996/97, U.S. exports will face increased competition early in the year, easing in the latter part of the year.

In the summer of 1997, Canada, Australia, and to some extent Argentina, are marketing larger old-crop supplies in competition with U.S. new-crop winter wheat. Transportation and logistical problems this past winter reduced Canada's exports in 1996/97, leaving a large part of the 1996 bumper crop to move later than

usual, stretching into the new crop year. However, as the 1997/98 season progresses, U.S. exports will likely face reduced competition as production is expected down in all the major exporting countries. Increased U.S. wheat supplies and lower prices are expected to maintain the pace of U.S. exports after the summer.

Combined production in 1997/98 by the major foreign wheat exporters—Canada, the European Union (EU), Australia, and Argentina—is projected to drop by 13 million tons or 8 percent. Wheat prices have declined, especially compared with oilseeds, and wheat area is expected to decline in Canada and Argentina. Australia may maintain wheat area following a very successful year in 1996/97,

Commodity Spotlight

but record yields are unlikely to be repeated, leaving production prospects down 5 million tons.

In the EU, wheat area is up because the set-aside area was reduced from 10 percent to 5 percent, and growing conditions in Northern Europe have been generally favorable. However, yields are down from last year's record levels, and forecast EU production is down marginally.

While the major foreign exporters are expected to reduce wheat production in 1997/98, the rest of the world is expected to boost production by 13 million tons, offsetting the decline. Production is forecast up sharply in China, Eastern Europe, and the Newly Independent States (NIS—the former Soviet Union minus the Baltic states), mainly because favorable growing conditions are expected to boost yields in these areas. However, other regions have had problems. Drought struck North Africa, devastating production prospects in Morocco, Algeria, and Tunisia. Unfavorable weather in the Middle East is expected to reduce wheat production in Iran and Iraq.


For the major importers, production prospects directly affect demand. North Africa and the Middle East will turn to world markets to maintain wheat con-

sumption, boosting import demand. On the other hand, large wheat production in China, NIS, and Eastern Europe will limit imports to some extent while increasing stocks and consumption.

World wheat consumption is forecast down fractionally in 1997/98, mostly because of reduced wheat feed use, especially in the U.S., Canada, and South Korea. Wheat feeding is often the result of quality problems stemming from weather-related damage to crops, usually occurring at harvest (for example, as occurred in Canada in 1996/97 when late crop development delayed the harvest and exposed the wheat to an early snowfall). It is too early to quantify such quality problems.

Reduced world wheat consumption and increased beginning stocks more than offset the slight decline in global production, and wheat ending stocks are projected up almost 10 percent in 1997/98, with much of the stock buildup in the U.S. and China. While prospects for increased world wheat ending stocks contribute to lower price prospects in 1997/98, the global stocks-to-use ratio remains fairly tight at 21 percent, limiting price declines in the U.S. and world markets.

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August Releases—USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

August

- 1 Cheddar Cheese Prices
- Egg Products
- 4 Crop Progress (after 4 pm)
- Dairy Products
- 5 Poultry Slaughter
- 6 Broiler Hatchery
- 8 Cheddar Cheese Prices
- 11 Crop Progress (after 4 pm)
- 12 Cotton Ginnings (8:30 am)
- Crop Production (8:30 am)
- 13 Broiler Hatchery
- Turkey Hatchery
- 14 Milk Production
- 15 Cattle on Feed
- Farm Labor
- Cheddar Cheese Prices
- Mushrooms
- 18 Crop Progress (after 4 pm)
- 20 Cranberries
- Broiler Hatchery
- Cold Storage
- 22 Catfish Processing
- Cheddar Cheese Prices
- Chickens & Eggs
- Livestock Slaughter
- 25 Crop Progress (after 4 pm)
- 26 Turkeys
- 27 Broiler Hatchery
- Peanut Stocks & Processing
- 29 Agricultural Prices
- Cheddar Cheese Prices
- Rice Stocks (8:30 am)

Commodity Spotlight



Marianne Jennings

The U.S. Wine Market Uncorked

Booming demand vying for limited supply has led U.S. wineries to raise prices and search the globe for additional wine. Since late 1996, producer prices for U.S. wine have risen at double-digit rates. Imports are pouring in to fill supply gaps created by several years of limited production of U.S. wine-type grapes. But U.S. grape growers also worry that maturing vineyards in the next several years will turn the current boom into a bust as increased production and imports pull down prices.

Consumers began drinking more wine in the early 1990's, partly because of news about the health benefits of moderate consumption, and partly because a strong U.S. economy supported increased spending on wine at home and in restaurants. In addition, sales to foreign markets jumped in the last 18 months as improvements in quality and marketing have increased the competitiveness of U.S. wine in Northern Europe against traditional producers from France, Italy, and Spain.

The U.S. wine industry is increasingly important to the economic performance of U.S. agriculture. Nearly 55 percent of the

1996 U.S. grape crop was used for wine, and farm value was estimated at \$1.25 billion, compared with \$547 million in 1986. Winemaking and distribution added another \$12 billion in value to 1996 retail sales of food and beverages, according to industry sources.

In California, the largest agricultural state, with crop revenues of \$14 billion in 1996, the value of the total grape harvest reached a record \$2 billion. California typically produces more than 95 percent of the grapes crushed for U.S. wine. New York, Washington, and Oregon provide most of the remainder.

U.S. wine exports will likely reach a record \$400 million in 1997, up 25 percent from 1996. During 1985-95, the value of U.S. wine exports increased 22 percent annually, far outstripping the 6.5-percent trend for the rest of U.S. agriculture.

While wine export growth has been impressive over the last decade, imports have declined until recently. With limited domestic supplies in 1996, U.S. producers and distributors boosted wine imports 25 percent to a record \$1.4 billion, the first sharp increase since 1992. Through May 1997, import growth reached 23 percent above the same period last year.

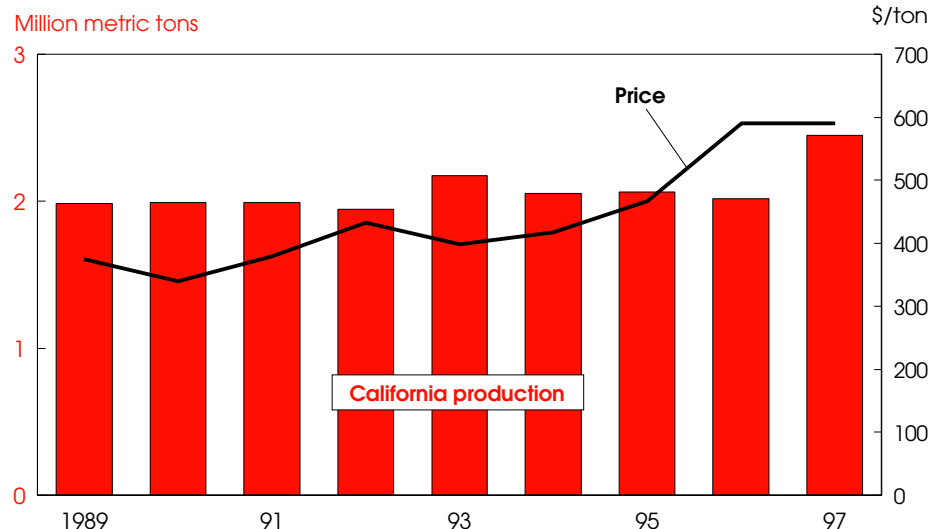
Supply of Wine Grapes Trails Consumption

The last 10 years have seen a turnaround in the market for wine grapes. During the early 1980's, wine supplies outweighed demand, and grower prices stagnated. Growers responded by reducing vineyard area and replacing vines with quality wine-type varieties, and grower prices paid by wineries increased 8.5 percent annually during 1985 to 1995.

California prices for wine-type grapes averaged \$590 per metric ton in 1996, 26 percent higher than 1995. U.S. wine is produced increasingly from four high-valued international grape varieties: cabernet sauvignon, merlot, pinot noir, and chardonnay. In California, wineries paid growers \$1,260 per metric ton on average for these four varieties in 1996, compared with \$390 for other wine-type varieties.

In 1997, producer prices for U.S. wines will continue well above 1996, as domestic supplies are not sufficient to meet both domestic and export demand. January-June producer prices for domestic wines rose an average 10 percent in 1997, following 6 years of annual increases of 1-2 percent.

Wine-type Grape Grower Prices to Remain Strong, Despite Record Production in 1997



USDA reports wine-type grape production for California only. Prices are for California grapes. 1997 forecast.

Economic Research Service, USDA

Commodity Spotlight

The current strong wine prices are the result of recent limited U.S. crops of wine-type grapes and increased demand for quality wines. A total of 2.45 million metric tons of U.S. grapes was used for wine in 1994, 8 percent less than the previous 5-year average. The impact of reduced wine production has surfaced in 1997, as most wine sales lag behind the vintage year of grape production by several months to several years. Also, California's wine-type grape crush in 1996 was the lowest in 9 years.

While wine-type grape supplies are limited, U.S. consumption of wine increased from 16.3 million hectoliters in 1992 to 21.8 million in 1995. (One hectoliter—100 liters—is slightly more than 11 cases of wine.) Wine consumption dipped 6 percent in 1996, but is likely to increase slightly in 1997. Per capita consumption in the U.S. remains less than 1 case per person annually.

U.S. wine inventories were well below what was needed to keep pace with demand and stabilize prices in 1997. However, higher prices are allowing wineries to rebuild inventories. USDA's Economic Research Service (ERS) forecasts wine inventories at 22 million hectoliters entering 1998, about equal to the 1990-95 average and 15 percent above 1997.

The July 1 forecast of California's 1997 grape crop points to a 16-percent increase in production to a record 5.26 million metric tons. Wine-type grapes are forecast up 21 percent to 2.45 million metric tons, but strong winery demand for grapes is likely to keep grower prices even with last year. U.S. wine production in 1997 is estimated by ERS at near 23 million hectoliters, up 20 percent from 1996 and 1995, and 30 percent more than 1994.

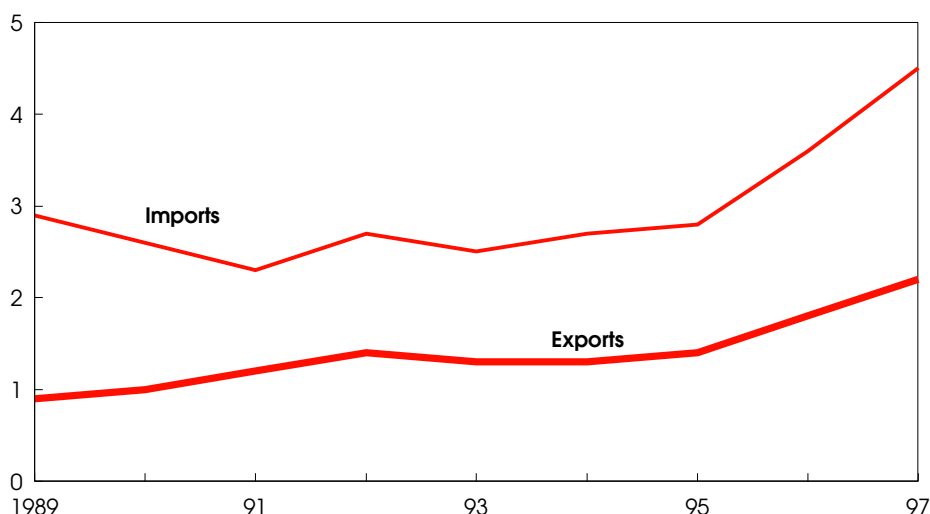
U.S. Imports & Exports Of Wine Are Up

U.S. wine *imports* are likely to reach 4.5 million hectoliters in 1997, up from 3.6 million in 1996. Imports could account for 21 percent of U.S. net domestic use in 1997, up from about 13 percent in 1990.

Western European wine—mainly from Italy, France, Spain, and Germany—still accounts for most U.S. imports, about a

U.S. Imports and Exports of Wine Have Accelerated

Million hectoliters



1 hectoliter = 100 liters. 1997 forecast.

Economic Research Service, USDA

70-percent share in 1997. But in the 1990's, U.S. wine imports from South America (mainly Chile, Brazil, and Argentina), Australia, and South Africa have increased substantially. These "new world" producers are expected to capture a 30-percent share of U.S. wine imports in 1997.

In 1985, Western Europe accounted for 96 percent of U.S. imports, declining to 88 percent in 1990. Western Europe's competitive position in the U.S. market weakened during the late 1980's as the U.S. dollar exchange rate declined against Western European currencies. Also, as U.S. consumers turned toward quality wines, demand for low-priced wines—mainly from Italy—decreased. As consumers turned to higher valued wines, Italy's share of U.S. imports decreased from 51 percent in 1985 to 36 percent in 1996.

With escalating land prices in prime U.S. wine-growing areas, U.S. firms are increasingly investing directly in foreign wine production in order to meet U.S. domestic and foreign demand. U.S. foreign direct investment (FDI) activity has concentrated mainly in Chile and south-eastern France, but increasing attention is focused on Argentina's large, unused land capacity. Rather than displace export

potential—a common belief about FDI—firms appear to be investing abroad to ship wine back to the U.S. market.

In 1997, 12 percent of U.S. wine production will be *exported*, up from 6 percent in 1990. Despite high rates of U.S. export growth since the mid-1980's, the U.S. share of world wine trade remains only about 3 percent. But foreign markets continue to look attractive to U.S. wine producers, even while prices in the domestic market soar.

In 1996, 50 percent of U.S. wine exports went to Western Europe, mainly to the United Kingdom (U.K.), Germany, Switzerland, and the Netherlands. Canada accounted for 20 percent, Japan 10 percent, and Caribbean countries most of the remainder of 1996 exports.

U.S. wine exporters compete mainly with domestic producers in export markets and with French, Italian, and Spanish exporters. For example, in the U.K. market, with its small domestic industry, the U.S. competes mainly with other European Union (EU) countries. However, non-EU exporters are gaining market shares in the U.K., and U.S. exports have increased 23 percent annually over the last 10 years, reaching 375,500 hectoliters in 1996.

Commodity Spotlight

Switzerland, importing nearly 60 percent of its wine consumption, is another growing market for the U.S. During the last decade, U.S. wine exports to Switzerland increased 36 percent per year on average to reach 85,932 hectoliters in 1996. Switzerland is likely to increase wine imports in 1997 because of changes in Swiss policy which will allow more imports of white wine, a previously heavily protected domestic industry.

Although combined wine production for 1996 in Italy, France, Spain, Germany, Switzerland, the U.S., Argentina, Chile, and South Africa—representing more than 80 percent of the world total—increased over the preceding 2 years, worldwide wine supplies are not sufficient to meet demand. With the usual period of more than a year before significant amounts of the 1996 vintage are released, the current upward pressure on prices is likely to continue.

Emerging Issues

Imported wines are becoming more competitive in the U.S. market, cutting in on marketing advances already made by U.S. wineries. Until recently, higher prices for French, Italian, and Spanish wines dampened U.S. demand for imports from these traditional sources. But now, U.S. prices are increasing faster than European prices. And based on statistical analysis, each 10-percent increase in the U.S. price raises U.S. demand 15 percent for European wines and even more for Southern Hemisphere wines.

For U.S. growers, the future points to sharply increasing domestic supplies of wine-, raisin-, and table grapes. California's 1996 area in new vineyards—nonbearing, less than 4 years old—is estimated at 18 percent of the state's total, but industry sources place it even higher than the statistics show. How will the markets absorb the burgeoning supply? U.S. demand for raisin- and table grapes in the fresh- and dried markets has been steady or declining in the 1990's. The domestic juice and wine markets are growing, but hopes rest heavily on increasing access and demand in foreign markets.

The U.S. wine industry is concerned about foreign markets continuing to use barriers

What's in a Label?

Most of the highest quality U.S. wines are marketed as varietals. Cabernet sauvignon, merlot, pinot noir, and zinfandel make up about two-thirds of California's red-wine grapes and produce highly rated wines. Chardonnay, sauvignon blanc, and reisling account for about half of California's white-wine varieties.

To use a variety on a wine label, regulations by the U.S. Department of Treasury's Bureau of Alcohol, Tobacco, and Firearms (BATF) require a minimum content of 75 percent of the indicated grape variety. As a marketing strategy, varietal labeling may be viewed as increasing consumers' confidence in consistency. Breaking into the international market is also easier with varietal labeling, because foreign consumers are more likely to experiment with unfamiliar producers if the varieties are familiar.

European wines, in contrast, have a long tradition of labeling based on *origin*. Geographically based, the appellation of origin controllee (AOC) is the principal designation for quality European wines. Each region's distinct quality is regulated by strict guidelines with respect to variety, yields, irrigation, and other production practices. Even though Burgundy is a well-known region in France producing quality red wines with pinot noir grapes, "pinot noir" seldom appears with "AOC" on Burgundy labels. Similarly, France's Bordeaux wines seldom mention cabernet sauvignon, and Champagnes seldom mention chardonnay, though these are the dominant grapes used in these regions.

Wineries in the U.S. are turning more to geographic designations to distinguish their wines. American viticultural areas, or AVA's, are certified by the BATF at the request of producers in a region. The region must produce grapes with distinctive character, based on terroir, which refers to the combination of climate, soil, elevation, and other factors known to have a significant impact on varietal performance. Examples of California AVA's are Napa Valley, Sonoma, and North Coast. In New York, an example is Finger Lakes. First introduced in 1982, AVA's have increased to well over 100 across the U.S.

against trade. One sticking point in negotiations is the use of semi-generic labels. For example, the EU is actively seeking an end to U.S. wines labeled as Chablis, Burgundy, and Champagne—all names of French producing regions. The Australian wine industry has recently agreed to cease this practice and thus improved their trade relations with the EU.

Tariffs remain an obstacle, albeit declining under progress made in the World Trade Organization (WTO). Technical differences among producing nations present special problems: the EU's regulations put forth specific acceptable winemaking practices, while U.S. guidelines prohibit practices mainly for food safety reasons.

The EU purchases excess production and provides export refunds and aid for acreage reduction, which totaled \$1.2 billion in 1996. Moreover, individual mem-

ber states provide substantial marketing assistance to their wine industries. As part of its WTO commitments over a 6-year period, starting in September 1995, the EU must reduce subsidized wine exports by 21 percent and the value of wine production subsidies by 36 percent. Also, the EU has agreed to decrease its import duties by 20 percent and cease using reference prices and import quotas.

Through greater access to foreign markets and market promotion, the U.S. wine industry has sought to increase exports, while U.S. trade negotiators seek to overcome trade barriers through lowering tariffs, breaking up governmental distribution monopolies, and reducing producer subsidies.

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Food & Marketing



Jack Harrison

Marketing Costs for Food Rose Slightly In 1996

U.S. consumers spent \$547 billion on food in 1996 (excluding imports and seafood), \$17 billion more than in 1995. For every dollar spent, 23 cents covered the farm value of food purchases, and the rest was marketing costs. Food marketing costs—as measured by USDA's marketing bill—includes expenses associated with processing, wholesaling, distributing, and retailing of foods produced by U.S. farmers. It is the difference between the value farmers receive for food commodities and the amount consumers spend on food both at home and away from home.

A sharp 8-percent increase in farm value—reflecting higher prices for pork, eggs, dairy products, and cereal—accounted for a larger-than-usual portion of the increase in consumer food costs. However, with moderate inflation and sluggish growth in consumer food expenditures—about 3 percent—food manufacturers, wholesalers, and retailers absorbed much of the sharp increase in farm prices, substantially slowing the rise in marketing costs in 1996.

The marketing bill rose only about 2 percent to \$424 billion in 1996, following a nearly 4-percent increase in 1995. The rise in food marketing costs in 1996 was lower than the overall 2.9-percent rate of inflation, and substantially below the average annual increase of about 4.5 percent during the last decade.

Labor Costs Have Increased Steadily

Labor costs (wages and salaries, and employee benefits such as group health insurance) comprise 38 percent of total consumer food expenditures, and make up the largest component of the marketing bill. Labor costs grew about 5 percent to more than \$206 billion in 1996, but at a marginally slower pace than the annual average rise during the last 10 years. The slower growth was the result of relatively sluggish sales which dampened demand for additional employees.

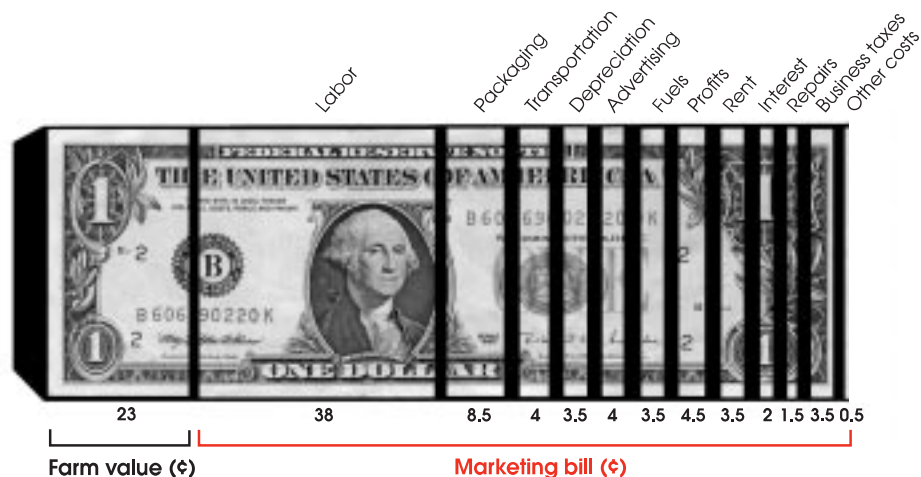
In 1996, 13.5 million people were employed in the food industry sector beyond the farm. Food industry employment increased almost 1.5 percent in 1996, a smaller rate of increase than the nearly 3-percent rise recorded in 1995. Food-service establishments employed the single largest share at 56 percent. About 25 percent of the food-sector work force was employed by food stores, 12 percent by food manufacturing firms, and 7 percent by wholesalers.

Employment in the food manufacturing sector dropped by about 1.5 percent, reflecting higher labor productivity and increased use of labor-saving technology, which continued to dampen hiring rates. For the other three sectors, employment increased, but at a smaller rate than in 1995.

Hourly earnings of food manufacturing and food store employees rose almost 3 percent in 1996, similar to 1995. The relatively stable earnings in these two sectors partially reflect provisions of union contracts negotiated over the last few years. Average hourly earnings of wholesaling employees rose over 2 percent, compared with 2.5 percent in 1995. The average hourly wage for employees in the food-service sector, one of the highest contributors to U.S. job growth in 1996, advanced about 3.5 percent, compared with 2 percent in 1995. This higher rate of growth reflects brisk sales in the away-from-home market over the last decade, when sales increased an average of 5 percent per year.

Wage supplements, about 20 percent of total labor costs, increased because of rising health insurance premiums and pension costs. The rising cost of medical care pushed up health insurance costs. However, the 3.5-percent increase in the Consumer Price Index for medical services in 1996 was considerably smaller than the 6.5-percent average annual

What Does the Consumer's Food Dollar Pay For?



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increase over the last 10 years, and helped mitigate 1996 labor cost increases. Similarly, the Employment Cost Index for private industry benefits rose almost 2 percent in 1996, markedly smaller than the nearly 6-percent annual average rise of the last decade.

Packaging Costs Drop

Packaging costs, nearly 9 percent of food expenditures and the second-largest component of marketing costs, dropped 2 percent to nearly \$47 billion, restraining aggregate food marketing costs in 1996. The price of paperboard, which accounts for about 40 percent of food industry packaging costs, plummeted over 7 percent in 1996, following a record 16-percent rise the previous year. In 1995, the paper industry had experienced the most rapid price increase in its history, as the industry was unable to add capacity fast enough to meet demand. In 1996, paperboard prices dropped after customers such as the food industry restocked inventories.

Meanwhile, the price of metal cans dropped 10 percent in the face of excess beverage can capacity as demand increased for competing plastic containers. Despite this increased demand, plastic container prices dropped over 1 percent as producers were unable to raise prices in the face of price reductions for competing packaging products.

Energy costs, comprising 3.5 percent of food expenditures, rose nearly 4 percent last year, despite a 2-percent drop in the price of electricity. Higher energy costs were largely the result of a 4-percent rise

in the price of natural gas and increased volume of marketing services. Electricity accounts for 55 percent of the energy costs incurred in food manufacturing, with natural gas accounting for the remaining 45 percent. Electricity accounts for 85 percent of energy consumed by public eating places and nearly all of the energy used in food stores.

Transportation costs rose 2.5 percent, about the same as in 1995, as a result of higher trucking rates which climbed by more than 2 percent. Railroad rates were only slightly lower.


Advertising expenditures have risen at a slightly faster rate than aggregate marketing costs during the last few years. Advertising expenses, which account for about 4 percent of food expenditures, rose 4 percent to nearly \$21 billion in 1996, slightly faster than in 1995. The food industry uses a mixture of print and broadcast media to promote their products. Food manufacturing accounts for about 55 percent of total food industry advertising expenditures, with food service adding another 25 percent, and food retailing contributing 14 percent to the total.

Business taxes account for 3.5 cents of the American food dollar. They include property, state, unemployment, insurance, and Social Security taxes, but exclude Federal income taxes. Business taxes rose by more than 3.5 percent to \$20 billion in 1996. Interest expenditures, which accounted for only 2 percent of total consumer expenditures, increased nearly 3.5 percent in 1996.

Depreciation, rent, and repairs together totaled \$48 billion in 1996, accounting for almost 8.5 percent of the consumer food dollar. The food-service sector incurred the highest percentage of these costs, at 41 percent of the total, as food-service establishments paid higher property rent than the other food sectors. Food stores made up 27 percent, while processing and wholesaling firms together accounted for the remaining 32 percent.

Food industry profits grew over 5 percent in 1996, considerably less than the 9-percent pace recorded in 1995. Retail food stores accounted for most of last year's profit gain by attracting customers to less expensive generic brands and offering nonfood services such as video rentals. However, profits were moderated in 1996 by a variety of conditions in the other food industry sectors. For example, food processors were constrained from raising prices much because of consumer preference for generic brands, and were further squeezed by higher farm prices. Meanwhile, competition among restaurants, particularly fast-food outlets, has restrained profits among food-service establishments.

Food marketing costs tend to reflect aggregate inflationary trends. Current projections suggest that moderate inflation will continue. Therefore, marketing costs will probably continue to increase at a relatively slow pace into 1998.

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Special Article



Jack Harrison

Farm Act '96: Managing Farm Resources in a New Policy Environment

The 1996 Farm Act quickly and dramatically changed the decision-making environment for farm operators, landowners, and managers. The predictability of the Farm Act's production flexibility contract payments (PFCP's) and its almost complete elimination of planting restrictions challenged many farm operators and managers to rethink the way they manage their resources.

Uncertainty about the impact of such a major change in policy fostered interest in obtaining early indications of its effects on farm management decisions. A study funded by USDA's Economic Research Service brought together farm operators and managers on eight panels in several regions to discuss changes they had made or might make in farm management decisions following implementation of the 1996 Farm Act.

The swiftness of the program changes was of great significance to owner-operators, tenants, and landlords. Panelists indicated the new legislation's increased planting flexibility was not fully incorporated into 1996 farming decisions because of the late development of the farm bill. In many regions of the country, preliminary cropping plans, production financing, and even some plantings for the 1996 crop year were necessarily made before the farm bill was signed into law on April 4, 1996.

At the same time, the outlook for agriculture going into the 1996 crop year was very positive, making farm producers less reliant on traditional Federal farm programs. World farm commodity inventories were low, demand was strong, and prices were at decade-high levels for wheat, corn and other feed grains, and soybeans. The farm sector was more than a decade removed from the farm financial crisis of the 1980's and was in good financial health.

Yet in the limited number of decisions producers were called upon to make after the new farm act provisions were announced, producers did, in fact, respond to the new planting flexibility provisions which released them from base acreage requirements for specific crops. They also took advantage of the removal of annual acreage limitations, permitting additional acreage to be planted in the 1996 crop year.

As the year unfolded, sharp price falls revised farm decision makers' expectations for the year's profits. With a generally less optimistic outlook for 1997, farm managers and operators began to consider the implications of the 1996 Farm Act more closely, with increasing concern about commodity price volatility and the need for appropriate marketing and risk management strategies.

Overall, the panel discussions highlighted several effects of the new farm act that conductors of the study believe have particular relevance for the future of farm management decision making in the U.S.

- The new farm act's production flexibility contract payments and the elimination of most planting restrictions are popular with landowners, operators, and farm managers;
- the PFCP's are being capitalized into land values and are reflected in land rental rates; and
- farm managers and operators have an increased interest in strategies for marketing and for managing price risk.

Planting Flexibility Is Shaping Decisions

As expected, survey responses and discussions with panelists confirmed that farm owners, operators, and managers are favorable toward three particular features of the 1996 Farm Act: the predictability of program payments (PFCP's), which are no longer tied to farm prices; the unambiguous qualifications for PFCP's; and especially, the elimination of most planting restrictions. More than half of all panelists (58 percent) identified "elimination of planting restrictions" as a factor in their 1997 management decisions, and nearly half (45 percent) expected the same provisions to affect their decisions in 2000-02.

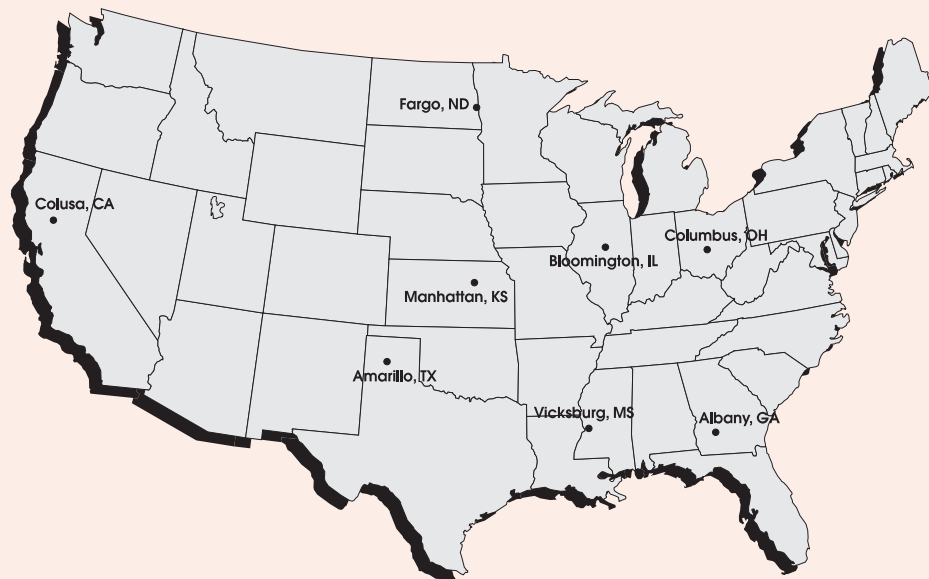
Panelists' own estimates of how they are adjusting crop mixes suggest that aggregated average data do not reflect the full potential benefits to individual farming operations associated

About the Study

To examine changes in the management of the nation's farm resources resulting from the 1996 Farm Act, USDA's Economic Research Service funded a study in early 1997, conducted with the support of the Farm Foundation, the University of California Agricultural Issues Center, and the American Society of Farm Managers and Rural Appraisers (ASFMRA). The study focused on "whole farm" decisions, as distinct from specific commodity decisions, examining potential effects of the 1996 Farm Act on the management of farm resources.

The study's approach was to conduct eight discussion panels located in several regions. Six panels were composed of professional farm managers and two of farm operators. Panel members were identified in consultation with ASFMRA state chapter leaders and with land-grant university faculty and extension staff members who had expertise in the study of farm management decisions. Areas were selected where farm programs were historically important to local economies. Panels were formed in North Dakota, Kansas, Texas, Illinois, Ohio, Georgia, Mississippi, and California.

Panels of Farm Managers and Operators Represented Eight Areas



The planned focus of the panel discussions was primarily on changes in the farm management decision environment, the mix of crops produced, responses to risks, landowner and operator lease arrangements, use of marketing information, and employment and economic activities in rural communities.

with planting flexibility. For example, Illinois panelists' expectations of the proportion of land they will devote to corn and soybeans were 45 and 43 percent on average for both 1997 and 2000-02—the same as for 1996. However, seven of the eight Illinois panelists expected that they would devote a different percentage of land to corn in 1997 than they had in 1996—three anticipated planting less and four anticipated planting more. Thus, aggregate statistics may obscure year-to-year changes at the individual farm level that balance out across all farms.

Panelists were alert to potential opportunities for growing non-traditional crops, those that have not often been grown on large acreages in the past. These farm managers and operators indicated they will shift land quickly to optimize their cropping mixes. They also appear willing to consider producing crops that have particular characteristics, like waxy and high-protein corn, and tofu soybeans, although the profitability of such crops will be watched closely. Whether the profitability of new crops will attract even modest acreages away from major program crops like corn, wheat, soybeans, cotton, and rice remains an open question.

PFCP's & Land Values

The demand for farmland has expanded recently in several areas of the country. Panel discussions in North Dakota, Illinois, Ohio, Georgia, and Mississippi in particular noted increases in land prices and cash rents. The land market in many areas had already been adjusting to higher commodity prices and to the optimism over future commodity exports when the new farm bill became law. The predictability of PFCP's became an additional, important impetus for increased demand for land.

The high degree of certainty attached to the PFCP's makes their valuation fundamentally different from the valuation of the price deficiency payments of the 1990 Farm Act. The amount and timing of income from PFCP's has been set through 2002. In contrast, the anticipated value of deficiency payments under the 1990 act was conditioned by commodity price expectations—high prices would lead to low (or no) deficiency payments, while low prices would precipitate high deficiency payments. Farm managers and operators could not be certain what their farm program income would be at the end of the current year, let alone in future years.

Special Article

As land prices rise relative to other input prices, economic reasoning suggests that land use will become more intensive, employing more nonland inputs per acre. Some panelists indicated, however, that nonland input prices are also increasing, which could keep the ratio of land prices to other input prices fairly constant and negate the effect of rising land prices and rental rates on farm management decision making.

The effect of the 1996 Farm Act on land markets may also be influencing how landowners and renters negotiate leases. Changes in underlying economic conditions do not normally warrant dramatic year-to-year changes in lease terms, but the potential for capitalization of PFCP's into farmland rents may affect the degree of adjustment owners and renters are prepared to consider. Panelists in most regions acknowledged tensions between landlords and tenants and serious reviews of traditional leasing arrangements.

In some cases, landowners appear to benefit almost exclusively from new rental conditions, which can include, depending on the type of lease, higher cash rents, higher landlord crop shares, and/or less landlord sharing of production expenses. In other areas, farm operators have been successful in seeking some protection from commodity price volatility by gaining higher levels of landlord risk sharing. Additionally, panelists acknowledged that the conditions of leases negotiated for the 1997 crop year were influenced by whether they were signed in early or late 1996, since crop price expectations dropped dramatically at mid-year, changing the expected profits of landlords and renters.

Continued adjustments may be more problematic for crop-share leases than for cash leases. Panelists generally perceived that the intention of the 1996 Farm Act was that PFCP's attached to land leased on crop shares be divided between landowner and tenant, in the same proportions as the crop share called for in the lease. Thus, for landowners to receive more of the value of the PFCP's attached to their land, they must negotiate adjustments in crop-share leases. The simplest method is to change the crop share allotted to the landowner. An alternative is to change the sharing of input costs, such as the cost of fertilizer.

Panelists indicated that some landowners are simply discontinuing the renting of their farmland in order to "capture" the full value of PFCP's. Instead of renting their land, these landowners are turning to custom services to operate their farms. They pay operators (sometimes the same person who had previously been a share tenant) to perform needed field work, and pay input suppliers to make the appropriate applications of fertilizers and pesticides.

According to panelists, not all landowners are changing rental rates or crop-share leases to reflect the value of PFCP's attached to their land. Some may be unaware of the additional value the PFCP's bring to their land. Others may have personal or long-term relationships with tenants that would make such lease changes inappropriate. Still others may find that a lack of competition for land in local rental markets precludes their renegotiating more advantageous leases.

Farm Act May Lead to . . .

Pronounced Change in Some Areas of Management . . .

Management changes	Panelists expecting pronounced changes
<i>Percent</i>	
More attention to marketing and risk management	31
Greater adjustment of acreage among crops	25
Use of new technologies	16
Higher land values and rents	13
Changes in production practices	5
More competition among renters	3

Farm manager and farm operator responses to the question: "What three changes in the management of farm resources on the acreage you manage do you expect to be the most pronounced in the next 5 years?"

. . . and Lasting Change in the Operating Environment

Changes in economic environment	Panelists expecting changes to endure
<i>Percent</i>	
Increased risk	31
Program changes	23
Increased importance of marketing	22
Higher land values and rents	10
Lower commodity prices	7

Farm manager and farm operator responses to the question: "What three changes in the economic and financial setting for farming are most likely to endure until 2000-2002?"

Whether landowners renegotiate leases or otherwise take advantage of increases in the value of their land, the initiation of PFCP's has increased the wealth of those who own land. Panelists indicated that PFCP's are being used by landowners for widely divergent purposes.

Recipients' use of PFCP's does not appear to be guided by a belief that transfer payments will disappear in 2003 or that PFCP's should be "banked" for use in years of depressed commodity prices. Some farm manager panelists indicated they encourage their clients (owners) to use PFCP's to make productivity-improving investments, such as land leveling and installing irrigation and drainage systems. Other panelists, however, indicated that some recipients of PFCP's are using the

proceeds to purchase additional land or aggressively bid for additional rental acreage.

Marketing & Risk Management In Sharper Focus

The 1996 Farm Act program changes have affected farm management beyond simply broadening options such as which crop mix to adopt. Panelists recognized the increased importance of marketing and its relationship to price risks. Forty-one panelists identified “increasing risks” as one of the “major changes that have occurred in the economic and financial setting for farming” on the survey administered for this study. Panel discussions indicated a widespread belief that the 1996 Farm Act may lead to greater fluctuation in commodity prices than has occurred in recent years.

Panelists expressed a high level of interest in revenue insurance, but the amount of insurance will likely depend on the extent to which lenders require such coverage and the amount of subsidy offered to producers. For example, when asked if they would favor buying crop insurance if it were not subsidized, many panelists indicated that unless a lender required them to do so, they would not.

Because the importance of risk management is currently widely recognized, now may be the “teachable moment” for introducing risk management topics like speculation, risk transfer, and risk avoidance to farm managers and operators. It may also be the “commercial opportunity” to develop and promote private-sector risk transfer instruments.

Farming interests understandably desire protection from low and declining prices without restricting their opportunity to gain individual profits from rising prices. Farm managers and operators expect to design marketing strategies that will capture high prices, while continuing to take selective advantage of government-sponsored crop insurance programs when these provide a high probability of net positive payouts.

Although the study of farm operators and managers contributes important insights about current and prospective effects of the 1996 Farm Act, much more information needs to be collected and analyzed to fully understand its implications. For example, it is not yet evident what will be the economic and distribution effects of the income streams and wealth associated with PFCP's. Similarly, questions about the effects of attaching program benefits to land and making them transferable require careful analysis. Farm management decision makers, analysts, policy makers, and the public will continue to follow these issues, as experience with the provisions of the 1996 Farm Act grows.

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Upcoming Reports— USDA's Economic Research Service

The following reports will be issued electronically on dates and at times (ET) indicated.

August

- 13 *Cotton & Wool Outlook (4 pm)***
- Feed Outlook (4 pm)***
- Oil Crops Outlook (4 pm)***
- Rice Outlook (4 pm)***
- Wheat (4 pm)***
- 15 *Livestock, Dairy, & Poultry (12 noon)*
- 20 *Agricultural Outlook**
- 21 *Fruit & Tree Nuts**
- 22 *U.S. Agricultural Trade Update**
- 26 *APEC**
- 28 *Agricultural Exports**

*Release of summary, 3 pm.

**Available electronically only.