

FARMLINE

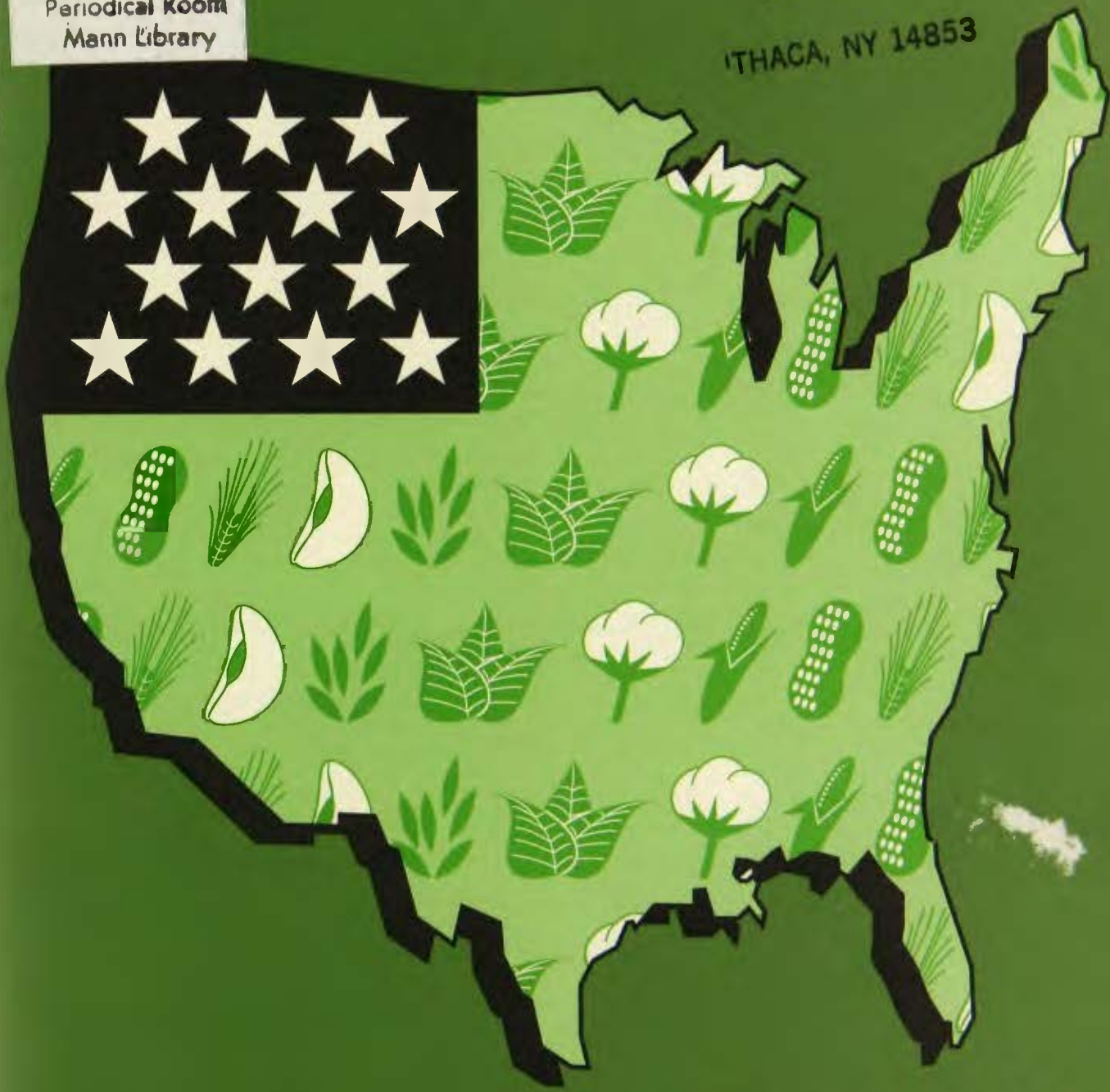
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*Where Major U.S.
Crops Are Grown*

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PERSPECTIVES

This issue of *FARMLINE* represents something of a departure from the usual approach because, in addition to several feature stories, it includes a series of articles focusing on seven major U.S. crops. The series updates the special reports on these commodities that have appeared in the magazine over the past few years.

So it seems appropriate to say a few words about something that always has great impact on all crops, everywhere—weather. The weather during the summer of 1992 was unusual in a number of respects, explains statistician David Mueller of USDA's National Agricultural Statistics Service.

"In July, the drought that had gripped the Corn Belt broke dramatically," Mueller says. "Although the region's weather remained cooler than normal, temperatures were high enough to help turn the Nation's corn crop condition from 52 percent good-to-excellent on July 5 to 79 percent good-to-excellent by August 2."

Soybean, sorghum, and spring wheat crops also enjoyed ample July showers without excessive heat. Monthly precipitation topped 150 percent of normal in an arc extending through the northern and central United States.

Temperatures averaged 9° F below normal at several stations in Nebraska and South Dakota—the greatest negative departure for July in the contiguous United States in 16 years. "Not since 1958 had a July sported a combination of cool weather in the northern central States (North Dakota and Minnesota) and wet weather from the eastern central Plains (Missouri and Iowa) to the eastern Great Lakes, along with acute danger of wildfire in the West," Mueller says.

Early in the month, a strong upper-level ridge, or fair weather system, built up across the South, allowing temperatures of 100° F to creep as far north as the western central Plains and Middle Atlantic areas. A series of cold fronts from Canada took their toll on the ridge, squashing it by mid-month, and the fronts kept the northern central part of the country cool. Part of the ridge rebounded over the West, leaving areas east of the Rockies unprotected from thunderstorm-laden Canadian cold fronts.

Several July rainfall records set in previous years were shattered by the end of the month. With rainfall of 15.47 inches, Kansas City, MO, endured its wettest July on record—far wetter than its previous record of 10.70 inches, set in 1958. Columbus, Akron, and Mansfield, OH, along with Moline, IL, also set new records, with each city receiving more than 10 inches.

Although August's weather pattern resembled that of July, cold fronts proceeded deeper into the Southeast, producing a drying trend in the Midwest.

"The unusual weather has put major row crops about 2 weeks behind schedule," Mueller concludes. "Meanwhile, predominately dry weather in the West has allowed harvesting to proceed on schedule, and cooler air in late August has led to nearly full containment of forest fires in the drought-ravaged Northwest."

— Priscilla B. Glynn

FARMLINE

AGRICULTURE...NATURAL RESOURCES...RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

New Banking Law a Break-Even Proposition for Farm Banks *Priscilla Glynn* 4

In the 1980's and early 1990's, the U.S. banking industry was rocked by problems that led to the near-depletion of the Bank Insurance Fund. Congress has now passed new legislation to recapitalize the fund and tighten regulation—but how that legislation will affect farm banks depends on the language and application of the underlying regulations.

Food Price Rise for 1991 Was Lowest Since 1985 *Doug Martinez* 23

Retail food prices rose only 2.9 percent in 1991, and prices climbed more slowly at supermarkets and other grocery stores than at restaurants. Record-high meat supplies and a decline in per capita disposable income were the two main reasons for the slowdown.

Food Prices Not the Main Cause of Inflation *Jack Harrison* 26

Although often perceived by consumers as the primary contributor to inflation, food prices in 14 of the past 22 years have actually increased at a slower pace than prices for all goods. Housing, medical, and energy costs have all climbed more rapidly than food prices for the past two decades.



SPECIAL IN THIS ISSUE

Where Major U.S. Crops Are Grown

The latest installment in our popular series of special reports highlighting major U.S. agricultural commodities updates the reports published in previous issues. The reports include maps pinpointing the major producing counties for each crop, as well as tables and charts on production and yields.

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New Banking Law a Break-Even Proposition for Farm Banks

During the 1980's and early 1990's, the U.S. banking industry was rocked by a number of changes that significantly altered the banking environment. In 1991, Congress responded to the looming potential of a commercial banking version of the taxpayer bailout of the savings and loan industry by enacting the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

"The revolution of the financial market structure, deregulation of interest rates payable on bank deposits, and technological advancement that intensified banks' competition all had an impact on banking," explains economist Douglas Duncan of USDA's Economic Research Service.

The keener competition lowered banks' financial returns. And, because the fee structure of the Federal deposit insurance system was not linked to a bank's propensity to take risks, banks sought to bolster their declining returns from traditional lending activities by making loans on riskier

The new law tightens regulation of bank activities to increase their safety and soundness.

ventures. "At the same time, Federal deposit insurance protected depositors from the consequences of their banks' risk-taking, removing an important check on bank activity," Duncan says.

The heightened competition and increased risk-taking ultimately led to a spate of bank failures in the 1980's and early 1990's that nearly depleted the Bank Insurance Fund (BIF, which the FDIC uses to cover the losses from closing failed banks) after more than 50 years of operation.

Farm banks (those with above-average concentrations of farm loans) are currently healthier than either small nonagricultural or large banks. Farm banks accounted for 350 of the 1,320 commercial bank failures that occurred between 1980 and 1991.

"However, farm bank failures have decreased since 1987, and therefore are currently not a major factor in the BIF's decline," says Duncan. "But this fact will not exempt them from paying a share of the cost of recapitalizing the BIF, or from the consequences of tighter regulation of the deposit insurance system."

Congress crafted the new legislation to accomplish the following goals: recapitalize the BIF by expanding its borrowing power, narrow the "too-big-to-fail" policy of regulators, and tighten regulation of bank activities to increase the safety and soundness of insured banks.

"Analysts agreed that failure to recapitalize the BIF by the end of 1991 would certainly



render it insolvent, making it impossible for the FDIC to close failed banks," Duncan explains. "The new law therefore granted the BIF the authority to borrow \$30 billion."

In addition to the BIF, the FDIC has a working capital fund, which is used to facilitate the actual closure of banks and is repaid through the sale of assets acquired from the failed institutions. "The amount by which these recoveries fall short of total outlays constitutes the loss covered by the BIF," Duncan says. "FDIC borrowing authority for the working capital fund is \$45 billion, bringing its total borrowing authority to \$75 billion." The new law permits the FDIC to borrow the money from the Federal Financing Bank, an arm of the U.S. Treasury—provided the banking industry will be responsible for repayment of the loan.

Changes in the Assessment Base and Rate

Borrowings that are not repaid through the sale of failed-bank assets will be repaid with assessments, or fees, on the domestic deposits of insured banks.

Before and during the 1980's, large banks held significant quantities of foreign deposits. Such deposits have never been included in the assessment base, although they are implicitly insured by the FDIC. (As of 1990, about 12 percent of the total deposits in the U.S. banking system were foreign—and thus nonassessable.)

"A shift in the composition of bank liabilities occurred during the 1980's," Duncan says. "A rising share of these liabilities was in the form of nondeposit sources such as Federal funds purchased and repurchase agreements sold—items also not in the deposit insurance assessment base. Once again, these trends were more pronounced among larger banks, effectively increasing the proportion that smaller banks paid to the FDIC insurance fund."

Almost all of the liabilities of farm banks are in the form of assessable domestic deposits (they hold no foreign deposits), but only a little less than half of the liabilities of large banks are assessable.

"This in itself would not be an issue if, when a bank failed, only those deposits that were insured were paid off," Duncan explains. "However, FDIC policy has been to cover *all* deposits for large banks that fail, but not all deposits for small banks—this is known as the 'too-big-to-fail' policy."

Under the provisions of the FDICIA, neither foreign deposits nor nondeposit liabilities will be assessed. "However, in the event that foreign depositors are paid off in a failure resolution, the FDICIA does require that the FDIC make a special retroactive assessment against existing foreign deposits," Duncan says.

The FDICIA modified rather than eliminated the "too-big-to-fail" policy. Under the new legislation, the determination that the potential failure of a large insured bank could harm the entire banking system is made by the President, the Secretary of the Treasury, the Federal Reserve Board, and the FDIC. If this occurs, the FDIC must cover the resulting losses by a special assessment against the total assets, minus tangible equity and subordinate debt, of all insured banks. "This policy effectively shifts the burden of the losses toward big banks," Duncan explains.

The FDICIA also restricts the ability of the Federal Reserve to keep a troubled bank open; the bank must be certified as viable by its primary regulator (Federal or State) for any subsequent losses to be covered by the BIF. If it cannot be so certified—and the Federal Reserve lends and suffers losses in the bank's failure—the funds to cover the loss come from the Treasury.

"Interestingly, at the same time Congress was attempting to limit Federal Reserve

Number of Commercial Bank Failures

	Agricultural banks	Nonagricultural banks	Total
1980	0	10	10
1981	1	9	10
1982	10	23	33
1983	7	37	44
1984	31	47	78
1985	69	49	118
1986	66	78	144
1987	75	127	202
1988	41	180	221
1989	22	184	206
1990	18	141	159
1991	10	85	95
Total	350	970	1,320

Figures exclude mutual savings banks, savings and loan associations, commercial banks not insured by FDIC, and banks headquartered in U.S. possessions and territories. Source: FDIC and Reports of Condition and Income files, Board of Governors of the Federal Reserve System.

exposure to failing banks at the discount window, it made explicit the Fed's power to open the window to troubled *nonbank* financial firms, such as brokerage houses," Duncan notes. "This would appear to be a significant expansion of governmental underwriting of risks in private financial markets."

The FDICIA also established a minimum 1.25-percent ratio for the BIF balance to insured deposits, to be reached within 15 years. The current assessment rate was left to FDIC discretion, and increases in the deposit insurance premium may be imminent.

The new legislation also directs the FDIC to develop an insurance system based on bank portfolio risk. "Farm banks could benefit from this provision," Duncan says, "because they are highly capitalized rela-

How the FDIC Deals with Failed Banks

The FDIC uses the following methods to resolve bank failures:

Purchase and Assumption:

An acquiring bank purchases some or all of the failed bank's assets and assumes its deposit liabilities and some nondeposit liabilities. Potential purchasers bid based on the anticipated value of the failed bank's portfolio. Uninsured depositors and creditors are often fully paid off under this method, which is used for banks considered "too big to fail."

Deposit Payoff:

The FDIC is appointed receiver, pays off all insured depositors to the full

insured amount, and liquidates the bank's assets. Uninsured depositors and general creditors either receive receivership certificates or a modified payoff. A receivership certificate entitles them to a proportionate share of the proceeds of the asset sale, while a modified payoff is payment of their estimated share of the proceeds. In 24 States, depositor preference laws place the claims of uninsured depositors ahead of the FDIC and other general creditors.

Insured Deposit Transfers:

The FDIC is appointed receiver and transfers insured deposits plus secured and preferred liabilities (minus

any premium paid) to an acquiring bank. An equal amount of cash from the FDIC is also transferred. Assets are then liquidated and uninsured depositors and creditors are paid off proportionately.

Open Bank Assistance:

In this type of case, the bank has not technically failed, but the FDIC injects cash, replaces management, and imposes losses on stockholders and debt holders. In effect, the FDIC recapitalizes the bank.

tive to other banks, which should hold down farm bank insurance premiums."

Other "Safety and Soundness" Provisions

The new law also requires that each insured bank be examined once a year by its

regulator. There are two adjustments that can be made to this requirement. A State regulator examination can be substituted every other year if the Federal regulator approves. And, if a bank has less than \$100 million in assets, the frequency of examinations can be reduced to every 18 months,

provided its previous examination places it in the highest quality classification.

The FDICIA also requires that any bank with over \$150 million in assets have an annual audit by an independent accounting firm. "Their small size and high capitalization will allow many farm banks to reduce the frequency of their examinations and dispense with the independent audit," Duncan says.

Each insured bank will be placed in one of the FDICIA's five expanded capital classifications, based partly on information derived from the examinations and audits. "The regulators will be able to use these classifications and their new early intervention powers to deal with problem banks in a more forceful and timely manner," Duncan says. "The intent is that they will be able to close troubled banks before capital is seriously depleted."



The FDICIA also limits compensation of bank officers, employees, outside directors, and principal shareholders, the justification being that "excess" compensation may have led to losses that caused bank failures and subsequent BIF outlays. "Farm banks have objected strenuously to this provision as undue Government regulation of private contracts, and argue that it constrains their efforts to attract quality directors just when regulators are pressuring them to increase director responsibility," Duncan notes.

Reporting Requirements Heightened

The FDICIA also contains provisions to increase the amount of information available regarding bank operations.

First, banks must supply more data to regulators about their lending to small businesses and farms, including the number and volume of these loans, charge-offs, and interest and fee income. "This will allow regulators to monitor the nature of credit flows to specific groups," Duncan explains. "Depending on how the implementing regulations are written, this provision will constitute a moderate or large increase in farm banks' reporting burden."

The new legislation also requires regulators to develop stricter reporting procedures for banks' off-balance-sheet activities (such as loan commitments and contingent liabilities). In addition, regulators must consider increasing the required reporting of the market value of bank assets and liabilities. If this provision is applied stringently, it could present great difficulties for farm banks, Duncan notes. "For example, no market value exists for the sale of a small farm loan by the only bank in a small rural community," he says. "Nor is there likely to be a market for municipal securities of many smaller communities, of which banks are major purchasers."

The FDICIA also mandates that banks disclose a wider variety of information to de-



positors regarding terms and conditions of deposit accounts. "This provision will also increase banks' paperwork burden," Duncan says.

The Bottom Line

What's the net impact of the FDICIA on farm banks?

"So far, the new legislation represents a break-even proposition for farm banks," Duncan says. "A great deal depends on the language and application of the underlying regulations."

For example, he says, if the risk-based deposit insurance premiums favor banks with high equity capital levels and reflect less concern about a bank's loans being concentrated in a particular economic sector, then farm banks will benefit. Conversely, if the regulators are more

concerned with the effects of concentrated lending in one sector, farm banks may suffer. This issue will not be resolved until January 1, 1994.

Alteration of the "too-big-to-fail" policy has reduced the inequitable burden on small banks, including farm banks, Duncan explains, since big banks will now have to shoulder more of the load for large bank bailouts and foreign deposit payoffs through special assessments.

"The FDICIA's early intervention and tougher capitalization provisions should help curb bank failures in the long run, eventually lowering deposit insurance premiums for the BIF," he says. "But in the meantime, all banks will face high insurance premiums as they repay the BIF recapitalization loans."

Congress dropped provisions that would have permitted interstate banking and branching, broadened banking powers to include underwriting of insurance and securities and investment in equities, and allowed nonbank firms to purchase banks.

"Other financial firms' success in keeping banks out of such markets as mutual and money market funds has put banks in general at a disadvantage," Duncan says. "The Government regulates nonbank financial firms less closely than banks, so these firms can offer a wide array of investment services at lower costs than banks can."

But the greatest impediment for farm and other predominantly small banks posed by the FDICIA is the major increase in regulation. "The significantly greater reporting, auditing, examination, and consumer information requirements will raise operating costs for these banks, whose ability to control such costs has been one key to their sustained profitability and competitiveness," Duncan concludes. ■

Based on information provided by Douglas Duncan, Agriculture and Rural Economy Division, Economic Research Service.

Corn Production Is Concentrated In the Upper Midwest

Corn is grown on more farms in the United States than any other crop. In 1990, corn ranked third among farm commodities in cash receipts, with a value of \$13.7 billion.

The only commodities with higher cash receipts than corn in 1990 were cattle and calves and dairy products. Corn's 1982 record cash receipt of \$21 billion has yet to be surpassed.

In 1990, Illinois was the leading State in corn cash receipts (\$2.8 billion), accounting for 20 percent of the U.S. total. Iowa followed (\$2.4 billion), accounting for nearly 18 percent of U.S. corn cash receipts. Five States had at least \$1 billion in corn cash receipts, 10 States had over \$100 million, and 20 more had at least \$10 million.



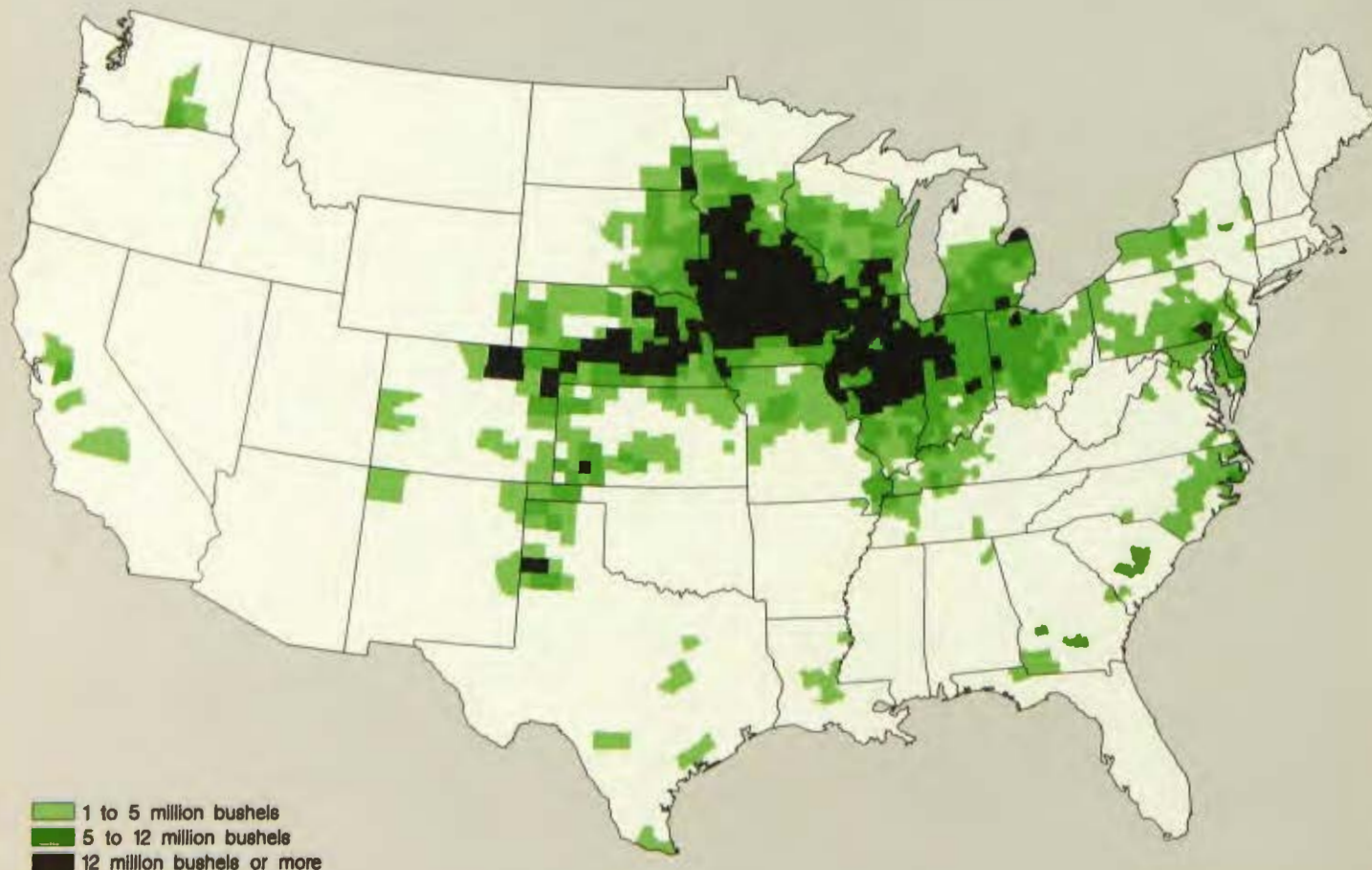
Corn production is concentrated in the Corn Belt (Ohio, Indiana, Illinois, Missouri, and Iowa), Lake States (Michigan, Wisconsin,

and Minnesota), and Northern Plains (Kansas, Nebraska, South Dakota, and North Dakota). Almost half of the corn acreage is in the Corn Belt, about 18 percent is in the Lake States, and 15 to 18 percent is in the Northern Plains. Between 1987 and 1990, the Southeast and Delta regions devoted less acreage to corn in favor of more wheat, rice, and cotton, according to economist Tom Tice of USDA's Economic Research Service.

In 1991, producers increased their corn acreage by 2 percent to 76 million acres from the year before—but yields dropped by nearly 10 bushels per acre to 108.6 bushels.

U.S. corn production in 1990 was 7.93 billion bushels, but in 1991 fell 6 percent to

U.S. Corn Producing Counties



1 to 5 million bushels
5 to 12 million bushels
12 million bushels or more

7.47 billion bushels. A drought in the eastern Corn Belt was responsible for the lower production, says Tice. The drought affected some States more drastically than others. The places affected most were the Ohio Valley, Illinois, Kansas, Missouri, and Pennsylvania.

Pennsylvania saw drought-related losses equalling 41 percent of its corn crop from 1990 to 1991, with average yield temporarily going from 113 to 75 bushels per acre. Ohio lost nearly 22 percent, with yield going from 121 to 96 bushels per acre in the drought year. Illinois lost nearly 11 percent, with yield going from 127 to 107 bushels per acre in the drought year.

Corn yields have always fluctuated over the years, although the general trend has been an increase of about 2 bushels per acre per year since the 1940's. U.S. corn yields averaged 44.1 bushels per acre during the 1950's, 70.5 bushels in the 1960's, 89.6 bushels in the 1970's, and 105.9 bushels during the 1980's.

Those producers that use irrigation to grow corn obtain yields that average 58 percent more than those producers in the same States that use nonirrigated land to grow corn. The leading corn irrigation States are Nebraska, Kansas, Colorado, and Texas.

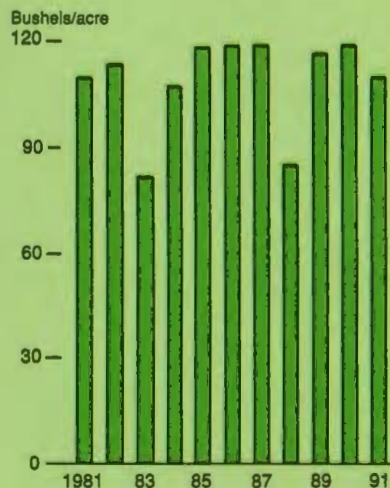
The top 10 corn States accounted for 83.5 percent of corn produced in 1991. Just three States—Illinois, Iowa, and Nebraska—accounted for approximately 50 percent of corn produced in 1990 and 1991. Iowa was the leading corn producing State.

Corn is a versatile crop that has many uses, such as sweeteners, starch, alcohol, cereal, and other products. But its primary use is as a feed grain. Corn accounts for about 60 percent of the domestic feed concentrate fed to livestock and poultry in the United States, says Tice.

About 21 percent of U.S. corn production was exported in 1991.

— Martha R. Evans

U.S. Corn Yields Per Acre, 1981-91



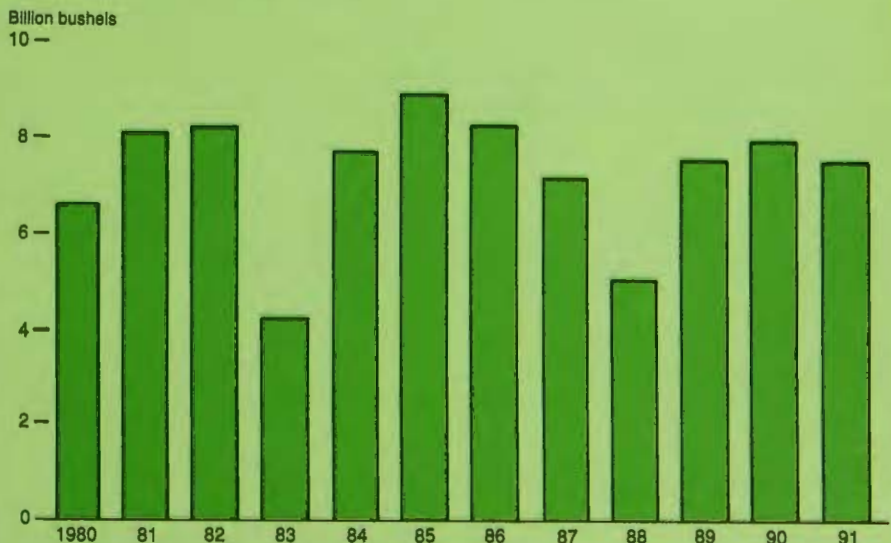
Source: National Agricultural Statistics Service, USDA.

Top 10 States in Corn Production

	1989	1990	1991
	Million bushels		
Iowa	1,445.50	1,562.40	1,427.40
Illinois	1,322.25	1,320.80	1,177.00
Nebraska	847.00	934.40	990.60
Minnesota	700.00	762.60	720.00
Indiana	691.60	703.05	510.60
Wisconsin	310.80	354.00	380.80
Ohio	342.20	417.45	326.40
Michigan	222.61	238.05	253.00
So. Dakota	190.80	234.00	240.50
Missouri	219.84	205.80	213.40
U.S. Total	7,525.49	7,934.03	7,474.48

Source: National Agricultural Statistics Service, USDA.

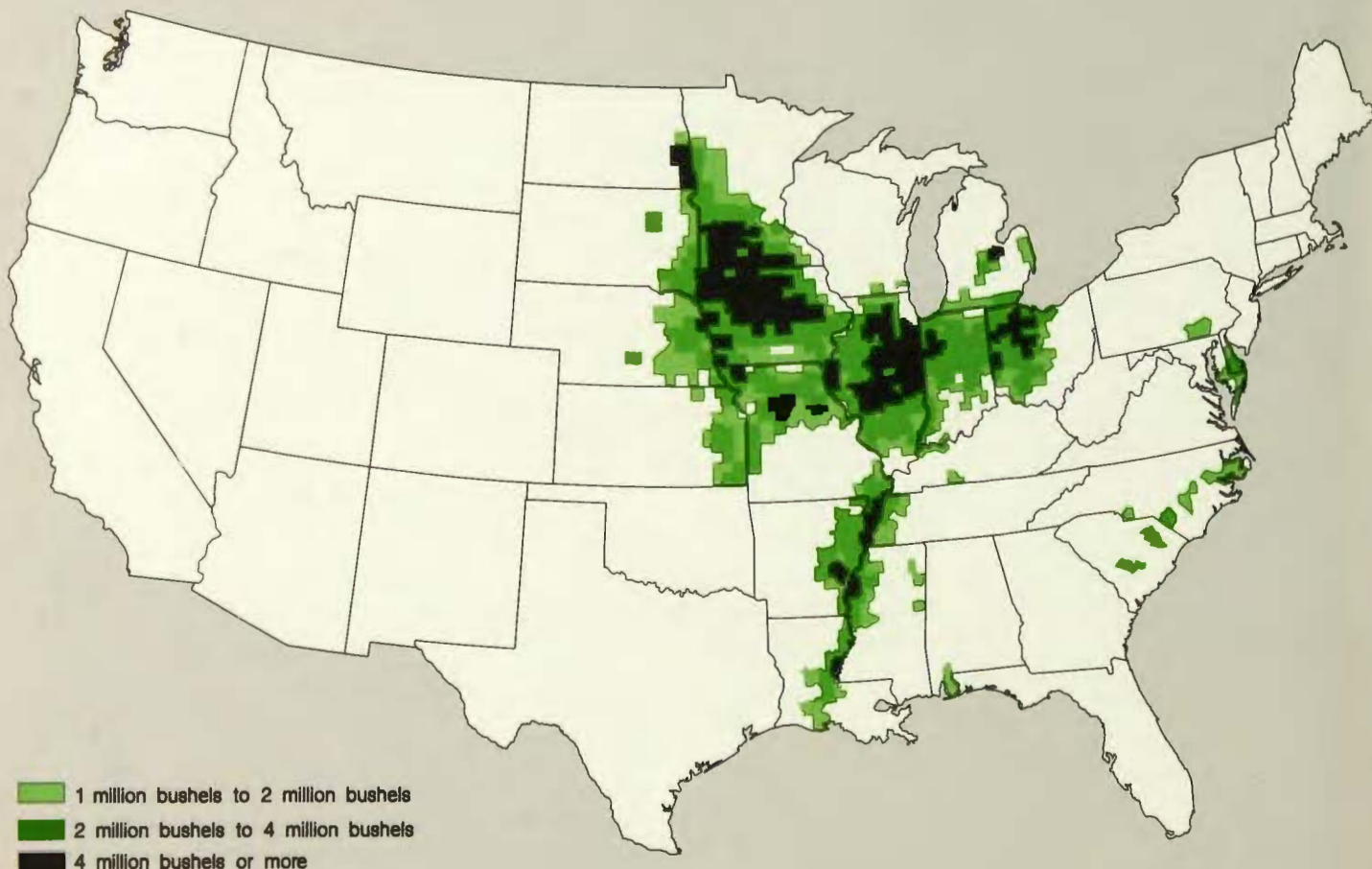
U.S. Corn Production, 1980-91



Source: National Agricultural Statistics Service, USDA.

Soybeans Are Grown Mostly in the Corn Belt and Minnesota

U.S. Soybean Producing Counties



Soybeans are an important cash crop in the United States, ranking second to corn in production value. In 1991, soybean receipts were \$11.1 billion, compared with \$18.1 billion for corn. In 1991, soybeans were planted on 59.1 million acres, and corn was planted on 76 million acres.

In 1991, the top five States in soybean production value were Illinois, Iowa, Minnesota, Indiana, and Ohio.

Soybeans do better in cool-weather States than in such areas as the Southeast (South Carolina, Georgia, Florida, and Alabama) and the Delta States (Mississippi, Louisiana, and Arkansas), explains economist Scott Sanford of USDA's Economic Research Service (ERS). Producing areas in these regions tend to get less even rainfall distribution and frequently encounter dryness and high temperatures in August—a

critical period for soybeans in which pod filling begins and yields are greatly influenced. Also, diseases associated with extremely wet periods have hampered yields there.

Sanford notes that in the 1970's, soybeans were planted in these less than optimal warm-weather areas in an effort to meet rising world demand.

In 1991, U.S. production totaled nearly 2.0 billion bushels, up 3 percent from the previous year. Yield per acre averaged a record 34.3 bushels, slightly above the previous record highs of 1990 and 1985.

Soybeans have been grown in China and other Asian countries for 5,000 years. During the 1800's, they were introduced to the United States, but were used primarily as hay up until World War II. In the 25-year

period following the war, soybean production rose 876 percent nationally and 718 percent internationally.

The production record for the United States was set in 1979, when 2.3 billion bushels of soybeans were produced. Harvested area for that year, 70.3 million acres, was also a record.

Between 1979 and 1987, soybean acreage dropped about 19 percent, Sanford says, but production dropped by a smaller percentage in this period because of higher average yields.

In 1988, the downward trend in acreage halted as a result of short supplies and high prices, Sanford says. Since 1988, planted area has hovered around 60 million acres.

Soybeans are a versatile crop, used in industrial products, including construction

Top 10 States in Soybean Yields, 1991

	<i>Bushels/acre</i>
Wisconsin	42.0
Iowa	40.5
Indiana	39.0
Michigan	38.0
Illinois	37.5
Minnesota	36.5
New Jersey	36.0
Ohio	36.0
Delaware	35.0
Maryland	34.0
U.S. Average	34.3

Source: National Agricultural Statistics Service, USDA.

materials such as wallboard and plywood. They are also used in pharmaceuticals, yeast, soap, pesticides, and plastics.

Much of the growth in use of soybeans has resulted from export demand. In fiscal year 1991, the United States exported 35 percent of its soybean production. Export value of soybeans and soybean products totaled \$4.6 billion. The United States produces about half the world soybean crop.

In recent years, the largest markets for U.S. soybeans in order of size have been the European Community (Germany in particular) and East Asia (especially Taiwan and Japan), according to Arthur B. Mackie, another ERS economist.

But U.S. exports of soybeans have declined from their levels of the early 1980's, says Sanford, because of slowing economic growth abroad, the strong U.S. dollar which raised the cost to importers, competition from foreign oilseeds, and the droughts of 1983 and 1988, which reduced U.S. crops.

Sanford anticipates that the United States will face tough international competition in the 1992-93 marketing year. He notes that a severe drought in Brazil, an important

U.S. Soybean Production, 1965-91

Billion bushels



Source: Economic Research Service, USDA.

export competitor of the United States in soybean production, helped boost U.S. acreage in 1991. However, Brazilian production is on the rebound.

Also, as Sanford points out, such alternative crops as cotton have become more

financially attractive to some producers than soybeans. As a result, soybean production is falling in the Southeast and Delta regions.

— Carol Lee Morgan

Illinois Led in U.S. Soybean Production in 2 of the Past 3 Years

1989		1990		1991	
Million bushels					
Illinois	354.00	Illinois	354.90	Iowa	350.33
Iowa	322.92	Iowa	327.85	Illinois	341.25
Minnesota	185.00	Minnesota	179.40	Minnesota	195.28
Indiana	166.08	Indiana	171.38	Indiana	172.77
Ohio	125.37	Ohio	135.72	Ohio	135.72
Missouri	121.80	Missouri	124.50	Missouri	135.12
Nebraska	81.92	Arkansas	90.45	Arkansas	89.60
Arkansas	75.20	Nebraska	81.42	Nebraska	82.41
Kansas	49.95	So. Dakota	53.76	So. Dakota	58.32
So. Dakota	48.88	Kansas	46.80	Michigan	52.82
U.S. Total	1,923.67		1,925.95		1,985.56

Source: National Agricultural Statistics Service, USDA.

Cotton is Grown Mostly in the South and Southwest

Cotton is grown in 17 States, but Texas and California together account for about half of U.S. production. Other leading cotton States are Mississippi, Louisiana, Arkansas, and Arizona.

U.S. cotton production in 1991 was up 13 percent from 1990 to about 17.6 million bales. Upland cotton accounted for 17.2 million bales, while Pima (extra-long staple cotton) totaled 398,000 bales, according to economist Bob Skinner of USDA's Economic Research Service. (A bale of cotton weighs 480 pounds.)

Yields in 1991 averaged 652 pounds per acre, up 18 pounds from the previous year. Florida, Georgia, Louisiana, South Carolina, and Virginia had record yields.

Cotton's cash receipts of \$5.4 billion in 1991 placed it fifth among the Nation's field crops, behind corn, soybeans, hay, and wheat.

Skinner attributes the overall rise in cotton production and value mostly to a resurgence in the popularity of cotton as opposed to synthetic fibers.

Top 10 Cotton Producing States, 1991

	Million bales
Texas	4.76
California	2.69
Mississippi	2.28
Arkansas	1.58
Arizona	1.08
Louisiana	1.41
Georgia	0.72
Tennessee	0.70
North Carolina	0.64
Alabama	0.55
U.S. Total	17.61

Source: National Agricultural Statistics Service, USDA.

U.S. exports for the 1991 marketing year were 6.8 million bales—down about 1 million from the previous year. The United States is the world's largest cotton exporter,

accounting for roughly 30 percent of the world trade, on average.

Since 1985, the U.S. market share has varied substantially, ranging from 10 to 34 percent of world exports. Much variation results from the swings in price between U.S. and foreign cotton, Skinner says.

Cotton is the most important textile fiber in the world, comprising about 67 percent of all fibers used. It is grown in about 75 countries. In the 1991/92 crop year (August 1-July 31), the United States produced about 19 percent of the world's cotton and used 11 percent, Skinner says.

For more than 200 years, cotton has been a major U.S. cash crop and an important source of foreign exchange. It was a minor crop until 1793, when Eli Whitney invented the cotton gin, which made it possible for cotton lint to be separated from the seeds about 100 times faster than before.

The cotton gin is credited with revolutionizing agriculture in the South and establishing cotton as a major U.S. export.

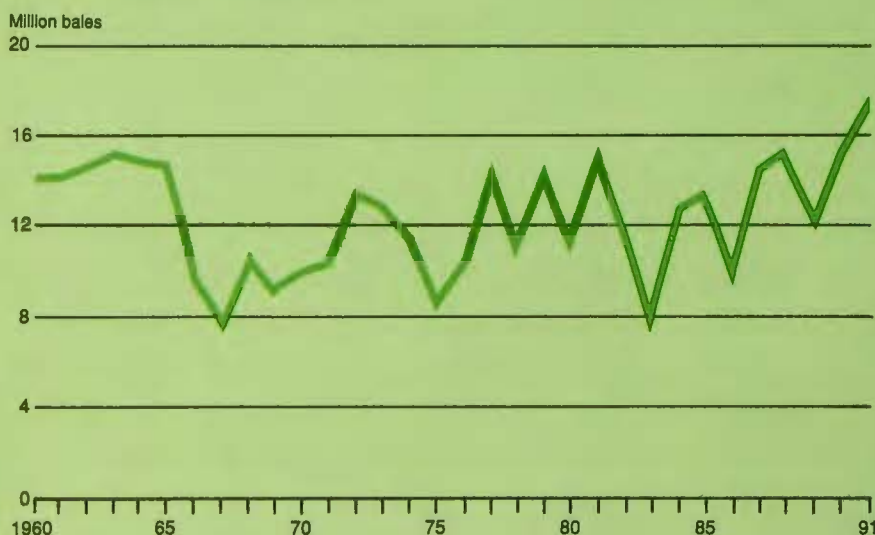
Between 1793 and 1813, U.S. cotton production rose from 10,000 to 125,000 bales a year. In 1850, about 90 percent of U.S. cotton was exported, and the earnings offset the costs of about two-thirds of all U.S. imports.

Cotton was the most profitable crop in the decades before the Civil War and remained "king" until about the late 1930's. In 1937, production peaked at 18.9 million bales and then declined, under pressure of high production costs and competition from artificial fibers.

In recent decades cotton production has expanded westward. Between 1970 and 1985, output in California and Arizona climbed from 16 to 31 percent of the U.S. total. Lower production costs were a big reason for the shift, with fewer problems with insect pests in the drier Southwest. Irrigation, however, is needed in many areas, and the availability of water determines the extent of production.

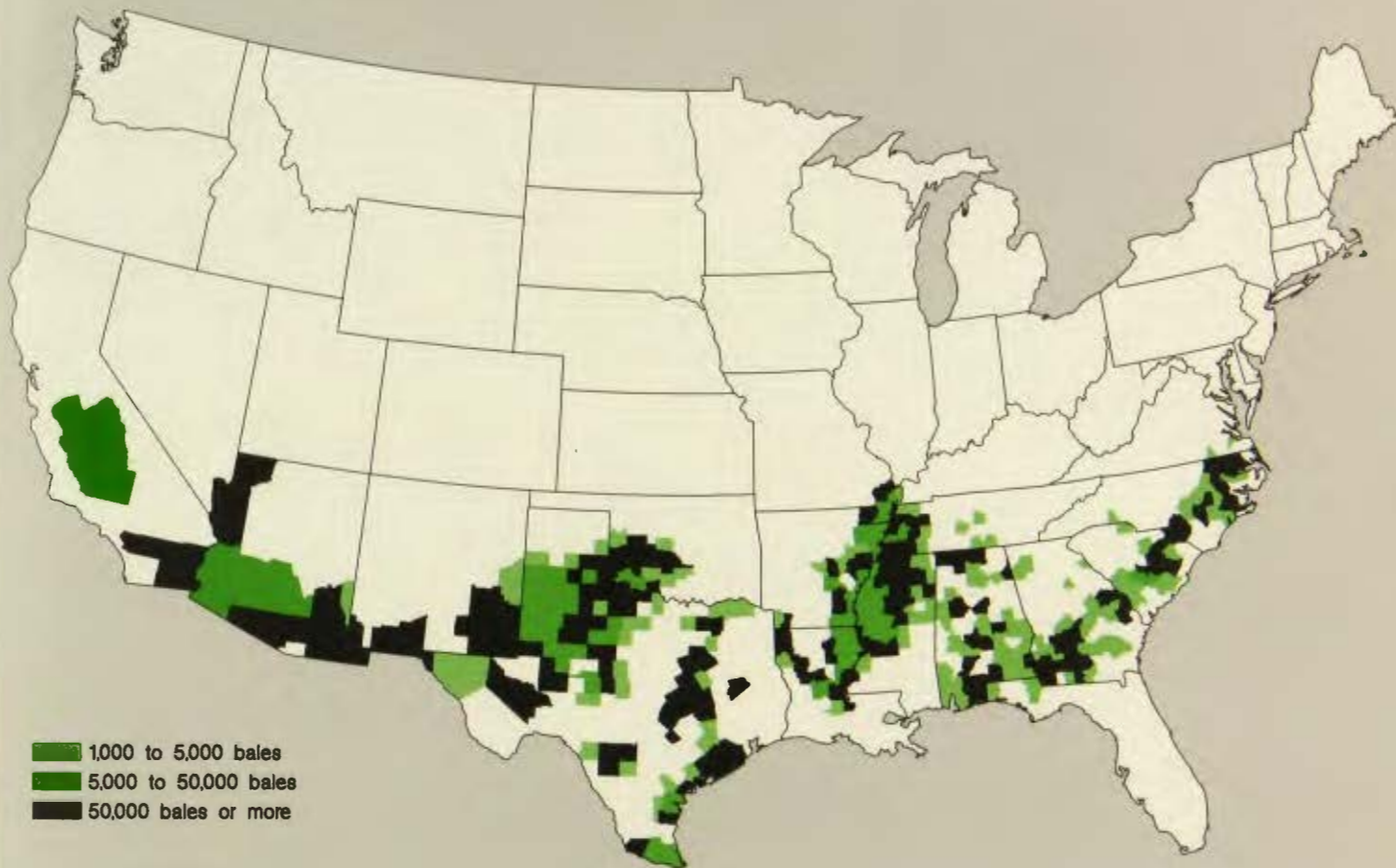
— Carol Lee Morgan

U.S. Cotton Production, 1960-91



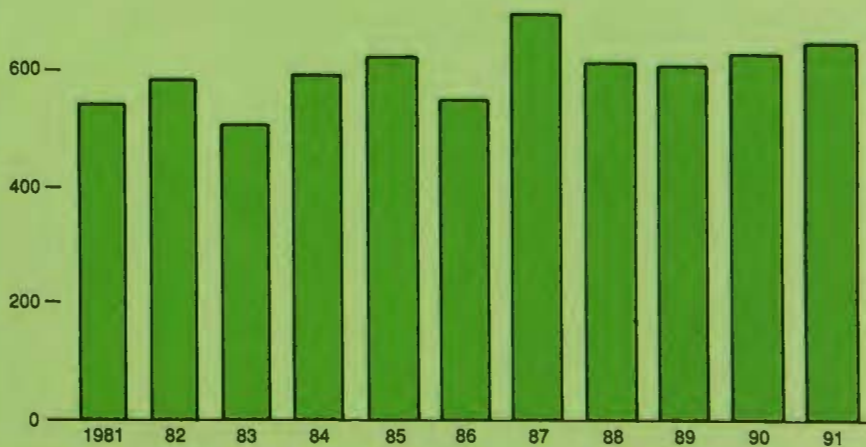
Source: National Agricultural Statistics Service, USDA.

U.S. Cotton Producing Counties



U.S. Cotton Yields, 1981-91

Lbs./acre
800 —



Source: National Agricultural Statistics Service, USDA.

The Great Plains and Northwest Are the Major Wheat Areas

U.S. Wheat Producing Counties

Wheat is raised commercially in nearly every State, but the Great Plains area (from Texas to Montana) usually accounts for at least two-thirds of total production.

Kansas is the longtime leader in wheat, although it fell to second place behind North Dakota in 1989 because of freeze damage and drought.

The 1991 U.S. total wheat production of 1.98 billion bushels was the second lowest total since 1978.

"It was a bad year in 1991, with problems left and right," says economist Ed Allen of USDA's Economic Research Service. Specifically, freeze damage occurred in the Southern Plains (Oklahoma and Texas) and the Pacific Northwest (Washington and Oregon), and disease problems (a result of excessive moisture) harmed the soft red winter wheat crop.

The record year for U.S. wheat production was 1981, with nearly 2.8 billion bushels harvested. That was also the top year for acres planted (88.3 million) and acres har-

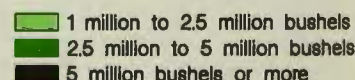
vested (80.6 million). The highest average yield was 39.5 bushels per acre in 1990.

Farmers in the South can double-crop soybeans or sorghum after wheat. Arkansas, Georgia, Missouri, Mississippi, and Louisiana have been the leading States in double-cropped acreage. Double-cropping with wheat peaked at more than 10 million acres in 1982, declined to a low of about 4 million in 1987, and then increased.

Wheat was the Nation's third leading field crop in 1990 in terms of value of production, behind corn and soybeans. Wheat had a farm value of \$6.8 billion that year.

Wheat is the principal grain used for food consumption in the United States and throughout the world. About 40 percent of the U.S. wheat crop has been exported in recent years.

More than 350,000 U.S. farms harvested wheat in 1987, according to the Census of Agriculture. The average size of U.S. wheat farms was 151 acres in 1987. The average size of Kansas wheat farms was 225 acres.



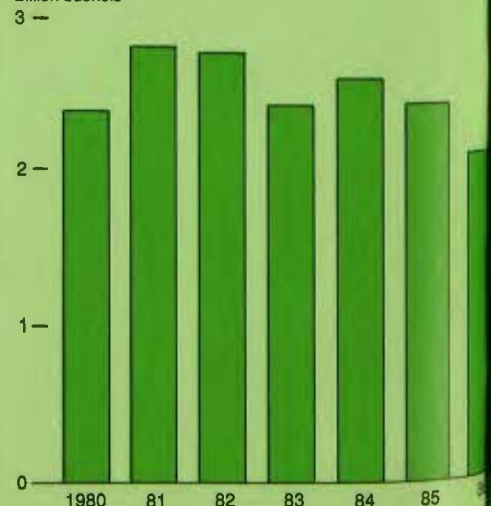
Kansas Led the Nation in Wheat Production in 1990 and 1991

	1989		1990		1991
	<i>Million bushels</i>				
No. Dakota	242.2	Kansas	472.0	Kansas	363.0
Kansas	213.6	No. Dakota	385.2	No. Dakota	303.7
Oklahoma	153.9	Oklahoma	201.6	Montana	159.5
Montana	145.0	Washington	150.1	Oklahoma	140.0
Washington	110.6	Montana	145.9	Washington	98.6
Illinois	105.0	Minnesota	138.6	So. Dakota	96.2
Minnesota	102.5	Texas	130.2	Texas	84.0
Idaho	91.4	So. Dakota	128.0	Idaho	81.7
Missouri	87.0	Idaho	99.6	Colorado	74.0
So. Dakota	83.1	Illinois	88.8	Nebraska	67.2
U. S. Total	2,036.6		2,736.4		1,980.7

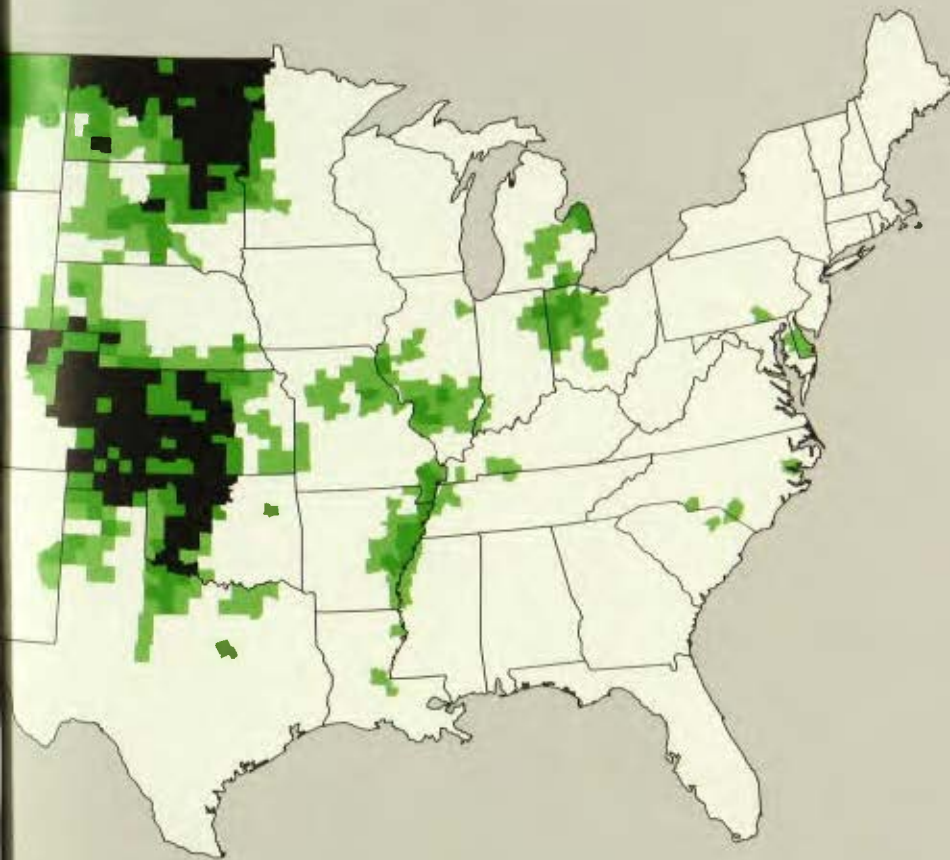
Source: National Agricultural Statistics Service, USDA.

U.S. Wheat Production, 1980-91

Billion bushels



Source: National Agricultural Statistics Service, USDA.



Wheat is grown in many areas where there are limited alternatives, Allen says. In dry, wheat producing areas, leaving wheat land fallow in alternating years enhances future yields. Land can be converted from idle or fallow to wheat at a relatively low cost. Therefore, wheat acreage tends to vary from year to year.

Wheat is grown over a wide geographical area and under a variety of weather and soil conditions. Wheat has two distinct growing seasons. Winter wheat, planted in the fall and harvested the following spring or summer, normally accounts for 70-80 percent of U.S. production, Allen says. Spring wheat is planted in the spring and harvested in late summer.

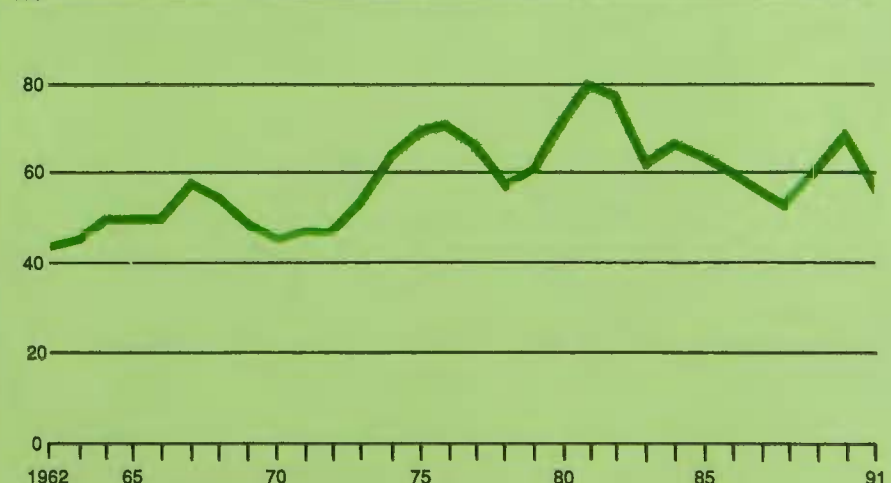
Five major classes of wheat are grown in the United States: hard red winter (HRW), soft red winter (SRW), hard red spring (HRS), white, and durum. HRW, the largest class, is used for bread and all-purpose flour. SRW is used for cakes, pastries, and crackers. HRS is also a bread wheat. White wheat is used for noodles. Durum is used primarily for pasta.

— Jack Harrison



U.S. Wheat Acreage Peaked In 1981

Million acres harvested



Source: National Agricultural Statistics Service, USDA.

Rice Production Is Concentrated In Six States

U.S. Rice Producing Counties



Rice is grown on an estimated 12,000 U.S. farms, nearly all of which are located in just six States. Production totaled 154.5 million hundredweight (cwt) in 1991.

Arkansas accounted for 43 percent of U.S. rice production in 1991, California 17 percent, Louisiana 16 percent, Texas 13 percent, Mississippi 8 percent, and Missouri 3 percent.

Arkansas had the most rice farms, 5,613 in 1987, according to the Census of Agriculture. Texas had the largest farms, averaging 450 acres. The U.S. average size for rice farms was 202 acres.

Rice production was originally centered in Appalachia (Virginia, West Virginia, North Carolina, Tennessee, and Kentucky) and the Southeast (South Carolina, Georgia, Florida, and Alabama).

After the Civil War, rice production became more mechanized. Louisiana and Texas became more competitive since they had an abundance of level, fertile, cheap land with fewer trees, making it inexpensive to prepare large fields for rice production. Expansion continued into Arkansas and eventually California, Mississippi, and Missouri. More recently, rice production has increased in Florida.

In 1991, 2.75 million acres of rice were harvested, down 3 percent from the 1990 harvest of 2.82 million acres.

"California farmers had water allocations reduced because of the drought, and this was responsible for the

Arkansas Has Led In U.S. Rice Production For the Past 3 Years

	1989	1990	1991
	Million cwt		
Arkansas	63.84	60.00	66.78
California	32.39	30.43	25.35
Louisiana	21.49	26.47	24.74
Texas	19.27	21.18	20.58
Mississippi	13.40	14.25	12.32
Missouri	4.11	3.76	4.69
U.S. Total	154.49	156.09	154.46

Source: National Agricultural Statistics Service, USDA.

reduced acreage," says economist Janet Livezey of USDA's Economic Research

Service (ERS). "Meanwhile, some producers in Louisiana, Mississippi, and Texas were unable to plant because of too much rain in the spring."

Rice accounts for less than 2 percent of the value of U.S. field crops. In cash receipts, it ranks eighth among field crops.

Rice is consumed directly as food, in numerous processed foods, and as a component of beer. Food uses of rice have been increasing in recent years in the United States. In addition to the health benefits, convenience, and popularity associated with many dishes, rice is also an important food in certain regions and among certain ethnic groups. It is consumed most heavily by Asian-Americans and Hispanic-Americans along the Pacific, Gulf, and middle Atlantic Coasts, as well as by residents of most Southern States.

Per capita consumption of rice rose by almost 7 percent in a 2-year period to nearly 21 pounds in marketing year 1990/91 (August 1-July 31), according to ERS economist Nathan Childs.

Three types of rice are grown domestically: long, medium, and short grain. Long grain, the most popular variety, accounts for well over three-fourths of the rice produced in the South. Over half of U.S. medium grain rice is produced in California, although Arkansas and Louisiana are also important producers. Short grain is grown almost exclusively in California, except for minor production in Arkansas.

Producers planted 75 percent of rice acreage to long grain in 1992, up 1 percent from 1991. Medium grain plantings also rose, but short grain plantings declined.

In 1991, long grain rice production is expected to have increased by 7 percent to 117 million cwt, while medium/short grain production is forecast to have risen 8 percent to 49 million cwt.

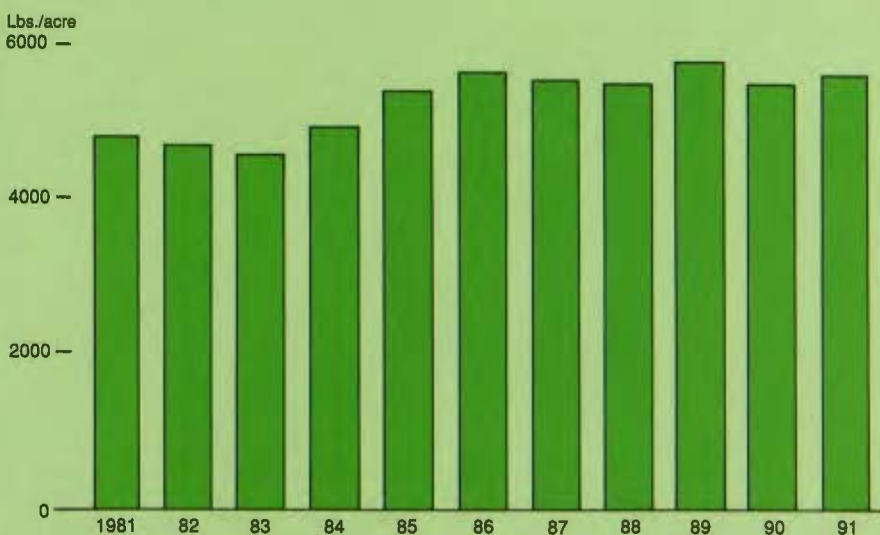
The amount of U.S. rice exported has been unsteady in recent years, although exports remain an important market. In 1990, the United States exported about 45 percent of its rice production.

U.S. Rice Production, 1960-91



Source: National Agricultural Statistics Service, USDA.

U.S. Rice Yields, 1981-91



Source: National Agricultural Statistics Service, USDA.

Since 1985, the U.S. export share of the world market has hovered in the 18-20 percent range. But in 1991/92, it was only 15 percent. For 1992/93, the U.S. world

share is projected to be closer to 18 percent, Livezey says.

— Martha R. Evans

The Southeast Dominates Peanut Production

Georgia is the leading peanut State, accounting for nearly half of U.S. production.

Nine States are considered major producers, according to economist Scott Sanford of USDA's Economic Research Service.

In 1990, peanuts ranked seventh among U.S. field crops in value of production, with a farm value of \$1.26 billion. Peanuts are grown on about 18,900 U.S. farms, according to the 1987 Census of Agriculture.

Peanuts require well-drained, light-textured soil and a warm climate with ample rain. They are often grown in rotation with wheat, soybeans, or corn.

Three main types of peanuts are grown in the United States. Runners accounted for

73 percent of shelled peanuts used in domestic edible products in the 1990 crop year, Virginias 20 percent, and Spanish 7 percent. Runners are best for shelled uses, and Virginias are the most popular for in-shell roasted peanuts.

Peanut butter is the major use of edible peanuts in this country. In 1990, 742 million pounds of peanuts were processed into peanut butter. This was just over half of the shelled peanuts used in edible products. The second biggest use was for snack peanuts at 355 million pounds, followed by peanut candy at 305 million.

The United States is the major country that produces peanuts primarily for use in such edible products as peanut butter, roasted peanuts, and peanut candy, rather than

crushing for oil and protein meal, Sanford says.

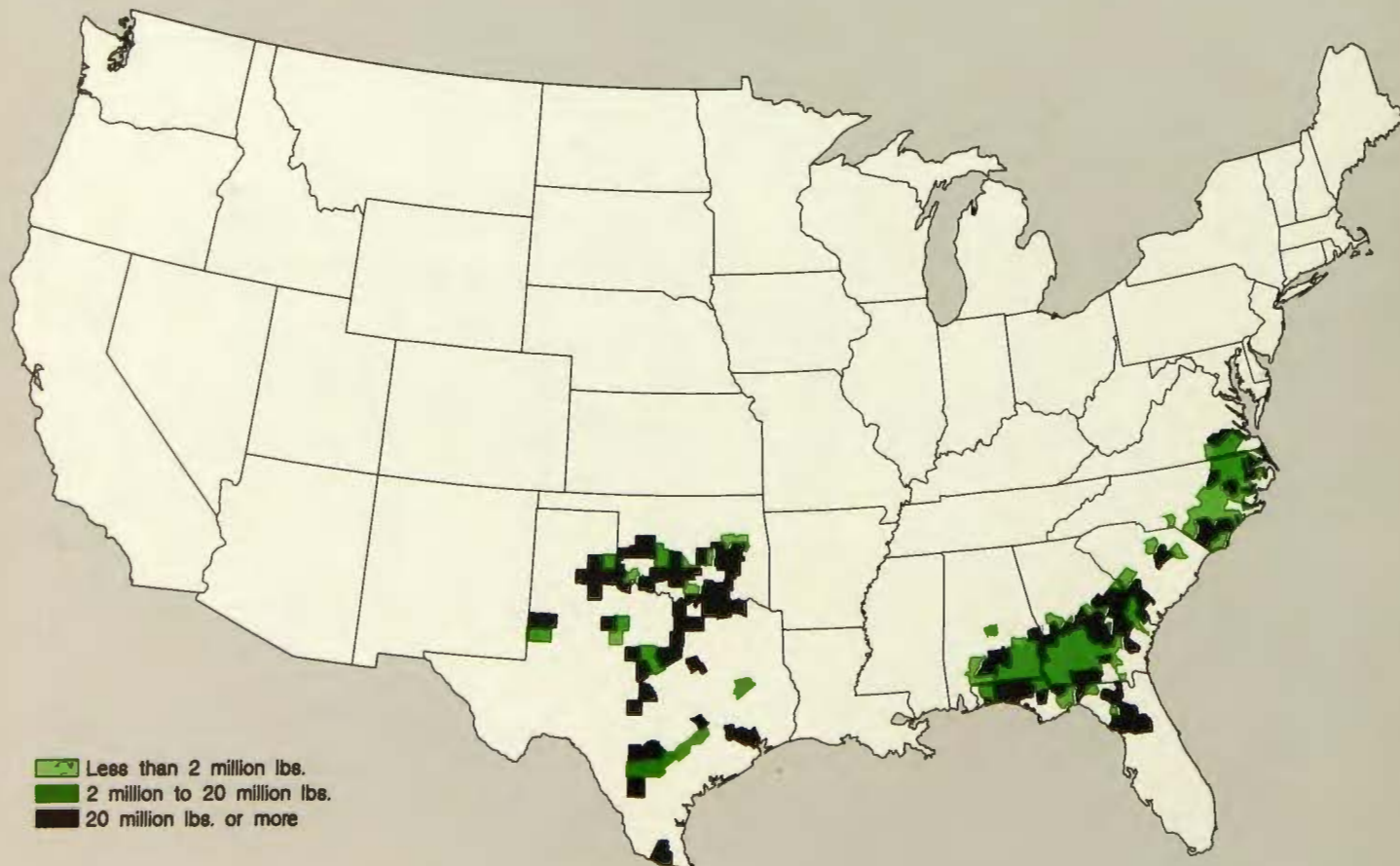
Among oilseeds worldwide, peanuts rank fourth in production—behind soybeans, cottonseed, and rapeseed. Peanuts account for about 10 percent of world oilseed production.

U.S. peanut production in 1991 totaled a record 4.94 billion pounds, up 37 percent from the drought-reduced 1990 crop and 24 percent above the 1989 crop.

The harvested area of 2.02 million acres was 11 percent above the 1990 level and the highest since 1950.

Yields averaged 2,444 pounds per harvested acre, 453 pounds higher than 1990 and 18 pounds above 1989.

U.S. Peanut Producing Counties



This June, U.S. producers reported plantings of 1.78 million acres, a 13-percent drop from the 2.04 million in 1991. Last year's acreage was the highest in 39 years, with plantings rising in response to high prices resulting from the drought-reduced 1990 crop.

The national average support price for 1992 quota peanuts is \$674.93 per ton, compared with \$642.79 for the 1991 crop. The increase was 5 percent, the limit allowed annually. The higher rate reflects rises in production costs in 1991.

This year's national average support price for additional (nonquota) peanuts will be \$131.09 per ton, a reduction from 1991.

The Government peanut program is a two-price poundage quota system. Acreage allotments were suspended in 1981, but "additional" (nonquota) peanuts are subject to marketing controls and receive a lower support price.

Growers may lease or purchase quotas from quota holders, as long as the quota remains within county boundaries.

— Jack Harrison

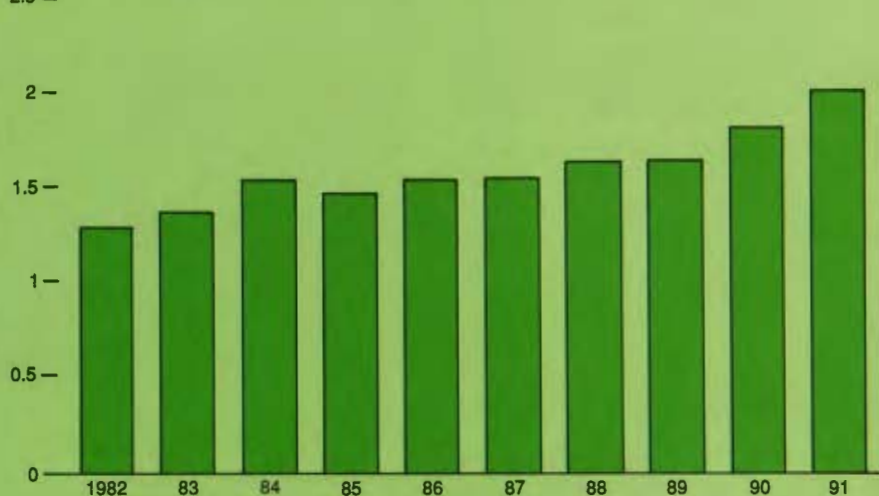
Georgia Accounted for Nearly Half the Value of U.S. Peanut Production in 1991

	1990	1991
	\$ million	
Georgia	455	636
Alabama	105	194
Texas	224	187
North Carolina	166	132
Virginia	103	88
Oklahoma	99	74
Florida	70	69
New Mexico	23	16
South Carolina	12	10
U.S. Total	1,257	1,406

Source: National Agricultural Statistics Service, USDA.

U.S. Peanut Acreage Has Increased By Almost 50 Percent in the Past 10 Years

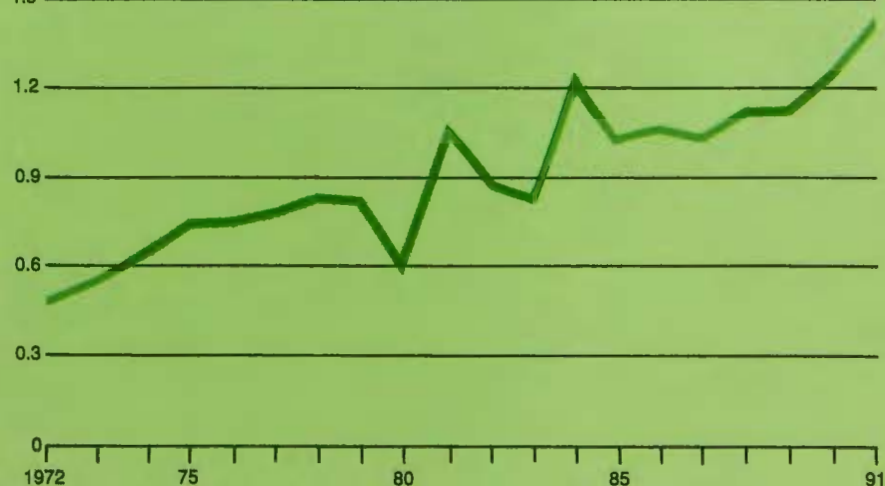
Million acres harvested



Source: National Agricultural Statistics Service, USDA.

U.S. Peanut Output, by Value, Has More Than Doubled Since 1972

\$ billion



Source: National Agricultural Statistics Service, USDA.

Six States Account for Most Tobacco Production

Six States produce nearly all the tobacco in the United States: North Carolina, Kentucky, Georgia, South Carolina, Virginia, and Tennessee, according to economist Tom Capehart of USDA's Economic Research Service.

In 1991, North Carolina accounted for 37 percent of the crop (by value) and Kentucky about 29 percent. The four neighboring States of Virginia, Tennessee, South Carolina, and Georgia added another 26 percent.

Cash receipts for tobacco were \$2.9 billion in 1991. It is the sixth leading field crop—after corn, soybeans, hay, wheat, and cotton. Tobacco is a high-value crop, with gross receipts per acre averaging more than \$3,890 in 1991. By comparison, such field crops as corn and soybeans fetch around \$200 per acre (excluding Government program payments).

U.S. consumption of cigarettes, the primary tobacco product, has been steadily declining. Capehart attributes this trend to the increasing concern for health, the growing



social unacceptability of smoking, anti-smoking campaigns, and price increases.

"Over the past 9 years, the wholesale price of cigarettes has tripled and risen more

rapidly than the consumer price index," says Capehart. "Manufacturers have boosted prices to increase their profits and cover their rising production costs."

U.S. consumption of cigarettes peaked in 1981 at 640 billion. It has declined since then and is now 510 billion—its lowest level since 1942.

U.S. tobacco production in 1992 will be higher than that of last year for two reasons. The flue-cured quota is up slightly, and burley growers indicated a slight increase in planting intentions. The quota is the amount of tobacco that farmers are permitted to market annually under USDA requirements. Capehart explains that flue-cured tobacco is cured by heat, mostly in North Carolina, and burley tobacco is air-cured, mostly in Kentucky and Tennessee.

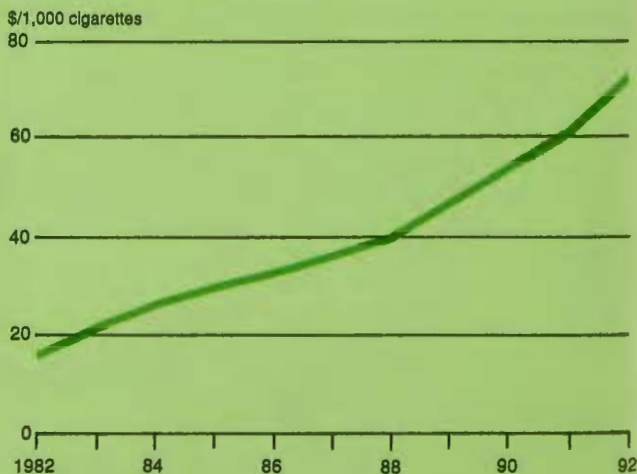
He points out that the United States grows a better quality, milder tasting tobacco that competes effectively in the world market, even though this country grows only 10 percent of the world's tobacco.

Tobacco Growers' Receipts Have Risen In Recent Years



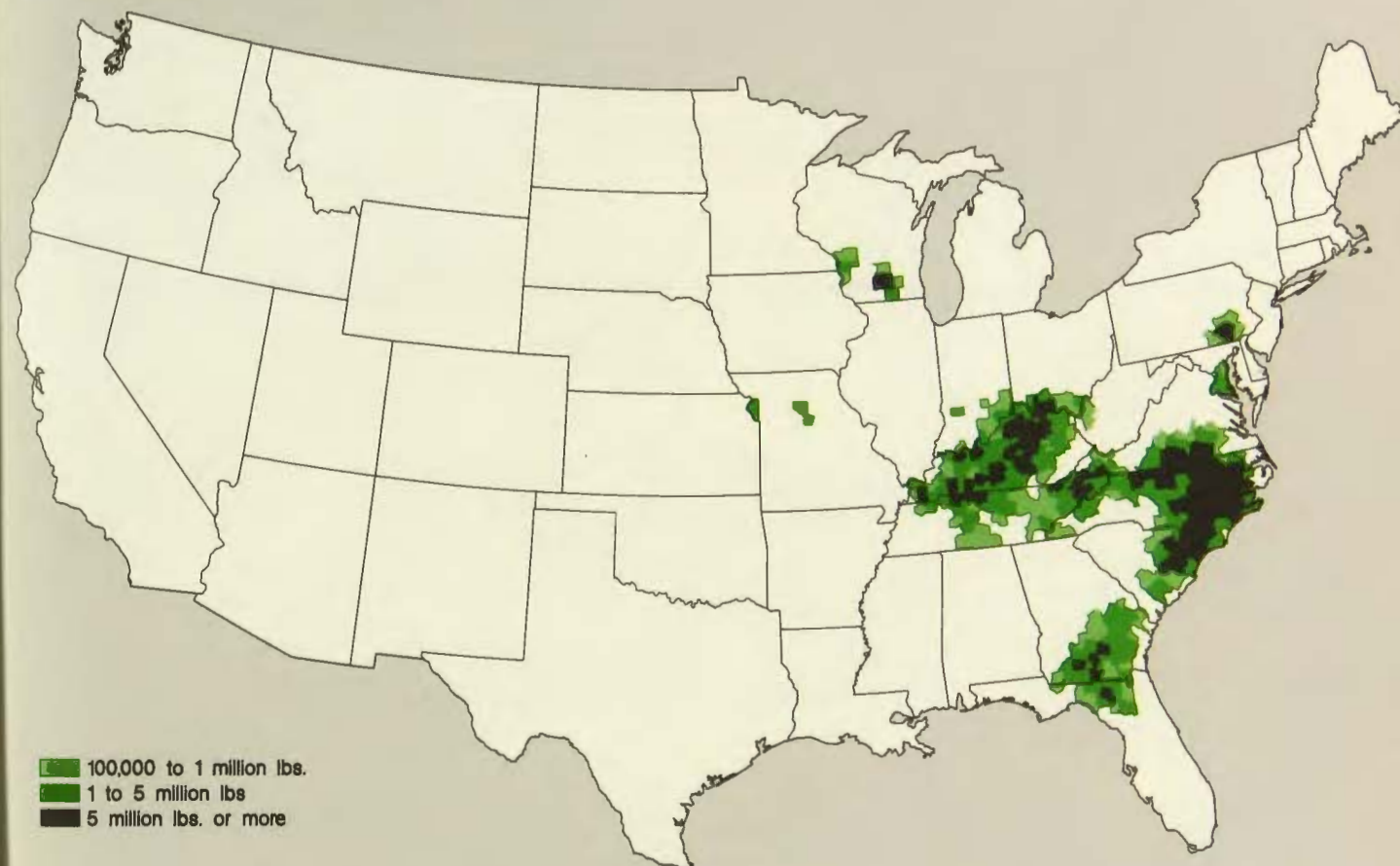
Source: National Agricultural Statistics Service, USDA.

Since 1982, U.S. Cigarette Prices Have Increased Steadily



Adjusted for Inflation.
Prices as of January 1.
Source: Economic Research Service, USDA.

U.S. Tobacco Producing Counties



In 1991, 179 billion U.S. cigarettes were exported, up from 164 billion in 1990.

Lowered trade barriers in Japan, Taiwan, and South Korea, rising incomes in importing countries, and weakening of the dollar have all combined to push up exports, Capehart says.

The major tobacco producers are, in order: China, the United States, India, Brazil, Commonwealth of Independent States (the former Soviet Union), and Turkey. The major exporters are, in order: the United States, Brazil, Italy, Greece, Zimbabwe, and Turkey.

In 1991, U.S. tobacco production totaled 1.6 billion pounds, 1 percent below 1990 and up 18 percent from 1989. Even though

total acreage was up in 1991, production fell due to lower yields.

In 1930, tobacco area reached a record level of 2.12 million acres. Since then acreage has fluctuated but has mostly declined. But lower acreage has been offset by higher yields. In 1986, producers harvested only 582,000 acres. Since 1986, however, the acres harvested have gradually increased, with total acreage rising to 763,080 in 1991.

Tobacco yields have gone up from 1,292 pounds per acre in the early 1950's to 1,920 pounds in the 1980's to 2,181 pounds in 1991. U.S. tobacco growers average only 5 to 5.5 acres of tobacco per farm on about 130,000 farms.

— Carol Lee Morgan

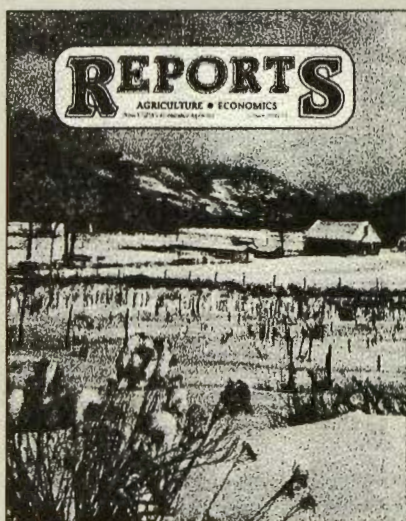
Top 10 Tobacco-Producing States, 1991

	Million lbs.
North Carolina	634.46
Kentucky	479.58
Tennessee	122.17
Virginia	118.05
South Carolina	111.18
Georgia	80.80
Ohio	23.00
Pennsylvania	20.77
Florida	15.34
Wisconsin	15.32
U.S. Total	1,660.03

Source: National Agricultural Statistics Service, USDA.

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Food Price Rise for 1991 Was the Lowest Since 1985

Retail food prices rose less than 3 percent in 1991, halving the 1990 price increase of 5.8 percent.

"Moreover, the 1991 increase of 2.9 percent was the lowest since 1985," says economist Denis Dunham of USDA's Economic Research Service (ERS).

He notes that food prices rose more slowly at supermarkets and other grocery stores than at restaurants, reversing the trend of the previous 4 years. Food prices in grocery stores increased 2.6 percent, and prices for restaurant meals went up 3.4 percent.

"For restaurant meals, the 1991 price increase was the smallest since 1965," says Dunham.

He cites two main reasons for the slowdown. Record meat supplies were generated by increased livestock and poultry production. And at the same time, the recession cut into consumer buying power and food spending. Per capita disposable income, adjusted for inflation, fell about 1 percent in 1991.

"This drop forced food marketers to either limit price increases or watch already weak sales erode," says Dunham. "Even so, grocery store sales, adjusted for inflation, declined about 1 percent in 1991."

For food industry firms, the cost of doing business in 1991 rose a little more slowly than in recent years. As a result, food industry charges for food processing and distributing services went up less in 1991 than they had in 1990.

Consumers Benefited

Consumers were the beneficiaries of the slower rise in food prices.

"Grocery store prices of most foods in 1991 were only moderately higher than the year before," says Dunham, "and some prices, including those for dairy products, poultry meat, and eggs, fell slightly. Beginning in August 1991, increasing pork supplies caused monthly drops in retail pork prices."

Dunham's findings are gleaned from the Consumer Price Index (CPI), which is



Grocery store prices for most foods were moderately higher in 1991 than the year before.

based on a survey conducted by the Bureau of Labor Statistics of the U.S. Department of Labor. The survey consists not only of a monthly monitoring of food prices in supermarkets but also a monthly look at menu prices in restaurants.

He says that four food groups were responsible for most of the rise in grocery store prices in 1991: red meat retail prices rose 3.1 percent, cereal and bakery product prices went up 4.1 percent, prepared foods prices rose 4.5 percent, and fresh fruit prices jumped 13.5 percent. Fresh fruit—which makes up only 6 percent of the food-at-home index under the CPI—accounted for about a third of the 2.6-percent price rise for food at home.

"The higher prices for meats—which make up 21 percent of the food-at-home index—

were responsible for a fourth of the total price rise for food at home," says Dunham.

Rising retail prices do not, however, guarantee greater returns for farmers. In fact, the average farm value (what farmers receive) of USDA's "market basket" of foods dropped 6.2 percent in 1991, more than offsetting the rise in 1990.

USDA uses its market basket concept to track price changes for the commodities farmers sell and the food consumers buy in retail grocery stores. The market basket contains the annual average quantities of food purchased per household in a base period. Retail price indexes for the market basket are components of the CPI for food at home, and are broken into two parts: farm value and the farm-to-retail price spread. Farm value is the return or payment farmers receive for raw commodities equivalent to foods in the market basket—the amount of wheat converted into a box of cereal, for instance. The farm-to-retail price spread is the difference between the retail price and the farm value. The price spread derives from the charges for processing, wholesaling, and retailing foods.

Farm Value Changes

"The 1991 farm value of foods was only 6 percent higher than the value of a decade



earlier," says Dunham. "Since that time, there have been few increases in farm value, except for a significant rise in 1989 induced by the previous year's drought, and the rise in 1990."

He says that lower commodity prices decreased the farm value for 9 of the 10 food groups in USDA's market basket. (The market basket consists of meat, dairy products, poultry, eggs, cereal and bakery products, fresh fruit, fresh vegetables, processed fruit and vegetables, fats and oils, and other prepared foods.) The largest declines in farm value were for processed fruit and vegetables (16 percent), dairy products (11.5 percent), fresh vegetables (11 percent), and fats and oils (9 percent). Farm value was sharply higher only for fresh fruit.

"Red meat accounts for about 36 percent of the farm value of USDA's market basket," says Dunham. "Farm value for red meat declined about 6 percent in 1991, mainly reflecting a 5-percent decrease in steer cattle prices and a 10-percent drop in hog prices."

He says that for 1 pound of Choice beef selling for an average retail price of \$2.88, cattle producers received \$1.60 for the equivalent quantity of live animal (2.4 pounds) in 1991, a drop of 8 cents from 1990. This decline was partly due to a 1-percent increase in beef production.

"A 4-percent increase in pork supplies caused a larger decrease in farm value for pork," says Dunham. "For 1 pound of pork selling at retail for \$2.12 in 1991, hog producers received 78 cents for the equivalent quantity of live animal (1.7 pounds), down 9 cents from 1990."

Poultry meat producers also saw their returns decline.

"With poultry meat production up about 5.5 percent for the year, the farm value of poultry fell about 5 percent," says Dunham. "Larger supplies of red meat likely added to the pressure on poultry prices. Broiler chicken producers received 44 cents of the average retail price of 88 cents per pound of frying chickens in 1991, about 2.5 cents less than in 1990."

Other Items Affected

The farm value of dairy products slipped even more than red meat.

"Sharply lower producer prices for milk used in fluid products depressed the farm value of dairy products by an average of 11 percent," says Dunham. "A half gallon of fluid milk retailing for \$1.37 returned the producer about 54 cents in 1991, 9.5 cents less than in 1990."

The farm value of eggs dropped about 6.5 percent in 1991, prompted by a slight increase in output. Table egg output had fallen sharply the prior 2 years, with a consequent increase in farm value from 1988 to 1990. Farm value in 1991 averaged 59 cents for a dozen eggs selling at an average price of 99 cents at grocery stores.

For cereals and baked goods, the farm value dropped 6 percent in 1991 because of lower prices for wheat and rice. Farmers received 3.4 cents in 1991 for the wheat in a 1-pound loaf of white bread selling for 71

cents in supermarkets, 0.3 cent less than in 1990. The 1991 farm value of other bread ingredients, mainly shortening and sweeteners, was 0.6 cent, slightly lower than in 1990.

Overall, the farm value for the market basket of foods averaged 27 percent of the retail price in 1991, down from 30 percent in 1990.

"Farm value shares varied widely among foods because farm production costs differ and some products require far more handling, transportation, and processing than others," says Dunham.

He says that in 1991, the farm value share of a retail dollar for a sample group of 41 products varied from 60 percent for eggs to 4 percent for corn syrup.

Generally, Dunham says, the more highly processed the product, the smaller the farm share. For instance, in both flour and bread, wheat is the principal ingredient—but bread requires more processing.

Foods derived from animal products tend to have a higher farm value share than those derived from crops, because farm inputs are greater for livestock production than for crops. (Dunham explains that raising livestock can be considered a separate, additional farm enterprise which depends on crop-growing for feed inputs.)

"For example, the 1991 farm value share was 56 percent for Choice beef, but only 20 percent for margarine made out of the oil from soybeans," says Dunham. "Other factors affecting the farm share among foods include costs of transporting from farm to consumer, product perishability, and the amount of space the product occupies in retail food stores. These factors partly explain why the farm share for fresh fruit and vegetables is nearly as low as that of some processed foods."

Growing Price Spread

The farm-to-retail price spread—the difference between the farm value and the retail price—widened in 1991 by 6.7 percent in 1991.

"Price spreads increased for all 10 food groups in the market basket," says Dunham, "because of higher food industry labor costs, higher prices of some other inputs, lower farm values, and larger profit margins for some companies."

He says that prices of inputs used in processing, wholesaling, and retailing foods rose by an average of 2.6 percent in 1991, as measured by an ERS food marketing cost index. A 3.5-percent rise in the labor component and higher prices for business services contributed most to the increase.

But prices of packaging materials went up by only 1 percent. And short-term interest rates declined about 26 percent, holding down the rise in the overall index.

"The farm-to-retail price spread for red meats widened about 11 percent, the largest rise among the 10 food groups in the market basket, mainly reflecting increases for beef," says Dunham. "The price spread for beef increased about 14 percent, a possible adjustment after several years of rising prices that made it difficult to boost margins without further cutting into consumer demand for beef."

He adds that from 1986 to 1990, the price spread for beef had gone up only about 11 percent, while the farm value surged 35 percent and retail beef prices went up by 24 percent.

"The price spread for pork climbed about 6.5 percent in 1991, likely prompted by the sharp decline in farm value and the relatively small increase in the price spread in 1990 when farm value and retail pork prices rose sharply," says Dunham.

In contrast, the price spread for poultry meat—which increased 7 percent in 1990—widened only 2 percent in 1991.

"The small rise in the spread resulted from the downward pressure of large supplies on retail poultry meat prices," says Dunham. "Similarly, the price spread for eggs rose

only 3 percent in 1991, resulting from a decline in retail egg prices."

For dairy products, the average price spread increased 5 percent in 1991. With the exception of 1990—when it grew more than at any time since 1980—the spread for dairy products has risen less than for most foods for most years of the past decade.

"For the first quarter of 1991, the spread was about 10 percent higher than a year earlier," says Dunham. "But steady retail prices and some increase in farm value of milk caused the spread to narrow the second half of the year. In the fourth quarter, the spread was lower than a year earlier."

He goes on to say that in 1991 the farm-to-retail spread for a half gallon of whole milk retailing for \$1.37 was 83 cents, up 5 cents from 1990.

The farm-to-retail price spread increased about 8 percent for fresh fruits and vegetables.

"The spread for fruits and vegetables tends to vary with farm values," says Dunham. "When the farm values increase—as they did in 1991 for fresh fruit—the spread widens. This suggests that retail pricing is based to a large extent on a constant percentage margin of the retail price rather than a constant absolute margin." (A standard example of this involves how an item selling for \$1.00, but costing the retailer only 50 cents, would change in price under

the two different pricing methods. Under the first method, if a retailer's price for the item suddenly rose to \$1.00, that retailer would have to charge \$2.00 to maintain a constant profit margin of 50 percent. Under the second method, a retailer would have to sell the item costing \$1.00 for \$1.50 to maintain an absolute profit margin of 50 cents.)

Cereals and bakery products make up 20 percent of the farm-to-retail price spread of the market basket—and the spread for this food category widened by only 5 percent in 1991, the smallest increase since 1988.

"The modest rise likely was the result of small increases in processing and marketing costs, as well as the lower farm value of ingredients," says Dunham. "For the cereal industry, profit margins generally continued to expand because of price hikes—averaging 6 percent at retail—and lower ingredient costs."

However, cereal consumption in 1991 remained relatively unchanged.

"That was probably because of rising retail prices," says Dunham. "It also may have been partly prompted by cooler consumer enthusiasm toward the positive nutritional claims that are credited with having increased cereal consumption during the past decade." ■

Based largely on information provided by economist Denis Dunham, Commodity Economics Division, Economic Research Service.



Food Prices Not the Main Cause Of Inflation

An increase in food prices often attracts more attention than price rises for other goods and services.

"Consumers tend to see food prices as the major cause of overall inflation," says economist Ralph Parlett of USDA's Economic Research Service. "They are more aware of food prices because they purchase food more often than other goods."

But in 14 of the past 22 years, the consumer price index (CPI) for food rose at a slower rate than the CPI for all goods.

Parlett says that since 1970, housing has been the major contributor to inflation.

The percentage change in the price of housing between 1970 and 1991 was about the same as the change in the price of food. But since housing accounts for a much larger proportion of consumer spending, the housing price increase contributed considerably more to overall inflation.

Housing accounts for 41.5 percent of the total CPI "market basket" of consumer items, transportation comprises 17 percent, food 16 percent, energy 7.4 percent, medical care 6.7 percent, apparel 6.1 percent, and entertainment 4.4 percent.

"Consumers are more aware of food prices because they purchase food often."

Housing, medical, and energy costs increased more than food costs from 1970 through 1991, while transportation, entertainment, and apparel costs increased less.

The rates of increase have varied considerably by category. For instance, what the medical services dollar bought in 1970 cost \$5.21 in 1991, while what the clothing dollar bought in 1970 had gone up to only \$2.17 by 1991.

The overall food price increase since 1970 has actually been nearly the same as the rise in the all-item CPI, Parlett says. The food CPI was 3.49 times higher in 1991 than in 1970, while the all-item CPI was 3.51 times higher.



Among food categories, fresh fruit rose the most in price (what cost \$1.00 in 1970 cost \$5.45 in 1991). However, since fresh fruit makes up only 5.9 percent of food expenditures, the price increase in that category contributed less to inflation than did price increases in some other categories.

Other food categories show some substantial price changes. What cost \$1.00 in 1970 cost the following amounts by 1991: eggs \$1.85, milk \$2.45, poultry \$2.47, pork \$2.95, beef and veal \$3.04, processed fruit \$3.43, processed vegetables \$3.51, fresh vegetables \$3.92, cereals and bakery goods \$3.93, sugar and sweets \$4.24, fish \$4.74, and fresh fruit \$5.45.

In the various consumer spending categories, what cost \$1.00 in 1970 cost the following in 1991: apparel \$2.17, entertainment \$2.91, transportation \$3.30, food \$3.48, housing \$3.67, energy \$4.02, and medical services \$5.21. ■

Based on information provided by economist Ralph Parlett, Commodity Economics Division, Economic Research Service.



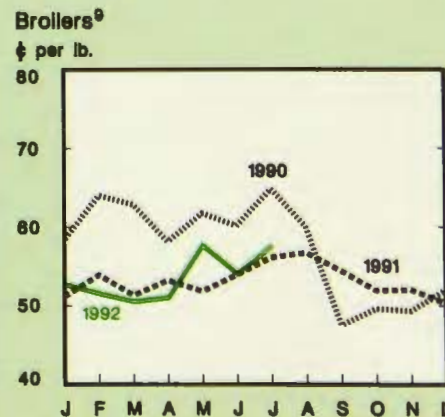
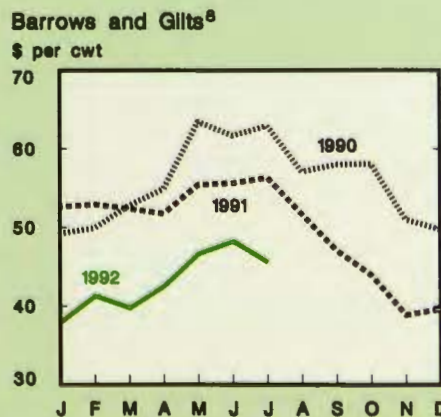
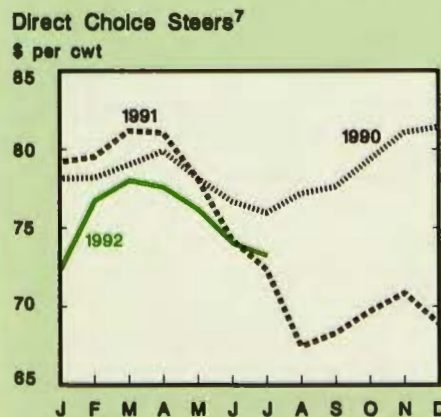
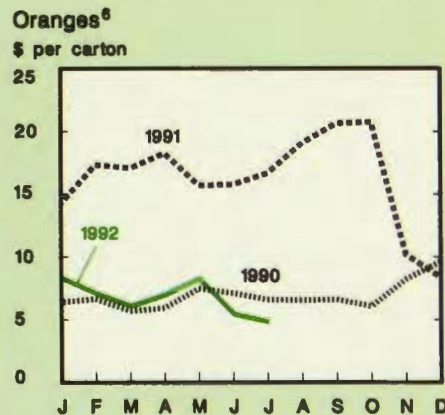
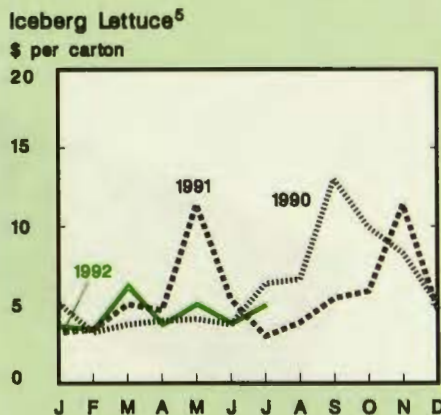
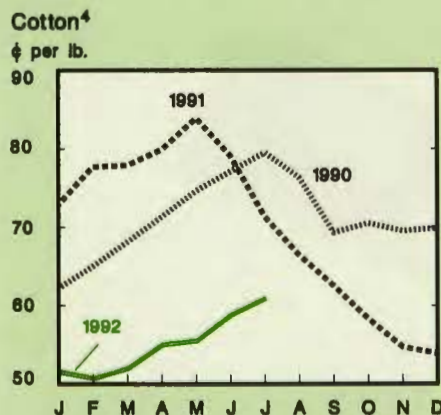
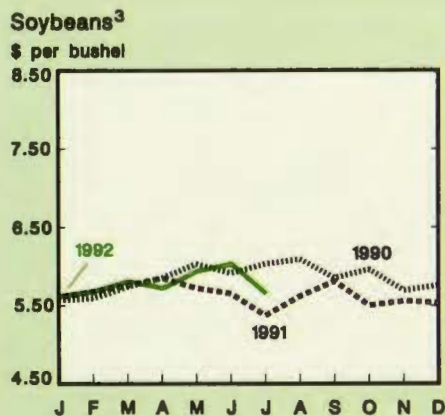
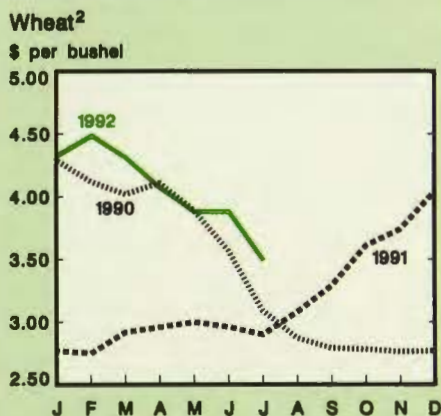
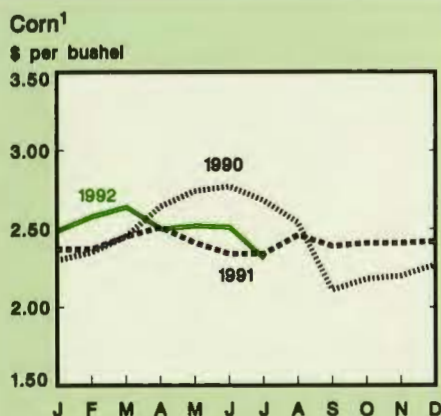
FARMLINE TRENDS

Monthly Price Monitor

USDA's August 1992 inflation-adjusted index of farm prices, from the National Agricultural Statistics Service's Agricultural Prices report, was 0.7% below July and 6.2% below a year earlier. Wholesale market prices follow. Corn lost 13¢ to \$2.18 per bushel, the lowest since September 1990.

Wheat declined by 25¢ to \$3.24 per bushel, its lowest since last August. Soybeans were down by 17¢ to \$5.48 per bushel, the lowest since July 1991. Cotton slipped to 57.6¢ per pound, the first decrease since February. Lettuce jumped to its highest level this year at \$9.76 per carton. Oranges

gained 21¢ to \$5.02 per carton. Direct choice steers increased by 74¢ to \$73.96 per hundredweight, after a 5-month decline. Barrows and gilts dropped by 16¢ to \$45.37. Broilers lost 1.8¢ per pound to 55.7¢.



¹No. 2 yellow, Central Illinois. ²No. 1 HRW, Kansas City. ³No. 1 yellow, Central Illinois. ⁴SLM 1-1/16", spot market price. ⁵Standard carton 24's, California-Arizona. ⁶Central California, Standard carton. ⁷Nebraska. ⁸Omaha. ⁹Wholesale, New York. All prices shown are monthly averages.

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