

**STATEMENT OF KEITH COLLINS
CHIEF ECONOMIST
U.S. DEPARTMENT OF AGRICULTURE
BEFORE
THE U.S. HOUSE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES**

October 9, 1997

Mr. Chairman and members of the Subcommittee, I welcome the opportunity to discuss the outlook for U.S. agriculture, including the performance of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Bill), with a focus on the commodities under your jurisdiction. My goals today are to describe the near-term outlook for U.S. agricultural markets and review the influence of the 1996 Farm Bill. U.S. agriculture is doing well now with near-record exports; prices above average; generally good harvests; restrained increases in production costs; record-high farm income last year and another strong year in prospect; and a profusion of new technology and global market opportunities that could help maintain the current momentum. However, there are events that could blot this optimism and I will review some of these major challenges in the global market.

Macroeconomic Overview

Twenty-four consecutive quarters of positive economic growth in the United States, record-high indicators of consumer confidence, and the lowest unemployment rate since 1973 have bolstered domestic demand for agricultural products, while an expanding world economy and declining barriers to trade have supported expansion in U.S. agricultural exports. In addition, low inflation and moderate interest rates have limited increases in farm production expenses. In 1997, U.S. real gross domestic product (GDP) may increase by 3.8 percent, compared with 2.8 percent last year (table 1). The macroeconomy will continue to support agricultural demand in

1998, with GDP forecast to grow by 2-2.5 percent, reflecting continued productivity growth, low inflation, and a near-balanced Federal budget. The rate of inflation continues to remain below 3 percent through 1997, with only a slight rise expected in 1998.

Outlook for U.S. Agricultural Exports

The strong foreign economic growth and some foreign crop reductions pushed U.S. agricultural exports to a record \$59.8 billion in FY 1996 (figure 1). Lower world market prices and bulk export volume are expected to reduce exports to \$56.5 billion in FY 1997. For FY 1998, exports are forecast at \$58.5 billion, the second highest ever, with grains and feeds up over \$1 billion from last year reflecting reduced competition. Although volume is expected up, oilseed and product exports are forecast to fall by \$1 billion as world prices moderate. High-value product exports are expected to increase for the 12th consecutive year, led by livestock products and vegetables.

Pacific Asia, including Japan, Australia and New Zealand, is the most important region for U.S. agricultural products, accounting for 42 percent of total U.S. sales this past year. Over the coming decade, rapid income growth in Pacific Asia will stimulate expansion in demand for U.S. agricultural products. Other important growth markets include our North American Free Trade Agreement (NAFTA) partners Canada and Mexico. Mexico recently supplanted Japan as the second largest market for U.S. agricultural exports, while Canada remains number one.

Outlook for Farm Income and Finance

Market receipts. With strong demand and record or near-record market prices for several crops, crop cash receipts exceeded \$109 billion in 1996, a new record and up nearly \$10 billion from the previous year (table 2). Crop prices are declining in 1997/98, but with fairly large

harvests, receipts will only fall to about \$106 billion, second only to 1996's record. Cash receipts for wheat, feed grains, and cotton are projected to be down in 1997, but soybean receipts are expected to be up as record-high production is expected to more than offset lower market prices. Net returns per acre will be down for major crops, except corn, where government payments rise sharply (table 3).

Livestock receipts are rising for the second consecutive year in 1997, with cattle, hogs and broilers all experiencing gains. In 1998, lower beef production is expected to keep cattle prices strong. Feed grain demand will be boosted by pork production which is now expanding rapidly and is expected to rise 8 percent in 1998, pulling hog prices below the \$50-\$55 per cwt trading range seen during much of 1997. Broiler production is expected to rise 6 percent in 1998 with prices remaining about 60 cents per pound.

Financial situation. While it is difficult to characterize simply the financial condition of such a diverse industry as U.S. agriculture, aggregate indicators show a continually improving overall farm economy during the 1990's, with 1997 and 1998 expected to reflect that trend. This year, U.S. net cash farm income (gross cash income less gross cash expenses) will decline from the record high of nearly \$60 billion set in 1996 and is expected to be slightly above the average of the 1990's (figure 2). Farm debt has risen 2-3 percent per year in recent years, but the value of farm assets has grown faster. Consequently, farm sector solvency has steadily improved, with the overall debt-to-asset ratio in 1997 expected to be 14.6 percent, down from 15.0 percent in 1996. Part of the debt increase is due to higher incomes which enable higher debt carrying capacity and stable interest rates. High income, record-high crop prices in 1996, strong export prospects, and

1996 Farm Bill payments have pushed up farm real estate values by 7 percent in 1995 and 6 percent in 1996, and a rise of over 5 percent is expected this year.

Outlook for Major Crops

Wheat and rice. After 2 successive years of reduced U.S. wheat yields and stocks, near perfect conditions for winter wheat, unlikely to be repeated very often, have resulted in U.S. wheat production at 2.5 billion bushels in 1997/98, up 11 percent from last year and the largest since 1990. Consequently, wheat prices are dropping from the strong levels of the past 2 years. The U.S. average farm price is expected to range from \$3.20 to \$3.70 per bushel in 1997/98, compared with \$4.30 last year (figure 3). Despite record-high 1997 world wheat production, U.S. wheat exports are forecast to be up 10 percent in 1997/98 due to production declines in major foreign exporting countries. U.S. wheat imports are placed at 95 million bushels in 1997/98, only 3 million bushels above last year but the highest since 1993/94.

World wheat production is expected to reach a record 596 million tons in 1997/98, up almost 14 million tons from 1996/97. In addition to a large U.S. crop, production is also up in key importing areas, such as China, where the summer grain harvest was record large; the countries of the former Soviet Union (FSU), with production up 20 percent from last year; Eastern Europe, with production up 32 percent; and India, up 7 percent.

Normally, such gains in importing country production would signal a drop in U.S. exports, but drought in North Africa and rising demand in the Middle East, Southeast Asia, and Latin America are expected to keep world imports near last year's level. Moreover, 1997/98 production for major foreign wheat exporters, which include Canada, Australia, Argentina, and the European Union (EU), is estimated down about 20 million tons or 12 percent from a year ago.

Sharply lower plantings and dry conditions are reducing production in Canada. Dry conditions are expected to reduce yields in Australia, although recent rains there have been timely, while extended planting delays and lower prices reduced Argentina's area.

Soil conditions are very favorable for U.S. winter wheat planting for the 1998 crop, which is now underway in the Southern and Central Plains. Nationwide, planting of winter wheat was 58 percent complete as of October 5, up from 51 percent in 1996 and about equal to the 1992-96 average. In 1998, U.S. acreage is expected to be up slightly, but assuming a return to lower yields, 1998 production would decline from 1997.

An important concern for consumers worldwide has been the declining global acreage, reduced yields, and consequently low global wheat stocks of the past two years. The 1995/96 U.S. and global carryover were the lowest since the mid 1970's. During the 1996/97 season, U.S. inventories increased slightly, but even with a rebound in acreage and production in all leading foreign exporting countries, global stocks relative to use fell to record lows as consumption rose sharply.

For 1997/98, global wheat acreage dropped slightly, but record-high yields are pushing up global production to a record high. Even so, global carryover stocks are forecast at only 21 percent of use, the lowest on record except for the past 2 years. However, U.S. carryover stocks are expected to rise over 50 percent to nearly 700 million bushels at the end of the 1997/98 season and are expected to remain at about that level at the end of the 1998/99 season, assuming average yields.

Should observers be alarmed at the continued low level of global wheat stocks?

Concern, but not alarm, appears appropriate; the situation should be closely watched. First,

historical stock levels are no longer a precise guide to the “desirable” level. Government policy actions to reduce stocks, such as in the U.S. and EU, and the experience of operating with lower stocks in recent years will limit accumulation in the future. Second, there likely is capacity to rebuild global stocks to a higher level during the next few years. Importing regions such as China, India, and the FSU have capacity to raise production and keep imports minimal. Eastern Europe has performed well below potential in the 1990's and could also produce more. And Canada, Argentina, and Australia are all having below par years in 1997/98. The EU, with reduced export supplies following policy reform, still has set-aside land under domestic programs. In the United States, strong prices and planting flexibility can generate wheat acres.

The U.S. rice market has performed surprisingly well compared with pre-1996 Farm Bill expectations. In 1997/98, U.S. rice production is up an estimated 6 percent. Strong domestic demand and exports, forecast 5 percent and 13 percent higher, respectively, have been the keys to firm prices. Exports to Latin America, Europe, the Middle East, and Japan account for the bulk of shipments. The Asian currency devaluations are reducing competitors' dollar selling prices and will account for a modest decline in the 1997/98 U.S. farm-level rice price, compared with 1996/97's \$9.90 per cwt.

Corn and other feed grains. U.S. corn production for 1997 is forecast at 9.3 billion bushels, about unchanged from last year. Expectations of historically strong year-to-year corn prices led to a slight increase in corn area in 1997 on top of 1996's large expansion. After a promising start, crop conditions deteriorated from early July through the middle of August. Nevertheless, the crop is still expected to be the fourth largest on record. The average farm price is forecast at \$2.45-\$2.85 per bushel in 1997/98, compared with \$2.70 per bushel last year.

U.S. corn exports are forecast to increase from 1.8 billion bushels last year to over 2.0 billion bushels in 1997/98 because of reduced competition from other major exporters, notably China, Argentina and South Africa. Drought is expected to reduce China's corn crop by 14 percent from 1996's record level. Although uncertain because planting has only just begun, Argentina's and South Africa's corn crops are expected to be down 12 percent and 6 percent, respectively, in 1997.

Domestic use of corn is expected to reach a record 7.3 billion bushels in 1997/98, exceeding the previous record set in 1994/95. A 4-percent increase in red meat and poultry production in 1998, particularly hogs and broilers, and stable corn prices are expected to boost feed and residual use by 5 percent in 1997/98 following a 13-percent jump last year. Food, seed and industrial use is also forecast to increase by 5 percent in 1997/98. Corn used in the production of alcohol fuels is expected to continue to recover from record high corn prices in 1995/96. In 1997/98, 485 million bushels of corn are forecast to be used in the production of alcohol fuels, compared with 435 million last year and 533 million in 1995/96, before corn prices reached record highs.

In contrast to the increase expected in world and U.S. wheat stocks, world and U.S. coarse grain stocks at the end of 1997/98, while remaining above 1995/96 levels, are expected to decline from previous-year levels by 13 and 8 percent, respectively. Both world and U.S. coarse grain carryover stocks are expected to equal about 1 month's consumption. Reduced coarse grain production in the United States and China is the primary reason for the anticipated decline in coarse grain inventories. The decline in U.S. production is mainly due to reduced sorghum area in

1997 as Southern Plains producers switched to alternative crops. U.S. barley production is also expected to decline slightly and oats increase in 1997.

Soybeans and other oilseeds. The outlook for soybeans is quite favorable, with record production, crush and exports expected in 1997/98. With plantings up nearly 7 million acres, and exceeding wheat for the first time, U.S. soybean production is estimated at a record 2.7 billion bushels. New varieties and farming practices are steadily boosting yields; U.S. yields of 40 bushels per acre will soon be commonplace. Very low carryover stocks on September 1 are expected to rise 150 percent to 285 million bushels on September 1, 1998. Consequently, the average farm price for 1997/98 is forecast at \$5.60-\$6.70 per bushel, compared with \$7.38 last year.

Soybean crushing in 1997/98 is forecast at a record 1.5 billion bushels, up 4 percent from last year. The increase in crush reflects record domestic soybean meal disappearance, as hog and poultry feeding expand, and strong soybean meal exports. Soybean exports are also forecast to be a record 950 million bushels in 1997/98, up 8 percent from last year.

Record global oilseed supplies are in prospect for 1997/98 which will restore U.S. and world carryover stocks to near-normal levels. Among major producers of soybeans, only China is expected to have a smaller, drought-reduced crop. The higher U.S. exports will come early this season as Brazil and Argentina import an estimated 1.5 million tons during October-February and China and Mexico show strong import demand. Asia will be a good market for protein feed and vegetable oils although currency turmoil, El Nino and Taiwan hog problems create uncertainty. In the EU, where hog disease and beef safety concerns are limiting feed demand increases, shifts to poultry and vegetable oils in lieu of animal fats could help oilseed demand.

This season's decline in U.S. soybean prices relative to corn is likely to reduce 1998 U.S. soybean plantings by several million acres. This would bring production in line with likely total use for 1998/99, stabilizing U.S. carryover stocks and prices at near 1997/98's expected levels.

Cotton. With cotton area down from last year due to relatively more attractive prices for other crops, 1997/98 production is expected to be 18.4 million bales, 3 percent lower. The strong economy and continued market share gains from synthetic fiber will benefit domestic textile mill use, which is now about double the level of the early 1980's. Little change in the foreign supply-consumption balance means U.S. raw cotton exports are likely to be about at last year's level, even with smaller sales to our major buyer, China. With U.S. production down and total use up slightly on the strength of domestic consumption, carryover stocks are expected to decline a little and keep prices in the recent trading range.

Cotton has faced a substantial change in customers in recent years. This past year Mexico imported more cotton than Japan, once the major buyer. Mexico and Brazil combined imported as much as Korea, Hong Kong and Taiwan. During 1997/98, South American imports are expected to be record high, and 6 times greater than in 1990. NAFTA has helped make Mexico a big factor. Their cotton textile and apparel imports into the United States grew from 4 percent of the U.S. market in 1990 to 15 percent this year, with U.S. raw cotton and cotton fabric used as their raw material. South America and emerging Asian markets like Thailand and Indonesia also will be increasingly important buyers of U.S. cotton.

Another key to the 1997/98 outlook will be China's imports. China holds 40 percent of world cotton stocks and has taken steps to work them down this year. Consequently, China's cotton imports are forecast at 2.7 million bales, down from last season's 3.5 million.

The Impact of the 1996 Farm Bill

The 1996 Farm Bill continued the evolution begun in the mid-1980's toward less government intervention in commodity markets. Program changes included expanding planting flexibility, eliminating acreage reduction programs (ARP's), fixing program payment rates, and capping loan rates. A cap was also placed on CRP acreage enrollment.

Has planting flexibility been a benefit? The 1996 Farm Bill eliminated nearly all of the previous planting restrictions and severed the link between program payments and plantings, freeing producers to choose the amount of acreage to plant and its allocation among crops based on expected market returns and environmental considerations. These changes have shifted acreage among crops and expanded total plantings, enabling producers to increase returns, improve crop rotations, and generate more local economic activity (figure 4).

Plantings of the eight major crops--wheat, corn, sorghum, barley, oats, upland cotton, rice and soybeans--totaled 245 million acres in 1995. In 1996, plantings increased to 262 million acres and remained at 261 million acres in 1997. The gain in plantings reflects higher crop prices over the past two years, increased planting flexibility, and the elimination of ARPs.

This year, producers increased plantings of soybeans by about 10 percent to nearly 71 million acres, the most since 1982, mainly because of expectations of strong soybean prices. The planting flexibility provisions probably increased soybean acreage by 4-6 million acres in 1997 and reduced plantings of other crops, especially wheat, by a similar amount.

Most regions are benefitting from lifting planting restrictions. For example, in the southeastern and Delta States (Alabama, Arkansas, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee), corn area increased sharply and soybean area also rose,

while upland cotton and rice acreage fell in 1996. In 1997, soybean plantings grew further as strong soybean prices caused producers to expand plantings of soybeans at the expense of upland cotton, corn, and wheat. Rice acreage also rose in 1997 reflecting strong prices.

In Texas, Oklahoma, and Kansas, sorghum plantings increased sharply in 1996, reflecting strong prices, replanting of failed winter wheat area to sorghum, and a shift from cotton to sorghum in dry areas of Texas. In 1997, sorghum area declined in these states as sorghum prices fell relative to wheat and cotton, and better weather caused less shifting of wheat and cotton to sorghum. However, sorghum plantings in 1997 continue above 1995 levels in these states.

In Minnesota, North Dakota, and South Dakota, strong prices in 1996 pushed up total plantings. Spring wheat accounted for most of the increase in plantings in these three states.

Producers are generally reporting satisfaction with flexibility as it enables them to respond more fully to market opportunities. Even so, there has been concern that the 1996 Farm Bill could lead producers to shift too much acreage and that would lead to wider year-to-year swings in market prices. Although some producers may overreact to changes in expected prices during the next few years, experience thus far with flexibility and with nonprogram crops suggests that, as a whole, farmers tend not to make excessive shifts in acreage among crops in any one year and flexibility is not likely to generate market volatility. Initially, some producers may make large shifts to establish optimum rotations, with lesser shifts thereafter. Alternatively, over a relatively short period such as 1 to 2 years, the need for new investments in machinery and equipment may prevent some producers from immediately shifting to alternative crops.

Has elimination of ARP's weakened farm prices and incomes? The 1996 Farm Bill eliminated the authority for ARP's. The need for ARP's to balance supply and demand declined

following enactment of the Food Security Act of 1985 and the implementation of market-driven price support loan rates. In 1987, nearly 54 million acres of cropland were idled under ARP's, but less than 5 million acres were idled under ARP's in 1995. If ARP authority had been continued in the 1996 Farm Bill, it is extremely likely the Secretary would have set ARP's for all crops at 0 percent in 1996 and 1997. Looking beyond the current year, it is likely ARP's would have been set above 0 percent only on rare occasions--when market prices turn out to be much weaker than projected. Consequently, elimination of ARP authority is likely having little influence on current markets.

How have fixed payments performed? The 1996 Farm Bill established fixed payments for eligible wheat, feed grains, rice, and upland cotton producers each year through 2002. Payment rates vary from year-to-year averaging \$0.33 per bushel for corn, \$0.61 for wheat, \$0.072 per pound for upland cotton and \$2.57 per cwt. for rice during FY1996-2002. Payment rates under the 1996 Farm Bill will exceed those under the previous target price/deficiency payment program if the market price for corn averages above \$2.42 per bushel, wheat averages above \$3.39 per bushel, upland cotton averages above 65.7 cents per pound and rice averages above \$8.14 per cwt. during 1996-2002.

In 1996/97, \$5.1 billion in fixed payments were provided to producers. This past year market prices were above or very near the target prices established for 1995 crops. If the target price/deficiency payment program that had been in effect for the 1995 crops had been in effect for 1996 crops, deficiency payments to wheat, feed grain, upland cotton, and rice producers would have amounted to about \$0.7 billion for 1996 crops. Consequently, U.S. net cash farm income would not have been a record high in the 1996 but for the 1996 Farm Bill's fixed payments.

The much larger payments provided to producers with respect to 1996 crops under the 1996 Farm Bill's provisions raised incomes considerably above expected norms, in effect, increasing income variability. For example, wheat production generated an average price of \$4.30 per bushel in 1996/97 and about \$5.15 per bushel after including the 1996 Farm Bill's fixed payments. Over the previous 5 years, wheat production returned an average of \$3.50 per bushel in the market and an average of \$4.10 per bushel, including deficiency payments.

For 1997/98, 1996 Farm Bill payments are also expected to exceed payments that would have been made under the provisions of the target price/deficiency payment program. Under the 1996 Farm Bill, fixed payments of about \$6.3 billion will be provided in 1997/98. Under the previous target price/deficiency payment provisions, payments would have totaled about \$2.5 billion in 1997/98.

Although fixed payments have raised average income, a common concern is that severing the link between payments and market price will lead to greater volatility in farm income. While many producers may face an increase, USDA analysis suggests the increase may not be great compared with expected volatility under the previous deficiency payment program. Stabilizing price received, as the old deficiency payment program attempted to do, does not assure stability in producer revenues or income. National prices and yields tend to move in opposite directions, providing a "natural hedge" against extreme yield losses at the national level. Attempting to stabilize incomes through variable direct payment rates or other forms of price stabilization may actually make revenues of some producers more variable. For example, USDA research indicates that deficiency payments increased variation in gross incomes on acreage covering about one-third of corn production and one-quarter of wheat production.

Have changed commodity loan and stocks policies made a difference? The 1996 Farm Bill suspended the farmer-owned reserve (FOR), capped loan rates at their 1995 levels for program crops, and increased the interest charged on commodity loans by 100 basis points. Despite these changes, many producers continue to use and to derive benefit from the loan program as a marketing tool. Even though wheat prices were abnormally strong, wheat producers placed 194 million bushels of 1996-crop wheat under loan, only slightly below the average for the 1991-95 crops of 197 million bushels. Loan placements for 1996-crop corn totaled 970 million bushels, nearly 20 percent below the previous 5-year average. Loan placements amounted to about 10 percent of 1996-crop production for both corn and wheat.

Government-owned stocks are now all but eliminated except for the Food Security Commodity Reserve which contains 93 million bushels of wheat. Under the 1996 Farm Bill, government-owned inventories are expected to remain near zero because of the cap on loan rates and the marketing loan provisions. The implied reduction in market intervention has raised concerns about the ability of the Federal Government to stabilize prices.

While the Government no longer has the tool of inventory management available, managing stocks for the purpose of stabilizing prices has proven to be extremely difficult in the past. Removing stocks from the marketplace when prices are low may temporarily help solve the low-price problem but creates a new problem of stocks disposal. Disposal in the 1980's created considerable price variability. A complication is that there is no hard and fast rule for deciding when prices are above or below typical norms. And, holding stocks for price stabilization purposes increases the cost of farm programs and, as indicated earlier, even if these stocks stabilize prices, that may not help stabilize the incomes of many producers.

How is the new CRP affecting markets? The 1996 Farm Bill capped enrollment in the CRP at 36.4 million acres through 2002. The 1985 Act had an initial enrollment cap of 45 million acres. However, subsequent legislation, including appropriation acts, limited enrollments to lesser amounts. During FY 1997, about 33 million acres were enrolled in the CRP. Contracts on over 21 million acres previously enrolled in the CRP expired on October 1 of this year and contracts on another 4.8 million acres expire on October 1, 1998.

In early 1997, USDA established new rules for future CRP signups. The first signup under the new rules, and the 15th since the program began, was conducted during March 1997 and was the largest CRP signup ever. Land owners and operators offered 23.3 million acres for enrollment and USDA accepted 16.1 million acres. Total CRP enrollment now stands at about 28 million acres. The 16th CRP signup will be October 14-November 14, 1997.

Of the acres accepted in the 15th signup, 4.4 million were not previously enrolled in the program, and 11.7 million were acres enrolled under contracts that expired in 1997. About 55 percent of existing CRP acres were re-enrolled with improvements in wildlife cover and reduced rental costs. Rental costs averaged \$39 per acre in the 15th signup, compared with an average of \$50 per acre for previous enrollments. Regionally, small reductions in the share of enrollment occurred in the Lake States and Pacific Regions, while the Mountain and Northern Plains regions increased.

Prior to the 15th signup, producers had to designate which crop bases would be reduced if acreage was accepted in the CRP. The 1996 Farm Bill eliminated crop bases and the designations, except for tobacco and peanuts, so historical cropping patterns are now used to estimate the mix of crops enrolled in the 15th signup. From these data, it appears that the share

of wheat acres enrolled in the 15th signup was higher than in the previous signups, while the share of corn and soybean acres enrolled was lower. However, since total enrollment is presently down about 5 million acres from early this year, wheat, corn, and soybean acres enrolled in the CRP as of October 1, 1997 are also down by about 1 million acres each compared with last year's enrollment levels.

Key Uncertainties in the Outlook

Although the agricultural economy is generally strong with a few exceptions, such as dairy, and prospects look sound, there are several key uncertainties that could affect markets and the well being of market participants over the next 1 to 2 years. A few key factors follow:

- **El Nino and agricultural production.** This weather event is forecast by the National Weather Service to cause weather changes that could affect global agricultural production over the next 9 to 10 months. El Nino effects can be more strongly documented outside the United States. For example, dryness forecast in South and Southeast Asia and Oceania could affect palm oil, wheat and rice production during 1997/98. In Northwest Brazil and parts of Central America, inland areas may suffer drought. In South Africa, dryness could affect corn production. However, even in foreign regions El Nino effects cannot be predicted with certainty. For example, this year there already have been significant deviations from the expected El Nino impacts. The Indian monsoon has been strong and is withdrawing on time. In Australia, rains in the past 6 weeks have been ample and timely, and in South Africa, pre-season rains have been adequate.

While El Nino impacts are consistent in many parts of the globe, the interactions of many other weather variables tend to mask U.S. El Nino crop effects. Also, not all El Nino effects are negative. El Nino effects may bring adequate to abundant moisture to some areas, improving

moisture for crop growth and irrigation supplies. The principal negative U.S. effect often occurs in coastal California where west winds lifting moisture-laden air into the mountains can result in excessive rains that can trigger flooding and mud slides.

- **Macroeconomic performance, especially Asian currencies.** Foreign economic growth in developed countries, while not surging, is still expected to be 2.2 percent this year and rise slightly in 1998, assuming some improvement in Japan's weak economy. Developing country growth is expected to decline slightly in 1997 to 5.3 percent and maintain that rate in 1998, as Asian economies--our prime export destination--grow a little more slowly, but still above that of most other countries.

The main macroeconomic uncertainty is the currency devaluations in Thailand, Philippines, Indonesia and Malaysia and the possible impacts on their economic growth, U.S. competitiveness in these markets and the potential for currency problems to spread to other countries. The United States is the number one or two agricultural exporter to these countries, with total annual agricultural exports in excess of \$2.5 billion. The currencies of these countries declined 15 to 30 percent since the devaluation began this summer and their peg to the U.S. dollar severed. The currency devaluations alone would be expected to result in some reduction in U.S. exports, but the extent of a decline would depend on the yet-unknown effect of the currency changes on capital flows, inflation, and economic growth. These countries import wheat, corn and soybeans. Currency-induced import reductions could be partially offset by increased grain needs due to reduced grain production, such as expected in Thailand this year, and by increased animal product exports as their devalued currencies boost their exports to other countries. At this point, it does

not appear that the U.S. trade repercussions will be as great as those following the peso devaluation in Mexico.

- **Real or perceived food safety concerns.** The finding of *E. coli* and BSE in foreign countries affected global and U.S. meat trade during the past year. For example, beef exports to Japan were running well below expected levels in FY 1997, attributable by many to food safety concerns, as well as to higher U.S. meat prices, the devalued yen and poor GDP growth. While food safety concerns may initially reduce imports of the affected meat and therefore the derived demand for feeds, the overall effect on U.S. feed demand thus far seems to have been very small. Continued pathogen or other findings overseas could lead to greater effects, including shifts to alternative meats which would change the pattern of energy and protein feed demand.

A similar concern is foreign-country policies over genetically modified crops, which could disrupt grain and oilseed trade flows. To avoid such disruptions, the Federal Government and private industry must both work to conduct and disseminate the scientific analysis that demonstrates the safety of U.S. agricultural products, educate foreign governments and consumers on these findings, and continue to press in international trade negotiations for science-based sanitary and phytosanitary trade regulations.

- **Crop disease and animal health concerns.** Another uncertainty witnessed over the past year is disease outbreaks which can affect crop trade. Karnal bunt had a serious potential impact on global wheat trade but was averted by strong control measures and scientific research, although some countries are still refusing our wheat. TCK is still a problem with China. Foot and mouth disease has led to a 20-percent contraction in Taiwan's hog inventory and a drop in demand for U.S. feeds. Hog cholera has led the Government of the Netherlands to propose a

one-quarter reduction in the country's hog inventory. Initial effects could be offset over time to the extent that U.S. pork exports increase to markets opened by fewer exports from Taiwan and the Netherlands.

- **Fast Track Authority.** The current prosperity of agriculture traces to the dynamism in the world economy which has been spurred by advances in capitalism, market-orientation and trade liberalization around the globe. World agricultural exports have grown from over \$200 billion in 1980 to over \$400 billion in the mid 1990's. U.S. agricultural exports have been growing three times faster than domestic consumption, allowing total demand to keep pace with yield growth.

Despite significant progress in opening markets, agriculture remains one of the most protected and subsidized sectors of the world economy. In addition, there has been a proliferation of bilateral and multilateral trade agreements in recent years. Preferential trade agreements like MERCOSUR in South America, ASEAN in Asia, and the Canada-Chile trade agreement put U.S. suppliers at a disadvantage by providing duty-free access to each other's markets. The President must have the assurances provided by fast track authority that Congress will act expeditiously and not amend negotiated agreements to effectively negotiate future trade agreements and trading rules. Failure to provide that authority would undermine future growth in U.S. agricultural exports and the prosperity of our farmers and ranchers.

- **China.** The outlook for U.S. agriculture is very much linked to what happens in China, home to one-fifth of the world's population. It is expected China's economy will maintain the strongest growth in Asia over the next several years with per capita GDP growth of 7 percent or more per year. As incomes grow, the demand for food is expected to outpace increases in

production causing China to expand agricultural imports. However, very little is known about the economic and trade policies that China will follow. Increased emphasis on grain self-sufficiency has raised production and stocks and corn exports this year. Continued incentives to expand domestic production and maintenance of trade barriers could dampen future growth world grain trade and grain prices. Alternatively, if the pace of economic and trade liberalization could quicken, China could be integrated into the world economy more rapidly than anticipated, which would further strengthen world grain markets.

Conclusion

Although crop agriculture has fared well over the past 2 years and long-term prospects are generally favorable, the new market-oriented environment presents risks that market participants must manage. U.S. producers have substantial tools available to deal with them, including yield and revenue insurance; well-developed markets for options, futures and forward contracts; commodity loans; private storage and credit markets; and a variety of marketing and production practices.

Like producers, the Government has responsibilities in the new environment to reduce risks to U.S. agriculture using the tools of science, trade negotiations and dispute resolution. Accessible and accurate market information is also critical for sound decision making at all levels of the marketing system. The Department has been a leader in providing accurate, accessible and timely information on agricultural markets must make every effort to maintain the high quality of its market information.

Mr. Chairman that concludes my testimony and I'll be happy to respond to any questions.

Table 1. Overview: Agriculture and General Economic Statistics

Item	Unit	1994	1995	1996	1997F	1998F
GDP	% Ch fr yr ago	3.5	2.0	2.8	3.8	NA
CPI All Items	"	2.5	2.9	2.9	2.3	NA
CPI Food	"	2.4	2.8	3.3	2.8	NA
Prime interest Rate	Percent	7.1	8.8	8.3	8.5	NA
Unemployment Rate	"	6.1	5.6	5.4	5.0	NA
Farm Loan Rates						
Non-Real Estate	"	7.8	9.5	8.5	9.4	NA
Real Estate	"	9.2	10.0	9.4	9.3	NA
Gross Cash Farm Income	\$ bil	198.3	205.0	220.6	218.1	NA
Cash Farm Expenses	"	147.6	153.8	160.6	163.4	NA
Net Cash Farm Income	"	50.7	51.2	59.9	54.7	NA
Direct Government Payments	"	7.9	7.3	7.3	7.6	NA
Farm Exports (FY)						
Value	\$ bil	43.9	54.6	59.8	56.5	58.5
Volume	MMT	127.5	169.7	158.4	144.3	161.4
Farm Imports (FY)	\$ bil	26.4	29.6	32.4	36.0	38.0
Agricultural Trade Balance (FY)	"	17.5	25.0	27.4	20.5	20.5
Farm Assets	\$ bil	938.1	978.1	1038.3	1085.0	NA
Farm Debt	"	146.8	150.8	156.1	158.0	NA
Farm Debt/Assets	Percent	15.6	15.4	15.0	14.6	NA

F=Forecast. NA=Not available. FY=Fiscal Year.