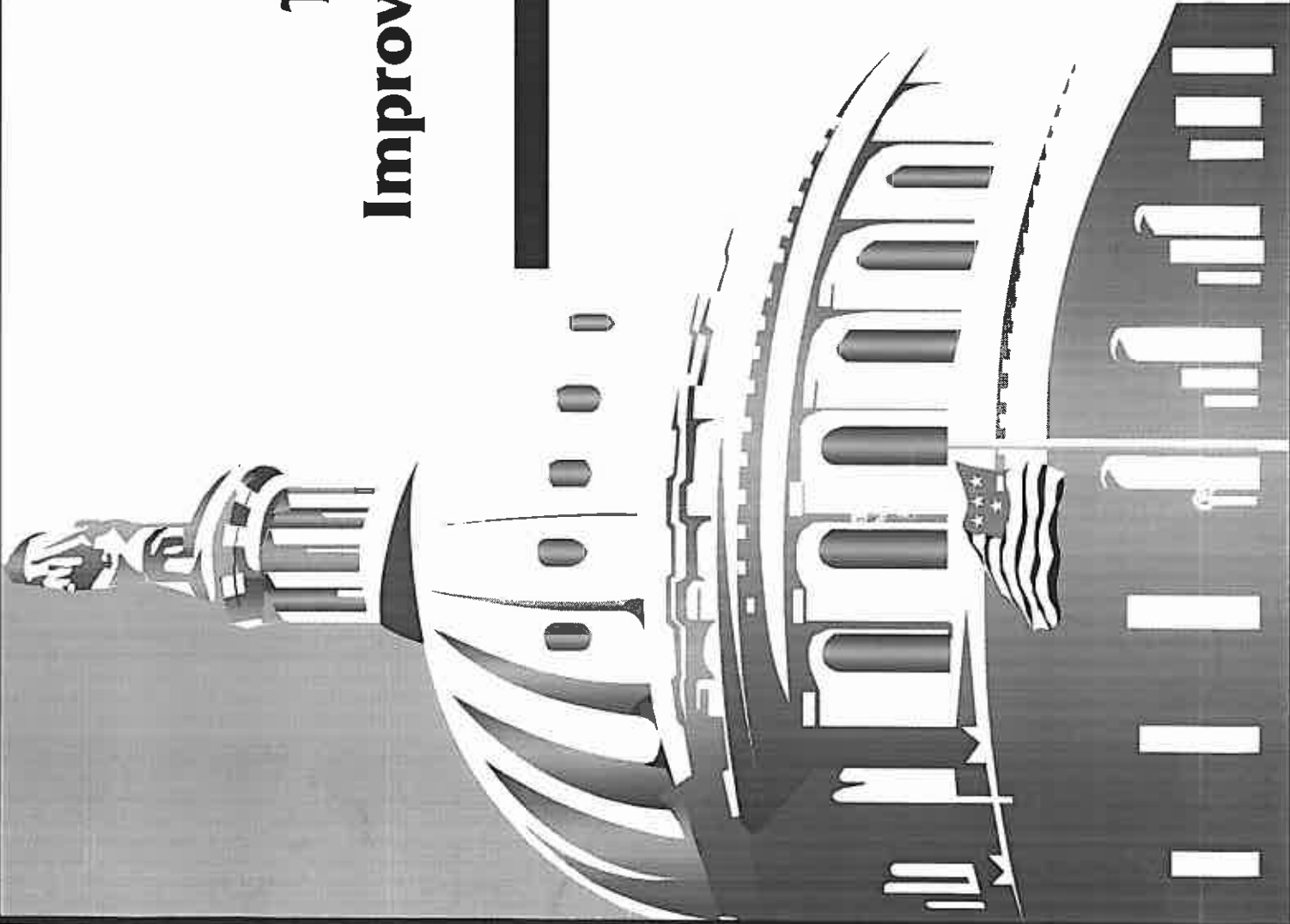


The Federal Agriculture Improvement and Reform Act of 1996 (FAIR)



FAPRI

At the University of Missouri

Food and Agricultural

Policy Research Institute

and

The College of Agriculture,

Food and Natural Resources

08-96

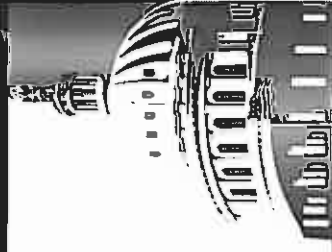


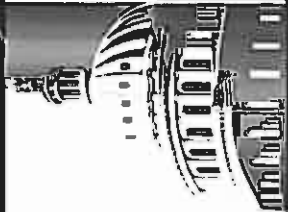
Federal Agriculture Improvement & Reform (FAIR) Act of 1996

- **Producer Signs 7 Year Contract**
- **Covers 1996 through 2002 Crops**
- **Sign-up Will Occur May 20 - July 12, 1996**
- **Producers Receive Annual Decoupled Contract Payments**
- **Payments Based on 85% of Contract Acreage (1996 Base Acreage)**

Federal Agriculture Improvement & Reform (FAIR) Act of 1996

- **Eliminates Set-asides and 0,50/85 Programs**
- **Full Planting Flexibility Between 8 Major Crops**
- **Unlimited Haying and Grazing on Contract Acreage**
- **Non-Recourse Marketing Loans Continued with 1995 Levels Set as Caps. Soybean Loan Rate Moves Between \$4.92 & \$5.26**
- **Eliminates FOR**





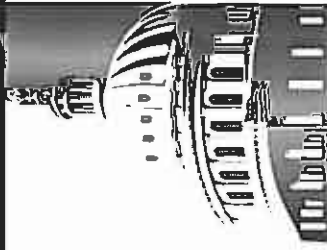
Projected Contract Payments Under FAIR Act of 1996

	1996	1997	1998	1999	2000	2001	2002
Corn \$/Bu.	0.39	0.37	0.40	0.39	0.35	0.28	0.28
Wheat \$/Bu.	0.90	0.65	0.69	0.66	0.61	0.49	0.48
Sorghum \$/Bu.	0.42	0.43	0.44	0.43	0.39	0.31	0.30
Barley \$/Bu.	0.34	0.28	0.29	0.28	0.25	0.20	0.20
Oats \$/Bu.	0.04	0.04	0.04	0.04	0.04	0.03	0.03
Cotton \$/Lb.	0.09	0.08	0.08	0.08	0.07	0.06	0.06
Rice \$/Cwt.	2.79	2.74	2.95	2.85	2.62	2.12	2.05

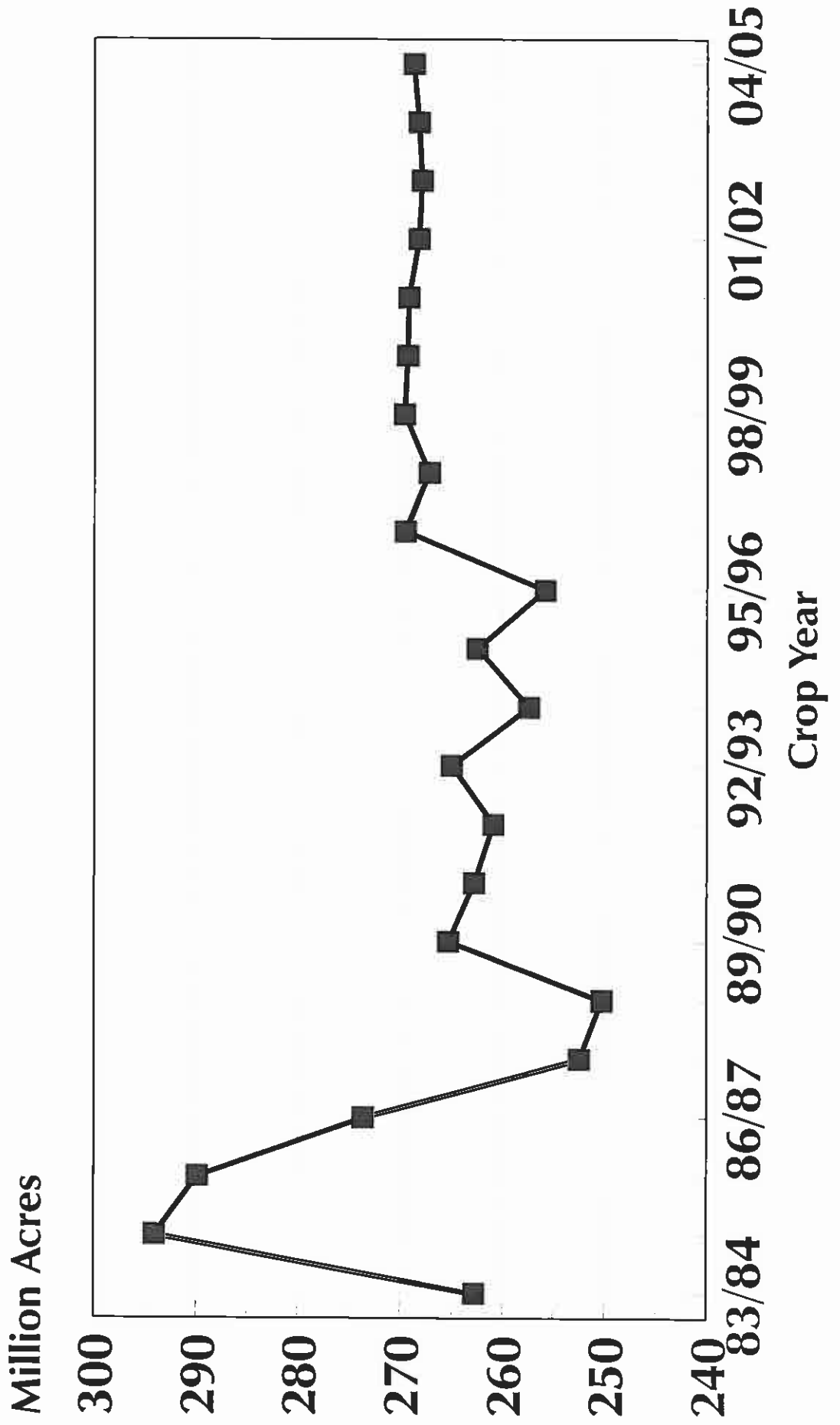


Federal Agriculture Improvement & Reform (FAIR) Act of 1996

- Reauthorizes CRP
- Dairy Program Phased Out Over 4 Years
- Maintains Permanent Legislation (1949 Act)

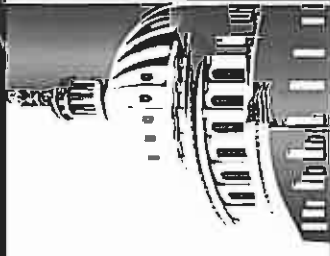


Overall Plantings

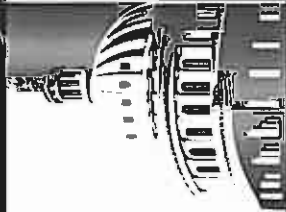


What Areas of Uncertainty or Questions Raised

- We have never operated with a farm program like this, many questions remain
 - Crops
 - Dairy
- Significant questions regarding market growth
 - China
 - FSU
 - ???



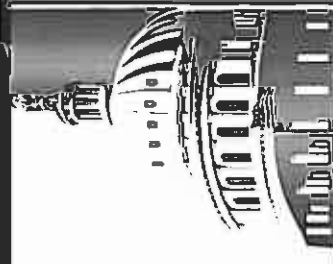
Potential Impacts on Current Business System



- Overall plantings likely to be higher in future than in last ten years
 - Eliminate set-aside authority, but also allow producers to receive payments without planting a crop
- Volatility between crops likely to be just as great, maybe greater in future
 - Direct comparison of market returns
- Producers will need help in managing risk
 - potential marketing tool

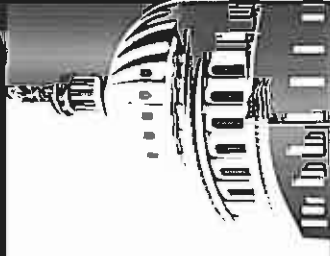
Other Potential Ramifications of the Change

- **Land Prices**
 - ▶ **near term, likely see upward pressure on land prices**
 - **reports of some pasture being broken out in preparation for planting corn/soybeans in midwest, even talk of spring wheat in Idaho, North Dakota etc.**
 - ▶ **longer run, depends on the market**

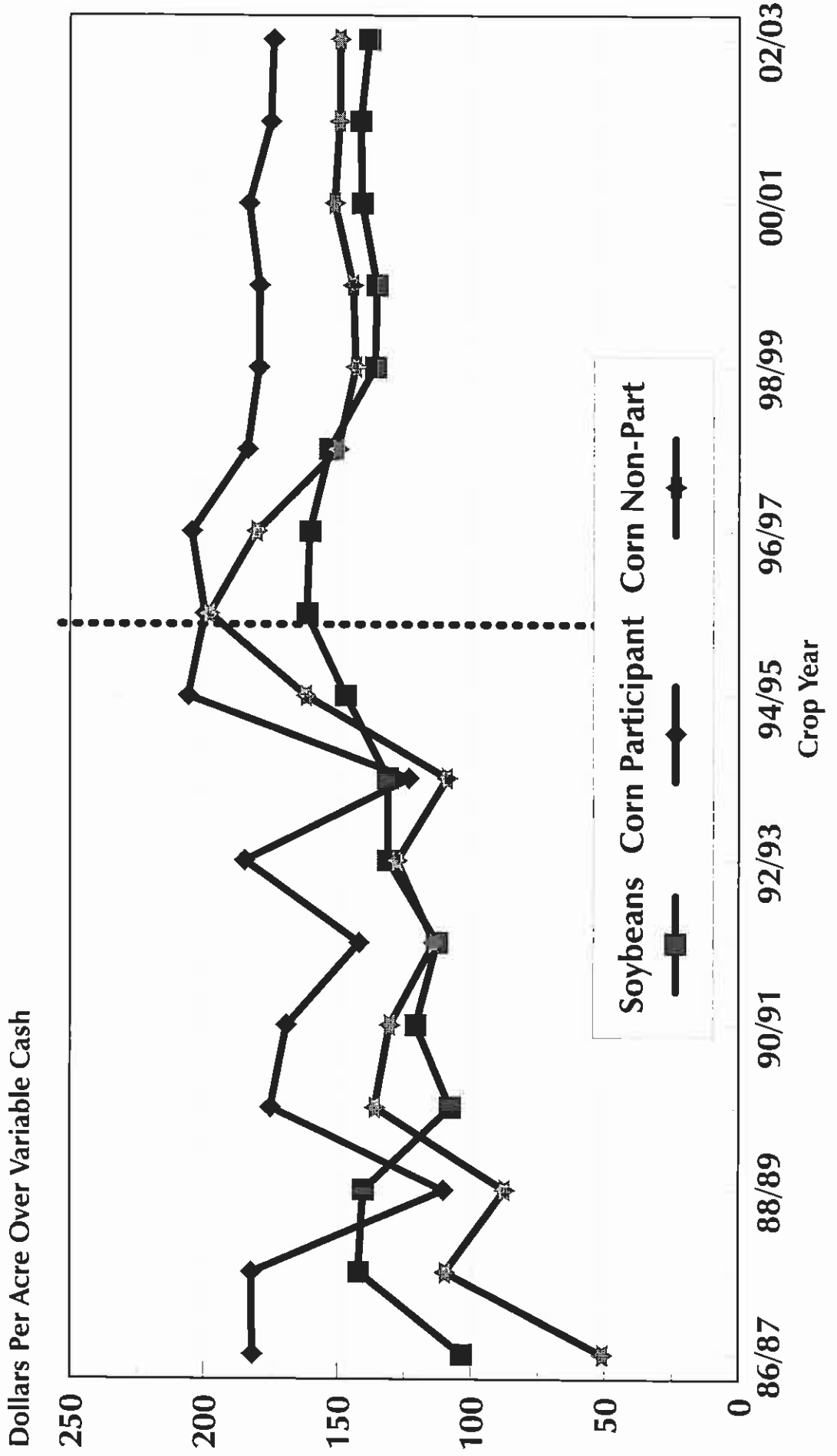
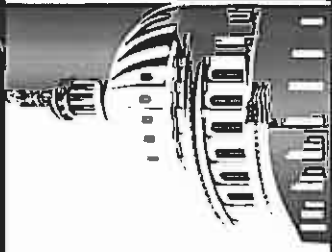


Impacts On Producers

- **Does Impact Differ By Crop?**
 - **Yes**
 - **will see direct comparison of market price returns, not of program returns**
 - **rice likely to decline in Texas, Louisiana significantly**
 - **cotton would have likely declined anyway, program change just help remove barriers to decline**



FTF Allows Direct Comp. of Market Returns





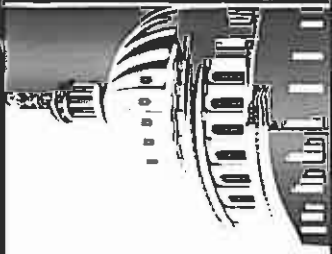
Implications on Planting Decisions

- **1985 & 1990 Acts Placed Significant Barriers To Shift From one Crop To Another**
 - **With Target Price At \$2.75, Required Soybean Prices Near \$7.00 To Generate Large Shifts**
 - **Or Required Producer Take 6-7 Years To Recoup Lost Deficiency Payments When Dropped Out Of Program To Plant Corn**



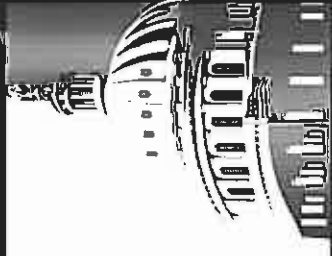
Financial Implications Compared To Current Farm Bill (Continued)

- **Effects will be most noticeable at the extremes**
 - **high price year like 1996 & 1997, will see noticeable increases in income levels**
 - **low price year like a 1992/93 will likely see noticeable decreases in income levels**
 - **no limits on upside potential, no real limits on downside potential either.**



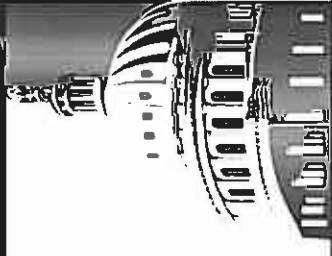
Identify the Impacts on Growers

- **Short-Term**
 - **Substantial increase in revenues in 1996/1997 relative to previous program**
 - **Probably see big increase in corn acreage**
- **Longer-Term**
 - **Much more capability to move from one crop to the other**
 - **Quicker response -- in much wider price bands -- to price changes.**
 - **Price volatility will continue, become the rule, not the exception**



Identification (Continued)

- **What were the objectives driving the change?**
 - **Budget and budget constraints**
 - **GATT and limits it imposes**
 - **Overall desire to reduce government involvement and shift more toward market**
 - **Recognize popularity of some environmental programs**



Summary

- **Planting Flexibility**
 - **No constraints between program crops and oilseeds**
 - **Unlimited haying & grazing**
- **Cut The Link To Prices**
 - **Payment rates fixed for seven years, not tied to market price movements**
- **Eliminate Annual Set-Aside Programs**
 - **Removes set-asides as condition for program benefits**
- **Phases Out Dairy Program**

U.S. Beef Supply and Utilization

	1994	1995	1996
		(Million Head)	
Cattle and Calves (Jan. 1)	101.0	102.8	103.8
Beef Cows (Jan. 1)	34.7	35.2	35.3
Total Cattle Slaughter	34.4	35.3	36.7
Supply		(Million Pounds)	
Beginning Stocks	529	548	519
Imports	2,369	2,103	2,080
Production	24,386	25,149	25,917
Total	27,284	27,800	28,516
Disappearance			
Domestic Use	25,125	25,460	25,925
Exports	1,611	1,821	2,113
Total	26,736	27,281	28,038
Ending Stocks	548	519	478
Per Capita Consumption		(Pounds)	
Carcass Weight	96.4	96.8	97.3
Retail Weight	67.0	67.3	67.6
Change	2.9%	0.4%	0.5%
Prices		(Dollars Per Hundredweight)	
1100 - 1300 #, Nebraska Direct Steers	68.83	66.24	63.82
600 - 700 #, Oklahoma City Feeder Steers	83.48	70.44	60.90
Utility Cows, Sioux Falls	42.47	35.54	34.14
Beef Retail	2.83	2.84	2.80
Net Returns		(Dollars Per Cow)	
Cow - Calf	-23.07	-87.04	-135.78
Feedlot	-5.04	-1.04	1.67

U.S. Pork Supply and Utilization

	1994	1995	1996
Market (Dec. 1)	52.9	52.6	52.6
Breeding (Dec. 1)	7.06	7.09	6.86
Total Hog Slaughter	95.7	96.3	96.2
	185	185	188
Supply			
Beginning Stocks	359	438	396
Imports	743	664	665
Production	17,696	17,850	18,051
Total	18,798	18,952	19,112
Disappearance			
Domestic Use	17,829	17,785	17,875
Exports	531	771	840
Total	18,360	18,556	18,715
Ending Stocks	438	396	397
Per Capita Consumption			
Carcass Weight	68.4	67.3	67.1
Retail Weight	53.1	52.4	52.0
Change	1.5%	-1.3%	-0.8%
Prices			
230-250#, Barrows & Gilts,			
Iowa - So. Minnesota	40.03	42.35	46.00
6 Market Sows	31.83	32.56	34.50
Pork Retail	1.98	1.95	1.98
Net Returns			
Farrow - Finish	0.33	0.38	0.30

U.S. Per Cap. Meat Consumption and Expenditures

	1994	1995	1996
Consumption			
Beef	67.0	67.3	67.6
Pork	53.1	52.4	52.0
Broiler	69.9	69.8	72.9
Turkey	17.8	17.9	18.3
Total	207.8	207.4	210.8
		(Pounds)	
Expenditures			
Beef	189.54	191.36	189.42
Pork	105.19	102.08	102.96
Broiler	63.00	62.98	61.00
Turkey	17.81	18.23	18.26
Total	375.54	374.64	371.63
		(Dollars)	
Implied Meat Bundle Pri	1.81	1.81	1.76
		(Dollars per Pound)	

U.S. Livestock Production and Prices

	1994	1995	1996
Production			
Beef	24.39	25.15	25.92
Pork	17.70	17.85	18.05
Broiler	23.67	24.83	26.47
Turkey	4.94	5.07	5.28
Total	70.69	72.90	75.72
		(Billion Pounds)	
Prices			
1100 - 1300 #, NB Dire	68.83	66.24	63.82
230 - 250 #, Bar. and Gilts, IA - So. MN	40.03	42.35	46.00
12 City, Whlsle, Broiler	55.70	56.40	53.63
E. Region, Whlsle, Turke	65.70	66.40	64.62
		(Dollars per Hundredweight)	

U.S. Milk Supply and Utilization

1996

1995

1994

(Million Pounds Milk Equivalent)

Supply		
Milk Production	153,664	157,483
Per Cow (Pounds)	16,175	16,721
No. Cows (1,000)	9,500	9,418
Net Imports in Fluid	148	148
Net Change in Stocks	(1)	0
Total Supply	153,811	157,631
Utilization		
On-Farm use	1,734	1,695
Fluid Product Use	54,664	55,008
Manufactured Use	91,868	97,394
Net Cream . Butter	24,535	24,980
Cheese	51,157	56,340
Frozen Dairy Prod.	12,543	12,696
All Other Mfg. Product	3,633	3,378
Residual	5,522	3,534
Total Utilization	153,811	157,631
Removals (TMSB)	3,999	2,961
Butter	1,794	571
Cheese	0	0
Nonfat Dry Milk	2,136	2,320
Prices and Returns		
Minnesota-Wisconsin	12.00	11.93
Manufacturing Grade	11.83	11.85
Fluid Grade	11.75	12.91
All Milk	12.83	12.89
Support Price	12.97	10.35
Net Returns	10.10	0.96
Assessments	1.73	0.05
	0.11	
		(Dollars per Hundred weight)

U.S. Corn Outlook

	1996/97 Projections			
	1995/96	Large	Average	Small
Planted	71.2	81.0	81.0	81.0
Harvested	65.0	74.5	73.3	72.1
Yield	113.5	138.0	126.4	110.0
Beginning Stocks	1,558	462	462	462
Production	7,374	10,284	9,266	7,930
Imports	15	5	10	20
Total Supply	8,947	10,751	9,738	8,412
Feed	4,550	5,250	5,000	4,400
Food, Seed, Ind.	1,685	1,750	1,730	1,670
Exports	2,250	2,325	2,200	1,950
Total Disappearance	8,485	9,325	8,930	8,020
Ending Stocks	462	1,426	808	392
Average Farm Price	3.10	2.35	2.65	3.30
Stocks-to-Use	5.4%	15.3%	9.0%	4.9%

U.S. Soybean Outlook

	1996/97 Projections			
	1995/96	Large	Average	Small
Planted	62.6	62.0	62.0	62.0
Harvested	61.6	61.4	61.1	60.8
Yield	34.9	41.0	37.0	33.5
Beginning Stocks	335	200	200	200
Production	2,152	2,517	2,260	2,035
Imports	5	5	5	5
Total Supply	2,492	2,722	2,465	2,240
Crush	1,370	1,410	1,355	1,285
Seed, Residual	112	120	105	90
Exports	810	860	800	740
Total Disappearance	2,292	2,390	2,260	2,115
Ending Stocks	200	332	205	125
Average Farm Price	6.85	5.75	6.50	7.95
Stocks-to-Use	8.7%	13.9%	9.1%	5.9%

U.S. Wheat Outlook

	1996/97 Projections			
	1995/96	Large	Average	Small
Planted	69.2	73.0	73.0	73.0
Harvested	61.0	63.5	62.1	60.6
Yield	35.8	37.5	36.5	34.5
Beginning Stocks	507	346	346	346
Production	2,186	2,382	2,265	2,090
Imports	70	75	90	110
Total Supply	2,762	2,803	2,701	2,547
Feed	175	200	175	140
Food, Seed, Ind.	966	980	975	965
Exports	1,275	1,250	1,225	1,140
Total Disappearance	2,416	2,430	2,375	2,245
Ending Stocks	346	373	326	302
Average Farm Price	4.45	3.75	3.90	4.35
Stocks-to-Use	14.3%	15.3%	13.7%	13.4%