Center For Agribusiness & Economic Development

An Agricultural Commodity and World Economic Outlook for 1999

With Focus on Georgia

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This report was compiled by faculty associated with the Center for Agribusiness and Economic Development to assist agricultural producers, agribusiness, lenders, and others interested in the agribusiness sector in forming business plans for the unfolding year of 1999. Specific outlook discussions are included for cotton, soybeans, peanuts, corn, vegetables, wheat, beef cattle, hogs, poultry, dairy, inputs, and a selection of national economies that are important players in international agricultural trade. The Center for Agribusiness and Economic Development hopes you find this publication useful. For more information about Georgia agriculture, you can contact the Center for Agribusiness and Economic Development using the addresses on the back of the report. The Center's website contains not only information about the Center but also a variety of Center reports, factsheets, and graphs about Georgia's agribusiness sector.

Some Specific Commodity Price Forecasts for 1999

Commodity	Season Average Forecast	Season Price Range
broilers	$0.59/lb	$0.53-0.64/lb
cattle, calf	$77.00/cwt	$60-90/cwt
cattle, stocker	$66.00/cwt	$60-70/cwt
corn	$2.35/bu	$2.20-2.50/bu
cotton	$0.65/lb	$0.60-0.70/lb

hogs	$31.00/cwt	$20-45/cwt
milk	$13.25/cwt	$12-16/cwt
peanuts, additionals	$325/ton	$250-450/ton
pecans	$0.85/lb	$0.80-0.90/lb
soybeans	$5.35/bu	$5.00-5.50/bu
tobacco	$1.73/bu	$1.68-1.75/bu
Vidalia onion	$13.00/50lb	$12.00-14.00/50lb
watermelons	$5.00/cwt	$4.00-6.00/cwt

Cotton The 1998 crop year has been a brutal reminder that we operate in a global economy. The economic crisis in Southeast Asia and more recently the devaluation of Brazil's currency have a negative impact on U.S. cotton exports and prices and continue to create a cloud of uncertainty over cotton's future. Economic uncertainties are almost always bearish.

Currently, 1998 cash prices and 1999 prices basis the December futures are both well below the full economic cost of production for most cotton producers. Clearly, for many growers any profit made on the 1998 crop was the result of Loan Deficiency Payments (LDP or POP) of mostly 8 to 10 cents per pound resulting from low world cotton prices. This causes us to worry about prospects for 1999.

The 1998/99 crop season thus far has been characterized by a sharply lower (compared to previous years) but a much better than expected U.S. crop and declining U.S. mill consumption and exports, resulting in higher than expected U.S. ending stocks, weak foreign mill demand, and improving supplies and stocks in exporting countries. We have also experienced an increase in imports of foreign textiles into the U.S. According to USDA's January reports, the U.S. crop is now 13.8 million bales (one million bales more than predicted three months ago) and 1998/99 crop year ending stocks are now projected to be 3.2 million bales. If mill use and exports do not reach current USDA projections and the crop gets a bit bigger, ending stocks could approach 3.5-4 million bales.

Cotton production in key foreign exporting countries has changed little the past 3 years but world cotton demand has declined sharply- 85.1 million bales for 1998/99 compared to 89.6 million bales in 1996/97. Chinese exports and stocks have increased this season but current low world prices have stalled the flow. While China holds large stocks and a policy that could potentially put those stocks in the pipeline at the right price, it may be hard for U.S. and world prices to mount much of a rally.

Much has been made of the recent drying-up of Step 2 funds (which subsidize U.S. exporters and mills and enhances U.S. competitiveness when U.S. price is above the world price). Without Step 2 funds, we have seen U.S. futures prices driven to near world price levels- a move I thought was unlikely- but we have also seen an increase in the U.S. crop which has contributed to the misery. But clearly the future direction of U.S. prices will depend on the direction of the world price (A-Index) and 1999 U.S. cotton supplies.

This year's price "stew" also includes factors such as foreign cotton imports into the U.S.. Imports are expected to begin under Step 3 in late February or early March. This is due as much to the reduced quality of this year's U.S. crop as it is price competition under the Step 3 formula. With the improved size of the U.S. crop and with imports, it is hard to visualize reasons for a sustained rally in old-crop futures. The best prices for U.S. cotton come when world supplies are tight, foreign demand is good, and U.S. exports are brisk. Right now, none of that is in the picture.

Remaining 1998 Crop Situation- I believe current prices have already factored in all the negative news. Prices are discounted in anticipation of increased U.S. crop size, continued weak exports, and pending imports. Thus we would like to hope that prices are now near the bottom although another 2-3 cent drop is possible on any further (unexpected) negative news. Chartwise, it's a long row to hoe back to the top. It looks like any recovery to the 63-64 cent area March futures would be an opportunity to unload some or all of any remaining crop. Any cotton not yet POP'ed should be. Cotton in loan should follow the same strategy as a cash sale. If cotton is below base grade, however, it will only get more difficult to find a home for it at a good price once imports begin. Holders of call options with a strike above 65-66 cents may find it difficult to profit from them- but because of the decline in futures prices this strategy has still worked better than warehouse storage.

Looking Ahead to the 1999 Crop- December futures are currently in the 63-64 cent area. No cotton producer is ready to fix a price or floor with a contract or put option at this level. As previously stated, this is above variable costs but below full economic cost for most cotton producers and I would not encourage anyone to price at these levels.

Ironically, most observers seem to think that U.S. cotton plantings may be equal to 1998 levels or actually increase in 1999- the price and profit outlook for alternative crops is as bleak or worse than cotton for many growers. Barring significant weather problems, this could potentially give us a crop in the neighborhood of 17 million bales or more- 3 million bales above this year. At present, there is no home (at a decent price) for 17 million bales of U.S. cotton and December futures is already telling us that.

Will we see POP payments again in 1999? (60-cent cotton would be a lot easier to swallow if we've got an 8-10 cent POP to go along with it.) I think a 1999 POP is possible but I am nevertheless cautious. The POP, if any, is driven by the world price or A-Index and the direction of the A-Index depends on many factors including world supplies and stocks. Among others, 2 factors could cause the A-Index to increase and the POP to decline (or disappear). If this year's low world prices would cause foreign acreage and production to decline, the A-Index would likely strengthen. But a reduction in foreign supplies could be offset by an increase in U.S. production. So any increase in the A-Index may depend as much or more on improved world consumption to tighten supplies. Also, this year's level of world prices looks to be low by historical standards for supply conditions of the magnitude we have. We now believe that the direction of the A-Index is as much a function of who (what country) has the cotton as it is the quantity of the cotton itself.

The direction prices take this spring will depend in part on whether or not Step 2 funds are renewed for the 1999 crop year. This will require reopening the farm bill. The availability of Step 2 funds would shore up 1999 crop prices in the event U.S. supplies are adequate and world demand stays weak. Price direction will also depend, to a lesser extent, on 1999 plantings. Eventually the market must reach a level that it feels will attract enough acreage and mills will begin to book their needs. With world demand weak and imports beginning in March, it could take prices a while to reach more desirable levels. December futures will not move too much too soon- as this would likely result in overplanting, so be patient with marketing decisions. Right now 70-cent December cotton looks to be the high mark, but is not likely anytime soon. Use of put options could be a very important tool for 1999.

Don Shurley

Soybeans Soybean acreage in Georgia in 1998 was the lowest since back in the 1960s with only 290,000 acres harvested. The drought ravaged the crop and yields averaged a meager 20 bushels per acre. Weak market prices contributed to farmers woes with cash prices falling below the $5.00 level during harvest before rebounding only slightly toward the end of the year.

The outlook for soybeans in Georgia in 1999 is not much better in terms of prices and thus acreage may not show much change. One factor may contribute to more acres in soybeans this year. The dire financial stress many farmers face may result in efforts to farm with less money in 1999 and soybeans are a relatively low cost crop to grow. The problem with this scenario is that while they may not cost as much as other crops, the potential profit is low as well. This leaves the projection for Georgia acreage on other factors. Current estimates are for about 500,000 acres seeded to soybeans in 1999.

The U.S. outlook for soybeans in 1999 points toward a slight reduction in acreage from last year, a drop of about 700,000 acres to 72 million planted versus 72.7 million in 1998. The generally weak price outlook caused by large U.S. and world oilseed supplies will keep prices depressed into the planting season. The South American soybean crop is expected to fall slightly in 1999 due to reduced acreage in Brazil. Mid season weather has been good for growth and development and thus a good crop is projected absent any late season weather problems. If U.S. acreage is near 72 million and if yields are near trend of 38.3 bushels per acre, a crop of 2.7 billion bushels can be projected. This is a large crop, the 3rd largest ever and combined with beginning stocks of 375 million bushels could provide the first ever 3 billion bushel total supply.

Use of U.S. soybeans will remain large for the coming marketing year spurred primarily by low prices. The expected contraction in the U.S. livestock sector will keep domestic crush near current levels of 1.65 billion bushels. Exports will also remain fairly steady at about 860 million bushels. While the south America crop may be below year ago levels, export potential has not expanded so the U.S. share of international trade will hold about steady. Total off take of U.S. soybeans will be about 2.65 billion bushels and while this may be near record levels, it will not be enough to offset the increased supply. Thus ending stocks will rise to over 400 million bushels. These stocks will place a firm cap on prices through 1999.

Soybean prices will likely average between $5.20 and $5.50 with a strong likelihood of new crop prices moving below the $5.00 during the growing season and into harvest. This will make profitable marketing a challenge for Georgia soybean growers in 1999.

George A. Shumaker

Peanuts **Color** In December, 1998 USDA announced a 1% increase in peanut quota for 1999. The quota will be 1.18 million tons compared to 1.167 million tons last year. This quota increase appears well in-line with current demand trends and should result in adequate, but not burdensome supply.

Through December, shelled peanut consumption is running 1.1% above the same period a year ago. Consumption of in-shell peanuts (roasting stock), however, is currently 23% behind last year. In total, when you combine shelled and in-shell use, consumption for the period August-December was down 2% from the same period a year earlier.

Looking more closely at the in-shell market, candy and snacks continue to be the bright spot- up 13% and 12% respectively. After an increase last year, thus far peanut butter continues to be somewhat of a concern. Use of peanuts in peanut butter is currently running 8½% below last year's pace. Despite a few "caution flags", few peanut farmers will argue with an increase in quota. Peanut consumption, however, still has a long row to hoe to get back to the levels of the late '80's and early '90's. Of course, part of the market has been lost permanently to imports.

An increase in peanut acreage (perhaps 10% or more) is expected in 1999. The price outlook for all of Georgia's other major row crops does not look good. Also, peanut yields in 1998 did very well compared to other crops despite drought conditions. Farmers may find additional peanuts competitive with other crops at current price levels.

Given the lack of profit in other crops, the potential exist that the demand for peanut quota pounds will be even higher than normal. This could lead to some inflation in lease rates. Growers are urged to budget and plan carefully.

For additionals, again given the lack of profitability in other crops, the temptation may be to overplant. We have seen a trend toward increased use of the buyback option on additionals. This has offered a better than average price for the grower. Export markets have been soft, however, and with a potential increase in acreage, growers cannot be guaranteed a good price ($350/ton or better) outside the buyback option. Again, growers are urged to budget cost carefully and evaluate how additionals compare to other crops under at various prices for additionals based on expected contract prices or other marketing scheme such as the buyback option.

Thus far this 1998/99 marketing year, over 200,000 tons of additional peanuts have been converted to quota through the buyback. That is equal to 17% of the '98 quota. Generally, buybacks are a win-win situation- the grower gets a better than average price and the user gets a peanut for less than the quota support price. Surprisingly 100,000+ tons of buybacks for 3 consecutive years has had no negative impact on CCC loan. It does question, however, what quota could be if not for buybacks.

Don Shurley

Corn Georgia corn growers suffered through 1998 with drought ravaged crops and very low market prices. According to the Georgia Agricultural Statistics Service, Georgia farmers planted 500,000 acres to corn in 1998 and harvested 400,000 acres for grain. State wide average yields were only 80 bushels per acre. Many observers feel these numbers understate the losses incurred due to the drought and hot weather. These numbers do not reflect the loss of quality of the crop due to disease.

In 1999, Georgia farmers will likely reduce corn acreage slightly. The primary reason is that with current prices for new crop corn, it will require well above average yields to turn a profit. At this point, a planting of 475,000 acres can be expected.

The corn price outlook for 1999 is dominated by very large stocks going into the harvest. Even with a projected small reduction in U.S. acreage, it is probable that total supplies in the fall of 1999 will be larger than in 1998. Current projections call for U.S. acreage to fall slightly to about 80 million acres planted. Given normal harvested acres and trend yields of about 128 bushels per acre, 1999 production would be near 9.4 billion bushels. Beginning stocks will be near 1.725 billion bushels and will contribute to a total supply of 11.13 billion bushels, up marginally from 1998.

Corn use in the 1999 crop year will do well to equal use for the 1998 crop season at 5.85 billion bushels. While at present the U.S. livestock sector has a record large number for animal units consuming grain, continued deep losses in the hog and cattle sector point to smaller numbers eating grain during 1999. Some analysts feel a 10 to 15 percent reduction in the hog industry is needed to bring supply into balance with demand in order to restore profits to producers. Cattle numbers may see a decline in the range of 3-5 percent over the next two years. The poultry sector will likely see continued expansion throughout 1999 and into 2000 at a rate of about 4-6 percent. Domestic meat consumption remains strong. The weakness in meat demand resides in the export arena caused by financial weakness in many countries that import U.S. meats.

Corn exports will likely be near steady for the 1999 crop marketing year compared to 1998 at about 1.7 billion bushels. Global course grain use has declined slightly over the last three years as has foreign production. This has resulted which has resulted in a buildup in stocks that can be used to meet any increased demand. Global corn trade will not likely increase unless there is a sharp reduction in production outside the U.S. The "other domestic use" category will see continued growth as ethanol production continues to increase. This category, which represents human use of field corn, has established itself as the second largest use category. It has shown steady growth and is a reliable market.

U.S. corn ending stocks will be near year ago levels at 1.6 billion bushels. Stocks of this magnitude will prevent prices from moving sharply higher without a threat to new crop production. Georgia corn prices for the 1999 crop will remain under pressure and will likely range between $2.20 and $2.50.

George A. Shumaker

Vegetables Demand for vegetables has slowed some from the 1980's, but it is still relative strong. The growth areas in the next few years will most likely be in the food service sector and exports. This includes such items as precut fresh vegetables which have been experiencing substantial gains. Also, ready-to-cook, especially microwavable vegetables, may be in a position to take off.

Exports will be the major source of growth for U.S. horticulture, but will represent only a small portion of Georgia's production. Canada is the leading importer of U.S. and Georgia's fresh vegetables. Vegetables accounted for 7.7 percent of Georgia cash receipts in 1997. Vegetable income ($476 million) ranked behind cotton ($709 million) and both trailed broiler's $2.3 billion. Georgia is primarily a fresh market producing state. USDA data have Georgia third in acreage of fresh vegetables and fifth in income from fresh vegetables. USDA data do not include all vegetables grown in Georgia or the U. S. About two-thirds of Georgia's crops and about half of our acres are not included in the USDA estimates.

Fresh market acreage accounts for over 90 percent of Georgia's. Approximately 85 percent of all acres are irrigated. Crops harvested in the spring accounts for 80 percent of the acreage. Over thirty different vegetables are produced commercially. Watermelons are the top ranked commodity by acreage (35,000 acres). Thirteen different vegetables exceed 5,000 acres each. Twenty-two vegetable crops exceed 1,000 acres each.

Areas of Concern: All of agriculture, but especially, the fruit and vegetable sectors will be faced with political and consumer concerns regarding food safety and the environment. If current trends continue, fewer and less effective chemicals will be available for production and post-harvest use. Growers will have to adapt new cultural practices that will hold costs in line with competition while still producing products that meet market requirements as to quality and "safety." The most difficult area for many growers may be in the marketing or post-harvest requirements. With fewer and less effective chemicals, new technologies may be needed to maintain the shelf-life quality that buyers demand. Consumer and political education may be necessary to assure that post-harvest treatments (such as irradiation) are not harmful.

Labor availability and costs may become more of an issue. Immigration, legal and illegal, is coming to the forefront of political discussion. From this will probably come more laws or at least rules and regulations affecting the availability and costs of farm labor. The Georgia Vegetable Growers Association is actively working with labor officials and politicians trying to develop rules and regulations that work for all concerned.

Outlook: The outlook for the next few years is for (1) slower, but continued, growth in production; (2) more adoptions of technologies that reduce costs per marketed unit; (3) coping with changes in rules and regulations relative to chemical and labor use; (4) and, increased competition from domestic and foreign sources.

William O. Mizelle, Jr.

Wheat Georgia wheat acreage in 1998 was a very low 240,000 acres due to extremely wet planting conditions in the fall of 1997 and low market prices. Planted acreage in the fall of 1998 didn't have wet weather hampering seedings but rather dry weather that may well have limited acreage. Additionally, market prices for 1999 harvest wheat did not encourage increased seedings. It is likely that Georgia wheat for harvest in 1999 will be only marginally different from last year.

The U.S. market remains in the doldrums. Both U.S. and global stocks of wheat are large, world trade is weak and prices remain under pressure to seek a level at which the excess supply can be cleared from the market. Current estimates are that wheat seedings for 1999 harvest will fall sharply from the 66.2 million acres of 1998 to about 62 million for this year. If this comes to pass, this would be the lowest since 1973.

Planted acres of 62 million would provide about 55.2 million harvested acres. Given trend yields of 40 bushels per acre, a crop of 2.2 million bushels would be produced. Combined with the large beginning stocks of over 825 million bushels, total supply would be near 3.1 million bushels. While this is a slight reduction in total supply, it is not near enough to allow prices to move significantly higher without an improvement in demand.

Wheat use will likely remain fairly steady for the 1999 crop marketing year at about 2.52 million bushels. Domestic use will rise slightly as it has for several years and account fro about 950 million bushels. Feed use of wheat will likely fall due to the abundance of corn at very low prices and will account for around 325 million bushels, perhaps even less. Exports will do well to equal the 1.15 billion bushels sold from the 1998 crop. Again, weak foreign economies and large global supplies will limit export growth. Ending stocks will fall from over 825 million bushels to around 625 million bushels providing a stocks-to-use ratio of around 24 percent.

Season average prices for 1999 wheat will range between $3.10 and $3.35. This is an increased from the $2.65 received for the 1998 crop.

George A. Shumaker

Livestock and Poultry Last year, cattle producers suffered through a poor year and for hog producers it was one of their worst ever. But poultry producers had one of their better profit years in 1998. The culprit for the red meats -record large hog slaughter and record heavy cattle weights - making for a record large red meat supply. Poultry producers, on the other hand, had their smallest year-over-year production gain in 15 years thus contributing only slightly to the large meat supplies of 1998. The small increase in poultry production helped to hold poultry prices high in the face of the red meat onslaught allowing poultry producers to benefit from low feed prices.

Also contributing to the problems of meat producers was the fact that most of the increased U.S. meat production had to be absorbed in the domestic market. That caused record large per capita total meat and poultry consumption in 1998. After growing significantly in recent years, exports (on a tonnage basis) of U.S. red meat products to foreign countries grew very modestly in 1998 and sales actually declined for poultry. Also, weakness in Asian and other economies resulted in more beef, pork and lamb from other meat exporting countries (Australia, Canada, etc.) ending-up in the U.S. market than in recent years.

In 1998, cattle producers continued to liquidate breeding stock while hog producers started liquidation in the fourth quarter of the year. Total U.S. red meat supplies are forecast to moderate in 1999, most of the decline in the first half of the year will be from reduced beef output. But U.S. broiler production may post large year-to-year increases in 1999, resulting in only a slight decline in total meat and poultry supply.

Beef Cattle Outlook
Cow-calf operations struggled in '98. Even with tighter feeder cattle supplies due to the smaller calf crops of recent years, dismal cattle feeding returns reduced calf and yearling prices in the second half of '98. Cow-calf returns over cash costs were lower in 1998 compared to 1997. The largest losses in this cattle cycle were posted in 1996 for cow-calf operations.

U.S. cattle slaughter in 1998 was just over 2 percent smaller than in 1997. But record fed cattle sale weights resulted in just over 1 percent more beef produced. In 1999, the impacts of declining cattle numbers will become apparent on cattle prices. Commercial cattle slaughter in 1999 may post year to year declines of 4 to 5 percent. And if cattle weights moderate slightly, beef production will decline slightly more than slaughter.

A rather unusual factor contributed to year-to-year declines in 1998's fed cattle prices. Asian and then Russian economic turmoil reduced hide and other non-meat values significantly in 1998. In fact, on a per fed steer basis the decline was $2 to $3 per cwt. in 1998 versus most of 1997. Values of non-meat items that come from cattle are not likely to return to levels of a few years ago until the Asian economies fully turn-around.

Cattle prices are forecast to generally increase in 1999. As the year progresses, year-over-year cattle price gains will be larger-and-larger. Fed cattle prices for the year are expected to average in the upper $60's per cwt., compared to $61.78 for 1998. For calendar year 1999, calf and yearling prices are forecast to average $4 to $6 per cwt. above 1998's. On a year-to-year basis, cattle prices will post their largest gains in the second half of '99. Calf producers will likely sell 1999 calves this fall quarter at the highest prices since 1993.

Returns for finished cattle are expected to return to the black during early 1999 with break-even sale prices of about $60 to $62 per cwt. Cow-calf returns are forecast to improve in '99, and most low cost producers will post profits. Overall, cow-calf returns this year should be the best since 1993.

Is There Hope For Hogs?

The last count of hogs and pigs across the country indicates that the worst hog prices since the great depression has speeded liquidation in the industry. Unfortunately, while prices may be considerably improved from the $10/cwt. prices producers received for Christmas, prices high enough to cover total cost will not likely return until the last half of 1999.

As of December 1, total U.S. hog numbers were up by 2% as compared to last year but 2% below September numbers. The pork factory or breeding herd was 4 % lower than last year while market numbers were 2% higher than last year. Georgia hog numbers were down 17% and the count of hogs in the state now stands at about one fifth the levels of 1980 and one third of the 1990 count.

If the latest hog inventory is to be believed, market hog prices will move back into the $30/cwt. level by late winter. Prices will quickly recover into the $20/cwt. range in early January as market numbers drop in line with slaughter capacity. The severe price depression of November and December 1998 was caused by a lack of places to kill all the hogs ready for market. Recent U.S. packing plant closures, labor strikes in Canada (pushing Canadian hogs south), and the holidays all contributed to the backup of hogs at slaughter plants. As hogs backed up, weights got heavier further contributing to the price free-fall. If there is a silver lining in the situation, it is that pork demand has remained strong. The extremely large supplies of pork are moving through retail at only slightly reduced retail prices. This means that farm level prices can recover quickly if numbers drop into the range that can be killed by U.S. packers in a normal work week.

Prices may reach the upper $30 to low $40/cwt. range by the last half of the year if the breeding herd reduction continues. $40/cwt. prices will be marginally profitable for efficient producers with low feed cost. But the hog price disaster of 1998 will require many years of profitable prices for producers to recovering their 1998 losses. For those that are able to survive the near term, the likelihood of a long string of industry profits looks probable.

Broilers Production Increases But Profits Steady in '99
Due in part to industry planning, in part to weather, and in part to disease problems in the breeding flocks, broiler production during 1998 registered its smallest percentage growth since 1982 at 27800 million pounds or approximately 2% more than 1997's production. Just as companies planned to hold the line on production during the first of 1998 in response to tight margins in prior years, the summer's heat cut into production even more. By late summer wholesale broiler prices were in the $70's. Profits were augmented even more as feed prices dropped some 20% below their 1997 levels. The results - some of the best industry margins in recent years.

USDA projects 1999 production to return to the 5% growth trend of the last 10 years. In light of the profitability experienced in 1998 and with feed cost looking to be at the lowest levels of the past 4 years, it would be hard to imagine the industry holding the line on production. If not for disease problems in the breeding flocks, odds would favor a 1998 production increase in the 6%-7% range. However, it may not be possible to reach even a 5% growth in 1999.

To some extent, the 1998 broiler demand situation was reversed from 1997's. Strong domestic fast food demand pushed boneless breast meat and wing prices up some 20% from 1997's levels. At the same time, a sluggish export market filled with large supplies of competing meats pressured dark meat prices. 1998 exports failed to met expectations as the largest broiler export market (Russia) collapsed and financial crisis in other countries limited demand. Large production in the other meats also limited broiler export appeal leaving 1998 broiler exports about 4% lower than in 1997.

1999's exports will likely show little growth over 1998 as the Asian and Russian economic crisis and large competing meat supplies limit export growth opportunities. In fact, broiler exports may fall again in 1999. Since exports represent about 18% of domestic production, export conditions will be key to broiler prices over the next year.

Wholesale broiler prices averaged about 63 cents per lb. in 1998, about 4 cents higher than in 1997. Prices are expected to remain above year earlier levels through the first part of 1999. By the second quarter of 1999, broiler prices are likely to fall behind 1998's pace by 2 to 4 cents per lb. For the 1999 year as a whole, broiler prices are expected to average around 59 cents per lb. While 1999 broiler production returns will not be as large as those experienced in 1998, they will remain comfortably in the black provided feed cost continue at low levels.

John C. McKissick

Dairy BFP futures prices have declined significantly since the December BFP was announced. The December BFP set a record at $17.34, up 50¢ over November and up $4.05 over December 1997. Over the past several months the cheese market has pushed milk prices to once unthinkable levels.

December's BFP capped an extraordinary year for dairy farmers. For 1998, the BFP averaged a record $14.20, topping the old high by a staggering 81¢ ($13.39 in 1996). The milk price is even more remarkable when considering the 1990-1997 average was $12.03.

Cheese blocks set a record of $1.90 per pound in December. Prices have fallen since that time with an anticipation of increased milk production and resulting cheese production along with a seasonal decline in cheese sales. By the middle of January cheese prices stabilized as we get closer to Super Bowl week which is the highest pizza (and therefore cheese) sales week of the year.

Still, milk prices are declining. The big question for 1999 is how low will milk prices go and how long will they stay there? Milk prices should fall at least $1.00 per cwt. from 1998 as supply begins to respond to the high prices.

USDA's November milk production report does show milk production strengthening. While milk production compared to a year ago was down in July and August, it returned to a slight increase in September and October, but increased 3.0% for November. Milk cow numbers have stopped declining. For the 20 reporting states, milk cow numbers are down just slightly, -0.1% from a year ago. But more important, milk per cow has returned to a more normal increase, being up 2.8% from a year ago.

Mild weather has been a factor across the country for improved milk production per cow. Also a milk-feed price ratio of 4.23 compared to 2.73 a year ago encourages grain and concentrate feeding for milk production.

Milk production in Georgia continues to decline in spite of record prices. Much of the rest of the south are following similar trends. Kentucky for example, had 7.3% less milk and Florida experienced a 2.7% decline.

Two factors could hold down production increases in 1999. First, heifers are in short supply and second, with lower milk prices, bST use will likely fall.

On the demand side, the impact on demand has been minimal. Commercial disappearance was up 2.2% for the first nine months of the year. This increase in demand is due to growing cheese sales since butter and fluid milk consumption is down.

Other major factors which will have an impact on prices include: Federal order reform - Congress will have to override The Secretary of Agriculture if Option 1-B is included in the reform package. Southern Dairy Compact - The Compact will be introduced in the Georgia Legislature early in the session. It will have to pass there as well as be approved by the U.S. Congress. Compact pricing will not occur until 2000. DCMA - Cooperatives have done an excellent job in maintaining premiums in the face of record prices. As supplies increase, they will have to work hard to maintain the premiums. Weather - As usual, the weather may have the final word. The Midwest and Northeast have already had a hard winter but there has not been a major impact on production. The Western states, which have had a mild winter to date, are poised for a rapid growth in production. That leaves the South. We should have a mild winter and very good prices during the first part of the year. By the middle of the year we could be facing low prices and another long hot summer. BFP Price Projections

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1998	13.25	13.32	12.81	12.01	10.88	13.10	14.77	14.99	15.10	16.04	16.84	17.34
1999 (proj)	16.03	13.65	12.74	12.33	11.95	12.01	12.37	12.65	13.05	13.30	12.97	12.55

William A. Thomas

Inputs Overall, the cost of farming in 1999 is not expected to change much from last year.

The cost of borrowed funds is expected to remain near or maybe slightly below 1998 levels. Most operating loans are based on the Prime Rate plus 1% to 2%. The prime has been lowered in recent months and is slightly below levels of a year ago.

Fuel and Energy costs are always hard to call. Fuel prices have trended down in recent months due to a decline in world demand for crude oil and some new oil reserves discovered in recent years. If OPEC doesn't create an artificial shortage of crude oil, fuel prices may be near or below last year's level. One unknown - How will the severe weather in the Northern U.S. affect the demand for heating oil, and will this force up diesel prices? Maybe, but they should come back down by this summer.

Fertilizer Prices are generally determined by the total crop acreage in the U.S. and worldwide. Total U.S. acreage is not expected to increase this year. We're not looking for a big change here.

Seed and Farm Chemicals - These currently show little inclination to escalate dramatically. Seed supplies are expected to be plentiful. As roundup ready seed appears to be plentiful, and if the majority of weed problems can be controlled with roundup, some traditional herbicide prices may drop due to a decline in their demand.

Animal Feed - Poultry and livestock growers have relatively inexpensive corn, a major component of production costs.

Machinery Prices and Repairs - Equipment dealers report new item sales are down from last year. Look for most equipment item sales to stay flat, although, repair costs may keep up with the inflation rate.

Labor - Workers are in short supply in many U.S. markets for all segments of the economy including agriculture. However, wage pressure does not seem to be materializing, so labor prices are not expected to change much.

Bill Givan

World Economic Outlook The U.S. economy should still grow at a steady, sustainable pace (2-4%), with some increased risk of inflation due to money supply growth. Unemployment will remain low meaning labor supply will continue to be a big issue. Canada will trail the U.S. in economic growth and Mexico is likely to have a very poor year due to Brazil's current problems, their growing difficulties with crime and corruption, and likely tightening of international credit following recent events in Southeast Asia.

Europe will probably have small positive growth on average, with some countries slightly negative and many slightly positive as they move slowly toward monetary union. The effect of further unification on farm subsidies is an issue worth watching. Also, environmental concerns will continue to be an important factor in their agricultural and economic policies.

South and Central America is difficult to forecast at this point due to Brazil, the eighth largest economy in the world. Because Brazil serves as a bellwether for this region, its problems will slow foreign investment to the whole continent (and Mexico). However, the devaluation of these countries' currencies make their exports less expensive which is important for its impact on world commodity prices. Trouble with large South American economies will put downward pressure on many commodity prices, hurting U.S. farm income both through the lower prices and reduced imports (as countries buy cheap exports from Brazilian and other South American producers).

Southeast Asia should finish its economic meltdown in 1999 and begin the slow road to recovery. It may well take several of the countries four to five years to recover their previous economic strength. In the meantime, only a few Southeast Asian countries will be good markets for U.S. agricultural exports with the most likely being Taiwan, Hong Kong, and Japan.

Because Southeast Asia is an important market for many U.S. agricultural exports, it is worthwhile to focus in a little more depth on what happened in Southeast Asia to cause so many countries to undergo simultaneous economic crises. There are four common threads, and then many differences to make the situation more confusing. The four common threads are:

1. much of the region's high productivity growth was due to increases in human capital (education) which had to slowdown as the easy gains were captured,

2. much of the investment capital came from outside the region, not domestic savings (as some thought), so the flow of money could stop quickly (and did),

3. disequilibrium investment led to the oversupply of many types of projects, and
4. foreign currency traders further destabilized the situation when it went bad.

Now, what were some country-by-country differences?

Indonesia: Their economic problems started with a severe drought, then fires, which hurt their
resource-based economy. They also borrowed heavily on expected high continued growth rates, so that even average performance led to problems paying off the loans (think 1980s U.S. farm crisis here: You cannot borrow when times are bad and when times are good). Political corruption and opposition plus racial unrest made matters worse. Malaysia, Korea, Thailand, and the Philippines all suffer from similar problems without quite as many political difficulties.

Taiwan: Taiwan is doing pretty well because it was more fiscally conservative and didn't over-borrow for high risk projects. Its agricultural sector should be stable and it will remain a good market for U.S. exports. Singapore followed a similar path.

Japan: Theirs is a totally different scenario. They did not borrow heavily on foreign capital,
but instead did use mostly their own funds generated from savings. Their economic problems have roots in two related phenomena: a speculative real estate bubble and banking insolvency. Japanese real estate soared to incredible heights in the 1980s . For example, the paper value of downtown Tokyo real estate at one time exceeded the value of all U.S. real estate. Banks loaned the money to finance many of these purchases. When the bubble burst on real estate prices, the owners of the real estate and the banks were trapped. If the owners sold, they would have to take a huge loss and could not pay off the whole loan; if the banks foreclosed on any of these loans, they would have to take the loss. Thus, they both simply decided to wait and hope prices would go back up. It hasn't happened yet, and meanwhile it is making it difficult for the banks to make new loans for productive projects, slowing their economic growth. The government is finally trying to begin a bank bailout similar to the U.S. savings and loan bailout of the late 1980s and early 1990s. It will probably be at least 2 years before Japan can really grow strongly again.

Jeffrey H. Dorfman