



# Center For Agribusiness & Economic Development

## **An Early Look Forward to 1998 for Georgia Agriculture**

Jeffrey Dorfman, Bill Givan, John McKissick, Bill Mizelle, George Shumaker,  
Don Shurley, and Bill Thomas

Center for Agribusiness and Economic Development  
College of Agricultural & Environmental Sciences  
The University of Georgia

Agriculture is very important to the economy of Georgia. Farm production accounts for \$6 billion of annual revenue within the State. Looking more broadly, the food and fiber sector contributes in the neighborhood of \$30 billion of value added to the state economy. In this brief overview, we present an early forecast of 1998 conditions for Georgia agriculture. This look forward covers the major commodities only due to space, concluding with some discussion of the macroeconomic conditions for agriculture in 1998.

**Poultry:** U.S. broiler production will expand by 6% in 1998 after posting a gain of only 4% in 1997. This is good news for Georgia's number one agricultural commodity. Broiler prices, however, will remain flat due to the production expansion and slow growth in exports. Broiler producers should remain profitable in 1998 provided feed cost remains in check. Egg production in Georgia should continue a steady increase with a 5% gain in production and 3% gain in flocks in 1998. Prices for both table and hatching eggs should remain near 1997 levels.

**Cotton:** Georgia ranks second in cotton acreage behind Texas and third in total production behind Texas and California. Georgia farmers planted 1.44 million acres in 1997 and should receive a farmgate value of approximately \$800 million for this year's crop. The state's acreage in 1998 is expected to be 1.4 to 1.5 million acres but could top 1.5 million. Price trends for corn and soybeans over the next few months will play a major role in determining 1998 cotton acreage. Farmers have enjoyed 4 consecutive years of relatively good prices, and prices in 1998 are expected to remain attractive and competitive with other crops. Cotton production and stocks in major exporting foreign countries should remain favorable to U.S. cotton exports which have averaged 7.26 million bales per year for the 1995-97 crop years. Continued exports of 7 million bales or better, including strong sales to China, will be the key to maintaining cotton prices at the levels enjoyed over the past 3 to 4 years; that is, in the 70 to 80 cents/pound range.

**Peanuts:** Following a farm bill-induced quota reduction of 18 percent in 1996, peanut acreage appears to have stabilized and supply and demand are in much closer balance. Georgia acreage for 1998 should remain at about 520,000. Contract prices for quota peanuts have been approximately \$625 to \$650 per ton and "additional" (production in excess of quota for the export market) have been priced at \$350-\$375 per ton with some higher returns through use of sheller buyback options. If increased use of buybacks by shellers and additional growers continues, this could spell deflated prices and value for quota peanuts. Between the minimal growth in domestic demand and the NAFTA provisions for increased imports of peanuts and peanut butter, there is growing pressure on peanut growers to reduce the costs of production per ton. Growers must be careful not to overplant.

**Corn, Soybeans, and Wheat:** 1997 saw very large production of corn, wheat and soybeans in the U.S. and wildly fluctuating prices, especially for corn and soybeans. The rallies were fueled by declining crop prospects at harvest and astoundingly strong demand for feed, both domestically and in the export markets. The strong markets late in 1997 point toward a repeat of large acreage for corn at the expense of soybeans with perhaps a slight decline in wheat seedings this fall. Current new crop futures contract prices provide a slight advantage of corn versus soybeans in next year's crop mix, and low corn ending stocks indicate a likelihood of stronger corn prices to come during the spring if demand remains high. Together, this implies an increase in corn planted in 1998. The strong fall price for soybeans is likely to encourage South American farmers to increase plantings this year, with record acreage expected. If that happens, spring soybean prices will hold at the current levels at best and 1998 U.S. acreage will decline.

The wheat markets have been weakened by very large global production. The result has been poor performance of U.S. wheat in the export markets. 1997 crop exports are projected to be at the second lowest level of the decade. Feed use of wheat may increase due to high corn prices, lifting total usage slightly above year ago levels. However,

ending stocks will still increase, keeping downward pressure on prices. Seeding this fall for next spring's harvest is likely to fall slightly, especially in areas where land competes against corn.

**Beef and Pork:** Beef production will fall by around 3% in 1998 compared to 1997 as cattlemen continue to trim their herds in response to the losses incurred in 1995-96. Lower cattle numbers will allow calf producers to show marginal profits in 1998 and should lead to some rebuilding of the beef factory. U.S. pork production will show significant growth in 1998, topping 1997's production by as much as 5%. Lower feed cost in 1996 and the second highest yearly average price led to the most profitable pork production year since 1990. Increases in pork production will be limited by restrictions in several states which have led the nation in hog expansion in recent years. Farm prices may fall as much as 10% (\$5/cwt.) in 1998 from 1997's levels but will still yield profits provided feed cost do not increase significantly. Georgia hog numbers may reverse a 9 year decline in 1998 and begin to increase, particularly if Georgia producers are successful in their efforts to bring a new pork processing market to the State.

**Dairy:** Given uncertainty over federal milk policy, late 1997 milk prices, and grain prices, it is very difficult to predict milk prices for 1998 at this time. However, if the recent trend of production increases that exceed growth in consumption of total dairy products continues, 1998 prices are likely to hold flat at best, or be somewhat below 1997 levels. Georgia production will depend on milk prices, grain prices, and forage quality. Given that Georgia producers are already operating below the break even point, production is likely to be very sensitive to input costs; high feed costs could drive many small producers out of business.

**Fruits and Vegetables:** Georgia's fresh vegetable and melon acreage should be about the same in 1998 as in 1997. However, output should continue to increase as more acreage is grown on plastic mulch which has higher yields. A slow, steady growth for the industry should continue for the rest of the 1990s, in contrast to the rapid growth experienced in the 1980s. Georgia fruit production may be down slightly in 1998 since 1997 had very favorable growing conditions, especially for peaches which should have lower 1998 production after a near perfect 1997 (following the total disaster of 1996).

**Farm Income and Macroeconomic Climate:** Gross farm income is expected to fall slightly in 1998, to \$195 billion nationwide which will be augmented by slightly under \$8 billion in government payments. This is down less than one percent from 1997's expected level. Flat production cost expenses, input prices, and interest rates should combine to leave net farm income essentially unchanged at \$45 billion for the U.S. and at \$2 billion for Georgia. These values depend somewhat on oil prices remaining at recent levels and no major weather-related disruptions. The other farm input of concern is labor; minimum wage increases are hurting profitability in the whole agribusiness sector on top of a very tight Georgia labor market which is leaving some farmers with frequent labor shortages. After 1998, net farm income is expected to rise mainly on the strength of increased profits in the livestock sector. U.S. agricultural exports are expected to increase in 1998, with 6% growth in quantity exported and a 1% increase in the total value of U.S. agricultural exports. Food prices to consumers should increase by 2-3% in 1998 in a continuation of the recent economy-wide pattern on moderate inflation.