Economy — in a word, stagnant

by Lester V. Manderscheid

The word "lull" is used by many to describe the outlook for the U.S. economy for the next year. The choice of word reflects a belief that the economy will continue to grow at a 2 to 2.5 percent rate. Unemployment will remain steady, and inflation will subside.

Interest rates are expected to vary little from their 1996 levels, with some downward drift more likely than upward movement. Monthly inflation variations will continue, but will probably be smaller than during the past year. Introduction of the indexed Treasury bond will introduce an element of uncertainty until the market is established. Most economists do not expect the introduction to significantly affect other interest rates such as mortgage rates or operating loans.

What are some of the risks that might cause the economy to behave differently than expected? One concern is the behavior of the economies of other major countries. For example, the Japanese prime minister announced a reduced role for the government in the economy and that no money would be available to prop up the Japanese financial markets. As a result, prices on the Tokyo Stock Exchange, as measured by the Nikkei index (similar to the Dow Jones index for the U.S.), fell 19 percent in six weeks. Will this and future events affect other economic policy?

Another risk concerns lack of productivity in the U.S. Over the past two years, productivity has grown at an annual rate of 0.6 percent. A number of economists believe the problem is how we measure productivity. How does one measure productivity in the entertainment industry? Other areas where productivity is hard to measure include construction, wholesale and retail trade, insurance, finance, and other services. The Federal Reserve Board (FRB) might increase interest rates to slow inflation and economic growth.

A number of economists believe the problem is how we measure productivity. How does one measure productivity in the entertainment industry? Other areas where productivity is hard to measure include construction, wholesale and retail trade, insurance, finance, and other services. The Federal Reserve Bank of St. Louis says we can reasonably estimate productivity in 29 percent of the economy. In other words, how we value the services of a hospital, the entertainment industry, or the insurance industry, in the overall economy, is less than 10 percent (the difference). GDP is less than 70 percent of the economy. The FRB is currently working on a new measure of productivity that is more accurate than the reported productivity measure. If the reported measure is correct, there may be problems ahead for the economy.

1997 outlook for production inputs

by Chris Peterson

The year 1996 was a year of high nitrogen supplies and rapidly accelerating prices. The 1997 fertilizer outlook is good news for producers. Nitrogen supply difficulties appear to be behind us with supply and demand roughly in balance. As a result, nitrogen prices have been stable for a number of months with recent prices actually moving downward.

One would expect prices to firm as we move closer to the planting season, but the overall outlook is for stable prices. A major problem for the planting season is for inputs to come in on time. Nitrogen prices should continue to firm up to a level that is reflective of the supply and demand relationship.

On the demand side, the absence of government and state orders since the 1995 harvest means that nationwide a substantial increase in acres planted occurred last year with any substantial additional increase in acres planted unlikely for this year. Demand will thus be historically high, but the pressure of rapidly increasing demand will not be as great.

Chemicals

Chemical demand will also be little changed from last year, although the introduction of bio-engineered crops makes this a more difficult prediction than in the past. In its first year, Bt corn has shown mixed yield results around the state, but its broader adoption will decrease chemical demand in the long run. The overall trend in Bt corn and Roundup Ready soybeans will be a downward trend over several years. The demand for Roundup Ready soybeans will not be as great.

The full impact of Bt corn and Roundup Ready soybeans will take several years to determine, and their adoption will be among the most closely watched trends in the seed industry.

Dry edible bean seed supplies should be adequate this year with perhaps some specific variety shortages, depending upon planting decisions that appear more uncertain this year than in the past.

The convergence of fertilizer, chemical and seed markets

With the increasing environmental concerns about fertilizers and chemicals, and the convergence of the chemical and seed industries through biotechnology, it will become increasingly difficult to view the outlook for fertilizers, chemicals and seed as distinct issues. Demand for all three inputs has been highly correlated in the past, but as more and more producers have made direct agreements to purchase their inputs, they may find the need for specific inputs is less important.

As producers head into 1997 ready to face the challenges of another crop season and varying livestock markets, Michigan State University's Department of Agricultural Economics has once again provided its annual Economic Outlook Issue covering everything from the demand for inputs to the variables in final pricing for agricultural end products.
T he Asian longhorned beetle, an invasive pest believed to have been brought into the region on imported wood products, has been discovered in a number of locations in New Jersey, according to the New Jersey Department of Agriculture. The beetle can cause extensive damage to a wide variety of hardwood species, including oak, maple, ash, and hickory. It is not known how the beetle arrived in the state, but it is believed to have entered through shipments of infested wood products.

The beetle was first discovered in New Jersey in 2002. Since then, efforts have been made to contain the spread of the pest, but it continues to be a significant threat to the state's forests and economy. The New Jersey Department of Agriculture is working with federal and state partners to develop a comprehensive management plan for the beetle.

The beetle is a small, brownish insect with a distinctive spiral pattern on its elytra. It is a native of China and has been spread to other countries through the trade in infested wood products. The adult beetle is about 12 millimeters long and has a wingspan of about 20 millimeters. It feeds on the inner bark of trees, causing extensive damage to the trunk and roots.

In addition to causing damage to trees, the beetle also poses a threat to human health. The larvae of the beetle can produce a toxic compound that can cause allergic reactions in some people. To prevent the spread of the beetle, it is important to inspect all imported wood products for signs of infestation and to dispose of infested wood products properly.

The New Jersey Department of Agriculture is currently working with federal partners to develop a comprehensive management plan for the beetle. The plan will include strategies for early detection, containment, and eradication of the pest. It will also include outreach and education efforts to inform the public about the beetle and its impacts.

The beetle is a serious threat to the state's forests and economy, and it is important to take action now to prevent its spread. By working together, we can protect New Jersey's forests and economy from the harmful effects of this invasive pest.
Farm Bureau legislative accomplishments in 1996

During 1996, Farm Bureau was involved in promoting the passage of several pieces of legislation in both Washington and Lansing. The following is an update on some of the issues for which favorable legislation was passed during 1996.

National Issues

Congress passed and President Clinton signed into law the Food Quality Protection Act. The act addresses many issues of great importance to Michigan agriculture, such as:

- Safety Standard. The act replaces the antiquated "zero tolerance" standard with a health-based "safe" standard for pesticide residues.
- Benefits Consideration. Tolerances could be exceeded to avoid a significant disruption in the process for employers. The new law reduces the length of a renewal contract to seven years.

Line Item Veto

Line item veto allows the president to veto portions of appropriations or tax bills within 10 days of enactment. This should help reduce the amount of pork barrel legislation that has occurred in the past.

Health Care

The president signed the Health Coverage Availability Act during 1996. The law allows small businesses, who are struggling economically, to allow individuals to withdraw funds from 401(k) plans and individual Retirement Accounts to pay for long-term health care.

State issues

Milk Act Amendment

The Milk Act was amended to provide additional security in dairy operations. Farmers accept payment for milk delivered to milk plants. Authority is strengthened for the Michigan Department of Agriculture to respond to a timely manner in the event of substantial erosion of the financial security of a milk producer.

Grain Dealers Act

The Grain Dealers Act was amended to protect farmers who transport grain, incident to their farming operation, from obtaining a grain dealers license, which includes posting financial security and annual audits.

Maple Syrup Standards

This law establishes a standard for real maple syrup, that protects consumers from individuals mixing sugar and water with maple syrup flavoring and selling the product as real maple syrup.

Wood Ash

This act clarifies that wood ashes from burning wood (except pruned larch and other byproduct) is not classified as solid waste, thus allowing the wood ash, rich in potash, to be applied to land.

Animal Drug Availability Act

This act makes changes in Food and Drug Administration regulations to provide the agency with the flexibility to approve more products that are safe and effective for various types of animals.

Immigration Reform

This law creates three voluntary pilot programs to use in telephonic and electronic employment eligibility confirmation process. The efforts of these test programs are to streamline and improve the process for employers. The new law reduces the current 28 different documents that can be used to prove an employee's eligibility to work to less than 10, thus reducing the confusion over the wide variety of documentation. Employees who fail to comply with technical or procedural requirements in filling out the 1-9 employment verification form will not be held liable unless the IRS first explains the error and the employer has been provided 10 working days to correct the error. Farm Bureau worked hard for the passage of this reform.

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1997 Michigan farm income outlook

by John (Jake) Ferris

The economic success of the Michigan farm income is largely dependent on the total harvested acres of dry beans, hay, sugar beets and potatoes to corn, and is also substantially smaller in 1996 relative to 1995. The farm program eliminated set-asides and allowed farmers more flexibility in allocating acreage. Yields, which plummeted in 1996, primarily due to poor yields on 1996 crops, were about 25 percent down in 1996, resulting in a gross income decline of nearly 10 percent. Higher hog prices, on the other hand, more than offset a reduction in hog sales, to boost the gross by 12 percent. Similarly, gross income from hogs increased substantially as higher prices more than offset a reduction in sales. The variability in sales, prices and gross income from spring to fall is Table 1, which shows percent changes from 1995.

The outlook for Michigan farm income in calendar year 1997 is mixed. Gross receipts will decline from $1.45 billion in 1996 to about $1 billion in 1997 because of lower prices, which will be lower and the quantities of 1996 crops to be sold in 1997 will bring lower prices than in the first half of 1997, the net would be down about $100 million from 1996. Increased milk production in 1997 should offset some of the decline experienced in Table 2. While hog and cattle sales will likely continue declining in 1997, higher prices should increase gross receipts. In 1996, the price received for milk was $14.00 per 100 pounds. Sales and prices on cattle and calves were nearly 10 percent higher in 1997 than in the first half of 1996, and in the first half of 1996, however, gross from 1996 crops will be down enough to reduce total receipts for the year by over $100 million.

As a perspective on the impact of unfavorable weather last year on 1997 incomes, losses from corn, soybeans, wheat and sugar beets alone amounted to about $170 million in 1997 and will exceed $100 million in 1997. This is based on applying trend yields on each crop and assuming the normal relationship between planted and harvested acreage (which affected 1996 wheat and sugar beet crops).

Nearly all the base acres, almost 96 percent of corn and wheat are in the new farm program, which is in effect from 1996 to 2002. Contract payments on the 1990 corn crop amounted to $44.3 billion according to Michigan's Farm Service Agency. Payments on wheat were about $22 million. Payments will increase to more than $30 million on the 1997 corn crop but decline to about $15 million on wheat. Some of the 1997 corn and wheat payments may be shifted to 1996, depending on how many farmers elected this advance payment option available by Dec. 15. Payments under the Conservation Reserve Program will remain at about $19 million. Payments in 1997 under the new Environmental Quality Incentive Program (EQIP) will be slightly lower than the ACP program replaced it—about $3 million.

According to data from the Michigan Agricultural Statistics Service, Michigan Department of Agriculture and Economic Research, the gross receipts from farm marketings of all crops sold in 1997 should decline slightly from 1996 (Table 2). While prices on 1997 crops are expected to average somewhat lower than on the 1996 crops, the levels should be high enough to encourage farmers to maintain current acreages or even increase acreages in some crops. An exception is alfalfa, which is affected in about 1300 reported that setbacks in the fall of 1996 were down 17 percent from the previous year. Even so, cash receipts from nearly 1997 field crop sold in 1997 (including wheat) should be substantially higher in 1996, a trend that should carry over to the first half of 1997. For the first half of 1997, however, gross from 1996 crops will be down enough to reduce total receipts for the year by over $100 million.

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**Market Outlook**

by Dr. Jim Hileke, Department of Agricultural Economics, Michigan State University

**Corn**

When we look at expected corn prices for the first eight months of 1997, we see an above average price year. But when we look back at 1995-96 corn prices, $2.50 doesn’t seem very high, especially given the 1996 average yield of 94 bushels per acre, over 20 bushels below trend. And the 1996 corn harvest accounts for much of the corn that will be sold in 1997.

But, of course, 1997 corn sales also include part of the 1996 corn crop. If the country, as a whole, achieves a trend yield, it is likely that we will see 1997-98 corn prices average around $2.35, which was the five-year average before the 1995-96 corn crop. Hopefully, we will see a good 1997 corn yield in Michigan and thank goodness we had a good corn selling year.

### COMMODITY SUPPLY/DEMAND BALANCE SHEETS

#### Table 1 — Corn

<table>
<thead>
<tr>
<th>Commodity</th>
<th>April 1996</th>
<th>May 1996</th>
<th>June 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acres</td>
<td>6,200</td>
<td>6,700</td>
<td>6,800</td>
</tr>
<tr>
<td>Harvested</td>
<td>6,100</td>
<td>6,600</td>
<td>6,700</td>
</tr>
<tr>
<td>Beans (million bushels)</td>
<td>200</td>
<td>250</td>
<td>260</td>
</tr>
<tr>
<td>Total supply</td>
<td>8,948</td>
<td>9,279</td>
<td>9,460</td>
</tr>
</tbody>
</table>

#### Table 2 — Wheat

<table>
<thead>
<tr>
<th>Commodity</th>
<th>April 1996</th>
<th>May 1996</th>
<th>June 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acres</td>
<td>5,200</td>
<td>5,700</td>
<td>5,800</td>
</tr>
<tr>
<td>Harvested</td>
<td>5,100</td>
<td>5,600</td>
<td>5,700</td>
</tr>
<tr>
<td>Beans (million bushels)</td>
<td>150</td>
<td>180</td>
<td>190</td>
</tr>
<tr>
<td>Total supply</td>
<td>6,852</td>
<td>7,378</td>
<td>7,590</td>
</tr>
</tbody>
</table>

#### Table 3 — Soybeans

<table>
<thead>
<tr>
<th>Commodity</th>
<th>April 1996</th>
<th>May 1996</th>
<th>June 1996</th>
</tr>
</thead>
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<td>9,279</td>
<td>9,460</td>
</tr>
</tbody>
</table>

### WHEAT

Michigan’s 1996 wheat yield of 58 bushels per acre was almost the same as the 1995 yield of 55 bushels. This was down from 66 bushels per acre in 1995 and 53 bushels per acre in 1994. While wheat prices were quite good last summer, they were not high enough to make up for low yields and discounts for quality.

The U.S. situation for the 1996-97 wheat crop is summarized in Table 2. Supply is just below the previous year’s level with total production up, but beginning stocks down. Domestic use has been running fairly strong up to this point, with feed use up last summer, and with high corn prices and food use making gains as well. However, exports are a whole different story. World wheat production was up sharply for the rest of the world. This means U.S. exports will be down sharply as well.

The bottom line is that ending stocks will grow. The $4.29 weighted average annual price projection seems high given the 20.7 percent crop yield, but beginning stocks down. Feed use may be lower than expected, but exports are more likely to increase.

### COMMODITY PRICE TRENDS

#### Corn

<table>
<thead>
<tr>
<th>Month</th>
<th>Price (per bushel)</th>
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</thead>
<tbody>
<tr>
<td>July</td>
<td>$2.50</td>
</tr>
<tr>
<td>August</td>
<td>$2.55</td>
</tr>
<tr>
<td>September</td>
<td>$2.60</td>
</tr>
</tbody>
</table>

#### Soybeans

<table>
<thead>
<tr>
<th>Month</th>
<th>Price (per bushel)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>$4.50</td>
</tr>
<tr>
<td>August</td>
<td>$4.75</td>
</tr>
<tr>
<td>September</td>
<td>$4.85</td>
</tr>
</tbody>
</table>

#### Wheat

<table>
<thead>
<tr>
<th>Month</th>
<th>Price (per bushel)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>$6.45</td>
</tr>
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<td>August</td>
<td>$6.50</td>
</tr>
<tr>
<td>September</td>
<td>$6.55</td>
</tr>
</tbody>
</table>

### SUMMARY

Part of the story for soybeans in Michigan is the same as for corn and wheat — poor yields. After averaging 37.2 bushels per acre the previous five years, typically higher than the U.S. average, Michigan’s 1996 soybean yield dropped to 28 bushels per acre. The U.S. yield tied for the second highest on record and was close to trend.

The 1996-97 soybean supply/demand situation is shown in Table 3. We came in with low enough stocks that even the small increase in production, total supply was up only 54 million bushels, or 2.4 percent.

Final use is expected to not only grow by the extra supply, but then some, leaving fewer low-priced ending stocks. While we may not see prices as high as periods of last year, the average weighted price will likely be higher. Crushings will continue to be strong despite a good crop in South America last year and a bigger crop projected for this year.

As we look forward to the 1997-98 soybean marketing year, the picture looks bright. If we see a $1.00 expect price to be down, they should stay over $6 per bushel and may average close to $6.50 as shown in column 3 of Table 3. Low soybean prices may help the acres to be about the same last year despite the projected gain in corn acres. Between new CRP ground being removed and the soybean acres, the soybeans and corn acres may cut into our exports next year. And, as expected, soybean prices will be lower for both the soybeans and corn acreage directions. And perhaps I am being too conservative.

The slight decrease in beginning stocks will be offset by an increase in trend yield, and total supply is projected to exceed acreage. On the demand side, the picture is not expected to change a lot. Other than a big crop in South America this spring, which is the number one user of soybeans, and with high prices, exports are still expected to be strong. While expected 1997-98 ending stocks may grow, we will be relatively tight by the end of the year.
AFBF delegates: New era requires new approaches

Delegates serving the environment and new risk management the week, Agriculture Secretary Dan Glickman announced a voluntary effort in support of the law and said property rights, conscientiously work with the industry on the problem. Earlier in the week, Agriculture Secretary Dan Glickman announced to the 8,200 Farm Bureau members in attendance that USDA would go ahead with short-term measures to shore up sliding dairy prices, actions Farm Bureau called for in November.

Turning to international trade, in particular farm trade problems with China, the delegates said China should not be allowed to join the World Trade Organization unless that nation offers a specific plan for eliminating its trade barriers and conforming to WTO rules.

On domestic issues, the farmers and ranchers added that property rights are crucial to conservation policy. They expressed concern about regulatory enforcement, saying agency rules should be clarified. They said the Natural Resources Conservation Service should provide technical conservation assistance to farmers and not act as an enforcement agency.

On the issue of whole farm planning, a proposal seeks to integrate farm management with environmental regulatory compliance, the delegates made several recommendations. They said they support voluntary efforts in which any information gathered about individual farms and supplied to government agencies should be confidential. Such efforts, they said, should be administered by state agencies.

Addressing the overall economy, the delegates said more needs to be done in the area of regulatory reform. They said Congress needs to reform new laws and overturn bad ones, in accordance with legislation signed into law last year.

The delegates reserved reservations about the implementation of another new law, the 1996 Food Safety Act. They said the Environmental Protection Agency, as it reviews pesticides under the new law, should make its decisions based on actual use data and not worst-case scenarios.

Michigan Farm Bureau Federation President Jack Laurie, left, and American Farm Bureau Federation President Dean Kleckner address delegates. Safety act. They said the Environmental Protection Agency, as it reviews pesticides under the new law, should make its decisions based on actual use data and not worst-case scenarios.

### Market Outlook

**Cattle**

With the 1997 probably won't be a great year for the cattle sector; it will certainly be better than 1996, which was a disaster for cow-calf producers for the second year in a row, and the one slightly bright spot for Michigan is the continuing premiums for many of our fed cattle versus the High Plains. This is due to both the time and condition of our cattle and the strong East Coast demand versus Eastern Corn Belt cattle numbers.

Two poor years of cattle prices following a break-even year will lead to a smaller 1997 calf crop. How much smaller will be reflected in the cattle business. Reproduction in western Michigan has been up for the past year. My expectations are for a 1 to 3 percent decrease in the size of the herd next. This should allow cattle prices that fall to make it back into the $70 range. If the cutback is on the high side, 5 percent or better, and corn prices are not or below present expectations, $2.35, we may see calves near $80 for this fall.

Choice steer prices are expected to average $66.65 per cwt. For 1997, up from the 1996 average of $65.11, which was helped greatly by the $70 prices last fall. Annual beef production is expected to be near the same as last year, but with an over-growing population, demand continues, and a continued growth in exports, prices should edge up as suggested. This, along with lower feed prices, should allow for topping feeders in the black for feeders.

However, this will lead to a bidding up of feeder cattle prices, which will keep a lid on net returns.

First-quarter beef production will be about the same as last year and steer prices should average in the $44-46 range, but, as mentioned earlier, Michigan is probably going to increase to reach a $48-50, but this will be many of our cattle. Beef production in the second quarter is expected to be down 2 percent from 1996 and U.S. prices should average $54-56, up from the poor $46 average for the same period in 1996.

The second quarter beef production should recover 1-2 percent from last year's levels, and prices are projected to be in the $46-49 area. Fourth-quarter may be slightly lower than last year, which will once again help prices stay in a range of $48-51. As we go into 1998, I expect steer prices to average over $70.

**Hogs**

If we take at hog prices in 1996, it was a very good year as prices averaged $55.45 per cwt., up from 1995’s $46.35. Of course, when you adjust the returns for the high feed prices the picture is not quite as bright, but the hog industry weathered the storm, as a whole, much better than the cattle industry.

As we have seen for years, different size producers react to conditions differently. Small feeders continued to fare well. Whether it was due to small or negative returns, or the unwillingness to make new investments at a time in their life cycle, or because the return to selling their feed grain was better or nearly as good as putting it into the feeder units, sow price cuts is expected to continue to grow, but not as much as the small ones decreased.

Overall, pork production is expected to be nearly the same at 1997 as 1996, and this points to a very good year for hog producers in 1997. Feed prices are down and hog prices are expected to average $54.57 per cwt. For 1997, U.S. cattle production is expected to be down 1.7 pounds to 47.8 pounds continuing to increase slowly and expand to 1998.

First-quarter pork production will be 4 percent below a year ago and therefore prices will average $5.62 per cwt., up from 1996 price of $5.45 average. Second-quarter production is expected to be down 1.5 percent from 1996, and this points to a very good year for hog producers in 1997. Feed prices are down and hog prices are expected to average $54.57 per cwt. For 1997, U.S. cattle production is expected to be down 1.7 pounds to 47.8 pounds continuing to increase slowly and expand to 1998.

Second-quarter pork production will be 4 percent below a year ago and therefore prices will average $4.15 per cwt., up from 1996 price of $5.45 average. Second-quarter production is expected to be down 1.5 percent from 1996, and this points to a very good year for hog producers in 1997. Feed prices are down and hog prices are expected to average $54.57 per cwt. For 1997, U.S. cattle production is expected to be down 1.7 pounds to 47.8 pounds continuing to increase slowly and expand to 1998.

### Deadlines unveiled for federal Milk Market Order reform measures

S. dairy producers have until Feb. 10 to share their views on the initial proposal to reform the Federal Milk Marketing Order (FMMO) from the current $2 to 4, according to Richard McKee, director of the U.S. Department of Agriculture’s Dairy Division, which was announced in December.

In comments during a workshop at the American Farm Bureau Federation annual meeting in Nashville, Tenn., he encouraged the industry to play an active role in the development of the federal orders released this past December.

The current pricing input from the agricultural groups and the industry about these proposals, McKee explained. "We’re certainly not going to make changes in the current situation, it’s only a starting point. We want to know if it’s right for the industry.

One more comment is McKee is seeking to be made to revisions to the FMMO proposal reform, which must be presented to Congress by a mandated April 1 deadline to avoid losing the ability to collect FMMO assessments in order to administer the existing Federal Milk Marketing Orders.

Along with the new FMMO map, McKee said the one consisting of an average basic formula pricing (BFPI) mechanism and FMMO provisions would also be released, followed by an other public comment period through June 30.

Following the close of the public comment period, the delegates will review the final proposal and be followed again by another 60-day comment period.

McKee said the final FMMO and pricing rule would then be released in August 1998, followed by an administrative record setting FMMO in 1999.

Each producer would vote on their respective order. Those orders that are approved will then go into effect Jan. 1, 1999.

The FMMOs, in place for more than 50 years, at one time numbered 82, requiring over 1,200 employees. The number of FMMOs has now dropped to just 32 with a total of 500 employees, due primarily to order consolidation and automation.

McKee said the first step in the proposal is to place costs to be reduced significantly, even 30 to 40 percent.

"We’ve reduced our personnel and our costs considerably, already, so savings won’t be significant," he said.

The prospect of a California milk marketing order is still unknown, McKee said. The 1996 farm bill includes provisions for that state’s producers to establish their own order, if so desired, because of its long-standing, state-level quota system.

California producers are scheduled to meet with McKee in February to discuss the establishment of that order.
AMAP helps producers with financial planning and personnel management

John D. Jones, Telfarm Director and District Extension Farm Management Agent, Department of Agricultural Economics, Michigan State University Extension

Planning for the future seems to be the theme for the '90s. Michigan producers are looking closely at their operations and realizing farming is more of a business now than ever. Most producers have more on their minds than learning how to be business wizards, but they are realizing that business skills are what's needed to keep their operations successful.

Thanks to Michigan State University Extension’s Agriculture Management Advancement Program (AMAP), producers and their employees are learning to master strategic business planning. AMAP can help producers think of their operation more as a business, and plan accordingly.

Written as a cooperative effort by several MSU departments and field staff, the AMAP workshop encourages close interaction between the workshop experts and the participants, and strongly recommends all members of the farm business and their spouses to attend.

In the Introductory Workshop, producers develop their own business plan. This business plan has four main components: the mission, goals and tactics created during the Introductory Workshop helps them create a human resource management plan. Human resource plans include family members, not just those hired into the business.

Involving everyone in the business

Involving all that work for the business in planning the tasks to be accomplished can improve productivity and keep people interested in what they do. The more they feel a part of the business, the greater their interest in its success. The AMAP Human Resource Management Workshop emphasizes that good management involves the wise use of human resources in accomplishing business goals.

The workshop includes:

• Review. An overview of the mission and goals of the workshop and a review of the basic concepts learned in the Introductory AMAP Workshop are given. Participants also learn how to involve others in the business’ goals and plans, and how the strengths and weaknesses of a business can affect its success.

Leadership vs. Management, Organizing for Peak Performance and Communicating Effectively. Participants learn how other businesses manage their human resources and what results. They will work on defining their business’ strengths and weaknesses, as well as put together an organizational chart. Job descriptions for each position on the chart will be developed.

Finding the Best People, Compensation for Them, Performance Standards/Expectations and Employment Policies. Participants learn the effective ways to find the best people through advertising, job applications, and interviews. The best people also need proper compensation, another area covered in this workshop. Performance standards set the stage for what the employer expects, and employee manuals put it all in writing. Legal aspects are also discussed.

Motivating, Training and Resolving Conflict. Workshop participants learn how to motivate employees, use incentive plans, train employees for the job, resolve conflict, and eliminate unwanted behavior. The workshop also teaches methods for terminating employees.

Keeping the business in order

The AMAP Financial Management series includes two, two-day workshops designed to help producers improve their financial management of the farm business. The mission of this workshop is to help farm business people achieve a higher level of financial success and security.

Part 1. The first workshop involves financial accounting and analysis. It is the first of two modules in this workshop, and is two days in length. It begins with a review of the basic accounting and financial concepts. The workshop helps the participant communicate financial information, both within and outside the business. Emphasized are the recording, measuring, interpreting and communicating of financial data.

This module gives the participant plenty of practice entering and analyzing financial data. When completed, the participant will be familiar with the balance sheet, income statement, cash flow statement and a reconciliation document.

Part 2. Part two of this workshop, financial management and planning, is also two days in length. It focuses on use of farm record data in decision making. Participants will look at their business in terms of its mission and long-term goals, and how they influence the financial ramifications of the business.

At the end of the workshop, participants will generate a farm plan based on alternative configurations of their profit centers, using the FRAMES software package. This module also looks at how to evaluate long-term capital investments as a profitability, taking into consideration the time value of money and tax implications.

Winter AMAP workshops

Introductory workshops:

• Feb. 5, 12 and 19 in Hamilton. Call Bill Robbins, Allegan County Extension, (616) 673-0370.

• Feb. 6, 13 and 20 in West Branch. Call Paul Dyk, Osceola County Extension, (517) 345-0692.

• March 5, 12 and 19 in Monroe. Call Ned Binkley, Monroe County Extension, (313) 243-7113.

Financial Management:

• Feb. 11 and 13 and Feb. 18 and 20 in Frankenmuth. Call Dennis Stein, Saginaw County Extension. (517) 799-2233.

• March 4 and 6 and March 18 and 20, in Genesee County. Call Roger Betz, Calhoun County Extension, (616) 781-0784.

Human Resource Management:

• Feb. 11, 18 and 25 in Benton Harbor. Call Joanne Davich, Berrien County Extension, (616) 673-0370.

• Feb. 13, 20 and 27 at Kettunen Center, Tuson. Call Gerald Lindquist, Oceoda County Extension, (610) 832-6339.

For more information about AMAP, call Steve Hard, AMAP coordinator at Michigan State University, (517) 353-4518.

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We invite you to compare our service. You’ll find that what others call special care, NuVision provides as standard procedure.

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• 20% off lenses and lens treatments
• 10% off contact lenses
• 15% off non-prescription items
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Don’t forget to use your Farm Bureau VISA at NuVision Optical centers nationwide.

Don’t forget Member Dental or Blue Cross Blue Shield for more health care savings.
Michigan Pork Expo to begin next week

The Michigan Pork Expo, one of Michigan's largest agricultural expositions, will open Thursday, Feb. 6, for a three-day run at the Lansing Convention Center and Radisson Hotel. According to Sam Hines, Executive Vice President of Michigan Pork Producers Association (MPPA), 3,000 pork producers from throughout Michigan and the Midwest are expected to travel to Lansing to participate in educational seminars and view the huge trade show.

The annual Professional Swine Producers Symposium will be held Feb. 6, and the trade show, featuring companies displaying the latest in pork production equipment and supplies, will open at 9 a.m. Friday, Feb. 7, and run through 1 p.m. Saturday, Feb. 8.

"Pork Production Business as Usual - NOT!" is the theme for this year's symposium. Pork production business management is the topic, and the goal is to enhance business skills and increase producer competitiveness. The symposium is sponsored by MPPA, MSU Extension and Pfizer Animal Health.

Another highlight on opening day will be the Taste of Elegance restaurant contest in which chefs from Michigan Farm Bureau (MFB) will prepare their best new boneless pork entree of the year. For a $1,000 cash award and the title of developer of the best new boneless pork entree of the year, the chefs will compete with their culinary creations.

Another contest this year is the Michigan Genetic Improvement Program (MGIP) sweepstakes. MGIP members are encouraged to enter hogs in the MGIP sweepstakes to improve the genetic potential for their herds. All MGIP-enrolled producers will receive a draw ticket for each of their MGIP-enrolled pigs. The sweepstakes winners will be announced at the symposium.

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To receive additional information, please call 800-292-3640, EXT. 3337, or mail this coupon to: MFB Member Services, P.O. Box 30960, Lansing, MI 48909.
Apple crop expected to rebound, cherries to focus on marketing

by Don Ricks

Michigan apple production in 1997 is likely to be up considerably, since the 1996 crop was the shortest in six years. Although the exact crop size for any given year will, of course, depend upon weather conditions, especially during the spring, Michigan apple production is expected to continue in an upward trend. During the next three to five years, Michigan is likely to have some additional substantial crops in the 25-29 million bushel range.

Likewise, market volumes and demand for Michigan apples have experienced growth for fresh, apple sauce, slices and juice. Despite the temporary dip in sales this year due to Michigan's short crop, demand for both fresh and processing apples is expected to continue to trend upward in the future. Demand for fresh apple exports from Michigan are also expected to rebound and continue to grow in future years.

Red Delicious is the top apple variety of Michigan's apple varieties. Golden Delicious and Empire top the list of most recently planted apple varieties according to the latest orchard survey (see table). The relatively new varieties of Jonathan, Gala and Fuji have also had considerable new plantings, along with moderate amounts of Red Delicious, Rome and Spy.

According to a recent survey, a majority of Michigan apple shippers expect that Michigan's top five varieties for fresh market demand in the future will be Red Delicious, Gala, Golden Delicious, Jonagold and Jonathan. A majority of the shippers expect Michigan's future fresh demand to increase for each of these varieties, except Jonathan, along with increasing demand for the additional newer varieties of Gingergold, Fuji and Braeburn.

In a recently completed survey of Michigan processors, the varieties rated most suitable for sauce processing include Golden Delicious on top, followed by Jonagold, Rome, Spy, Gala Red, Windsor and Rome. Processors rated Spy as continuing to be the variety best suited for processing into slices, followed by Jonathan, Golden Delicious, Gala Red and Rome.

For continued growth in fresh markets, it is important to meet consumer wants and preferences in a high-performance fashion. In our recent consumer surveys and focus groups, consumers ranked the characteristics of crispness, flavor, unblemished and undamaged as the most important to them for their fresh apple purchase decisions. The characteristics of color, size and price were ranked in moderately important by consumers. Some consumers also said that they like information on apple varieties and the specific characteristics of the different varieties.

A number of Michigan apple industry leaders have, during recent years, been involved in revising and planning for the future with the Michigan Apple Industry Strategic Planning Task Force. This has involved analyzing major market trends, industry opportunities and needed strategies for a successful, competitive and growing apple industry in the future.

Some of the priority areas that have been considered by the Task Force include changing markets, competing industries, consumer preferences, varieties, industry modernization needs, promotion and market expansion strategies, performance needs on quality, export expansion, research and Extension priorities, post-marketing and pesticide availability issues, food safety issues, and other strategies for a dynamic, high-performance Michigan industry. The Task Force is continuing to grapple with these kinds of issues as a part of a continual process by the apple industry of adjusting and gearing up for the future in an ever-changing competitive manner.

Tart cherries

It is expected that the new tart cherry federal marketing order program will be operational for the 1997 crop year. This industry-developed program was recently approved in a referendum of growers and processors. A major goal of the marketing order is to help manage surplus supplies when they occur, so that extremely low prices, such as were experienced in 1995, can be avoided.

Other goals of the marketing order include helping to expand long-run cherry markets with greater stability of supplies and prices, along with possible encouragement of certain new or expandable market uses. The industry board for the new federal marketing order had its initial formation meeting just this month, and they are working on the many steps necessary for implementing the new program.

The tart cherry industry is a working on a number of ongoing programs to aid the expansion of demand for cherries through the efforts of the Cherry Marketing Institute, the Michigan Cherry Committe, processors and cherry marketers. In addition to the continuing markets for traditional cherry uses, there seem to be good prospects for substantial market expansion for dried cherries, cherries in hamburger and cherry exports in future years. Several other ideas are being discussed in the cherry industry to aid the effectiveness of tart cherry marketing and to help avoid a repeat of the very low 1995 prices.

In order to focus on a number of the important issues related to the future performance of the cherry industry, a U.S. Tart Cherry Industry Council was formed this fall. The goal of this council is to analyze and discuss industry needs, opportunities and strategies for a competitive and successful industry in future years.

Michigan tree fruit industry

The concentration of the Michigan tree fruit industry on the two major crops of apples and tart cherries continues. The 1995 orchard survey shows that apples have 52 percent of Michigan's tree fruit acreage and tart cherries make up 32 percent. These two major crops together constitute 84 percent of the total tree fruit acreage in Michigan.

This can be contrasted to earlier times, such as shown by the earlier 1973 survey, when apples and tart cherries together comprised a smaller 68 percent of Michigan's tree fruit acreage. At that time, peaches, pears and plums together had 20 percent of the state's tree fruit acreage. As the latest (1995) survey shows that these three crops now have fallen to a collective 9 percent of Michigan's acreage.

Recent Michigan apple plantings by variety

<table>
<thead>
<tr>
<th>Variety</th>
<th>(Five-year total)</th>
</tr>
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<tbody>
<tr>
<td>Northern Spy</td>
<td>800</td>
</tr>
<tr>
<td>Gala</td>
<td>600</td>
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<tr>
<td>Rome</td>
<td>400</td>
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<tr>
<td>Jonathan</td>
<td>200</td>
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<tr>
<td>Red Delicious</td>
<td>100</td>
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<tr>
<td>Fuji</td>
<td>50</td>
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<tr>
<td>Golden Delicious</td>
<td>30</td>
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<td>Gala</td>
<td>20</td>
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<td>Rome</td>
<td>10</td>
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(517) 269-2700
**1997 dairy situation and annual outlook — keep a sharp pencil**

By Larry G. Hamm and Sherrill B. Nott

The year of 1997 will be another challenging year for Michigan dairy producers. Dairy margins will be squeezed by lower milk prices combined with higher input costs. The situation will be further complicated by difficulties in obtaining adequate quantities and qualities of forage, particularly hay.

**1996 sets price record**

In 1996, milk production actually decreased from 1995 levels. Continued strong commercial demand in the face of declining milk production resulted in record milk prices. For 1996, the average Basic Formula Price (BFP) was $15.99. The average Michigan all-milk price (price of milk before any deductions) in 1996 was $14.85 per hundredweight (cwt.). Unfortunately, the wholesale dairy product market turned sharply during the last quarter of 1996, assuring that farm milk prices in the beginning of 1997 will be substantially below 1996 levels. In 1997, it will be a new and expanded dry-dairy herd operations experienced a dramatic increase in feed cost and availability. The passage of the 1996 Federal Act with the increased flexibility in cropping patterns assures that large-scale dairy operations will likely face more years of feed price and supply uncertainty.

**Constrained milk production in 1997**

Milk production is constrained to the point where significant dairy margin losses will occur. The 6 percent rise in 1996 was up 17, but diesel fuel jumped themost. In December 1995, the index was up 15. In 1996, the index was up only 6. For those who did not use any diesel fuel, the increase hurt. However, many do not use any. Diesel fuel is more than the rise in the two decades before 1990. Of all the individual farm cost items published by the USDA, fuel jumped the most. In December 1995, the index was 112. In 1996, the index was 110. In January 1997, the index was 110. LP gas went up 59 points, ending 1996 at $112 per ton. Gasoline was up 17, but diesel was up only 6. For those who used LP gas for crop drying or space heating, the increase hurt. However, many do not use any. Diesel fuel, a protonic tractor fuel, increased the least, but the 6 percent rise was more than the rise in the two decades before 1990.

**Increased productivity per cow**

In 1997, we anticipate sharply lower milk prices in the first part of the year. This, combined with increased dairy feed costs—particularly forage and hay, will constrain milk production. Milk cow numbers in the U.S. dairy herd are anticipated to decline and are expected to be 1 percent lower in 1997 than 1996. The increased productivity per cow in 1997 will be constrained by the lack of available supplies of quality forages, at least for the first half of 1997. Consequently, total milk production for 1997 is anticipated to be 1 percent higher than 1996 levels.

**Continued general economic growth**

and strong employment suggest that commercial demand for dairy products will continue to be strong in 1997. As in 1996, there may be times of the year that demand for milk in specific markets will exceed available milk supplies. It is likely that overall commercial demand will more than double the milk supply in 1997. World milk supplies are also somewhat constrained to the point where significant dairy product imports beyond those allowed by the current GATT provisions are not likely.

Because of the subspecialization to U.S. dairy farmers in 1997, U.SDA activities to accelerate domestic food program purchases and to push for maximum use of the Dairy Export Incentive Program (DEIP) will add further to the demand for eight U.S. milk supplies.

**Higher prices on the way**

The lowest prices for the year will be in the first quarter. Milk prices should rise fairly steadily throughout the last nine months of 1997. For all of 1997, the BFP should average in the range of $12.90 to $13.70 per cwt. Compared to the index base of 100 in 1990-92, the highest of all the major cost categories. Fertilizer rose 4 index points in 1996, but farm machinery was up only 2 points. Potash and phosphorus dropped 3 points, but nitrogen was up 6 index points. This upward trend in fertilizer prices has provided dairy farmers an incentive to more carefully manage the quality and placement of livestock manure. Purchased fertilizer has been used more sparingly. Expect to see soil nutrient management given a higher priority because of nitrogen prices as well as environmental regulations.

**Seed**

The index of seed costs rose eight points for field crops, but only one index point for grasses and legumes. Dairy farmers have shown an interest in brown midrib corn silage varieties and appear to have bid up these seed prices. Other crop varieties that have been genetically engineered for hitherto resistance to certain weed control chemicals and outright resistance to some diseases come at a higher price. The unknown is how far yield increases and reduced needs for crop chemicals will go toward offsetting higher seed costs.

**Feed**

For the country as a whole, the cost index for all feeds went from 121.9 in December 1995, to 113 in December 1996. Serum products. This will cause increases of prices in many dairy farmers use. If this continues, it will renew the interest in minimum tillage for crop production. It will raise the potential for more use of alfalfa and less of forage crops.

**Labor**

The index for wage rates went from 114 to 120 comparing December 1995 and 1996, an increase of nearly 6 percent. The recent change in federal minimum wage law noted for a two-stage increase. The first occurred in 1996. For those dairy farmers paying minimum wage, this will result directly in increased labor costs. A rise in minimum wage tends to cause all labor costs to go up even if actual wages paid are above minimum. If full employment continues, farmers will be forced into paying even higher wages.

**Overall dairy farmers**

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January 30, 1991

Late winter and early spring would also tend to keep most overwintering crops dormant and less susceptible to injury from any late-season cold blasts.

Long-lead sea-surface temperature forecasts continue to hint at steady warming of the equatorial Pacific region into the coming summer, with moderate ENSO conditions by this fall and winter.

Can biotech boost chocolate yields?

A British research team is studying the genetic structure of cocoa trees in hopes of creating high-yields. The long-term goal is to promote breeding of superior varieties of trees using a new method of genetic fingerprinting. The research also could lead to a basis for genetically engineered cocoa. Experts say cocoa demand will increase dramatically in the next century, due largely to bullish expectations created by booming Asian economies.

Weather Outlook

by Dr. Jeff Andresen, Agricultural Meteorologist, Department of Geography, Michigan State University

A strong area of low pressure that moved across the region on the 14th brought blizzard conditions to northern and western sections of the state, and resulted in some of the most extensive snowpack across central and southern crop areas in several years.

The latest NOAA long-lead outlook for February is uncertain, calling for near equal probabilities of below-, near-, and above-normal temperatures and precipitation. Interestingly, the new 90-day outlook for February through April calls for an increased likelihood of below-normal temperatures, with odds of the below-normal scenario increased to 38 percent, and odds of the above-normal scenario decreased to 28 percent (the near-normal scenario still has a 33 percent chance of occurrence). Precipitation odds for this period are considered to be equal for below-, near-, and above-normal scenarios. While likely meaning higher heating costs, the cooler-than-normal temperatures predicted for the late winter and early spring would also tend to keep most overwintering crops dormant and less susceptible to injury from any late-season cold blasts. Long-lead sea-surface temperature forecasts continue to hint at steady warming of the equatorial Pacific region into the coming summer, with moderate ENSO conditions by this fall and winter.

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Management implications for livestock entrepreneurs

by Gerald Schwab and Laura Martin

How to manage in a world of change? The fortunes of livestock feeders are affected adversely by prices of feed ingredients that were high and extremely variable during 1996. Both cattle and swine producers had to contend with corn and soybean meal prices that were much higher than those of the previous year.

Peeding high-cost feed to cattle entering a historically down market with finished cattle prices ranging in the low to mid-$60s per hundredweight (bw), resulted in a rational and expected depression in prices paid for feeder cattle. Most cow-calf enterprises rarely, if ever, had good price opportunities in 1996.

Swine enterprises experienced a mid-$90 per cwt. price in 1996 which provided a profitable year for many enterprises. However, numbers of Michigan hog farms and hog continent to decline in 1996. From these capsule observations, let us briefly discuss opportunities for producers in each of these two sectors.

Beef enterprises

Farmers in the beef sector were hit hard this year at both ends—high feed prices coupled with a lengthy trough in the cattle cycle. Earning a profit in 1996 has been a challenge for cow-calf enterprises, although there were opportunities to improve their cow herds during this low in the cycle. Focus must continue on cost control, where feed remains one of the major factors; improvement in genetic quality; and efficiency of the cow herd.

There is hope for a turnaround in the fortunes of the cow-calf enterprise. We believe there is some basis for profitability for those cost-efficient cow-calf producers who can provide a uniform set of calves that have potential for being resource-efficient in the feedlot and who can deliver a carcass that meets the demands of today’s consumer.

With corn prices expected to be lower in 1997 than in 1996, cattle feeders will be having fewer available calves from the smaller national cow herd to put into their lots. This combination of events is expected to result in modest upward pressure on feeder calf prices.

Administration changing wetlands rules

The Clinton administration announced that the Army Corp of Engineers will have tighter construction regulations for isolated wetlands in upland areas near headwaters of streams.

The Corps will also require permits for those wetlands of three acres or more. The new rules are expected to be in effect by January 1997.

John Sudt, the Corp's chief regulatory officer, said his agency plans to tailor permits based on the activity planned on the land. The intent is to reduce the degree of wetlands loss, but also to put in several national permits restrictions to ensure that wetland quality is better protected. "That said.

Could the Endangered Species Act be a failure?

Many species are actually declining in abundance or continuing to decline, according to a recent study by the Environmental Defense Fund. The study supports the American Farm Bureau Federation's contention that the Endangered Species Act fails to protect or save species.

Two-thirds of the plants and animals protected by the Endangered Species Act are either in decline or their status is unknown, according to a recent EDF study. The group also said that protected species were in particular peril on private land, saying 27 percent were losing ground and half of the species were not known because of restricted access.

In 1997 annual poultry outlook

Broilers

Broiler production in pounds of meat in 1997 was expected to be 3 percent above the year before earlier. Egg production in most of 1997 will also be 2 to 3 percent above 1996, in response to favorable egg prices and ingredient prices at the end of 1996 and early 1997.

The egg-type chick hatch during the major hatch season of March, April and May will probably be 3 to 4 percent above the same period of 1996. Likewise, feed ingredient costs will probably continue their recent decline, depending on 1997 crop production conditions. These expected increases in egg production will likely mean a small increase in egg prices for Grade A large white eggs in cartons will average in the 8s and 9s. Egg prices in most years will likely be below 1996.

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Institute of Agricultural Technology

Great opportunity for students

Students interested in hands on careers in agriculture can get good jobs without four years of study. Michigan State University's Institute of Agricultural Technology (IAT), founded more than 100 years ago, is a two-year program that continues to prepare its graduates for good-paying jobs. Cliff Jut, IAT director, says the program is appealing alternative for students who know what they want to do in agriculture. The IAT offers 14 areas of study ranging from horticulture and horse management to crop production and turf management. The majority of students enrolled must complete 48 credit-hours to receive an associate's certificate. This usually takes only three or four semesters. Jut says that 99 percent of the students enrolled in the program have already worked in the industry and have a good idea that is what they want to pursue as a career. Approximately two-thirds of the nearly 400 students return to their family farm operations. "Job opportunities are great for those who are open to relocation, but about 90 percent of the graduates choose to stay in Michigan," Jut says. The dairy management program is designed to give students practical training. Most come from family farms and want to involve some technical knowledge edge back home with them," says Joe Domecq, dairy management program director. Domecq points out that the many dairy farms and agribusinesses in the state offer many excellent job opportunities for students who don't have a farm to return to. Many students enroll in the IAT right after high school, but Jut says students often enroll because they are seeking a career change or an advanced degree.

John Schel, horse management program director, says the program enables students to have the opportunities of a technical institution at a university location. "The beauty of the tech program is that it provides a good education with hands-on experience and technical training in a university environment where there is a lot of educational opportunity through the use of facilities and resources," he says. A four-year horse management program trains students for work in areas such as feed and pharmaceutical industries. The two-year tech program is designed for students who desire to work with animals on a daily basis. This skills-oriented program trains students to work with the animals as trainers or stable managers. Only 25 students are allowed per year, so many are turned down for admission. Any growth in the program depends on availability of faculty members, university funding and support to students.

The landscape and nursery program prepares students for careers in areas such as landscape design and construction, greenhouse maintenance and garden center management. Director Bob Schubitz says some students enroll in the program for a career change and others just out of high school find it appealing. "Students find the program a stable option in post-secondary education." Upon completion of the 16-month program, they are able to focus on "enter the industry right out of school," he says. Jut says the program is currently using interactive television (ITV) to give students who don’t have the option to attend the university an opportunity to take the courses that they want or need. "Currently, a basic soils class has 15 students enrolled right here on campus, 15 students in Grand Rapids, and 19 students in Tecumseh City who are learning via ITV," Jut says. Though the program has some drawbacks, such as high tuition and competition from community colleges, Jut says that the results far outweigh them. "It is the greatest opportunity for a young man or woman to get self-confidence when starting out," he says. "It is one of the best investments that they can make for their future."
Trade for 1997 — overall value of ag exports to drop

by David Schwelchardt and Sandra Batie

U.S. agricultural exports are expected to reach $35.5 billion in 1997, a decrease of $1.5 billion compared to the record year of 1996. Export volumes are expected to remain strong in most product categories, but lower prices for wheat and feed grains and a lower wheat carryover are expected to bring the value of those products down. Exports of all major crop categories are expected to increase in 1997. Livestock exports, led by an increase in meat exports, are expected to increase by $170 million to $7.7 billion. Within the livestock category, only dairy exports, at $370 million, are expected to remain unchanged in 1997.

As with vegetable exports, are expected to increase in 1997 by $3.5 billion to $2.9 billion. Wheat exports are expected to increase by $125 million to $5.1 billion. U.S. agricultural exports to Mexico have shown a strong recovery from the 1994 devaluation of the Mexican peso. Exports to Mexico were $4.5 billion in 1995, the year prior to the approval of the North American Free Trade Agreement, and then increased to $4.8 billion during the first year of the agreement. Following the devaluation of the Mexican peso in November 1994, which made U.S. products more expensive for Mexican consumers, and the increase in the incomes of many consumers, U.S. exports declined to $4.5 billion. As the Mexican economy has shown signs of recovery and as Mexico has changed its agricultural policies, U.S. exports have begun to recover, reaching $5 billion in 1996.

Trade policy outlook: International trade will remain a volatile policy issue as the implementation of the GATT agreement and the North American Free Trade Agreement continue to reduce some trade barriers. Trade disputes between the U.S. and Mexico over avocados, peaches and cherries may be resolved during 1997.

Look for stable ag credit interest rates

by Mike Kelsey and Steve Hanson

The last few years have seen major fluctuations in interest rates with a gradual three-year decline from 1990 through 1993, and a dramatic increase in 1994 as the Federal Reserve attempted to slow down the economy into a “soft landing.” Apparently, they were successful—the discount and prime rates stabilized in 1995 and started a gradual decline in 1996. Overall, loan demand in Michigan was essentially unchanged from a year earlier. A Federal Reserve Bank of Chicago survey of agricultural bankers found the average loan-to-deposit ratio in the Seventh District had increased to 67.3 percent, the highest since 1979.

Despite recent declines, interest rates for farm loans remained above levels in the previous year. In Michigan, the real estate loan rate during 1996 averaged 9.7 percent, while the average operating loan rate was 10.6 percent. The Michigan rates were the highest among all states in the Seventh District.

Potential borrowers need to “sell themselves” to their lender by providing a sound business plan along with clear documentation of the firm’s financial health and repayment capacity. The Farm Credit Service centers continue to be aggressive in seeking out and negotiating farm loans with borrowers who are financially sound.
Farm management implications for crop producers

by Ralph Hepp

The financial return on crop farms the past year is mixed depending on the yields of major crops. Most businesses should have had very good cash flows during the past year due to higher prices and a relatively high level of inventories entering 1996. However, profit levels for the past year were depressed for crop operations experiencing poor yields or due to late spring and excess water early on. Reduced inventory carryover and lower commodity prices will result in less cash available in the spring of 1997. The smaller amount of working capital for these businesses will require more financing of production inputs until revenue is generated from the new crop.

Even though the state average corn yields were 94 bushels in 1996 compared to 115 and 117 bushels in 1995 and 1994, some areas of the state were not hurt by the late spring and excess water problems, and yields were very good. These operations had very high profits, excellent cash flows, high income taxes and an opportunity to prepay production expenses for 1997. They enter the year with a good level of inventories on the market, but at lower prices. But all cash grain producers will experience tighter cash flows during 1997 than the previous three years. For many operations, a reduced inventory in free cash flow means fewer capital purchases, and slower rates of expansion and higher levels of operating credit needs during the year.

If the yields on Michigan grain farms return to normal levels, the businesses will be profitable, but not at outstanding levels, since commodity prices have returned to more modest levels. It is expected that net farm income will be about $55 per acre, near the $55 average for the 1990-1994 period. Net farm income per acre increased to $105 per acre in 1995, but returned to the mid-$50s in 1996. Increasing production costs can be a serious problem on many operations, not only for crop supplies, but also cash rents and other overhead expenses unless steps are taken to control costs. Greater management attention to controlling production and input levels being used for production inputs can pay high dividends during the year.

Review the recommended technical practices and proven financial management strategies for the operation and follow them. Purchase capital items if the expenditure will pay back a higher amount than it costs. Repair machinery rather than purchase, since new equipment requires larger equipment or more equipment.

Wide variations in commodity prices and crop yields are a considerable pressure on the financial outcomes of the business. Financial management strategies to reduce the variation—such as purchase crop insurance, maintaining higher levels of financial reserves, slower rate of expansion, using less credit and diversifying the family income sources—reduce the risks of modern farming. The financial position of the operation determines the best types of strategies to use for the next few years, so evaluate your options for financial stability, not what someone else should do.

Although the outlook for cash grain farms in 1997 is average income, operations in good financial position can pursue appropriate technology to improve productivity and efficiency of the business. Top producers can continue the growth and development of the business, and apply technical inputs and expand size to levels set by the management team's mission and objective statements.

In 1997, monitor the financial conditions of the businesses during the growing season and make changes in marketing, production and financial areas of the operation as they become necessary.

Ag Day set for March 20

The Agriculture Council of America recently announced "Growing Better Everyday—Together" as the theme for Ag Week, March 16-22, and set March 20 as National Ag Day.

"Today more Americans are emphasizing a healthy lifestyle and are concerned about protecting the environment," said Ronald Vavrina, ACA chair- man and Ag Day coordinator. "American agriculture is focused on meeting those consumer desires in a myriad of ways.

Vavrina said the week and day will highlight farmers’ and ranchers’ contributions to American consumers through better farming, healthier and more abundant food supply.

The ACA is currently developing materials providing background and activity information. The materials can be ordered by calling (935) 491-1895.

Land market price acceleration expected to slow in 1997

by Steve Hanson and Ralph Hepp

Michigan land prices increased at a faster rate during 1996 than previous years. A study conducted by MSU last spring found that average grain hay land in the southern Lower Peninsula showed gains of 8.1 percent and below average ground increased 6.8 percent. Irrigated land rose at a rate of 7.3 percent, while land capable of growing sugar beets saw a strong gain of 8.4 percent.

The survey respondents reported higher quality grain land had an average price of $1,286 per acre, and lower quality land had an average price of $588 per acre. Sugarbeet land averaged $1,699 per acre and irrigated land averaged $1,422 per acre.

Clearly, the characteristics of land, which determine its production use, have a significant impact on its value.

Rental rates in the southern Lower Peninsula averaged $75, up from $66, per acre for high quality grain land and $47, up from $41, per acre for low quality grain land. Sugarbeet and irrigated land had average rental rates of $117 and $129 per acre. Cash rents were $113 and $115 per acre in the previous year for sugarbeet and irrigated land.

The survey respondents reported increasing prices of land due to strong commodity prices and demand for non-agricultural uses. They reported that lower interest rates on land mortgages had a minor impact on prices. While land prices are increasing, the supply of land offered for sale is decreasing, causing upward pressure on prices.

Other surveys also showed that land prices are increasing in the Midwest. An October 1996 survey by the Chicago Federal Reserve Bank found average to good farmland increased an average of 12 percent in the Seventh District over the last year. Michigan was excluded from the average because of insufficient response to the last survey.

The previous bank survey in July 1996 reported a 14 percent increase in land prices in Michigan during the last year. The bankers expect the up trend in land values to continue into the fall and winter months.

Expect farmland prices to show a strong increase during the year, but at a lower rate than reported in 1996 on the Federal Reserve survey. Most businesses enter the year with a reduced inventory of crops due to lower yields and reduced prices, so the value of inventory liquidation will cause a tighter cash flow during the year, and greater borrowing for the purchase of production inputs.

Stronger balance sheets and returns during the last few years have allowed larger debt repayment capacity and more optimism about the future. But the poor crop yields in most areas of the state, and sharply decreased supply will put a damper on the ability of most operations to purchase land. Stronger upward pressure on cash rents will be more common than increases in land prices.

The purchase of land for residential and/or recreation land uses has been significant in many areas. The strong Michigan economy will continue to put upward pressure on the land demand for residential and commercial uses in the southern part of the state, while the demands for land to be used for recreational purposes will continue to be strong in the northern Lower Peninsula.

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Free weed control guide—Making your checkoff pay off

Soybean Promotion Committee uses checkoff dollars to provide herbicide research to growers

W

hile Michigan State University Extension is busy with the current year's farm crop needs, its extension faculty is beginning to look ahead to the next cycle. A joint effort between the Michigan State University Extension Service (MSU) and the Michigan Soybean Promotion Committee (MSPC) has produced a new weed control guide, Weed Control Guide for Soybeans, which is available to growers at a cost of $6.

This cooperative effort will provide growers with access to information developed with the funds received from the Michigan Soybean Checkoff. The guide was developed to provide a reference for Michigan farmers interested in effective weed management on soybean crops. The guide will offer recommendations for herbicide selection and application based on research conducted at MSU and from Extension publications for soybean crops, as well as research conducted at other universities in the north central region of the U.S. The guide will be useful to growers who are involved in soybean production.

The guide will also provide recommendations for herbicide selection and application, including herbicides that are currently approved for use on soybeans. The guide will also include information on the use of adjuvants, and the effects of herbicide mixtures on soybean crops. The guide will also provide information on the use of adjuvants, and the effects of herbicide mixtures on soybean crops.

Growers who are interested in using the guide should contact their local Michigan State University Extension office, or call 517-323-7000, ext. 2025.

Agricultural and Environmental Department, Michigan State University Extension, P.O. Box 287, Frankenmuth, Michigan 48734

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