

# MICHIGAN FARM NEWS

MICHIGAN'S ONLY STATEWIDE FARM NEWSPAPER

MICHIGAN FARM BUREAU



MICHIGAN FARM BUREAU

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## 1997 Agriculture Economic Outlook Issue

### Economy — in a word, stagnant

by Lester V. Manderscheid

**D**ull. Ho hum. Those words are used by many to describe the outlook for the U.S. economy for the next year. The choice of words reflects a belief that the economy will continue to grow at a 2.2 to 2.5 percent rate. Unemployment will be near current levels, as will inflation.

Interest rates are expected to vary little from 1996 levels, with some downward drift more likely than an upward movement. Month-to-month 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 outlined above? 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 economies?

Another risk concerns lackluster productivity in the U.S. Over the past two years, productivity grew at an annual rate of 0.6 percent. The outlook reported above assumes a productivity increase of about 1.7 percent per year. If productivity remained at current rates, unemployment would fall, overtime would increase, there would be upward pressure on prices, and the Federal Reserve Board 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, we have no reasonable measure of productivity for more than 70 percent of the economy. Their calculation is that we had reasonable measures for 43 percent of the economy in 1959. The increased importance of services and the failure to invest in better statistical measures have substantially reduced the accuracy of the reported productivity measure. If the reported measure is accurate, there may be problems ahead for the economy. ■



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.

### 1997 outlook for production inputs

by Chris Peterson

**L**ike 1995 and 1996 when the big news was tight 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 to lower prices versus the last two years. Phosphate and potash supplies are also good with expectations for stable prices.

On the demand side, the absence of government set-asides under "Freedom to Farm" means that nationally 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 present as it was in 1996.

#### 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 longer run. On the other hand, Roundup Ready soybeans will increase chemical use for that product.

Chemical supplies are more than adequate, with likely downward pressure on prices. There have been a number of new product registrations recently with older products still readily available. As these new products attempt to buy initial market share, chemical prices should be held in check.

Longer-term forces are still at work in the

chemical sector. Continued downward pressure on demand will come from environmental regulations as more lower-use cultivation practices continue to increase. Many manufacturers continue expensive biotechnology research. Chemical firms are increasingly moving into seed markets as they perceive their traditional markets declining.

#### Seeds

Generally, traditional corn and soybean seed supplies should be good, with prices slightly up. Last year, seed prices nationally did increase rather dramatically by an average 6.4 percent. Some of this increase was clearly fueled by the 10 percent increase in seed use because of acreage expansion. This increased demand pressure will not be a key factor this year.

Bio-tech seed will remain in tight supply with some uncertainty about demand and price. For producers who had a successful year with these seeds, repurchase is strong with supplies largely committed. 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 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 certainly been highly correlated in the past, but purchasers have traditionally made independent

decisions about their suppliers for each input.

Agribusiness dealers and retailers are increasingly offering and seeing demand for unified programs that combine fertilizer, chemical and seed purchases into a package. These packages include not just the inputs themselves, but customer application, full-line agronomy advice and, at times, services related to precision (site-specific) agriculture.

Producers need to increasingly weigh the advantages of independent input decisions versus the potential advantages of working with a specific dealer who can provide a full range of services tailored to producer needs.

#### Energy

Nationally and locally, fuel supplies should be good this year. Prices have unfortunately been volatile, moving upward in balance. For 1997, the Department of Energy forecasts an average crude oil price below the 1996 level, which should bode well for retail prices. However, domestic production of crude will be down sharply, at 5.5 percent from last year, resulting in a rise in imported crude to 50 percent of the market share. This contrasts with an average 44 percent import share through the early years of this decade. This increased dependence on foreign oil will probably add to the volatility of supply and price.

#### Equipment

Continued strength in farm incomes and expectations for strong commodity prices made 1996 a strong year for agricultural equipment sales nationally. In Michigan, the mixed crop year resulted in relatively weak demand with many dealers not doing as well with sales as in 1995. Expectations for 1997 equipment sales are not that much more positive in Michigan. Equipment supplies should be adequate while prices are likely to be up with the cost of inflation. ■

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# News in Brief

## USDA bars Sun-Diamond from food programs

The Agriculture Department formally banned Sun-Diamond Growers from participating in federal food purchase programs for three years. In October, USDA proposed barring the cooperative because of its criminal conviction in September of giving illegal gifts to former secretary Mike Espy.

USDA said the ban retroactively took effect Oct. 4, the day it was proposed. Sun-Diamond has 30 days to appeal the ban and USDA said it could be lifted early if the company proves it has amended the way it does business.

## Kleckner calls for China to be held to WTO standards

At a meeting of the World Trade Organization, AFBF President Dean Kleckner told a news conference that market access and sanitary and phytosanitary measures should be key to China's entry into the WTO.

"All sorts of mischief can come about through phytosanitary concerns that are not really scientific," Kleckner said. "They're disguised and we certainly have to resolve that. I think [the Chinese have] got a way to go yet prior to admittance to the WTO." Other farm lobbyists at the meeting supported this view.

For years, China has refused to buy wheat from the U.S. Pacific Northwest because of fears of *tilletia controversa kuhn* (TCK) smut fungus con-

## To help streams run clear, short grass does as well as tall

Grasses and sedges clipped short are as effective as taller stubble vegetation in trapping sediment being washed into streams. That's important news for land management agencies seeking information on how to rehabilitate overused areas — such as areas damaged by recreation or livestock grazing along rivers and streams.

The key is the width of the grass barrier, not the height of the stubble, say scientists at the Agricultural Research Service. A grass barrier 30 feet wide will reduce sediments in overland runoff by 98 percent, according to results from a cooperative two-year study by ARS and Colorado State University. The scientists used an irrigation boom to simulate rainfall over two sites along Sheep Creek in Colorado's Roosevelt National Forest. They discovered stubble as short as 1 inch could slow water flow and trap sediment as effectively as stubble 6 inches tall.

Scientific evidence shows the fungus is harmless. Each year, China's ban blocks the sale of 500,000 tons of wheat worth millions of dollars.

In October, China banned the import of poultry from 10 states, fearing that the birds were contaminated with highly pathogenic avian influenza. That virus had not been found in the United States since 1984.

Kleckner said the Chinese have yet to prove they are ready to join the WTO. "Not every issue needs to be cut and dried, but it needs to be much better than it is today or in my view they shouldn't come in," he said.

## Washtenaw County to host farmland preservation meeting

The first in a series of public educational forums on preserving farmland and open space in Washtenaw County will be held Monday, Feb. 10, at the Washtenaw County Farm Council Grounds, at 7:30 p.m. The forum is sponsored by the Washtenaw County Agricultural Land and Open Space Task Force, American Farmland Trust, the Washtenaw County Farm Bureau, and the Coalition to Protect Farmland and Open Space in Washtenaw County.

The forum, which is free and open to the public, will include comments from Wayne

McGinnis, a fourth generation farmer who has been instrumental in the development of agricultural zoning and purchase of development rights programs in Baltimore, Md.

Michigan Farm Bureau Associate Legislative Counsel Scott Everett encourages county Farm Bureaus and members interested in the issue of farmland preservation to attend this program to learn more about sponsoring similar programs in their counties. For more information, contact the Washtenaw County Farm Bureau at (313) 663-3141.

## Crow's to offer Roundup Ready beans

St. Louis-based Monsanto Co. has issued a commercial agreement to Crow's Hybrid Corn Co. to market Roundup Ready soybeans.

"We are extremely pleased to add Roundup Ready soybeans to our product line," said Doug Longest, Crow's vice president of marketing. "This value-added product already has great acceptance. It will provide our customers with additional flexibility and planting options in their soybean program."

Monsanto has also issued a testing agreement to Crow's for the development of corn hybrids with tolerance to Roundup herbicide.

## Financial analysts wave caution flag

A recent decline in grain prices should serve as a warning to producers becoming too excited over farmland prices, a financial analyst told the Illinois Farm Bureau recently. The latest quarterly survey by the Federal Reserve Bank of Chicago shows Midwestern farm values strengthened considerably this summer. Illinois led all Corn Belt states with a 14 percent climb from October 1995. Real estate brokers reported a strong land market through most of 1996. Analysts warn, however, those positive numbers could change. The recent plunge in commodity prices could signal a shift in farmland returns.

# ORGANIZATIONAL BRIEFS

## Sue Stuever Battel joins Michigan Farm Bureau

Sue Stuever Battel has joined Michigan Farm Bureau as county information specialist. Her main responsibilities include working with county Information Committees and publishing county newsletters.

Sue is a graduate of Michigan State University where she earned her degree in

agriculture and natural resources communications. While a student at MSU, Sue worked as an intern at the Farm Bureau Center, writing for *Michigan Farm News* and *Rural Living*. She has editorial experience with other publications, as well, including *Ohio's Country Journal* and *Michigan Florist*.

Sue came to Michigan Farm Bureau from Gibbs & Soell, Inc., an agricultural public relations agency in Hoffman Estates, Ill.

A native of St. Clair County, Sue grew up on her family's dairy and cash crop farm near Capac.



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## EPA to propose stricter air standards

The Environmental Protection Agency is expected to propose stricter air quality standards to reduce pollution from smog-forming ozone and airborne particulates. The increase in standards comes as a partial result of a lawsuit filed by the American Lung Association against EPA.

"These standards would be big improvements over the current standards," said Paul Billings of the American Lung Association. "Industries are screaming pretty loud, so you know they are an improvement."

The National Association of Manufacturers is leading the industry lobbying effort. The group said

## Canada's tariffs upheld

An international trade dispute panel issued its final ruling, upholding Canada's tariffs on U.S. poultry, eggs, milk and other dairy products. The decision was not a surprise, because the panel had issued a similar preliminary ruling. The decision was greeted by the Clinton administration with displeasure.

"We are deeply disappointed that the panel supported Canada's view that it could apply extremely high tariff rates to imports of dairy, poultry, egg, barley and margarine products from the United States," said Agriculture Secretary Dan Glickman and Acting U.S. Trade Representative Charlene Barshefsky.

The panel ruled that Canada's use of high tariff rates — in excess of 100 percent — is acceptable under World Trade Organization guidelines. The panel said Canada's contention, that WTO rules supersede the NAFTA arrangement to eliminate all tariffs between the two nations, is acceptable.

## Restaurants bilked by environmental 'agency'

An official letter from the U.S. Environmental Protection Enforcement Agency asked restaurant owners across the nation to pay a \$189 fee to register grease traps and other kitchen equipment to meet environmental regulations. Restaurants, from large chains to mom-and-pop operations, received the letter.

There's a huge problem with the letter: The U.S. Environmental Protection Enforcement Agency does not exist. Federal agents have seized the records of an Avondale Estates, Ga., business. All letters sent to restaurants had a return address to

the proposal would have dramatic effects on economic growth and lifestyle changes for virtually all Americans living in affected areas. Industry groups favor operating under the current standards and having the current standards be one of the options in its new proposal.

"The potential economic impacts are not lost on people, and there is a strong determination within the White House to make absolutely certain that EPA plays this straight in terms of giving genuine consideration to no-action alternatives or other alternatives to those that EPA favors," said NAM representative Owen Drey.

## Overwhelming support for renewable energy

A post-election survey on the environment and energy found that voters overwhelmingly support federal programs to promote the increased production and use of renewable energy generally, and the ethanol tax incentive, specifically, according to the *Ethanol Report*, a newsletter published by the Renewable Fuels Association.

According to the poll released by the Sustainable Energy Coalition, American voters strongly favor federal research funding and tax incentives for renewable energy efficiency over fossil fuels and nuclear power.

For a third straight year, voters give the highest priority for funding for the Energy Department's research budget to renewable energy and energy efficiency. Nearly a third of respondents believe nuclear power is the energy source that should be subject to budget cuts, followed by fossil fuels.

Kentron Refrigeration Services, Inc., in Avondale Estates.

A number of restaurateurs paid the invoices, believing they were legitimate. Federal agents said the invoices were sent under several names, and all resembled state and federal agencies. One invoice warned that failure to register the kitchen equipment could result in a \$5,000-per-day fine.

This isn't the first time Kentron has had problems with the law. In October, the Georgia Governor's Office of Consumer Affairs fined it \$20,000 for using the Georgia state seal on some of its invoices.

## Protein triggers cows' immune response

Neutrophils — a type of white blood cell — go into action against dairy cows' mastitis infections when they get the signal from a naturally produced protein.

The protein was isolated and purified in studies in 1994-95 by Max J. Paape of the Agricultural Research Service Immunology and Disease Resistance Laboratory at Beltsville, Md., and visiting scientist Pascal Rainard of the Institut National de la Recherche Agronomique, Nouzilly, France.

The next step: pinpointing how the protein

directs neutrophils into the mammary gland and how much protein is needed for an effective neutrophil response.

Mastitis, an infection of the cows' udder, costs U.S. dairy farmers \$2 billion annually in treatment and lost milk production. When an udder becomes infected, neutrophils rush to attack the invading bacteria. Until now, researchers had little information on what triggered the neutrophils' charge. The protein might someday be used in cows to protect against mastitis-causing bacteria.

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# Capitol Corner

For more information on legislative topics in the Michigan Farm News, call 800-292-2680.

## Farm Bureau legislative accomplishments in 1996

**D**uring 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

#### Delaney Reform

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" Delaney standard with a health-based "safe" standard for pesticide residues.
- **Benefits Consideration.** Tolerances could be exceeded to avoid a significant disruption in domestic production of an adequate, wholesome and economical food supply or if the pesticide protects consumers from a greater health risk.
- **National Uniformity.** The act establishes a national uniformity for pesticide residues.
- **Minor Use Pesticide.** It includes new incentives along with streamlined procedures for so-called "minor crop" chemicals, which improves availability of chemicals essential to fruit, vegetable and horticultural growers. This was a major victory for Michigan agriculture. Farm Bureau's efforts to gain the Michigan congressional delegation's acceptance of this legislation was critical in order to pave the way for passage of Delaney reform.

#### Immigration Reform

This law creates three voluntary pilot programs to test a 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 29 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. Employers who fail to comply with technical or procedural requirements in filling out the I-9 employment verification form will not be held liable unless the INS 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.

#### Animal Drug Availability Act

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

#### 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 Farm Bureau-supported act increases the self-employed health insurance deduction to 80 percent by 2006, allows small businesses to set up medical savings accounts and allows individuals to withdraw funds from 401(k) plans and Individual Retirement Accounts to pay for long-term care insurance.

### State issues

#### Milk Act Amendment

The Milk Act was amended to provide additional security to milk producers against non-payment for milk delivered to milk plants. Authority is strengthened for the Michigan Department of Agriculture to respond in a timely manner in the event of substantial erosion of the financial security of a milk plant.

#### Grain Dealers Act

The Grain Dealers Act was amended to exclude farmers who transport grain, incidental to their farming operation, from obtaining a grain dealers license, which requires 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 treated lumber and other byproducts) is not classified as solid waste, thus allowing the wood ash, rich in potash, to be applied to land.

#### Farmland Preservation — P.A. 116

Numerous changes were made to improve P.A.116's ability to preserve farmland. Some of the changes were to clarify and update the definition of agriculture to include poultry and poultry products, captive cervidae, berries, herbs, flowers, seeds and other agricultural products. The law defines specialty farms to include greenhouses, equine breeding

and grazing, breeding and grazing of cervidae, pheasants and other game animals, bees and bee products, mushrooms, aquaculture and other similar uses and activities. It also clarifies that the local units of government shall not impose special assessments for sanitary sewer, water, lights or nonfarm drainage unless the land, building or structure actually uses the special assessment. The law allows for a one-time-only reduction of a long-term contract to seven additional years. It also reduces the minimum length of a renewal contract to seven years.

#### Tourist-Oriented Directional Signs

This law establishes a Tourist-Oriented Directional Sign (TODS) program, which allows tourist-oriented activities in non-urban areas to use highway signs to attract tourists.

#### Expansion of Bed and Breakfast Definition

Passage of this law allows a single-family home with 10 or fewer sleeping rooms, including the room occupied by the innkeeper, to be used as a bed and breakfast with an exemption from regulation as a "food service establishment." In addition, the law allows these establishments to serve meals other than breakfast.

#### Transportation Exemption

This law amends the Michigan Vehicle Code to include that anyone operating a farm-licensed truck or implement of husbandry that transports sand, gravel and dirt in the normal operation of a farm will be exempt from the requirement to cover/tie down such loads while in transport.

#### State-Mandated Territories

This law allows insurance companies to determine auto rates based on each community's experience rather than state-mandated territories, thus eliminating state-mandated rural subsidization of urban areas and good drivers subsidizing bad drivers.

#### Environmental Audits

This law allows companies/farms that have a historical environmental problem to voluntarily come forward to develop a privileged environmental evaluation. Once the evaluation is completed and a cleanup plan of action is developed, the individual is exempt from any local, state or federal environmental law.

#### Private Property Preservation Act

This law requires the attorney general to develop guidelines to be considered by state government entities prior to implementation of a regulation or decision on a permit that may cause a taking of private property.

#### Amendments to P.A. 232

This law amends P.A. 232 to allow additional commodities to organize under P.A. 232, including nursery stock and aquaculture. It allows soybeans, organized under a national checkoff, to waive the state automatic five-year referendum if a national periodic review is provided for. It also allows for funds to be borrowed by commodity programs with the approval of the director of the Department of Agriculture with strict limits on the amount of funds borrowed and payback provisions.

### Revision of Uniform Condemnation Procedures

This law amends the Uniform Condemnation Act to require the Michigan Department of Transportation to pay for the entire parcel if the remainder is adversely affected by the purchase of a portion of it. Among other things, the law requires that the landowner receive, within 30 days, all the money currently deposited in escrow when there is a court dispute over just compensation. Previously, the landowner had to wait until the title was transferred or until the time of possession by MDOT to receive the money deposited in escrow.

### Purchase of Development Rights

This law allows townships, counties or municipalities to develop and conduct a purchase of development rights program at a local level. Land eligible for the program includes both agricultural and non-agricultural land. The non-agricultural land must be adjacent to agricultural land that has had development rights purchased, and the parcels must share a common property line.

### Water Use Reporting

Legislation was passed and signed into law that included the exemption of agriculture from a \$50 user fee. Farmers utilizing 100,000 gallons or more of water per day for agricultural production will still be required to report their usage but they will not be required to pay a \$50 user fee.

### Increase in Hours of Employment of Youth

A law was passed that expands the hours a minor, 16 years of age or older, may be employed in farming operations involved in the production of seed or in agricultural processing. The production of seed includes farming activities and research such as plant detasseling, hand-pollination, roguing, hoeing and any other similar farming activities required for seed production. This will expand the opportunities for employment of young people in agricultural operations. ■

## STATE

### Employer/employee vs. landlord tenant

Sen. George McManus submitted a five-bill package to the Legislative Service Bureau Jan. 2 concerning employee rent-free housing. Sen. McManus received confirmation of the request for these five bills Jan. 9 and the drafting of the bills is underway. The laws Farm Bureau wishes to have amended include the Public Health Code, the Revised Judicature Act of 1961, Landlord Tenant Act, Truth in Renting Act and the Michigan Consumer Protection Act. The language will be the same as the bills that died in the final session of the last Legislature. We will ask for amendments after the bills have been introduced to clarify the eviction process. Sponsors and co-sponsors will not be available until the bills are introduced.

MFB Contact: Howard Kelly, ext. 2044. ■

## STATE

### Wiretap reform

Senate Bill 986 (1995-96) was sponsored by Sen. Cisky in the previous Legislature. It would have allowed for some wiretapping in certain circumstances and prescribed procedures, penalties and remedies. The bill passed the Senate on a vote of 25 to 7. The bill will be introduced again in the current session of the Legislature. Farm Bureau supports this effort.

- Major provisions of the bill:
- The bill would permit wiretapping of drug dealers by any electronic means.
  - The bill would sunset Oct. 1, 2000.

- The state attorney general would authorize the wire tap.
- **Farm Bureau Policy:** We support legislation allowing police officers expanded wiretapping authority under the following conditions:
  - Authorized wiretaps are for violations involving controlled substances only.
  - Approved by the attorney general.
  - The Michigan State Police maintain a directory of all applications for wiretaps.
  - Any legislation enacting these provisions must also contain a three-year sunset provision.

MFB Contact: Howard Kelly, ext. 2044. ■

### Abraham co-sponsors bill to help farmers deal with Mother Nature and IRS

U.S. Sen. Spencer Abraham (R-Michigan) today announced he was co-sponsoring legislation which will repeal a recent IRS ruling and permit farmers to continue to defer tax liability as a way to deal with the ups and downs in business presented by mother nature. The legislation was introduced today by Sen. Charles Grassley (R-Iowa), who is the bill's main sponsor.

The legislation will allow farmers to continue to defer tax liability through the use of deferred payment contracts. "Like other business, farmers are subject to the same peaks and valleys in consumer demand that govern product pricing and income. Unlike other businesses, however, farmers are also subject to the uncertainties of mother na-

ture," Abraham said. "In agriculture, poor growing seasons are inevitable. Probably every farmer has had a crop devastated by harsh weather or been challenged to feed their livestock because of resulting shortages. By deferring tax liability on deferred payment contracts, farmers are better able to prepare for these difficult times."

Deferred payment contracts allow farmers to receive a portion of payment on a crop in the next year. In addition to the deferring payment, farmers also defer their resulting tax liability to the following year. Deferring payments and tax liabilities is a limited form of income averaging that allows individuals to cope with seasonal difficulties. ■

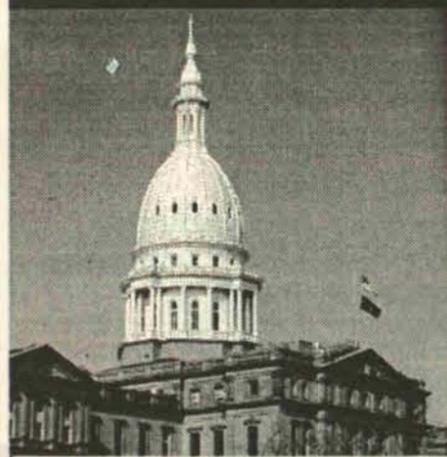
## Lansing Legislative Seminar

Michigan Farm Bureau announces the

### 1997 Statewide Lansing Legislative Seminar

Wednesday, February 19, 1997  
11:00 AM — 6:30 PM  
at the Lansing Center

Registration starts at 11:00 AM with lunch at 12:00. There will be four breakout sessions led by the Public Affairs Division staff, the first beginning at 1:45 and the last session ending at 4:30 PM. At 4:30, Farm Bureau members will have the opportunity to greet their legislators and discuss current issues at the legislative reception.



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February 19 • 11AM — 6:30PM

# 1997 Michigan farm income outlook

by John (Jake) Ferris

**T**racking and forecasting Michigan farm income is a particularly complex task because of the large number of livestock and crop enterprises and wide swings in production and price. Converting crop income to a calendar year presents an additional challenge because farmers change how they allocate sales from year to year. Estimates for calendar year 1996 and forecasts for 1997 are based on traditional sales patterns. As is necessary, normal weather is assumed in forecasting production of 1997 crops.

## 1996 in review

The variability in sales, prices and gross income from year to year is illustrated in Table 1, which shows percent changes from 1995 to 1996. Crop sales for 1996 represent a combination of 1995 and 1996 crops. Milk sales in 1996 were down slightly from 1995, but with tight U.S. supplies, Michigan dairy farmers averaged \$15 per hundredweight (cwt.) in 1996, 15 percent above 1995, increasing gross dairy farm income 14 percent. In the cattle sector, sales and prices on cattle and calves were 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 to egg producers increased substantially as higher prices more than offset a reduction in sales.

Quantity sold of every major field crop declined in 1996, primarily due to poor yields on 1996 crops. A cool, wet spring delayed plantings and dry weather also hurt crop development. Sales of the 1995 corn crop in 1996 were also down from the previous year; for other 1995 crops, sales in 1996 were about the same or higher. Fruit crops were also substantially smaller in 1996 relative to 1995.

Acres planted for harvest in 1996 shifted from dry beans, hay, sugarbeets and potatoes to corn, soybeans and wheat. Total planted acreage of these crops was actually 4.3 percent above 1995. Corn and soybean acreage was up 10 percent as the new farm program eliminated set-asides and allowed farmers more flexibility in allocating acreage. Yields, however, plummeted. Corn yields were 15 percent below trend and soybean yields were 25 percent below trend.

About 10 percent of the acres planted to wheat were not harvested and yields were 25 per-

cent under trend. Dry bean and hay yields were about 10 percent below trend and sugarbeet yields were at the lows of 1991, the lowest since the 1960s. Acreage harvested on sugarbeets was only 85 percent of plantings — also historically low.

Fortunately, prices were generally higher on crops sold in 1996, enough to increase gross income from corn, soybeans and hay (Table 1). Fruit prices were also higher — enough to increase gross from tart cherries — but not enough to offset a much smaller apple crop. Returns from wheat and sugarbeets were also down noticeably.

In total, gross receipts from farm marketings of crops in 1996 exceeded \$2.3 billion, up nearly \$140 million from 1995 (Table 2). Livestock products grossed about \$1.5 billion, more than \$100 million over the year before. Government payments to farmers declined to about \$100 million, primarily due to a reduction in disaster outlays (Table 3).

Total cash income in 1996, including farm-related income, was about \$4 billion, more than \$200 million above 1995. However, cash expenses were up \$150 million, leaving net cash income just under \$850 million, \$60 million above 1995 (Table 3). Higher feed costs and increased expenses for the expanded plantings were major reasons total cash expenses increased to \$3.1 to \$3.2 billion.

## 1997 predictions

The outlook for Michigan farm income in calendar year 1997 is mixed. Gross receipts will decline in the first half of 1997, since milk prices will be lower and the quantities of 1996 crops to be sold in 1997 will bring lower prices than in the first half of 1996. With normal weather, gross income from 1997 crops sold in 1997 should be substantially above the last part of 1996.

Adding it up, however, gross cash income may decline by about \$150 million in 1997, with only small reductions in expenses, (due primarily to lower feed costs) leaving net cash income at about \$750 million (Table 3). The net would be down about \$100 million from 1996.

Increased milk production in 1997 should offset part of the decline expected in prices (Table 2). While hog and cattle sales will likely continue declining in 1997, higher prices should increase gross receipts slightly. Little change is expected in egg receipts as production increases and prices decline. Gross receipts from livestock 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 acreages or even increase acreages in some crops. An exception is wheat. USDA reported that seedings in the fall of 1996 were down 17 percent from the previous year. Even so, cash receipts from nearly every 1997 field crop sold in 1997 (including wheat) should be substantially higher than in 1996, a trend that should carry over into the first half of 1998. 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 (Table 2).

As a perspective on the impact of unfavorable weather last year on 1996 and 1997 incomes, losses from corn, soybeans, wheat and sugarbeets alone amounted to about \$170 million in 1996 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 sugarbeet crops).

Nearly all the base acreages, 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 1996 corn crop amounted to \$54.3 million according to Michigan's Farm Service Agency. Payments on wheat were about \$22 million. Payments will increase to more than \$100 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, 1996. 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 similar to the ACP program it replaces — about \$3 million. ■

**Table 1 — Changes in Sales, Prices and Gross Income from Major Livestock and Field Crop Enterprises in Michigan, 1995-96 Calendar Years**

Enterprise	Percent Change		
	Quantity Sold	Price	Gross Income
<b>Livestock</b>			
Dairy	-1	+15	+14
Cattle and calves	-2	-7	-9
Hogs	-13	+28	+12
Eggs	-5	+37	+31
<b>Crops</b>			
Corn	-7	+36	+29
Soybeans	-10	+20	+8
Wheat	-25	NC	-25
Dry beans	-8	+3	-5
Sugarbeets	-23	+9	-16
Potatoes	-6	-1	-7
Hay	-10	+25	+12

Based on data from the Michigan Agricultural Statistics Service, Michigan Department of Agriculture.

**Table 2 — Cash Receipts from Farm Marketings in Michigan, 1995, Estimated 1996 and Forecast 1997**

Enterprise	in million dollars		
	1995	1996	1997
<b>Livestock</b>			
Dairy	718	817	768
Cattle and calves	265	242	246
Hogs	185	207	209
Eggs	50	66	65
Other	106	116	118
Total	1,324	1,448	1,406
<b>Field Crops and Vegetables</b>			
Corn	412	533	395
Soybeans	338	366	384
Wheat	138	104	91
Dry beans	130	123	114
Sugarbeets	112	94	103
Potatoes	91	85	76
Hay	74	83	85
Vegetables	204	215	210
Other	15	16	16
Total	1,514	1,619	1,474
<b>Fruit</b>			
Fruit	204	215	210
<b>Other</b>			
Other	479	500	514
Total Crops	2,197	2,334	2,198
Grand Total	3,521	3,782	3,604

Data for 1995 obtained from the Michigan Agricultural Statistics Service, Michigan Department of Agriculture and the Economic Research Service, USDA.

**Table 3 — Cash Farm Income in Michigan, 1991-97**

(Million dollars)	1991	1992	1993	1994	1995	1996*	1997*
<b>Gross cash income</b>							
Farm marketings							
Crops	1,950	1,902	1,968	1,992	2,197	2,334	2,198
Livestock	1,288	1,310	1,371	1,389	1,324	1,448	1,406
Gov't payments	124	142	241	102	151	103	147
Farm-related income	137	108	124	119	106	110	110
Total	3,498	3,462	3,704	3,602	3,778	3,995	3,861
<b>Cash expenses</b>							
	2,708	2,685	2,901	3,059	2,996	3,155	3,114
<b>Net cash income</b>							
Actual	790	777	804	543	782	840	747

\*Estimated for 1996 and forecast for 1997.

Source: Michigan Agricultural Statistics Service, Michigan Department of Agriculture and Economic Research Service, USDA, for 1991-95.



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Station	City	Frequency	Morning Report	Noon Report
WABJ	Adrian	1490	5:45 am	11:05-12:00 pm
WATZ	Alpena	1450	5:30 am	11:30 am
WTKA	Ann Arbor	1050	6:05 am	12:00-1:00 pm
WLEW	Bad Axe	1340	6:30 am	12:50 pm
WHFB	Benton Harbor	1060		12:15 pm
WKJF	Cadillac	1370	5:45 am	11:10 am
WKYO	Caro	1360	6:15 am	12:10-1:00 pm
WTVB	Coldwater	1590	5:45 am	12:00-1:00 pm
WDOW	Dowagiac	1440	6:05 am	12:15 pm
WGHN AM	Grand Haven	1370	5:45 am	12:15 pm
WGHN FM	Grand Haven	92.1	5:45 am	12:15 pm
WPLB	Greenville	1380	6:15 am	11:50 am
WBCH	Hastings	1220	6:15 am	12:30 pm
WCSR	Hillsdale	1340	6:45 am	12:45 pm
WHTC	Holland	1450		12:15 pm
WION	Ionia	1430	6:45 am	12:30-1:00 pm
WKZO	Kalamazoo	590	5:00-6:00 am	12:00-1:00 pm
WPLB FM	Lakeview	106.3	6:15 am	12:15 pm
WOAP	Owosso	1080	7:15 am	12:40 pm
WHAK	Rogers City	960		12:15 pm
WSJ	St. Johns	1580	6:15 am	12:05-1:05 pm
WMLM	St. Louis	1520	6:05 am	12:20 pm
WSGW	Saginaw	790	5:55 am	11:30-12:30 pm
WMIC	Sandusky	660	6:15 am	12:45 pm
WKJC FM	Tawas City	104.7		12:40 pm
WLKM	Three Rivers	1510	5:45 am	12:15 pm
WTCM	Traverse City	580	5:45 am	11:10 am

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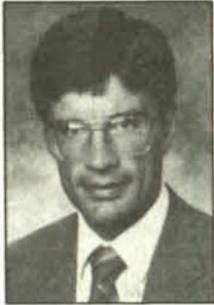
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# Market Outlook

by Dr. Jim Hilker,  
Department of  
Agricultural Econom-  
ics, 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, \$2.65 doesn't seem very high, especially given Michigan's 1996 average corn 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 crop to sell at the high 1995-96 crop year price.

The Supply/Demand Balance Sheet for corn, shown below in Table 1, summarizes the expected fundamentals for the 1996-97 crop, which runs through Aug. 31, and the 1997-98 crop year, which begins Sept. 1. As shown, the supply available for the 1996-97 marketing year is significantly above the previous year as the increase in acres and yield more than made up for the lower beginning stocks. It is somewhat amazing to me that after all the problems last

spring, the country ended up with the trend yield.

On the demand picture, there is both a bright and a dark side. On the bright side, it appears 1996-97 feed use will bounce back strongly despite only a few more animal units. It also appears ethanol production will return to near 1994-95 levels. The dark side is the rest of the world had good feed grain crops and exports will be down sharply. The other part of the dark side is hog numbers will be lower than they would have been if not for extremely high corn prices last year.

As shown at the bottom of column 2, ending stocks are expected to grow as demand growth is not expected to keep up with the extra supply. Ending stocks as a percent of use is projected to be 10.9 percent. While this number is not burdensome, it is sufficient and should give us an average weighted corn price of about \$2.65 for the 1996-97 marketing year.

The next question is, what are the 1997-98 expectations? We will discuss the most likely scenario here, but given 1996-97 ending stocks are merely adequate, there is significant room for movement in both directions depending mostly on the 1997 corn yield.

My expectations are that producers will try to

plant the number of corn acres they wanted to last year before the wet spring pushed a couple million acres to soybeans or sorghum. And, as shown below in column 3 of Table 1, the trend yield for 1997 is 129 bushels per acre; the record U.S. yield is 138.6. This would give us a corn crop of nearly 9.7 billion bushels, which, added to the expected beginning stocks, would give us a total supply nearly a billion bushels higher than this year.

Feed use should grow marginally as hog numbers will likely increase as we go into 1998, and cattle numbers will decrease as the past two years' disastrous calf prices will cut the 1997 calf crop. Expectations are that with corn prices back down to a longer-term average, food, seed and industrial use will again begin to grow with ethanol leading the way. The export projection shown assumes an average world feed grain crop and continued worldwide economic growth.

The above scenario shows how quickly the huge agricultural resources we have in the United States can recover from a short situation. Ending stocks are expected to grow and an ending stocks-to-use ratio of 15.3 percent indicates an average annual price of around \$2.35.

## WHEAT

Michigan's 1996 wheat yield of 38 bushels per acre almost made the corn yield look good. This was down from 60 bushels per acre in 1995 and 53 bushels per acre in 1994. While wheat prices were quite good last summer, they were not good enough to make up for low yields and discounts for quality.

The U.S. situation for the 1996-97 wheat crop is summed up in column 2 of 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 shown.

The bottom line is that ending stocks will grow. The \$4.20 weighted average annual price projection seems high given the 20.7 percent stocks-to-use ratio. This is due to a lot of wheat being priced before the size of the rest of the world's wheat crop was known.

The drop-off in prices we saw by fall and, to some extent, the late harvest of soybeans, lowered winter wheat acres seeded for 1997 harvest by almost 3.8 million acres, or 7 percent. This trend was seen to even a greater extent in Michigan as 120,000 fewer acres, 17 percent less than expected, were planted this past fall. What this means for the U.S. wheat supply/demand picture is shown in Table 2, column 3.

The 1997-98 wheat planted estimate uses the actual 1997 winter wheat seedings and assumes the same amount of spring wheat acres as last year. The number of acres harvested should not be down as sharply as the planted acres number because an average abandonment and grazed number of 9.5 million acres is used versus last year's 12.7 million acres. With a trend yield of 38 bushels an acre, the total U.S. supply is expected to be up due to a combination of larger carry-in and higher production.

Wheat use is expected to pick up in the 1997-98 crop year in total as exports should make some gains assuming a normal rest-of-the-world crop. However, a likely decrease in feeding this next summer from the high levels last summer will temper growth. Overall, ending stocks are expected to grow and this means lower prices.

## SOYBEANS

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 28.5 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 given the sharp increase in production, total supply was up only 54 million bushels, or 2.4 percent.

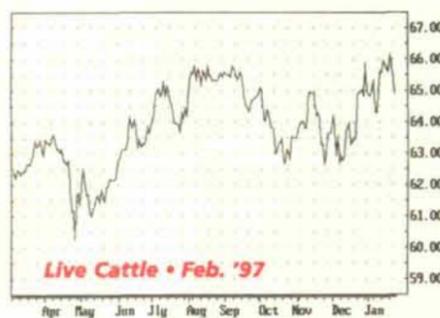
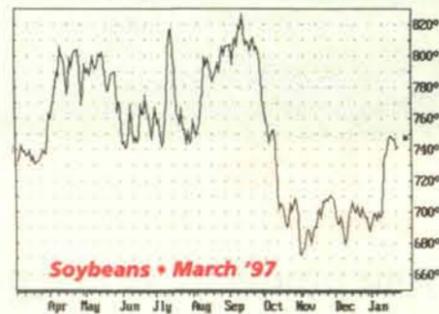
Total use is expected to not only grow by the extra supply, but then some, leaving even lower ending stocks. While we may not see prices as high as periods of last year, the average weighted price will likely be higher. Crushings will continue to be high with equal to growing animal units. And, with a lower oil content, more will need to be crushed to get the same amount of oil. Exports 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 stays bright. While I expect prices 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. I expect soybean planted acres to be about the same as last year despite the projected gain in corn acres. Between new CRP ground being released, fewer winter wheat acres, some pick-up of acres in the South, and the expected good soybean prices, there will be enough acres for both the soybeans and corn acreage projections. 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 be about the same. On the demand side, the picture is not expected to change a lot other than a big crop in South America this spring, which may cut into our exports next year. And, as shown, exports are still expected to be strong. While expected 1997-98 ending stocks may grow, they are still expected to be relatively tight.

Continued on page 7

## COMMODITY PRICE TRENDS



Source: Knight Ridder Financial

## COMMODITY SUPPLY/DEMAND BALANCE SHEETS

Table 1 — Corn

(Million acres)	Estimated 1995-1996	Projected 1996-1997	Hilker 1997-1998
Acres set-aside/diverted	6.2	0.0	0.0
Acres planted	71.2	79.5	81.5
Acres harvested	65.0	73.1	75.0
Bu./harvested acre	113.5	127.1	129.0
<b>Stocks (million bushels)</b>			
Beginning stocks	1,558	426	959
Production	7,374	9,293	9,675
Imports	16	10	6
Total supply	8,948	9,729	10,640
<b>Use:</b>			
Feed and residual	4,711	5,200	5,250
Food/seed & ind. uses	1,583	1,670	1,780
Total domestic	6,294	6,870	7,030
Exports	2,228	1,900	2,200
Total use	8,522	8,770	9,230
Ending stocks	426	959	1,410
Ending stocks, % of use	5.0	10.9	15.3
Regular loan rate	\$1.89	\$1.89	\$1.89
<b>U.S. season average</b>			
Farm price, \$/bu.	\$3.24	\$2.65	\$2.35

Table 2 — Wheat

(Million acres)	Estimated 1995-1996	Projected 1996-1997	Hilker 1997-1998
Acres set-aside & diverted	5.2	0.0	0.0
Acres planted	69.2	75.6	71.8
Acres harvested	61.0	63.1	62.3
Bu./harvested acre	35.8	36.3	38.0
<b>Stocks (million bushels)</b>			
Beginning stocks	507	376	469
Production	2,182	2,282	2,367
Imports	68	75	74
Total supply	2,757	2,733	2,910
<b>Use:</b>			
Food	884	910	920
Seed	104	104	105
Feed	152	300	260
Total domestic	1,140	1,314	1,285
Exports	1,241	950	1,100
Total use	2,381	2,264	2,385
Ending stocks	376	469	525
Ending stocks, % of use	15.8	20.7	22.0
Regular loan rate	\$2.58	\$2.58	\$2.58
<b>U.S. season average</b>			
Farm price, \$/bu.	\$4.50	\$4.20	\$3.40

Table 3 — Soybeans

(Million acres)	Estimated 1995-1996	Projected 1996-1997	Hilker 1997-1998
Acres planted	62.6	64.3	64.5
Acres harvested	61.6	63.4	63.5
Bu./harvested acre	35.3	37.6	38.0
<b>Stocks (million bushels)</b>			
Beginning stocks	335	183	155
Production	2,176	2,383	2,413
Imports	5	4	7
Total supply	2,516	2,570	2,575
<b>Use:</b>			
Crushings	1,370	1,400	1,410
Exports	851	900	850
Seed, feed & residuals	112	115	115
Total use	2,333	2,415	2,375
Ending stocks	183	155	200
Ending stocks, % of use	7.8	6.4	8.4
Regular loan rate	\$4.92	\$4.97	\$4.97
<b>U.S. season average</b>			
Farm price, \$/bu.	\$6.77	\$6.85	\$6.50

Source: USDA and Jim Hilker

# AFBF delegates: New ag era requires new approaches

**D**eliberating at their first annual meeting since enactment of the revolutionary 1996 farm bill, delegates to the American Farm Bureau Federation convention reaffirmed support for the law and said property rights, conserving the environment and new risk management tools should be emphasized during the new era of farm policy.

Delegates said national farm policy "must continue the focus of a consistent, long-term, market-oriented farm policy that will rely substantially less on government and increasingly more on the market."

But to flourish in this new era, the delegates said, farmers and ranchers will need several reforms, such as an increase in the exemption for federal estate taxes and a cut in the capital gains tax from the current 28 percent to 15 percent.

Stressing the increased need in this new period for producers to better manage the risks inherent in agriculture, stemming from weather and market swings, the delegates said new risk management tools should be developed to provide an alternative to crop insurance.

Addressing the dairy situation, the delegates said Farm Bureau will be active in the current effort to reform dairy marketing orders, stressing that the organization's Order Reform Working Group will 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 addressed several aspects of conservation policy. They expressed concern about regulatory enforcement, saying agency roles 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 that 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 remain 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 should exercise its new authority to review regulations and overturn bad ones, in accordance with legislation signed into law last year.

The delegates voiced reservations about the implementation of another new law, the 1996 food



Michigan Farm Bureau 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. ■

## Deadlines unveiled for federal Milk Market Order reform measures

**U**S. dairy producers have until Feb. 10 to share their views on the initial proposal to reduce the number of Federal Milk Market Orders (FMMO) from the current 32 to 10, according to Richard McKee, director of the U.S. Department of Agriculture's Dairy Division, which oversees the order program.

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 new federal orders released this past December.

"We're currently seeking input from the agricultural groups and the industry about these proposals," McKee explained. "We're certainly not going to be defensive about a map — it's only a starting point. We want to know if it's the right thing for the industry."

The comments McKee is seeking will be used to make revisions to the FMMO reform proposal, 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 new pricing structure to replace the current Basic Formula Pricing (BFP) 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 agency plans to issue the final proposed rule, 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 industry referendum scheduled for September 1998. Each producer would vote on their respective order. Those orders that are approved would 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 says he doesn't anticipate the labor costs to be reduced significantly, even with just 10 orders. "We've reduced employment 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 a long-standing, state-level quota system. California producers are scheduled to meet with McKee in February to discuss the establishment of that order.

Recent price volatility was also a big issue with producers attending the AFBF workshop in Nashville. In addition to suggestions that the price of fluid milk be decoupled from the cheese market, there were also suggestions to move to a 12-month moving average to alleviate the wild price swings of 30 percent in recent months.

McKee said the recent price drops were a surprise to everyone in the dairy industry, including USDA. "I've never seen anything like it in my 25 years of working with the dairy industry," he said. "I've heard a great deal in the last 90 days about moving to some kind of moving average."

Although still several months away, McKee said a team of ag economists, headed up by Texas A&M, has released a preliminary report comparing eight different pricing formulas to replace the Basic Formula Pricing. Another study committee based out of Cornell University is also conducting an analysis of what additional production classifications would do to the dairy industry.

McKee encourages producers wishing to comment on the new orders to submit opinions to:  
USDA AMS Dairy Division  
Room 2968 South Building  
Washington, D.C. 20090-3465  
(202) 720-4392 ■

## Market Outlook

Continued from page 6

### CATTLE

**W**hile 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 and also for feedlots other than the last quarter. 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 type and condition of our cattle and the strong East Coast demand versus Eastern Corn Belt cattle numbers.

Two poor years of calf prices following a break-even year will lead to a smaller 1997 calf crop. How much smaller will be reflected in the *Cattle Inventory Report* released on Jan. 31. Cow slaughter has been up for the past year. My expectations are for a 1 to 3 percent decrease in the size of the beef herd. This should allow calf prices this fall to make it back into the \$70 range. If the cutback is on the high side, 3 percent or better, and corn prices are near or below present expectations, \$2.30, we may see calves near \$80 this fall.

Choice steer prices are expected to average \$66-68 per cwt. for 1997, up from the 1996 average price of \$65.11, which was helped greatly by the \$70

prices last fall. Annual beef production is expected to be nearly the same as last year, but with an ever-growing population, economic growth and a continued growth in exports, prices should edge up as suggested. This, along with lower feed prices, should lead to longer periods in the black for feedlots. 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 \$64-66 range, but, as mentioned earlier, Michigan will probably continue to receive a \$1-2 premium on many of our cattle. Beef production in the second quarter is expected to be down 2 percent relative to 1996 and U.S. prices should average \$63-67, up from the poor \$60.26 average for the same period in 1996.

Third-quarter beef production should recover 1-2 percent from last year's levels, and prices are projected to be in the \$64-69 arena. Fourth quarter may be slightly lower than last year, which will once again help prices stay in a range of \$68-74. As we go into 1998, I expect steer prices to average over \$70.

### HOGS

**I**f we look at just hog prices in 1996, it was a very good year as prices averaged \$53.45 per cwt., compared to 1995's \$42.35. Of course, when we 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 farm feeders continued to flee the hog sector. Whether it

was due to small or negative returns, or the unwillingness to make new investments at a later point in their life-cycle, or because the return to selling their feed grains was better or nearly as good as putting it through hogs, varies by the operation. The large operations continued to grow, but not as much as the small ones decreased.

Overall, pork production is expected to be nearly the same in 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. per capita production is expected to be down 1.7 pounds to 47.8 as population continues to increase slowly and exports continue to explode.

First-quarter pork production will be 4 percent below a year ago and therefore prices will average \$7-8 higher at \$53-55 per cwt. Second-quarter production will be about the same as a year ago; this should allow prices to average between \$54-58, somewhat above a year ago. Third-quarter production is expected to rebound and be 4 to 5 percent above 1996 with prices averaging \$54-58, somewhat lower expectations than the \$57.75 seen the year before. Fourth-quarter production is projected to be off 1 to 2 percent from this past fall, which should keep prices in the same range, \$54-57.

Just like very low prices in 1994-95 cured the low prices, I expect very strong prices in 1996-97 to cure the high prices. Remember, the large hog units can raise hogs profitably at \$40 per cwt. with long-run average corn prices. We in Michigan need to be making the correct investment and management decisions in 1997 so that we are in a competitive position in 1998 and beyond. ■

## Be a T.E.A.M. player: Conference serves dual purpose for all members

**I**f your Farm Bureau committee meetings could benefit from a lesson in teamwork, Project T.E.A.M. is for you. Participants of Project T.E.A.M. — Together Everyone Achieves More — will discover team-building skills while addressing issues facing today's agriculturalists Thursday, Feb. 27, at the Mount Pleasant Comfort Inn.

Conference participants will learn how to build team energy, plan as a team and find people who make a difference during sessions centered around tough issues such as agricultural zoning, animal welfare, private property rights, worker protection, food safety and consumer awareness.

Two keynote speakers will address the teamwork topic. The director of the Michigan Department of Agriculture, Dan Wyant, will speak on "The Winning Attitude for Today's Agriculture," and Michigan State University Women's Volleyball Coach Chuck Erbe will share his experiences with "Coaching Teams for Results."

The event, sponsored by the state Promotion and Education Committee, is geared for anyone interested in promoting agriculture while working as a team.

The conference costs \$25 per person, which includes lunch and materials. The registration deadline is Feb. 10. For more information, contact Karen Stoneman at (800) 292-2680, ext. 3206. ■

### Project T.E.A.M. Registration Form

Feb. 27, Mount Pleasant Comfort Inn

Name \_\_\_\_\_

Address \_\_\_\_\_

City, State, ZIP \_\_\_\_\_

Phone \_\_\_\_\_

County \_\_\_\_\_

\$25 per person includes meals and materials, check payable to: Michigan Farm Bureau

Mail or fax reservation form by Feb. 3 to: Michigan Farm Bureau Promotion and Education P.O. Box 30960 Lansing, MI 48909-8460 Fax (517) 323-6541

? Whether you know it or not, you are a VIP — a Very Important Partner. What activity have you been involved in that made a difference for agriculture or taught one person about farming? Name the activity.

? If you haven't been involved in an activity as described above, what would you like to be involved in or learn more about?

Examples: Ag in the Classroom, Fair Displays, Safety Days, Project Rural Education Day (RED), Farm Tours

# Business Strategies

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



**P**lanning for the future seems to be the phrase 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 Project (AMAP), Michigan producers 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 business mission, long-term goals to accomplish the mission, short-term goals that achieve the long-term goals, and tactics that reach the short-term goals.

#### Human resource management

The AMAP Human Resource Management Workshop is a three-day workshop designed to help

# AMAP helps producers with financial planning and personnel management

producers find, hire and keep good employees. The mission of this workshop is to improve the performance of the participants in achieving a high-quality work life for all involved in the farm operation.

Many agricultural producers look at hiring employees from two perspectives: 1) it would be great to have a pool of people to choose from who want to work, which would free up some time for themselves, but 2) looking for and finding good employees can be a real headache.

#### It all begins with planning

Many producers who have been through the AMAP Introductory Workshop remember the importance of planning in their farm business. Using the mission statement, 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 with 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 their 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 FINPAK software package. This module also looks at how to evaluate long-term capital investments as to 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 Robb, Allegan County Extension, (616) 673-0370.
- Feb. 6, 13 and 20 in West Branch. Call Paul Dyk, Ogemaw County Extension, (517) 345-0692.
- March 5, 12 and 19 in Monroe. Call Ned Birkey, 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, location TBA. Call Roger Betz, Calhoun County Extension, (616) 781-0784.

##### Human Resource Management:

- Feb. 11, 18 and 25 in Benton Harbor. Call Joanne Davidhizar, Berrien County Extension, (616) 429-2425.
- Feb. 13, 20 and 27 at Kettunen Center, Tustin. Call Gerald Lindquist, Osceola County Extension, (616) 832-6139.

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

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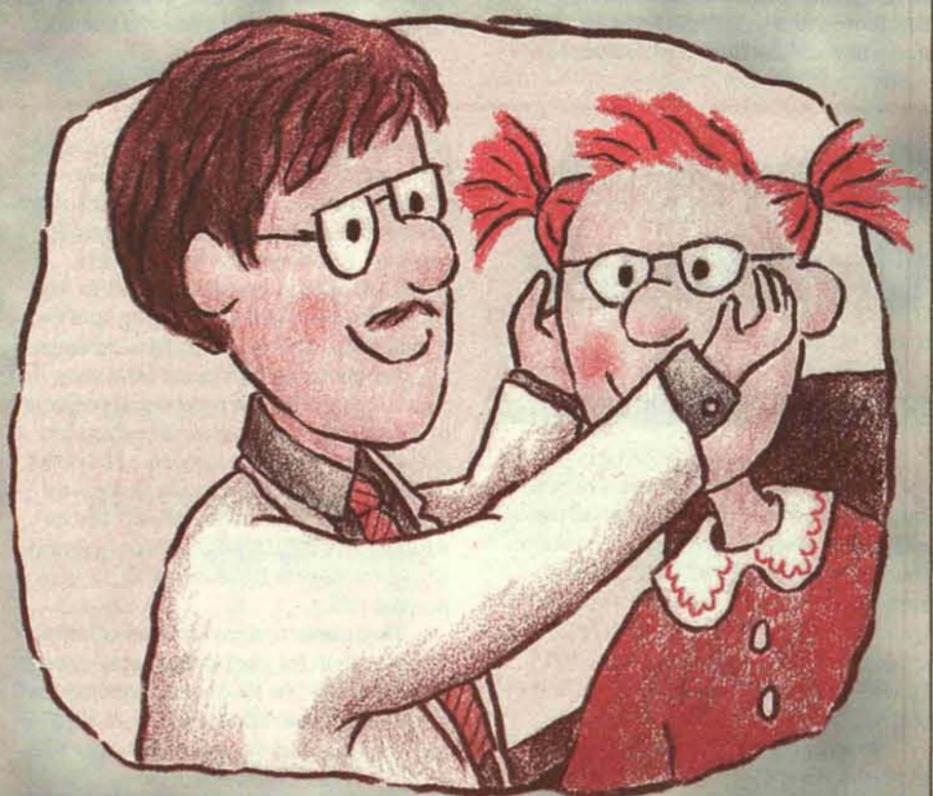
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### Michigan Pork Expo to begin next week

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 15 of Michigan's finest restaurants will compete for a \$1,000 cash award and the title of developer of the best new boneless pork entree of the year.

For the sixth year in a row, a Career Fair and Industry Training Day, for young people interested in exploring careers in agriculture and the food industry, will be held on Friday, Feb. 7. This program will explore career opportunities in several areas and will address a variety of topics including animal nutrition, human nutrition, and a meat carcass cutting demonstration.

The MSU Pork Industry Extension Team will again conduct a series of hour-long educational seminars that will be held both Friday and Saturday at the same time the trade show is open. Topics that will be addressed in the seminars include: herd health strategies, pig flow, using pigCHAMP, pork quality, transporting hogs, operations of the youth swine show, low-cost housing alternatives, environmental issues and results of the 1996 Michigan Genetic Improvement Program.

For more, contact MPPA at (517) 699-2145.

## Precision Agriculture

by Perry Petersen

Terra customer John Woodhouse calls himself a "detail person." He says paying attention to detail and having access to in-depth operating information are crucial to managing any business — including his 2,200-acre corn, soybean and wheat farm.

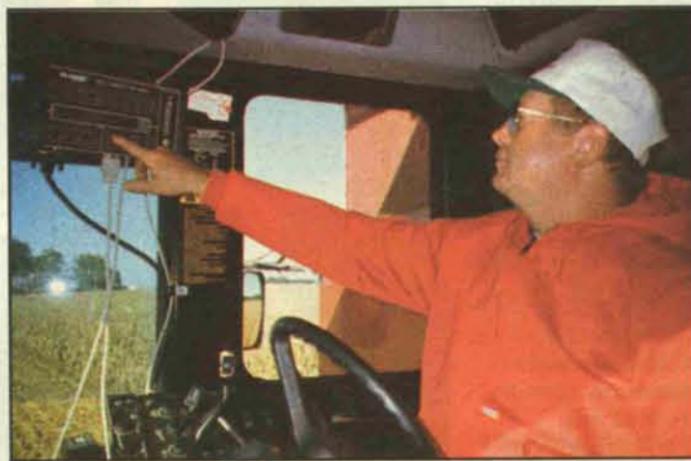
Woodhouse admits not everyone shares his passion for details. But that doesn't stop him from trying to convince others that overlooking important details can have an adverse impact on results. To prove his point, Woodhouse pulls a small card from his wallet and asks a visitor to read the single sentence printed on it. After a minute, he asks the visitor how many times the letter "F" appears in the sentence.

"It sounds simple enough," Woodhouse says. "People have the card right in front of them, and almost everyone still comes up with the wrong answer. They see only half the 'Fs'. They don't pay attention to the details and skip over the 'Fs' that are in small words like 'of'."

A smile breaks across Woodhouse's face as he recounts all the times people failed his little quiz and explains, "I've always been interested in details." Fortunately, precision agriculture makes it possible for Woodhouse to satisfy his desire for detailed information. Precision agriculture tools — personal computers, geographic information systems (GIS) and the global positioning system (GPS) — are just what Woodhouse says he needs to stay on top of the details that affect his farm's bottom line. Since 1995 he has worked closely with John Wagner, one of Terra's cropping systems advisers, to build a database of detailed, site-specific information about his crop production system.

Woodhouse purchased Rockwell's Vision System and a yield monitor in 1995. That fall he was ready to start collecting site-specific, georeferenced yield data. But he experienced problems with the FM-based differential GPS signal in his area and with his yield monitor. The result was inconsistent yield data.

## Precision ag meets farmer's need for details



John Woodhouse checks the yield monitor mounted in the cab of his combine. Woodhouse is using precision agriculture technologies to build a database of detailed, site-specific information about his crop production system.

Wagner says, "Basically, we could get the equipment to give us whatever yield data we wanted — whether or not it matched actual yields from the field." Looking back on the frustrations he and Woodhouse experienced, Wagner adds that Woodhouse's confidence in the technology was shaken.

Wagner restored that confidence this past fall with a recommendation that Woodhouse switch to a Coast Guard-provided GPS differential signal and a new yield monitor from another manufacturer.

If Woodhouse had any lingering doubts about the technology, they weren't apparent during harvest as he sat in his combine driving through a corn field and glancing at yield numbers as they appeared on the Vision System display screen. Woodhouse provided a running commentary on yield changes as he guided the combine back and forth in the field. He related yield drops to specific field conditions he had observed, such as topography or particularly stubborn weed infestations in specific sections.

Wagner confirms that Woodhouse is representative of the farmers he works with. "They start getting into site-specific farming with baby steps," Wagner says. "They start collecting georeferenced grid-soil sampling data on some of their acres, or they start

collecting georeferenced yield data. They want to make certain the technology delivers what is promised. Once they see it work, they can't get it incorporated fast enough into their production system."

The challenge for farmers, according to Wagner, is to follow a logical, well-thought-out plan for implementing precision agriculture technologies.

Woodhouse calls precision agriculture the wave of the future and says he plans to have it integrated into almost every facet of his crop operation within the next five years. He says the new technology is a tool that helps him monitor all the details that make up his crop operation and helps him make decisions that will maximize profits.

"When I got out of high school, people said you couldn't make a living as a farmer," he says. "But I've bought a car, a tractor or a farm every year for the last 13 years. I think that's making a pretty good living."



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MFB DENTAL

# Apple crop expected to rebound, cherries to focus on marketing

by Don Ricks

**M**ichigan 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 its upward trend. During the next three to five years, Michigan is likely to have some additional substantial crops in the 25-to 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 in the top spot for acreage of Michigan's apple varieties. Golden Delicious and Empire top the list of most recently planted varieties according to the latest orchard survey (see table). The relatively new varieties of Jonagold, Gala and Fuji have also had considerable new plantings, along with moderate amounts of Red Delicious, Jonathan, 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 ex-



pect 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, Mutsu, Spy, Ida Red, Winesap and Rome. Processors rated Spy as continuing to be the variety

best suited for processing into slices, followed by Mutsu, Jonathan, Golden Delicious, Ida 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, unbruised and unblemished as the most important to them for their fresh apple purchase decisions. The characteristics

of color, size and price were rated as moderately important by consumers. Surveyed 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 visioning 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, pest management 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 overall pro-active manner.

### Tart cherries

It is expected that the new tart cherry federal marketing order program will be operational for the 1997 crop if it's needed. This industry-developed program was recently approved in a referendum of growers and processors throughout the industry. A main goal of the marketing order is to help manage surplus supplies when these 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 also tweaking a number of ongoing programs to aid the expansion of demand for cherries through the efforts of the Cherry Marketing Institute, the Michigan Cherry Committee, 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.

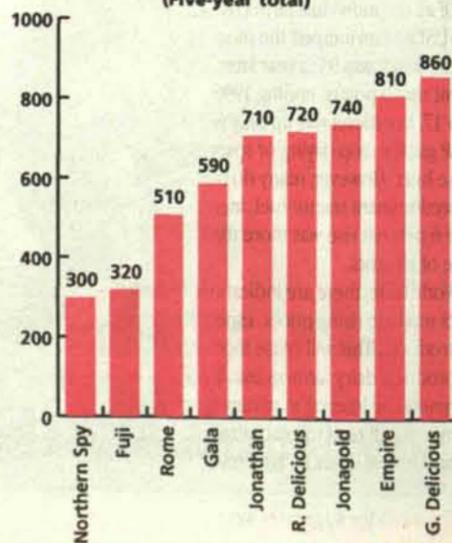
In order to focus on a number of the important issues related to the future performance of the cherry industry, a U.S. Tart Cherry Industry Council was formed this fall. The goal of this council is to analyze and discuss future industry needs, opportunities and strategies for a competitive and successful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

### Michigan tree fruits

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 main 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 orchard 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 23 percent of the state's tree fruit acreage, while 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 (Five-year total)



*I'm no superhero. Just a guy trying to turn millions of little seeds into*



*one big crop. Before millions of little bugs turn it into nothing. One kind*



*of pest may hit. Or many. All I can say is, my insecticide has to pay off.*



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# 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 compounded by difficulties in obtaining adequate quantities and qualities of forages, 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 \$13.39. 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 markets turned sharply during the last quarter of 1996, assuring that farm milk prices in the beginning of 1997 will be substantially below 1996 levels.

Last year was the first year that many of the new and expanded dry-lot dairy herd operations experienced a dramatic increase in feed cost and availability. The passage of the 1996 FAIR Act with the increased flexibility in cropping patterns assures that large-scale dairy operators will likely face more years of feed price and supply uncertainty.

## Constrained milk production in 1997

In 1997, we anticipate sharply lower milk prices in the first part of the year. This, combined with increased dairy costs—particularly fuels 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 level or 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 adequately absorb the limited 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 sub-normal prices to U.S. dairy farmers in early 1997, USDA 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 tight 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 \$12.30 to \$12.60, about 70 cents to \$1 lower than the record 1996 levels. The all-milk price for Michigan could range between \$13.50 and \$14 per cwt. for 1997.

Although 1997 milk prices will not equal those of 1996, 1997 could see the second highest average annual milk price. There is likely going to be only a modest recovery in the cull cow and calf markets. Overall, dairy farm incomes will likely trail 1996 levels.

## Production costs to rise

Production costs, as indicated by the index of prices paid by U.S. farmers, were up less than 2 percent during 1996. With a base point of 1990-92 = 100, the index in December was 112 in 1995 and 114 in 1996. This is a slower rate of cost inflation than existed in the two decades before 1990.

## Fuel

Of all the individual farm cost items published by the USDA, fuel jumped the most. In December 1995, the index was 95; a year later, it was 110. LP gas went up 59 points, ending 1996 at 155. 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, a predominant tractor fuel, increased the least, but the 6 percent rise was more than the rise in the average of all costs.

Worldwide, there are indications that energy markets may see rising prices, especially for petroleum products. This will cause increases of prices in many products dairy farmers use. If this continues, it will renew the interest in minimum tillage for cropping. It will tend to encourage more use of alfalfa and less of other 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 called for a two-stage increase. The first occurred in 1996. For those dairy farmers paying minimum wage, this forced a direct increase in 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. And, labor of any quality will be hard to find.

## Fertilizer

Compared to the index base of 100 in 1990-92, fertilizer and farm machinery are currently at 127, 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 potassium 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 those seed prices. Other crop varieties

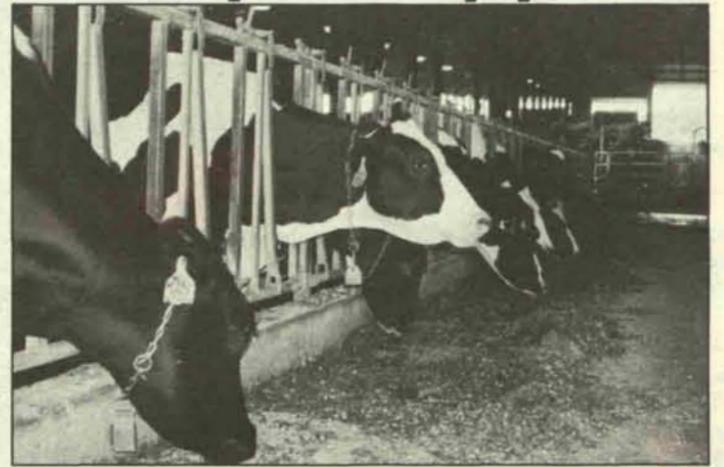
that have been genetically engineered for built-in tolerance to certain weed control chemicals and outright resistance to some diseases come at a higher price. The unknown is how far yield increases and reduced needs for crop chemicals will go toward offsetting higher seed costs.

## Feeds

For the country as a whole, the cost index for all feeds went from 121 in December 1995, to 113 in December 1996—a drop of eight index points. The five components of all feeds followed by their change from December to December in parentheses: complete feeds (-4); feed grains (-23); hay/forages (+18); concentrates (-2) and supplements (-25). A year ago, corn prices were higher than now, and influenced ration costs until well into the summer of 1996.

## Hay

In a special report on the U.S. hay situation, the National Outlook Board stated that hay is one of the most widely grown crops in the country, third in harvested area behind corn and wheat. The fol-



lowing is quoted from their report AO-236, dated Nov. 25, 1996.

"The average U.S. hay price is expected to hit a record in 1996-97—around \$90 per ton, up from \$85 in 1995-96—due mostly to a lower hay supply as well as higher grain prices earlier in the season."

Dairy farm costs may rise more in 1997 than they did in 1996. When linked to lower dairy operation income, managers will need cash flow projections to show the net impact of milk prices received and expected costs. More than ever, there will be continuing need for enterprise or cost accounting records. ■

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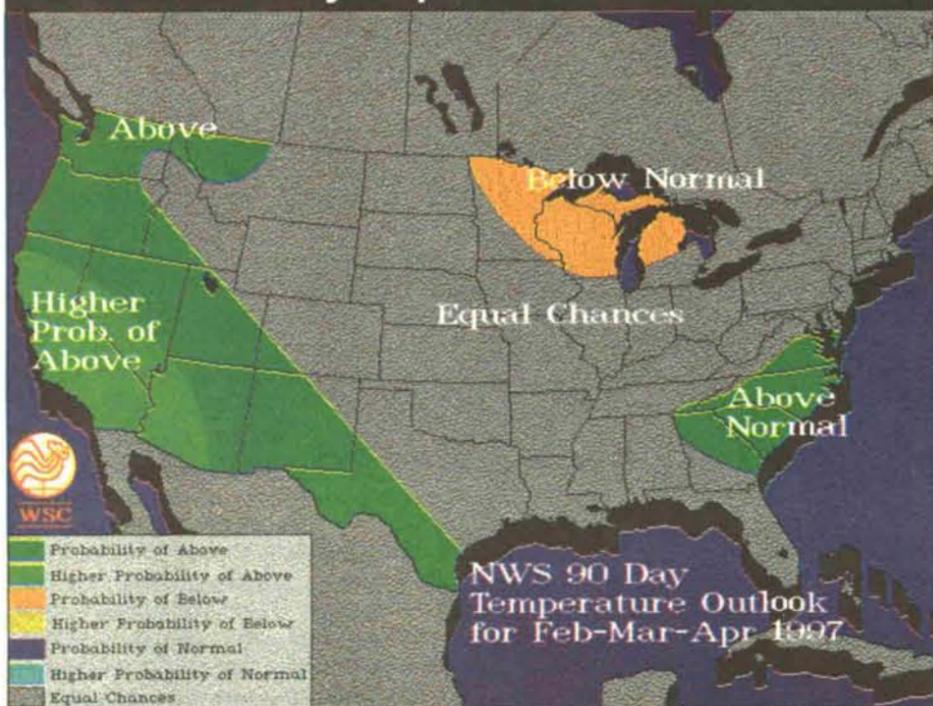
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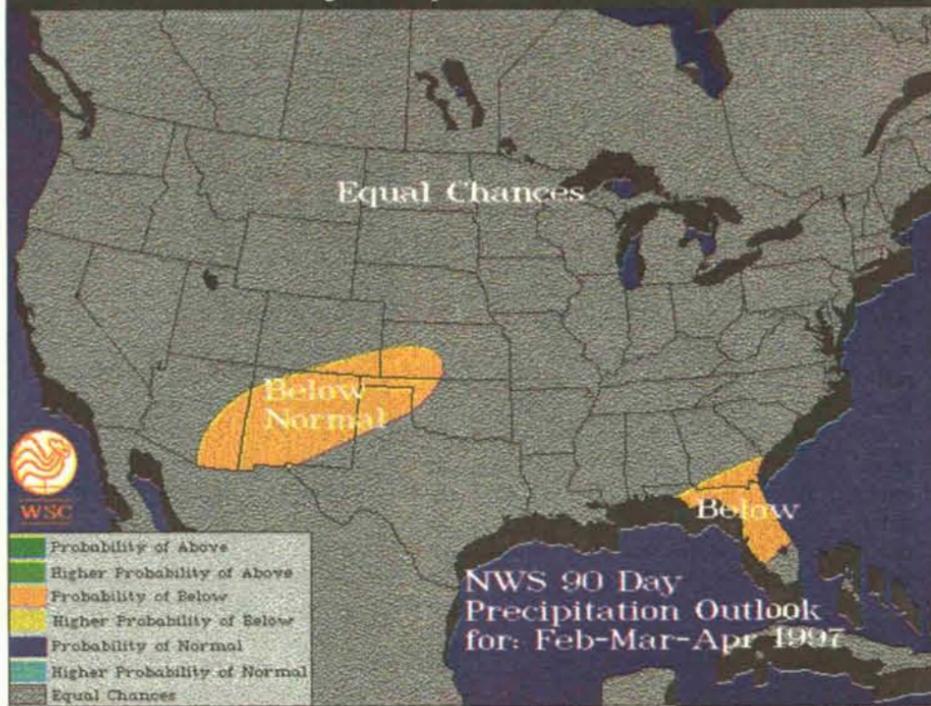
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90-day Temperature Outlook



90-day Precipitation Outlook



### Michigan Weather Summary

12/16/96-1/15/97	Temperature Obs. mean	Dev. from normal	Precipitation Actual (inch)	Normal (inch)
Houghton	16.5	-0.7	3.84	1.96
Marquette	16.2	3.1	6.91	1.96
Escanaba	18.4	-1.0	2.26	1.83
Sault Ste. Marie	18.0	1.9	4.23	1.83
Lake City	24.2	3.5	6.00	1.89
Pellston	22.2	3.2	5.12	1.89
Traverse City	25.7	1.9	6.84	1.89
Alpena	22.7	1.5	4.41	1.74
Houghton Lake	21.5	0.8	2.00	1.74
Muskegon	25.6	-0.1	2.01	2.21
Vestaburg	23.8	-0.3	2.89	1.73
Bad Axe	23.8	-0.4	2.52	1.59
Saginaw	24.9	0.9	2.40	1.59
Grand Rapids	24.8	2.0	2.46	2.41
South Bend	26.0	0.6	2.90	2.41
Coldwater	24.5	-0.8	3.04	1.74
Lansing	25.0	1.4	2.00	1.74
Detroit	27.3	3.0	2.74	1.87
Flint	24.9	0.9	2.02	1.87
Toledo	28.4	2.4	3.16	1.87

Observed totals accumulated from April 1. Normals are based on district averages.

# Weather Outlook

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

A strong, northerly jet stream led to the passage of a series of frigid, arctic-origin air masses during early January, quickly turning what had been a relatively mild winter into one to be remembered by its cold and snow.

Precipitation for the past 30 days was near-to much-above normal, including very heavy lake-effect snowfall (by mid-January, snow depths of 2 to 4 feet were common across much of Upper and northwestern Lower Michigan).

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 still 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 El Niño 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 higher yields. The short-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.

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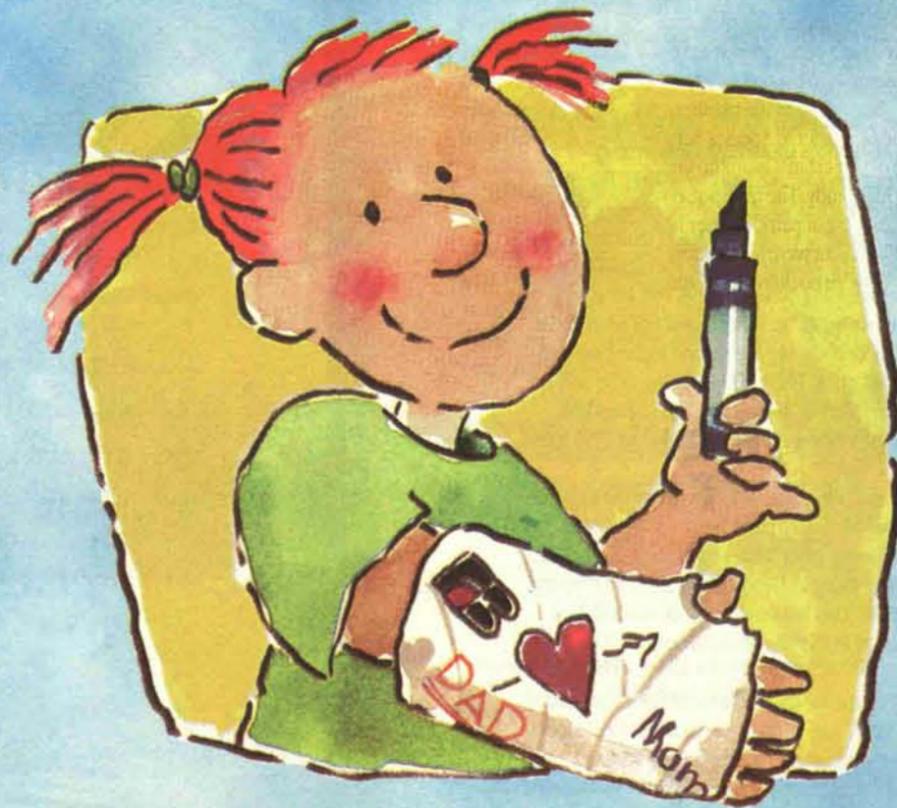
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# Management implications for livestock entrepreneurs

by Gerald Schwab and Laura Martin

**H**ow to manage in a world of change? The fortunes of livestock feeders were affected adversely by prices of feed ingredients that were high and extremely volatile during 1996. Both cattle and swine producers had to contend with corn and soybean meal prices that were much higher than expected.

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

Swine producers experienced a mid \$50-per-cwt. price in 1996 which provided a profitable year for many enterprises. However, numbers of Michigan hog farms and of hogs continued to decline in 1996. From these capsule observations, let us briefly discuss opportunities for producers in each of these meat 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.



Is there hope for a turnaround in the fortunes of the cow-calf enterprise? We believe that 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 consumers.

With corn prices expected to be lower in 1997 relative to 1996, cattle feedlots will be chasing 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.

If the cattle price cycle has indeed started to turn partially as a result of more cows culled from the national herd, then the next question is whether heifer calves from the 1996 crop should be retained for expansion of the herd? This question is too late for the producer who has sold title to those heifers, but may be relevant for those who are wintering over their calves. Although there is no guar-

antee, the odds are improving that the 1996 heifer calves brought into production will earn more profits than any heifer retained in the previous five or six years.

The high feed prices and low beef prices also have been difficult for the cattle feedlots. The feedlot decision-makers have three key questions to answer for their operations — whether cattle are fed and, if so, in what numbers, and how much will be paid for the feeders? As producers determine their break-even feeder prices, they will want to consider which market to target with that set of cattle.

Lately, there has been increasing talk in the industry concerning price premiums for finished cattle that meet market quality specifications. Careful scrutiny of the quality of feeder calves and their potential to grade high Choice and provide a premium will add intriguing dimensions to the cattle feeder's decisions. The feedlot operator who has enterprise records on performance of previous cattle by source and type, break-even calculations, and expected feed costs will be in the best position to determine the maximum bid price for feeder

cattle. For producers who have not kept good records, what better year to start than 1997?

## Swine enterprises

For many pork producers, 1996 appears to have been a profitable year. Average prices in the low- to mid-\$50s took a big bite out of the high feed prices. However, it looks like some of the state's pork producers viewed the historically high corn and soybean prices in 1996 as an opportunity to exit the industry. The most recent *USDA Hogs and Pigs Report*, in December 1996, suggests that about 300 Michigan hog operations have left the industry, most of these in the 100- to 499-head category. Operations with more than 2,000 head now account for 53 percent of our state's hogs, up from 46 percent in 1995. Obviously, the revolutionary structural change that is occurring nationally is affecting Michigan pork producers as well.

This spring, Michigan State University will be conducting a survey of the state's pork producers with the objective of gathering information on the nature and structure of the state's changing industry. This information should help farmers, leaders and educators better address the long-run growth, profitability and viability of the state's pork industry. We strongly encourage producers to take the time to fill out this important questionnaire when they receive it. Without this information, it will be increasingly difficult to adjust to the evolving changes.

Producers should remember however, that with change comes opportunity. As some pork producers expand in size to capture the benefits of new technologies, opportunities also exist for farmers of all sizes to work together to capture these same benefits. Pooling resources, specializing in various production phases and sharing information and management expertise are but a few of the ways individual farmers can capture some of the same production and marketing advantages of the very large-scale operations. ■

## Administration changing wetlands rules

**T**he Clinton administration announced that the Army Corp of Engineers will have tighter constraints on permits it issues to fill isolated wetlands in upland areas near headwaters of streams.

The Corp will also require that permits for those wetlands of three acres and more get the same intensive review now required for 10 acres or more. A Corp official said wetlands of one-third to three acres would get a shorter review, similar to current requirements for wetlands of one to 10 acres.

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 of the nationwide permits restrictions to ensure that water quality is better protected," Sudt said.

Rosemarie Watkins, who works on wetlands and conservation issues for AFBF, says the plan adds just another layer of bureaucracy for America's food producers. "The federal government has eliminated an important alternative to farmers for dealing with small, isolated wetlands, and forced them into a complex and costly permitting process," she said.

"We believe this action goes contrary to the assurances Corp and other officials gave congressional committees last year during hearings on the Clean Water Act."

Environmentalists applaud the rules, saying they will increase protections for tens of thousands of acres of wetlands across the country. ■

## Could the Endangered Species Act be a failure?

**M**ost endangered species are barely making it or are 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 still 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.

Interior Secretary Bruce Babbitt, admitting he hasn't seen the report, said additional efforts need to be made to make the ESA work. He said the ESA's approach has been "emergency room therapy rather than accident prevention."

David Wilcove, an ecologist who co-authored the study for the EDF, said new approaches need to be taken, especially as they apply to private land.

"We are not doing an adequate job in rescuing species," Wilcove said. "At best, the law currently is only holding the line on losses, and it doesn't even do that very well." He admitted that only a small fraction of species are improving. ■

## 1997 annual poultry outlook

by Henry Larzelere

### Eggs

The number of eggs and pullets on Jan. 1, 1997 will likely be 2 to 3 percent above a year earlier. Egg production in most of 1997 will also be 2 to 3 percent above 1996, in response to favorable egg prices and feed 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 1997, 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 New York wholesale prices for Grade A large white eggs in cartons will average in the 80s or 90s. Egg prices in 1997 most likely will be below 1996.

### Broilers

Broiler production in pounds of meat in 1996 was more than 5 percent above 1995. Wholesale broiler prices, fresh ice packed at Midwestern cities in 1996, averaged 5 cents a pound above 1995. Broiler production in 1997 is expected to be 6 percent above 1996 levels. This factor, coupled with pork production being about the same, will likely mean average broiler prices in 1997 will be about 2.5 cents a pound below 1996, or 59 cents a pound.

### Turkeys

The 1996 turkey crop was about 6.5 percent above the 1995 crop with prices for frozen whole turkeys about the same in both years. The 1997 turkey crop is expected to be 2 percent above 1996 while prices will probably average about 2 cents a pound above the previous year.

The consumption of turkey continues to grow throughout the year because more uses of turkey are found. However, prices in the last quarter of the year will be 5 to 10 cents a pound above the first three quarters. ■

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## 1997 Michigan sugarbeet outlook

by John (Jake) Ferris

The Michigan sugarbeet industry has been facing some difficult times. In only a couple of years since the 1960s (1961 and 1972) did gross margins per acre over direct cash costs fall to or below that of competing enterprises — that is before 1995.

In 1995, declining prices and yields on sugarbeets, in combination with sharply higher prices on corn and soybeans, brought gross margins down to very competitive levels with the other enterprises. As a result of 1995's lowest real margins since the 1960s and the cool, wet weather at planting time in 1996, the area planted to sugarbeets dropped to 153,000 acres.

The area harvested in 1996 was only 130,000 acres because of weather problems. Only in 1986, the year of the flood, were more acres left unharvested. Yields per acre were down again in 1996, following a trend that has set in since the mid-1980s. Total sugarbeet production, at just over 2 million tons, was the lowest since 1983. The prospect for a reduction in production forced the industry to contract with Ontario producers in 1996. In 1997, sugarbeets grown in Ontario for processing in Michigan could expand to about 3,000 acres.

However, for those who did grow sugarbeets in Michigan in 1996, gross margins per acre were up sharply from 1995. Not only have sugar prices increased, but the quality of the crop has improved. Sugar content of 270 pounds per ton of beets has been reported, compared with 250 pounds in 1995.

These higher returns, in combination with declining prices on competing crops and the prospect of more normal weather in 1997, should result in a recovery in acreage. Those who were prevented by weather in growing sugarbeets in 1996 will have more opportunity to work beets into their rotation in 1997.

Over the years, sugarbeets have earned Michigan farmers substantially higher returns per acre than from other crops. With the new farm program introducing more flexibility in planting decisions, but also more profit risk, more of a premium will be placed on diversification of enterprises as a way to manage these risks.

Having sugarbeets as an alternative is an advantage for Michigan farmers. The challenge will be to reverse the downtrend in yields and overcome some of the higher levels of physical energy involved with sugarbeets compared with other crops.

Under the new farm program, the Federal Agricultural Improvement and Reform (FAIR) Act, the refined beet sugar loan rate was frozen at 22.9 cents per pound. This is the same level of support in effect on the 1995 crop. Certain modifications apply to whether the loans will be recourse or non-recourse. Authority for the USDA to control surplus sugar supplies by imposing domestic allotments on U.S. sugar processors was eliminated.

Since the sugar program does not involve federal budget expenditures, pressures to reduce sugar supports have been muted. Being a major importer of sugar, the United States has kept sugar prices near the loan rate by restricting imports. This has kept domestic prices above the world level. However, the secretary of agriculture will be required to reduce the loan rates if other nations that export sugar reduce their subsidies beyond the reductions required under GATT. ■

### Meeting to focus on bolstering beet yields

What growers need to know about arresting the yield decline will be the focus of the Sugar Beet Symposium, Feb. 25, in Saginaw.

The 8:30 a.m. to 4 p.m. program will be held at the Horizons Conference Center on State Street in Saginaw and will feature some of the top researchers and growers in sugarbeet crop management and production.

The program will focus on new sugarbeet planting technology being used by growers in the United Kingdom, the advantage of narrow rows, and how to minimize seedling diseases.

There will also be a panel discussion on sugarbeet production, suggestions for developing a production system and an overview of the Sugar Beet Revitalization Initiative (SBRI). The symposium will also have a trade show of more than 100 exhibitors of supplies and services.

SBRI co-chair Steve Poindexter, Saginaw County MSU Extension agricultural agent, says the SBRI was initiated Dec. 4 in Frankenmuth during a meeting of 25 growers, industry representatives and MSU Extension agronomists.

For more information about the symposium and the SBRI, call Poindexter at (517) 799-2233 or Harold Rouget, Tuscola County MSU Extension agent, at (517) 672-3870. ■

## 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 Jump, IAT director, says the program is an appealing alternative for students interested in agriculture who know what they want out of their education.

The IAT consists of 10 areas of study ranging from livestock and horse management to crop production and turfgrass 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.

Jump 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 will 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," Jump says.

"The dairy management program is designed to give students practical training. Most come from family farms and want to take some technical knowl-

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 Jump says students often enroll because they are seeking a career change or an additional degree.

John Shelle, 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 often 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 facilities to support it.

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 Schutzi 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 viable option in post-secondary education. Upon completion of the 16-month program, they are able to focus and enter the industry right out of school," he says.

Jump 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 19 students enrolled right here on campus, 15 students in Grand Rapids, and 19 students in Traverse City who are learning via ITV," Jump says.

Though the program has some drawbacks, such as high tuition and competition from community colleges, Jump 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."

Call (517) 355-0190 or toll-free (888) 247-4832 for more information on programs and interning students. ■



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## Trade for 1997 — overall value of ag exports to drop

by David Schweikhardt and Sandra Batie

U.S. agricultural exports are expected to reach \$55.5 billion in 1997, a decrease of \$4.3 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 volume of wheat export are expected to reduce the export value of those products. Exports in several product categories are expected to increase in 1997.

Livestock exports, led by an increase in meat exports, are expected to increase by \$700 million to \$8.7 billion in 1997. Within the livestock category, only dairy exports, at \$700 million, are expected to remain unchanged in 1997.

Fruit and vegetable exports are expected to again set a new record for both the volume and value of exports, reaching \$10.5 billion, or \$500 million more than in 1996. Wheat and flour exports are expected to decrease from \$7 billion in 1996 to \$3.9 billion in 1997.

U.S. agricultural imports are expected to reach \$34 billion in 1997, or \$1.8 billion greater than in 1996. Increased imports of horticultural products will account for most of this increase, with imports increasing by \$900 million to a projected \$12.5 billion.

Asia will remain the largest regional market for U.S. exports, accounting for \$24 billion of U.S. agricultural exports. Japan remains the largest customer for U.S. agricultural exports, purchasing a projected \$11.5 billion from the U.S. in 1997.

Canada will continue as the second largest customer at \$6.1 billion, and Mexico will continue as the U.S.'s third largest export market at \$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 \$3.6 billion in 1993, the year prior to the approval of the North American Free Trade Agreement, and then increased to \$4.5 billion during the first year of the agreement. Following the devaluation of the Mexican peso in November of 1994, which made U.S. products more expensive for Mexican consumers and reduced the incomes of many consumers, U.S. exports declined to \$3.7 billion. As the Mexican economy has shown signs of recovery and as Mexico has changed its domestic agricultural policies, U.S. exports have begun to recover, reaching \$5 billion in 1996.

### Trade policy outlook

International trade will remain a visible 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 on 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 late in the year. The expectation is for the Federal Reserve to continue to decrease rates by 0.25 to 0.5 percent early in 1997 and, depending on the trend in economic growth, perhaps more later in the year.

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 level 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 9.73 percent, while the average operating loan rate was 10.69 percent. The Michigan rates were the highest among all states in the Seventh District.

Look for interest rates in the upcoming year to remain steady or decline slightly on operating and real estate loans provided by Farm Credit and commercial banks. There are funds available from commercial banks and the Farm Credit Service centers for borrowers who represent sound financial risks. Because of regulatory requirements on credit quality, banks are reluctant to add any marginal loans to portfolios.

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. ■

but the major issue may be the question of whether NAFTA will be expanded to include additional countries from Central or South America.

The Canadian government has indicated a willingness to negotiate a free trade agreement with Chile, and the Chilean government has expressed a desire to join NAFTA. While the U.S. has not yet reached a position of whether NAFTA should be expanded or how additional members should be added to the agreement, the potential for an agreement between the Canadian and Chilean governments may force the U.S. to develop a position on these issues during the coming year.

U.S. agricultural trade with Chile is relatively small, with total U.S. exports reaching \$130 million in 1996. Wheat and feed grains represented half of all U.S. agricultural exports to Chile. U.S. agricultural imports from Chile were \$695 million in 1996, with grapes accounting for over half of all imports.

Though Chile does not represent a large export market or a large source of imports for the U.S., the terms on which Chile is admitted to NAFTA would set an important precedent for all future expansions of NAFTA. The U.S.'s insistence that all agricultural commodities and all tariffs be included in the original NAFTA agreement with Mexico set an important precedent that negotiators may want to preserve in negotiating the entry of Chile into the agreement.

Preparations are also beginning for the next round of negotiations under the World Trade Organization scheduled to begin in 1999. By that time, the U.S. must begin to develop its negotiating strategy

for that agreement. Agriculture is expected to be a major topic in the negotiations, with export subsidies and import tariff reductions continuing to be a key issue. The problems of non-tariff trade barriers—including such issues as food safety, packaging, inspection, and phytosanitary regulations—are expected to be a major new topic for negotiators.

### Agricultural policy outlook: research and Extension issues on the agenda

With the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 in place for the coming year, domestic agricultural policy debates are expected to focus on other issues in 1997.

The FAIR Act did not include a reauthorization of USDA research and Extension programs, and the House and Senate Agriculture committees must address these issues in 1997. Sen. Richard Lugar, chairman of the Senate Agriculture Committee, recently issued a list of questions about agricultural research and Extension programs that he hopes will frame the debate on these programs. His questions include:

- How should our research system structure and delivery system be changed to be prepared to meet the challenges of the agriculture sector in the next century?
- Is there a need for a college of agriculture in every state or should there be greater effort to regionalize agricultural research (such as development of regional centers of excellence that link researchers from various states to work on research of regional importance)?

■ Are special grants or research earmarked by the appropriations committee worthy investments? Do they serve national interests?

■ Should federal funding for research only be awarded for research of national priority? Does the president's new line item veto authority enable him to veto special research grants?

■ Should the formulas by which food and agricultural research and Extension funds are allocated (now based on farm and rural populations) within the land grant system be revised to better reflect changing state demographics and the increasingly diverse food and agricultural research community?

■ In the absence of federal funds for the Extension Service, would states and localities continue to provide the service? Could the federal funding role be replaced with a memorandum of agreement to guarantee information sharing from federal and other research agencies into the hands of Extension personnel?

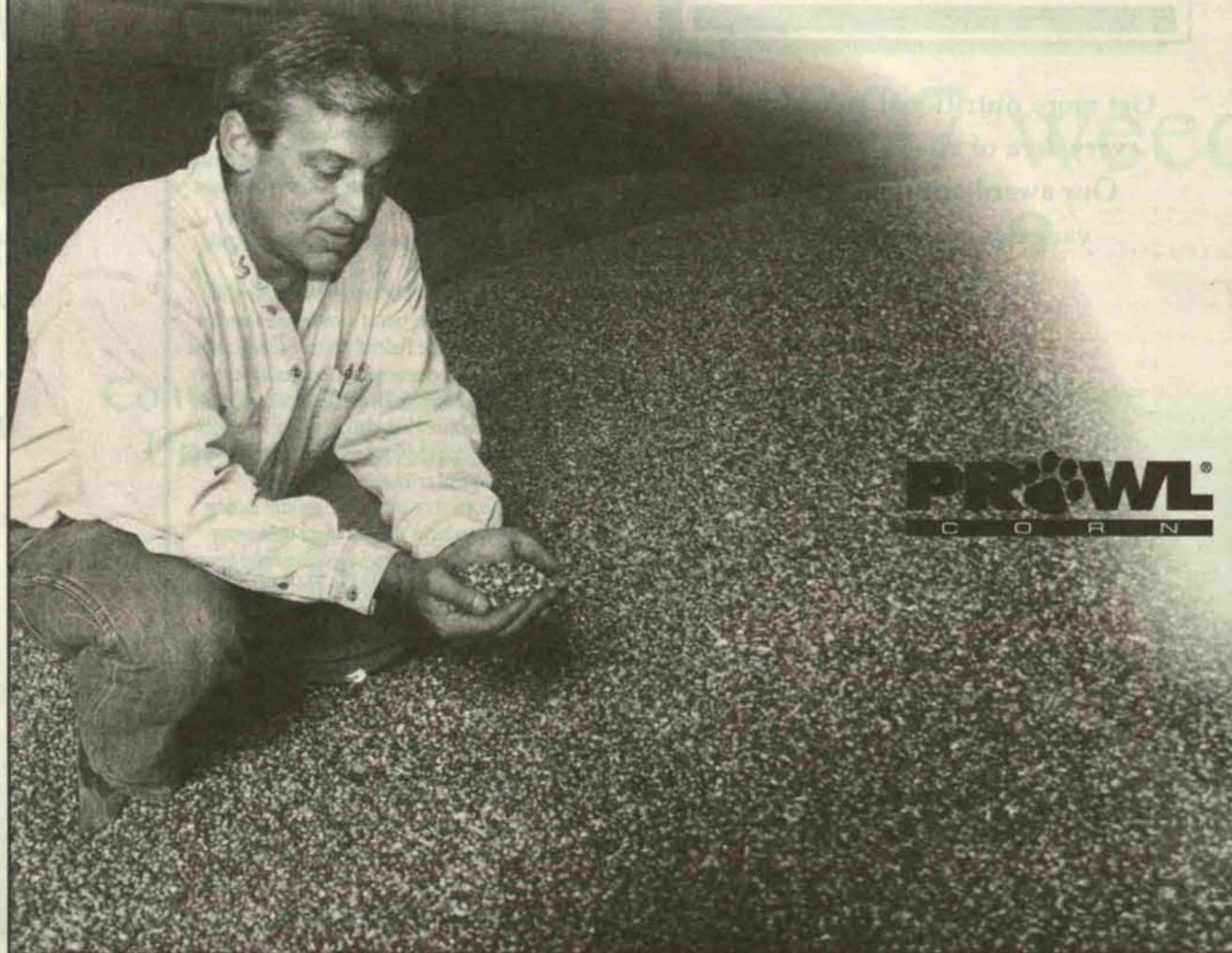
■ How does the U.S. stack up against the rest of the world in agricultural research investments?

The movement toward a market-oriented farm policy under FAIR suggests that the competitiveness of U.S. agriculture will be a major determinant of the future success of farmers. The answers to these questions about the role of agricultural research and Extension programs in maintaining competitiveness, and the best structure for delivering these programs, will be a central issue that deserves the attention of farmers as the debate on these programs unfolds. ■

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C O R N

# 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 the past year were depressed for crop operations experiencing poor yields due to the 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 to 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 reduction 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 \$53 average for the 1990-94 period. The 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 prices being paid 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, unless expansion requires larger equipment or more equipment.

Wide variations in commodity prices and crop yields puts considerable pressure on the financial outcomes of the business. Financial management strategies to reduce the variation — such as purchasing crop insurance, maintaining higher levels of financial reserves, slower rate of expansion, using less credit and diversifying the family income sources — can 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 others should be doing.

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 business 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 chairman 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 abetter tasting, healthier and more abundant food supply.

The ACA is currently developing materials providing background and activity planning information. The materials can be ordered by calling (913) 491-1895. ■

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## 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 above 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 sugarbeets saw a strong gain of 8.4 percent.

The survey respondents reported higher quality grain land had an average price of \$1,206 per acre, and lower quality land had an average price of \$818 per acre. Sugarbeet land averaged \$1,659 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 \$73, 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 further 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 averaged 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.

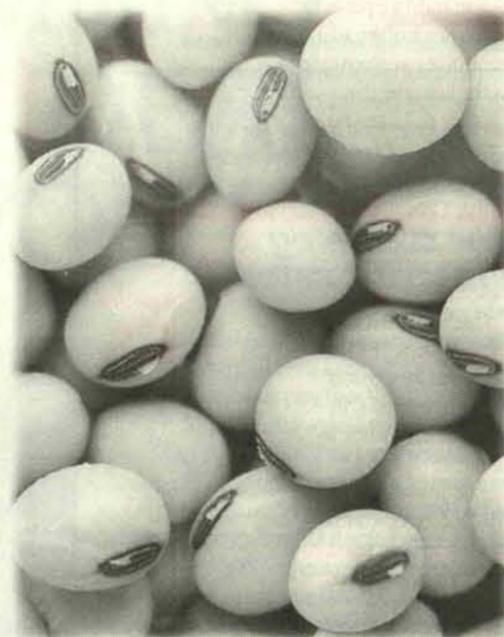
Stronger balance sheets and returns during the last few years have allowed larger debt repayment capacity and more optimism about the future. But the poor crop yields in most areas of the state, and sharply lower commodity prices will put a damper on the ability of most operations to purchase land. Stronger 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 soybean checkoff dollars to provide herbicide research to growers**

**W**eed control guides are nothing new to MSU Extension, but a new twist this year by the Michigan Soybean Promotion Committee (MSPC) will be to provide interested soybean growers with a free soybean Weed Control Guide.

The 44-page soybean guide is available free from the MSPC, MSU Extension, agribusinesses and at local elevators who have requested guides. The guide is filled with tables ranging from herbicide use during preplanting, preemergence and postemergence. Covered, as well, are options for Roundup Ready soybeans, no-till soybeans and tables ranking the weed response to herbicides in soybeans.

Authored by Dr. Karen Renner, MSU Extension specialist, the recommendations are based on research conducted by her and other weed scientists at MSU and from research reports and Extension bulletins published by weed scientists at other universities in the north central region of the U.S.

"The guide is extremely valuable because it lists crop rotation restrictions so you can check if any of the herbicides you're planning on using in corn could influence soybean production or if any of the herbicides you are planning on using in soybeans might influence corn or any other specialty crop production," Renner says.

"The guide provides a valuable tool for farmers to reference when selecting specific soybean herb for their unique farming operation," says Keith Reinholt, MSPC's executive director.

"Growers really want to have the recommendations in their hands with charts tables and ratings to easily compare options," Reinholt adds. Through this guide they should have information readily available and convenient to use.

"There are various tables that are really helpful to growers when they're looking at postemergence herbicide applications and deciding if two herbicides can be tank mixed together and what additives to put in or not put in," adds Renner. "We can spend \$25 or \$30 an acre and if we put in the incorrect adjuvant or put in too much of the adjuvant we can have poor weed control or too much crop response."

"This is the first time that a commodity group has asked that they pull a section out and distribute it to their growers," Renner states. "Extension and MSU's Dean of Agriculture and Natural Resources quickly said 'That's fine the better the distribution the more helpful it will be to the Michigan farmers.'

The soybean information can also be found in Extension bulletin E434 "Weed Control Guide for Field Crops" which contains herbicide information for most Michigan crops." E434 is only available from MSU Extension for a cost of \$6.

To get your free Weed Control Guide for Soybeans, contact: MSPC, P.O. Box 287, Frankenmuth, MI 48734, Phone: (517) 652-3294 or your local Extension office, agribusiness or local elevator.

For a MS-DOS based computer software called SOYHERB to assist in herb select based on weed species the same organizations should be contacted. (If you have the 1995 SOYHERB program, no changes have been made for 1996.) ■

### Abandoned railbeds

**D**uring the recent MFB annual meeting, an educational forum on abandoned railbeds and the existing right of way was held with guest speaker Nels Ackerson, a Washington, D.C., attorney. His experience includes representing Indiana farmers who wanted to stop the conversion of an railbed into a rails-to-trails project. He presented a case before the court in which he argued that once a railroad ceased operation on that line or the tracks were removed, the right of way should revert to the underlying property owner.

In most cases, Ackerson believes the railroad knows it is not the original owner of the right of way, but they make an offer to sell it back to the underlying owner at a price the owner cannot afford. This means the farmers can lose the right of way to the highest bidder. Moreover, rails-to-trails organizations can purchase the land with government funds. This means trail organizations can meet the asking price of the railroads.

For further information on this issue, please contact Jefferson G. Edgens, Manager — Environmental Department/Commodity and Environmental Department, (517) 323-7000, ext. 2025. ■

## Scenes from American Farm Bureau Federation annual meeting in Nashville

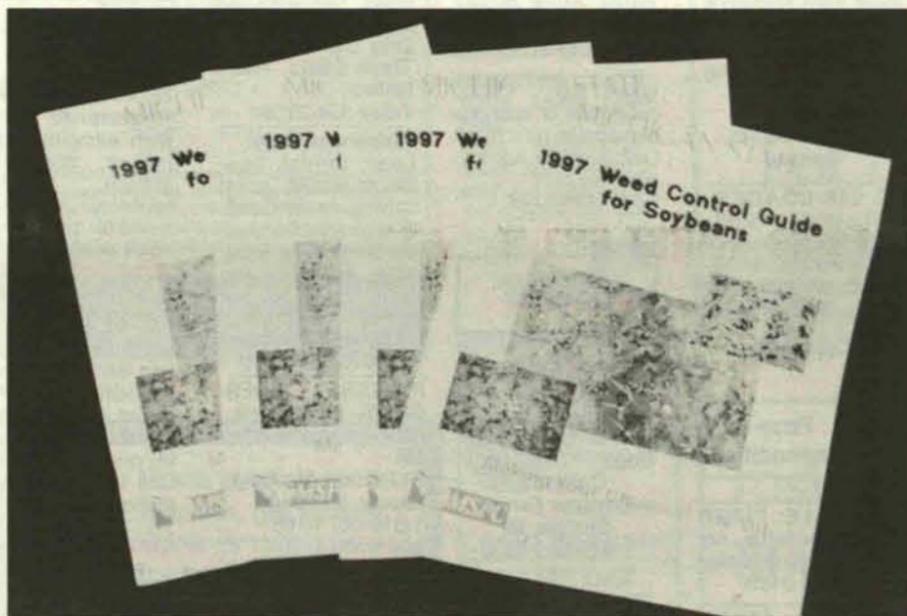
**M**ore than 8,300 Farm Bureau members descended upon Nashville in early January for the 78th annual American Farm Bureau Federation (AFBF) annual meeting. Besides the young farmer contestants, two Michigan counties were also represented during the showcase.



Gratiot County Farm Bureau member Denis Netzley and his wife, Brenda, demonstrate their "Remote Sprayer Switch" idea during the Farmer Idea Exchange at the AFBF annual meeting. Netzley was one of only 17 farmers nationwide selected to participate in the exchange. His idea came from working with electric spray valves and reducing the amount of time needed to properly correct the spray pattern.



Hillsdale County Farm Bureau also represented Michigan at the AFBF annual meeting in early January. They participated in the County Farm Bureau Idea Exchange with their Agricultural Accident Rescue Program. The program educated emergency medical technicians and fire and rescue personnel about agricultural injuries and potential farm dangers. A total of 113 entries from 30 states applied to take part in the exhibit, but only 20 were accepted.



# Why will your 1997 weed control be easier?

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compliments of the Michigan Soybean Promotion Committee.

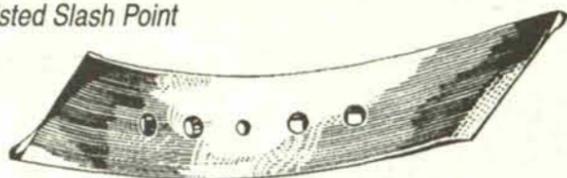
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# Michigan Farm News Classified

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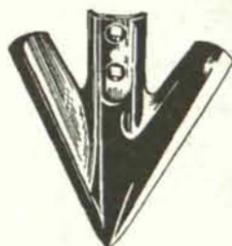
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01 Farm Machinery

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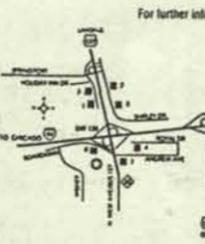
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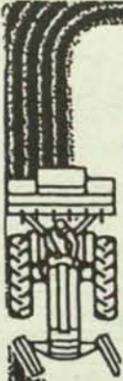
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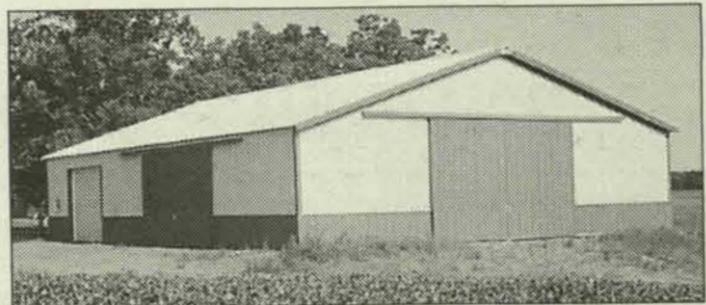
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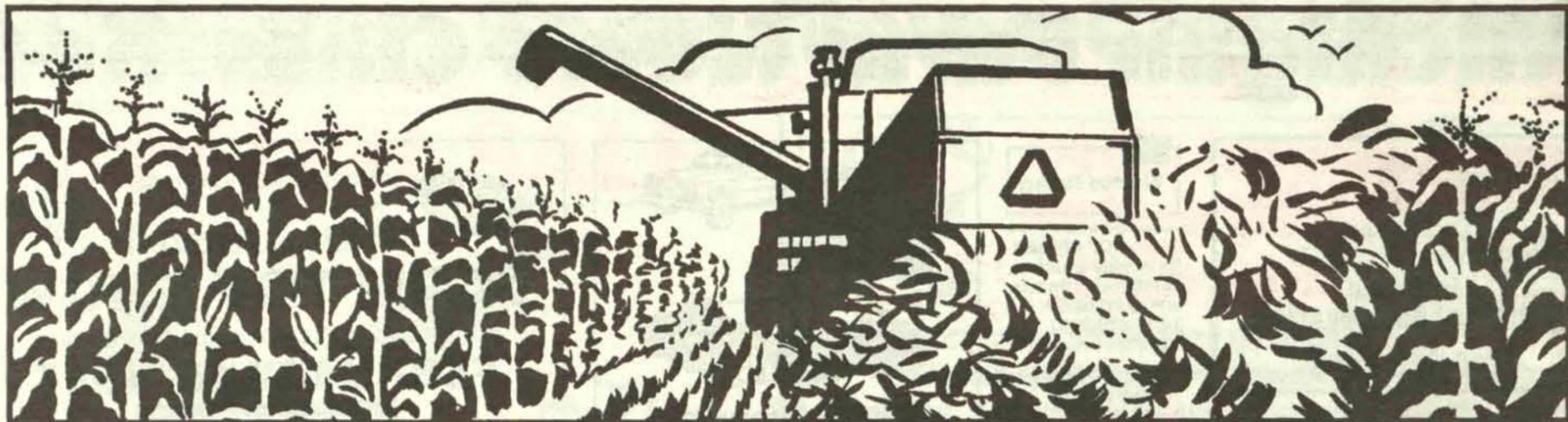


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