



ERS Information

News on agriculture, food, the environment, and rural America

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Economic Research Service

Measuring the Well-Being of the Poor: Demographics of Low-Income Households

(available online only)

www.ers.usda.gov/publications/tb1898

Noel Blisard; (202) 694-5445; nblisard@ers.usda.gov

The Food Stamp and School Lunch Programs both give a special status to people with incomes below 130 percent of the official poverty guideline. The Food Stamp Program uses gross income below this level as one of several criteria for determining eligibility for program benefits. It is, therefore, of particular interest to measure the welfare status of the American population with incomes below this level, and to track changes in this welfare status over time. For example, measuring changes in wel-

fare status allows us to examine the success of the Food Stamp Program in lessening the dispersion of income among all poor households. A methodological approach well-suited for this purpose has been developed by Amartya Sen (1992). Using a particular poverty cutoff—such as 130 percent of the official poverty guideline—Sen's social welfare index combines three other measures of welfare: (1) the number of people who are poor by this standard, (2) the depth of their poverty, and (3) the degree of inequality in the distribution of income within this group. Sen's index is particularly appropriate for social welfare measurement when the analyst wants to give a special status to the welfare of people with the lowest incomes.

In the first section, we report estimates for Sen's social welfare index and its three component parts for 1981 through 1995. In general, we find that welfare measures of households with income no greater than 130 percent of the poverty line improved slightly between 1981 and 1995. We also find, using these measures, that income inequality was less over this period for households participating in the Food Stamp Program than for non-participating households. This indicates success in encouraging the neediest families to participate in the Food Stamp Program ver-

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2002 Farm Bill Side-By-Side Comparison

*Farm Bill Watchers!
Here's a Time-Saving Resource...*

Look for our side-by-side comparison of the 2002 law versus the 1996-2001 legislation, appearing in the coming weeks on our website, www.ers.usda.gov. Summarized but substantive, the comparison will include ERS analysis of selected provisions and will be updated as the analysis progresses. We will also link to a special section of USDA's website, www.usda.gov/farmbill, which will provide a gateway to news and interagency information on the 2002 farm bill.

Well-Being *continued from page 1*

sus those families at or near 130 percent of the poverty line, even though all eligible households are encouraged to participate.

In the second section, we investigate the statistical effect of a particular household demographic characteristic on the social welfare status of low-income Americans, as measured using Sen's methods.

The demographic variables we control for are region, race, age, family size, one-person households, head of household with and without a high school diploma, and the number of earners in a household. For

this purpose, we estimate a regression model of the demographic determinants of income, where income is measured as a proportion of 130 percent of the official poverty guideline. This regression model provides estimates of the effect of each explanatory characteristic on income status, while holding constant all other household demographic characteristics. We then conduct a series of six hypothetical illustrations, called counterfactual analysis, of how social welfare would be affected if we could redress the income disadvantage accounted for by each of the six demographic characteristics. For example, our regression model indicates

that the demographic characteristic "household headed by a person with a high school education or less" is associated with a measurable disadvantage in terms of household income. Suppose it were not the case that this demographic characteristic was associated with this income disadvantage. What, then, would be the prevalence of poverty, the degree of inequality, and the level of social welfare as measured by Sen's index? We find the number of poor households declines by almost 43 percent in the counterfactual case where "head of household without a high school education" provides no income disadvantage.

The ERS Mission

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- a globally competitive agricultural production system
- a safe and secure food production system
- a healthy and well-nourished public
- harmony between agriculture and the environment
- enhanced economic opportunity and quality of life for rural Americans

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Soil, Nutrient, and Water Management Systems Used in U.S. Corn Production *(AIB-774)*

www.ers.usda.gov/publications/aib774

Lee A. Christensen; (202)694-5532;

leec@ers.usda.gov

Corn grown for grain is the focus of this report because of the large role it plays in American agriculture and its use of agricultural resources—corn is planted to more than 25 percent of the Nation's cropland and annually uses over 40 percent of the commercial fertilizers applied to crops. Each year, corn producers make numerous resource management decisions that affect not only their economic well-being, but also the nearby environment. Their choices from among a variety of soil, nutrient, and irrigation water management systems can have a major impact on farm profitability and on the quality and value of environmental resources.

A wide variety of soil, nutrient, and irrigation management practices are available to farmers, most of them concerned with the basic building block of agriculture, the soil. Soil management practices include the tillage and cropping systems and crop rotations used on a farm. Tillage practices, through their impact on soil and chemical movement, are major determinants of agriculture's impact on the environment. Cropping patterns and rotations affect the amounts of chemical or non-chemical fertilizers that are needed.

Conservation tillage was used on about 38 percent of the land in corn production in 1996. Reduced tillage and conventional

tillage, practices that leave fewer residues on the soil surface, were used on 30 and 32 percent, respectively, of the planted corn acreage. Corn farmers using conservation tillage systems tended to be younger and have more years of formal education than those using reduced-till and conventional systems. By most size measures, no-till corn producers farmed larger and less diverse operations than producers using conventional tillage methods, and their farms generated more income. However, the levels of chemical inputs used in corn production were similar across different tillage systems.

Corn farmers' nutrient management decisions influence the amounts and form of nutrients used, the timing of fertilizer application, and the method of application. The mix of these choices influences how much of a nutrient is used by the corn, how much is stored as a residual in the soil, and how much becomes available as a potential water and air pollutant.

Two recommended nutrient management practices, corn-legume rotations (primarily with soybeans) and soil incorporation of nitrogen fertilizer (either through injection application or broadcasting with incorporation), were used on nearly 60 percent of the corn acreage. Soil testing, applying all nitrogen at or after planting, and precision agriculture technologies were each used individually on 20 to 30 percent of the corn acreage. Nitrogen

inhibitors were used on less than 10 percent of the acres.

Water management practices for corn production are important because corn has substantially more irrigated land than any other single crop, 10 to 11 million acres, or about 15 percent of total corn acreage. Since water is the primary transport mechanism through which agricultural residuals enter the environment, water management decisions have important implications. Irrigators face numerous decisions on the type of water delivery system to use, how to use the water effectively, and which sources of information to rely on in making these decisions.

Groundwater is the major source of water for irrigated corn, used on nearly 90 percent of the irrigated acreage. Gravity flow irrigation systems are used on 42 percent of the acreage, followed by advanced sprinkler systems on nearly 40 percent. Chemical fertilizer was applied to corn through the irrigation system on 17 percent of the irrigated acreage. The most frequently used sources of water information are local irrigation district specialists, neighboring farmers, and irrigation equipment dealers.

These findings are based on the 1996 Agricultural Resource Management Survey (ARMS) of U.S. corn producers, which documents the most common soil, nutrient, and irrigation management systems adopted by corn farmers.

Vertical Coordination of Marketing Systems: Lessons Learned from the Poultry, Egg, and Pork Industries *(available online only)*

www.ers.usda.gov/publications/aer807

Steve W. Martinez; (202) 694-5378;

martinez@ers.usda.gov

The U.S. poultry, egg, and pork industries each have experienced increases in contracting and vertical integration. Changes occurred decades ago in the poultry and egg industries and have occurred more recently in the pork indus-

try. Production contracting grew quickly in the broiler industry, and nearly all broilers now are produced under production contracts between processors and growers.

While production contracts also became more prevalent in the turkey and egg industries, vertical integration also became more common. In the pork industry, marketing contracts became more

popular, although packer ownership of hogs also has risen in more recent years.

In each of the industries, spot markets apparently became a less efficient means of coordinating production and processing. This effect may be explained by higher transaction costs from a variety of sources. First, several developments in each of the industries led to higher costs

Continued on page 5

Farm Credit Use Expected to Expand Moderately in 2002

Farm lending, which has been growing since 1992, is expected to increase again in 2002. Last year, U.S. farmers held \$192.8 billion in farm loans. For 2002, a rise of 1.9 percent to \$196.5 billion is forecast, the smallest annual growth in a decade. With limited or no gains in farm commodity prices expected this year following the relatively low levels of 2001, and uncertainties about future levels of direct government payments, farmers and lenders may be more cautious about adding debt. High levels of direct government payments to farmers in recent years, adequate levels of working capital, and sizable off-farm earnings are also moderating demand for credit. *Jerome Stam; (202) 694-5365; jstam@ers.usda.gov*

Interest Rates on Farm Loans Expected to Increase During 2002/03

Borrowers, including farm borrowers, are likely to encounter rising interest rates in 2002 and 2003 after enjoying declining rates since mid-2000. The upward pressure comes from the economic rebound that began in late 2001, stronger business credit demand, tighter domestic monetary policy, and gradually accelerating economic growth. Because agricultural credit is only a small proportion (0.7 percent in 2001) of total credit, interest rates on agricultural loans are determined primarily by factors outside agriculture in national and international credit markets. Nevertheless, farm loan rates are expected to increase less than most interest rates because of a historic adjustment lag. *Paul Sundell; (202) 694-5333; psundell@ers.usda.gov*

Soybean and Cotton Plantings to Decline in Favor of Corn in 2002

Planting intentions in 2002 for the eight major U.S. field crops amount to 248.3 million acres, nearly identical to last year's plantings despite widespread weak price signals. Corn planting intentions are up 4 percent from last year, partly due to reduced fertilizer costs for corn production and lower anticipated returns for competing crops, particularly cotton in the Delta. Crop rotation considerations and

uncertainty about the farm bill may also draw acreage from soybeans to corn, contributing to the slight intended reduction (for the second straight year) in overall soybean area. Wheat plantings continue to decline. *William Lin; (202) 694-5303; wwlin@ers.usda.gov*

Oats Market Strong in 2001/02

Oats, the least prominent of the feed grains, have been gaining attention as prices climb and buyers scramble to ensure supplies. In the United States, improved genetics for crops other than oats, and planting flexibility under the 1996 Farm Act, have cut into oats production in favor of corn and soybeans. The United States currently imports about 30 percent of its total oats supply, primarily from Canada. While world stocks are projected to increase due to larger global production (increases in the former Soviet Union and Eastern Europe), stocks of high-quality milling oats are projected to decline significantly. Canadian oats stocks are projected at the lowest since 1995/96. The tight domestic supply of high-quality oats in 2001/02 has been caused by weather problems in the upper Midwest, and in the oats-growing regions of Canada, Sweden, and Finland. *William Chambers; (202) 694-5312; chambers@ers.usda.gov*

Argentina's Economic Crisis: Can the Ag Sector Help?

A simple resolution to Argentina's severe economic crisis does not appear to be imminent. Although devaluation of the Argentine peso could eventually lead to an export-led recovery, agricultural production and exports will likely be hindered by new export taxes, capital controls, higher input prices, and tight credit conditions. To improve cash flow and reduce operating expenses, Argentine farmers may switch some corn production to a soybean-wheat double-cropping rotation using fewer manufactured inputs. *David Torgerson; (202) 694-5334; dtorg@ers.usda.gov*

Could the NIS Region Become a Major Grain Exporter?

Western analysts have predicted that reform in the New Independent States (NIS) of the former Soviet Union could

transform the region from a large grain importer (as during the Soviet period) into a major grain exporter. The ability of the NIS region to become a major grain exporter depends mainly on whether or not it can produce grain at a relatively low cost compared with other major grain producers. Recent research by ERS indicates that relative production costs of outputs and inputs compared with other producing countries do not currently support large grain trade by the NIS—either imports or exports. *William Liefert; (202) 694-5156; wliefert@ers.usda.gov*

Farmland Protection Programs: What Does the Public Want?

Public support has been growing for government farmland protection programs. Behind this support is the perception that farmland produces more for society than just food and fiber, such as scenic views, environmental benefits, and maintaining an agrarian heritage. Designing and implementing a farmland protection program that is cost-effective and provides the greatest possible benefits requires an understanding of public preferences for particular rural amenities, as well as which of these amenities is best provided through farmland preservation. *Dan Hellerstein; (202) 694-5613; danielh@ers.usda.gov*

China: En Route to a New Role in Global Agriculture

Beyond the headline-grabbing events that have recently captured the attention of market analysts and policymakers is a larger picture of China's evolving role in agricultural markets. As China grows, develops, and integrates with the world economy, it is likely to become an even larger and steadier customer for agricultural imports. At the same time, China could become a competitive exporter of fruits, vegetables, fish, meat, and poultry if its production were modernized, its marketing infrastructure improved, and food safety and animal health issues resolved. *Fred Gale; (202) 694-5215; fgale@ers.usda.gov*

Investing in People: Assessing the Economic Benefits of 1890 Institutions *(MP-1583)*

www.ers.usda.gov/publications/mp1583

Abebayehu Tegene; (202) 694-5527;

ategene@ers.usda.gov

The 1890 land-grant universities (1890s) were established by the Second Morrill Act in 1890 to provide equal educational opportunities for African-American students who had been denied admission to their States' original 1862 land-grant universities. The 1890s have developed teaching, research, and extension programs that serve mainly rural communities.

Many studies have described the programs of the 1890s, but there has been no systematic effort to measure the economic contribution of their teaching, research, and extension programs to human capital development and to improving the well-being of the population they serve.

ERS entered into cooperative agreements in 1997 with four 1890 institutions to study outcomes and benefits of USDA investment in their food and agricultural programs. The collaboration has explored core issues of the programs' funding and

achievements, the best indicators by which to measure those achievements, and the development of conceptual models for estimating the future returns to investments in these programs.

Traditional administrative indicators of benefits associated with teaching, research, and extension require clear statements of expected outcomes and measurable indicators that allow monitoring of investments. Assessments of teaching programs in food and agricultural sciences have been limited to measuring the number of successful graduates that pursue further education and become leaders in their professions. Studies of research outcomes often use publication and/or patent counts. These methods may underestimate the research accomplishments of the 1890s.

Other indicators that better capture the contribution of the 1890s need to be designed. Ideally, these indicators would capture not only benefits to traditional agricultural stakeholders, but also impacts on economic development in the 1890s' target rural areas. Similarly, improved

indicators of extension programs are needed.

The Human Capital Model (HCM) provides, at least for measuring benefits of teaching, an alternative to traditional administrative approaches. Education helps people capitalize on technological and social changes, making them more productive and efficient. It raises their incomes, thereby generating measurable impacts (e.g., earnings gaps between 1890 and high school graduates) that can be attributed to the colleges.

Economic returns to investments in research and extension programs at the 1890s can be measured by estimating the value of productivity gains using one of two approaches: economic surplus analysis and production function estimation. However, given the limitations of these approaches, a more pragmatic approach is to conduct case studies. These studies would rely on cost-benefit analyses of a sampling of specific programs or projects to draw broader conclusions.

Vertical Coordination *continued from page 3*

associated with safeguarding investments. Each of the industries underwent periods in which they adopted new specialized technologies and experienced associated scale economies. These developments led to investments with few alternative uses and few alternative users, or relationship-specific investments, particularly in regions of expanding production. Such investments leave trading partners vulnerable to opportunistic behavior by other parties seeking a more favorable position in the relationship.

Other factors also created value in continuing relationships between specific trading partners. For example, in the poultry and egg industries, farms and processing units located close to each other. Short distances between trading partners resulted in more relationship-specific transactions—trading partners separated by

longer distances would result in higher transportation costs. Also, poultry and eggs are perishable products that require timely delivery from the farm to the processing plant. This factor makes producers highly vulnerable to tactics used by processors to delay acceptance of products to obtain a more favorable deal, as it may be difficult for producers to find alternative processors before the products perish.

Contracting and vertical integration provided a means for reducing transaction costs associated with relationship-specific transactions, especially in regions of expanding production. Contracts could provide some safeguards to protect against opportunistic behavior, and vertical integration eliminated the exchange relationship altogether.

Contracting and vertical integration also may facilitate reductions in product measuring and sorting costs, leaving more gains from trade to be distributed among producers and consumers. For product attributes that are difficult to measure, gaining additional control over related production inputs may reduce measuring costs by reducing the need to measure quality. Similarly, by controlling inputs that result in more uniform product attributes, measuring and sorting costs may be reduced because there is no need to measure every product. Controlling production inputs facilitates branding programs that transfer measuring and sorting costs from consumers to the food supply system. The poultry industry has been especially successful with branding programs, and the pork industry is increasing its use of branding strategies.

Structural Change and Agricultural Protection: Costs of Korean Agricultural Policy, 1975 and 1990 *(AER-809)*

www.ers.usda.gov/publications/aer809

John Dyck; (202) 694-5221; jdyck@ers.usda.gov

The economic development of South Korea is often considered a model for developing countries. We use 1975 and 1990 data in a general equilibrium framework with a highly disaggregated sector specification to evaluate the opportunity cost of its agricultural protection. We

show that although agriculture's share of the gross domestic product (GDP) declined between 1975 and 1990, the cost of agricultural protection, as measured by the loss in GDP, did not fall. The larger gap between domestic and world prices for the protected sectors exacerbated the distortions in resource allocation.

Simulated removal of 1990 agricultural border protection reduced the share of

agricultural GDP to the level actually observed in 1996, demonstrating how protection can impede economic structural development. The public policy implication is for developing countries to adopt policies that help the agricultural sector become competitive. Otherwise, as in Korea, the resource costs of delaying adjustment grow over time.

Food Security Assessment *(GFA-13)*

www.ers.usda.gov/publications/GFA13

Birgit Meade; (202) 694-5159;
bmeade@ers.usda.gov

Based on all the indicators developed by USDA's Economic Research Service (ERS), the aggregate food security situation for the 67 low-income countries monitored in this report deteriorated in 2001 relative to estimates in 2000. The main reason is the impact of food production shortfalls in many countries coinciding with the global economic slowdown that intensified foreign exchange constraints in these countries and limited their ability to import food. Short-term shocks that threaten food security are not uncommon. In fact, ERS' estimates of the number of hungry people in the 67 countries show annually a mix of success and failure at the country level since the mid-1990s.

This year's deterioration, coupled with slow progress in improving food security in the recent past, casts growing doubt on achieving the goal set at the World Food Summit in 1996 to reduce by half the number of hungry people by 2015. The ERS projections for the next decade show a 1.6-percent annual decline in the number of hungry people. This suggests that the situation will improve, but will fall short of the 3.5-percent annual decline needed to achieve the goal of the World Food Summit.

The food security situations of the 67 developing countries included in this

report are evaluated by estimating and projecting the gaps between food consumption (domestic production plus commercial imports minus non-food use) and two different consumption targets through the next decade. The two consumption targets are: 1) maintaining per capita consumption at the 1998-2000 level (also referred to as the status quo target) and, 2) meeting recommended nutritional requirements (the nutrition target). This nutrition target is also applied to five income groups within a country.

Despite this year's setback with respect to food security, the situation is projected to improve slightly at the aggregate level during the next decade. The food gap to meet nutritional requirements is projected at 16 million tons in 2011, a decline of 2 million tons from 2001. The distribution gap—the amount of food needed to raise consumption in each income group to meet nutritional requirements—is projected at about 24 million tons in 2011, or 6 million tons less than 2001. The number of hungry people (consuming less than 2,100 calories per day on average) is projected to decline to 765 million by 2011, or 1.6 percent per year.

The slow rate of improvement in food security means that there will be many countries vulnerable to food insecurity over the long term. In 2001, 29 of the 67 countries consumed less than the nutritional requirement; this number is projected to decline only slightly to 23 by 2011.

Food access remains a common problem among the lower income populations in almost all countries. Sub-Saharan Africa continues to be the most vulnerable region, accounting for 23 percent of the population in the 67 countries, but 38 percent of the number of hungry people in 2001. The number of hungry people in the region is estimated at 337 million in 2001, or about 57 percent of the total population. This number has increased by about 19 percent since the mid-1990 level, and this upward trend is expected to continue.

Food aid has been a major tool used by the international community to improve food access and to reduce suffering from emergency conditions in low-income countries. Cereal food aid shipments for 2000 were about 8.5 million tons. The United States continued to be the main source of aid, providing 55 percent of the total. Depending upon the future availability of food aid, parts of the projected food gaps can be eliminated. If food aid levels in 2001 were the same as in 2000, food aid would fill 80 percent of the calculated gap to maintain per capita consumption (status quo) and nearly half of the nutritional gap. In terms of the number of hungry people, if countries receive the same level of food aid in 2001 as in 2000 (that is, no change in the country or quantity allocations), the estimated number of hungry people would be 691 million, rather than 744 million.

Also Off Press

Find the latest ERS outlook reports on the web at: www.ers.usda.gov/publications/outlookreports.htm

In addition to the reports fully summarized in this issue of ERS Information, the following reports were recently released.

Feed Yearbook (4/25)

For 2001/02, food, seed, and industrial (FSI) use of feed grains is projected at a record 57.9 million tons, up 4 percent from a year earlier. By contrast, feed and residual use and exports are down slightly.

U.S. Agricultural Trade Update (4/19)

For the October-February period of fiscal 2002, U.S. agricultural exports reached \$24.5 billion, a 6-percent or \$1.5 billion gain over 2001. U.S. agricultural imports increased only 3 percent to \$16.6 billion. These gains boosted the U.S. agricultural-export surplus by \$1 billion to \$7.9 billion for the year to date.

Vegetables and Melons Outlook (4/18)

According to preliminary ERS estimates, per capita vegetable and melon consumption declined 1 percent in 2001 to 448 pounds. Fresh-market use (excluding potatoes) was unchanged at 173 pounds, while freezing (down 1 percent) and canning (down 3 percent) use were lower. The forecast for 2002 suggests that per capita vegetable and melon consumption will rise 1 percent led by increased use of processing vegetables.

Tobacco Outlook (4/17)

U.S. tobacco growers indicated on March 1 that they intend to harvest 429,410 acres of tobacco during the 2002/03 crop year. The intentions are slightly below last year's actual harvest of 432,640 acres. Lower quotas for some types resulted in the slide. However, compared with recent years, the decline was small.

Livestock, Dairy, and Poultry Situation and Outlook (4/16)

Total meat production in 2002 is projected to be nearly 84 billion pounds (lb.), up 1 percent from a year ago. Poultry and pork production are expected to be up modestly, while beef production is expected to be nearly unchanged. Drought conditions are forcing more cattle into feedlots and possibly delaying herd expansion for at least another year. Projected meat exports in 2002 are projected to fall about 2 percent

from last year, as all major meats are expected to register declines.

Wheat Outlook (4/12)

Projected U.S. 2001/02 ending stocks of wheat are up 32 million bushels from last month due to increased imports and reduced domestic use. The forecast price range is unchanged at \$2.75 - \$2.85 per bushel, since producers probably have already marketed much of their 2002 crop, and dry conditions in parts of the Plains States are helping to support prices.

Cotton and Wool Outlook (4/11)

The latest cotton forecast for 2001/02 indicates that record global cotton usage is expected for the third consecutive season. World cotton consumption was increased 700,000 bales this month to 92.7 million, reflecting larger anticipated use—compared with March—in the United States and in foreign countries outside of China. However, U.S. cotton mill use is in its fourth season of decline and estimated at its lowest level since 1986/87. The U.S. share of world consumption has fallen to an estimated 8 percent from 13 percent as recently as 1997/98.

Rice Outlook (4/11)

In March, U.S. rice farmers indicated they would to plant more than 3.32 million rice acres in 2002/03, virtually unchanged from a year earlier. A 1-percent drop in long grain plantings to 2.69 million acres is nearly offset by a 2-percent increase in combined medium/short grain plantings to 633,000 acres. Rice plantings were indicated higher than a year earlier in every reported growing State except Louisiana and Texas. For 2001/02, a 3-million hundredweight (cwt) (rough basis) increase in combined medium/short grain exports was offset by a decline in long grain exports.

Oil Crops Outlook (4/11)

The U.S. Department of Agriculture (USDA), in its Prospective Plantings report, indicated farmers intend to plant 73.0 million acres of soybeans this year.

In response, central Illinois soybean prices have climbed nearly 50 cents per bushel since early February. USDA lowered its 2001/02 export forecasts for soybean meal and soybean oil to 7.75 million short tons and 2,150 million pounds, respectively.

ERSnippets

ERS is reintroducing the *Floriculture and Environmental Horticulture Outlook* as a free, on-line newsletter! This report was last published in 1999.

Sign up now at: www.ers.usda.gov/publications/OutlookReports.htm to receive e-mail notifications of its availability on the web.

Our new approach to floriculture and environmental horticulture offers:

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- ♦ Timely analysis and forecasts in an electronic outlook newsletter (late summer)
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Contact Andy Jerardo at
202-694-5266

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