



# ERS Information

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

U.S. Department of Agriculture

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Economic Research Service

## The U.S. Food Marketing System, 2002 (AER811)

[www.ers.usda.gov/publications/aer811/](http://www.ers.usda.gov/publications/aer811/)

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The food marketing system is an important part of the U.S. economy. In 2000, the food and fiber marketing system accounted for 7.7 percent of U.S. GDP and employed over 12 percent of the U.S. labor force. An increasing share of what consumers spend on food goes to marketing services added after the product leaves the farm. In 2000, over 80 percent of the U.S. food dollar went toward value-added services and materials—transportation, processing, distribution, labor, packaging, and energy.

Efficiency gains in the food marketing system continue to result in abundant supplies of a variety of affordable food products. From 1996 to 2000, real value added to GDP per worker in the food and fiber system, including farmers, processors, and distributors, rose by 8.5 percent from \$28,019 to \$30,413. Income growth has outpaced increases in food expenditures, leading to continuous reductions in the share of income spent on food. Today, consumers spend just 10 percent of their income on food, compared with almost 18 percent in 1960.

There are several notable trends occurring throughout the U.S. food marketing system. First, merger and acquisition activity continues to result in increased concentration. Recent concentration in the retail sector has seen the share of U.S. grocery store sales by the top four food retailers increase from 16.6 percent in 1996 to 27.4 percent in 2000. By contrast, this four-firm sales share had declined from 17.1 percent in 1987 to 16.6 percent in 1996. Merger and acquisition activity has also accelerated in food service distribution. In 1995, sales by Sysco, the leading U.S. food service distributor, outpaced its nearest competitor by 84 percent. With U.S. Foodservice's purchase of Alliant in 2001, this gap closed to 28 percent.

Changes in concentration vary by food marketing stage, segments within a particular stage, and types of products processed and handled. Commonly cited reasons by companies for mergers and acquisitions, horizontal or vertical, include (1) to maintain bargaining power with other stages of the supply chain undergoing consolidation, (2) to ensure a market outlet in an increasingly consolidated downstream segment, (3) to ensure a consistent, high-quality source of raw materials, (4) to capture efficiency gains and lower procurement costs, and (5) to improve ability to compete with alternative formats, such as nontraditional retailers

(for example, Wal-Mart and Costco) and the food-away-from-home sector. Commonly cited reasons for companies divesting include (1) to resolve bankruptcy cases by reorganizing, (2) to focus on alternative formats (for example, high-volume price impact supermarkets), (3) to focus limited resources in particular geographic areas, and (4) to adhere to antitrust requirements regarding a proposed merger.

Buyer-seller relationships are changing throughout the food supply chain as stages become increasingly interdependent. For example, farmers are increasingly engaged in contracts and vertical integration in some agricultural sectors. Also, traditional food wholesalers that buy food from manufacturers and resell to retail food stores are losing ground. Today, manufacturers increasingly deliver their products directly to retail stores, while self-distributing retailers own their own distribution centers and buy directly from manufacturers.

The food marketing system continues to embrace new technology that improves the flow of information and assists with scheduling and inventory. This reduces costs, reduces instances of empty grocery shelves or out-of-stocks, and enables firms to better target alternative consumer segments. Internet services are even being tailored to the food-away-from home market.

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### **America's Older Population**

As America enters the 21st century, its older population is increasing steadily in number and share of the total U.S. population. Older Americans are also living longer, are better educated, and are more prosperous than previous generations. Despite these advances, disparities among the older population persist between men and women, racial and ethnic groups, and income classes. With growth of the older population expected to continue over the next 50 years, there is an urgent need to understand the health and economic needs of this diverse segment of American society. *Carolyn C. Rogers; (202) 694-5436; crogers@ers.usda.gov*

### **Older Americans Need To Make Every Calorie Count**

As individuals age, their declining energy needs mean they must eat better while eating less. ERS computed benchmark food densities to show the number of servings per 1,000 calories older individuals would need to consume, compared with younger adults, to meet Food Guide Pyramid recommendations. Benchmark servings for the five food groups are highest for older women, the group with the lowest calorie intake. Food group intake levels indicate that older men and women eat fewer servings of most food groups than younger individuals. Intakes of all food groups except fruit decline as people age. *Joanne F. Guthrie; (202) 694-5373; jguthrie@ers.usda.gov*

### **Food Spending and the Elderly**

In the next decade and beyond, significant demographic changes—especially the rising number of elderly—will offer new challenges for the U.S. food industry. Elderly people generally eat lesser amounts than teens and younger adults. Today's elderly also dine out less frequently than their younger counterparts. If these eating and spending patterns continue and America's older population meets growth expectations, growth in real per capita food expenditures in the United States will likely stagnate. *J. Michael Harris; (202) 694-5386; jharris@ers.usda.gov*

### **Food Security Rates Are High for Elderly Households**

Households that include elderly persons are generally more food secure than other U.S. households. Ninety-four percent of households with an elderly person present were food secure in 2000, compared with 88 percent of households without elderly. Rates of food insecurity and hunger among households consisting entirely of elderly persons remain almost unchanged from 1995. Stable incomes provided by Social Security, pensions, and personal savings and assets, along with national and community food assistance programs, help ensure a high prevalence of food security among the Nation's elderly. *Mark Nord; (202) 694-5433; marknord@ers.usda.gov*

### **Food Stamp Participation by Eligible Older Americans Remains Low**

Although the Food Stamp Program has special provisions to facilitate participation by low-income Americans age 60 and older, only about a third of eligible people in this age group join the program. No other age group participates at such a low rate. Commonly cited barriers to participation include pride, confusion about program rules, lack of transportation, and difficulty in using Electronic Benefit Transfer technology. Comparisons of demographic characteristics of program participants and nonparticipants among eligible older Americans show that those with the most severe concerns about health and food security are likely to join the program. *Parke Wilde; (202) 694-5633; pwilde@ers.usda.gov*

### **Older Adults at Risk of Complications From Microbial Foodborne Illness**

Although older adults have lower rates of infection from some foodborne pathogens than most or all other age groups, they are more likely to have some of the more severe complications from these infections. Low rates of infection may be partly due to the elderly's more cautious approach to food handling and food consumption than younger persons. However, poor nutrition and decreased food con-

sumption, combined with normal age-related decreases in immune system functioning, may weaken older adults' ability to fight foodborne pathogens. In particular, the elderly are more vulnerable to gastroenteritis-induced deaths. *Jean C. Buzby; (202) 694-5370; jbzby@ers.usda.gov*

### **Several Strategies May Lower Plate Waste in School Feeding Programs**

An estimated 12 percent of food served to children under the National School Lunch Program is wasted, according to an evaluation of the program conducted in the mid-1990s. Girls tend to waste more food and nutrients than boys, and younger children waste more food than older children. Vegetables and salads are the most wasted food items. Strategies for reducing plate waste include increasing meal flexibility, rescheduling lunch hours, improving the quality of food, tailoring portion sizes to student appetites via self-service, and providing nutrition education. Changes in the program and the increase in competing food options in schools since this program was last studied may also have affected plate waste. *Jean C. Buzby; (202) 694-5370; jbzby@ers.usda.gov*

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### Wealth and Income Contribute Jointly to the Economic Well-Being of Farm Operator Households

Economic well-being of the farm sector and farm households has been historically associated with incomes, especially income from farming. However, net income of the farm business may be a small percentage of the total income available to the farm family. Since the early 1990s, just under half of U.S. farm operators indicated in United States Department of Agriculture (USDA) surveys that their major occupation was something other than farming. Thus, the true economic well-being of farms must account for all income, both farm and off-farm, as well as the growing importance of wealth such as home equity and investments. *Ashok Mishra; (202) 694-5580; amishra@ers.usda.gov*

### Income Inequality in America: Nonmetro Income Levels Lower Than Metro, But Income Inequality Did Not Increase as Fast

The gap in median household income increased between metro and nonmetro households between 1979 and 1999. At the same time, inequality in metro household income distributions increased faster than among nonmetro households, resulting in nonmetro income inequality essentially identical to that in suburban areas and lower than in central cities. The continuing disparity in income levels by race/ethnicity and residence may reflect

the local and race/ethnic-specific consequences of industrial restructuring, globalization, and changing household structures. *Diane K. McLaughlin; dkk@psu.edu*

### Population Change in the Midwest: Nonmetro Population Growth Lags Metro Increase

The Midwest posted population growth in both its nonmetro and metro areas from 1990 to 2000, but nonmetro areas with larger cities and closer to metro centers were more likely to gain residents than were completely rural counties. Nonmetro counties closer to urban areas were also less likely to lose youth and more likely to gain residents of working age. The Midwest saw a dramatic increase in Hispanic residents from 1990 to 2000, with numbers at least doubling in many nonmetro counties. *Willis Goudy; wjgoudy@iastate.edu*

### Rural Health Issues for the Older Population

The rural elderly assess their health as poorer than that of the urban elderly. The range of health care providers and services in rural communities is narrower than in urban areas, and the rural elderly may experience structural barriers to accessing doctors, hospitals, or advanced medical services. For example, the per capita supply of physicians in nonmetro areas is considerably lower than in metro areas. Rural communities differ in their ability to meet the growing need for health care and other services of an aging population. *Carolyn C. Rogers; (202) 694-5436; crogers@ers.usda.gov*

### Implications of Medicare Restructuring for Rural Areas

As the American population ages, the Nation's health resources are bearing an increased burden. The elderly are the primary users of health care services, and as their numbers have increased so has spending for the Medicare program. Balanced budget legislation introduced many changes to the Medicare system in an attempt to curb spending. The legislation creates opportunities to improve the rural health delivery system, but low population density, limited managed care experience, and less access to health care providers in rural areas make market-based efficiencies and equity difficult to achieve in rural areas. *Carolyn C. Rogers; (202) 694-5436; crogers@ers.usda.gov*

### Rural Updates:

#### Rural Development Policy: Transition Year Brings Changes for Rural Development

*Richard J. Reeder; (202) 694-5360; rreeder@ers.usda.gov*

#### Federal Tax Policy: Numerous Changes Lower Income and Estate Taxes

*James Monke; (202) 694-5358; jmonke@ers.usda.gov*

#### Earnings: Nonmetro Earnings Continue Upward

*Robert M. Gibbs; (202) 694-5423; rgibbs@ers.usda.gov*

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## Sweetener Policies in Japan (SSS234-01)

*only available electronically*

[www.ers.usda.gov/publications/SSS/sep02/sss23401/](http://www.ers.usda.gov/publications/SSS/sep02/sss23401/)

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

Japan's policies affecting caloric sweeteners (sugar, corn syrup, etc.) protect high-cost domestic production of sugarcane and sugarbeets against foreign competition. A complicated set of policies uses mandatory levies on imports of raw sugar and general budget funds to subsidi-

dize processors of domestic sugar for the high cost of domestic cane and beets. The focus of government efforts is moving away from market price stabilization policies toward support for domestic production that minimizes the impact of government policies on consumer prices. However, government interventions such as control over the amount of raw sugar imports, prohibitive duties on refined sugar imports, high tariffs on imported

products that contain sugar as an ingredient, and quotas, tariffs, and other controls on sugar substitutes remain in place. These interventions continue to impose higher prices on consumers, to limit Japan's imports of sugar and other sweeteners, and to distort economic activity within Japan.

## **Pork Production to Reach Record Levels in 2002 & 2003**

U.S. hog producers are expected to respond to higher feed costs by reducing the number of sows farrowing in 2003. Pigs per litter are expected to increase slightly, as less productive sows are eliminated from the breeding herd. USDA forecasts pork production at 19.8 billion pounds in 2002, and 19.85 billion pounds in 2003. Both quantities exceed all previous levels. *Mildred Haley; (202) 694-5176; mhaley@ers.usda.gov*

## **U.S. Sugar Policy Under the 2002 Farm Act**

The 2002 Farm Act reauthorized the sugar price support loan program, and a key change requires that United States Department of Agriculture (USDA) operate the sugar loan program at no cost to the Federal government. To accomplish this, the Act includes measures to discourage forfeiture of sugar to the government by processors who offered it as collateral for nonrecourse loans under the program. Among the cost-reducing provisions is USDA authority to impose flexible marketing allotments. *Stephen Haley; (202) 694-5247; shaley@ers.usda.gov*

## **Demand Strong for Tree Nuts**

Strong demand for tree nuts, especially in export markets, has been driving up shipments this season. Supply is also strong, the result of large crops and large beginning stocks, and the net effect is lower grower prices. But overall revenue is expected to be high, because of the large volume of tree nut crops being moved. *Susan L. Pollack; (202) 694-5251; pollack@ers.usda.gov*

## **Strong Competition & Rising Prices Confront U.S. Soybean Exports**

The U.S. soybean crop for 2002 is forecast at 2,628 million bushels, well below last year's record. The forecast reflects a decline in both plantings and expected yield. Crop rotations, improved net returns for corn, and economic and weather conditions in western states encouraged greater planting of corn and the lowest U.S. soybean area since 1998. Lower soybean supplies will promote a hard retreat

in U.S. soybean exports. Higher U.S. prices will erode the ability to compete with likely aggressive export campaigns by Brazil and Argentina. *Mark Ash; (202) 694-5289; mash@ers.usda.gov*

## **Cabbage Heads Higher**

The French word for cabbage is incorporated into a term of endearment: "mon petit chou" ("my little cabbage"). This vegetable has recently become a little more endearing to Americans, a turnaround from a steady decline in use between the 1920s and the 1990s. In the past decade, fresh-cut products, new recipes, and a growing body of nutritional research have lent new support to cabbage demand. Total cabbage consumption rose to 10.3 pounds per person in the early 2000s. *Gary Lucier; (202) 694-5253; glucier@ers.usda.gov*

## **The Ongoing Reform of Land Tenure Policies in China**

Economic transition, rapid economic growth, and increased integration into the world economy are propelling substantial changes in rural China. How farmers respond to changing economic opportunities and challenges depends critically on choices about use of land and other resources—choices that depend on land tenure patterns. Control over land in China reflects a complex and changing distribution of authority among the national government, local governments and households, with potential implications for efficiency, equity, and environmental quality. *Bryan Lohmar; (202) 694-5226; blohmar@ers.usda.gov*

## **Trade Among Unequal Partners: Changing EU Trade Arrangements with Developing Countries**

The European Union (EU), more than other members of the World Trade Organization (WTO), has used exceptions to international trading rules to provide nonreciprocal trading preferences to selected developing countries. Some of these arrangements have been challenged under WTO procedures as discriminatory and not in compliance with trade rules. To achieve compatibility, the EU proposes to convert these arrangements into reciprocal free trade areas. Many elements of the

EU's current and proposed free trade area arrangements also remain controversial and untested in the WTO. *Gene Hasha; (202) 694-5168; ghasha@ers.usda.gov*

## **Genetically Engineered Crops: U.S. Adoption & Impacts**

Since the introduction of genetically engineered (GE) crops in 1996, U.S. farmers have rapidly adopted some varieties. Soybeans and cotton with herbicide-tolerant traits have been the most widely and rapidly adopted GE crops in the U.S., followed by insect-resistant cotton and corn. Analyses by USDA's Economic Research Service and others indicate economic benefits to many farmers adopting first-generation GE crops. Not all benefits of GE crop adoption are reflected in standard measures of net returns. *Jorge Fernandez-Cornejo; (202) 694-5537; jorgef@ers.usda.gov*

## **Does Off-Farm Work Hinder "Smart" Farming?**

As off-farm income takes on greater importance to farm households, less time is available for farm management. Smart farming (e.g., soil testing, integrated pest management, and precision farming) typically substitutes management for capital. The value of management time and effort does not typically enter into calculations of economic returns to alternative production technologies or farming systems. The result could be misleading in understanding the benefits of technology adoption, particularly if farm households are willing to forego some financial return from farming to gain convenience. *Katherine R. Smith; (202) 694-5500; ksmith@ers.usda.gov*

# Effects of North American Free Trade Agreement on Agriculture and the Rural Economy *(WRS0201)*

only available electronically

[www.ers.usda.gov/publications/wrs0201/](http://www.ers.usda.gov/publications/wrs0201/)

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U.S. agricultural trade with Canada and Mexico has nearly doubled since the implementation of the North American Free Trade Agreement (NAFTA). While only a portion of this overall increase can be attributed solely to the agreement, NAFTA has allowed competitive market forces to play a more dominant role in determining agricultural trade flows among the three countries. By dismantling numerous trade barriers, the agreement has contributed to an expansion in U.S. agricultural exports and increased the

domestic availability of various farm and food products. In addition, NAFTA has established rules and institutions that mitigate potential trade frictions and promote foreign direct investment.

Conversely, many of the initial trepidations that were voiced concerning declining agricultural employment and environmental degradation have not materialized. Thus, NAFTA should be judged not just in the context of the trade gains associated with the agreement's agricultural provisions, but also in terms of the benefits derived from "locking in" key trade, investment, and institutional reforms in an increasingly integrated North American market.

## China Increases Exports of Fresh and Frozen Vegetables to Japan *(VGS292-01)* only available electronically

[www.ers.usda.gov/publications/vgs/avg02/vgs292-01/](http://www.ers.usda.gov/publications/vgs/avg02/vgs292-01/)

Sophia Huang; (202) 694-5257;  
sshuang@ers.usda.gov

China sharply increased its presence in Japan's import markets for fresh and frozen vegetables in the 1990s. The fast growth of Chinese frozen vegetable exports to Japan, however, does not yet pose a serious challenge to the position of U.S. frozen vegetables in Japan. Japan's frozen vegetable imports from the United

States, mainly prepared potatoes and sweet corn, meet with only a minimum challenge from China. In comparison, Chinese fresh vegetables pose more challenges to the United States because Japan's imports from China have grown strongly in recent years across the board, including broccoli, onions, and asparagus—the three major categories of U.S. fresh vegetable exports to Japan.

### food marketing *continued from page 1*

Developments in the food marketing system also have important implications for the agricultural sector. Competitive pressures are mounting for farmers to deliver the right types of products at the right time. Retailers are demanding a variety of high-quality products (for example, organic produce or exceptionally lean pork) delivered in a timely fashion. This increases the importance of agricultural product differentiation and precise information. For example, leading new product introductions were convenience foods,

organic and natural foods, and functional foods. In addition, grocery retailers are experimenting with new formats (for example, supermarket-sized natural food stores) to meet the growing needs of natural food and ethnic consumers.

International trends in trade and foreign direct investment offer U.S. food marketers an alternative to the slowly growing domestic food market. It also leaves the U.S. food marketing system increasingly exposed to foreign economic developments, policies, and changing consumer preferences. The United States is the

## ERSnippets

- ERS and the Farm Foundation will host a one-day workshop, "**Forces Shaping the Dairy Industry**" on September 25. The workshop is being held to elicit the views of market and policy analysts concerning U.S. dairy policies and their effects on the industry, both now and into the future. Topics to be covered include structural changes in the dairy industry, the current and future dairy policy environment, and changing demands for dairy products. For more information, please contact Don Blayney at (202) 694-5171 or [dblayney@ers.usda.gov](mailto:dblayney@ers.usda.gov).

- The **Food Assistance and Nutrition Research Program's Small Grants Program Conference** will take place October 17-18, 2002, at the Waugh Auditorium, 3rd floor, Economic Research Service, 1800 M Street NW, Washington, DC. The first day's sessions will focus on food insecurity, hunger, private-sector food assistance, and the dynamics and life course patterns of food assistance program participation. The second day's sessions will look at food assistance program participants' nutritional status, the community context of food security and food assistance programs, and welfare reform's effect on food assistance programs. A preliminary agenda is available on the ERS website at [www.ers.usda.gov](http://www.ers.usda.gov). Attendance is free but registration is required.

To register, please contact Tina Terry, ERS, by e-mail at [fanrp@ers.usda.gov](mailto:fanrp@ers.usda.gov), or by phone at (202) 694-5270.

world's largest importer and exporter of processed food, and U.S. food companies continue to expand operations overseas. Investment by foreign-owned food retailers in U.S. food retailing is on the rise through acquisitions.

The remainder of this report describes important developments in the food marketing system (manufacturing, wholesaling, retailing, and food service) with regard to structure, organization, productivity, technology, and trade.

## Also Off Press

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

### **Outlook for U.S. Agricultural Trade (8/29)**

Drought in the United States, leading to sharply higher prices, particularly for grains and soybeans, is expected to help boost the value of fiscal 2003 U.S. agricultural exports to \$57.5 billion, a 7.5-percent gain over 2002. Corn volume is expected to rise taking advantage of less foreign competition and ample beginning stocks.

### **Vegetables and Melons Outlook (8/22)**

The first estimate for the 2002 dry edible bean crop indicates a 39-percent increase from a year ago. Harvested area and per-acre yields are both expected to increase. U.S. dry edible bean growers reacted to depleted stocks and the highest prices in a decade by increasing area for harvest to 1.69 million acres—up 36 percent from a year earlier but 2 percent below the average of the previous 10 years.

### **U.S. Agricultural Trade Update (8/21)**

The \$41.1 billion in exports by the United States during the period October 2001-June 2002 is 2 percent above fiscal 2001. However, U.S. agricultural imports during the same period have risen 4 percent. Consequently, the U.S. agricultural export surplus for fiscal 2002 is 5 percent less than in the same period of 2001.

### **Livestock, Dairy, and Poultry Situation and Outlook (8/15)**

Wide-spread drought conditions are pushing up feed costs as crop and pasture conditions erode. The higher feed costs are reducing producers' returns, which means more meat production in the short term as more females are slaughtered and lower long-term production as the number of breeding animals is reduced. With slumping poultry exports due largely to uncertainty in the Russian market, increased beef production due to drought-reduced forage supplies, and a lackluster domestic economy with slower than previously expected growth; livestock and meat prices are expected to continue to face downward pressure.

### **Wheat Outlook (8/14)**

Projected U.S. 2002/03 ending stocks of wheat are down 53 million bushels from last month as lower production more than offsets reduced use. Forecast production is 63 million bushels below last month because of lower yields. Projected food use is down 10 million bushels due to a recent downward revision in mill grind for calendar 2001 by the Bureau of Census.

### **Feed Outlook (8/14)**

The corn crop is forecast at 8.886 billion bushels, down more than 900 million from last month's projection. Sorghum production is also down sharply from last month. A hot and dry growing season to date is behind the significant decrease in domestic feed grain production. Estimated 2002/03 prices were raised for all four feed grains.

### **Cotton and Wool Outlook (8/13)**

The latest United States Department of Agriculture (USDA) cotton forecast for 2002/03 indicates that world cotton production will decline nearly 9 percent from last season to 89.4 million bales. While U.S. and total foreign crops are both forecast below 2001/02, a rise in the U.S. crop estimate this month was more than offset by further declines outside the United States, for a net reduction of more than 500,000 bales from last month.

### **Rice Outlook (8/13)**

The 2002 U.S. rough rice production forecast was raised 2.3 million hundredweight (cwt) to 206.3 million—the second highest on record—a result of a higher yield forecast. The first survey-based forecast for the 2002 average yield is 6,393 pounds per acre, up 71 pounds from last month's forecast and fractionally below the 2001 record. Long grain accounts for all of the upward revision in production.

### **Oil Crops Outlook (8/13)**

Surveys by USDA confirmed crop damage with a 2002 soybean yield forecast of 36.5 bushels per acre, down from last month's trend yield estimate of 39.7 bushels. Based on a harvested area esti-

mate of 72.0 million acres, U.S. production of soybeans in 2002 would drop 232 million bushels from the July forecast to 2,628 million.

### **Sugar and Sweeteners Yearbook (8/8)**

Examines world and U.S. production, consumption, trade, stocks, and prices for beet and cane sugar, and high fructose corn syrup.

### **Vegetables and Melons Yearbook (7/25)**

In 2002, per capita vegetable and melon disappearance (also referred to as use or consumption) is forecast to rise 1 percent to 451 pounds. Increased use of fresh, canning, and freezing vegetables is expected to outweigh reduced use of potatoes and sweet potatoes.

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The new ERS magazine will debut in February 2003, replacing *Agricultural Outlook*, *FoodReview*, and *Rural America* and continuing the mission and focus of those magazines. Published five times a year, with an Internet edition updated and supplemented more frequently, it will deliver high-quality, timely information to readers.

**Watch for more details on the ERS website: [www.ers.usda.gov](http://www.ers.usda.gov)**

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