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A *Amber Waves* is a new magazine that provides a window into the broad scope of ERS' research and analysis. The magazine covers the economics of agriculture, food and nutrition, the food industry, trade, rural America, and farm-related environmental topics. Available on the Internet and in print, it will appear five times a year (in February, April, June, September, and November). The Internet edition will change as new material is added between scheduled issues.

Rural America: Opportunities and Challenges

At the beginning of the 21st century, rural America comprises 2,305 counties, contains 80 percent of the Nation's land, and is home to 56 million people. It is a collage of people and places—a diverse mix of races, ethnic groups, terrain, climate, amenities, businesses, and institutions. No one industry dominates the rural landscape, no single pattern of population decline or growth exists for all rural areas, and no statement about improvements and gaps in well-being applies to all rural people. Some rural areas have shared in the economic progress of the Nation, while others have not. The opportunities and challenges facing rural America are as varied as rural America itself.

Putting Food on the Table: Household Food Security in the United States

Household food security—access at all times to enough food for active, healthy living—is taken for granted by most Americans. The struggle to avoid overeating is a more common American experience than the struggle to put enough food on the table. However, some American households do have difficulty at times getting enough food for all members.

Managing Manure: New Clean Water Act Regulations Create Imperative for Livestock Producers

Nutrients from livestock and poultry manure are key sources of water pollution. Since regulations for livestock and poultry operations under the 1972 Clean Water Act were first developed, operations in general have become more concentrated and specialized. Ever-growing numbers of livestock and poultry per farm and per acre have increased the risk of water pollution. Hog production provides a good example of how economic factors can change animal industry structure and practices. New water quality regulations were put in place to deal with manure management on December 16, 2002.

Farm Payments: Decoupled Payments Increase Households' Well-Being, Not Production

Nearly all industrial countries provide subsidies to their farmers, often for the purpose of maintaining income from farming or reducing income variability. This article analyzes the U.S. experience with decoupled farm payments—those not tied to production or prices—from 1996 to 2002. The payments, made under the Production Flexibility Contracts program, affected farm household well-being—defined to encompass consumption, savings, investment, and labor/leisure choices.

Inside

Food Assistance Landscape examines trends in food assistance programs through fiscal 2002. 2

China's Agricultural Water Policy Reforms: Increasing Investment, Resolving Conflicts, and Revising Incentives documents the problem of water scarcity in parts of northern China and describes China's agricultural water management policies and reforms underway to encourage water conservation. 3

Food Security Assessment projects food gaps in 70 low-income developing countries and presents findings for North Africa, Sub-Saharan Africa, Asia, Latin America and the Caribbean, and the New Independent States of the former Soviet Union. 3

Decoupled Payments: Household Income Transfers in Contemporary U.S. Agriculture analyzes the U.S. experience with decoupled farm payments—those not tied to production or prices—from 1996 to 2002. 4

Rural America discusses:

- Rural population loss and migration
- Recreation counties and their rapid growth
- Federal funding in rural America

5

FoodReview takes a look at:

- The American diet
- The relationship between caloric intake and obesity
- The link between fruit consumption and body weight

6

Also Off Press highlights 13 new reports 7

Food Assistance Landscape, March 2003 (FANRR28-2)

www.ers.usda.gov/publications/fanrr28-2/

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About half of USDA's budget supports 15 domestic food assistance programs that serve an estimated 1 in 5 Americans at some point during the year. The goals of these programs are to provide needy persons with access to a more nutritious diet, to improve the eating

habits of the Nation's children, and to help America's farmers by providing an outlet for the distribution of food purchased under farmer assistance authorities. The Economic Research Service (ERS) is responsible for conducting studies and evaluations of USDA's food assistance programs, focusing on diet and nutritional outcomes, food program targeting and delivery, and program dynamics and administration. This report uses data from

the Food and Nutrition Service to examine trends in food assistance programs through fiscal 2002. It also discusses a recent ERS study on one of the smaller, highly targeted food assistance programs—the Summer Food Service Program.

The ERS Mission

The mission of the U.S. Department of Agriculture's Economic Research Service (ERS) is to provide public and private decisionmakers with economic and related social science information and analysis that helps them achieve five key goals:

- 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

The ultimate beneficiaries of ERS programs are the American people, whose well-being is improved by informed public and private decisionmaking.

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China's Agricultural Water Policy Reforms: Increasing Investment, Resolving Conflicts, and Revising Incentives *(AIB782)*

www.ers.usda.gov/publications/aib782/

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Water shortages in important grain-producing regions of China may significantly affect China's agricultural production potential and international markets. Falling ground-water tables and disruption of surface-water deliveries to important industrial and agricultural regions have provoked concern that a more dramatic crisis is looming unless effective water conservation policies can be put into place rapidly. Opinion over how these problems will affect agricultural production varies. As the world's largest agricultural producing country and the largest producer of major commodities that rely heavily on irrigation (wheat and cotton, for instance), China's success or failure to address water problems effectively could have major impacts on international trade of agricultural commodities. Recent changes in water management policies may serve to bring about more effective water conservation.

Whether China's water problems will affect agricultural production will depend on whether China's water management

and policy institutions can respond effectively. While some observers argue that China's current water exploitation portends a serious crisis that will disrupt agricultural and industrial production, many argue that China has a large capacity to adapt and avoid such a future water crisis. To do so, however, China must establish water management practices that encourage water conservation. Changes are underway at all levels of China's water management system, but a variety of issues may limit the effectiveness of current water policies and reform efforts. This report provides an overview of the water problems facing agriculture in China and China's overall water management system:

- Current water use is unsustainable in some areas.
- China's water management system is a complex arrangement of bureaucracies that sometimes have divergent interests.
- Recent investment changes in irrigation systems will help restore surface-water systems and encourage better water management.

- Private entrepreneurs and other non-collective interests are establishing ground-water delivery systems and changing the water management system economy in important grain-growing areas.
- A variety of policy changes are being introduced to address inter-regional conflicts.
- China is experimenting with reforms to resolve conflicts between agricultural and industrial users.
- Water price increases may have only a minor role in agricultural water use. China has been increasing water prices to encourage water saving, but prices are still low for agricultural water users.
- Water-saving irrigation practices and technology are not widely used.
- Reform of irrigation district management may be key to future water conservation.
- Cropping patterns will likely adjust in response to new water management policies and more limited water deliveries, even if irrigated acreage is maintained.

Food Security Assessment *(GFA14)*

www.ers.usda.gov/publications/GFA14/

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All indicators developed by the U.S. Department of Agriculture's ERS point to slow improvement in food security over the next decade for the 70 low-income developing countries included in this report. Average per capita food consumption for these countries stagnated in 2002 and the number of people not meeting nutritional requirements is estimated to be higher than in 2001.

About one billion people are estimated to face a precarious food security situation in 2002, higher than the 896 million estimated in 2001. However, the number of food insecure people is projected to

decline to about 708 million by 2012. The cause of chronic food insecurity is not only poverty but also short-term shocks—natural as well as economic—that intensify the problem. Political instability further worsens a country's level of food insecurity and sometimes leads to famine.

An examination of the instability of production of staple crops in low-income countries shows the effect of short-term shocks. Fifty-three of the 70 countries suffered shortfalls from trends exceeding 20 percent at least once during the last 20 years. Seventeen of these countries experienced such a shock more than five times during the same period.

The food security situations of the 70 countries are evaluated by estimating and

projecting the gaps between food consumption (domestic production plus commercial imports minus nonfood use) and two different consumption targets through the next decade: (1) the status quo target, which maintains per capita consumption at the 1999-2001 level, and (2) the nutrition target, which meets recommended nutritional requirements. This nutrition target is also applied to five income groups within a country.

The food needed (in grain equivalent) to maintain per capita food consumption at the 1999-2001 level is estimated at close to 7 million tons in 2002. The food gap to meet average nutritional requirements is 17.7 million tons. The distribution gap—the amount of food needed to raise consumption in each income group to meet

continued on page 4

Food Security *continued from page 3*

nutritional requirements—is about 31 million tons.

Regionally, the food security situation in Sub-Saharan Africa (37 countries) is not expected to improve much during the next decade without a significant effort to improve economic policies and establish

political stability. Frequent short-term instability in domestic agricultural production provides an added threat to food insecurity. The lack of effective food safety net programs amplifies the problem, thereby increasing the likelihood of famine. Our 2002 estimates show a much higher number of hungry people in Asia than in Sub-Saharan Africa, but the situa-

tion is expected to reverse by 2012. In fact, under our baseline scenario (no significant policy change), the number of hungry people in Asia will decline by more than half by 2012, surpassing the target set by the World Food Summit, while there will be a 27-percent increase in Sub-Saharan Africa.

Decoupled Payments: Household Income Transfers in Contemporary U.S. Agriculture (AER822)

www.ers.usda.gov/publications/aer822/

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Decoupled payments are lump-sum income transfers to farm operators that do not depend on current production, factor use, or commodity prices and for which eligibility is based on fixed, historical criteria. Such payments are not presently constrained by global trade rules, but many countries argue that they distort production and trade and that their use should be limited. Further constraints on domestic support, which includes decoupled payments, are being discussed in the Doha Development Agenda, the new multilateral round of trade negotiations.

This report examines the U.S. experience with decoupled payments in its Production Flexibility Contracts (PFC) program under the Federal Agriculture Improvement and Reform (FAIR) Act of 1996. PFCs were fixed, annual payments to farm operators based on qualified acres historically enrolled in commodity programs. The payments totaled about \$36 billion from 1996 to 2002. Decoupled payments are being continued in the 2002 U.S. Farm Security and Rural Investment Act.

U.S. decoupled payments improved the well-being of participating households, enabling them to increase their consumption, savings, investment, and leisure, but with minimal distortion of U.S. agricultural production or trade. However, farm operators in aggregate may have retained as little as 40 percent of program benefits, with the remainder passed through to landowners. The low retention rate is due

to rising rental costs on the large share of rented acres in the PFC program. While commercial farms received the largest share of decoupled payments, they rented in over two-thirds of their program acres and therefore had the highest potential rate of pass-through of program benefits to nonfarming landowners.

The potential for payments to lead to more investment in agriculture is a key concern of U.S. trade partners. This study finds that participating farm households exercise considerable choice in the allocation of their savings across their investment portfolios. Decoupled payments do not change the level or variability of market returns and therefore provide no incentives for additional farm investment. Although payments can alleviate credit constraints and reduce borrowing costs, allowing some farmers to increase farm investment, this report found no evidence at the aggregate level of increased onfarm investment stemming from decoupled payments.

The study includes a simulation of a permanent program of decoupled payments and finds that decoupled PFC payments would have a negligible impact on agricultural investment and production in the long run; however, household consumption and offfarm investment would increase. Payments increase land asset values by about 8 percent.

If payments are assumed to be fully invested in agriculture, which could occur if all farmers are credit constrained or recipients' investment portfolios are limited to agriculture, the payments would increase aggregate onfarm investment by less than two-tenths of 1 percent and

increase aggregate agricultural production by a maximum of one-tenth percent in the long run.

The analysis draws primarily on the most recent Agricultural Resource Management Survey (ARMS) data on households that received PFC payments to describe and analyze patterns of land ownership and rental, consumption, savings, investment, and onfarm and off-farm employment.

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Understanding Rural Population Loss

Despite a widespread decline in rural poverty in the 1990s, a quarter of non-metro counties lost population over the decade. Poverty rates were no higher in these counties than in counties without population loss. We identify remote (from metro areas), thinly settled counties as "frontier" counties, arguing that the lack of access to services and the small labor market sizes in these counties inhibits the immigration of people and businesses, particularly in the absence of compensating natural amenities. In two of every three low-amenity frontier counties, population loss exceeded 5 percent in 1990-2000.

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Nonmetro Recreation Counties: Their Identification and Rapid Growth

For rural communities struggling to offset job losses from farming, mining, and manufacturing, capitalizing on the recreational appeal of an area fosters economic development, attracts new residents, and retains existing population. This article outlines a method to identify nonmetro counties with high recreation development. It then examines the linkage between such development and population change, and considers its implications for the future of rural and small-town America. Calvin L. Beale; (202) 694-5416;
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Federal Funding in the Delta

Despite recent improvements, the Lower Mississippi Delta region—especially the rural Delta—faces many economic challenges. The Federal Government has spent large amounts of money on the region for basic income support. It has also invested in human resources in the region. However, the rural Delta has received less assistance from Federal community resource programs, which are important for economic and community development. Richard J. Reeder; (202) 694-5630;
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Federal Funding in Appalachia and Its Three Subregions

Appalachia received more per capita Federal funds than the U.S. average, but this was only true for urban areas, where income support and payments for national functions were larger. Appalachia received lower per capita payments than the U.S. average in agriculture and natural resources, and in defense and space programs. It also received less in community resources and human resources—the programs that create jobs and economic growth. Faqir S. Bagi; (202) 694-5337;
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Can Rural Employment Benefit From Changing Labor Skills in U.S. Processed Food Trade?

In 1972, processed food exports used more skilled labor per unit of output than processed food imports. By 1992, this situation had reversed and the skill intensity of processed food trade had switched. Higher meat and poultry exports compared with other processed food trade could explain this switch in skill intensity. The growth in meat trade paralleled an urban-to-rural shift in the meatpacking and poultry processing sectors. However, the jobs slaughtering livestock and processing meat often do not appeal to domestic rural workers. When sufficient domestic rural workers are not available, accommodating a larger share of commuter and migrant workers has challenged some rural communities that host meat processing plants. Gerald Schluter; (202) 694-5395;
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Economic Impact of Water/Sewer Facilities on Rural and Urban Communities

Rural water/sewer facilities generate private investment and public funds, and increase the property tax base. But the average urban water/sewer facility, which costs only about one-third more than the average rural facility, creates about twice the amount of permanent jobs, induces three times more private investment, leverages twice as much in public funds, and adds three times more to the local property tax base. This difference may be

due to greater aggregate infrastructure in urban than in small rural communities. Faqir S. Bagi; (202) 694-5337;
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Resource Conservation and Development Program Reaches a Milestone

The Resource Conservation and Development (RC&D) program has grown both in number of areas covered and in funding since its inception in 1964. In 2002, RC&D received permanent authorization. The RC&D program's success springs from the individual initiative granted to and shown by local RC&D volunteer councils, whose decisions for their communities have upheld economic advancement and the conservation of natural resources. Dwight M. Gadsby; (202) 694-5476;
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Who Owns the Land? Agricultural Land Ownership by Race/Ethnicity

Of all private U.S. agricultural land, Whites account for 96 percent of the owners, 97 percent of the value, and 98 percent of the acres. Nonetheless, four minority groups (Blacks, American Indians, Asians, and Hispanics) own over 25 million acres of agricultural land, valued at over \$44 billion, which has wide-ranging consequences for the social, economic, cultural, and political life of minority communities in rural America. Jess Gilbert; gilbert@ssc.wisc.edu

How Does Growing U.S.-China Trade Affect Rural America?

China's trade with the United States has boomed since the 1980s. China exports a number of products such as apparel, furniture, and plastics that compete with products manufactured in rural America. However, many of China's most important exports, like footwear and toys, are not widely produced in rural America. China's exports of products like footwear and toys benefit rural U.S. consumers by keeping prices low. China's growing economy is creating market opportunities for rural U.S. producers of oilseeds, grain, meat, machinery, and equipment. Fred Gale; (202) 694-5215;
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U.S. Per Capita Food Supply Trends: More Calories, Refined Carbohydrates, and Fats

ERS' loss-adjusted annual per capita food supply series suggests that average daily calorie consumption in the United States in 2000 was 12 percent, or roughly 300 calories, above the 1985 level. Of that increase, grains (mainly refined grains) accounted for 46 percent, added fats 24 percent, added sugars 23 percent, fruits and vegetables 8 percent, and the meat and dairy groups together declined 1 percent. Per capita availability of total dietary fat, after remaining steady from 1985 to 1999, jumped 6 percent in 2000.

American diets are also low in whole grains and other nutritious foods.

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Patterns of Caloric Intake and Body Mass Index Among U.S. Adults

Marked differences in caloric intake exist across income and education subgroups over the whole range of intake levels, from light to moderate to high. When these differences are compared with differences in body fatness (as measured by Body Mass Index) across the same income and education groups, the patterns tends to match for men but not for women. For example, a greater share of low-income men consumes excessive calories and has BMIs in the obese range than high-income men. Determining the causes of disagreements between patterns of caloric intake and body fatness across sociodemographic groups may lead to a better understanding of the causes of disparities in obesity. *Jayachandran N. Variyam; (202) 694-5457; jvariya@ers.usda.gov*

Misperceptions in Self-Assessed Weight Status Vary Along Demographic Lines

Differences between adults' actual weight status and their perceived weight status show how many and which individuals are mistaken in their self-perceptions. Women, for example, tend to make more accurate self-assessments than men but they are also more likely to overestimate their weight status. Men are more likely to underestimate their weight status.

Mistakes in self-assessments have a systematic component and are associated with subpopulations classified by demographics, socioeconomic status, and knowledge and attitudes toward diet and health. Federal information programs targeting obesity will be more likely to influence diet and lifestyle choices if the programs issue distinct messages to different subgroups. *Fred Kuchler; (202) 694-5468; fkuchler@ers.usda.gov*

Higher Fruit Consumption Linked With Lower Body Mass Index

An examination of the association between consumption of fruits and vegetables and obesity shows a negative relationship between fruit consumption and body mass index (BMI). That is, people who eat more servings of fruit each day have lower BMIs. In fact, healthy-weight children and adults of both genders eat significantly more fruits than their overweight and obese counterparts. Vegetable consumption, however, showed no consistent correlation with peoples' BMIs. The answer to why fruit consumption is a more accurate predictor of body weight status than vegetable consumption may lie in the way many Americans incorporate these foods in their diets. *Biing-Hwan Lin; (202) 694-5458; blin@ers.usda.gov*

Societal Costs of Obesity: How Can We Assess When Federal Interventions Will Pay?

Chronic diseases that result from obesity are taking a large and growing share of U.S. health care expenditures, and many health researchers are calling for Federal intervention to halt the trend toward obesity. How economists should assign dollar benefits to Federal anti-obesity programs remains a mystery. Obesity differs from public health problems economists have examined, such as toxic waste sites or contaminated food, because weight status is largely the result of individual diet and lifestyle choices. Possibly, no anti-obesity intervention could be justified on market failure grounds. However, existing Federal support for health care expenditures for the elderly and those classified as low income show that policy goals include more than efficiency. Intervention could be cost effective if programs could be

designed to reduce government expenditures without compromising health.

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Are Americans Turning Away From Lower Fat Salty Snacks?

Although sales of regular versions of potato chips, pretzels, and microwave popcorn increased 11 percent from 1995 to 1999, sales of lower fat versions of the same salty snacks dropped 6 percent in the same period. Sales of lower fat potato chips rose during 1995-98 mostly due to high sales of fat-free Olean products. Lower fat versions of pretzels and microwave popcorn, however, dropped significantly. New product introductions of reduced- and low-fat products, including salty snacks, also fell off, from 1,914 in 1995 to 481 in 1999. *Jane Allshouse; (202) 694-5449; allshous@ers.usda.gov*

Use of Food Pantries by Households With Children Rose During the Late 1990s

Although the percentage of U.S. households using food pantries declined roughly 10 percent from 1996 to 2000, the number of visits to food pantries actually increased 2 percent from 1998 to 2000. Households with children accounted for the entire increase in number of visits. Two-parent families made over 20 percent more visits over the 2-year period, and single-parent families also turned to food pantries more often but at a smaller rate of increase. These increases occurred when Food Stamp Program participation was on the decline as a result of a strong U.S. economy and welfare reform legislation, suggesting that not all households that left the program achieved self-sufficiency.

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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.

Rice Outlook (3/12)

The only supply-side revision this month to the U.S. 2002/03 supply and use forecasts was a 500,000 hundredweight (cwt) (rough rice basis) increase in imports to 13 million cwt, second only to a year earlier's record 13.2 million. The upward revision was based on a stronger-than-expected pace of shipments through December. All of the increase in imports was for long grain rice. The higher import forecast resulted in a fractional increase in U.S. 2002/03 total supplies to a record 262.9 million cwt.

Oil Crops Outlook (3/12)

The U.S. Department of Agriculture (USDA) raised its 2002/03 forecast of U.S. soybean exports this month to 960 million bushels from 940 million and 1,063 million in 2001/02. However, a dimmer domestic outlook led USDA to reduce its 2002/03 crush forecast to 1,640 million bushels from last month's forecast of 1,655 million and 1,700 million in 2001/02.

Cotton and Wool Outlook (3/12)

The latest USDA cotton forecast for 2002/03 projects U.S. cotton exports at 10.8 million bales, slightly below 2001/02 and the second highest since 1926/27. As U.S. mill use has fallen during the last several seasons, the export share of total U.S. demand has risen. In 2001/02, however, this share jumped significantly as surplus U.S. supplies—aided by a record cotton crop—provided the foundation for the largest exports in 75 years.

U.S. Tobacco Import Update (2/27)

U.S. imports (arrivals) of foreign-grown leaf and stems surged from 468 million pounds in 2000/01 (July-June) to 587 million pounds during 2001/02 (July/June), a gain of 25 percent. Stemmed flue-cured, burley, and stems accounted for the gain. During the same period, imports for consumption of leaf and stems advanced 24 percent to reach 572 million pounds.

Tobacco 2001 Production Costs and Returns and Recent Changes That Influence Costs (2/26)

Cash costs per acre to produce burley

tobacco in 2001 were estimated to be unchanged from the previous year, while flue-cured tobacco cash costs per acre declined slightly. Current cost estimates are based on annual updates, since the last tobacco surveys were conducted in 1995 for burley tobacco and 1996 for flue-cured tobacco.

Vegetables and Melons Outlook (2/25)

Planted area for spring-season onions is expected to decline 12 percent to 34,400 acres. Plantings are down in three of the four reporting States with Texas (down 23 percent) expecting the largest decline. Although area planted is forecast lower, production could exceed the short 2002 crop of 9.7 million hundredweight (cwt), if yields in Texas and Georgia improve and harvested area in Georgia recovers from the disease-induced losses of a year ago.

Wheat Outlook (2/13)

Projected U.S. 2002/03 ending stocks of wheat are up 27 million bushels from last month due to lower seed use and exports. Projected exports are 25 million bushels below last month because of reduced global imports and lower-than-expected U.S. sales and shipments to date. The projected price range is up 5 cents on the low end but down 15 cents on the high end, to \$3.55 to \$3.65 per bushel.

Feed Outlook (2/13)

Forecast 2002/03 corn exports were lowered 25 million bushels this month because of increased competition by other exporters. Another monthly record ethanol production resulted in food, seed, and industrial use being boosted 20 million bushels. These changes raised forecast ending stocks 5 million bushels to 929 million.

Cotton and Wool Outlook (2/12)

The latest USDA cotton forecast for 2002/03 indicates that a record global cotton usage is expected to reduce world ending stocks to their lowest since 1995/96. With global cotton production significantly lower this season at 87.6 million bales and world consumption projected to rise to 96.8 million, ending

stocks are expected to decline nearly 20 percent (9 million bales) in 2002/03.

Rice Outlook (2/12)

The only supply-side revision this month to the U.S. 2002/03 supply and use forecasts was a 500,000-hundredweight (cwt) (rough basis) increase in imports to 12.5 million cwt, second only to the 2001/2002 record 13.2 million. The upward revision was based on unexpected shipments of Australian rice to Puerto Rico in November. All of the increase was for medium/short grain rice. The revision resulted in a fractional increase in total supply to a record 262.4 million cwt.

Oil Crops Outlook (2/12)

A strong year-to-date pace led the U.S. Department of Agriculture (USDA) to raise its 2002/03 soybean export forecast this month from 930 million to 940 million bushels. Based on the better than expected exports and a larger than normal residual, the U.S. season ending stocks forecast fell 25 million bushels to 165 million.

USDA Agricultural Baseline Projections to 2012 (2/10)

In the initial years of the baseline, U.S. farmers respond to reduced supplies and higher prices for many crops in 2002, with planted acreage projections higher in 2003 and 2004 than in recent years. Near-term livestock sector projections reflect adjustments to relatively low net returns in 2002, brought on by increased production levels that reduced meat animal prices coupled with higher grain prices.

Sugar and Sweeteners Outlook (1/31)

Under authority granted in the Farm Security and Rural Investment Act of 2002, the U.S. Department of Agriculture (USDA) announced on January 10, 2003, that it was immediately raising the Overall Allotment Quantity (OAQ) for sugar marketing allotments by 500,000 short tons, raw value (STRV), to 8.2 million STRV.

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