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Conservation Complience Standards Relaxed; History: Is is a Predictor of Cattle Prices?

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CONSERVATION COMPLIANCE STANDARDS RELAXED

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Some producers farming highly erodible soil may find it easier and less costly to meet conservation compliance requirements than they had first thought.

The Conservation Compliance section of the 1985 farm bill requires producers farming highly erodible land to develop a conservation compliance plan by 1990. About 143 million acres of cropland and 40 percent of the nation's producers are likely to be affected. Almost 80 percent of these farmers are expected to meet the 5-ton-per-acre-per-year soil loss standard imposed by the compliance section.

Alternative conservation systems

However, perhaps 20 percent of the producers will not be able to meet this 5-ton standard without suffering financial hardship. The Soil Conservation Service (SCS) introduced the alternative conservation systems (ACS) in 1988 as an option for these producers.

The old standards required producers to reduce erosion levels on highly erodible soil to a level that would sustain long-term productivity of the soil. This soil loss tolerance level, also called the T, is 5 tons on most soils.

The ACS standards require producers to significantly reduce soil erosion. Producers who adopt these systems, however, will be allowed a greater than 5-tons-per-acre erosion loss. But they must meet all the other compliance section requirements, including developing a conservation plan by

(Cont'd on p. 2)

HISTORY: IS IT A PREDICTOR OF CATTLE PRICES?

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Many forecasters are predicting record high cattle prices in 1989. Given the levels noted in the Figure on page 3, that would mean prices close to or above $80 in 1989. Does history support such predictions? A recent Special Report by Piper, Jaffray and Hopwood took a look at prices and price changes over the past 10 years. Their report might give us some clues.

In 4 of the last 10 years, prices in the early part of the year were higher than they were late in the previous year. In another 4 years, prices were lower and in 2 years prices were about steady.

In those years when prices increased (1979-1981-1985-1986), prices were $65 or lower at the end of the previous year. In 3 of the 4 years, prices were below $61.

In those years when prices decreased (1980-1981-1985-1986), prices were $64 or higher every year. Prices were above $67 in 3 of the 4 years.

(Cont'd on p.3)

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* Editor's Note: In an effort to more *
* fully meet the needs of the Econ News- *
* letter readership, we will be including *
* an "outlook" component in several of the*
* N/L's this year. We are also changing *
* the N/L title to Economics Communicator *
* and altering the N/L format. If you *
* have reactions to these changes, we'd *
* appreciate hearing from you. Many *
* thanks. *
* Don Taylor, N/L Editor *
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Conservation compliance ...

Dec. 31, 1989, and fully implementing the plan by Jan. 1, 1995.

The ACS usually involves a change in tillage practices, rather than an investment in machinery or land improvements. SCS officials believe that the ACS will reduce average erosion to 7 to 8 tons per acre on highly erodible soil, about half current levels. This is still about 50 percent more erosion than the old standards allow.

Field slope will determine what practices the SCS will allow a producer to use in an alternative system. On fields with little or no slope, tillage practices that leave large amounts of crop residue to control erosion can be followed. These practices may include no-till practices and cropping rotations that leave large amounts of residue. The SCS may also allow contour strip cropping (i.e., planting grass strips between crops strips) to reduce soil erosion.

However, on fields with severe slopes, producers may have to include terraces or waterways in the alternative conservation system.

Regardless of which set of rules you use to develop your conservation compliance plan, certain common guidelines must be followed. Selected examples follow.

Specific provisions

A farmer has no obligation to use a plan after it has been completed. The only penalty is that you will not be eligible for USDA programs until you get back into conservation compliance. However, it may be difficult to get back into compliance the year you decide you want to get back in.

You may change your plan anytime after 1990. The only requirement is that the changes must meet SCS criteria.

Conservation plans may be developed after the deadline, but you will have just one year, not five, to implement the plan. After 1990, SCS policy requires that farmers must have their conservation systems in place before producing the crops for which they want to receive program benefits.

If you buy or rent land that has a conservation system in place, you should check with the local ASCS office to determine the requirements of the existing plan that must be complied with. In many cases, you may be able to revise the plan to use a different means of meeting the same requirements.

The Conservation Reserve Enhancement program can also be used to meet compliance requirements. Fields that contain two-thirds or more of highly erodible land can be enrolled in the CRP.

The CRP was recently modified to include additional acres. Cropland along ditches, streams, rivers, and wetlands can now be bid into the program. To qualify, the land must be planted into vegetative filter strips that trap pollutants found in surface run-off.

Implications of non-compliance

The stakes are high for producers who do not meet compliance requirements. The most obvious loss is the forfeited USDA program benefits--including price and income supports, crop insurance, FmHA loans, CCC storage payments, and CRP annual payments. Program ineligibility applies to all the land farmed, not just the highly erodible land.

Reduced productivity is also a concern. An annual soil loss of 3 to 5 tons per acre translates into only .02 inches per year. Even a loss of 40 tons per acre per year is barely noticeable, only 1/4 inch. However, if these losses continue, productivity will also be reduced.

Water quality is another factor that may force producers to reduce soil erosion to at least the T value. Soil carried by erosion takes with it pesticides and nitrates that contaminate water sources.

Public concern that producers reduce soil erosion and groundwater contamination is quite great and increasing. If producers do not willingly introduce controls now, they may be forced to do it later through more government regulation.

Cattle prices ...

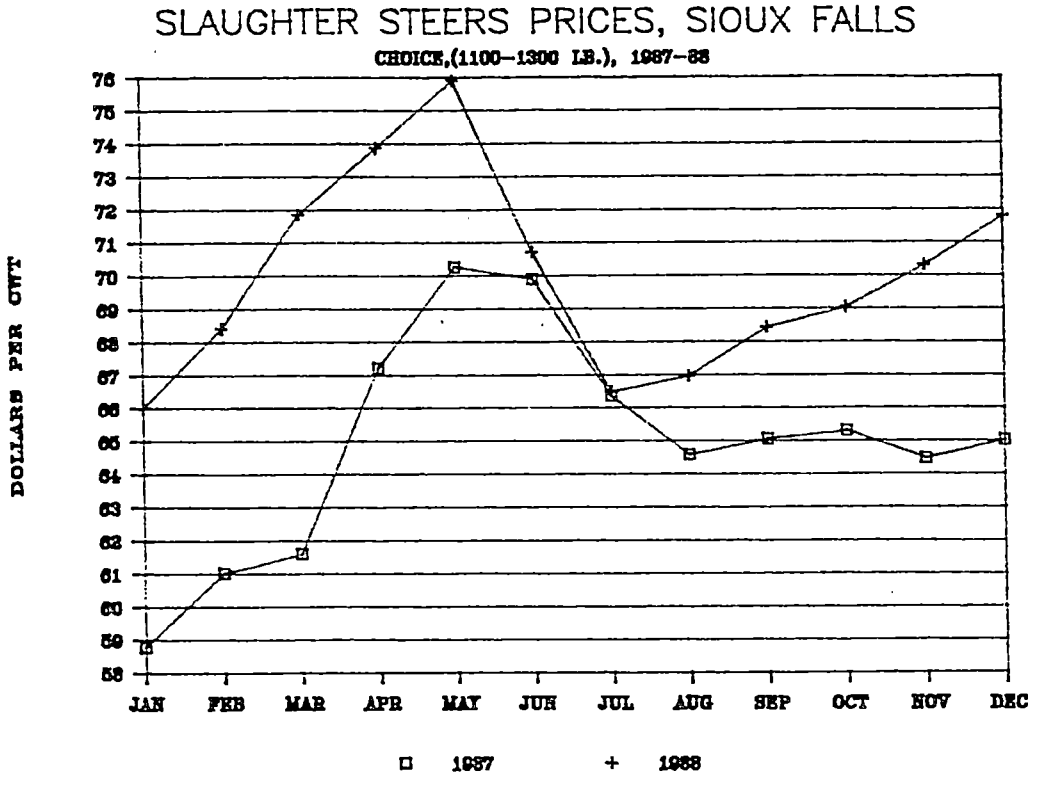
In those years when prices were steady (1983 and 1984), no distinct price patterns were observed. Prices were high at the end of the previous year one time and low the other.

The above may lead one to the conclusion that low prices at the end of one year will lead to higher prices the next year and high prices are followed by low prices. The major exception might be 1979--and that is the year to which many cattle price forecasters are comparing 1989.

Prices at the end of 1978 were only in the upper $50's. However, by the standards of the 1970's, that was a high price. Prices in 1979 increased dramatically. Much of the increase was credited to large demands for heifers for herd rebuilding. Such demands could be there in 1989, especially if rains are sufficient to promote pasture rejuvenation. The nation's cow herd is getting relatively old as producers have tended to hold cows for "one or two more calves" because prices for calves have been high. Those older cows will have to be replaced in addition to heifers held back to increase herd size.

Price patterns in 1978 (up, down, up, then sideways) were very similar to those in 1988. If 1989 follows the 1988 pattern like 1979 followed 1978, record prices could be seen.

What does it all mean? In general, history neither totally supports nor rejects the idea that prices in 1989 will be higher. Each year must be evaluated on its own merit. The current fundamental situation (lower supplies--good demand--increased exports) does, however, still provide positive support. Unless there are major surprises, 1989 could be a good year (price-wise) for cattle producers. That could mean record prices. However, with higher costs, those record prices might be needed. Profits, even with higher prices, could be very limited.



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GRAIN PRICE OUTLOOK

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The near term price of grain will continue to be dominated by exports and South American crop potential. Recent losses in corn and soybean prices were due to an unexpected increase in 1988 corn production. Figures released by USDA on Jan. 13, 1989 indicate that corn production was 250 million bushels greater than that reported in Nov. 1988. This was well above trade expectations and the corn futures market dropped nearly 20 cents. Soybean futures also dropped dramatically unable to withstand the bearishness in the corn pit and on news of "wet" weather in South America. Since corn and beans are in strong hands, a rally from these lows will be required to induce deliveries from farmers. This price drop is viewed by some analysts as a temporary set back. However, rallies from these lows may not reach $3.00 on the March futures now as anticipated earlier in the year. Soybean prices will remain very volatile as Brazil and Argentina moisture conditions change.

Wheat markets were stronger for deferred futures contracts on news that 1989 winter wheat acreage will be 2 to 3 million acres less than expected. Nearby futures dropped as the stocks report was somewhat bearish. This will be temporary, with a rally expected from the lows set right after the report was released. Deteriorating weather conditions in the U.S. hard red winter wheat producing areas will give the wheat market a boost. Snow cover or rain in these areas would keep March Chicago futures below $4.50.

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