United States Department of Agriculture
Soil Conservation Service
P.O. Box 2890
Washington, D.C.
20013

January 18, 1991

NATIONAL BULLETIN NO. 200-1-3

SUBJECT: ECN - CURRENT NORMALIZED PRICES FOR FISCAL YEAR 1991 WATER RESOURCE AND WATERSHED PROTECTION PLANS

Purpose. This bulletin transmits the current normalized prices for agricultural commodities and the price index for computing user-day recreational values. The information is to be used during fiscal year 1991 for plan formulation and evaluation in water and related land resources implementation studies. This bulletin should be distributed to all persons involved in water resources project planning.

Expiration Date. September 30, 1991.

Background. The Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies (P&G) specify the use of current normalized crop prices issued by the Department of Agriculture to evaluate National Economic Development agriculture benefits. The P&G also provide for annual updating of recreational dollar values according to changes in the consumer price index.

Current Normalized Prices. Enclosed are the normalized prices for agricultural commodities for fiscal year 1990 furnished by the Economic Research Service of the Department of Agriculture. The computational methods used are discussed in the enclosure. They will continue to be used in fiscal year 1991 until further notice. The fiscal year 1991 current normalized price for pasture will not exceed $10.00 per animal-unit-month, unless documented by actual data on pasture leases.

The SCS National Headquarters is working with the Assistant Secretary for Economics, the Assistant Secretary for Natural Resources and Environment, and the Economic Research Service to revise the current normalized price process. If the proposed change is adopted, it will enhance natural resource planning by providing timely, defensible current normalized prices.

Adjustment of Recreational Values. Recreation user-day values for fiscal year 1991 are to be indexed upward from those shown on page 84 of the P&G by an index factor of 1.36. This is the relationship that exits between the 1982 and August 1990 Consumer Price Index.

John H. Stevens Acting

GAIL E. UPDEGRAFF
Director
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Enclosure

DIST: L, T, S

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JUL 18 1990

INFORMATIONAL MEMORANDUM

TO: James Mosely
Assistant Secretary
for Natural Resources and Environment

THROUGH: Bruce Gardner
Assistant Secretary
for Economics
27 JUL 1990

FROM: John E. Lee, Jr.
Administrator

SUBJECT: 1990 Normalized Prices

We transmit herewith the "current normalized prices with support programs" for use by Federal agencies in the evaluation of water related development projects in 1990. Consistent with established practice, these prices are transmitted to you for distribution to Federal water resource agencies. The methodology used to calculate these prices is explained in the attached text and is based on a comprehensive supply-demand analysis. This approach to calculating "current normalized prices with support programs" was discussed in my November 12, 1985, memorandum to Assistant Secretary Peter C. Myers.

The current approach utilizes structural information obtained from commodity specialists in the Economic Research Service and from an econometric model of the agricultural sector. This approach is designed to minimize short run distortions in prices caused by abnormal weather and temporary changes in foreign demand for agricultural products while deriving consistent relative prices for commodities and cost indices for production inputs.

The State estimates are reported only for "current normalized prices with support programs." For comparative purposes, price estimates using the "distributed-lag" approach are available from the Economic Research Service upon request.

Attachment

cc: Bevan Brown, Tennessee Valley Authority (w/attachment)
Alan Dickerman, Bureau of Reclamation (w/attachment)
Dave Hottenstein, Corps of Engineers (w/attachment)
Ed Riekert, Soil Conservation Service (w/attachment)

CURRENT NORMALIZED PRICES

The orderly development and use of water and related land resources require that a consistent set of economic standards and criteria be used for the evaluation of agricultural benefits and costs. Agricultural price standards provide the basis for valuing the agricultural effects of alternative development and management plans for water and related land resources.

AUTHORITY

The authority for these standards is set forth in the Water Resources Planning Act (P.L. 89-90) and in the Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies. These Principles and Guidelines state in part:

"Section 1.4.10 Prices

a. The prices of goods and services used for evaluation should reflect the real exchange values expected to prevail over the period of analysis. For this purpose, relative price relationships and the general level of prices for outputs and inputs prevailing during, or immediately preceding, the period of planning generally represent the real price relationships expected over the life of the plan, unless specific considerations indicate real exchange values are expected to change.

b. The general level of prices for outputs and inputs prevailing during or immediately preceding the period of planning is to be used for the entire period of analysis. In the case of agricultural planning, normalized prices prepared by the Department of Agriculture should be used."

CONCEPTUAL BASIS FOR NORMALIZED AGRICULTURAL PRICES AND COSTS

Current normalized prices are to be used in all economic evaluations covered by the Principles and Guidelines, such as:

1. Evaluation of beneficial or adverse effects of alternative projects and programs under consideration.

2. Appraisals of economic impacts where such impacts are expressed in terms of value of production or income.

The project evaluation process should yield valid estimates of the aggregate benefits and costs during the life of the projects and programs under consideration. These estimates need to be based on relative price relationships that are representative of the period of analysis and that are not distorted by short-term abnormalities. Market prices and costs are generally influenced by highly variable factors such as weather and sudden demand changes. Thus, a procedure is needed to correct for the effects of these factors.

COMPUTATION METHODS TO DERIVE CURRENT NORMALIZED PRICES

Current normalized prices are derived from information obtained from a structural econometric model of the agricultural sector, and from commodity specialists in the Economic Research Service. The framework is used to minimize short run distortions in market prices caused by such factors as abnormal weather patterns and short-term fluctuations in the foreign demand for agricultural products.

A major determinant of the current year's crop yields is the current weather pattern. To eliminate these weather effects upon yields, stocks, and current and future prices, the crop yields are adjusted to trend values. Other important variables such as loan rates, support levels, and acreages of competing crops planted are considered in determining the supply and demand equilibrium and market clearing prices.

Normalized prices for livestock products are adjusted for long-term relationships between livestock and feed crop prices. The adjustments are designed to provide livestock prices at an equilibrium where livestock breeding herds are neither contracting nor expanding.

Normalized indices of prices received and paid by farmers are based on historical data series and the assumptions and results of the model.

STATE PRICES

The State normalized prices were obtained by multiplying the National normalized prices by the average ratio of the State price to the National commodity price for the period 1986-88.

FURTHER PRICE ESTIMATION

Special circumstances will require further price estimation, such as:

1. Pricing of commodities not included in the price table.

   For example, forest product prices are not included in the tables. Information on current prices for forest products can be obtained from the last issue of The Demand and Price Situation for Forest Products, Forest Service, U.S. Department of Agriculture. To be consistent with the agricultural prices in this report, the stumpage prices should be adjusted to reflect value added from harvesting.

2. Determination of price differentials within States.

   Current normalized prices for specific areas within a State may be derived by computing the average local area-to-State price ratio for the 1986-88 period and multiplying by the State normalized price.

3. Determination of price differentials to reflect product quality differences.

   Published date do not provide, in most instances, a basis for deriving such price estimates. Procedures for estimating such price differentials will vary from one set of circumstances to another. Since a standard procedure cannot be specified, analysts confronted by such a problem must develop their own procedures. The basis used for estimating such price differentials should be fully documented in review reports.

4. Adjustments to reflect the impacts of project or program actions on market prices.

   As specified in the Principles and Guidelines, whenever implementation of a plan is expected to influence price significantly, the use of a price about midway between those expected with and without implementation may be justified. Special consideration should be given to price adjustments where a program induced shift from a deficit to a surplus production area is expected, or vice versa.

These and other special price problems should be approached in such a manner as to achieve consistency with the published estimation of current normalized prices.

Normalized Prices: 1990

Commodity	Units	Market Clearing Price Estimates With Support Programs
Program Commodities		
Wheat, all	Bu.	2.90
Rye	Bu.	1.75
Rice	Cwt.	6.00
Corn	Bu.	2.00
Oats	Bu.	1.40
Barley	Bu.	1.80
Sorghum grain	Cwt.	3.40
Sugarbeets	Ton	36.60
Sugarcane for sugar	Ton	27.50
Cotton, lint (upland)	Lb.	.55
Tobacco	Lb.	1.65
Soybean for beans	Bu.	5.10
Peanuts harvested for nuts	Lb.	.27
Milk	Cwt.	11.75
Wool	Lb.	.75
Non-Program Commodities		
Apples, fresh market	Lb.	.17
Oranges, all	Box	6.10
Grapefruit, all	Box	4.90
Sweetpotatoes	Cwt.	12.80
Steers and Heifers	Cwt.	56.70
Feeder steers - 8 markets	Cwt.	61.10
Cows for slaughter	Cwt.	39.90
Calves	Cwt.	57.10
Sheep	Cwt.	18.00
Lambs	Cwt.	59.80
Hogs	Cwt.	44.00
Broilers, commercial	Lb.	.32
Turkeys	Lb.	.45
Eggs	Doz.	.55
Dry beans	Cwt.	19.00
Cottonseed	Ton	75.00
Flaxseed	Bu.	4.95
Hay, all (baled)	Ton	70.00
Potatoes	Cwt.	4.80

Normalized Indexes: 1990

Indexes	Market Clearing Price Estimates With Support Programs
	1967 = 100
Prices received by farmers:	
All farm products	238
All crops	237
Livestock and products	238
Prices paid by farmers:	
All commodities (production)	307
Feed	215
Livestock	227
Seed	437
Fertilizer	243
Agriculture chemicals	204
Fuels and energy	370
Farm and motor supplies	250
Autos and trucks	522
Tractors and self-propelled machinery	448
Other machinery	512
Building and fencing materials	323
Wage rates for hired farm labor	404
Construction costs composite	383
ENR construction cost	410
Wholesale lumber price	390

STATES: 1989-90 CURRENT NORMALIZED PRICES FOR PRINCIPAL COMMODITIES

STATE	WHEAT ALL 1/	WHEAT RYE 1/	WHEAT RICE 1/	CORN FOR GRAIN 1/	OATS 1/	BARLEY 1/	SORGHUM GRAIN	HAY, ALL BALED	DRY BEANS	SUGAR BEETS 2/	SUGAR CANE SUGAR 2/
	BUSHEL	BUSHEL	CWT.	BUSHEL	BUSHEL	BUSHEL	CWT.	TON	CWT.	TON	TON
MAINE	0.00	0.00	0.00	0.00	0.94	0.00	0.00	69.61	0.00	0.00	0.00
NEW HAMPSHIRE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	95.72	0.00	0.00	0.00
VERMONT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	83.02	0.00	0.00	0.00
MASSACHUSETTS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	94.94	0.00	0.00	0.00
RHODE ISLAND	0.00	0.00	0.00	0.00	0.00	0.00	0.00	107.75	0.00	0.00	0.00
CONNECTICUT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	102.08	0.00	0.00	0.00
NEW YORK	2.79	2.31	0.00	2.28	1.32	0.00	0.00	74.12	18.26	0.00	0.00
NEW JERSEY	2.94	3.29	0.00	2.28	1.52	1.28	0.00	106.16	0.00	0.00	0.00
PENNSYLVANIA	3.15	2.73	0.00	2.47	1.50	1.50	0.00	86.82	0.00	0.00	0.00
DELAWARE	2.82	1.73	0.00	2.31	0.00	1.29	0.00	108.84	0.00	0.00	0.00
MARYLAND	2.90	1.72	0.00	2.34	1.21	1.32	0.00	106.80	0.00	0.00	0.00
MICHIGAN	2.88	2.04	0.00	1.97	1.41	1.99	0.00	68.26	20.30	30.14	0.00
WISCONSIN	2.67	1.82	0.00	2.02	1.32	1.47	0.00	70.43	0.00	0.00	0.00
MINNESOTA	2.93	1.57	0.00	1.96	1.46	1.73	0.00	70.07	20.18	40.96	0.00
OHIO	2.92	2.81	0.00	2.02	1.38	0.00	0.00	84.87	0.00	30.95	0.00
INDIANA	2.74	1.91	0.00	2.09	1.41	0.00	0.00	70.25	0.00	0.00	0.00
ILLINOIS	2.83	2.14	0.00	2.04	1.48	0.00	3.22	71.42	0.00	0.00	0.00
IOWA	2.94	1.83	0.00	1.92	1.47	0.00	0.00	51.70	0.00	0.00	0.00
MISSOURI	2.79	2.05	5.91	1.96	1.45	0.00	3.27	63.63	0.00	0.00	0.00
NORTH DAKOTA	3.20	1.37	0.00	1.91	1.36	1.74	0.00	48.04	16.39	41.32	0.00
SOUTH DAKOTA	2.91	1.53	0.00	1.91	1.46	1.64	2.88	44.70	0.00	0.00	0.00
NEBRASKA	2.77	1.63	0.00	2.02	1.36	1.25	3.28	45.04	17.65	33.57	0.00
KANSAS	2.75	1.29	0.00	2.02	1.29	1.44	3.25	60.54	17.21	0.00	0.00
VIRGINIA	2.87	2.11	0.00	2.24	1.32	1.42	0.00	88.90	0.00	0.00	0.00
WEST VIRGINIA	2.85	0.00	0.00	2.02	1.28	0.00	0.00	63.27	0.00	0.00	0.00
NORTH CAROLINA	2.84	2.11	0.00	2.29	1.21	1.44	3.24	86.33	0.00	0.00	0.00
KENTUCKY	2.85	1.94	0.00	2.16	1.49	1.30	3.39	71.63	0.00	0.00	0.00
TENNESSEE	2.86	0.00	0.00	2.08	0.00	0.00	3.34	58.38	0.00	0.00	0.00
SOUTH CAROLINA	2.82	1.98	0.00	2.32	1.28	1.62	3.67	71.61	0.00	0.00	0.00
GEORGIA	2.75	1.95	0.00	2.43	1.29	0.00	3.30	67.63	0.00	0.00	0.00
FLORIDA	2.81	0.00	0.00	2.29	0.00	0.00	0.00	72.16	0.00	0.00	29.11
ALABAMA	2.82	0.00	0.00	2.42	1.21	0.00	3.43	65.37	0.00	0.00	0.00
MISSISSIPPI	3.21	0.00	6.39	2.49	0.00	0.00	4.16	44.17	0.00	0.00	0.00
ARKANSAS	2.79	0.00	6.08	1.96	1.22	0.00	3.31	53.99	0.00	0.00	0.00
LOUISIANA	3.10	0.00	6.38	2.18	0.00	0.00	3.47	49.12	0.00	0.00	25.10
OKLAHOMA	2.77	1.62	0.00	2.30	1.45	1.60	3.53	65.05	0.00	0.00	0.00
TEXAS	2.68	2.06	6.71	2.06	1.65	1.67	3.70	68.05	0.00	28.28	27.98
MONTANA	3.07	0.00	0.00	2.51	1.39	1.83	0.00	59.64	15.43	40.15	0.00
IDAHO	2.98	0.00	0.00	2.43	1.29	2.11	0.00	59.82	17.26	37.09	0.00
WYOMING	2.78	0.00	0.00	2.21	1.46	2.76	0.00	59.30	17.27	37.48	0.00
COLORADO	2.83	1.40	0.00	2.05	1.43	2.31	3.57	68.20	17.19	33.73	0.00
NEW MEXICO	2.60	0.00	0.00	2.33	0.00	1.84	4.07	89.41	0.00	34.01	0.00
ARIZONA	3.51	0.00	0.00	2.65	0.00	2.15	4.98	81.41	0.00	0.00	0.00
UTAH	2.89	0.00	0.00	2.62	1.57	1.87	0.00	68.94	17.45	0.00	0.00
NEVADA	2.64	0.00	0.00	0.00	0.00	1.93	0.00	72.74	0.00	0.00	0.00
WASHINGTON	3.17	0.00	0.00	2.32	1.22	1.77	0.00	64.01	17.79	0.00	0.00
OREGON	3.24	1.62	0.00	2.35	1.38	1.81	0.00	70.94	0.00	34.97	0.00
CALIFORNIA	3.24	0.00	5.32	2.62	1.57	2.06	4.67	81.43	27.55	34.29	0.00
ALASKA	0.00	0.00	0.00	0.00	2.05	2.59	0.00	159.50	0.00	0.00	0.00
HAWAII	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	26.82

1/ DOES NOT INCLUDE DEFICIENCY PAYMENTS.
2/ DOES NOT INCLUDE PAYMENTS UNDER THE SUGAR ACT.

-CONTINUED