



ESSE

August 26, 1987

NATIONAL BULLETIN NO. 200-7-4

SEP 15 REC'D

SUBJECT: ECN - CURRENT NORMALIZED PRICES FOR FISCAL YEAR 1987

Purpose. This bulletin transmits: (1) normalized indexes for prices received by farmers with and without support programs; (2) normalized indexes for prices paid by farmers with and without support programs; and (3) normalized prices for program and nonprogram commodities with and without support programs.

Expiration date. This bulletin expires on September 30, 1987.

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 agricultural benefits.

Current Normalized Prices. Current normalized prices for agricultural commodities for fiscal year 1987 are furnished by the Economic Research Service of the Department of Agriculture. Commodities are categorized as either "program commodities" or "non-program commodities". In addition, market clearing price estimates are given "with support programs", as well as "without support programs". Project outputs (benefits) from "program commodities" will be evaluated using the prices "without support programs". Outputs from "non-program commodities" will be evaluated using prices "with support programs". Program commodities are defined as commodities for which a Department of Agriculture acreage-reduction, price-support, marketing loan, or deficiency-payment program is in effect for the year when the normalized prices are promulgated.

State Price Adjustment. Because state level current normalized prices are not included, each state must develop their own list. For each commodity, the state level price can be found by multiplying the enclosed U.S. price by the following ratio:

$$\frac{\text{State price (from National Bulletin No. 200-7-3)}}{\text{U.S. price (from National Bulletin No. 200-7-3)}}$$

DIST: L (1 enclosure), T (8 enclosures), S (4 enclosures)



Input Cost Adjustment. To reflect a subsidy free condition, the index of prices paid by farmers (all commodities) should be used to adjust input costs in the production of program commodities. This can be accomplished by multiplying total variable costs of production by .87 in the net income analysis. This coefficient is derived by the ratio of the 1986 Government free index and the 1986 subsidized index of prices paid by farmers (254/292). Use of this index eliminates the need to adjust each individual input.



GAIL E. UPDEGRAFF  
Director  
Economics and Social Sciences Division

Enclosure



DEPARTMENT OF AGRICULTURE  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20250

Mr. Wilson Scaling, Chief  
Soil Conservation Service  
U. S. Department of Agriculture  
Room 5105-South Building  
Washington, D. C. 20250

Dear Wilson:

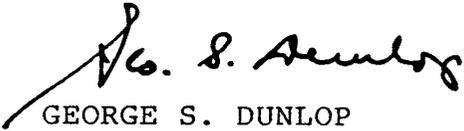
I am pleased to transmit the Department of Agriculture's "current normalized prices", free of government programs, for use by Federal agencies in the evaluation of water-related development projects throughout FY 1987. The method used in preparing these estimates will result in the design of future projects on the basis of their ability to produce crops at market clearing prices free of subsidy.

This action culminates a lengthy analysis, review and discussion process in response to Section 222(a) of the 1982 Reclamation Reform Act (Public Law 97-273). It requested recommendations for coordinating reclamation and commodity programs due to concerns about the production of surplus commodities on irrigated lands. The Department recommended to Congress that the enclosed procedures be developed and implemented. No objections were raised. These procedures are tied to the huge investment of models and agricultural economist the Economic Research Service has for analysis of commodity programs. The assistance of your staff in reviewing our analytical procedures has been most appreciated.

These estimates will reduce the incentives for increasing the capacity to produce surplus commodities. It also will result

in projects being consistent with this Administration's agricultural policy of reducing the market's dependence upon government programs. The Economic Research Service has already shared copies of these normalized prices with your staff and they can supply additional copies as necessary.

Sincerely,



GEORGE S. DUNLOP  
Assistant Secretary  
Natural Resources and Environment

Enclosure

Identical letters sent to the following:

Mr. James Zigler  
Assistant Secretary for Water and Science  
Department of Interior

Mr. John Doyle  
Deputy Assistant Secretary  
Department of the Army

Mr. William F. Willis  
General Manager  
Tennessee Valley Authority

Mr. Robert K. Dawson, Associate Director for  
Natural Resources  
Office of Management and Budget

cc: Ewen Wilson, Acting Assistant Secretary  
Office of Economics, USDA

Normalized Indexes: 1986-7

Indexes	Market Clearing Price Estimates	
	With support programs	Without support programs

----- 1967 = 100 -----

Prices received by farmers:

All farm products	227	187
ALL CROPS	223	184
Livestock and livestock products	233	189

Prices paid by farmers:

All commodities (production)	292	254
Feed	201	161
Livestock	241	158
Seed	386	347
Fertilizer	224	223
Agricultural chemicals	199	190
Fuels and energy	336	336
Farm and motor supplies	237	236
Autos and trucks	463	463
Tractors and self-propelled machinery	414	372
Other machinery	453	397
Building and fencing materials	310	309
Wage rates for hired farm labor	366	353
Construction costs composite	365	365
ENR construction cost	394	394
Wholesale lumber price	342	342

Normalized Prices: 1986-7

Commodity	Units	Market Clearing Price Estimates	
		With support programs	Without support programs

Program Commodities

Wheat, all	Bu.	\$ 3.16	\$ 2.25
Rye	Bu.	2.05	1.50
Rice	Cwt.	7.75	5.00
Corn	Bu.	2.35	1.75
Oats	Bu.	1.20	.90
Barley	Bu.	2.00	1.40
Sorghum grain	Cwt.	3.84	2.95
Sugarbeets	Ton	37.02	30.10
Sugarcane for sugar	Ton	27.85	22.10
Cotton, lint (upland)	Lb.	.54	.50
Tobacco	Lb.	1.52	1.28
Soybeans for beans	Bu.	5.02	4.25
Peanuts harvested for nuts	Lb.	.23	.19
Milk	Cwt.	12.65	11.00
Wool	Lb.	.67	.63

Non-Program Commodities

Apples, commercial crop	Lb.	.16	.16
Oranges, all	Box	6.86	6.86
Grapefruit, all	Box	3.45	3.45
Sweetpotatoes	Cwt.	11.84	10.72
Steers and heifers	Cwt.	51.75	42.00
Feeder steers - 8 markets	Cwt.	53.50	40.50
Cows for slaughter	Cwt.	33.14	27.00
Calves	Cwt.	48.94	37.50
Sheep	Cwt.	16.83	16.00
Lambs	Cwt.	54.70	50.12
Hogs	Cwt.	46.88	33.00
Broilers, commercial	Lb.	.31	.27
Turkeys	Lb.	.42	.33
Eggs	Doz.	.56	.49
Dry beans	Cwt.	19.87	18.78
Cottonseed	Ton	70.00	60.00
Flaxseed	Bu.	5.00	4.50
Hay, all (baled)	Ton	70.00	45.00
Potatoes	Cwt.	4.47	3.61