Commodity markets, farm policy and the agricultural sector

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(www.fapri-mu.org)

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Memphis, Tennessee
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Agenda

- Current situation and how we got here
  - Commodity markets
  - Farm sector
  - Policy

- Where we might be going and why

- Your questions
Crop prices paid to farmers

Source: USDA’s National Agricultural Statistics Service, *Agricultural Prices*
Season-average farm prices

Annual average livestock prices

U.S. farm income

Sources: USDA’s Economic Research Service, February 2011
Crop income and variable expenses

Source: FAPRI-MU baseline, January 2011. Payments include direct payments, marketing loan benefits, countercyclical payments and ACRE payments. Assumes one acre of base for each acre planted and harvested.
So, how did we get here?

- Weather
- Global economy
  - Economic growth here and abroad
  - Exchange rates
- Energy markets
  - Oil prices
  - Biofuels
- Policies
- And much more
Too dry or too wet?

Source: USDA’s Crop Production, July 2011
Some weather-related issues

- Reduced 2010 U.S. corn crop
- Reduced 2010 wheat crops in Russia and Ukraine
- Reduced 2011 wheat crop in Canada
- Reduced 2011 cotton crop in the U.S.
- Poor 2011 pasture conditions in the U.S.

### U.S. cotton area

- **Abandoned**
- **Harvested**

Source: USDA’s WASDE, July 2011
U.S. and world real GDP per capita

Source: Author calculations based on data from IHS Global Insight, January 2011
China meat production and feed use

Source: USDA PSD Online, July 2011
Soybean trade: U.S., Brazil and China

Marketing year (U.S. begins in September)

Million metric tons

Source: USDA PSD Online, July 2011
China cotton supply, use and trade

West Texas intermediate oil price

Sources: Energy Information Administration for history, WTI crude oil June contracts, July 13, 2011
U.S. corn use

Billion bushels

Source: USDA’s WASDE, July 2011 and previous issues
Policies have affected commodity markets

- U.S. biofuel policy, conservation reserve, more
- Foreign trade policies have made international market prices more volatile (export bans, etc.)

Several key U.S. policy debates

- Biofuel policy—end of tax credits?
- Budget policy—end of direct payments?
- Farm bill
Federal receipts and outlays
FY 2010, as reported by CBO in January 2011

Commodity market outlook

- Depends on weather, global economy, etc.
- Average prices likely to be above pre-2007 levels for most commodities
- Expect continued volatility
### Crop price projections

<table>
<thead>
<tr>
<th></th>
<th>2010/11 (USDA, July)</th>
<th>2011/12 (USDA, July)</th>
<th>2012-15 average (FAPRI-MU, Mar.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn per bu.</td>
<td>$5.15 - $5.35</td>
<td>$5.50 - $6.50</td>
<td>$4.70</td>
</tr>
<tr>
<td>Soybeans per bu.</td>
<td>$11.35</td>
<td>$12.00 - $14.00</td>
<td>$11.48</td>
</tr>
<tr>
<td>Wheat per bu.</td>
<td>$5.70</td>
<td>$6.60 - $8.00</td>
<td>$5.46</td>
</tr>
<tr>
<td>Upland cotton per lb.</td>
<td>$0.82</td>
<td>$0.90 - $1.10</td>
<td>$0.74</td>
</tr>
<tr>
<td>Rice per cwt</td>
<td>$12.50</td>
<td>$13.20 - $14.20</td>
<td>$12.44</td>
</tr>
</tbody>
</table>


Note: FAPRI-MU plans to prepare a baseline update after August crop reports are released.
# Livestock price projections

<table>
<thead>
<tr>
<th></th>
<th>2011 (USDA, July)</th>
<th>2012 (USDA, July)</th>
<th>2013-16 average (FAPRI-MU, Mar.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fed steers per cwt</td>
<td>$111 - $114</td>
<td>$111 - $120</td>
<td>$109</td>
</tr>
<tr>
<td>Barrows &amp; gilts per cwt</td>
<td>$63 - $65</td>
<td>$62 - $67</td>
<td>$57</td>
</tr>
<tr>
<td>Wholesale chickens per lb.</td>
<td>81¢ - 84¢</td>
<td>82¢ - 89¢</td>
<td>92¢</td>
</tr>
<tr>
<td>Milk per cwt</td>
<td>$20.00-$20.30</td>
<td>$17.75-$18.75</td>
<td>$19</td>
</tr>
</tbody>
</table>


Note: FAPRI-MU plans to prepare a baseline update after August crop reports are released.
Oil prices and corn yields
From the 2011 FAPRI-MU stochastic baseline

**Refiners’ acquisition price**

- **Dollars per barrel**
- **Years:** 06/07, 08/09, 10/11, 12/13, 14/15, 16/17, 18/19, 20/21
- **Lines:** Average, #1, #479

**U.S. corn yield**

- **Bushels per acre**
- **Years:** 06/07, 08/09, 10/11, 12/13, 14/15, 16/17, 18/19, 20/21
- **Lines:** Average, #1, #479
U.S. corn prices
From the 2011 FAPRI-MU stochastic baseline

Corn price

Corn price

Dollars per bushel

Dollars per bushel

06/07 08/09 10/11 12/13 14/15 16/17 18/19 20/21

06/07 08/09 10/11 12/13 14/15 16/17 18/19 20/21

- Actual
- #1
- #479

- Average
- 90%
- 10%
Looking ahead

- **Policy outlook**
  - Current debt limit debate could be critical
  - Reports that negotiators sought $34 billion in farm program savings over 10 years
  - Direct payment program at risk
  - Ethanol tax credit ($0.45/gallon) due to expire at end of 2011, proposals to eliminate immediately
  - Major choices could be made long before 2012 farm bill is written
### Budget costs for selected programs

**FY 2010, January 2011 CBO estimates**

<table>
<thead>
<tr>
<th>Program</th>
<th>Billion dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security</td>
<td>701</td>
</tr>
<tr>
<td>Medicare</td>
<td>520</td>
</tr>
<tr>
<td>Medicaid</td>
<td>273</td>
</tr>
<tr>
<td>Defense</td>
<td>689</td>
</tr>
<tr>
<td>Unemployment insurance</td>
<td>159</td>
</tr>
<tr>
<td>SNAP (food stamps)</td>
<td>70</td>
</tr>
<tr>
<td>Child nutrition (school lunch, etc., but not WIC)</td>
<td>17</td>
</tr>
<tr>
<td><strong>Mandatory agricultural programs</strong></td>
<td><strong>15</strong></td>
</tr>
<tr>
<td>Net interest</td>
<td>197</td>
</tr>
<tr>
<td>All other net outlays</td>
<td>815</td>
</tr>
<tr>
<td>Net federal outlays</td>
<td>3,456</td>
</tr>
</tbody>
</table>
“Mandatory” spending in CBO’s baseline: selected programs

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 2012-FY2021 net outlays</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity programs</td>
<td>$61 billion</td>
</tr>
<tr>
<td>Crop insurance</td>
<td>$77 billion</td>
</tr>
<tr>
<td>Conservation programs</td>
<td>$63 billion</td>
</tr>
<tr>
<td>Supplemental Nutrition Assistance Program</td>
<td>$691 billion</td>
</tr>
<tr>
<td>Child nutrition programs</td>
<td>$241 billion</td>
</tr>
</tbody>
</table>

Notes: Estimates for farm and conservation programs are from CBO’s March 2011 baseline, and the nutrition program estimates are from CBO’s January 2011 baseline.

Commodity Credit Corporation net outlays include commodity programs, export programs, one major conservation program (the conservation reserve program) and some other miscellaneous programs. CBO projects that net CCC outlays will total $97 billion over the FY 2012-FY 2021 period.

Mandatory conservation program spending includes $39 billion in Natural Resources Conservation Service programs (EQIP, CSP, WRP, etc.) and $24 billion in CCC-funded programs (mostly CRP).

Crop insurance spending by the Federal Crop Insurance Corporation reflects both premium subsidies to agricultural producers and program delivery costs.
Farm program and market receipts
Dollars per acre, 2011-2020 stochastic average, FAPRI-MU projections

What happens if direct payments are eliminated?

- Only modest impacts on commodity markets
- Bigger impacts on farm income, farm program outlays, land values
- See FAPRI-MU report #08-11 at our website, www.fapri-mu.org

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<th>Average 2012-20 impact compared to current law</th>
</tr>
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<tbody>
<tr>
<td>Commodity prices</td>
<td>&lt;2% change</td>
</tr>
<tr>
<td>Farm program payments</td>
<td>-$2.0 billion to -$4.6 billion</td>
</tr>
<tr>
<td>Net farm income</td>
<td>-$1.9 billion to -$3.2 billion</td>
</tr>
<tr>
<td>Farm real estate values</td>
<td>-1.8% to -2.7%</td>
</tr>
<tr>
<td>Consumer food expenditures</td>
<td>&lt;0.1% change</td>
</tr>
</tbody>
</table>

Note: Ranges reflect different assumptions about whether producers would choose to enroll in the ACRE program if direct payments are eliminated.
Summary points

- Higher commodity prices caused by
  - Weather
  - Oil prices
  - World economic growth
  - Much more

- Expect continued market volatility

- Budget concerns will play key role in farm policy debates
Thanks!

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