

# Commodity markets, farm policy and the agricultural sector

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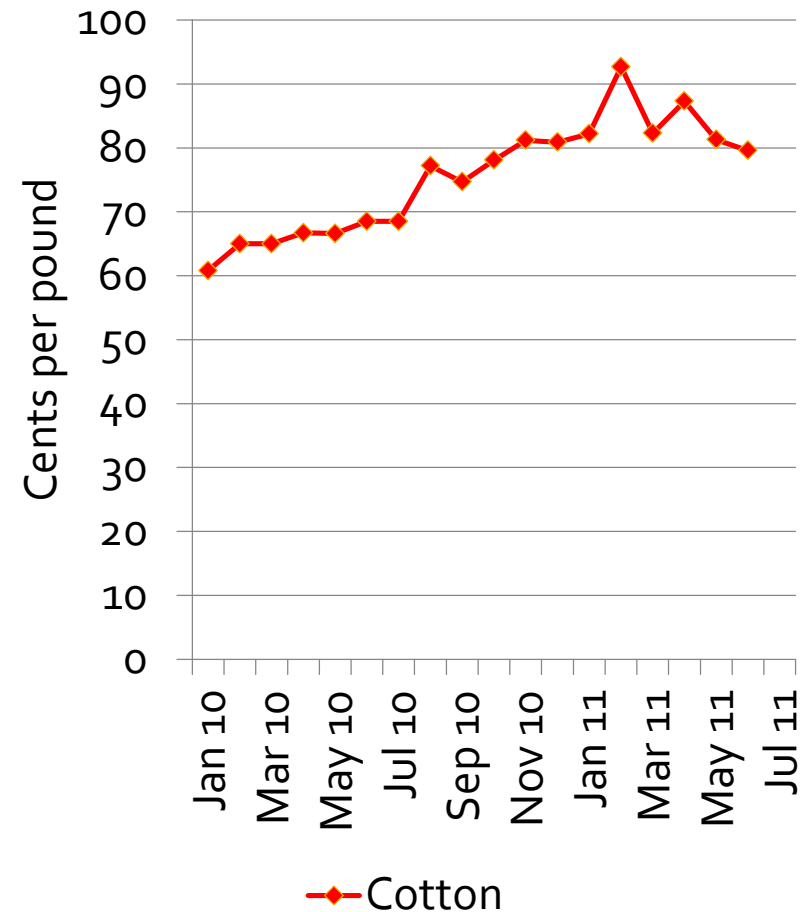
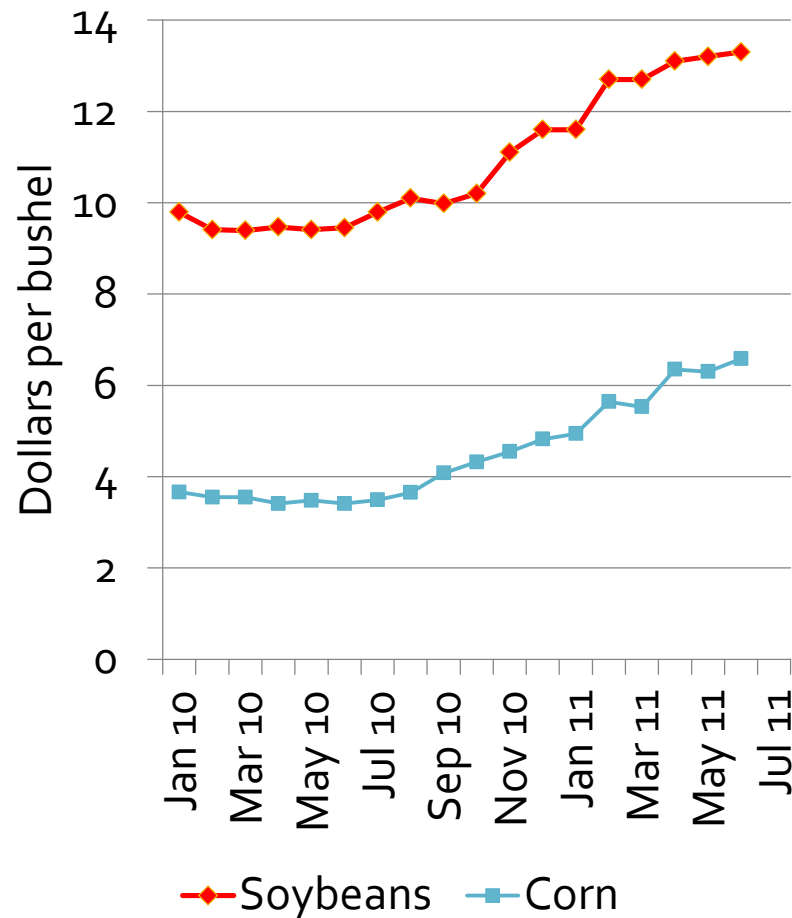


# Agenda

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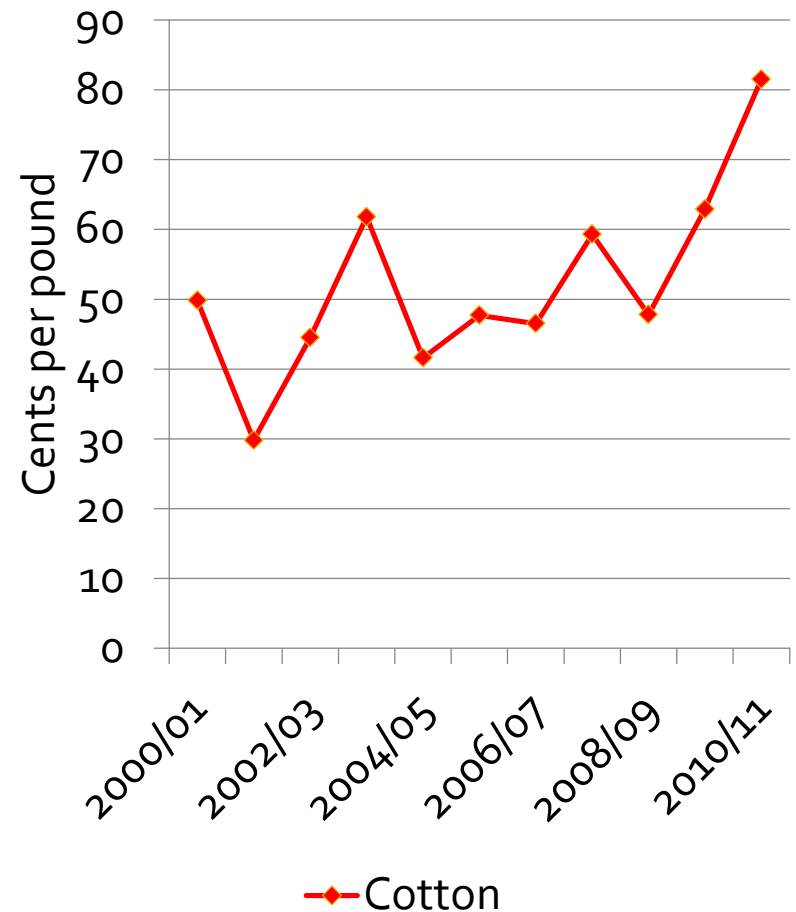
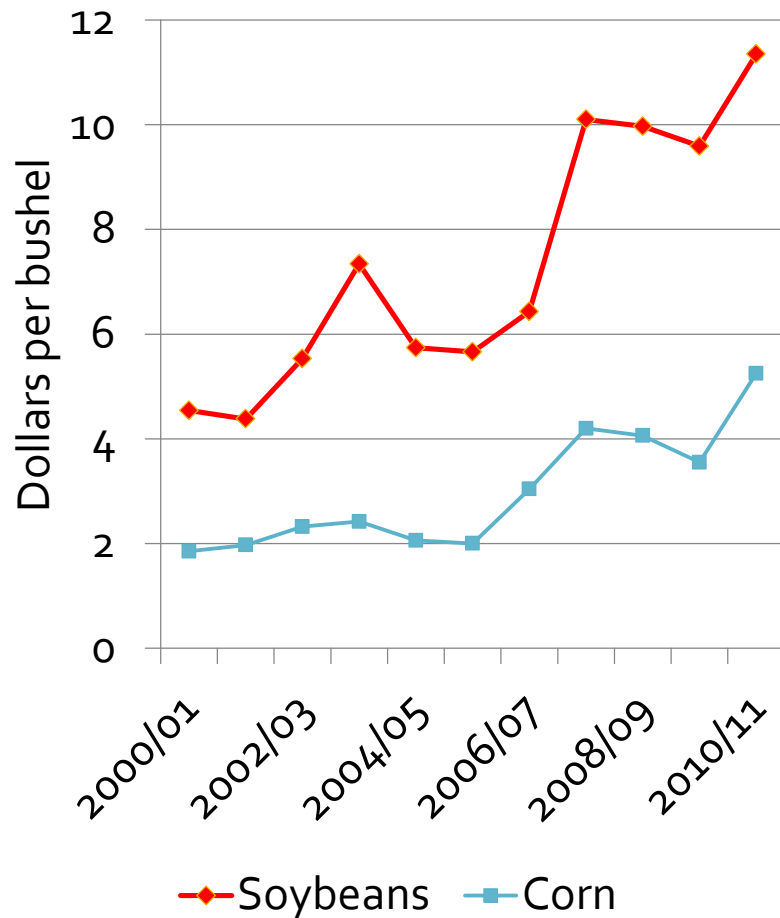
- Current situation and how we got here
  - Commodity markets
  - Farm sector
  - Policy
- Where we might be going and why
- Your questions

# Crop prices paid to farmers



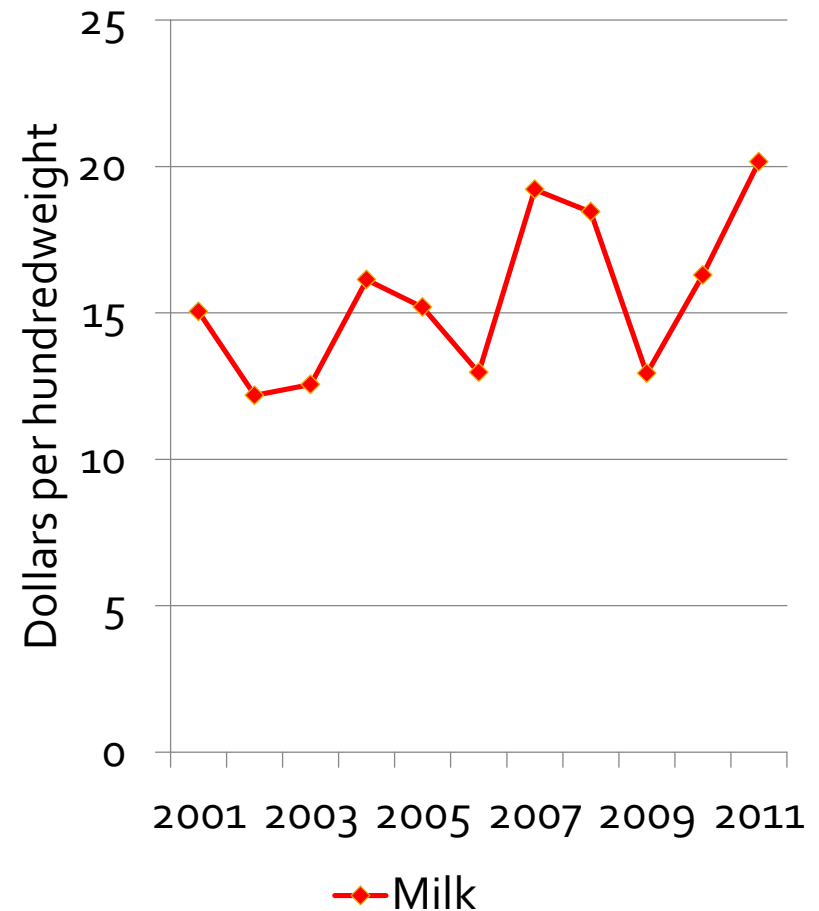
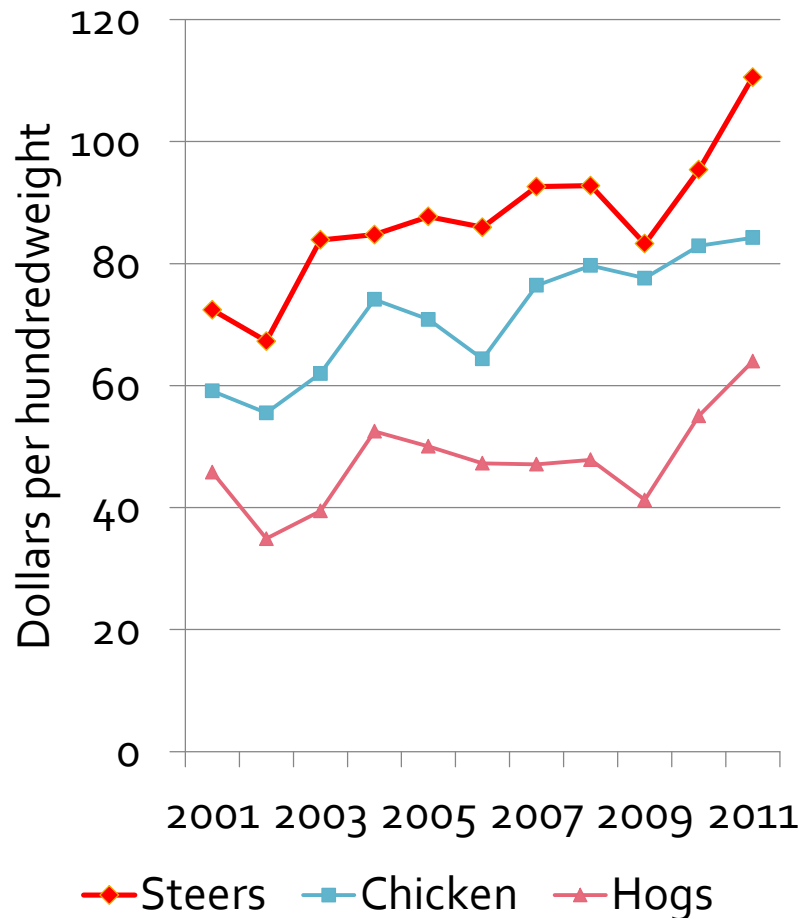
Source: USDA's National Agricultural Statistics Service, *Agricultural Prices*

# Season-average farm prices



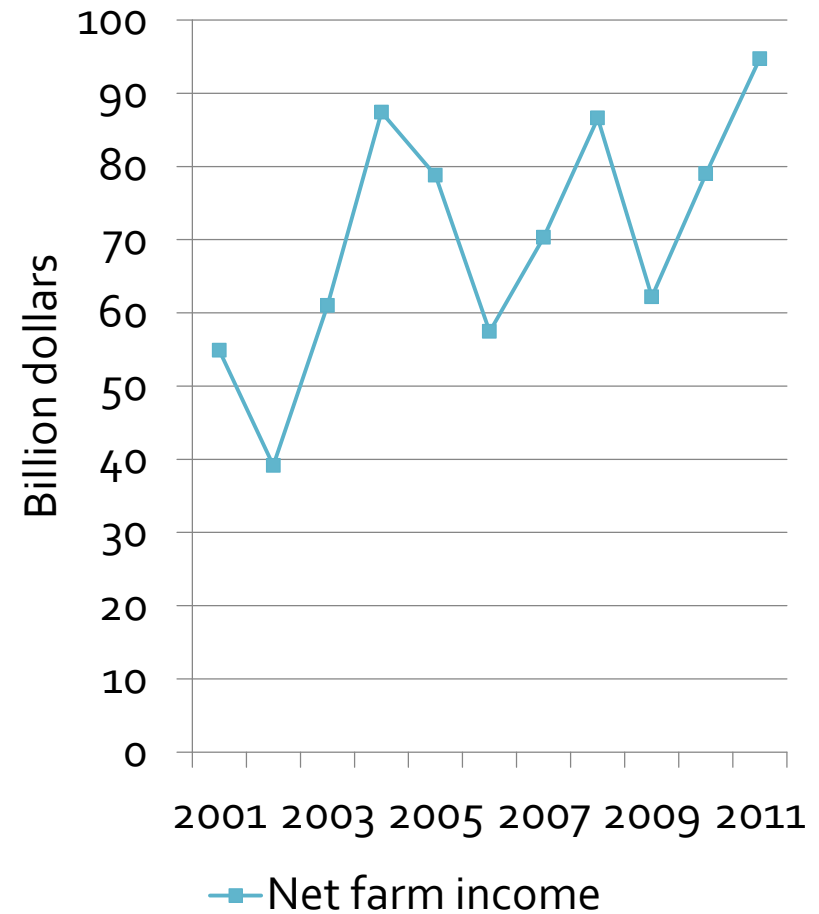
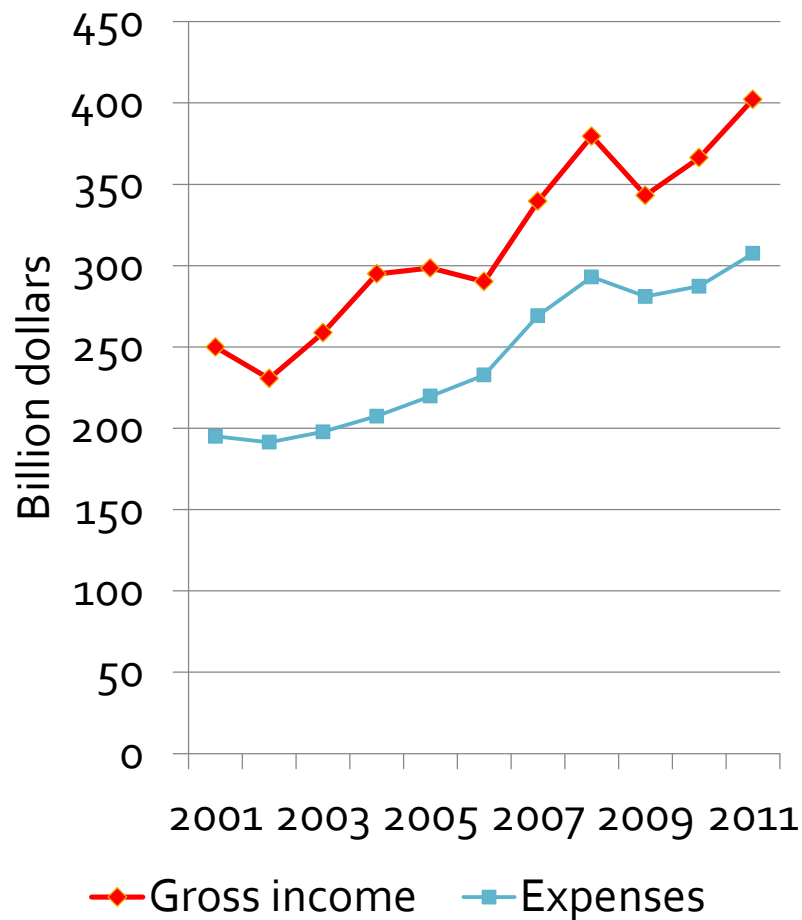
Source: USDA's National Agricultural Statistics Service, *Agricultural Prices*;  
USDA's July 2011 *World Agricultural Supply and Demand Estimates* for 2010/11

# Annual average livestock prices



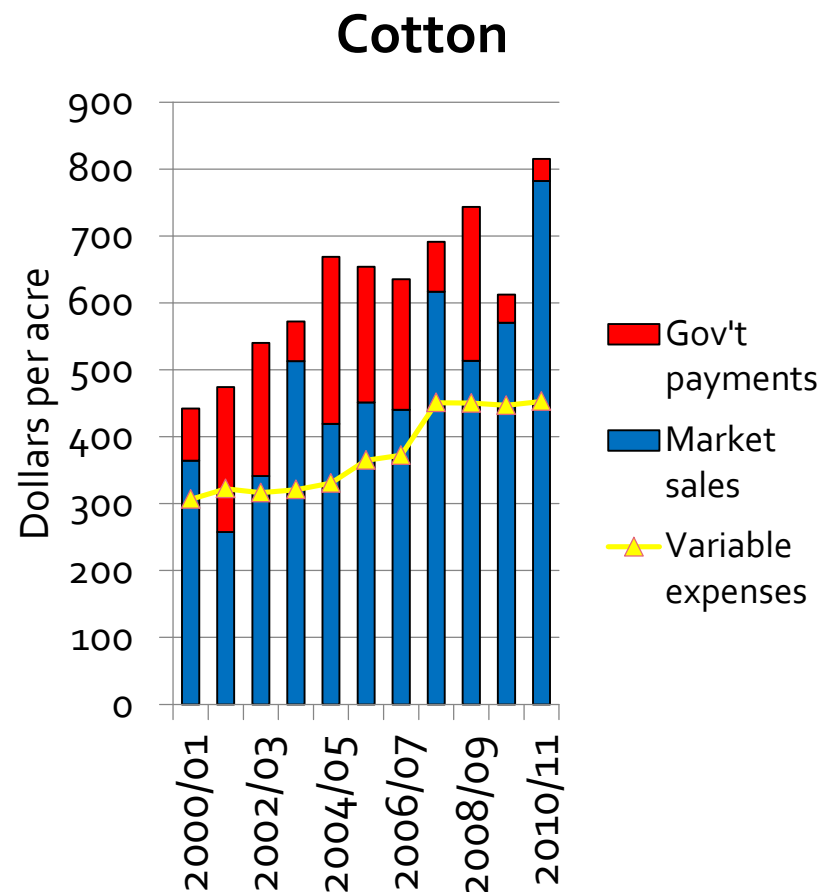
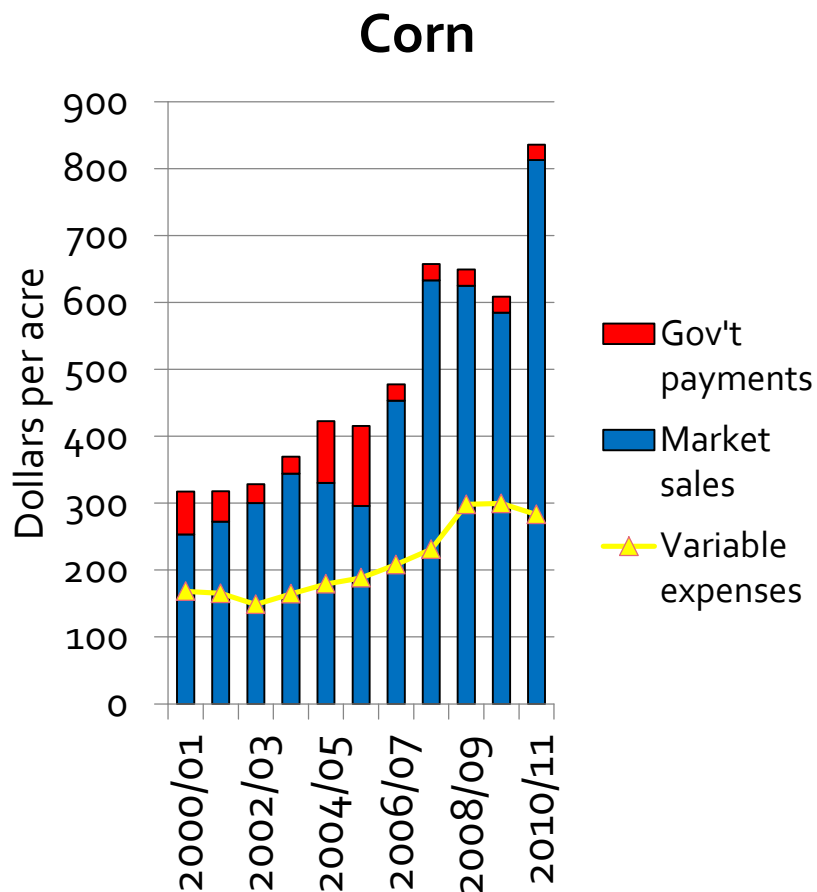
Sources: USDA's National Agricultural Statistics Service, *Agricultural Prices*;  
USDA's July 2011 *World Agricultural Supply and Demand Estimates* for 2011

# U.S. farm income



Sources: USDA's Economic Research Service, February 2011

# Crop income and variable expenses



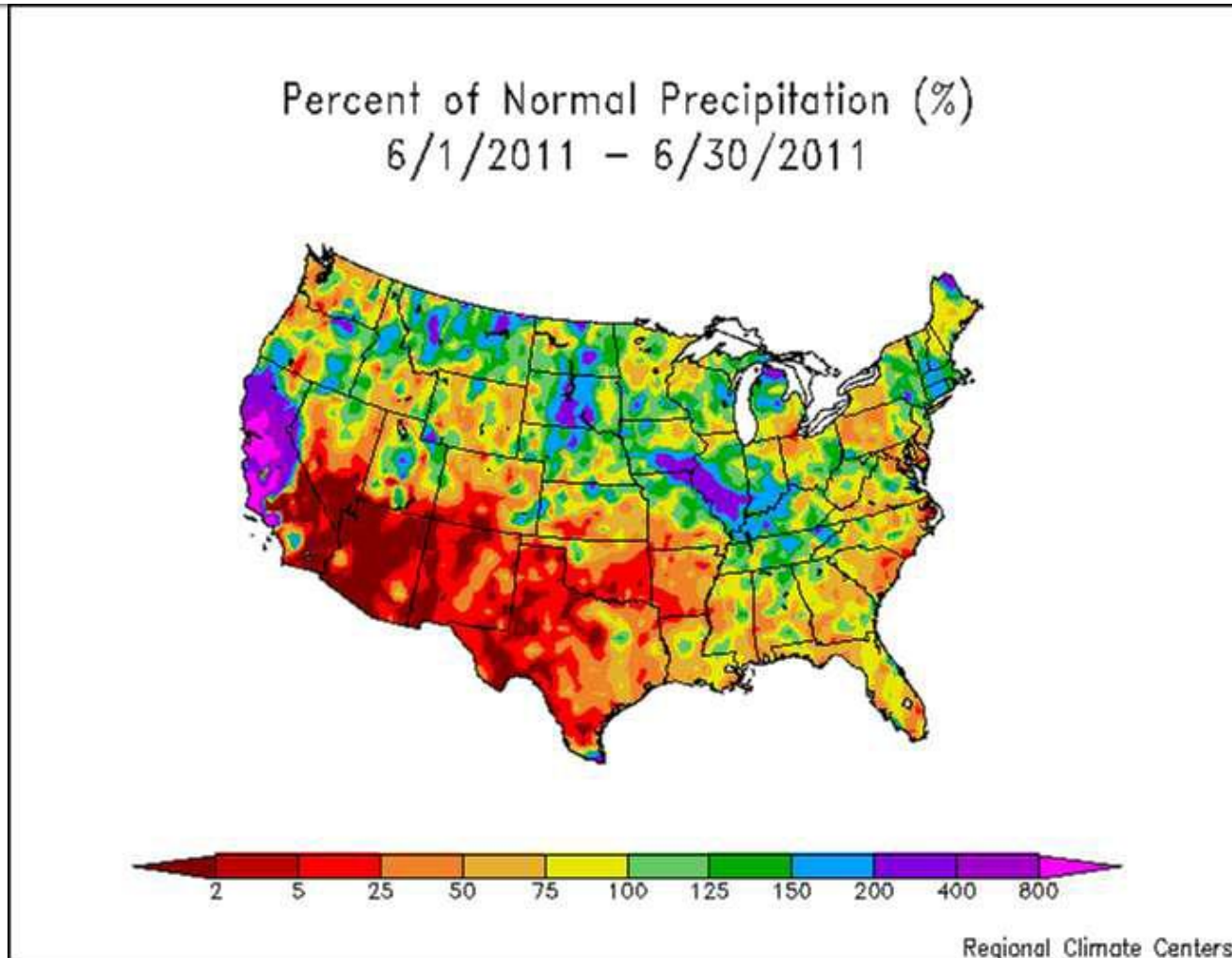
Source: FAPRI-MU baseline, January 2011. Payments include direct payments, marketing loan benefits, countercyclical payments and ACRE payments. Assumes one acre of base for each acre planted and harvested.

# 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



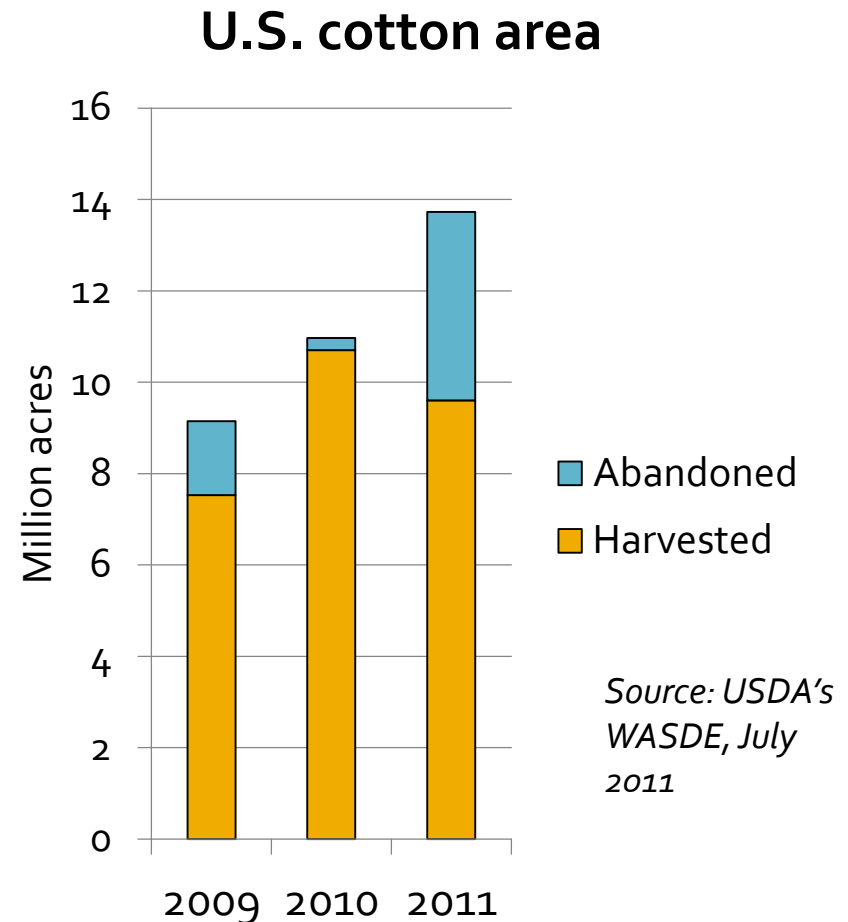
# Too dry or too wet?



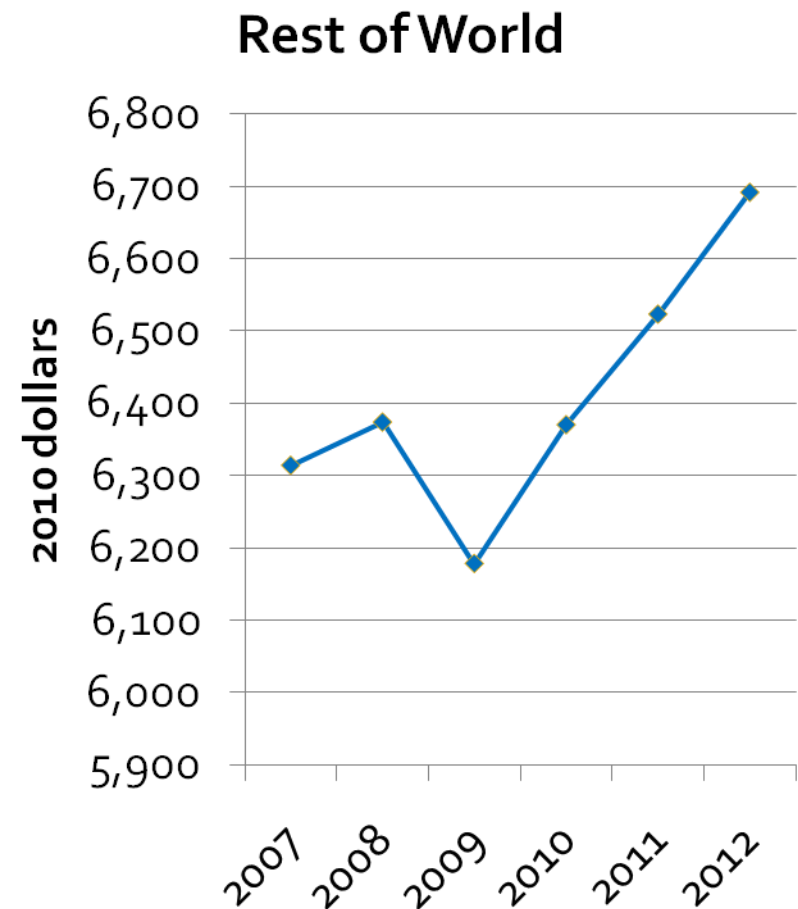
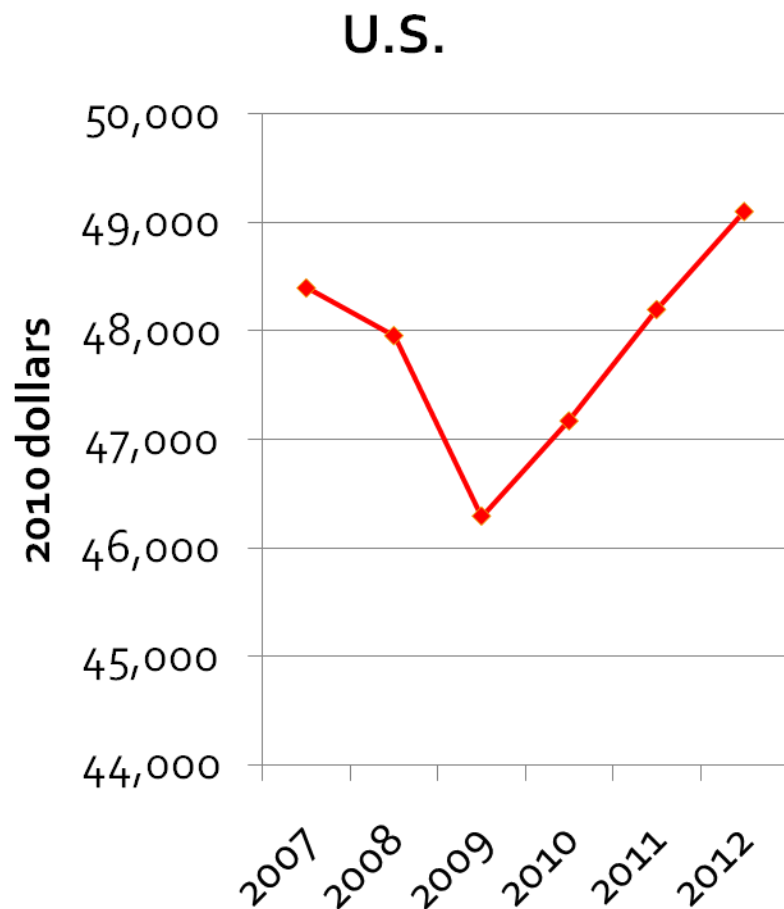
Source: USDA's *Crop Production*, July 2011

# 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.

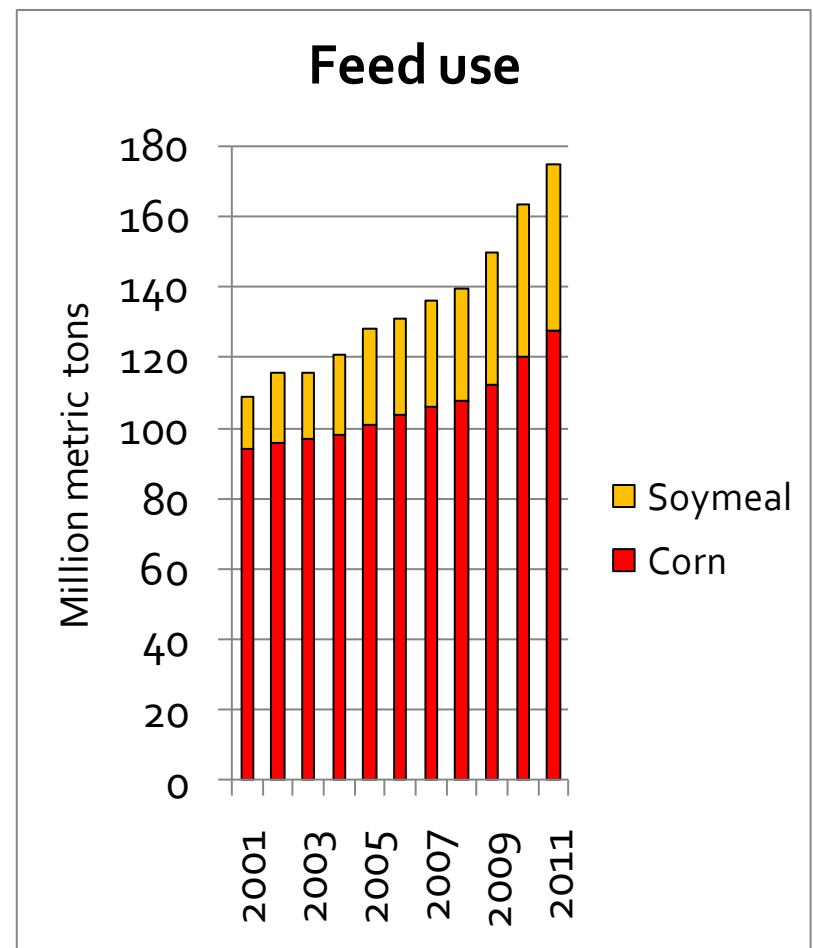
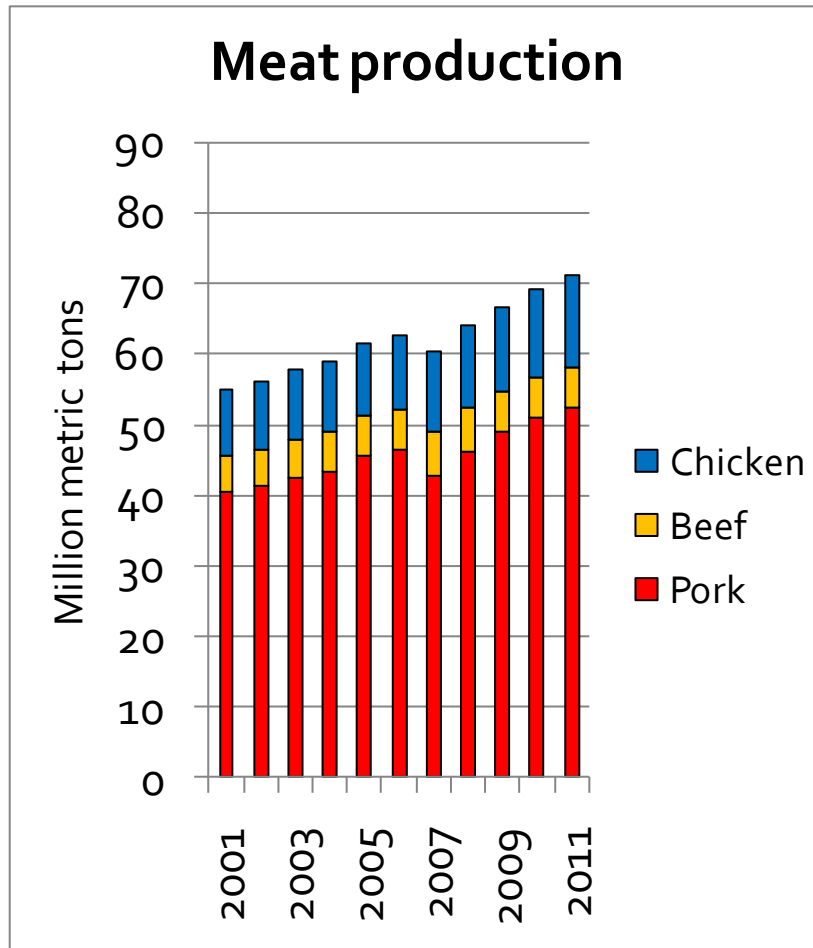


# U.S. and world real GDP per capita



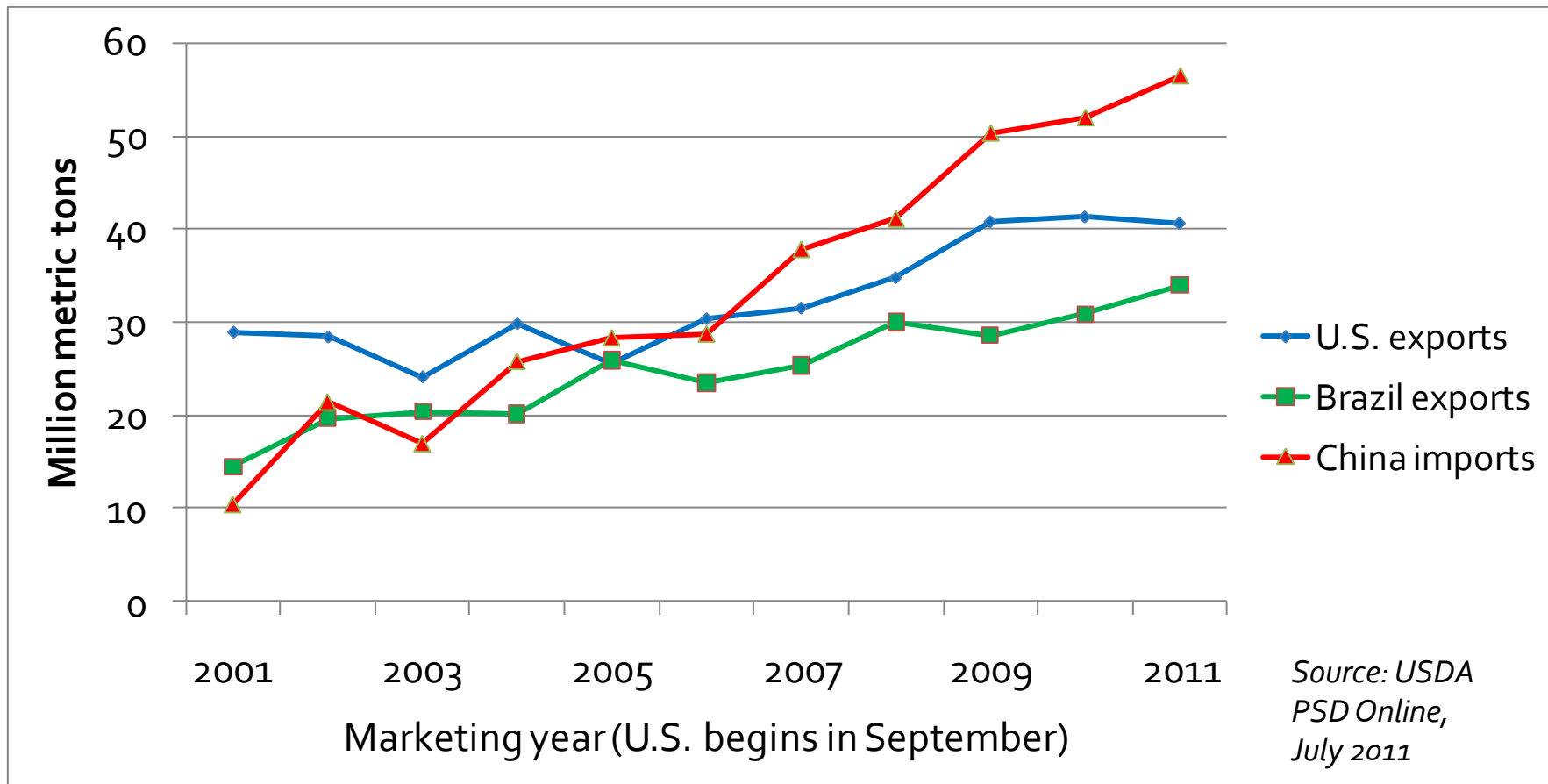
Source: Author calculations based on data from IHS Global Insight, January 2011

# China meat production and feed use

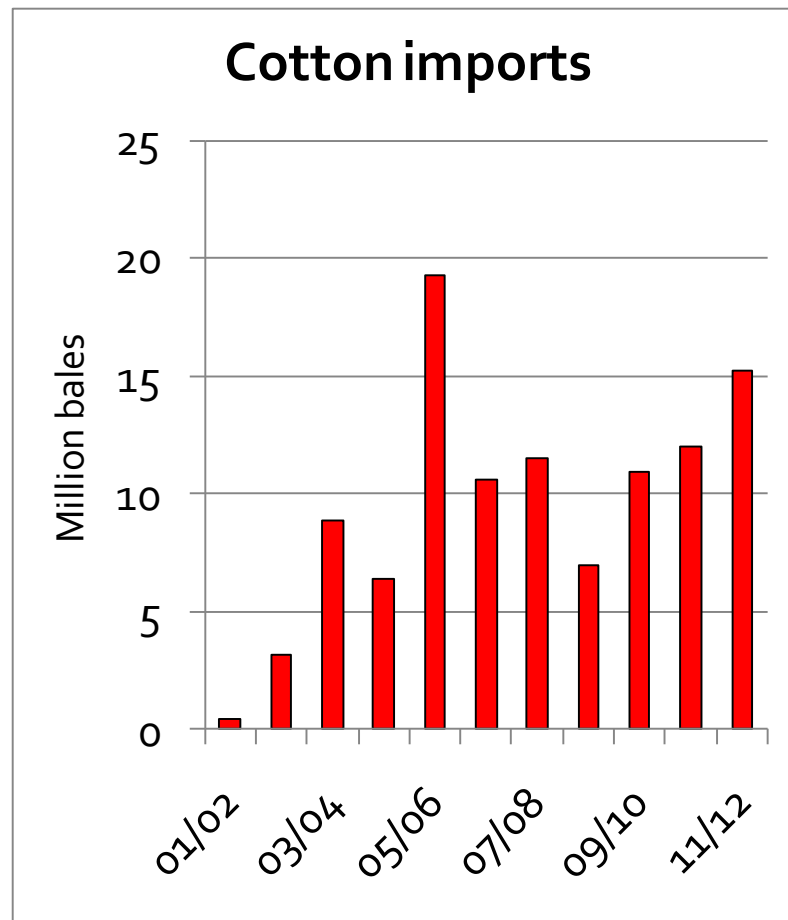
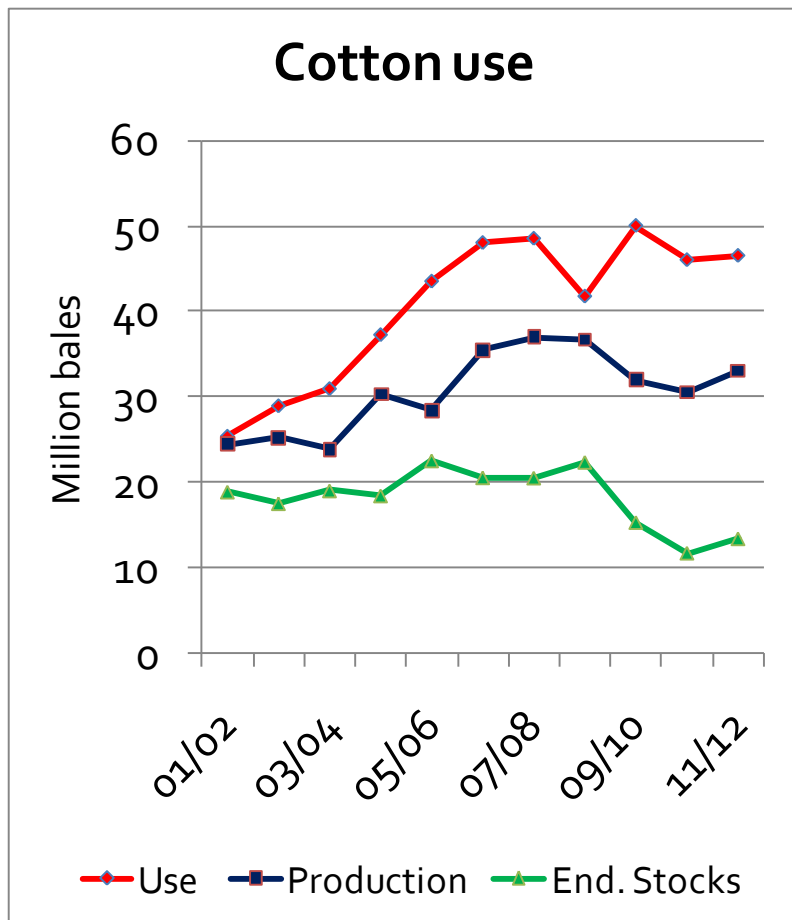


Source: USDA PSD Online, July 2011

# Soybean trade: U.S., Brazil and China

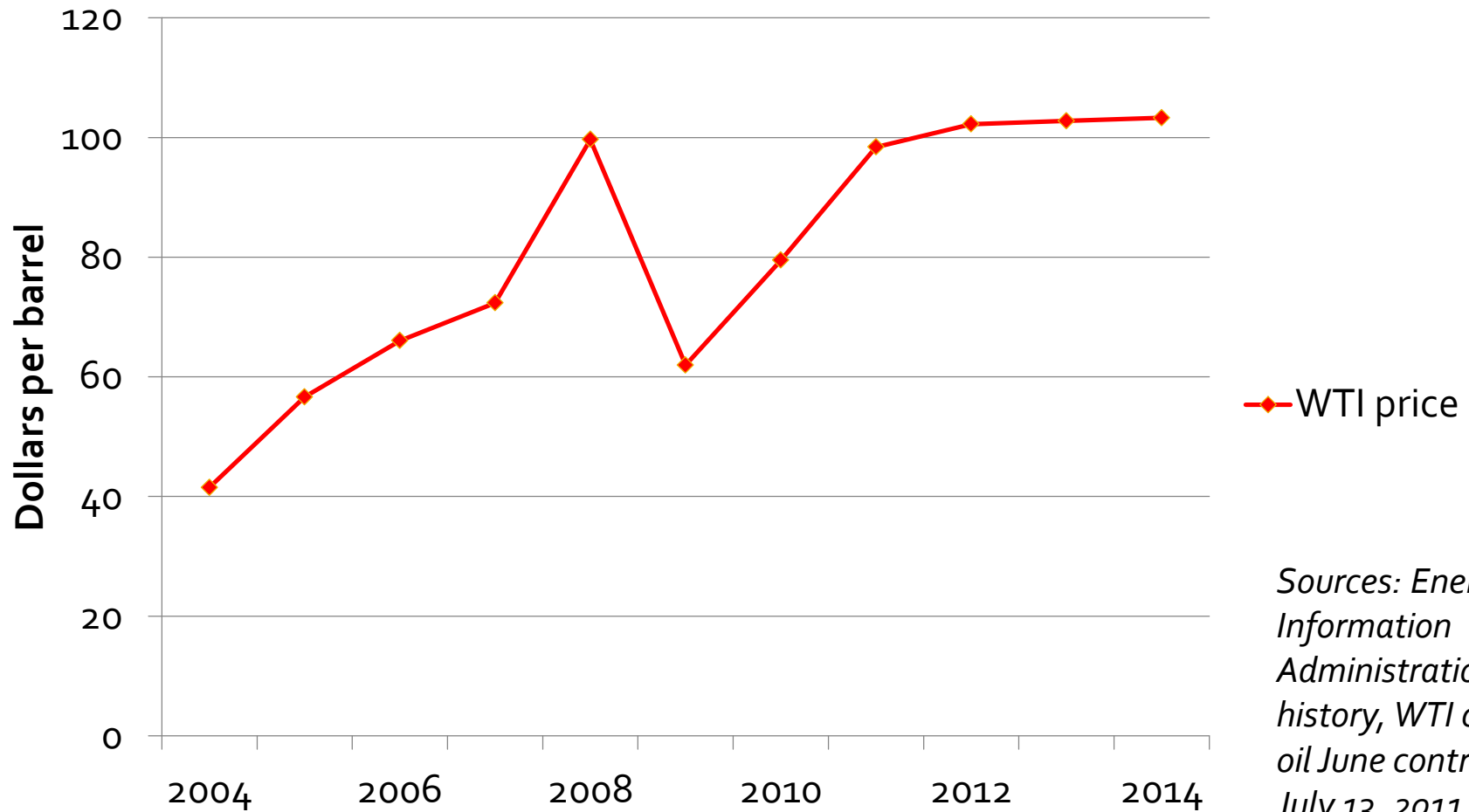


# China cotton supply, use and trade

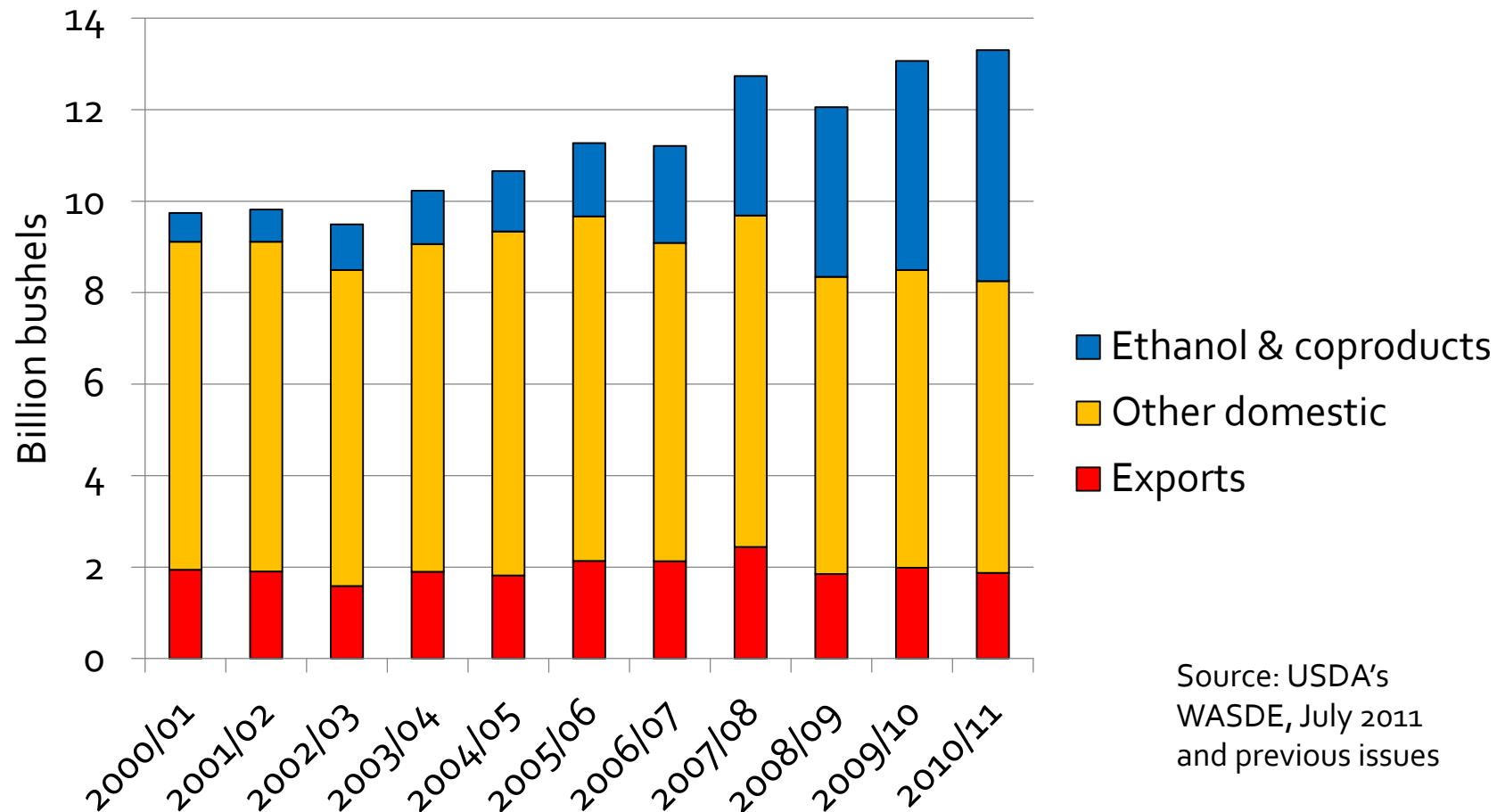


Source: USDA PSD Online, July 2011. Note: U.S. exports of all cotton for 2010/11: 14.5 million bales.

# West Texas intermediate oil price



# U.S. corn use



Source: USDA's  
WASDE, July 2011  
and previous issues

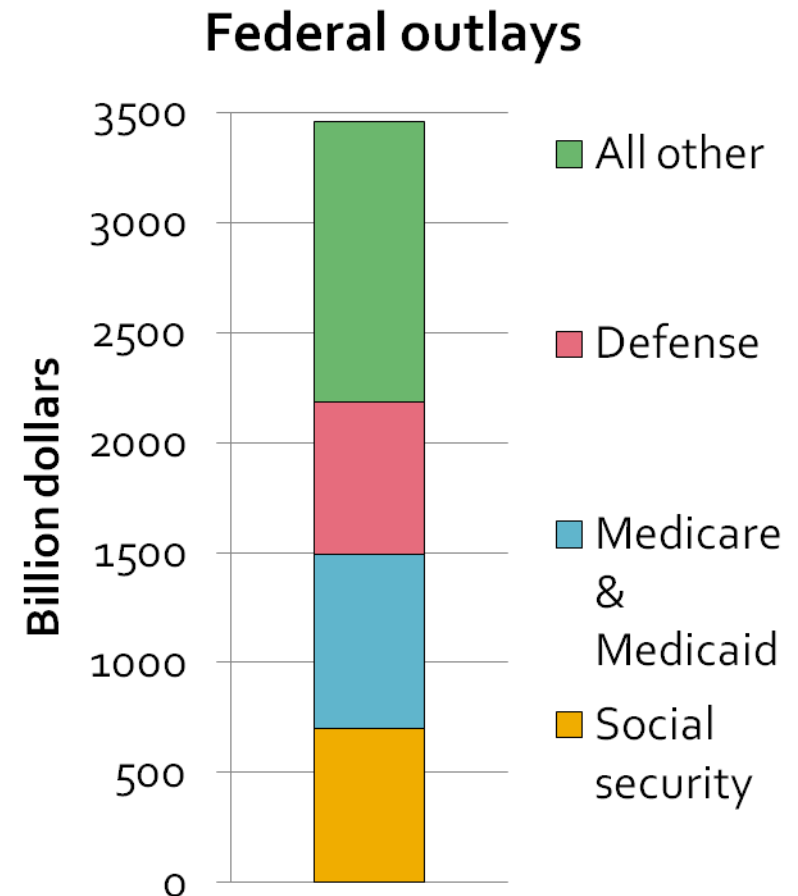
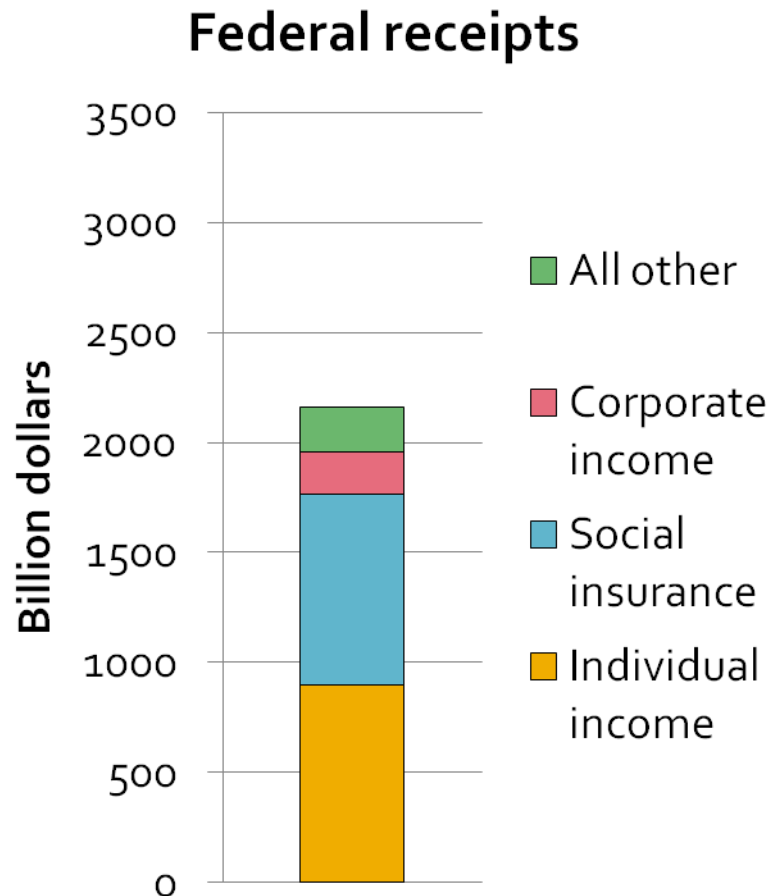


# Policy situation

- 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



Receipts: \$2.162 trillion. Sum of Social Security, Medicare, Medicaid and defense: \$2.183 trillion.

# Looking ahead

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- 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

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

Sources: USDA's *World Agricultural Supply and Demand Estimates*, July 2011 and FAPRI-MU's *US Baseline Briefing Book*, March 2011.

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

# Livestock price projections

	2011 (USDA, July)	2012 (USDA, July)	2013-16 average (FAPRI-MU, Mar.)
Fed steers per cwt	\$111 - \$114	\$111 - \$120	\$109
Barrows & gilts per cwt	\$63 - \$65	\$62 - \$67	\$57
Wholesale chickens per lb.	81¢ - 84¢	82¢ - 89¢	92¢
Milk per cwt	\$20.00-\$20.30	\$17.75-\$18.75	\$19

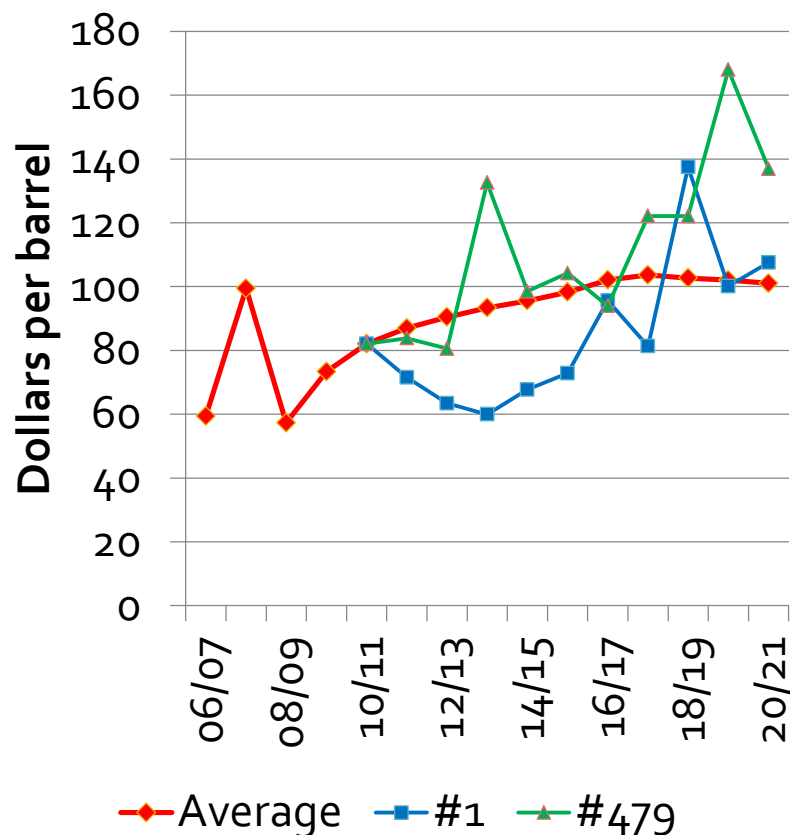
Sources: USDA's *World Agricultural Supply and Demand Estimates*, July 2011 and FAPRI-MU's *US Baseline Briefing Book*, March 2011.

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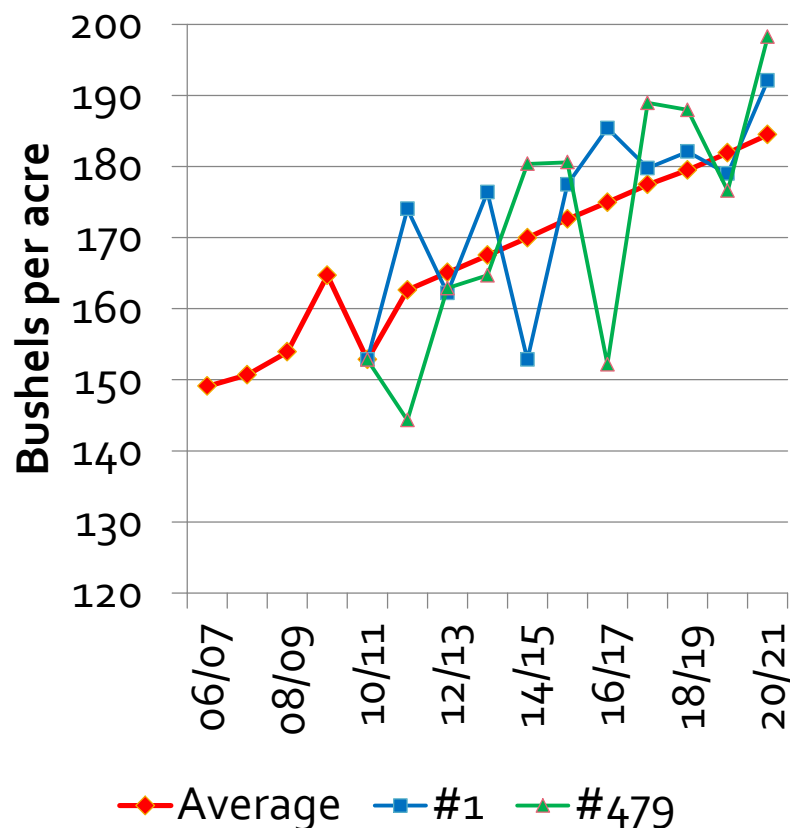
# Oil prices and corn yields

From the 2011 FAPRI-MU stochastic baseline

## Refiners' acquisition price



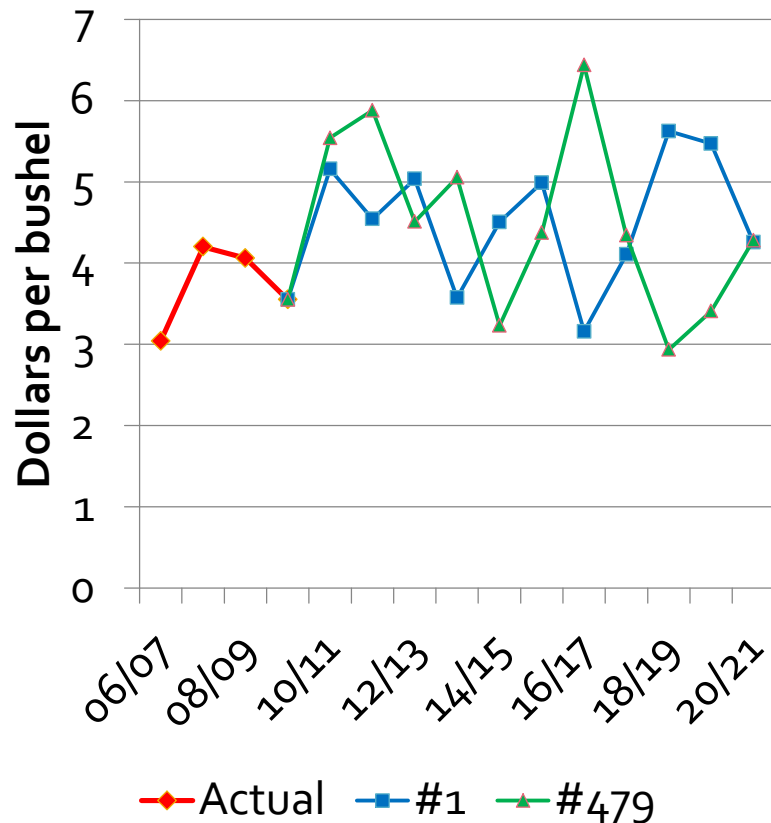
## U.S. corn yield



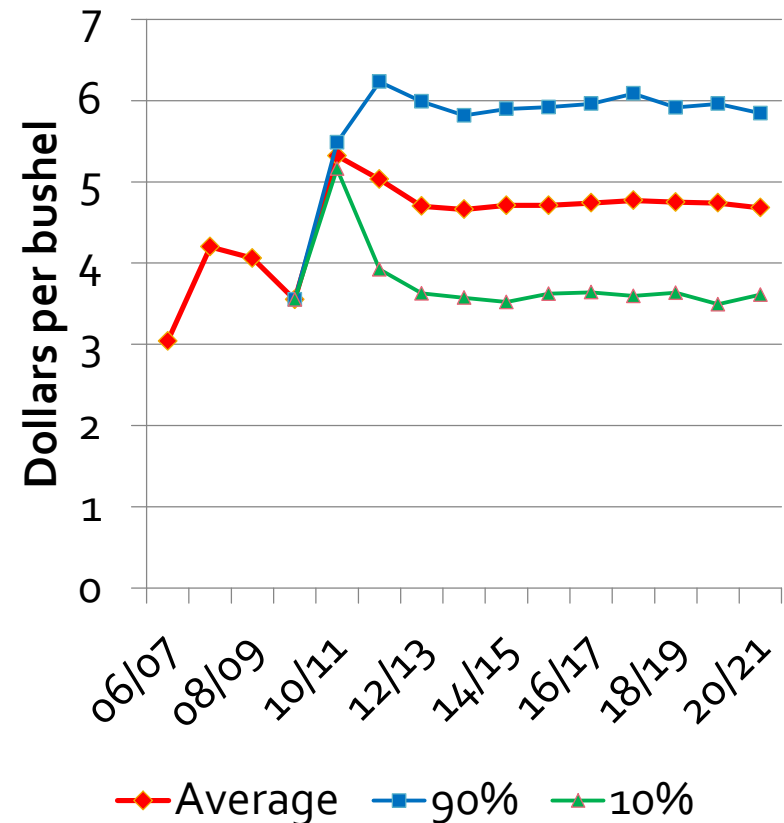
# U.S. corn prices

From the 2011 FAPRI-MU stochastic baseline

Corn price



Corn price



# 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

	Billion dollars
Social security	701
Medicare	520
Medicaid	273
Defense	689
Unemployment insurance	159
SNAP (food stamps)	70
Child nutrition (school lunch, etc., but not WIC)	17
<b>Mandatory agricultural programs</b>	<b>15</b>
Net interest	197
All other net outlays	815
Net federal outlays	3,456

# “Mandatory” spending in CBO’s baseline: selected programs

	FY 2012-FY2021 net outlays
Commodity programs	\$61 billion
Crop insurance	\$77 billion
Conservation programs	\$63 billion
Supplemental Nutrition Assistance Program	\$691 billion
Child nutrition programs	\$241 billion

*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.*

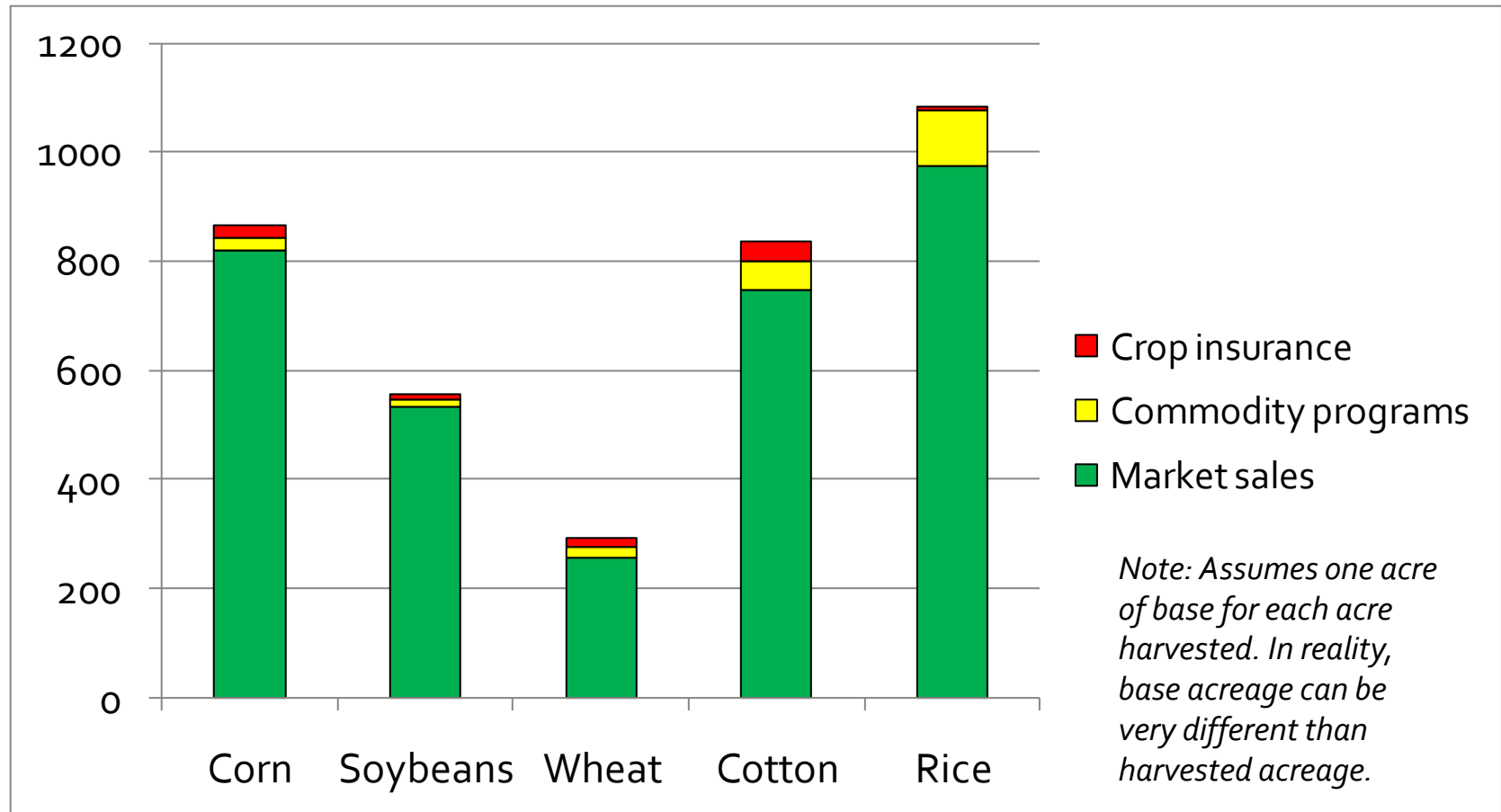
*Commodity Credit Corporation net outlays include commodity programs, export programs, one major conservation program (the conservation reserve program) and some other miscellaneous programs. CBO projects that net CCC outlays will total \$97 billion over the FY 2012-FY 2021 period.*

*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



Source: Update of "Crop Insurance: Background Statistics on Participation and Results," FAPRI-MU report #10-10, Table 2 ([http://www.fapri.missouri.edu/outreach/publications/2010/FAPRI\\_MU\\_Report\\_10\\_10.pdf](http://www.fapri.missouri.edu/outreach/publications/2010/FAPRI_MU_Report_10_10.pdf)) using Jan. 2011 FAPRI-MU stochastic baseline figures.

# 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](http://www.fapri-mu.org)

	Average 2012-20 impact compared to current law
Commodity prices	<2% change
Farm program payments	-\$2.0 billion to -\$4.6 billion
Net farm income	-\$1.9 billion to -\$3.2 billion
Farm real estate values	-1.8% to -2.7%
Consumer food expenditures	<0.1% change

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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