

# Farm Economy Follows Lead Of U.S. Recovery, Says Annual FAPRI Baseline Report To Congress

WASHINGTON, D.C.

The livestock sector can lead the agricultural economy to higher net farm income, assuming the farm economy benefits from a recovering general U.S. economy.

That analysis tops a 2010 baseline report prepared by the University of Missouri Food and Agricultural Policy Research Institute (FAPRI). The 66-page report will be delivered to the U.S. Congress on Tuesday, March 9. The 10-year baseline shows economic possibilities for livestock, crops and biofuels under certain assumptions.

"If jobs – and consumers – return, the agricultural sector will benefit," said Pat Westhoff, codirector of MU FAPRI. "Higher incomes increase the demand for food, feed, fiber and fuel, supporting farm commodity prices."

Projected net farm income increases the next two years largely because of stronger livestock prices. "The recovery would mark a major change in direction for the farm economy after a dismal 2009, but 2010 farm income recovers only a third of the ground lost in 2009," Westhoff said. Net farm income fell by more than \$30 billion in 2009, as sharp declines in cash receipts were not offset by modest drops in production costs.

"The outlook depends on more than uncertainty of the current demand picture," said Scott Brown, FAPRI livestock economist. Many unknowns, especially energy, affect costs for grain and livestock producers.

Crop prices in the FAPRI baseline remain near the 2009 level in 2010 and 2011. "Each crop has its own story, but in general we expect crop prices to remain well above the pre-2007 levels," Westhoff said.

Rising prices for meat, milk and other commodities contribute to higher food-price inflation this year. "Food inflation remains well below the 2007 and 2008 levels," Brown said. Food inflation peaked at 5.5 percent in 2008, and then fell to 1.8 percent in 2009.

Corn producers can see strong returns per acre until the end of the 10-year baseline. The baseline shows a 3-million-acre projected increase in corn area in 2010 with more increases in later years.

Although corn prices are far below the 2008 peak, they are supported by continued growth in corn demand. "If the economy recovers, it will boost domestic and foreign demand for corn in feed rations, and ethanol uses an increasing share of the U.S. corn crop," Westhoff said. "Mandates encourage more ethanol use of corn until 2015. Additional growth depends on corn-based ethanol being competitive as a fuel, which depends in part on oil prices."

Soybean returns must remain well above pre-2007 levels for soybeans to stay competitive with corn, Westhoff said. For 2010-11, a slight reduction in acreage and normal yields results in slightly lower soybean production.

Projected soybean stocks and prices are fairly stable after 2010-11, but low stocks could lead to price volatility.

Strong Chinese demand and a weather-reduced Argentine crop led to record U.S. soybean exports in 2009-10. Those exports are expected to drop in 2010-11, once Argentina harvests a larger crop.

Wheat acreage is expected to drop sharply in 2010. A second straight bumper crop of world

wheat increased global stocks, putting pressure on wheat prices, the report indicates.

On the livestock side, the all-milk price is expected to increase by more than \$4 per hundredweight in 2010, up from \$12 last year. "Recovery depends critically on the general economy," Brown said. "Recovering world dairy prices in 2010 will help support higher U.S. milk prices."

"U.S. dairy is expected to become a larger player in world markets in the coming decade due to growing U.S. commercial dairy product exports," he said.

Pork producers are expected to approach breakeven profits in 2010 after "a disastrous year" in 2009, Brown said. "Speed of the pork recovery hinges on the speed of economic recovery both at home and abroad."

One limit on U.S. hog supplies will be continued lower hog imports from Canada. As pork exports resume in the decade ahead, the amount of pork available for U.S. consumers will decline.

As the economy recovers, beef demand should strengthen. This, combined with tight beef supplies for the next few years, can return profits to the beef industry. Cow-calf producers could achieve breakeven profitability in 2010, Brown said. International beef demand will increase as global economies recover, allowing beef exports to approach pre-BSE levels by 2012.

Even with improved profits and the calf crop starting to increase in 2013, the beef supply is not expected to turn up until 2014.

Beef imports could increase sharply with demand recovery, as declining cow numbers and higher prices encourage importers to seek cow meat from overseas.

The baseline assumes that biofuel taxes and tariffs are extended when they would otherwise expire. That includes biodiesel credits that expired at the end of 2009 and ethanol tax credits to expire at the end of 2010. Biofuel use helps sustain crop commodity prices through the 10-year baseline period.

Continuation of biofuel tax credits is assumed in the baseline, not because of insights on legislative action, Westhoff said. For consistency of analysis, FAPRI assumes most expiring laws continue.

Just in case biofuel credits are not extended, MU FAPRI ran its models without the tax benefit. Those results are presented in the back of the book.

The FAPRI baseline provides a reference used to analyze possible results of proposed new laws in agriculture and energy. The process helps find unintended impacts. The studies use computerized models of the U.S. and world agricultural economy.

FAPRI baseline draws on economists from seven agricultural universities. Primary partners are Iowa State and Texas A&M universities. A preliminary baseline is prepared in November. Those results are examined in a national conference in Washington, D.C., followed by a new run of the baseline.

The U.S. Congress provides funds for MU FAPRI, a part of the College of Agriculture, Food and Natural Resources in Columbia, Mo.

The baseline will be posted on the MU FAPRI Web site, <http://fapri.missouri.edu>, after presentation to Congress. Δ



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