

In Search Of The New Normal

Supply and demand outlook indicates that this is no longer my father's agriculture



SARA WYANT

WASHINGTON, D.C.

My Dad would have never have believed me if I told him that the number 7 was in front of the price for a bushel of corn.

As a child he grew up listening to Franklin D. Roosevelt talk about the problems facing our country during the Great Depression and learned that Rural America was plagued with chronic overproduction and the inability to make a profitable living off of the land. It was a lesson he lived throughout most of his farming career.

With guidance from Secretary of Agriculture Henry A. Wallace, Roosevelt signed the Agricultural Adjustment Act (AAA) to try to bring supply and demand back into balance. Crop production was throttled back through acreage controls and little pigs were slaughtered to reduce the swine herd. But government intervention in the marketplace didn't end there.

Through most of the next five decades, a variety of other measures were adopted to control production including setting aside land, storing surplus butter in caves, and exporting foodstocks to feed the hungry overseas. The U.S. is still idling about 30 million acres in the Conservation Reserve Program, but most of the other acreage control programs have gone away.

Almost 80 years after Roosevelt signed the AAA, President Barack Obama is facing a much different scenario. With a rapidly growing global population seeking higher quality diets, a commitment to invest in making our country energy independent, and a series of weather-related cropping problems, demand is rapidly catching up with supply. Instead of chronic surpluses, we are witnessing tight supplies and potentially, record high farm gate prices.

But will it last? Farmers and ranchers are wondering if high commodity prices are the new "normal" or just a temporary blip where prices spike and then collapse as they have so many times in the past.

Previous price swings

To be fair, my Dad experienced some profitable years in the 1970's when grain deals with the Soviet Union caused prices to jump and farmland values to spiral upward. But those "golden years" were followed by the 1980's, a decade much less fondly remembered for skyrocketing inflation, soaring interest rates, and hundreds of bankruptcies.

A few economists warn that we are once again going into a boom and bust cycle, but the latest analysis published by the United Nation's Food and Agriculture Organization's (FAO) indicates that, with weather problems threatening grain and oilseed production around the world, global commodity prices are likely to remain high for the rest of this year and into 2012.

"The general situation for agricultural crops and food commodities is tight with world prices at stubbornly high levels, posing a threat to many low-income food deficit countries," according to David Hallam, Director of FAO's Mar-

kets and Trade Division

Low-Income Food Deficit Countries (LIFDCs) and Least Developed Countries (LDCs) that depend on imports would be hardest-hit since they would likely have to spend respectively 27 and 30 percent more on food imports than last year, FAO reported in its biannual "Food Outlook."

The report cites a sharp rundown on inventories and only modest overall production increases for the majority of crops as reasons for continuing strong prices.

International food prices, which earlier this year soared to levels seen in the 2007-8 food crisis, dropped a modest one percent in May. The FAO Food Price Index averaged 232 points in May – down slightly from a revised estimate of 235 points in April but still 37 percent above May 2010.

Although crop production prospects are encouraging in some countries such as the Russian Federation and Ukraine, weather conditions, featuring too little and in some cases too much rain, could hamper maize and wheat yields in Europe and North America, the report notes.

Protein sector impact

High feed prices, disease outbreaks and depleted animal inventories were forecast by FAO to limit the expansion of global meat production to 294 million tonnes in 2011 – only one percent more than 2010. The international meat price index hit a new record at 183 points in May 2011 and a combination of strong import demand and limited export availability pointed to a further firming of prices in the next few months.

Even with record production in 2011, demand for cereals has also been increasing so that the 2011 crop is expected to barely meet consumption. But the Russian Federation's announcement that it will remove its cereals export ban from July 2011 could help relieve some of that pressure, according to FAO's grain analyst, Abdolreza Abbassian.

In the oilseeds market, supplies in 2011/12 may not be sufficient to meet growing oil and meal demand, implying further reductions in global inventories, FAO reported.

Global wheat output is expected to be 3.2 percent up from last year's reduced crop, mostly reflecting improved yields in the Russian Federation.

World production of coarse grains is set to climb 3.9 percent, exceeding the record set in 2008. Most of the increase is expected from the Russian Federation and the other members of the Commonwealth of Independent States (CIS).

Reports like this one from the FAO suggest that this is no longer my father's agriculture. The era of chronic surpluses is gone. Unless we embrace the future and figure out what the next era for American Agriculture will look like, crafting future farm policies will be incredibly difficult. Δ

SARA WYANT: *Publisher of Agri-Pulse, a weekly e-newsletter covering farm and rural policy. To contact her, go to: <http://www.agripulse.com/>*