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Prospects for the U.S. Farm Economy in 2010

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I would like to welcome everyone to the 86th annual Agricultural Outlook Forum. My task today is to present a brief overview of the economic outlook for the U.S. agricultural sector for 2010. The year 2009 was marked by much uncertainty following the global financial collapse in the fall of 2008. Record crop production, both home and abroad, has further weakened price prospects for grains and oilseeds. Five years ago, such large crops might have resulted in \$2 corn, \$3 wheat and \$5 soybeans, but because of strong domestic and foreign demand, crop prices still remain high relative to historical levels. Stronger world GDP growth in the latter half of 2009 has contributed to higher cotton prices as world consumption of textile and apparel rebounds.

Livestock, dairy and poultry producers had a particularly difficult year. Prices for livestock animals and products suffered sharp declines, and despite lower feed costs, returns for many livestock and dairy producers were negative for much of the year. Producers responded by reducing herd and flock sizes, which led to some improvement in prices by the fourth quarter of last year.

Crop and livestock cash receipts in 2009 were down a combined \$39 billion from 2008 levels. Lower fuel and feed costs reduced cash expenses for farmers in 2009 by almost \$11 billion. Net cash income for farmers in 2009 was \$70.8 billion, down 27 percent from the record \$97.5 billion set in 2008.

Farm income in 2010

On February 11, USDA's Economic Research Service (ERS) released its initial estimates of farm income and production expenses for 2010. ERS forecasts net cash income at \$76.3 billion, up \$5.5 billion from 2009. Crop receipts are forecast at \$160.3 billion in 2010, down \$6 billion from 2009, but still the third highest on record. Livestock receipts for 2010 are forecast at \$130.3 billion, up \$11.5 billion (and also the third highest on record). Farm expenses are expected to be relatively unchanged in 2010 with declines in fertilizer and feed expenses offset by increases in fuel and pesticide.

Crop Prospects for 2010

Less land is expected to be planted to the major field crops in 2010 as prices continue to ease from their record levels in 2008. Lower fertilizer prices boost the net returns outlook for most of the major crops, but the sharp reduction in winter wheat area will not be completely made up by spring plantings. Total planted area for the 8 major crops (wheat, corn, barley, oats, sorghum, soybeans, upland cotton, and rice) is expected to decline to 247.3 million acres, down 1.6 million from 2009. The 8-crop total is down 5.7 million acres from the recent high in 2008 as the net returns outlook is much less favorable than 2 years ago when prices were at or near record highs.

Wheat planted area for 2010 is expected to decline 5.3 million acres to 53.8 million. Winter wheat seeded area at 37.1 million acres is down 6.2 million from 2009 and the lowest since 1913. The late row crop harvest and wet weather delayed winter wheat plantings in most States last fall. Partly offsetting the decline in winter wheat area is an expected increase in spring wheat in the northern Plains.

Soybean planted area for 2010 is expected to fall nearly 500,000 acres from last year to 77.0 million acres as improved returns for corn and rotational considerations boost corn plantings. Corn plantings for 2010 are expected to rise 2.5 million acres from last year to 89.0 million, the highest level since 2007. Cotton and rice area should see increases as higher returns relative to competing crops such as corn and soybeans favor those crops.

Domestic *wheat* production is projected lower with reduced area and a decline in expected yields with lower plantings of higher-yielding soft red winter wheat. Wheat supplies for 2010/11 are projected at a 10-year high, up 2 percent from 2009/10 as beginning stocks increase nearly 50 percent.

U.S. wheat ending stocks are expected to decline modestly in 2010/11, but remain burdensome as U.S. wheat exports struggle under large world supplies. World supplies of wheat remain large with prospects for another bumper world crop. A recovery in Argentina's production and large expected crops in the EU-27, FSU-12, North Africa, and the Middle East limit opportunities for U.S. exports. The 2010/11 season-average farm price is projected at \$4.90 per bushel, up \$0.05 from the midpoint of the 2009/10 projection, but domestic prices remain under significant pressure from large domestic and global supplies.

Rice planted acreage for 2010 is projected at 3.2 million acres, up 2 percent from last year. Long-grain accounts for all of the area increase. Medium/short-grain acreage is projected to decline, with most of the decline occurring in the South. Based on 1990-2009 trend yields, the 2010/11 average field yield is forecast at 7,136 pounds per acre. Production in 2010/11 is projected to increase almost 3 percent to 226.0 million cwt, with long-grain accounting for all of the increase.

Total domestic and residual use is projected at a record 133.0 million cwt, an increase of almost 2 percent from a year earlier. Total U.S. rice exports in 2010/11 are projected at 105.0 million cwt, up 4 percent from a year earlier. Larger U.S. supplies and more competitive prices are the main factors behind the stronger export forecast for 2010/11. By class, long-grain exports are projected to account for all of the U.S. rice export expansion, mostly due to the larger supplies and increased price competition in certain milled rice markets. Medium/short-grain exports are projected to remain unchanged from the 2009/10 record. U.S. medium/short-grain growers continue to benefit from trade restrictions by Egypt and a lack of exportable supplies in Australia.

U.S. rice ending stocks are projected at 49.8 million cwt in 2010/11, a 25-percent increase from a year earlier and the largest since 1986/87. The stocks-to-use ratio is calculated at 20.9 percent, up from 17.2 percent a year earlier and the highest since 1992/93. The U.S.

season-average farm price is projected at \$12.50-\$13.50 per cwt, down from the 2009/10 midpoint of \$14.30. The forecasted price decline for 2010/11 is based on weaker global rice prices and larger U.S. supplies. U.S. prices for both long-grain and medium/short-grain are projected to be lower in 2010/11.

Corn supplies are projected at a record 14.9 billion bushels for 2010/11, up less than 1 percent from the current year's record on small year-to-year increases in carryin and production. Production is projected at a record 13.2 billion bushels, up just slightly from the 2009/10 record crop as higher area more than offsets a return to trend yields with normal weather.

Total corn use for 2010/11 is expected at a record 13.24 billion bushels, up 1 percent from the current year record as the rise in projected ethanol use and exports more than offset lower expected feed and residual use.

Corn use for ethanol in 2010/11 is projected 5 percent higher at 4.5 billion bushels reflecting higher mandates for biofuels use and continued profitability for ethanol producers and blenders. The year-to-year increase is lower than for 2009/10 when ethanol corn use expanded 17 percent. The Renewable Fuels Standard that applies to conventional or "non-advanced" biofuels is increasing at a slower pace during the 2010/11 year as compared to 2009/10. Continued weakness in gasoline consumption is also expected to limit growth in ethanol demand.

U.S. corn exports for 2010/11 are projected up 5 percent at 2.1 billion bushels as global livestock production rebounds following the global economic crisis. U.S. corn exports, however, are expected to remain under pressure from large world supplies of feed-quality wheat.

Corn ending stocks are projected to decline 4 percent for 2010/11. The season-average farm price is projected at \$3.60 per bushel, down \$0.10 from the midpoint of the 2009/10 forecast as forward pricing opportunities will be at lower levels than for last year's crop. Corn prices advanced sharply during May-June 2009 as rains delayed planting and soybean prices soared with drought-related crop problems in Argentina.

Strong global demand for protein and vegetable oil has been a major factor in the strength of the **soybean** market in recent years. China is forecast to import a record 42.5 million tons of soybeans in 2009/10, accounting for 54 percent of global soybean imports. USDA projects China soybean imports to rise by over 1.8 million tons per year over the next 10 years, accounting for most of the growth in world soybean import demand over the period.

Improved weather will greatly benefit South American soybean producers. In 2008/09, soybean production in Brazil and Argentina declined by 18 million tons (660 million bushels). As a consequence, U.S. soybean exports in 2009/10 are estimated at a record 1.4 billion bushels, exceeding the previous year's record exports of 1.283 billion bushels. Soybean production in Brazil and Argentina in 2009/10 is expected to top 119 million tons, a record. Overall, world soybean production is estimated at 255 million tons, an increase of 21 percent over 2008/09 levels. World endings stocks of oilseeds for 2009/10 are estimated at 71 million tons, a 31-percent increase over last year's level and the second highest on record.

U.S. soybean supplies are projected at 3.5 billion bushels for 2010/11, down less than 1 percent from the current year's record as reduced production is only partly offset by increased beginning stocks. Production is projected at 3.26 billion bushels, down about 100 million bushels from the 2009/10 record crop of 3.36 billion on lower planted area (77 million acres, down 0.5 million) and lower (trend) yields of 42.9 bushels per acre compared with last year's record 44.0 bushels per acre.

Total U.S. soybean use for 2010/11 is expected to decline 4.5 percent due to reduced crush and exports, with both categories influenced by surging South American supplies. Soybean crush for 2010/11 is projected 3.8 percent lower at 1.65 billion bushels reflecting sharply lower expected soybean meal exports and only modest gains in domestic protein consumption. Record U.S. soybean meal exports in 2009/10 (10 million short tons) are due to reduced competition from Argentina where drought severely limited soybean supplies. With a record crop projected this year in Argentina, U.S. soybean meal exports are projected to decline to 8.8 million short tons.

Soybean oil used for methyl ester production will be dependent on the status of the \$1.00 per gallon blending credit which expired at the end of December. The recent Environmental Protection Agency announcement of final rules for the 2009 and 2010 biomass-based diesel mandates will bolster demand for biodiesel, but without the credit, cheaper feedstocks such as animal fats may be more attractive for biomass-based diesel producers. Biomass-based biodiesel can include fatty acid methyl ester biodiesel, renewable diesel that has not been co-processed with a petroleum feedstock, as well as cellulosic diesel as long as it reduces greenhouse gas emissions by at least 50 percent.

U.S. soybean exports for 2010/11 are projected down 5.4 percent at 1.325 billion bushels as increasing South American supplies reduce export prospects. Soybean ending stocks are projected to increase to 330 million bushels, up 57 percent in 2010/11. The season-average farm price is projected at \$8.80 per bushel, down \$0.65 from the midpoint of the range of the 2009/10 forecast as record South American production weighs on the market. Forward pricing opportunities through the spring will be at lower levels than for last year's crop. By mid-June 2009, a 50 percent increase in prices from February pushed cash prices above \$12.00 per bushel as the extent of the damage to the Argentina crop was realized.

World *cotton* production (up 10.5 percent) and consumption (up 2.6 percent) are both projected to rise in 2010/11, with world consumption outpacing the increase in production due to continued economic recovery. Thus, a further drawdown in world stocks is anticipated. Global cotton ending stocks for 2010/11 are projected to be the lowest since 2003/04.

U.S. planted area is projected at 10.5 million acres, up 15 percent from 2009, producing a crop of 16.0 million bales. Higher cotton prices relative to alternative crops, especially corn and soybeans, will boost area. The production increase from 2009 is nearly 30 percent based on a normal weather assumption.

U.S. exports will be limited by available supplies and are forecast at 12.6 million bales, leaving ending stocks of about 3.4 million. The stocks-to-use ratio of 21 percent in 2009/10 is

projected to remain about the same in 2010/11. The marketing year average price is projected at 64 cents, compared with 62 cents for 2009/10.

Livestock, Poultry, and Dairy Outlook for 2010

The livestock, poultry, and dairy sectors are being challenged by continued weakness in domestic and global demand for meat and dairy products. Trade restrictions continue to pressure red meat and poultry exports. Although producers have cut back production in 2009, improved returns will likely slow the rate of production decline in pork and dairy, while an improved forage base has allowed cattle producers to keep cattle on grass longer. Broiler production is expected to gradually increase during 2010 after more than a year of production declines. Total meat production is forecast to be down about 0.5 percent from 2009, with milk production declining about 0.2 percent.

The January *Cattle* report indicated that cattle inventories declined almost 1 percent in 2009 and that producers were holding about 2 percent fewer beef replacement heifers on January 1. The beef cow herd was just over 1 percent lower and the 2009 calf crop was almost 1 below 2007. However, the number of cattle outside feedlots at the beginning of the year was only fractionally below 2009, as improved forage supplies allowed producers to overwinter more cattle rather than place them in feedlots.

Beef production is forecast to decline just over 1 percent in 2010. Steer and heifer slaughter will decline as fewer cattle are available for marketing, but the number of cattle outside feedlots will temper the rate of decline. Cow slaughter will decline with the reduction in inventory but producer decisions regarding breeding herd adjustments will be an important determinant of the level of cow slaughter. U.S. beef imports are expected to increase more than 5 percent as U.S. cow slaughter falls and foreign exporters increase shipments to the United States. U.S. beef exports are expected to increase about 9 percent from 2009 as demand improves with the global recovery. Per capita disappearance of beef in the United States is expected to decline about 2 percent.

The December *Quarterly Hogs and Pigs* report indicated that **hog** producers farrowed about 3 percent fewer sows during the last half 2009 and intend to farrow about 2.5 percent fewer sows through the first half of 2010. However, growth in pigs per litter has been substantial, and the larger number of pigs per litter is mitigating the reduction in farrowings. Live hog and pig imports from Canada are expected to continue to move lower, forecast 10 percent lower than 2009, further reducing the number of hogs available for marketing this year.

Pork production for 2010 is forecast to decline about 2 percent. Pork imports are forecast to increase 8 percent. Pork exports are forecast to increase about 9 percent as global economic recovery helps stimulate meat demand. U.S. per capita disappearance of pork is expected to decline more than 5 percent as pork production declines and a larger share of pork output enters export channels.

Broiler meat production for 2010 is forecast to increase just over 1 percent but turkey output is forecast to fall just under 2 percent. The poultry sector was hit hard by high feed prices

in 2008. Returns were sharply lower and producers reduced production in 2009. Broiler producers have seen some improvement in broiler prices in recent months but turkey prices remain well below 2008 levels. Broiler production is expected to be above year-earlier levels in all quarters of 2010 but turkey production is not expected to exceed 2009 levels before mid-year. Broiler exports declined 2 percent in 2009 as quotas in Russia limited access to that market and weak economic conditions and credit problems hampered the ability of many importers to purchase U.S. product. Exports may decline 15 percent as trade disruptions in a number of countries pressure exports. Turkey exports are expected to increase about 2 percent this year. Led by gains in broiler meat supplies, per capita disappearance of poultry meat is expected to increase just over 1 percent in 2010.

Livestock and poultry prices in 2010 are expected to be higher as red meat supplies are lower and demand improves with economic recovery. Fed cattle will be \$5-6 per cwt higher than 2009, and hogs \$6-7 per cwt higher. Broiler prices should average 1-2 cents per pound higher despite higher production as red meat supplies are smaller and broiler demand remains relatively strong. Turkey prices are expected to be 2-3 cents per pound higher.

Sharply lower returns to producers resulted in lower **milk** production during 2009. Dairy cow numbers declined by 252,000 head between January 1, 2009 and January 1, 2010 and milk production was 0.4 percent lower. However, the January *Cattle* report indicated that about 2 percent more heifers were being held for dairy cow replacement with 1 percent more dairy heifers expected to calve during 2010. To the extent that replacement heifers enter the milking herd, the cow numbers during 2010 may only decline about 2 percent. Coupled with a return to more rapid growth in milk per cow, milk production in 2010 is expected to only decline about 0.2 percent. Exports in 2009 declined from 2008 levels due to combination of weak foreign demand due to the global recession and increased exportable supplies from other suppliers such as New Zealand and the EU. However, improved economic activity should stimulate increased commercial exports in 2010. Lower milk production and improved domestic and foreign demand is expected to support increased dairy product prices. The all milk price for 2010 is forecast to increase to \$16.20 to \$16.90 per cwt, compared to \$12.81 per cwt in 2009.

Food prices

Consumer prices for food have taken a remarkable path over the last couple of years. The year-over-year change in the CPI for food-at-home averaged 6.4 percent in 2008 but only 0.5 percent in 2009. Last year, food products like meats, dairy, eggs and fruits and vegetables kept the increases in overall food prices low. Also, the sharp drop in energy prices held processing and transportation costs in check.

ERS forecasts the CPI for food for 2010 to increase about 3 percent which is in line with historical trends and assumes stable commodity and energy prices.

Conclusions

It's important to step back and consider what has happened over the past 2-3 years. It should be no surprise that record high prices prompted producers to plant more crops. Perhaps what is surprising is the fact that despite record production and the worst global recession since the Great Depression, price levels for grains and oilseeds still remain high relative to levels seen as recently as 5-10 years ago. And despite the steep drop in farm income in 2009, average net cash income over the past 3 years (2007-09) was \$82 billion, over \$13 billion higher than the average over the 7 years prior to 2007.

With the global recovery, plus contractions in herd sizes, the livestock and dairy sectors have begun to rebound from 2 years of low profits. Grain and oilseed demand remains strong despite large world supplies. World stocks have risen but there remains much volatility in markets due in part to strong demand components like biofuels that are less responsive to price movements. For this reason, markets will again be attentive to planting decisions this spring and crop prospects over the summer.