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# The Boom, the Bust and Now...

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USDA Agricultural Outlook Forum  
Washington, DC, February 26, 2009

Food and Agricultural  
Policy Research Institute

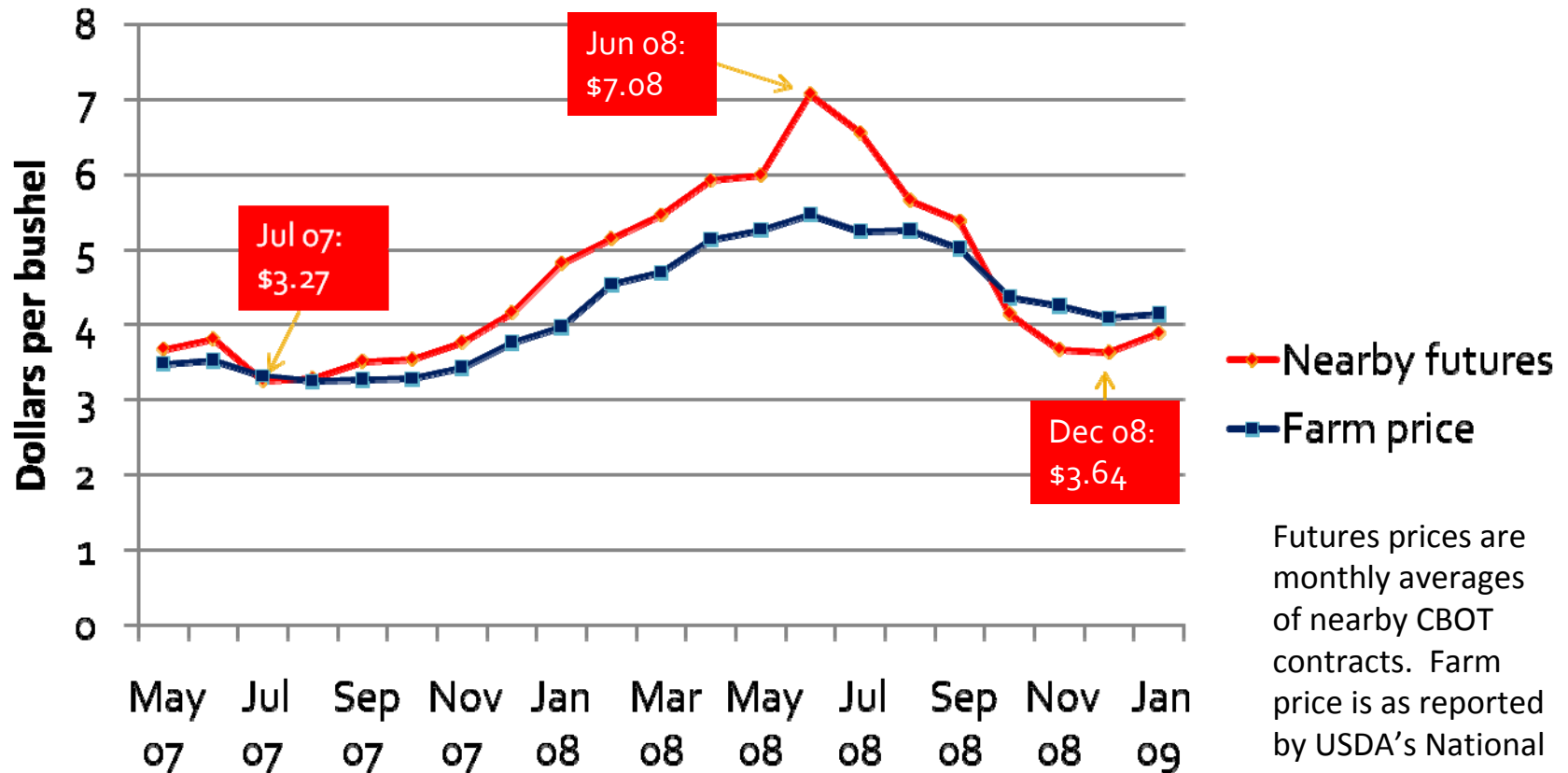


# Agenda

- The boom and bust in farm commodity prices
  - What happened
  - Why
- The outlook
  - A few projections
  - What to watch for

# What went up, has come down

## U.S. Corn Prices (monthly averages)



Futures prices are monthly averages of nearby CBOT contracts. Farm price is as reported by USDA's National Agricultural Statistics Service

# Why did prices rise, then decline?

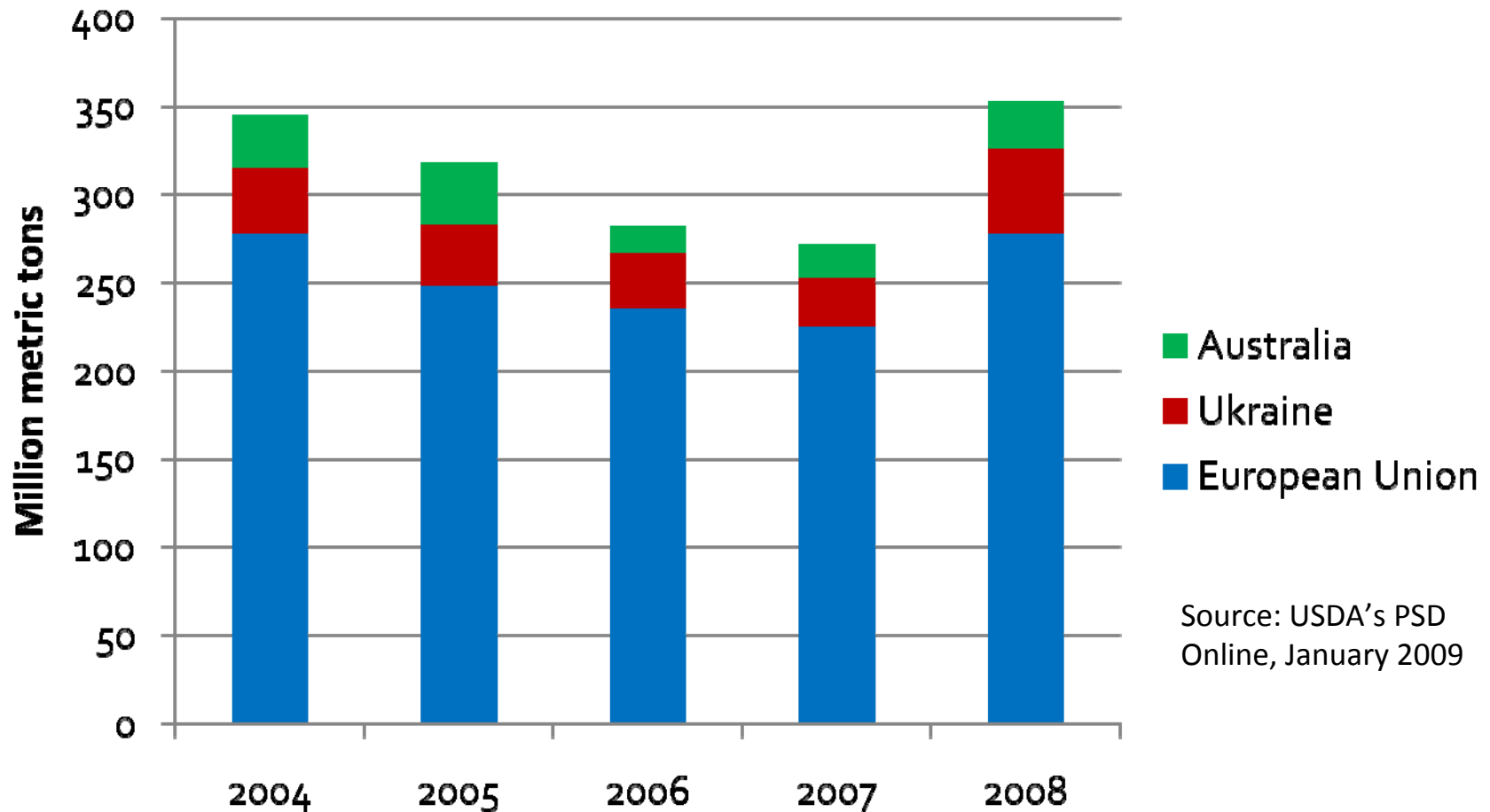
## WHY PRICES ROSE

- Reduced grain production in Europe, Australia

## WHY PRICES FELL

- Sharp increase in global grain production in 2008

# Competitor production of wheat, barley and corn



Source: USDA's PSD  
Online, January 2009

# Why did prices rise, then decline?

## WHY PRICES ROSE

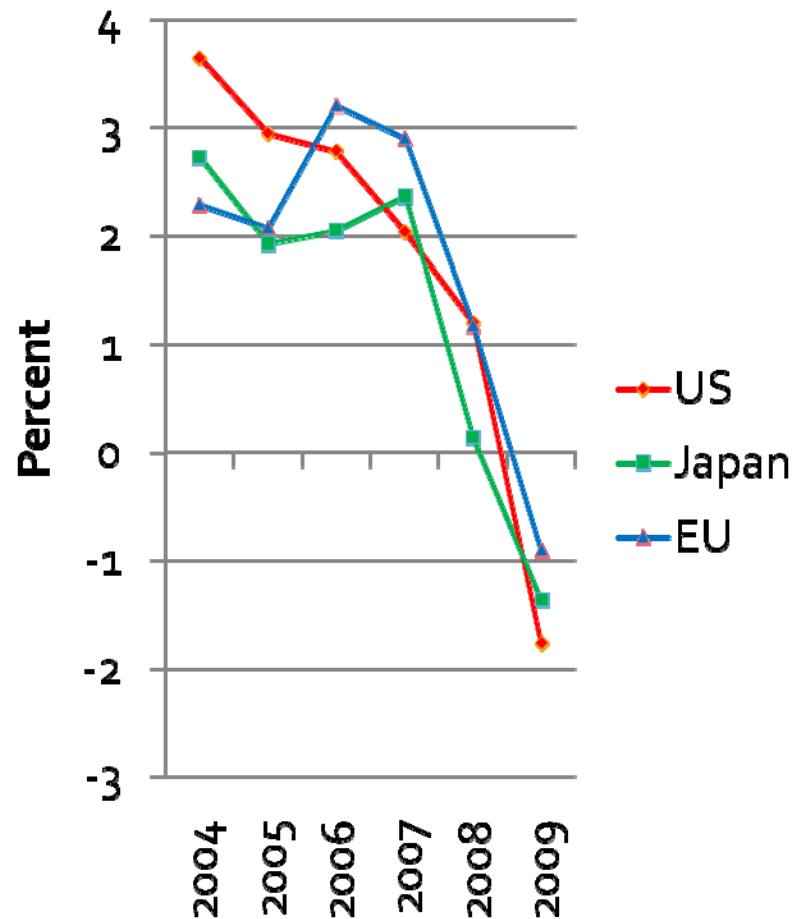
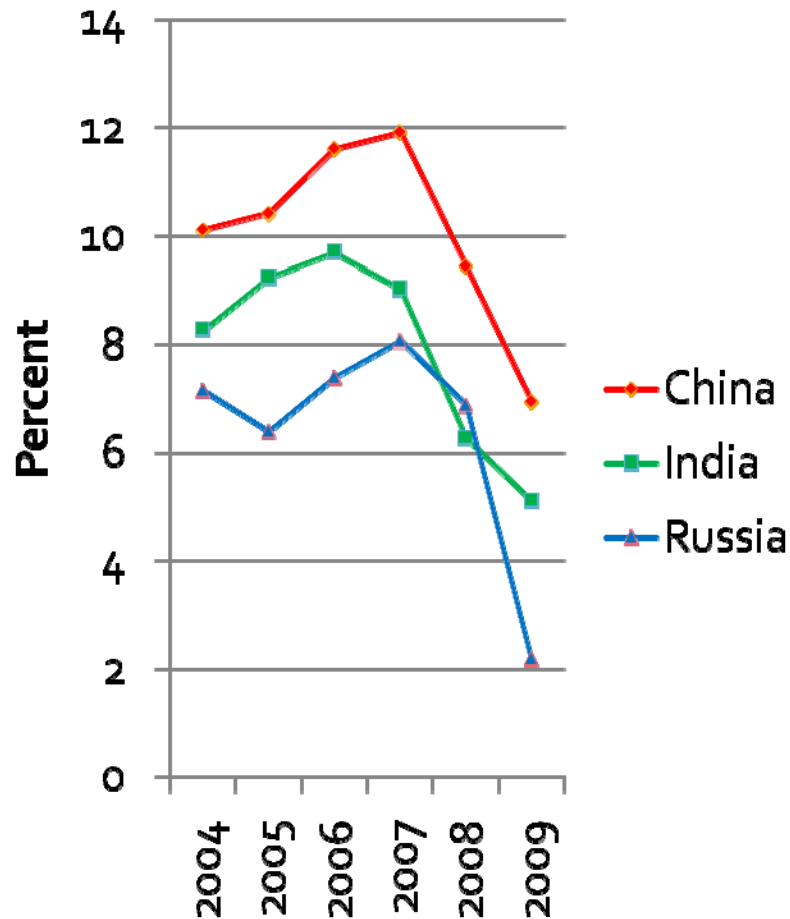
- Reduced grain production in Europe, Australia
- **Economic growth in Asia and elsewhere**

## WHY PRICES FELL

- Sharp increase in global grain production in 2008
- **Financial crisis and world economic slowdown**

# Real GDP growth

(IHS Global Insight, January 2009)





# Why did prices rise, then decline?

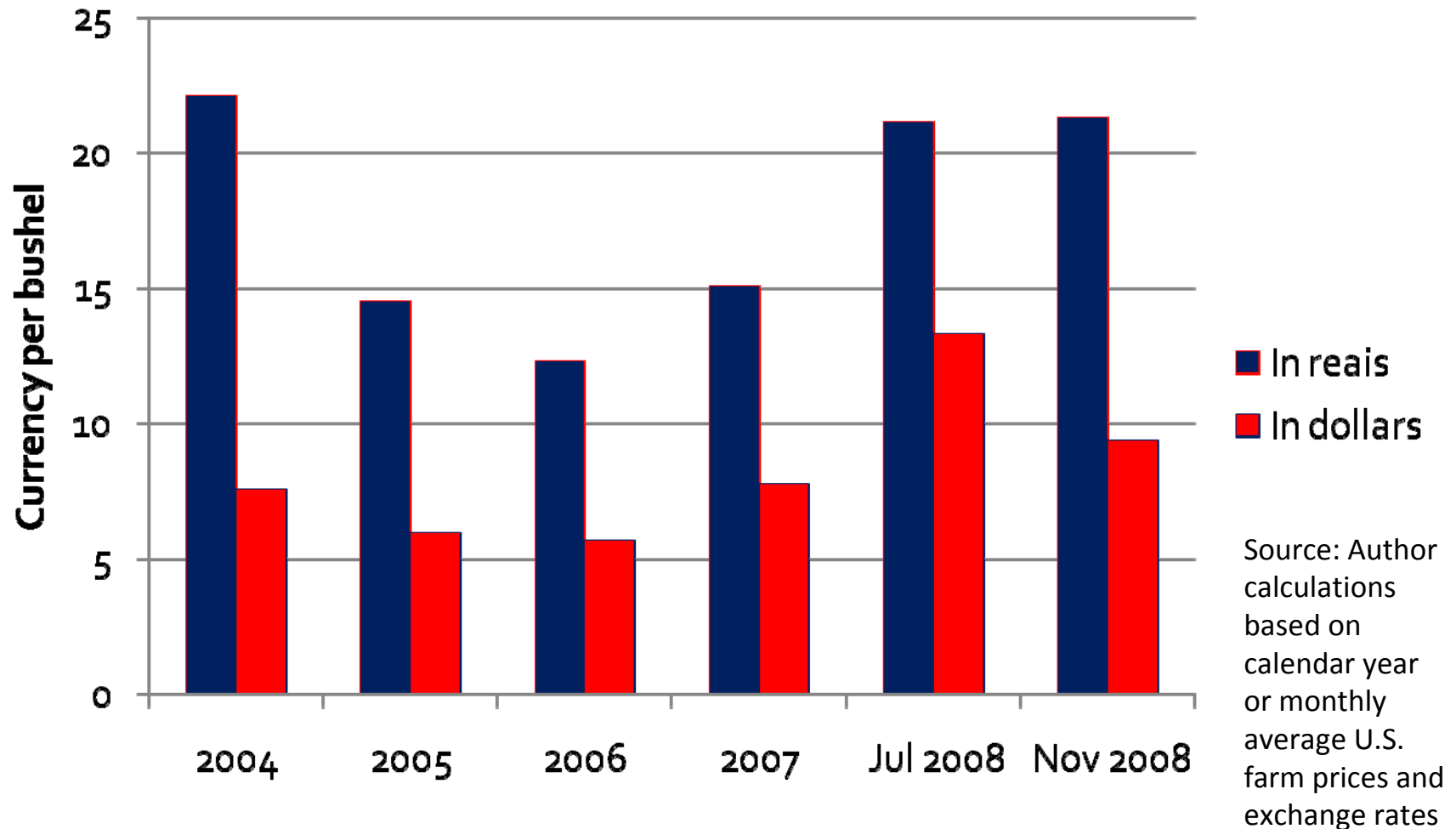
## WHY PRICES ROSE

- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- **Weaker dollar**

## WHY PRICES FELL

- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
- **Stronger dollar**

# U.S. soybean prices in dollars and Brazilian currency



# Why did prices rise, then decline?

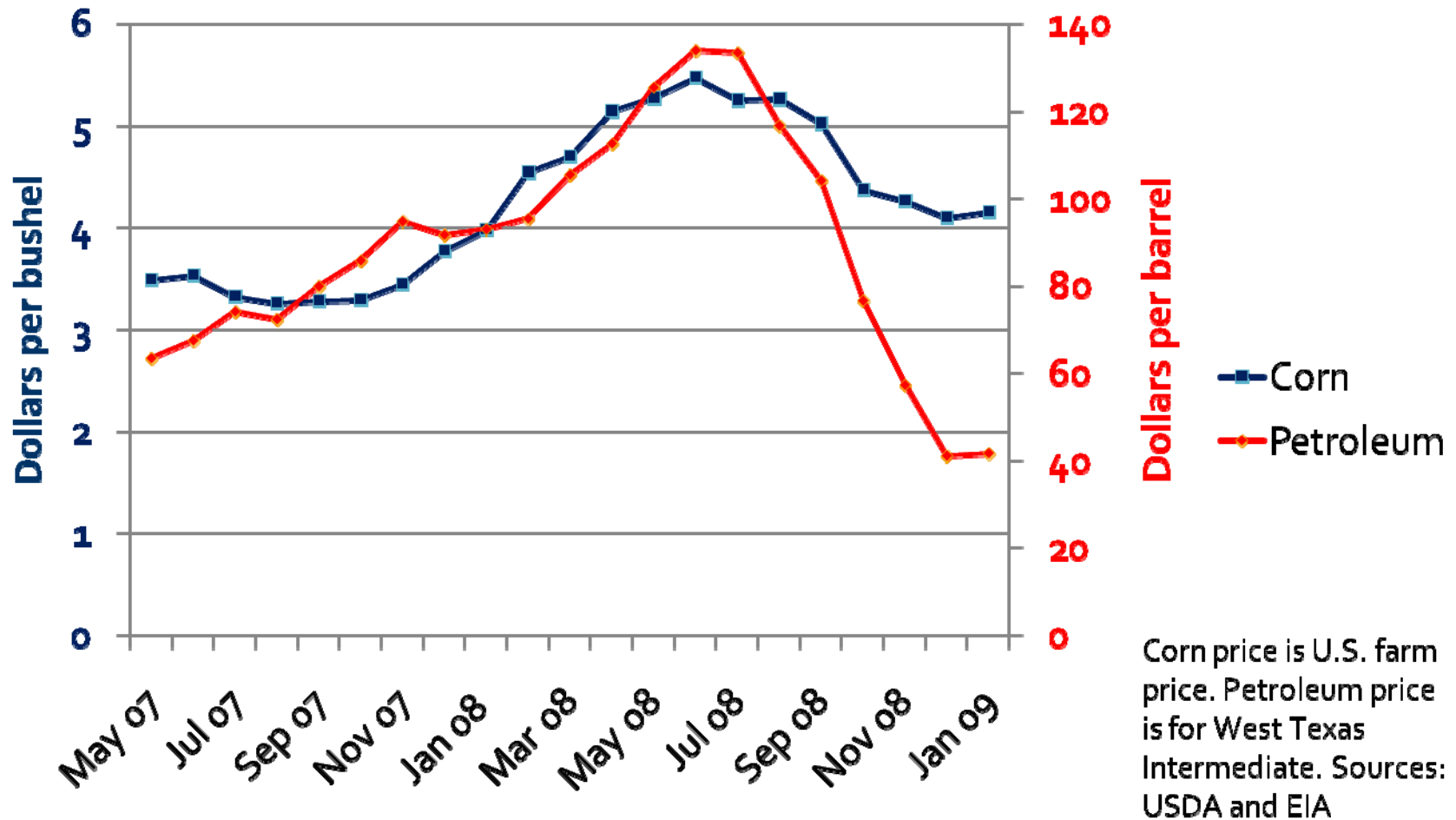
## WHY PRICES ROSE

- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- Weaker dollar
- **Higher petroleum prices**

## WHY PRICES FELL

- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
- Stronger dollar
- **Lower petroleum prices**

# Corn and petroleum prices



# Why did prices rise, then decline?

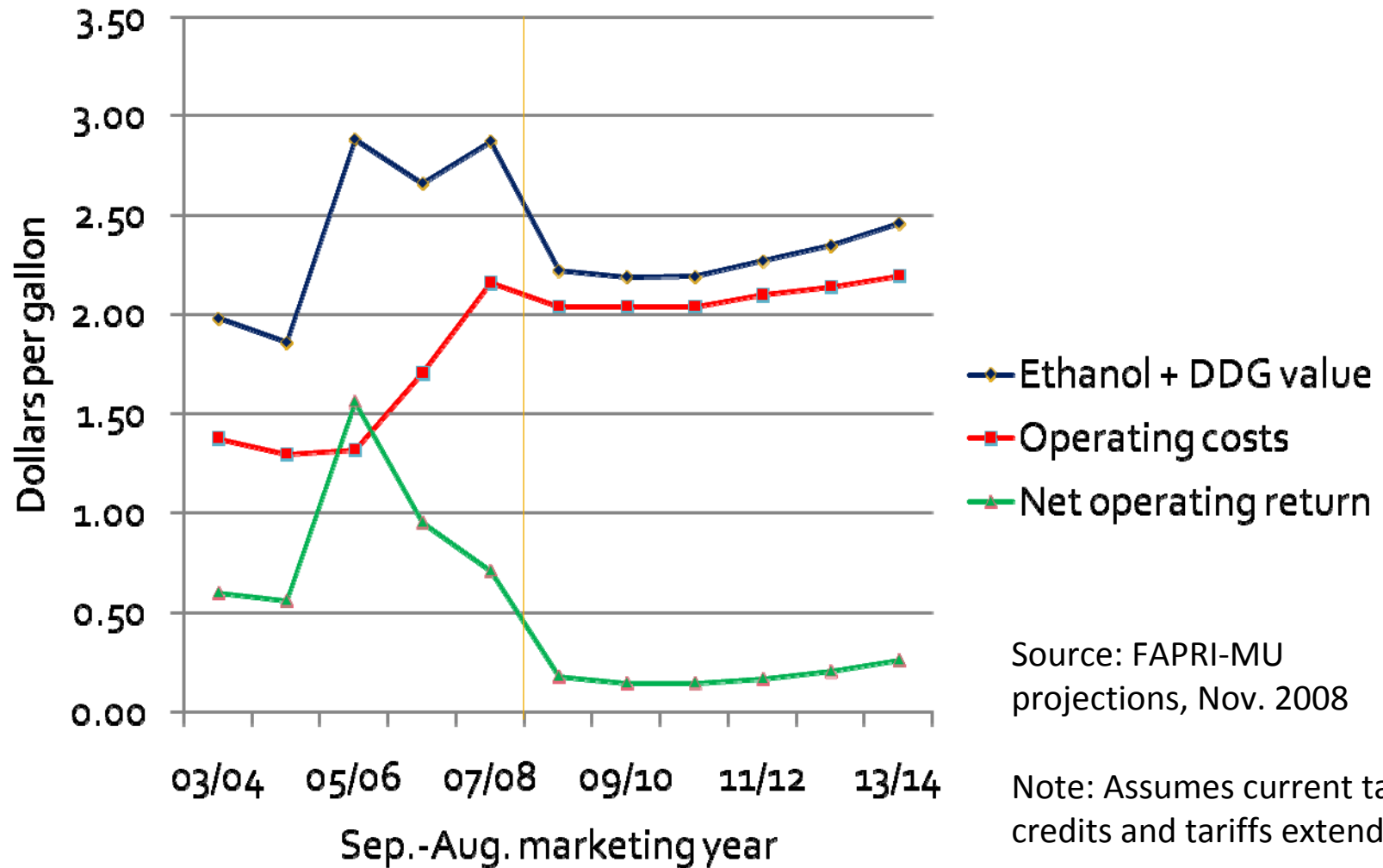
## WHY PRICES ROSE

- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- Weaker dollar
- Higher petroleum prices
- **Rapid biofuel expansion**

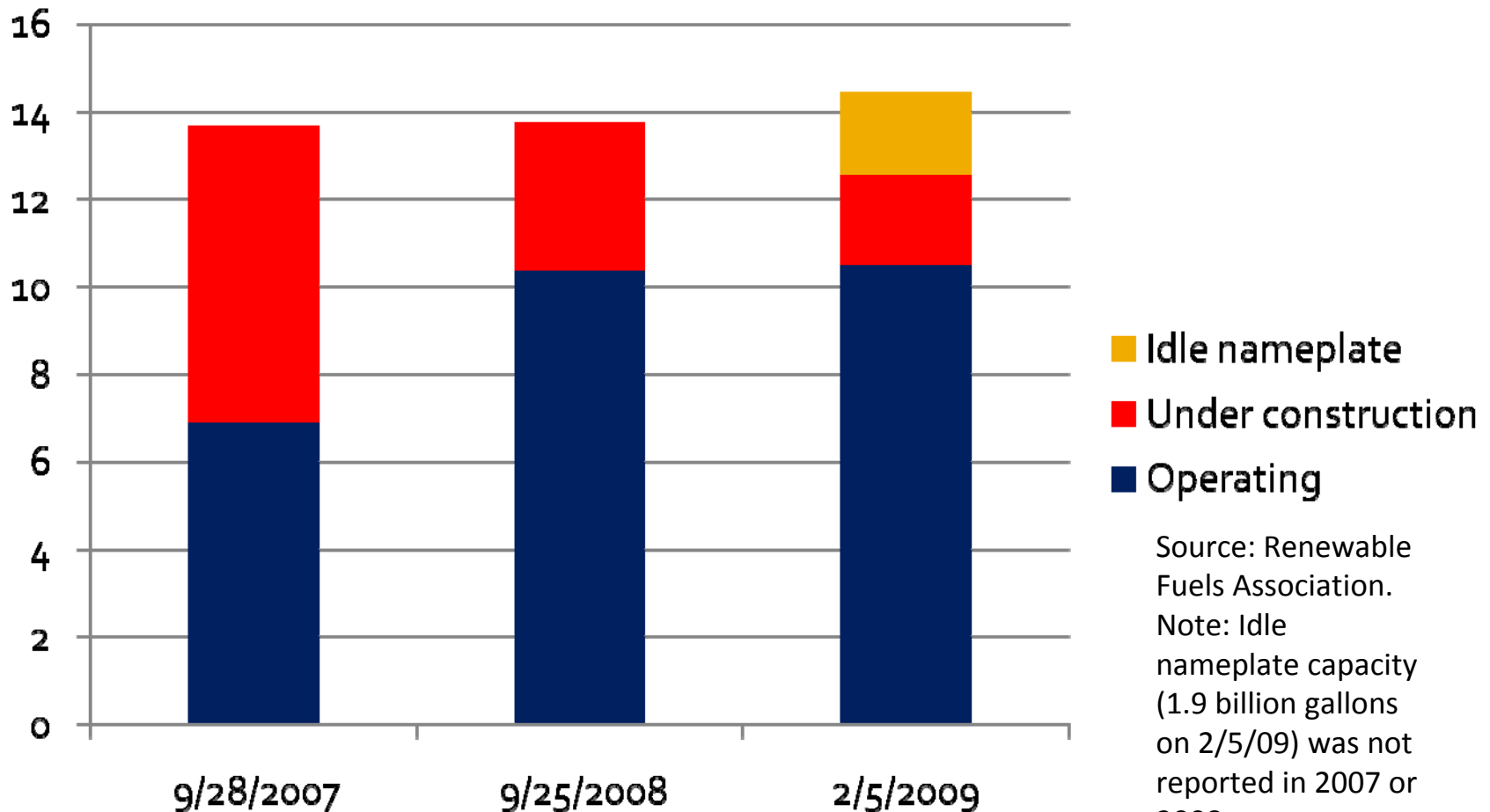
## WHY PRICES FELL

- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
- Stronger dollar
- Lower petroleum prices
- **Slower biofuel growth**

# Ethanol dry mill operating costs and returns



# U.S. ethanol production capacity



Source: Renewable Fuels Association.  
Note: Idle nameplate capacity (1.9 billion gallons on 2/5/09) was not reported in 2007 or 2008.

# Why did prices rise, then decline?

## WHY PRICES ROSE

- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- Weaker dollar
- Higher petroleum prices
- Rapid biofuel expansion
- **Policy response**
- **Speculation**

## WHY PRICES FELL

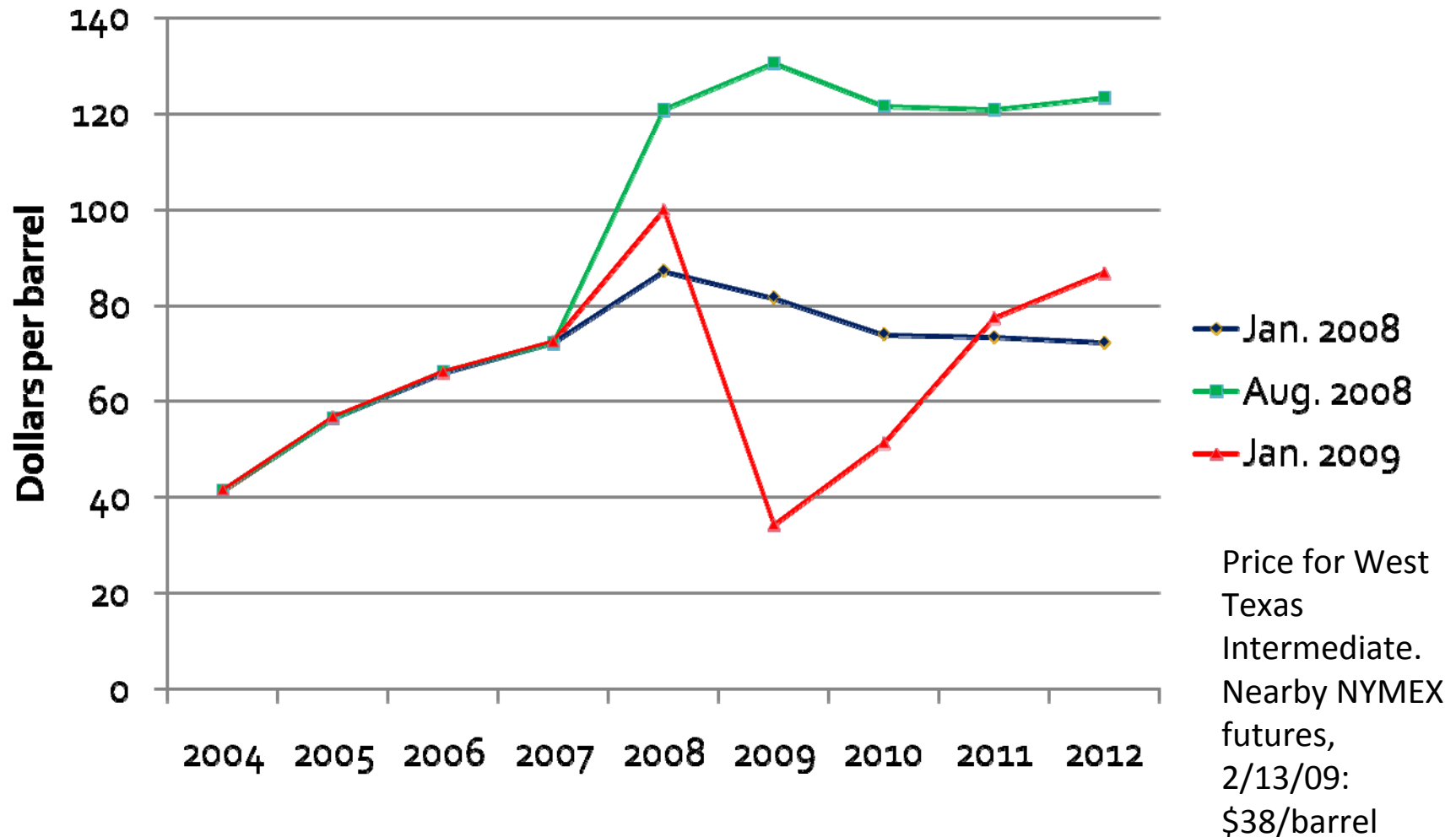
- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
- Stronger dollar
- Lower petroleum prices
- Slower biofuel growth
- **Policy response**
- **Speculation**



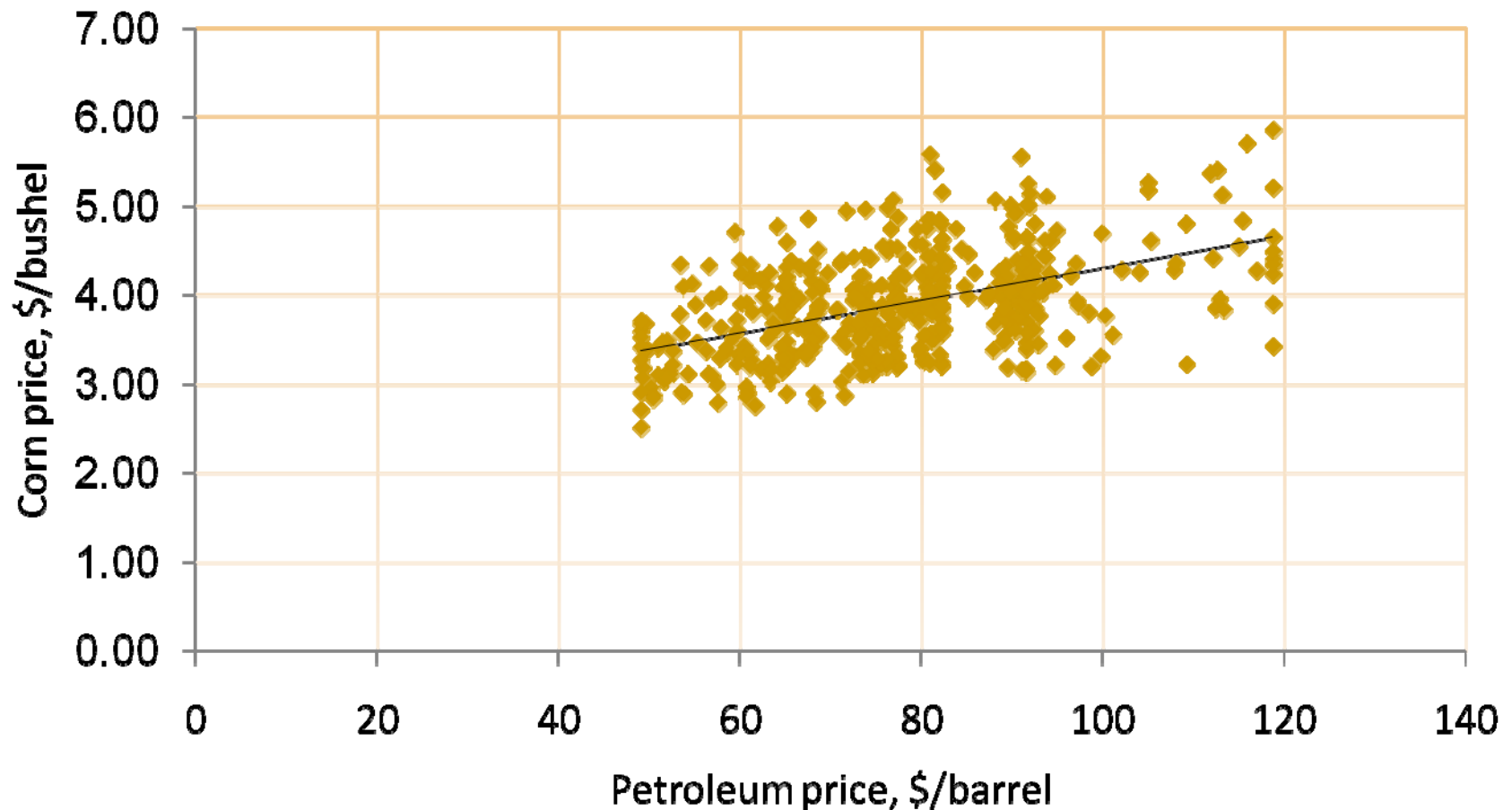
# So now what?

- Market outlook is even more uncertain than usual
- What I'd tell you tomorrow is different than what I'll tell you today

# Petroleum price forecasts from IHS Global Insight

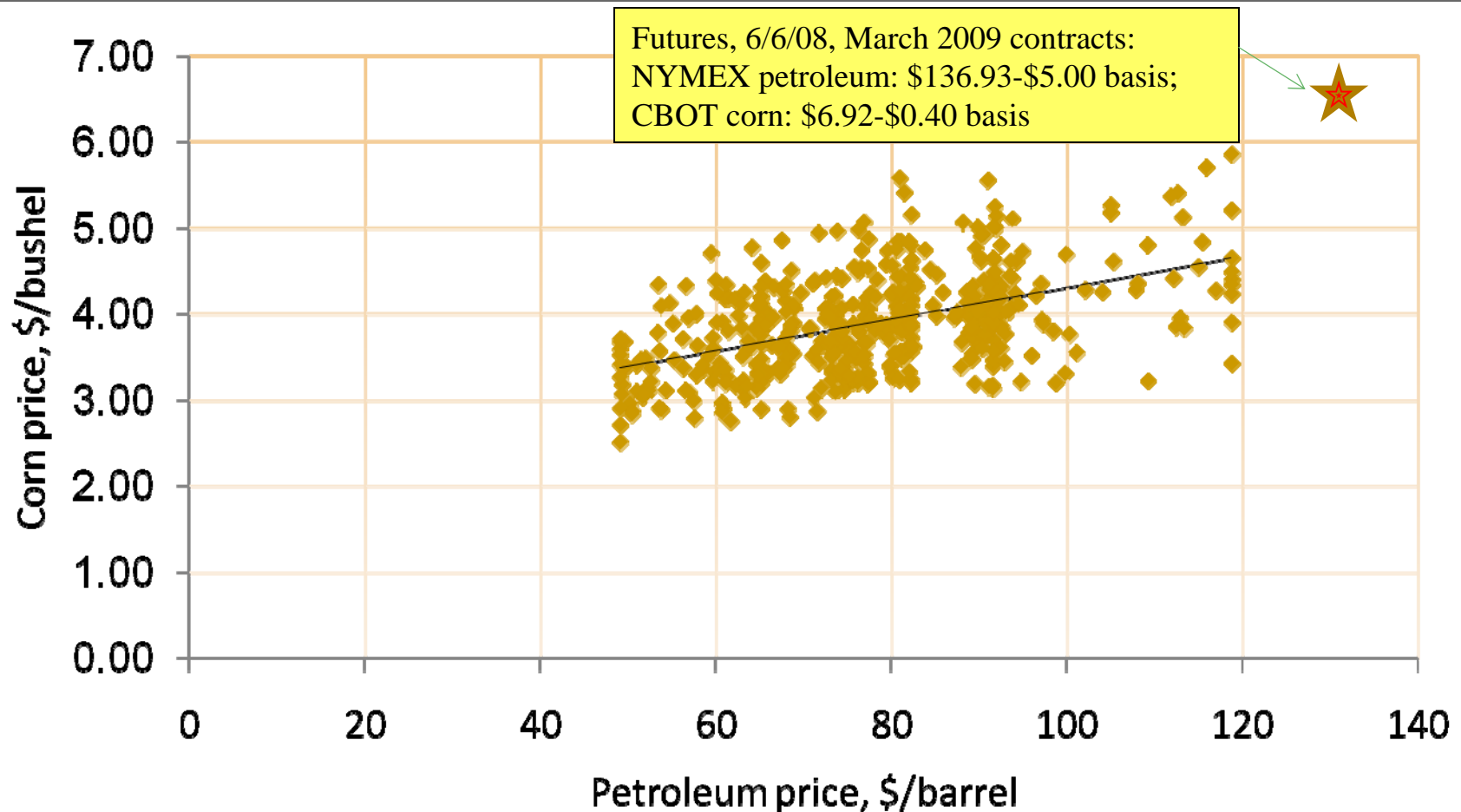


# 2008/09 corn, petroleum prices



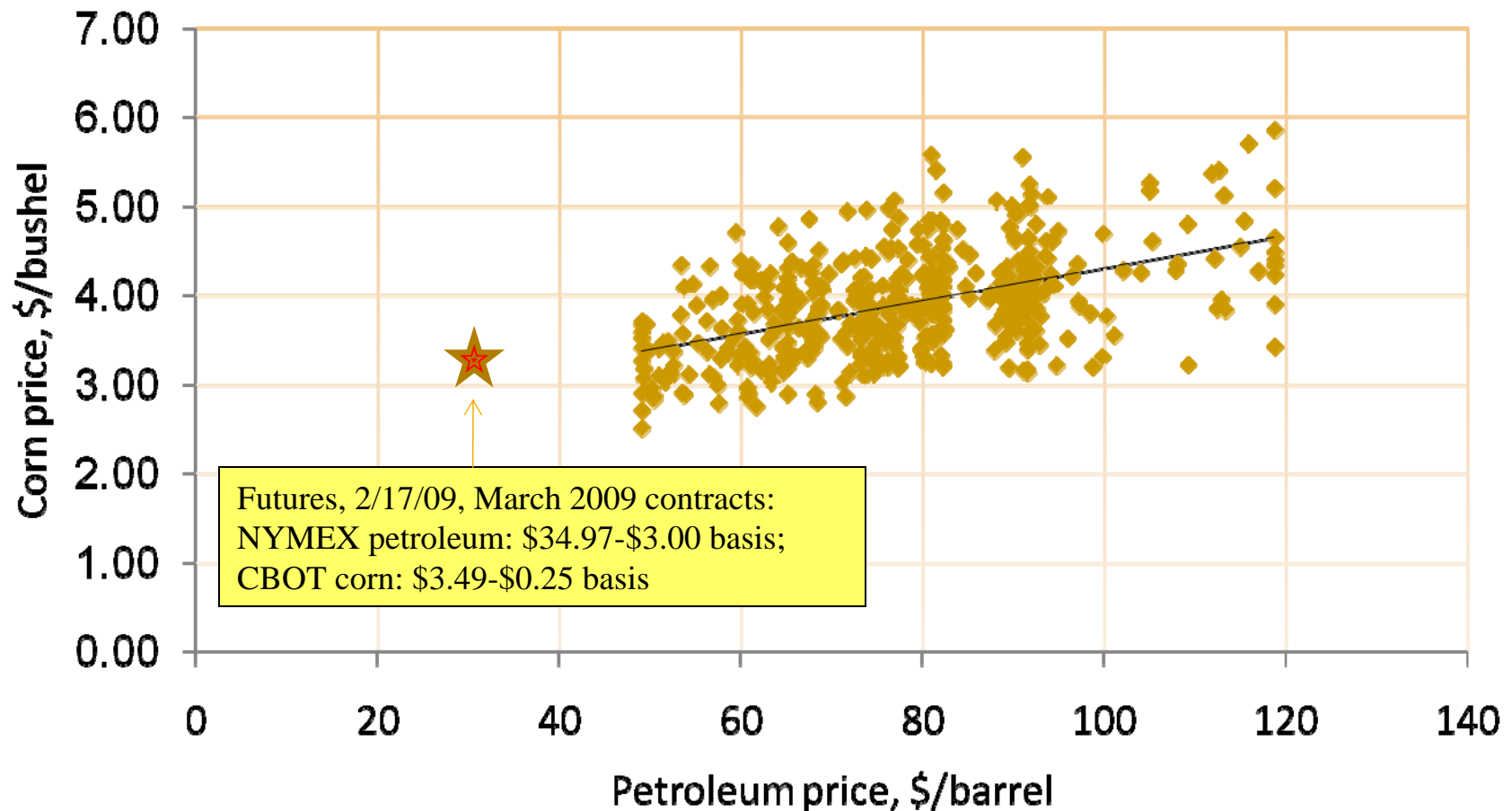
Source: FAPRI 2008 stochastic baseline. FAPRI is now developing its 2009 stochastic baseline.

# 2008/09 corn, petroleum prices



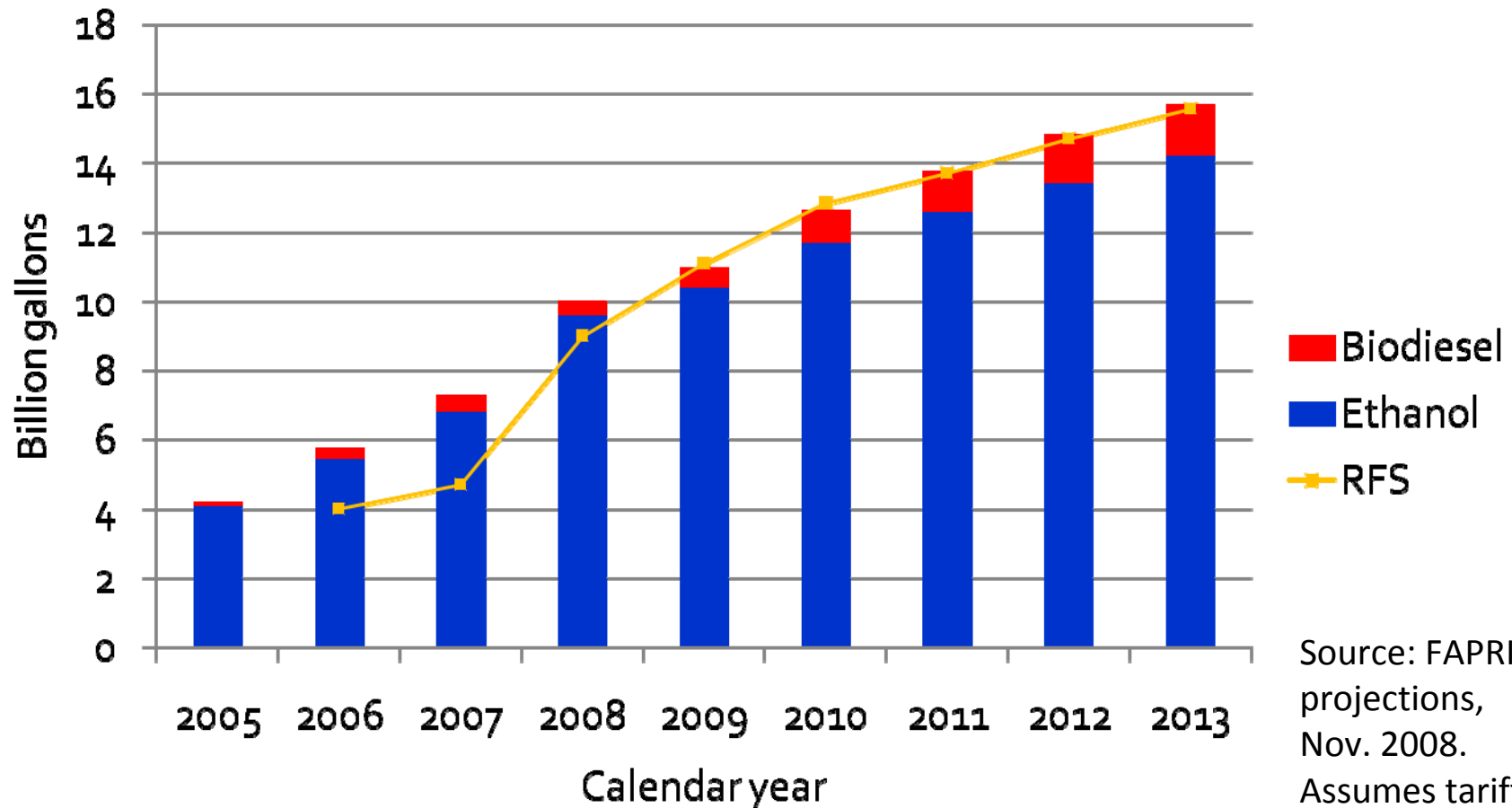
Source: FAPRI 2008 stochastic baseline. FAPRI is now developing its 2009 stochastic baseline.

# 2008/09 corn, petroleum prices



Source: FAPRI 2008 stochastic baseline. FAPRI is now developing its 2009 stochastic baseline.

# Biofuel consumption and the Renewable Fuel Standard (RFS)



Source: FAPRI-projections, Nov. 2008.  
Assumes tariffs and tax credits extended

Notes: RFS adjusted for projected shortfall in cellulosic production relative to mandate; one gallon of biodiesel assumed to count as 1.5 gallons of biofuel

# FAPRI price projections

Nov. 2008 preliminary baseline (new projections forthcoming)

	2000-06 avg.	2007-08 avg.	2009-18 avg.
Corn farm price/bushel	\$2.24	\$4.05	\$4.21
Soybean farm price/bushel	\$5.66	\$9.68	\$10.12
Wheat farm price/bushel	\$3.35	\$6.64	\$5.92
Cotton farm price/pound	46.0¢	54.9¢	58.3¢
Rice farm price/cwt	\$6.77	\$14.65	\$13.85
Fed cattle (Neb. direct)/cwt	\$78.79	\$92.05	\$102.04
Hogs (51-52% lean, live eq.)/cwt	\$44.95	\$47.47	\$54.35
Chicken (12-city wholesale)/lb.	63.15¢	78.05¢	86.43¢
All-milk price/cwt	\$13.78	\$18.73	\$18.02

Data for 2000-2006 based on Feb. 2009 USDA estimates. Data for 2009-18 based on FAPRI projections prepared in Nov. 2008. New FAPRI projections will be released next week.

# Final shameless advertising plug

- **New** FAPRI baseline scheduled for release March 5 or 6
- Will be based on information available in January
  - Thus more current than USDA long-term outlook based on November information
  - But not as current as USDA short-term outlook discussed here at the Forum



# THANKS!

- To contact me: [westhoffp@missouri.edu](mailto:westhoffp@missouri.edu)
- FAPRI-Missouri website for US projections: [www.fapri.missouri.edu](http://www.fapri.missouri.edu)
- FAPRI-Iowa State website for global projections: [www.fapri.iastate.edu](http://www.fapri.iastate.edu)