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# Economic Outlook for Agriculture in 2011

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**March 16, 2011**

**Webinar**

**David Oppedahl**

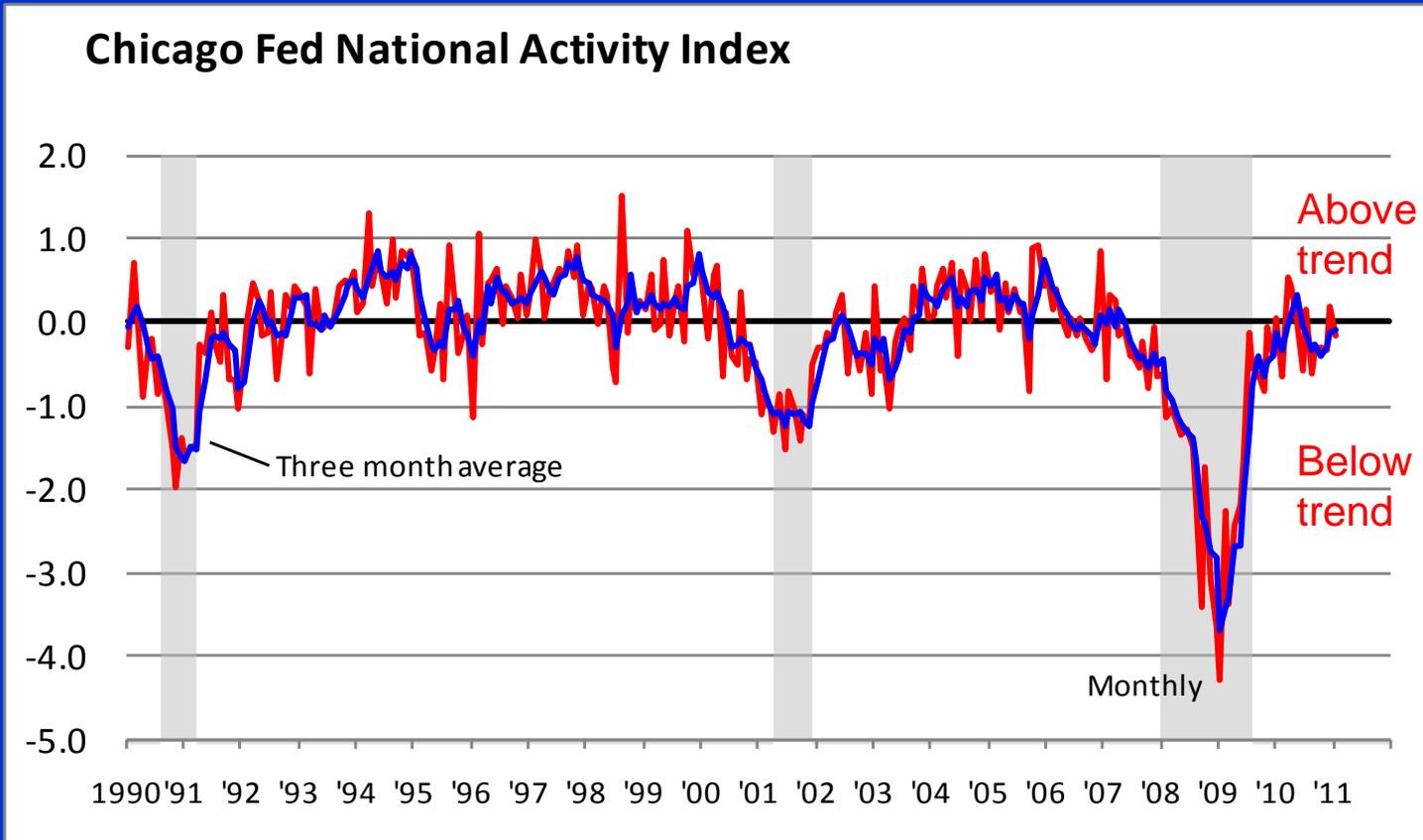
**Business Economist**

**Federal Reserve Bank of  
Chicago**

**312-322-6122**

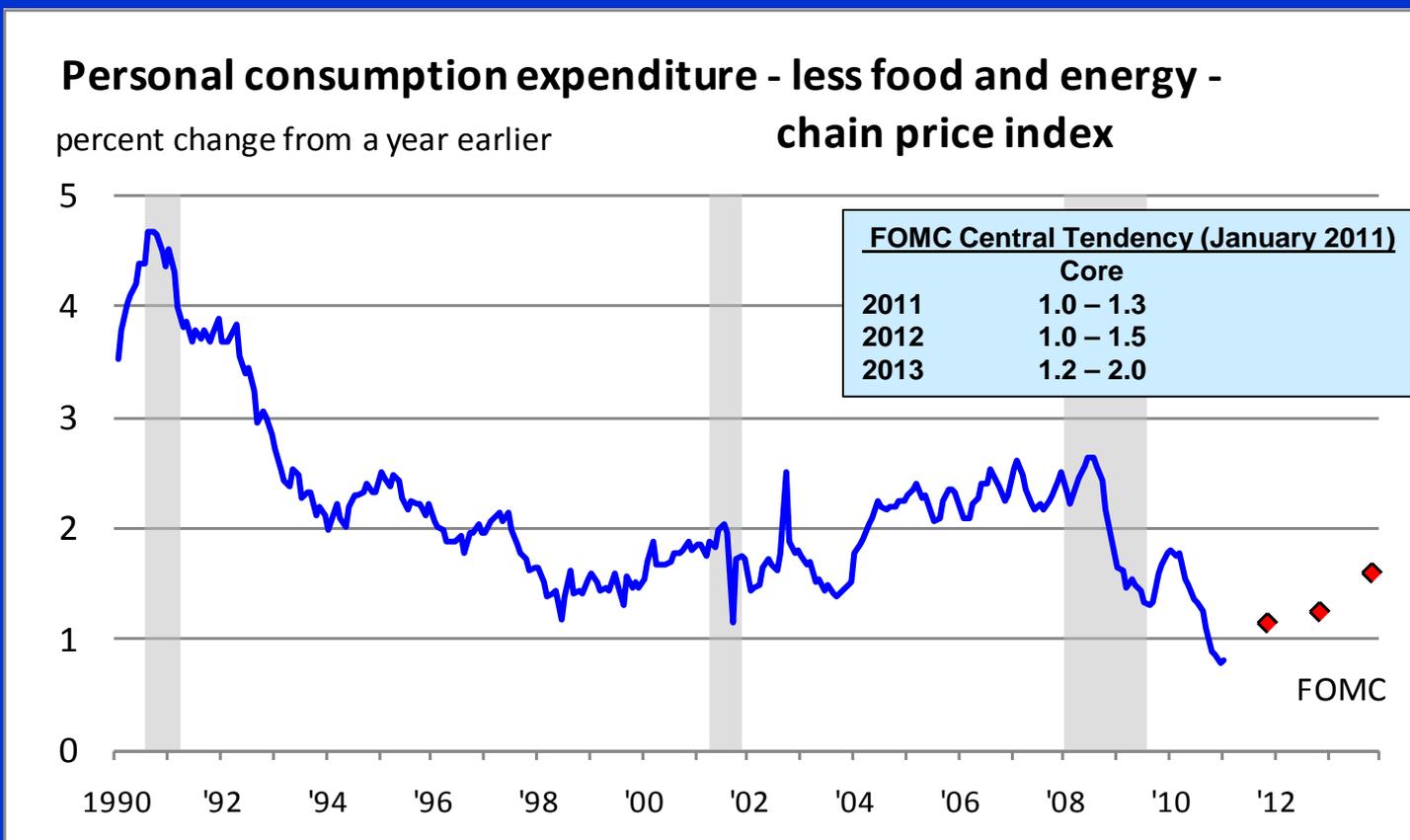
**[david.oppedahl@chi.frb.org](mailto:david.oppedahl@chi.frb.org)**

# The Chicago Fed National Activity Index shows economic growth close to trend rate

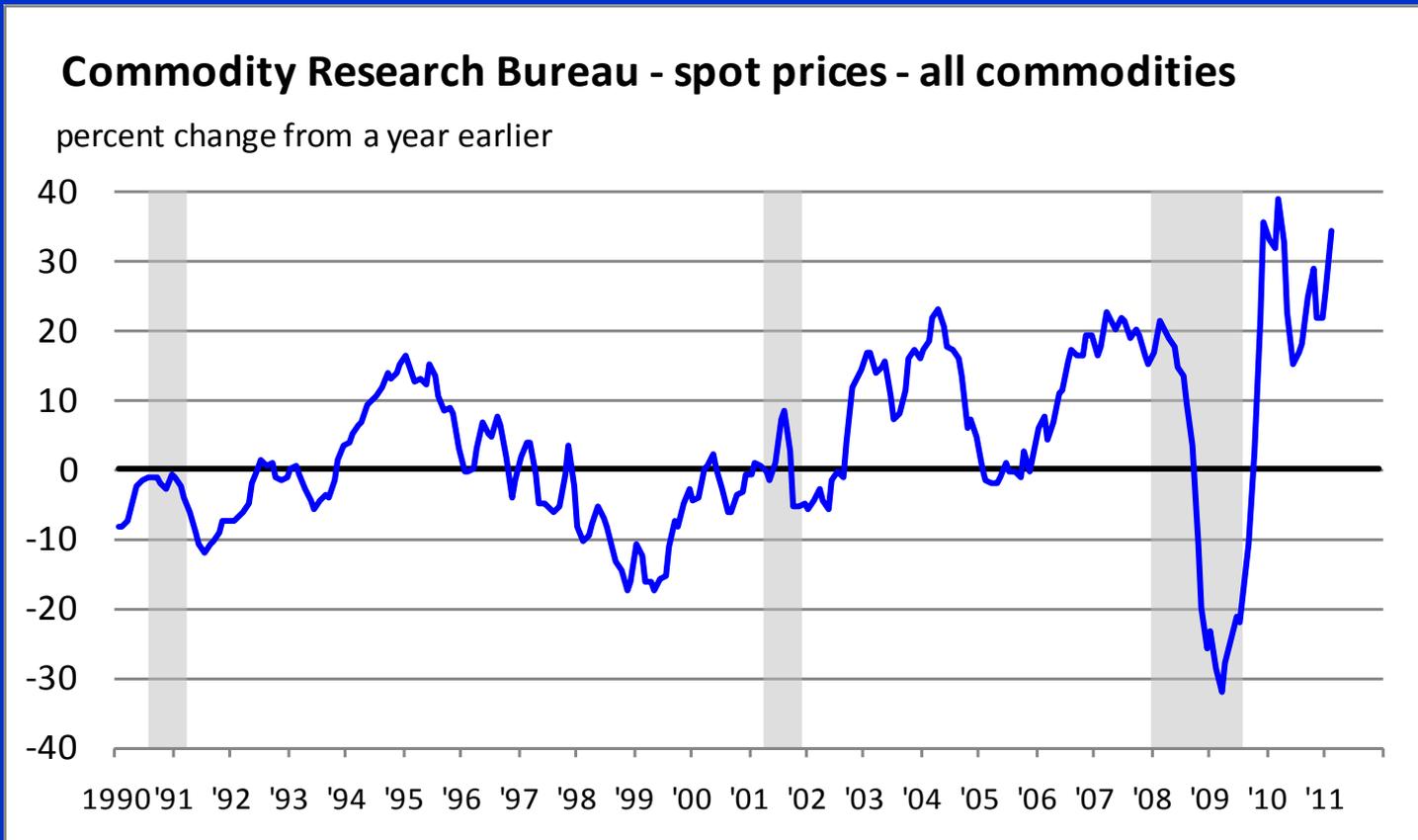


# “Core” inflation remains contained

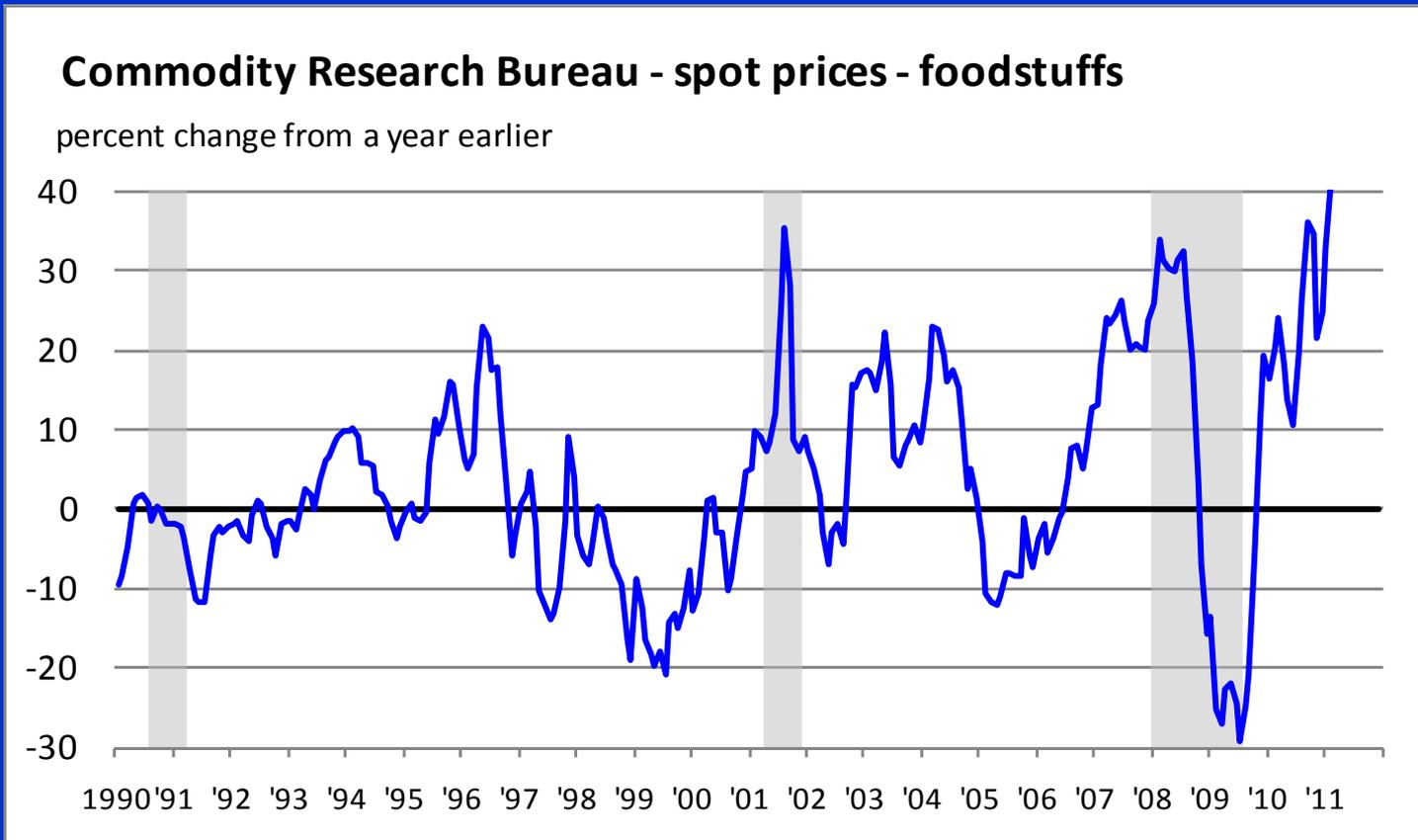
(volatile food and energy components excluded)



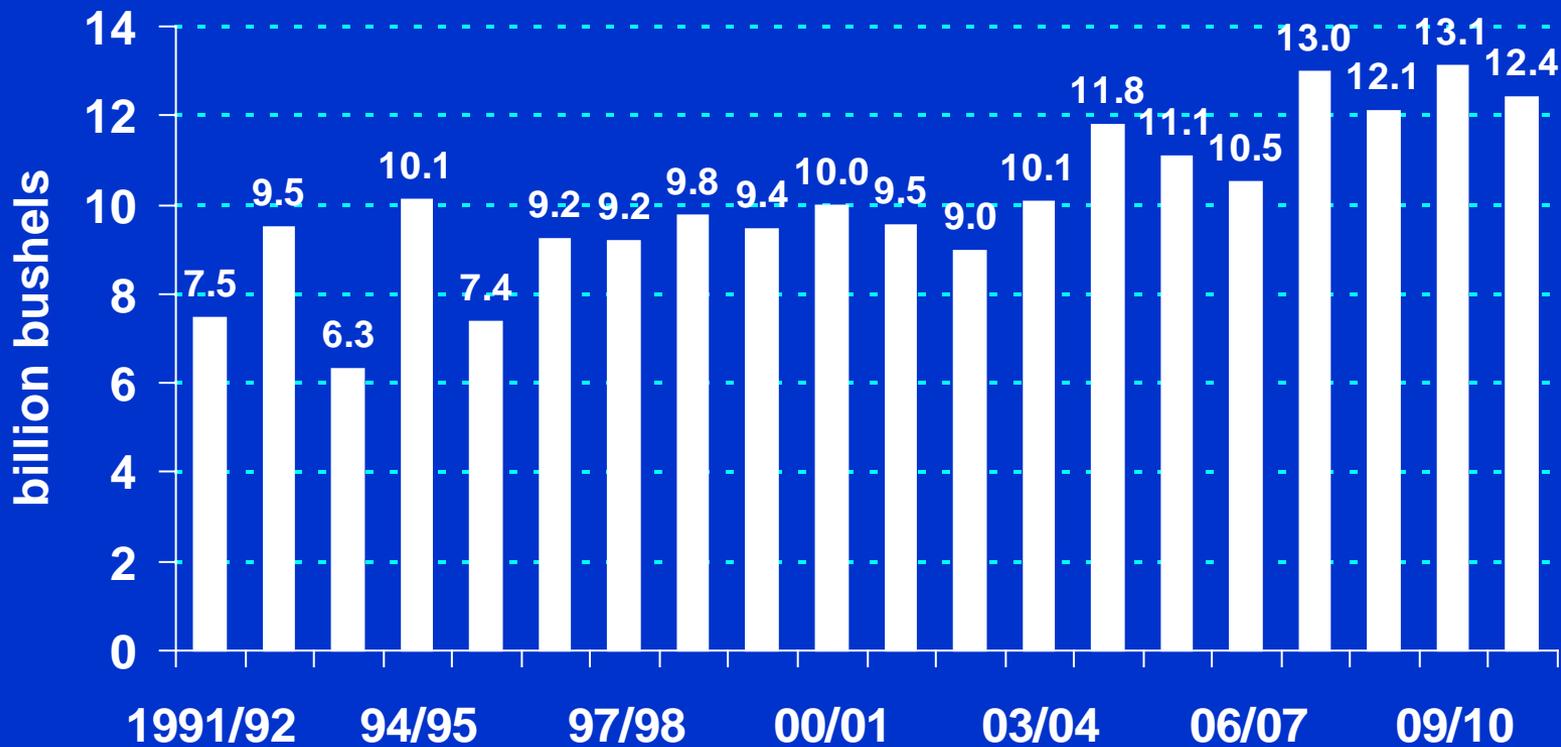
# Commodity prices have been moving higher



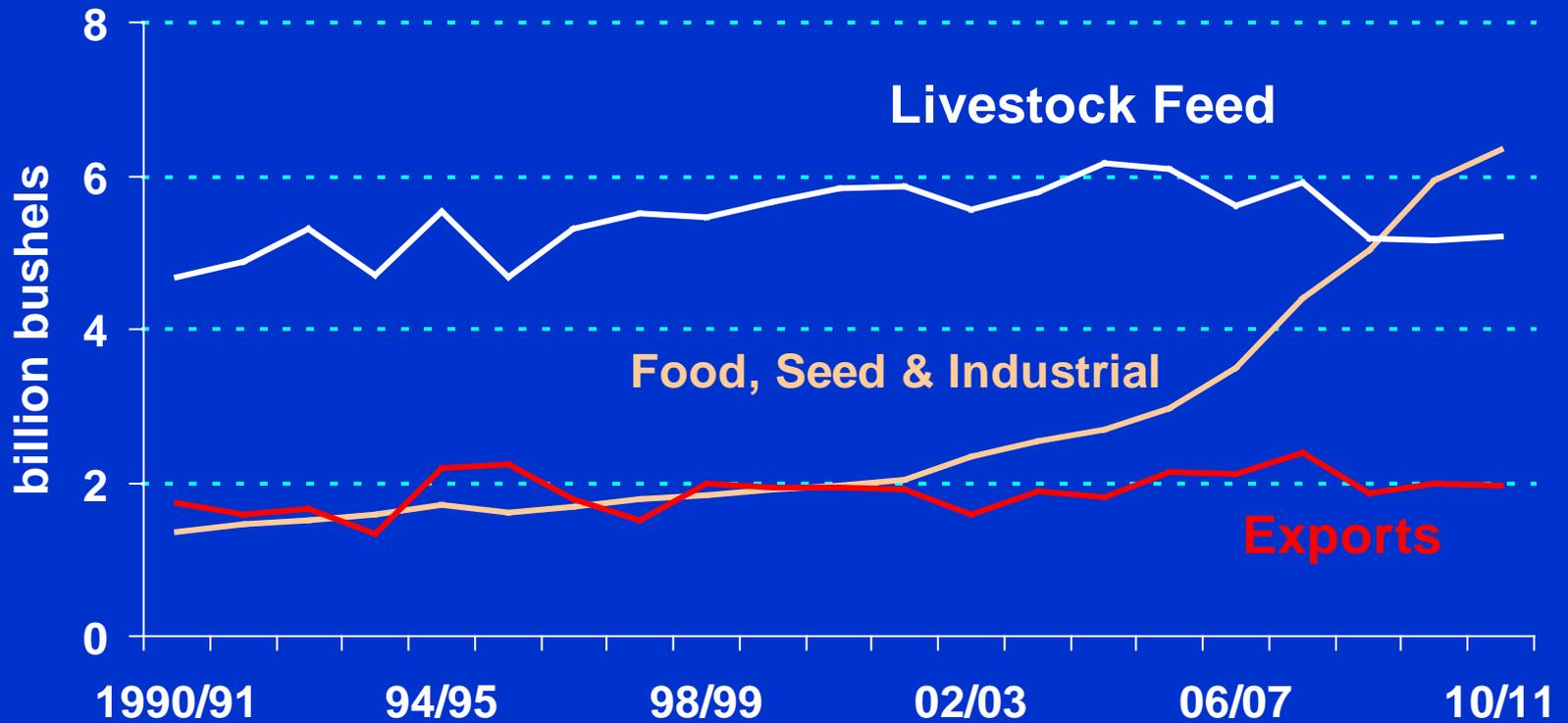
# Foodstuffs price growth has increased (index of 10 commodities)



## *Corn harvest was third largest for U.S.*



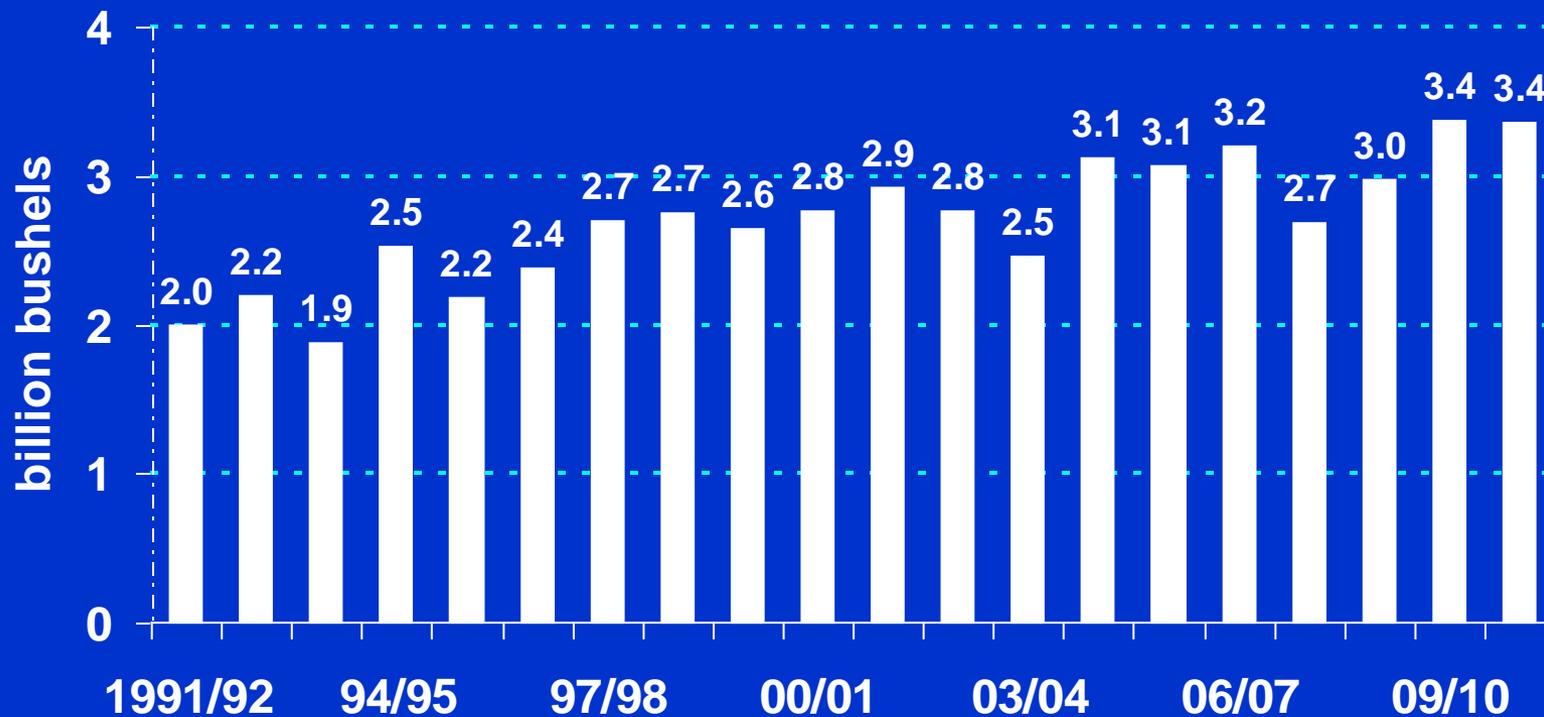
# *Growth in industrial demand (especially for ethanol production) surpassed feed demand*



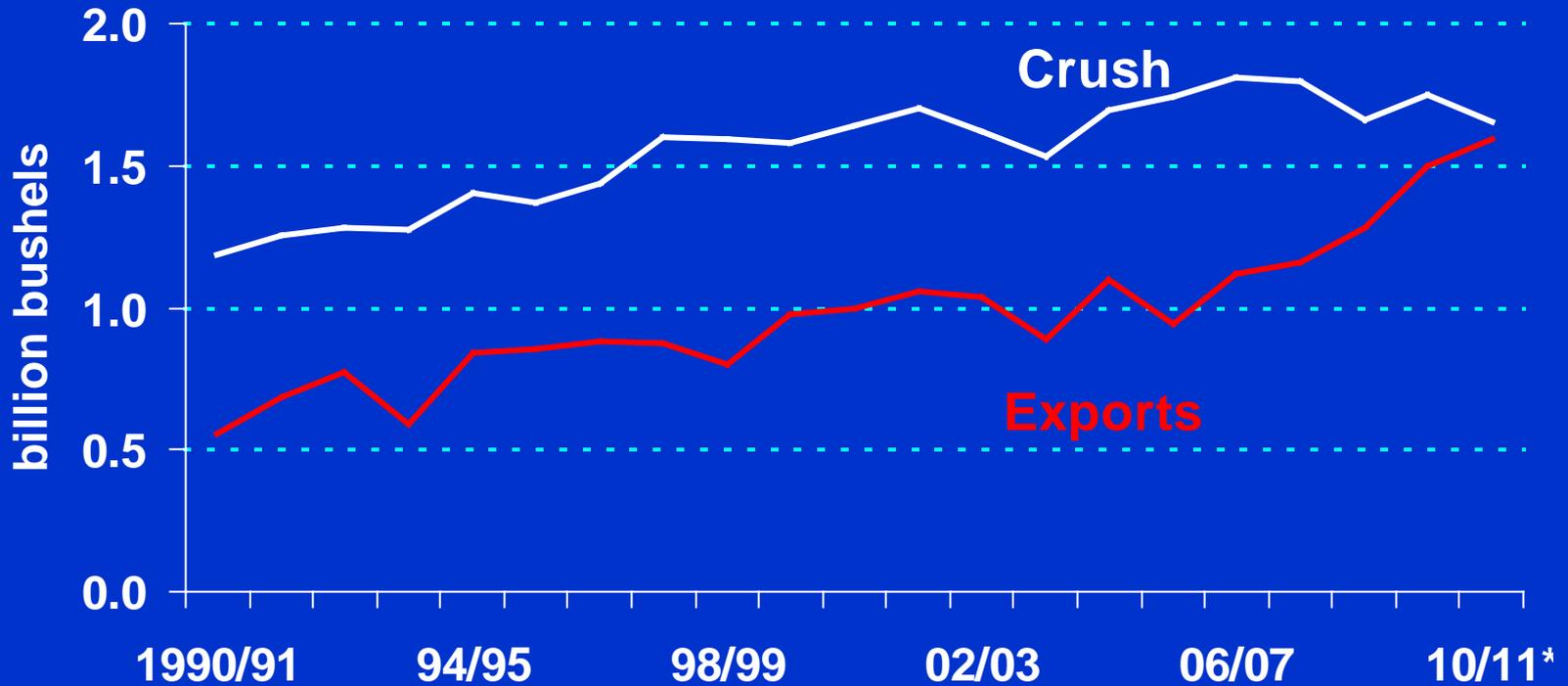
## *Lower corn stocks and higher prices in 2010-11*



## *Soybean harvest was just below last year's record*



*Crushing of soybeans is stalling  
while exports have gradually climbed*

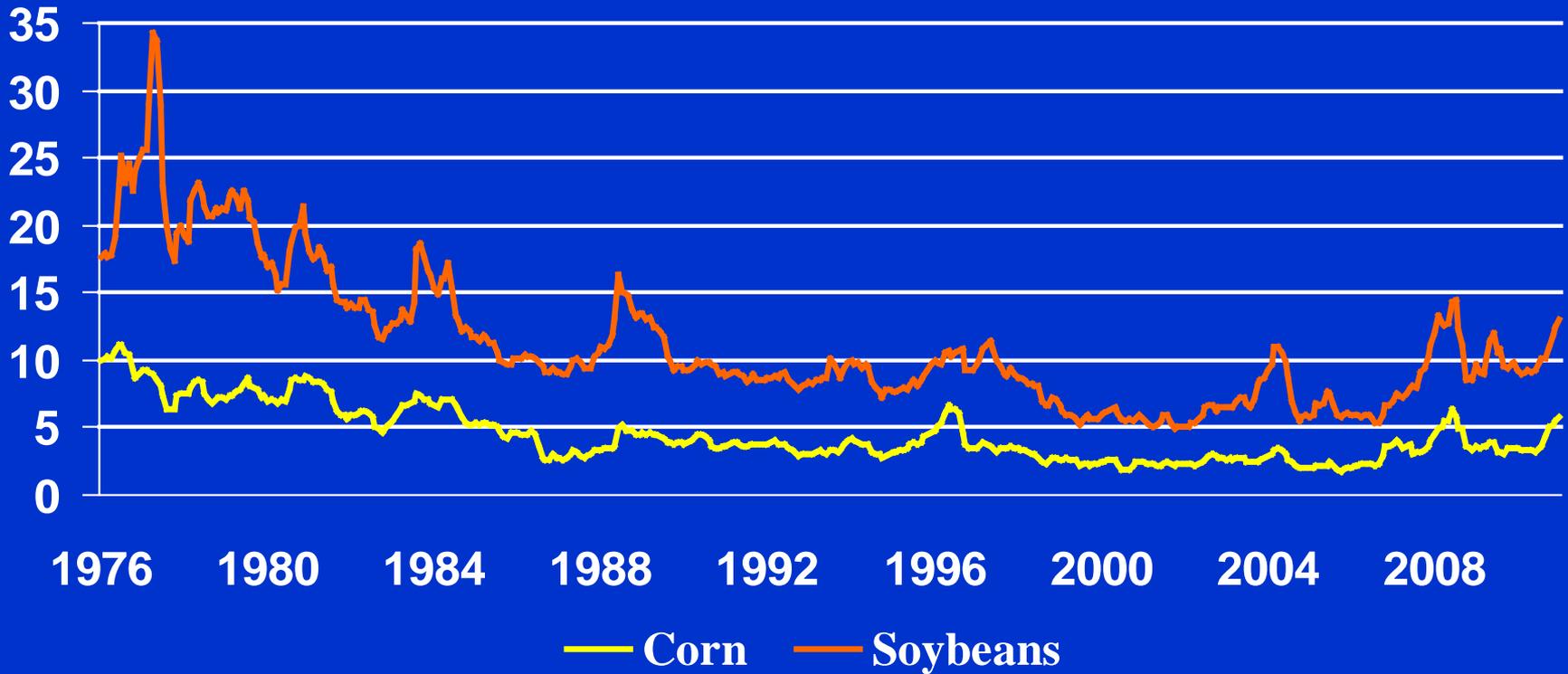


## *Prices moving higher as soybeans remain scarce*



# Real Cash Crop Prices

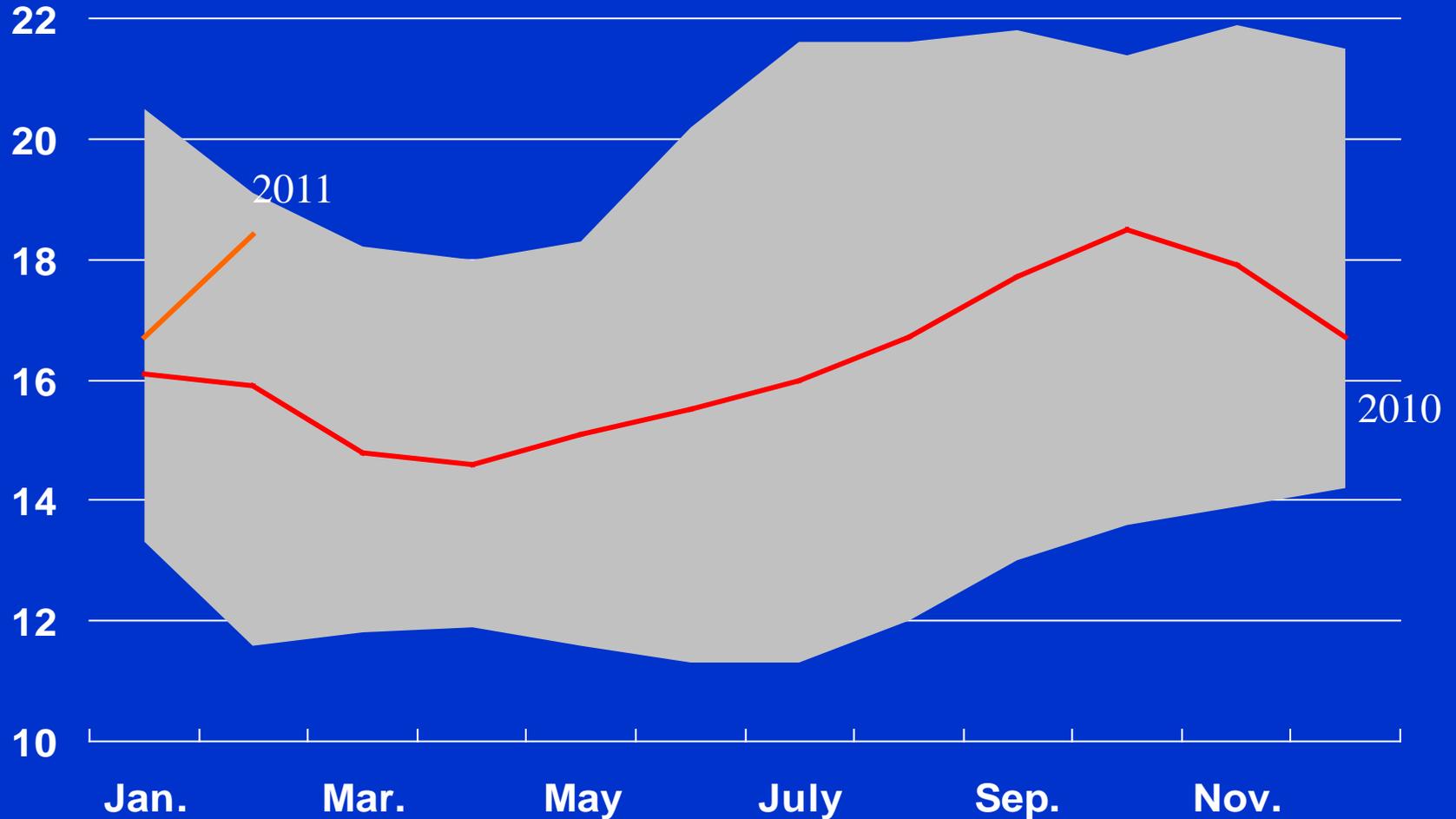
(\$/bushel, adjusted by CPI-U for January 2008)



# Milk Prices

*dollars per cwt.*

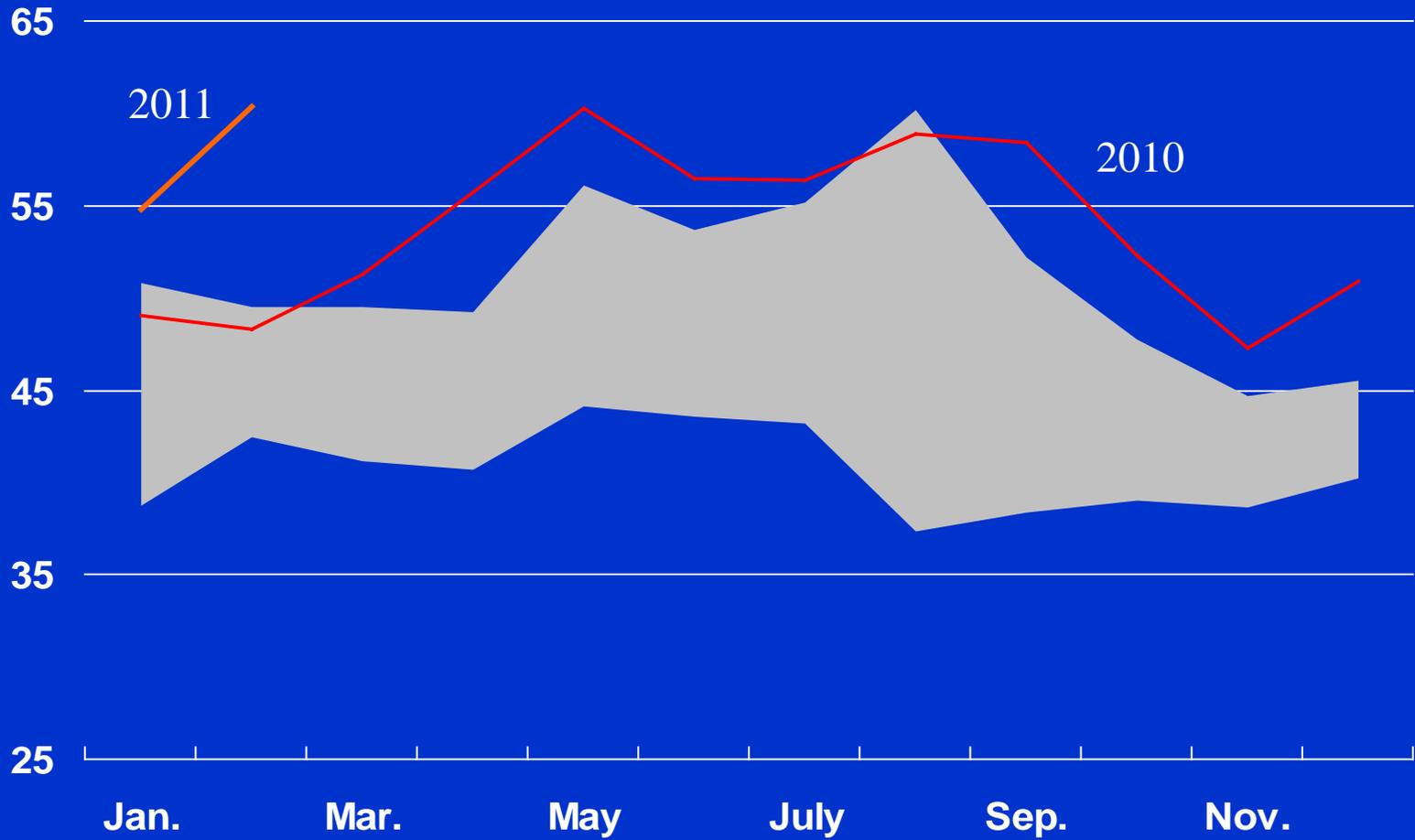
2005–2009 range



# Hog Prices

*dollars per cwt.*

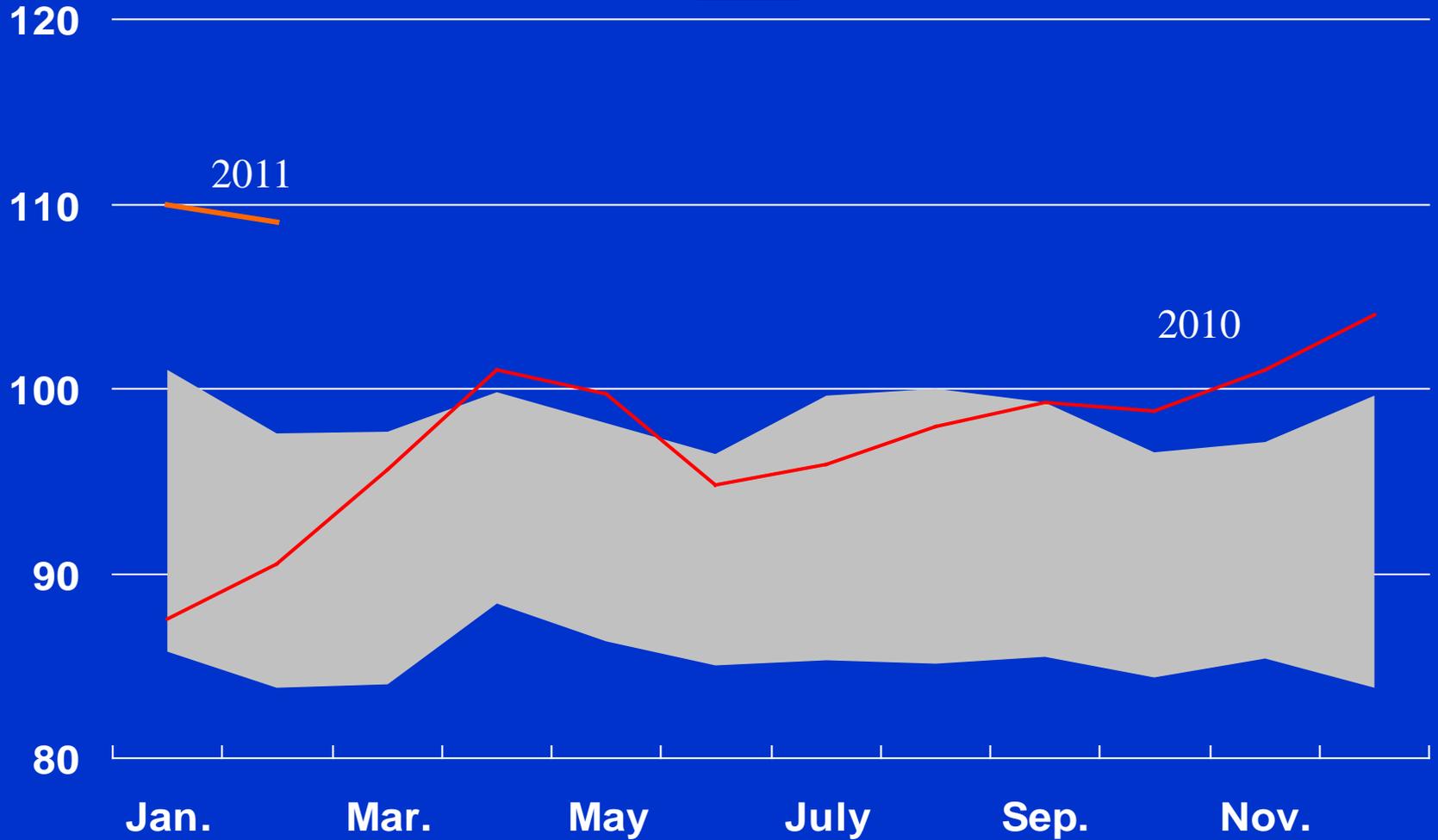
2005–2009 range



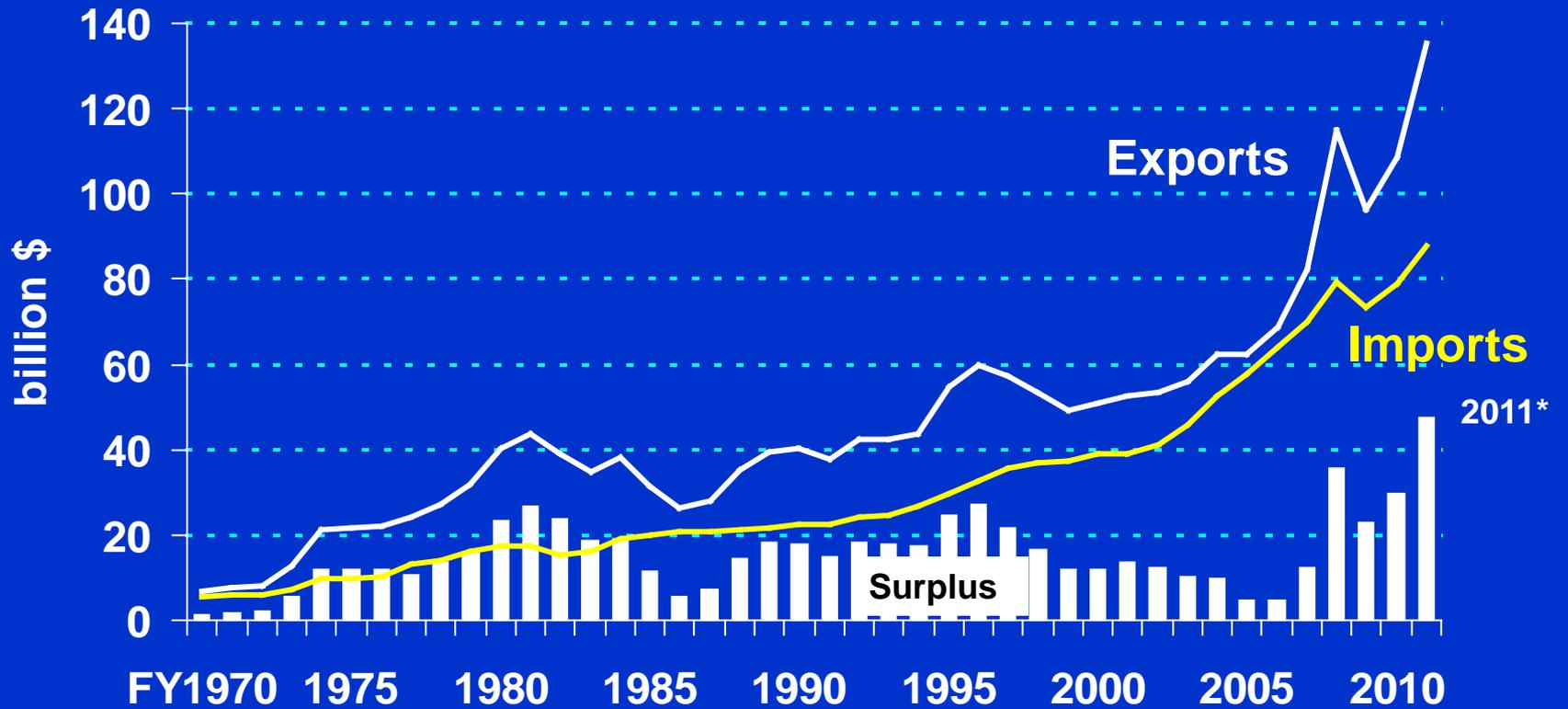
# Cattle Prices

*dollars per cwt.*

2005–2009 range

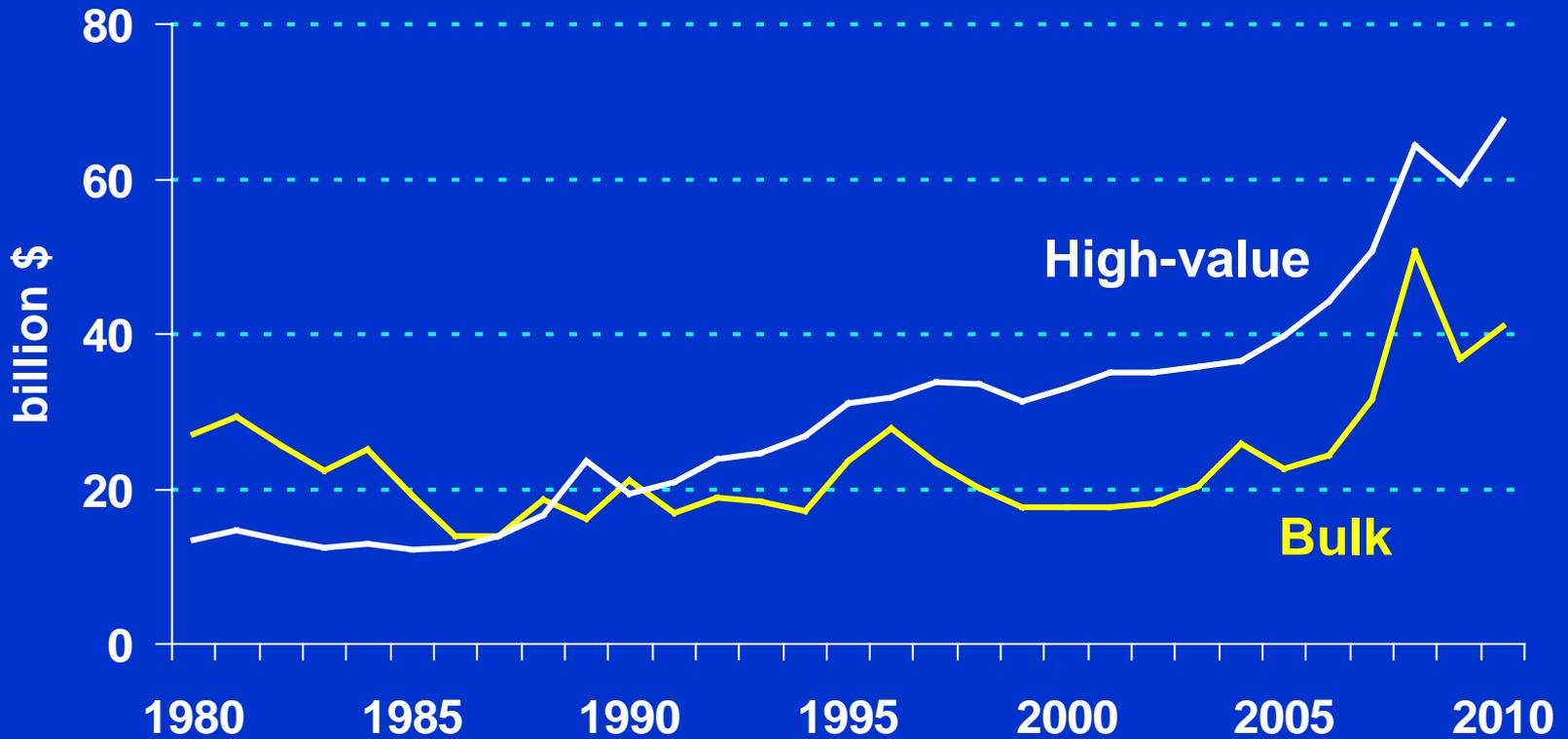


## *Value of agricultural exports surging again, especially to Asia*



(\*USDA projection)

*High-value exports are the star performers,  
with bulk exports more variable*



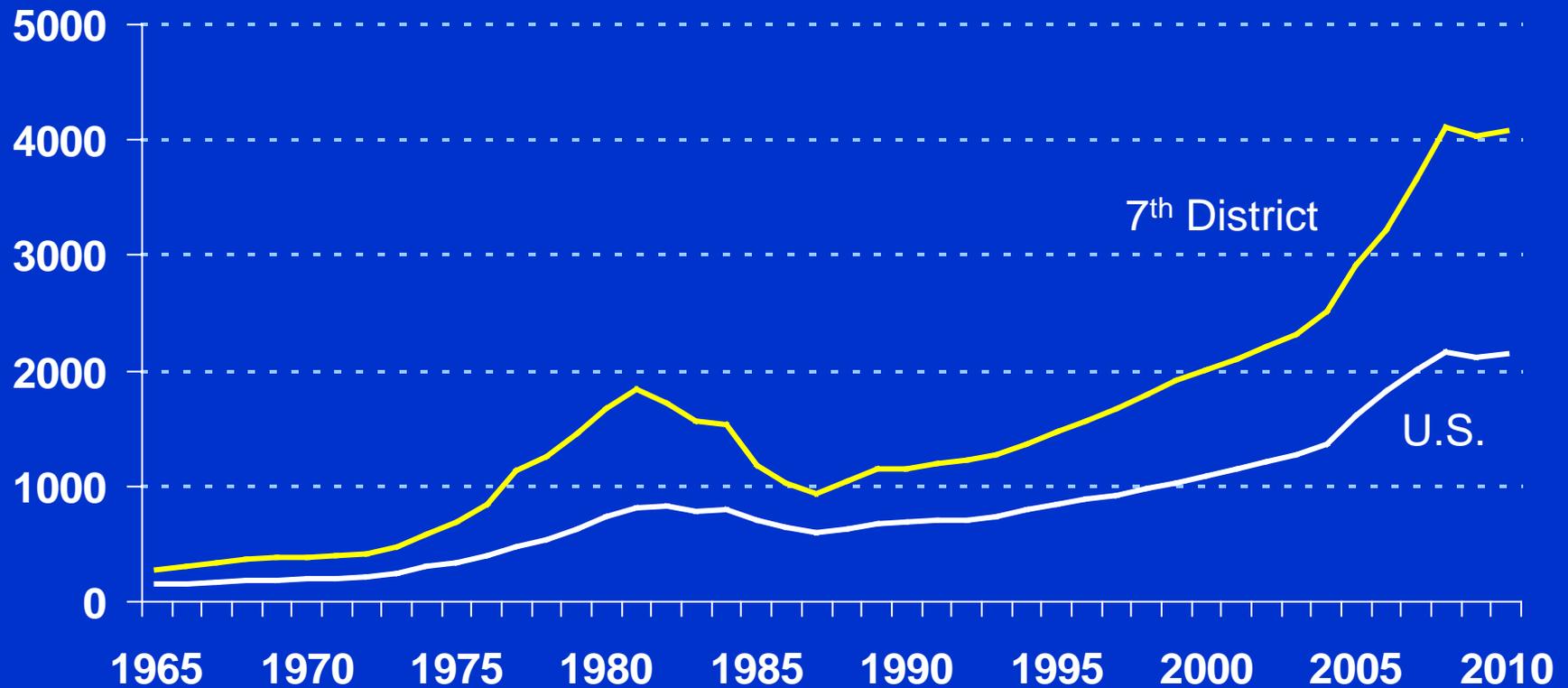
# ***Growth Potential for Ag Exports***

- **Exports are key to profitability of agriculture**
- **In 2008 exported 1/3 of corn value and 2/3 of soybean value**
- **Only large potential growth markets are in low income countries**
- **Comparative advantage in producing products desired by people as they move up the income ladder (animal products, feeds, and edible oils)**

# ***Resource Constraints Drive Trade***

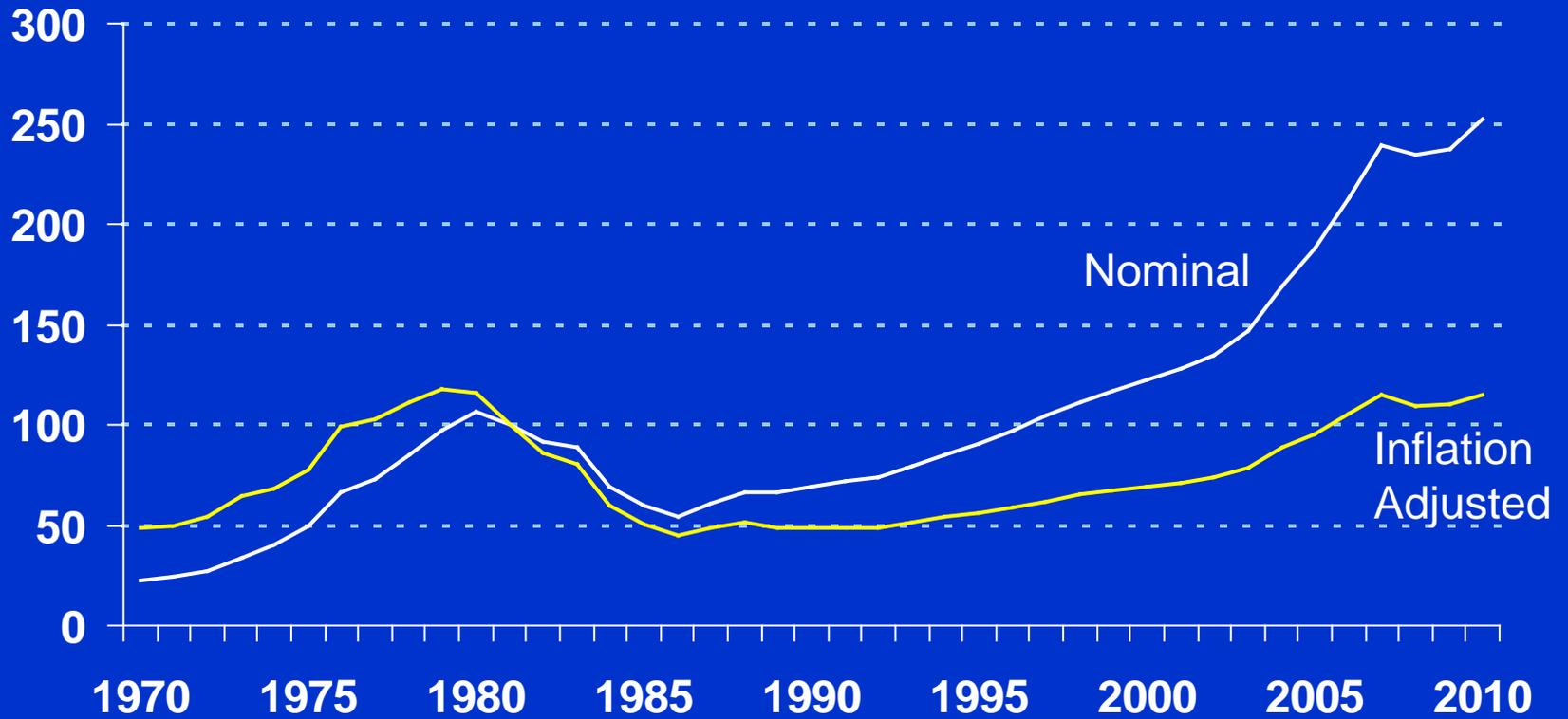
- **At most 12% more arable land available worldwide for agriculture (without destruction)**
- **Inferior quality or degraded land in many areas**
- **Agriculture uses 70% of world's fresh water**
- **Water is a scarce resource in much of the world, but it's not priced that way**
- **To meet world food demand sustainably there will need to be huge increases in food system productivity around the world**
- **Larger fraction of food to move via trade due to distribution of arable land**

***Farm real estate values per acre in dollars for the U.S. and for the Chicago Federal Reserve District (weighted by acres from USDA data)***



# *Index of U.S. farm real estate values*

*(1981=100, based on USDA data)*



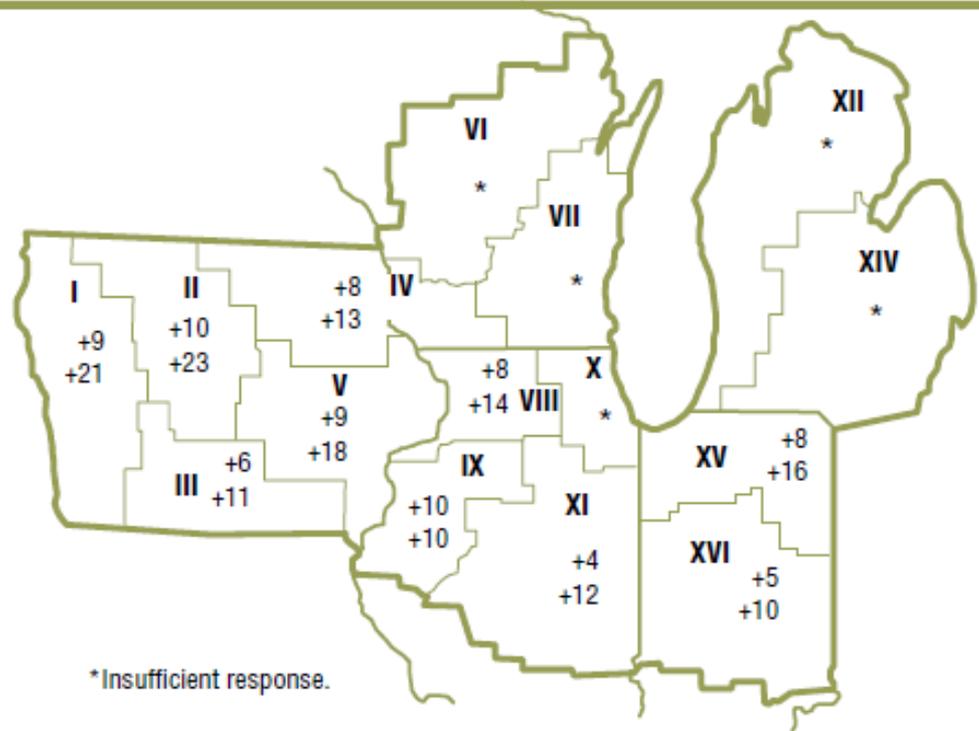
# Survey results for January 1, 2011

## Percent change in dollar value of "good" farmland

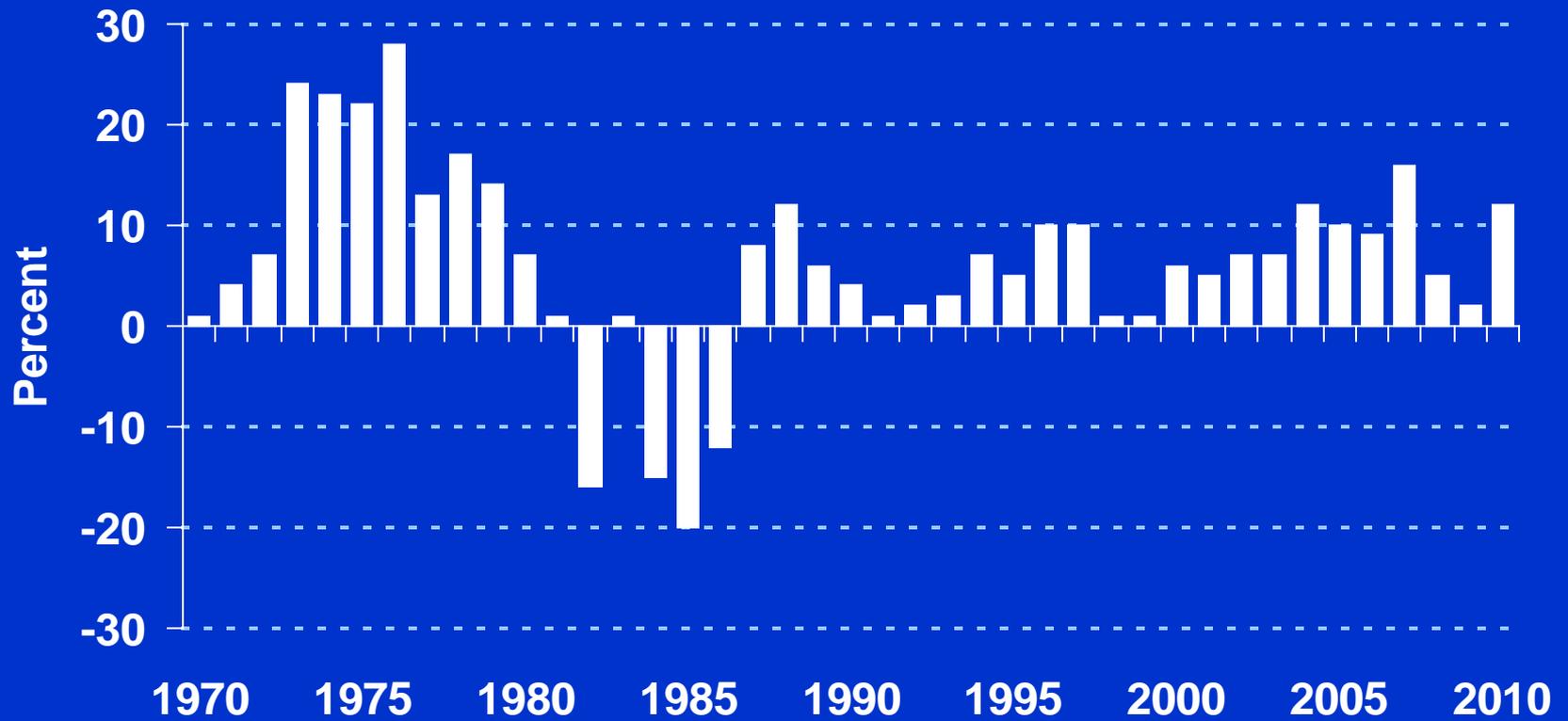
Top: October 1, 2010 to January 1, 2011

Bottom: January 1, 2010 to January 1, 2011

	<u>October 1, 2010 to January 1, 2011</u>	<u>January 1, 2010 to January 1, 2011</u>
Illinois	+7	+11
Indiana	+6	+12
Iowa	+8	+18
Michigan	-1	+4
Wisconsin	+2	+7
Seventh District	+6	+12



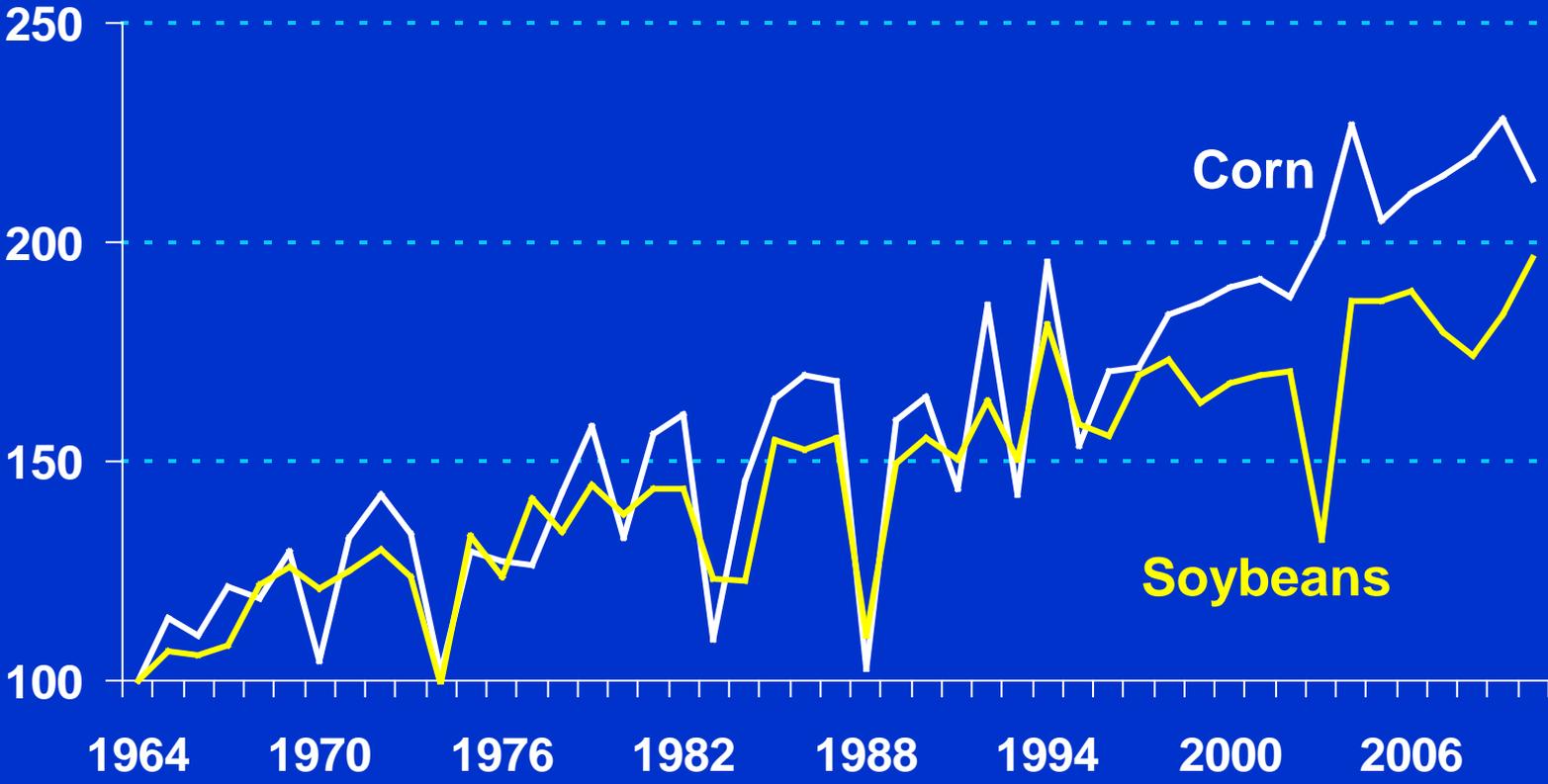
# *Annual change in farmland values in Chicago Federal Reserve District*



## *Supporting factors for farmland values?*

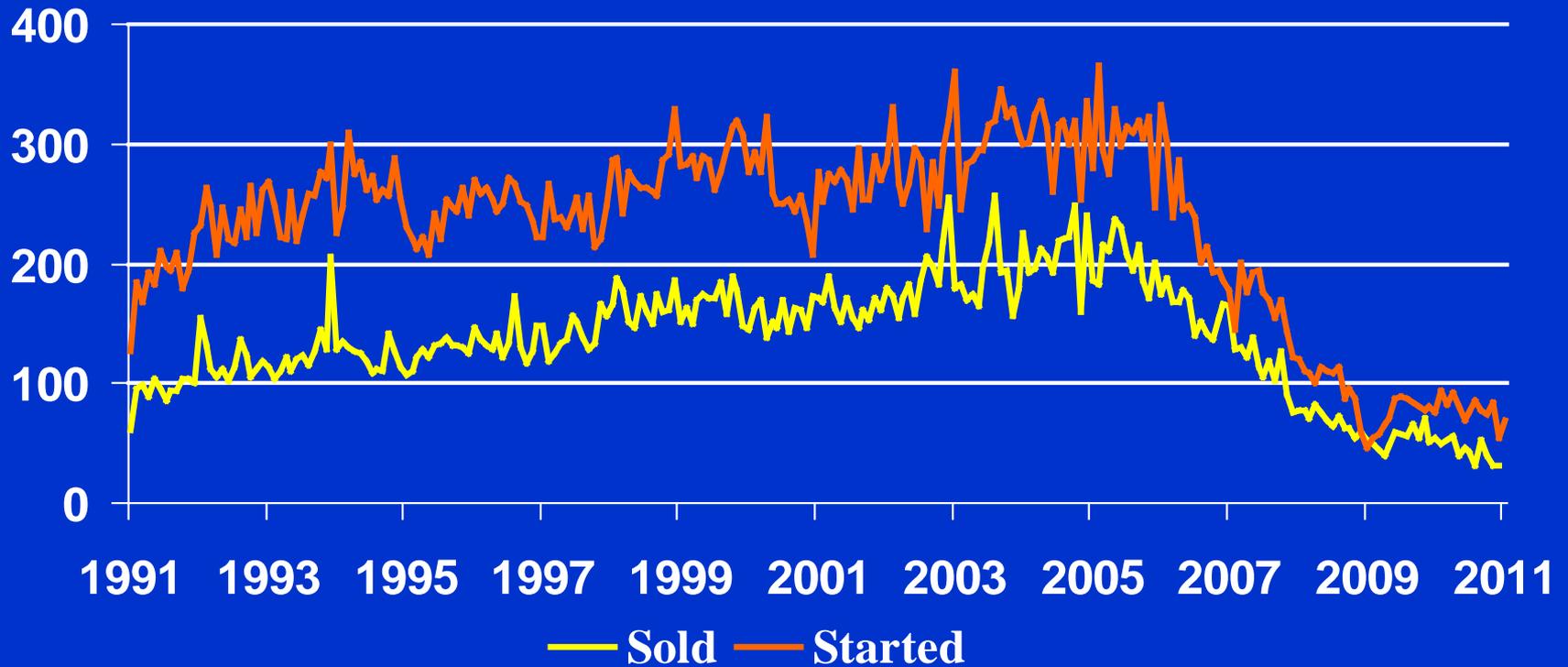
1. **Expected income stream higher, more variable**
2. **Productivity and good yields**
3. **Non-farm investment slowed  
(fewer residential and recreational buyers)**
4. **Government payments are lower;  
continued support for biofuels**
5. **Off-farm income growth is uncertain**
6. **Low interest rates**
7. **Few local sales until recently**
8. **Opportunism**

# Chicago District Crop Yield Indices (1964=100)



# Midwest New Housing Units Sold and Started

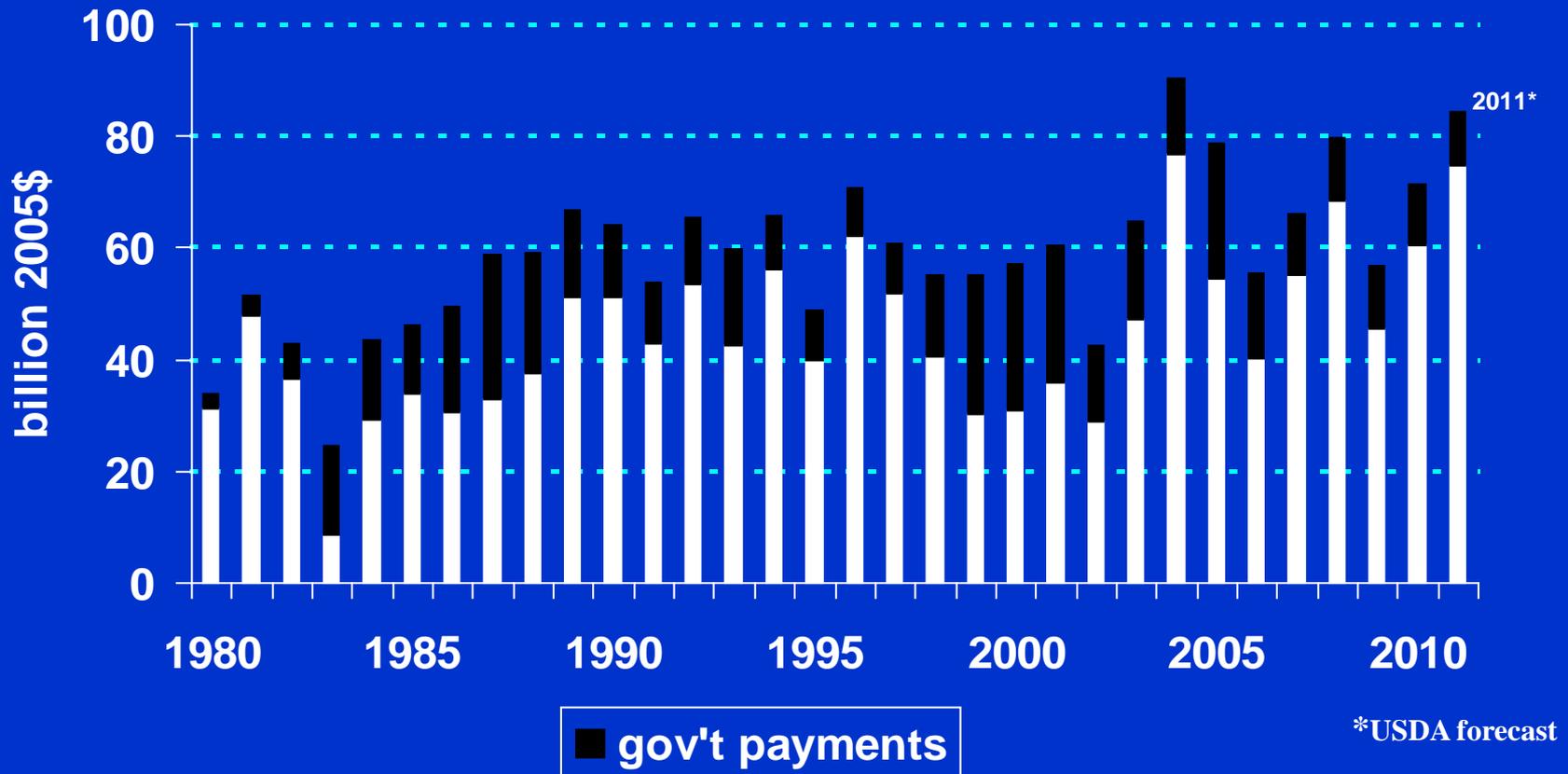
(Seasonally adjusted at annual rates, single units in thousands)



## *Financial indicators for the farm sector*

- **Net farm income forecasted to increase**
- **Farm program spending at lower levels**
- **Most farm balance sheets remain strong**
- **Interest rates are still very low**
- **Credit conditions improved in 2010**
  - **Less than 2% of loans with “major” or “severe” repayment problems (Chicago District)**
  - **Loan extensions and renewals were lower**

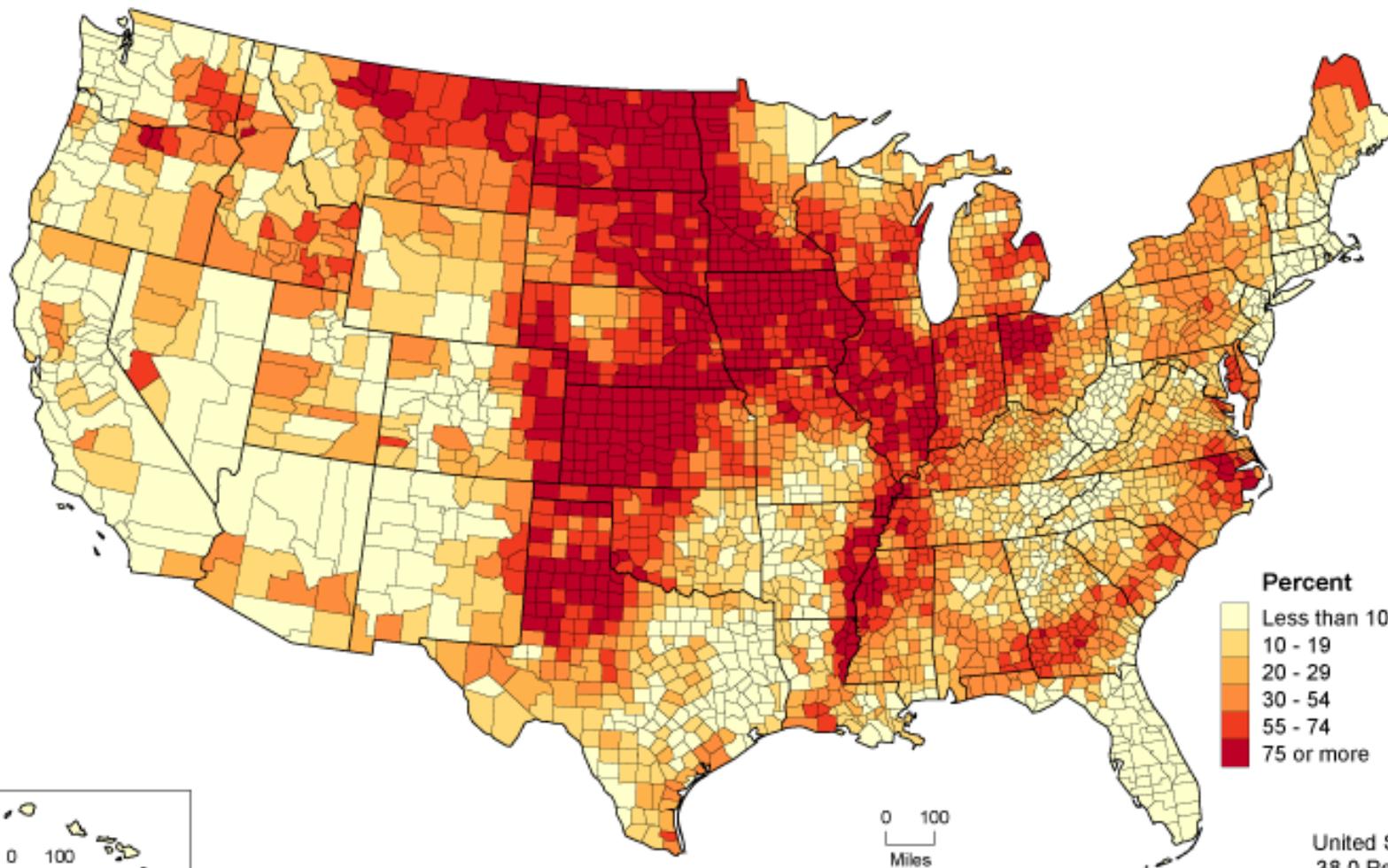
**Real net farm income boosted by direct government payments to farmers, but the regional impact varies**



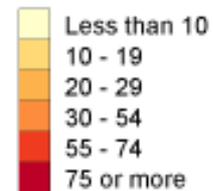
0 200  
Miles



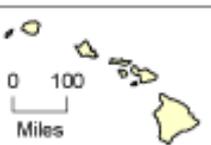
## Percent of Farms Receiving Government Payments: 2007



### Percent



0 100  
Miles

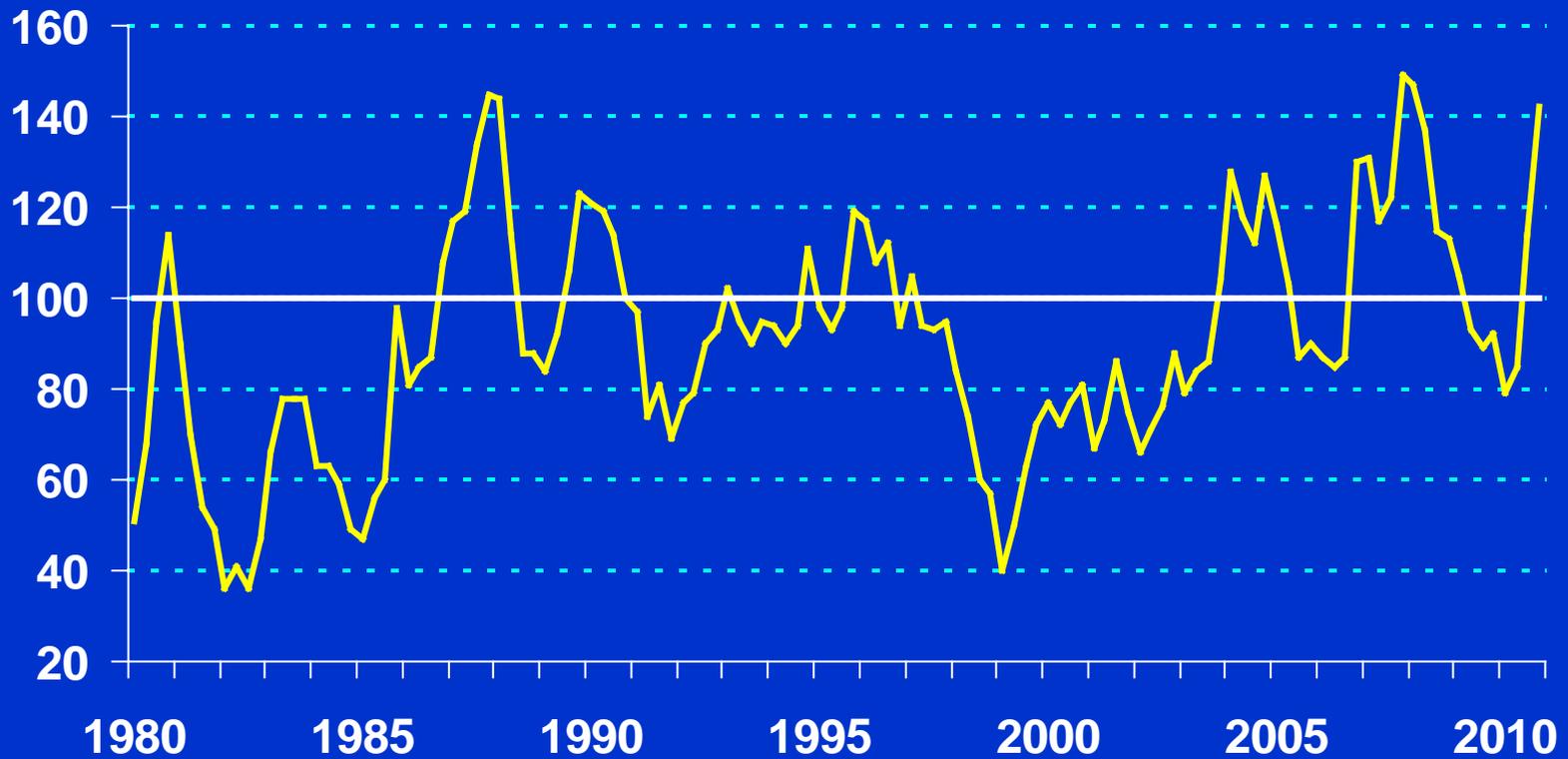


07-M040  
U.S. Department of Agriculture, National Agricultural Statistics Service

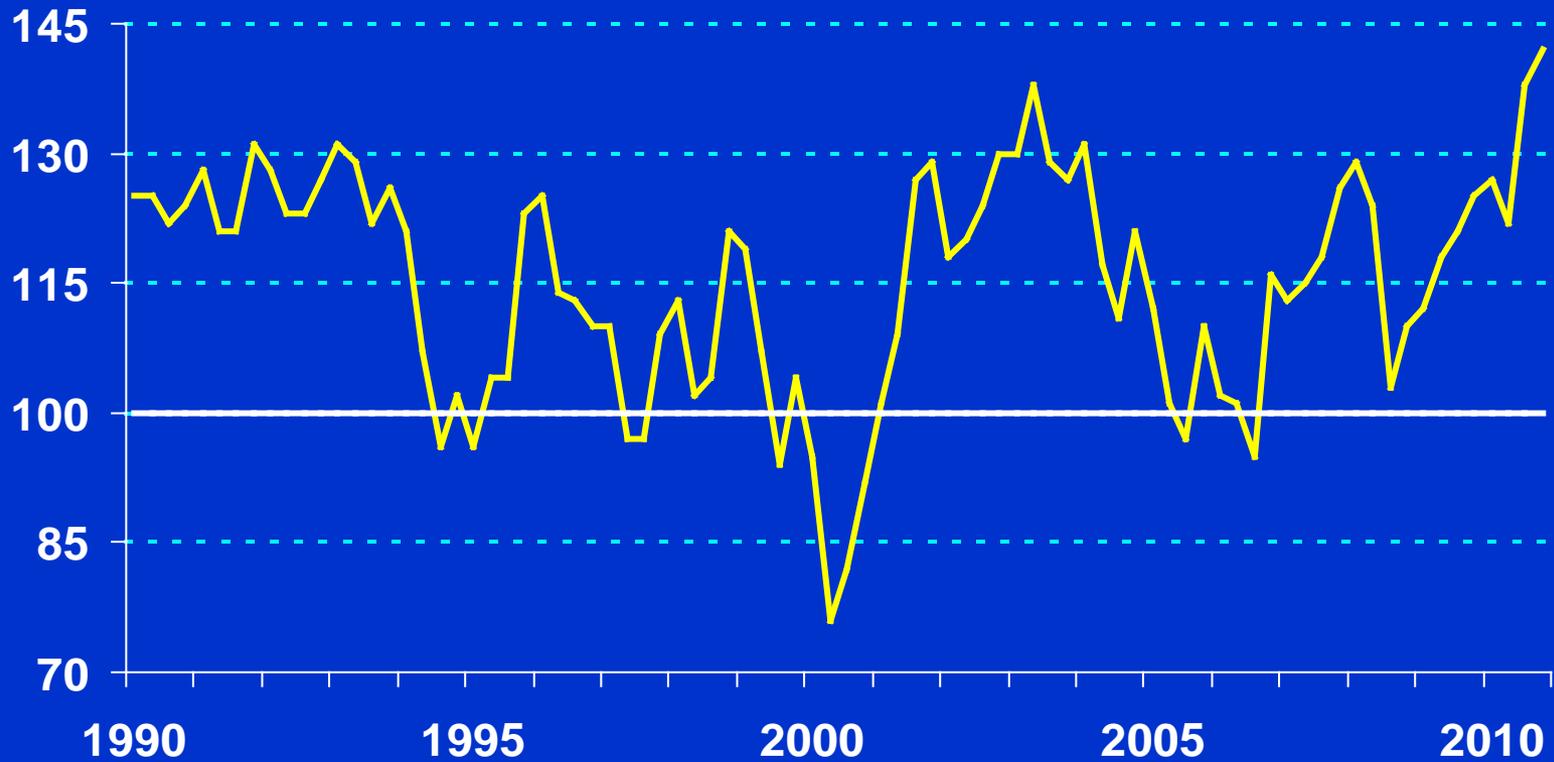
0 100  
Miles

United States  
38.0 Percent

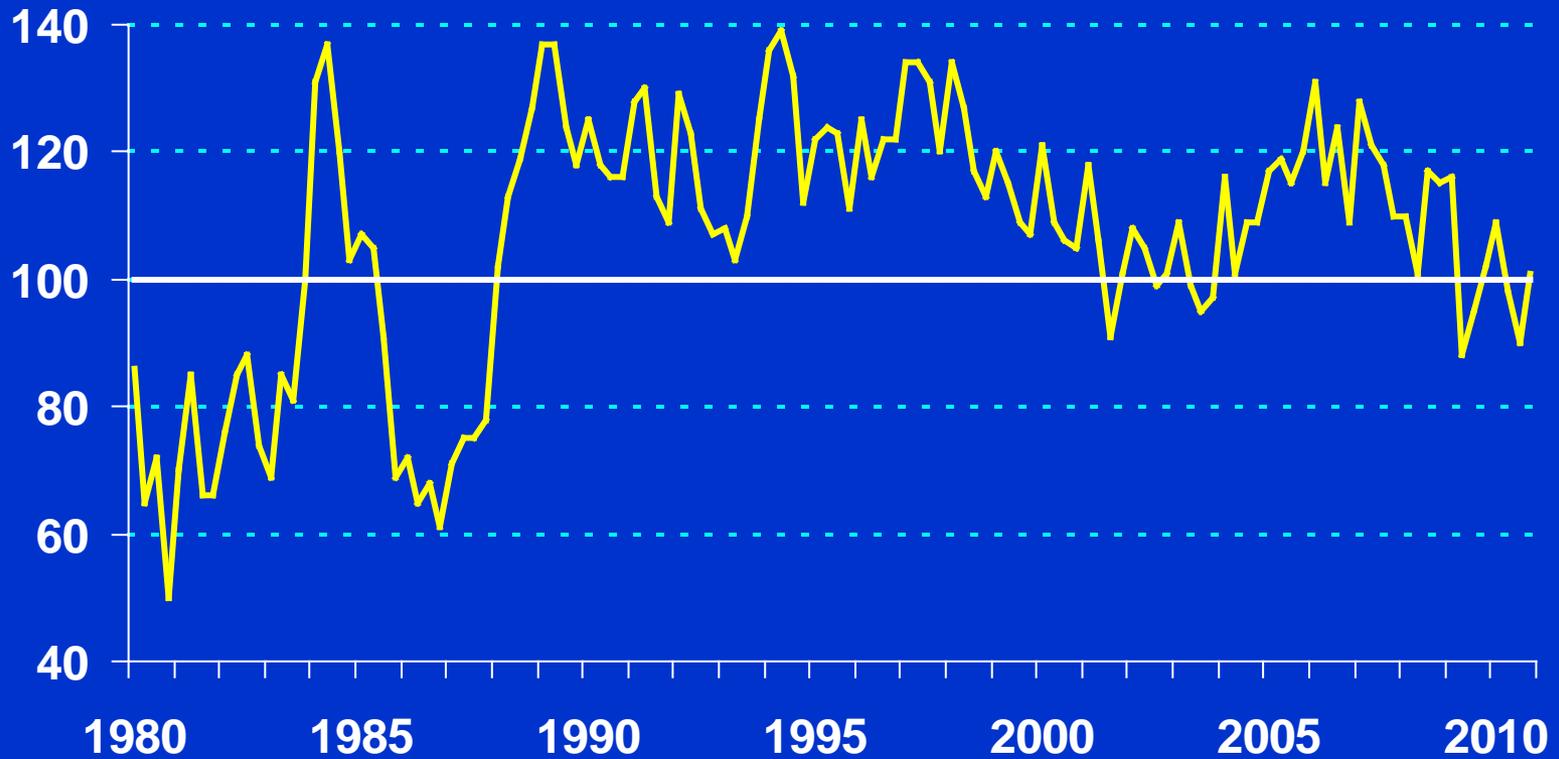
## *Index of agricultural loan repayment rates for the Chicago Federal Reserve District*



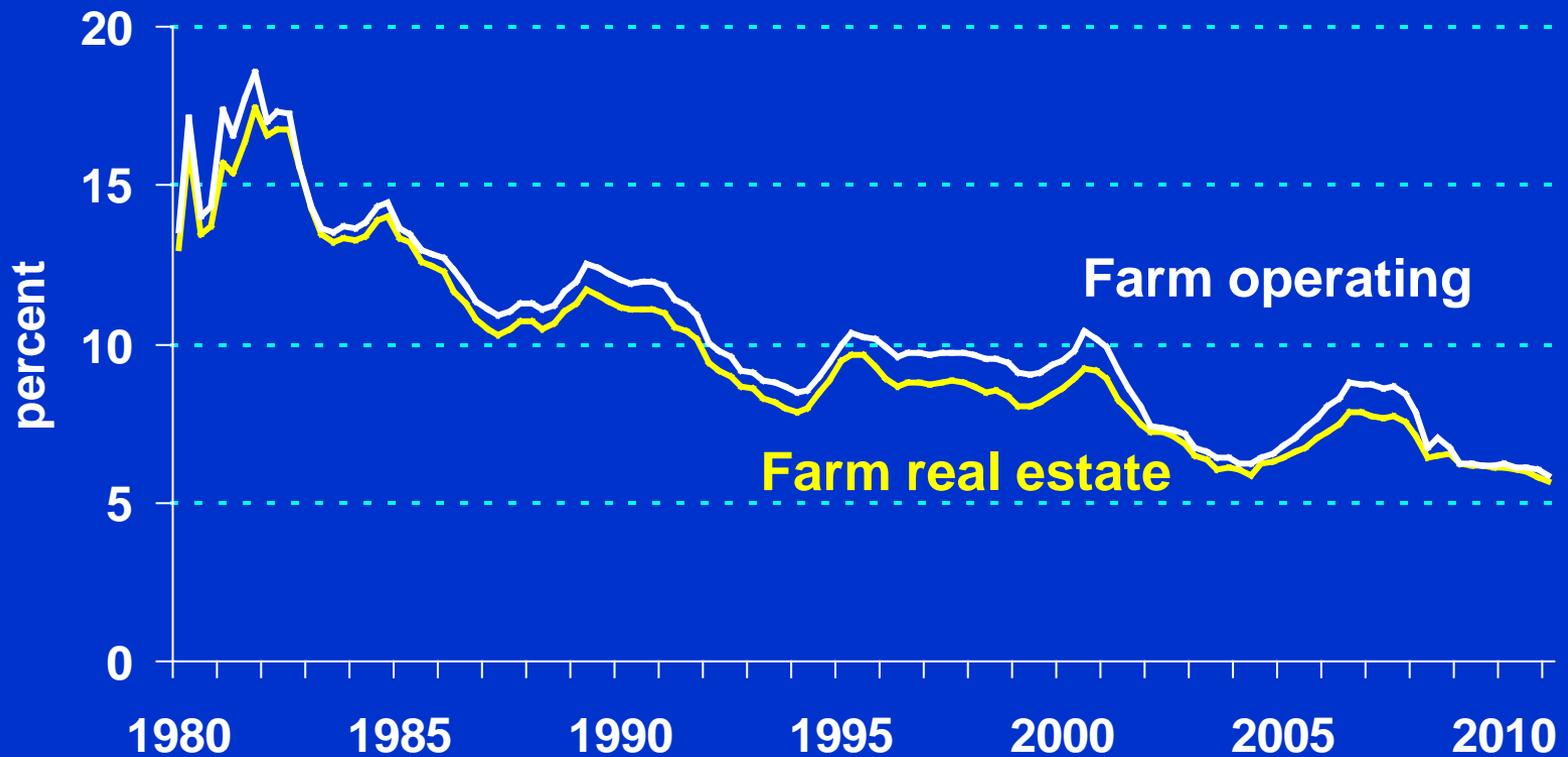
## *Index of funds availability for the Chicago Federal Reserve District*



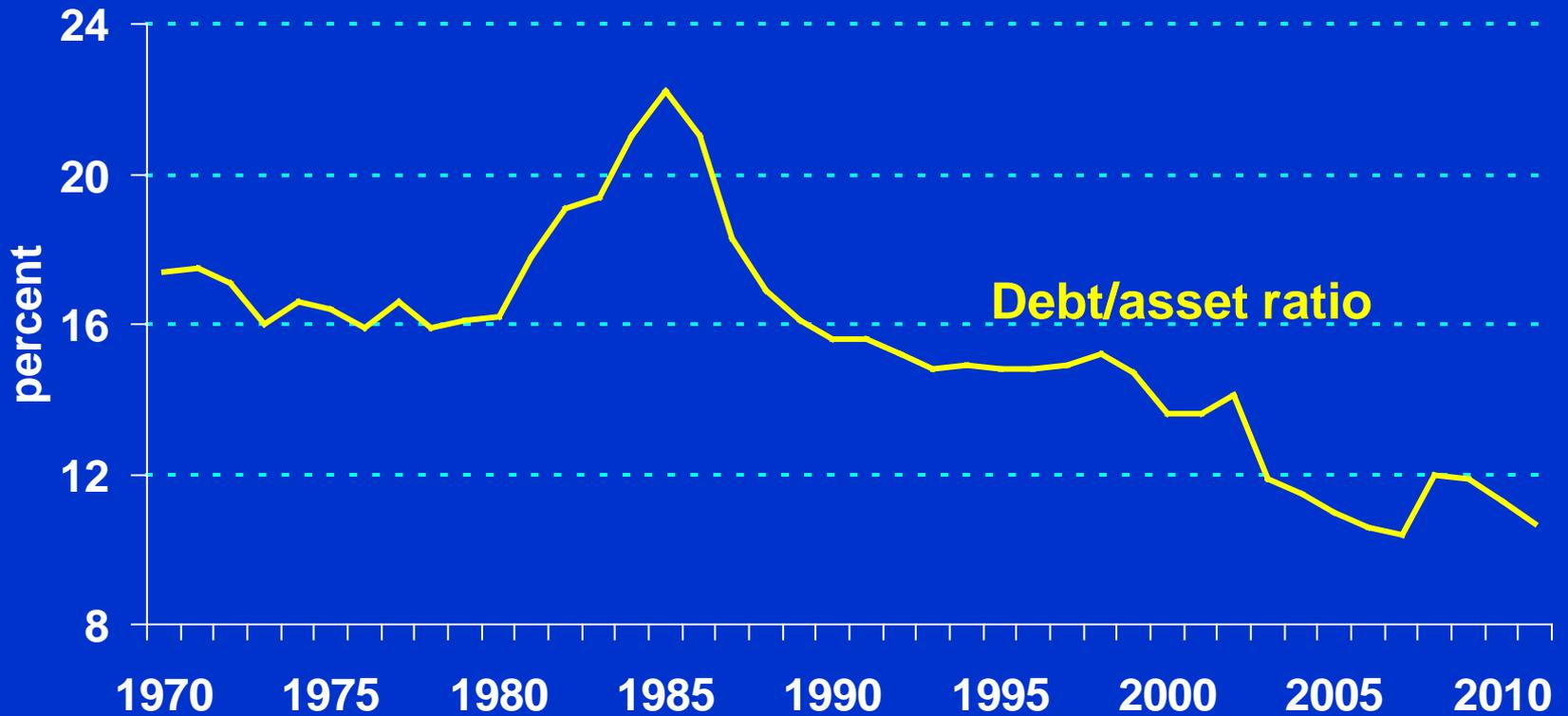
***Index of agricultural loan demand for the Chicago  
Federal Reserve District (excluding real estate)***



# *Interest rates charged on new farm loans in the Chicago Federal Reserve District*

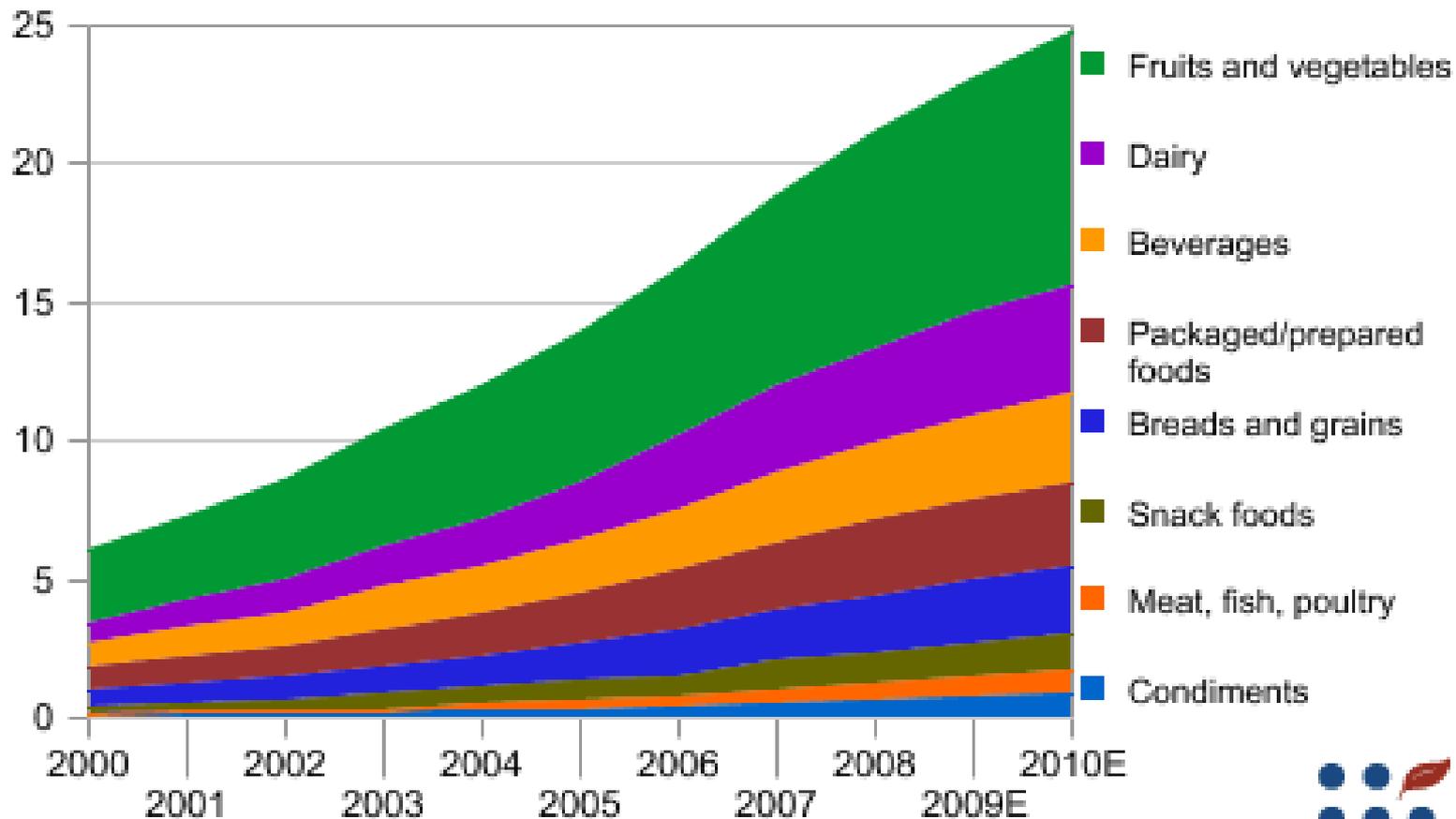


## *U.S. farm financial ratios improved following the crisis of the 1980s*



## Fruits and vegetables accounted for 37 percent of U.S. organic food sales in 2008

\$ billion

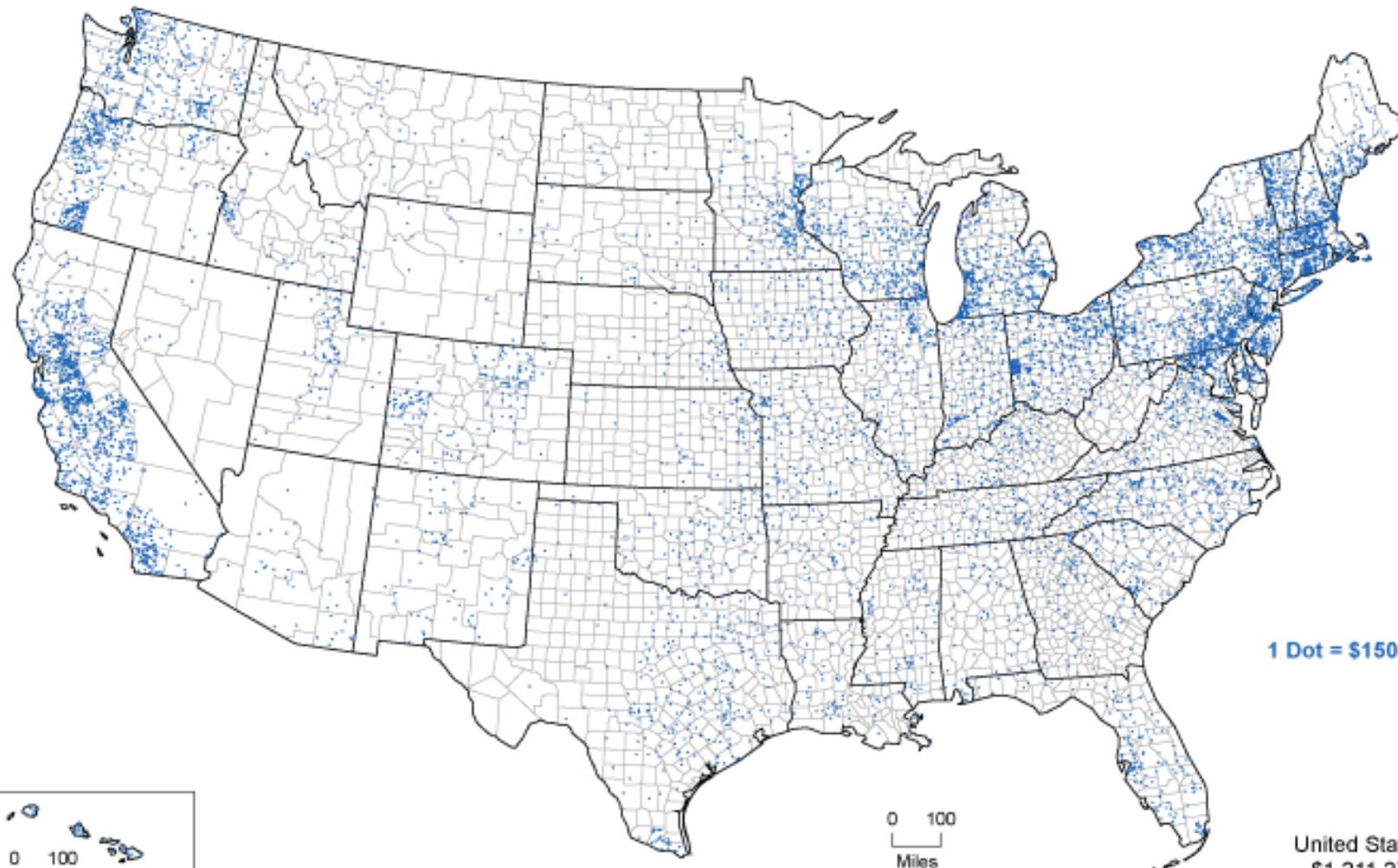


E = Estimate.

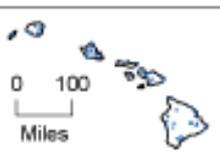
Source: Nutrition Business Journal.



# Value of Agricultural Products Sold Directly to Individuals for Human Consumption: 2007



United States Total  
\$1,211,270,000



# Outlook for Agriculture

- Solid U.S. economic growth boosting demand at restaurants and for animal products
- Strong world economic growth and lower value of the dollar propelling U.S. agricultural exports
- Tight grain and oilseed supplies pushing up prices and feed costs for animal agriculture
- Rising input costs counter low interest rates, amid volatility
- Continued high level of farm income and increasing land values
- U.S. budget deficit will likely force changes in farm policy

<http://www.chicagofed.org>