Economic Outlook for Agriculture in 2011

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Webinar

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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

![Graph showing price per bushel and stocks/use ratio from 1991/92 to 2009/10. The graph indicates a trend of increasing stocks/use ratio accompanied by higher prices.]
Soybean harvest was just below last year’s record
Crushing of soybeans is stalling while exports have gradually climbed.

![Graph showing the trend of soybean crush and exports over time.](image)
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

2005–2009 range

dollars per cwt.
Cattle Prices
dollars per cwt.

2005–2009 range


2010

2011
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

<table>
<thead>
<tr>
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<th>October 1, 2010 to January 1, 2011</th>
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<td>Illinois</td>
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<td>Indiana</td>
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<tr>
<td>Seventh District</td>
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*Insufficient response.*
Annual change in farmland values in Chicago Federal Reserve District

Percent change over time from 1970 to 2010.
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

*USDA forecast
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

![](chart.png)
U.S. farm financial ratios improved following the crisis of the 1980s

E = Estimate.
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
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