

February 2010 - Crop Market Update

Department of Economic Analysis



In this edition:

- General Economy & General Issues Update: by Stephanie Gambrell, Domestic Policy Economist
- Crop Updates: by Megan Provost, Trade and Southern Crops Economist

Recommended Readings:

- Farm Disaster Payment Report released last month by the Congressional Research Service: http://assets.opencrs.com/rpts/RS21212_20100108.pdf
- Federal Crop Insurance: Background and Issues (CRS report – April 2009): <http://www.farmpolicy.com/wp-content/uploads/2009/04/crs-report-on-fed-crop-ins-in-111th-cong.pdf>
- Crop Insurance and Disaster Assistance in the 2008 Farm Bill (CRS report – January 2009): <http://www.nationalaglawcenter.org/assets/crs/RL34207.pdf>

Next Market Update:

- Livestock Market Update: released in February 24, 2010

The General Economy

Depending on the day, many people may wonder whether the economy has pulled out of recession. The stock market has had a rough couple of weeks and the economy is not realizing net job creation. However, we can definitely say that things are much better than a year ago.

One of the most positive pieces of news this month has been GDP. Bureau of Economic Analysis' recent estimate indicates that the economy grew at an annual rate of 5.7 percent in the fourth quarter of 2009. While this was an advance estimate subject to revision, it was definitely higher than the 4.5-5 percent growth that most analysts had expected.

Looking at the release in a little more detail we see that vehicle sales are still boosting output, adding about 0.61 percentage points to the increase. This is a much smaller contribution than in the third quarter where motor vehicles contributed 1.45 percent to the total 2.2 percent growth. Overall areas of growth in the fourth quarter included private inventory investment, exports, and personal consumption expenditures.

The January Employment Situation report from the Bureau of Labor Statistics did not bring great news, but it also wasn't horrible. The unemployment rate fell from 10.0 to 9.7 percent in January, while nonfarm payroll employment decreased by 20,000 jobs. Continued monthly declines were found in construction, transportation and warehousing. While the overall economy showed a slight loss of

jobs in January, the bright spots in the employment sector continue to be temporary work and health care services. The retail trade sector along with motor vehicles and parts also gained jobs.

A sector that is very important to economic recovery is housing. While the housing market is stronger than it was a year ago, it definitely remains volatile. Home sales have fluctuated over time as the sector has been exposed to stimulating tax credit programs on one end and credit issues and losses in the job market on the other. The National Association of Realtors' (NAR) tracking of existing home sales indicated that December home sales fell by 16.7 percent on a seasonally adjusted annual rate after monthly gains in September through November. However, existing home sales for December 2009 were still 15 percent higher than in December 2008, and sales for all of 2009 were up 4.9 percent over 2008 – the first annual gain since 2005. Housing prices are also up from a year ago, and NAR remains optimistic about the future saying, “By early summer the overall market should benefit from more balanced inventory, and sales are on track to rise again in 2010.”

Ultimately, all of these signs that are a part of the big picture lead most macro experts to say that the recession has ended. Any given day might sway public opinion a bit, but let's hope the bigger picture is the true story.

Corn Update

WASDE Update

The U.S. Department of Agriculture's February estimates for corn showed some adjustments in corn use for ethanol and exports. Corn used for ethanol is projected 100 million bushels higher, at 4.3 billion bushels. This adjustment was made based on the latest ethanol production data from the Energy Information Agency. Corn exports are forecasted to be 50 million bushels lower, based on increased competition from Argentina.

| U.S. Corn Supply and Use | | | | |
|---------------------------------|-----------------|----------|--------------------|----------|
| | 2007/08 | 2008/09 | 2009/10 Projection | |
| | Actual | Estimate | January | February |
| | Million Acres | | | |
| Planted Area | 93.5 | 86.0 | 86.5 | 86.5 |
| Harvested Area | 86.5 | 78.6 | 79.6 | 79.6 |
| | Yield per Acre | | | |
| Bushels | 150.7 | 153.9 | 165.2 | 165.2 |
| | Million Bushels | | | |
| Production | 13,038 | 12,092 | 13,151 | 13,151 |
| Total Supply | 14,362 | 13,739 | 14,834 | 14,834 |
| Feed & Residual | 5,913 | 5,246 | 5,550 | 5,550 |
| Ethanol for Fuel | 3,049 | 3,677 | 4,200 | 4,300 |
| Exports | 2,437 | 1,858 | 2,050 | 2,000 |
| Total Use | 12,737 | 12,056 | 13,070 | 13,115 |
| Ending Stocks | 1,624 | 1,673 | 1,764 | 1,719 |

Issue Update

EPA Issued Final RFS2 Rule – The Environmental Protection Agency (EPA) released its final rules on the Renewable Fuels Standard (RFS2). The new regulations represented a revision of EPA's previous estimates regarding the greenhouse gas carbon intensity for corn ethanol. The regulations state that corn ethanol provides a 21 percent advantage over conventional gasoline.

EPA also revised the 2010 RFS2 carve-out requirement for cellulosic biofuel. The RFS2 proposal originally called for 100 million gallons of cellulosic biofuel in 2010, but industry estimates projected projection levels far lower. EPA revised that standard down to 6.5 million ethanol-equivalent gallons. Further, EPA set the ethanol standard as 12.95 billion gallons for 2010. That total includes a requirement of 950 million gallons of advanced biofuels, including cellulosic ethanol and biomass-based diesel fuel.

Soybean Update

WASDE Update

A forecasted increase in soybean exports and crush reduced projecting ending stocks to 210 million bushels. Soybean exports were increased by 25 million bushels to 1.4 billion as soybean exports have continued to exceed earlier projections. U.S. soybean crush was raised by 10 million bushels to 1.7 billion bushels, reflecting a strong demand for soybean meal and the lower soybean meal extraction rate.

Global soybean production was raised by 1.6 million tons to 255 million tons. This increase was based on improved production prospects for South America. Soybean production for Brazil, in particular, was projected up 1 million tons from last month, to 66 million tons, due to higher yields.

| U.S. Soybean Supply and Use | | | | |
|------------------------------------|-----------------|----------|--------------------|----------|
| | 2007/08 | 2008/09 | 2009/10 Projection | |
| | Actual | Estimate | January | February |
| | Million Acres | | | |
| Planted Area | 64.7 | 75.7 | 77.5 | 77.5 |
| Harvested Area | 64.1 | 74.7 | 76.4 | 76.4 |
| | Yield per Acre | | | |
| Bushels | 41.7 | 39.7 | 44.0 | 44.0 |
| | Million Bushels | | | |
| Production | 2,677 | 2,967 | 3,361 | 3,361 |
| Total Supply | 3,261 | 3,185 | 3,507 | 3,507 |
| Exports | 1,159 | 1,283 | 1,375 | 1,400 |
| Total Use | 3,056 | 3,047 | 3,262 | 3,297 |
| Ending Stocks | 205 | 138 | 245 | 210 |

Issue Update

Biodiesel Production Tax Incentive Extension Could Be Part of the Senate Jobs Bill – An extension to the biodiesel tax incentive that expired on December 31 will likely be part of a jobs package being negotiated in the Senate. The \$1-per-gallon tax incentive was originally designed to make biodiesel price competitive with conventional diesel fuel.

Wheat Update

WASDE Update

U.S. wheat production estimates remained unchanged from the last several months. Wheat ending stocks, however, were forecasted to be 5 million bushels lower, as wheat imports were increased by the same 5 million bushels. U.S. imports were raised based on expected shipments from South America and Europe. Total wheat exports remained unchanged, but by-class changes were made as hard red winter wheat exports were increased by 10 million bushels and hard red spring and durum wheat were both decreased by 5 million bushels.

| U.S. Wheat Supply and Use | | | | |
|----------------------------------|-----------------|----------|--------------------|----------|
| | 2007/08 | 2008/09 | 2009/10 Projection | |
| | Actual | Estimate | January | February |
| | Million Acres | | | |
| Planted Area | 60.5 | 63.2 | 59.1 | 59.1 |
| Harvested Area | 51.0 | 55.7 | 49.9 | 49.9 |
| | Yield per Acre | | | |
| Bushels | 40.2 | 44.9 | 44.4 | 44.4 |
| | Million Bushels | | | |
| Production | 2,051 | 2,499 | 2,216 | 2,216 |
| Total Supply | 2,620 | 2,932 | 2,983 | 2,988 |
| Exports | 1,263 | 1,015 | 825 | 825 |
| Total Use | 2,314 | 2,275 | 2,098 | 2,083 |
| Ending Stocks | 306 | 657 | 976 | 981 |

Global wheat trade was increased for February, reflecting higher-than-expected shipments from Argentina and Turkey. Partly offsetting these increases were smaller decreases in wheat exports from Afghanistan and Uruguay.

Rice Update

WASDE Update

For February, no changes were made on either the supply side of the 2009/2010 crop or on the use balance sheet for rice. However, domestic use and exports were each increased, bringing total use to 213.5 million cwt. This increase in use resulted in a decrease of ending stocks, bringing the number down to 39.8 million cwt, which is a 7 percent decrease from last month.

Global rice production, consumption, trade, and ending stocks were all raised from last month's projections. The increase in production was due mostly to an increase in the Indonesian rice crop. A smaller crop in the Philippines and Thailand partially offset this increase.

| U.S. Rice Supply and Use | | | | |
|---------------------------------|-----------------------|----------|--------------------|----------|
| | 2007/08 | 2008/09 | 2009/10 Projection | |
| | Actual | Estimate | January | February |
| | Million Acres | | | |
| Planted Area | 2.76 | 3.00 | 3.14 | 3.14 |
| Harvested Area | 2.75 | 2.98 | 3.10 | 3.10 |
| | Yield per Acre | | | |
| Pounds | 7,219 | 6,846 | 7,085 | 7,085 |
| Barrels | 45 | 42 | 44 | 44 |
| Bushels | 160 | 152 | 157 | 157 |
| | Million Hundredweight | | | |
| Production | 198.4 | 203.7 | 219.9 | 219.9 |
| Total Supply | 261.6 | 252.4 | 271.3 | 271.3 |
| Exports | 104.7 | 93.6 | 99.0 | 101.0 |
| Total Use | 232.2 | 222.0 | 228.5 | 231.5 |
| Ending Stocks | 29.4 | 30.4 | 42.8 | 39.8 |

Issue Update

Drought, Insects Hurt Thai Rice Harvest – The Thai government had been predicting a total rice harvest of 31 million metric tons, 24 million of which would come from the main harvest that takes place between November and February. However, reports indicate that the country's main crop has suffered a loss of more than 1 million metric tons due to heavy grasshopper infestation and drought during the later stages of the crop. Losses are also being predicted for the dry season crop later this year.

Cotton Update

WASDE Update

USDA's projections regarding cotton were much more optimistic than the last several months, as predictions were for higher exports, lower ending stocks, and higher prices. Cotton exports were raised by 1 million bales to 12 million, as new export sales of more than 1.8 million bales were made in January. The drop in the futures market, coupled with lower domestic prices and strong foreign mill demand boosted export prospects. The increased exports lowered ending stocks to 3.3 million bales, which is 21.4 percent of total use. If realized, this would be the lowest stocks-to-use ration since 2003/2004. USDA's price predictions were raised by 2 cents to a range of 59 to 65 cents per pound.

| U.S. Cotton Supply and Use | | | | |
|-----------------------------------|----------------|----------|--------------------|----------|
| | 2007/08 | 2008/09 | 2009/10 Projection | |
| | Actual | Estimate | January | February |
| | Million Acres | | | |
| Planted Area | 10.83 | 9.47 | 9.15 | 9.15 |
| Harvested Area | 10.49 | 7.57 | 7.69 | 7.69 |
| | Yield per Acre | | | |
| Pounds | 879 | 813 | 774 | 774 |
| | Million Bales | | | |
| Production | 19.21 | 12.82 | 12.40 | 12.40 |
| Total Supply | 28.70 | 22.86 | 18.74 | 18.74 |
| Exports | 13.65 | 13.28 | 11.00 | 12.00 |
| Total Use | 18.24 | 16.86 | 14.40 | 15.40 |
| Ending Stocks | 10.04 | 6.34 | 4.30 | 3.30 |

Issue Update

Australia Sees New Pest This Year – Scientists in Australia have found a new mealybug that has apparently migrated or otherwise made its way to the island nation from India. The mealybug devastated crops in northern India and parts of Pakistan with yield losses exceeding 50 percent in some areas. The bug has reportedly been found in about 30 locations in Australia. There is currently not an effective pesticide for control of the new bug.

General Issues Update

The President's FY 2011 Budget – The President released his FY 2011 budget at the beginning of February. While there is a great deal of information contained in the 192 page document, there are a few things to note from an overall fiscal and agricultural perspective.

Overall, the budget proposes \$3.8 trillion in spending and receipts around \$2.6 trillion for FY 2011. This would lead to a deficit of \$1.267 trillion, or 8.3 percent of GDP. Expanding out to the 10-year horizon, deficits would total \$8.5 trillion, which is quite a bit higher than the \$5.5 trillion that is projected under the “current law” baseline. “Current law” baseline assumes the budget would carry on, as it currently exists, with certain policies expiring as planned.

The FY 2011 budget proposes balancing the non-interest spending portion of the budget by 2015, leaving the deficit at 3 percent of GDP. The spending and revenue adjustments contained in the President’s budget would have the deficit in 2015 at \$752 billion, or 3.9 percent of GDP. The President proposes appointing a fiscal commission to discover how to close the remaining non-interest spending budget gap.

Specific to USDA’s budget, the President’s focuses on increasing opportunity in rural areas through “five core areas to promote rural job creation: access to broadband services, regional food systems, renewable energy programs, climate change, and rural recreation.” The budget also has a very strong focus on health and nutrition, with an increase in funding to nutrition programs to the tune of \$10 billion over 10 years.

The President’s message with respect to commodity programs is very similar to last year. The budget, once again, comes after payment limits. The limit for direct payments would be reduced from \$40,000 to \$30,000, while the adjusted gross income payment limit would be reduced from \$500,000 to \$250,000 for off-farm income and from \$750,000 to \$500,000 for on-farm income. Furthermore, the President proposes more reductions to the crop insurance program, totaling an \$8 billion decline over 10 years. On a relatively positive note, the budget includes \$54 million in discretionary funding to enhance USDA’s efforts to promote the export of U.S. agricultural products, which was welcomed by most in the agriculture community.

** Net Farm Income Correction* – After releasing the last issue of the *Crop Market Update*, a correction was made to the “Net Farm Income Projections” article. The author found a typo in the inflation adjustment calculations, which led to 2009 surpassing the 1930s in terms of worst farm income (admittedly very bad years for agriculture). The data were corrected and it is proper to say that 2009 is among the worst 10 farm incomes since 1945. If you would like a corrected version of the article, the last issue of market update with revisions may be downloaded from SILO or contact Jennifer DuMars.

