Agricultural Economy

USDA Longrun Projections to 2011: Global Developments Play Key Role

In USDA's new longrun, 10-year baseline projections, a recovery in global economic growth following the slowdown of 2001-02 leads to stronger U.S. exports, gains in agricultural commodity prices, and rising farm incomes over the next decade.

U.S. agricultural export value and market cash receipts to U.S. farmers have improved since the late 1990s, when large global production and weak global demand exerted downward pressure on prices and trade. Government payments to the sector, through marketing loan benefits and emergency and disaster assistance legislation, added to farm income during this period.

However, slow U.S. and global economic growth in 2001-02 and a strong U.S. dollar provide a weak near-term setting for the agricultural sector. In addition, for some agricultural commodities, such as soybeans and cotton, large world production and increasing global stocks have pressured prices. For wheat and coarse grains, in contrast, reduction in global stocks since the late 1990s has strengthened prices.

Longer run developments in the agricultural sector reflect strengthening domestic and international macroeconomic growth. Despite continuing strength in the U.S. dollar (a constraint on export growth) and growing trade competition, the projected improvement in world economic growth provides a foundation for gains in global trade and U.S. agricultural exports.

Strengthening economic growth in developing countries is particularly important for global agricultural demand and trade. Incomes in many developing countries are at levels where consumers tend to diversify their diets to include more meat and other higher valued food products. In these countries, the level of food consumption and imports of food and feed are particularly responsive to income changes.

Over the 10-year projection period, U.S. export gains, combined with steady increases in domestic agricultural demand, result in rising market prices, increases in farm income, and improvement in the financial condition of the U.S. agricultural sector. Consumer food prices are projected to continue a long-term trend of rising less than the general inflation rate. The trend in consumer food expenditures towards a larger share for meals eaten away from home is expected to continue.

Projection Highlights For Field Crops

Baseline projections assume continuation of 1996 Farm Act provisions. Under extension of the current law, several major U.S. field crops would continue to receive marketing loan benefits during the projection period because their prices are low. Soybeans receive these benefits in the early years of the baseline, and rice and cotton receive benefits for the entire period.

For most major field crops, the domestic market is the main component of demand, although the export market is projected to increase in importance for several commodities. After an initial decline, U.S. wheat exports grow throughout the projection period as global consumption and trade rise. However, continued competition, particularly from the European Union, holds the U.S. trade share below levels of the late 1990s. Corn exports also grow in response to strengthening trade. The corn sector faces strong competition from Argentina, to some extent muting U.S. corn export gains.

U.S. exports of soybeans and products see greater gains in the initial years of the baseline as low market prices slow foreign production somewhat and encourage domestic crushing. As prices strengthen, however, foreign production rises further, particularly in South America, and increased competition leads to smaller gains in U.S. soybean exports. Although benefiting from payments under the cotton user marketing certificate program (Step 2), cotton exports decline through most of the projection period in the face of strong foreign competition.

Domestic demand for many crops is projected to grow faster than population. Strong projected gains in domestic use of corn for ethanol reflect bans on MTBE in many states. Increases in domestic soybean crushing reflect growth in poultry production and demand for soybean meal. Growth in domestic use of rice reflects a greater emphasis on dietary concerns and an increasing share of the U.S. population of Asian and Latin American descent. In contrast, only moderate gains are projected for domestic food use of wheat, generally consistent with population growth. Domestic mill use of cotton falls, due in part to full phaseout in 2005 of textile and apparel import restrictions under the Multifibre Arrangement.

With demand strengthening, planted acreage for the eight major U.S. field crops (corn, sorghum, barley, oats, wheat, rice, upland cotton, and soybeans) rises to about 257 million acres by 2011, somewhat less than the high of 260.5 million acres attained in 1996. Planting flexibility in farm programs facilitates acreage movements among crops by allowing producers to respond to market returns, with marketing loan benefits also important in low price years. Marketing loan benefits influence the aggregate level of plantings as well as the cropping mix in the early years of the baseline when prices for some crops are relatively low. Projected acreage gains in the longer term reflect land drawn into production based on strengthening market incentives as world demand grows.

A tightening balance between supply and demand results in declining stocks-to-use ratios for most field crops, with nominal prices rising.

Livestock Highlights

Trends toward larger and more commercialized livestock and dairy systems continue throughout the baseline. Decreases in real prices of meats combined with increases in real disposable income allow U.S. consumers to purchase more total meat with a smaller proportion of disposable income. Relatively lower priced poultry gains a larger proportion of both total meat consumption and total meat expenditures. Per capita consumption of eggs rises moderately as processed egg products become an increasing part of the egg market. Global meat trade and U.S. meat exports are projected to grow only moderately in the near term, partly a result of the recent slowdown in world economic growth. Exports for all meats benefit from a strengthening of global economic growth after 2002.

What Is the Baseline?

The USDA baseline provides longrun projections for the agricultural sector through 2011. Projections cover agricultural commodities, agricultural trade, and aggregate indicators of the agricultural sector, such as farm income and food prices. The projections are based on specific assumptions regarding macroeconomic conditions, policy, weather, and international developments. The baseline assumes that there are no shocks due to abnormal weather or other factors affecting global supply and demand, and that provisions of the 1996 Farm Act continue throughout the projection period.

The projections presented are one representative scenario for the agricultural sector for the next decade. As such, the baseline provides a point of departure for discussion of alternative farm-sector outcomes that could result under different assumptions. The projections in the USDA baseline report were prepared during September through November 2001, and reflect a composite of model results and judgment-based analysis.

USDA's complete 2002 baseline projections are available at: http://www.ers.usda.gov/briefing/baseline/

Drought and poor forage conditions over the past several years have extended the liquidation phase of the current cattle cycle and, along with the length of biological lags, prevent beef-cow herd expansion before 2004-05. Beef production continues to shift toward a larger proportion of higher quality fed beef, with almost all steers and heifers being fed in feedlots. U.S. beef production also continues to move toward a higher graded product directed toward the export and domestic hotel-restaurant markets. The U.S. remains the primary source of high-quality, fed beef for export, largely to Pacific Rim nations.

Pork production expands moderately through the baseline. The pork sector continues to evolve into a more vertically coordinated industry, with larger, more efficient producers marketing a greater percentage of the hogs. These structural changes lower production costs, improve pork quality and product consistency, and facilitate timely production of pork products with characteristics desired by domestic and foreign consumers. The Canadian and U.S. pork sectors will become more integrated into a combined North American hog industry. The U.S. is an important net pork exporter, with long-term growth markets for U.S. pork exports focused on Pacific Rim nations and Mexico. Canada will increasingly compete for trade in these markets.

Broiler production grows steadily throughout the baseline, but gains slowly to only slightly more than population increases by the end of the projection period due to maturity of the sector. Continued technological improvements are expected to occur in the broiler and turkey industries, although efficiency gains are likely to be smaller than the rapid advances of the past 25 years. Processed products and fast-food markets are key sources of domestic growth for the poultry sector. The focus in global poultry markets is on low-value products, with the strongest import demand growth expected in Asia, Mexico, and Russia. Growing competition, notably from Brazil, holds U.S. poultry exports to moderate gains.

Milk production grows despite slowly declining cow numbers, as strengthening milk-feed price ratios, improved management, and dairy productivity gains push milk output per cow higher.

Ag Sector Relies Increasingly On Market Earnings

Over the last several years, net farm income has remained near the average of the 1990s mostly because of large marketing loan benefits and additional funds provided by emergency and disaster assistance legislation. With the baseline assuming no further ad hoc government assistance and with production flexibility contract payments scheduled to decline,

Agricultural Economy

farm income is initially lower as gains in commodity prices and cash receipts do not match the assumed reduction in government payments or offset the projected increases in production expenses.

The longer run outlook for the sector improves as domestic agricultural demand and exports strengthen and prices rise, leading to gains in farm income and greater stability in aggregate financial conditions. After holding relatively flat in 2002 through 2005, net farm income gradually moves upward for the rest of the baseline. The agriculture sector relies increasingly on the marketplace for income rather than on government payments.

Debt management will be crucial to the financial condition of the agricultural sector over the next several years. Longer run increases in farm incomes and relatively low interest rates support asset accumulation and debt management, leading to improvement in the financial condition of the farm sector.

Ag Trade Surplus Grows

The value of U.S. agricultural exports rises to $77 billion by fiscal year 2011, up from about $53 billion in 2001. Both bulk and high-value product exports are expected to show strong growth, with high-value products accounting for about two-thirds of the total. The agricultural sector continues to have a trade surplus, which rises through the projections, but still remains below the record surplus of 1996. AO

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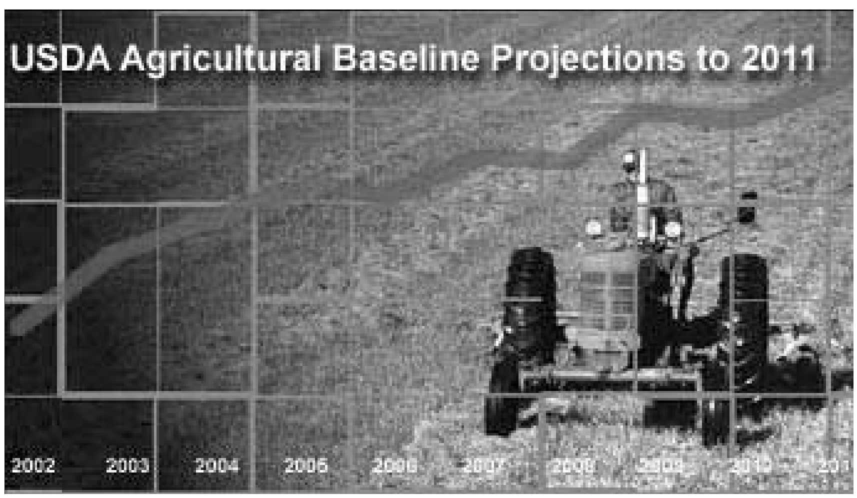
On the ERS web site
USDA's Projections for 2002-11



USDA Agricultural Baseline Projections to 2011

Baseline highlights
http://www.ers.usda.gov/Briefing/baseline/summary.htm

Complete Baseline report
http://www.ers.usda.gov/publications/waob021/waob20021.pdf

Data tables
http://www.ers.usda.gov/db/baseline/