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## **Report to Congress: FAPRI study shows farm income decline; consumers see lower food price inflation**

*Source: Pat Westhoff, 573-882-4647; Scott Brown, 573-882-3861*

WASHINGTON – Farmers will feel the effects of slowing economies, both global and domestic, as uncertainty continues. Consumers will see lower food price inflation, according to economists with the Food and Agricultural Policy Research Institute (FAPRI).

In a report to the U.S. Congress, a 10-year FAPRI baseline shows all sectors of agriculture facing volatility in prices and continued high production costs.

Food inflation hit a high of 5.5 percent in 2008, but that has slowed in recent months. FAPRI projects food inflation at 2.7 percent for 2009.

U.S. consumers, facing higher prices and lost jobs, scaled back by buying fewer steaks and more hamburger. Food exports, such as grain, beef and dairy products, have dropped sharply, causing lower prices for farmers.

“‘Volatility’ is the word that best describes agricultural markets,” said Pat Westhoff, FAPRI co-director and crops economist at the University of Missouri-Columbia. “After a record-breaking year in 2008, in 2009 the drops in crop and livestock receipts outpace any lowering of production costs.”

FAPRI projects that low prices can cut U.S. net farm income by \$18 billion in 2009. Income is expected to recover slightly in 2010. However, a return to 2008 levels is not expected before 2014.

“The farm upturn projected for 2010 is based on a recovery in the general economy,” Westhoff said. FAPRI uses general economic projections from IHS Global Insight.

“Rising oil prices, strong global economic growth, a weakening U.S. dollar and poor weather in many countries contributed to high commodity prices in 2007 and early 2008,” FAPRI economists report. That changed in late 2008 with dropping oil prices, a faltering global economy and a strong U.S. dollar. Meanwhile, better weather around the world increased exports from grain- growing nations.

Farm commodity prices dropped, but they remain above pre-2007 levels through the decade. High feed prices continue to squeeze livestock feeders as meat prices fail to keep pace.

Volatility is illustrated by what dairy producers face as demand drops. Milk, with a short shelf life, has been highly volatile for more than a decade, said Scott Brown, FAPRI livestock economist. Milk prices, led by faltering world demand for U.S. dairy products, are forecast at near-historic lows in 2009. “The worst profit ever is not a record U.S. dairy farmers want to break,” Brown said.

Average prices in 2008 ran at more than \$18 per hundredweight, with peaks over \$20. FAPRI projects an all-milk average in 2009 at \$13, with variations around the average dropping to \$11.

Strong international demand for all dairy products led to record-high domestic milk prices. When world economies collapsed and the U.S. dollar strengthened, weak U.S. exports followed.

Hog producers coped with plentiful production and rising feed costs by selling more pork overseas. However, record-high feed costs, particularly corn, have cut margins. Weaker domestic and global demand resulted in hog farmers suffering their worst profits since the record-low prices in the late 1990s.

Cow-calf producers responded to lower prices by culling cows, reducing feeder calves going to feedlots. Cow numbers went down 13 percent from the 1996 peak.

Contraction will be the theme in 2009 as the U.S. livestock industries search for higher output prices to offset higher production costs, Brown said.

Overall, crop farmers, with higher returns from grain, fare better than livestock producers. That differential will continue.

High crop prices drew more land into tillage. However, weakening global demands could lead to a 4-million-acre drop in area planted to 12 major crops in 2009.

“The baseline is not a forecast, but a projection of what can happen if current policies remain in place along with other assumptions, such as normal weather,” Westhoff said. The FAPRI baseline assumes biofuel taxes, tariffs and mandates stay in place.

The much-discussed ethanol biofuel mandates slow declines in grain prices. While corn exports and feed use decline, corn for ethanol continues up to meet mandates in the 2007 Energy Independence and Security Act.

While corn futures prices topped near \$8 per bushel last summer, they fell below \$4 by November. The average farm price is projected at \$3.74 for the crop harvested this fall. By 2017, FAPRI projects more corn will go to fuel than will be fed directly to livestock.

Soybeans face lower demand from poultry and livestock feeders. Also, with lower global demand, soy oil prices declined sharply this year. More soy oil will be diverted into biodiesel.

Soybean farm prices drop from \$9.37 per bushel to \$8.76 for the crop harvested in 2009.

Lower petroleum prices lead to lower biodiesel prices. Existing excess biodiesel production capacity also lowers prices, even as use increases with federal mandates. Narrow margins discourage building future capacity.

An uncertainty in the baseline is how many crop farmers will switch to ACRE (Average Crop Revenue Election), a voluntary income-support program in the 2008 farm bill. Producers can elect to stay with the 2002 price-based program or sign up for the new revenue-based program.

Repeated runs of ACRE pricing scenarios show advantages for producers of most crops in northern states, including the Corn Belt. However, the 2002 program offers advantages for southern crops such as cotton and peanuts.

The 2009 FAPRI baseline shows stochastic projections, which include 500 variations on possibilities beyond basic assumptions. In the past, FAPRI used “deterministic” models for projections, which projected one curve into the future.

The new model shows some of the volatility that is likely to continue in farm commodity markets, Westhoff said.

“Stochastic models give policymakers a better look at the range of possible prices or government costs, for example if droughts occur or oil prices rise sharply,” Westhoff said.

FAPRI computers make 500 runs, drawing random influences, such as weather, exports and exchange rates. Corn prices average about \$4 per bushel over the next decade, with about 80 percent of results between \$3 and \$5.

“There are many risks not captured by 500 runs,” Westhoff said. “We’ve tried to capture the many sources of volatility, but it’s safe to say markets will continue to find new ways to surprise us in years ahead.”

The 66-page FAPRI report is at [www.fapri.missouri.edu](http://www.fapri.missouri.edu).

MU FAPRI maintains computer models of all U.S. crop acres and livestock herds and flocks. FAPRI at Iowa State University maintains models of global markets.

U.S. Congress funds FAPRI to give annual updates to the House and Senate agriculture committees. The baseline gives benchmarks to measure changes in government policy.

In Missouri, FAPRI is supported by the MU College of Agriculture, Food and Natural Resources.