

The Boom, the Bust and Now...

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Food and Agricultural
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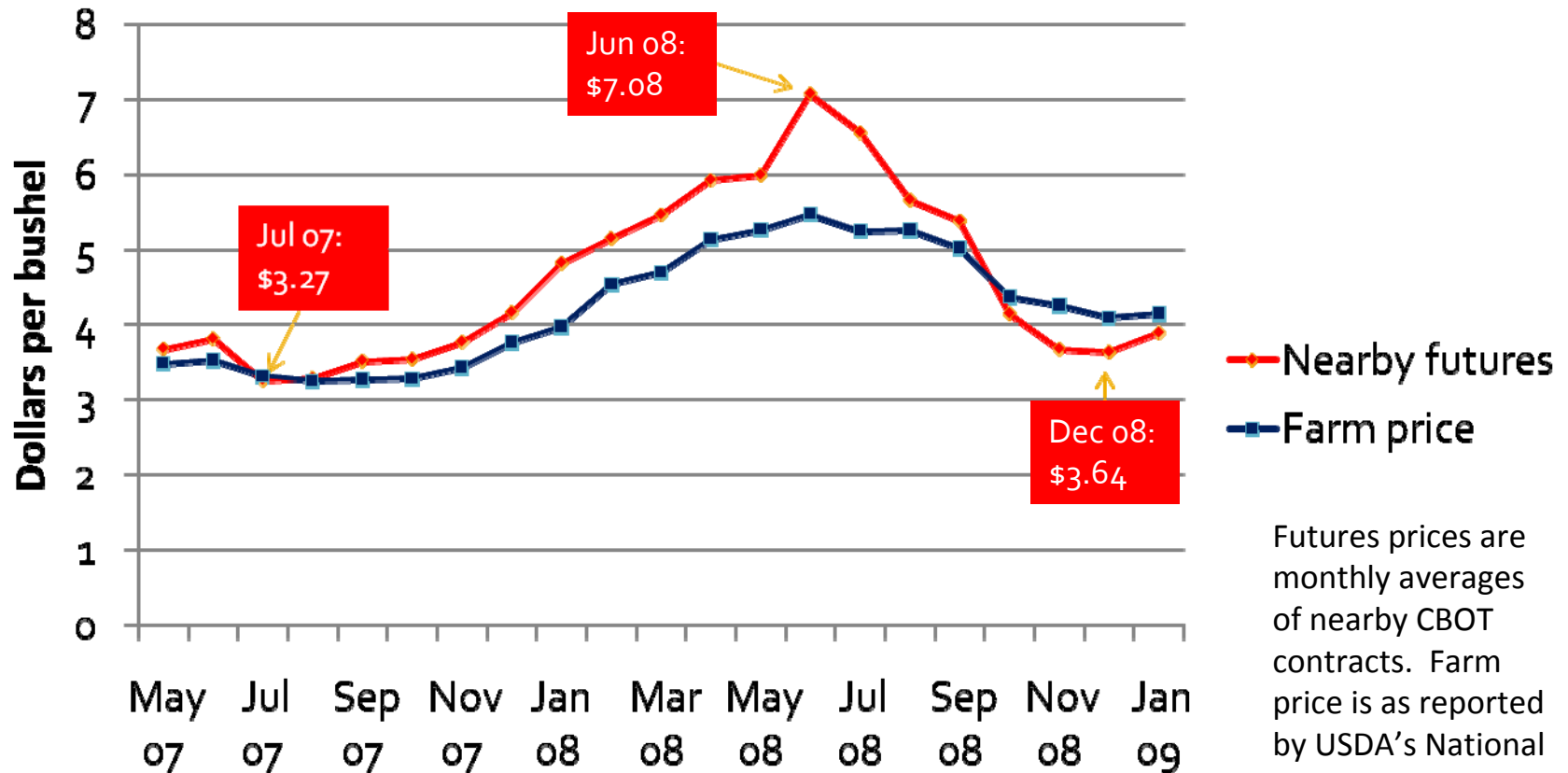


Agenda

- The boom and bust in farm commodity prices
 - What happened
 - Why
- The outlook
 - A few projections
 - What to watch for

What went up, has come down

U.S. Corn Prices (monthly averages)



Futures prices are monthly averages of nearby CBOT contracts. Farm price is as reported by USDA's National Agricultural Statistics Service

Why did prices rise, then decline?

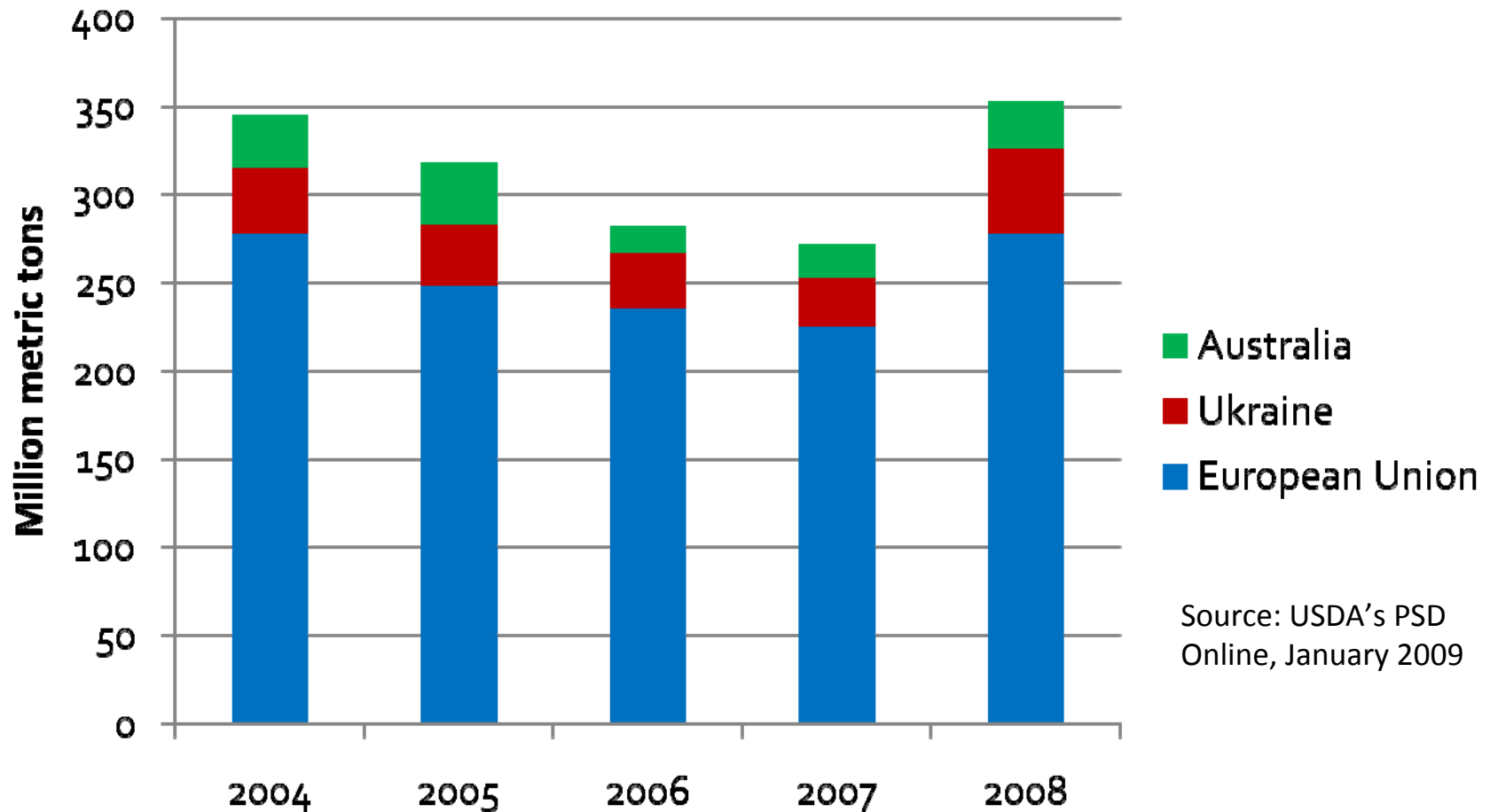
WHY PRICES ROSE

- Reduced grain production in Europe, Australia

WHY PRICES FELL

- Sharp increase in global grain production in 2008

Competitor production of wheat, barley and corn



Source: USDA's PSD
Online, January 2009

Why did prices rise, then decline?

WHY PRICES ROSE

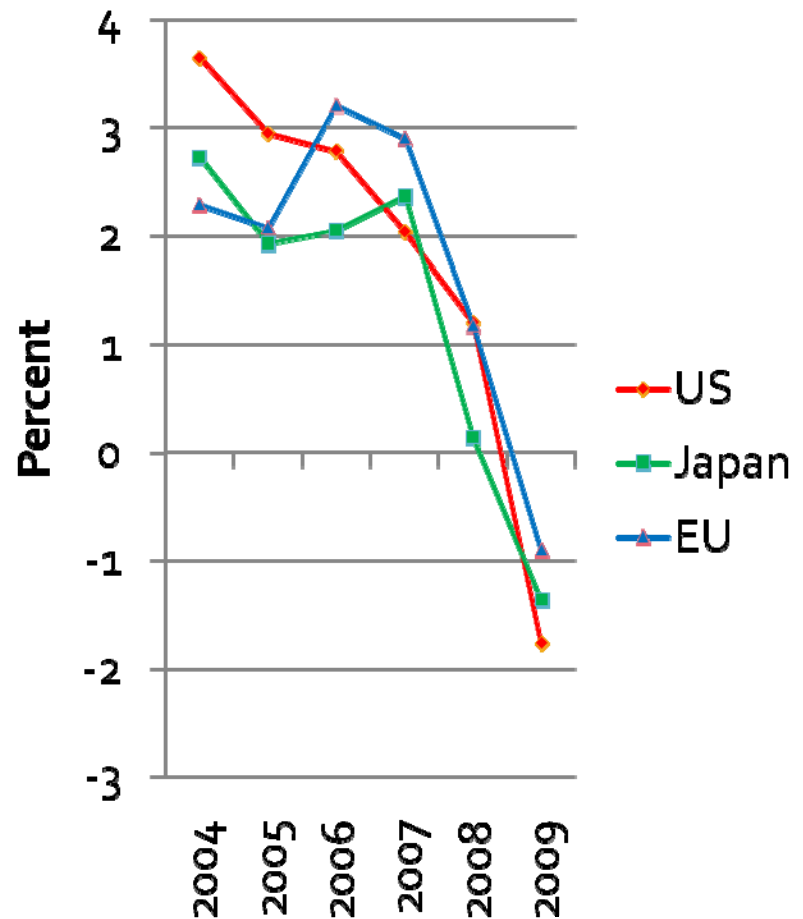
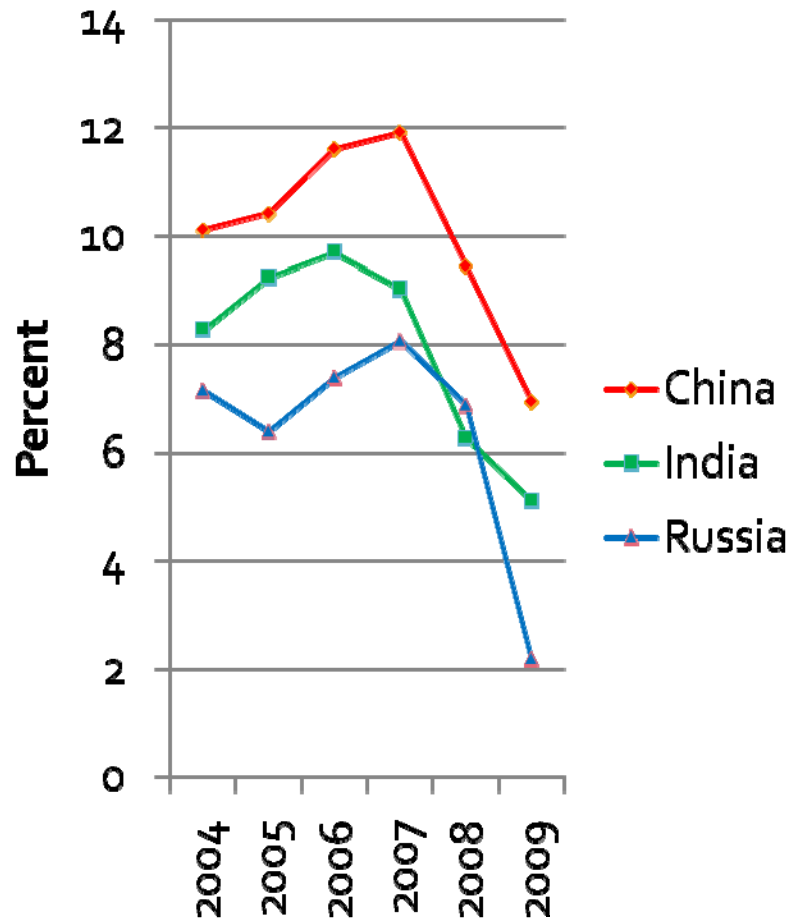
- Reduced grain production in Europe, Australia
- **Economic growth in Asia and elsewhere**

WHY PRICES FELL

- Sharp increase in global grain production in 2008
- **Financial crisis and world economic slowdown**

Real GDP growth

(IHS Global Insight, January 2009)



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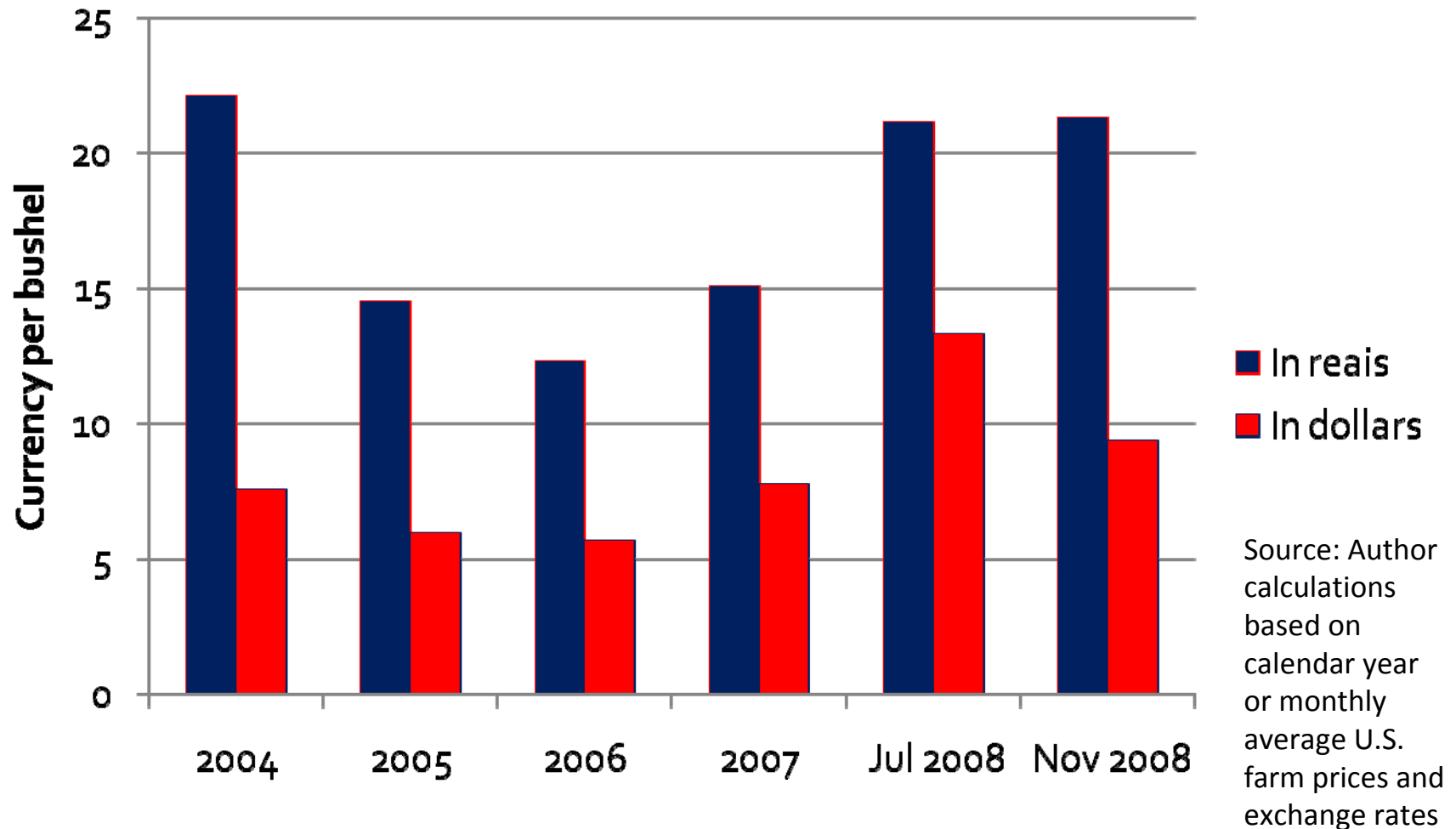
WHY PRICES ROSE

- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- **Weaker dollar**

WHY PRICES FELL

- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
- **Stronger dollar**

U.S. soybean prices in dollars and Brazilian currency



Why did prices rise, then decline?

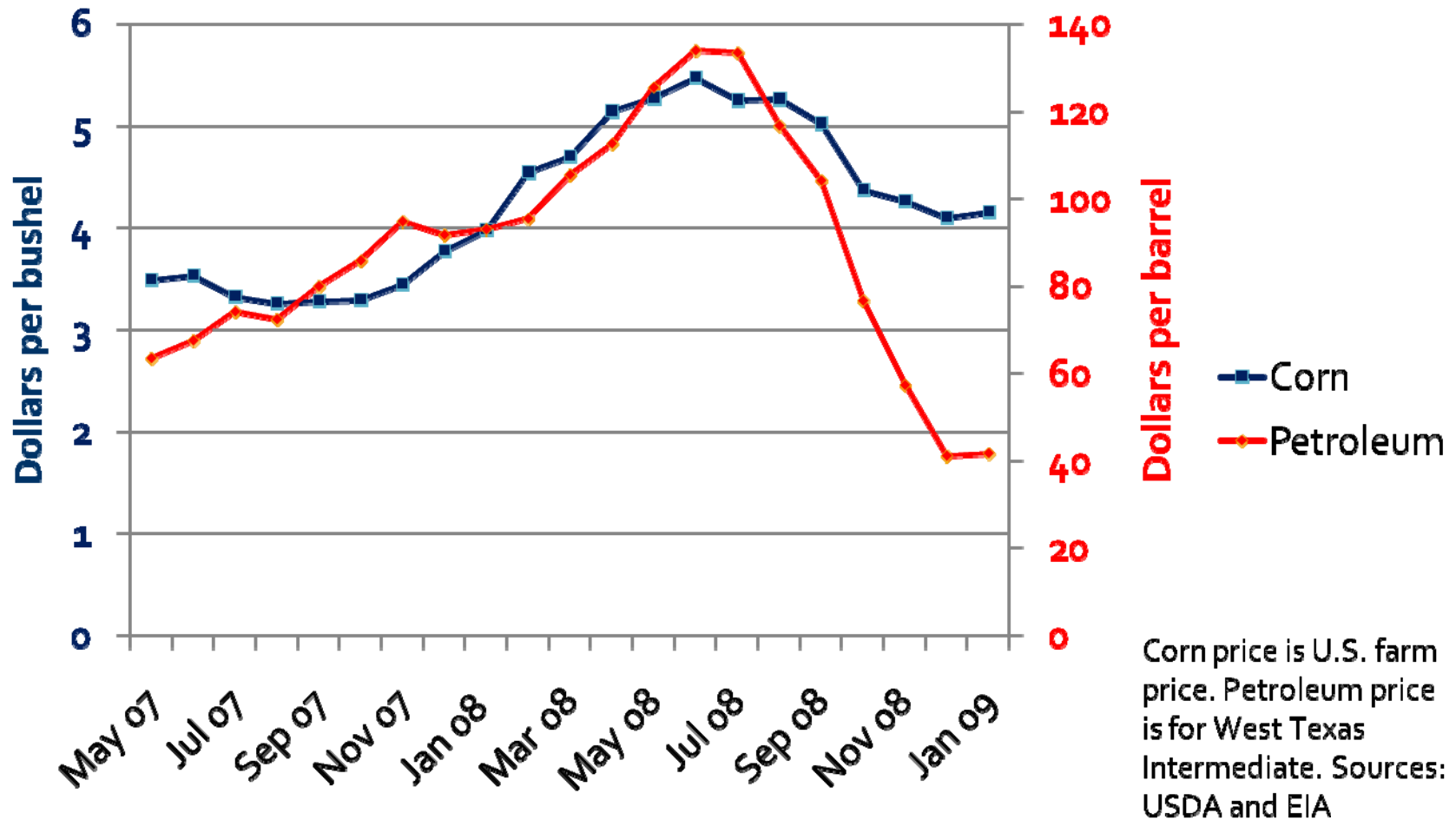
WHY PRICES ROSE

- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- Weaker dollar
- **Higher petroleum prices**

WHY PRICES FELL

- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
- Stronger dollar
- **Lower petroleum prices**

Corn and petroleum prices



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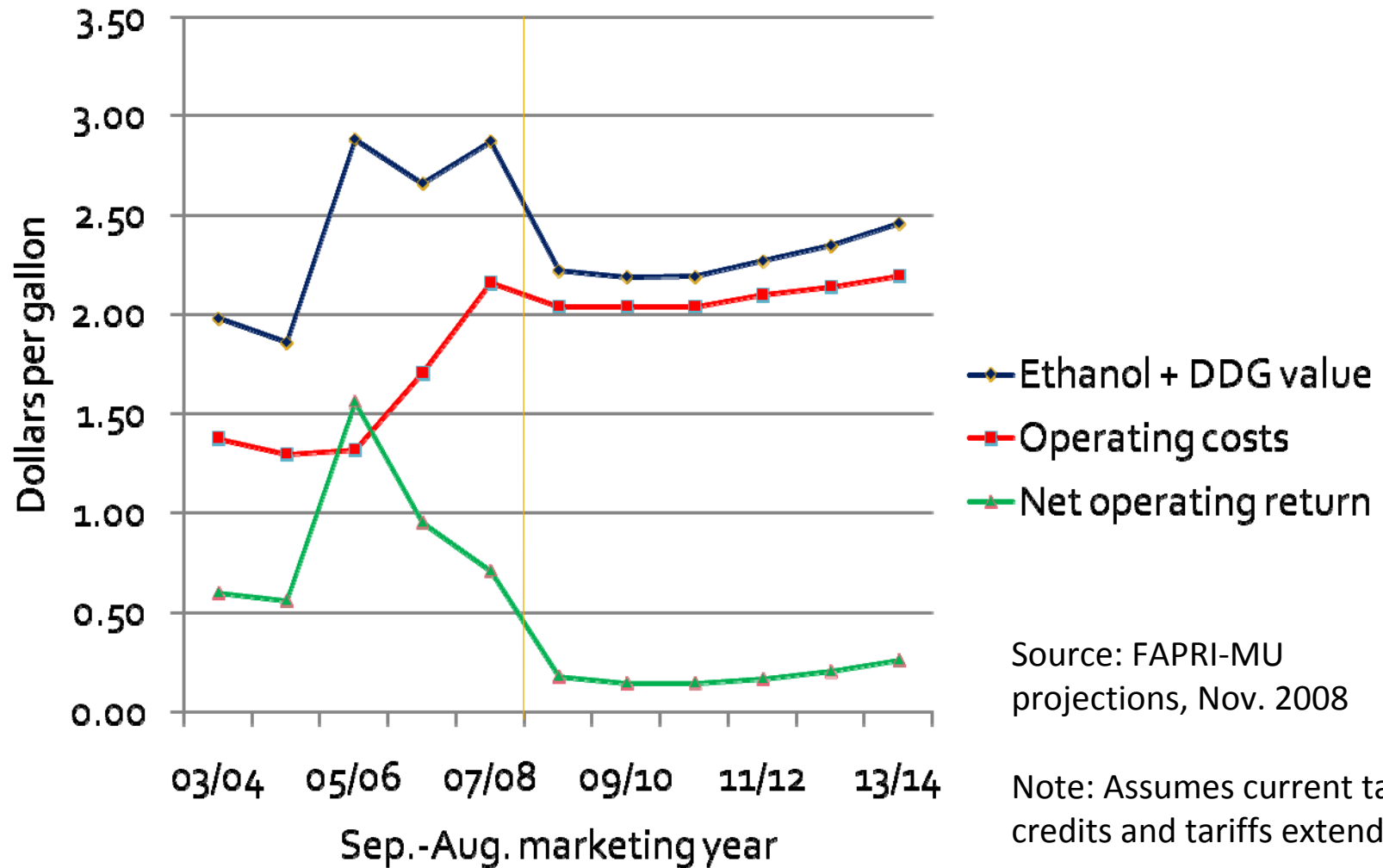
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- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- Weaker dollar
- Higher petroleum prices
- **Rapid biofuel expansion**

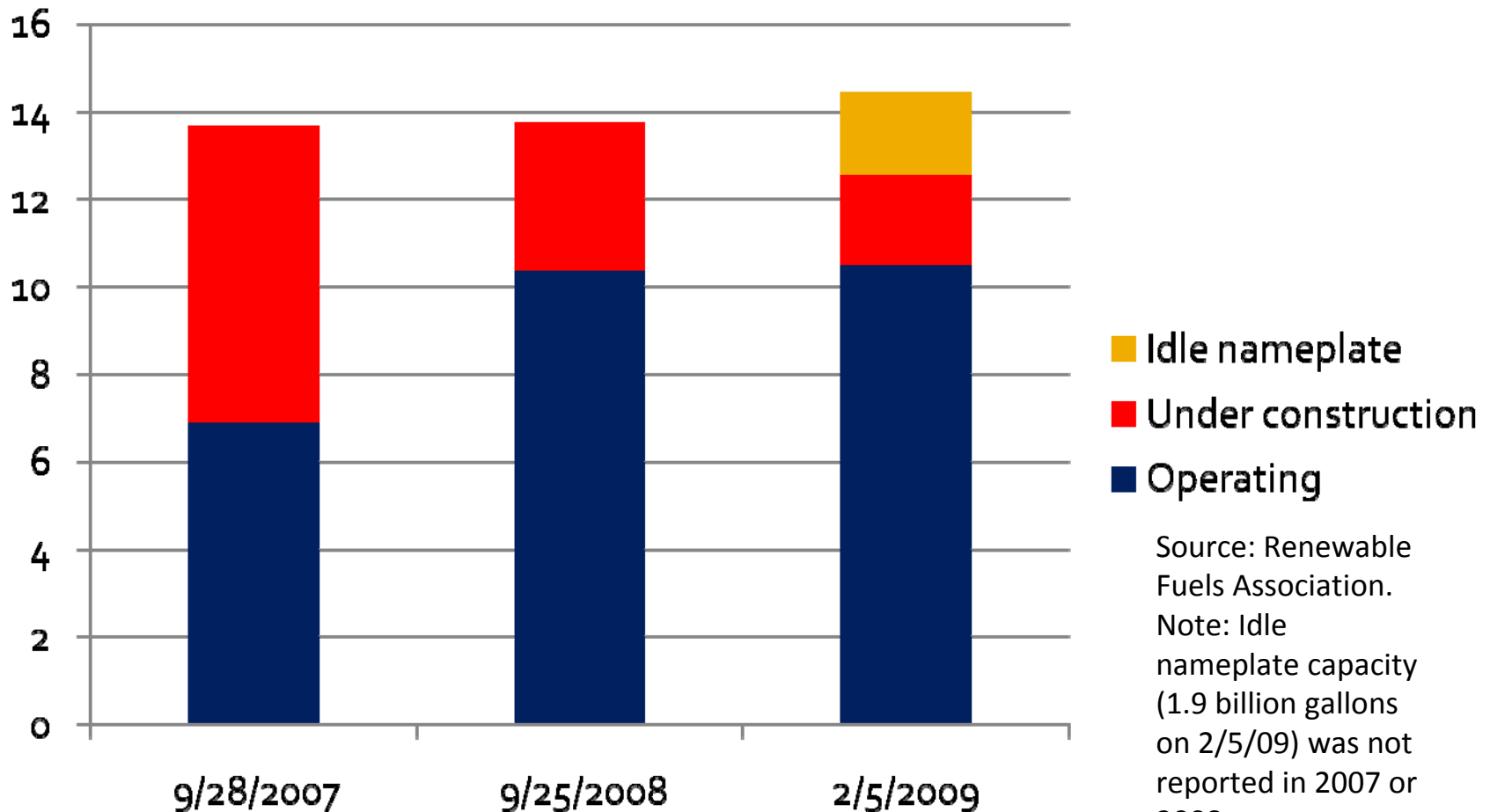
WHY PRICES FELL

- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
- Stronger dollar
- Lower petroleum prices
- **Slower biofuel growth**

Ethanol dry mill operating costs and returns



U.S. ethanol production capacity



Why did prices rise, then decline?

WHY PRICES ROSE

- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- Weaker dollar
- Higher petroleum prices
- Rapid biofuel expansion
- **Policy response**
- **Speculation**

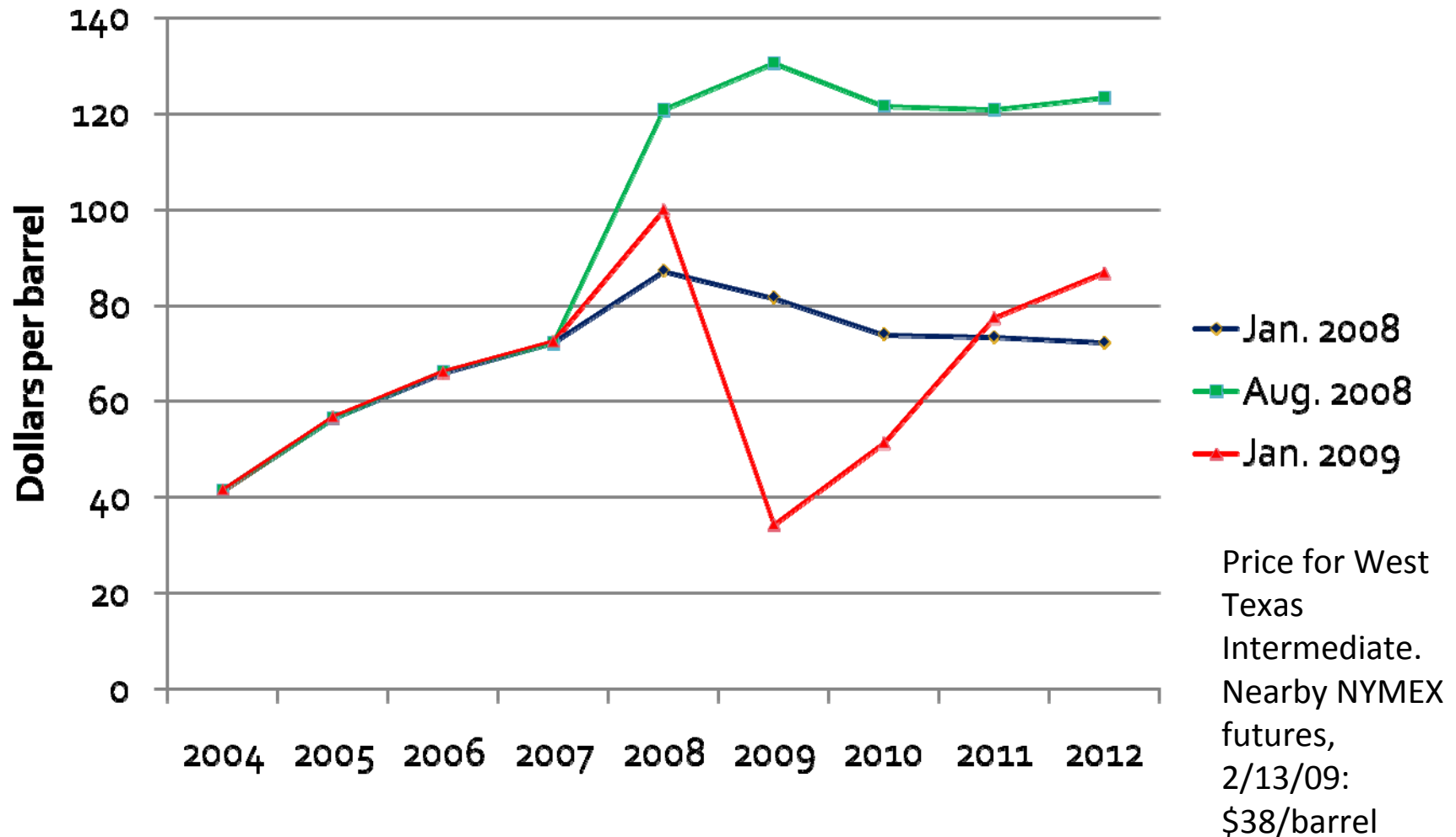
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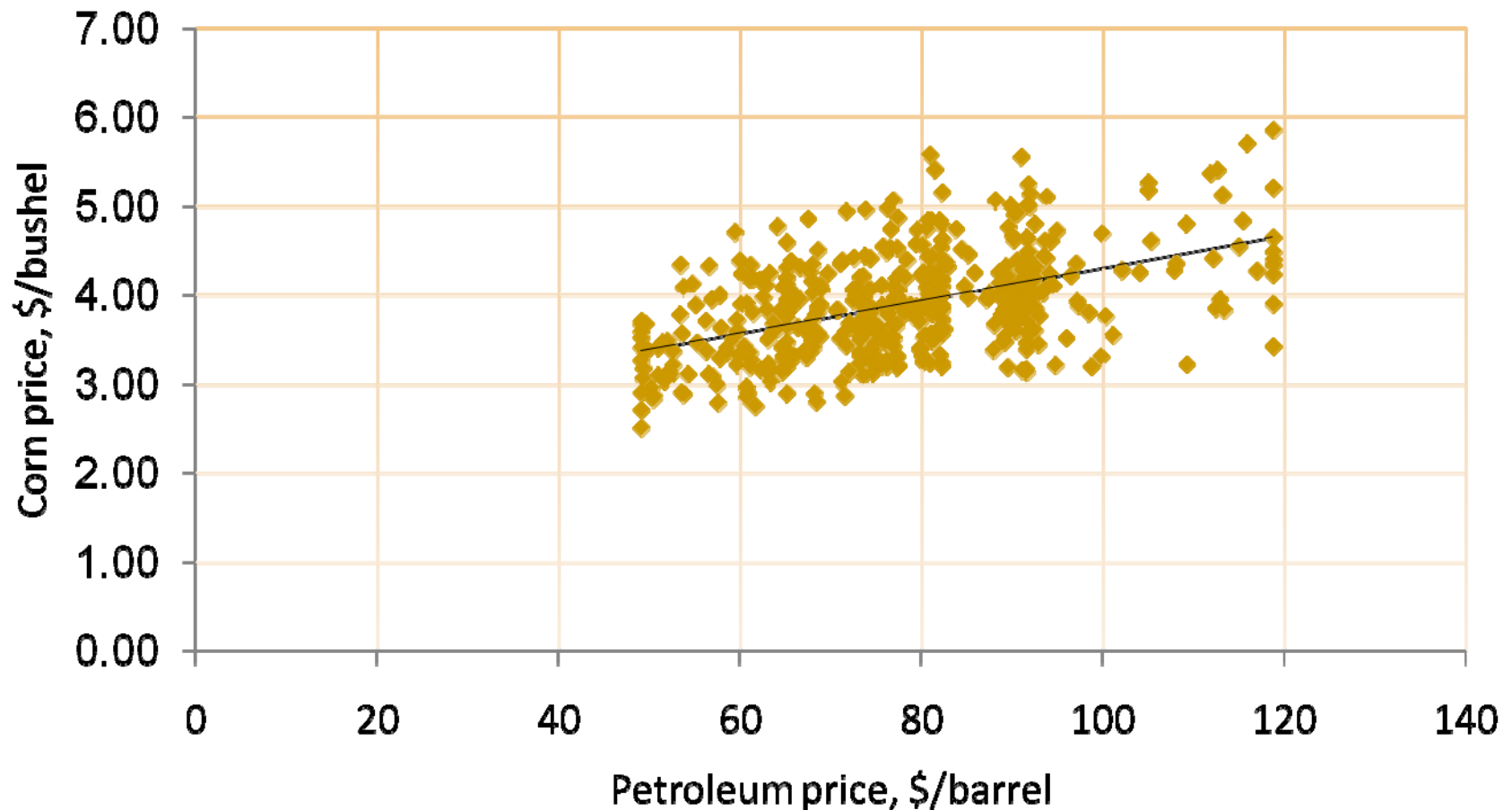
So now what?

- Market outlook is even more uncertain than usual
- What I'd tell you tomorrow is different than what I'll tell you today

Petroleum price forecasts from IHS Global Insight

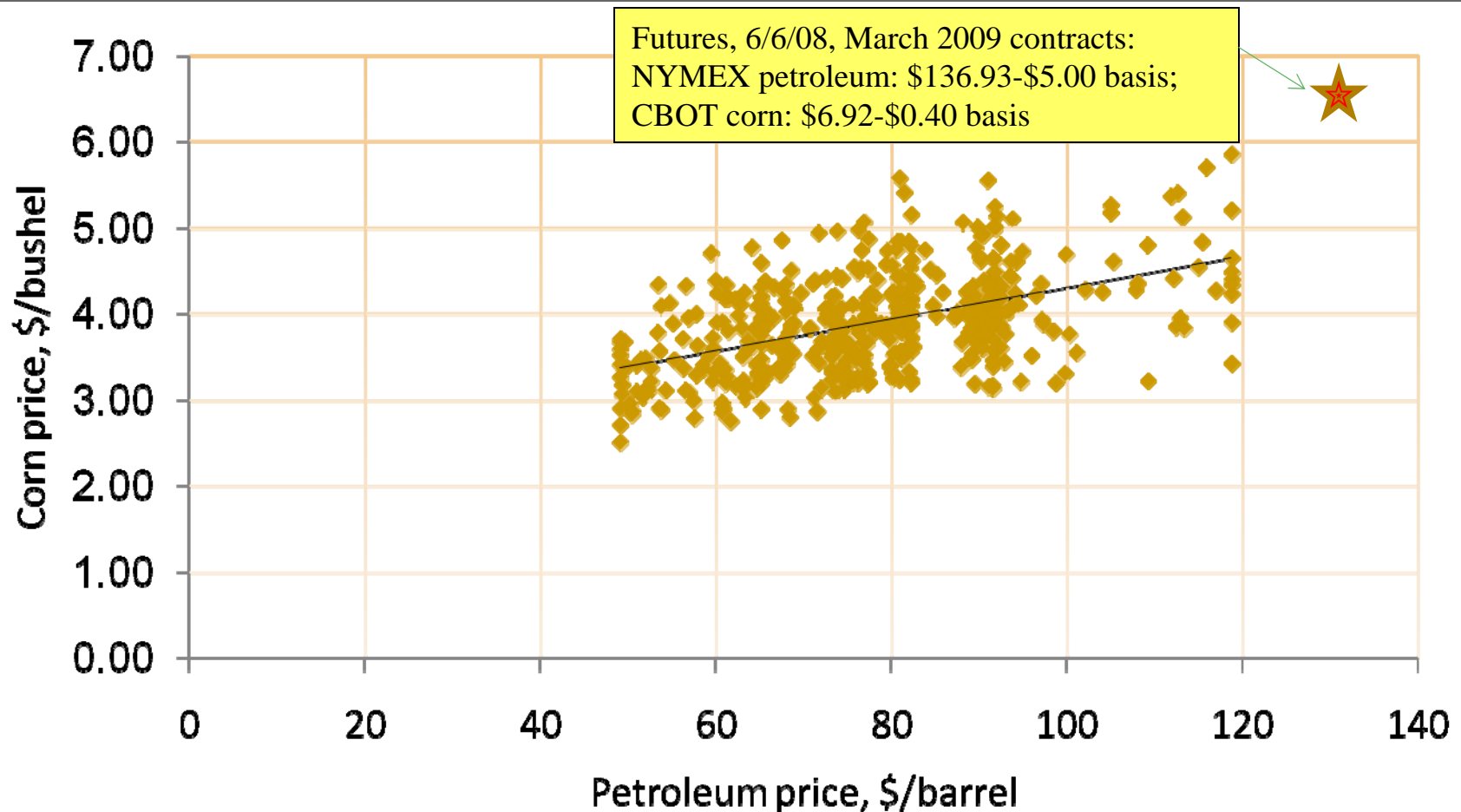


2008/09 corn, petroleum prices



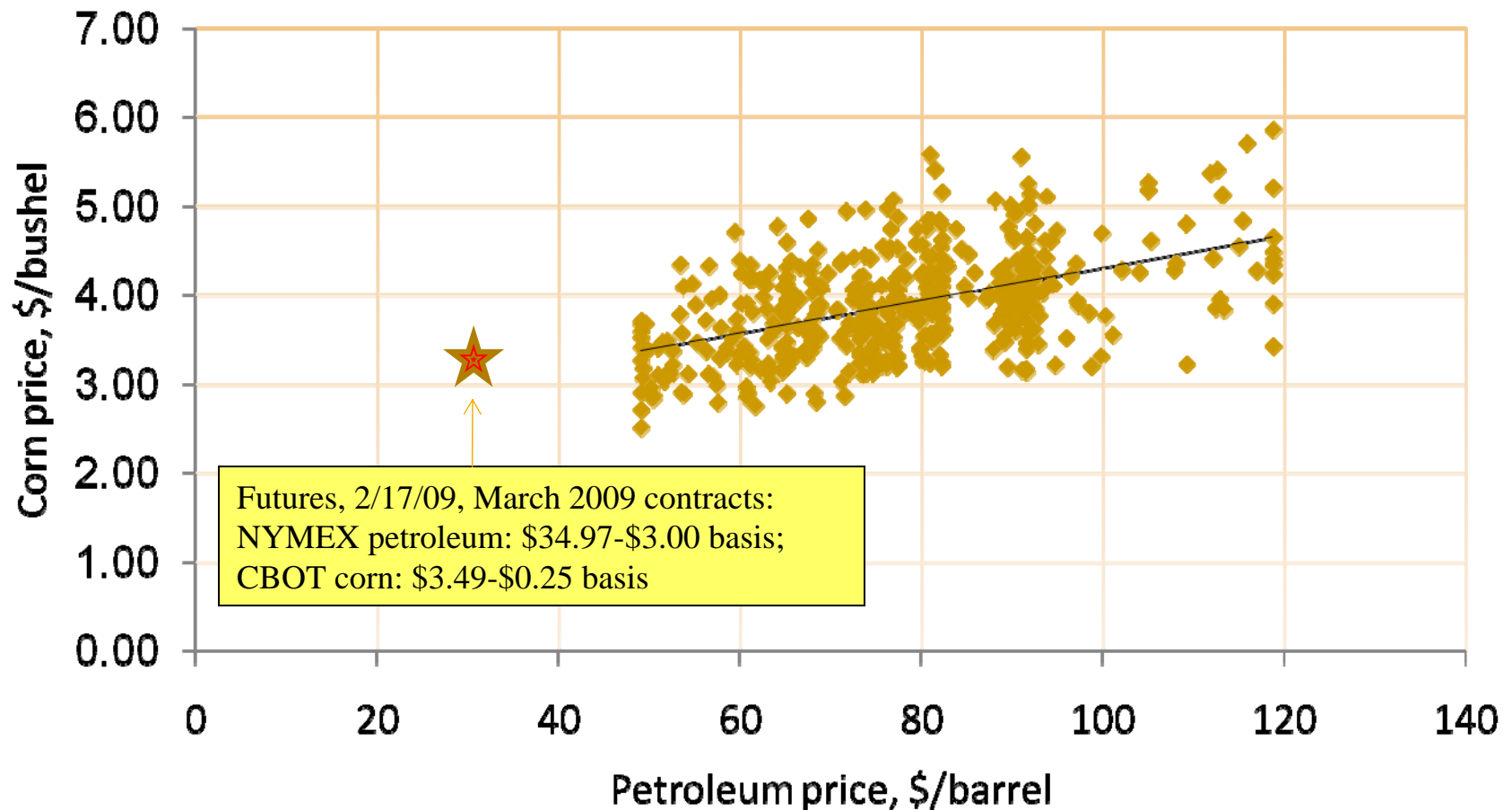
Source: FAPRI 2008 stochastic baseline. FAPRI is now developing its 2009 stochastic baseline.

2008/09 corn, petroleum prices



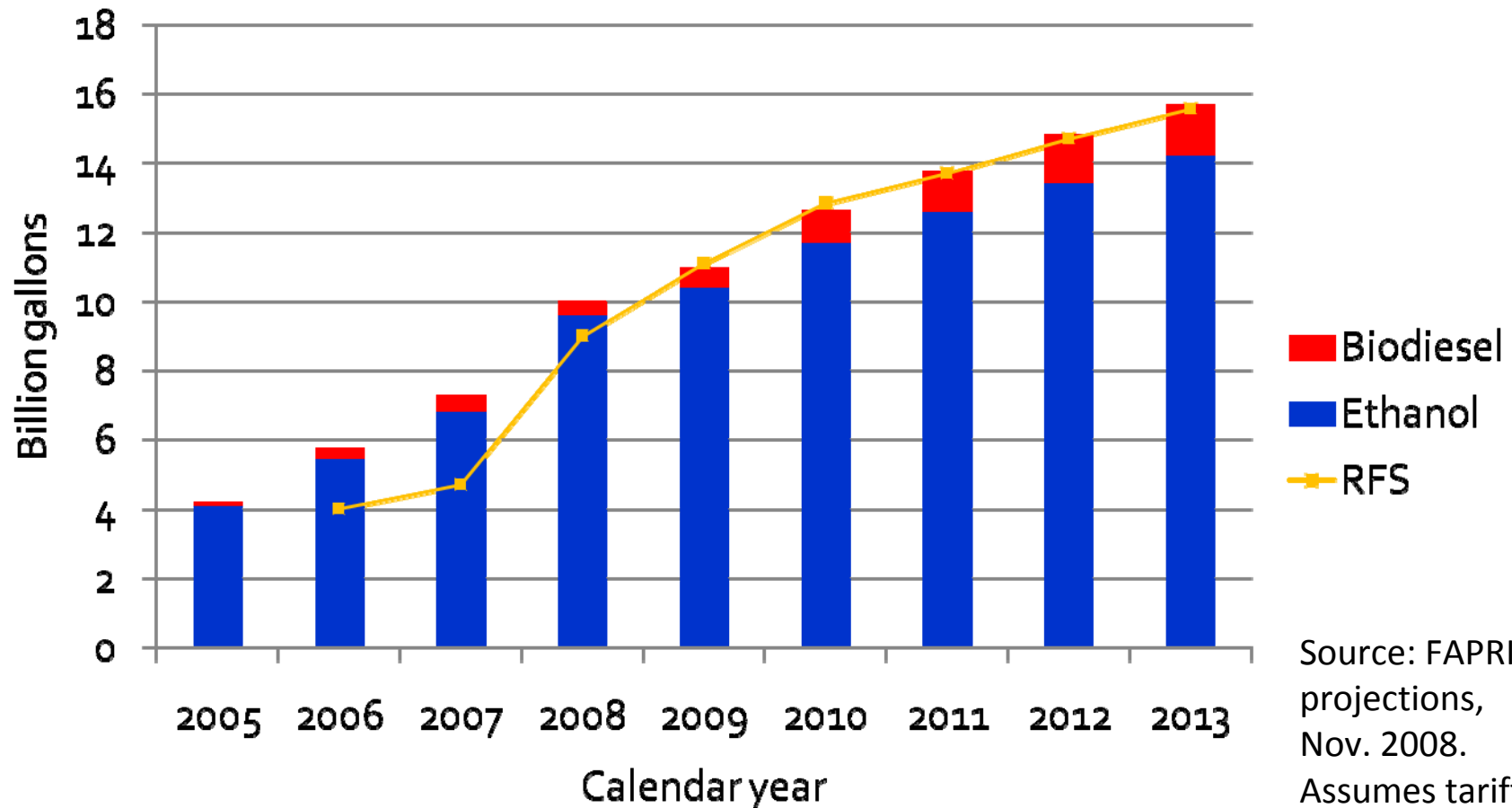
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2008/09 corn, petroleum prices



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Biofuel consumption and the Renewable Fuel Standard (RFS)



Source: FAPRI-projections, Nov. 2008.
Assumes tariffs and tax credits extended

Notes: RFS adjusted for projected shortfall in cellulosic production relative to mandate; one gallon of biodiesel assumed to count as 1.5 gallons of biofuel

FAPRI price projections

Nov. 2008 preliminary baseline (new projections forthcoming)

	2000-06 avg.	2007-08 avg.	2009-18 avg.
Corn farm price/bushel	\$2.24	\$4.05	\$4.21
Soybean farm price/bushel	\$5.66	\$9.68	\$10.12
Wheat farm price/bushel	\$3.35	\$6.64	\$5.92
Cotton farm price/pound	46.0¢	54.9¢	58.3¢
Rice farm price/cwt	\$6.77	\$14.65	\$13.85
Fed cattle (Neb. direct)/cwt	\$78.79	\$92.05	\$102.04
Hogs (51-52% lean, live eq.)/cwt	\$44.95	\$47.47	\$54.35
Chicken (12-city wholesale)/lb.	63.15¢	78.05¢	86.43¢
All-milk price/cwt	\$13.78	\$18.73	\$18.02

Data for 2000-2006 based on Feb. 2009 USDA estimates. Data for 2009-18 based on FAPRI projections prepared in Nov. 2008. New FAPRI projections will be released next week.

Final shameless advertising plug

- **New** FAPRI baseline scheduled for release March 5 or 6
- Will be based on information available in January
 - Thus more current than USDA long-term outlook based on November information
 - But not as current as USDA short-term outlook discussed here at the Forum

THANKS!

- To contact me: westhoffp@missouri.edu
- FAPRI-Missouri website for US projections: www.fapri.missouri.edu
- FAPRI-Iowa State website for global projections: www.fapri.iastate.edu