UT Extension

Farm MANAGEment Minute

A quarterly newsletter from the Department of Agricultural and Resource Economics

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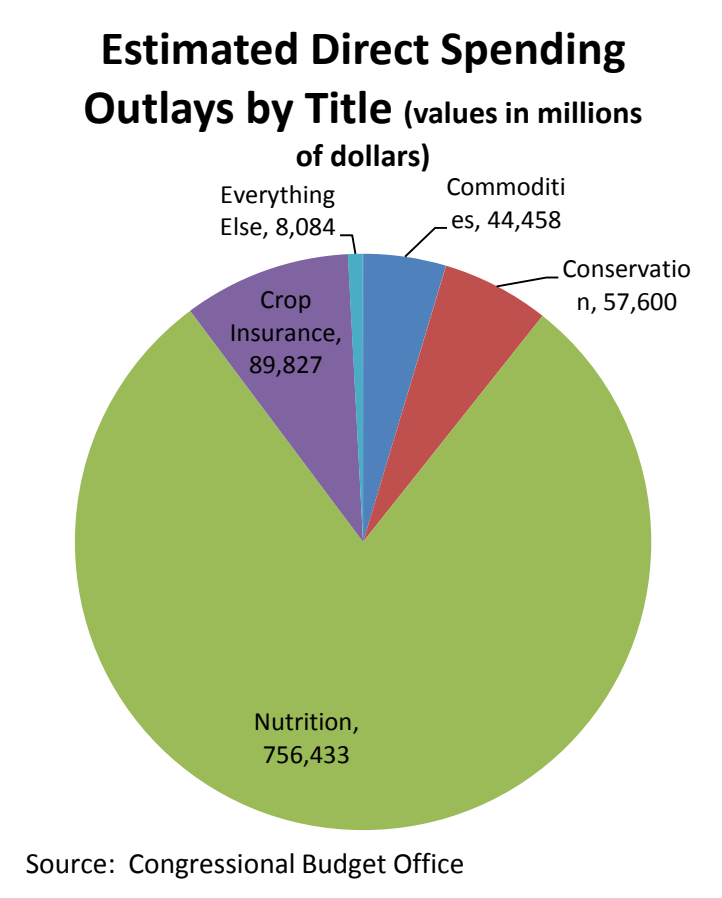
In this issue:

Congress passes farm bill!

After two years of discussions, the U.S. Congress has finally passed a farm bill. The bill is titled the Agricultural Act of 2014 and was passed in early February 2014. Much work remains before the bill is instituted fully. USDA and all its agencies must write rules and regulations describing how the bill is to be adminstered and programs implemented. The bill provides a major shift in farm policy.

The bill is intended to save $23 billion over ten years. It reduces spending on commodity programs, reforms the food stamp program, repeals or consolidates nearly 100 USDA programs, and makes investments in land stewardship, water, rural electric needs, and other rural development areas.

Nutrition programs continue to be the largest part of the farm bill spending, accounting for about 79% of the total bill. The chart shows spending on the major components of the bill by title. The titles in the "everything else" category include trade, credit, rural development, research, extenstion, and related matters, forestry, energy, horticulture, and miscellaneous.



Two of the major changes in the bill are the change in commodity programs to more of a safety net program designed to help farmers during times of low prices or crop failures and a shift to crop insurance. The bill will spend nearly twice as much on crop insurance than

commodity programs over the life of the bill. This shift is important for farmers because it places more responsibility on them to utilize risk management strategies rather than relying on direct payments to help make up shortfalls. In addition, the commodity programs provide a safety net during times of low prices or revenue than a payment regardless of farm income.

A major change in the bill is the elimination of direct payments. In their place, two safety net programs have been created. The programs are called Price Loss Coverage (PLC) and Average Revenue Coverage (ARC). ARC is broken into county-based and individual programs. USDA still needs to finish writing the regulations for implementing the bill, but farmers will face a very important decision as they decide whether to sign up for PLC or ARC. The decision must be made in 2014 and will remain in effect for the life of the farm bill, until 2018.

PLC pays out when prices fall below a reference price established by USDA. ARC is a revenue program that pays when a farm's revenue falls below a county average or individual average. For PLC and ARC-County, payments are made on 85% of base acres. For ARC-Individual, payments are made on 65% of base acres.

More information is available at https://utextension.tennessee.edu/publications/Documents/D7.pdf. Other projects are being conducted at the University of Tennessee to help explain changes in the farm bill and their effect on Tennessee producers.

NASS releases preliminary Census of Agriculture results

The National Agricultural Statistics Service (NASS) released preliminary results from the 2012 Census of Agriculture on February 20, 2014. Every five years, USDA conducts the Census of Agriculture to gather data on all farms throughout the United States. The Census is quite detailed and includes county-level information. In many cases, this is the most detailed information available with regard to production, yield, demographics, and farm financial condition. It is used to help lawmakers and USDA set agricultural policy.

Preliminary results for the U.S. show that:

- the value of agricultural products sold increased about 33% from the 2007 Ag Census from $297.2 billion to $394.6 billion
- crop sales were $212.4 billion and livestock sales of $182.2 billion
- on average, farm sales increased from $134,807 to $187,093, which is the largest increase in the history of the Ag Census
- the amount of land in farms continues its slow decline from 922 million acres to 915 million acres
- average farm size increased from 418 to 434 acres
- farm numbers decreased from 2,204,792 to 2,109,363
- numbers of small and large farms held steady, with the largest decline in mid-size farms.
- principal farm operators are getting older with the average increasing from 57.1 to 58.3 years
- numbers of minority race farmers increased while the number of white farmers decreased

Preliminary results for Tennessee show that:

- the value of agricultural products sold increased about 38% from the 2007 Ag Census from $2.6 billion to $3.6 billion
- crop sales were $2.1 billion and livestock sales were $1.5 billion
- on average, farm sales increased from $20,049 to $53,064
- the amount of land in farms declined about 0.9%
- average farm size increased from 138 to 160 acres
- farm numbers decreased by 14.2% from 79,280 to 68,050
- the number of small farms (less than 50 acres) decreased by about 24% while the number of farms over 1,000 acres increased 10.4%
- principal farm operators' average age increased from 57.8 to 59.2
- the number of Spanish, Hispanic, or Latino farmers increased about 5% and the number of Asian farmers increased 17.6% while numbers of all other races decreased
- the number of farms with less than 10 years' experience fell by 30%

More information is available at http://www.agcensus.usda.gov/Publications/2012/ and the complete report is available at http://www.agcensus.usda.gov/Publications/2012/Preliminary_Report/Full_Report.pdf.

USDA 10-Year Agricultural Outlook

USDA recently held their annual outlook meeting. One of the highlights of the meeting is the release of the 10-year projections for the food and agriculture sector. The annual projections provide USDA's best guess as to U.S. agricultural profitability over the period based on expected production, exports, imports, and use of agricultural products as well as expected macroeconomic conditions.

The outlook shows that GDP growth will be relatively constant for the world and for the U.S. at about 3.2 percent and 2.6 percent, respectively. In addition, developing countries are expected to grow at about 5 percent annually while developed countries are expected to grow at about 2 percent annually. This should be positive for agriculture as developing countries become more prosperous and populous. Food and feed demand should increase as people can afford to improve and increase their food consumption.

China's economy grew at about 10 percent annually over the last decade. While it is expected to slow to about 7 percent annually for the next decade, it is still in a strong growth position. China is expected to account for 13 percent of the world economy by 2023, up from its present 9 percent. India is expected to grow at about 7 percent, Africa at 4.7 percent, Latin America at about 4 percent, and the Former Soviet Union at 3.8 percent annually.

Population growth is expected to slow with developed countries growing at about 0.4 percent and developing countries growing at about 1.2 percent annually. Therefore, while the economies of developing countries improve and populations increase, albeit slower than in the last 10 years, the prospect for U.S. agricultural exports to developing countries is still good. One caveat is that world agricultural production continues to increase which will likely depress prices and limit potential for the high profits experienced in recent years.

The U.S. dollar is expected to appreciate over the next decade, but it will remain relatively weak compared to where it was ten years ago. It is unlikely that the dollar's value relative to other currencies will have any long-term negative impact on trade as USDA projects strong exports for U.S.-grown commodities for the next 10 years.

The report expects crop prices to fall relative to the most recent years, but remain above pre-2007 levels for the forecast period. Corn, soybean, and wheat prices are expected to decline until 2015/16, then increase slightly for the remainder of the forecast period due to increased domestic demand and exports. Cotton acres are expected to increase to 11 million acres in 2014 then fall to 10 million in 2015 and remain at that level for the remainder of the forecast period. Domestic cotton use is expected to remain low while developing countries increase their spinning capacity.

Sales of horticultural crops are expected to grow by 1.2 percent annually over the 10-year period for the U.S. At the same time, the trade deficit in horticultural crops is expected to increase from $12.8 billion to $23.1 billion.

Pork and poultry production are expected to increase over the 10-year period while beef production is expected to decline through 2016 while producers retain heifers and attempt to rebuild their herds. After 2016, beef production should increase. Per capita meat consumption is expected to follow a similar pattern as production, while livestock prices are expected to increase for beef cattle but remain relatively constant for broilers and hogs. Liquid milk consumption is expected to continue decreasing while cheese consumption is expected to continue increasing. Milk production is expected to increase, and prices are expected to be over $20 for the latter years of the forecast period.

For more complete analysis including projected prices and production, see the full report at http://www.ers.usda.gov/publications/oce-usda-agricultural-projections/oce141.aspx#.Ux3U9fldXK0.

Concluding thoughts

If you have any comments, questions, or suggestions, please contact Jason Fewell, Coordinator of the MANAGE Program in the Department of Agricultural and Resource Economics at the University of Tennessee at (865) 974-7410 or email jfewell@utk.edu.

If you have specific topics you think would be useful to include in a future issue, we would be happy writing about it.

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