USDA Agricultural Baseline Projections to 2013

Interagency Agricultural Projections Committee

Introduction

This report provides long-run baseline projections for the agricultural sector through 2013. Projections cover agricultural commodities, agricultural trade, and aggregate indicators of the sector, such as farm income and food prices. The baseline identifies major forces and uncertainties affecting future agricultural markets; prospects for global long-term economic growth, consumption, and trade; and future price trends, trade flows, and U.S. exports of major farm commodities.

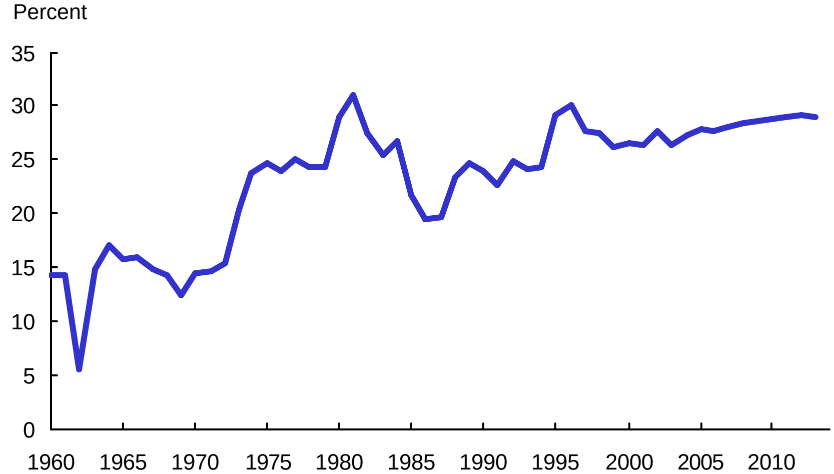
The projections are a conditional scenario with no shocks and are based on specific assumptions regarding the macroeconomy, agricultural policy, the weather, and international developments. The baseline assumes that current farm legislation, the Farm Security and Rural Investment Act of 2002 (the 2002 Farm Act), remains in effect through the projections period. The projections are not intended to be a Departmental forecast of what the future will be, but instead a description of what would be expected to happen under a continuation of the 2002 Farm Act, with very specific external circumstances. Thus, the baseline is a neutral backdrop, reference scenario that provides a point of departure for discussion of alternative farm sector outcomes that could result under different domestic or international assumptions.

The projections in this report were prepared in October through December 2003 in support of the fiscal year 2005 budget analysis. Projections reflect a composite of model results and judgment-based analysis. Normal weather is assumed. Short-term projections included in the baseline are from the November 2003 *World Agricultural Supply and Demand Estimates* report. The baseline projections were completed prior to the diagnosis of a case of bovine spongiform encephalopathy (BSE) in an adult Holstein cow in Washington State in December 2003.

Summary of Projections

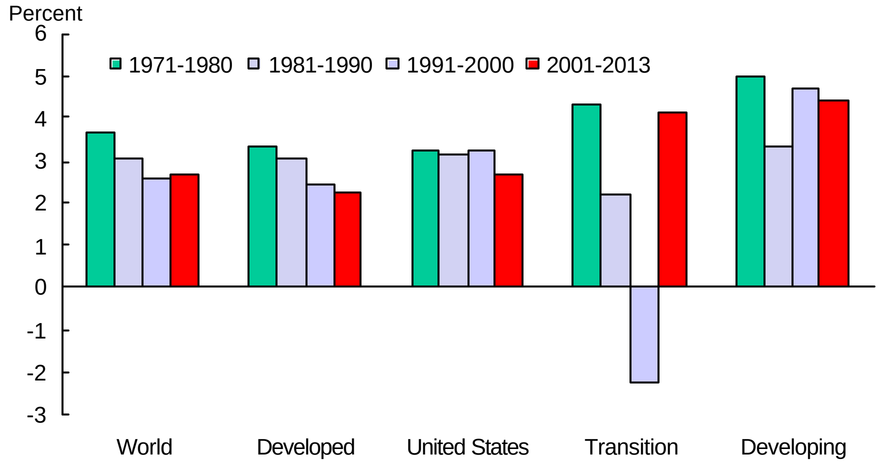
Stronger domestic and international growth following the economic slowdown of 2001 through early 2003 provides a favorable demand setting for the U.S. agricultural sector. Despite declines from a recent peak, a relatively strong U.S. dollar by historical standards and trade competition from countries such as Brazil, Argentina, and the Black Sea region are constraining factors on U.S. exports for some agricultural commodities. Nonetheless, improving economic growth, particularly in developing countries, provides a foundation for gains in global consumption and trade, U.S. agricultural exports, and farm commodity prices. Domestic demand also increases for meat, feeds, horticultural products, corn used in ethanol production, and food use of rice. As a result, market prices and cash receipts rise, which help to improve 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.

U.S. agricultural export value relative to total market cash receipts



Agricultural export markets are important for sustaining prices and farm revenues. Exports account for a growing share of U.S. farm cash receipts, and are a key factor in determining gains in gross farm income.

World gross domestic product (GDP) growth rates, decade averages



Agricultural trade depends on the economic prosperity of consumers throughout the world.

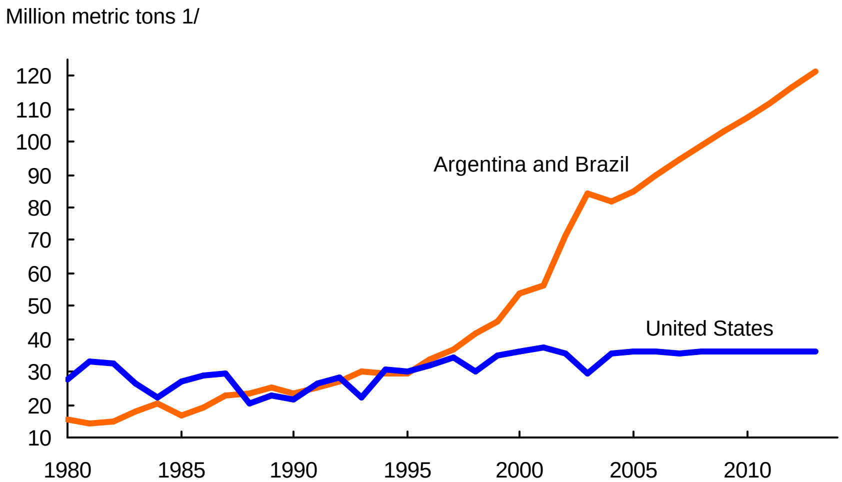
- Economic gains and population growth in developing countries will generate most of the increase in global food demand over the next decade.

- Economic growth in developing countries is important for global agricultural demand because many developing countries have incomes at levels where consumers diversify their diets to include more meats and other higher valued food products, and where consumption and imports of food and feed are particularly responsive to income changes.

- Projected growth in the transition economies (countries of the former Soviet Union and Central and Eastern Europe) of over 4 percent in 2004-13 is significant in comparison to the economic contraction of the 1990s. Economic reforms undertaken to shift to market economies and EU enlargement (see box, page 77) contribute to the improved growth prospects. This growth will increase consumer income and thereby raise demand for agricultural goods, such as livestock products, for which demand is relatively responsive to income changes.

- Although declining somewhat in the near term, the U.S. dollar is assumed to stay at historically strong levels throughout the projections as financial market returns attract financial flows into the United States. The strength of the dollar is a constraining factor for U.S. agricultural competitiveness and export growth.

Trade competition remains strong: Soybean and soybean meal exports



1/ Soybeans plus soybean meal converted to soybean-equivalent weight.

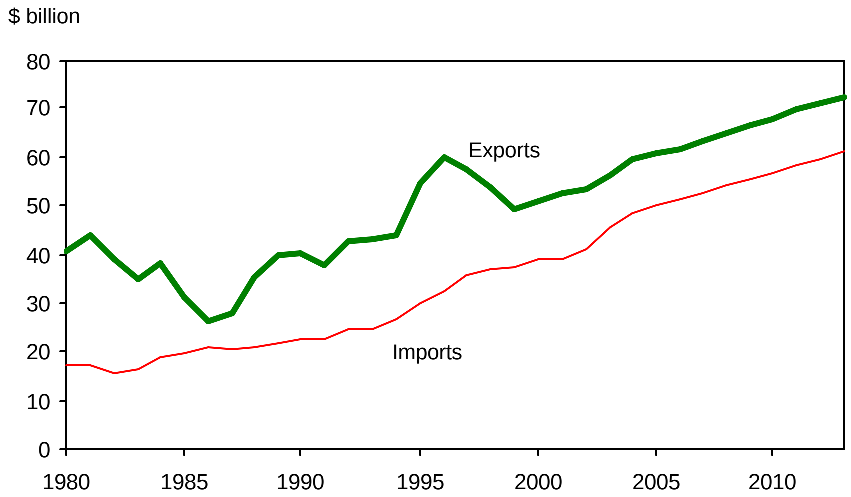
Competition in global agricultural markets will continue to be strong, with expanding production in a number of foreign countries.

- For example, increasing exports of soybeans and soybean meal from South America reflect a continuing conversion of land to crop production uses, particularly in Brazil.

- Competition in global wheat trade continues with traditional exporters (Australia, Argentina, Canada, and the European Union) as well as with more-recent exporters from the Black Sea region.

- Brazil and Canada provide competition to U.S. pork exports, while U.S. exports of broilers face strong competition from Brazil and Thailand.

U.S. agricultural trade value

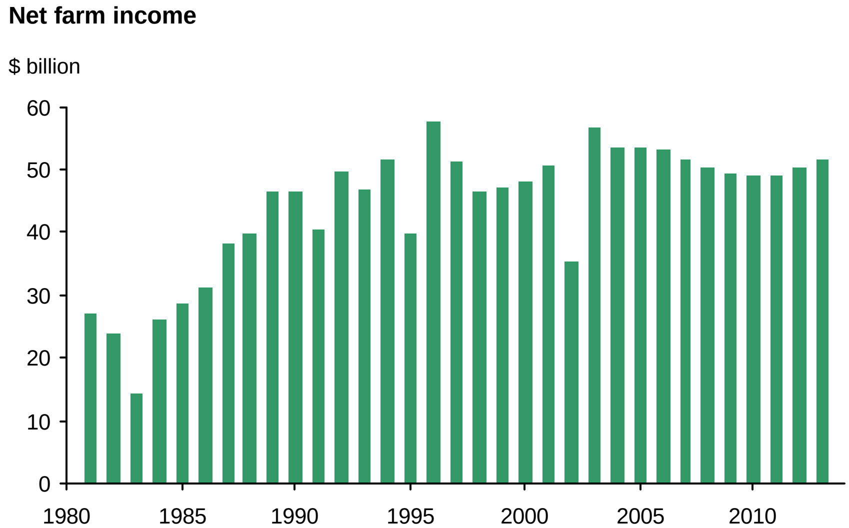


The value of U.S. agricultural exports, which fell from a record of almost $60 billion in fiscal year 1996 to $49.1 billion in 1999, is projected to exceed the prior record in 2005 through 2013.

- U.S. agricultural exports face continued strong trade competition throughout the baseline period. A relatively strong U.S. dollar by historical standards, despite declines from a recent peak, also is a constraining factor on U.S. agricultural exports.

- Nonetheless, strengthening world economic growth in the longer run, particularly in developing countries, provides a foundation for gains in U.S. agricultural exports, which increase to about $72 billion by the end of the projections.

- U.S. agricultural imports rise by about the same amount as exports, with the agricultural trade surplus relatively stable in a $10 to $12 billion range during the projection period.



Strengthening market conditions lead to rising prices, increases in gross farm income, and improvement in the financial condition of the U.S. agricultural sector. Net farm income declines through much of the projections period from a high 2003 level, reflecting lower government payments and adjustments in the cattle sector.

- Gross cash income gradually increases as crop and livestock receipts increase due to growing domestic and export demands.

- Production expenses are projected to increase at slightly less than the general inflation rate. Cash operating margins tighten somewhat, with cash expenses increasing from 75 percent of gross cash income in 2004 to about 78.5 percent at the end of the projections.

- Government payments become relatively less important over time as a greater share of gross cash income comes from the marketplace.

- Net farm income projections for the next decade average about $51 billion, compared to $47.6 billion in the 1990s. Income increases towards the end of the projections and reaches $51.5 billion in 2013.

- Increasing gross cash income and relatively low interest rates through the baseline assist in asset accumulation and debt management. Debt-to-asset ratios decline to about 14 percent in the last several years of the projections, compared with over 20 percent in the mid-1980s and 14.7 percent in 2003.