

Outlook for Montana Agriculture

by George Haynes

General Financial Overview

Montana agricultural producers have weathered the financial storm better than other industrial sectors and agricultural producers from other states. Preliminary studies in Montana suggest that 2009 net farm income will decline about 20 percent from 2008 net farm income of \$690 million, while the U.S. Department of Agriculture is predicting a decline of more than 30 percent from 2008 for all agricultural producers in the United States. (ERS Briefing Room, 2009). Montana agricultural producers have fared better than others because they entered this recession in relatively strong financial positions (meaning debt-to-asset ratios around 12 percent), agricultural land prices have remained relatively stable, and farm programs have helped to mitigate the downside risk. While agricultural prices were substantially lower in 2009 than 2008 for crop producers, commodity prices declined to levels approaching longer term historical averages. These lower agricultural prices are largely the result of lower demand for agricultural products created by the global recession.

Agricultural producers dance on an international stage; hence, food sales in the United States and export sales to international trading partners are important to Montana producers. While the quantity of carbohydrates and protein consumed in 2009 appears to be stable, consumers are opting for lower cost substitutes. Food sales for in-home consumption declined in seven of 12 months last year from the year before, while food sales for away from home consumption declined in all but December (ERS, 2010b). The United States exports about 50 percent of total wheat produced and about 8 percent to 10 percent of total beef produced in an average year. The export markets reflected the same decline in demand, with wheat exports approaching a 35-year low, about 40 percent of total U.S. wheat production. Beef exports declined slightly from 2008 and remain well below the tonnage exported prior to the BSE scare in 2003, about 7 percent of total U.S. beef production (Johnson, 2010; Vocke, Allen & Liefert, 2010). The 2010 Montana agricultural outlook for both crops and livestock is similar to 2009, with stable to slightly higher commodity prices.

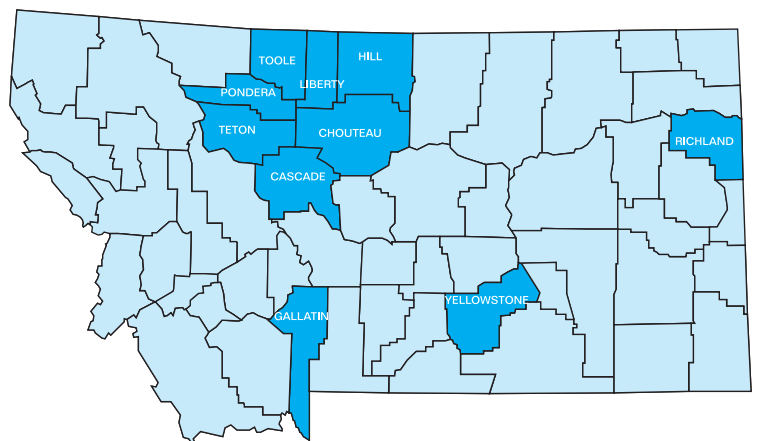
Crop Outlook

The counties comprising the “Golden Triangle” produce about 40 percent of the total cash receipts from crop production, with one county, Chouteau, producing nearly 10 percent of total cash receipts for Montana (Figure 1).

The grain producers have realized a challenging year, with world and U.S. average wheat prices declining by over 30 percent between 2008 and 2009 from \$6.70 per bushel in 2008 to less than \$5.00 per bushel in 2009 (Vocke, et al, 2010). Even though production declined in the United States, an extended growing season and favorable harvest weather increased expected production in the former Soviet Union countries (FSU-12), primarily Russia, Kazakhstan, and Ukraine. Between 2008 and 2009, world wheat production decreased by less than 2 percent worldwide (from 25.1 to 24.7 billion bushels), U.S. wheat production decreased by nearly 12 percent (from 2.5 to 2.2 billion bushels), and Montana wheat production increased by just over 7 percent (from 165 to 177 million bushels) (WASDE, 2010; NASS, 2009). Montana and U.S. shares of world wheat production and sales have remained relatively constant at around 0.7 percent (world) and 7.5 percent (U.S.), respectively. The futures markets for wheat suggest that wheat prices may rise in 2010, but remain close to the five-year historical average price (2004-2009).

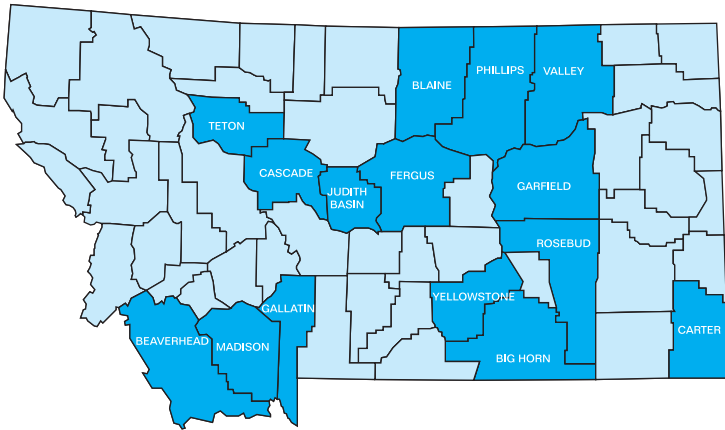
U.S. wheat exports were down about 12 percent from 2008. Analysts suggest that relatively high U.S. prices and large wheat exports from Russia, Ukraine, and Kazakhstan are the major reason why U.S. wheat exports have been lackluster in relation to last year (Vocke, Allen & Liefert, 2010). Wheat exports from these three countries have increased by nearly twofold since 2007 and now comprise about 25 percent of world wheat exports (WASDE, 2010).

Figure 1
Top 50 Percent of Crop Producing Counties
in Montana, 2007 Cash Receipts



Source: National Agricultural Statistics Service, Montana Field Office.

Figure 2
Top 50 Percent of Livestock Producing
Counties in Montana, 2007 Cash Receipts



Source: National Agricultural Statistics Service, Montana Field Office.

Cattle Outlook

Yellowstone and Beaverhead counties produce about 10 percent of the total cash receipts from livestock production. Fergus, Big Horn, Cascade, Rosebud, Valley, Phillips, Gallatin, Madison, Carter, Teton, Garfield, Judith Basin, and Blaine contribute another 40 percent to total cash receipts (Figure 2). Montana's beef inventory decreased by just over 2 percent from 2008 to 2009, with fewer calves being held as replacement heifers and the lowest number of cattle on feed (26,000) since these numbers were collected in 1983 (NASS, 2009). The national cattle herd is at the lowest level since 1951 (Johnson, 2010). Montana's share of the U.S. beef market remains steady at 2.5 to 3.0 percent of 20.3 million tons of beef produced nationwide. Futures prices for the cattle market suggest that feeder and fat cattle prices will be somewhat stronger in 2010.

U.S. beef demand continues to trend downward, with export demand improving, but well below export demand prior to the BSE scare. Domestic consumption of beef declined by about 3.9 percent in 2009 to just over 60 pounds per person (LMIC, 2010). Over 90 percent of all beef exports are to four countries: Canada, Mexico, Japan, and South Korea. Beef exports for 2009 are expected to be 4 percent lower than in 2008, but they are expected to increase by about 10 percent in 2010 (Johnson, 2010). Most recently, beef exports have been adversely affected by weak global demand for more expensive cuts of grain-fed beef and the value of the dollar. Japan has seen its currency appreciate against the dollar, while Canada, Mexico, and South Korea have seen

their currencies depreciate against the dollar. While exports to Japan to have increased by 19 percent year-to-date, exports to Mexico and Canada have decreased by 15 percent and 6 percent year-to-date, respectively (Johnson, 2010). Over 90 percent of beef imported in the United States comes from Australia, Canada, New Zealand, Brazil, and Uruguay. Beef imports into the United States from all sources increased by 7 percent in 2009, primarily because of increases in imports from Australia (Johnson, 2010). Beef imports are expected to increase by 3 percent in 2010 (Johnson, 2010).

What's Expected in 2010?

Preliminary estimates suggest that net farm income is expected to increase by over 10 percent in 2010 (ERS, 2010). The financial situation for crop producers is expected to stabilize with prices that approach long-term averages and input costs that are declining. Fertilizer prices have declined by over 50 percent in the past two years and cost of debt remains somewhat lower, especially for operating lines of credit. The financial situation for livestock producers is expected to improve as cattle numbers reach historical lows and consumer demand for protein increases. Expectations about net farm income in 2010 are somewhat more optimistic than in 2009; however, lenders are expected to remain cautious. □

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