Farmland IN PERSPECTIVE

Winter 2013/2014 Volume 34, No. 4

GLAUB FARM MANAGEMENT

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U.S. ag exports to China grow even as China increases domestic farm support

China has been an important source of recent growth in U.S. agricultural exports, so recent increases in China's domestic farm support has been a source of concern. While it is often presumed that subsidies and price supports give Chinese farmers an advantage, these policies actually may improve prospects for U.S. agricultural exports by raising costs and prices of Chinese commodities above international levels, according to the Economic Research Service of the U.S. Department of Agriculture.

As a World Trade Organization (WTO) member, China agreed to relatively low tariffs and eliminated most barriers to imports apart from tariff rate quotas for several types of cereal grains, cotton, and sugar. Consequently, as China raises domestic price supports above international prices, the country tends to attract more imports. As a result, China today is a net importer of the commodities that are the main targets of its domestic support programs—grains, oilseeds and cotton.

U.S. agricultural exports to China, 2000–12

Source: USDA, Economic Research Service analysis of data from USDA, Foreign Agricultural Service, Global Agricultural Trade System.

Global Outlook on Crop Production

by Dr. Chad E. Hart, Iowa State University

Global production for most of the major crops is forecast to be higher this year as weather conditions across the globe have improved for crop development. Here in the U.S., last year's drought conditions have lessened and shifted toward the west, moving away from the Corn Belt and into the Great Plains. Improving weather patterns also have occurred in the Black Sea region, Europe, and Australia.

Corn

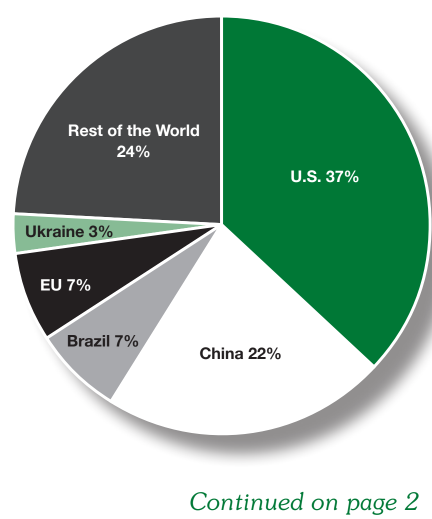
For corn, the improved outlook translates into projections of a record crop. U.S. corn production is projected to increase by nearly 28% this year. But the U.S. is not the only corn producer that is growing. Global corn production is expected to reach 37.68 billion bushels, up 11.5% from last year. The EU, Russia, and Ukraine are also expecting double-digit gains in corn.

The U.S. remains the dominant corn producer in the world, but many countries have entered the corn market given the run of high corn prices over the last few years. China is the world's second largest corn producer, however, the vast majority of China's corn is needed for internal consumption. But several of the next tier of producers (Brazil, Ukraine, and Argentina) produce most of their corn for the export market. Thus, the U.S. is facing more export competition for corn than ever before.

Major import markets are Japan, Mexico, South Korea, the EU, China, and Egypt. While South America is our major challenger for the Pacific markets, the buildup of corn production in Russia and Ukraine presents a strong challenge for U.S. corn exports in Africa and the Middle East.

However, the U.S. corn export outlook is stronger this year. As prices decline, global demand for corn, mainly for livestock feed, is projected to increase.

Global Corn Production



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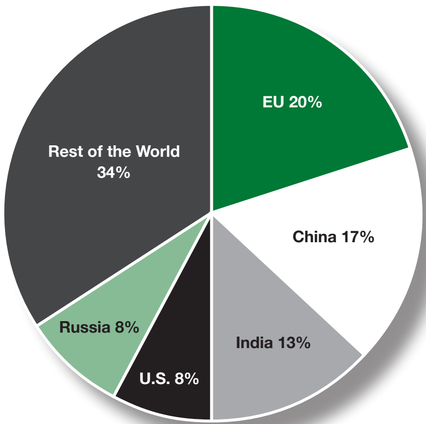
Global Wheat Production

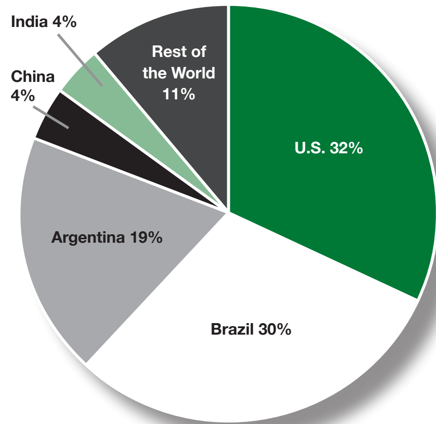


Wheat

World wheat production is expected to increase by nearly 8%, even though U.S. production is dropping by nearly 7%. Argentina, Australia, Russia, Ukraine, and Kazakhstan are all expecting double-digit increases in wheat production. In fact, only two of the major wheat areas (the U.S. and India) are expecting decreased wheat production this year.

The global wheat market is more diversified than the corn or soybean markets. Many countries are active producers and traders. The U.S., EU, Australia, Canada, Russia, and Ukraine all hold sizable portions of world trade market share. The major import markets are in North Africa and the Middle East, but Southeast Asia has grown in importance in wheat. U.S. wheat exports are projected to increase slightly as China is expected to pull in wheat to offset a lack of growth in domestic production.

Global Soybean Production



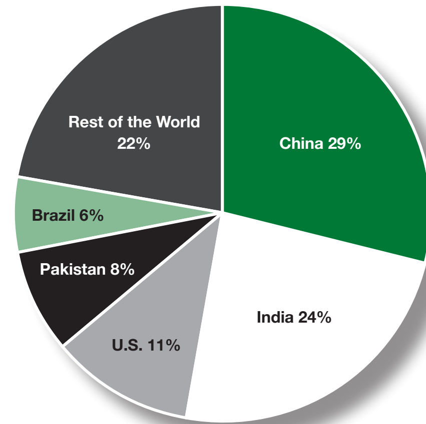
Soybeans

Global soybean production is dominated by three big players: the U.S., Brazil, and Argentina. Combined, these three countries produce 81% of the world's soybeans, and all three countries are expecting bigger soybean crops this year.

Along with this growth, other countries are expanding their soybean production. Recently, the Ukraine has shifted land into soybean production, targeting the export market. World soybean production is projected to increase by 5% to 10.35 billion bushels.

Just as the production side of the market is dominated by three big players, the trade market is dominated by one. China makes up nearly 70% of all global soybean imports. The U.S., Brazil, and Argentina all rely on the Chinese market. While U.S. exports of soybeans are expected to increase, given lower prices, U.S. market share is expected to slip as Argentina and Brazil gain in the Chinese market.

Global Cotton Production



Cotton

Of the four crops, cotton is the only crop with lower expected global production. While U.S. production is projected to drop nearly 25%, global production is expected to fall by roughly 4%. China is the world's largest producer and customer of cotton. Their production is expected to decline by nearly 6%.

Cotton's major issue is the significant build-up of cotton stocks in China. Over the past few years, China has sought to protect its domestic cotton industry by supporting cotton prices through a "buy and hold" strategy. As a result, China started the marketing year with 50 million cotton bales in storage. To put that in perspective, China will produce roughly 34 million bales of cotton and use 36 million bales of cotton this year.

China has more than enough cotton to meet its internal demand. Those Chinese stocks hang over the market, holding cotton prices down in comparison to the other crops. Thus, cotton has lost acreage to the other crops. U.S. cotton exports are projected to fall as China imports less.

about the author

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Dr. Hart received a B.S. in economics with minors in mathematics, history, and astronomy from Southwest Missouri State University in 1991. He received his Ph.D. in economics and statistics from Iowa State University in 1999.

Dr. Hart grew up on a rural homestead near Stark City in southwest Missouri.

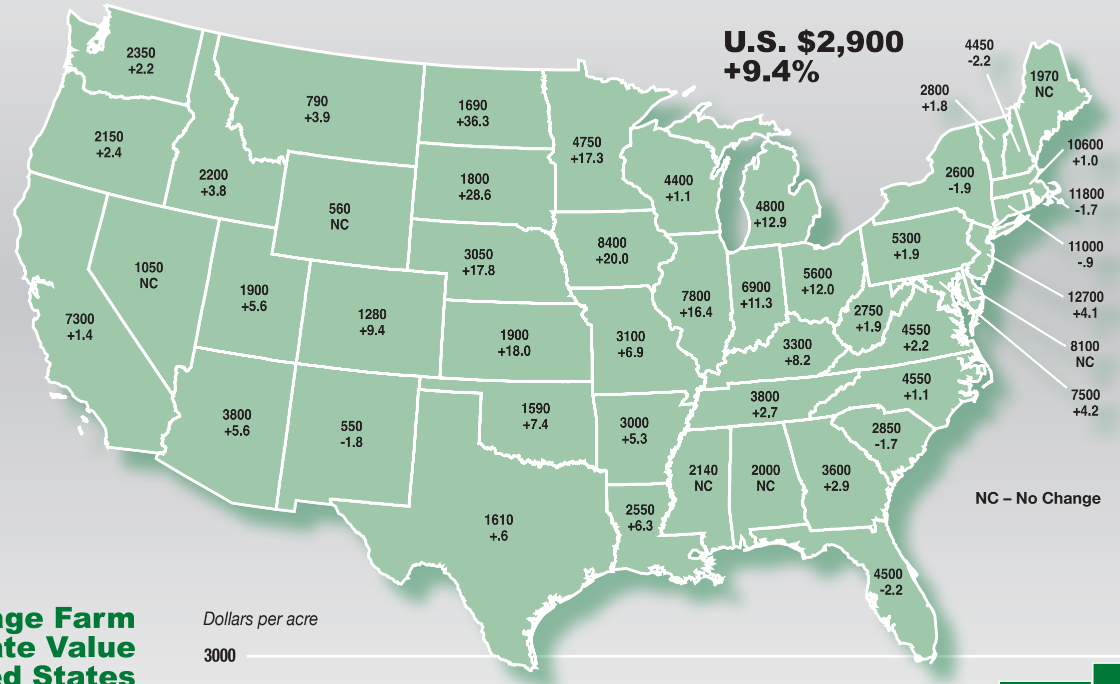
OUTLOOK

Overall, the global crop outlook is for higher production and lower prices. Global demand, for the most part, is rebounding, but supplies are building faster than demand. The strong returns corn and soybeans have offered over the past few years are diminishing as crop prices fall more in line with production costs. Global competition has also increased as other countries chase the positive returns that crops have recently offered.

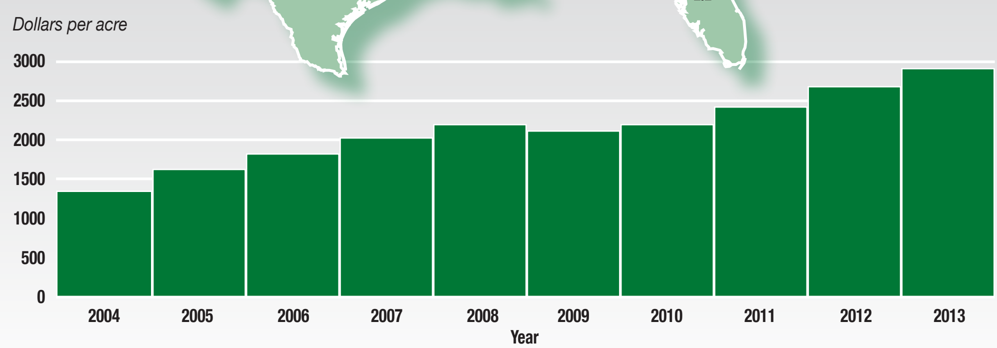
Agricultural Land Values Highlights

The United States farm real estate value, a measurement of the value of all land and buildings on farms, averaged $2,900 per acre for 2013, up 9.4% from revised 2012 values, according to the Economic Research Service of the U.S. Department of Agriculture. Regional changes in the average value of farm real estate ranged from a 23.1% increase in the Northern Plains region to no change in the Southeast region.

2013 Farm Real Estate Value by State (Dollars per acre and percent change from 2012)



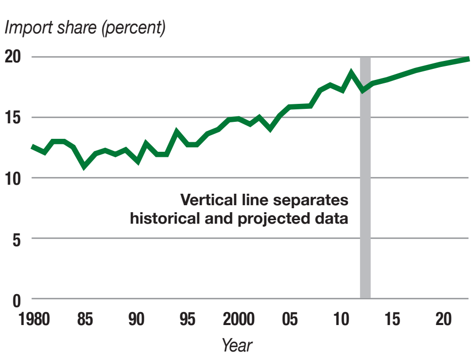
Average Farm Real Estate Value – United States



Source: USDA – NASS

Developing countries' demand for ag products outstrips production

Developing-country imports of grains, oilseeds, meat, and cotton as a share of consumption



According to U.S. Department of Agriculture's baseline projections, the demand for agricultural products in developing countries is expected to increase faster than production in those countries, leading to continued growth in import demand. Developing countries are projected to account for 92% of the total increase in world meat imports, 92% of the increase in total grains and oilseeds imports, and nearly all of the increase in world cotton imports. The growth rate for developing-country consumption of total grains and oilseeds is projected to be about 17% faster than the rate for production.

As a result, the gap between consumption and production will continue to widen, and these countries will become more import dependent. While these trends will create new opportunities for the United States to expand agricultural exports, they also present new challenges to U.S. exporters. Instead of a limited number of large importing countries, the global market now includes more countries with smaller import needs, requiring new marketing strategies by the U.S. and other exporters.

Source: USDA, Economic Research Service

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