
Farm commodity markets and food prices

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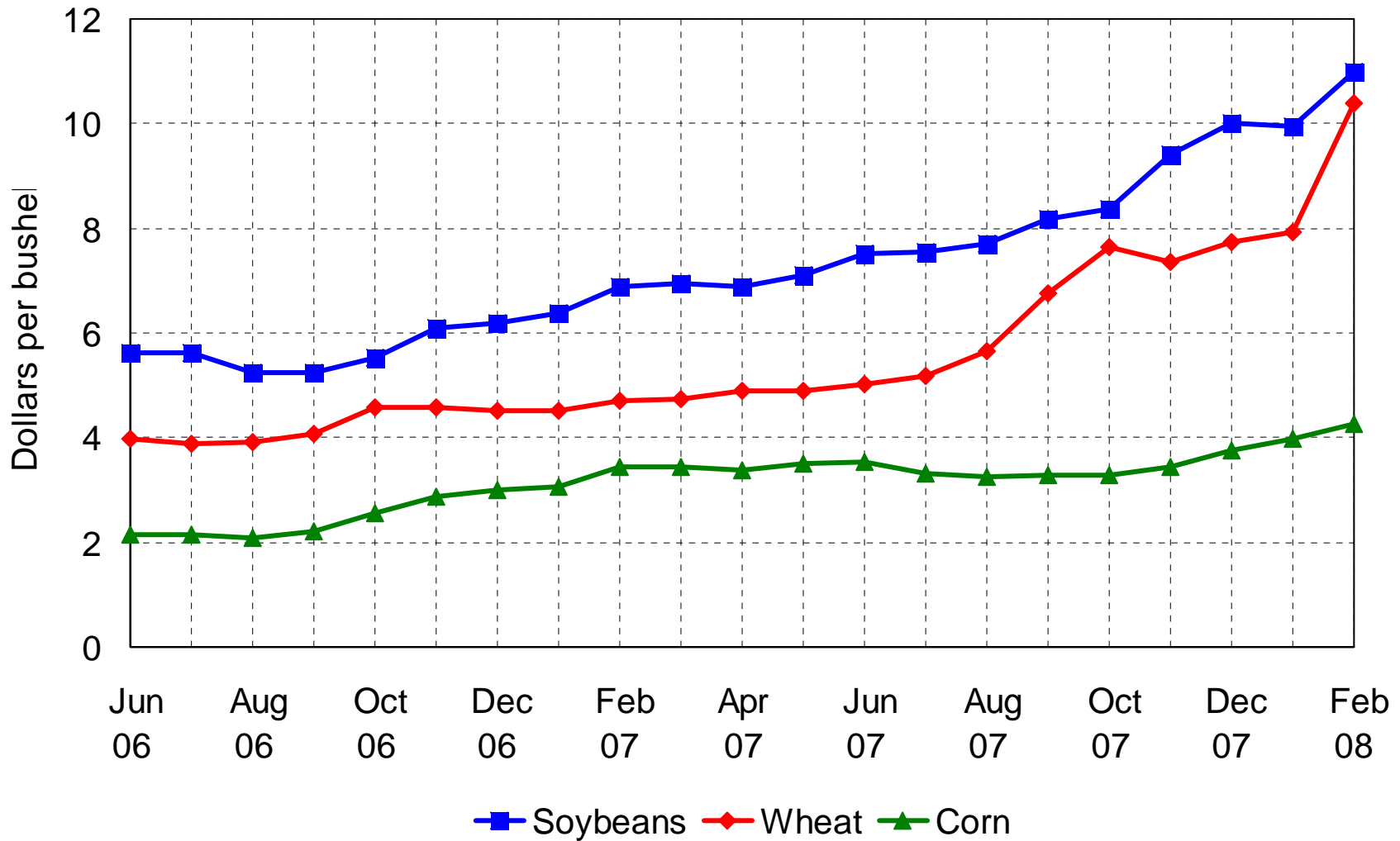
March 18, 2008 Solae Webinar



A word about FAPRI

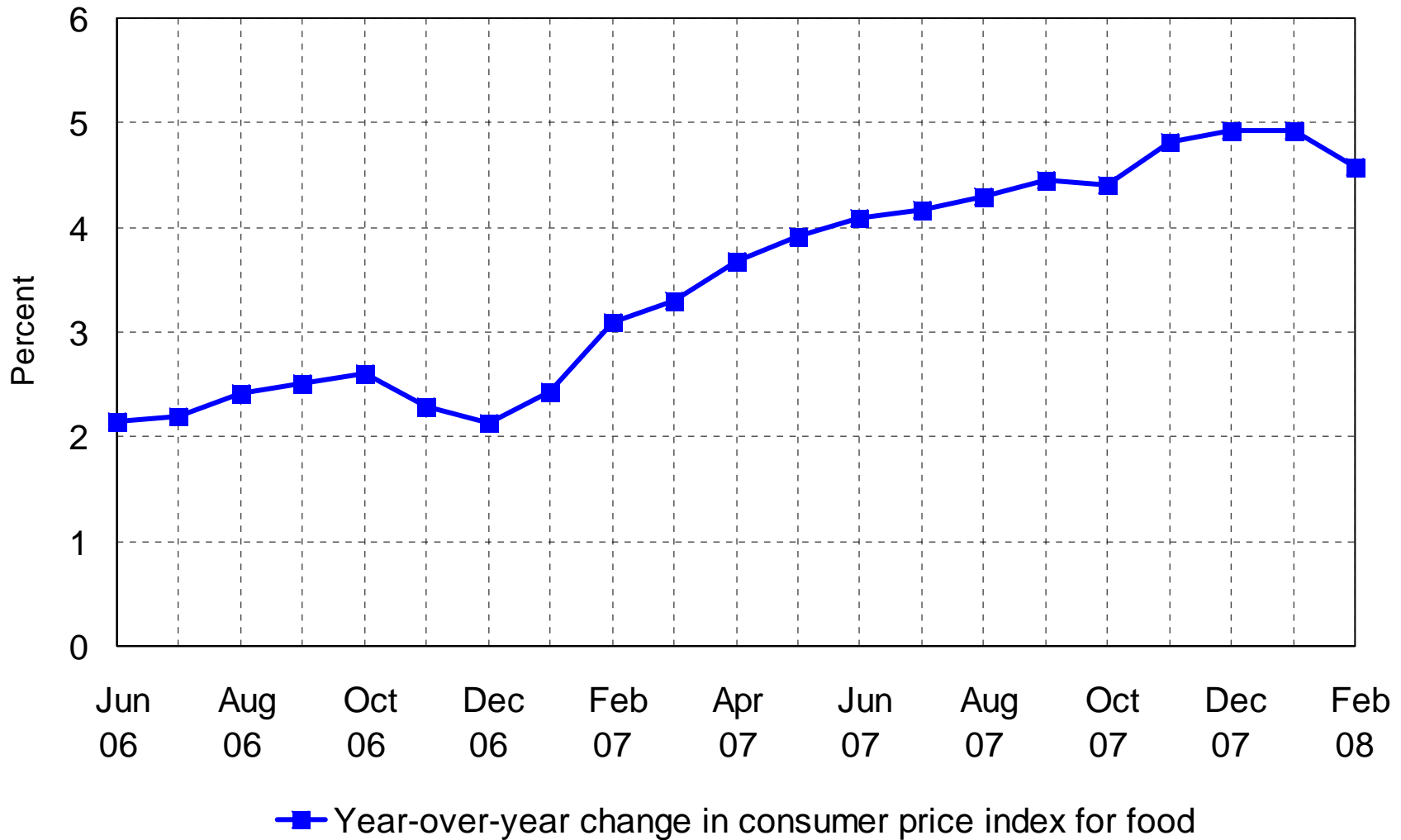
- Federally-funded institute
 - University of Missouri-Columbia and Iowa State University
 - Mission: provide objective analysis of agricultural markets and policies
 - Products
 - Annual 10-year baseline outlooks for agricultural and biofuel markets (latest issued 3/5/08)
 - Policy analysis reports on the farm bill, biofuel policies, trade agreements and more
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Crop prices have increased



Source: USDA National Agricultural Statistics Service "Agricultural Prices," February 2008.

Food prices have also increased



Source: Bureau of Labor Statistics, March 2008.

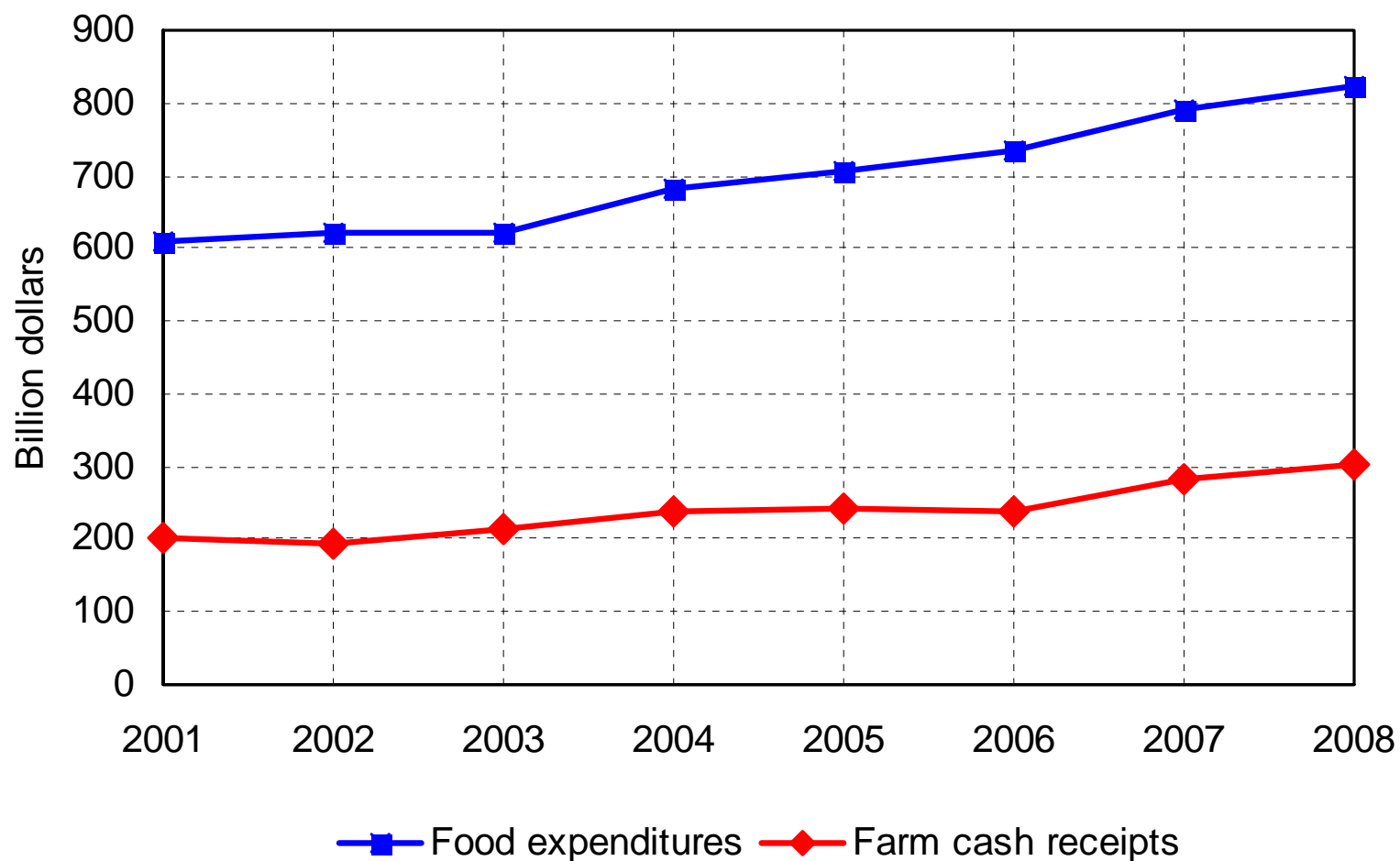
Food price inflation exceeds general inflation rate in 2007 and 2008



—■— Consumer price index for food —▲— Overall consumer price index

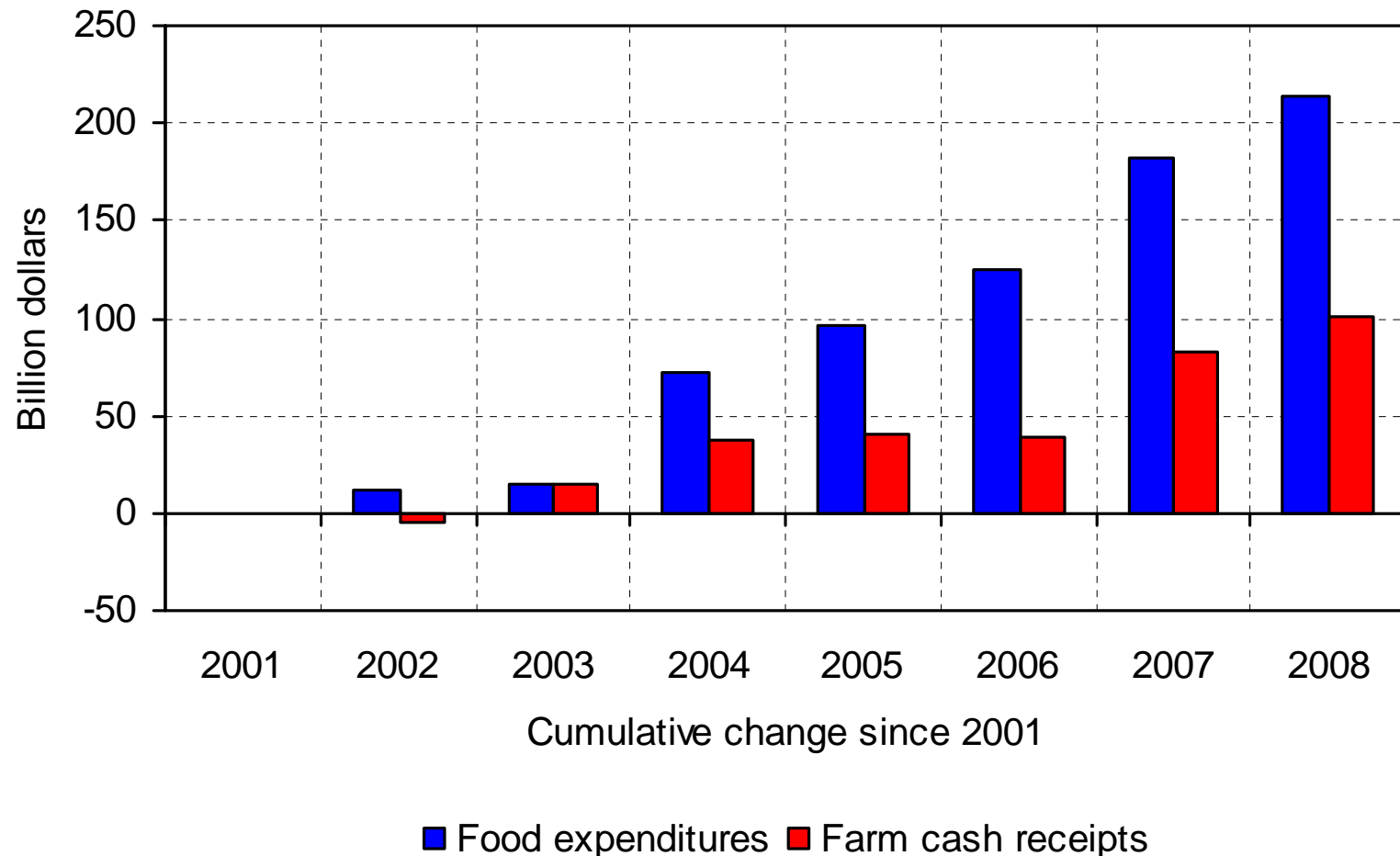
Sources: Bureau of Labor Statistics for historical data; FAPRI (food CPI) and Global Insight (overall CPI) for 2008.

Much value is added between farm and retail



Sources: USDA for historical data; FAPRI estimates for 2007 and 2008.

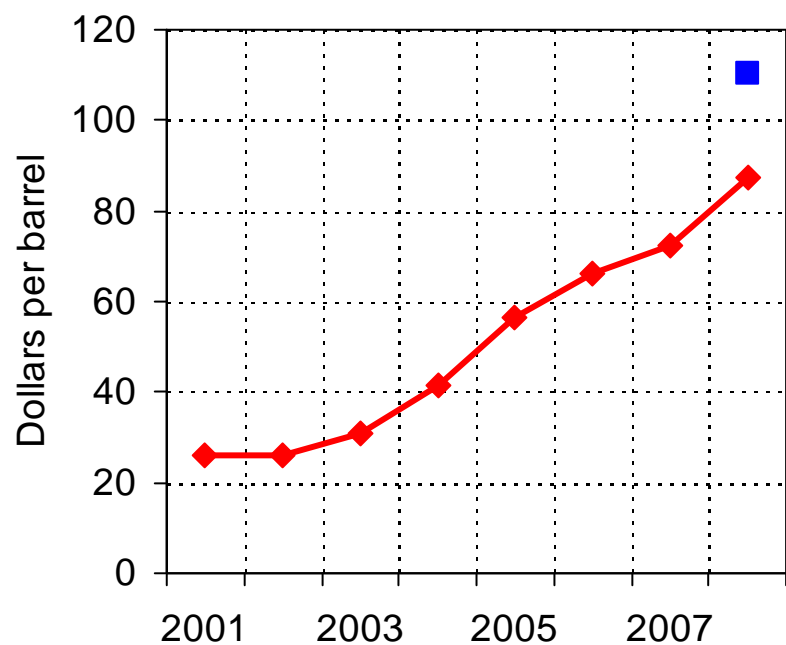
Changes in farm receipts explain only part of changes in consumer food costs



Sources: Calculations based on USDA and FAPRI estimates.

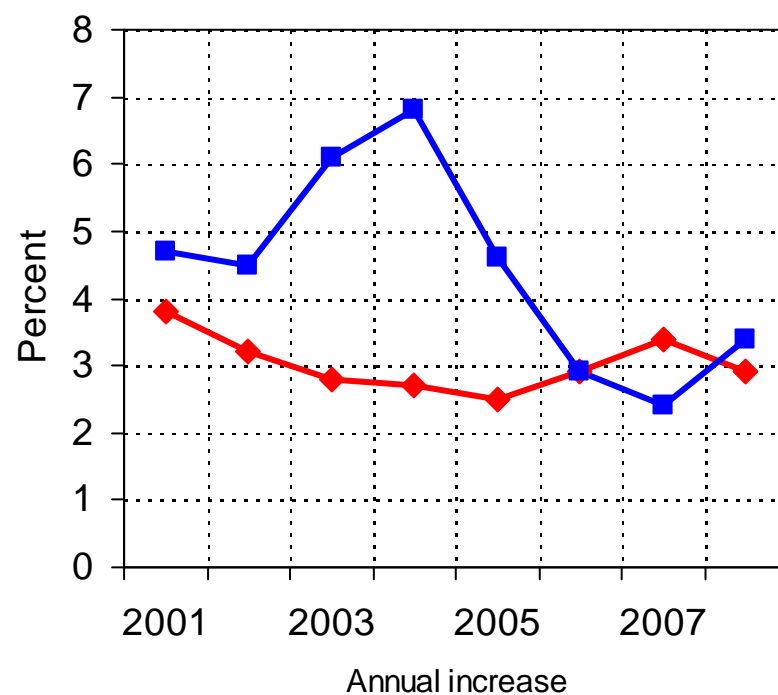
Energy prices and labor expenses also affect consumer food prices

Petroleum price (W. TX Int.)



◆ Energy Information Administration, January 2008
■ NYMEX April contract, March 14, 2008

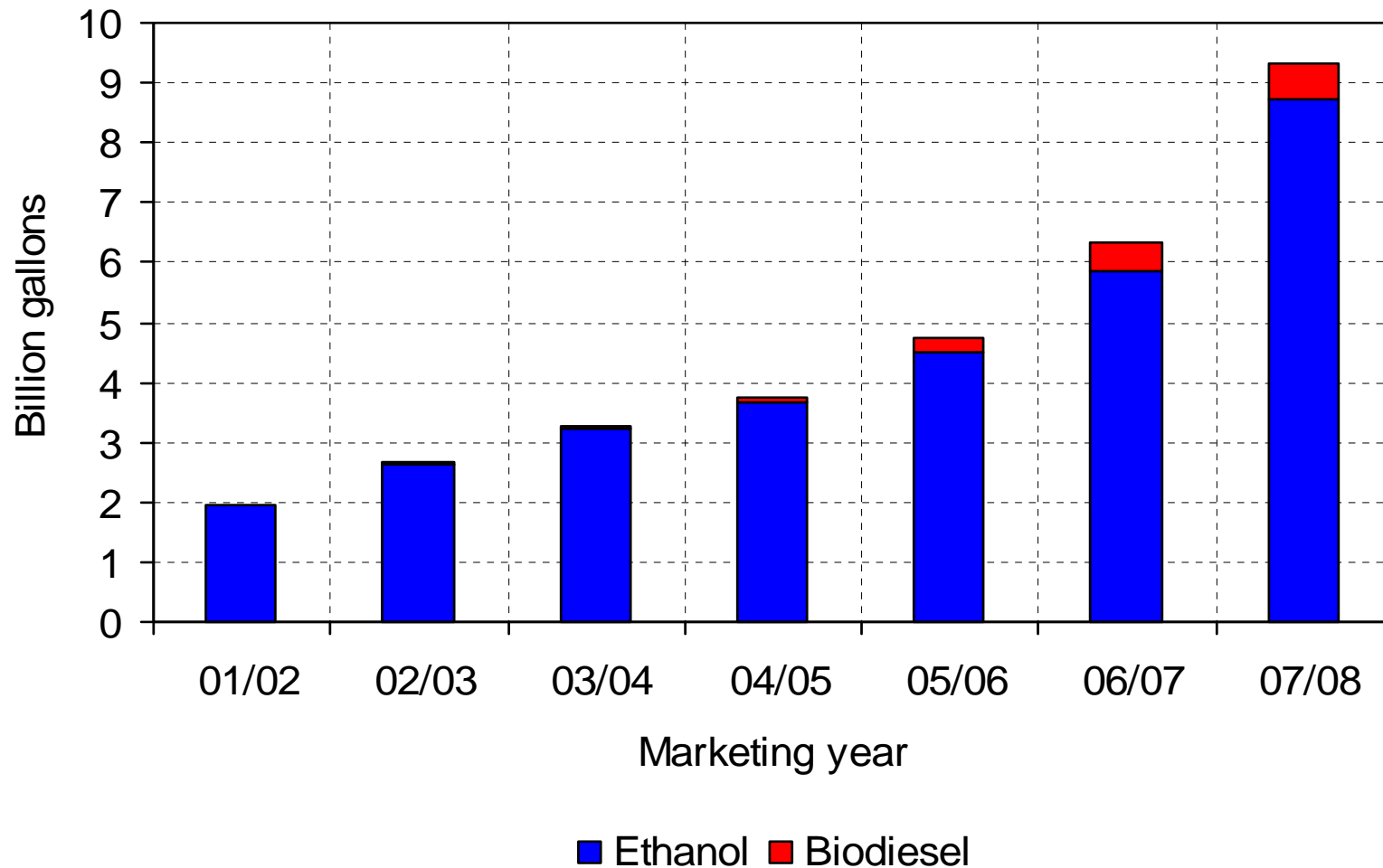
Employment cost index



◆ Wages and salaries ■ Benefits

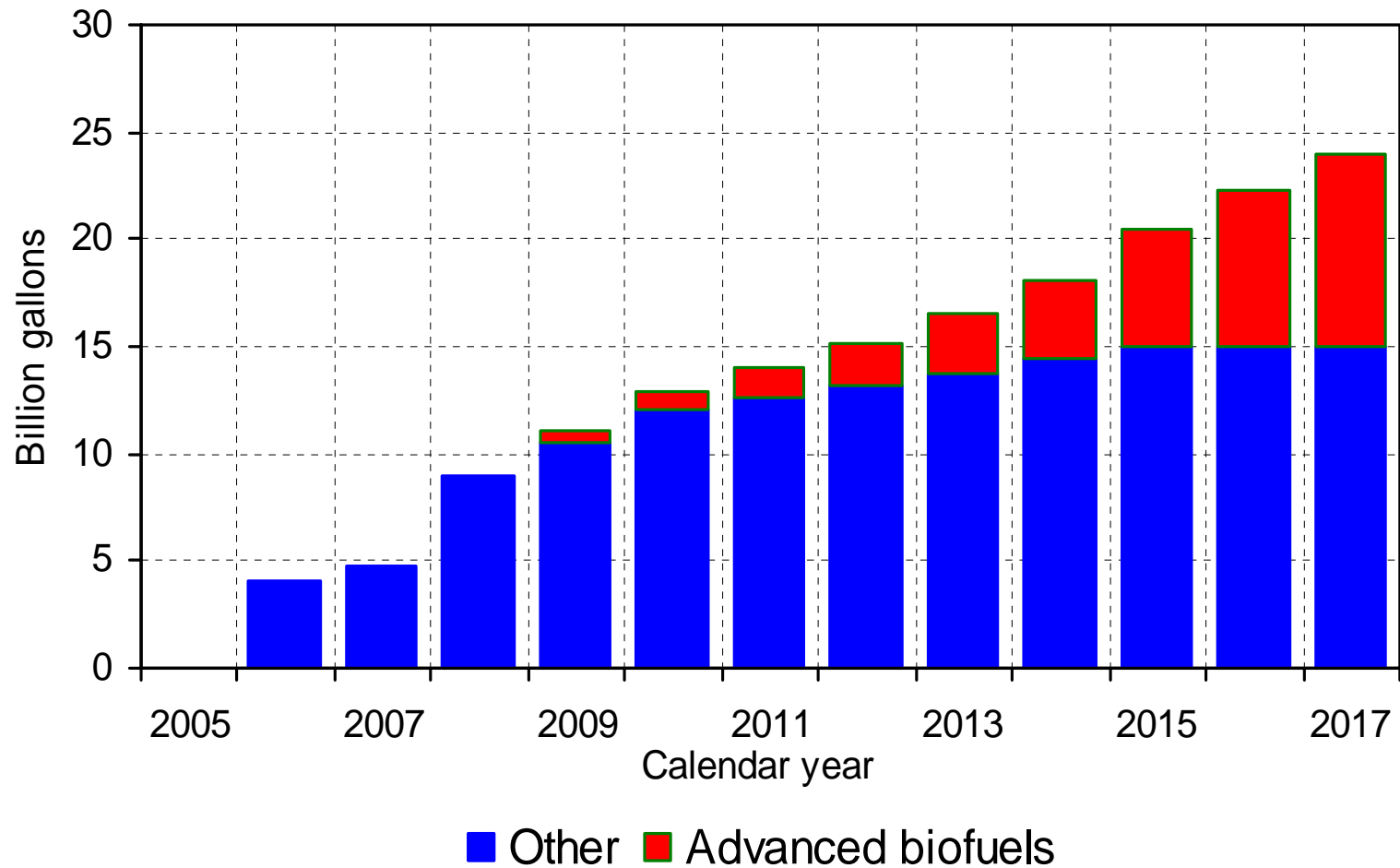
Source: Global Insight, January 2008.

Growth in biofuel production is *one* reason why commodity prices have increased



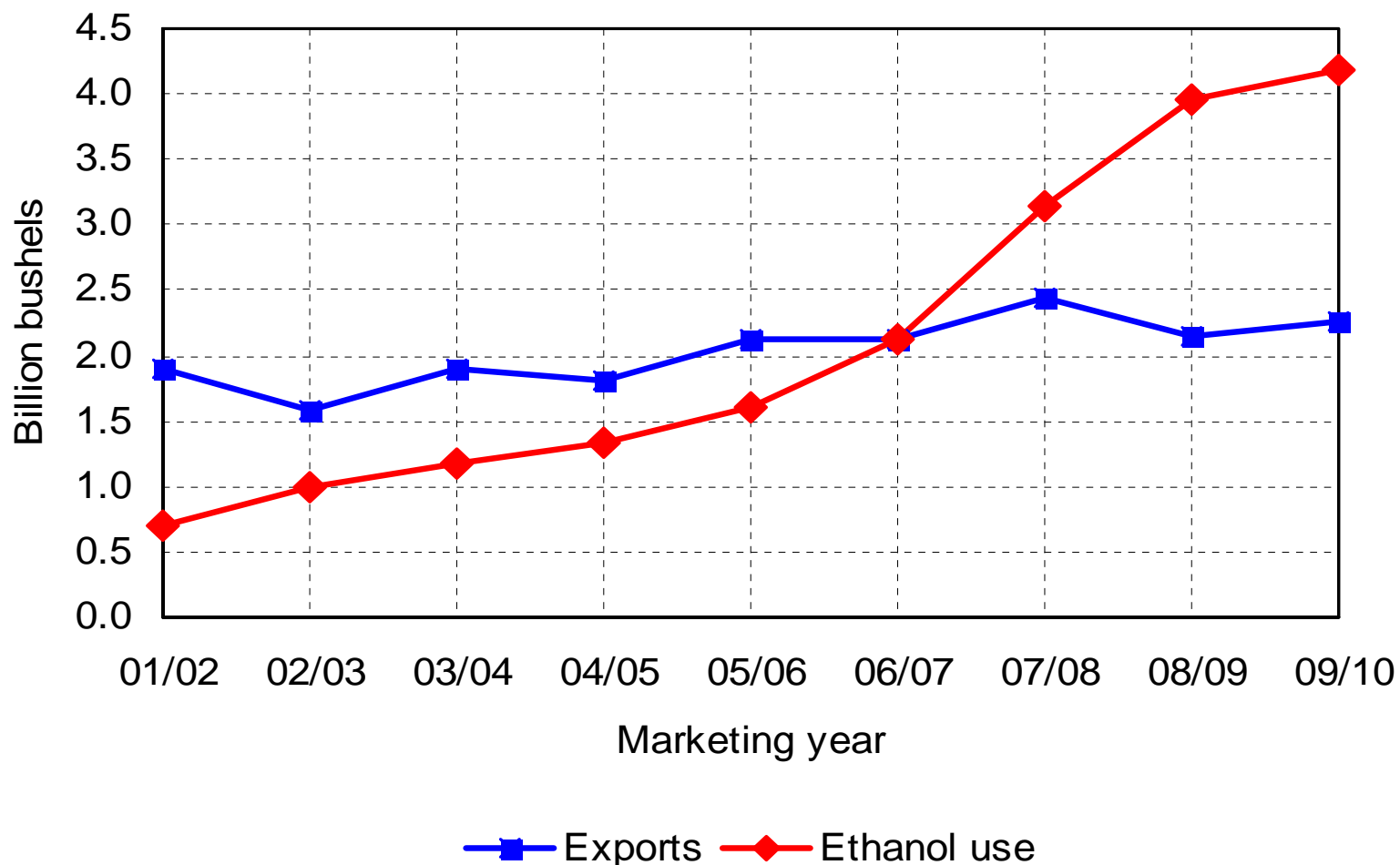
Sources: USDA for historical data; FAPRI projections for 2007/08.

Energy bill mandates biofuel use



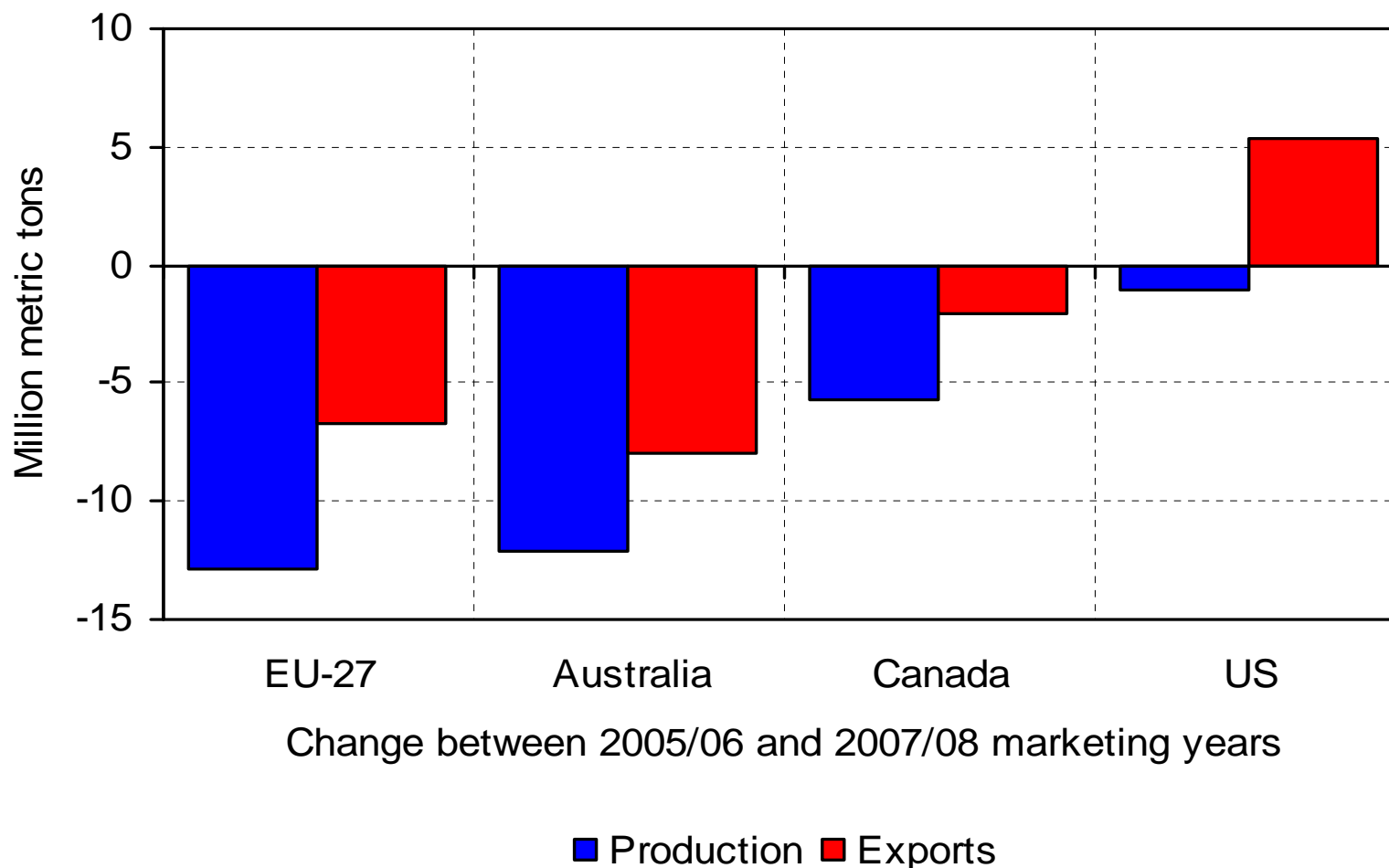
Source: Energy Independence and Security Act.

Ethanol use of corn surpasses corn exports



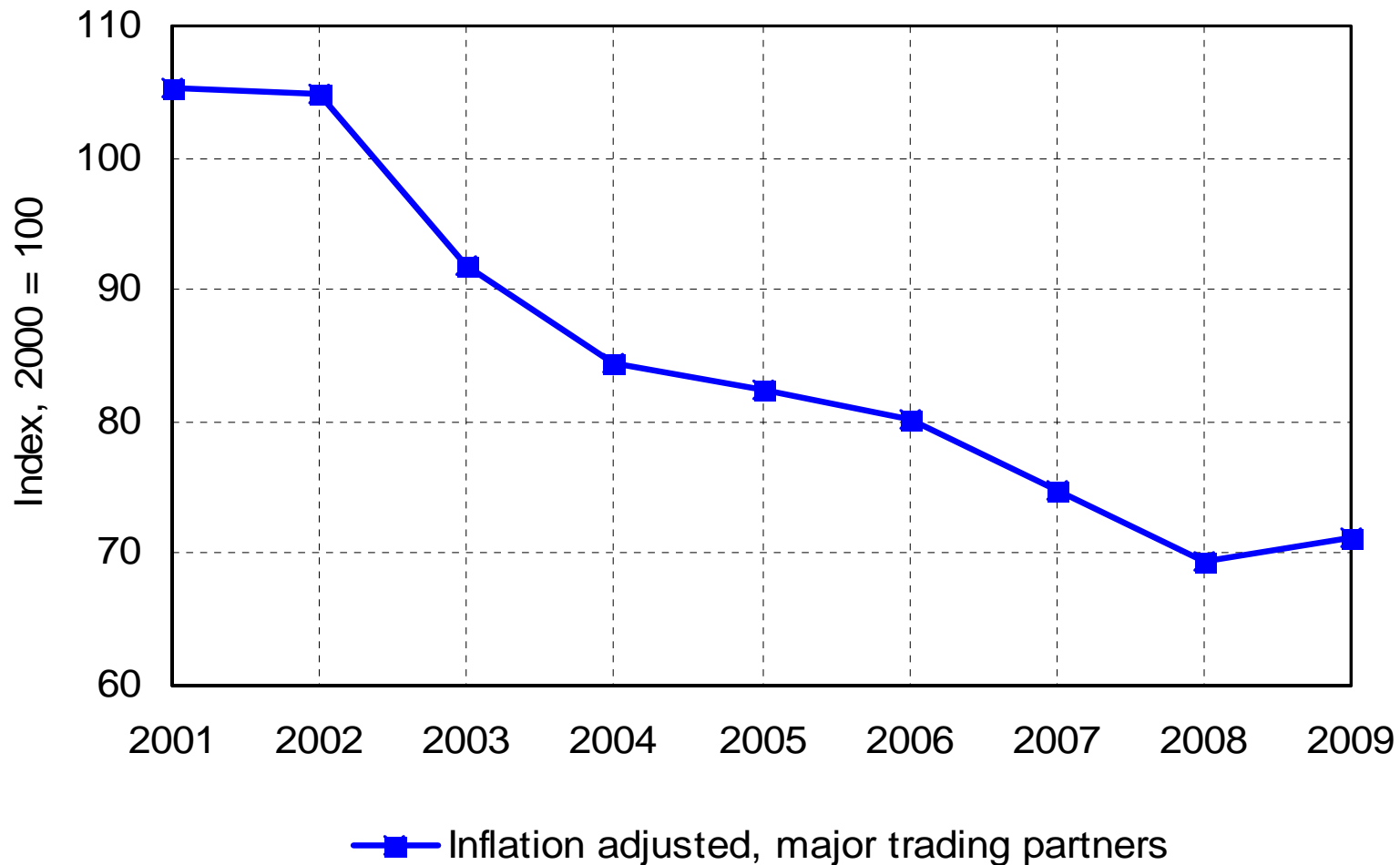
Sources: USDA for historical data; FAPRI projections for 2007/08 – 2009/10.

Poor foreign crops limit competing wheat supplies



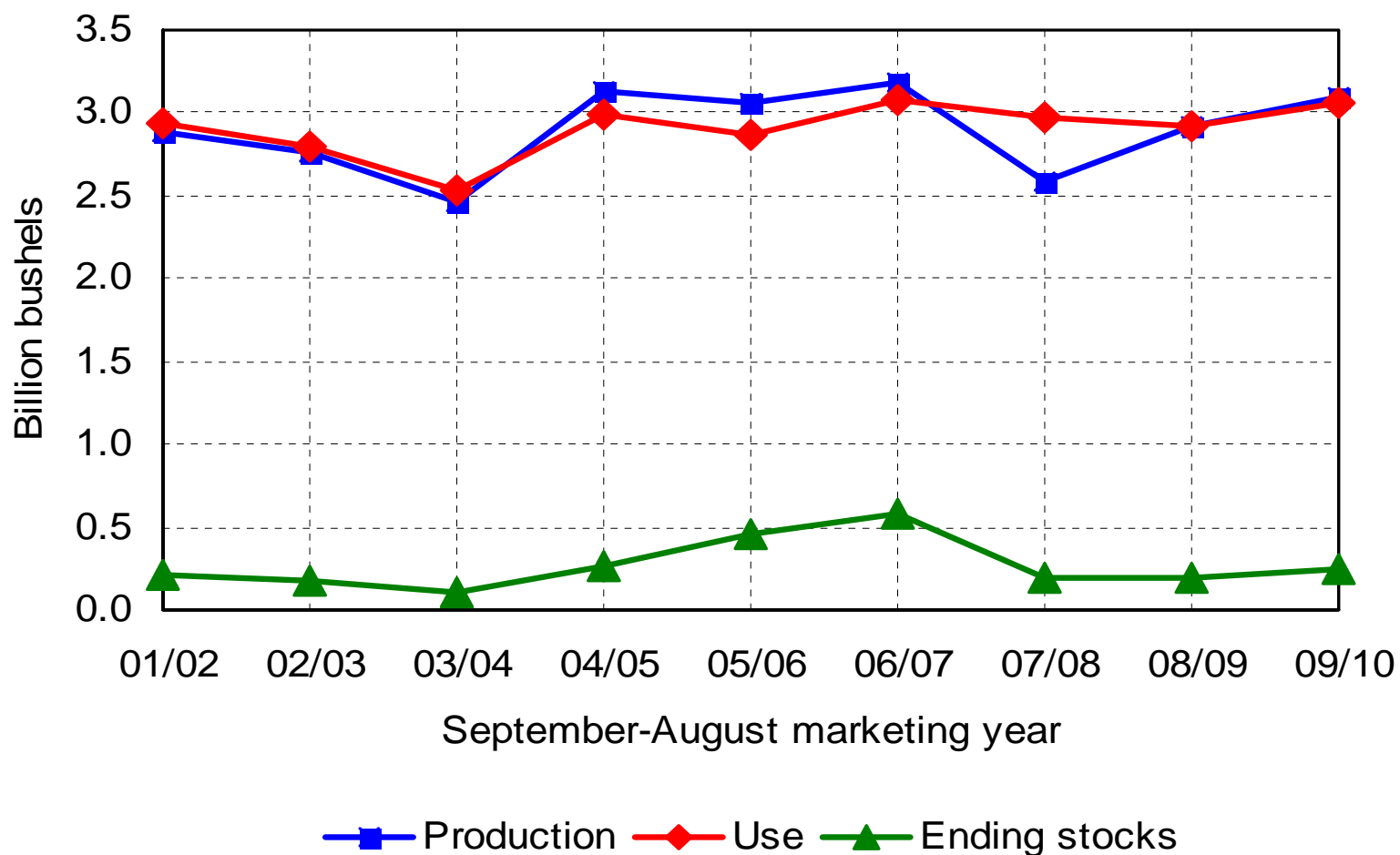
Source: Calculations based on USDA data from February 2008.

The dollar is weaker, supporting US exports



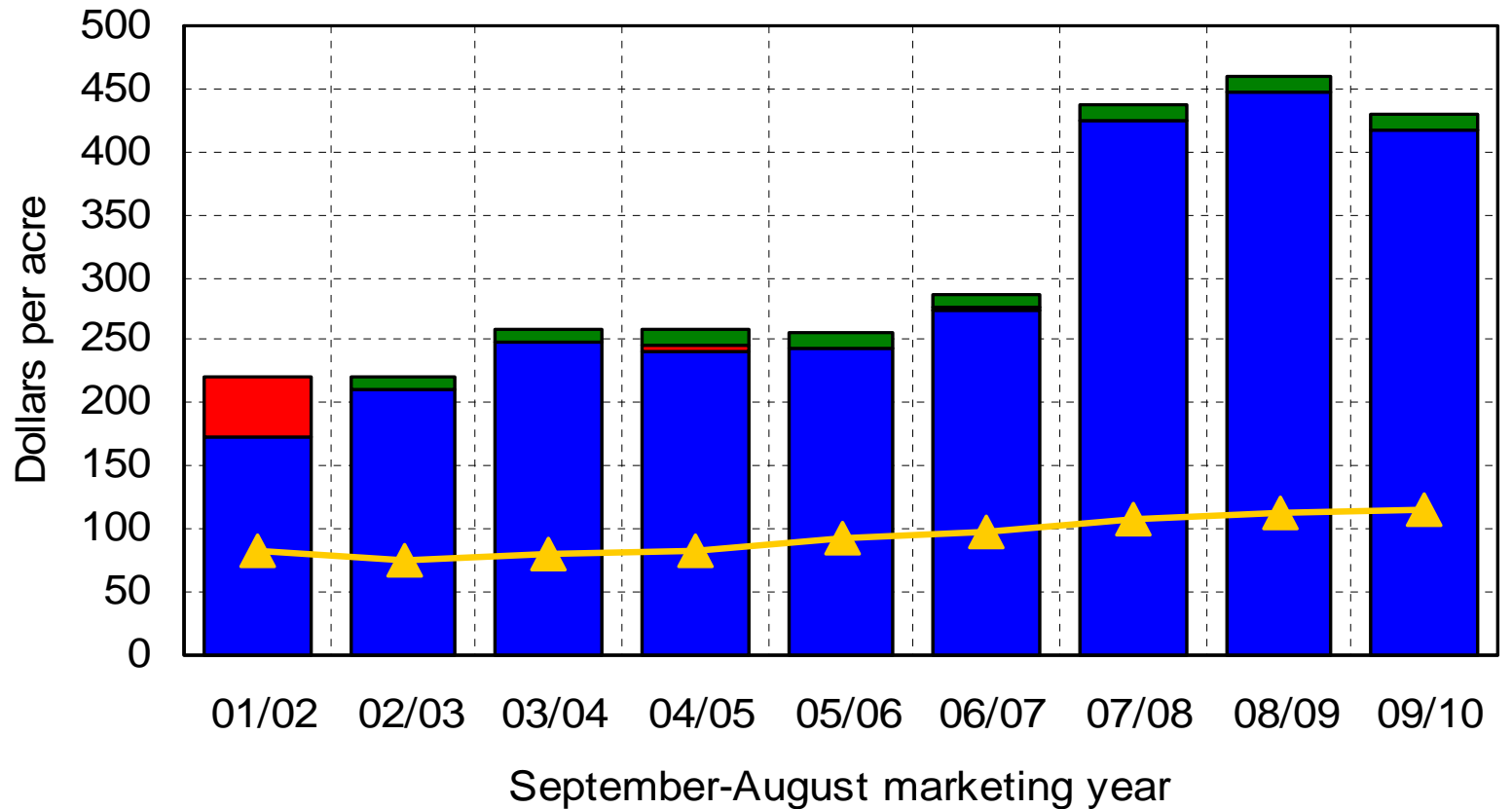
Source: Global Insight, January 2008.

Soybean markets respond to lower 2007 production



Sources: USDA for historical data; FAPRI projections for 2007/08 – 2009/10.

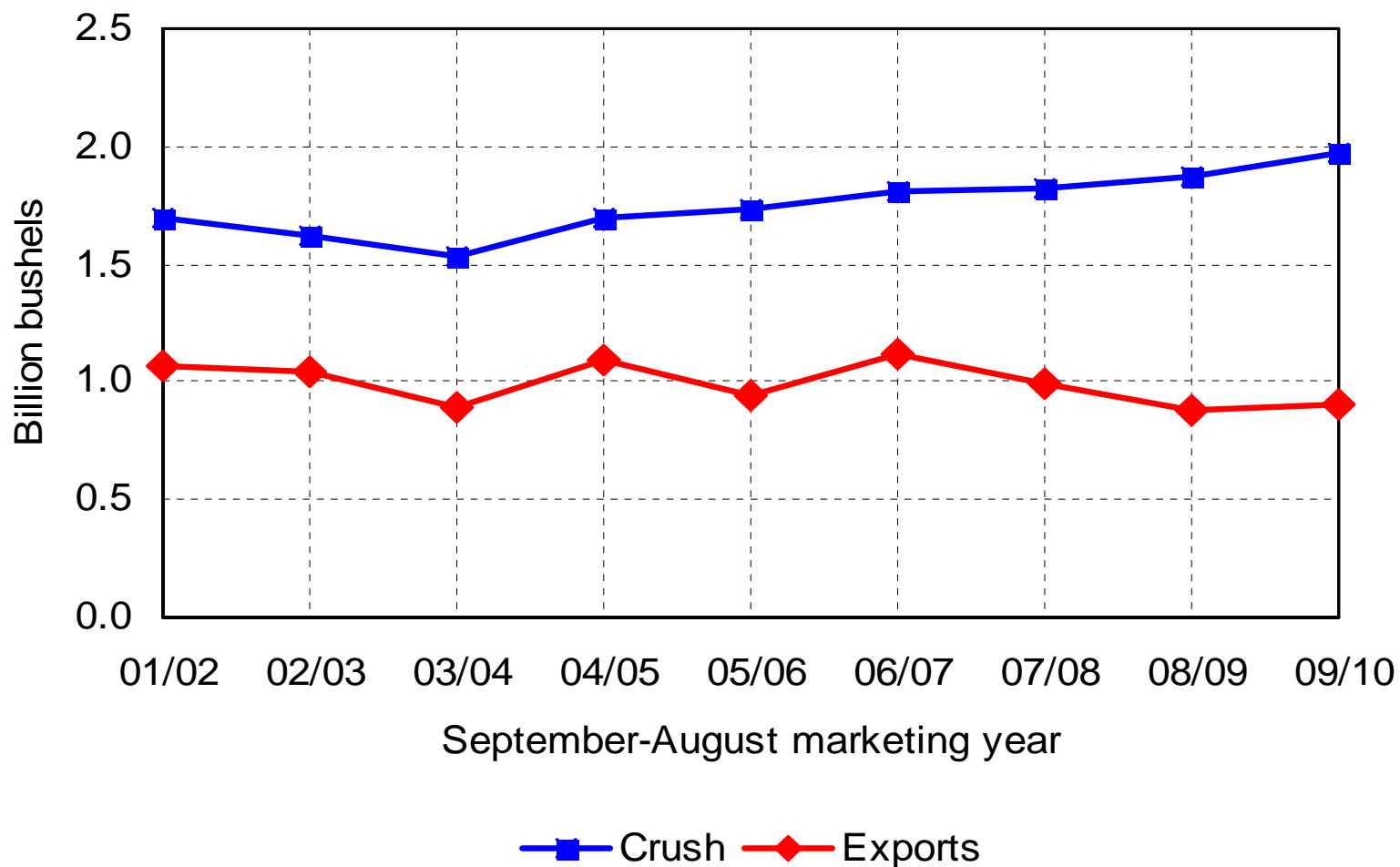
Soybean returns increase sharply



■ Market ■ Loan benefits ■ Other payments ▲ Variable expenses

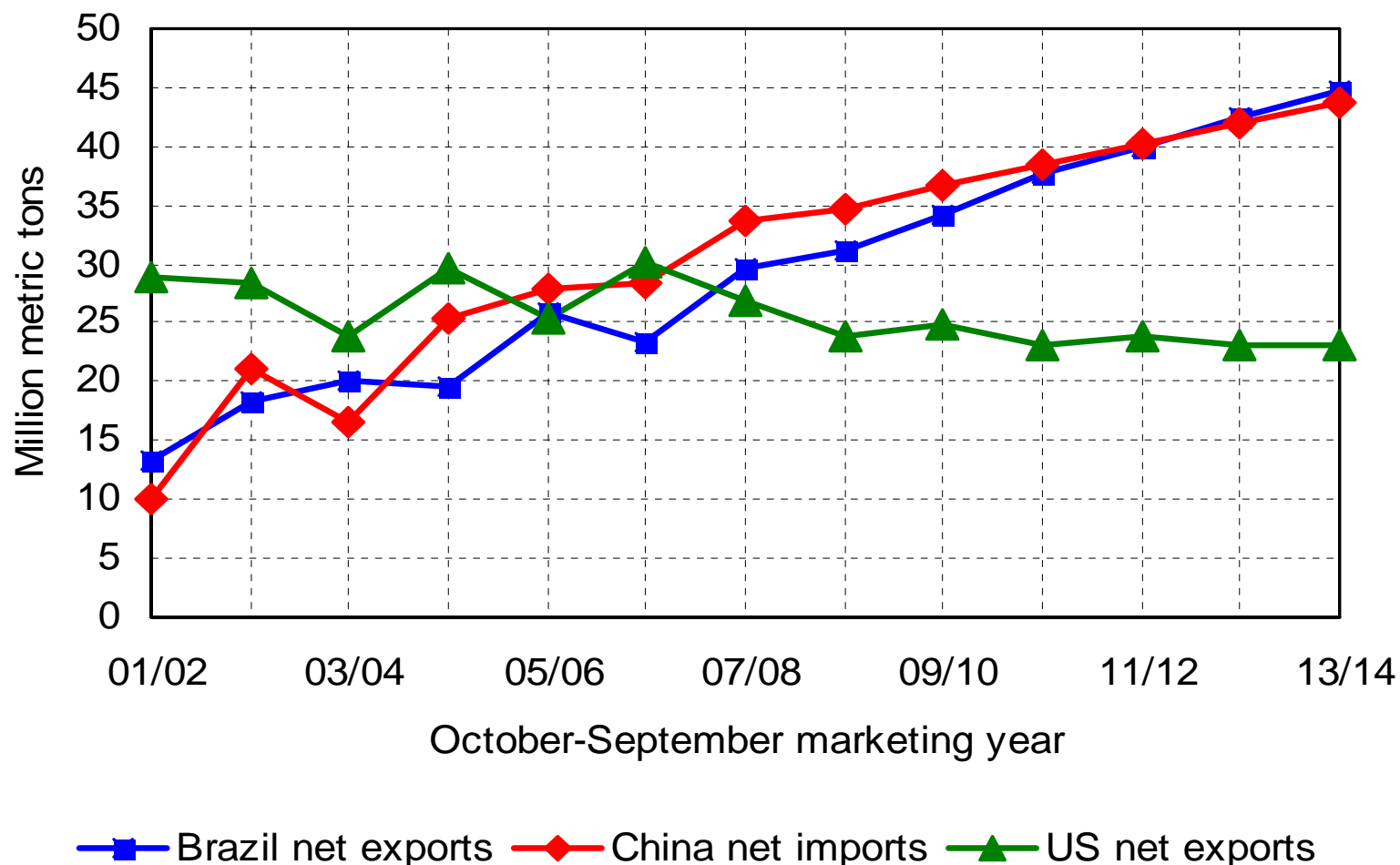
Sources: USDA for historical data; FAPRI projections for 2007/08 – 2009/10.

Soybean crush expands, exports contract



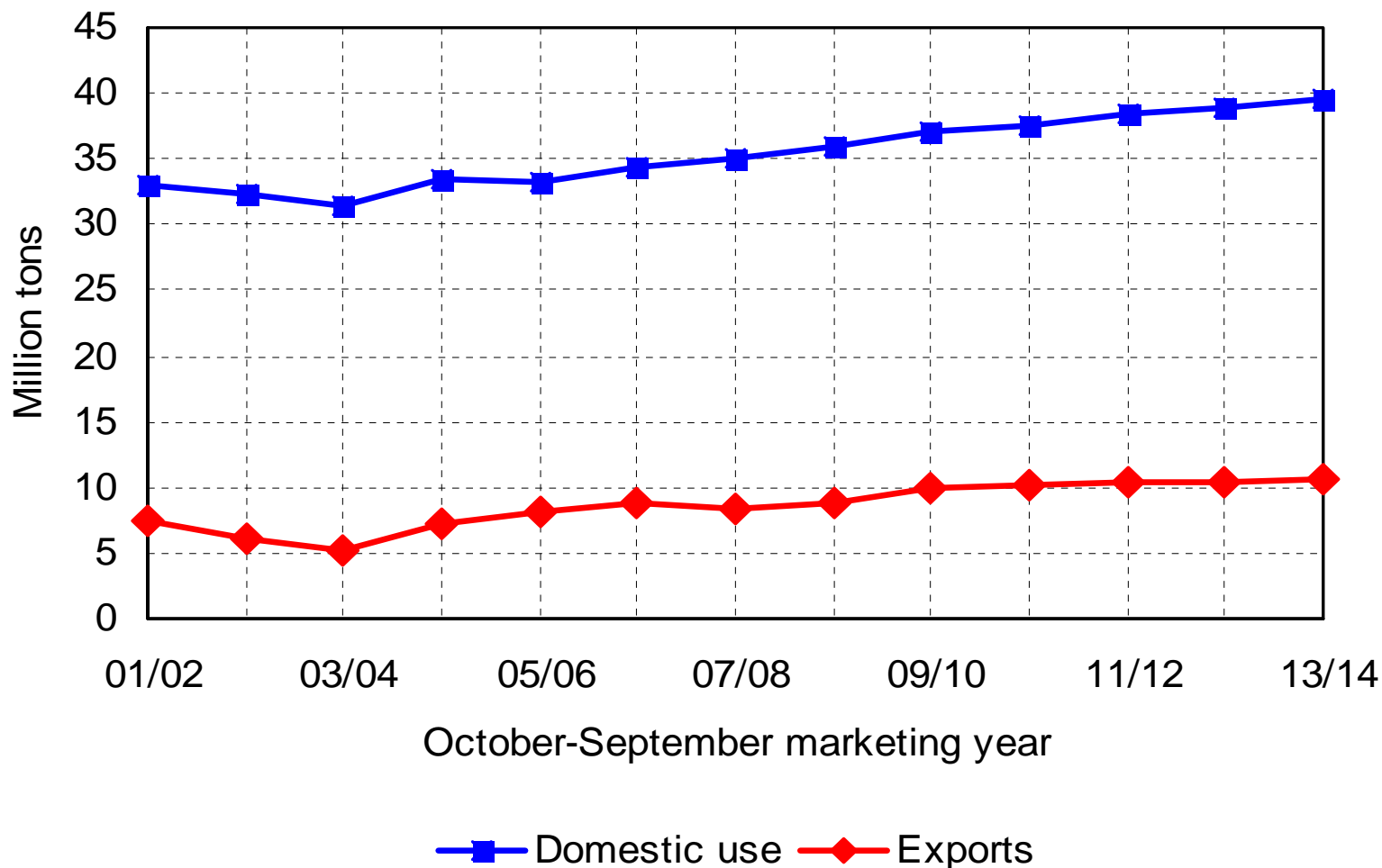
Sources: USDA for historical data; FAPRI projections for 2007/08 – 2009/10.

Brazil and China dominate world soybean trade



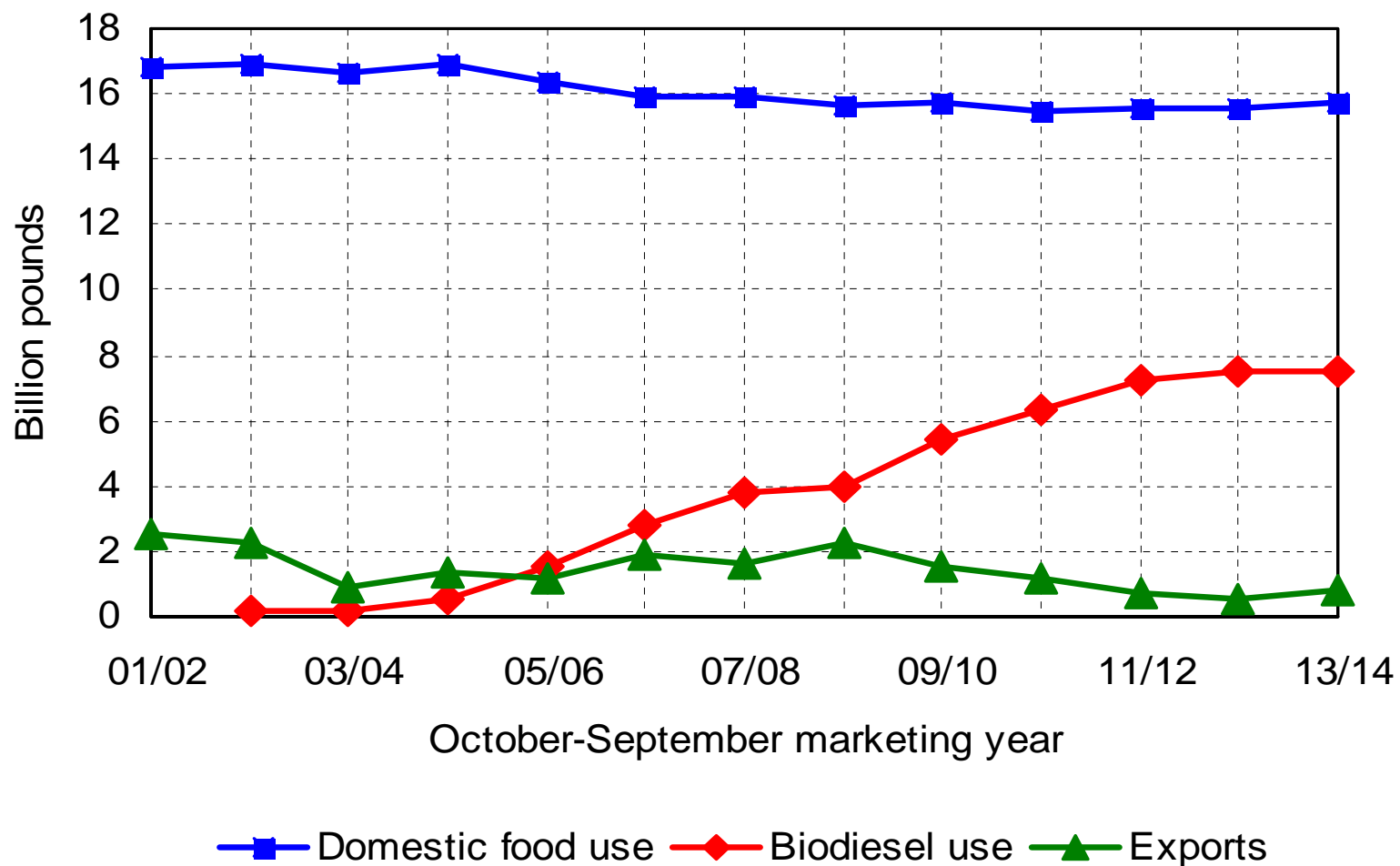
Sources: USDA for historical data; FAPRI projections for 2007/08 – 2013/14.

Soybean meal use grows with global protein demand



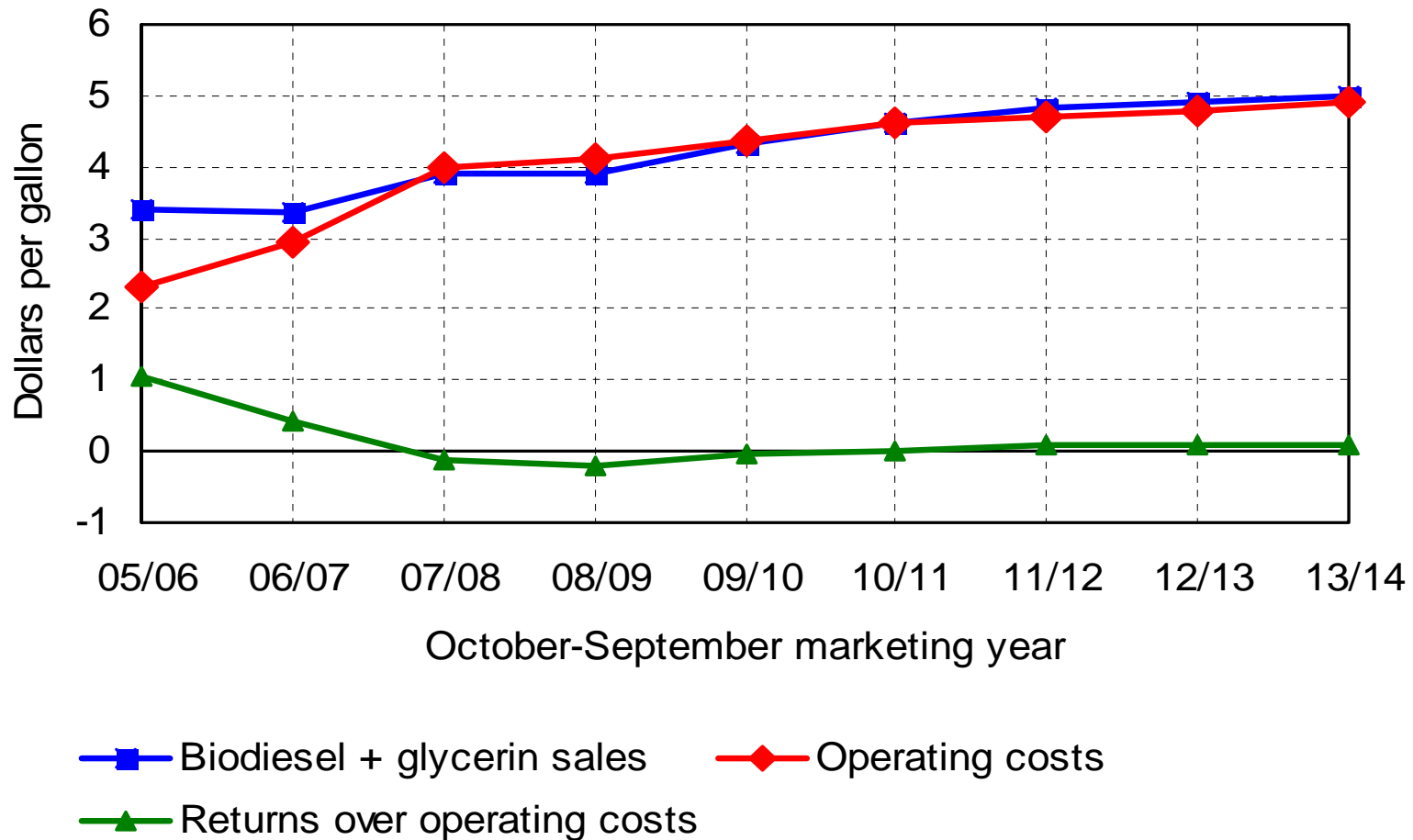
Sources: USDA for historical data; FAPRI projections for 2007/08 – 2013/14.

Biodiesel increases soybean oil demand



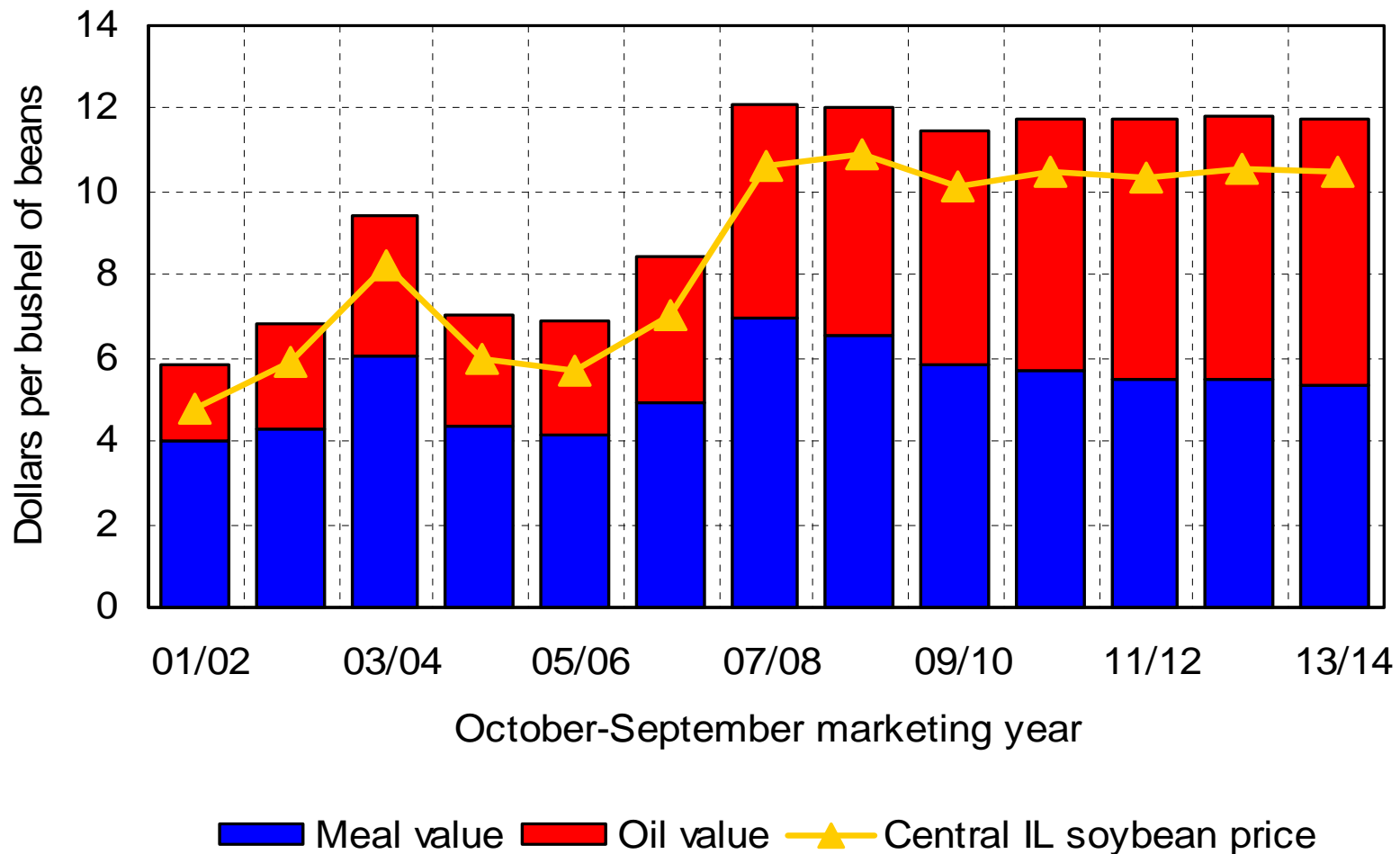
Sources: USDA for historical data; FAPRI projections for 2007/08 – 2013/14.

Biodiesel returns over costs are narrow



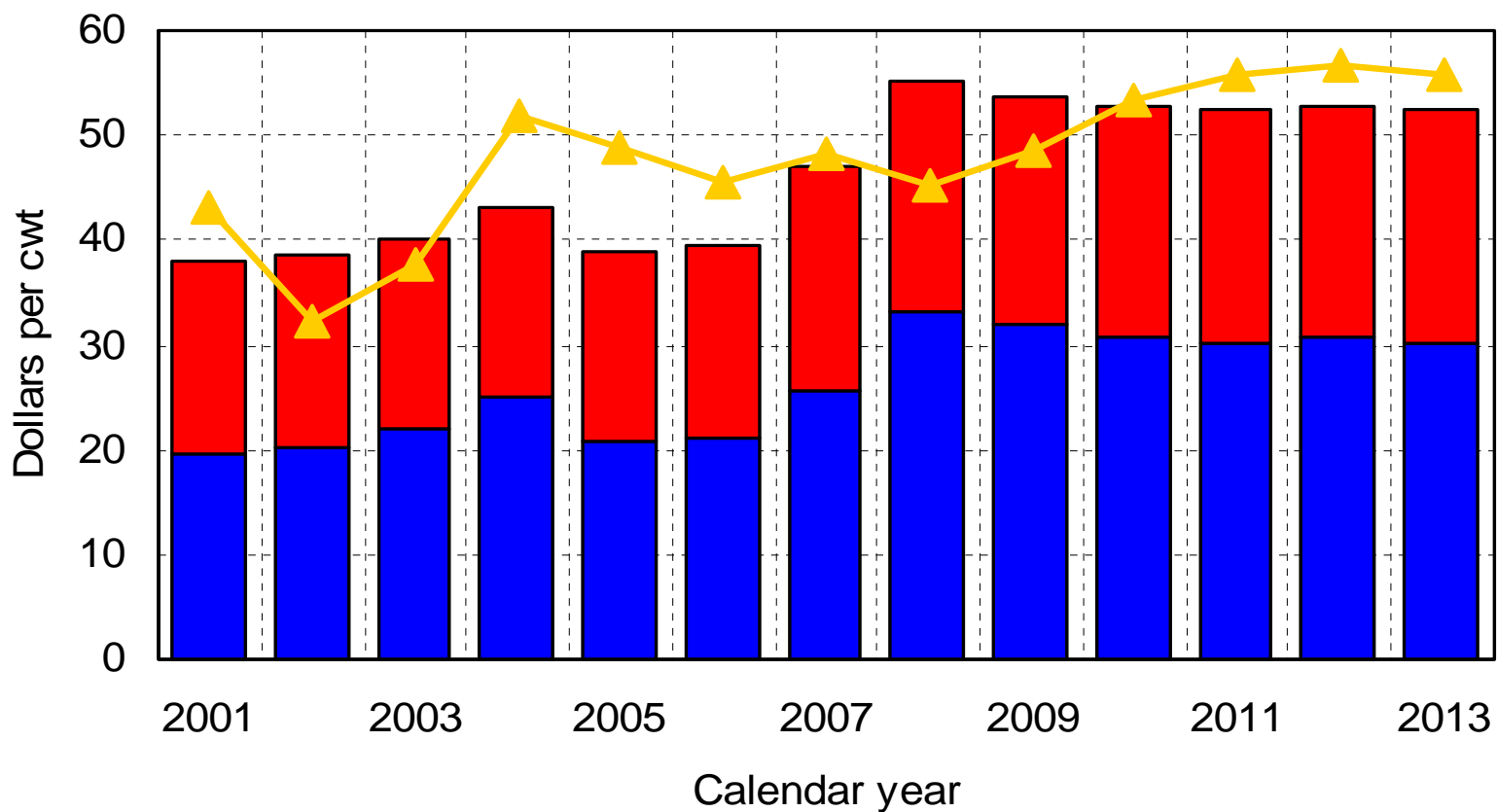
Sources: USDA for historical data; FAPRI projections for 2007/08 – 2013/14.

Oil accounts for rising share of crush value



Sources: USDA for historical data; FAPRI projections for 2007/08 – 2013/14.

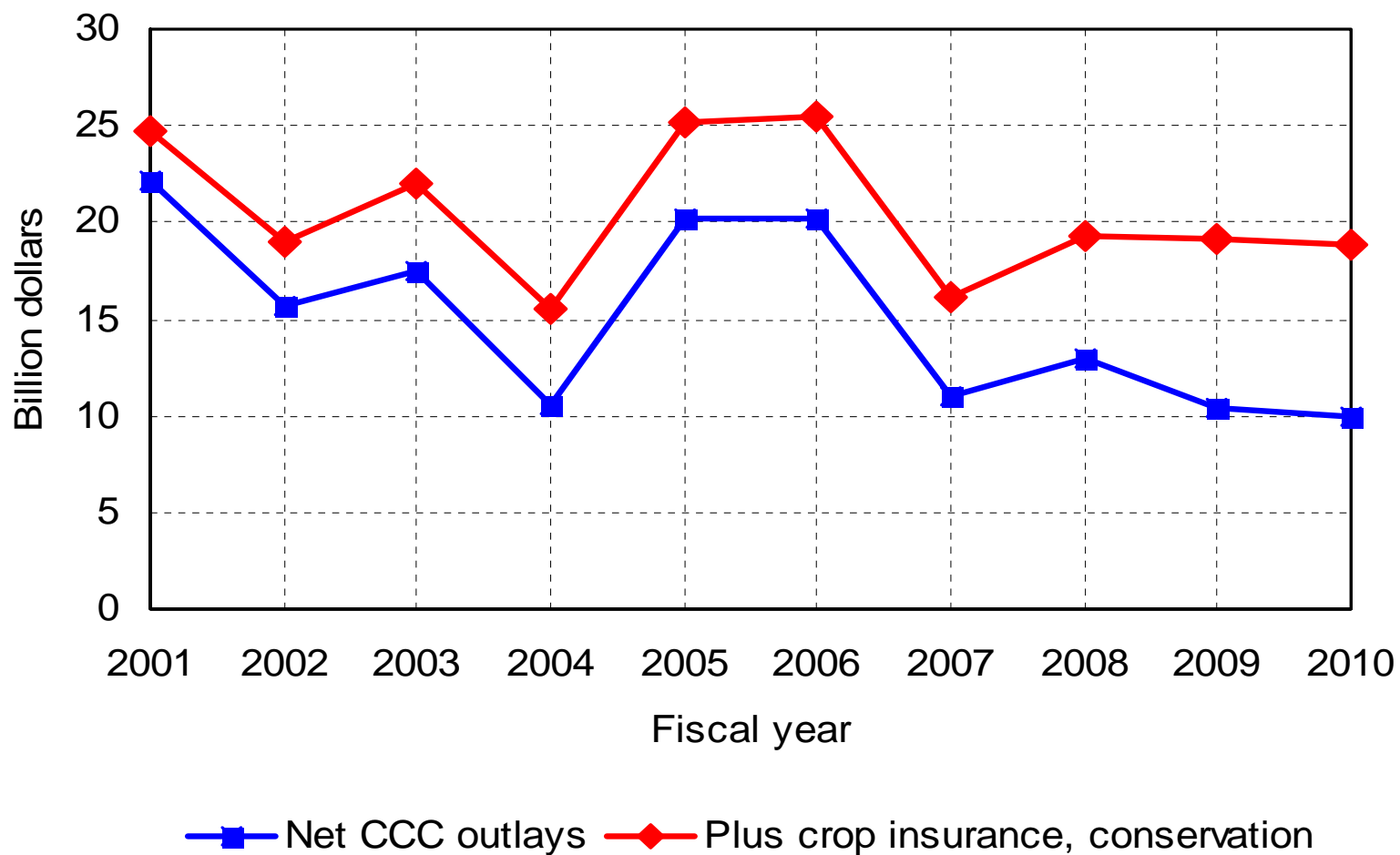
Livestock sector must adjust to higher production costs



■ Hog feed costs ■ Other production costs ▲ Hog sales receipts

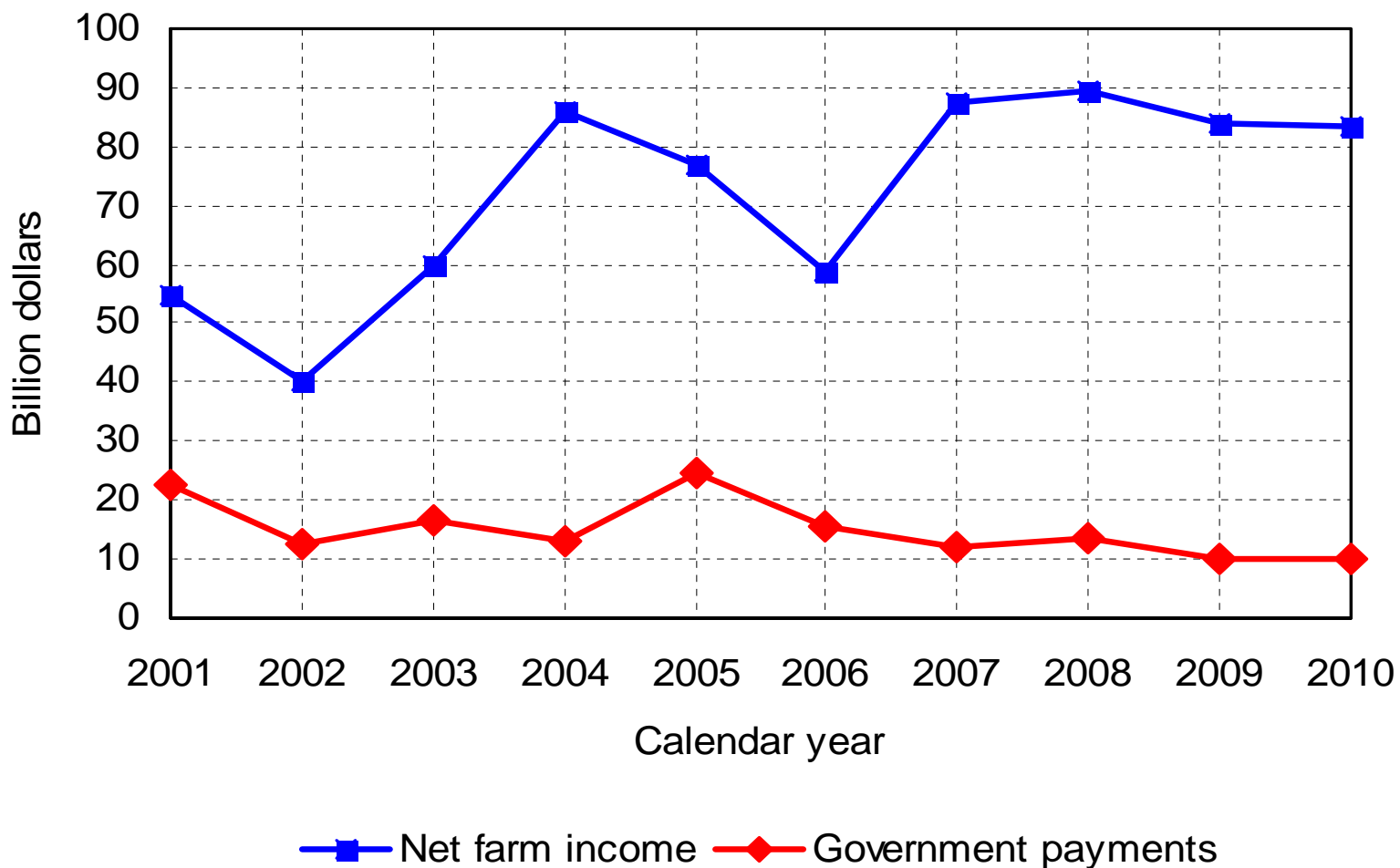
Sources: USDA for historical data; FAPRI projections for 2008 – 2013.

High prices reduce some government farm program costs



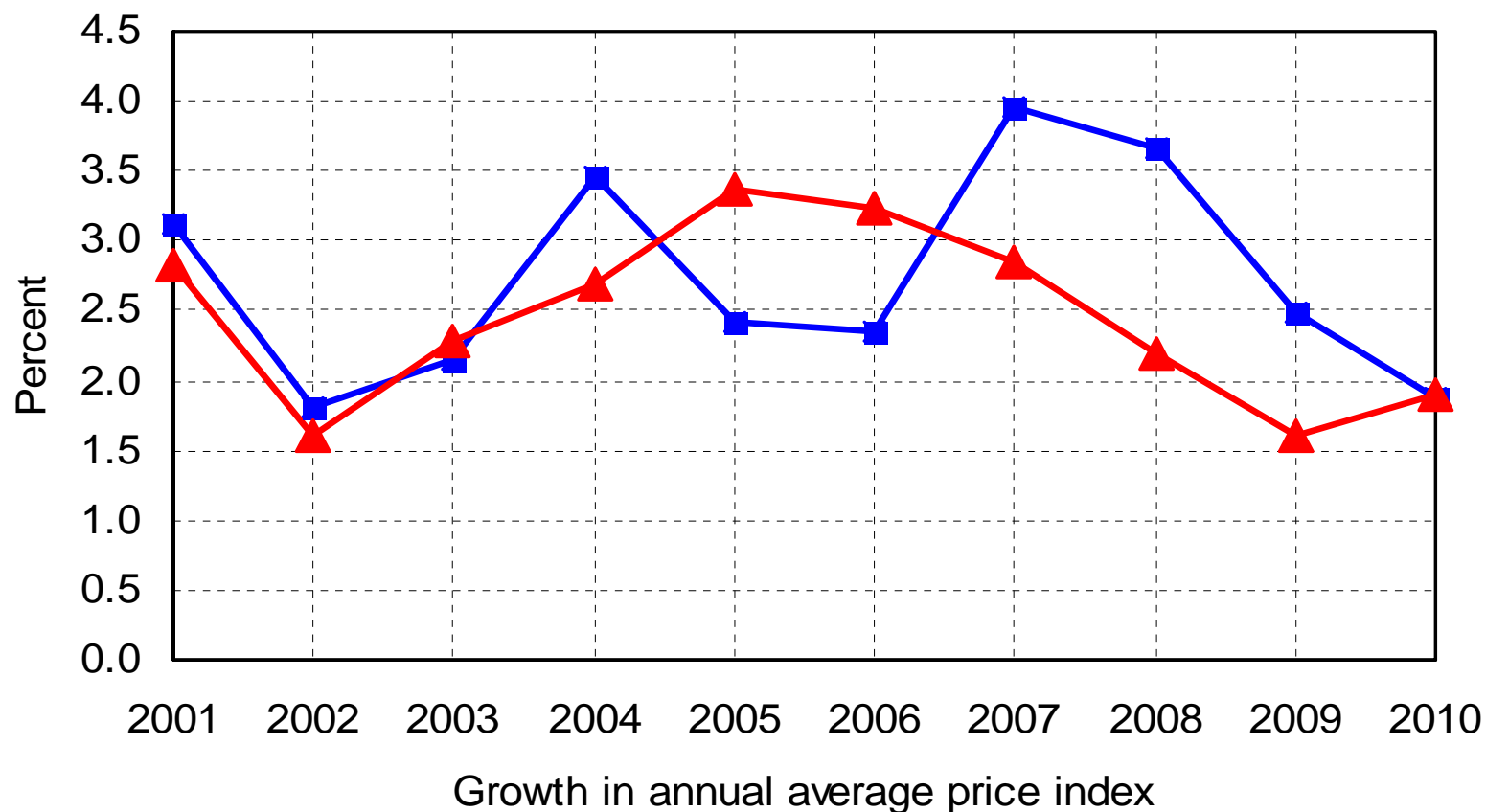
Sources: USDA for historical data; FAPRI projections for 2008 – 2010.

Net farm income has reached record levels in nominal terms



Sources: USDA for historical data; FAPRI projections for 2008 – 2010.

Food price inflation eventually falls back to more normal levels



—■— Consumer price index for food —▲— Overall consumer price index

Sources: Bureau of Labor Statistics for historical data; FAPRI (food CPI) and Global Insight (overall CPI) for 2008-2010.

Summary

- Farm commodity prices have increased
 - Biofuel and petroleum market developments
 - Weaker dollar, foreign economic growth
 - Weather and other short-term factors
 - Consumer food prices have also increased
 - Farm commodity price increases
 - Costs of processing, transporting, marketing food
 - Outlook is for continued high prices
 - But with lots of uncertainty, volatility
 - Consumer food price inflation should eventually slow
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Thanks!

- For more on the FAPRI outlook, go to <http://www.fapri.missouri.edu/> and click on the March 5 “FAPRI US Baseline Briefing Book”
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