

UC

High Commodity Prices and Agriculture in the United States and California

**Symposium on Causes and Consequences of the
Food Price Crisis**

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Daniel A. Sumner and Alex McCalla

**University of California Agricultural Issues Center and
Department of Agricultural and Resource Economics, UC, Davis**

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Outline and main points

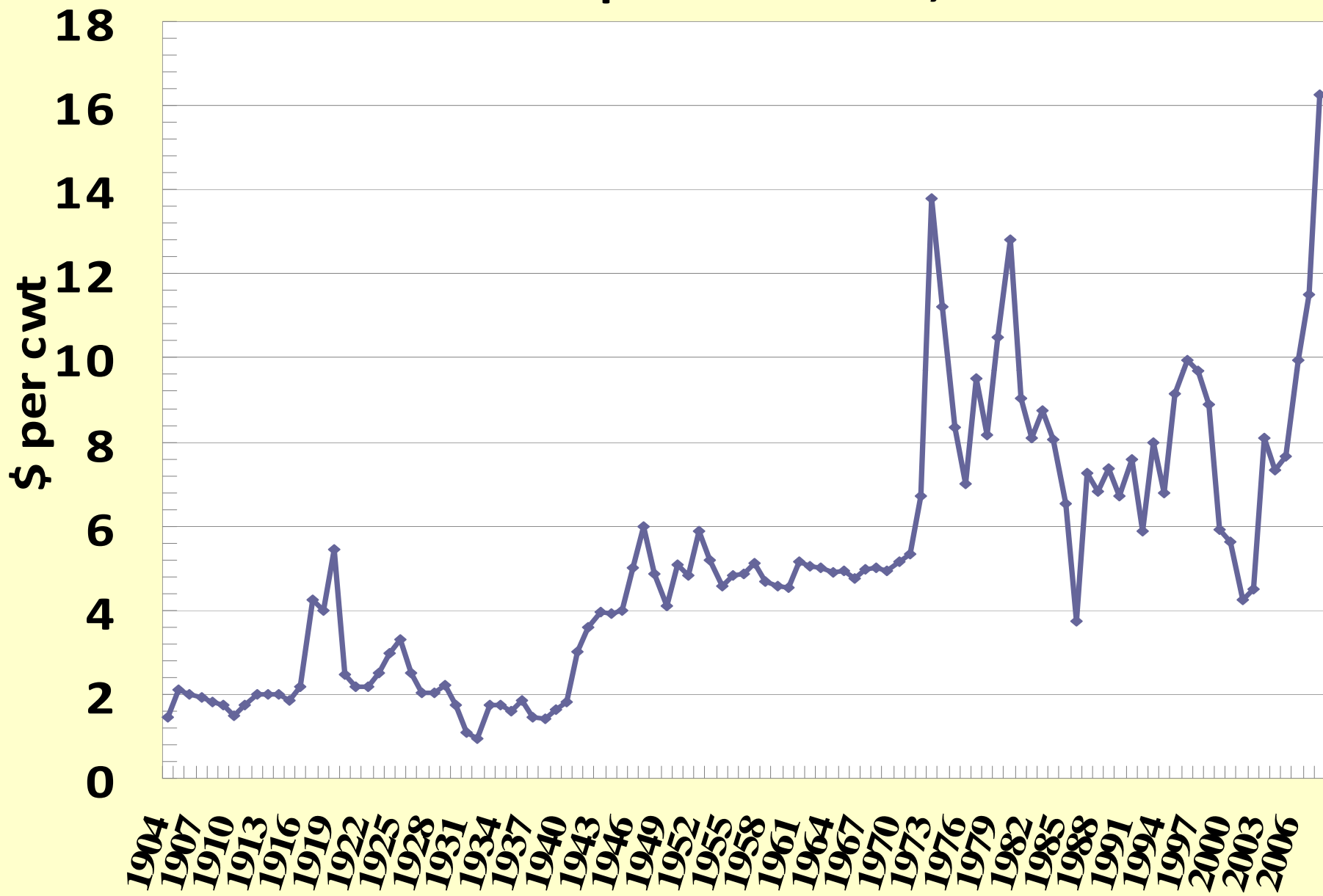
- **While nominal commodity prices have jumped over the past two or three years, real (inflation adjusted) prices show small increases, not out of line with previous experience.**
- **The increase in many farm prices in the past two or three years are reflected in substantial retail price increase for those items. Many food items have seen little or no price increases.**
- **Overall U.S. retail food price increases have risen, by four to six percent...faster than the overall CPI, but moderately, and real income losses are small even for the poor in the U.S., given the share of income spent on food is no more than about 20%.**

Outline and main points (continued)

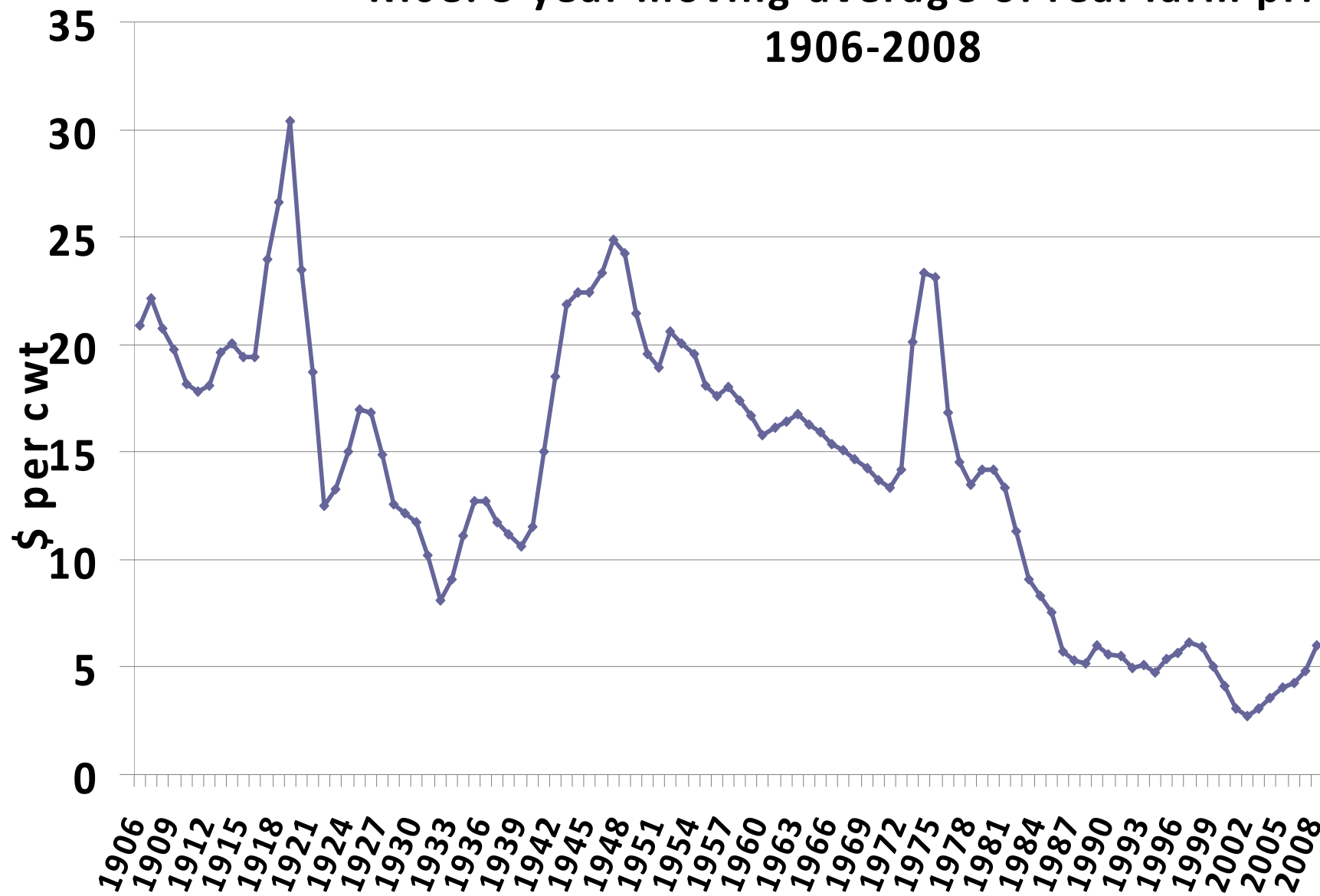
- **Farm receipts, especially for crops, have jumped in 2007 and 2008. Even though farm expenses for livestock feed, fertilizer and energy based inputs have jumped, net farm income has risen dramatically.**
 - **Those facts also apply to farm incomes in California.**
- **Projections done earlier this year indicate fall net farm income from 2008, but remaining well above the 2005 levels.**
- **Land prices, which reflect projected farm incomes, support the idea that farmers and other land buyers expect high farm incomes to continue... nationwide and in California.**
 - **Taxpayers gain because costs of subsidies have declined.**
- **Finally, high farm prices have moderated in the past months and especially the last few weeks. Especially for corn, but also for other commodities and the financial calamity and oil price collapse is reflected in lower farm prices.**

Nominal and real farm prices over a long horizon

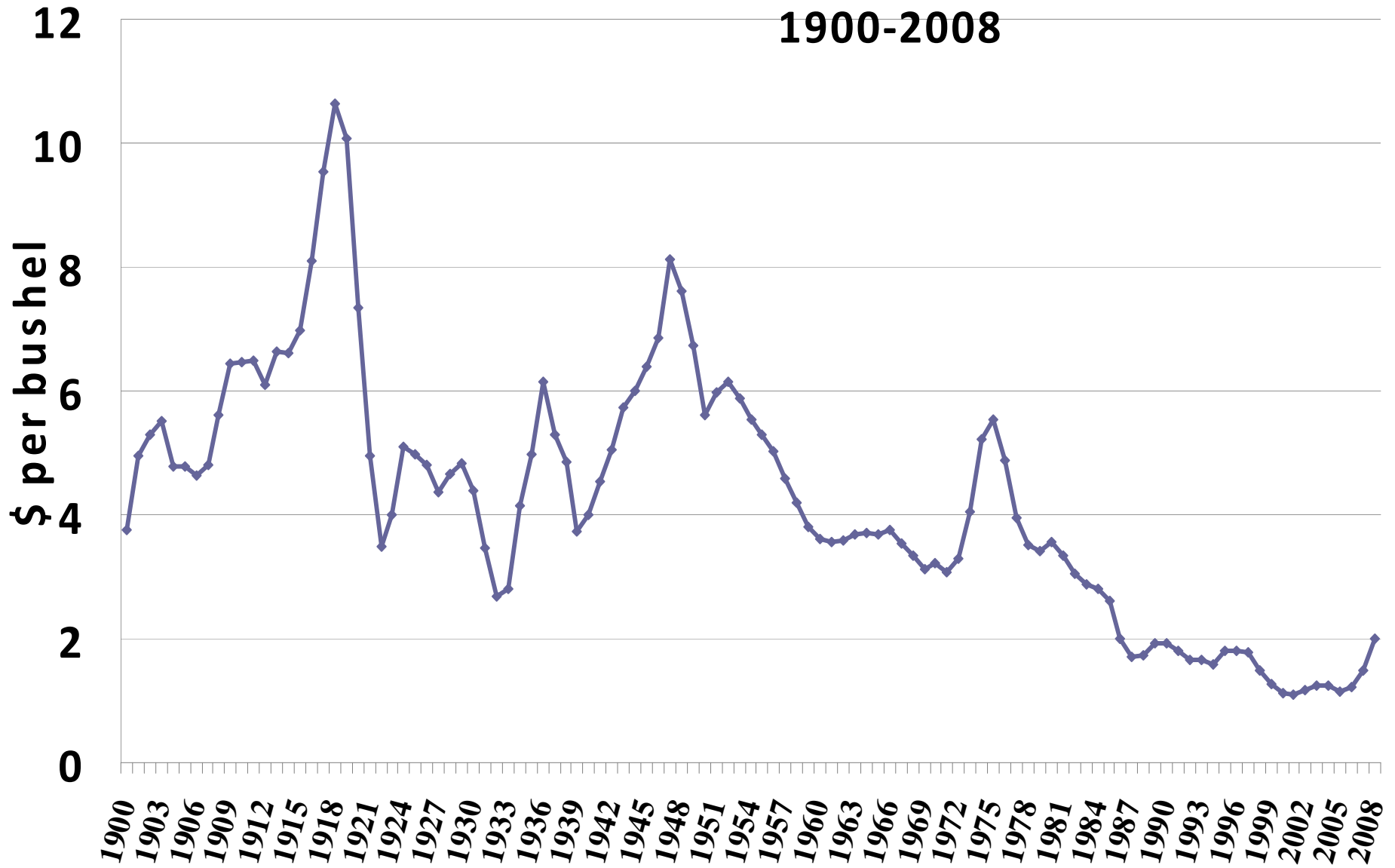
Nominal farm price of rice, 1904-2008



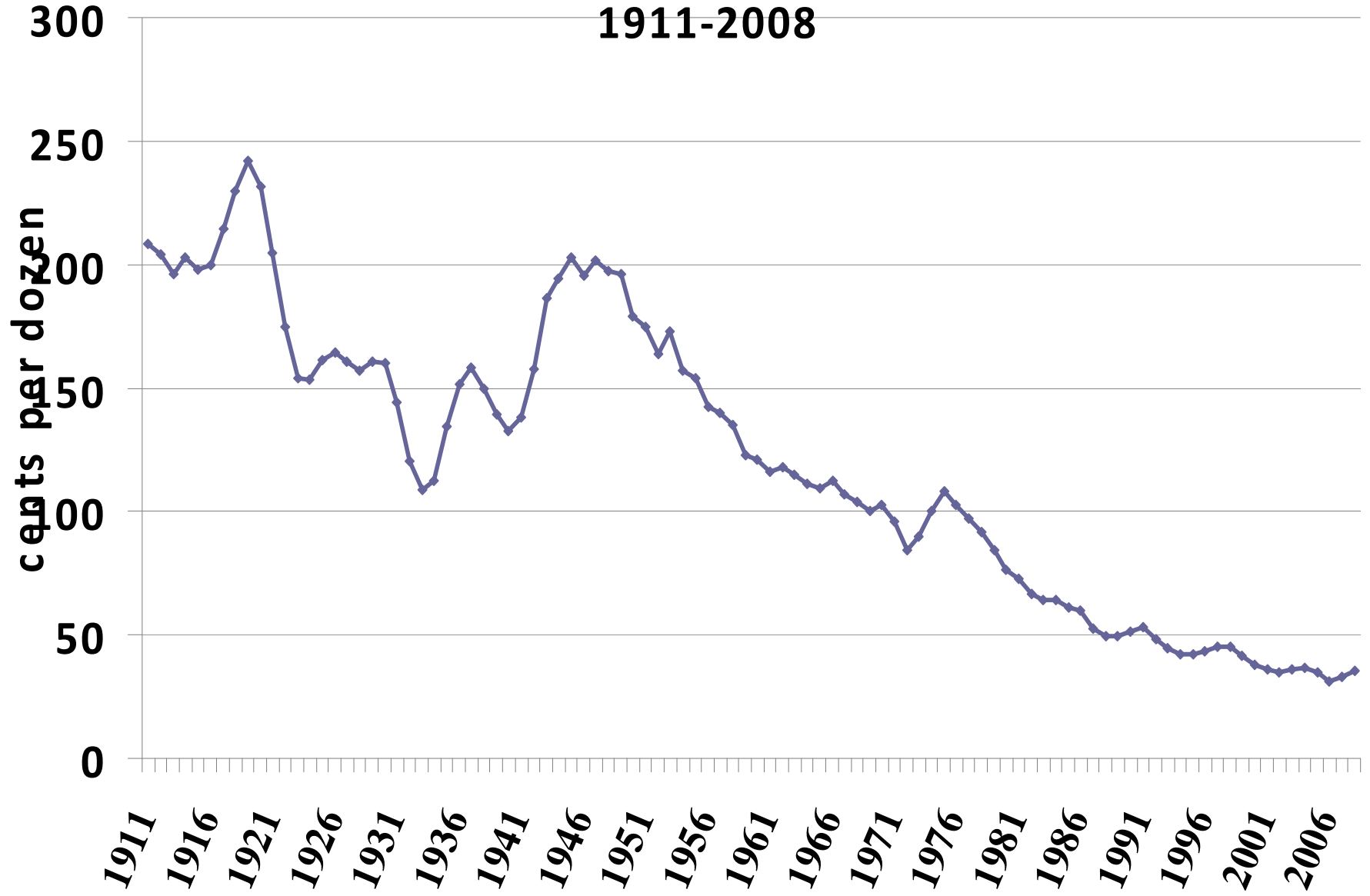
**Rice: 3 year moving average of real farm price,
1906-2008**



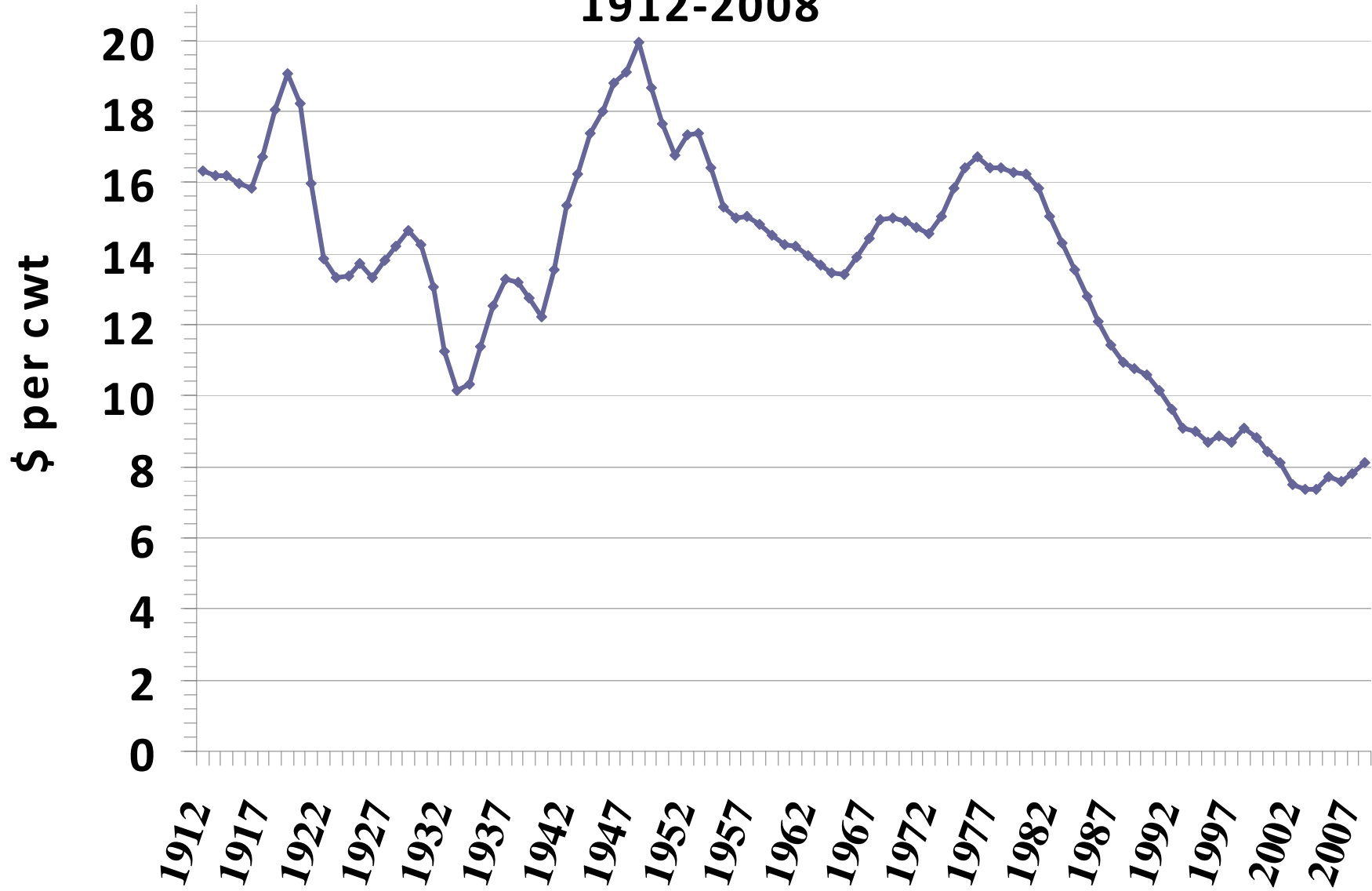
Corn: 3 year moving average of farm real price, 1900-2008



**Eggs: 3 year moving average of real farm price,
1911-2008**

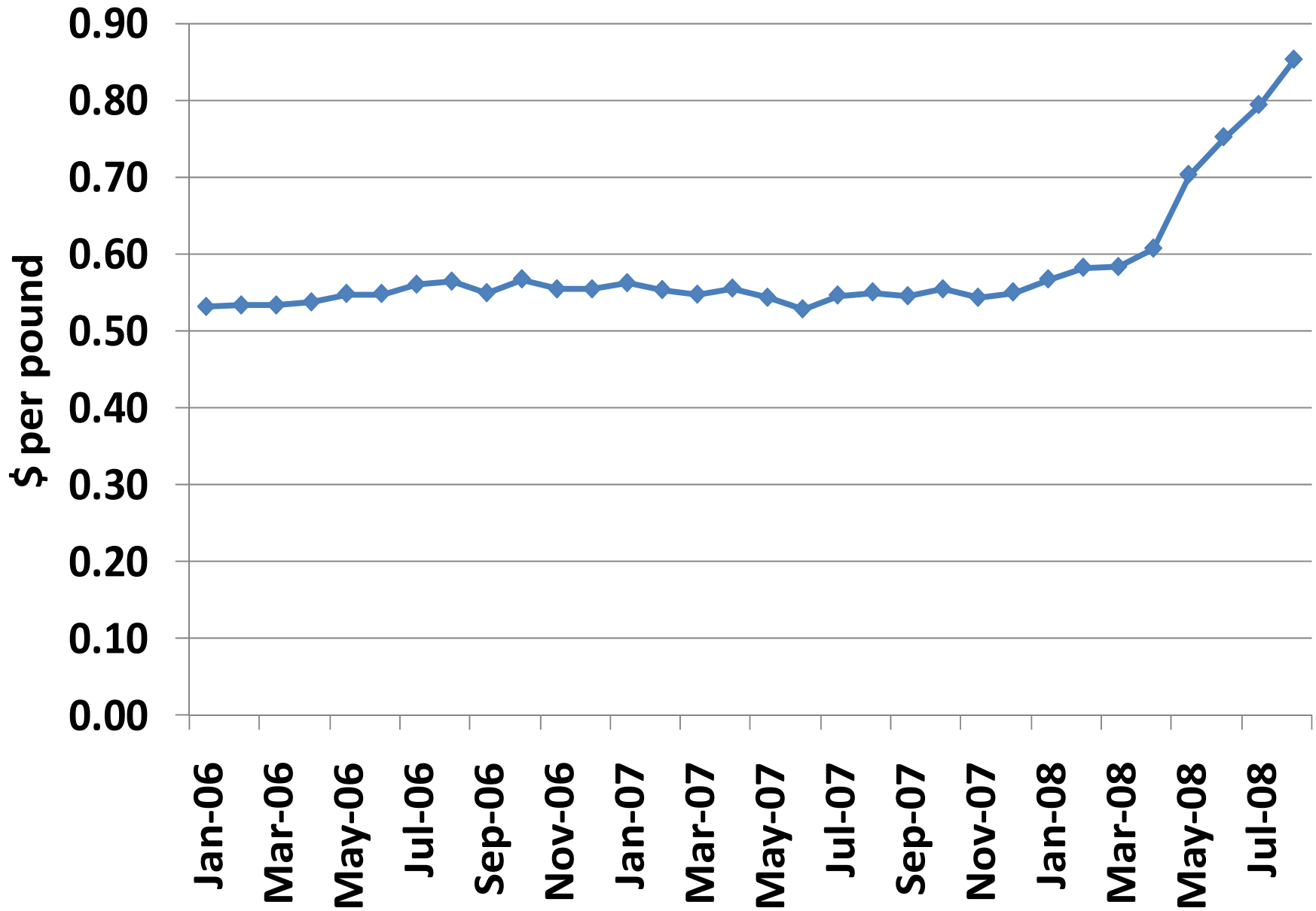


**Milk: 3 year moving average of real farm price,
1912-2008**

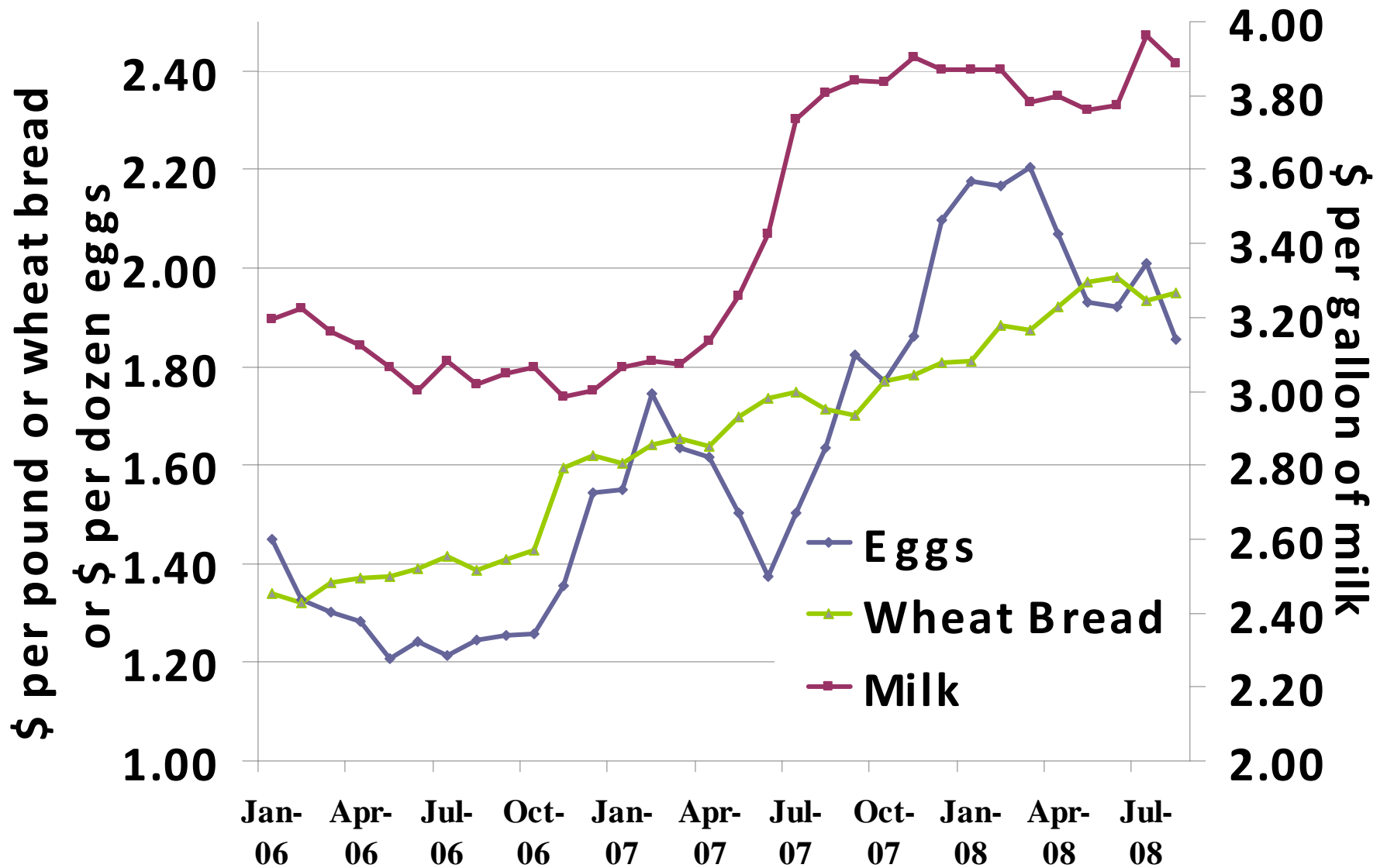


Consumer food prices over the past two years and food price indexes

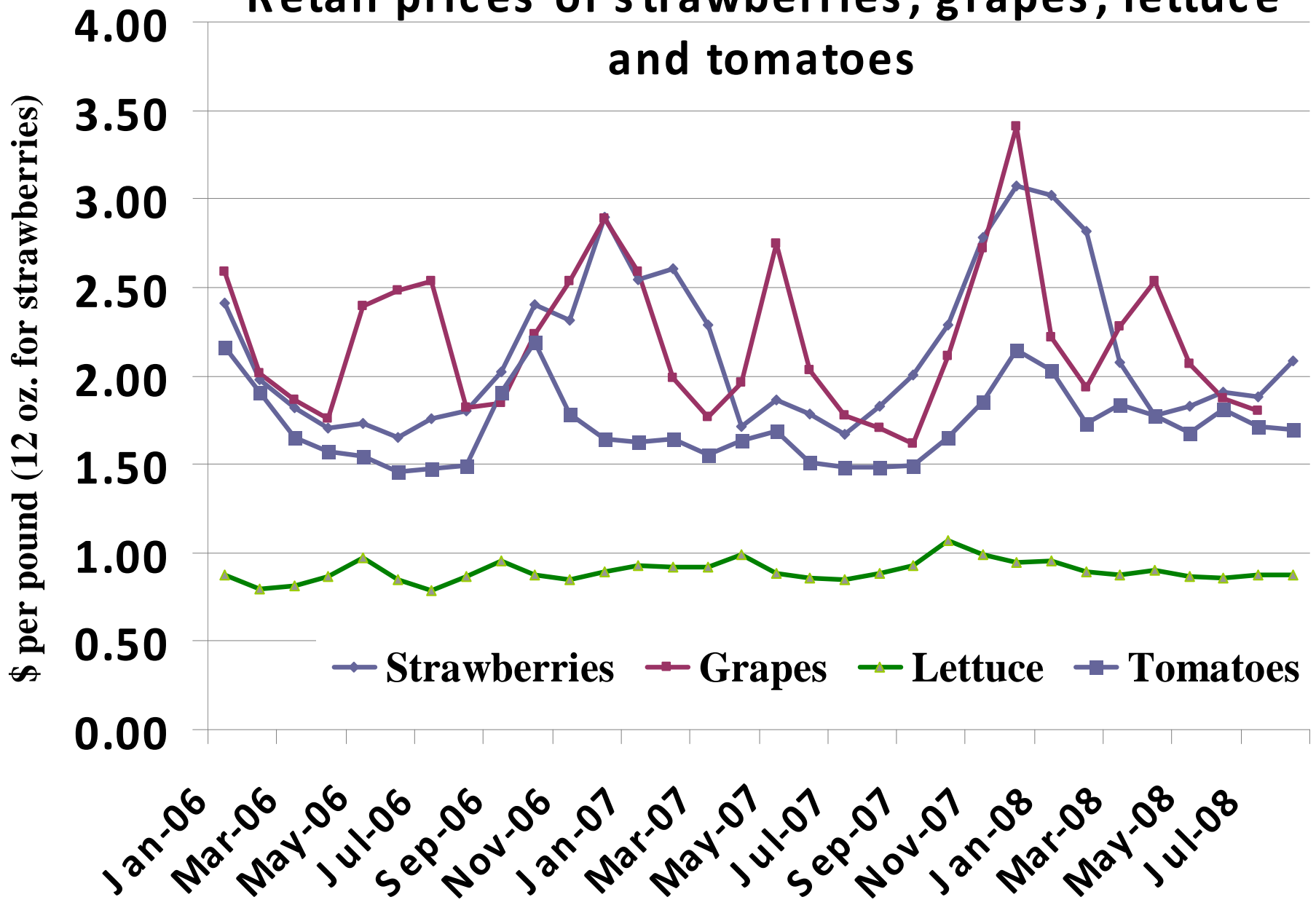
Retail price of rice, 2006-2008 monthly



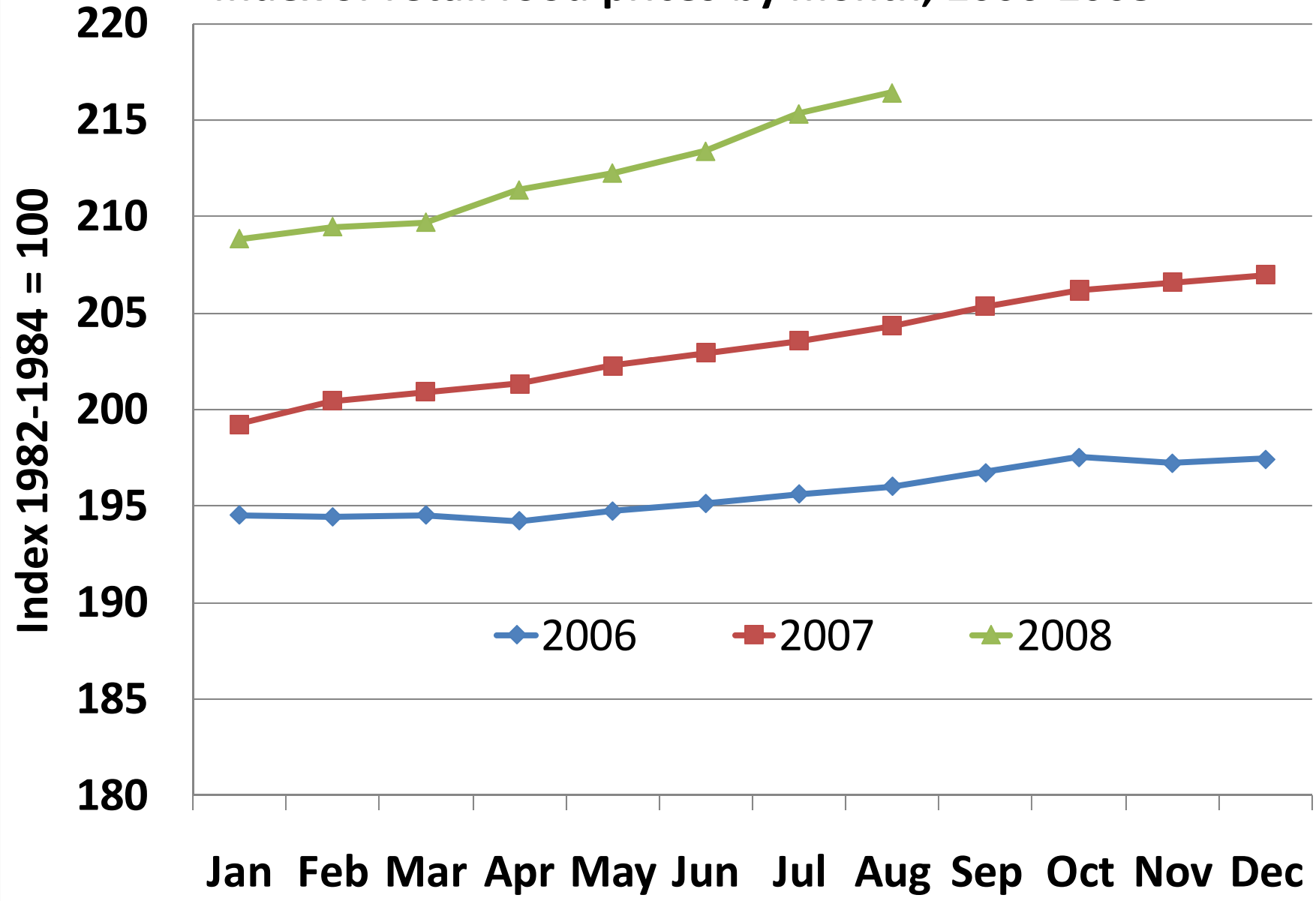
Retail prices of milk, wheat bread and eggs



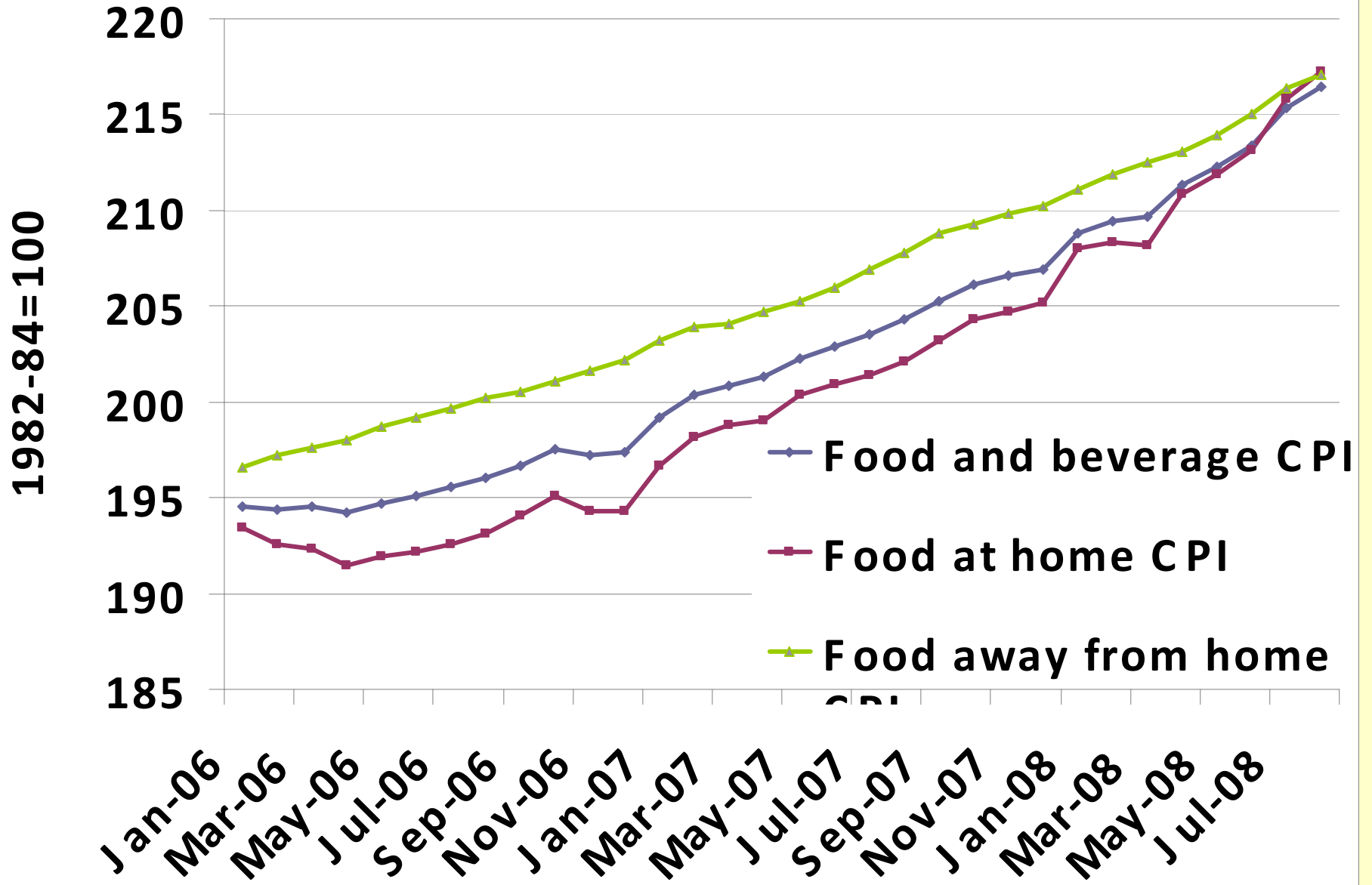
Retail prices of strawberries, grapes, lettuce and tomatoes



Index of retail food prices by month, 2006-2008



Monthly food retail price indices, 2006-2008

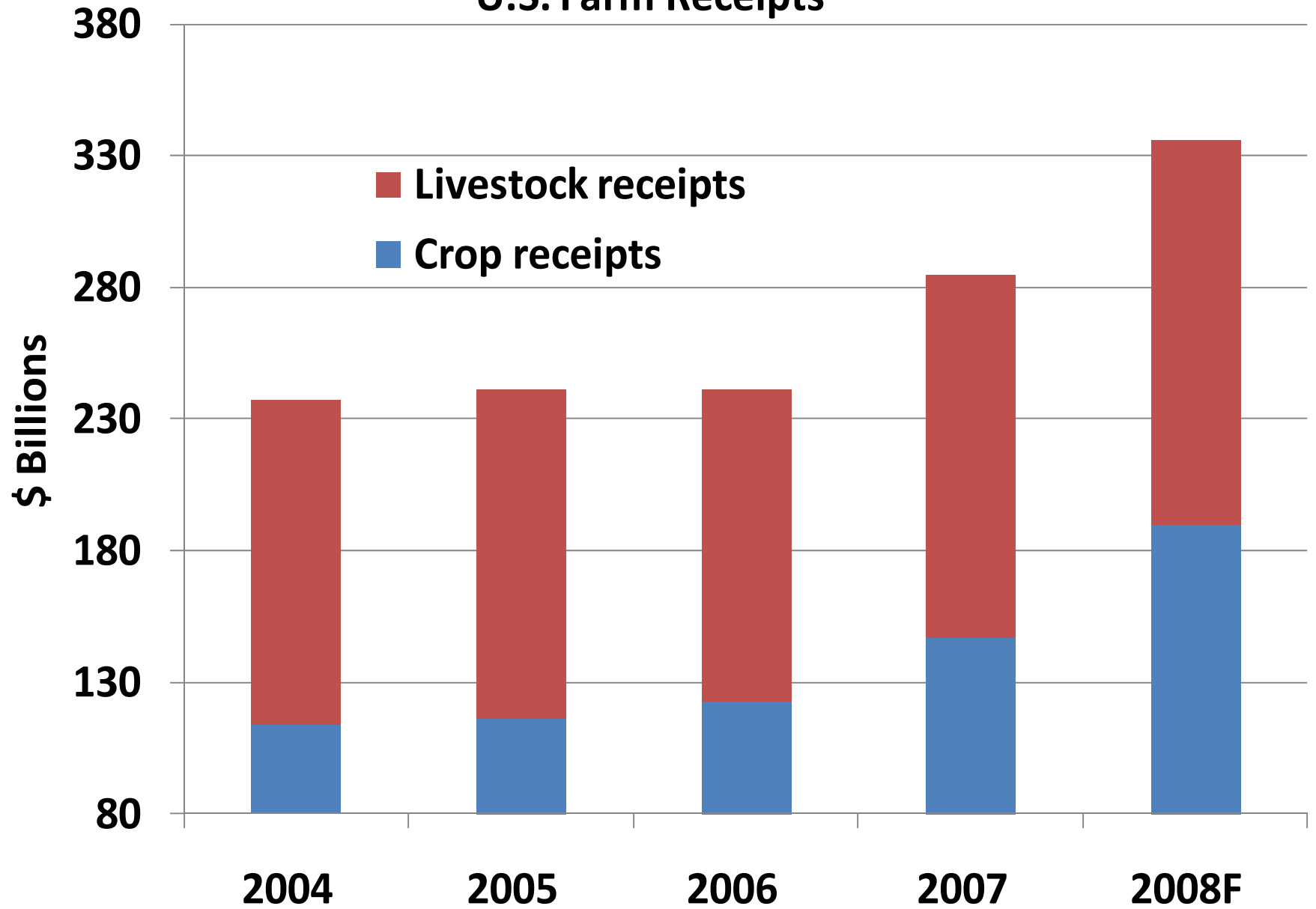


Price received for barley and index of retail beer prices, 2006-2008 monthly

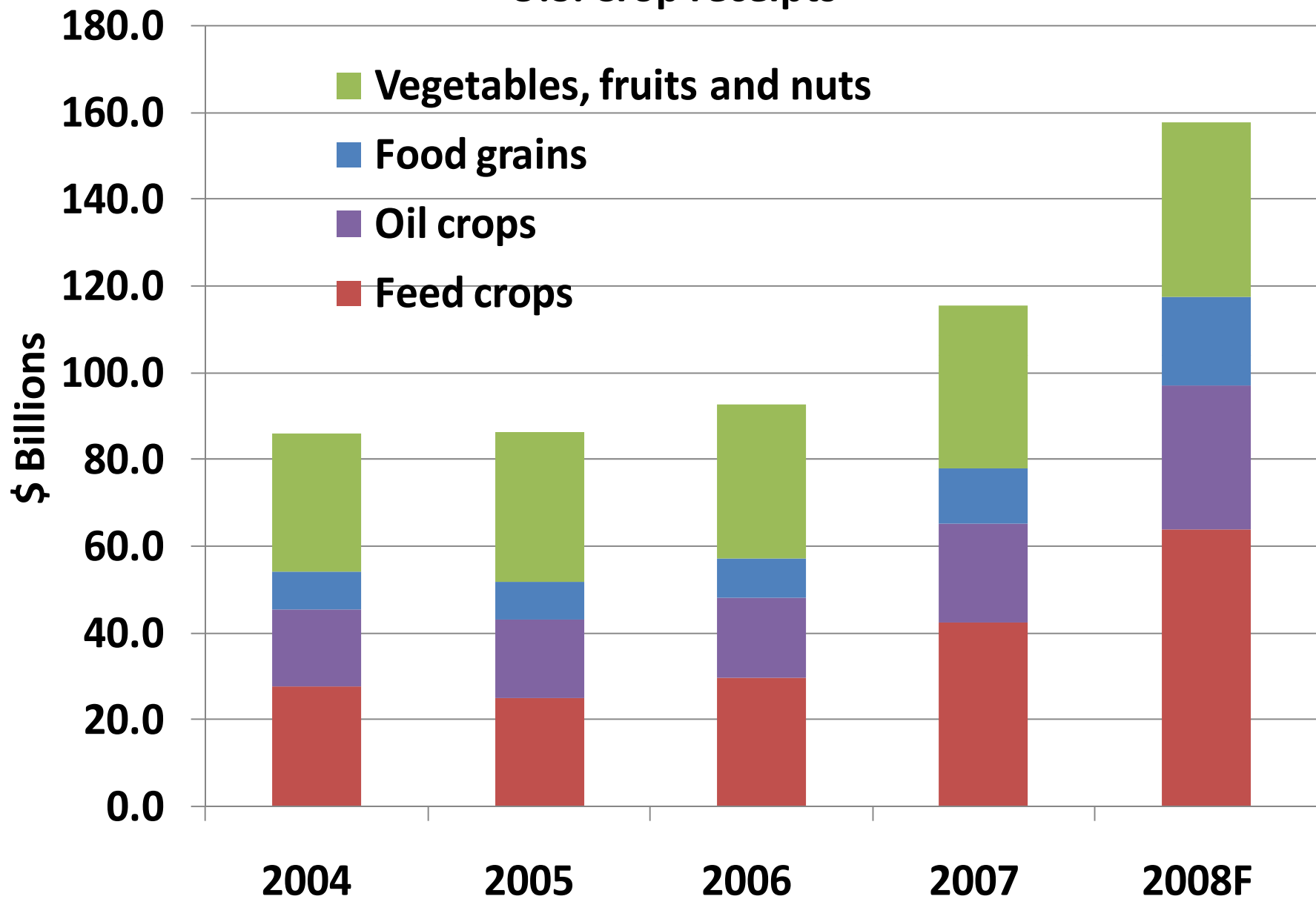


Farm receipts, net incomes and land prices, nationwide and in California, have risen with higher farm commodity prices

U.S. Farm Receipts



U.S. Crop receipts



U.S. Farm Income, 2004-2008F **(\$ Billions)**

	2004	2005	2006	2007	2008F
Gross farm income	295.6	301.1	292.4	341.1	390.5
Total production expenses	209.8	221.8	233.9	254.4	294.8
Net Farm Income	85.8	79.3	58.5	86.8	95.7

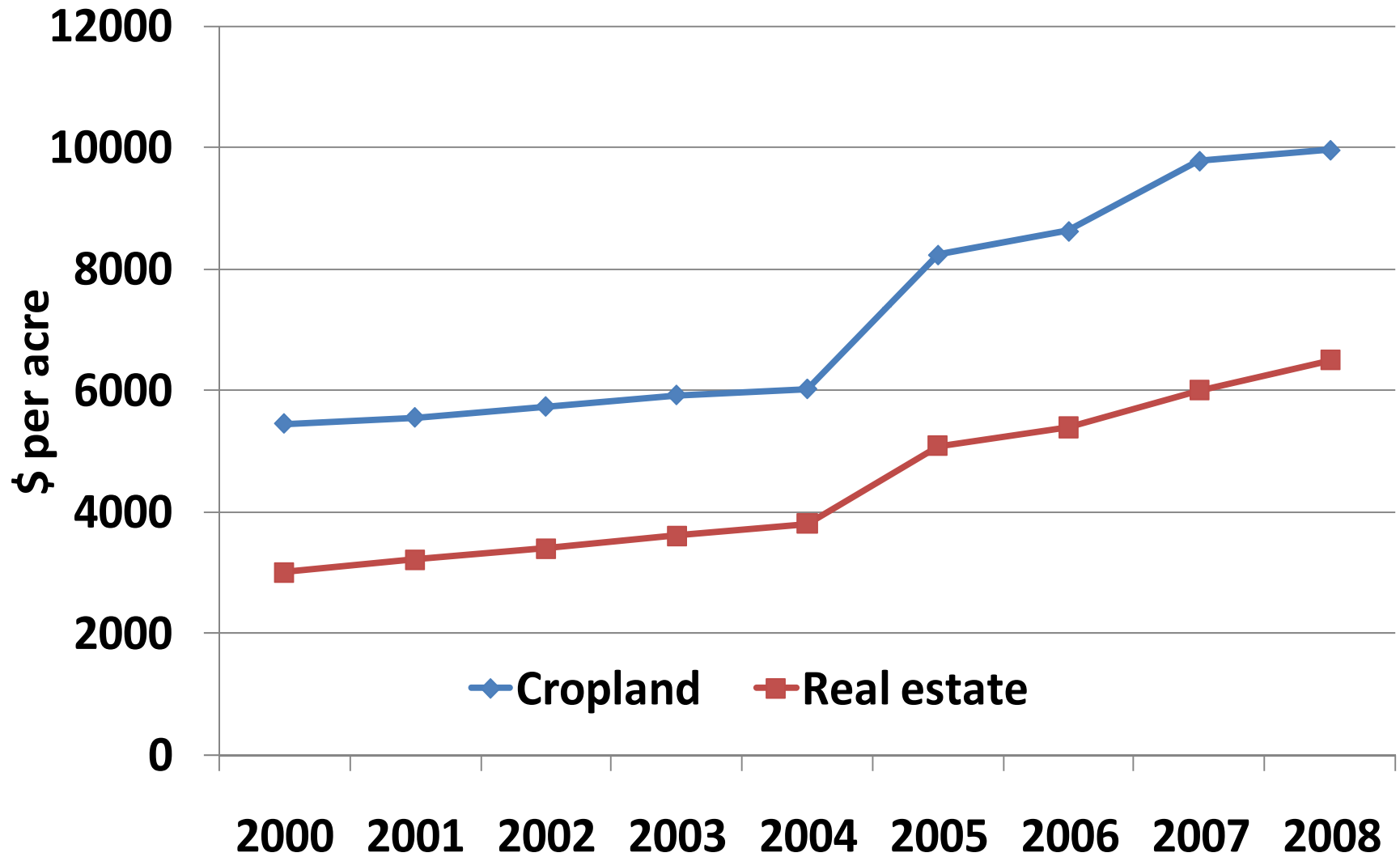
U.S. Farm Income

Commodity	Gross value of production (\$ Billions)	Variable Costs (\$ Billions)	Net Returns (\$ Billions)	
Corn	05/06	22.20	15.24	6.96
	08/09	66.40	20.65	45.74
	12/13	47.78	23.42	24.35
Wheat	05/06	7.17	4.55	2.62
	08/09	17.85	6.20	11.65
	12/13	9.45	5.99	3.46
Rice	05/06	1.74	1.27	0.47
	08/09	3.36	1.45	1.92
	12/13	2.66	1.62	1.04

California Farm Income (\$ Billions)

	Value of agricultural production	Purchased inputs	Other costs	Net farm income
2006	34.62	17.61	26.70	7.92
2007	39.09	17.62	26.43	12.67

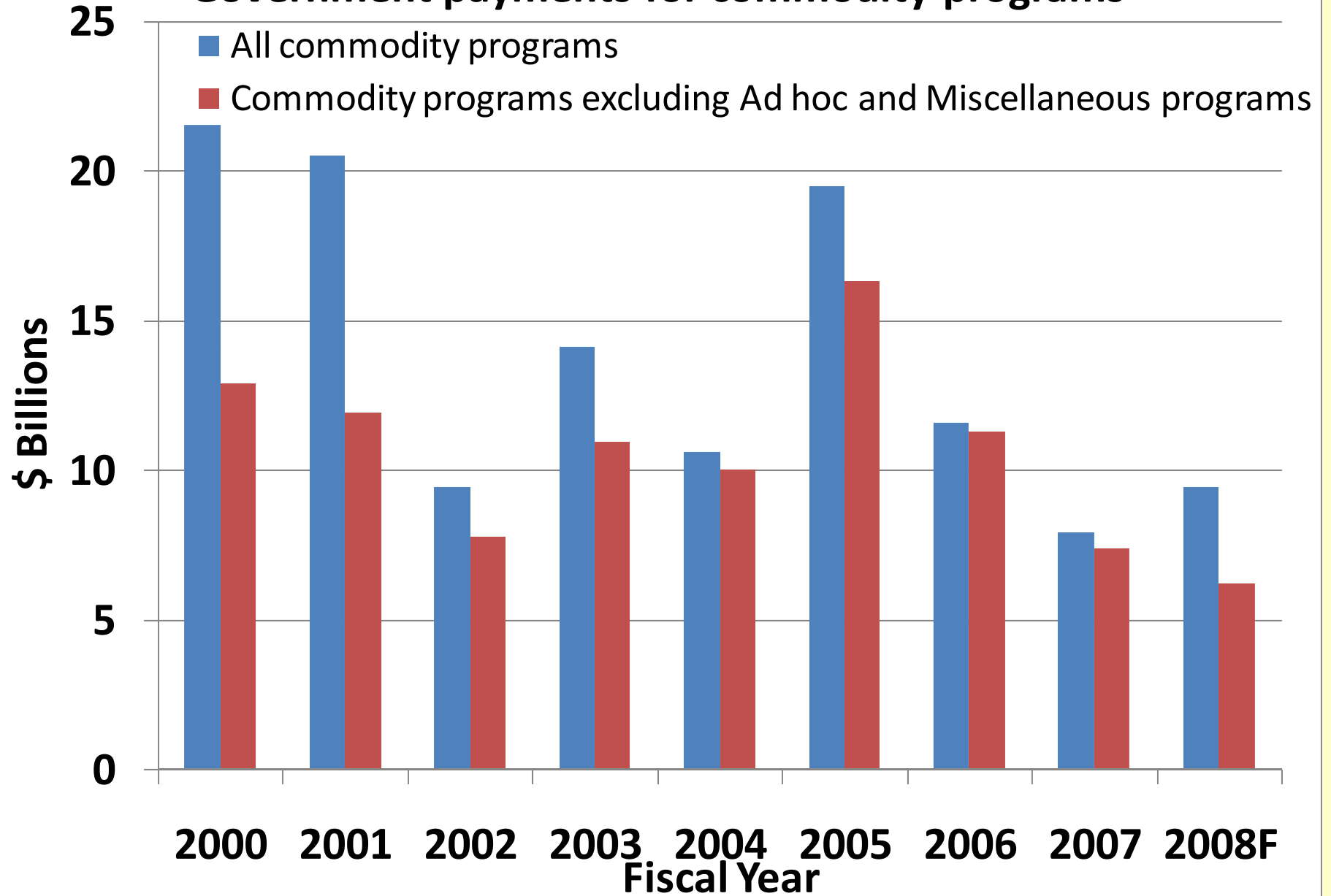
California average cropland and farm real estate value



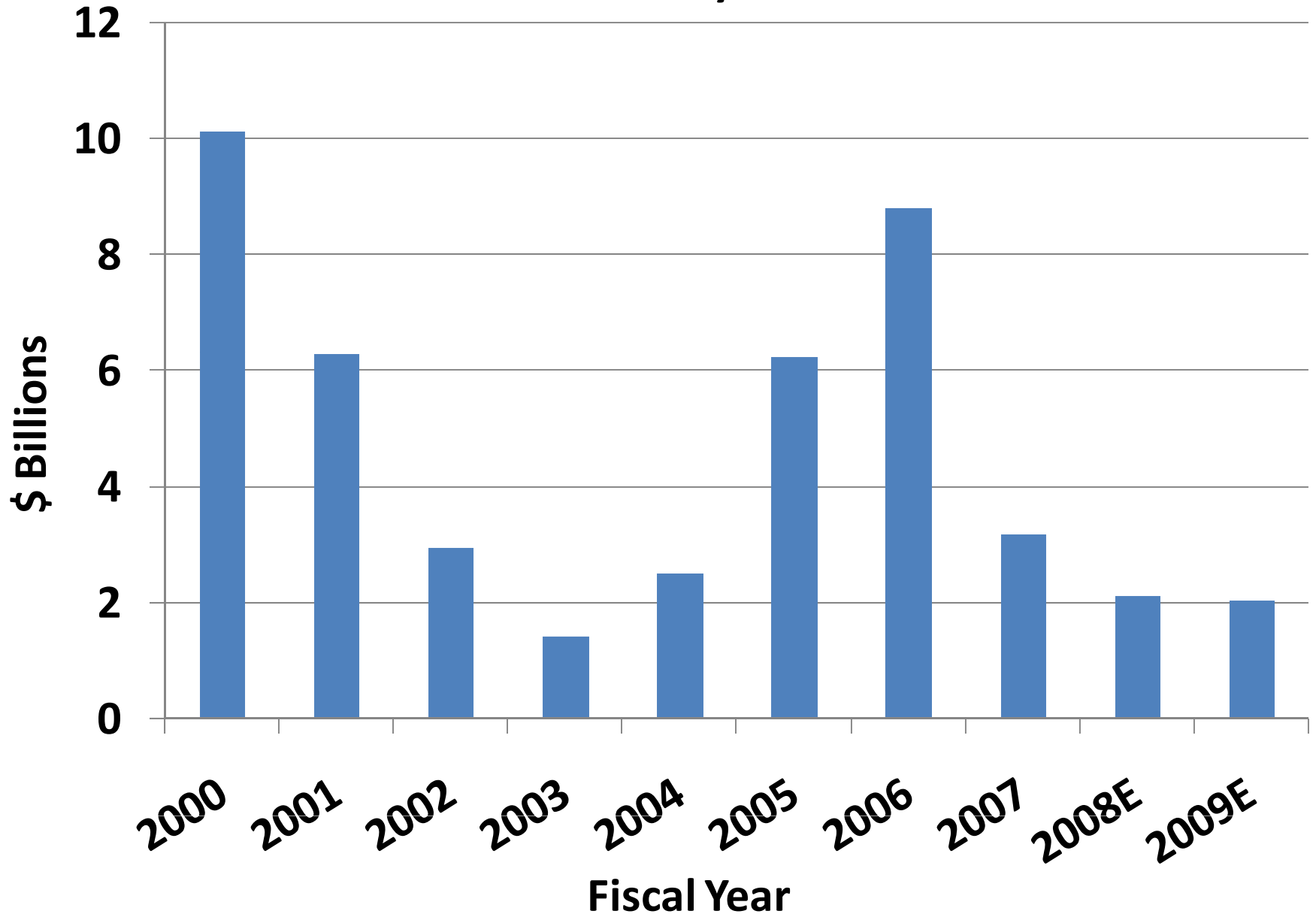
Declines in government subsidies reflect higher farm prices, but subsidies that are not tied to prices remain.

The 2008 Farm Bill opens the door for larger payments if prices decline slightly from their highs

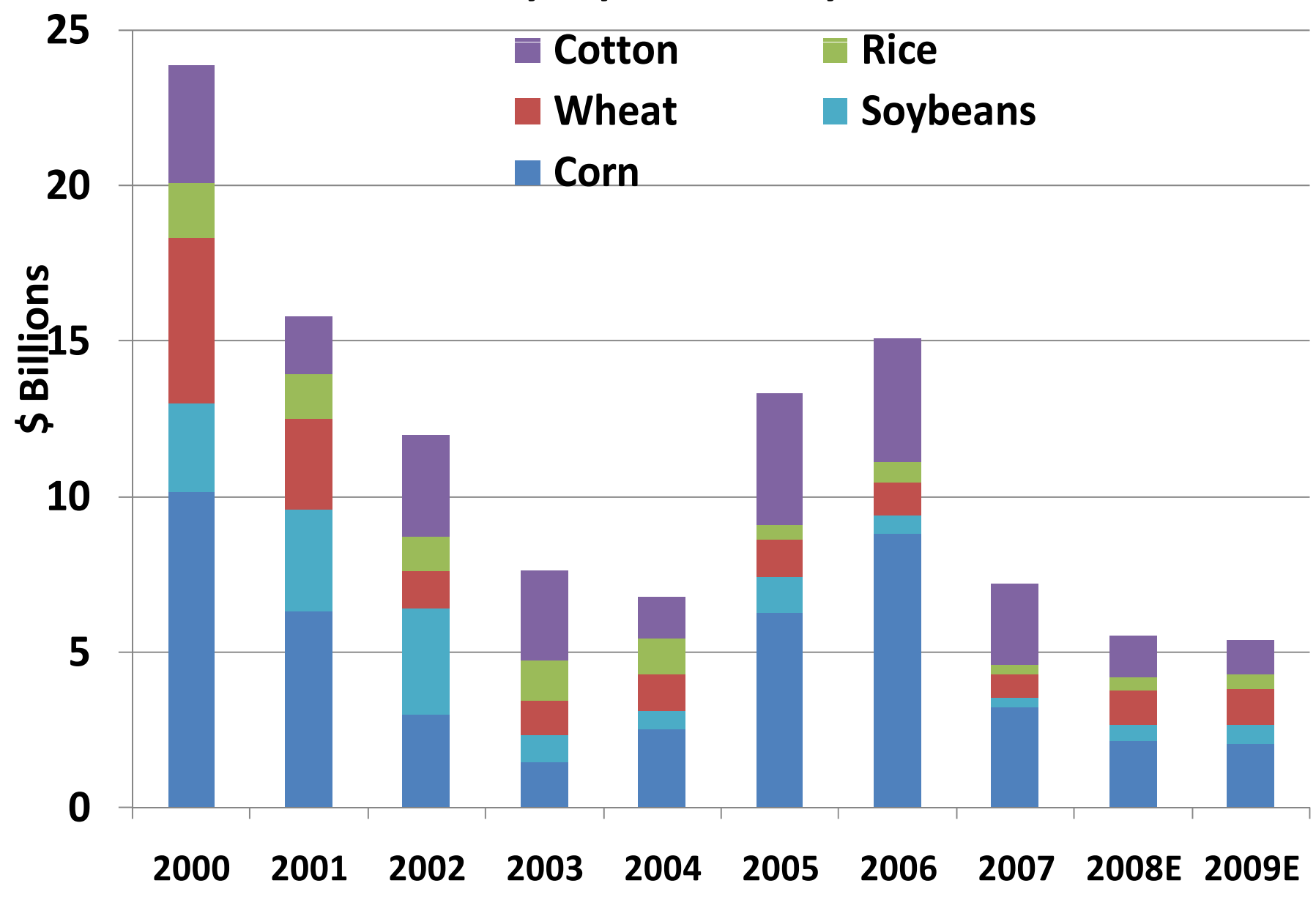
Government payments for commodity programs



CCC Net Outlays - Corn



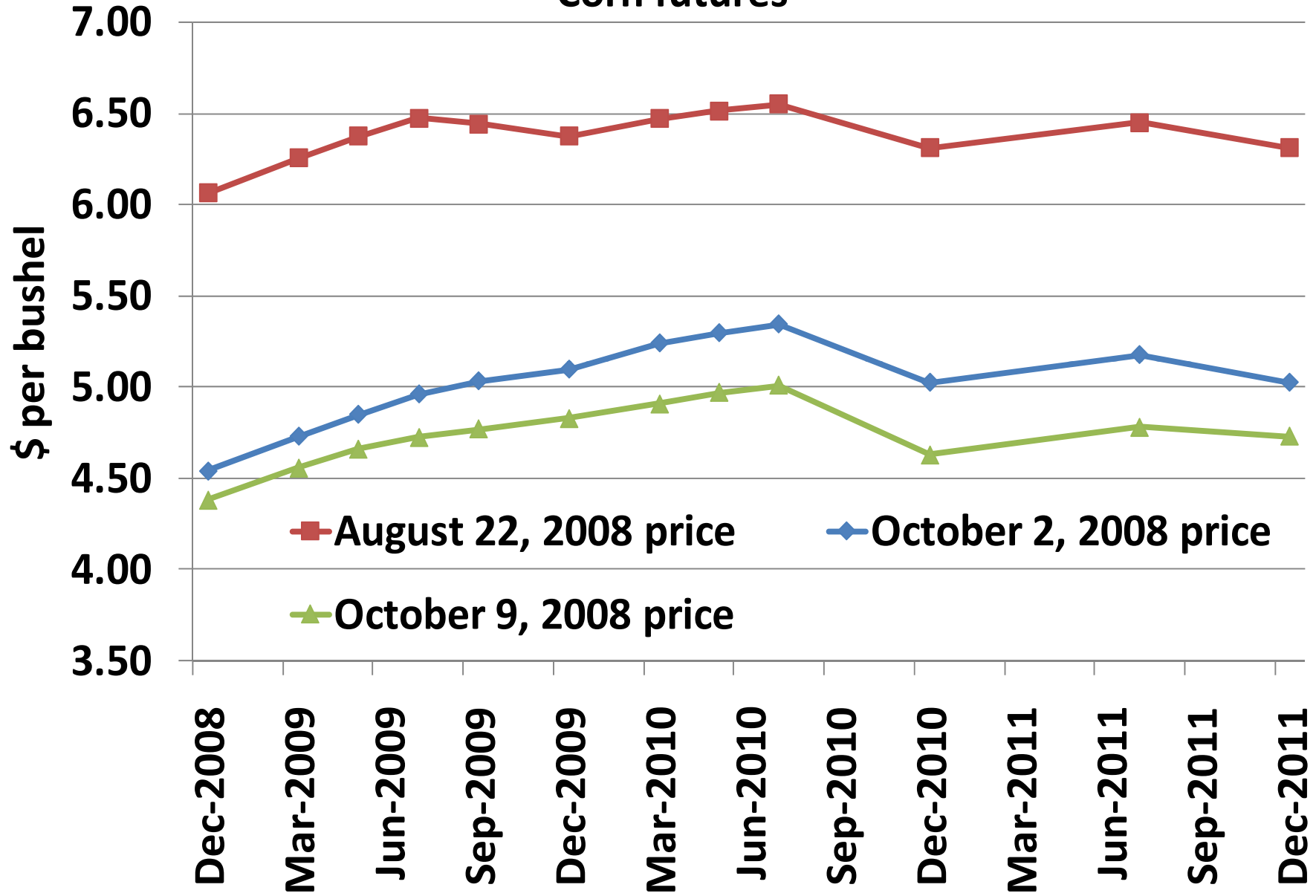
CCC Net Outlays by Commodity, Fiscal Year



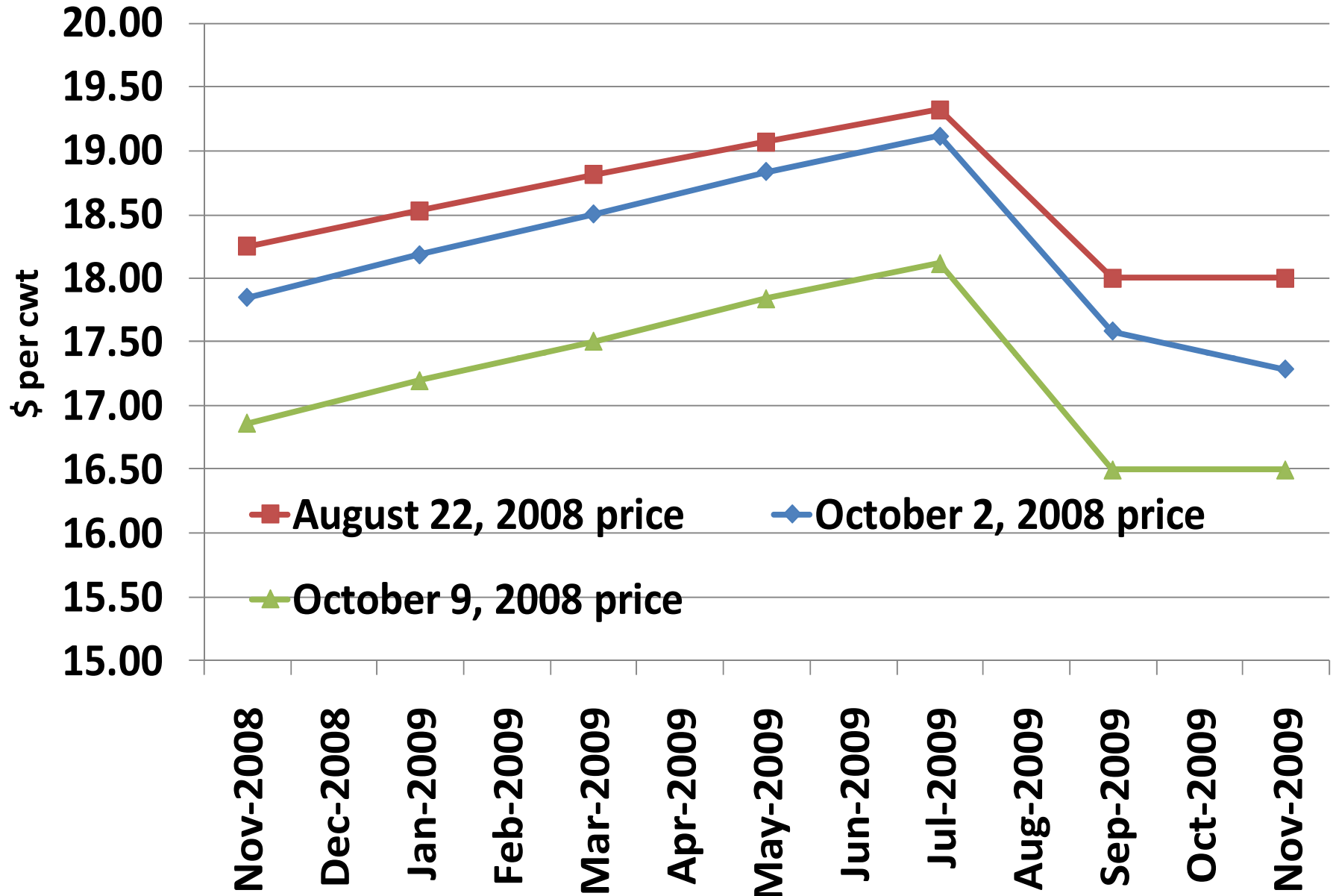
Peak prices drifted down after big jumps in the spring.

Futures market price suggest a quite different outlook from just a few weeks ago.

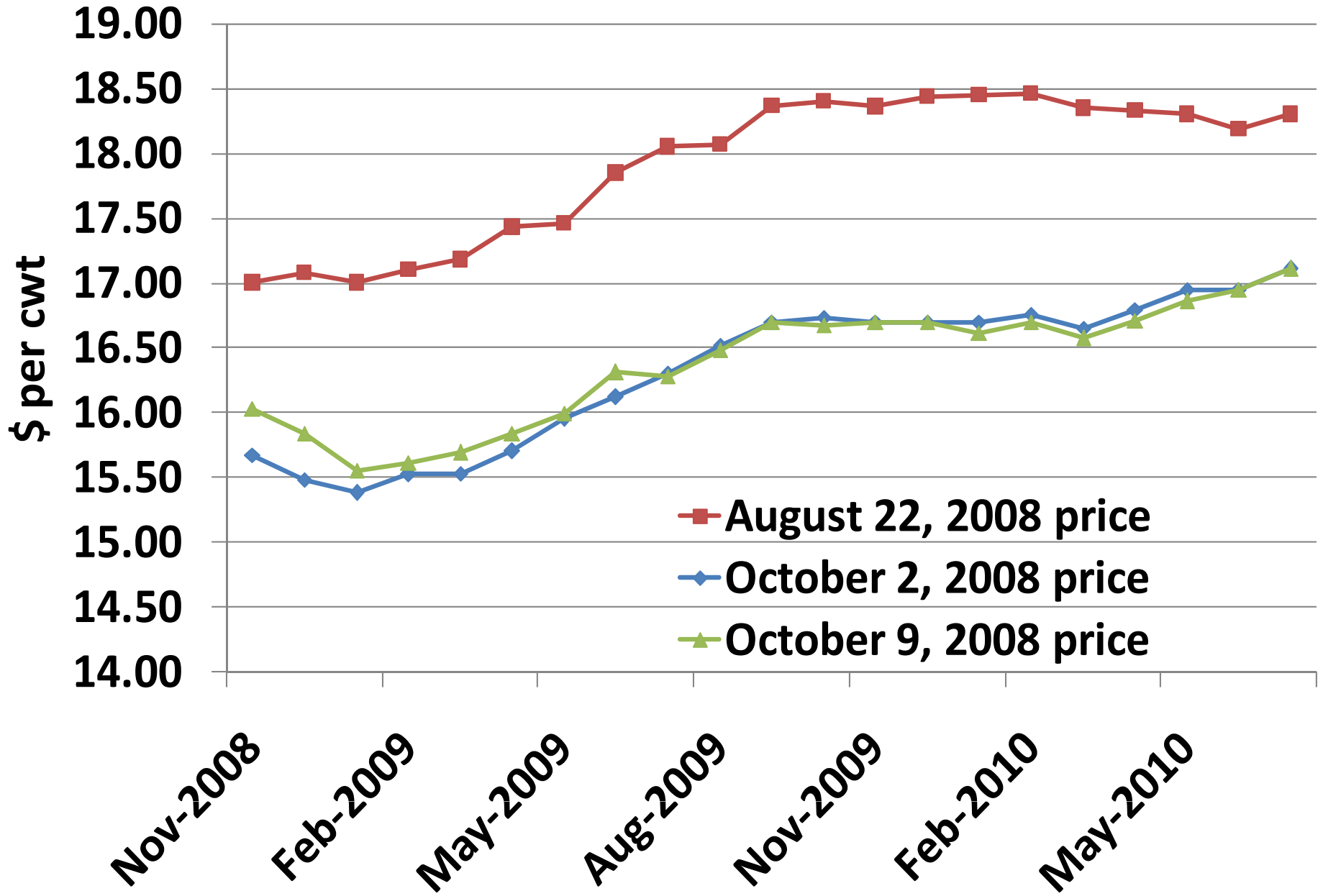
Corn futures



Rice futures



Milk futures



Concluding remarks

- **Is the food price boom over?**
- **We are not back near the commodity prices experienced from 2000 to 2006.**
- **But, the long-term real price trend is compelling.**
- **There was no food price crisis for consumers in the United States and producers gained.**

- **However, the U.S. story should not divert our attention from the real hardships experienced by the poorest of food consumers in poor countries.**