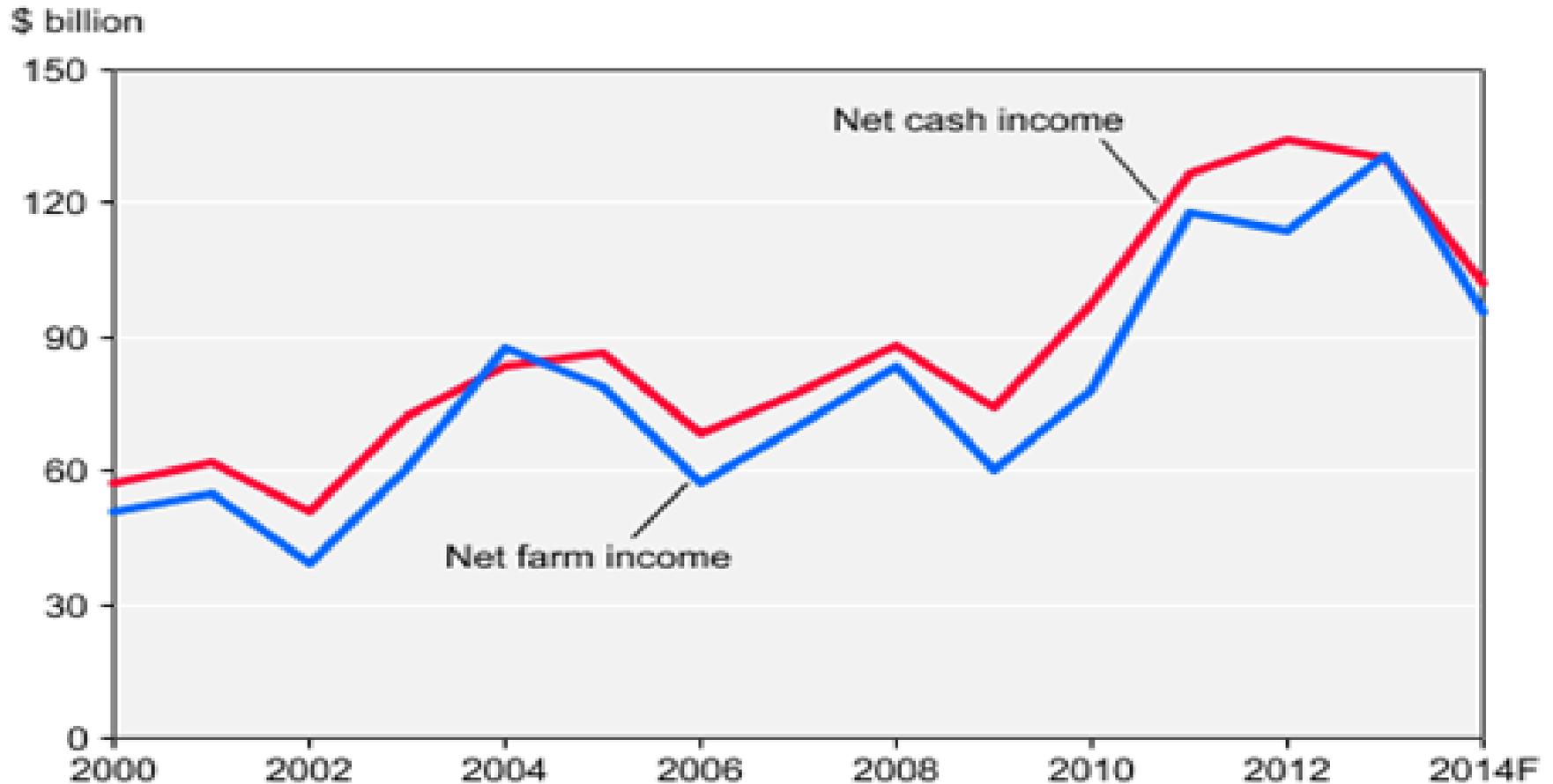




# International Perspectives on Farm Income Drivers

**J. P. Gervais**  
Chief Ag Economist  
July 2014

# Near record farm cash income in the U.S. and throughout the world



Source: USDA - ERS



**World population growth and changing diets is projected to increase food consumption by 60 percent between 2007 and 2050**

**“... (yet) world production would need to increase at rates much lower than in the past”**

Source: FAO



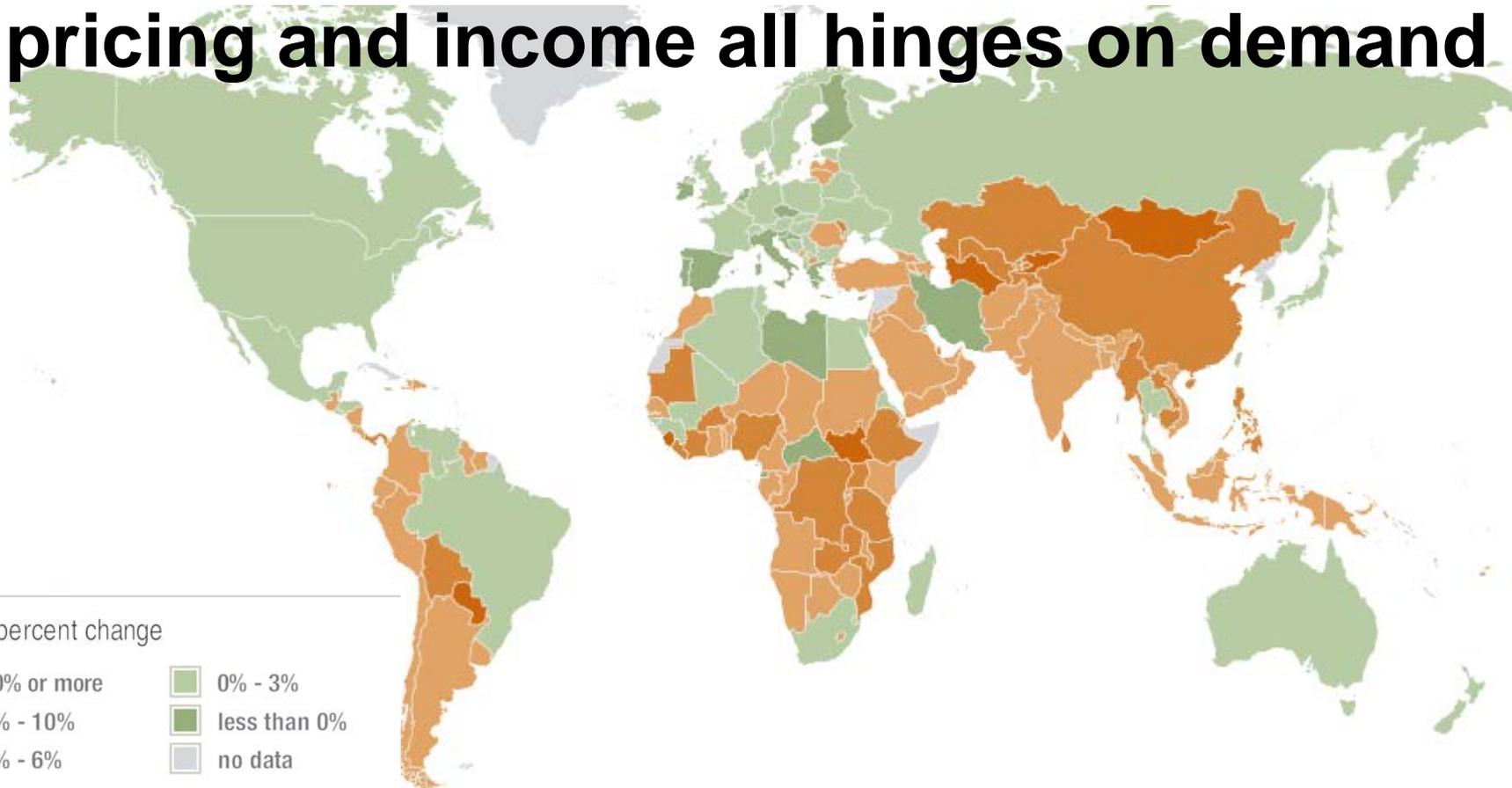
**But what are we really talking about?  
A shift in demand and/or a shift in supply**



**And why is this important  
for farm income?**



# Fairly wide consensus around global production increase for commodities, so pricing and income all hinges on demand



Source: IMF, DataMapper





More affluent populations

+

Changing food  
preferences

+

Global population growth

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— **Increased demand for**  
— **meat and feed grains**

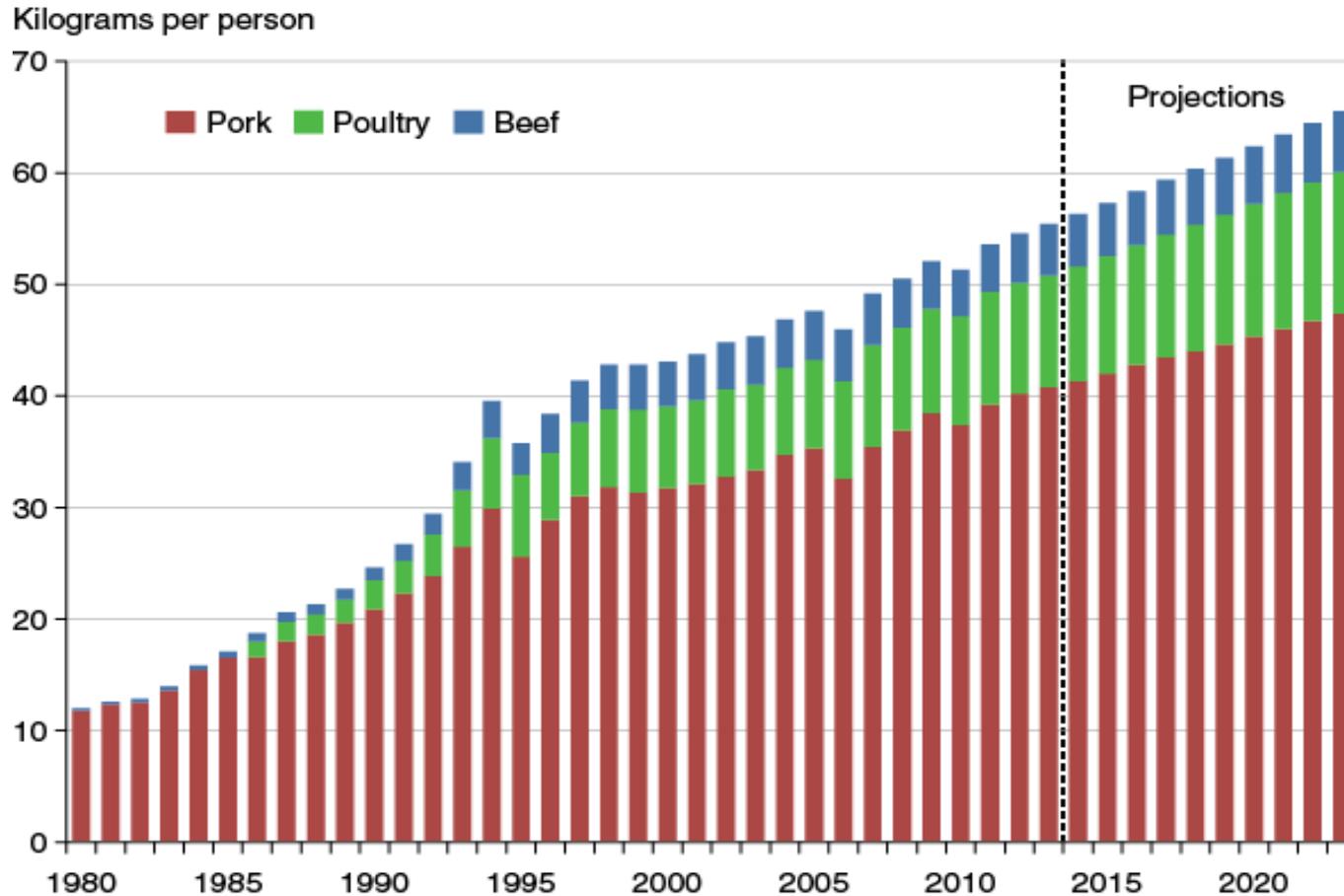
# Consumption upgrade powered by a larger portion of middle income households



Source: McKinsey Insights China macroeconomic model update (April 2012)



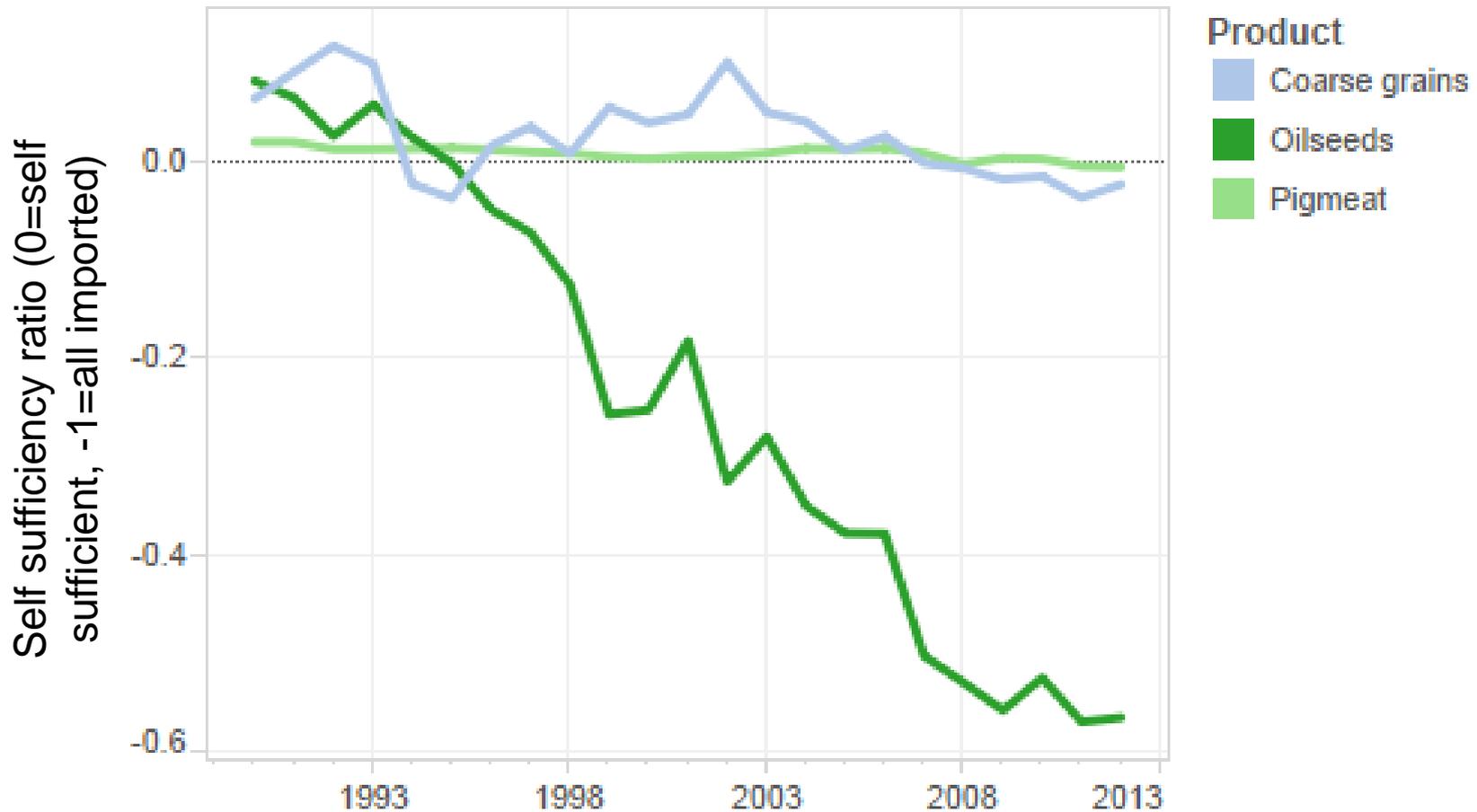
# Food consumption growth in China...



Source: USDA - ERS



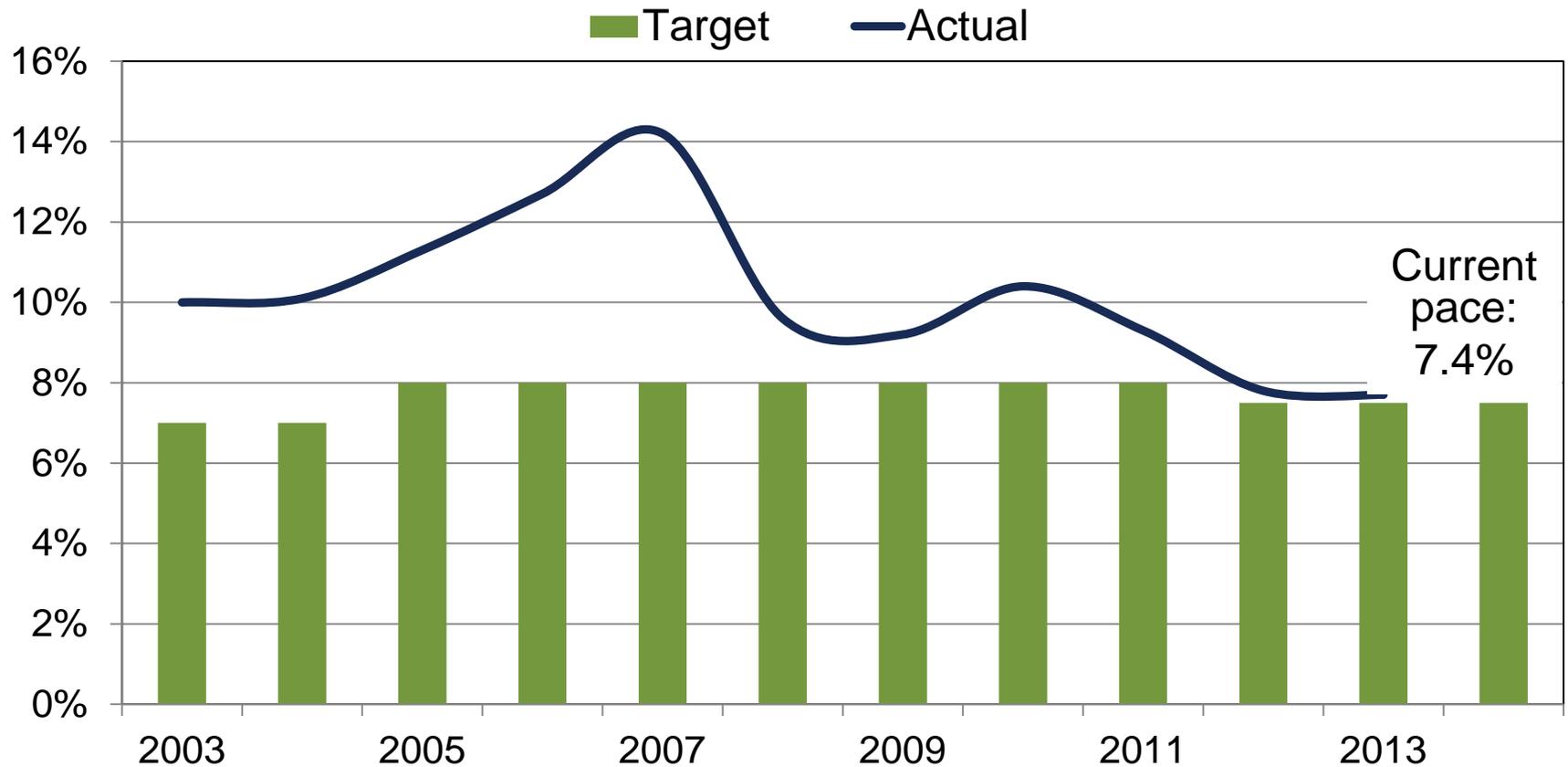
# ... with increasing reliance on imports



Source: OECD



# Chinese GDP slowing, but does it matter?

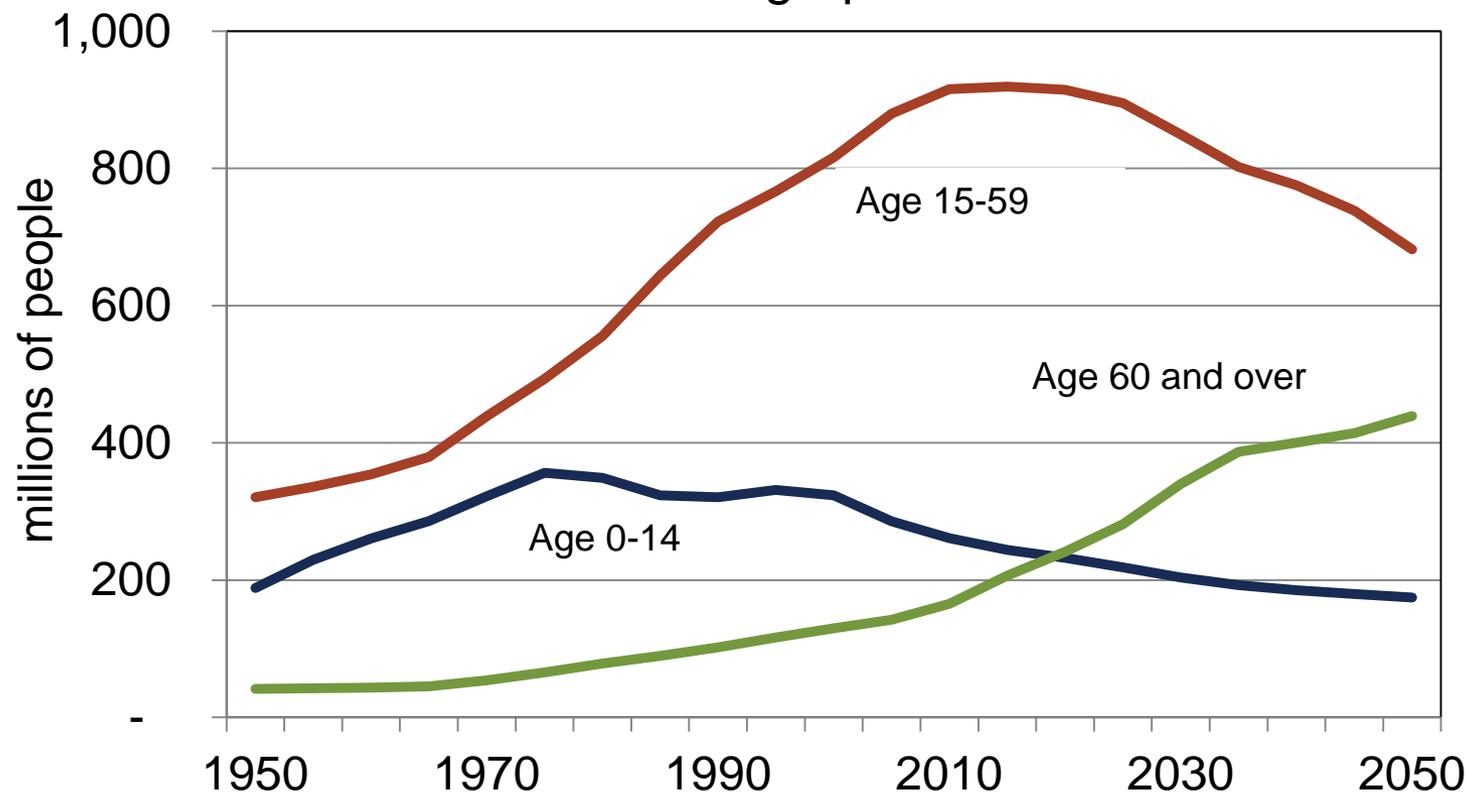


Source: World Bank



# A smaller workforce will lead to more productivity gains and higher wages

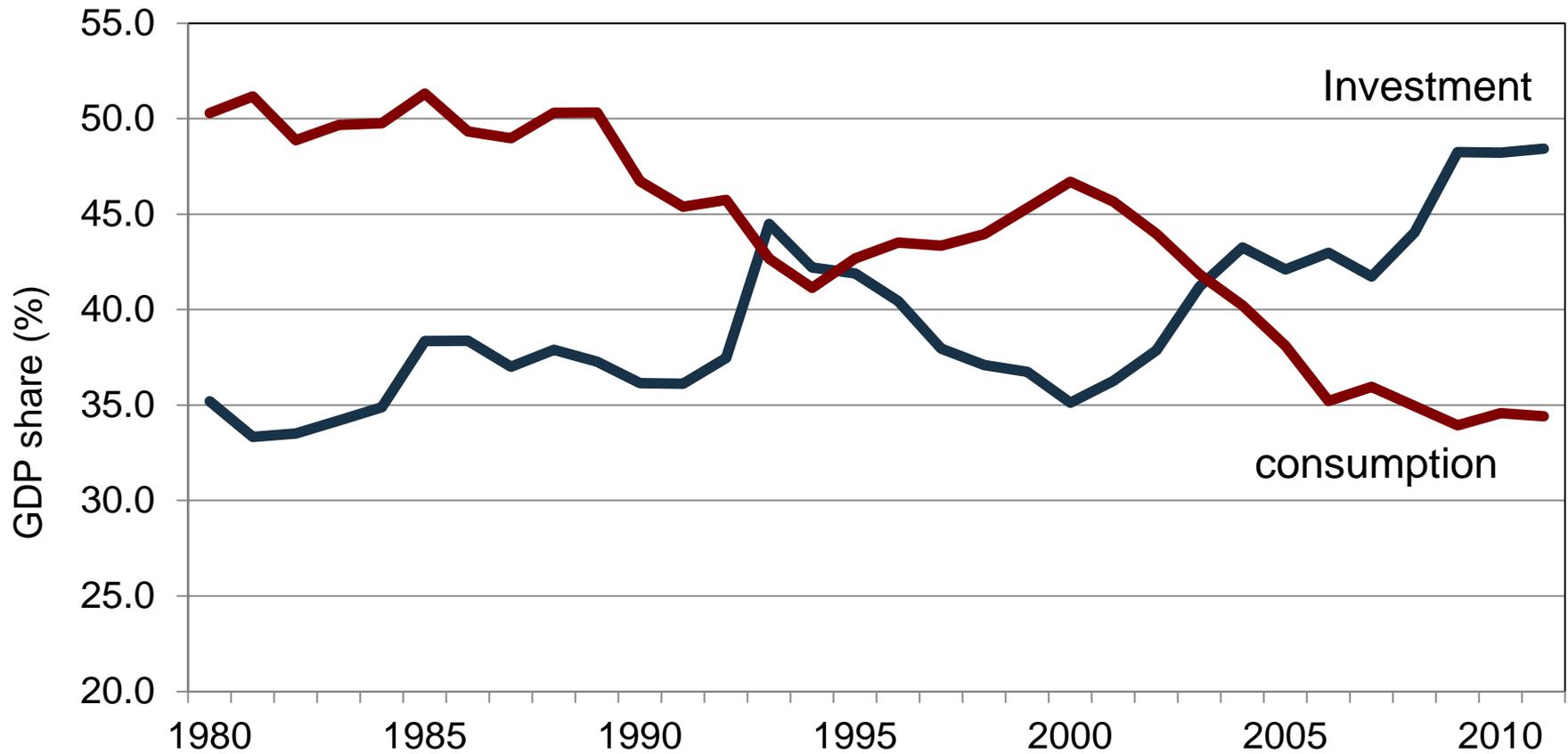
Chinese demographic shift



Source: United Nations



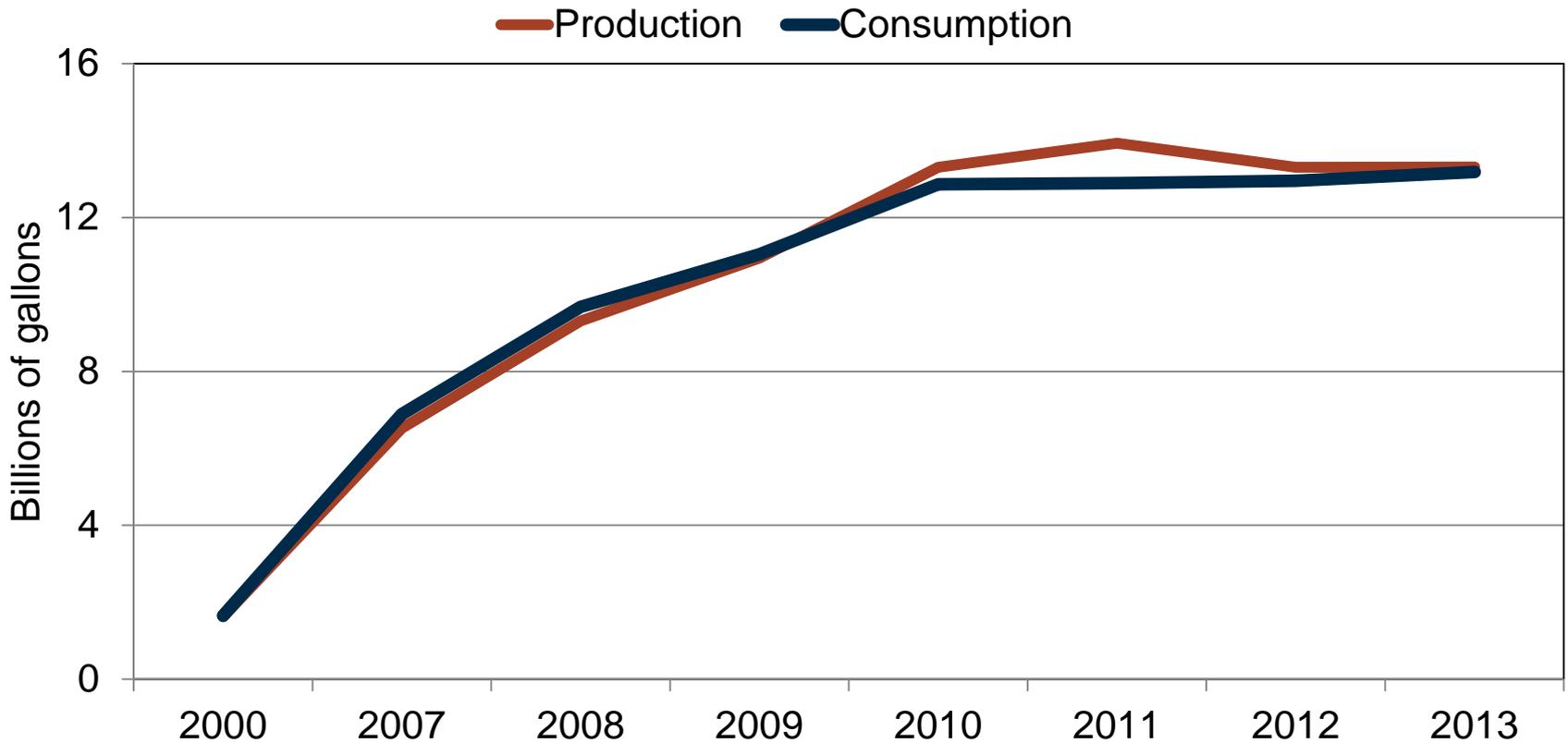
# China's challenge is to rebalance their economy



Source: World Bank



# Expansion of biofuels overall been positive for farm cash income



Source: US Energy Information Administration





# Consumer food preferences are evolving

- Food safety
- Health and nutrition
- Values-based purchasing
- Ethnic preferences

# Sources of growth in crop production

		Annual growth (%)			Contributions to growth (%)	
		Production	Harvested land	Yield	Harvested land	Yield
Wheat	1961-2007	3.6	0.7	2.9	19	81
	2007-2050	0.9	0.0	0.9	1	99
World	1961-2007	3.6	1.1	2.5	30	70
	2007-2050	1.4	0.6	0.8	41	59

Source: FAO



# Sources of growth in developing countries

		Annual growth (%)			Contributions to growth (%)	
		Production	Harvested land	Yield	Harvested land	Yield
Wheat	1961-2007	3.6	0.7	2.9	19	81
	2007-2050	0.9	0.0	0.9	1	99
Corn	1961-2007	3.6	1.1	2.5	30	70
	2007-2050	1.4	0.6	0.8	41	59

Source: FAO



# Big data in ag



**WEATHER  
CHALLENGES**



**SOIL  
HEALTH**



**WEED  
MANAGEMENT**



**INSECT  
MANAGEMENT**

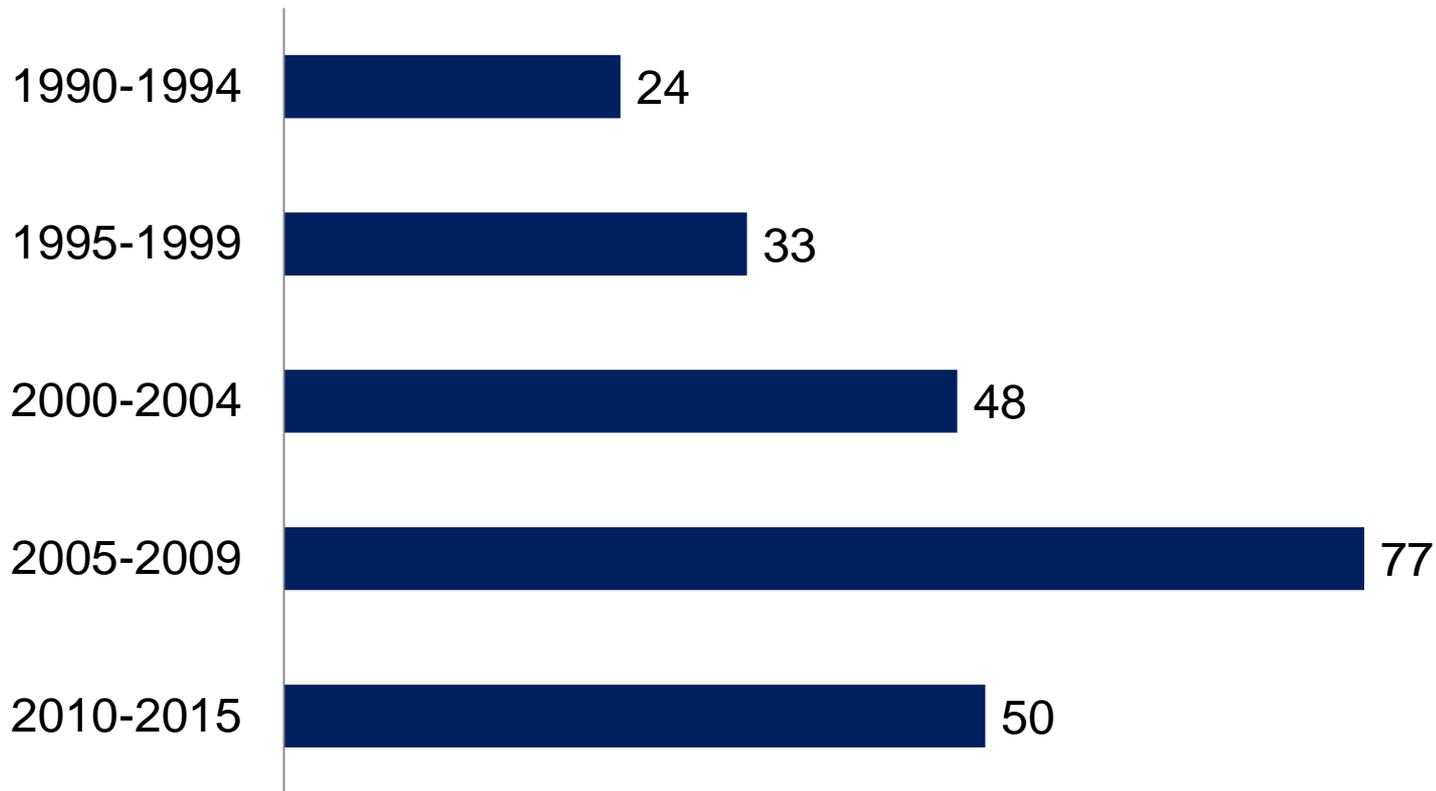


**DISEASE  
MANAGEMENT**

**FARMING  
DECISIONS**



# The trade policy environment now focuses on bilateral deals



Source: WTO



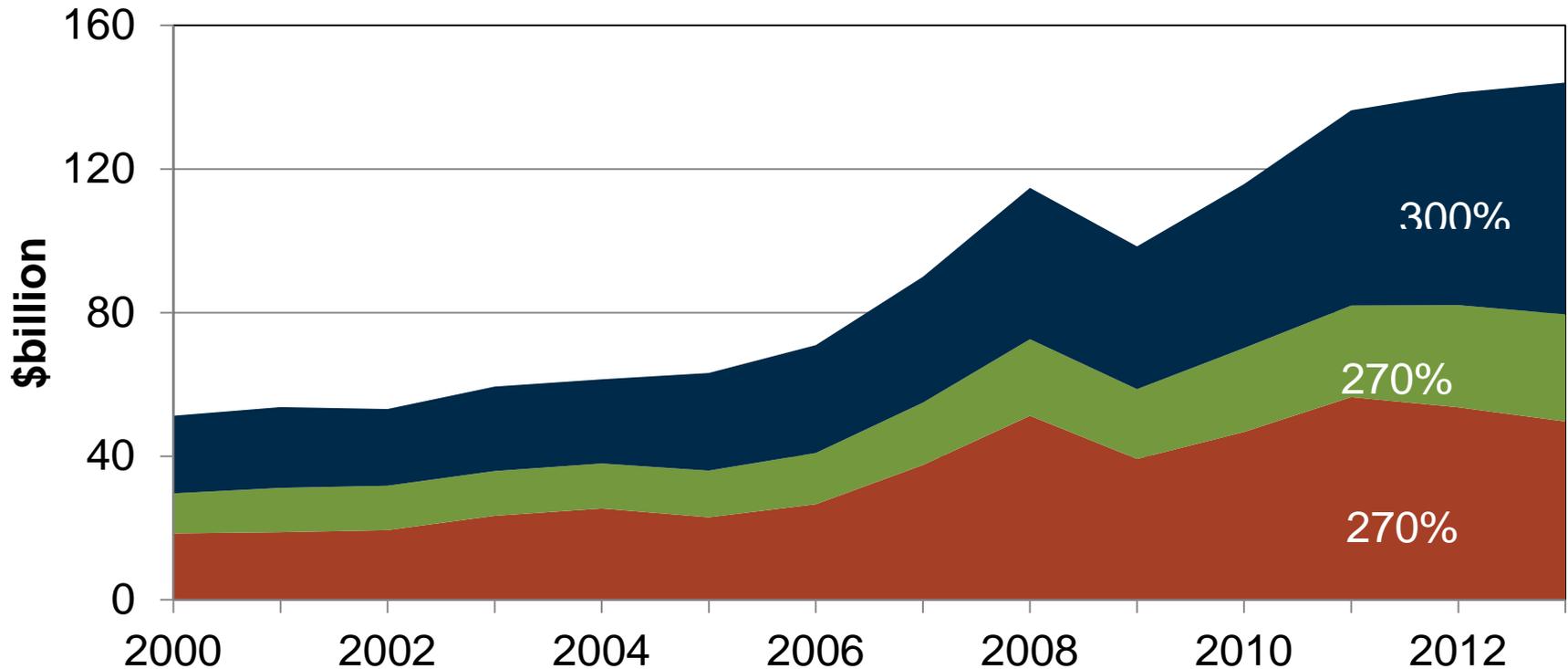
**Farm Credit Canada**  
Advancing the business of agriculture

Canada



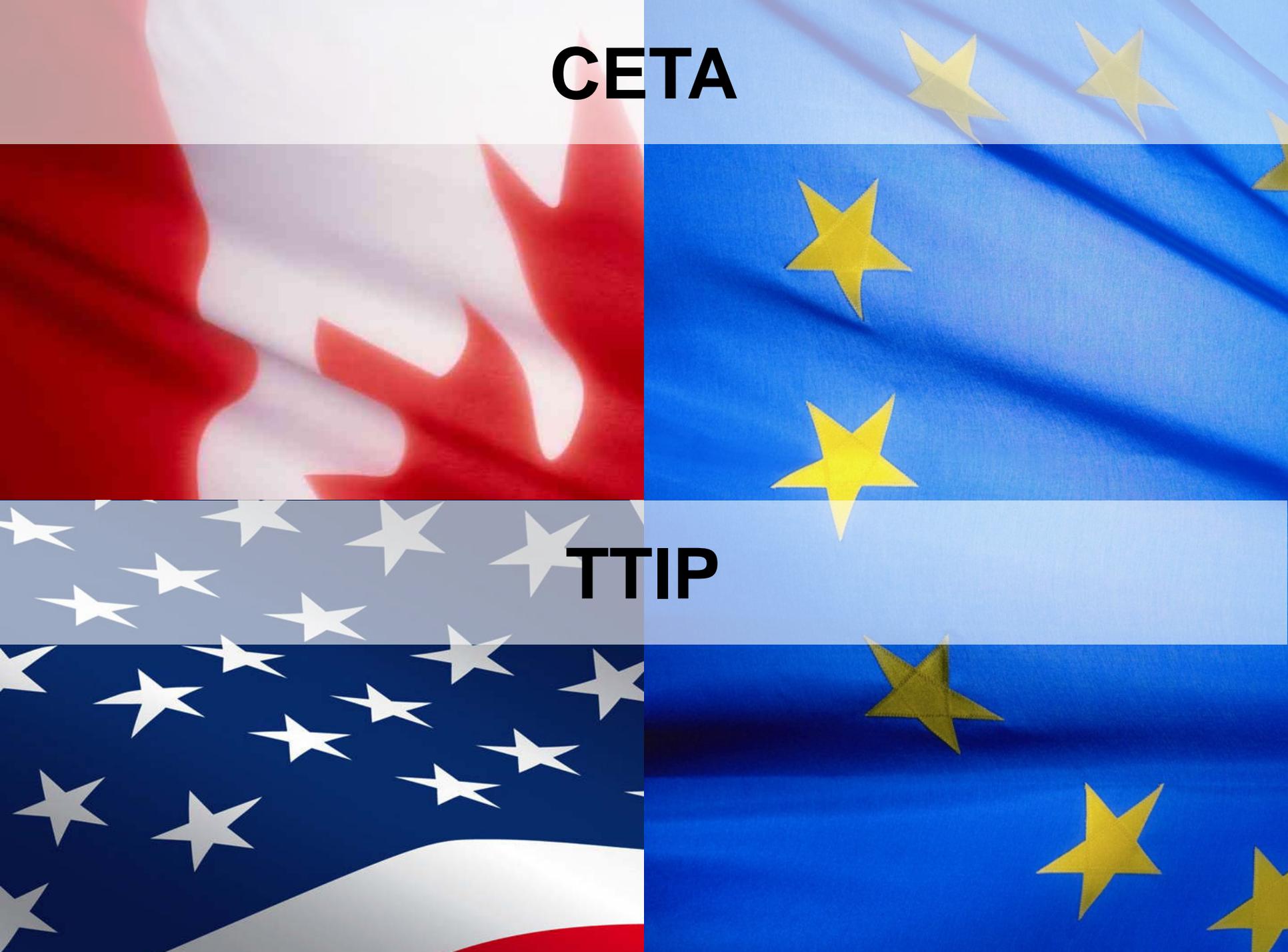
# This is perhaps the biggest success story in the U.S.

■ Bulk    ■ Intermediate    ■ Consumer Oriented



Source: USDA-ERS





**CETA**

**TTIP**



Canada

United States

Japan

Vietnam

Malaysia

Brunei

Singapore

Mexico

Peru

Chile

Australia

New Zealand

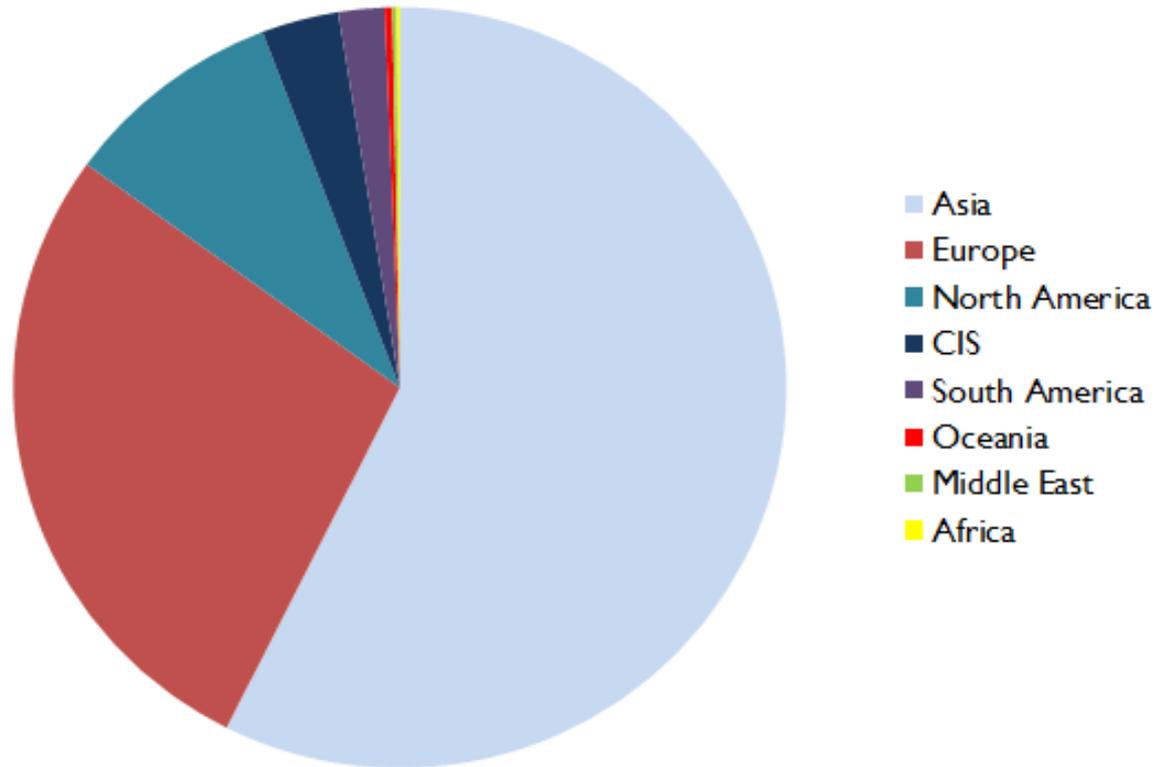


# Australia – Japan



# Agricultural subsidies are not distributed equal

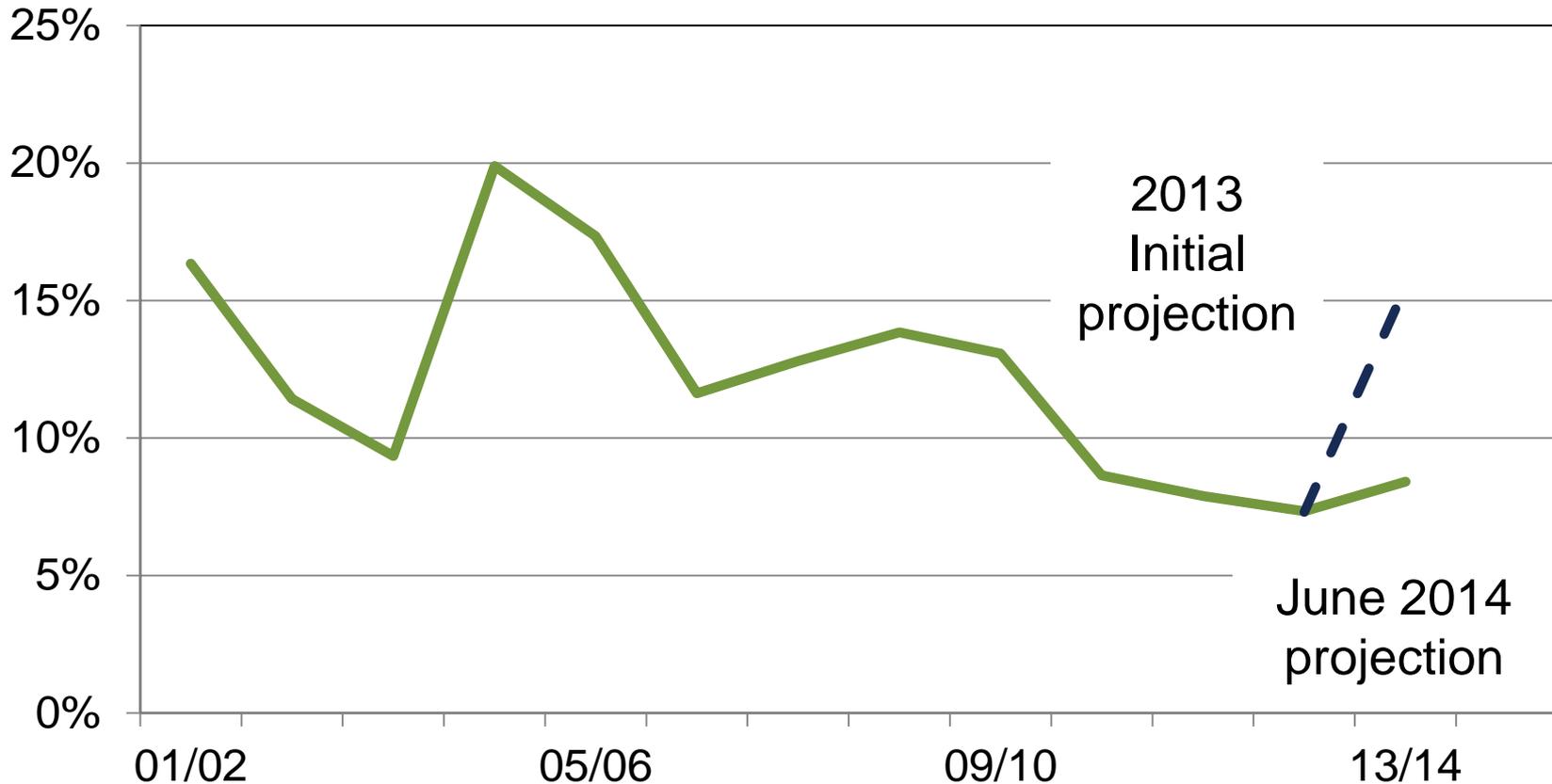
Figure 2. | **Regional Distribution of Agricultural Subsidies (in millions)**



The Future

NEXT EXIT 

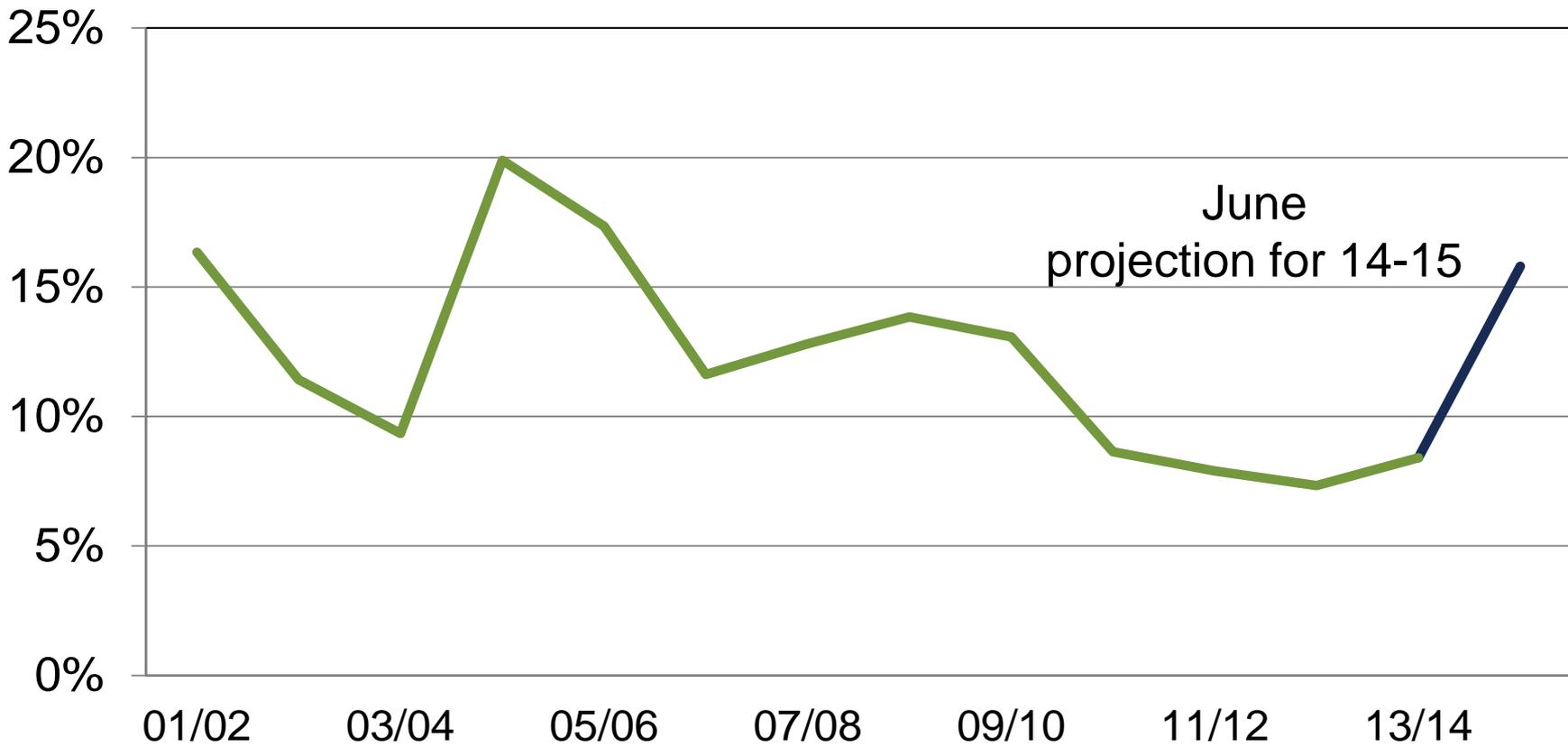
# U.S. 13/14 stock to use ratio has tightened as year progressed



Source: USDA - WASDE



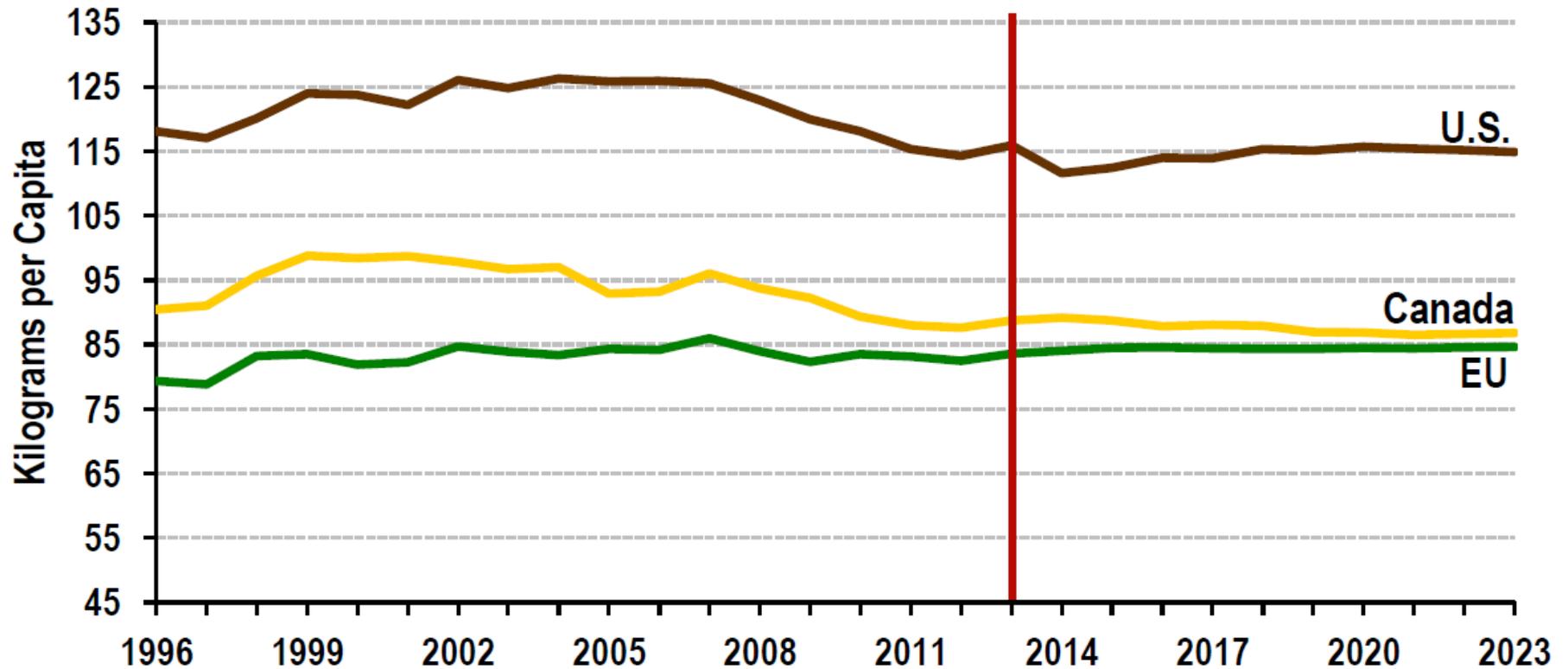
# Looking into next year... 2014-15 average price between \$3.85 – \$4.55 – market's more optimistic



Source: USDA - WASDE



# Red meat consumption expected to stabilize in western nations

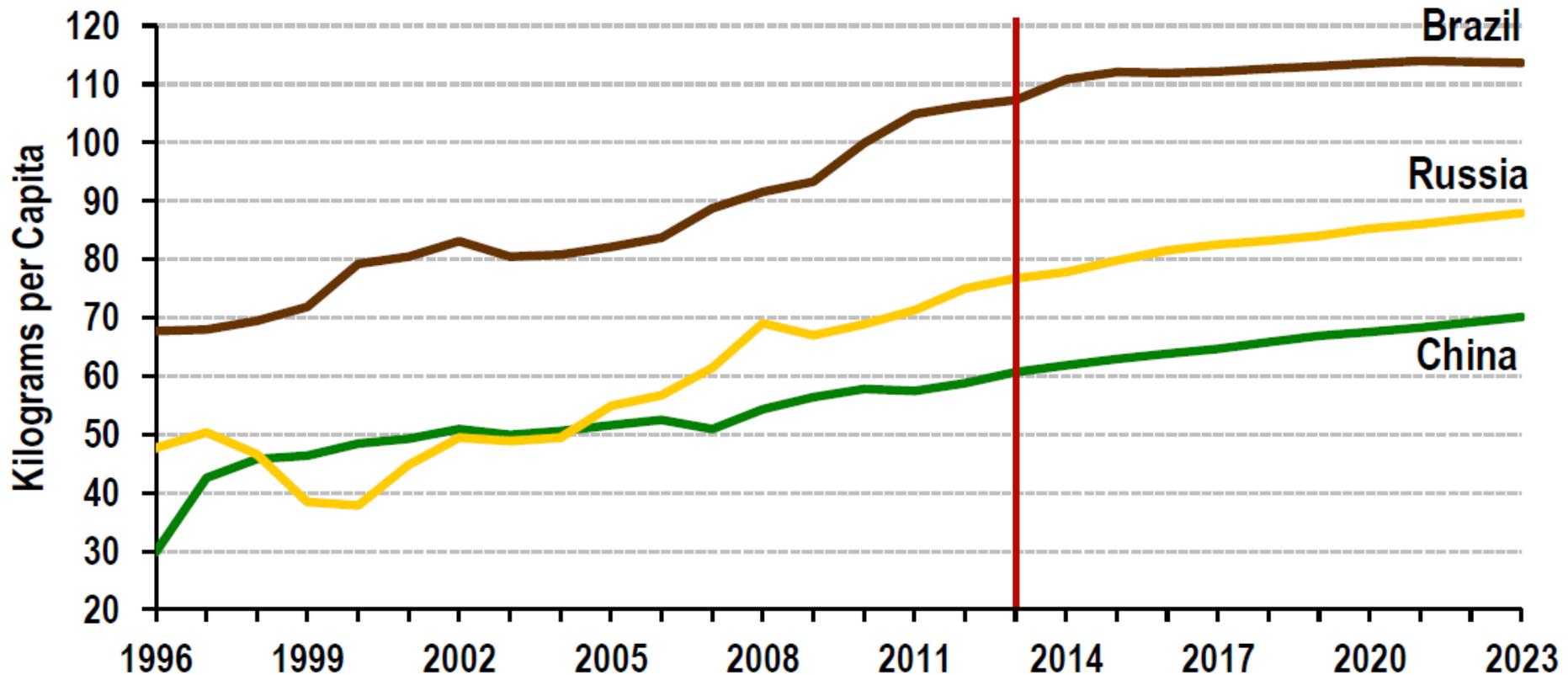


\* Includes pork, beef, and lamb

Source: AAFC Medium Term Outlook



# Red meat consumption still has upside in developing nations

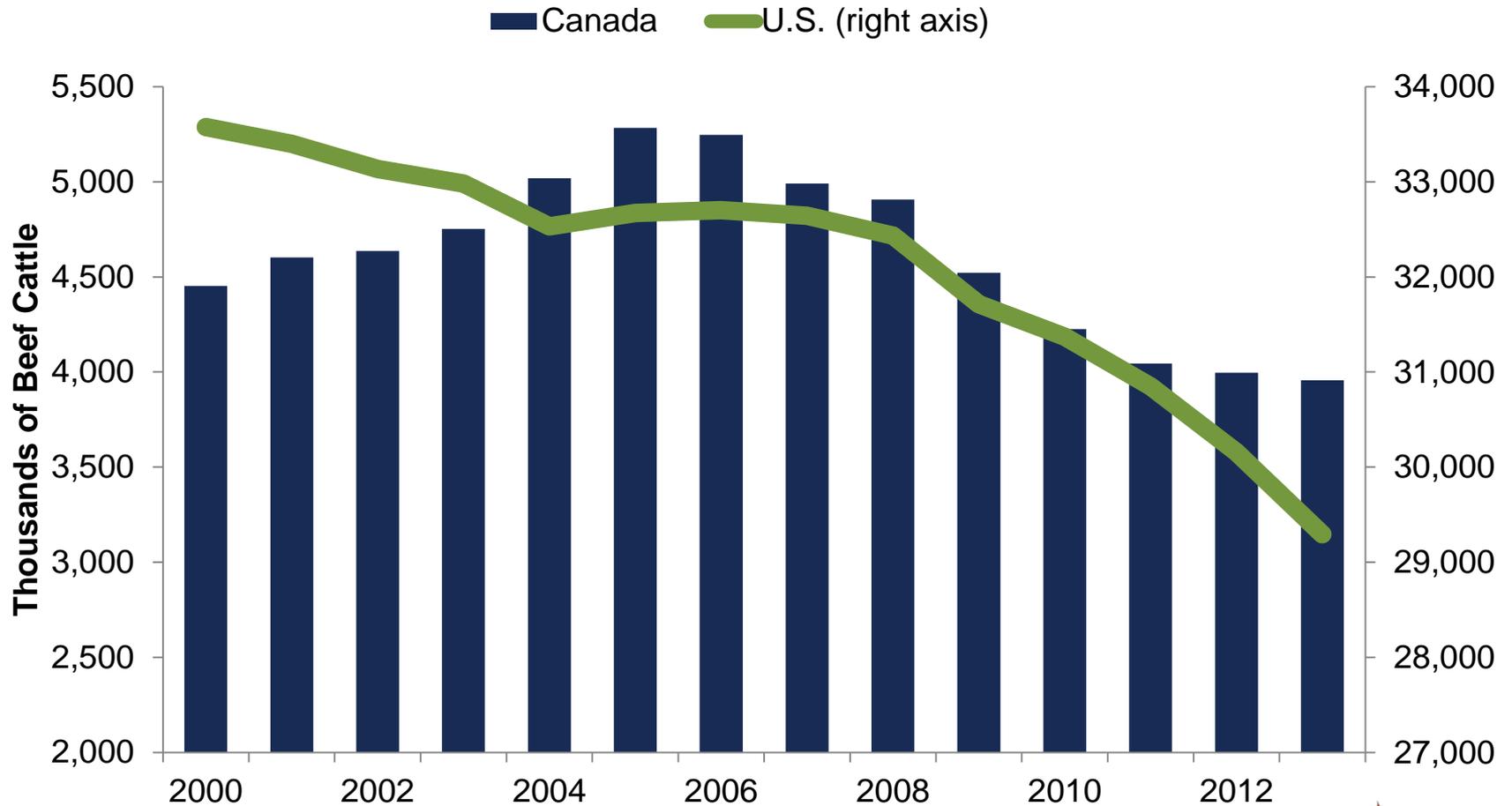


\* Includes pork, beef, and lamb

Source: AAFC Medium Term Outlook



# Cattle numbers declining, contributing to price pressures

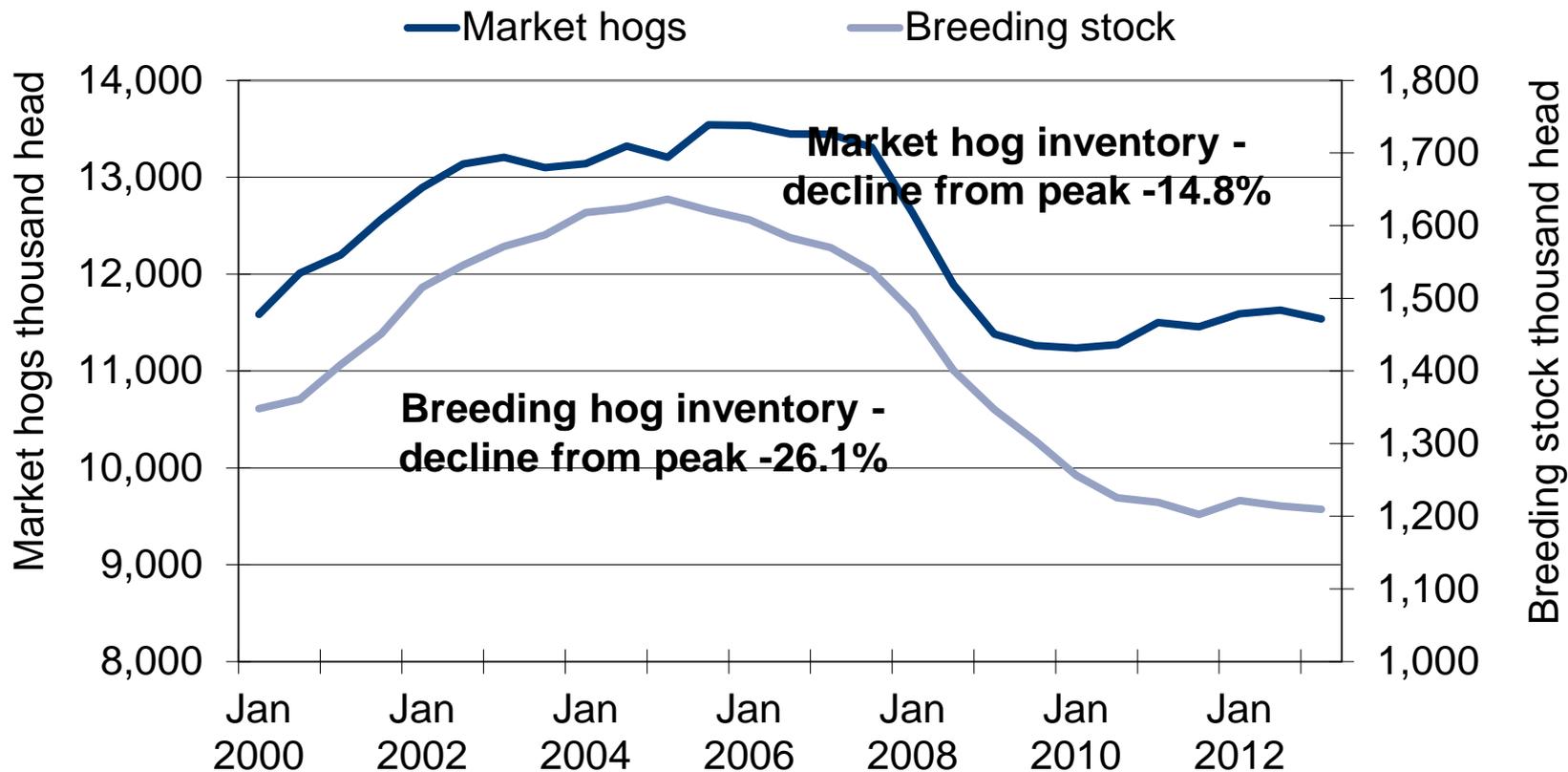


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# Breeding and market hog inventory (seasonally adjusted)



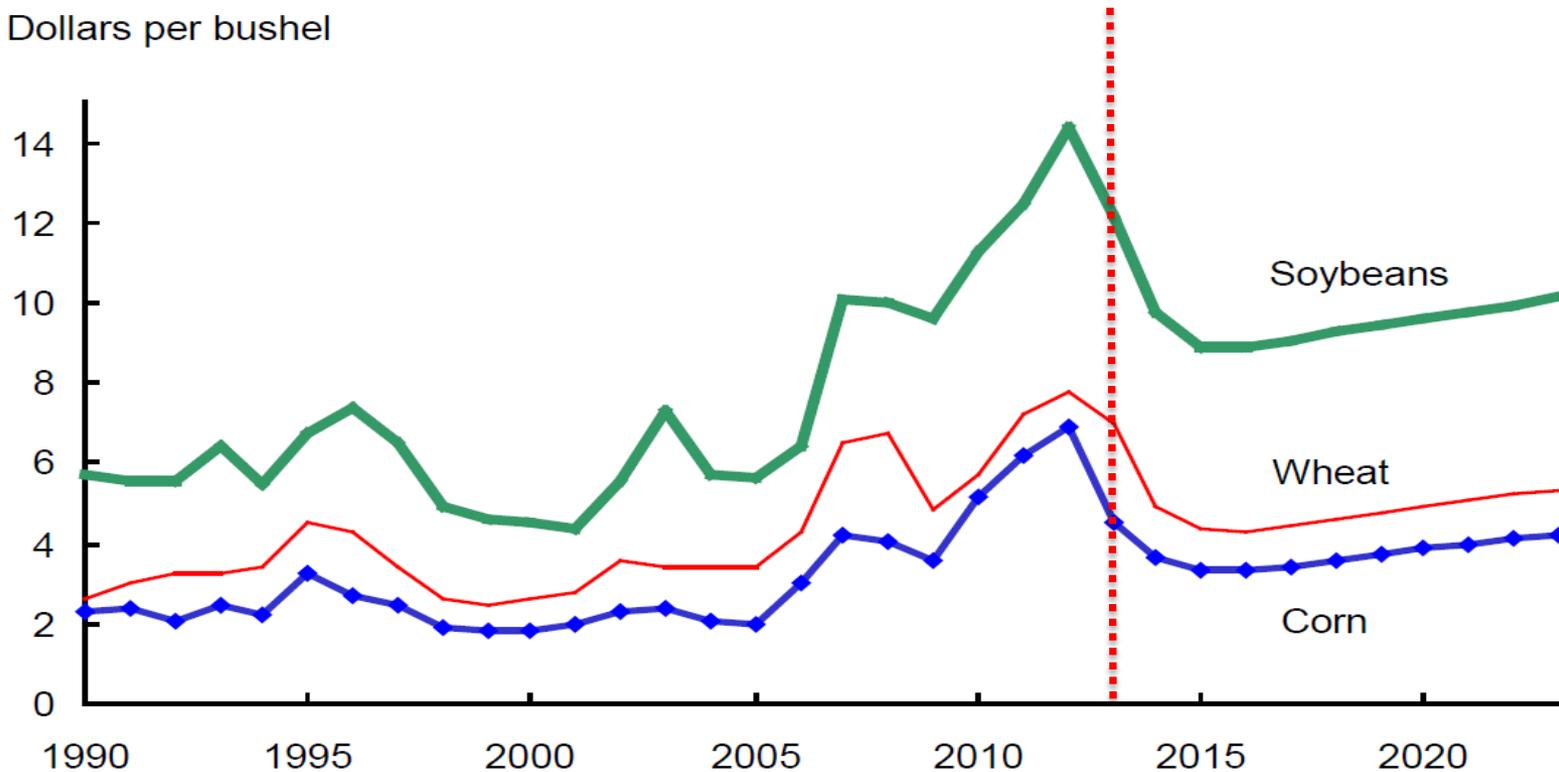
Source: Statistics Canada



# G&O prices expected to stabilize in the long-run above historical average

## U.S. farm-level prices: Corn, wheat, and soybeans

Dollars per bushel

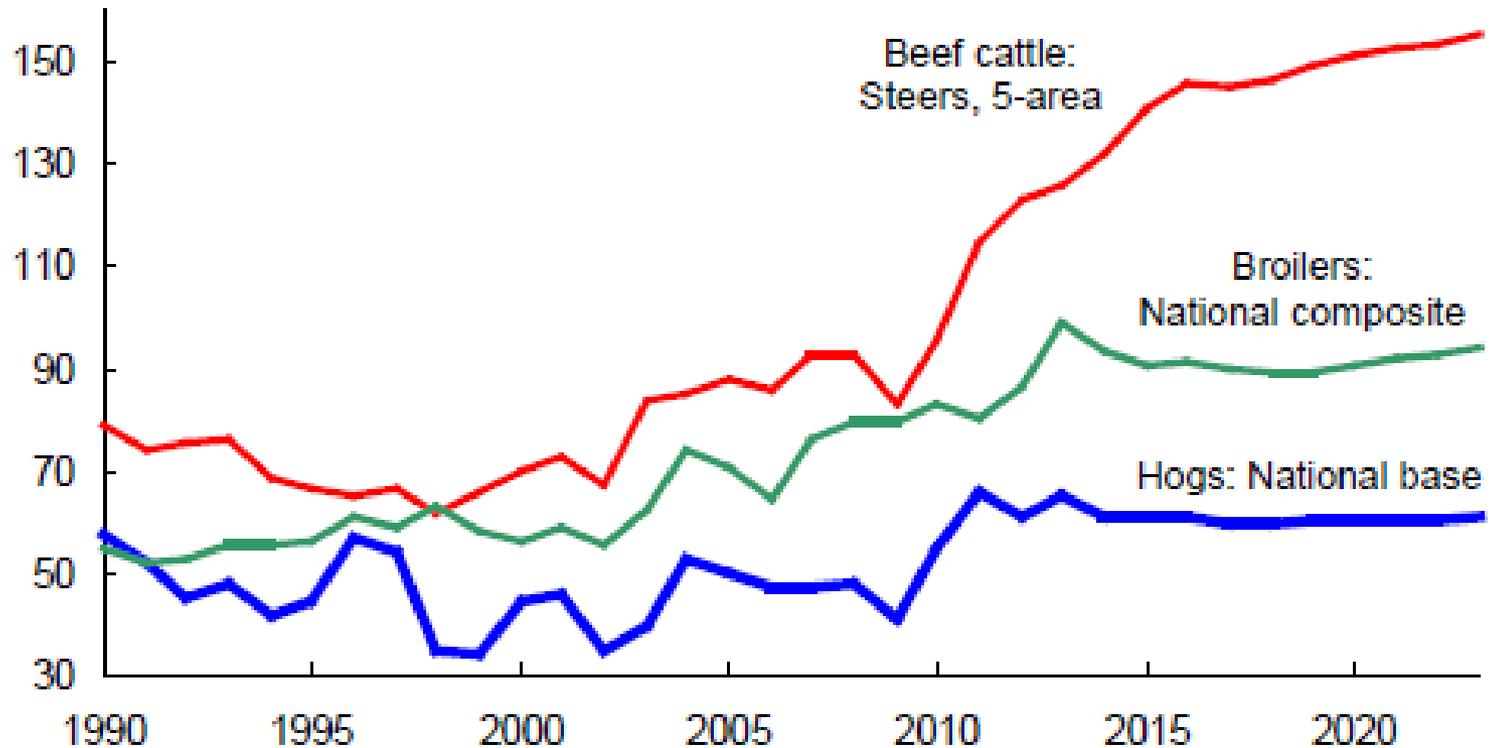


Source: USDA Agricultural Projections to 2023



# Livestock prices settling at higher plateau

Dollars per hundredweight



Source: USDA Agricultural Projections to 2023





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**Consumers rule!**



**Bilateral trade agreements are important to sustain farm income**



# **Grain and oilseed prices cooling-off**



**Positive outlook, but what  
is the appetite for risk?**



# Where does this leave farm profitability?

Billion dollars



Source: USDA Agricultural Projections to 2023



