**Farm share of U.S. food dollar up in 2011**

For each dollar spent in 2011 by U.S. consumers on domestically produced food, U.S. farmers sold 15.5 cents (farm share) of farm products, on average according to the Economic Research Service (ERS) of the U.S. Department of Agriculture (USDA). The remaining 84.5 cents (marketing share) come from costs for transporting, packaging, processing, retailing, and other costs to market these farm commodities to domestic food consumers.

ERS uses input-output analysis to calculate the average farm share and marketing share for the total food dollar, which includes both grocery store and eating out purchases. After falling to 14.1 cents in 2010, the farm share in 2011 rose to a level comparable with 2007-08 levels.

**World Income Growth**

It is not just that the world has more income, but some developing economies with large populations are seeing rapid income growth. China and India are prime examples where inflation-adjusted incomes have been growing 8-10% per year. These countries have large populations, and rapid income growth moves more people out of poverty. When this happens, those individuals tend to eat more food, increase the amount of animal protein they consume, and improve the general quality of their food.

This plays out in many ways, but is nowhere larger than in increased exports of U.S. soybeans to China. In the mid-2000s, China was buying the equivalent of 8 to 10 million acres of U.S. soybeans. The 20 million acres of U.S. soybeans shipped to China from the 2010 crop represent 26% of U.S. soybean acres. In contrast, just five years earlier only 12% of U.S. soybean acres were destined for China. From 2005 to 2010, the average annual growth rate of U.S. soybean exports to China was 29% per year.

**Biofuels Expansion**

Along with the Chinese soybean demand growth, a second coincident demand surge occurred during the past five years. That, of course, is the world’s interest in using huge amounts of grains and oilseeds for liquid fuels known as biofuels. The amount of grains and oilseeds used has been due primarily to government policy. The U.S. policy most heavily relied on corn ethanol and to a lesser extent on soybean biodiesel, while European policy favored vegetable oils for biodiesel and limited amounts of ethanol. Other countries have implemented similar policies.

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**Is today’s agricultural prosperity sustainable?**

By Michael Boehlje, Purdue University

U.S. farm incomes have been at record levels for the last four years and are projected to set a new record of $128 billion in 2013. What are the fundamental drivers of these record incomes and will these drivers continue to support the current prosperity of agriculture and continued increases in land values?
Is Today's Agricultural Prosperity Sustainable? cont. from page 1

Since 2005, the majority of the increased corn usage in the world is due to increased use for ethanol. In the U.S., that point is even more dramatic. In 2012 the ethanol industry was the largest buyer of corn, exceeding the purchases of the livestock industry for the first time in history.

The expansion of acres of corn for fuel occurred at the same time China purchased more acres of U.S. soybeans. The acres required for these twin events increased from 16 million acres in 2005 to 41 million acres in 2010. This is about 10% of the 250 million acres planted to the eight largest U.S. non-hay crops.

Weakened Dollar
The U.S. is the world’s largest exporter of corn, soybeans, wheat, sorghum, and cotton. A weak dollar is the same as saying foreign currencies are strong or have superior buying power for items that are traded in U.S. dollars. The dollar weakened to 60% of its 2002 high relative to major currencies by the spring of 2008. Since the 2008 bottom, the dollar has traded in a range that is about 62% to 72% of the 2002 highs.

Crop Yields, Production, and Stocks
Production shortfalls in several major growing areas for the last three years are a significant contributor to higher grain prices. Low returns for grain production in the early and mid-portions of the past decade generally discouraged investment in agriculture and kept world grain production below world grain use. With dangerously low grain supplies and increasing crop prices, producers around the world responded. And for three years the world was able to produce more grain than it used, increasing grain inventories to more comfortable levels by the close of 2009/10.

Since then, increased use and poor growing conditions worldwide, including the record-breaking U.S. drought of 2012, resulted in historically low grain stocks. The ending inventory-over at the end of the 2012 marketing season for U.S. corn and soybeans were 5% and 4% respectively of total supplies. More normal weather combined with increased acreage (and rationed demand/utilization) are expected to rebuild stocks in 2013 and subsequent years.

Interest Rates
Farm interest rates had generally been declining for more than 20 years, since the high rates of the 1980s, but the recent economic recession combined with monetary policy to stimulate economic growth has resulted in record-low interest rates overall, as well as for the farm sector. Expectations are that interest rates will continue to remain relatively low for the next two-to-three years, unless the global economy recovers more rapidly than is currently anticipated.

Tillable Acreage Expansion
A common claim concerning farmland is that “they aren’t making any more of it.” But under the right price/income conditions, more land throughout the world will be brought into production, i.e. converted from pasture and non-use to crop production.

During the last six years, 123 million acres of land has been added to the total acreage of world crop production, much of that in South America, the Ukraine (former Soviet Union), and Asia.

Although this land is not yet as productive as soils that have been adequately fertilized, limed and maintained in the U.S. and elsewhere, it will become more productive over time with appropriate crop management practices and technology adoption. These acres will likely remain in crop production even if prices decline because even lower prices will cover the variable costs of fertilizer, seed, chemicals, and fuel.

Government Policy
Finally, government policy cannot be ignored as a contributor to today’s agricultural prosperity. The demand growth of the biofuels industry is in large part a result of tax credits, mandated increases in Renewable Fuels Standards use of ethanol by the petroleum industry, and other government incentives or regulations. And the availability and government subsidized cost of crop insurance (an approximate 60% subsidy of the

Notable crop acre shifts, 2006-2012

<table>
<thead>
<tr>
<th>Crop</th>
<th>Acres Changed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>19 million</td>
</tr>
<tr>
<td>Soybean</td>
<td>5.1 million</td>
</tr>
<tr>
<td>Wheat</td>
<td>4.1 million</td>
</tr>
<tr>
<td>Upland Cotton</td>
<td>2.1 million</td>
</tr>
</tbody>
</table>

The number of acres planted to corn, soybeans, wheat and cotton shifted notably between 2006 and 2012.

**Corn**
Corn acres increased 24% from 2006 to 2012, an increase of 19 million acres. For most counties across the greater Corn Belt (western Ohio through Nebraska) corn acres increased. In a large contiguous set of counties in eastern North Dakota, northeast South Dakota, and western Minnesota, acreage increased by more than 60,000 acres.

**Soybean**
U.S. soybean acres increased by 1% between 2006, even though most Corn Belt counties saw decreased soybean acres. Many counties in southern Minnesota, Iowa, Illinois, and Indiana, lost more than 5,000 acres of soybeans between 2006 and 2012. These acres were more than offset by increases in the other areas, notably North and South Dakota and Kansas.

**Wheat**
Wheat acreage decreased 4% from 2006 to 2012.

**Upland Cotton**
Overall, upland cotton acres decreased by 20% between 2006 and 2011, with large geographic acre shifts occurring. Acres increased in southern Texas and southern Georgia. Decreased acres occurred in the Mississippi Delta and central California.
annual premium) significantly mitigated the risk and replaced a large portion of the revenue loss resulting from the drought of 2012. Without such policies, farm incomes would have been much lower. Given the current debate concerning government deficits, the safety net that buffers farmers from low prices or yields is vulnerable to being reduced.

**Final Comments**

Predicting the future of farm incomes and land values is fraught with uncertainty, but monitoring the drivers discussed here can provide some useful insights. As one looks to the future and anticipates these drivers, it should not be surprising that some are expressing caution concerning the continuation of the current prosperity of agriculture. Good times rarely last forever!

* This discussion draws heavily from “Farmland Values: Current and Future Prospects,” EC-763-W, Center for Commercial Agriculture, Purdue University.

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**SNAP Program totals to $78.3 billion of USDA budget in 2012**

In fiscal year 2012, federal spending for the U.S. Department of Agriculture (USDA) Supplemental Nutrition Assistance Program (SNAP) totaled $78.3 billion, a 3% increase from 2011. SNAP, which replaced food stamps, offers nutrition assistance to millions of eligible, low income individuals and families and provides economic benefits to communities. It is the largest program in the domestic hunger safety net.

An average of 46.6 million people per month participated in SNAP with program benefits averaging $133 per person per month to purchase food items in authorized food stores, according to the Economic Research Service of the USDA.

The percentage increase in the number of SNAP recipients was the smallest since 2007 (4%). Historically, changes in U.S. economic conditions significantly affected SNAP participation, with participation rising during economic downturns and falling during periods of economic growth. While the unemployment rate averaged 8.1% in 2012, down from 8.9% in 2011, the need for food and nutrition assistance continued.

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**Global trade: Wheat, coarse grains, and soybeans and products**

![Graph showing global trade of wheat, coarse grains, and soybeans and products](image)

Source: USDA Agricultural Projections to 2022, OCE-131.
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