Transcript of USDA Chief Economist Seth Meyer's Presentation at AOF 2022

Thank you, Doctor and Deputy Secretary Bronaugh. I really like the beginning of the discussion where Dr. Bronaugh talks about the history of this. And it's really my pleasure to be kind of between the deputy secretary and the secretary because we'll talk about traditional Ag Outlook here. We'll talk about traditional Outlook but I also think that through the efforts of folks like Dr Gerald Bange, the outlook over history has really expanded to include a look at many of the topics that USDA engages in, not just markets and prices and outcomes, we'll certainly do that, but certainly it's broadened beyond that. And I'll also say that as we jump into the presentation here, we'll talk about grain markets and oilseed markets. And while we talk about these things in aggregate, and we'll spend a little bit more time on that given last night's news than we might normally think about the implications. The implications for those folks locally are very real. And when we talk about these things in aggregate, I don't want to dismiss that for the people in the Ukraine.
So if we can jump into the presentation, we'll get started so that we can get on with our really excellent program. OK, so to start out here, you know, we need to talk a little bit of context. And I think this context is more important and we'll spend a little bit more time emphasizing some of the sensitivities in the marketplace given more recent events. This doesn't include any of those events last night, obviously, I think it's quite too early to understand what the first-order effects are on grain trade, what the secondary effects on energy in the economy might be. So we'll talk about these things in a very general sense to kind of provide some background and then we'll move on to the outlook as we see it. So first of all, I think it's important to remember that at a global level here, while we have higher supplies, we've also experienced over the last couple seasons, higher demand. And we really narrowed carry out stocks in the global market for some really important commodities like corn, soybeans and wheat, and that's the context we find ourselves in today with tighter global markets.

Markets are always more sensitive when global markets are tighter. And when we look at this, these new higher prices that we've observed, when we talk this same time last year, we had turned a corner recently, in the fall of 2020, commodity prices had begun to rise, demand looked excellent, the Chinese had come back into our domestic market, and that was really lifting corn and soybeans in bringing other commodities along for the ride. Later on, as we experienced, obviously, drought, especially for spring wheat within the United States, we saw wheat begin to build its own price strength. Export controls by the Russians added to that strength and most recently, geopolitical events in Ukraine along with drought conditions in South America for soybeans have really added to those prices. So what we're observing is very good, very strong prices. And if we get back a little bit, you know, when we talk about stocks at a global level, some of the important things for us to remember is, it isn't just global stocks, we have trading partners like China that have, to our knowledge, large grain stocks, not observable to us and certainly not as accessible to the market as stocks from the United States or other group corn suppliers who have.

So in that regard, we really need to focus on stocks that are accessible to the market and when we look at corn markets today, those accessible stocks to the marketplace are very tight. And so stocks have been driven down despite higher prices, assign again that the market will be sensitive to changes that it perceives, given those tight stock levels for exporters. The other aspect of this that's really provided some price support over the last several months is what has been drying conditions in Brazil and Argentina and a shrinking of that crop, that has really provided us some additional price support through our own harvest and beyond. And, you know, since May of this year when we first started our initial normal weather forecast for Brazil, Argentina, Paraguay, we dropped production by more than 21 million metric tons. And we made our last forecast during February, at February 9, at a period when the crop was still under critical development phases and weather has continued to play a role there. When you look at that map in Brazil, you can clearly see contrast between moisture in the southern areas and moisture in Mato Grosso in the northern areas. And so, in this regard, we will continue to evaluate the crop the market has clearly sensed a production cut and I really emphasize the graph on the left, which zeroes in on production for those countries because just to note that the market is sensitive to these kinds of changes under the tight conditions that we're in. The other aspect of this that I think is important for us to remember over the last several years is that demand has been very strong, demand both in in the United States and our export demand has been very strong. As Dr Bronaugh pointed out, we had record exports last calendar year. And when you look at this, I'm really talking about when the pandemic first started, and we were discussing food away from home and food at home and the changes and shifts in demand. You know, early on in the pandemic, you saw folks trade-off food services for food retail, so food at the grocery store.

Somewhere along the line, we decided that we were gonna return to some food services, but we didn't stop buying at the grocery store. So in essence, demand has been up for the last 12 months. Domestic demand for food in the United States has been very strong, expenditures have been running higher. So we came back to eating out but we didn't stop buying at the grocery store either. Now we've seen lately a little bit, you know, we've seen some higher prices, we've seen some softening and demand in some meat products. But again, demand has been very strong over the last year and I think that's a story, particularly for the livestock market, just that another element of price strength. So speaking of prices, here are the prices that we are forecasting for the new year under the conditions assumed at the time. We can have, again, unknown impact of conditions going on in Eastern Europe now but this is where we're at. And I think it is important to remember that in 2021, we have very strong prices.
I mean, this goes all the way back to those prices during 2010 to 2014 when I think you can all remember that the farm economy was in very good shape. And so we have very strong prices across the board and this is gonna lead to some of the acreage decisions that we're anticipating in the coming year. And while we expect some price moderation across those crops in the new year, those are still really strong prices. I'd ask you to look at 2022 outcomes. And again, this is a 2022 outcome assuming normal weather, assuming normal planting progress, and again, the market will be sensitive to changes in those assumptions. But despite the fact that we have some moderation in prices, still excellent prices for those crops.

So, let's start talking about some of our outlook that you will hear more about in the coming days and then over the next few days, let's talk about wheat planted area. We've had a second year of increases in wheat-planted area this year, obviously as a response to what are very high wheat prices. And we're expected to hit 48 million acres of wheat on favorable new crop prices. Spring wheat could be limited, we continue to experience serious drought in the West, and winter wheat harvest mid area will remain an unknown with those dry conditions, but planted area expected to be 48 million acres. Now, the other factor of that is that wheat planted mostly in the fall kind of limits the ability of other crops to take some area. And in addition, we've had high commodity prices overall in general, so now we need to turn ourselves to the other major land areas, the other major crop areas, which will be planted and it comes to the new crop, US soybean to corn price ratio. So this is a ratio of those prices on which farmers at least paid attention in determining maybe where some of their marginal acres will shift. And you'll note that relatively speaking, we have been at a favorable price to corn with some shifting of that over to soybeans over time as a South American drain has taken hold.

And we're kind of down there and in that area of '19 and '20, but I'll remind you that in '19 and '20 we were still emerging from trade fraction, we were in trade friction with China and emerging from that. So this really is a corn seeing at least at the moment, a little bit more favourability than it has in the past but beans, obviously showing a lot of strength. So when I look at that, you know, again, I've zoomed in here on some of the just top line to emphasize the movements and acreage, when it comes to the three area combined total, again, high prices for other crops, assumptions of normal planning, weather all going to zero us in on that crop total with 48 million acres of wheat planted 88 million acres of soybeans, so up a little bit from last year and 92 million acres of corn down a little bit, but still not quite a crop total corn and soybeans, not quite a record, but pretty close but again, an assumption of normal planting progress. Should we have conditions like we had in '19, or '20, or if we have an open planting season, the market will be responsive to such changes in acreage we'll respond.

Again, we're at a sensitive part and I show the aggregate total here instead of the breakout because I think it's important to remember the markets going to be sensitive to planting progress this year, given the tightness of markets. So, why do we see such strength in soybean? So let's talk a little bit more about demand elements, important elements for the outlook that you'll hear more about, over the next few days. Soybean future crush margin has been historically high. That is to say the value in buying the bean crushing it for meal and oil and selling the meal in oil has been very high. Demand for those co products in soybean crush has been substantial. And really, it has been a shift here in oil demand that is the real driver bringing on an increased share of the beam. So oil is carrying more of the weight of the value of soybeans and that really is one of the factors pulling soybeans higher. And as we went into our outlook in October, you'll note that one of the outcomes of that outlook was that we really

need increases in domestic production through yield of soybeans in the United States, just to satisfy our own increases in demand.
And one of the drivers of soybean oil demand that's lifting that share of oil value in the bean has been increased biofuel production from soybean oil. Now, this is just soybean oil, there are lots of other vegetable oils, and there are substitutions amongst those vegetable oils. But you can see here that, in fact, we have been seeing increases in biofuel use of soybean oil and in particular, in recent years, renewable diesel production, where the greenhouse gas and economics are favorable and that industry has expanded. So we do see an increase in soybean oil into that product and that's one of the demand factors that's helped supporting oil prices in the value of the bean. Another factor I think that is important for us to remember is on the heel of that smaller South American crop, and we'll continue to evaluate that South American crop, is that October 1 stocks are gonna support good export strength to the United States into our own harvest this year. So as we come into harvest this year, the South Americans will have less supplies to compete with us, we should have good export program and again, supporting prices for our soybean producers for the new crop.

Now, let's switch to soybeans. Sorry, let's switch to corn just a little bit. And we've been talking a lot about the drought in South America. I think, again, the US corn market, given actions of perhaps on grain markets overnight on news in Eastern Europe is that the market will again be sensitive to developments in global grain markets. One of the key ones will be the prices that have supported South America's Brazil second crop corn. I think unlike last year when we got together and talked about this, when the corn was going in slow, and you can see there last year that it was the slowest in a long time, it's been going in in a rapid pace in South America. Today the economics are favorable to do so and so we will observe that crop. Normally speaking, the key element here is how long the rain lasts in South America and whether or not it will support that corn's development. That crop tends to come off and enter to the world market just as our own harvest gets underway. So the market will focus on this as it begins to focus on our own planting progress.

And I think the other element that we'll hear a lot more about, and I'm really excited to hear the secretary both engage his guests today on trade with China. Because I think when we observe one of the strengths in corn over the last 12 to 18 months, it's been China's wading into the global corn market. And it's focused on corn, which tends to favor the United States. We've seen them come into the market in the past for grains, say back in 2015, but this period, it's both larger and variable corn focused, which tends to benefit our own producers. OK, and then I think we also wanna at least discuss, quickly, the RFS. And I'm not suggesting that this is a, you know, I think that there is a lot of nuance here that we have to consider about where demand falls by changes in the RFS, but I will note that when you look at the proposed RFS today and one thinks back at history, one will note that, you know, we often talk, you hear folks talk about 15 billion gallons, means 15 billion gallons when it comes to biofuel.

But I would say past actions on small refinery exemptions have meant 15 billion gallons really hasn't meant 15 billion gallons in the past, and the new proposal by EPA suggests maybe for the first time, that will actually have a point where 15 billion gallons is the mandate which is in place. Because I'll note, when you look at the proposed rule by EPA, that's the graph on the right, you've seen that the mandate as enacted or as published, has been higher than is actually taking place for the last several years. Cotton planted area will also be, another story of demand, is cotton plant in the area will also rebound pretty sharply. I mean, the prices are incredibly favorable for cotton look favorable going forward moistures concern in some of the primary cotton planted areas. And so that will remain a question, but demand here too, has been quite good. So we expect cotton planted area to rise may be limited by moisture and other crop prices. But again, demand has been pretty excellent.

You know, cotton stocks rose slightly last year, we have some logistical problems, demand has held up incredibly well. We've had some perhaps changes in fiber demand, right? Folks seem to be, comfortable clothes seem to be popular and demand has been pretty strong for cotton over the last 12 months. Despite the larger crop carryout stocks. Sorry, despite the larger projected crop, carryout stocks are not expected to expand. So demand is robust. So we've had good demand and good cotton price expectations for the new year.

Let's talk a little bit about livestock really quickly. And you'll note that we have, you know, basically increasing livestock, poultry and egg prices for the new year, perhaps with the exception of hogs, but still not much of a decline for hog prices over the coming year. And I think that as we think about the impacts of COVID, we need to remember the biological lags within livestock production. As we look at inventory changes, you know, we're in a

third year, these are inventories at the beginning of this year or right at the end of last year in terms of cattle and hog inventories.
You know, we're in our third year of decline for cattle inventory and we had a pretty sharp decline in US hog inventory. Some of that's a reflection of biological lags and issues faced in COVID in 2020 and beyond, and perhaps a bit of uncertainty over the last 12 months on where we will go. And indeed, we've seen a little bit of a contraction and some increase in feed costs. You know, so this is going to result in lower meat availability for the coming year for 2022 as we have some contraction in these two inventories. For the cattle inventory, we might expect to have a fourth year of declines. And I want to remind you all of the biological lags here involved, which means that we will likely to continue to cut beef supplies beyond 2023 as that's the lag it takes to make some production decisions within the cattle industry. So these are telling us we kind of expect some tighter supplies of beef and pork into 2022. We'll talk more about that. And I think that, you know, I think one way to read this graph is to go back and recall here, we're gonna talk about plant utilization.

So how have slaughter plants, a real focus of USDA, how has livestock slaughter capacity utilization and slaughter looked for cattle and hogs over the last year? I think I'll note that we have had what looks like a fair amount of volatility here, but I'll remind you in 2020 that we lost about a third of slaughter capacity for both cattle and beef. And so this looks like a relative least smooth outcome over the past year, but we do see COVID-related impacts, maybe Omicron shutdowns combined with the holiday period at the end of this year, but again, short-lived and capacity seems to be holding up but with some variability. We also have seen large swings, and we'll talk just a little bit about food prices as well, too. You know, we've seen some large swings in both wholesale pork and beef prices and those have transmitted into retail prices. Note here that this is an index, right? They're not price levels, they're indexes. So, you see, changes in the wholesale level tend to be muted at the retail level because there are other things in terms of cuts and packaging and retailing that go on between wholesale and retail pricing.
But what you can see is that eventually, wholesale prices make their way into retail and eventually, as wholesale prices decline, they make their way back out of retail and those prices come down. And so after we've seen some of these surges and wholesale prices, we've seen retail prices back off. And in some of the latest CPI reports, as we look at food price inflation, you'll notice some of the early price inflation for meat has began to pull back a little bit, especially in things when you think about beef. Broiler meat expansion here is another these issues where I think that we've got. You know, we don't have biological lags in poultry to the same extent but I do think we continue to have challenges when it comes to expansion. Here, this will be a subject of discussion in the livestock and poultry outlook where we talk about some expansion within broiler meat production, you know, especially in quarters two and quarter three, but perhaps some technical difficulties, some hatchability issues, which are keeping that industry from fully expanding as it might want to.

And we'll have a little bit of a discussion about that. But again, here, you know, we've got some holdover issues that are hard to quickly change and increase production whether it's biological lags or at some other related production issues. Dairy product prices, and here yet again, I think we are some holdover COVID effects in terms of producers' willingness to step out and take risks, considering what they've seen and being very deliberate in their expansion plans. And so here too, I think you'll see, you know, a willingness to hold off expansion here because of the potential risk, but I'll look that milk prices looking very good for this year, driven by product prices and again, maybe an opportunity for producers to improve margins, although some expectations that feed prices will be a little bit higher. So, a little bit more on Dr Bronaugh's discussion about agricultural trade, this one is on the trade year basis, sorry, fiscal year basis, and I'll note that not only did we set a record in the year ending October, but we're expecting to set a new record in terms of agriculture, the trade, the value of agricultural trade in the coming year.

And I think that, again, we're gonna have great sessions which really talk about China and its importance in trade and I think also explore the notion that relying on a single trade partner where with which we have, maybe have less transparency in either market also presents its own challenges. So I'm really looking forward to those discussions. And here you can see that clearly, China has been one of the drivers in improvement in the trade picture. I think I could also read this a couple of different other ways, which is despite the fact that we've seen rising prices, many of our traditional trading partners have held up their demand and is as a matter of fact, Mexico is expected to be our number two trading partner as they have really come back into our market to buy US agricultural products. So again, I think one way to read this as China is important. Another way to read this is our traditional trading partners have really come back into the market. And then when you look at this, there's a fair amount of trade that's not even on

this graph and that represents potential markets for expansion. So they're yet another opportunity when we think about trade and we think about broadening markets and increasing opportunities for producers.
And it really has been when we think about what drove trade higher here for 22, it has been a number of different categories, but admittedly oilseeds being one of the big contributors on this and on rising prices. So with rising prices, you know, it isn't a volume issue, it's a value issue as our partners continue to buy US soybeans. So again, a lot of value here in livestock and dairy cotton, obviously showing a nice increase and oilseeds as well to helping support that trade. But while we talk about trade in aggregate is, you know, we're reminded all of the time here at USDA about some of the challenges and we obviously understand the challenges in trade. While we think about both commodity trade by soybeans, I'll remind you, we sell containerized soybeans, we sell lots of containerized other products. And so we have seen some challenges, challenges that USDA is attempting to address in handling some of these export shipments because they do represent a significant value of US agricultural trade.

So, the trade story is great news, but I also wanna remind folks that, hey, we wanna have a broad-based trade. Some of our commodities are highly dependent on commodity exports and we're keeping containerized export. And so we're keeping an eye on that. Let's talk a little bit about also about farm income as well too. You know, 2021 a very good year for farm income. 2022 looking to be still a good year. You know, the dashed lines here show the long-run average. So both net cash farm income and a net farm income showing above-average long-run values down a little bit from the prior year, but still good farm sector results. And I think that there's a couple of stories in here that I think are quite interesting, which is, you know, we had some large ad hoc and focused payments for unusual events and we start to see those government payments decline and come back out of the market. I think the good part of this story of this is for the last couple of years, for each dollar lost from the government assistance, we have seen more than a dollar return from the marketplace.

So we're more than offsetting the decline in government payments with dollars from the marketplace. I think that we often talk about, you know, a producer will tell you that a dollar from the government and a dollar from the market spend the same, but maybe they feel different in your wallet. They like to have it coming from the market. And I think that that's the story for 2022 as well, too, with one notable exception that I think we need to keep an eye on, which is OK if cash receipts from the market are more than offsetting government payments, why is farm income down? Well, I'll remind you all that we are seeing some increases in input prices for producers, and here I'm looking at this December relative to last December and the December before that in terms of input prices. And we have seen some notable price increases. We've seen some nice output price increases for producers in recent months to help offset some of these rising costs. And we certainly have seen, me perhaps, the highest in crop insurance discovery prices for February looking like we're having them for a decade.

So, some indication here that producers can eliminate some or minimize some of the risk with high commodity prices and high input prices going forward. But again, clearly, input prices having an effect on producers budgets. Every one of these lines you can envision as a line within your crop budget and pretty universally, all of them showing at least some increase. Obviously, commodity prices being higher helps offset some of those costs. But again, you know, as we've talked about this, you know, we talk about things in a very general term that a farm income looks very good. But I think one element we always have to keep in mind is not all farms across the country are the same. There's a lot of diversity in farms across the United States. And so while we're seeing pretty good farm income in 2021 and 2022, it hasn't been universal. When you look at this map, you can clearly see things driven by corn and soybeans, hogs, cattle. And in the most recent year, dairy being the areas which have seen positive farm income growth, where when we look at prices and things like drought impacting producers west of the Rockies, they haven't come along for the ride and rising farm income.

So I think it's absolutely important that we remember that while farm income is good, not all farms are the same. You know, when we look at some of the fruitful rim and the basin and range and some of the areas outside of the Midwest, the experience hasn't been the same for farm income improvement. Let's spend a little bit of time just to see where we're at here in terms of supply chain disruptions, commodity prices, general CPI. I've talked, I think we talked about this last year in two components and I would add a third component to this. So I think the first period, we talked about this a lot last year, which is the initial COVID shock, shifts in demand, meat and poultry processing shutdowns really allowed us to have higher consumer prices and lower producer prices as we had processing issues. As we began to resolve that there in the fall of 2020, the Chinese came in strong into our market. Our own domestic

demand continued to strengthen. And what we saw is rising commodity prices temper, just temper the declines in prices that we observed on some of these supply chain adaptations and fixes.
OK. So that's kind of that second phase where rising commodity prices at least tempered the declines in prices we've saw as supply chain issues were resolved. Now we are kind of in this latest phase, where commodity prices have kind of topped out, strengthening again now. But we continue to see some inflation, generally speaking, across the food sector. But let's dive into this just a little bit as we think about this, and I'll go back to my point about, you know, some of the early food price inflation being driven from the meat side of the basket. And now we're seeing perhaps a broader-based inflation that is beyond the meat and even some decline in meat price inflation. So what we have here is kind of the average for quarters one, two, and three for 2021, and that an average inflation. And then you can compare that to those last quarter of 2021 and you can see, OK, meat price inflation, not the driver anymore. As a matter of fact, even some declines in meat prices. We can look here and you can see some declines in beef, but perhaps a broadening of inflation to other commodities.

So when we look at this inflation, you know, farmers in the United States receive between 14 and 15 cents of the dollar at retail. And you know, when we think about commodity price inflation, there's a lot that goes on beyond the farm gate that influences price inflation. And so they think that that's one of the things that we're observing is perhaps a bit of a broadening of this and some of the lag in increases in cost finding their way into a broader retail pricing for food. You know, outlook is very positive but uncertainties remain. This is the same title I had last year, and it's probably the same title we'll have next year as well, too. You know, I think we have solid domestic demand. We talked about the strength of domestic demand. We talked about the strength of exports. Dr Bronaugh talked about the record exports over the last calendar year, obviously supporting commodity prices. You know, we've got continue to have strong livestock outlook for those same reasons. You know, we expect farm income to fall a little bit in the new year, but still quite a strong farm income outlook relative to the long run average receipts, more than offsetting a decline in government payments, but obviously keeping an eye on those rising input costs.

You know, we continue to keep an eye on supply chain disruptions, labor of availability, logistics tracking, important factors, a lot of which are occurring beyond the farm gate. Trade with China is an important aspect of agricultural markets and we've got a lot of discussion on that. Milk producers look to have a good year, although they're being cautious about expansion and good milk prices on positive product prices. And a (UNKNOWN) which seems somewhat dated as of this morning when I wrote it last night, I think the word incursion seems quite soft when it comes to Russia's action in the Ukraine now, and we'll continue to keep an eye on that. And again, I'll remind you all that when we put this in context, we'll talk about global grain markets but the impact for producers, the impact for the for Ukrainians at a local level is obviously much more significant and always whether we'll have the last say.

So, thank you all, and I appreciate the opportunity here to be between the deputy secretary and the secretary, and I would like to call Secretary Vilsack up to provide his remarks and get us started.