



UNIVERSITY OF
FLORIDA

FE372

EXTENSION

Institute of Food and Agricultural Sciences

Commodity Outlook 2003: U.S. Agronomic Crop Market¹

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The 2003 outlook for agronomic crops has been highlighted by changes resulting from the 2002 U.S. Farm Bill: smaller supplies and increased prices. Also, many changes have been implemented in commodity programs. For example, Congress is attempting to move away from ad-hoc disaster programs when prices are low by providing for counter-cyclical payments, which are payments made only if a commodity price falls below a pre-set level (target price). Due to smaller crop production in 2002, prices have increased, which has resulted in prices above the target level. This means that there will be no counter-cyclical price support. Counter-cyclical payment programs provide opportunities for producers to update their base acreage and program yields. In addition, the 2002 U.S. Farm Bill retained direct payments along with the commodity loan programs.

The agronomic crop market has seen significant changes. For example, the 2002 U.S. Farm Bill did away with the peanut quota system, which means that there are now no restrictions on the amount of peanuts farmers may grow and a lower support price of \$355 per ton has been established. Active peanut growers can now establish base acres and yields, and the base can be assigned to the farm of the producer's choice. Another example is the cotton program,

which was changed to make it similar to other commodity programs. Producers are now eligible to update bases and receive direct and counter-cyclical payments, which may help to increase the overall price received.

The feed grains outlook is characterized by smaller crops and improved markets. As a result of the supply and demand prospect, ending stocks will be down by 38 percent for corn and 60 percent for wheat. This will result in price increases of over 25 percent for both corn and wheat. These increased prices will likely result in more acres being planted in 2003. If yields return to typical levels, large crops will be produced and prices will be pressured. Florida producers plant only a small number of acres but might increase acreage next year.

The soybean market rallied throughout 2002. Early on, this was due to typical seasonal gains, and later on, resulted from supply concerns. Yield potential was reduced by weather problems. Stronger demand for soybeans also helped the price rally. Ending stocks for soybeans will fall to the lowest level in seven years. Prices are still low in relationship to historic comparisons to stock levels, but are at a higher level than the previous four years. Larger acreage and improved yields will pressure prices for next year.

1. This is EDIS document FE372, a publication of the Department of Food and Resource Economics, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, FL. Published February 2003. Please visit the EDIS website at <http://edis.ifas.ufl.edu>.

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The cotton market could improve, but this will be a challenge. A key to price improvements is improving U.S. exports. The domestic textile industry is showing signs of a rebound. The crop size must be cut next year and exports must remain strong for prices to reach 50 cents. Looking at the current price level, loan deficiency payments (LDP) will probably be around 15 cents per pound, which will result in producer prices below the 60-cent level. At this level, profits are difficult for producers who fall below the average yield level. However, these low price prospects still might not limit the crop in 2003.

The peanut situation is dominated by policy changes, marketing uncertainty, lower U.S. production, a slowly increasing domestic demand, stronger exports, and fewer imports. Although total use increased, production was down to 3.7 billion pounds. Prices changed significantly from last year due to the new program. Peanut producers need to determine their planting decisions for 2003 based on market conditions. Base payments are not tied to actual production, and the loan rate provides a \$355 per-ton loan protection. Contracting might be an option available next year. Quality will continue to be a factor and will help in improving prices.