



Economic Crisis Less Severe for Agriculture: USDA

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A report released last week by the U.S. Department of Agriculture (USDA) Economic Research Service explained that “the world economic crisis that began in 2008 has major consequences for U.S. agriculture” but due to several factors, “So far, the overall impact on U.S. agriculture is not as severe as on the broader U.S. economy.”

Impacts:

- Declines in U.S. agricultural exports, prices, income, and employment.
- Agricultural households also suffer from declining income from off-farm jobs.

Direct Effects Only Modest:

- Food demand is not very sensitive to changes in income.
- Total consumer expenditures on food fall but not the amount actually consumed.
- Decreased eating at restaurants and increased shopping at warehouse outlets.
- Demand shifting from expensive products to less expensive, i.e. from beef and fish to poultry.

Positive Aspects Cushioning The Impacts:

Record-high exports, prices, and farm income in recent years. Each year's net farm income in 2007 and 2008 each established new nominal records of \$87 billion and \$89 billion respectively. Even when adjusted for inflation, each year's level reflected the highest net farm incomes since the early 1970s.

Farm Income Back To Average:

U.S. net farm income in 2009 could fall by 26 percent to \$66 billion. While a marked decrease, this level would be on par with the average of \$65 billion earned annually in the previous 10 years.

Lower Energy Prices Benefit Most Agricultural Producers:

- All benefit from lower input costs implied by reduced energy and fuel prices.
- Livestock producers' net beneficiaries of the energy price drop, as the decrease in crop prices will lower their feed costs.
- However, reduced price and profitability result for biofuels, and thereby lower prices for feedstock crops, especially corn, will affect some.

Forecast:

- Stability in 2010 and return to growth in 2011.
- Recovery in U.S. agricultural exports and farm income, but
- Return to increased energy prices.

The full report is available at: <http://www.ers.usda.gov/Publications/WRS0902/WRS0902.pdf>