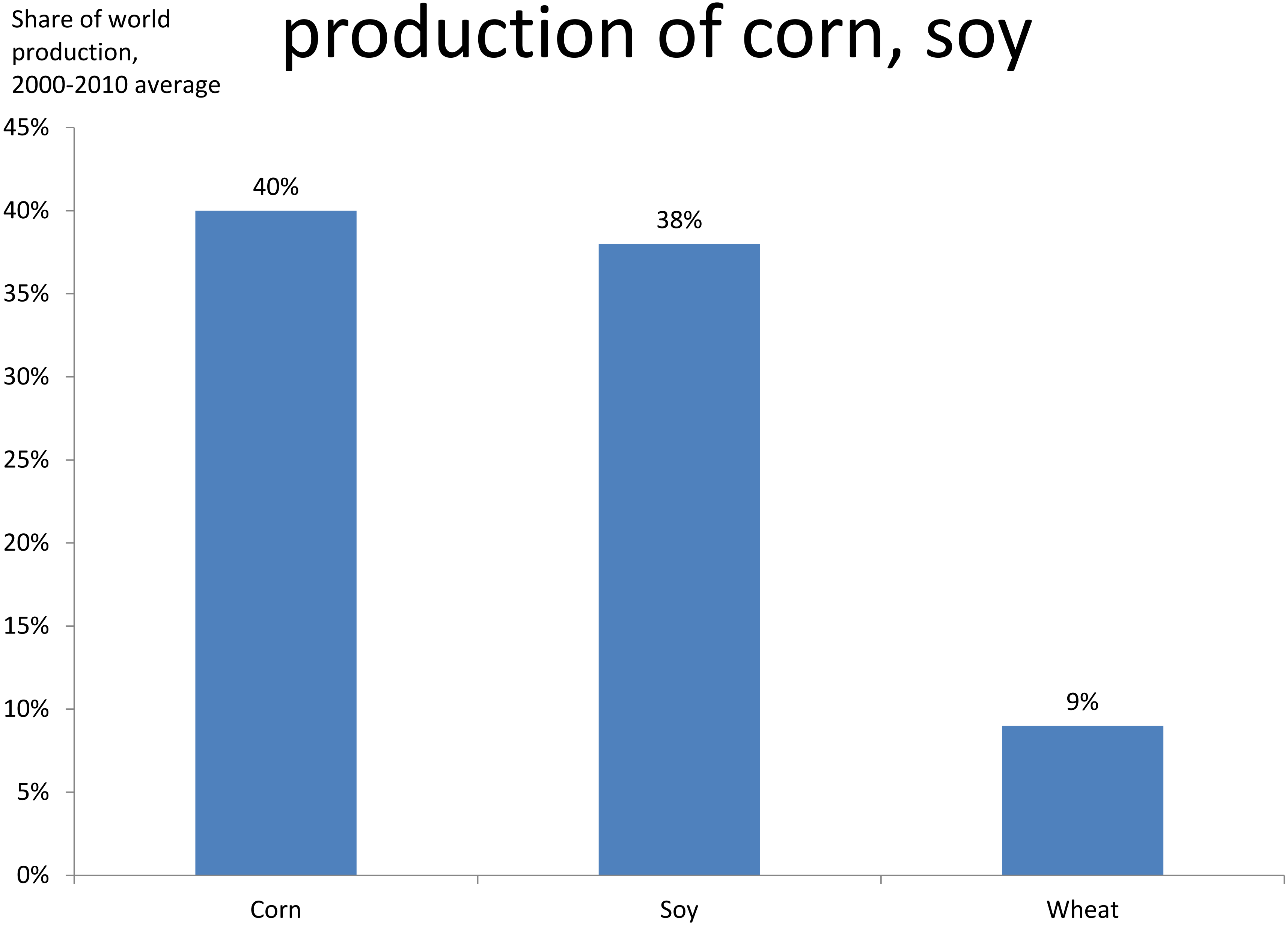
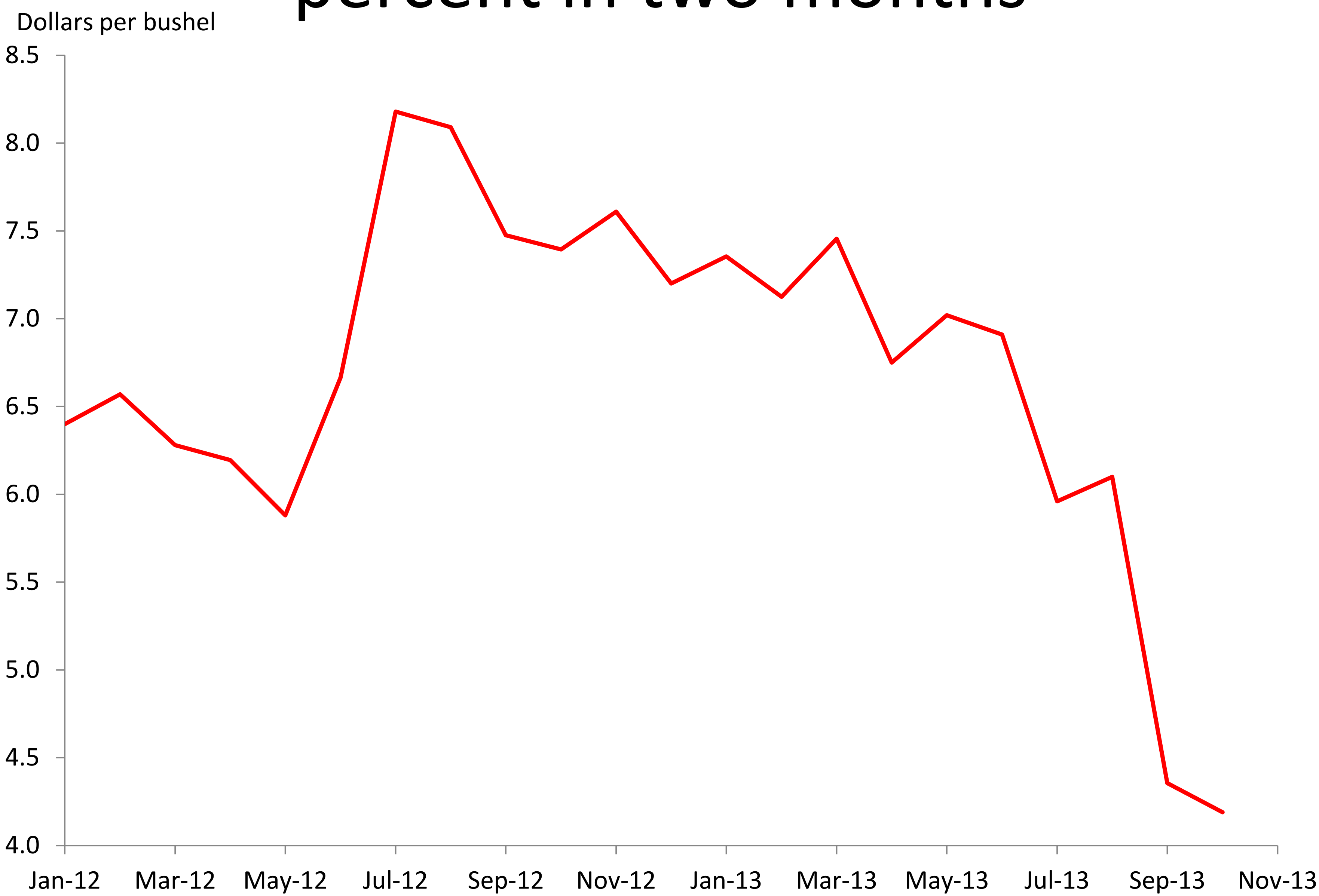
The Outlook for Grain Markets and Texas Agriculture in 2013

Emily Kerr and Michael Plante

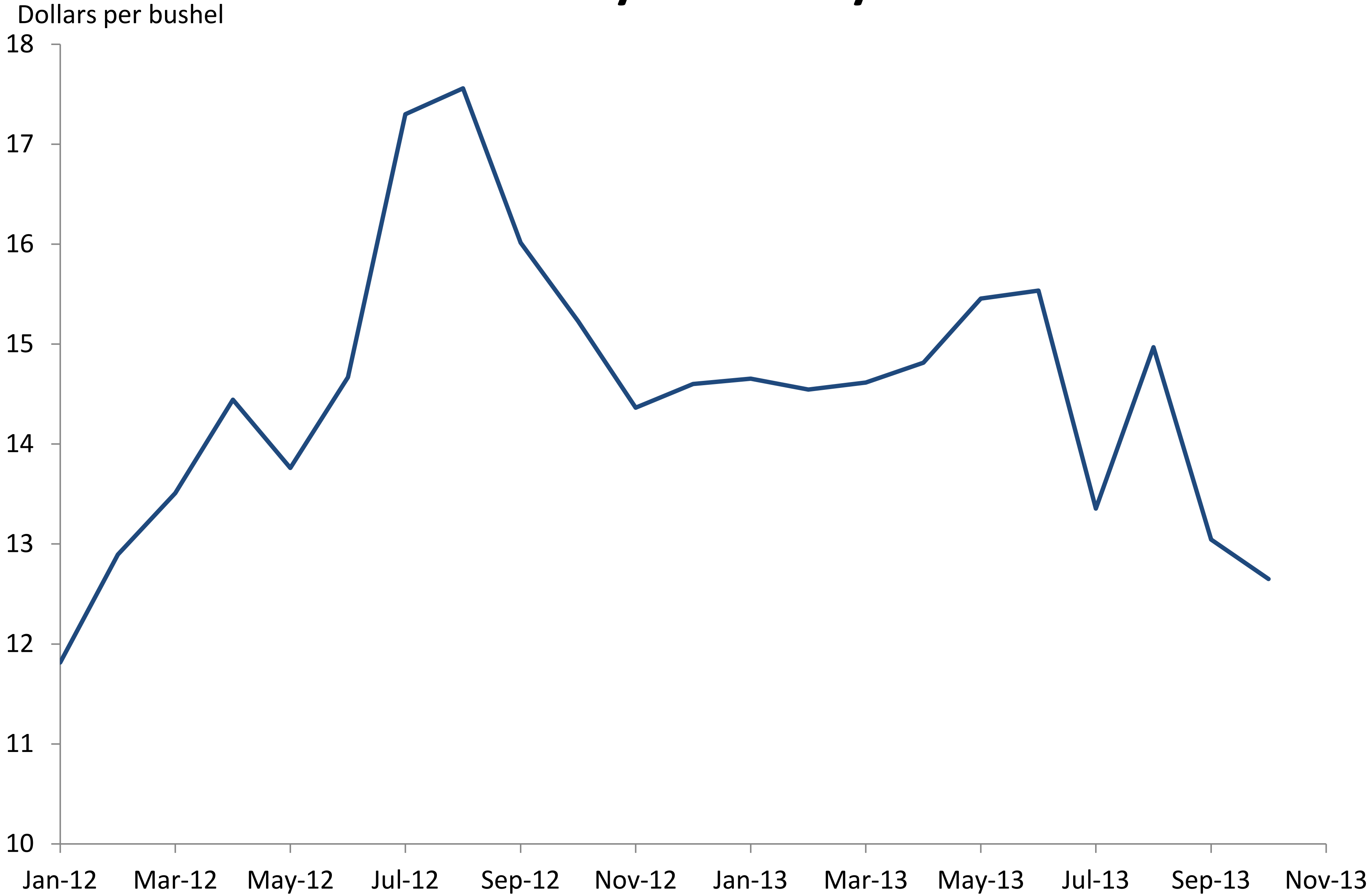
U.S. dominates world production of corn, soy



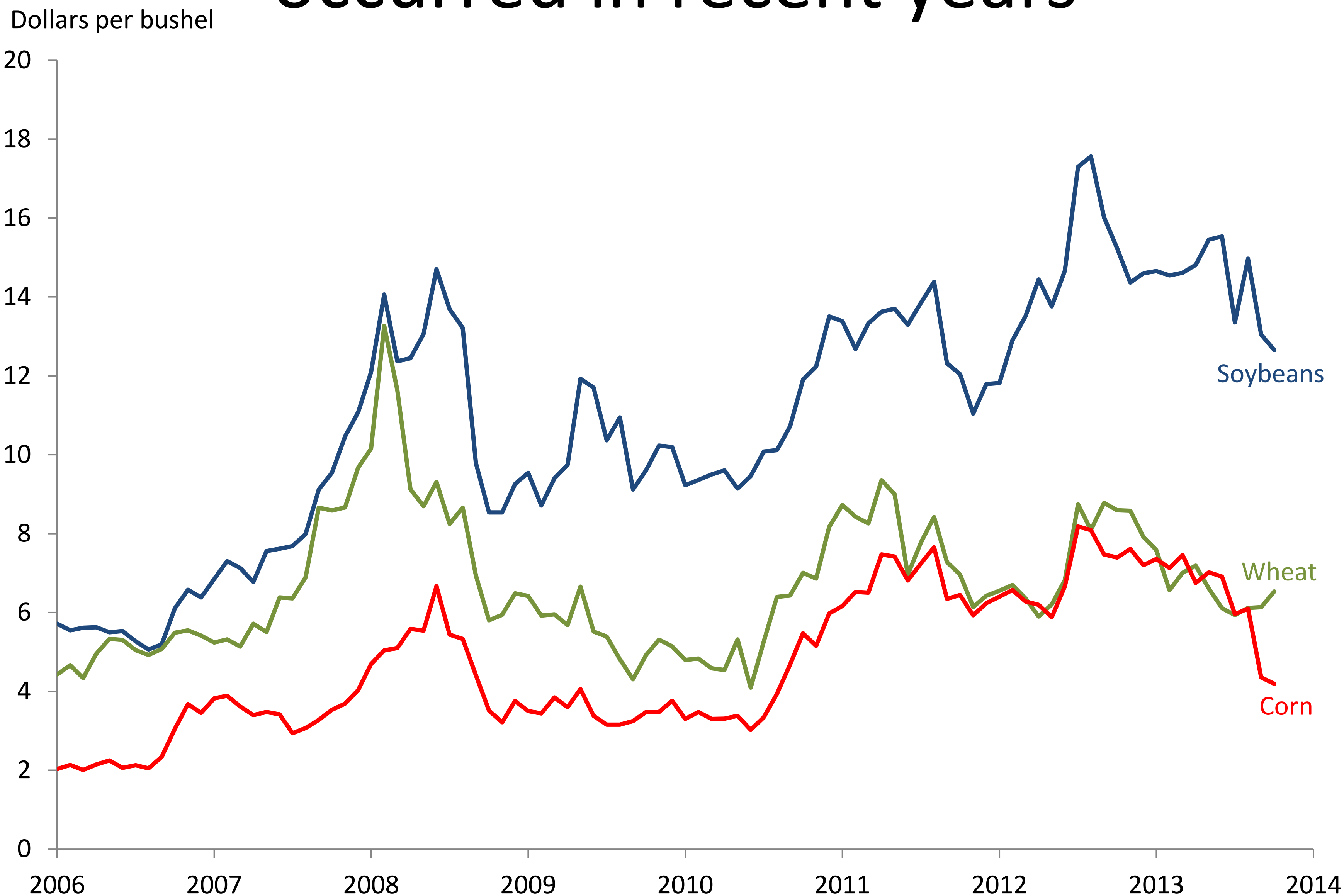
Corn prices jump 40 percent in two months



Soy prices increase 25 percent from May to July 2012



Other price spikes occurred in recent years



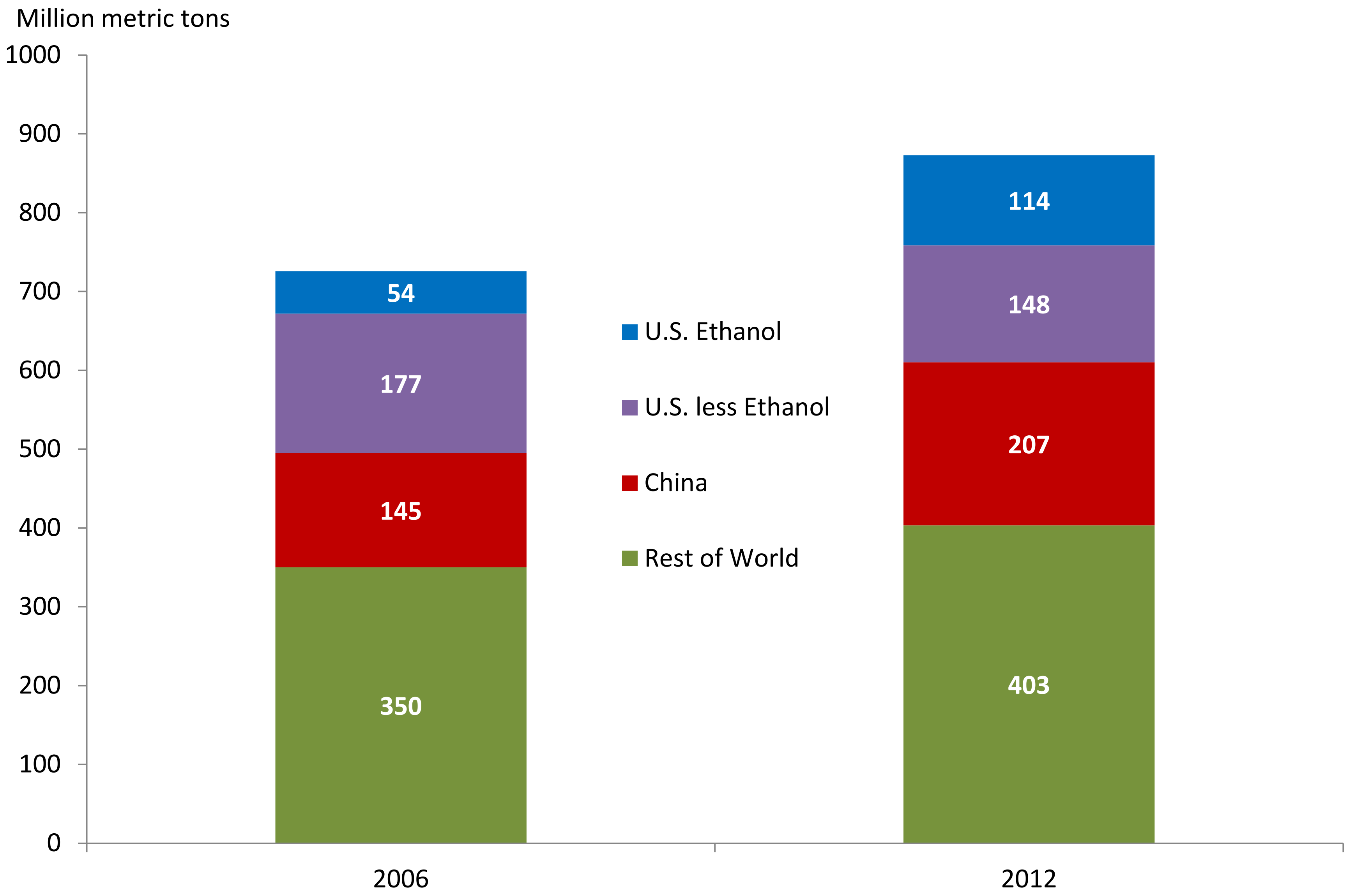
Outline

1. What's behind recent price movements
   – Growing demand, supply issues

2. Outlook for the harvest in 2013
   – Looking better if weather cooperates

3. Implications for 11th District agriculture
   – High grain prices adversely affect Texas/N.M.

The world is consuming more corn!



The Ethanol Situation

Ethanol's impact on corn demand

1. Huge impact before 2010
   – 2010 production 170% higher than 2006

2. Since 2010 little additional demand
   – About 40% of U.S. crop used for ethanol, byproducts

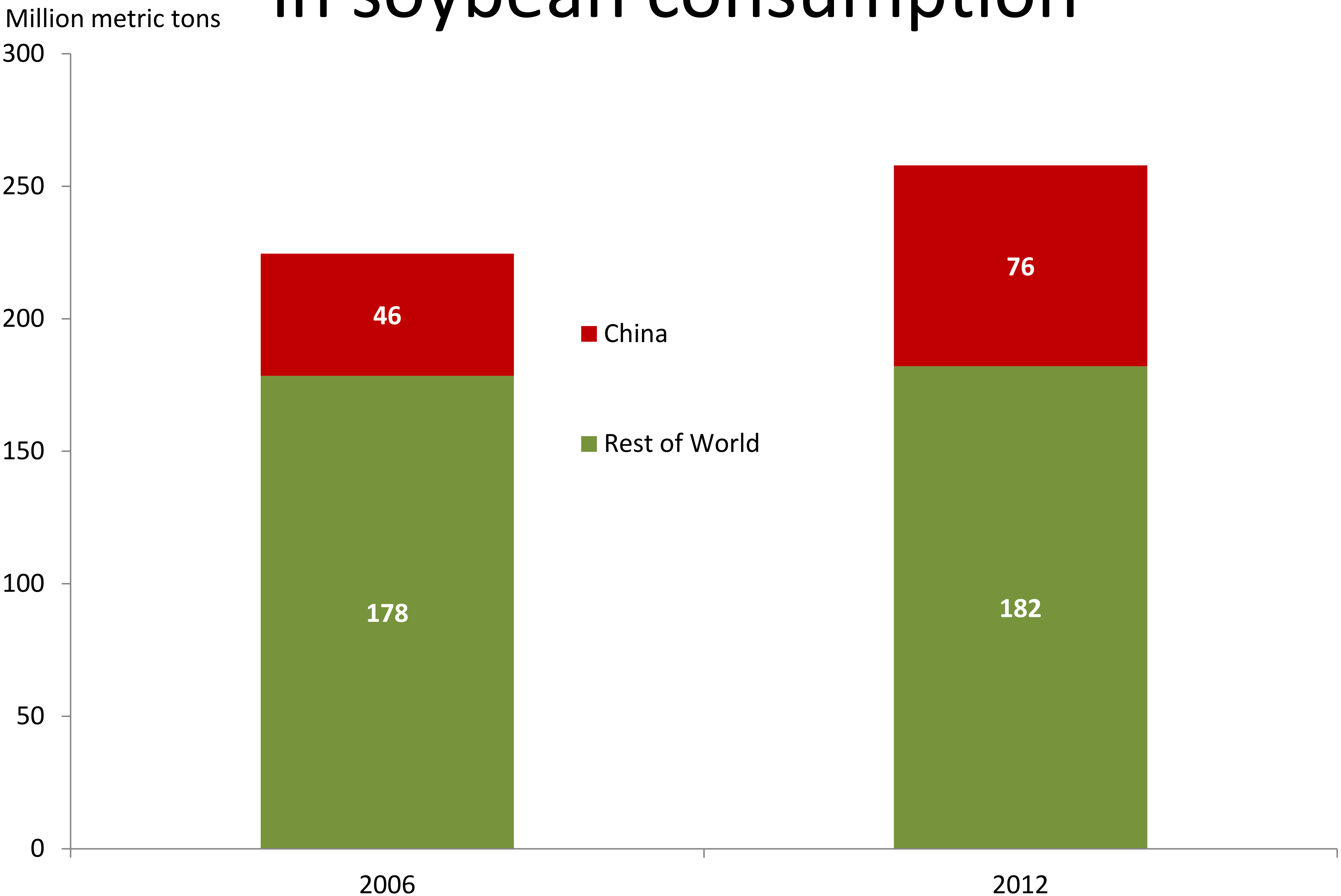
3. More advanced plants remain profitable
   – Suggests corn will continue to be used for ethanol

The Ethanol Situation

What does an advanced plant produce?

Component of Corn	Processed and sold as
Carbohydrate	Ethanol
Fat	Corn oil
Leftover (mainly protein)	Distiller’s grain (animal feed)

China is driving growth in soybean consumption



Growing demand pressures supply

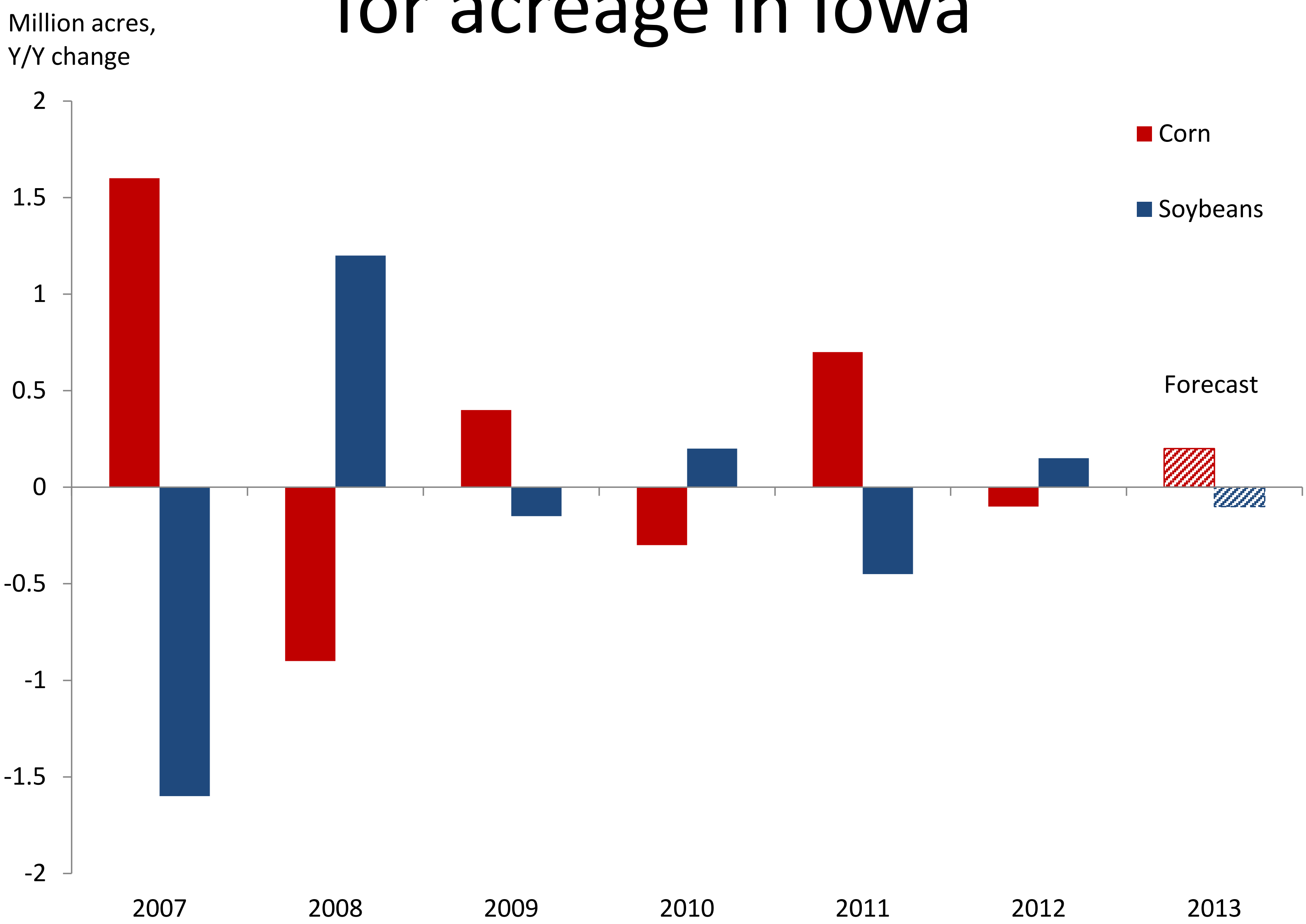
- World supply has grown dramatically
- Weather issues are a constant threat
- Bad weather for U.S. corn: 2010, 2011, 2012
- Weather issues abroad for soy and wheat

Spillovers are important

Price spikes in one crop can spillover to others:

- Consumers substitute towards other crops (example: away from corn toward wheat)
- Crops compete for acreage

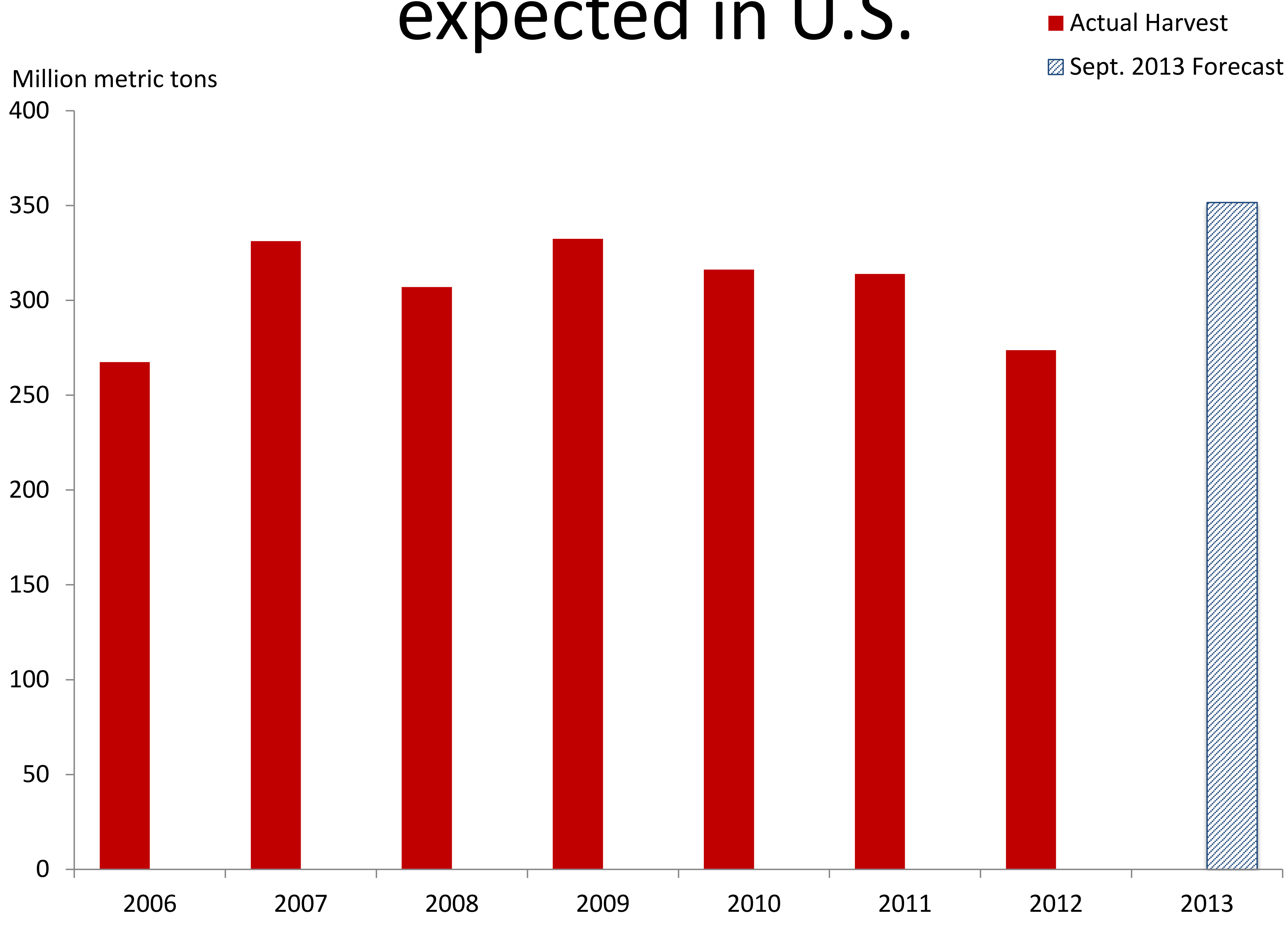
Corn and soybeans compete for acreage in Iowa



Outlook for 2013

- Demand expected to continue growing
- Drought greatly relieved in Corn/Soy belt
- Future weather remains unpredictable

Bumper corn harvest expected in U.S.



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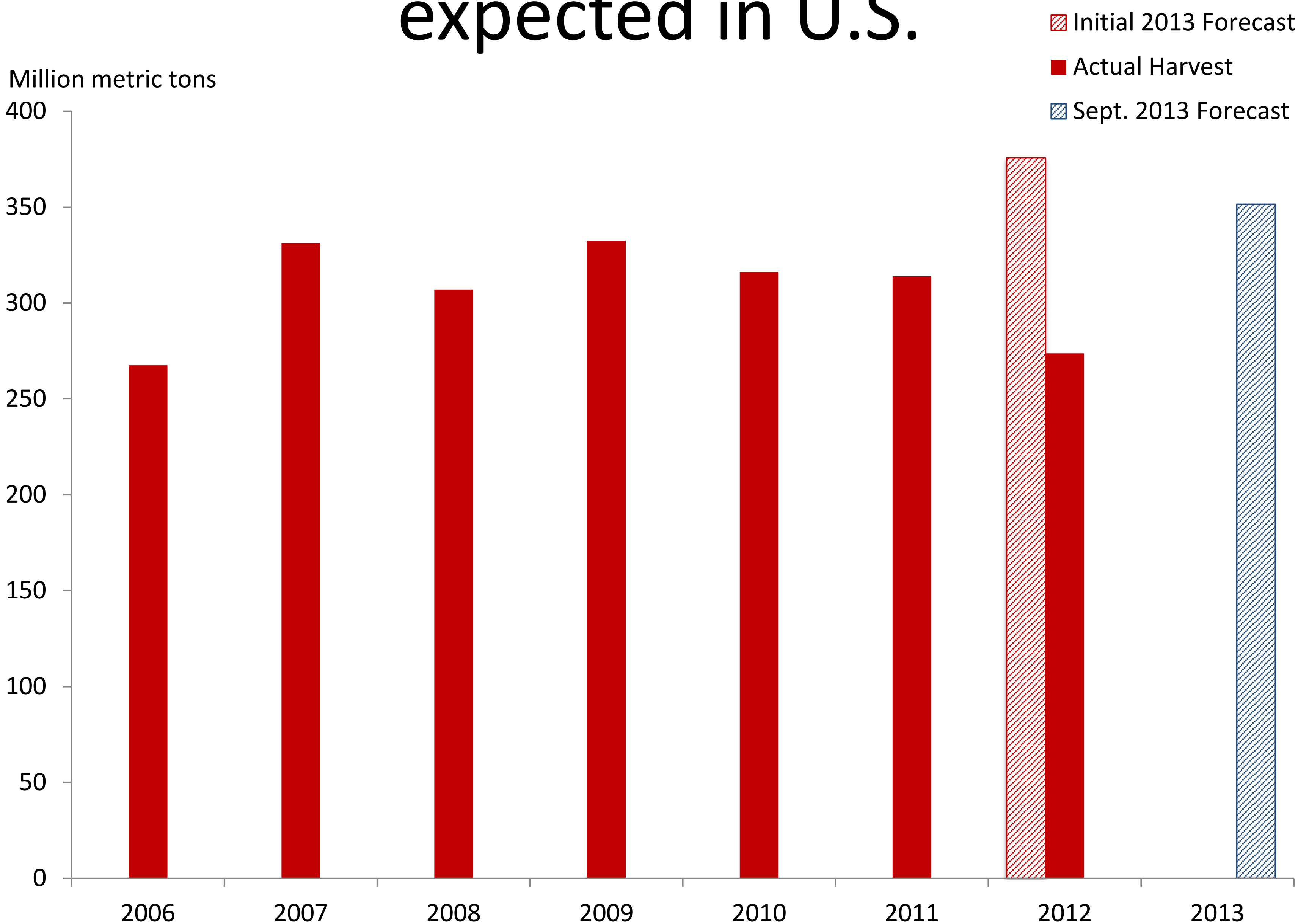
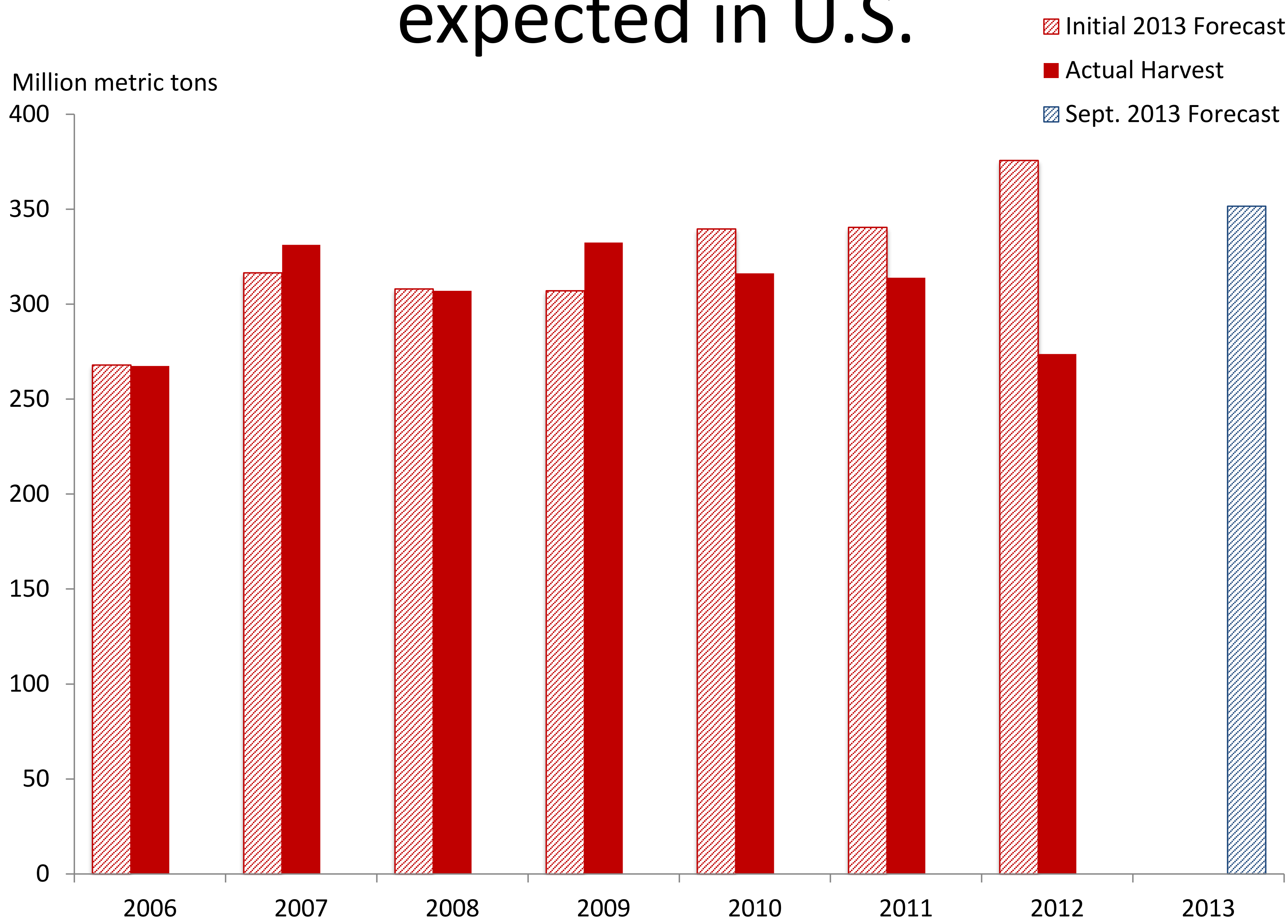


Bumper corn harvest expected in U.S.



Looking to our region

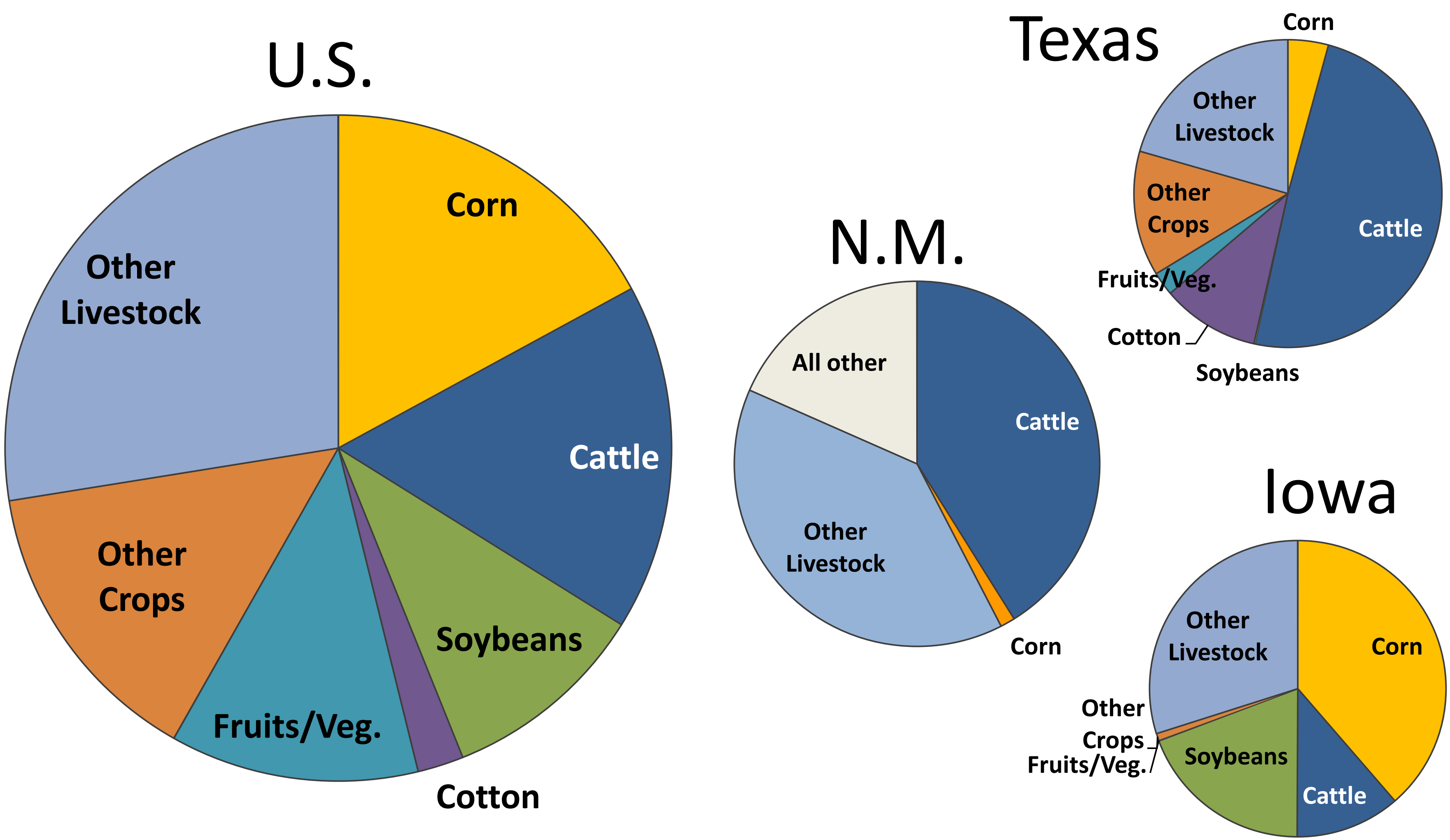
High grain prices: bad news for 11th District agriculture

- Grain is a key input for livestock producers

- 11th District agriculture largely livestock
  - Total TX agriculture=$23 billion in cash receipts
    - Livestock=$16 billion
      - Cattle=$11 billion

- Agriculture accounts for 1% of Texas GDP and 2% of New Mexico GDP
  - 9% when including linked economic activities

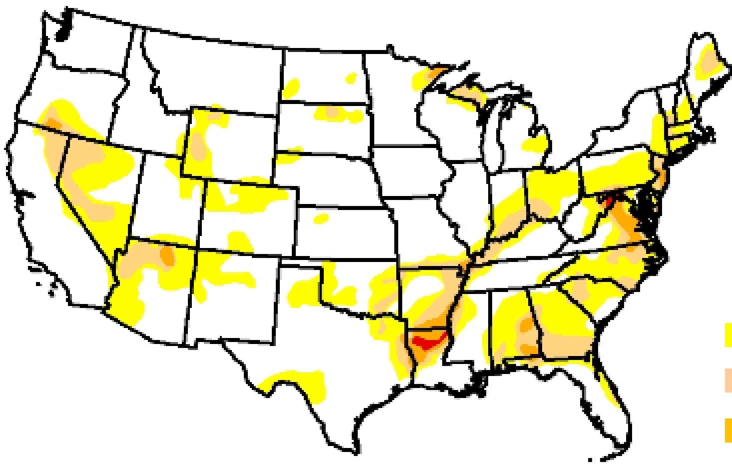
Regional ag varies from U.S., Corn Belt



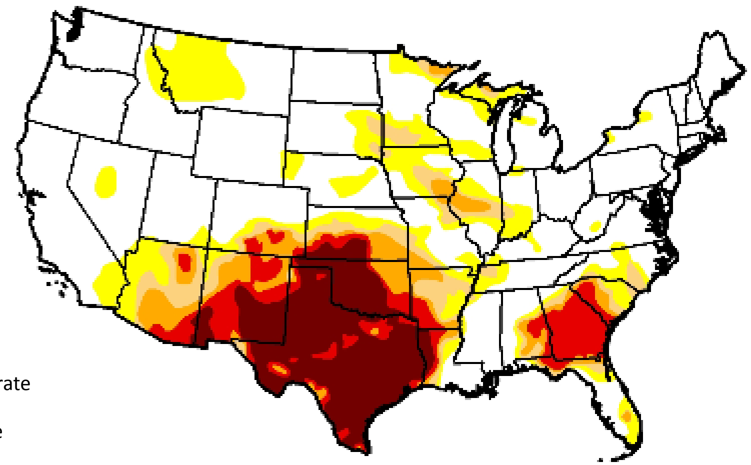
Shown are cash receipts by commodity group, 2011. Source: USDA.

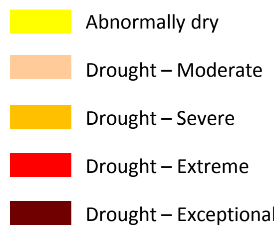
Prolonged drought makes matters worse

October 2010

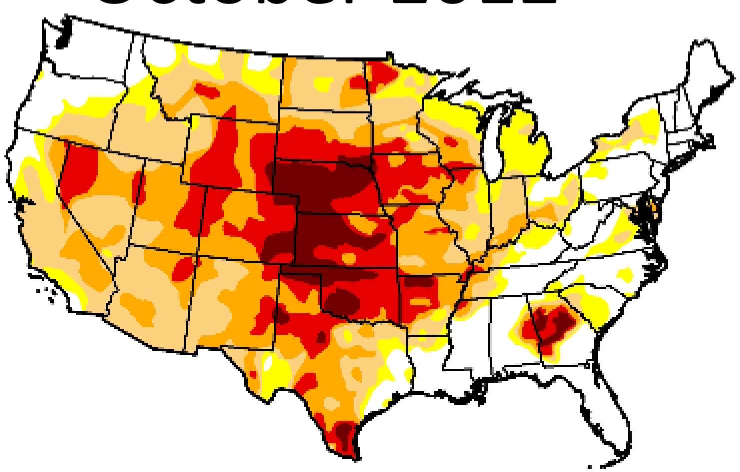


October 2011

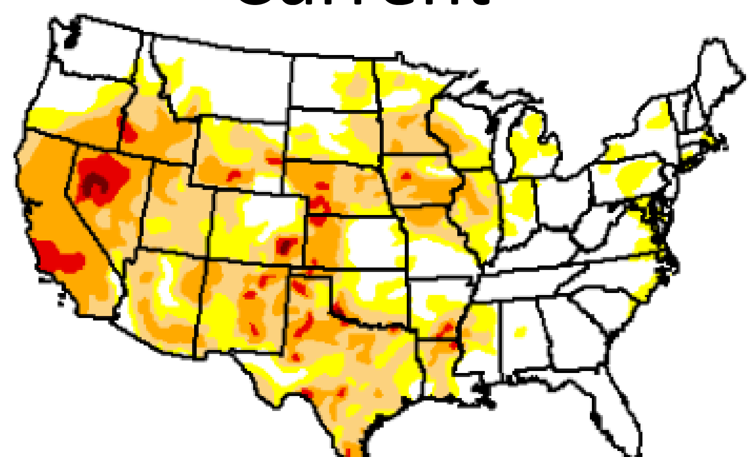




October 2012

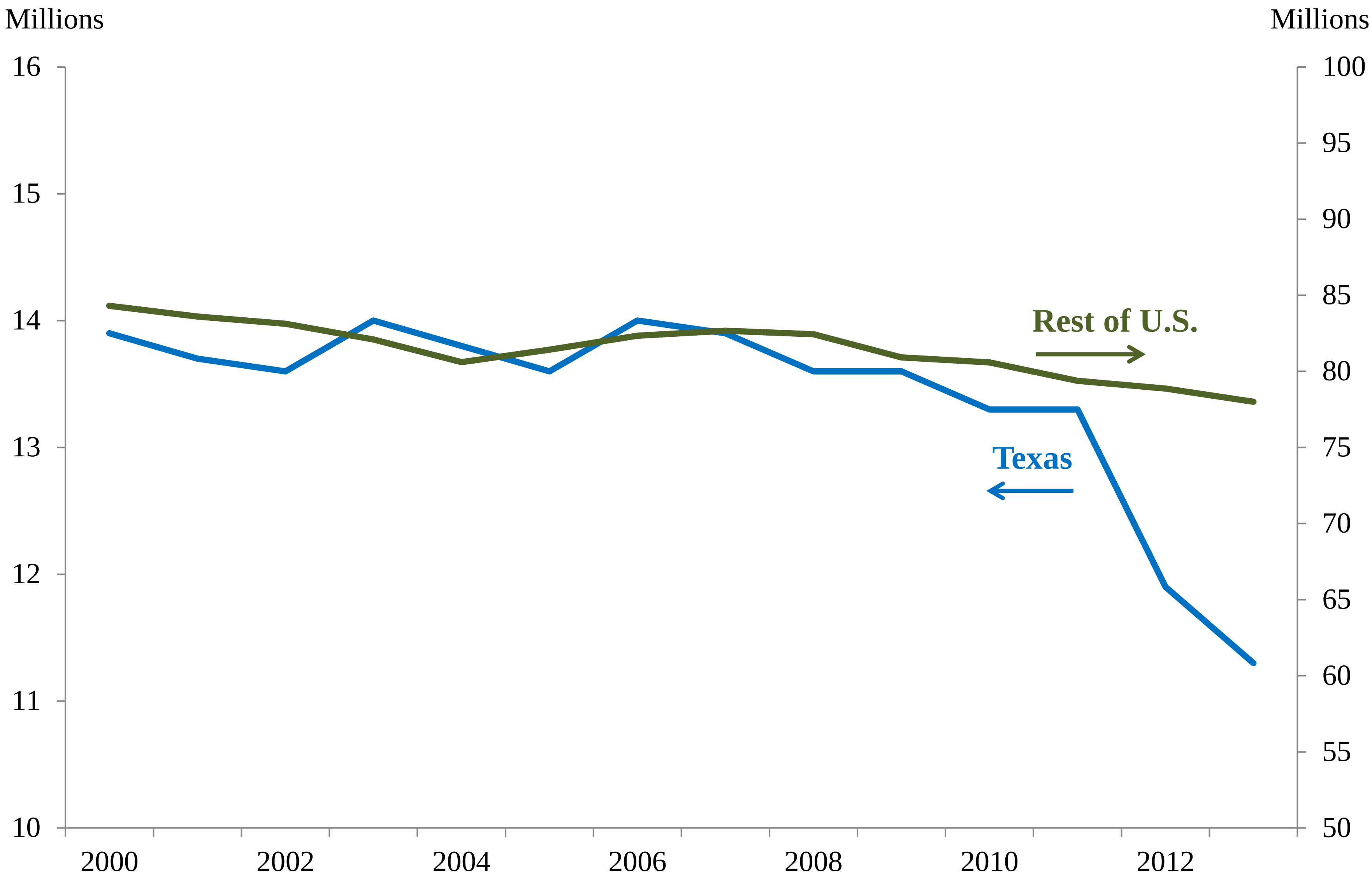


Current



Source: U.S. Drought Monitor.

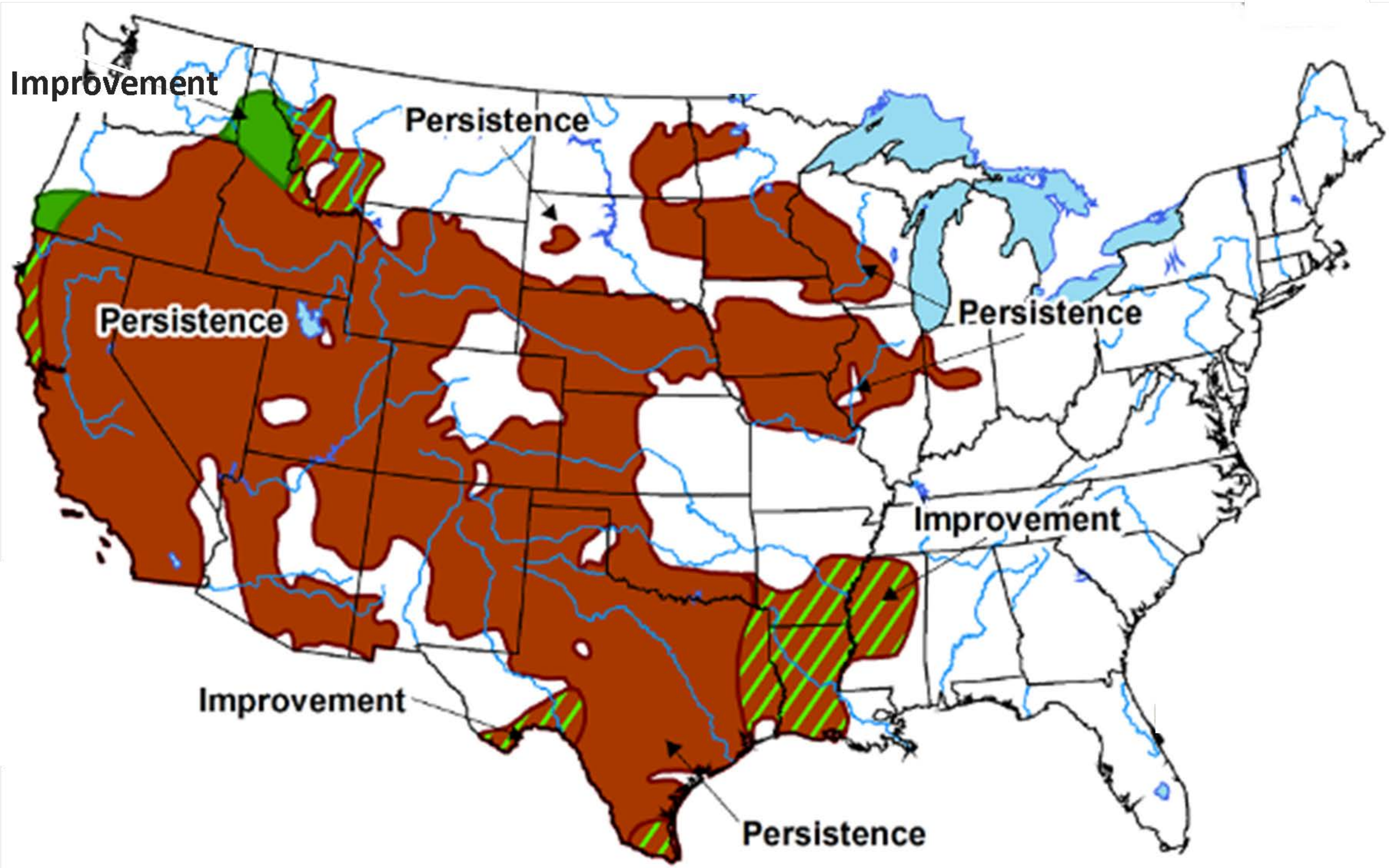
Texas cattle herd dwindling



What does this mean for Texas?

- Declining share of U.S. cattle herd
  - Ethanol byproducts give advantage to Corn Belt
- Fewer feedlots, meat processors
  - Cargill closure, likely more to come
- Farmers planting less cotton, more corn

Drought expected to persist in TX/NM



Source: U.S. Seasonal Drought Outlook. Valid for September 19-December 31, 2013.

What’s the takeaway?

- Growing demand, weather pressuring prices
- Bumper harvest expected in 2013
- Eleventh District agriculture outlook mixed

Extra slides…

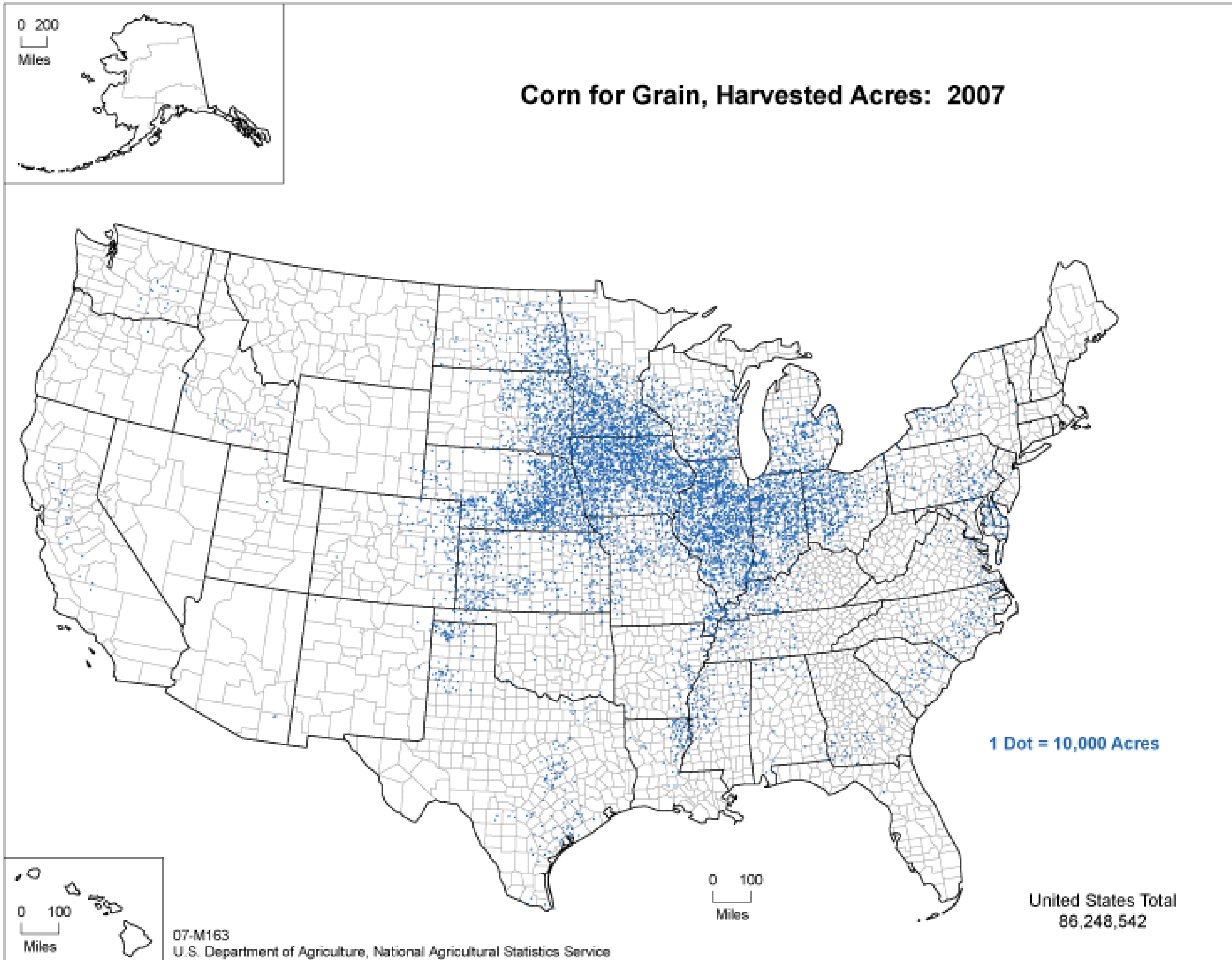
The Ethanol Situation

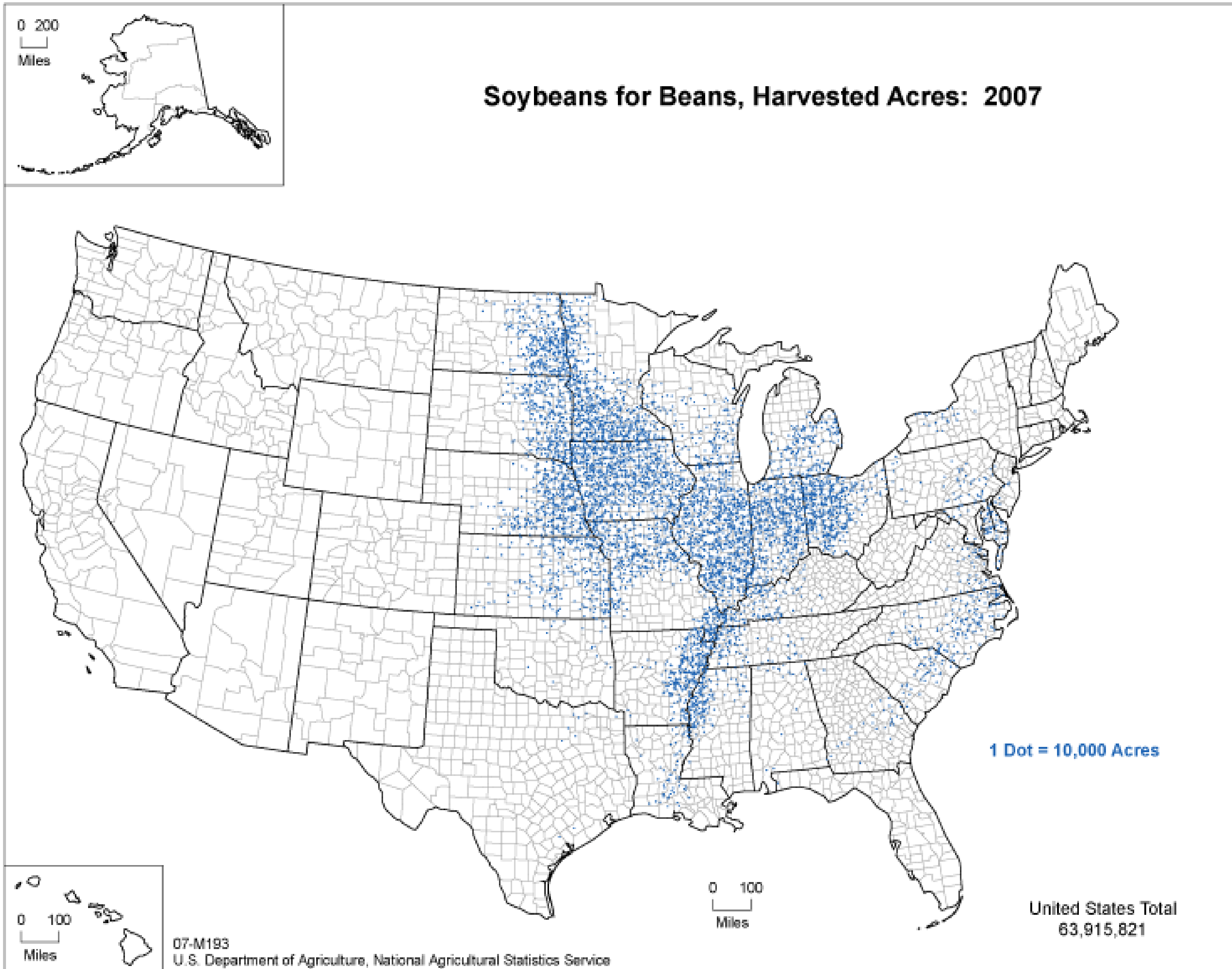
Government support

1. Tax credit for blending ethanol into gasoline
   – Eliminated in December 2011

2. Tariff on imports of Brazilian ethanol
   – Eliminated in December 2011

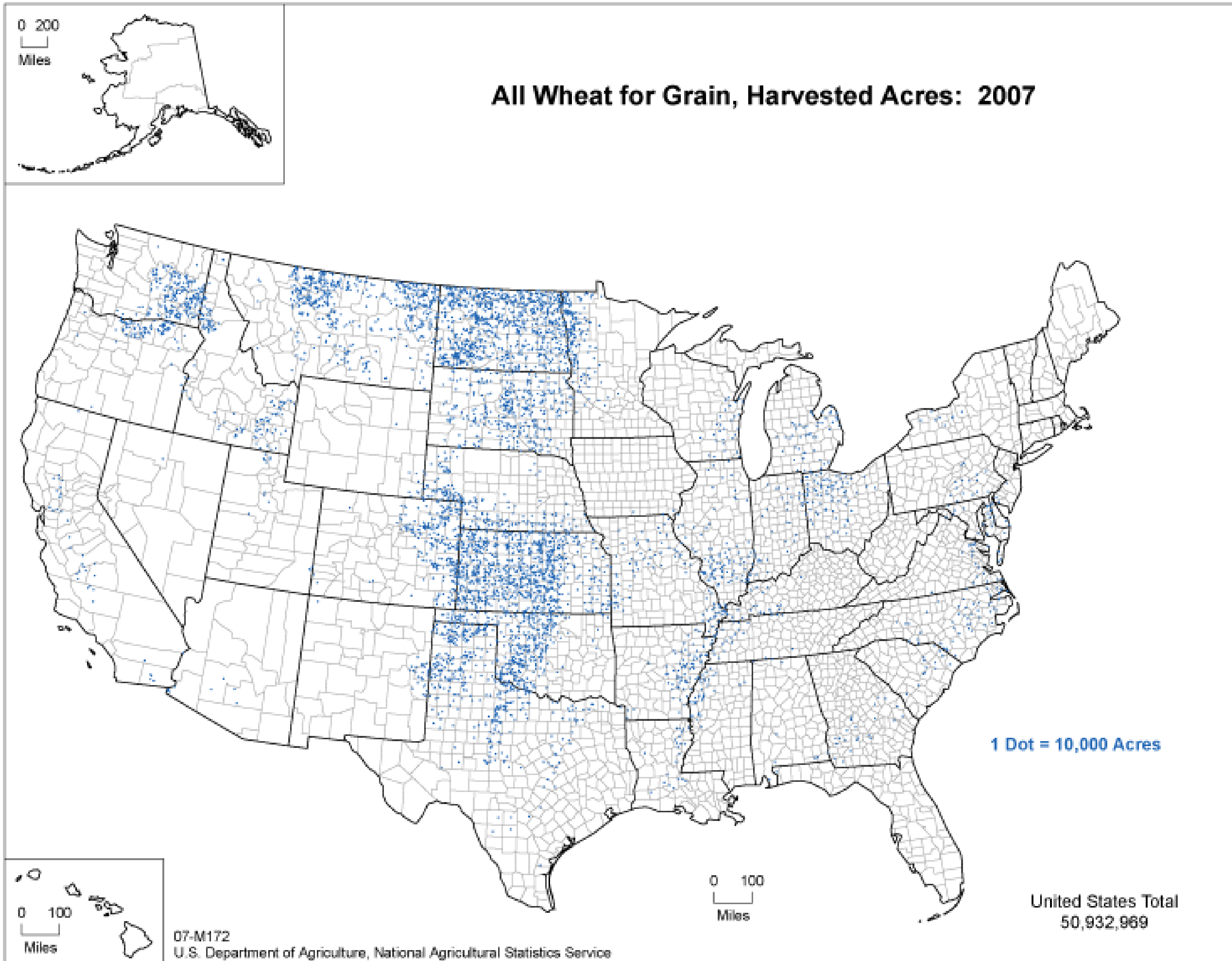
3. Renewable Fuel Standard (RFS)
   – Production has exceeded mandate in recent years


Corn for Grain, Harvested Acres: 2007
0 200
Miles
1 Dot = 10,000 Acres
0 100
Miles
0 100
Miles
United States Total
86,248,542
07-M163
U.S. Department of Agriculture, National Agricultural Statistics Service



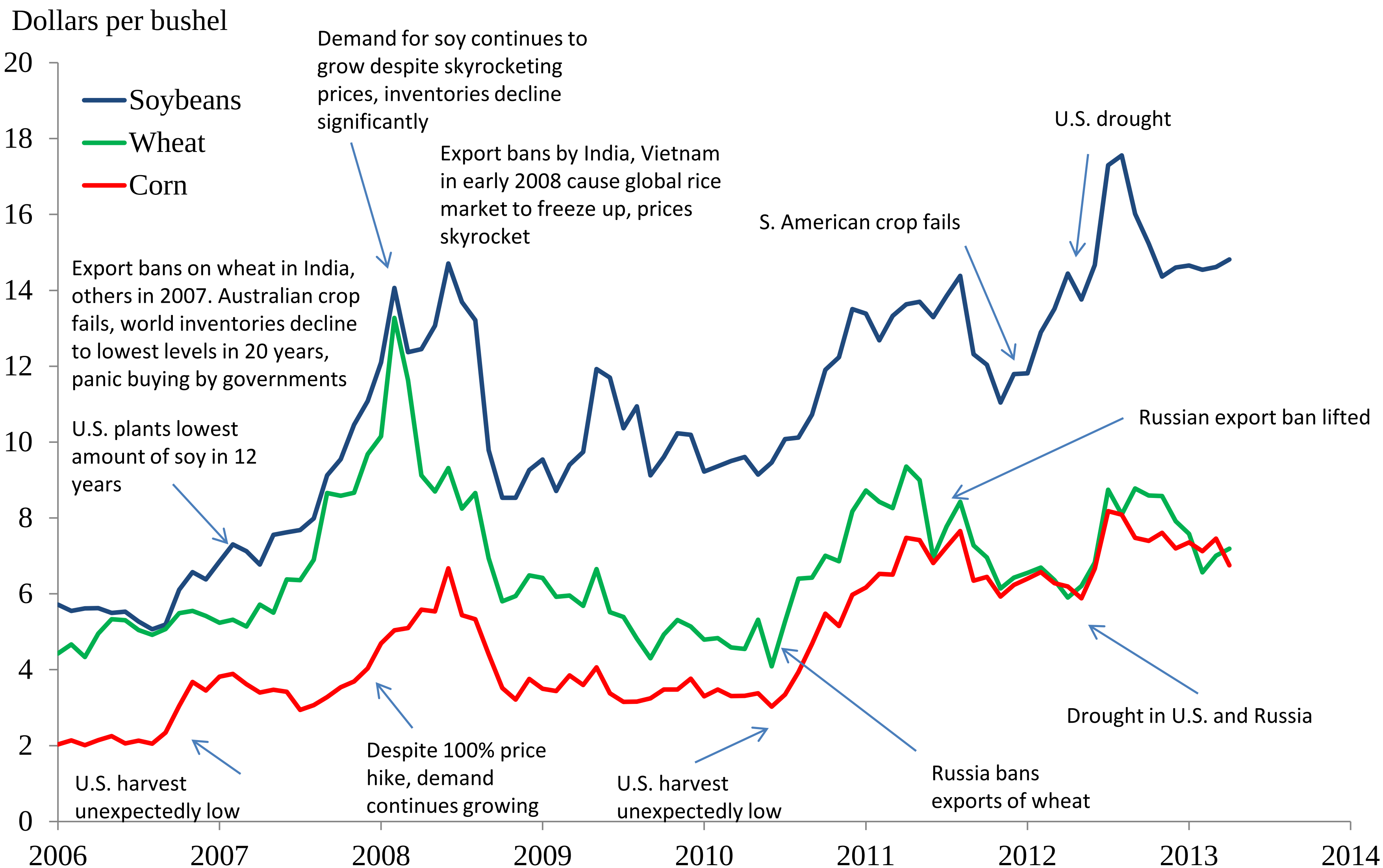
Soybeans for Beans, Harvested Acres: 2007
0 200
Miles
1 Dot = 10,000 Acres
0 100
Miles
0 100
Miles
United States Total
63,915,821
07-M193
U.S. Department of Agriculture, National Agricultural Statistics Service

All Wheat for Grain, Harvested Acres: 2007

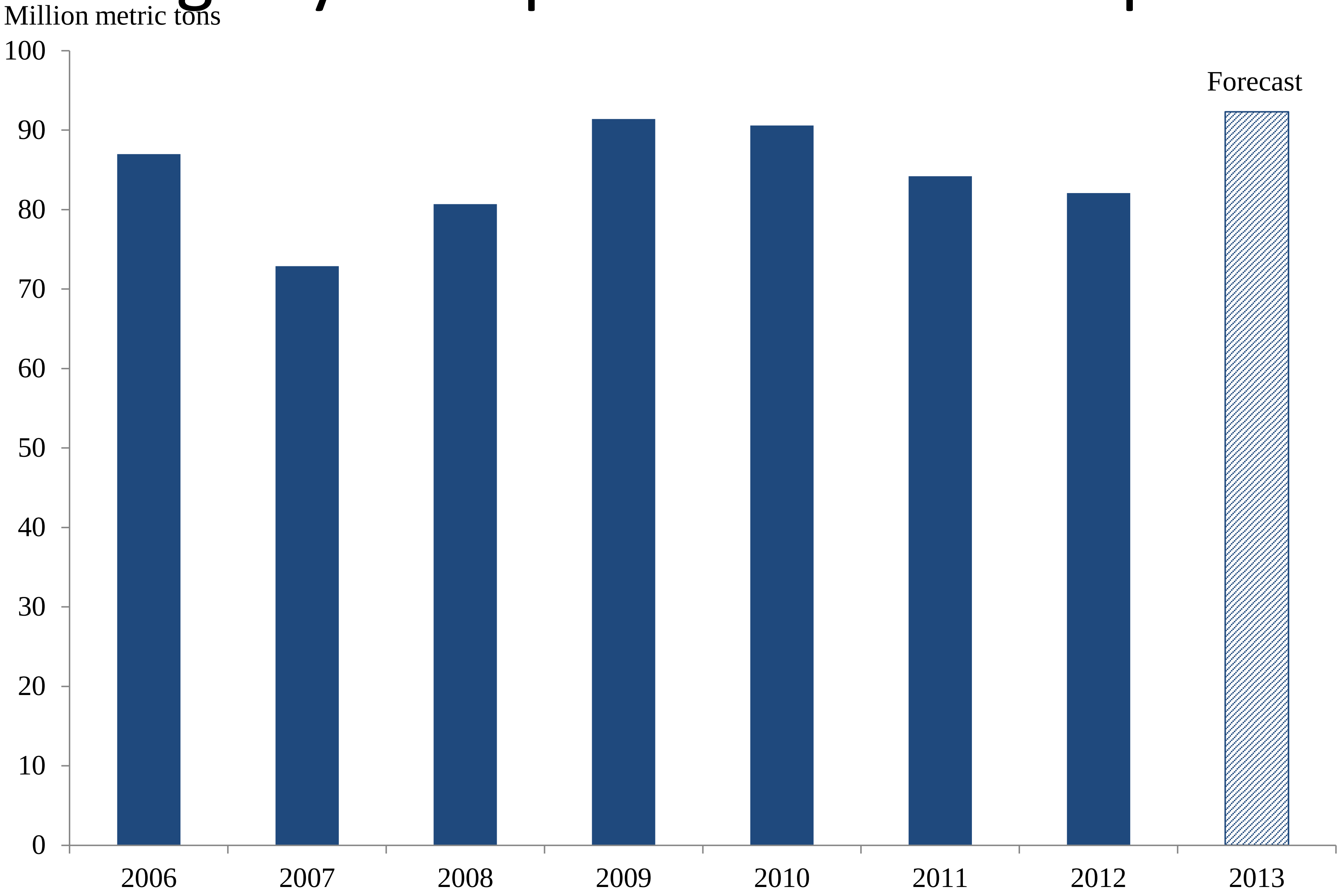


07-M172
U.S. Department of Agriculture, National Agricultural Statistics Service

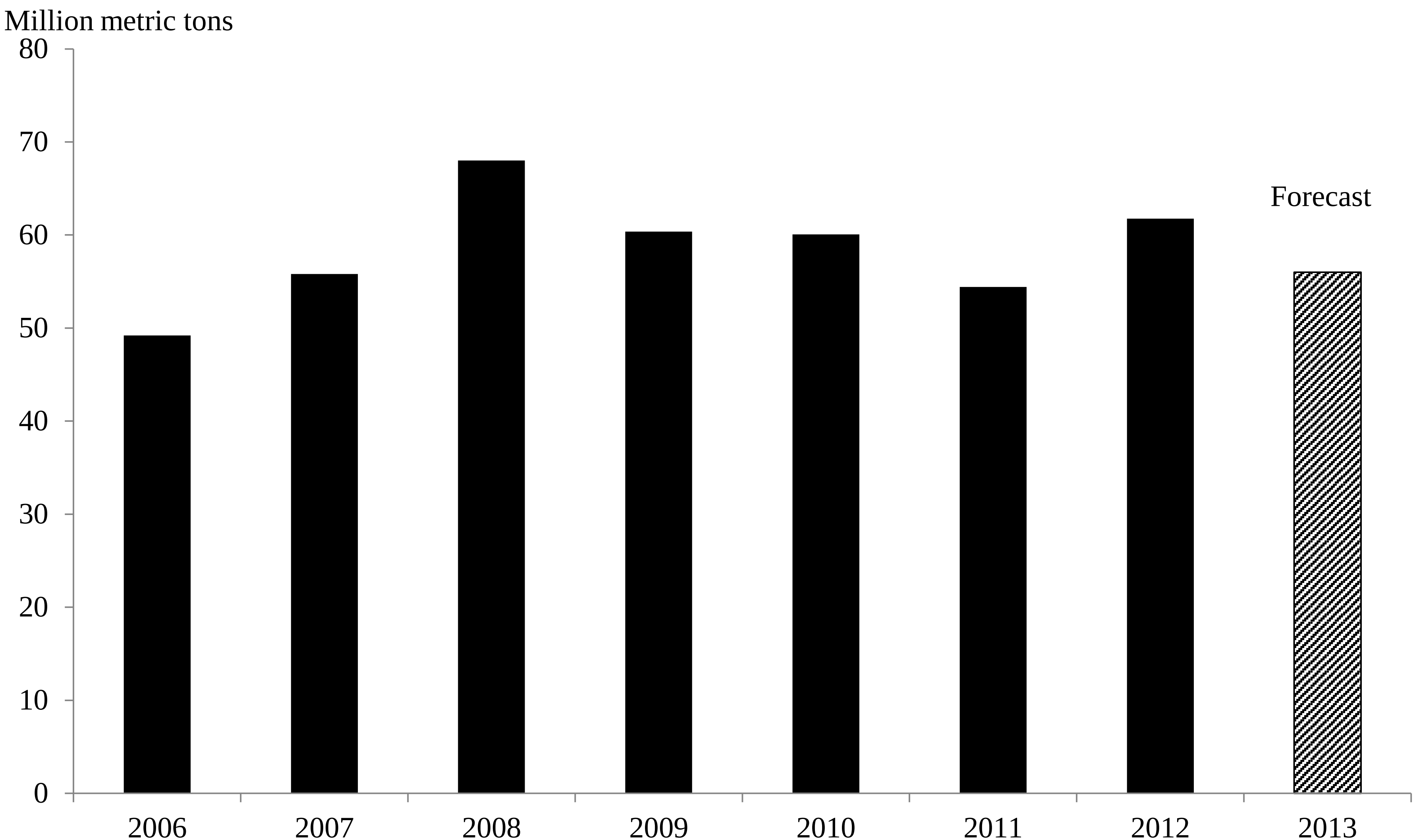
Narrative approach provides compelling stories about run ups



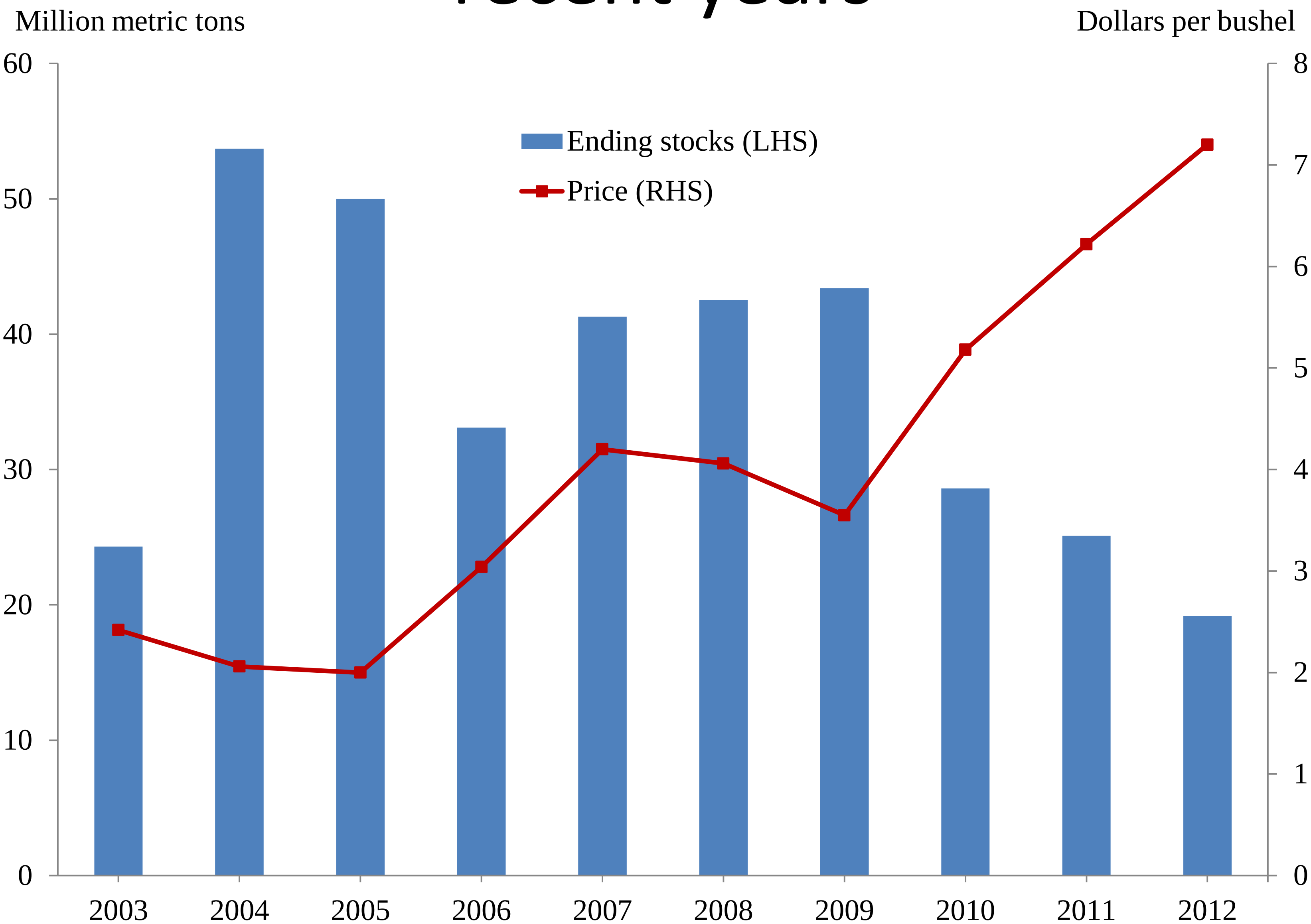
Strong soybean production also expected



2013 U.S. wheat harvest impacted by weather



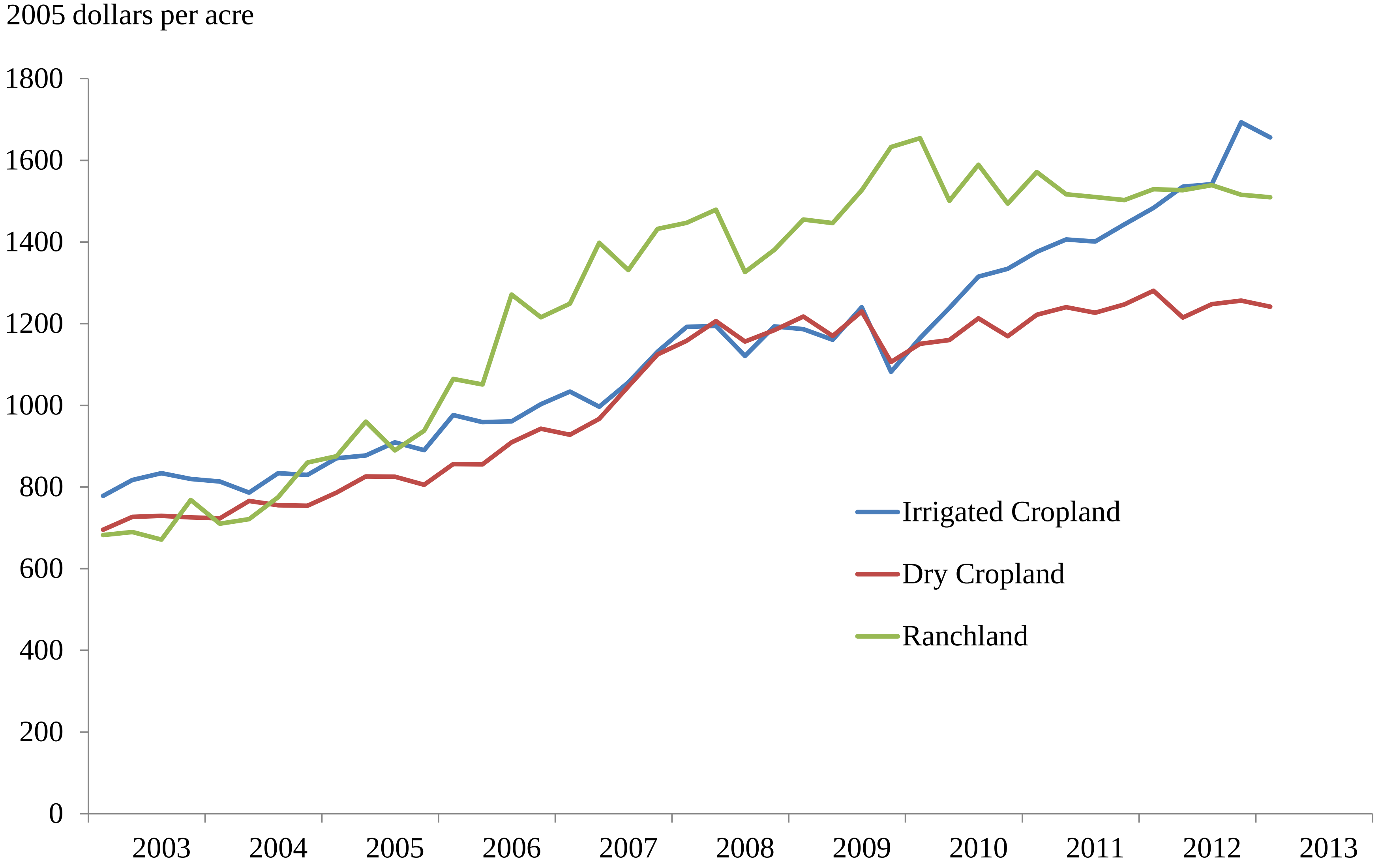
U.S. corn stocks severely depleted in recent years



A few notes on crop insurance

- Provides yield protection and price protection
- Who pays?
  - Premiums subsidized by federal government
- Who uses it?
  - Most farmers, very few ranchers
- One of several agriculture subsidies mandated by farm bill

Texas ag land values



2012 Farm Real Estate Value by State

Dollars per Acre and Percent Change from 2011