California Agriculture: Trends, Issues and Outlook

Executive Seminar on Agricultural Issues
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Daniel A. Sumner

University of California Agricultural Issues Center, and Department of Agricultural and Resource Economics, University of California, Davis
Outline and Overview

• Some data on the recent relatively sober economic situation and some ideas about where agriculture in California is heading

• A focus on agricultural exports for California

• Some discussion of current economic drivers

• Role of trade and trade negotiations
Some Aggregate Economic Data for California Agriculture

- Diversity of agriculture in California
- Aggregate price and revenue trends
- Input costs
- Asset values
Cash Receipts by Commodity Group, California 2000

- Fruits/nuts: 28%
- Vegetables: 26%
- Dairy: 15%
- Field Crops: 7%
- Greenhouse/nursery: 11%
- Others: 8%
- Beef Cattle: 5%
Gross Cash Income, California Agriculture
Constant 1996 Dollars

In Millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions</th>
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<tbody>
<tr>
<td>1994</td>
<td>22,000</td>
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<tr>
<td>2000</td>
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Commodity Prices

- Supply/demand fundamentals differ by commodity and are driven by climate and demand shocks and related variables
- Current-season summary data is not yet available
- Ten-year and forty-year price indexes provide some context
Commodity Prices

- Low current prices are not sustainable
- High prices in the past for some commodities were also not sustainable
- That does not tell us when the turnaround is coming
- Supply/demand fundamentals differ by commodity but are connected on both sides of the equation
Net Farm Income, California Agriculture

Constant 1996 Dollars

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<td>1998</td>
<td>5200</td>
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<tr>
<td>1999</td>
<td>5300</td>
</tr>
<tr>
<td>2000</td>
<td>5000</td>
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</table>
## California Farm Land Prices

<table>
<thead>
<tr>
<th>Year</th>
<th>All</th>
<th>Pasture</th>
<th>Cropland</th>
<th>Irrigated Cropland</th>
<th>Non-irrigated Cropland</th>
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<tbody>
<tr>
<td></td>
<td>$</td>
<td>Change</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>1997</td>
<td>2500</td>
<td>4%</td>
<td>1100</td>
<td>5080</td>
<td>5400</td>
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<tr>
<td>1998</td>
<td>2610</td>
<td>4%</td>
<td>1050</td>
<td>5260</td>
<td>5600</td>
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<tr>
<td>1999</td>
<td>2770</td>
<td>6%</td>
<td>1050</td>
<td>5700</td>
<td>6100</td>
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<tr>
<td>2000</td>
<td>2850</td>
<td>3%</td>
<td>1000</td>
<td>5960</td>
<td>6400</td>
</tr>
<tr>
<td>2001</td>
<td>2910</td>
<td>2%</td>
<td>1040</td>
<td>5870</td>
<td>6300</td>
</tr>
</tbody>
</table>
More on the California Dairy Situation

- Dairy is the top commodity in California agriculture by revenue
- The dairy situation has been extremely variable over the last few years
- Recent production and prices show this is continuing
- Most indications are for the lower prices now to continue into 2002, but for no collapse
More on the Winegrape Situation

- Grapes are the number one crop in California by revenue
- Winegrape expansion has been remarkable
- But, prices have now responded to rapid supply growth
- There are several winegrape economies, but it seems pretty clear the boom is over
## Ratio of Non-Bearing Area to Bearing Area for grape crush in CA 1997 and 2000

**By variety, by region, in percentage**

<table>
<thead>
<tr>
<th>Region</th>
<th>Year</th>
<th>All Varieties</th>
<th>All Wine</th>
<th>White Wine</th>
<th>Chardonnay</th>
<th>Red Wine</th>
<th>Cabernet Sauvignon</th>
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<tbody>
<tr>
<td><strong>California</strong></td>
<td>2000</td>
<td>12.0</td>
<td>19.2</td>
<td>11.1</td>
<td>15.9</td>
<td>25.9</td>
<td>44.3</td>
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<td></td>
<td>1997</td>
<td>14.3</td>
<td>23.8</td>
<td>17.4</td>
<td>36.1</td>
<td>30.1</td>
<td>32.4</td>
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<tr>
<td><strong>South San Joaquin</strong></td>
<td>2000</td>
<td>4.7</td>
<td>9.3</td>
<td>2.4</td>
<td>15.3</td>
<td>16.7</td>
<td>23.6</td>
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<tr>
<td></td>
<td>1997</td>
<td>5.7</td>
<td>14.9</td>
<td>8.2</td>
<td>165.6</td>
<td>22.8</td>
<td>462.8</td>
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<tr>
<td><strong>North Valley</strong></td>
<td>2000</td>
<td>17.6</td>
<td>18.4</td>
<td>14.0</td>
<td>12.6</td>
<td>20.6</td>
<td>40.0</td>
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<tr>
<td></td>
<td>1997</td>
<td>37.1</td>
<td>41.3</td>
<td>35.1</td>
<td>54.0</td>
<td>43.3</td>
<td>52.5</td>
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<tr>
<td><strong>Central Coast</strong></td>
<td>2000</td>
<td>31.1</td>
<td>31.2</td>
<td>18.1</td>
<td>17.7</td>
<td>48.3</td>
<td>46.6</td>
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<tr>
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<td>28.9</td>
<td>29.0</td>
<td>22.8</td>
<td>28.5</td>
<td>38.6</td>
<td>18.3</td>
</tr>
<tr>
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<td>2000</td>
<td>29.6</td>
<td>29.6</td>
<td>19.4</td>
<td>19.1</td>
<td>35.0</td>
<td>43.0</td>
</tr>
<tr>
<td></td>
<td>1997</td>
<td>23.6</td>
<td>23.6</td>
<td>17.7</td>
<td>16.6</td>
<td>27.8</td>
<td>21.5</td>
</tr>
</tbody>
</table>
More on Other Commodities

• Most crop prices have been down in 2000-2001 or longer

• For a number of crop smaller recent crops have helped prospects for higher prices

• However, this does not mean the end of the farm recession and slower demand growth may delay recovery

• As usual, the climate, here and among competitor regions, will largely determine of price recovery
California Agricultural Exports

- Exports back up in 2000 after falling from the 1997 highs, year 2001 data suggests little growth

- Exports by commodity show larger quantities in 2000 (rebound in cotton) some with lower prices

- Exports by destination show continued importance, but relative decline, of Japan

- U.S. Exchange rates continue strong causing export problems
California Agricultural Export Value by Commodity Group, 2000

- Other products: 19%
- Grapes & Wine: 13%
- Almonds: 10%
- Oranges: 4%
- Other Fruits & Nuts: 17%
- Cotton: 9%
- Other Field Crops: 5%
- Milk & Byprod: 5%
- Other vegetables: 7%
- Tomatoes, Processed: 3%
- Other animal prod.: 3%
- Tomatoes, Fresh: 2%
- Lettuce: 2%
- Flowers & Nursery: 1%

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- Other animal prod.: 3%
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- Lettuce: 2%
- Flowers & Nursery: 1%
California Agricultural Exports: Top Ten Commodities, 1999-2000

- Almonds
- Cotton
- Wine
- Table Grapes
- Milk & byprd.
- Oranges
- Tomatoes, Proc.
- Rice
- Walnuts
- Beef

1999 vs 2000
Ratio of Farm Quantity Exported to Produced

- Grapes, All
- Almonds
- Cotton, Lint
- Milk and Cream
- Oranges
- Tomatoes Processed
- Walnuts
- Beef and Product
- Rice
- Lettuce
- Prunes
- Strawberries
- Tomatoes, Fresh
- Broccoli
- Peaches/Nectarines

%
## INDEXES OF REAL TRADE-WEIGHTED DOLLAR EXCHANGE RATE  All Agricultural Trade

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>US Markets</strong></td>
<td>119.2</td>
<td>117.5</td>
<td>120.2</td>
<td>128.2</td>
<td>129.5</td>
<td>127.9</td>
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<tr>
<td><strong>US Competitors</strong></td>
<td>115.7</td>
<td>122.1</td>
<td>135.5</td>
<td>141.7</td>
<td>145.6</td>
<td>140.5</td>
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<tr>
<td><strong>US Suppliers</strong></td>
<td>111.4</td>
<td>113.6</td>
<td>120</td>
<td>125.2</td>
<td>126</td>
<td>125.3</td>
</tr>
</tbody>
</table>

Source: ERS/USDA  Base 1995 = 100
Agriculture continues to face serious economic challenges

- Much variation by commodity, but most prices are down and some new cases now facing price declines
- Export growth remains important for the long term
- Exchange rates and a global recession are problems
- U.S. recession is a new problem for some income sensitive commodities
- Climate shocks can shift things quickly
- Fundamentals remain sound for the longer-term, but not for every commodity
The Current Agricultural Economic Climate and Trade Policy

- Low farm prices create domestic policy responses that may make liberalization harder
  - The farm bill debate is in that context
- Low farm prices may be wrongly blamed on past market opening
- Contribution of market opening to U.S. And global economic growth is large but does not promise no price or income slumps
- Careful not to expect too much from gradual global market opening
The Current Agricultural Economic Climate and Trade Policy

- A failed trade round would prolong global economic problems and reduce prospects for longer term global growth
- Successful market opening would help continue the growth path of the last half century
- Trade opening should not be over-sold as a panacea
- Trade opening can help shift up and smooth the path of farm prices, but that is against substantial variability driven by climate, other natural shocks and general economic flux
Global Policy Issues

- Results of trade disputes including WTO disputes over anti-dumping, countervail, safeguards and related issues
- Biotech controversies as global demand drivers
- China and Taiwan accession to the WTO
- EU policy reform
- The new WTO round
Trade Policy Outcomes Affect Agricultural Income Prospects for the Next Decades

- Market opening around the globe
- Fewer export subsidies
- Opening U.S. Markets too
- For agricultural industry implications we balance access to markets and more competition
- Also include more income growth in poor and rich countries, mainly from non-agricultural parts of market opening, and
- More income growth in the U.S. too