

UC

California Agriculture: Trends, Issues and Outlook

Executive Seminar on Agricultural Issues
December 10, 2001

Daniel A. Sumner

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

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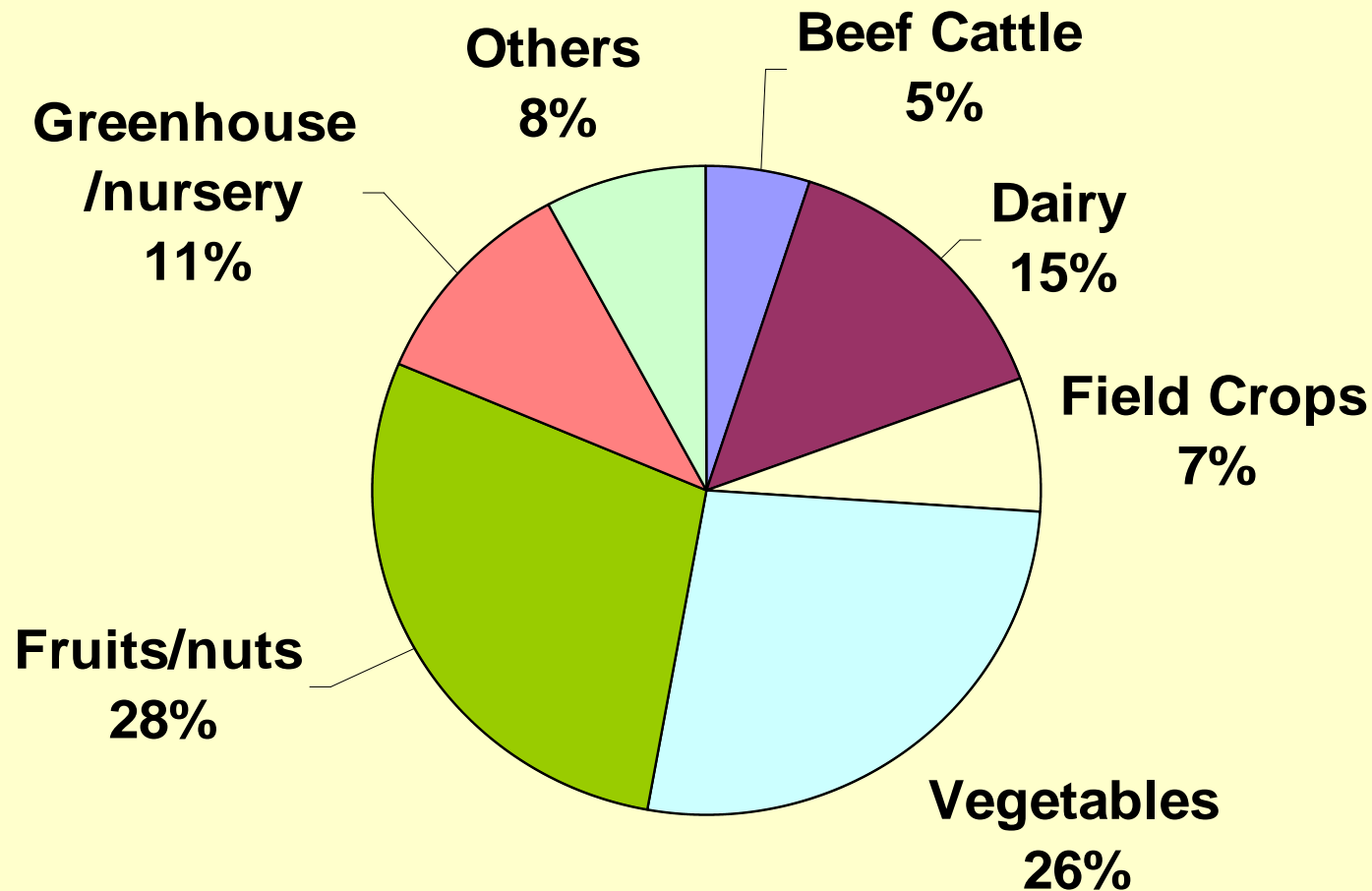
Outline and Overview

- **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

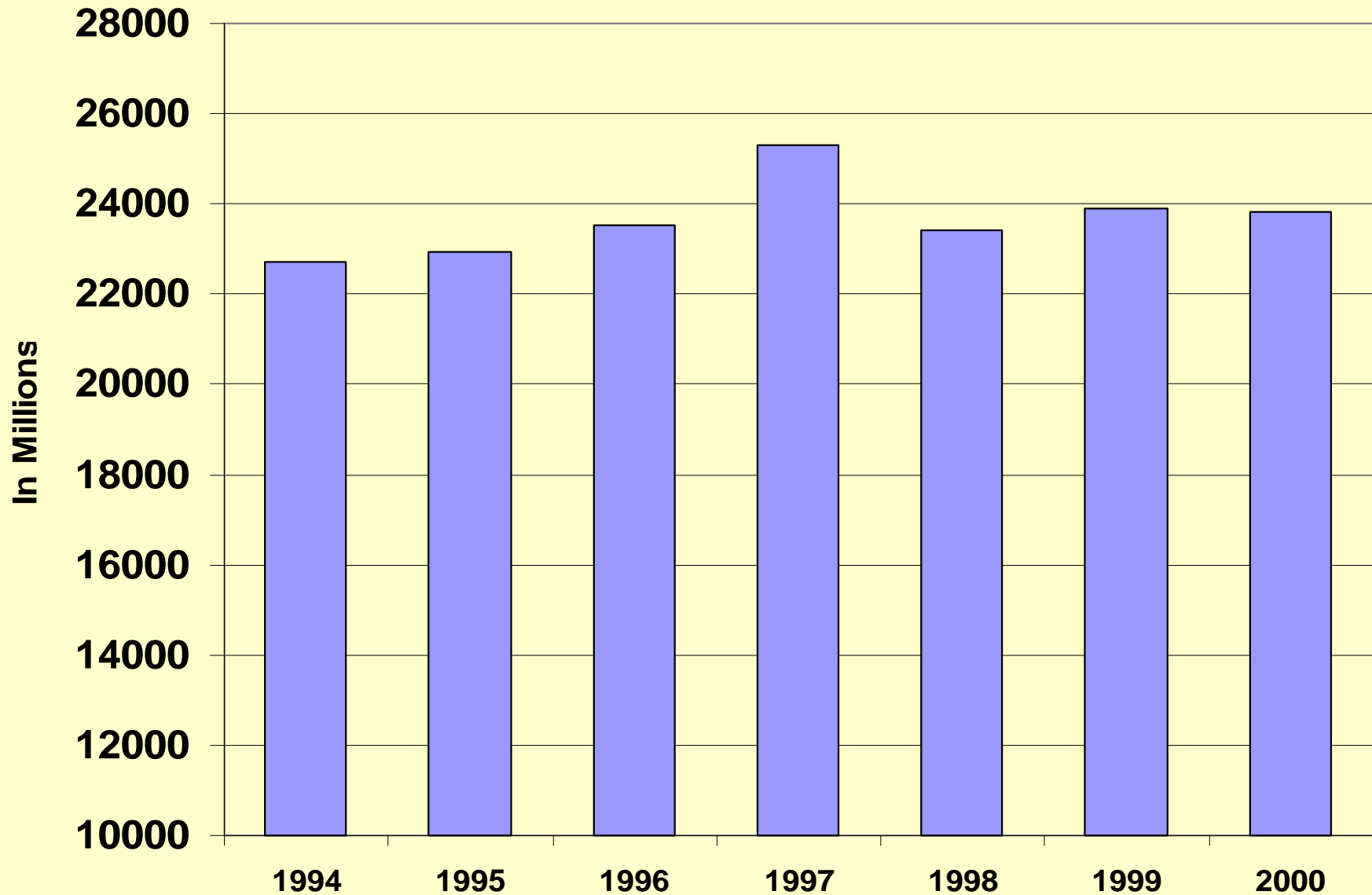
- **Diversity of agriculture in California**
- **Aggregate price and revenue trends**
- **Input costs**
- **Asset values**

Cash Receipts by Commodity Group, California 2000



Gross Cash Income, California Agriculture

Constant 1996 Dollars

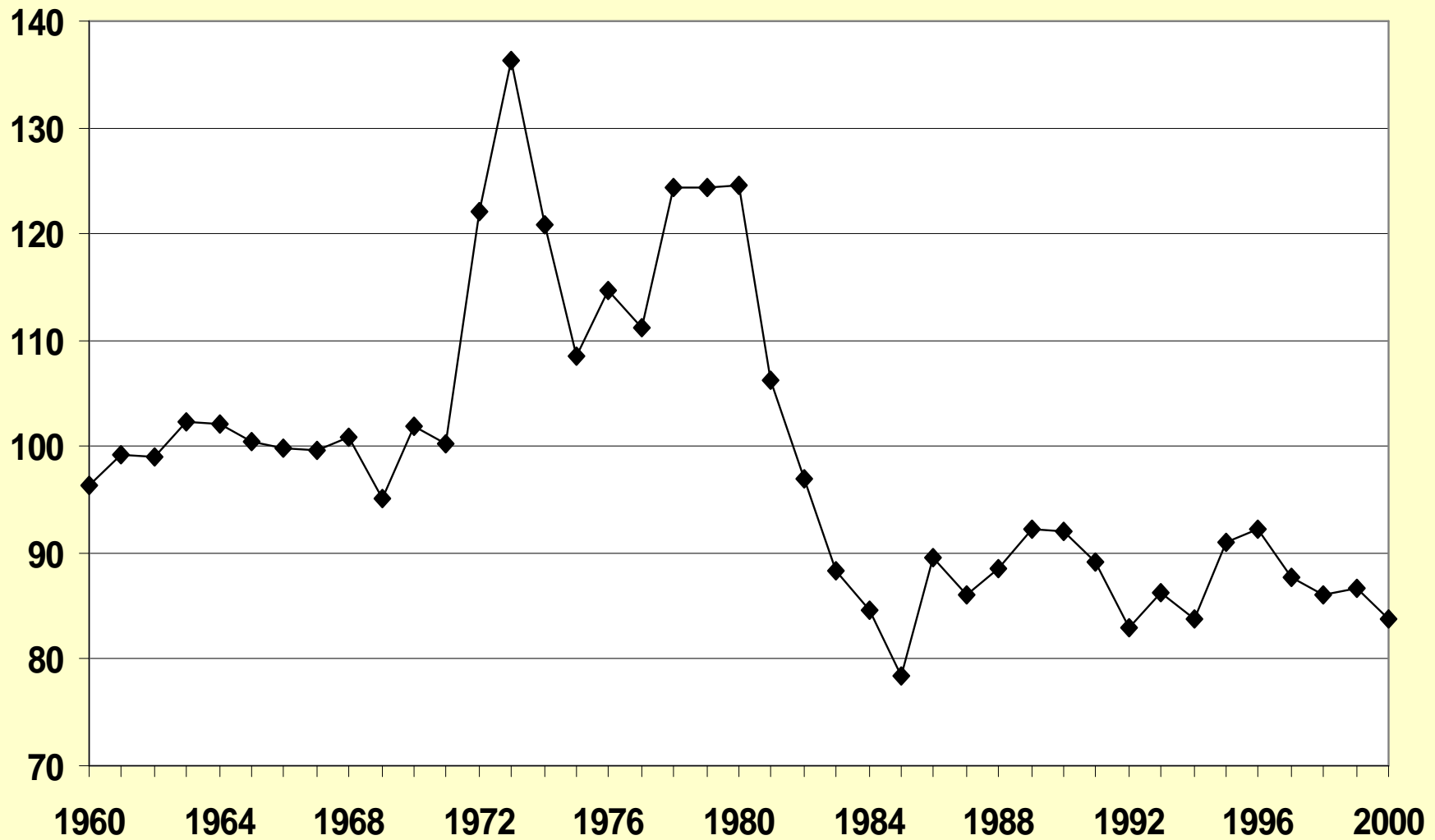


Commodity Prices

- **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**

Index of California Agricultural Commodity Prices, 1960-2000

1965-1967 = 100



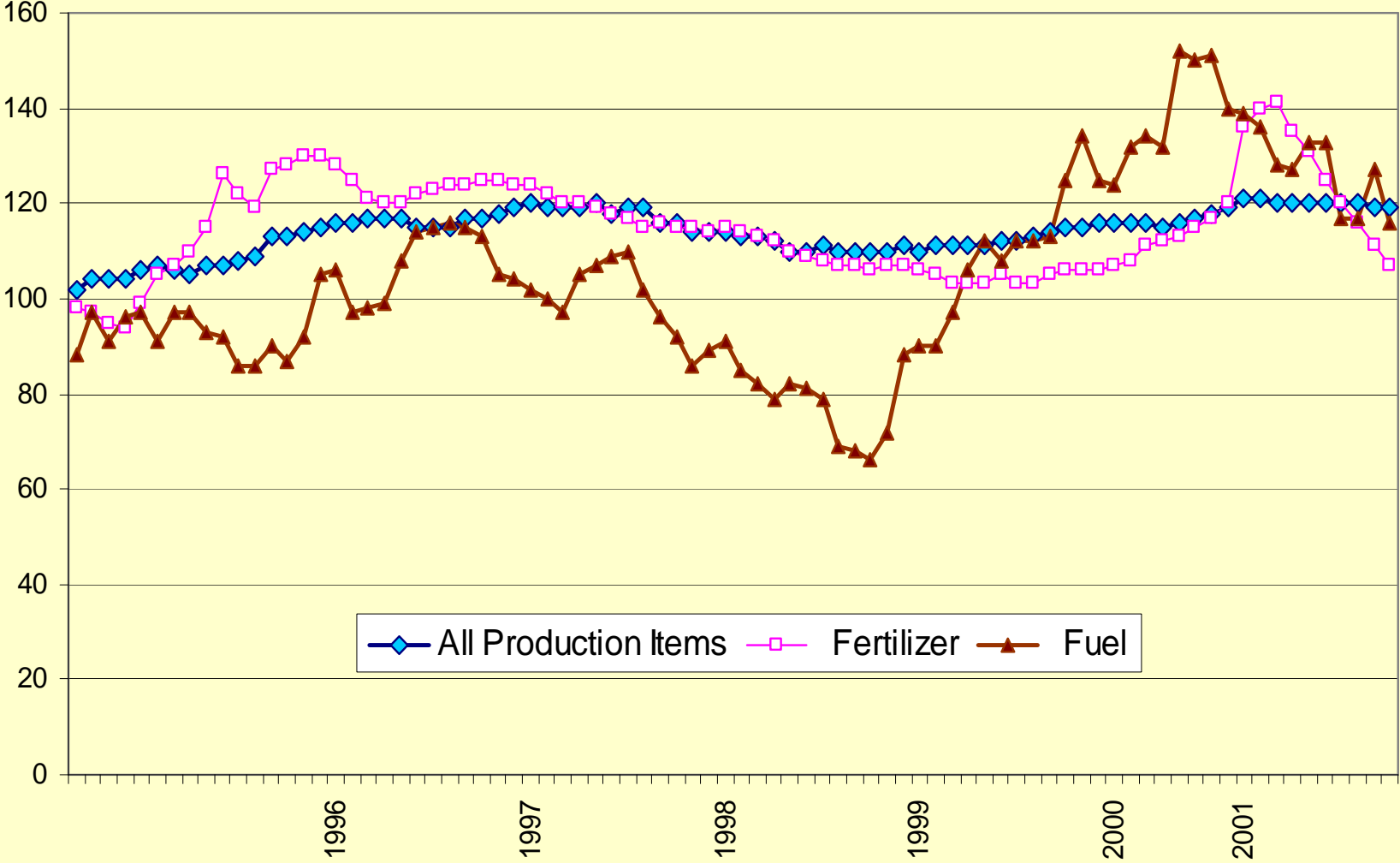
Commodity Prices

- **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**

Prices Paid by Farmers, US

(Jan. '93 - Oct. '01)

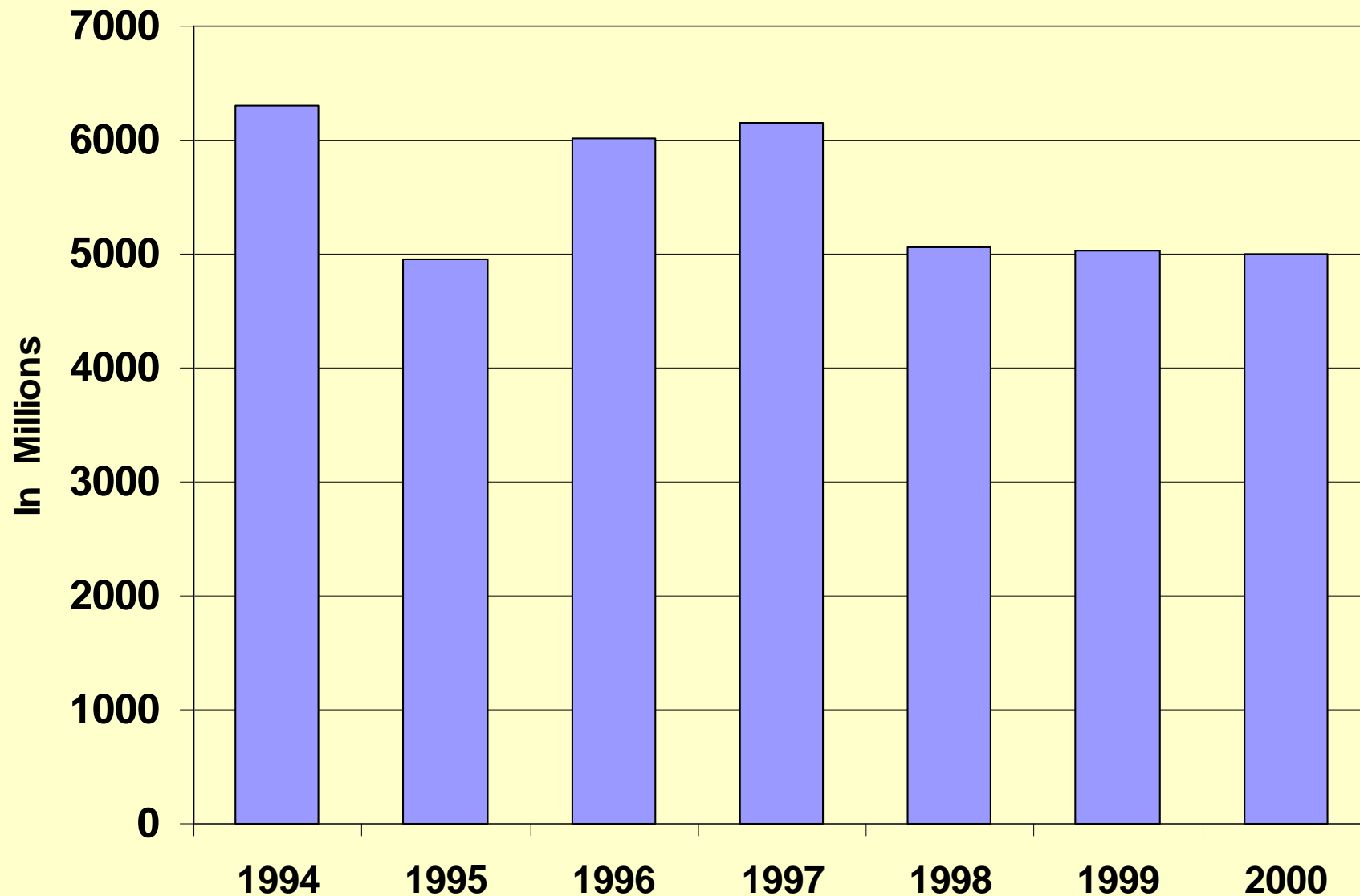
Index
(1990-92=100)



Source: USDA/NASS

Net Farm Income, California Agriculture

Constant 1996 Dollars



California Farm Land Prices

Year	All		Pasture		Cropland		Irrigated Cropland		Non-irrigated Cropland	
	<u>\$</u>	<u>Change</u>	<u>\$</u>	<u>Change</u>	<u>\$</u>	<u>Change</u>	<u>\$</u>	<u>Change</u>	<u>\$</u>	<u>Change</u>
1997	2500		1100		5080		5400		1830	
1998	2610	4%	1050	-5%	5260	4%	5600	4%	1700	-7%
1999	2770	6%	1050	0%	5700	8%	6100	9%	1580	-7%
2000	2850	3%	1000	-5%	5960	5%	6400	5%	1400	-11%
2001	2910	2%	1040	4%	5870	-2%	6300	-2%	1400	0%

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 year**
- **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

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

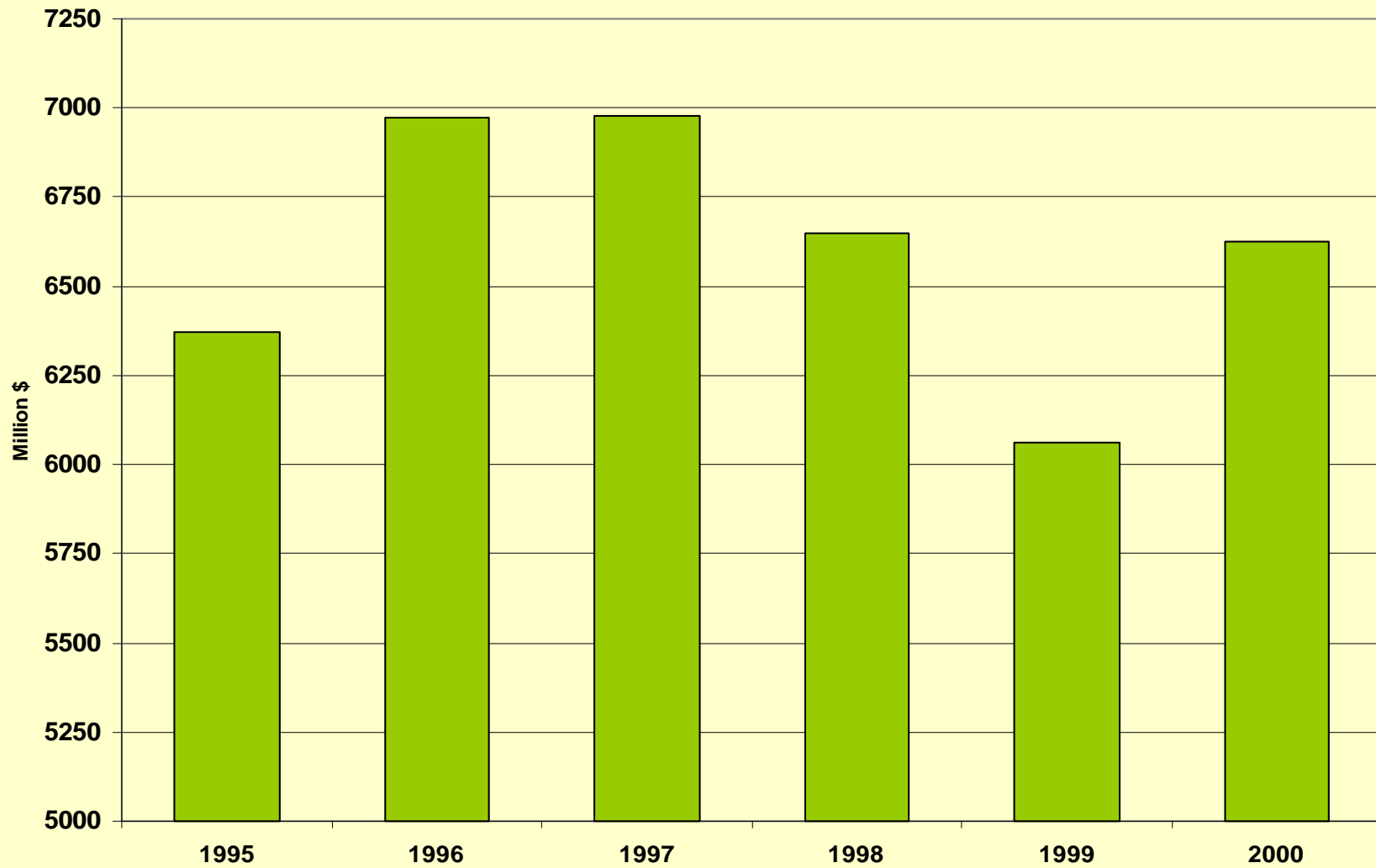
More on Other Commodities

- **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**

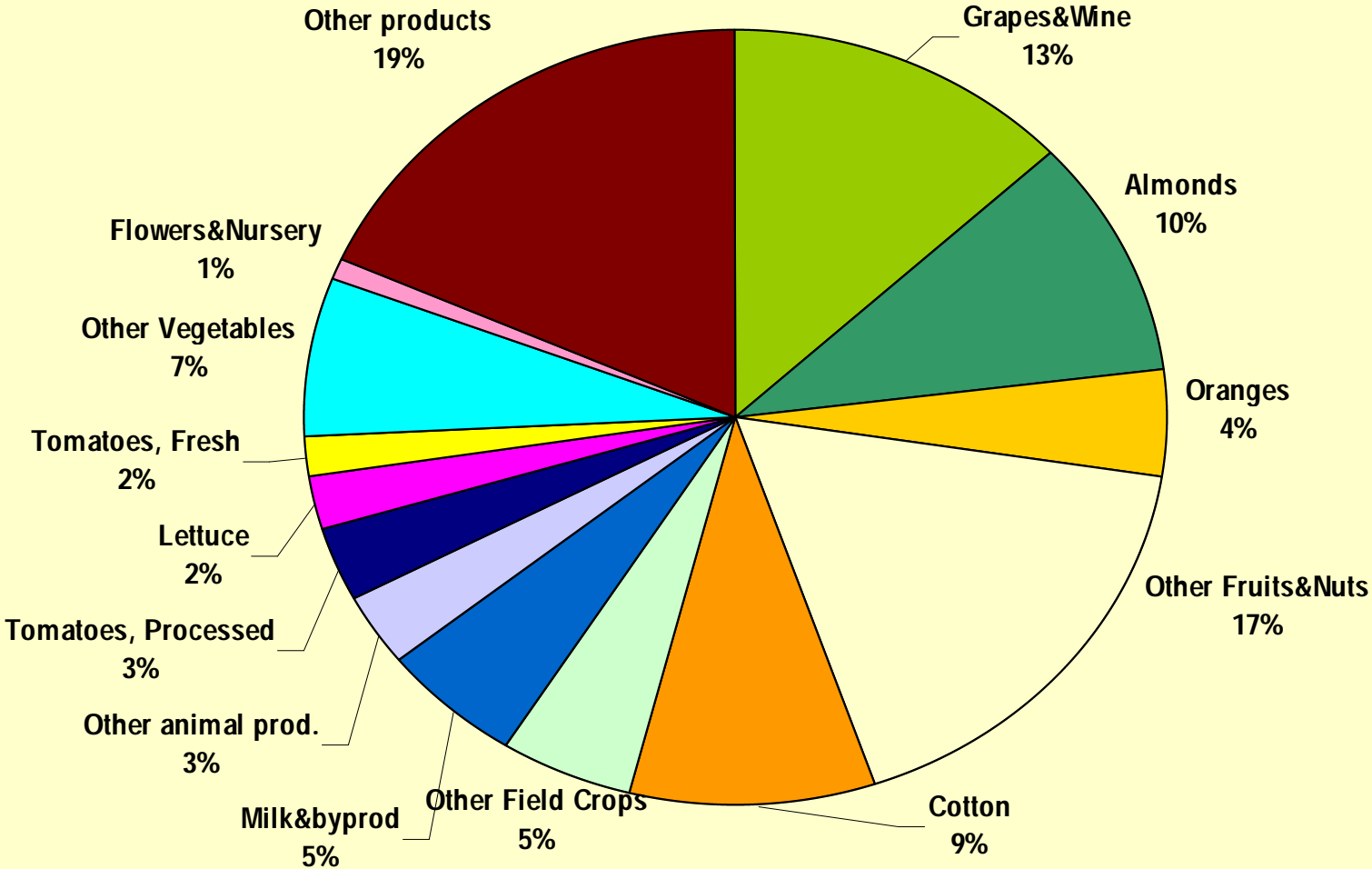
California Agricultural Exports

- **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**

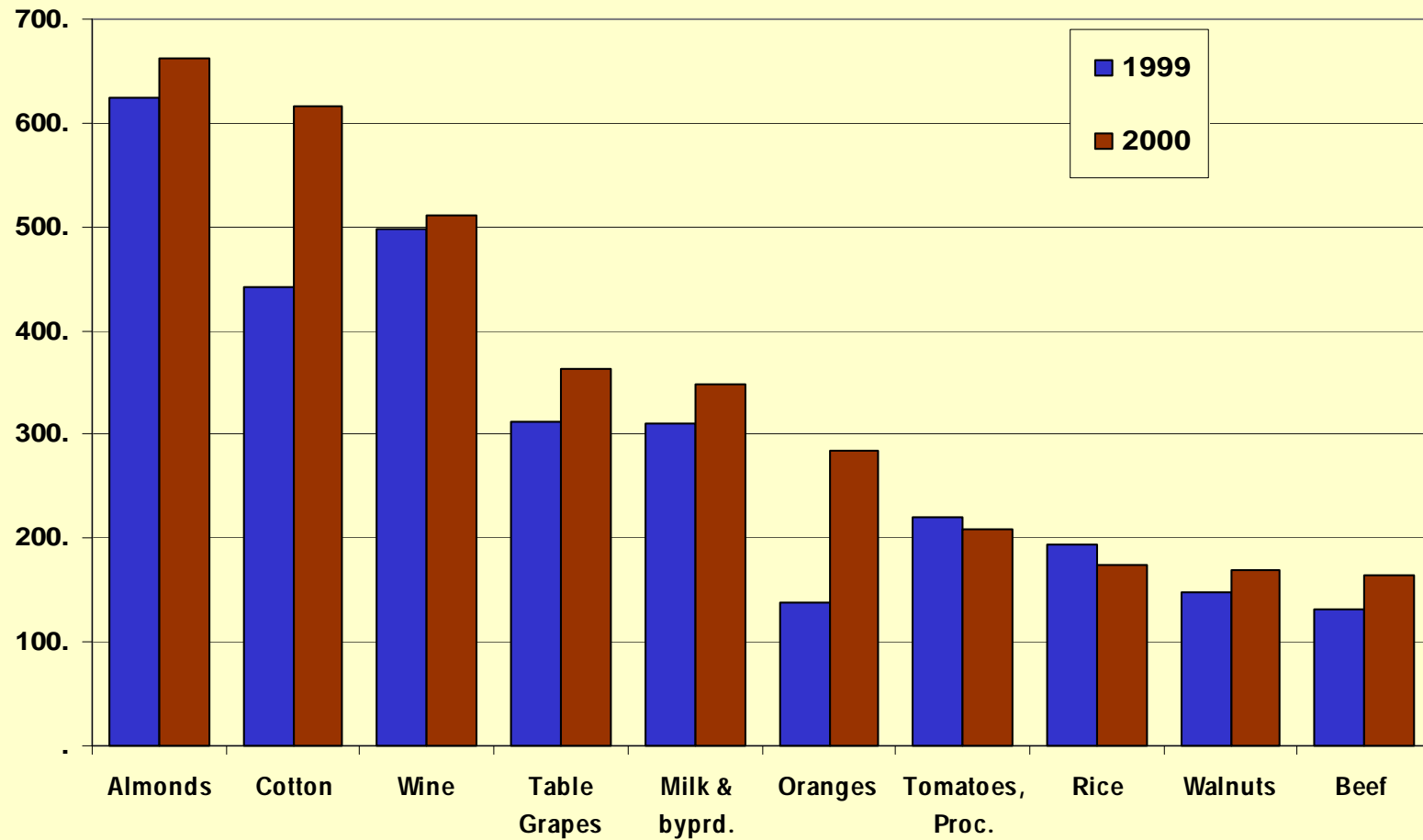
California Agricultural Exports 1995-2000



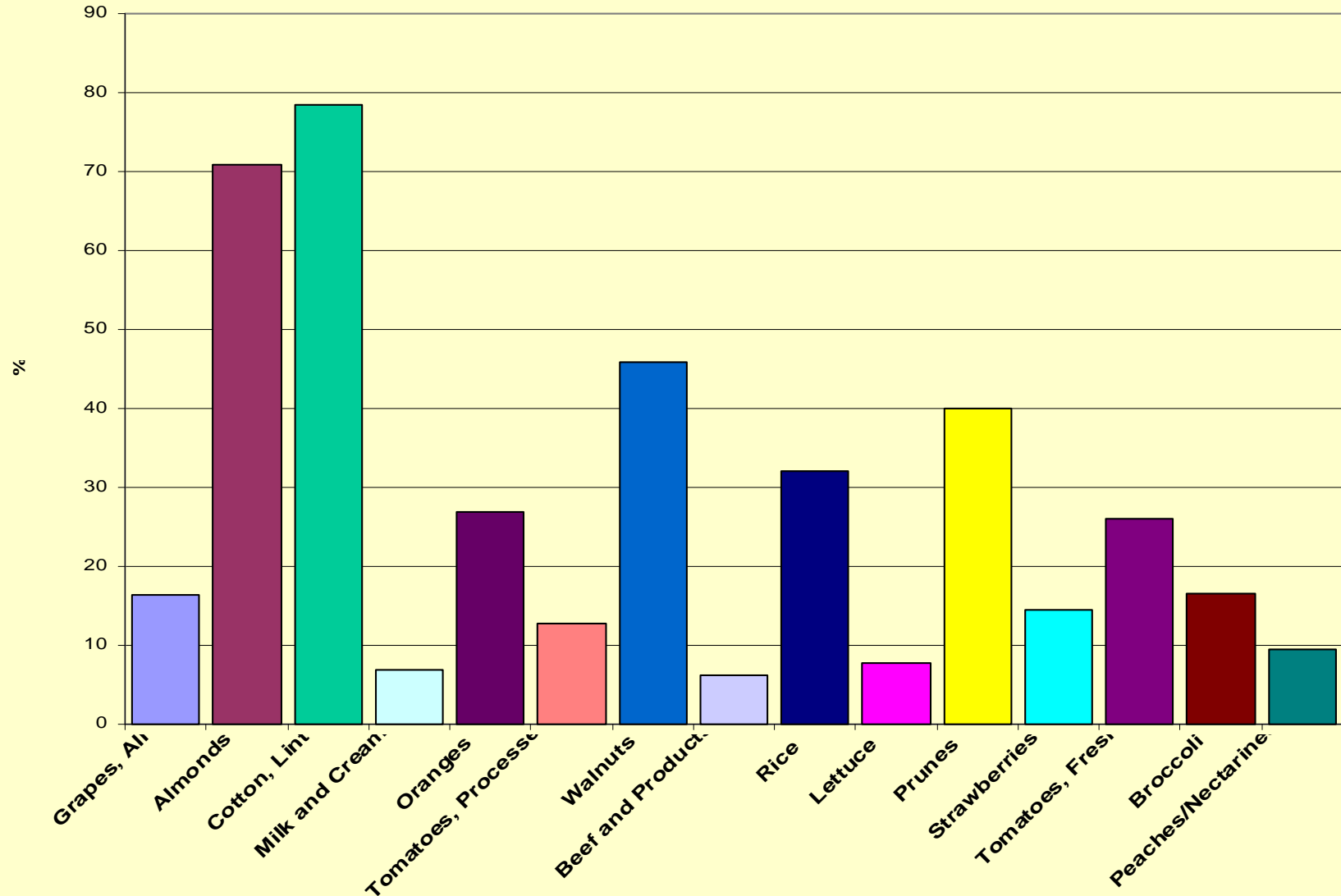
California Agricultural Export Value by Commodity Group, 2000



California Agricultural Exports: Top Ten Commodities, 1999-2000



Ratio of Farm Quantity Exported to Produced



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

	1998 Annual	1999 Annual	2000 Annual	2001 April	2001 June	2001 September
US Markets	119.2	117.5	120.2	128.2	129.5	127.9
US Competitors	115.7	122.1	135.5	141.7	145.6	140.5
US Suppliers	111.4	113.6	120	125.2	126	125.3

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**