Worst drought in US in 60

US REVIEW

DR JOHN DARDIS*

This year will be remembered Stateside for the worst drought in 60 years. Indeed, about 60% of the US is still in drought, and the Mississippi river has fallen to such an extent that the Army Corp of Engineers have had to blow rock formations to keep barge traffic moving.

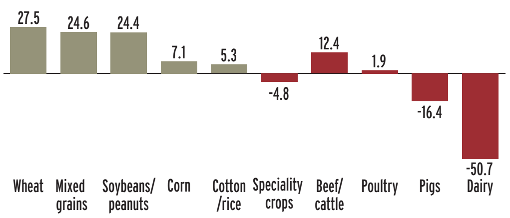
FARM INCOMES

2011 saw record net cash incomes and, despite the difficulties, overall net cash income is expected to remain high in 2012. However, *Figure 1* shows the different effect across sectors. The livestock sector is the hardest hit as we can see.

Figure 1

Change in average net cash farm business income 2011-2012 (%)

Source: USDA

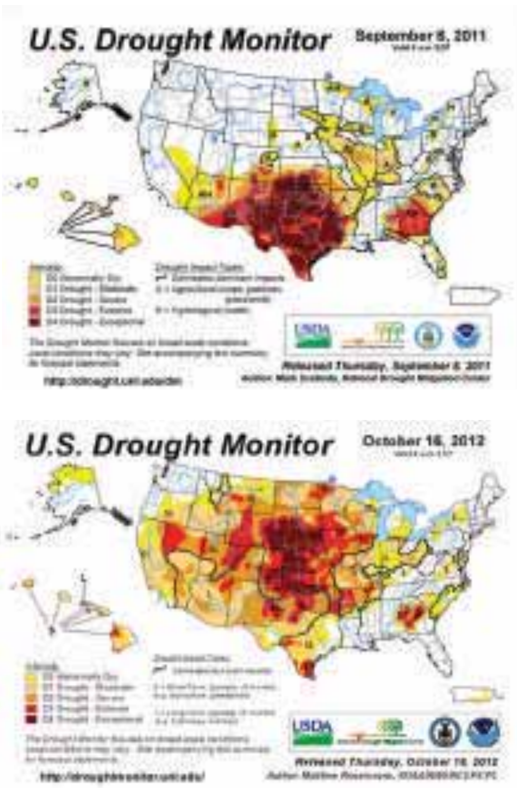


THE DROUGHT

Last year, I reported on the effect of the drought in the South, particularly on the beef industry. From *Figure 2*, it is clear that the 2012 version had a much broader effect across the US, with the corn and soy heartland of the Mid West hit hard.

Figure 2

Comparison of 2011 and 2012 Drought Monitors



CROPS

Last April, all the signs were positive. The area planted, which was up 5m acres for corn and 2.2m acres for soy, and the conditions at planting and emergence, created optimism about the harvest and the ability to build stocks that are perilously low. The projections were for a bumper US corn and soy harvest. Then the drought got steadily worse and we all know what happened next.

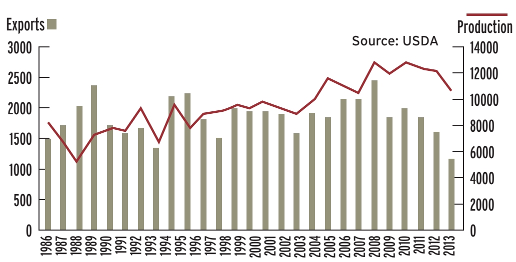
CORN

US corn production fell back by 41.5mmt from 2011, to 272.4m tonnes. It was expected to be worse, but the issue is the inability to build stocks without year on year bumper harvests. Ultimately, corn yields were down 17% nationally with wide variability. For example, Iowa saw its production down 17%, while Illinois was back 38%.

2012 will be remembered Stateside for the worst drought in 60 years.

Figure 3

Corn production and exports (million bushels)



SOYBEANS

US soybean production fell back 4m tonnes, to 80.9mmt. It was always likely that soybeans would recover better than corn. The demand for soybeans is being driven by China which accounted for 59% of US soybean exports in 2011.

WHEAT

The US produced 61.8mmt of wheat off 49m acres. Despite the difficulties for corn and soy, 2012 was a good year for US wheat producers as crops reached maturity before the drought.

LIVESTOCK

Despite the difficulties of the drought, higher commodity prices somewhat compensated for reduced yields, and where farms were particularly badly hit, grain and oilseed producers benefited from crop insurance programmes. The livestock sector is not as well protected; it required significant disaster relief this year. In addition, the USDA had to release conservation land for grazing and hay production.

On the back of last year's drought in the south, soaring feed prices, heat stress on animals and reduced hay and pasture supply, mean 2012 has been another difficult year. If you look at the figures, they don't always tell the whole story, as beef in particular is a sector that takes time to adjust given production cycle length. In addition, the production figures I present in *Table 2* as a summary mask the rising cost of inputs (*Figure 4*) which are clearly affecting incomes in *Figure 1.*

BEEF

US beef production was 11.7mmt. With a poor supply of hay and pasture, farmers had to put cattle on feedlots at lower than usual weights. That means they got paid less (if the cattle were sold) and the feeding cost was higher to the feedlot. Overall production is back marginally in 2012, but bear in mind that cows were going to the factory as producers struggled. The real effect is not likely to kick in until next year, with USDA predicting beef production to fall another 4.2% in 2013. Demand for ground beef, low cow inventories, and reduced heifer replacements should ensure cow and bull prices stay high into 2014. According to my calculations, the average price for choice steers in 2012 worked out at €1.84/kg liveweight.

PORK

US pork production was up in 2012 to 10.58mmt. Again, this reflects the fact that producers were selling off stock. US pork producers also bore the increased cost of feed, production was up on 2011 and exports continue to perform. However, in a similar scenario to beef, USDA predicts the drought to have a more profound effect into 2013.

DAIRY

Figure 1 shows just how badly the dairy sector fares during a sharp commodity price spike. It was a lesson of 2008, and one that the industry is still trying to recover from. 2012 was a strong reminder that dairy policy requires attention to take account of margin as opposed to price. Production and prices remains steady, but input costs were crippling.

NO FARM BILL

The US has been trying to get a Farm Bill done for over a year now. The difficulties for farmers, particularly livestock producers, have not been helped by uncertainty.

Figure 4

Production expenses (billion $)

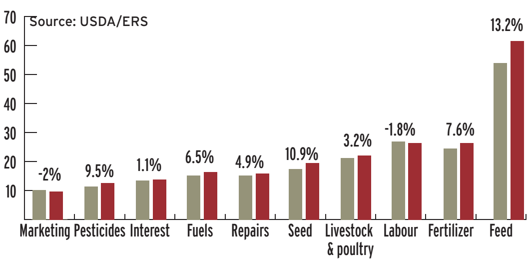


Table 1: US corn, soybean and wheat production

Crop	Production		Area harvested (m acres)		Yield (t/ac)		Avg price (€/t)
	2012	2011	2012	2011	2012	2011	2012
Corn	272.4	313.9	87.7	84	3.11	3.74	228.82
Soybeans	80.9	84.2	75.7	73.8	1.07	1.14	405.02
Wheat	61.8	54.4	49	45.7	1.25	0.95	222.69

Source: World Agriculture Outlook Board

Table 2: US livestock sector

	Production (m mt)			Avg (€/kg) €1 = $1.32	
Sector	2011	2012	2013 (F)	2012	2013 (f)
Beef	11.99	11.7	11.15	1.84	1.92
Pigs	10.3	10.58	10.33	0.91	0.97
Broilers	16.87	16.7	16.53	1.45	1.52
Milk	88.9	90.6	90	0.28	0.29

Source: World Agricultural Outlook Board & USDA Economic Research Service

years

Where will 2013 lead us?

Drought, drought, drought: All eyes are on rainfall. Wheat in the Southern Plains is struggling at present. If 2013 brings no relief, commodity prices will stay high and livestock producers will get squeezed.

A Farm Bill? At the policy level, fingers are crossed that a Farm Bill can be delivered. Being realistic, with the clock ticking to 1 January, it looks increasingly like an extension to the current Farm Bill. That means a more long-term Bill would have to be developed in 2013, when budget pressure will be even stronger. It also means that a lot of currently-funded areas would lose out in the interim as they have no budgetary baseline.

One would hope that the drought has focused minds on the need for a strong safety net. The current Farm Bill expired last September. The effects of that expiration do not kick in until 1 January 2013. However, the Farm Bill touches a huge array of areas, with about 70% of the overall budget involved in nutrition programmes, including food stamps which have 45 million subscribers. Watching the process unfold has been interesting as agriculture fights for its recognition both sides of the Atlantic. Right now, it all rests on the agreement on the fiscal cliff (the perfect storm of tax increases and spending reductions).

ETHANOL

There was a considerable focus on ethanol production as corn prices soared in the summer. A number of livestock groups came together demanding action to reduce the mandated production level. Forty per cent of the US corn crop is going to ethanol. Ultimately, the EPA decided not to change the target of 15bn gallons in the Renewable Fuel Standard, stating that it would have minimal effect on feed prices. Of course, ethanol producers were hit by the price of corn and, according to USDA figures, ethanol production fell back 10% in 2012.

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Watershed year for British dairy sector

BRITISH REVIEW

CHRIS WALKLAND

The year started well for the British dairy industry — it wasn't many days into the New Year before news broke of one of the biggest consolidations in the industry — the takeover of Robert Wiseman Dairies by Muller Dairies. Furthermore, from January to May, the weather was heaven-sent for dairying. Grass grew and milk production soared. By the end of May, production was over 130m litres more than 2011. Then it started to rain.

But then came the first of two body blows: the milk processors sliced 2ppl from milk cheques.

July came, and still it rained. Then the processors announced another 2ppl cut, reducing prices to around 25ppl. To add insult to injury, some of the retailers also wanted a share of the cuts. For the farmers this meant war.

And go to war they did. On 11 July, an emergency meeting of farmers was held in London, and they attended in their thousands.

Meanwhile, outside, it still rained. With many forage and arable crops also a wash-out, costs were increasing at an alarming rate, and were now well over the 30ppl mark (37c).

It was little wonder that the farmers saw protesting as their only recourse, given the 5ppl losses they were facing. En-mass they stood outside processing sites and distribution depots for night after night. This action was supplemented with one of the industry's most successful use of social media so far — with tens of thousands of supporters adding to the pressure.

As for milk supply, well that was falling at the fastest rate in history.

Eventually, though, the farmers' protests bore fruit — the latter of the 2ppl cuts was withdrawn.

July saw agreement on a draft voluntary code signed prior to the Livestock Event in September — days before Agriculture Minister Jim Paice got the boot. And on the consolidation front, Arla and Milk Link formally merged in October.

But if the processors believed the signing of the voluntary code would be the gateway to more peaceful times they were wrong. In December, a small group of Farmers For Action members decided that they would start protesting again, as the milk price was still several pence away from the break-even price.

The latest campaign was led by the organisation's vice chairman Andrew Hemming. However, on 15 December, tragedy struck: Andrew had a sudden heart attack, collapsed and died.

2012 will be remembered, therefore, for consolidation, the dreadful weather, for the price cuts and the unity they brought, for big feed bills, and the voluntary code. But few dairy farmers will miss it.

French tillage and sheep farmer bucks trend

THOMAS HUBERT
IN PARIS

FRENCH REVIEW

Even though Nicolas Roch's *(pictured below)* main business is tillage farming, his farm 100km east of Paris betrays his fascination for animals. After his two hounds' barking warned him of my arrival, we sat down in a room adorned with a boar's head and numerous stags' antlers.

"I hunt and I'm really interested in biodiversity and genetics," the 34-year-old said.

While many French farmers are considering exiting animal production in the wake of strong grain prices and uncertain meat and dairy markets, 2012 has been another year of investment in sheep for him — in a region best known for its wheat and rapeseed fields.

Roch's 115 hectares, where he has been growing cereals and oil and protein seeds since 2001, have been performing well for the past two to three years.

"Yields were a bit lower this year than in 2011, but prices are up, so the bottom line remains the same," he said.

He has been putting much of the profits back into the farm, with a new tractor last December, a new disc harrow this year, plans to build a €10,000 sprayer filling and washing area to environmental standards next spring and a €25,000 extension to his sheep house currently under construction.

Roch is preparing for the future: his parents will retire next year, leaving him another 165 hectares. Six years ago, they transferred their small sheep operation to him, and he has been growing it ever since. He keeps 240 ewes — mostly of the local Ile-de-France breed — and the extension will allow him to reach his target of 300. This is despite losses caused by the Schmallenberg virus, when the German midge-borne disease spread across France last summer — a new headache for French sheep farmers just as the country was declared free of blue tongue.

Nicolas is reshaping the farm for a different model. "When my parents retire, I will have 280 hectares, which is not enough tillage to hire a full-time employee — and buying land is too expensive," he said.

With a sizeable sheep operation, he will have enough work for two, especially during the quiet winter months — and he hopes hiring one staff will give him more time to focus on the marketing of his products.

Over the past year, Roch joined three other sheep farmers to supply a group of supermarkets in the Paris region who wanted to offer high quality local meat. Those lambs make €1 more per kg than the €6 he usually gets from the local co-op.

"We often hit out at supermarkets, but this shows that they can pay the right price for our products and promote them," he said.

He has also been developing direct sales to the public, which he says yield €8 per kg net of the extra killing, butchering and transport costs. Together, these two innovative channels have caught up with the traditional factory in Roch's marketing mix this year, with only half of his lambs now going to the co-op.

Dutch farmers enjoy good year

MATT DEMPSEY
EDITOR

NETHERLANDS REVIEW

It has been a good year for most Dutch farmers. The just-released income estimates from the European Statistics Office for the Netherlands, show a rise in real terms per person in agriculture of 14.9%. This is the second highest increase among the 27 member states of the EU.

Geert Hekkert is editor of *Boerderij*, the *Irish Farmers Journal* equivalent in the Netherlands. The big winners in 2012 were arable farmers – the weather in general was good and prices excellent, especially for seed potatoes.

The figures from the Dutch authorities put the average arable farm income at €115,000, up from €84,000. With ordinary ware and starch potatoes making over €300/tonne, a historic high, the higher the proportion of potatoes in the rotation, the higher the profits.

Dairy farmers saw incomes decline, mainly due to higher feed costs and slightly lower milk prices. The latest estimate is that, after an excellent 2011 that saw average dairy farmer incomes of €56,000, incomes in 2012 will drop to €38,000.

There is a huge variation in dairy farmer incomes depending on what proportion of total feed is grown on the farm.

The trend is for existing dairy farmers with the capacity, both financial and technical, to increase cow numbers from 70-80 to 150-200. Much of the extra labour is being supplied by robotic milkers. The Netherlands, with a quota of 11 billion litres on a total area the size of Munster, has nine times the quota per utilisable land acre as Ireland.

The country is also heavily stocked with pigs, with almost seven times Ireland's number of sows.

Specialist pig fatteners suffered badly from high weaner prices and high feed prices but specialist weaner producer farms saw a sharp increase in income, mainly because of a buoyant trade in weaners to Denmark. These farms saw losses averaging €52,000 in 2011 transformed into a profit of €83,000 in 2012.