Political Impact on Global Agriculture

Impacts: Economy | Markets | Policy

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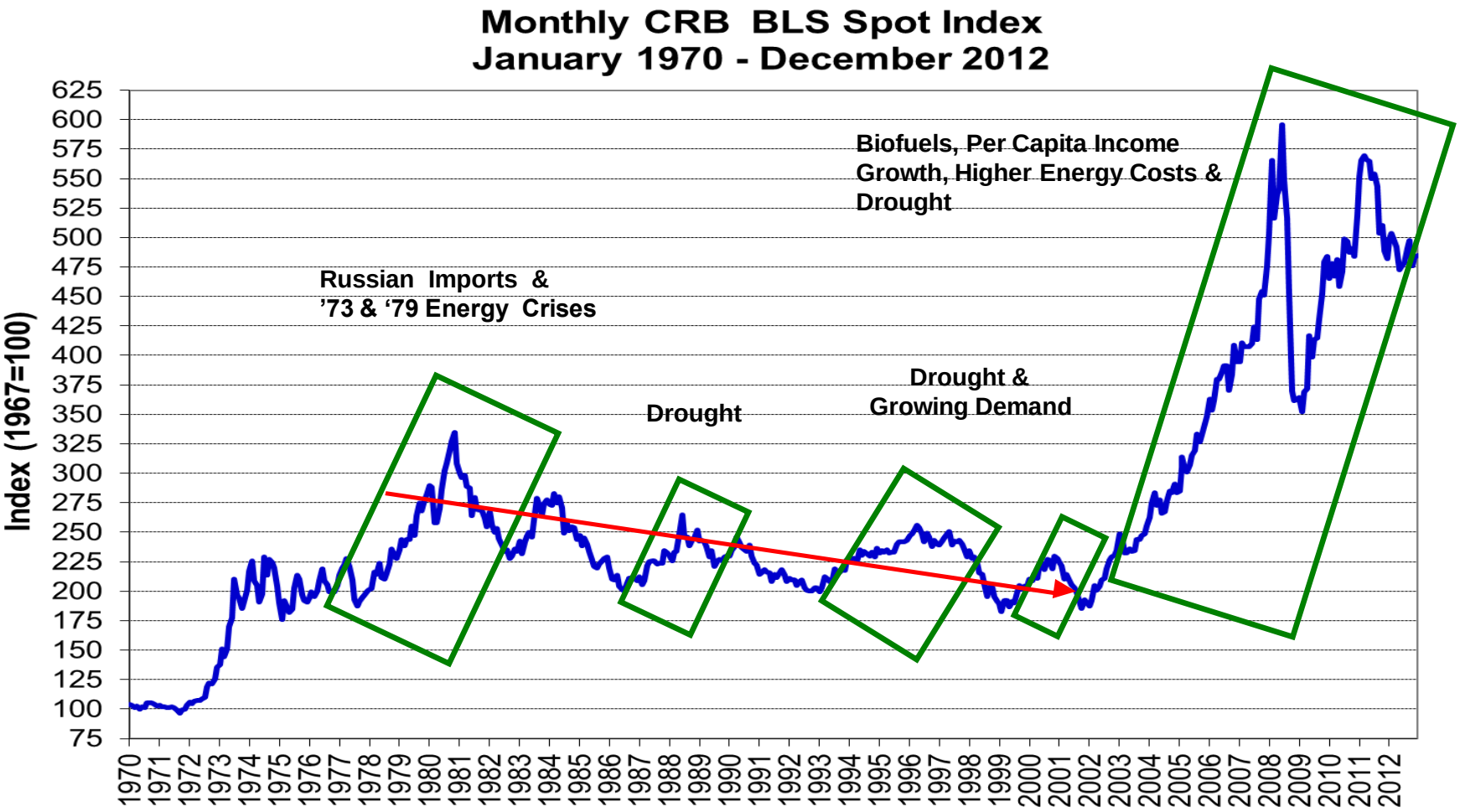
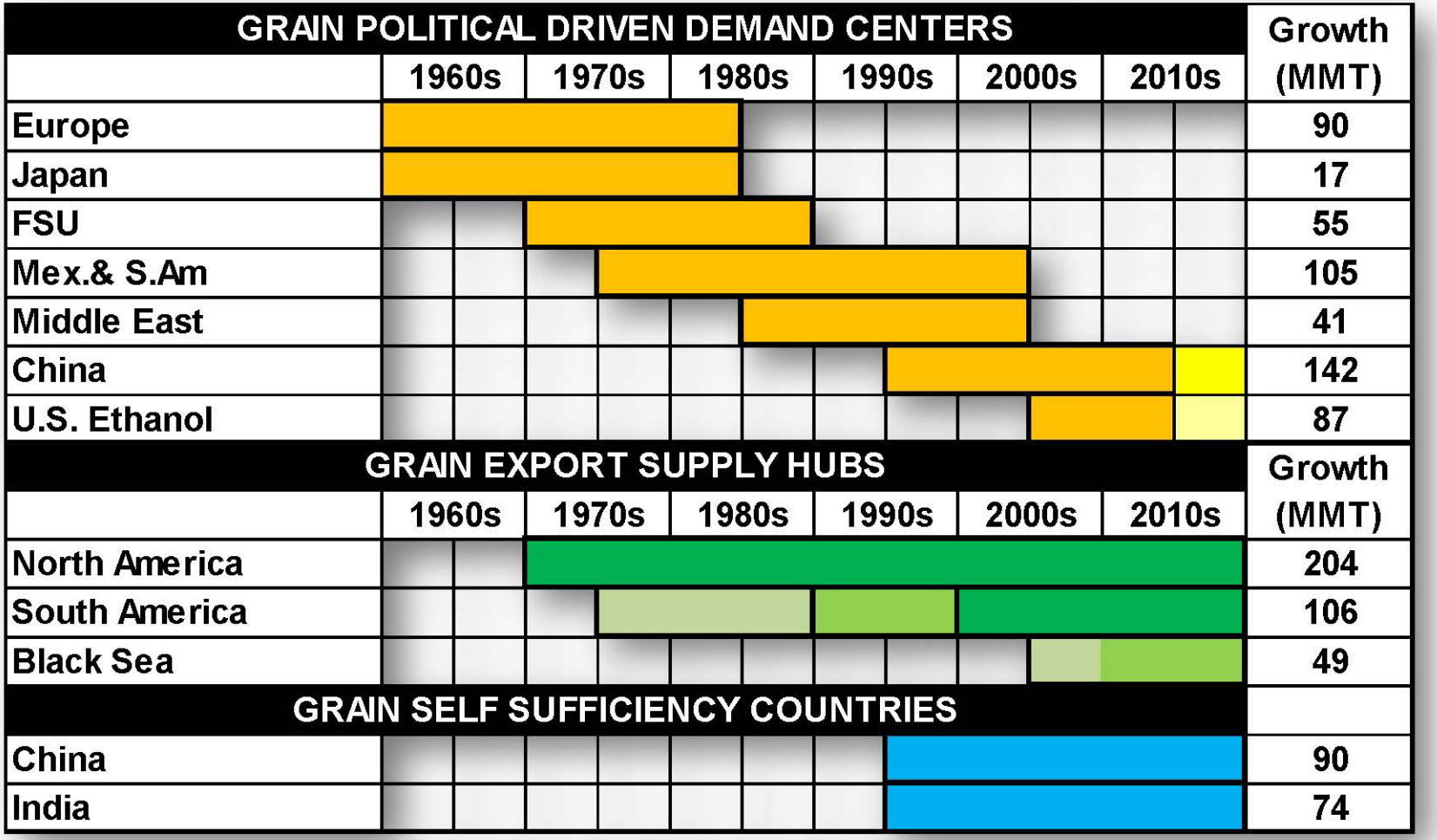
Monthly Commodity Research Bureau Index

January 1970 – December 2012



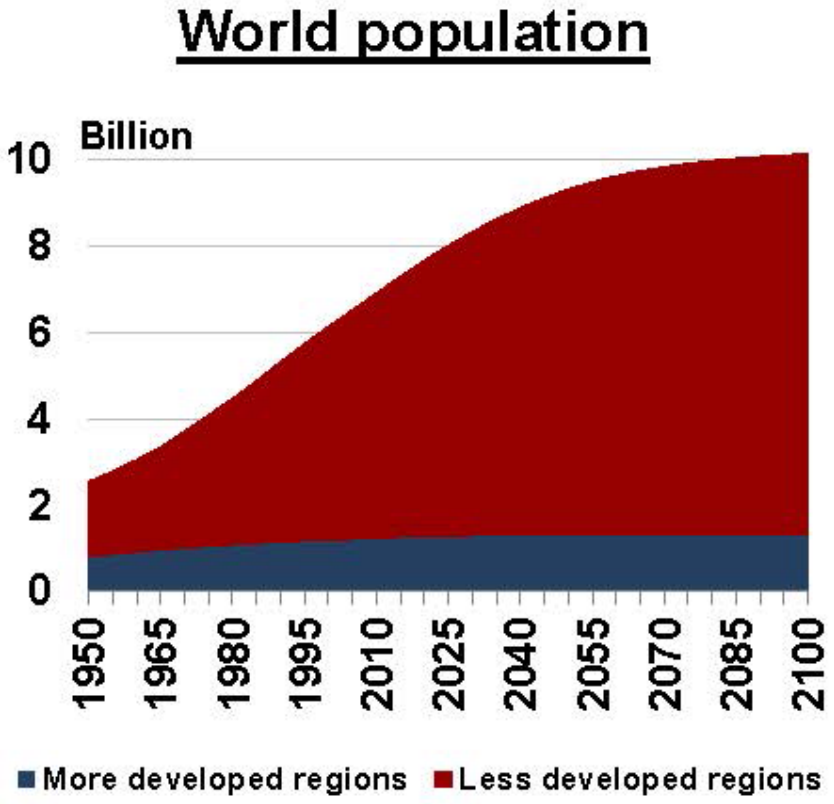
Agriculture Growth in the Past 50 Years

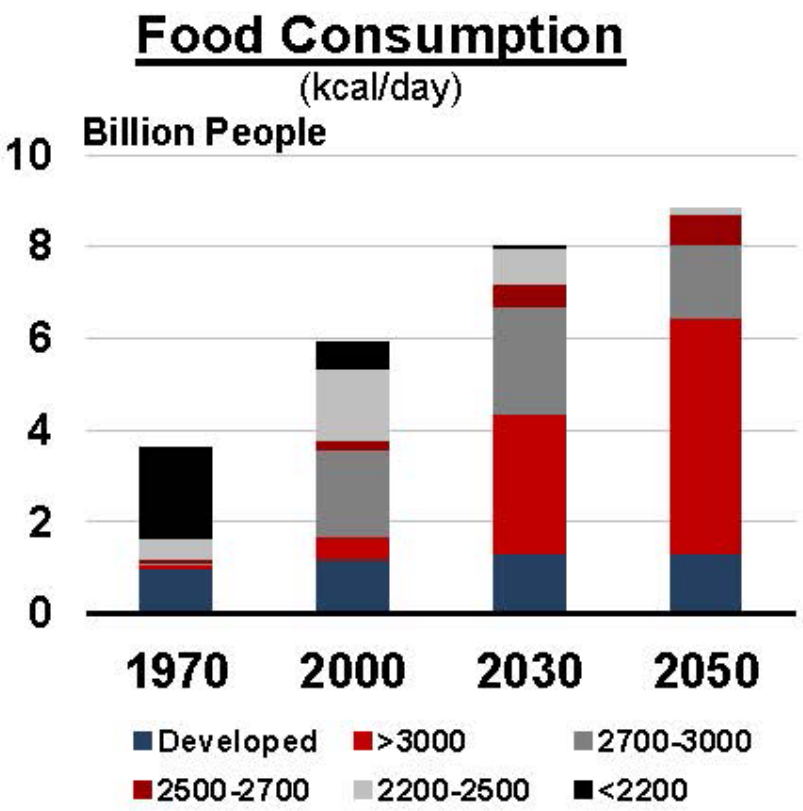


Political demand shocks with economic consequences for global grain complex

Source: DuPont Pioneer

World Population: A Closer View

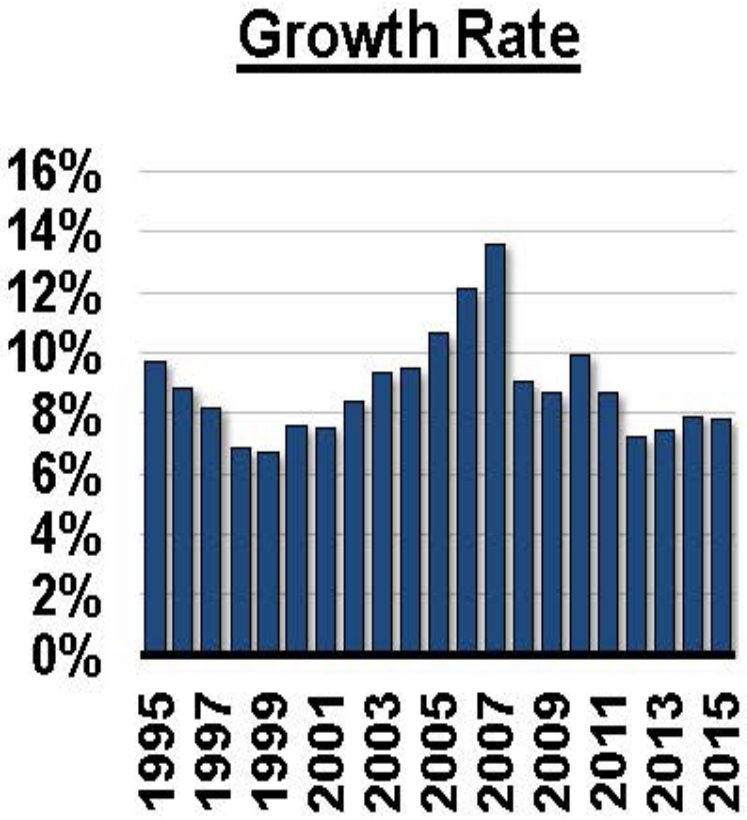


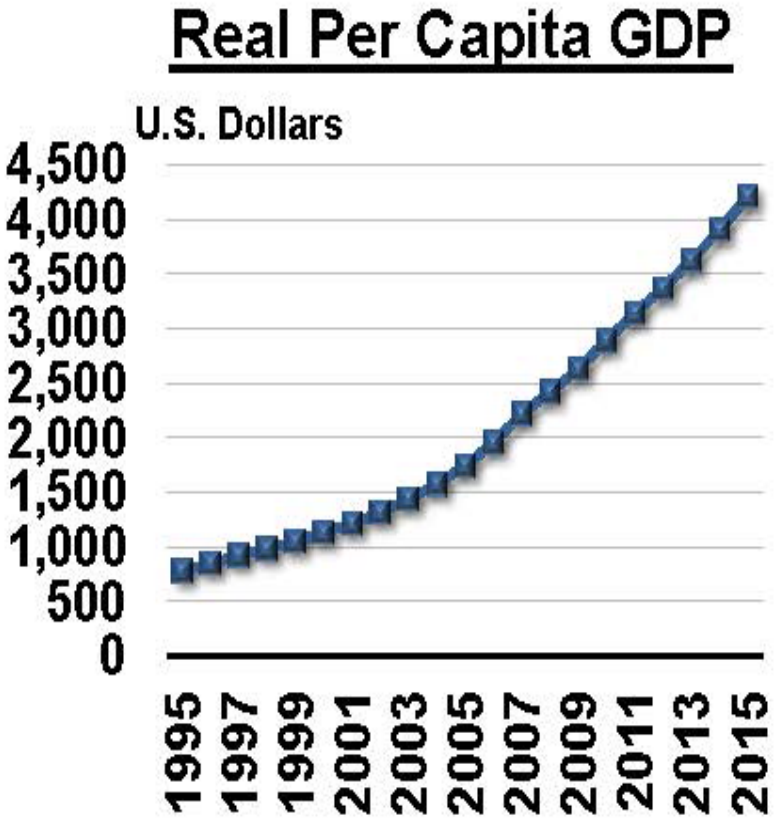


Income changes in the developing world are improving people's diets on a global basis.

Source: DuPont Pioneer

China's Middle Class Impact

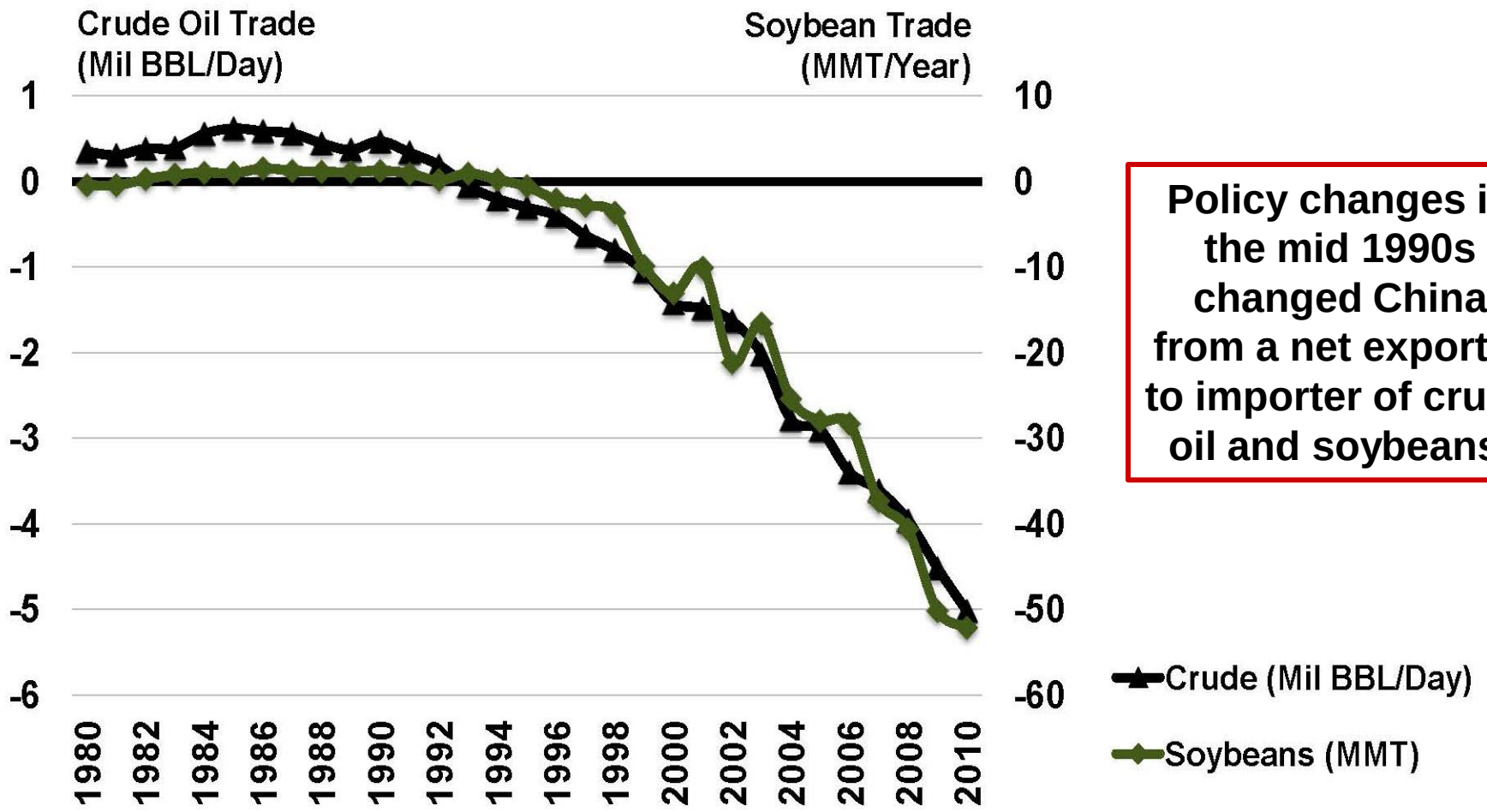




China is an example of an economy that is improving dramatically. As more of their population moves to the middle class, the world commodity sectors have been changed forever.

Source: DuPont Pioneer

China's Middle Class Impact – Moving from Exporter to Importer on Beans, Crude



Policy changes in the mid 1990s changed China from a net exporter to importer of crude oil and soybeans.

Source: DuPont Pioneer

China's Economic Growth from 2000-2010 Driving Agricultural Demand

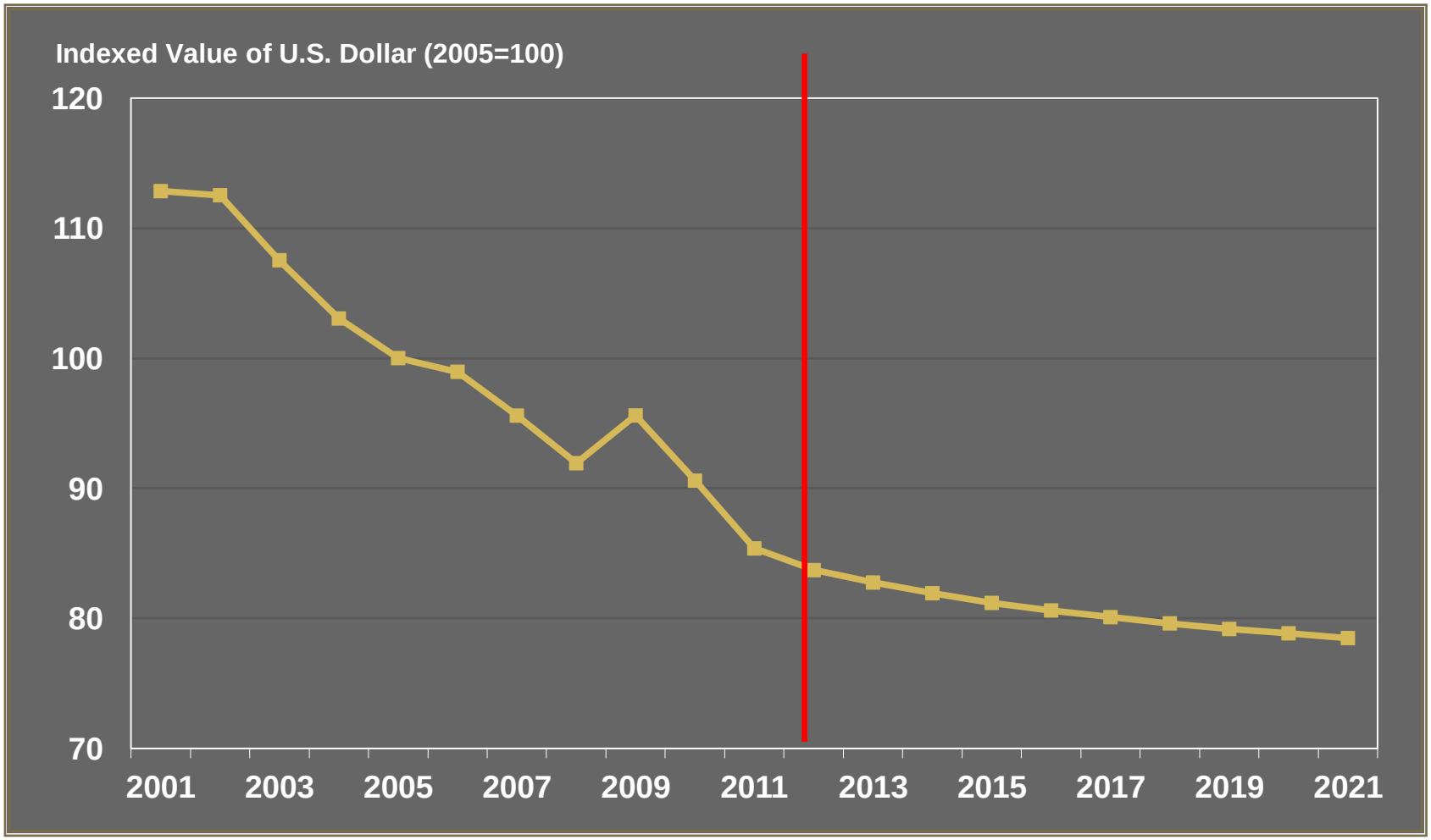
Population	Income (Real GDP)	*Per Cap* Income (Real GDP)
+5.8%	**+174%**	**+159%**
1.27 bil to 1.34 bil	$1.4 tril to $3.9 tril (Indexed to 2005)	$1,118 to $2,890 (Indexed to 2005)

Per Cap Meat Consumption	*Per Cap* Dairy Consumption	Crop Consumption
+21%	**+212%**	**+26%**
43 kg/yr to 52 kg/yr (Beef, Pork, Chicken)	7 kg/yr to 22 kg/yr (Fluid and Manufacturing)	(Soybeans +191%, Corn+50%, Wheat +0.2%, Rice+1%, Cotton +96%)

Magnitude of growth on a per capita basis is phenomenal!

Source: DuPont Pioneer

Value of Dollar to Ease Further…Keeping Upward Pressure on Commodity Prices, But…



Source: USDA, Economic Research Service; Foreign Agricultural Service

9 Factors Impacting U.S., Global Food and Agricultural Markets Over the Next Decade

<u>Takeaway</u>: Strong growth in food demand from emerging markets, keeping global prices and profitability strong

- **Global growth and rise of "middle class" in developing countries**
- **Value of U.S. dollar**
- **Worldwide biofuels production**
- **Role of trade and trade liberalization – and transportation**
- **Energy and agricultural input prices**
- **Biotech and other yield/precision developments**
- **Additional crop land – Brazil – Ukraine – Africa**

- **Weather**
- **Politics and policy**

Policy What Ifs…

- **If Washington doesn't deal with debt, spending**

  If Europe's economy goes into severe recession

- **If U.S. economy grows more than expected**

  Impact on the dollar and trade

- **If U.S., Eastern Europe has another drought**

  Ethanol/RFS | Livestock | Food prices | Export policy

- **If China starts importing corn to any significant degree**
- **If US corn yields exceed trend-line levels**
- **If there is a major Israel-Iran skirmish/war**
- **If means testing comes to crop insurance**

Issue: Crop Insurance

- **Record indemnities for 2012 crops: $12.347 bil.**
- **Total premiums at $11.05 bil. mean loss ratio at 1.12**
- **Prior record payout year 2011 - $10.839 bil. w/loss ratio 0.91**
- **Loss ratio hasn't been above 1.0 since 2002**
- **Record net insured acres at 281.717 million**
- **2012 indemnities:**

  Corn - $7.848 bil. (nearly 64% of total payouts)

  Soybeans: 1.618 bil.

  Cotton: $917 mil.

  Wheat: $722 mil.

Issue: Crop Insurance

Crop	2012 Indemnities *(billion dollars)*	2011 Indemnities *(billion dollars)*
Corn	$7.848	$3.225
Cotton	$0.917	$2.375
Pasture & rangeland	$0.117	$0.182
Peanuts	$0.018	$0.074
Rice	$0.039	$0.090
Soybeans	$1.618	$1.566
Wheat	$0.722	$1.769
TOTAL	**$12.347**	**$10.843**

Issue: Crop Insurance

State	Corn *(billion dollars)*	Soybeans *(billion dollars)*
Illinois	$1.643	$0.148
Indiana	$0.556	$0.090
Iowa	$1.280	$0.202
Kansas	$0.654	$0.194
Minnesota	$0.152	$0.047
Missouri	$0.600	$0.206
Nebraska	$0.934	$0.249
North Dakota	$0.042	$0.033
Ohio	$0.205	$0.046
South Dakota	$0.701	$0.243
TOTAL	$7.848	$1.618

A Changed Tone in Washington

***Key**: Obama far more engaged, focusing on history*

- **'Cliff' averted… mini-cliffs ahead … Impact on dollar, economy**
- **Washington timeline**
- **Election results and what they mean**
- **Looking ahead – House, Senate in 2014 – President in 2016**
- **US farm bill extension & new bill ahead**
- **Takeaways – What's it all mean?**

A Cliff Fix?

US Cliff Averted

Sen. McConnell, VP Biden key players in deal

- **<u>Taxes</u>: Permanent extension of 2001 & 2003 cuts for those with incomes under $400K, couples under $450K**

  Payroll tax cut not continued – Impact on US GDP

  Taxes will rise for 75% of households

- **<u>AMT</u>: Permanent patch**

- **<u>Dividends and cap gains</u> at 20% for those <u>over</u> $400k/$450k threshold – 15% for all others**

US Estate Taxes

- **<u>Estate tax</u>: $5.250 mil. exemption (double for spouse) but tax rate on estates above rises to 40% vs prior 35%**

  Gift tax exemption rises to $14,000 a year per donee

  Spousal portability of estate tax exemption revived, along with discount of up to $1,070,000 on farm or business realty valuation

US Bonus Depreciation/Section 179

- **50% bonus depreciation plus expensing of up to $500,000 of assets for 2013 (retroactively for 2012, too)**

  $500,000 ceiling on expensing is reduced dollar for dollar after more than $2 million of assets are put in service

US Cliff Averted

Different viewpoints on deficit impact of package

- **<u>Biodiesel incentive</u>: Retroactive for 2012 and extended thru 2013**

  Cellulosic biofuel credit continued

- **<u>Sequester cuts</u>: Delayed to March 1**

- **<u>One year farm bill extension</u>… for many programs**

US Mini-Cliffs Ahead

Major showdown on spending, revenue

- **Debt limit hike: Needed by mid- to late-Feb.**

  GOP leaders counter and issue delayed into mid-May

- **Sequester cuts: Delayed to March 1**

  GOP may let across-the-board cuts occur

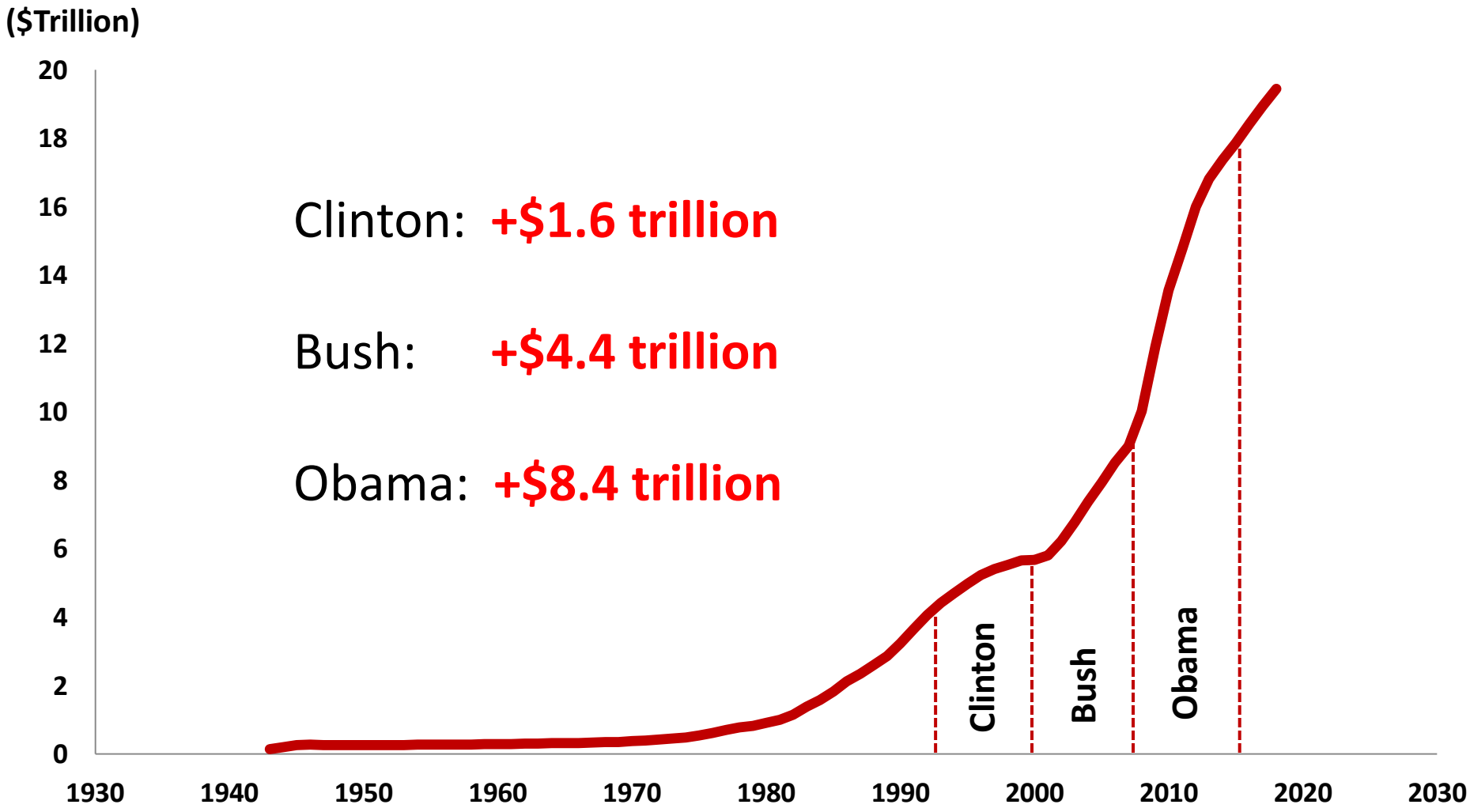
- **FY 2013 spending: CR expires March 27**

U.S. National Debt

Big increase since 2009

- **Jan. 20, 2009: $10.6 trillion**
- **Jan. 1, 2013: $16.4 trillion**
- **Jan. 2016: $18.4 trillion (98% of GDP)**

Total U.S. Debt

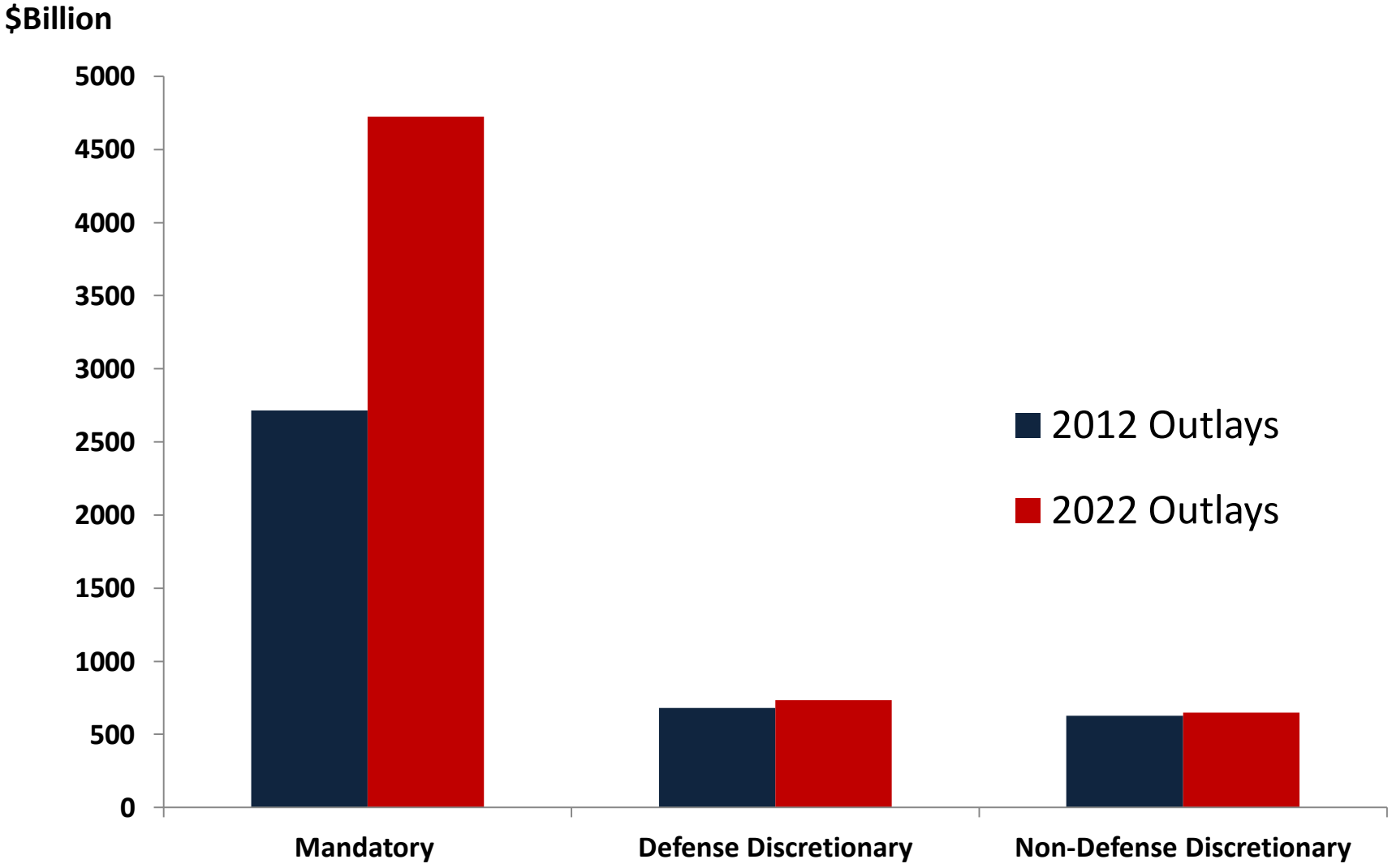


FY 2012 Federal Budget

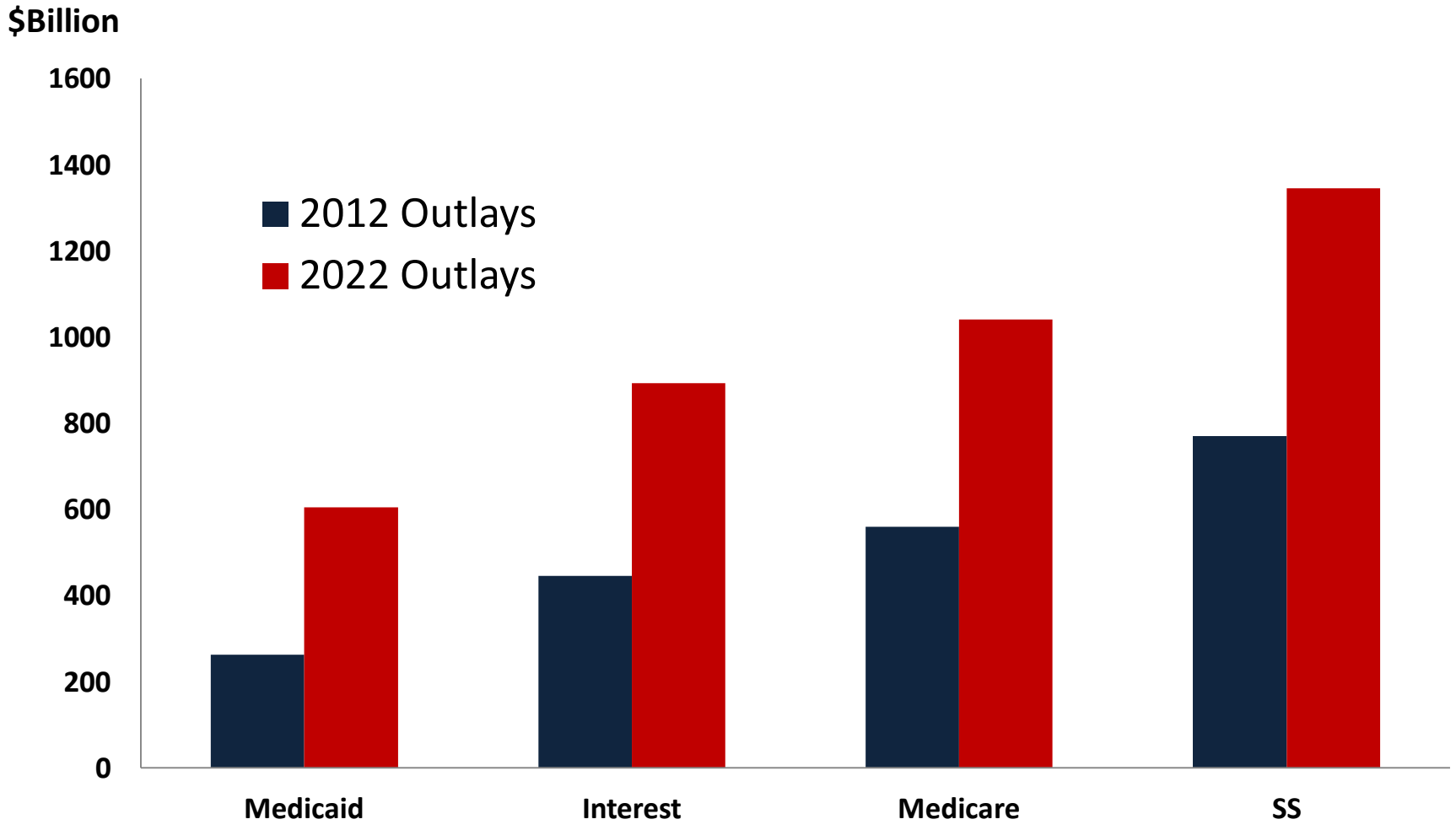
• Social Security	**$770 billion**
• Defense	**$670 billion**
• Medicare	**$560 billion**
• Medicaid	**$260 billion**
• Interest on the Debt	**$445 billion**
• **Subtotal**	**$2.7 trillion**

Total FY 2012 Revenues	**$2.5 trillion**
Total FY 2012 Budget Outlays	**$3.6 trillion**

Mandatory vs Discretionary Spending



Mandatory Spending: 2012 vs 2022



If U.S. Doesn't Get Control of Spending…

Political Update

Polarization → Disunity

A House Divided: 113th Congress

- **House – 233 R's vs. 200 D's**
  - **94% of R's** will hold seats Romney won
  - **96% of D's** will hold seats Obama won
  - **50%** won by <u>at least</u> **20 points** (record level)
- **Senate – 55 D's vs. 45 R's**
  - **80% of D's** are from states that Obama won
  - **78% of R's** are from states that Romney won

Polarization of the Electorate

- **U.S. has become more polarized**
  - Regionally/geographically
  - Race, ethnicity

- **Result:** Dysfunction in governing (primarily in the House)

2012 Rural vs. Urban Vote

- **Rural America** supported Mitt **Romney by 20 points**
- **Urban America** supported President **Obama by 24 points**
- Obama carried **27/30** largest cities

Polarizing by Ethnicity/Race

- **Whites:**
  - **89%** of all votes Romney received were white
  - **56%** for Obama

- **Minority groups** gave Obama **80%** of their vote
  - African-Americans: **93%**
  - Latinos: **71%**
  - Asians: **73%**

Future Demographics

	2012*	2060**
Whites	63%	43%
Hispanics	17%	33%
African-Americans	13%	15%
Asian-Americans	5%	8%

* U.S. population of **312 million** in 2012
** U.S. Census Bureau projection -- U.S. population of **420 million** by 2060

Issue: Immigration Reform

- **Latino vote for Dems has changed atmosphere of issue**
- **Timeline: next 18 months**
- **Final package will likely address**

  (1) border security

  (2) verification systems

  (3) seasonal farm workers

  (4) more permanent program for children of illegal immigrants

  And most important…

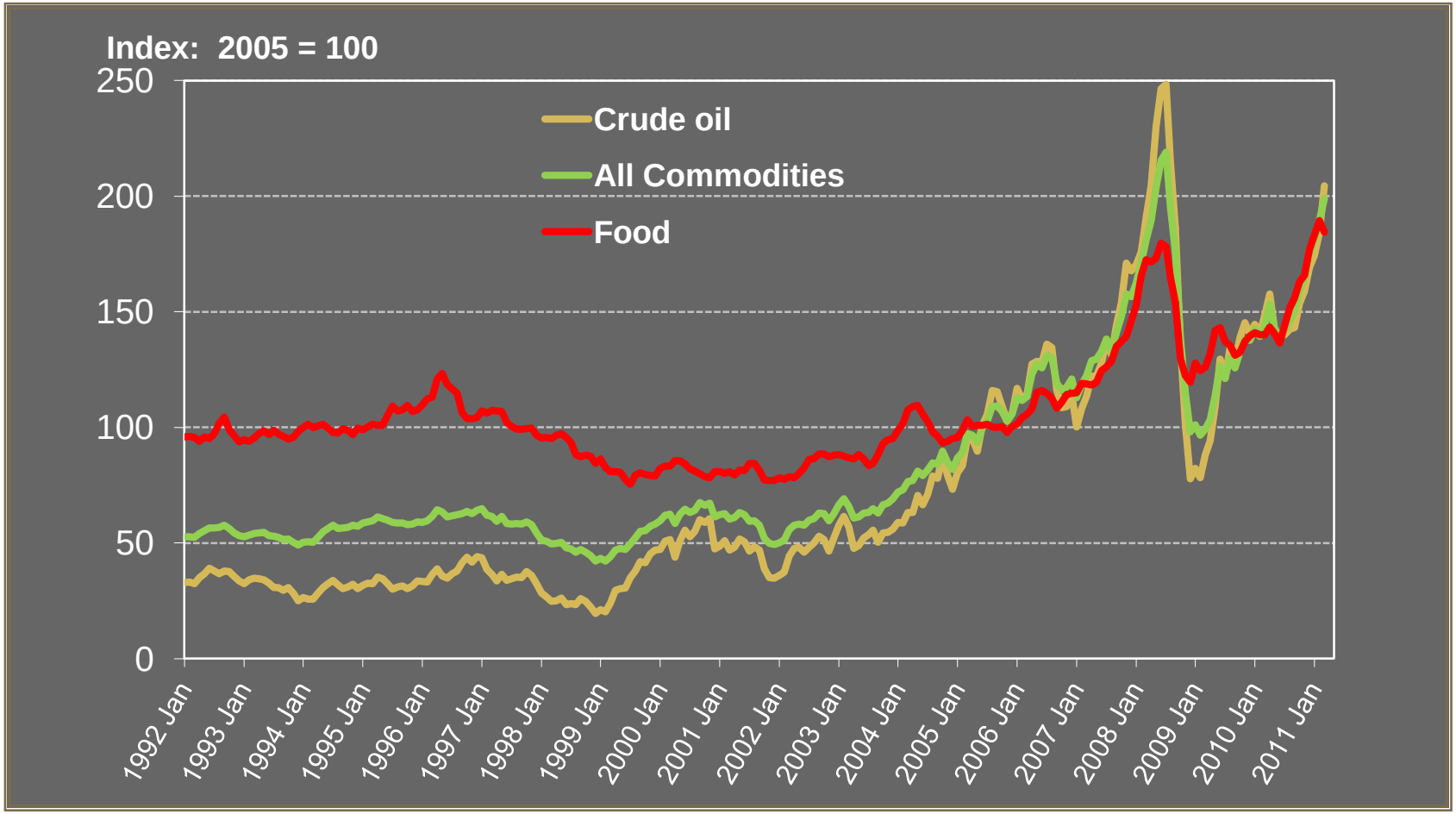
  (5) how to handle 10 to 12 million illegal immigrants in U.S.

Issue: Regulations

- Will Obama return to aggressive regulatory tone, or…
- More emphasis on cost/benefits? New EPA leadership
- Ag Secretary Vilsack: Be proactive, not reactive
- Water becoming major issue in some U.S. states, other countries
- Animal welfare – food labeling – biotech food labeling
- Other countries: As middle class grows, so do regulations

Higher Energy Prices Contribute to Higher Food and Agricultural Commodity Prices

Increasing costs all along the supply chain



Source: International Monetary Fund: International Financial Statistics

Issue: Energy Policy

- **White House: Will not push for carbon tax**

  Climate change bill may arise in Senate, dead in House

  EPA will attempt to use Clean Air Act Authority

- **Renewable fuels: No major changes, but <u>debate coming</u>**

  Cellulosic mandate will be reviewed

  Budget deficits will limit funding on green-energy projects

- **Regulations: Less access to federal lands and water**

  Coming: Emissions rules for new power plants

Issue: Energy Policy

- **Effort to roll back <u>some</u> US subsidies for oil companies**

  Part of coming comprehensive tax reform

- **Issue: How aggressive to export US shale oil, natural gas**

  IEA: U.S. to surpass S. Arabia as largest oil producer by 2020

  IEA: Within a decade, U.S. oil imports will fall by more than half, to four million barrels a day from current 10 million barrels a day

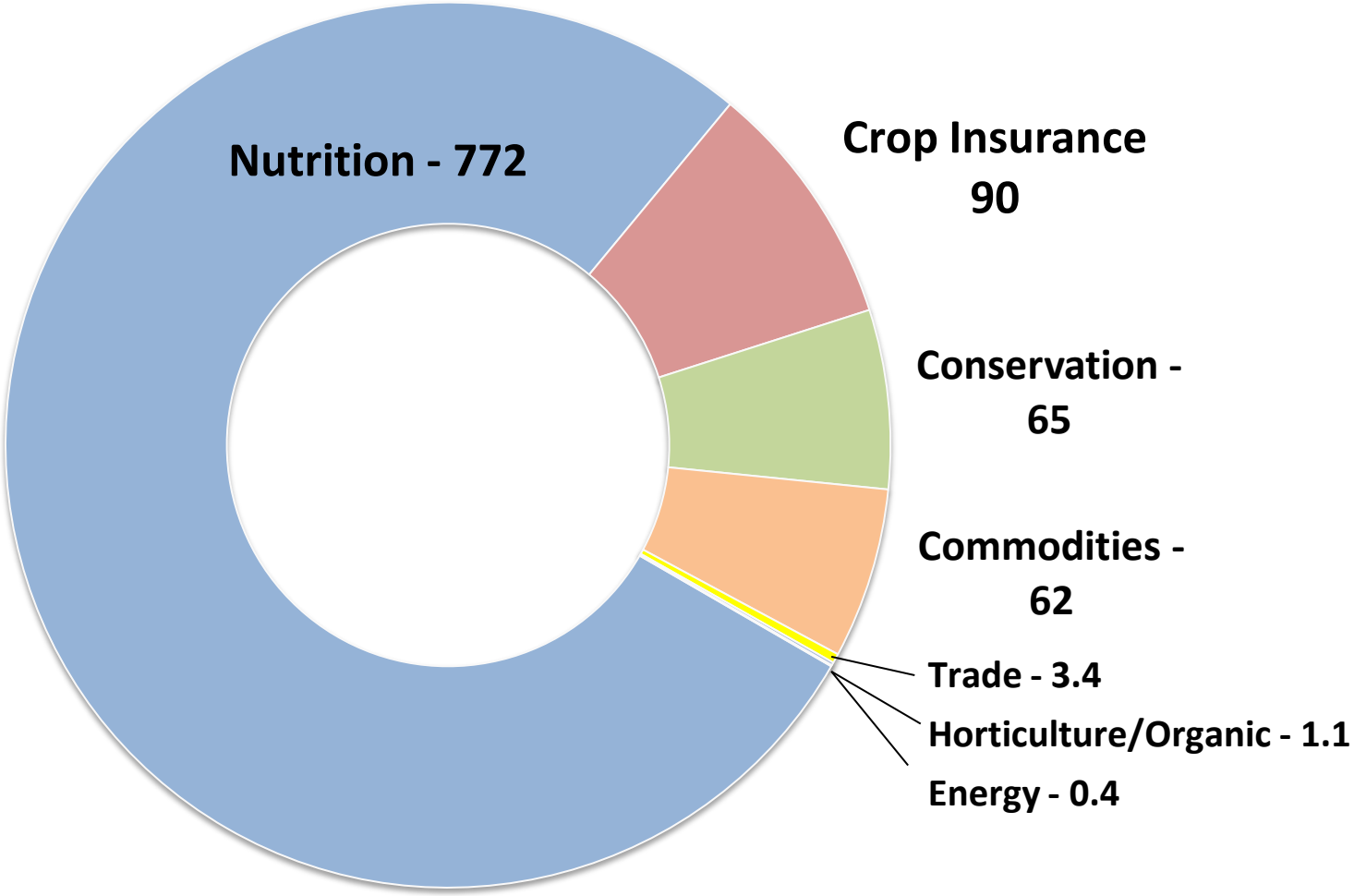
- **Keystone Pipeline – US and Canada issue**

US Farm Groups' Focus

Proposed Farm Bill: CBO Projected Cost

10-yr Costs - $970 Billion

Nutrition 78%



Source: CBO, based on January 2012 baseline

Issues: New Farm Bill

- **Farm bill keys**

  Markup timeline murky

  Budget savings

  Farmer safety net

  - Shallow loss questions rising
  - Will producer choice be in final bill?
  - Separate program (STAX) for cotton

  Crop insurance

  Food stamps

  Maximum CRP acres

  Dairy policy: Major changes proposed

  Trade policy implications – Brazil cotton case

Takeaways

- Will Obama, or Republicans, overreach?
- Most second terms not robust in accomplishments
- Watch use of executive orders if partisan discord returns
- Foreign policy issues usually prevail in president's second term
- Major US tax reform coming… big impacts for business/farmers
- Changing U.S., world energy sector to have major implications
- US Immigration reform coming
- US crop insurance to come under focus – means testing ahead?
- Rise of middle class in developing countries will bolster world ag
- Remember those what ifs…

THANK YOU