

# Economic Challenges Facing North American Agriculture

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# Important Trends

- U.S. farm numbers have decreased each year since 1935
- U.S. land in agriculture has decreased each year since 1954
- Technological advances have created a global market for agricultural commodities

# The Bottom Line

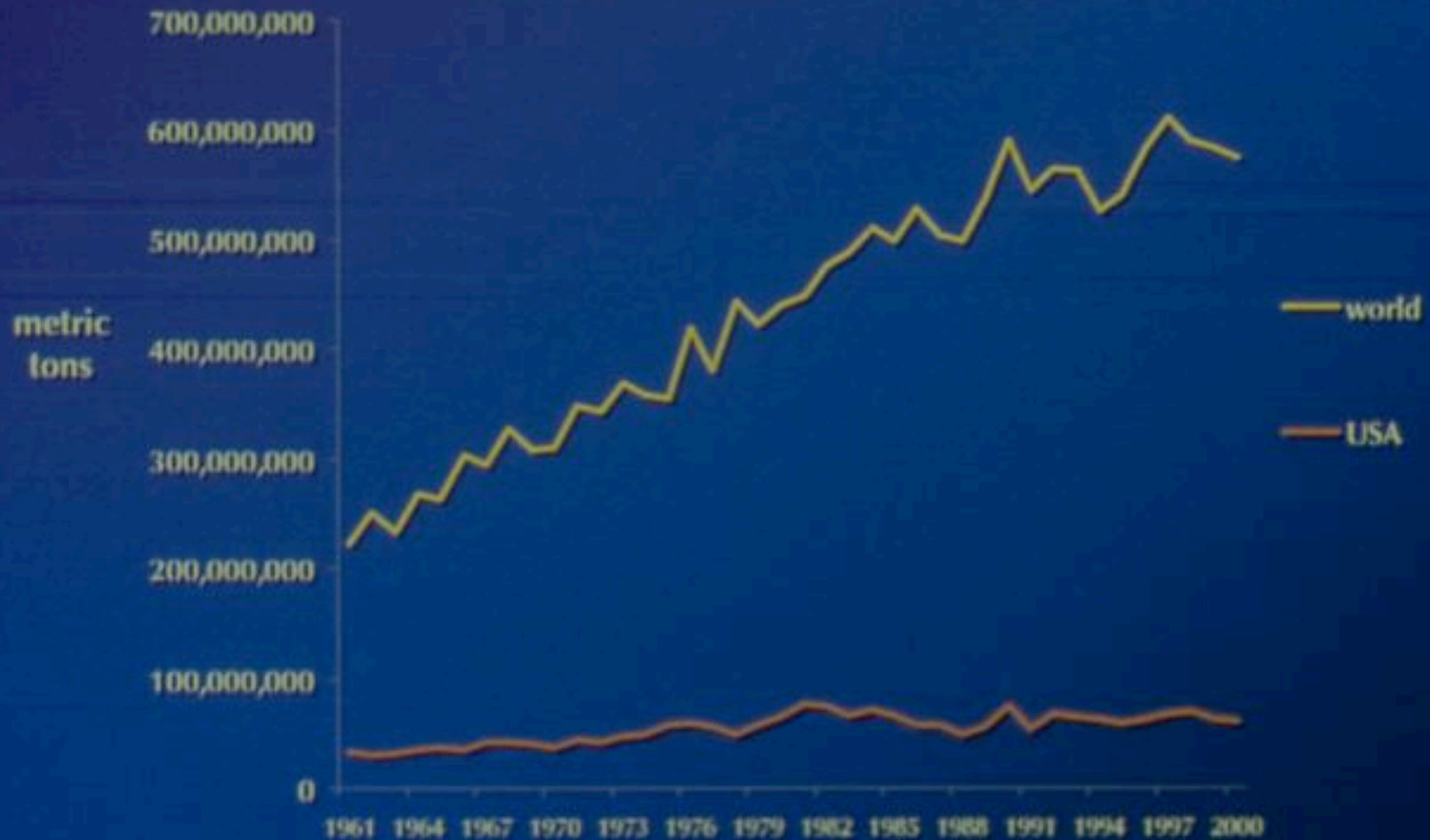
Agricultural profits are being squeezed:

- Commodity price is **global**
- Production cost is **local**

# Global Price Trends

- Prices of agricultural commodities are falling due to increased global output of most products – supplies are increasing faster than demand
- Supplies are increasing due to technological advances in production and expanding economic development

# U.S. & WORLD WHEAT PRODUCTION



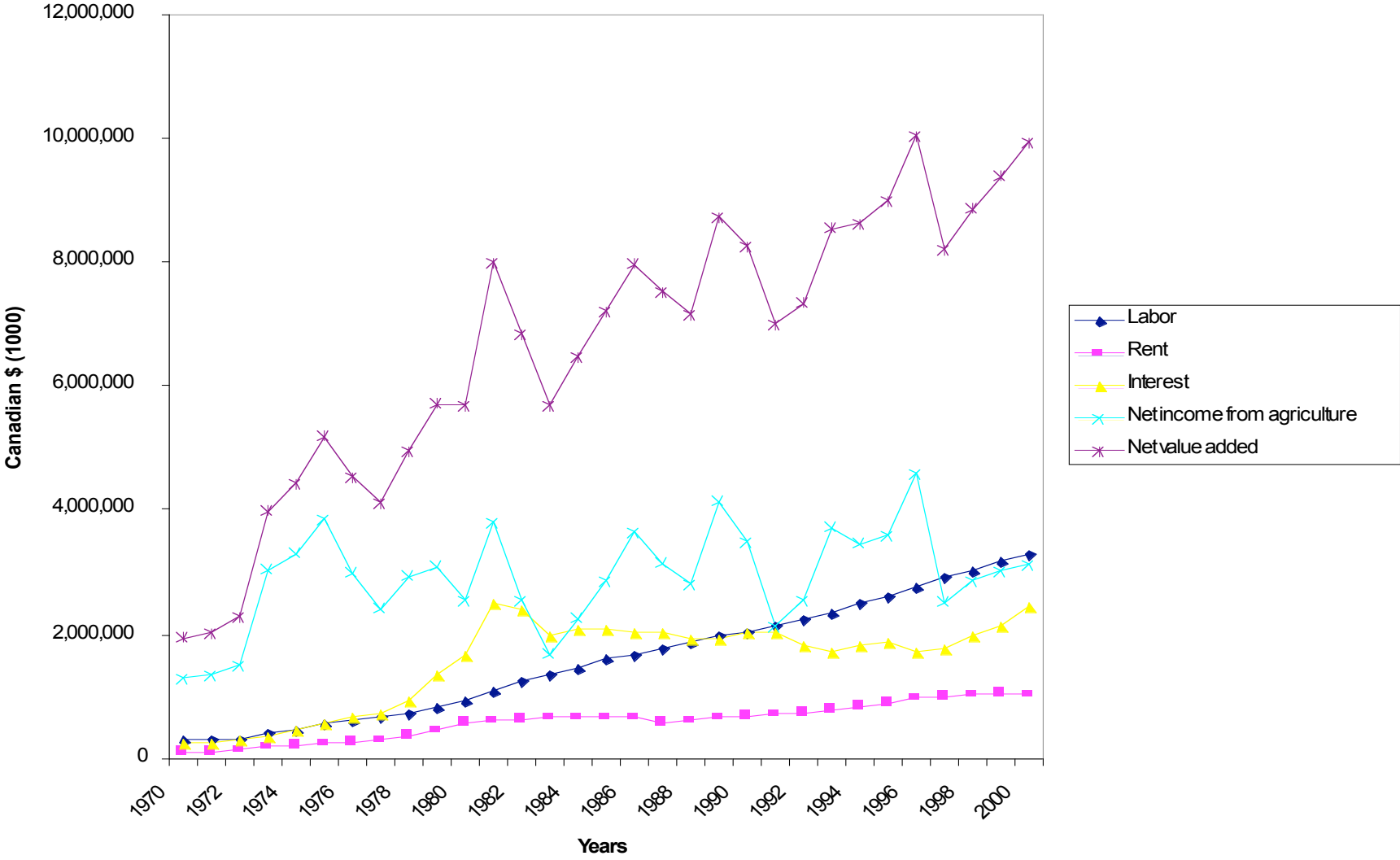
# Local Production Costs

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- Costs are increasing because of competition for inputs from non-agricultural sectors
- Local supply and demand for production inputs like land, labor, etc. determine input costs

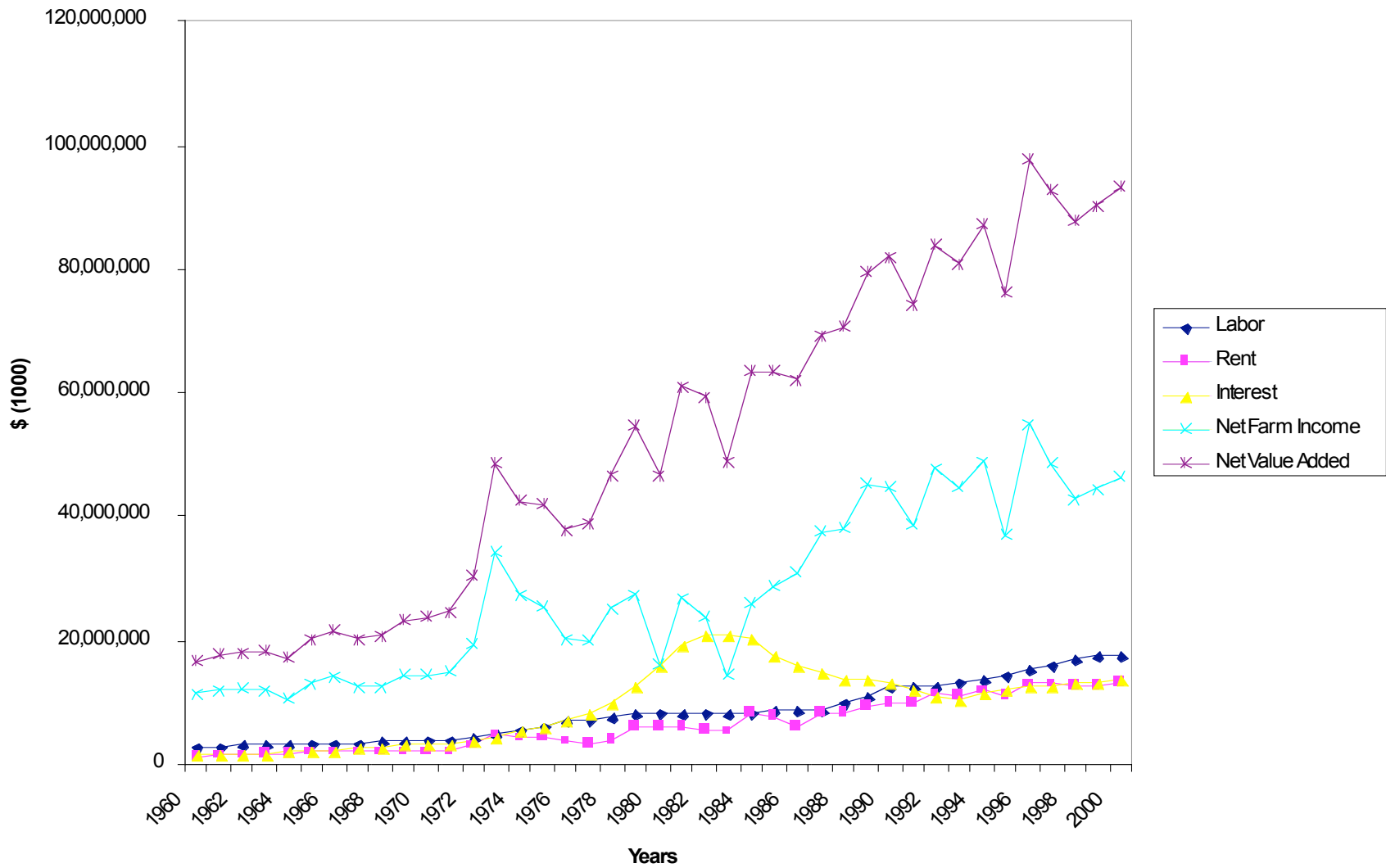
# Profit Squeeze

- Falling prices received for outputs
- Rising costs of inputs
  
- Profit margins are falling, making commodity production less profitable over time – a less attractive investment for family farm owners/operators

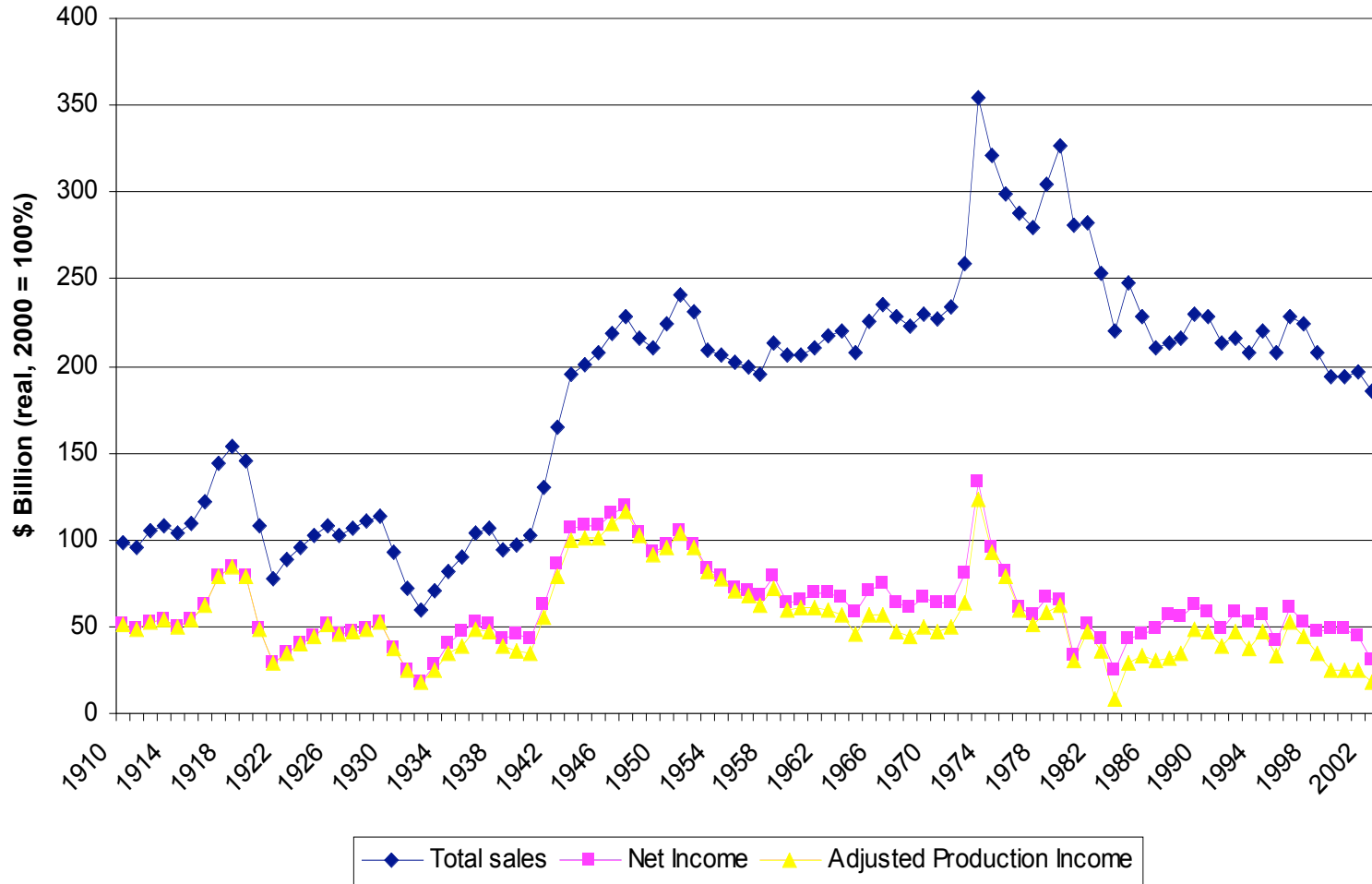
Canada --- Net Value Added and Factor Shares, 1970 - 2000



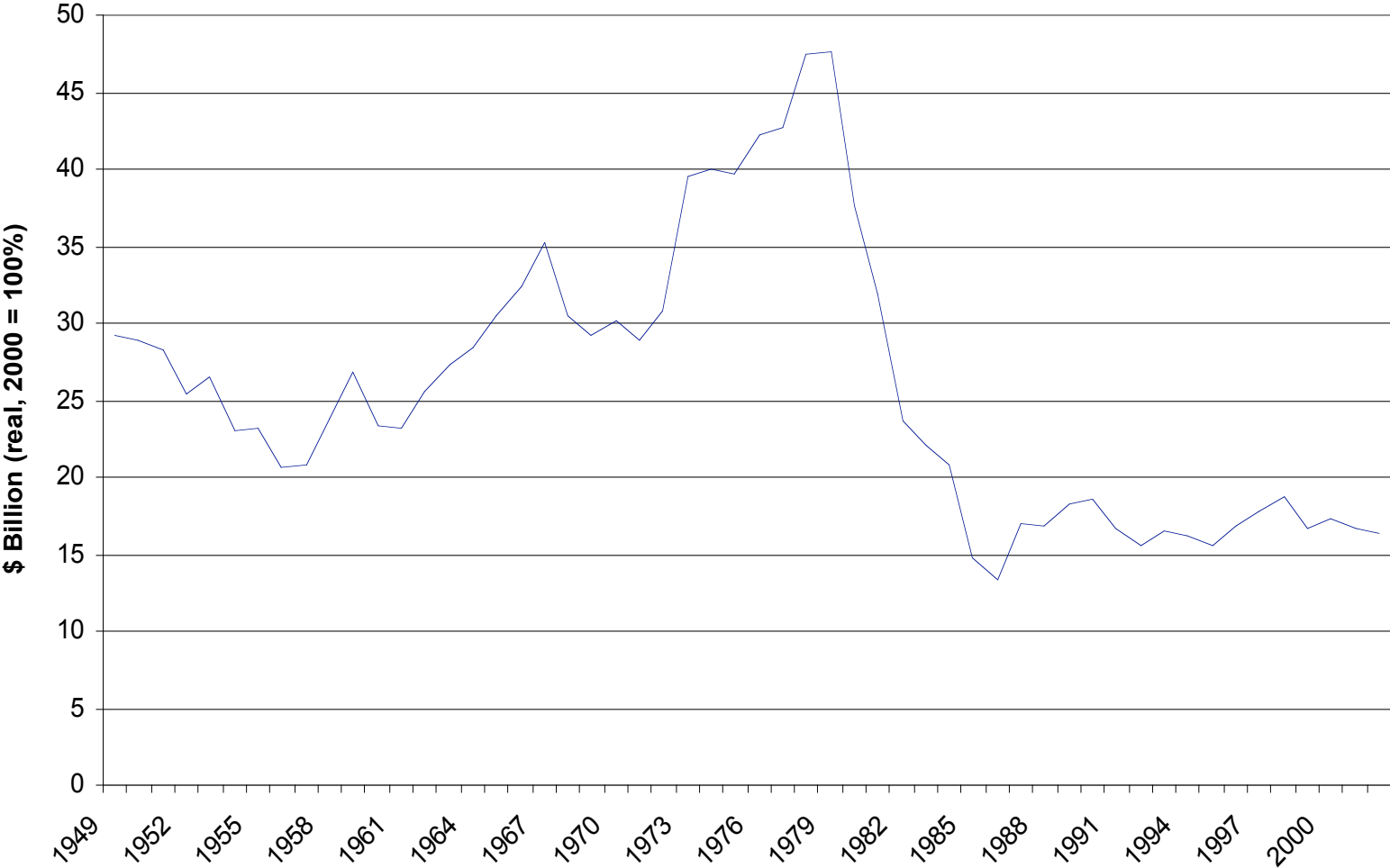
# U.S. --- Net Value Added and Factor Shares, 1960 - 2000



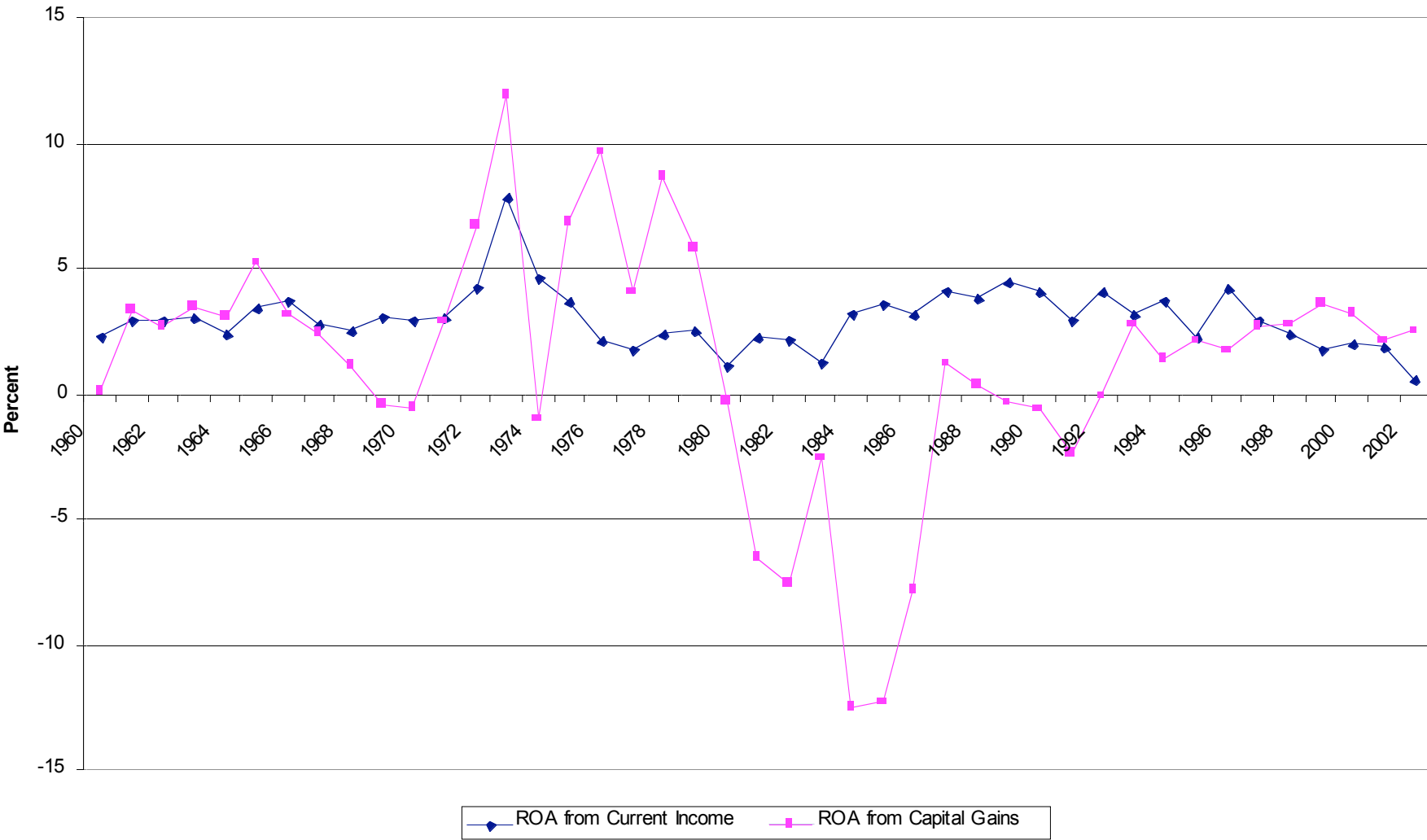
## Real U.S. Agricultural Sales and Income, 1910-2002



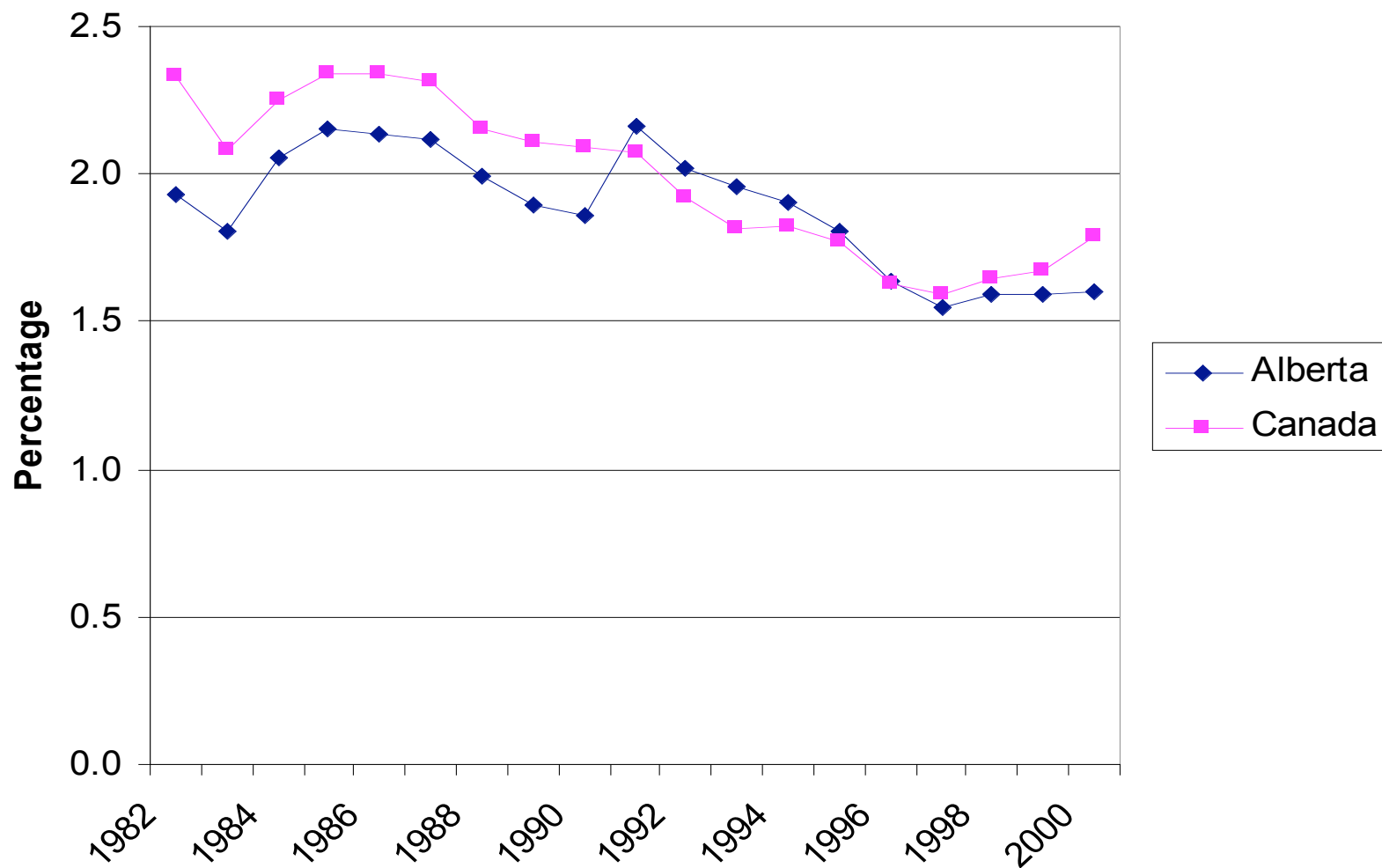
# U.S. Agriculture Total Capital Invested (Real), 1949-2002



# U.S. Returns on Assets, 1960-2002



## Return on Assets from Current Income, 1982 - 2000



# Strategies to Raise Profits

## ■ Price strategies:

- Add value to commodity (process, etc.)
- Strategic alliances/or integration of producers and processors (cooperative, contracts, etc.)

## ■ Cost strategies:

- Reduce cost/unit by increasing the scale of operations
- Reduce cost/unit with technological advances in production, harvest methods and machines

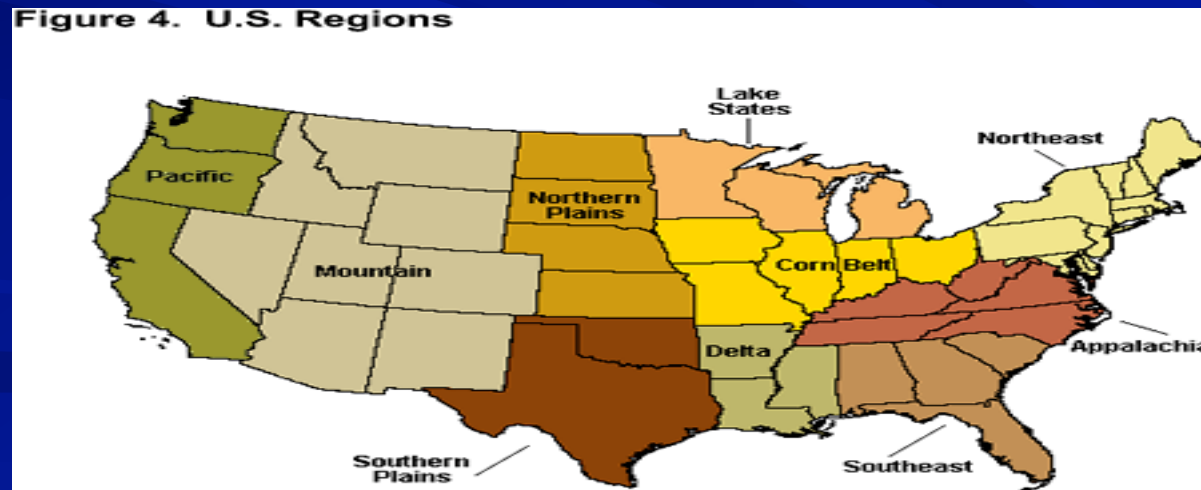
# Strategies to Stabilize Income

- Diversify across agricultural products
- Diversify across income sources
  - Agricultural commodities
  - Processed agricultural products
  - Non-agricultural enterprises
- Off-farm income

Figure 3. Canada Regions



Figure 4. U.S. Regions



# Agricultural Profits and Farm Household Wealth

- Assessing the sustainability of North American agriculture:
  - which groups are more or less profitable?
  - is farmers' well-being due to income from the farm?
- Farmers are making production decisions based on total household wealth, not just on farm production profitability
- There are profitability, wealth differences across farmers and ranchers when accounting for locations, farm sizes, or commodities
- Resources flow into more-profitable industries and out of less-profitable ones

## Results – Change in Wealth

- Wealth comes primarily from **capital gains**, not income, for all farm sizes
- **Non-farm income** was significant for small and mid-sized farms
- Changes in farm and non-farm capital indicate incentives for shifting resources out of agriculture in all U.S. regions

## Conclusions - Local

- Farm sector returns are converging across regions, yet farm profits still vary widely by farm type, size, location, and commodity produced
- Farm size influences both farm wealth and profits
- The relationship of “farm size” with other variables varies across regions, indicating differences in profitability across the different commodities produced in each region

# Conclusions - Global

Technology fuels:

- More efficient agricultural production
- The globalization of markets

These trends fuel international economic development.

Global competition is:

- Source of economic pressure on agriculture
- Source of food in future