Economic Outlook for Montana Agriculture

Gary W. Brester and Kevin McNew
Professor and Associate Professor, Department of Agricultural Economics and Economics
Montana State University
P.O. Box 172920
Bozeman, MT 59717-2920
Telephone: 406-994-7883
Fax: 406-994-4838
E-Mail: gbrester@montana.edu

ABSTRACT

2005 Wheat Outlook

U.S. and world grain prices generally declined during 2004 because of record-setting corn and soybean crops in the United States. Although U.S. wheat production declined by about 10 percent in 2004 versus 2003, world wheat production was projected to reach a record 618 million tons (12 percent higher than in 2003).

In Montana, wheat production increased in 2004 by 21 percent over 2003 because of yield increases. After years of persistent drought, timely rain during the growing season helped push Montana’s yields to their highest level in nearly a decade.

Record world wheat production placed downward pressure on prices through the 2004 harvest season. Prices at harvest were 14 percent lower than harvest prices in 2003. Since harvest, however, Montana wheat prices have increased and eclipsed $4.00 per bushel in most parts of the state.

Why the dramatic turn around in prices? The U.S. wheat crop generally suffered from low protein content in 2004. Therefore, millers have actively pursued high protein spring wheat from the Northern Plains to blend with lower protein Midwest wheat. Thus, high protein spring wheat prices have increased sharply over the past several months.

The quality of the Canadian wheat crop is relatively poor. Canada experienced early freezes in August and excessive moisture during harvest. Preliminary reports indicate as much as 60 percent of the Saskatchewan spring wheat crop is of feed grade and not suitable for milling. As such, U.S spring wheat prices have climbed as world buyers have a struggle to meet their needs for high protein wheat.

Although the short-term outlook for wheat prices is favorable until the summer of 2005, the longer-term picture is less positive. Long-run demand problems continue to plague the wheat market. U.S. consumption of wheat has grown slowly (about 1 percent per year) over the past decade. In addition, U.S. wheat exports declined an average of 3.2 percent per year over the same period.

Current high spring wheat prices will likely expand planted acreage in 2005. In addition, lower
U.S. corn and soybean prices will add to increased wheat acreages. Assuming normal weather conditions in 2005, Montana’s all wheat price will likely be near the $3.25 per bushel level in 2005 rather than the 2004 level of $3.75 per bushel.

2005 Cattle Outlook

U.S. commercial beef production in 2004 will average about 6 percent lower than 2003, but fed cattle prices are now averaging about 11 percent lower than last year. Beef prices in 2004 have been pressured by a sharply reduced export demand caused by the single case of BSE that was discovered in an isolated incident in 2003. All countries immediately closed their borders to U.S. beef and those markets have been slow to reopen trade with the United States. Pacific Rim countries, in particular, are not currently importing U.S. beef; but negotiations are continuing on a daily basis.

Typically, the U.S. exports about 10 percent of its beef production, but that will fall to about 2.5 percent in 2004. So, even though beef production is lower this year, U.S. consumers will purchase about the same amount of beef that they did last year.

Domestic beef demand also faces ample supplies of competing, lower-priced meats such as pork and chicken. Nonetheless, consumer beef demand has increased in recent years. For example, domestic beef demand increased 5 percent in 2003 relative to 2002. Since, 1998, beef demand has increased 15.4 percent. This is a significant change given that beef demand had declined almost 50 percent between 1976 and 1998. The reversal has probably been caused by higher consumer incomes, the adoption of low-carbohydrate diets, and the production of more convenient beef products.

The combination of lower beef production and higher beef demand has maintained U.S. cattle prices at relatively high levels even though export markets have remained closed. Fed cattle prices in 2004 averaged about $84 per hundredweight.

Beef production is expected to increase slightly in 2005, and cattle and beef trade is expected to return to normal levels. If exports markets are re-opened to U.S. beef, 2005 cattle prices should be slightly higher relative to 2004. Currently, feeder cattle futures prices are suggesting a cash price of just over $1.00/lb for the Fall delivery of 750 lb steers.

2005 Sugar Outlook

Fiscal year 2004 (the 2003 crop) wholesale refined sugar prices averaged 24.22 cents/lb which was 10% lower than the previous year’s average. Per capita sugar consumption declined about 4% over the same period. Total U.S. sugar production increased about 2.5% between the two years while imports were virtually unchanged. Sugar inventories increased slightly as the stock-to-use ratio increased from 16.65% to 21.46%. Corn sweetener production declined slightly over this period.

The USDA ERS projects that sugar production from the 2004 crop (fiscal year 2005) will decline by about 4.5% from fiscal year 2004. Most of this reduction is the result of lower sugarcane
production. Imports may decline slightly.

The USDA has established a fiscal year 2005 sugar marketing allotment of 8.1 million tons and a tariff-rate quota of 1.231 tons to meet WTO commitments. Consequently, sugar prices in fiscal year 2005 (sugar obtained from the 2004 crop) should remain relatively flat with respect to the previous year. Expect wholesale refined beet sugar prices to average 23.00 cents/lb.