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The Agriculture Letter

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Dear Client: Washington, July 16, 2021

President Joe Biden is siding with farm activists… saying "Big Ag is putting a squeeze on farmers" and signing an executive order telling USDA to focus on competition (or the lack thereof) in the livestock, seed, fertilizer and retail food markets.

COMPETITION

USDA is responsible for one-fifth of the 72 specific points for action. Some were already under consideration… fair-play rules that give producers more leverage in dealing with meat processors and a rule that may limit "Product of USA" labels to meat from animals raised in the United States. At present, it includes meat processed at U.S. plants, even if the animal was raised abroad.

Other initiatives: More transparency in livestock prices; steps to "bolster competition within highly concentrated agricultural markets;" a study with the Federal Trade Commission (FTC) on "the effect of retail concentration and retailers' practices on the conditions of competition in the food industries" to help farmers and small producers reach consumers. And three coming rules would put more enforcement teeth into the Packers & Stockyards Act to "clarify the conduct that USDA considers a violation of Act, including conduct that is unfair, deceptive, or unjustly discriminatory against farmers and growers." The second effort will seek to "address oppressive practices in chicken processing." The third action is to "reinforce the long-standing USDA position that it is not necessary to demonstrate harm or likely harm to competition to establish a violation of the Act."

'Right to Repair'

- Biden's executive order encourages the FTC to keep equipment manufacturers from limiting consumers' ability to repair products at independent shops or on their own... the so-called Right to Repair movement. The move is intended to especially benefit farmers, who face expensive repair costs from tractor manufacturers that use proprietary tools and software to prevent third parties from working on equipment.
- Farm equipment makers block changes to the software that controls tractors on grounds that it prevents damage to the machinery. Less than 2% of tractor repairs require a software update, Deere told *Reuters*.
- The New York state Senate passed a right-to-repair bill, 51-12, covering agricultural equipment and consumer technology a month ago; the first successful vote at the state level. Right-to-repair bills are in 27 state legislatures and a right-to-repair bill was filed in the U.S. House.

Source: White House & industry contacts

USDA's announcement of the expansion of meat processing facilities was another major component of Biden's competition message. What's coming: A minimum of $500 million in USDA grants, loans and technical assistance to expand meat and poultry processing capacity. The money was part of $4 billion the administration earmarked a month ago to strengthen the U.S. food system. "I believe it is going to leverage literally billions of dollars in investment from investors and state and local governments," Vilsack said at a meat locker plant in Council Bluffs, Iowa. "It's going to create a more competitive market."

Over $150 million provided for existing small and "very small" processing facilities to help them contend with the ongoing pandemic and compete.

As for when funds might be available, Vilsack hopes for "some early wins" in a "relatively short period of time," with the aim of seeing "something specific to point to at the end of the year or early next year, and certainly by this time next year."

Bottom line: Implementation or the lack of it will be key, along with court challenges of some of the policy changes. Efforts are already underway in the Senate to codify many of the proposed actions, but GOP lawmakers will present big hurdles.

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REACTIONS Reactions to competition proposals from White House, USDA:

• John Deere argues that giving consumers control over their products opens the door to unsafe fixes that could bypass federal rules, such as auto emission limits, and open the door to digital piracy.

• North American Meat Institute, a trade group representing meat and poultry producers, said it remained opposed to changes to the act that Biden was seeking to amend. "Government intervention in the market will increase the cost of food for consumers at a time when many are still suffering from the economic consequences of the pandemic," said Julie Anna Potts, president and CEO of the Meat Institute.

• The National Cattlemen's Beef Association applauded administration action "on some of the top issues impacting our producers, including Product of the USA labeling and grants to expand regional, independent processing capacity."

• The National Pork Producers Council, with members from all parts of the pork industry, "supports expanding the number of pork harvest facilities as long as they operate under federal inspection standards."

• National Chicken Council President Mike Brown said his industry is "one of the least consolidated" in U.S. agriculture, and he called the order "surprising" given Biden's "long history of support for the chicken industry."

• R-CALF: "We've urged administration after administration for the past 20 years to begin proper enforcement of both antitrust laws and the 100-year-old Packers and Stockyards Act and this is the first administration to actually take action," said Bill Bullard, CEO of the rancher group.

• Farm Bureau: Zippy Duvall, president of the American Farm Bureau Federation, said the group would examine the details of the order, and would work with the administration "to ensure changes are consistent with our grassroots policy, and farmers and ranchers are provided greater flexibility to remain competitive in our growing economy."

• Sen. Chuck Grassley (R-Iowa) said he was "glad the Biden administration is particularly beefing up enforcement and expanding transparency in the livestock markets."

• Business groups in Washington criticized the order. The executive order "is built on the flawed belief that our economy is over-concentrated, stagnant and fails to generate private investment needed to spur innovation," said Neil Bradley, executive vice president of the U.S. Chamber of Commerce. "Such broadsided claims are out of touch with reality, as our economy has proven to be resilient and remains the envy of the world." The National Association of Manufacturers added, "some of the actions announced are solutions in search of a problem; they threaten to undo our progress by undermining free markets and are premised on the false notion that our workers are not positioned for success."

INFLATION Americans increasingly worry about inflation. A New York Fed survey found consumers expecting the fastest price rises in years. The Fed's Consumer Expectations study, which samples a rotating panel of 1,300 households, showed that Americans in June predicted a median 12-month inflation rate of 4.8%, up 0.8 percentage points since May, as costs soared on everything from big-ticket items to groceries. It's the highest inflation expectation reported since the N.Y. branch of the central bank kicked off the series seven years ago.

U.S. consumer prices rose 5.4% in June from a year ago, keeping inflation at the highest annual rate in 13 years as the economic recovery gained steam. The higher-than-expected reading will rekindle debates about whether inflation is temporary, as the Federal Reserve maintains. Also... a survey of small-business owners showed 47% of them raised average selling prices in June, the highest reading since January 1981.

BRAZIL CORN What is the size of Brazil's corn crop? USDA again lowered its crop estimate, this time to 92 million metric tons (MMT), but some private analysts in Brazil have reduced the harvest as low as 83 MMT. Analysts say to watch Brazil corn basis and whether it increases in the November-forward positions.

TRANSPOR-TATION

Grain barge lockings have been slowing from levels seen earlier as the export activities are starting to be tempered. For ocean freight rates, the spread between the Center Gulf and Pacific Northwest widened, topping $53 per metric ton… a level not seen since September 2008. Typically that would favor PNW shipments for exports, but rail rates getting crops to the PNW have risen, countering some of the advantage.

Biden's recent executive order requires railroad track owners to give right of way for passenger rail and to treat other freight companies equally. The measure also addresses shipping fees, which domestic manufacturers are currently forced to pay to foreign companies… it asks the Federal Maritime Commission, an independent agency, to aggressively enforce laws against companies that charge exporters high prices.

Freight railroad and shipping trade groups expressed opposition to Biden's order, saying there's sufficient competition within their industries and the order would put them at a disadvantage.

MARKETS

Corn: Attention is back on weather and pollination as the corn crop continues to progress toward maturity. USDA in its July supply and demand update boosted feed/residual use for both old- and new-crop corn. But the department left the 2020-21 corn used for ethanol level steady, even as ethanol output appears to be running ahead of the implied USDA forecast. Rains fell mid-July across much of the Corn Belt, but forecasts for late July/early August are hot and dry for the northern and western Belt.

Soybeans: USDA's June 30 acreage update signals there's little room for error with the U.S. bean crop, and a hot, dry forecast heading into August is concerning. The department made no change to its snug old- and new-crop U.S. carryover forecasts. Of note… USDA did trim its forecast Chinese imports for both marketing years.

Wheat: USDA's initial spring wheat crop estimate came in well below expectations, despite crop ratings at their lowest point since the massive 1988 drought that slashed production. Most industry analysts think USDA is also too high on Canada's wheat crop. More stressful weather lies ahead for spring wheat producing areas in both countries.

Rice: Old-crop changes in the WASDE report focused on larger exports and tempered domestic demand. For new-crop, USDA boosted forecast exports and reduced domestic use. Larger supplies and less usage should keep rice stocks adequate.

Cotton: USDA raised its U.S. cotton crop estimate as a drop in abandonment more than offset lower yields. And private-sector analysts say the crop could push above 18 mil. bales, especially if fall weather is favorable. Analysts also speculate USDA's U.S. export forecast could move higher given strong demand amid a rebounding economy.

Dairy: Global dairy prices have weakened somewhat, but cheese blocks are trading at a premium to barrels, which is not a normal price structure. Dairy Margin Coverage (DMC) payments were triggered again in May and those margins are expected to continue to improve in the weeks ahead.

Hogs/pork: U.S. pork exports in May were 687.8 mil. pounds, the largest in history for the month and up 11.3% from last year. May pork exports were the third highest in absolute terms but the strongest as a percent of U.S. production; 33.2% of the pork produced in May was exported. Meanwhile, slaughter in June was 4.5% under 2020 marks, whereas USDA's inventory data suggests there should only have been a 1.5% decline.

Cattle/beef: Cutout values continue to slide amid seasonal summer doldrums and a lull in retail demand, but softer prices have spurred better movement. That could hint that a low is near. Cash cattle prices also strengthened mid-month. Longer-term a renewal of U.S. retail demand and continued export strength should support futures.

Poultry: May poultry exports hit a new record for the month and registered the second highest on record…. largely driven by shipments to Mexico. On the retail side, it appears the chicken sandwich wars are cooling as prices for boneless, skinless breast meat ebb.

CANADA

USDA's Canada crop production estimates are being scoffed at. Analysts and others ask: How can USDA reduce the U.S. hard red spring wheat crop so much and barely lower the Canadian wheat/canola, etc., numbers? Analysts in Canada say their country's crop prospects are worse than those for the U.S. Northern Plains.

ENERGY

"Oil markets are likely to remain volatile until there is clarity on OPEC+ production policy. And volatility does not help ensure orderly and secure energy transitions ... nor is it in the interest of either producers or consumers," the International Energy Agency (IEA) wrote in its latest monthly report. "While prices at these levels could increase the pace of electrification of the transport sector and help accelerate energy transitions, they could also put a drag on the economic recovery, particularly in emerging and developing countries," IEA concluded.

Scramble for natural gas is creating pockets of scarcity in the global market, especially in Europe, boosting prices for the fuel and for the electricity generated by burning it. Rampant demand in China, a drought in Brazil and searing heat in Canada and the Pacific Northwest have also lifted gas demand.

FOOD PRICES

Consumer food costs are increasing. USDA's Economic Research Service (ERS) now forecasts overall food price inflation at 2.5% to 3.5% in 2021, up from its June forecast for food price inflation of 2.0% to 3.0%. It now expects grocery store prices to rise 2.0% to 3.0% in 2021, compared an increase from its June forecast for a 1.5% to 2.5% rise. Restaurant prices are now expected to climb 3.0% to 4.0% from 2020 levels, an increase from ERS's prior outlook indicating they would increase 2.5% to 3.5%.

All three forecasts now call for prices to climb by more than their 20-year average. Those averages are 2.4% for all food prices, 2.8% for restaurant prices, and 2.0% for grocery store prices. The year-to-date average of food prices in 2021 compared with the same period in 2020 has also climbed, with grocery store prices up 1.4% and restaurant prices up 2.5%. The CPI for all food has increased an average of 1.9%.

Increases in meat prices in May compared with April "were driven by high feed costs and strong domestic and international demand," ERS noted. "In addition, winter storms and drought disrupted the beef supply, and high prices for sows dampened pork production." But ERS noted that beef prices were 2.6% lower in May 2021 than in May 2020. Beef and veal prices are now predicted to increase between 2.0% and 3.0% in 2021 (1.5% to 2.5% previously), while pork prices are now predicted to increase between 3.0% and 4.0% (2% to 3% prior). Poultry prices are expected to rise 1.5% to 2.5% (previously forecast to climb 0.5% to 1.5%).

Bottom line: Clearly, consumers are facing higher prices for food. So far, food prices are not expected to rise as much as they did in 2020 in the midst of the Covid-19 pandemic, but food price inflation is either now in line with or moving above the 20-year average for a second year in a row. Food prices are taking a bigger share of consumers' incomes as they work their way out of the pandemic. That could become a point of concern... especially if energy prices continue to move higher.

Meanwhile, global hunger is on the rise, according to a new report from the United Nations. After five years of relatively stable numbers, the number of people facing hunger rose by 118 million to 768 million in 2020... 10% of the world's population. Nearly one in three people worldwide didn't have access to adequate food last year — 320 million people more than in 2019. World Food Program Chief Economist Arif Husain said, "Reversing such high levels of chronic hunger will take years if not decades."

Best regards,

The Ag Letter Editors

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