

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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House Ag Committee Chair “GT” Thompson (R-Pa.)...
What he told us about a new farm bill:

FARM BILL

Do issues between House Speaker Kevin McCarthy (R-Calif.) and ultra-right House GOP members mean no additional farm bill funding?

“No, absolutely not. There’s no real bearing or implications that I see with a small group of folks who have really tried to hold the House hostage here.”

Have you convinced McCarthy for additional funding beyond the baseline? Some farm groups want that or an extension instead of a baseline farm bill.

“An extension is short sighted, and it really falls short of us making the refinements needed. We’re going to be on course to complete a farm bill on time. But whether the bill passes this year or after an extension... I’m not rooting for the extension... I think there are efficiencies that can bring us some new dollars, just as we look at incorporating some of the disaster relief that we normally spend in an emotional way. By incorporating some of that disaster relief into crop insurance, we will enhance crop insurance, make it more attractive for more subscriptions. At the same time. I think we can do that by spending less money, so we’ll bring new dollars in and that’s just one of a number of ideas we have when there’s a recognition that in certain areas, certain titles of the farm bill, we need to find some new dollars.”

Can you move around dollars even though Senate Ag Chair Debbie Stabenow (D-Mich.) has said not to do that?

“The House will chair the farm bill this time. There’s dollars to be had and common sense tells us especially when we’ve been going through such an emotional time of spending, look at the trillions of dollars just in the past two and a half years. We’re talking trillions of dollars. The funding is sitting out there in different corners of the federal government. And I’m talking things specific to agriculture.”

Will refinements include a voluntary update of base acres?

“Base acres is one of the areas we are researching. Base acres for young and beginning farmers is something that has come up a lot in our listening sessions, and it’s certainly something we’re looking at. We really don’t have any conclusions at this point.”

Will you seek to curtail USDA’s ability to tap CCC funding?

“It’s certainly going to be a topic. The current proposed bill from the Ag Appropriations Subcommittee reinstated some guardrails that would limit the Secretary’s discretionary authority to use the CCC and, quite frankly, that’s where it belongs. From the Ag committee’s perspective, I’m concerned that using the farm bill to legislate sideboards around USDA interpretations of the CCC authority would impede a future Ag Secretary, so we should exercise our oversight authority.”

THOMPSON ON SNAP

Thompson said he was “pleased that the House Speaker (Kevin McCarthy, R-Calif.) came to me and asked what we should put forward” regarding the recently passed debt limit measure. “He wanted something that was going to perhaps save some money and at the same time, not blow up the farm bill process. We were able to accomplish that. Just the fact that we reduced the percentage of waivers that states can use.

“But I was very disappointed of what the president and his people put into the debt ceiling package. They basically excluded folks who are homeless, people who are veterans and young adults 18 year old... foster youth who all of a sudden overnight become adults and therefore some of them leave their foster homes with all their life belongings in a garbage bag.

“This is a pretty sad situation. They essentially put language into the debt ceiling measure that prevented anyone within those three groups of having access to the SNAP employment, career and technical education benefits that we provide by waiving that opportunity for them. That’s something we need to look at.”

Source: Interview with “GT” Thompson

CO2
PIPELINES

New Midwest battles brew over CO2 pipelines, with enviro and property rights concerns.

Stateline reports that in the quiet prairie town of Granite Falls, Minnesota, a small hydro-electric plant provides power, but the real energy powerhouse is the Granite Falls Energy plant producing 63 mil. gallons of ethanol annually. Ethanol production is a major part of the state's economy, with 45% of U.S. corn production destined for ethanol plants. The industry is in a crossroads as proposed pipelines to move carbon dioxide, a byproduct of ethanol production, face controversy.

Proponents believe that carbon dioxide storage can open new ethanol markets, secure federal tax credits, and prevent emissions. However, opponents argue that pipelines threaten property rights, land productivity, values, ancestral grounds, and the environment. They contend that ethanol use delays the shift to carbon-free energy, and, obviously, anthropogenic climate change skeptics oppose pipelines.

Currently, the proposed pipeline network is at a much larger scale than existing pipelines that carry carbon dioxide from ethanol. Three carbon pipeline companies anticipate construction to begin in 2024. State officials across the Midwest grapple with whether and how to approve the pipeline projects, leading to legislative battles over property rights and eminent domain.

Pipeline opponents are fighting for stronger eminent domain requirements to protect landowners' rights. While some pipeline proponents emphasize that eminent domain will be used as a last resort, opponents remain skeptical. Landowners are also concerned about the safety of the high-pressure pipelines and the potential challenges they pose for local first responders.

ANTI-
BIOTICS

Livestock owners are required to obtain prescriptions from veterinarians to purchase medically important antibiotics for their animals, as per an FDA announcement. As a step in a multiyear campaign to preserve antimicrobial efficacy for human disease treatment, new restrictions have been put in place.

Background: Over a two-year transition period, drug companies have voluntarily changed the marketing status of the affected antibiotics or removed them from over-the-counter sales. GFI No. 263, which came into effect in June 2021, impacted 4% of sales of these types of antibiotics for food-bearing and companion animals. GFI No. 213 had already been implemented in 2017, putting an end to using these antibiotics for weight gain in cattle, hogs, and poultry.

The drugs are still available for disease prevention and treatment in livestock, under veterinary supervision. Antimicrobials can still be accessed by consulting a licensed veterinarian.

FOOD
DELIVERY

As consumer habits change, the food-delivery industry is facing difficulties in adapting.

Grubhub, a Chicago-based takeout pioneer, is laying off about 15% of its workforce to reduce costs and stay competitive amidst well-funded rivals and declining demand. Sales for food-delivery companies surged during the early stages of the Covid-19 pandemic, but have since plateaued as customers returned to dine-in experiences. Grubhub, which used to be the market leader, has fallen to third place behind DoorDash and Uber Eats. Other food businesses are facing similar challenges, with DoorDash cutting around 1,250 employees (6% of its workforce) last year, and Blue Apron laying off 10% of its workforce in December and selling its logistics assets.

FAST FOOD
CHATBOTS

Drive-throughs at White Castle, McDonald's, Wendy's and Dunkin' are testing chatbots that

employ conversational-style AI algorithms to take orders. One advantage for the employer: The robots are never shy about encouraging add-ons. As for customers, some request human intervention... but others say they are sick of cranky fast-food workers who can't hear their orders through defective speaker boxes, and are ready for a robot revolution.

CALIF.
FAST ACT

Fast-food restaurant owners in California are facing challenges as they battle against

unions and Democratic legislators. After qualifying for a referendum to overturn the FAST Act, introduced to establish a 10-member council with the authority to rule on wages and working conditions, the joint-employer provision is now being reintroduced by Democrats in retaliation. The legislation, supported by the powerful Service Employees International Union (SEIU), aims at making corporations legally liable for their franchisees' labor violations, which could potentially disrupt the franchise business model. While SEIU believes this legislation is necessary, the majority of California restaurant franchises strongly oppose the bill, fearing it would interfere with their freedom to operate independently.

WEATHER

Drought and moisture stress in the Corn Belt have led to comparisons with 2012, but World Weather Inc. urges caution in making these connections. The warm and dry May this year was predicted due to the La Niña-to-El Niño transition, with similar conditions appearing in 1969, 1987 and 2005. A split jet stream has contributed to poor rainfall in the Midwest, as it prevents the flow of moisture from the Gulf of Mexico. World Weather expects rainfall anomalies to decrease as the jet stream lifts north during the second half of this month, resulting in more frequent rain and better surface moisture for the Midwest.

World Weather predicts improved moisture distribution during the transition from La Niña to El Niño this summer. Rainfall is expected to increase in the Midwest in July and August, with dryness shifting to other regions. Temps are likely to be moderate due to El Niño's influence. The southwest monsoon is expected to bring more moisture to the central U.S. in late July and August. A widespread drought similar to 2012 is unlikely, but periodic dryness in some areas could still affect crop yields. A larger-scale drought would only occur if the negative PDO (Pacific Decadal Oscillation) takes more control of the summer pattern, leading to a stronger ridge over the central U.S.

MARKETS

Corn: Weather is the main focus for the U.S. corn crop at this stage with moisture conditions in the heart of the Corn Belt the major concern. Temperatures have not been overly hot which has helped. But rainfall... consistent rainfall... is clearly needed. Meanwhile, demand on the export front remains tepid, with U.S. export sales for the new marketing year that starts Sept. 1 well behind year ago.

Soybeans: While soybeans have a longer growing season for yield determination than corn, dry conditions in the Midwest are still raising concerns. But crush demand has remained solid. Like corn, export demand has not been stellar for new-crop beans. But weather remains the overarching factor. Of note: Brazil's record soybean crop estimates keep rising.

Wheat: Unease over the Black Sea grain deal continues as an underlying factor in the wheat market, with a chorus of Russian officials continuing to be downbeat about extending the pact past mid-July. U.S. winter wheat harvest has moved into Kansas, so early yield reports will come into focus. There are also weather concerns in portions of Europe, providing support for prices.

Rice: Futures have continued to move higher with an inverse remaining between old- and new-crop contracts as U.S. supplies are tightening. The El Niño impacts are also creeping into the global rice market, raising concern about supplies in some areas and prompting countries like Indonesia to seek rice imports from India as they worry about their crop prospects.

Cotton: Futures didn't respond robustly higher with USDA raising its export outlook for U.S. supplies. China has also continued to lock in old-crop U.S. cotton and has started with purchases of new-crop cotton. Weather in Texas remains a key and the expectation that abandonment will not be near as high as last year have muted some of the effects of less planted acres.

Cattle/Beef: New record high cash markets have been seen in much of the U.S. and that has translated into some of the best margins for cattle feeders in years. The lofty cash prices have also prompted some reduction in kill runs. With weights nearly even with last year, beef production is going to be partially determined by how aggressive packers are in terms of securing supplies.

Hogs/Pork: Packer demand has improved for hogs and that has provided renewed support for lean hog futures. Attention is now on product movement as the July 4th holiday is approaching. USDA's Hogs & Pigs report is another key for the market as there have been questions about numbers based on prior USDA updates and actual hog slaughter levels.

Poultry/Broilers: While egg sets have been down, chick placements fell around 1% from the same six-week period in 2022. Even so, weekly broiler harvest has been where it was at this point in 2022. That has translated into ready-to-cook broiler production about 0.5% above last year on a weekly basis. While broiler exports eased in April they were still 2% above year ago.

Dairy: With schools now closed for the summer, that has coincided with a period of heavy milk supplies which is keeping a lid on milk prices. This has led to continued cow culls as dairy animals are accounting for a much larger than normal portion of the U.S. cattle slaughter. Summer heat, however, could start tempering some of the excess production and hefty cow slaughter could also temper output.

FOOD
STAMPS

SNAP measure unveiled. A new Democratic bill aims to make permanent the exemptions to work requirements for certain vulnerable individuals in the Supplemental Nutrition Assistance Program (SNAP). These exemptions, set to expire in 2030, were part of the debt ceiling negotiations and include veterans, homeless people, and young adults aging out of foster care.

The proposed Food Access and Stability Act, backed by Democratic Reps. Yadira Caraveo (Colo.), Jahana Hayes (Ct.), and Emilia Sykes (Ohio), seeks to solidify these work exemptions as part of Democrats' strategy to expand, rather than cut, the nutrition aid program.

However, this legislation may face challenges in the GOP-controlled House due to potential costs, as even temporary exemptions are estimated to increase SNAP spending by \$2.1 billion over a decade. GOP lawmakers have disputed these calculations, but with Speaker Kevin McCarthy (R-Calif.) pushing for further SNAP changes, Democratic concerns remain.

CRP

USDA accepts 1 mil. CRP acres. USDA accepted 1,065,409 acres for enrollment into the Conservation Reserve Program (CRP) via the general signup at an average rental rate of \$64 per acre. CRP acres amounted to 23 mil. at the end of April, with contracts on 1.98 mil. acres set to expire by the end of September.

1.186 mil. acres were submitted for new contracts, signaling over 1 mil. acres may exit CRP.

FOOD
PRICES

Food prices are less volatile. Latest info on food prices:

- Cereal and baking products increased 0.1% in May from April but still registered a 10.7% rise from year-ago marks.

- Bakery products rose 0.2% for the month and had an annual rate of 11.4%.

- Meats increased 0.5% for the month but were only 0.4% higher than they were in May 2022, with beef and veal prices up 1.5% from April and 1.0% from May 2022.

- Pork prices edged up 0.1% in May but are 2.9% cheaper than they were in May 2022.

- Dairy and related products fell 0.6% in May but are still 4.6% more expensive than they were one year ago.

- Other foods were steady in May but had an annual rate rise of 8.6%.

- Egg prices have come well off the lofty increases seen previously, declining 13.8% for the month and are now 0.4% below where they were in May 2022.

PORK
EXPORTS

In April, U.S. pork exports showed a positive trend with a 15% increase in volume and a 10% increase in value compared to the previous year. From January to April, the volume increased by 14% and value by 13%.

April exports reached nearly 244,000 metric tons valued at over \$660 mil., bringing the total for the first four months of 2023 to 960,480 metric tons, worth \$2.62 billion.

Mexico was the leading destination for U.S. pork exports, which rose by 9% in volume and 7% in value on a year-over-year basis in April. From January to April, the volume increased by 10% and the value by 27%. Australia, China/Hong Kong, the Dominican Republic, Malaysia, the Philippines, South Korea Taiwan, and Central America were among the other markets with significant import growth.

This strong demand for U.S. pork positively impacts producers, as April's export value now equates to \$67.56 per hog, the highest since May 2021. For the first four months of the year, the value per head averaged almost \$62.

April's exports represented 32% of the total pork production, while exports made up 29% for January through April, both of which were substantial increases as compared to the same periods last year.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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