

What Will Influence 2013?

Keep an eye on the weather and other factors.

by Kindra Gordon

Of course the weather will be a huge driver in determining if 2013 is a bullish or bearish year. Unfortunately, there is uncertainty in this forecast as well. As of November, the Climate Prediction Center says a wavering El Niño, expected to have developed by now, makes this year's winter outlook less certain than previous years.

"This is one of the most challenging outlooks we've produced in recent years because El Niño decided not to show up as expected," explains Mike Halpert, deputy director of National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center. Currently, neutral conditions are occurring in the tropical Pacific — making weather forecasters uncertain of what the winter may bring.

Presently, forecasters believe the western half of the continental U.S. and central and northern Alaska could be in for a warmer-than-average winter from December through February, while below normal temperatures — or colder conditions — could be seen in parts of the Northern Great Plains, Western Great Lakes and most of Florida.

Regarding moisture, the Pacific Northwest should receive lots of moisture this winter but will see drier conditions next spring and summer. Rain is expected for the Southern Plains starting in about February.

However, areas ravaged by extreme drought over the past year are unlikely to see much relief from

drought conditions this winter. Warmer-than-average temperatures are expected in much of Texas, northward through the Central Plains and westward across the Southwest, the Northern Rockies, and eastern Washington, Oregon and California.

It's also anticipated that a La Niña, a cooling of the Pacific, will develop a high-pressure drought ridge across the U.S. in the spring. The pressure ridge may mean a hot summer in the western U.S., particularly in Arizona, Nevada, Utah and Colorado. Drought conditions may hit South Dakota, Nebraska, Kansas, Oklahoma, Iowa and Illinois.

Some relief: Wetter-than-average conditions across the Gulf Coast states from the northern half of Florida to eastern Texas are also forecast.

More to consider

In 2013 the beef sector will also need to keep a watchful eye on these factors:

Corn supplies: Lower corn supplies in 2012 could carry over to a smaller crop in 2013 as well — depending on the rain situation. This uncertain crop supply is certainly affecting corn price and availability.

In November livestock producers, meat packers and food retailers were holding out some hope that the Environmental Protection Agency (EPA) might consider waving, lowering or modifying the ethanol mandate until corn supplies recovered next harvest. But, those hopes were dashed as the request was denied

since, according to an EPA news release, "waiving the RFS (*renewable fuel standard*) mandate would have minimal impact on ethanol demand."

Opponents of the mandate point out that it has inextricably tied grain, livestock and energy markets. The problem is that while ethanol producers can quickly cut off production — if corn supplies are limited — and then start again in a week, the cattle and hogs liquidated today will take months and years to rebuild. Moreover, the farms that are forced to sell may not be able to sustain the economic hit and may eventually go out of business. The final result would be a U.S. meat industry that is substantially smaller, meat prices that are substantially higher and U.S. producers that will find it increasingly difficult to compete in global markets.

Farmland values: Farmland values have been increasing at double-digit rates for several years, bolstered by today's low interest rates, strong farm incomes and high crop prices. A recent roundup of federal surveys shows that, despite the drought, non-irrigated cropland values rose more than 30% in Nebraska and South Dakota. In Iowa year-over-year values rose 24%. The Eastern Corn Belt overall witnessed an increase of between 10% and 15%.

Many are calling the current situation "two tales of agriculture," noting that record-high commodity prices have given grain farmers the cash to continue a land-buying spree,

while livestock producers have to pay daunting prices for feed.

While market conditions favor continued growth in agricultural land values, David Oppedahl, an economist with the Federal Reserve Bank of Chicago, says there is some uncertainty going into 2013. He cites a divided Congress, for instance, might be unable to find common ground on a Farm Bill or fail to avert the fiscal cliff. The huge federal deficit might also force policymakers to trim the federal crop insurance program.

High hay prices: Don't look for hay prices to fall off from currently high levels anytime soon say analysts with the Livestock Marketing Information Center (LMIC) in Ft. Collins, Colo. Prices "usually uptick" in the winter months, but finding hay this year will likely be much more difficult than it was last year, they reported in early November. They predict national hay stocks are expected to be very low in the spring and could be the smallest ever. North Dakota had the lowest average price, \$90/ton, during the first 10 months of the year.

Hay supply and prices for 2013 will be highly dependent on next year's weather conditions. The loss of hay fields to grain crops will also have an impact on hay supply across the country in 2013.

Food inflation

The Food Institute reports that food inflation, largely due to the impact of the severe drought in the Midwest, will cost a family of four \$351.12 more in food spending in 2013 than in 2012 — approximately \$6.75 a week.

The cost is calculated using the U.S. Department of Agriculture's (USDA's) latest food price projections for 2013, which indicate prices for food-at-home will increase as much as 4% next year with food away-from-home prices projected to rise as much as 3.5%. This increase means food-at-home costs will increase about \$4 a week for consumers and away-from-home food costs will inch up by about \$2.50, according to The Food Institute.

For those families eating away from home, two-person households will be spending an average \$86.73 more next year with a family of four spending an additional \$125.

A breakdown by department shows most of the increase will be experienced at meat counters, where annual costs are seen rising about \$44 next year for a family of four and about \$30 for two-person households, according to The Food Institute's estimates. Beef costs would account for nearly one-third of that increase.

Because of the increases, the Food Institute notes that consumers could opt to spend more on canned and frozen products to offset higher prices for fresh or to buy poultry instead of higher-priced beef. **HW**

