Congressional Budget Office: Crop prices to remain low over the next decade

As we met with farmers this last month, they had an observation and a question. The observation: most knew or had heard of someone who would not be receiving bank financing for their 2017 crop. At this point, we do not have adequate data to indicate how many farmers we are talking about, but clearly many are worried. What seems beyond doubt is the longer crop prices remain below the full cost of production, the more there will be who will find themselves in that situation.

The question is one where they know the answer before they even ask: “Where are prices going?” While the USDA will not release their agricultural projections for the next ten years until the Agricultural Outlook Forum, February 23-24, 2017, a look at the Congressional Budget Office January 2017 Baseline for Farm Programs (CBO) (http://tinyurl.com/je3ycdp) shows farmgate-marketing-year corn prices that remain below the full cost of production for the next decade, with the prices of most other crops not looking any better.

The last time that were in a similar situation was nearly two decades ago. A short corn crop in 1995 resulted in a 43 percent increase in the season-average price of corn to $3.24/bu. With stable-to-slightly-higher crop production in the following years, the price declined steadily until it fell and remained below $2.00 for the 1998 through 2001 crop years. Without emergency payments, many farmers would not have survived.

Beginning in late 2006, the demand for corn by an increasing number of ethanol plants rescued corn farmers from prices that hovered in the low $2.00 range. Soon prices were above $4.00, hitting monthly highs in the $5.00 and $6.00 range as ethanol plants used increasing amounts of corn. This period also saw an increase in US soybean exports to China, competing with corn for acreage. At that point many expected that corn prices would remain above $4.00 for the foreseeable future.

We saw a short corn crop again in 2012 (http://tinyurl.com/zwdoyyu) which resulted in an increase in the season-average price of corn to $6.89 for the 2012 crop year (http://tinyurl.com/zxn9luz). With corn yields recovering in the 2013 marketing year and setting records in 2014 and 2016, corn prices fell below $4.00 and the full cost-of-production.

Without something like a steady annual increase in the demand for ethanol and exports to boost the utilization of corn and/or soybeans, it is hard to see anything that will drive crop prices above the cost-of-production in the short- to long-range.

Just because a farmer does not get a loan to put in a crop does not mean the land in that farm goes out of production. As we saw the last time prices were below the cost-of production for an extended period of time, any available land is snapped up by neighboring farmers who want more acres and production to help them cover their fixed costs. Forcing farmers to leave production is not the same thing as forcing land out of production.

The one thing farmers will not do is reduce the area of land under production. With low prices they need every possible acre and bushel to help cover fixed costs. Reducing acreage and yield potential would only make them lose money at a faster rate.

If there is any price advantage in switching acreage from one crop to a slightly-more-profitable crop, farmers will respond. The problem comes when all crop prices are in the basement, switching simply reduces losses but does not guarantee profitability.

That leaves most farmers with little maneuverability in the coming years. Those on good ground with most of their land paid off will cover their costs. For the rest, it will take something other than the current farm and revenue insurance program to restore the possibility of farm profitability.

Policy Pennings Column 862

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 108, February 10, 2017

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