Today's agriculture faces a multitude of financial risks

Every year, farming has its risks but following five years of a steady decline in the price of corn with similar declines in the prices of other grains and oilseeds, this year has its own particular risks. With the steady decline in crop prices, farmers have seen a commensurate decline in their cash position as well as equity.

For many, what happens this year with yields, demand, prices, and net income is of particular importance. A positive cash flow will reduce the financial pressure while losses will bring increasing pressure from bankers considering operating loans for next year. And many of the most critical factors, including projected increases in interest rates, are beyond the control of individual farmers.

Let's take a look at some of those factors.

For most grains, oilseeds, and fiber crops, year-ending stock levels have been growing for the last five years. One does not have to own a crystal ball to know that an additional year of growing inventories will put pressure on crop prices. At this point in the crop year, whether or not inventories grow depends upon two things: yield and disappearance.

With current crop genetics, it only takes marginally reasonable weather to achieve trend-line yields. So far, planting weather has been good and most of the country has had adequate rains and enjoys good sub-soil moisture. Even with a drier than usual summer, there is little currently on the horizon to indicate production problems.

The other half of the equation is crop utilization or disappearance. With sharp increases in the amount of corn needed for ethanol production in the rearview mirror, domestic demand has little potential to provide the level of demand needed stabilize or reduce year-ending corn stocks.

That leaves exports and that picture is equally unsettling. For grains and oilseeds, the US serves as the world's residual supplier. Most countries depend on local production and turn to imports to make up for any difference between production and utilization. That means that imports are unpredictable and can vary widely from year to year. The need for imports is usually met by other exporters with the US left to pick up what the others can't supply.

As a result, US exports as a percentage of world exports has declined for decades. In 2000, the US accounted for 37.6 percent of world exports of barley, corn, cotton, soybean complex, rice, rye, sorghum, and wheat. For the 2017 crop year, the USDA projects that the US will account for 24.4 percent of world exports of these crops. Over that same period, US exports have increased by 1.4 percent per year while non-US exports have increased by 58 percent or an average of 3.4 percent per year.

In addition, this year's exports may be complicated by current trade disputes between the US and other countries. What effect the disputes will have on US exports of bulk agricultural commodities is uncertain.

All of this suggests that any reduction in US stocks of major crops is uncertain at best.

Current commodity programs are better than nothing, but they are inadequate to stabilize crop sector economics. Crop revenue insurance payments were generous when prices were well above the full cost of production, but are of minimal comfort at current price levels, when farmers need protection the most.

The Agricultural Risk Coverage (ARC) program had the potential to make larger payments when prices were higher, but with 4 years of prices for most crops at or below the reference price, any payments will depend on changes in yield. In counties with increased yields, farmers will not qualify for ARC payments.

The Price Loss Coverage (PLC) program will provide farmers who chose to participate in it with payments that will be larger than those provided by ARC. The problem is most farmers chose to participate in ARC.

Further complicating the financial health of the US crop sector is uncertainty over the design of the 2018 Farm Bill. The House has not been able to get enough support to pass its version of the farm bill, in part because of a dispute over cuts to nutrition programs. Meanwhile we wait to see what the Senate produces. It is expected that they could pass their version of the farm bill in early July.

And lastly, there is the proposal by the administration to take the nutrition programs out of the United States Department of Agriculture and merge them into the Department of Health and Human Services. If that realignment were to be approved by Congress, getting farm-only legislation through Congress will be extremely difficult, if not impossible.

If ever there were a time for farmers to unite around a farm bill that would provide farmers with yield insurance plus a program to provide adequate support during the long periods of low prices, that time is now.

Policy Pennings Column 928

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 174, June 15, 2018

Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.
Email: hdschaffer@utk.edu and dray@utk.edu; http://www.agpolicy.org.