

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

The bulk of crop sector's pain from 2012 drought is yet to come?

As we move into the 2013 autumn harvest period in the US, it is clear that the picture looks considerably different than it did a year ago when newspapers were rife with reports of shriveled ears of corn and dust bowl-like fields in many parts of the central US.

Last year the problem was the lack of rain, while this year crop farmers had to contend with too much rain during the critical planting period. Still, it is a rare year like 1993 when too much water is a more severe problem than too little water and this year is not expected to be an exception. As this column is being written, the United States Department of Agriculture (USDA) estimates the US corn harvest to come in around 13.8 billion bushels, some 28 percent above the harvest a year ago and exceeding previous 13 plus billion bushel crops in 2007 and 2008.

So from the perspective of a year later, what are the financial impacts of the 2012 drought?

For corn producers with crop insurance, the drop in corn production was often offset by higher prices and insurance indemnities. As a result crop cash receipts increased by \$9.3 billion between 2011 and 2012.

By way of contrast, livestock producers who were not covered by federal crop insurance were hit by a \$9.1 billion increase in the cost of feed purchased. Livestock producers had no equivalent financial backstop. Before the days when federal crop insurance began to serve as a disaster relief program, in a widespread drought like the one in 2012, livestock producers would have shared in the benefits of an ad hoc disaster program.

As a result of the 2012 drought, many cattle producers were hit by a shortage of water, forcing them to liquidate their herds even if they could have afforded the higher coarse grain and hay prices. Even those in areas unaffected by the drought saw lower prices as more cattle were sent to market and demand for feeder cattle shrank.

Thus, it would seem that the impact of the 2012 drought on US livestock producers was more severe than it was on US grain producers. And in the short term that may be true, but in the longer term US feed

grain producers may be at greater risk.

Since US exports peaked in 1979, US corn production has increased by 74 percent while foreign production has increased by 171 percent. With the higher corn prices that resulted from the 2012 drought being seen, not only by US crop farmers, but by farmers around the world, it is not unreasonable to expect the rate of increase in foreign corn production to accelerate in the immediate future.

As production by non-US farmers increases, so does their exports. While the US dominated corn exports in the world beginning in 1971, the same is no longer true. In 2010, non-US corn exports were 1.8 billion bushels. By 2012 that number was 3.0 billion bushels, while US drought ravaged exports were a paltry 715 million bushels.

In 1979, US exports accounted for 10.04 percent of the world's use of corn. By 2010, that number had fallen to 4.34 percent. As the advantage the US had in corn technology has spread around the world, corn exports have fallen both in absolute terms and as a percentage of world use of corn.

In the decade years following 2000, the use of corn for ethanol increased from 630 million bushels to just over 5 billion bushels, falling back slightly in 2011 and 2012. With corn ethanol hitting the blend wall it is hard to see how this rate of increase can be sustained in the future.

As corn yields continue to increase, a downward pressure on prices seems inevitable. If corn prices hit a trough that is below the cost of production, crop insurance will no longer provide farmers with the safety net they saw in the drought year of 2012.

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