

# Net farm income more than cut in halved by prices

Delta Farm Press Editorial Staff Forrest Laws

Corn is down \$3 to \$4 a bushel; soybeans, \$5 to \$6; cotton, 10 to 15 cents per pound; and rice, \$1 to \$2 per hundredweight. So just how bad is the fallout from the lower commodity prices farmers are having to adjust to in 2015?

It may be worse than many farmers and observers think, according to Pat Westhoff, director of the Food and Agricultural Policy Research Institute or FAPRI at the University of Missouri and a speaker for the University of Arkansas' Food and Agribusiness Webinar in Mid-September.

"In 2013, we have record levels of net farm income in this country," he said. "USDA estimated a net farm income of \$124 billion that year. Some new estimates that just came out a few weeks ago suggest that for 2015 we're looking at a level that's roughly half of the level for 2013; all the way down to \$58 billion."

Dr. Westhoff, an agricultural economist who is called on frequently to provide analysis of farm bill issues for members of Congress, was speaking on the topic "The Market Outlook: Any Relief in Sight?" He found it difficult to offer much encouragement.

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"Are we going to be emerging from this soon?" he asked. "One of the things I'm going to repeat several times during the course of my presentation today is that, unfortunately, unless there are some positive surprises on the horizon, there's a very good chance we could have several years coming of depressed prices for major farm products."

He displayed a chart of November soybean futures that showed how prices peaked above \$14 a bushel in 2012-13 and then fell to \$10 a bushel for the crop growers harvested last fall. Chicago Mercantile Exchange futures are now showing soybeans at \$9 per bushel, not only for 2015, but for 2016, 2017 and 2018.

## 'Always going to be surprises'

Economists and other "predictors" rarely ever get the future right, he concedes. "There are always going to be surprises, but we found that, at least since the recession, HIS Global Insights, a private forecasting group from Pennsylvania, has done a pretty good job of predicting what might be going on in the U.S. and global economy."

IHS Global Insights forecast GDP growth of 2.4 and 2.2 percent in 2014 and 2015,

which was about in line with an *Economist* poll's suggestion of 2.4 percent in 2015.

“For 2016 we have a little bit of a difference of opinion,” says Westhoff. “Global Insight sees a very significant uptick on the rate of growth to more than 3 percent, the first time that would have happened in some time. The Economist's poll is not quite as optimistic (2.6 percent).”

Global Insight also sees the global economy growing at a stronger rate of 3.3 percent in 2016 (vs. 2.6 in 2015). It also is forecasting China's GDP growth to remain fairly strong at 6.3 percent, which would be down from 2014's 7.4 percent and 2015's 6.5 percent, “but by no means in a recession,” said Westhoff.

Westhoff reviewed what's happened in the corn market from the market peak of \$7 per bushel in 2012-13 to less than \$4 per bushel in 2014-15 and 2015-16. Acres and yields have declined slightly from the record levels of 90.6 million planted acres and 171 bushels per acre in 2014-15, but not enough to make much of a dent in the ending stocks figure for corn of 1.6 billion to 1.7 billion bushels.

As a result, FAPRI is predicting corn prices will remain below \$4 per bushel through 2015-16, 2016-17, 2017-18 and 2018-19, and that market returns will remain below \$300 an acre in 2015-16 – barring their surprises.

## **Soybeans below \$9**

Soybeans have been following a similar track since prices peaked in 2014 and are projected to remain in the \$9 to \$10 per bushel range for the next four marketing years, according to Westhoff and FAPRI's analysis.

“It's easy to forget this now, but as recently as the spring of 2014, it was possible for a few days to sell 2015 crop soybeans for \$15 a bushel,” says Westhoff. “Now, of course, we're well below \$10, and, in fact, we're below \$9 on our average price in the market the last couple of days.” (Westhoff spoke on Sept. 16.)

FAPRI is expecting a slight decline in soybean acres in 2016 and the potential for a return of average yields (47 bushels so far in 2015) closer to trend-line numbers. The 3.9 billion bushels produced in 2014 and 2015 combined with larger beginning stocks means the markets will have a lot of soybeans in 2016.

“USDA has underestimated both soybean exports and the crush the last two years,” says Westhoff. “So we anticipated a good chance the final story will be a little more optimistic than USDA is showing. But even with a slightly stronger export picture, we were still looking at roughly 400 million bushels of carryout, and that's a high enough level to cause prices to be in the low we have observed recently of \$9 per bushel or less.”

The FAPRI director said he had more positives to talk about for rice, at least from a producer stand point. “After bottoming out below \$10 per hundredweight, we have seen

a pretty remarkable recovery in rice prices the last few weeks to almost \$13 per hundredweight as of yesterday afternoon. That's an amazing development considering the oversupply we were facing."

The turnabout appears to have come from over-optimistic USDA reports that indicated farmers had planted more rice and were headed toward higher yields than now appears to be the case.

Cotton producers also had some opportunities to price their crop at higher levels in 2014-15, but futures have since settled into a range of 60 to 65 cents per pound. "And, unfortunately, there's good reasons to expect that may continue for some time to come until or unless there's a major surprise in the market."

To see Dr. Westhoff's presentation and to learn more about the University of Arkansas' Food and Agribusiness Webinar series, visit <http://www.uaex.edu/farm-ranch/economics-marketing/food-agribusiness-webinars/posts/09-16-15-market-outlook-pat-westhoff.aspx>.

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