

March 9, 2015
2:00 pm CDT
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For immediate release



Declining net farm incomes, reduced livestock prices and heightened government expenditures for new farm programs were revealed as approaching trends for the agricultural and biofuel markets by the 2015 baseline projection developed by MU economists. “The record harvests in 2014 are putting downward pressure on crop prices in 2015 and beyond,” according to FAPRI-MU economist Scott Gerlt.

The 2015 baseline projections were developed by the Food and Agricultural Policy Research Institute (FAPRI) and the Agricultural Markets and Policy (AMAP) team at the University of Missouri, collaborating with researchers at other institutions.

The baseline incorporates effects of the most recent farm bill, the Agricultural Act of 2014. The analysis requires important assumptions about producers’ responses to new farm program options, including the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs. As more information on program enrollments becomes available, these assumptions and estimates will be revisited.

The projections reported by FAPRI represent the average of 500 alternative outcomes based on various assumptions about weather, oil prices and other production factors. In some of the 500 outcomes, prices, quantities and values are much higher or lower than the reported average.

Crop Markets

- Record yields for corn and soybeans in 2014 have pushed down prices for all major grains and oilseeds.
- With these lower expected prices, U.S. producers are projected to reduce corn, wheat and cotton acreage in 2015, while slightly increasing soybean acreage. The total acreage devoted to the production of major crops in the U.S. is expected to decline in 2015, but remain above the prevailing crop area averages from 2008 to 2013.
 - According to Gerlt, “Lower crop prices will likely be reducing acreage. We expect to see over three million fewer crop acres in 2015 if current conditions hold.”
- Reduced U.S. corn production will cause rebounding prices during the 2015-16 marketing year, with average projected corn prices of \$3.89 per bushel. Continued large global supplies will drive wheat and soybean prices down to \$5.17 and \$9.29 per bushel, respectively.
- Between the 2016-17 and 2024-25 marketing years, corn prices are projected to average \$4.06 per bushel and soybeans \$10.09 per bushel. The projection indicates an average wheat price of \$5.57 per bushel and an average cotton price of 63 cents per pound.

Livestock Markets

- Spurred by lower feed costs and record output prices in 2014, milk, hog and poultry producers are expected to significantly increase production, resulting in declining prices. Cattle and beef supplies remain tight in 2015, with increased production in 2016 causing prices to fall as supplies rebound.

Farm Income

- Declining crop and livestock receipts cause projected net farm income to fall to \$79 million, a 27 percent reduction from 2014. Lower feed and fuel costs result in a modest decrease in total farm production expenses for the short-term.

Farm Bill Programs & Crop Insurance

- Under the 2014 farm bill, program payments increase with falling crop prices. A projected \$3.9 billion in Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) payments for the 2014 crop year will be disbursed after fiscal year (FY) 2016 begins on October 1, 2015.
- Average ARC and PLC payments are projected to peak with the 2015 crop at about \$6.5 billion and decline to \$3.4 billion for the 2018 crop. However, due to price and yield volatility, these averages may differ from actual future ARC and PLC spending.
- Crop insurance net outlays are projected to average more than \$8 billion per year over the next decade.

Food Prices

- In 2015, food price inflation is expected to drop to 1.6 percent. Between 2016 and 2024, food price inflation is projected at an average of 2 percent per year.

The complete baseline analysis is published in “U.S. Baseline Briefing Book: Projections for Agricultural and Biofuel Markets” and can be found online at www.fapri.missouri.edu.