

# The big picture and policy issues

Pat Westhoff ([westhoffp@missouri.edu](mailto:westhoffp@missouri.edu))

FAPRI at the University of Missouri

[www.fapri.missouri.edu](http://www.fapri.missouri.edu)

@FAPRI\_MU (on Twitter)

2016 Abner Womack Missouri

Agriculture Outlook Conference

Poehlmann Educational Center, Bradford Farm

March 16, 2016

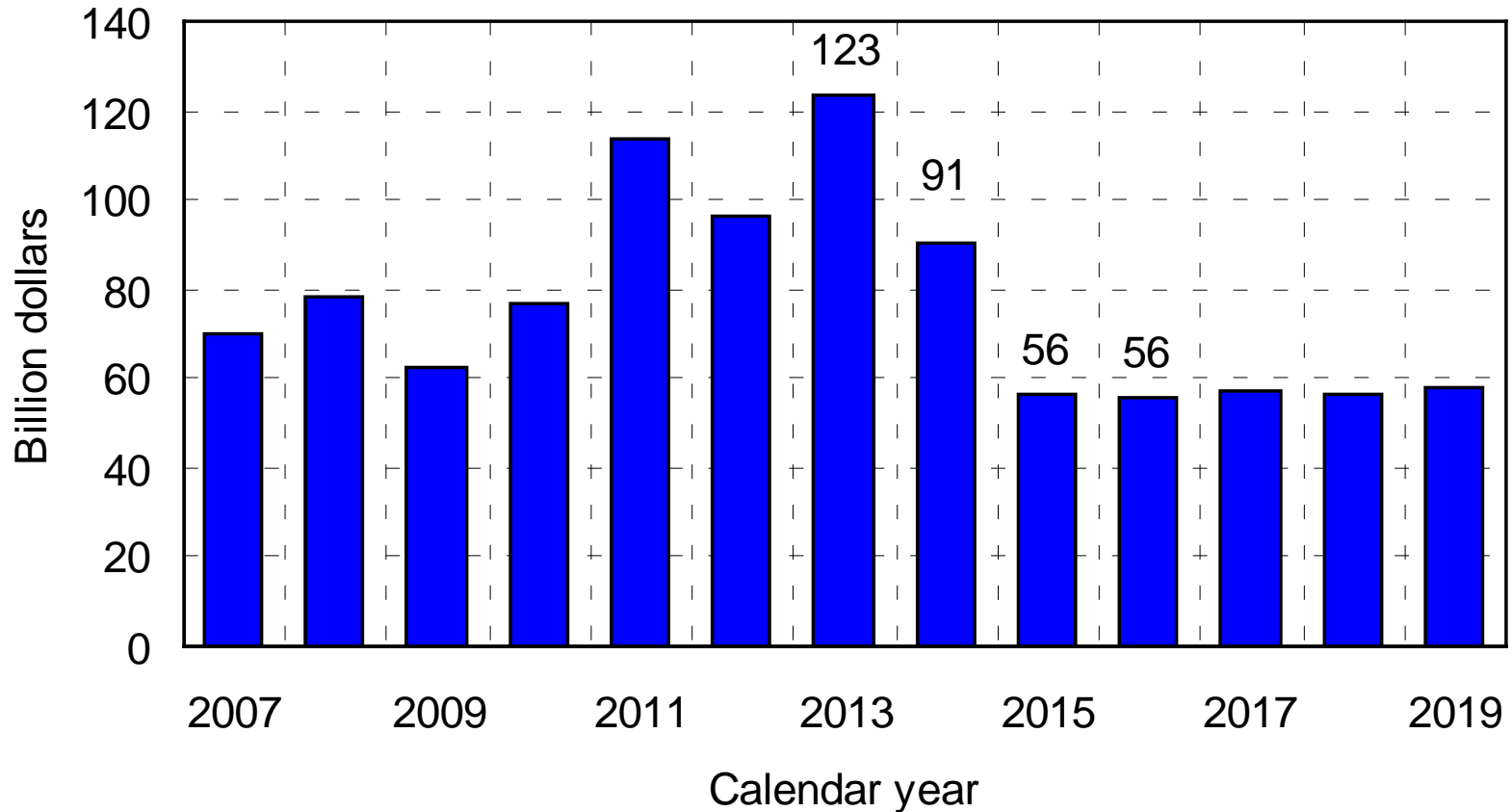
Food and Agricultural  
Policy Research Institute



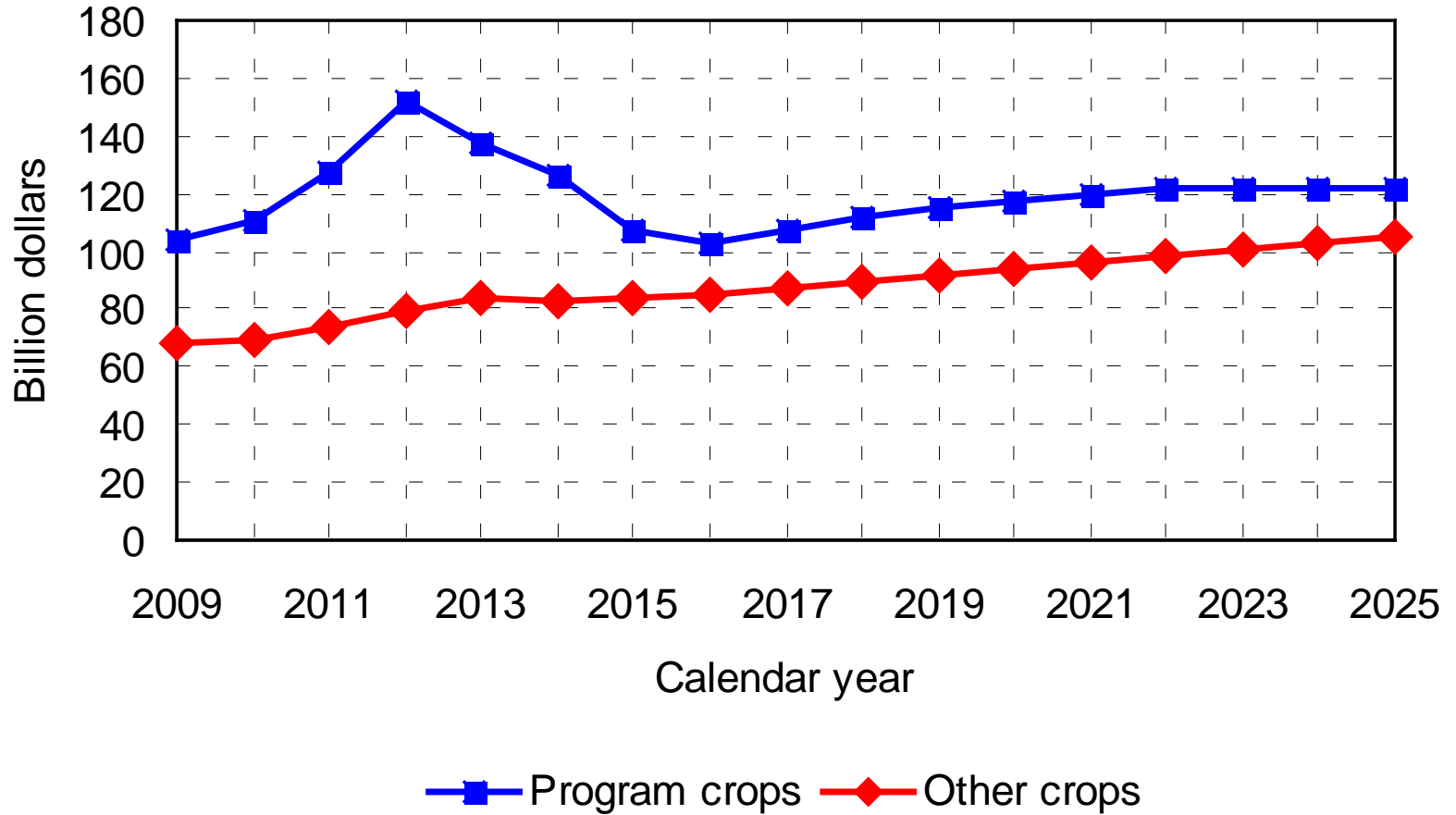
# Agenda

- Implications of the baseline for
  - Farm income and finances
  - Farm program costs
  - Consumer food prices
  
- Some policy issues

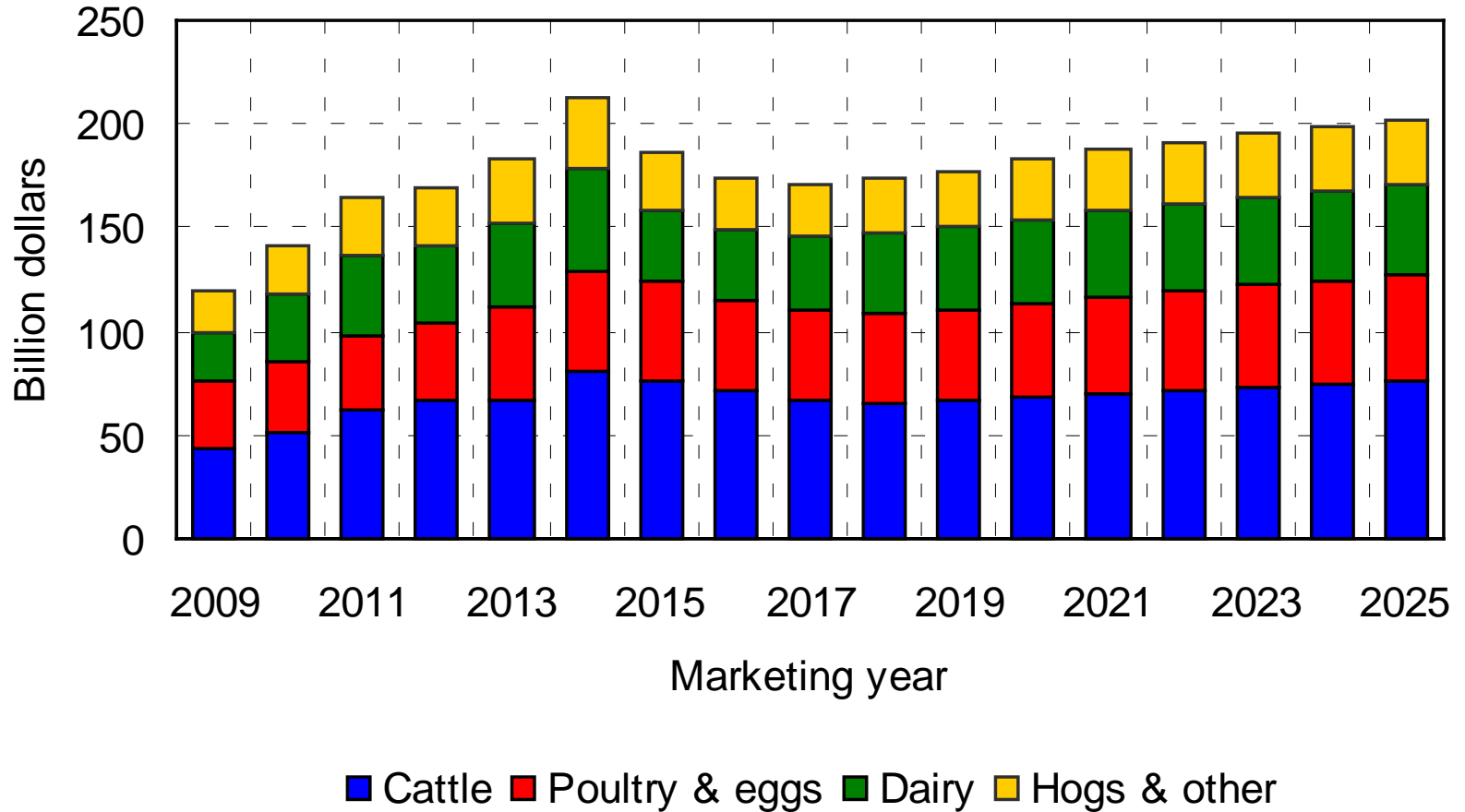
## Net farm income is less than half the 2013 record



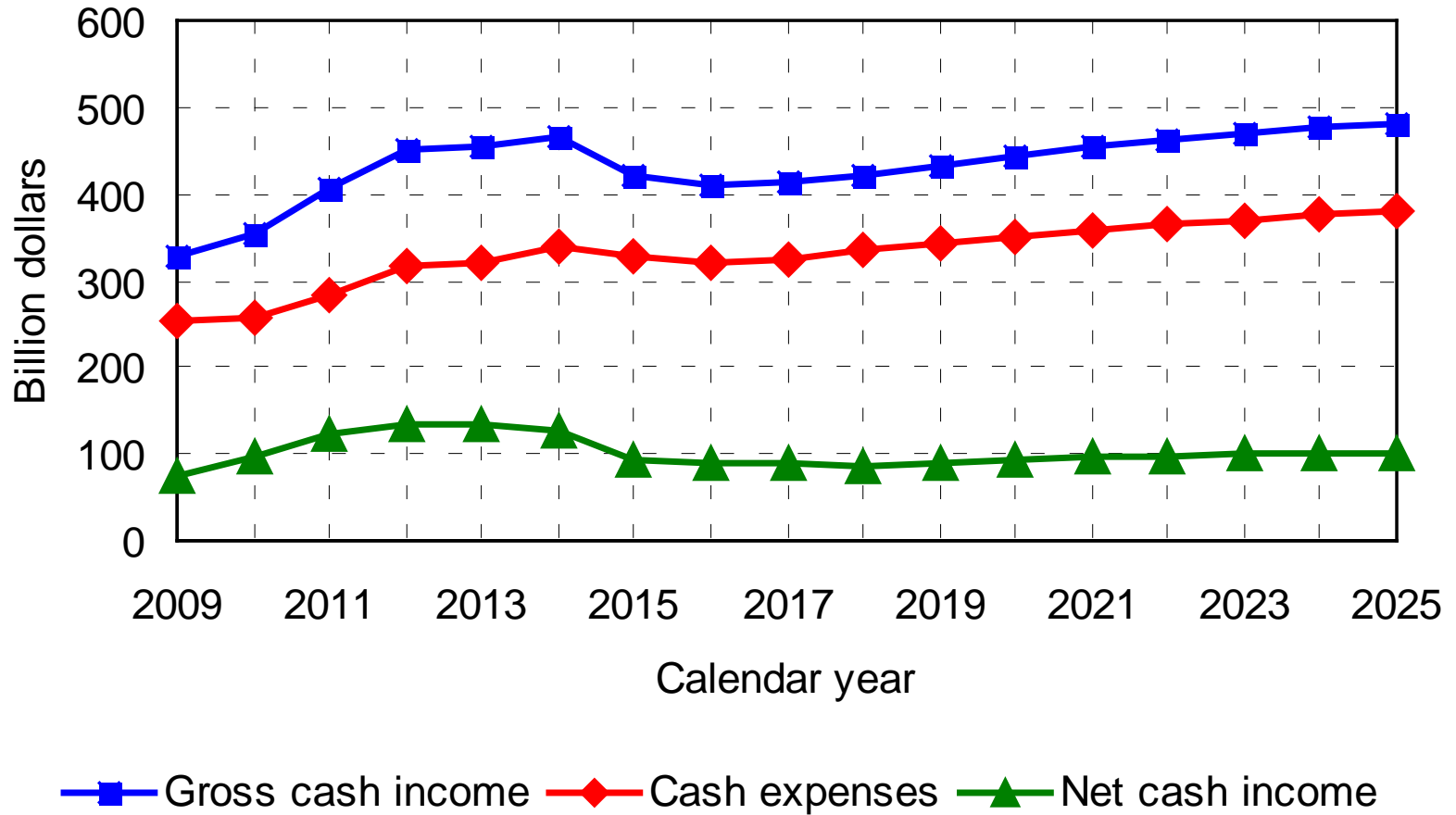
## Program crop receipts return to recession lows



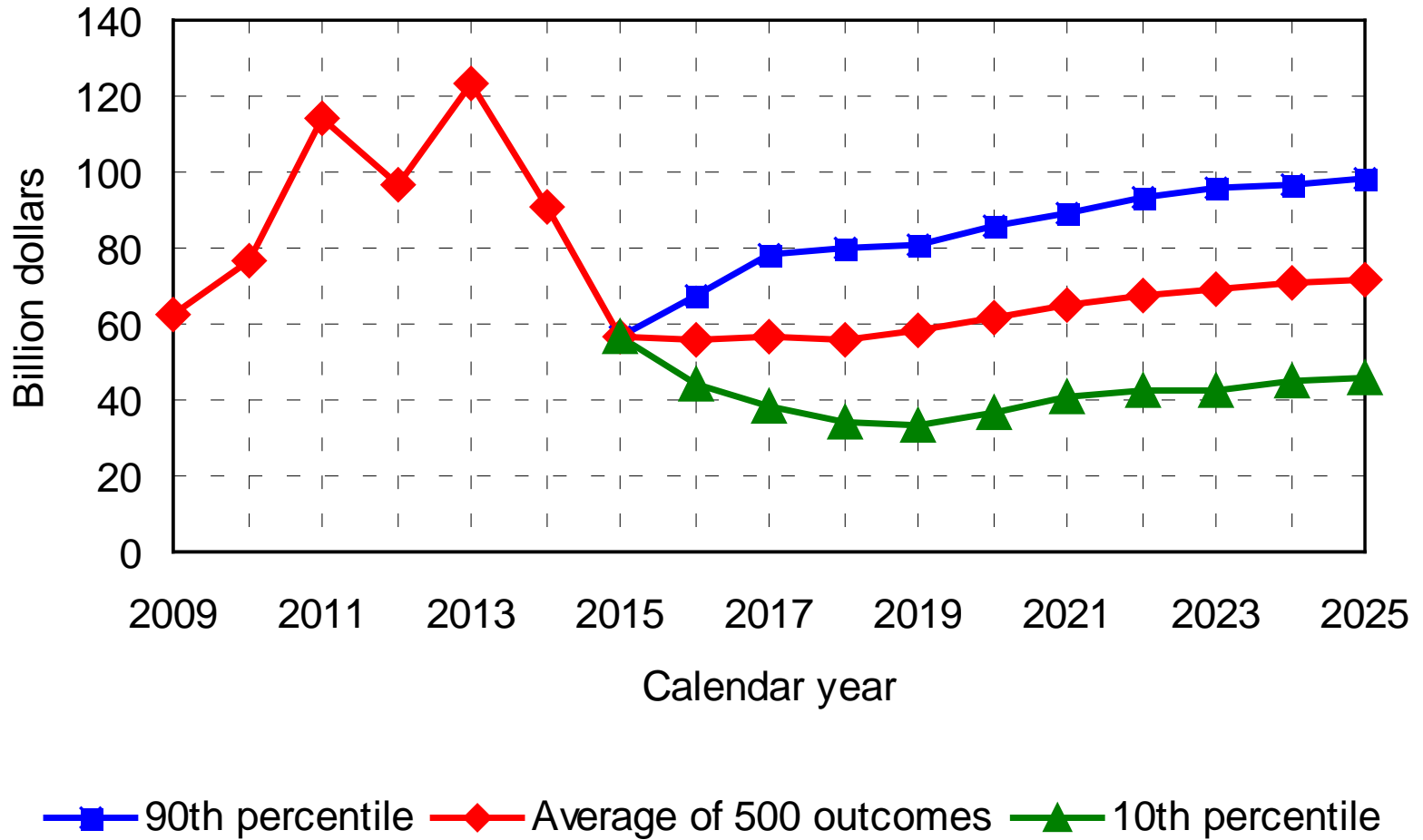
## Livestock receipts fall from 2014 peak



## Net farm cash income declines again in 2016

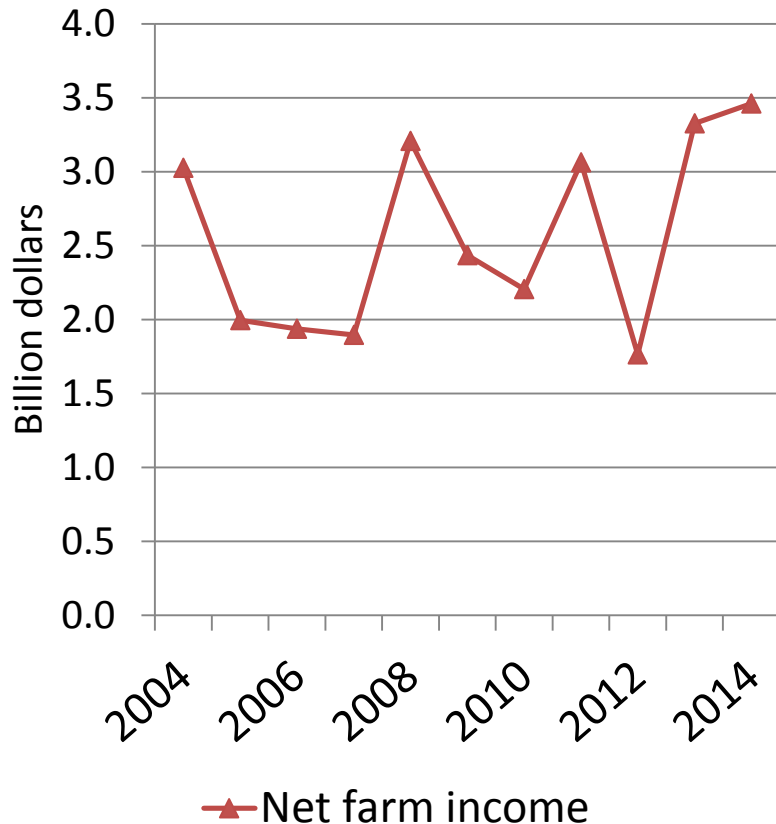


## Net farm income likely to remain below 2013 record



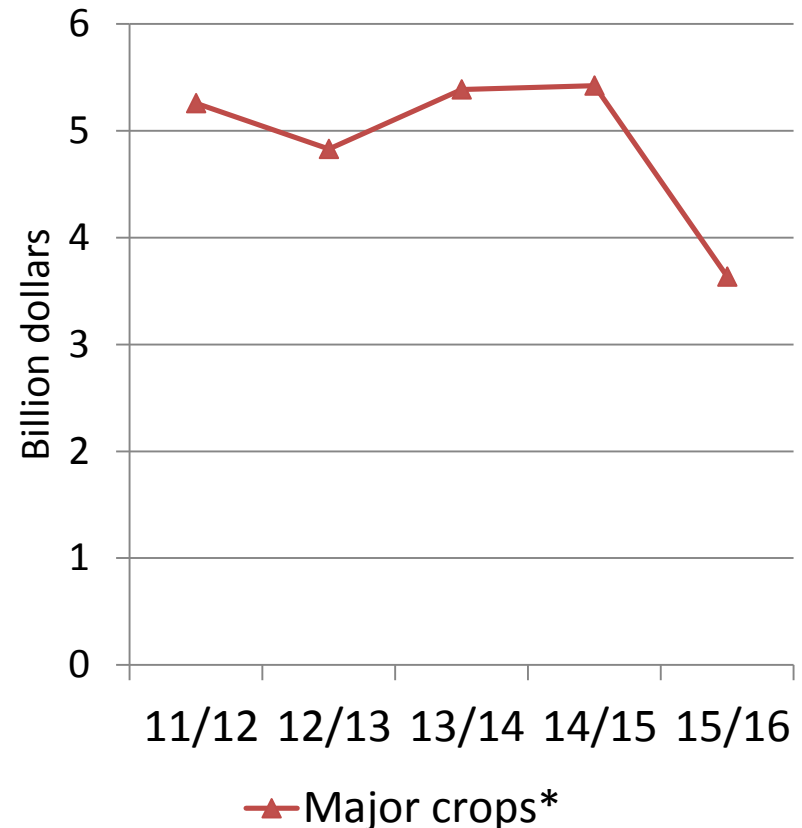
# Missouri farm income and crop values

## Missouri net farm income



Source: USDA ERS, Feb. 2016.

## Value of crop production



Source: calculations based on NASS-reported production and prices. 2015/16 is based on NASS production and FAPRI-MU-estimated prices.

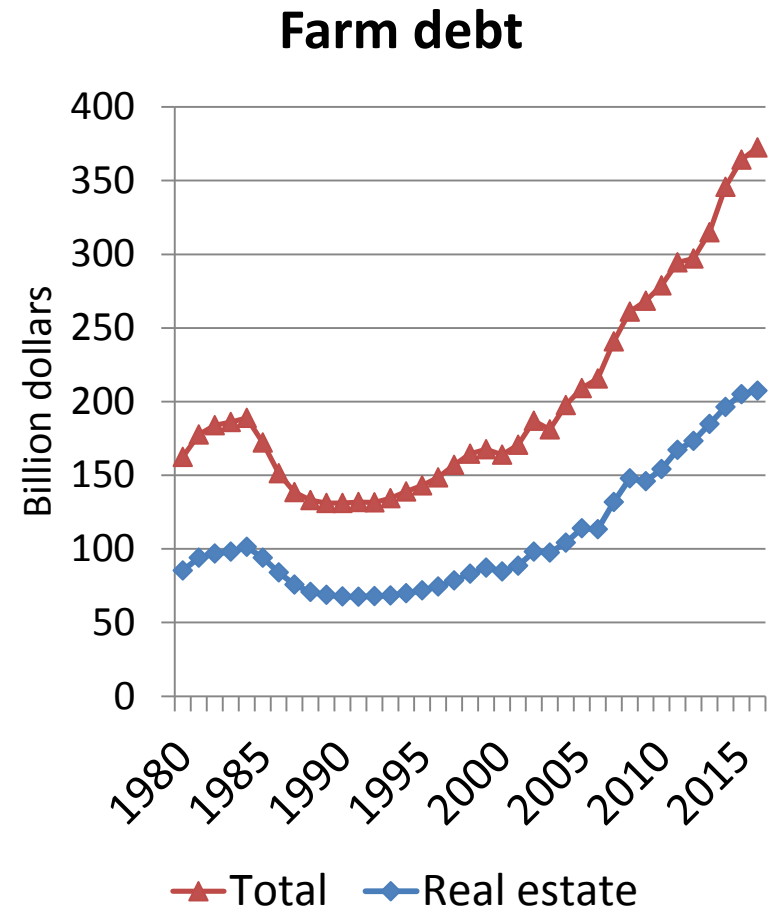
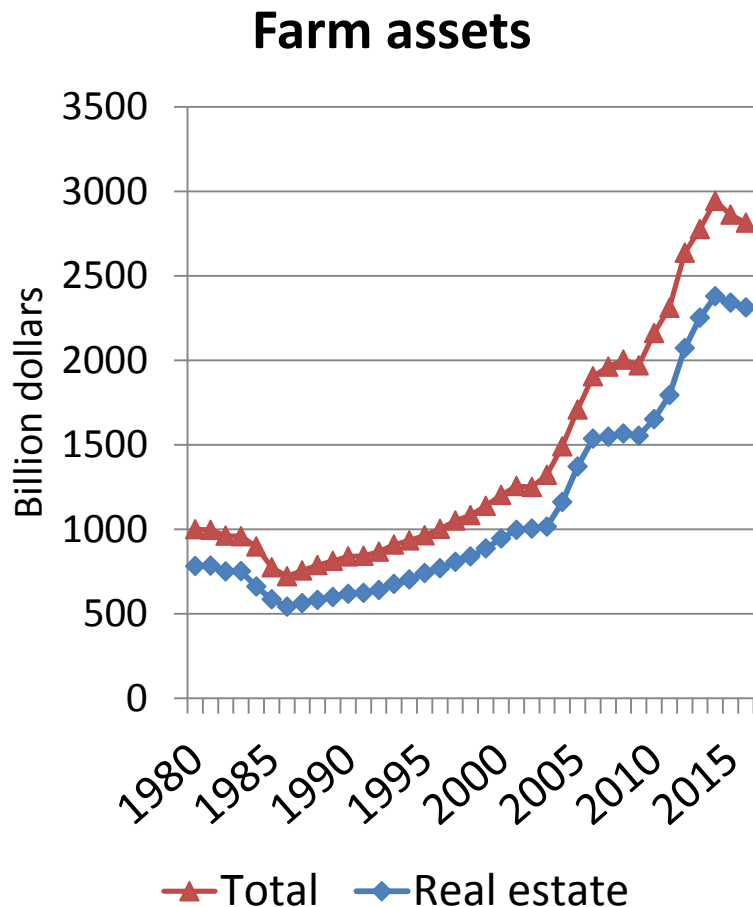
\*Corn, soybeans, wheat, sorghum, cotton & rice



# Farm finances

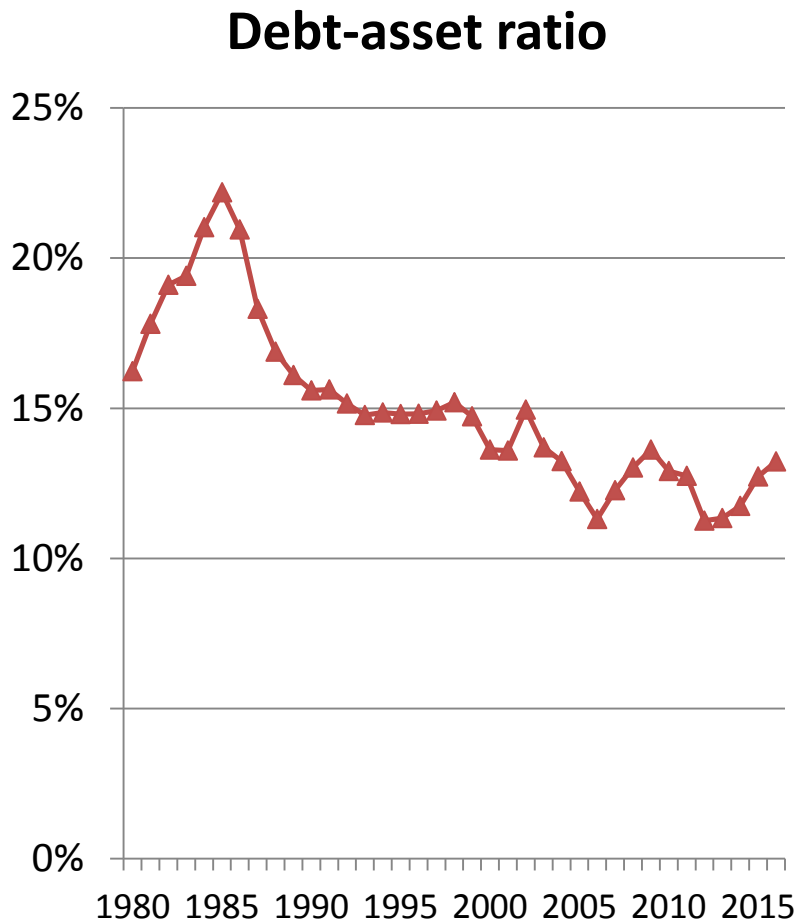
- Several recent years of high farm income have helped some farmers weather the current downturn
- However, the status quo is not sustainable in many parts of the country
  - Either income needs to increase
  - Or costs need to be reduced
- If our commodity outlook is correct...
  - Many producers will need to reduce costs
  - This could mean pressure on rental rates, land values
  - Higher interest rates could also pressure land values

# Asset values and debt have both increased sharply in recent years



Source: USDA ERS, Feb. 2016. Figures for 2015 and 2016 are forecasts.

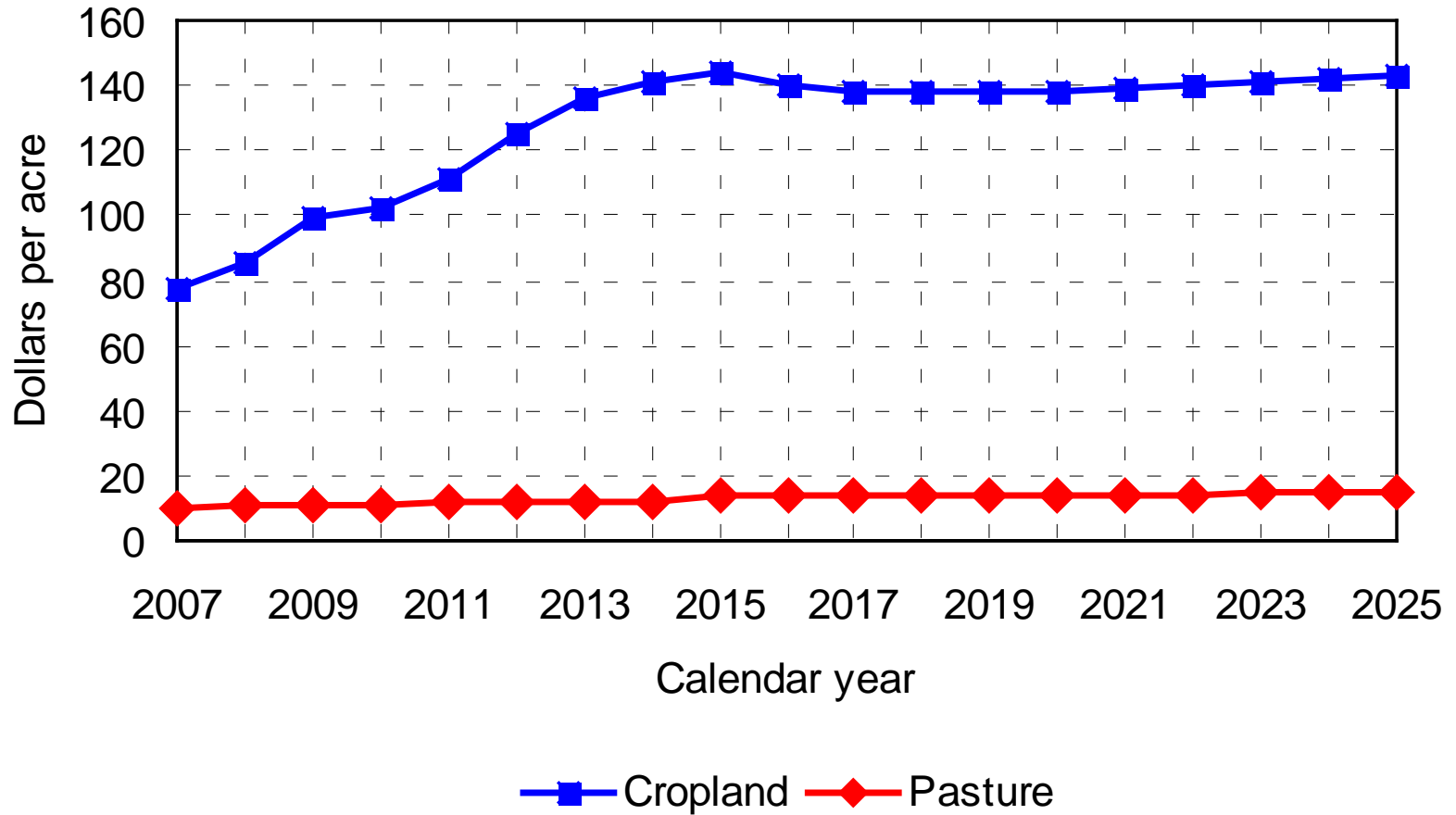
# U.S. farm debt-asset ratio is much lower than in the 1980s



Source: USDA ERS, Feb. 2016. Figures for 2015 and 2016 are forecasts.

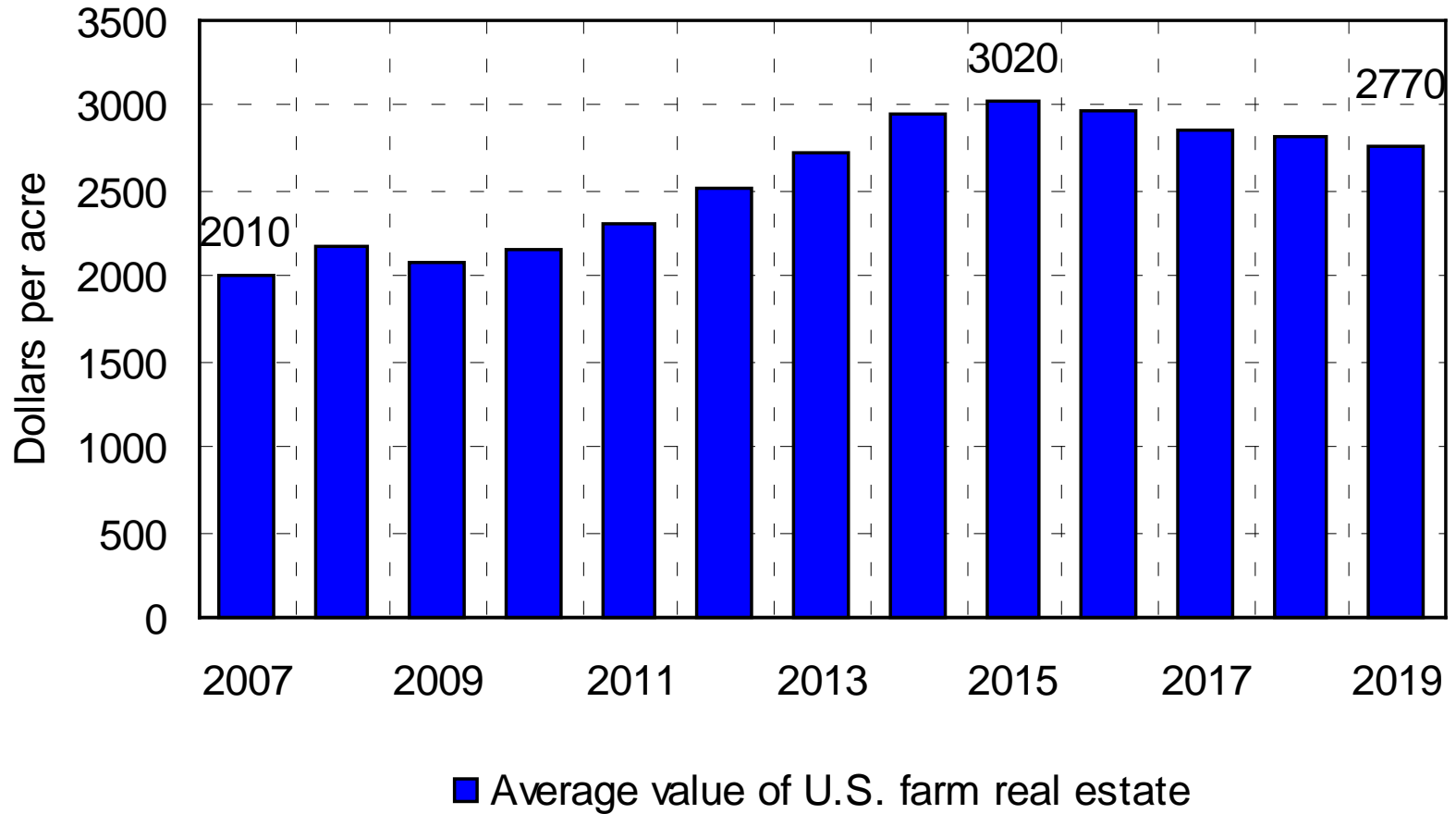
- U.S. farm debt-asset ratio peaked in 1985
- While debt levels have risen sharply, debt-asset ratios are much lower than in the 1980s
- Many farms have little or no debt, but those with debt are vulnerable

## Lower crop returns stop growth in rental rates



Modified version of chart from page 55 of the U.S. Baseline Briefing Book

## Farm real estate values are under pressure



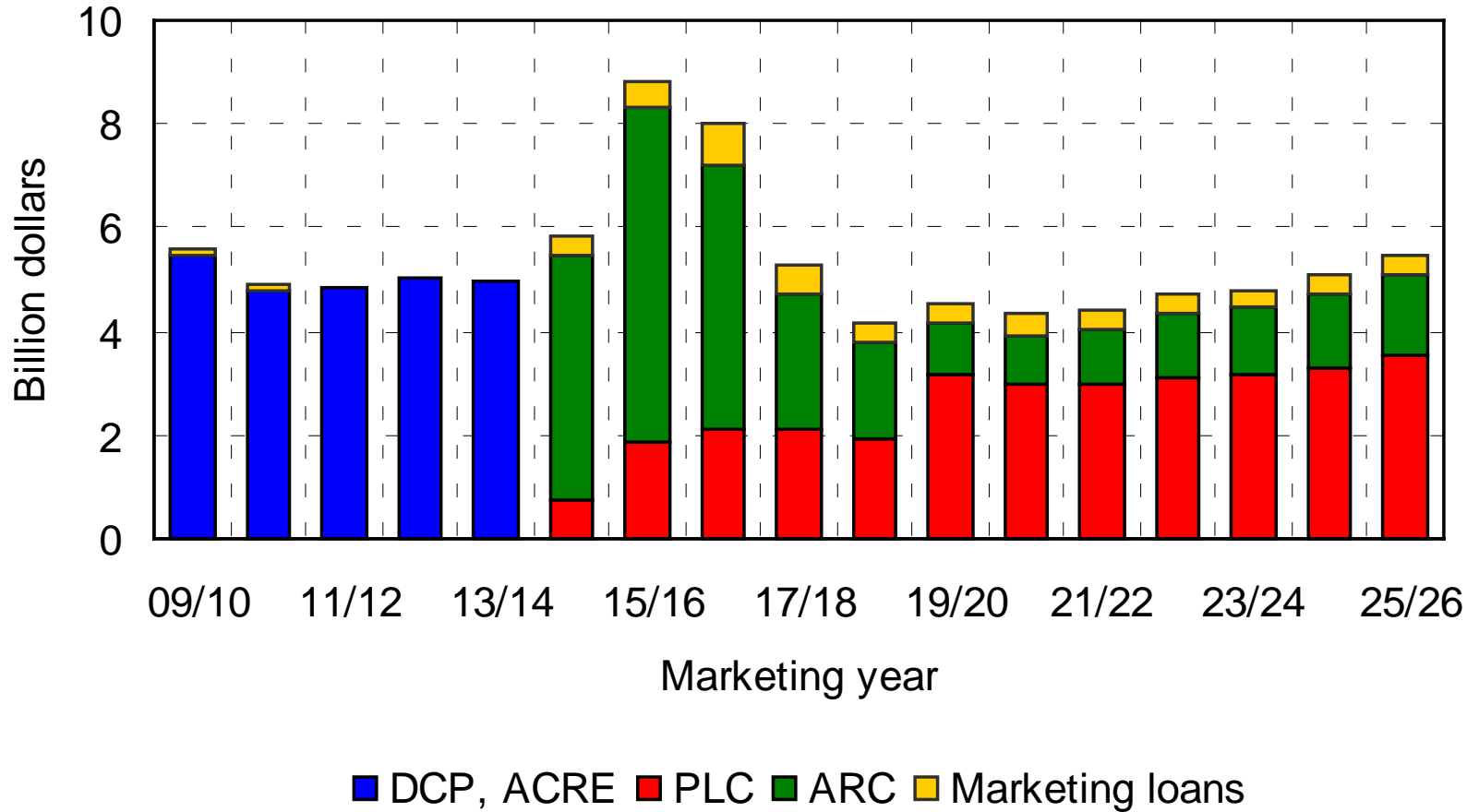
# Selected farm program benefits

Billion dollars, 2003-13 actual and FAPRI-MU projections for 2014-25

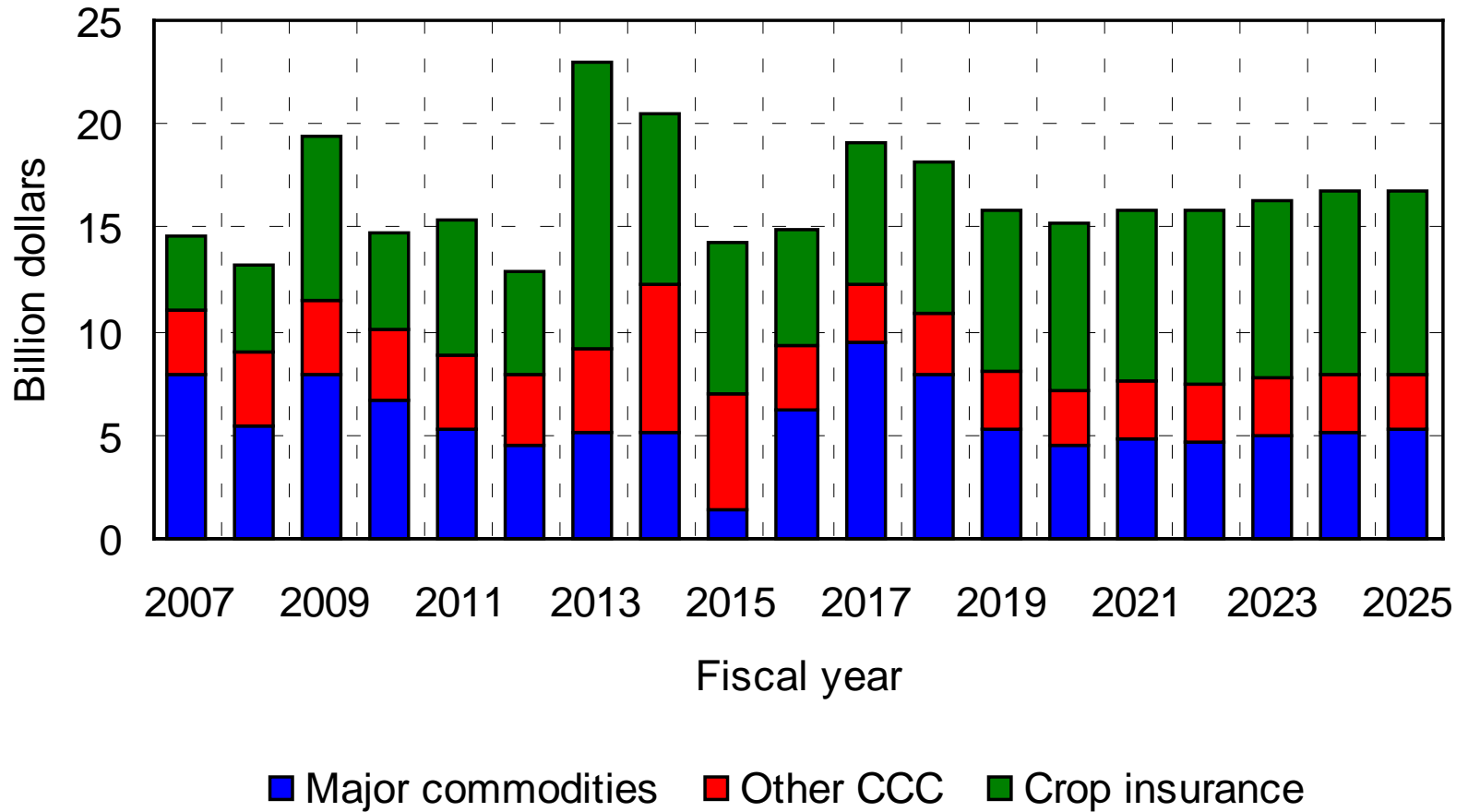
	2003-13 average	2014-25 average
Direct payments	5.00	n.a.
Marketing loan net outlays	0.96	0.44
Countercyclical payments	1.20	n.a.
ACRE payments	0.09	n.a.
ARC payments	n.a.	2.44
PLC payments	n.a.	2.58
<b>Sub-total, selected payments</b>	<b>7.25</b>	<b>5.46</b>
Crop insurance indemnities	6.77	9.50
Producer-paid premiums	3.01	3.92
<b>Crop insurance net indemnities</b>	<b>3.76</b>	<b>5.58</b>
<b>Selected payments plus net indemnities</b>	<b>11.01</b>	<b>11.04</b>

Source: FAPRI-MU 2016 stochastic baseline. Figures are on a crop year (not fiscal year) basis. This table is based in part on information reported in tables on page 52 of the briefing book.

## PLC and ARC replace DCP and ACRE

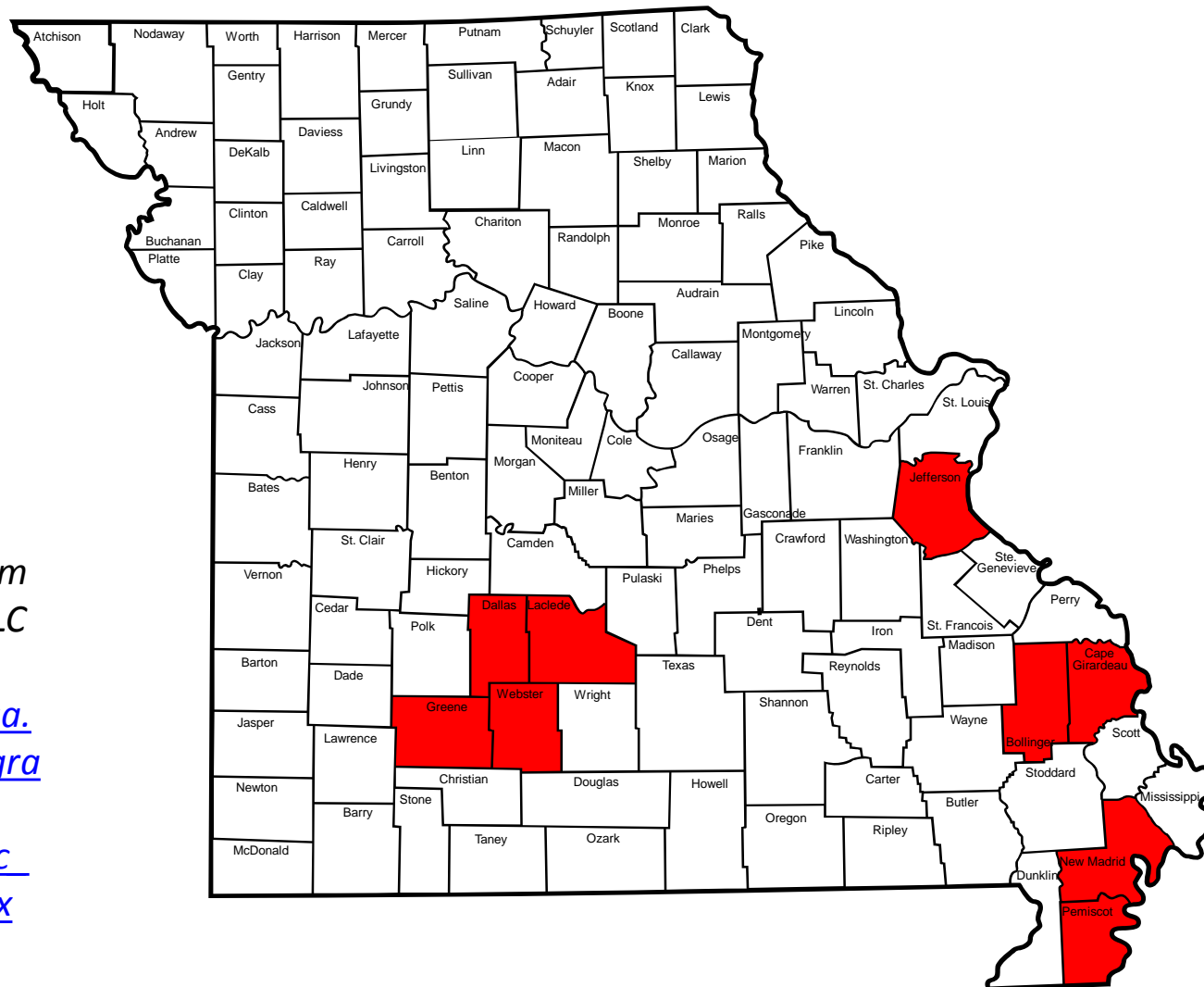


## Budget costs peak in FY 2017



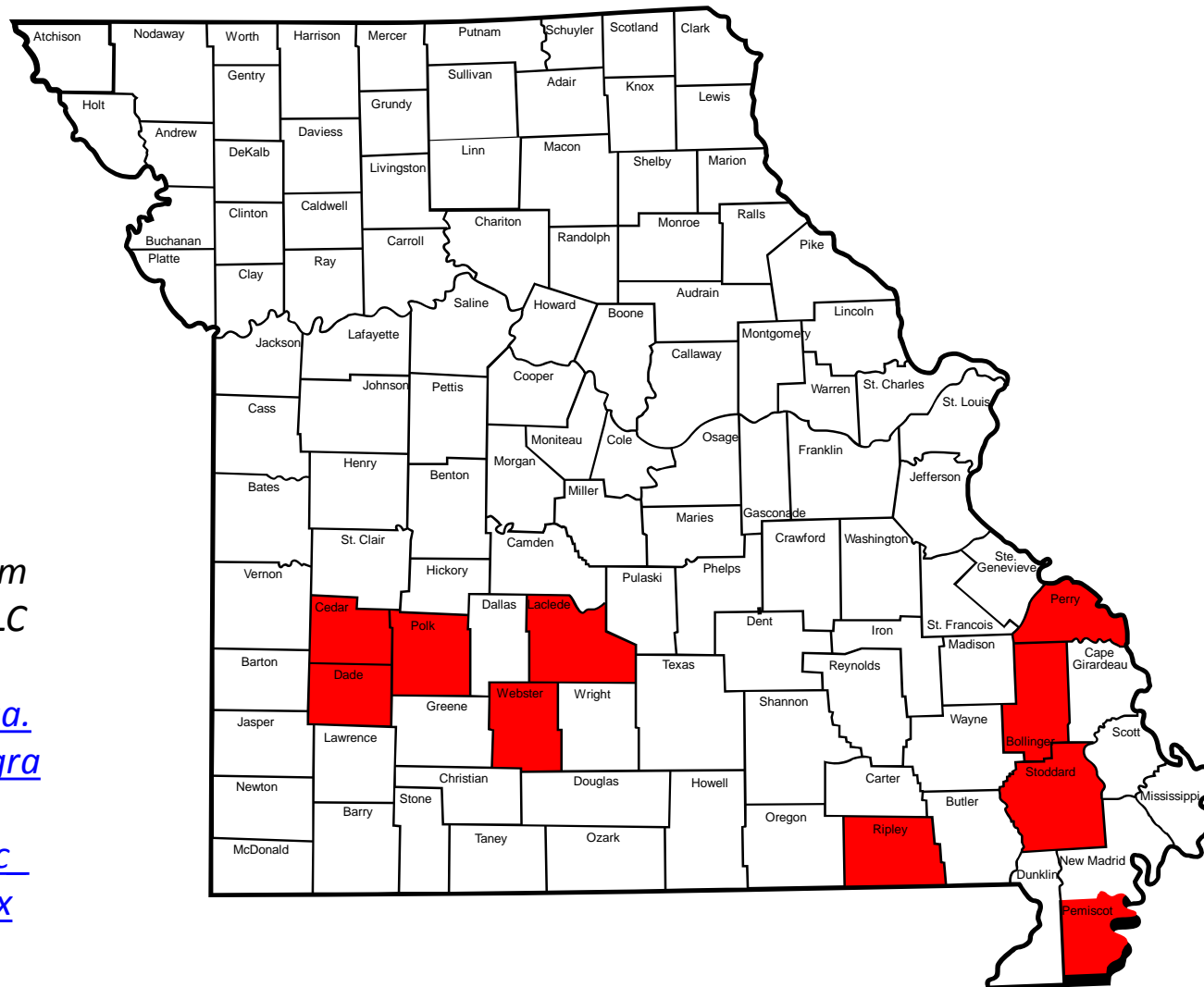


# Counties receiving 2014 ARC payments for corn



Source:  
Constructed  
using data from  
USDA's ARC-PLC  
page:  
<http://www.fsa.usda.gov/programs-and-services/arcplc/program/index>

# Counties receiving 2014 ARC payments for soybeans



Source:  
Constructed  
using data from  
USDA's ARC-PLC  
page:  
<http://www.fsa.usda.gov/programs-and-services/arcplc/program/index>

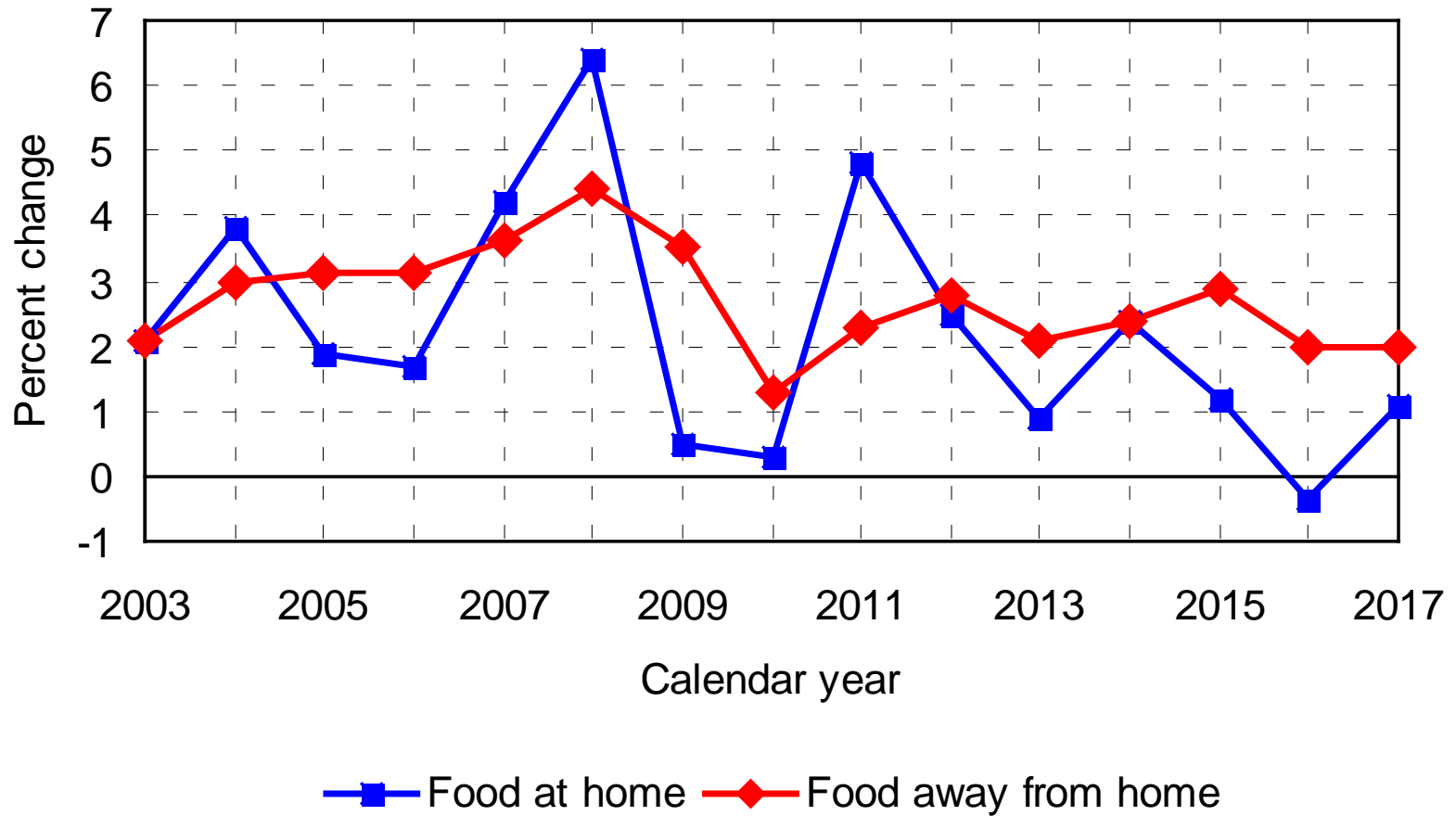
# 2015 ARC-CO calculation example

## Audrain Co., MO corn

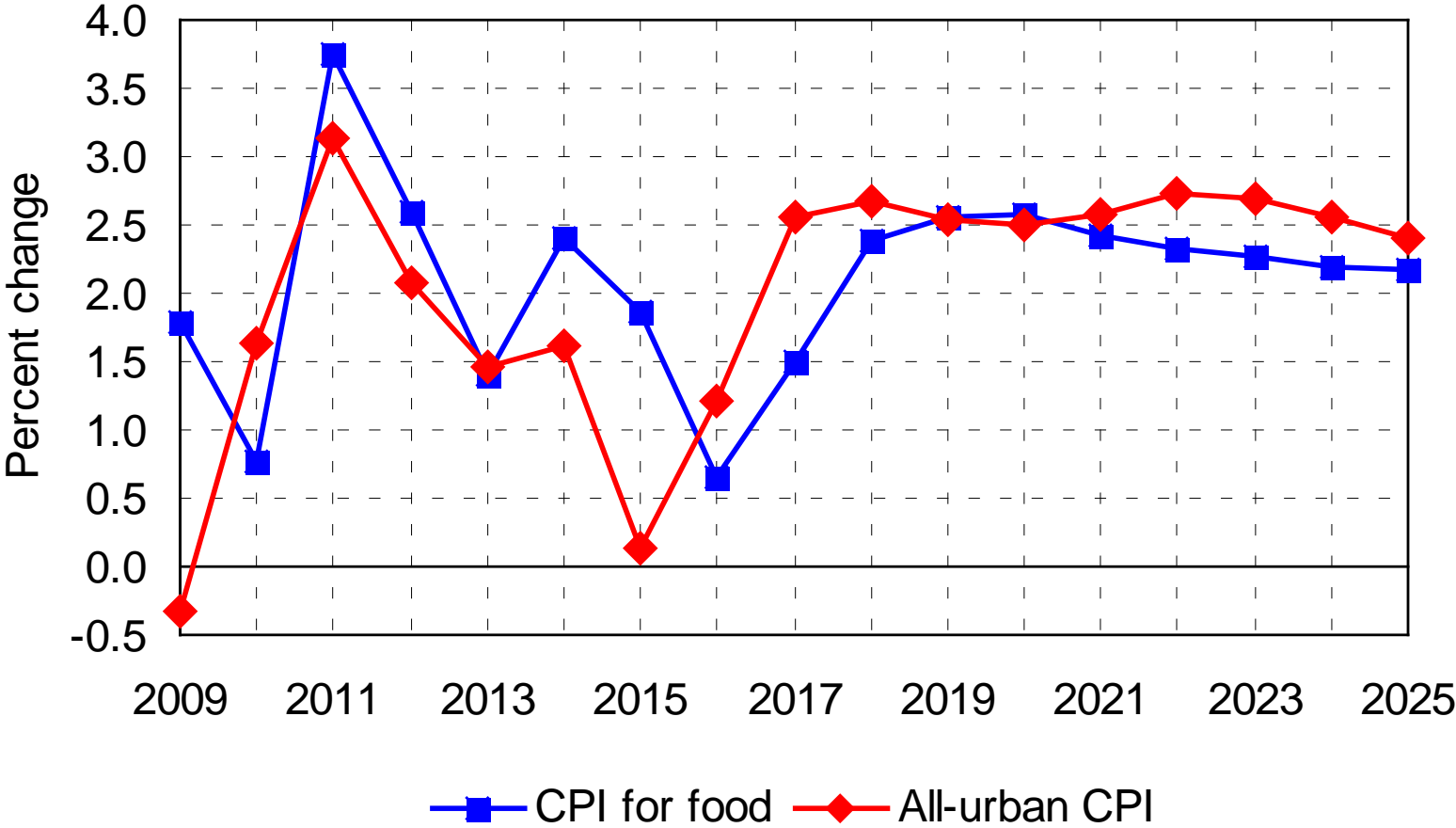
	Max of (national avg. farm price, reference price)	County yield	Revenue
2010/11	\$5.18	121	
2011/12	\$6.22	103	
2012/13	<i>\$6.89</i>	<i>88*</i>	
2013/14	\$4.46	122	
2014/15	<i>\$3.70</i>	<i>186</i>	
Olympic average	\$5.29	115	
2015/16 benchmark revenue			\$608
86% of benchmark			\$523
1 <sup>st</sup> option triggering payments	\$3.60	<145	<\$523
2 <sup>nd</sup> option triggering payments	<\$4.80	109	<\$523

\*Note: this is a plug yield—actual yields were even lower. Regardless, it is dropped as the lowest of the five years.

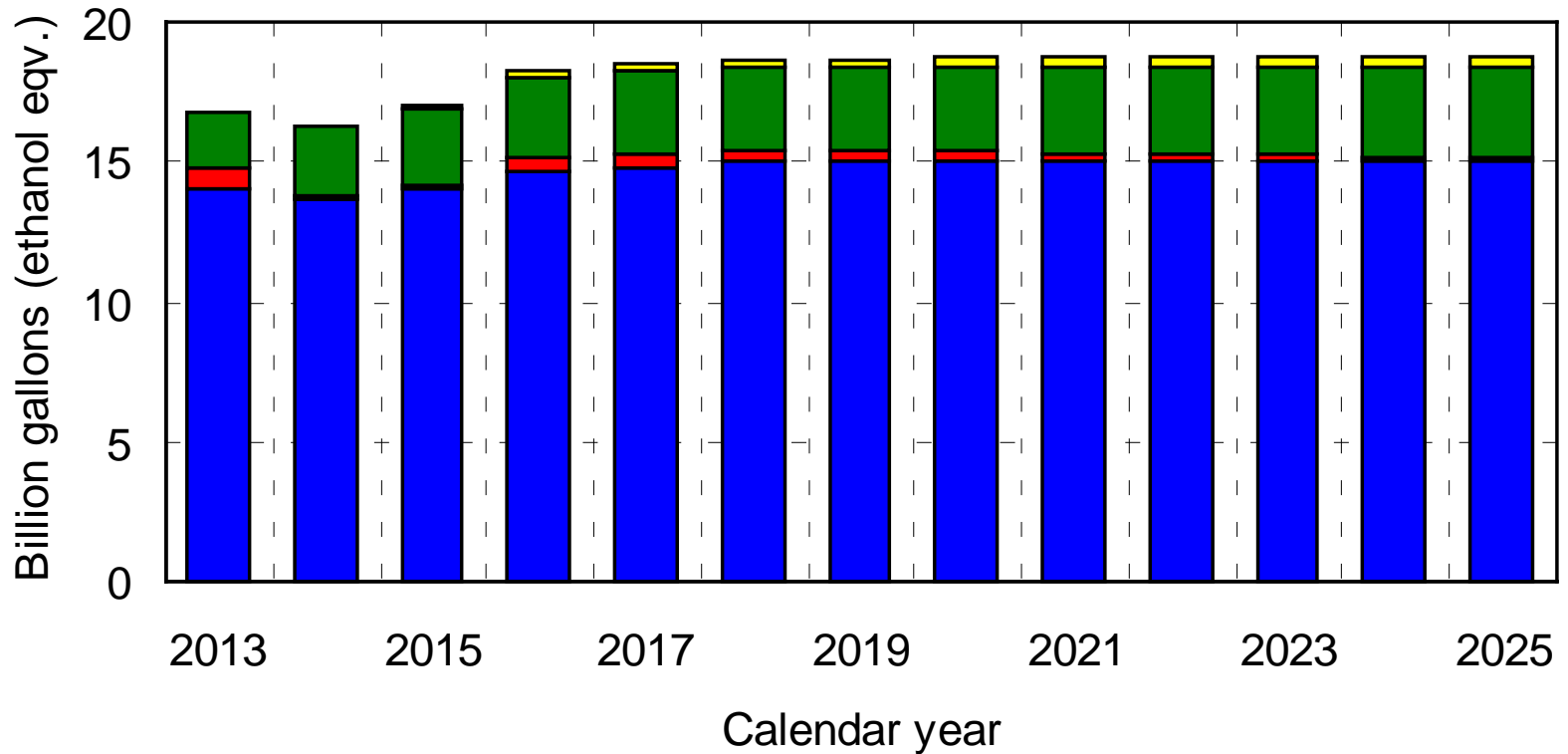
## Food at home inflation drops below zero in 2016



# Food inflation lower than general rate in 2016



## RFS volumes rise slowly



■ Conventional gap ■ Advanced gap ■ Biomass-based diesel ■ Cellulosic

# Some policy issues

- 2016
  - Biotech labeling
  - Appropriations
  - Court cases (e.g., Water)
- 2017 and beyond
  - Elections matter
  - TPP and other trade agreements
  - Budget
  - Regulations (RFS, water...)
  - The next farm bill
  - ???

# Thanks!

- FAPRI-MU website: [www.fapri.missouri.edu](http://www.fapri.missouri.edu)
- To contact Pat Westhoff:
  - 573-882-4647
  - [westhoffp@missouri.edu](mailto:westhoffp@missouri.edu)
- FAPRI-MU team:
  - Julian Binfield
  - Sera Chiuchiarelli
  - Deepayan Debnath
  - Scott Gerlt
  - Hoa Hoang
  - Lauren Jackson
  - Willi Meyers
  - Kateryna Schroeder
  - Wyatt Thompson
  - Jarrett Whistance
  - Peter Zimmel



This material is based upon work supported by the U.S. Department of Agriculture, Office of the Chief Economist, under Agreement #58-0111-15-008, and the USDA National Institute of Food and Agriculture, Hatch project number MO-HASS0024. Any opinion, findings, conclusions, or recommendations expressed in this publication are those of the authors and do not necessarily reflect the view of the U.S. Department of Agriculture nor the University of Missouri.