The big picture and policy issues

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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

![Graph showing program crops and other crops receipts over time](chart.png)

- **Program crops**
- **Other crops**

**Calendar year**
- 2009
- 2011
- 2013
- 2015
- 2017
- 2019
- 2021
- 2023
- 2025

**Billion dollars**
- 0
- 20
- 40
- 60
- 80
- 100
- 120
- 140
- 160
- 180

Page 53 of the U.S. Baseline Briefing Book
Livestock receipts fall from 2014 peak

Marketing year

Billion dollars

Cattle  Poultry & eggs  Dairy  Hogs & other

Page 53 of the U.S. Baseline Briefing Book
Net farm cash income declines again in 2016

- Gross cash income
- Cash expenses
- Net cash income

Calendar year: 2009 to 2025

Billion dollars: 0 to 600

Graph showing the trends in gross cash income, cash expenses, and net cash income from 2009 to 2025.
Net farm income likely to remain below 2013 record

Calendar year

Billion dollars

90th percentile
Average of 500 outcomes
10th percentile

Page 58 of the U.S. Baseline Briefing Book
Missouri farm income and crop values

**Missouri net farm income**

**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.

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

- 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

Average value of U.S. farm real estate

Page 3 of the U.S. Baseline Briefing Book
## Selected farm program benefits


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

*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

Marketing year

Billion dollars

09/10  11/12  13/14  15/16  17/18  19/20  21/22  23/24  25/26

DCP, ACRE  PLC  ARC  Marketing loans
Budget costs peak in FY 2017

Fiscal year

Billion dollars

Major commodities
Other CCC
Crop insurance
Counties receiving 2014 ARC payments for corn

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

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

*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

![Graph showing percent change in food at home and food away from home inflation from 2003 to 2017. The graph indicates that food at home inflation was below zero in 2016.]
Food inflation lower than general rate in 2016

Percent change

CPI for food
All-urban CPI
RFS volumes rise slowly

Calendar year

Billion gallons (ethanol eqv.)


Conventional gap
Advanced gap
Biomass-based diesel
Cellulosic

Page 37 of the U.S. Baseline Briefing Book
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!

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