

## MU FAPRI baseline projects rough agricultural economy

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COLUMBIA, Mo. – The next 10 years could be difficult for farmers. That was the message of the Food and Agricultural Policy Research Institute (FAPRI) annual baseline report delivered to Congress on March 10.

“We are looking at several years of pretty tight financial situation for U.S. agriculture,” says Pat Westhoff, director of FAPRI at the University of Missouri. “Farm income is less than half of the 2013 peak and we expect it to remain low for the next several years.”

Westhoff says the huge drop in the prices for many major commodities has driven income down and will keep it down.

“Crop prices are well off the peaks that were established in the 2012 drought year. On livestock, we had peak prices in 2014 that have also come down very sharply,” Westhoff says. “We’ve had some cost reductions, but not nearly enough to offset the decline in receipts.”

The FAPRI baseline uses a model with different variables to project a range of market outcomes for 2017-2025. Westhoff says some of the resulting 500 outcomes are much higher or lower than the averages in the report.

The baseline has corn prices averaging less than \$4 per bushel. While there might be short crop years where prices could spike, Westhoff expects prices in most years to be closer to current prices than the record prices of 2012.

Cattle, hog, chicken and milk prices have declined because of increased production and weak export demand. The strength of the dollar is a factor in the drop in exports. While it’s very difficult to predict any change in the value of the dollar, Westhoff doesn’t expect the dollar to stay as strong as it was last year.

Modest increases in net farm income are projected in the baseline report, but when adjusting for inflation, 2025 net farm income will be about the same as it was in 2015.

While this year’s baseline may not be as important to Congress since the next farm bill isn’t slated until 2018, it does offer information for producers. Westhoff says the data can help farmers decide which crops to grow and what investments to make, and equip farmers to deal with risk by knowing both what is likely and what is possible.

Also addressed in the baseline report are the Agricultural Risk Coverage (ARC) payments established in the 2014 farm bill. ARC payments are triggered when revenue falls below certain levels. Payments are expected to decline rapidly after this year because the moving average of past prices used to compute guarantees will decline.

During the period of high prices, many farmers invested in land and equipment to increase the productivity of their operations. Sharply lower commodity prices may make servicing the debt more of a challenge.

With farm income below peak levels and interest rates forecast to increase, Westhoff says there will be continued pressure on farm finances and farm real estate values.

For more information, FAPRI's U.S. Baseline Briefing Book is available at <http://www.fapri.missouri.edu/publication/2016-u-s-baseline-briefing-book/>.