Financial pressure on farms likely to continue

Net income could see fourth consecutive annual decrease as debt-to-asset ratio continues to increase.

COLUMBIA, Mo. – The latest analysis of national and global agricultural trends from the University of Missouri indicates continued financial pressure on United States farm sector. Good news in the report includes a modest recovery in grain prices in 2017.

The March 2017 U.S. Baseline Briefing Book by economists at the University of Missouri provides projections for agricultural and biofuel markets, based on market information available in January. The report’s macroeconomic assumptions are based primarily on forecasts by IHS Global Insight, which suggest moderate growth in the U.S. and global economies.

“The world is an uncertain place, and commodity markets will continue to be volatile,” says Patrick Westhoff, director of the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri. “We use our models to develop a range of projected market outcomes that takes into account some major sources of uncertainty about future supply and demand conditions. In some of the resulting 500 outcomes, prices, quantities and values are much higher or much lower than the averages reported here.”

Projections contained in the Briefing Book include declines in corn and wheat acreage and production in response to price decreases brought on by record production in 2016. Projected corn prices increase to $3.60 per bushel for the 2017-18 marketing year and $3.71 per bushel for the period from 2018 to 2026. Meanwhile, shifts in relative prices are likely to push up soybean and cotton acreage in 2017. Strong export demand has supported soybean and cotton prices in 2016-17, and projections have soybean prices averaging $9.57 per bushel in 2017-18.

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Cattle and hog prices are projected to decrease due to large domestic supplies. Cattle, hog and poultry prices all have declined sharply since 2014, partly because of strong production, but also as a result of a strong dollar, which constrains export sales. Although milk prices also have dipped since 2014, stronger international markets are projected to buoy prices in 2017.

The sum of these trends is expected to contribute to a decrease in 2017 net farm income for the fourth consecutive year. Also expected is a continued increase in farmers’ debt-to-asset ratio from a low of 11 percent in 2012 to nearly 14 percent in 2017 and 16 percent in 2026. Net farm income has declined by 48 percent since peaking in 2013. It is projected to increase in 2018 and later years, but is expected to remain below 2015 levels in real terms. Declining farm income and rising interest rates result in lower projected land prices and farm asset values, which contribute to the increase in debt-to-asset ratios.

The Baseline Briefing Book is prepared annually by economists with FAPRI and the University of Missouri Agricultural Markets and Policy team and updated each August. Westhoff says the report gives policy makers, farmers, agribusinesses and the public an overview of the state of the U.S. farm economy. The market projections can be useful to farmers making production choices, to lenders who must decide whether to make loans and to agribusiness making investment decisions.

“Perhaps most importantly, it serves as a point of reference for policy analysts,” says Westhoff. “Congressional staff ask us to look at policy alternatives relative to this set of baseline projections so they can better understand how policy choices may affect farmers, businesses, consumers and taxpayers.”

The full report will be available today at 1:30 p.m. CDT at www.fapri.missouri.edu.

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