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Grain prices up, livestock demand strong…

…but farmers still caught in economic squeeze.

COLUMBIA, Mo. – The latest analysis of national and global agricultural trends from the University of Missouri indicates little change in net farm income this year and a slight increase in 2019. However, even with modest projected increases in commodity prices in 2019, net farm income is expected to remain far below the record level set in 2013. Good news in the report includes strong demand for meat, which offset downward pressure on prices from increased production last year.

Each March, economists with the Food and Agricultural Policy Research Institute (FAPRI) and the Agricultural Markets and Policy (AMAP) team release the annual U.S. Baseline Briefing Book. Their projections for agricultural and biofuel markets are based on market data available in January.

"We use computer models to develop a range of projected market outcomes that takes into account some major sources of uncertainty about future supply and demand conditions," says FAPRI Director Patrick Westhoff. "We calculate hundreds of possible outcomes based on different combinations of factors and use those to produce an average that takes all the variables into account."

FAPRI's analysis shows that a fifth straight year of global grain and oilseed production above the long-term trend hampered recovery of crop prices last year. Projections contained in the 2018 Briefing Book include slight price increases for 2018-19 and 2019-20 crops. These include projected average 2018-19 prices of $3.57 per bushel for corn, $9.38 for soybeans and $4.89 for wheat. In contrast to other crops, upland cotton and rice prices are projected to fall in 2018-19, due to carryover of cotton stocks from 2017 and expected planting acreages for both rice and cotton.

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Last year, strong demand buttressed cattle, hog, poultry and milk prices, despite increased production. Further production increases could weigh on livestock and dairy prices in 2018 unless the growth in demand is exceptionally strong.

Overall, net farm income is projected to grow slightly in 2018. However, real net farm income remains flat, and below 2015 levels from 2019 through 2027. This is not encouraging for producers, who have watched their income-to-debt ratio dwindle in recent years. Net farm income averaged nearly 32 percent of outstanding debt from 1995 through 2014, but it fell to less than 17 percent in 2016 and 2017. This year's projections suggest continued pressure on farm finances in the years ahead.

The Baseline Briefing Book is prepared annually by economists with FAPRI and AMAP and is 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 it contains can be useful to farmers making production choices, to lenders who must decide whether to make loans and to agribusinesses 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 report's macroeconomic assumptions are based primarily on forecasts by IHS Markit, which suggest moderate gross domestic product (GDP) growth of 2.7 percent in the U.S. and global economies this year, slowing to about 2 percent after 2019. IHS Markit also projects an increase in inflation to 2.4 percent, steadily increasing oil prices after 2019 and a rise in the prime lending rate to 6.5 percent by 2021. Also included in the report is a list of government policy assumptions, which FAPRI used in developing its projections. With the exception of dairy products, this year's projections do not take into account provisions of the Bipartisan Budget Act passed by Congress in February.

The full report will be available today at 2:00 p.m. CST at www.fapri.missouri.edu.

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