Farm Income Outlook for 2014 and Beyond

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Could the great boom be coming to an end?

The Headwinds

- Lower commodity prices and margin compression
- Biofuel growth ends
- Sluggish global economy – watch emerging markets
- Global supply response
- Overhang of potential for increased interest rates
- Slow cash rental adjustment
1. Global Supply Response to Weigh on Prices

Figure 6: World Harvested ACRES 13 Major Crops Total: (Millions)

1972/73 = 1,872
1981/82 = 2,115
1996/07 = 2,104
2002 = 2,042
2005/06 = 2,144
2012/13 = 2,267

123 Million acres added in 7 years

Acreage response is underway!
2. Big Demand Increases From Ethanol are Likely Over

**Corn to Meet RFS2**

- **2005 to 2010 Crops Average 689 million bushels ADDITIONAL/year**
- **2011 to 2015 Crops Average 215 million bushels ADDITIONAL/year**

Will this be enough to keep us from building substantial stocks?
4. How Much Will Domestic Meat Consumption Rebound?
What are the Implications of Lower Commodity Price Expectations on Profitability and Farmland?
These price expectations help explain tremendous increases in farmland values. Note how hard it was to see this up cycle coming – what about going?
What if USDA Prices are Realized?

Hypothetical Calculations for Indiana
### 10 Year Forecast Year Avg Corn Price

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$2.24</td>
</tr>
<tr>
<td>2004</td>
<td>$2.29</td>
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<td>2005</td>
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<tr>
<td>2013</td>
<td>$4.61</td>
</tr>
<tr>
<td>2014</td>
<td>$3.72</td>
</tr>
</tbody>
</table>

**Will government program payments be enough to offset downward pressure of lower commodity prices?**

Attention likely turns to interest rates!
5. New Farm Program Arrives Just in Time!

- Will likely provide substantial income support if prices follow USDA forecast
- For the hypothetical farm examined here payments could provide support at rates approaching $90/acre
- In other words, we now have a decent idea about how bad prices can/could get
- Interest rates are the big unknown
Eventually 2015 will get here! Expect lots of gyrations and angst ahead of tightening!
Other Things to Think About
6. Future Agriculture Value Creation/Capture

• Future of farming is rapidly changing
• Who will add value and create the largest platform for creating value?
• Seed/crop protection – agronomic supply – equipment and production technology – farmer
  – What role will they play in the future?
  – What relationships will evolve?
  – What are advantages to each?
7. When It Comes to Demand
Everyone Has a Megaphone!
Farm Incomes Likely to Fall From Historic Highs but Not to Historic Lows

Real Net Farm Income (2009 USD), U.S. 1929-2014

Average 72.1
Final Thoughts

• Times have been **VERY** good
  – It is conceivable they could get better
  – It is also conceivable they could be worse

• Most signs point to slowing
  – We wouldn’t bank on the next 7 years being as good as the last 7, but I **think they will be acceptable for good managers**