Economic Report

Office of Regulatory Policy
Agricultural and Economic Policy Team

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Summary

Projected margins for major field crops remain in the red for 2016, although a late spring rally provided some early-season pricing opportunities.

Using USDA's mid-point price forecasts of 2016 crops, estimated losses for Iowa corn are 29 cents per bushel or $51 per acre, including an Agriculture Risk Coverage (ARC) payment of 37 cents per bushel. For Iowa soybeans, projected losses are 67 cents per bushel ($37 per acre) despite an estimated $0.45 per bushel in ARC payments. If prices fall further due to above-average yields, the expected loss in Iowa may not change much since changes in price and yield generally offset each other for Corn Belt farmers.

The expected Kansas wheat margin also remains in the red, but it has improved since spring because record 2016 yields are now projected, cutting losses from an estimated $60 per acre in May to $42 per acre in July, including an ARC payment. Some farmers who had selected Price Loss Coverage (PLC) instead of ARC will receive a larger government payment because high 2016 yields are not part of the PLC calculation. These farmers might get close to breakeven if their farm yields are high enough.

Authors: Steve Koenig and
Dennis A. Shields, Senior Economists
(703) 883-4056

July 2016 Crop Margin Report

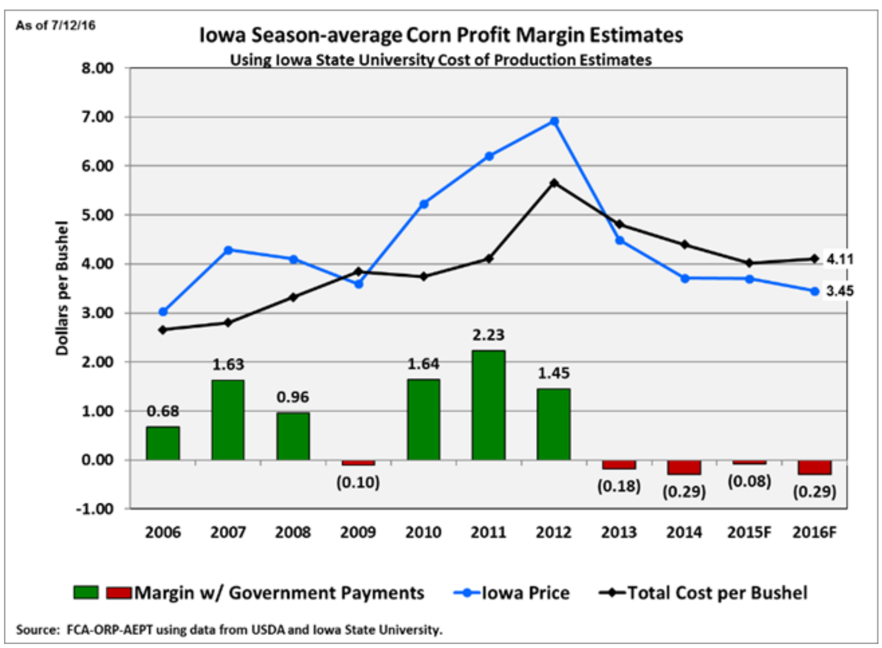
Corn and soybean prices rallied in May and June largely on production difficulties in South America and U.S. weather concerns. Some producers locked in a profit for their 2016 crop. Others watched prices fall sharply following a larger-than-expected USDA acreage and stocks reports and improved weather. USDA's latest 2016 price outlook suggests margins will remain below breakeven again for all three crops, and many producers are facing unprofitable margins for the third or fourth year. Those who purchased insufficient revenue insurance and encounter poor yields could experience more pronounced income shortfalls.

Projected Margins for Corn Fall Below Breakeven for Fourth Year

USDA's 2016/17 corn price forecast range of $3.10 to $3.70 suggests that profit margins could be below breakeven for Iowa producers for the fourth consecutive year. At the mid-point of the range, losses would amount to 29 cents per bushel or $51 per acre loss on a 177-bushel average yield. This includes an Agriculture Risk Coverage (ARC) program payment estimate of 37 cents per bushel. Because ARC uses a county-based payment formula, some farmers may receive a payment of a different amount or none at all.

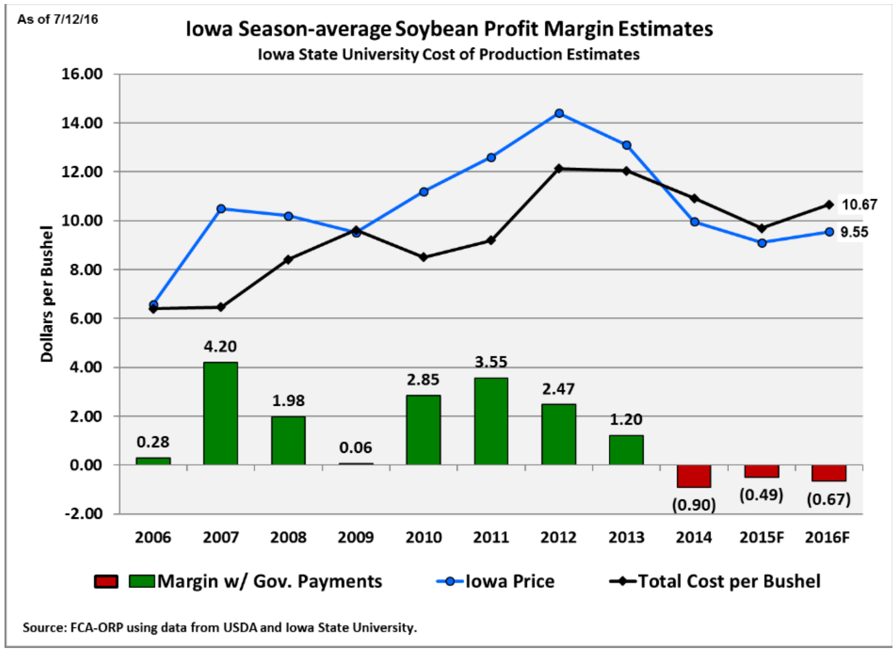
If the corn crop turns out to be large and prices fall to the low end of USDA's price range ($3.10), then a yield equal to last year's 192-bushel Iowa record would leave the expected loss of 29 cents per bushel unchanged. This occurs because the extra yield offsets the lower price. The maximum ARC per-acre payment rate limits the downside protection if prices slide too far, though.

Conversely, if prices were at USDA's upper-end price ($3.70), a yield of 177 bushels per acre would would shrink the loss to 13 cents per bushel as ARC payments decline with higher prices. It's important to note that ARC payments are made a full year after the 2016 crop is harvested.



Projected Soybean Margins to Decline for the Third Year

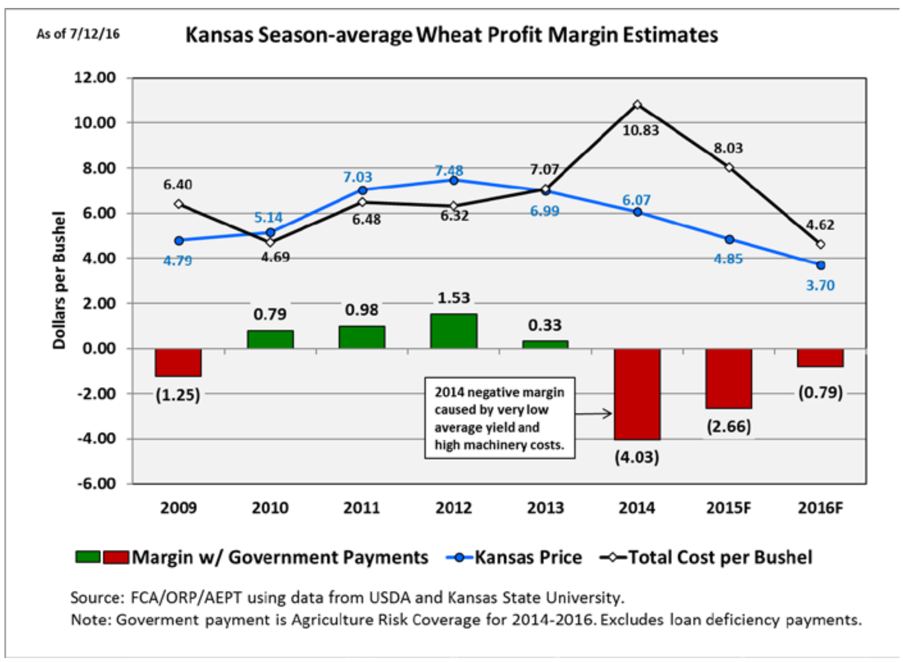
The soybean price outlook indicates substantial losses using the midpoint of USDA's 2016/17 price forecast range of $8.75 to $10.25 per bushel. Projected losses of 67 cents per bushel ($37 per acre) occur despite an estimated $0.45 per bushel in ARC payments.



As with corn, ARC payments can have a significant influence on total revenue in this price range. Assuming last year's record Iowa yield of 56.5 bushels per acre and the low range price ($8.75), losses would actually be trimmed somewhat to 51 cents per bushel. Conversely, if prices are at the upper end of $10.25 per bushel and yields remain at the 50 bushels per acre average, then losses are also less at 37 cents per bushel. Under this last price and yield scenario, no ARC payments would be made.

Record Kansas Wheat Yield to Cut Margin Losses in 2016

The projected wheat margin for the 2016 Kansas crop remains in the red at -$0.79 per bushel ($42 per acre), a smaller loss than the one calculated in May (-$1.52 per bushel or $60 per acre). Excellent growing conditions and record yields have improved prospective wheat revenues. In July, USDA raised its Kansas yield forecast to a record 56 bushels per acre, up 19 bushels from last year. Wheat prices remain in the tank, though, due to large U.S. and global supplies.



The calculated margin includes an expected ARC payment. Higher yields have reduced the expected payment since May because revenue is now closer to the guarantee. In contrast, the expected payment for Price Loss Coverage (PLC) is increasing because it depends only on the farm price, which has declined 30 cents since May. Some farms with PLC might get close to breakeven if their farm yields are high enough. Nationwide, 57 percent of wheat program acreage is under ARC and 43 percent is under PLC. For all farms, small loan deficiency payments have been available on each bushel produced in some winter wheat growing areas, with recent payment rates of 1 to 7 cents per bushel.