Optimistic on US economy but these policies spur already existing wage inflation, implying higher US interest rates and a stronger $.

Last 2 points plus potential for trade confrontation suggest US farming will likely lag.
Farm Bill
Debate Has Started

► known issues (cotton, dairy, low returns)
► desire to capture favorable baseline

► CBO March 2016 budget baseline (billion $/year)
  insurance: $8.5 - $9.5; commodity programs: $4 - $6

![Figure 1: Farm Countercyclical Payments vs. Net Farm Insurance Indemnities, Billion $, Selected Crops, 2002-2015 Crops](image)

Farm Bill
Issues to Watch

► Conservation Reserve Expansion
► Water Quality and Healthy Soils
► Crop Insurance Cuts
► Cotton Oilseed Proposal and Generic Acres
► PLC & ARC design: reference price; cap/acre

![Figure 2: Estimated ARC-CO & PLC Payments, 2018 Crop Year, Assumes: 2016 Price and Yield as of January 2017 repeated in 2017 & 2018](image)
US Crop Farming

Big Picture

► for corn, 1969-71 to 2013-16 annual decline = -0.9%, but US harvest yield grew 2.4%/year
⇒ real input cost/acre must increase no more than 1.5%/year for real corn income to grow

US Crop Farming

Big Picture

► one estimate of crop year price low
⇒ farm’s per unit cost of production needs to be at this price to insure survival if markets becomes real stressed
US Crop Farming

Big Picture

► ethanol’s role in 2006-12 prosperity understood
► few understand role of subpar yield growth

Price Outlook

Acreage and Yield Trends
**Price Outlook**

**Crop Ratios**

- Soybean - Corn Price & Revenue (yield times price) Ratios, US, 1996 on
  - Average
  - Minimum
  - Maximum
  - 2016 crop
  - New crop futures

- Chicago Wheat to Corn, Soybean, and Wheat Revenue (yield times price) Ratios, US, 1996 on
  - Average
  - Minimum
  - Maximum
  - 2016 crop
  - New crop futures

**Price Outlook**

**Stocks-to-Production Ratios**

- Stocks-to-Production Ratios, Grains, 1996 on
  - Average
  - Minimum
  - Maximum
  - 2016 crop

- Stocks-to-Production Ratios, Oilseeds, 1996 on
  - Average
  - Minimum
  - Maximum
  - 2016 crop
Marketing Thoughts

► Soy use growing across globe, not just China
► New Growth Potential: ethanol as preferred oxygenate across globe, not just US
► Higher price variability going forward

Percent Price Increase from Average Price During Harvest Low Months, Ohio, 1986-2015

- Corn: Oct. - Nov.: average 25%, minimum 3%, maximum 75%
- Soybeans: Oct. - Nov.: average 21%, minimum 3%, maximum 55%
- Wheat: June - July: average 18%, minimum 0%, maximum 108%

THANK YOU!

QUESTIONS?

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