

The Agriculture Letter®

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Dear Client:

Washington, Dec. 9, 2016

Farm income still in decline...
Lowest profitability for the sector since '09.

FARM INCOME Net cash farm income forecast at \$90.1 billion, down 14.6% from '15... net farm income is forecast at \$66.9 billion, down 17.2% from '15. In August, USDA forecast net cash income higher at \$90.9 billion and net farm income at \$71.5 billion.

Cash receipts are forecast to fall \$23.4 billion in '16 due mostly to a drop in animal and animal product receipts. The value of crop production of \$185.2 billion in '16 would actually be an increase from '15... first since '13.

Not all numbers are negative. Even as overall cash receipts are expected to decline, receipts for several commodities... turkeys, rye, cotton (cotton lint), miscellaneous oil crops and tobacco are forecast to rise 10% or more.

Gov't payments up. Direct government farm program payments are forecast to rise \$2.1 billion in '16, up 19.1%, to hit \$12.9 billion. Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC) programs are expected to account for 64.4% of all program payments. About 69% of '16 ARC-CO payments will go to producers with corn base acres, 18.5% to soybeans and another 10.8% to producers with wheat base acres.

Expenses also down by 2.6% in '16... second largest year-over-year fall in expenditures since '09. "Reduced input costs are expected to ease, but not eliminate, some of the pressure from lower cash receipts," USDA noted.

Interest expenses are forecast to decline 3.8% vs. '15 on falling real estate interest expenses... but cash labor expenses are forecast up 5.4% on higher hired labor costs.

Farm sector equity is forecast down \$79.9 billion (3.1%) in '16 on more debt and decline in assets. But at \$2.47 billion, it still is above the '13 mark of \$2.461 billion. Farm real estate values are the biggest factor... down \$12.0 billion, or 0.5%, compared to '15. Farm sector debt is up 5.2% at \$375.4 billion... fourth straight year above \$300 billion.

Non-real-estate debt is growing slower than real-estate debt. Real estate debt is at a record high \$226.7 billion, up 8.6%, vs. '15. Non-real-estate debt is at \$148.7 billion, up 0.5% after falling 0.3% in '15 vs. '14. Retail real estate loan volume in the Farm Credit System rose in the first half of '16, "reflecting continued demand for the purchase of cropland."

But key financial indicators remain near historic lows. The debt-to-equity ratio is at 15.2; the debt-to-asset ratio is at 13.2... both are at the highest levels since '09. USDA says it marks a "modest" rise in farm financial risk.

Bottom line: The farm sector is still far healthier than it was in the early-1980s, but struggles will continue on the downturn in farm income.

FARM BUSINESS AVG. NET CASH INCOME (\$1,000 per farm)		
CROP	2016	2015
Mixed Grain	\$197.8	\$179.2
Wheat	\$56.4	\$44.6
Corn	\$170.9	\$148.5
Soybeans	\$92.2	\$82.5
Cotton/Rice	\$248.1	\$197.4
Specialty	\$247.5	\$257.1
Cattle/calves	\$39.1	\$46.2
Hogs	\$257.8	\$278.8
Poultry	\$105.0	\$127.4
Dairy	\$165.0	\$219.8
Farm Businesses	\$104.3	\$106.7

Source: USDA's Economic Research Service

PROJ. TO
2026

USDA projections out to '26. USDA each year issues a series of long-term projections covering the next 10 years. The full publication is released each February, but following are highlights of “early release” of the data tables. Forecasts use the November Supply & Demand report as the starting point (economic projections were assembled in October) and assume the 2014 Farm Bill is in place over the period. The combined data provide a “baseline” for U.S. agriculture over the next decade.

U.S.
ECONOMY

U.S. Gross Domestic Product (GDP) is forecast at 2.3% for '17, but then forecast to edge down to 2.1% where it stays through '26. The Energy Information Administration (EIA) forecast for crude (refiner acquisition cost for imported crude) is at \$49.7 per barrel in '17, increasing annually to \$90.3 per barrel in '26. But that cost is for imported, not domestically produced, crude. Interest rates rise over the period, with the bank prime rate at 3.7%... rising to 6.0% in '22 to '26. U.S. population growth is forecast at 0.8% through '21 and 0.7% for the remainder of the forecast period.

CROPS

Total area of the eight major crops is seen at 248 million in '17 compared to 253.5 million in '16... area is forecast to fall to 243.3 million in '26. U.S. corn planted acres are projected at 90 million in '17 and range from 86 million to 89.5 million through '26. Wheat area is projected to dip to 48.5 million in '17 and stay below 49.5 million through '26. Soybean acres are forecast to rise to 84.6 million in '17 but then range from 83.6 million to 84.1 million through '26. Upland cotton acres are projected at 10.5 million in '17, then decline to 10 million from '19 forward. Rice acres are at 2.7 million in '17 and range from 2.8 to 2.9 million through '26.

CORN: Production is projected at 14.060 billion bu. for '17/'18... is expected to rise to 14.135 billion in '18/'19 and eventually reach 14.784 billion bu. by '26/'27. Increases in production come as USDA forecasts yields to rise from 170.8 bu. per acre in '17/'18 to 188.8 bu. per acre in '26/'27.

Feed/residual use is to fall to 5.5 billion bu. for '17/'18 and '18/'19 before rising gradually to '26/'27. Similarly, exports are forecast to dip to 1.950 billion bu. in '17/'18 and then rise by the end of the forecast period. Improved ethanol extraction rates appear to be the catalyst for a projected gradual decline in corn used for ethanol... 5.350 billion bu. in '18/'19... falling to 5.125 billion bu. in '26/'27.

Carryover is projected to reach 2.298 billion bu. in '17/'18, but then decline to 1.885 billion in '26/'27.

Farm-level prices are forecast at \$3.30 per bushel in '17/'18 and '18/'19 and then gradually rise to \$3.70 per bu. by '26/'27.

SOYBEANS: Production is seen at 4.050 billion bu. in '17/'18 and projected to increase to 4.405 billion bu. by '26/'27. USDA projects '17/'18 soybean yields to average 47.9 bu. per acre in '17/'18 and rise to 52.4 bu. per acre in '26/'27, just shy of the '16 record of 52.5 bu. per acre.

Crush is forecast to edge higher over the projections... from 1.935 billion bu. in '17/'18 to 2.130 billion bu. in '26/'27. Exports are still forecast to be 2 billion bu. or more over the period.

Carryover is projected to drop under 400 million bu. in '17/'18 (396 million bu.) and then fall under 300 million in '20/'21 (296 million) but then remain in a range of 300 million ('21/'22) to 361 million ('26/'27).

Prices at the farm level are projected at \$9.35 per bu. in '17/'18 and gradually rise to \$9.55 per bu. in '23/'24 and beyond.

WHEAT: Production is forecast to fall to 1.936 billion bu. in '17/'18 before climbing to 2.129 billion bu. in '26/'27. With acreage under 50 million through the projection period, yield is the factor moving production higher – 47.1 bu. per acre in '17/'18 to 50.7 bu. per acre in '26/'27. *Continued on Page 3...*



U.S. AG
EXPORTS

U.S. ag exports in Fiscal 2017 are forecast at \$134.0 billion... up \$1 billion from the prior forecast... against imports of \$112.5 billion... down \$1 billion from the prior forecast... for a trade surplus of \$21.5 billion, according to USDA's Outlook for U.S. Agricultural Trade.

A \$500-million rise in dairy exports along with solid livestock byproduct exports are one factor in the export forecast increase.

Grain and feed exports are forecast up \$300 million, to \$29.6 billion, with soybean export volumes setting records. But a decline in meal and soyoil exports leaves oilseed and product exports forecast at \$13.0 billion.

China is back in the top spot at \$21.8 billion followed by Canada (\$21.3 billion).

What about president-elect Trump? While noting it is an "element of uncertainty," USDA says the market response has prompted a bump up in '17 U.S. GDP.

CROPS
CONT'D

WHEAT: continued from page 2... Food use is seen rising gradually over the forecast period to reach 1.010 billion in '26/'27. Exports remain at 975 million bu. over '17/'18 through '20/'21 and then increase gradually to 1.035 billion bu. in '26/'27.

Carryover is projected back under 1 billion bu. in '17/'18... falling continually into '25/'26 and '26/'27 when it is forecast to be just above 650 million bushels. But that decrease is expected to move forecast wheat prices slowly higher.

Prices are projected at \$4 per bu. in '17/'18 at the farm level and then are seen rising to \$5 per bu. in '24/'25 through '26/'27.

COTTON: Planted area is expect to rise in '17/'18 to 10.5 million acres, but then hold at 10 million acres beyond '18/'19. USDA projects a steady rise in cotton yields from 808 lbs. per acre in '17/'18 to 853 lbs. per acre in '26/'27. That will result in production rising to 15.9 million bales in '17/'18 before falling to 14.9 million bales in '19/'20 and moving upward to 15.5 million bales in '26/'27.

USDA projects domestic cotton use at 3.5 million bales in '17/'18 and then gradually rising to 3.725 million bales in '26/'27. Exports are forecast to rise to 12 million bales in '17/'18, but remain between 11.5 million to 11.8 million from '20/'21 forward.

Carryover is projected at 4.802 million bales in '17/'18, then is expected to remain at or under 4 million bales the rest of the projection period.

Farm price is forecast at 64 cents per lb. in '17/'18, then edge higher in '20/'21 and reach 68 cents per lb. '26/'27.

RICE: Production is forecast to fall to 206.4 million cwt. in '17/'18 as planted area drops to 2.7 million acres (3.181 million in '16/'17). Production to rebound to 214.2 million cwt. in '18/'19 and continue rising to 232.7 million cwt. in '26/'27. Yield is forecast at 7,707 lbs. per acre in '17/'18 and should move upward to 8,055 lbs. per acre in '26/'27.

Domestic use is seen at 129.0 million cwt. in '17/'18 and then rise from '19/'20 forward, reaching 239.9 million cwt. by '26/'27. Exports are expected to slip to 110.5 million cwt. in '17/'18, but rise through the projection period to 121.5 million cwt. in '26/'27.

Rice ending stocks are projected to fall to 50.6 million cwt. in 2017/18 and continue to fall to 39.9 million cwt. in '22/'23, then edge up to 40.7 million cwt. by '26/'27.

Average farm price is seen at \$10.70 per cwt. in '17/'18... then steadily rise to \$12.60 per cwt. in '26/'27.

Yield remains the main factor impacting production of these major crops, with usage forecasts mostly rising through the period. But the usage levels are not a huge growth path and exports expand at a conservative pace. Solid... but not spectacular... forecasts.



LIVESTOCK

CATTLE: Commercial beef production is expected at 26.160 billion lbs. in '17, up 4.4% from '16. While expected up in '18, it is expected to fall 1.1% in '19 and then show less than a 1% rise the remainder of the period after being flat in '20.

Imports are not forecast above 3 billion lbs. after being at 3.011 billion in '16.

Exports are expected to recover to 2.630 billion lbs. in '17 and to rise again in '18. After a fall to 2.621 billion lbs. in '20, beef exports resume their climb to 2.857 billion lbs. by '26. Economic performance and currencies likely play a role.

U.S. cattle herd is seen rising from 93.3 million in '17... building slowly to 95.45 million in '26. The beef cow herd is seen at 30.994 million in '17... rising higher through the forecast period except for a dip to 30.616 million in '18.

Five-area steer price remains somewhat volatile... forecast at \$106.25 per cwt. in '17 after being at \$119.94 in '16. For the remainder of the forecast period, USDA projects a high of \$118.57 per cwt. in '19 with choppy action until they eventually fall to \$104.52 per cwt. in '26.

PORK: Commercial pork production is projected at 25.8 billion lbs. in '17, up 3.4% from '16. Outside of a 0.6%-decline to 25.663 billion lbs. in '18, pork production is seen growing by 1.3% to 1.7% over the forecast period except for a 0.6%-expansion in '23. Production remains at 26 million lbs. or more throughout the period.

Pork imports are seen holding in a range of 1.0 billion lbs. in '18 to 1.138 million lbs. in '26.

Pork exports, however, are seen expanding to 5.440 billion lbs. in '17, with steady growth over the period to 6.458 billion lbs. in '26. Chinese demand for U.S. pork is likely to improve through the forecast period.

Profitability likely to see steady improvement for the most part after the national base live equivalent price in '17 is seen falling to \$40 per cwt. after being at \$45.65 per cwt. in '16. But prices are seen rising steadily the balance of the forecast period to reach \$49.91 per cwt., still below the \$59.23 per cwt. '15 price.

CHICKEN: Young chicken production moves up to 41.105 billion lbs. in '17 and after very little growth in '18 is seen improving steadily to hit 44.317 billion lbs. at the end of the forecast period.

Exports move up to 6.925 billion lbs. in '17 and then expand annually to reach 8.066 billion lbs. in '26.

TURKEY: Production is expected to rise to 6.135 billion lbs. in '17, with annual increases taking output to 6.751 billion lbs. in '26.

Exports should reach 630 million lbs. in '17 and move up annually to reach 810 million lbs. in '26.

DAIRY: Even as milk cow numbers increase less than 100,000 through '26, milk production moves from 217.0 billion lbs. in '17 to 259.7 billion lbs. by the end of the forecast period. Reason? Milk per cow. It rises from 23,160 lbs. per cow in '17 to 27,585 lbs. per cow in '26.

Per-capita red meat and poultry consumption appears to find an equilibrium over the forecast period. Total red meat consumption is seen at 108.8 lbs. in '17 and peak at 109 lbs. in '18. Outside of '23, red meat consumption ranges from 108 to 108.5 pounds.

Total poultry forecast at 108.7 lbs. in '17... then ranges between 106.7 to 108.4 lbs. over the period.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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