

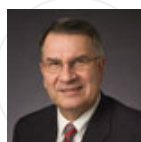
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Indiana's agricultural outlook for 2018



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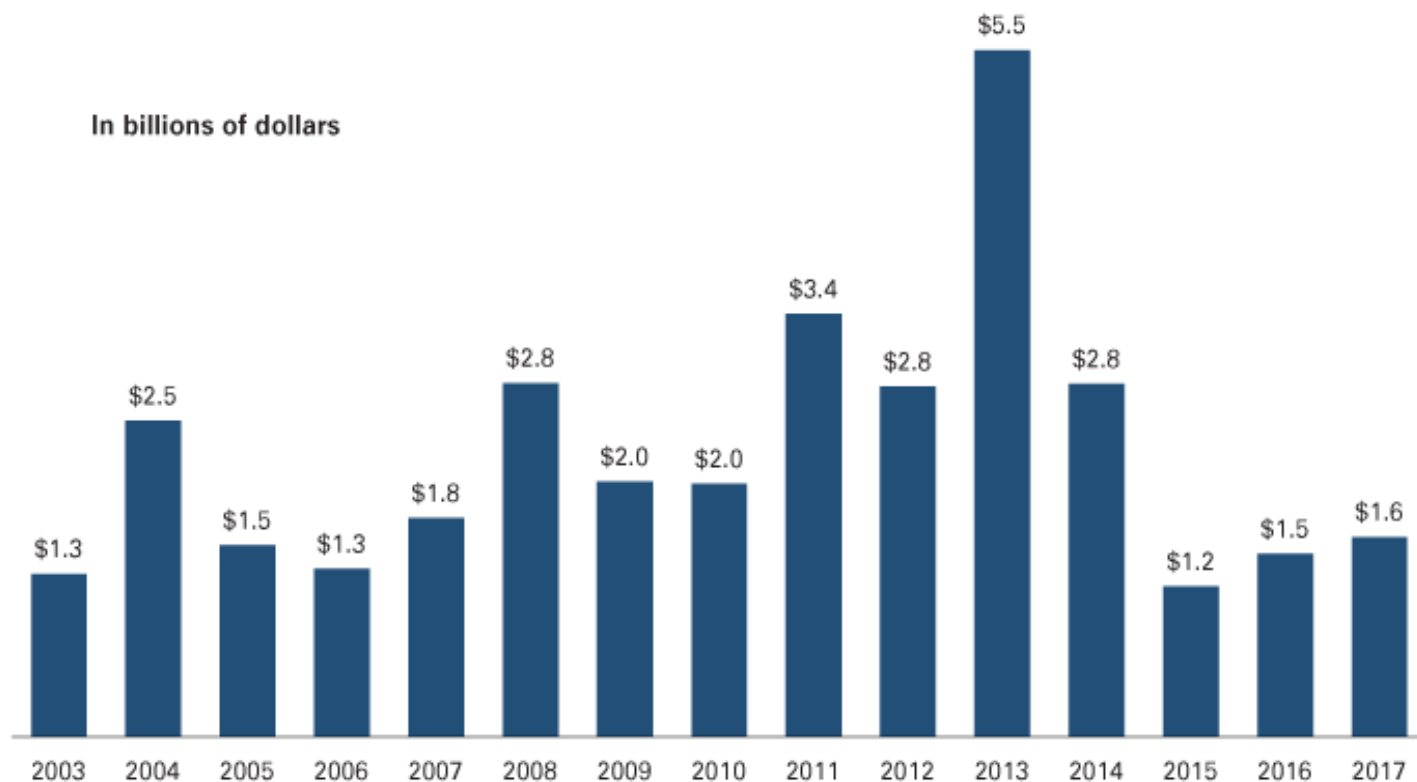
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The year 2018 will be the fourth consecutive year of weak incomes causing financial erosion for most farm families. Low incomes are resulting in weak cash flows, and farmers are turning to their lenders for increased borrowing.

Midwest crop agriculture is going through a boom-moderation cycle. From 2006 to 2013, grain prices rose and pushed Indiana farm incomes upward. For the calendar years from 2008 to 2014, Indiana farm income averaged about \$3 billion per year. Starting with the 2014 crops, grain supplies rose sufficiently, and demand growth rates slowed. As a result, the U.S. and the world began producing more than was being consumed —resulting in larger inventories and sharply lower grain prices. In the

most recent three years, average annual Indiana farm income has dropped to about \$1.5 billion per year—a 50 percent decline from the boom years (see Figure 1).

Figure 1: Indiana net farm income



Source: U.S. Department of Agriculture, with a Purdue University estimate for 2017

National yields were above average in 2017 for corn, soybeans and wheat. Inventories will remain high with low prices. Corn prices will be at their lowest level in 12 years. Soybean prices will be near the lowest in 11 years.

Indiana crop revenues are expected to be lower in 2018 since most 2017 crops will be marketed in 2018. Indiana corn yields at 181 bushels per acre were up from last year, but prices are expected to drop from \$3.62 a bushel to about \$3.45 a bushel for the 2017 crop. Indiana soybean yields

were 2.5 bushels per acre lower this year and Indiana prices will drop from \$9.69 a bushel to about \$9.50. Crop revenues will be down about 3 percent in 2018.

Costs of production have been moderating for the past few years with tight crop margins. Reductions have been led by lower fertilizer prices and by some downward adjustment in cash rents and machinery values. Costs of production may be fairly stable for 2018 crop production. However, costs are expected to rise for soybeans because it is becoming more difficult and costly to control weed infestations.

While most of 2018 will be a repeat of tight crop margins, there are brighter price prospects for 2018 crops that will be marketed in the fall of 2018 and into 2019. Current futures markets are suggesting that corn, soybean and wheat prices will be higher for 2018 crops, especially for corn and wheat. If so, this could begin some income recovery from the low levels experienced since 2014.

Animal agriculture

Animal agriculture represents 34 percent of farm revenues, so it remains important to Indiana farm income. Lower feed prices have stimulated more animal product production since 2014.

Income prospects for Indiana animal agriculture are slightly positive in 2018. The cost of production will remain steady in 2018 with feed prices down in the first three quarters, but higher in the fourth quarter of 2018. With steady costs, revenues will drive the direction of profitability.

The poultry industry is expected to have higher prices in 2018 led by a 3-cents-per-pound increase in turkey prices and a 1-cent-per-dozen increase in egg prices. Indiana is ranked as the third-largest production state for both.

Beef and pork supplies will increase about 3 percent in 2018, and farm-level prices will drop. Finished steer prices are expected to drop from near \$122 per hundred pounds in 2017 to about \$118 in 2018. Hog prices are expected to drop from \$51 in 2017 to near \$50 in 2018. With costs similar in both years, incomes will be down in 2018 for these two.

Indiana's dairy industry has been growing over the past two decades and currently ranks 14th among the states. Margins have been tight with milk prices near the costs of production. Milk prices are expected to be slightly lower in 2018. Prices may drop from about \$18 per hundredweight in 2017 to \$17.50 in 2018. Thus, the slightly lower prices will further tighten margins.

Farmland values

Lower farm incomes and tight crop margins have had a dampening impact on Indiana farmland values. According to the *2017 Purdue Farmland Values Survey*, average quality farmland values had dropped by 13 percent since their peak in 2014.

For 2018, most signs point to further weakening. Crop margins are expected to remain under pressure, the financial positions of potential farm buyers has weakened and interest rates are expected to rise

between 0.5-1 percent. On a positive note, the amount of farmland being sold remains low. A low supply could be a supportive price factor. Farmland prices are expected to weaken once more in 2018 between 2 and 6 percent.

Summary

Indiana farm incomes in 2018 are expected to be weak for the fourth straight year. Incomes from crops will weaken as a result of lower prices for crops harvested in 2017 (and marketed into 2018). Incomes in the animal sector may be up slightly, where higher incomes for egg and turkey production will be offset by lower income from the pork, beef and dairy sectors.

Agriculture is adjusting to a moderation in farm incomes after a boom period. Farmers are striving to reduce their costs by looking for lower input costs, by increasing efficiency, by trimming living expenses, by reducing cash rents and by closely watching capital purchases of items like machinery, farm buildings, and land improvements like irrigation and drainage.

There is some support for the idea that crop prices may begin to improve late in 2018 and 2019. If farmers continue to drive costs lower as well, Indiana farm incomes may begin to improve in 2019.



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