Shift in thinking from we can’t produce enough to the prospect of producing “too much?”

*Policy Pennings Column 767*

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 A major concern of farmers this spring is price. What will the prices for the major commodities be come fall, particularly corn and soybeans? With current prices at its marketing year lowest levels in years, some crop farmers will certainly have to dip into savings to cover household expenses if prices do not increase. In addition, crop insurance will not guarantee the profits of recent years or even the full cost of production.

 This spring farmers are watching the markets ever so closely as they ponder the allocation of acreage between corn and soybeans. Fewer acres planted to corn will be positive for its price. But all that that means is the price may not drop any further.

 What we do know is that, for the most part, acres will be planted to something. Given the high cost of cash rents, farmers cannot consider leaving a wet spot unplanted. For the corn/soybean belt, fewer corn acres means more soybean acres and that may not be positive for soybean prices.

 It goes without saying, the quicker the crops are planted and the better the weather, the worse the price. The carryover levels of both corn and soybeans are at recent highs so any extra production will put downward pressure on prices. On the other hand, if we have a repeat of 2012, corn will be back above $4.00 though perhaps not quite at the heady $6.00 plus level and soybean prices will be higher as well.

 But, there is more to the equation than what is happening in the US. Between 2000 and 2014, the total corn and soybean harvested acres in Brazil and Argentine increased by 72 million acres—from 99 million acres to 171 million harvested acres. That is an average of 5.1 million acres a year. Lower prices this year and next will certainly slow the rate of increase in corn and soybean acres in the two countries, but any additional acreage increases the overall supply at a time when ending stocks are on the rise.

 If China increases its 2015 marketing year demand at the previous annual average of 136 million bushels, that will require production from about 3.5 million acres (assuming China’s ending-year corn inventory remains at it’s current exceptionally high level). If the switch to soybeans by US producers is as strong as some expect, the US will be able to meet the increase in Chinese demand with no help from its South American competitors. However, the combined corn and soybean harvested acreage for Argentina and Brazil has declined only 3 times in the last 20 years.

 Given good weather and the absence of the 500 million bushel increase in the use of corn for ethanol production in the US, the price picture for farmers around the world is bearish and a third good crop in a row will give demanders little reason to bid prices up to guarantee future supply.

 But it may be more than that. A recent article headline on Agweb.com shouted, “Proof Commodity Price Bubble Has Burst” (<http://tinyurl.com/npq75ez>). Citing a research report that was published by the Food and Agricultural Organization of the United Nations, the Agweb author writes, “global food demand will slow to 1.4% between 2007 and 2030 and to 0.8% from 2030 to 2050, down from 2.2% during 1970 and 2007.” This slowdown in demand results from slower population growth, an increase in the number of elderly who eat less, and a significant portion of the world’s population reaching a saturation level for food consumption.

 The article sees the leveling off of US corn-for ethanol demand and lower oil prices as moderating the demand for biofuels in the near future. At the same time, land in use will not decline quickly as farmers respond slowly to changes in price.

 In addition to the slowdown in demand, there will be the continued increase in productive capacity that will exceed the modest change in demand. The increase in production can come from increasing yields in countries that have not hit the levels currently being achieved by major producers. Widespread use of the current seedstock and agricultural production technologies are all that is needed to bring about a significant increase in world grain and oilseed production. And that does not factor in the 1.7 billion arable acres that are available globally that easily could be brought into production.

 Various studies have calculated that it will take somewhere in the range of a 70 percent increase in production to meet the needs of 9 billion people in 2050. The Agweb article says that the challenge of feeding the expected population growth between now and 2050 will not be as difficult to achieve as previously thought. That is a point that we have previously made (<http://agpolicy.org/weekcol/643.html>) when we pointed out that the world’s farmers were able to make a 75 percent percent increase in production between 1974 and 2012.

 Barring a major production problem in 2015, we may well be at the beginning of a long period of low prices.

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