

USDA's ten-year projections: What do they mean for the next Farm Bill?

Over the last 3 weeks we looked at the USDA Agricultural Projections to 2026 for corn, soybeans, and wheat. We used those projections to calculate the profit/loss per acre for the average US farmer for each of the 3 crops for the 10-year period from 2017 to 2026. For corn, the loss per acre for the 10-year period was \$867 per planted acre. The cumulative loss for soybeans over the same period would be \$314 per acre while for wheat the loss would be \$980.

This week we look at sorghum, rice, and cotton before looking at what this means for the next farm bill.

The USDA baseline projections show sorghum planted acres of 6.8 million acres in 2016, declining to 6.3 million acres in 2017 and further declining to 5.6 million acres in 2026. The 2016 price of \$3.10 per bushel in 2016 remains at that level in 2017 and then slowly increases to \$3.50 in the 2026 crop marketing year.

The revenue per planted acre from sorghum grain and silage decreases from \$213 per planted acre in 2016 to \$182 in 2017. From there the revenue per planted acre increases to \$205 by 2026. Calculating the sorghum total cost of production as we did for corn, soybeans and wheat, we see a planted acre of sorghum costing \$319 in 2016 increasing to \$325 in 2017 and continuing to increase reaching \$355 in 2026. The result is that sorghum producers end up with a 10-year loss of \$1,437 per planted acre.

Rice planted acres are projected to decrease from 3.2 million acres in 2016 to 2.7 million in 2017 and then slowly increase to 2.9 million planted acres in 2016. The farm price of rice increases from \$10.60 per hundredweight in 2016 to \$10.70 in 2017, continuing to increase to \$12.60 in 2026.

The revenue per planted acre of rice increases from \$783 in 2016 to \$818 in 2017, continuing to increase to \$1,008 in 2026. The net returns per planted acre of rice decreases from a loss of \$216 per acre in 2016 to a loss of \$184 in 2017 and continues to decline to a loss of \$103 per acre in 2026. As a result, the USDA projection would leave rice farmers with a 10-year loss of \$1,568 per planted acre by 2026.

Turning to cotton, we see a by now familiar picture. Cotton planted acres which were 8.4 million acres in 2016 increase to 10 million acres in 2017 and remain there through 2026. The revenue for cotton and cottonseed decreases from \$626 per planted acre in 2016 to \$620 to planted acre in 2017 and then increases, ending up at \$651 per planted acre in 2026.

The cotton cost of production per planted acre in 2016 was \$839, increasing to \$847 in 2017, and rising to \$945 per planted acre in 2026. The difference between the revenue per planted acre and the cost of production per planted acre left cotton farmers with a loss of \$214 per planted acre in 2016. In 2017 the loss increases to \$227 per planted acre reaching a loss of \$294 per planted acre in 2026. The 2017-2026 loss per planted acre of cotton totals \$2,734.

Not one of the six major row crops shows positive returns per acre over the 2017-2026 decade. While no one reads these numbers as predictions, unless something radical changes either in terms of significant and extended production problems or a sustained increase in demand, these numbers give pause to farmers and farm policy analysts.

We do know that farmers will shift their production from one crop to another one in the quest of minimizing losses, but when all crops are in the same sinking boat, the only possibility is trying to choose the least bad option.

We have heard some preliminary discussion about giving farmers the option to change from the Average Revenue Coverage program to an enhanced Price Loss Coverage program (PLC) at the end of the current farm bill. But given the size of these losses and the failure of the cotton STAX program we find it hard to see how an enhanced PLC going to meet the needs of farmers as they see their overall equity continue to dwindle. The numbers we now see are eerily reminiscent of what we saw in the 1998-2001 period.

From our perspective, the most cost effective program is supply management where the government payments are not targeted to virtually every bushel, hundredweight, and bale of production, but address the relatively small amount that exceeds current demand.

Under a supply management program, if there is a surge in demand or a crop shortfall, the cost to the government is minimal and crop farming is profitable. In the situation where supply exceeds demand over the next decade, a supply management program has the ability to balance out the system at minimal cost and disruption.

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