PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Say it ain't so Joe!

As the 2013 corn crop was being planted, futures prices were above $6.00 a bushel with an occasional bump above $7.00. Traders were concerned that the planting problems farmers were experiencing would result in reduced production. By the end of July, with fewer concerns about the size of the corn crop, the priced dropped below $5.00.

Since then the price has trended downward so that as this column is being written in late January 2014, the March 2014 futures contract price for corn is $4.295. In negative basis areas, the cash price of corn is closer to $4.00. Iowa State University (http://tinyurl.com/kad8xaf) estimates that for fields of corn following soybeans and yielding 200 bushels per acre the total cost per bushel would be $4.24.

After all the talk about a new price plateau and now with tumbling crop prices, could we see corn prices between $2.00 and $3.00 in the near future—with other prices at the same relative level? Say it ain't so Joe!

As farmers face lower prices, we hear assurances that farmers are not in the same situation that they were in the 1980s when lenders were making asset-based loans. At that time, land prices were increasing, pumping up net worth even though some farmers had a negative cash flow. The result of the asset-based loans in that atmosphere left farmers with a high debt-to-asset ratio.

Today loans are based on profit and loss statements and the ability to repay the loan. As a result the debt-to-asset ratio for today's farmers is much lower than it was in the earlier period and thus the confidence.

The question that is often asked of military leaders as they plan for the future is whether or not they are really refighting the last war. We wonder whether or not ag lenders are refighting the last war.

Consider this for a moment: Suppose corn production for both the 2013 and 2014 crop years come in at or above 14 billion bushels and our export competitors continue to expand their production. In addition, let's suppose that the major importing countries don't face significant production problems during the next couple years. If those things were to happen, it would not be unreasonable for corn exports in each of the two crop years to come in at 100 to 200 million bushels or more below USDA's already low January projection for the 2013 crop of 1.450 billion bushels. (How low is the January projection of 1.450 billion bushels? Only in three of the last 38 crop years have corn exports been below 1.450 billion bushels—1985, 1993 and last year.)

It is unlikely that the use of corn to produce ethanol will increase much above current expectations; probably more likely to fall short than exceed current expectations.

In addition, suppose livestock disease problems reduce annual feed demand during the 2013 and 2014 crop years by 300 million bushels or so below 2013 crop year expectations.

If much of this were to happen, by 2014 the year-ending stocks of corn could easily break past 2.5 billion bushels. With that size carry-over, the corn price would continue its fall heading toward the variable cost of production.

If above-trend harvests appear in the 2015 crop year, could we see $2.00 corn?

Say it ain't so Joe!

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