APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Prospective Plantings report: Crop mix will change but total acreage is about the same

The release of the March 31, 2016 Prospective Plantings report (http://tinyurl.com/j9lvmqt) by the United States Department of Agriculture (USDA) indicates that US farmers intend to plant 251.13 million acres to the eight major crops (barley, corn, oats, rice, grain sorghum, wheat soybeans, and cotton). If weather cooperates and farmers carry through on their intentions, the 2016 planted acreage will be 460 thousand acres or 0.2 percent smaller than actual planted acres in 2015.

Using the parlance of the election polls we hear and read about in this election cycle, we would expect a variation that small to be within the margin of error that is part and parcel of the sampling process, And, of course, fields that are too dry in one part of the country and too wet for planting in another can easily result in a difference that is larger than a half a million acres between actual planted acres and the projections in the USDA report.

So from our perspective the big news in not the size of the drop in eight-crop acres, but rather the shifts that take place among the eight crops and between those crops and the crops with smaller acreage numbers. With the smaller crops added in (using the USDA prospective planting numbers for 2016 or the actual numbers from 2015 for crops whose prospective 2016 acres are not listed), the total 2016 acreage comes in at 263.36 million acres, 230 thousand acres smaller than 2015—a decline of less than one-tenth of one percent.

Looking at the crop by crop changes from last year, we see exactly what we would expect to see in a low price environment. Total planted acreage remains roughly the same as farmers shift among crops grown on their farm and in their region to find the combination of crops that will minimize financial losses, work with the equipment they have, and roughly maintain preferred crop rotations.

For a detailed discussion of the reasons farmers are slow to reduce year-over-year planted acres, see our recent columns: "Farm policy model: The nature of agricultural supply" (http://agpolicy.org/weekcol/809.html) and "Adjusting production to lower prices is a slow process in crop agriculture" (http://agpolicy.org/weekcol/810.html).

The Prospective Plantings report indicates that farmers intend to plant 93.6 million acres of corn, which is 6.6 million acres more than they planted last year. At the same time, farmers indicate that they will reduce grain sorghum plantings by 1.2 million acres, wheat acreage by 5.1 million acres, and soybean acres by 0.1 million acres. Cotton acreage is expected to increase by a million acres.

Over the last two years US wheat acreage has declined by 7.3 million acres. Kansas, Montana, North Dakota, and Texas account for more than 4 million of those acres. Kansas corn acres are projected to increase by 750 thousand acres while the increase in corn plantings in North Dakota is 600 million acres and the Texas increase is 300 million acres. In Montana, at least 470 thousand acres have shifted to the production of dry edible beans, lentils, and dry edible peas.

Without the intervention of a weather event that significantly reduces production or a demand event on the par with ethanol of the last decade or the Russian grain deal of the 1970s, we are unlikely to see more than variation around a below cost-of-production price. If we see 2016/2017 carryover stocks of corn and other crops creep up by a hundred million bushels here and a couple of hundred million bushels there, prices will fall below those we see today.

In the present environment, farm programs will not provide the level of protection farmers have received in the past. Crop insurance will provide protection from in-year declines in per acre revenue resulting from a drop in price and/or yield, but will leave farmers with per acre income well below the cost of production.

For farmers who elected Agricultural Risk Coverage (ARC), the protection will depend upon the difference between their 2016 revenue per acre and the five-year county Olympic average revenue. Even in a low price environment, if the county yield increases by enough to increase per acre revenue above the five-year Olympic average, farmers will receive no ARC payment. Which side of a county line a farm is on may make the difference between a payment and no payment.

Farmers who elected Price Loss Coverage will receive payments any time the price is below the reference price—which is well below the cost of production for most farmers—for the covered crop. Once the reference price is breached, the lower the season average price, the higher the payment, though, again, the total revenue per acre will be well below the cost of production.

With no policy mechanism in place to either raise prices or reduce total production, other than a random weather event or a once in 25 years government induced demand spike, farmers could experience an extended period of low prices.

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