APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

No policy in place to handle multiple years of good crops and mediocre demand growth

The September World Agricultural Supply and Demand Estimates (WASDE) issued by the United States Department of Agriculture (USDA) were released on the 11th and told us pretty much what was expected. US farmers are going to harvest record corn and soybean crops, barring some unanticipated disaster.

In the report, US corn production was projected to be 14.395 billion bushels, the largest US corn harvest in history. This projection was 363 million bushels higher than USDA had pegged it to be a month earlier. The increased production was partly offset by an increase of 170 million bushels in utilization spread out among feed, ethanol, and exports.

Even with an increase in these uses, the projected crop year ending stocks rose above 2 billion bushels—2.002 billion bushels to be exact—for only the third time since 1998. The result was a decrease in the midpoint of the expected season average price range from $3.90 per bushel to $3.50. The estimated season average farmgate price for the 2013 corn crop was $4.45.

Soybean production in the US is projected to be 3.913 billion bushels, again a US production record. Last year's production was estimated to be 3.289 billion bushels. As a result, the year over year increase was 19 percent.

Of the 624 million bushel increase, 340 million bushels will be added to year ending stocks, with the balance being divided among crush, exports, and a change in the residual number. The projected ending stocks for the 2014 crop year are 475 million bushels, the third highest level in the last 50 years.

The midpoint of the projected season average farmgate price per bushel for soybeans dropped from $13.00 in 2013 to $10.00 for the 2014 crop year.

Given China's extended increase in soybean imports, soybean prices may hold up a bit better than corn prices. But for corn farmers, especially those in grain surplus areas, prices are already well below $3.00 and falling. Some are seeing a negative basis in the range of 80 cents.

The healthy balance sheets that farmers built up over the last few years plus a measure of insurance protection will help grain producers weather the coming year. If inventories continue to move upward in the years ahead, those financial cushions will become less and less effective.

We may be like military leaders who are accused of fighting the last war, but we can't help but think about the 1998-2001 period where very modest crops resulted in a crisis that produced billion dollar payments to farmers just to keep them afloat. Given the tenor of current debates in Congress, emergency payments may be hard to come by.

That is especially critical, because if prices are below cash expenses for a period of years, the current policy suite does not provide the degree of protection that was available in the past. If we get into LDP territory, crop farmers will be facing a real crisis and we will not have the necessary suite of policy tools available to stanch the flow of red on farm balance sheets.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of UT's Agricultural Policy Analysis Center (APAC). Harwood D. Schaffer is a Research Assistant Professor at APAC. (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu and hdschaffer@utk.edu; http://www.agpolicy.org.