

Indiana's Agricultural Outlook for 2016

Corinne Alexander, Ph.D. Associate Professor, Department of Agricultural Economics, Purdue University, West Lafayette

The outlook for Indiana agriculture in 2016 is for the crop sector to face large losses, while the livestock sector faces modest profits.

U.S. agriculture is facing major headwinds since the U.S. dollar has strengthened, putting U.S. agricultural exports at a competitive disadvantage. In addition, China and the global economy are slowing, even as Russia has banned all agricultural imports from the West. As of October 2015, with record yields for corn and soybeans, crop prices have fallen significantly. With normal weather in 2016 and normal crop yields, prices for corn, soybeans, wheat and hay could decline further as U.S. inventories of these commodities would continue to build. The combination of large U.S. supplies and weak global demand means that 2016 will be a difficult year for Indiana producers.



Pork

The pork industry is treading water with hog prices trading at the expected costs of production for 2016. The good news is that the industry has largely overcome the challenges of the PED virus epidemic in 2014, and pork supplies have recovered with lower retail prices. However, there are potential new challenges late in 2016 as the total supply of meat expands at the same time as slowing global economic growth and a strong U.S. dollar may result in weak export demand.



Dairy

The dairy industry is facing headwinds as milk prices are under pressure from the strong U.S. dollar that has weakened export demand and by Russia's ban on agricultural imports. Even with lower feed costs, dairy profit margins are under pressure at these low milk prices. The

dairy sector is expected to increase production by 2 percent in 2016. Therefore, milk prices are forecast to fall to their lowest level in six years. Even lower prices are possible depending on how much U.S. milk production expands and the level of dairy exports.



Beef

The beef cattle industry has seen major highs and lows in 2015, starting the year at record prices over \$170 per hundredweight, and then dropping to under \$120 by October, for an overall average of about \$150. The record-high prices at the beginning of 2015 caused both lower exports and higher imports, resulting in increased domestic supply that has pushed down prices. Prices are expected to remain moderate in 2016 in the range of high \$130s to low \$140s and continue stimulating the expansion of the cattle herd.



Crops

Many Indiana crop producers are facing both low yields and low prices resulting in 2015 incomes significantly lower than in recent years. With normal weather and normal yields in 2016, inventories of grain would continue to build, resulting in continued low grain prices. Given the current outlook for crop prices and input costs, row crop producers will continue to experience losses in 2016 before input costs and cash rents fully adjust downward to be in line with the lower crop prices. A potential silver lining in this period of low crop prices is that they will encourage demand growth in both the export markets and the livestock sector.



Farmland

As of June 2015, the value of average-quality Indiana farmland declined 3.8 percent over the previous

12 months, according to the Purdue Land Value Survey. The declines were larger for top-quality land at 5.1 percent, and poor-quality land at 4.8 percent. Another survey by the Federal Reserve Bank of Chicago found that the value of farmland in their multi-state district had declined by 3 percent from a year ago.

Looking to 2016, farmland values are expected to continue to decline because Midwest crop farmers are facing economic losses, with crop prices below the total cost of production. In addition to farm incomes, farmland values depend on factors including long-term interest rates, government support, real estate taxes and alternative investment opportunities. Long-term interest rates are currently extremely low and are expected to increase in the next five years, which would put downward pressure on land values. However, the biggest factor driving a decline in farmland values is the continuing profit margin squeeze that crop producers are experiencing.

For more information about Indiana farmland values, see the Purdue Land Value Survey at <https://ag.purdue.edu/agecon/Documents/PAER%20AUGUST%202015%20Revised.pdf>. ■