

Indiana's Agricultural Outlook for 2011

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The outlook for Indiana agriculture in 2011 is getting brighter as crop prices continue to increase. The upward trend in grain prices started in August 2010 due to the Russian drought and is further supported by the smaller than expected U.S. corn crop and the low world cotton inventories. These high prices mean that row crop producers can expect above average incomes in 2011 even as they raise concerns about higher input costs for the 2011-2012 crop.

Meanwhile, these higher crop prices will cut into profit margins for the livestock sector that had just returned to profitability in 2010 after suffering major losses since feed costs started escalating in 2007. The silver lining for the livestock sector is that these higher feed costs will likely limit expansion of livestock herds, which will help maintain higher livestock prices and enable producers to pass these higher feed costs onto consumers.

The pork industry suffered major losses in 2008 and 2009 due to high feed costs and weak export and domestic demand due to the global recession and fears of H1N1, which has been incorrectly linked to pork consumption. In 2010, the pork industry reduced its herd by 4 percent and pork exports resumed as the global economic recovery progressed. Looking to 2011, pork exports are projected to reach a record 21 percent of production, and as long as the pork industry does not expand, producers should avoid major losses in the next 12 months.

The dairy industry is recovering from record losses in 2009 and early 2010 due to the dismal prices caused by the global recession that eroded export demand and weakened domestic demand. The industry has responded with Cooperatives Working Together herd buyouts that have only been moderately successful

at reducing cow numbers. On the bright side, milk prices and butter prices in particular have strengthened enough to return the industry to the black. Looking to 2011, the dairy industry will continue to be very fragile, with any erosion in milk price or further increase in feed costs tipping the industry back into a period of losses.

Of all the livestock sectors, the beef industry is the best positioned to weather the higher feed costs. Over the last three years, the beef sector has adjusted to the higher feed costs by reducing the breeding herd. The beef cow herd is now 12 percent smaller than the recent high in 1996, and the breed herd continues to decrease. While this smaller production has helped to strengthen beef prices, the beef industry will continue to lose consumer market share.

Shifting back to the row crop sector, 2011 will see a major acreage battle between corn, wheat and cotton which will push field crop prices higher through the planting season next spring. Cotton prices are up 50 percent since August due to low world inventories, which will incentivize U.S. farmers to increase cotton acreage. In addition, wheat prices are also up about 50 percent since July due to the Russian drought and farmers are responding by increasing wheat acreage, with Indiana farmers expected to increase wheat acreage by 50 to 75 percent from the record low acreage in 2010. Corn is expected to gain the most acreage, especially here in Indiana; these acreage gains will come at the expense of soybeans and other oilseeds, which will push up soybean prices. Given the outlook for very high crop prices, the risk to row crop agriculture is a rapid increase in input costs.

As of June 2010, the value of Indiana farmland increased between

4.5 percent and 6.3 percent over the previous 12 months, according to the Purdue Land Value Survey. This is consistent with the Federal Reserve Bank of Chicago survey which found that the value of "top quality" farmland was 6.3 percent higher in the second quarter of 2010 compared with the second quarter of 2009. Looking to 2011, with higher net farm income than in 2010, the value of farmland and cash rents are expected to continue increasing by 5 percent to 10 percent.

In addition to farm incomes, farmland values depend on other factors including long-term interest rates, government price support payments, real estate taxes and alternative investment opportunities. Given the current price levels for corn, soybeans and wheat, prices continue to be well above the level where government price support payments would be triggered, reducing the influence of government programs. Long-term interest rates are extremely low and are expected to remain low in the near future, which supports higher land prices. The biggest factor supporting higher land prices is the absence of attractive alternative investments.

For more information about Indiana farmland values, see the Purdue Land Value Survey at www.agecon.purdue.edu/extension/pubs/paer/2010/august/paer0810.pdf. And for more information about the outlook for Indiana agriculture, visit www.agecon.purdue.edu/extension/prices/index.asp. ■