

# Indiana's Agricultural Outlook for 2013

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The outlook for Indiana agriculture in 2013 is mixed and highly dependent on the weather. With normal weather next year and a return to normal crop yields, prices for corn, soybeans, wheat and hay could decline as much as 30 percent by late summer, which would be welcome relief for livestock producers currently suffering losses from drought-induced high feed prices. However, because U.S. inventories of corn and soybeans are at near-record tight levels, any weather problems would result in corn and soybean prices that would continue to provide major challenges for livestock producers. The current drought-induced record crop prices mean that the crop sector as a whole can expect above average incomes in 2013 even as they raise concerns about higher input costs for the 2013-2014 crop.

The pork industry has responded to the record feed prices by reducing the size of the breeding herd by 1.3 percent. Even so, the industry will face large losses over the next six months, and hog operations in a weak financial position will need the support of their lenders and other creditors. Given the herd liquidation underway, hog prices will increase and hog producers should be back to break-even by the summer of 2013. If there is a return to normal corn yields in 2013, feed costs would moderate and pork producers would be in a position to expand production.

Losses are currently the norm for the dairy industry, which is facing higher feed costs for grains and forages. Milk prices are forecast to be slightly higher, but they will still not cover costs. At the same time, even though the dairy industry is reducing cow numbers, milk production is forecast to increase due to increased output per cow. Dairy farms that produce their own feed and forage

may be best positioned to survive this period of volatile feed costs.

The 2012 drought has been devastating to the beef cattle industry. Over the last five years, the beef sector has adjusted to the higher feed costs by reducing the breeding herd. The 2011 drought in the Southern Plains forced cattle producers to liquidate their herds, and the 2012 drought in the Midwest and Plains is further reducing the cattle herd. As a result, per capita domestic beef availability in 2013 is 15 percent lower relative to 2007, and the USDA is forecasting record beef prices in 2013. As forage supplies increase and feed costs moderate, Indiana beef producers are well positioned to be profitable in late 2013 and beyond.

The row crop sector will have overall favorable incomes, but the impact of the 2012 drought on individual farm family incomes will depend on individual final yields, the amount of grain they forward priced at the lower prices last spring and their crop insurance. Some crop producers who have large yield losses, no crop insurance and who forward priced grain will face record losses, while other producers who have moderate yield losses, crop insurance and who did not forward price grain will have record incomes.

Looking forward to 2013, with normal weather and farmers globally responding to the current record prices, crop prices are expected to moderate significantly. Given the outlook for crop prices and input costs, row crop producers are forecast to have strong incomes in 2013. However, crop producers face many risks and crop insurance will continue to play a valuable role in managing these risks.

As of June 2012, the value of average quality Indiana farmland increased 16.3 percent over the previous 12 months according to the

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Purdue Land Value Survey. This is consistent with the Federal Reserve Bank of Chicago survey, which found that the value of “good” farmland in their district was 15 percent higher by mid-year. Looking to 2013, farmland buyers are expected to be less aggressive bidders of record-high land values, slowing the rate of increase. 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 extremely low and are expected to remain low in the near future, which supports higher land prices. The biggest factors supporting higher land prices continue to be strong crop incomes and 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/pdf/PAER8\\_2012.pdf](http://www.agecon.purdue.edu/extension/pubs/paer/pdf/PAER8_2012.pdf). ■