Indiana's Agricultural Outlook for 2009

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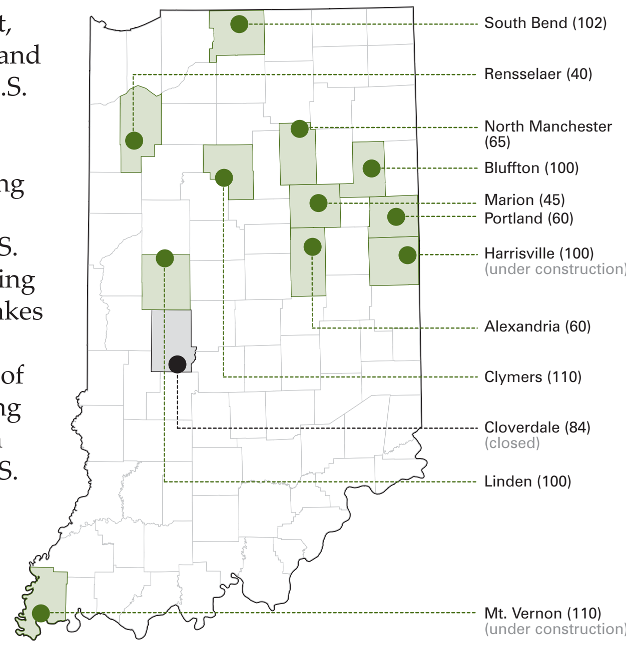
Indiana agriculture will face massive uncertainty in 2009. The excitement generated in 2008 with the rapid growth of the biofuels sector, strong export demand, and record wheat prices due to very tight worldwide wheat supplies has reversed dramatically with the financial crisis. Going forward, Indiana farm incomes are expected to be lower in 2008 and 2009 than they were in 2007, but how much lower depends on when the financial markets reach bottom, what happens to the price of crude oil, and whether input costs fall as fast as prices.

Let's discuss the developments in the biofuels sector, which now links the fortunes of many Indiana farmers to the price of crude oil. As of mid-December 2008, nine ethanol plants were operating in Indiana at South Bend, Rensselaer, Marion, Clymers, Linden, Portland, Alexandria, Bluffton, and North Manchester. Two additional plants are under construction at Harrisville and Mount Vernon (see **Figure 1**). These ethanol plants have the capacity to utilize 280 million bushels of corn—an equivalent of 30 percent of Indiana's 2008 corn production, up from just 4 percent in 2005. This new usage for Indiana corn is similar to what is happening in the rest of the Corn Belt. As a result, the price of corn is now closely linked to the price of crude oil because the ethanol industry is now a major corn user. Cash corn prices now tend to run about 5 percent of the price of crude oil per barrel. On December 10, 2008, crude oil was trading around $45 per barrel, with cash corn prices around $3.20 per bushel. For May 2009 delivery, crude oil futures are trading around $52 per barrel, with cash corn prices around $3.35 per bushel—prices much lower than what most producers were planning for and lower than the forecasted cost of production.

In addition to the crude oil price drop, agricultural commodities prices have fallen for two reasons. First, the current financial crisis and U.S. recession mean that U.S. and world income growth is slowing sharply. As a result, demand is weakening for agricultural products worldwide. Second, the U.S. dollar has been strengthening since last spring, which makes U.S. agricultural products more expensive to the rest of the world. Combine slowing world income growth with a strong U.S. dollar and U.S. agricultural exports will likely slow.

Figure 1: Ethanol Plant Locations and Plant Size in Millions of Gallons of Ethanol per Year, 2008



Source: Professor Chris Hurt, Purdue University, November 2008

Right now, with the uncertainty about the direction of commodity prices and the uncertainty about whether input costs will fall due to slowing global demand for fertilizers, Purdue University estimates of Indiana net farm income reflect the massive uncertainty facing the global economy. Indiana net farm income in 2009 will be anywhere from $700 million on the low end (if commodity prices remain low and input costs remain high) to $2 billion on the high end (if commodity prices recover somewhat and input costs fall). To provide a benchmark, the 1998–2007 average net farm income in Indiana was $1.3 billion. The next twelve months will be extremely challenging for agricultural producers and some must now "manage for survival."

Looking to 2009, even with lower net farm income than previously expected, the value of farmland is expected to increase, though at a slower pace. Farmland value also depends on factors such as long-term interest rates, government price support payments, and real estate taxes. Given the current price levels for corn, soybeans, and wheat, prices continue to be well above the trigger level for government price support payments, reducing the influence of government programs. Long-term interest rates can be expected to increase, putting downward pressure on land prices. As of June 2008, the value of average quality Indiana farmland increased 15 percent over the previous twelve months according to the Purdue Land Value Survey.[1] As of October 2008, given the financial crisis, Indiana farmland values are expected to increase at a slower pace in 2009.[2]

Notes

1. For more information about Indiana farmland values, see the Purdue Land Value Survey at www.agecon.purdue.edu/extension/pubs/paer/2008/august/dobbins.asp.
2. For more information about how the financial crisis is affecting Indiana agriculture see www.agecon.purdue.edu/news/financial_crisis.asp.