Indiana's Agricultural Outlook for 2014

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The outlook for Indiana agriculture in 2014 predicts more moderate crop incomes and a return to profitability for the livestock sector. As of November 2013, with the more normal weather and a return to more normal yields, crop prices have fallen significantly: corn prices have fallen 30 percent, wheat prices have fallen 25 percent and soybean prices have fallen 7 percent. In 2014, with more typical weather and crop yields, prices for corn, wheat, soybeans and hay could decline further as U.S. inventories of these commodities will continue to rebuild. On a brighter note, these lower feed costs are welcome relief for livestock producers who suffered massive losses from the 2012 drought-induced high feed prices.

The pork industry has returned to profitability with producers earning $20 per head in late 2013 and anticipated returns of $28 per head in the first half of 2014. The primary driver of profitability in the hog industry is lower feed prices. As a result, hog producers are currently expanding their herds which will result in increased supplies of pork by the summer of 2014. As pork supplies increase next summer, hog prices will moderate and profit margins will narrow in late 2014.

The dairy industry is beginning to recover from prolonged losses due to extremely high drought-induced feed costs for grains and forages. Milk prices are forecast to be steady in 2014, supported by strong exports. One concern is that there are large inventories of butter and cheese, which could put downward pressure on dairy prices if exports slow down. Given the lack of USDA data due to sequestration and the partial government shutdown, there was no information at the time of this writing about the size of the U.S. dairy cow herd, which increases uncertainty about dairy supplies.

Over the last six years, the beef sector has adjusted to prolonged drought conditions and higher feed costs by reducing the breeding herd. The beef cow herd numbers are at their lowest levels since 1950. As a result, per capita domestic beef availability in 2014 will be 5 percent lower than in 2013 and 17 percent lower relative to 2007. Even though feed costs have moderated, the beef herd expansion will be very slow in 2014 because of continued drought conditions in the Southern Plains and Western regions. Indiana beef producers who have access to good forage conditions are well positioned to be profitable in 2014 and beyond.

We expect the row crop sector to have overall favorable incomes in 2013. Indiana crop producers are on track for a record production of corn with a current forecast of the first billion bushel corn crop. However, even with record production, incomes will be lower than in recent years because of the significantly lower crop prices. Looking toward 2014, with normal weather and normal yields, inventories of grain will continue to rebuild, resulting in even lower grain prices. Given the outlook for crop prices and input costs, row crop producers will face tighter profit margins in 2014 and may even face a period of losses before input costs adjust downward to be in line with the lower crop prices. The silver lining in the coming period of lower crop prices is that it will position U.S. agriculture to compete for a larger share of the export market, and enable the United States to rebuild the export market share that has been lost during recent short crop years. Another piece of good news for Indiana agribusinesses is that the large crop will bust bins and keep processors and grain handlers busy in 2014.

As of June 2013, the value of average quality Indiana farmland increased 17.1 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 "good" farmland in their district was also 17 percent higher by mid-year. Looking to 2014, farmland buyers are expected to be less aggressive bidders of record high land values, slowing the rate of increase and possibly causing farmland values to pause. 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 interest rates are expected to increase in the next five years, putting downward pressure on land values. The biggest factor supporting a "pause" in farmland value increases is the profit margin squeeze that is coming for crop producers.

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For more information about Indiana farmland values, see the Purdue Land Value Survey at: www.agecon.purdue.edu/extension/pubs/paer/pdf/PAER8_2013.pdf.