

Indiana's Agricultural Outlook for 2015

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

The outlook for Indiana agriculture in 2015 is for the crop sector to face losses, while the livestock sector will enjoy a period of profitability.

As of October 2014, with the favorable weather this summer resulting in record yields for corn and soybeans, crop prices have fallen significantly. For example, corn prices have fallen 30 percent, soybean prices have fallen 23 percent, and wheat prices have fallen 32 percent since May. With normal weather in 2015 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. On a brighter note, these lower feed costs mean record profits for livestock producers, which would provide a much-needed incentive to expand their livestock herds; in time, these larger livestock herds will demand more feed and provide support to grain prices.



Pork

The pork industry has returned to profitability with producers earning over \$60 per head in 2014 and anticipated returns of over \$40 per head in the first half of 2015. There are two primary drivers of profitability in the hog industry: 1) lower feed prices and 2) supply problems as a result of the PED virus. Hog producers are currently expanding their herds, which will result in increased supplies of pork by summer of 2015. As pork supplies increase next summer, hog prices will moderate and profit margins will narrow in late 2015.



Dairy

The dairy industry is facing headwinds as milk prices are under pressure by the strong U.S. dollar that has weakened export demand and higher U.S. milk production. Because of lower feed costs, dairy

producers are still profitable at these lower milk prices, and we expect the dairy sector to increase production in 2015. Therefore, milk prices are forecasted to be lower in 2015, but this will depend on how much U.S. milk production will increase and the level of dairy exports.



Beef

Over the last seven 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 the lowest levels since 1951. As a result, per capita domestic beef availability in 2015 is projected to be 3 percent lower than in 2014 and 20 percent lower relative to 2007. Even though feed costs have moderated, the beef herd expansion will continue to be slow in 2015 due to ongoing drought conditions in the Southern Plains, Southwest and Western regions. Indiana beef producers with access to good forage conditions are well positioned to be profitable in 2015 and beyond.



Row Crops

The row crop sector faces losses in 2014, with Indiana net farm income for crop farms estimated at \$1.7 billion. Even though Indiana crop producers are on track for record production, incomes will be lower than recent years because of the significantly lower crop prices. Looking forward to 2015, with normal weather and normal yields, inventories of grain would continue to build, resulting in even lower grain prices. Given the current outlook for crop prices and input costs, row crop producers will experience even more losses in 2015 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 they will encourage demand growth in both the export markets and

the livestock sector. Another piece of good news for Indiana agribusinesses is that the large crop will bust bins and keep processors and grain handlers busy in 2015.



Farm Value

As of June 2014, the value of average quality Indiana farmland increased 7.1 percent over the previous 12 months according to the Purdue Land Value Survey. However, most of this increase happened in the last half of 2013 with a small decline reported for the first half of 2014. By comparison, the Federal Reserve Bank of Chicago survey found that the value of "good" farmland in their district was only 3 percent higher by mid-year.

Looking to 2015

Farmland buyers are expected to be much less aggressive bidders and farmland values are expected to decline slowly in 2015. 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. The biggest factor supporting a decline in farmland value increases is the profit margin squeeze that crop producers are experiencing.

For more information about Indiana farmland values, see the Purdue Land Value Survey at www.agecon.purdue.edu/extension/pubs/paer/pdf/PAER8_2014.pdf. ■