Indiana's Agricultural Outlook for 2010

Corinne Alexander: Assistant Professor, Department of Agricultural Economics, Purdue University, West Lafayette

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Indiana agriculture is continuing to face massive uncertainty in 2010 after the excitement of record corn and soybean prices in June 2008 and subsequent dismay at the collapse in prices and margins due to the recession. The silver lining for row crop agriculture is that the current losses are following two years of good incomes, including Indiana's 2008 record net farm income of $3.2 billion. These good income years mean that Indiana agriculture is well positioned in terms of low debt, so we do not expect a repeat of the 1980s' farm financial crisis.

Meanwhile, the livestock sector has been suffering major losses since feed costs started escalating several years ago, with losses most severe in the pork and dairy industries. The pork industry has faced two years of losses and it is likely that some producers are on the verge of financial failure. The pork industry has faced a series of challenges, starting with high feed costs; followed by weakening export and domestic demand due to the global recession; and, more recently, further weakening of demand due to fears of H1N1, which has been incorrectly linked to pork consumption. However, the pork industry has only reduced its herd by 3 percent over the last two years, prolonging the losses. Many of these factors should reverse by mid-2010. Feed costs have already moderated, China is expected to announce that it will resume imports of U.S. pork as fears of H1N1 abate, and the pork industry is reducing the size of its breeding herds.

The dairy industry benefited from record milk prices in 2007 and 2008, but those disappeared as the global recession eroded export demand and weakened domestic demand. The cool weather this summer was favorable for milk production, increasing milk supplies even as the industry was self-funding cow buyouts in the Cooperatives Working Together initiative in an attempt to reduce milk supplies. Currently, milk prices are below the cost of production and the United States Department of Agriculture (USDA) expects the dairy sector to continue struggling through 2010 even though milk prices are forecasted to increase slightly.

Shifting back to the row crop sector, the recession has impacted the biofuels sector. The dramatic drop in the price of crude oil from $147 per barrel in June 2008 to $32 per barrel in winter 2009 turned profits into massive losses for ethanol producers. As a result, two Indiana ethanol plants were shut down and one plant that was under construction in October 2008 has yet to be finished. That said, the ethanol industry in Indiana is still going strong. As of October 2009, there were nine operating ethanol plants in Indiana at South Bend, Rensselaer, Marion, Clymers, Portland, Alexandria, Bluffton, North Manchester, and Union City. These nine plants have the capacity to produce 638 million gallons of ethanol and utilize 236 million bushels of corn (an equivalent of 26 percent of Indiana's forecasted 2009 corn production). Looking to 2010, with crude oil futures trading in the range of $70 to $80 per barrel and with corn prices below $4, the ethanol industry will have positive margins and be a consistent buyer of corn.

Overall, the 2010 agricultural income outlook is stronger than in 2009 but nowhere near the levels seen in 2007 and 2008. Indiana agriculture has returned to the income levels of the late 1990s and early 2000 when margins were tight. The pace of improvement in demand for Indiana agricultural products will depend on the recovery of the U.S. economy, economic growth in developing markets, energy prices, and the stability or potential expansion in the biofuels sector.

Looking to 2010, with continued lower net farm income than in 2007 and 2008, the value of farmland is expected to remain flat or decline modestly. As of June 2009, the value of Indiana farmland declined between 0.2 percent and 1.7 percent over the previous twelve months, according to the Purdue Land Value Survey. This is consistent with the Federal Reserve Bank of Chicago survey that found the value of "good" farmland to be 3 percent lower in the second quarter of 2009 compared with the second quarter of 2008. It is also important to note that the value of Indiana farmland increased by about a third between June 2006 and June 2008, and it is typical to have a period of little change or even small declines after a period of strong increases.

Farmland value also depends on factors including 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 level where government price support payments would be triggered, reducing the influence of government programs. Long-term interest rates are extremely low now and can be expected to increase, putting downward pressure on land prices. While the short-term forecast for farmland values predicts a modest decline for 2010, the survey respondents were optimistic about the longer-term outlook, expecting a 4.3 percent increase in the value of farmland over the next five years.

For more information about Indiana farmland values, see the Purdue Land Value Survey at www.agecon.purdue.edu/extension/pubs/paer/2009/august/paer0809.pdf.

For more information about Indiana's agriculture outlook, visit www.agecon.purdue.edu/extension/prices/index.asp.