

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Eroding income: Record expenses and sharply lower federal subsidies.

Farm income is still forecast far above average...

FARM
INCOME

U.S. net farm income in 2022 is forecast to fall to \$113.7 bil., down 4.5% from \$119.7 bil. in 2021, but still above the \$100-bil. plateau for a second straight year. The 2021 level is \$23.9 bil. (25.1%) above the 2020 result, according to USDA.

Net cash farm income forecast at \$136.1 bil., up 1.4% from \$134.2 bil. in 2021. Net cash farm income covers cash receipts from farming and farm-related income... including gov't payments... minus cash expenses. It does not include noncash items... including changes in inventories, economic depreciation and gross imputed rental income of operator dwellings... reflected in net farm income.

Cash receipts to rise, but so are expenses. Cash receipts for crops and livestock are forecast to reach \$461.9 bil., up from \$432.6 bil. in 2021, a rise of 6.8%, including an increase of 5.1% for crop receipts and 8.9% for livestock receipts.

Gov't farm program payments are forecast to make up an even smaller part of farm receipts in 2022, falling to \$11.7 bil., down 57.0% from 2021 when they were at \$27.1 billion. The 2022 forecast is the lowest since \$11.5 bil. in 2017.

Cash expenses are projected to post a fourth consecutive annual increase in 2022, rising to \$376.4 bil., up from \$358.3 bil. in 2021, up 5.1%. Total expenses are also forecast up by 5.1% to \$411.6 bil. in 2022 compared with \$391.5 bil. last year.

Feed expenses are the largest single expense category. They are forecast to increase in 2022 by \$3.9 bil. (6.1%) in nominal terms to \$68.9 bil. because of higher prices for feed commodities, USDA said.

The rise in crop inputs is also a factor. "Fertilizer-lime-soil conditioner expenses are forecast to increase by \$3.4 bil. (12.0%) in nominal terms to \$31.9 bil.," USDA said. However, seed expenses are expected to remain steady.

While land values are rising, rental payments are expected to fall in the USDA outlook. "Net rent to landlords is expected to decline by \$1.2 bil. (6.6%) to \$17.6 bil., in nominal terms," USDA said.

Cash labor expenses are seen rising to \$39.92 bil. in 2022, up from \$37.94 bil. in 2021, USDA noted, including \$33.03 bil. in hired labor expense and \$6.88 bil. in contract labor expense.

Interest expenses are seen rising to \$22.96 bil. in 2022 after moving up to \$20.79 bil. in 2021. Interest on non-real estate debt is forecast at \$6.98 bil., up from \$6.35 bil. in 2021.

FARMERS' FINANCES

Farmers' financial indications are edging up but still are far below farm crisis marks.

Level of projected farm debt and equity produce a debt-to-equity ratio of 16.41 for 2022, up from 16.13 in 2021... first time since 1998 and 1999 of back-to-back years this indicator has been above 16. In 1998, the ratio was 17.92 and it eased to 17.27 in 1999.

The debt-to-asset ratio also edged up, sitting at 14.11 for 2022, up from 13.89 in 2021. Last time the ratio was 14 or above was 2002 when it was 14.96.

Both marks remain well below the peak of the farm crisis when the debt-to-equity ratio was 28.51 in 1985 and the debt-to-asset ratio was at 22.19.

Source: USDA Economic Research Service

Vilsack announces climate-smart projects tapping CCC funds. USDA Sec. Tom Vilsack this week announced pilot projects to encourage the production of “climate-smart commodities” using \$1 bil. from the Commodity Credit Corporation (CCC), USDA’s line of credit at the Treasury mostly used to make farm program payments... USDA insists there will be adequate funding for all CCC needs.

Equity will be an important part of the partnership program, Vilsack said, stressing the program is “not a carbon market program, it is focused on commodity production.”

Pilot projects will work with the Growing Climate Solutions Act once the House passes it, Vilsack said. The Senate has passed the bill.

The program will finance pilot projects that create market opportunities for U.S. agricultural and forestry products that use climate-smart practices and include innovative, cost-effective ways to measure and verify greenhouse gas benefits.

USDA is now accepting project applications for fiscal year 2022.

The primary applicant must be an entity, not an individual.

First formal definition of a climate-smart commodity: an agricultural commodity produced using agricultural... farming, ranching or forestry... practices that reduce greenhouse gas emissions or sequester carbon

Funding will be available for incentives to:

- implement climate-smart production practices, activities and systems on working lands;
- measure/quantify, monitor and verify the carbon and greenhouse gas (GHG) benefits associated with those practices; and
- develop markets & promote resulting climate-smart commodities.

Funding will be provided in two pools, and applicants must submit applications via gov’t grants by 11:59 p.m. ET with these deadlines:

- April 8, 2022, for the first funding pool... proposals from \$5 mil. to \$100 mil.; and
- May 27, 2022, for the second funding pool... proposals from \$250,000 to \$4,999,999.

Proposals must provide plans to:

- Pilot implementation of climate-smart agriculture and/or forestry practices on a large-scale, including meaningful involvement of small and/or historically underserved producers;
- Quantify, monitor, report and verify climate results; and
- Develop markets and promote climate-smart commodities generated as a result of project activities.

Corteva expects prices for grains and oilseeds to remain high this year thanks to record demand levels, CEO Chuck Magro said on the company’s earnings conference call. “Over the medium to long term, we see constructive fundamentals continuing, as possible new demand to support renewable fuels such as bio-based diesel will likely support healthy agricultural commodity price levels,” Magro said on the call.

Corteva projects 90 mil. acres each for U.S. corn and soybean plantings.

Strong demand for Corteva’s products are helping the company raise prices to offset higher costs due to inflation, Magro said.

Magro noted high fertilizer prices will prompt some growers to rotate into soybeans from corn and boost demand for the company’s Enlist biotech soybean seeds and complementary herbicides. “This provides further support for systems like Enlist, where customer demand and industry-wide penetration remains strong, and we anticipate it will grow to at least 40% of total U.S. soybean acres in 2022,” Magro said.

USDA
REPORTS

USDA's domestic corn, soybean, wheat and cotton ending stocks forecasts were all higher than traders anticipated in the February Supply & Demand Report, though they weren't bearish. USDA cut its global ending stocks forecasts for soybeans, wheat and cotton market than anticipated, which offset the disappointing U.S. carryover figures.

U.S. carryovers... 1.540 bil. bu. for corn (unchanged); 325 mil. bu. for soybeans (down 25 mil. bu. from January), 648 mil. bu. for wheat (up 20 mil. bu.) and 3.5 mil. bales for cotton (up 300,000 bales).

Global ending stocks... 302.2 million metric tons (MMT) for corn (down 850,000 metric tons from January), 92.8 MMT for soybeans (down 2.4 MMT), 278.2 MMT for wheat (down 1.7 MMT) and 84.3 million bales for cotton (down 700,000 bales).

South American production... USDA's crop estimates remained above those from private crop forecasters... not surprising. USDA pegged Brazilian crops at 134 MMT for soybeans (down 5 MMT from January) and 114 MMT for corn (down 1 MMT). Most private forecasts for Brazil soybeans are 125-130 MMT. USDA cut its Argentine bean crop forecast by 1.5 MMT to 45 MMT and left the country's corn crop projection at 54 MMT.

MARKETS

Corn: Futures have been paying attention to the South American weather situation with the potential that supplies from the continent could be further reduced if drought persists. One limiting factor for futures has been the fall in U.S. and global wheat prices. The acreage situation will gain in focus as spring planting draws closer, with attention on the USDA Outlook Forum Feb. 24 & 25.

Soybeans: Negative weather impacts in South America have driven business toward the U.S. There have been a spate of daily export sales announced by USDA for both old- and new-crop delivery. And U.S. soybean prices are keeping talk of bigger acreage in 2022 alive as February unfolds.

Wheat: Global wheat markets remain fixated on geopolitical tensions surrounding Russia and Ukraine... the two countries account for 30% of global wheat trade so any disruptions could impact the global supply chain. However, U.S. prices remain elevated enough that any disruption is not likely to translate into more demand for U.S. supplies.

Rice: Futures still have room to move higher given the relationship with corn and beans. But the impending South American crop could depress all grain and oilseed markets should output exceed expectations. Actions by managed money in rice futures indicates there is additional potential pressure if funds liquidate long positions.

Cotton: Some of the recent strength in nearby cotton prices has come from mills pricing unfixed commitments. Strength in the new-crop December 2022 contract is viewed as the market attempting to buy acres as values are having to compete with generally rising grain and oilseed prices... competition for acres will continue to increase.

Hogs/pork: Producers saw prices rise to the point of getting them into profitable positions during January... should continue, though feed costs need to be monitored. Export activity is key, with China continuing to pull back on purchases of U.S.-origin pork.

Cattle/beef: U.S. cattle herd was down more than expected as of Jan. 1, leaving potential upside for futures as supplies will contract further. Wintry weather also remains a price factor with storms that have hit Plains cattle country.

Poultry/broilers: The Omicron variant remains a factor in U.S. poultry output. Absenteeism is tempering output even if the situation is not due to workers themselves contracting Covid, but with others in their household being exposed, prompting quarantines. This is creating issues for the industry relative to expanding supplies.

Dairy: Global cheese prices continue strong... enough to lift milk prices and potentially cause few if any gov't payments to be made. The U.S. dairy herd contracted further as of Jan. 1, meaning upward movement in dairy prices could continue. Key is how long it will take for higher milk prices to bring a bump in production.

Transportation: Low gauge readings are limiting barge tow drafts and number of barges per tow, and volume loaded per barge while requiring additional towboat equipment to assist tows. Low water conditions extend downriver toward Cairo, Ill. to the confluence of the Ohio River. Needed: upriver snowmelt or a resumption of rain.

SPENDING
BILL

Getting a final spending bill for fiscal year 2022 is difficult for lawmakers grappling with the issue for nearly a year. Lawmakers will need to do another continuing resolution because the current deadline is Feb. 18. Next deadline: through March 11. FY 2022 began last Oct. 1.

The White House will ask Congress for more Covid-related spending, and that could muck up the spending process further. Jeff Zients, the White House coronavirus response coordinator, said that while the U.S. has enough money to fund immediate needs, it wants to stay ahead of the virus. A group of Democrats has called for \$17 bil. for global vaccination and treatments to be included in the fiscal 2022 spending bill.

CONGRESS

No controversial votes on nominees or sensitive legislation will occur in the Senate until after Sen. Ben Ray Lujan (D-N.M.) recovers after suffering a stroke. That could take until the middle if not the end of March. This threatens to impede the agenda of Democrats, who control the Senate by the slimmest of margins.

FED
POLICY

U.S. gov't bond market is signaling the Fed will be able to tame inflation in coming years without eliminating economic growth. Despite recent figures on the labor market, which pointed to rising wage pressure, expectations for future inflation barely budged. A Treasury market measure known as breakevens indicated that inflation would recede to less than 3% in five years. That would mark a significant fall from the 7% rate recorded in December.

Markets are expecting the Fed to succeed in pushing inflation back towards its 2% target.

Some are upping estimates of how many times the Fed would tighten policy this year to more than five quarter-point rate rises, from between four and five a day before the Feb. 4 jobs report.

TRADE
POLICY

The first broad economic strategy for the Asia-Pacific region is coming from the Biden administration... a move awaited by U.S. allies and American business groups that are uneasy about China's expanding influence in the region, the *Wall Street Journal* reports. With the new Indo-Pacific Economic Framework, the U.S. aims to work more closely with friendly nations on issues like digital trade, supply chains and green technology.

Framework is aimed at filling the hole in U.S./Asia strategy left by its 2017 departure from the Trans-Pacific Partnership (TPP), a robust trade agreement the U.S. had helped to design as a counterweight to China. While details of the plan have yet to be released, the framework isn't expected to try to return the U.S. to TPP.

SONNY
PERDUE

Sonny Perdue chancellor? Georgia Gov. Brian Kemp appears to have paved the way for his opponent David Perdue's cousin, former Gov. and USDA Sec. Sonny Perdue, to be named chancellor of the University System of Georgia. The person running the University System of Georgia oversees 26 public colleges and universities, more than 341,000 students and a budget of nearly \$10 billion.

BRIDGES

U.S. bridges are failing faster than expected. More than a third of the nation's 620,000 bridges... 36%... need major repair work or replacement, according to a new report. The estimated cost to replace all the structurally deficient bridges based on average price data from the U.S. DOT is over \$58 billion. West Virginia and Iowa are the top states needing repairs.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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