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Crop insurance has bipartisan support going into debate on a new farm bill.

But it should be improved and expanded, say proponents.

CROP INS.

Activists want to place means tests and pay limits on crop insurance availability, but witnesses at a recent House Ag subcommittee made clear that such poison pills will not be successful and instead looked for ways to further improve the program. Kathy Fowler, a crop insurance agent from Memphis, Texas and a member of the Crop Insurance Professionals Association, the nation's crop insurance agents organization, called AGI means testing and pay limits on crop insurance a "non-starter" and warned that these policies would ultimately hurt small farmers because midsized and larger full-time farmers would no longer be in crop insurance or the risk pool, increasing overall risk and resulting in premium rate increases for those left in the pool.

Warning on ad hoc disaster payments funded since the 2018 Farm Bill. Lawmakers should avoid establishing a permanent disaster program in the new farm bill legislation, the panel was told. "(Private insurers) actually don't want to see the creation of a program that would double-pay farmers for the same loss," said Bob Haney, executive director of AgriSompo North America. "This would indirectly discourage the purchase of crop insurance and possibly lead to changes in farming practices that could lead to potential instances of fraud, waste and abuse."

CLIMATE CHANGE and CROP INSURANCE

Be cautious when considering climate-related crop insurance moves, industry stakeholders warned. Rep. G.T. Thompson said any initiative should instead be linked to conservation programs. "The more farmers can increase their yields or mitigate losses, the better their coverage options will be. And we don't need to cherry pick certain practices that might only work in specific regions of the country and use crop insurance to try and force all farmers into adopting the practice," Thompson said. "We already provide nearly $6 bil. per year in locally led, incentive-based conservation programs to Title II (conservation) of the Farm Bill… that is the appropriate place to have these conversations, not in Title XI, crop insurance," Thompson added. Thompson opposes plans to use crop insurance to incentivize conservation or climate practices, saying they would "hijack the crop insurance program to carry out a half-baked environmental experiment… We don't need to use crop insurance as a carrot or a stick to force their hand."

Source: Ag Letter editors

Federal subsidies for crop insurance best ad hoc disaster payouts, Haney told subcommittee members. "Our industry protects all types and sizes and covers 130 different commodities," he said. "We believe crop insurance is one of the best tools to protect farmers against Mother Nature … and is a farmer's first line of defense against climate change."

Fowler also noted that the current A&O structure for specialty crops is flawed, resulting in a 40% cut in Administrative and Operating payments on such policies. He commended Chairman Sanford Bishop (D-Ga.) and Ranking Member Andy Harris (R-Md.) on the Ag Appropriations Subcommittee for including a one-year fix to the problem. Nearly all of the Members of the Subcommittee voiced their support for the provision.

One possibility is to make margin policies more attractive, says crop insurance industry consultant Alex Offerdahl. Rep. G.T. Thompson (R-Pa.), ranking member of the House Ag Committee, continues to express interest about this topic.

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FOOD PRICES

USDA again boosts food price forecasts. USDA raised its consumer food price forecast again and is now calling for food prices to jump 8.5% to 9.5% this year — the highest rate of overall food price inflation since 1979. The biggest increase is for the fats and oils category, which was hiked to a 16.5% to 17.5% increase from a range 14% to 15% previously. Other categories with big increases are poultry, dairy and cereals/bakery.

For food at home… grocery… prices, USDA now sees them rising 10% to 11%, the biggest rise since prices surged 10.8% in 1979. Food away from home (restaurant) prices are expected to increase 6.5% to 7.5%, the biggest increase since a 9% jump in 1981.

This is the sixth consecutive monthly increases for all food and grocery store price forecasts, the first time that has happened based on monthly data from USDA dating back to 2003. USDA's forecasts for restaurant prices have risen every month since January except for April and June.

Food price inflation for 2023 calls for a 2.5% to 3.5% increase in all food prices… the first USDA forecast for the year ahead. Food-at-home prices are forecast to rise between 2.0% and 3.0% next year, with food-away-from-home prices predicted to increase between 3.0% and 4.0%. The 20-year average increase in food prices is 2.4% for all food prices, 2.9% for restaurant prices and 2.0% for grocery store prices. Some industry contacts say USDA's initial forecasts for 2023 appear too low.

USDA's forecasting methodology is changing. "The Food Price Outlook forecasting methodology is being revised and will result in a revised data series," USDA said. "A report describing the changes to the methodology is forthcoming and will be released before changes to the data series become effective.

SOCIAL SECURITY

Social Security recipients could see a 10.5% cost-of-living adjustment, which would add an extra $175 to the average monthly benefit of $1,669 starting in January 2023, the Senior Citizens League projects. The Social Security Administration will announce the 2023 cost of living adjustment in October.

DOLLAR

Treasury Secretary Janet Yellen comments on U.S. dollar. Yellen weighed in on the impact of a stronger dollar on other economies: "On the one hand, it can strengthen their ability to export, which is good for their growth. On the other hand, to the extent that countries have dollar-denominated debt, it can make those debt problems… which already are very severe… more difficult."

A rise in the U.S. dollar has taken the punch out of the surge in commodities. Prices of oil, metals and agricultural products have tumbled since early June after shooting up following Russia's invasion of Ukraine. In part, the recent fall reflects investors' fears that a demand-busting recession is around the corner. But it is also because most commodities are priced in dollars, so a rallying dollar makes commodities more expensive for buyers around the world, dragging on demand.

CHINA

China's U.S. debt holdings slip under $1 trillion. For the first time in 12 years, Chinese holdings of U.S. debt fell under the $1 tril. benchmark. That means Japan is now the biggest international holder of American notes, at $1.2 trillion. The new Treasury Department data, which reflects debt holdings as of May, comes as the Federal Reserve battles four-decade-high inflation with aggressive interest rate hikes. China has also sought to diversify its holdings of foreign debt.

TRADE POLICY

A reorientation of the world's trading practices is occurring in the wake of Russia's invasion of Ukraine, pushing again for countries to become less reliant on China for critical components like semiconductors. That is what is being urged by Treasury Secretary Janet Yellen. Speaking in Seoul, South Korea, Yellen explored so-called "friend-shoring," a proposed paradigm shift that would have the U.S. and its allies trade more closely with one another and less with geopolitical rivals. She said supply disruptions during the Covid-19 pandemic, as well as the war in Ukraine, have exposed the danger of depending too heavily on a single producer.

FARMLAND Any potential impact of higher interest rates on farmland and cash rents? Mike Walsten, a veteran farmland analyst, says: "I do not see a 1980's-style land depression because both farmers and lenders remembered what happened. No purchases on high leverage. Low leverage instead, which means they can handle a 20% correction and breakeven returns on production without defaulting. We saw that ability to survive in the recent correction following the 2013 highs."

Walsten provides some farmland buying math: "You can get farm loans for 4.5% to 6%, depending on your history with your lender and how much equity you are putting into the purchase. With inflation at 9%, your 'real' interest rate is low, not high. If you can cash flow a 2% to 3% annual return and inflation remains at 3% or higher, you're ahead to buy farmland. Also, if you can get a non-recourse loan… probably dreaming… go for it."

For Walsten's comments on rental rates and land values ahead, see page four.

MARKETS Corn: Key reproductive stage arriving as July winds down. Focus is on weather forecasts as hot, dry conditions during pollination and grain fill could temper production potential. There have been hot temps in areas of the Corn Belt, but cooler readings and precip are both in the outlook. With Brazilian harvest moving, U.S. corn prices may need to ease to bolster competitiveness on the world market.

Soybeans: August remains the key weather period to determine soybean production potential. Condition ratings have declined for six weeks in a row, putting more attention on weather outlooks for the pod-filling stage ahead. Old-crop export demand has slowed.

Wheat: Attention is clearly on the Black Sea in the wake of the agreement between Russia, Ukraine, Turkey and the U.N. to allow Ukrainian grain shipments to resume. Export activity is expected to resume, but Russia's actions to hit the key Ukrainian port of Odesa with missiles clouds expectations. Russia has already fired missiles twice. More questions than answers on getting Ukrainian grain shipped. That will keep futures on edge.

Rice: Prices moved higher as a weakening U.S. dollar helped to provide support. However, trading volumes remain subdued. It will take additional speculative interest and fresh demand news for U.S.-origin supplies to be able to build prices substantially higher. Still, prices remain at their highest levels since early June.

Cotton: World cotton prices stabilized as July wound down, breaking what had been several weeks of lower prices. However, buyers will need to come back into the market to be able to push futures back higher. The tempered trading volumes in global cotton markets indicate speculators have stepped to the sidelines as economic concerns remain.

Poultry: Highly pathogenic avian influenza (HPAI) and a recovery from infections remain factors. The first of July broiler type egg layer flock was down fractionally, moderating potential growth into the fourth quarter. Processors are still working at rebuilding flocks hit by HPAI. There were two new cases in two turkey farms in Utah just as controls on earlier hit locations were removed.

Hogs/pork: Slaughter levels continue to run below year-ago levels as packers are choosey. But cash hog prices also hit highs for the year in the western Corn Belt. If hog weights continue below year-ago levels, hog supplies could prove tighter than USDA's latest inventory report suggested… could keep cash prices above $100 into late August.

Cattle/beef: Fed cattle inventories on July 1 were reported very near expectations at 11.3 mil. head. With first quarter placements now confirmed at 1.9% below last year, tighter fed cattle supplies in the fourth quarter of this year look even more assured now. For futures, cattle slaughter and export demand will be important factors to watch ahead.

Dairy: U.S. milk production hit 18.9 bil. pounds in June, up slightly… 0.2%… from year-ago levels. While that may not sound impressive, it still marked the first year-over-year increase in production since October 2021. Cow numbers edged up in June but remain well below year ago. Milk per cow helped to push output up. Continued rising numbers could boost output ahead.

FARMLAND Impacts of higher interest rates on farmland values and rental rates. Here is more from veteran farmland analyst Mike Walsten:

On rents, landowners will push to keep them high as they want to keep their return high enough to cover both a return on equity… cap rate… and the appreciation in values, Walsten details. “Renters will push for lower rates as their borrowing costs and input costs rise. Result: Usual tug-of-war between landowners wanting as much as possible and tenants as little as possible. Strong personal relationships between tenant and landlord can help ease the negotiation process and tip the scales in the tenant’s favor.”

Land values will likely continue to rise but at only a moderate rate for the next year or two, Walsten says. As input costs and increased production drives commodity prices down, a correction of 10% to 20% in land values will likely occur that could take three to five years, he adds. “Years three through five would be a good time to increase land purchases. The number of farms coming to market in the year ahead will slip as those who needed to sell land… mainly estate settlement people… rushed their ground to market the last year… fall through late spring. Thus, supply will tighten again by late 2023, keeping prices firm. Meanwhile, nonfarm investors will be active as they seek hard assets to offset inflation, produce ‘real’ annual return and provide a safe haven for capital from the wreckage under way in financial instruments due to inflation.”

FOOD AID Food/nutrition/development aid for countries in Horn of Africa. The U.S. Agency for International Development (USAID) is providing nearly $1.3 bil. in aid and support for Ethiopia, Kenya and Somalia... part of the Horn of Africa... where unprecedented drought means more than 18 mil. need humanitarian assistance.

USAID will provide additional humanitarian and development assistance, including a $1.18 bil. increase in humanitarian aid. USAID will provide emergency food, including sorghum, yellow split peas and vegetable oils where local markets are not open and provide cash to families to buy food staples from local markets.

BIOFUELS Year-end tax package will likely include biodiesel tax credit extension and perhaps for Sustainable Aviation Fuel (SAF). Lawmakers want to extend tax incentives for wind power, solar power, home energy efficiency, vehicles fueled with hydrogen, electric motorcycles and biofuel and alternative fuel credits. The biodiesel tax credit ends at the end of this year and Sen. Chuck Grassley (R-Iowa) says he is interested in getting that extended and an incentive for biofuel-based airplane fuel. Lawmakers often have combined numerous expired and/or expiring tax provisions into a major year-end legislative push.

SMHPP Hog producer payment detailed. USDA is increasing the amount of funding available for the Spot Market Hog Pandemic Program (SMHPP) and expects to issue approximately $62.8 mil. in pandemic assistance payments to hog producers starting this week. SMHPP assists eligible producers who sold hogs through a spot market sale from April 16, 2020, through Sept. 1, 2020. USDA’s Farm Service Agency (FSA) accepted SMHPP applications through April 29, 2022.

How SMHPP payments are calculated: Multiply the number of head of eligible hogs, not to exceed 10,000 head, by the payment rate of $54 per head. FSA originally planned to apply a payment factor if calculated payments exceeded the allocated $50 mil. in pandemic assistance funds for SMHPP. Payments are not expected to be factored due to USDA Sec. Tom Vilsack’s decision to increase funding enabling producers to receive 100% of the calculated SMHPP payment.

There is no per person or legal entity payment limitation on SMHPP payments.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

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