FarmJournal

The Agriculture Letter

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Dear Client: Washington, Feb. 16, 2024

Somber news about 2024 farm income from USDA:
• Net farm and cash farm income lowest since 2020.
• Gov't payments to be smallest in last 10 years.
• Expenses continue to rise as receipts for crops in particular are seen falling.

Impact: This could press Congress to ink a new farm bill this calendar year if prices really retrench, but odds still favor a new bill being bumped into 2025 as lingering issues persist over funding and policy issues.

2024 INCOME

Net farm income is forecast down $40 bil. from 2023, on top of a $26 bil. decline from 2022, the record year of income.

The specific numbers: Net farm income is forecast in 2024 at $116.1 bil., down $39.8 bil. from 2023 when it was $155.9 bil., and down 38.5% ($69.4 bil.) from the record of $185.5 bil, in 2022. Net farm income in 2024 would be 1.7% below its 20-year average for the 2003-2022 period.

Factors in the decline:

• Falling prices are a key factor in the income outlook, with farm cash receipts forecast to drop by $21.2 bil. (4.2%) from 2023 to $485.5 bil., USDA noted, with total crop receipts falling by $16.7 bil. (6.3%) from 2023 to $245.7 billion. USDA put most of the decline on lower receipts for corn & soybeans.

• On livestock, total animal/animal product receipts are projected to decrease by $4.6 bil. (1.9%) to $239.8 bil. in 2024, with receipts for eggs, turkeys, cattle/calves and milk forecast to fall relative to 2023.

Lower government payments are also a factor, as they are forecast at $10.2 bil. in 2024, down $1.9 bil. (15.9%) from 2023. "This decline is largely because of lower supplemental and ad hoc disaster assistance to farmers and ranchers in 2024 compared with 2023," USDA noted. The level of government payments would be the lowest in the last 10 years. The closest to the 2024 forecast in that period was 2015 when they were $10.8 billion. The current farmer safety net programs are expected to pay little to crop producers.

Agriculture Risk Coverage (ARC) program payments are put at just $39.1 mil., down from $270.4 mil. in 2023. Payments under the Price Loss Coverage (PLC) program are forecast at $40.8 mil., an increase from what is estimated to be just $7.89 mil. in 2023. The largest payouts under these programs since 2015 were $6.06 bil. in 2016 for ARC and $4.95 bil. for PLC in 2020. Supplemental and ad hoc disaster assistance payouts are seen at $5.87 bil. in 2024, down from $7.10 bil. in 2023, while conservation payments are seen rising to $4.03 bil. from $3.59 bil. last year.

Production expenses continue to rise...

Farm sector production expenses are forecast at $455.1 bil. in 2024 after having risen to $438.3 bil. in 2023. Adjusted for inflation, the rise in 2024 would be a 1.6% increase vs. 2023.

Feed expenses are the largest single expense category and are forecast at $80.6 bil. in 2024 after rising to $70.0 bil. in 2023.

MORE ON FARM INCOME

Epected interest rate declines from the Federal Reserve will translate to interest expenses nearly holding steady in 2024 at $34.39 bil. after reaching $34.17 bil. in 2023. But those costs mark a major increase compared with 2022 when they were put at $24.09 billion.

Fertilizer expenses (including lime and soil conditioner expenses) are seen at $31.71 bil., up from $30.4 bil. in '23 but-still below the $36.86 bil. seen in 2022.

Fuel and oil expenses are forecast to have declined by $2.2 bil. (11.7%) in 2023 at $16.33 bil. and are expected to drop by an additional $1.2 bil. (7.4%) in 2024 to $15.12 bil., driven by energy price declines.

Farm sector equity is expected to rise by 4.7% or $166.2 bil. from 2023, reaching $3.74 tril. in 2024 in nominal terms. Assets are seen at $4.28 tril., up $193.2 bil. or 4.7% from 2023.

Farm sector debt is forecast at $547.6 bil. in '24, up 5.2% ($27.0 bi.) from '23.

Working capital hit: After having risen to a record $129.05 bil. in 2022, working capital is forecast to fall to $101.67 bil. in 2024, down 16.7% from $121.96 bil. in 2023 and would mark a fall of 22.3% from 2022. That is the lowest level of working capital since 2020 when it was $84.76 billion.

Source: Ag Letter editors, USDA

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FARM BILL

New farm bill update:

• Timeline: Most farm bill watchers continue to predict the new bill will come in 2025, not this year. If it comes this year, sources say it would have to make substantial progress by May.

• Funding: Senate Ag Chair Debbie Stabenow (D-Mich.) has around $5 bil. above the farm bill baseline, but that is not nearly enough to adequately fund a needed hike in reference prices relative to the Title I safety net program. That would take $20 bil. for a 10% boost and $50 bil. for a 20% boost. House Ag Committee leaders and staff continue to pursue additional funding but efforts to tap some of the $20 bil. in conservation funding via the Inflation Reduction Act has been consistently opposed by Stabenow and will likely be USDA Secretary Tom Vilsack's position when he testifies before the House Ag Committee.

• Use of USDA's Commodity Credit Corporation (CCC) funding is another area of potential additional farm bill funding. Vilsack has suggested this and it will remain a topic in congressional hearings.

• Senators appear to be far apart in reaching a farm bill conclusion. Stabenow already has the $20 bil. in additional conservation funding in place, and ample food stamp funding is protected as the program is an appropriations entitlement. Ranking member John Boozman (R-Ark.) continues to push for higher reference prices, but funding issues remain. With odds over 50% of Republicans getting control of the Senate following Nov. 5 elections, Boozman may want to wait until 2025 to finalize a new farm bill. Meanwhile, Stabenow has put forth a controversial program opposed by Republicans. It includes a crop insurance plan that would provide more affordable options for farmers, but to obtain that, farmers would have to opt out of separate Title I programs (ARC, PLC). Sen. John Hoeven (R-Neb.) is working on his own crop insurance plans that would also provide more affordable crop insurance options, but wouldn't force producers to opt out of separate Title I programs.

• There is also a gap between the GOP and Dems in the House. House Ag Republicans have proposed repurposing about $15 bil. in IRA climate-smart agriculture money and restricting future Thrifty Food Plan updates to SNAP to pay for spending increases in the farm bill's safety net and key Democratic priorities. But that is getting major pushback from House and Senate Democrats, and USDA Secretary Tom Vilsack.

CBO BASELINE

The Congressional Budget Office (CBO) released a new baseline for USDA mandatory funded programs (that will not likely take place until May it appears). The report forecasts the projected cost of certain programs over the next 10 years. CBO is forecasting the Price Loss Coverage (PLC) program, which triggers payments when market prices fall below certain reference prices, will cost $28 bil. from 2024 through 2034. The previous 2023-2033 forecast, issued last May, projected $33.1 billion. The Agriculture Risk Coverage program is now projected to cost $15.6 bil., down from the $28.4 bil. forecast for 2023-33.

CBO also raised its forecast for spending through the Commodity Credit Corporation (CCC) by about $5 bil. over the next 10 years. Key leaders have suggested capping or eliminating USDA's Section 5 authority under the CCC in the next farm bill, which would give Congress a greater say in how the funds are used by any given administration and could save $8 bil. over 10 years.

RICE

Rice producers and risk management. A *Southern Ag Today* article shows how rice producers face lower production risk compared to other crops but still grapple with price risk. Traditionally, they've relied on government programs like Price Loss Coverage (PLC) but while some crops are expected to see an increase in the Effective Reference Price driven by a higher Olympic marketing year average price (e.g., corn and soybeans), the ERP for rice is expected to remain at the Statutory Reference Price of $14.00/cwt.

The 2024-2025 MYAP price will likely not fall below $15.00/cwt. based on the average of the November 2024, January 2025, and March 2025 Rough Rice futures contracts, suggesting the PLC program will likely not trigger a payment for rice in the 2024-2025 marketing year.

The article suggests combining PLC with area crop insurance like Supplemental Coverage Option (SCO) and Enhanced Coverage Option (ECO) to mitigate price risk further. This strategy offers downside protection while allowing for higher price guarantees.

ECONOMY

The February 2024 NABE Economic Policy Survey reveals:

• Fiscal policy views align with previous surveys, with a slight increase (57%) in respondents believing it's "too stimulative" compared to August 2023 (54%) and March 2023 (53%).

• Most respondents view monetary policy as "about right," but there's a shift in those who see it as "too stimulative" (8%, down from 12% in August 2023) and "too restrictive" (21%, up from 14% in March and August 2023).

• A majority predicts elevated CPI inflation, with 67% foreseeing it staying above 2.5% through 2024.

• Only 25% expect a recession in 2024, with 24% already perceiving it or predicting it in different quarters, while 22% anticipate it in 2025 and 36% in 2026 or later.

• Concerns about geopolitical and economic risks include the Middle East conflict affecting oil prices and supply chains, a stagnant Chinese economy, and U.S. election instability, with around 50% seeing substantial probability for each event.

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MARKETS

Corn: Attention is shifting to 2024 prospects with the fresh update on 2024-25 from USDA's Outlook Forum. The acreage mix between corn and soybeans remains a key factor for markets. And Feb. prices set the spring crop insurance price. Demand for old-crop corn remains an important factor as is weather in S. America as production prospects loom large for global corn supplies.

Soybeans: S. American weather is important in both Brazil and Argentina, with some rains in the latter helping to ease supply concerns. But competition with U.S. soybeans is rising and that is hitting export sales demand, including a recent marketing-year low for weekly sales. The 2024 acreage picture is coming into focus following USDA's initial look at 2024-25 prospects.

Wheat: Global wheat supplies remain ample with falling Russian prices keeping a lid on prices for wheat from other markets like the EU and U.S. The dollar value is impacting U.S. competitiveness on the global front. U.S. winter wheat has improved condition-wise from the levels last fall, so spring weather is important ahead as the crop emerges from dormancy with some winterkill worries, though not widespread.

Rice: Exports remain a key for the market amid restrictions on trade that remain in Asia. The situation with India… the world's largest wheat exporter… continues to support prices. Latin American countries have continued to turn to the U.S. for supplies, providing support for U.S. prices. But sales to destinations outside the region remain relatively muted.

Cotton: Export demand has been strong with China continuing as a weekly featured buyer. Efforts to bring in more of the fiber to process into textiles and export those products allows China to avoid any forced labor concerns that have prompted responses from most countries. Prices also remain high enough to stave off any loan deficiency payments for cotton in the U.S.

Dairy: Feed prices are becoming more favorable for the dairy industry, a welcome situation after a difficult 2023. Not only have corn and soybean meal prices come down but premium alfalfa hay prices moved lower over the past year. USDA's Dairy Margin Coverage program was tapped heavily during the course of 2023 along with Dairy Revenue Protection insurance.

Cattle/Beef: The tight supply of U.S. cattle… the lowest since the 1950s… has kept U.S. shores open for imports. Beef imports during December totaled 306 mil. lbs., up significantly from December 2022. They also rose 5% from November. By contrast, exports did notch a rise from November but were still 5.5% under year-ago levels. Cattle supplies will remain tight as expansion of the beef herd has yet to really start.

Hogs/Pork: December U.S. pork exports in December reached 643.84 mil. lbs., 36 mil. greater than in November (6%) and 83 mil. (15%) more than year ago. The total for December was the biggest month for pork exports since May 2021. South Korea and Australia were key destinations during the month. Traders will keep monitoring kill numbers to see how supplies stack up to what USDA data suggests they should be.

Poultry: U.S. broiler trade was strong in December, rising from both month-ago and year-ago levels. While sales to Mexico, the major buyer, were basically flat, Cuba and Taiwan were key destinations in December. The highly pathogenic avian influenza (HPAI) situation has faded relative to new cases. But the U.S. turkey industry will see a lingering impact due to flock eradications.

HOG INDUSTRY

Pork oversupply sparks economic concerns; industry seeks solutions. The *Wall Street Journal* had an article on the major challenges facing the U.S. pork industry, which has become overly efficient, resulting in an imbalance between supply and demand. Despite producing various pork products like tenderloin, ham, sausage and bacon, there's insufficient demand to absorb the surplus. Factors contributing to this imbalance, the article notes, include the industry's focus on efficiency, the perception of pork as less desirable compared to chicken and beef and misconceptions about pork's preparation and healthiness.

The industry is exploring various strategies to address these challenges, such as targeting new overseas markets, repositioning pork as an affordable alternative to beef, and promoting fattier, more flavorful pork breeds. However, there's no consensus on the best approach.

The article also highlights the financial strain on pork producers, with farmers losing money on each pig due to shrinking profit margins. If the industry fails to attract younger consumers, pork consumption is projected to decline further. To stabilize profits, the industry seeks to engage U.S. consumers, invest in marketing campaigns and innovate products to meet changing consumer preferences and lifestyles.

REGS

Federal judge declares exemption in Mass. farm animal act unconstitutional, impacting pork industry. In a recent legal development, Triumph Foods led a challenge against an exemption within the Prevent Cruelty to Farm Animals Act, also known as Question 3, and a federal judge in Massachusetts has deemed this exemption unconstitutional as of February 5.

Details: Judge William Young from the U.S. District Court for the District of Massachusetts concluded that the exemption violated the dormant Commerce Clause and could be severed from the rest of the law, leaving the remainder intact. Question 3 mandates that pork companies in Massachusetts comply with sow housing space requirements. However, the exemption allowed pork from federally inspected facilities in Massachusetts to be sold on-site at these plants, bypassing traditional retail locations. This exemption applied to three pork processing plants in Massachusetts.

Of note: Judge Young highlighted that for Triumph Foods, an out-of-state processor, to benefit from this exemption, they would need to establish their own federally inspected facility within Massachusetts, which would contravene the Commerce Clause according to Supreme Court precedent. Consequently, out-of-state pork processors face higher costs compared to in-state counterparts when selling pork in Massachusetts. Young noted, "the only way Triumph would be able to take advantage of the slaughterhouse exception would be to open its own federally inspected facility within the Commonwealth of Massachusetts, which the Supreme Court has held violates the Commerce Clause. Instead, Triumph and other out-of-state pork processors must face higher costs to sell pork into Massachusetts than those of their counterparts in Massachusetts."

Triumph now has 30 days to file a summary judgment motion asserting that the Federal Meat Inspection Act supersedes state law. The court rejected Massachusetts' motion to dismiss the case. Triumph Foods expressed satisfaction with the ruling, emphasizing its broader implications beyond the pork industry, particularly in safeguarding the federal government's oversight of food safety and consumer choice. They anticipate further legal challenges to the remaining aspects of the law.

Background: Question 3 was initially passed by Massachusetts voters in 2016. The U.S. Supreme Court's ruling against challenges to California's Proposition 12, a law similar to Question 3, in May 2023, indicates a broader legal context surrounding animal confinement laws. In October 2023, 13 attorneys general filed an amicus brief opposing Question 3.

AG OUTLOOK

Bearish market ideas for corn and soybeans. USDA held its annual Ag Outlook Conference and gov't and private industry analysts agreed that the coming year will see price pressure for commodities, notably corn, with rising carryover. Helping prop up prices are increased use of biofuels, which analysts see helping temper expected rises in carryover stocks.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

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