

# Food and Agribusiness Market Update

Industry Specialty Team | October 2024

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**“The farmer has to be an optimist, or he wouldn’t still be a farmer.” –Will Rogers**

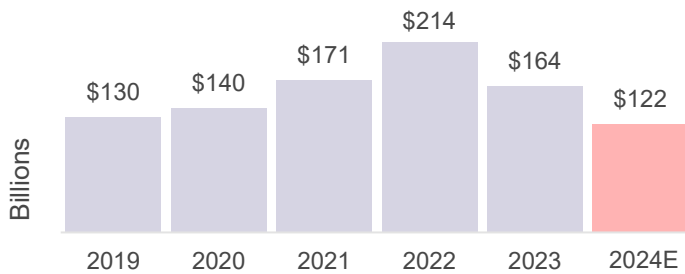
## Highlights

- Low commodity prices and rising costs have significantly increased financial strain on American farmers in a volatile farm economy
- Despite strong headwinds to America’s farm economy today, the future holds potential for a turnaround through potential legislation, and increased demand due to macroeconomic events and sustainability measures

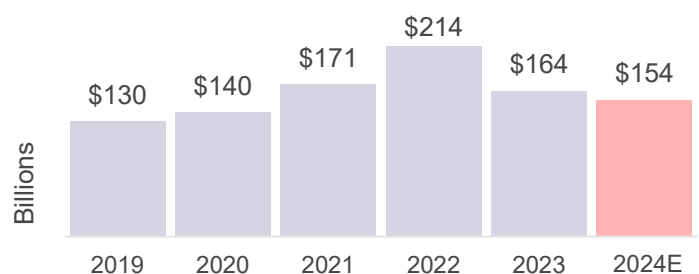
## The Financial Health of the American Farmer

Farmers have faced significant volatility since COVID-19 due to disrupted supply chains, fluctuating demand, and overall market uncertainty. Commodity prices for crops like corn, soybeans, and wheat spiked in 2022, but have since significantly declined. Although high prices in 2021 and 2022 boosted farm income, oversupply and less-than-expected demand have created a bleak outlook. The USDA forecasts a drop in net farm income (a broad measure of farm profitability) from a high of \$214 billion in 2022 to \$154 billion in 2024, marking a 28% decrease over two years. However, just two months prior, a steeper drop to \$122 billion was expected, which would have been the largest two-year percentage decline in net farm income since the Great Depression.

Net Farm Income Forecast as of 7/31/2024



Net Farm Income Forecast as of 9/5/2024

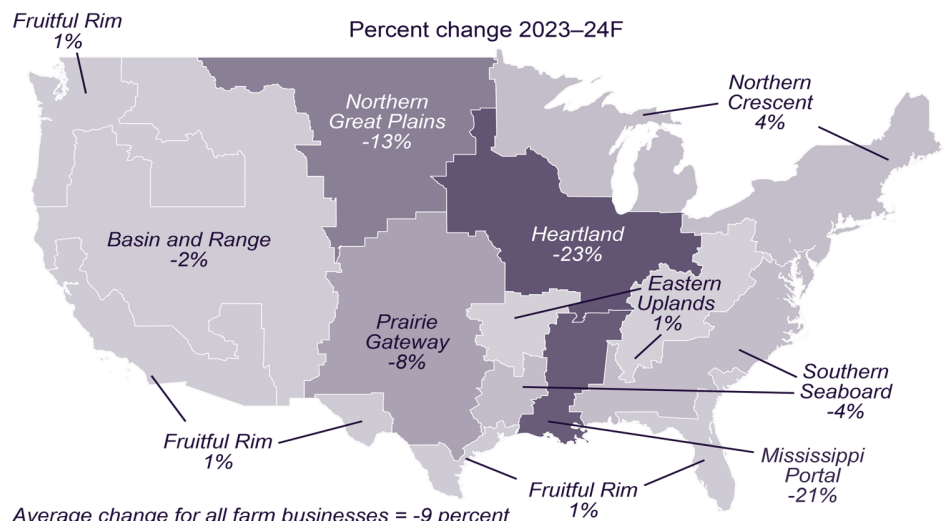


Despite positive trends in livestock profitability in the USDA’s revised forecast, the outlook for crop growers remains challenging. Record yields and weaker than expected demand for corn and soybeans have driven down prices, leading to financial challenges for many crop growing farmers. Animal and animal-related products, however, are benefiting from higher prices and lower input costs. Egg and poultry producers are seeing record prices driven by shortages due to the avian flu.

While feed input costs have decreased as corn and soybean prices remain low, other input costs for seeds, fertilizers, and fuel have steadily risen, putting pressure on farm profitability. Additionally, high short-term interest rates on farm lines of credit lead to further financial strain on farmers.

From a regional perspective, only three regions - the Fruitful Rim, Eastern Uplands, and Northern Crescent - are projected to increase average farm income in 2024, by an average of just over 1%. In contrast, the other six regions are forecast to experience a decrease in average farm income between -2% and -23%. Farm bankruptcies, which reached record lows in 2023, are expected to rise in 2024 as profitability remains strained. Although declining interest rates may relieve some pressure, financial stress for farmers is expected to persist, varying significantly by region and farming type.

## U.S. Farm Business Average Net Cash Farm Income by Resource Region



Average change for all farm businesses = -9 percent

Note: F = forecast. The partial budget forecast model is based on the Agricultural Resource Management Survey (ARMS) using parameters from the sector forecasts. The model is static and does not account for changes in crop rotation, weather, and other location-based production impacts that occurred after the base year. Alaska and Hawaii are not included in the survey data. Source: USDA, Economic Research Service, Farm Income and Wealth Statistics, September 5, 2024.



Sources: USDA, Economic Research Service, Farm Income and Wealth Statistics, AgWeb

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## Long Term Outlook for the American Farmer

The outlook for US farmers over the next two years still appears bleak, although there is potential for a turnaround. A new Farm Bill, adoption of sustainable aviation fuel (SAF), renewable diesels, and other factors will determine how quickly the downturn may change. Advancements in technology will also play a crucial role for farmers, as technologies like artificial intelligence and automation will improve profitability. It will be important to keep farmers front of mind as they work through the difficulties presented during this challenging cycle.

Although the United States farm economy sees significant downturns from time to time, much like the broader economy, each cycle plays out differently, and there are a few key elements listed above that may alleviate pressure on farmers when enacted. Grain farmers are facing some of the strongest headwinds, however they are also benefactors of several future changes, through government legislation and shifts in the macro landscape.

### Farm Bill:

The US Farm Bill is more than a year past renewal and unlikely to be renewed until 2025. There is significant disagreement between lawmakers around the size of changes to be made to reference prices, SNAP funding, and climate measures that reside within the Farm Bill which is leading to further delays. A new farm bill would stabilize income and provide additional for farmers by improving reference prices for corn, soybeans, and other agricultural products, and strengthening the Federal Crop Insurance programs. Reference prices have not been updated since 2018 which has cut back any safety nets that farmers had from the previous farm bill. The reference price for corn is set at \$3.70 per bushel, which is below the cost of production per bushel.

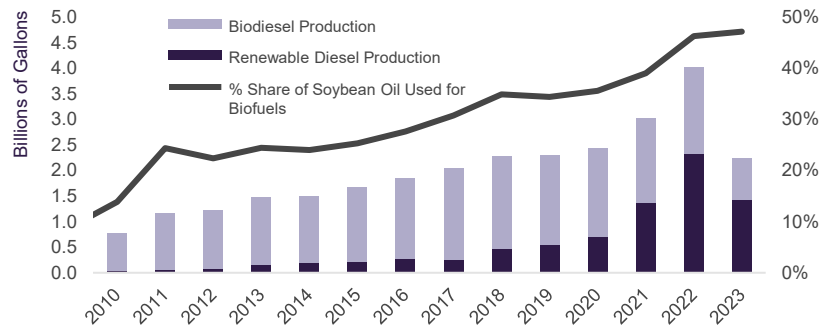
### Sustainable Aviation Fuel:

The push for sustainable aviation fuel is gaining significant traction and would accelerate demand for corn and soybeans, which would potentially have similar effects to the 2005 ethanol mandate. Recently, a SAF coalition formed, representing 40 major airlines, airports, manufacturers, and biofuel producers, with the goal of lobbying for larger and longer-lasting tax incentives for sustainable aviation fuel. The Biden administration has set an ambitious goal of increasing SAF production from 16 million gallons today to 3 billion gallons by 2030. This proposal has bipartisan support and would mean that by 2030, 11 million acres of corn would be dedicated exclusively to SAF. The goal by 2050 is to produce 35 billion gallons of SAF per year, which would require 70 million acres of corn dedicated to SAF. The US currently grows 92 million acres of corn in total each year. This initiative would have a tremendous impact on demand and lead to higher corn prices both near and long term. Recent IRS guidance opened a pathway for corn-based ethanol to qualify for SAF credits, although the effects are still yet to be felt.

### Renewable Diesel:

Renewable diesel will be another area to watch for a potential increase in demand for US soybeans. Sometimes referred to as hydrotreated vegetable oil (HVO) or green diesel, renewable diesel is nearly identical to petroleum diesel and is considered a "drop-in" replacement. This allows for renewable diesel to be used without blending it with petroleum diesel, unlike the process used in biodiesel. Increased demand for renewable diesel has already improved demand for soybeans and is expected to continue.

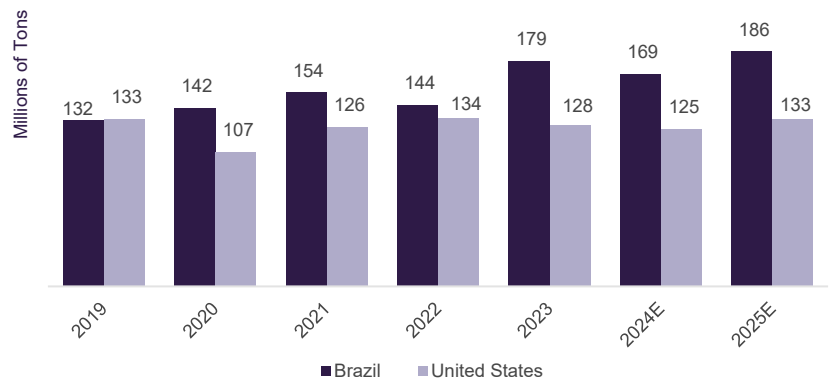
U.S. Production of Biofuels and Share of Soybean Oil Used



### Brazil:

Brazil is increasingly gaining share in the global agricultural markets. China, a major importer of both corn and soybeans, is diversifying its sources and has increasingly purchased from Brazil. Brazil has identified an additional 70 million acres of arable land to be used for row crop production, which will continue to add to the surplus in the market if production and high yields continue at the same pace. The United States can compete with Brazil in cost of production and exceeds Brazil in yields. As the price of U.S. commodities continue to remain low in comparison to Brazilian commodities, demand should increase and raise prices.

Brazil & U.S. Soybean Production



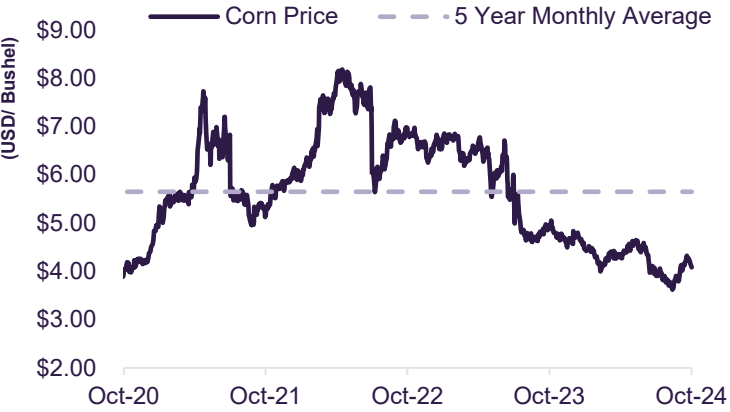
Sources: USDA, BIS Research, Statista, University of Illinois farmdoc daily

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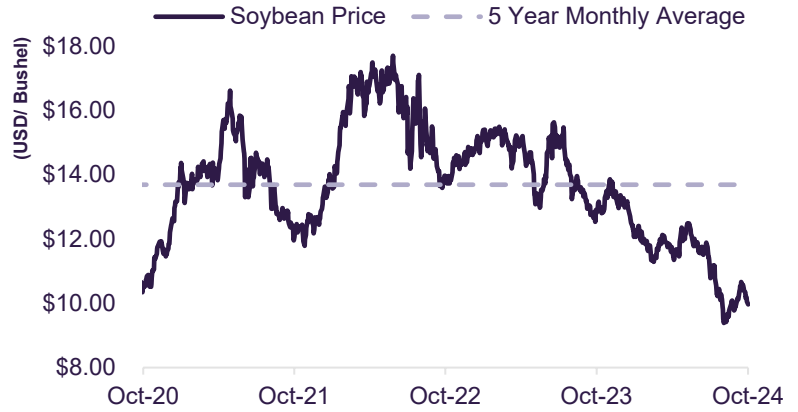
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## Food and Agribusiness 5-Year Trends

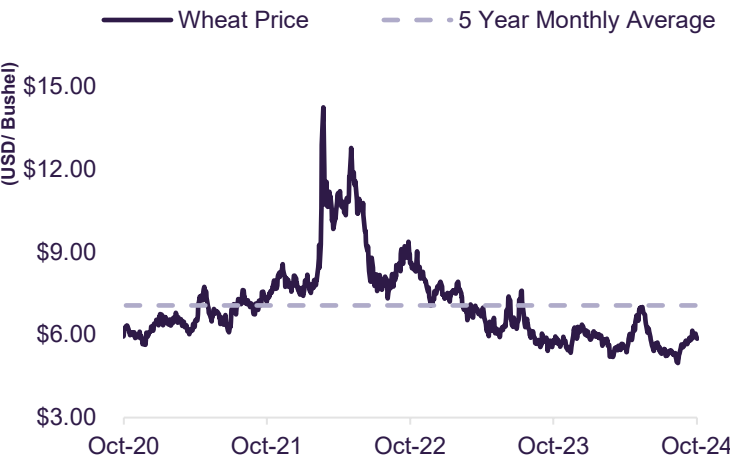
U.S. Corn Daily Prices



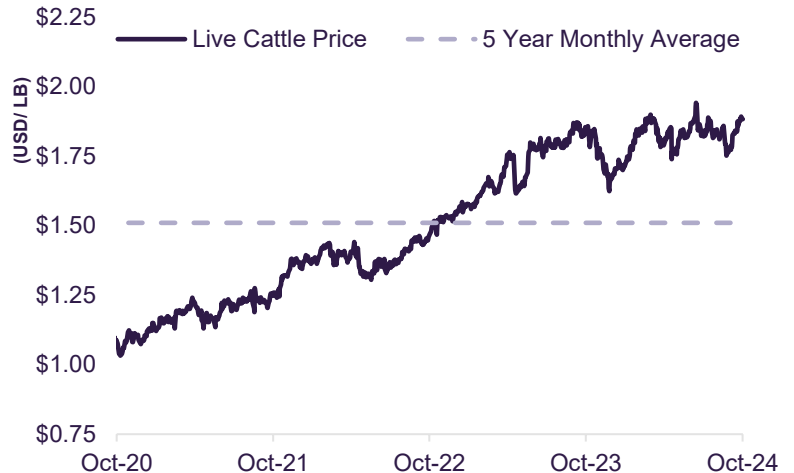
U.S. Soybean Daily Prices



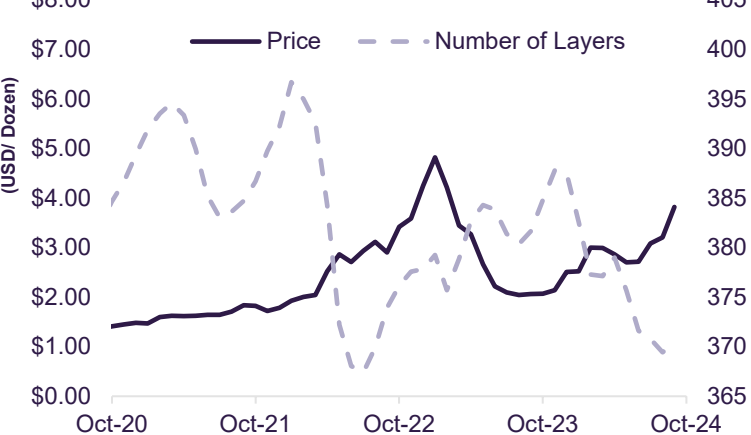
U.S. Chicago Soft-Red Wheat Daily Prices



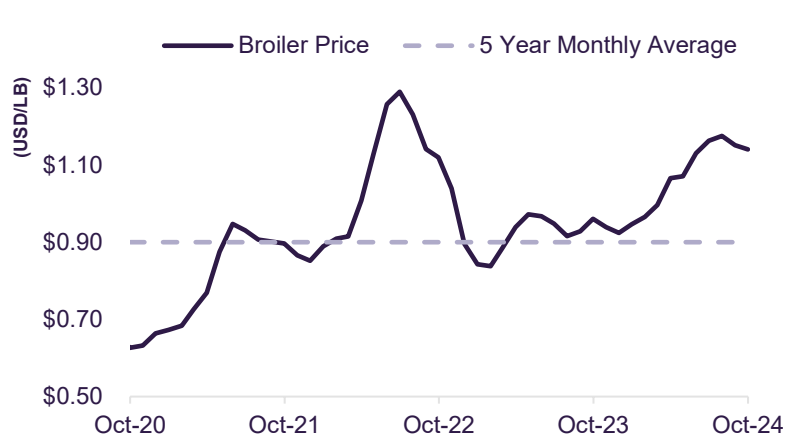
USDA Live Cattle Prices



USDA Eggs Grade A Retail Price



Monthly USDA Wholesale Broiler Composite Retail Prices



Source: Bloomberg, USDA, Data as of 10/14/2024