US farm income hit by collapse in grain demand

George Gallanis and Alexander Fangmann
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According to the *Wall Street Journal*, American farmers are set to face a 50 percent decline in corn prices this year while the United States Department of Agriculture (USDA) is forecasting farmers across the country will earn a third less than last year. Farm income is expected to be at its lowest level in six years, and the downturn in income is expected to ripple across the entire US agricultural sector. Manufacturing and fertilizer companies, among others, expect to see demands for their products slump.

The price of corn has taken a fall, with corn futures trading at roughly $3.51 per bushel in May versus $4.65 per bushel a year ago. The value of farmland in the territories covered by the Federal Reserve Bank branches in St. Louis and Kansas City has fallen between 2.1 and 2.5 percent, while that in the Chicago territory, adjusted for inflation, has fallen by 1 percent, the first time it has fallen since 1986.

The US saw a record corn harvest in 2013, followed by another large harvest in 2014. This year's crop will likely be smaller than last year's based on planting estimates of 89.199 million acres, down 1.398 million acres from 2014. The large harvests have been met with less-than-expected demand from the ethanol industry and export markets, which is driving the falling price of corn.

Currently, 37 percent of all corn is used for making ethanol and biofuels. In 2014, 836 million gallons of ethanol worth $2.1 billion were exported. While this is an increase from 2013 and 2012, it is still below the approximately 1.2 billion gallons exported in 2011—the highest amount ever. The average price for ethanol in March of this year was $1.53 per gallon, a huge drop from the previous year, when it was $2.70 per gallon.

The *Minneapolis Star Tribune* reports ethanol companies have seen a steep decline in profits this year. Valero Energy Corp., the nation's third-largest ethanol producer and owner of Minnesota's largest biofuel plant in the city of Welcome, reported a 95 percent drop in quarterly ethanol operating profits. Ethanol producers have been hit hard by the fall in the price of oil, which competes with ethanol.

Lower demand is also being propelled by decreased corn exports. From March 2014 to March 2015, American corn exports diminished by 9 percent. While some of this is due to the ongoing currency war, which has caused resulted in a slight rise in the value of the US dollar, the most significant drop-off in demand was from China, which decreased its American corn imports by more than 92 percent. Last March, it imported 3,162,152 bushels of US corn, while in March of this year it only imported 240,521 bushels. China has instead relied upon Ukraine for filling its corn needs and has already booked more than 600,000 tons this year.

China's declining interest in American corn has been linked to its public concerns over American farmers' use of GMO (genetically modified organism) seeds, which China has seen as risky and potentially harmful, leading to a ban on specific varieties. At the same time, the Chinese agricultural sector is interested in developing its own GMO research and agricultural varieties and limiting its dependence on foreign imports. As Chinese agriculture minister Han Changfu stated in March 2014, "We can't have such techniques monopolized by others."

It cannot be ruled out either that the sharp reduction in corn imports from the United States may be a shot across the bow of the US in response to the escalating geo-political tensions, including the military brinksmanship by the US in the South China Sea.

Meanwhile, fertilizer and chemical companies are making adjustments to the fall in farm income. Jason Miner, a senior chemicals analyst, told the AgWeb online news agency, “The underlying story is that U.S. farm income is falling and that’s a reflection of lower crop prices. Farms are now more cautious about buying exactly what they need for fertilizer.” Consequently, Potash Corp. of Saskatchewan Inc., the world’s largest fertilizer producer by market value, cut its full-year earnings forecast on expectations of lower average prices for its namesake crop nutrient.

As the farming sector faces losses in profits, workers will be billed for its decline. John Deere, one of the leading global manufacturers of farm equipment, saw a steep decline in first-quarter earnings, from $681.1 million during the same period last year to $386.8 million. More recently, Deere posted a 30 percent decrease in its fiscal second-quarter net income. Rajesh Kalathur, Deere’s chief financial officer, stated, “We’re facing the deepest downturn in North American large ag equipment in 25 years. We’re managing our inventories aggressively.”

In January, Deere announced approximately 910 employees would be placed indefinite layoff from facilities in Iowa and Illinois. Deere declared that the layoffs “reflect the economic forecast included in the company’s November 2014 earnings report as the company continues to align the size of its manufacturing workforce to market demand for products.”

In August 2014, Deere slashed 600 of its workers and placed them on indefinite layoff. It stated that demands for its products had decreased, and “to remain globally competitive, the company must align the size of its manufacturing workforce with market demand for products.” The two layoff announcements eliminated more than 1,000 jobs in Waterloo, Iowa, or 17 percent of its 6,000-member workforce in the metropolitan area.

On October 1, 2015, the labor agreement expires with the United Auto Workers (UAW) covering thousands of Deere workers in Waterloo and other factories in Iowa, Illinois and Kansas. The UAW has consistently imposed the demands of the corporation for layoffs and wage and benefit cuts in the name of keeping the company competitive.

As workers are losing their jobs, Deere CEO Samuel R. Allen continues to receive his annual compensation of roughly $10 million, and the company has continued to dutifully pay out dividends to its richest investors. The most recent quarterly dividend was announced at 60 cents per share, even as company revenues declined by 18 percent. On the strength of its cost-cutting measures, the company recorded $1.9 billion in profit and saw its stock price rise by 4 percent.