

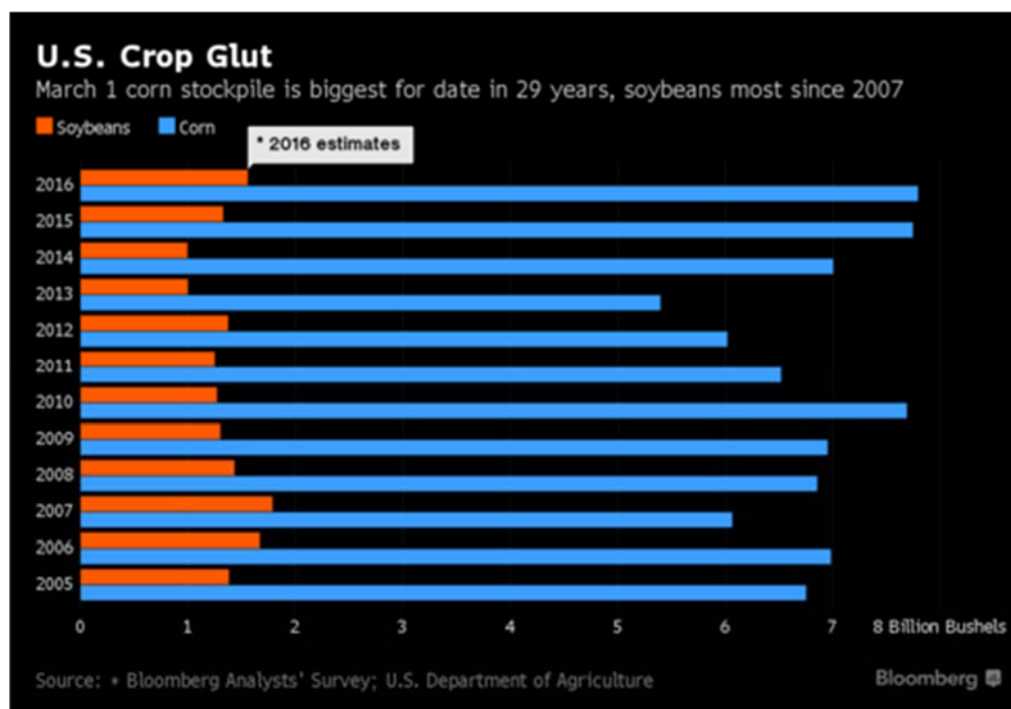
As Corn and Soy Pile Up, Here's Why U.S. Farmers Will Plant More

Alan Bjerga March 29, 2016 — 5:00 PM CDT

- Need to pay bills even if prices are below cost of production
- Corn stockpiles highest in 29 years, most soybeans since 2007

Illinois farmer David Erickson admits that what he and many U.S. farmers are about to do doesn't seem to make much sense. With bulging stockpiles of corn and soybeans left over from last year's harvest, they're planting more in 2016 -- even though the crops probably won't be profitable.

"It's hard to get your head around the idea of doing something that you know will lose money, but I don't have much choice," said Erickson, who plans to sow 1,740 acres of soybeans on his farm near Galesburg, up from 1,590 last year. He can't afford to leave land fallow and needs revenue to pay bills.



After record prices in 2012 sparked a boom in output, corn and soybeans in the Midwest now fetch less than the cost to produce them, and U.S. farm income is headed for a 14-year low. While the market has improved in recent months, researcher AgResource Co. still estimates a \$50 loss for every acre sown on average. As they seed more, growers have cut spending and hope better-than-normal yields will help them at least break even.

More Acres

Farmers in the U.S., the world's biggest grower, will expand corn planting to 89.998 million acres, up 2.3 percent from a six-year low in 2015, and soybeans will be sown on 83.07 million acres, the second-most ever, a Bloomberg survey of 33 analysts showed. The U.S. Department of Agriculture will disclose its planting and stockpile estimates on Thursday.

“You have to be present to play, and that means little land will go idle,” said Kurt Lensing, assistant vice president at AgStar Financial Services, an agricultural lender based in Mankato, Minnesota. Many farmers probably will have enough working capital to last through 2017, with some increased borrowing, he said.

Bigger harvests may compound a global surplus that sent prices plunging during the previous three years. Domestic corn inventories on March 1 were at 7.798 billion bushels, the highest for that date in 29 years, while soybean stockpiles touched 1.557 billion, up 17 percent from a year earlier and the most since 2007, according to a separate survey. “There is no incentive to hold inventories,” said Roger Fray, vice president of grain for West Central Cooperative in Ralston, Iowa.

Income Falls

Net farm income probably will drop to \$54.8 billion this year, the lowest since 2002 and half the record of \$123.3 billion in 2012, while debt-to-asset ratios may increase for the fourth straight year, the USDA said in February.

While rising supply has hurt, so has weaker demand. A strong dollar made U.S. exports less competitive as countries like Brazil and Argentina boost output or shipments. The crop glut cuts across commodities: Wheat inventories may rise 19 percent to the highest in five years, according to the Bloomberg stockpiles survey, and prices for less-common grains like rice and oats are down this year.

With few appealing options, David Seil chose to expand corn planting on his 1,300-acre farm near Gowrie, Iowa. Rather than sacrifice productive land by using it as pasture for his cattle, he’s cutting back on spending for seed and fertilizer and hoping that weather damages crops somewhere else so that prices go up. The arrival of La Nina weather patterns may increase the drought risk in the Midwest, and the government is forecasting higher temperatures this year.

“If you’re the one with the crop and someone else isn’t, you can do well,” Seil said.

More Popcorn

In his 2,500-acre farm in Winamac, Indiana, Scott Fritz is sowing more soybeans and expanding his crop of popcorn, which can fetch a premium over the variety of corn used to make livestock feed or ethanol. While all his crops probably will lose money, he’s hoping he can ease the pain by controlling costs, using his irrigated fields to grow feed-corn and getting good yields.

“We’re only spending money on what we really have to,” said Fritz, a fifth-generation Indiana farmer.

That’s why crop surpluses may last a few years, said Harwood Schaffer, an agricultural economist at the University of Tennessee in Knoxville. During slowdowns, farmers hesitate to make production cuts because they will compound losses in the short term, prolonging the problem, he said.

“It will take a long time to adjust,” Schaffer said.