dgFarmreturns mugshot Rob Johansson/farmbusinessdebt graphic

Farm income outlook takes an ugly turn due to COVID-19

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Sales of ag commodities could pick up whenever social distancing measures and business restrictions driven by the threat of the coronavirus pandemic ease.

But it may not be enough to bring farm returns back to pre-COVID-19 expectations for 2020.

Rob Johansson, USDA chief economist, discussed the economic impact of the pandemic during a webinar hosted by the University of Illinois farmdoc team.

“In our February outlook, net returns were slightly higher, with lower government payments and crop insurance indemnities,” Johansson said. “We thought we’d see a better year on the crop side and livestock side.

“Now, we’re looking at a forecast (generated by the private sector) with significant declines,” he noted. “The second quarter U.S. GDP could be reduced as much as 25%.”

USDA’s February outlook projected a $3.1 billion bump in net farm income this year to $96.7 billion.

Since that time, hog, cattle and dairy prices plunged 25% to 36%, ethanol returns fell into the red (with production estimates down as much as 1.5 billion gallons for the year) and soybean and corn futures prices declined 8% to 14%. U.S. jobless claims also soared to record highs.

Meanwhile, the U.S. dollar appreciated against other currencies, which could have negative implications on ag trade.

“Even though the U.S. economy is facing challenges, a lot of other economies are also sustaining a significant impact (from the pandemic), which translates into a stronger dollar,” Johansson said. “It will have implications for agricultural trade going forward.”

So, how long could it take for the ag economy to recover from the ongoing demand shock?

Johansson compared it to the Great Recession of 2008-09, which featured a $25 billion cut in food expenditures at the low point and caused a dramatic decline in ag commodity receipts.

“This is fairly indicative of what we might see,” he said. “A dramatic decline of ag commodity receipts, then a fairly quick recovery moving out into 2021 and 2022.”

Gary Schnitkey, U of I professor and Soybean Industry Chair of Agricultural Strategy, estimates farm returns in Illinois this year reversed from a slight profit (around $2,000) to a current estimate of minus-$57,000. Those estimates are based on trendline yields and could increase due to either higher yields or the return of Market Facilitation Program payments.

Meanwhile, if farmers still hold about 30% of old crop, Schnitkey estimates they lost about $20 per acre from the economic collapse caused by the pandemic.

“We’re seeing a worsening net income situation,” he said. “Much can happen yet. Caution is in store given COVID-19.”

Farmers should make sure they have a large enough operating line of credit or cash on the balance sheet for the year ahead. They also should consider reducing inputs costs, such as shifting more acres from corn to soybeans, Schnitkey noted.

USDA estimates farm debt could reach $425.3 billion this year.