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The 2012 Drought: Some Economic Implications

Bruce Johnson

University of Nebraska-Lincoln, bjohnson2@unl.edu

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CORNHUSKER ECONOMICS

The 2012 Drought: Some Economic Implications

Market Report	Yr Ago	4 Wks Ag	7/27/12
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	\$109.69	\$117.02	\$115.42
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	151.83	171.10	143.87
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	135.25	153.58	137.62
Choice Boxed Beef, 600-750 lb. Carcass.	175.04	196.58	178.06
Western Corn Belt Base Hog Price Carcass, Negotiated.	100.15	99.59	92.66
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.	103.57	96.89	92.27
Slaughter Lambs, Ch. & Pr., Heavy, Woolled, South Dakota, Direct.	184.50	122.50	103.50
National Carcass Lamb Cutout, FOB.	404.96	337.16	329.30
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.	6.83	7.15	8.24
Corn, No. 2, Yellow Nebraska City, bu.	7.26	6.91	7.98
Soybeans, No. 1, Yellow Nebraska City, bu.	13.65	14.79	16.69
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	11.63	10.86	13.20
Oats, No. 2, Heavy Minneapolis, MN, bu.	3.76	3.75	3.96
<u>Feed</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	180.00	207.50	242.50
Alfalfa, Large Rounds, Good Platte Valley, ton.	135.00	155.00	192.50
Grass Hay, Large Rounds, Good Nebraska, ton.	72.50	125.00	155.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.	189.50	260.50	330.25
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	61.50	88.88	119.00
*No Market			

This issue is the *first* in a series addressing current drought conditions, economic impacts and resources for Nebraska agriculture.

There is an old saying about Mother Nature in baseball vernacular:

Nature always bats last and bats a thousand.

Unfortunately, we are witnessing Mother Nature doing just that, and she happens to be on the opposing team--!!

Current Ag Outlook

Across Nebraska and throughout the majority of the nation's major agricultural regions, this summer of severe heat and drought are taking a heavy toll on United States agriculture and beyond. Crops are withering and rain-starved grazing land is providing little or no forage. Livestock producers are dealing with poor weight gains and even livestock losses from the heat, as well as facing spiking feed input costs that would have been unimaginable just a few months ago. And with each new day of unrelenting heat and drought, the toll on fields and feedlots mounts.

Looking at the Nebraska situation, here are some specifics. As for this state's crop sector, we are fortunate to have more than 8.5 million acres under irrigation (more irrigated acres than any other state). And this year, compensating for short rainfall has been more important than ever. At this point in the crop season the state's irrigated corn and soybeans are reportedly in good condition, albeit with significantly higher-than-normal irrigation energy costs. While some irrigators in water restricted areas of the state have been required to curtail their pumping, the majority of irrigators are irrigating hard to bring in a solid crop at harvest. If they are successful, they will be able to capitalize on harvest crop prices that are

likely to be in record-territory, the result of the geographic pervasiveness of the drought across the country. In fact, given the drought conditions across Iowa, Illinois and the rest of the Eastern Corn Belt, Nebraska may actually be this year's top corn producer of the nation.

Of course, irrigated producers will not likely capture the full effect of high harvest prices because of early marketing of a sizable share of the 2012 crop prior to the recent price spikes. But even with a forward contract for half the corn crop at \$5.50 and half the soybean crop at \$11.00 per bushel, the average per-bushel receipts blending in harvest prices could easily reach \$6.75 for corn and \$14 for soybeans. So, in irrigated areas, 2012 could be a quite profitable year, even with higher production costs for irrigation.

For the state's non-irrigated cropland, the economic outcome is looking much more muted and uncertain. Portions of the state are looking at basically a near-total crop failure, and overall, Nebraska dryland crop yields may be cut 50 percent or more from historical averages. Fortunately, virtually all producers carry crop insurance which, this year, will be their saving grace. Typically, with 70 percent coverage under a revenue-protection policy, there will be a sizable indemnity payment forthcoming – particularly if October harvest prices are as high as they seem to be heading. For example, take a dryland corn producer with an average proven yield of 120 bushels per acre and a 70 percent revenue policy. If the October price hits \$8.00 per bushel, the policy will assure at least a \$672 per-acre revenue flow (120 bu. X 70% X \$8.00). At that level, production costs (including typical cash rents) are more than covered. So even with virtually complete crop failure, most of the state's dryland crop producers will generally be alright financially.

However, for the livestock sectors of the state's agricultural economy, the 2012 drought conditions are much more problematic. As previously noted for all the livestock species, the summer heat is taking a toll on production levels, while at the same time feed input costs

are soaring. For range cattle producers forage shortfalls are getting very serious, which will likely lead to earlier weaning and premature sell-off of calves and yearlings, as well as heavier culling of cow herds (much like the scene the past few years in the Southern Plains). For the feedlot operators, their cost of rations are seriously rising, not only due to higher feedgrain prices, but a reduced flow of distillers grains as ethanol plants cut back production. Pork, dairy and poultry producers are not faring any better in terms of feed costs. This does not bode well for the livestock sector, which had just recently returned to profitability in 2011. While there are revenue insurance packages available, only a very small percentage of livestock producers have purchased them. Moreover, the process of passing on the higher costs of livestock production to consumers does not



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happen quickly, but rather over a period of time. In short, the economic toll of the drought of 2012 will fall heaviest on the livestock producers of the state. Profit margins could be reduced to zero, and even losses in the short-run.

In total, Nebraska's production agriculture will see a very substantial pull-back in income from record levels experienced in 2011. Early projections place Nebraska's aggregate net farm income at \$3.5 billion, which is about ten percent below the most recent five-year average, and more than 35 percent below that of 2011. And that income will be distributed quite unevenly across geographic regions and sub-sectors of our agricultural economy.

Bruce Johnson, (402) 472-1794
Professor, Dept. of Agricultural Economics
University of Nebraska-Lincoln
bjohnson2@unl.edu