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2014 U.S. Farm Bill: Implications for Peanuts
A Revisit

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There have been several agricultural publications and agricultural commentators that state there is an oversupply of peanuts and too much peanut acreage. It is unfortunate that the rhetoric does not match the facts. One needs to understand the purpose of farm bills and what the economic conditions in the farm economy are today:

- Purpose of Farm Bills: Provide a "SAFETY NET" to the farm economy.
- Provide a safe and affordable food supply for the population.
- Writing farm bills during a strong and healthy farm economy shortchanges the safety net.
- 2014 Farm Bill period is repeating the 1996 Farm Bill period.
- Commodity prices declined significantly, after the farm bill was signed into law, and the farm economy became depressed.

What was originally the 2012 farm bill, becoming law two years later as the 2014 Farm Bill, saw commodity prices at or near all-time highs before declining to record lows. Comparing 2011-2012 average prices to 2016 prices:

- Corn: $6.56/bushel vs. $3.40/bushel – 48% decline
- Soybean: $13.45/bushel vs. $9.50/bushel – 29% decline
- Wheat: $7.51/bushel vs. $3.85/bushel – 49% decline
- Cotton: $0.85/pound vs. $0.70/pound – 18% decline
- Peanuts: $0.31/pound vs. $0.189/pound – 39% decline

At the recent USDA Ag Outlook Forum, the U.S. Department of Agriculture (USDA) projected the 2017 U.S. net farm income to decline to $62.3 billion.

- This translates into a 49.6% decline in net farm income since 2013.

With significantly high commodity prices going into the 2012 farm bill process, corn and soybeans were supporting the Agricultural Risk Coverage (ARC) safety net. This is based on a revenue approach using past commodity prices which were high. In contrast, peanuts and rice were supporting the Price Loss Coverage (PLC) safety net. Peanuts and rice were concerned that ARC as a safety net would be inadequate during periods of sustained, extremely low commodity prices. Peanuts and rice were correct in their evaluation of which alternative safety net (i.e., ARC or PLC) really provides a safety net during periods of sustained low commodity prices based on the recent release of the Congressional Budget Office's (CBO) January 2017 Baseline for Farm Programs on January 24, 2017. CBO is projecting significant changes in enrollment of the safety net programs.

- Corn producers: 93% enrolled in ARC but after 2018, 82% will enroll in PLC
- Soybean producers: 97% enrolled in ARC but after 2018, 49% will enroll in PLC
- Wheat producers: 56% enrolled in ARC but after 2018, 82% will enroll in PLC

- This significant change in selection of safety net option clearly indicates that the PLC safety net approach will provide a stronger safety net during periods of extremely low commodity prices.

Farmers typically do not have the capital to self-finance their farming operation due to volatility in crop farm income. USDA's Economic Research Service (ERS) recently released a report entitled, "Farm Household Income Volatility: An Analysis Using Panel Data from a National Survey." Key findings are:

- Farm households have much more volatile total income than do nonfarm households.
- Crop farms have, on average, more volatile total household income than livestock farms.
- Farm households with more than $3 million in farm assets (which is a small/medium family farm) have a 34% chance of having negative household income at least once every two years.

These findings correlate with the actions taken by banks in the Southeast:

- Since the passage of the 2014 Farm Bill, most banks in the Southeast would only provide operating loans for peanut production and none for cotton and corn.

The lack of cotton and corn operating loans may be due to the fact that bankers view the severely depressed cotton and corn prices are at a level that bankers do not feel farmers will be able to repay the loan at harvest time. In addition, bankers have a similar outlook as to which safety net program provided the best safety net during this period of severely depressed commodity prices.

- Bankers have been forcing farmers to plant peanuts if they wanted any operating loan money.
- A farmer is forced with the decision of not farming which potentially meant the farmer would lose their rental land.
- Farmers do not consider this latter option as a "real" option to be considered.
- Peanut farmers who traditionally have cotton, corn, wheat, and maybe soybeans and grain sorghum in their cropping mix desire to farm just as farmers in other regions of the country desire to farm.
- Given the environment that exists today of depressed commodity prices and no cotton safety net program that works for them, the only option to survive for another year is to expand peanut acreage even though that is not the path they desire.

Peanut farmers know that rotation is critical in their cropping system. However, during this period of a severely depressed farm economy, farmers are modifying their crop rotation in order to survive. Research has shown that with reduced rotation, peanut yields will drop and chemical costs increase significantly. Pigweed problems are likely to soar. In addition, communications with a University of Georgia (UGA) peanut pathologist has indicated that some of the fungicides are becoming less effective in the peanut production management system. The scenario is that reductions in crop rotation have allowed some pathogens to mutate and become more resistant to current fungicides. These and other factors have led to a downward trend in peanut yields since 2012.

- The U.S. national peanut yield has declined by approximately 13%.
- Georgia's peanut yield has declined by 14%.
- Southeast average yield has declined by 11%.

Based on the NCPC's peanut representative farms, the cost of production has to be considered if the farmer wants to stay in business in the long run. If crop rotation practices decline, the reduced yields and increased production costs will make it such that a $535 or less reference price will not be sufficient to keep the farmer afloat over the life of a farm bill.

While the increased peanut acreage has impacted yields and cost of production, is the acreage really out of line? One needs to review historical acreage plus examine the demand for peanuts.

- Since 2002 when peanuts went from a supply management program to a market oriented program and prior to the 2014 Farm Bill, U.S. peanut acreage has exceeded 1.6 million acres.
- Under the supply management program, U.S. peanut acreage exceeded 1.6 million acres several years in a row in the early 1990s and even exceeded 2 million acres in 1991.
- Planted acreage in the 1.6 million acres is not a new phenomenon.
- Planted acres average during the 2014 Farm Bill is only approximately 16% more than the average acres planted for 2002-2013.

Demand for Peanuts

Important to this discussion, demand has kept pace even to the point that there is talk that there may not be enough peanuts to satisfy the demand till the 2017 peanut crop is harvested in this fall.

- Based on USDA data and U.S. Census data, U.S. per capita peanut consumption has grown from 6.4 lbs per capita in 2012 to 7.4 lbs per capita in 2016 – a 16% increase.

Why this significant increase? The peanut industry took two major steps to address the demand. First, in 1996, the Peanut Institute was created to fund research on the nutrition aspects of peanuts. Second, in 2000, peanut farmers voted to create the National Peanut Board (NPB). NPB provided generic promotion of peanuts and funded critical research addressing allergy concerns. These two events have had a major influence on the demand for peanuts both domestic and international.

- Peanuts are heart healthy, fight obesity, reduce risk of Type 2 diabetes plus have key micronutrients.
- Peanuts by means of Ready to Use Therapeutic Food (RUTF) are also a widely used tool to fight severe malnutrition in children around the world.

Domestic and export demand has grown significantly. Based on USDA's National Agricultural Statistical Service (NASS) Peanut Stocks and Processing reports and comparing the first 6 months of the 2016-17 marketing year to a comparable time period for previous marketing years:

- Peanuts used in peanut butter have grown 64.4% since 2002 and 10.6% since 2013-14.
- Total shelled peanuts use has increased approximately 47% since 2002 and 11.3% since 2013-14.

Based on USDA's Foreign Agricultural Service (FAS) database comparing the average exports of peanuts and peanut butter during the 2008 Farm Bill relative to the 2014 Farm Bill:

- Exports have also seen strong growth.
- Peanut exports increased by approximately 72%.
- Peanut butter exports have grown by 52%.

Supply of Peanuts

One can see that demand for peanuts has increased significantly. If this statement was not correct, one would see significant peanut forfeitures to the USDA. This has not occurred.

- For the 2015 peanut crop year (i.e., the latest peanut crop year) approximately 62 tons were forfeited. This translates into approximately .0021% of the total 2015 peanut crop was forfeited.
- USDA sold those tons at an average price of $363.67/ton which was above the loan rate of $355/ton which translates into a profit for the government and NO cost to the taxpayer.
- As of today, there has been no peanut loan forfeitures from the current, 2016, peanut crop.

Today's peanut prices do not support the concept that the 2014 Farm Bill is causing excessive peanut acreage planting. Entering the 2016 crop year, USDA had published incorrect inventory numbers. Based on the incorrect numbers, the peanut industry assumed that supply exceeded demand significantly which had a negative effect on peanut prices received by farmers, ranging from $355/ton (loan rate) to approximately $380/ton.

- Based on the reduced prices, the Southeast reduced peanut planting by approximately 11%.

Once the incorrect USDA information became obvious and USDA corrected the mistake during the growing season, contract prices for the uncontracted 2016 crop and any unsold 2015 crop in the loan increased significantly to the $450/ton range. Recently, any uncontracted 2016 crop peanuts have seen contracts increase even more. As one major sheller stated in their newsletter "This will continue to support 2016 crop values as the market is forced to ration supply of quality tons." At this point in time, demand exceeds supply. Given this economic situation, early contract prices for the 2017 crop had been reported in the $475-$550/ton.

- Why are shellers still offering 2017 crop contract prices in the reported $450-$550/ton range if the peanut program encourages peanut acreage as some people suggest?
- Supply and demand are working under the current peanut policy.
- If the peanut program is supposed to cause a flooded market with peanuts, why wouldn't shellers avoid contracting with farmers and purchase peanuts at the loan rate and save approximately $300 million or more in expenses?
- The shellers' action indicates they do not see the program creating an excess supply of peanuts in the market.
- Shellers would not be offering these types of contracts unless signals from manufacturers and exporters clearly indicate that they need more peanuts for the marketplace.
- These actions are not being driven by the 2014 Farm Bill but instead by the markets and the rule of supply and demand.

There is not an oversupply of peanuts. When one examines the facts, they discover that in today's time that some of the rhetoric is not based on facts.

Bottom line:
- The peanut program in the 2014 Farm Bill has not led to excessive peanut acreage.