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## Highlights from the USDA's Ag Outlook Forum

Each year in late February, the USDA's Ag Outlook Forum is held in Washington DC.

The event is usually the first USDA projection for expected crop acreage for the upcoming growing season and other current economic conditions pertaining to the agriculture industry. The latest forum was no different, with projections for significant increases in U.S. soybean acreage for 2017, as well as forecasts for continued tight profit margins and reduced farm income levels for the coming year.

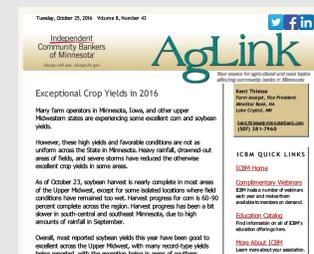
### 2017 U.S. crop acreage projections from the USDA Ag Outlook Forum:

- Total U.S. acreage planted for the 8 major crops in 2017 is estimated at 249.8 million acres, which is down 1.4 percent from 253.4 million acres in 2015, and is the lowest total U.S. crop acreage in the past six years (2012-2017).
- U.S. corn acreage is estimated at 90 million acres for 2017, which is down 4.3 percent from 94 million acres in 2016, but is still above the 88 million acres planted in 2015. The USDA is projecting a 2017 corn-yield trend line of 170.7 bushels per acre, which would result in an estimated total production level of just over 14 billion bushels.
- 2017 U.S. soybean acreage is expected to increase by 5.5 percent to 88 million acres, compared to 83.4 million acres in 2016, and is well above the 82.7 million acres in 2015. The USDA is estimating the 2017 soybean trend-line yield at 48 bushels per acre, down from the record U.S. soybean yield of 52 bushels per acre in 2016. However, with the likely increase in acreage, total 2017 U.S. soybean production is projected to exceed 4.1 billion bushels.
- U.S. wheat acreage is projected to be the lowest in the past six years at 46 million acres, which is a decline of 8.3 percent from 50.2 million acres in 2016.
- U.S. cotton acreage is expected to increase by 14.2 percent in 2017 to 11.5 million acres, compared to 10.1 million acres in 2016, and 8.6 million acres in 2015.
- Total 2017 U.S. acreage planted for sorghum and other feed grain is estimated to be at 11.7 million acres, which is a

**Kent Thiesse**  
Farm Analyst, Vice President  
MinnStar Bank, NA  
Lake Crystal, MN

[kent.thiesse@minnstarbank.com](mailto:kent.thiesse@minnstarbank.com)  
(507) 381-7960

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decline of 7.1 percent from a year earlier.

- Total acreage in the Conservation Reserve Program is projected to be at 23.5 million acres in 2017, which compares to 29.5 million acres as recently as 2012. The 2014 Farm Bill capped the maximum CRP acreage at 24 million acres.

Most grain market analysts predicted 2017 crop acreage totals similar to USDA acreage projections, with increased soybean acreage and reduced acreage for corn and wheat. The analysts expect this scenario to put some market pressure on the soybean market in the coming months, particularly if we get favorable growing conditions. On the other hand, the reduced 2017 acreage for corn and wheat could create some pricing opportunities in future months for the 2017 crop, especially if there are any production challenges. Besides the monthly USDA Supply and Demand reports, the next important USDA crop data will occur with the USDA's Planting Intentions Report on March 31.

### Farm Income Forecast

The USDA is projecting inflation-adjusted U.S. farm income for 2017 to be at the lowest level since 2002. However, the USDA also pointed out that overall farm debt-to-asset ratios continue to remain at very low levels. Most observers agree that the overall financial health of U.S. agriculture is in better shape now. However, there still continues to be farm profitability concerns going forward.

Some experts feel the biggest concern with farm operating loans may be for the 2018 growing season, especially if crop prices stay relatively low and crop yields in the Upper Midwest return closer to trend-line yields, following the record corn and soybean yields in Minnesota, Iowa, and other states in 2015 and 2016. Many farm operators have already reduced input costs and used up excess working capital to deal with tight crop production profit margins in recent years, so there may not be as much flexibility for adjustments during the 2018 crop year.

Economists at the USDA forum expect farmland values in most major crop producing areas of the U.S to decline moderately during the next 12 months. However, they do not anticipate a sharp collapse in land values, similar to the 1980s. In addition to the level of farm profitability, increased interest rates by the Federal Reserve over the next couple of years are likely to have a negative impact on land values.

Many ag lenders reported much tighter scrutiny by Federal and state bank examiners on agricultural loans, which could make credit more difficult for farm operators facing financial challenges.

However, most ag lenders also indicated that to this point, the number of problem ag loans has been quite manageable. Most experts are expecting some tight margins and increased farm financial challenges in the next couple of years. However, no experts are predicting a repeat of the farm financial crisis of the 1980s.

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For more information, contact Kent Thiesse, Farm Management Analyst and Vice President, MinnStar Bank, Lake Crystal at: 507-381-7960 or [kent.thiesse@minnstarbank.com](mailto:kent.thiesse@minnstarbank.com).

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