NATIONAL CORN GROWERS ASSOCIATION

NCGA Economic Update 2024: 3Q

Quarterly overview of U.S. corn industry trends, challenges, opportunities, and market conditions.

Corn Industry Overview

The United States is a global leader in corn production, producing a record 15.3 billion bushels of corn on 94.6 million planted acres in 2023.

Founded in 1957, the National Corn Growers Association represents nearly 40,000 dues-paying corn growers and the interests of more than 300,000 farmers who contribute through corn checkoff programs in their states. NCGA and its 50 affiliated state associations and checkoff organizations work together to help protect and advance corn growers' interests.

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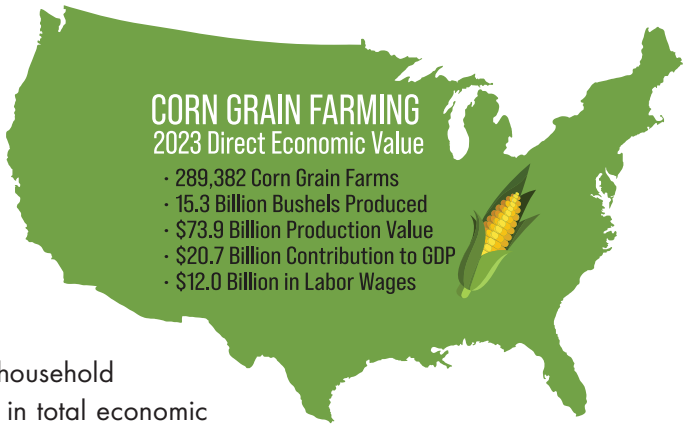
Economic Contribution Study Highlights

NCGA released its first annual Economic Contribution Study highlighting the contribution of corn grain farming to the United States economy in 2023.



In 2023, corn farmers in the United States grew 15.3 billion bushels of corn valued at $73.9 billion on 289,382 farms growing corn for grain. Corn farming directly contributed an estimated $20.7 billion to GDP and provided $12.0 billion in labor wages and benefits, bolstering the economy and helping build strong communities.

Corn farming, along with upstream supply chain and household spending linkages resulted in an estimated $151 billion in total economic output and an estimated contribution of $62 billion to GDP. Driving creation of over 600,000 jobs across over 500 industry sectors and providing $35 billion wages, corn farming and its related supply chain strengthen communities in rural America and beyond.

Why It Matters: This report highlights the crucial role America's corn growers play in our nation's agricultural and economic value chain.

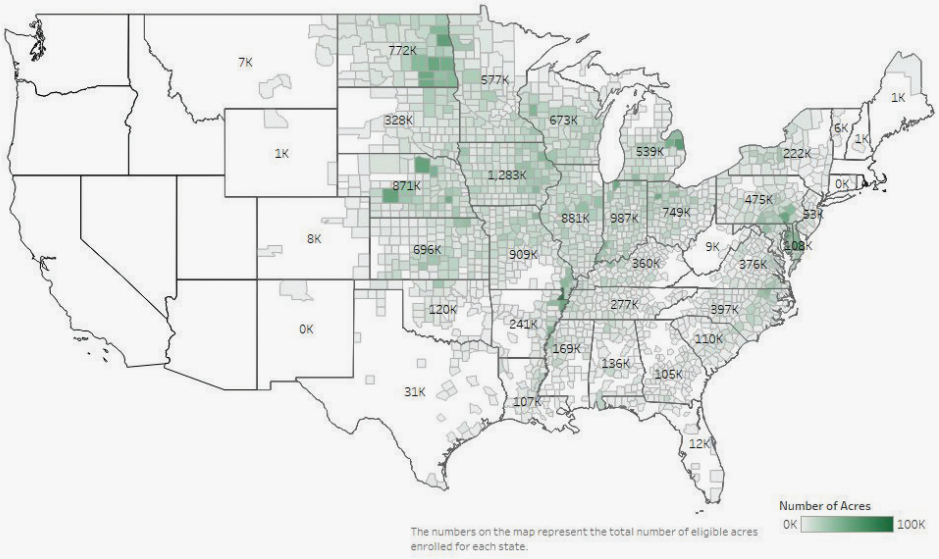
Climate Smart Ag: Will Farmers Benefit from 45Z?

The Inflation Reduction Act created the "40B" tax credit for sustainable aviation fuel (SAF) producers and the "45Z" tax credit for biofuels producers, named by their location in the law. Until parameters for 45Z are available, an evaluation of 40B can provide insight into if or how farmers will benefit from 45Z. The carbon footprint of SAF or biofuel is measured with a carbon intensity (CI) score. A lower CI score indicates a smaller carbon footprint. To qualify for a credit the SAF or biofuel must have a specific CI score reduction relative to the standard fuel. Using feedstock grown with climate smart agriculture (CSA) practices is one method to reduce the CI score of SAF under 40B and is also expected for biofuels under 45Z for 2025 to 2027.

For corn to qualify as CSA feedstock under 40B, only three practices were recognized using an all-or-nothing approach. The farmer would have to grow the corn utilizing cover crops, no-till, and enhanced efficiency nitrogen fertilizer. Using only one of these practices would disqualify that corn as CSA feedstock under the 40B credit.

As shown in a joint analysis by NCGA and American Soybean Association, the "bundle" requirement for CSA practices severely limits farmers' ability to produce qualifying feedstock. Using generous eligibility assumptions assuming all potential cover crop and no-till acres accrue to corn (and none to other crops), a maximum of 13.8 million corn acres could qualify, less than 15% of the 2023 corn planted area. In reality, some of those acres are other crops each year.

Maximum Potential 2022 CSA Corn Acres



The bundle requirement overlooks the sustainable contribution of individual practices, doesn't account for situational barriers that make some practices not feasible or economical, and doesn't reflect the larger array of practices that can reduce the carbon footprint of corn.

The limiting factors do not end there. Extensive recordkeeping and potential audit burdens fall on the farmer. Under 40B, the farmer must contract directly with the qualifying SAF producer receiving the credit, limiting opportunities for farmers not in proximity to a SAF producer. While a premium for CSA feedstock is anticipated, the credit parameters for 40B do not guarantee anything is passed to farmers.

Why It Matters: The recognition of CSA practices in 40B was a critical first step, but improvements are needed in 45Z to provide farmers a pathway to provide feedstock needed to meet the goals of the credit. This means additional practices recognized, equal opportunity for all farmers producing feedstock crops regardless of location, and a model that allows for market transparency for value of the CSA practices.

Farmers Hold Old Crop Corn Amid Low Prices

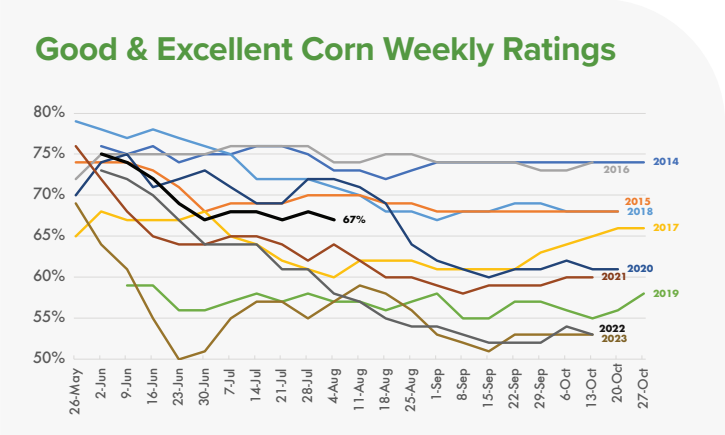
Farmers are faced with a tough choice with corn right now: sell at a loss or hold in hopes of better prices. The USDA June Stocks Report provided an estimate of the total corn still in producer hands. At that time, farmers were holding in hopes of better prices. The report shows farmers still had 3.026 billion bushels of corn in possession as of June 1, 2024, an amount 36.5% larger than the previous year and the largest level for that point in the year since 1988.

The July 2024 contract hit $6.35 per bushel last summer. The same contract fell below $4.00 per bushel this summer. An NCGA analysis calculated the impact of that price difference on the 3.026 billion bushels farmers were still holding as of the USDA June Stocks Report. If farmers had pre-sold that corn at last summer's high for delivery in July 2024, they would have received $7.1 billion more in corn sales revenue for the same bushels compared to making the sale in recent weeks.

Why It Matters: Prices haven't improved for farmers still holding 2023 crop and a new crop is nearing harvest as farmers continue to face costs that exceed prices. The change in valuation of year-end inventories is also a consideration for farm balance sheets.

Corn Crop Conditions Support Yield Outlook

The share of U.S. corn rated good and excellent "G&E" each week in the USDA Crop Progress Report has exceeded the respective weekly ratings for the past three years instilling excitement into yield potential for the 2024 corn crop.



But the 2024 weekly G&E ratings comparison over the past decade is split, with 2024 tracking better than half of the past 10 years but trailing the other half.

Crop conditions incorporated into yield projection models. For example, agricultural economist Gregory Ibendahl models the August 4, 2024, crop conditions to predict a 182.9 bushel per acre corn yield for 2024 with a range from 179.1 bushels per acre to 186.6 bushels per acre.

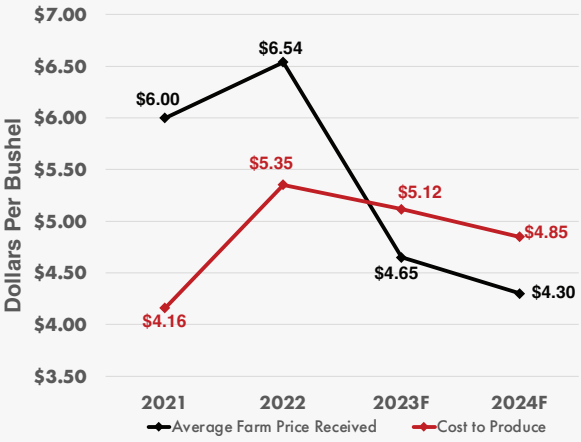
Notably, even the low end of this range would be a new record yield surpassing the 177.3 bushel per acre record yield set in 2023. Corn harvested area will be lower in 2024, projected at 83.4 million acres in the July WASDE. Even with lower acres, a yield at or above 184 bushels per acre is enough to surpass the 2023 record production.

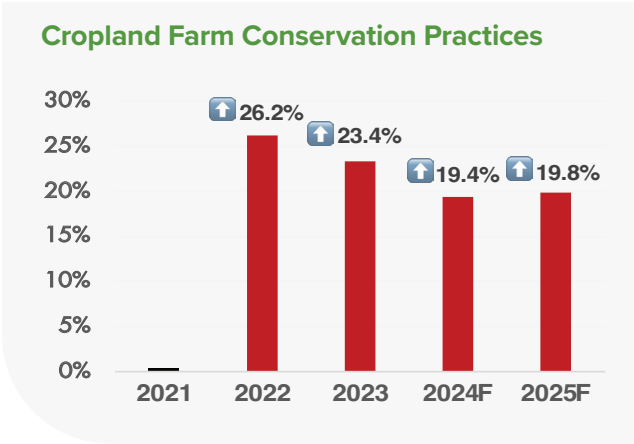
Why It Matters: An above trendline yield is possible with the sustained strong G&E rating on corn crop conditions. If there aren't other changes on the balance sheet, an increase in yield results in the already high 2.1 billion bushel ending stocks projection to rise and puts greater downward pressure on price.

Corn Cost of Production Reflects Persistent Inflation

Inflation is the overall general upward price movement of goods and services in an economy. The Consumer Price Index, a measure of inflation, dropped from a 9.1% peak in June 2022 to 3.0% in June 2024. This is the relative change in prices from the same point in the previous year. The declining rate of inflation does not mean overall prices have dropped; it means the rate at which prices are rising has slowed.

Persistent inflation is reflected in the cost of production for corn, and other commodities. In the USDA Commodity Costs and Returns data, corn production costs jumped significantly in 2022 when inflation spiked, rising 26.2% from 2021. From the 2022 high point, corn cost of production fell just 2.2% in 2023 and 3.3% in 2024. Little relief in costs is exacerbated by the change in corn price over the same period putting farm margins in the red. The USDA projected farm price for the 2024 corn crop is $4.30 (July WASDE), a 34.3% decline from the $6.54 average farm price for the 2022 corn crop.





USDA forecasts the cost of production for corn to increase further in 2025, representing a level that would be 19.9% higher than 2021 corn cost of production and well below a break-even level given current corn price outlook for the 2025 crop. If forecasts are realized, there will be four straight years where cost of production is at least 19% higher than 2021, before inflation contributed to the considerable rise in production costs.

Why It Matters: **The rate of inflation has slowed, but corn production costs are still high. This isn't limited to corn; the same pattern is evident across other commodity crops (and most other goods and services). A sustained period of high costs is made worse by a major drop in commodity prices putting farm margins in a below break-even environment. If the USDA forecasts for 2023 and 2024 net farm income are realized, U.S. farmers will experience the two largest drops in real net farm income in history, an impact that will be felt in farm country and throughout the economy.**

Resources Referenced:

- NCGA Economic Contribution Study for 2023
- NCGA & ASA: Qualifying Acres in the 40B Conservation Programs
- USDA Crop Progress Report, Released August 5, 2024
- NCGA Challenges in Farm Country
- Estimates of Corn Production and Yields Based on 8/4/24 Crop Conditions by Gregory Ibendahl
- USDA World Agricultural Supply and Demand Estimates, July 2024
- USDA Commodity Costs and Returns Webpage

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