News Release

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LESS UNCERTAINTY ABOUT FUTURE CORN PRICES HIGHLIGHTS IMPORTANCE OF LIQUIDITY

A high probability of lower corn prices in 2014 is leading to prospects of lower incomes for U.S. corn producers. The latest issue of the *Main Street Economist* from the Kansas City Fed explains that markets appear more convinced that corn prices are unlikely to match the levels of the past few years. Expectations of lower corn prices and reduced profitability for 2014 corn production underscore the importance of liquidity for agricultural producers.

Though crop producers often characterize price uncertainty as a nuisance to be managed through various risk management strategies, less uncertainty is not automatically better for producers. Expected future corn prices are significantly less volatile now than in recent years, but the decreased uncertainty is accompanied by prospects of considerably lower prices. The variability of expected harvest prices mirrors that of a decade ago as diminishing ethanol growth has curbed demand potential.

Liquidity allows producers to combat potential short-term risks of significantly weaker, or even negative, profit margins. Overall, farmers have greatly improved their cash position in the last several years, suggesting that a crisis in 2014 is unlikely. However, some less-liquid operations may be more exposed to short-term risk than others and weaker profitability could intensify challenges beyond 2014.

The article is available at www.kansascityfed.org/publications/research/mse.

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