



NEWS RELEASE

U.S. Grain Elevators Facing A Host Of Challenges In New Crop Year

Low volatility, ample inventories and other factors combining to pressure profit margins for grain merchandisers

DENVER, Colo. (May 10, 2016) — U.S. grain merchandisers are beginning the new-crop growing season facing significant challenges, according to a new research report by CoBank. Low price volatility, ample grain and oilseed inventories, slow farmer selling and an anemic export program suggest elevators are in for a difficult 2016-2017 season.

“With no relief immediately in sight, grain merchandisers will undergo further belt-tightening in the year ahead,” said Tanner Ehmke, senior economist with CoBank’s Knowledge Exchange Division. “Most grain elevators have solid balance sheets thanks to multiple years of strong revenues. Nonetheless, pressure for consolidation will likely intensify in an environment of slimmer profit margins.”

Amid ample inventories in the U.S. and a lackluster export market, the grain and oilseed basis markets continue to remain stagnant, offering limited opportunities for elevators to profit on old-crop basis appreciation. However, grain elevators could still stand to profit by year’s end off the opportunity to buy wider new-crop basis post-harvest, says Ehmke.

A growing concern among co-op managers is the availability of storage space this fall. High carryover stocks mean inventories will continue to build. Elevators are already holding a significant amount of farmer-owned old-crop in their facilities. Most years, inventories are about 10 percent farmer-owned, but many co-ops report that level at around 30 percent this year. Experts predict that only a major weather-induced crop failure could reverse this trend, and even then supplies are expected to remain sufficient to meet demand.

“Barring any significant weather-related crop losses this year, grain handlers could be tasked with managing huge farmer-owned inventories into the new-crop year and creating, at least temporarily, additional storage,” notes Ehmke. “Whether or not farmers will be willing to sell grain, remains the coops’ wildcard.”

The risk of a repeat La Niña event, which is normally associated with dryness in the Midwest, is another area of concern. The National Weather Service forecasts a 50 percent chance of another La Niña this fall. If that happens, grain companies will likely experience another season of low grain drying revenue which can account for as much as 10 percent of a typical co-op’s profits.

With a stagnant basis market, and storage and weather concerns looming, co-op managers anticipate consolidation in the industry to continue. “Mergers, acquisitions or joint ventures could become more likely,” says Ehmke. “Efforts to reduce price risk exposure based on these headwinds will be critical for co-ops looking ahead to the end of 2016.”

A brief video overview of the report, "Grain Elevators Braced for a Challenging 2016" is available on [CoBank's YouTube Channel](#). A summary of the report can be found on CoBank.com with the full report available to media upon request.

About CoBank

CoBank is a \$118 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 75,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at www.cobank.com.

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