

Ag Outlook: Prices, Inputs, Land, and Policy

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2011 Top Producer Seminar
Bettendorf, IA



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Outline

1. Income and Returns
2. Commodities
3. Inputs and Land
4. Policy



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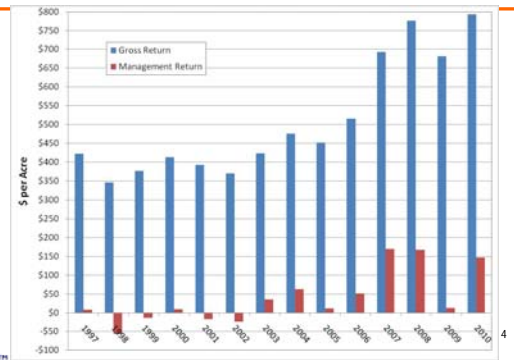
Cautious Optimism (not Irrational Exuberance)

- We have fallen on very good times in agriculture
 - Implications for land markets and federal support
 - And, not all would agree:
 - Dairy and hog producers
 - Operators competing to expand
- We are also now managing significantly more dollars and exposed to more and greater risks
 - Commodity prices, inputs, weather; low stocks, high demand; interest rates and land market; multiple policy risks; global market forces



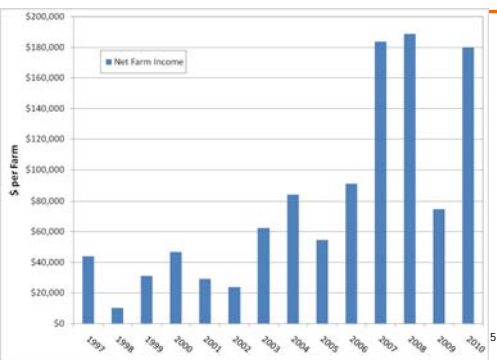
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Gross and Management Returns



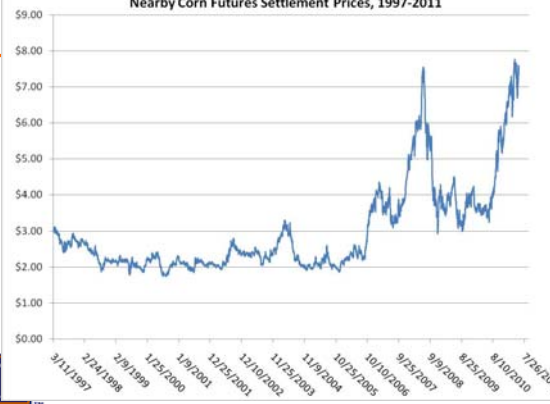
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Net Farm Income

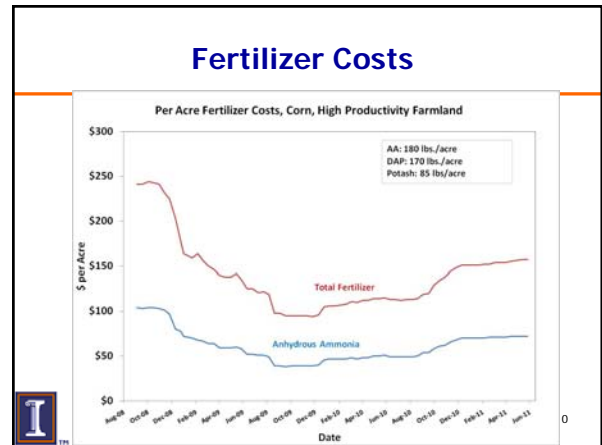
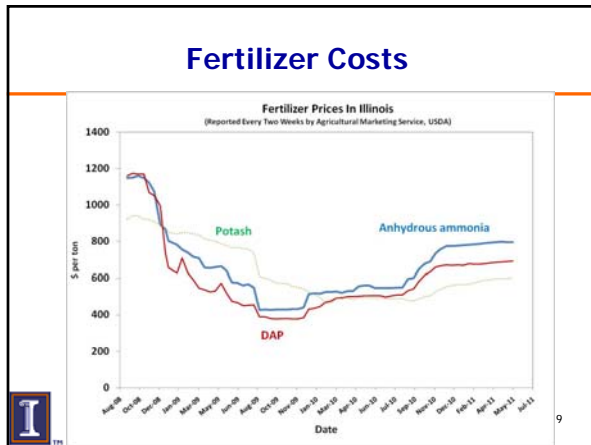
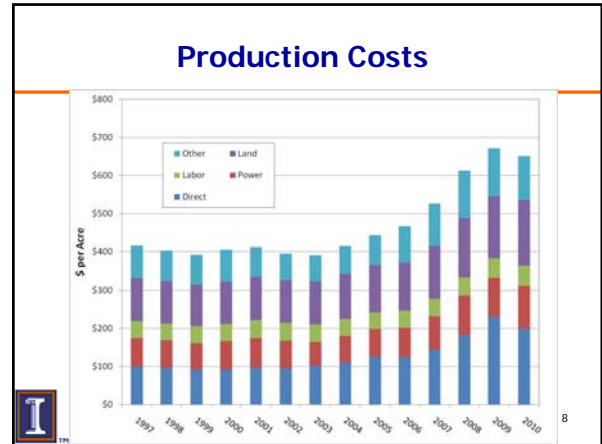
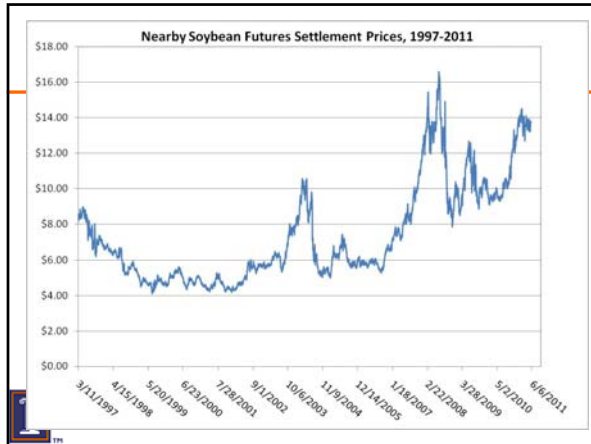


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Nearby Corn Futures Settlement Prices, 1997-2011



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- ## 2011 Crop Year
- Spring
 - Wet, delayed planting
 - Weather for remainder of growing season becomes more critical
 - Have experienced generally increasing commodity prices
 - Major bright side:
 - “Look, It’s All Green.”

- ## In the News: Cash Rents and Land Values
- Des Moines Register: “Why Farmland is Skyrocketing”(Dec. 2010)
 - “Farms are throwing off a lot of cash now, and farmers have it to spend....Everybody’s bullish on farmland.”
 - “Corporate buyers are going to Illinois, which isn’t as restrictive.”
 - “I’m looking around the Midwest for land for some stockbrokers...Stockbrokers are bullish on farmland. The stock market is largely hype. Farmland is real.”

In the News: Cash Rents and Land Values

- New York Times: "The Farm Belt Boom" (Dec 2010)
 - "A boom is under way across much of the rural Midwest, with agricultural land prices growing at a double-digit clip and farm auctions in certain counties fetching record sales."
 - "Is this boom rooted in genuine economic gains, or is it another Federal Reserve-induced asset bubble? We lean toward the bubble view."



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In the News: Cash Rents and Land Values

- New York Times: "In Price of Farmland, Echoes of Another Boom" (Mar. 2011)
 - "The rapid rise in agricultural prices has raised alarms at the FDIC...The agency sent a letter to lenders in December, warning them to not let high farm land values lull them into lax lending practices."
 - "Today's farmland market has some crucial differences from the 1970s bubble and the housing boom of the last decade."
 - "Today, farmers have about one-third less debt over all than they did at the peak of the last boom..."



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In the News: Cash Rents and Land Values

- New York Observer: "Hedge Farm! The Doomsday Food Price Scenario Turning Hedgies into Survivalists" (May 2011)
 - "The hedge fund manager and others like him envision a doomsday scenario catalyzed by a weak dollar, higher-than-you-think inflation and an uncertain political climate here and abroad."
 - "...investors see their play as a hedge against hyperinflation."



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In the News: Cash Rents and Land Values

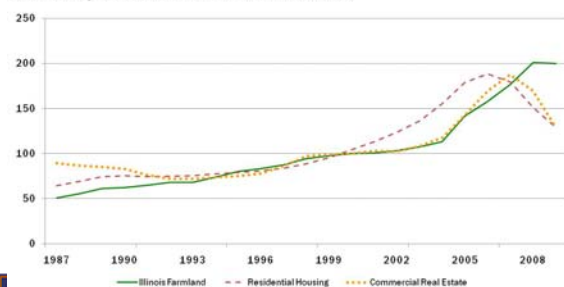
- Time: "America's Hottest Investment" (June 2011)
 - "...an increasing number of people buying land these days have no intention of planting seeds, at least not themselves. They are investors and a growing number of them are getting interested in farmland."
 - "...the hedge funds getting in, the 20-year track record of positive returns, emerging market riches – smells a little bubbly."



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Real Estate Indexes

Commercial, Residential and Farm Real Estate Prices



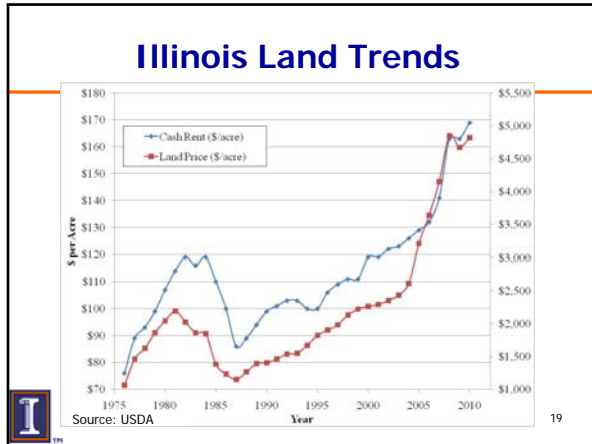
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Bubble or Not?

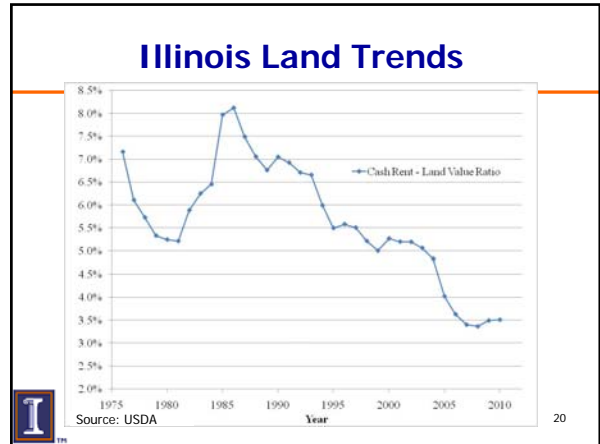
- Commodity prices
- Interest rates
- Farm Balance Sheet
 - Is farm debt really low?
 - Should we be concerned with more than ratios?
 - Denominator impact of rising land values
- A real asset



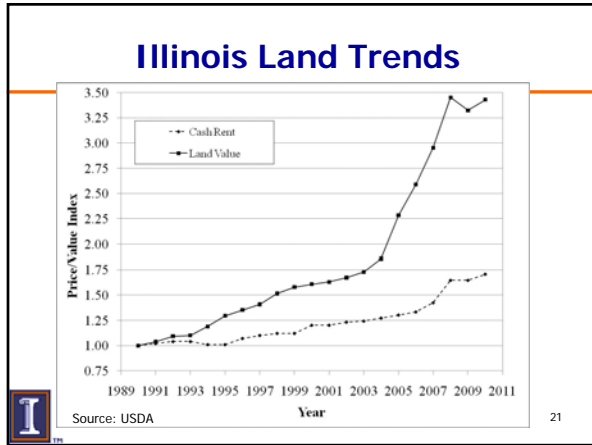
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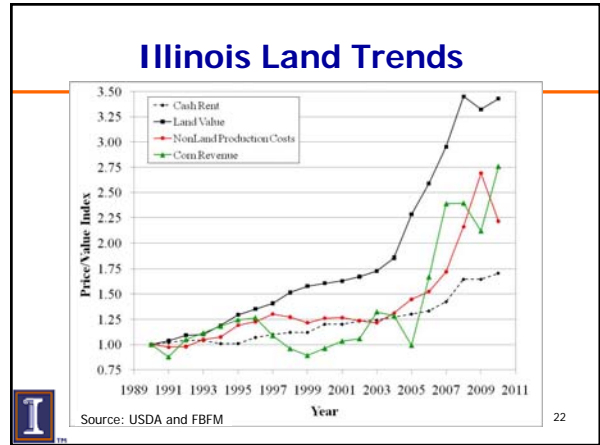
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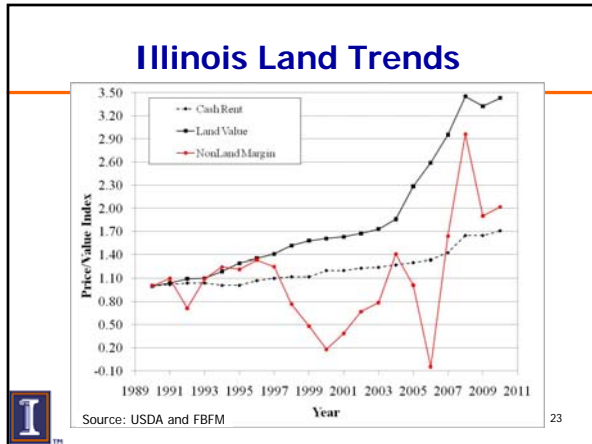
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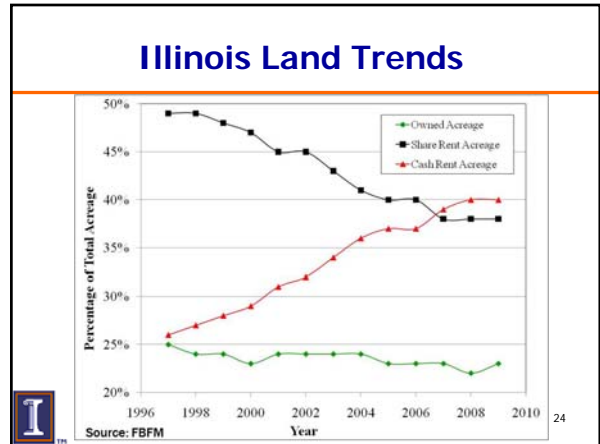
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Credit and Financing

- Need for increased working capital and/or large operating lines
- Need for long-term options for financing investment and expansion
- Ag lenders also concerned with outlook for land and commodity markets



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Policy Outlook

1. Spending
2. U.S. Aggregate Farm Income
3. Commodity Programs & Crop Insurance
4. Biofuels/Energy Policy



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2012 Farm Bill Debate

- Farm incomes are high, need to reduce budget deficit
 - Eliminate direct payments?
 - Cuts to crop insurance?
 - Eliminate overlap in programs?
 - Increase or stable funding for conservation, nutrition
 - Critical need given poor economy and environmental considerations



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2012 Farm Bill Debate

- ACRE: level of aggregation
 - County vs. State level
 - How will it be funded?
- More efficient design, reduction of overlap
- Whole farm revenue program
- Farm Bill in an election year?
- Level/magnitude of budget cuts?
- Regional battles



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Sen. Paul Ryan's Budget Proposal

"First, reduce the fixed payments that go to farmers irrespective of price levels"

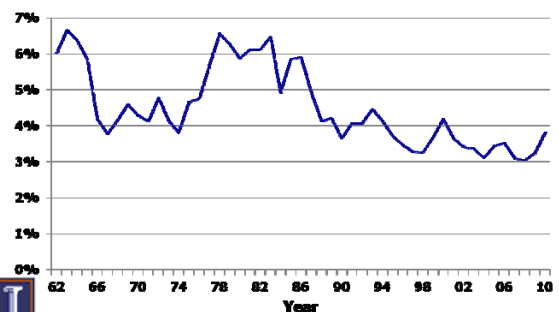
"Second, reform the open ended nature of the government's support for crop insurance, so that agricultural producers assume the same kind of responsibility for managing risk that other businesses do."

"These reforms will save taxpayers nearly \$30 billion over the next decade."



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Total USDA Spending as a % of Federal Outlays



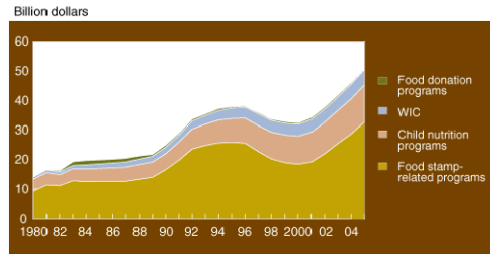
Percent of Federal Outlays, 2009

	Percent
Social Security	20.6%
Military	18.4%
Medicare	14.2%
Interest	10.9%
Medicaid	7.1%
USDA Commodity and Crop Insurance Programs	.5%



Nutrition

USDA expenditures on nutrition assistance programs, fiscal 1980-2005

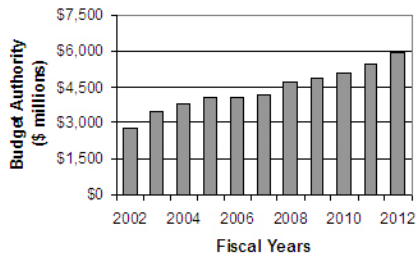


Source: USDA, Food and Nutrition Service. Data as of April 2006.

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Conservation

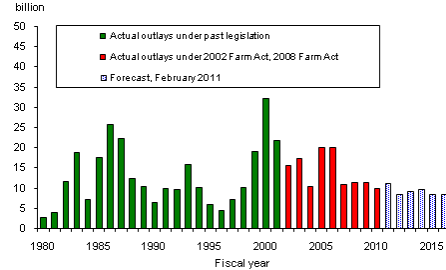
Conservation's Share in the Farm Bill is Growing
Total Farm Bill Conservation Funding



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Farm Program Expenditures

Commodity Credit Corporation (CCC) net outlays*



*The Commodity Credit Corporation (CCC) is a federally owned and operated corporation within USDA created to stabilize, support, and protect farm income and prices through loans, purchases, payments, and other operations. All money transactions for agricultural price and income support and related programs are handled through the CCC.

Sources: Compiled by USDA, Economic Research Service from USDA, CCC Budget, February 2011.

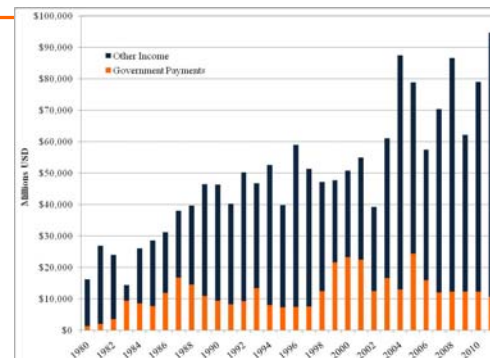
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Commodity Programs (Million Dollars per Fiscal Year)

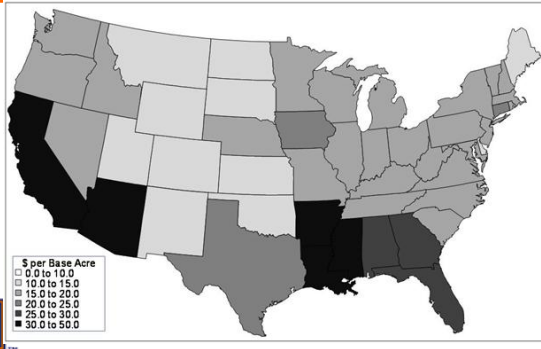
	2008	2009	2010E	2011P
Direct payments	4,832	5,222	5,144	4,963
Counter-cyclical	359	731	1,079	749
ACRE	0	0	0	734
LDP/loan programs	6	145	183	24
Commodity program *	6,713	8,936	9,378	8,990
Crop insurance	4,428	7,899	6,982	7,698
Standing disaster programs	0	3	1,745	1,421
* Commodity programs include more than direct, CC, ACRE, LDP				
Food, nutrition and consumer service	60,097	82,249	93,854	107,617



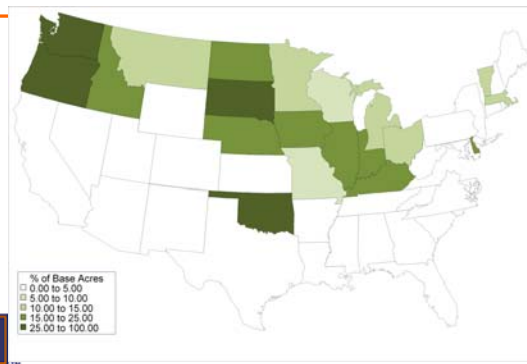
U.S. Farm Income, 1980-2011



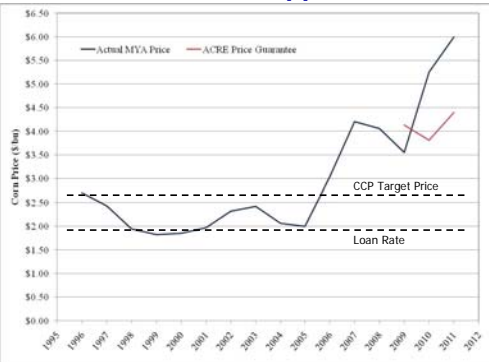
Fixed Direct Payments (\$/acre) by U.S. State



2009 ACRE Program Enrollment



Traditional Versus ACRE Program Price Level Support



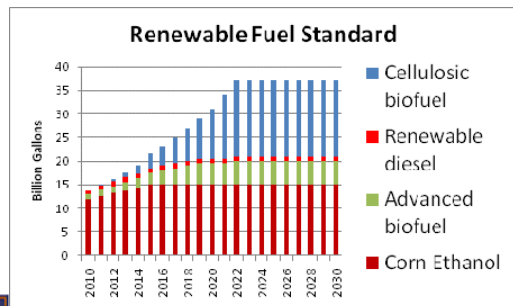
Biofuels Policy

1. RFS Mandates
2. VEETC and Tariff
3. Blend Limits
4. Impact on Crops and Prices

Biofuels

- Biofuel/Energy Policy = Ag Policy
 - Arguably more important for ag than commodity programs, especially Midwestern grain producers
- Complicated mix of policies
 - RFS
 - VEETC
 - Import Tariff
 - Farm Bill programs

Renewable Fuel Standard



VEETC and Import Tariff

- VEETC – Volumetric Ethanol Excise Tax Credit
 - May be phased out after 2011, converted to variable tax credit (Grassley plan)
 - Costs ~\$6 billion/year (lost tax revenue)
- Import Tariff
 - Was initially justified to offset tax credit, not clear if we need protection from foreign ethanol
 - Set to expire at end of 2011



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Policy Summary

- Proposals to modify everything
 - Policy analysis is often done in a vacuum
 - Economics is a system
 - How will these changes work together to impact agriculture, profitability, and risk?
- Don't underestimate political inertia



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Thank You

Questions?

Farmdoc
www.farmdoc.illinois.edu

FarmdocDaily
www.farmdocdaily.illinois.edu



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The screenshot shows the Farmdoc website interface. At the top, there is a navigation bar with links for Search, Subscribe, About, Contact Us, and Friends of Farmdoc. Below this is the Farmdoc logo and the tagline "Harnessing the Power of the Internet for Today's Farm Business". The main content area features a news article titled "Can Corn and Soybean Crops Overcome Late Planting?" dated June 6, 2011. The article text discusses the impact of late planting on crop yields and provides historical data on late planting percentages for corn and soybeans. The article mentions that for corn, the largest percentage of late planting (47 percent) occurred in 1995, and for soybeans, the largest percentage (88 percent) occurred in 1995. The article also notes that while planting date has a measurable impact on yield potential, it is not the dominant factor determining actual yield in a given year.