Your Discussants Today

Jackson Takach, Co-Author

Ryan Kuhns, Co-Author

Curt Covington, SVP, Ag Finance

Brian Brinch, VP, FP&A
Agenda

• Highlights from the analysis
• Why they are important for producers and lenders alike
• Other news since the issue’s release
• How you can access this and future editions
• Q&A
Highlight 1: Labor Costs Headed North

- Labor costs represent roughly 12% of total farm expenses
- More important in specialty crops, poultry, and in the Western states
- Very low in Midwest and Plains where mechanization has been more prevalent
- Wages for farm labor growing faster than all U.S. worker average growth
- Rising labor costs are a function of availability
- Immigration isn’t the only policy lever that can affect labor costs

<table>
<thead>
<tr>
<th>Type of Production</th>
<th>Region</th>
<th>U.S.</th>
<th>Atlantic</th>
<th>South</th>
<th>Midwest</th>
<th>Plains</th>
<th>West</th>
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<tbody>
<tr>
<td>Fruits, Vegetables, Nuts</td>
<td></td>
<td>37%</td>
<td>35%</td>
<td>40%</td>
<td>37%</td>
<td>16%</td>
<td>36%</td>
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<tr>
<td>Poultry</td>
<td></td>
<td>13%</td>
<td>18%</td>
<td>11%</td>
<td>8%</td>
<td>12%</td>
<td>12%</td>
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<tr>
<td>Tobacco, Cotton, Peanuts</td>
<td></td>
<td>12%</td>
<td></td>
<td>6%</td>
<td>12%</td>
<td>20%</td>
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<tr>
<td>Dairy</td>
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<td>12%</td>
<td>9%</td>
<td>8%</td>
<td>12%</td>
<td>12%</td>
<td>14%</td>
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<tr>
<td>Hogs</td>
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<td>9%</td>
<td>23%</td>
<td>6%</td>
<td>4%</td>
<td>16%</td>
<td></td>
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<tr>
<td>Wheat</td>
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<td></td>
<td>14%</td>
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<tr>
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<td>4%</td>
<td>9%</td>
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<tr>
<td>Soybeans</td>
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<td></td>
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<tr>
<td>Corn</td>
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<td>7%</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
<td></td>
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<tr>
<td>Overall</td>
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<td>12%</td>
<td>15%</td>
<td>17%</td>
<td>7%</td>
<td>6%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: USDA ERS 2015 ARMS Survey Data

Crop Workers: 37.8%
Animals/Products Workers: 33.6%
All U.S. Workers: 25.8%

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages
Highlight 2: Farm Bankruptcies Up Slightly

- Chapter 12 of the Bankruptcy Code created in 1986 to give U.S. farmers more options
- Large spike in utilization in 1980s, much lower in 2000s
- Utilization over last 20 years varies by state and court district
- Lagging indicator of financial stress behind loan delinquency rates
- Interest rates, unemployment rate, and land values all linked to rising bankruptcy rates

Source: Farmer Mac Internal
Highlight 3: USDA Projections

- Net farm income down again in 2017 but at a declining rate
- Net cash income forecasted to rise as producers liquidate 2016 stocks
- Lower prices continue to pressure farm income, but the lower prices have spurred higher quantities sold
- BRIGHTSPOT: FAPRI projections show above average net cash income levels through 2026

*Excludes data from 1972-1977 income boom/bust period and data from most recent boom/bust period (2010 onward).
Highlight 3: USDA Projections

- USDA releases first look at annual ag economy in February
- A lot can happen between February and December
- Looked at 16 years of February projections and compared them to the final calculated income levels
- Forecast of net cash income averages 12.6% too low
- Net farm income variance is 8.6% too low
- Indicates February outlook tends to be conservative

Source: USDA ERS Historical Publications, Farm Income and Wealth Statistics
Highlight 4: Weather and Water

• Minimal weather issues
• Hot and dry in the upper Midwest
• Good precipitation in Southeast
• California drought gone (for now)

Source: Drought Monitor, University of Nebraska-Lincoln; NOAA
Highlight 4: Weather and Water

- California drought gone but not forgotten
- Aging infrastructure (Lake Oroville Dam spillway failure)
- New water storage capacity stalled
- Sustain Groundwater Management Act (SGMA) signed in 2014 and has serious implications for users of well-water
- June 2017 first deadline for sustainability plans, with measurement schedule in 2020

California Water Allocations for the South Delta

Increased Reliance on Groundwater

Source: Farmer Mac Internal
Highlight 5: Cash Basis

- No secret that crop commodities fetch different prices in different places
- But most commodity forecast prices are national averages
- Using historical prices surveys from USDA, this analysis calculates 20-year average cash prices basis by state

Source: USDA National Agricultural Statistics Service State Data
Other News

- Cattle Price Rally Extends
- Dairy Holding Up
- Demand Strong at Home and Abroad
- NAFTA Shakeup?
- Fed Raises Rates (Again)
Details on The Feed

• Quarterly publication

• Focus on sectors and stories relevant to the season

• Available on the Farmer Mac website to download or subscribe (https://www.farmermac.com/news-events/the-feed/)

• Subscribers automatically receive it via email

• Send comments and requests to thefeed@farmermac.com
Questions?
Thank You!