

# *The Feed – Spring 2017*



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*June 21, 2017*

## *Your Discussants Today*



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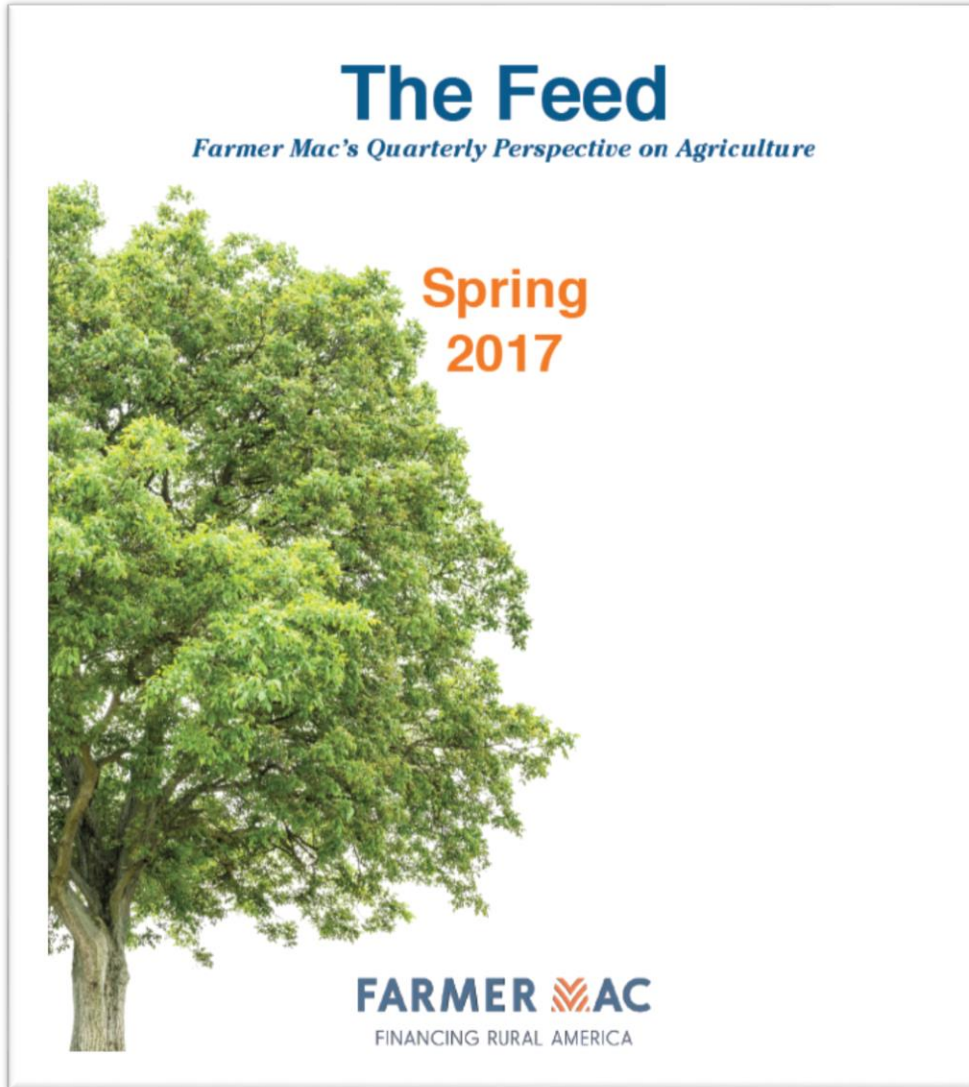
Curt Covington,  
SVP, Ag Finance



Brian Brinch,  
VP, FP&A



# *Agenda*



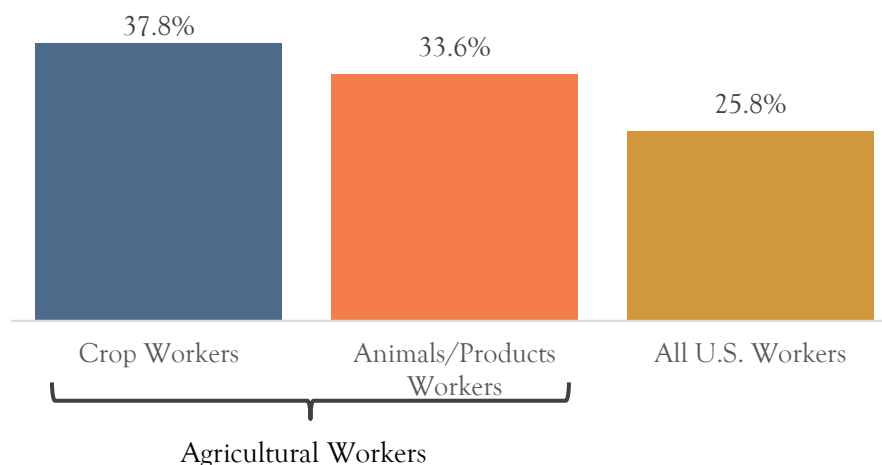
- *Highlights from the analysis*
- *Why they are important for producers and lenders alike*
- *Other news since the issue's release*
- *How you can access this and future editions*
- **Q&A**

## 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*

Labor Costs as % of Exp.	Region					
Type of Production	U.S.	Atlantic	South	Midwest	Plains	West
Fruits, Vegetables, Nuts	37%	35%	40%	37%		36%
Poultry	13%	18%	11%	8%	16%	12%
Tobacco, Cotton, Peanuts	12%		6%		12%	20%
Dairy	12%	9%	8%	12%	12%	14%
Hogs	9%	23%		6%		16%
Wheat	6%		14%	1%	4%	9%
Cattle	5%	4%		2%	4%	9%
Soybeans	4%	6%	7%	2%		
Corn	4%	7%		3%	4%	4%
Overall	12%	15%	17%	7%	6%	24%

Source: USDA ERS 2015 ARMS Survey Data



Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

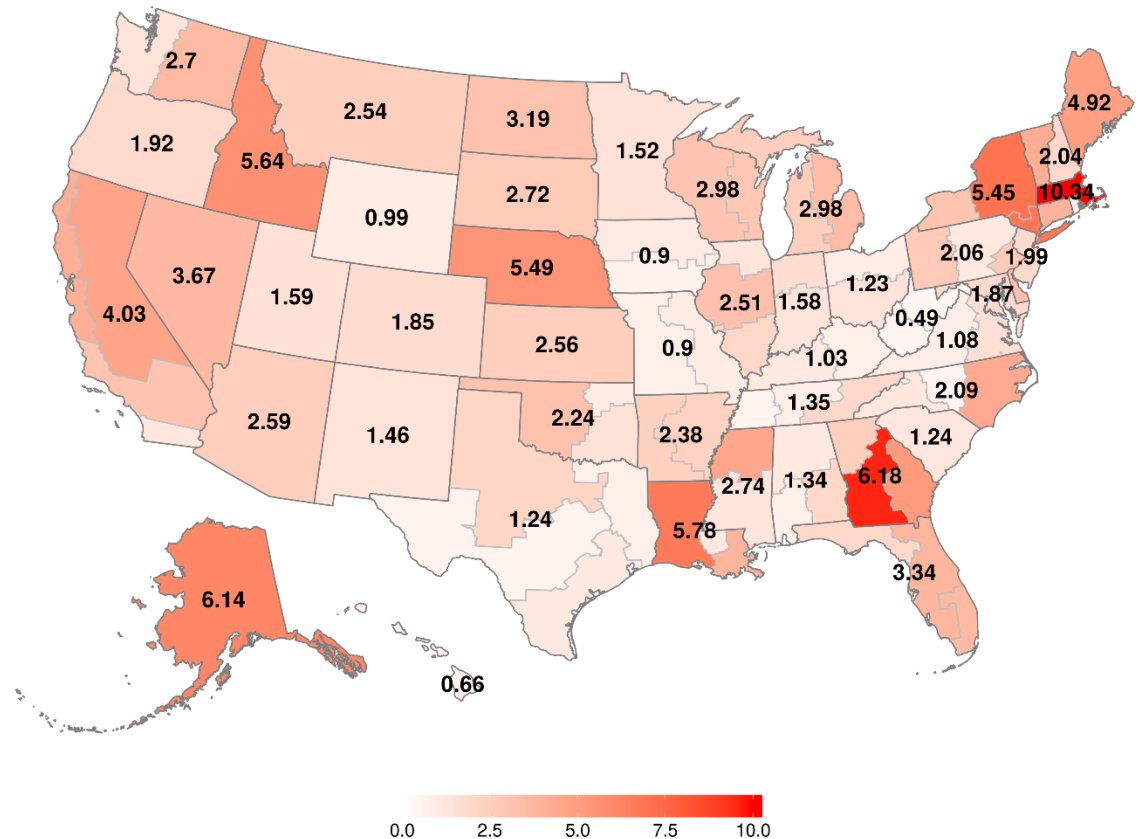
FARMER MAC REFRESH JUNE2017



## Highlight 2: Farm Bankruptcies Up Slightly

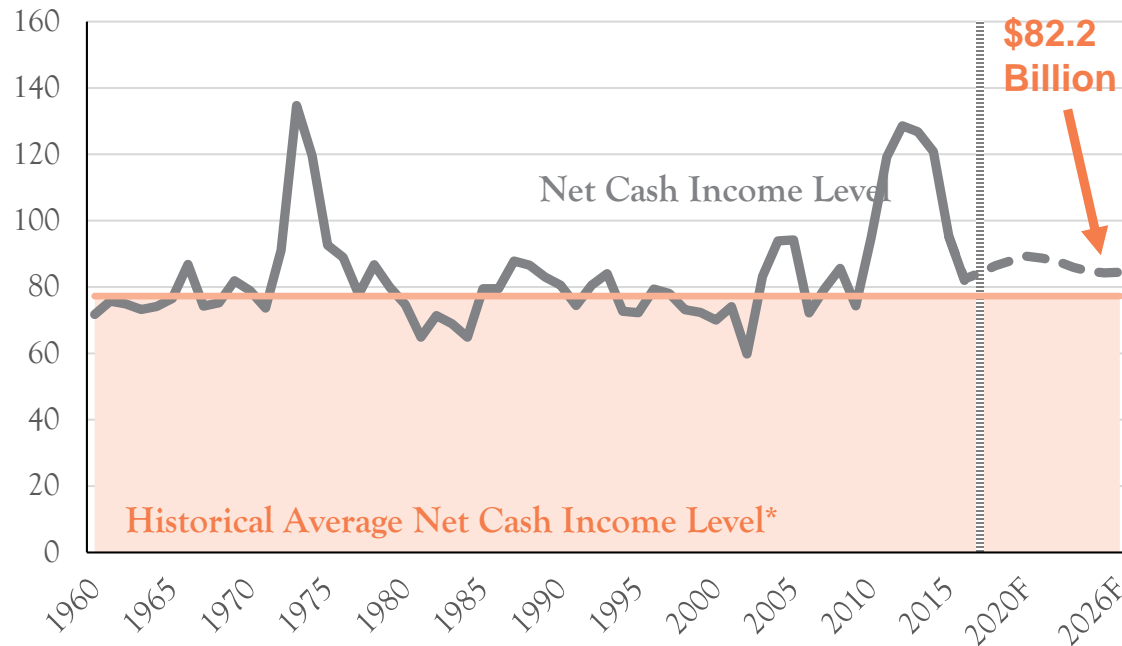
- **Chapter 12 of the Bankruptcy Code created in 1986 to give U.S. farmers more options**
- **Large spike in utilization in 1980s, much lower in 2000s**
- **Utilization over last 20 years varies by state and court district**
- **Lagging indicator of financial stress behind loan delinquency rates**
-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

Farm Bankruptcies filed per 10,000 farms  
Annualized from October 1996 to December 2016: 2.33



## Highlight 3: USDA Projections

Billion (2009 \$)

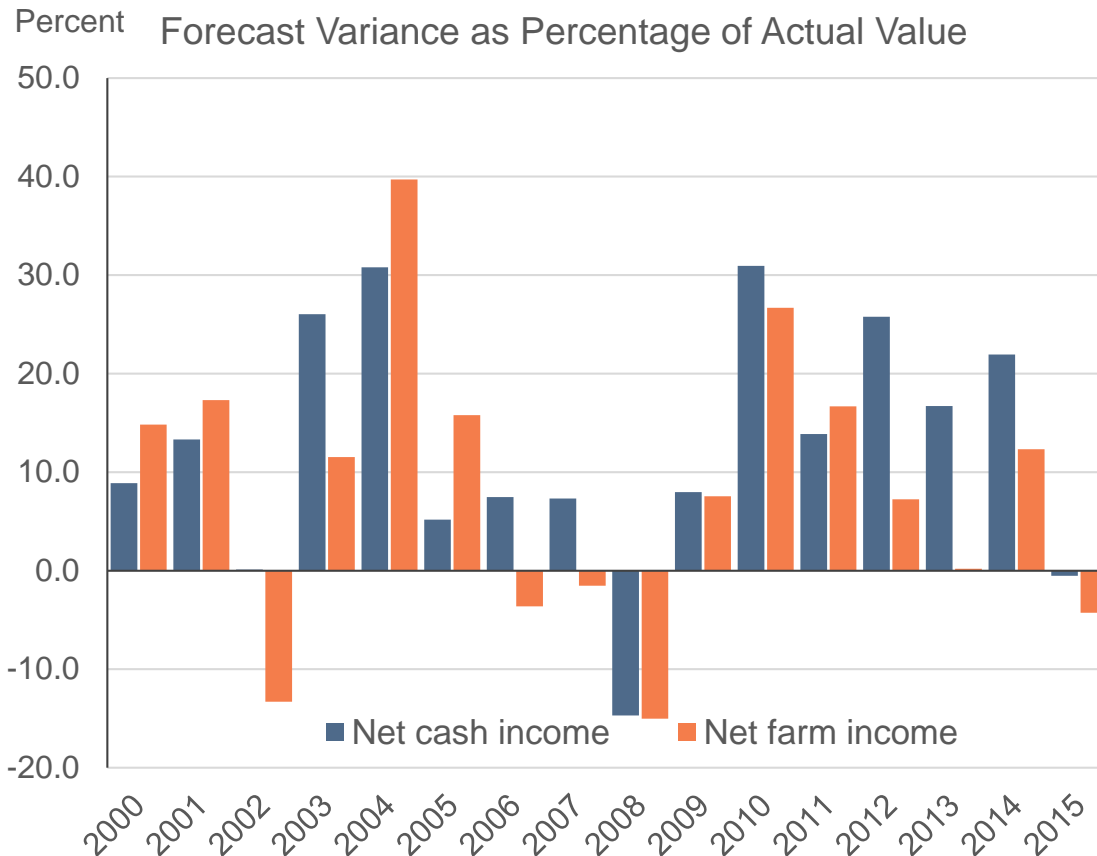


- **Net farm income down again in 2017 but at a declining rate**
- **Net cash income forecasted to rise as producers liquidate 2016 stocks**
- **Lower prices continue to pressure farm income, but the lower prices have spurred higher quantities sold**
- **BRIGHTSPOT: FAPRI projections show above average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

Source: USDA, Economic Research Service, February 2017 Farm Income and Wealth Statistics data and the University of Missouri's Food and Agricultural Policy Research Institute.

\*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**

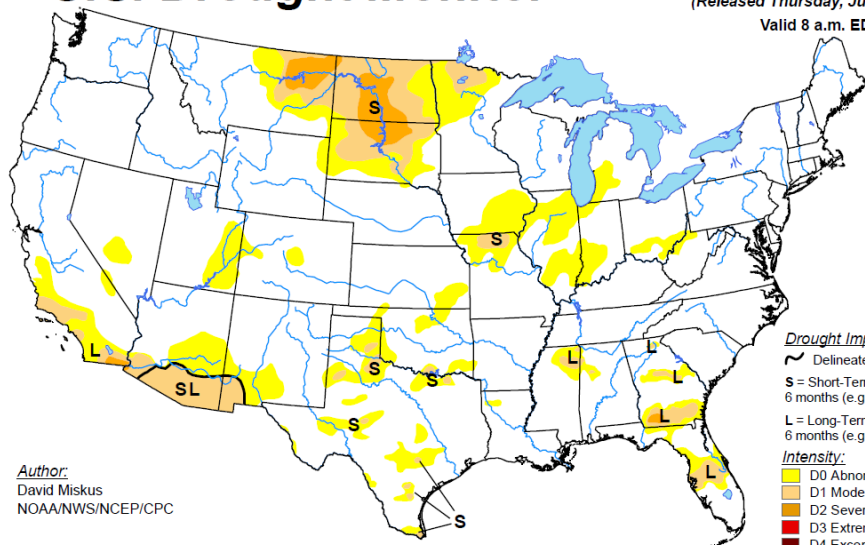
Source: USDA ERS Historical Publications, Farm Income and Wealth Statistics



# Highlight 4: Weather and Water

## U.S. Drought Monitor

June 13, 2017  
(Released Thursday, Jun. 15, 2017)  
Valid 8 a.m. EDT



Author:  
David Miskus  
NOAA/NWS/NCEP/CPC

### Drought Impact Types:

~ Delineates dominant impacts  
S = Short-Term, typically less than 6 months (e.g. agriculture, grasslands)  
L = Long-Term, typically greater than 6 months (e.g. hydrology, ecology)

### Intensity:

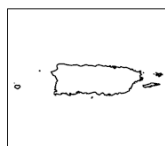
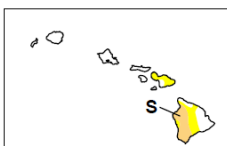
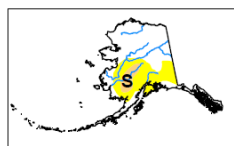
D0 Abnormally Dry  
D1 Moderate Drought  
D2 Severe Drought  
D3 Extreme Drought  
D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

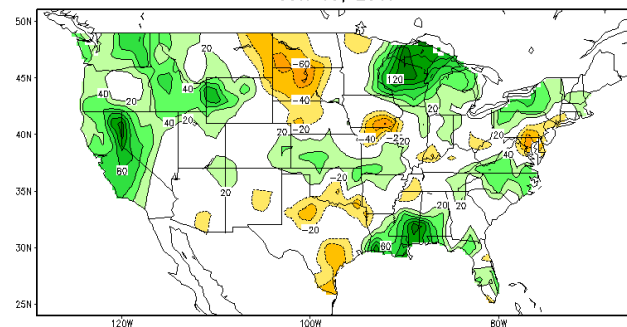


<http://droughtmonitor.unl.edu/>

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



Calculated Soil Moisture Anomaly (mm)  
JUN 19, 2017



-160 -140 -120 -100 -80 -60 -40 -20 20 40 60 80 100 120 140 160

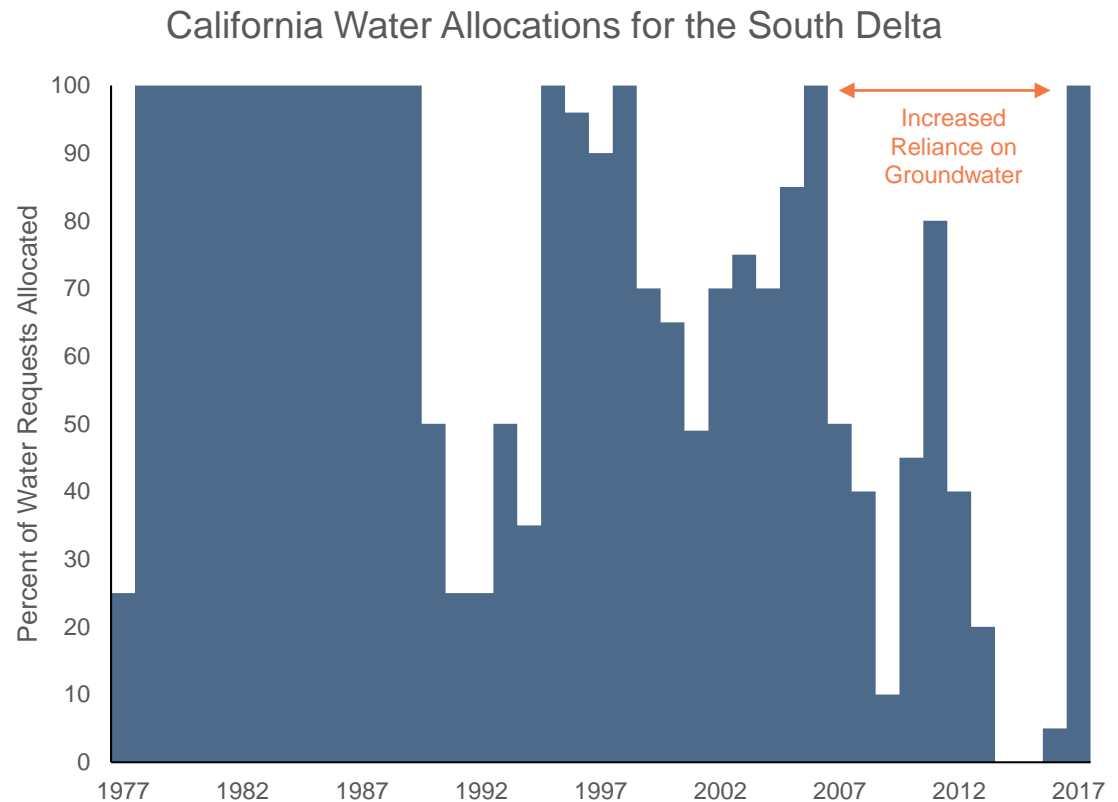
Source: Drought Monitor, University of Nebraska-Lincoln; NOAA





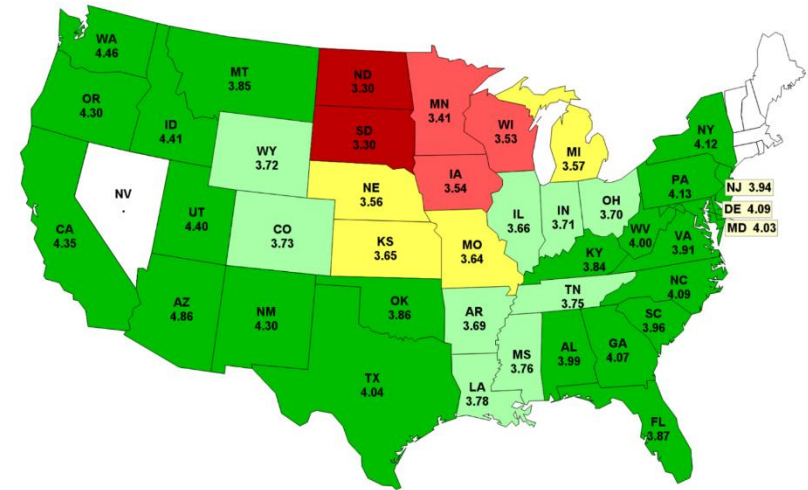
## Highlight 4: Weather and Water

- **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**



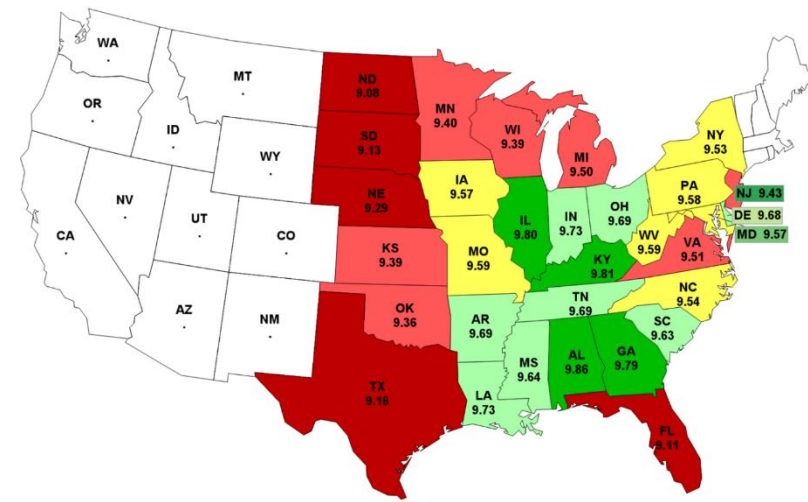
## Highlight 5: Cash Basis

- *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*



Difference from National Corn Cash Price (20-Year Avg)

More than -0.25 per bu.	-0.25 to -0.05 per bu.
-0.05 to 0.05 per bu.	0.05 to 0.20 per bu.
More than 0.20 per bu.	



Difference from National Soybean Cash Price (20-Year Avg)

More than -0.25 per bu.	-0.25 to -0.05 per bu.
-0.05 to 0.05 per bu.	0.05 to 0.20 per bu.
More than 0.20 per bu.	

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?

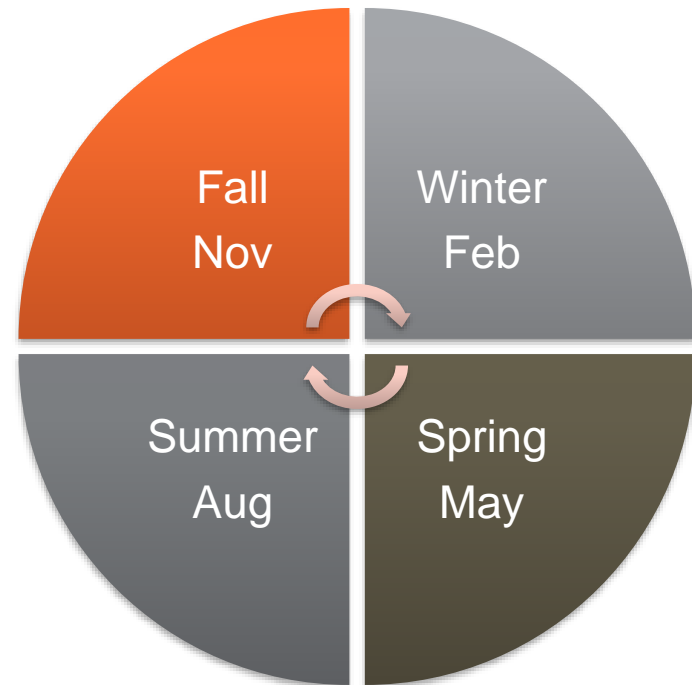
Fed Raises  
Rates (Again)



## 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](mailto:thefeed@farmermac.com)**

### Publication Schedule





# *Questions?*



**FARMER  AC**

*Thank You!*