2018 Farm Bill & Farm Financials

Presenter: Don Parrish
Timeline of the 2014 Farm Bill

May 2011
- Senate’s 1st Hearing on Farm Bill

Nov 2011
- Farm Bill discussions in Joint Select Committee for Deficit Reduction “Super Committee”

Jan 2013
- 1-year extension of most Farm Bill Programs

June 2012
- Senate Passage of 2012 Farm Bill

April 2012
- Senate Cmte Markup of 2012 Farm Bill
- House Cmte Markup of 2012 Farm Bill

May 2013
- Senate Cmte Markup of 2013 Farm Bill
- House Cmte Markup of 2013 Farm Bill

June 2013
- Senate Passage of 2013 Farm Bill

July 2013
- House Passage of 2013 Farm Bill (No nutrition title)

Sep. 2013
- House Passage of Nutrition Title

Feb 2014
- Senate Passes Farm Bill Conference Report
Population

1960 – U.S. : 180 million
2016 – U.S. : 325 million

1960 – World : 3 billion
2016 – World : Over 7.4 billion
2050 – World : 9.5 – 10 billion
Agricultural Stats/U.S.

1960 – 60 million head hogs, 6/1 feed conversion, market weight 200 lbs

Today – 70 million head hogs, 3/1 feed conversion, market weight 300 lbs
1960 – 96.2 million head beef cattle, 8/1 feed conversion, market weight 800 lbs

Today – 98.1 million head beef cattle, 4/1 feed conversion, market weight 1200-1300 lbs
1960 – 19 million head dairy cows – that produced 123 billion lbs of milk

2009 – 9.2 million head dairy cows – that produce 189 billion lbs of milk

Researchers at Cornell calculated this advance in productivity as a 70% reduction in carbon footprint.
Between 1970 and today production of poultry meat has more than quadrupled -

Between 1970 and today – birds are 6 times heavier at 6 weeks of age and contains 10% more breast meat at comparable weights ; and

Between 1970 and today - it take 1/3 the feed and 1/3 the time to reach a consumable weight.
NASS

We have doubled corn production in the US since 1980

Using 4% fewer nutrients than was used in 1980
Rice Production Practices

Land - 21% less today
Water – 33% less today
Energy – 52% less today
Soil Erosion – 43% less today
Farm and Ranch Financials
Conditions in the Farm Economy

Since 2013, Net Farm Income has declined by 52% to $64,000,000,000.

Lower Crop Prices

The decline in crop revenues and modest declines in cash expenses pressured farm income lower. Expected to stabilize at lower levels.

Source: USDA, AFBF Calculations

#NLC18
The “Golden Age” of Ag Income is Over

Cumulative Percentage Change in Price Since 2011

Consecutive Years of Prices Below Their 2011-2013 Highs

Wheat, -13%
Rice, -23%
Soybeans, -25%
Cotton, -29%
Peanuts, -31%
Corn, -47%
Why Have We Not Seen A Supply Pullback?

Positive Returns Over Variable Costs Allow Farms to Pay Down Fixed Costs
Crop and Livestock Output Expected to Increase

Increased Production Will Pressure Prices Lower As Inventories Build

Source: USDA, NASS, FAS & OCE Long-Term Projections to 2027
Farm Expenses Slow to Decline

-21% Gross Cash Income
-9% Cash Expenses
-29% Net Cash Income
U.S. Farmers Are Making Less Money

2017: $355 Billion in Farm Cash Receipts

Decline in dairy and other livestock prices since 2014 contributed to 21% Decline in Livestock Cash Receipts

Lower crop prices following 2012 drought and 4 bumper crops contributed to 19% Decline in Field Crop Cash Receipts
Challenges & Solutions in Agriculture

The Cure for High Prices....
Agriculture is cyclical. Following record high prices and income, commodity prices have fallen in the U.S. to their lowest levels in recent memory. Inflation-adjusted farm income is lower than recession.

Poor Farm Income Impacts Main Street
When farmers have less money to spend they hire fewer workers, buy less equipment, and has a ripple effect in rural America. Rural communities have higher levels of unemployment than U.S. average.

Farm Safety Nets
The last farm bill was signed at a time of high prices, and underperformed for many sectors. The time is now to design a safety net that works when prices are low. Provide additional risk management tools and reduce burdensome regulations to help the farmers’ bottom line and strengthen rural America.

Maintain and Build Foreign Market Access
After exiting the TPP agreement and beginning the NAFTA modernization, our position as a dominant agricultural exporter is threatened. The European Union is moving aggressively into our top markets to establish terms of trade and gain market share.
Acceleration in Farm Debt

Since 2006, Farm Debt has increased $179,000,000,000,000 & Net Farm Income Remains Flat

+112% Real Estate Debt
Driven By Declining Interest Rates and High Returns per Acre
Now Land Values are Less Sensitive to Farm Income

Correlation 89%

Interest Rates Remain Low

Correlation 22%
“Cheap” Land Remains Attractive Investment

Correlation -89%

“Where Else Are You Going to Park It?”

-Dr. Bob Young
American Farm Bureau Federation
Debt Ratios Not at Crisis Levels, But Climbing

Debt-to-Asset Ratio

Debt-to-Income Ratio

1980’s Interest Rate
~20%
2017 Interest Rate
<5%

Low Commodity Prices Will Test Ratio
Bankruptcy In The Farm Sector Low

Chapter 12 Bankruptcy Filings Remain Historically Low

Bankruptcy Rate per 10,000 farms

Total farms

Bankruptcy Rate / 10,000 farms
Concern: Debt Service Ratio Higher for 4th Consecutive Year

Share of Production Required to Service Farm Debt Payments

Source: USDA ERS, AFBF Calculations

“Negative commodity price shocks are associated with higher non-performing loans.”
-International Monetary Fund
Policy and Market Based Solutions

FARM RISK MANAGEMENT TOOLS

MARKET ACCESS & DEVELOPMENT
Farm Bill Projected Outlays
2017-2027
Total $878 Billion

Nutrition, $679,181

Crop Insurance, $77,419
Conservation, $59,804
Commodity Programs, $58,720

Source: Congressional Budget Office June 2017 Baseline
Importance of Nutrition Programs

SNAP Use is Much Higher in Rural America

U.S. UNEMPLOYMENT RATE, JULY 2017

June 2017 U.S. Unemployment Rate
4.4%
Higher in Rural America

13% of U.S. Population on SNAP
$71,000,000,000

In counties of rural America the percentage of individuals on SNAP is as high as 50%

Source: Bureau of Labor Statistics, U.S. Census Bureau
Farm Bill – Excluding Nutrition
2017-2027
Total $199 Billion

Crop Insurance, $77,419
Conservation, $59,804
Commodity Programs, $58,720
All Other Titles, $3,374

Source: Congressional Budget Office June 2017 Baseline
Change in Farm Bill Outlays
2018-2027 Minus 2014-2023

Nutrition and Crop Insurance Now Projected to Cost Less, While Commodity Programs Cost More Due to Lower Crop Prices

Commodity programs to cost more due to declining crop prices. Challenges in safety net revealed in recent years.

Source: Congressional Budget Office January 2014 and June 2017 Baseline
Conservation Programs

Conservation (CRP)

CRP Rental Rates Relative to NASS Cash Rents

2016 CRP Rental Rates
Greater than 90%

FY2016 Conservation Reserve Program
23.8 Million Acres
Total $1.8 billion
$73 per acre

HIGHLIGHTS
We support:
1. Working Lands Programs
2. Reassessing rental rates to ensure farmers are not competing with gov’t for access to land

We do not support:
1. Increasing the cap on the CRP above the current 24 million acre cap.
Primary Issues in Farm Bill

- CBO BASELINE
  Zero sum game, new spending requires offsets

- PROTECT CROP INSURANCE
  Potential “reforms” would hurt farmers, i.e. harvest price option

- COTTON AND DAIRY SAFETY NET
  Cotton return as covered commodity
  Dairy program enhancement

- REFRESHING COMMODITY PROGRAMS
  County yields in ARC, when does it trigger?
  Support levels for price loss coverage program

- CONSERVATION PROGRAMS
  Renewed interest in lifting CRP cap, review CRP rental rates

- SUPPLEMENTAL NUTRITION PROGRAM
  80% of farm bill spending, concerns over fraud and error rates

- LIVESTOCK
  Foot and Mouth Disease Vaccine Bank
Farm Bill Next Steps

- Work with House and Senate Ag
  Communicate AFBF positions

- Work With Industry Stakeholders
  Protect funding for farm bill programs and ensure adequate safety net

- Defend Farm Bill
  As drafting of the farm bill begins ensure Farm Bureau is active in communicating the importance to farmers and ranchers

Sep. 2018
Current Legislation Expires, Publicly Stated Goal to Pass Farm Bill in Early 2018
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Gamification Code: FARMBILL
Thank You!

Presenter: Don Parrish
American Farm Bureau Federation