

Farm Income Outlook for 2014 and Beyond

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Could the great boom be coming to an end?

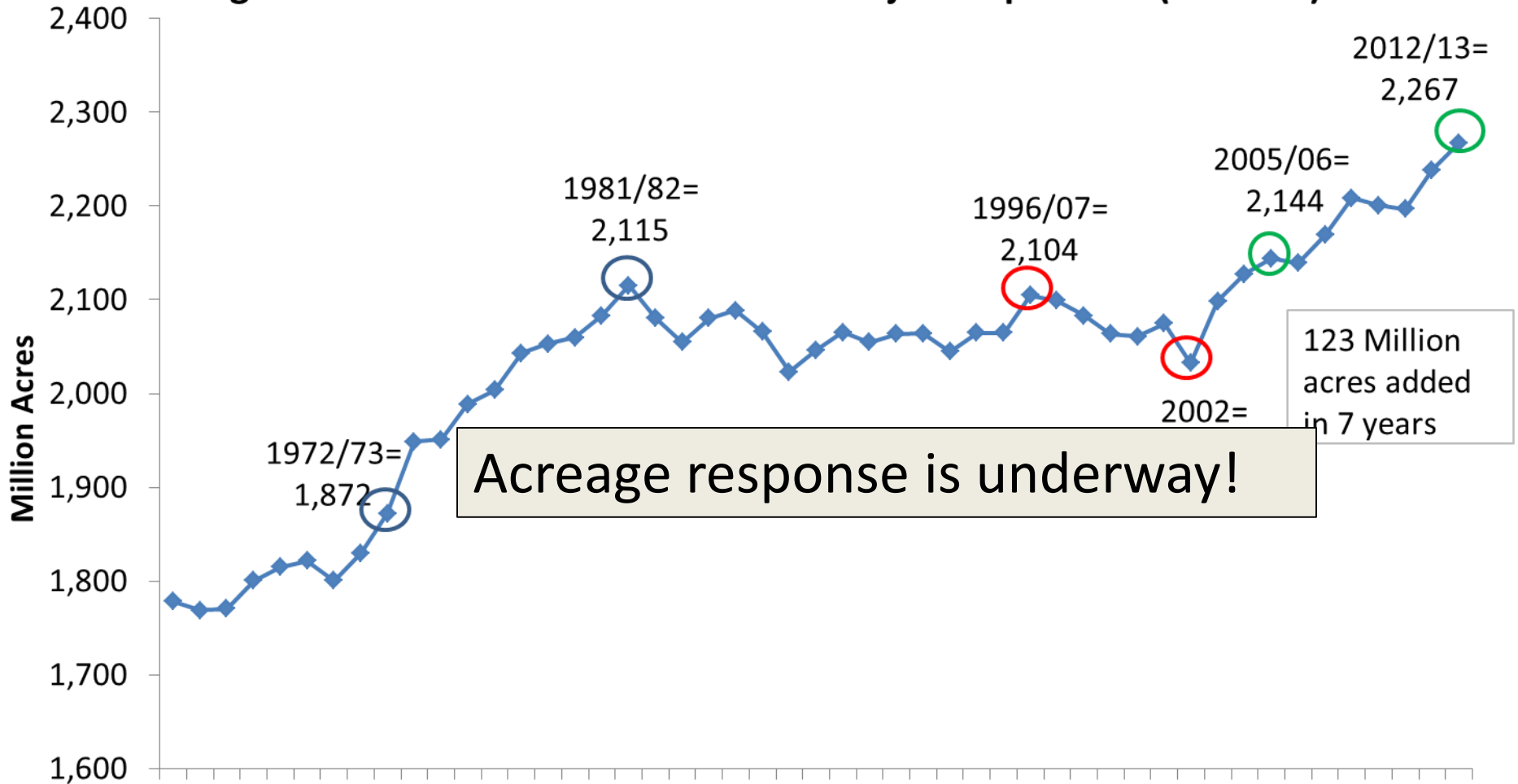
The Headwinds

- Lower commodity prices and margin compression
- Biofuel growth ends
- Sluggish global economy – watch emerging markets
- Global supply response
- Overhang of potential for increased interest rates
- Slow cash rental adjustment

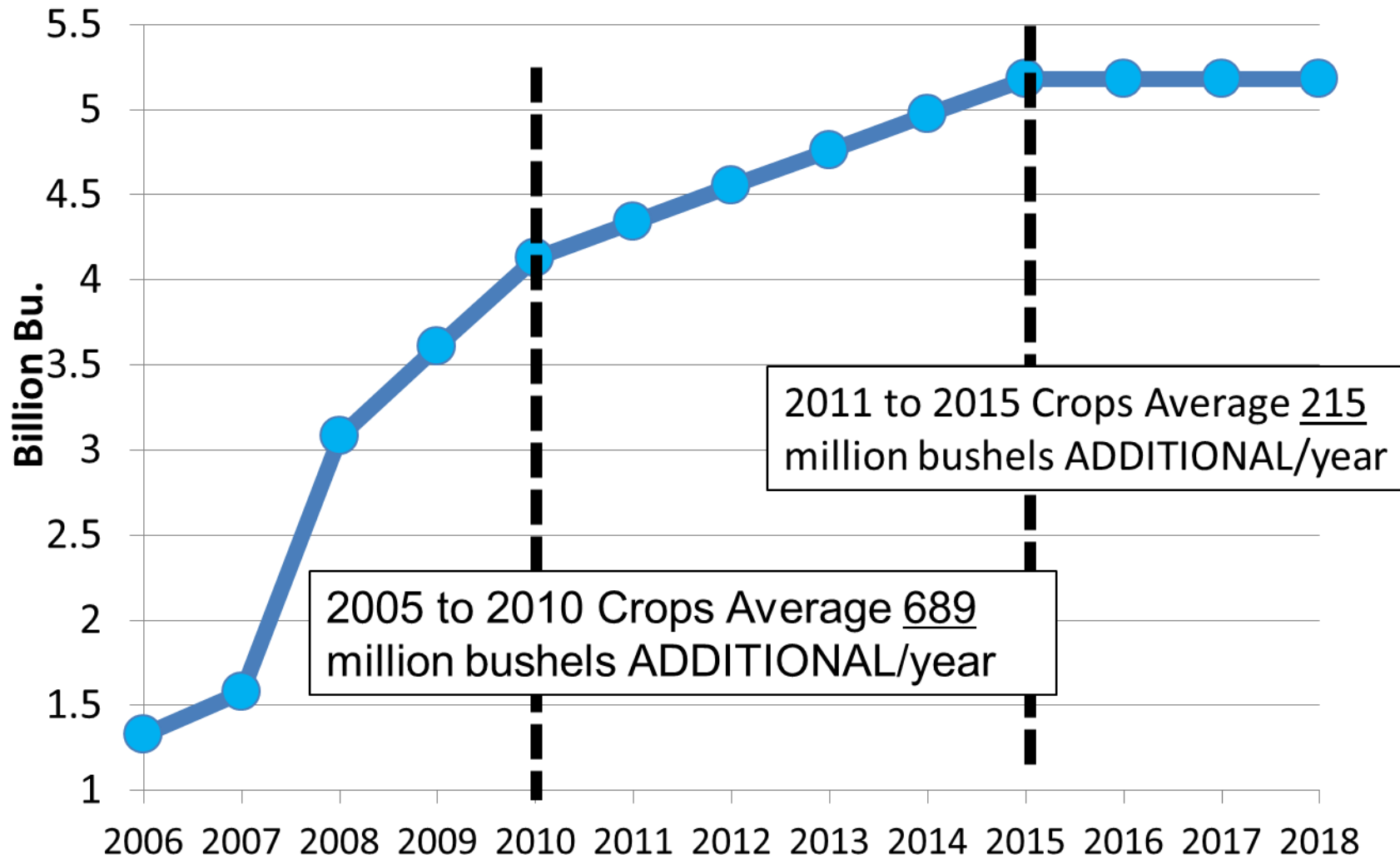


1. Global Supply Response to Weigh on Prices

Figure 6: World Harvested ACRES 13 Major Crops Total: (Millions)



2. Big Demand Increases From Ethanol are Likely Over Corn to Meet RFS2

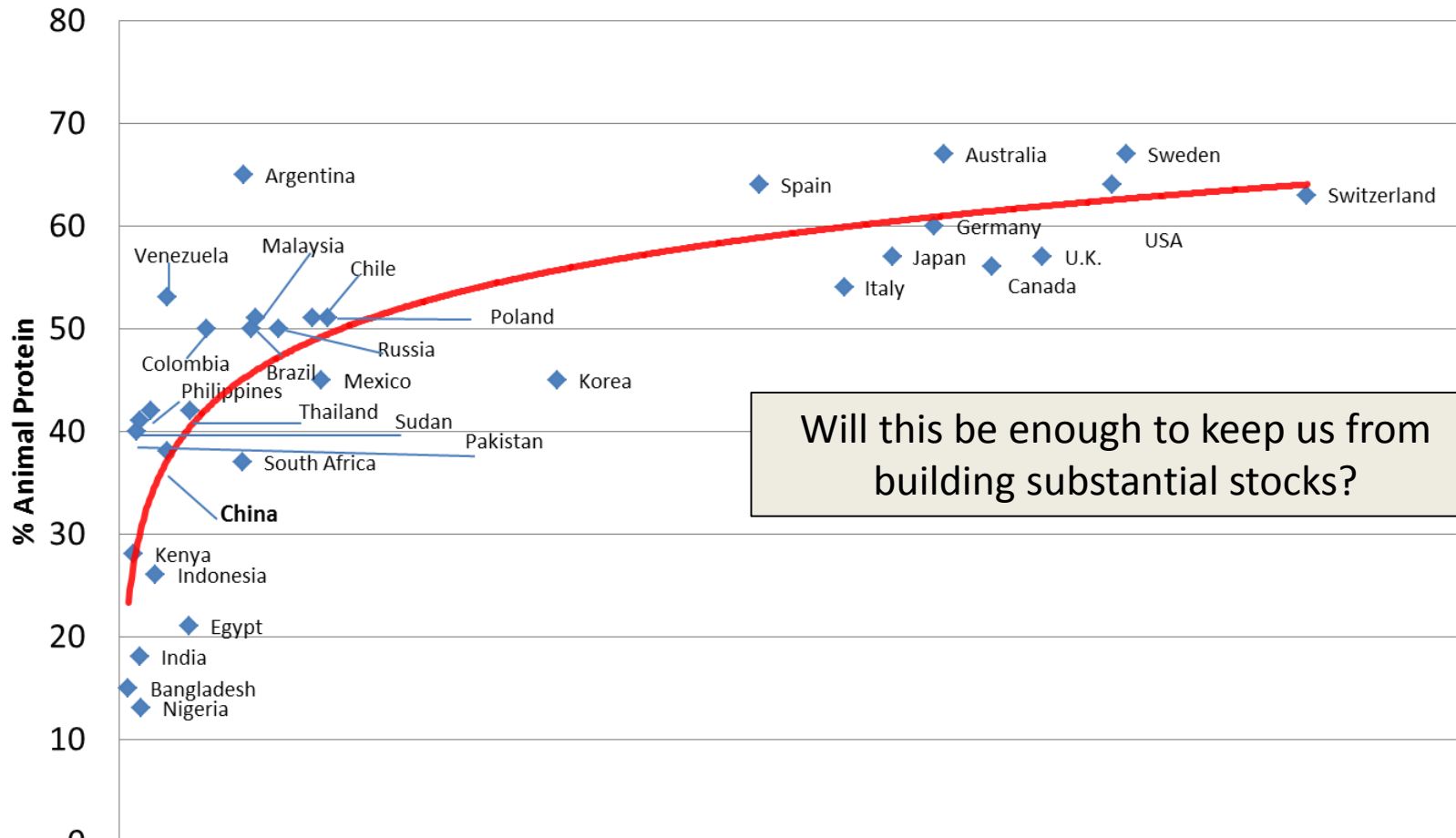


Source: Abbott, Hurt, and Tyner, "What's Driving Food Prices in 2011. Farm Foundation Report.

3. Long-Term Animal Protein Demand

Picture Favorable

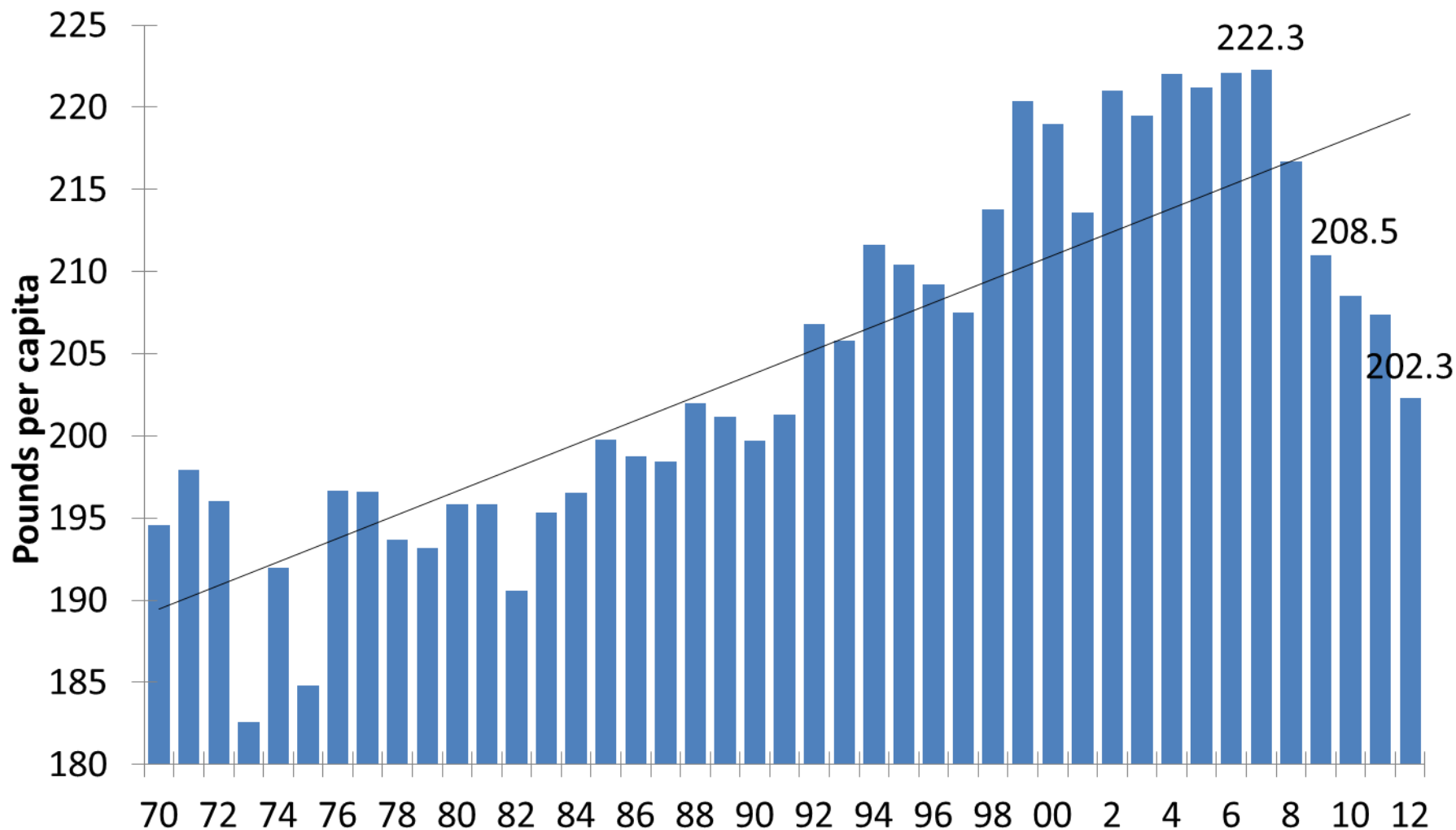
Animal Protein as a Percent of Total Protein by GDP, Selected Countries 2005-2007



Will this be enough to keep us from building substantial stocks?

4. How Much Will Domestic Meat Consumption Rebound?

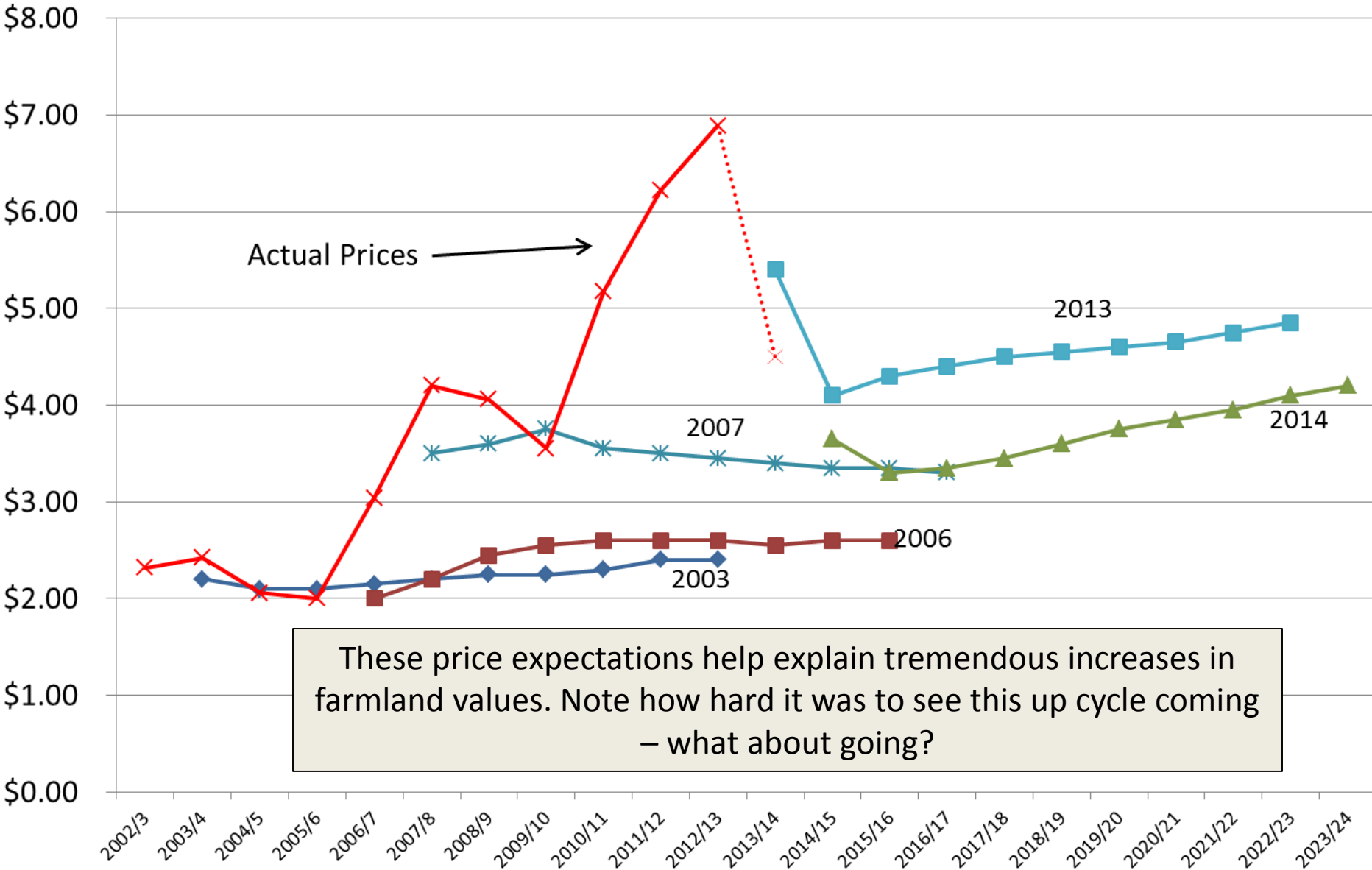
Per Capita Total Meat and Poultry Retail Weight USDA



What are the Implications of Lower Commodity Price Expectations on Profitability and Farmland?

USDA Long Range Projections Corn Select Years 2003-2013

◆ 2003
 ■ 2006
 ✱ 2007
 ■ 2013
 ▲ 2014
 ✕ Actual Price



These price expectations help explain tremendous increases in farmland values. Note how hard it was to see this up cycle coming – what about going?

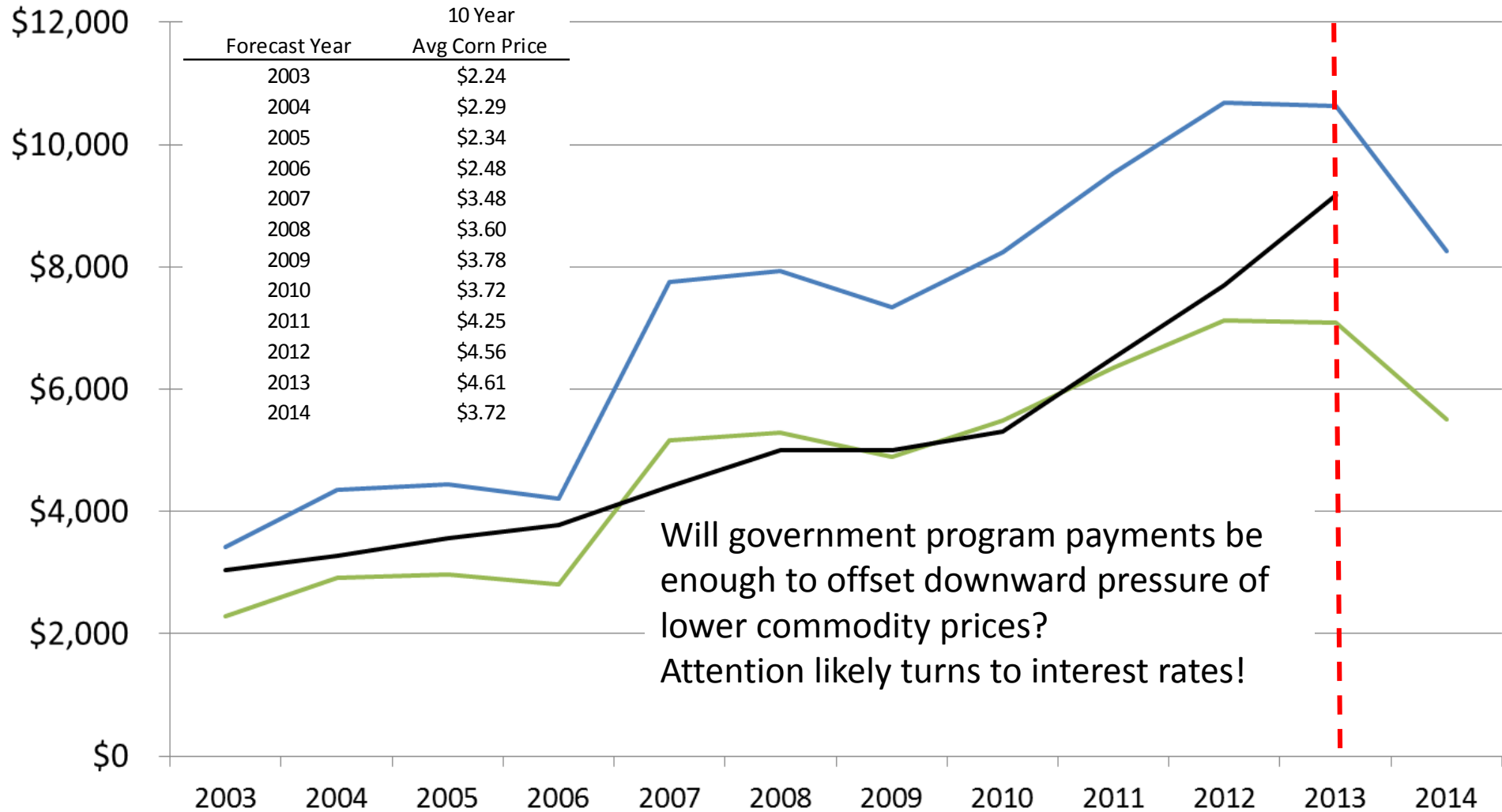
What if USDA Prices are Realized?

Hypothetical Calculations for Indiana

HQ IN Farmland Values with 60% ROVC Capture, 1.5% Yield Growth, and Average of USDA 10-Year Corn Price and Variable Cost Projections, 2003-2013

— 3% (33 Multiple) — 4.5% (22 Multiple) — Survey Values

Forecast Year	10 Year Avg Corn Price
2003	\$2.24
2004	\$2.29
2005	\$2.34
2006	\$2.48
2007	\$3.48
2008	\$3.60
2009	\$3.78
2010	\$3.72
2011	\$4.25
2012	\$4.56
2013	\$4.61
2014	\$3.72

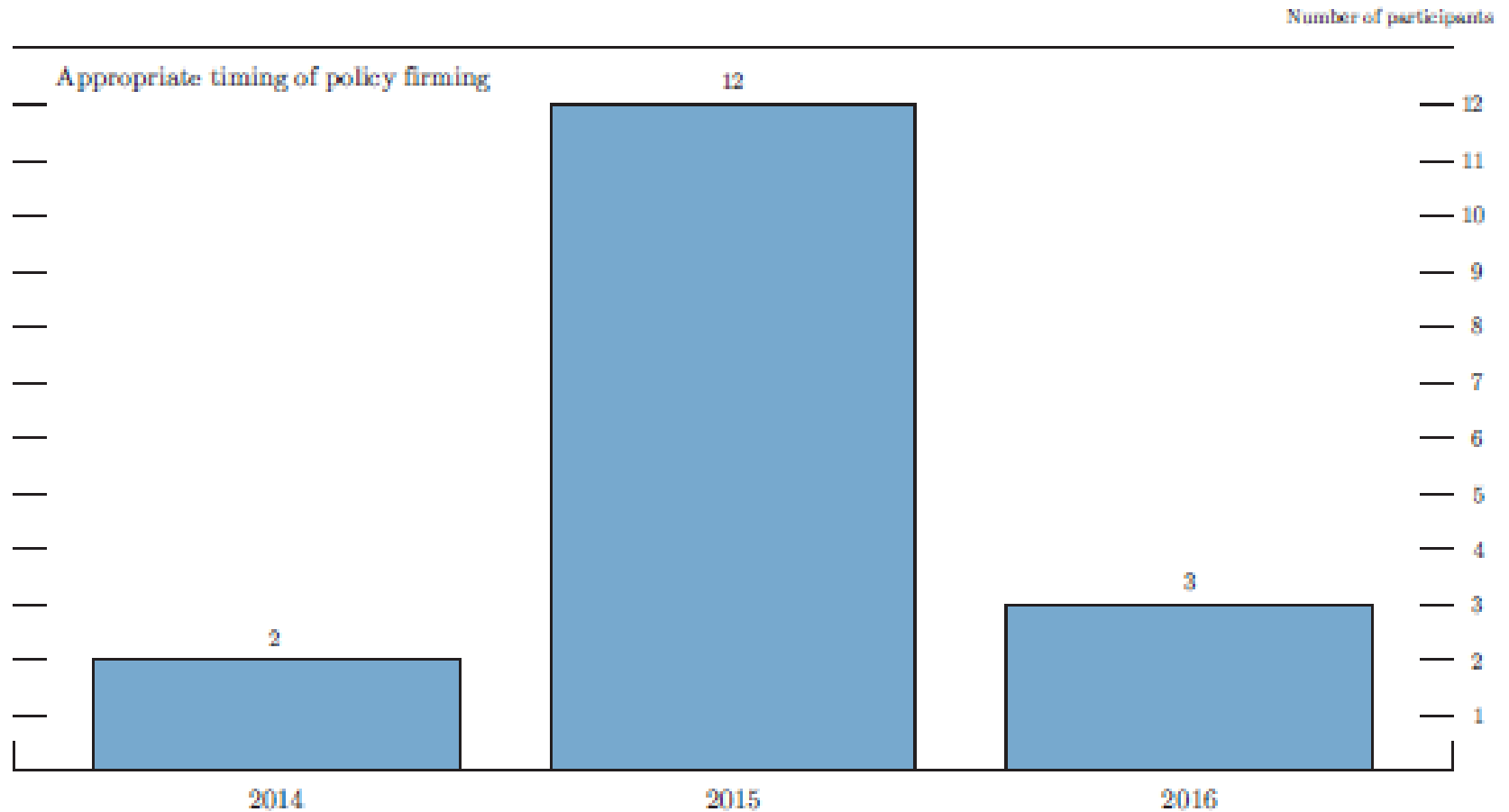


5. New Farm Program Arrives Just in Time!

- Will likely provide substantial income support if prices follow USDA forecast
- For the hypothetical farm examined here payments could provide support at rates approaching \$90/acre
- In other words, we now have a decent idea about how bad prices can/could get
- Interest rates are the big unknown

Eventually 2015 will get here! Expect lots of gyrations and angst ahead of tightening!

Figure 2. Overview of FOMC participants' assessments of appropriate monetary policy



Source: Board of Governors of the Federal Reserve System, December 18, 2013
<http://www.federalreserve.gov/monetarypolicy/files/fomcprojt20131218.pdf>

Other Things to Think About

6. Future Agriculture Value Creation/Capture

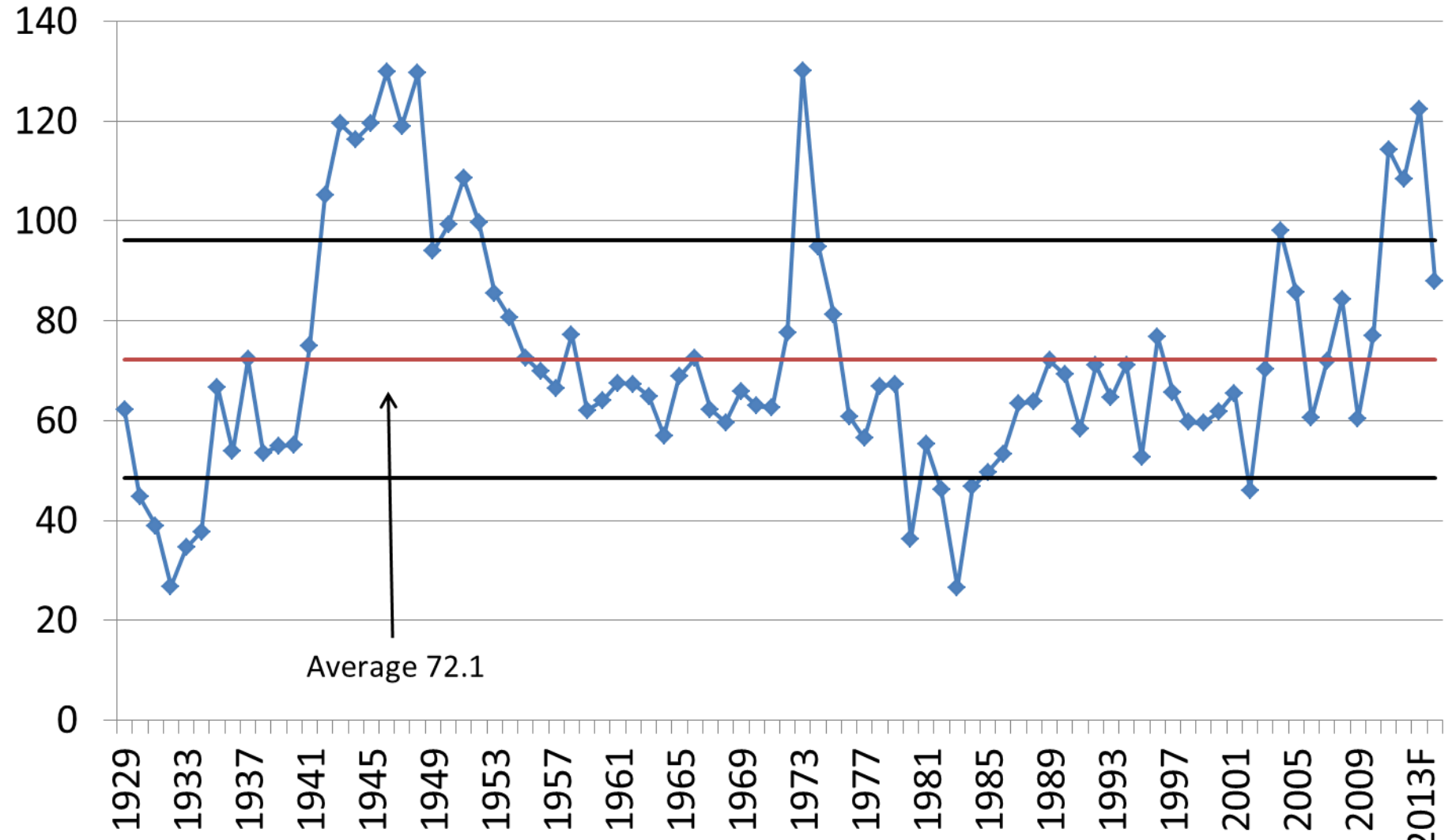
- Future of farming is rapidly changing
- Who will add value and create the largest platform for creating value?
- Seed/crop protection – agronomic supply – equipment and production technology – farmer
 - What role will they play in the future?
 - What relationships will evolve?
 - What are advantages to each?



7. When It Comes to Demand Everyone Has a Megaphone!

Farm Incomes Likely to Fall From Historic Highs but Not to Historic Lows

Real Net Farm Income (2009 USD), U.S. 1929-2014



Final Thoughts

- Times have been VERY good
 - It is conceivable they could get better
 - It is also conceivable they could be worse
- Most signs point to slowing
 - We wouldn't bank on the next 7 years being as good as the last 7, but I think they will be acceptable for good managers