

Ag Markets Update and Risk Management

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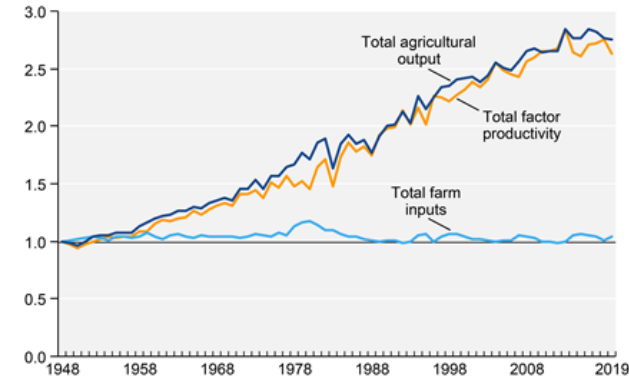
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Three Markets

Selected as those that present the impacts to the Ag Economy

1. Demographic Trends/Labor Market
2. Capital Markets
3. Commodity Markets

U.S. agricultural output, inputs, and total factor productivity
Index, 1948=1



Source: USDA, Economic Research Service, *Agricultural Productivity in the U.S.* data series. Data as of January 2022.

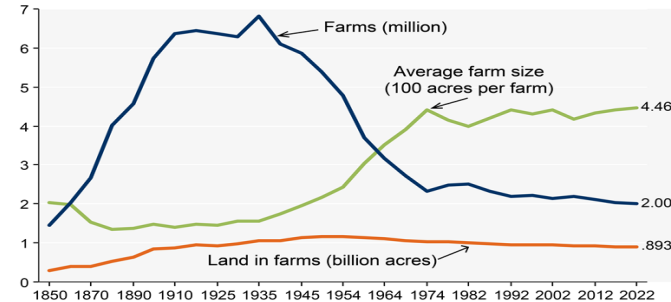
Presentation Title

Farmer Demographic Trends

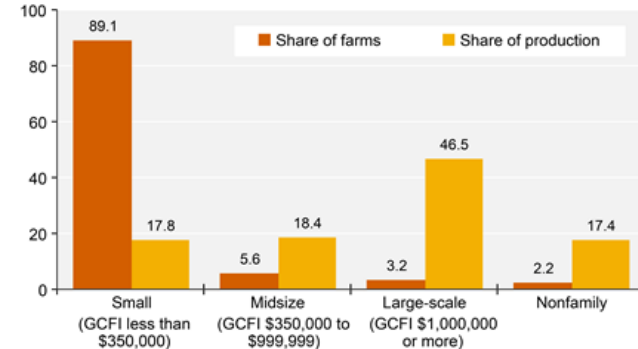
National Statistics: Farmers

- 3.4 million farmers: <2% of the American public is involved with agricultural production
- Currently 1.9 million farms, covering 880 million acres (down from 915 million in 2012, 893 in 2017)
 - 463 acre average farm size (5% increase from 2017)
 - 95% family farms, 89.1% “small” farms.
- Aging Farmer population: Average age of a farmer is 58.1 years old
 - 1/3 of the 3.4 million are above 65
 - An estimated 40% will retire by 2033
- 2022 Median Total Farm Household Income: \$95,740
 - Nominal increase 3.8% since 2021
 - 3.0% decrease adjusted for inflation during the same period

Farms, land in farms, and average acres per farm, 1850–2022
Million farms, billion acres, or 100 acres per farm



Source: USDA, Economic Research Service using data from USDA, National Agricultural Statistics Service, Census of Agriculture (through 2017) and *Farms and Land in Farms: 2022 Summary* (February 2023).



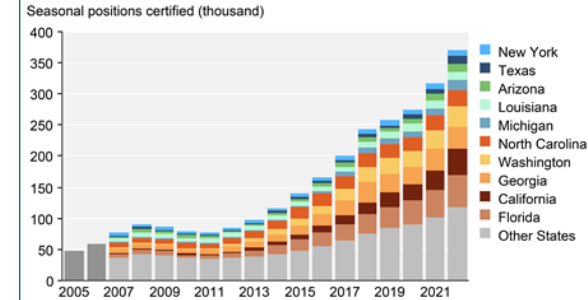
GCFI = annual gross cash farm income before expenses.
Note: Nonfamily farms are those where the majority of the operation is not owned by an operator and their relatives. Components may not sum to 100 percent because of rounding.
Source: USDA, Economic Research Service and USDA, National Agricultural Statistics Service, Agricultural Resource Management Survey. Data as of December 1, 2022.

H-2A Labor

Temporary Agricultural Employment of Foreign Workers

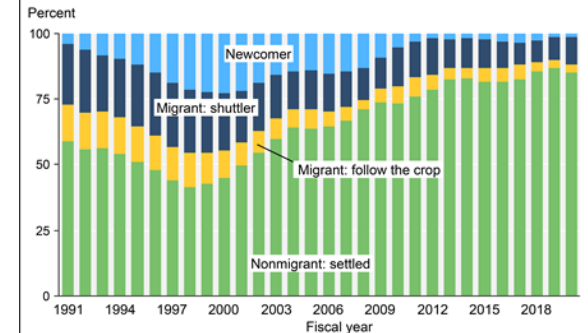
- # of H2A positions
 - 673% increase from 2005
 - 80% of all positions have visa issuance.
- Other Migrant workers
 - Roughly half lack legal immigration status.
- Settled Labor
 - 85% of hired crop farmworkers are not migrants
 - Up from 41% in 1996

U.S. H-2A (temporary agricultural employment of foreign workers) positions certified by State, fiscal years 2005–22



Note: State-level data are not available for fiscal years 2005–06. Individual States identified in the chart were the top 10 in the number of H-2A jobs certified in fiscal 2022. About 80 percent of job certifications result in visas being issued to H-2A workers—some employers do not follow through to hire H-2A workers and some workers fill two certified jobs. Source: USDA, Economic Research Service using data from U.S. Department of Labor, Office of Foreign Labor Certification.

Migration patterns of hired crop farmworkers, fiscal 1991–2020



Note: Values for each year are 3-year moving averages to smooth fluctuations due to small sample sizes; e.g. data reported for fiscal 2020 are the average over fiscal 2018–20. Source: USDA, Economic Research Service using U.S. Department of Labor, National Agricultural Workers Survey.

Risk Management Strategies

“Manage for what you want, not what you don’t”

Succession Planning

- Never too early to start
 - UME Resources (ALEI, lgoering@umd.edu)
 - Consult an Attorney

Farm Workforce

- Cultivate Skills
- Retention Strategies
 - Dividends, cost-share, sector ownership
 - Sense of fulfillment
- Labor Expense



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Human Resources

The mission of the Farm Human Resource Management program is to help participants acquire the knowledge and skills needed to recruit, motivate, and retain quality people. The objective is to provide the groundwork for agricultural producers to become better and more effective human resource managers through the application of best practices.

Extension staff provides programs, workshops, resources, and information for farms, farm managers, farm families, and consultants working on improving farm human resource management.

Are you struggling to attract and maintain talented employees? [Becoming the employer of choice](#) is a four-week course mixing self-study with instructor-led discussion groups for farm managers looking to improve their farm's employee engagement.

Articles

compensation: housing, truck, etc.



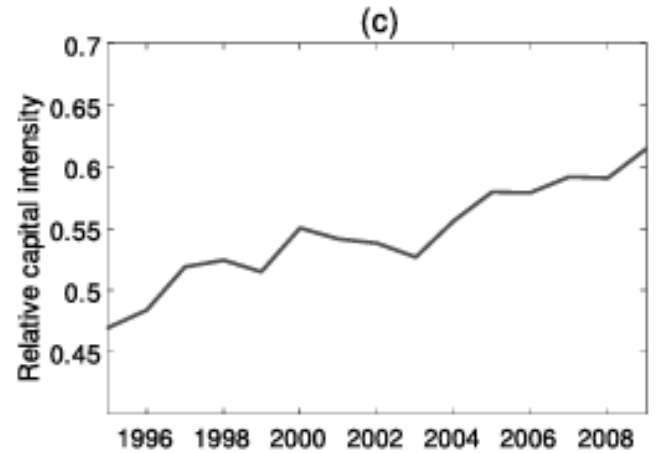
Capital Markets

Why? Agriculture is capital intensive.

- 2023 Forecast:
 - 2023 Forecast: \$50 billion capital expenditure

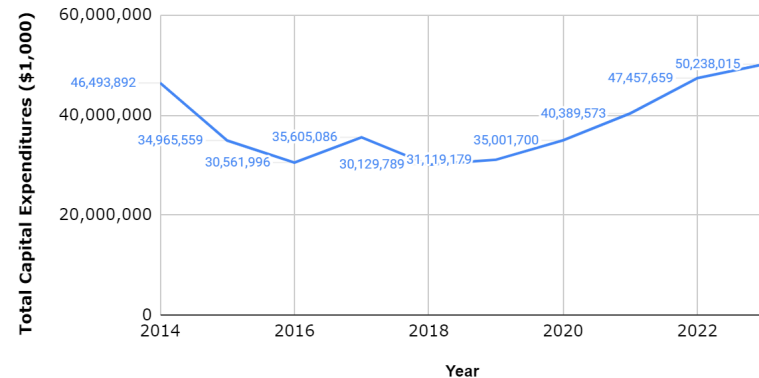
Observed changes

- Cost of capital ~ interest rates
 - Interest expense
- Debt and Equity



Capital intensity of agriculture relative to non-agriculture. (Blanco et. al, 2022).

US Farm Total Capital Expenditures (2014 - 2023F)



Risks of High Cost of Borrowing

“Farming is a highly leveraged business, so about everything is financed.”--Casey Seymour

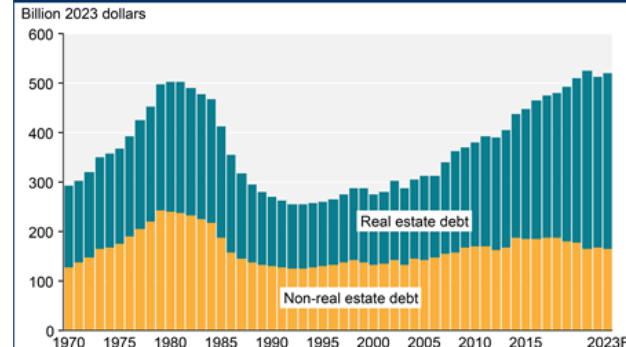
- Land
 - Mortgages
- Inputs
 - Seed, Chemical, Fertilizer → dealer financing
- Machinery
 - Dealer financed or Farm Credit
 - Pushing duration out further, lower monthly payments, same high IR.

Smell like the 1980s, anyone?

DTN Ag Interest Rate Snapshot

BENCHMARKS	TODAY	LAST YEAR
	2/8/24	2/8/23
Prime Rate	8.50%	7.75%
30-Day Libor	5.44%	4.58%
1-Year Libor	--	5.44%
10-Yr. Treasury	4.15%	3.66%
CCC Loan Rate	5.750%	5.750%

U.S. farm sector debt, inflation adjusted, 1970–2023F



Note: F = forecast. Values are adjusted for inflation using the U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product Price Index (BEA API series code: A191RG) rebased to 2023 by USDA, Economic Research Service. Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of November 30, 2023.

Risk Management Strategies

Limit Exposure → limit interest expense.

- Reduce debt

- Pay off existing high-interest debt FIRST**
 - LOC, Operating Notes, short term loans
- Consolidate/Refinance if favorable

- Manage Debt

$$(\text{Net Profit} / \text{Investment}) \times 100 = \text{ROI} (\%)$$

- Interest Expense vs. ROI
 - Take on additional debt when enterprises have a high rate of return
- Collateral vs. Cash Flow
 - Land values \$\$\$, may inflate collateral value
 - Ensure serviceability of new and existing debt.



Commodity Markets

Overview of Major Agricultural Markets:

1. Grains
2. Oilseeds
3. Livestock (Cattle)

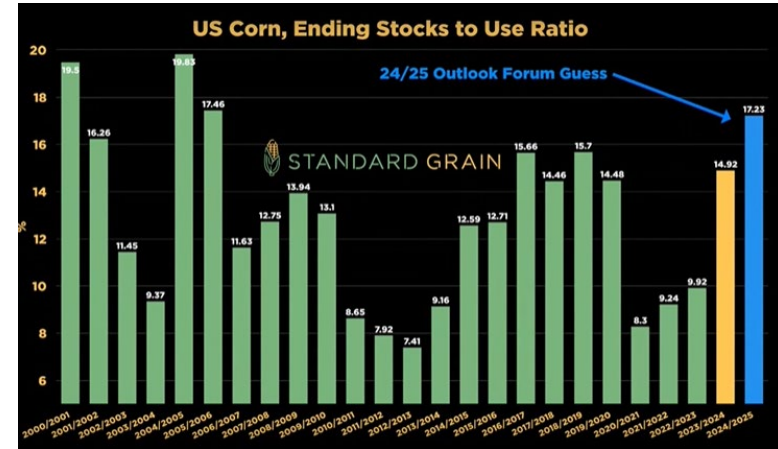
Operational Context: Post COVID/“Post” Inflation markets are wildly different in nature relative to the recent past, now marked by significant volatility and a general downward trend in most markets.



Grain Markets: Corn

Main Points:

- Lackluster Export Demand
 - Major Chinese buying in 2020-2021 dried up:
 - 67% decrease from 2021
 - Large Brazilian corn crop and favorable exchange rates
- Burdensome U.S. Supply
 - Crop scare in the summer → largest corn crop on record
 - 2.15 billion bu carryout, 14.9% S/U ratio (compared to 8.3% 2021)
 - '24/25 Projection: 17.2% S/U Ratio
- Limited Domestic Demand/Usage
 - No Significant changes in domestic demand
- Falling Price
 - Average Farm Price 2022/2023: \$6.54
 - Average (Estimated) Farm Price 2023/2024: \$4.85

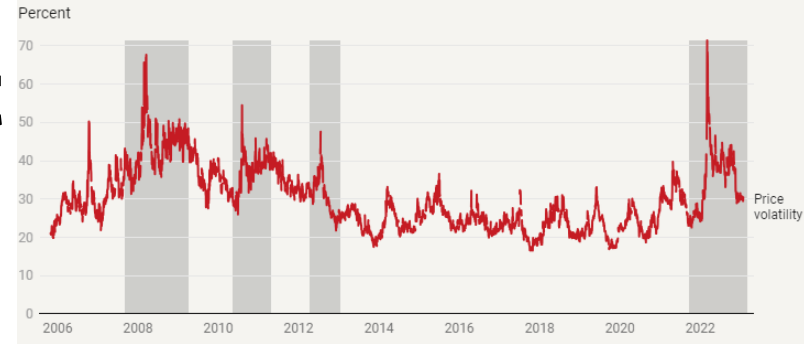


Grain Markets: Wheat

Main Points:

- **Complicated Market**
 - Limited international influence
 - US ranks 4th or 5th in global production (by a wide margin)
 - Global supplies are tight, domestic supplies are burdensome
 - 36% S/U ratio.
- **Geopolitical Tumult**
 - Russia/Ukraine War
 - Extreme volatility borne by news headlines
- **Currently Dreary Forecast**

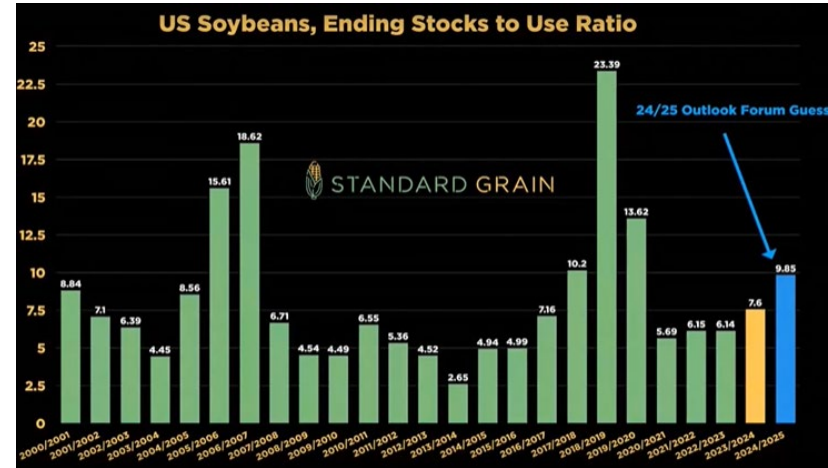
Wheat price volatility



Oilseeds: Soybeans

Main Points

- Fundamentals mixed:
 - Tighter supplies currently, 5.9% S/U Ratio.
 - Projected 9.85% S/U 24-25 MY
- South American Production
 - Brazil adjusted lower, Argentina adjusted higher
 - Still a large crop, exports \$1.50 advtg over US
- Chinese Demand
 - US exports account for 42% of total demand
 - Chinese purchases mixed. Recent cancellations.
- Domestic Use
 - Biodiesel investment
 - Domestic oil and crush market expansion → greater soybean demand.

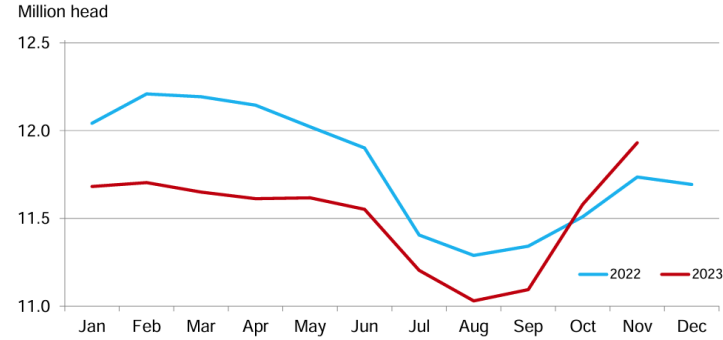


Cattle Market

Main Points

- Big Bounce
 - Live Cattle have retraced to \$170/cwt from \$191/cwt.
- Favorable Fundamentals
 - Low supply
 - US Herd # lowest since 1954, low calving 2023.
 - Heifer and cow kill
 - Steady demand
 - Beef demand relatively constant

Cattle on Feed Inventory on 1,000+ Capacity Feedlots – United States



Published on TradingView.com, Feb 19, 2024 07:33 UTC-6



TradingView

Commodity Market Summary

- Grains and Oilseeds:
 - Bearish pattern, bearish outlook
 - Tight Margins:
 - Projected cost of production and current market conditions forecast limited returns.
 - Effective marketing strategies are crucial
- Cattle
 - Strong fundamentals driving markets higher
 - Potential for moderate returns given effective marketing



Commodity Market Risk Management

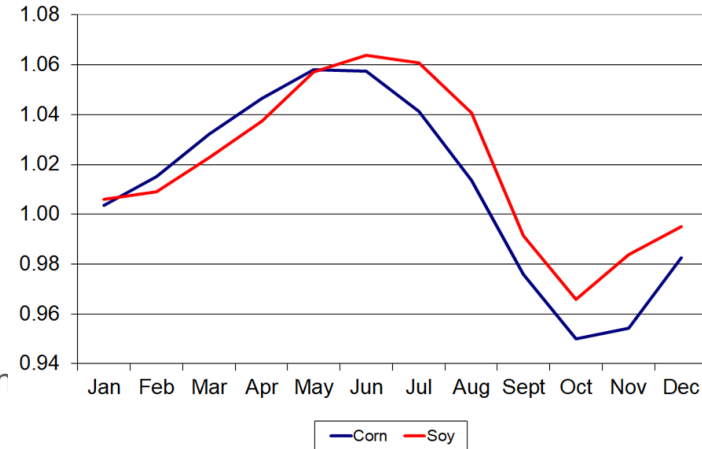
“Grain Marketing is boring, keep it that way.”

Hedge:

- Cost of Production
 - The single most important variable of marketing success
- Seasonal Patterns
 - Board Price and Local Basis
- Partial sales throughout the year
 - Forward contract harvest prices during non-harvest months

Discipline

Extreme Ownership

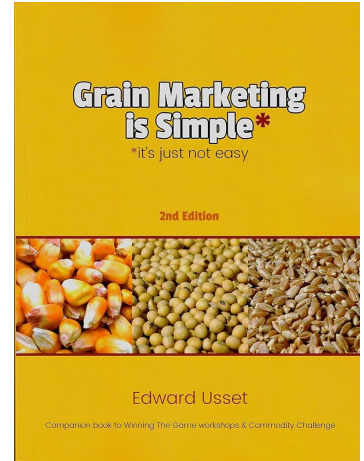


USDA NASS Monthly Price Data , 1980 - 2018



5 Common Mistakes of Grain Marketing

1. Reluctance of Preharvest Marketing
 - a. Take advantage of seasonal trends
2. Failure to Understand and Track Local Basis
 - a. How do you know what is a good local price?
3. Lack of an Exit Strategy
 - a. How and when will you “pull the trigger”?
4. Holding Grain in Storage for Too Long
 - a. 11th Commandment: Thou shall not hold unpriced corn in the bin beyond July 1st.
5. Misunderstanding Carrying Costs
 - a. Current Carry (Dif. contract mo.) vs. Full Carry and % of Interest Expense



More information

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<https://extension.umd.edu/programs/agriculture-food-systems>

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Online Teaching Evaluation

