

Ag Business Climate Outlook for 2017

Chris Hurt, Professor & Extension Economist

Michael Langemeier, Professor & Associate Director

James Mintert, Professor & Director

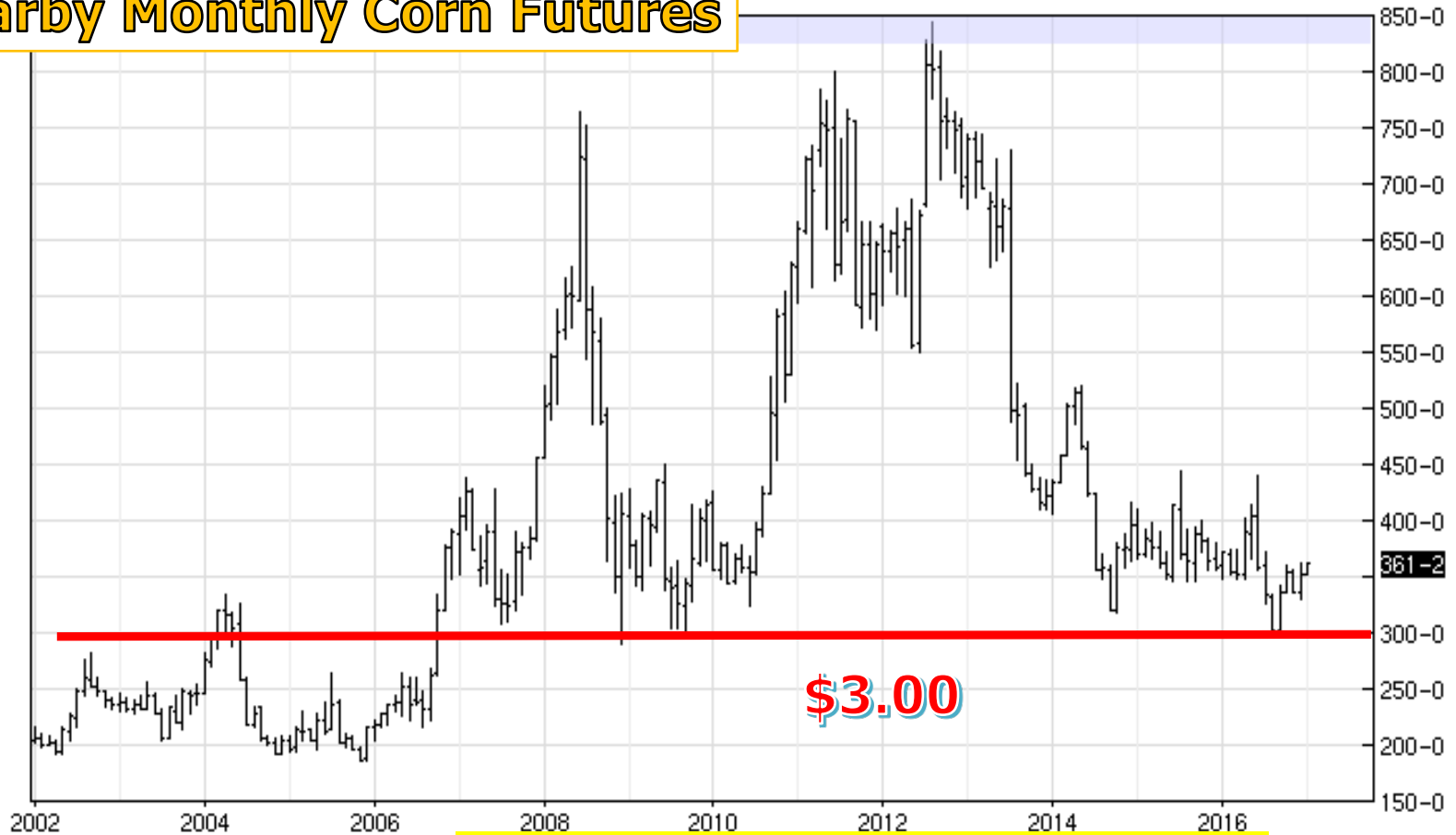
Purdue Center for Commercial Agriculture

PURDUE
UNIVERSITY

Center for
Commercial Agriculture



Nearby Monthly Corn Futures

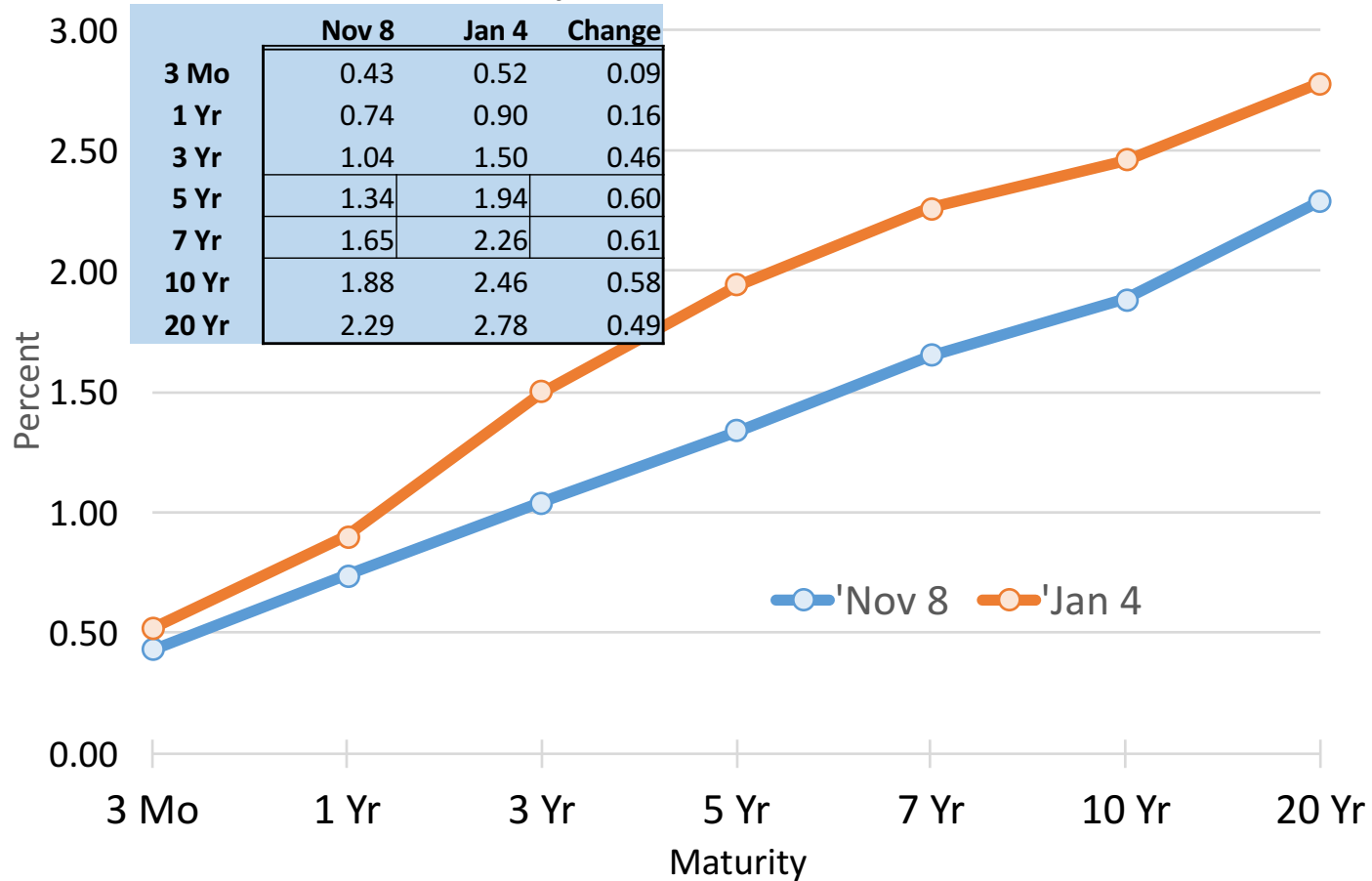


Equaled 10 Year Lows: Bottom???

Nearby Monthly Dollar Index Futures



Treasury Rates Since Election

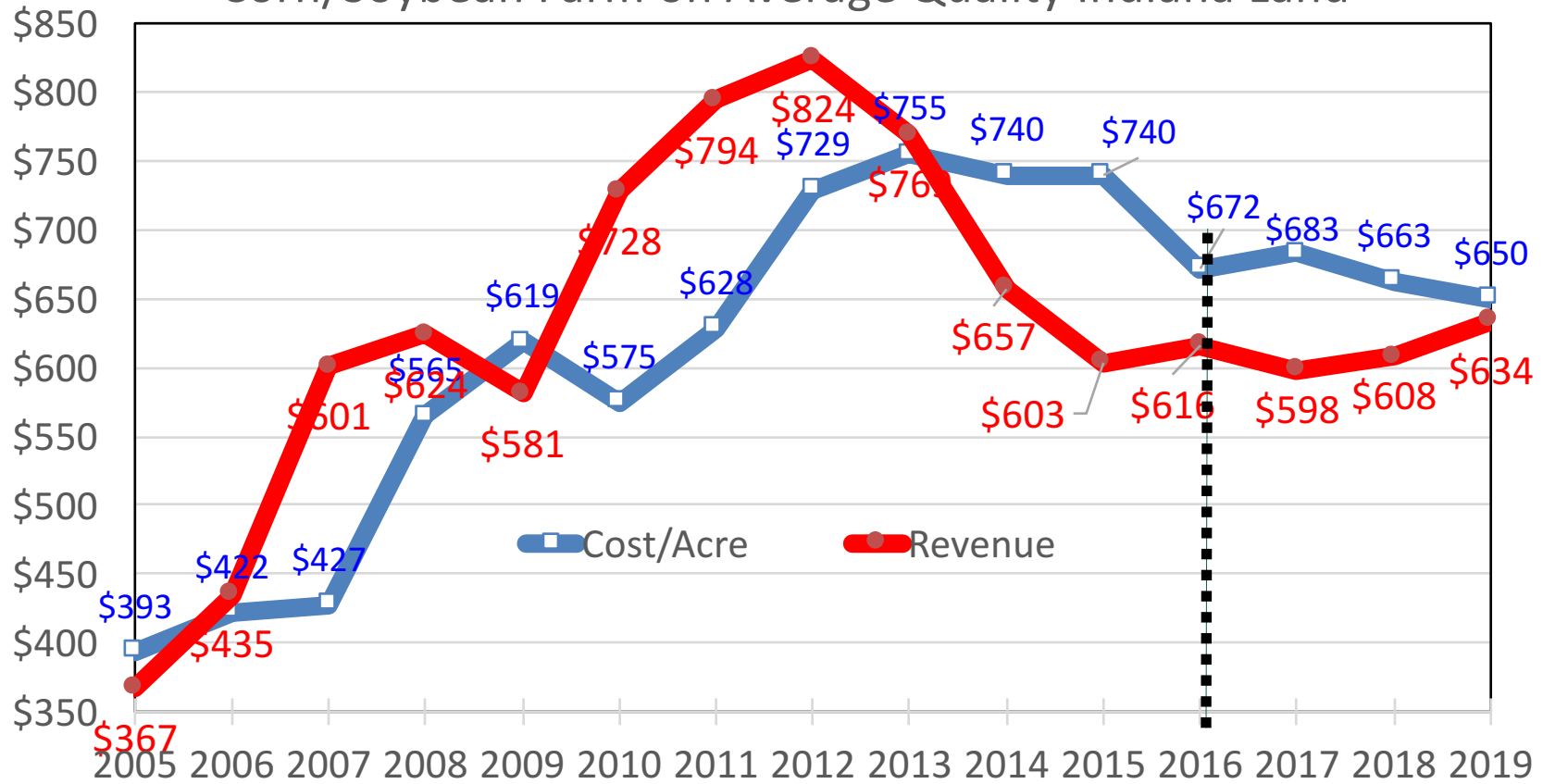


Where are Grain Prices Headed?

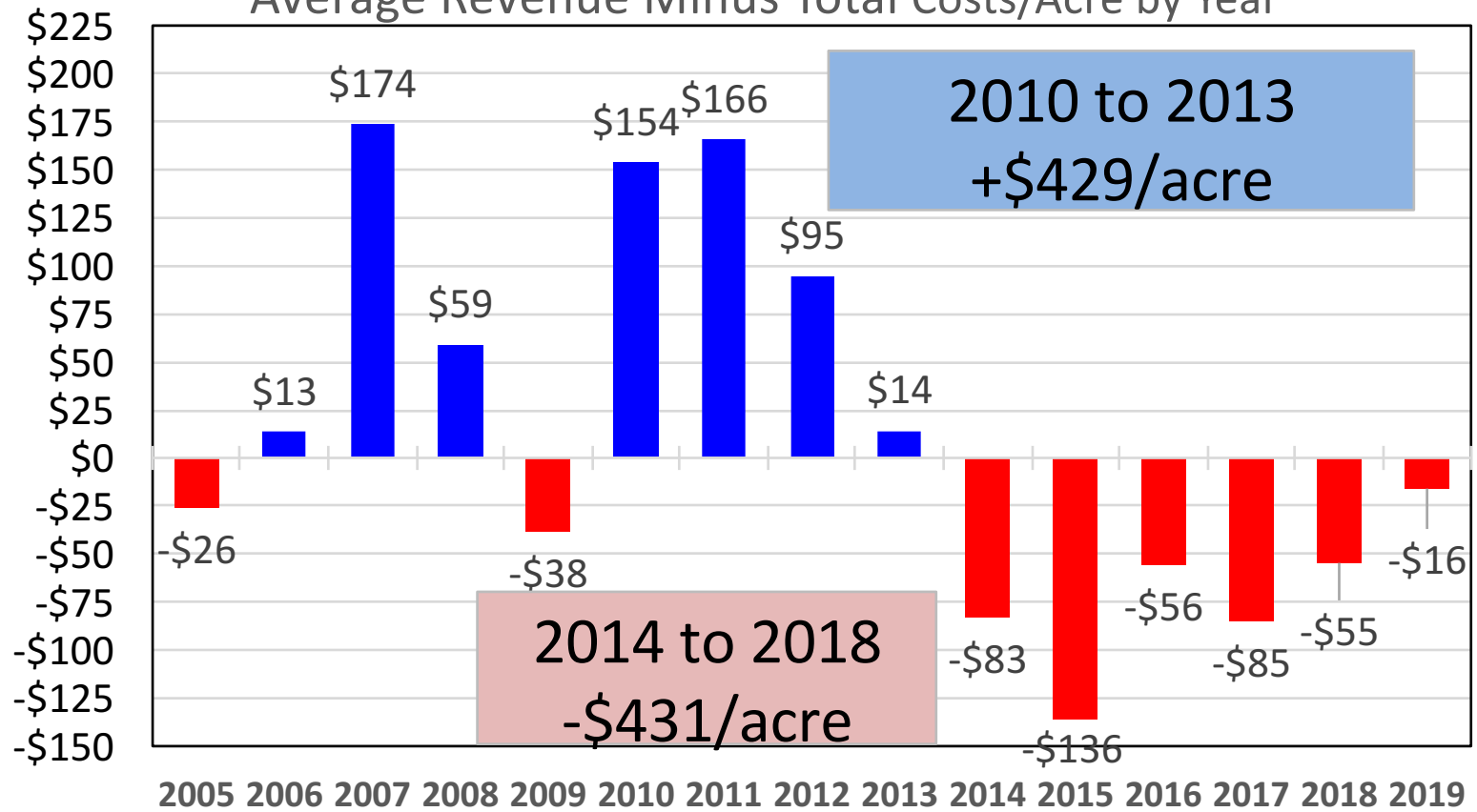


	2012	2013	2014	2015	2016 USDA	2017 Futures MYA	2018 Futures MYA	2019 Futures MYA
Corn	\$6.89	\$4.46	\$3.70	\$3.60	\$3.35	\$3.75	\$3.90	\$4.00
Soybeans	\$14.40	\$13.00	\$10.10	\$8.95	\$9.45	\$9.65	\$9.35	\$9.25
Wheat	\$7.77	\$6.87	\$5.99	\$4.89	\$3.70	\$4.05	\$4.60	\$4.90

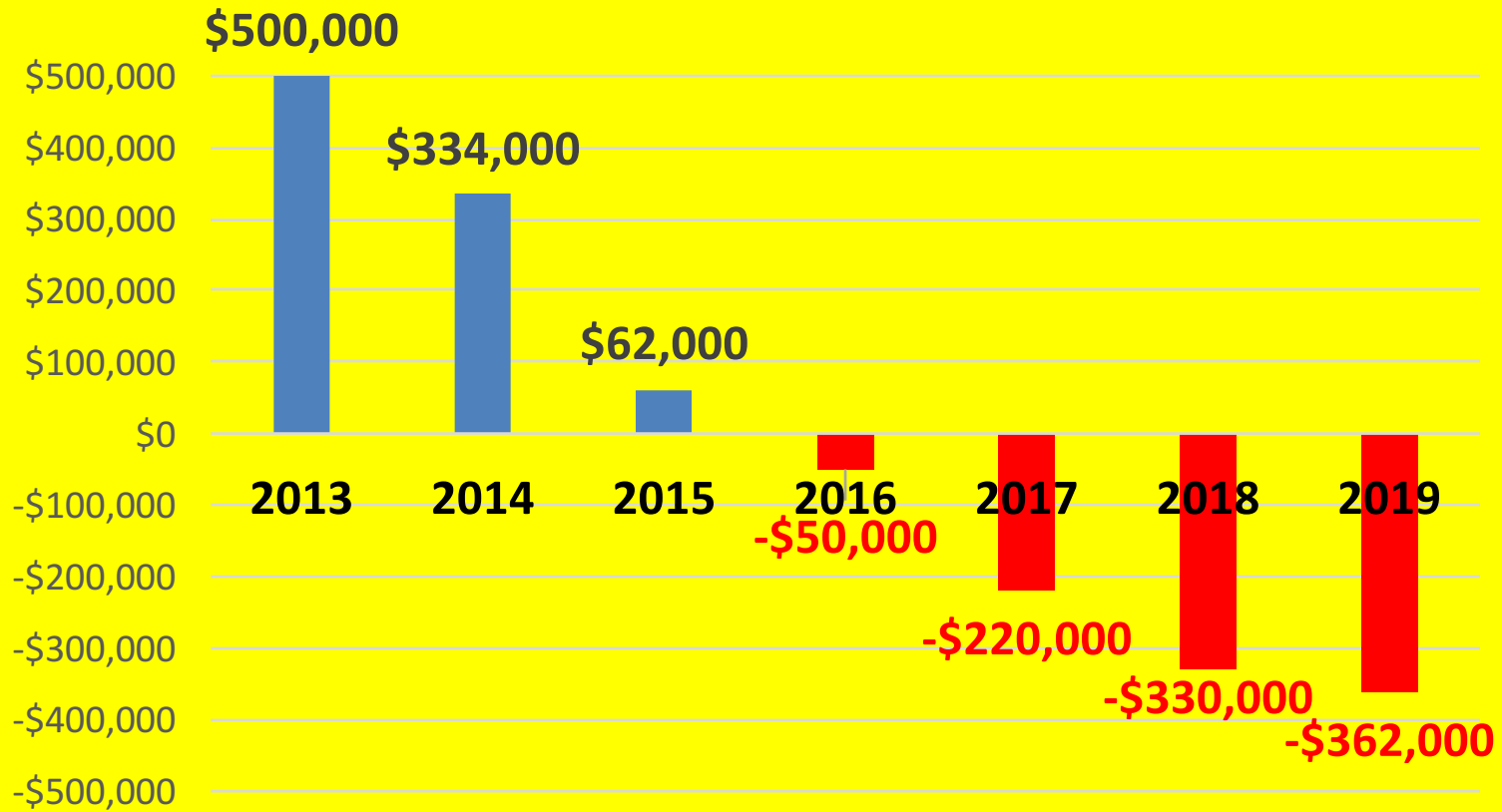
Estimated Revenue and Costs/Acre on a 50/50 Corn/Soybean Farm on Average Quality Indiana Land



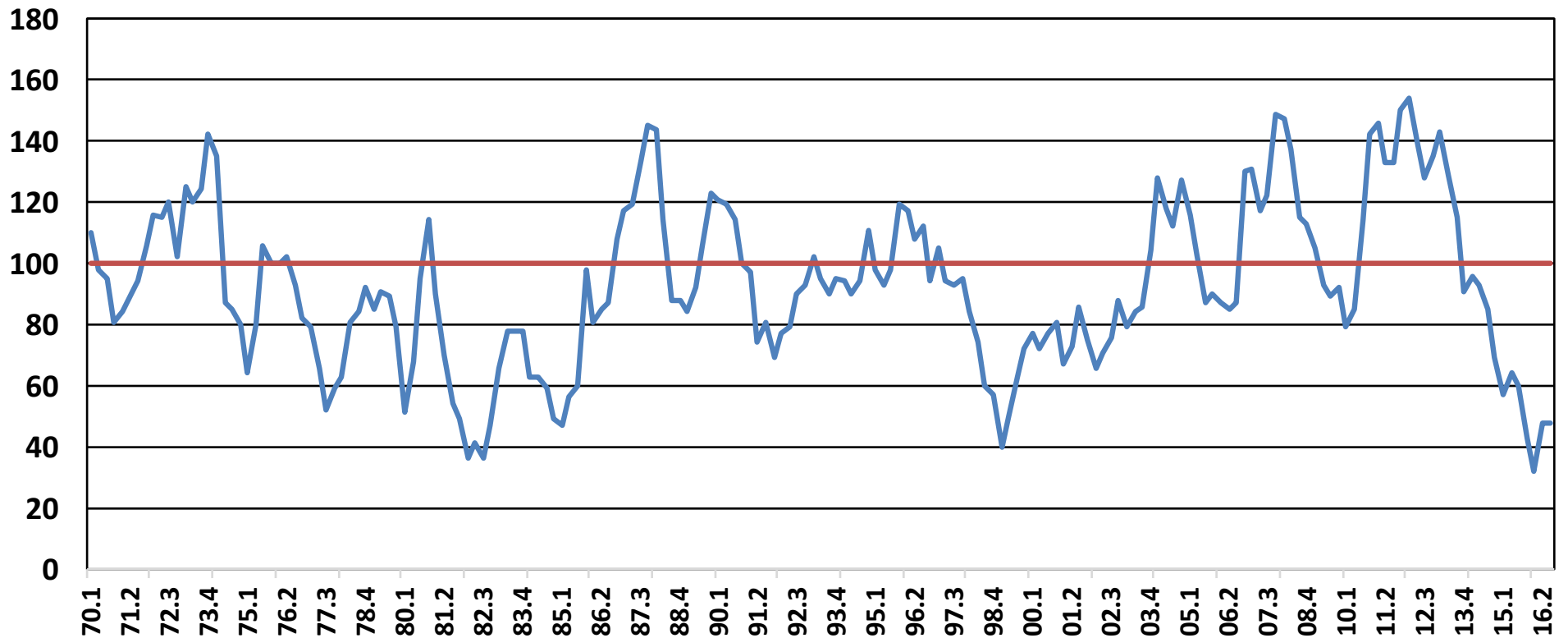
50/50 Corn/Soybean Indiana Average Revenue Minus Total Costs/Acre by Year



Working Capital Erosion: 2,000 Acre Cash Rent Tenant With \$500,000 of Working Capital in 2013



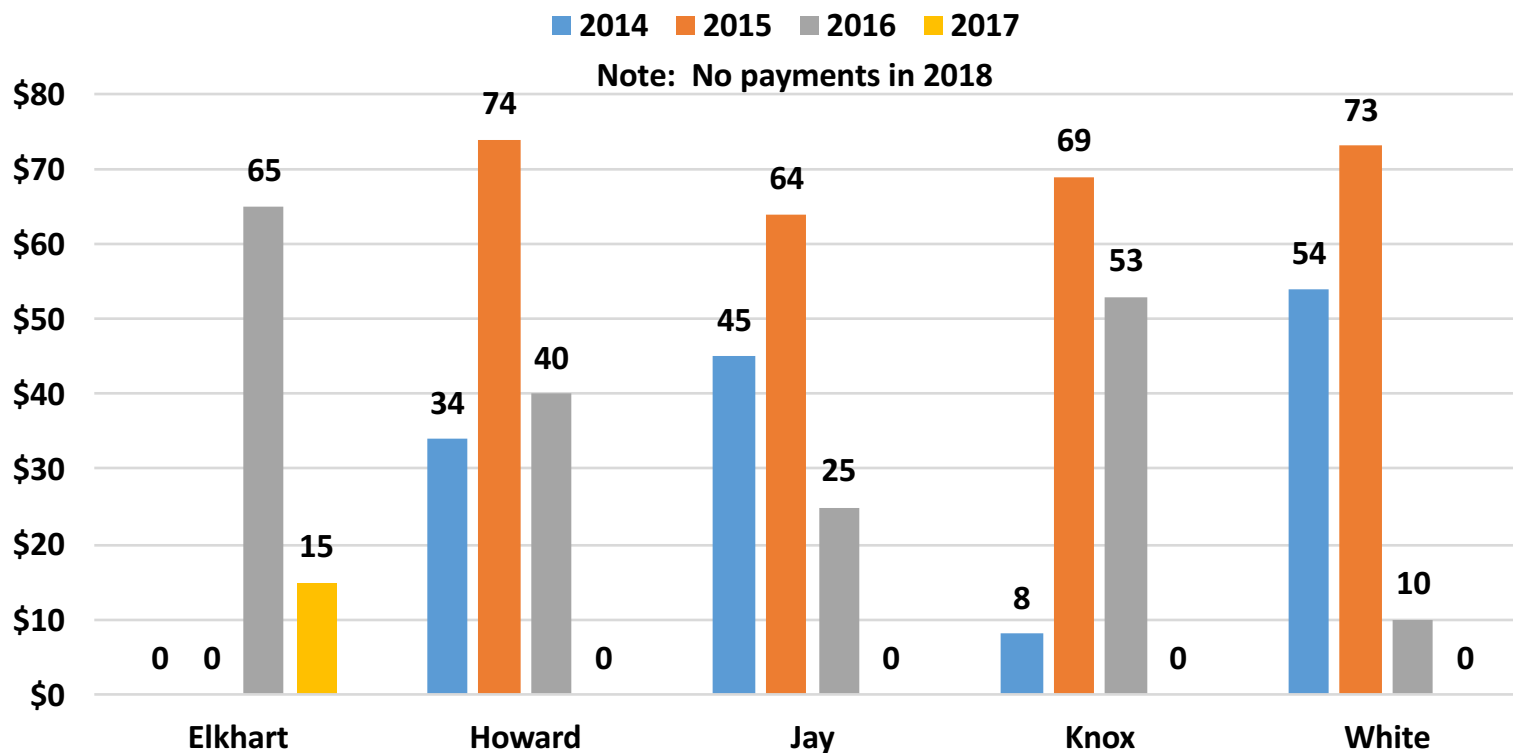
Index of Non-Real Estate Farm Loans Repayment Rates 7th (Chicago) Federal Reserve District



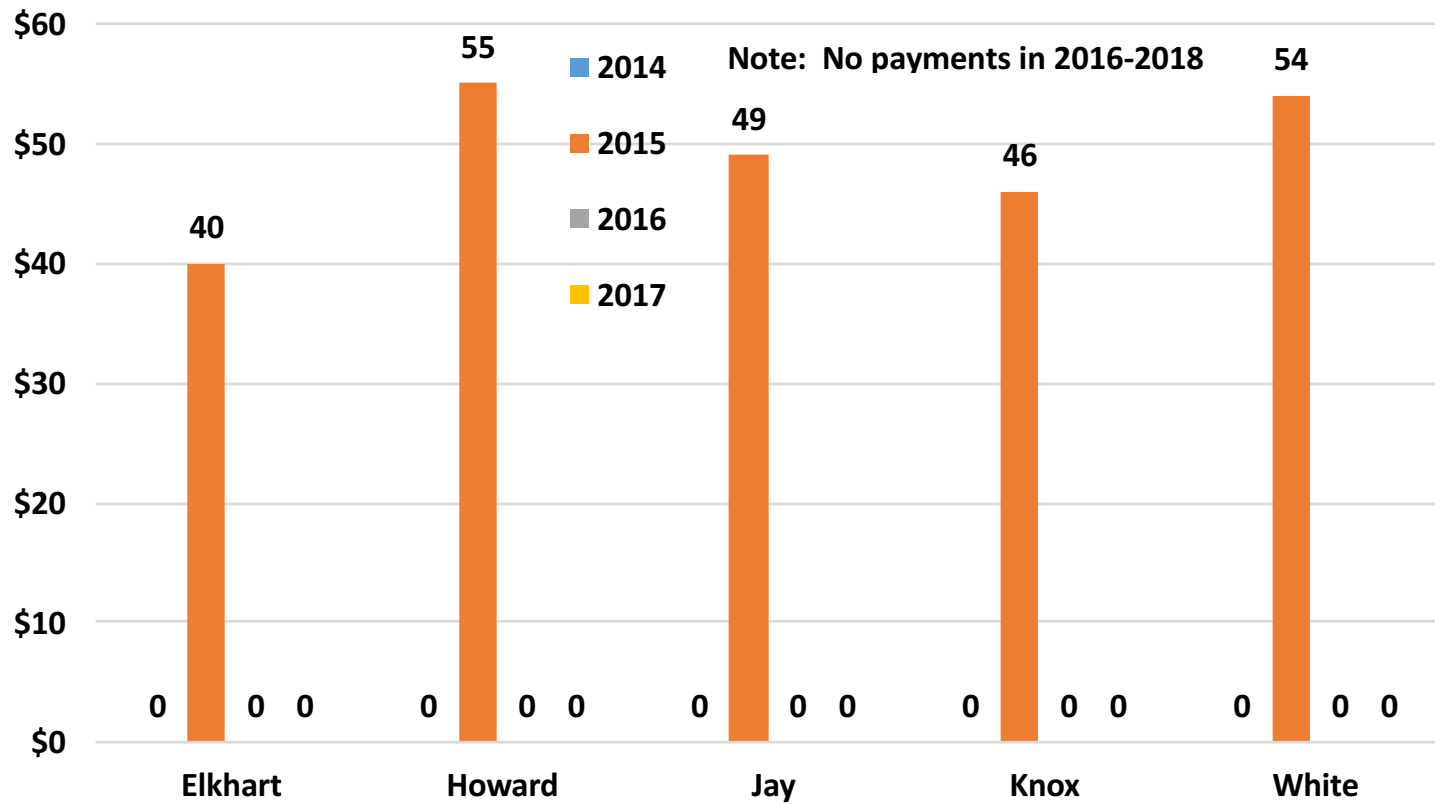
Liquidity Scores (2015 Illinois FBFM)

Measure	Benchmark	Upper Quartile	Median	Lower Quartile
Current Ratio	2.00	5.54	2.01	1.11
Working Capital / Value of Farm Production Ratio	35%	127%	58%	10%

Projected ARC County Payment for Corn per Acre Selected Counties in Indiana



Projected ARC County Payment for Soybeans per Acre Selected Counties in Indiana



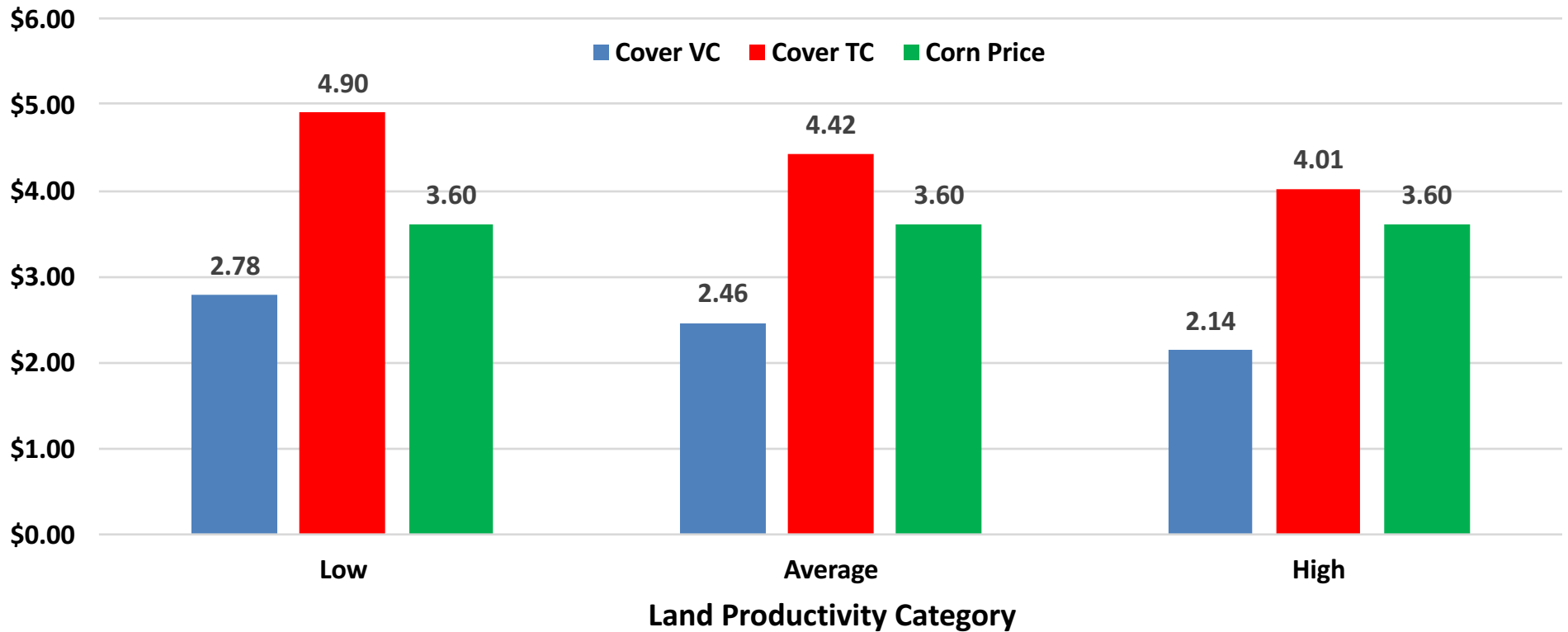
Top 6 Cost Categories for Corn and Soybeans

\$ Per Bushel, Average Productivity Indiana Farmland

Cost Category	Rotation Corn	Rotation Soybeans
Land	\$1.14	\$3.73
Machinery	\$0.79	\$2.40
Seed	\$0.71	\$1.38
Fertilizer	\$0.66	\$0.79
Pesticides	\$0.33	\$0.90
Labor	\$0.24	\$0.79
Sub-Total of 6 Costs	\$3.87	\$10.00

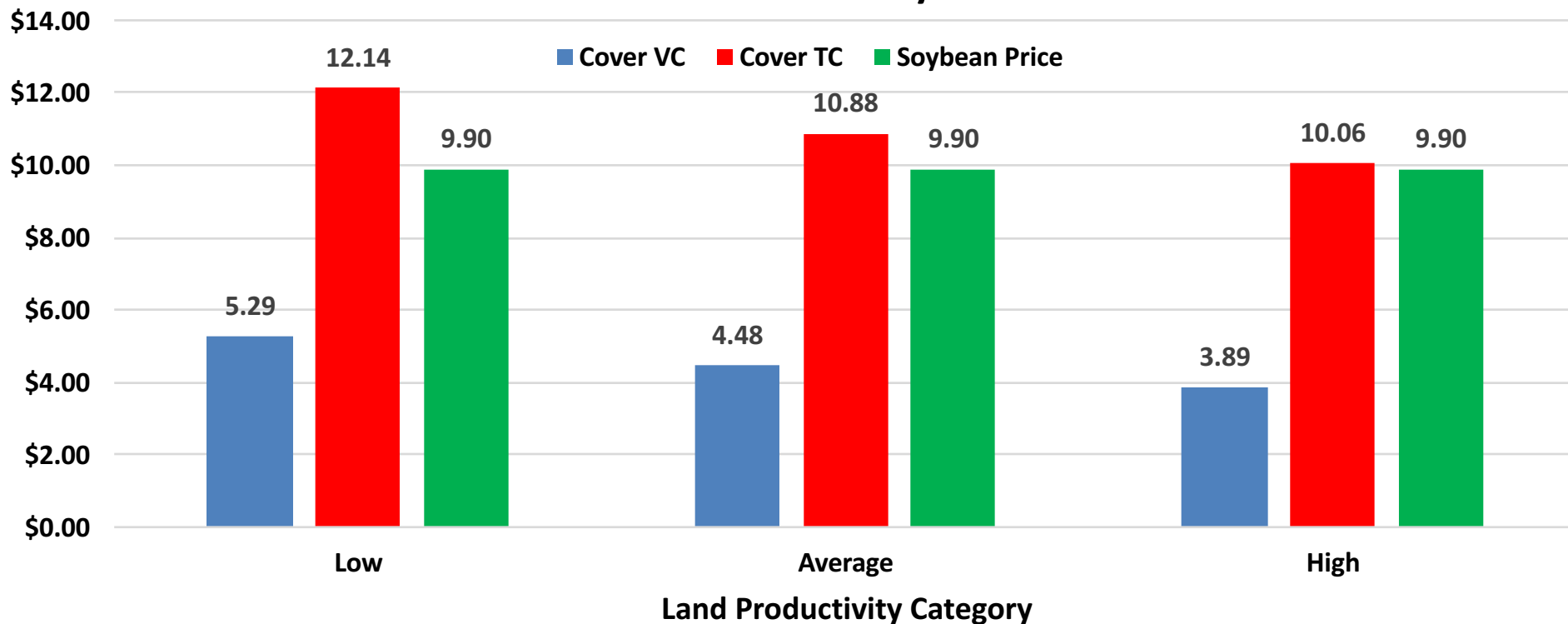
Bigger Cost Adjustments Needed on Low Productivity Land

2017 Breakeven Prices for Corn in Indiana



In Soybeans the Problem is Most Acute on Low Productivity Farmland

2017 Breakeven Prices for Soybeans in Indiana



Recent Prices Favor Soybeans Over Corn

Corn Prices Required to Produce Per Acre Returns Equivalent to Soybeans

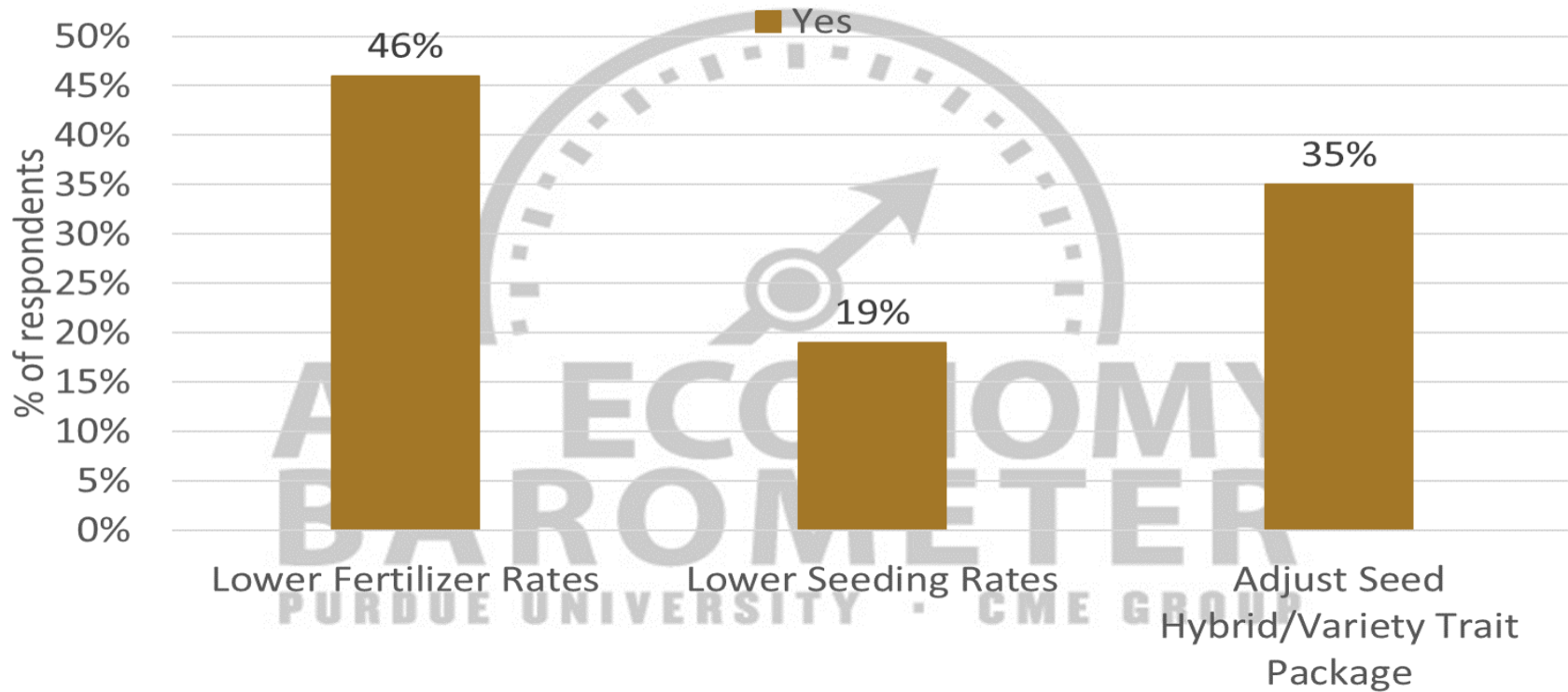
Soybean Price	Low Productivity (C=128; SB=42)	Avg. Productivity (C=160; SB=52)	High Productivity (C=192; SB=62)
\$8.50	\$4.13	\$4.03	\$3.85
\$9.00	\$4.30	\$4.19	\$4.02
\$9.50	\$4.46	\$4.35	\$4.18
\$10.00	\$4.63	\$4.51	\$4.34
\$10.50	\$4.79	\$4.68	\$4.50
\$11.00	\$4.95	\$4.84	\$4.66

Key 2017 Management Decisions Affecting Production Costs



- Fertilizer Rates
- Seeding Rates
- Seed Trait Package

2017 Crop Management Changes Planned in Response to Farm Economic Conditions



Most Recent Observation: Oct. 2016

Producer Survey

	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>
Finished Steers	155	148	120	105-115
500-550 Ky. Calves	229	236	151-154	125-135
Hogs	76	50	46	48
Milk	24	17	16	17.25
Eggs	142	182	84	91
Broilers	105	90	83	82
Turkey	108	116	118	116

Some Costs Have Declined But Further Reductions Needed

Indiana Average Productivity Farmland

- **Corn...Target cost of production...\$4.00/bushel?**
- **What adjustments can be made to reduce costs by \$0.30-\$0.40/bu.**
 - **One-half of adjustment might come from cash rent reductions**
 - **Where does other half come from?**
- **Soybeans...Target cost of production...\$10.00/bushel**

Looking Ahead...Some Key Considerations

- 1. Declining government support for crop operations**
 - ✓ ARC-County will provide little support in 2018...new program in 2019?
- 2. Working capital drawdowns continue in 2017 & 2018**
- 3. Net worth erosion continues**
- 4. Need to reduce costs**
 - ✓ Focus on cost per bushel
 - ✓ Examine every aspect of crop production
 - ✓ No silver bullets...look for nickels & dimes



What Can You Do?

- Reduce capital purchases
- Cut family living expenses
- Liquidate excess assets
- Seek lower cost per bushel
- Seek additional farm related income
- Seek off farm income
- Pursue reduced cash rents
- Crop Insurance, Government Payments, FSA Disaster Loans
- Work with Your Lender as Your Financial Assistant
 - Restructure time periods
 - Increase borrowing against real assets
- Have a 1 year and a 3 Year Plan

Join us for our next webinar on Jan. 20, 2017
“Thinking About Your Farm Business Strategy”

Thank You

Purdue.edu/commercialag

Purdue.edu/agbarometer

PURDUE
UNIVERSITY

Center for
Commercial Agriculture

