

Ag Business Climate Outlook for 2018

Chris Hurt, Professor & Extension Economist

Michael Langemeier, Professor & Associate Director

James Mintert, Professor & Director

PURDUE
UNIVERSITY

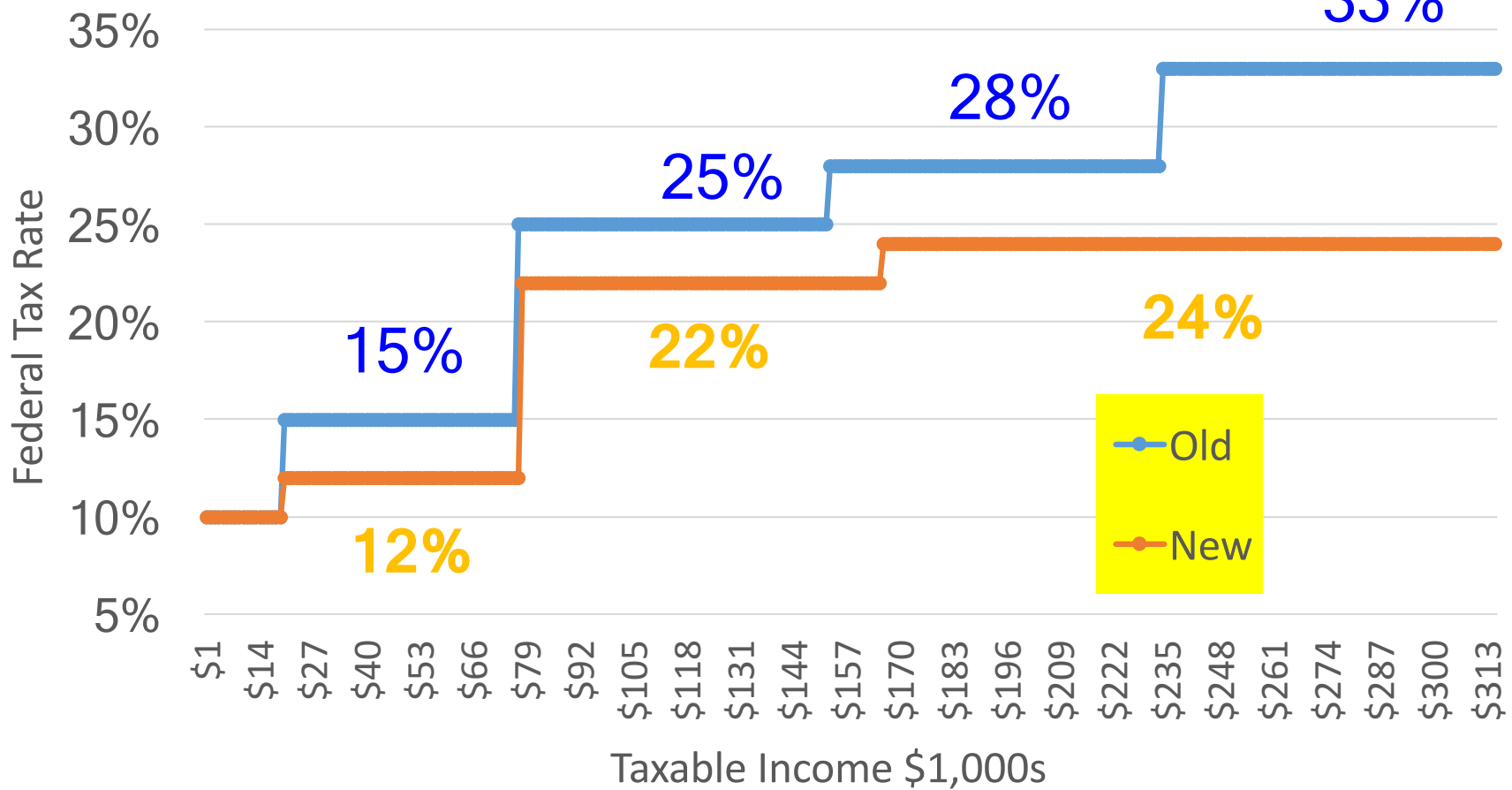
Center for
Commercial Agriculture



2018 Macro Economic Environment

- Strong Ag Demand from U.S. and Foreign Economic Growth
- Full employment in the U.S.
- Consumer stimulus from Tax Reform
- Business stimulus from Tax Reform-Corporate Income & Stock Values
- Strong economic demand & tightening in resource availability:
 - Faster wage rate increases
 - Faster growth in housing values
 - Faster increases in inflation
 - Faster increases in interest rates

Couple Filing Jointly: Tax Brackets and Rates



Agriculture's Economic Environment

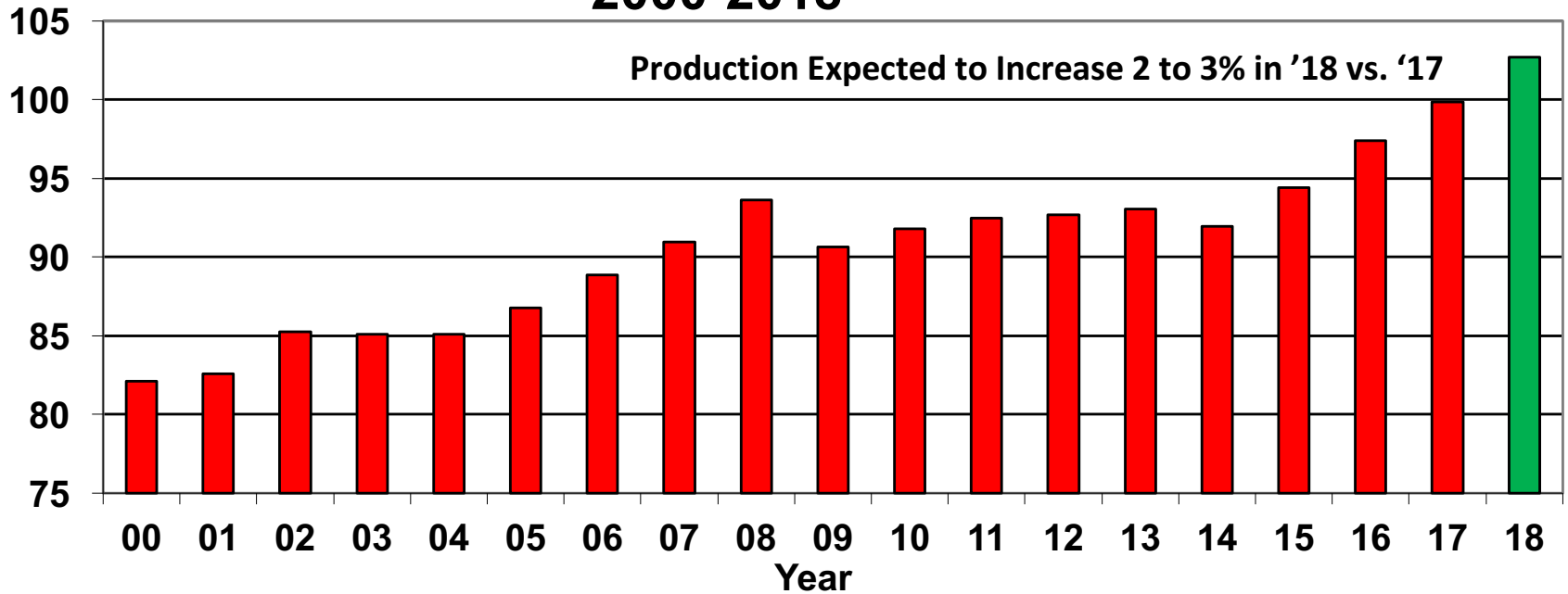
- U.S. and World Grain Inventories are large
- U.S. animal industries back to full production-Weaker Prices?
- Trade concerns for Agriculture
 - NAFTA renegotiations
 - N. Korea & other Geopolitical hazards
 - China
 - “U.S. First” backlash?
- What could be friendly to Ag Prices?
 - Shift from equity to ag commodity investing
 - Will Unusual 4-year run of favorable weather end?
 - Weather/Weather/Weather

Meat Production Up Again in 2018

4th Year in a Row for a Production Increase

Annual U.S. Beef, Pork & Poultry Production 2000-2018

Billion Lbs.

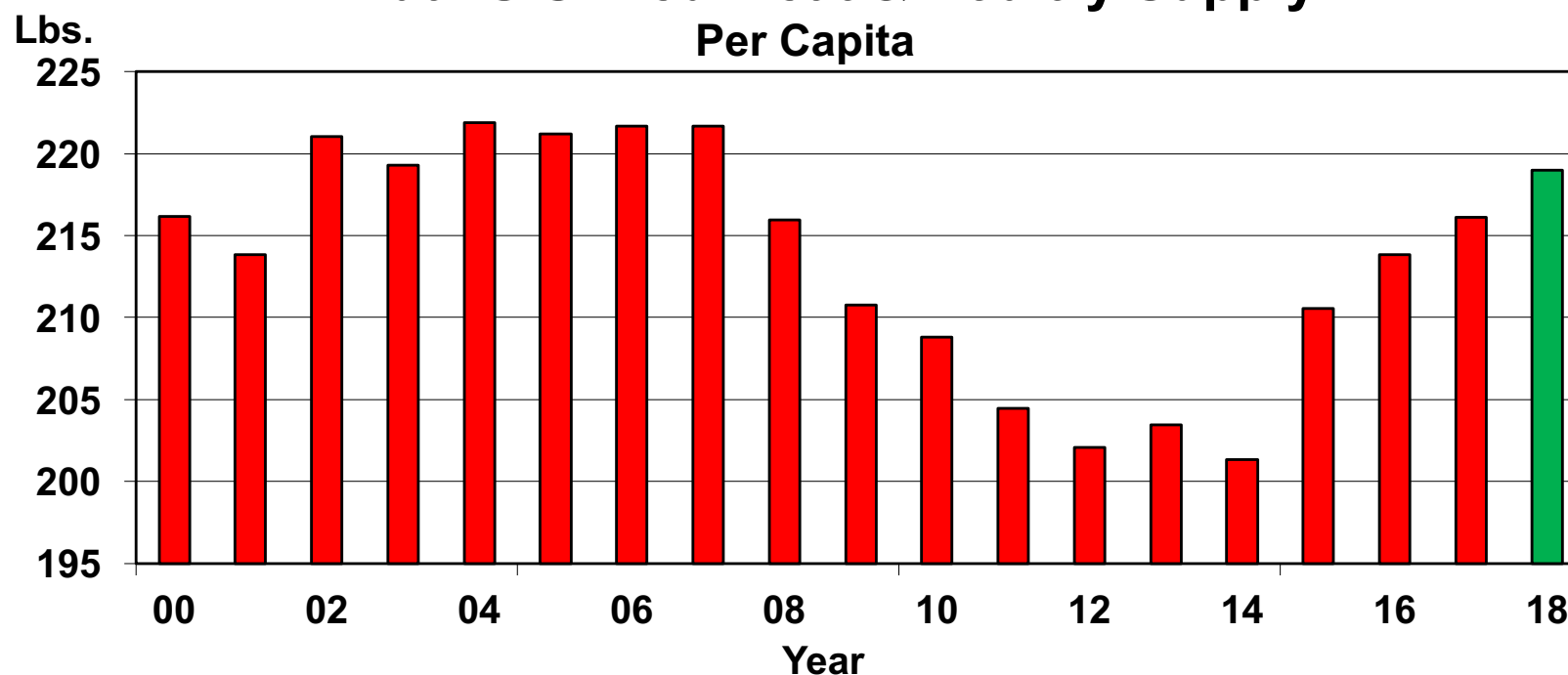


Source: USDA, 2018 LMIC Forecast

Purdue Center for Commercial Agriculture

Improved Foreign Trade Will Hold Per Capita Meat Supply Increase to 1 to 2%

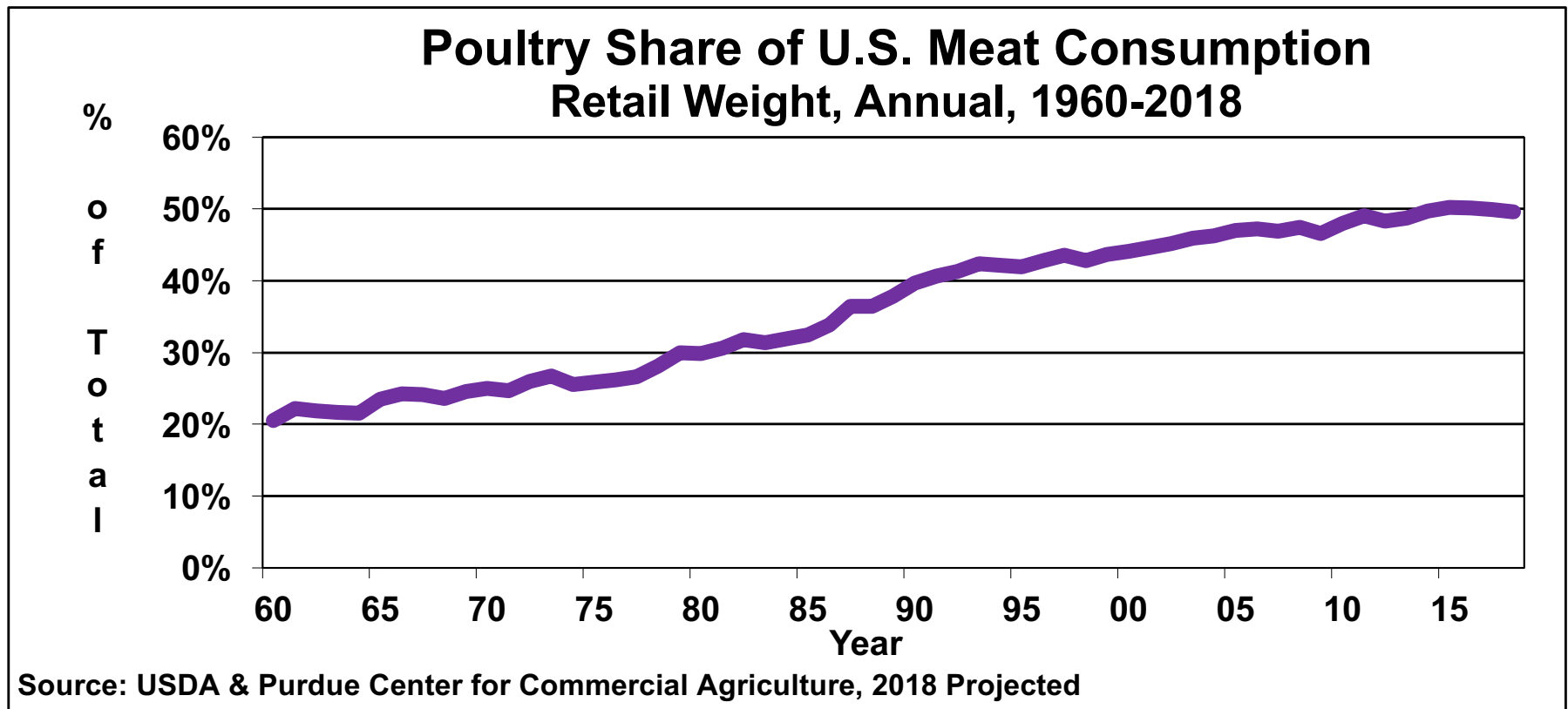
Annual U.S. Red Meat & Poultry Supply Per Capita



Source: USDA & LMIC, 2018 LMIC Forecast

Purdue Center for Commercial Agriculture

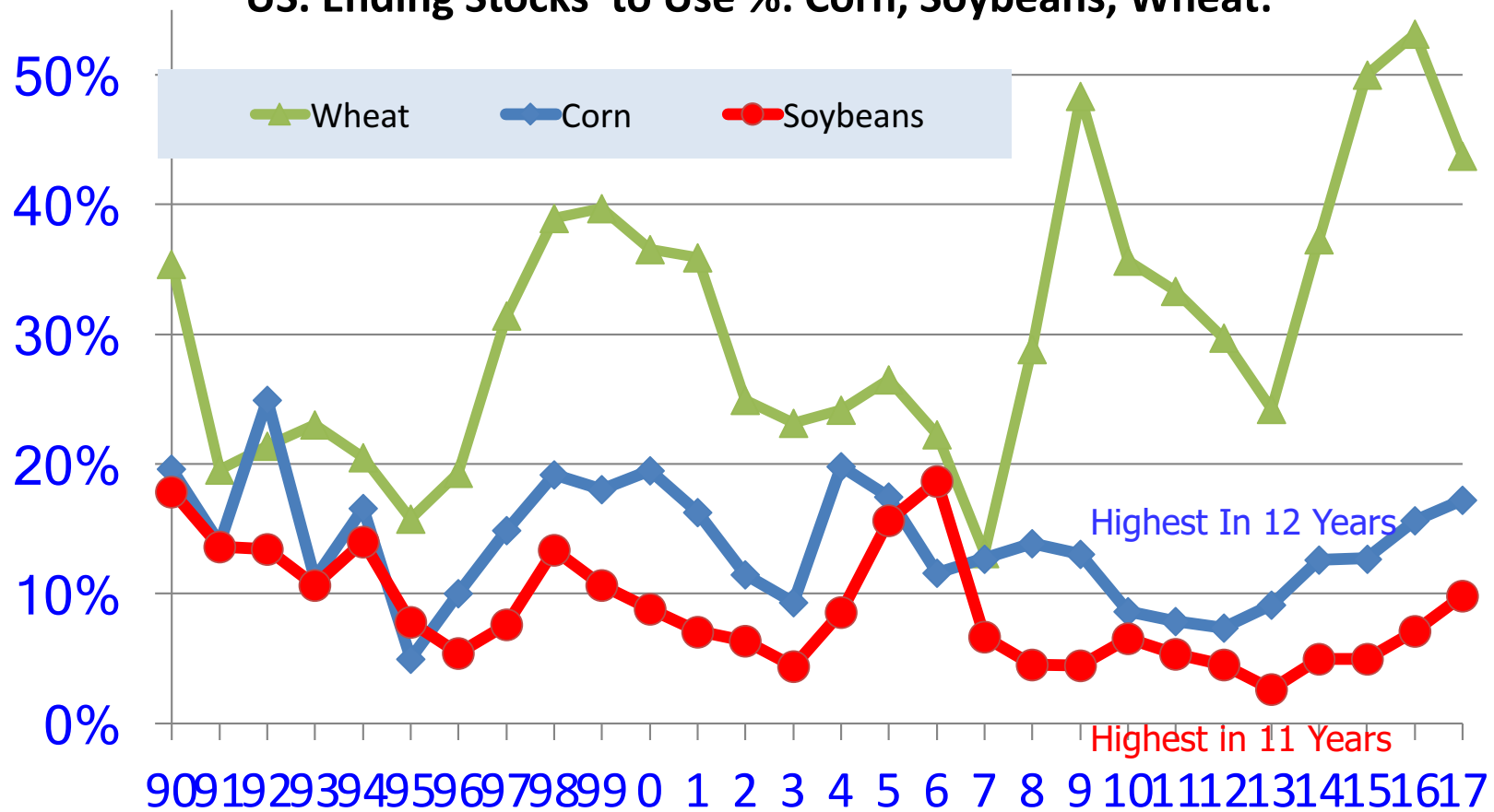
Poultry Is U.S. Consumers Largest Source of Animal Protein



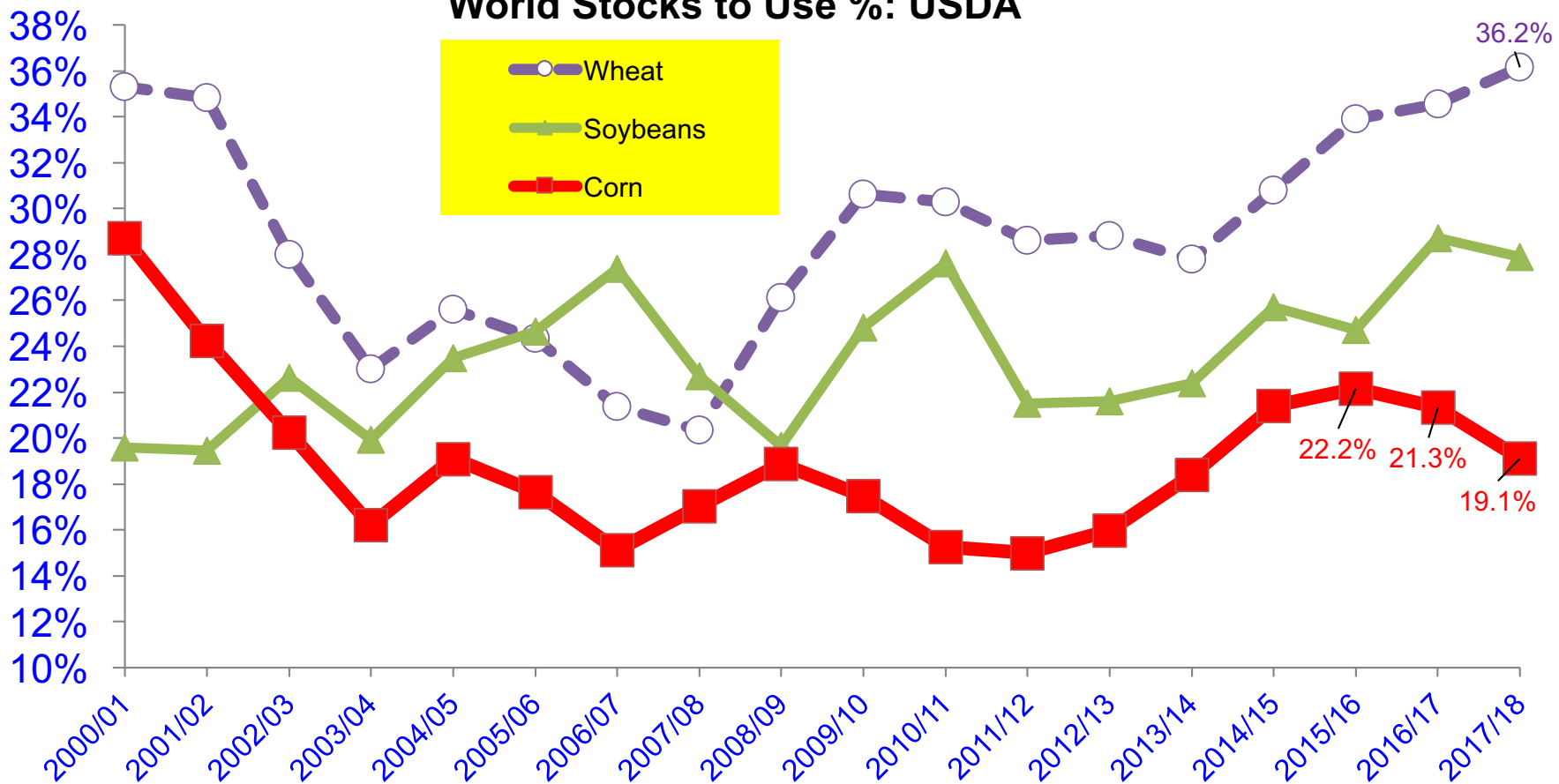
Blue: Goldman Sachs Commodity Index
Orange: Corn Futures Price (BarChart.com)



US. Ending Stocks to Use %: Corn, Soybeans, Wheat:



World Stocks to Use %: USDA



July 2018 Corn Futures-BarChart.com



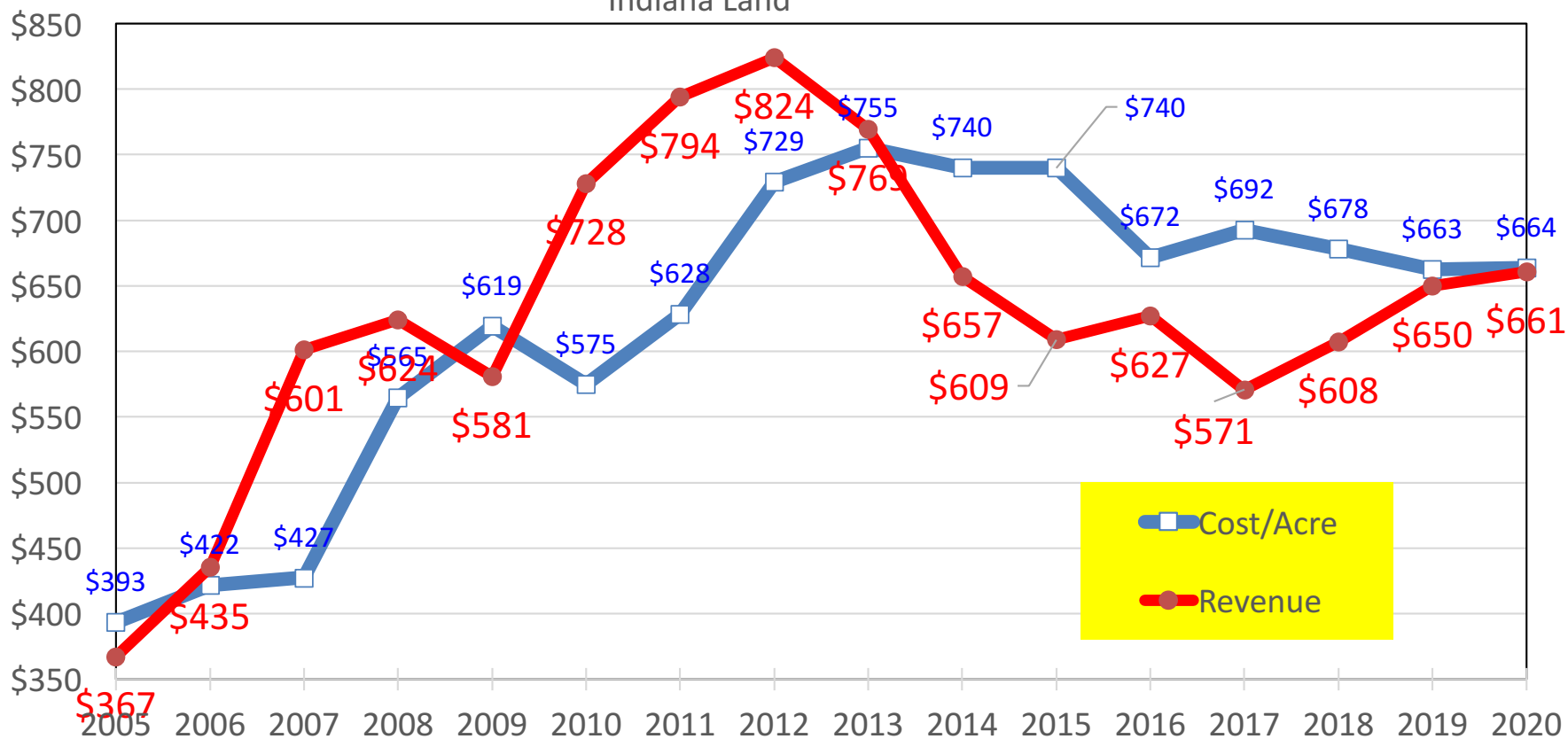
July 2018 Soybean Futures-BarChart.com



MYA Farm Price: PAST and FUTURE

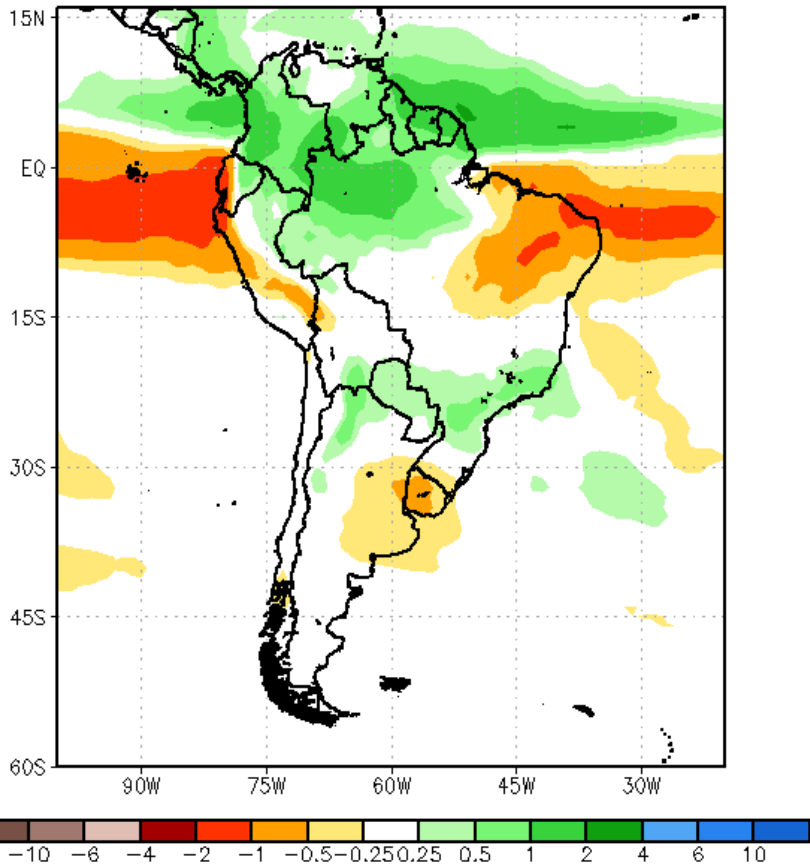
	2012	2013	2014	2015	2016 USDA	2017 USDA	2018 Futr MYA	2019 Futr MYA	2020 Futr MYA
Corn	\$6.89	\$4.46	\$3.70	\$3.60	\$3.36	\$3.20	\$3.70	\$3.90	\$4.00
Soybeans	\$14.40	\$13.00	\$10.10	\$8.95	\$9.47	\$9.30	\$9.55	\$9.55	\$9.45
Wheat	\$7.77	\$6.87	\$5.99	\$4.89	\$3.89	\$4.60	\$4.20	\$4.80	\$5.00

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



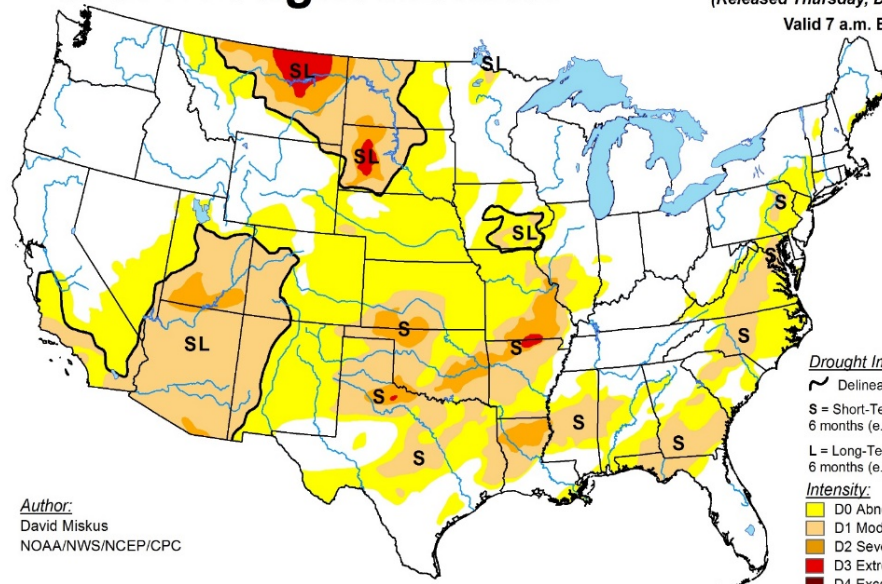
C. Hurt, Purdue, January 2018

NMME Precipitation Anomalies (mm/day)
Jan2018–Mar2018 Dec2017 Initial conditions



U.S. Drought Monitor

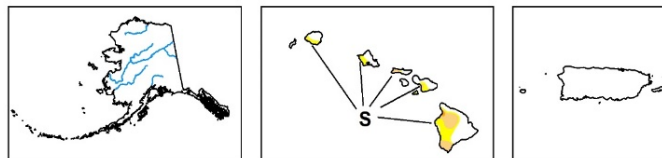
December 26, 2017
(Released Thursday, Dec. 28, 2017)
Valid 7 a.m. EST



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.



USDA NDMC NOAA
<http://droughtmonitor.unl.edu/>

Current Prices Favor Rotation Soybeans Over Continuous Corn

Corn Prices Required to Produce Per Acre Returns Equivalent to Soybeans

Soybean Price	Low Productivity (C=130; SB=43)	Avg. Productivity (C=162; SB=53)	High Productivity (C=194; SB=63)
\$8.50	\$4.03	\$3.95	\$3.80
\$9.00	\$4.20	\$4.11	\$3.96
\$9.50	\$4.37	\$4.27	\$4.12
\$10.00	\$4.53	\$4.44	\$4.28
\$10.50	\$4.70	\$4.60	\$4.45
\$11.00	\$4.86	\$4.77	\$4.61

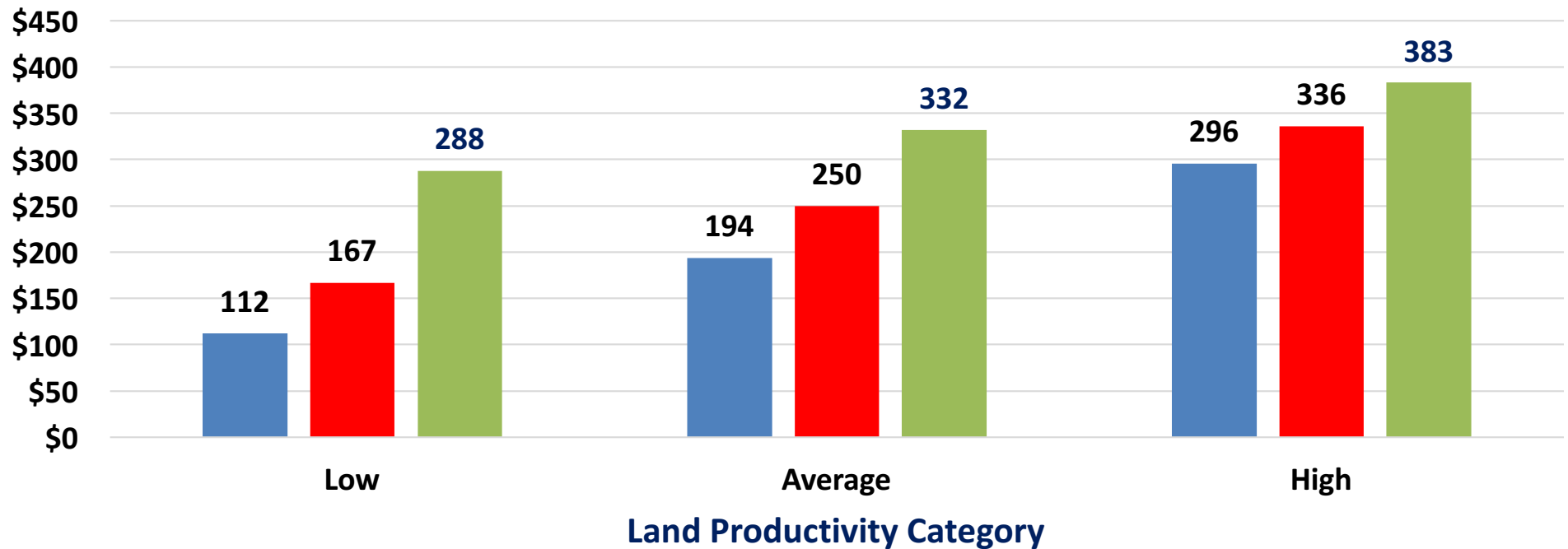
Continuous Soybeans and Rotation Corn Comparison

Corn Prices Required to Produce Per Acre Returns Equivalent to Soybeans

Soybean Price	Low Productivity (C=138; SB=43)	Avg. Productivity (C=172; SB=53)	High Productivity (C=206; SB=63)
\$8.50	\$3.68	\$3.61	\$3.49
\$9.00	\$3.84	\$3.77	\$3.64
\$9.50	\$4.00	\$3.92	\$3.79
\$10.00	\$4.15	\$4.08	\$3.95
\$10.50	\$4.31	\$4.23	\$4.10
\$11.00	\$4.46	\$4.38	\$4.25

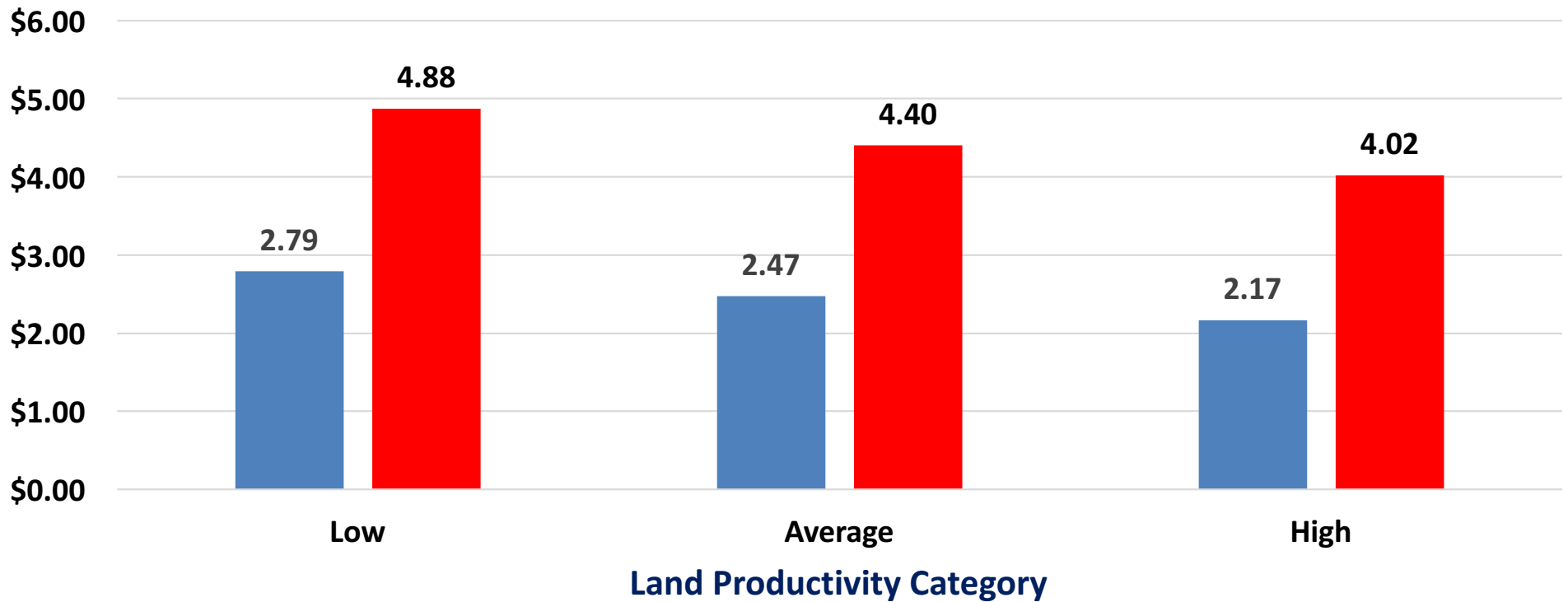
2018 Contribution Margin per Acre for Rotation Corn and Soybeans in Indiana

■ Corn ■ Soybeans ■ Overhead



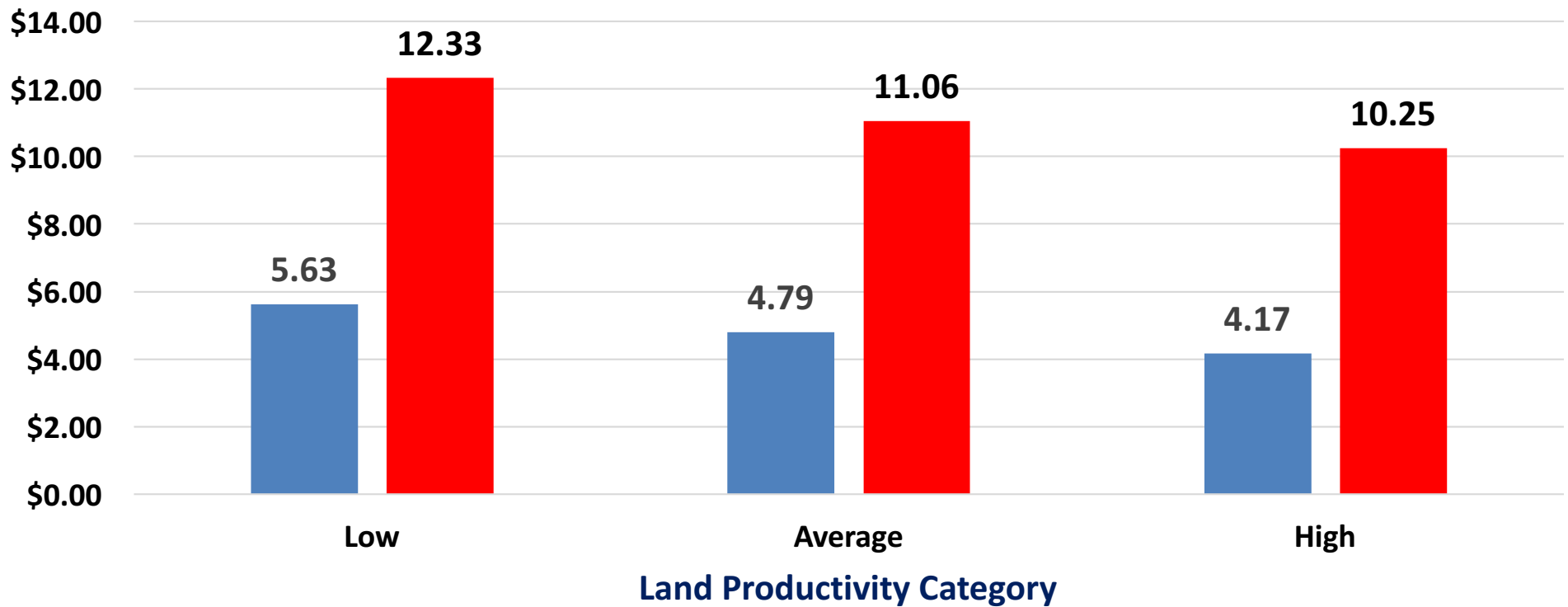
2018 Breakeven Prices for Rotation Corn in Indiana

■ Cover VC ■ Cover TC



2018 Breakeven Prices for Rotation Soybeans in Indiana

■ Cover VC ■ Cover TC



Reducing Per Unit Costs

(Variable Cost + Fixed Cost) ÷ Yield = Total Cost per Bushel

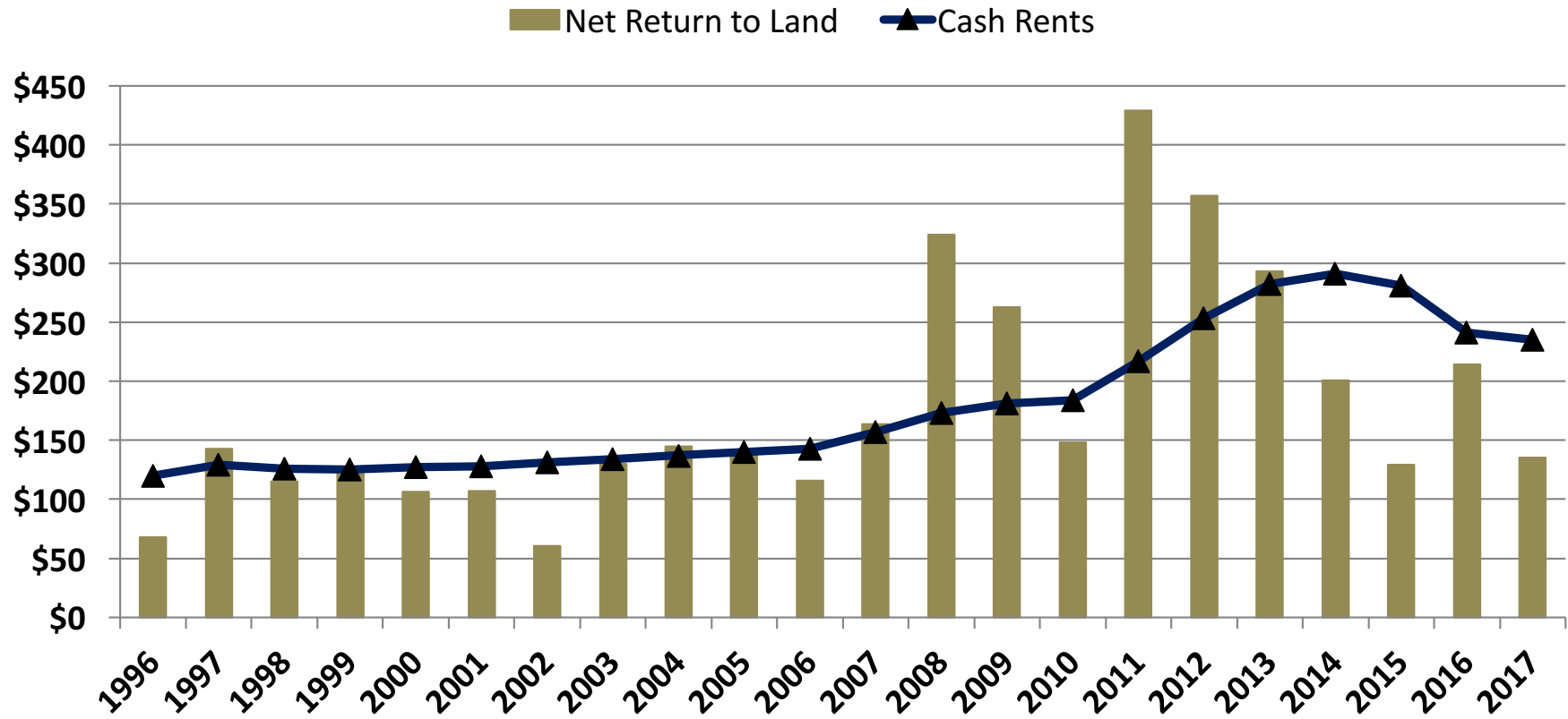
- **Reduce cost by:**
 - **Reducing variable cost without impacting yield**
 - **Reducing fixed cost (lowers fixed cost per bushel)**
 - **Improving yield without increasing variable or fixed cost**

What is My Cost of Production?

Illustrated Below: High Productivity Soil in Indiana, Trend Yields

Cost Category	Rotation Corn	Rotation Soybeans
Land (Fixed)	\$1.19	\$3.90
Machinery (Var. & Fixed)	\$0.68	\$2.05
Fertilizer (Variable)	\$0.61	\$0.86
Seed (Variable)	\$0.54	\$1.06
Pesticides (Variable)	\$0.29	\$1.03
Labor (Fixed)	\$0.18	\$0.59
Sub-Total	\$3.49	\$9.49
Total Cost per Bushel	\$4.02	\$10.25

Cash Rent and Net Return to Land, West Central Indiana



Management Philosophy-2018

- Think tight margins
- Look for modest price increases
 - Earn market carrying charges & basis improvement
 - New Purdue CCA Crop Basis Tool on the web next week
- Think cost control
- Think preservation of capital
- Think about getting through 2018
- Will there be improvement in late-2018 and 2019?
- Know your financial position...work with your lender

Purdue Top Farmer Conference

Tues. Jan. 9, 2018

Registration details at: Purdue.edu/commercialag

Purdue.edu/agbarometer

PURDUE
UNIVERSITY

Center for
Commercial Agriculture

