IMPACT OF THE DOWNTURN ON FARMS AND RURAL COMMUNITIES

Bob Young – Chief Economist/Deputy Director Public Policy
American Farm Bureau Federation
Federal Reserve Bank of Chicago
November 29, 2016
THE PATH TO NEBULOUSNESS

• Let’s Remember How We Got Here…
• Where Is Here?
  • For the Sector
  • For Individuals
• The Role of Politics and Policy
• Where Will We Be Tomorrow?
SELECTED PRODUCTION EXPENSES

- Seed purchases
- Electricity
- Fert.
- Pesticides
- Fuel and oils

Billion 2009 $'s

INTEREST AND NET RENT COSTS

- Net rent paid to nonoperator landlords
- Interest
NET FARM INCOME

Billion 2009 $'s

U.S. average value of farm real estate* per acre, 1960 to 2016

Source: USDA, National Agricultural Statistics Service, NASS Land Values Summary and Quickstats (http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1446). These values have a June reference date as opposed to the December 31st date for the farm sector balance sheet. Inflation-adjusted values use the chain-type GDP deflator, 2009=100 from BEA, DOC. *Farm real estate includes the value of land and buildings. K=thousand, M=million, B=billion, T=trillion.
Farm assets other than real estate, 1960 to 2016

Data for 2016 are forecasts. Data values are rounded to the nearest thousand dollars. Inflation-adjusted values use the chain-type GDP deflator, 2009=100 from BEA, DOC. K=thousand, M=million, B=billion, T=trillion.

Trends in U.S. real estate and nonreal estate debt, 1960 to 2016

Data for 2016 are forecasts. Values are rounded to the nearest thousand dollars. Inflation-adjusted values use the chain-type GDP deflator, 2009=100 from BEA, DOC. K=thousand, M=million, B=billion, T=trillion.
U.S. farm assets, debt, and equity, 1960 to 2016

Data for 2016 are forecasts. Data values are rounded to the nearest thousand dollars. Inflation-adjusted values use the chain-type GDP deflator, 2009=100 from BEA, DOC. K=thousand, M=million, B=billion, T=trillion.
# AEM United States Ag Tractor and Combine Report
## September 2016

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<table>
<thead>
<tr>
<th></th>
<th>September</th>
<th>YTD - September</th>
<th>Beginning Inventory Sep 2016</th>
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<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
<td>%Chg</td>
</tr>
<tr>
<td><strong>2WD Farm Tractors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 40 HP</td>
<td>11,675</td>
<td>9,994</td>
<td>16.8</td>
</tr>
<tr>
<td>40 &lt; 100 HP</td>
<td>5,016</td>
<td>4,826</td>
<td>3.9</td>
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<tr>
<td>100+ HP</td>
<td>1,475</td>
<td>1,592</td>
<td>-7.3</td>
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<tr>
<td><strong>Total 2WD Farm Tractors</strong></td>
<td>18,166</td>
<td>16,412</td>
<td>10.7</td>
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<tr>
<td><strong>4WD Farm Tractors</strong></td>
<td>174</td>
<td>212</td>
<td>-17.9</td>
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<tr>
<td><strong>Total Farm Tractors</strong></td>
<td>18,340</td>
<td>16,624</td>
<td>10.3</td>
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<tr>
<td><strong>Self-Prop Combines</strong></td>
<td>451</td>
<td>690</td>
<td>-34.6</td>
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<tr>
<td></td>
<td></td>
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</tbody>
</table>
US 4WD Tractor Sales

Source: American Equipment Manufacturers
Agree to Disagree: What Ag Equipment Dealers, Manufacturers Think about Inventory

• September 22, 2016
Okay, I had to turn in my presentation November 8...
Baseline Update for U.S. Agricultural Markets

August 2016

FAPRI-MU Report #05-16
## U.S. crop farm prices

<table>
<thead>
<tr>
<th>Marketing year</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
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</thead>
<tbody>
<tr>
<td>Corn ($/bu.)</td>
<td>3.70</td>
<td>3.60</td>
<td>3.19</td>
<td>3.57</td>
<td>3.80</td>
<td>3.87</td>
<td>3.86</td>
<td>3.87</td>
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<tr>
<td>Wheat ($/bu.)</td>
<td>5.99</td>
<td>4.89</td>
<td>3.74</td>
<td>4.52</td>
<td>5.02</td>
<td>5.28</td>
<td>5.34</td>
<td>5.38</td>
</tr>
<tr>
<td>Upland cotton (cents/lb.)</td>
<td>61.3</td>
<td>58.0</td>
<td>62.3</td>
<td>59.4</td>
<td>61.5</td>
<td>62.2</td>
<td>62.0</td>
<td>62.9</td>
</tr>
</tbody>
</table>
Data values are rounded to the nearest thousand dollars. Inflation-adjusted values use the chain-type GDP deflator, 2009=100 from BEA, DOC. K=thousand, M=million, B=billion, T=trillion.
Farm real estate growing as share of collateral on non-real estate farm loans

*Weighted average, by volume, of all loans less than $250,000.
Source: Federal Reserve Bank of Kansas City, Agricultural Finance Databook.
SO WHAT...

• Go-Go Days Of The Last Few Years Are Over

• Farmers Have Always Had Ability To Produce The Profit Out Of Just About Anything

• Just As We Have Record Production Though, Also Have Record Demand

• Production Shortfall Anywhere Likely To Yield Significant Price Pop
WHAT'S THIS MEAN?

- **Farm Sector Approaching Financial Stress Point**
  - May be anecdotes now, but...
- **One of Easiest Capital Expenses To Forego Is Equipment**
  - But you still have maintenance
- **Lot Of That Returned Leased Equipment Will Look Like Good Option For Right Deal**
  - Very low demand for new stuff for a while...
- **Dust Off Some Of The Strategies That Worked In The Early 2000’s**