

Situation Overview and Outlook for U.S. Agriculture

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**Central National Bank Meeting
Lawrence, KS. September 15, 2011**



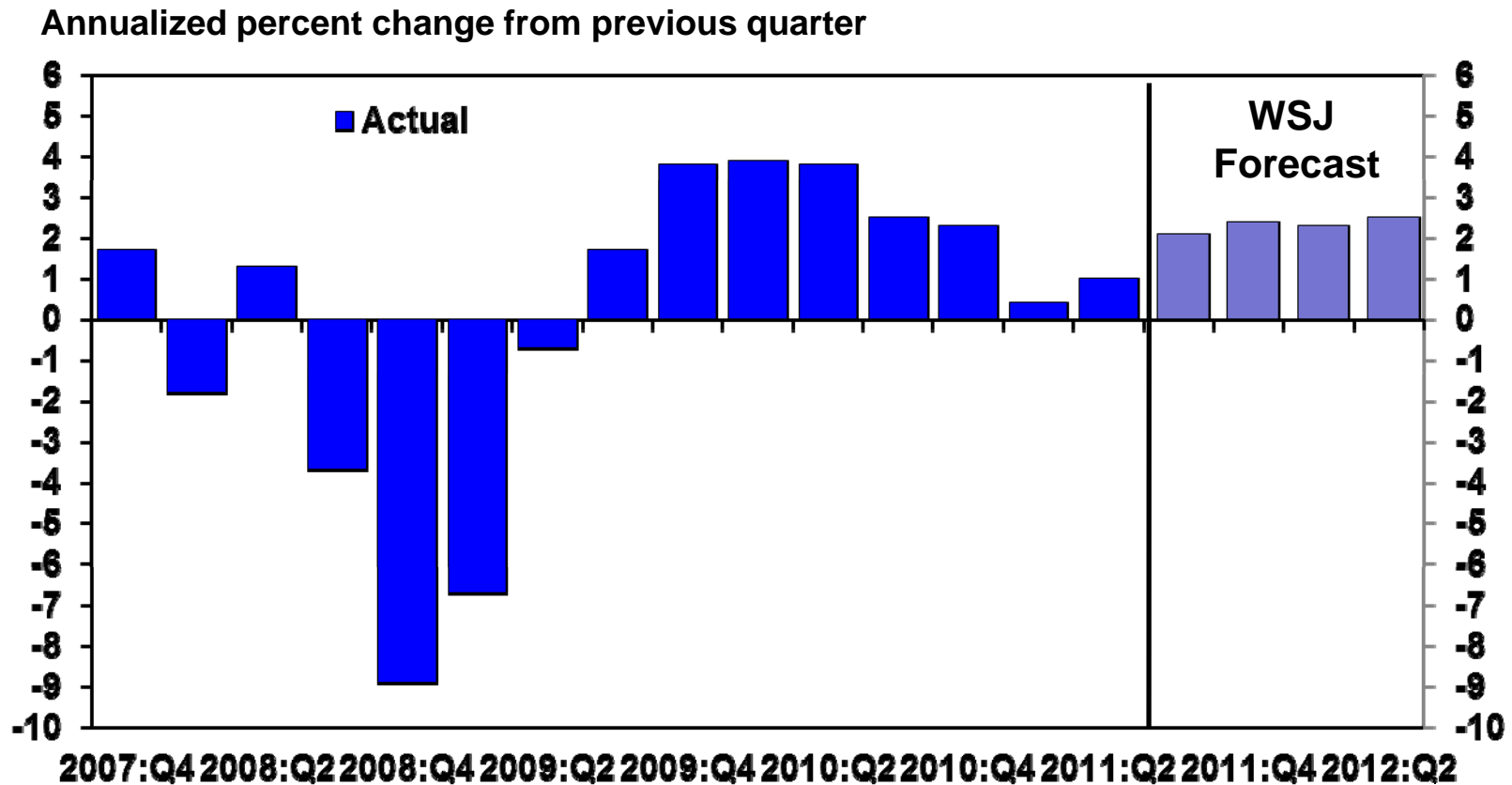
The U.S. economic recovery is anemic.

- Too few jobs, too much debt, weak housing and lots of uncertainty
- Questions surround the global recovery.
- Agriculture has been a bright a spot.
 - Even through the recession and financial crisis of 2008-2009, most of agriculture held up quite well.
 - Rural economies benefited, but slumping demand curtailed livestock profits
- What is the light at the end of the tunnel?



Soft data has curbed U.S. growth and dampened forecasts.

Real GDP Growth



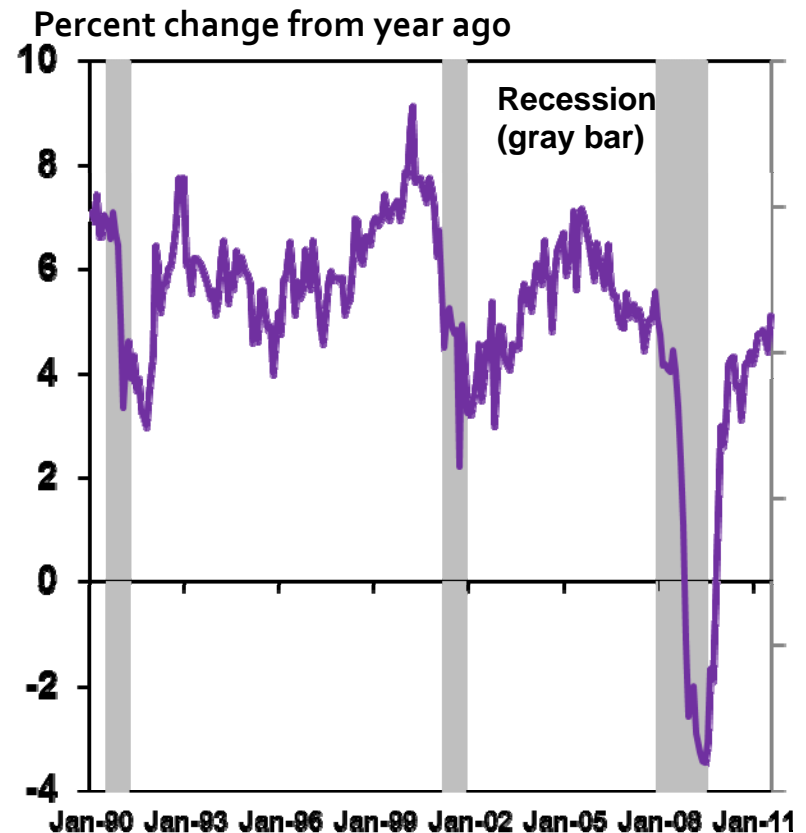
Source: Bureau of Economic Analysis and Wall Street Journal August 2011 Forecast Survey (Average)



Consumption growth is key for the economic recovery in the U.S.

- About 70 percent of U.S. GDP comes from consumption.
- Consumption plummeted during the most recent recession.
- When tax credits expired, the housing sector slowed considerably.
 - Inventories remain elevated.
 - Housing starts remain low.
 - Are prices reaching a bottom?
- Consumer confidence is shaky.
- Savings rate has risen and debt is being reduced.
- Should consumers spend like they did in the 1990s and early 2000s?

Personal Consumption Expenditures

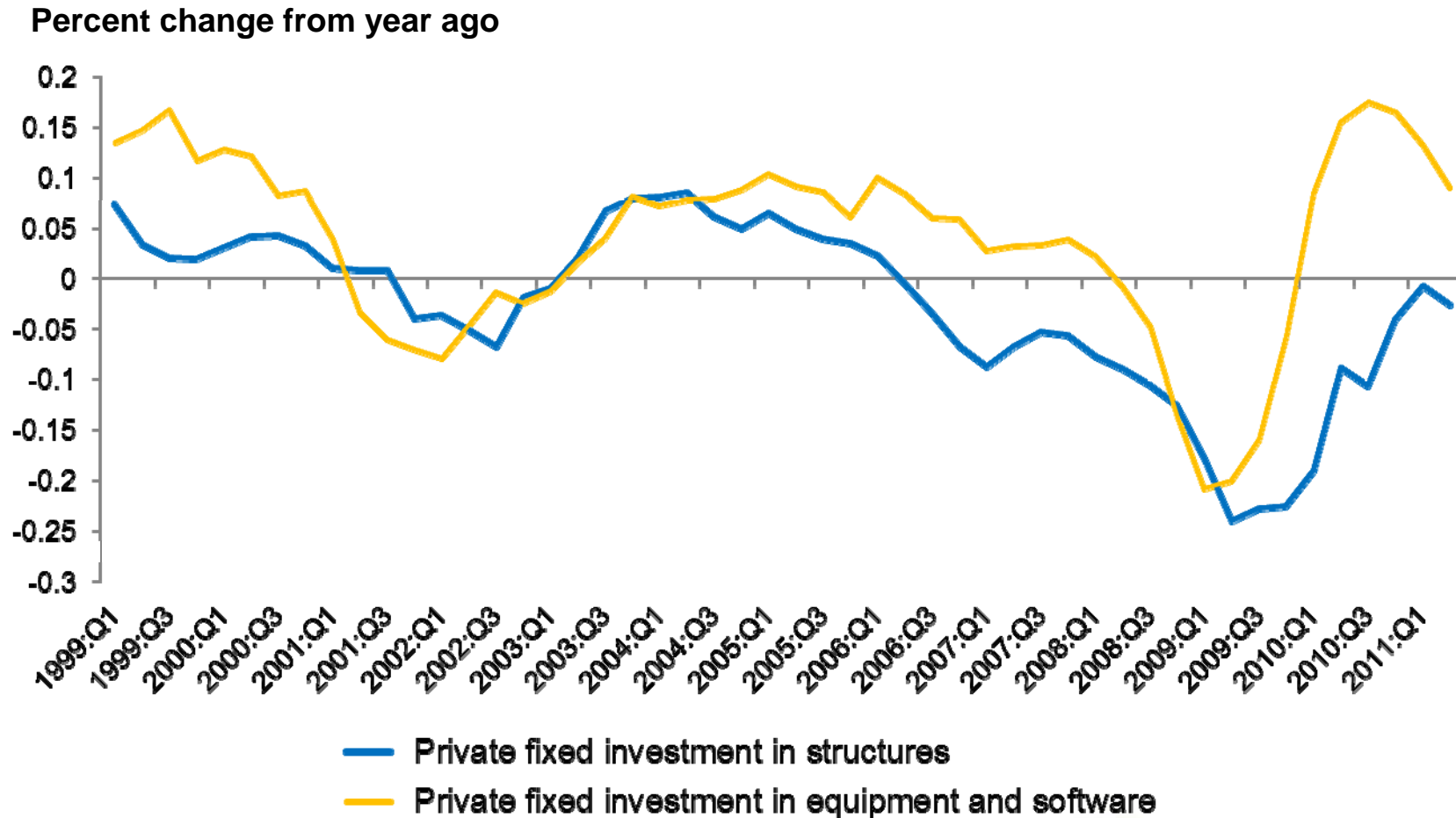


Source: Bureau of Economic Analysis



Since 2008, business investment has improved, but will it continue?

Nonresidential Private Fixed Investment

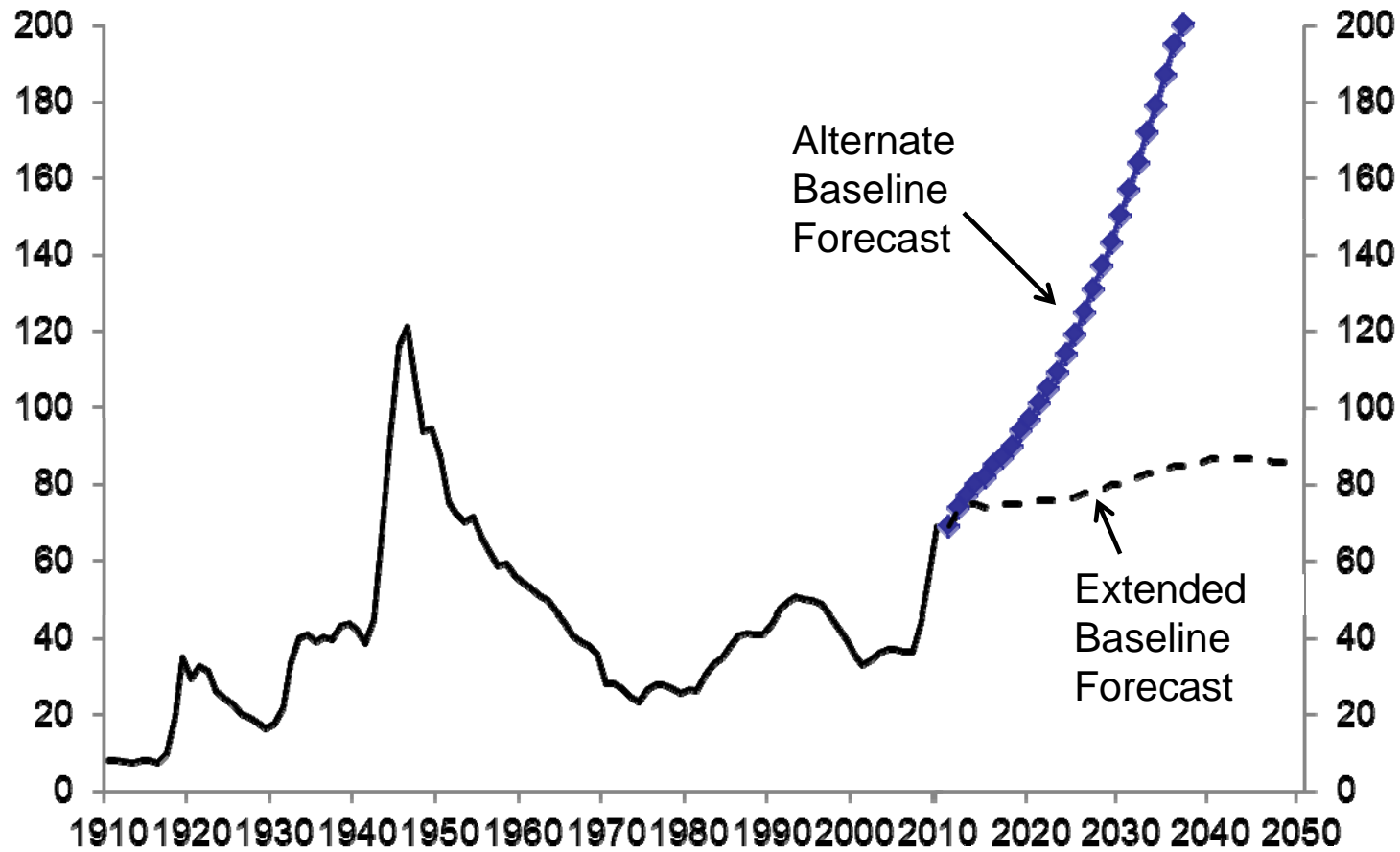


Source: U.S. Census Bureau



Government spending has surged.

Ratio of Federal Debt Held by the Public to Gross Domestic Product

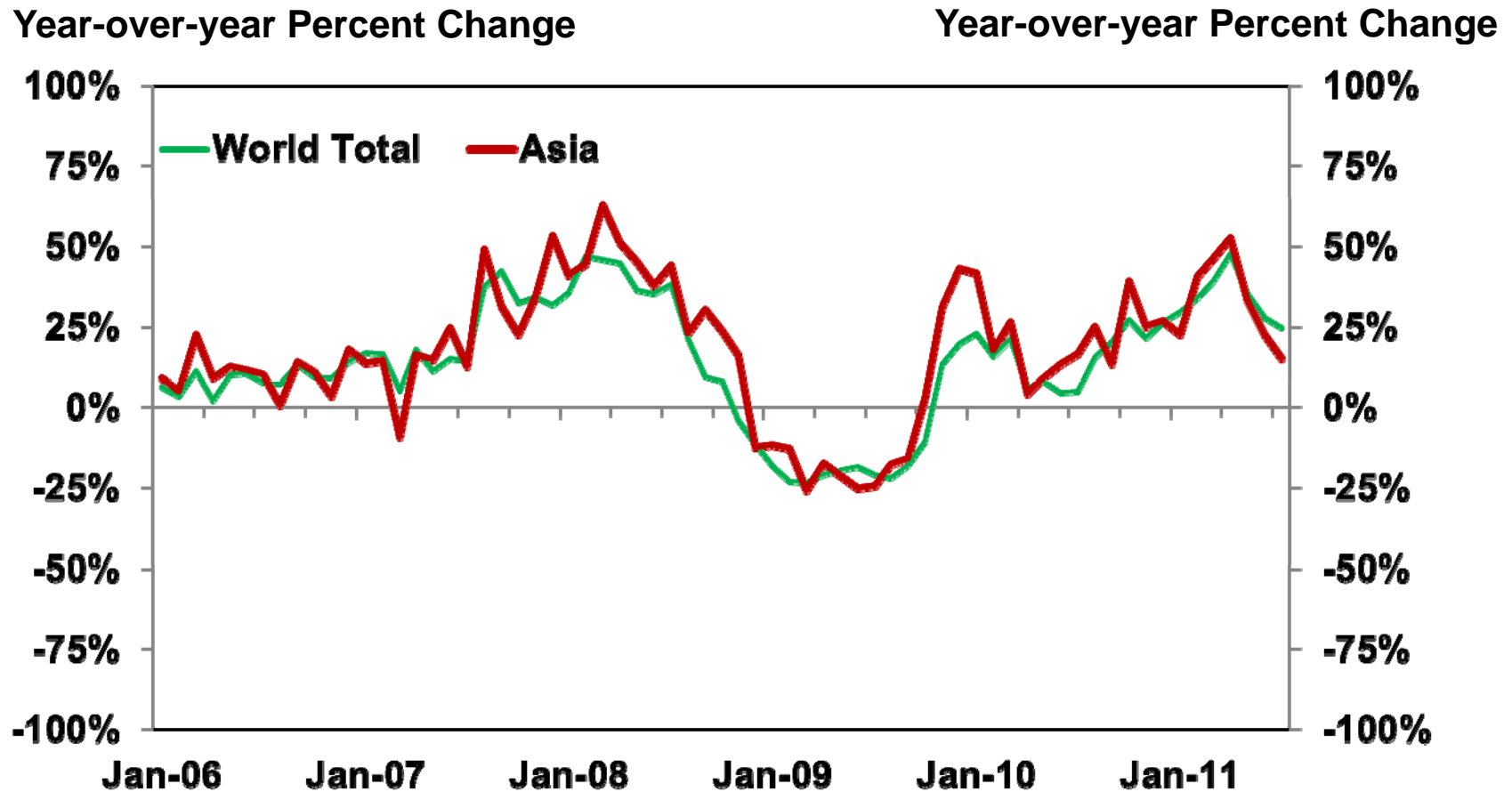


Source: Congressional Budget Office (CBO)



While cooling recently, agricultural exports have surged led by Asia.

Real U.S. Agricultural Exports



Source: USDA



What does this mean for agriculture?



Volatility Perspective

2011 Price Levels vs. Past

Within-Year Average Values

YEAR	Corn (\$/bu)	Alfalfa Hay (\$/ton)	Slaughter Steer Price 5-Mkt Avg (\$/cwt)	Feeder Steers 7-800 Lbs. (\$/cwt)	Feeder Steers 5-600 Lbs. (\$/cwt)	Slaughter Cows (KY, 75-80% Breaking) (\$/cwt)	Bred Cows (Medium-Large 2 Young, 1,000 lb) (\$/hd)
1996-2007	2.37	99.88	75.18	89.37	100.33	42.34	812.11
2008	4.78	162.50	92.78	104.99	115.81	51.02	785.76
2009	3.75	122.92	83.25	97.28	109.68	45.40	682.40
2010	3.83	116.00	95.38	110.89	122.84	53.61	698.73
2011 (Jan-July)	5.94	156.29	111.24	131.85	148.10	68.99	847.60
Change (<i>'11 vs. '96-'07</i>)	150%	56%	48%	48%	48%	63%	4%



Prices Variability in Context

Within-Year Range (Maximum less Minimum)

YEAR	Corn (\$/bu)	Alfalfa Hay (\$/ton)	Slaughter Steer Price 5-Mkt Avg (\$/cwt)	Feeder Steers 7-800 Lbs. (\$/cwt)	Feeder Steers 5-600 Lbs. (\$/cwt)	Slaughter Cows (KY, 75-80% Breaking) (\$/cwt)	Bred Cows (Medium-Large 2 Young, 1,000 lb) (\$/hd)
1996-2007	0.65	18.95	11.54	15.77	16.56	9.59	180.00
2008	1.49	44.00	14.04	23.27	23.69	14.16	291.67
2009	1.11	39.00	5.33	10.03	15.26	9.36	148.75
2010	1.41	11.00	18.17	21.99	21.75	14.98	168.50
2011 (Jan-July)	1.52	68.00	13.91	13.49	17.40	19.91	156.50

Within-Year Coefficient of Variation

YEAR	Corn (\$/bu)	Alfalfa Hay (\$/ton)	Slaughter Steer Price 5-Mkt Avg (\$/cwt)	Feeder Steers 7-800 Lbs. (\$/cwt)	Feeder Steers 5-600 Lbs. (\$/cwt)	Slaughter Cows (KY, 75-80% Breaking) (\$/cwt)	Bred Cows (Medium-Large 2 Young, 1,000 lb) (\$/hd)
1996-2007	0.09	0.06	0.05	0.06	0.05	0.07	0.07
2008	0.11	0.10	0.05	0.07	0.07	0.09	0.10
2009	0.08	0.12	0.02	0.04	0.04	0.06	0.07
2010	0.13	0.03	0.05	0.06	0.05	0.09	0.07
2011 (Jan-July)	0.10	0.19	0.04	0.03	0.05	0.10	0.07

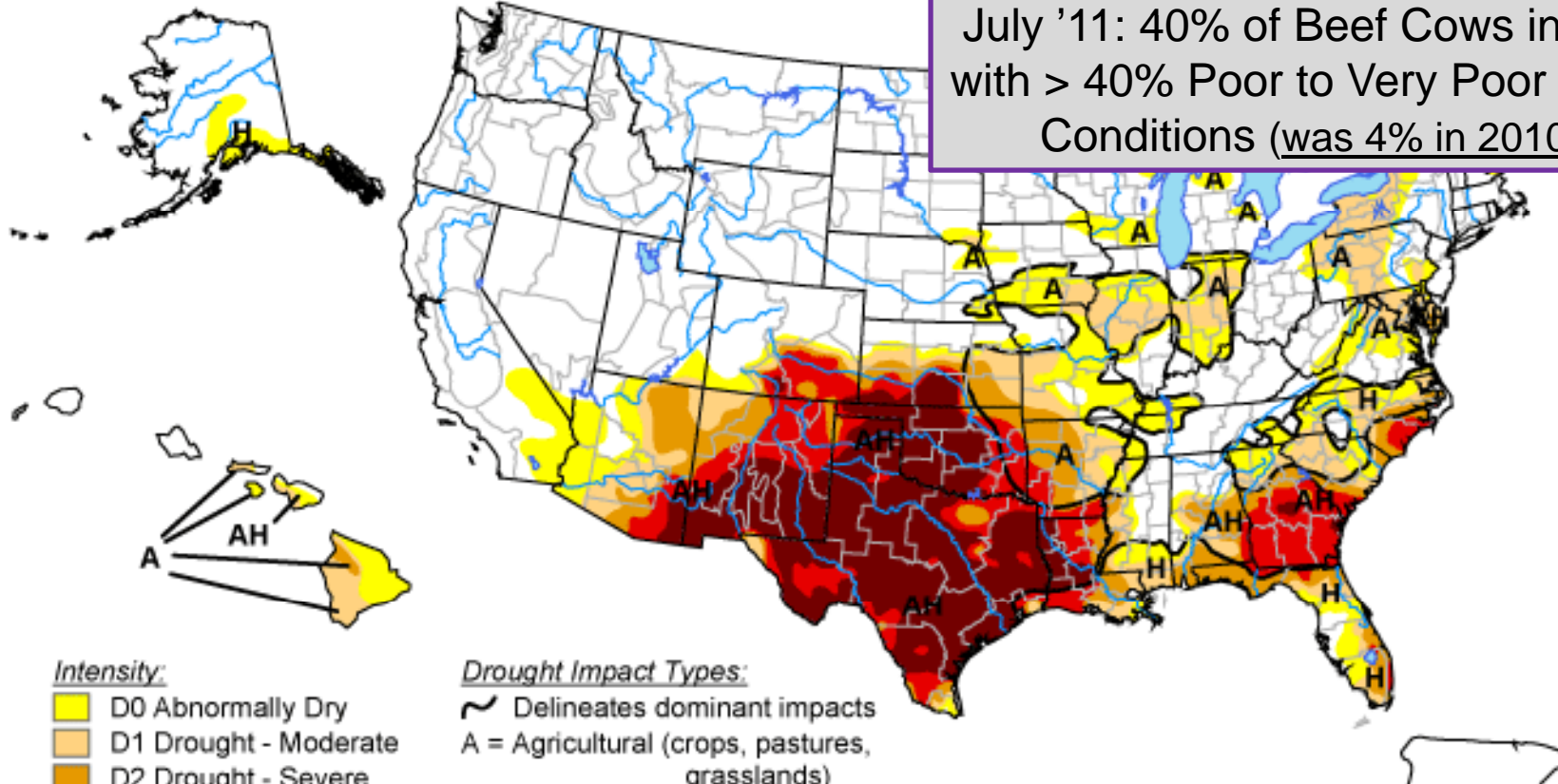


U.S. Drought Monitor






August 9, 2011

Valid 8 a.m. EDT


July '11: 40% of Beef Cows in States with > 40% Poor to Very Poor Pasture Conditions (was 4% in 2010)...



Intensity:

-  D0 Abnormally Dry
-  D1 Drought - Moderate
-  D2 Drought - Severe
-  D3 Drought - Extreme
-  D4 Drought - Exceptional

Drought Impact Types:

-  Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://drought.unl.edu/dm>



Released Thursday, August 11, 2011

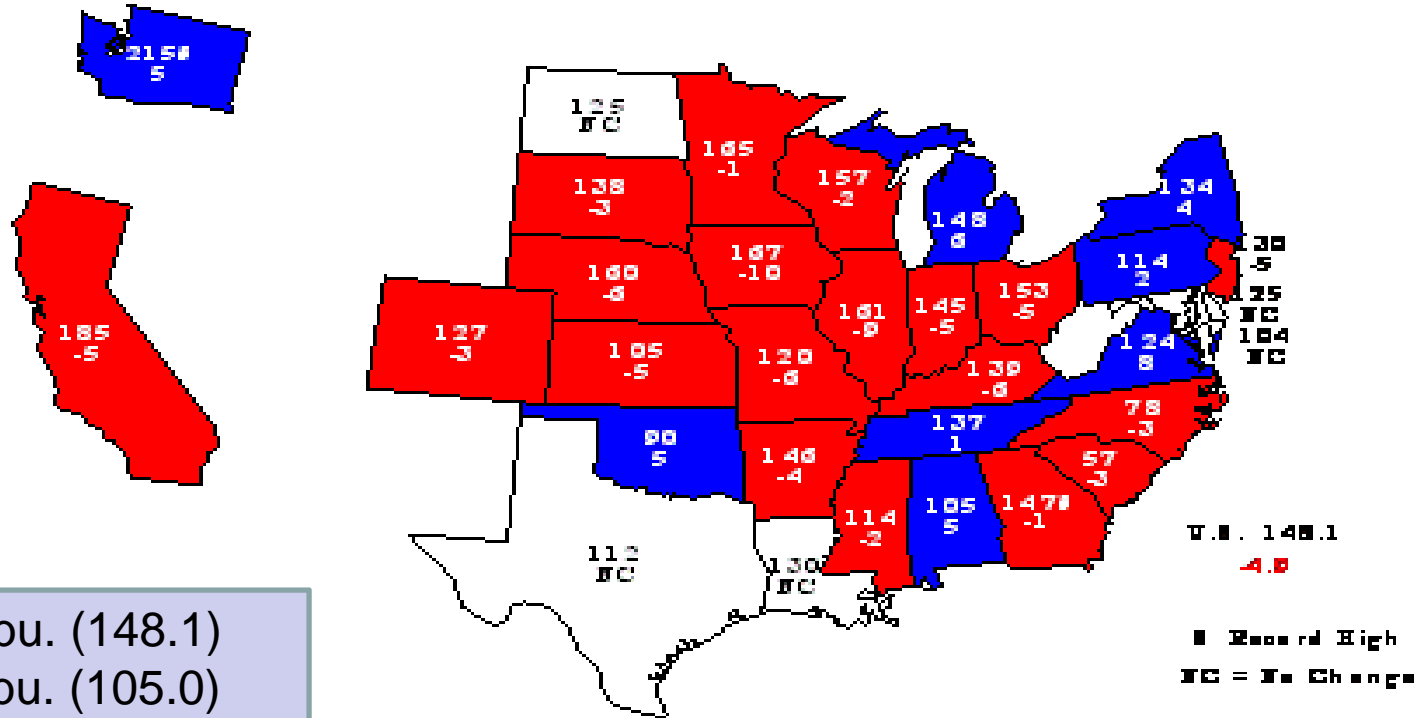
Author: Laura Edwards, Western Regional Climate Center





Corn for Grain Yields, September 1, 2011

Bushels and Change From Previous Month



US: - 4.9 bu. (148.1)
 KS: - 5.0 bu. (105.0)
 IA: - 10.0 bu. (167.0)

USDA-NASS
 09-12-11

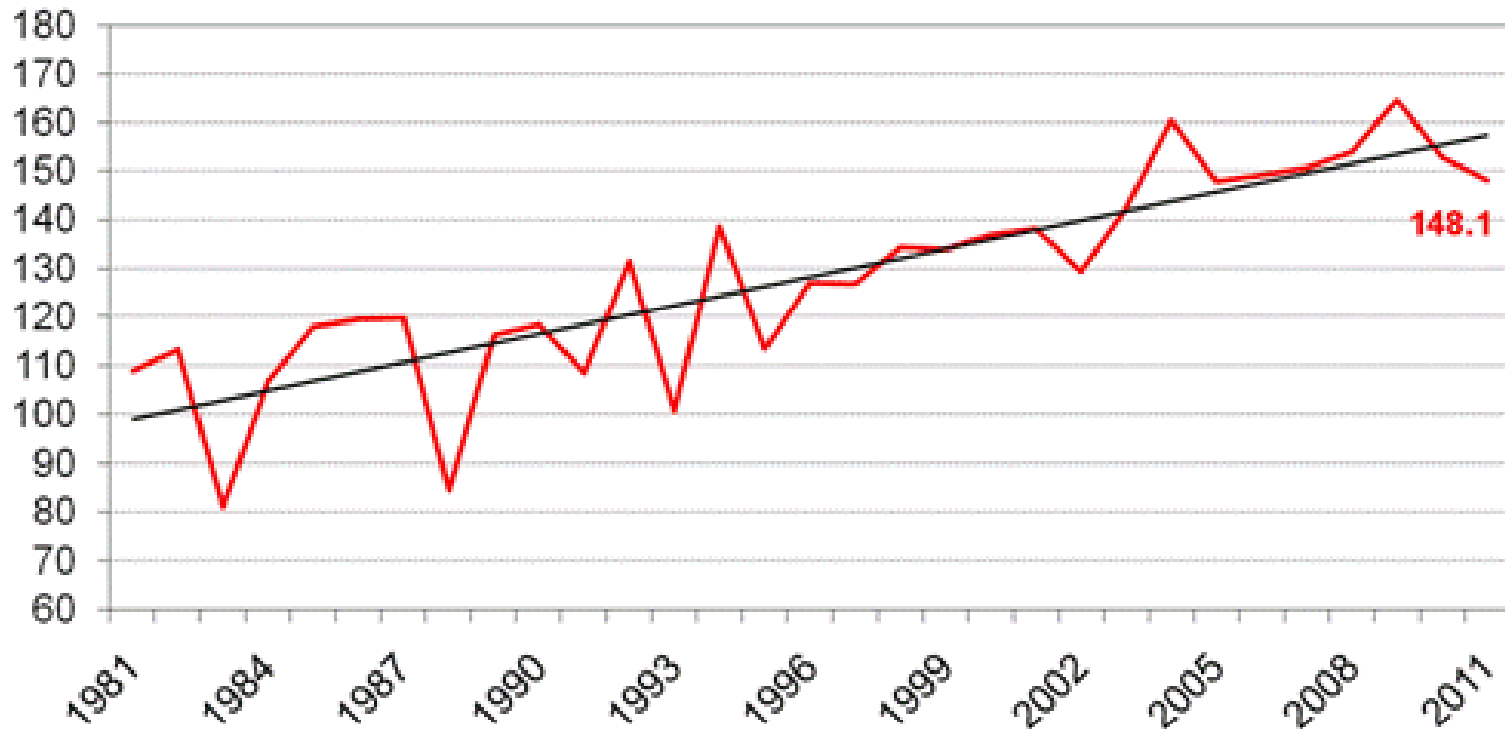
http://www.nass.usda.gov/Charts_and_Maps/Field_Crops/cornmap.asp



U.S. Corn Yield



Bushels/Acre



USDA-NASS
09-12-11

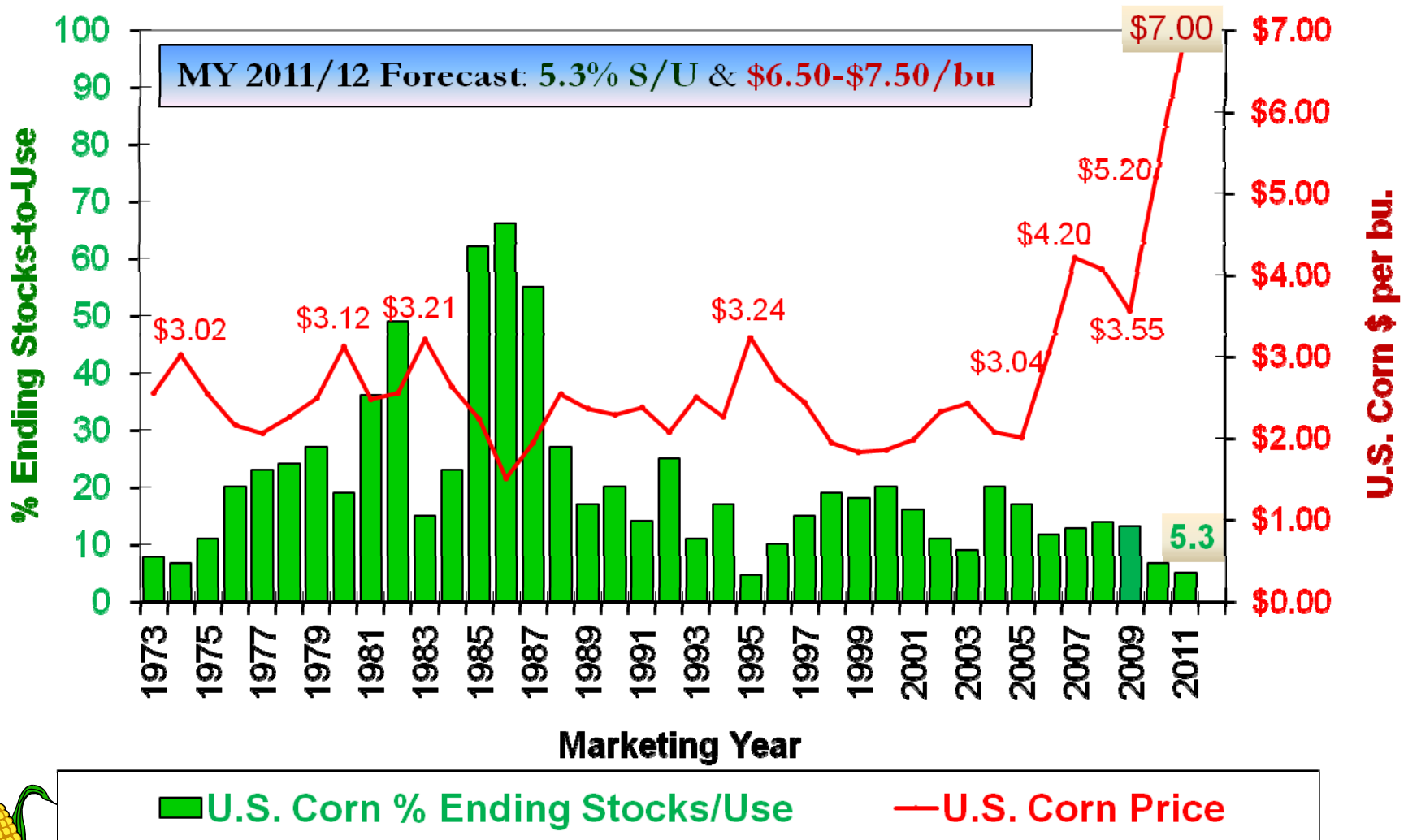
http://www.nass.usda.gov/Charts_and_Maps/Field_Crops/cornyld.asp

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U.S. Corn %Stocks/Use vs Price\$

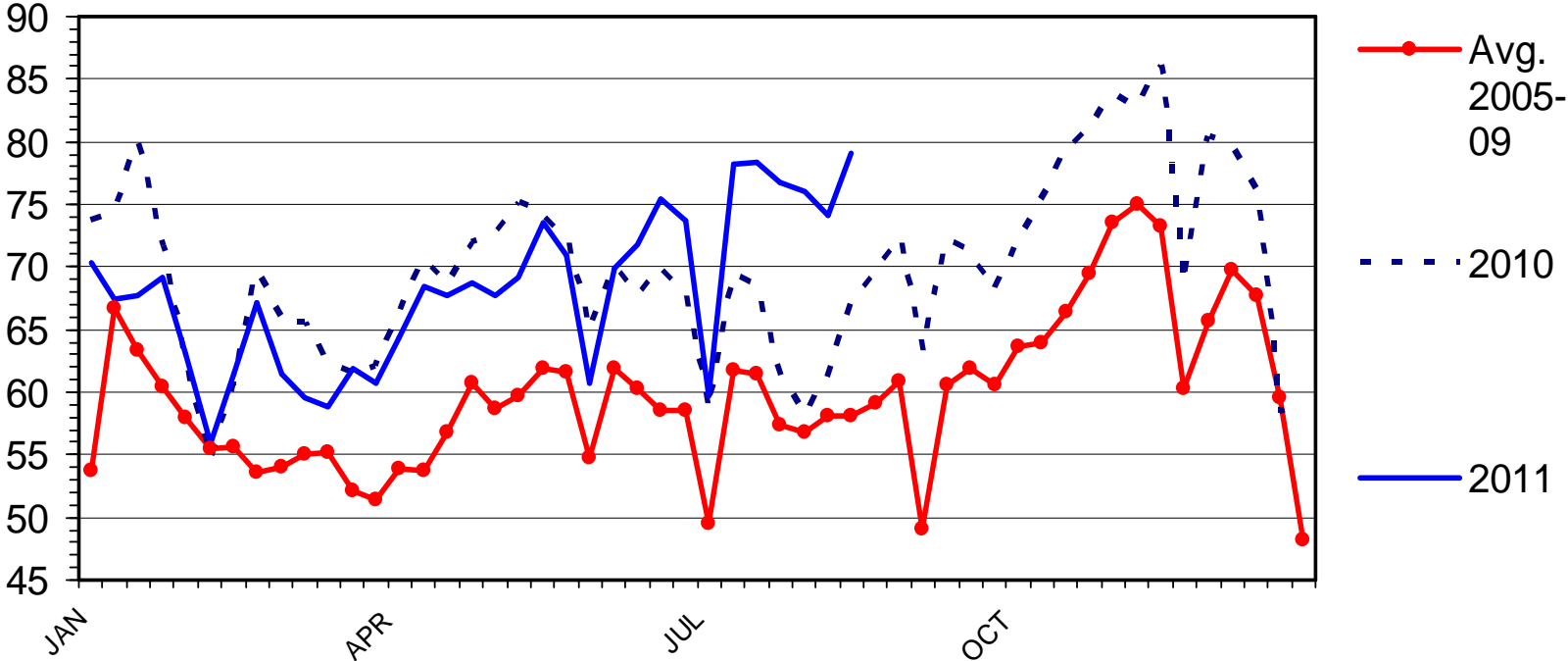
MY 1973/74 thru MY 2011/12 September 12, 2011 USDA WASDE Report



BEEF COW SLAUGHTER

Federally Inspected, Weekly

Thou. Head



Livestock Marketing Information Center

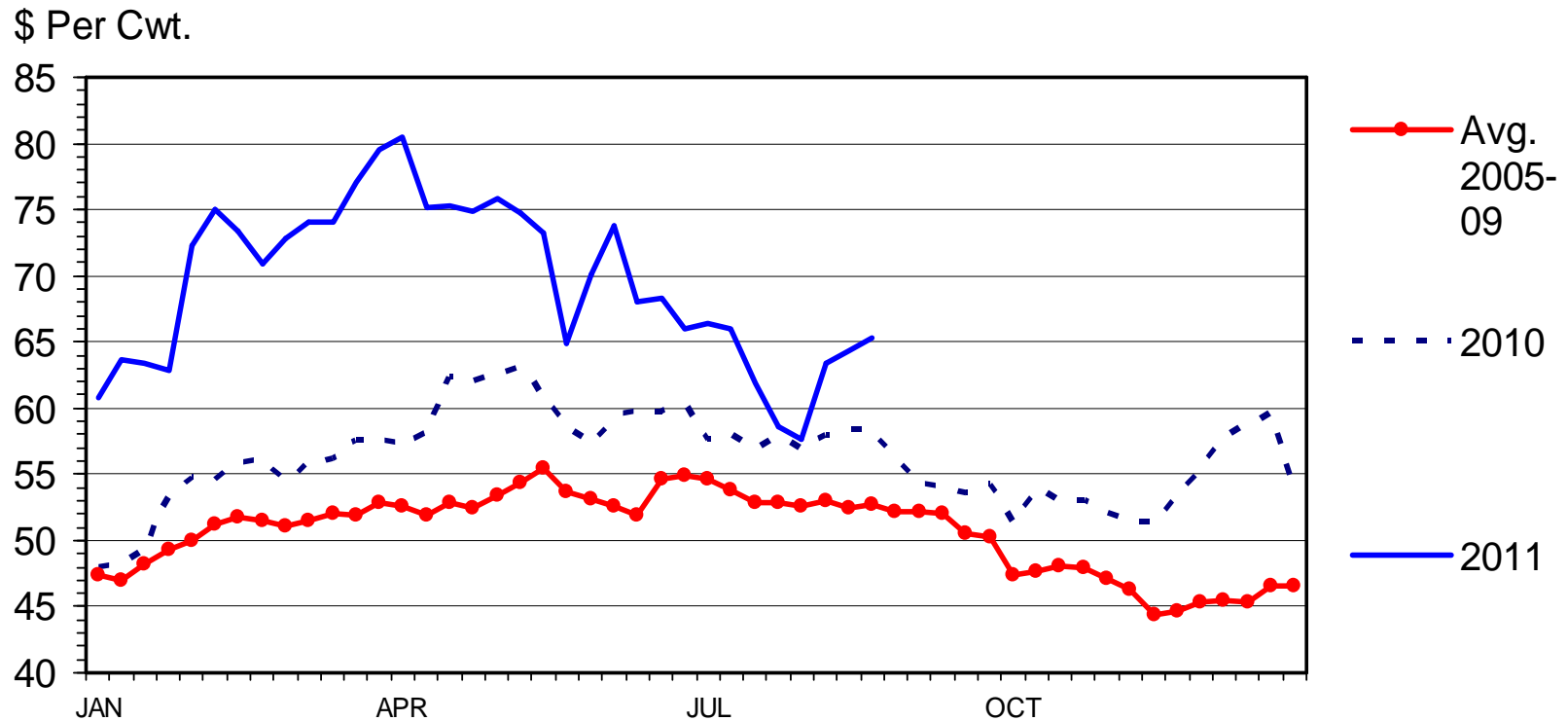
Data Source: USDA-AMS & USDA-NASS

C-S-34
09/05/11



SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS

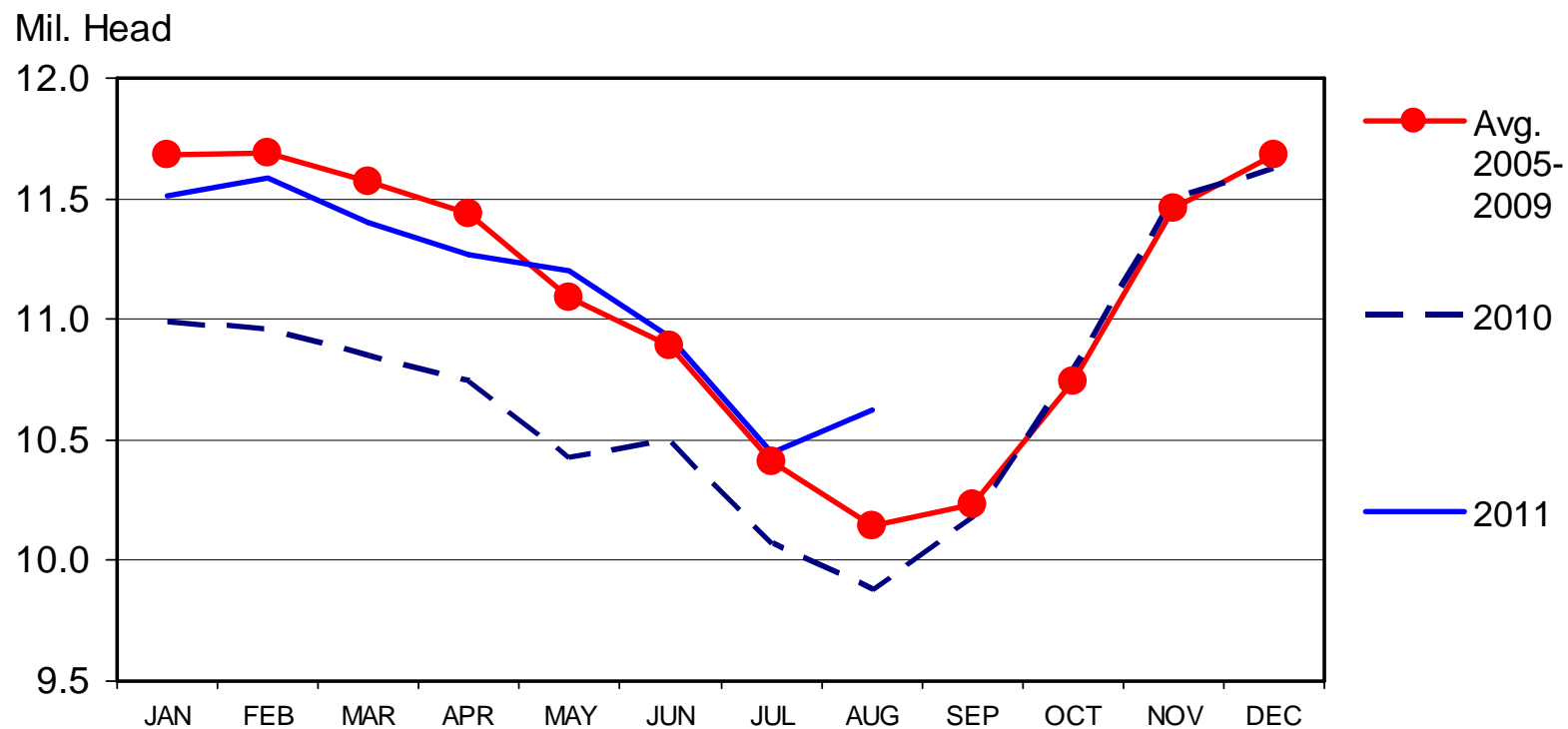
C-P-35
08/29/11

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CATTLE ON FEED

US Total, Monthly



Livestock Marketing Information Center

Data Source: USDA-NASS

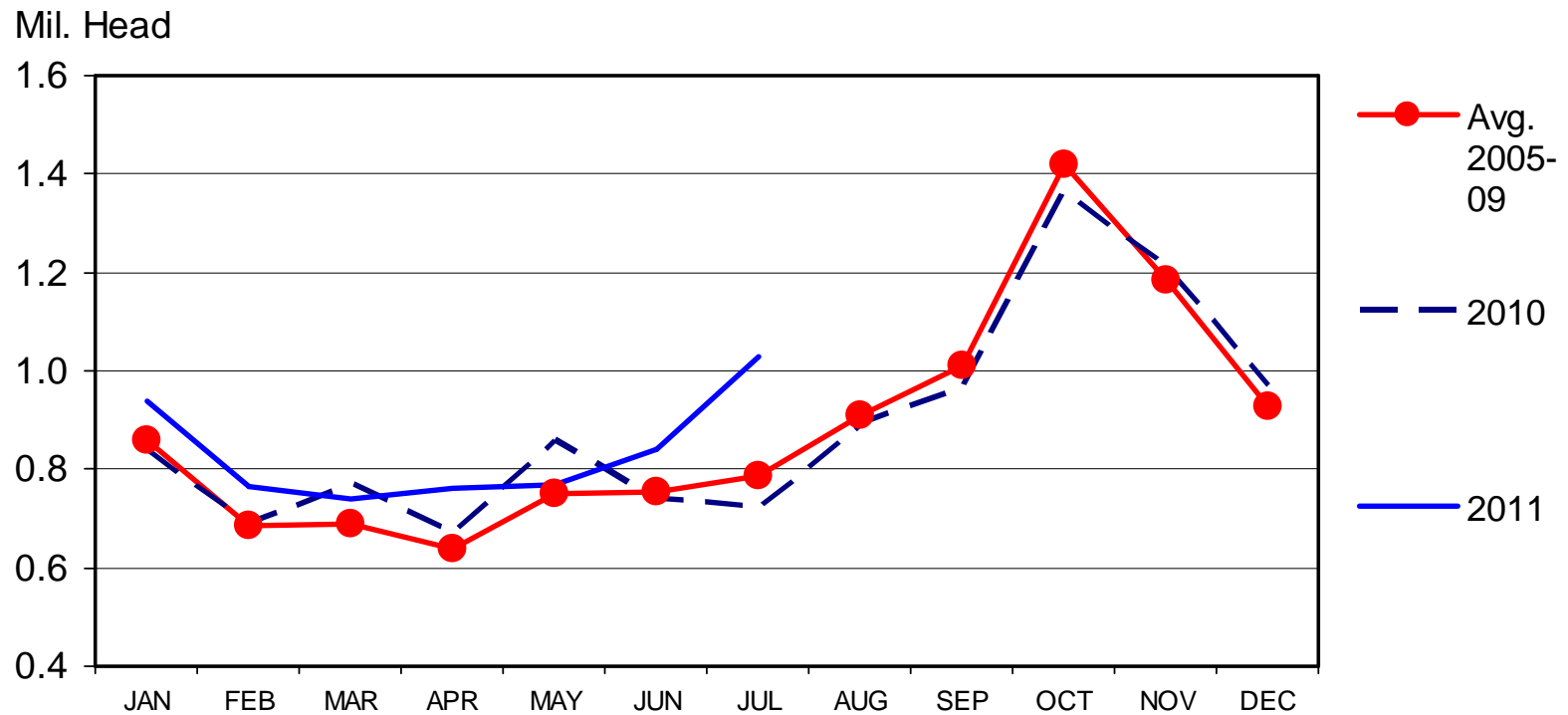
C-N-10
08/19/11

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CATTLE PLACED WEIGHING LESS THAN 700 POUNDS

1,000 Plus Capacity Feedlots, U.S., Monthly



Livestock Marketing Information Center

Data Source: USDA-NASS, Compiled & Analysis by LMIC

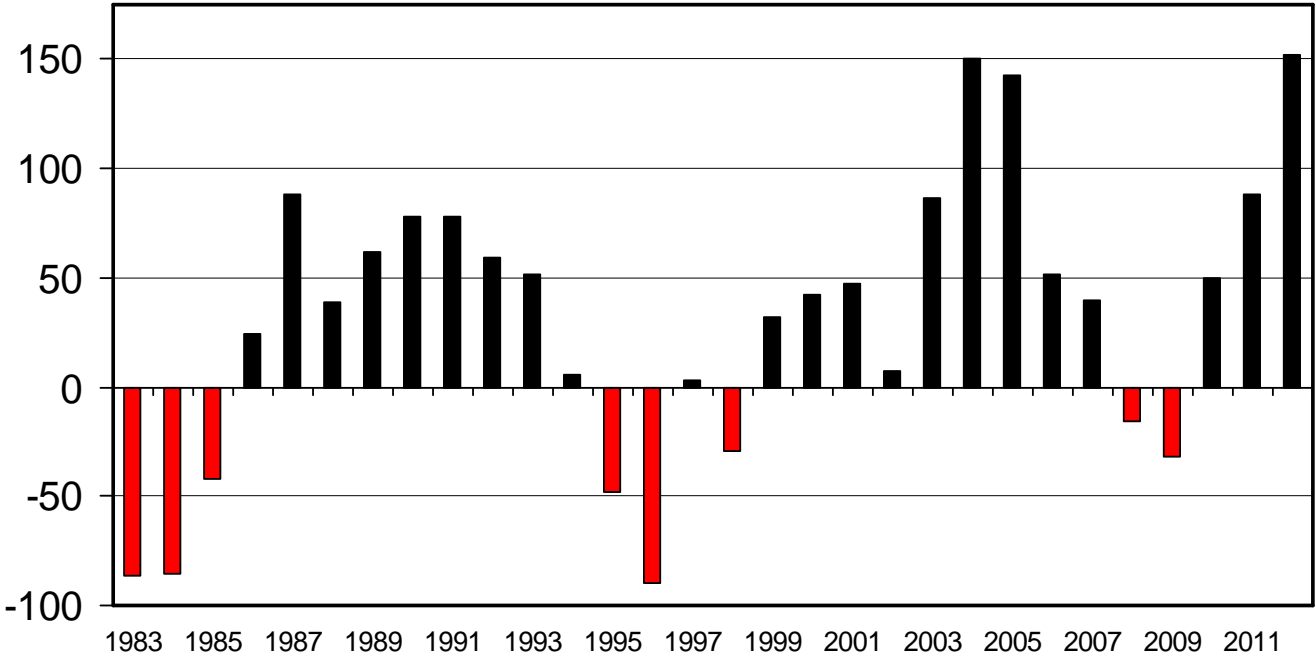
C-N-08A
08/19/11



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



Livestock Marketing Information Center

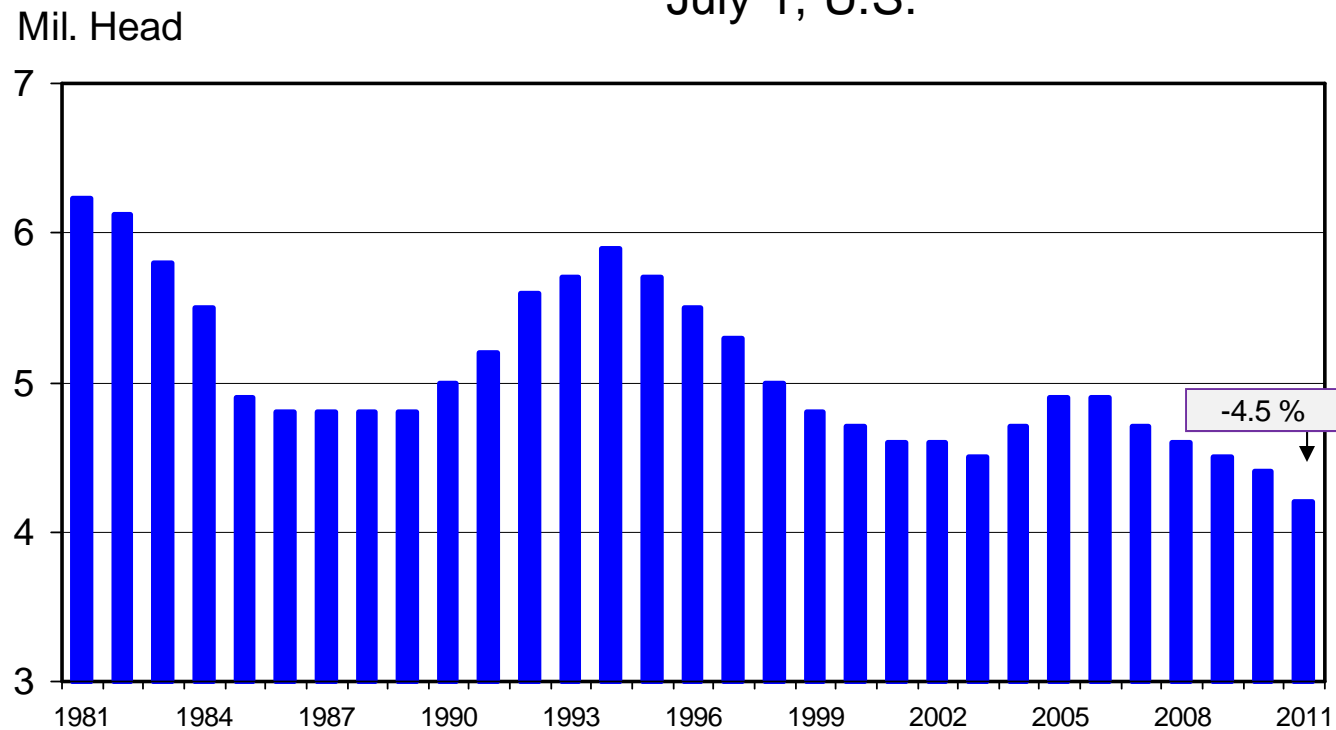
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66
08/16/11

Will national herd expand by 2014???
-- who & where will expansion occur???

HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.



Livestock Marketing Information Center

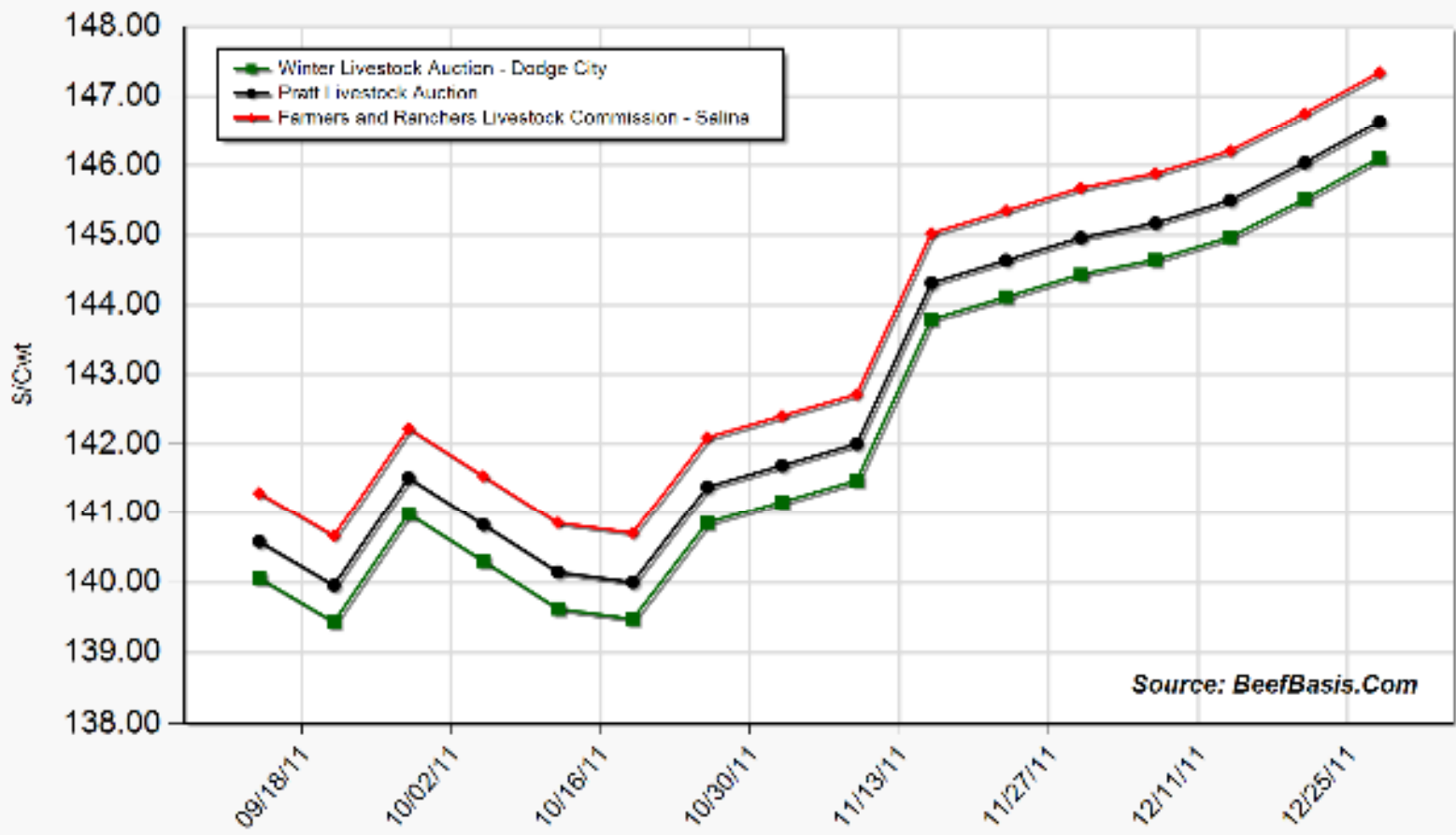
Data Source: USDA-NASS

C-N-37
07/22/11

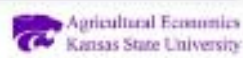


As of: 9/12/11

Projected Price for 550 Lb Steer at Selected Kansas Auctions

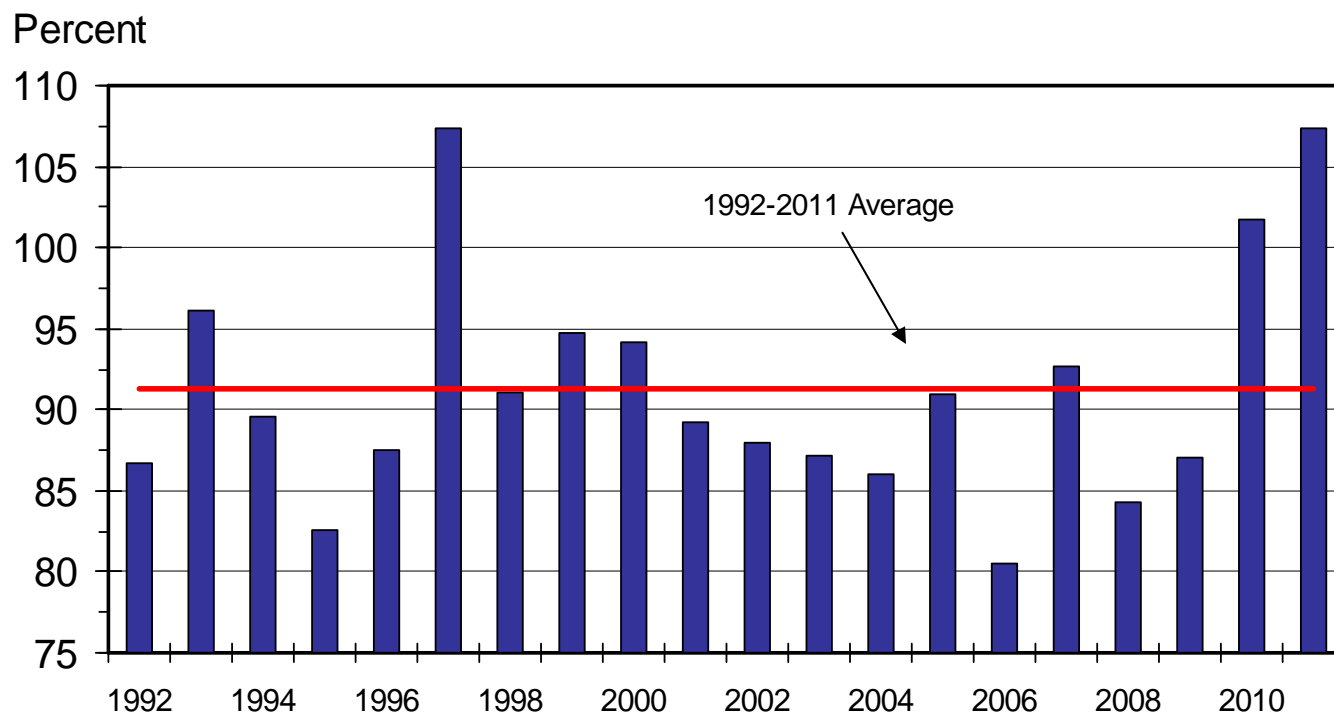


Source: BeefBasis.Com



BUY/SELL MARGINS

S. Plains, Mar. 7-800 lb. Steer as % of Nov. 5-600 lb. Steer



Livestock Marketing Information Center

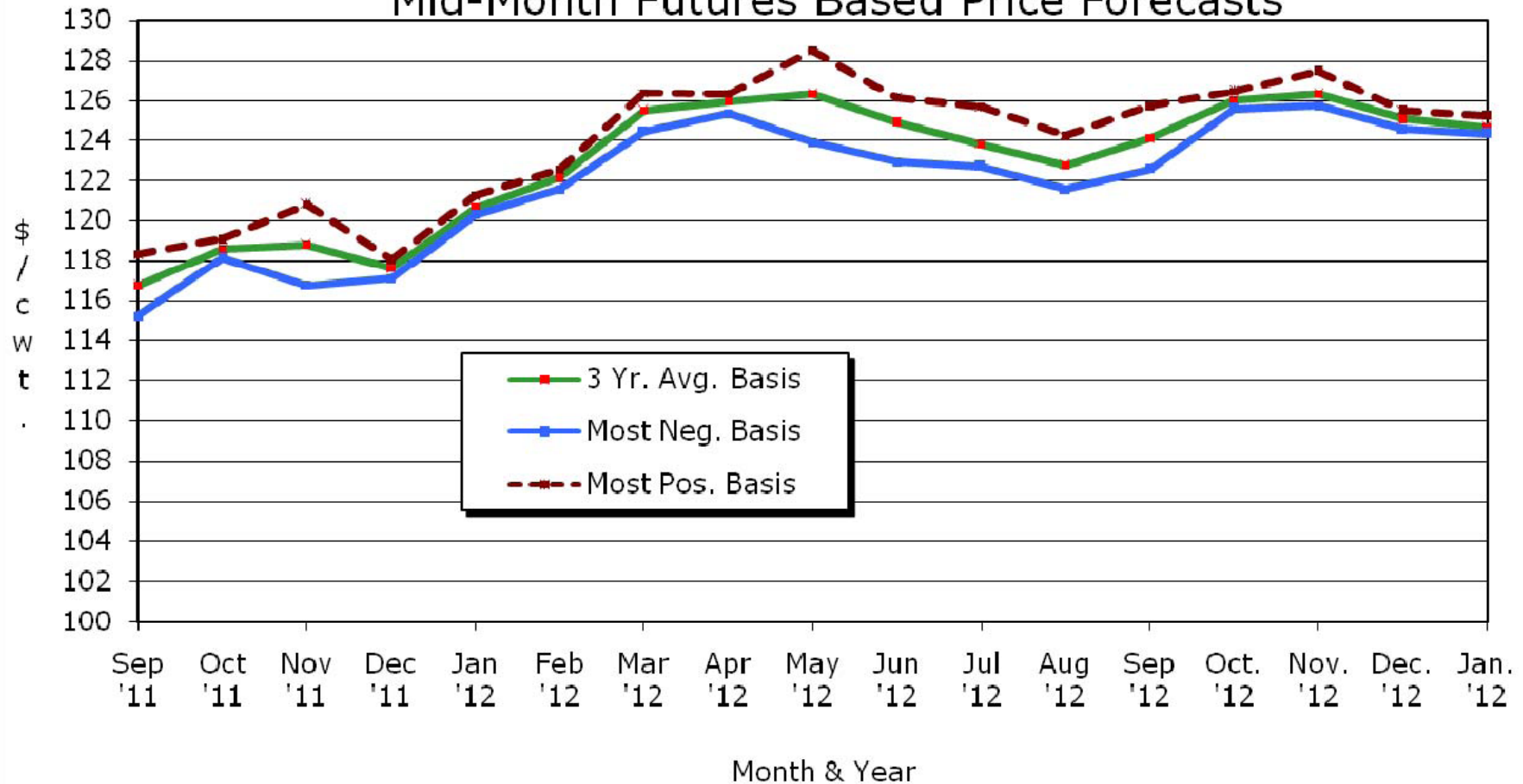
Data Source: USDA-AMS, Compiled & Analysis by LMIC

C-P-60
08/17/11



As of: 9/9/11

Kansas Slaughter Steer Price Forecasts Mid-Month Futures Based Price Forecasts



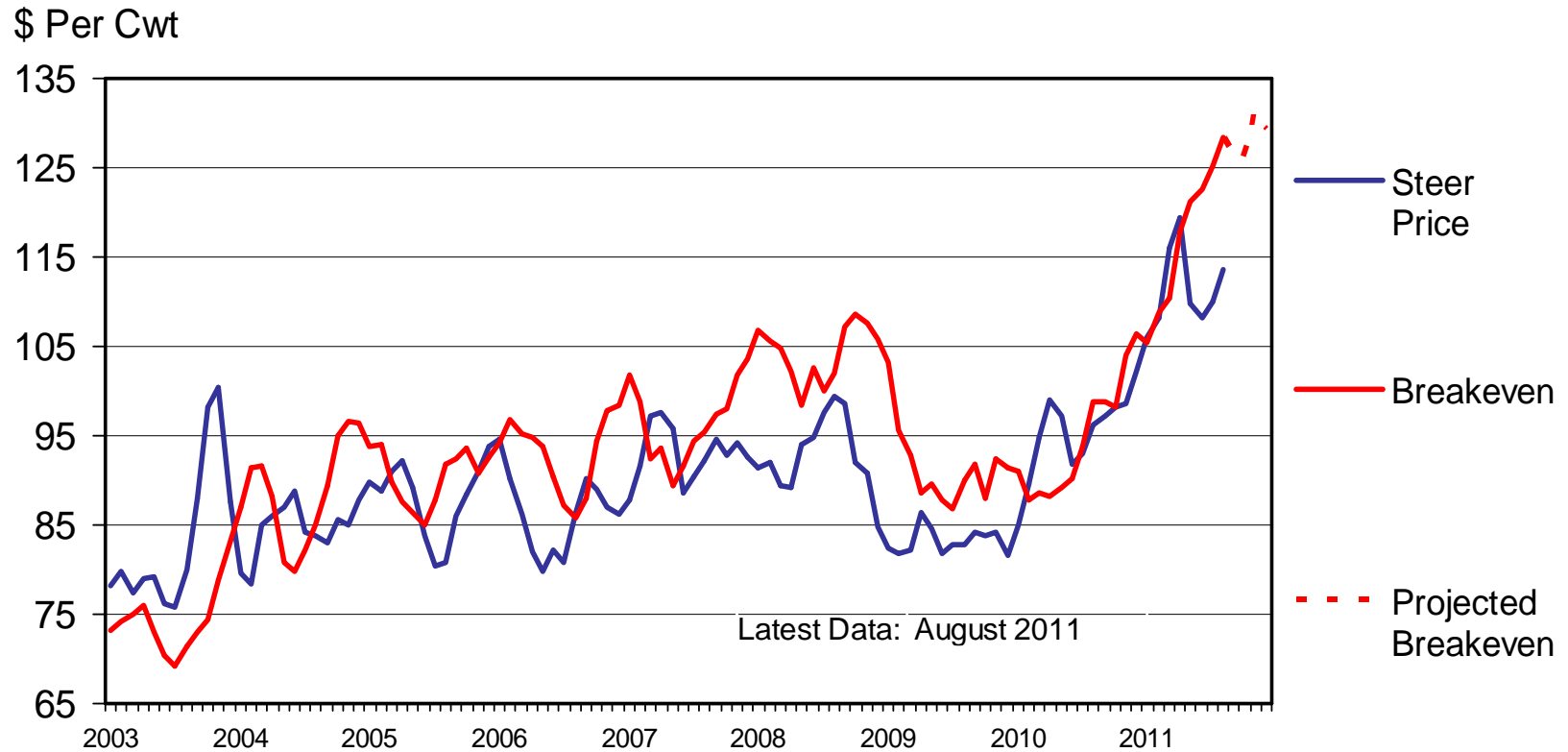
Source: USDA-AMS, CME, & K-State Ag. Economics
Based on 9.9.11 CME Live Cattle settlement prices

KSU Dept. of Ag Econ
www.agmanager.info



CHOICE STEER PRICE vs BREAKEVEN

Cattle Feeding, S. Plains, Monthly



C-P-21
09/08/11

Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

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Quarterly Forecasts (LMIC: 9/10/11)

Year	Comm'l	% Chg. from	Average Dressed	% Chg. from	Comm'l Beef	% Chg. from
Quarter	Slaughter	Year Ago	Weight	Year Ago	Production	Year Ago
2011						
I	8,317	1.9	770.88	0.7	6,411	2.6
II	8,639	-0.5	759.23	0.7	6,559	0.2
III	8,771	0.2	772.77	0.1	6,778	0.1
IV	8,195	-5.3	781.70	0.4	6,406	-5.0
Year	33,922	-1.0	771.02	0.4	26,154	-0.6
2012						
I	7,934	-4.6	779.18	1.1	6,182	-3.6
II	8,180	-5.3	766.38	0.9	6,269	-4.4
III	8,182	-6.7	785.63	1.7	6,428	-5.2
IV	7,914	-3.4	788.35	0.9	6,239	-2.6
Year	32,210	-5.0	779.82	1.1	25,118	-4.0
2013						
I	7,483	-5.7	788.19	1.2	5,898	-4.6
II	7,766	-5.1	771.95	0.7	5,995	-4.4
III	8,116	-0.8	793.25	1.0	6,438	0.2
IV	7,657	-3.2	794.44	0.8	6,083	-2.5
Year	31,022	-3.7	786.99	0.9	24,414	-2.8



Quarterly Forecasts (LMIC: 9/10/11)

Year Quarter	Live Sltr.	% Chg.	Feeder Steer Price	
	Steer Price 5-Mkt Avg	from Year Ago	Southern Plains 7-800#	5-600#
2011				
I	110.12	23.11	129.06	150.07
II	112.79	17.08	132.03	148.61
III	112-113	17.84	135-137	141-143
IV	115-118	16.18	130-134	136-140
Year	112-114	18.47	131-133	142-147
2012				
I	116-120	7.16	126-131	139-146
II	118-123	6.84	130-137	144-153
III	114-120	4.00	133-141	146-156
IV	117-124	3.43	128-137	141-152
Year	117-121	5.31	129-137	142-152
2013				
I	119-127	4.24	129-139	143-157
II	121-130	4.15	133-144	146-159
III	116-126	3.42	135-147	147-161
IV	119-130	3.32	131-144	143-158
Year	120-127	3.78	133-143	146-158



Beef industry changes underway

- Growth of stocker segment
 - Larger operations least likely to exit as they already are retaining ownership more...
 - Association with public grazing, value of gain, etc. makes this trend likely to continue...
- Reduced farmer-feeders (2010 vs 2009)
 - <1,000 hd yards; reduced total capacity by 150,000 hd (5,000 operations exited)
 - >50,000 hd yards; increased total capacity by 370,000 hd (4 more operations)
 - w/ +/- 20% feedlot over-capacity, will '11 be different ???



Policy/Regulation Issues & Trends

- GIPSA “fair market” proposed rules / “anti-competition” listening sessions ...
 - No timetable on USDA’s benefit-cost assessment...
 - Environmental regulation concerns
 - Animal welfare/mandatory labeling???
- Is overall uncertainty holding back investment throughout livestock supply chain???



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BUSINESS | FEBRUARY 16, 2011

Crop Surge Lifts Farmland

Article | Comments (11)

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By SCOTT KILMAN

Farmland values in much of the Midwest are climbing

The New York Times

Business Day

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In Price of Farmland, Echoes of Another Boom



Dale P. Wegner for The New York Times

Le Mars, Iowa, that he purchased for \$10,000 an acre at a land auction.

The Economist

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American farmland

Sowing bubbles

Regulators grow increasingly worried about steep cropland prices

Apr 20th 2011 | NEW YORK | from the print edition

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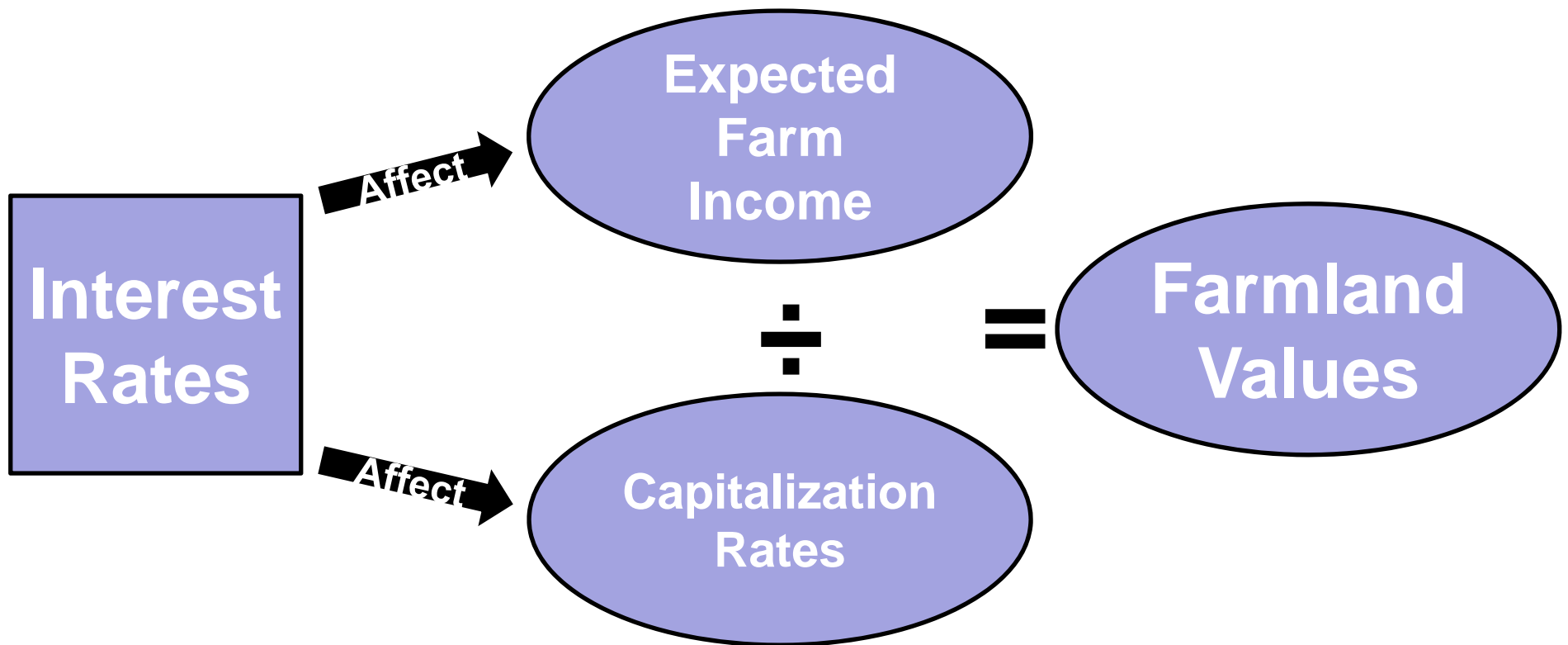
FINANCIAL regulators in America were criticised for doing too little about the country's on Monday for \$10,000 an acre would seem to have nothing in common with a condo in Miami or a house in Las Vegas.

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COMMENTS (69)

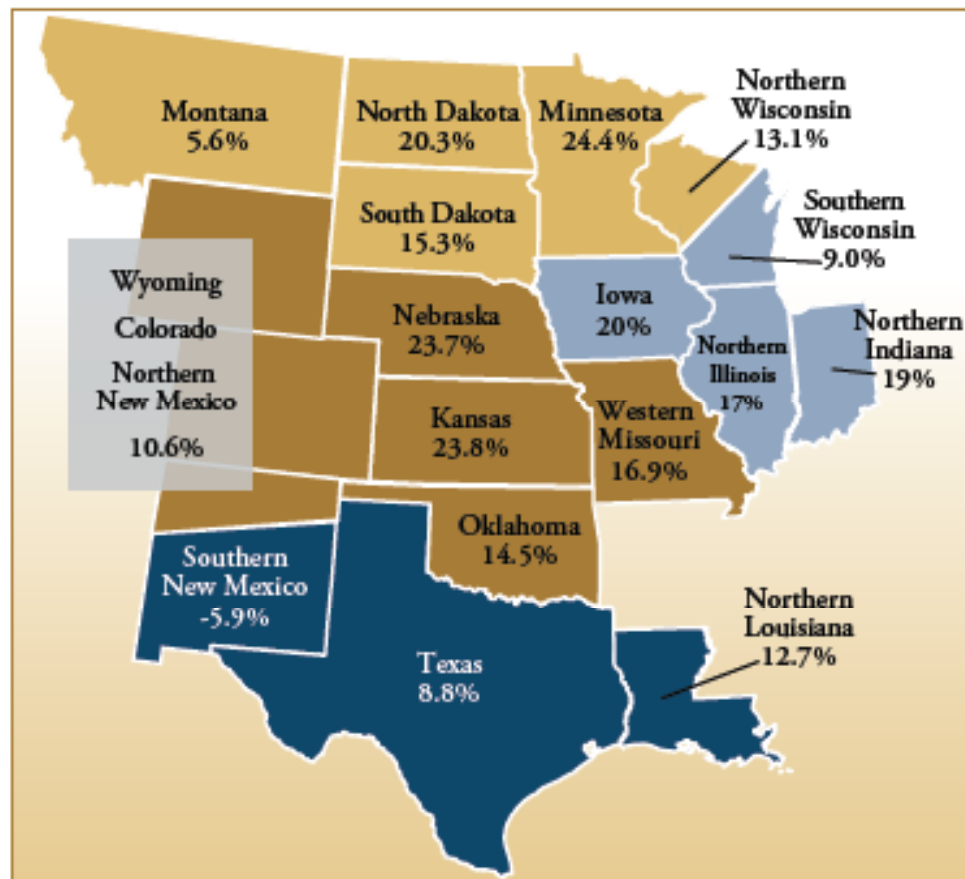
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Interest rates can affect farmland values through two avenues.



With low capitalization rates and elevated farm income, farmland values have surged.

Non-irrigated Cropland Values (Percent change from 2010:Q1 to 2011:Q1)

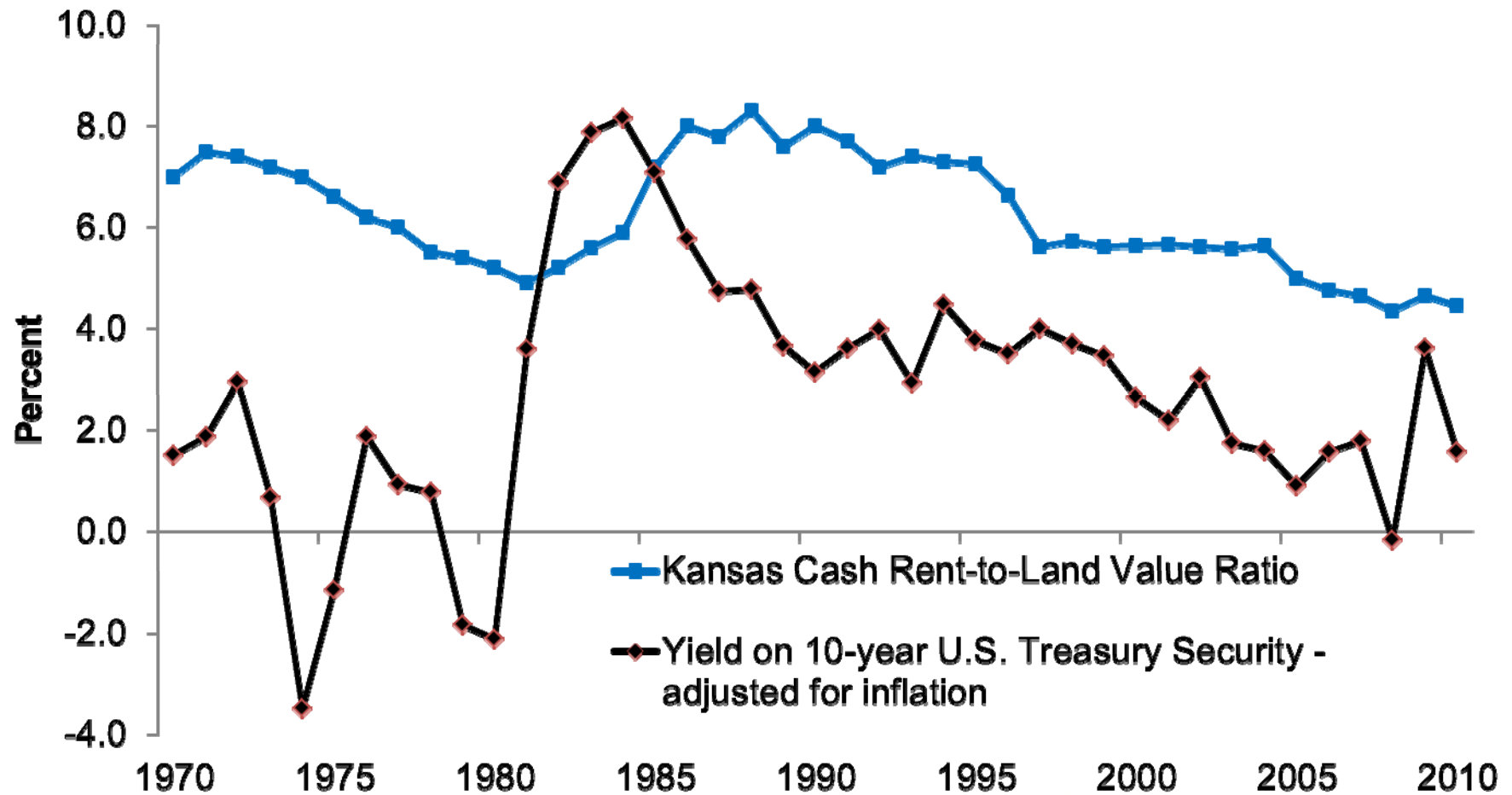


Source: Agricultural Finance Databook, Federal Reserve Bank of Kansas City



Over time, real interest rates and capitalization rates tend to move together.

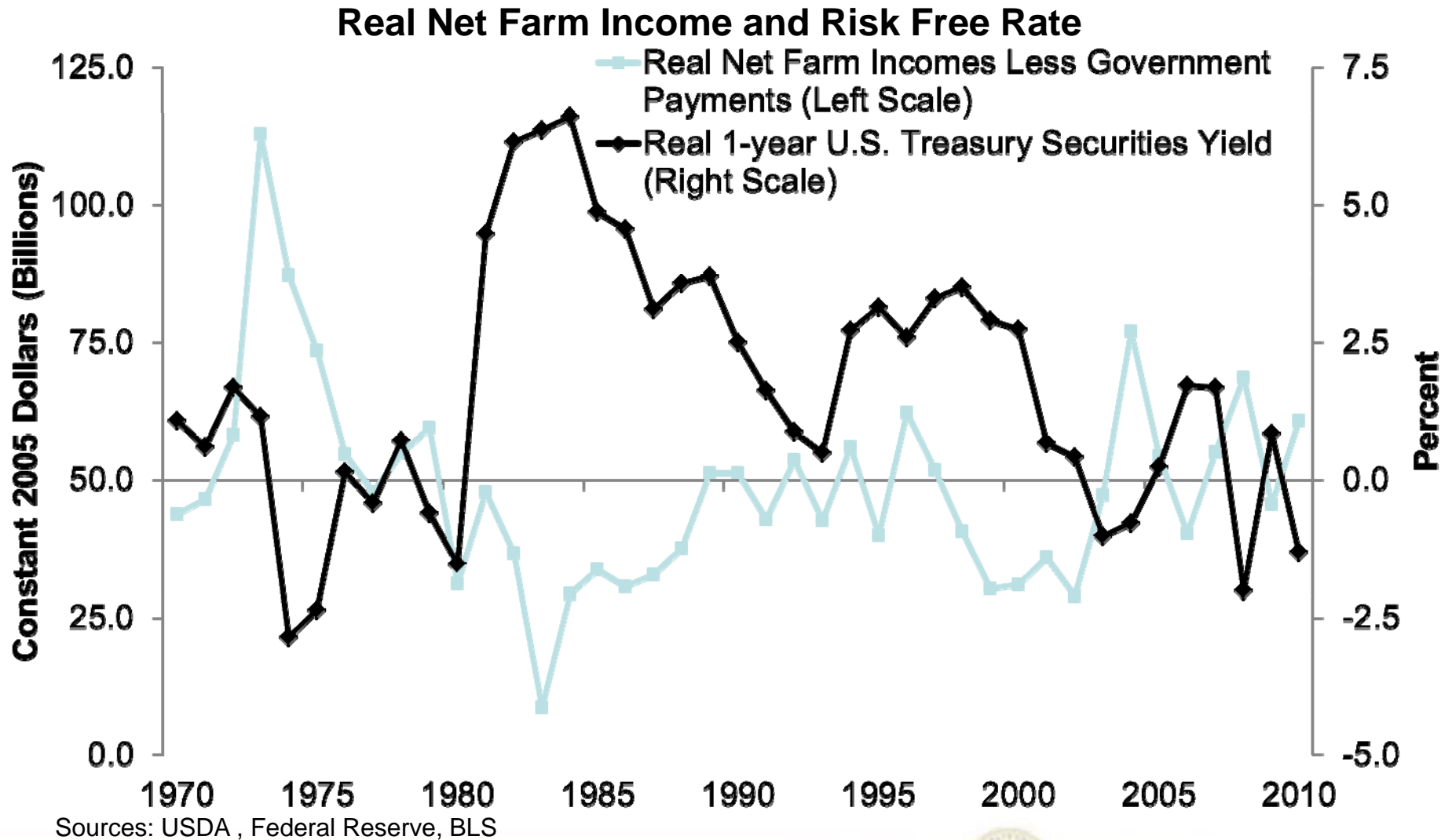
Kansas Capitalization Rate and Real Interest Rate



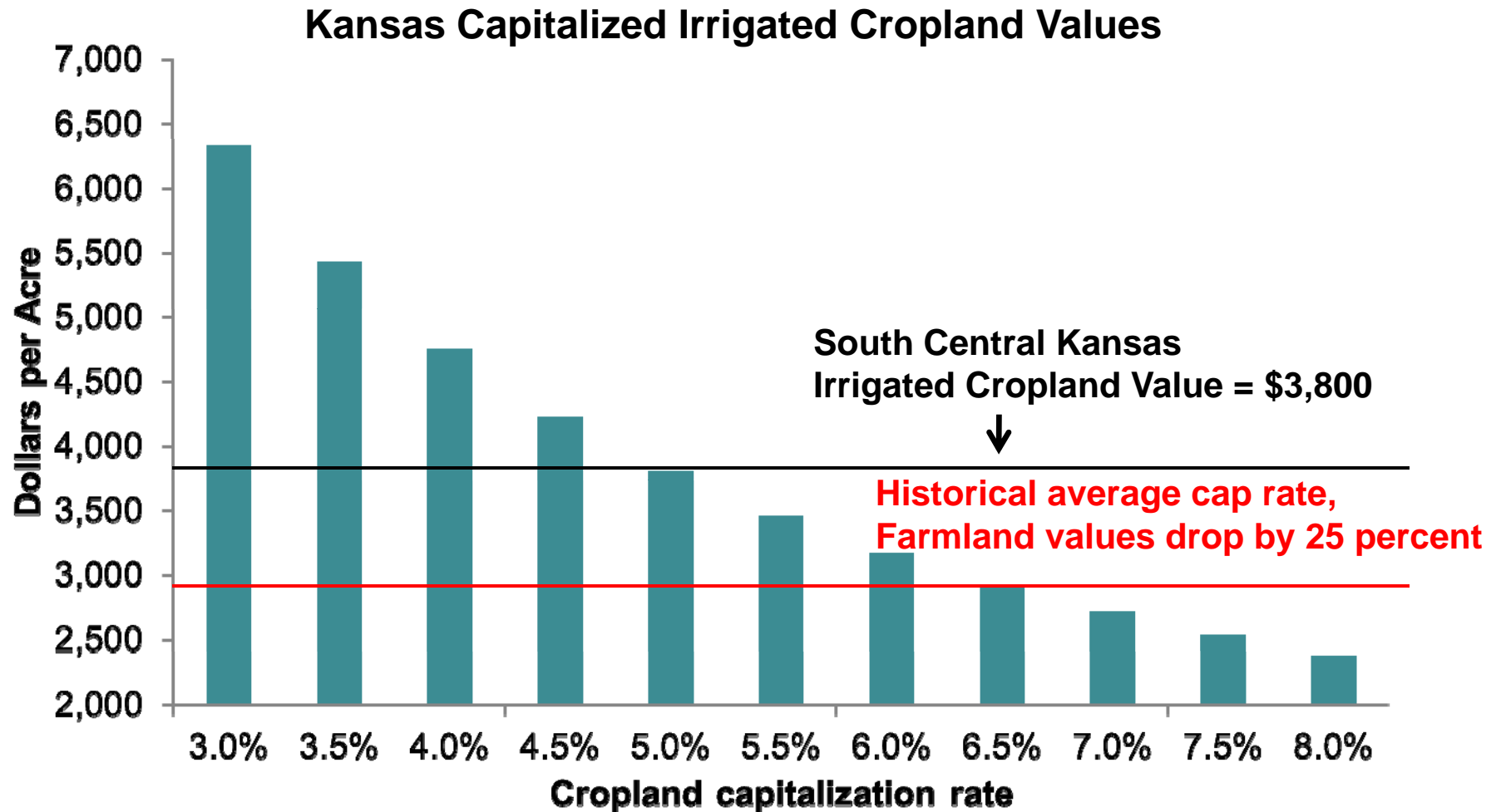
Sources: USDA, Federal Reserve and BLS



Over time, real interest rates and real net farm income tend to move in opposite directions.



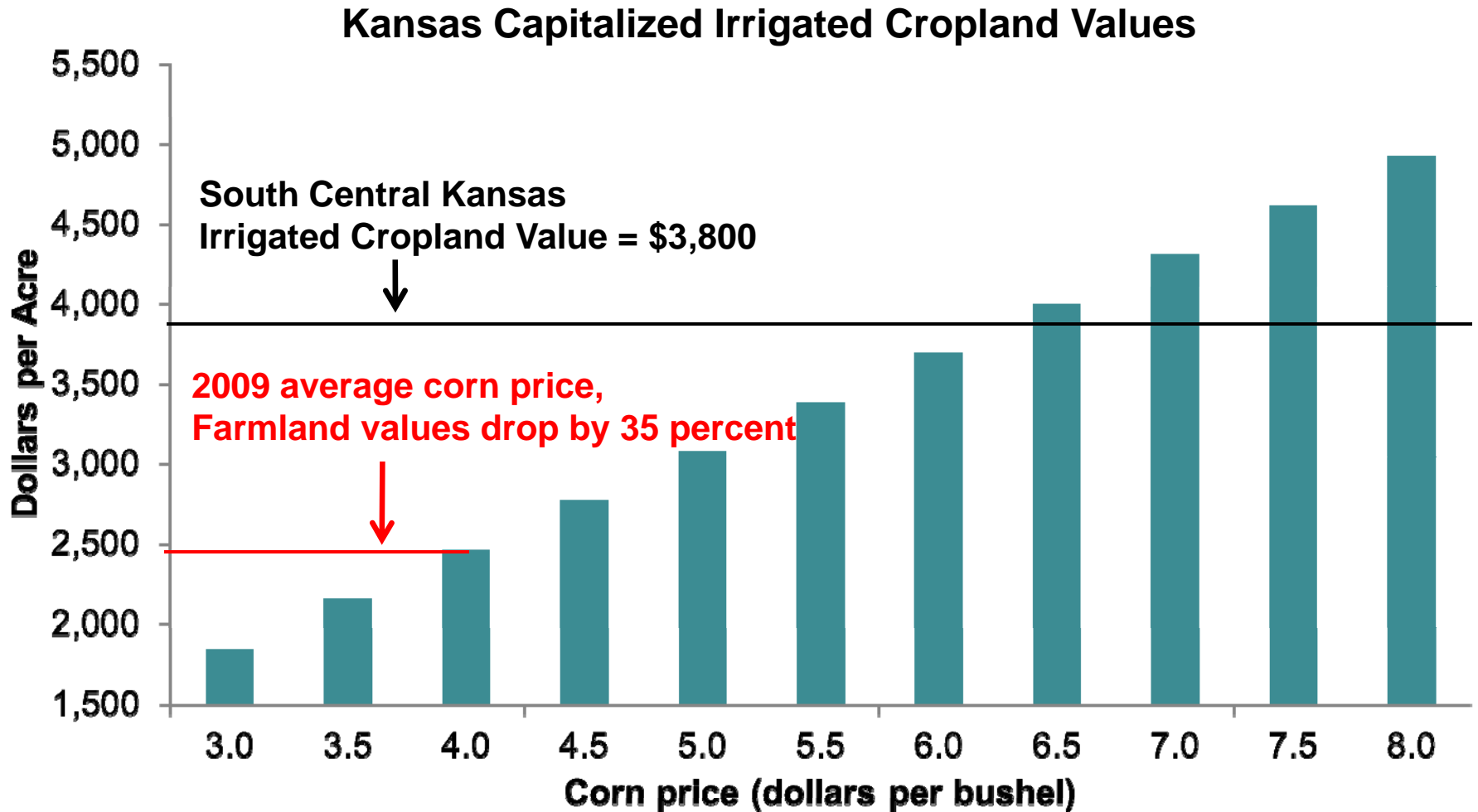
Historically low capitalization rates help support current cropland values.



Authors' calculations based on KSU Corn Cost-return Budget in South Central Kansas.
Assumed 200 bushels per acre, a corn price of \$4.75 per bushel, and 20% of gross revenues capitalized into land.



At a historical average cap rate and today's corn prices, current cropland values in Kansas are reasonable.



Authors' calculations based on KSU Corn Cost-return Budget in South Central Kansas.

Assumed 200 bushels per acre, a corn price of \$4.75 per bushel, 20% of gross revenues capitalized into land, and cap rate of 6.5%.



List of Volatility Factors Shaping U.S. Agriculture

- Fiscal and Monetary Policy
- Domestic Demand (employment, debt, food demand)
- Export Demand (exchange rates, GDPs)
- Agricultural Policy Uncertainty (Farm Bill, Ethanol, GIPSA, MCOOL, Animal Welfare)
- Weather (grain prices & feed availability)
- Shrinking livestock herds; over-capacity in segments
- Land Use Adjustments (pasture vs. crop decisions)
- Land Value Adjustments (up, down, hold, bubble?)
- Interest rates (expansion capital, increased line of credit implications)



More information available at:
AgManager (<http://www.agmanager.info/>)

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PDF of presentation will be posted to:
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