

Agricultural Outlook for 2013: Boom or Bust?

Kansas Electric Cooperatives
2013 Annual Meeting

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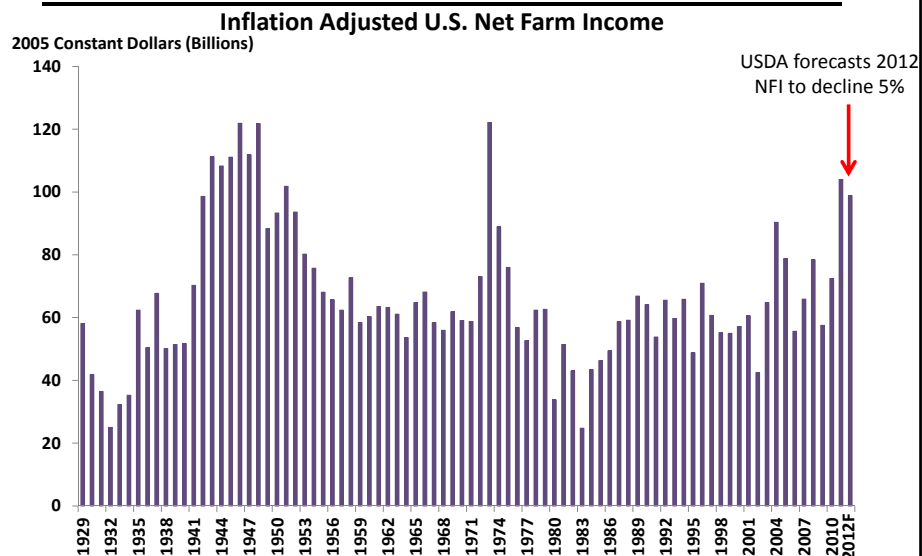


Will agriculture boom or bust in 2013?

- In 2012, the story was the weather
 - Widespread drought
 - Crops were damaged if not completely lost
 - With tight supplies, crop prices soared
 - Higher feed costs put tremendous pressure on livestock net incomes
- In 2013, the story will hinge on:
 1. The weather...will it rain?
 2. Response of producers to higher crop prices (global)
 - Plant fencerow-to-fencerow?
 - Herd liquidation continues?
 3. Uncertainty of events outside of producers' control

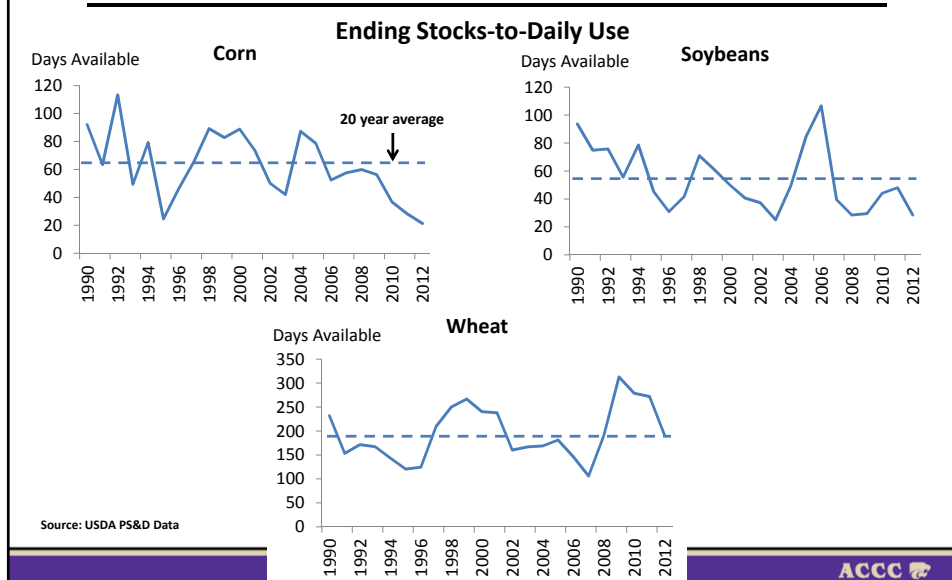
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While the drought dinged net farm incomes in 2012, incomes were some of the largest on record.



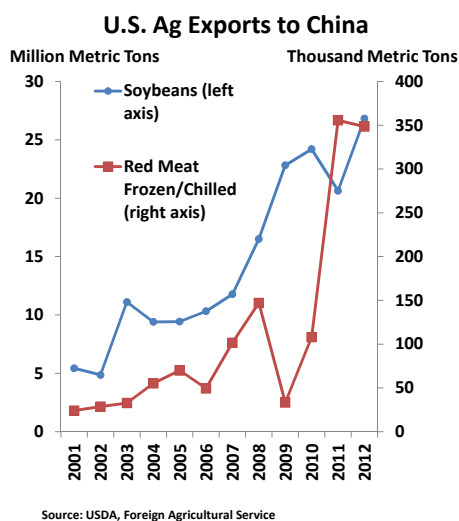
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The 2012 drought made an already tight stock situation even tighter.

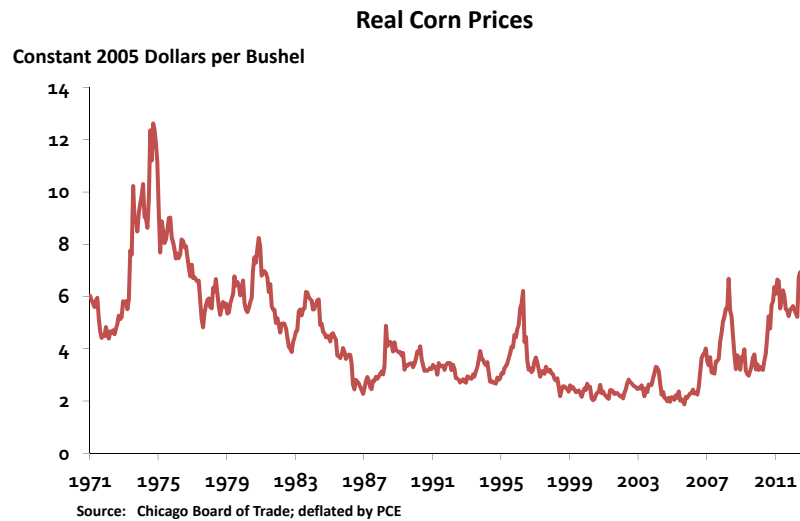


Demand for agricultural products has remained strong, especially international demand.

- Demand is shaped by:
 - Population
 - Income
 - Tastes and Preferences
 - Substitutes
 - Prices
- While U.S. demand remains sluggish with high unemployment, international demand remains strong.

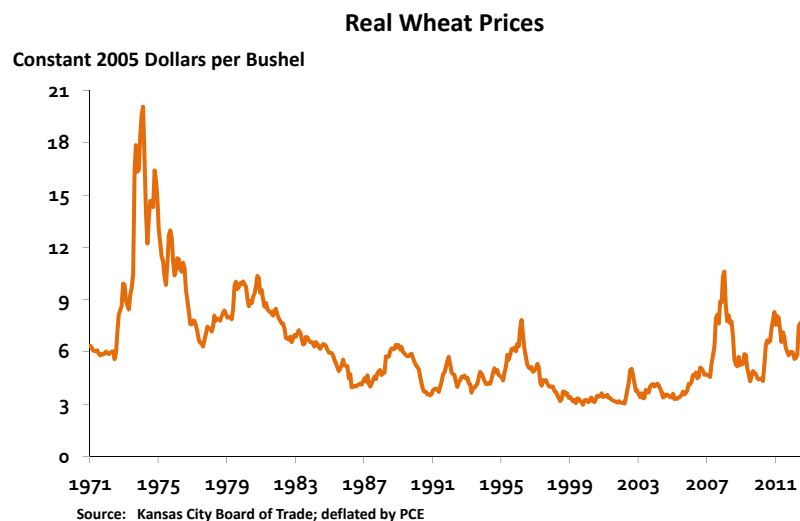


With tight supplies and strong demand, commodity prices surged and have been quite volatile.



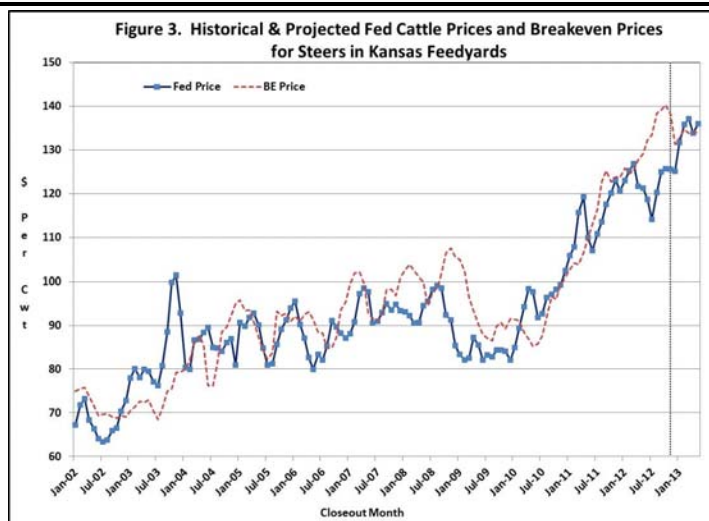
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Similar surge / volatility story in wheat as in corn.



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High crop prices have slashed livestock profits.

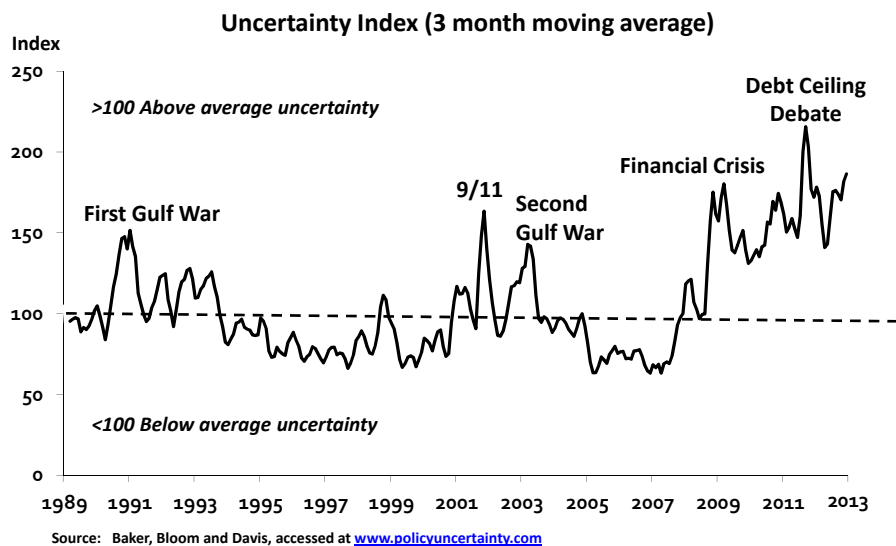


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**UNCERTAINTY OF EVENTS OUTSIDE
OF PRODUCERS CONTROL**

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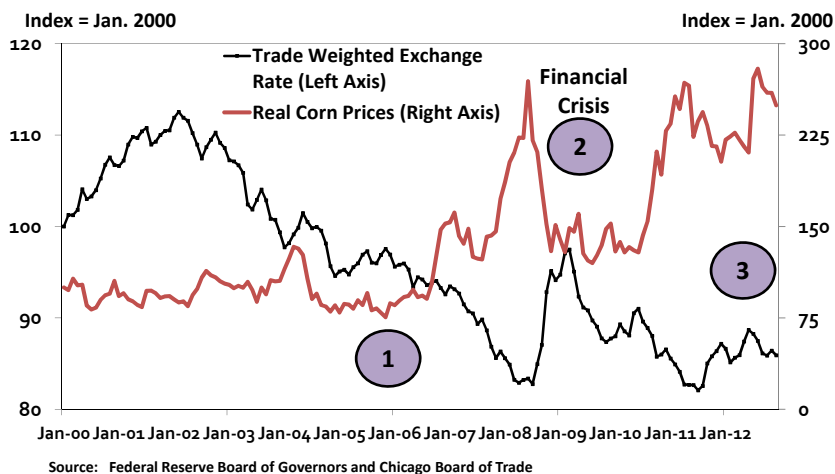
Uncertainty can be quantified.



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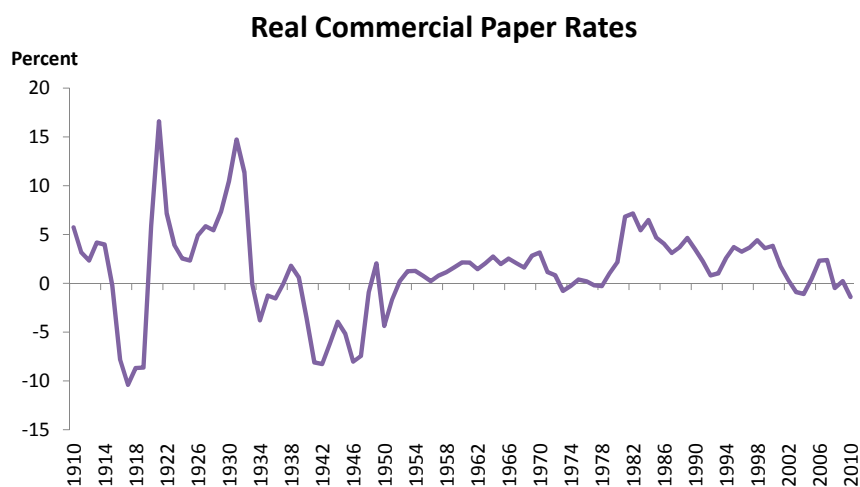
Commodity markets give us some insight into how uncertainty impacts agriculture.

Exchange Rate and Corn Price Indices



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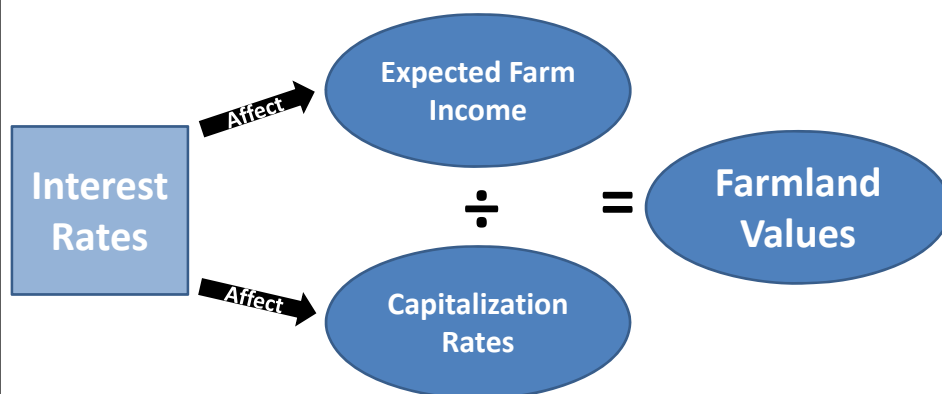
Is uncertainty heightened in periods of negative real interest rates?



Source: Featherstone, Allen M. and Timothy G. Baker. 1987. "An Examination of Farm Sector Real Asset Dynamics: 1910 - 85." American Journal of Agricultural Economics 69(3): 532-546, and Federal Reserve Board of Governors

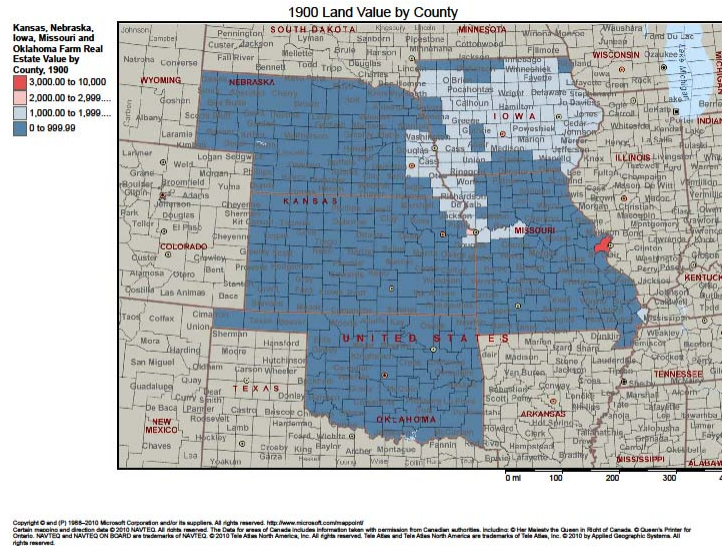
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Interest rate movements have two important impacts on farmland values.



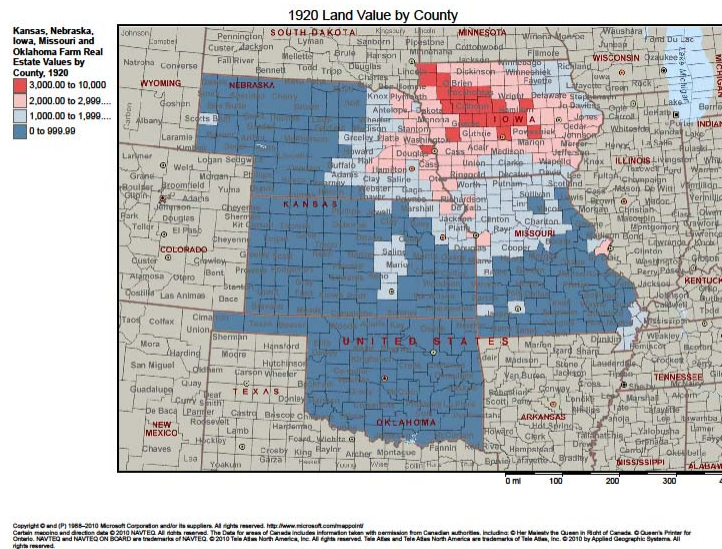
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With the start of the 20th century, farmland values began to heat up.



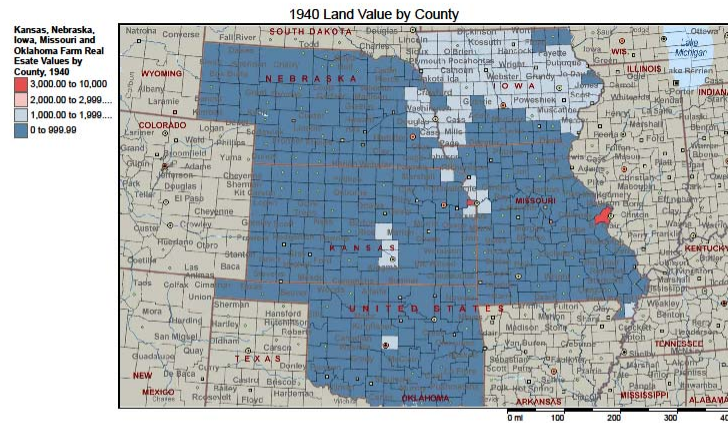
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After World War I, farmland values caught “fire” with surging ag exports and excessively leveraged farms.



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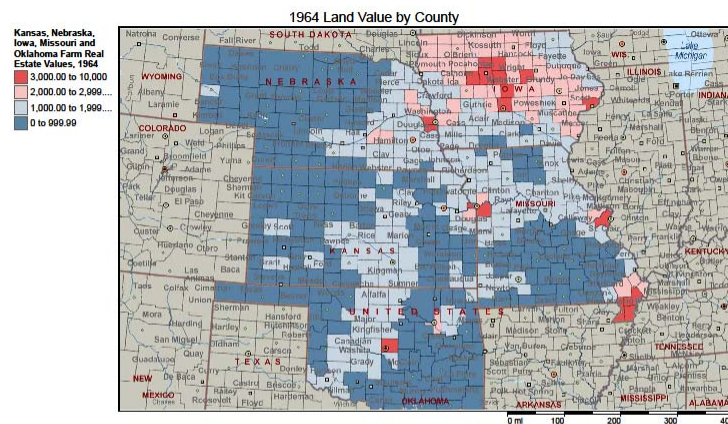
After a surge in bankruptcies and the Great Depression, the “fire” was out.



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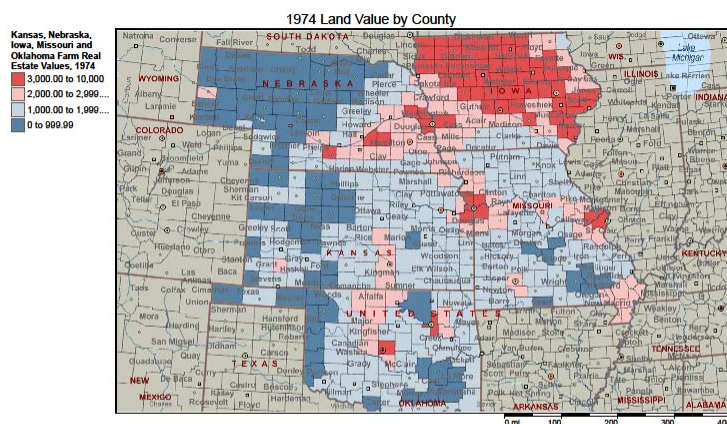
After World War II, farmland values started to heat up again as new technology was adopted.



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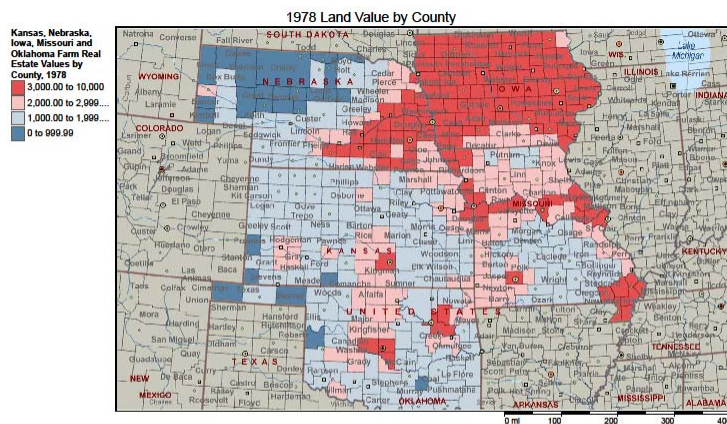
New export markets and easy credit set farmland values ablaze, especially in the corn belt.



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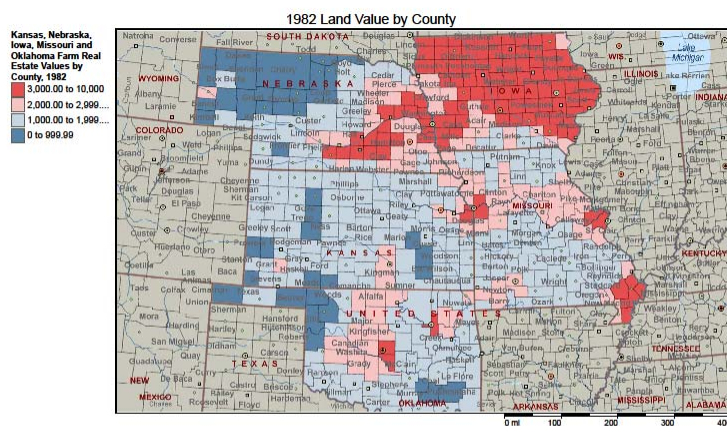
By 1978, Iowa farmland values were “red hot” and it was spreading throughout the region.



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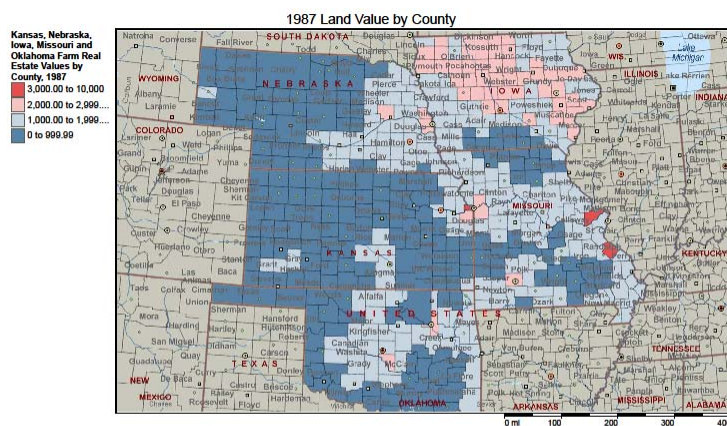
The start of the 1980s farm debt crisis began to cool the flame surrounding farmland values.



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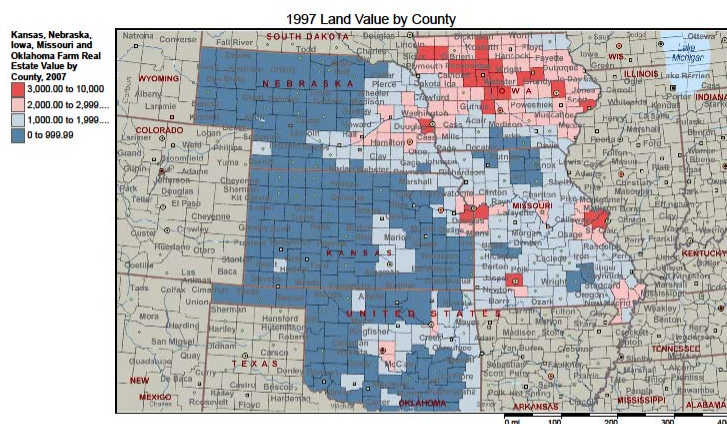
By 1987, forced land sales and a collapse in farm income put the “fire” out.



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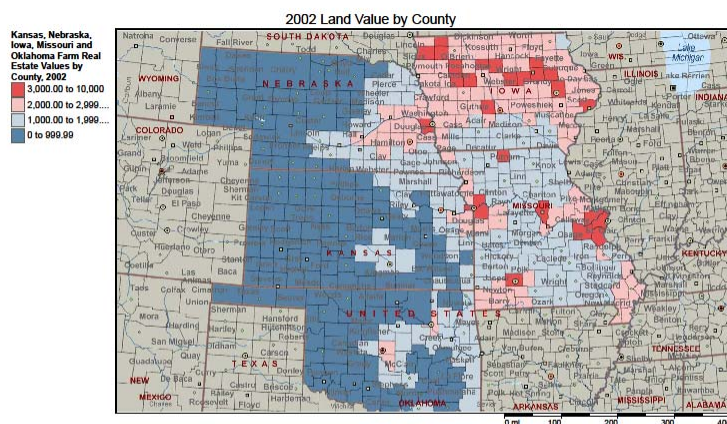
After the 1980s, a slow, steady recovery helped farmland values recover.



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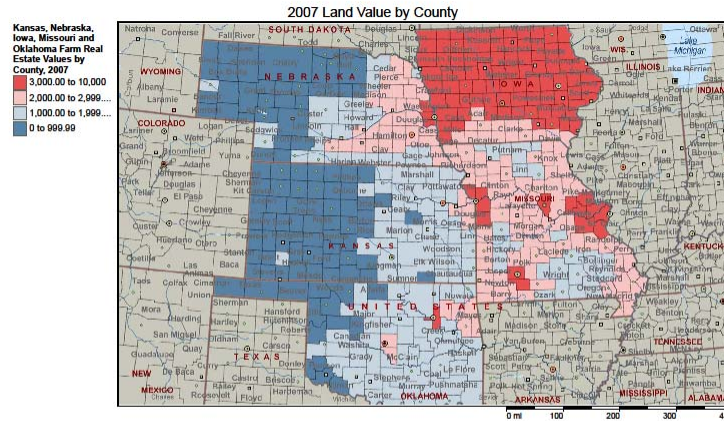
At the turn of the century, farmland values held steady until...



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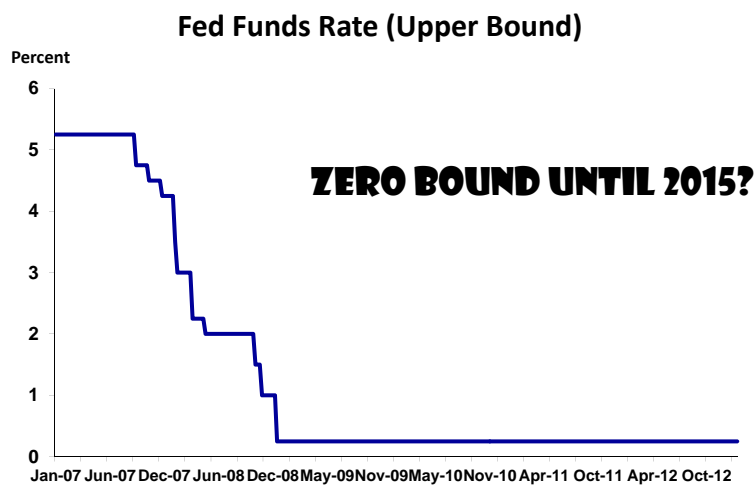
...a booming U.S. housing market as well as surging ag exports lit another “fire” under land values.



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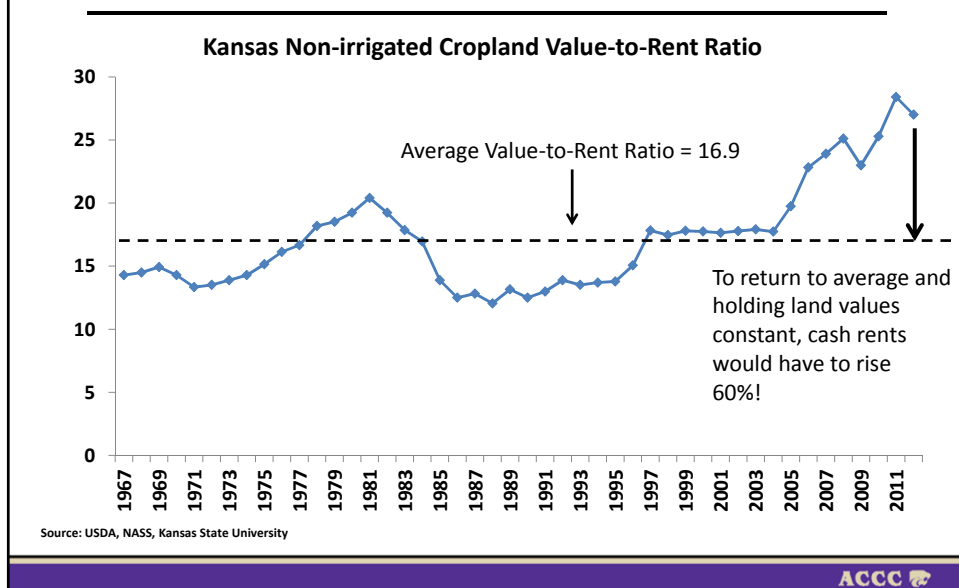
With the economy still in a sluggish recovery, the Fed has kept interest rates near zero.



Source: Federal Reserve Board of Governors

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With Kansas cropland values at record high levels, could a “correction” come from rents?



Will agricultural boom or bust in 2013?

- With normal weather patterns
 - Crop prices would likely come down with bigger global supplies
 - Lower feed costs would be welcomed relief for livestock producers
 - Crop incomes and farmland values would likely moderate, but not crash because of solid global demand
- With another drought
 - More of the same...if not worse...
- For more information: www.agmanager.info

Thank you

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