



FCA Board Meeting

February 2018

Cost of Production Trends for Grain and Soybean Producers

February 8, 2018

Stephen Gabriel

Chief Economist

Office of Regulatory Policy



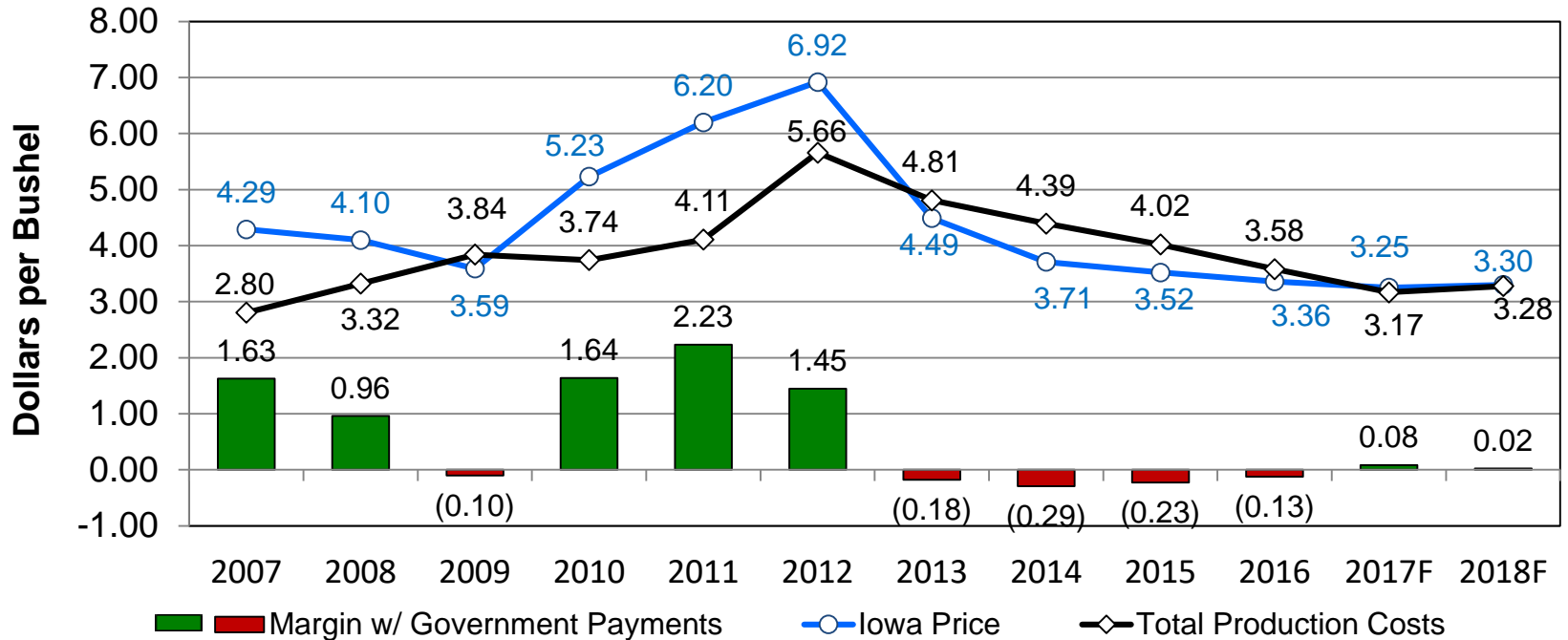


Iowa corn producers to earn thin profits in 2017 and 2018



As of 1/12/2018

Iowa Season-average Corn Profit Margin Estimates



Source: FCA-ORP using data from USDA and Iowa State University. 2018 forecast assumes USDA baseline price and trendline yields.

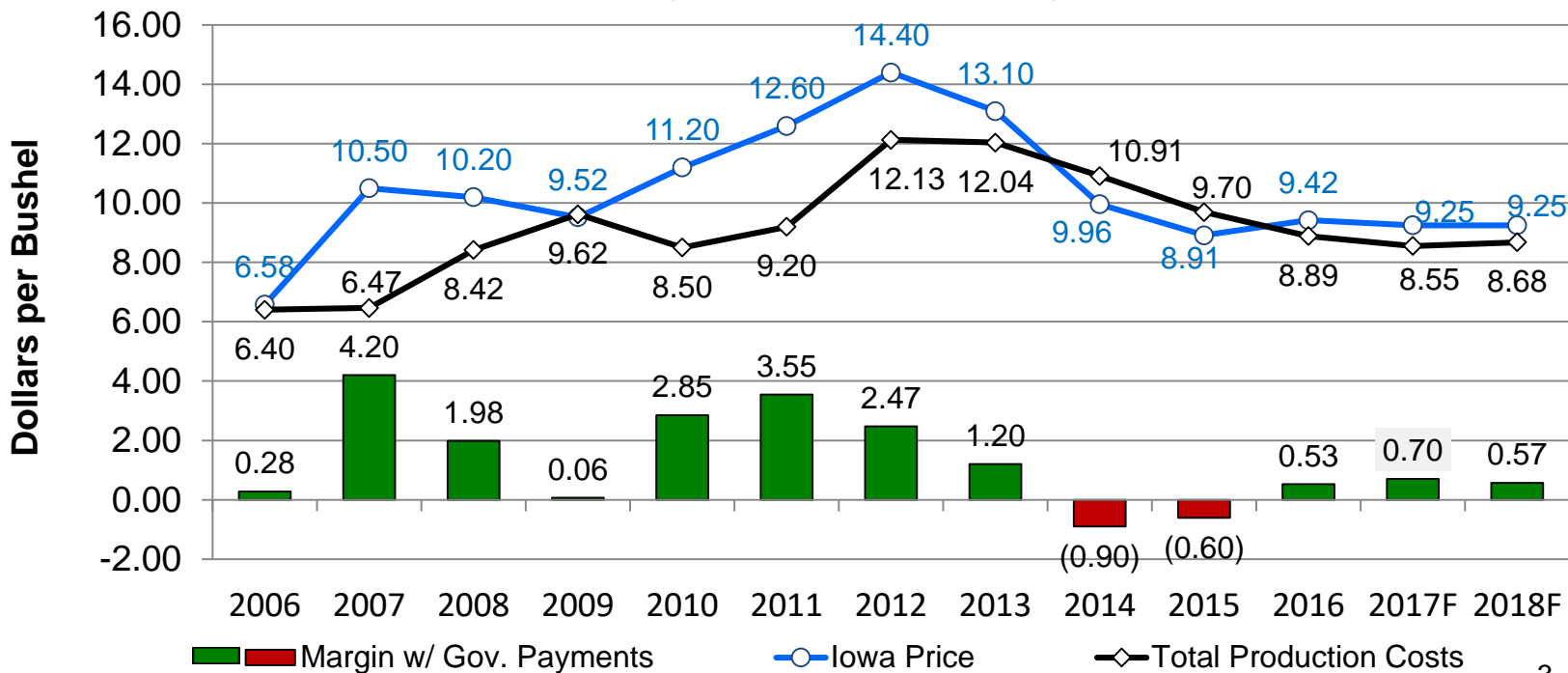


Good yields helped boost Soybean producers' profits



As of 1/12/2018

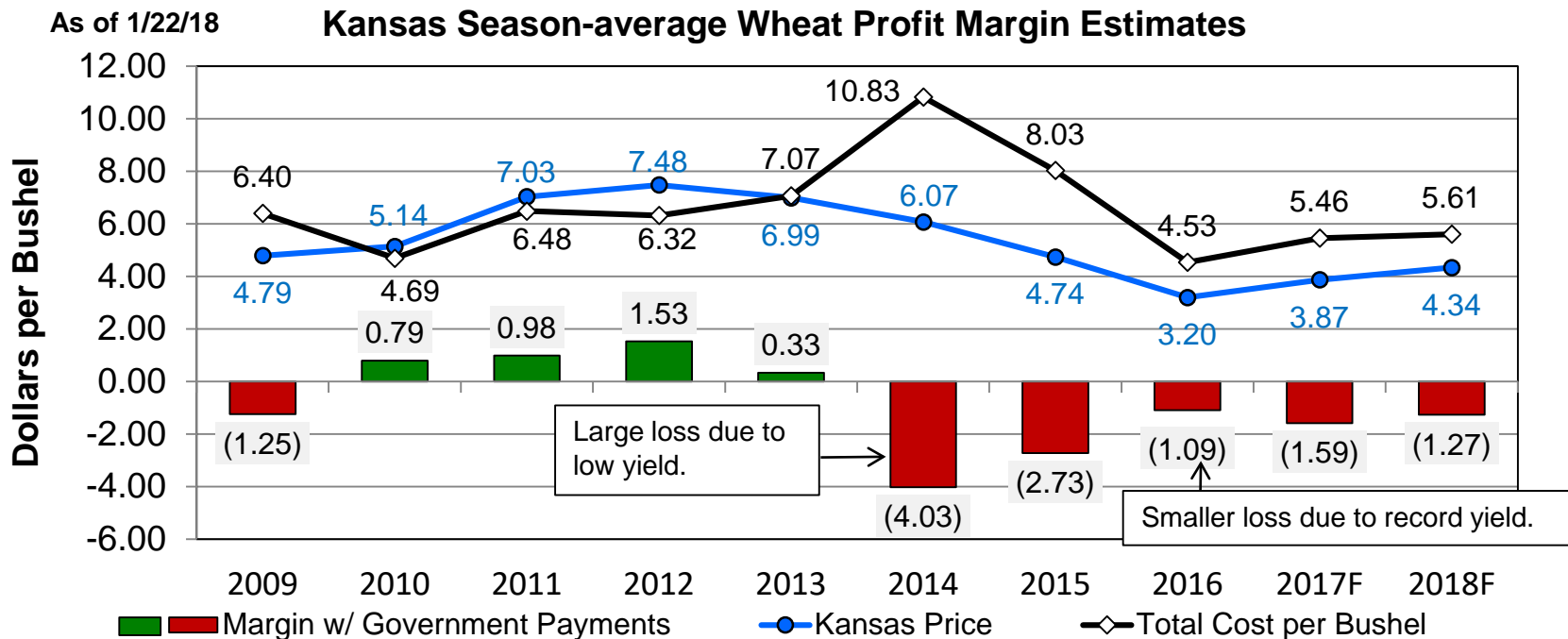
Iowa Season-average Soybean Profit Margin Estimates



Source: FCA-ORP using data from USDA and Iowa State University. 2018 forecast uses USDA Baseline prices and trendline yields.



Wheat producers face another year of red ink

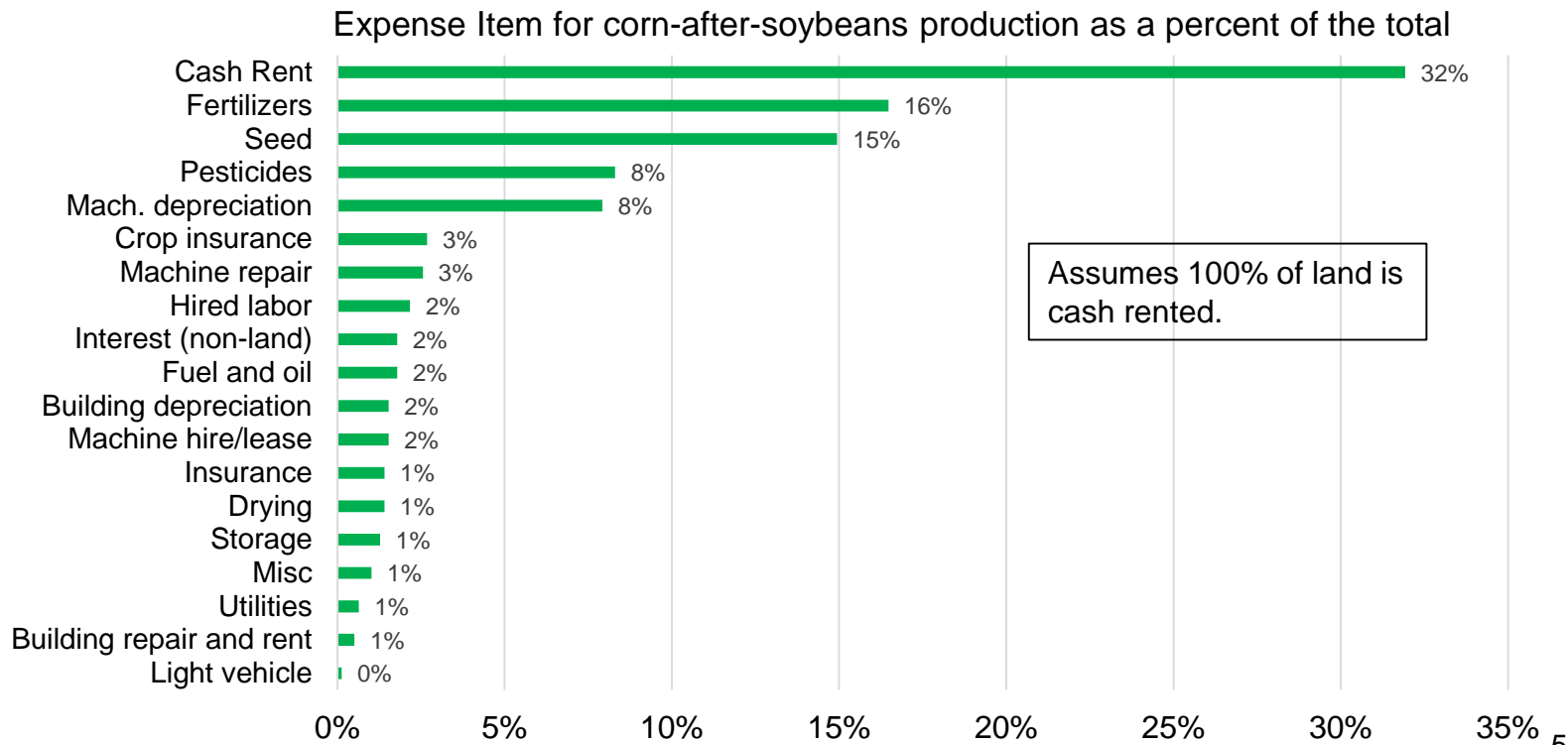


Source: FCA-ORP using data from USDA and Kansas State University.

Notes: For 2014-2018F, government payment is Agriculture Risk Coverage and excludes loan deficiency payments. For 2017 and 2018, ARC payment is expected to be zero, compared with about 60 cents for Price Loss Coverage.



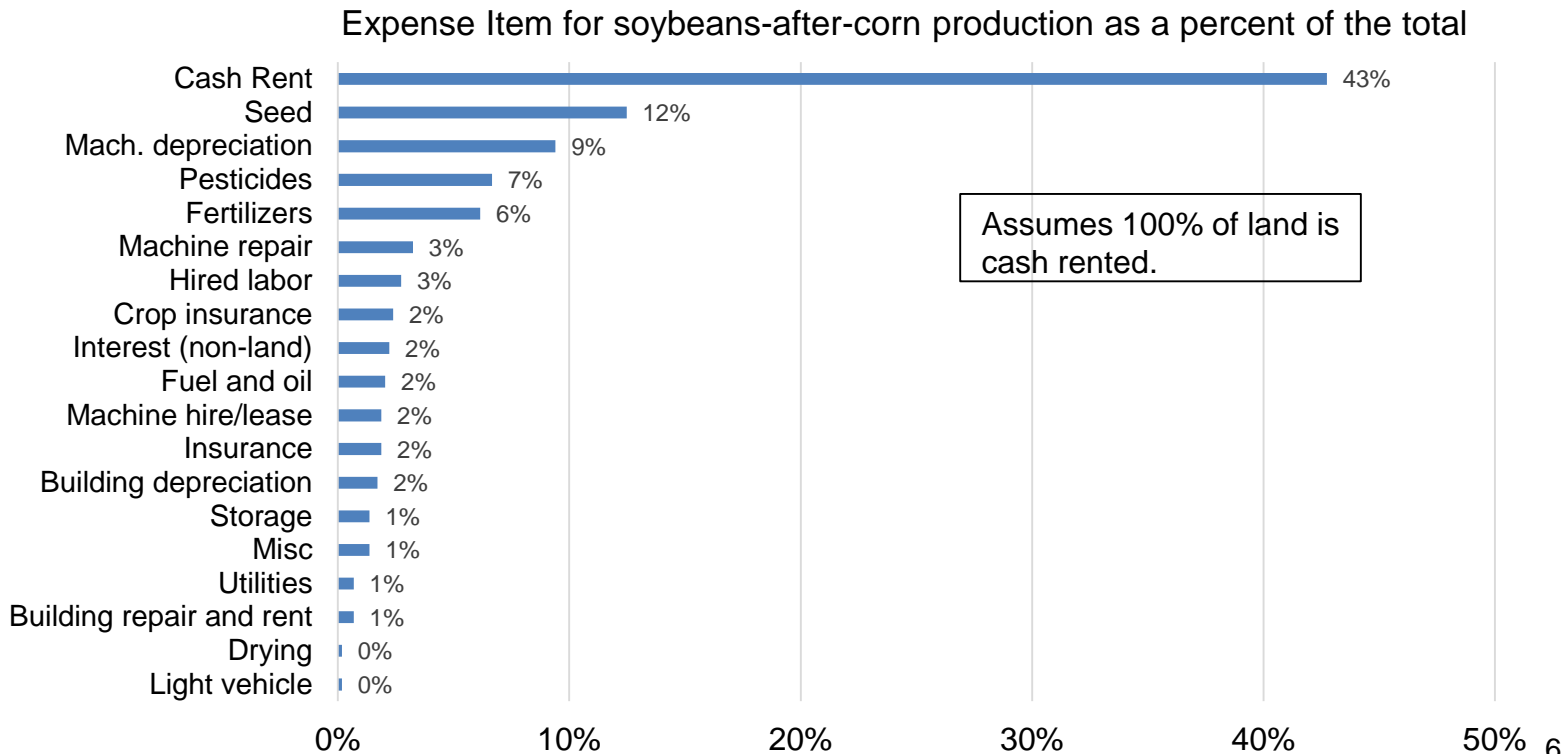
Illinois corn producers' expenses concentrated in rent, fertilizer, seed



Source: 2018 Crop Budgets, Central Illinois - High Productivity Farmland, University of Illinois.



Illinois soybean farmers' expenses concentrated in rent, seed, machinery



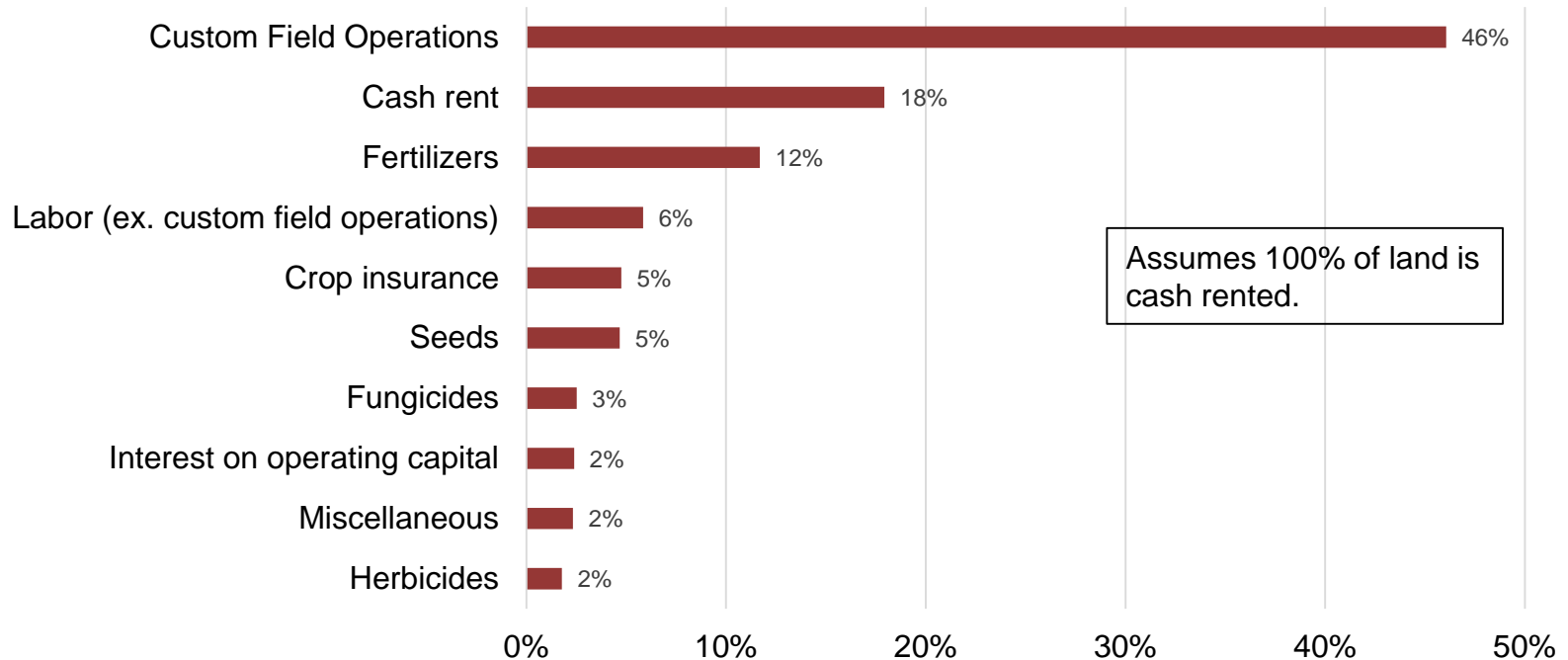
Source: 2018 Crop Budgets, Central Illinois - High Productivity Farmland, University of Illinois.



Kansas wheat farmers' top costs are custom field work, rent, fertilizer



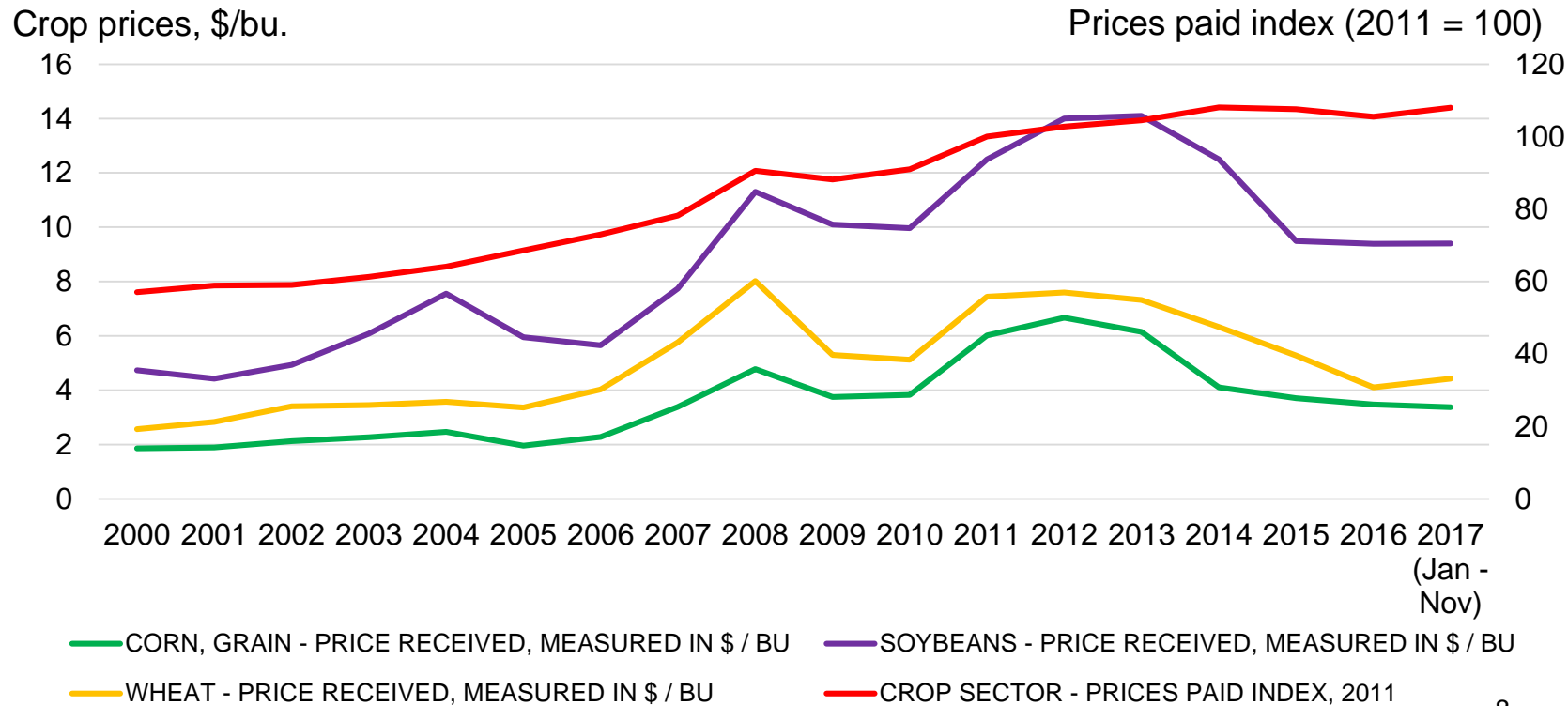
Expense item for continuous wheat production as a percent of the total



Source: 2018 Continuous Wheat Cost and Returns Budget, South Central Kansas, Kansas State University.



Crop sector input prices paid seem impervious to declining crop prices



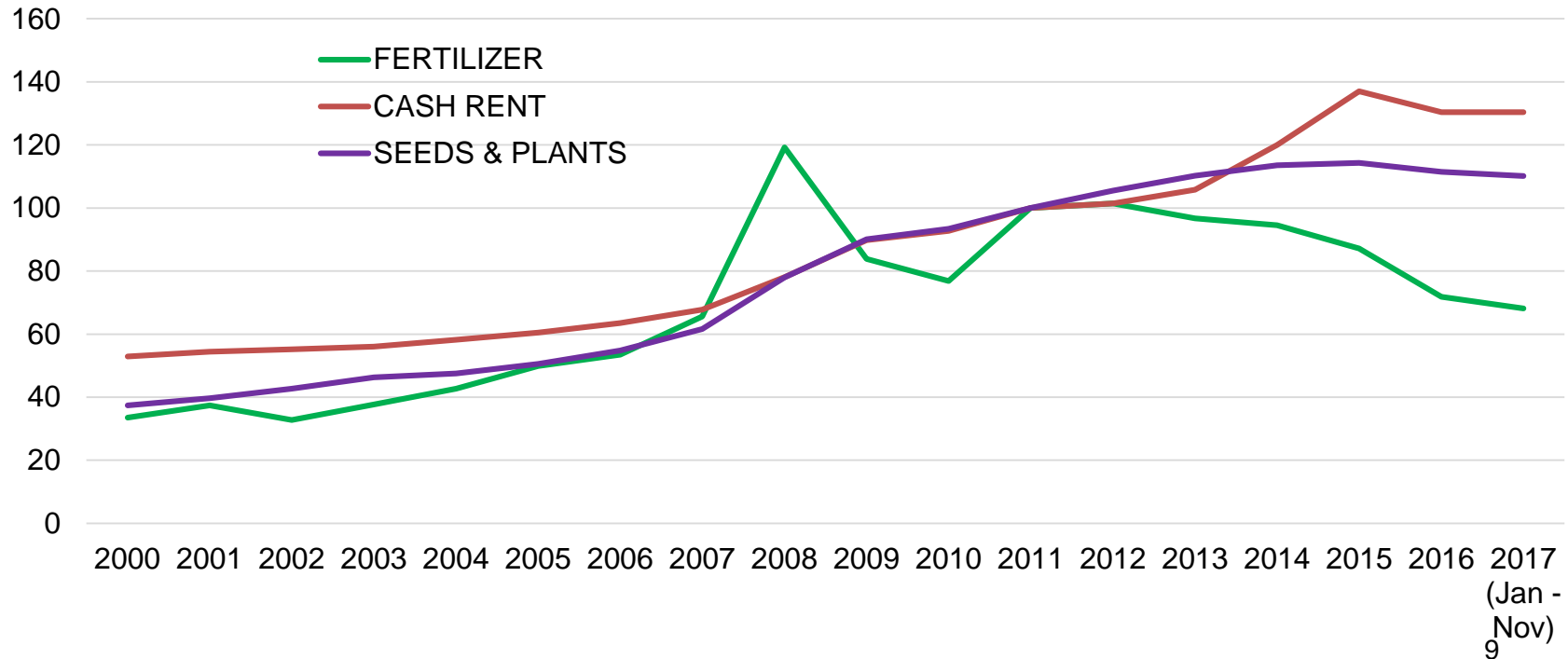
Source: USDA, NASS.



Cash rent and seed prices have declined recently, but still high



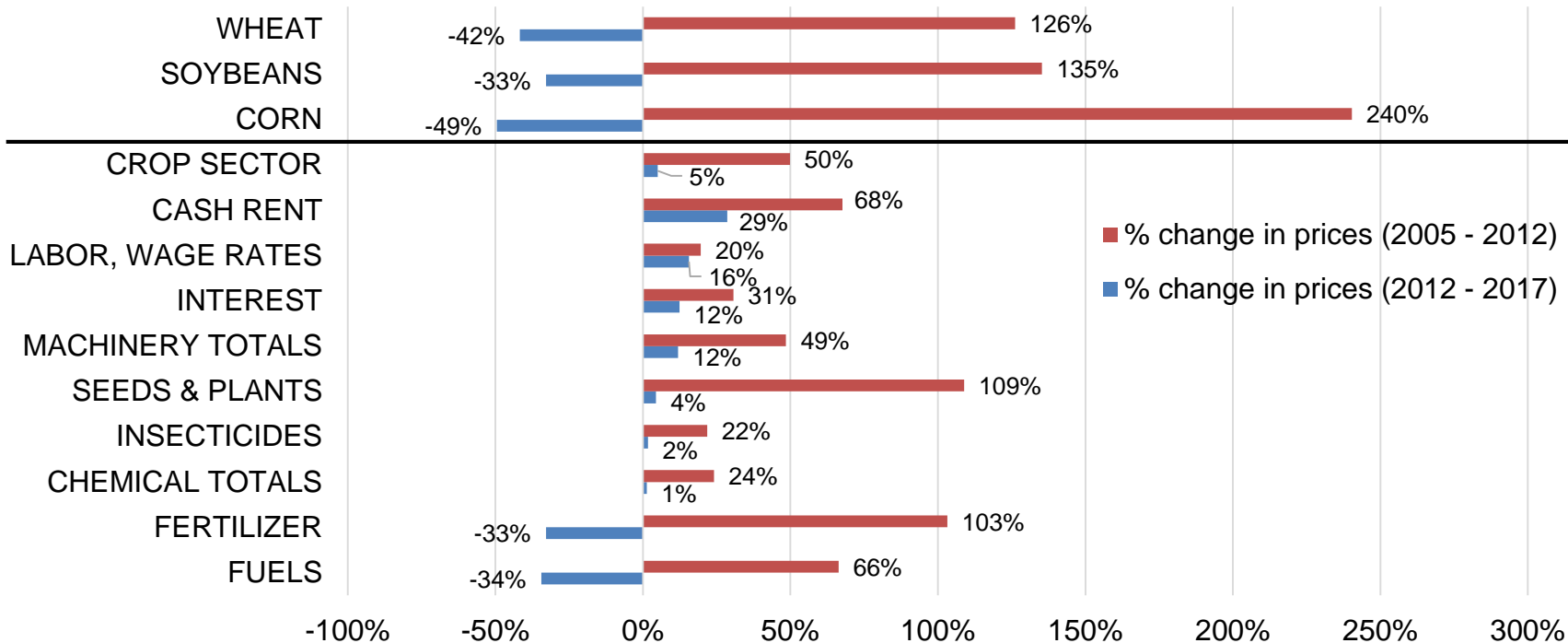
Index of Prices Paid (2011 = 100)



Source: USDA, NASS.



Most input prices continued to rise despite collapse in grain prices



Source: USDA, NASS.

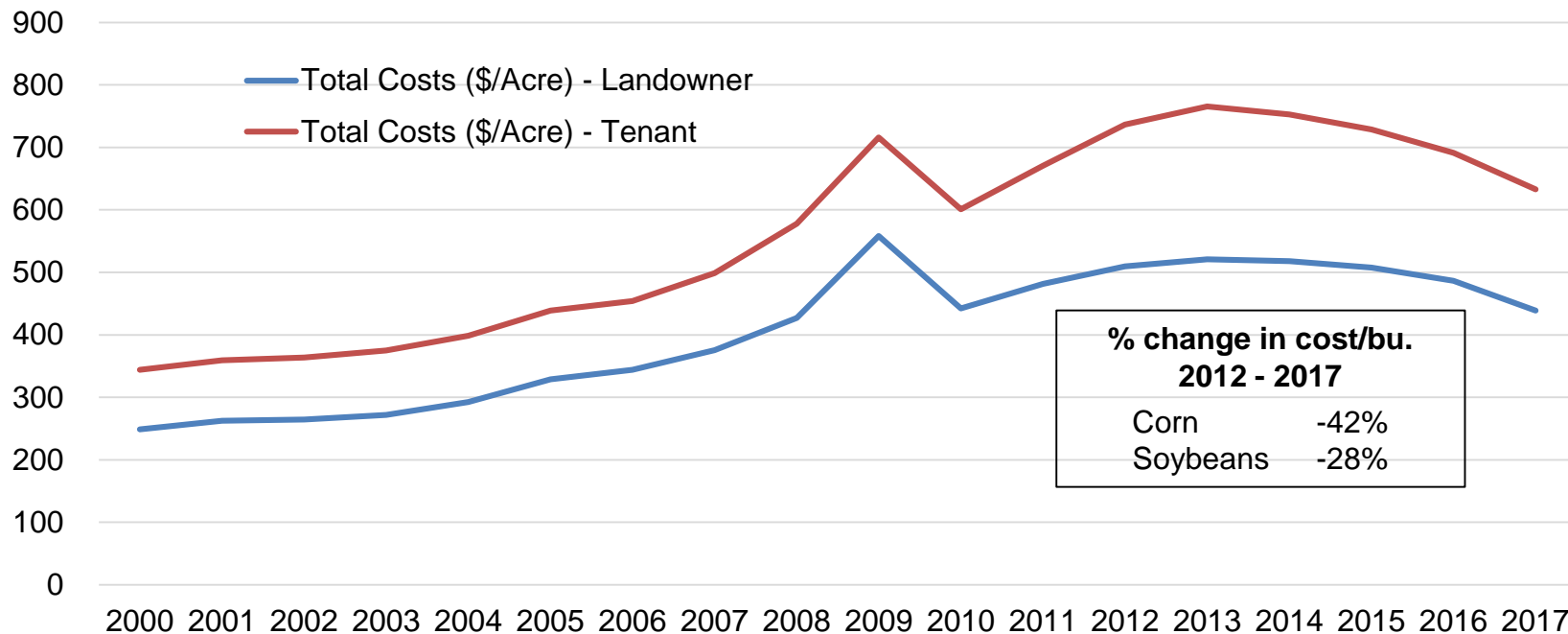
Percent change in crop prices measured in dollars/bu. Percent change in input prices based on index for prices paid, 2011.



Iowa corn farmers' cost per acre is down just 14% since 2012



Dollars/Acre



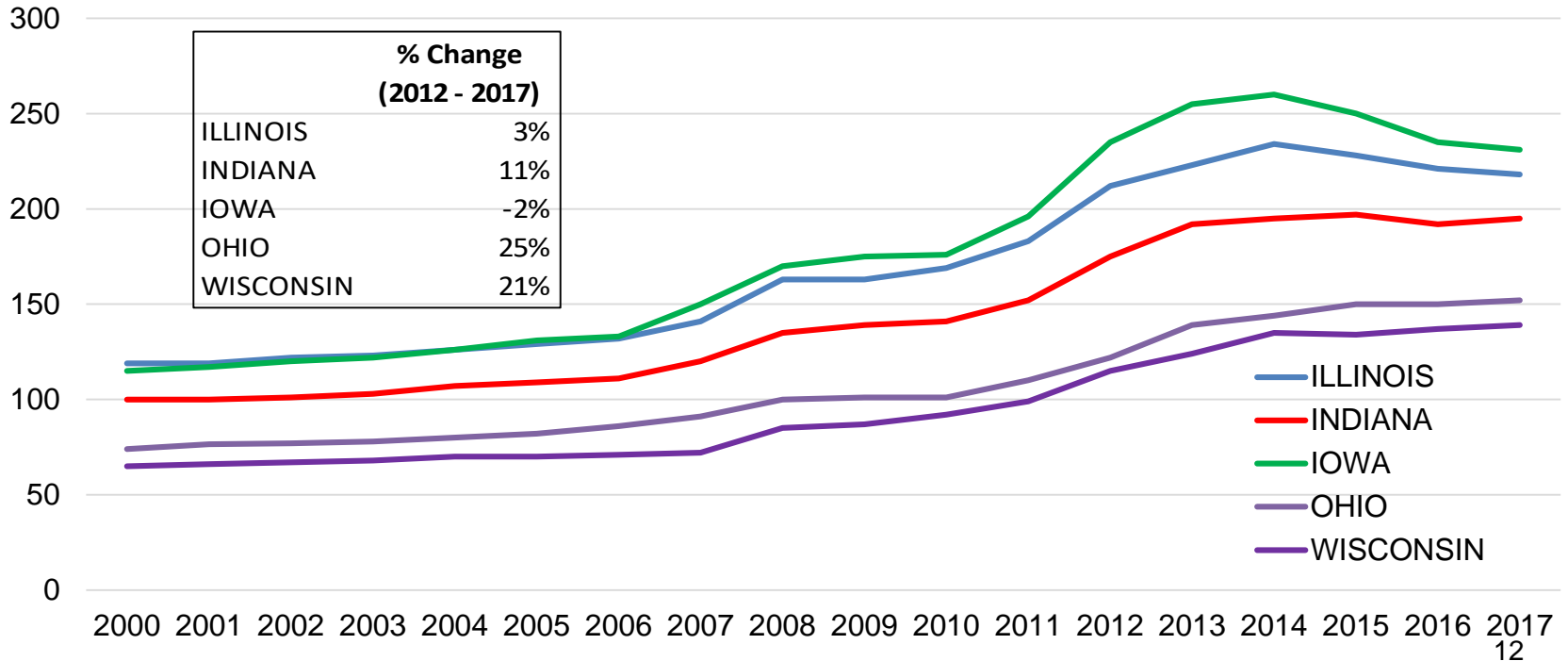
Source: Iowa State University.



Cash rents peaked in 2014 in some Midwest states; still rising in others



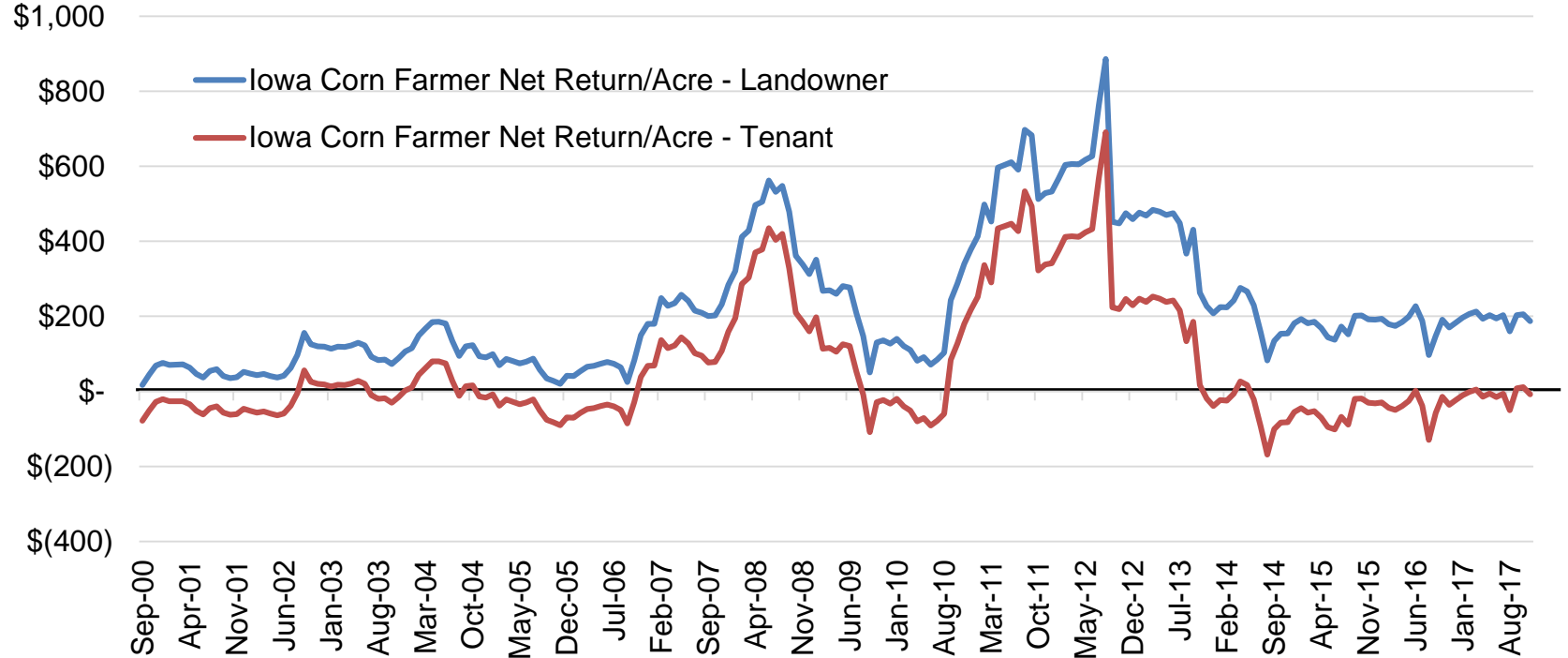
Cash Rent (\$/acre)



Source: USDA, NASS.



Lower cash rent can be critical to the survival of some farmers



Source: Iowa State University.



Why Have Cash Rents Not Declined More?

- Landlords didn't share in the high returns during "fat" years – now catching up
- Many expect that commodity prices will increase in coming years
- Intense competition to rent farmland

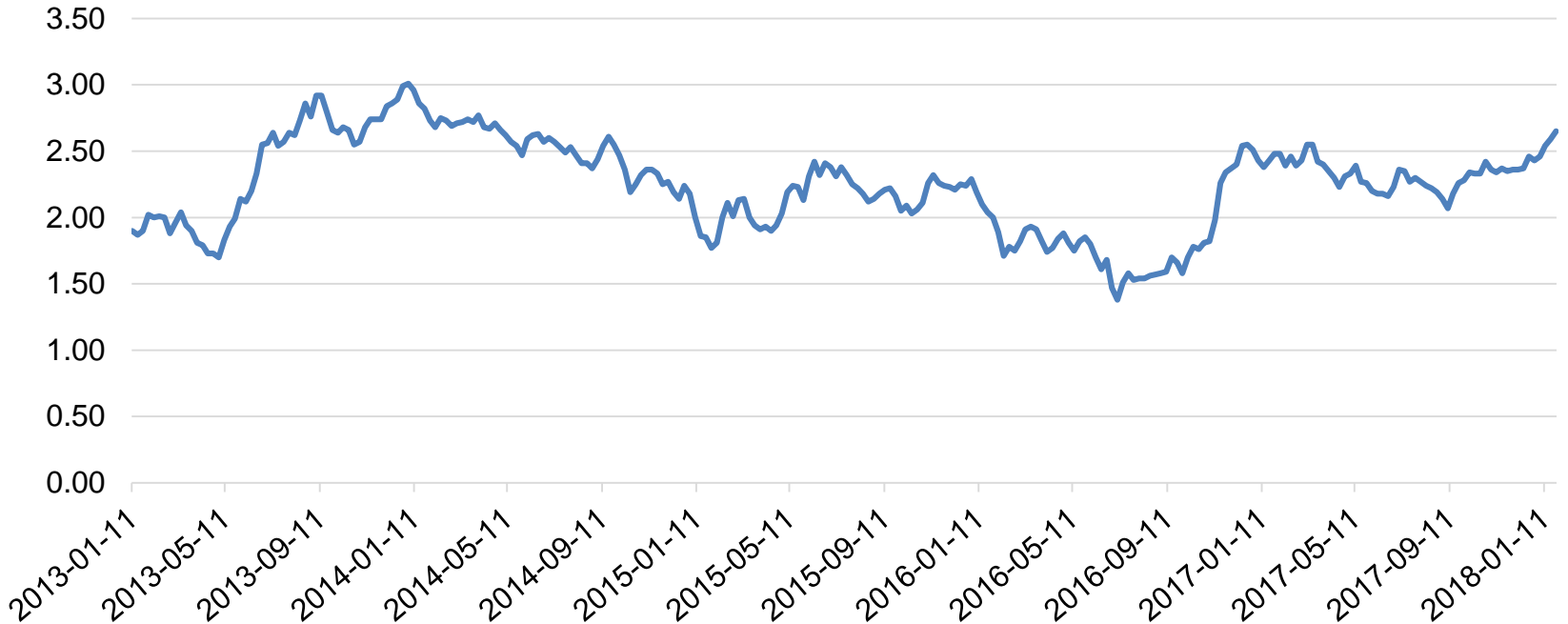
Source: Schnitkey, G. "Illinois Farmland Rents: 2017 State Values and 2018 Outlook." *farmdoc daily* (7):143, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, August 8, 2017.





Long-term interest rates have been rising since September 2017

10-Year Treasury Constant Maturity Rate, Percent, Weekly

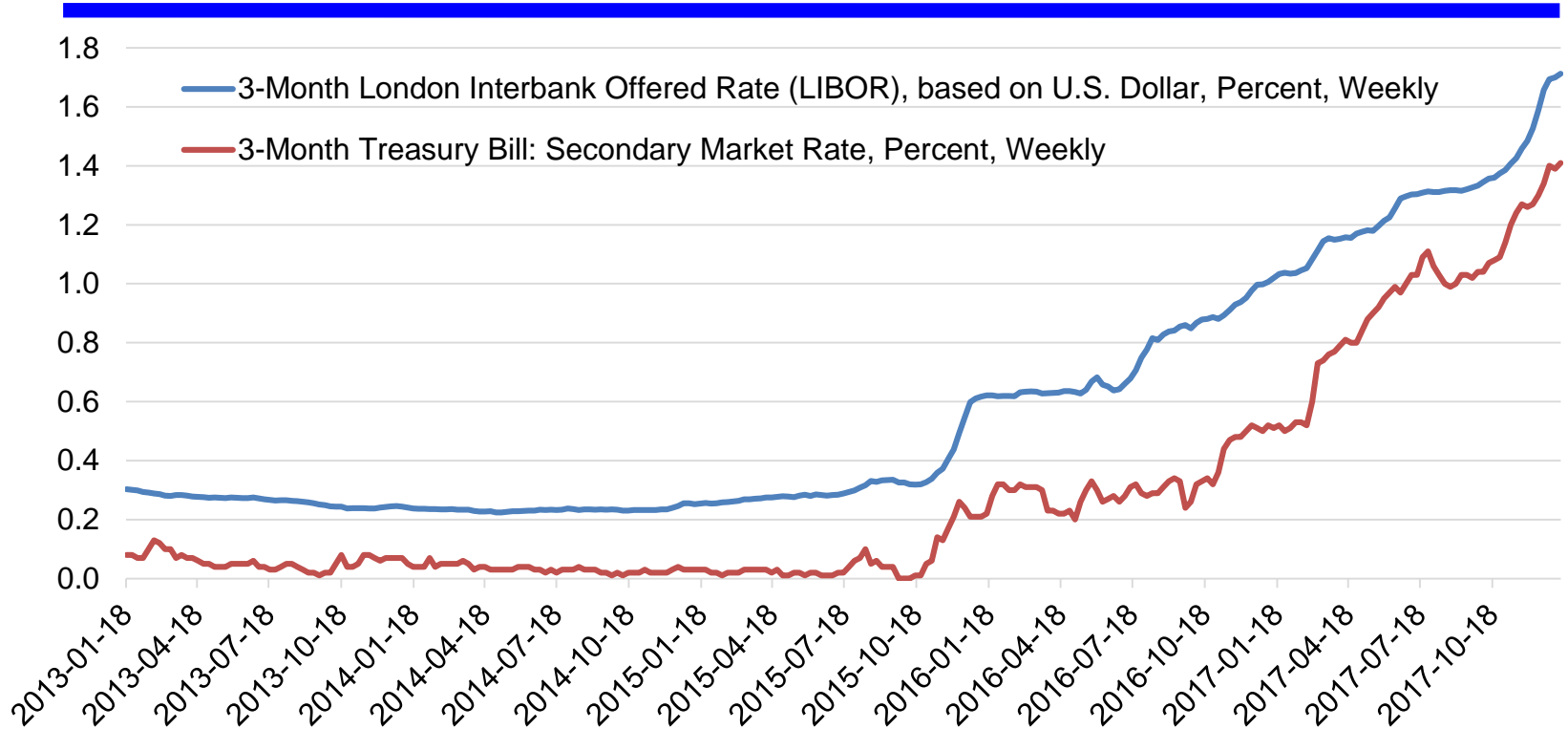


Source: Board of Governors of the Federal Reserve System.





Short-term interest rates have been rising since October 2015

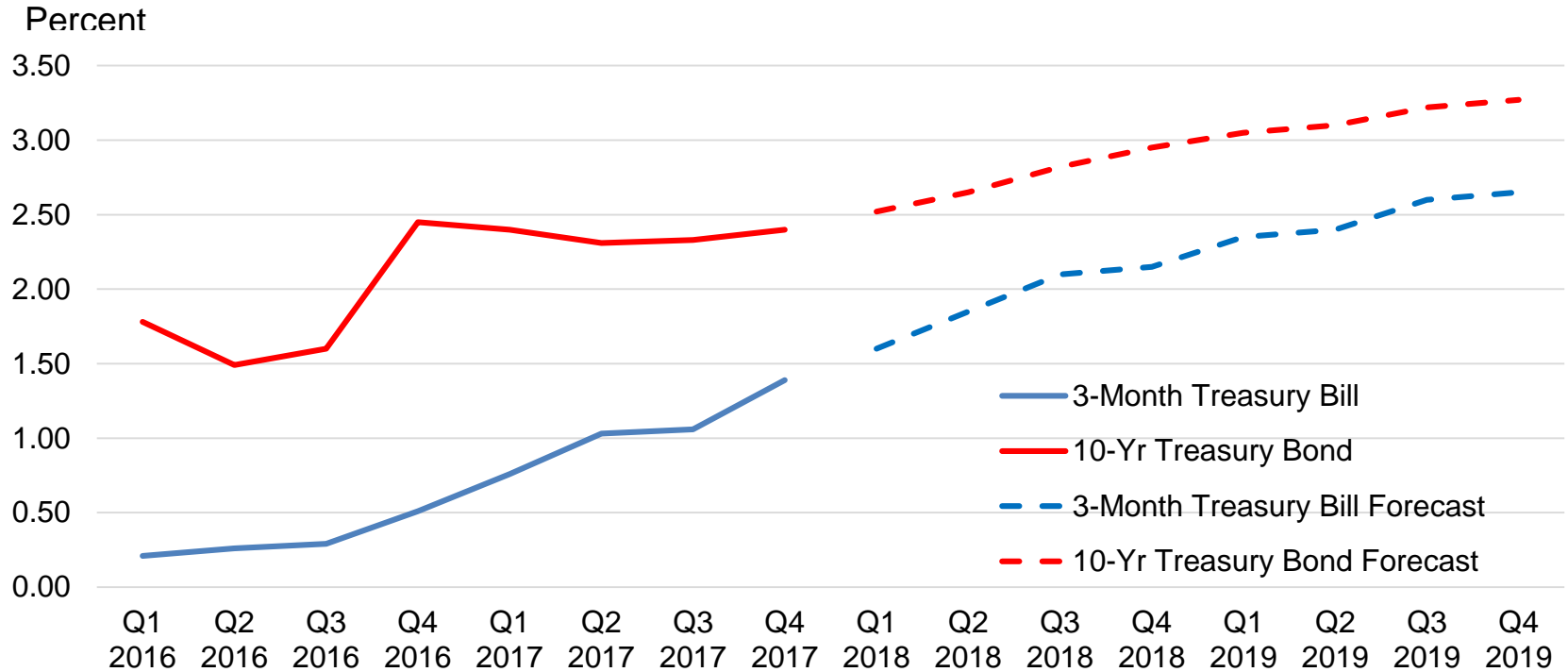


Source: Board of Governors of the Federal Reserve System, IBA.





Interest rates are forecast to continue to rise



Source: Federal Reserve Board, Forecasts are from Wells Fargo Securities.



Summary

- The reduction in costs/acre have lagged the decline in crop prices
- Strong yields in recent years helped support incomes
- Cash rents have been declining in some Midwestern states, but, they are declining slowly
- Fertilizer and cash rents account for most of the decline in costs per acre in several Midwestern states
- Interest rates are rising, posing a risk to land values and cash flow





Questions



THANK YOU