

IMPACT OF THE DOWNTURN ON FARMS AND RURAL COMMUNITIES

BOB YOUNG – CHIEF ECONOMIST/DEPUTY DIRECTOR PUBLIC POLICY

AMERICAN FARM BUREAU FEDERATION

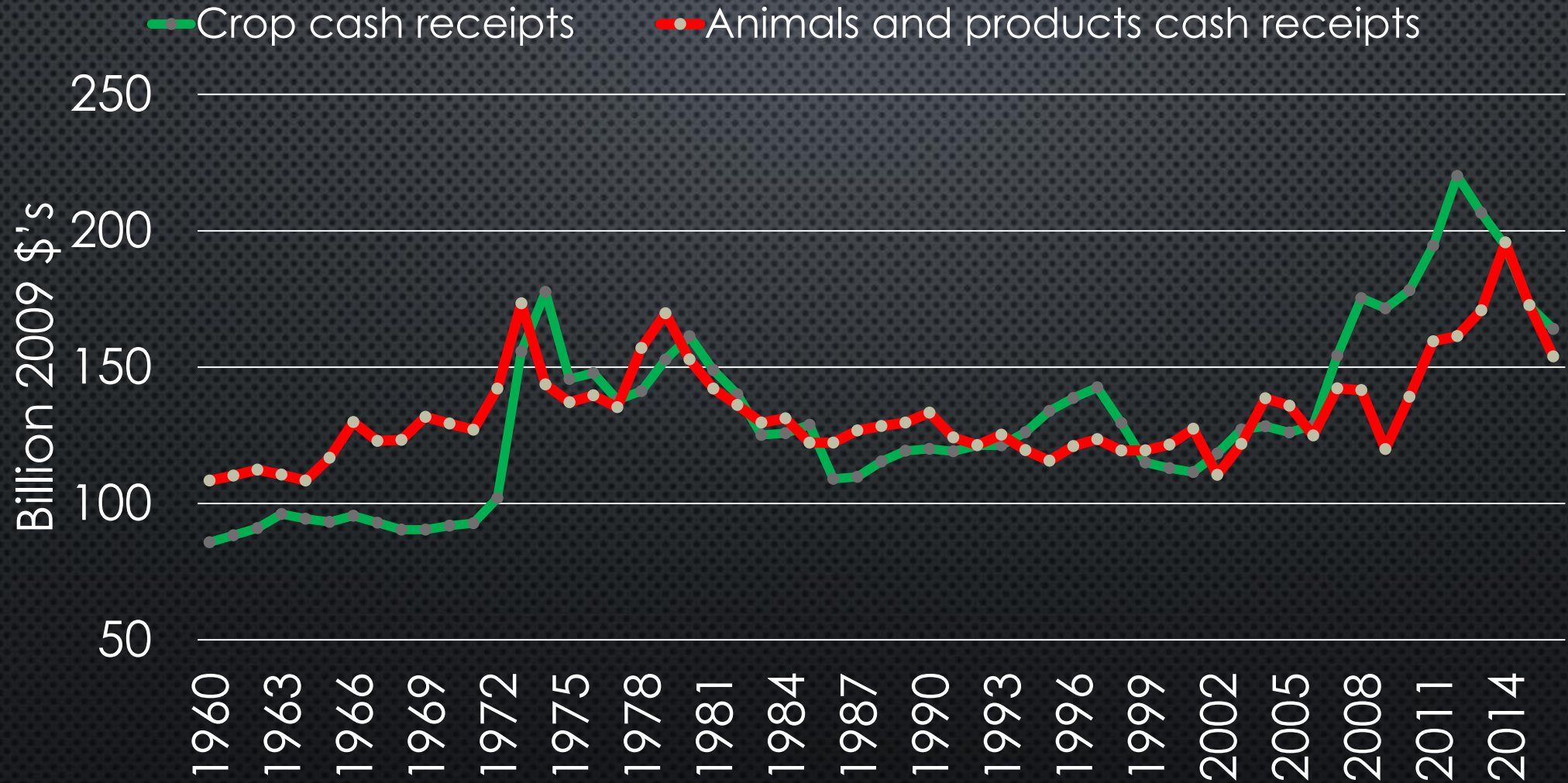
FEDERAL RESERVE BANK OF CHICAGO

NOVEMBER 29, 2016

THE PATH TO NEBULOUSNESS

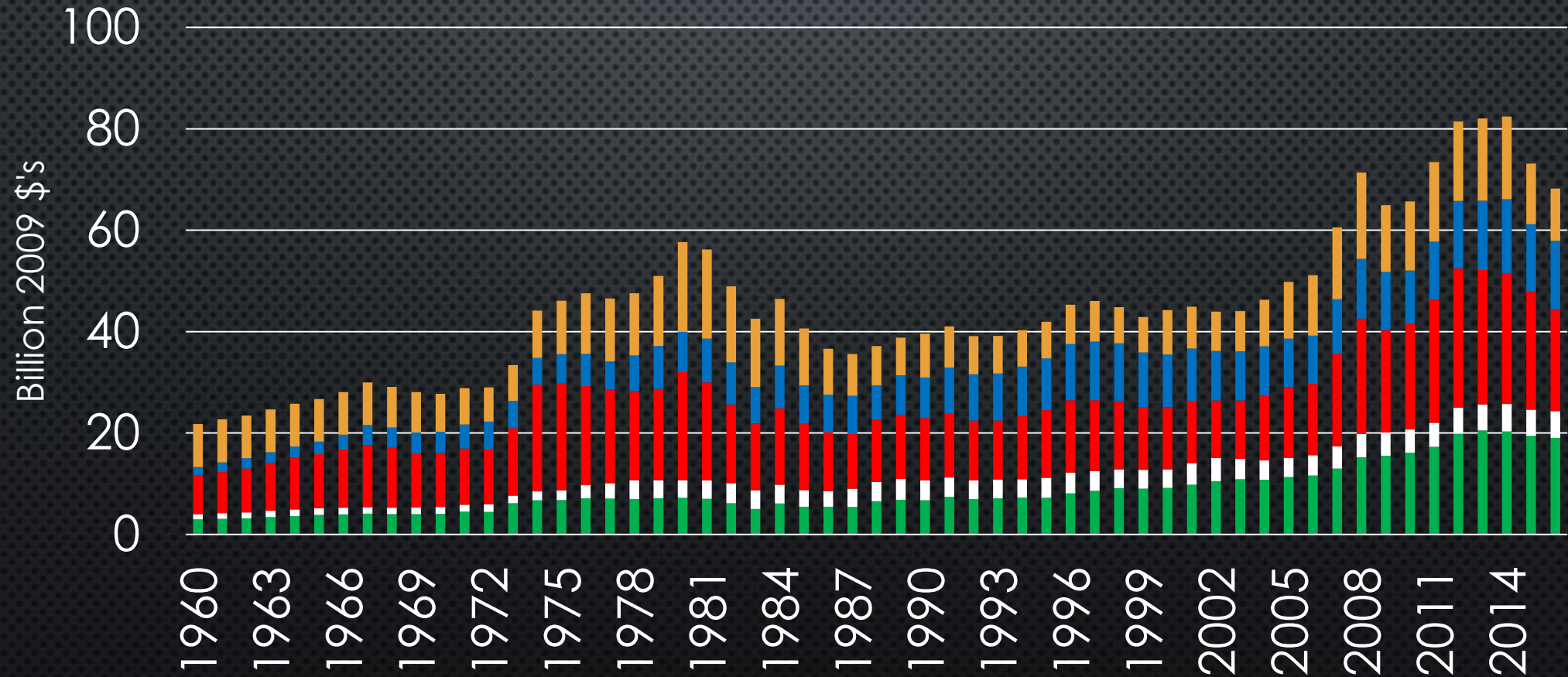
- LET'S REMEMBER HOW WE GOT HERE...
- WHERE IS HERE?
 - FOR THE SECTOR
 - FOR INDIVIDUALS
- THE ROLE OF POLITICS AND POLICY
- WHERE WILL WE BE TOMORROW?

CROP AND LIVESTOCK CASH RECEIPTS



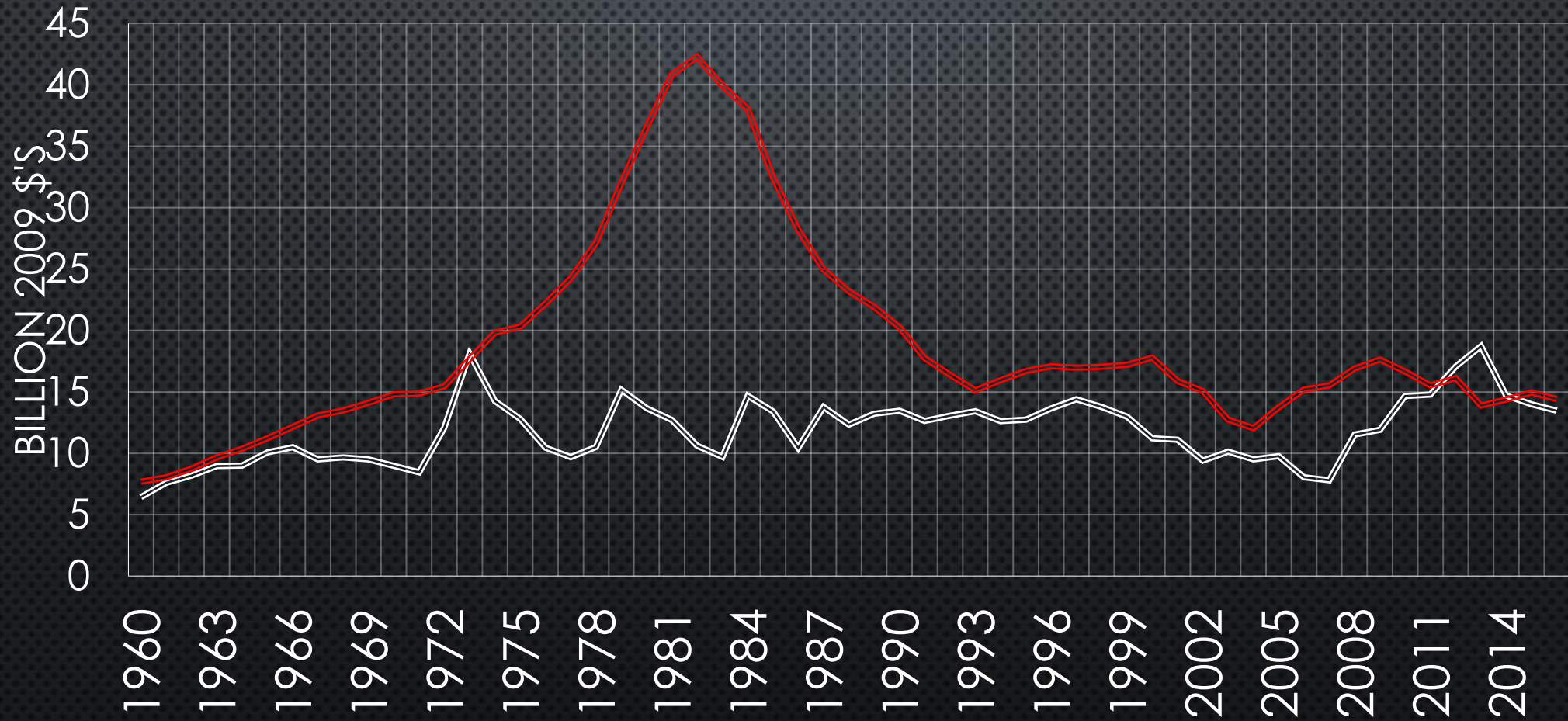
SELECTED PRODUCTION EXPENSES

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



INTEREST AND NET RENT COSTS

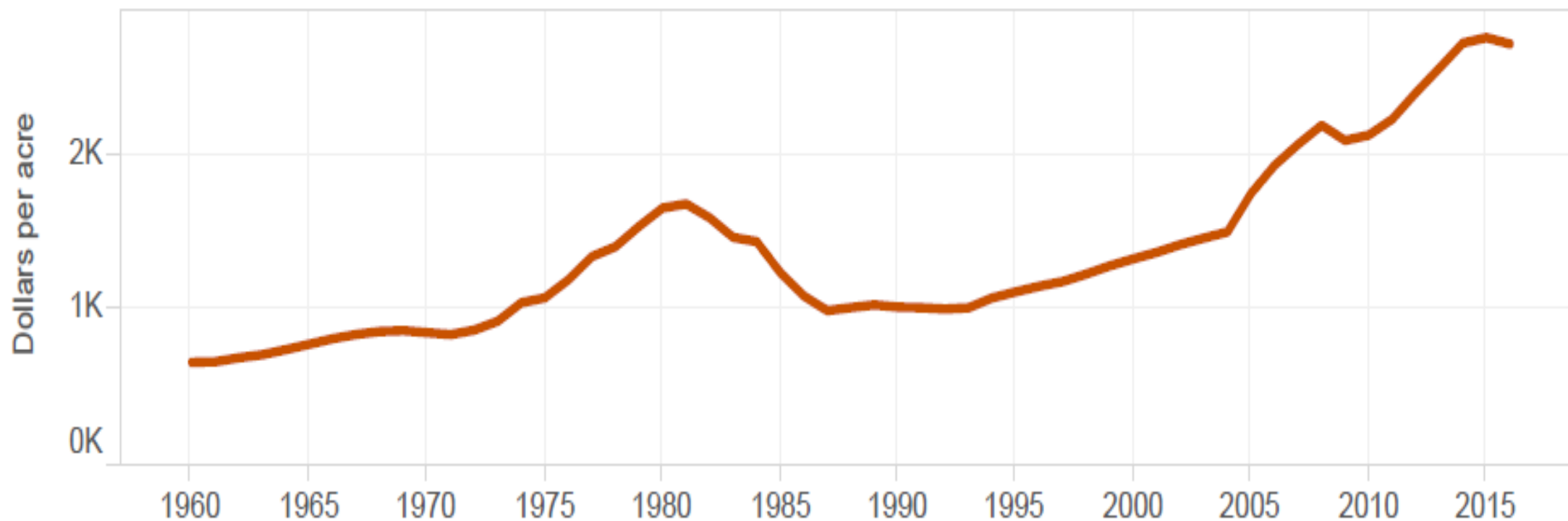
— Net rent paid to nonoperator landlords — Interest



NET FARM INCOME



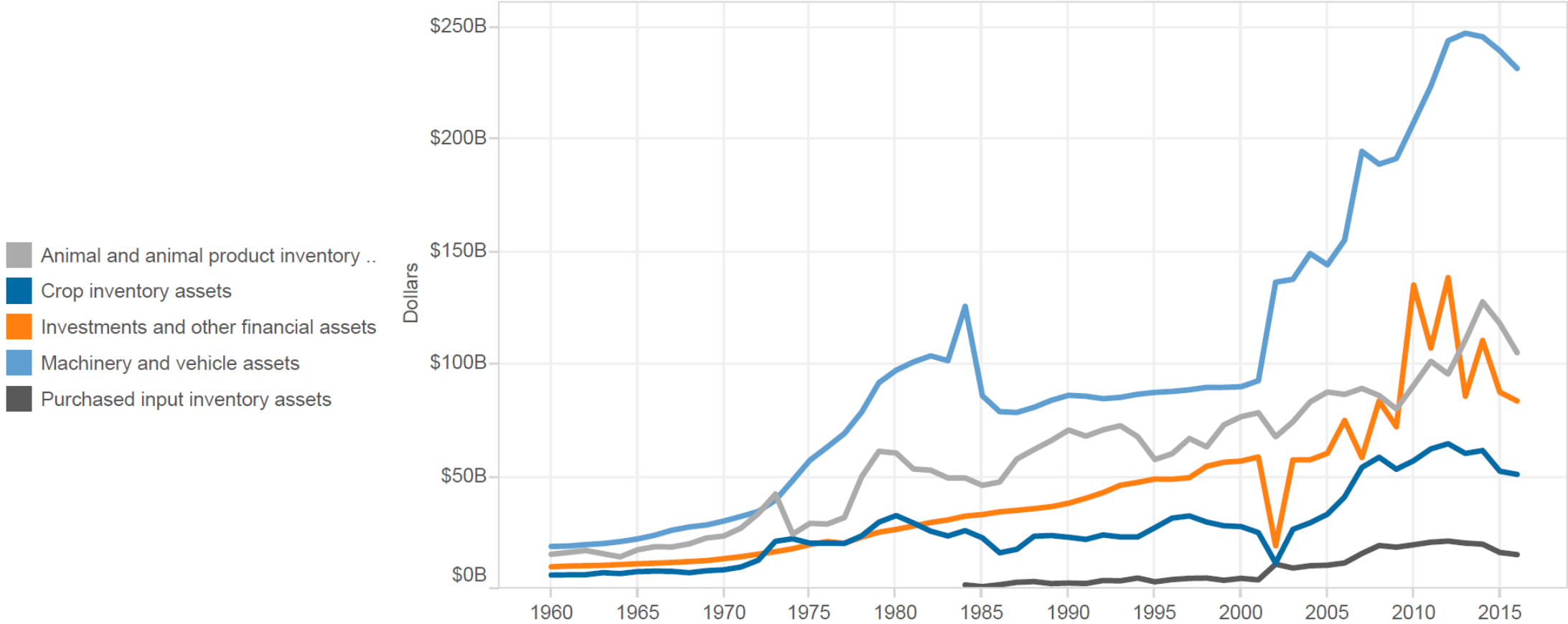
U.S. average value of farm real estate* per acre, 1960 to 2016



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



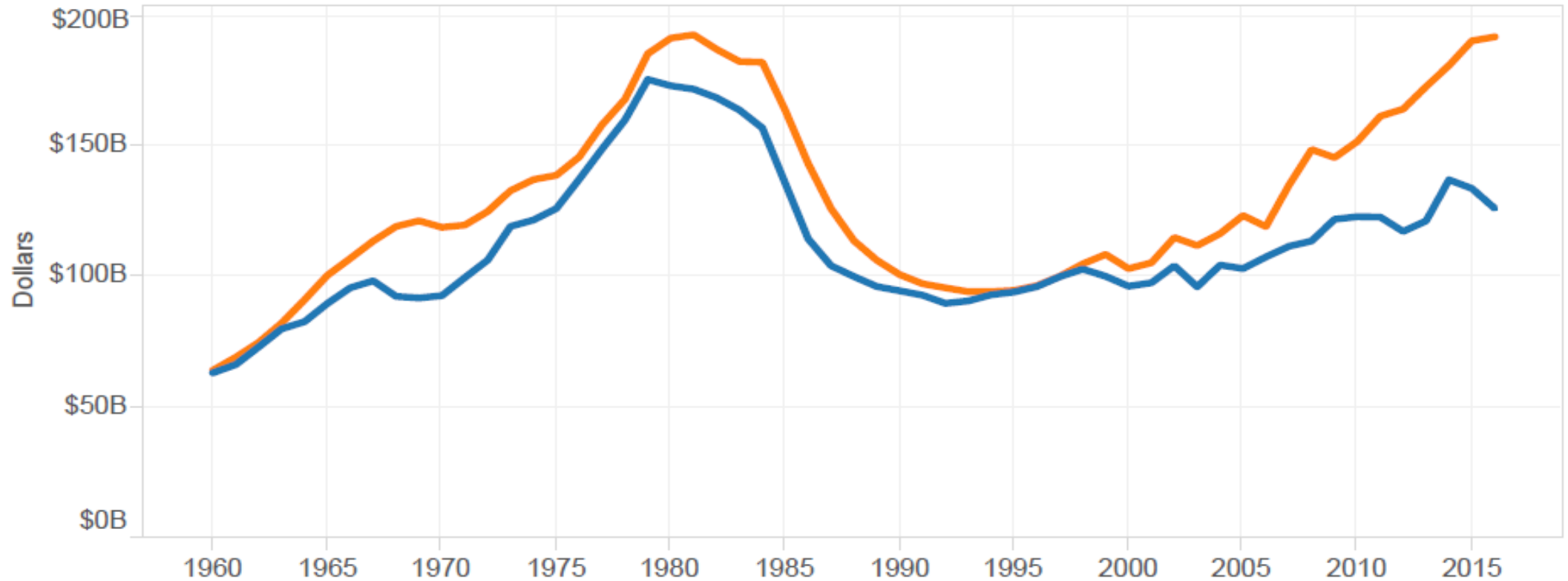
Data for 2016 are forecasts. Data values are rounded to the nearest thousand dollars. Inflation-adjusted values use the chain-type GDP deflator, 2009=100 from BEA, DOC. K=thousand, M=million, B=billion, T=trillion.

Data source: <http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics.aspx> released August 30, 2016.

Real estate debt

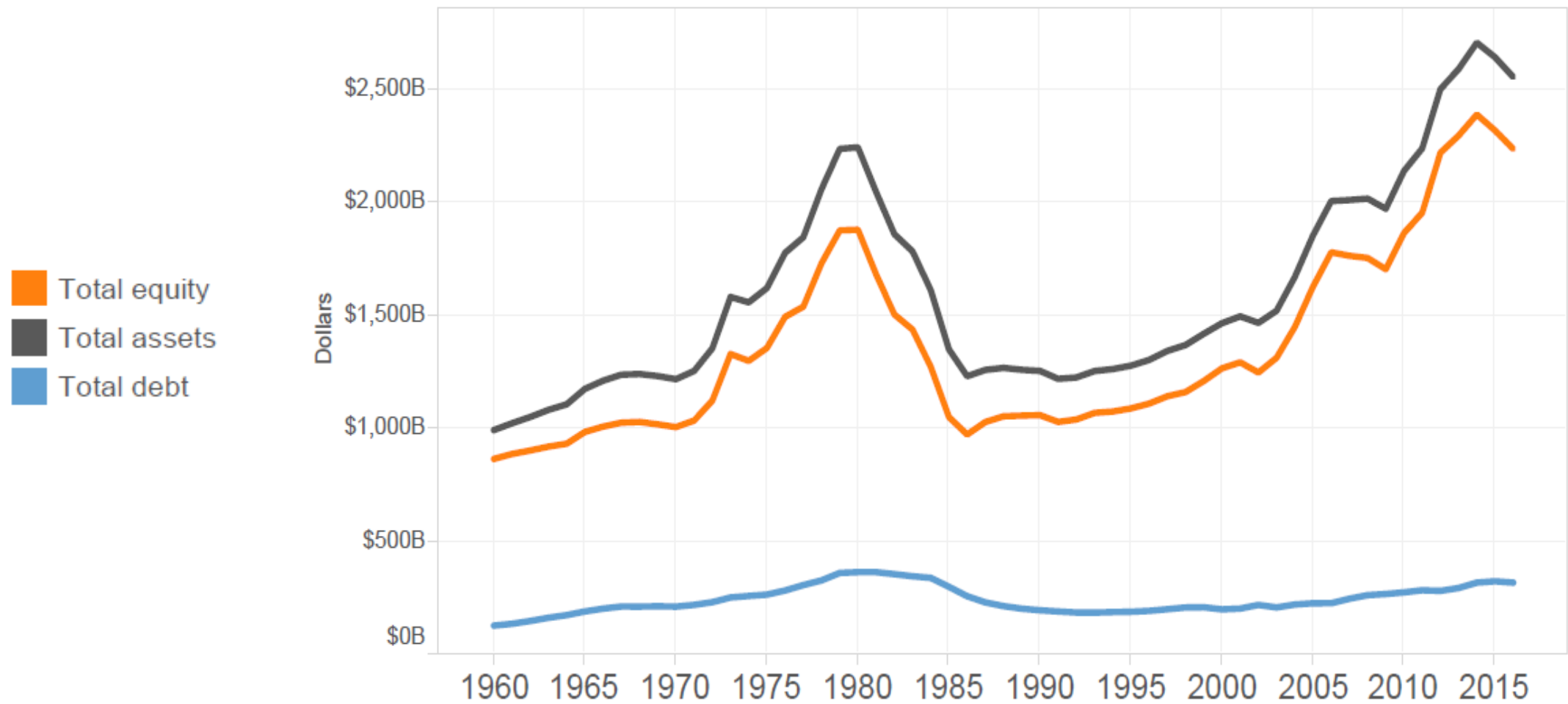
Nonreal estate debt

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.



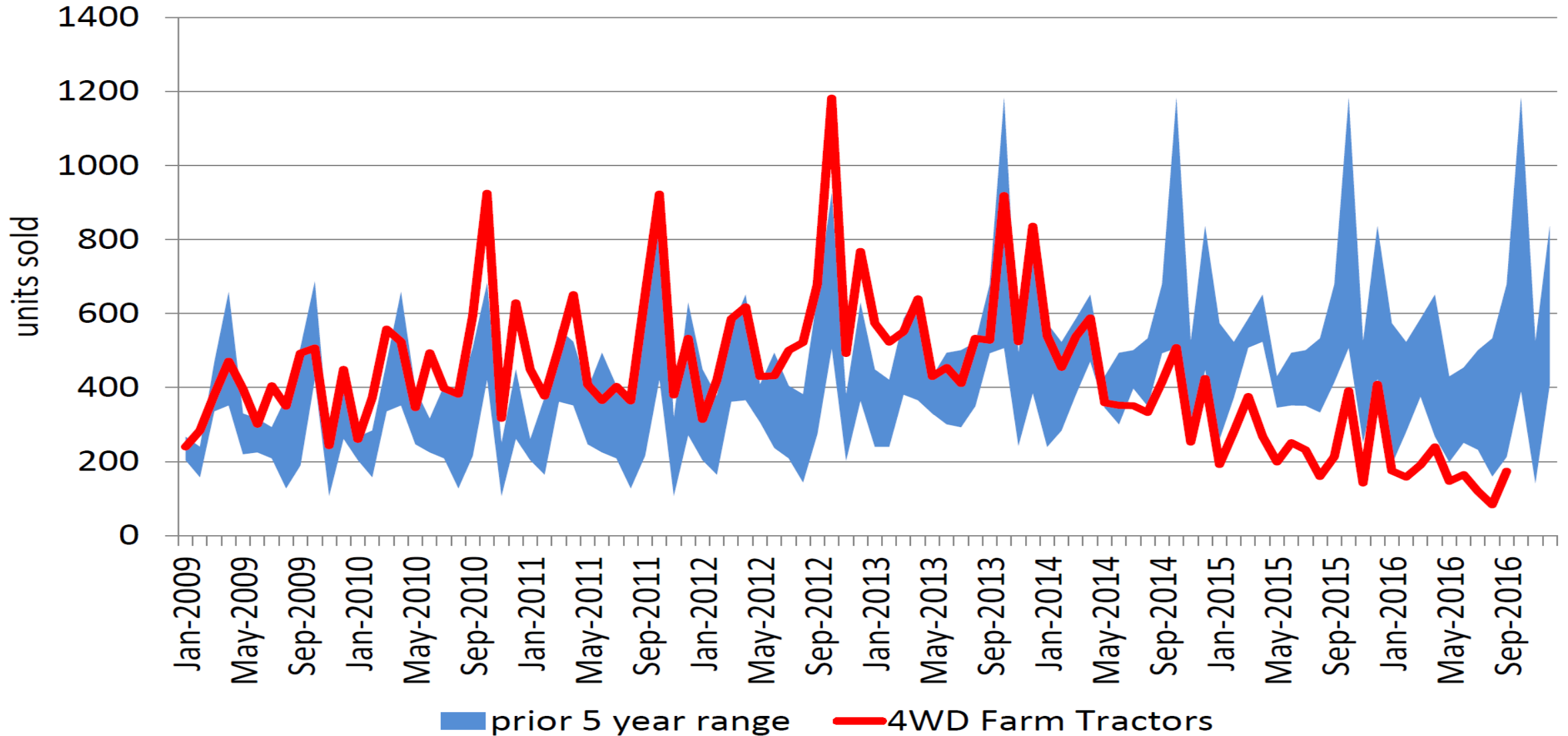
ASSOCIATION OF
EQUIPMENT MANUFACTURERS

AEM United States Ag Tractor and Combine Report September 2016

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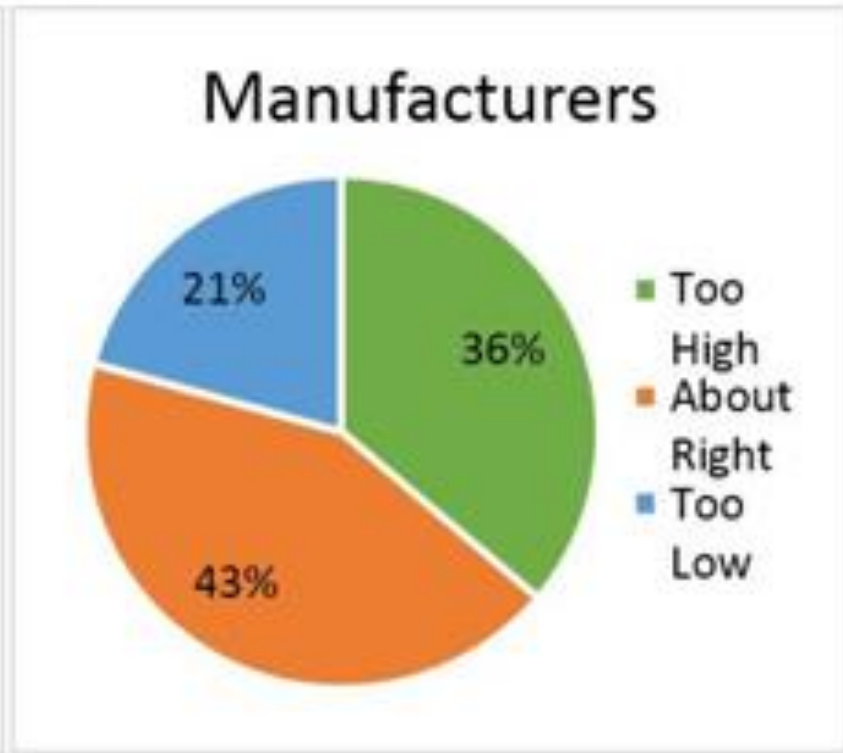
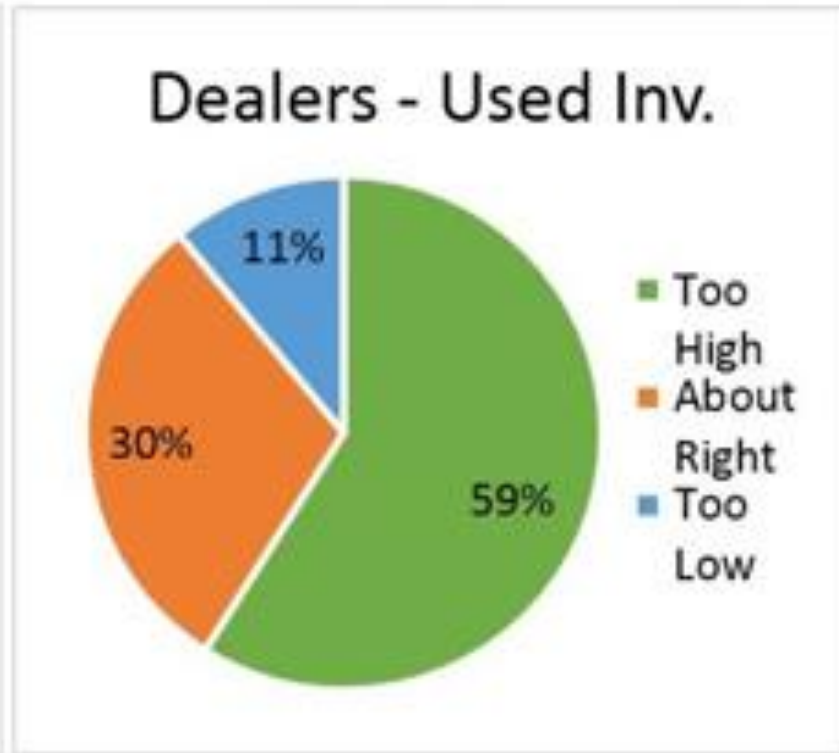
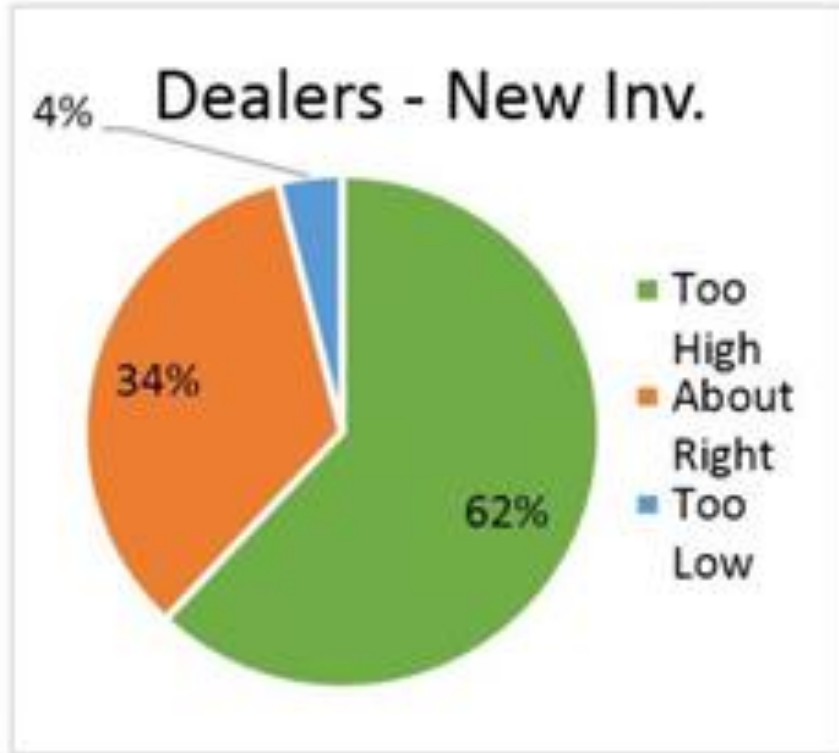
	September			YTD - September			Beginning Inventory Sep 2016
	2016	2015	%Chg	2016	2015	%Chg	
2WD Farm Tractors							
< 40 HP	11,675	9,994	16.8	105,144	94,172	11.7	70,434
40 < 100 HP	5,016	4,826	3.9	42,749	44,690	-4.3	36,917
100+ HP	1,475	1,592	-7.3	13,995	18,102	-22.7	10,413
Total 2WD Farm Tractors	18,166	16,412	10.7	161,888	156,964	3.1	117,764
4WD Farm Tractors	174	212	-17.9	1,467	2,169	-32.4	763
Total Farm Tractors	18,340	16,624	10.3	163,355	159,133	2.7	118,527
Self-Prop Combines	451	690	-34.6	3,051	4,027	-24.2	1,176

US 4WD Tractor Sales



Source: American Equipment Manufacturers

At the present time, my inventory levels are:

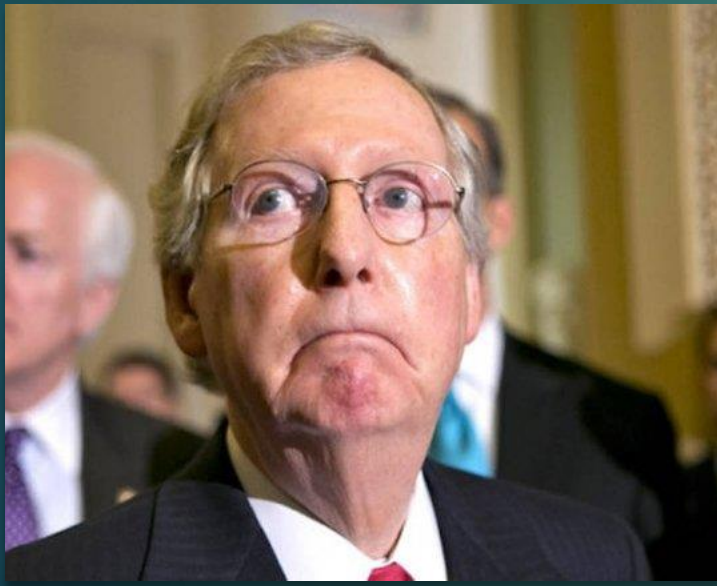


Agree to Disagree: What Ag Equipment Dealers, Manufacturers Think about Inventory

•September 22, 2016



ASSOCIATION OF
EQUIPMENT MANUFACTURERS



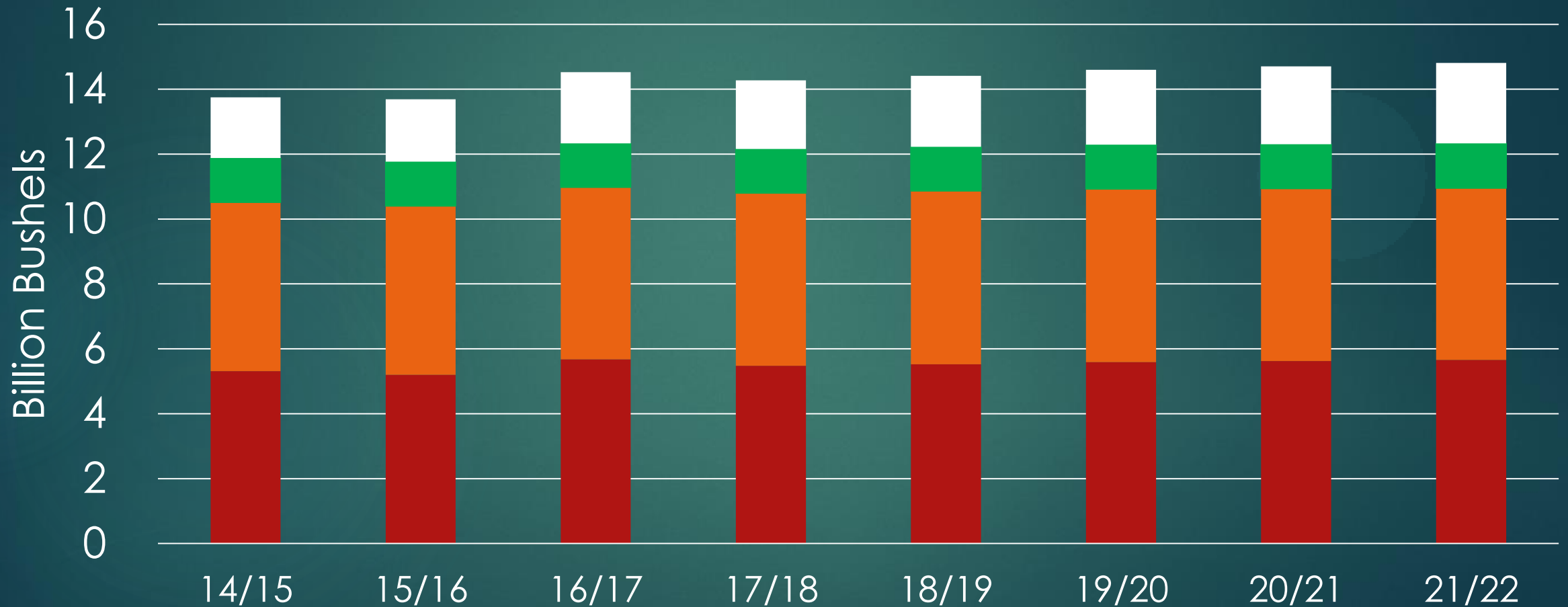
Okay, I had to turn in my presentation November 8...

Baseline Update for U.S. Agricultural Markets

August 2016

Corn Utilization

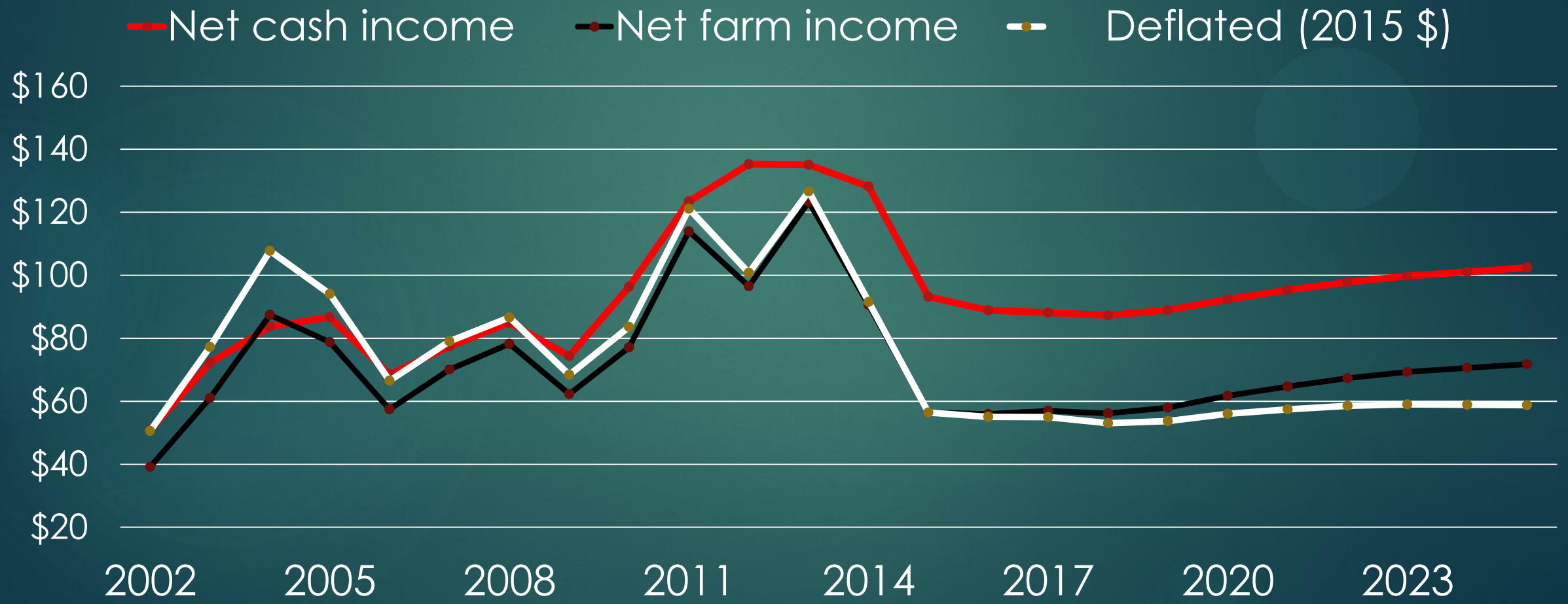
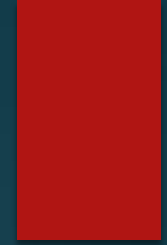
Feed Ethanol Other Dom Exports



U.S. crop farm prices

Marketing year	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Corn (\$/bu.)	3.70	3.60	3.19	3.57	3.80	3.87	3.86	3.87
Soybeans (\$/bu.)	10.10	8.95	9.29	9.44	9.64	9.94	9.93	9.99
Wheat (\$/bu.)	5.99	4.89	3.74	4.52	5.02	5.28	5.34	5.38
Upland cotton (cents/lb.)	61.3	58.0	62.3	59.4	61.5	62.2	62.0	62.9

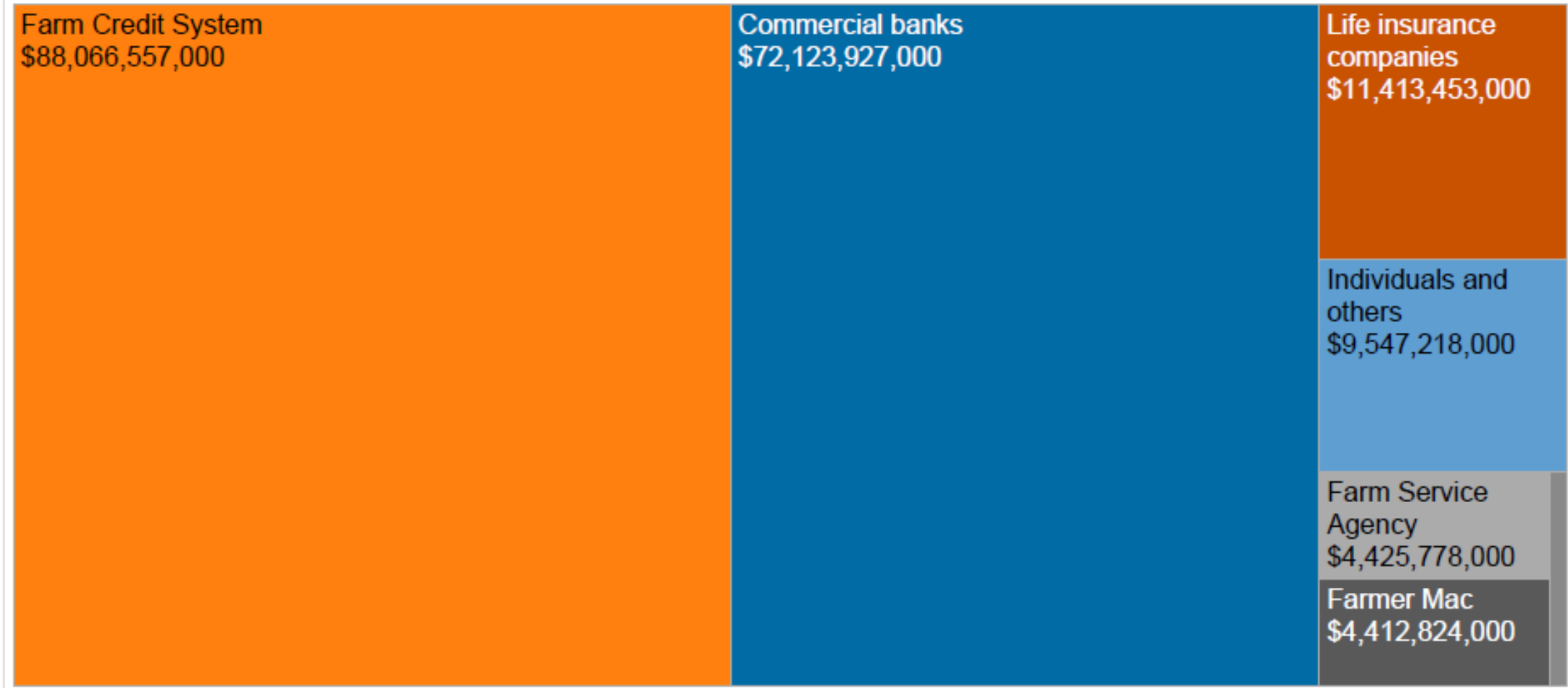
FAPRI March 2016 Farm Income Projections



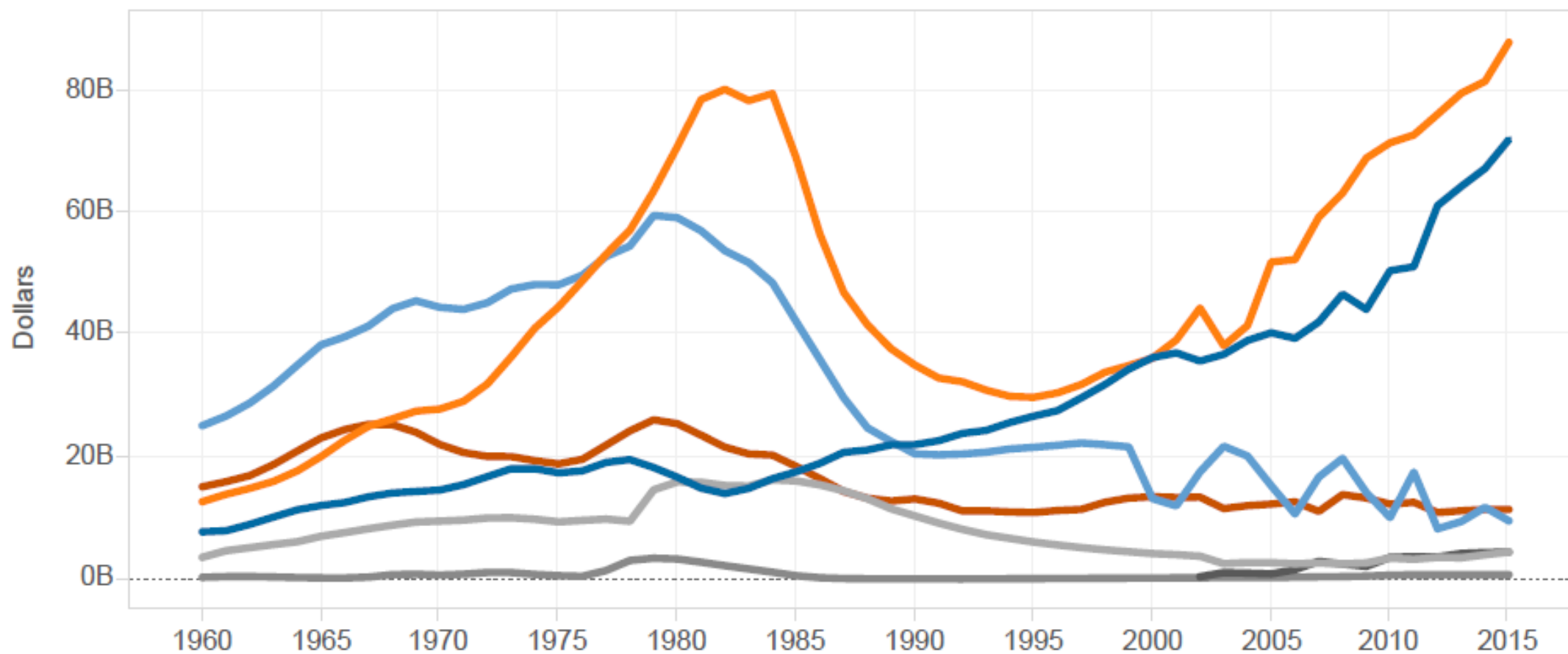
NET FARM INCOME



Farm sector debt by lender, 2015

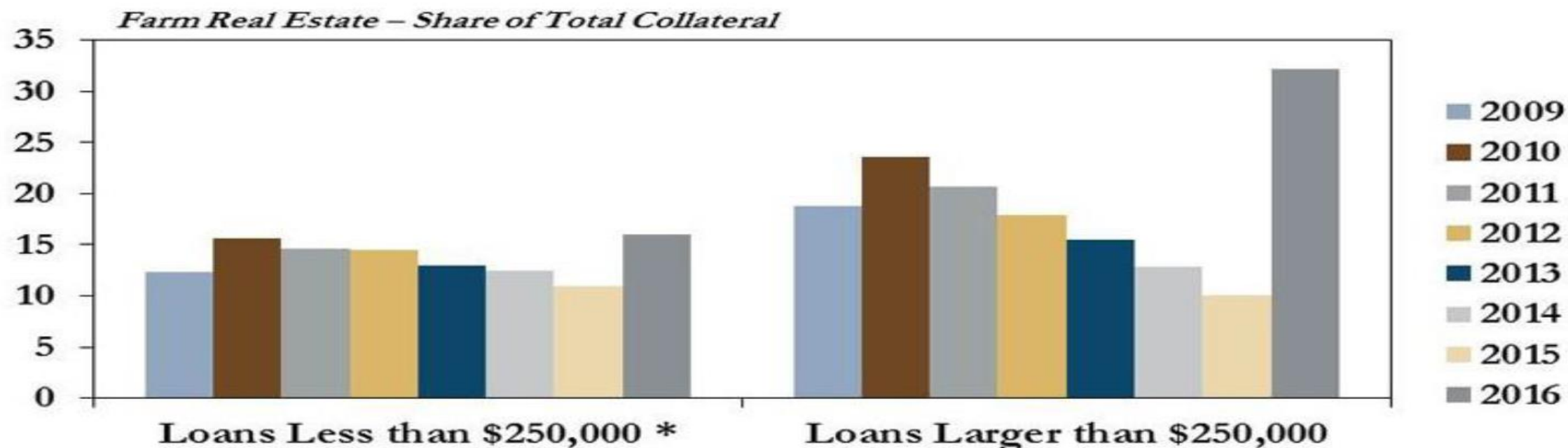


Trends in farm sector debt by lender, 1960 to 2015



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