



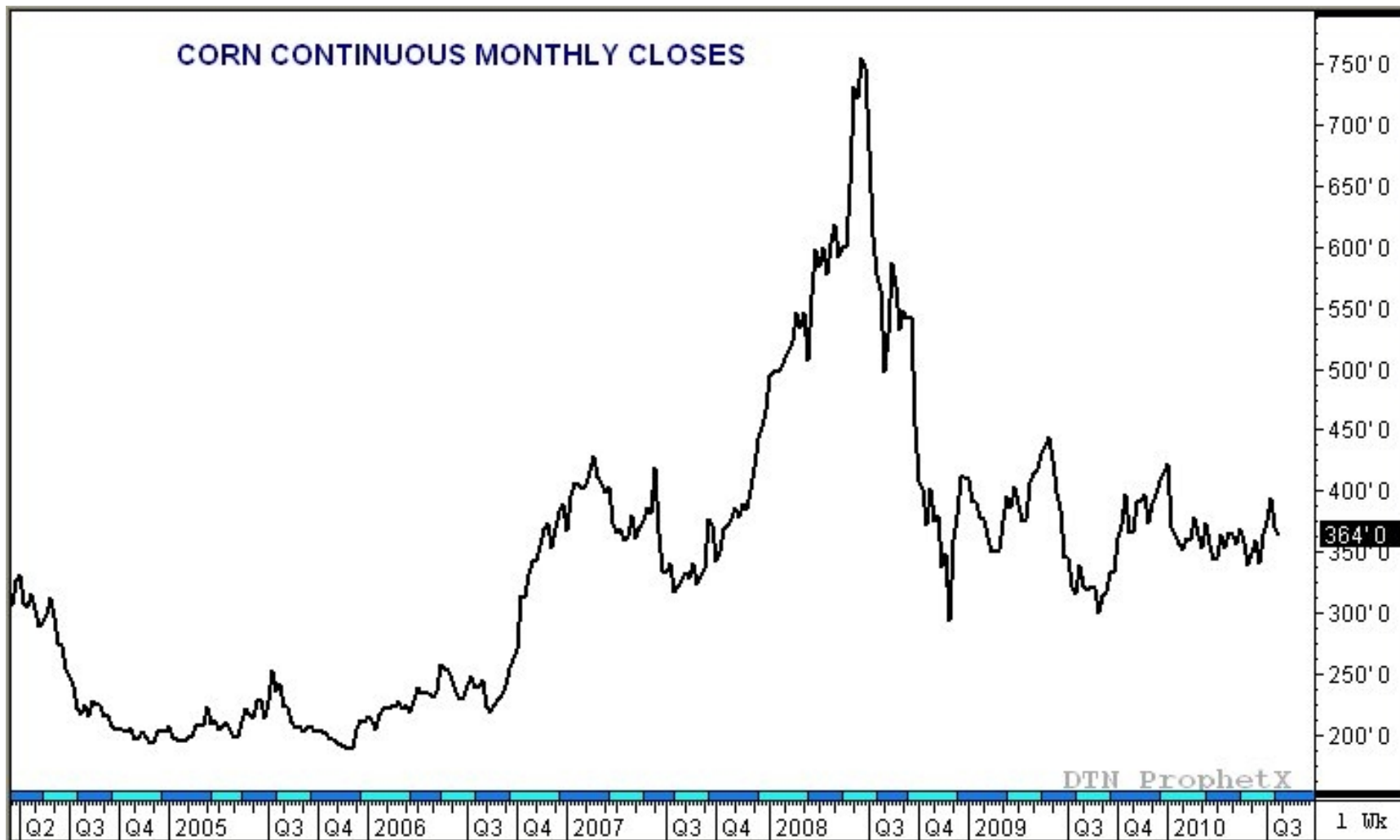
Get Ready for Agriculture's New Normal

Marcia Zarley Taylor, DTN Executive Editor

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A price spike in global grain prices of the magnitude seen in 2008 is the kind that happens once every 30 years.

--Ron Trostle, International Agriculture
Projections, USDA



Why you need a disaster response plan

“One way of looking at this might be that for 42 years, I've been making small, regular deposits in this bank of experience: education and training. And on January 15 the balance was sufficient so that I could make a very large withdrawal.”

--Capt. Chelsey Sullenberger
US Airways Pilot and accident investigator
who ditched in the Hudson River

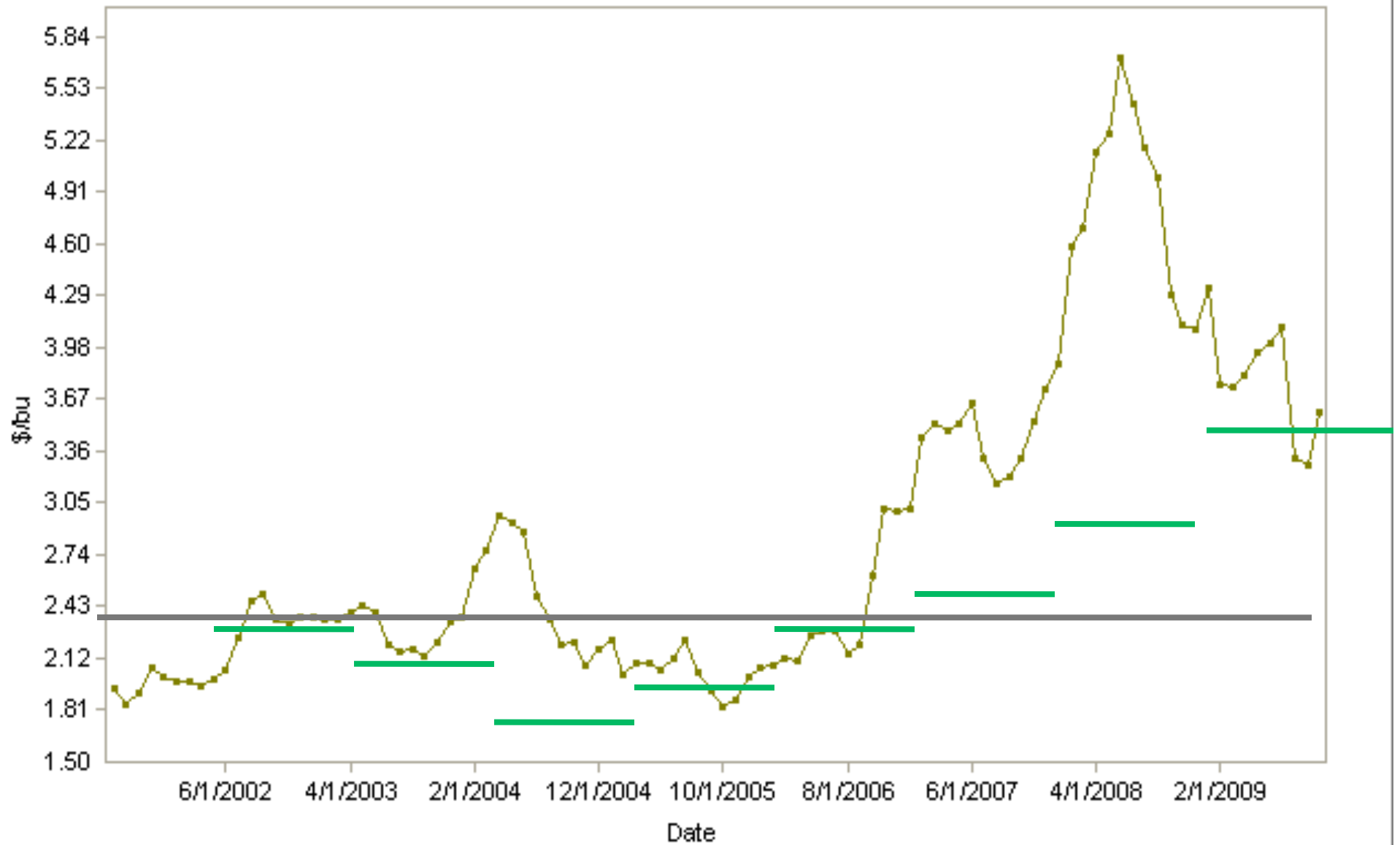
"You have to ask yourself the question, what threat to revenue would take me out of farming? Then find a way to address that risk if possible, like sunscreen or rain gear or an inoculation shot."

--Les Imboden, Ashville, Ohio

Examples of Ag Shock Therapy

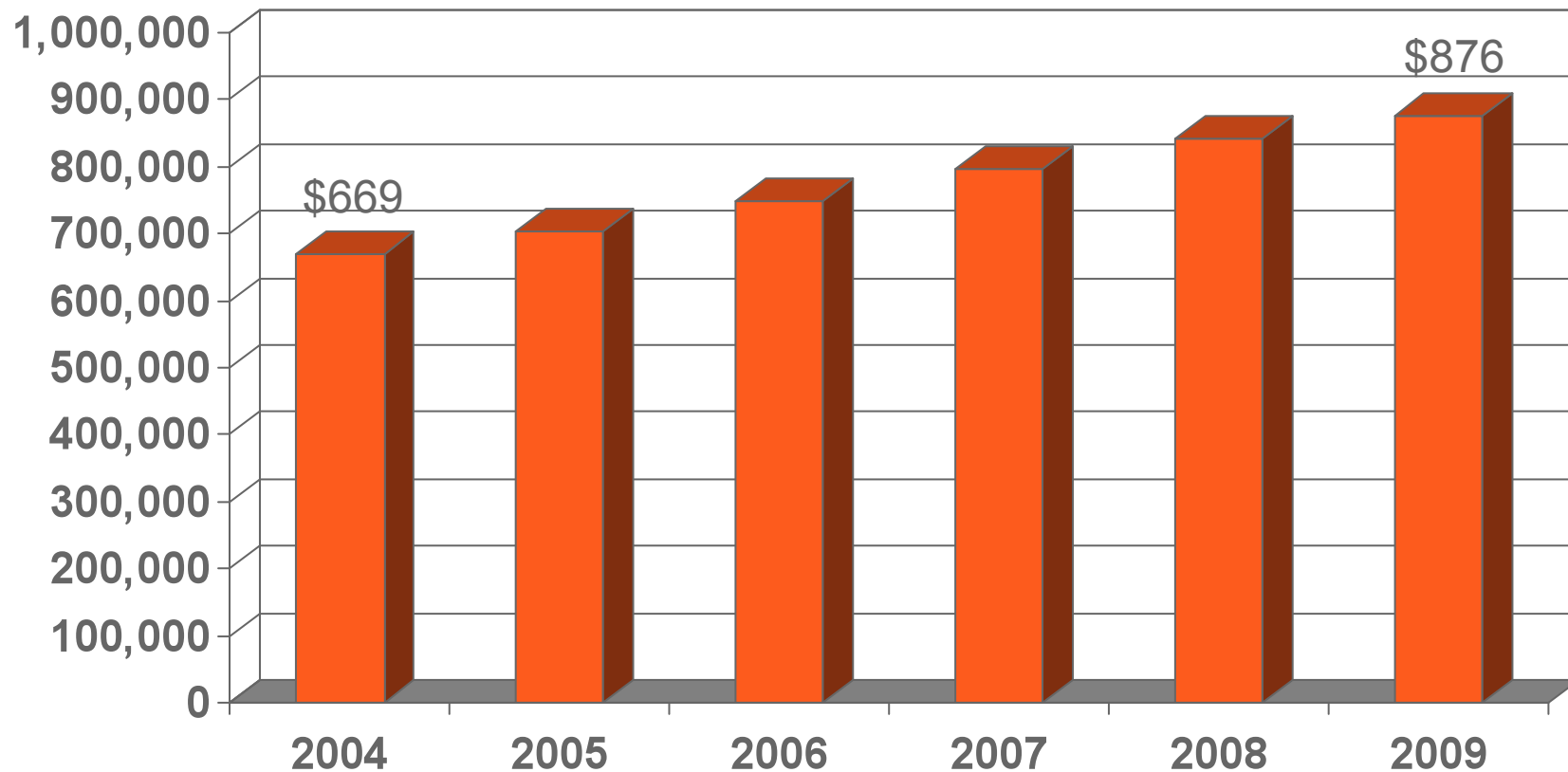
- Conservation Reserve Program—idled 30% of farmland in some counties overnight
- Federal Reserve's "credit rationing" policy during 1980s. Some operating loans jumped to 22.5%
- Collapse of the former Soviet Union. U.S. wheat acreage 25% below its 1980s level.
- The hangover from high 2008 prices that leaves gaping holes in the traditional farm safety net

Monthly Average Corn Farm Price Received in Illinois
for the 2001/2002 - 2009/2010 Marketing Year(s)



Source: <http://www.agstats.state.il.us>

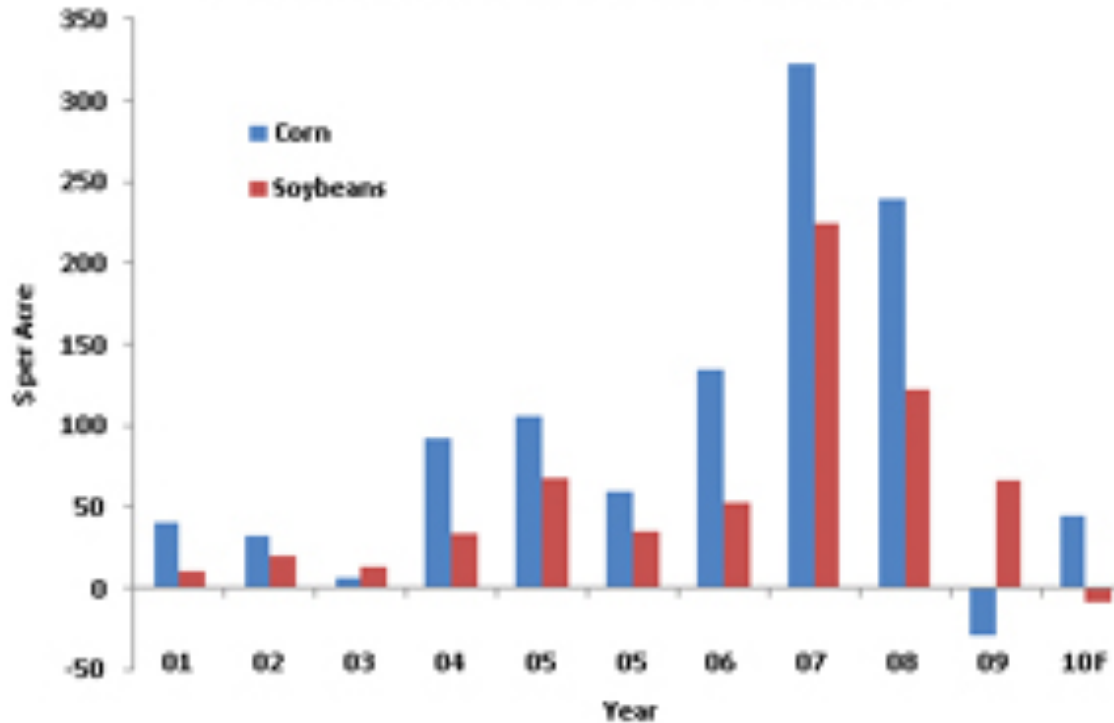
Debt per Minn. farm up 31%



Source: Center for Farm Financial Mgt./Minn. Farm Business Mgt. Assn.

Profit margins squeezed again

Figure 1. Corn and Soybean Returns to Cash Rent Farmland in Central Illinois Having High-Productivity, 2001 - 2010F.



Source: University of Illinois

What happened?

- This year's *nonland costs* almost \$100 per acre lower than 2009, but still the 2nd highest in history. Per acre corn seed up 39% since 2008
- Average *cash rents* exploded in 2008-09 and haven't deflated. lowans added about \$50/acre avg. since 2005.
- While it cost about \$400 per acre for Iowa-Illinois corn growers to plant a crop on rented ground, price closer to \$600+ now
- Risk equation for renters is rising

Estimated Farmland Rental Rates – Iowa ¹

Year	Cropland				Pasture			
	Cash Rent, \$/acre	Change, Percent	Land Value, \$/acre	Rent as % of value	Cash Rent, \$/acre	Change, Percent	Land Value, \$/acre	Rent as % of value
1994	98.60	--	1,517	6.5%	26.35	--	480	5.5%
1995	99.60	1.0%	1,581	6.3%	28.05	6.5%	450	6.2%
1996	105.00	5.4%	1,810	5.8%	28.90	3.0%	575	5.0%
1997	110.00	4.8%	1,700	6.5%	31.10	7.6%	615	5.1%
1998	113.00	2.7%	1,860	6.1%	34.00	9.3%	665	5.1%
1999	112.00	-0.9%	1,930	5.8%	31.00	-8.8%	680	4.6%
2000	115.00	2.7%	1,940	5.9%	29.00	-6.5%	700	4.1%
2001	117.00	1.7%	1,980	5.9%	30.00	3.4%	730	4.1%
2002	120.00	2.6%	2,040	5.9%	30.50	1.7%	760	4.0%
2003	122.00	1.7%	2,120	5.8%	31.00	1.6%	800	3.9%
2004	126.00	3.3%	2,320	5.4%	32.50	4.8%	880	3.7%
2005	131.00	4.0%	2,760	4.7%	36.00	10.8%	1,070	3.4%
2006	133.00	1.5%	3,100	4.3%	38.00	5.6%	1,400	2.7%
2007	150.00	12.8%	3,600	4.2%	39.00	2.6%	1,780	2.2%
2008	170.00	13.3%	4,260	4.0%	42.00	7.7%	2,070	2.0%
2009	180.00	5.9%	4,050	4.4%	43.00	2.4%	1,880	2.3%

¹Prepared from data collected by the USDA, National Agricultural Statistics Service.

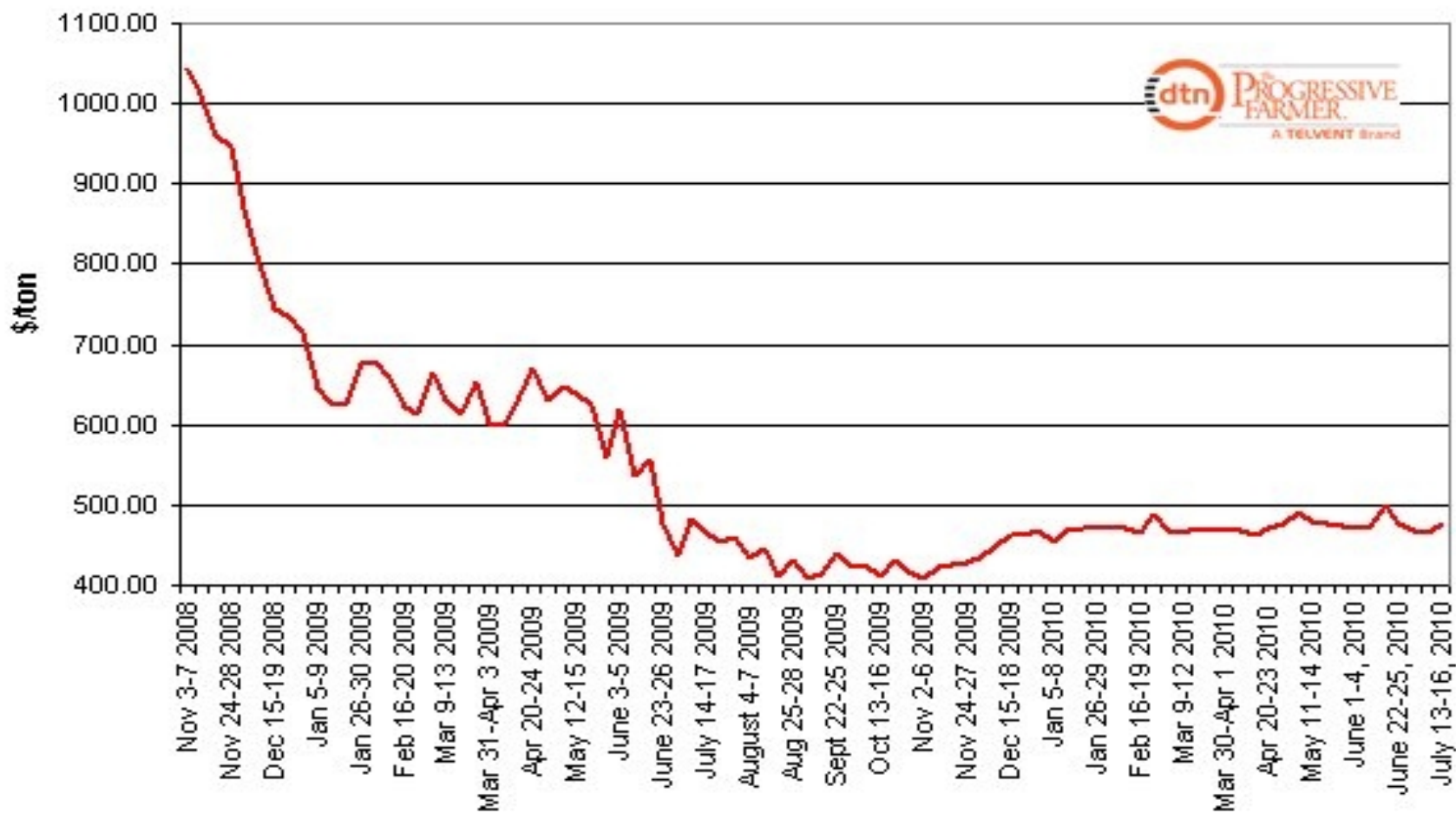
Smaller residuals to pay rent or returns

	<u>2003-2007 Avg.</u>	<u>2010 Estimate</u>	<u>Change</u>
Gross revenue	\$577	\$696	\$119
- Direct cost	184	301	117
- Power cost	57	86	29
-Overhead	45	54	9
Total nonland cost	\$286	\$441	\$155
Operator return + cash rent	\$291	\$255	(-\$36)

Source: Univ. of Illinois. Assumes 2003-7 avg. corn price \$2.74 vs. \$3.50 today and 2010 cash rent \$210/acre, leaving operator return of \$45/acre

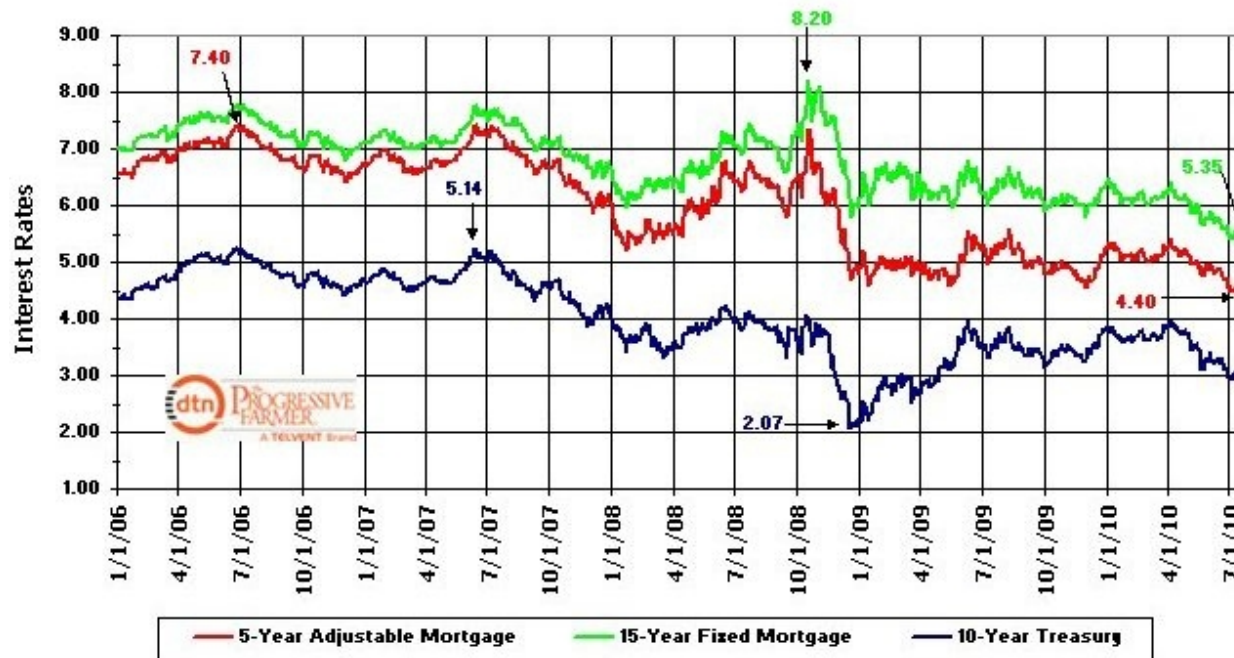
Windows of opportunity

DTN Average Retail Anhydrous Prices



Lowest rates on mortgages since 1958

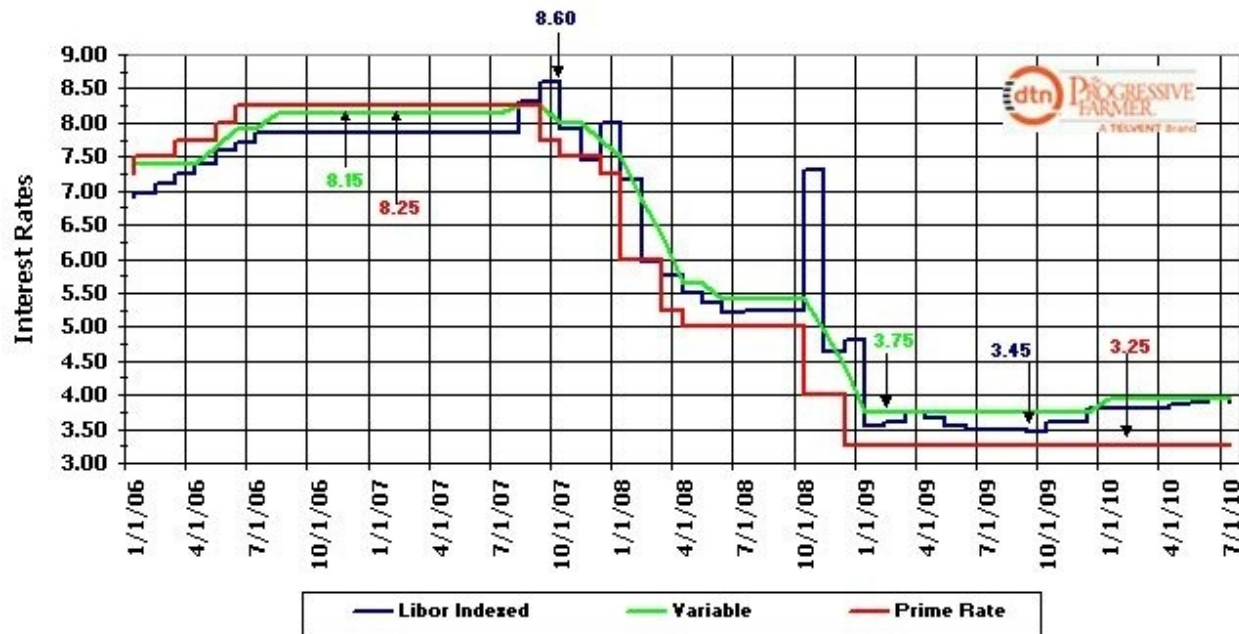
Farm Real Estate Rates



Source: DTN and Farm Credit Services of Mid-America (e-farmcredit.com)

Enjoy cheap credit while it lasts

Farm Operating Credit



Source: Farm Credit Services of Mid-America (e-farmcredit.com)

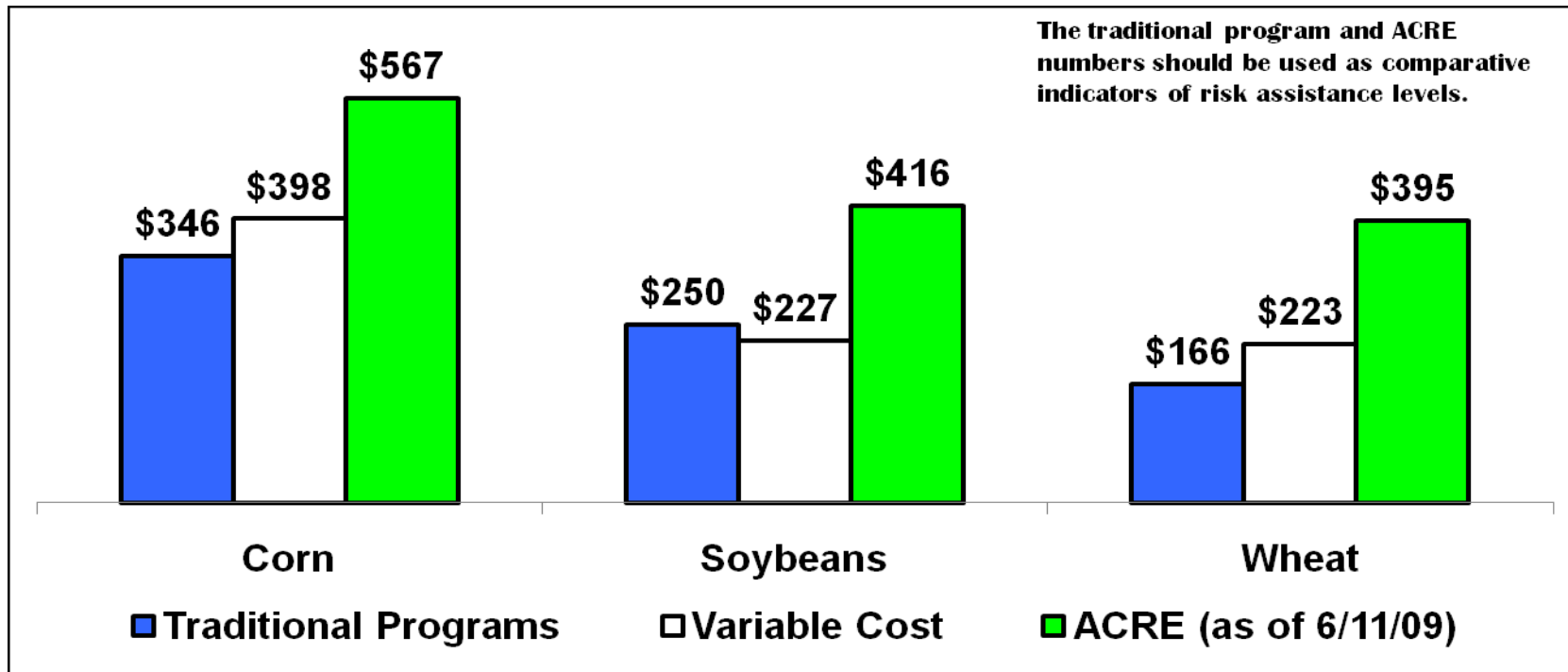
Improvements in the safety net

Can ACRE prevent crash landings?

ACRE 2010 Decision Overview

- ACRE is...
 - A market-oriented, state-revenue risk program
 - That replaces 20% of direct payment, a 30% reduction in marketing loan rate (for example, national loan rate for corn is \$1.37, 70% times \$1.95), and the counter-cyclical program.
 - For most corn, soybean, and wheat land in the U.S., the 20% reduction in direct payments translates into between \$2 to \$5 per planted acre.

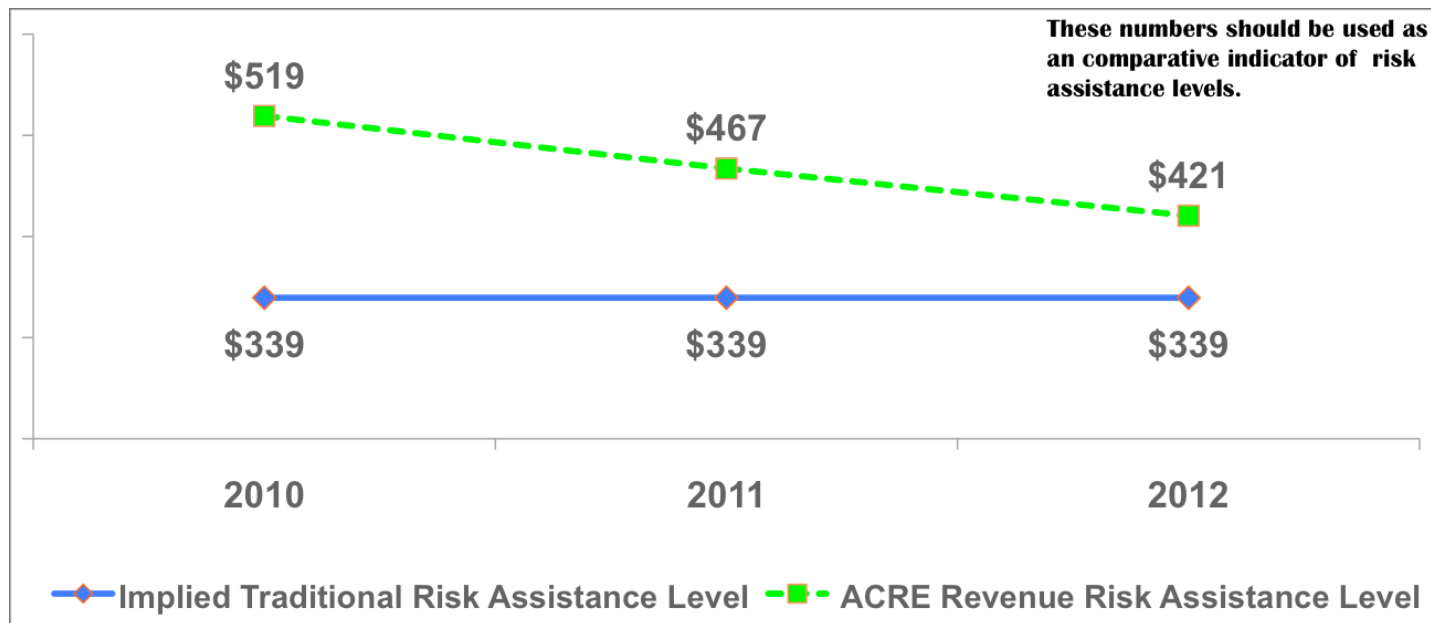
Est. Revenue Protection Per Acre, Ohio, 2009 Crop



Variable production costs are seed, fertilizer, chemicals, fuel, oil, grease, repairs, crop insurance, miscellaneous, interest on operating capital, and hired labor. Ohio Crop Production Budget at <http://aede.osu.edu/Programs/FarmManagement/Budgets/index.htm> Formulas used to calculate the traditional and ACRE risk assistance levels are described on the previous slide.

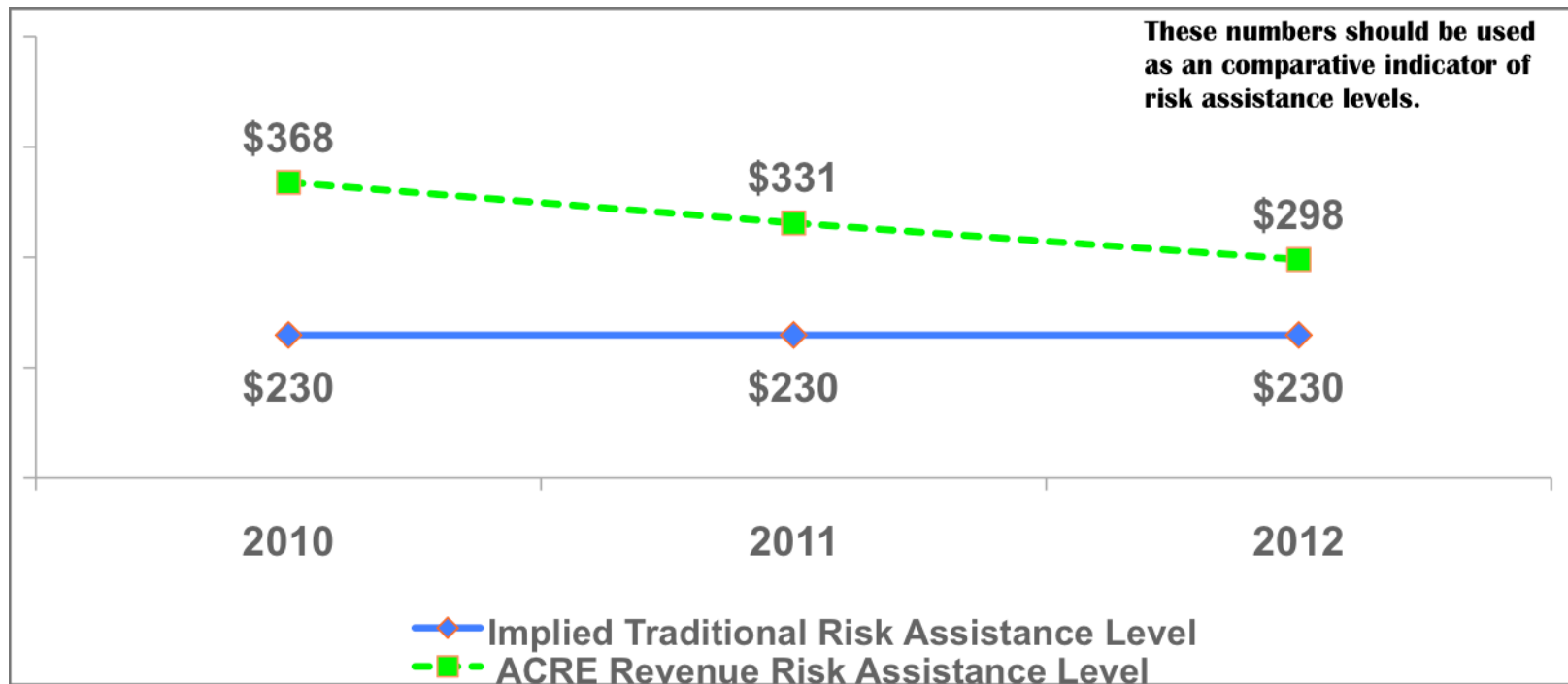
Minimum ACRE State Revenue Risk Assistance Level and Implied Traditional Farm Program Risk Assistance Level, Corn, U.S., 2010-2012

- NOTES: (1) ACRE revenue risk assistance level for 2010 equals [ACRE benchmark yield (150.6) time ACRE benchmark price (\$3.83) times 90%]. (2) ACRE revenue risk assistance level can be no lower than 90% of previous year's assistance level (\$451 is 90% of \$501). (2) Implied revenue risk assistance level for traditional programs equals {[loan rate (\$1.95) time ACRE benchmark yield for 2010 (150.6)] + [counter-cyclical yield (114.3) time maximum counter-cyclical pay rate (\$0.40)]}.



Minimum ACRE State Revenue Risk Assistance Level and Implied Traditional Farm Program Risk Assistance Level, Soybeans, U.S., 2010-2012

- NOTES: (1) ACRE revenue risk assistance level for 2010 equals [ACRE benchmark yield (42.1) time ACRE benchmark price (\$9.71) times 90%]. (2) ACRE revenue risk assistance level can be no lower than 90% of previous year's assistance level (\$331 is 90% of \$368). (2) Implied revenue risk assistance level for traditional programs equals {[loan rate (\$5.00) time ACRE benchmark yield for 2010 (42.1)] + [counter-cyclical yield (34.1) time maximum counter-cyclical pay rate (\$0.56)]}.



Comparison of Crop Insurance, SURE, and ACRE Program Parameters

Attribute	Insurance	SURE	ACRE
Area Covered	Individual Field, or Enterprise, or County	Whole Crop Farm	State, but with farm eligibility condition
Period Covered	Growing Season	Growing Season and Crop Year	Crop Year
<u>Prices Used to Set Assistance Level</u> Final Value	Futures Futures	Futures U.S. Crop Year	U.S. Crop Year U.S. Crop Year
Cap On Decline in Guarantee	None	None	10%
% of Coverage	Farmer elects up to 85% individual 90% for county	115% of elected insurance level maximum of 90%	90%

Surprises in SURE

- Disaster payments larger than the ACRE program
- Complexity compounding administrative problems
 - Rules remain a work in progress. No final decision on many rules (such as how to handle GRIP payments, prevented plantings)--Many administrative mistakes requiring multiple calculations
 - Instances where refunds required after payment
 - Like taxes: ask 3 experts, get three opinions
- Unlikely to survive past 2011

Comparison of Crop Insurance, SURE, and ACRE Program Objectives

- Different program parameters may seem unnecessary or confusing, but they reflect different policy objectives.
- Crop revenue insurance focuses primarily on the risk that revenue declines for a field, crop, or farm during the growing season.
- SURE is a supplement to crop insurance that extends coverage to the crop marketing year and the insurance deductible, but at the whole-farm crop level.
- ACRE focuses on the risk that revenue for the crop year at the state level declines for one to a short period of years – it is the only one of these programs that addresses multiple year coverage (i.e., 10% cap on the decline in ACRE's state benchmark revenue).

If you're a corn farmer who has not enrolled in ACRE on any land you farm, please explain your reasoning?

I don't understand the program	14%
Too much paperwork to comply	10%
Too hard to explain to landlords	14%
I don't think ACRE is likely to trigger much of a payment	25%
State yield doesn't correlate well to my county	16%
I don't want to give up direct payments or partial loan program	17%
Other	2%

What's ACRE's bottomline?

"I asked myself a simple question using corn and soybeans as an example: If I am willing to pay \$10+ for \$345 of revenue coverage on my farm between Feb and Oct 2009, shouldn't I be willing to pay \$3 for \$416 of revenue coverage in 2009...to protect against unforeseen risk that might occur between September 2009 and August 2010? To me, "yes" was the reasonable answer."

--Carl Zulauf, Ohio State economist

Lessons Learned from New Safety Net

1. **ACRE offers best protection vs. low prices** than regular farm program through 2012 as long as season-average prices above target price (\$2.35 corn, \$5.36 soybeans). If your state yield equals the avg. yield guarantee, you only need a 10% drop in price to trigger payments.
2. **Crop insurance and ACRE overlap is minimal** because of “deductibles” and insurance coverage period (growing season vs. crop year). Especially important for soybeans.
3. **SURE provides assistance only on whole farm revenue**, favoring farms which specialize in 1-2 crops. Assistance is sizable but it is nearly impossible to predict.

Stay in the game!

The biggest mistake farmers make is to think of risk management as an investment instead of a cost.

It's insurance against the unforecasted risks that can put you out of business.



Contacts

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See Minding Ag's Business blog and other business coverage at www.dtnprogressivefarmer.com

Thank you