Four-State Economic Discussion

On Aug. 2, 2016, state Departments of Agriculture and Extension representatives from Iowa, Kansas, Missouri and Nebraska met in St Joseph, Mo., concerning the current financial situation and challenges facing the agricultural industry in the four states. The meeting also began a discussion to identify possible courses of action and solutions that might be taken in the four states. The key points that surfaced from that discussion are below:

Financial:

- Lower commodity prices combined with stubbornly high input costs have put some producers in these four states in a tough position.
- Lenders are watching their clients closer and operating loans are becoming more difficult to acquire.
    - Nebraska Department of Agriculture reported 52% of producers are experiencing significant financial stress. A growing number of Nebraska producers were turned down on operation loans in 2016.
    - Iowa's survey results and an observation of producers' optimism:
        - Iowa farmers reported their net farm income was down.
        - Iowa farmers are limiting their inputs. Producers reported they had decreased the use of fertilizers and were increasing the use of soil testing to determine what inputs were truly necessary.
    - Kansas farmers reported their average farm income was $45,000, the lowest it has been since 1985. There are a shrinking number of Kansas banks willing to give agriculture loans, even though 47% of the state's economy is agriculture-based.
    - University of Missouri Extension reported that the Missouri financial situation cannot be painted with a broad brush; some producers are highly leveraged and hurting and some are not.
- All four states reported that in order to reduce operating cost, farmers are delaying the purchase of new equipment and repairing and keeping their used equipment.
- According to Rabo AgriFinance: "The future successful farmer is the farmer that can finance."
- A survey of 10,000 Nebraska farmers and ranchers, conducted by the Nebraska Department of Agriculture, found:
    - 52% of respondents are experiencing significant financial stress.
    - 64% of respondents are able to finance their own operating costs.
    - Methods used to deal with income loss include:

- Lowering family living expenses.
- Increasing off-farm income.
- Selling crop early (40% of grain producers).
- Adopting new technology (55%).
- Transitioning out of farming to preserve net worth (23%).
- Note: It was consensus of those attending the meeting that the Nebraska findings were very similar to those in the other states. Additional items added to the list included:
    - Completing custom hire work instead of hiring outside workers.
    - Knowing break-even points and recognizing the profit margin.
    - Encouraging producers to lock in margins and not worry about highest prices, in other words, to contract when they are making money because markets are so volatile.

- Producers in all four states are concerned about bumping into loan caps.
- Some cattle producers, both in Missouri and Kansas, indicated they were having difficulty finding operating capital.
- The need to develop more value-added opportunities and niche markets was identified as a need by all four states.

Land:

- Farmland values in the four states have decreased 4-9% in the last year. Iowa Extension reported that their data indicates that every 2% change (increase or decrease) in farm income will result in a 1% change (increase or decrease) in land values.
- As it relates to rental rates, tenants need to better communicate with landlords the current economic situation in agriculture and need to negotiate lower cash rental rates. This is especially true with landlords who don't understand the current economic situation after the high commodity prices seen in 2012-2014.
- Land values around urban areas are increasing due to the expansion pressure and conflict between land being used for new housing and infrastructure versus being used for food production.
- Some economists are predicting that, due to the current situation in agriculture, we may see large number of acres offered for sale.
- 54% of respondents in the Nebraska survey "expect lower land values."

Trade:

- Missouri producers said "As U.S. agriculture balances prices and production, international trade is an important component. With the current exchange rates, it's harder to export our way out of the impact of expanded production."
- Sterling Liddell with Rabo AgriFinance said "The United States is no longer the dominant exporter. With Brazil experiencing a drought, they are importing corn this year and will plant more acres."
- As the number three cow/calf state, Missouri cow-calf operators are concerned about both the domestic and international markets. Their concerns relate to market volatility, a better balance of herd size and quality with demand, balance between pasture and crop land, access to world markets, and development of the consumer base both domestically and internationally.

- Maintaining quality and identity will be key to developing stable international markets. Kansas has been successful at preserving identity by selling and shipping sealed containers of hard winter red wheat overseas.

Next Generation:

All four states indicated that there is an increased interest among recent graduates wanting to return to the farm. The challenges in making this happen relate to scale, access to land and capital, technical support and mentoring, and quality of life. One option suggested is to explore the possibility of "older farmers investing without ownership, and in return getting a portion of the income." This would help young farmers with equity and help the investor with his/her return.

Recommendations:

Note: Although no official action was taken related to recommendations to the U.S. Secretary of Agriculture, general consensus was shown on these items/recommendations.

- The four states:
    - Need to continue these kinds of discussions and interactions in the future. This is important because the current economic situation is, by some economists, projected to continue until 2020. The next Midwest directors of agriculture meeting will be in Nebraska.
    - Need to explore how to best work together on future farm bill policy issues that are common in all four states.
    - Need to continue interactions with key technology providers. Since most of those providers are in the four-state region, this is extremely important for Missouri, Iowa, Nebraska and Kansas.