

NC Ag Situation & Outlook 2016: Coping with the Downturn

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“U.S. Farm Income to Fall to Lowest Level in Nine Years”

“USDA predicts a 36% decline amid a slump in commodity prices and another large harvest”

Wall Street Journal, August 25, 2015

“High on the Hog: Farm Income Soars”

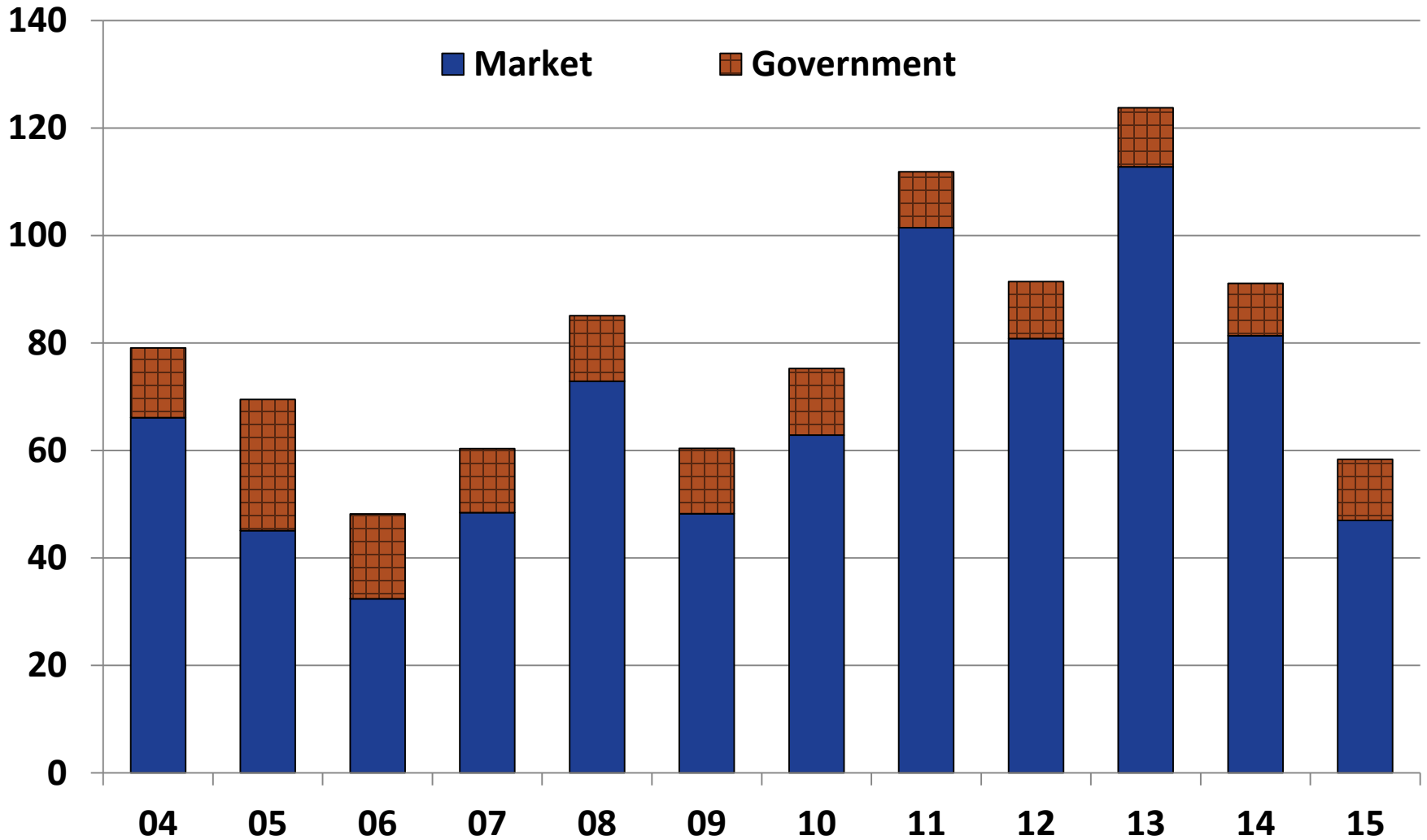
“Bumper Corn, Soybean Harvests Help Raise Outlook”

“Farm incomes in America are expected to hit their highest level in four decades this year,…”

Wall Street Journal November 26, **2013**

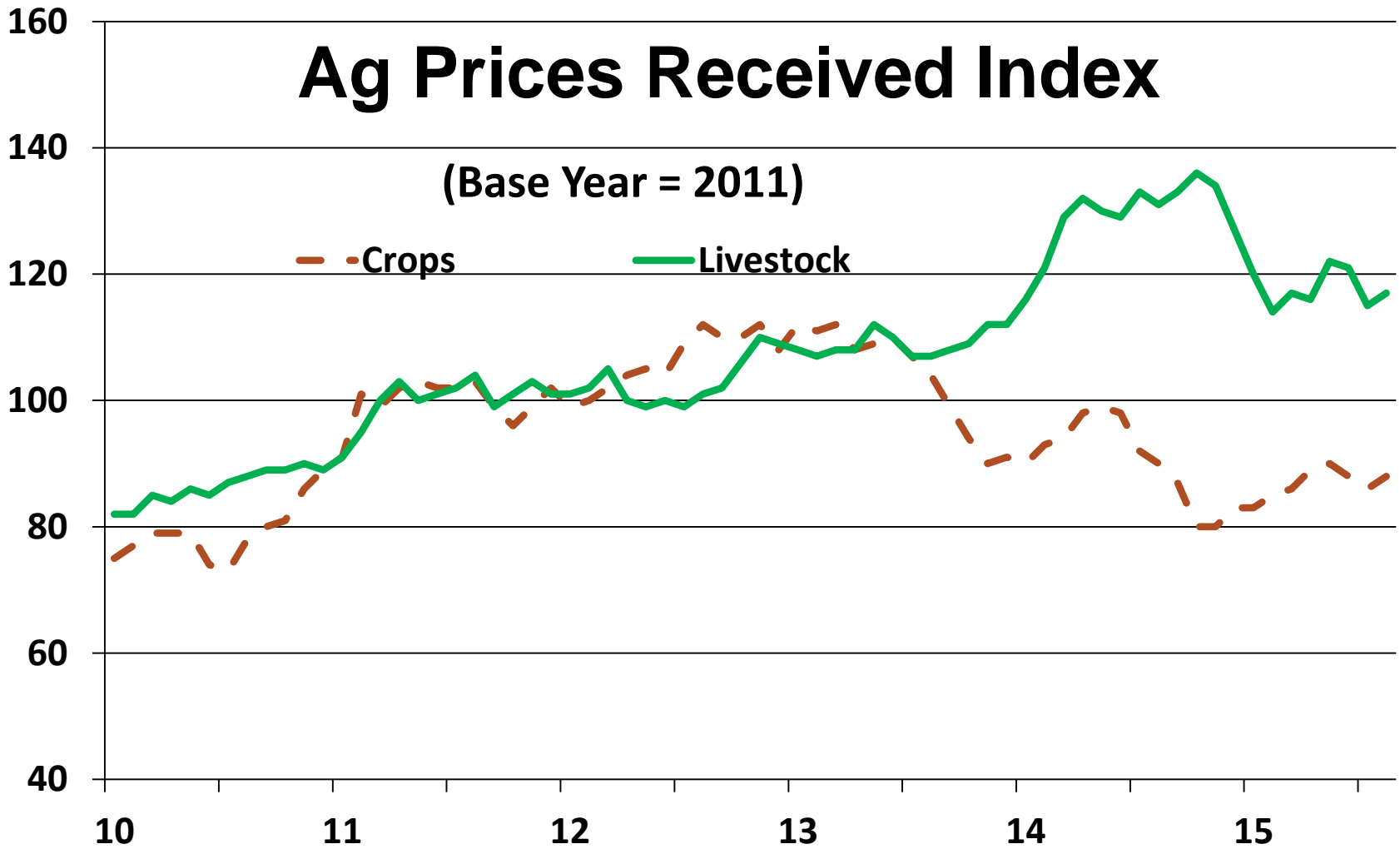
U.S. Net Farm Income

\$ Billions



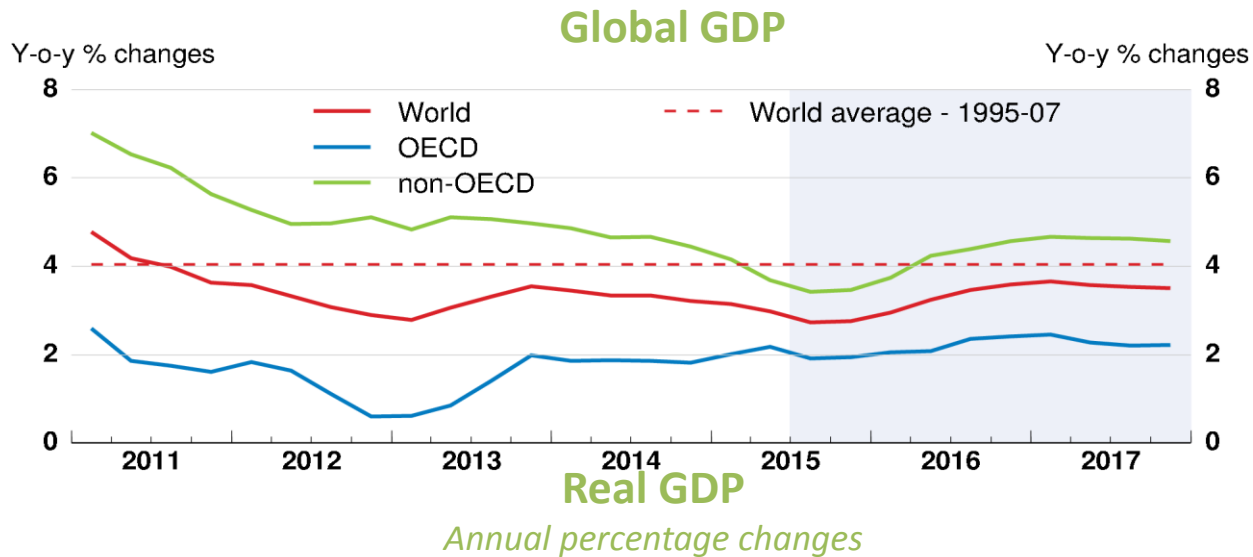
Ag Prices Received Index

(Base Year = 2011)



Global Economy

Global GDP growth: modest projected upturn (given smooth slowdown in China and more robust investment in advanced economies)



	2014	2015	2016	2017
World ¹	3.3	2.9	3.3	3.6
United States	2.4	2.4	2.5	2.4
Euro area	0.9	1.5	1.8	1.9
Japan	-0.1	0.6	1.0	0.5
China	7.3	6.8	6.5	6.2
India ²	7.3	7.2	7.3	7.4
Brazil	0.2	-3.1	-1.2	1.8

1. Moving nominal GDP weights using purchasing power parities. 2. Fiscal years starting in April.

Source: OECD November 2015 Economic Outlook database.

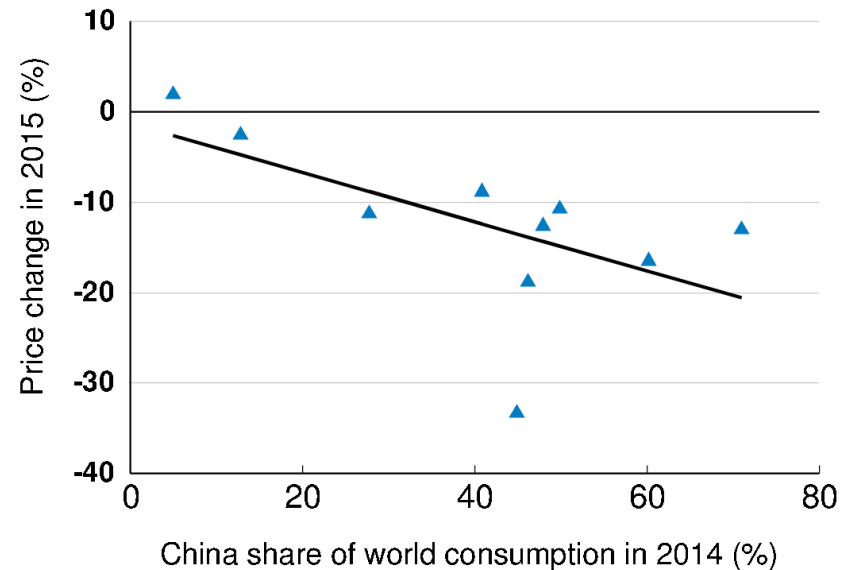
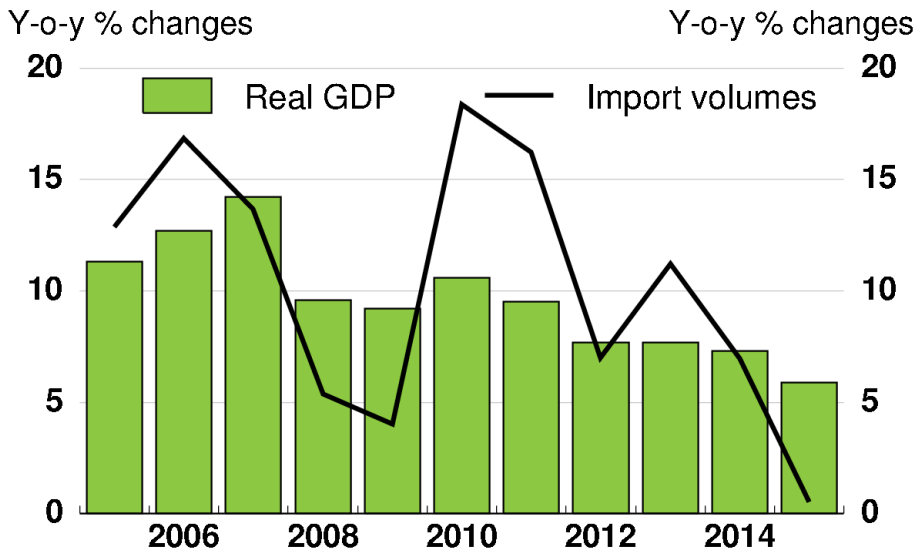
Weaker import growth in China is a key element of the broader trade slowdown

Chinese import growth has slowed sharply

This has exerted downward pressure on commodity prices

China: Real GDP and import volumes

Commodity price changes and China's share of global consumption



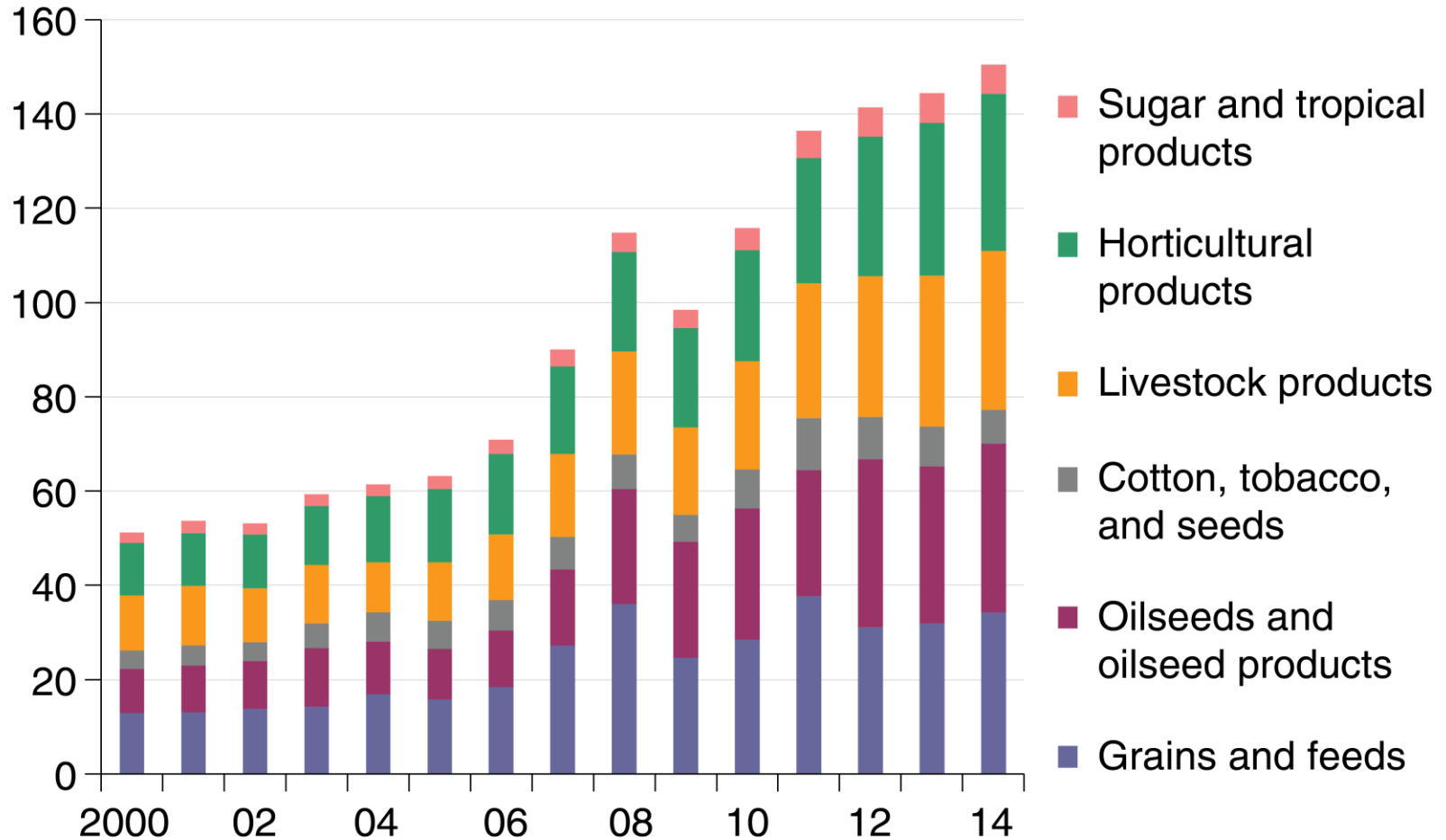
Note: 2015 is change in the first three quarters vs 2014. Import volumes are deflated based on OECD estimates. Nominal imports during the first three quarters of 2015 were down 8 per cent.
Sources: OECD November 2015 Economic Outlook database.

Note: Commodities shown are aluminium, coal, copper, iron ore, lead, natural gas, nickel, oil, uranium and zinc.
Sources: IMF; BP Statistical Review of World Energy; World Bureau of Metal Statistics.

Exports are vital to US Agriculture

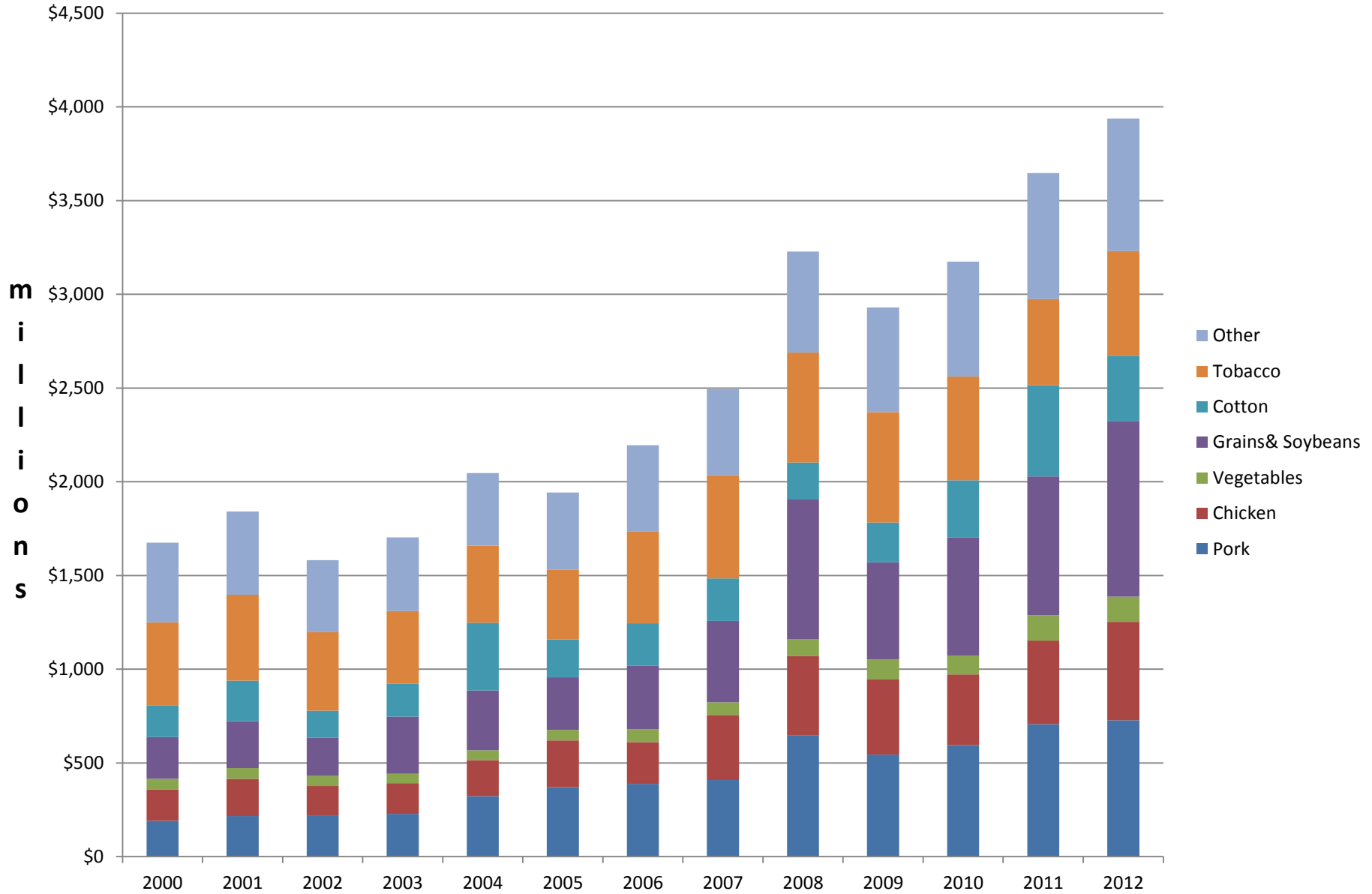
U.S. agricultural exports, 2000-14

\$ billion



Source: USDA, Economic Research Service using data from U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Database.

NC Agricultural Exports



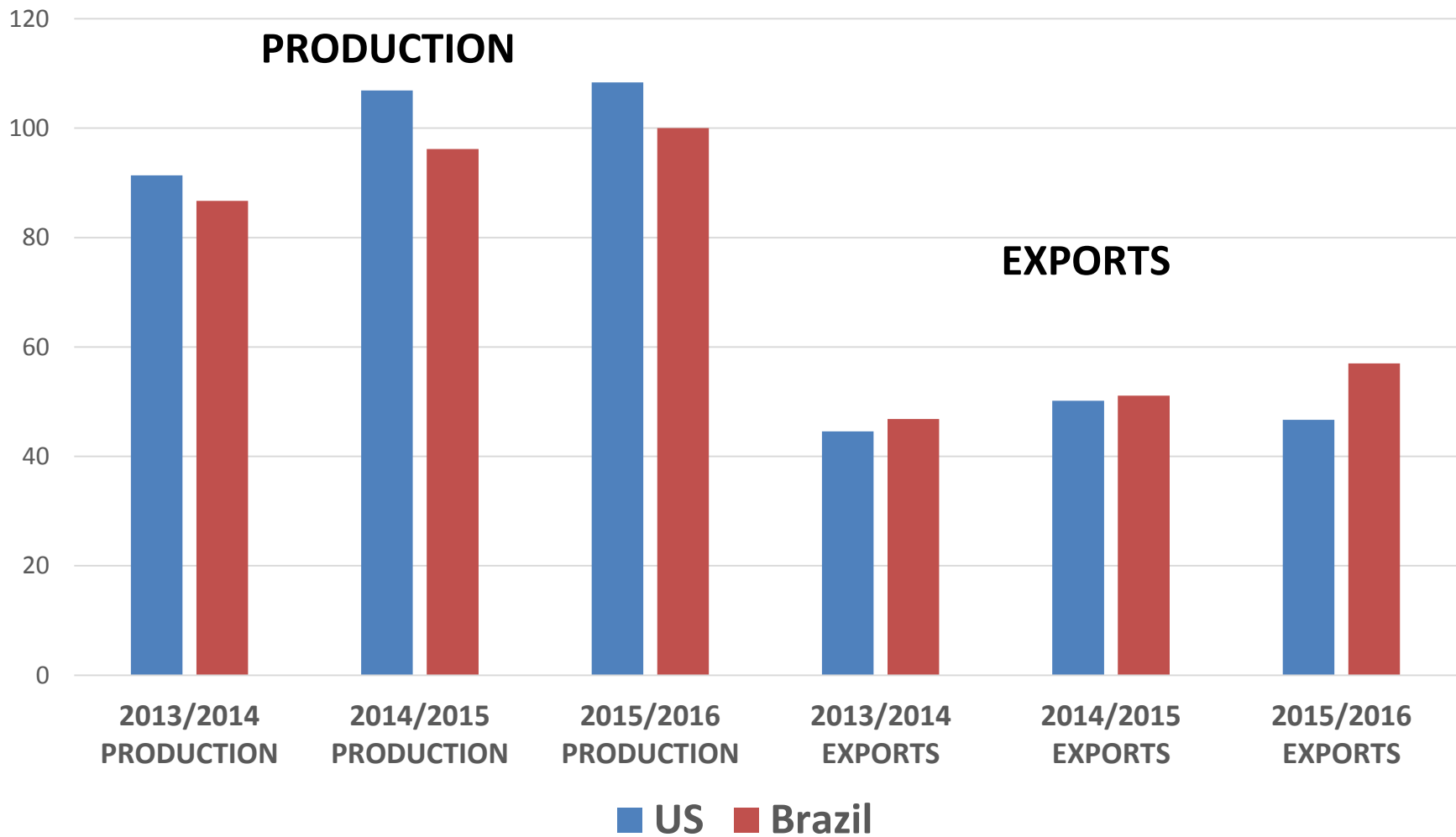
Brazil is our biggest competitor in the global market for agricultural products



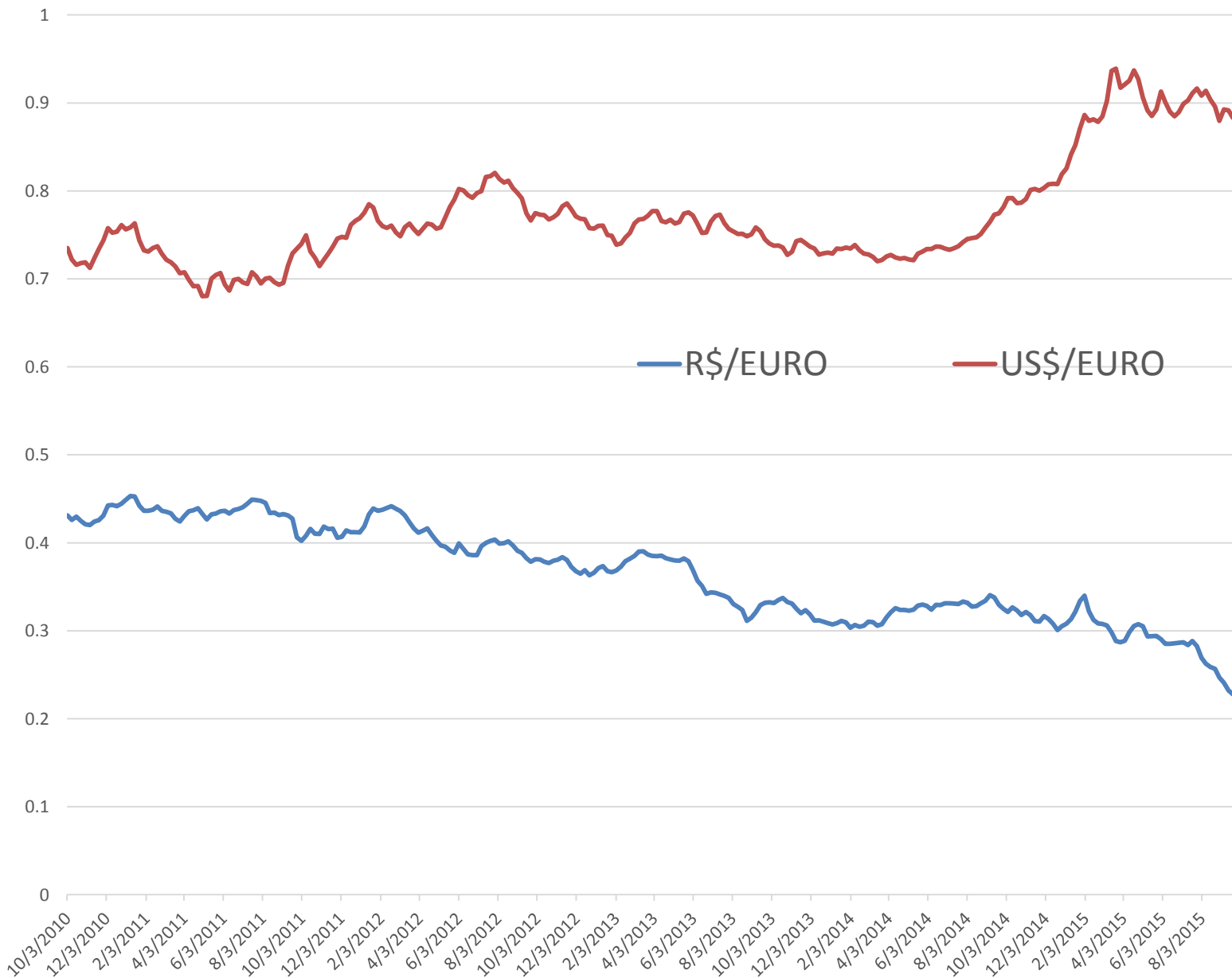
Brazil's economy is in deep recession and the value of Brazil's currency has fallen

Soybeans: US and Brazil

(million metric tons)



Exchange Rates: Brazilian Real (R\$) per Euro and US\$ per Euro



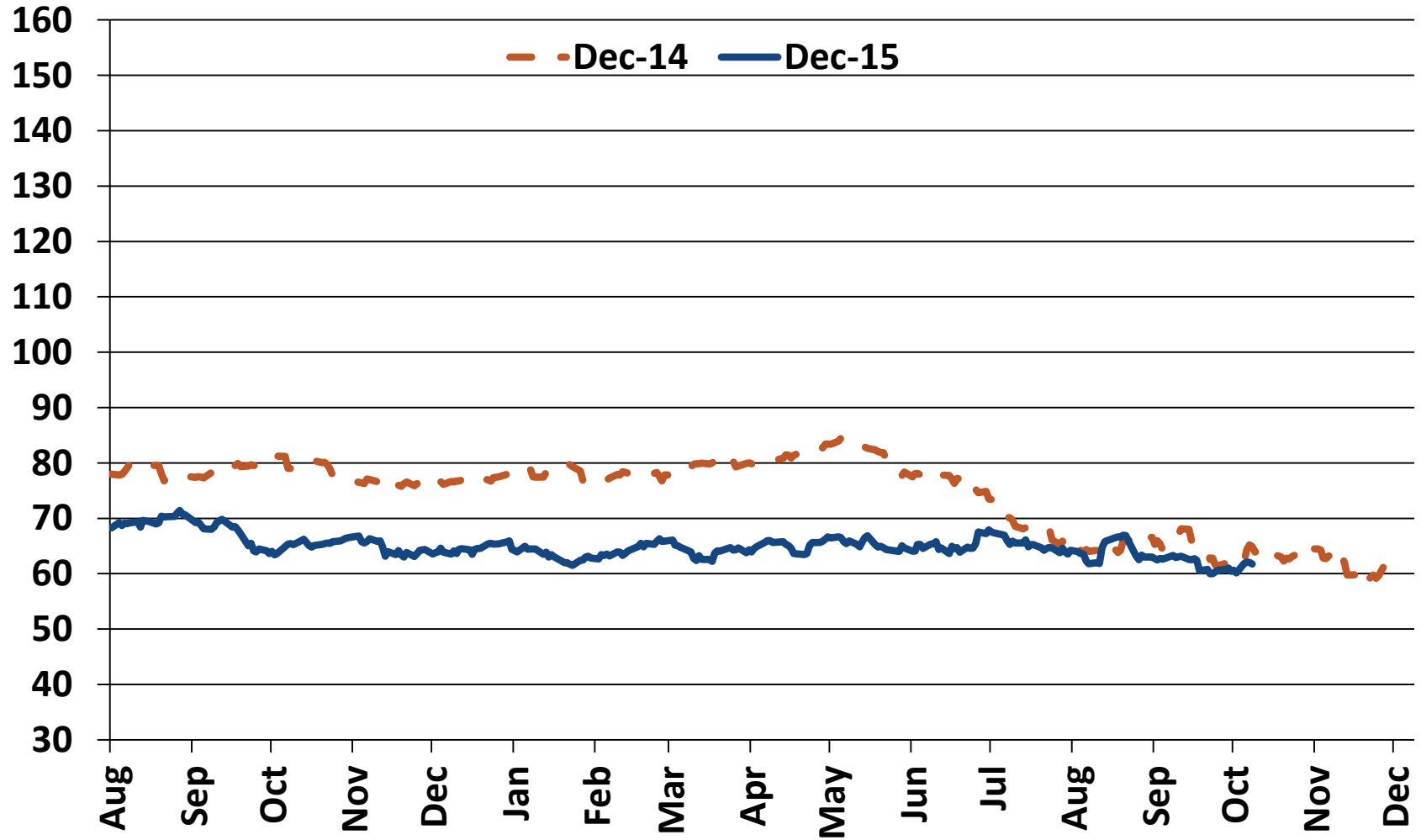
Soybean Price/bushel: US\$ vs Brazilian Real (R\$) 2013 vs 2015

	US\$ Price	Exchange Rate: R\$/US\$	R\$ Price
Nov 2013	12.70	2.2795	28.95
Nov 2015	8.73	3.8417	33.57

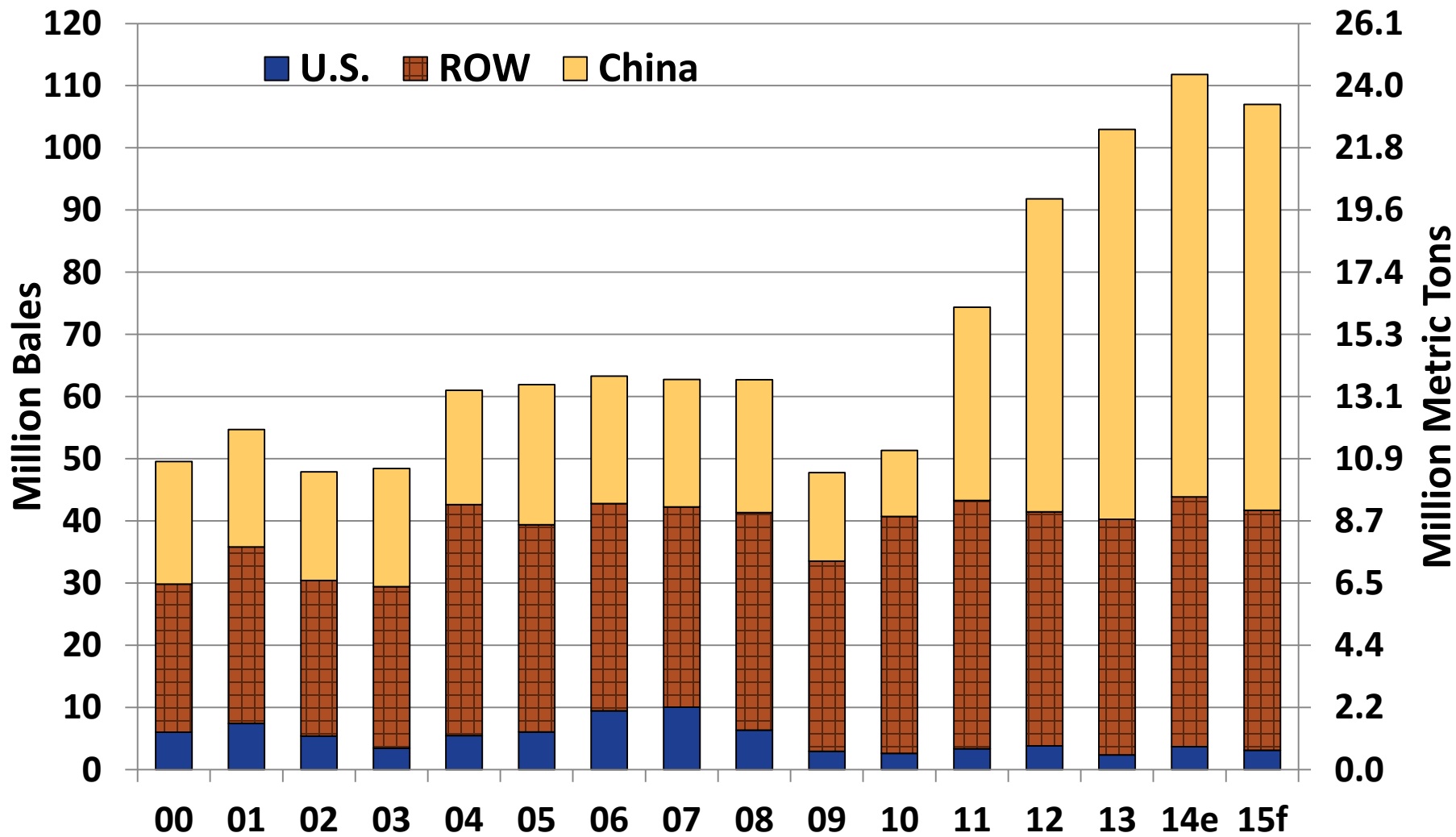
Cotton

December Cotton Futures

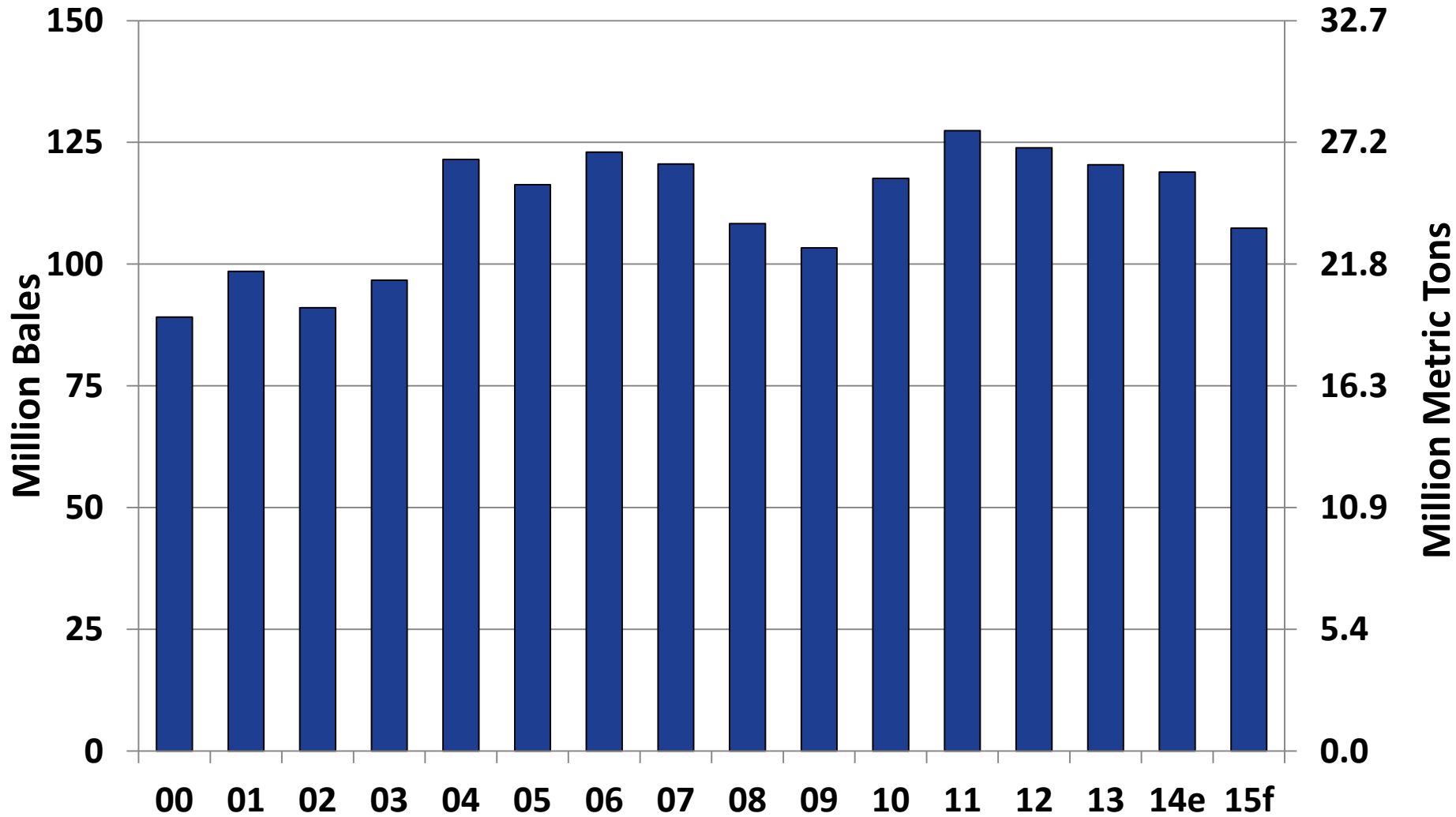
Cents/Pound



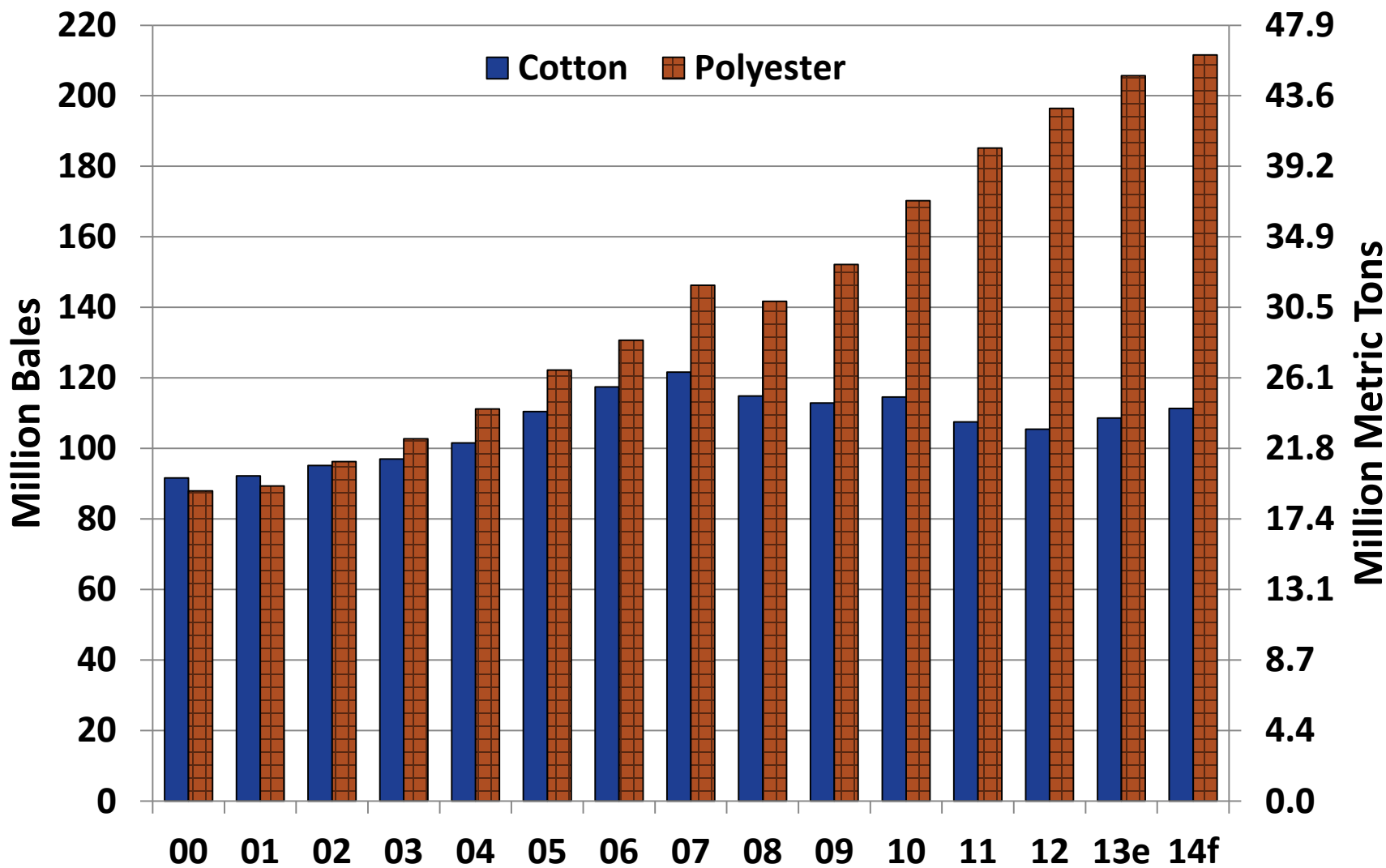
World Cotton Ending Stocks



World Cotton Production



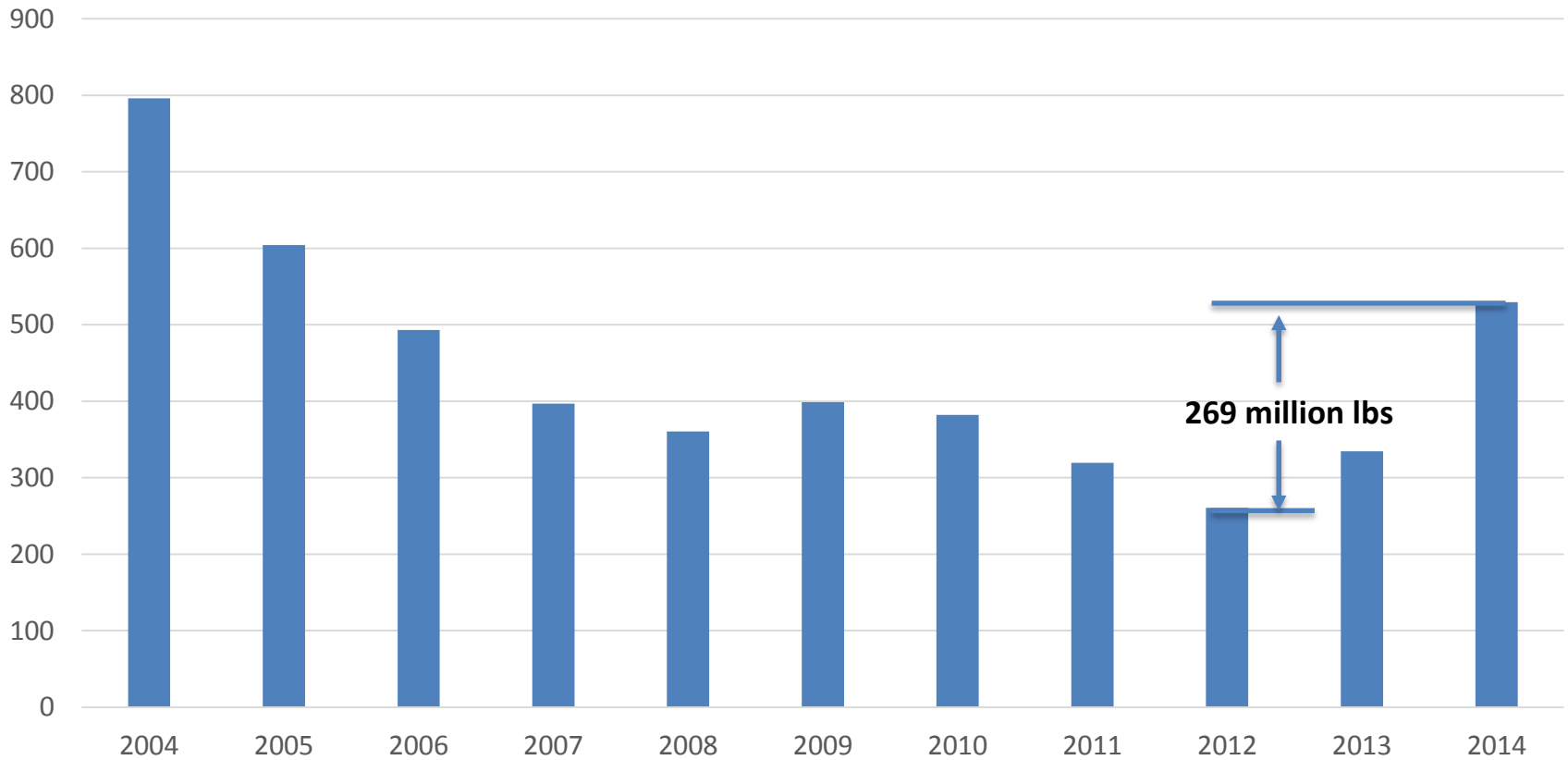
World Fiber Mill Use



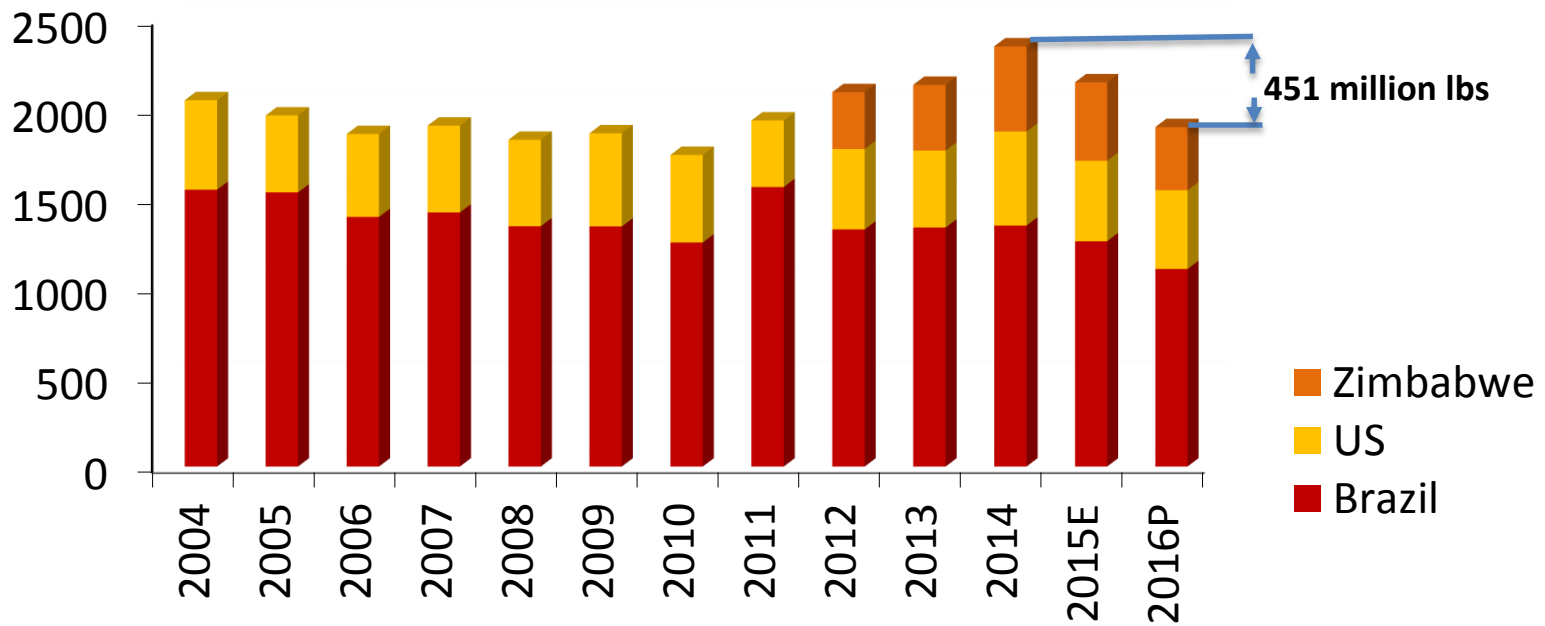
*PCI

Flue-Cured Tobacco

Ending Stocks of US Flue-Cured (million lbs)



Global Supply: U.S., Brazil and Zimbabwe Flue-Cured Tobacco Production

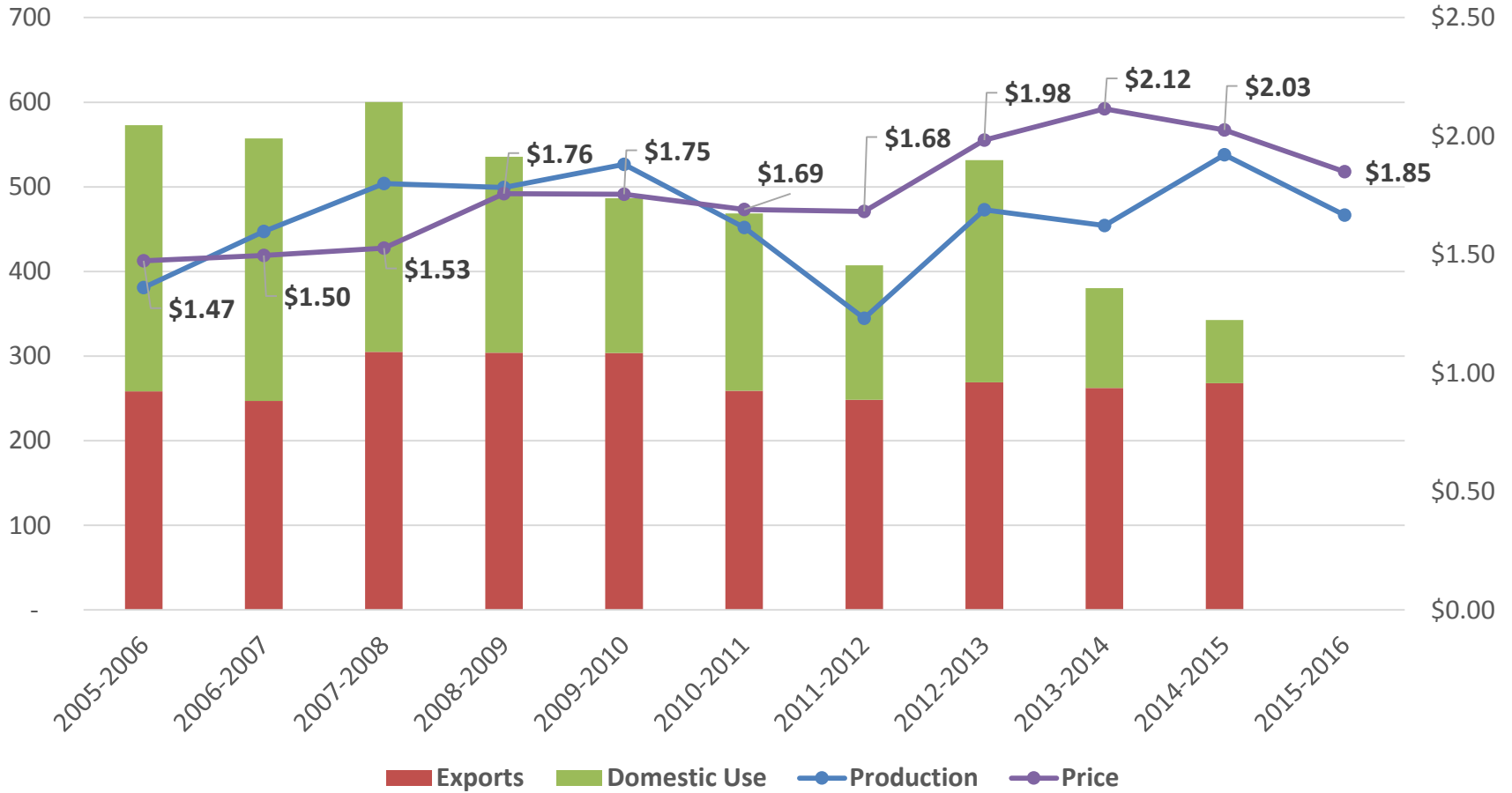


Source Brazil & U.S.: Universal Corporation. "World Leaf Production as of Nov 4, 2015."
 Source Zimbabwe: Zimbabwe Tobacco Association "Weekly FCV Report 10.05.2015"

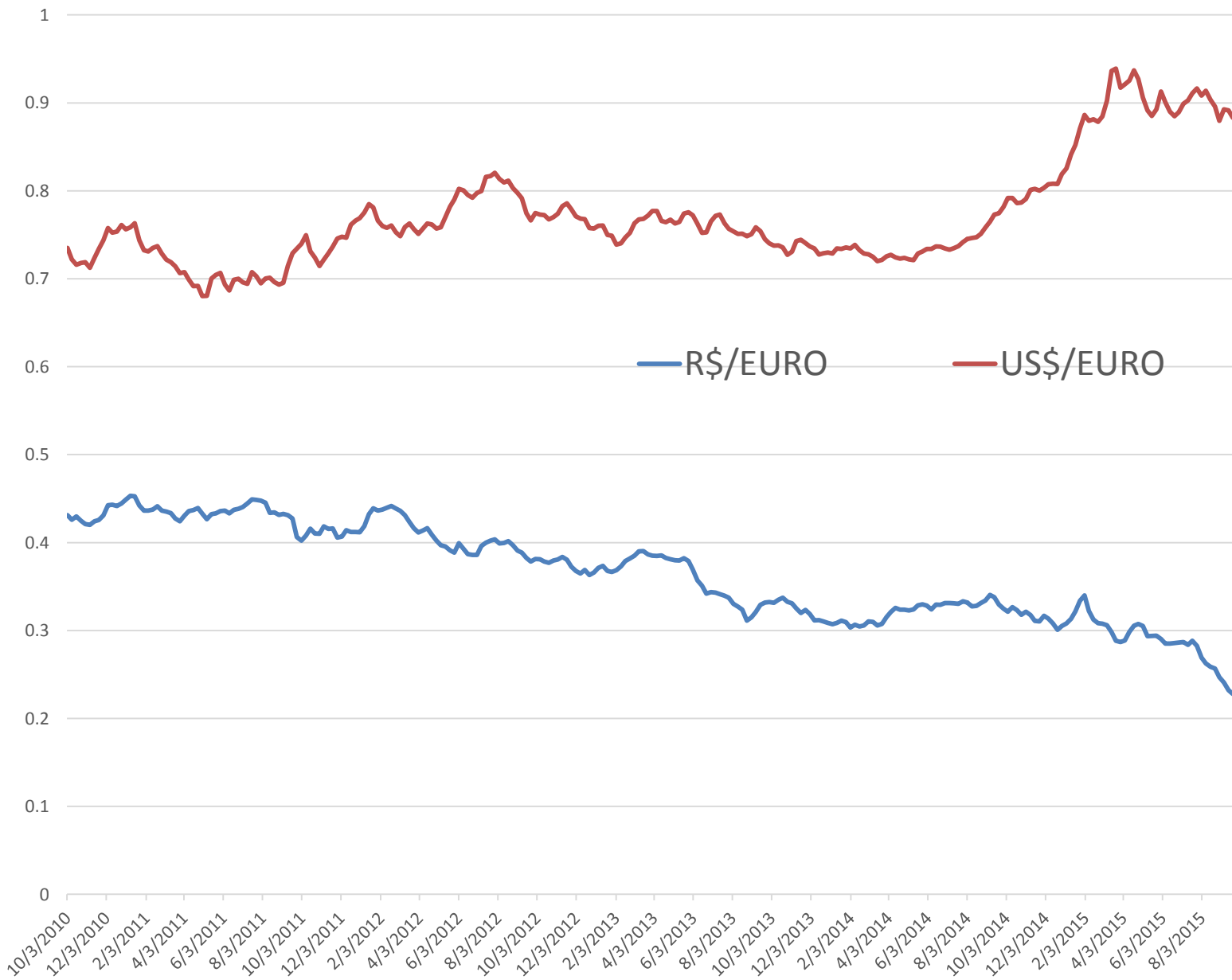
“The combination of lower crop production and expected reduced plantings should result in a largely balanced global leaf market in fiscal 2017.”

Davenport & Company, LLC. November 6, 2015

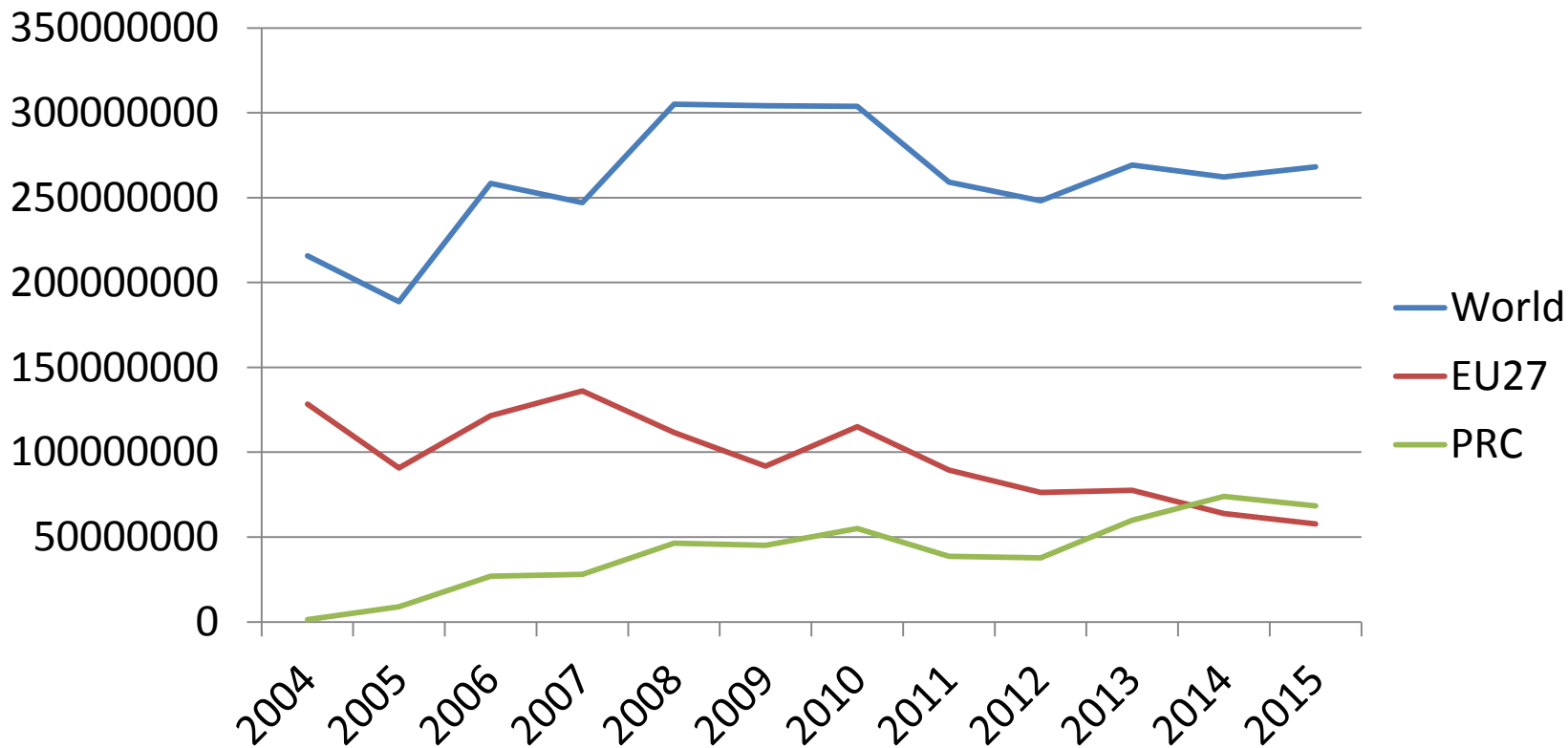
US Flue-Cured Price, Production, Exports and Domestic Disappearance



Exchange Rates: Brazilian Real (R\$) per Euro and US\$ per Euro

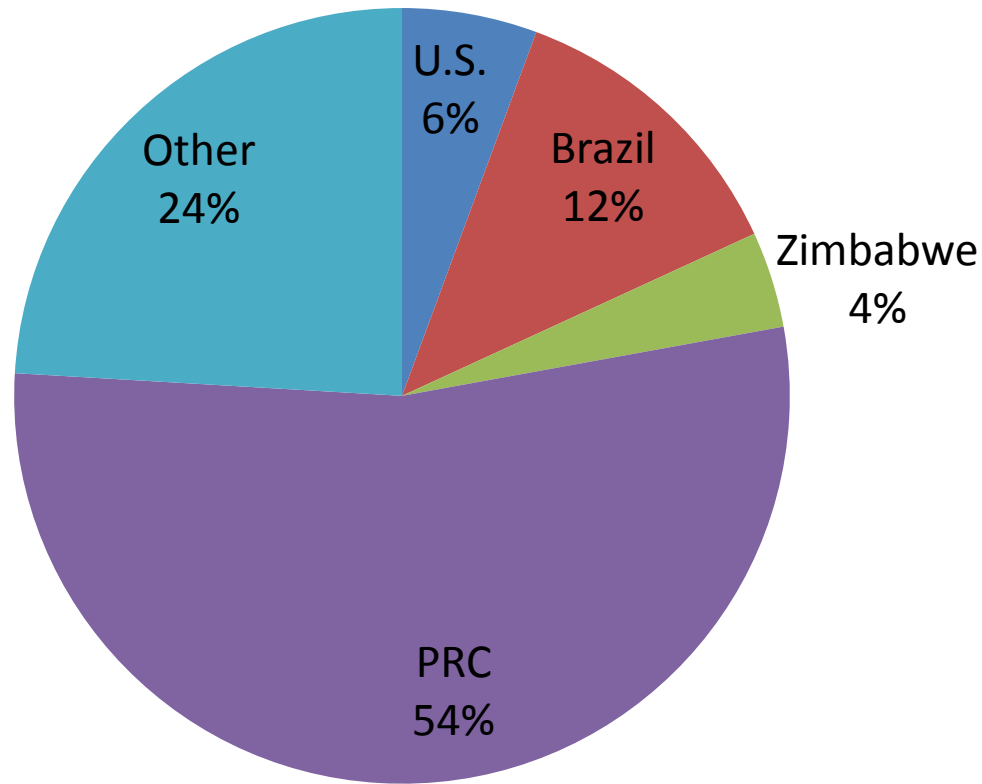


U.S. Unmanufactured Exports of Flue-Cured Tobacco (lbs farm weight)



Source: USDA-FAS

2015 World Flue-Cured Production 8.8 billion pounds



Quality is *the* strategic advantage of U.S. flue-cured producers

Peanuts

Peanuts

- Peanut production is driven by the Peanut Program...primarily in the runner areas
- Likely payment for 2015 crop base acres:

Reference price:	\$535/ton
Marketing Year Average Price:	<u>\$400/ton (likely)</u>
Payment Rate:	\$135/ton
Payment on 85% of base acres:	\$115/ton
Payment after 7.2% sequestration reduction:	\$107/ton (best guess)

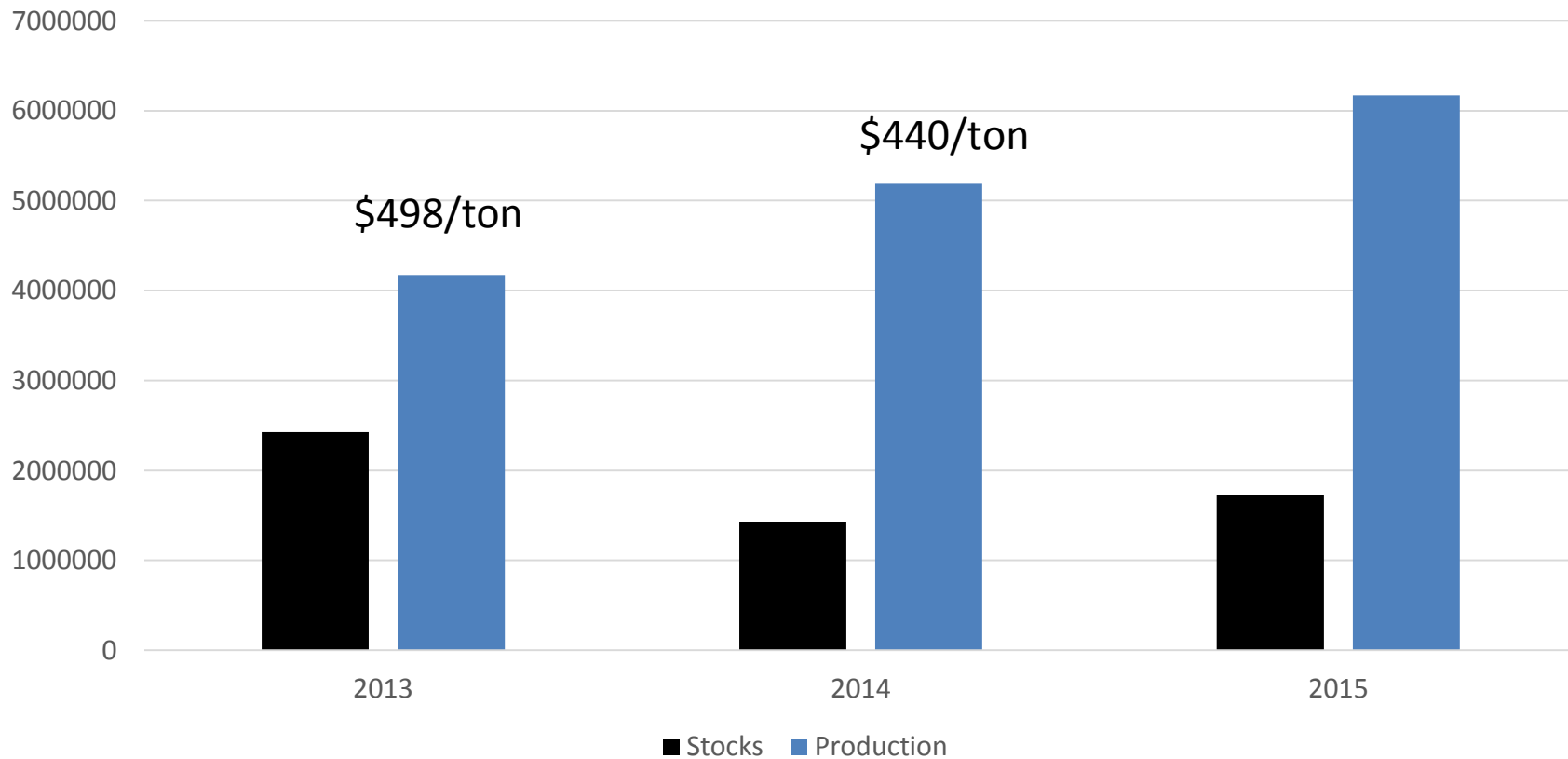
Peanuts

- You don't have to plant base acres to get the payment
- The allocation of your payment on generic base is determined by how you allocate planted acres.....generic base is allocated in proportion to the acres planted for the covered crops
- The allocation of generic base acres is an **annual** decision based on planted acres
- Georgia's 2013 cotton base acres: 1.49 million
- NC's 2013 cotton base acres: 849 thousand

US & NC Peanut Production



US Peanut Stocks (as of Aug 30) and Production



Cost & Return Estimates for Major NC Crops

	Flue-cured Tobacco	Sweet Potato	Peanuts	Cotton	Corn	Soybeans
Price	\$1.85/lb	\$15/cwt	\$425/ton	\$0.60/lb	\$4.25/bu	\$9.00/bu
Yield/acre	2200 lbs	200 cwt	3800 lbs	891 lbs	110 bu	33 bu
Revenue	\$4,070	\$3,000	\$808	\$535	\$468	\$297
Operating Expense	\$2,907	\$2,500	\$696	\$543	\$382	\$237
Return over Operating	\$1,163	\$500	\$112	-\$8	\$86	\$60
Fixed Cost	\$514	\$86	\$133	\$70	\$72	\$36
Return Land, Risk & Mgt	\$649	\$414	-\$22	-\$78	\$14	\$24

Poultry & Livestock

US Meat Production and Prices

	2014	Projected 2015	Projected 2016	% Change 2016 from 2015
Production	Billion Pounds			
Beef	24.32	23.78	24.91	+4.75%
Pork	22.86	24.53	24.94	+1.67%
Broilers	38.14	39.78	40.54	+1.91%
Turkey	5.76	5.57	6.01	+7.9%
		Source: USDA WASDE (Nov 2015)		
Prices				
Feeder Cattle \$/cwt	202.82	207.12	200-211	
Live Cattle \$/cwt	154.56	149.19	136-147	
Hogs \$/cwt	76.03	50.82	47-50	
Broilers cents/lb	104.90	89.50	83-89	
Turkeys cents/lb	107.90	117.10	110-118	
			Source: USDA-ERS (Nov 2015)	

General Themes

- Global weakness in demand & Strong \$
 - Translates to weaker demand for US exports
- Large production & growing stocks
- **Bottom Line: *Bigger Supply & Weaker Demand***



Depressed Prices

What will it take for markets to improve?

- Lower production...lower supplies
- Strengthening and/or stabilizing global markets...in particular China and the EU
- Recovery of foreign currencies relative to the US\$....in particular strengthening of Brazil's currency, R\$

Tips for Coping

Tips for Coping

- **Know your costs/ Know your cash flow**
 - You can't make decisions if you don't know how the decision will change your costs and returns
 - You can't make decisions to ensure you meet your cash flow obligations unless you have an accurate cash flow projection
 - Create a financial roadmap (plan) for your farm

Preserve Working Capital

- Cash is King
- Consider capital purchases extra carefully...don't purchase unless the asset generates cash flow and is profitable

Tips for Coping

- Know your costs/ Know your cash flow
- Preserve Working Capital
- Manage your costs
 - Re-examine production practices
 - But make sure that if you reduce an input cost that it will not reduce your revenue more than it reduces your cost

Tips for Coping

- **Know your costs/ Know your cash flow**
- **Preserve working capital**
- **Manage your costs**
 - **Re-examine production practices**
 - **Manage your debt early!**
 - **Does the term match the asset?**
 - **e.g. land...do you need to restructure to a longer term?**
 - **It's a lot easier to work with your lender now than after you get in trouble with payments**
 - **But of course you'll have to know your costs and your cash flow to do this**

Tips for Coping

– Manage your equipment

- Did you overbuy during the boom?
 - Does it make sense to sell some equip...even at a loss?
 - Good money after bad doesn't make a good decision
 - Be careful restructuring debt on equipment...selling at a loss may make more sense... know your cash flow
- Maybe you were careful not to overbuy during the boom...
 - this year might be a good year to replace some old equipment... know your cash flow
 - But don't overbuy, even if there are killer deals... know your cash flow
- If you really need equipment...consider leasing instead of purchasing

Tips for Coping

- **Know your costs/ Know your cash flow**
 - **If you can't recover your variable (out-of-pocket) costs and some of your fixed costs....don't plant it**

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- **Know your costs**
- **If you can't recover your variable (out-of-pocket) costs and some of your fixed costs....don't plant it**
- **Examine your land rentals**
 - **Renegotiate if possible**
 - **is keeping that farm really profitable and feasible?**

Tips for Coping

- **Know your costs**
- **If you can't recover your variable (out-of-pocket) costs and some of your fixed costs....don't plant it**
- **Examine your land rentals**
 - **Renegotiate if possible**
 - **is keeping that farm really profitable and feasible**
- **Re-examine any decisions you have to make about the farm program**
 - **Planted acres determines allocation of generic base**

In summary...

- Know your costs/ know your cash flow...create a plan
- Manage debt early
- Manage your equipment
- Preserve working capital...Cash is King
- Change will come...it always does
- What lessons can we carry forward to the good times?