ILLUSTRATION BY CRAIG SIMMONS

Changes Ahead

Economists share outlook on ag prices, future forecast.

*by **Kindra Gordon,** field editor*

As the last quarter of 2015 begins to unfold, a changing market for grain and cattle producers is evident. Ag economist Brent Gloy, who farms with his family in southwest Nebraska while also serving as a visiting professor at Purdue University, calls the market "downright ugly" for row crops. On the livestock side, he says the market is likely to remain very profitable, but he also cautions — as grain growers have seen — that the outlook can change.

As a result of the lower grain prices, Gloy says, "For 2015 we are looking at a serious negative profit situation on most farms. 2016 may be a little better, but it will probably be more of the same."

Gloy notes that with 60% of farm assets fixed, it makes it difficult for farmers and ranchers to adjust when commodity prices drop by a dollar or more. He believes mitigating factors for farmers during difficult years such as these will be crop insurance, having a variety of crops to market, and government programs. He predicts, "Government payments will be welcomed but late."

Additionally, he advises, "Farmers better have reserves and be prepared for tighter finances than many have dealt with for a while."

Strategies for success

To stay successful in today's changing market environment, Gloy suggests these tips:

1. Maintain ample cash and operating credit.
2. Get fixed costs under control; focus on asset utilization and inventory management.
3. Recognize that credit offerings will be valuable but may carry more risk than past years.
4. Consider diversification and building around value-creating services.
5. Find products and/or technology that create value and work with customers to implement them. Additionally, find products that help producers utilize the technology they already have on their farms.
6. Communicate value and performance to customers and continue to build relationships with customers.

Gloy concludes, "Younger producers may not be today's decision makers but they probably will be tomorrow's. Recognize that their interests are likely different than the older generation's."

Land prices will adjust

Looking ahead, Gloy believes if commodity prices remain low, some costs — such as machinery, living expense, cash rents and land — will need to adjust.

"I don't think there's a big debacle ahead, but I do think the days of ever-higher farmland prices are over," Gloy said. "Current farmland prices reflect $4.50 to $5 corn, and that's no longer where the market is at."

Also ahead, Gloy says signals from the Federal Reserve indicate interest rates will go up, but "by how much is debatable," he said. "Next year long-term interest rates could get up to 3% — that would be a big increase and not good for farmland." He advises watching interest rates closely.

An increase could also impact exchange rates, which in turn could impact exports of American ag commodities.

Gloy shares, "We are the only major country looking at raising rates, which could put pressure on exchange rates."

With that said, Gloy emphasizes the importance of keeping perspective, saying this ag slow-down is not the 1980s all over again.

"The data right now still show [the] financial situation in ag very strong," he says. "I don't look for any widespread problem, and government farm program payments (such as ARC-Co) will mitigate it."

He concludes, "Some may feel like we are headed for the worst; the slowdown feels like the 80s, but it is not. The years ahead are not going to be easy, but we are in a better situation than the 80s, and farmers will get through it."

"Farmers better have reserves and be prepared for tighter finances than many have dealt with for a while."

— Brent Gloy

Rebuilding beef

Steve Meyer, vice president of EMI Analytics, forecasts fall live-cattle prices in the range of $150s for fed cattle and feeders from $230 to $240. He also notes that lower grain costs have lowered cost of gain for cattle from $130 to $80.

Meyer confirms that beef herd rebuilding is under way with the retention of heifers and is likely accelerating, which continues to limit current retail beef supplies.

As a result of the tighter near-term supply, Meyer anticipates high retail beef prices through 2015 and 2016, which he believes will provide opportunities for pork and poultry competition in the meatcase.

To date he reports that meat demand has been excellent from consumers. All species — beef, pork and poultry — have seen demand increases in 2015. He credits this demand hike to a shift in media coverage reporting that fats are acceptable; it is carbs that consumers should curb.

"It appears preferences have shifted," Meyer says, adding that it remains to be seen if this preference will last.

He says the evidence of strong demand is prices, and reports that retail beef prices have continued to be at record highs. Meyer attributes some of consumers' increased spending on meat to higher disposable incomes and GDP growth, as well as the drop in oil and gas prices. "That has helped leave more dollars in consumers' pockets to allow for more spending," Meyer says.

In spite of the strong consumer beef demand, Meyer says the concern for the future is, "Will it hold?" Meyer believes the real question going ahead is this: "What will the long-term impact of very high prices on beef do to the consumer buying habits?" He questions, "If they decide they like pork and turkey, are they ever going back to beef?"

The answer to that question remains to be seen.

Also going forward, Meyer says there are many factors to monitor. He notes that weather will still be key to beef herd growth. Plus, he says the TPP agreement is critical for future growth opportunities for meat and grain exports.

Additionally, Meyer says producers must continue to monitor the U.S. dollar and exchange rates and resulting implications on exports, the price of oil, the changing economies in Greece and China, as well as country-of-origin labeling (COOL) and retaliatory tariffs — which he says could be in place before the end of 2015. If that occurs, he says, there will be major export disruption.

Lastly, he notes that porcine epidemic diarrhea virus (PEDv) in swine herds and avian influenza among poultry flocks should be monitored closely this fall. If big issues arise, that will affect retail meat supplies and prices, as well.

AJ

Editor's Note: *Gloy and Meyer shared their remarks during the 2015 South Dakota Governor's Ag Summit in July in Deadwood, S.D. Kindra Gordon is a freelance writer and cattlewoman from Whitewood, S.D.*

Trends to tap

Economist Brent Gloy says there are several trends occurring that today's farmers and ranchers should take note of to remain relevant for the future.

Adapting to technology tops his list of trends to which farmers need to get more accustomed. Says Gloy, "The future of farming is rapidly changing. Technology, data and automation on farms will be even more important five years from now than it is today. This means you (producers) need to start staking out and using technology today."

He adds, "You don't need to do it all at once, but you do need to start using some. We need to be making sense of some of the technology and information available and use it to become better. There are cool technologies coming, and it will change how we do ag in this country. That I know for sure."

Secondly, Gloy notes that the ag industry must pay attention to impending demographic changes.

"Demographic shifts create large opportunities," he says. To underscore this, he cites a quote by Peter Drucker from his 1985 book *Innovation and Entrepreneurship*, which states: "Of all external changes, demographics — defined as changes in population, its size, age structure, composition, employment, educational state and income — are the clearest. They are unambiguous. They have the most predictable consequences ... They have a major impact on what will be bought, by whom and in what quantities."

Gloy says the upcoming demographic shift that the ag community needs to pay attention to is the fact that the bulk of landowners and farm operators are in the 65-and-over age bracket — indicating a shift in land ownership is to come.

"We have a lot of farmers in the older age demographic. In the future, their land is still going to be farmed, but who is farming it and how will it be different," Gloy says.

Along with that, he says, "There will be a lot of [farm] ownership and experience that is going to walk out the door over the next decade. My point is, the number of farms will decline and farm size will get bigger. That is going to present challenges, but there is also opportunity; it will be different. This land ownership change is going to happen. We need to prepare for it."

Third, Gloy advises that grain and livestock producers monitor production shifts that are occurring and their impact on the market. He notes that global production capacity has increased, which impacts supply — and prices. He points out, "We are in a supply-driven market right now. We may get high prices if supply is short."

Along with that, here in the United States he notes we are seeing production shifts geographically, particularly in grain. As examples, he reports that soybean plantings have consistently moved west and south, while corn plantings have increased by 14.1 million acres.