"Realistic" Outlook for 2020

Ag economist anticipates some market opportunities, but notes farm debt at an all-time high.

by Kindra Gordon, field editor

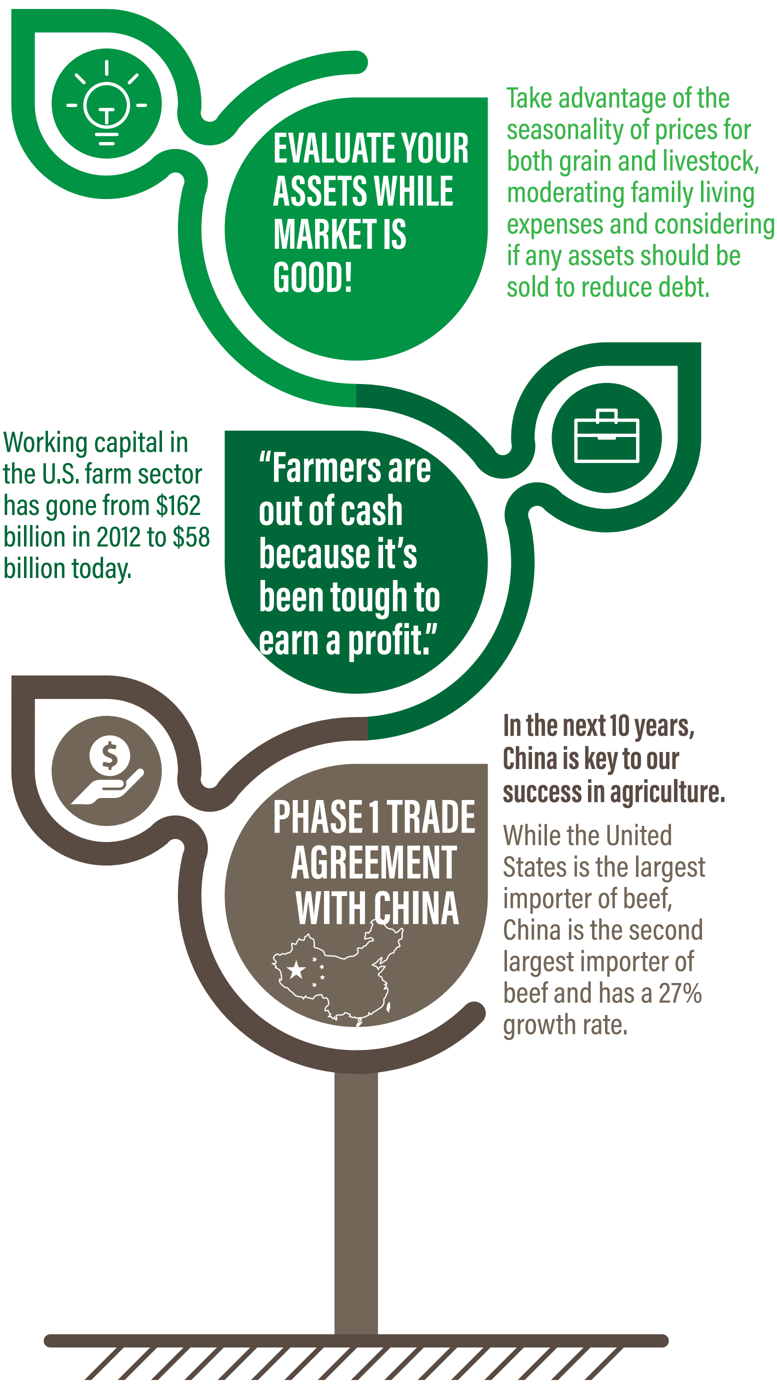
"A realistic perspective" is how ag economist Brent Gloy describes his outlook for the farm and ranch sector in 2020. "I'm not overly optimistic or pessimistic," Gloy says, who operates his family farming in southwest Nebraska and formerly held tenured faculty positions in agricultural economics at Purdue University and Cornell University. Today, Gloy and colleague David Widmar also speak at industry events and write weekly articles about key agricultural economy trends at their website Agricultural Economic Insights.

Part of Gloy's realistic outlook includes this characterization: "2020 is probably going to have some tough sledding ahead." He explains that's not to say it will be pessimistic, because like 2019, "there will be chances within the market." He continues, "Opportunities will be there in 2020 [to make money], but it will be incumbent upon us to make the right choices."

Current status

Assessing the current market, Gloy says, "In all of agriculture, we have too much stuff — too much corn, soybeans, wheat — and that got us low prices."

Of 2019's weather woes for ag producers, he says, "Mother Nature gave us somewhat of a gift. Because think about where prices would be today if we would have had full production ... We'd be in a bad place with really rough prices."



Regarding the Market Facilitation Program (MFP), Gloy shares that the payments to grain farmers pumped about $24 billion into the farm economy. "That has certainly helped, but the benefits are mixed." Gloy says some producers — especially Midwest soybean growers — did well, but for the rest "it didn't make us whole." And for 2020, Gloy anticipates it [MFP payments] is unlikely to happen again. He says, "There's a possibility, but banking on it is risky."

Thus, with the United States' oversupply of grain in mind, Gloy says the recent Phase 1 trade agreement with China announced in mid-January is "very positive." In fact, Gloy says, "In the next 10 years, China is key to our success in agriculture."

Gloy explains that China does not have the agricultural land to expand production, and as the Chinese people have increased their disposable income they have started to consume more — and that trend line continues to go up. "So, the Chinese are on a resource quest and as long as their incomes keep going up, it's a problem that is not going away," Gloy says.

He says that's great news for American agriculture. While the numbers are conflicting as to how much of a market boom China represents, Gloy gets back to his realistic outlook saying, "I'm not concerned about numbers. All I know is this is a market we want to be in. I'm skeptical we'll hit $36 billion, but if we get something, that's a good thing… The simple fact we are trading with them is a big deal — and for beef it's even better."

Gloy explains that China is the third-largest consumer of beef behind the United States and the European Union. But what's even more interesting is China's growth in beef consumption. He reports that from 1990 to 2016 beef consumption grew 6% in the United States, but in China during that time period, it grew 597%. That's a compound growth rate of 7.8% annually, as compared to just 0.2% in the United States. Moreover, while the United States is the largest importer of beef, China is the second-largest importer of beef and has a 27% growth rate. Gloy says those trends indicate huge opportunities for U.S. beef, and he reiterates, "Phase 1 is a good thing because we are actually going to trade again."

Looking ahead

Anticipating the 2020 growing season, Gloy notes that soybean prices have come up, which needed to happen to hopefully help create a better balance between the amount of corn and soybean acres planted. He explains, "If farmers go big into corn and go over 96 million acres, it's going to put a damper on grain prices."

But he says the biggest concern right now is how much cash farmers and ranchers have. "Financial conditions are still deteriorating," Gloy says, who points out that working capital in the U.S. farm sector has gone from $162 billion in 2012 to $58 billion today. "Farmers are out of cash because it's been tough to earn a profit."

Along with that, farm debt is way up, especially real estate debt, which Gloy notes is at an "all-time record" of about $250 billion.

He adds, "The 'Great Refinance Cycle' is about over. Lenders are not likely going to do it [refinance] a third time. Producers are not generating enough earnings to fix it." As well, Gloy says land rents are too high relative to current profitability. He says, "This has got to change… it's got to come down."

Regarding the question, "Is this like the '80s?," Gloy says, "History never repeats itself, but it rhymes." He explains that income has fallen just about as much — about 60%, but the difference is that in the '80s interest rates went up, and today interest rates have gone down.

And that's been a saving grace which Gloy believes should continue. He says, "I don't think interest rates will go up… The world's going to come unglued to do that. But, if you start seeing interest rates go up, all bets are off. If it does change, it will affect real estate [values]."

How to proceed

What should farmers and ranchers be doing to get through the realities ahead? Strategies Gloy encourages include marketing to take advantage of the seasonality of prices for both grain and livestock, moderating family living expenses and considering if any assets should be sold to reduce debt. He concludes, "These are difficult decisions, but you may need to evaluate if you can get rid of some assets and sell some land while prices are still good." AJ

Editor's note: For more of Gloy's ag industry perspectives, visit https://aei.ag.