

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, Sept. 27, 2019

What's this about farm income on the rise?
Income would increase for third straight year in
 2019... to \$88 billion... according to recent USDA estimates. Pat Westhoff, director of the Food & Ag Policy Research Institute (FAPRI) at the Univ. of Missouri, has taken a look at the topic. He notes...

FARM INCOME Farm income estimate was much higher than prior estimates... primarily because of two factors:
Factor 1: A \$25-bil. cut in farm production expenses
 for 2018 was the biggest change... based on new surveys and other info. Farm production costs declined for the fourth straight year in 2018. In 2019, farming costs are projected to rise less than 1%.

Farmers did a great job reducing expenses.
This also means farm input suppliers have woes...
 including reduced sales.

Factor 2: Large gains in gov't payments. The new program to compensate farmers and ranchers for lost export sales due to trade disputes ... Market Facilitation Program, or MFP... made over \$5 bil. in payments in 2018, and that figure is projected to exceed \$10 bil. this year.

Coupled with farm & conservation program payouts,
 total direct gov't payments to farmers are expected to exceed \$19 bil. this year.... highest total since 2005. Signals gov't payments would account for 22% of net farm income this year... highest share since 2006.

Crop insurance premium subsidies reduced producers' cost of crop insurance by more than \$6 bil. this year... this year's unfavorable weather means indemnity payments for losses are likely to exceed total premiums. But crop insurance programs have been a financial life-line for many farmers for decades... political support for the program will remain strong.

Net farm income remains well below 2011-2014 average of \$106 bil. per year... and farm debt-to-asset ratios are projected to increase for the seventh straight year.

Bottom line: farm financial stress is real and continues. Without a trade agreement with China, or other surprises, there will again be calls for *ad hoc* assistance to the ag sector in 2020, despite USDA Secretary Sonny Perdue saying not to count on another year of MFP payments. He said the same thing last year.

The biggest farmer issue now is cash flow needs, and this is expected to become even more of a problem in 2020. Working capital is down nearly 80% from its peak in 2012... and increasingly, more farmers are finding it harder to get financing for the year ahead. This is why another MFP or related program is likely for the 2020 season... barring positive developments on trade issues that shoot prices higher.

The 2020 election could also bring politics into the farmer aid arena. We saw that briefly last week when Congress replenished Commodity Credit Corporation (CCC) funding, the "bank" USDA uses for MFP payments and other program payouts.

Farm Finance Indicators, State Ranking (2018)			
Rank	State	Gross receipts of farms (bil. \$)	Share of U.S. gross receipts of farms
1	Calif.	51.668	12.6%
2	Iowa	30.002	7.3%
3	Texas	24.789	6.0%
4	Neb.	22.922	5.6%
5	Ill.	19.048	4.6%
6	Minn.	18.416	4.5%
7	Kan.	17.645	4.3%
8	N.C.	12.520	3.1%
9	Wis.	11.747	2.9%
10	Ind.	11.660	2.8%

Source: USDA's Economic Research Service

WORLD ENERGY

World energy use could grow 50% by 2050, the Energy Information Administration (EIA) projects. Most of the demand growth will come from regions needing energy to support strong economic growth... mostly in Asia, EIA said in its annual International Energy Outlook.

The industrial sector accounts for more than half of energy consumption projected through 2050. That category includes refining, mining, manufacturing, agriculture and construction.

Energy use from transportation will increase 40% by mid century, while energy consumed in buildings... both residential & commercial structures... will rise 65%, according to the report.

Renewables... wind, solar and hydro... are the fastest-growing energy sources to meet the increase in demand, surpassing petroleum and other liquids.

AG LEGISLATION

Some ag provisions made it in recent legislation to fund the government via a stopgap spending measure through Nov. 21. Details...

Hemp: Bill includes \$16.4 million for USDA's Agricultural Marketing Service to implement a new hemp production program required by the 2018 Farm Bill.

Special Crop Research Initiative: Another provision would waive a matching requirement for the Specialty Crop Research Initiative, which is funded at \$80 million a year under the 2018 Farm Bill, which also expanded the program's research priorities to include perennials, pollinators, invasive species, pesticide drift, as well as mechanization and automation.

Sugar provision: The continuing resolution includes a disaster-assistance provision sought by the Southern Minnesota Beet Sugar Cooperative in Renville, Minn., which estimates that it lost \$100 million because of this year's flooding. USDA officials previously told the co-op it couldn't receive disaster benefits directly under this year's disaster-aid bill. The co-op said that was unfair to its members because they don't get paid for the sugar they sell to the co-op until it is processed and sold; the growers sold their sugar at different times and some had crop insurance while others didn't. The language ensures the co-op can apply for direct payments.

HEMP

Hemp continues to be big farmer interest item. Wherever we go to speak and interview farmers, they tell us they want to know more about hemp.

Amish farmers in Pennsylvania are focusing on hemp and expecting significant profits from growing the newly approved crop. Lancaster County, home of the largest Amish settlement in the U.S., is trying to be a center of hemp production in the state, the *Philadelphia Inquirer* reports.

Hemp is also important in North Dakota. In a recent interview we had with Sen. John Hoeven (R-N.D.), he told us: "People are pretty excited about it. Sen. [Jeff] Merkley (D-Ore.), my ranking member on ag appropriations, said that he thinks it's going to be a billion-dollar crop in Oregon this year, which startled me. I thought, wow. But there's a lot of interest because there are so many different uses... the oil, the fiber, everything else. The key is to keep USDA moving on it for the rules and regulations. We do include some things in our [appropriations] bill... funding to keep that process moving for farmers."

GOV'T PAYMENTS

Farmers caught in the trade war have become dependent on gov't payments, says a *Bloomberg Businessweek* article. It details that producers in Iowa received \$973 million in direct payments from the first round of trade aid covering a period in which Iowa State University estimated the trade war cost them \$1.7 billion. Even so, there's been no break in Trump's support in rural areas, where his poll numbers are consistently about 12 percentage points higher than they are nationally. The article ends with this bottom line: "The billions of dollars in aid for farmers that the Trump administration has approved may not be sufficient to cement his hold of the rural vote in 2020."

U.S.
DEFICITS

Fed still grappling with how to address trade policy impacts.

The 25-basis-point cut to the target range for the Fed funds rate announced Sept. 18 at the conclusion of the Federal Open Market Committee (FOMC) meeting was the latest effort by the Fed to address impacts from something it has no control over... trade policy.

“Trade policy tensions have waxed and waned and elevated uncertainty is weighing on U.S. investment and exports,” Fed Chair Jerome Powell said, noting the Fed took the step “to help keep the U.S. economy strong in the face of notable developments and to provide insurance against ongoing risks.”

But since trade policy is up to Congress and the administration, Powell said the Fed cannot give businesses what they want – “a settled roadmap for international trade.”

But Powell also has a divided Fed... some thought rates did not need to be cut, some wanted a bigger cut, and others were fine with the quarter-point reduction. That means a balancing act ahead for the U.S. central bank on monetary policy... a lack of resolution on trade could push more rate cuts, especially if data points ahead are downbeat.

MARKETS

Focus ahead: U.S. markets will be watching the Sept. 30 grain stocks data... it sets 2018-19 corn and soybean carryover and gives a reading on first quarter wheat demand. Harvest results and the Oct. 10 Crop Production data will soon move into market focus. U.S. and China trade agreement talks in October will also be closely followed, as several thorny issues remain before a hard-to-get accord can be reached.

Corn: Fall is tacking a long tail to the 2019 growing season... will help late-planted fields realize more potential than if the season ended early... or even normally. But combine results will loom large with firm cash markets suggesting a smaller crop.

Soybeans: Same conditions helping corn finish will aid soybeans. But a bigger need is demand news... read that China. Its purchases need to ramp up. Meal demand is keeping crush running heavy even as exports are sluggish.

Wheat: Late-season weather woes are impacting U.S. and Canadian spring wheat. But winter wheat is going in the ground at a normal pace. Initial condition marks will be watched closely.

Rice: Reduced U.S. crop prospects have tightened forecast ending stocks for long grain rice... they are the tightest in several crop years. But demand has also been reduced as prices moved up.

Cotton: Exports remain key as U.S. supplies are still viewed as plentiful. Resolution to the China trade issue and economic growth worries also weigh.

Sugar: Price volatility continues to buffer sugar. But factors that weigh on prices... large foreign supplies and India export subsidies... remain the dominant factors.

Cattle: Cutout values have dropped, while carcass weights have risen... though the increase is tempered by heifers in the slaughter mix. More supplies on the market puts more importance on demand... export and domestic.

Hogs: China’s purchases of U.S. pork remain key for price direction. Futures will monitor export activity and could move contra-seasonally higher.

Poultry: Exports are key now that the summer grilling season is over. Dark meat and wing prices have helped offset weaker breast meat prices. But margins remain compressed.

Dairy: Herd contraction reached 14 consecutive months in August. That is nearly offsetting efficiency gains, keeping year-over-year milk output changes muted.

Transportation: Truckload linehaul rates... measured by Cass Truckload Linehaul Index... went negative in August. Key for the downturn: spot rates under contract rates, capacity additions and stalling consumer and industrial economic growth.

H-2A

Labor Department sets final rule on H-2A changes. The Department of Labor (DOL) will modernize the burdensome H-2A visa process, eliminating the requirement to advertise a job opening in print newspapers. The advertising will now shift to the SeasonalJobs.dol.gov website, a mobile-friendly platform, and on State Workforce Agency websites.

Changes will take effect Oct. 21. “Both of these actions by DOL are critical changes the administration is making to improve the H-2A application process,” USDA Secretary Sonny Perdue said. “By streamlining these processes, DOL is bringing the H-2A process into the 21st Century, allowing farmers to be able to better and cost-effectively advertise for workers they need and fill out the required forms faster and more efficiently, because no one should have to hire a lawyer to hire a farm worker.”

U.S./CHINA
TRADE

U.S. and China trade officials will meet the week of Oct. 7. As usual, there have been ups and downs in recent discussions. But most now expect a topsy-turvy range of developments.

No interim agreement. It is now clear that President Donald Trump and U.S. Trade Representative Bob Lighthizer will not go for any interim deal, as they have cautioned many times. Trump administration officials have angrily noted that some major media appear to be “doing the bidding for China” in pushing an interim deal.

Timeline for any agreement: Odds are now rising there will not likely be a comprehensive agreement before the 2020 elections unless both countries go back to offering concessions that could lead to an eventual accord... so the coming October talks must show some progress in the give-and-take arena.

China and the U.S. are locked in a “kind of cold war” that is “more difficult” to resolve than the four decade standoff between the U.S. and Soviet Union, according to the former American Ambassador to Beijing, Max Baucus. “I think we’re in a kind of cold war that is more insidious than the last cold war,” Baucus told an event in Hong Kong. “The last cold war was easy, with MAD — mutually assured destruction — that brought transparency. This is much more difficult, much more pervasive.”

CUBA

Remember this in Cuba? Three years after a mysterious illness affected diplomatic staff in Cuba, researchers in Canada suggest it was likely caused by mosquito fumigation. Previous reports in the U.S. had suggested the neurological symptoms were caused by a sonic weapon, increasing U.S./Cuba tensions. In 2016, Cuba had increased mosquito spraying to combat the Zika virus.

DEMOS

Elizabeth Warren took the lead in Iowa in a new poll, just dislodging former Vice President Joe Biden from the No. 1 spot in the state. Warren has the support of 22% of likely participants in the Iowa caucuses, up 7 percentage points from June. Biden landed in second place with 20%, down slightly from June. Though the result is within the poll’s 4 percentage point margin of error, it’s the first time Warren has led Biden in the Iowa poll series. Bernie Sanders was in third place at 11% and Pete Buttigieg stayed in fourth place ahead of Kamala Harris, but dropped slightly to 9% of poll respondents. Harris fell 1 percentage point from June to poll at 6%, while Amy Klobuchar and New Jersey Senator Cory Booker both polled at 3%.

Klobuchar, a member of the Senate Ag Committee, needs a breakout moment soon if she has any chance of getting the Democratic nomination.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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