

FINANCIAL TRENDS IMPACTING AGRICULTURE TODAY



2019

Wes Chambers, Regional Vice President
Southeast South Dakota



2019- ONE FOR BOOKS



Photo: DTN/Progressive Farmer

CHALLENGES NEVER SEEN BEFORE

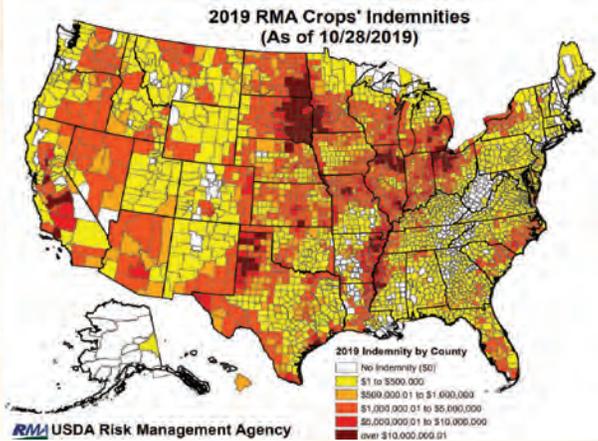


Photo: DTN/Progressive Farmer

NEW LEVELS OF STRESS



SOUTH DAKOTA FARMERS WERE AMONG THE WORST HIT BY WEATHER



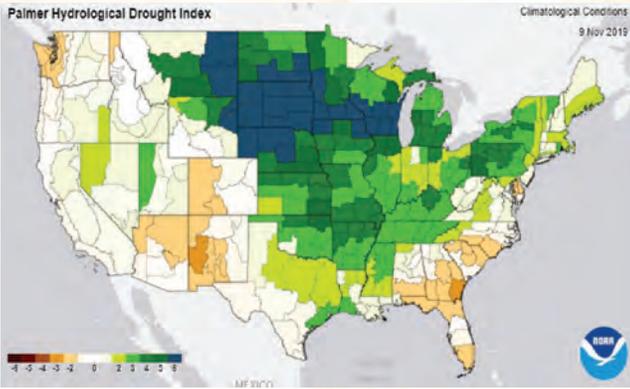
CROP INSURANCE PROVED ITS WORTH AGAIN



While still far short of the 2012 record, as of Nov. 11, crop insurance indemnities totaled \$6 billion. \$1 billion has been paid in South Dakota!

	2019*	2012
Acres insured	380,732,000	282,941,000
RMA liability	\$109.5 billion	\$117.2 billion
Indemnities	\$6 billion	\$17.5 billion
Loss ratio	0.59	1.57

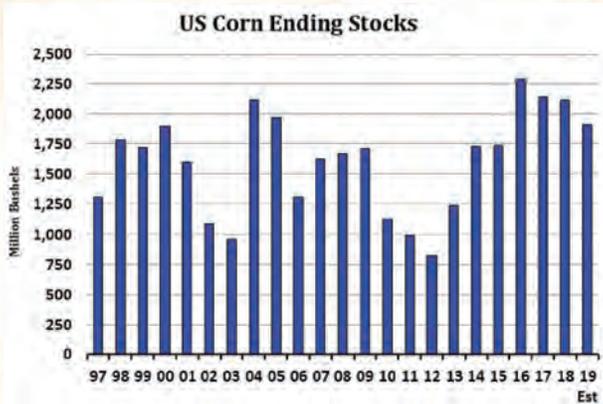
GROUND IS SATURATED WE COULD SEE ISSUES AGAIN 2020



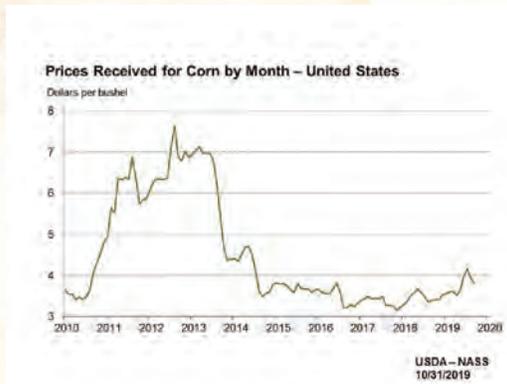
WHERE WE ARE NOW: CROP OUTLOOK



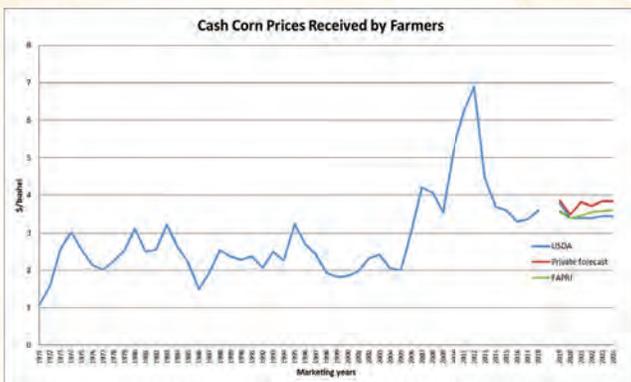
CORN ENDING STOCKS ARE DROPPING



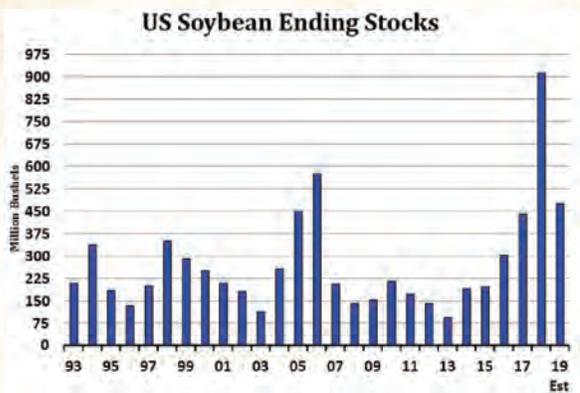
CASH CORN PRICES BOUNCED OVER \$4 IN 2019



CORN PRICE FORECASTS NOW PROJECTED UNDER \$4



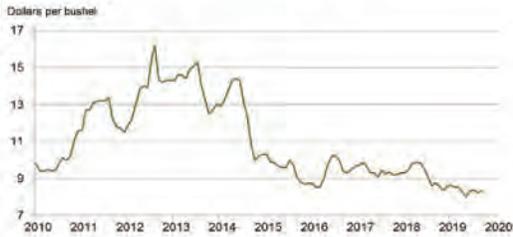
SOYBEAN ENDING STOCKS ARE HALF A YEAR AGO



BUT THE TRADE WAR HAS KEPT THE MARKET FROM RESPONDING



Prices Received for Soybeans by Month – United States

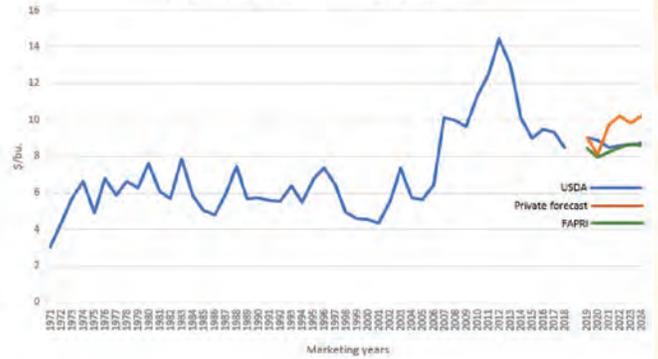


USDA – NASS
10/31/2019

SOYBEAN PRICE FORECASTS IN THE \$8-\$10 RANGE



Cash Soybean Prices Received by Farmers

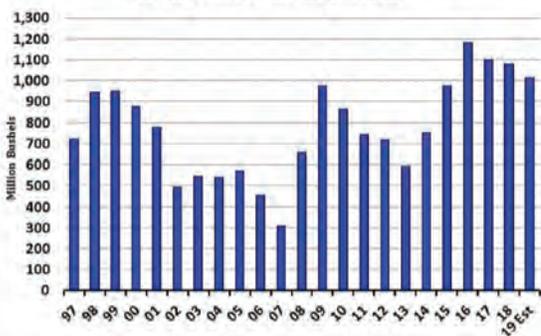


Marketing years

WHEAT ENDING STOCKS ARE CREEPING LOWER



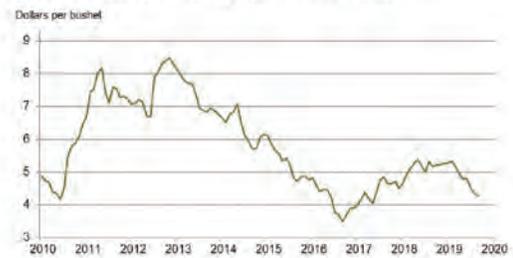
US All Wheat Ending Stocks



BUT PRICES HAVE BEEN DROPPING



Prices Received for Wheat by Month – United States

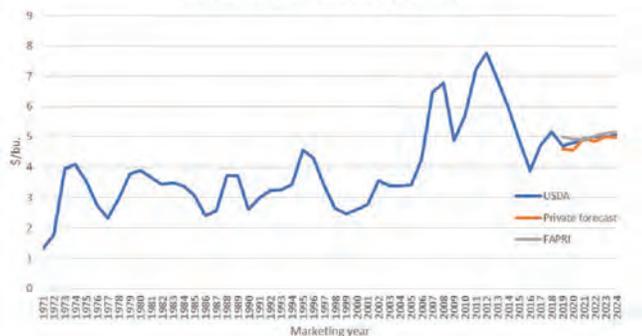


USDA – NASS
10/31/2019

WHEAT PRICE FORECASTS ARE BUNCHED NEAR \$5



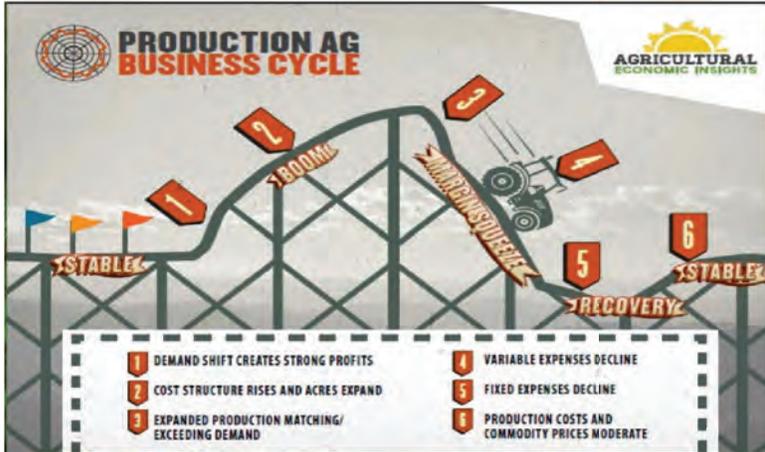
Cash Wheat Price Received by Farmers



WHERE WE ARE NOW: FARM FINANCES



AG BUSINESS CYCLE



ADJUSTMENT PERIOD



- The revenue side of grain production agriculture adjusts in real time – via bushels and prices.
- The cost side adjusts in a lagging manner.
- The issue becomes:
 - Time frame of the lag
 - The magnitude of the lag



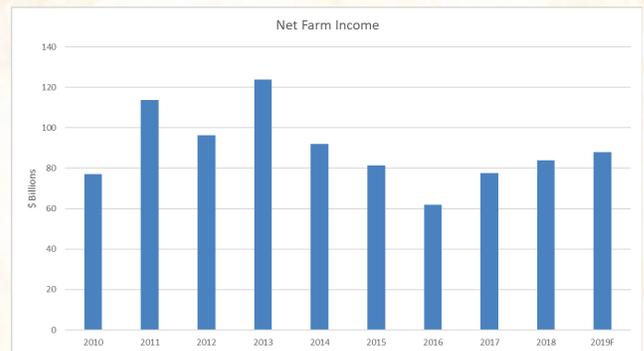
IT IS NOT THE 1980S



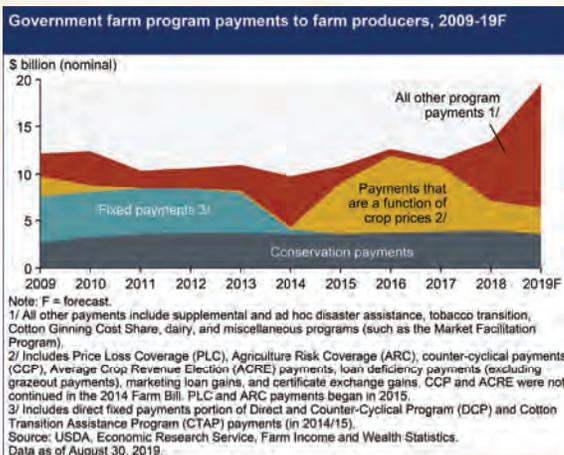
- This is NOT the 1980s. The '80s problems were:
 - High levels of debt vs assets
 - High interest rates and variable-rate loans
- This IS a period of adjustment, characterized by:
 - Lower grain prices
 - Continued strong cash rent
 - Machinery and equipment investments
 - Living expenses
- Agriculture will adjust. Always has. Always will.



NET FARM INCOME IS IMPROVING



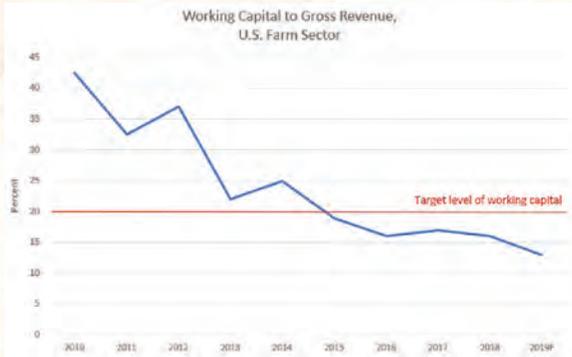
GOVERNMENT PROGRAMS BOOSTED 2019 INCOME



NOT A DEBT ISSUE



A CONCERNING TREND



LAND VALUES



FCSAMERICA BENCHMARK FARMS

(Based on July 2019 data)



State	6 Month	1 Year	5 Year	10 Year
Iowa (21)	-1.3%	2.7%	-15.3%	71.3%
Nebraska (18)	-0.4%	-1.4%	-15.7%	103.1%
South Dakota (23)	-0.7%	-1.3%	-8.9%	91%
Wyoming (2)	6.5%	9.8%	35.9%	45.9%

LAND-VALUE PERSPECTIVE



The stabilization of land values is providing two very important dynamics:

- Balance sheet stability
- Asset equity options

However, current land valuations are causing a disconnect between land rental rates and production agriculture revenues.



INTEREST RATES



INTEREST RATE STABILITY?

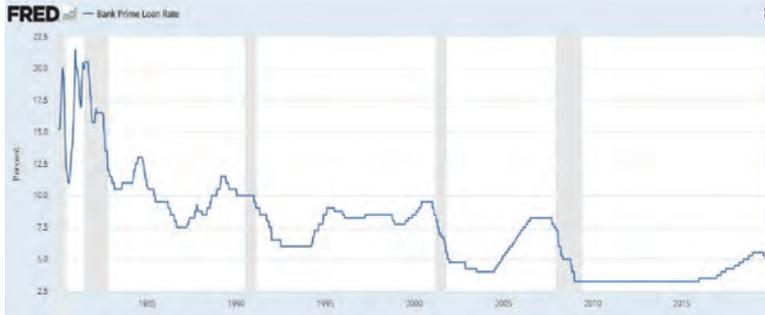


- 2018 was a rising short-term and stable long-term interest rate environment
- In mid-2019, short-term rates stabilized and began reversing and long-term rates fell
- Borrowers are choosing longer-term fixed interest rates

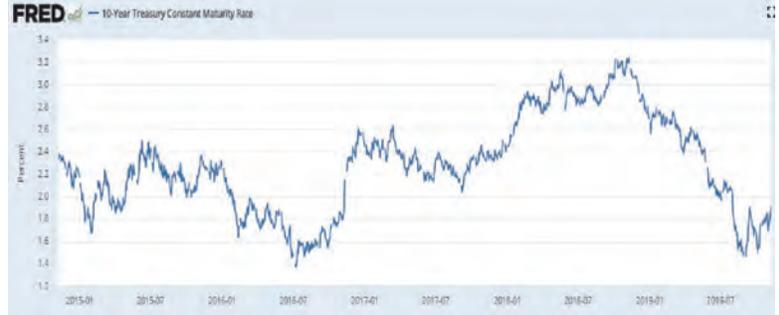


SHORT-TERM RATES

(Prime rate)



10-YEAR TREASURY BILLS



LOOKING FORWARD



WHAT WE SEE AHEAD



- Unlikely we will see further decline in variable costs – in fact, showing some signs of strengthening.
- Weather and foreign trade will continue to be the big wildcards.
- Ag real estate values will likely decline further, but sharp correction is unlikely.
- US agriculture remains well positioned to supply a growing global population – technology, transportation infrastructure, political stability.
- Consolidation within agriculture accelerates.

WILL FARMERS ACT?



- The easy changes have already been implemented.
 - Rebalancing and re-amortizing debt
 - For most, lendable equity has been tapped
- Many growers have leveraged financial strength vs. making material adjustments to cost structure.
 - Variable costs have adjusted; further adjustments must come from fixed costs.
- Will near-term profit margins allow for rebuilding working capital?



“It’s only when the tide goes out that you discover who’s been swimming naked.”

- Warren Buffett

CHARACTERISTICS OF SUCCESSFUL OPERATIONS



Strong Financial and Production Management Skills

- Enterprise level analysis
- Cost of production
- Fixed costs vs. variable costs
- Defined marketing strategy
- Willing to make adjustments

Financial Strength

- Equity
- Liquidity

CHARACTERISTICS OF SUCCESSFUL OPERATIONS



- Positive working capital and short-term risk bearing ability
- Have pursued additional income sources (non-farm and/or on-farm)
- Solid financial acumen, including good record keeping / financial records
- Use enterprise analysis

CHARACTERISTICS OF SUCCESSFUL OPERATIONS



- Understand and have proactively addressed family living costs
- Have proactively negotiated cash rents
- Have sold under-performing or non-performing assets
- Have developed a specific marketing plan and capture pre-harvest market opportunities
- Understand the financial impacts of their business decisions
- Have restructured their balance sheet to provide maximum repayment flexibility
- Make holistic business decisions based on cash flow and costs of the entire operation

CHARACTERISTICS OF SUCCESSFUL OPERATIONS



- Focused on maximizing profits vs. maximizing yield or minimizing costs
- Focused on getting better, not just getting bigger
- Focused on continual operational improvement and adjustments

ROAD TO IMPROVEMENT



How do we get better at the business of agriculture?

- Spend as much time in the office as in the shop / fields
- Spend as much time running the business as you do running the combine or the tractor

THANK YOU!



For questions/comments:
wes_chambers@fcsamerica.com
605-362-3438