Farmland IN PERSPECTIVE

Summer 2017 — **Volume 38, No. 2**

GLAUB FARM MANAGEMENT

MANAGEMENT · REAL ESTATE · LAND AUCTIONS
APPRAISALS · CONSULTING · INVESTMENTS

U.S. soybean domestic use and exports projected to increase through 2026

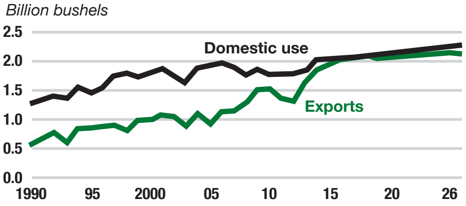
The agricultural baseline projects released earlier this year by the U.S. Department of Agriculture indicate strong demand for soybean meal and oil during the next decade. These gains reflect low expected feed prices, increasing livestock production, and steady demand by foreign importers.

Strong global demand for soybeans – particularly in China – boosts U.S. soybean trade over the projection period. While soybean exports are projected to rise, competition from South America – primarily Brazil – will lead to a reduced U.S. share of global soybean trade.

U.S. soybean meal use is projected to increase about 1% per year over the baseline period. Domestic soybean meal consumption, which accounts for roughly 75% of total disappearance, is projected to increase at just over 1% per year.

U.S. soybean oil use is also projected to rise about 1% per year over the projection period. Soybean oil exports are projected to rise only modestly due to increased competition.

U.S. soybean production and exports through 2026



Note: 2017-2026 data are projections. Source: USDA, Economic Research Service Agricultural Projections data.

Key insights on managing farmland for optimal income and return on investment

by Gary Schnitkey

For the last several decades farmland ownership has provided excellent returns which have been comparable to stock investments. Returns will likely be variable in the future, yet farmland likely will remain a good investment.

Gaining optimal returns from farmland will require good management. This management assures that returns to landowners are in line with current agricultural returns and that their farmlands' productivity is maintained.

Fluctuating Returns

Agricultural returns are variable and, if anything, have become riskier in the past decade. In 2006, corn began to be used extensively in making ethanol, increasing not only the price of corn but also the prices of many crops. *See Figure 1.* Between 1974 and 2005, corn prices averaged $2.33 per bushel. Between 2006 and 2013, corn prices averaged $4.70 per bushel. In recent years, prices have fallen below $4.00 per bushel. Similarly, soybean prices averaged $5.96 per bushel from 1975 to 2005 and $10.96 per bushel from 2006 to 2013.

Figure 1. Prices of major crops grown in the United States

	Period					
	1975-2005	2006-2013	2014	2015	2016P	2017P
Corn ($/bu.)	2.33	4.70	3.70	3.61	3.40	3.30
Soybeans ($/bu.)	5.95	10.91	10.10	8.95	9.60	9.35
Wheat ($/bu.)	3.25	6.25	5.99	4.89	3.85	4.00
Cotton ($/lb.)	0.59	0.70	0.66	0.62	0.67	0.64
Rice ($/cwt.)	7.66	14.07	13.40	12.10	10.50	10.70

Source: Prices are market year average prices for the nation as reported by the United States Department of Agriculture. Values for 2016 and 2017 are projections contained in March 2016 reports.

Continued on page 2

While prices have been higher since 2005, they have also been variable. Since 2006, corn prices averaged over a marketing year ranged from a high of $7.50 in 2012 to a low of $3.70 in 2014 and 2015. Prices for the 2016 and 2017 marketing year likely will be lower than $3.70. Fluctuations in prices will continue into the future. Fluctuating prices, along with variable yields and changing input prices, will lead to dramatic farmland returns.

Leases

Many landowners currently prefer a cash rent arrangement for its simplicity. When using a cash rent arrangement, however, landowners should not expect to set a rent and not revisit the appropriateness of that level next year. By not evaluating cash rents, landowners will miss events such as the increase in agricultural prices that occurred after 2006. Cash rents can be raised when prices are favorable. Conversely, cash rents likely need to be lowered during periods of low prices. Not evaluating cash rents each year could leave the landowner with a cash rent that is too low during periods of favorable prices, and too high during periods of low returns.

There are alternatives to cash leases and renegotiating a rental level each year.

There are alternatives to cash leases and renegotiating a rental level each year. One alternative is to have a lease arrangement with payments that vary based on the revenue received from a farm. These variable cash leases come in a variety of forms; the basic principle is to increase the landowners' returns in high revenue years and reduce those returns in low revenue years.

Maintain Productivity

The productivity of farmland must be maintained in order to maximize farmland prices. Fortunately, most modern farming practices will maintain the productivity of the soil, and most farmers are diligent in the care and maintenance of the soil. Still, selecting a good farmer or farmland manager is key to maintaining farmland. In addition to selecting a farmer, four items should be monitored periodically.

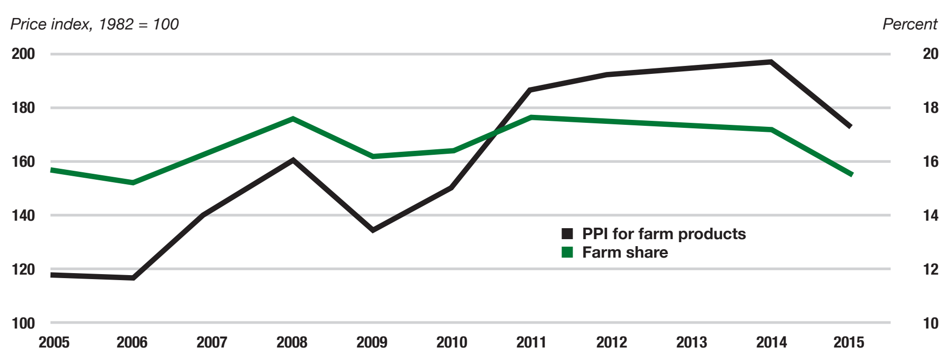
Decline in farm share of U.S. food dollar mirrors drop in farm commodity prices

On average, U.S. farmers received 15.6 cents for farm commodity sales from each dollar spent on domestically-produced food in 2015, down from 17.2 cents in 2014, according to the Economic Research Service (ERS) of the U.S. Department of Agriculture. Known as the farm share, this amount is at its lowest level since 2006, and coincides with a steep drop in 2015 average prices received by U.S. farmers, as measured by the Producer Price Index for farm products.

ERS uses input-output analysis to calculate the farm and marketing shares from a typical food dollar, including food purchased at grocery stores and at restaurants, coffee shops, and other eating out places. 2015 was the fourth consecutive year that the farm share has declined, but the 2015 decline was substantially more than in the three previous years.

The drop in farm share also coincides with four consecutive years of increases in the share of food dollars paying for services provided by the foodservice industry. Since farmers receive a smaller share from eating out dollars, due to the added costs for preparing and serving meals, more food-away-from-home spending will also drive down the farm share.

2015 food dollar (nominal): Marketing Bill



PPI = Producer Price Index
Source: USDA, Economic Research Service for the farm share and U.S. Bureau of Labor Statistics for the Producer Price Index.

Soil fertility. Fertility can be monitored in several ways. The most accurate method is to periodically test the soil's phosphorus and potassium levels. Over time, farmers should be applying enough fertilizer to maintain desirable levels.

Soil pH. Many soils require the periodic addition of lime to maintain soil pH at an optimal level. Soil testing and lime application planning should be built into the plan.

Structures for reducing soil erosion. Soil erosion concerns vary from farm to farm with erosion concerns being higher for farms with more variable terrain. Many farms have grass waterways, buffer strips, and other structures to minimize soil loss. These structures should be inspected to assure that they are being properly maintained. Moreover, tillage practices should be monitored, particularly on sloping soils. Some form of conservation management should be followed on highly erodible soils.

Buildings and other structures. Inspect these to assure that they are being properly maintained and repaired when necessary.

In addition, some improvement investments may increase both current returns and the farmland's long-term price. For example, tiling to improve drainage may be a wise investment in some instances. These investments vary from farm to farm.

Summary

The above management tasks require time and expertise. Market conditions should be monitored to assure that the landowner receives an optimal return on investment. In addition, the farmland itself needs to be monitored to assure that it is being properly maintained. Some landowners choose to manage farmland themselves. For others, use of professional management services will greatly aid in managing the farm and obtaining optimal returns.

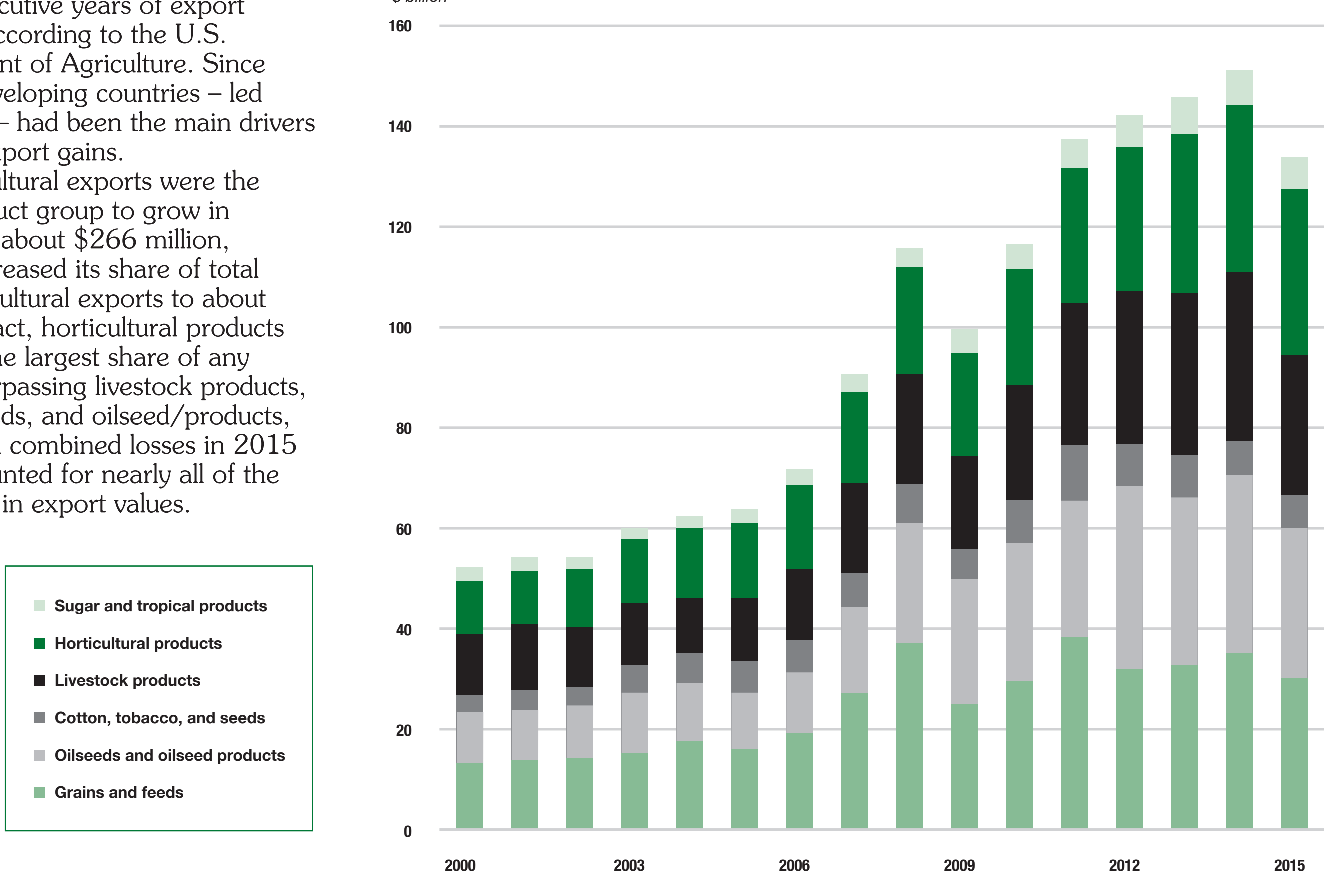
Dr. Gary Schnitkey *serves as a professor and farm management specialist in the Department of Agricultural Economics at the University of Illinois. His extension activities focus on risk management and farm income valuation. (217) 244-9595. schnitke@illinois.edu.*

U.S. agricultural exports value lowest since 2010

The value of U.S. agricultural exports declined in 2015, reversing five consecutive years of export growth, according to the U.S. Department of Agriculture. Since 2000, developing countries – led by China – had been the main drivers of U.S. export gains.

Horticultural exports were the only product group to grow in 2015, up about $266 million, which increased its share of total U.S. agricultural exports to about 25%. In fact, horticultural products became the largest share of any group, surpassing livestock products, grains/feeds, and oilseed/products, which had combined losses in 2015 that accounted for nearly all of the decreases in export values.

U.S. agricultural exports, 2000–15



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

Farmland
IN PERSPECTIVE

1702 Stone St., Suite C
Jonesboro, AR 72401

RETURN SERVICE REQUESTED

Prsrt. Std.
U.S. Postage
PAID
Jonesboro, AR 72401
Permit No. 131

PRINTED WITH SOY INK

LET GLAUB FARM MANAGEMENT BE *Your Partner in Farming*

HOUSTON M. MATTHEWS
APPRAISER

Appraisal Service Added

GFM has added an appraisal and valuation division. The appraisal division's focus is agricultural, rural, and transitional properties. GFM is proud to have Houston M. Matthews heading up the appraisal division. Contact Houston, Jeffrey Hignight, or Ted L. Glaub to discuss the full range of real estate appraisal services and other farm property services.

We want to be Your Partner in Farming!

TED GLAUB • AFM, ALC

JEFFREY HIGNIGHT • AFM, ALC

REALTORS® LAND INSTITUTE · ALC ACCREDITED LAND CONSULTANT · AFM AMERICAN SOCIETY OF FARM MANAGERS AND RURAL APPRAISERS®

GLAUB FARM MANAGEMENT

MANAGEMENT · REAL ESTATE · LAND AUCTIONS
APPRAISALS · CONSULTING · INVESTMENTS

870-972-6996 • 1702 Stone St., Suite C • Jonesboro, AR 72401
1-866-972-FARM (3276) • e-mail: info@glaubfm.com • web: www.glaubfm.com

The American Society of Farm Managers and Rural Appraisers awards the titles of ACCREDITED FARM MANAGER and ACCREDITED RURAL APPRAISER to those members who have had years of experience, are technically trained, have passed rigid examinations, and subscribe to a high code of ethics.