

Agricultural Economy is Facing Tough Times

AGRI-VIEWS

by Chuck Otte, Geary County Extension Agent

In the 1980's the agricultural economy went through a very tough period. For a variety of reason, profitability just wasn't there. Quite a few producers across the state, and even locally, went out of business. By the early 1990's we'd turned a corner and by the late 1990s, changes in the government farm program, allowing for producers to plant what they wanted, and the advent of the Roundup Ready technology, ushered in a new age of profitability that lasted for about 20 years.

This new era of profitability was unparalleled in almost anyone's memories. We'd probably have to go back over 100 years to come close to seeing the equivalent. As a result, agricultural land prices started rapidly increasing at a rate that far exceeded long term trend lines. The period from 2007 through 2014 was record breaking in the levels of net farm income that farmers were seeing. Grain prices were high, livestock prices were high, and production costs were, by comparison, relatively low. I think we all know that what goes up is eventually going to come down. We saw it happen in the 1970's and 1980's and in spite of all the optimism, we knew it was going to happen again.

As usually happens, there was not one single cause to the economic downturn. There was no one smoking gun that we could blame all of this on. We had gone through several years where grain supply and demand were running pretty close together. That keeps grain prices high. Livestock numbers had dropped in the early 2000's because of low prices. With fewer livestock, there were fewer animals going to market. As the US economy started to improve after the 2008-2010 recession, consumers wanted more red meat on their plate so demand pushed up prices.

Thousands of acres of land that had been in long term conservation programs came out of those programs and thanks to the high price of grain, these acres were converted from grassland back to crop land. Record yields and increasing numbers of acres started pushing the amount of grain in the system up. Once supply starts to seriously exceed demand, prices will eventually fall. Prices for grain fell after peaking in 2012 and 2013. With high prices for livestock, breeding herds increased. With more livestock going to market, the supply was being met and exceeded. So both crop and livestock prices started to fall.

Right in the middle of all of this, weed resistance to Roundup (glyphosate) started to explode across the corn belt. What had once been a cheap proposition to keep fields weed free, started to become a very expensive process. Expenses for crop production were going up while the value of the crop being grown started to decline. Net farm income amongst Kansas Farm Management Association members, over 1,100 representative farms statewide, dropped from a statewide average of \$129,000 per farm in 2014, to \$4,500 in 2015. We expect it to be no better for 2016.

Land prices, which had been riding a bubble up for almost a decade, are starting to ride the roller coaster back down. Statewide average land prices are already down about 10% from the peak. Land economists estimate that prices may drop another 20 to 30% before things stabilize. That will be a serious impact on the credit capacity of some producers. Based on various outlooks, the overall situation will probably not start to improve for another 18 to 24 months. Which means that for the next couple of years, producers will need to keep a tight rein on expenses, and hope that Mother Nature doesn't throw us a curve ball!