

## Top Ten Ag Stories of 2009

### **10. Livestock Profit Losses**

Due to the worst economic recession since 1930, increased unemployment, old and new health concerns, and increased input costs, US beef and pork producers suffered billions in equity loss in 2009. When 2009 began, some market watchers were optimistic that there would be an upcoming price turnaround that would at last provide some profitability in meat production. However, unforeseen developments worked to delay expected reductions in the breeding herds and significantly compounded the loss of foreign demand. In addition to losses in meat production, milk producers also had losses in dairy for 2009. These declining prices in both meat and dairy has reduced income by 27% on average in the US. On the bright side for consumers, beef, pork and milk prices are less than they were a year ago.

### **9. Foodies versus Production Agriculture**

2009 noted a substantial increase in articles regarding food production, including negative stories in both the Washington Post and Time Magazine. These articles, along with additional information available throughout the internet, are written to scare consumers by disparaging conventional food production, processing and retailing in favor of alternative food delivery systems that are being used in some European communities. These include more organic and locally grown products and the reduction of any genetic modification. Joining in the fight against production agriculture are PETA (People for the Ethical Treatment of Animals) and the Humane Society, both of which have proposed state bills in California and Ohio to outlaw many current livestock production practices. Unfortunately, when it comes to the mainstream media, many of the articles are written by people with no understanding of food production, the economics of global food security and the challenges that occur to local farm families in the production of the world's food source. Although there is certainly nothing wrong with locally grown or organic foods, it is unwise to suggest that the current style of food production in the US is dangerous and should be stopped. The US provides the world with the safest and most abundant food source and this can only be done through the advancement of technologies and the ingenuity of the US farm producer.

### **8. The New Administration**

The installation in January, and the inauguration of Barack Obama, began a move to a new administration in the US government. Former Iowa Governor Tom Vilsack was named the 30<sup>th</sup> US Secretary of Agriculture and was projected to be beneficial to Midwestern agriculture. Vilsack is known to be a smart, capable administrator who has been willing to listen to the concerns of family farmers and rural advocates.

### **7. ACRE Program**

The 2009 farm bill included a new program, called ACRE, in which crop specific acres and two year moving average prices are used to insure revenue to farmers in the US. This program signup began in 2009 and is optional for US farmers. For 2009, only 8% of farms with 13% of the eligible base acres signed up for this program. The programs overall complexity and uncertainty is a major reason farmers did not participate, even though the appearance of a significant payoff can be calculated. Once the results of the ACRE program are seen in the 2009 crop, it is projected that additional signups will occur in 2010, increasing the participation significantly. Here at Hickory Point Bank & Trust, we evaluated the program on an individual client basis and determined that, in some cases, it was most likely beneficial, while in other cases, the risk did not outweigh the potential reward.

### **6. Swine Flu**

Swine flu, or H1N1, became a flu pandemic in 2009 as concern over the spread of this virus escalated throughout the world. This flu epidemic is an agricultural story only because of its nickname, the swine flu, which was given due to its relationship to an influenza that is carried by pigs and has been around since it was discovered in 1918. Its effect on agriculture comes from the negative connotation between the swine flu and pork and the misconception that one can become sick from eating pork products. There have been no cases of humans contracting the swine flu due to the consumption of pork. The US Center for Disease Control has worked diligently to separate the use of the swine flu terminology, calling it by its more technical name, H1N1.

### **5. Climate Bill**

This past summer, the US Senate passed a climate bill with the goal of improving environmental standards and reducing the human's effect on the world climate. Also known as Cap and Trade, this bill has drawn much concern from American farmers and groups like the American Farm Bureau and the National Corn Growers Association. They say one of the biggest problems with the bill is how it addresses carbon offsets, which could be an economic benefit to farmers that switch to farming methods that will lower carbon emissions. The ag lobbyists say, however, that the Senate bill does not guarantee these farm practices would qualify. Offsets are projects that remove carbon dioxide from the atmosphere or otherwise limits emissions outside of a regulated company's smokestack or manufacturing facility. A project to plant trees would qualify because trees remove CO<sub>2</sub>. These offsets are one way to keep energy costs in check by making it easier for emitters to comply with the new standards by purchasing carbon credits from farmers that use methods to sequester carbon.

An area of concern would be the control of the US Environmental Protection Agency and its role in regulating other areas of farming that may have a negative effect from this bill. The major concern from US farmers is the possible secondary fact of pushing energy and fertilizer prices significantly higher, both of which are large expenses to Midwest farmers. These increased prices would offset any gain from the selling of carbon credits. At this time, the passage of this climate bill into law has hit some significant snags as world scientists work has come into question regarding climate change. We will keep a lookout in 2010 to see if this bill can pass as written.

#### **4. Land Values Stabilize**

After several years of increases, farmland values in the Midwest have dipped slightly in 2009 largely as a result of the slumping general economy. In Central Illinois, we have seen a stabilization of overall land values with prices similar to 2009. The stable land values have come despite conditions that would usually indicate a fall in farmland value, including a weaker farm economy and tightening farmer credit conditions. Profit declines both in crop and livestock sectors, in addition to increased fertilizer costs for 2009, created lower net income for farmland during the 2009 crop year. Farmland values were assisted with the move of traditional investors to farmland as a hedge against inflation and a more stable and secure investment vehicle. Also, the supply of available farmland for sale has decreased dramatically when compared to the past several years. According to *Farm Business Talk*, as with most investments during a recessionary time, land prices will see some downward pressure on a short term basis, however, the long term outlook is good for land as it has always been. At Hickory Point Bank & Trust Agricultural Services, we believe farmland is, and will continue to be, a good and stable investment regardless of any short term downward pressure.

#### **3. The U.S. Dollar Value and its Impact on Commodity Prices**

Traditionally, as the value of the dollar falls versus other world currencies, the price of commodities, including corn and soybeans, rise regardless of other supply and demand forces at work. The volatility in the US dollar has been high since the economic crisis beginning of October, 2008. This volatility is increased as other regions across the globe experience similar economic and financial down turns. Until the global economy stabilizes, especially the US economy, the US dollar will remain volatile when compared to other foreign currency. This volatility has played a large role in the pricing of commodities over the past year. In the past, commodities prices could be estimated looking at supply and demand fundamentals, however, this volatility in the US dollar has made the marketing of grain more difficult due to larger swings from high to low.

#### **2. Drop in Fertilizer Prices**

Fertilizer prices in Illinois have completely reversed when compared to 2008. Prior to the financial crisis of 2008, retail prices of potash over \$900 per ton, anhydrous ammonia over \$1,000 per ton and diammonium phosphate (DAP) of over \$1,100 per ton were reported. This was during a time of high commodity prices for many crops, which substantially increased the demand for fertilizer and high priced energy. Since that time, prices of nearly all fertilizer products dramatically declined, with nitrogen and phosphorus declining more than potassium. Fertilizer industry information shows that overall fertilizer use in North America declined 15-20% in 2009 when compared to 2008, with potassium fertilizer application declining around 30%. A September, 2009 survey of prices in Illinois shows that anhydrous ammonia for fall application was selling for \$400-\$450, DAP for \$360-\$430 and potassium between \$560-\$670.

Depending on when fertilizer was purchased, some farmers may have spent as much as \$200 per acre or more to fertilize their 2009 corn crop. Budgeted projections for 2010 put corn fertilizer expense between \$100-\$130 per acre depending on the timing of purchases. Published industry sources indicate that prices for nitrogen and phosphorus fertilizers may have reached a low and could work back up, while potassium prices could flatten or possibly come down more.

#### **1. Weather**

Without a doubt, the number one story of 2009 was the weather during the crop growing season. From start to finish, weather played a significant role in delaying the progress of crops in Illinois and throughout the Midwest. The first weather challenge for the 2009 growing season was the much above normal rainfall in the March-June timeframe which slowed planting and other fieldwork. Illinois statewide rainfall during this period was 21.0 inches, 5.5 inches above normal, making it the seventh wettest March-June on record. The slow planting season was followed by the coldest July on record when the statewide average temperature was only 70.3 degrees, 5.1 degrees below normal. August was also 2.1 degrees below its normal temperature.

On September 13<sup>th</sup>, 88 counties in Illinois were declared as natural disaster areas because of too much rainfall during the first half of the growing season. Rainfall during the April-July timeframe totaled 20.9 inches, 4.7 inches above normal. All of these factors combined to make the eleventh coldest and eighth wettest summer on record in Illinois since 1895. In addition, it was also the cloudiest summer on record with only 53% of sunshine as compared to the norm of 67%. The colder than normal July was also remarkable in that it was consistently colder with only July 11 at a temperature above average for the month. This resulted in fewer growing degree days, slowing the maturity of the growing crops.

As we moved into harvest, many hoped the weather difficulties were behind us. However, quite the opposite was true when statewide precipitation for October was 8.9 inches. This is six inches above normal and is the second wettest October on record. The wet weather continued into November, pushing harvest past Thanksgiving and well into December. This combined to make for the slowest corn harvest in Illinois since 1940 and made weather this year's number one story.

#### **Sources:**

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