2011 Illinois Farm Economics Summit

The Profitability of Illinois Agriculture:

Managing in a Turbulent World

Sponsored by:





Dates/Locations

- Monday, December 12, 2011 Champaign, IL
 I Hotel and Conference Center
- Tuesday, December 13, 2011 Sycamore, IL • Center for Agriculture
- Wednesday, December 14, 2011 Galesburg, IL
 Best Western Prairie Inn
- Thursday, December 15, 2011 Mt. Vernon, IL
 ◊ Holiday Inn
- Friday, December 16, 2011 Bloomington, IL
 Doubletree Hotel



2011 Illinois Farm Economics Summit

The Profitability of Illinois Agriculture: Managing in a Turbulent World

7:45 – 8:00 am	Registration and Coffee
8:15 – 8:30 am	Introduction and Overview - <i>Todd Gleason</i>
8:30 – 9:00 am	Crop and Livestock Price Prospects for 2012 - Darrel Good
9:00 – 9:30 am	USDA – NASS Revealed: Procedures in Setting Crop, Livestock and Economic Estimates - Brad Schwab and Mark Schleusener
9:30 – 10:00 am	Estate Planning in Uncertain Times - Gary Hoff
10:00 – 10:30 am	Break
10:30 – 11:00 am	Stress Testing Agricultural Returns in 2012 and Beyond - Gary Schnitkey
11:00 – 11:30 am	Crop Insurance – New Features, Programs, and Performance - <i>Bruce Sherrick</i>
11:30 – 12:00 pm	An Overview of Proposed Changes to Farm Policy - Nick Paulson
12:00 – 12:30 pm	Question and Answer/Wrap-Up
12:30 – 1:30 pm	Lunch (Included)



Crop and Livestock Price Prospects for 2012 Darrel Good, Professor Emeritus

Department of Agricultural and Consumer Economics

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<u>CROPS</u>

Crop prices continue to trade in wide ranges, reflecting factors ranging from U.S. and world production uncertainty to world economic and financial conditions. The price environment will likely remain very unsettled in 2012.

The small corn crop in 2011 should result in small inventories by the end of the marketing year. Large grain crops in the rest of the world will keep export demand weak. The expiration of the ethanol benders' tax credit and declining broiler and cattle numbers point to stagnant domestic consumption in the first half of 2012. Southern hemisphere corn production is expected to increase in 2012, but hot, dry conditions are currently being experienced in Argentina. U.S. farmers may increase corn acreage and a higher yield in 2012 would result in more abundant supplies, but uncertainty will persist through the summer. Prices are expected to remain in the mid-\$5 to low-\$6 range in early 2012. Prices later in the year will reflect crop prospects and world financial conditions.

A small U.S. **soybean** crop in 2011 has been met with weaker demand. A large South American harvest in 2011 and expectations for another large crop in 2012 has resulted in weaker export demand for U.S. soybeans, meal, and oil. Chinese purchases started more slowly than in the previous year. Year ending stocks of U.S. soybeans will be relatively small, but adequate. U.S. soybean acreage in 2012 will need to be maintained near the level of 2011. Supply uncertainty will persist through the summer of 2012, suggesting that prices will be maintained in a wide range around \$11.

Total U.S. **wheat** production declined sharply in 2011, but SRW production was nearly double

the small crop of 2010. Production of wheat in the rest of the world was up sharply, leading to declining export demand for U.S. wheat and prospects for adequate year ending stocks. Most of the 2011 wheat crop in Illinois has been sold, at an average price near \$6.60. The focus early in 2012 will be on U.S. winter wheat seedings, the status of drought conditions in the HRW areas, and prospects for the Australian crop. A more modest northern hemisphere wheat crop in 2012 and a lingering drought in the U.S. southwest would be supportive for prices late in 2012. Prices in the first half of the year may remain in the mid-\$5 to mid-\$6 range.

LIVESTOCK

U.S. **pork** production is expected to increase from 22.7 billion pounds in 2011 to 23.1 billion pounds in 2012. Exports of U.S. pork grew from 3 billion pounds in 2006 to a projected 5.1 billion pounds in 2011. Exports will remain large in 2012. Domestic pork supplies are projected at 46.2 pounds per capita in 2012, up from 45.7 pounds in 2011. The average price of hogs in Illinois was only \$45 in 2009, but likely exceeded \$66 in 2011. Prices are expected to average in the mid-\$60 range in 2012.

U.S. **beef** production has declined slowly from the peak of 26.6 billion pounds in 2008 to a projected 25 billion pounds in 2012. From a 19 year low of 460 million pounds in 2004, U.S. beef exports grew to 2.78 billion pounds in 2011 and should remain at that level in 2012. Domestic per capita beef supplies declined from 59.6 pounds in 2010 to 57.4 pounds in 2011 and are projected at only 54.1 pounds in 2012. Fed cattle prices averaged \$95 in 2010, but jumped to \$115 in 2011. Depending on economic conditions, the average for 2012 could be near \$125.





Notes

Additional Resources

The slides for this presentation can be found at: http://www.farmdoc.illinoi.edu/presentations/IFES_2011

For current outlook information, see: http://www.farmdoc.illinois.edu/marketing/newsletters.html http://www.agmanager.info/ http://www.agecon.purdue.edu/extension/prices/index.asp http://cattlemarketanalysis.org/

http://www.extension.iastate.edu/agdm/



USDA – NASS Revealed: Procedures in Setting Crop, Livestock, and Economic Estimates



Brad Schwab Director Illinois Field Office

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OVERVIEW

The USDA's National Agricultural Statistics Service (NASS) conducts hundreds of surveys every year and prepares reports covering virtually every aspect of U.S. agriculture. Production and supplies of food and fiber, prices paid and received by farmers, farm labor and wages, farm finances, chemical use, and changes in the demographics of U.S. producers are only a few examples of information in NASS reports.

NASS is committed to providing timely, accurate, and useful statistics in service to U.S. agriculture. Personal information, including reported data, is protected from legal subpoena and Freedom of Information Act requests. Every person working for or in cooperation with NASS – from the Agency Administrator to the person collecting the information - signs a confidentiality form which states that no confidential information will be compromised. This includes sworn agents who are authorized by NASS to provide data collection support or statistical research. Any offender is subject to a jail term (5 years), a fine (\$250,000), or both.

CROPS ESTIMATION

Each March, NASS begins a cyclical process by which acreage estimates for virtually every crop grown in the US are established. This process begins with the March Prospective Plantings report. Then in

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June, NASS follows up with the June Acreage Report which collects data on actual plantings and harvest intentions. These planted and harvested estimates then serve as the basis from which production estimates are derived for corn, soybeans and The September and December wheat. quarterly Agricultural Surveys provide estimates of grains in storage and final yields for small grains, row crops, and hay. During the months of August through November, the agricultural community anxiously awaits the yields to be published in the NASS monthly crop production reports. NASS uses two basic methods to forecast crop yields. One method is to ask the farmer in the monthly Agricultural Yield The other method is to train survey. enumerators to count the crop in the field and use lab measurements for moisture content and shelling fraction. NASS statisticians use the data from both methods to establish monthly yield forecasts.

In addition to these yield and production reports, NASS also compiles quarterly grain stocks reports. It is the combination of the stocks reports along with production statistics which provide the basis for the market sensitive Supply and Demand reports.

LIVESTOCK ESTIMATION

NASS publishes a wide array of livestock estimates every year including cattle and

calves, hogs and pigs, sheep and lambs, goats, poultry, equine, aquaculture and even many specialty species such as mink, llamas, elk, deer, bison, and rabbits to name just a few. The frequency of conducting some of these surveys will range from weekly for broilers, monthly for cattle on feed, quarterly for hogs and pigs, to once every five years for llamas.

In April of each year, NASS publishes the Meat Animals Production, Disposition, and Income report. This publication contains an annual balance sheet and income estimates for cattle, hogs, and sheep. It includes of beginning estimates and ending inventories, births, deaths, cross-state movement, and marketing. Many other statistics are published by State and US.

ECONOMIC ESTIMATION

Economic surveys as defined by NASS encompass a wide range of data including the monthly Agricultural Prices Report. Each month this report presents prices received by farmers for principal crops, livestock, and livestock products; indexes of prices received by farmers; parity prices; prices paid for input items and feeder livestock; indexes of prices paid by farmers; and livestock/poultry feed price rations.

NASS, in cooperation with the Economic Research Service, also conducts the Agricultural Resource Management Surveys (ARMS). These surveys measure commodity production practices and the economic status of farms around the country. Results of these surveys are used to assess the economic health of farms by size, region, and type of farm.

The ARMS surveys are collected in three phases. The initial phase, or screening survey, collects general farm data such as crops grown, livestock inventory, and value of sales. Screening data are used to qualify (or screen) farms for the other phases.

The second phase collects data associated with agricultural production practices.

Commodities are surveyed on a predetermined rotation with up to five commodities surveyed in a given year. Farm operators provide data on fertilizer and nutrient applications, pesticide applications, pest management practices, and irrigation.

The final phase, (Phase III) collects whole farm finance, operator characteristics, and farm household information. Operators provide data on farm operating expenditures, capital improvements, assets, and debt. In addition, operators report data on farmrelated income, government payments, source and amount of off-farm income, and characteristics of their household. These data are used to gauge the health of America's farm families and is some of the most sought-after information by policy makers.







Notes

Additional Resources

The slides for this presentation can be found at:

http://www.farmdoc.illinois.edu/presentations/IFES_2011



Estate Planning in Uncertain Times

Gary J. Hoff, Associate Director, University of Illinois Tax School Department of Agricultural and Consumer Economics Email: <u>ghoff@illinois.edu</u>

The Economic Growth and Tax Relief Reconciliation Act of 2001 made major changes in estate planning. It increased the federal estate tax exclusion over a nine year period and eliminated the estate tax completely for deaths in 2010. While planners never thought the repeal would occur, it did.

On December 17, 2010, the President signed the Tax Relief, Unemployment Insurance Reauthorization, and Jobs Creation Act of 2010. This act reinstated the estate tax. The act was made retroactive to January 1, 2010; however, for prior deaths in 2010, this could have been unconstitutional. Consequently, Congress wrote the legislation so estate executors could elect to have the estate taxed under the old or the new law.

2010 Deaths

For 2010 deaths, the choice is to have no federal estate tax and a limited step-up in basis. The basis increase is limited to \$1.3 million. The decedent's spouse is entitled to a \$3 million step-up, plus the \$1.3 million. Alternatively, the estate executor can elect to use a \$5 million exclusion and increase the basis of the assets to their fair market value on the date of death. The top tax rate is 35%

2011 and 2012 Deaths

The new law provides for a \$5 million exclusion, a maximum 35% tax rate and a stepup in basis to the fair market value on the date of death. The estate can also use the fair market value six months after the date of death if the value of the estate has declined. In addition, IRC §2032A was reinstated which is the special-use valuation for farm land.

2013 and Later Deaths

The new law sunsets on December 31, 2012. Therefore, the exclusion reverts back to \$1 million with a 55% top rate. Planners predict Congress will readdress estate taxes before the end of 2012; however, there is no assurance this will happen.

Portability

A new feature was added by the 2010 Act. This is the portability of any unused estate tax exclusion amount from a decedent to the surviving spouse.

There are limitations on using the excess exclusion amount. First, the spouse receiving the excess must die before the end of 2012. Second, only the exclusion of the last spouse can be used if there is a remarriage and the new spouse dies before the end of 2012.

For example, Tom and Martha have been married for 60 years. Tom dies in 2011 with an estate valued at \$3 million. Therefore, his estate has an excess exclusion of \$2 million which can be added to Martha's basic exclusion of \$5 million. Martha marries Alex in 2012 and he dies in 2012 with an estate of \$4 million. Alex estate's excess exclusion of \$1 million is added to Martha's basic exclusion of \$5 million. Martha loses the excess exclusion of Tom. However, Martha must also die in 2012 to get any benefit from the portability provision.

2011 Illinois Deaths				Portability			
Taxable Federal Estate Illinois Estate To		Total	First Death 2011 or 2012		Spouse's Death 2011 or 2012		
Estate	Tax	Tax		Basic exclusion	\$5,000,000	Basic exclusion	\$5,000,000
Constitute	143	143	0	Prior gifts	(1,500,000)	Prior gifts	(1,500,000)
\$2 million	0	0	0	Remaining exclusion	\$3,500,000	Remaining exclusion	\$3,500,000
\$3 million	0	167,279	167,279	FMV estate	3,000,000	Portable amount	500,000
\$4 million	0	253,986	253,986	Excess exclusion	\$500,000	Total exclusion	\$4,000,000
\$5 million	0	352,158	352,158			FMV estate	4,750,000
\$6 million	190,375	456,071	646,446			Taxable estate	\$750,000

Notes

Additional Resources

The slides for this presentation can be found at:

http://www.farmdoc.uiuc.edu/presentations/IFES_2011

For current tax information, see:

http://www.taxschool.illinois.edu/taxbookarchive

http://ruraltax.org

http://www.irs.gov



Stress Testing Agricultural Returns in 2012 and Beyond

Gary Schnitkey, Professor Department of Agricultural and Consumer Economics Email: <u>schnitke@illinois.edu</u>

A period beginning in 2006 and ending sometime in the future likely will be viewed as a "golden age" for crop farm incomes. Beginning in 2006, corn and soybean prices have reached higher levels due to increased use of corn in producing ethanol and sustained export demands for grain. Higher commodity prices then have led to higher net farm incomes for grain farms. For grain farms enrolled in Illinois Farm Business Farm Management (FBFM), net farm income has an average of \$66,000 per farm from 2001 through 2006 increasing to \$177,000 per farm from 2006 through 2010.

Net farm incomes on grain farms likely will average over \$200,000 in 2011 because of high corn and soybean prices. Current WASDE estimates place the average price during the 2011/12 market year between \$6.20 and \$7.20 per bushel for corn and between \$11.60 and \$13.60 per bushel for soybeans. While average incomes will be over \$200,000, incomes will vary across farms because of yield differences across farms. Many farms have had yields significantly below average, particularly in the central and western Illinois. As a result, many farms in central and western Illinois will have lower incomes while farms in northern Illinois will have higher incomes.

Current projections place 2012 corn and soybean prices around \$5.00 per bushel for corn and \$11.00 per bushel for soybeans. These prices are substantially below 2010 and 2011 prices farms and will result in lower 2012 net farm incomes. Given normal yields and no unexpected cost increases, a \$5.00 per bushel corn price and \$11.00 per bushel soybean prices will result in average grain farm income around \$150,000 per farm.

Overall, a \$150,000 of average net farm income for 2012 will result in another good income year for crop farmers. Further declines in prices could lead to less profitable times and more financial stress. Take, for instance, a \$4.50 per bushel corn price and a \$10.50 per bushel soybean price. These prices represent estimates of "long-run" prices. There will be variability around these long-run prices over the next five years, but the average over the five-years likely will be close to \$4.50 per bushel for corn and \$10.50 per bushel for soybeans. These prices would result in \$86,000 of net income for grain farms, much closer to the \$66,000 average per farm income from 2001 to 2006 than the \$177,000 average from 2006 to 2010.

All grain farms need to consider ways of withstanding period where crop prices are significantly below the long-run averages of \$4.50 for corn and \$10.50 for soybeans. Understanding how to responds to a \$3.50 corn price and \$8.50 soybean price will be a worthwhile planning activity. Farms particularly vulnerable to price downturns are farms that have a percent of their farm base cash rented. Building financial reserves is a practically now is a particularly good way of being able to withstand periods of low incomes. Farms also need to find ways of lowering cash rents when periods of low prices are on the horizon.



Net Farm Incomes on a 1,200 Grain Farm Given Differing Tenure Situations and Cash Rents for Different Price Scenairos Without Insurance¹.

Price Scenario		10% Owned	100% Cash Rent		
	Corn	Soybean	30% Share Rent	\$275	\$350
Name	Price	Price	60% Cash Rent	Cash Rent	Cash Rent
	\$ per bushel		\$per farm	\$ per farm	
2012 projected	5.00	11.00	15,800	126,00	5,568
Long-run	4.50	10.50	86,500	40,900	-80,000
Low	3.50	8.20	-26,000	-91,000	-211,000
	2.00	7 00	25.000	00.000	242.000

¹ With Insurance is a Revenue Protection insurance product with an 80 percent coverage level. Projected prices are \$5.30 for corn and \$11.30 for soybeans.

Notes

Additional Resources

The slides for this presentation can be found at: http://www.farmdoc.illinois.edu/presentations/IFES_2011

Links:

Incomes More Sensitive to Price Declines on Cash Rent Farms <u>http://www.farmdocdaily.illinois.edu/2011/11/incomes more sensitive to pric.html</u> Projected Incomes Given Differing Commodity Prices <u>http://www.farmdocdaily.illinois.edu/2011/11/projected incomes given differ.html</u> 2012 Crop Budgets <u>http://www.farmdoc.illinois.edu/manage/2012_crop_budgets.pdf</u>



Crop Insurance - New Features, Programs & Performance Bruce Sherrick, Professor Department of Agricultural and Consumer Economics Email: <u>sherrick@illinois.edu</u>

The Risk Management Agency has announced several important changes to available crop insurance programs for the 2012 crop year. Among the most important changes are the approval of the Trend Adjusted APH Yield Endorsement, major base rate revisions, and updates to several technical components in the rating system. Additionally, there are a number of important new private market "Add-on" products, while other features including the BE endorsement and Monsanto's BYA program have been retired. This session is intended to improve your understanding of new programs and features, and help develop an accurate understanding crop insurance alternatives to best manage relevant risks. Additionally, tools available at the *farmdoc* website that are available to better evaluate your crop insurance options are introduced and demonstrated in this session.

Trend Adjusted APH Yield:

Beginning in 2012, the Trend Adjusted APH Yield endorsement will be available for all APH-based yield and revenue crop insurance products in the Combo policy, for all election levels, applied at a county/crop basis. The intent of the Policy Endorsement is to improve the accuracy of the estimate of future insured vields, and to allow more accurate coverage elections to be made against expected production. In simplest form, a producer's APH is the simple average of at least four and up to ten actual historic yields. The APH then serves as an estimate of future yields and the producer elects a fractional coverage of the expected yield to indemnify either expected yields or expected revenue. However, yields have increased systematically through time, and the average of the past does not generally result in an accurate estimate of the future.

The figure below shows the yields through time for corn in a county in Illinois along with a yield trend line and a time window over which the average is used to calculate an APH. The upper jagged line in the figure shows the same yields, but adjusted for the impact of trend through time. Much as a CPI inflation adjustment can be made to historic prices, historic yields can be restated in terms of their current equivalent values. The upper boxed area shows the general idea of the Trend Adjusted APH -- to average the yields that would be expected to occur given current technologies and practices as an estimate of the production potential during the insured period.



Figure 1. Corn Yields and Trend Adjustment

Example Application:

Certain eligibility requirements exist, and the trends differ by location, so you will need to discuss this with your agent to finalize all values, but an example should help understand the general effects of the Endorsement.

Assuming complete records and producer eligibility, the Endorsement adjusts each actual yield used in the calculation of the APH for the amount of time that has passed since its observation to better reflect the yield it would represent in the insured period. The example below considers a producer is in a county with a 2.0 bushel per year trend rate, 7 records in the associated APH database with a current APH average of 170 bu./acre, and complete eligibility for the TA Endorsement.

Table 1. Trend Adjustments and impacts						
I	nsurance Year	2012				
Trend Rate (bu./yr)		2.0				
Historic APH Database						
	Actual	Yield	TA			
Year	Yield	Adjustment	Yield			
2005	144	14	158			
2006	158	12	170			
2007	168	10	178			
2008	183	8	191			
2009	164	6	170			
2010	190	4	194			
2011	183	2	185			
Average	170.0		178.0			
Insurance Impacts						
Coverage	Bushels	TA	Bushels			
85%	144.50		151.3			
80%	136.00		142.4			
75%	127.50		133.5			
70%	119.00		124.6			

Notes

As shown, the effect of the endorsement is to add 2 bushels to the yield from 2011, 4 bushels to the yield from 2010, and so on to each of the records used in the calculation of the average. The Trend Adjusted APH is then calculated as the average of the adjusted yields, in this case resulting in an eight bushel increase to 178 bu./acre. Under this endorsement, a coverage election of 80% results in an increase in bushels covered from 136 to 142.4 or a 6.24 increase in effective bushels covered.

Premium impacts depend on the projected price and volatility factors that occur next Spring, but importantly, base rates per bushel will not be affected by the trend endorsement.

The *farmdoc* crop insurance section contains premium calculators, payment evaluators, and other tools to help farmers evaluate their crop insurance alternatives.

Additional Resources

The slides for this presentation can be found at: http://www.farmdoc.uiuc.edu/presentations/IFES 2011

Links to additional materials: Risk Management Agency website: http://www.rma.usda.gov/

farmdoc Crop Insurance Section: http://www.farmdoc.illinois.edu/cropins/index.asp

An Overview of Proposed Changes to Farm Policy



Nick Paulson, Assistant Professor Department of Agricultural and Consumer Economics Email: <u>npaulson@illinois.edu</u>

This session will focus on proposed changes to farm programs for the 2012 Farm Bill. Throughout the summer and fall of 2011, changes to farm programs hinged on the highly anticipated outcome of the Joint Committee on Deficit Reduction.

Commodity organizations and other advocacy groups worked to create a range of proposals for program modifications which would 1) generate contributions to deficit reduction, and 2) continue to provide a strong safety net for agriculture. While the many proposals varied, some general themes did emerge.

First, it is widely viewed (and accepted) that the income support provided through the direct payment program will likely be reduced or completely eliminated. Second, most proposals included some sort of revenue-based program which could potentially replace some of the other commodity programs (i.e. countercyclical payments and ACRE).

This session will examine the potential implications of these two main changes to farm programs, while also discussing a number of the other proposed changes to other programs within the Farm Bill. Notable examples include the programs under the umbrellas of the Conservation and Nutrition titles, as well as issues such as payment limits and income limitations for payment eligibility.

The elimination of the direct payment program will have varying impacts on producers in different regions of the country. In Illinois and throughout the Corn Belt regions, direct payments average around \$20 per acre due to the high percentage of base acres allocated to corn and soybeans. Direct payments are much higher in the southwest and southeast regions where cotton and rice base acres are predominant, whereas direct payment support is lower in the Great Plains regions due to higher percentages of base acreage in wheat. The elimination of direct payments will reduce the revenues associated with crop production, and could impact the rental rates and values associated with farmland.

The modified revenue-based programs in existing proposals range from designs which could result in very large payments in the vent of systemic losses (i.e. "deep loss" programs) to those which would augment crop insurance coverage by providing capped payments "shallow" covering revenue losses. Furthermore, compared to the current ACRE program, proposed changes would base revenue coverage on different price and/or vield measures. This session will review the range of programs being proposed and discuss their potential impacts in Illinois relative to existing programs.

With the failure of the "Super Committee" to reach a consensus by the November 2011 deadline, the debate surrounding the writing of the Farm Bill will likely be extended well into 2012. Thus, while the range of proposals offered by commodity groups and the recommendations from the Senate Agriculture Committee can provide guidance as to expected changes to farm programs, discussion and analysis of farm programs will remain highly speculative over the coming months.



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Notes

Additional Resources

The slides for this presentation can be found at: http://www.farmdoc.illinois.edu/presentations/IFES 2011

Additional Resources Shields, D.A. and R. Schnepf. 2011. Farm Safety Net Proposals for the 2012 Farm Bill. Congressional Research Service. Available online at: http://farmpolicy.com/wp-content/uploads/2011/11/R42040-111011.pdf

Recommendations to the Joint Select Committee on Deficit Reduction. United State Senate Committee on Agriculture, Nutrition, & Forestry. U.S. Senator Debbie Stabenow, Chairwoman. Available online at: http://www.agweb.com/assets/1/6/supercommittee%20farmbill%20reccomendations.pdf