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STATE SENATOR • 17TH SENATE DISTRICT

Capitol Update By Senator Howard Marklein January 29, 2016

Ag Economics Help Farm Families Plan for the Future

Each year, I enjoy attending the Ag Economic Outlook Forum that is hosted by the Renk Agribusiness Institute at the UW College of Agriculture and Life Sciences. This forum offers a deep, interesting analysis of the Wisconsin farm economy and forecasts for the future of agriculture over the next several years. If you would like to review the data, information and ideas presented, please visit: <http://www.aae.wisc.edu/renk/index.asp>

Overall, there wasn't much good news from the analysis or forecast. Wisconsin net farm earnings fell nearly \$1.6 billion from 2014 to 2015. This swing is attributed, primarily, to milk sales, which were down a similar amount. However, Wisconsin farms are in a good position to manage slow economies. Farm balance sheets are in good condition, despite the downturn in 2015 net income.

The equity-to-asset ratio has stayed close to 87% for the past several years which keeps Wisconsin farms in a strong financial position. According to the leadership of the forum, only 13% of farm assets in Wisconsin are being financed with debt, leaving significant collateral for farmers to use to seek loans and financing in the future.

The 2015 slump in net farm income in Wisconsin has had an impact on farm liquidity, which is the ability of a farm to meet financial obligations as they come due as well as to generate cash to pay family living expenses, income taxes, and make debt payments on time. The liquidity of farms has slipped a bit, according to the analysis shared at the forum. The analysts believe that a decrease of \$3.3 billion in net working capital is an indicator that farmers have been drawing down cash reserves and this is a concern as we face a tough economy.

However, I know that Wisconsin farmers are intelligent and strategic. We will take the best information we have to make good, thoughtful decisions while planning for the immediate future and years to come.

The Economic Forum provides us with an abundant amount of data. As your State Senator, I have attempted to digest the data presented to provide you with a quick snapshot of the 181 pages of information we received at the Forum. This information is important for everyone in the 17th Senate District since the vast majority of our communities depend on agriculture as a predominant industry.

According to Bruce Jones, Director of the Renk Agribusiness Institute, overall farm income for 2015 was down by \$1.6 billion over 2014's results. Unfortunately, the United States Department of Agriculture (USDA) significantly overestimated Wisconsin agricultural net income for 2014 by 37%. They were off, in their initial projections, by \$1.5 billion.

Despite the incorrect forecasts, the productivity of American agriculture continues to advance, with improvements in technology and genetics. While the improved productivity benefits American food consumers, it also puts pressure on agriculture to expand our exports. We produce far more than Americans can consume. We must export!

Unfortunately, the export market had significant head winds in 2015. The strength of our dollar put the price of our exports at a competitive disadvantage compared to our foreign agricultural competitors. For example, Brazilian corn enjoys a 40% price advantage compared to American corn, based solely on the strength of the dollar.

What is the Outlook for 2016?

Dairy - The dairy industry is the largest segment of Wisconsin agriculture. Our dairy output in Wisconsin grew by approximately 4% in 2015. Our per cow milk production exceeded California's cows for the first time in at least 60 years. The dairy industry continues to shift from the southwest United States to the Midwest. The shift is being driven by a combination of the historic drought in California and the higher cost of feed in California compared to Wisconsin.

While productivity improved for Wisconsin dairy farmers in 2015, overall exports for the industry declined from 16% of production to 14%. Some economists expect our dollar's strength to continue. Consequently, the dairy experts project a drop of \$.60/100 #'s of milk for Class III milk in 2016.

Corn and Soybeans - On the production front, both of these grains had strong years in 2015. For corn, we had very good yields, resulting in record production. However, demand for our corn is down. Consequently, we have the highest carry-over of corn on record. Again, we need to export!

A potential bright spot for corn is the increasing demand for feed for our livestock and poultry. The corn price at harvest in 2016 is projected to be \$3.60/bushel, possibly as low as \$2.91/bushel. The cost of production for corn last year is estimated at \$4.43/bushel.

Soybeans have a similar story. We had record soybean production in 2015. We also have record soybean carryover. And our competitors? Brazil also had record production. Consequently, the 2016 harvest price is going to be down, and could be as low as \$7.46-\$8.50/bushel. The cost of production for soybeans is approximately \$10.94/bushel.

Beef – I am proud that the largest beef producing counties in Wisconsin are located in the 17th Senate District. The beef herd continues to grow. While the outlook for beef is generally positive, beef competes with other protein options such as pork and poultry. Like so many of our foods, domestic beef demand will largely depend on the economic strength of American consumers.

Hogs - Our hog numbers are increasing. Production costs are decreasing. There will be an abundance of pork, which will limit any upward price movement.

Strategies for 2016

Based on the information shared at the Forum, farmers will be challenged to focus on cutting costs and marketing to overcome economic obstacles in 2016.

Cutting Costs - In order to cut costs, farms will seek ways to manage resources, repair rather than replace and negotiate for better prices. One of the main ways recommended by the Forum to control costs is to renegotiate rent prices for the land we farm. Farmland rentals increased 8.34% per year between 2007-2014. This major increase must even out or turn the other direction if our farmers are to overcome the economics we are facing.

Marketing - Farmers are innovative. Farmers are survivors. We need to find new marketing opportunities for our agricultural production. What worked in the past may not work as well in this competitive landscape.

Overall, farmers are eternal optimists. They are in the business for the long haul. They understand the business cycles of agriculture and know how to manage in good times and bad.

I am proud to represent the 17th Senate District, which has more agriculture than any other senate district in Wisconsin. The strength of our agricultural community is vital to the strength of our small rural communities. The next time you see a farmer, say “thank you”!

Again, the Ag Economic Outlook Forum is a deep dive into agricultural economics. While some of the news is frustrating, the analysts encouraged Wisconsin farmers to be creative and strategic as they plan for the next year. I am confident that the farmers in the 17th Senate District will persist in 2016.

For more information and to connect with me, visit my website <http://legis.wisconsin.gov/senate/17/marklein> and subscribe to my weekly E-Update by sending an email to Sen.Marklein@legis.wisconsin.gov. Do not hesitate to call 800-978-8008 if you have input, ideas or need assistance with any state-related matters.