



@FBMarketIntel

A Farm Economic and Policy Update



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**Text Questions Anytime to:
(502) 255-2881**





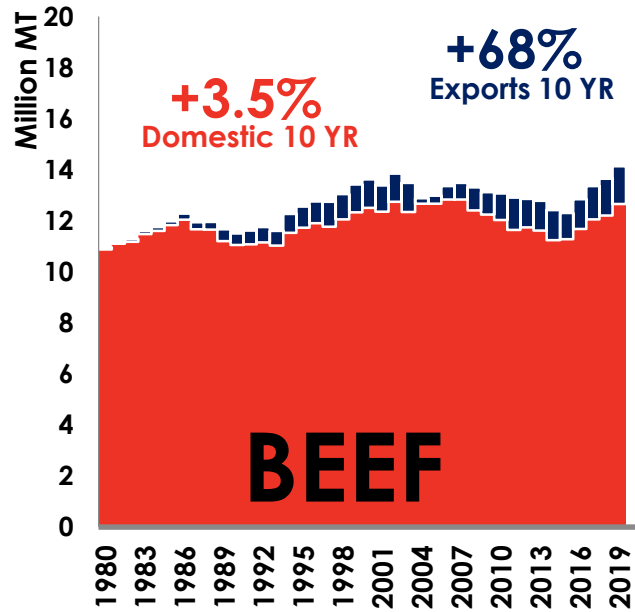
MICHAEL NEPVEUX
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LIVESTOCK MARKET HIGHLIGHTS

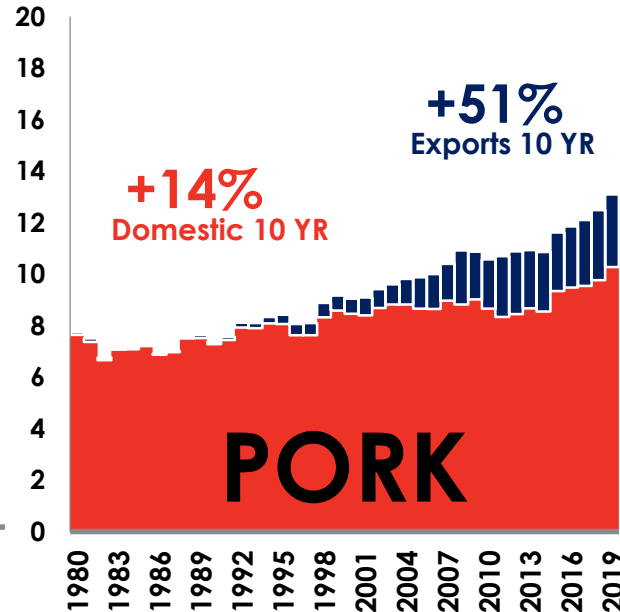
CATTLE, HOG, POULTRY & DAIRY



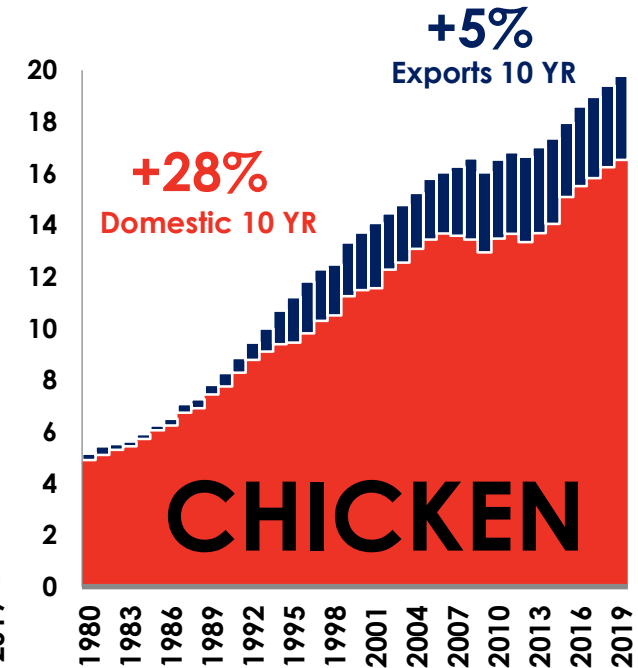
Domestic and Export Use of Animal Proteins



Exports = **12%** of Production



Exports = **22%** of Production



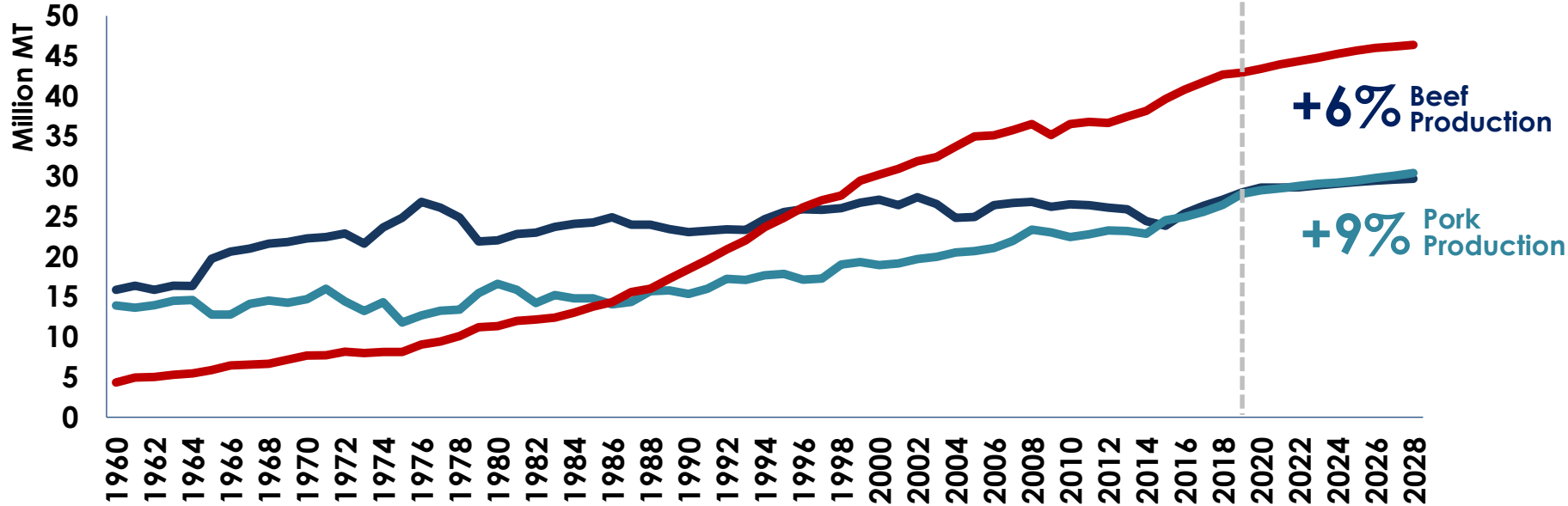
Exports = **16%** of Production

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Expansion in U.S. Meat Sector to Meet Demand

Animal Product Production

10 Year Growth Forecast



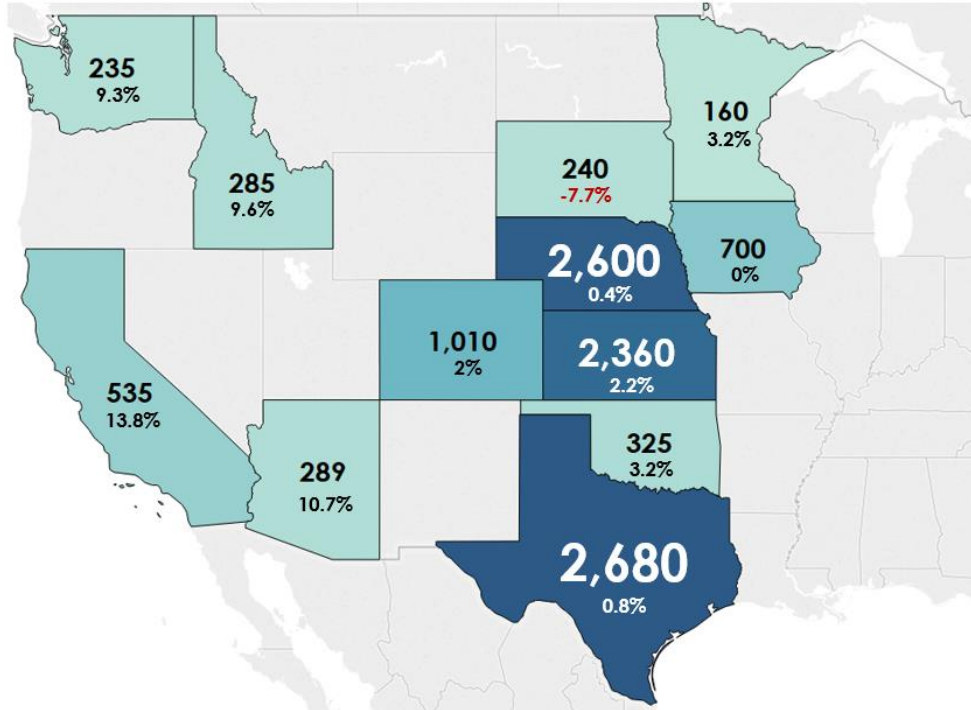
Beef, Pork, Dairy and Poultry Production in 2019 Expected to be Record-High

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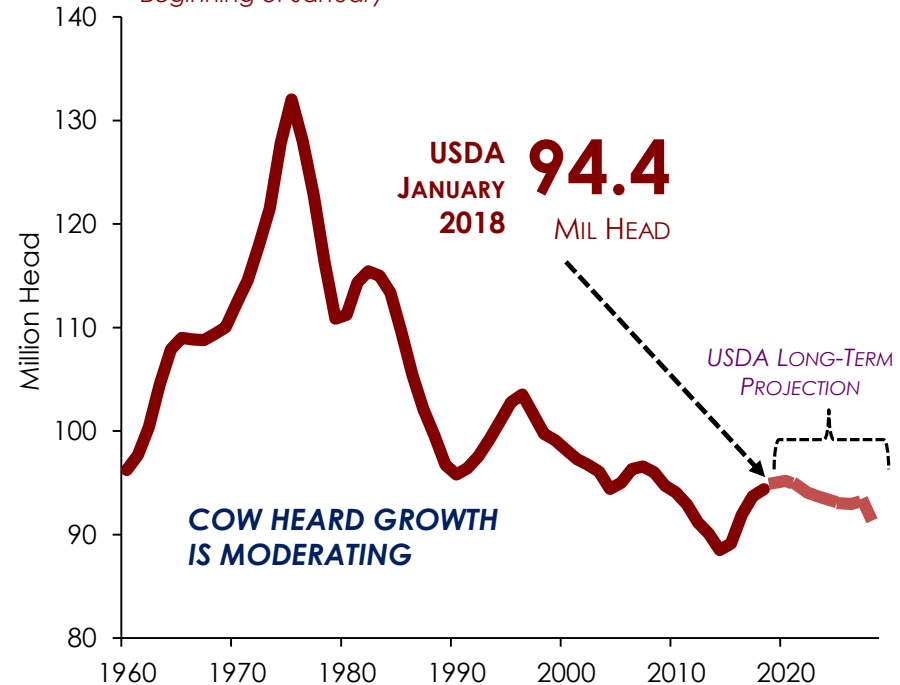
Expansionary Cycle in Cattle Sector Moderating

December 2018
Cattle on Feed **11,739,000** Head

1,000 Head of Cattle and YOY % Change



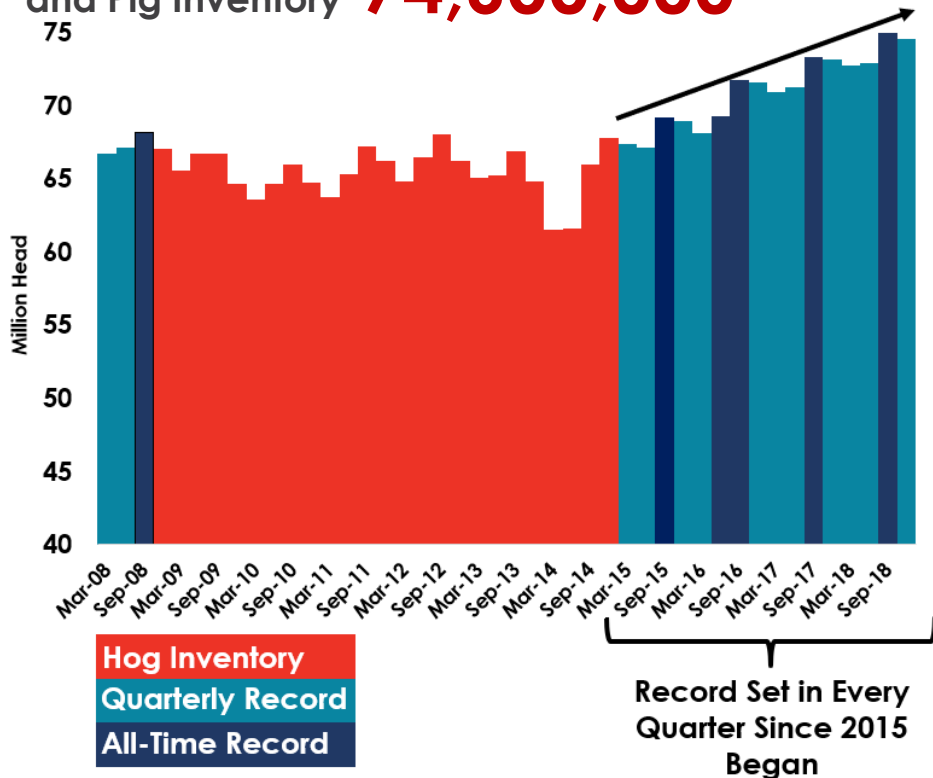
Cattle, Including Calves, U.S. Inventory
Beginning of January



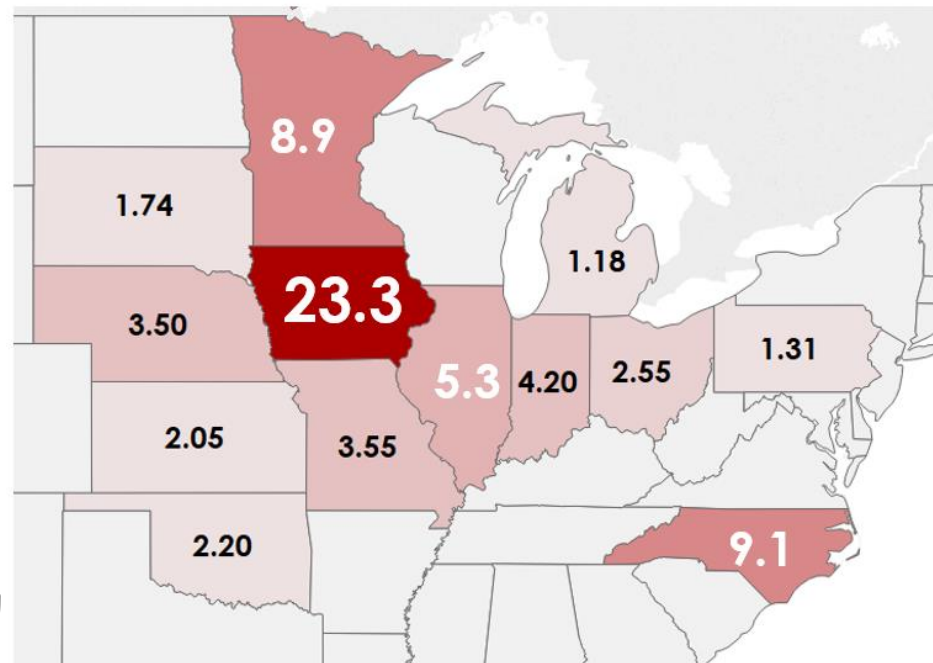
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Hogs

December Hog and Pig Inventory **74,600,000**



Numbers in Million Head

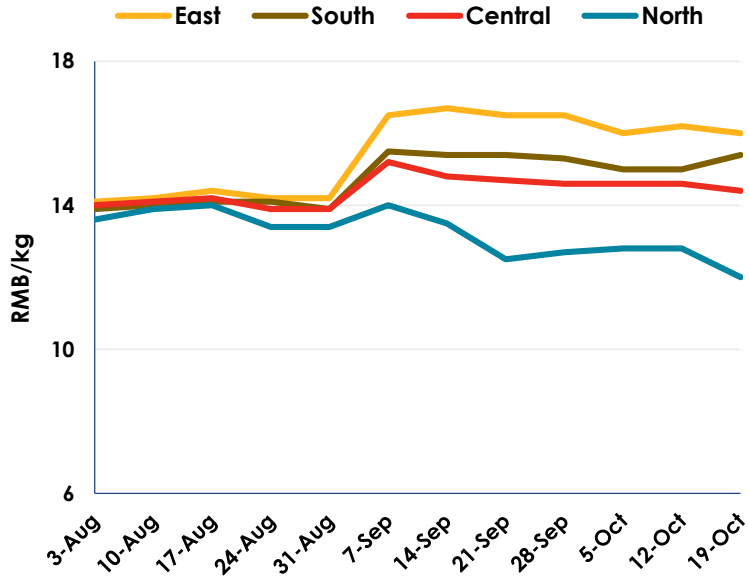


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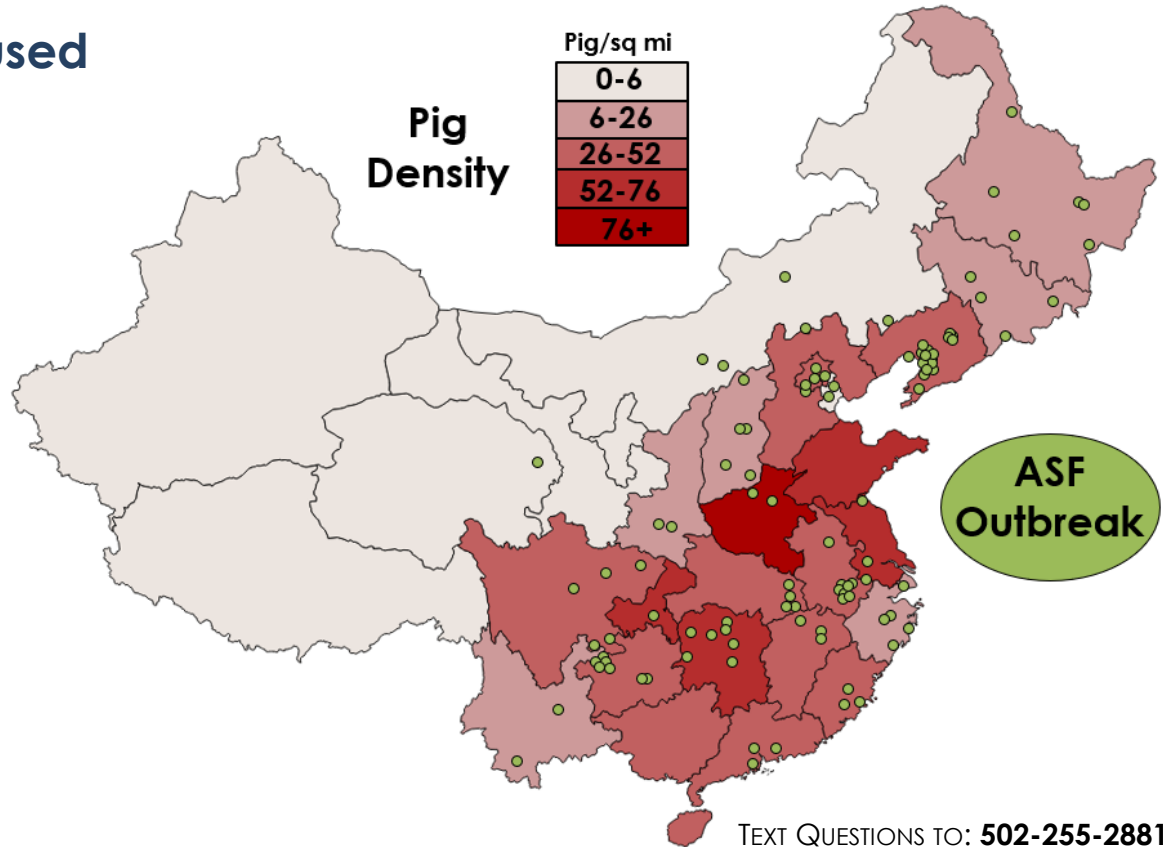
African Swine Fever is Spreading in China

Transport ban on provinces caused supply/demand imbalance

Regional Hog Prices in China



Source: Global AgriTrends, JCI



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Poultry

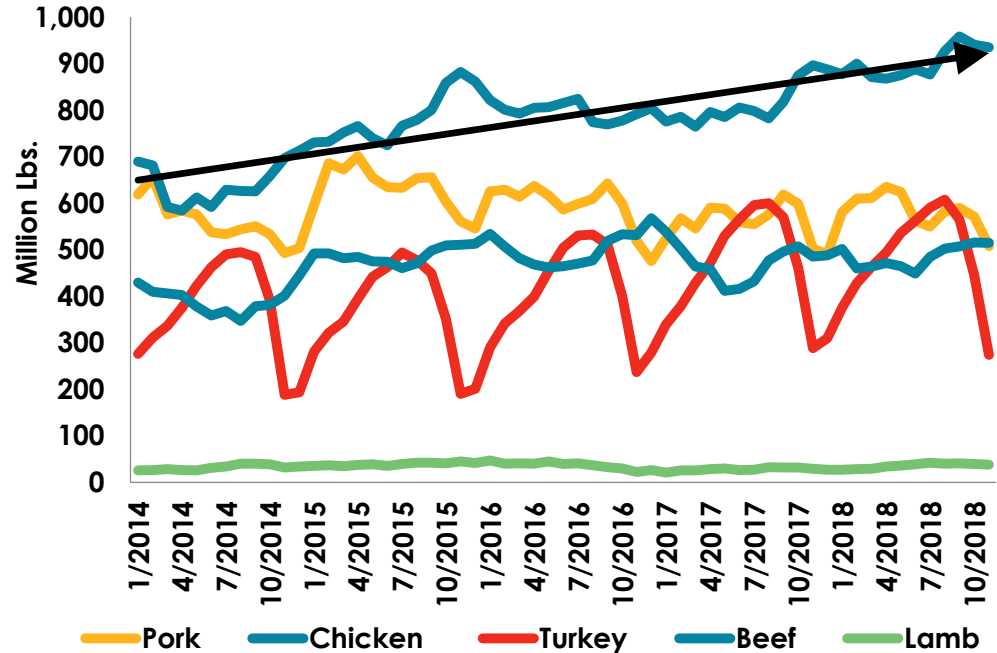
Landscape in 2019

U.S. Rebalancing Needed in Oversupply Market

Low Domestic Prices with High Cold Storage Levels

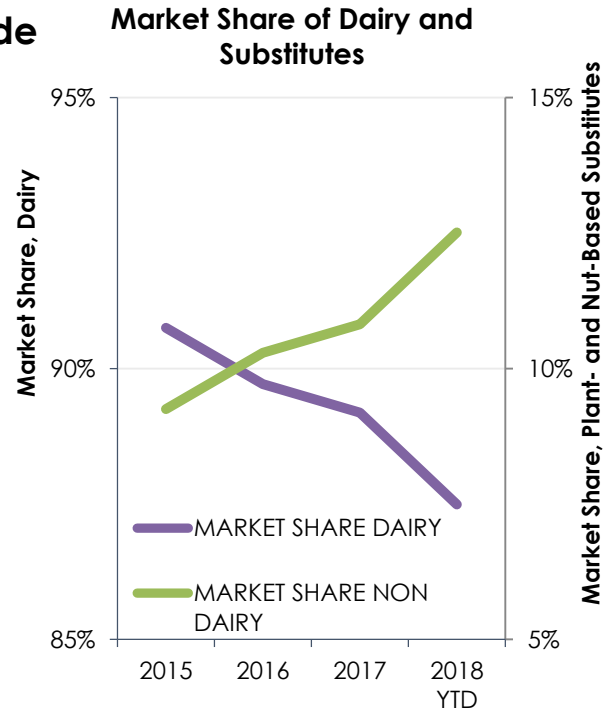
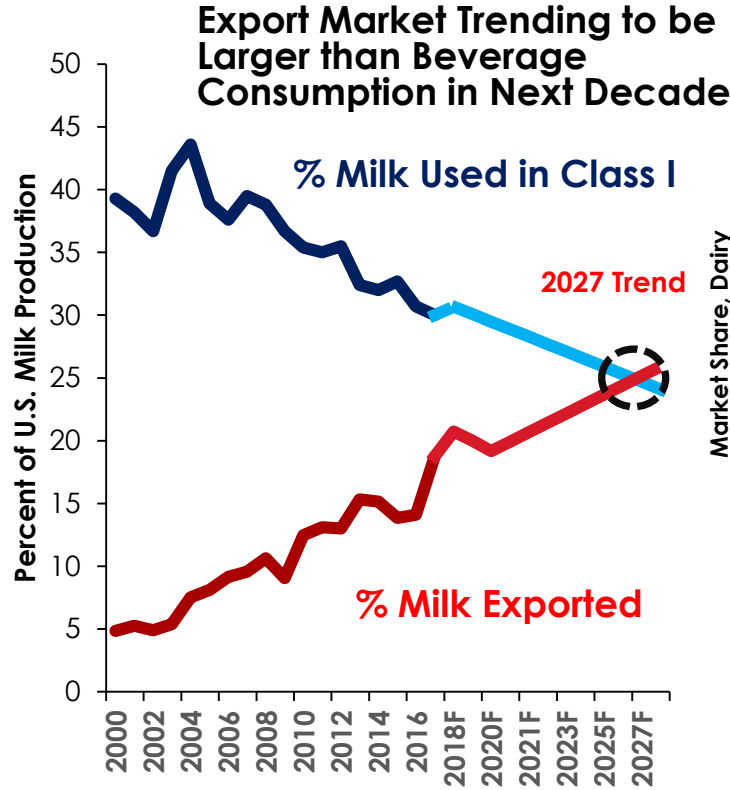
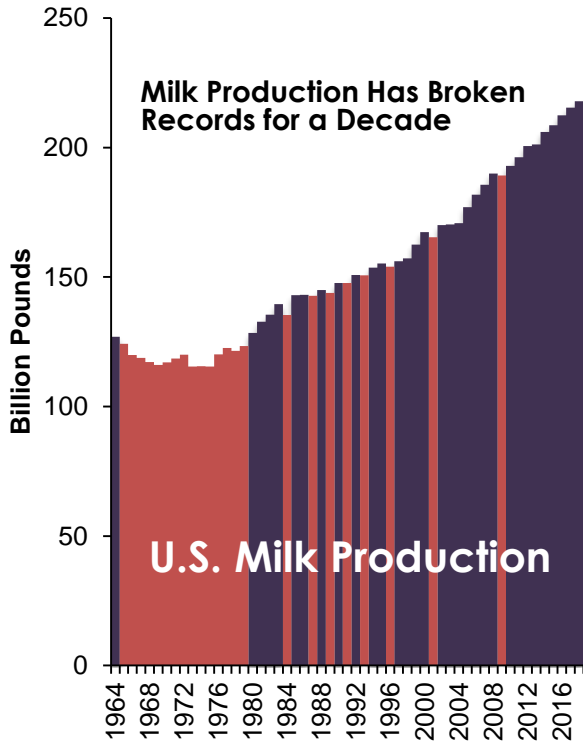
Chinese Market Likely to Tighten Later in Year

Chicken Continues Upward Trajectory in Cold Storage Buildup



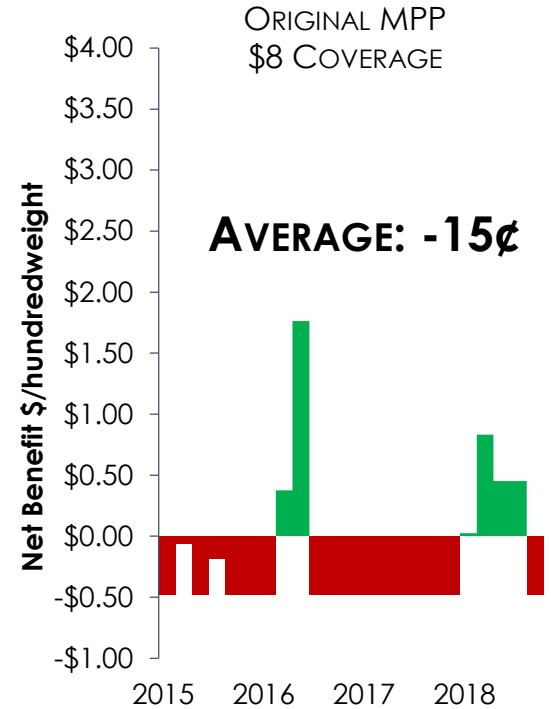
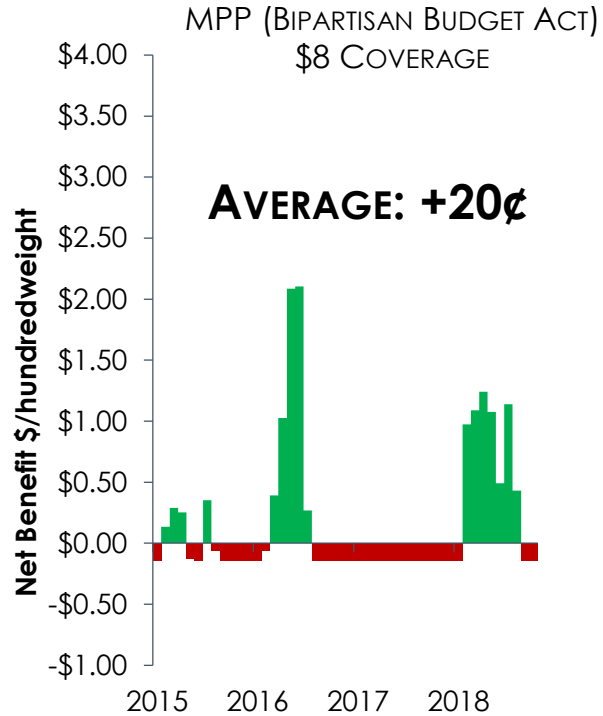
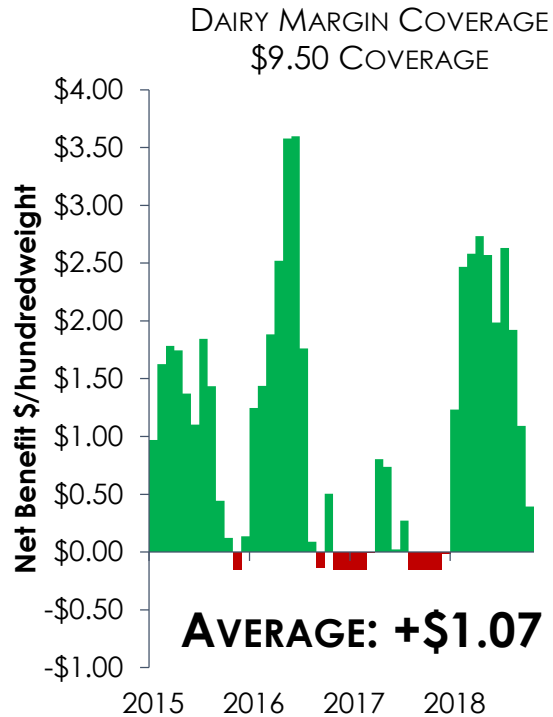
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Increasing Production and Competition in the Dairy Case



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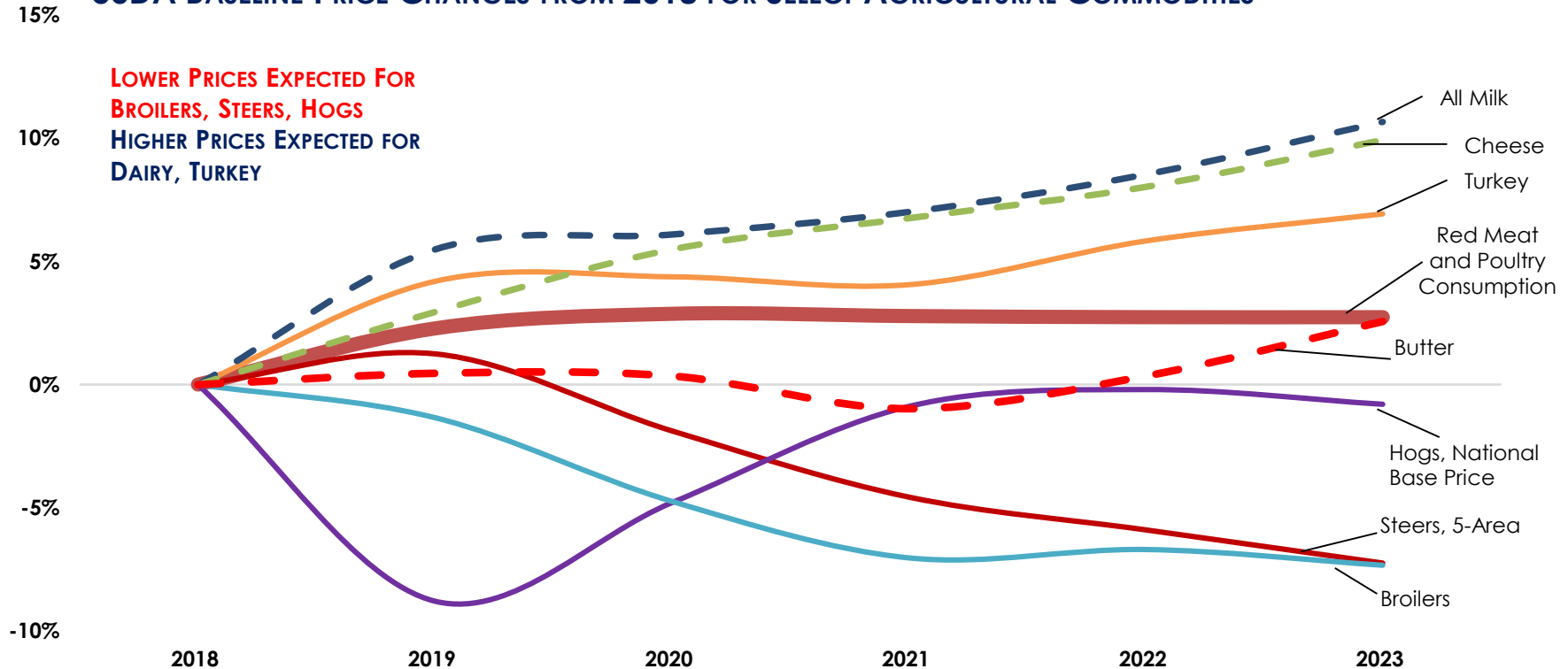
Substantial Improvements from MPP to DMC



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Where Are Farm Prices Headed Over The Next Five Years?

USDA BASELINE PRICE CHANGES FROM 2018 FOR SELECT AGRICULTURAL COMMODITIES



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MEGAN NELSON
ECONOMIC ANALYST

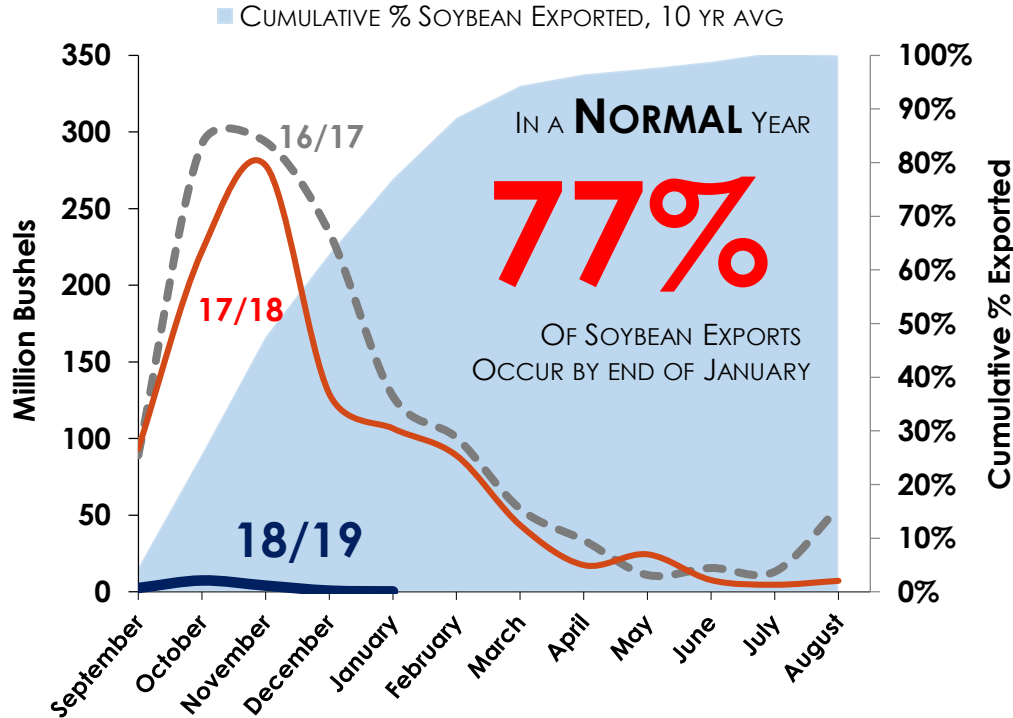
CROP MARKET HIGHLIGHTS

SOYBEANS, CORN, WHEAT & COTTON

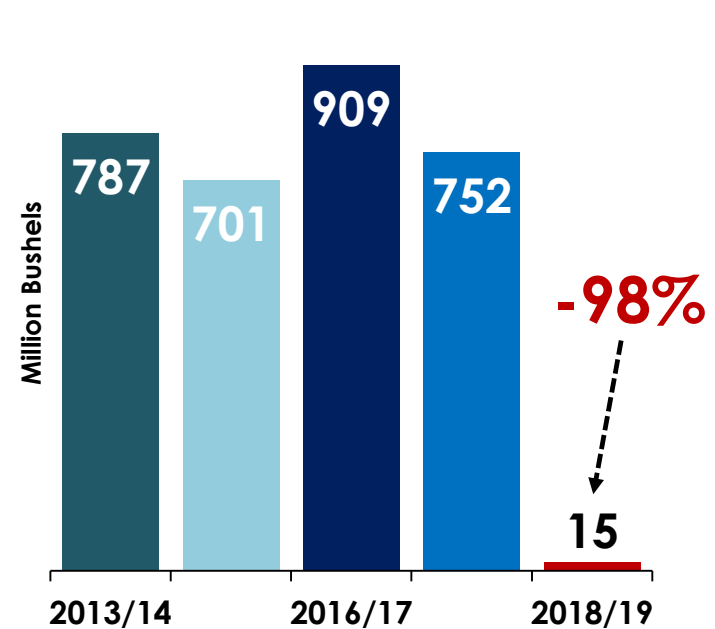


U.S. Soybean Exports Down 42% YTD

Historical Soybean Export Pace













Cumulative Soybean Exports to China First 19 Weeks of Marketing Year



Source: USDA FGIS, Farm Bureau Calculations

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Outlook for U.S. Soybeans

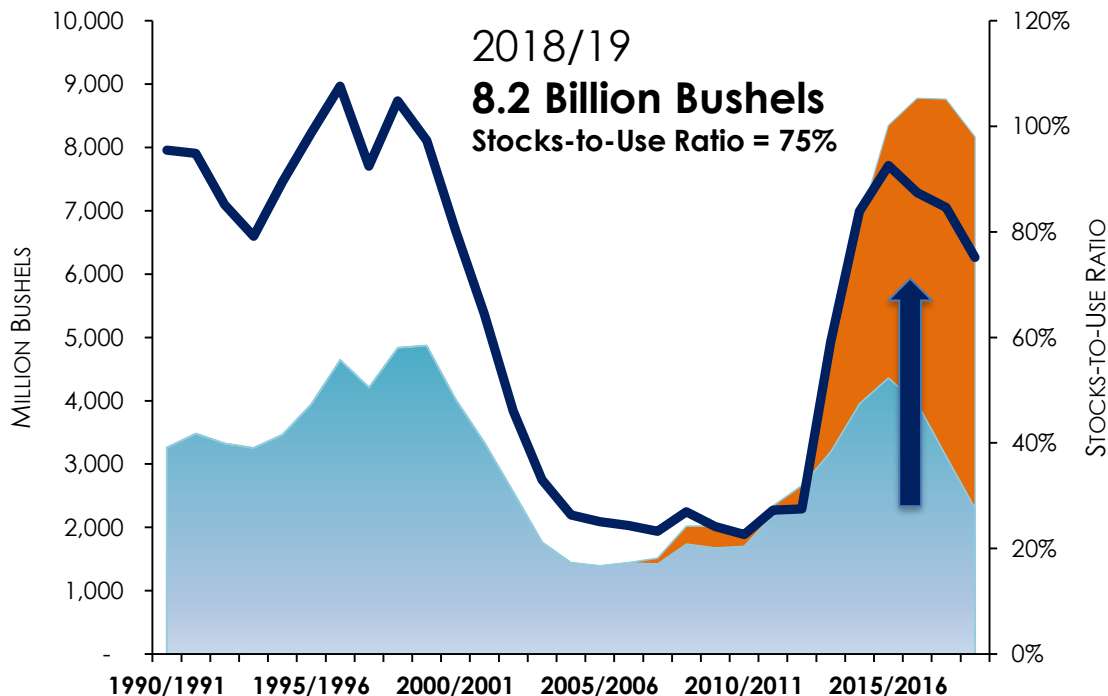
	2016/17	2017/18	2018/19	2019/20		YoY Change
Area Planted (million acres)	83.4	90.1	89.1	82.5		-7.4%
Area Harvested (million acres)	82.7	89.5	88.3	81.8		-7.4%
Yield (bushels per harvested acre)	52.0	49.3	52.1	50.0		-4.0%
Production (million bushels)	4,296	4,411	4,600	4,090		-11.1%
Crushings (million bushels)	1,901	2,055	2,080	2,075		-0.2%
Exports (million bushels)	2,166	2,129	1,900	2,075		9.2%
Total Use (million bushels)	4,214	4,296	4,107	4,277		4.1%
Ending Stocks (million bushels)	302	438	955	723		-24.3%
Stocks-to-Use	7%	10%	23%	17%		-27.3%
Price (dollars per bushel)	\$ 9.47	\$ 9.33	\$ 8.60	\$ 8.75		1.7%

Source: USDA WASDE and OCE Long-Term Agricultural Projections for 2019/20

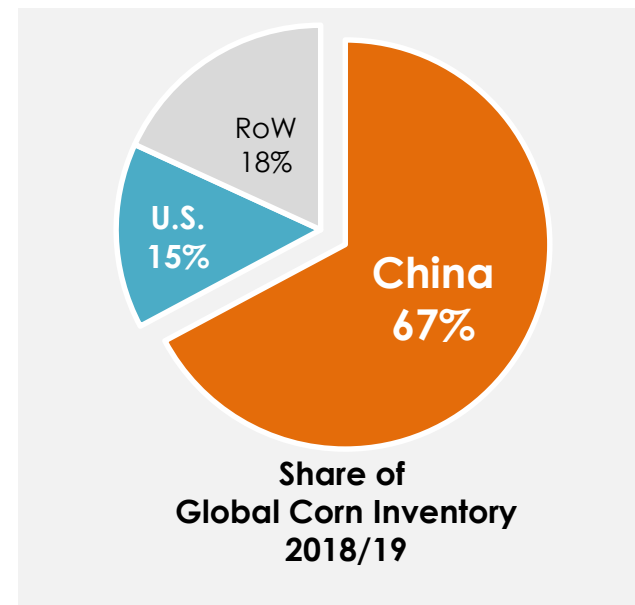
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China = Major Revisions to Global Corn Production & Inventories

CHINESE CORN STOCK CHANGES AND STOCKS-TO-USE RATIO



China's Revision Resulted in
USDA Raising Global
Stockpiles 106% from 5.8
Billion to 12.2 Billion Bushels



Source: China National Bureau of Statistics and USDA

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Outlook for U.S. Corn

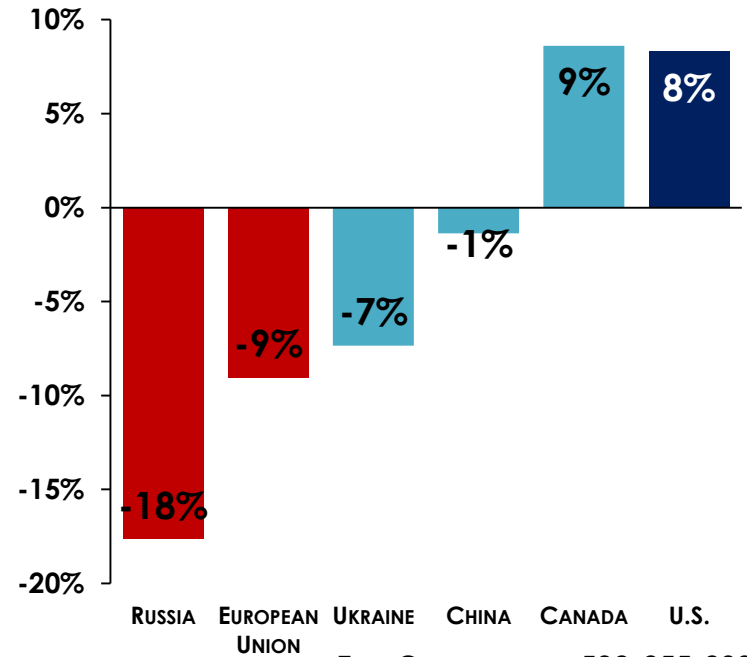
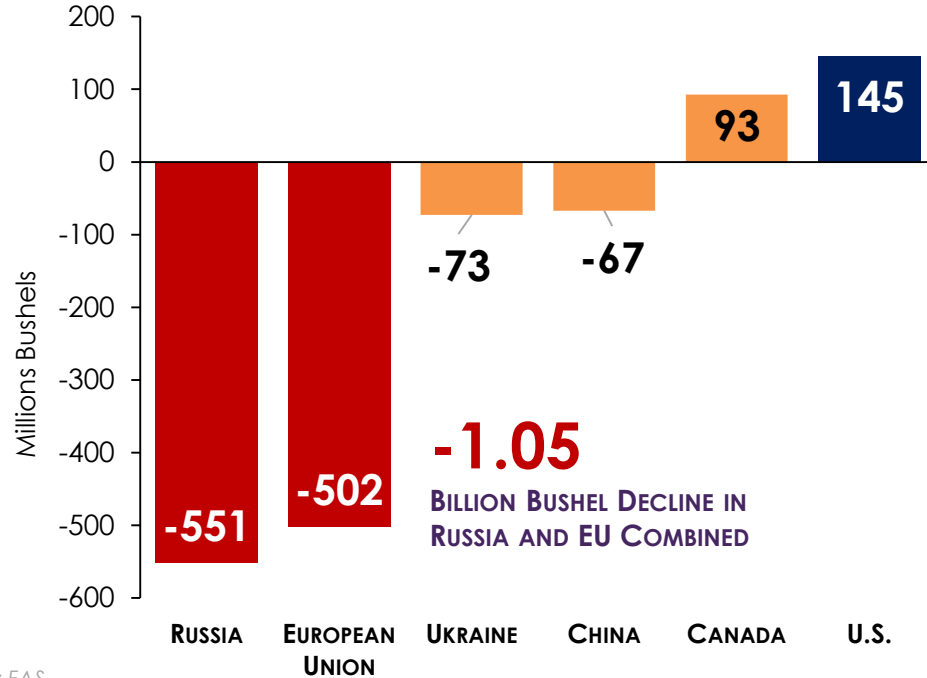
	2016/17	2017/18	2018/19	2019/20	YoY Change
Area Planted (million acres)	94.0	90.2	89.1	92.0	3.3%
Area Harvested (million acres)	86.7	82.7	81.8	84.6	3.4%
Yield (bushels per harvested acre)	174.6	176.6	178.9	176.5	-1.3%
Production (million bushels)	15,148	14,604	14,626	14,930	2.1%
Feed (million bushels)	5,470	5,298	5,500	5,575	1.4%
Ethanol (million bushels)	5,432	5,605	5,600	5,700	1.8%
Exports (million bushels)	2,294	2,438	2,450	2,425	-1.0%
Total Use (million bushels)	14,649	14,793	15,030	15,190	1.1%
Ending Stocks (million bushels)	2,293	2,140	1,781	1,603	-10.0%
Stocks-to-Use	16%	14%	12%	11%	-10.9%
Price (dollars per bushel)	\$ 3.36	\$ 3.36	\$ 3.60	\$ 3.90	8.3%

Source: USDA WASDE and OCE Long-Term Agricultural Projections for 2019/20

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Global Wheat Production Drops 1 Billion Bushels, -4% YoY

YEAR OVER YEAR CHANGE IN WHEAT PRODUCTION 2017/18 TO 2018/19 FOR SELECT COUNTRIES



Source: FAS

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Outlook for U.S. Wheat

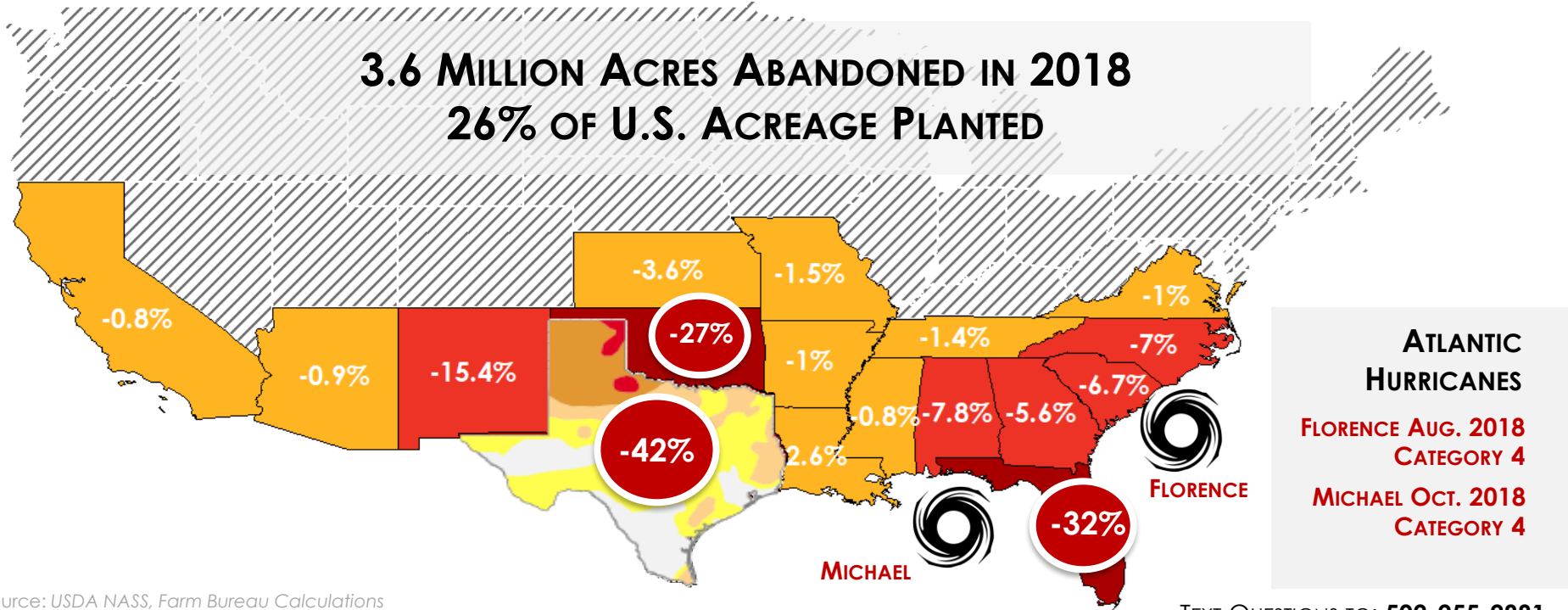
	2016/17	2017/18	2018/19	2019/20	YoY Change
Area Planted (million acres)	50.1	46.0	47.8	51.0	6.7%
Area Harvested (million acres)	43.9	37.5	39.6	43.1	8.8%
Yield (bushels per harvested acre)	52.7	46.3	47.6	47.8	0.4%
Production (million bushels)	2,309	1,740	1,884	2,060	9.3%
Food (million bushels)	949	964	970	975	0.5%
Exports (million bushels)	1,051	901	1,025	1,050	2.4%
Total Use (million bushels)	2,222	1,979	2,174	2,213	1.8%
Ending Stocks	1,181	1,099	974	933	-4.2%
Stocks-to-Use	53%	56%	45%	42%	-5.9%
Price (dollars per bushel)	\$ 3.89	\$ 4.72	\$ 5.15	\$ 5.20	1.0%

Source: USDA WASDE and OCE Long-Term Agricultural Projections for 2019/20

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Adverse Weather Leads to High Cotton Abandonment Rate











PERCENT CHANGE IN HARVESTED AND PLANTED COTTON ACRES IN 2018



Source: USDA NASS, Farm Bureau Calculations

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Outlook for U.S. Cotton

	2016/17	2017/18	2018/19	2019/20		YoY Change
Area Planted (million acres)	10.1	12.6	14.0	13.5		-3.8%
Area Harvested (million acres)	9.5	11.1	10.4	12.1		16.7%
Yield (pounds per harvested acre)	867.0	905.0	860.0	850.0		-1.2%
Production (million bales)	17.17	20.92	18.59	21.40		15.1%
Domestic Use (million bales)	3.25	3.23	3.30	3.40		3.0%
Exports (million bales)	14.92	15.85	15.00	16.50		10.0%
Total Use (million bales)	18.17	19.07	18.30	19.90		8.7%
Ending Stocks (million bales)	2.75	4.30	4.40	6.2		40.0%
Stocks-to-Use	15%	23%	24%	31%		28.7%
Price (dollars per bushel)	\$ 0.68	\$ 0.69	\$ 0.74	\$ 0.70		-5.4%

Source: USDA WASDE and OCE Long-Term Agricultural Projections for 2019/20

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Crops: What to Watch For

Soybeans – Lower soybean exports would further increase what is expected to be a record soybean carryout in 2018/19 – potentially pushing prices even lower.

Corn – Acreage shift from soybeans to corn in 2019 is expected. Consumption is expected to remain strong and offer support to prices.

Wheat – Adverse weather impacted European and Russian yields pushing global production back by 1 billion bushels. U.S. prices were higher and will contribute to increased wheat acreage in 2019.

Cotton – Reduction in Chinese stocks contributed to lower global inventories, strong exports & adverse weather in U.S. reduced crop size relative to expectation leading to higher prices for cotton. Low milk prices likely to weight on cottonseed prices. **Cotton is back in Farm Bill.**

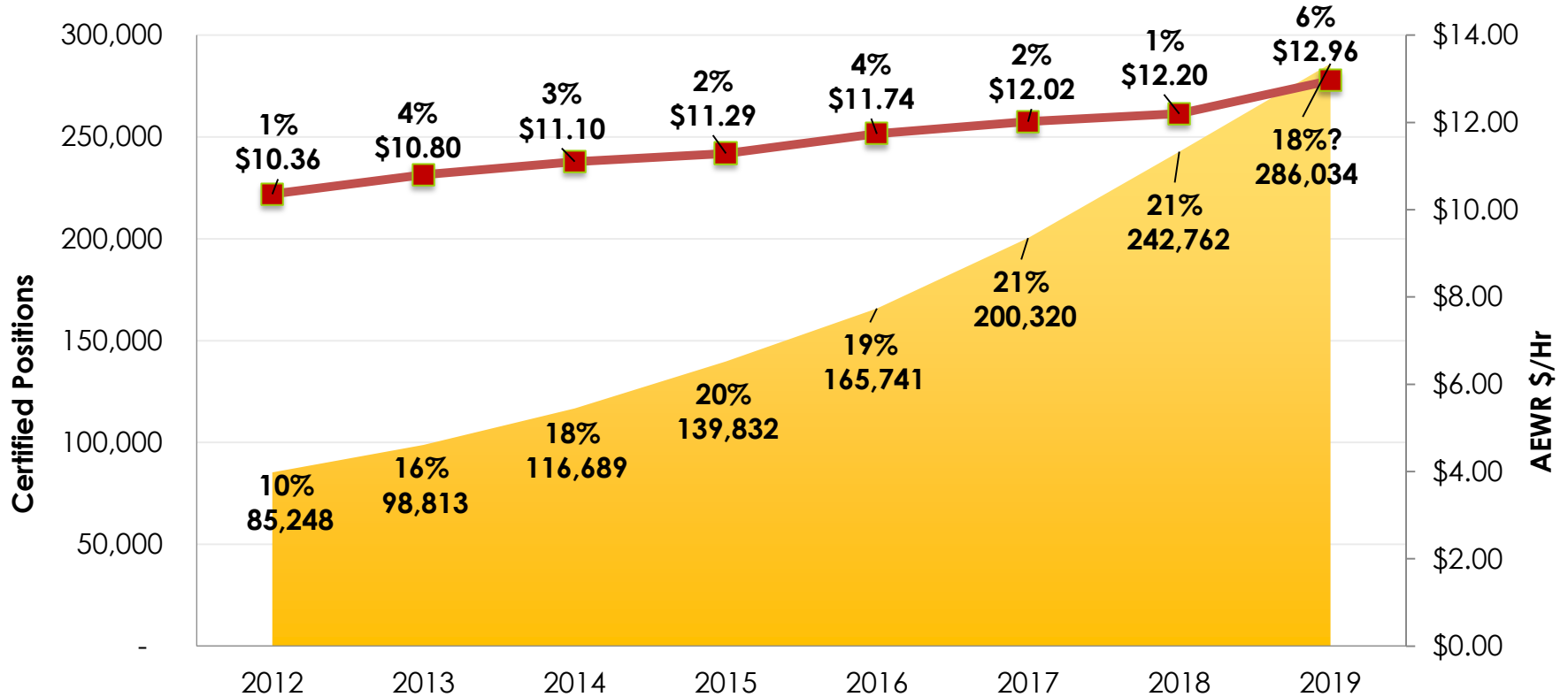


VERONICA NIGH
ECONOMIST

TRADE, LABOR AND TAX POLICY UPDATE



H-2A Program Certified Positions and National AEW



Source: DOL

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H-2A Here to Stay

More Farms Relying on H-2A



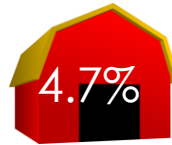
2018



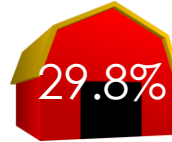
2019



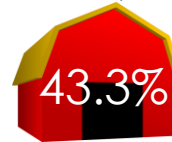
Share of Farms By Size Utilizing H-2A



SMALL FARMS
LESS THAN 100 ACRES

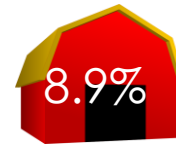


MEDIUM FARMS
100 TO 1,000 ACRES

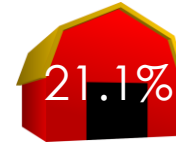


LARGE FARMS
MORE THAN 1,000 ACRES

Farms Not Currently Using H-2A That Plan to Within the Next Two Years



SMALL FARMS
LESS THAN 100 ACRES



MEDIUM FARMS
100 TO 1,000 ACRES



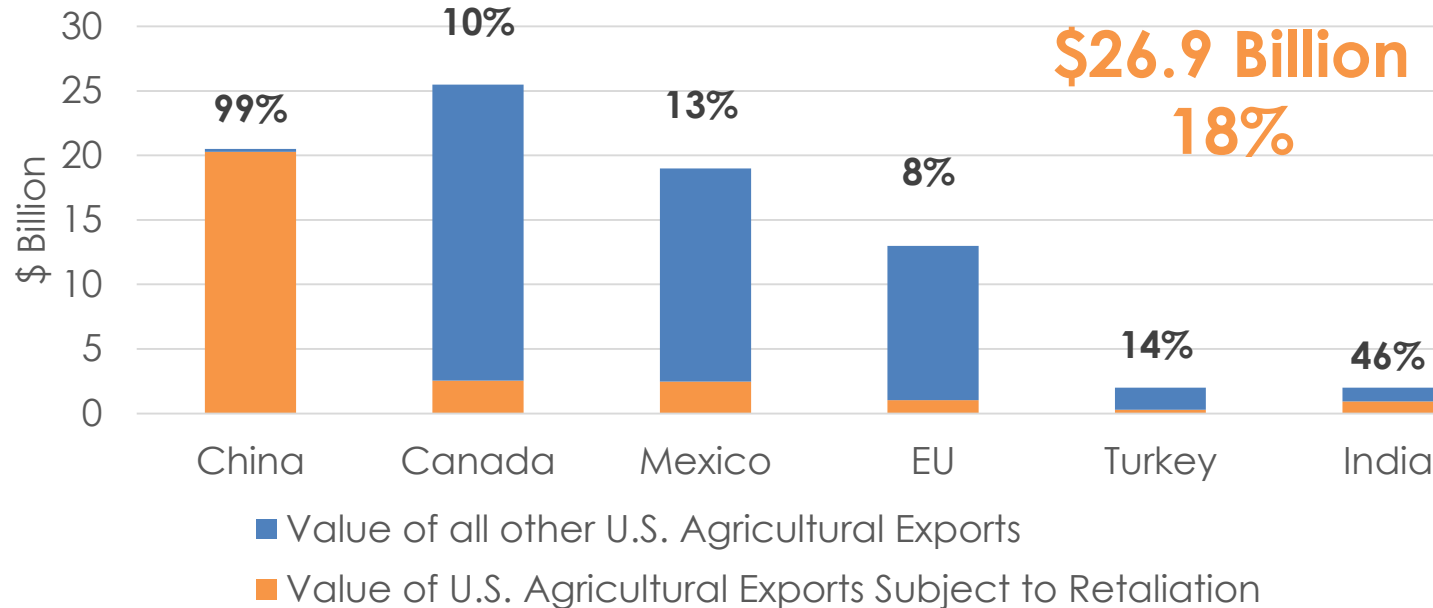
LARGE FARMS
MORE THAN 1,000 ACRES

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Source: Vegetable Grower Magazine

Tariffs Will Continue to have Varying Impact

Value and Share of Retaliatory Tariffs on U.S. Agricultural Products, CY2017

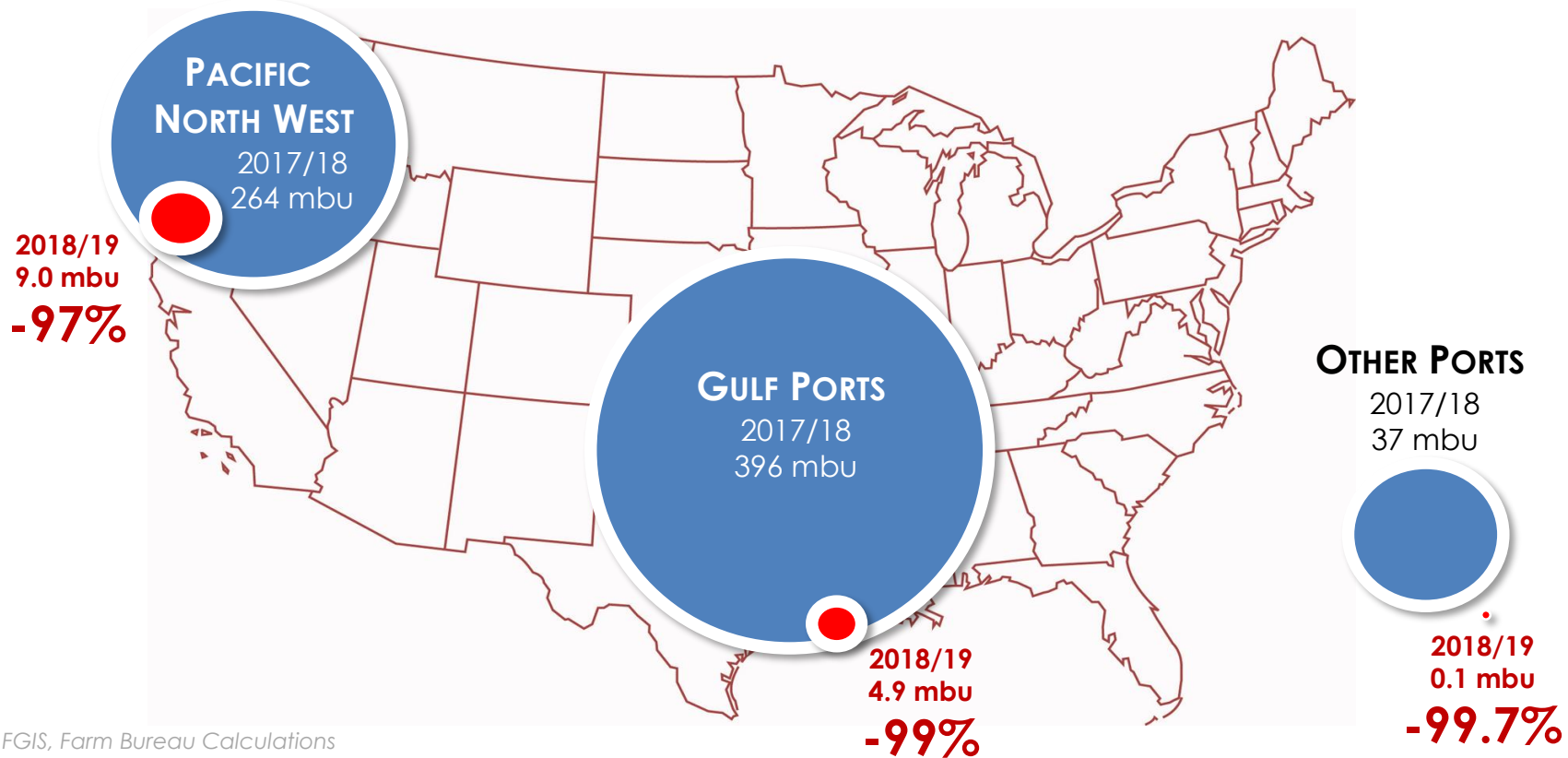


Commodities for which U.S. exports to the retaliating countries represent **30% or more** of its total exports include **soybeans, sorghum, pork, cheese, apples, cherries, seafood, ginseng, whiskey, and some processed foods.**

Source: USDA FAS GATS

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China Soybean Exports Down 98%, Impact on Gulf and PNW



Source: USDA FGIS, Farm Bureau Calculations

Tax Reform – the Corporate Story

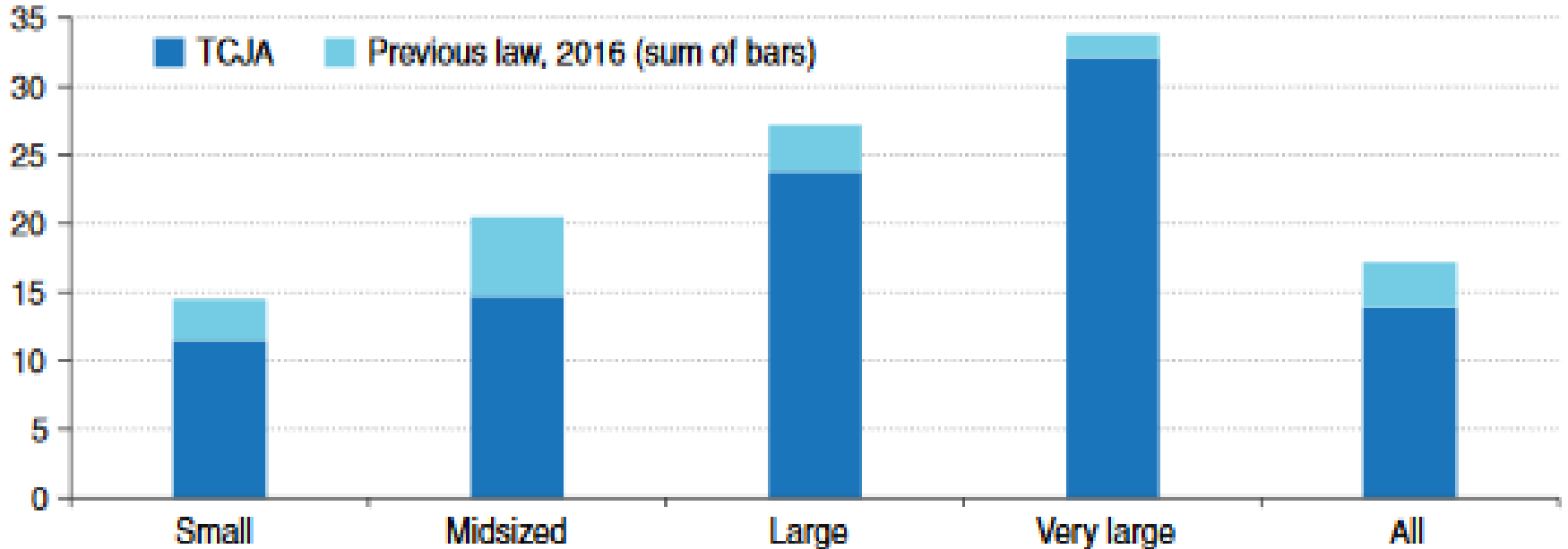
- Four ways the corporate tax cut from 35% to 21% could have increased economic growth
 - Pay Workers More
 - Increase dividends and/or buy back shares
 - Boost capital expenditures
 - Make more acquisitions

Tax Reform –the Corporate Story

- Corporations wrote down their deferred tax liabilities to reflect the new U.S. corporate tax rates.
- The tax overhaul was a one-off boost to earnings, whereas politicians were selling it as transformational.
- Companies have also been spending on buybacks
- The overall effect of companies protecting profits and doing buybacks helped drive the S&P 500 to a record high in early September, only for it to sell off amid trade tensions and recession worries.

Tax Reform – Our Story

- The farm average effective tax rate would have been reduced by 3.3% in 2016.



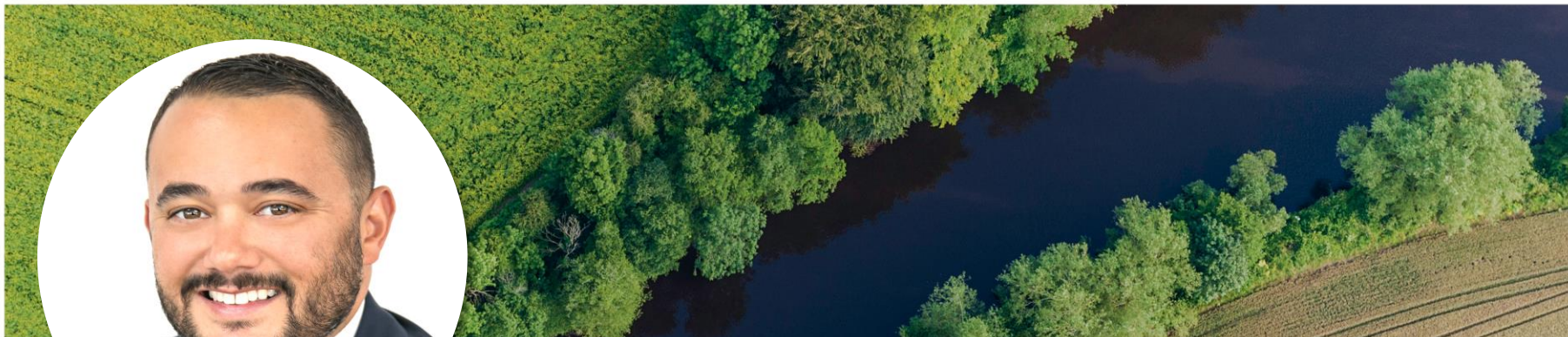
Major Individual Provisions in TCJA (Expire After 2025)

- Reduced Individual Tax Rates & Expanded Brackets
- New 20% Business Income Deduction (Sect. 199A)
- Unlimited Bonus Depreciation (Expensing)
- Doubled Estate Tax Exemption of \$11 million person
- Increased AMT Threshold for Individuals

But, Can You Use It? For Many, Yes.

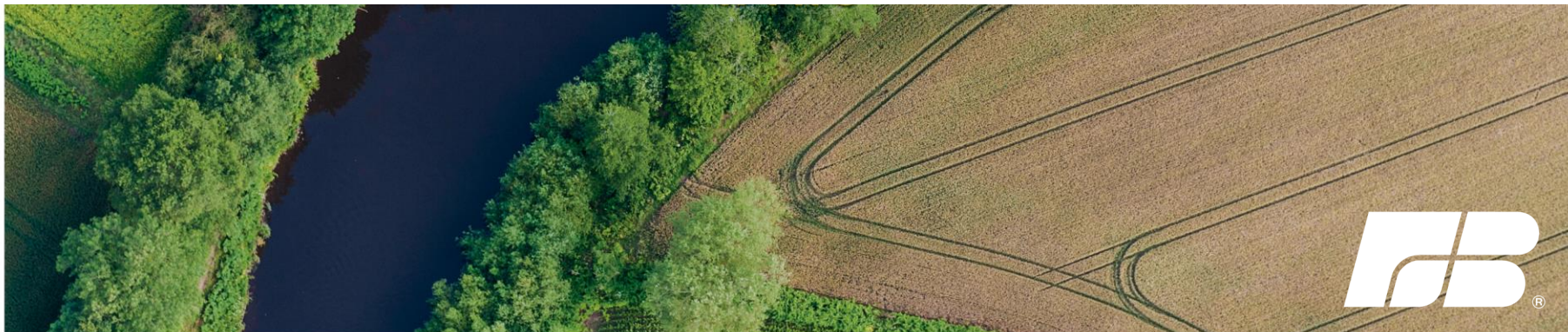
- Over **46%** of farmers would have been able to take a business income deduction for a **\$9.6 billion** tax savings in 2016.
- 2010- 2018 Average Net Farm Income as a Share of Gross Cash Farm Income (GCFI): **27%**

1040 - Example		
Line 1	Wages	-
	+ Income from Schedule 1, Line 22 (Additional Income and Adjustments to Income)	
	Net Farm Income (Schedule F)	430,000
Line 6	Total Income	430,000
	- Schedule 1, Line 36 (Deductible part of self-employment tax)	5,000
Line 7	AGI	425,000
Line 8	- Standard Deduction (married, filed jointly)	24,000
Line 9	- Qualified business income deduction	86,000
Line 10	Taxable Income!	315,000



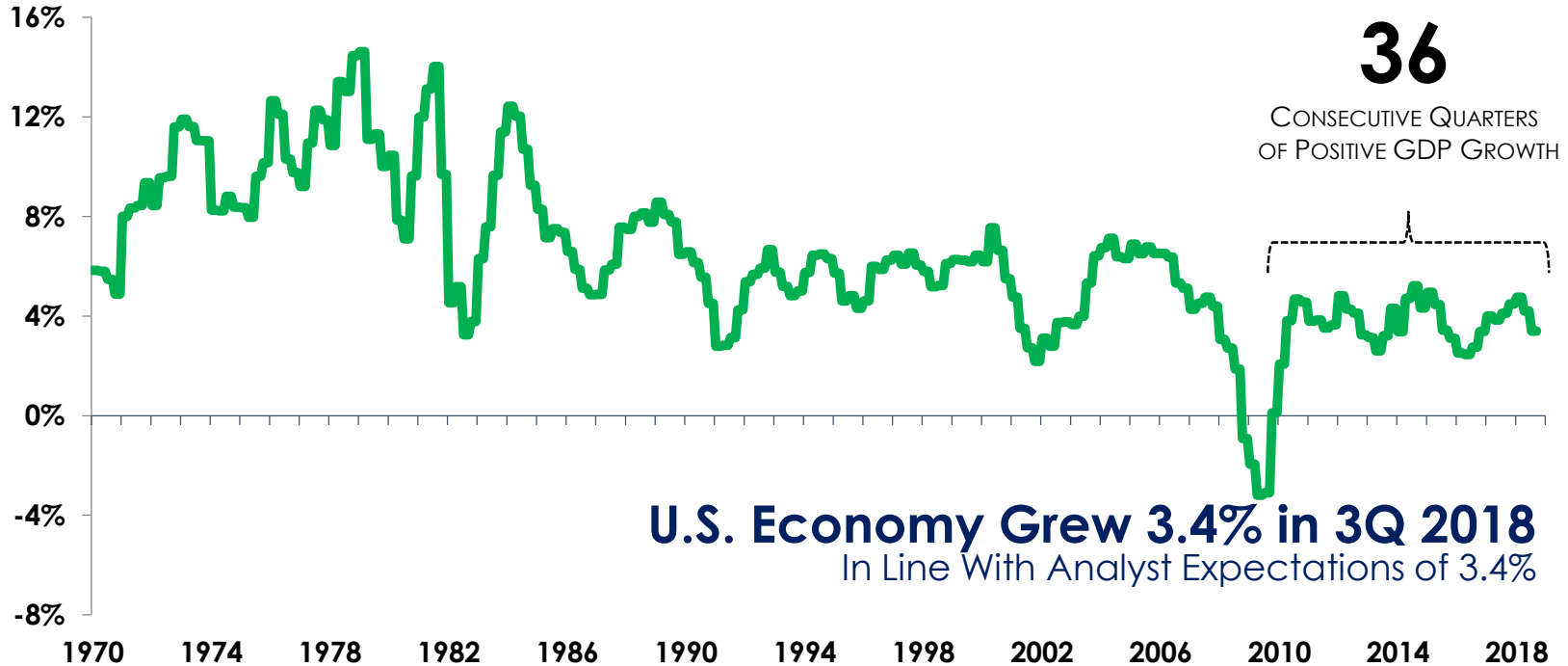
FARM ECONOMY UPDATE

DR. JOHN NEWTON, CHIEF ECONOMIST



U.S. Economy on High Octane

YEAR-OVER-YEAR PERCENTAGE CHANGE IN QUARTERLY GDP

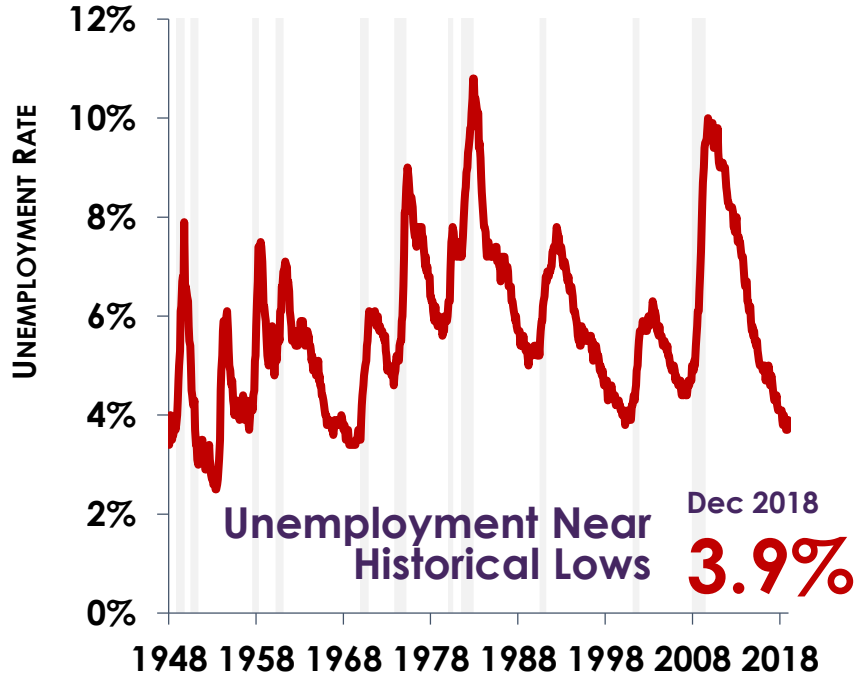


Source: Federal Reserve Economic Data, Farm Bureau Analysis

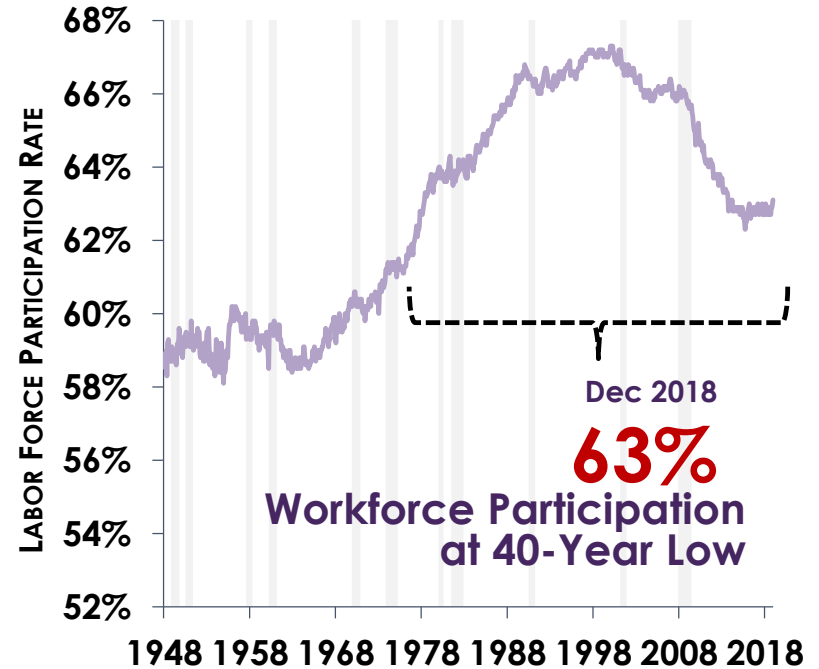
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U.S. Employment Situation

U.S. UNEMPLOYMENT SITUATION



U.S. WORKFORCE PARTICIPATION RATE

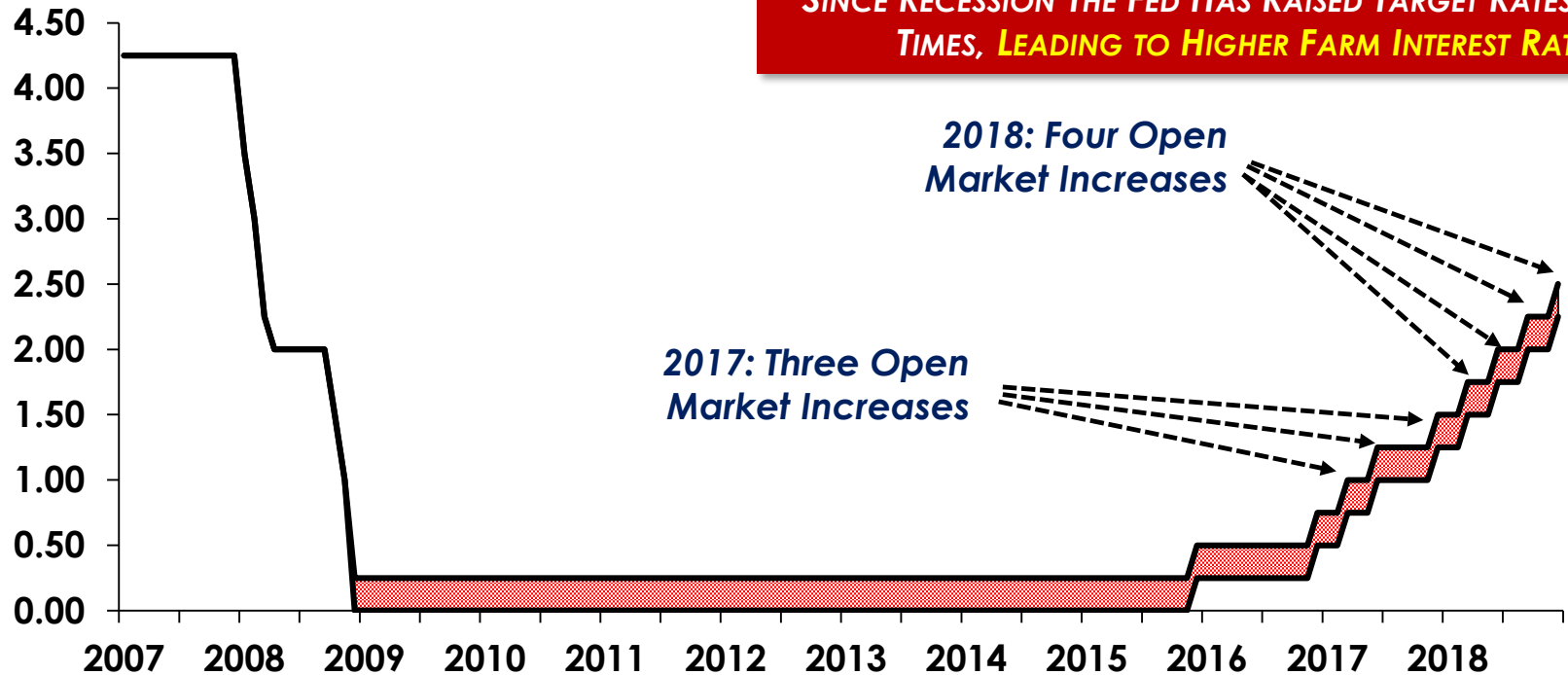


Source: Bureau of Labor Statistics, Farm Bureau Analysis

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Aggressive Interest Rate Actions by Federal Reserve

TARGET FEDERAL FUNDS RATE



SINCE RECESSION THE FED HAS RAISED TARGET RATES 9 TIMES, LEADING TO HIGHER FARM INTEREST RATES

2018: Four Open Market Increases

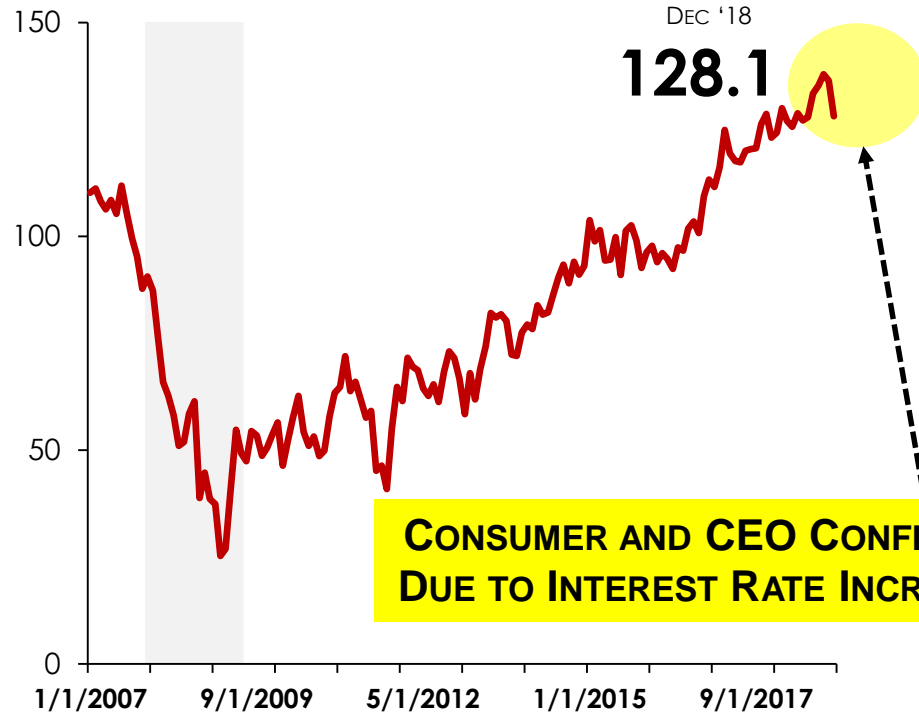
2017: Three Open Market Increases

Source: Farm Bureau Compilation of Federal Reserve Open Market Operations

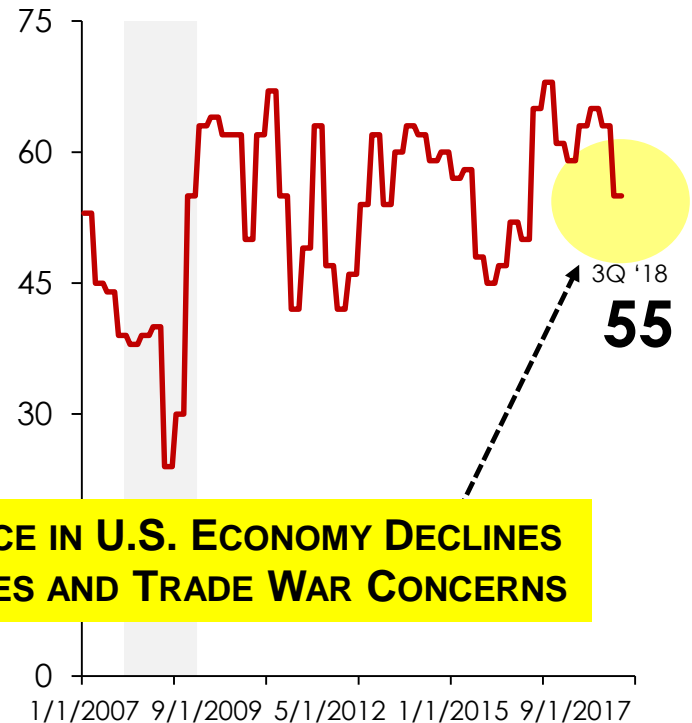
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Survey of U.S. Consumer & CEO Confidence

CONSUMER CONFIDENCE INDEX (1985=100)



CEO CONFIDENCE INDEX +/- 50



CONSUMER AND CEO CONFIDENCE IN U.S. ECONOMY DECLINES DUE TO INTEREST RATE INCREASES AND TRADE WAR CONCERNS

Source: Farm Bureau Compilation of The Conference Board Historical Data

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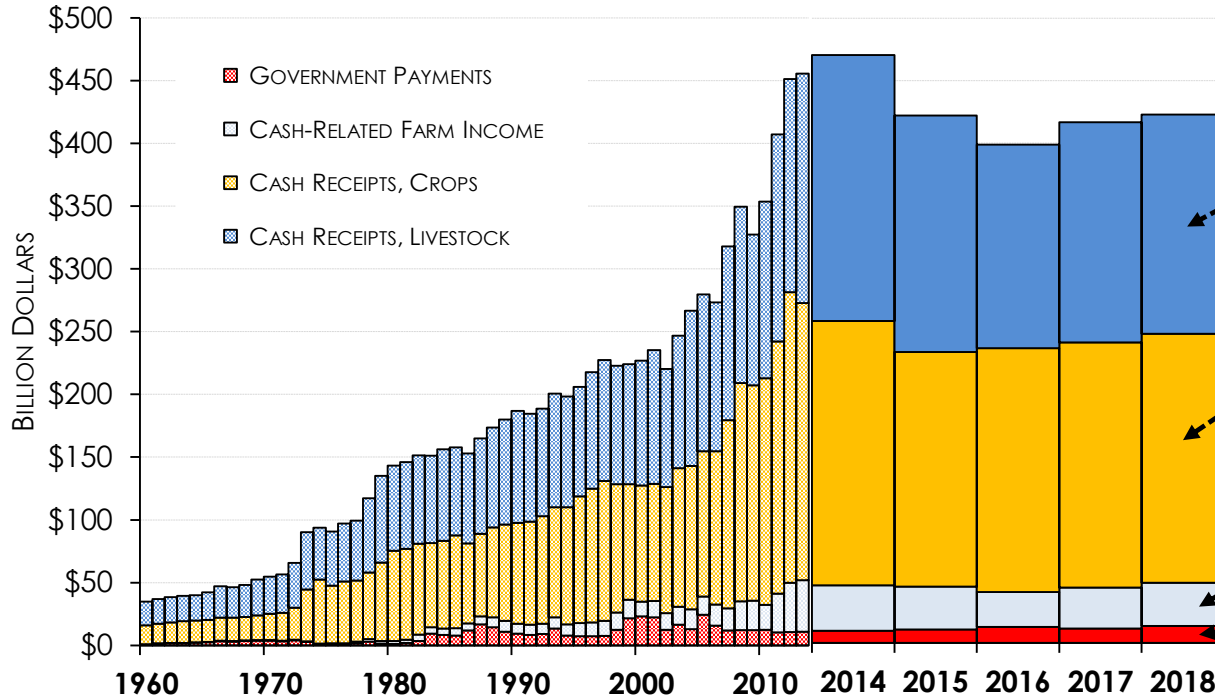
Where is Farm Country?

Farm Cash Receipts Are Up on Higher Yields & WHIP/MFP Payments

GROSS CASH RECEIPTS, NOMINAL DOLLARS (1960 TO 2018F)

Total \$423 Billion,

+1.5% YoY



CROPS
\$199.2 B, +1.5% YoY

LIVESTOCK
\$175.6 B, -0.2% YoY

CASH INCOME
\$34.6 B, +5.2% YoY

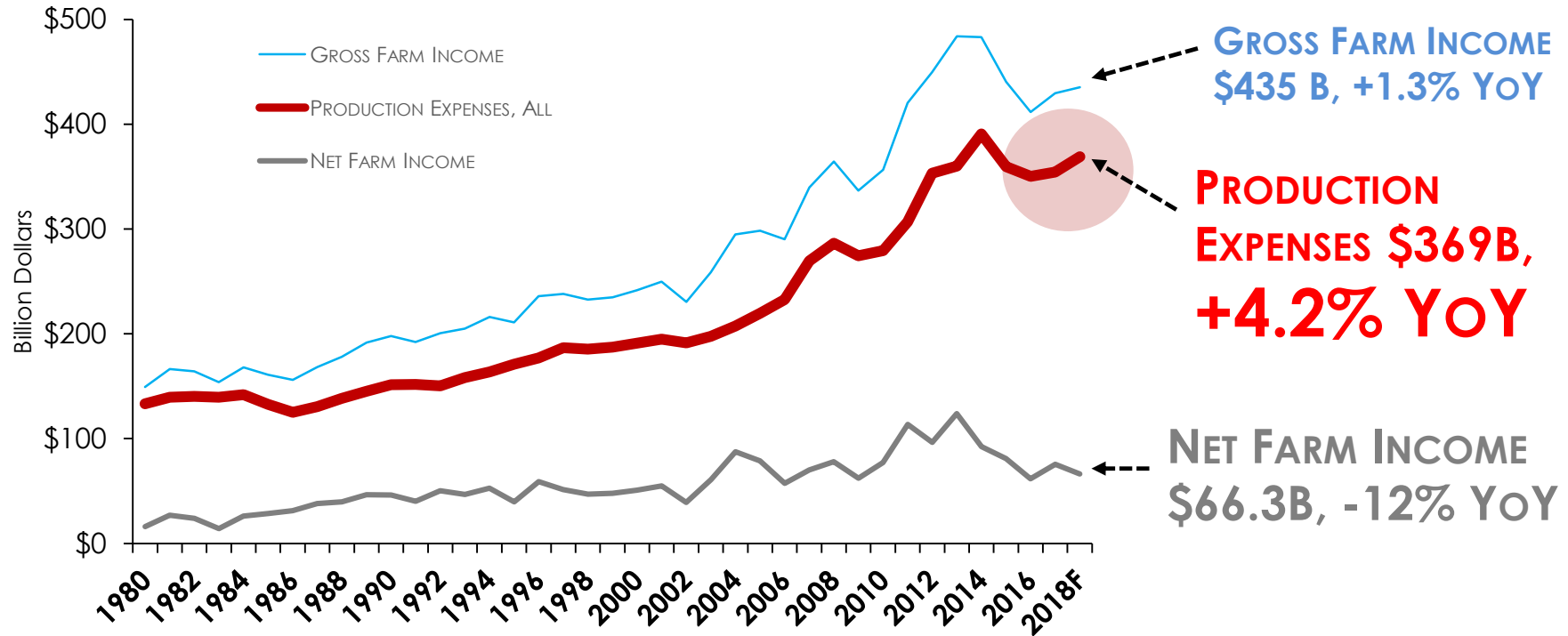
GOV'T PAYMENTS
\$13.6 B, +18% YoY

Source: USDA ERS Farm Bureau Analysis

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Increases in Expenses Outpacing Income & Pressuring Profitability



Source: USDA ERS, Farm Bureau Analysis

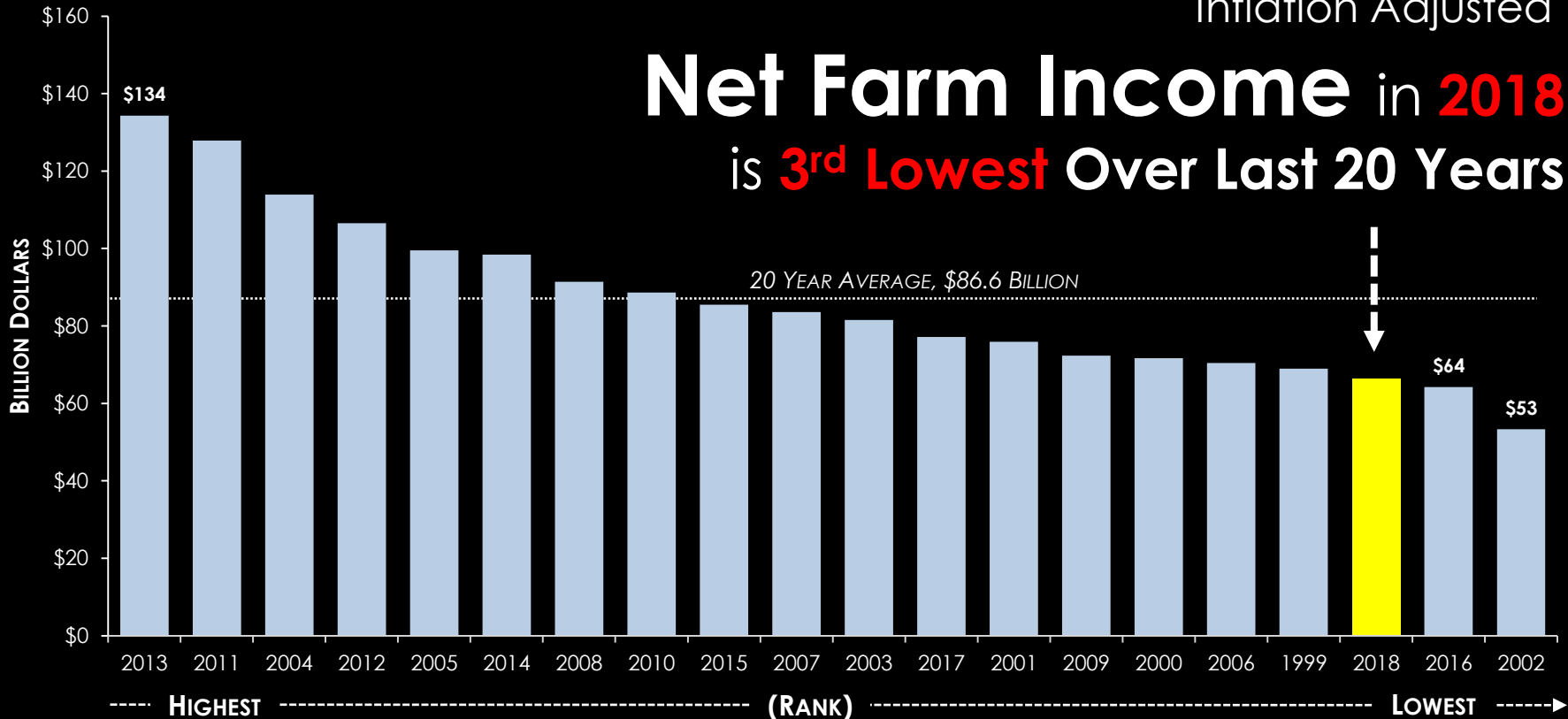
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\$66.3 Billion

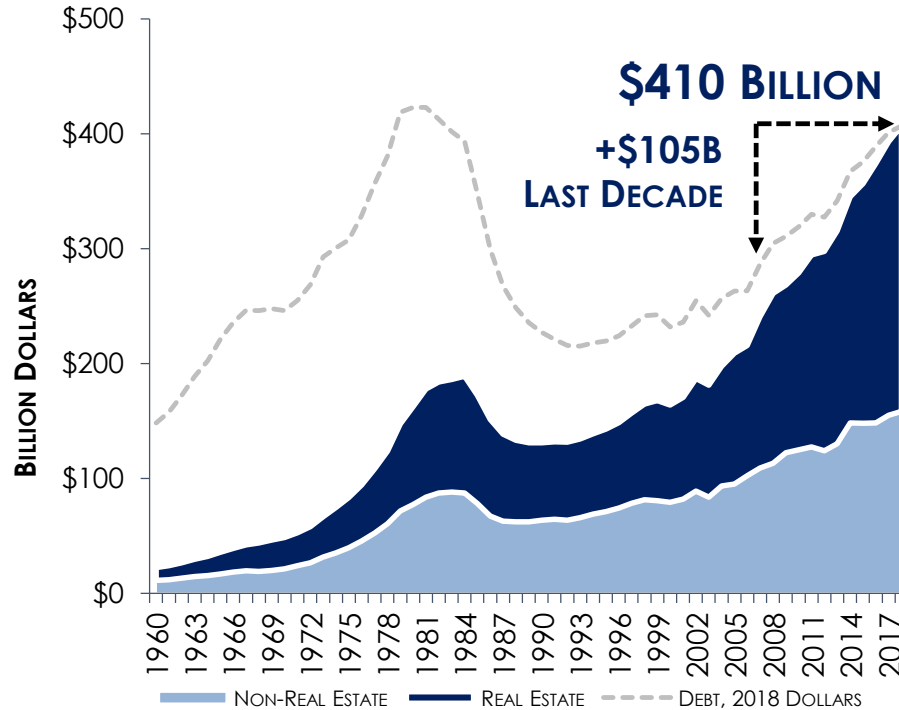
Inflation Adjusted

Net Farm Income in 2018 is 3rd Lowest Over Last 20 Years

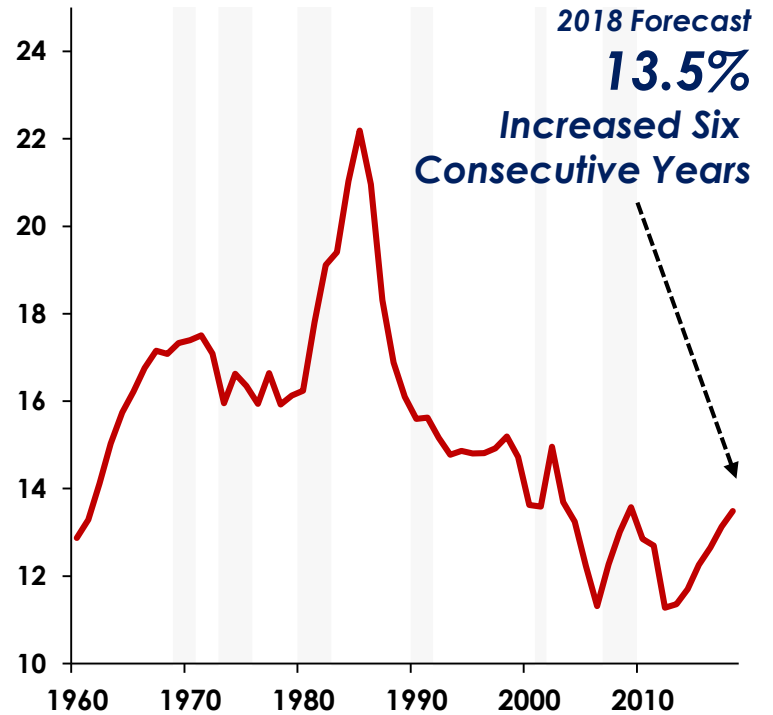


Farm Debt Record-High & Debt-to-Asset Ratio Climbing

REAL ESTATE AND NON-REAL ESTATE FARM DEBT



U.S. AGRICULTURE DEBT-TO-ASSET RATIO

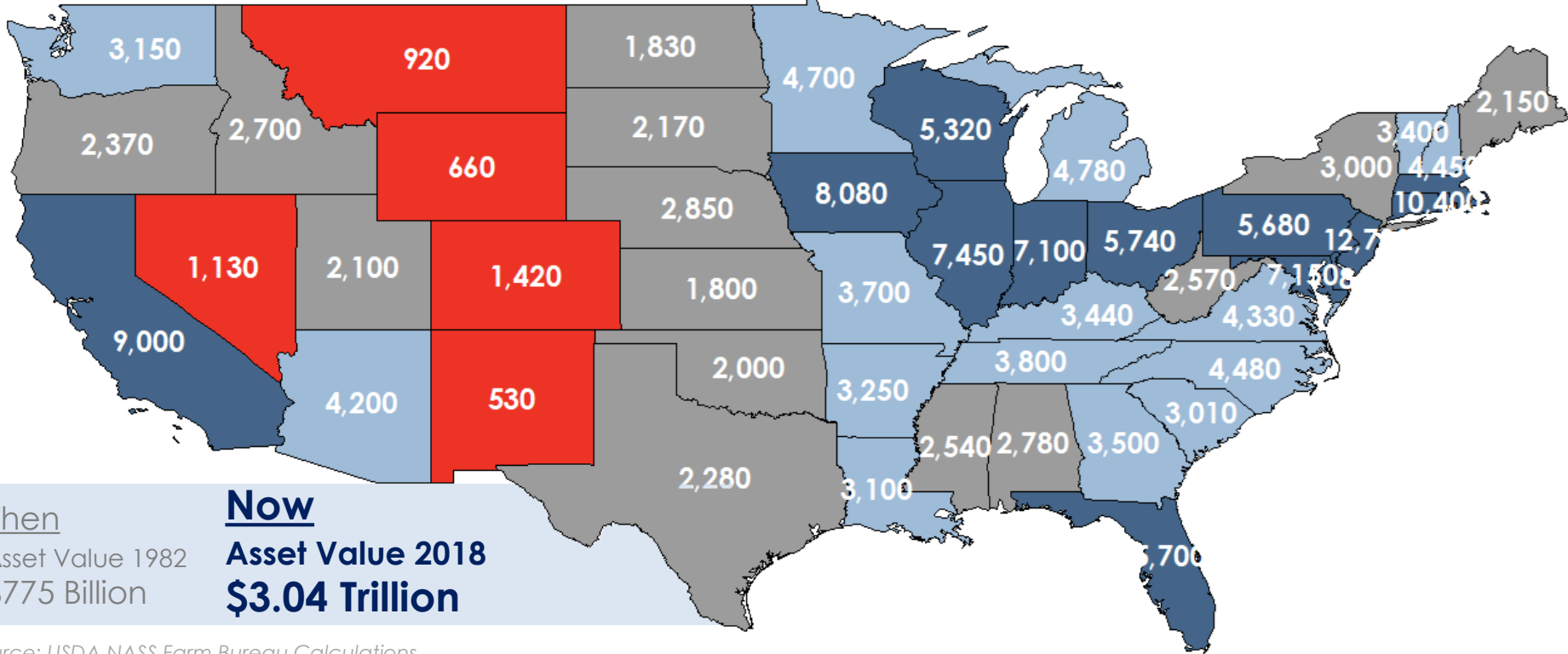


Source: USDA ERS, Farm Bureau Analysis

TEXT QUESTIONS TO: 502-255-2881

U.S. Agricultural Assets Valued at Over \$3 Trillion

PER ACRE AGRICULTURAL LAND VALUES (INC. BUILDINGS), **U.S. AVERAGE \$3,140 PER ACRE**



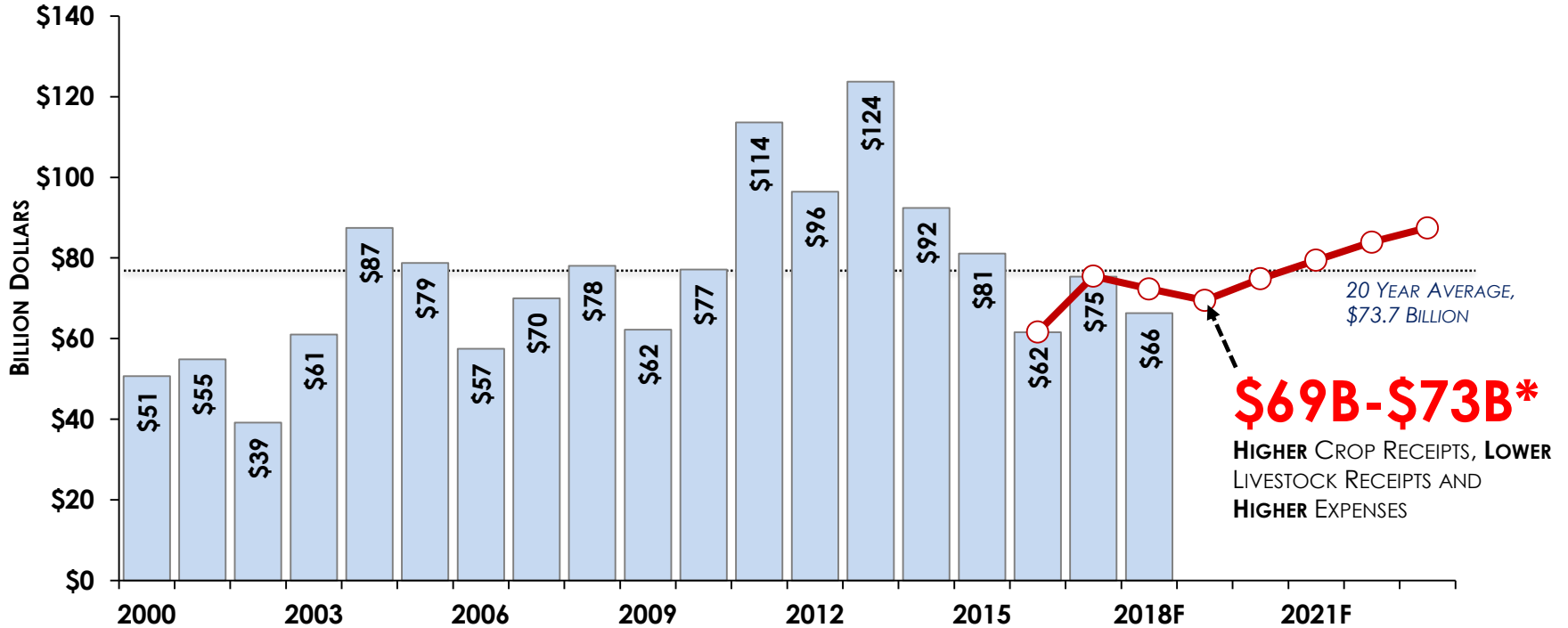
Source: USDA NASS Farm Bureau Calculations

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Where Is Net Farm Income Headed?

U.S. NET FARM INCOME, IN NOMINAL DOLLARS, ACTUAL AND PROJECTED



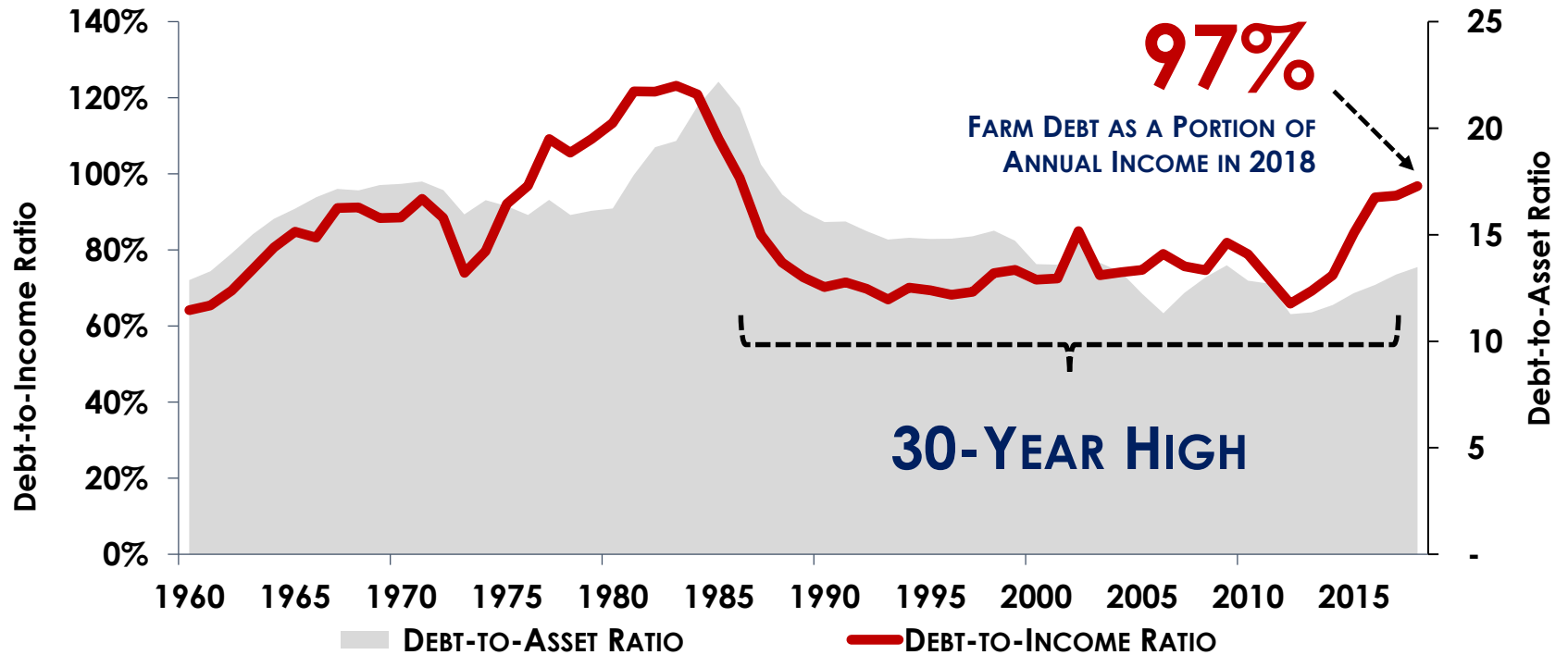
*FAPRI-MU 2019 PROJECTION DOES NOT INCLUDE DISASTER/MFP PAYMENTS; \$73B INCLUDES \$4B IN MFP PAYMENTS

Source: USDA ERS, University of Missouri FAPRU-MU Baseline

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Farm Debt As A Portion of Income at 30-Year High

U.S. FARM FINANCIAL INDICATORS, DEBT-TO-INCOME AND DEBT-TO-ASSET



Source: USDA ERS, Farm Bureau Calculations

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QUESTIONS?

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