

SITUATION AND OUTLOOK FOR THE WISCONSIN FARM ECONOMY

BANK EXAMINER CONFERENCE WISCONSIN DFI, DIVISION OF BANKING

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November 15, 2022 Madison, WI

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Overview

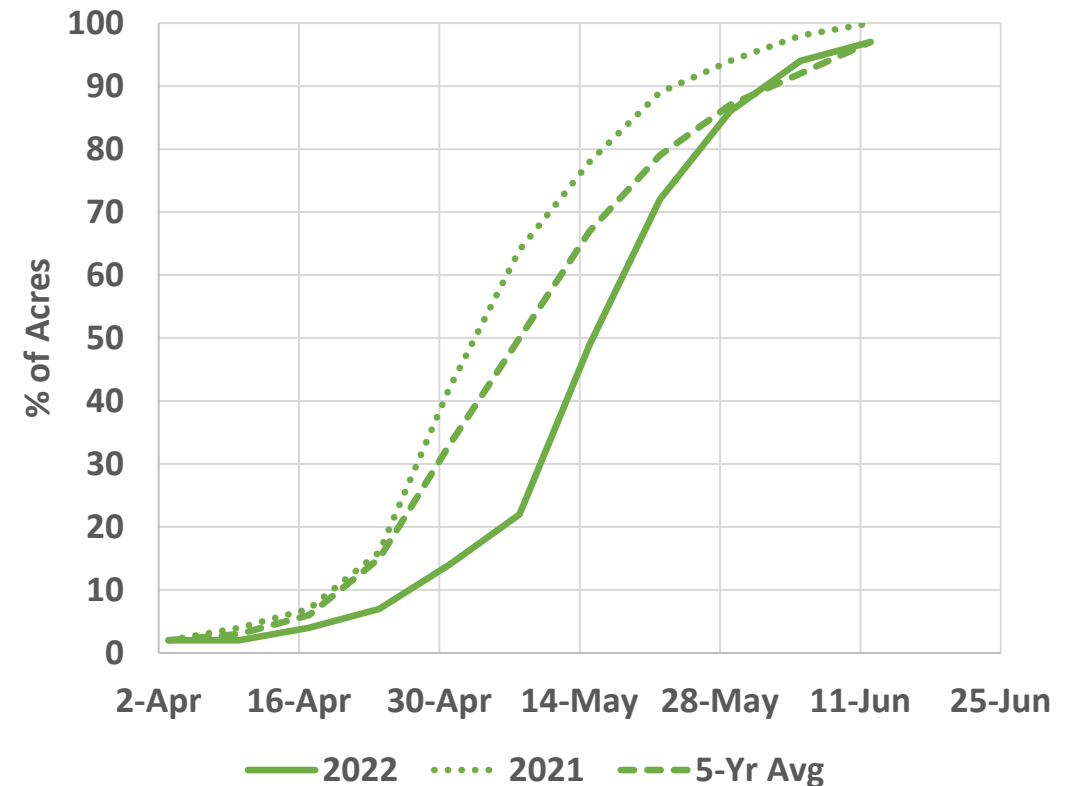
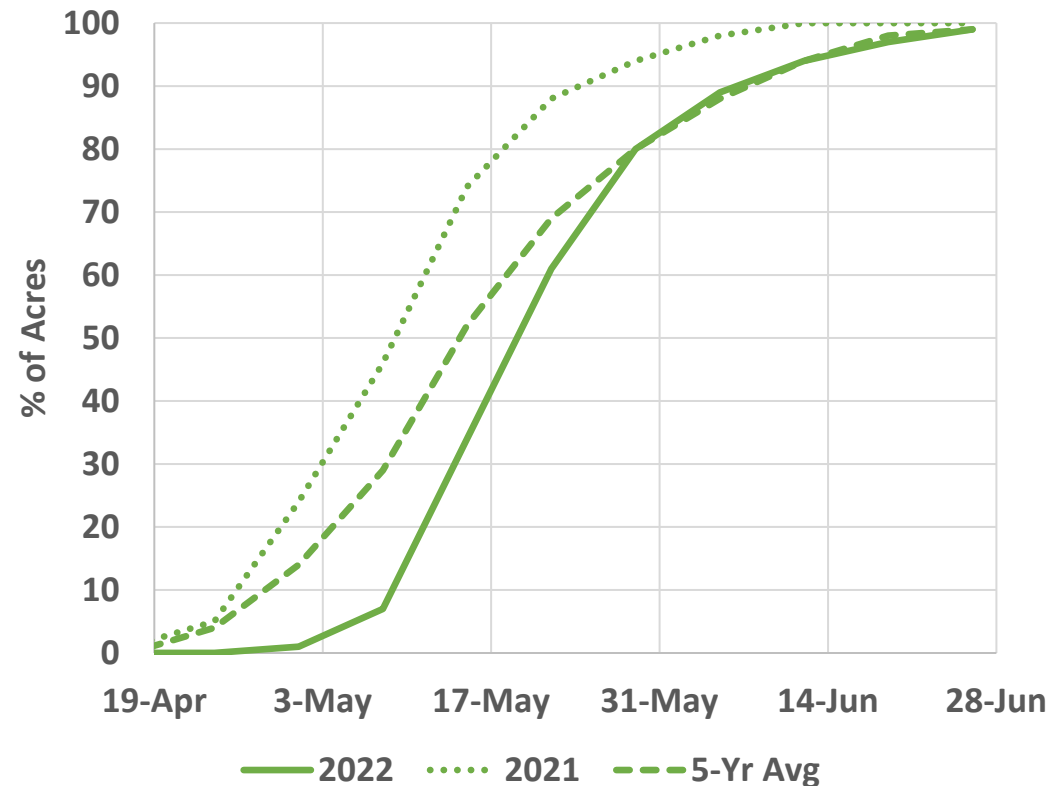
- General Situation and Outlook for the Farm Economy with a focus on Wisconsin
 - 2022 Production Season
 - 2022-23 Crop Markets
 - 2022-23 Farm Income and Financial Situation
 - 2023 Costs

Corn Planting Progress in 2022

WI

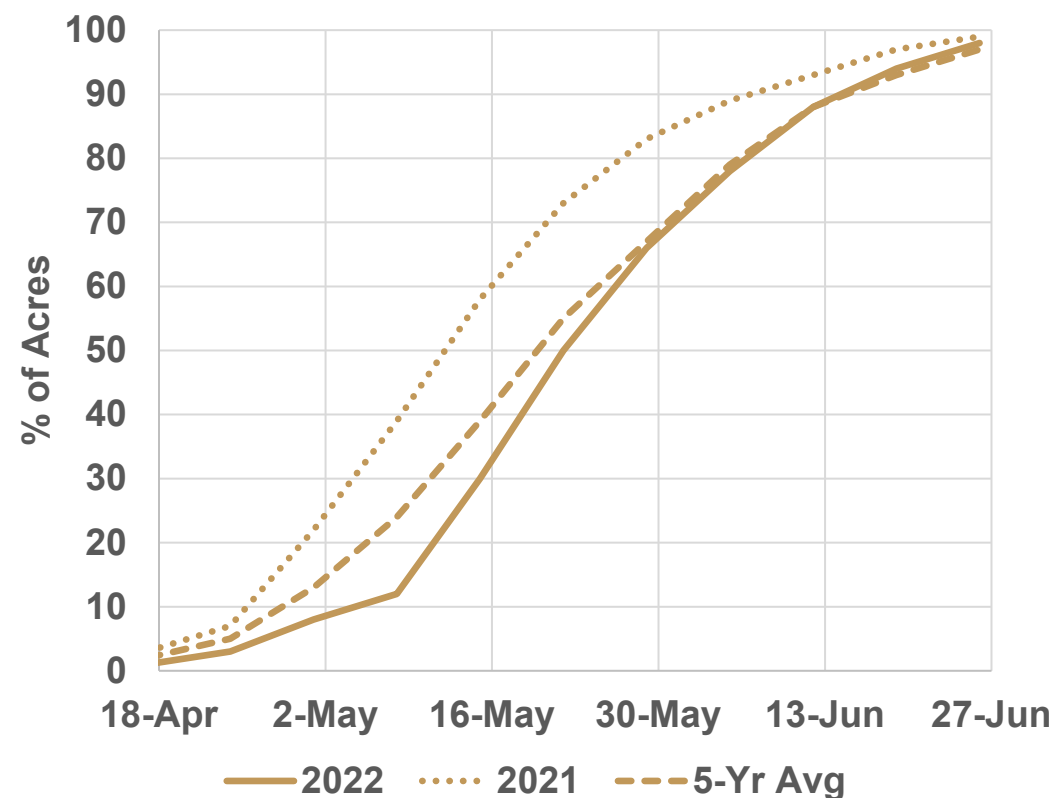
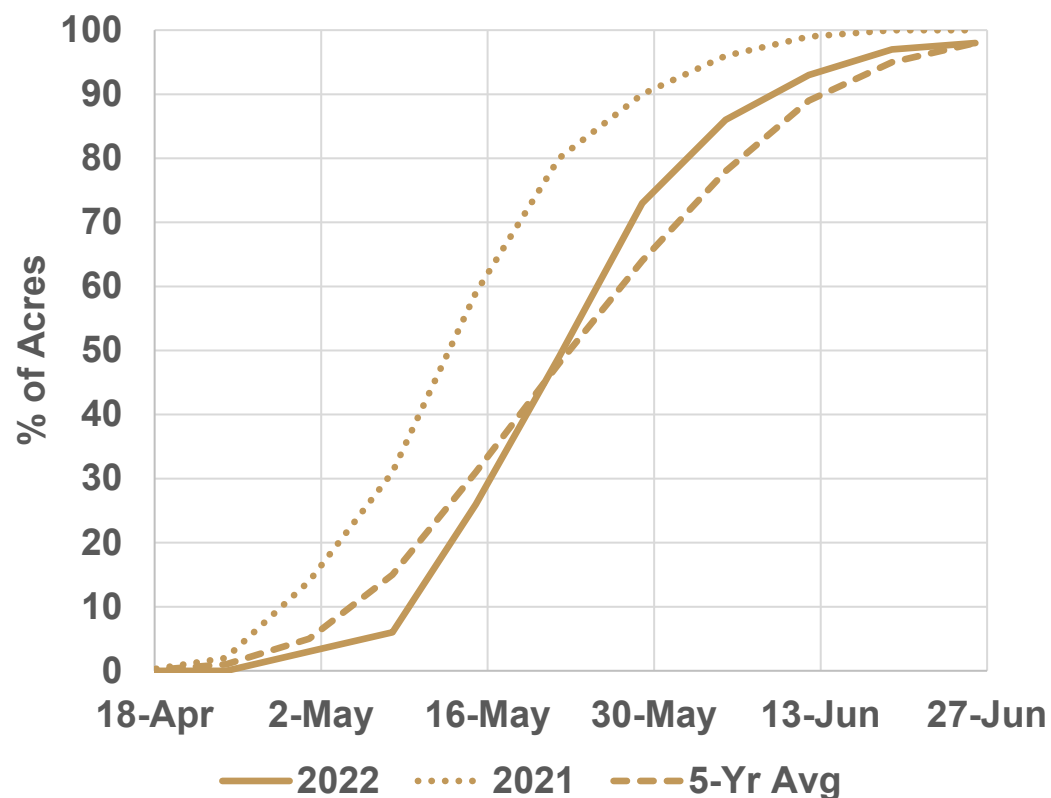
~1+ week behind 5-year
average and then caught up

US



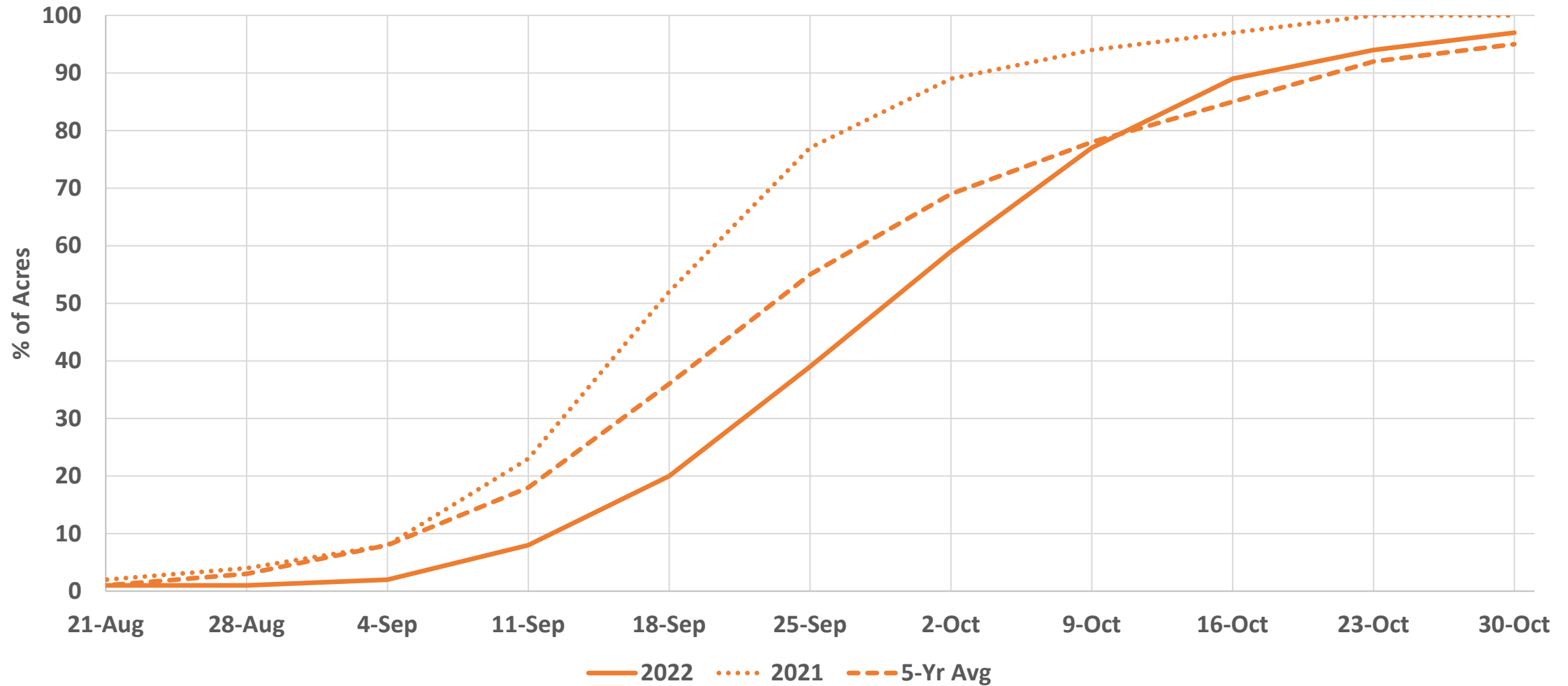
Soybean Planting Progress in 2022

WI Slow start, but then caught up to or got ahead of the 5-year average US



WI Progress Making Silage in 2022

~1 week behind, then caught up to 5-year average

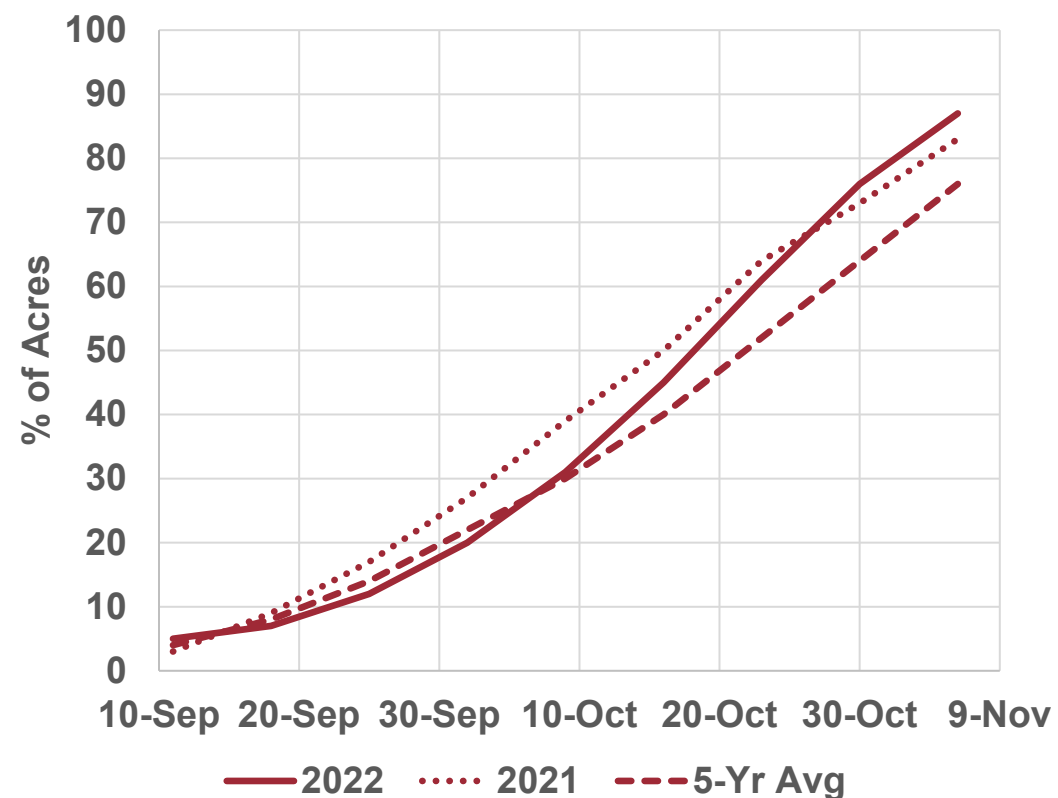
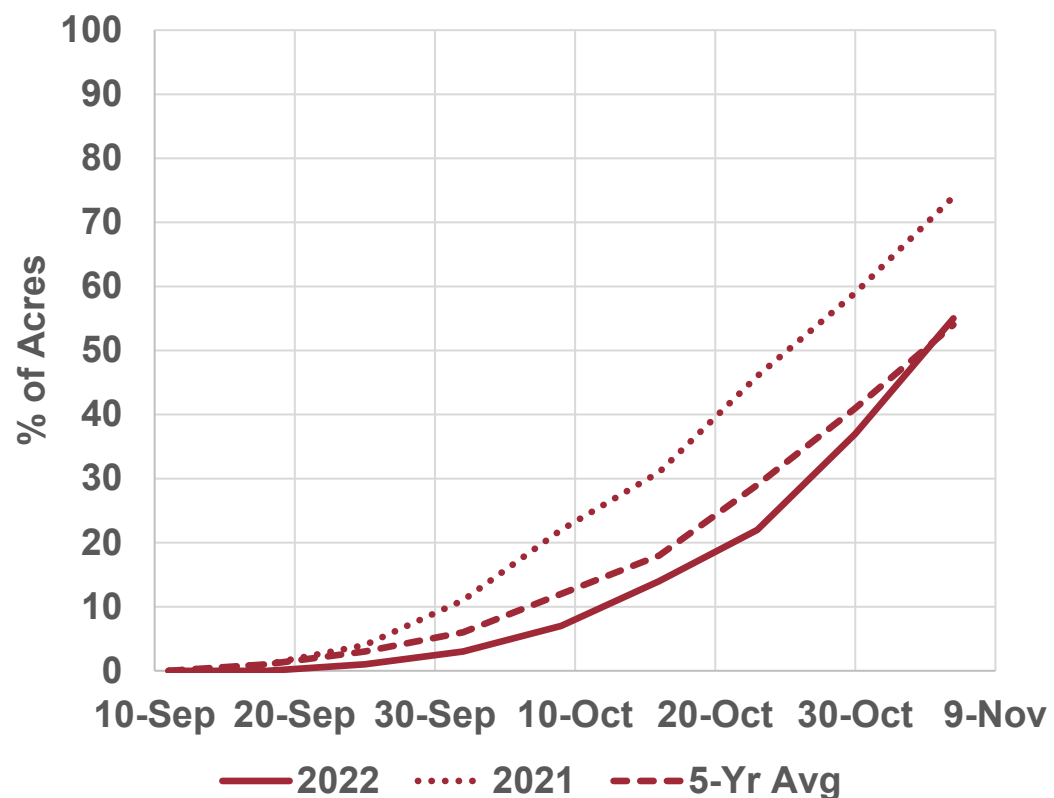


Corn Harvest Progress in 2022

WI

WI off to a slow start but
caught up, US faster

US

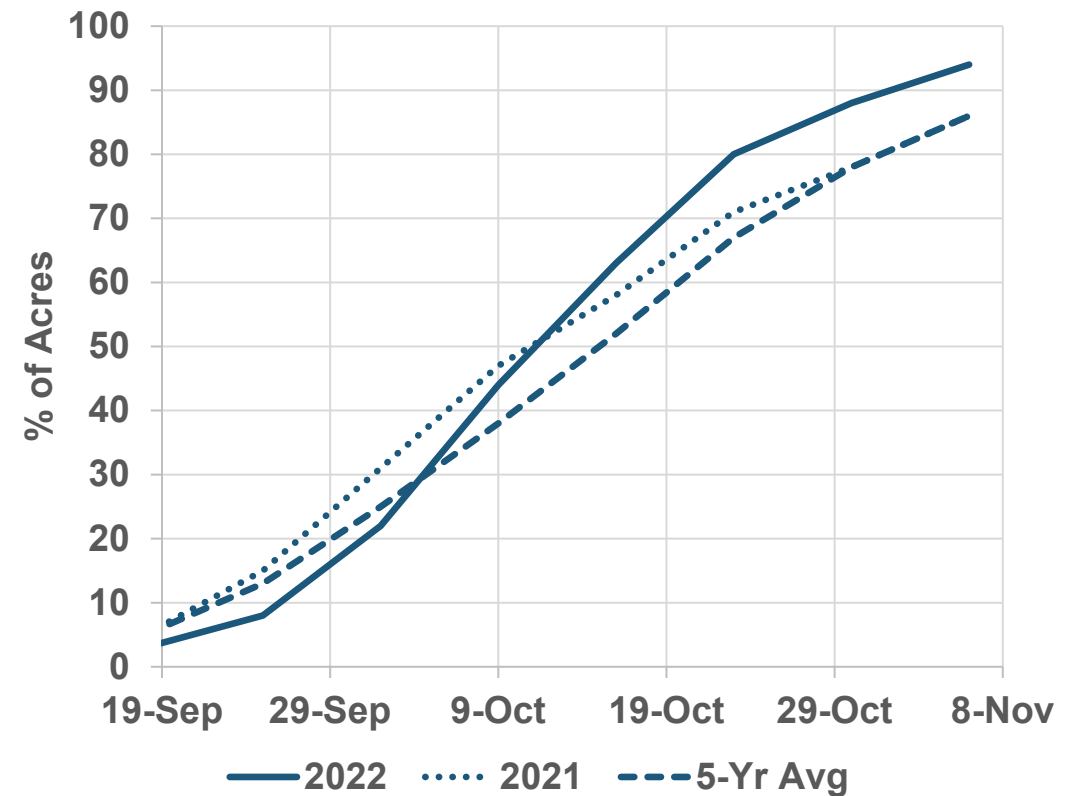
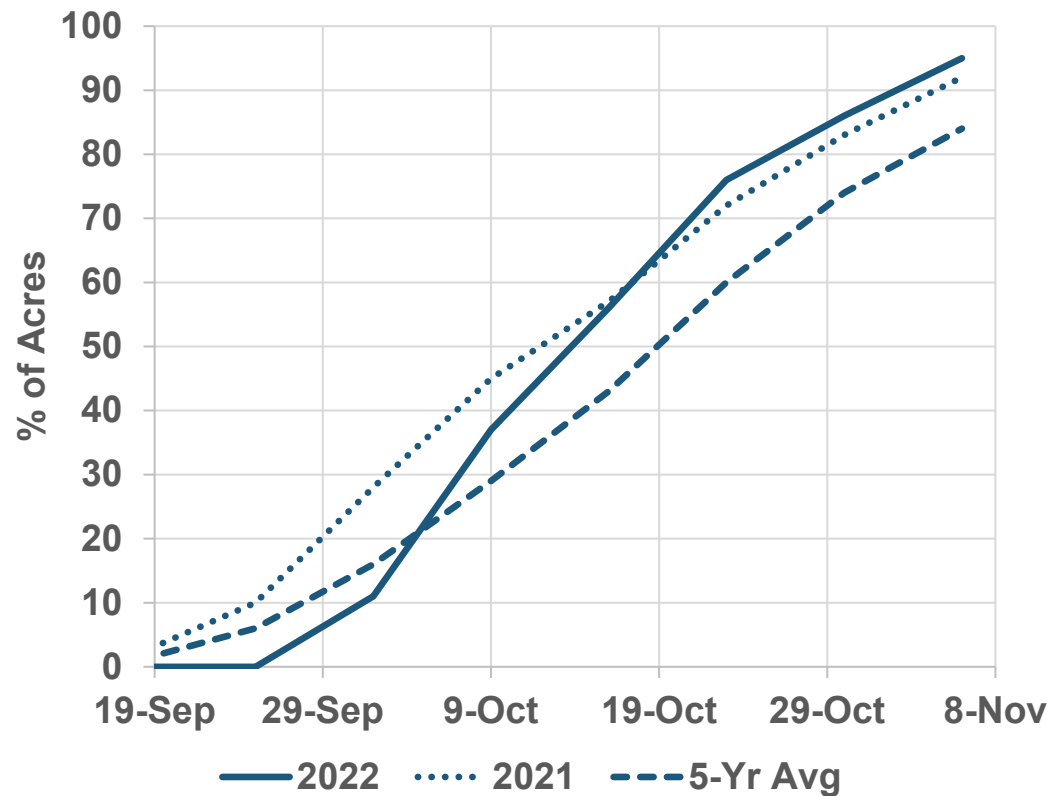


Soybean Harvest Progress in 2022

WI

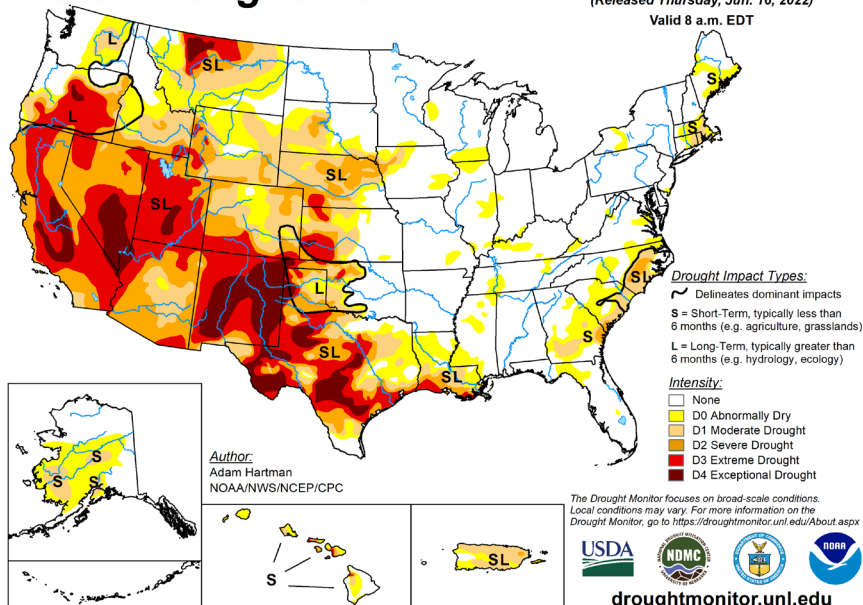
Slow start but then
ahead of 5-year average

US



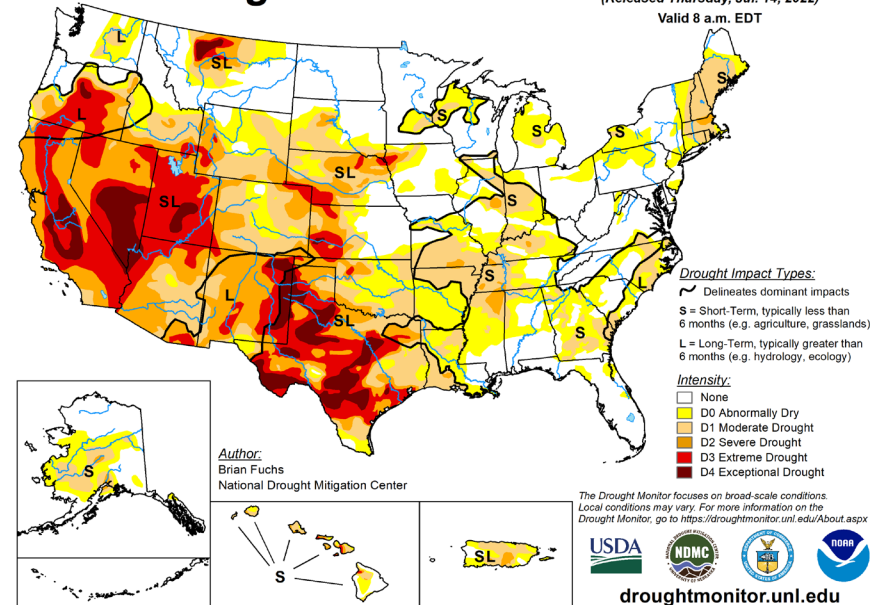
U.S. Drought Monitor

June 14, 2022
(Released Thursday, Jun. 16, 2022)
Valid 8 a.m. EDT



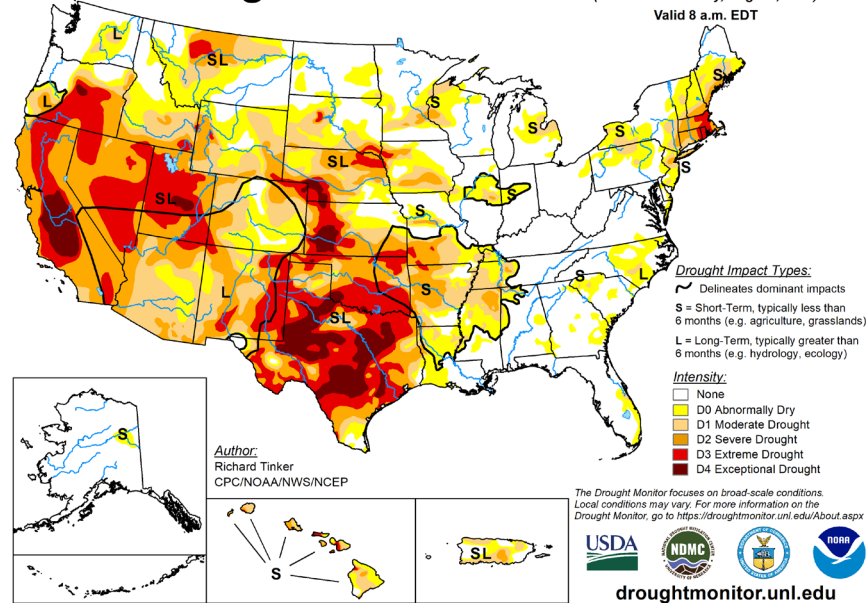
U.S. Drought Monitor

July 12, 2022
(Released Thursday, Jul. 14, 2022)
Valid 8 a.m. EDT



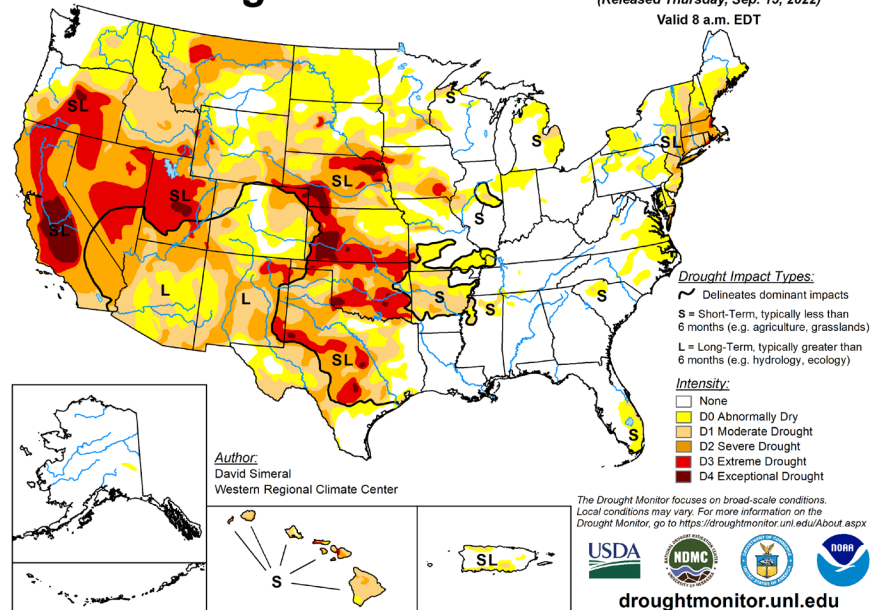
U.S. Drought Monitor

August 16, 2022
(Released Thursday, Aug. 18, 2022)
Valid 8 a.m. EDT

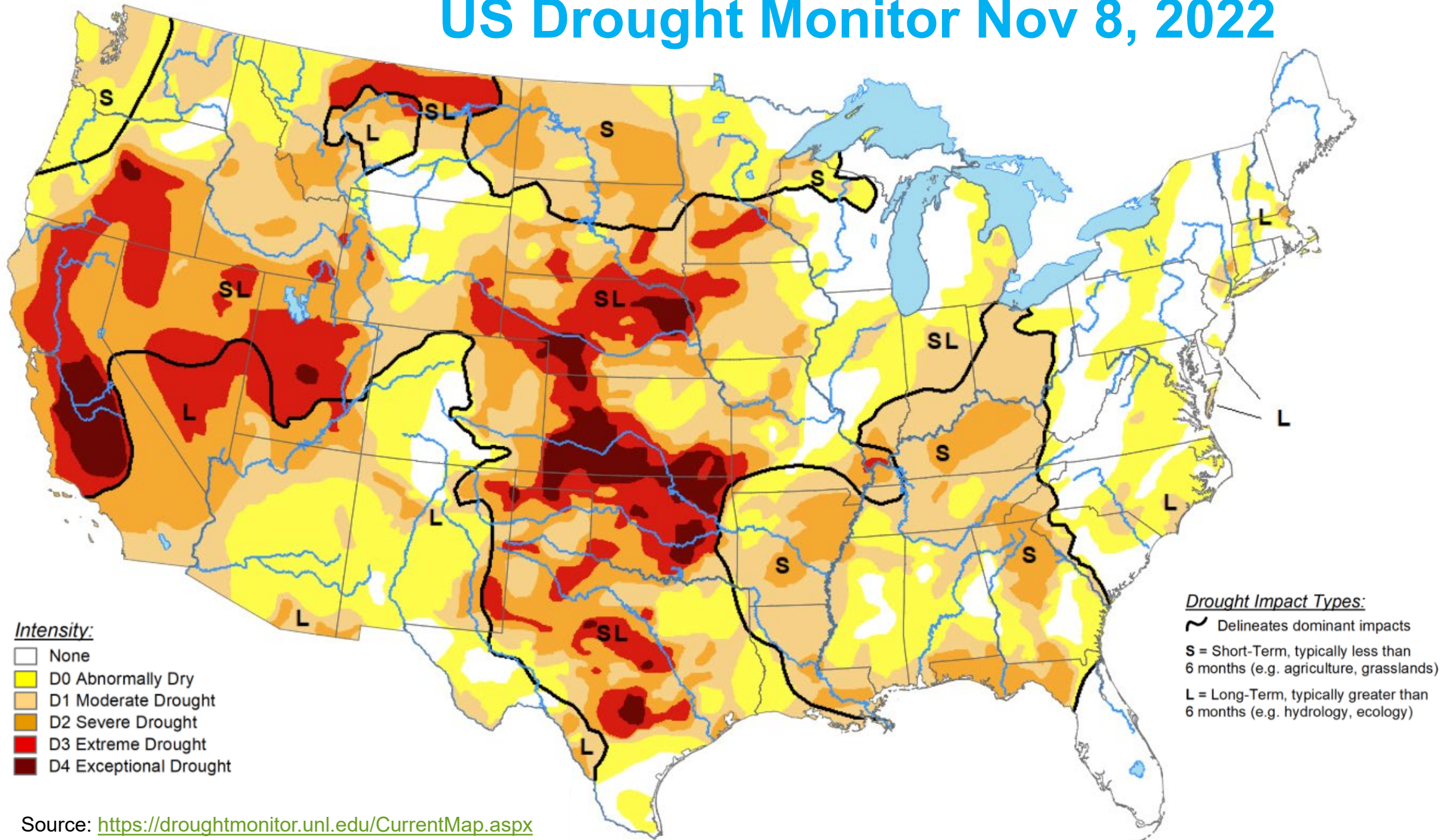


U.S. Drought Monitor

September 13, 2022
(Released Thursday, Sep. 15, 2022)
Valid 8 a.m. EDT



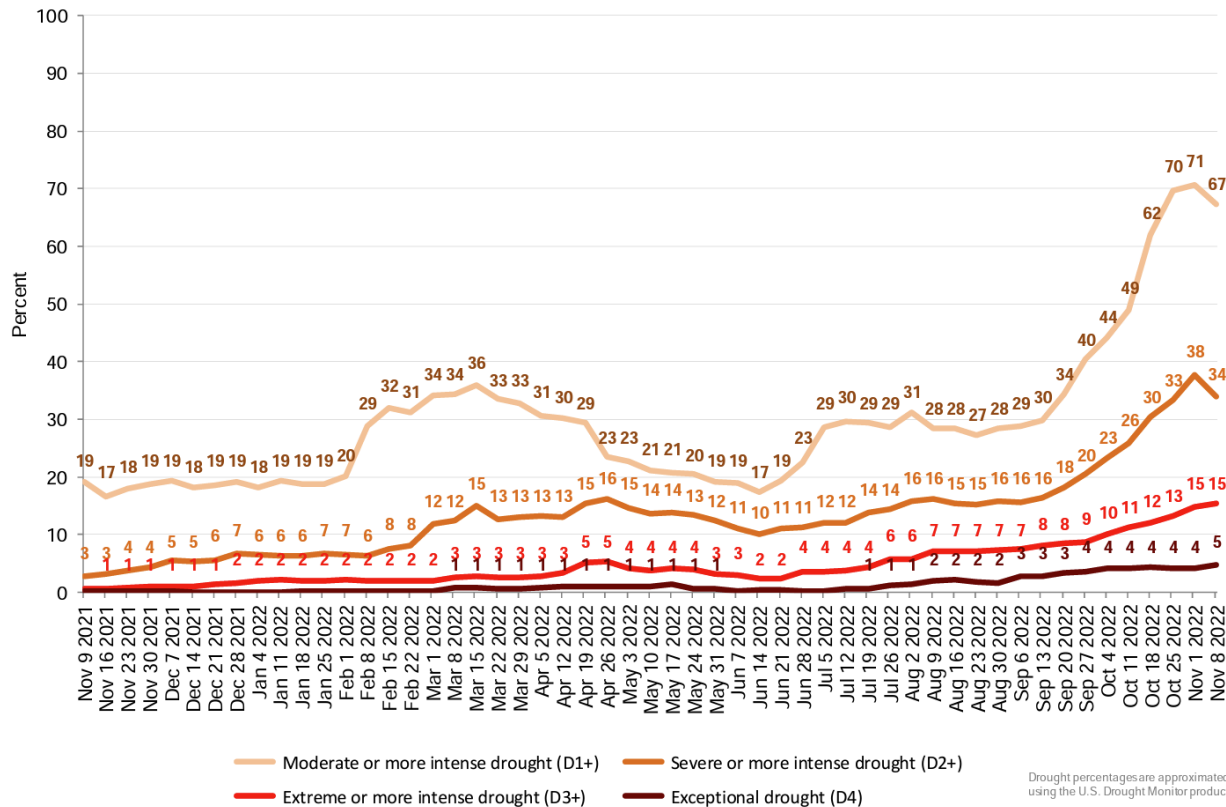
US Drought Monitor Nov 8, 2022



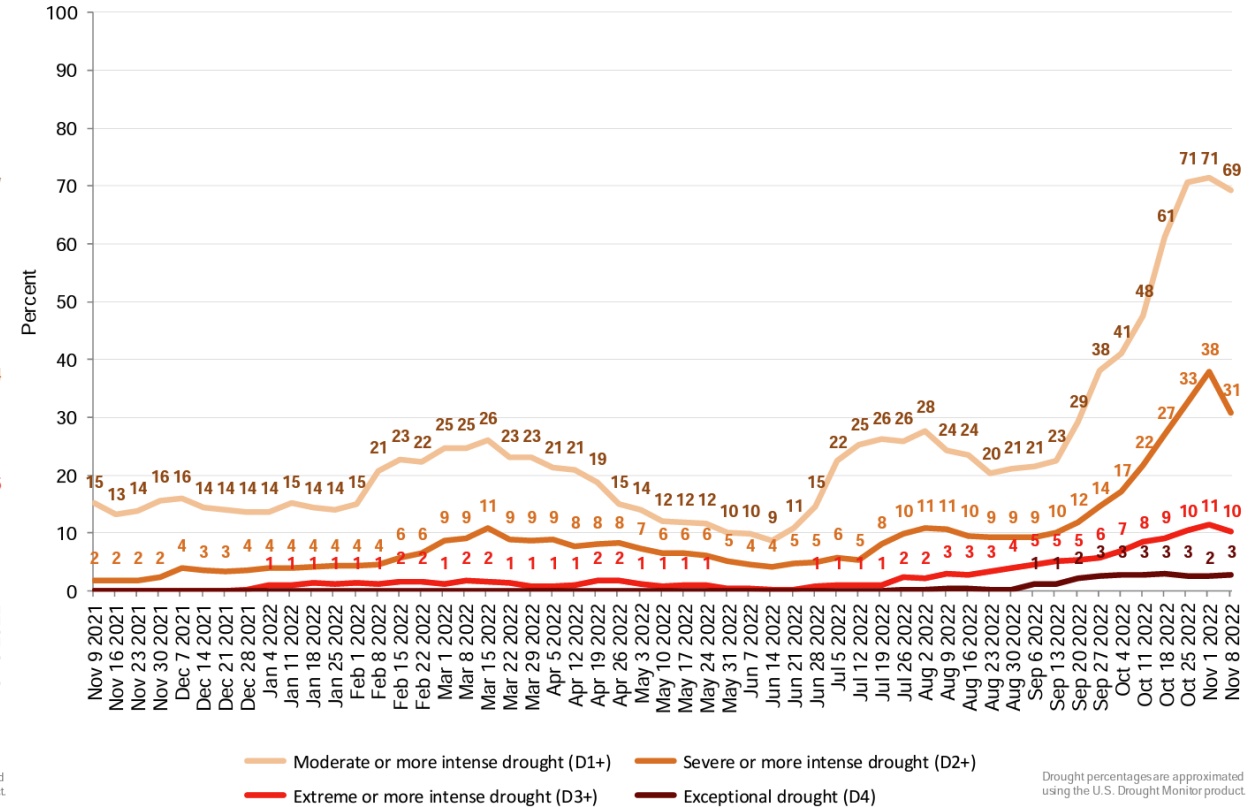
Source: <https://droughtmonitor.unl.edu/CurrentMap.aspx>

Drought a problem for Western Corn Belt all summer, Eastern Corn Belt by end of summer

Percent of United States Corn Located in Drought



Percent of United States Soybeans Located in Drought

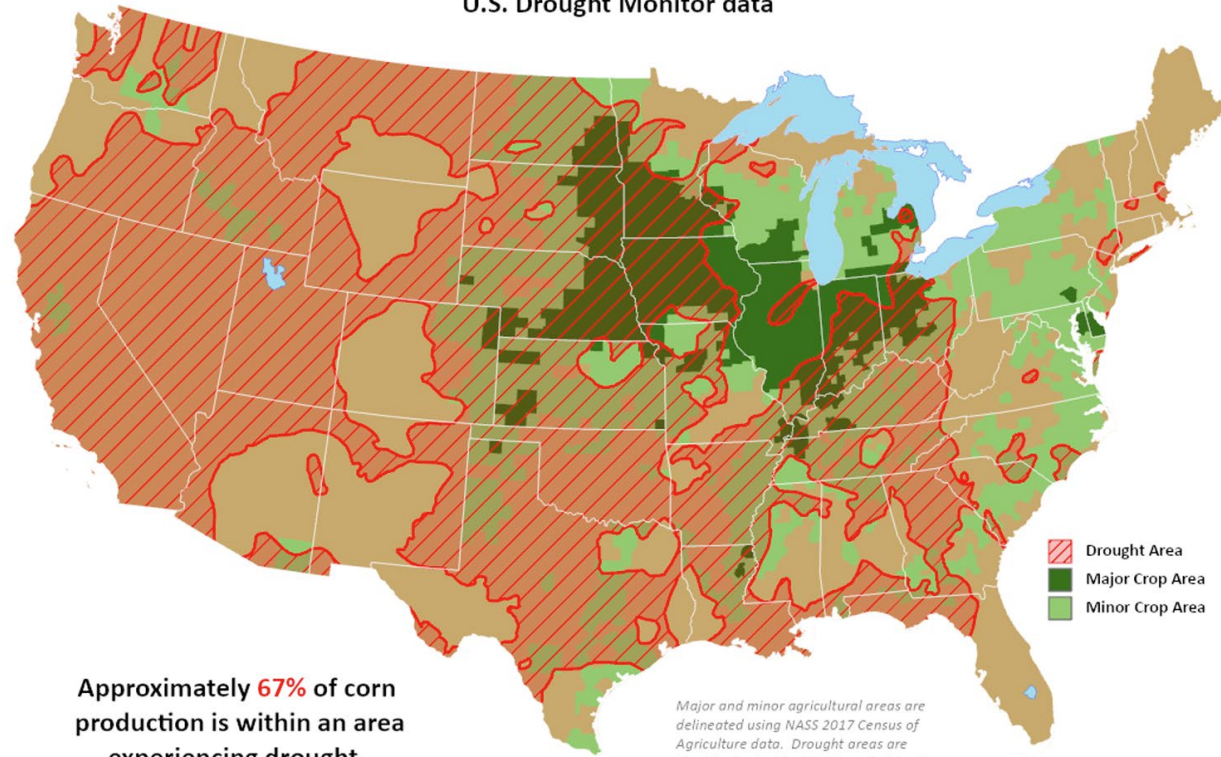


Drought percentages are approximated using the U.S. Drought Monitor product.

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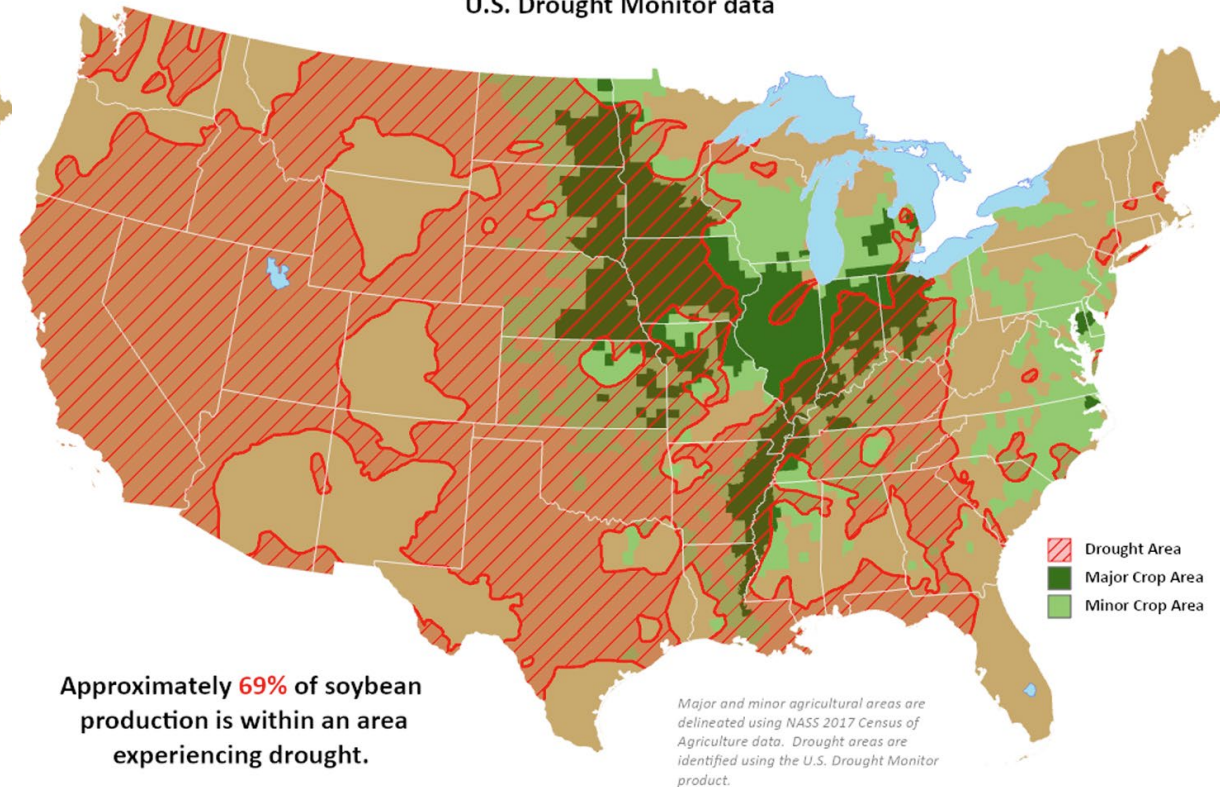
Corn Areas in Drought

Reflects November 8, 2022
U.S. Drought Monitor data



Soybean Areas in Drought

Reflects November 8, 2022
U.S. Drought Monitor data



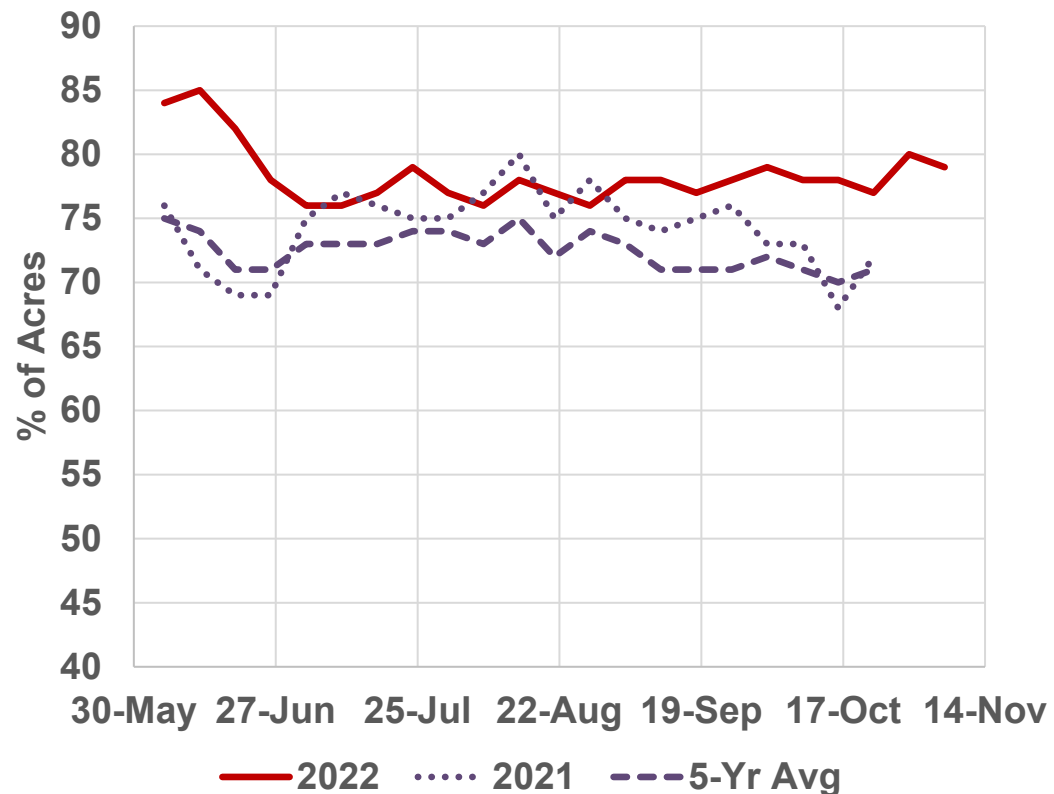
The Mississippi River is so low because the western Corn Belt and the Ohio River Valley are in drought

Corn Crop Condition in 2022

% Acres in Good to Excellent Condition

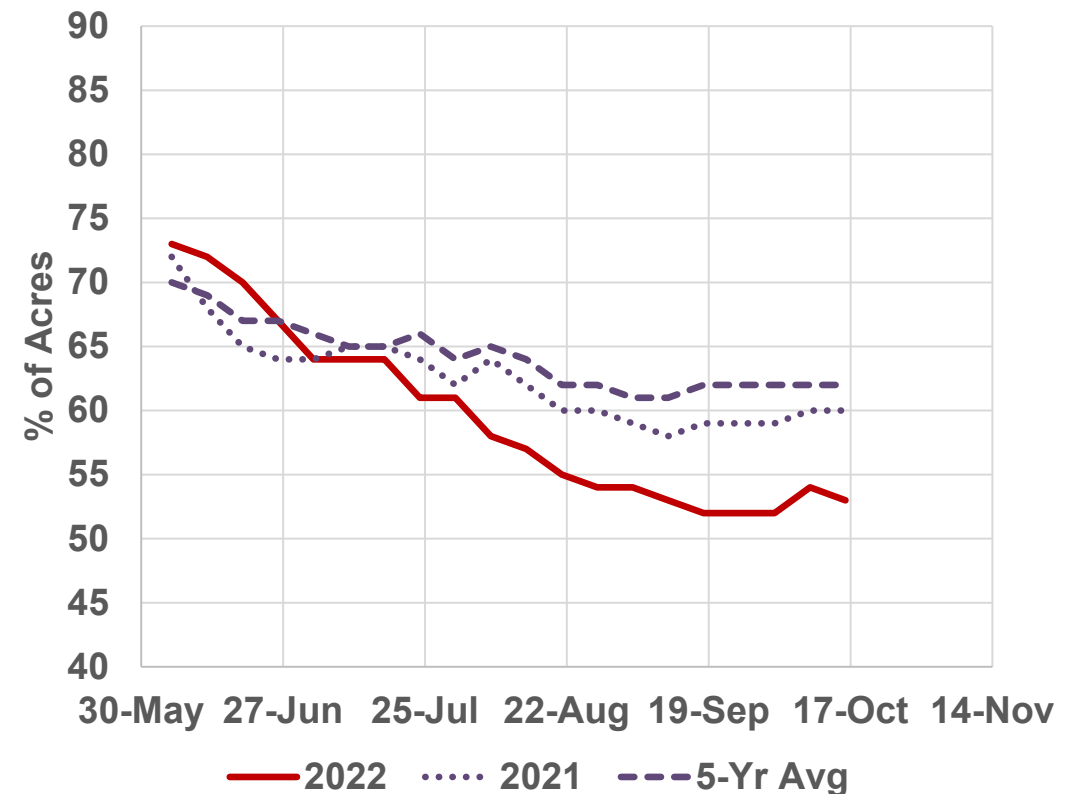
WI

Well-above average all season



US

Below average almost all season

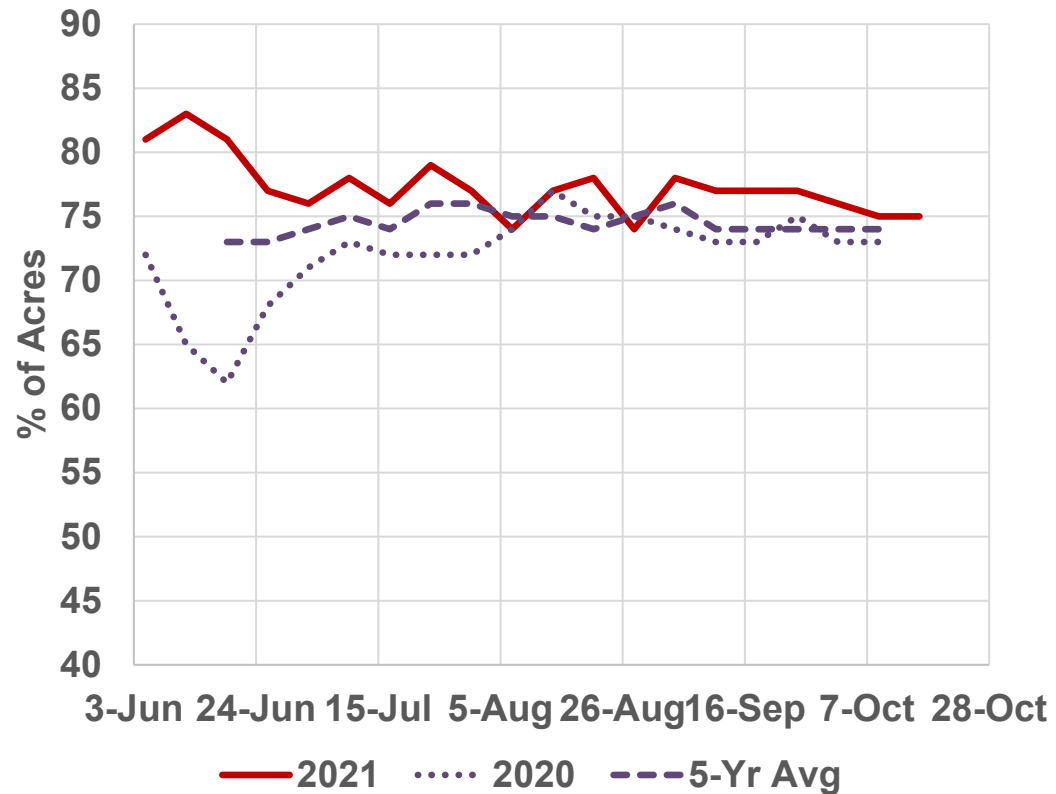


Soybean Crop Condition in 2022

% Acres in Good to Excellent Condition

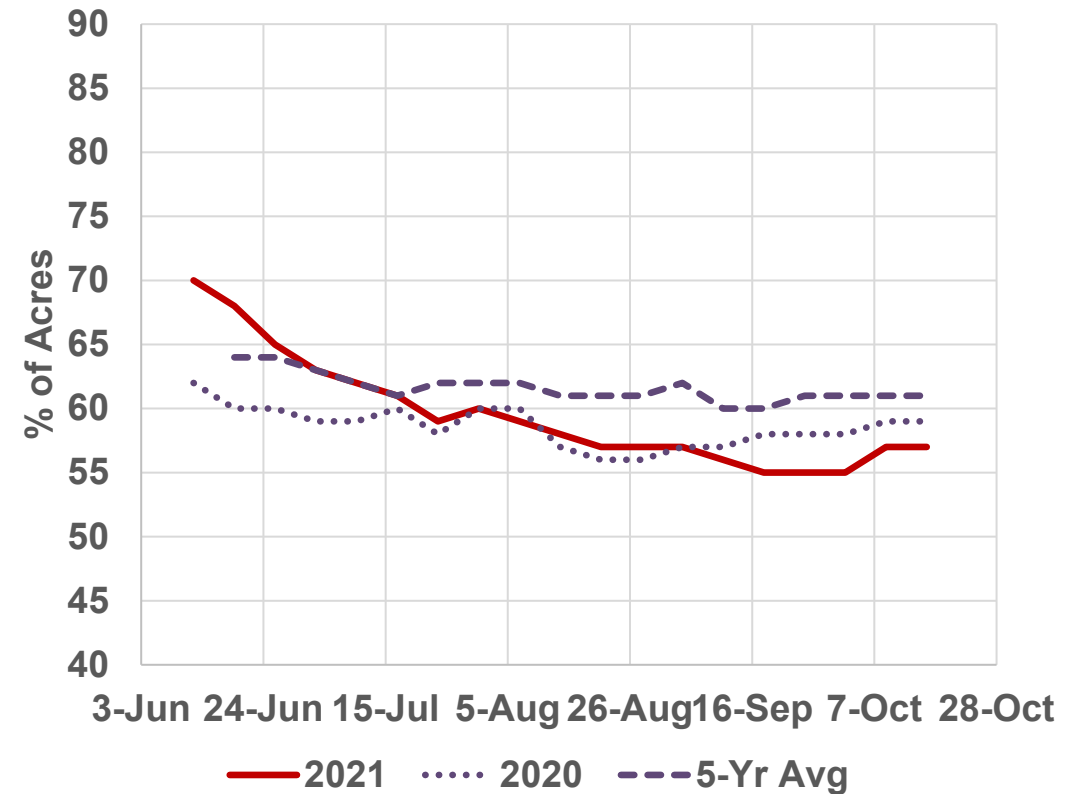
WI

Above average much of the season



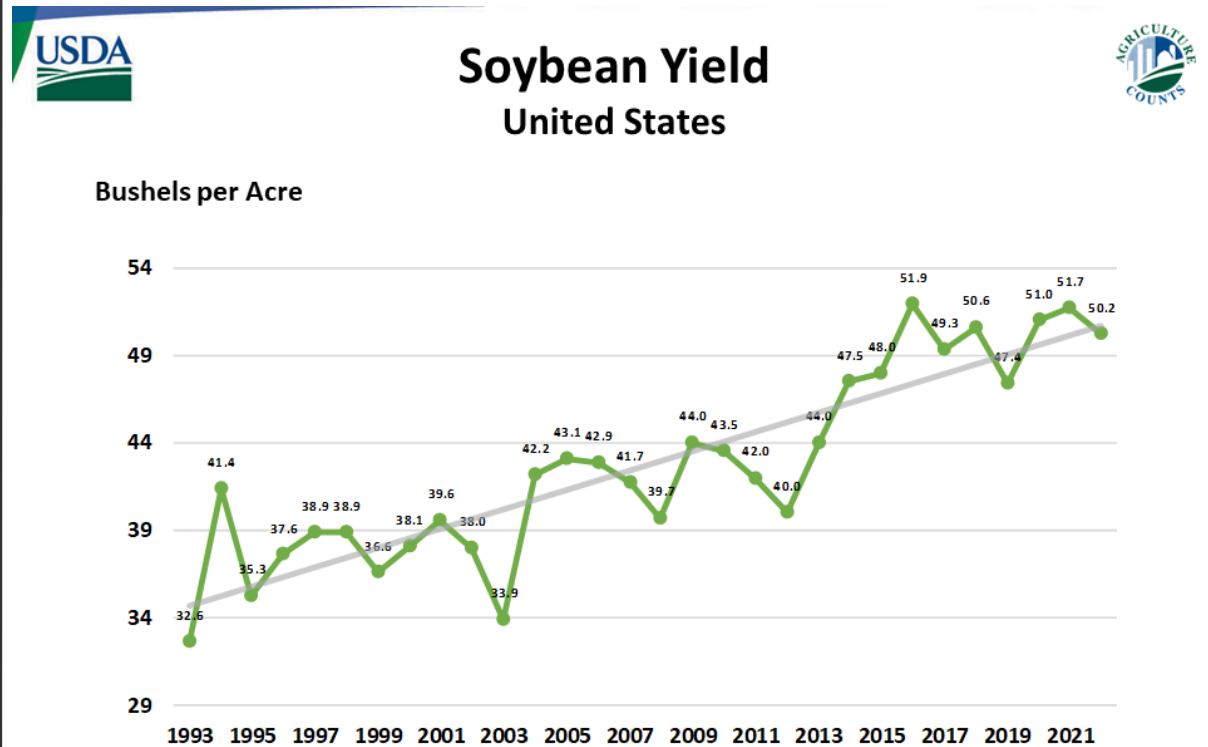
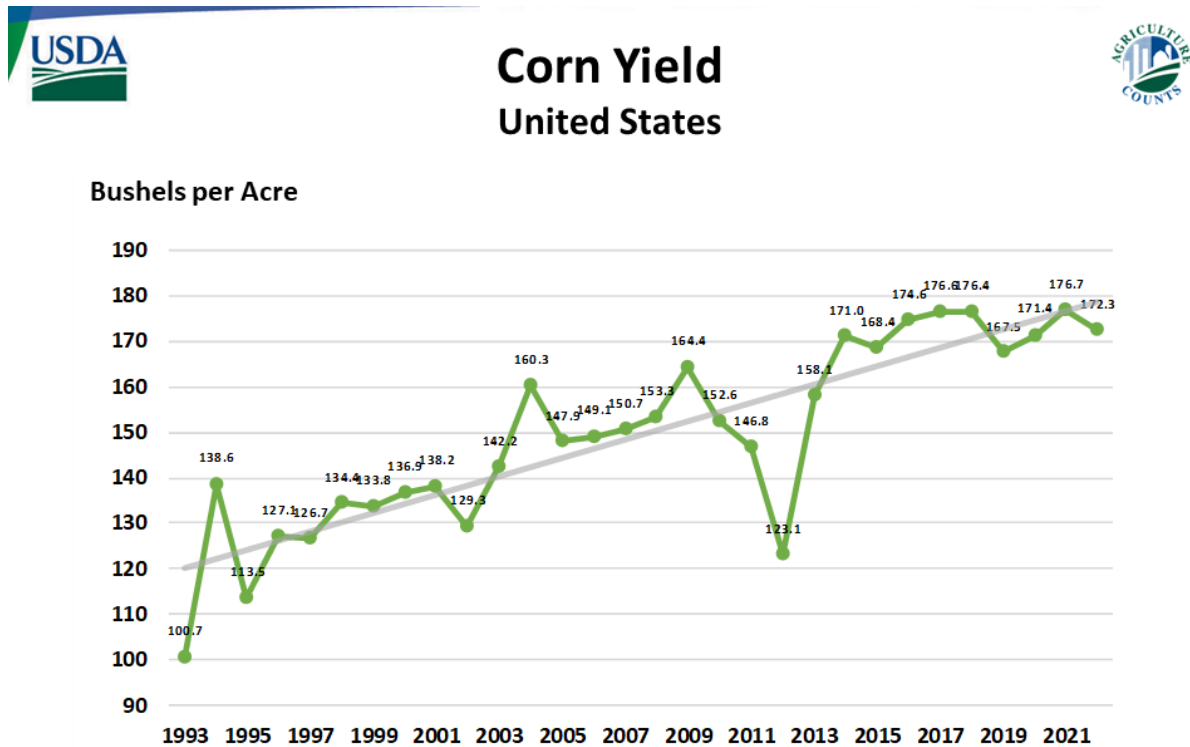
US

Below average almost all season



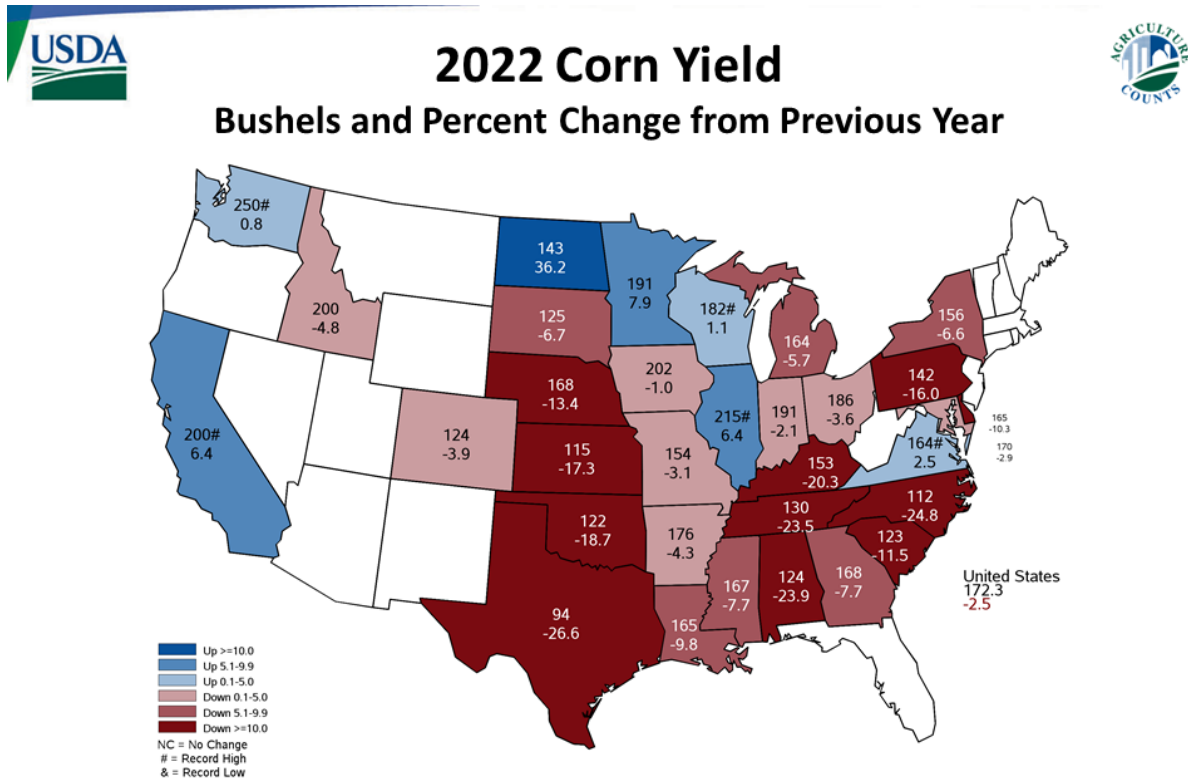
US Corn yield below trend by 4.7 bushels (2.7%)

US Soybean yield below trend by 1.3 bushels (2.5%)



Projected Average Corn and Soybean Yield by State and change from previous year

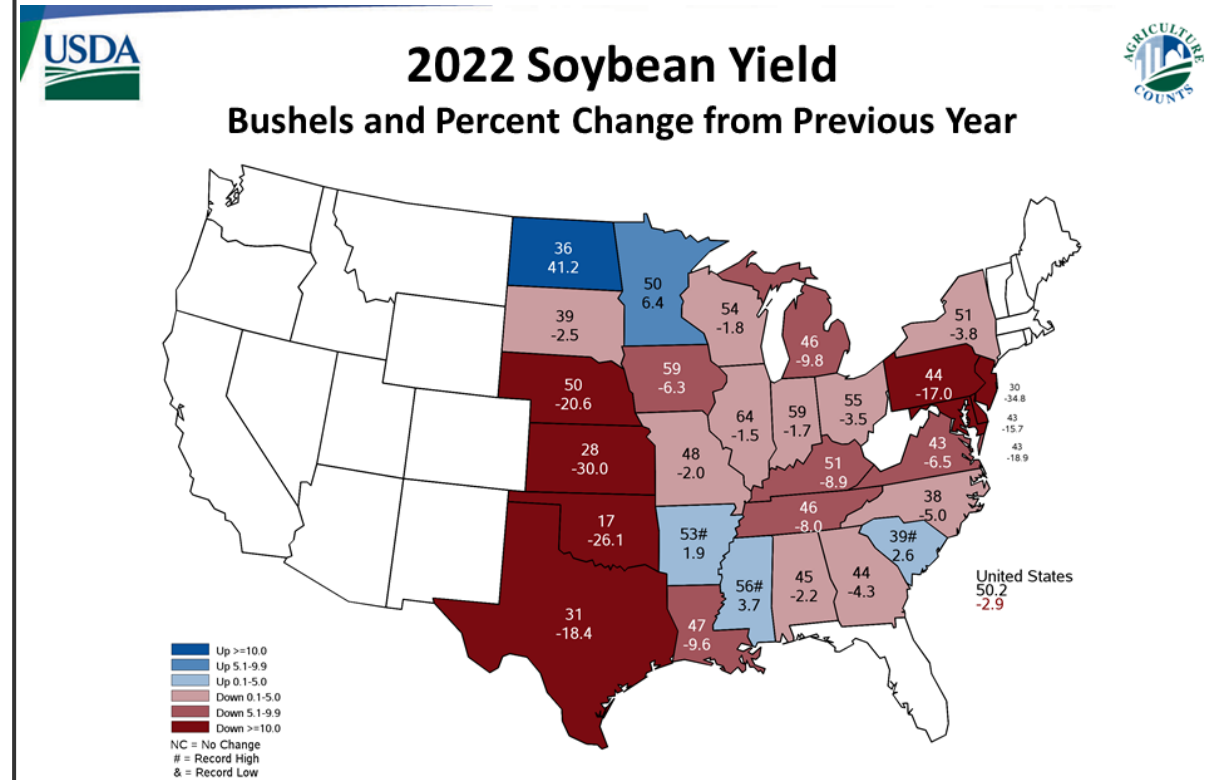
New Record for WI: 182 bu/ac



United States Department of Agriculture
National Agricultural Statistics Service

November 9, 2022

2nd Highest for WI: 54 bu/ac



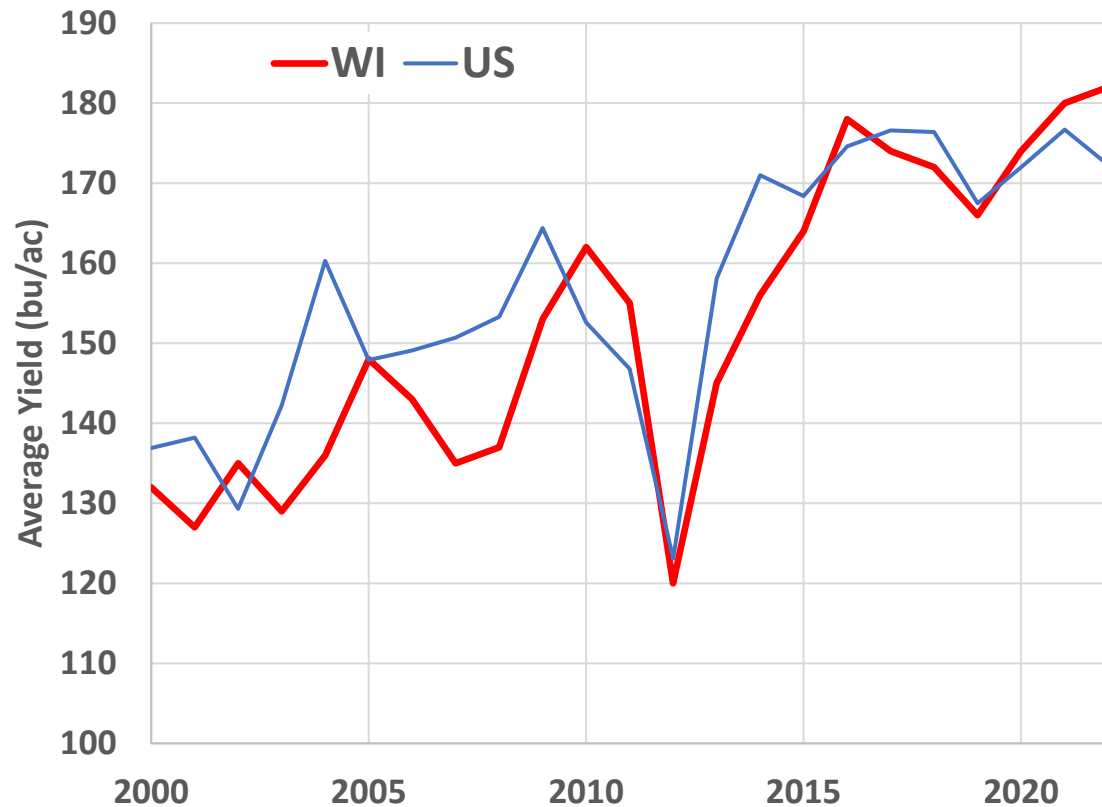
United States Department of Agriculture
National Agricultural Statistics Service

November 9, 2022

Average Corn and Soybean Yields 2000-2022

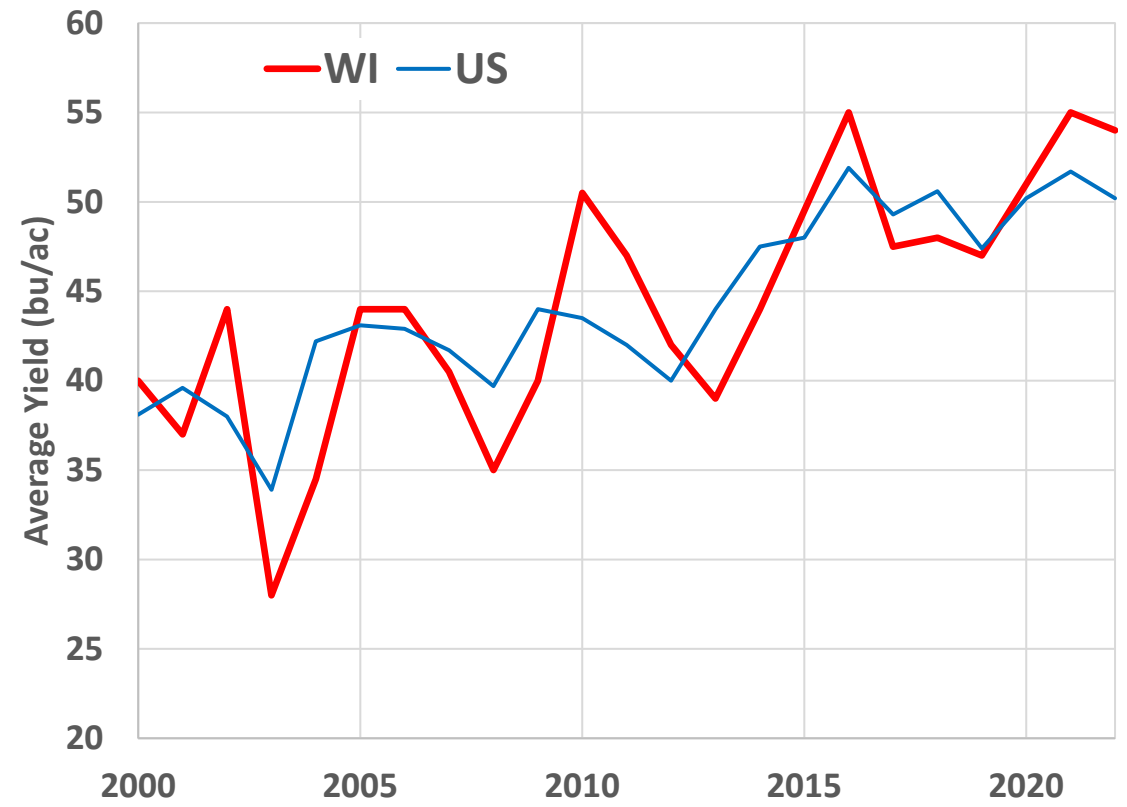
Corn

(2022 Projected Nov 9)



Soybean

(2022 Projected Nov 9)



Crop Summary

- Nationally 2022 was slightly below trend year
 - Average corn and soybean yields 2.5%-2.7% below trend due to drought, it has been worse
 - Wisconsin had a very good crop year
- What about Markets?
 - Crop and Livestock prices look very good

Dec 2022 Corn Futures Price on CME from June 2021 to Present

- Dec 2021 ~\$5.50/bu
- May 2022 ~\$7.30/bu
- Nov 2022 ~\$6.55/bu



Nov 2022 Soybean Futures Price on CME from June 2021 to Present

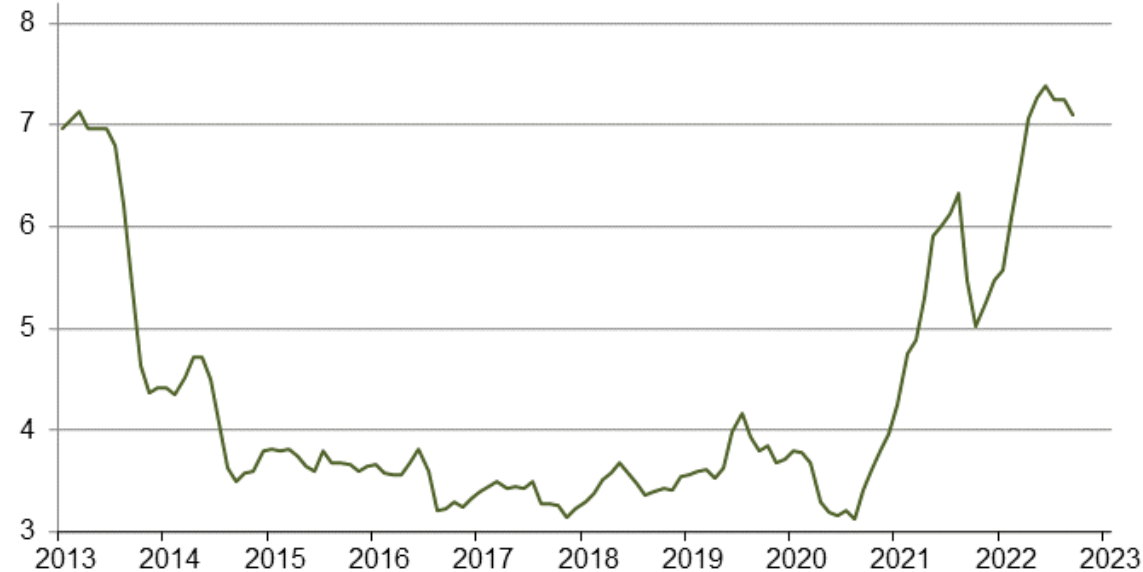
- Dec 2021 ~\$12.40/bu
- May 2022 ~\$15.00/bu
- Nov 2022 ~\$14.60/bu



US Average Farm Price for Corn & Soybeans

Prices Received for Corn by Month – United States

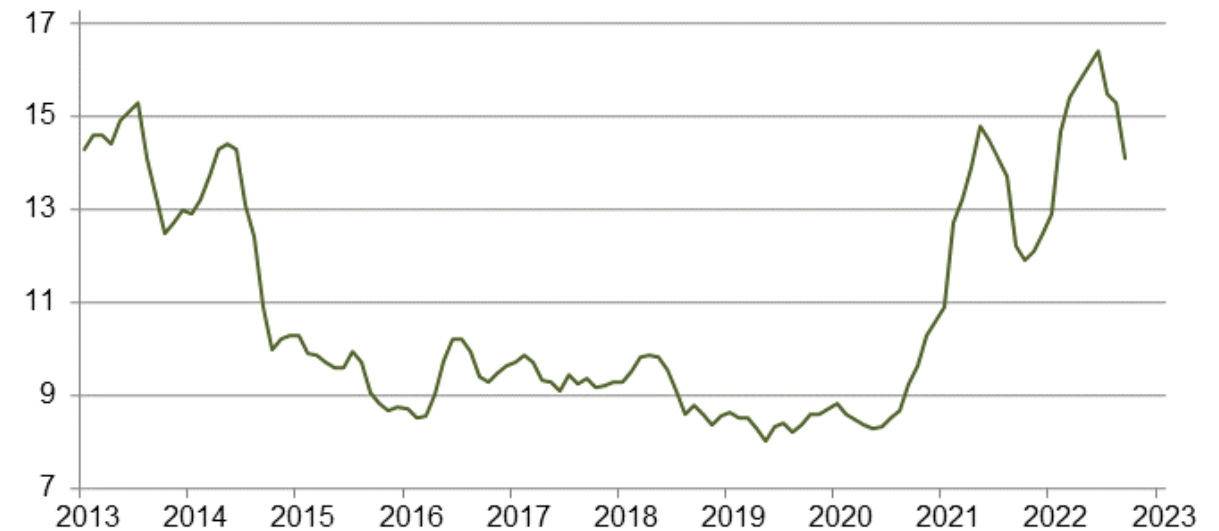
Dollars per bushel



USDA – NASS
10/31/2022

Prices Received for Soybeans by Month – United States

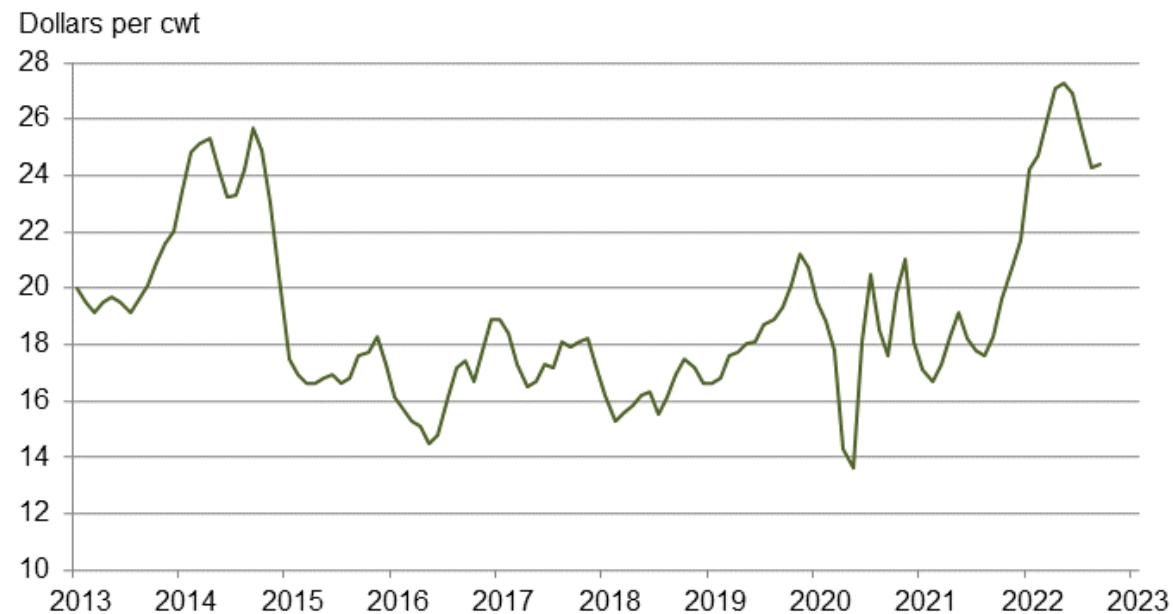
Dollars per bushel



USDA – NASS
10/31/2022

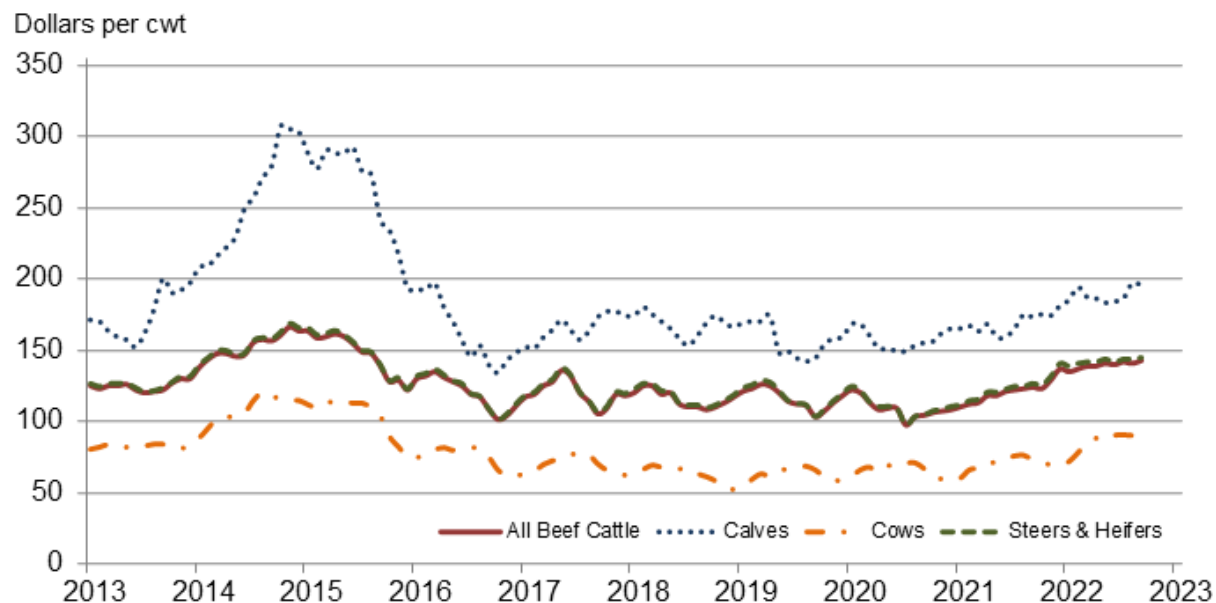
US Average Farm Price for Milk and Cattle

Prices Received for Milk by Month – United States



USDA – NASS
10/31/2022

Prices Received for Cattle by Month – United States



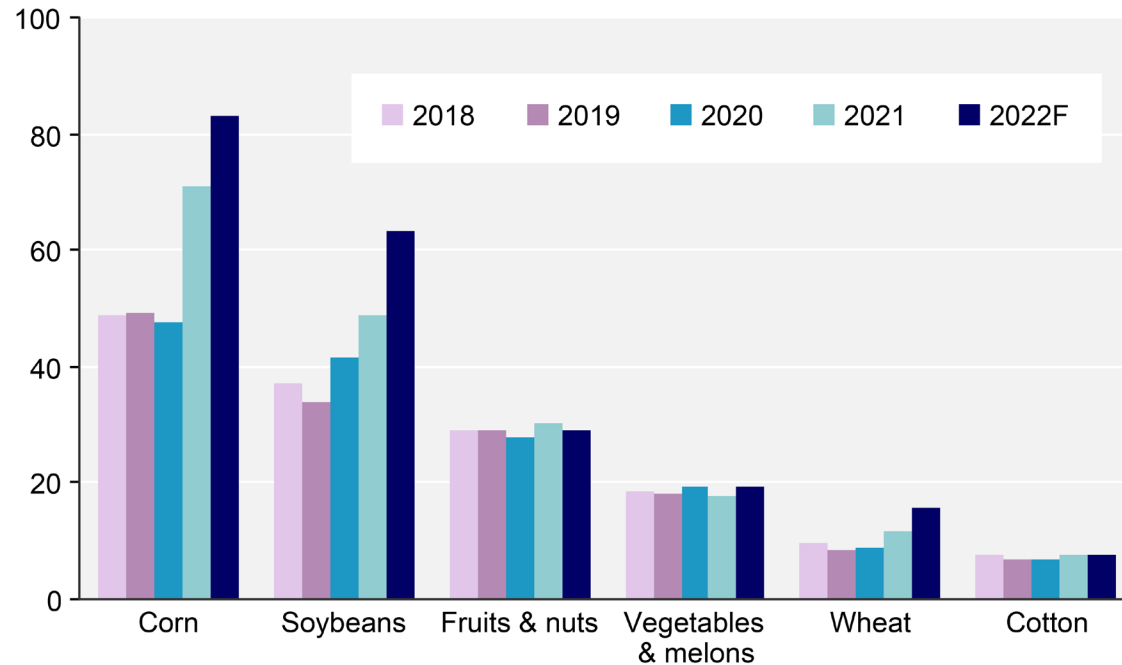
USDA – NASS
10/31/2022

% Change in Cash Receipts 2022 versus 2021 and 2020

	Corn	Soybean	Dairy	Cattle
From 2021	17%	31%	36%	16%
From 2020	74%	53%	41%	34%

U.S. cash receipts for selected crops, 2018–22F

\$ billion (nominal)



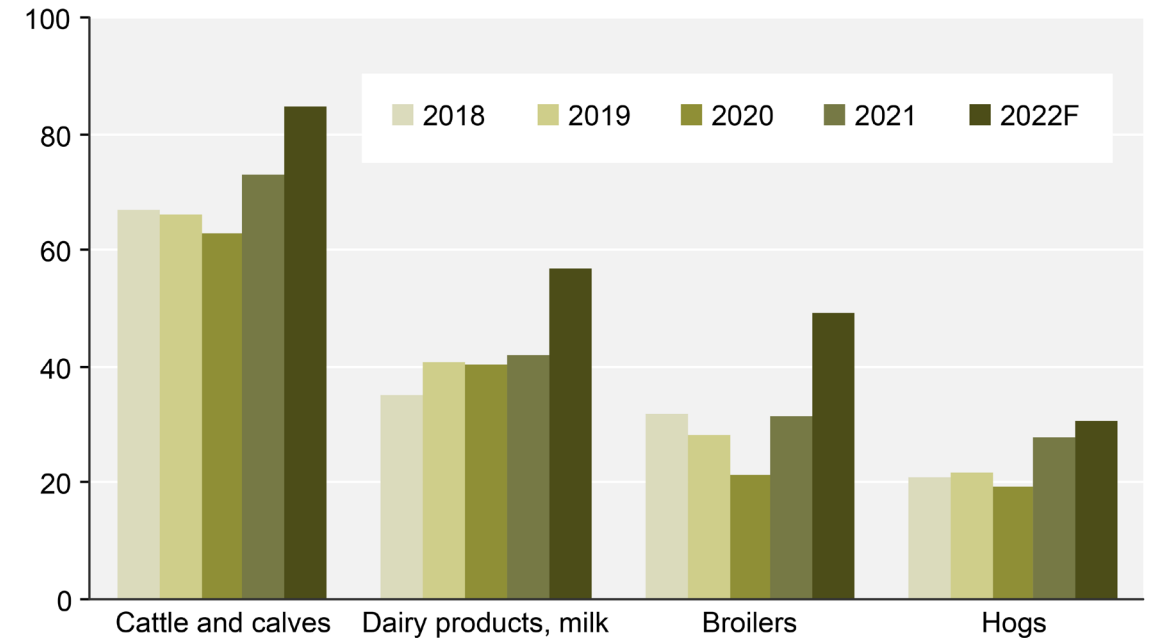
Note: F = forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of September 1, 2022.

U.S. cash receipts for selected animals/products, 2018–22F

\$ billion (nominal)



Note: F = forecast.

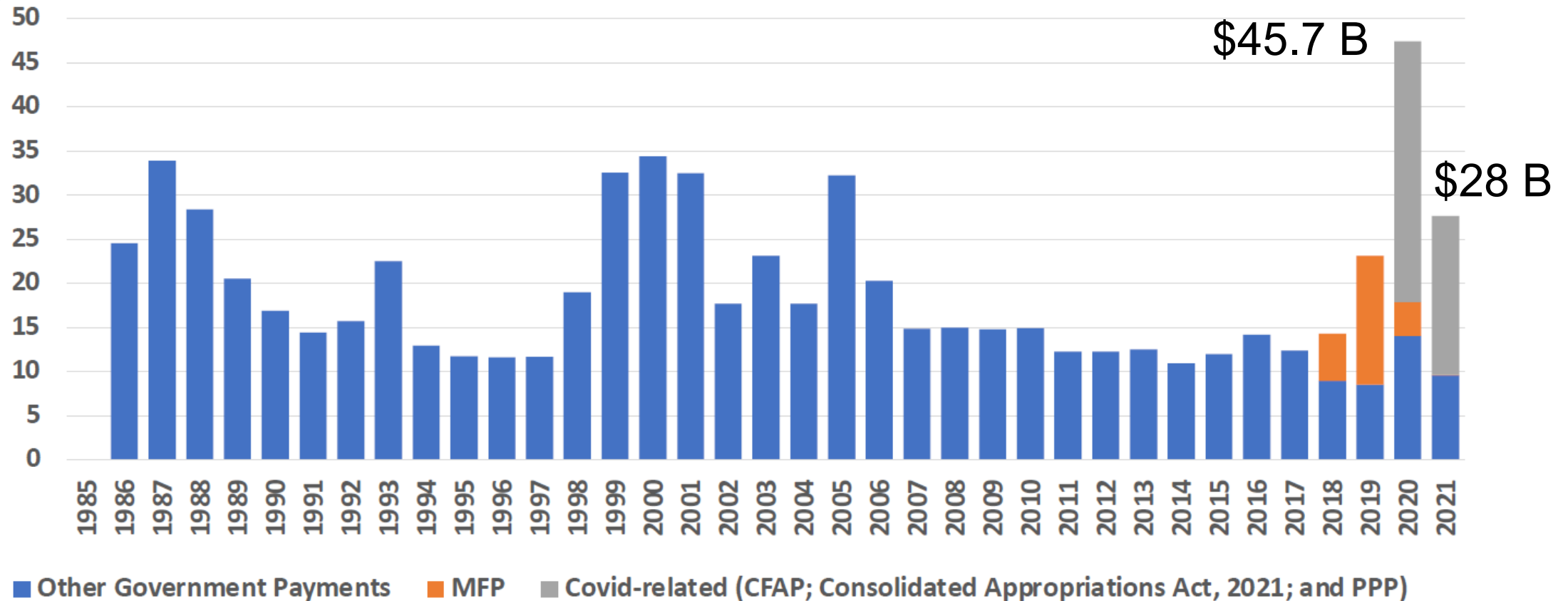
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of September 1, 2022.

Total government payments increased as a result of adverse circumstances but are projected to fall in 2021

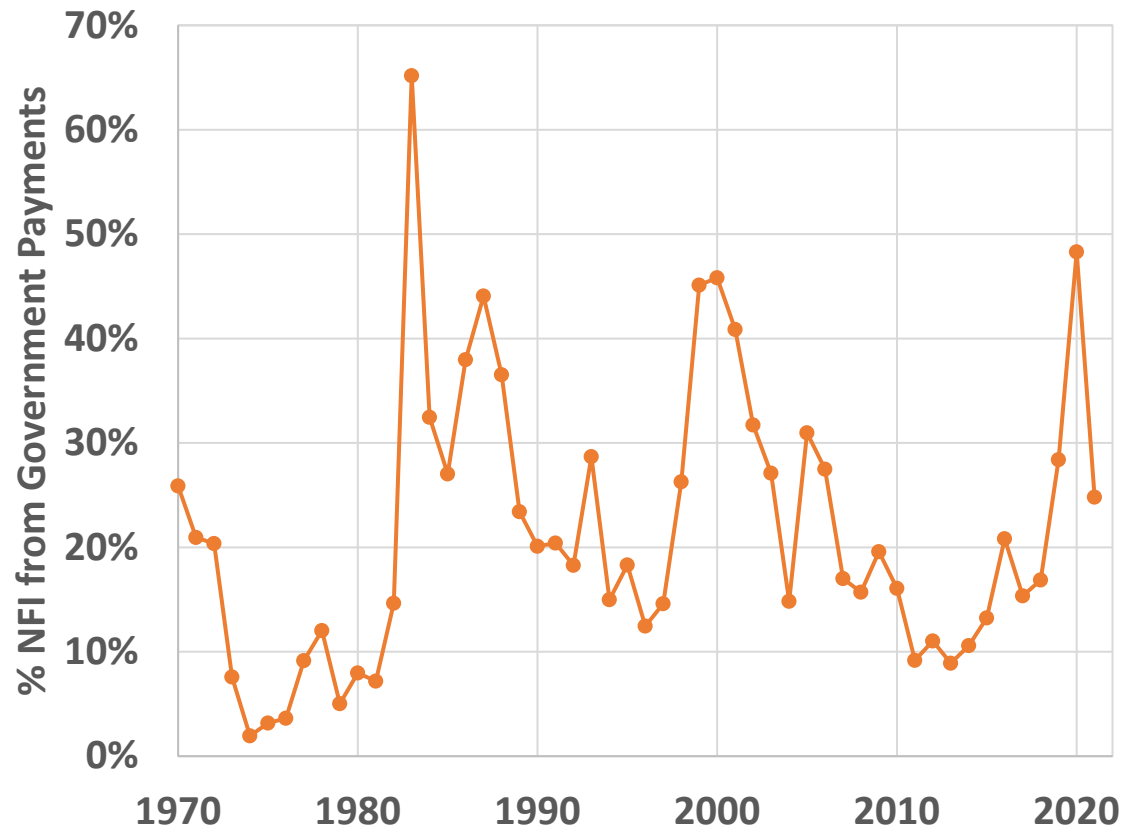
Billions
(2021\$)

COVID support for farmers: \$35 B in 2020, \$21 B in 2021



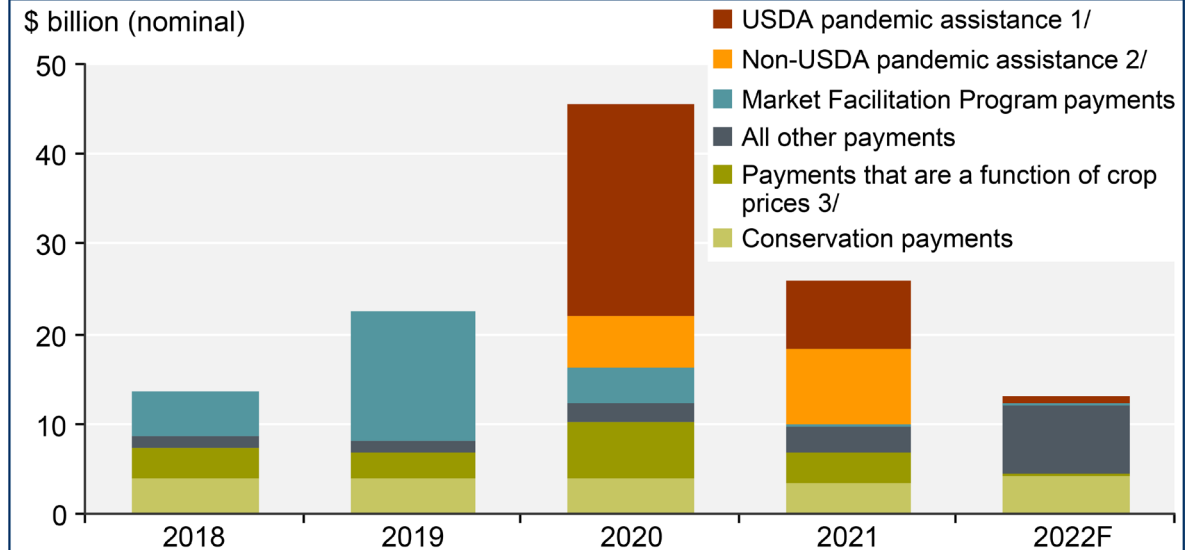
Back to Normal Commodity Support Payments

% Net Farm Income from Govt Payments



Lower Payments due to High Prices

Direct government payments to U.S. farm producers, 2018–22F



Notes: F = forecast.

1/ Includes payments from the Coronavirus Food Assistance Program and other USDA pandemic assistance for producers.

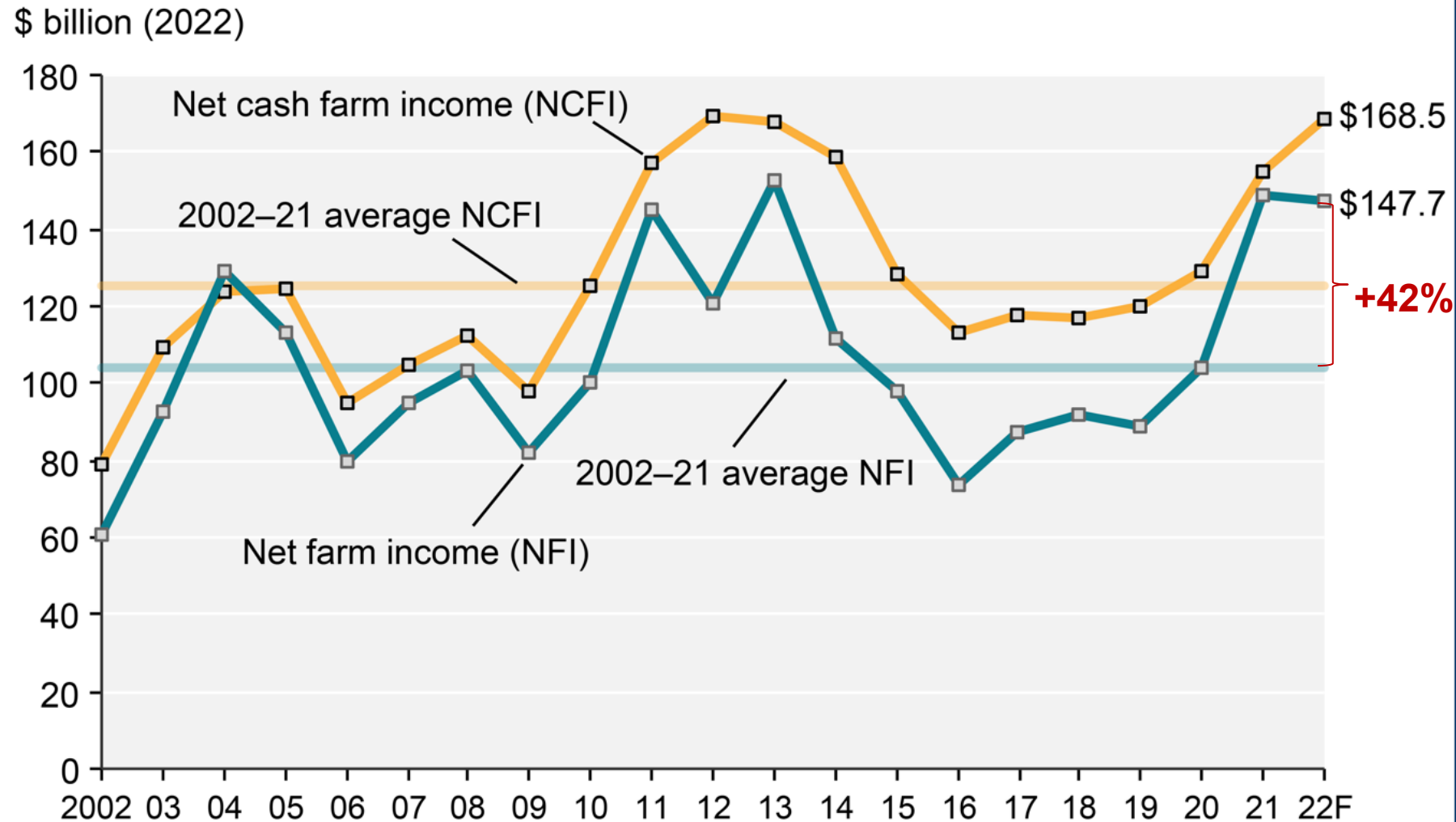
2/ Includes forgiven loans from the Paycheck Protection Program.

3/ Includes Price Loss Coverage, Agriculture Risk Coverage, loan deficiency payments (excluding grazeout payments), marketing loan gains, certificate exchange gains, and dairy payments.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of September 1, 2022.

U.S. net farm income and net cash farm income, inflation adjusted, 2002–22F



**2022 should
be a good year
for farmers**

Source: USDA
ERS Sep 1, 2022

Note: F = forecast. Values are adjusted for inflation using the U.S. Bureau of Economic Analysis Gross Domestic Product Price Index (BEA API series code: A191RG) rebased to 2022 by USDA, Economic Research Service.

<https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast/>

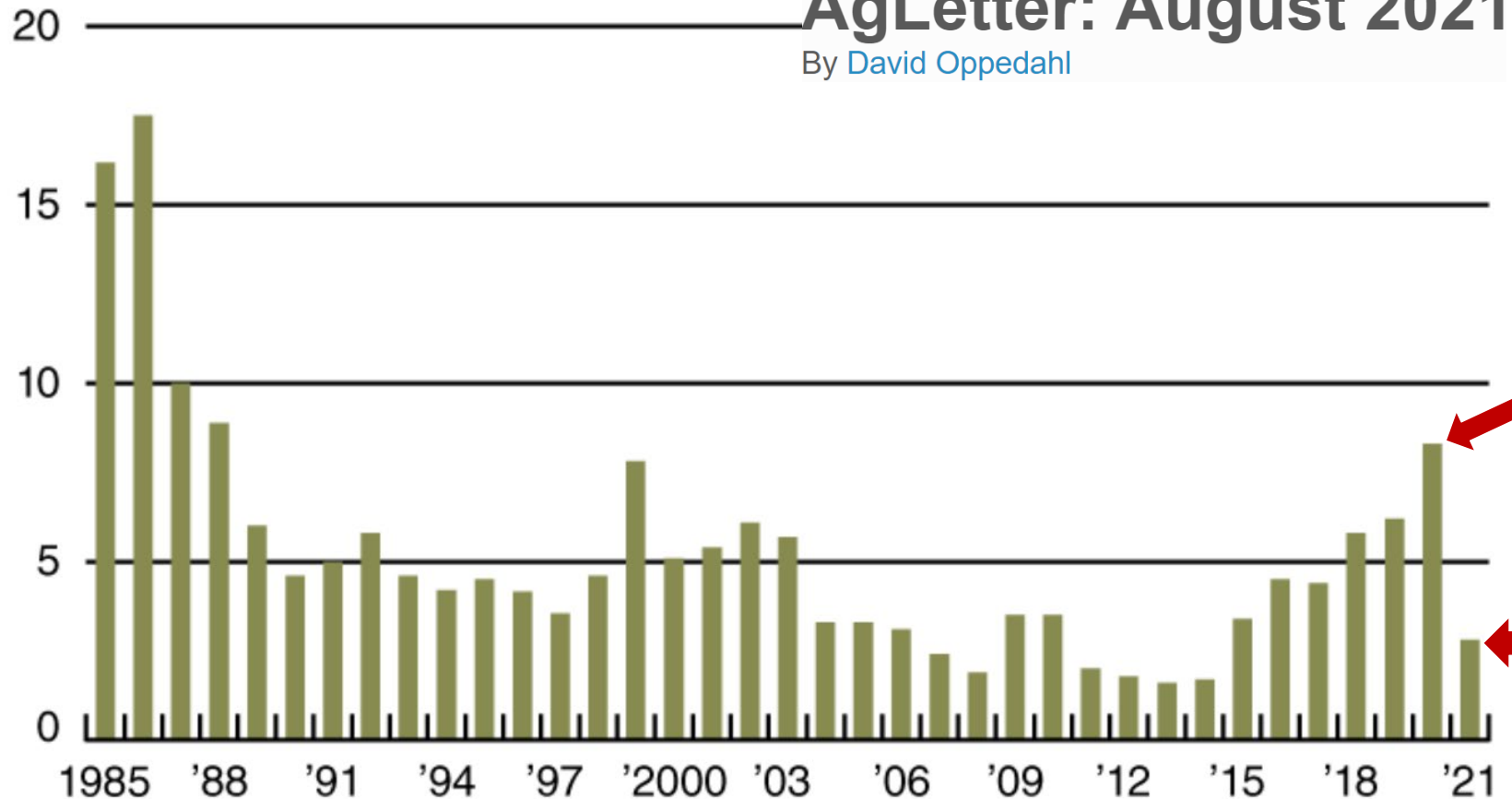
Prices are up, farm income is up
What are farmers doing with this money?

Let's Look at the Farm Financial Situation

Farmers are Paying Down Debt

Percentage of Seventh District farm loan portfolio with “major” or “severe” repayment problems

percent



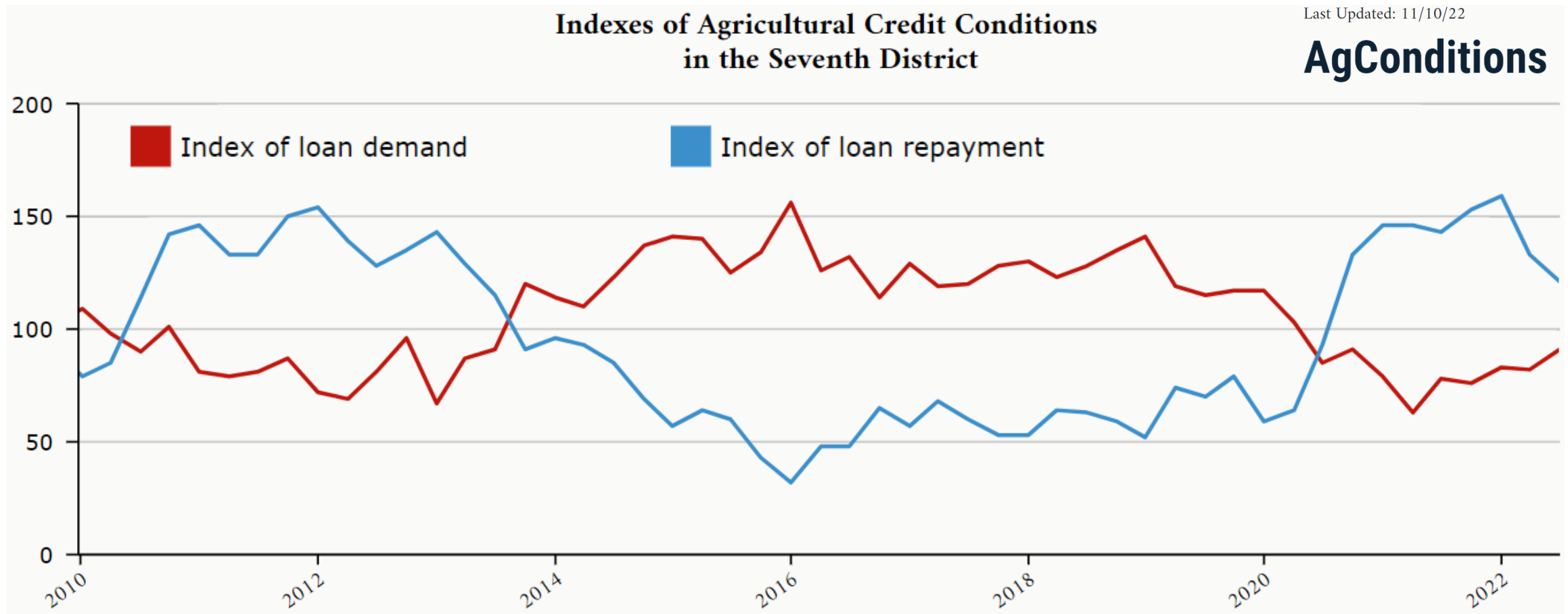
Seventh Federal Reserve District



2020: Highest rate of repayment problems since the 1980's

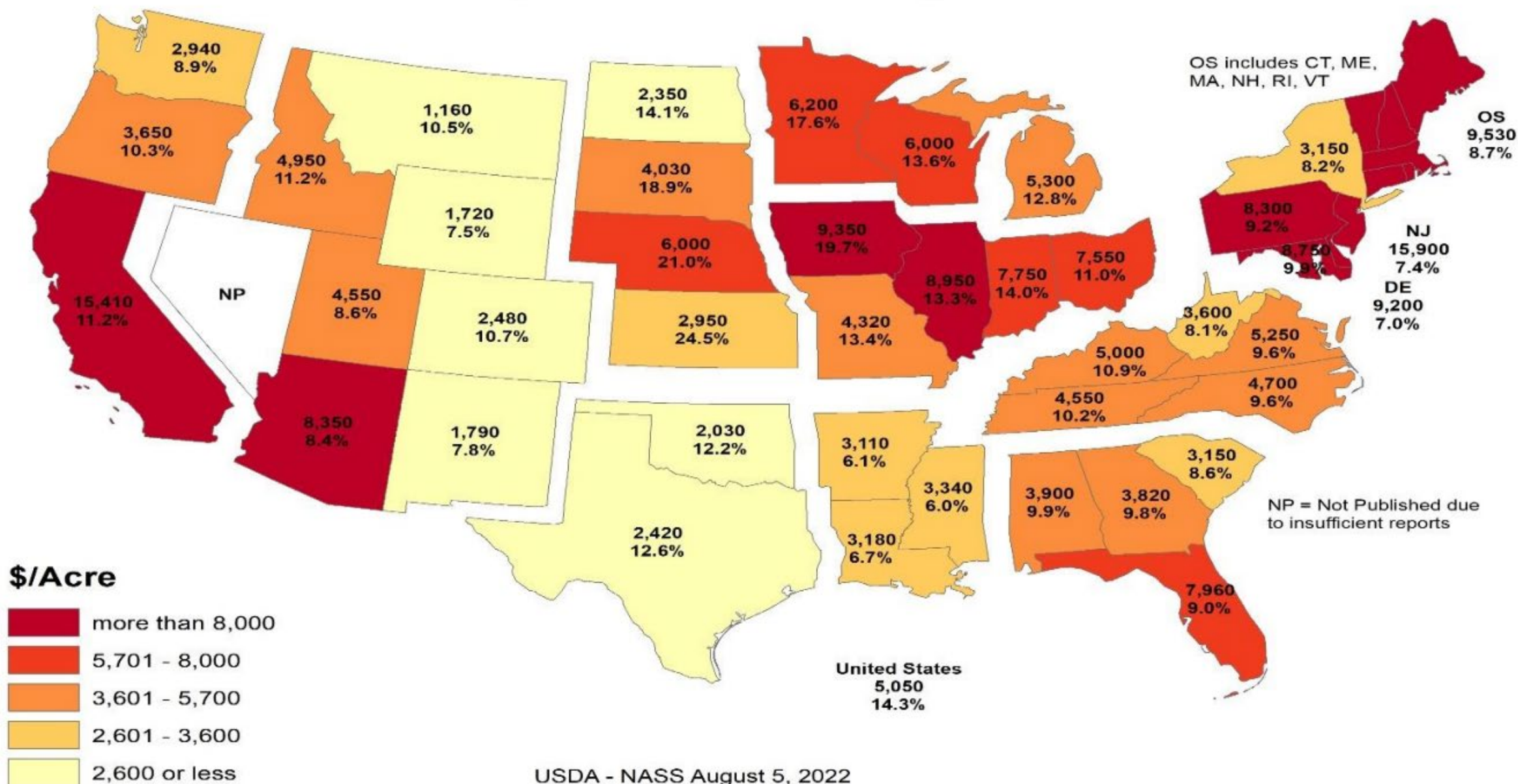
2021: Not since 2014 have repayment problems been so low

The trend continues as of Jul 1, 2022



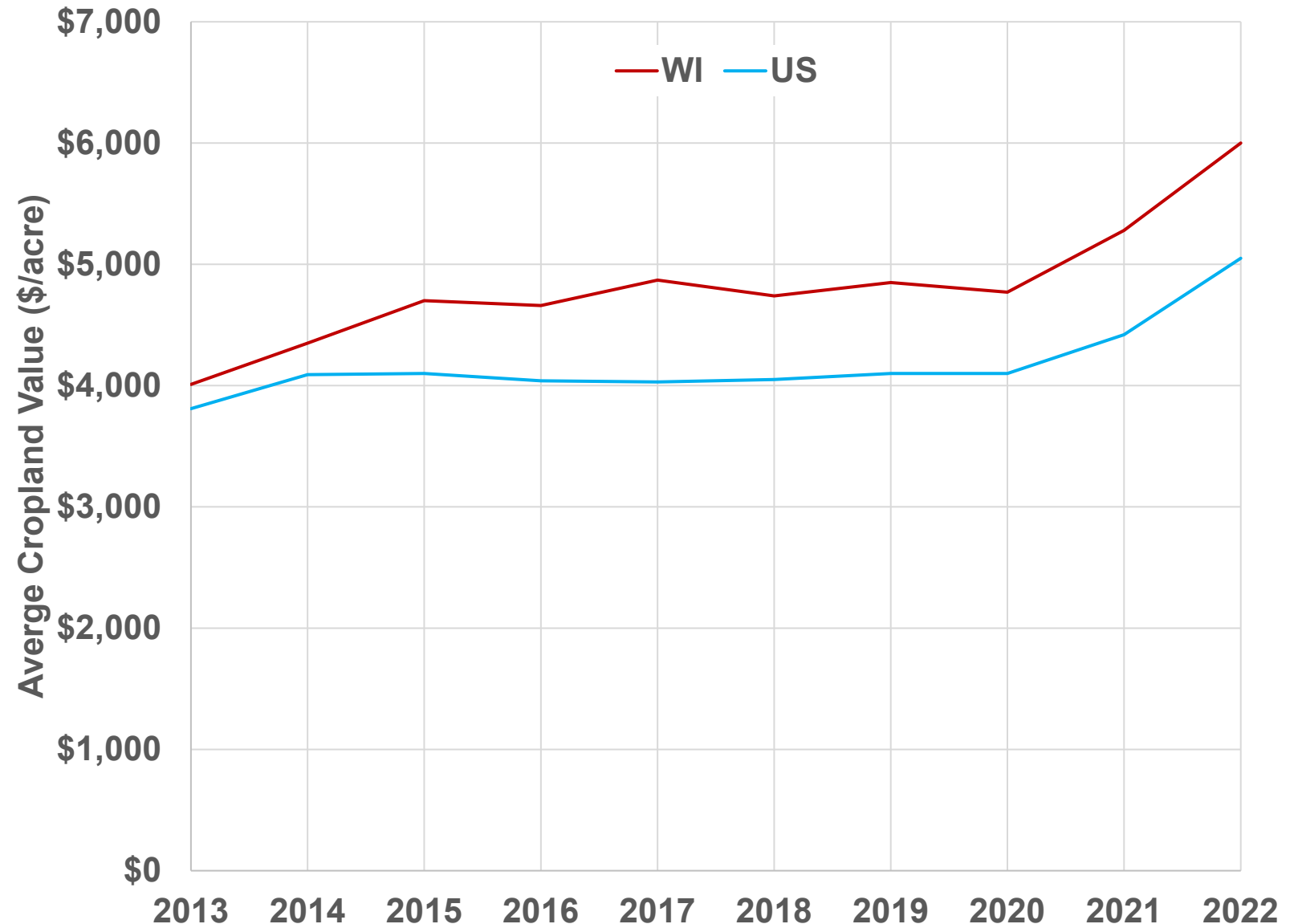
2022 Cropland Value by State

Dollars per Acre and Percent Change from 2021

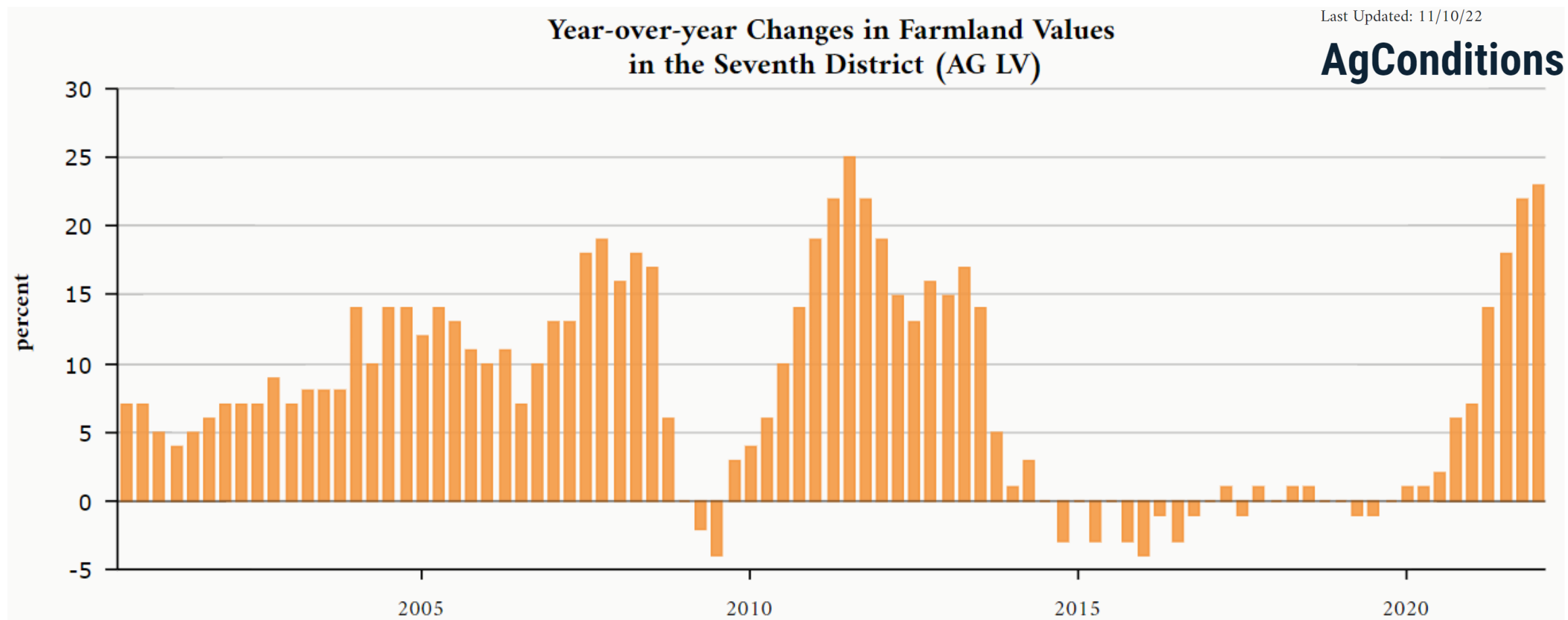


Average Cropland Values 2013-2022

- After several years of steady land values, rapid rise
- Strong ag market outlook
- Lots of cash from MFP, CFAP, PPP



Farmland Value Changes as of Jul 1, 2022



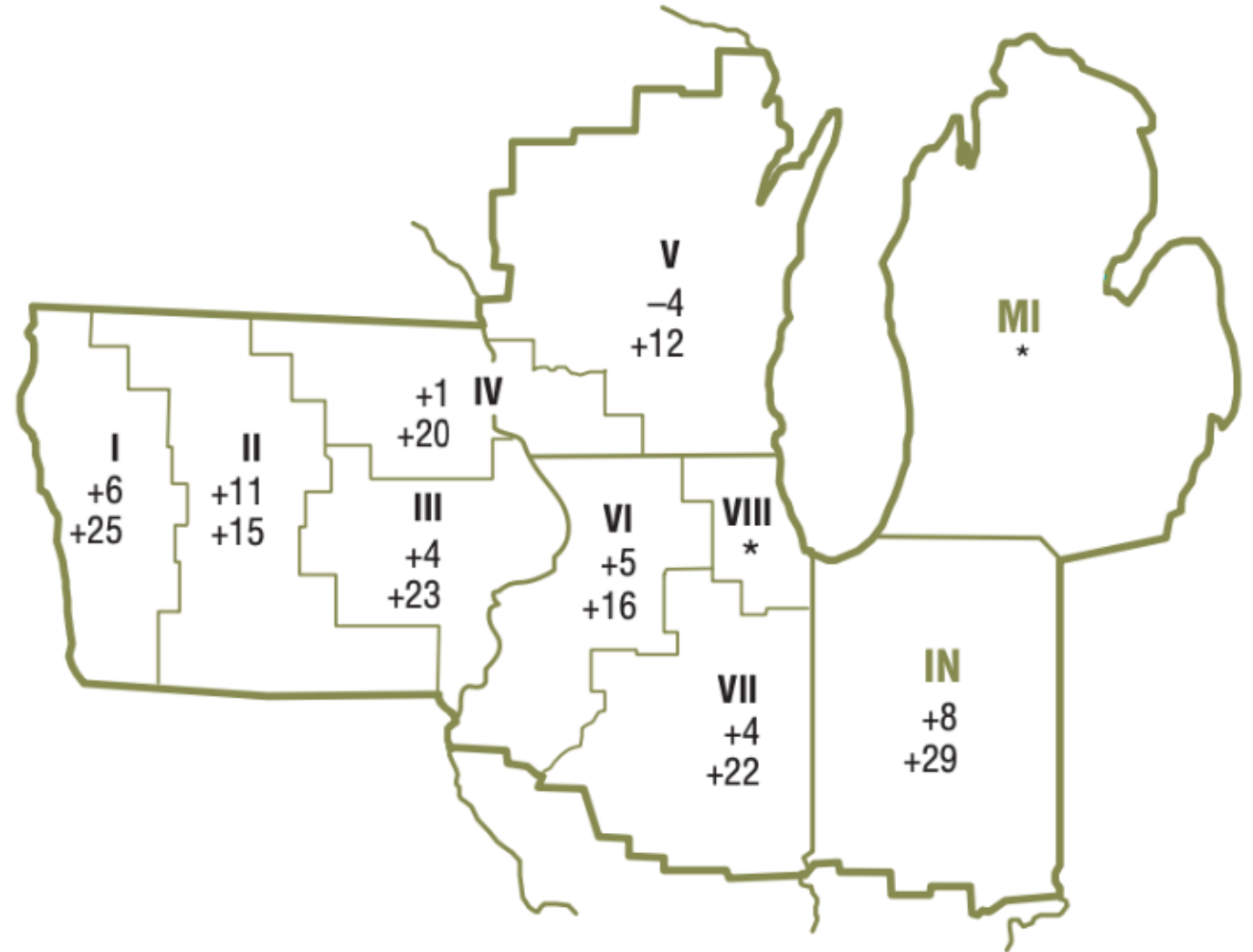
Percent change in dollar value of “good” farmland

Top: July 1, 2022 to October 1, 2022

Bottom: October 1, 2021 to October 1, 2022

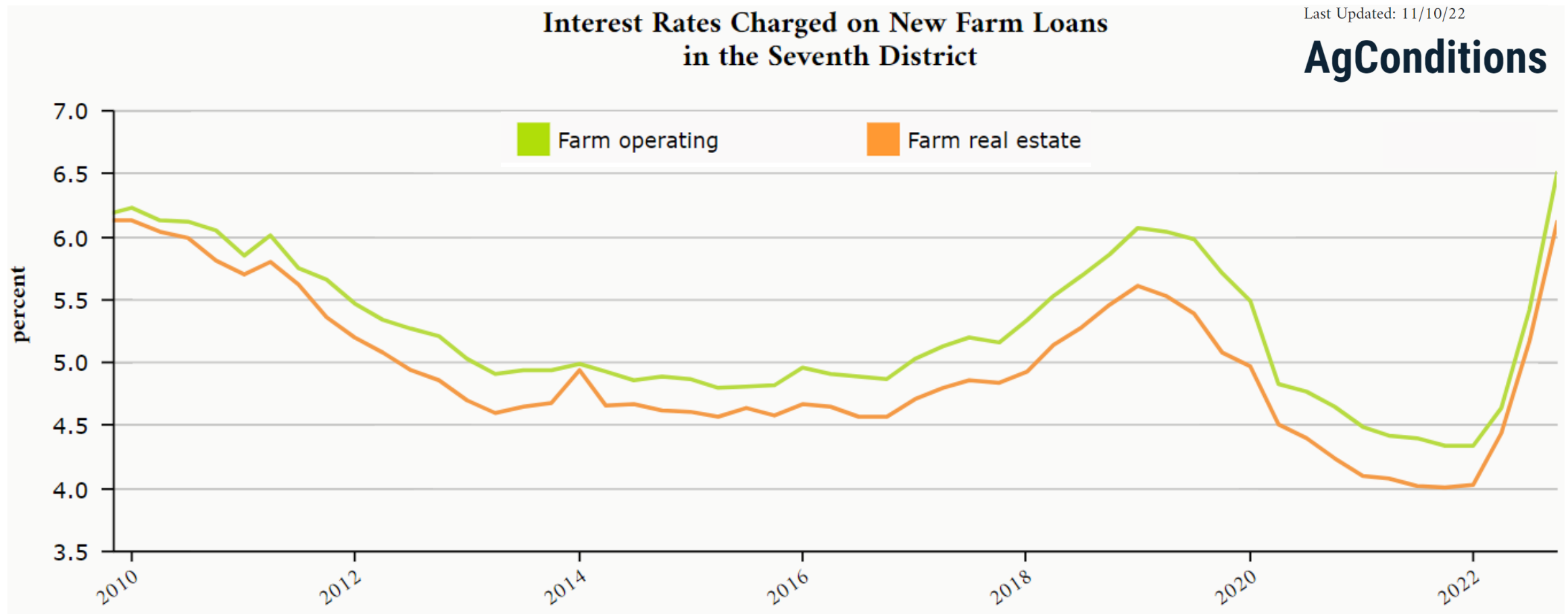
	<u>July 1, 2022 to October 1, 2022</u>	<u>October 1, 2021 to October 1, 2022</u>
Illinois	+5	+20
Indiana	+8	+29
Iowa	+6	+22
Michigan	*	*
Wisconsin	-3	+12
Seventh District	+4	+20

*Insufficient response.



Graph from the Federal Reserve Bank of Chicago, AgLetter (November 2022).

Record low interest rates have ended

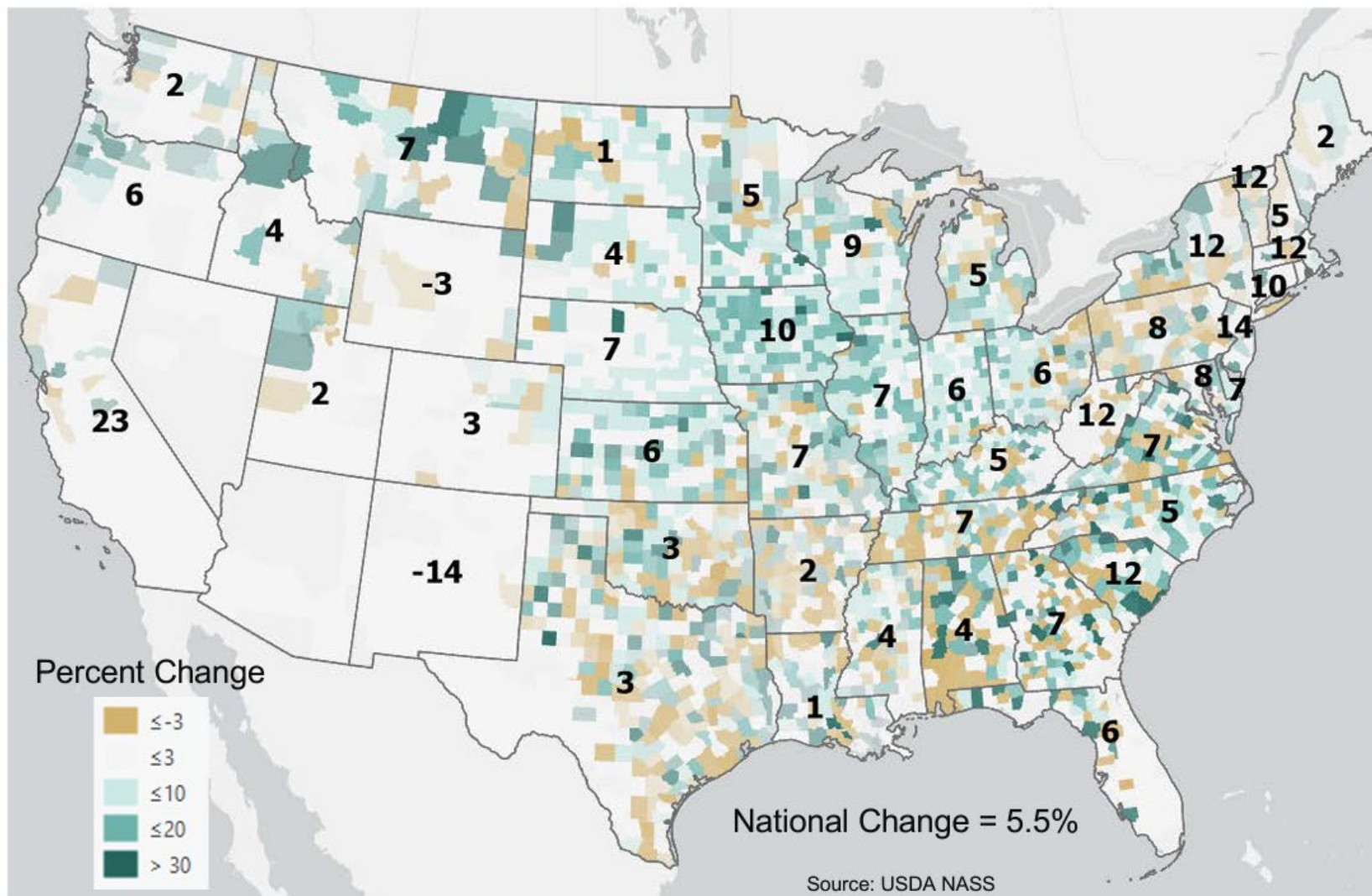


Current Farm Financial Situation

- High yields and prices in 2021 and 2022: corn and soybeans
- Livestock revenues are up in 2021 and 2022: dairy and cattle
- Unprecedented government payments in last few years are done
- US 2022 Net Farm Income 42% above its 20-year average
- Farms paid off debts, balance sheets have improved, bought land with low interest rates and additional government payments
 - Land price increases seem to be slowing with high interest rates
- Average WI farm is in solid financial position going into 2023
- What's on farmers' minds for 2023? COSTS!

Percent Change in Cash Rent for Non-Irrigated Cropland 2021 - 22

- Land rent is up in WI and around the Midwest
- Follows the land value increase and high corn prices



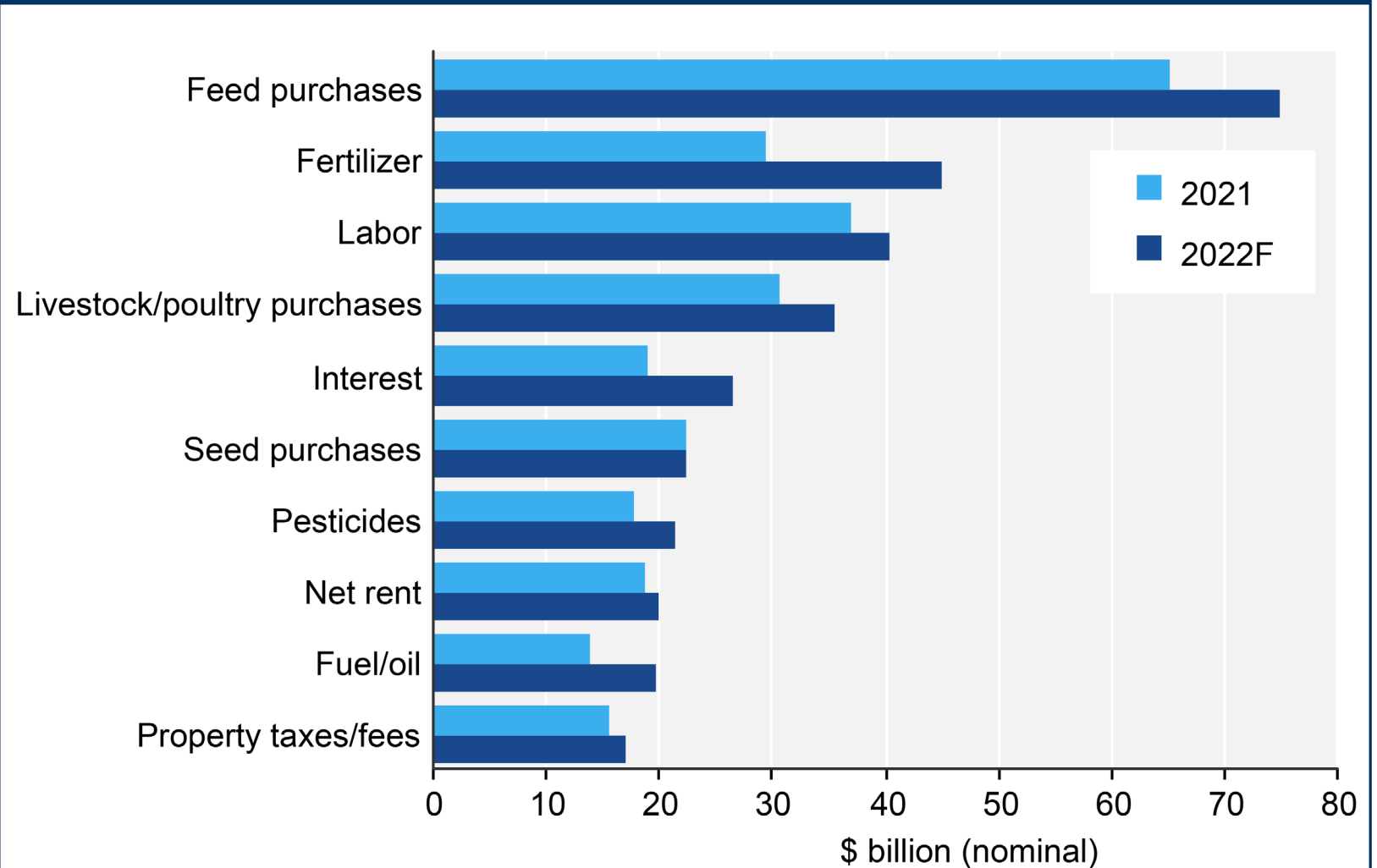
Farmers are Paying Higher Costs



What farmers buy How prices have changed from 2021 to 2022

- Farmers are anxious for 2023
- Will crop and livestock prices remain high?
- Will costs remain high?

Selected U.S. farm production expenses, 2021–22F



Note: F = forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of September 1, 2022.

How unusual 2022 fertilizer prices were

Fertilizer prices currently in a flat holding pattern as everyone waits
Will they keep falling? Mississippi River? Ukraine? 2023 crop prices?

Figure 1. Fertilizer Prices per Ton in Illinois From 2008 to 2022

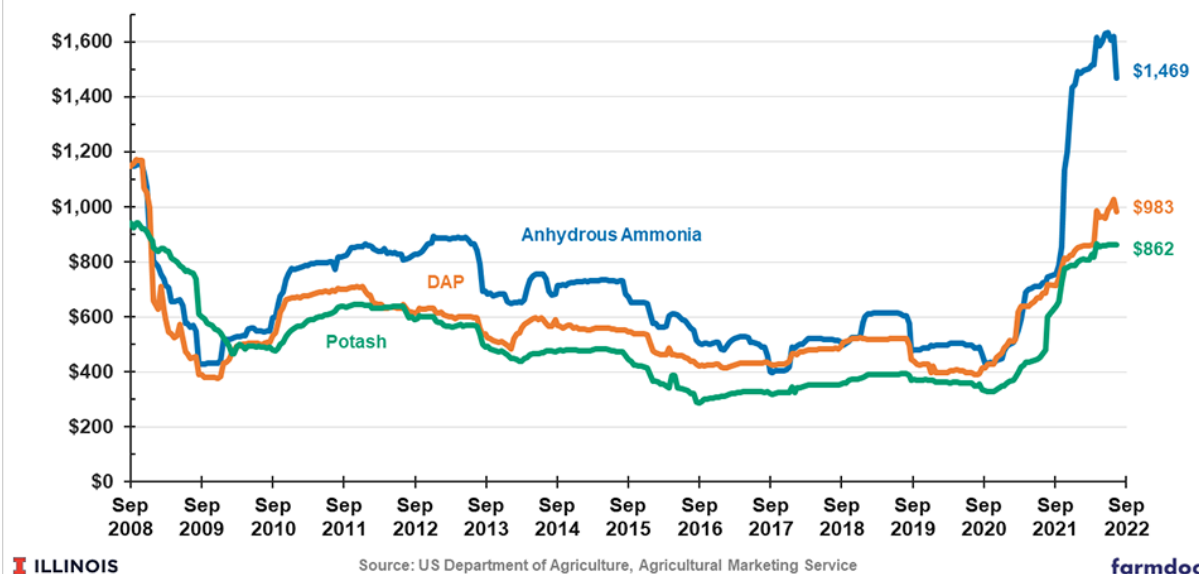
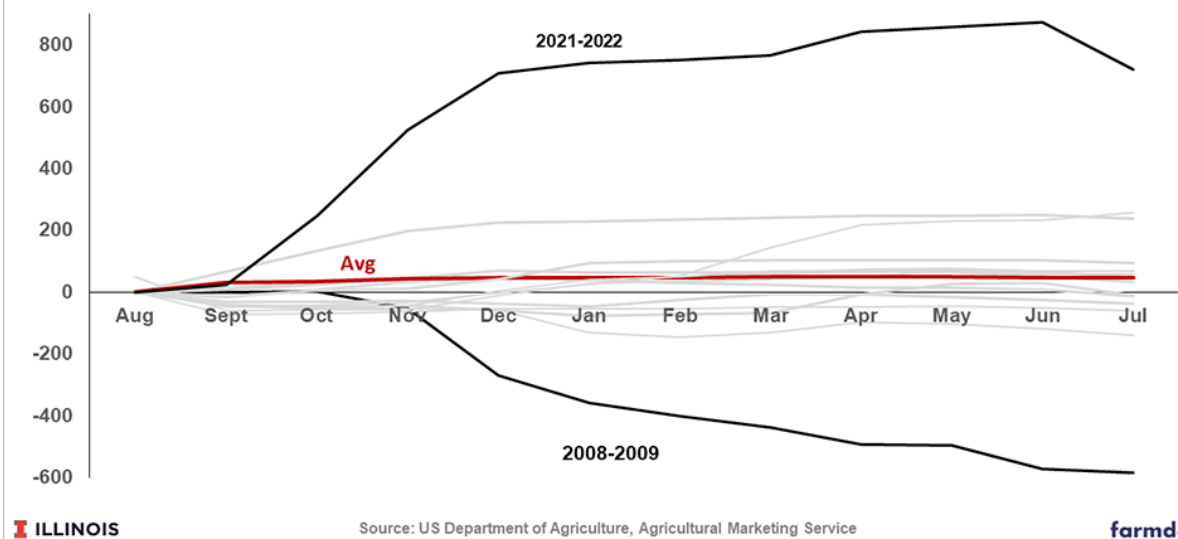
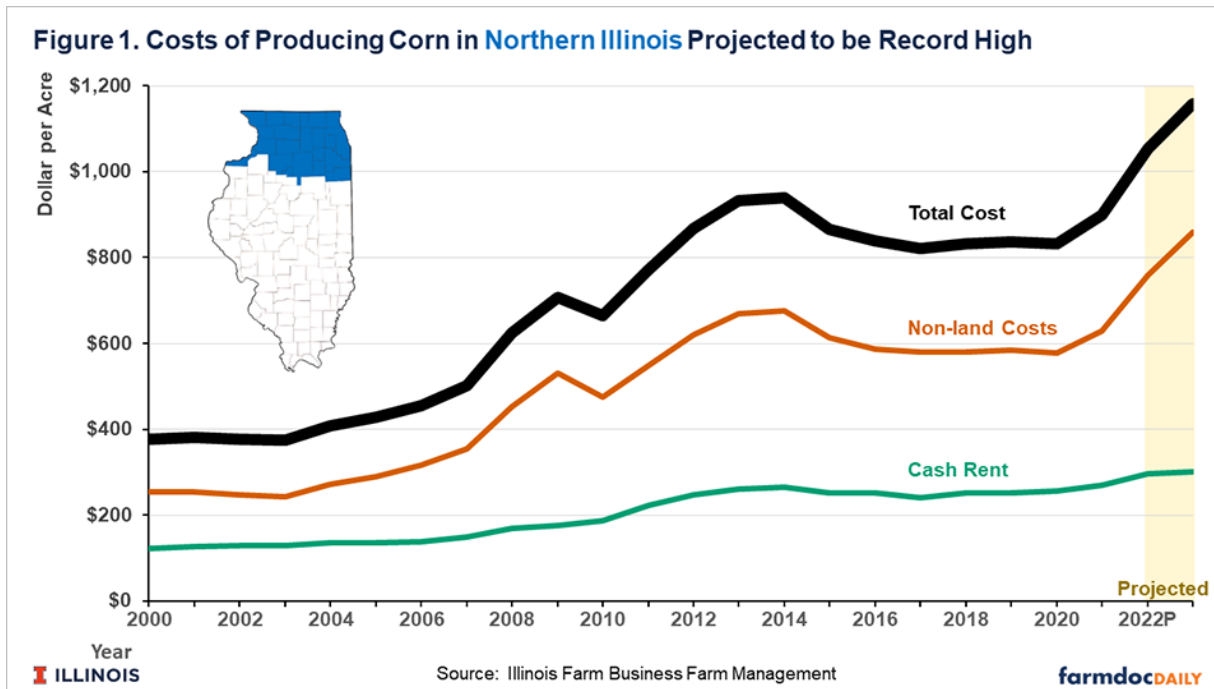


Figure 3. Change in Anhydrous Ammonia Price from August, Years from 2008 to 2021



Projecting Record Costs for 2023 Crops (Aug 2022)



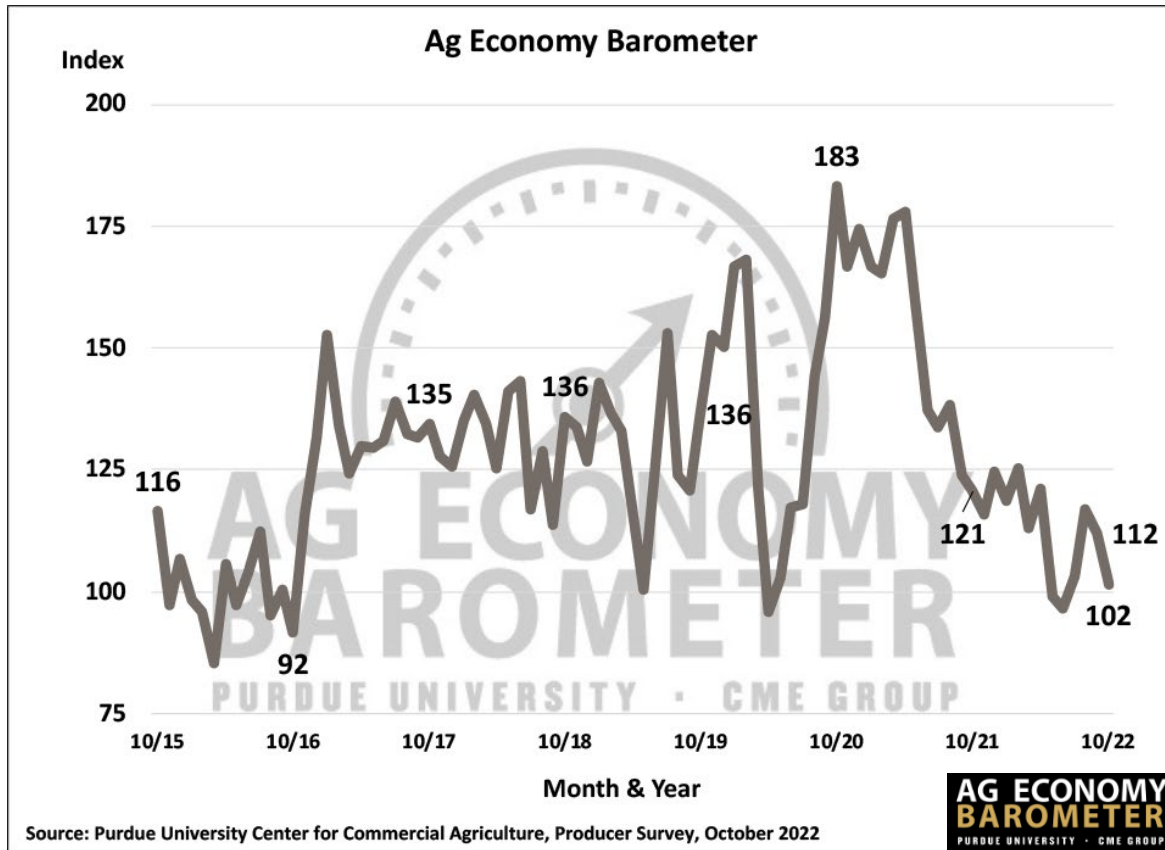
Crop Budgets for the 2023 Crop Northern Illinois Region

Corn	2021	2022P	2023P
Non-land Costs	\$629	\$758	\$860
Land Rent	\$271	\$296	\$301
Farmer Return	\$477	\$193	-\$11

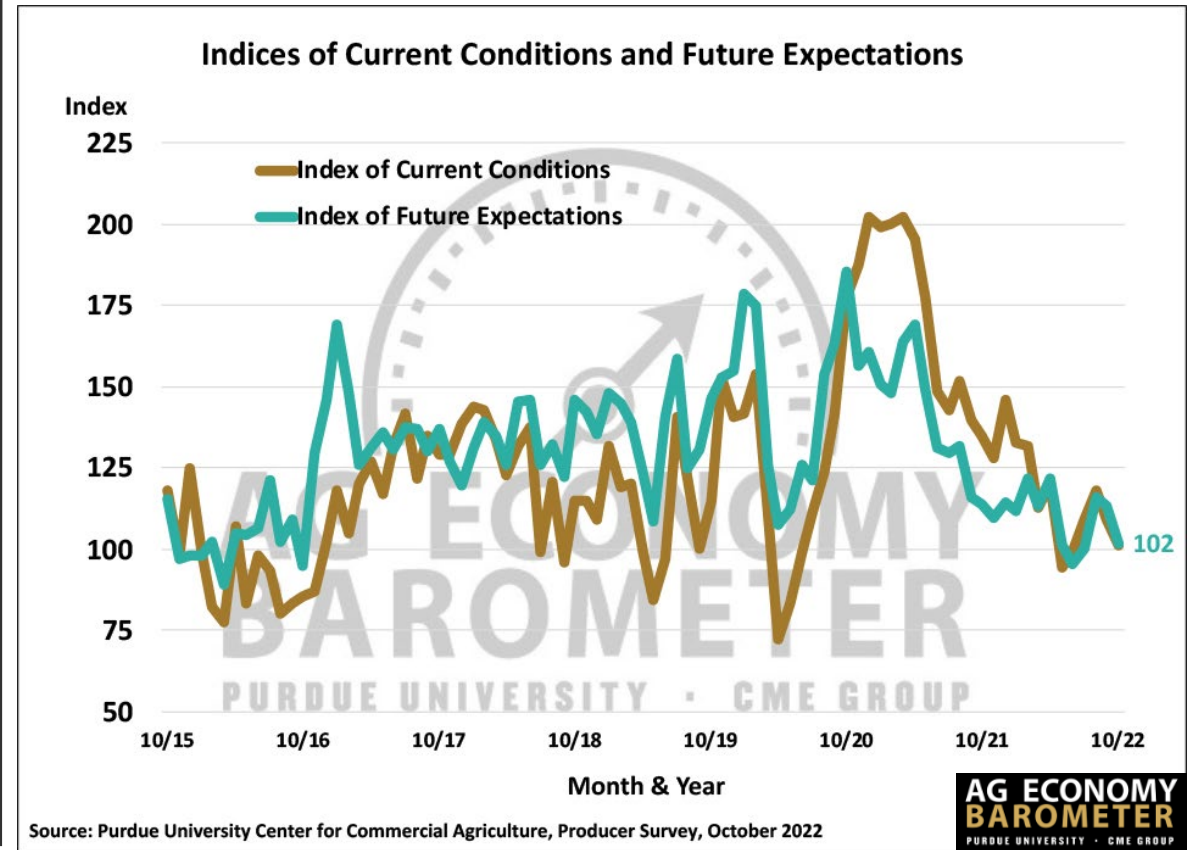
Soybean	2021	2022P	2023P
Non-land Costs	\$371	\$472	\$514
Rent	\$271	\$296	\$301
Farmer Return	\$287	\$64	\$11

Purdue's Ag Economy Barometer Oct 2022

Farmer Current Sentiment is Low



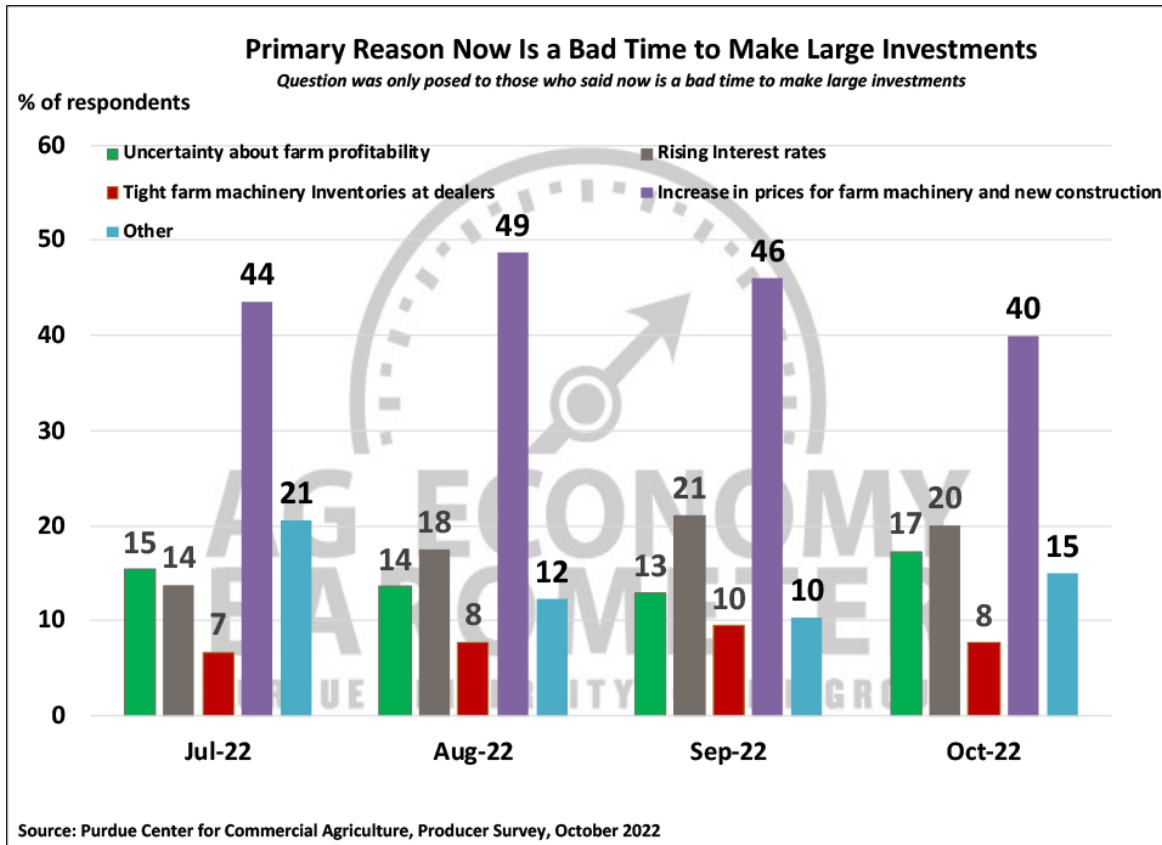
Farmer's not Optimistic about Future



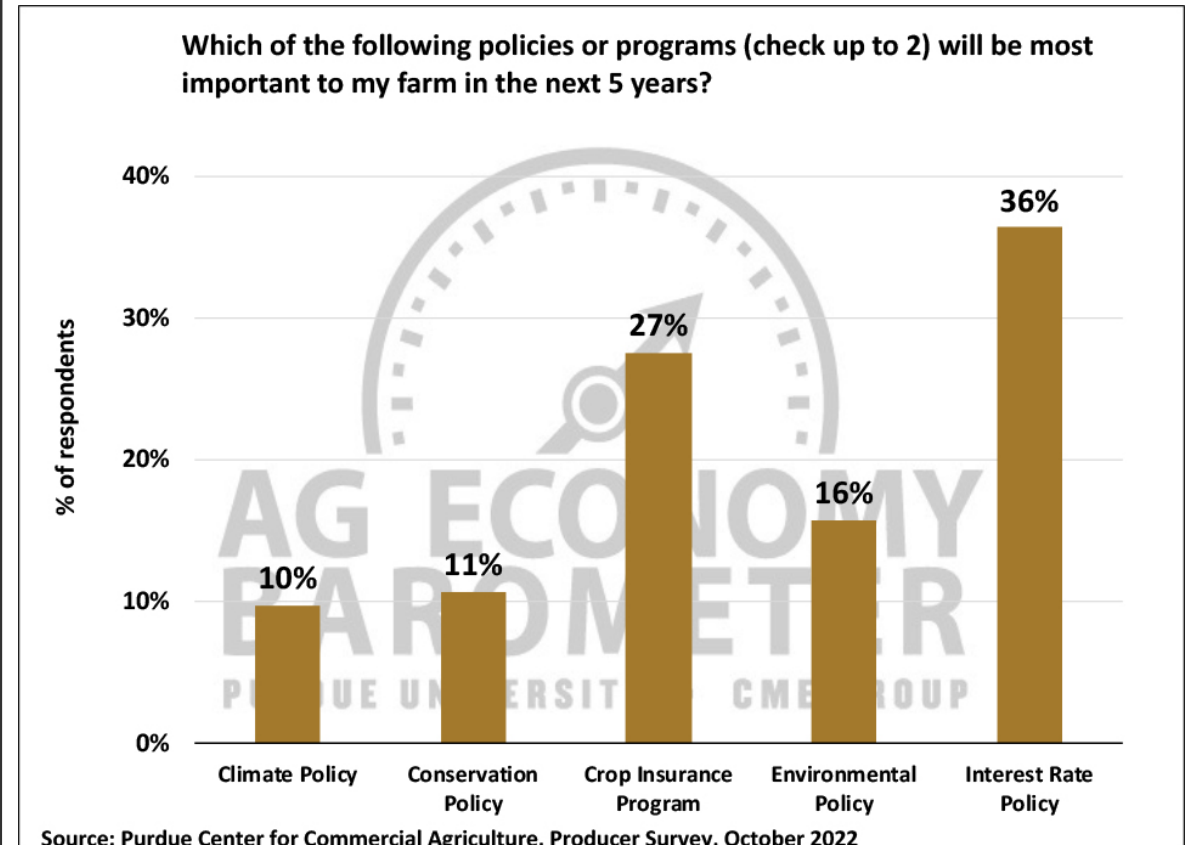
<https://ag.purdue.edu/commercialag/ageconomybarometer/ag-economy-barometer-declines-again-producers-express-concern-about-interest-rate-policy/>

Purdue's Ag Economy Barometer Oct 2022

High Costs and rising Interest Rates
are on their minds



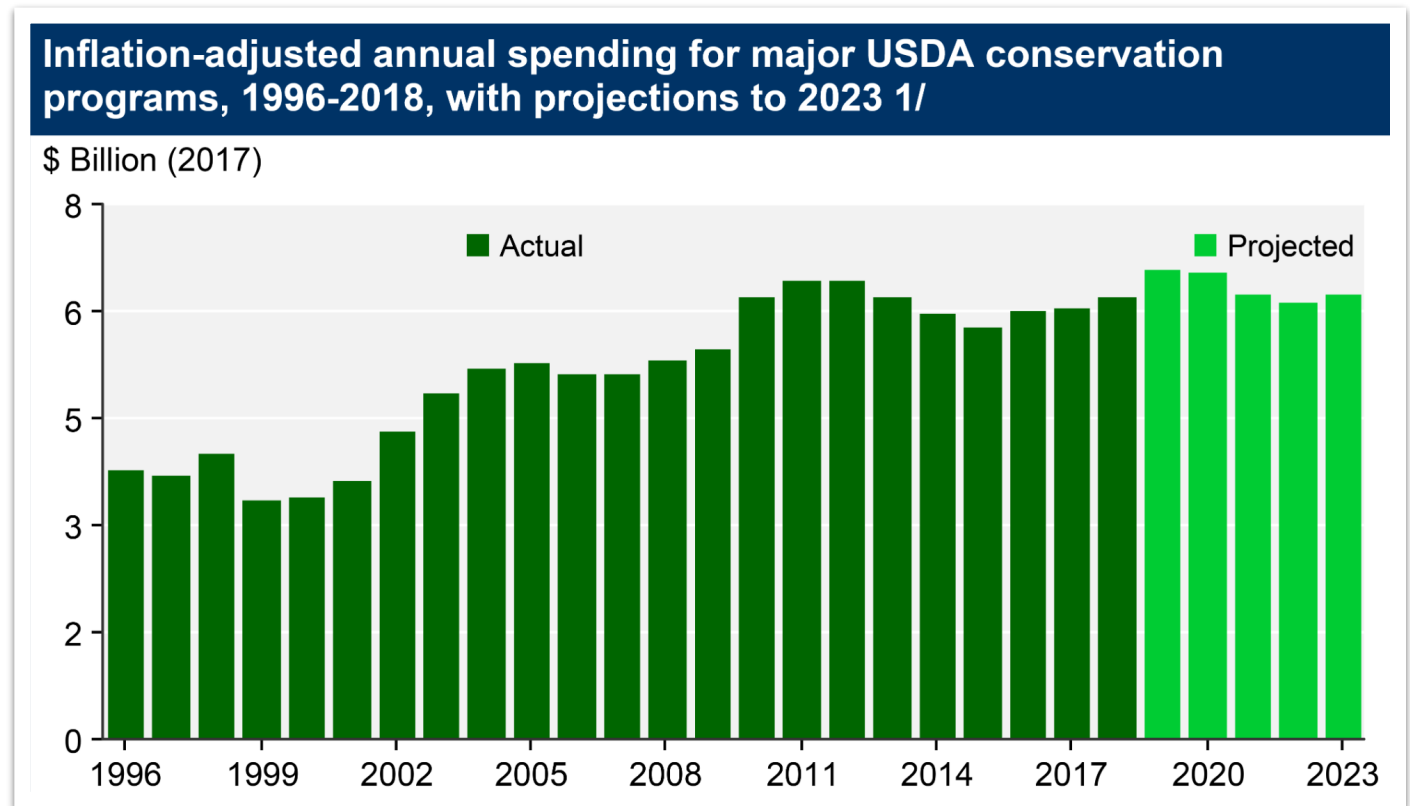
Policy Preferences focused on
Financial and Risk Management



<https://ag.purdue.edu/commercialag/ageconomybarometer/ag-economy-barometer-declines-again-producers-express-concern-about-interest-rate-policy/>

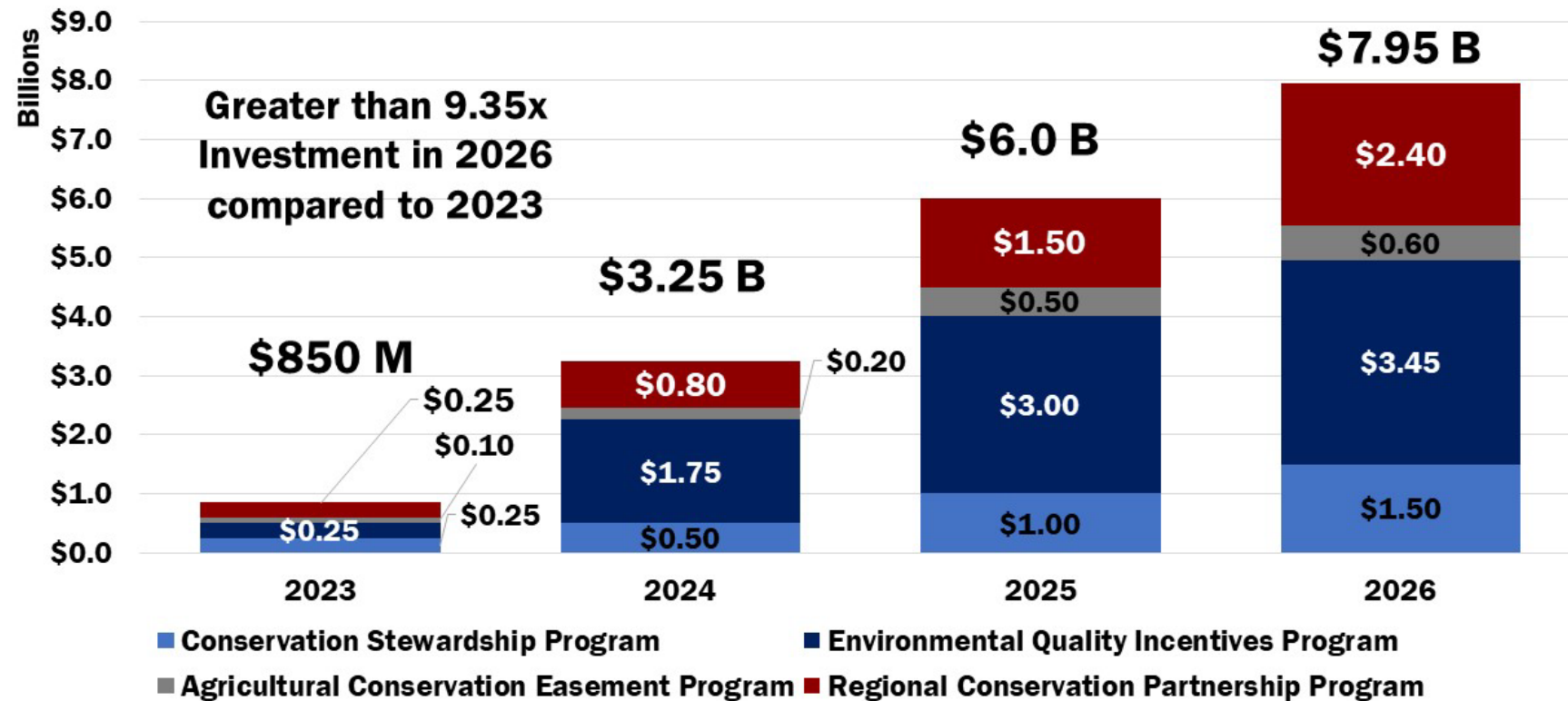
2023 Farm Bill: What to Expect

- Election was basically a stalemate, no party will have a strong majority
- Expect no big changes, only bi-partisan policies
- Commodity support and crop insurance will likely remain largely the same
- Changes will be on **Conservation**



What's in the Inflation Reduction Act (IRA)?

CBO Conservation Baseline & \$18.05 Billion from IRA



**+\$1.4 Billion
for technical
assistance
and admin**



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Source: Congressional Budget Office, HR 5376 EAS

USDA Partnerships for Climate Smart Commodities

\$2.8 Billion more on 70 Projects

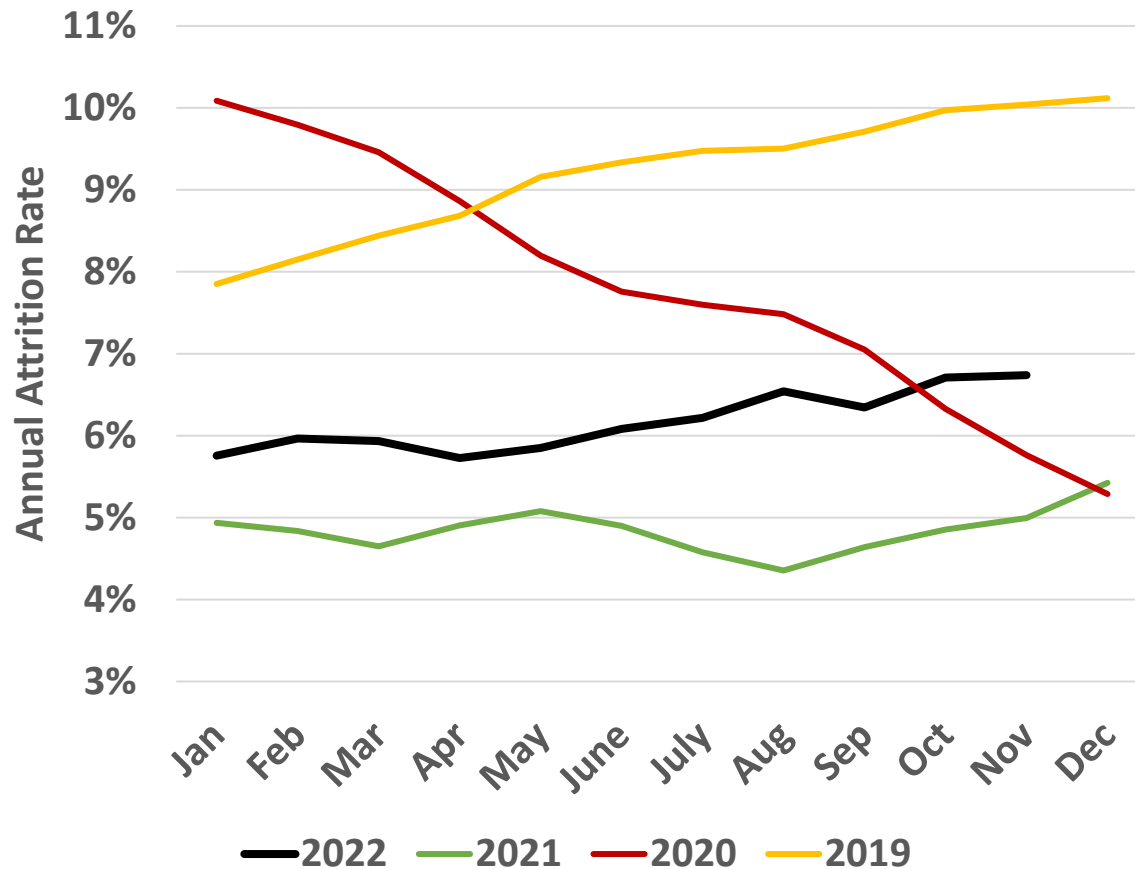
- Several centered in WI and many more will be active in WI
- Climate Smart = Sustainability plus Climate change Mitigation & Adaptation
- Implement climate-smart production practices, activities, and systems on working lands
- Measure, monitor and verify carbon and greenhouse gas benefits from these
- Develop markets and promote the resulting climate-smart commodities



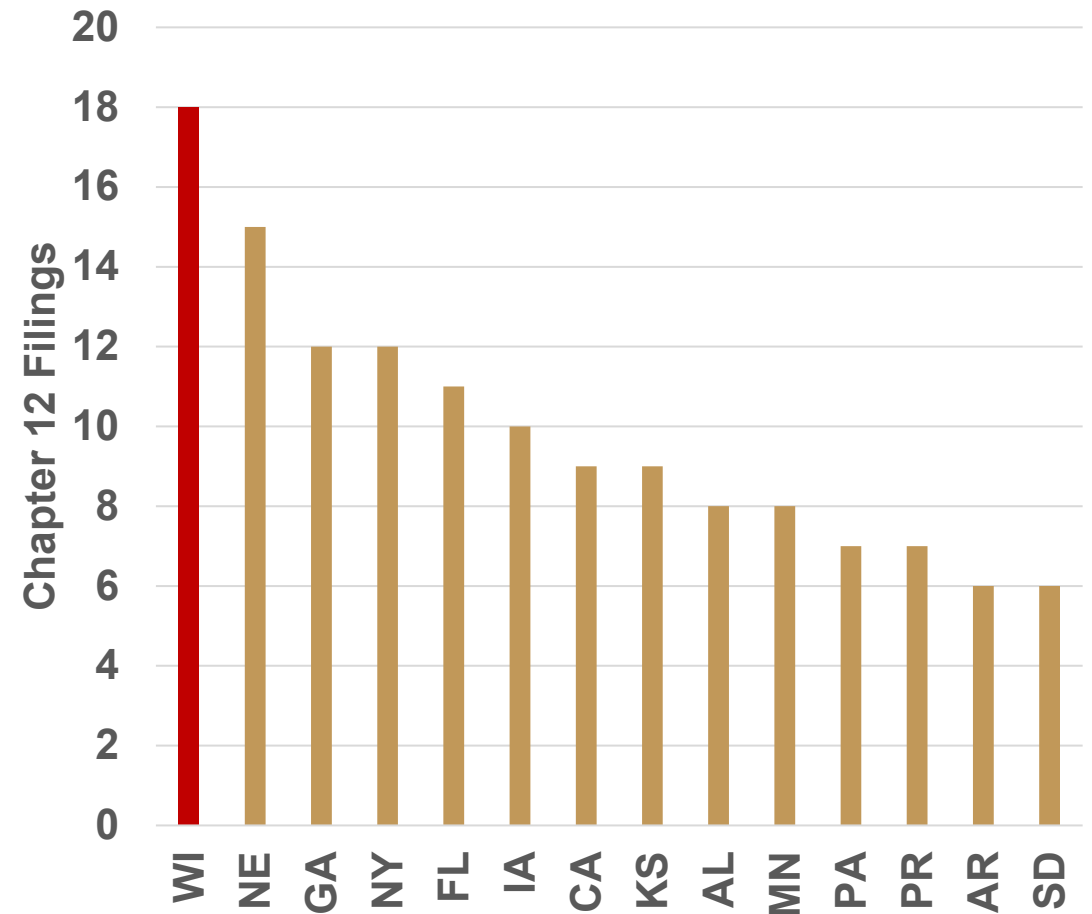
SHARM EL-SHEIKH, EGYPT, Nov. 12, 2022 – At the 2022 United Nations Climate Change Conference (COP27) this week, Secretary of Agriculture Tom Vilsack highlighted the U.S. Department of Agriculture's initiatives and investments in climate-smart agriculture and forestry, noting that global food security depends upon the ability of farmers and producers worldwide to increase their productivity while strengthening their climate resilience and minimizing their climate impacts.

All is not Rosy in America's Dairyland

Dairy herd consolidation continues, annual attrition rate is rising again



Wisconsin still leads the nation in farm bankruptcy filings (year ending 6/30/22)



Biggest Concerns for 2023: Thin Margins and Risk

- Farmers are spending more to produce crops and raise livestock, so the scale of their monetary risk is larger this year
 - Current prices barely justify the higher costs: expect thin margins
 - Will these prices hold? Will costs continue to go up?
- Risk management (crop insurance, pricing tools) will be crucial for 2023 – to protect any margins farmers may have
- Most farms are in solid financial shape due to two years of high income: they paid off debt, bought new land at low interest rates
 - Did some farms over-extended themselves to buy land and/or machinery?

2023 Agricultural Outlook Forum



- Morning: ***Situation and Outlook*** for Wisconsin agricultural industries: dairy, corn, soybeans, and livestock
- Afternoon: ***Climate Smart Dairy in WI***
- Tuesday, January 24, 2023
- Registration opens soon
- In-person: \$50 for lunch and treats
- Livestream on YouTube: Free
- <https://renk.aae.wisc.edu/2023-agricultural-outlook-forum/>

Questions? Comments?



Extension

UNIVERSITY OF WISCONSIN-MADISON



RENK AGRIBUSINESS INSTITUTE

College of Agricultural & Life Sciences



AGRICULTURAL & APPLIED ECONOMICS

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2023 Agricultural Outlook Forum

Jan 24, 2023

