

Farmer's Corner



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Number 3

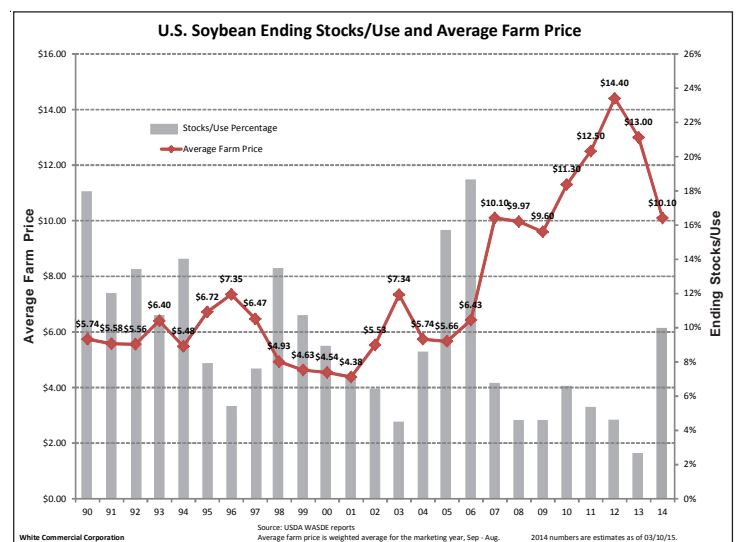
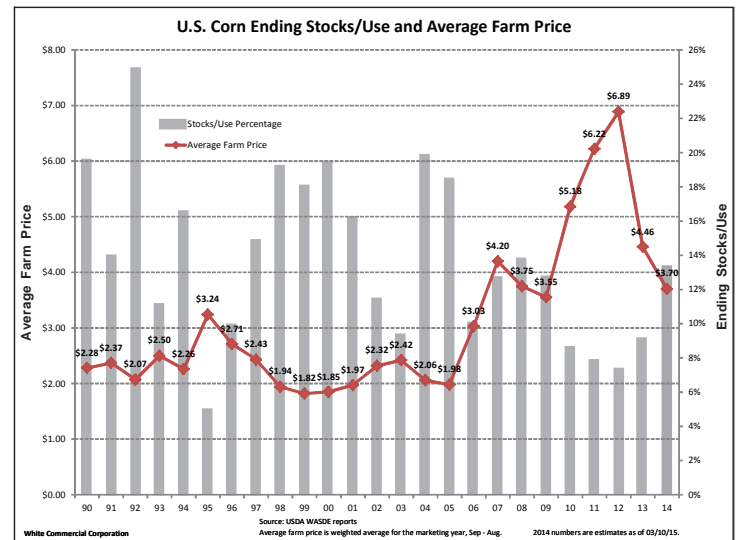
Climate Change

We have no plans to enter into the climate change debate, but would like to borrow the term as we think about the current state of affairs in the farm marketing environment. The definition of climate change regarding our environment refers to changes in the statistical properties of the environment, caused by natural events or human activity, over long periods of time.

During the last several years, the economic climate surrounding cash grain production and marketing has experienced dramatic changes, in a relatively short period of time.

- Crop years '10, '11 & '12 represented an unusual three year period of declining stocks/use ratios in corn and soybeans, leading to record high prices and profit margins in farming. No doubt this was the result of less than ideal growing seasons (natural events), and extremely strong demand (human activity).
- The next two years, '13 & '14, saw increasing stock/use ratios, rapidly declining prices and profit margins, probably the result of some natural events such as more ideal growing seasons and perhaps some human activity, a change in the balance between the collective decision-making of market participants, such as producers and users.

The accompanying charts demonstrate some vivid conclusions. Times of scarcity, characterized by low stocks/use ratios, bring high profit margins. Times of bounty, characterized by comfortable stocks/use ratios, bring low margins. Obviously, the farm marketing world has experienced an abrupt climate change during the last two years.



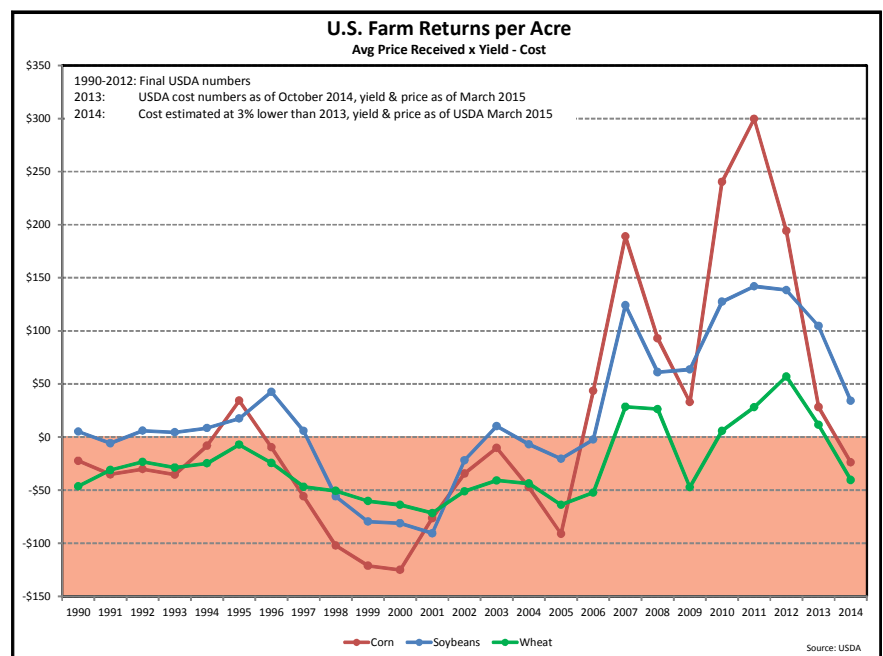
The results of economic climate change in the farm economy are crystal clear; profit margins have evaporated. The challenge today is that commodity prices react quickly to changing supply/demand circumstances, while input costs react more slowly, stealing the producers' opportunities almost overnight.

How do we deal with such changes? An internationally renowned change specialist, Dr. Mark DeVolder, has identified that companies and individuals alike often experience a three-stage process as we deal with major changes. Those stages are:

- A) **Crisis:** During the crisis stage we must accept the reality that change has taken place and let go of the past. What must we stop doing, what must we start doing, what must we keep doing?
- B) **On Hold:** Time passes, nothing happens, eyes and ears are open, searching for new opportunities.
- C) **New Beginning:** Let go again, take a leap of faith and move forward.

A crisis in farm marketing has, without doubt, taken place. For a few years, profits were easily attainable, but have been under severe pressure for some time. Accepting the reality of this change is crucial to moving forward. Farmers, it seems, have been in the On Hold phase of dealing with the change for the last year or so, very reluctant to sell both 2014 and 2015 crops. We are sympathetic. But now is the time to enter stage 3 of the change process, if you have not already done so, and to make a new beginning. The task is formidable since, at this juncture, input costs are stubbornly resisting following the downward trek of commodity prices.

Take a look at this US Farm Returns per Acre chart. Note that the returns are based on *average prices* received and *USDA costs*. It appears that there may have been an approximately 10 year span when profits were not available, but be assured that many proactive producers were enjoying profitable farm marketing results during each of those years by *carefully managing and tracking* their crop input costs and *intentionally pursuing and capturing above average prices* when they were available. This same strategy will be the winning strategy as we adjust to the change in the economic climate today. Being average will not be good enough.



Until input costs and selling prices reach more of a state of equilibrium, carving out a marketing margin will be a challenge, so the best offense could be having a strong defense and taking steps to guard against possible losses. Since we have now entered the annual season of market volatility, Target Contracts, Forward Contracts and Minimum Price Contracts will be the tools of choice.

We have great confidence in the North American farmers' ingenuity and resourcefulness as you adapt to the current economic environment. Please consider us as your partner as we work together to bring success to our rural communities.