Farmland IN PERSPECTIVE

Summer 2014 Volume 35, No. 2

GOODWIN

Goodwin & Associates Real Estate, L.L.C.

Mark Goodwin
Real Estate Broker

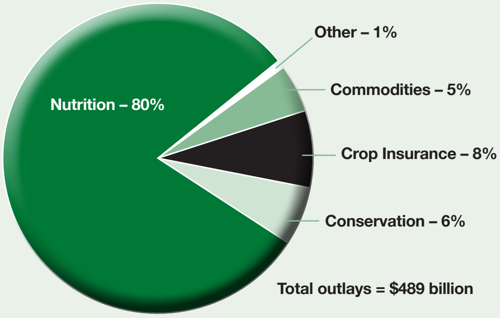
21036 S. States Lane
Shorewood, IL 60404
(815) 741-2226

80% of 2014 farm bill outlays go for nutrition programs

The new U.S. farm bill, the Agricultural Act of 2014, makes major changes in commodity programs, adds new crop insurance options, streamlines conservation programs, modifies provisions of the Supplemental Nutrition Assistance Program (SNAP), and expands programs for specialty crops, organic farmers, bioenergy, rural development, and beginning farmers and ranchers.

The Congressional Budget Office (CBO) projects that 80% of its outlays will fund nutrition programs; 8%, crop insurance programs; 6%, conservation programs; 5%, commodity programs; and the remaining 1%, all other programs, including trade, credit, rural development, research and extension, forestry, energy, horticulture, and miscellaneous programs.

Projected outlays under the 2014 Farm Act, 2014–2018



Source: USDA, Economic Research Service using data from Congressional Budget Office, Cost Estimates to the Agricultural Act of 2014, Jan 2014.

What Landowners Need to Know About the New Farm Bill

by Jonathan Coppess and Todd Kuethe • University of Illinois

On February 7, 2014, President Obama signed the Agricultural Act of 2014 into law. Key changes in the new farm bill may have lasting impacts for landowners.

Direct Payments Eliminated

Direct payments have been made in some form or fashion since the 1996 farm bill; however, this farm bill eliminates the payments beginning with the 2014 crop year. The only exception is for those farms that have base acres for upland cotton, which are set to receive transitional payments for the 2014 and 2015 crop years only.

Farm Bill Decisions

Program decisions made for the 2014 crop year will have lasting impacts for all farms. The following decisions apply to the 2014 crop year and cannot be changed or revoked for the life of the farm bill: *(1)* Reallocation of base acres on the farm; *(2)* Updating of payment yields for the farm; and *(3)* The selection of the specific program applicable to the farm.

The farm bill also directed the USDA to review current eligibility requirements based on being "actively engaged" in farming, but the final outcome for these requirements are yet to be determined.

Base Acres

All of the programs in this farm bill make payments utilizing base acres. Farm owners can choose to revise how the base acres on the farm are allocated among program crops to better reflect recent crop plantings. The total number of base acres on the farm, however, must remain fixed. If the farm owner elects to reallocate the farm's base acres, the new base acre allocation will be determined by the average acreage planted to program crops for the 2009 through 2012 crop years.

For example, consider a farm with 100 base acres allocated 55 acres to corn, 35 acres to soybeans and 10 acres to wheat. From 2009 through 2012 the average plantings on the farm were 75 acres corn and 25 acres soybeans.

Continued on page 2

New Farm Bill continued from page 1

The owner could elect to reallocate the base to 75 acres corn, 25 acres soybeans or leave it as it currently stands: 55 acres corn, 35 soybeans, and 10 wheat.

Payment Yields

Payment yields are used to calculate payments for the price-based program option and are part of the farm's records with the Farm Service Agency. A farm's owner may update those payment yields so they are equal to 90% of the average yield per planted acre for the 2008 to 2012 crop years.

This calculation excludes any years in which zero acres of a given commodity were planted and adjusts years of low yields so that they do not fall below 75% of the average county yield. This provision permits farms to capture the higher yields observed for most commodities and most farms since the last farm bill.

Program Decisions

Unlike base acre allocations and payment yields which rest solely with the landowner, the program decision is one that must be made unanimously by the farm's owner(s) and any operator(s) or tenant(s) on the farm. The program decision is a one-time decision that will take place when USDA establishes a sign up; current expectations are that this will take place in the fall 2014.

The program decision is also irrevocable, which means the farm will not be able to change its decision for the life of the 2014 farm bill. Additionally, if all the persons with interests in the farm cannot reach a unanimous decision during the sign up, the farm will forfeit any potential payments for the 2014 crop year and, beginning with the 2015 crop year, all program crops will be automatically enrolled in the price-based program option.

The program options are too complicated for a thorough explanation here, and have far-reaching effects over the life of the 2014 farm bill. Landowners are encouraged to work with the USDA Farm Service Agency, a professional farm manager, and/or their operators and tenants in this process to understand how the programs will work and which may be more effective for their farm.

In short, the farm bill offers three program options:

1) *A price-based program that triggers payments when prices are below congressionally established price levels,*

2) *A revenue-based program that utilizes county yields (both actual and historical) to trigger payments when crop year revenues fall below a moving benchmark, and*

3) *A similar revenue-based program that uses farm-level yields (actual and historical) for all program crops on the farm instead of county yields for individual crops.*

Conclusion

The program decisions for the farm are much more complex than in the past. Landowners are advised to work closely with the USDA Farm Service Agency, a professional farm manager and/or their operators and others with interests in the farm. There is time between now and the expected sign-up to gain a better understanding of how the programs work and which one will be most effective.

Landowners should keep in mind that the operator will likely be the one dealing with the FSA and receiving payments. However, if the landowner changes tenants during this farm bill, the program decisions cannot be revised. More detailed analysis and up-to-date information on the farm bill programs can be found at www.farmdocdaily.illinois.edu.

***Jonathan Coppess, JD,** is a member of the faculty at the University of Illinois as a Clinical Assistant Professor of Law and Policy in the Department of Agricultural and Consumer Economics.*

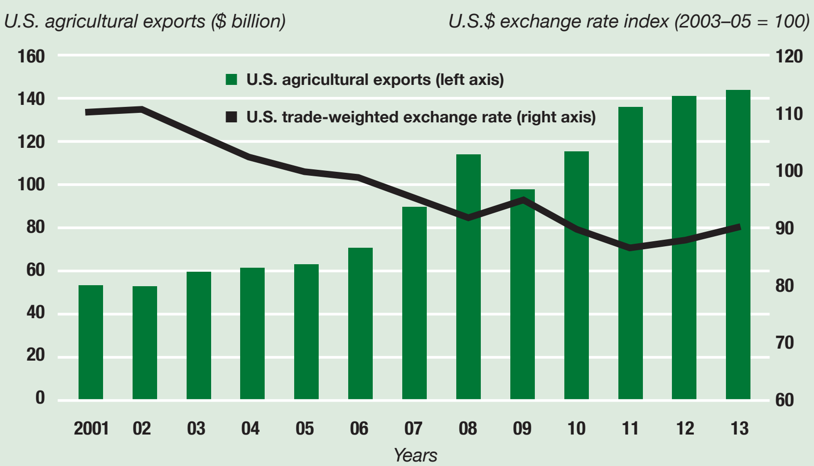
U.S. ag exports rose as U.S. dollar depreciated

The depreciation of the U.S. dollar against the currencies of U.S. agricultural trade partners contributed to the growth in U.S. agricultural exports since the early 2000s. When the dollar depreciates, U.S. agricultural exports tend to rise as they become cheaper in foreign currency terms, while periods of appreciation—such as 2009—tend to make U.S. goods more expensive and constrain exports.

Between 2002 and 2011, the U.S. dollar depreciated 22% against the currencies of U.S. agricultural trade partners, while U.S. agricultural exports expanded by 156%. Since 2011, although the dollar has appreciated 7%, its value remains low relative to historical levels and U.S. agricultural exports have remained competitive.

The U.S. dollar exchange rate index shown in the chart is based on the average exchange rate across countries, weighted by each country's share of U.S. agricultural exports.

U.S. agricultural exports and agricultural trade-weighted U.S. dollar exchange rate



Source: USDA, Economic Research Service, Agricultural Exchange Rate Database, and USDA, Foreign Agricultural Service, Global Agricultural Trade System Online.

Previously, he served as Chief Counsel of the Senate Committee on Agriculture, Nutrition and Forestry for Chairwoman Debbie Stabenow. Prior to joining the Ag Committee, Coppess was Administrator of the Farm Service Agency at USDA. Before being appointed at USDA, he was a Legislative Assistant for Senator Ben Nelson. Coppess grew up on his family's corn and soybean farm in Western Ohio and practiced law in Chicago before moving to Washington to work on agriculture policy. He earned his Bachelor's from Miami University in Oxford, Ohio, and his Juris Doctor from The George Washington University Law School in Washington, DC.

Todd H. Kuethe, Ph.D., *is a Clinical Assistant Professor of Land Economics at the TIAA-CREF Center for Farmland Research in the Department of Agricultural and Consumer Economics at the University of Illinois. Kuethe conducts research on farm real estate markets, farm management, and agricultural policy. He has published more than 20 scholarly articles in leading field journals, including* Land Economics, Regional Studies, *and* Empirical Economics, *and is a regular contributor to University of Illinois'* farmdocDaily. *His work has been profiled in a number of major media outlets including the* Wall Street Journal, USA Today, *and* Business Week. *He is a Co-editor of the* Journal of Applied Farm Economics *and a member of the Editorial Board of* Agricultural Finance Review. *Kuethe was awarded the Outstanding Choices Article Award by the Agricultural and Applied Economics Association in 2012.*

Prior to joining the University of Illinois he was an economist with the USDA Economic Research Service.

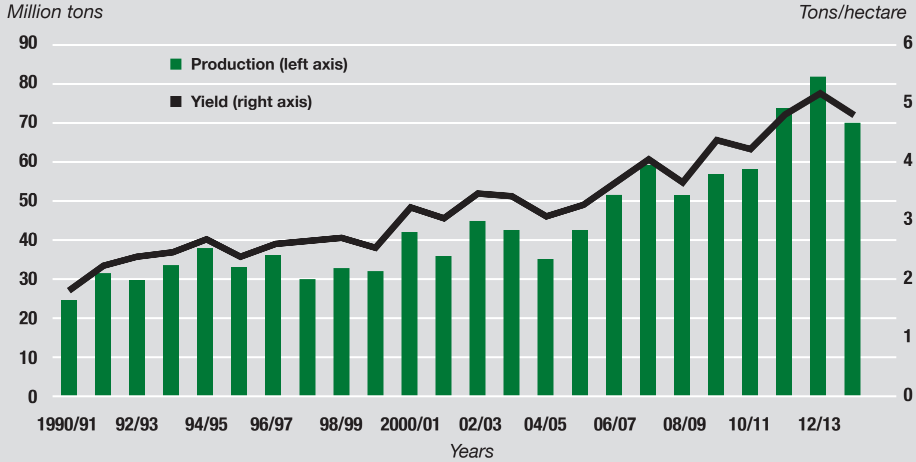
Corn yield growth supports rapid expansion of Brazilian corn production

Rising yields have been the primary driver of growth in Brazil's corn production since the mid-2000s. Production gains have allowed Brazil to meet rising domestic corn demand, as well as emerge as a major corn exporter, according to the Economic Research Service of the U.S. Department of Agriculture. New high-yielding varieties, the introduction of GMO corn, improved cultural practices, and a shift to higher-yielding land have supported long-term yield growth.

A large share of second-crop corn is planted following soybeans in the frontier agricultural State of Mato Grosso, where corn production quadrupled during the past decade. In 2011/12 and 2012/13 (March/February marketing year), above-average rains in Mato Grosso pushed corn yields and production to record levels. For 2013/14, lower corn prices caused reductions in corn area and, with the assumption of more normal weather, corn yields are forecast below the 2012/13 record.

Brazil is the world's third largest corn producer after the United States and China. Brazil became the world's largest corn exporter in 2012/13 when the U.S. corn crop was damaged by drought, but is forecast to be the second largest exporter in 2013/14.

Corn production and yields in Brazil



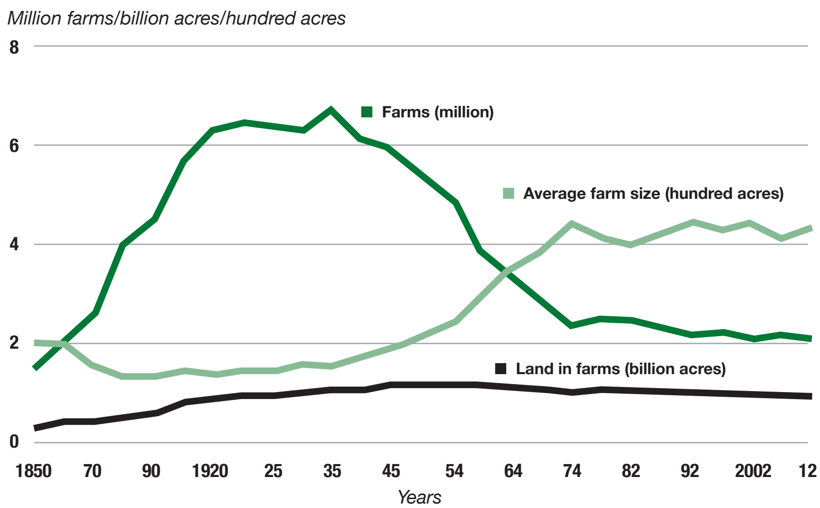
Source: USDA, Economic Research Service using USDA, Foreign Agricultural Service PS&D Online database.

2012 Census of Agriculture shows fewer U.S. farms

After peaking at 6.8 million farms in 1935, the number of U.S. farms fell sharply until leveling off in the early 1970s. Falling farm numbers during this period reflected growing productivity in agriculture and increased nonfarm employment opportunities, according to the Economic Research Service (ERS) of the U.S. Department of Agriculture (USDA).

Because the amount of farmland did not decrease as much as the number of farms, the remaining farms have more acreage—on average, about 430 acres in 2012 versus 155 acres in 1935. Preliminary data from the recently released Census of Agriculture show that in 2012, the United States had 2.1 million farms – down 4.3% from the previous Census in 2007. Between 2007 and 2012, the amount of land in farms in the United States continued a slow downward trend, declining from 922 million acres to 915 million.

Farms, land in farms, and average acres per farm, 1850–2012



Source: USDA, Economic Research Service using data from USDA, National Agricultural Statistics Service, Census of Agriculture.

Farmland
IN PERSPECTIVE

Mark Goodwin & Associates Real Estate LLC
21036 S. States Ln.
Shorewood, IL 60404

FORWARDING SERVICE REQUESTED

Prsrt. Std.
U.S. Postage
PAID
Westmont, IL 60559
Permit No. 173

PRINTED WITH SOY INK

Buying or selling farmland is no job for amateurs.

Work with a Realtor® who knows the market.

- The go-to firm for anyone looking for a professional farm or development marketing team. Looking for land? We will help you find that perfect farm or development site.
- Often referred by clients after helping them find and buy the land. Knows the area. Knows the market.
- Proven marketing activities: Far-reaching contacts through our bigfarms.com website, the Multiple Listing Services (MLS) of Northern Illinois, Internet marketing sites, email, phone, and most importantly, personal contacts.

GOODWIN

Goodwin & Associates Real Estate, L.L.C.

21036 S. States Lane • Shorewood, IL 60404 • Tel: (815) 741-2226
Email: mgoodwin@bigfarms.com • Web: www.bigfarms.com

Mark Goodwin, ALC
Past President, Illinois Chapter, Realtors' Land Institute
Member, Will County Farm Bureau
Member, Rotary International

REALTORS® LAND INSTITUTE
ALC ACCREDITED LAND CONSULTANT

GO GREEN… Prefer to receive your *Farmland In Perspective* electronically? Email us at info@bigfarms.com