Farmland IN PERSPECTIVE

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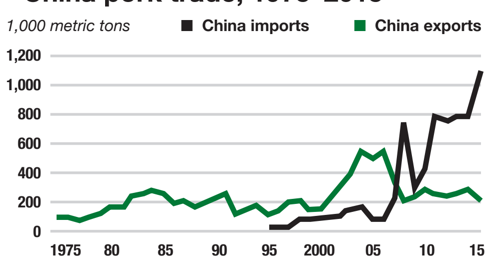
Even as the leading producer, China still leads among global pork importers

China produces roughly half of the world's pork, but it has nevertheless become a leading importer of the meat, according to the Economic Research Service of the U.S. Department of Agriculture. China first emerged as a significant importer of pork during 2007-08, when a swine disease epidemic reduced its domestic supply.

Imports declined during 2009-10, when China banned pork from the United States – the main supplier at the time – over an alleged disease concern, but imports rebounded after the ban was lifted. From 2011 to 2015, China consistently imported large volumes of pork each year. Imports soared during 2016, as shrinking Chinese pork supplies helped push the country's pork prices to record levels.

China and Hong Kong together now constitute the world's largest import market for pork. The United States was the leading supplier of China-Hong Kong pork imports during 2007-12 and the second-leading supplier behind Germany during 2013-15.

China pork trade, 1975–2015



Source: USDA, Economic Research Service using USDA, Foreign Agricultural Service, Production, Supply and Distribution data.

What the Trump administration may mean for absentee owners of farmland

by Dr. Bob Young
American Farm Bureau Federation Chief Economist, Public Policy

In his inaugural speech on Jan. 20, 2017, Donald Trump promised to shake up the political establishment in Washington and to transfer power back to the people. The first few weeks of his term could be called tumultuous at least. It is way too early to talk about the effects of the new administration on agriculture overall or more specifically what the effects might be on absentee landowners, but a guess or two together with a little speculation might provide a couple clues of what is to come.

First, let's set the stage in agriculture on which the new administration will play. As anyone even remotely observing the sector knows, commodity prices and farm income are down. A lot. In 2012 the United States Department of Agriculture pegged net farm income at $127 billion. Their November 2016 projection for 2016 net farm income was down to $67 billion. With corn prices down hard, wheat prices off substantially and cattle prices headed south, farmland tenants are just not going to be able to pay the same kinds of rents they did three or four years ago.

With that as background, let's turn to the political and policy setting.

Taxes

Probably the biggest issue to affect landowners will be changes in tax policy. Adjustments here will be much more associated with Congressional action than by anything put forward by President Trump. The big difference will be that we will have a Republican congress that is able to work with a Republican president, so once legislation is passed, it should hopefully be signed and turned into law.

In general the notion will be toward lowering tax rates, but, in order to provide revenue offsets, there has been interest expressed in a Border Adjustment Tax (BAT). While some conversation tagged this as a tax on Mexican imports, as a way to pay for the border wall, the concept was actually put forward last fall by the House Ways and Means Committee as a revenue generator that would be used to offset adjustments to the corporate tax code. The concept is to lower the corporate rate from 35% to 20%.

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The Trump Administration *continued from page 1*

The BAT is a somewhat foreign concept to people in the United States but is a very common mechanism around the world. More than 150 countries – Mexico, Canada, Europe, China, Japan and Russia to name a few – operate with some form of a BAT. The idea is that goods coming into the country pay the same corporate rate as businesses in the country and that goods leaving the country are reimbursed for any taxes accrued within the producing country.

What will this do for landowners? Probably not a whole lot directly one way or the other. What one needs to watch for, however, is how the concept plays in the political arena. If it fails to catch on, the ability of Congress to provide substantive tax reform will be severely limited.

While on tax reform, Congress will make another run at trying to eliminate the estate tax. Legislation has already been introduced, and there is at least some probability that it may move forward in this overall tax package.

Tax bills start in the House by constitutional order, and there has been very little communication on ideas, directions or concepts from the Senate early in 2017, so it is not at all clear where the end of this road may be.

Trade

One area of great uncertainty for agricultural markets, subsequent tenant revenue streams, and ultimately what farmers and ranchers may be able to afford for rents are the policy conversations on trade.

This is an issue area much more closely tied to the president than the tax front. Mexico, for example, is the nation's number two destination for corn exports. China is our overall largest ag trade market. Yet both are countries toward which President Trump has acted with a fair amount of belligerency. There may be cause for an open and frank exchange of views with these countries. Should that action drive them to consider other suppliers for their corn/corn byproducts, soybeans, or any number of other agricultural goods they currently source from the United States, the markets could get very volatile.

Summary

So a quick summary – recognize farm income is down. Hard. This is going to limit farmers' and ranchers' ability to hold the same rental rates as in the last few years. Assuming your tenants are paying a market rental rate, you may well find tenants turning down previous rent arrangements. Congress probably has the most direct impact on landowners as they work through tax adjustments both on the individual and the corporate level. They would not be effective in this effort, however, if it weren't for President Trump being in office.

President Trump probably directly causes the greatest amount of uncertainty in agricultural markets through his verbiage relating to his views on other countries. The effect of these pronouncements on agricultural trade could be substantive.

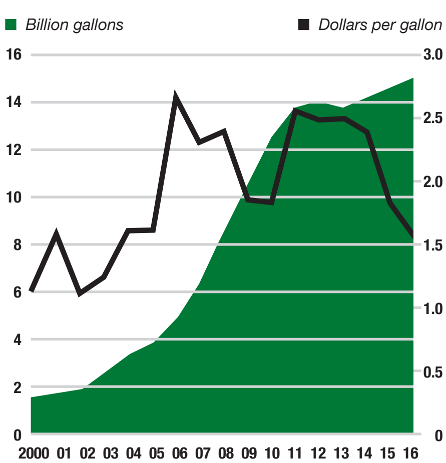
Farm income, shy of some weather issue somewhere, is likely to remain at current levels for some time to come. Landowners may want to have internal conversations about the advantage of a financially sound tenant as opposed to one who may not be as solid, but willing to pay a little more cash rent per acre.

Dr. Bob Young *is the Chief Economist and Deputy Executive Director of the American Farm Bureau Federation. He joined the Federation in 2003 as the Chief Economist and provided analysis of short-term issues in support of the policy implementation effort of the Federation. In 2013, Bob took on the added responsibility as Deputy Executive Director of the Public Policy Department, helping to coordinate the overall advocacy work of the Federation.*

Before joining the Federation, Dr. Young was the Co-Director of the Food and Agriculture Policy Research Institute from 1991 through 2003. He served as the Chief Economist of the United States Senate Committee on Agriculture from 1987 through 1991. Dr. Young has a Ph.D. in Agricultural Economics from the University of Missouri, with a B.S. and M.S. in Atmospheric Sciences from the University of Missouri.

U.S. ethanol use continues to grow; prices reach decade lows

U.S. ethanol fuel disappearance and annual average price of ethanol



In the United States, the production of ethanol is largely tied to the federally mandated renewable fuel standards contained in the Energy Independence and Security Act of 2007 and the prior Energy Policy Act of 2005. The former calls for 36 billion gallons of renewable fuels to be in production by 2022, but requires that an increasing share – 21 billion gallons – of the mandate be met with advanced biofuels, which are biofuels produced from feedstocks other than corn starch – and with 50% lower-lifecycle greenhouse gas emissions than petroleum fuels, according to the Economic Research Service of the U.S. Department of Agriculture.

Corn-based ethanol production has begun leveling off since 2010 as production nears the cap for non-advanced biofuels. As production has leveled off, the average annual price of ethanol has declined. The average ethanol price in 2016 was $1.55 per gallon, the lowest price since 2003. While the price of ethanol is also impacted by unrelated movements in the corn market, slowing growth of ethanol production has impacted the prices of both commodities.

Note: Data are reported in marketing years (September–August). Prices are nominal.
Source: USDA, Economic Research Service U.S. Bioenergy Statistics.

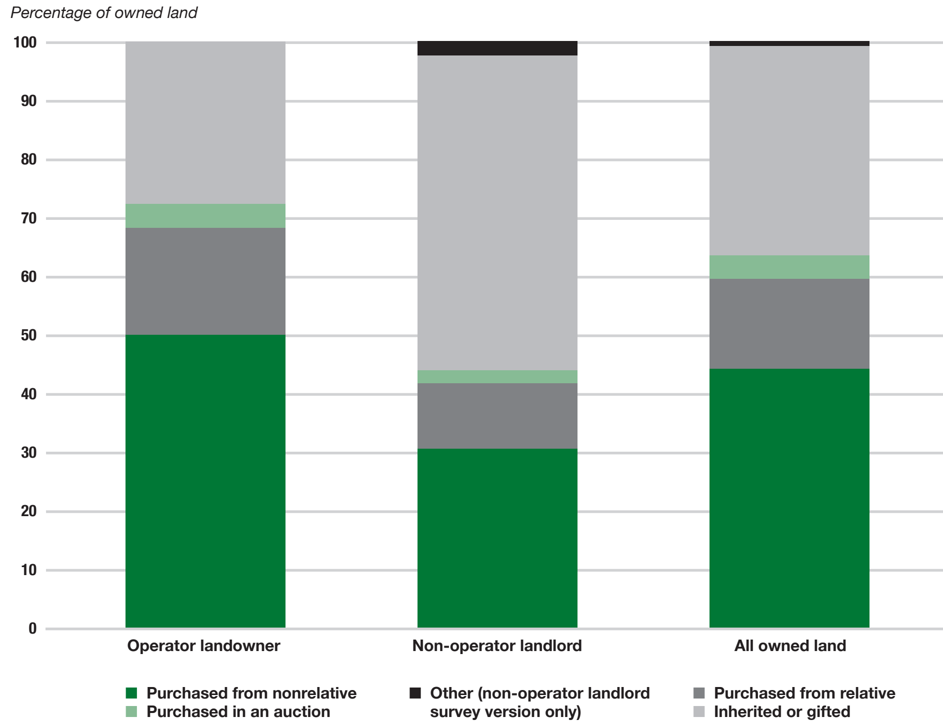
Non-operator landlords more likely to inherit land than operator landlords

Land may be acquired in a number of ways, including sales, gifts, and inheritances. Arms-length purchases from nonrelatives are a traditional method for acquiring land, particularly for those without family or personal connections to agricultural landowners.

In 2014, operating landowners – those who own farmland and operate some or all of it – purchased half of their land from nonrelatives. This group acquired another 27% of their land through inheritances or gifts. In contrast, non-operator landlords – those who own and rent farmland but are not actively involved in its operation – acquired 30% of their land in purchases from nonrelatives. The majority of non-operator land (54%) was inherited or received as a gift.

A larger share of operator landowners' land (18%) was purchased from a relative compared to non-operators (11%). This suggests that land is being sold from one family generation to the next.

Percent of owned land by method of acquisition or transfer, 2014



Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2014 Tenure. Ownership, and Transition of Agricultural Land survey.

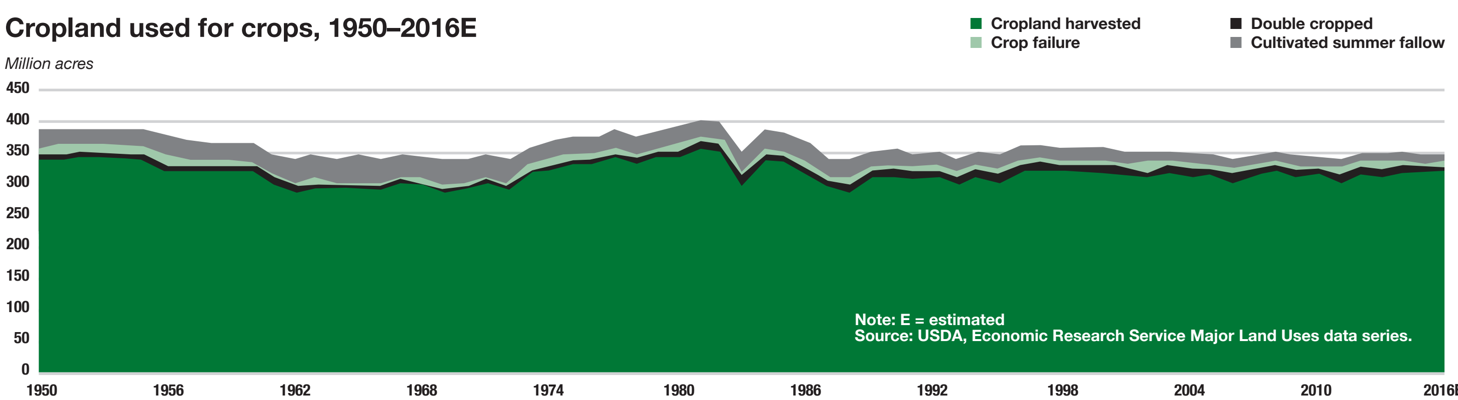
2016 estimates of cropland harvested return to 2014 levels, highest since 1997

The Major Land Uses (MLU) series by the Economic Research Service of the U.S. Department of Agriculture estimates land in various uses. These uses include the acres devoted to crop production in a given year. These acres, collectively referred to as "cropland used for crops," include acres of cropland harvested, acres on which crops failed, and cultivated summer fallow.

At 318 million acres, cropland harvested in 2016 is estimated to have increased by two million acres from the previous year – returning to levels in 2014 and matching the highest cropland harvested area since 1997 (321 million acres). The area that was double cropped (two or more crops harvested) declined by one million acres, while land that experienced crop failure held constant at seven million acres in 2016 – remaining well below its 20-year average of 10 million acres. Cultivated summer fallow, which primarily occurs as part of wheat rotations in the semiarid West, continued its long-term decline and reached its lowest level (12 million acres) since the start of the MLU series.

The larger historical fluctuations seen in cropland used for crops are largely attributable to federal cropland acreage reduction programs, such as the Conservation Reserve Program (CRP). Initiated in 1985, the CRP pays farmers to keep idle environmentally sensitive land that could otherwise be used in crop production.

Cropland used for crops, 1950–2016E



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