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**Special points of interest:**

- Drought continues to impact major global production regions
- U.S. corn & soybean harvest is underway
- Technology platforms are beginning to play a greater role in on-farm management and decision-making.

**Inside this issue:**

- 2014 crop production – The Price Impact 2
- U.S. Farm values holding steady 3
- Drought conditions highlight water scarcity and supply constraints 4

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# Miell Agri-Business Agricultural Insights

## Four Important Questions

As the U.S. 2014 spring and summer cropping season reaches its climax, farmers and agricultural investors are asking and seeking answers to four important questions:

- ◆ **How big will this year's U.S. corn, soybeans, wheat, sorghum, cotton and rice crops be?**
- ◆ **What impact will this year's production have on commodity prices and demand?**
- ◆ **What does a record corn and soybean crop mean for farm rents and land prices? and**
- ◆ **What is the near term production outlook considering the size of this year's crop and forecast supply, demand and ending stocks projections?**

While the 2014 season is far from over, in most of the major production areas confidence is high that the season will finish with record or near-record yields.

USDA's August 2014 projections for all major crops are presented in Table 1 below. What these projections mean is further analyzed on page 2.

**Table 1. USDA August 2014 Crop Forecasts**

Commodity	2013 Acreage (million)	2014 Acreage estimate (million)	Acreage Change (million)	2014 Production estimate (billion bushels)	Average Farm Price (\$/bushel)	
<b>Corn</b>	Planted	95.4	91.6	-3.8	14.032	\$3.55 to \$4.25
	Harvested	87.7	83.8	-3.9		
<b>Soybeans</b>	Planted	76.5	84.8	8.3	3.816	\$9.35 to \$11.35
	Harvested	75.9	84.1	8.2		
<b>Wheat</b>	Planted	56.2	56.5	0.3	2.030	\$5.80 to \$6.80
	Harvested	45.2	46.2	1		
<b>Sorghum</b>	Planted	8.1	7.5	-0.6	.429	\$3.30 to \$4.00
	Harvested	6.5	6.4	-0.1		

Commodity	2013 Acreage (million)	2014 Acreage estimate (million)	Acreage Change (million)	2014 Production estimate (million bales)	Average Farm Price (\$/lb)
<b>Cotton</b>	10.4	11.4	1	17.5	\$0.58 to \$0.72

Commodity	2013 Acreage (million)	2014 Acreage estimate (million)	Acreage Change (million)	2014 Production estimate (million cwt)	Average Farm Price (\$/cwt)
<b>Rice</b>	2.49	3.05	.56	229	\$13.80 to \$14.80

Continued page 2

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## Four Important Questions—The Price Impact

Global commodity markets have, for some time now, been anticipating a large U.S. crop together with favorable productions conditions in almost all major global regions for 2014.

As reflected in major market activity, prices for all major commodities have retreated from record levels achieved in 2012-13 and are now more in-line with prices received in 2010-11.

The chart below illustrates the historical trend in corn prices since 2005. As a major driver of other commodity prices, U.S. corn prices set the direction for prices in all competing crops and influence both marketing and production decisions in all major global production regions.

2014 planting decisions were impacted by the late 2013 price declines in corn. Soybean plantings were increased significantly, while corn acreage declined. Likewise, other commodities such as wheat, sorghum, cotton were also impacted to varying degrees.

Further complicating the impact on 2014 plantings (and factors that will continue to play-out in response to current prices) are demand for livestock products, drought conditions, changes being implemented through various U.S. Farm Bill programs, the buoyant financial status of many farmers, global geo-political developments, the levels of domestic U.S. interest rates and the comparative value of the U.S. dollar and its impact on U.S. export competitiveness.

While it is still too early to gauge farmers' 2015 planting and investment intentions, early indicators suggest that confidence in the long-term viability and profitability of the U.S. agricultural sector remains high. While current commodity prices are likely to moderate recent levels of investment activity, there is no suggestion of a precipitous decline in property values or annual farm rentals achieved for high quality farming properties. At this time, there does not appear to be an imminent stampede from cropping into livestock expansion.

**Chart 1. U.S. Monthly Average Corn Prices—2005-2014**



Source: University of Illinois

## Four Important Questions - Farm Values and Farm Rental Values

At this time, farmers and investors have not demonstrated major concerns with declining commodity values through a corresponding downgrading of either cropland prices or associated farm rental values.

*Early indications are that 2015 farm rents are not likely to decline significantly from 2014 levels*

Recent 2014 property data shows that farm values have continued to increase, albeit at more modest rates than exhibited over the past 3-5 years and farm rentals are not forecast to decline markedly in 2015. Data exhibited in Chart 2. focuses on three different farming regions and the U.S. national cropland average. This data illustrates that prime cropland as represented by:

- ♦ Illinois corn and soybean cropland values;
- ♦ California which has great diversity of farm production and is the largest agricultural production state in the U.S.;
- ♦ Mississippi cropland values which illustrate diversity of production with corn, soybeans, cotton, sorghum and rice; and
- ♦ the overall U.S. national average all demonstrate that farmland values continue to maintain growth in values.

It is evident that aggressive sales activity that has been a feature of the past 3-5 years has subsided. The conclusion of the 2014 corn and soybeans harvest may see a pick-up in market activity as farmers assess their circumstances and long-term farming objectives.

Early indications are that 2015 farm rents are not likely to decline significantly from 2014 levels, although there is expected to be some downside pressure on rental rates. At this time greater focus is being placed on managing farm costs and boosting yields.

**Chart 2. Selected U.S. Cropland Values- 1970-2014**



Source: TIAA CREF Center for Farmland Research

## Drought - A Constant Farm Management Challenge

**D**rought is one of the most insidious natural disasters farmers are forced to manage. Each drought is different in its scope, timing, impact and lasting legacy.

Today, when combined with greater knowledge of permanent climate change and climate variability, drought management and drought preparedness are focusing on overall farm management, investment options, technology and infrastructure choices and commodity production selections.

The devastating impact of drought can be seen in California and, as illustrated in the latest U.S. Drought Monitor report (see below), all of the state is in the third highest level of drought. Over 58 percent is in the highest category.

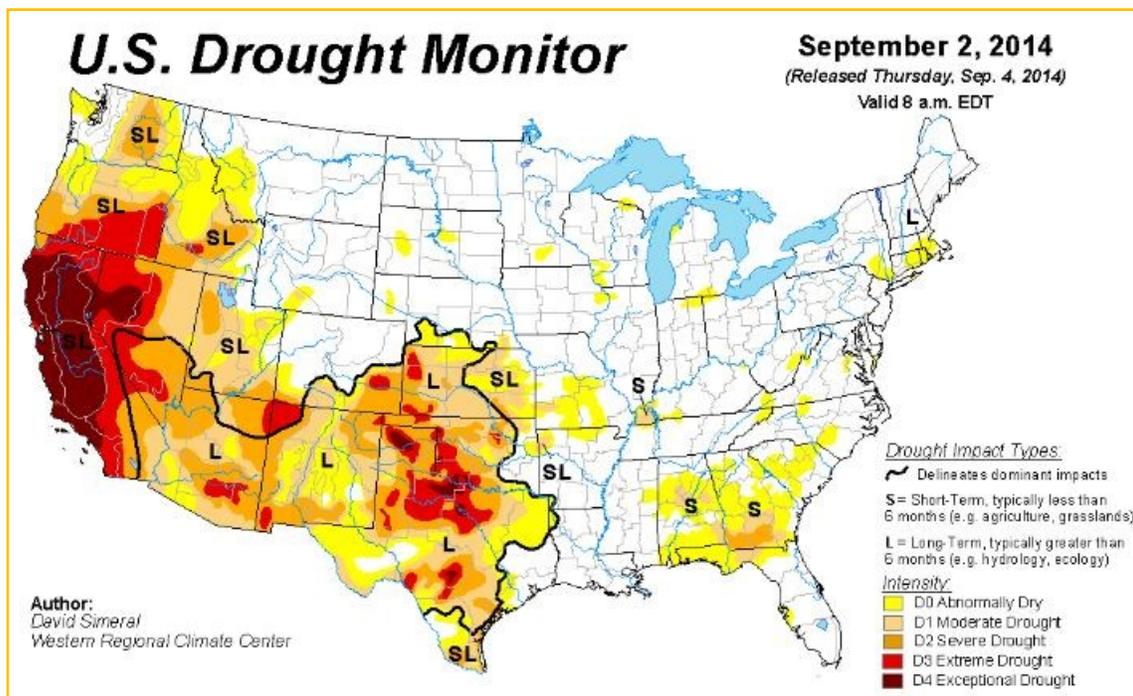
**Water is life!**

**Water underpins  
the value of many  
farm investments**

Farming output has been impacted, communities are suffering water shortages and the environment is also threatened by the intensity of this drought.

There are no accurate or reliable forecasts for when this drought will break, nor can anyone be certain if this drought is simply a cyclical event or part of the wider climate change phenomena. What we do know is that this drought highlights the imperative of closely examining the quality and availability of all water resources that are essential for farm productivity.

**W**ater is life! Water underpins the value of many farm investments. Along with soil fertility, production history and high natural rainfall, water for irrigation is indispensable and irreplaceable. Irrigation water supplies must be secure, of high quality and managed sustainably and efficiently.



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