A Summary of Minnesota Farm Finances

Dennis Schmidt - AFM

Each year a group of farmers across Minnesota keep accurate farm records assisted by Farm Business Management Instructors. At the end of the year a detailed analysis is completed for farmers to review how their year has gone. It allows them to review their own farming operation as well as compare themselves to other farmers. This data is accumulated into what is known as FINBIN, a Farm Financial Database and one of the most comprehensive databases available for anyone to view.

For years I have taken a lot of interest in analyzing this data to compare how farms I have worked with, or even my own farming operation compares to the annual numbers. The 2019 data was released in April and consists of financial information from 2,304 farms from across Minnesota. It isn't just my opinion that this is good data as I have heard Dr. David Kohl (retired Ag Economist from Virginia Tech) speak numerous times and he will often reference the data that is available through the FINBIN program.

In this article, I am giving you a brief summary of the results of the 2019 data. This data is compiled by the Center for Farm Financial Management, a part of the University of Minnesota.

Minnesota farms have been struggling with low profitability the past 7 years with 2019 net farm income up just slightly from 2018. Each of the past 5 years has fallen to the bottom third of historical records tracked in FINBIN the past 24 years. Crop farms saw a slight increase for the year and I will make a few comments on that later in this article. In the major livestock categories, dairy profits improved the most. Pork profits also increased, while the beef producer had lower profitability than 2018. The table included with this article shows the rate of return for all farms going back to 1996.

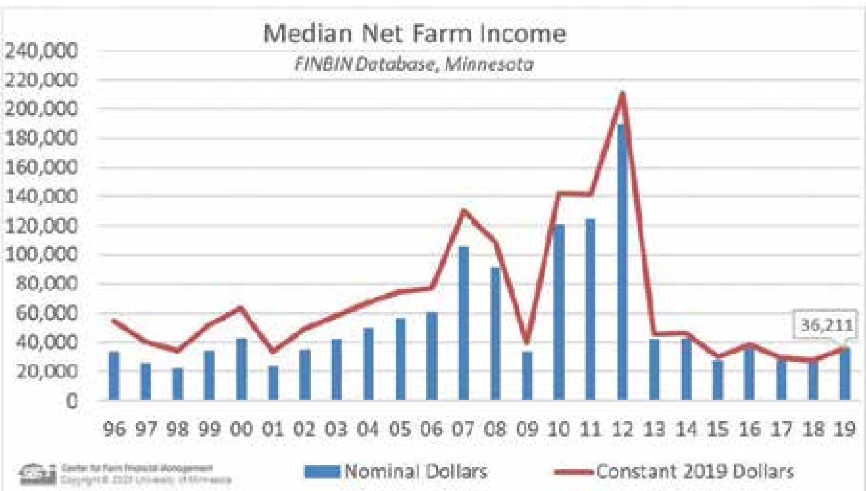

Figure 1: Median Net Farm Income

I have worked primarily with crops these past years with corn and soybeans being our 2 major crops across southern Minnesota. I would like to add a few comments regarding these crops. I pulled out details for corn and soybeans raised on cash rented land across southern Minnesota. There are pages within FINBIN for all crops and if you are ever interested in looking at other data, please contact our office and one of our farm managers can assist you. All of the data is available by going to the website for the Center For Farm Financial Management. You can customize and print all types of reports.

https://finbin.umn.edu/

I ran data tables for both corn and soybeans for a 5 year period (2015-2019) to compare all the income and expenses that farmers earn or spend on a per acre basis. This data is from approximately 775 farms raising soybeans and 825 raising corn. I have tried to make a simple table of these past 5 years to show some of the things I see.

Corn	**2019**	**2018**	**2017**	**2016**	**2015**
Yield- bu/acre	179.65	177.20	215.08	205.36	206.48
Value- $/bu	3.76	3.48	3.23	3.35	3.52
Other crop income - $/acre					
Crop insurance	41.87	44.77	6.86	9.13	1.73
Government Payments	67.30	5.47	3.67	4.12	2.91
Gross Return - $/acre	**786.36**	**669.70**	**707.68**	**701.87**	**735.21**
Total Direct & Overhead Expense - $/acre	744.97	726.06	740.23	755.82	790.80
Net Return - $/acre	**41.39**	**-56.36**	**-32.55**	**-53.95**	**-55.59**
Soybeans					
Yield- bu/acre	51.31	58.73	56.17	61.97	60.48
Value- $/bu	8.85	8.71	9.22	9.40	8.60
Other crop income - $/acre					
Crop insurance	19.40	29.26	8.35	6.88	1.59
Government Payments	68.53	87.36	4.26	2.92	3.62
Gross Return - $/acre	**542.70**	**587.76**	**531.11**	**593.15**	**528.13**
Total Direct & Overhead Expense - $/acre	504.00	502.10	502.52	507.15	523.66
Net Return - $/acre	38.70	85.66	28.59	86.00	4.47

While our commodity prices have remained low I would draw your attention to the crop insurance line for corn and beans. Farmers have collected income from those policies due to weather issues the past couple years. The other item of income the past couple years has been the Government payments that were put in place because of the tariff issues in our negotiations with China. Those talks created a reduction in exports thus affecting our commodity prices so the government issued payments referred to as (Market Facilitation Payments) in 2018 and 2019. The formulas on how those payments were made changed dramatically from 2018 to 2019 as you will see in the table.

I hope that this analysis for corn and soybeans gives you a better idea of what farmers have invested in putting in a crop of corn and soybeans and what they get in return. Again, if you have further questions feel free to contact one of the farm managers and they will be happy to talk with you.

Effects of COVID-19 on Agriculture

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What a start to 2020! As I'm sure many of you are well aware, the food situation in the United States has been a challenge since the onset of Covid-19. On one hand, grocery supply has been short and prices have risen. On the other, the prices farmers are receiving have been hitting multi-year lows. If you were to a grocery store in April or May you'll know that there were many products that were sold out. You may ask why are the prices farmers receive so low if grocery store demand is so high?

The root of the problem lies in the steps that take place between the time the raw product leaves the farm, and the time the consumer purchases the product at the grocery store. These steps include trucking, processing plants, and warehouses. The biggest problem has been at food production plants. There have been production plants that had the virus run through the majority of their workforce. These plants were shut down, sometimes for extended periods of time. The fear of the virus slowed down other plants. Even though consumer demand was high, these food production companies couldn't process enough food to satisfy demand. Also, because of the lowered production, they didn't need to bid high for the agricultural products farmers are growing.

As we move forward, our country and businesses within our country are learning to cope with the limitations this virus brings. The Center of Disease Control (CDC) and Occupational Safety and Health Administration (OSHA) are helping businesses apply safety precautions in which the businesses can continue to operate but in a manner which is safe for the people working there.

As the food processing industry stabilizes, both consumer prices and farmer prices will stabilize to represent supply and demand. There are likely to be issues as we move forward. Our hope is that as we gain better understanding of the virus, such drastic steps won't have to be taken again.

Many businesses, including but not limited to agriculture, have suffered financially from the effects of this virus. The government has taken an active role in trying to keep business afloat by providing financial assistance. Like many other businesses, agriculture is receiving payments to help farmers stay in business.

On April 17th, the United States Department of Agriculture (USDA) approved the Coronavirus Food Assistance Program (CFAP) which provides $19 billion to farmers for immediate relief. The goal of this bill is to maintain the food supply for our country. Many different crops and livestock are covered. This program was designed to reconcile losses of the 2019 crop. The 2020 crop was not covered under this program. Feel free to visit https://www.farmers.gov/cfap for a more detailed explanation of the program.

The payments for grain are based on the smaller of 1) half of your 2019 crop, or 2) 2019 unpriced inventory as of January 15th, 2020. The decrease in prices started around January 15th, 2020. They designed the program in a way which only makes payments on bushels that were affected by the decrease since Covid-19. Depending when farmers decided to market their own grain, they may receive a larger payment, or no payment at all. The payment for corn is $.33/bu and $.48/bu for soybeans.

If you would like to discuss in more detail how Covid-19 effects your farming operation, please feel free to call 507-359-2004 and ask for Noah, or Cody, Farm Managers at Upper Midwest Management.

Land Values: Supply vs. Demand

Michele Schroeder, Appraiser

This past spring, as we experienced the arrival of Covid-19 we noticed there was high demand for a variety of items and the supply chain could not keep up. These items included toilet paper, hair color, flour and yeast, and interior paint. As the weather got nicer garden seeds and bicycles were also in high demand. In Minnesota, fishing licenses have seen their highest demand in 10 years.

It is predicted that farmland will have a similar fate as the items mentioned above. There will be more demand for farmland since there will be a short supply of it for sale. It is predicated that willing and motivated buyers could force farmland to go up as much as 10% - if not more - in some markets.

As an appraiser, one of the ways I watch what the market is doing is by attending farmland sales whenever possible. Two recent farmland sales near UMMC's New Ulm office demonstrated the prediction to be true. The tracts of farmland sold at auction for much more than farmland has historically sold for. As an appraiser, married to a farmer, I was in awe when I watched the farmland sell knowing the current commodity prices will have a hard time providing a return on the new investment for the new buyer.

Taking a step back, I should not fail to mention there was a farmland auction that was held about 3 weeks into the pandemic with the property selling for a similar price as other tracts that sold in the market. With that said, we can assume that the 'examples' demonstrate that as the unprecedented times continue we will continue to see strong farmland sales due to the short supply of farmland.

Additionally, over the last 3 to 4 years our market has also seen an uptick in farmland sales when a motivated buyer is a livestock farmer, planning to put manure as fertilizer on the new purchase of farmland. Manure is a valuable resource with specific regulations from county and state officials. Livestock farmers need to make sure they have enough farmland for the manure generated from their livestock farm(s). Basically, the need for land for manure has resulted in greater motivation on their part to buy farmland.

Another motivator that may contribute to sustain the demand for farmland and higher prices is the weather. Since late winter, there has been talk about a possible drought during this year's growing season. Some areas of the country, such as parts of the southern U.S. like Texas, Colorado, Utah, and into California are simply not getting the rain needed for this year's crop. Historically, poor weather conditions cause suppressed yields and raise commodity prices, which in turn helps to create more demand for farmland.

Finally, the USDA's June 30th Crop Report stated in early spring 97 million acres were expected to be planted in corn, but 92 million acres were actually planted. So, what happened to the 5 million acres of corn? Analysts state that some of the acres were switched to soybean acres and some of the acres were enrolled in Prevented Planting because farmers could not get into the fields due to wet or poor weather conditions. North Dakota farmers were still trying to harvest last year's crop due to some of the poorest and wettest growing conditions they have ever had. With 5 million less acres available for growing corn, this could create less supply of corn and more demand in the market resulting in a slight boost in the commodity markets. That slight boost could be one more reason a farmer would be interested in paying more for farmland than anticipated.

Currently, land values are staying resilient. Farmland is an asset and the market is showing signs of investors buying land rather than putting their money into stocks and bonds. If investors and farmers are both demanding more farmland in their portfolio at a public auction the price of farmland on the auction block could go up a bit more.

I would also like to mention that during these unstable times in agriculture, the majority of the farmland selling is being purchased or backed by the Baby Boomer Generation. For them, they have years of equity established (perhaps in farmland, real estate, or other assets) and may be able to make or back the purchase easier.

Just like hand soap or bleach wipes, we do not know how long the demand or uptick in prices for farmland will last due the short supply. Likewise, we don't know how long farmland will be in short supply. However, you can rest assured the staff at UMMC is available to help you with all your farmland real estate and appraisal needs.

Please note - The staff at UMMC are NOT economists nor analysts. This article serves as an overview of current farmland market trends and the circumstances behind them. Please contact UMMC for more information.