Statement of Dr. Joe L. Outlaw

Before the U.S. House of Representatives Committee on Agriculture

Rural Economic Outlook: Setting the Stage for the Next Farm Bill

February 15, 2017

Chairman Conaway, Ranking Member Peterson and Members of the Committee, thank you for the opportunity to testify on behalf of the Agricultural and Food Policy Center at Texas A&M University as you focus on the growing farm financial pressure gripping our nation. As many of you know, our primary focus has been on analyzing the likely consequences of policy changes at the farm level with our one-of-a-kind dataset of information that we collect from commercial farmers and ranchers located across the United States.

Our Center was formed by our Dean of Agriculture at the request of Congressman Charlie Stenholm to provide Congress with objective research regarding the financial health of agriculture operations across the United States. For over 30 years we have worked with the Agricultural Committees in both the U.S. Senate and House of Representatives providing Members and committee staff objective research regarding the potential farm-level effects of agricultural policy changes.

Working closely with commercial producers has provided our group with a unique perspective on agricultural policy. While we normally provide the results of policy analyses to your staff without commentary, I was specifically asked to provide my perspective today about the conditions for crop agriculture.

In 1983 we began collecting information from panels of 4 to 6 farmers or ranchers that make up what we call representative farms located in the primary production regions of the United States for most of the major agricultural commodities (feedgrain, oilseed, wheat, cotton, rice, cow-calf and dairy). Often, two farms are developed in each region using separate panels of producers: one is representative of moderate size full-time farm operations, and the second panel usually represents farms two to three times larger.

Currently we maintain the information to describe and simulate around 100 representative crop and livestock operations in 29 states. We have several panels that continue to have the original farmer members we started with back in 1983. We update the data to describe each representative farm relying on a face-to-face meeting with the panels every two years. We partner with FAPRI at the University of Missouri who provides projected prices, policy variables, and input inflation rates. The producer panels are provided pro-forma financial statements for their representative farm and are asked to verify the accuracy of our simulated results for the past year and the reasonableness of a six-year projection. Each panel must approve the model's ability to reasonably reflect the economic activity on their representative farm prior to using the farm for policy analyses.

The results I am going to discuss today focus on the financial condition at the end of the 2016 crop year for 64 representative crop farms located in 20 states. Figure 1 indicates each farm's location, type of farm and the total number acres on the farm. The analysis utilizes FAPRI's December 2016 baseline commodity price projections for 2016 since the actual prices will not be known until the end of the marketing year. These prices are further adjusted to reflect local conditions for each farm.

We have developed a color coding system to provide a quick way of showing how the farms are doing. Each farm is evaluated based on two criteria – their ability to cash flow and maintain real net worth or equity. If a farm has less than a 25% chance of not cash flowing or losing equity then it is coded green. Yellow farms have between a 25% and 50% chance of not cash flowing and losing equity. Red farms have greater than a 50% chance of not cash flowing and losing equity.

Figures 2-5 provide maps of all the farms characterized as either feedgrain and oilseed, wheat, cotton or rice along with our rating of their financial condition at the end of the 2016 crop year. **To be blunt these results are bad with very little hope of recovery on the horizon given current price forecasts by FAPRI and USDA.** Specifically,

- 17 of the 23 feed grain and oilseed farms are projected to be in moderate or poor financial condition.
- 9 of the 11 wheat farms are projected to be in moderate or poor financial condition.
- 11 of the 15 cotton farms are projected to be in moderate or poor financial condition.
- 12 of the 15 rice farms are expected to end the period in moderate or poor financial condition.

These results already include any projected ARC and PLC support that would be triggered by low prices or low incomes. **The overwhelming majority of the farms end 2016 with a high likelihood of serious cash flow short-falls. On the other hand, the probability of large equity losses is much lower across all farm types.** Although there are a few farms that exhibit strong signs of falling into a cycle of persistent cash flow shortages leading to debt accumulation that spirals out of control.

We contact our individual representative farm members when we need their feedback on important events or issues. **For this hearing, we specifically asked them about their financial situation now relative to last year at this time, how has their equity positions changed since 2013 and why, and overall observations of the current financial environment.** We have received comments from about one-fourth of the 300 representative crop producers that make up our panels. Below are a few generalizations I can make after reviewing all of their responses:

1. There was only one farmer that reported making a profit on the 2016 crop. Corn farmers from North Dakota and Iowa, as well as, cotton farmers from west Texas indicated the only reason they broke even in 2016 was record yields. Generally, all the rest indicated that 2016 was a loss year where they had to roll operating

notes forward or draw from reserves to pay-off operating loans.

2. Most indicated their equity positions were down at least 20% from 2013. Land values have declined some, however, many cited a substantial decline in equipment values as a major cause of lower equity in addition to having to borrow more. Many of the farmers from the South mentioned a growing number of farm equipment sales by farmers who either retired on their own or were persuaded to retire by their lenders.

3. Their overall observations about the current financial environment were very discouraging to say the least. They all indicated there is nothing else left to cut. They have all cut back on expenses and delayed replacing equipment that needs to be replaced to the point that maintenance costs are getting tougher to deal with. Several of the panel members we have met with since the 1980s indicate that they are only still in business because they have been frugal during the good times and paid off debt. They worry about the future of farming for younger farmers who are likely carrying more debt as they try to build their operations.

In summary, I want to offer a few points for your consideration:

First, the producer safety net contained in the 2014 Farm Bill has worked as intended for all crops except for cotton. The combination of federal crop insurance and Title I commodity programs has helped the overwhelming majority of U.S. producers stay in business through some very difficult times. While the farmers we meet with all expressed concern for the future, many indicated there wouldn't be a future without crop insurance to protect against weather problems and the PLC and ARC programs protecting against low prices and incomes. The lone exception is cotton as their STAX program has not provided the protection producers were hoping for. Not having Title I programs to protect from the sustained drop in cotton prices has caused severe financial difficulties only overcome by the occasional record yields. Living without price protection can best be summed up by the response from a Texas cotton farmer, "It's like dancing around a land mine without a cotton safety net! When we hit it we will be ruined!"

Second, according to USDA, in the three years since the 2014 Farm Bill was passed, crop cash receipts have fallen from $211.4 billion in 2014 down to $187.7 billion in 2016 – a decline of $23.7 billion. During that time, Title I payments to crop farmers have totaled $13.2 billion or a little more than one-half of the estimated loss in crop receipts. In no way are commodity payments making producers whole.

And finally, it seems like nearly every month there is another report issued from interest groups who want to dismantle the producer safety net often saying programs are too lucrative. Not only are the programs not too lucrative, but there is a growing need to provide additional funding as adverse economic conditions are expected to continue.

Mr. Chairman, that completes my statement.

Figure 1. AFPC's Representative Crops Farms

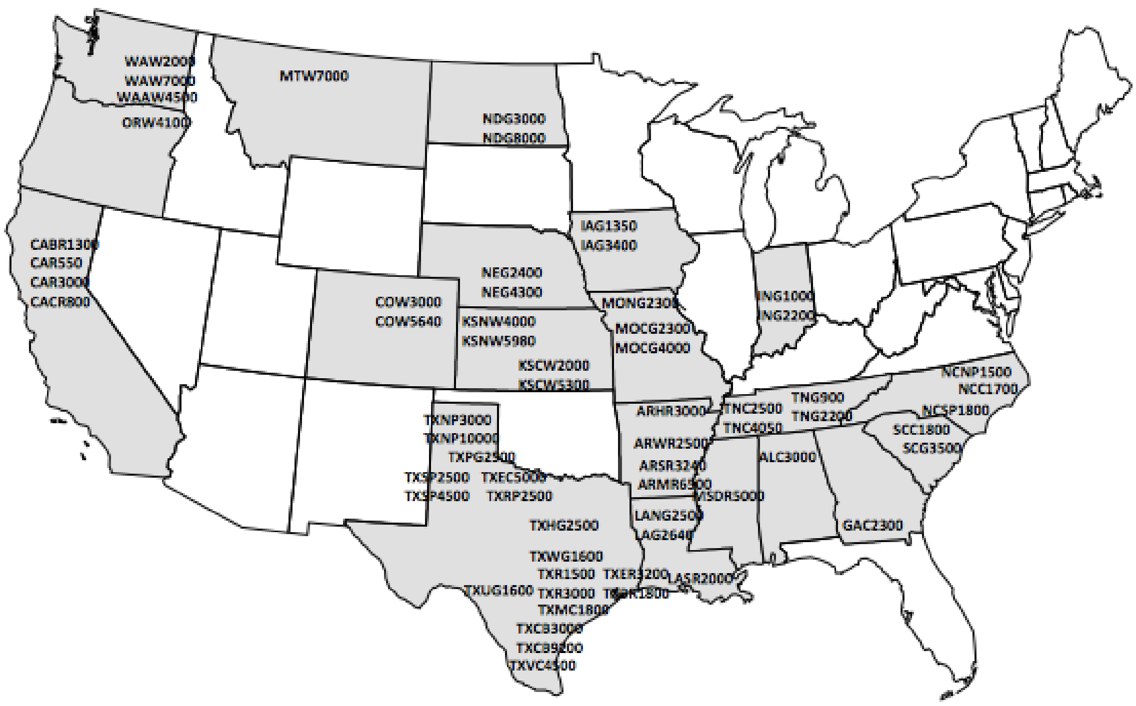

Figure 2. Color Coded Results for Representative Feed Grain Farms at the End of 2016.

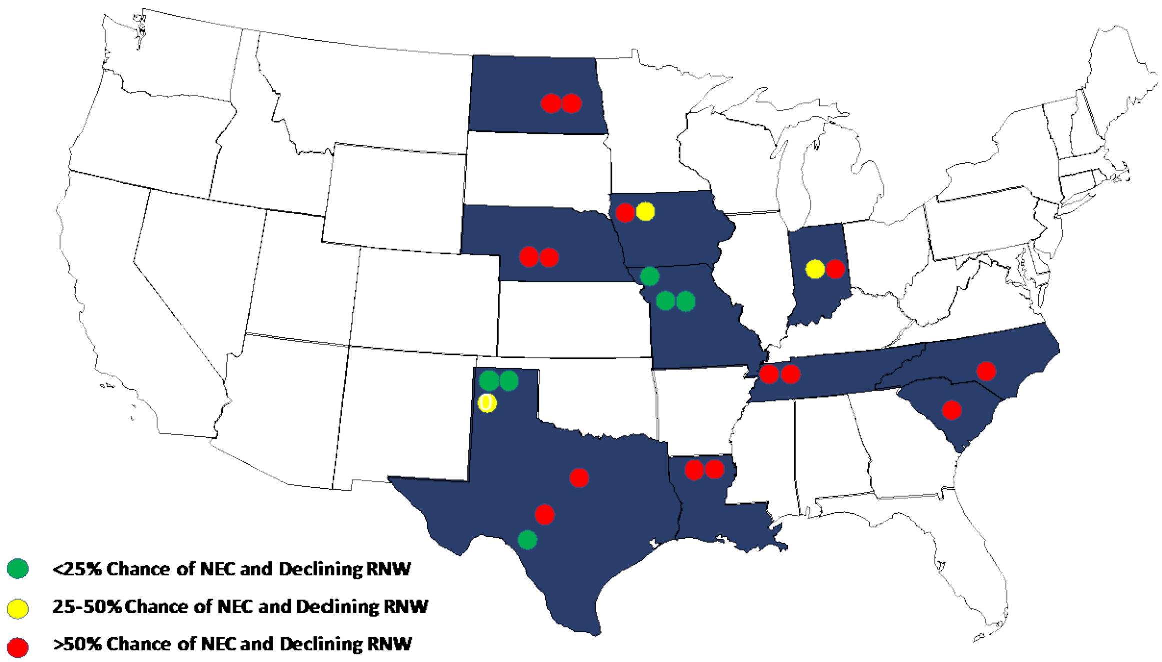

Figure 3. Color Coded Results for Representative Wheat Farms at the End of 2016.

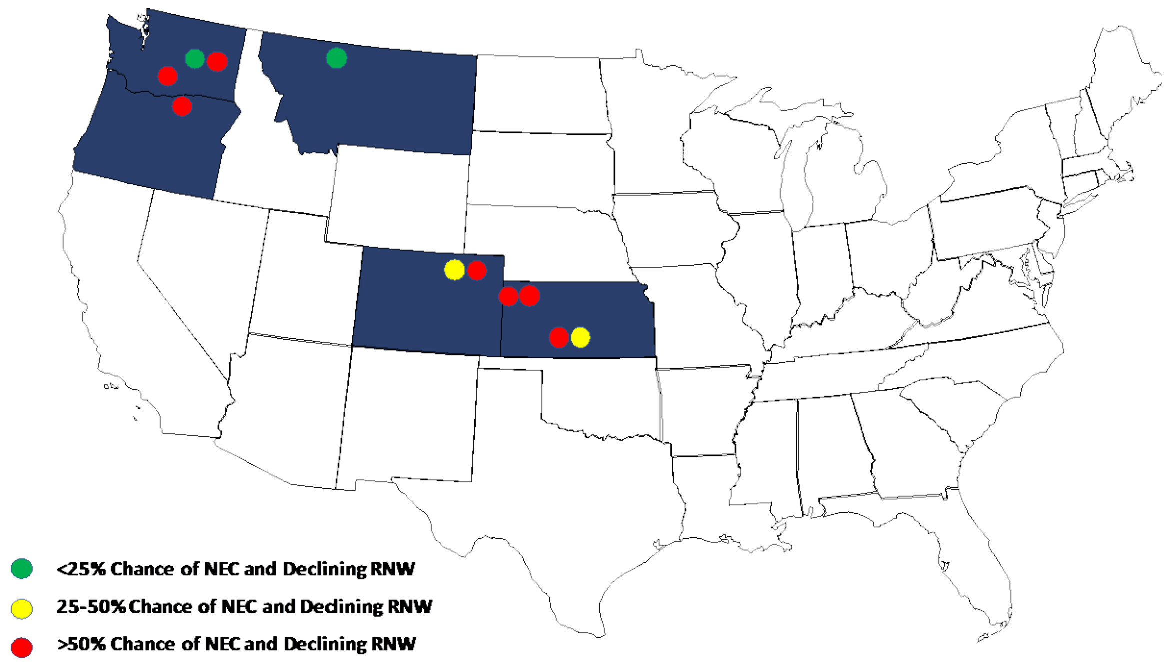

Figure 4. Color Coded Results for Representative Cotton Farms at the End of 2016.

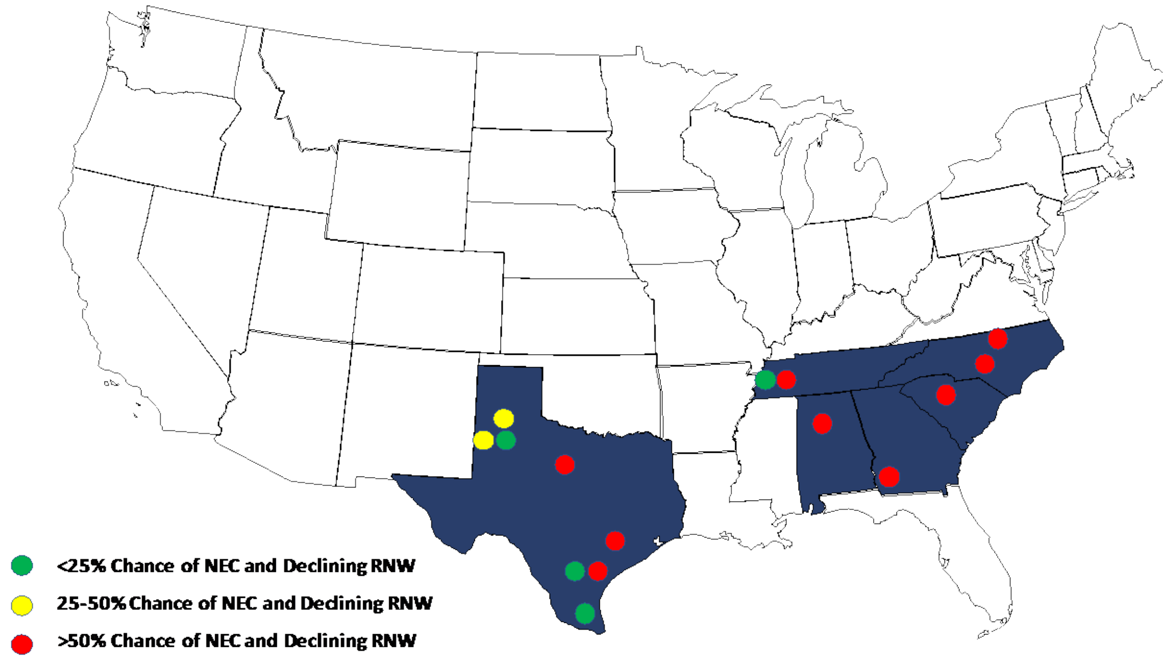

Figure 5. Color Coded Results for Representative Rice Farms at the End of 2016.