

Statement of Dr. Joe L. Outlaw,
Before the Committee on Agriculture, Nutrition and Forestry
of the United States Senate, on
Agriculture: Growing America's Economy

February 17, 2011

Chairwoman Stabenow 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 on the outlook for U.S. agriculture based on our long history of representative farm research. We specialize in working at the farm level with a one-of-a-kind dataset of information that we collect from real farmers and ranchers.

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 U.S. with a focus on unbiased analyses of the impacts of proposed agricultural policy changes. For more than 25 years we have been provided funding via Congressionally directed spending to work with the Agricultural Committees in the U.S. Senate and House of Representatives providing Members and committee staff objective research regarding the potential farm level affects of agricultural policy changes.

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 98 representative crop and livestock operations in 28 states as seen in Figure 1. 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 to three 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 were developed with FAPRI's recently completed January 2011 ten-year baseline projections.

Our whole farm simulation model enables us to accurately account for the historical price and production risk unique to each operation as we project out into the future. This feature provides a great deal of realism to our results as we simulate each year of our analyses 500 times drawing different price and yield combinations. Our

model results are 500 projected pro forma balance sheets and income and cash flow statements for each operation that tends to be too many numbers to easily grasp.

Over the years, we have moved to a color-coded representation of each farm's projected financial viability over our projection period (generally 5 to 6 years in the future) in order to effectively communicate the complex representative farm research results. Green refers to farms we would characterize as being in good financial condition with less than a 25 percent chance of both a loss in real equity and having cash flow shortfalls at the end of 2016. Yellow denotes farms in moderate or marginal financial condition with a 25% to 50% chance of a loss in real equity and cash flow shortfalls. Farms given the color code red are characterized as being in poor condition and have greater than a 50% chance of a loss in real equity and cash flow shortfalls.

Under the FAPRI January 2011 Baseline, 36 of the 64 crop farms are considered in good overall financial condition by 2016 with 15 in moderate condition and 13 in poor condition. Eighteen of 34 livestock operations are considered in good financial condition by 2016 with 11 in marginal condition and 5 in poor condition. The breakdown across farms is:

- FEEDGRAIN FARMS: Nineteen of the 23 feedgrain farms are in good overall financial condition. Three are classified in marginal condition, and one is in poor condition.
- WHEAT FARMS: Eight of the 11 wheat farms are classified in good financial condition and three are in marginal condition; no farms are in poor condition.
- COTTON FARMS: Seven of the 16 cotton farms are classified in good condition, five are in marginal condition, and four are in poor condition.
- RICE FARMS: Two of the 14 rice farms are projected to be in good financial condition, four are in marginal condition, and eight are in poor condition.
- DAIRY FARMS: Eleven of the 22 dairy farms are in good overall financial condition. Seven are considered to be in marginal condition, and four are in poor condition.
- BEEF CATTLE RANCHES: Seven of the 12 cattle ranches are classified in good financial condition, four are in marginal condition, and only one is projected to be in poor condition.

A couple of caveats are worth mentioning. We started this analysis in 2009 with actual prices and production for each farm. If 2009 was unprofitable, the farm has to work its way out of the financial hole over the period. If 2009 was a good year, it is much easier to end the period in good condition. We do not include any off-farm sources of income by design. The inclusion of off-farm income can confuse the overall view of how a policy change will impact a farm's financial condition. Off-farm income is often a function of location or the ability of a spouse to find off-farm employment.

While there are a number of farms in moderate or poor condition, this is the best overall representative farm outlook since 1995 when it appeared that higher commodity prices were in place for the foreseeable future. We all know that those higher prices were short-lived.

One of the most important and useful features of our work is the knowledge and insights we gain from the interaction we have with the panels of farmers and ranchers. In addition to our update visits, we maintain communication throughout the year with queries via email and periodically ask them direct questions of how they are likely to respond to policy changes. Some of their most revealing responses were to questions regarding climate change, biofuels, and farm debt levels. In preparation for this testimony we asked them to let us know how they were doing and what their concerns were for the future. The responses we received were representative of each type of crop farm and both cow calf and dairy operations.

In general, most crop farmer respondents said their outlook was favorable due to the recent price improvements for most commodities. While there is cautious optimism regarding higher commodity prices the sudden downturn experienced in 1995/96 and more recently in 2008 has most of the representative farm members nervous about the future. Most responded that input prices are sticky meaning they rise along with commodity prices but tend to fall much slower as experienced recently after the 2008 price increases. There is also a concern that Congress will use these current high prices as justification for severely reducing the safety net provided by the different commodity programs. Most respondents felt that the current price volatility created a much more difficult business environment than they experienced in the past.

The dairy operators reflected the dire circumstances many dairy farmers find themselves in resulting from several years of accumulated losses, particularly in 2009, which may have been the worst year ever for milk producers. This same sentiment was reflected by several rice farmers but to a lesser degree. It is interesting to note that most cotton farmers have not benefited from the recent record cotton prices as their 2010 crop was generally already priced, or sold, prior to the record price run-up.

All livestock sectors continue to transition to a higher and more volatile feed cost environment. While our cow calf operations cite higher market prices they also responded that they are having difficulties securing forage supplies due to drought, difficulties outbidding stocker operators for grazing land, and face lower expected prices due to the reality that feedlot profitability is being strained by high corn prices and high calf prices.

Their final two areas of concern were their feeling that government regulation and specifically EPA regulation of their operations was driving up their costs of doing business and that there needed to be something done about the shortage of agricultural labor and specifically a more workable guest worker program.

Madam Chairwoman, that completes my statement.

