

Farm Management and Marketing Newsletter

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Using the MarketMaker Resources

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The University recently launched a new marketing resource called MarketMaker. The site is currently being developed but is actively accepting farm/business registrations to assist with marketing needs.

MarketMaker is an online marketing resource available to Arkansas' farmers, businesses, and consumers. It is an interactive web resource aimed at promoting the products and businesses of agricultural producers. It is designed to connect food producers, distributors, buyers, and sellers to their specific consumer markets. Using a web-based search engine of databases in a GIS (global information system) environment, MarketMaker links food producers with economically viable markets, while aiding in food security and enhanced quality in food supply chains.

MarketMaker allows users to identify, find, and develop relationships with potential suppliers and buyers. The marketing resource offers tremendous opportunities for growers to not only promote their products and services but more importantly to differentiate

their product offerings thereby capturing potential price premiums. The site's registration process is a menu driven system that allows growers to "tell their story" detailing their farm/business history and uniqueness. The system queries farmers on their production system, distinctive product characteristics, and marketing methods. There also exists an area to highlight any farm agritourism activity. The system will guide a farmer through a process to develop a business profile that will be displayed as part of the emerging network's database. Additionally, the site allows registrations from farmers' markets, wineries, wholesalers, retailers, and processors.

If you are interested in searching the site, there is no need to register and develop a business profile. Users simply need to click on find a product and follow the system's intuitive menu driven system to find business locations or differentiated, niche products. An additional useful feature is the sites, search capabilities. The site allows users to search by multi-state, state, county, or a designating a specific radius around a user-entered zip-code. The search feature also includes a mapping feature using GIS information to highlight farm/business locations.



Arkansas is the 14th state to join MarketMaker which is one of the most extensive collections of searchable food industry related data in the country. Farmers, retailers, restaurant owners/chefs, and farmers' market managers all benefit from being connected. Most important, the site allows users to register/post their business information or consumers/buyers to search for free. To register, visit the Arkansas MarketMaker site, www.uaex.edu/marketmaker and click on the registration link. The development page also includes some instructional and promotional material that highlights the registration process and the marketing resources usefulness. MarketMaker is one of the most dynamic resources available today to aid in marketing and promoting agricultural products.

If you have questions, email marketmaker@uaex.edu or call Ron Rainey at 501-671-2175.

The 2010 Wheat Production Decision

Scott Stiles, Instructor, U of A Division of Agriculture, Agricultural Economics and Agribusiness Department

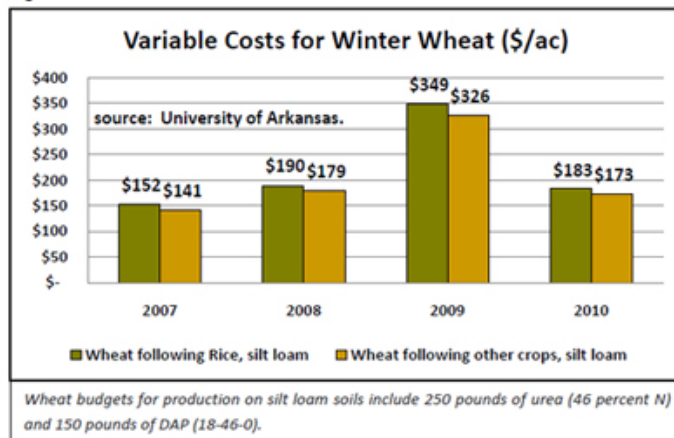
As always, there are a number of variables to consider in making planting decisions. Production costs, futures prices, and basis are just a few among many. Fortunately, over the past 12 months variable input costs have trended lower for all commodities. Some forms of fertilizer are over 50% less expensive today compared to one year ago. Unfortunately, much of this cost reduction has been negated by lower commodity prices and a continued weak basis in soft red winter wheat.

With lower input prices today, wheat production costs could be considerably lower for the 2010 crop compared to 2009. Most of the projected cost reduction is associated with fertilizer.

University of Arkansas wheat budgets indicate that fertilizer accounts for 45% of variable costs in wheat. 2010 total variable costs are estimated to be \$178 per acre (on average) for wheat production on silt loam soils (**Figure 1**). Of this total, fertilizer costs are projected to be \$80 per acre, a drop of \$148 per acre from 2009.

Arkansas supplier surveys taken in early August reveal the average cost per ton of urea and DAP to be \$375 and \$388 respectively.

Figure 1. Per Acre Variable Costs for Winter Wheat



Basis:

The basis (difference between the local cash price and underlying futures price) for soft red winter wheat throughout Arkansas has been historically weak for much of the last three years. As of September 22, 2009, new crop bids for soft red winter (SRW) wheat in eastern Arkansas were quoted in a range of \$3.93 to \$4.16. With July 2010 futures at the Chicago Board of Trade (CBOT) settling at \$4.99 on the same date, those bids reflected a basis ranging from -\$1.06 to -\$0.83 per bushel.

The continued weakness in the SRW basis follows a much smaller U.S. crop in 2009. Production is estimated to be about 412 million bushels, 202 million bushels (33 percent) smaller than the 2008 harvest.

The harvest in Arkansas was estimated at 19.7 million bushels, 36.1 million (65 percent) smaller than the 2008 harvest. Given these fundamentals, some improvement in basis would normally be expected. However, the potential benefit of the smaller 2009 production has been offset by very slow SRW wheat exports. The USDA-FAS reported as of September 10, 2009, 14 weeks into the 2009-10 marketing year, only 33.5 million bushels of SRW wheat had been exported. That compares to cumulative exports of 89 million bushels at the same time a year earlier.

Break-Even Prices:

The figure below provides estimates of returns over variable costs under different wheat prices and yields. The 2010 variable costs of \$183 and \$173 per acre for wheat shown in Figure 1 do not include land charges. Figure 2 illustrates the impact of a 75/25 share rent arrangement on break-even yields and prices.

For instance, if a producer owns a farm and sells his wheat for a net price of \$4.00 per bushel, his yield can drop as low as 42 bushels per acre and still cover his variable costs. Conversely, if the same producer believes his average yield will be 42 bushels, then his net selling price will need to be \$4.00 per bushel to break even.

Including a land charge will require an increase in either a producer’s net selling price or yield. The right-hand table below illustrates the impact of a 25% share rent. Assuming a net selling price of \$4.00 per bushel can be obtained, a producer would need an average yield of 57 bushels per acre to cover variable costs and rent.

As mentioned earlier, new crop wheat bids in eastern Arkansas currently range from \$3.93 to \$4.16. For many tenant operators, today’s price levels will not generate profits without above average yields. Current low prices for soft red winter wheat, along with weak basis levels into the 2010 marketing year, may reduce SRW wheat acreage this fall. In addition, late maturity and harvest of spring planted crops may also interfere with fall wheat planting in some areas.

The 2010 University of Arkansas wheat budgets are available on-line at:

<http://www.aragriculture.org/crops/wheat/budgets/2010/default.htm>

Figure 1. Breakeven Yields (BEY) Required to Cover Variable Costs and Net Returns above Variable Costs Per Acre.

Wheat, Following Crops Other Than Rice, Sand/Silt Loam Soils, 2010

<i>Farm Owner</i>		Crop Price (\$/bu)						
BEY (bu/ac)	3.60	4.00	4.40	4.80	5.20	5.60	6.00	
	Returns above Variable Costs (\$/Acre)							
28	-66	-55	-44	-33	-22	-11	0	
30	-59	-48	-36	-24	-12	0	12	
32	-51	-39	-26	-13	0	13	26	
35	-42	-28	-14	0	14	28	42	
38	-31	-15	0	15	31	46	61	
42	-17	0	17	34	51	67	84	
47	0	19	38	56	75	94	113	

Farm Owner is assumed to have 100% Equity in Land

<i>Tenant</i>		Crop Price (\$/bu)						
BEY (bu/ac)	3.60	4.00	4.40	4.80	5.20	5.60	6.00	
	Returns above Variable Costs (\$/Acre)							
37	-67	-56	-45	-34	-22	-11	0	
40	-60	-48	-36	-24	-12	0	12	
43	-52	-39	-26	-13	0	13	26	
47	-42	-28	-14	0	14	28	42	
51	-31	-15	0	15	31	46	62	
57	-17	0	17	34	51	68	85	
64	0	19	38	57	76	95	114	

Landowner Receives 25% of the Crop.

Tenant pays 100% of Hauling Crop to Grain Elevator

Trends in Arkansas Farm Land Values: The 2009 Update

Terry Griffin, Assistant Professor, Bruce Ahrendsen, Professor, Brad Watkins, Associate Professor, and Jeffery Hignight, Program Associate, U of A Division of Agriculture, Agricultural Economics and Agribusiness Department

Over the last several years, we have reported on changes in Arkansas farmland values. Last year we said that “Over long time periods, farmland values generally increase. The long-term upward trend in Arkansas farmland values is not unusual”. This statement remains true except we saw land values decreasing this year. Farmland values in many other states followed similar trends of increased values during the 1970’s followed by similar decreased values in the 1980’s, with a steady increase since the

mid to late 1980’s. This relationship can be illustrated in Figure 1 which shows nominal farmland values, i.e. not adjusted for inflation, for Arkansas and the United States. Figure 2 displays the Arkansas farmland data as observed and deflated. It should be noted that the data used in the 2009 Update may differ slightly than the previous versions since some of the historic data were updated based on the 2007 Census of Agriculture which was released earlier in 2009.

Figure 1. US and Arkansas farm real estate: values of farmland and buildings

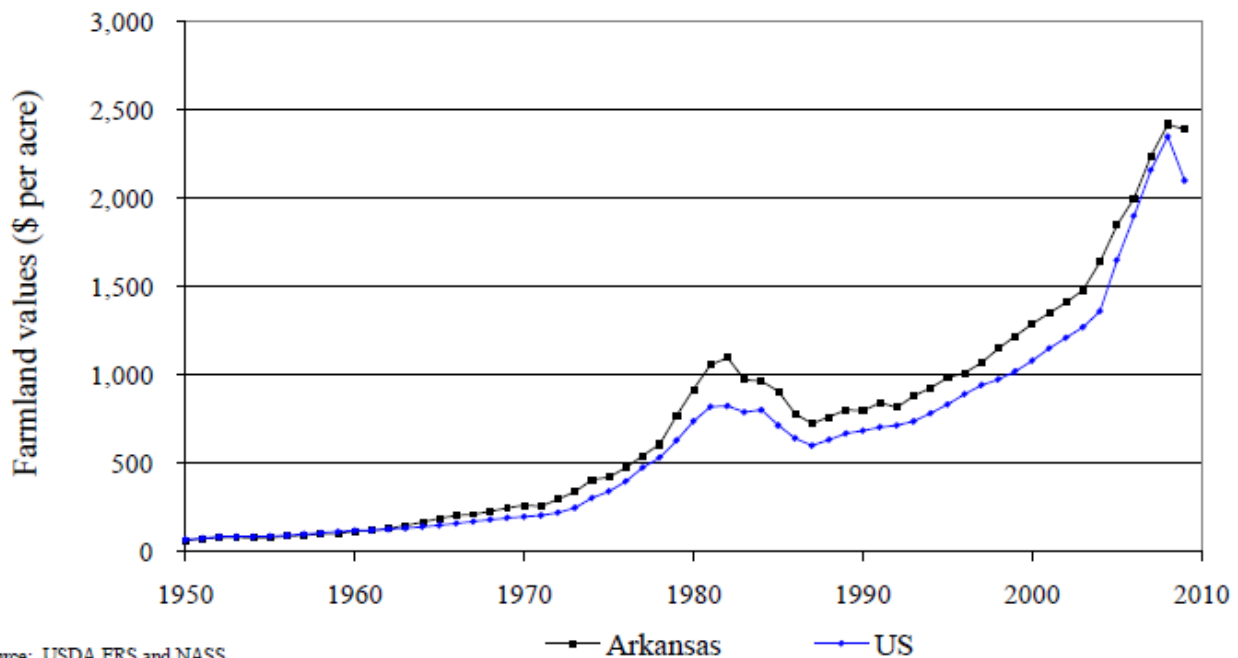
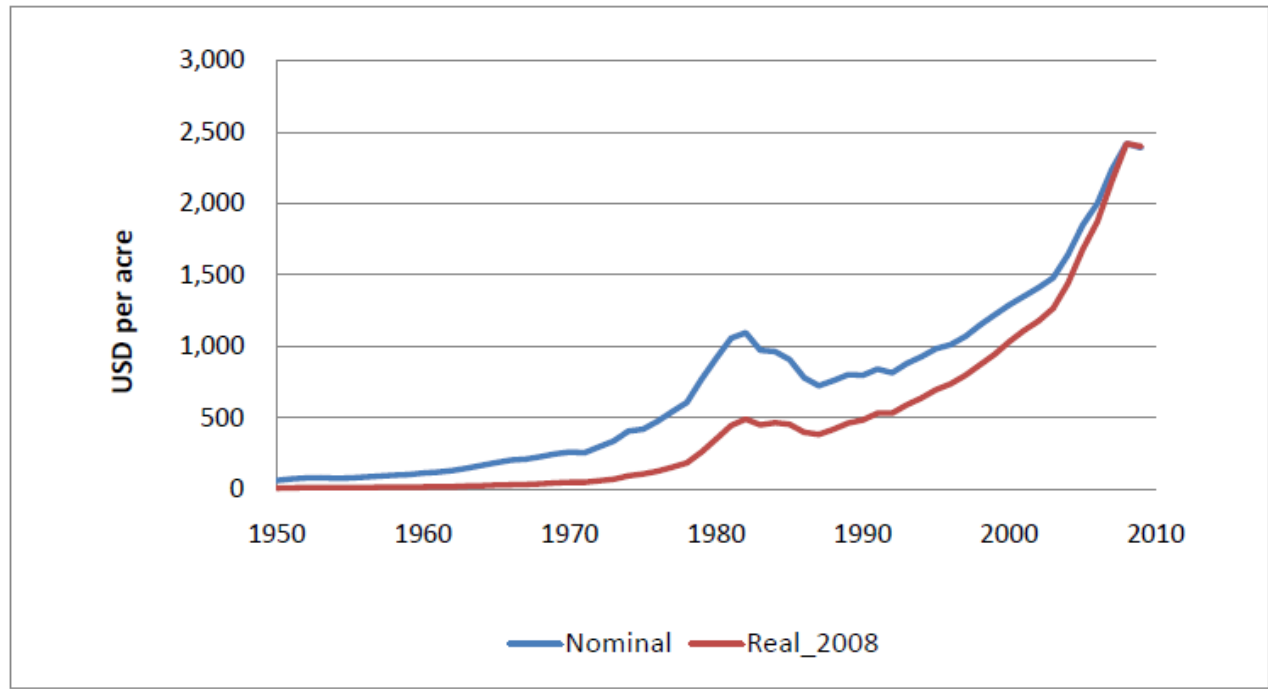


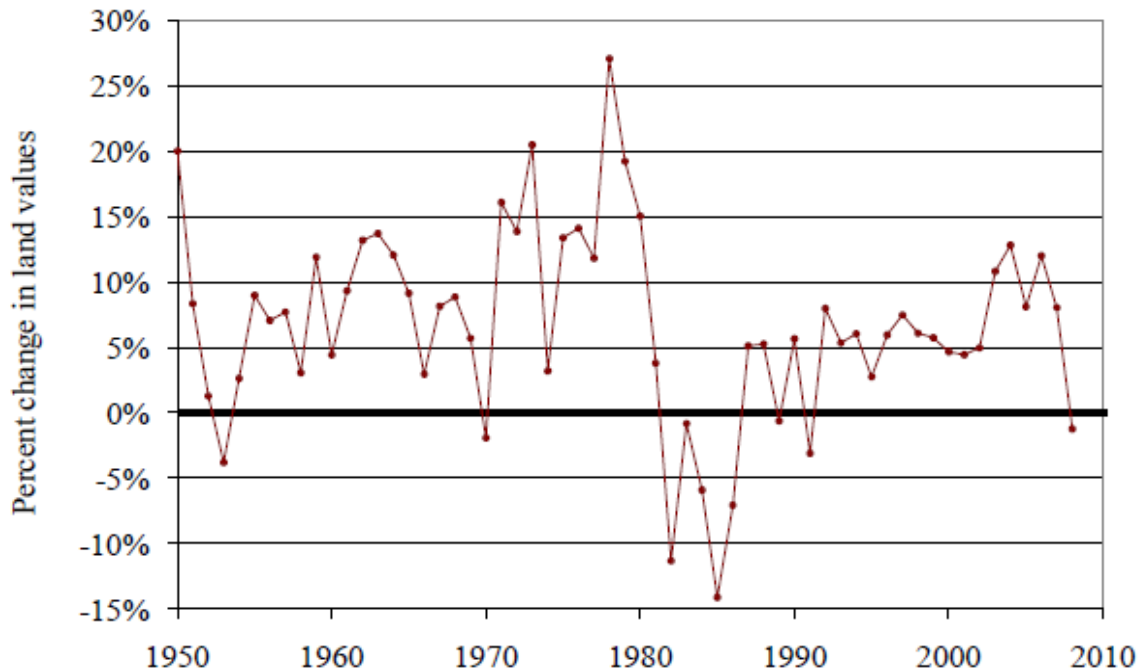
Figure 2. Arkansas farm real estate: values of farmland and buildings in nominal and real dollars



Arkansas farmland values decreased last year for the first time since the early 1990s (Figure 3 helps to illustrate these events by graphing the percent change in farmland value from year to year; when the line or

dot falls below zero, then the farmland value has decreased from the previous year). The preceding five years were at or above 8% increases over the previous year.

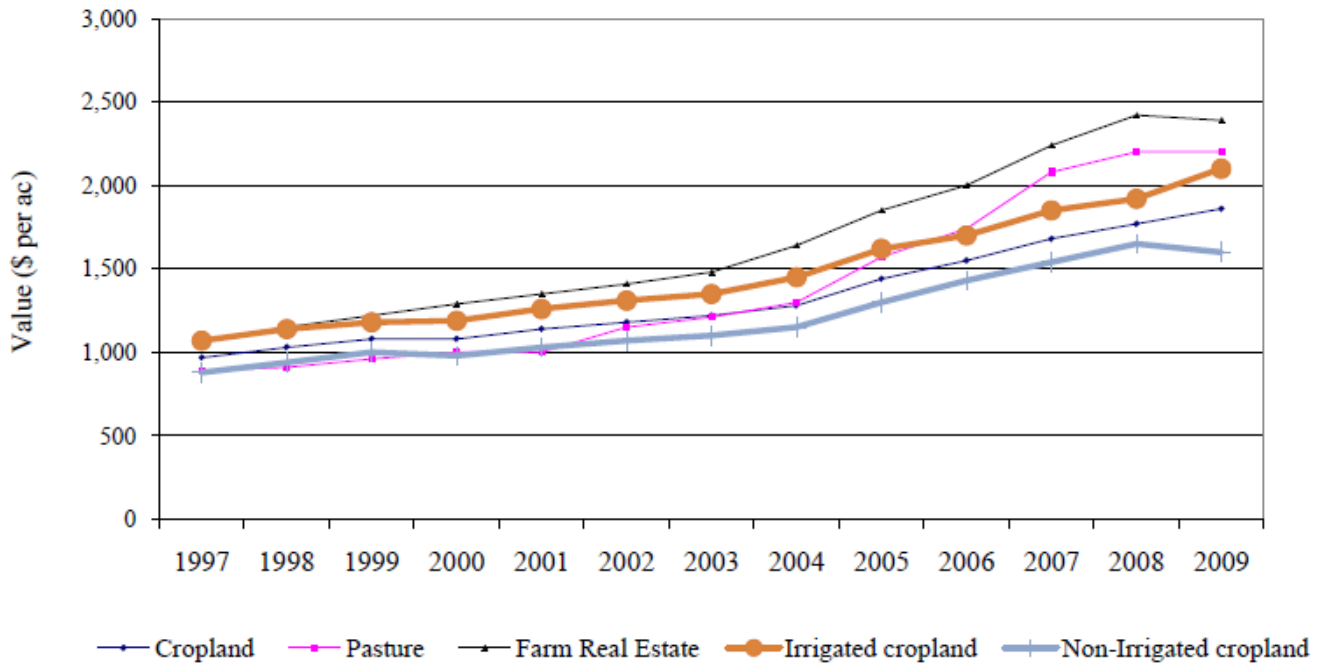
Figure 3. Arkansas farm real estate: percent change in farmland and buildings values



Types of Arkansas farmland can be compared over the last thirteen years including 1) farm real estate, 2) cropland, 3) irrigated cropland, 4) non-irrigated cropland, and 5) pasture land. All the measured types of farmland have been on the rise since 1997; however, the most notable increase has been in

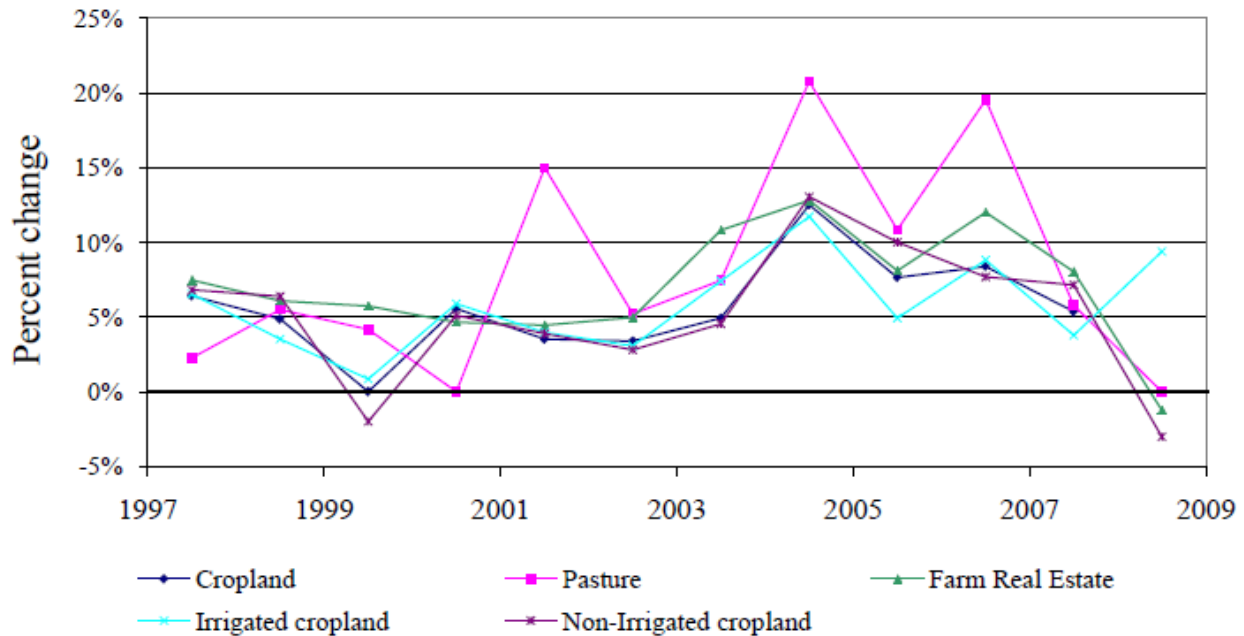
pasture land relative to cropland whether irrigated or non-irrigated (Figure 4). Pasture land values have been increasing at a faster rate than other types of farmland, surpassing the value of irrigated cropland in 2006. This trend in pasture land values has also been documented in surrounding states.

Figure 4. Arkansas farmland values by type



The relative increase in pasture land values compared to cropland can best be illustrated by Figure 5. The lines for cropland, irrigated cropland, and non-irrigated cropland tend to vary in a similar way from year to year with nearly the same percentage change from the previous year. Although there were large increases in the value of all types of farmland during 2004 and 2006, the rate of change for pasture land was over 20% during each of those years while the

increase in value of the other types of farmland were 13% or less. During 2007, the increases in all farmland types were from 4 to 8%, much less than previous four years. Last year, pasture land held steady value while irrigated cropland increased in value by 9% while the remaining types of farmland had changes in value from a negative 3% to a positive 5%.

Figure 5. Percent change in Arkansas farmland values by type

Bottom-line Considerations

It is widely accepted that farmland values have been influenced by non-agricultural uses. What once was reserved for the production of crops and livestock are now being used for residential purposes at an increasing rate. However, the softness in the residential and commercial real estate markets as well as the financial crisis of the past two years have diminished some of their impact on farmland values. It is uncertain if farmland values will continue to increase in value, remain steady, or begin to decline. For more information contact your local University of Arkansas Cooperative Extension Service County Agent or Extension Economist.

Resources:

USDA-ERS Value of Land & Buildings Per Acre. Stock Number 87012. January 1995 Available on-line at: <http://www.ers.usda.gov/data/archive/87012/>

USDA-NASS Arkansas Field Office. Arkansas Land Values and Cash Rents. Available on-line at: <http://www.nass.usda.gov/ar/>

Know Your Farmer Initiative

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Over the past decade in the U.S., “local” branded products have been highly sought after products in the market place. This trend has continued to gain momentum with sustained marketing programs on national, state and local levels, which include the Arkansas Grown state branding program, slow food networks, and the sustained demand from locavores. This trend is further highlighted in the latest USDA Census statistics showing dramatic increases in direct farm sales to consumers and the number of farmers markets. There have even been some reports that “local” will supplant the “organic” brand in consumer’s product of choice. For the record, the organic market has maintained fifteen to twenty percent annual market growth over the last fifteen years.

In an effort to further aid this emerging trend, in mid-September, Agriculture Secretary Tom Vilsack and Deputy Secretary Kathleen Merrigan announced a new initiative called 'Know Your Farmer, Know Your Food'. The program's purpose is to begin a national conversation to help develop local and regional food systems and spur economic opportunity. To launch the initiative, Secretary Vilsack recorded a video to invite Americans to join the discussion and share their ideas for ways to support local agriculture. The video can be viewed at USDA's YouTube channel, www.youtube.com/usda. Additionally, USDA is seeking feedback from producers and consumers on the initiative, as well as requesting individuals to submit videos or provide comments on this initiative by e-mailing KnowYourFarmer@usda.gov. When growers tell their farm stories and truly connect with their customers, the results are increased loyalty and sustained price premiums from those customers. This initiative should assist growers with that strategy by providing numerous ideas and tools to make this connection. From the initiative's press release Secretary Vilsack stated,

"An American people that is more engaged with their food supply will create new income opportunities for American agriculture. Reconnecting consumers and institutions with local producers will stimulate economies in rural communities, improve access to healthy, nutritious food for our families, and decrease the amount of resources to transport our food."

The 'Know Your Farmer, Know Your Food' initiative is chaired by Deputy Secretary Merrigan who leads a task force with representatives from agencies across USDA who will help better align the Department's efforts to build stronger local and regional food systems. Merrigan noted that "Americans are more interested in food and agriculture than at any other time since most families left the farm". The "Know Your Farmer, Know Your Food" initiative seeks to focus and encourage the conversation on supporting local and regional food systems to strengthen American agriculture by promoting sustainable agricultural practices and spurring economic opportunity in rural communities."

Take the opportunity to visit the site to explore ways in which growers and consumers across the nation are engaging in the local food system conversation. The site is quickly building a collection of videos and comments from every level. USDA promises to announce tools in the coming months to further strengthen this initiative providing much needed support and publicity for local direct marketing growers.

We hope you find our newsletter useful. If you have any comments or questions regarding these articles, or would like to make suggestions for future articles, contact the editor.

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