The Center for Commercial Agriculture’s vision is to be the leading source of management education and knowledge generation for the farmers in the business of producing the world’s agricultural products. I am happy to report that during 2012 we have taken many steps toward making that vision a reality.

At the last center advisory council meeting, we identified several potential areas for future center programming. After a wide-ranging and fruitful discussion, the council prioritized its top five issues — risk management, management transitions, family business transitions, labor management and making better use of the data generated by farm businesses. The center faculty and staff have since made substantial progress toward addressing many of these issues.

For example, Professor Elizabeth Yeager now leads a faculty team focusing on risk management. Generously funded by the Indiana Soybean Alliance, this group is developing an innovative, web-based program on risk management. You will start seeing outputs from this project in the coming months.

We focused on managing the farm workforce and other timely issues during the 45th Top Farmer Crop Workshop held in June. The discussions around labor management and succession led us to develop a new workshop, Farming into the Next Generation, which will run in February 2013.

Our first undergraduate class, which exposes students to the opportunities and business concepts used in commercial agriculture, also kicks off in early 2013. We have already secured an impressive list of guest speakers and planned field trips to Indiana farms and agribusinesses. We are looking forward to seeing the course grow over time.

From a research perspective, center faculty members have been extremely active working to better understand both the opportunities and risks of operating in today’s farm business environment. You will read about a variety of these issues and our related research in the following pages. We have also been actively presenting the results of our work to audiences around the country.

Perhaps our most important accomplishment of 2012 was hiring a new associate director in the center. Michael Langemeier joined us after many years of distinguished service as a professor at Kansas State University. He is an expert in farm management and efficiency analysis and brings a wealth of experience, wisdom and energy to the center. We are truly fortunate to have attracted him to work with us in moving the center forward, and I am sure that you will find him a great addition to the center’s team.

This report features the progress we have made in addressing our list of top-priority issues. There are many projects underway, and we are excited to see how far we can go in helping the farmers in production agriculture. We appreciate your continued support of our efforts. We hope you can join us for some of our programming; read some of our practical, applied research; or participate in one of our classes in the coming years.

Sincerely,

Brent Gloy, Director
TOP FARMER CROP WORKSHOP CELEBRATES 45 YEARS

The 45th Top Farmer Crop Workshop, held July 9–11, brought nearly 140 farmers from across the United States and Canada to Purdue’s Beck Agricultural Center. With 28 guest speakers representing academia and agribusiness, the program allowed farmers to evaluate their operations from a business standpoint, focusing specifically on economic, agronomic and technological opportunities and challenges.

Purdue faculty speakers at this year’s program were Craig Dobbins, Chris Hurt, George Patrick, Brent Gloy, Mike Boehlje, Sylvie Broder, Michael Langemeier, Bill Johnson, Kiersten Wise, Shaun Casteel and Tim Baker. Outside of Purdue, Scott Irwin, Gary Schnitkey, Darrel Good and Gary Hoff from the University of Illinois provided insights on a number of topics from using spreadsheet tools for better decision making to tax-planning activities. Industry speakers included Todd Davis, American Farm Bureau Federation; Nick Frey, WCI Family Farms; Lori Lennard, Lennard Ag Co.; James McCandless, UBS AgriVest LLC; Bob Milligan, Dairy Strategies LLC; Matt Rushing, AGCO; and Rod Wells, GROWMARK.

Purdue alumnus Don Orr, president and CEO of JBS United, and Luke Gudeman, farm manager at Lifesong Farms in Zambia, Africa, offered keynote sessions during the workshop. Orr used his first-hand experience to describe the Chinese marketplace and discuss its potential implications for U.S. farmers. Gudeman shared the story of Lifesong Farms, and his involvement with its mission to help the more than one million orphans in Zambia by providing education and income.

To increase interaction and networking among participants, this year’s workshop featured a reception and industry showcase, structured like a mini tradeshow. The farmers enjoyed a barbecue dinner, visited with one another, and explored the products and services on display from the ag companies exhibiting in the showcase.

The Center for Commercial Agriculture, in partnership with the University of Illinois’ farmdoc team, planned and executed the workshop, which is one of the most successful and longest-running programs geared specifically for farmers. Farm Credit Mid-America, Winfield Solutions and Yamaha supported the workshop by sponsoring various sessions and meals.
Risk management is central to successful farm management. Price and yield are typically the most common risks farmers consider. However, as production agriculture has become more complex, so have the risks. Today, farms face countless risks in addition to prices and yields, such as strategic, operational, marketing, financial and human resource risks.

Effectively understanding and managing these risks requires farm managers to develop a holistic, integrated approach to risk on the farm. However, previous risk management education efforts have been too narrowly focused to address these issues. As agriculture continues its rapid consolidation and change, now is the time to update and improve farm risk management education.

The Indiana Soybean Alliance has partnered with the center for the Integrated Risk Management Initiative. The vision of the Indiana Soybean Alliance is to be “a leading resource for Indiana agriculture,” and their support of the initiative allows the center to develop original integrated risk management knowledge and tools that can be applied to farming operations. This multi-year initiative consists of three key activities — conducting applied and practical risk management research, developing risk management educational resources, and hosting an ongoing series of risk management educational meetings and forums.

Professor Elizabeth Yeager is leading the center’s faculty team for this initiative, and preliminary projects are underway. Along with developing original knowledge, the center’s faculty will facilitate the analytical capacity of farmers to recognize and manage risk; provide operational tools such as risk audits, spreadsheets and checklists that enable farmers to quickly and accurately begin the process of risk identification and management; and design a comprehensive framework for an integrated risk management plan that can be implemented on participating farms.

Financial Health of Farming and Land Values

Farm incomes have been at record levels for the past four years, and 2012 wasn’t as financially painful as drought-induced yield shortfalls would suggest, that is, for farmers who had crop insurance. Land values and cash rents
continue to increase at rapid rates. With the uncertainty of the economic recovery in the United States and the European Union, along with the production increases in the rest of the world, can this farm prosperity be sustained?

Farmers and agribusiness professionals can discuss possible answers to this question at Financial Health of Farming and Land Values, a one-day seminar offered March 27, 2013, by the center. Sessions throughout the day will feature the center’s latest research findings and give participants a chance to contemplate the farming sector’s financial future during these increasingly unsettling times.

INTRODUCTION TO THE BUSINESS OF COMMERCIAL AGRICULTURE

The center is sponsoring a new undergraduate course — Introduction to the Business of Commercial Agriculture. During this weekly class, students will learn basic business principles by interacting with successful farm managers and agribusiness leaders. Almost every class session involves a guest lecture or field trip to an Indiana farm or agribusiness organization. This experiential learning approach gives the students an opportunity to see how concepts learned in class are effectively implemented in real-word situations, exposing them to the opportunities and challenges of running a modern farm and agribusiness.

FARMING INTO THE NEXT GENERATION

One of the most rewarding and challenging aspects of operating a farm business is the opportunity to work alongside family. The center has developed a workshop, Farming into the Next Generation, to address successfully managing a family business. Farmers who attend will explore the crucial management and relationship issues that families need to consider for future successes. Program instructors are Bernie Erven, professor emeritus of agricultural economics at Ohio State University, and Bob Milligan, senior consultant at Dairy Strategies LLC and professor emeritus at Cornell University. Erven and Milligan are the leading experts in the country on this topic. The first offering is set for February 12-13, 2013.
CENTER CONDUCTS STUDY ON FARMLAND VALUE EXPECTATIONS

Farmland values have risen consistently and considerably since roughly 2001, leaving many people questioning whether the dramatic run-up in farmland values is sustainable. It’s caused a lot of concern, and people are speculating that farmland is in a bubble reminiscent of the 1970s and early 1980s.

Without knowing what farmland investors really think of the market environment, farmers and agribusinesses cannot adequately respond to the speculation. In spring 2012, the center conducted a study that helps answer questions about what’s driving farmland prices.

Nearly 250 farmers, farmland investors, agricultural lenders and agribusinesses responded to the survey. Their median farmland ownership was 500 acres. When asked to consider an 80-acre tract of farmland with a normal production capacity of 165 bushels of corn per acre, their estimates of what they would pay varied considerably, with an average of about $6,179 per acre. Sixty-five percent of the respondents felt that someone else would pay more for the farm than what they felt it was worth. In terms of supply, almost all of the respondents believe that the amount of farmland for sale was less than normal or about the same as usual.

The findings indicate that the market is still searching for equilibrium prices after the dramatic crop price increases over the last decade. The limited amount of farmland for sale further complicates the situation. Market and economic conditions will determine where farmland values go in the future, but a key driver of current farmland prices is the purchasing capacity of the people willing to pay the most for land.

Center faculty believe that until the supply of land offered to the market increases, it is likely that the people at the upper end of the demand curve with more optimistic views of farmland value will continue to push prices higher. How long this lasts will depend upon how these individuals’ expectations evolve.

To learn more about the survey and data or to download the full report, “Farmland Value Expectations and Influences: Evidence from the Field,” visit www.agecon.purdue.edu/commercialag/resources/finance/farmlandvalues/farmlandvalues.html.

CENTER FACULTY PARTICIPATE IN STUDY EXAMINING BOOM-BUST CYCLES IN AGRICULTURE

Agriculture is notorious for its boom-bust cycles. To better understand the causes of these cycles center faculty Michael Boehlje and Brent Gloy teamed up with Jason Henderson of the Kansas City Federal Reserve Bank to author a series of papers about agricultural boom-bust cycles. The first paper — “Agriculture’s Boom-Bust Cycles: Is this Time Different?” — was published in the Kansas City Federal Reserve Bank’s Economic Review. In it, the authors provide a historical perspective on previous booms and busts, as well as analyze the current situation. They find that dramatic export expansions are a common theme in many booms, and contractions of exports are often culprits in busts. Additionally, expansions of debt use during boom cycles are often followed by a bust. The authors note that in the current expansion, farmers have not greatly increased their use of debt and leverage, leaving hope that this boom may not end in a bust.

Boehlje, Gloy and Henderson have also addressed similar themes in two other articles “Is the Current Farm Prosperity Sustainable?” and “U.S. Farm Prosperity and Rural America: The New Normal or Reversion to the Mean?” These articles address whether the newfound prosperity in rural America is likely to persist. The authors examine issues related to supply, demand, costs and margins, wealth and who is vulnerable. Although they don’t predict that the boom will end any time soon, they note that history suggests abnormally high incomes and wealth accumulation are typically not sustainable, particularly in a globally competitive, market-driven commodity industry. Furthermore, if history repeats, the impact of a dissipation of prosperity in farming will...
WHEN DO FARM BOOMS BECOME BUBBLES?

Using economists’ definition of a bubble, it is unlikely the farmland market is currently in a speculative bubble. However, the analysis in this paper indicates that there are some reasons to be concerned about whether the current level of increases in farmland values are likely to be sustainable. Fundamental trends appear to be slowing and there is some evidence that investor expectations may be only loosely tied to economic fundamentals, but the results are hardly conclusive. In the end, the outcome will depend upon the realization of a number of uncertain events surrounding demand and supply responses.

Dramatic changes in underlying fundamentals like those experienced in the capital-intensive agricultural sector present sector participants with a significant challenge. If the changes are permanent or accelerate, capital assets will generate significant returns. Determining how high prices should adjust is an inexact science best left to marketplace participants. Problems in the adjustment process usually occur when market participants lose track of the underlying fundamentals, instead focusing on the price increases themselves. The limited evidence available on participant expectations shows some favorable signs as well as some suggesting that the connection between fundamentals and values may be fraying.

The extent and impact of rapid asset price increases and decreases can be greatly magnified by financial leverage. Financial leverage allows investors to make larger bets on the direction of prices than would be possible if only equity was used to fund asset purchases. It also creates the potential for systematic liquidation of positions if lenders are forced to call loans and liquidate collateral as happened in the 1980s farm crisis.

To date, it does not appear that leverage is playing a significant role in asset appreciation. This does not preclude a dramatic rise and collapse of farmland prices, but it does potentially limit the magnitude of the damage from capital misallocation. Given the potential impact of increasing financial leverage in a period of rapid asset price increases, it is important to monitor the leverage situation closely. While a lack of leverage does not rule out the possibility that prices could decline substantially in the future, it likely limits the damage that would be done to the sector if that were to occur.

An excerpt from “When do Farm Booms Become Bubbles” by Brent Gloy, Director, Purdue Center for Commercial Agriculture

CENTER FACULTY EXAMINE FARMLAND BOOM AT SYMPOSIUM

Many questions surround the sustainability of recent rapid price increases experienced in the farmland market. When placed in real values, the price increases are on par with those experienced in the 1970s, a period when rapid price increases could not be sustained. The United States has experienced several dramatic price escalations and collapses across a variety of markets. The obvious question has arisen as to whether the farmland market is also now a bubble that will eventually collapse.

Center Director Brent Gloy and Professor Mike Boehlje recently wrote papers examining whether the current farmland value boom will turn bust and presented their work at the Kansas City Federal Reserve Bank’s 2012 Agricultural Symposium. During his session, Gloy covered land-value fundamentals, described the role of expectations in bubbles, and presented evidence on current farmland investor expectations. Boehlje, serving as the event’s rapporteur, discussed the symposium’s highlights and whether this farm boom is different from historical boom and bust cycles. Their papers and presentations are available at www.kansascityfed.org/publicat/rscp/2012/.

not be contained to the farm sector. Machinery and equipment, chemical and fertilizer, seed and breeding, and farm storage and facility manufacturers, along with retailers in particular, will likely experience lower sales and margins. Plus, rural communities dependent on such businesses will be negatively impacted.
NINE QUESTIONS FOR NINE BILLION PEOPLE

By most accounts, it is clear that the world’s population will continue to grow for many years — an estimated nine billion people by 2050. Many issues related to feeding, clothing and fueling the world surround this topic of population growth, and the center’s graduate students decided to explore some of them from an unbiased, academic perspective. They initiated the Nine Questions for Nine Billion People project, identifying nine of the most critical issues and assessing the current situation and state of knowledge for each one.

The students clearly understand that these are not new issues. There has been considerable work already done on them. Their goal is not to attempt to solve these complex and multi-faceted challenges, but to identify consensus among the work in each areas and pinpoint current unsolved issues. Ultimately, they want to provide a resource that accurately characterizes the situation — one that will help guide future research efforts; frame discussions related to feeding, clothing and fueling the world in a sustainable fashion; and stimulate thinking toward effectively directing resources and innovations to overcome these challenges.

Professor Mike Gunderson, who also serves as associate director of research for the Center for Food and Agricultural Business, is leading this student research initiative. The graduate student team includes Benjamin Allen, David Boussios, Elizabeth Byrd, Zhihua Hu, John Lai, Yangxuan Liu, Sarah Stutzman, Yanbing Wang and Brant Wilbourn. Results from the Nine Questions for Nine Billion People project will be available in the coming year.

THE 9 QUESTIONS

1. Will world economic growth and increased incomes enable the growing world population to afford to purchase additional foodstuffs and improve their nutritional intake?

2. What will be the demographic, health and nutritional requirement characteristics of the future world population?

3. Will adequate resources be available to fulfill the expected growing demand for agricultural raw materials for food, feed, fuel and fiber?

4. Will government policies impede or enhance agricultural productivity and production in the emerging as well as the developed economies?

5. How much will technology and innovation increase future productivity and the production capacity of world agriculture?

6. How can the increased food needs be produced in a sustainable manner that is environmentally and socially responsible as well as economically viable?

7. How adequate and accommodating will the transportation and logistics industries (both locally and globally) and international policies be, to the movement of agricultural and food products from production to consumption regions?

8. How will climate change including global warming and increased variability in growing conditions (rainfall and temperature) impact the ability of the agricultural sector to satisfy future food, feed, fuel and fiber demands and the location of agricultural production?

9. What will be the information/knowledge required and the skills/competencies needed by the human resources to respond to the growing food, feed, fuel and fiber demands?
BOEHLJE FEATURED AS KEYNOTE AT BUSINESS SUMMIT

The Farm Futures Management Summit concluded with a presentation from Professor Mike Boehlje. During "Farm Growth: Assessing the Financial and Strategic Fit with Your Business," Boehlje led a discussion on how to manage risk in turbulent times, obtain capital, organize personnel, recreate a business model for better efficiencies and standardize operations. Throughout the presentation, he guided participants in a step-by-step approach to better return-on-investment decision making.

Boehlje also led a breakout session during the summit covering best-in-class management practices, such as risk assessment/audits and scorecarding and operational performance assessment.

GLOY PRESENTS FARMLAND LEASES: TALES, TYPES AND TRENDS

In November 2012, Brent Gloy, the center’s director, presented at the Federal Reserve Bank of Chicago’s conference that examined the trends in farmland leasing and analyzed various types of leases within the context of the changes facing agriculture in the Midwest. Gloy discussed key findings from the center’s farmland values study and the Indiana perspective on farmland rents and values. The goals of the conference included understanding the dynamics of income generated by farmland leases; analyzing the characteristics and evolution of leasing arrangements; assessing the roles and risks of leases for agriculture and the banking industry; and probing the policy implications for farming and agricultural banking given recent farmland trends.

WELCOME TO THE CENTER!

MICHAEL LANGEMEIER

Michael Langemeier, clinical professor of engagement and associate director of the Center for Commercial Agriculture, joined Purdue University in July 2012. Michael’s Extension and research interests include cropping systems, benchmarking, strategic management, cost of production, and technical and economic efficiency. Most of Michael’s research has focused on the efficiency of farms and ranches, and crop and livestock enterprise production costs and efficiency. He has also conducted research related to tillage systems, biomass crops and the tradeoff between crop rotation profitability and water quality.

ELIZABETH YEAGER

Professor Elizabeth Yeager has an active applied research and teaching program in agribusiness management, marketing and production. Her research program focuses on risk management, firm productivity and efficiency and marketing of agriculture products. Elizabeth teaches three courses in the Department of Agricultural Economics — Principles of Food and Agribusiness Marketing, the Process of Economic Research and the Agribusiness Marketing Workshop. She also serves as the advisor for the Purdue University National Agri-Marketing Association student competition team. Elizabeth holds Ph.D. and B.S. degrees in agricultural economics from Kansas State University.
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