FARM CREDIT EAST

# KNOWLEDGE EXCHANGE PARTNER

VOLUME 13 | ISSUE 3 | MARCH 2019

**THIS ISSUE:**



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## The 2018 Farm Bill, What’s Inside?

After a rocky road through Congress in 2018, the Agriculture Improvement Act of 2018 (the Farm Bill) was signed into law by President Trump on December 20, 2018. Though some provisions had expired on September 30, this was the first time in over a decade a farm bill was signed on time before an extension had to be passed.

Earlier in December, the House and Senate passed the conference report of the bill by votes of 369-47 in the House and 87-13 in the Senate. A key reason for such strong bipartisan support was that controversial proposals regarding SNAP (Supplemental Nutrition Assistance Program), commonly referred to as food stamps, that were in the House version were removed from the final conference report.

Besides nutrition programs (which make up roughly 80 percent of farm bill spending), what is inside the Farm Bill for farmers, ranchers and producers? Overall, the 2018 Farm Bill did not make major changes to ag programs, but here are some title-by-title highlights of the legislation.

More detailed overviews of the law’s major provisions can be found in the summaries from the House and Senate agriculture committees.

Agriculture.senate.gov/
Republicans-agriculture.house.gov/

### Title One: Commodities

There were several updates and additions to the dairy support program as well as the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) and other commodity and disaster programs.

Dairy: A significant change for the dairy industry came in the form of updates to the Margin Protection Program (MPP), changing its name to the Dairy Margin Coverage program (DMC). The restructuring added new margin coverage levels of $8.50, $9.00 and $9.50 to the first five million pounds of covered milk production and expanded the range of production coverage on an individual farm from 5 up to 95 percent. USDA Secretary Perdue recently said that sign ups for the DMC would begin in June.

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## Premium Comparison Table ($/cwt)

| | | Tier I (first 5m pounds) | | | | Tier II (over 5m pounds) | | |
|---|---|---|---|---|---|---|---|---|
| Coverage Level | | MPP premium | DMC Premium | DMC Discounted Premium | | MPP Premium | DMC Premium | DMC Discounted Premium |
| $9.50 | | N/A | $0.150 | $0.113 | | N/A | N/A | N/A |
| $9.00 | | N/A | $0.110 | $0.083 | | N/A | N/A | N/A |
| $8.50 | | N/A | $0.105 | $0.079 | | N/A | N/A | N/A |
| $8.00 | | $0.142 | $0.100 | $0.075 | | $1.360 | $1.813 | $1.360 |
| $7.50 | | $0.087 | $0.090 | $0.068 | | $1.060 | $1.413 | $1.060 |
| $7.00 | | $0.063 | $0.080 | $0.060 | | $0.830 | $1.107 | $0.830 |
| $6.50 | | $0.040 | $0.070 | $0.053 | | $0.290 | $0.650 | $0.488 |
| $6.00 | | $0.016 | $0.050 | $0.038 | | $0.155 | $0.310 | $0.233 |
| $5.50 | | $0.009 | $0.030 | $0.023 | | $0.100 | $0.100 | $0.075 |
| $5.00 | | $0.000 | $0.005 | $0.00375 | | $0.040 | $0.005 | $0.00375 |
| $4.50 | | $0.000 | $0.0025 | $0.00188 | | $0.020 | $0.0025 | $0.00188 |
| $4.00 | | $0.000 | $0.000 | $0.000 | | $0.000 | $0.000 | $0.00000 |

Table 1: USDA, 2019
*The DMC Discounted Premium would be the premium cost if an operation chooses to lock in the coverage level and coverage percentage for 5 years.

A key change in the DMC is that producers used to be prohibited from participating in the MPP if they had a crop insurance policy like Livestock Gross Margin for dairy (LGM-Dairy). Going forward, participants in DMC won't be prohibited from participating in both DMC and crop insurance programs like LGM-Dairy or the new Dairy Revenue Protection (Dairy-RP).

In addition, producers who were prohibited from signing up for MPP 2018 for this reason can retroactively sign up, and producers who participated in MPP from 2014 to 2017 can get a refund of 50 percent of their net premiums or have 75 percent of their net MPP premiums applied to the cost of their DMC premiums.

Agricultural Loss Coverage-County (ARC-CO) and Price Loss Coverage (PLC): ARC-CO payments are issued when the actual county crop revenue of a covered commodity is less than the guarantee for that commodity. There is also an individual farm option.

PLC program payments are issued when the effective price of a covered commodity is less than the respective reference price for that commodity. Covered commodities include wheat, oats, barley, corn, soybeans and a number of other crops.

### Key changes in the 2018 Farm Bill

- Producers can choose between ARC and PLC on a crop-by-crop and farm-by-farm basis, selected for two years for the 2019 and 2020 crop years and annually starting in 2021.
- Suspends ARC and PLC payments on farms that haven't been actively farmed since 2009, but gives those farms the opportunity to participate in the Conservation Stewardship Program.
- For the ARC-CO, a number of changes have been made to increase the efficacy of the program including changes to the yield and revenue calculations.
- Allows PLC Reference Prices to adjust with improvements in market prices. This Effective Reference Price is calculated as the greater of 85 percent of the five year Olympic average price and the PLC Reference Price as established in the 2014 Farm Bill.
- PLC participants will have the opportunity to update the yields upon which PLC payments are based.

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Title one also increases rates for marketing loans, or loans producers can take at harvest time using their crop as collateral and changes to what family members can be eligible for program participation. Finally, several disaster programs also received updates including the Noninsured Crop Disaster Assistance Program (NAP).

## Title Two: Conservation

The existing conservation programs were generally maintained. Some of the highlights from this title include:

Two of the major programs in this title are the Environmental Quality Incentives Program (EQIP) and the Conservation Reserve Program (CRP). EQIP provides agricultural producers with financial resources and one-on-one help to plan and implement conservation practices that may lead to environmental benefits.

CRP is a land conservation program where, in exchange for a yearly payment, farmers agree to remove environmentally sensitive land from production and plant species that will improve environmental health and quality.

The programs listed under this title will receive increased funding, such as CRP, where the amount of acreage covered was raised to 27 million from 24 million. Funding for EQIP increases over the next five years to $2.025 billion in 2023.

Other changes include a reduction in the Conservation Stewardship Program to $1 billion per year which was done to add funding to programs like CRP and EQIP. Funding was increased to $450 million per year for the Agricultural Conservation Easement Program (ACEP), which provides funds for farmland protection efforts.

## Title Three: Trade

The primary change in this title is to consolidate four of the food and agricultural trade promotion and market development programs under one umbrella with funding of $255 million per year.

## Title Four: Nutrition

The final law leaves nutrition programs largely intact, but includes some changes to SNAP intended to improve program administration, integrity, and recipients' access to employment and training opportunities.

This title also provides additional resources to the Emergency Food Assistance Program (TEPAP) and continues programs to encourage SNAP recipients and seniors to purchase fresh fruits and vegetables. It also authorizes a pilot project to increase the purchase of milk by SNAP households.

## Title Five: Credit

The biggest change made in the credit title was increasing Farm Service Agency (FSA) guaranteed loan limits to $1.75 million, direct operating loans to $400,000, and direct farm ownership loans to $600,000. These were previously set at $1.399 million and $300,000 each, respectively.

Changes were also made to make credit more accessible for groups of individuals such as veterans by allowing them to use military or similar experiences to fulfill part of the experience requirements for FSA borrowers.

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## Title Six: Rural Development

The rural development title contains a number of provisions to support rural development projects that provide more access to high speed broadband internet, as well as capital infrastructure projects at schools, hospitals and public safety facilities.

## Title Seven: Research and Extension

Title seven includes funding for a number of research programs including specialty crop and organic research.

## Title Eight: Forestry

The Forest Service is an agency within USDA and the forestry title makes a number of policy changes to the administration and management of public forest land.

## Title Nine: Energy

Title nine reauthorizes a number of programs related to bioenergy as well as the Rural Energy for America Program (REAP).

## Title Ten: Horticulture

Title ten is focused on specialty crops and organic agriculture. It provides funds for organic research and certification programs as well as the Specialty Crop Block Grant program. This title also authorizes the cultivation of hemp under a USDA or state authorized program.

## Title Eleven: Crop Insurance

Crop insurance is an important risk management tool for producers, which is why protecting crop insurance was a key priority in the Farm Bill debate. In general, the conference report retained the existing structure of crop insurance programs with some minor changes such as extending the beginning farmer discount from five to 10 years for Whole Farm Revenue Protection (WFRP). For more information on crop insurance check out the recent article in our *2019 Insights & Perspectives* report or by visiting CropGrowers.com.

## Title Twelve: Miscellaneous

This title contains a number of livestock health and regulatory provisions and also contains the reauthorization of USDA's beginning farmer program. Under this title, the U.S. Food and Drug Administration is directed to not require the "added sugar" declaration on any single ingredient product including; sugar, honey, agave and maple syrup.

## Conclusion

There were no major policy shifts in the 2018 Farm Bill, and it kept in place most major agricultural programs including crop insurance. The dairy program underwent some of the most significant changes.

The credit title's increase in guaranteed and direct loan levels was an important change, especially in the Northeast where asset values are high. Arguably, the most important feature of the farm bill is that it maintains and extends the many commodity, disaster, conservation, export promotion, specialty crop, organic and beginning farmer programs that Northeast producers directly or indirectly use, providing some certainty (at least in the policy arena) for the next five years.

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# House / Senate Ag Committee Leadership and Northeast Members

On the Senate Agriculture Committee, Senator Pat Roberts (R-KS) will continue as Chair and Senator Debbie Stabenow (D-MI) will continue as Ranking Member. Senator Roberts announced that he will not be seeking reelection in 2020 when his current term expires. Senator Kirsten Gillibrand (D-NY) remains on the committee.

In the House, as expected, Representative Collin Peterson (D-MN) was elected Agriculture Committee Chair and Representative Mike Conaway (R-TX) was elected as Ranking Member. Chairman Peterson had previously been Chair from 2007-2011. From the Northeast, members include James McGovern (MA-02), Jahana Hayes (CT-05), Antonio Delgado (NY-19), Anthony Brindisi (NY-22), Jeff Van Drew (NJ-02), Chellie Pingree (ME-02), and Sean Patrick Maloney (NY-18)

**2019/20 House Agriculture Committee**

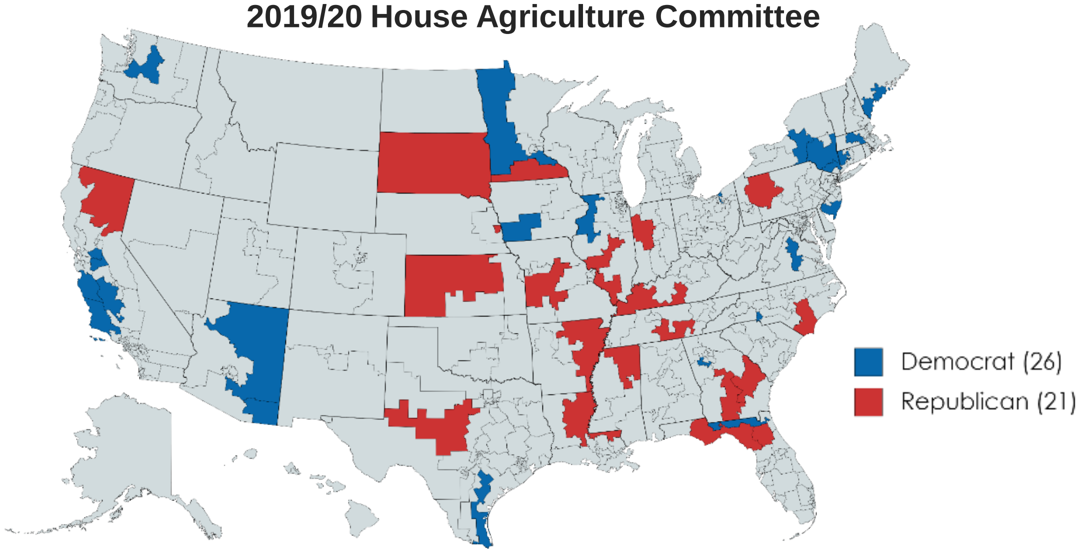


Figure 1: mapchart.net ©

**2019/20 Senate Agriculture Committee**

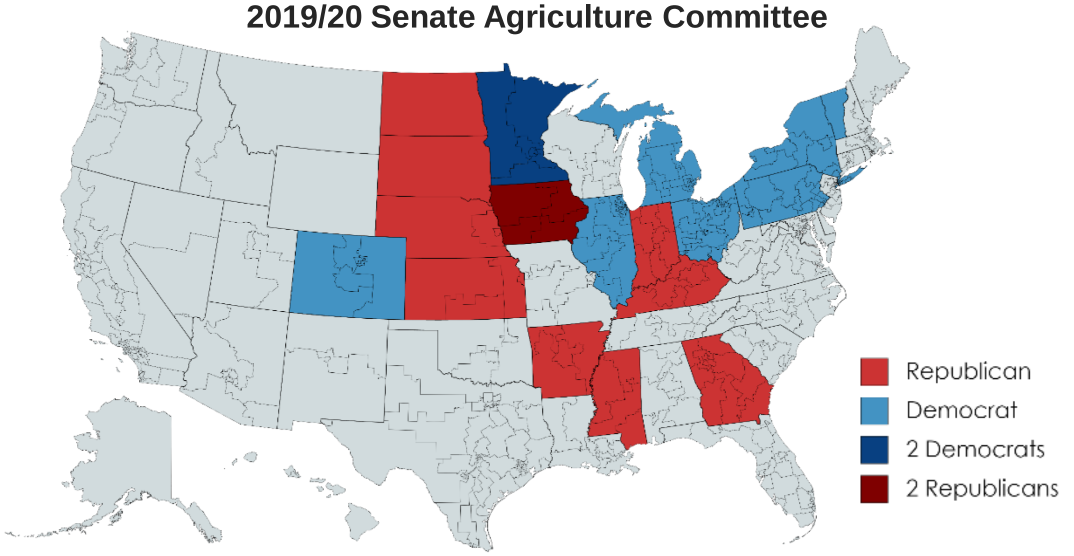


Figure 2: mapchart.net ©

# Green Industry Economic Outlook for 2019

Written by **Dr. Charles R. Hall**, Texas A&M University

For businesses in the green industry (nurseries, greenhouses, landscapers and garden retailers), there are three things that seem to matter most: weather, the overall economy and consumer spending.

If the economic recovery from the Great Recession of 2008-09 was not at its peak in 2018, it certainly seemed close. We are only a few months away (we will hit it in June 2019) from the current expansion being the longest in U.S. history.

After expanding at a mediocre 2.2 percent pace in the first quarter, the economy grew 4.2 percent in Q2 and 3.4 percent in Q3, with second quarter GDP growth being the best in nearly four years. Unemployment dropped further, with the headline jobless rate dipping below four percent in the first half of the year, then declining from four percent to 3.7 percent for the remainder of the year. The good economic news for the green industry was mixed, however, as weather and regional economic differences once again were influential.

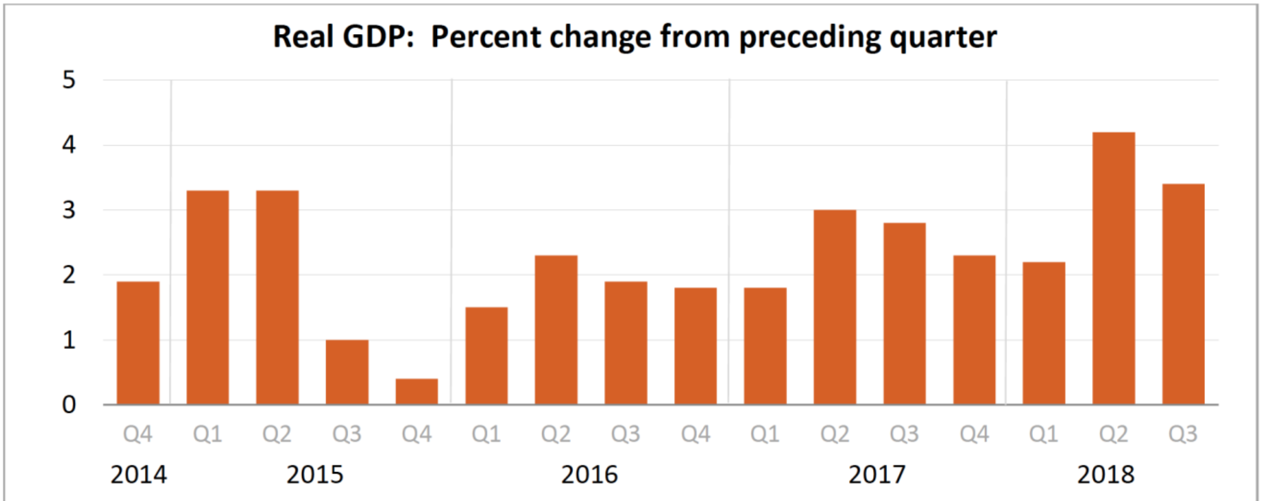

Figure 1: U.S. Bureau of Economic Analysis, seasonally adjusted at annual rates

Households were especially confident in 2018, as the two most well-regarded monthly consumer sentiment indices pointed out. For example, the University of Michigan index topped 100 twice (March and September) and fell below 96 only once (January); its historical average reading is 86.4.

However, I care little about how people feel; I care about how they spend their money. This year, both were correlated, and personal spending affirmed the strength of the economy. In the first three quarters of the year, it contracted just once (by 0.1 percent in February). From March through November, consumer spending rose by 0.4 percent or better every month.

This spending was also evidenced in the green industry, with 95 million households (HH) participating in lawn and gardening (L&G) activities, averaging $503 in expenditures per HH. While spending in the South, West and Northeast regions was higher, the Midwest and Mid-Atlantic regions suffered from poor weather conditions in the spring. Retail L&G spending (and transaction count) was about four percent higher and there was about a 13 percent increase in do-it-for-me landscaping expenditures. While married 45-to-64-year-olds spent the most, expenditures among the 18-34 millennial cohort was at an all-time high, a hopeful L&G trend for the future.

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The green industry is strongly influenced by housing markets. Expectations of home sellers and buyers differed in 2018, and that difference affected the pace of existing home sales. Prospective buyers found few affordable properties and went to the sidelines. In other words, many sellers decided to hold firm on their prices and waited a little longer for their homes to move. Existing home sales in November were about seven percent lower year-over-year (YOY), while new home sales were almost nine percent lower YOY.

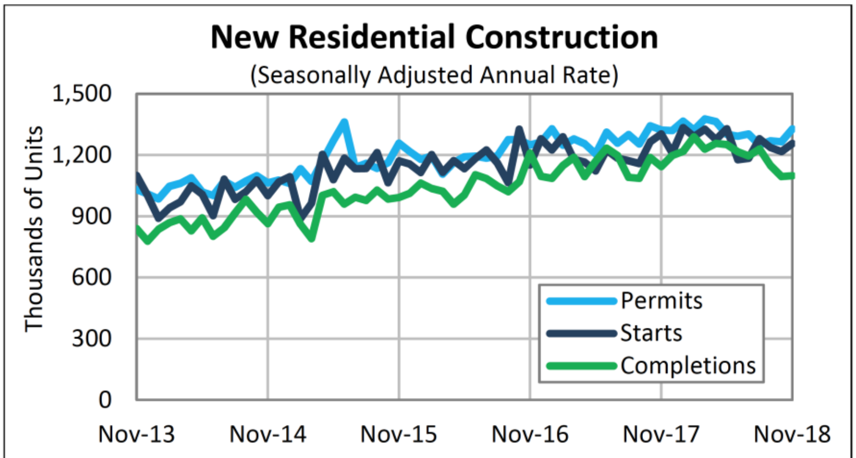

Figure 2: U.S. Census Bureau, HUD, December 18, 2018

Additionally, mortgage rates on a 30-year home loan closed the year at around 4.5 percent compared with 3.95 percent last year. In December, the federal funds rate was between 2.25 percent and 2.50 percent, a full percentage point higher than it was a year earlier. The Federal Reserve, now in the Jerome Powell era, is widely expected to make two more rate hikes in 2019, which will also affect housing affordability and, accordingly, derived-demand green industry sales.

While these are obvious signs of growth slowing down in the residential real estate market, other economic gauges are still strong, which gives green industry firms something to be bullish about for 2019. The Consumer Price Index showed yearly inflation at 2.1 percent in January; in June and July, it reached 2.9 percent. Falling fuel costs had helped moderate annualized inflation to a rate of 2.2 percent by the close of the year. This could change depending on the trade outlook, however.

**"13% increase in do-it-for-me landscaping expenditures."**

Currently, there is a temporary truce in the US-China trade war, but if the trade situation is not resolved by March, tariffs will be placed on another $200 billion of Chinese imports. According to a report from the Tax Foundation, existing tariffs will cost every middle-class family $146 — and the threatened tariffs could push that to $453 in a year. The United States-Mexico-Canada Agreement (USMCA) could also have mixed effects on the economy. Bottom line, there is greater uncertainty in the global marketplace and input costs for many green industry firms will likely rise, exacerbating the cost-price squeeze already being experienced as input prices are 22.7 percent higher than they were pre-recession.

While 2018 was a good year, it also marked the return of significant volatility. For example, the S&P 500 saw three corrections (February, October and December), yet it also reached all-time peaks. I am always quick to point out that stock market performance does not equal economic performance, but it is a good measure of uncertainty and volatility.

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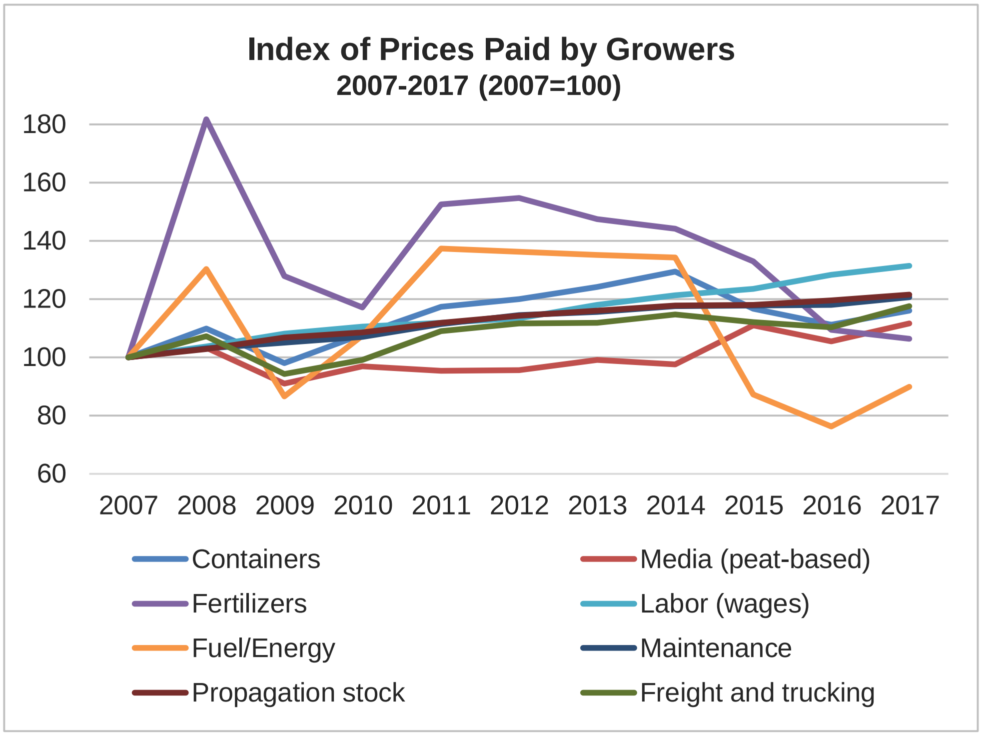
Speaking of uncertainty, when will the next recession hit? There is tremendous divergence of opinion, of course, but my own forecast is that it is unlikely to occur in 2019, based on several basic indicators. First, the St. Louis Fed financial stress index reflects a historically-low level of risk in that sector with banks being in a much better liquidity position than they were prior to the last recession. Second, the Chicago Fed's national activity index (which combines 85 economic indicators) shows the economy currently growing at a rate above the long-run historic average.

Third, while the pace of improvement has slowed for the Conference Board's leading economic index (LEI), it has shown improvement for the last 12 months and the LEI is a good predictor of the economy in the short-term. Lastly, the yield curve reflecting the difference between the Federal Funds Rate and 10-year Treasury Bonds is still positive, but the aforementioned market uncertainty behooves us to keep an eye on it. Some economists believe that a flat or negatively sloping yield curve indicates a coming financial slowdown or recession.

Bottom line, I would say there is only a 25 percent chance of recession occurring in 2019, a 50 percent chance of one occurring in 2020, but an 80 percent chance of a recession in 2021. This means that green industry firms should continue to have an overall favorable market to sell to in 2019 but will experience increased costs due to trade and inflationary effects. However, it is imperative for green industry firms to begin contingency planning for the impending downturn when it does occur.

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