

AGRICULTURE IN MONTANA

The most recent summary of agricultural (ag) statistics by the National Agricultural Statistics Service reports the total value of Montana ag production at just over \$4.0 billion, with almost \$1.6 billion of that related to animal agriculture and \$1.5 billion from crop productionⁱ. Relative to crops, wheat is the largest crop as measured by both acreage and value, contributing almost \$1.1 billionⁱⁱ of production value.

However, these values are dependent upon the commodity markets, and can vary significantly over time. Often, livestock and grain prices move in opposing directions, so the value of each can vary with one occasionally being valued higher than the other. Wheat prices peaked in early 2008 and have experienced significant variability since, bottoming out in 2016, with only minimal recovery since that time. Cattle prices reached cyclical highs in 2014 before quickly dropping to lows in 2016 as well, resulting in both of Montana’s primary agricultural markets being in more difficult situations financially.

As a result of these commodity price challenges, there have been questions about the financial status of the ag sector in Montana. In early 2019, while anecdotal reports were surfacing of a potential ag bankruptcy crisis, the data didn’t yet seem to support this, with a reported farm sector debt-to-asset ratio of 13.5% running slightly below averageⁱⁱⁱ. Since that time, Farm Bureau has reported a year over year increase of 24% in Chapter 12 bankruptcies nationwide^{iv}. And while every region of the country has experienced an overall increase, Montana’s increase from 3 to 11 bankruptcies represents a 267% increase. With almost 27,000 farms and ranches in Montana, this may not seem overly significant. However, the ability to recover and move in a positive direction in the near-term may be critical for many additional operations.

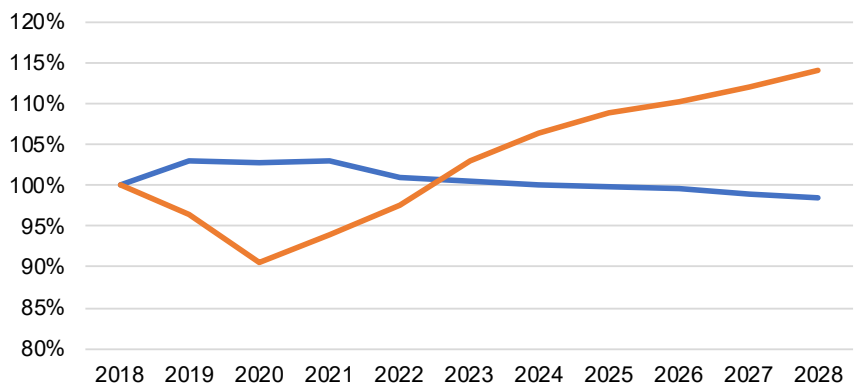
The Food & Agricultural Policy Research Institute (FAPRI) at the University of Missouri publishes a “U.S. Baseline Outlook^v” for agricultural markets that shows recent actuals and produces a ten-year projection. While overall farm income is projected to increase slightly, so are production costs, resulting in a challenging situation where farm debt and gross cash income will continue to track very closely. Especially concerning for Montana producers is the projection that feeder calf prices will decline further in 2020 before slowly beginning to rise in 2021 and beyond.

INTERNATIONAL INTERACTIONS

Commodity prices are heavily influenced not only by domestic production, but also by global production and global demand, and the ability to tap into those markets. World wheat production exceeded demand from 2014 to 2018, continuing to add to global wheat stocks. The U.S. stock of wheat has increased significantly since 2014, and is projected to remain high in the near term. Meanwhile, U.S. breeding animal

numbers for both hogs and cattle increased for a fifth consecutive year, while prices drifted lower. With

FAPRI projections suggest a return to a more countercyclical market between **feeder cattle** and **wheat** prices.



domestic meat availability near all-time highs, with increases not only in beef and pork, but also with chicken and turkey, the pressure to access foreign markets continues to rise.

In this market reality, the trade wars and resulting tariffs have come under increasing scrutiny. Soybeans and pork receive much of the press regarding the Chinese tariffs and ag imports, and may seem somewhat irrelevant to the Montana market. However, China is not only the single largest importer (by weight) of pork, but also of beef^{vi}. Having access to this market for U.S. production is an important part of the ag commodity markets in this country.

In the midst of this uncertainty, a mix of variables can impact the overall picture. Of note on the trade front was the recent signing of the U.S. Japan Trade Agreement announced in October that is expected to put U.S. beef back on a level financial footing with other countries sending beef to Japan. Also in October, the Wall Street Journal reported that cattle prices were rising^{vii} as Asia experiences a protein shortage. African Swine Fever has taken a significant toll on hog production in Asia, and the World Organization for Animal Health expects a quarter of the world's pigs to die as a result of this outbreak.

Global events and trade policy will likely play a large role in the financial viability of Montana's ag sector. Trade agreements, overall consumer perception and demand, global availability of competing grains or proteins, trade agreements between countries outside of the U.S. and multiple other interactions will all complicate commodity pricing, directly impacting the Montana ag economy.

ⁱ https://www.nass.usda.gov/Statistics_by_State/Montana/Publications/Special_Interest_Reports/agfacts.pdf

ⁱⁱ https://www.nass.usda.gov/Quick_Stats/Ag_Overview/stateOverview.php?state=MONTANA

ⁱⁱⁱ <https://www.aei.org/economics/there-is-no-farm-bankruptcy-crisis/>

^{iv} <https://www.fb.org/market-intel/farm-bankruptcies-rise-again>

^v <https://www.fapri.missouri.edu/wp-content/uploads/2019/04/2019-US-Baseline-Outlook.pdf>

^{vi} <https://www.usmef.org/usmef-technical-services/recent-export-trends/>

^{vii} <https://www.wsj.com/articles/cattle-prices-climb-as-traders-anticipate-growing-asian-demand-11571218202>