Industry Report: Economic Recovery Is In Your Hands

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What signs exist that things are on the upswing? How can producers determine what new opportunities this will create and how can you capitalize on them? Pivot Point discussed these issues with several leading economic analysts who specialize in the agricultural economy. Their consensus: the Ag economy is moving in a positive direction, and opportunities for growth and profit are beginning to appear for the producer who is alert, aware and prepared.

Historically, tough economic times inevitably pass and new opportunities present themselves. There are examples of this throughout the history of American farming. The devastation of the 1930s depression was replaced with great expansion in agriculture and even surplus production. The farm financial crisis of the 1980s was followed by a renewed focus on efficiency and eventually, record-breaking farm incomes. When the economy – and the agricultural economy more specifically – goes down, it must come up. And, our current economic cycle is following suit.

Optimistic Data
Rich Pottroff, Chief Economist at Doane Agricultural Services, sees a variety of signs that the global economy, the US economy and the US agricultural economy are all shifting toward a positive direction. “The US economy and the wider global economies appear to be rebounding. In return this should boost food demand. Ethanol production profits are up and demand for corn for ethanol continues to rise, with an increase of 450 million bushels forecasted for next year. In addition, we can say that corn exports will almost certainly rebound in 2009-10. Soybean exports are already record high and appear to be headed higher. Because input prices, especially for fertilizer and fuel are down significantly, net returns from crop production are generally good. Finally, land values are still high and in general, credit to producers is available. These are all very positive, promising indicators,” he explained.

What Goes Down...Must Come Up.
Wally Huffman
Professor in Agricultural Economics at Iowa State University

David Meyer
Chairman and CEO of Titan Machinery

Joachim von Braun
Director General of the International Food Policy Research Institute

Wally Pasko
Vice President of Procurement at Valmont Industries
Lessons from History

These current indicators fit with the historical model of recession recovery as well. Dr. Lowell Catlett, Dean of the College of Agricultural, Consumer and Environmental Sciences at New Mexico State University, an authority on agricultural economics, says the economy is definitely turning around, and that’s having a direct impact on agriculture. Although there are not hard and fast rules on what causes recessions – or their turnaround – he turns to history to help interpret today’s economic signs.

“Historically, there have been 13 recessions since we’ve identified and recorded them. Eleven of them have been on average about 13 months in duration. Two of those recessions were longer – about 17-19 months. Our current recession was declared to start in fall 2007, so we know that it should have run the course. Signs in the housing market, new housing starts and manufacturing starts are all showing positive signs that this is the case,” Dr. Catlett shared.

“Of course what drives the local economy varies from place to place and has huge implications for the speed of recovery,” he continued. “Michigan, for example, has experienced more economic turbulence because of the ailing auto industry there. However, we can see some signs that the national economy is improving, and we know from historical evidence that these cycles come to an end, even in those areas hardest hit. It’s inevitable, and it has already started. We’re at the end of this recessionary cycle.”

David Meyer, Chairman and CEO of Titan Machinery believes that the outlook is a positive one in agriculture as well. In his position with Titan, the largest farm equipment dealership group in North America, Meyer has feedback from growers all across the continent and recently shared his insights with JP Morgan North America Equity Research. “If you look at the projected revenue for growers, it’s well above a 5-year trend line. While uncertainty still persists, growers are pretty optimistic right now.”

The rising demand for biofuels will continue to boost prices for grain and oilseeds, another plus for the Ag economy, according to Wally Huffman, professor in agricultural economics and Charles F. Curtiss, Distinguished Professor in Agriculture and Life Sciences at Iowa State University.

“I’m very optimistic about the next 10 years,” said Huffman. “For the past 100 years, on average, real agricultural product prices have been falling as technology has been allowing supply to increase faster than demand,” he said. But for the past decade, demand has been rising as quickly as supply, he added.


“Recognizing an economic uptick and strategizing to capitalize on the opportunities it presents are both very important,” warned Dr. Lowell Catlett, Dean of the College of Agricultural, Consumer and Environmental Sciences at New Mexico State University, an economist and leading authority on the economy of agriculture.

What are the most important ways to prepare for opportunities in agriculture during the economic upswing? See Capitalizing on the Critical Window, page 6.
On The Rise: Global population growth continues to put pressure on Ag Producers

According to the United Nations, our big world is about to get much bigger. While the world’s population is rising at what appears to be a modest rate – just 1% per year – that adds up to an additional 77 million people every year. If you do the math, you’ll see that by 2020, just around the corner, the world will be home to an additional 800 million. The population takeoff means that increasing demands on worldwide growers is inevitable. There are already many global links to US agriculture. While more than 80% of the US supply of strawberries is grown in California, a whopping 12% of them are now exported and gracing tables as far away as Japan. Pecans, once unknown in China, are now being imported from New Mexico – in fact, accounting for 10% of New Mexico’s entire pecan production just five years after being introduced to the Chinese market!

But more than novelty foods and premium fruit, the larger world population will drive demand for grains and oilseeds. Because most of the coming population growth will occur in grain deficit areas, including Africa and the less developed areas of Asia, a bigger question looms: with all of these mouths to feed, who will supply the grain needed? High yield countries like the US. That, according to Rich Pottroff, Chief Economist at Doane Agricultural Services is an advantage to US growers, and an advantage that is closing in fast. Wheat grown outside of Boise may well end up in bread baked in Botswana.

The distribution of wealth in the world is also changing. More and more people are entering the middle class, and that increase in money is usually felt first in food consumption. Per capita consumption of both meats and grains are on the rise across the globe. “In just 15 years, we have seen about one billion people rise out of poverty to the middle class. That’s never happened in 6,000 years of recorded history! This presents an entirely new level of demand, in addition to population growth itself,” explained Dr. Lowell Catlett, Dean of the College of Agricultural, Consumer and Environmental Sciences at New Mexico State University, and an authority on agricultural economics. “This staggering growth brings both tremendous pressure and tremendous opportunities for American farmers.”

Both of these key drivers are changing the game. Population growth alone is expected to raise grain demand by 292 million metric tons (MMt) by 2020. If you factor in both population growth and the fact that people are consuming at a higher rate, that increase in demand could be as much as 474 MMt by 2020, according to Pottorff. “With that increase in demand for grain and oilseeds, we will need 729 million hectare (Mha) of grain by 2020. In 2008, that number was 694 million Mha. That’s a large increase – 86 million acres,” stated Pottorff. “While we know that some expansion will come from Latin America, especially Brazil and Argentina, there are infrastructure problems that limit development there. Since most of the population growth will be in areas where land has much lower yields, exporting countries like the US will have to step up production to meet the demand of the global grain trade.”
While most growers are aware of the coming demand increases, and the vital role exports will play, they are not so aware of how best to prepare themselves to benefit. Dr. Catlett believes putting a smart strategy into place now is crucial. “This is the time to formulate and start to execute your strategy,” he stressed. “First, growers have to think outside of what they are used to. We have to think about these export markets, and grow what they want or like to eat, not just surplus. Those growers who are thinking this through and preparing to grow what will export best to these markets will be the big winners.”

Deflation has come…but has it gone? In the economy at large, many of the prices that soared to all time highs in 2008 and then back to more traditional prices in 2009 are beginning to correct themselves. The rock-bottom prices from the auto industry which were so enticing just six to twelve months ago are now starting to recover and rise. Industrial machinery and equipment are following suit. One big factor in this pricing puzzle: steel. Although a complex tale, understanding what has happened in the steel industry during the last several years is important. Especially for growers who want to make the most cost effective equipment purchases to prepare their operations for coming economic opportunities.

In 2008, steel prices were rising sharply because of a global increase in demand, fueled greatly by massive building in developing nations like China, India and Brazil. Add to this these additional factors: higher input costs for things like iron ore and zinc; a weak US dollar and increased energy and material transportation costs. But when the global recession started, that demand plummeted rapidly as building projects came to a halt. Steel producers responded to the plunge in demand by cutting production.

According to Jeff Kabel, Vice President of Koch Metals Trading LTD., steel prices are volatile and will continue to be. As a company specializing in trading steel and other raw materials with a presence in almost 60 countries worldwide, Koch has a unique and comprehensive view of the steel industry across the world.

What’s a Grower to Do?

A critical factor to consider in increasing productivity, according to Catlett, is water. “Water is one of the most important elements to think about here,” he explained. “Supplemental irrigation can increase productivity many-fold. But most areas are experiencing water restrictions or higher costs. This makes efficient use of water even more important. Producers will rely more and more on products that can help them utilize water most effectively. That will lower their input costs and increase yield – the two key factors in turning this population boom and shift in wealth distribution into an increase in profits.”

In addition to pumping up productivity and doing their homework on expanding exports, Dan Manternach, Publisher/Editor of Doane’s Agricultural Report, also recommends rethinking what crops are planted. “Per capita wheat demand is declining globally, while total demand is still rising” he shared. “For growers who can, shifting the crop mix away from wheat and towards protein crops like soybeans, sunflower, canola and so on, would boost odds of improved profits.”
We all know someone who plays the waiting game. They wait and wait for the best possible deal, only to miss out in the end. Or they wait and wait to invest in their operation, missing out on opportunities because they were unprepared.

For growers today, playing either of these games can be risky. Here are three reasons why:

1. **Waiting to buy is likely to mean you'll pay more in the end.**
   "Between volatile pricing of steel and other inputs and the end of deflation, this is not the time to think waiting will save you money. It's time to make those investments into your operation and avoid paying more by waiting," offered Dr. Lowell Catlett, economist at New Mexico State University and a leading agricultural economist.

2. **If you’re not ready to play, you can’t win.**
   “If the signs that the global recession is bottoming out are real, there’s likely some pent up demand for agricultural products from countries that have adopted a bunker mentality and cut back on imports for economic reasons. The commitment of the current US Administration to biofuels development appears to be entrenched and irrevocable. If you’re not ready, you cannot capitalize on these opportunities,” warned Dan Manternach, Publisher/Editor of Doane’s Agricultural Report.

3. **Low inventory levels in all areas of manufacturing present risks.** “Valley will be in position to provide center pivot irrigation equipment to growers ready to make a buying decision. However, Valley is only one part of the investment process. If suppliers of underground irrigation pipe, underground electrical cable, engines and pumps do not have the inventory to meet the need immediately, this can cause delays – not something a grower can risk by putting off the buying decision closer to the growing season. Purchasing early allows sufficient lead time for all components that make up the installation, ensuring that your installation is ready when you need it,” shared Wally Pasko, Vice President of Procurement at Valmont Industries.

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**Capitalizing on the Critical Window**

Opportunities in agriculture, as the economic uptick unfolds, are similar to a harvest.

There’s a critical window of time in which to reap the rewards. All producers know that it’s wise to be prepared before the harvest window opens – to ensure all your machinery is in good working order, that you have enough equipment and manpower to do the job and that you won’t have any unexpected issues that could affect your ability to bring in your harvest by days or weeks. The same applies to preparing to reap the benefits of the economic turnaround. Here are five things every grower can do to be ready.

1. **Focus on the upside, prepare for success.**
   The serious recession in farming in the late 1970s and early 1980s is something most farmers would rather not recall. But this crisis in agriculture presented tremendous opportunities for those who were poised and ready. Dr. Lowell Catlett, economist at New Mexico State University and a leading agricultural economist, remembers it well and believes lessons learned in that difficult economic period are useful for farmers today. “Those who were prudent about buying up farmland during that bust were sitting very well in the mid to late 1980s and early 1990s when the recession was over. They were strategic in their investment, focused on the upside, had foresight and were prepared. At that time, finance in agriculture also went through a watershed. Those in agricultural credit who reformulated loans and loan policies did very well. Again, these were people who looked toward the future, believed in recovery and put themselves in a position to take advantage of the opportunities that later presented themselves.”

2. **Heed the signs.**
   The coming growth in global population will require unprecedented productivity and high yields. Because producers can’t meet increased demand overnight, preparing the operation to meet this increased demand is smart. This is where some producers came out on top and profited just after past economic down cycles. Invest in yield-enhancing technology and machinery. Don’t put off purchases so long that you may get in a bind.
Capitalizing on the Critical Window

3. Focus on improving efficiency.
Perhaps one of the best things about the economic issues and price increases on farm inputs growers have recently experienced is that they've forced us to see where we can be more efficient. How can we reduce our fuel consumption? How can we reduce waste? How can we ensure we are using resources, like water, as efficiently as possible?

4. Pay attention to marketing opportunities.
Connect with the state Department of Agriculture to learn about export markets or to commodities groups to explore new local opportunities. This is the time to get out there, ask questions and do your homework.

5. Be financially savvy.
Right now, excellent financing opportunities and interest rates are available through local banks, regional banks and farm credit service groups. Pay attention to managing risk on the cost side. Bill Tierney, General Manager of Doane Advisory Services, believes a few wise financial decisions now will pay off quickly. “Crop producers currently have access to financing at some of the lowest interest rates in recent history. Those producers that have the ability to refinance debt may want to consider locking in these low rates. Fertilizer prices have fallen sharply and producers may want to consider locking in a price on some of the crop nutrients that they will be using for the 2010 crops.”

Valley—Ready to Roll!

If now’s the time to prepare for the economic upswing in agriculture, what steps are Valmont Irrigation taking to build a solid future? Vice President of Operations, Steve LeGrand, believes Valmont’s future lies in lean initiatives, eliminating process waste, resulting in improved efficiencies and a stronger business. “We are on a journey to eliminate waste in every part of our company while serving our customer better than anyone else,” LeGrand explained. “We call this The Valmont Way. Lean companies simply do a better job managing the economic business cycles. They are able to navigate through tough times more easily enhancing customer performance through superior processes. This is the direction we’re taking our company.”

While some companies choose to institute resource reductions and accelerate unnecessary cost controls during recessionary periods, Valley Irrigation moved in a different direction. “As part of our desire to be the most efficient Irrigation business in the world, we have focused our employees on lean initiatives to improve operating performances of our business. This has driven process improvements leading to stronger customer capabilities. We’ve prepared ourselves, and we’re ready to roll,” LeGrand shared.

The company did this by taking a long, hard look at business value streams to identify gaps. For example, reviewing the entire process of delivering a gearbox – from buying the castings to shipping the final product to the customer – Valley is assessing how to make each process step within this value stream more efficient. It’s about identifying gaps between what you are doing and what you should be doing, and then closing the gap by eliminating unnecessary motions. In addition to gearbox assembly, the company is improving the value streams for welding, machining, electrical assembly and office processes; all knowing that greater efficiencies will lead to the company’s ability to respond more quickly to customer needs.

“This journey of becoming a lean company brings a direct benefit to our customers. We get faster and more agile, allowing us to reduce lead-times and improve our response to customer needs. Our quality also improves from having more standardized processes. This eliminates variations allowing us to perform tasks repetitiously and more reliably. In return, this enables better cost controls, which becomes a direct benefit to our customers. It also allows us to fund leading edge product developments, enabling market growth while providing our customers with what they expect from Valley products,” said LeGrand.

In discussions with supply partners, Valmont Irrigation, using lean tools, has also been able to identify and eliminate supply chain waste, enhancing overall performance. Partnering with a supplier, for example, allows the company to determine ways to manage inventory that best serves the customer. “These synchronized supply chain relationships allows us to grow and shrink together, enabling us to meet customer demand as it happens, improving customer and company performance. This helps Valmont continue to be a strong viable company that customers depend on in providing leading products around the world in any economic climate. That dependability, and the dependability of our irrigation equipment, is what gives our customers peace of mind, and that is our goal,” LeGrand concluded.