

Field Day Podcast Ep. 11 Dr. Newton.mp3

Jordan: Welcome to Episode 11 of the Field Day Podcast brought to you by the Ohio Farm Bureau Federation. I'm your host Jordan Hoewischer, director of water quality research for the Ohio Farm Bureau. Today's guest is a phone interview with Dr. John Newton from the American Farm Bureau Federation. This will be our first phone interview in the first 11 episodes that we've had. It was exciting to get that bit of antiquated technology incorporated in this modern way of getting news and information out. I talked to Dr. Newton about kind of all that is the economy of farming. You know in terms of tariffs and taxes and kind of went around the world, so to speak, on what's going on and hopefully use this as a kind of a checkpoint to bounce off of and maybe six to 12 months and come back as a new farm bill is being passed and all these things that are going on. We can check in with Dr. Newton on a later date. It was a good conversation and I was excited to get a more national perspective on something that hits us pretty locally. Enjoy.

Jordan: All right. So we will start with tell us you know who you are, what you do, where you come from all that good stuff.

Dr. Newton: Yeah. John Newton the chief economist at American Farm Bureau Federation. I came to Farm Bureau almost three years ago, or two and a half years ago I used to be a professor at the University of Illinois but I did all of my graduate work at The Ohio State University so I've been working in the ag sector for about 15 years primarily in the risk management foreign policy space but at the University of Illinois we had to do a lot of crop market outlook and so I have a lot of experience in grain markets and dairy markets and livestock in general.

Jordan: Nice, So we have the opposite path. I went to Ohio State for undergrad and then got my masters in environmental science at University of Illinois. It's definitely a college town for sure. So give me just the general state of the Ag economy if we can. I know there's a lot of different sectors but what's the general feel of the Ag economy.

Dr. Newton: Well it's been in the doldrums now for a few years. You know net farm income was record high when we were right in the last farm bill. Over 120 billion dollars at that point time and it's declined by nearly 50 percent. It declined fairly quickly and it's remained at very low levels. 2018 farm incomes projected at 66 billion. That's the third lowest level over the last decade in well below the historical average of about 85 billion dollars a year. So the farm economy is in pretty tough shape and it's really impacting agriculture uniformly. Whether you're a dairy farmer or raising corn and soybeans a lot of folks are finding it much more difficult today financially than it was a few years ago.

Jordan: Yeah that's what seems to be kind of the anecdotal information you hear out there. So it's interesting to actually have some numbers towards that. You mentioned the farm bill and how it was record highs in the last farm bill. How that affecting is farm bill 18 or maybe farm bill 19 now that we're kind of heading into the next year, how does that affect things?

Dr. Newton: We'll get it done in 18 a couple of months left. You know it was just a completely different environment in 2014 when we were writing the farm bill. We were looking at five dollar corn and soybeans were well over 11 dollars a bushel. When we really started this process, American Farm Bureau had a farm bill working group for the last two years. We started this farm income was, low commodity prices were low. So I think that one of the things that it did more than anything is really energized the grassroots members across the country to think about this farm bill and think about ways we can make it work better. I think the challenge in this low price environment was that the Congressional Budget Office, the baseline for agricultural spending, we just didn't have a lot of money to make a lot of major changes. So this farm bill more than anything

it's just an evolution of the 2014 farm bill. Some tweaks around the edges. We did get some major improvements for dairy and for cotton but there's just not enough money to come in and really elevate and enhance the support provided by ARC and PLC some of those title one programs.

Jordan: Yeah and I guess we'll jump around a little bit because obviously this podcast is meant to just be kind of a casual conversation so I'm only mildly informed on some of these issues as my expertise is water quality generally but I would assume that the latest trade wars are the tariffs have not come at a great time with writing a new farm bill just with the uncertainty of pricing or how does how do those two things tie together?

Dr. Newton: Well I think there's two layers to this onion. The first layer is the U.S. economy has been just on gasoline, drinking gasoline, it just has been surging for quite a while now. Thirty six consecutive quarters of positive GDP growth for the U.S. economy unemployment's at near 50 year lows. Wages continue to rise, inflation remains low. So the U.S. economy is in pretty strong shape and I think that's you know one of the instruments that the administration looked at when you're looking at our trade balance with China some of the intellectual property theft that they're trying to go after with China, they said you know the tool of the U.S. economy is big enough, it's strong enough that we can handle this tariff situation. We import about 500 billion from China every year whereas they import about 100 billion from us. So I think the administration looked at the strength of the economy. Unfortunately one of the only sectors of the U.S. economy that runs a positive trade balance and has run a positive trade balance for decades is agriculture. So when we put steel aluminum tariffs on we opened a 301 probe on China a lot of countries are going to respond on products that we have a surplus and that happens to be many of our agricultural products. So while the U.S. economy is doing pretty great the farm economy is not doing so great. And they've retaliated against one of our key surpluses in trade markets which is agriculture. You know with farm income at low levels, we're trying to get a farm bill done with the other issues that we have facing us today in agriculture. You think about waters of the U.S., you think about regulatory reform, think about immigration, a trade spat something that reduced prices couldn't come at a worse time.

Jordan: Yeah I mean it is unfortunate you know because obviously natural ups and downs in the markets of our commodities happen you know it almost seems like a self-inflicted wound and it makes me a little uneasy to think about, you know will swing back? I mean obviously it depends on what gets done in the trade deals. But it will it actually swing back in the natural cycle of coming back up after a downswing. I mean, I would imagine if you're finishing up with harvest 18 it's some uncertainty with what's going in the grain bins.

Dr. Newton: There is some uncertainty. You know I've traveled the country quite a bit the last six months talking to growers and I think folks knew that and the thought among some out there is that this is an opportunity to correct a major wrong with respect to trade relations with China. So if we can get through this period, maybe things will be better in the long run for the future generation of farmers that are coming on, and then you look at what the administration was able to do with U.S. MCA while there weren't major wins for agriculture. You know you have good trade with Mexico, they are one of our top markets but then to get Canada to address what they were doing and dairy addressed what they were doing and we addressed what they were doing in poultry is a step in the right direction. We need to get the steel and aluminum tariffs resolved with Canada or Mexico. And I think the administration's also talked about doing some bilaterally with the European Union with the United Kingdom and with Japan. Japan is one of our top markets. So you know there's opportunities out there, you look at some of the other rising economies like Vietnam, there's opportunities for U.S farmers to find and get access to those markets. I think in the long run you know hopefully we can restore trade relations with China and in such a way that gets the access back for soybeans, but it's a competitive market in soybeans. Brazil, they're planting pace this year

is well above average. They're planting more acres this year than in years past. Argentina is going to bounce back most likely this year. If they don't have an adverse weather situation and we're sitting here with nearly a billion bushels in inventory of soybeans projected to be this carry out. So it's it's a tough situation. Folks have mostly stayed with the administration hoping that he can get a deal done.

Jordan: Yes. One billion bushels that we are sitting on, what is normally about this time of year you know kind of end of harvest?

Dr. Newton: Well you know, we don't we don't really get a good snapshot on a frequent basis how many bushels we have on hand. We get a quarterly update. Grain stocks from USDA. But I think what a lot of folks are looking at is the ending stocks level for this year. You know we're going to have a really big soybean crop, four point six billion bushels or so but the export pace right now is very slow. Exports to China right now, this marketing year down 97 percent. Total exports of beans are down about 43 percent, 40 percent. So I think many in the market really expected USDA to come back and reduce that soybean export number a little bit bigger than what they did in the most recent WASDE. They dropped it to about one point nine billion bushels, that's a decline of 11 percent from last year. But we've got to get moving if we're going to if we're going to hit that one point nine billion bushels and then if we don't hit that then we're going to climb in our inventories and that's where a billion bushel carry out, that would be record high. We haven't had a billion bushels of soybeans on hand, ever. That would represent nearly 25 percent 20 percent of the crops in inventory. So definitely a concern right now. I think our biggest markets for soybeans, Mexico and Argentina, the Netherlands, you know, but not China, they're sitting on the sidelines.

Jordan: And then with that carryover you know you start to go into getting some quality issues I would imagine and then what does that do once those markets do open up? Will the quality stay to where we can actually ship those to some of those countries?

Dr. Newton: Well here's an interesting thing that's happening right now. We had some late season rains obviously you know you had Hurricane Michael come through the Florida panhandle and up the southeast you had Florence come into the Carolinas and really just dump on any soybeans there. It was looking good and now it's gone more heavily damaged and so they've got a lot of that damage beans that there's not any good beans coming down to blend for export. So that's one of the other complicating factors need to blend the damage being with some of the high quality in order to get it into the export market. How many people are anxious to sell beans in this cash market today?

Jordan: Yeah I mean I would imagine it's tough to pull a trigger on when you're kind of betting on the economy here with the with the trade stuff and I guess I would be pretty uneasy if I was sitting on a bunch of stuff where you know you just don't know what the quality is at the end of the day.

Dr. Newton: You know I think a lot of people are looking at you know the end of November the administration is going to sit down and Buenos Aires, Trump and she and they're going to talk and there's been some positive rhetoric in recent weeks. We're going to start to be able to move towards getting the deal done. And I think the news of getting a deal done will provide the markets the type of philosophical or you know market based boost that it would need to start to bring soybean prices back around to a level that's more appropriate than where we were today and I think we saw that you know the market over the last week or so. But what we've got to actually make progress on that and start to move soybeans.

Jordan: Yeah I mean I know you're a quantitative guy but can you qualify what would be a timeframe for which you know I wouldn't say a tipping point but what would you estimate as, okay, if there's nothing if we don't get a deal done or something has a move by this date, we're going to be

really in trouble.

Dr. Newton: I think what China has done on soybeans, they've got 800 million bushels or so in inventory and so they're strategically releasing those or they change the hog rations, not eating as much bean meal. But I think you know Brazil is planting now, they're going to be harvesting a little bit early. You watch when they start harvesting if we haven't handled this issue and gotten it addressed well certainly plenty of beans on the market and it's going to be much more competitive marketplace if we've got beans to sell in South America does too normally because the Southern Hemisphere we don't overlap in the marketplace for very long but we could if we're sitting on a bunch of beans come January.

Jordan: What would that harvest be then for them, is that is March?

Dr. Newton: You know I really think that they get into the harvest early in the year so by the time we're starting to plant they're fully in the market selling beans.

Jordan: It's interesting to see I guess I never thought of it that.

Dr. Newton: I would watch it the next couple of months and you know if you go to Farm Bureau's web site, fb.org/marketintel, we've been posting updates on this throughout the marketing year. But if we get into December and soybean exports are still at this sluggish pace I'd be real concerned on what the opportunities are going forward. We've got a big domestic crushing business here in the United States and crushing has been at very good levels. But soybean exports represent you know a big slug of what we produce every single year and if comes if it comes down to be a pretty low level you know folks in the cash market are going to be in a pretty tough position.

Jordan: Because you have a lot of people who are asset rich but cash poor than usual so especially psychologically going into the holidays going into the wintertime where you know grain farmers specifically are maybe having a bit more time in their hands to chew on the books a little bit and then you have livestock farmers who have a lot more time to sit there and try to figure out what's going on with what their markets. You mentioned the crusher business, is there a positive effect domestically for lower soybean prices? Is there anything that comes up your head?

Dr. Newton: Well just the crushing margins so if you're operating you know an oilseed processing facility with soybean prices where they are you've got an opportunity to crush in a better margin. You still need to find a market for that and for bean meal and soybean oil, those products too face headwinds in the export channel. I think for meal obviously one of the biggest uses of it's going to be the livestock space on the oil, there is the soybean based bio diesel so there are markets for that. But you know that's what I look at when you look at the oilseeds. I think you read this recently just very high profit margins where U.S. prices are.

Jordan: Yeah we'll switch gears here. You mentioned that you know in some of your studies that dairy was one of your expertise.

Dr. Newton: I'm a recovering dairy.

Jordan: What's the difference and what's the range when you talked about dairy, it's either zero margin or negative margin. So I guess however you don't know what your current viewpoint is, either give us like a broad view of the state of the dairy industry for those you may not know.

Dr. Newton: Dairy is different. You know it's such a unique commodity, it's harvested several times a day. It's stored on farm and cold storage containers bulk tanks, needs to go to processing

pretty quickly. So it's really a unique commodity and what a lot of folks don't understand is milk is not priced the same way other commodities are like corn or soybeans that are more homogeneous, milk is priced based on how it's used and where the farm is located. Every farmer in the country has a different price of milk. Now it all moves similar to the same fundamentals, but given that everybody's got different prices and milk production costs are different across the country, reflecting local supply and demand dynamics may be on their feet ingredients. So some guys, say the Northeast, they're in pretty rough shape. Their average cost of production is well over 20 dollars a hundred and milk prices today are you know somewhere in that 16 dollar range. So they're losing money and quite frankly probably have been losing money for a number of years, whereas you go to some of the operations out west, maybe in Idaho, you know they are doing pretty tough shape right now but their cost of production in general are typically lower. Well there's just so much milk around and they're also facing headwinds in the export market. So they're taking big discounts too and they've lost a lot of money you know due to this trade situation.

Jordan: Yeah I mean I know in Ohio farm and dairy publications had mentioned I think there was 130 or 150 dairy farms in Ohio that are going out of business since the start of the year which probably doesn't represent a whole bunch of cows but I definitely represents a whole bunch of families and it's been a tough one to swallow in some of those families probably still came out after whatever their liquidation plan is probably didn't come out with much money on the back end either, so you know it's interesting to me just for the fact I mean obviously milk and milk products are so abundant and its mind boggling to me that the producer of the product is the one that gets the last penny. You know with all the processing, the shipping because I know isn't it something like if the milk changes a degree in temperature from the time it goes in the tank at the farm to when it goes to the processor, it's pretty much thrown out or something?

Dr. Newton: I'm not so sure, I haven't seen a lot of information about milk that it's not able to be shipped to the processor. I do know that they tested for bacteria level, or what the fat and protein contents are, that determines the value of the milk. Well you talk about losing dairies, Wisconsin this year is losing a dairy a day. California's losing a dairy a week and that's just reflective of the poor economics in the dairy industry.

Jordan: They said that doesn't necessary lower the pounds of milk or the gallons of milk going into the market either. Those cows are probably most likely getting used as replacement animals on bigger farms.

Dr. Newton: They could be a little bit of the supply chain you know, milk production is slowing down a little bit, but we're still looking at a record milk production this year, record milk production next year, production's outpacing population growth in the U.S. So while the U.S. consumer per capita consumes a whole lot of dairy from a variety of places it's pretty tough. Fluid milk consumption is going to be at a record low level in terms of per capita consumption. Adults are drinking less than 11 gallons of milk a year. So there's some demand and structural changes in that industry that's also impact on farm profitability.

Jordan: I'm trying to think about just the amount of work that goes into producing that milk, it's heartbreaking to see farmers go down like that. Especially when you have, you know, seemingly you have places like the Dannon's of the world in some of those places that are kind of honing in on a more vertical integration in their businesses and kind of attached to the hip of big farms and some in some areas and really setting some strong standards to have to abide by. I mean it's making it even tougher for farmers especially in my world with the water quality where we're trying to ask them to do more things and invest in conservation and there's nothing to use to invest in conservation.

Dr. Newton: I think that's an excellent point. You know there's a lot of folks down the supply chain that want to push back on the farmer on sustainability or conservation. Many of those folks don't realize that we're the ultimate conservationists, we're the ultimate in sustainability. Been farming for centuries and the United States, can't do that if you're not sustainable. Can't do that if you're not taking care of the land, but at the same time they don't understand that it's not free to do all this stuff and with commodity prices where they are, it's real tough to do that if you can't find some extra value. They're asking you to do some extra things to meet a marketing plan around sustainability, there needs to be some positive return back to the grower. That's something we're trying to communicate to the supply chain downstream. And you also talked up some of those other issues, you talked about you know water issues. One of the biggest things that needs to be addressed that unfortunately probably won't be addressed is labor. Labor market in the U.S. is very tight because of the job market is so good and the U.S. economy makes it real hard to get access to farm labor. It was already hard to get access to farm labor. Now it's even harder. Throw in the rhetoric around immigration and immigration enforcement ICE rounding folks up. A lot of folks that I talked to that's their number one concern is who's going to help them harvest the crops or milk the cows when they need that. So that's something that we need to get addressed, unfortunately. Mr. Goodlatte of Virginia, he's leaving Congress this year and I don't see where a champion is on the horizon to get something done for the industry.

Jordan: that's a hairy situation. I mean obviously there's a lot a lot of politics involved with that. You know and seemingly a large portion of our industry are no noticeable one is probably a little tighter on immigration as a whole but yet kind of the backbone of a lot of our production is from people who have come into this country to make a living. So I mean what are possible solutions to this type of problem?

Dr. Newton: It's an issue that touches so many people and it's so hard to find consensus on it. Agriculture itself is not even united on how to how to address the challenge we have ahead of us but I think a step in the right direction given where we are today might be to try to make some meaningful regulatory reform to the H-2-A program to make it easier to use and maybe a little bit more flexible for growers.

Jordan: We seem to be segregated not by geography but by industries right. If you're generally a pork producer or a grain farmer you're probably not going to be touched by the issue as much but your neighbor may have a greenhouse production or dairy or something and that's not just in California, that's Iowa and Ohio or even just the markets to which some of these places go, you know, rendering plants and places that process hogs and beef and stuff. So I think it's easy to get segregated on this issue and it might touch your county but it doesn't touch your operation, but you have a passion for immigration reform.

Dr. Newton: I think it's a little bit of both. You know there are some sectors of Ag that aren't united within the same commodity space. So it is a little bit of both. But then you also have you know further down the supply chain it impacts those. You mentioned pork lovers. There's workers in some of these pork process these too that have labor challenges. So it's a heartbreaking situation when you think about people that have been here and working here for so long and have families here, have been engrained in their communities. Unfortunately, I just don't know what the path forward is.

Jordan: Switching gears to a less political topic, how about climate change. Is there anything that you guys have been exploring in terms of the effect of you know obviously heavy weather events, drastic weather events that we've been having around the country?

Dr. Newton: You know, I think in response one of the first things we've been doing is working

with the administration to help get folks back on their feet. When you have a 2000 year floods in two weeks or two months due to hurricanes there's some real challenges from a grower perspective, raises some real questions about the changing climate landscape that farmers are ranchers facing. So we have been working with the administration on the wildfire hurricane indemnity programs, working on some sort of disaster package for the two most recent hurricanes we had. I think the other thing to think about and we work with the companies on these issues, is how we get access to the technology and the seeds that farmers and ranchers need to respond to their changing environment. And that's something that you know the regulatory process to get seeds approved or even that the chemicals and fertilizers that farmers need to use to combat pests or weeds. So we're active in a lot of these different areas to try to give farmers all the tools in the toolbox they can to deal with Mother Nature.

Jordan: That's always a balance because we need some checks and balances of getting things vetted in terms of active ingredients and seeds and stuff. But you know the power of harnessing biotechnology and some of the chemical compositions that we've been able to use over the years to fight back on weeds and pest so it's definitely a balance but it's always interesting, you know people clamor for more regulatory about certain things but more regulatory makes things less accessible and makes it a little bit more monopolistic on some ends as well. So it's always a delicate balance on how much regulatory is needed in some of these industries.

Dr. Newton: I think one of the things that just a broad stroke on that is farmers want to run their business, they don't want to be told how to run their business. And that underpins a lot of what we do on our efforts on reform.

Jordan: Yeah and it's always funny with conservation too you know. And we know that we would probably like them to be a little bit more upfront about what they're doing because they're doing a lot of good and they just don't want anything to go outside of that. You know I don't want to infer that they're not. I always make the joke that for the longest time you know farmers have said hey you know people don't know where our food comes from they just go to Kroger or Meijer or whatever and then when someone says, hey what does our food come from? They say, how dare you ask me about my farm, and it doesn't work that way and we need to have a little bit more transparency but also there's some protection that needs to be had to because this is private land, this is a private business and there's definitely a lot at stake for some of these operations.

Dr. Newton: Well it's moving in a transparency direction. When you think about you know IBM technology on the block chain being adopted by the food companies. So it's moving in that direction. You talk about sustainability, US Farmer Ranchers Alliance, or field to market, all of those programs are being used to transparently demonstrate the high quality and all the efforts that farmers and ranchers put into. With respect to sustainability or be transparent and where food comes from. But the public does have more of an interest now more than ever on where their food comes from. That's due to you know their higher incomes that folks have there they can be more self-selective in the type of foods that they buy. They want to buy higher quality, they want to know where it comes from. There's no better place to see that than in the kind of Farm to Fork restaurant movement that's really swept across the country.

Jordan: So I guess as we wrap one of my last questions are usually what's next? How do we move forward in your sector, and can you really wrap your head around how we move forward without some sort of clarity on a timeline with trade or where do you think we will be in six months.

Dr. Newton: If you take a short run view, I have full faith that we're going to get something done with China. I don't know when but I think we will. I think if you longer term think about you know what people need the economies around the world are starting to improve. When sub-Saharan

Africa economy starts to improve, one of the first things that's going to lead to that economic growth, they've got to first learned how to feed themselves and once they feed themselves once their economy starts to grow, one of the first things people do when they join the middle class is buy more food, buy higher quality more animal proteins. That's going to increase the demand for the products that we produce and is going to open up markets for us. It can create food security and it can create global security. Something that's kind of the longer run view there's going to be a lot of more people around the world here in a few years, 9 billion by 2050. That population growth is going to happen outside the United States. But we are some of the best of what we do. We need to feed the world but we need to make a little money when we do it. That's going to be the challenge in the short run is you know, reallocating our resources to deal with the short run challenges but positioning ourselves long run to be successful through new trade agreements through better trade agreements, and China is going to be a big key to that. That's why it's so important what the administration is doing right now.

Jordan: Yeah I guess we'll touch briefly, I know the administration had released some sort of payments back to farmers. Can you talk about that briefly?

Dr. Newton: Sure. Going back in late summer USDA announced know trade mitigation payments through three different arms. One was direct payments, two was commodity purchases and three was increased resources for market development overseas. And so that's kind of where we are where we are. I think that they allocate the first half of that. The expectation is by December they'll allocate the second half of that and that does provide a lifeline to folks that have had experienced lower or negative profits due to the headwinds they're facing in the export markets.

Jordan: Do you think, I don't know much about them so what do you think the time period is where they would have to consider doing another round of those?

Dr. Newton: The secretary said that they're not going to do that in 2019. I think the first round of payments that they've gotten and will get will help some guys and hopefully we get these relationships worked out and get better agreements all across the board fairly quickly. USDA is projecting for some of that resource allocation to happen next year, soybean acres are projected to fall by nearly 7 million acres in 2019. We'll respond to the market signals that we have and produce more, we produce more corn on the field crops and we'll see what ultimately happens in some of the other livestock's spaces.

Dr. Newton: Good deal, I think that's all I got for you today. I appreciate your time joining us and then hopefully we get this trade thing turned around or figured out we will check in with you next year sometime and you kind of see where we're at.

Dr. Newton: Just tell those folks there in Ohio, I want to come back and visit. So I don't know Jack Irvin there Ohio Farm Bureau can do anything but I'd sure love to come back and visit everybody around the state.

Jordan: Yeah we would love to facilitate something, we have demonstration farms and we have big events all over the place so we'd be more than happy to have you.

Dr. Newton: Let's make it a Ohio State Michigan game so we can beat those Wolverines.

Jordan: Yeah we can do that. You might spend Thanksgiving here with us. It's always the Saturday after Thanksgiving.

Dr. Newton: That's alright, I'll break bread with Ohio farmers.

Jordan: That's right. We'll make it happen.

Dr. Newton: All right. You have a good one.

Jordan: That was Dr. John Newton, chief economist from the American Farm Bureau Federation. If you have any questions or need more information about the Ohio Farm Bureau, please go ofbf.org and if you have any suggestions on topics or any questions or any feedback please e-mail me at jhoewischer@ofbf.org and please rate and subscribe on iTunes or any place that you get podcasts. Thank you!