

# THE WISE AG UPDATE



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## COMMENTARY by Joe Bubon



The election ended with a surprising winner and in my judgement, is likely to lead to an administration long on more surprises. We really don't know what the new administration's policies affecting agriculture will be. We've been witness to a range of possibilities accompanied by predictions of great success or abysmal failure depending on the political position of the predictors.

To be clear, I'm not going to make any predictions. I'd just like to highlight a few issues that affect the agricultural industry particularly as a result of the change in administration.

Here's my list of some key policy issues to keep an eye on:

**Trade:** Here you can almost insert one name: China. The Chinese are now our top agricultural export partner, displacing Canada in the past few years. The third largest export partner is Mexico. Given the rhetoric from the campaign regarding two of our top three agricultural product importers, there is potential for significant change.

In its November 2016 Outlook for US Agricultural Trade, the USDA comments, "A change in the U.S. trade relationship with China and Mexico is

of particular concern for agricultural competitiveness. Together, these two countries were the destination for an average of almost one-third of total U.S. agricultural exports from 2013-2015. China alone was the destination for roughly 60% of U.S. soybean exports, on average, during this period." President Trump has not hesitated to suggest that China manipulates its currency and exploits trade agreements... and his intention to tear up or renegotiate NAFTA, involving our second and third largest export partners, is also something that could have huge implications for trade and agriculture.

President Trump's appointment of Iowa Governor Branstad as the Ambassador to China should be a very positive development in trade relations.

**Interest Rates and the Dollar:** In this area again we are limited to speculation as to actual administration policies based on campaign language. Interest rates are already trending higher and the Fed is expected to raise them as many as three times in 2017. However, the President has been critical of the Fed during the campaign and the development of the actual relationship between the two may lead to a more hawkish agenda. There

are also some internal pressures, such as rising wages and oil prices, that may signal an increase in inflation. In turn, higher interest rates coupled with a more "protectionist" trade position may strengthen the dollar further.

**Labor and Immigration:** Enforcement of immigration laws was a key component of the President's campaign of course, from deporting illegal immigrants to walling off Mexico and having them pay for it -- strong language that already seems to be softening since the election. American farmers depend on skilled and willing labor, and where Americans are unwilling or unavailable to do the work, foreign workers have filled the need. The fear is that immigration law enforcement will curtail this labor source in the absence of some sort of work visa system for farm workers.

**The Environment:** This is a critical area for farmers from New England to California, but I don't find many references to how the new administration would deal with environmental issues from the campaign. President Trump is on record as thinking climate change is a hoax but has not indicated a detailed agenda for environmental policy. He

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## COMMENTARY (CONT.)



has indicated that he'd like to see regulatory reform and recent EPA assertions would seem to make it an obvious target. The bio-fuel mandate is always a potential target as well.

There is very little than can be definitively said about the new administration's farm policy agenda. The campaign was filled with sound-bite policy statements that were often quickly withdrawn or modified. Of course, the agenda at that time was to get elected and the approach worked. Now, however, we will spend the next several weeks and months watching as the campaign approach changes to serious governing policy discussions. ♦

## Our Newest Team Member

Murray Wise Associates is pleased to announce that Kate Giles has recently been hired as our newest Administrative Assistant in the Champaign office. Kate is a native of Central Illinois. She grew up on a farm in Rantoul until moving to Mahomet, IL where she currently resides with her husband, Blake.

She's a graduate of Illinois State University, earning her degree in Sociology. Prior to joining Murray Wise Associates, she has worked for nearly 10 years in Human Resources in both the healthcare and real estate industries.

In her free time, she enjoys traveling and has crossed 17 countries off her bucket list. She also volunteers with local organizations like Feeding our Kids and PetNet. Welcome aboard Kate! ♦



## FLORIDA CITRUS GREENING -- WHAT COMES NEXT?



The situation sounds like the plot of some horror movie in which a small, nearly microscopic, parasite destroys civilization as we know it. Unfortunately, that is nearly the real world situation that has been facing Florida orange growers for the better part of a decade. The small creature that is indirectly creating the problem is the Asian citrus psyllid and what they do is deliver a bacterium that in turn infects the citrus tree host with a disease called Huanglongbing or HLB, commonly referred to as citrus greening.

The disease is deadly over time, spreading from the leaves to the roots. While the disease spreads through the tree, the result is fewer and smaller fruit, premature dropping of the fruit, and fruit that fails to fully color. There are some techniques that have somewhat mitigated HLB's effects to an extent, but the cost is high.

HLB has had a devastating impact. The crop for 2016-17 is forecast to be 26% down from 2015-16... and 2015-16 was the lowest crop in fifty years. Overall production is down 66% since the 2003-04 season.

Growers have to work harder and spend more to produce less. Juice processors are not assured of sufficient fruit to operate efficiently. And U.S. consumers can expect to see continued upward

pressure on the price of orange juice.

Simply put, HLB represents a genuine threat to the entire Florida citrus industry and everyone is feeling the impacts. It is thought that the industry needs to plant many millions of trees over the next decade just to restore the crop to the level that would ensure that juice makers could operate profitably. The U.S. House has passed a Citrus Bill that is designed to provide tax incentives to growers for new plantings. That may be a step in the right direction, but we generally lack faith in government solutions to market problems.

So to our original question -- what comes next? Florida's citrus industry is clearly in a dire situation. What are the implications as the Florida citrus industry literally withers?

We see a few areas for potentially significant developments.

First, the survivors who continue to operate successfully in Florida will be very well capitalized, major operators who can support the research and growing practices necessary to successfully produce fruit in the era of HLB and rebuild the groves.

A second situation to watch will be the disposition of the land that defunct

growers have abandoned. For sure, if we're correct about larger, more financially secure operators entering or surviving the market, they will have need for land to repopulate the groves.

Additionally, we also see conversions of former citrus land to vegetable production as opposed to trying to take on HLB again. In the last two years, we have sold numerous dead or dying citrus groves to buyers motivated by an interest to convert the land to non-citrus farming operations. Some growers are even experimenting with crops previously untested in Florida, such as avocados, macadamia nuts, olives, and peaches, though the jury is still out on the long term viability of these options.

While Florida may have a citrus problem, the opportunity for other agricultural endeavors still presents significant opportunity for Florida farm and ranchland. A strengthening economy is also resulting in more residential and commercial development, presenting additional opportunities for the repurposed use of defunct groves.

This real life horror story may not end the Florida citrus industry, but we think it's safe to say it will continue to force dramatic changes in the industry and Florida's agricultural landscape. ♦

## HERE COME HIGHER INTEREST RATES



As this is written, it is almost certain that the Fed will increase short term rates in 2017. In addition, rates have already been trending up slightly for the past few months. Inflationary pressure is peeking around the corner in the form of higher wages (including the many minimum wage laws effective January 1, 2017) and an apparent growth trend. Oil prices are also trending upward modestly since the recent OPEC agreement. In addition to signaling rate increases, the Fed has intimated that it would not be displeased with an incremental increase in inflation.


An increase in short term rates would affect the cost of operating loans, of course, but the impact of incrementally increased longer term rates is less obvious. Remember, some have mentioned the potential for three more increases in 2017.

For buyers of farmland who don't need financing, the increase is simply a

slightly greater position for a competing alternative investment. However, for buyers who intend to finance their acquisition, the total cost will rise absent some reduction in the price itself. The question is how much will the increase in carrying cost impact the value of the land itself. Frankly, unless the increased rates are dramatically higher, we see minimal impact on underlying land values. In terms of magnitude, we would expect continued soft agricultural commodity prices and the risk of dampening of export markets to have a much greater impact on the industry, farmland lease rates, and land values.

For those who already have mortgage debt or are near closing on a land purchase the likelihood of rising long term rates clearly call for a "lock down" approach. Locking in today's rate level and even extending the term of an existing note should be sound strategy.

Additionally, in an environment of downward trending farmland lease rates and rising interest rates, it's distinctly possible that in the next twelve to eighteen months, the attractiveness of returns on other alternative investment vehicles may surpass that of farmland for some investors.

Those farmland investors that are considering selling may want to act soon and take advantage of the strong asset prices available in today's marketplace. 



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Wise Ag Update to be conveniently delivered directly to your phone, tablet, or computer.

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## RECOMMENDED READING



The article that follows is from Bill Gary's *Price Perceptions* newsletter published by Commodity Information Systems, Inc. ([www.cis-okc.com](http://www.cis-okc.com)). It is re-printed here, with permission, because it seems to us truly insightful.

### An Underlying Shift in Market Psychology?

Strange things are happening in many markets...

- The dollar has surged to a 13 year high. Normally dollar strength is bearish on commodity markets as US exports become more expensive for importing nations. Instead, a number of commodity markets have advanced instead.
- Bond prices have fallen sharply in recent months, leading to higher interest rates. Normally, higher interest rates are negative for the stock market. Instead, the US stock market advanced to new historic highs this month.
- Because crude oil is globally priced in dollars, the strong dollar makes oil more expensive for foreign importing nations. Normally, this would be negative for oil prices. Instead, oil prices have advanced since last January.


In the past when markets have moved in the opposite direction of conventional wisdom, it was a sign of changing market psychology. During the Seventies, commodity markets advanced for years in spite of higher interest rates and recessions. Inflation became an ingrained

psychology and nearly everybody bought things in expectation prices would be higher in months ahead...

- Individuals bought huge tanks and stored hundreds of gallons of gasoline in fear of shortage. This only compounded supply tightness and prices continued to advance even though production increased.
- Little old ladies bought hundred pound bags of sugar in fear it would disappear from grocery shelves.
- Farmers bought and hoarded barbed wire to avoid higher prices in years ahead.

The inflationary psychology ended only when the Federal Reserve pushed interest rates to historic highs of 20% and forced the US into a deep recession. Central banks have printed more money than anytime in history over the past decade in an effort to boost global economic growth. Europe and Japan have even experimented with negative interest rates in an effort to shift money psychology from saving to spending. Perhaps the strange things happening in today's markets are signaling a change in general market psychology.

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**Upcoming Auctions & Current Listings**

**AUCTION: APRIL** - Approx 1,200± acres in Lake County, FL - The property will be offered in multiple tracts and features strong development potential, pasture ground, citrus acres, and multiple structures, including homes and equestrian facilities. More details coming soon.

**LISTING: BLISS DAIRY** - Property consists of 3 modern, efficient rotary dairies located southwest of Salt Lake City near Delta, Utah. The total permitted capacity of the 3 dairies is 11,200 head and the effective total capacity is approximately 9,165 head. Asking Price: \$9,000,000.

For a list of available properties in Iowa, contact John Kirkpatrick in our Clarion, IA office at (515) 532-2878 or john@mwallc.com.

Visit [MurrayWiseAssociates.com](http://MurrayWiseAssociates.com) for more information on these properties.

To receive email updates on upcoming auctions, join our mailing list by scanning the code with your smartphone or calling (800) 607-6888 and requesting auction information.

**UPCOMING AUCTIONS & CURRENT LISTINGS**

**THE WISE AG UPDATE**

**Foundation Scholarship Application Open for 2017**



We are now accepting applications for the 2017 Murray Wise Associates Foundation Scholarship.

Applications are due **MARCH 15**.

HS seniors and undergraduate students pursuing a degree in agriculture are encouraged to apply.

Start your application today at [APP.MURRAYWISEASSOCIATES.COM](http://APP.MURRAYWISEASSOCIATES.COM)