

# Farm Dynamics

## Purdue economist predicts more consolidation of ag industry

By KATIE NICKAS

AgriNews Publications

**INDIANAPOLIS** — Farmers have the chance to lock in \$200 or more per acre on their farms — an unprecedented opportunity, said Purdue University agricultural economist Mike Boehlje.

"That's pure, unadulterated profit, after land charges, and there's only a 1-percent chance it will get higher than that," he told a mix of farmers, seed salesman and crop advisers at the annual Indiana Certified Crop Adviser Conference. "My advice is, book it! It's a window of opportunity that you should not miss pass."

Producers are moving into an era of biological manufacturing — a specific attribute of raw materials. Agricultural technology has allowed growers to outsource production techniques, making it possible for them to farm 2,000 acres and still have on off-farm job.

The pork and dairy industries have consolidated, with pork now umbrellaed under 10 or 15 companies, and significant consolidation likely will happen in grain production as well, Boehlje said.

"I worry about irrational exuberance," he boomed. "It's not because we have to feed a population of 9 billion people by 2050 — we don't have to feed them. What's important is not the number of people, but that China and India are 8 times the population of the U.S. and that China has income growing at 8 percent to 10 percent."

He told an inquiring farmer. "\$13,900-per-acre farmland makes me nervous, too!" "Ninety-nine out of the last 100 years, the price has been less than that. Generally, over time, it doesn't go further — it backs up."

The Fed has sold bonds at negative interest rates twice within the last year when negative interest rates typically are not allowed. Interest rates will rise, but it's a question of how soon and how



AgriNews photo/ Katie Nickas

"Don't let the window of opportunity pass" advises Mike Boehlje, a Purdue University professor of agricultural economics. He spoke at the Indiana Certified Crop Adviser Conference in Indianapolis, where 1,000 farmers and agricultural specialists attended to learn about corn and soybean production, financial concerns and the future of agriculture.

far they will go, the economist noted.

"It's also a question of economies of size: Is anything pushing the cost curve back up again?" he asked. "If producers want to expand from their minimum efficient size, they go to build another plant, size an optimal-size planter to an optimal-size combine."

Fertilizer costs are one of largest costs associated with farms and with any operation — if producers can spread the cost across more acres and not be geographically bound, it will flatten out their costs, Boehlje said.

"If you do it this year and again next year, you sometimes learn something this year that allows you to do it better next year," he said.

It's no secret that agricultural firms are getting bigger. Successful farmers make money and must find ways to invest it, Boehlje said.

"It's both a national phenomenon and common sense that they put

One of the boldest dynamics of the past 20 years or more is the "disappearing middle" — farmers are increasingly combining leasing and purchasing, and the Midwest annual growth rates show the family farm category being absorbed in various ways.

"Many farmers who are in mid-career have decided they no longer want to take the risk of borrowing, so they stop at 1,000 acres," Boehlje said. "Most farmers seem to be holding on or their heirs seem to be holding on. This also could be a function of multi-generational farms."

The farmers with the right stuff have the acreage — farms with 2,000 acres of more are experiencing higher growth rates.

"Hopefully you know the law of sevens — anything that grows at a rate of 7.2 percent per year will double in 10 years," the economist said. "The important thing is this seems to be true for every period except 1987."

If the current trajectory continues, the same 6 percent of farms now operating 42 percent of acreage will control almost half of the acreage. It's all natural growth, Boehlje explained.

For people providing services to the sector, this concentration of ownership and operatorship means a disappearance of the traditional farmer as more acreage is operated by larger-scale customers, he noted.

"In terms of getting services, they will probably be more demanding and have the power to negotiate a deal, and they will probably outsource a lot of information and services — in other words, he still needs you," Boehlje said. "As the livestock sector has gotten larger-scale, producers have gotten big enough that they can in-source — or hire the people—who provide them will feed."

Larger-scale operations will increasingly have their own agronomic specialists and their own sprayers. Some livestock companies will outsource their nutrition sources.

"Today, 87 percent of agricultural production in this country is produced by 13 percent of those farmers," Boehlje said. "We're not moving toward an 80-20 scenario, but a 90-10 one. There is worry about how to stay with some of those customers. If you try to buckle when they get big, you buy the customer, and margins are typically not what they like."

There is widespread skepticism about the production efficiency of different-sized farm operations. Boehlje reassured everyone, citing a study showing that larger-scale operations generally have more production efficiency.

"There's a consistent return on equity and return on assets for larger-scale operations — an 18-percent ROE is pretty competitive in the big

world," the economist said. "Twenty percent of farms who do make money do very well, thank you very much."

Sustainability is at the food end of the value chain — Wal-Mart, the largest food retailer in the world, wants a carbon footprint on all its products by 2015. It's the type of buzz that tends to strike a nerve, and it will require a lot of innovation from farmers.

"Wal-Mart wants traceability all the way back to the value chain," Boehlje said. "The point of this, the lesson to be learned, is if we aren't careful, we will have rules and regulations we will not be able to deliver on."

The sustainability initiative would require farmers to acquire documentation of the practices they use on their operations, he said.

"This is not the government — this is Wal-Mart, Kraft and Coca-Cola," he said.

Boehlje said sustainability, increased output and decreased pesticide use and soil erosion are all positive facets of agriculture that the industry is failing to do a good job of communicating.

"You don't have to do things differently — just tell your story!" he shouted. "Farming in future will involve bigger farms and more intensive production, with more knowledge and information needed. The future will be about shaping the debate, also."