NORTH CENTRAL EXTENSION RISK MANAGEMENT EDUCATION

Producer Risk Management Education Needs Assessment

September 2022

The North Central Extension Risk Management Education Center located at the University of Nebraska-Lincoln is one of four regional centers across the country competitively funded by the United States Department of Agriculture to carry out a comprehensive program of risk management education targeted to agricultural producers. In turn, the four regional centers (supported by a fifth center for online administration) implement a competitive grants program to fund educational institutions, farm and commodity organizations, community organizations, businesses, consultants, and other risk management education providers to deliver programs directly to and benefitting farmers and ranchers.

As part of the risk management education process, the Center conducts a substantial risk management education needs assessment effort. Talking to producers, stakeholder groups, and underserved producer audiences provides grass roots input on risk management education needs for the Center and its Advisory Council, which represents a similar cross-section of risk management educators, organizations, and producers. This information also assists potential grant applicants as they look at possible audiences for their programs. Over the past several years, the Center has worked to identify risk management needs among both commercial agriculture audiences and special emphasis audiences. The following summary highlights general agricultural risk management issues raised in discussions with producers and stakeholders in recent months.

Current/ Emerging Issues

After weathering an extended period of lower agricultural prices since the early 2010s and the challenges of trade conflicts and then COVID-19 pandemic disruptions, the agricultural economy has rebounded solidly since the second half of 2020 for most commodities and producers, save for the cattle industry. Overall market and financial conditions have strengthened through recent months, including the market shocks of recent global unrest in Ukraine but agricultural prices have softened in the past few weeks. A weaker price outlook coupled with dramatically higher input costs relative to a couple years ago is tempering farmer optimism and will challenge profit margins and management decisions going forward.

A range of current and emerging issues were raised in discussions with stakeholders that help shape the current ag outlook and challenges for producers:

- Climate.
- Non-traditional financing is an increasing issue, particularly for socially disadvantaged and underserved producers. Non-traditional financing may come through unregulated lenders and may become more of a commodity market with little value for relationship capital.
- Stimulus or COVID relief funding has provided substantial income support to agriculture in the past two years, but is not promised or expected moving forward.
- Farmland values have continued increasing while cash rents have not. Farmland value has a lot to do with interest rates and investment choices. Cash rents may be a better indication of farm economies than land value.

- There are numerous USDA Farm Service Agency programs and the complexities are great, from general information and application processes to rules and compliance. There is a need for education across the board, with some topics identified as follows (not meant to be a complete list):
    - Compliance
    - Assistance program rules such as the ERP program when producers have a negative AGI
    - Program education and procedures
    - Wetlands determinations and conservation compliance provisions
- The economic outlook is uncertain and involves several issues of note:
    - The economic question is the possibility for recession. From the labor perspective, it is hard to forsee a recession, but certain factors like GDP growth, inventory levels, and low demand are more likely scenarios for recession.
    - Current spending from accumulated savings and credit expansion has meant spending is not yet constrained by inflation. The lowest wage category earners still had real wage gains before 2022.
    - Interest rates are up with the current focus on inflation but monetary policy generally focuses on constraining demand while current inflationary pressure is largely on the supply side. Interest rates are substantially higher than where we have been and imply much higher borrowing costs but are still historically by comparison.
    - Supply chain challenges have remained an issue and strategies for managing supply chains seems to have changed for some entities from "just in time" to "just in case".
- Stakeholders offered particular notes on various agricultural commodities:
    - The fruit industry may have a good production year, but then face challenges with not being able to sell enough of the production through the federal marketing order.
    - The dairy industry faces continued downsizing as more and more small dairies are selling out or retiring with no one to transition the operation to.
    - The cattle industry has not been rebounding from the pandemic like the other commodities.
- General agricultural producer knowledge and awareness is a relevant issue regarding history, perspective of general economic principles, and why the general economy matters as producers face some general economic challenges not seen in a generation and producer decisions regarding interest rates and sound financing decisions can be affected
- Agricultural input costs have been higher and cash rents have been higher. Profits are good at current higher prices but margins could be squeezed with any drop in price. Specialty crops are all in contract – so downside price protection may be better there. Labor costs and farmland costs continue to be higher with hand-pick labor at $16-18/hour and farmland moving from $9-10K/acre to $15-16K/acre and has not gone down yet.
- Input costs can be sticky as costs don't go down as quick as markets. There are challenges with prices and with availability of inputs, including supply issues and troubles getting access to things. There is a need for education on profitability and protecting margins.
- With all of the cash rent activity happening, there is a question as to why there is not more movement towards flex leases to allow tenants and landlords to share risk and profit potential. Are they too complicated? A lot of times landlords don't want them – they want a clear picture of the cash they will get at the end of the year. It is a landlord issue mostly and so would require education for landlords.

- Green energy (wind and solar) can be an opportunity for producers and landowners with demand for land and integrated energy and agriculture enterprises (e.g. agrivoltaics). It can also be a challenge depending on what happens to green energy sources once they are retired.
- Opportunities for beginning farmers appear limited (unless they are inheriting an operation) as there don't seem to be a lot of entry points for beginning farmers other than some livestock and some specialty crop/direct-market enterprises.
- We are in a whole new era of uncertainty - you don't know if you can get fertilizer, you don't know if you can get parts, etc. There is a whole new level of unknowns. Diesel fuel may be short this fall. This creates a lot of concern, a risk of supply chain issue. High prices create all kinds of downstream problems – elasticity. Margin management will be really serious if prices go down, but inputs are still high. Government payments were high, they will be low this year – what is the impact of this expectation of future policy as regular payments may all but disappear.
- High prices create numerous downstream problems. Margin management is a serious challenge. Current high margins have come from government payments. The future will be uncertain with the decline government payments.
- Cover crops are a growing issue and there are numerous public and private incentives for adopting cover crops. However, the basic questions surrounding the economics of cover crops remain. What are the real costs? What are the real returns?
- Agricultural lending for underserved producers can be very different than for traditional commodity producers. In particular, Native American agricultural producers often work with very small lenders, including those working with the Community Development Financial Institutions (CDFIs). Among the challenges for producers and lenders are how to deal with land often held in trust and how to utilize trust land holdings as collateral for borrowers.

Stakeholder Priorities

From the discussion with stakeholders, the long list of topics was pared and condensed into some common themes, priorities, and ideas:

- How to deal with economic uncertainties that we could be facing.
- Need for a short course or general curriculum on economic fundamentals and management for producers
- Stress management came up as issues were being prioritized, given the focus on the challenges and uncertainty ahead.
- Access to credit and information for producers – amid the uncertainty and volatility what are the opportunities for producers? Diversification in general including on credit side may be important and may be a reason why there has been an increase in non-traditional lending.
- Unique/creative niche – financial success for farmers is linked to the creativity and unique niche of the farmers. How can that be taught? It involves diversification and entrepreneurship.
- Economics of cover crops – help farmers understand the economics behind cover crops.

Managing Risks and Educating Producers

Managing these varied risks, from production to marketing, financial, legal, and human, will be a major challenge. Reviewing their current operation, accessing available resources, participating in educational programs, and consulting with ag professionals will all be important steps producers should take to manage the risks they face.

One of the resources available to address risk management and the needed education is the North Central Extension Risk Management Education Center at the University of Nebraska. The Center provides competitive grants for projects that deliver risk management education to producers across the North Central Region of the United States. The grants program is available to all entities that can deliver on these needs and reach producers through their programming. This annual request for applications for competitive funding is released on or about September 15 of each year. More information on the center, the competitive grants program, previously-funded projects, or risk management issues in general is available on the web at http://ncerme.org.

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