Attachment C

Market Adjustments to Challenge Colorado Agriculture in 2014

Photo courtesy of Jane Stulp
Dust Storm at Farm of John Stulp – Lamar, CO

Mother Nature has always been a major force in determining the profitability of Colorado's farmers and ranchers. This was especially true in 2013 as wheat producers on the Eastern Plains experienced Dust Bowl-like conditions, ranchers grappled with drought-impacted pastures and high country fires, and fruit growers on the Western Slope saw yields cut by late frosts. Hail also damaged Front Range vegetable fields, and producers along the Platte River Basin suffered both crop and livestock losses as a result of devastating rains and floods. Along with generally lower crop prices, especially for corn, the effect will be a contraction in net farm and ranch income for 2013 to $1.59 billion—a level $165 million less than recorded for 2012 and some $240 million less than had been projected a year ago. Looking ahead to 2014, net income is projected to fall by about 7%, to $1.48 billion. Projected gains from higher livestock prices and the continued growth in Colorado's dairy sector will be more than offset by further decreases in crop prices.

Colorado Crops—It's All about Corn

Within Colorado, as well as across the United States, agriculture is continuing to adjust to commodity markets largely driven by the dynamics surrounding **corn**. Below-average U.S. corn yields in 2012 brought about higher market prices and increased plantings for 2013. The increased acreage is expected to be offset by modestly below-trend yields in 2013; however, U.S. corn stocks are projected to reach levels not seen since 2009. Prices have already retreated significantly from the 2012 average record high $7.05 per bushel to levels in the $4.25–$4.50 per bushel range.

In Colorado, these lower market prices for corn will shift acres to other crops in 2014, such as dry beans, hay, sunflowers, and wheat. These shifts in acreage will be much watched and talked about, and will cause many commodity price changes in the next two years. The lower corn prices will also provide some much-needed relief to livestock feeders. Corn production for 2014 is projected at 131 million bushels, down about 10% from 2013. With prices forecast to remain in the $4.25–$4.50 range, total cash receipts from corn production will decline to $540 million for 2014. This will mark a 42% decrease from the record high $939 million in 2012 and a 27% drop from the estimated 2013 level of $744 million.

Photo Courtesy of Rita Kleve
CDA/AgInsights 2012 Photo Contest

At a projected 45 million bushels, Colorado **wheat** producers harvested one of the state's smallest wheat crops in recent history in 2013. Increased acres will be planted with wheat in 2014, and given that producers planted in soils with better-than-average moisture, production could potentially increase to about 90 million bushels of wheat. Although average prices are expected to decrease from approximately $7.00 per bushel in 2013 to $6.50 per bushel in 2014, total cash receipts from wheat production in 2014 are projected to increase to $450 million. Colorado's wheat industry is also expected to benefit in the longer term from the decision by ConAgra Foods, Cargill, and CHS to locate the headquarters for a new flour milling conglomerate, Ardent Mills, in Colorado.

Hay production is estimated to decline to 3.2 million tons in 2013 due to dry growing conditions and a lack of water for irrigation during the summer months. Prices in 2013 are estimated to average about $235 per ton, only slightly off the record high of $237 per ton recorded in 2012. Going into 2014, demand remains strong for quality alfalfa for Colorado's growing dairy industry, and some corn acres are anticipated to shift to alfalfa, pushing production upward to about 4 million tons. Prices can be expected to soften slightly in 2014, to about $200 per ton, with total receipts from hay production remaining constant, at roughly $435 million.

The availability of water for irrigation continues to be a key driver for **potato** and **barley** production in Colorado, especially in the San Luis Valley where the majority of both crops are grown. Despite a significant reduction in potato acres in 2013, the aquifer beneath the valley floor is at its lowest recorded level. Demand for Colorado fresh potatoes could get a boost in 2014 if, as expected, access to the Mexican market is expanded beyond just the 26-kilometer trade zone along the U.S.– Mexico border. Potato prices are expected to average in the $8.00–$10.00 per hundredweight (cwt) range through 2014, putting cash receipts at $161 million, an increase over 2013 but well off the 2008 record of $250 million.

Dry bean production across Colorado has generally been in decline since the mid-90s but could potentially see an upturn in 2014. With current market prices for pinto beans in the $45–$50 per cwt range, dry bean production could be a viable alternative for corn producers looking for a more profitable option. Increased acres and greater total production could be expected to put downward pressure on prices, possibly to the $35 per cwt range and bringing total cash receipts from dry bean production to about $25 million.

Colorado's **onion** industry, like dry beans, has also been in steady decline since the mid-90s. Water and labor issues have been the predominant factors contributing to the decline. Nonetheless, onions remain an important crop, with cash receipts estimated at approximately $35 million annually for 2013 and 2014.

Planting of higher-yielding **sugar beet** varieties is decreasing the number of acres required to operate the state's only sugar beet processing facility in Fort Morgan at full capacity. Some further decrease in Colorado acres might be expected as acres in western Nebraska are put into sugar beet production. With the farm bill again under consideration by Congress, protections afforded U.S. sugar beet growers are being debated and pose some significant downside risk to the U.S. sugar industry.

Photo Courtesy of Joyce Simpleman CDA/AgInsights 2012 Photo Contest

Sunflower and **millet** production could potentially increase again in 2014 as corn producers seek out alternatives. Sunflower production could increase by up to 20%, to 105 million cwt, in 2014 and sustain pricing in the $18.00 per cwt range as pricing also derives some strength from strong demand for soybean oil. Millet producers, coming off a disappointing 2012 harvest, are looking to build on the development of export markets and should see cash receipts increase marginally, to about $30 million.

Late frosts significantly reduced Western Slope **fruit** yields in 2013. **Grape** production continues to grow and is approaching 2,000 tons, a level that is nearly twice that of just 10 years ago. This increase in production has also helped drive expansion in the number of wineries operating in Colorado to more than 100. It is also worth noting that Colorado wines now make up about 2% of all wine sold in Colorado on a volume basis—double the market share compared to only a decade ago!

Cantaloupe growers are continuing their recovery from the devastating listeria outbreak in 2011 that called into question the safety of Colorado's world-renowned Rocky Ford cantaloupe. Growers recently formed a producer association, and in order to participate in the association's marketing programs, producers must meet stringent safety requirements and verify the implementation of best practices through Good Agricultural Practices (GAP) audits. Provided with sufficient water for irrigation along the Arkansas River Basin, look for acreage of cantaloupe to continue to expand and distribution to again become more regional in 2014. With above-average prices and expanding acreage, total cash receipts could begin to approach pre-outbreak levels of $10 million annually.

Peach production took a hit in 2013 with late frosts cutting production by as much as 40%; however, production is expected to rebound in 2014, along with other Western Slope fruits. Cash receipts from fruit production are estimated to increase to about $33 million in 2014.

Colorado **sweet corn** remains as popular as ever, and consumers eagerly await the arrival each season in their grocery stores and at farmers' markets. Sweet corn producers are well positioned going into 2014 and provided with adequate water resources for irrigation, acres could potentially be expanded to capitalize on strong market prices. Cash receipts from sweet corn production will be at or near $20 million in 2014.

With the U.S. economy now beginning to show signs of sustained growth, Colorado's **green industry** can expect renewed growth in 2014 as landscaping for new construction will drive sales of floral, nursery, and sod products. Cash receipts will increase from recent levels of around $250 million to as much as $280 million.

Livestock Taking on Even Greater Importance

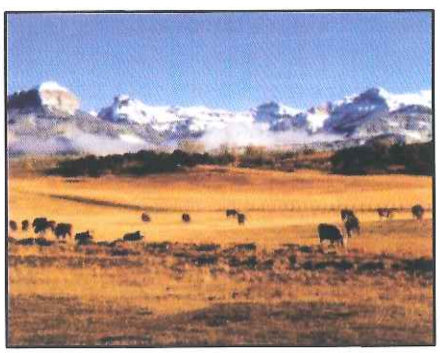

Photo Courtesy of Laurie Purcell
CDA/AgInsights 2012 Photo Contest

The livestock sector remains the bedrock of Colorado's agriculture industry and its contribution to the state's economy is becoming even more significant. Cattle owners have enjoyed record high **cattle** and **feeder** prices in 2013, with the season average for steers and heifers estimated at $126 per cwt, marking the fourth-consecutive year of steadily increasing market prices. The year 2013 will mark the best cow-calf operator profitability since 2005. These higher market prices generally reflect the continued decline in the size of the U.S. herd as well as growth of export markets. In Colorado, despite pulling cattle from neighboring states for feeding and slaughter, fed cattle marketings are projected to decline by about 5% in 2014, to 1.9 million head—the lowest level in recent history and well below the 2.68 million head marketed in 2000. Prices for steers and heifers will continue to advance in 2014, to an average of $134 per cwt, pushing cash receipts from cattle and calves to a record-high of $3.7 billion. With the higher prices and rains to improve hay production and grazing conditions, producers could begin the cycle of rebuilding herd size.

Profit margins will remain tight for cattle feeders and meat processors, with both sectors operating at levels well below capacity. Potential exists in 2014 for adjustments in these sectors that would more closely align capacity with supply. These adjustments will most likely occur outside of Colorado.

Colorado's **dairy** industry will continue to expand in 2014. Growth in herd size and steady-to-rising fluid milk prices in recent years has catapulted dairy to the #2 spot for cash receipts, second only to cattle and calves production. Cash receipts for 2013 are estimated at $680 million, and with a projected 4–5% increase in milk prices, cash receipts for 2014 could rise to as much as $715 million. Export growth and greater utilization of fluid milk for cheese and Greek yogurt production are key drivers in the increase in milk prices. The dairy farming industry is positioned to see much less pressure on margins given reduced feed grain prices; however, some pressure will remain as forages continue to be expensive.

Lamb producers appear to have alleviated the quagmire created in 2012 that put larger lambs onto the market, dampening demand and resulting in steep market price declines. Current market prices of $160–$170 per cwt for lamb are above 2012 levels, and prices could improve in 2014. Consumer demand for grass-fed lamb is on the rise and could potentially affect Colorado's lamb feeding operations.

There is also some upside potential for Colorado **hog** producers. Pork exports remain strong and with lower feed costs resulting from the drop in corn prices, producers could potentially increase sow production. Cash receipts for 2014 will increase marginally, to $245 million. Colorado's hog producers have, thus far, escaped losses other producing regions have experienced from porcine epidemic diarrhea virus (PEDV). **Poultry** and **egg** production is expected to remain relatively stable, generating about $90 million in total cash receipts in 2014.

Cash receipts from **government** payments will remain constant, at between $200 and $225 million for both 2013 and 2014. Of concern to the industry is the fact that Congress has so far failed in its efforts to authorize new farm legislation. The lack of a farm bill fosters uncertainty for producers and increases risk in the absence of meaningful reforms to crop insurance and other programs. It should also be noted that the federal budget sequestration has resulted in the loss of important market data used by producers for price discovery.

While total cash receipts to farmers and ranchers are projected to decline into 2014, expenses are anticipated to moderate only slightly. Real interest rates remain low, and fuel prices are trending downward. Perhaps the most significant reduction in expenses will be lower corn costs for livestock feeders. The lower feed costs will improve margins throughout the livestock complex but these declines will also be tempered by higher prices paid for feeder cattle and feeder pigs.

The agricultural economy has run counter to the rest of the Colorado economy throughout the Great Recession, and it appears that this trend will continue—the agricultural economy now appears poised to soften while other segments appear ready to strengthen. Still, the food and agriculture industry network will remain one of the state's most important economic drivers. According to a study conducted by Colorado State University titled *Contribution of Agriculture to the Colorado Economy*, the industry generates some $40 billion of economic activity annually and supports more than 170,000 jobs.

In short, 2014 might be viewed as a transitional year in which both farmers and ranchers make adjustments stemming to lower corn prices. Luckily, farm and ranch balance sheets are among the strongest in recent history and record net incomes from 2011 and 2012 generally went to paying down debt and improvements to equipment and facilities. Colorado producers have been through periods of adjustment before and will surely emerge from this transition well positioned for continued growth and prosperity.

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Value Added by the Agriculture Sector & Farm Income
2002 --- 2014

Year	Livestock	Crops	Total Value of Production	Value of Services and Forestry [1]	Government Payments [2]	Gross Value of Farm Revenue	Total Farm Production Expenses	Net Farm Income
				Million Dollars				
2002	$3,208.1	$1,280.9	$4,489.0	$679.5	$211.0	$5,379.5	$4,705.1	$674.4
2003	$3,525.9	$1,293.0	$4,818.9	$572.7	$319.9	$5,711.5	$4,828.5	$883.0
2004	$4,187.4	$1,395.9	$5,583.3	$643.4	$221.2	$6,447.9	$5,119.9	$1,328.0
2005	$4,129.6	$1,511.4	$5,641.0	$732.7	$382.0	$6,755.7	$5,379.8	$1,375.9
2006	$4,168.7	$1,574.7	$5,743.4	$773.4	$244.7	$6,761.5	$5,843.9	$917.6
2007	$4,324.0	$2,111.6	$6,435.6	$845.2	$197.4	$7,478.2	$6,203.1	$1,275.1
2008	$3,892.1	$2,231.3	$6,123.4	$885.0	$261.0	$7,269.4	$6,168.0	$1,101.4
2009	$3,338.2	$2,324.1	$5,662.3	$940.9	$191.8	$6,795.0	$6,160.0	$635.0
2010	$3,819.4	$2,341.0	$6,160.4	$758.9	$271.6	$7,190.9	$6,052.1	$1,138.8
2011	$4,301.1	$2,881.4	$7,182.5	$1,057.6	$235.4	$8,475.5	$6,739.2	$1,736.3
2012	$4,550.2	$2,727.5	$7,277.7	$1,148.0	$215.7	$8,641.4	$6,888.1	$1,753.3
2013 [3]	$4,759.6	$2,483.7	$7,243.3	$975.0	$218.0	$8,436.3	$6,850.0	$1,586.3
2014 [4]	$4,851.1	$2,331.1	$7,182.2	$975.0	$220.0	$8,377.2	$6,900.0	$1,477.2

1) Includes sales of forest products, custom feeding fees, custom harvest fees, and other farm income.
2) Includes farm program payments directly to producers.
3) Estimated.
4) Forecast.

Source: Colorado Business Economic Outlook Agriculture Estimating Group

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