

# Cornhusker Economics

## North Central Extension Risk Management Education

Market Report	Year Ago	4 Wks Ago	
<b>Livestock and Products,</b>			
<b>Weekly Average</b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight. . . . .	128.00	*	*
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. . . . .	185.10	180.92	180.95
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. . . . .	154.80	149.00	158.50
Choice Boxed Beef, 600-750 lb. Carcass. . . . .	225.72	215.63	248.36
Western Corn Belt Base Hog Price Carcass, Negotiated . . . . .	75.23	53.77	70.85
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean. . . . .	82.89	74.51	86.27
Slaughter Lambs, woolled and shorn, 135-165 lb. National. . . . .	134.86	157.27	159.83
National Carcass Lamb Cutout FOB. . . . .	341.69	359.09	410.38
<b>Crops,</b>			
<b>Daily Spot Prices</b>			
Wheat, No. 1, H.W. Imperial, bu. . . . .	3.57	2.70	3.12
Corn, No. 2, Yellow Columbus, bu. . . . .	3.63	3.24	3.42
Soybeans, No. 1, Yellow Columbus, bu. . . . .	9.96	8.73	8.73
Grain Sorghum, No.2, Yellow Dorchester, cwt. . . . .	5.74	5.11	5.77
Oats, No. 2, Heavy Minneapolis, Mn, bu. . . . .	2.45	2.82	2.95
<b>Feed</b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. . . . .	168.00	125.00	128.75
Alfalfa, Large Rounds, Good Platte Valley, ton. . . . .	*	67.50	65.00
Grass Hay, Large Rounds, Good Nebraska, ton. . . . .	85.00	65.00	65.00
Dried Distillers Grains, 10% Moisture Nebraska Average. . . . .	130.00	103.25	103.50
Wet Distillers Grains, 65-70% Moisture Nebraska Average. . . . .	44.50	41.00	40.00
* No Market			

After peaking over \$123 billion in 2013, U.S. net farm income fell to \$68 billion in 2016 with projections of \$62 billion for 2017, a nearly 50% drop (USDA Economic Research Service). The large drop from 2013 to 2017 after nearly a decade of strong growth in agricultural income presents a substantial challenge to agricultural producers and an increased need to manage risk on the farm or ranch carefully.

The drop has been buffered in part by the underlying financial strength of the agricultural sector with strong balance sheets and farmland values. However, the last four straight years of declining farm income, increased borrowing, and softening farmland values have stressed some producers and will put pressure on other producers to hone their production and risk management decisions.

The varying outlook for agriculture stems in large part to the changes and continued volatility of agricultural commodity prices. Lower price and income forecasts will push changes in price, production, and financial management decisions. But, even as producers adjust to changing price expectations, they will also continue to face tremendous price volatility. From a low of \$1.87 per bushel in December 2005, the nearby corn futures contract on the Chicago Board of Trade climbed to \$7.65 in June 2008, fell to \$2.90 in December 2008, climbed to \$7.99 ¼ in June 2011, fell to \$5.51 in May 2012, rocketed to \$8.43 ¾ by August 2012, fell to \$4.06 ¼ in January 2014, rebounded to \$5.19 ½ in May 2014, fell to \$3.18 ¼ in September 2014, and stood at \$3.69 as of mid-May 2017 (CME Group).

Managing this price volatility and similar volatility in input costs can be challenging for producers. The greater recognition of production risk following a record drought in 2012 and the uncertainty of pending changes to farm policy in the upcoming 2018 Farm Bill add more variables for producers to address in managing risk on their farm or ranch operation.

Beyond the price, production, and financial risks in the recent headlines, producers face numerous other risks as well. Environmental regulations, new rules that could constrain production and marketing methods, food safety regulations, agricultural labor rules, and other legal issues including tax and trade policy all affect producers. Human risks such as labor and personnel management or transition and estate planning also have a substantial impact.

Clearly, risk management continues to be a critical need for agriculture in 2017. The challenge for producers is to develop and implement effective risk management strategies to manage risk and position the farm or ranch for future growth and success.

The Extension Risk Management Education (ERME) program, funded by USDA's National Institute of Food and Agriculture provides training to help producers learn new strategies to manage complex and growing agricultural risks. The goal of the program is simple - help farmers and ranchers manage risk. ERME strives to achieve this goal by encouraging and funding innovative programs across the country, and helping programs focus on tangible results (ERME, 2017). Four ERME Centers are located across the country at the University of Delaware (Northeast), the University of Arkansas (South), Washington State University (West) and the University of Nebraska-Lincoln (North Central).

Since 2001, the North Central Extension Risk Management Education Center, hosted by the University of Nebraska-Lincoln Agricultural Economics Department, has addressed the volatility and uncertainty that producers in our 12-state region face in agriculture, the evolving farm policy environment that increasingly emphasizes risk management, and the legislative mandate to provide risk management education to agricultural producers. The region includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. During this time, the Center has awarded 356 projects and over \$10.2 million in funding to public, private and non-profit entities to carry out producer-focused, results-based risk management education programs. Our educational programs have resulted in 112,985 farm and ranch participants receiving risk management education and more than 278,395 measurable producer actions to better manage risk on their operations. Examples of risk management improvements (or results) that were learned, achieved, or applied by producers and successful outputs from recently completed projects include:

1. In Illinois, a project brought producers together with experienced professionals to prepare financial and production benchmarking information onto a single page showing four years of measuring points. During small group sessions, participants were presented current financial information for 2015 performance and projections for 2016. One-on-one meetings with producers were conducted to take that general knowledge and apply it specifically to their farm's financial risk characteristics.

- 65 farms completed a benchmark exercise that measured comparative performance.
- 97 farms completed a comprehensive year-end accrual financial analysis.
- 38 farms completed a 2016 cash flow projection.

- 44 farms established and implemented three measures to improve financial performance.
  - As a result of the project, one producer decided upon six key steps to implement to improve 2016 cash flow by \$100,000 to offset inventory reductions. Early 2016 financial results indicated this farm actually improved 2016 cash flow by \$125,000.
  - As a result of this project, another farm family was able to see the negative returns of 2015 in black and white. The financial reports, benchmarking analysis, and professional expertise helped identify key issues and several risk reduction strategies were implemented. The early 2016 financial results indicate this farm has changed from a loss of \$200,000 in 2015, to a profit of \$75,000 in 2016.
2. In Wisconsin, 43 Hmong produce growers participated in a pilot program to learn about using pesticides properly and safely. The improved pesticide handling will help producers reduce chances for crop losses and save money by reduced spraying. By knowing and understanding the crop families, they will manage their pests more effectively and protect themselves, their crops, and the environment better than before.
    - The already established curriculum was modified with the goal to present information in a culturally appropriate manner, using native language, visuals and hands-on activities when practical.
    - 77% of the participants have applied new information/skills to their farming operation.
    - 23% of the participants took the private pesticide applicator test, with 67% of those passing the exam.
  3. In Nebraska, 537 cow/calf producers participated in programming to learn tools and strategies to help them better manage their market risk. Through seven in-depth workshops across Nebraska, three BeefWatch newsletter articles (125 average downloads) and multiple producer meeting presentations, the project resulted in:
    - Improved producer understanding of their risk preferences and market risk management goals.
    - Improved producer understanding of available tools such as LRP insurance, put options, and private treaty contracts.
    - 46 cattle producers developed a written market plan for their operation, and 29 cattle producers implemented a marketing plan that matched their preferences and management objectives.

### **What is Risk Management?**

There are five general types of risk: financial risk, production risk, legal risk, marketing risk and human/personal risk. (Crane et al. 2013)

*Financial risk* refers to a producer's farm credit and the obligation and ability of the farm to repay its debt. The current economic uncertainty greatly affects a producer's financial risk.

*Production risk* refers to the uncertainty of the management of crops and livestock. Weather, disease, pests and other factors affect the quantity and quality of the commodities produced.

*Legal risk* results from changing governmental policies. Tax laws, chemical regulations, and changes in the Farm Bill all affect the legal risk a producer faces.

*Marketing risk* is the uncertainty about prices producers receive for commodities sold and what their production costs may be.

*Human risk* includes factors such as farm transition/succession, labor relations, disability, intergenerational issues, or divorce.

### Funding Decisions

North Central ERME funding decisions are made by an Advisory Council composed of nine individuals involved in agricultural lending, insurance, marketing, extension, and production all from the North Central Region. When considering a proposal for funding, the Advisory Council looks to see that in addition to meeting at least one of the five areas of risk management, each project also addresses six criteria: proposed risk management results, results verification, producer demand, collaboration, creativity, and applicability. Successful projects will identify targeted results that will help producers manage risk and then describe how the project will measure those results. In addition, applicants are encouraged to consider projects that focus on special-emphasis programming such as beginning or transitioning farmers, immigrant or minority farmers, women’s education, and sustainable or value-added agriculture.

**Table 1. Awards by State**

State	Number of Awards 2001—2017
Illinois	26
Indiana	18
Iowa	52
Kansas	23
Michigan	16
Minnesota	36
Missouri	28
Nebraska	37
North Dakota	17
Ohio	22
South Dakota	30
Wisconsin	51
<b>Total</b>	<b>356</b>
Public Institutions	285
Private/Non-Profit Institutions	71

The 2017 Request for Applications (RFA) was released mid-September 2016 and closed mid-November. Forty-five proposals requesting \$1,769,610 were submitted to the North Central Center through the on-line application process during the 2017 RFA. The

Advisory Council funded 14 educational projects with a project period of April 1, 2017 – September 30, 2018 for a total of \$623,424. The Center also funded 5 exploratory projects for a total of \$11,959. The exploratory projects have a short, 8-month project period for the purposes of program planning and development.

### Center Activities

The RFA for the ERME Competitive Grants Program is released each fall with an open period of mid-September to mid-November. North Central Center staff members hold a webinar for anyone interested in submitting proposals during this open time. Participants learn what makes a good risk management project and proposal, the criteria for proposal evaluation, and how to use the on-line application site. Project directors have indicated that this training is very valuable for them as they look at potential project topics and put their proposal together.

The Center met with stakeholder listening groups, the North Central Extension Farm Management Committee, and our Council several times last year to identify and assess educational needs and emerging issues. The Center builds on the needs assessment results to implement and deliver the competitive grants program and related programming as appropriate.

Together with the other regional centers and the Digital Center located at the University of Minnesota, the North Central Center recently co-hosted the 2017 National Extension Risk Management Education Conference in Cincinnati, OH with approximately 200 participants. This annual conference featured 3 keynote speakers, over 40 hours of individual concurrent session presentations on educational projects and topics, and a networking reception which included a poster session featuring numerous additional projects. The Conference brought together private and public sector educators, agency and organization leaders, and other agricultural professionals providing an opportunity to share ongoing and emerging successful risk management education efforts that target agricultural producers and their families. The centers will sponsor the 2018 National Extension Risk Management Education conference next spring in Milwaukee, WI on April 11-12, 2018.

A training for project directors was held on April 25-26, 2017 in conjunction with the National ERME Conference. The training focused on project administration responsibilities as well as best practices for implementing, delivering, and reporting on successful projects. The Center also collaborated with the North Central Region Extension Agricultural and Natural Resources Program Leaders to deliver two farm financial management training workshops in West Lafayette, IN and in Omaha, NE in November 2016. The workshops provided financial management training to Extension professionals to improve the capacity of Extension professionals to respond to current issues and to engage in effective producer education in this critical risk management area. The more than 50 participants who attended the workshops strengthened their skills and were trained to deliver financial management education to producers back in their respective states.

In follow-up, Extension professionals have conducted numerous producer programs and have delivered additional state-level training for fellow Extension colleagues to multiply the efforts and the ultimate impact on producers

### 2017 Funded Projects

Congratulations to the following project directors whose risk management education projects were selected for funding in 2017:

Jennifer Bentley	Iowa State University
Betty Berning	University of Minnesota
Russ Euken	Iowa State University
Lisa Elliott	South Dakota State University
Ruth Hambleton	Annie's Project – Farm Education for Women
Gregory Ibendahl	Kansas State University
Jim Jansen	University of Nebraska-Lincoln
Joy Kirkpatrick	University of Wisconsin
Robert Rhea	Western FBFM
Gary Schnitkey	University of Illinois
Madeline Schultz	Iowa State University
Michelle Soll	Legal Aid of Nebraska
Pauline Van Nurden	University of Minnesota
Nathan Thompson	Purdue University

### Exploratory Projects

David Aiken	University of Nebraska-Lincoln
Kevin Bernhardt	University of Wisconsin-Platteville
Anna Johnson	Center for Rural Affairs
Ashley Mueller	University of Nebraska-Lincoln
Kristine Ranger	The Learning Connection

### References:

Crane, Laurence; Gantz, Gene; Isaacs, Steve; Jose, Doug; Sharp, Rod. 2013. *Introduction to Risk Management – Understanding Agricultural Risk: Production, Marketing, Financial, Legal, Human*. Extension Risk Management Education and Risk Management Agency, USDA. Available at: <http://extensionrme.org/pubs/IntroductionToRiskManagement.pdf>.

### NCRME Center Staff

Brad Lubben, Director and Extension Assistant Professor and Policy Specialist

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