

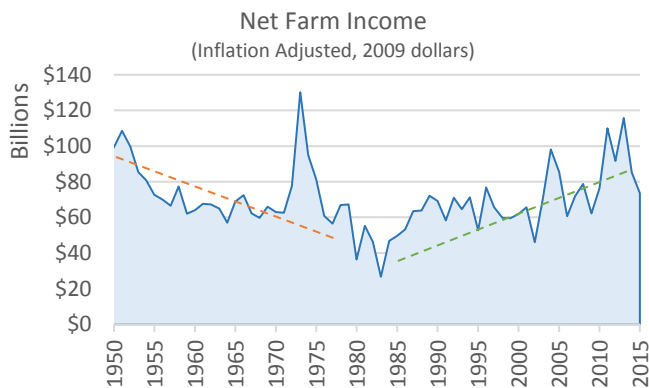
Agri-Service Industry Report

November 2016

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Farm Income and Presidential Elections

While farmers have been negatively impacted by the current industry downturn, overall U.S. net farm income has been trending upward since the mid-1980s. Net farm income is measurement of economic performance for the U.S. farm sector that factors in revenues and expenses to determine the overall contribution of the agricultural sector to the U.S. economy. Crop and animal production receipts are the primary sources of farm revenue while expenses include feed, seed, fertilizer, employee wages and capital consumption, among other sources.



Source: USDA Economic Research Service Farm Income Wealth Statistics.

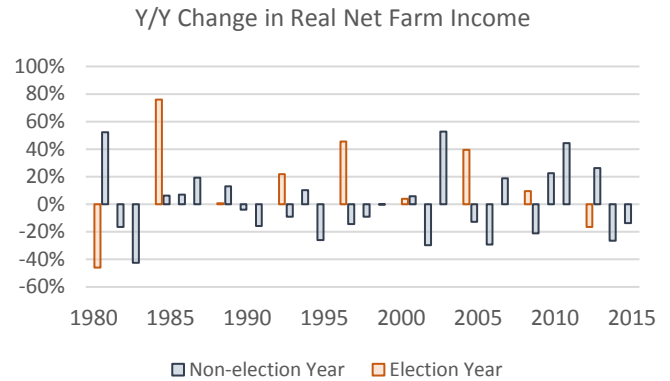
Real net farm income (inflation adjusted) was reported at \$26.58 billion in 1983, which was the lowest level going back to 1950. Since that year, however, there has been a steady rise in the value added to the U.S. economy from the farm sector. Last year net farm income was reported at \$73.49 billion, which was an increase of 176 percent relative to 1983.

Net farm income is expected to decline for the third straight year in 2016 but even though it has been a challenging year for farmers, the important takeaway is that overall there is an upward trend in farm income. The agricultural industry is cyclical, strong periods are followed by weak periods and vice versa, but (as the dashed green line shows) the value added by the farm sector has increased over time.

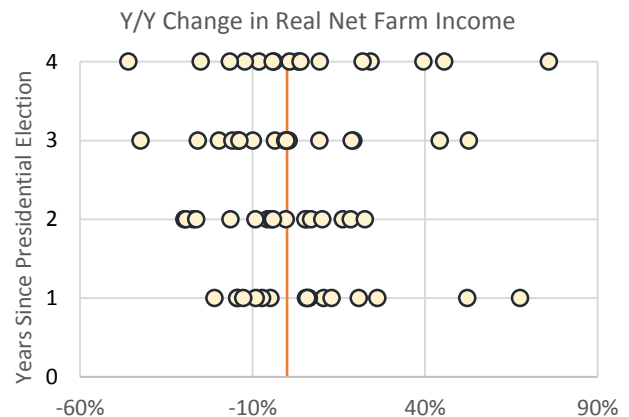
November is an important month given that the 2016 Presidential Election will take place. What affect does the changing of presidency have on net farm income? Historically, there does not appear to be a consistent trend in how net farm income reacts in the year following an election. Going back to the 1952, in the year following a presidential election the Y/Y real net farm income has been positive nine years and

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negative the remaining seven years. Furthermore, net farm income increased in the year following an election twice out of the last four elections.



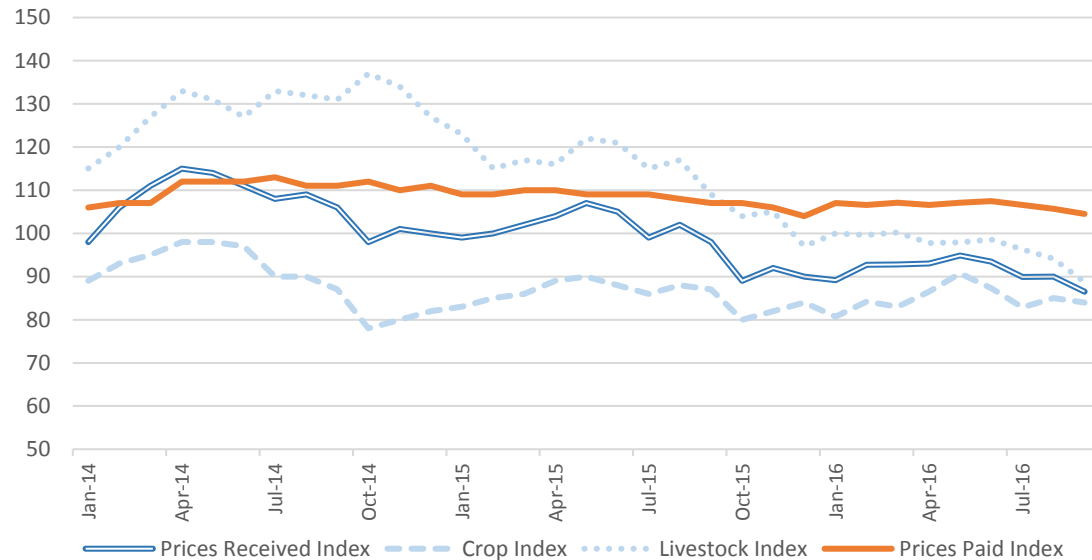
The number of years it has been since the last presidential election does appear to have an impact on net farm income, however. The graph below, which shows the Y/Y percent change in net farm income going back to 1950, suggests that there is less variability in Y/Y change the more recently an election has taken place.



Each dot represents a year and is plotted based on the number of years since the last election. There is stronger clustering around the zero percent growth line for years closer to the last election. Thus, in the first and second year after an election, there is generally a smaller difference in Y/Y net income change compared to years three and four. This could be due to the lag in time it takes new presidents to get their policy changes implemented. By the time they get to the back half of their term the consequences of the new policies implemented have had time to take effect, positively or negatively. Interestingly, most analysts are predicting the ag industry to behave similarly in 2017 as it has this year before starting to show improvement in late 2017.

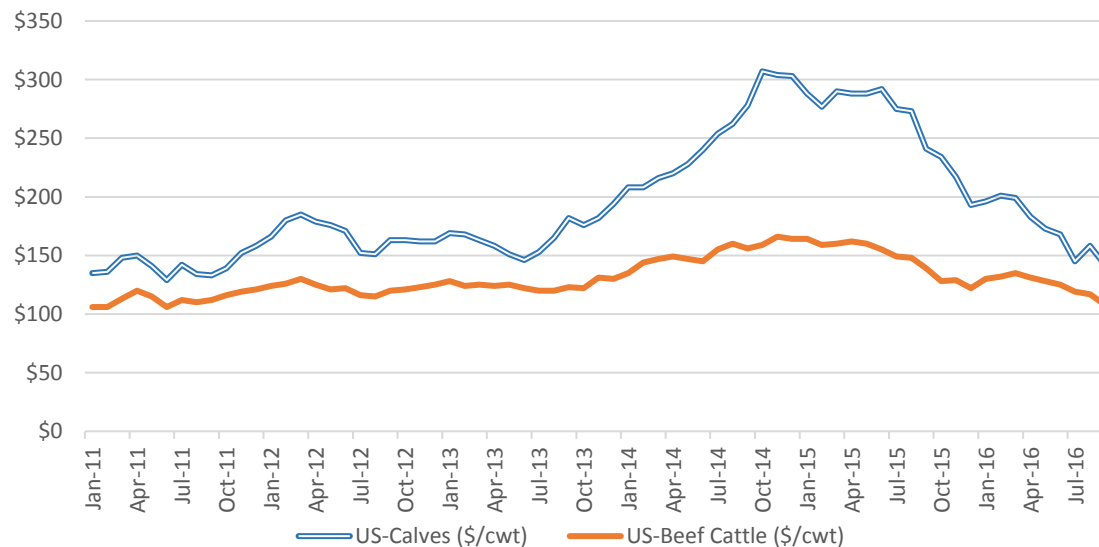
Commodity Prices

Agricultural Production Index, United States



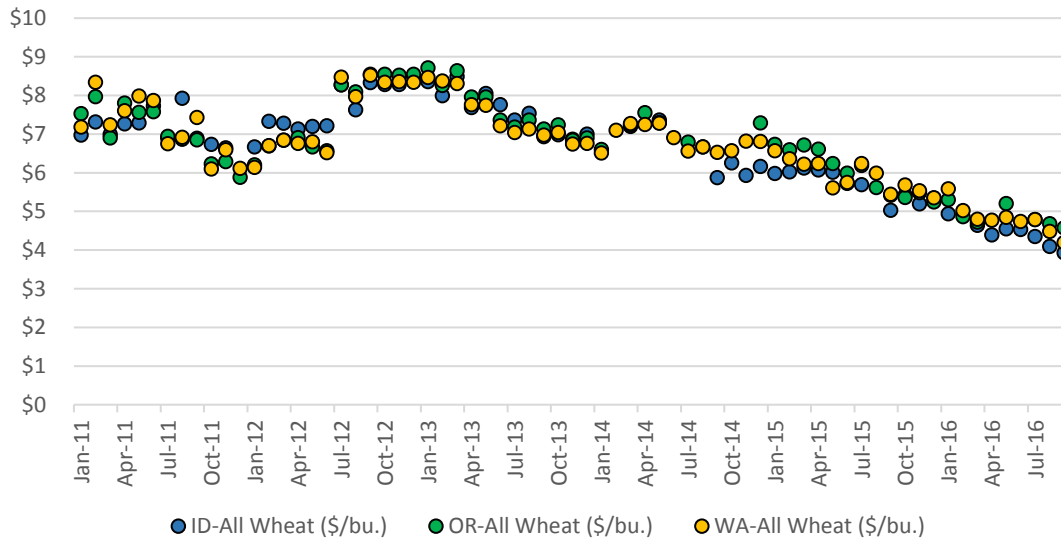
The Crop Production Index and Livestock Production Index both declined in September relative to August. Compared to the month previous, the Crop Production Index was reported down 1.2 percent while the Livestock Production Index fell 5.7 percent in September. The Agricultural Production Prices Received Index, which is a combination of the crop and livestock indexes, declined 3.9 percent relative to August. Additionally, the Prices Received Index was reported ten percent below last September's Index. The September Prices Paid Index also decreased on a M/M basis (-1.1%) and Y/Y basis (-4.0%), per the latest USDA *Agricultural Prices* release.

Calves and Beef Cattle Prices Received, United States



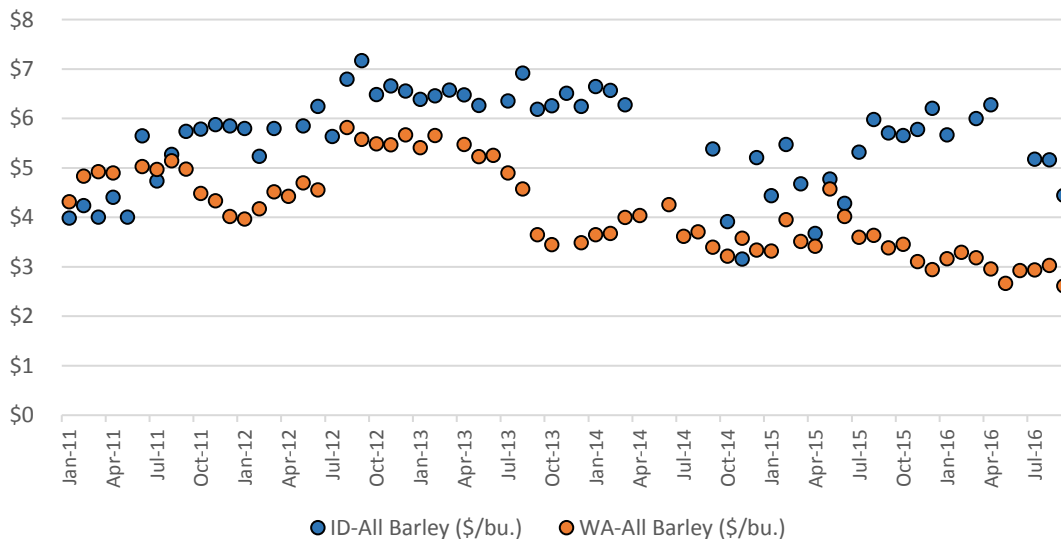
The U.S. prices received for calves and beef cattle declined in September. Calves, which had a price received of \$158/cwt in August, declined 11.3 percent to a value of \$142/cwt. The price received for calves in September 2015 was \$241/cwt. The M/M change in the price received for calves has been positive just five months since the start of 2015. The decline in beef cattle prices has not been nearly as significant as it has been with calves, but the price received nonetheless declined in September. The price was reported at \$108/cwt compared to \$117/cwt in August and \$139/cwt a year earlier.

Wheat Prices Received, by State



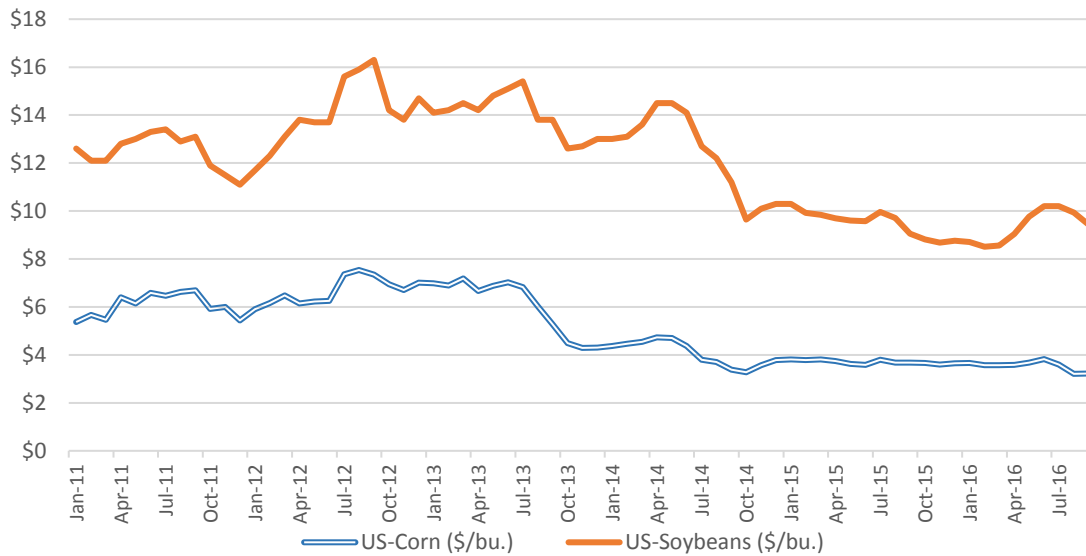
Wheat prices declined M/M in September for Idaho, Oregon and Washington. In Idaho, the price received dropped from \$4.10/bushel in August to \$3.94/bushel in September. The price in Oregon declined 2.3 percent in September to a value of \$4.58/bushel. At \$4.20/bushel, the price received in Washington fell 6.5 percent relative to August. The price received in all three states was also reported below last September's price.

Barley Prices Received, by State



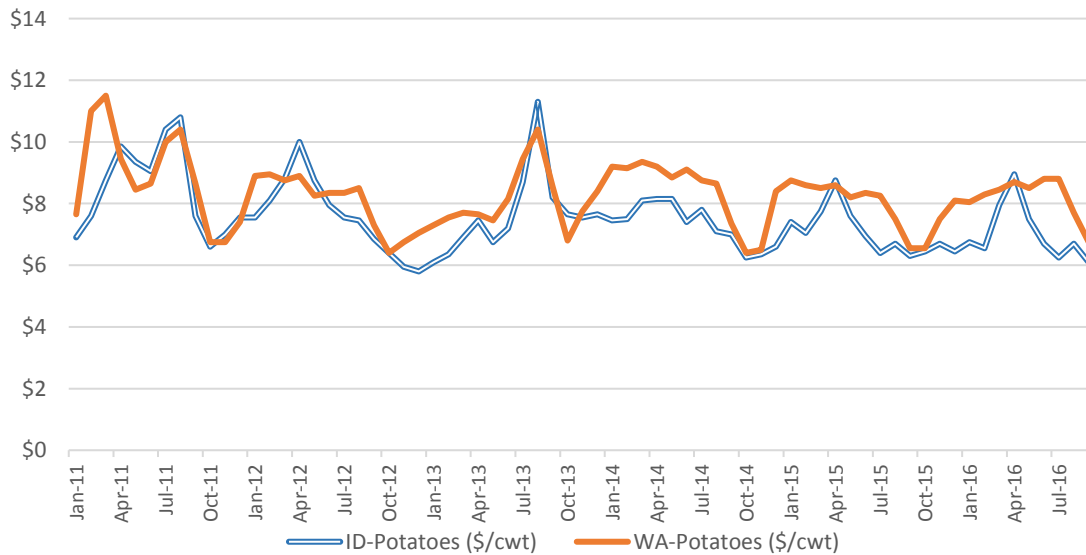
Idaho and Washington farmers received less for their barley in September than they did in August and September 2015. In Idaho, the price received declined to \$4.46/bushel, down from \$5.18/bushel in August and \$5.70/bushel a year earlier. The price received in Washington was \$2.63/bushel, which was a 13.5 percent M/M decrease and a 22.6 percent Y/Y decline. September's price received in Washington was the lowest level in the past five years.

Corn and Soybean Prices Received, United States



The price received for U.S. corn increased one cent per bushel in September relative to the month previous. At \$3.22/bushel, the price was reported down 12.5 percent from last September. U.S. farmers received less for their soybeans in September than they did in August but the price of \$9.43/bushel exceeded the price from a year ago when it was \$9.05/bushel.

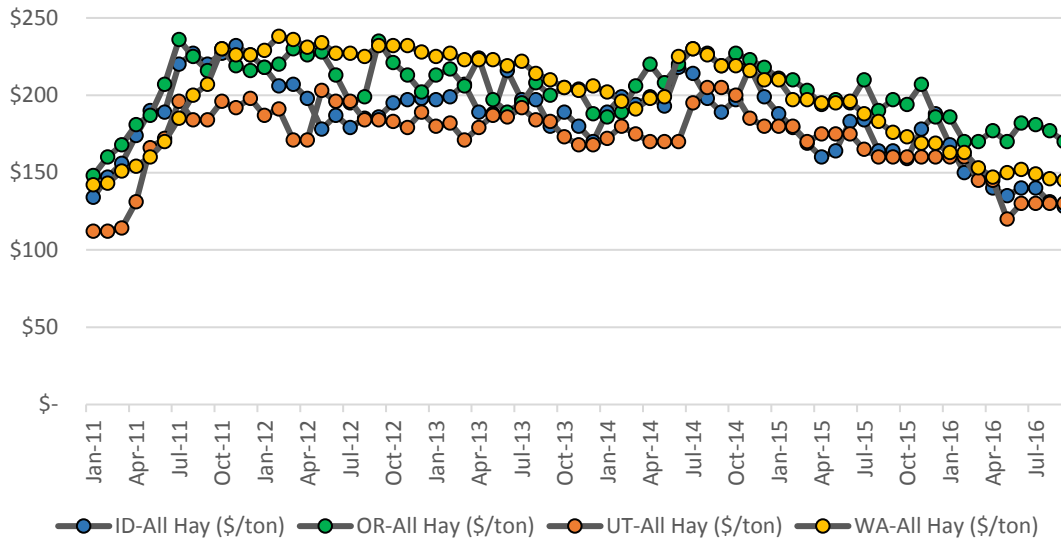
Potato Prices Received, by State



Idaho potato farmers received \$6.10/cwt for their product in September, which compares unfavorably to what they received a month earlier (\$6.70/cwt) and last September (\$6.35/cwt). Washington farmers lost nearly a dollar per hundredweight in September relative to August. The price received in September was \$6.75/cwt, in August the price was reported at \$7.70/cwt. September's price was higher than last year's price, however, which was listed at \$6.55/cwt for Washington.

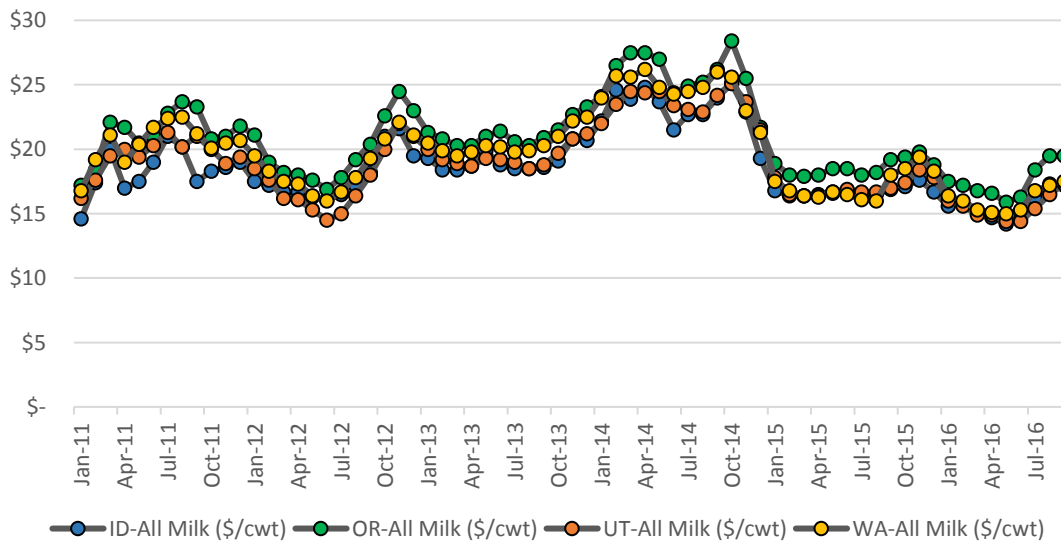
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Hay Prices Received, by State



Regional hay prices continued to decline in September as the M/M percent change in the price received declined in Idaho, Oregon and Washington. In Idaho, the price received declined three dollars per ton to a value of \$128/ton. September's price was the state's lowest reported price since November 2010 when the price was \$125/ton. Compared to August's price of \$177/ton, the Oregon price received in September was nearly four percent lower and was reported at \$170/ton. The decline in Washington was minor, September's price was \$145/ton compared to \$146/ton a month earlier. The price received did not change in Utah and was listed at \$130/ton.

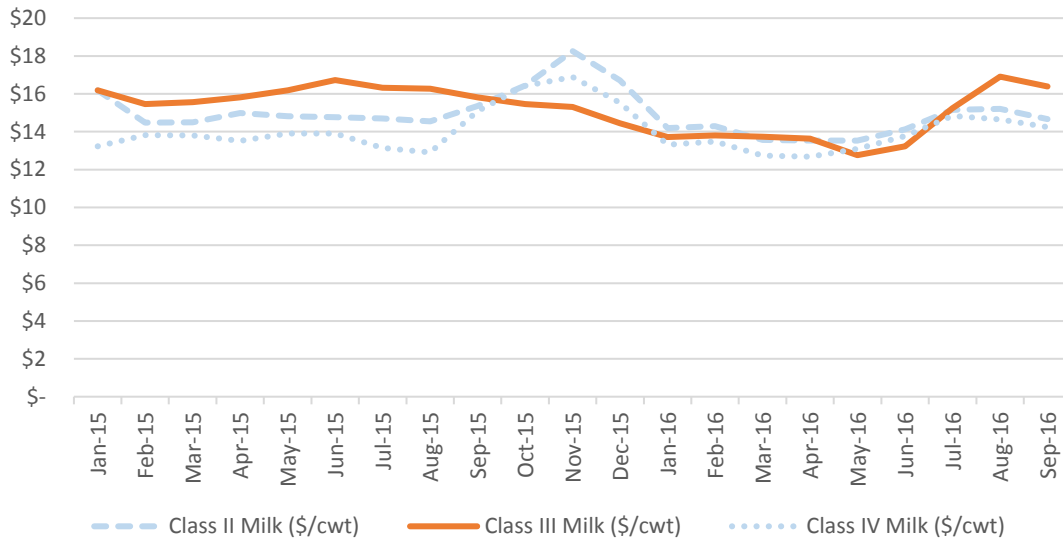
Milk Prices Received, by State



Milk prices did not change significantly in September for the Northwest and remained comparable to the prices received a year ago. The price declined from \$17.30/cwt in August to \$17.20/cwt in September for Idaho dairy farmers. In September 2015 the price received was \$16.90/cwt. At \$19.50/cwt, the price received in Oregon for September equaled that of August. Utah dairy farmers experienced a 4.8 percent M/M gain in the price received and reported a price of \$17.30/cwt. In Washington, the price increased from \$17.20/cwt in August to \$17.50/cwt in September.

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Announced Milk Price, by Class



The Class III announced milk price was \$16.39/cwt for the month of September, which was a \$0.55/cwt decrease from August. The average September prices for butter, nonfat dry milk and cheese were reported at \$2.0775/pound, \$0.8847/pound and \$1.7514/pound, respectively.

Crop Progress Report

Idaho sugarbeet harvest progressed 13 percent during the week ending October 30. By the end of the week 77 percent of the state's harvest had been complete, which was six percent further along compared to the same point in time last year.

Winter wheat planting was behind the 2011-2015 average pace for the end of October in Idaho (91% in 2016/ 98% during 2011-2015 average), Oregon (88%/ 90%) and Washington (91%/ 97%). Despite this, the percentage of winter wheat emerged was above average in Idaho (79%/ 75%) and Oregon (54%/ 48%).

With 86 percent of the fourth alfalfa hay cut complete at the end of last week, Idaho was ahead of last year's pace (84%) but trailing the five-year average pace (94%). In Washington, the fifth cut progressed 20 percent during the week and ended October with 80 percent of the fifth alfalfa cut complete.

Machinery News

Ag Equipment Intelligence recently released its 2017 Dealer Business Outlook & Trends report and it revealed that North American equipment dealers are more optimistic heading into the new year than they were a year ago. More than a fifth of the surveyed dealers expect revenues to increase in 2017 and another 44.9 percent are predicting little to no change.

The slowdown in industry sales has caused a significant portion of dealers to be heavy on inventory, both new and used. It was reported that 48 percent of dealers believe their new equipment inventories are too high and just 6 percent said their inventory level is too low. Additionally, 45 percent of dealers said their used inventories were higher than they should be while just 12 percent said they need more used inventory.

Most dealers (68.5%) reported that early equipment orders declined this year and nearly 40 percent said that early orders were down at least ten percent compared to last year. Nearly 15 percent reported that early orders increased this year, however, which was more than double the percent of dealers who said early orders increased in 2015. Dealers ranked Lawn & Garden Equipment, 2WD Tractors (<40 HP) and GPS/Precision Ag as the top equipment categories likely to increase unit sales in 2017.

AGCO Third Quarter Results

AGCO released its third quarter financial results on October 26 and reported mixed results. Global net sales (\$1.8 billion) increased about 1.5 percent compared to the third quarter of 2015 but North American sales continued to struggle. Quarter three

North American net sales were reported at \$453 million, which was down 8.5 percent relative to last year. Furthermore, for the nine months ended September 30, 2016 net sales were down 11.1 percent.

AGCO explained that sales declined most significantly for high margin high horsepower tractors, grain storage equipment and hay tools. Small and mid-sized tractor sales did increase, however, partially offsetting the overall decline in sales. Excluding compact tractors, North American tractor sales were down 11 percent Y/Y for the first nine months while combine sales decreased 20 percent Y/Y.

AGCO's President, Martin Richenhagen, said that, "improving farm technology and nearly ideal weather conditions are supporting record global crop production. Growing global demand for grain is being satisfied by peak production and grain inventories are forecasted to grow during 2016, further pressuring commodity prices and farmer income levels." These conditions will likely keep demand for new equipment low in the final quarter of 2016. AGCO expects year-end global sales to reach \$7.2 billion.

Economic Indicators

Crude oil and natural gas prices increased in September, per U.S. Energy Information Administration data extracted from FRED. The crude oil price of \$45.18/barrel was an increase of just over one percent relative to August. The high point for 2016 so far has been June, which had a price of \$48.76/barrel. The natural gas price increased from \$2.82/MMBtu in August to \$2.99/MMBtu. The monthly average price of natural gas has increased every month since March.

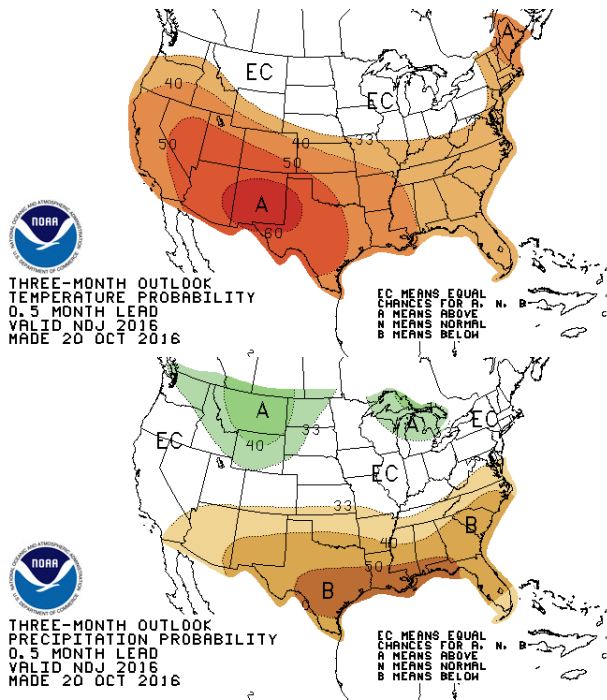
The value of the U.S. dollar appreciated relative to the Canadian dollar but depreciated against the Mexican Pesos in October. The Canada/U.S. exchange rate was reported at 1.3238 Canadian dollars to one U.S. dollar, up from 1.3108 in September. In September 2016 the Mexico/U.S. exchange rate reached its highest level in at least 20 years with a rate of 19.2436 pesos per U.S. dollar. The exchange rate declined to 18.9193 in October.

Farm Labor

Agriculture and related industry employment declined in September, per Bureau of Labor Statistics data extracted from FRED. The employment level was reported at 2.5 million, which was 7.1 percent below August's employment level but 2.2 percent more than last September's level.

Weather Outlook

The National Weather Service Climate Prediction Center is predicting regional temperatures to be above normal and precipitation to be near normal in its November to January three-month outlook.



Source: NOAA Center for Weather and Climate Prediction. Three-Month Outlooks, official forecasts.