

Master Marketer Newsletter

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Master Marketer Highlights

Weslaco Master Marketer Program

The Weslaco Master Marketer program concluded on November 8 with the graduation of 27 Master Marketers. This was the first time to teach a Master Marketer program in the Valley. Given the evaluations and comments received from the graduates, the classroom portion of the Weslaco program was very successful. John Robinson, district Extension Economist at Weslaco, said he is excited about the opportunity to work with extension agents and the Master Marketer graduates to initiate marketing clubs in the South Texas area.

Master Marketer for FSA Lenders

In September, the Master Marketer team taught two 2-day, specially designed marketing/risk management workshops for FSA lending officials in Texas. A total of 110 FSA employees participated in sessions in College Station and Lubbock.

Amarillo Update Meeting

On February 12, 2002, Dr. Wayne Purcell will be the headline speaker for a Master Marketer Update program in Amarillo at the Texas A&M Research and Extension Center. This program is specially designed for Master Marketer graduates but is also open to anyone interested. Dr. Purcell is a well-known market analyst who teaches the technical analysis component of the Master Marketer workshops. There will be market updates for cotton by Carl Anderson and wheat and feed grains by Mark Waller as well as a presentation on the current status of the farm bill. Master Marketer graduates will receive further information and advanced registration will be required.

Master Market Program in Amarillo

The next Master Marketer program is scheduled for Amarillo in January and February of 2002. The first 2-day session will be January 16 & 17, 2002, with the leveling workshop on January 15. This workshop will likely be filled before Christmas, so anyone interested in attending should call Dr. Steve Amosson immediately at 806-359-5401.

Other Master Marketer Programs Scheduled

Master Marketer for Ag Lenders – June 2002 in San Antonio

Master Marketer for Producers – January and February 2003 in Lubbock

Marketing Club Corner

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As promised in the last newsletter, I want to tell you about a marketing club that has enjoyed tremendous success. Regardless of the barometer used to measure it, the Cooke County club (Gainesville) has certainly been successful. The club began meeting in 1987 at the persistence of a former feed mill owner (Robert Martindale) turned banker who knew how to market and manage his price risk. He wanted his bank customers to know how to forward price their commodities if the opportunity presented itself rather than take what was offered at harvest. According to Cooke County Extension Agent Craig Rosenbaum, “he (Robert) stuck with the club even in the lean times when only three people showed up. He never got discouraged because he knew how important marketing was.”

Today, more than ten years later, the club is still going strong. There are about 30 club members with about 20 who are regular attendees. They have found a strategy for success and have diligently implemented the strategy. The club has a “marketing year” that runs from November to May and they take off June through October in order for farmers and ranchers to harvest and plant wheat, graze stockers, and to get their hay crops put up. Their meetings are focused on education and the current market situation and, according to Rosenbaum, they have had outstanding support from Extension Economists Blake Bennett and Ken Stokes.

In the last several years, they have started each marketing club year with a marketing school in August. Marketing school topics are compiled from evaluations done at the end of each year and have included Stocker Cattle Management and Marketing, Understanding Options, and Charting (Technical Analysis). The schools last three to six nights, depending on the topic, and they’ll meet two nights a week until the course is completed.

They have also taken several “field trips” to visit large stocker operators and several commodity exchanges. At the KCBT they had the opportunity to engage in mock trading which proved to be a very valuable experience according to Rosenbaum. On their most recent trip to Chicago, they visited the CBOT and the CME as well as some of the other more tourist type attractions including the Federal Reserve and the Sears Tower.

While they don’t have a formal slate of officers, they have elected Robert Klements as president. Robert and Craig work closely to plan and organize agendas for meetings and the marketing school. Robert attended the Master Marketer Program (Vernon 1998) as a result of being a member of the marketing club and has been a tremendous promoter of the club. We invited both of them to speak at a county extension agent training earlier this year about the importance of marketing clubs. Robert’s closing comments were particularly relevant. He explained how he had previously been in the dairy business and that he could focus on production and not worry about marketing. When he got into the wheat and stocker business, he realized that while he could raise both commodities, he had to learn how to market them.

Agricultural Policy Update

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By the time this article is printed there may be a new Farm Bill. Although it appears unlikely due to work still going on in the Senate. News from inside the Beltway would indicate that new Farm Bill legislation will likely not get to the President until early 2002. The House of Representatives passed its version of the Farm Bill (The Farm Security Act of 2001) on October 15th. After nearly 10 different proposals were developed in the Senate, a compromise agreement was voted on and passed by the Senate Agriculture Committee on November 15th. The entire Senate is expected to take up action and begin debate when Senators return from the Thanksgiving holiday weekend. After the Senate passes it's version of the Farm Bill, a conference committee consisting of House and Senate members would have to meet to iron out differences. All of this will take time which means it will probably be after the first of the year before work on a new Farm Bill is completed.

The basic provisions of the House passed Farm Bill would extend federal farm programs through 2011. The major components are:

- Continues planting flexibility provisions associated with the FAIR Act
- Allows producers, if they desire, to update their base acres consistent with current (1998-2001) plantings
- Continues decoupled (AMTA) payments
- Continues marketing loan program
- Initiates counter cyclical payments (CCPs) with a national commodity specific base. CCPs would be paid if the higher of market price or loan rates plus AMTA payments are below established target prices for program commodities.
- Decoupled and CCP payments would be made on 85% of base acres.
- Brings soybean and peanut policy in line with other major program commodities (i.e. establishment of bases, AMTA payments, CCPs, and marketing loans)
- Increases size of CRP from 36.4 to 39.2 million acres. Increases funding for the Environmental Quality Incentives Program (EQIP) program from \$200 million annually up to \$1.5 billion by 2011.

The version of the farm bill recently passed out of committee in the Senate is similar in a number of areas to the House Bill. The Senate bill would last 5 years versus the 10-year bill passed in the House. The major components of the Senate plan are:

- Continues planting flexibility provisions associated with the FAIR Act
- Allows producers, if they desire, to update their base acres and program yields consistent with current (1998-2001) plantings. Producers choosing to retain current base acres would retain current yields.
- Continues decoupled (AMTA) payments. Payment rates decline over the 5 year life of the bill.
- Continues marketing loan program with higher loan rates than supported by the House.
- Initiate a counter-cyclical payment program using an income protection price that supports revenue for the major program crops. Producers would receive a CCP equal to the difference in the income protection price minus the fixed payment and the higher of the loan rate or the 5-month average price.
- Decoupled and CCP payments would be made on 100% of base acres.
- Brings soybean and peanut policy in line with other major program commodities (i.e. establishment of bases, AMTA payments, CCPs, and marketing loans)
- Increases size of CRP from 36.4 to 40 million acres. Increases funding for the Environmental Quality Incentives Program (EQIP) program from \$200 million annually up to \$1.2 billion in 2006. Establishes Conservation Security Program that would provide incentive payments to farmers for maintaining and adopting conservation practices on working lands.

However this works out over the next few months, there are some key players (both old and new) in the farm policy game that will need to be heard. First and foremost, the budget resolution passed early in the year committed an extra \$79 billion to agriculture over 11 years. This would be spread out as \$5.5 billion in fiscal 2001 and \$73.5 billion over the 2002 to 2011 period. There is great concern the budget surplus that led to the extra \$79 billion will shrink and cause Congress to rethink the extra money. Second, and also related to the first, is the funds needed for the war on terrorism. So far, Congress and the Administration have agreed to provide \$40 billion in emergency spending for defense, intelligence, and disaster relief efforts. And a third relatively new player in the mix is World Trade Organization (WTO) commitments. The new Farm Bill will have to pass the test of not violating the \$19.1 billion WTO cap on annual domestic farm subsidies. A lot of excitement has been generated over the House passed legislation that according to the FAPRI group has a 40% chance of exceeding the cap in 2002. Preliminary analyses on the Senate version also indicate it would violate the cap.

And finally, the President would prefer to see Congress wait until 2002 to pass new farm legislation. Speaking for the President, Secretary of Agriculture Ann Veneman has stated publicly that it would be “irresponsible” for the Congress to try to move forward in the face of all of the war issues that need to be considered. She has stated several times that the 1996 Farm Bill does not expire until the end of 2002 so there is no need to rush through not very well thought out legislation.

Texas Risk Management Education Program Update

Drought, low crop prices, excessive rainfall, hail storms, Karnal bunt disease, and several other factors have placed a squeeze on the finances of farms and ranches across Texas in recent years.

To assess the current financial status of crop farms, data from 203 crop farms participating in the FARM Assistance program in 2000 was used to analyze a range of financial characteristics. This information for livestock farms will be discussed in an upcoming issue of the newsletter. Table 1 contains five financial measures (left column), the state average for each, the range for farms in the top quarter (25%) for that measure, and the range for farms in the bottom quarter for that measure (the two middle quarters are not included). Data used to derive these measures are based on producers’ projections for 2000. For each farm, these measures represent an average of many possible outcomes based on the projected variability of crop prices and yields. Table 1 reports the average of all 203 farms. Keep in mind these 203 farms are scattered throughout the state, but with heavy concentration in the Panhandle, South Plains, and Coastal Bend regions.

Table 1 - Financial Characteristics for Texas Crop Farms

	State Avg.	Top Quarter	Bottom Quarter
Net Cash Farm Income per Acre	\$57	\$71 and higher	\$17 and less
Probability of Refinancing	29%	1% and less	45% and higher
Expense-to-Receipts Ratio	.76	.66 and less	.85 and higher
Machinery Value Per Acre	\$236	\$121 and less	\$284 and higher
Debt-to-Assets Ratio	.31	.17 and less	.39 and higher

Net cash farm income (NCFI) represents the total of gross crop receipts, all government payments, custom work income, and any crop insurance indemnities; minus operating expenses, which includes interest but not equipment and building depreciation. Average NCFI per acre for all farms in 2000 was \$57, with farms in the bottom quarter generating \$17 or less and farms in the top quarter generating \$71 or higher. The state average for the probability of having to refinance the farm’s operating note was 29%, 1% or less for farms in the top quarter, and 45% or higher for farms in the bottom quarter. The state average expense-to-receipts ratio was .76 (\$0.76 in expense for each dollar of gross income), .66 or less for the top quarter, and .85 or higher for the bottom quarter. The state average for market value of equipment per acre was \$236, \$121 or less for the top quarter, and \$284 or higher for the bottom quarter.

The probability of refinancing at 29% means there is nearly a 1 in 3 chance of falling short on cash flow, which is not the kind of odds we prefer. This is a telling sign about the financial state of crop farms in Texas. Our experience is that farms, in general, that can keep their expense-to-receipts ratio at .75 or less tend to be more stable financially. In regards to the machinery value per acre, there is very little argument that producers who can produce efficiently with less money tied up in equipment, tend to generate higher profits and equity growth. The reduced debt loads that go along with this philosophy can provide a lower debt-to-assets ratio, reduced interest expense, and free up more excess cash for those “down years,” which we have had a lot of lately.

Jackie Smith also contributed to this newsletter.