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Cornhusker Economics

Risk Management Needs and Challenges for Agriculture

Market Report	Year Ago	4 Wks Ago	8-7-20
Livestock and Products.			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	*	*	*
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	183.34	*	161.51
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	155.53	140.49	146.86
Choice Boxed Beef, 600-750 lb. Carcass.	213.96	*	204.52
Western Corn Belt Base Hog Price Carcass, Negotiated.	*	*	*
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	86.19	64.18	68.51
Slaughter Lambs, woolled and shorn, 135-165 lb. National.	159.96	105.15	103.50
National Carcass Lamb Cutout FOB.	396.31	415.16	NA
Crops.			
Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	3.84	4.00	4.06
Corn, No. 2, Yellow Columbus , bu.	4.09	3.11	2.86
Soybeans, No. 1, Yellow Columbus , bu.	7.67	8.24	8.21
Grain Sorghum, No.2, Yellow Dorchester, cwt.	6.34	6.46	6.00
Oats, No. 2, Heavy Minneapolis, Mn, bu.	2.99	3.41	2.96
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	*	172.00	*
Alfalfa, Large Rounds, Good Platte Valley, ton.	115.00	*	*
Grass Hay, Large Rounds, Good Nebraska, ton.	105.00	*	*
Dried Distillers Grains, 10% Moisture Nebraska Average.	136.50	120.14	121.67
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	40.50	34.52	35.92
* No Market			

Farmers and ranchers must continually manage risk in their operations to be successful. But the amount of risks and challenges they have faced over the past few months and years seems almost unprecedented. From financial challenges to production and market shocks to public health scares and policy developments, agriculture has had to respond and adapt to a wide range of issues.

Crop producers had already been dealing with a multi-year downturn in prices when the on-going trade conflict hammered demand and price levels in 2017. Add to that extreme weather and disaster losses in 2019 that have returned for some in 2020 and of course the COVID-19 pandemic and related market losses in 2020 and you have a plethora of challenges to overcome.

Livestock producers have experienced these challenges as well, from trade conflicts to extreme weather and disasters to on-going COVID-19 losses. In the case of the livestock sector, the COVID-19 losses came not just from the hit to trade, consumer demand, and supply chain disruptions, but also to the impact of COVID-19 on the ag workforce, particularly in meat processing. The market disruption led to record price spreads between farm and retail, even greater than the market shock following the beef processing plant fire in Kansas in August 2019.

Helping producers prepare for, adapt to, and overcome these challenges is part of the broad educational mission of the Extension Risk Management Education (ERME) program. The University of Nebraska-Lincoln hosts the North Central ERME Center, one of five risk management

dropped to eighth on the list of responses. While they were a critical part of this year's management decisions (and the primary focus of the educational meetings), they are less of a management factor over the long run. That is not to say they won't be important, but that they won't be the driving management consideration. Rather, financial and production challenges like profitability, cost control, weather, and production decisions move up the list, as do the human and financial risk elements of farm transition.



Figure 2. Risk Management Challenges Over the Next 5-10 Years

A second source of risk management education needs assessment helps reinforce the key issues facing producers. A listening session with stakeholders from production agriculture as well as professionals, organizations, and institutions serving agriculture provided for discussion and input to further refine the risk management education needs at present, including the impact of COVID-19 and trade prospects through the end of April.

Recognizing the overwhelming impact that COVID-19 has had (and continues to have) on daily life, the economy, trade, agriculture, and policy, one of the biggest questions to the future of agriculture (and the economy in general) is when and how quickly economic recovery could occur. It is still too soon to conclude whether a recovery will be sharp or whether it will be long and drawn out, but it is important to note that the current economic downturn was the product of a public health crisis, not the result of underlying economic conditions or challenges. That suggests a recovery can happen more quickly, but the challenges

have already gone on long enough to have lasting impacts on consumer demand, market structure, business viability, financial well-being, and personal well-being

Agricultural producers are dealing with market losses resulting from shocks to consumer demand, trade, and energy (and bioenergy) consumption as well as shocks to market structure, supply chains, and ag labor, particularly for meat processing, but also for other livestock products and specialty crops. As they look to rebound, they may well consider alternative marketing opportunities such as local processing as well as increased automation.

Stakeholders also noted that COVID-19 is only the latest in a number of shocks and challenges over the past 5-6 years (as alluded to in the introduction above). Those lingering and deepening challenges have stressed the financial position of operations and have stressed the well-being of farmers, ranchers and their families, putting a critical importance on tools, programs, and efforts to manage financial and personal stress.

Whether from the multiple-year downturn in prices or from the market losses of the last few months, producers are now facing production decisions under very different price conditions. Those price changes should change input and management decisions with a need for making sound decisions based on good economic analysis, whether that involves fertilizer, seed, and pesticide decisions or lease negotiations. That need places more importance on management and analysis tools such as long-range and contingency planning as well as scenario or sensitivity analysis. That need also highlights the potential role of consultants or other outside sources and expertise as part of the management group for an operation to make improved management decisions based on complete information and analysis.

Policy risk is also a concern, with tremendous uncertainty at present. There are many perspectives that the appreciation of agriculture has grown during the pandemic as an essential industry. That may be a benefit to agriculture in general, but it can also bring with it more public attention and

awareness of agricultural practices as well as increased calls for transparency and traceability in the food system in line with longer-term consumer trends and public policy pressure.

The overall role of government is also a major policy question. Recent ad hoc emergency assistance from the federal government to agriculture, first for trade and then in response to COVID-19 has dwarfed the farm income safety net developed through traditional, drawn-out legislative efforts to pass a farm bill. Both farm programs and emergency supports have been a substantial part of cash flow for agriculture in the past two years, but the future of federal farm policy is uncertain amidst unprecedented federal spending and the accompanying budget pressure and federal debt. What kind of a federal farm safety net, if any will remain after the current farm bill expires in 2023 and how will farmers adjust are both critical questions to address and manage for in the coming years.

The needs assessment process from producers and ag stakeholders has helped identify several key issues for agriculture. From marketing, farm program, and

crop insurance decisions to sound management decisions, cost control decisions, financial and personal stress management, and more, these issues represent critical educational needs to help producers position their operations for success.

It remains the fundamental purpose of the ERME program nationally to support local programs that reach producers with the education they need and demand. Those programs in turn help producers gain the knowledge and skills to understand and analyze risks facing their operations and to develop and implement the practices to address them. The North Central ERME Center has been awarded funds from USDA since 2001 to deliver this support in the region and will be announcing its next round of funding opportunities in September for educators and groups looking to deliver education to producers. For those interested in delivering education and for those interested in the results of 422 funded projects to date, we invite you to visit the center website at <http://ncerme.org> and the national program website at <http://extensionrme.org>.

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