House Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management

Reviewing the State of the Farm Economy

Thursday, May 9, 2019

Testimony of Matthew Huie

Chairman Vela, Ranking Member Thompson, Members of the Subcommittee, thank you for this opportunity to testify concerning the state of the rural economy.

My name is Matt Huie and together with my wife Shambryn and three children, we farm and ranch near Beeville, Texas in the 34th Congressional District of Texas which is so ably represented by the distinguished Chairman of this Subcommittee. We raise cattle, cotton, corn, sorghum, wheat, and sesame on our family owned operation.

I am involved and a part of the leadership in a number of farm organizations at the federal, regional, state, and local levels but today I am appearing simply as a relatively young farmer, rancher, and rural agri-businessman trying to pass on to my children a tradition and way of life that was passed on to me by my grandfather.

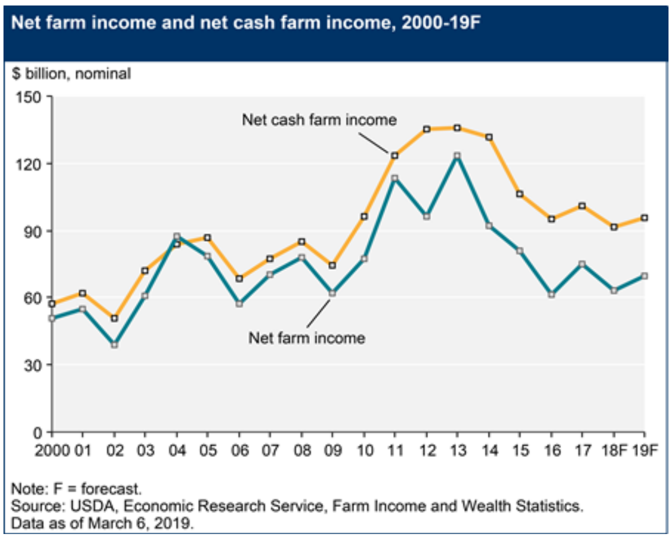
State of the Farm Economy in the Southwest and Nationally

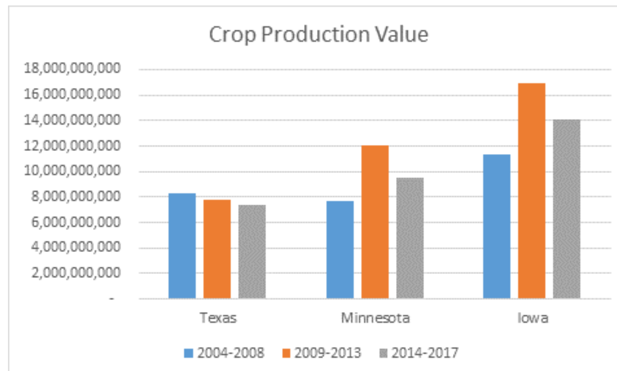
Mr. Chairman, this hearing could not be better timed if the goal is to highlight the high stakes and immense challenges of farming because the health of the rural economy is, as you know, under a great deal of stress.

This year, we entered into the sixth straight year of recession for agriculture, encountering a roughly 50 percent drop in net farm income over this period, the largest drop since the Great Depression. This long, ongoing recession is taking its toll across the country and across all commodities. In South Texas, the stress in the air is like the humidity: so thick you can feel it. Few in agriculture are immune.

However, that is not to say that all of us entered into this prolonged recession in the same financial shape. Some farmers were blessed with especially strong prices and solid production between 2008 and 2013 — a period heralded by some as a sort of second Gilded Age of American agriculture. This helped many producers build up equity and cash reserves to better weather tough times ahead. But, this was not the case in places like Texas and other states in the southwest region of the U.S. where an extraordinary D-4 drought gripped virtually all parts for some or all of the three-year period from 2011 to 2013.

Evidence for this can be found in USDA ERS numbers concerning crop production value. I have attached the ERS chart showing the devastating slide in net farm income nationally since 2013. Next to it, I go into the underlying data to show the gross value of crop sales in three of our largest row crop states over three periods: (1) the pre-drought and pre-downturn years of 2004-2008; (2) the drought period in Texas from 2009-2013; and (3) the post-drought downturn that we have experienced since 2014. All states show the significant downturn in the most recent period due to lower prices, but Texas did not have the big gain in the 2009 to 2013 period due to the extraordinary drought.





I know it will not come as news to the Members of this Subcommittee that we as farmers have to deal with extreme weather events — I suppose this is part of our job description. But the point is, for farmers in this situation, we went into the current recession at a decided disadvantage. We had not had opportunity to build up equity or a rainy-day fund to help see us through to better times.

In short, while the tremendously adverse impacts of a six-year recession on agriculture, where net farm income collapsed by half, are easy to understand, it does not tell the whole story. In fact, it actually understates how precarious the agriculture economy is right now.

That said, I want to underscore that the current downturn in the farm economy is in no way isolated to a few regions. This is a national economic recession for agriculture. For instance, I read recently that Minnesota's chapter 12 farm bankruptcies have risen sharply even though corn and soybeans experienced a rally in prices prior to the recession and our friends in the North Star State have been generally blessed with strong production. Despite all of this, our good friends in the Great State of Minnesota are also struggling.

The Members of this Subcommittee are no doubt familiar with the excellent work of the Agriculture and Food Policy Center (AFPC) at Texas A&M University which analyzes the impacts of federal policies on representative farms located across the country. These are real farms that open up their financial books to AFPC so AFPC is able to truly gauge the health of individual farms and, thus, the overall health of the sector. By doing this, AFPC may not only inform Congress of actual conditions on the farm but can also offer analysis concerning the likely impacts of policies Congress may consider.

Early last year, AFPC projected that two-thirds of its representative farms were in marginal or poor health, meaning these farms have a significant chance of going under water should current conditions persist. A year later, AFPC updated its analysis, concluding that fully half of the two-thirds of farms in question are now in poor financial condition, downgraded from marginal, with a 50 percent or greater chance of going under water should current conditions continue unabated.

According to the U.S. Department of Agriculture's Economic Research Service, "As farm sector debt is forecast to continue to increase in 2019 and outpace growth in farm assets, the farm sector's risk of insolvency is forecast to be at its highest level since 2002. Likewise, liquidity measures that rely solely on the balance sheet are worsening, reflecting the same dynamic of debt growth outpacing asset growth."

In view of all of this, it should come then as little surprise that we read *Wall Street Journal* reports earlier this year concerning a wave of chapter 12 bankruptcies sweeping across rural America, with farm bankruptcies in major farm states rising to their highest in at least 10 years, or CBS News stories such as the one entitled, *Farmers in America are facing an economic and mental health crisis*.

Historical Comparisons to our Current State of the Farm Economy

I was very young during the 1980s farm financial crisis, and since my parents did not farm but raised me in town what I know of this period is mainly what I have read and what my grandfather and others who farmed at the time told me. A cousin and great uncle of mine did not make it through this crisis and this fact left an indelible mark on me as a young child. However, I remember well when the bottom collapsed on the farm economy in 1998 because I was a farmer in my early 20s and just getting started. Fortunately, my wife, Shambryn, worked as a banker during the early years of our farming career so we were able to survive off her salary. The worst for us was the summer of 2002 where the combination of drought and prolonged low prices were not going to allow us to get refinanced. We are grateful that Washington responded to the emerging crisis quickly and effectively and we along with many other farm families managed to recover.

Mr. Chairman, I recollect these two periods in relatively recent history in the context of this hearing because today's conditions may not be exactly on all fours with the conditions we knew back then, but absent some turn-around in the current farm economy I am deeply concerned that there is the real potential for the same kind of economic fallout for rural America in the days ahead as there were in the mid-1980s and late 1990s. This result would not be good for rural America nor would it be good for the national economy and it certainly would not be good for farm and ranch families like mine. I fear the young, beginning farmers and older farmers trying to make it to retirement would be the ones who would suffer most.

It is worth noting that all three major economic recessions in agriculture that I mention – in the 1980s, 1990s, and now – all resulted in good part due to a downturn in exports. In the 1970s, farmers were told to plant fencerow to fencerow to meet rising export demands only to see exports collapse, in part as the result of the Soviet Grain Embargo. In the 1990s, exports dove after the Asian Flu depressed rising economies of countries that promised to be emerging export markets for the United States. And, of course, we know lost exports are impacting the agriculture economy today as well.

While this subcommittee, the full Committee, and Congress cannot control market forces, you can establish policies to provide farmers and ranchers with the tools we need to survive the current storm. The strong, bipartisan responses to the farm financial crisis of the mid-1980s and to the collapse in the farm economy in the late 1990s helped ensure that U.S. agriculture got back on a road to recovery, helping boost the overall economy. Both of these efforts were led by fellow Texans, including Chairman Kika de la Garza, Ranking Member Charlie Stenholm, and Chairman Larry Combest.

Current Policy Gains in the Face of Down Economy

In this vein, I would be remiss if I did not express my very real gratitude for what has been accomplished and provided in the face of these economically challenging times.

First and foremost, I would like to sincerely thank each Member of this Subcommittee for completing your work on the 2018 Farm Bill. While it is not a panacea for all that ails American agriculture today, with its anticipated investment in the safety net projected to be very modest by historical standards, the new Farm Bill does provide a modicum of a safety net and the certainty that goes with it. I am grateful that Congress was able to pass this measure by the most decisive margins ever obtained in either chamber. As a cotton farmer, I am especially grateful that the new Farm Bill honored the inclusion of seed cotton in the Commodity Title. And for all farmers of all commodities, I am grateful that Federal Crop Insurance was protected — we simply could not farm without this critical tool in today's high stakes environment.

As Congress considers budget resolutions, appropriations bills, two-year spending agreements, debt ceiling increases, and other matters involving federal outlays, I would implore this subcommittee to jealously protect the 2018 Farm Bill because the Farm Bill and Federal Crop Insurance represent the bulwark of policies designed to help struggling farmers and ranchers hang on.

Second, I think it is very important to acknowledge what was done even prior to the 2018 Farm Bill to supplement the 2014 Farm Bill. For cotton in 2015, Secretary Tom Vilsack recognized the absence of a real safety net for cotton and instituted a ginning assistance program that was critical to maintaining cotton infrastructure in rural communities throughout the cotton belt. Secretary Perdue also recognized the problem and continued this vital program in 2017, relative to the 2016 crop, as a bridge to the 2018 Bipartisan Budget Agreement where this Committee was able to create a new seed cotton program beginning with the 2018 crop year. Had these actions not been taken, I am not sure how many of us would still be farming today.

Third, it is important to note the disaster bill passed for 2017 wildfire and hurricane losses, and also the package that is in the works right now that will address certain losses in 2018 and 2019. Given the devastation caused by hurricanes, wildfires, and flooding, and the general state of the agriculture economy, these are very important measures and I hope the Agriculture Committee will continue to play an active role in their development.

Finally, I want to extend my gratitude to Secretary Perdue for establishing the Market Facilitation Program (MFP) to help farmers and ranchers most affected by unjustified retaliation by our trading partners. Farmers from my region were first to feel the pain in February of 2018 when China levied its bogus AD/CVD case and 179 percent tariffs against U.S. sorghum. Unfortunately, we had a short sorghum crop in 2018 so we did not realize the full benefit of this program. This, and some inequities in the distribution of aid among crops, is why many of us have suggested needed improvements to the MFP model (which are best articulated in an October 29, 2018 letter from the Southwest Council of Agribusiness). Nonetheless, we still want to express real gratitude as roughly $9 billion injected into the rural economy could not have come at a more crucial time.

However, as vitally important as these efforts have been, I remain very concerned that it may not fully address the problem of depressed prices and increased costs of production for the 2019 crop year and beyond. Based on my conversations with lenders, there has already been an uptick in the denial of credit to farmers seeking financing to produce a crop and this is expected to significantly increase in time for the next planting season unless conditions improve.

Some Members of this Subcommittee were not here for the writing of the 2014 Farm Bill, but it is important to remember that the Agriculture Committees at that time were called upon to achieve $23 billion in savings over 10 years. According to the Congressional Budget Office (CBO), this goal would be achieved by the 2014 law. However, in subsequent budget baseline updates, CBO now estimates 10-year budgets savings to be achieved by the 2014 Farm Bill, and now the 2018 Farm Bill, are on the order of more than $100 billion. This is the diminished baseline to which the 2018 Farm Bill was written and it helps tell the story of why more resources may well be necessary. According to the CBO May budget baseline update, for the current fiscal year (FY 2019), payments to crop farmers are expected to be $15.26 billion, with virtually all of this already having been paid and the majority ($9.56 billion) from the MFP. However, for FY 2020, CBO projects that this number will drop to $4.96 billion if nothing is done to supplement the 2018 Farm Bill. This amount would compete for the lowest amount of assistance since 1995, a year when prices were very high relative to the times. In short, unless prices recover rapidly, I am concerned that this budget reality will spell economic disaster in the countryside.

While all of these statistics may sound academic, the consequences on the ground are very real. And this has a very dramatic impact on the local economy. Perhaps the best way to show this is through enterprise budgets published by Extension as benchmarks to help farmers plan for the year. I have attached the same for corn and cotton in South Texas for this crop year, and would note a couple of things. First, you will see that both would expect to cover variable costs (i.e., seed, fuel, labor, etc.) assuming normal yields, but both would lose money again this year once fixed costs, such as machinery and land, are added in. This is the sixth year where we see red in these numbers, and this has taken an enormous toll on our personal finances even as we have continued to produce an abundant supply of food and fiber that the world needs.

But the other thing I really want Members of the Subcommittee to appreciate is what we as farmers spend each year. This is a very high stakes business. For corn, this enterprise budget estimates $491.09 per acre, and for cotton it is $639.18 per acre. For a 4,000-acre farm going half and half in Texas (and this is not a large operation in Texas – where everything is bigger), that would amount to $2.26 million the farmer is spending and turning over in the local economy. I earnestly believe this type of economic activity across some 300 million crop acres across our land is vital to our national economy. But I can tell you for certain that without it towns like Beeville, Texas, where I live, would no longer exist.

Therefore, given current economic conditions in rural America, the proven cost-effectiveness of the current and previous farm bills, the critical importance of the work farmers do, and the extraordinarily tight margins that we operate on, I urge you to stand fast in defense of the Farm Bill and Federal Crop Insurance and to monitor prices and disaster carefully and step in and do what is necessary to fill what is wanting. Farmers and ranchers and their lenders have made long-term decisions based on the promises made by Washington under these policies.

Other Factors of Concern to Farmers and the Rural Economy

Beyond this, I know that farmers and ranchers across the country remain extremely nervous but also very hopeful that Congress will ratify the new U.S.-Mexico-Canada (USMCA) trade agreement and the Administration will successfully conclude U.S.-China trade negotiations and vitiate retaliatory tariffs that have exacerbated already bad conditions resulting from the grip of a multiple year recession.

It is impossible to overstate the vital importance of the markets made available for our farmers and ranchers under the North American Free Trade Agreement and its successor agreement, USMCA, and under an agreement with China that reopens the flow of U.S. agriculture exports. These agreements do not just affect our ability to export agriculture products to these markets. They also affect our ability to import input items necessary for production. The effects of ongoing trade disputes are not only further depressed commodity prices and lost markets but the increased cost of those inputs that are subject to import.

I would note that there are unique regional impacts to all of this as well. For example, we in south Texas usually begin planting grain crops in February, with harvest following in mid-June. The ongoing trade dispute has, of course, resulted in carryover of crops in storage. With the current crop already in progress, there is genuine concern that there will not be adequate storage space available to receive this year’s crop when harvest begins come June.

I am also encouraged by what I read concerning the House’s interest in moving forward with legislation which is in part designed to help farmers and ranchers deal with a labor crisis. Legislation that would adjust the status of existing undocumented workers and their families and that would address the multiple shortcomings of the current H2A guest worker program would be extremely meaningful to farmers and ranchers who have long sought a solution to this growing problem.

Continued discussion centering on infrastructure legislation is also encouraging. President Kennedy once observed that the farmer is the only one in the economy who buys everything he buys at retail and sells everything he sells at wholesale and pays the freight both ways. Good infrastructure is critical in keeping our costs down and helping us earn more from what we sell. It is also one of the few areas where the American farmer and rancher enjoys a competitive edge despite foreign competition which is awash in high subsidies, tariffs, and non-tariff trade barriers. Ensuring that rural America shares in any new investment in infrastructure should be another priority of this Subcommittee.

One dimension to the infrastructure discussion that might be overlooked is the issue of competition at our ports. As you know, Mr. Chairman, we have long had two grain terminals at the Port of Corpus Christi but we are about to be down to just a single terminal after this year. Lack of competition, I fear, is going to hurt farmers in our area who depend on this key port. Concentration in the marketplace is not, of course, limited to ports. Consolidation in seed and chemical companies, as well as equipment manufacturers and retail outlets, have left farmers with fewer choices and less bargaining power when purchasing inputs. Even as this Subcommittee continues to do the work of safeguarding policies that provide an essential safety net for farmers and ranchers, the full Committee on Agriculture should continue to examine areas where farm and ranch income suffers due to escalating costs resulting from a want of competition in the marketplace. Although input costs in agriculture have always been sticky, slow to decline even as commodity prices decline, the specter of a continuing rise in input costs against a backdrop of a long period of depressed crop prices underscores a problem that appears to be getting worse.

Conclusion

To be sure, all of these goals that I have outlined would be important wins for rural America where good news has been hard to come by lately. However, I remain concerned that even these victories for rural America will not prove sufficient under the strain of the ongoing recession. To his great credit, Secretary Sonny Perdue recognized the stress farmers and ranchers are under when he authorized the Market Facilitation Program. The alarm I am sounding today would be much louder had the Secretary not shown this kind of leadership. The question now, however, is how will the economic health of rural America look were the exact same conditions to continue but this time without another MFP or a similar program enacted by Congress? Short of a significant recovery in prices farmers receive, which would also improve the value of the protection farmers can purchase in crop insurance, I believe an additional and improved version of MFP or some similar package crafted by Congress will be needed. Frankly, I do not see a turn-around in current conditions any time soon.

Mr. Chairman, I strongly urge this Subcommittee to very carefully continue to monitor conditions and take action to stave off the kinds of economic havoc that really left rural America in tatters in the mid-1980s and late 1990s.

In closing, Mr. Chairman, thank you once again for holding this extremely important hearing and for your leadership and the leadership of the Members of this panel on matters affecting America's farm and ranch families. We are certainly grateful to you.

Projections for Planning Purposes Only
2019 Estimated Costs and Returns per Acre
Corn - GMO Seed, Conventional Till-12 Row, Dryland, 100 bu. Yield Goal
Coastal Bend Extension District - 11

	Quantity	Units	$/Unit	Total	Enterprise Total
Crop Acres	500				
REVENUE	Quantity	Units	$/Unit	Total	Total
Corn	100.00	Bushel	$3.80	$380.00	$190,000.00
Total Revenue				$380.00	$190,000.00
VARIABLE COSTS	Quantity	Units	$/Unit	Total	Enterprise Total
Production Costs					
Herbicide					
Glyphosate (Generic)	2	Quart	$3.38	$6.76	$3,380.00
2, 4D Amine	1	Pint	$2.07	$2.07	$1,035.00
Atrazine 4L	2	Quart	$3.00	$6.00	$3,000.00
Corn PreEmerge Herbicide	2.1	Quart	$9.62	$20.20	$10,101.00
Corn PostEmerge Herbicide	1	Quart	$16.24	$16.24	$8,120.00
Seed					
Corn	25	Thousand	$3.20	$80.00	$40,000.00
Fertilizer					
24-8-0`	0.25	Ton	$264.00	$66.00	$33,000.00
Custom					
Custom Grain Haul	57	CWT	$0.35	$19.95	$9,975.00
Miscellaneous					
Crop Insurance -Corn	1	Acre	$8.39	$8.39	$4,195.00
G&A Overhead	1	Acre	$10.50	$10.50	$5,250.00
Insecticide					
Cutworm Control	1.25	Ounce	$0.70	$0.88	$437.50
Other Chemicals					
Crop Oil	0.5	Pint	$1.85	$0.93	$462.50
Other Labor					
Hand Labor	0.21	Hour	$16.00	$3.36	$1,680.00
Machinery Labor					
Tractors/Self-Propelled	0.67	Hour	$19.50	$13.07	$6,532.50
Diesel Fuel					
Tractors/Self-Propelled	8.09	Gallon	$2.46	$19.90	$9,950.70
Repairs & Maintenance					
Tractors/Self-Propelled	1	Acre	$23.42	$23.42	$11,707.91
Implements	1	Acre	$16.14	$16.14	$8,071.48
Interest on Credit Line			6.75%	$11.06	$5,530.30
Total Variable Costs				$324.86	$162,428.89
Planned Returns Above Variable Costs:				$55.14	$27,571.11
Breakeven Price to Cover Variable Costs			$3.25	Bushel	
FIXED COSTS	Quantity	Units	$/Unit	Total	Enterprise Total
Machinery Depreciation					
Tractors/Self-Propelled	1	Acre	$25.34	$25.34	$12,669.09
Implements	1	Acre	$18.80	$18.80	$9,399.74
Equipment Investment					
Tractors/Self-Propelled	$193.73	Dollars	6.00%	$11.62	$5,811.87
Implements	$107.85	Dollars	6.00%	$6.47	$3,235.47
Management Fee, Owner/Operator Labor	1	Acre	$19.00	$19.00	$9,500.00
UCB - Land Charge	1	Acre	$85.00	$85.00	$42,500.00
Total Fixed Costs				$166.23	$83,116.17
Total Specified Costs				$491.09	$245,545.06
Returns Above Specified Costs				($111.09)	($55,545.06)
Breakeven Price to Cover Total Costs			$4.91	Bushel	

		Example Breakeven Prices	
Example Yield Percent	Example Yield Bushel	To Cover Variable Costs	To Cover Total Costs
75%	75.00	$4.33	$6.55
90%	90.00	$3.61	$5.46
100%	100.00	$3.25	$4.91
110%	110.00	$2.95	$4.46
125%	125.00	$2.60	$3.93

Developed by Extension Economists, Texas A&M AgriLife Extension Service, budgets@tamu.edu.

Information presented is prepared solely as a general guide and not intended to recognize or predict the costs and returns from any one operation. Brand names are mentioned only as examples and imply no endorsement.

Projections for Planning Purposes Only
2019 Estimated Costs and Returns per Acre
Cotton - Genetically Modified Seed, Conv. Till-24 Row, Dryland, 800 lb. Yield Goal - Lower Coast
Coastal Bend Extension District - 11

Crop Acres	500				
REVENUE	Quantity	Units	$/Unit	Total	Enterprise Total
Cotton Lint	800.00	Pound	$0.66	$528.00	$264,000.00
Cottonseed	0.58	Ton	$125.00	$72.50	$36,250.00
Total Revenue				$600.50	$300,250.00
VARIABLE COSTS	Quantity	Units	$/Unit	Total	Enterprise Total
Production Costs					
Custom					
Fertilizer Application	1	Ounce	$0.15	$0.15	$75.00
Pick and Module	800	Pound	$0.14	$112.00	$56,000.00
Ginning - Picker	800	Pound	$0.13	$100.00	$50,000.00
Fertilizer					
24-8-0	0.1665	Ton	$266.00	$44.29	$22,144.50
Herbicide					
Glyphosate	1	Quart	$5.50	$5.50	$2,750.00
Trifluralin	32	Ounce	$0.19	$6.08	$3,040.00
2, 4D Amine	2	Pint	$2.07	$4.14	$2,070.00
Cotton Early Season Herbicide	2	Quart	$16.24	$32.48	$16,240.00
Insecticide					
Fleahopper Control LC	1.6	Ounce	$1.08	$1.73	$864.00
Miscellaneous					
Boll Weevil Program LC	1.6	Bale	$3.50	$5.60	$2,800.00
Crop Insurance -Cotton LC	1	Acre	$12.08	$12.08	$6,040.00
Pickup Milage Charge	1	Acre	$3.88	$3.88	$1,940.00
Seed					
Cotton Seed - B2RF	40	Thousand	$1.84	$73.60	$36,800.00
Cotton Seed - Insect Treatment	40	Thousand	$0.17	$6.80	$3,400.00
Tech Fee - B2RF	1	Acre	$0.00	$0.00	$0.00
Other Chemicals					
Generic PIX	32	Ounce	$0.06	$1.92	$960.00
Defoliants - Picker	4	Ounce	$1.05	$4.20	$2,100.00
Ethephon	1.6	Ounce	$0.15	$0.24	$120.00
Other Labor					
Hand Labor	0.08	Hour	$16.00	$1.28	$640.00
Machinery Labor					
Tractors/Self-Propelled	0.51	Hour	$19.50	$9.95	$4,972.50
Diesel Fuel					
Tractors/Self-Propelled	6.49	Gallon	$2.46	$15.97	$7,982.70
Repairs & Maintenance					
Tractors/Self-Propelled	1	Acre	$16.36	$16.36	$8,179.50
Implements	1	Acre	$13.96	$13.96	$6,979.24
Interest on Credit Line			6.75%	$10.93	$5,466.19
Total Variable Costs				$483.13	$241,563.63
Planned Returns Above Variable Costs:				$117.37	$58,686.37
Breakeven Price to Cover Variable Costs			$0.51	Pound	
FIXED COSTS	Quantity	Units	$/Unit	Total	Enterprise Total
Machinery Depreciation					
Tractors/Self-Propelled	1	Acre	$22.22	$22.22	$11,110.45
Implements	1	Acre	$18.71	$18.71	$9,356.08
Equipment Investment					
Tractors/Self-Propelled	$170.64	Dollars	6.00%	$10.24	$5,119.13
Implements	$80.88	Dollars	6.00%	$4.85	$2,426.34
Management Fee, Owner/Operator Labor	1	Acre	$30.03	$30.03	$15,012.50
LCB - Land Charge	1	Acre	$70.00	$70.00	$35,000.00
Total Fixed Costs				$156.05	$78,024.49
Total Specified Costs				$639.18	$319,588.12
Returns Above Specified Costs				($38.68)	($19,338.12)
Breakeven Price to Cover Total Costs			$0.71	Pound	

		Example Breakeven Prices	
Example Yield Percent	Example Yield Pound	To Cover Variable Costs	To Cover Total Costs
75%	600.00	$0.68	$0.94
90%	720.00	$0.57	$0.79
100%	800.00	$0.51	$0.71
110%	880.00	$0.47	$0.64
125%	1000.00	$0.41	$0.57

Developed by Extension Economists, Texas A&M AgriLife Extension Service, budgets@tamu.edu.

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