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The Purdue University/CME Group Ag Economy Barometer — based on a monthly survey of 400 crop and livestock producers across the U.S. — declined sharply in June.

Producer optimism falls sharply

By CAROL RYAN DUMAS
Capital Press

Farmer sentiment about the agricultural economy took a big hit in June for the second month in a row.

The Purdue University/CME Group Ag Economy Barometer — based on a monthly survey of 400 crop and livestock producers across the U.S. — declined sharply to a reading of 137 (relative to a baseline average index of 100).

The index measures farmer sentiment on current conditions and future expectation. It dropped 21 points from May's reading of 158, which was down 17 points from April.

"I wasn't surprised it went down, but I was surprised it went down as much as it did," said Jim Mintert, director of the Purdue Center for Commercial Agriculture.

Michael Langemeier, associate director of the center, said he thought the index might weaken a little bit but not nearly as much as it did.

"Given the strong prices, I thought that would hold the index of current conditions up there a little bit. But obviously I was wrong," Langemeier said during the latest "Ag Barometer" podcast.

Corn and soybean prices were still strong by historical standards, but they were weaker than a month earlier, Mintert said.

"I think that probably contributed quite a bit to the negativity. … I probably underestimated how much that was impacting people's perspective," he said.

Langemeier said he thinks there are also underlying concerns about crop prospects in some parts of the Corn Belt and Great Plains.

"I just think this general notion of uncertainty and possible price inflation is concerning to respondents," he said.

The index of current conditions fell 29 points from 178 in May to 149 in June, a pretty big drop, Mintert said.

"The index of future expectations fell as well, but it didn't fall nearly as much," he said.

That index fell 17 points from 149 in May to 132 in June.

Producers' view of their farm financial performance was really the driver with respect to current conditions. That index fell from 126 in May to 96 in June and fell 42 points from April.

That's a big drop in that financial performance index and a little surprising given the relative strength in crop prices compared with long-term history, he said.

"This one surprised me more than the fact that the index of current conditions declined as much as it did," Langemeier said.

There's a lot of uncertainty about return prospects this fall, but they're still pretty good. That leads him to wonder if producers are thinking prices are not going to be as strong this fall and not as good moving into 2022 as they were earlier in 2021, he said.

Mintert said it's important to remember the survey is asking producers how they feel about their farm's financial performance and not asking them to look at their balance sheet or projected income statement.

He suspects the decline in commodity prices fueled the decline in sentiment and increase in negativity and uncertainty relative to a month earlier.

Also playing into the lower barometer reading are rapidly rising production costs related to consumer and farm input price inflation, increased cash rental rates for farmland, increased labor costs and strong prices for farm machinery.

Farmers plan to rein in capital investments

By CAROL RYAN DUMAS
Capital Press

Negativity and uncertainty in farm country showed up in farmers' plans for capital investments in June as measured by the Purdue University/CME Group Ag Economy Barometer.

The gloomier perspective was driven by how producers feel about their farm financial performance, said Jim Mintert, director of the Purdue Center for Commercial Agriculture.

That index fell 30 points from May to June and 42 points from April to June, he said during the latest "Ag Barometer" podcast.

That suggests producers were projecting crop prices to continue to drop over the summer and be potentially weaker at harvest, he said.

"This kind of spilled over into the capital investment index," he said.

That index dropped from 65 in May to 54 in June (relative to a baseline average index of 100). What's interesting is the reading is about 10% below June 2020. From his perspective, the investment environment today looks a lot better than a year ago, he said.

"Yet the index doesn't really support that idea," he said.

Follow-up questions on investments in farm equipment and construction might shed some light on producer sentiment, he said.

"What we seem to be picking up is people are a lot more negative on the construction of grain bins and buildings than they are on farm machinery," he said.

The percentage of producers who plan to reduce investments in construction of buildings and grain bins was 61% in June compared to 58% in May. The percentage who plan to increase investments in construction was 9% compared to 14% in May.

"If we look at farm machinery, it's a different story," he said.

The percentage of producers who plan to reduce purchases of farm equipment was 44% in June compared with 46% in May. Those who plan to hold purchases constant went up to 45% in June verses 40% in May. Those who plan to increase purchases did fall, from 14% in May to 10% in June.

"But that's a different set of numbers than what we're seeing on buildings and grain bins and maybe more supportive of the kind of information we're picking up from people like auctioneers who are reporting very strong prices at farm auctions for used machinery, tight supplies of new equipment," he said.

Michael Langemeier, associate director of the center, said the breakdown on machinery investment could change as producers get closer to realizing a crop. If yields are close to trend, producers will be more positive about purchases, he said.

"If prices stay where they are currently at, I can't help but believe there'll be quite a few people that are constant or increase their purchases this fall," he said.

One of the challenges is trying to figure out if people are holding back because they can't get new machinery, Mintert said.

In addition machinery prices are strong with not much discounting being offered, he said.

"On the construction side, one of the concerns has to be the rapid run-up in construction costs," he said.

Investment intentions are also likely influenced by rising input costs and increasing cash rental rates on farmland.

Ste. Michelle Wine Estates sells for $1.2B

By MIA RYDER-MARKS
Capital Press

Ste. Michelle Wine Estates in Washington state has been sold by its parent company, Altria Group Inc., to a New York-based private equity firm.

The buyer, Sycamore Partners Management, specializes in consumer, retail and distribution investments and has current holdings in big name brands such as Loft, Nine West and Staples. It bought the winery in an all-cash deal for $1.2 billion. The transaction is expected to close by the end of the year.

At closing, the net cash will be subjected to customary net working capital and other adjustments, according to an Altria press release.

From the brunt of the pandemic, the winery experienced a drop in sales by almost 11% in 2020, according to Shanken's Impact Databank, which tracks the wine industry. Revenue was down $614 million for the fiscal year.

But Ste. Michelle Estates still ranked as the 8th largest wine marketer in the U.S. by selling 3.1 million cases of Chateau Ste. Michelle and 1.3 million cases of their 14 Hands brand.

The sale is seen as an important step in the growth of the winery.

"The Ste. Michelle leadership team and I look forward to working with the team at Sycamore Partners and believe we are well-positioned to drive the next phase of our growth," said David Dearie, Ste. Michelle's president and CEO.

"This is an exciting new chapter for (Ste. Michelle Wine Estates) and a significant investment in the future of Washington wine. We are looking forward to seeing them continue to grow and thrive," said Steve Warner, president of the Washington State Wine Commission.

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The Ste. Michelle Wine Estates Cold Creek Vineyard east of Yakima, Wash. The 800 acres is the company's oldest vineyard in Central Washington, dating back to 1973.

NOAA says watch for La Nina

By DON JENKINS
Capital Press

Forecasters are predicting that the odds favor a La Nina forming next fall, a climate phenomenon linked to large snowpacks and good irrigation seasons in most Northwest basins.

The National Oceanic and Atmospheric Administration issued a La Nina watch on July 8, indicating conditions are ripe for it to develop in the next six months.

A La Nina has a 66% chance of prevailing in November, December and January, according to forecasters with NOAA's Climate Prediction Center and at Columbia University's climate research center.

The forecast conflicts with most climate models. Averaged together, 25 models reviewed by forecasters predict only a 34% chance of a La Nina next winter.

Forecasters, however, are using their human judgment. A La Nina reigned last winter and historically one La Nina follows another, according to a statement by NOAA.

The La Nina watch also has support from a group of climate models developed in the United States and Canada.

"I trust humans informed by the models," Washington State Climatologist Nick Bond said.

La Nina generally brings cool and wet winters to the northern tier of the U.S. La Nina winters are generally warm and dry in the southern tier of the U.S. Another La Nina could worsen the drought in the Southwest U.S.