



Ag Industry Update

From the desk of Jason Long, Director of Agri-Business Banking

Summer is the time of year when we get to take a moment to be grateful for the growing crops, grazing cattle, and some quality time with family and friends. At the beginning of the year, we were staring down abnormally dry conditions. Well, fast forward a few months, and those conditions have changed for many with the recent rainfall.

While there's always uncertainty, a best practice is to focus on those items that are within our control. Planning is essential for a successful year, and then comes the follow-through and execution of those plans. As the year progresses, confidence in our production levels grows, and this shift focuses our attention on marketing our products.

The decision-making process can be either business-minded or emotional, depending on the approach. We know that markets will rise or fall, and often, it's a sideways grind in either direction, which creates market fatigue. **A business-minded approach** is to understand your operation's break-even level or refer to the projections created earlier in the year and incrementally sell or use price protection methods at or above those levels. When done incrementally, this approach provides flexibility to continue selling while also mitigating some risk. This can be a feeling of freedom from market fatigue and less stressful than emotional selling. **Emotional selling** involves playing the "what if" game and is often based on the fear of the market rallying if the products are sold too soon, or regret if the market falls.

The beef sector has been a bright spot in terms of opportunity, particularly for the cow-calf operations. This can be attributed to a historically low herd size that struggles to find meaningful growth. Feedlots are sourcing cattle at or near record levels. Price protection for this investment is highly recommended in the event the market turns. Cow-calf operations are weighing the opportunity cost of retaining heifers or purchasing costly replacements to keep up with culling practices and herd growth. An effective strategy is to stress test the price of calves to gain an understanding of how profitability is impacted if prices retract. We can be thankful for the opportunities that exist today.

The pork sector is also creating profitable opportunities after more challenging market conditions, with a more favorable outlook moving forward. This is primarily related to tighter supplies and lower carcass weights. Biosecurity efforts are in place to defend against health-related concerns. Utilizing price protection strategies is recommended, allowing for opportunities to capture future upside potential. Trade disruptions continue to be a concern, with major international buyers being impacted; however, there has been an increase in demand from other global partners. If trade deals can be reached, this would give the market further upside potential.

The dairy sector shows some stability, with cheese and butter exports showing improved export volumes. Domestically, consumption appears to be up modestly, while production continues to show growth. Feed costs are also playing a positive role in profit margins. Export volumes will remain a factor in keeping demand levels strong.

From a policy standpoint, the OBBBA (One Big Beautiful Bill Act) is being celebrated by many ag groups as a win for agriculture. Some of the key points include farm income tax levels, depreciation allowances, estate tax protections, funding for foreign animal disease prevention, and new spending for farm programs.

Risk comes in many forms, but focusing on the decisions within your control can make all the difference. At First Bank & Trust, we're committed to helping you understand your operation's financial position so you can manage risk with confidence. The feeling of market fatigue is common, and breaking free is possible when you follow through on your plans.

It certainly seems like time is moving fast, as school will be back in session and harvest will be underway before we know it. Until then, I hope you and your families enjoy your summer.



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