John Deere's Outlook on Cattle Economics

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Andrew W. Hansen is Factory Manager, John Deere Ottumwa Works in the Agricultural and Turf Division of Deere & Company. He joined the Company in 1976 at the Des Moines Works, and served primarily in manufacturing, materials management and manufacturing support assignments.

In 1997, Mr. Hansen moved to the Waterloo Works and served in a number of leadership positions in Information Services, Supply Management and Drive-train Operations. In 2005, he was appointed to the position of Director, Supply Management, in the Construction and Forestry Division. In 2010, Mr. Hansen was appointed to his current position as Factory Manager of the Ottumwa Works.

Mr. Hansen chairs the Kellogg School of Management MMM Advisory Board at Northwestern University, serves as a Board member of the Ottumwa Economic Development Corporation, a Board member of the Wapello County United Way Board, a Board member of the Ottumwa Airport Advisory Board in addition to being a Board member of the Ottumwa Regional Legacy Foundation. Mr. Hansen was born in Carlisle, Iowa, and is a graduate of Iowa State University with a B. S. in Industrial Administration. In 2000, Mr. Hansen completed The Executive Program at the Darden School of Business at the University of Virginia.

Summary

The drought of 2012 caused many implications to the agriculture industry. Low yielding crops, cattle herd liquidations, and increasing input costs are a few of the areas that were impacted. Low water levels on the Mississippi River are causing concerns for barge traffic, which are currently only carrying 50% capacity because of low water areas along points of the Mississippi River. For

2013, low water levels could potentially affect the shipments of crops and fertilizer which in turn will affect prices. Wheat, corn, and soybean stock levels have fallen due to poor weather conditions globally and increased demand which also has driven the commodity prices to historic levels. Livestock prices continue to hold strong but are affected by high feed costs. The drought of 2012, high feed prices, low hay supplies, and high cattle prices have led many farmers and ranchers to decrease herd size or even liquidate the entire herd. The feedlot industry has also been affected and continues to find ways to make a positive margin for their operations. This seems to be a struggle for 2012 and into 2013 as we look at high feeder cattle prices and high feed costs that affect the margin and profitability for feedlot operations.

Future Outlook

Ag fundamentals and crop prices appear to remain over the next few years. Interest rates remain at low levels for incentivizing equipment demand and Section 179 was recently extended through 2013 offering deductions on farm equipment purchases. However, livestock margins will continue to remain tight over the next few years and cuts to the farm bill are proposed. The European recession along with the uncertainty of the "Fiscal Cliff" resolution is impacting the overall global economic recovery.