



NEWS RELEASE

CoBank Releases Quarterly Rural Economic Review

Agricultural markets experience rippling effects from mounting inventories, plunging oil prices and a strong U.S. dollar

DENVER (April 13, 2015) — The agricultural markets are experiencing rippling effects from lower price environments amid mounting inventories, plunging oil and gas prices and a strong U.S. dollar, according to the new Quarterly Industry Review from CoBank. The report provides insights and projections for agribusiness, energy, water and communications industries.

Strong domestic inventories of corn, soybeans and wheat, along with similarly ample supplies in international markets, have resulted in lower prices for many commodities. Animal protein sectors are benefitting from the surplus and subsequently lower feed costs, as well as declining fuel prices.

“We are seeing a silver lining in the face of a depressed energy industry,” said Leonard Sahling, director of CoBank’s Knowledge Exchange division, which produced the report. “While we can’t fully know all the outcomes of significantly lower gas prices, some agricultural industries seem to be reaping the rewards.”

Beef supplies will remain in short supply throughout much of 2016, and demand doesn’t seem to be wavering in response to higher meat prices. “The continued strengthening of the U.S. economy and lower gas prices should support the trend of robust beef demand in 2015,” according to Sahling. As a result, a bright spot exists in the U.S. cow/calf profitability outlook with very profitable net returns averaging nearly \$500 per cow.

The outlook for poultry also remains positive, barring any potential negative impacts from the recent emergence of avian flu on some non-commercial poultry farms.

The ethanol market is where the rippling effects from lower fuel prices and lower grain prices collide. Ethanol prices have fallen by more than half since their peak a year ago. However, despite negative impacts from plummeting oil prices, plant operators are still maintaining positive margins thanks to lower-priced corn. The report predicts further margin deterioration for ethanol through 2015.

In power and energy sectors, U.S. oil production continues to climb and storage tanks nationwide are reaching two-thirds capacity. The report forecasts coal-to-gas switching is likely to accelerate in the next several months in response to depressed gas prices. In addition, regulations are pressuring replacement of coal generation with up to 20 gigawatts of utility-scale

generating capacity, dominated by wind, natural gas and solar. “Additional coal retirements are likely once the rules for the Clean Power Plan are finalized this summer for both new and existing fossil fuel generating units,” according to Sahling.

For California water utilities, conservation has become a paramount concern as the state braces for a fourth year of severe drought. Declining revenues from reductions in water use will require innovative rate structures that can stabilize finances while still encouraging conservation. Moving forward, it will be critical for water utilities nationwide to study the lessons learned in California, and consider rate structures that can keep the utilities solvent through prolonged periods of volatile weather and climate conditions.

In February, the Federal Communications Commission adopted the Open Internet Order reclassifying broadband as a Title II – or regulated – telecommunications service. These actions have drawn praise from consumer and small-business advocates anxious for better service access, and criticism from opponents contending the rulings impede free-market services. The new regulations may provide a short-term competitive advantage to Rural Local Exchange Carriers (RLECs), which have operated under Title II for decades.

CoBank’s Knowledge Exchange Division is a knowledge-sharing practice that provides strategic insights regarding the key industries served by CoBank. Knowledge Exchange draws upon the internal expertise of CoBank, deep knowledge within the Farm Credit System and boots-on-the-ground intelligence from customers and other stakeholders to enhance the collective understanding of emerging business opportunities and risks.

For a full copy of the report, click [here](#).

About CoBank

CoBank is a \$107 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 75,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation's rural economy. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at www.cobank.com.

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