Ag firms outperform S&P 500

April 15 2011

While the general economy has underperformed in the past several years, the crop farming sector has been not just stable, but profitable. A recent University of Illinois report comparing the returns from publicly traded companies from 2007 until the end of the first quarter of 2011 showed an 8.6 percent market value increase from agriculture-related companies and companies in the S&P 500 experienced a decline of 2.7 percent.

"We looked at 21 agriculture-related midwestern companies in five sectors: fertilizer, equipment, seed and genetic companies, crop production companies, and first processors," said U of I graduate student Clay Kramer who created the index with agricultural economist Gary Schnitkey. "The overall goal was to build an AgIndex that measured the change in market value of publicly traded agricultural companies and compare it to the S&P 500, looking at their market values and how they did over time from 2007 up to the first quarter of 2011."

The S&P 500 is an index that tracks the market values of 500 large companies in the United States. All of the agriculture-related companies that were monitored have an interest in agriculture, but the majority also have interests in other entities, such as construction.

Kramer said that over the course of the study, the AgIndex performed much better than the S&P 500.

"In the first year, we saw a 55 percent increase in ag companies compared with 2.2 percent from those in the S&P 500," Schnitkey said.

"Year two was the year of the big stock price decline. The S&P 500 declined 35 percent from the beginning of 2008 to the end of 2008 and the ag market fell even further – 48 percent," Schnitkey said.

The full report is available online at www.farmdoc.illinois.edu under the heading Farm Economics: Facts and Opinions.

Kramer and Schnitkey evaluated the markets using a geometric mean, which is very similar to an average.

"For example, if you invested funds in 2007, this would be your average yearly rate of return," explained Schnitkey. "So 8.6 percent for 2007 through 2010 means you would have had an increase of 8.6 percent in value each year up to 2010."

Among the five agriculture sectors, the first processors didn't perform nearly as well when compared with fertilizer and equipment companies, Kramer said.

"From the beginning of 2007 to the end of 2010, there was a 2 percent decrease in the crop protection sector and a 4 percent decrease in the first processor sector," Kramer said. "These sectors did relatively well in the first quarter of 2011, having increases that caused the second quarter 2011 value to exceed the first quarter 2007 value."

According to the report, market values varied across sectors. Fertilizer, equipment, and seed and genetic sectors had large increases in market values.

"These firms supply products to farmers, who have generally had above-average incomes," Schnitkey said. "Farms having above average incomes likely led to higher demand for fertilizer, equipment, and seed and genetic sectors. The sector that had the lowest market value increase from 2007 was the first processor sector. This sector purchases inputs from grain farms, and higher commodity prices may have played a role in lower market values."

Provided by University of Illinois at Urbana-Champaign