

# Ag. Outlook

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# Recession?

Typically defined as two or more quarters of negative economic growth

Looser definition: significant decline in economic activity over a few months

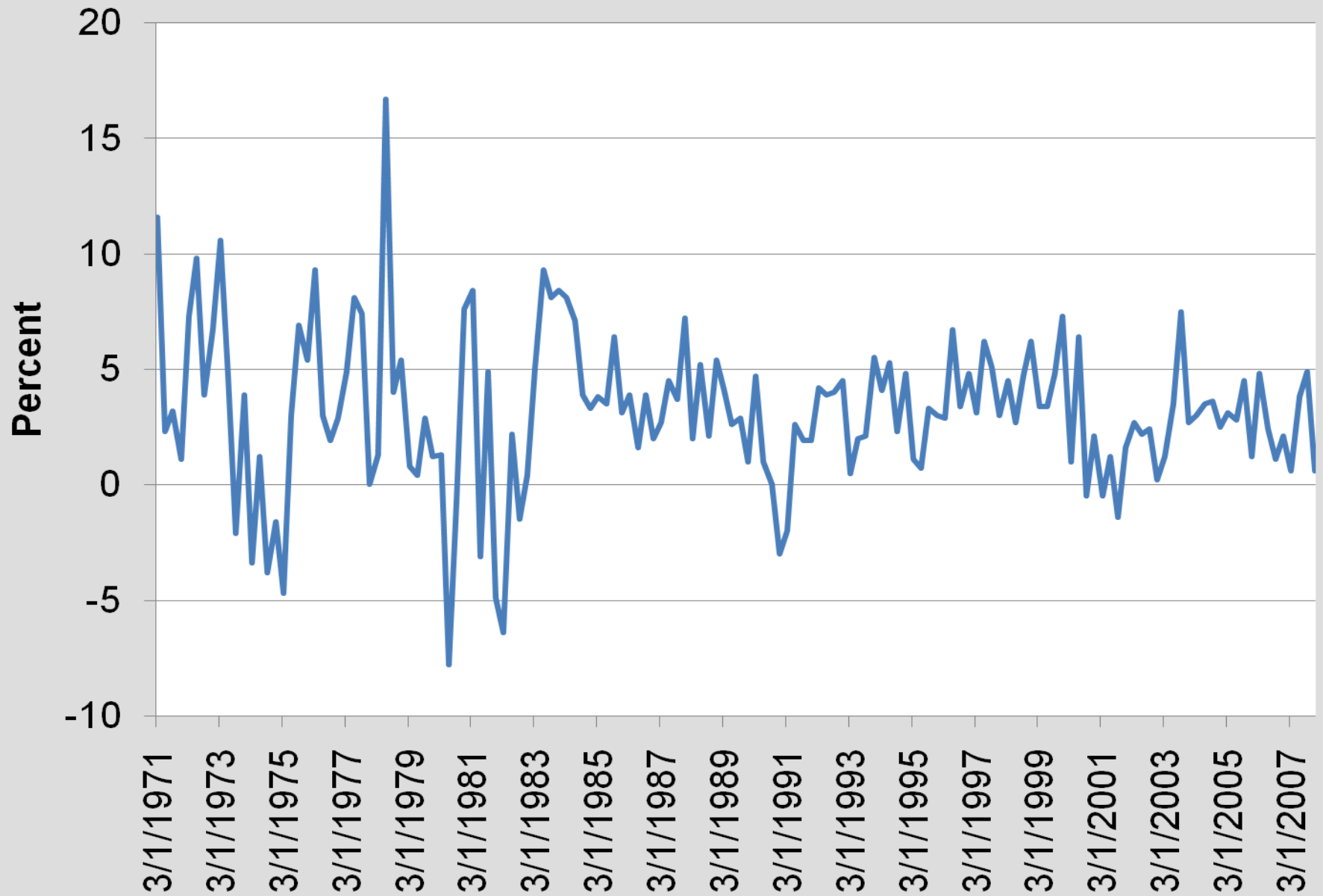
Can be accompanied by deflation or inflation

- stagflation is the combination of inflation and recession

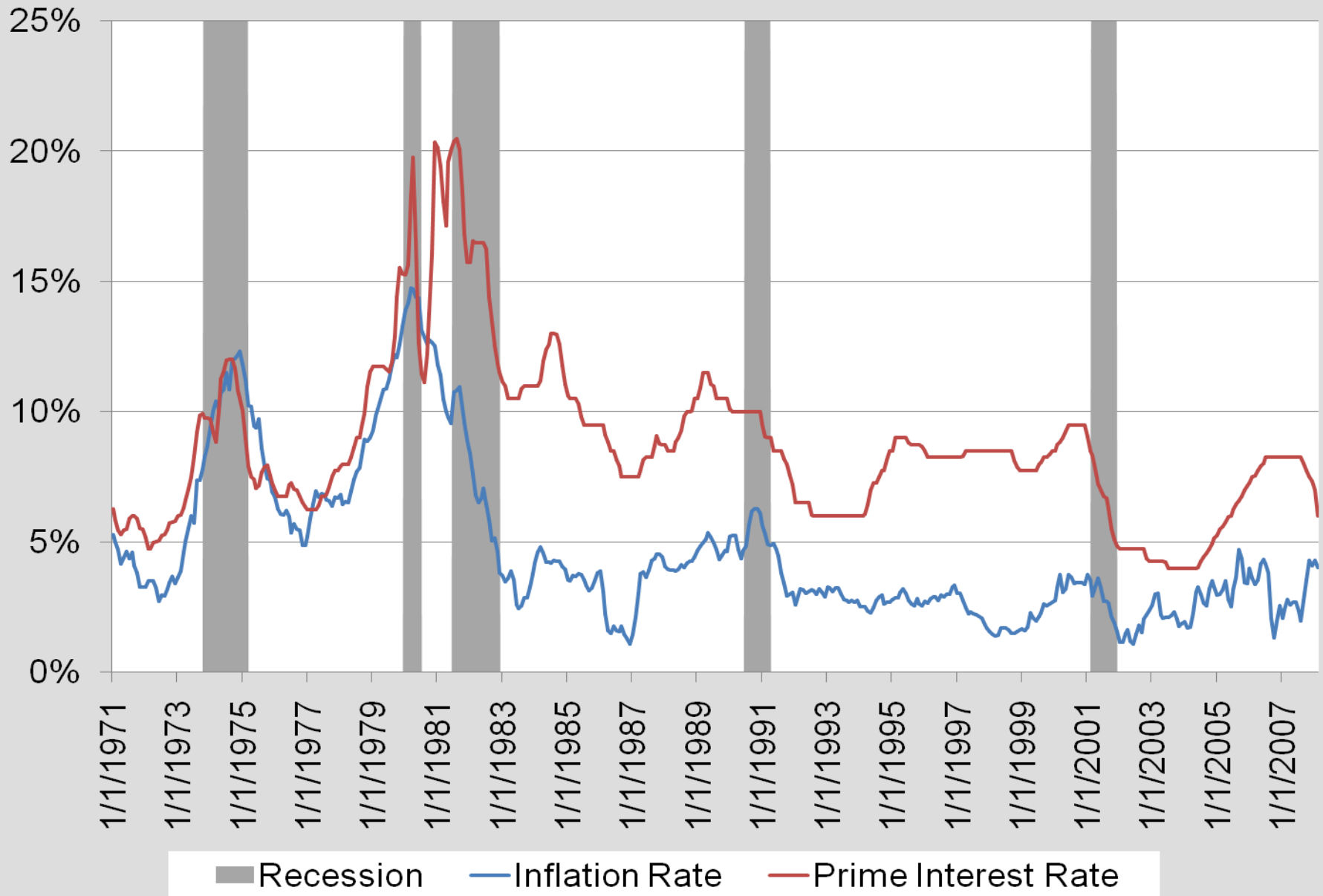
Takes several months to confirm if you're in one

“Economists have correctly predicted nine of the last five recessions.” -- Paul Samuelson

# GDP Growth



# Economy in General



# Recession?

Ongoing debate whether we're in one or not (slowdown vs. recession)

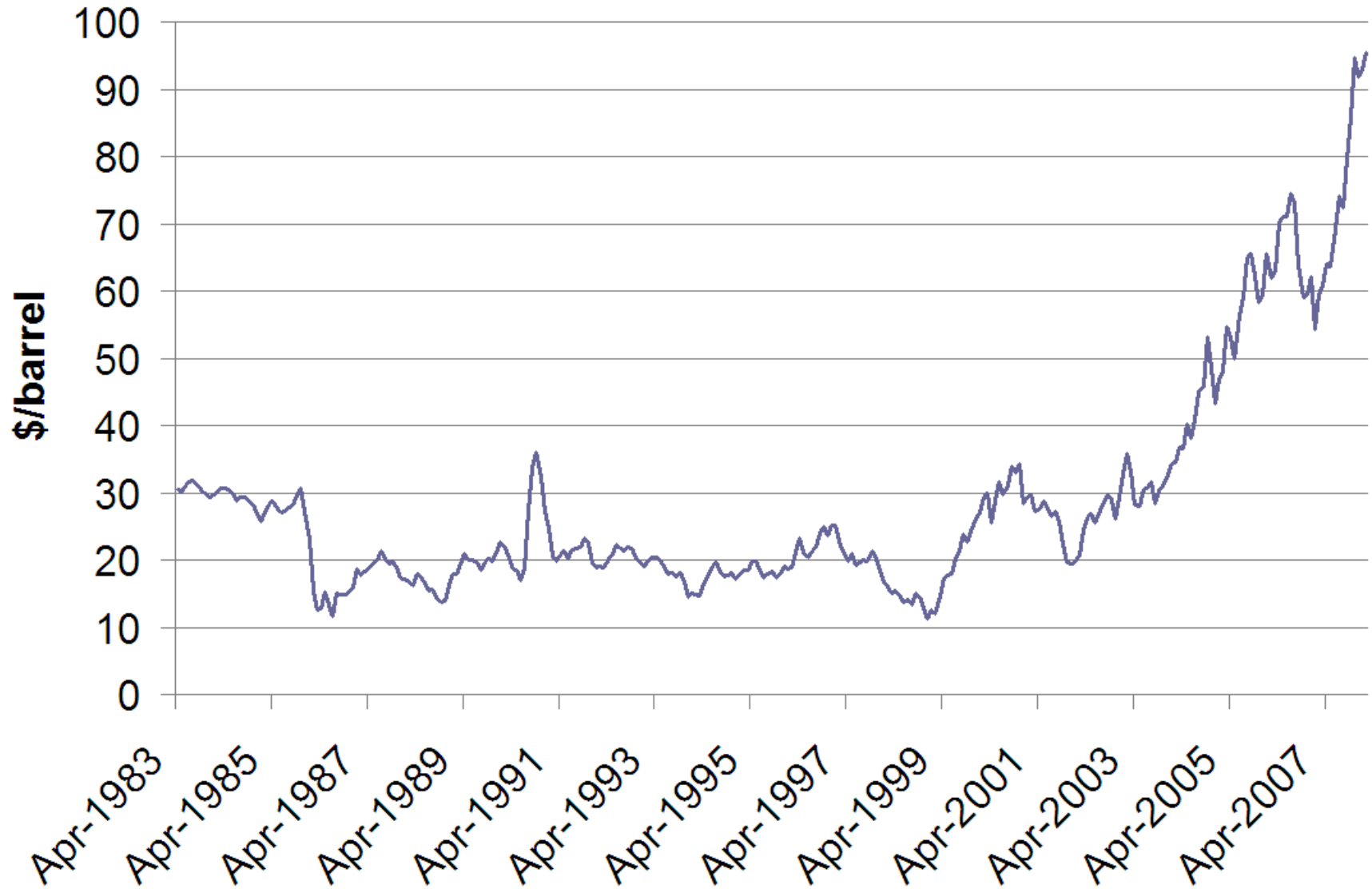
Housing market and subprime mortgage crisis are significant contributors

Projections range from slowdown to significant recession

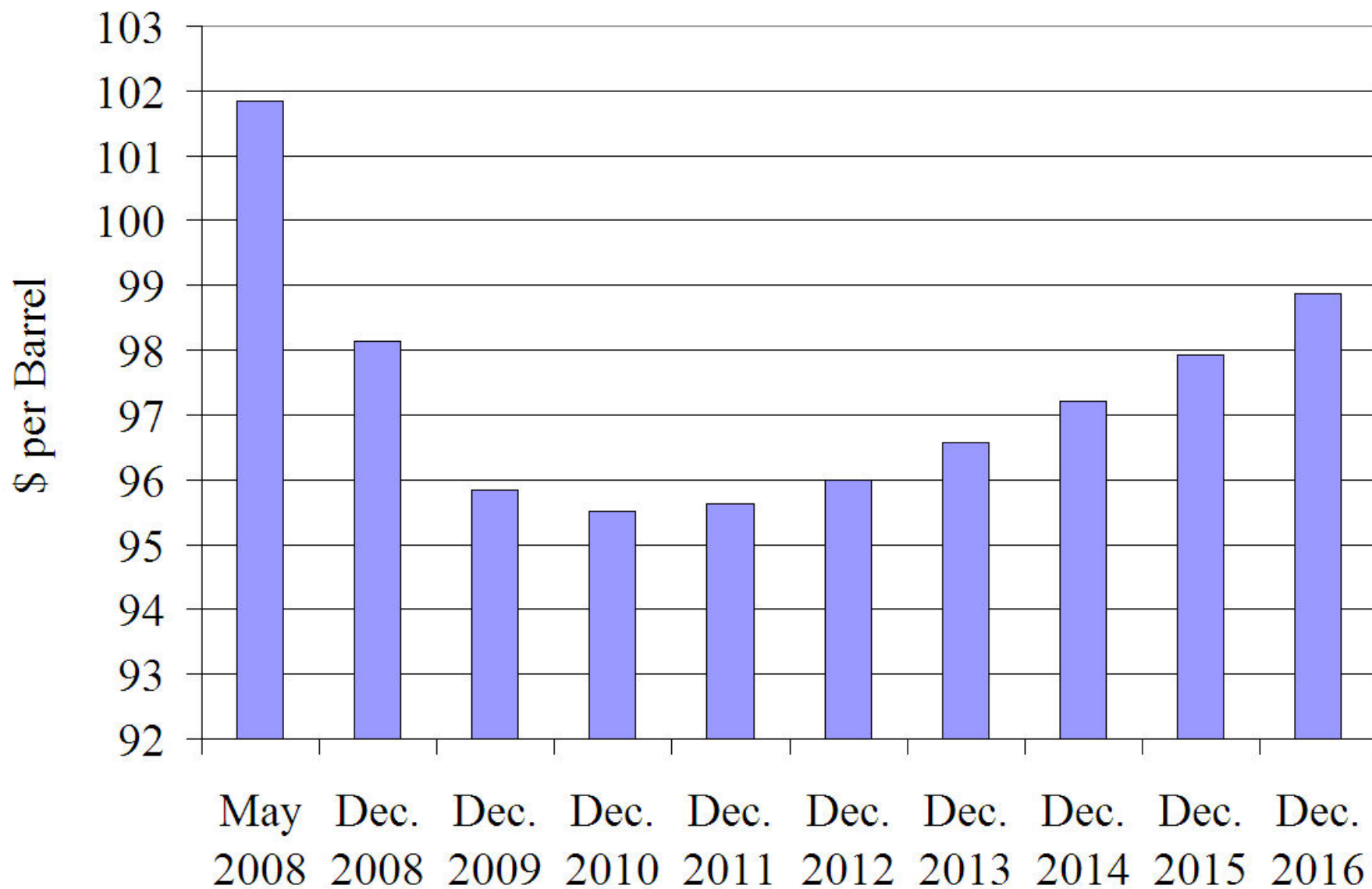
Bloomberg News surveyed several economists on economic outlook – Predicted GDP growth for 1<sup>st</sup> quarter 2008 = 0.1%

Federal Reserve continues to lower interest rates, but is monitoring inflation

# Historical Crude Oil Prices



# Oil Futures As Of 3/20/2008

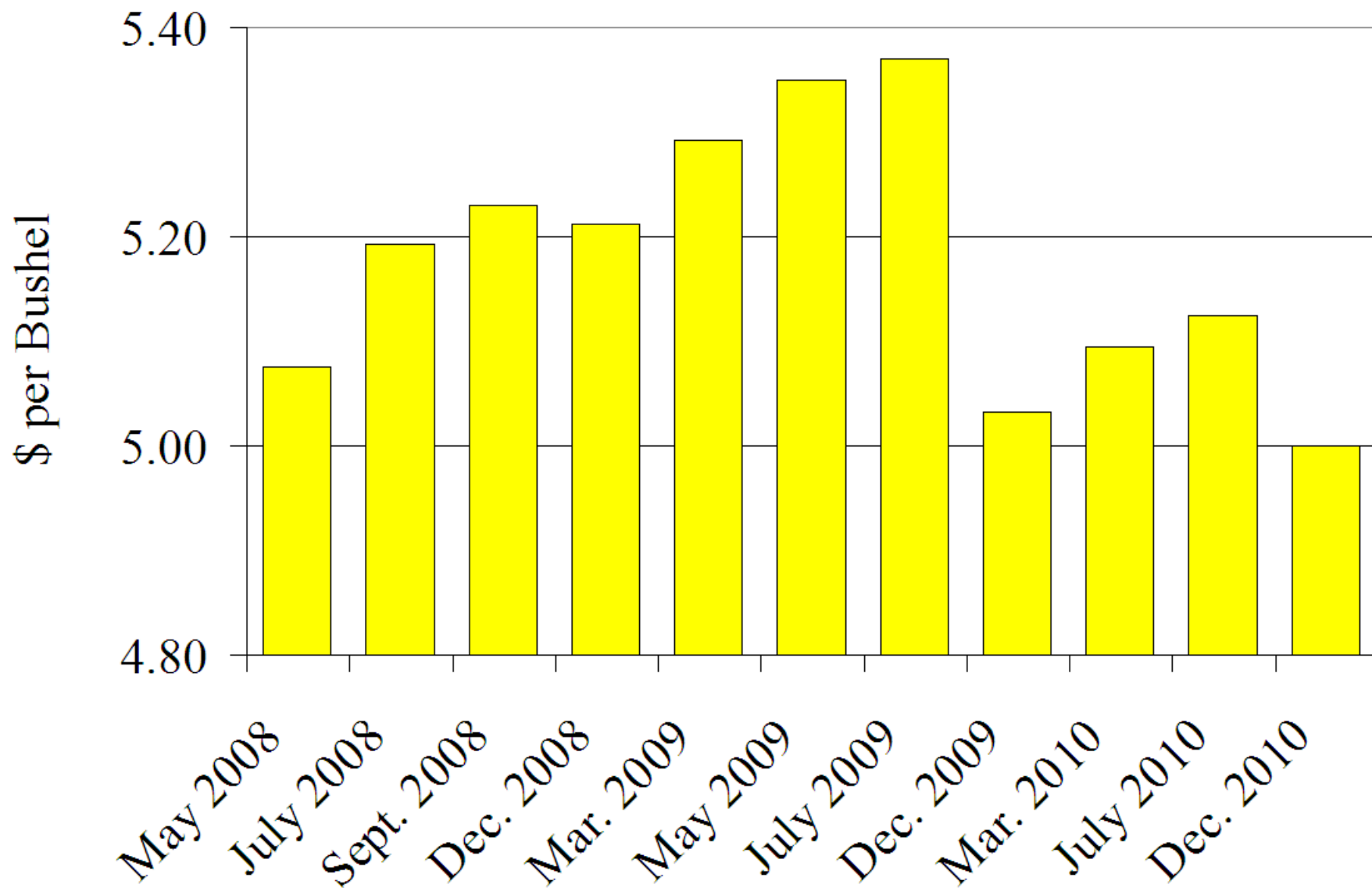


# Nearby Corn Futures





# Corn Futures As Of 3/20/2008



# Corn Market Factors

## Domestic demand changes

- Biofuels
- Livestock feed

## South American planting and production

- Export competition

## Competition for acreage

- Corn vs. soybeans vs. wheat

## Tighter stocks

- More sensitivity to weather shocks

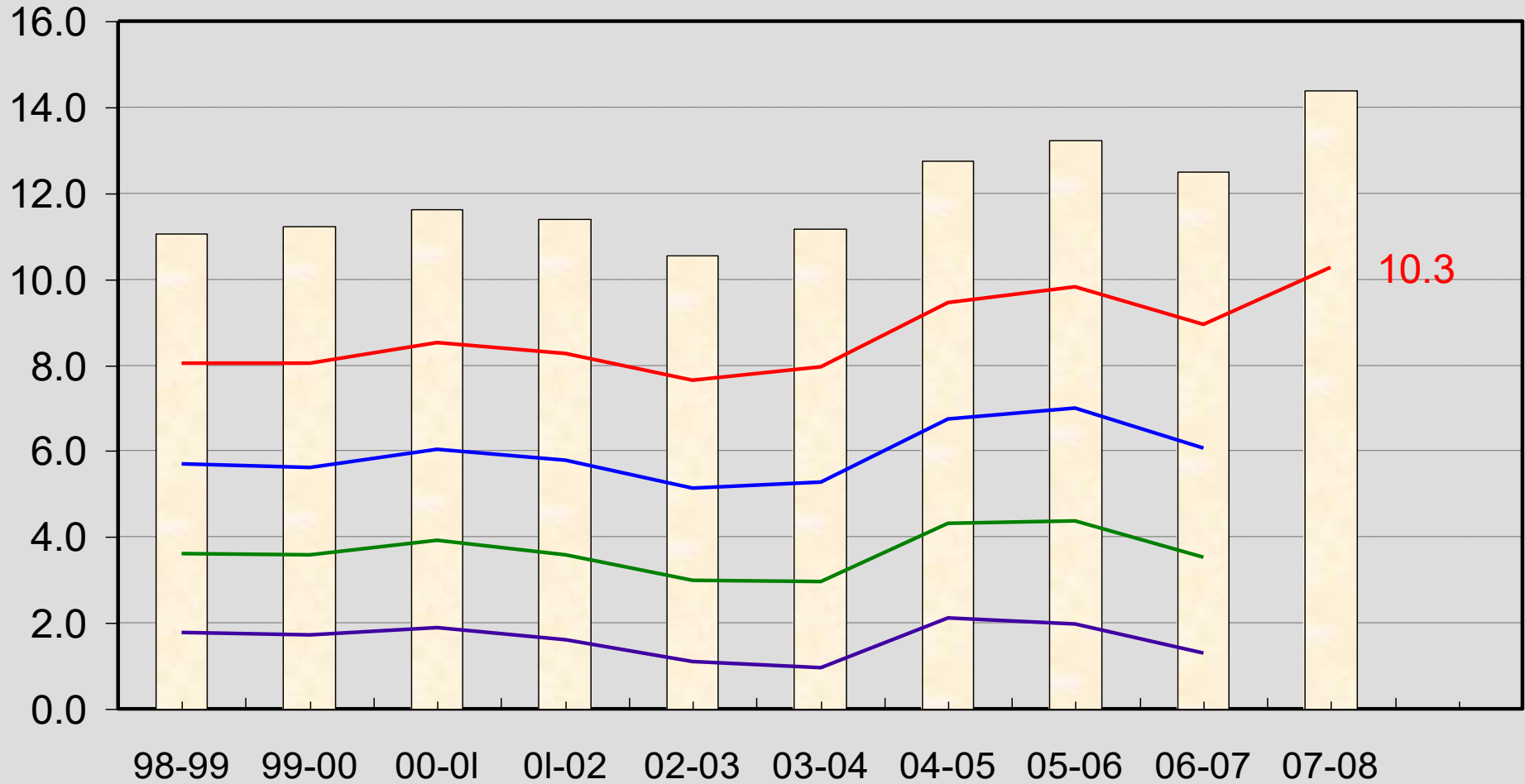
# U.S. Corn Supply and Demand

	2006/07 estimate	2007/08 forecast	Change from last month	Change from last year
	<i>Percent</i>			
Planted area (million acres)	78.3	93.6	0.0	19.5
Harvested area (million acres)	70.6	86.5	0.0	22.5
Yield (bushels per acre)	149.1	151.1	0.0	1.3
	<i>Million bushels</i>			
Beginning stocks	1,967	1,304	0.0	-33.7
Production	10,535	13,074	0.0	24.1
Total supply	12,514	14,393	0.0	15.0
Feed and residual	5,598	5,950	0.0	6.3
Food, seed, and industrial	3,488	4,555	0.0	30.6
Ethanol	2,117	3,200	0.0	51.2
Domestic use	9,086	10,505	0.0	15.6
Exports	2,125	2,450	0.0	15.3
Total use	11,210	12,955	0.0	15.6
Ending stocks	1,304	1,438	0.0	10.3
	<i>Percent</i>			
Stocks/use	11.6	11.1		
	<i>Dollars per bushel</i>			
Average market price	3.04	3.75/4.25	0.0/0.0	23.4/39.8

Source: USDA

# U.S. Corn Stocks

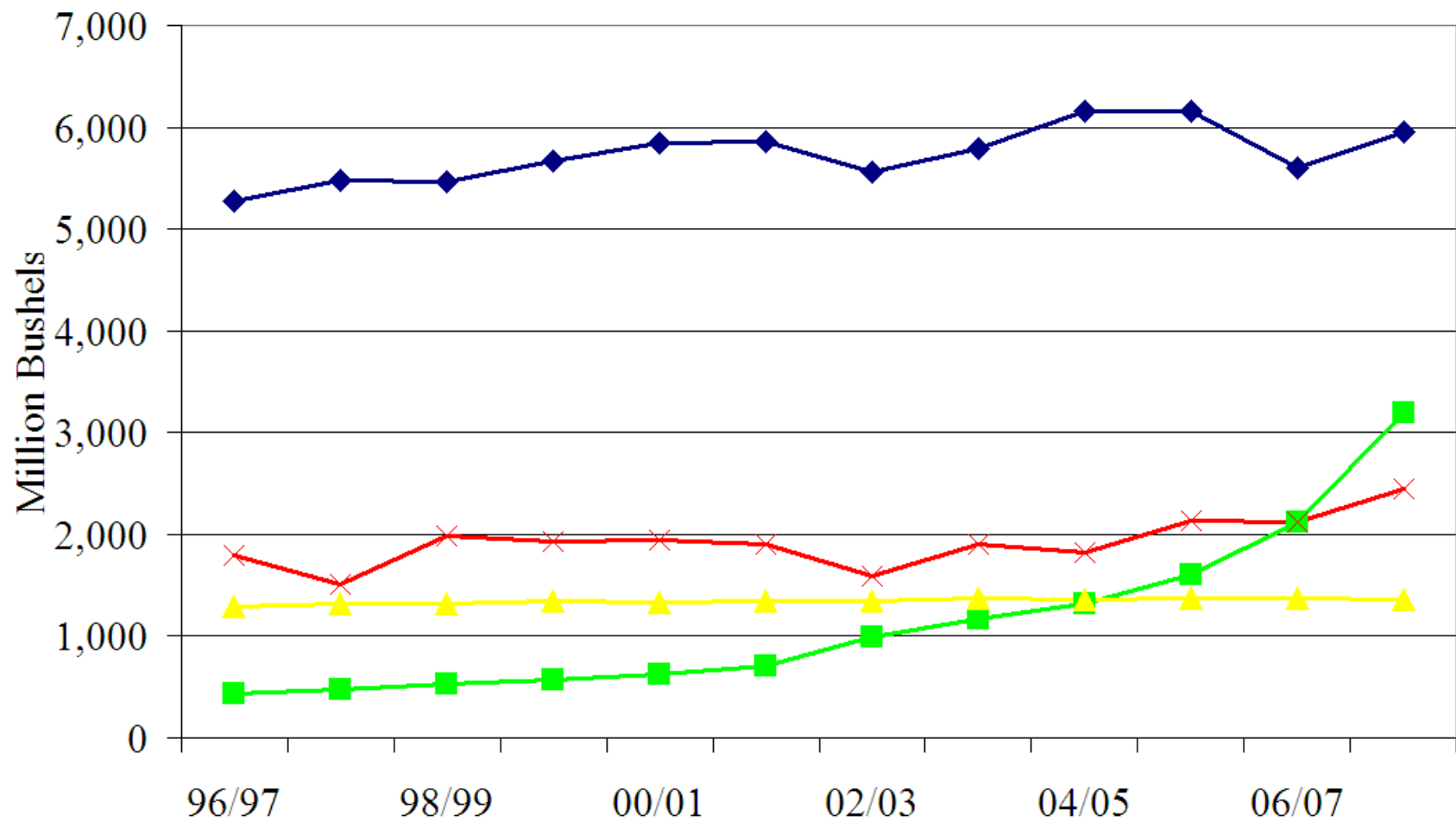
Billion Bushels



Source: USDA

Beginning Supply Dec Mar Jun Sep

# Corn Utilization



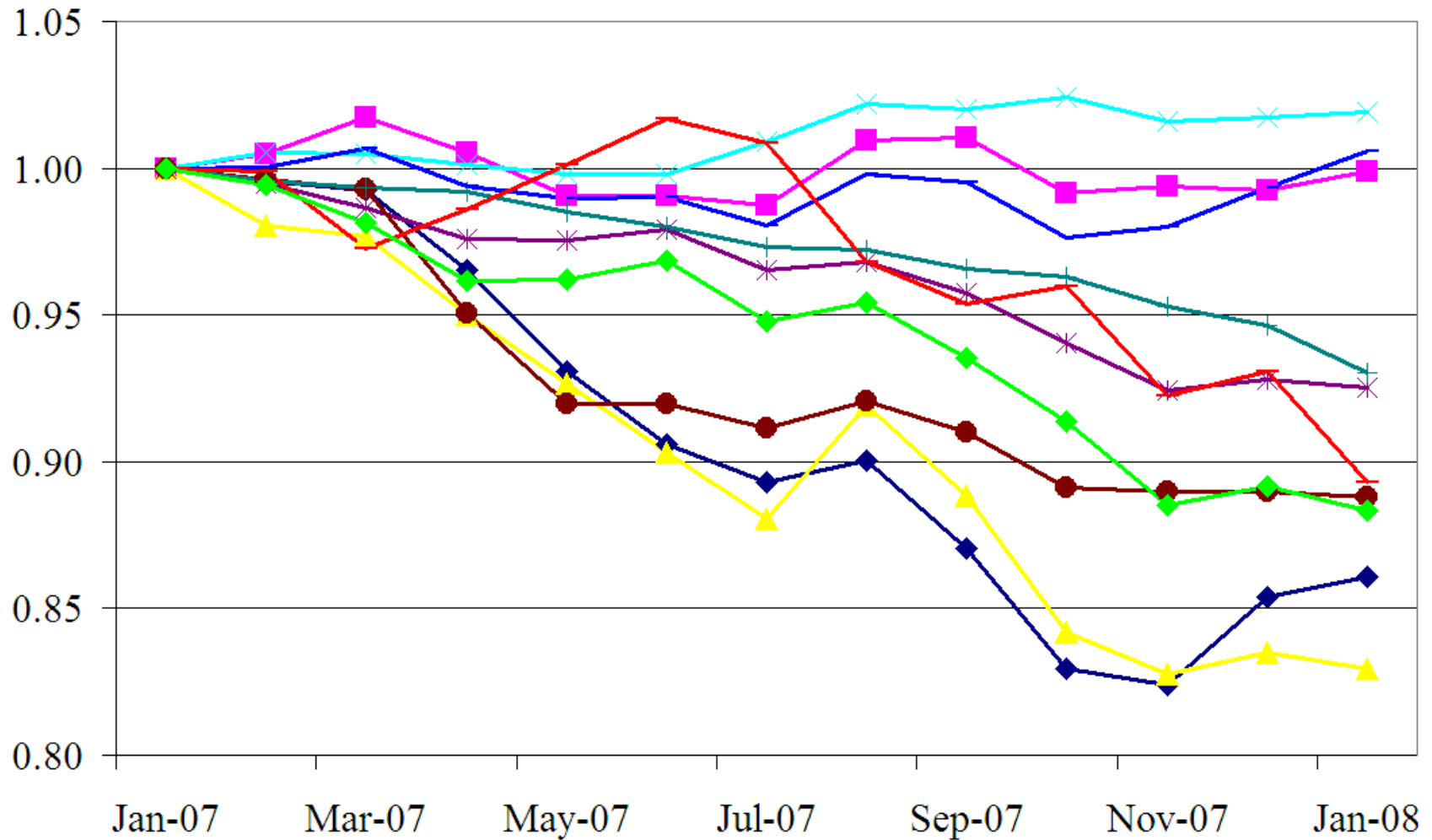
◆ Feed

■ Ethanol

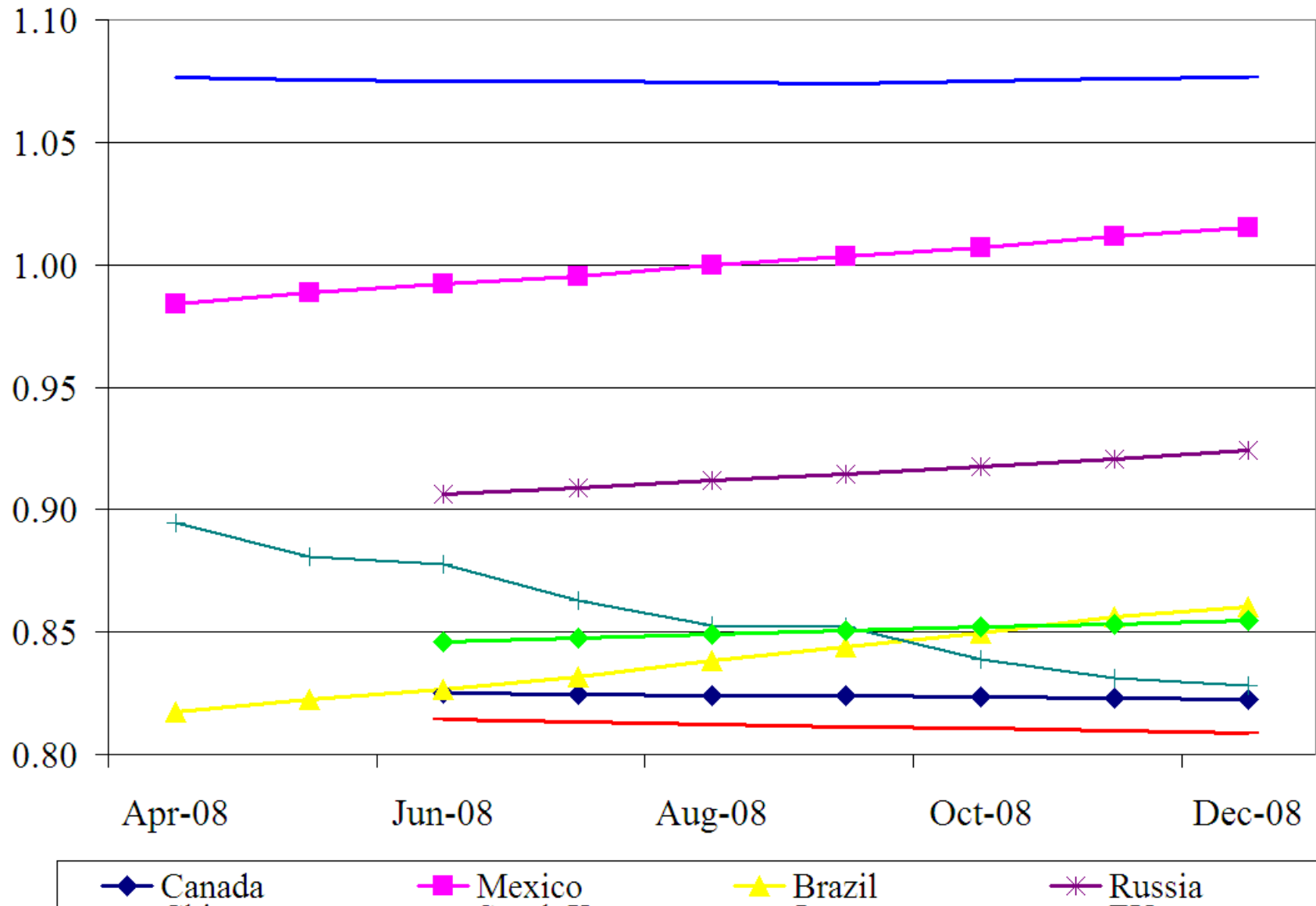
▲ Other

× Exports

# Exchange Rates



# Exchange Rate Futures



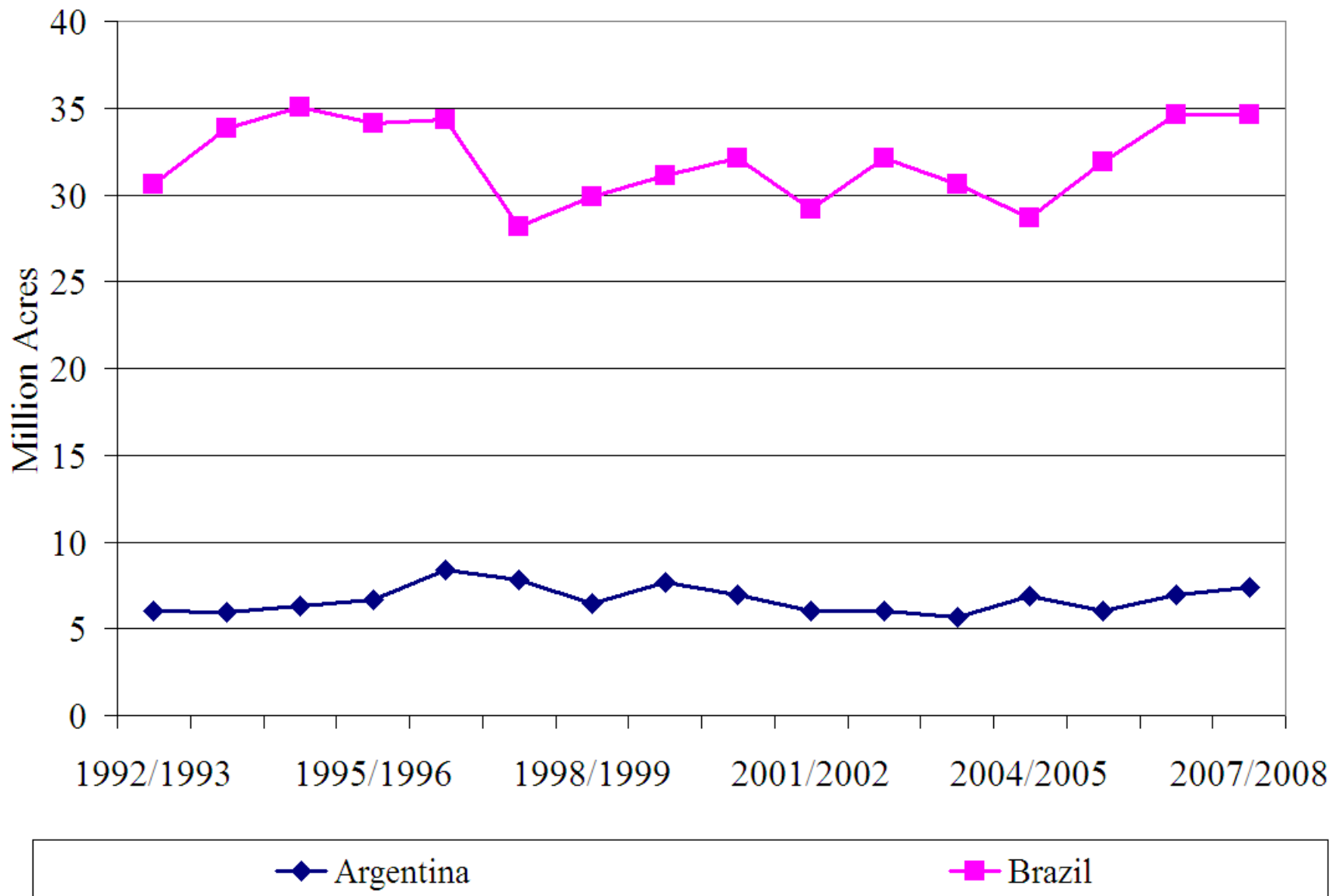
# World Corn Production

Country or Region	2007/08	2006/07	Change	Percent Change
	<i>Million tons</i>			<i>Percent</i>
World	770.2	704.3	65.9	9.4
EU-27	47.5	54.8	-7.4	-13.4
FSU-12	13.8	12.8	0.9	7.3
South Africa	11.0	7.3	3.7	50.7
Argentina	21.5	22.5	-1.0	-4.4
Brazil	53.0	51.0	2.0	3.9
China	145.0	145.5	-0.5	-0.3
United States	332.1	267.6	64.5	24.1

Source: USDA



# South American Corn Area



# Corn Production Costs - National

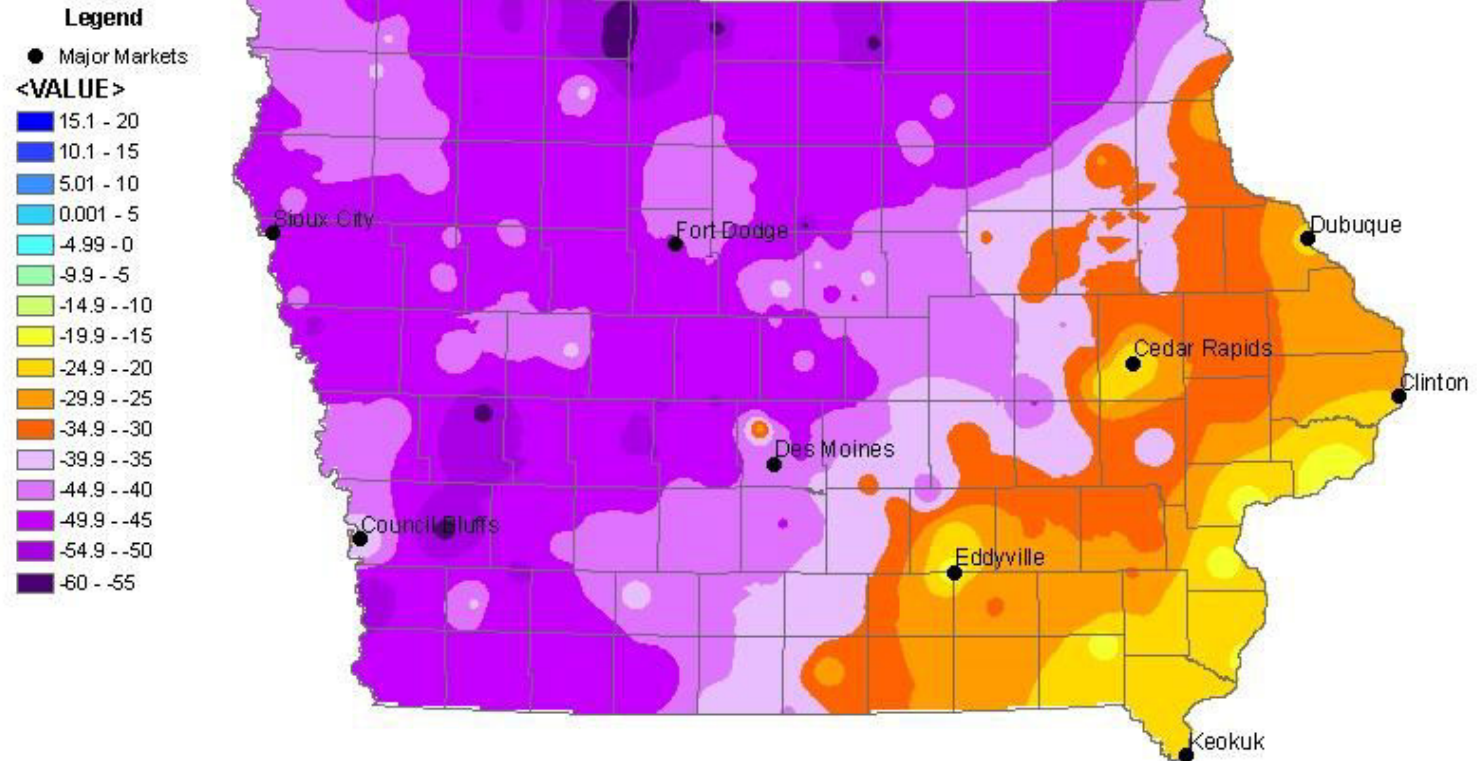
Item	Corn				
	2005	2006	2007F	2008F	2009F
Operating costs:					
Seed	40.47	43.55	48.93	50.02	51.21
Fertilizer	69.35	80.17	93.96	99.95	102.34
Chemicals	22.84	23.62	24.67	25.64	26.40
Custom operations	9.97	10.58	10.93	11.27	11.59
Fuel, lube, and electricity	26.50	28.73	30.98	32.98	34.56
Repairs	14.00	14.45	14.86	15.22	15.60
Other variable expenses	0.12	0.12	0.12	0.13	0.13
Interest on operating capital	3.12	4.76	5.16	4.94	5.81
<b>Total, operating costs</b>	<b>186.37</b>	<b>205.98</b>	<b>229.61</b>	<b>240.15</b>	<b>247.64</b>
Allocated overhead:					
Hired labor	2.08	2.19	2.22	2.27	2.33
Unpaid labor	22.02	23.56	23.86	24.45	25.02
Capital recovery	64.02	66.71	69.99	73.12	75.56
Land	93.27	90.84	95.44	97.78	100.67
Taxes and insurance	6.51	7.01	7.39	7.51	7.63
General farm overhead	12.61	13.45	13.83	14.17	14.52
<b>Total, allocated costs</b>	<b>200.51</b>	<b>203.76</b>	<b>212.73</b>	<b>219.30</b>	<b>225.73</b>
<b>Total costs listed</b>	<b>386.88</b>	<b>409.74</b>	<b>442.34</b>	<b>459.45</b>	<b>473.37</b>

Source: USDA-ERS

# Basis in 2006

## MAR 20, 2006 CORN BASIS

Basis Calculated from CBOT MAY futures Prices 218.3 cents per bushel



# Basis in 2007

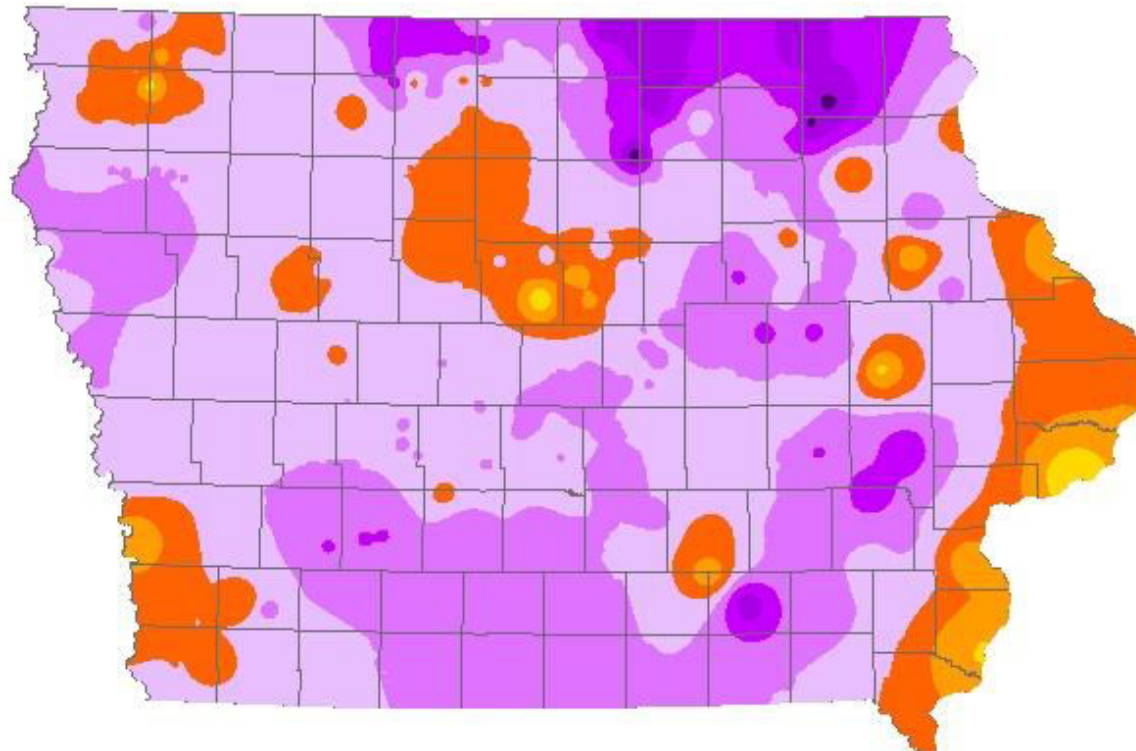
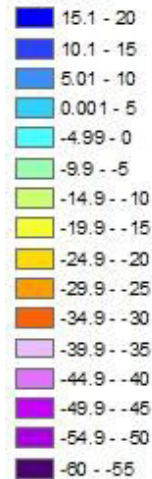
## MAR 20, 2007 CORN BASIS

Basis Calculated from CBOT MAY futures price 405.3 cents per bushel

### Legend

□ county

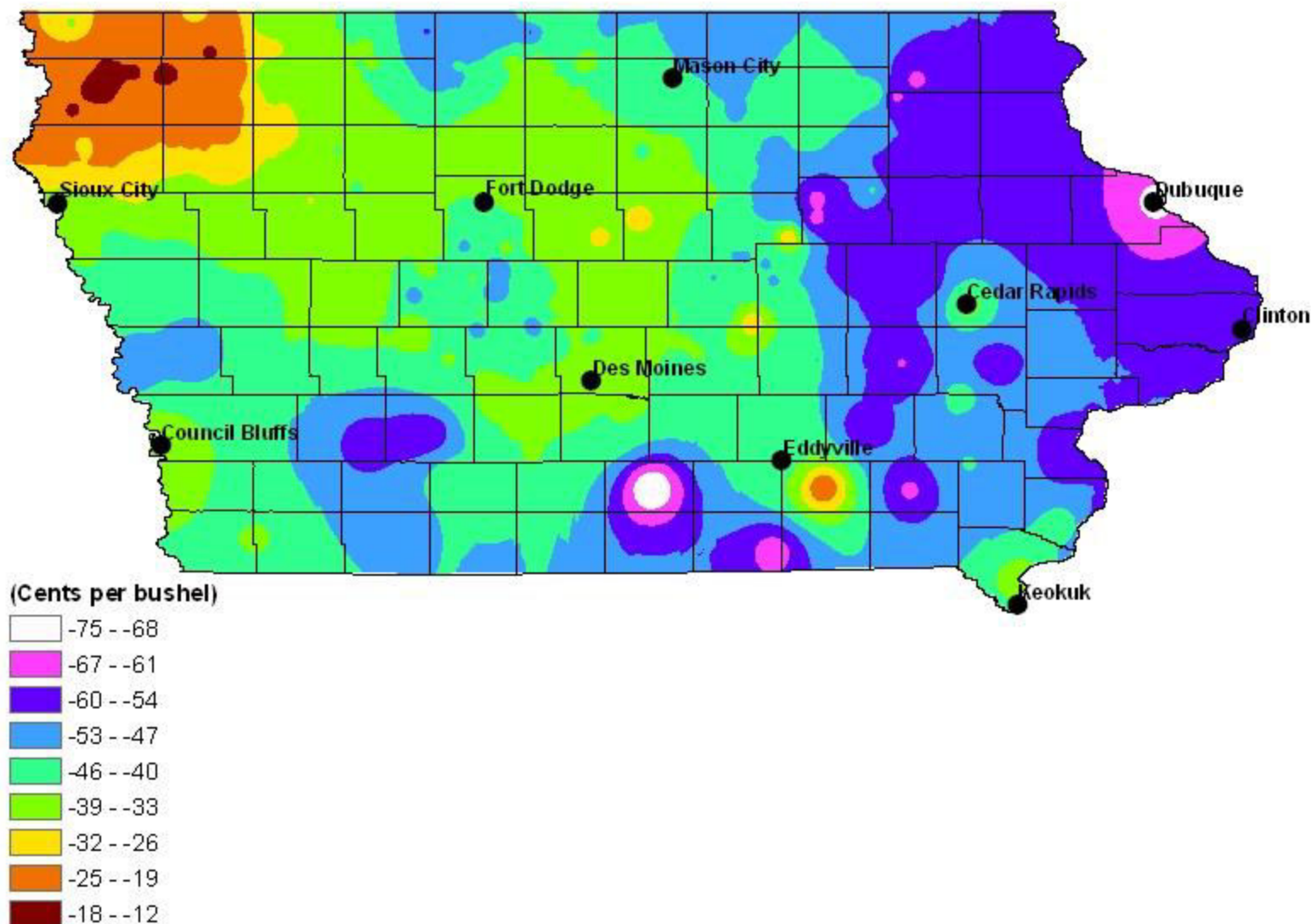
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# Basis in 2008

Mar. 20, 2008 Corn Basis

Basis calculated from CBOT May 2008 futures price of \$5.075 per bushel

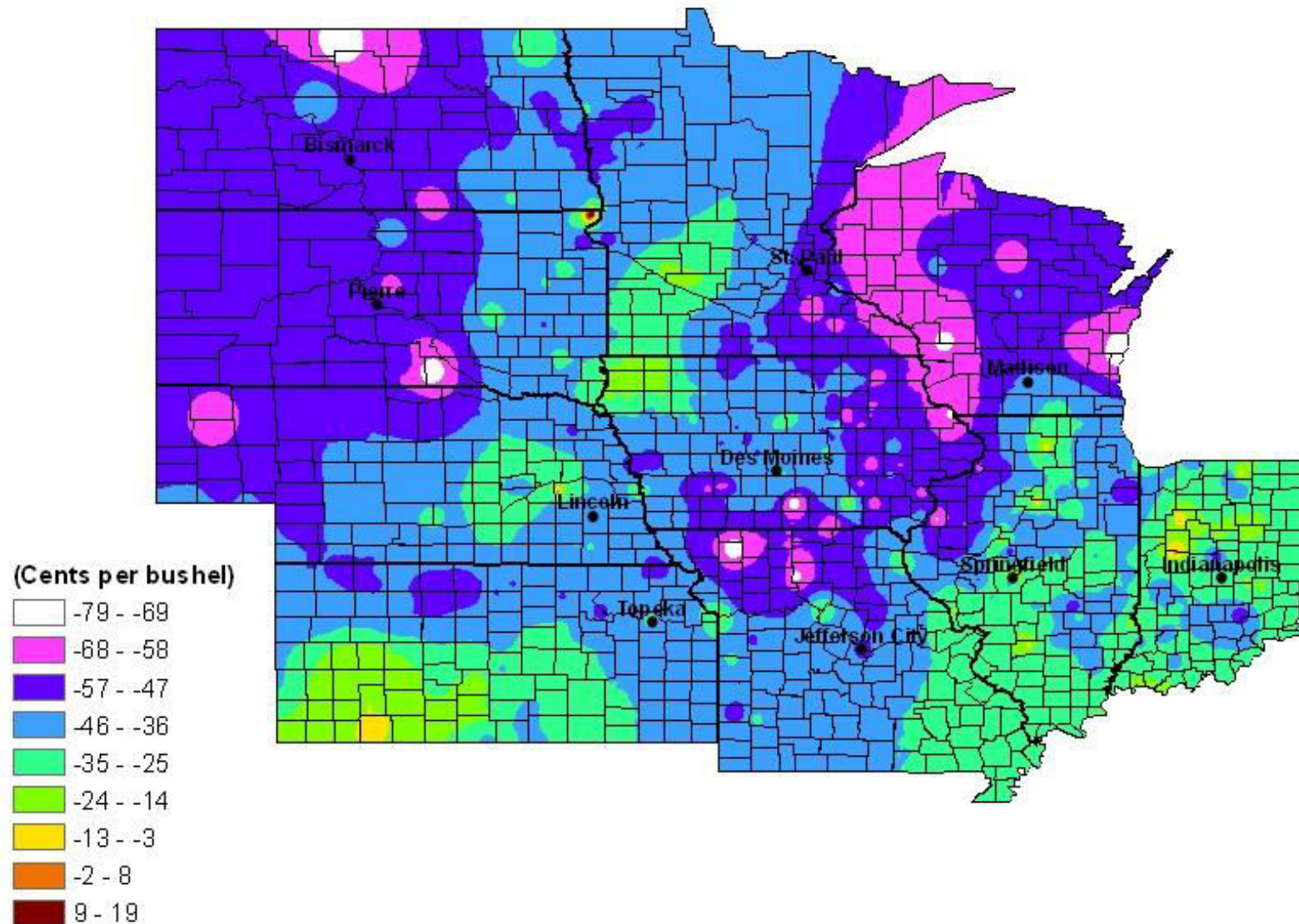




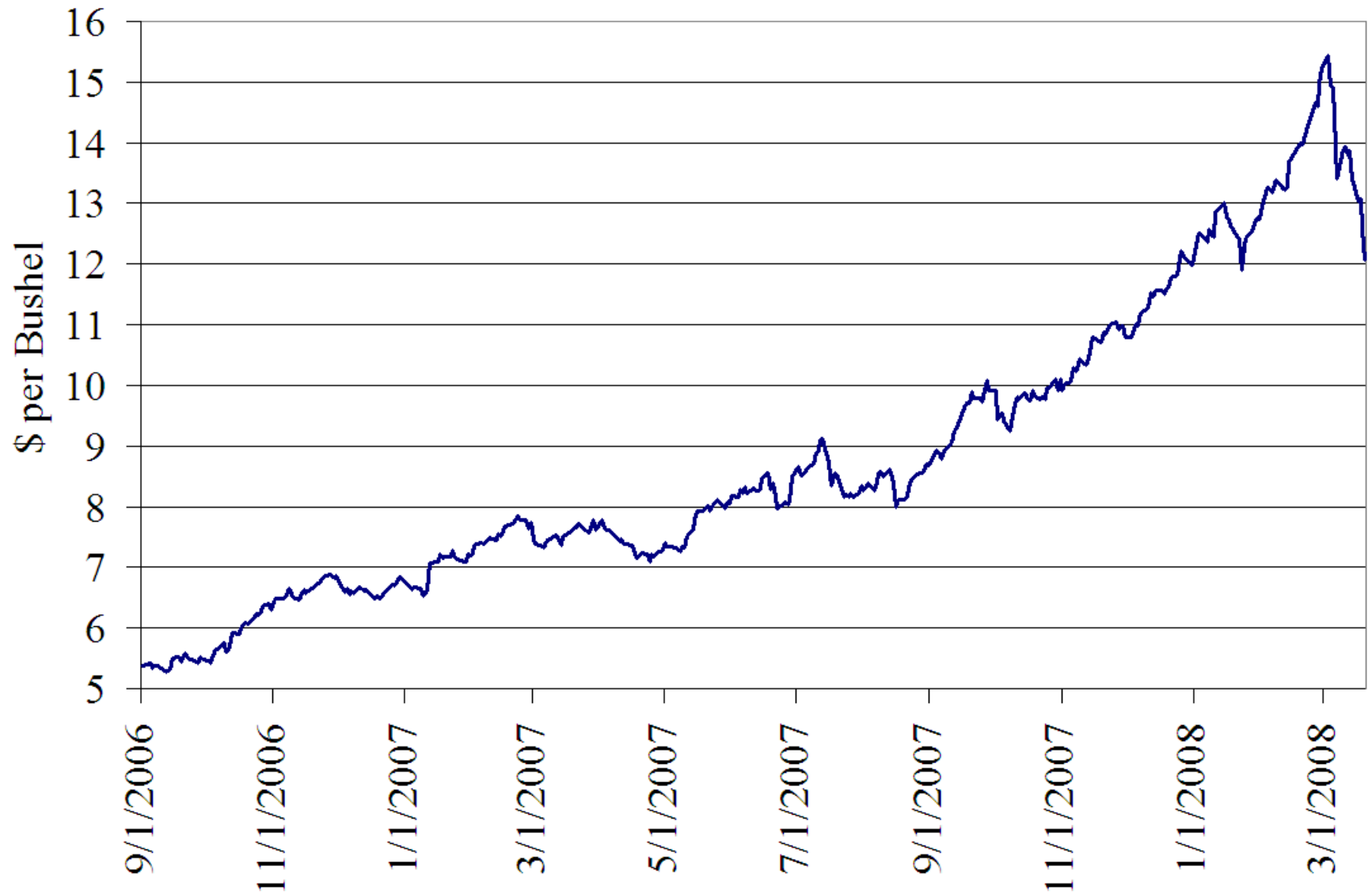
# Midwest Basis in 2008

Mar. 20, 2008 Corn Basis

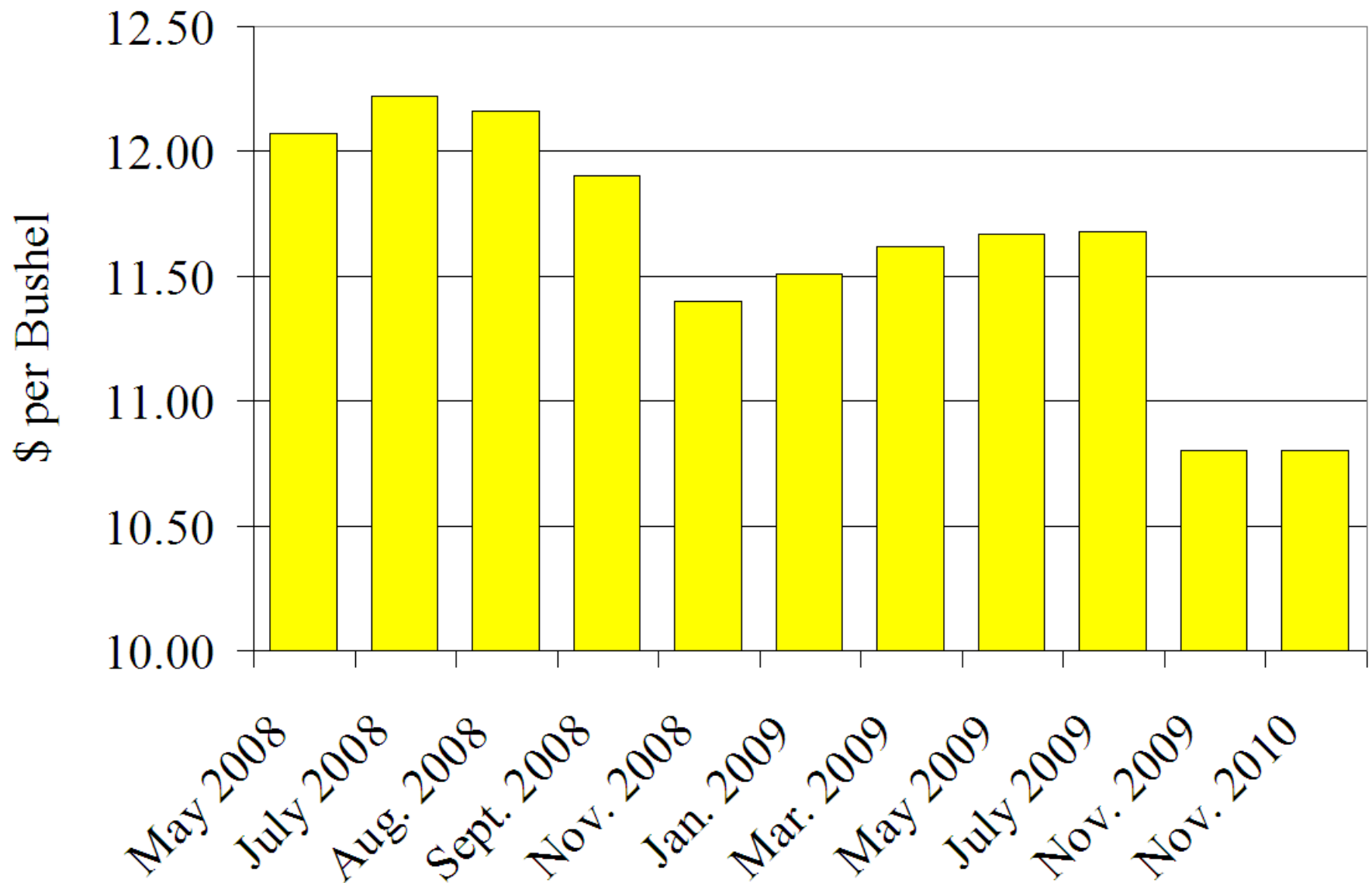
Basis calculated from CBOT May 2008 futures price of \$5.075 per bushel



# Nearby Soybean Futures



# Soybean Futures As Of 3/20/2008





# Soybean Market Factors

## Domestic demand changes

- Biofuels
- Livestock feed

## South American planting and production

- Export competition

## Competition for acreage

- Corn vs. soybeans vs. wheat

## Tighter stocks

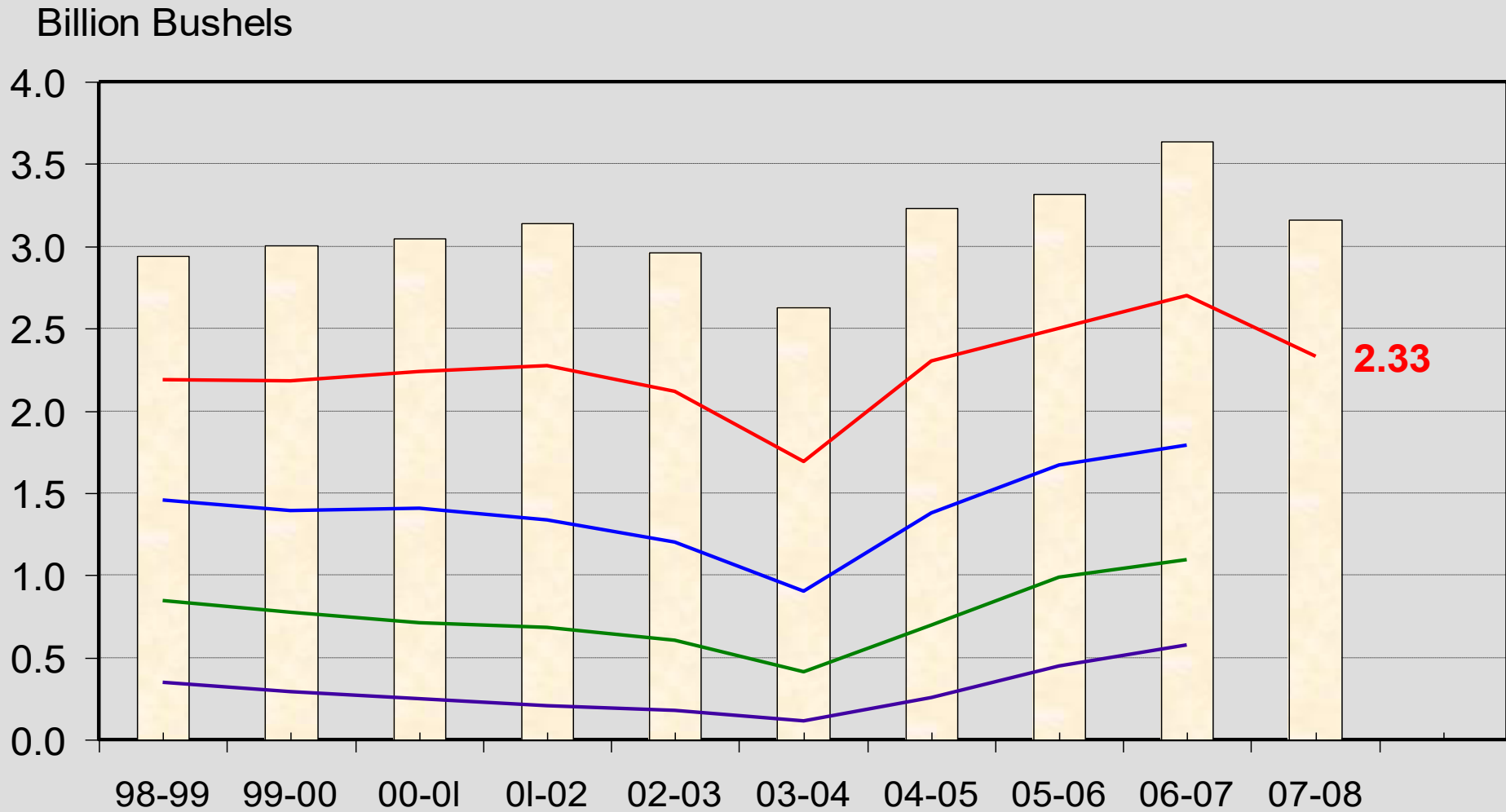
- More sensitivity to weather shocks

# U.S. Soybean Supply and Demand

	2006/07 estimate	2007/08 forecast	Change from last month	Change from last year
	<i>Percent</i>			
Planted area (million acres)	75.5	63.6	0.0	-15.7
Harvested area (million acres)	74.6	62.8	0.0	-15.8
Yield (bushels per acre)	42.7	41.2	0.0	-3.7
	<i>Million bushels</i>			
Beginning stocks	449	574	0.0	27.7
Production	3,188	2,585	0.0	-18.9
Imports	9.0	6.0	0.0	-33.6
Total Supply	3,647	3,165	0.0	-13.2
Crush	1,806	1,835	0.0	1.6
Seed and Residual	148	165	0.0	11.3
Domestic use	1,955	2,000	0.0	2.3
Exports	1,118	1,025	2.0	-8.3
Total Use	3,073	3,025	0.7	-1.5
Ending stocks	574	140	-12.5	-75.6
	<i>Percent</i>			
Stocks/use ratio	18.7	4.6		
	<i>Dollars per bushel</i>			
Average market price	6.43	10.00/10.80	0.0/0.0	55.5/68.0

Source: USDA

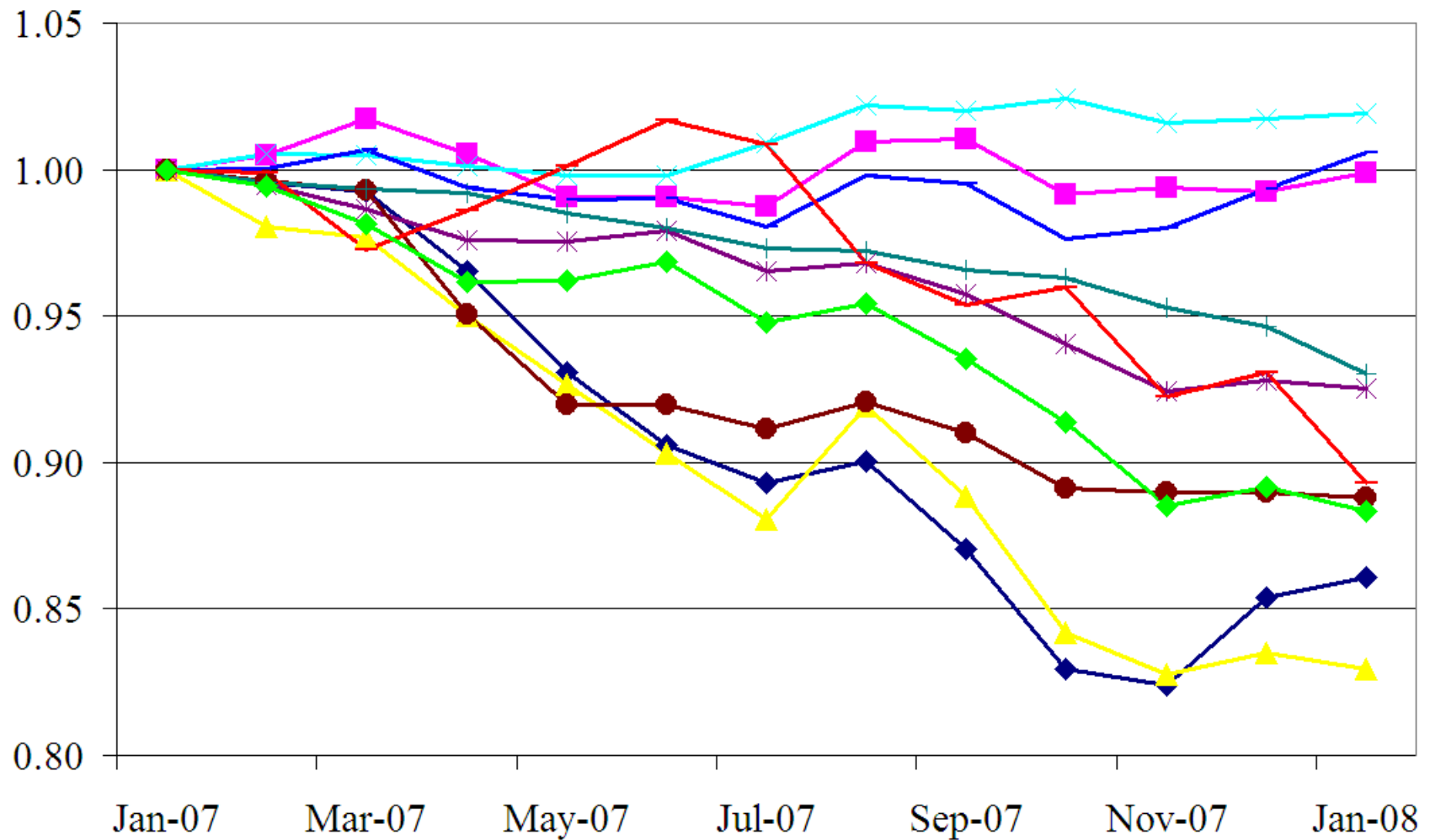
# U.S. Soybean Stocks



Source: USDA

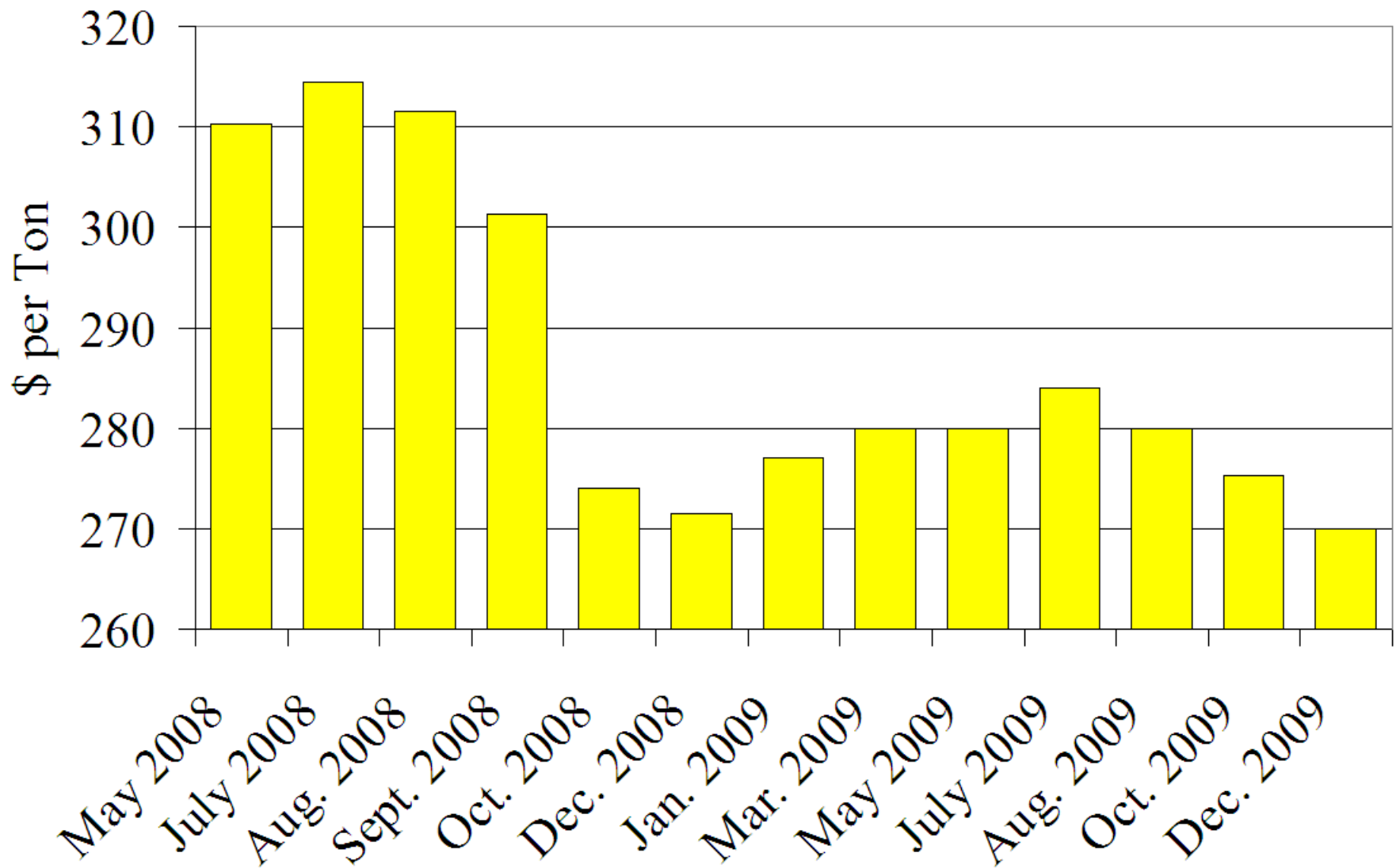


# Exchange Rates

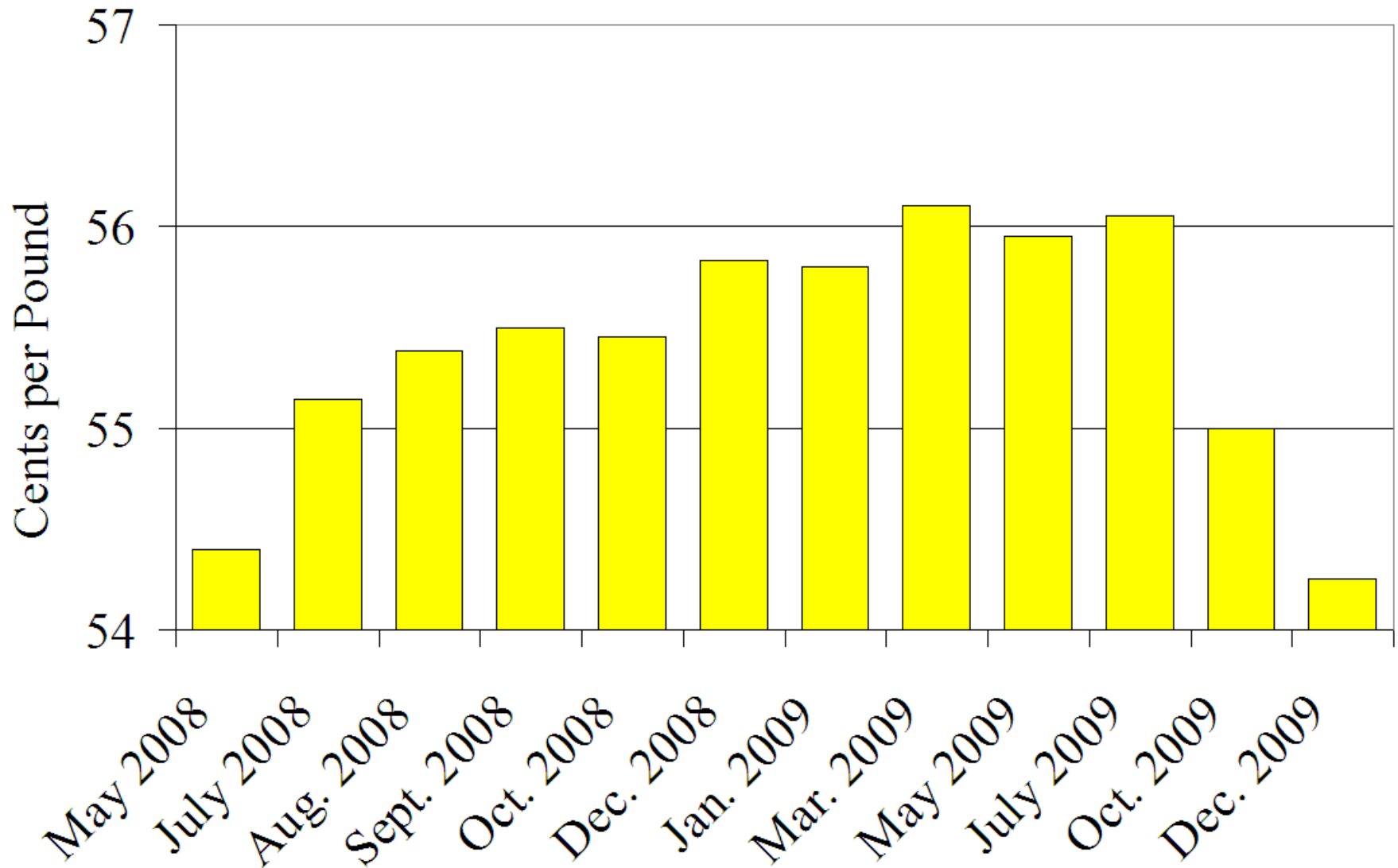


◆ Canada	■ Mexico	▲ Brazil	✕ Argentina	* Russia
● India	+ China	— South Korea	— Japan	◆ EU

# Soybean Meal Futures as of 3/20/2008



# Soybean Oil Futures as of 3/20/2008

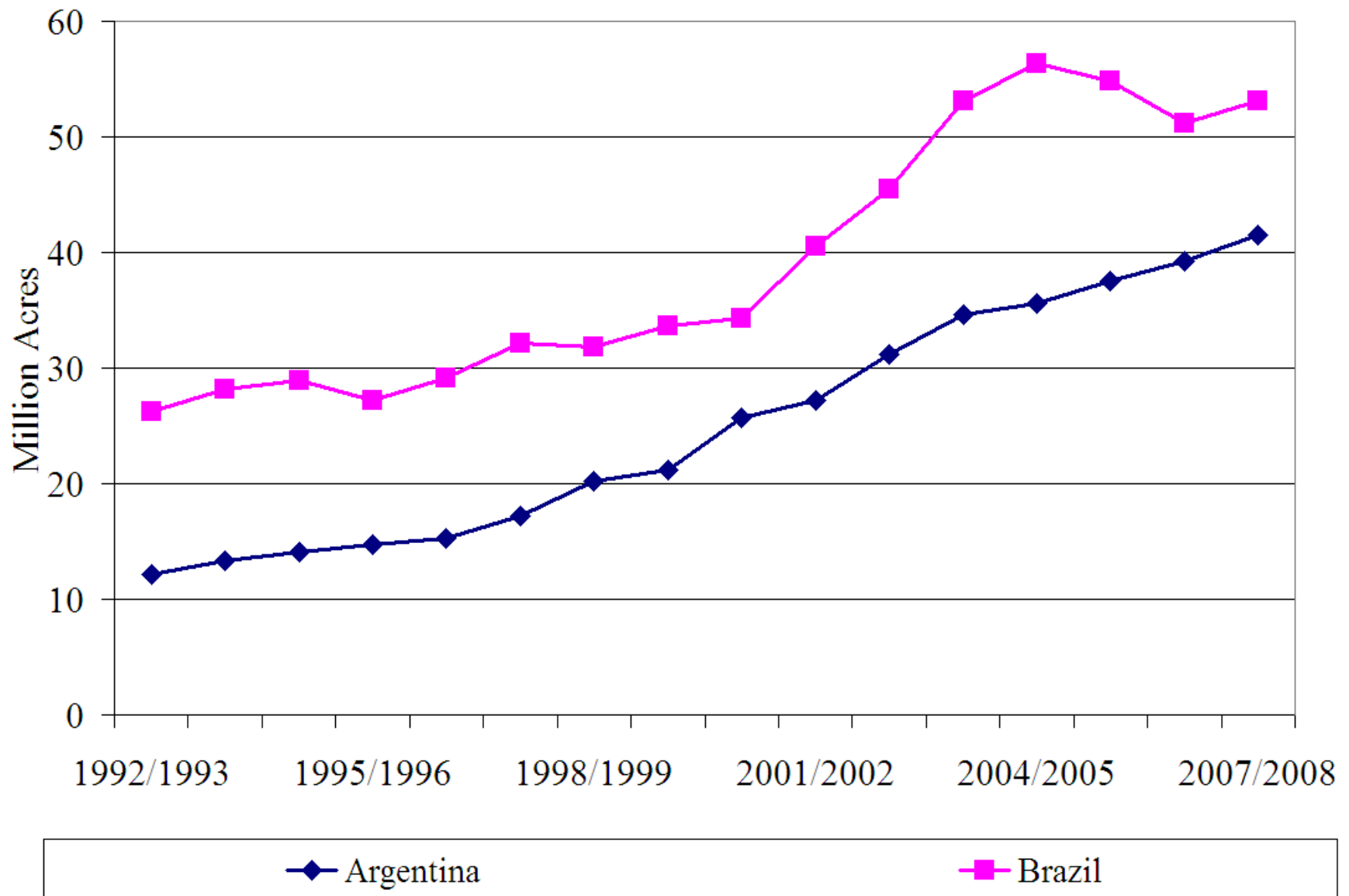


# World Soybean Production

Country or Region	2007/08	2006/07	Change	Percent Change
	<i>Million tons</i>			<i>Percent</i>
World	219.8	237.2	-17.4	-7.3
U.S.	70.4	86.8	-16.4	-18.9
Argentina	47.0	48.8	-1.8	-3.7
Brazil	61.0	59.0	2.0	3.4
China	14.3	16.0	-1.7	-10.4
Foreign	149.5	150.5	-1.0	-0.6

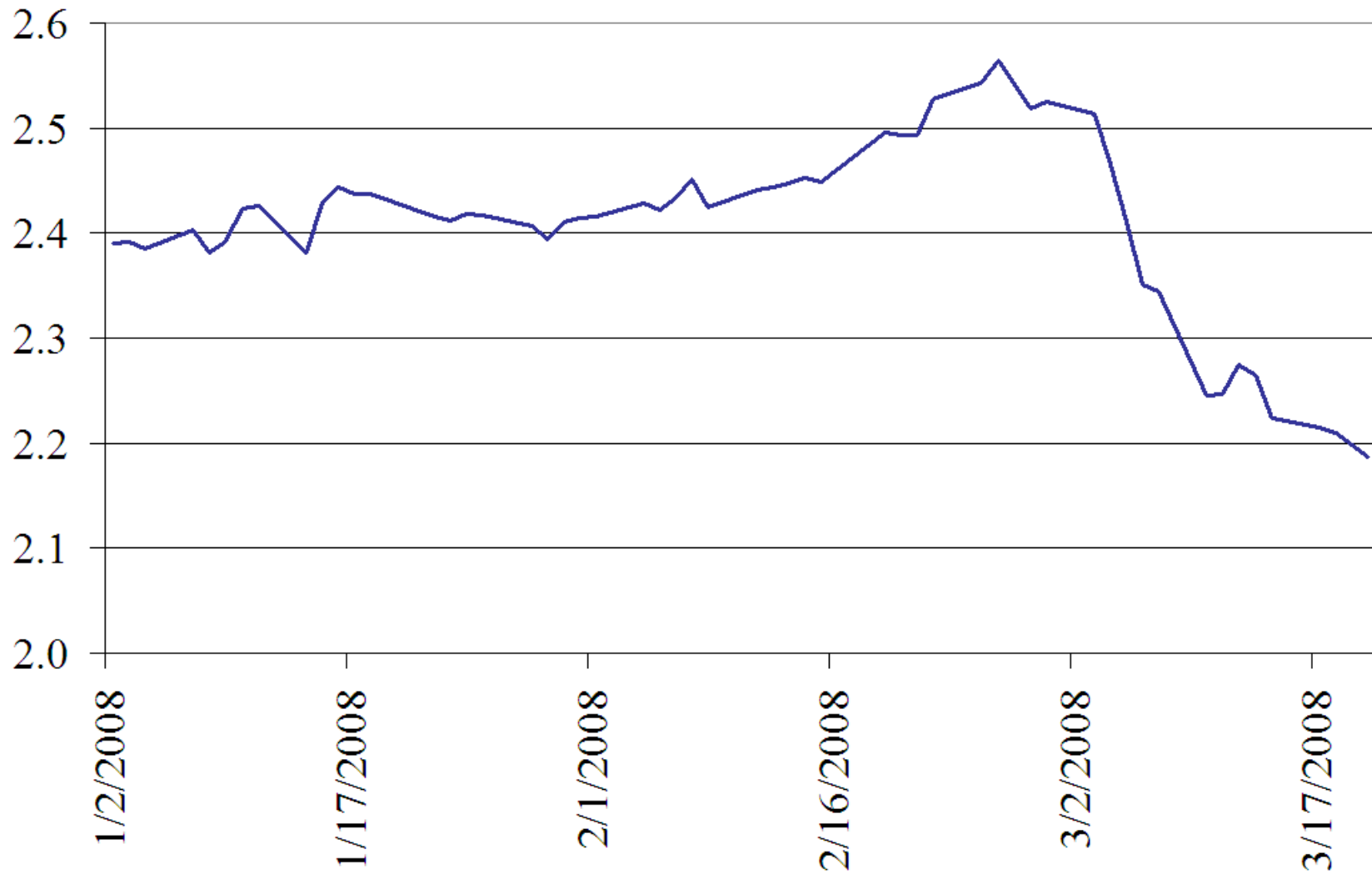
Source: USDA

# South American Soybean Area





# Corn-Soybean Price Ratio



# Soybean Production Costs - National

Item	Soybeans				
	2005	2006	2007F	2008F	2009F
Operating costs:					
Seed	32.62	34.06	38.27	39.12	40.05
Fertilizer	10.06	11.08	13.94	14.82	15.18
Chemicals	14.32	14.97	14.79	15.37	15.83
Custom operations	6.67	7.02	7.25	7.48	7.69
Fuel, lube, and electricity	13.62	15.75	16.98	18.08	18.95
Repairs	11.29	11.60	11.93	12.22	12.52
Other variable expenses	0.13	0.15	0.15	0.16	0.16
Interest on operating capital	1.50	2.23	2.37	2.24	2.64
<b>Total, operating costs</b>	<b>90.21</b>	<b>96.86</b>	<b>105.68</b>	<b>109.49</b>	<b>113.02</b>
Allocated overhead:					
Hired labor	2.03	2.12	2.15	2.20	2.25
Unpaid labor	16.77	16.81	17.02	17.44	17.85
Capital recovery	50.17	51.47	54.00	56.41	58.30
Land	86.68	88.25	92.72	94.99	97.80
Taxes and insurance	6.06	6.57	6.93	7.04	7.15
General farm overhead	12.47	12.54	12.90	13.21	13.54
<b>Total, allocated costs</b>	<b>174.18</b>	<b>177.76</b>	<b>185.72</b>	<b>191.29</b>	<b>196.89</b>
<b>Total costs listed</b>	<b>264.39</b>	<b>274.62</b>	<b>291.40</b>	<b>300.78</b>	<b>309.91</b>

Source: USDA-ERS

# Basis in 2007

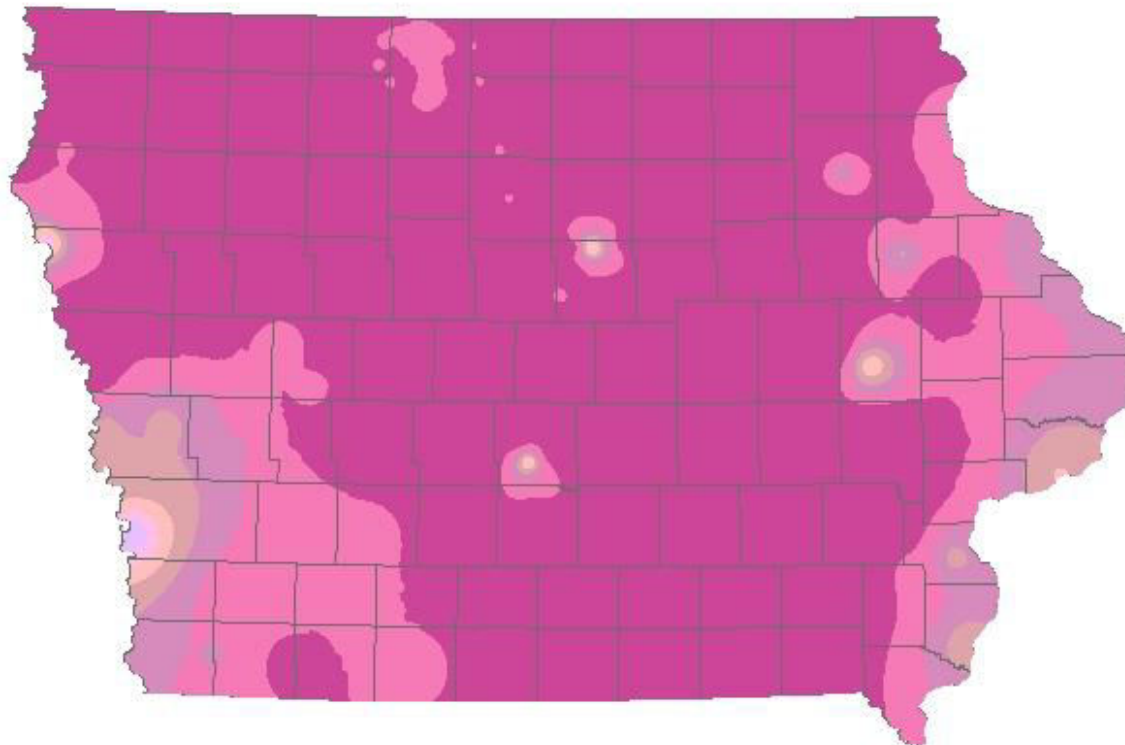
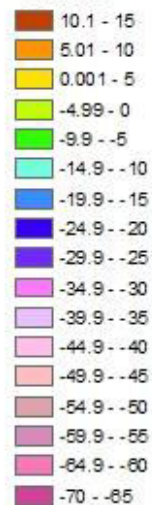
MAR 20, 2007 SOYBEAN BASIS

Basis Calculated from CBOT MAY futures price 764.8 cents per bushel

## Legend

□ county

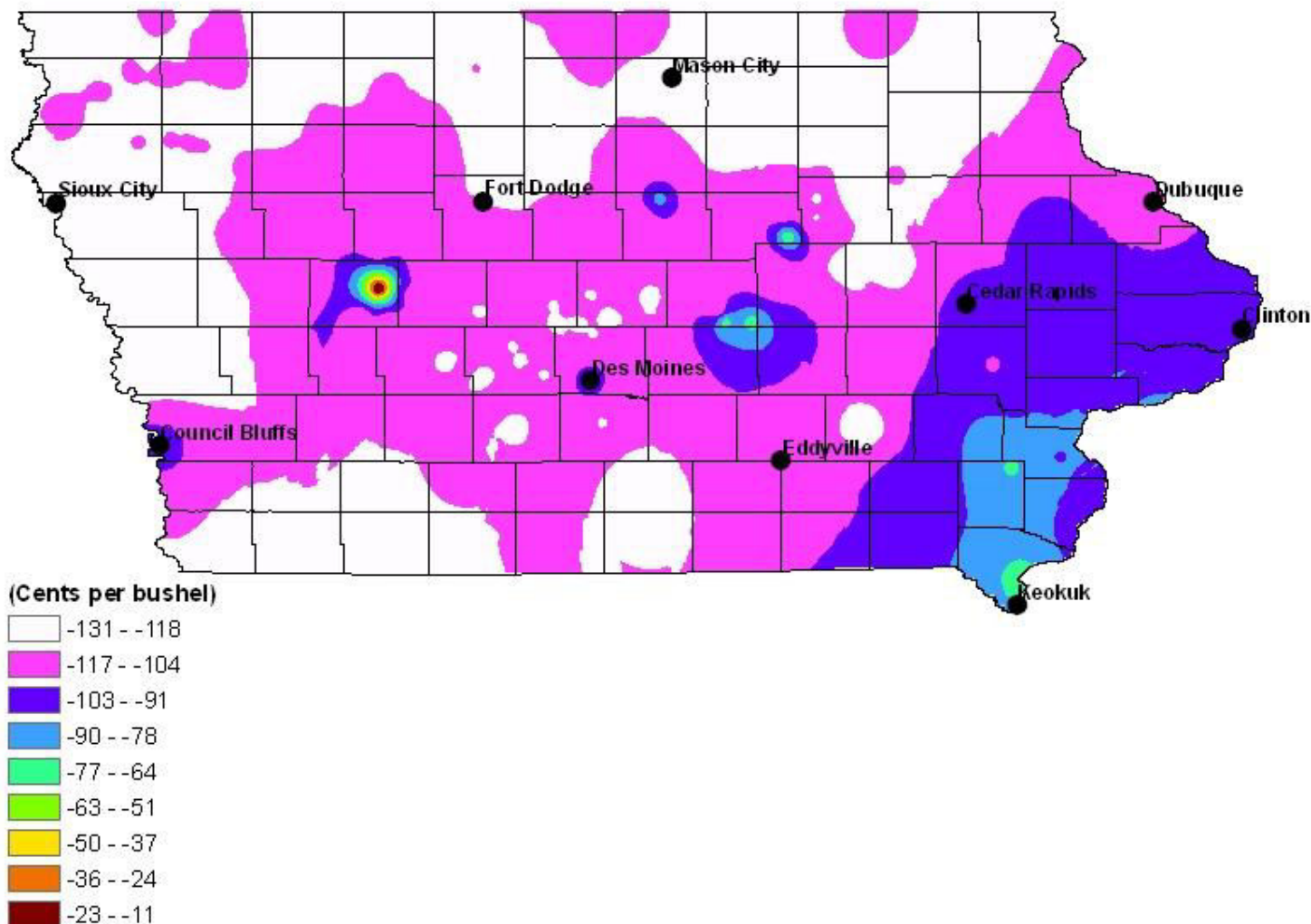
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# Basis in 2008

## Mar. 20, 2008 Soybean Basis

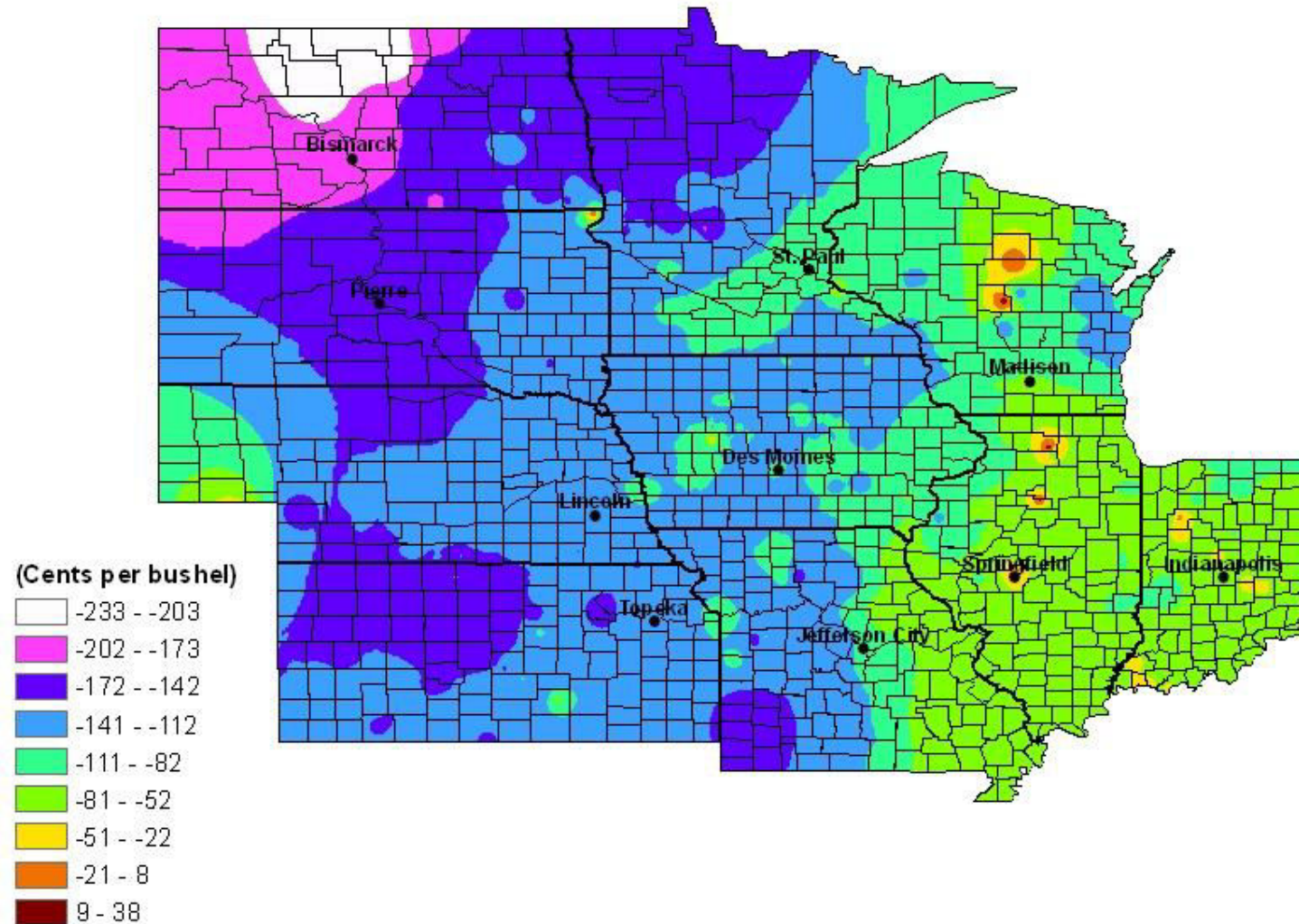
Basis calculated from CBOT May 2008 futures price of \$12.07 per bushel



# Midwest Basis in 2008

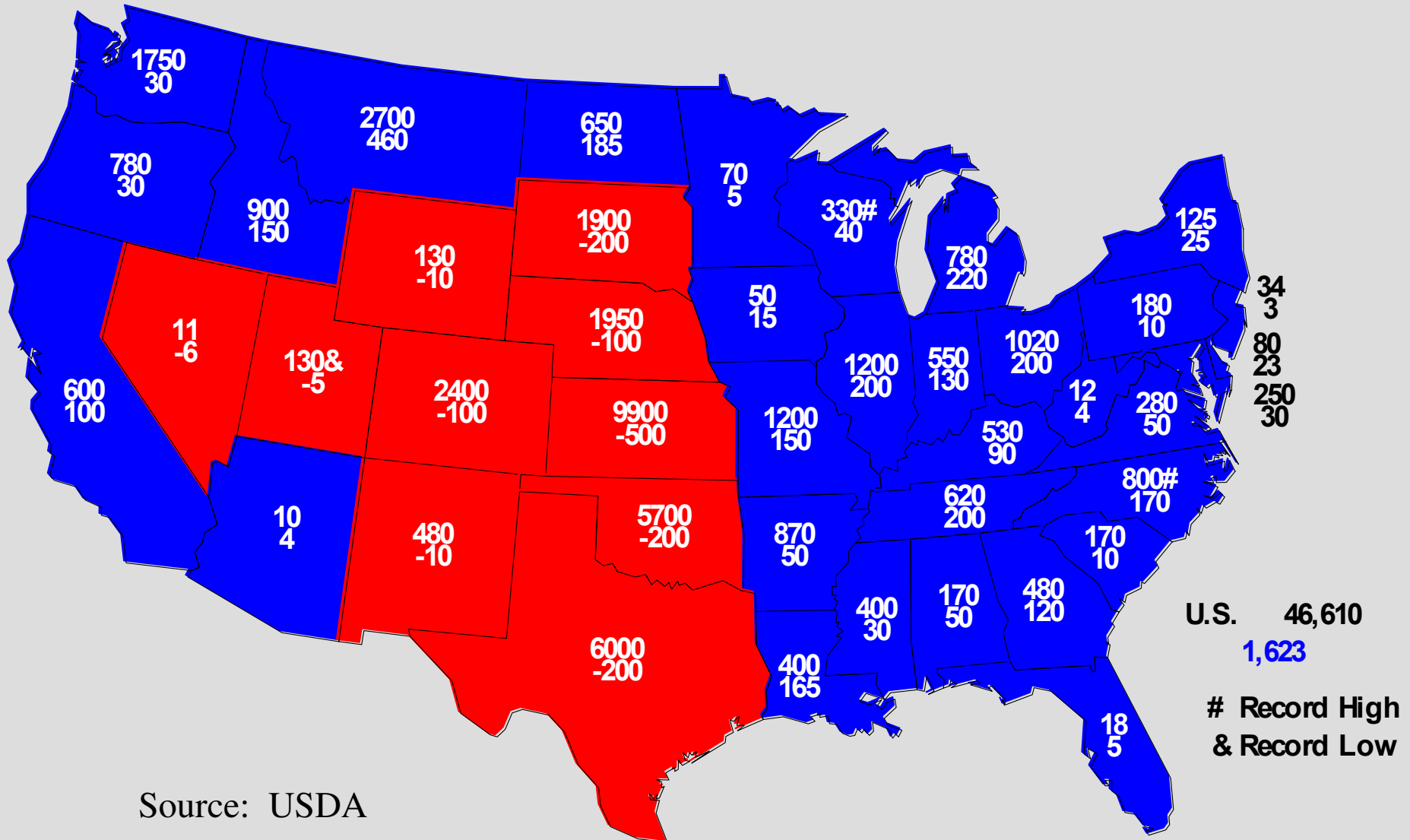
Mar. 20, 2008 Soybean Basis

Basis calculated from CBOT May 2008 futures price of \$12.07 per bushel



# 2008 Winter Wheat Planted

Acres (000) and Change From Previous Year



Source: USDA



# Price Summary

	2006/07 estimate	2007/08 forecast (midpoint)	Change from last month	Change from last year
<i>Crops and products</i>				<i>Percent</i>
Wheat (\$/bu)	4.26	6.65	0.0	56.1
Rice (\$/cwt)	9.96	12.00	4.8	20.5
Corn (\$/bu)	3.04	4.00	0.0	31.6
Soybeans (\$/bu)	6.43	10.40	0.0	61.7
Soybean oil (¢/lb)	31.02	55.00	11.1	77.3
Soybean meal (\$/s.t.)	205.44	335.00	4.7	63.1
Cotton (¢/lb)	46.50	55.10*		
<i>Livestock</i>				
Steers (\$/cwt)	91.82	90.88	0.1	-1.0
Hogs (\$/cwt)	47.09	42.38	0.9	-10.0
Broilers (¢/lb)	76.4	76.4	1.2	0.0
Turkeys (¢/lb)	82.1	81.1	2.0	-1.2
<i>Dairy products</i>				
Cheese	1.74	1.77	6.3	2.0
Butter	1.34	1.27	2.9	-5.4
Nonfat dry milk	1.71	1.38	-2.3	-19.4
Dry whey	0.60	0.28	-19.3	-53.2
<i>Milk classes</i>				
Class III (\$/cwt)	18.04	16.45	4.1	-8.8
Class IV (\$/cwt)	18.36	15.30	-1.0	-16.7
All milk (\$/cwt)	19.13	17.60	2.3	-8.0

\*Average price for August 2007-January 2008. USDA is prohibited by law from publishing cotton price projections.

Source: USDA

# U.S. Export Summary

Item	2006/07 estimate	2007/08 forecast	Change from last month	Change from last year
<i>Percent</i>				
<b>Crops and Products</b>				
Wheat (Million bu)	909	1,225	2.1	34.8
Rice (Million cwt)	91.4	112.0	0.9	22.6
Corn (Million bu)	2,125	2,450	0.0	15.3
Soybeans (Million bu)	1,118	1,025	2.0	-8.3
Soybean oil (Million lbs)	1,888	2,400	23.1	27.1
Soybean meal (Thousand s.t.)	8,786	8,700	0.0	-1.0
Cotton (Million bales)	13.01	14.50	-7.6	11.5
<b>Meat (Million lbs)</b>				
Beef	1,431	1,540	-7.8	7.6
Pork	3,138	3,685	0.0	17.4
Broilers	5,772	6,000	1.7	4.0
Turkey	554	605	0.0	9.2
Mature Chickens	165	150	0.0	-8.8
Total Meat	11,069	11,989	-0.3	8.3

Source: USDA



# Biofuel Factors

## Feedstock costs and competition

- High corn prices
- High soybean oil prices
- Vegetable oil demand in Southeast Asia

## Energy markets

- High oil and gas prices

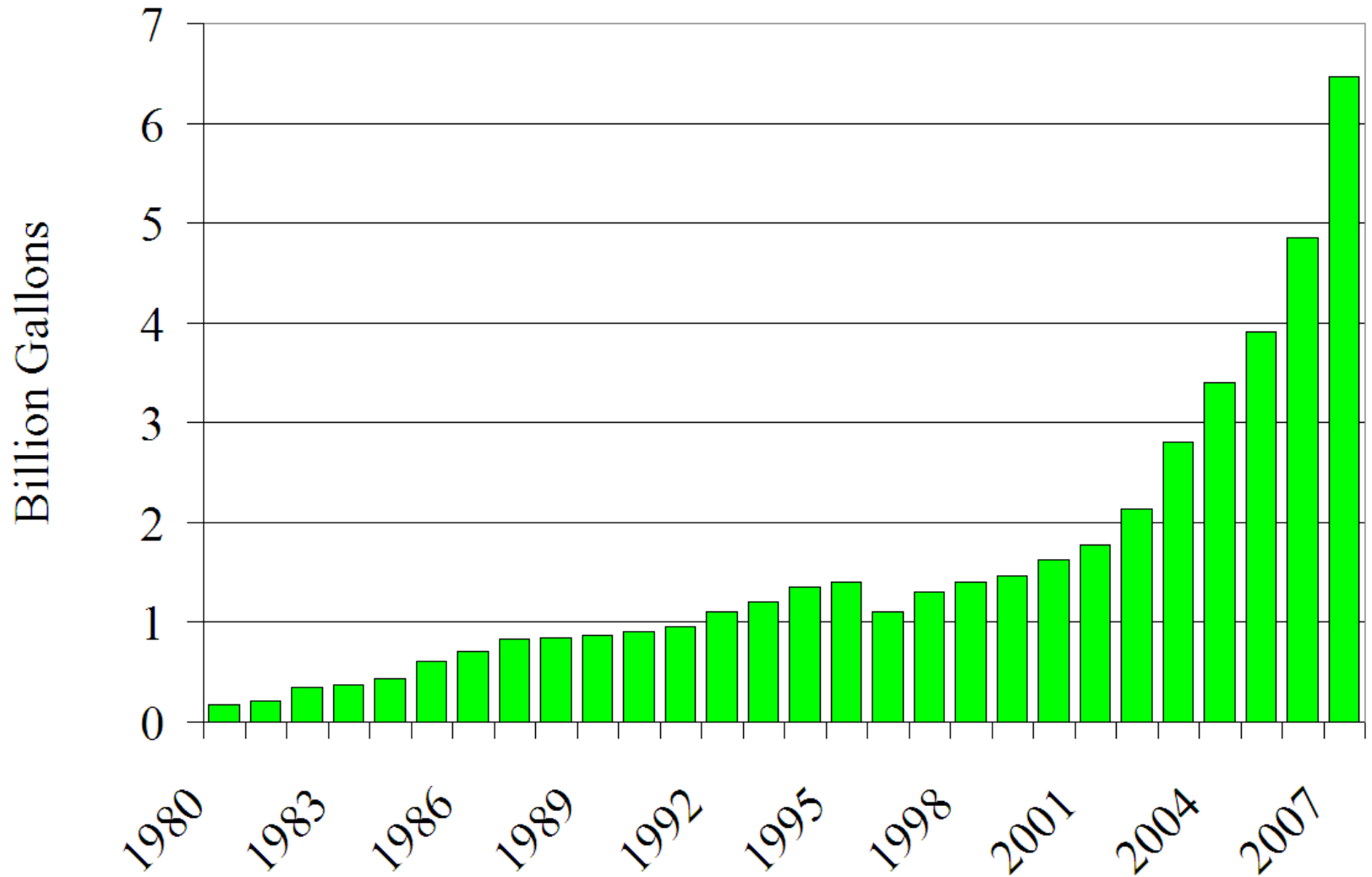
## Continued government support

- Passage of the 2007 Energy Act
- Efforts to extend biofuel tax credits

## Consumer demand for biofuels

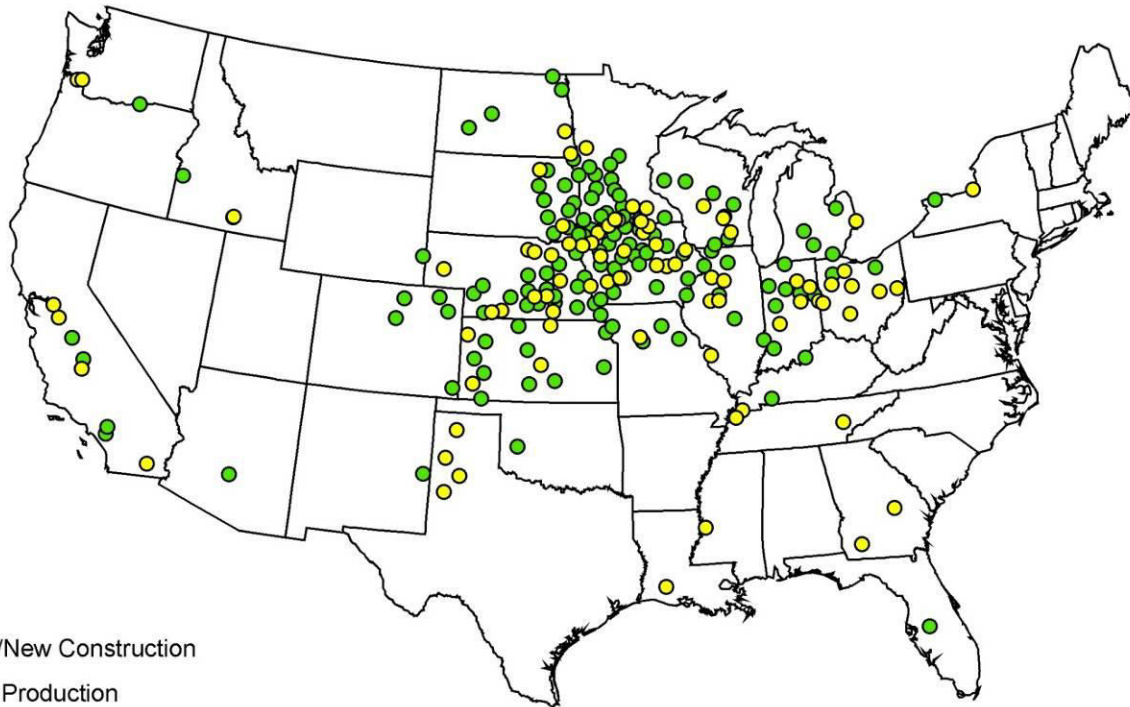
- Southeast U.S.

# Ethanol Expansion



Source: Renewable Fuels Association

# U.S. Ethanol Industry



- Current ethanol capacity: 141 plants, 8 billion gallons/year

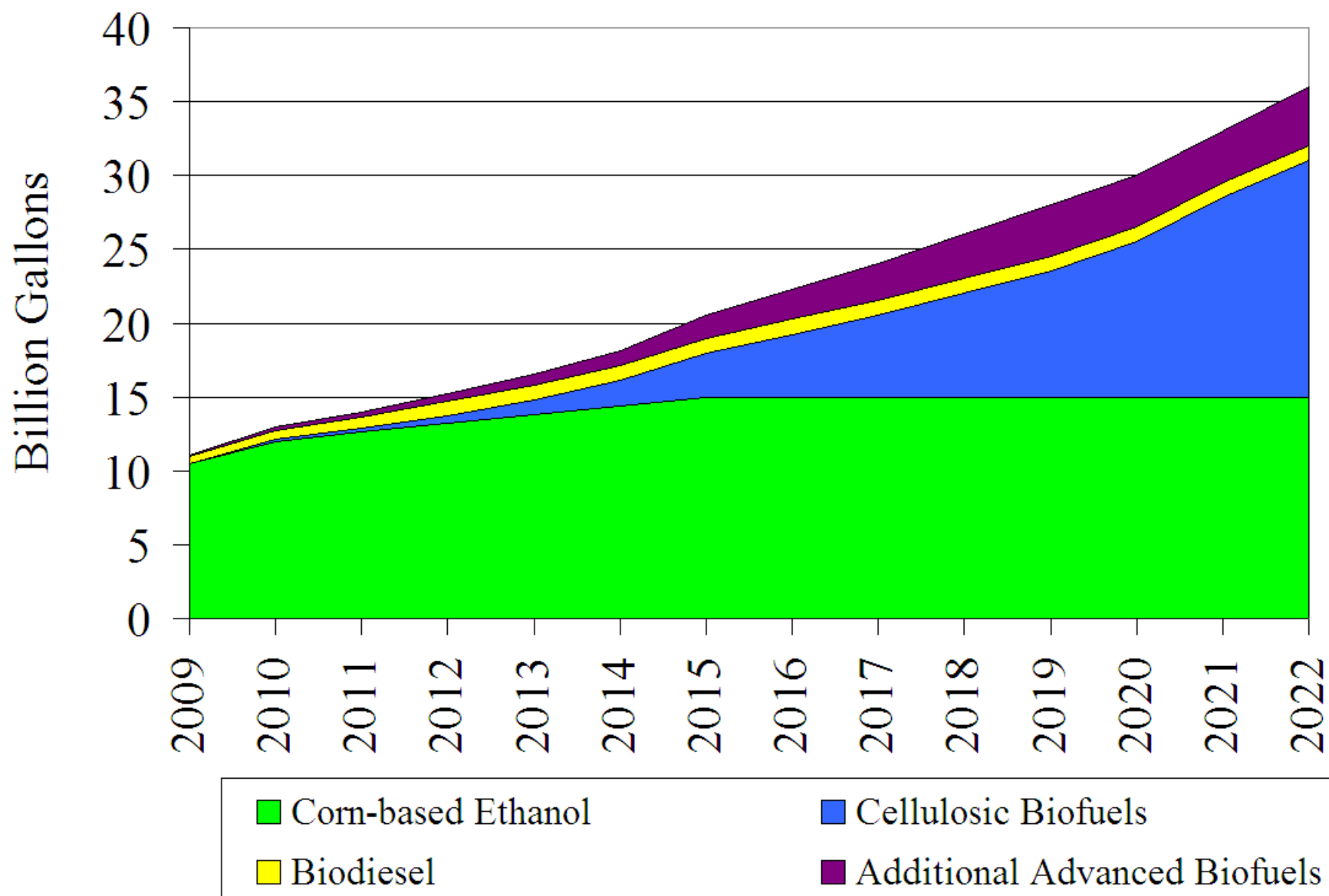
- Total capacity under construction and expansion: 5.4 billion gallons/year

- 59 new ethanol plants and 7 expansion projects underway

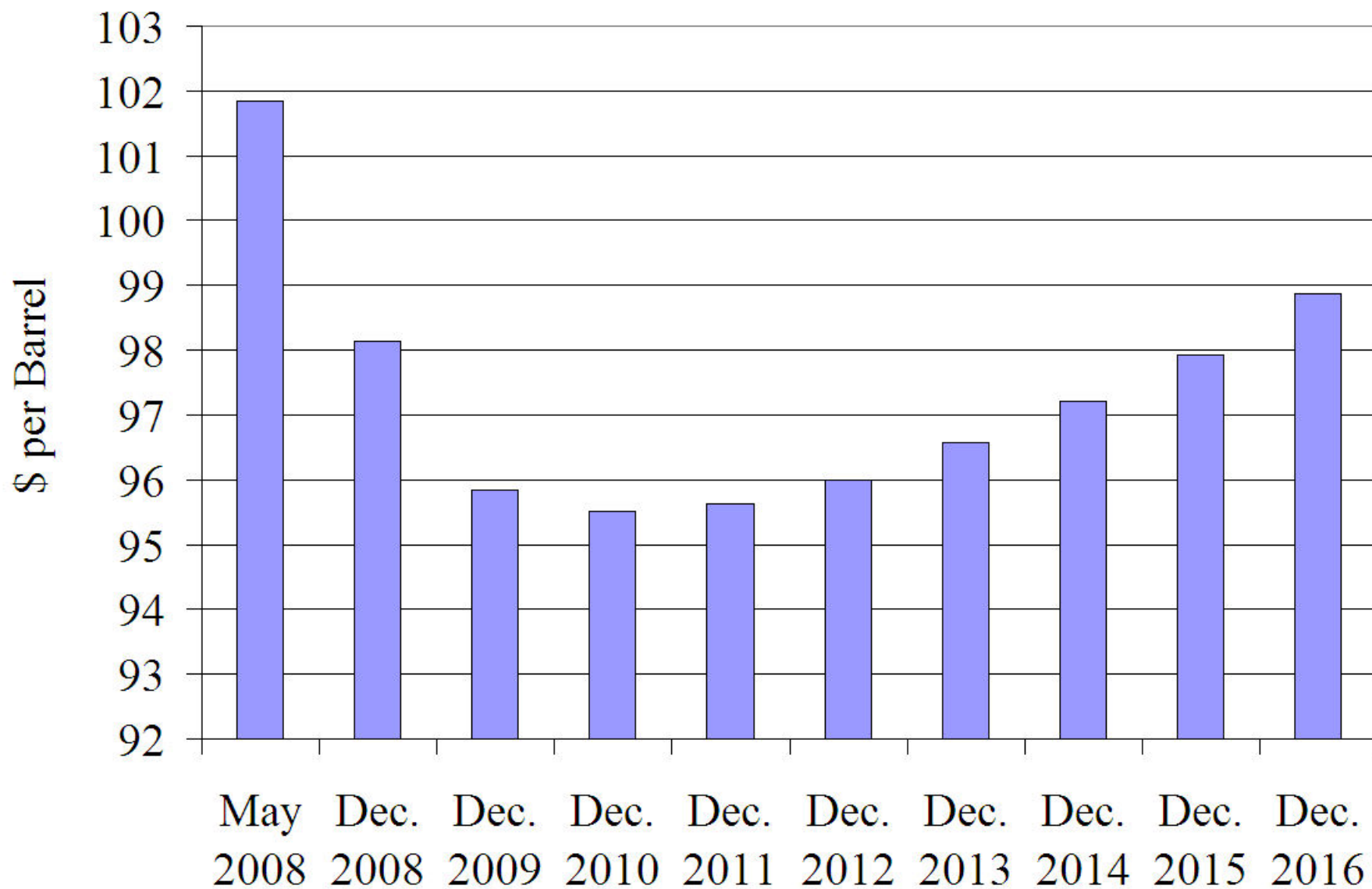
- 2.1 billion bushels of corn were used in producing fuel ethanol in 2006/2007 marketing year.

- 3.2-3.5 billion bushels of corn are expected to be used in producing fuel ethanol for 2007/2008 marketing year.

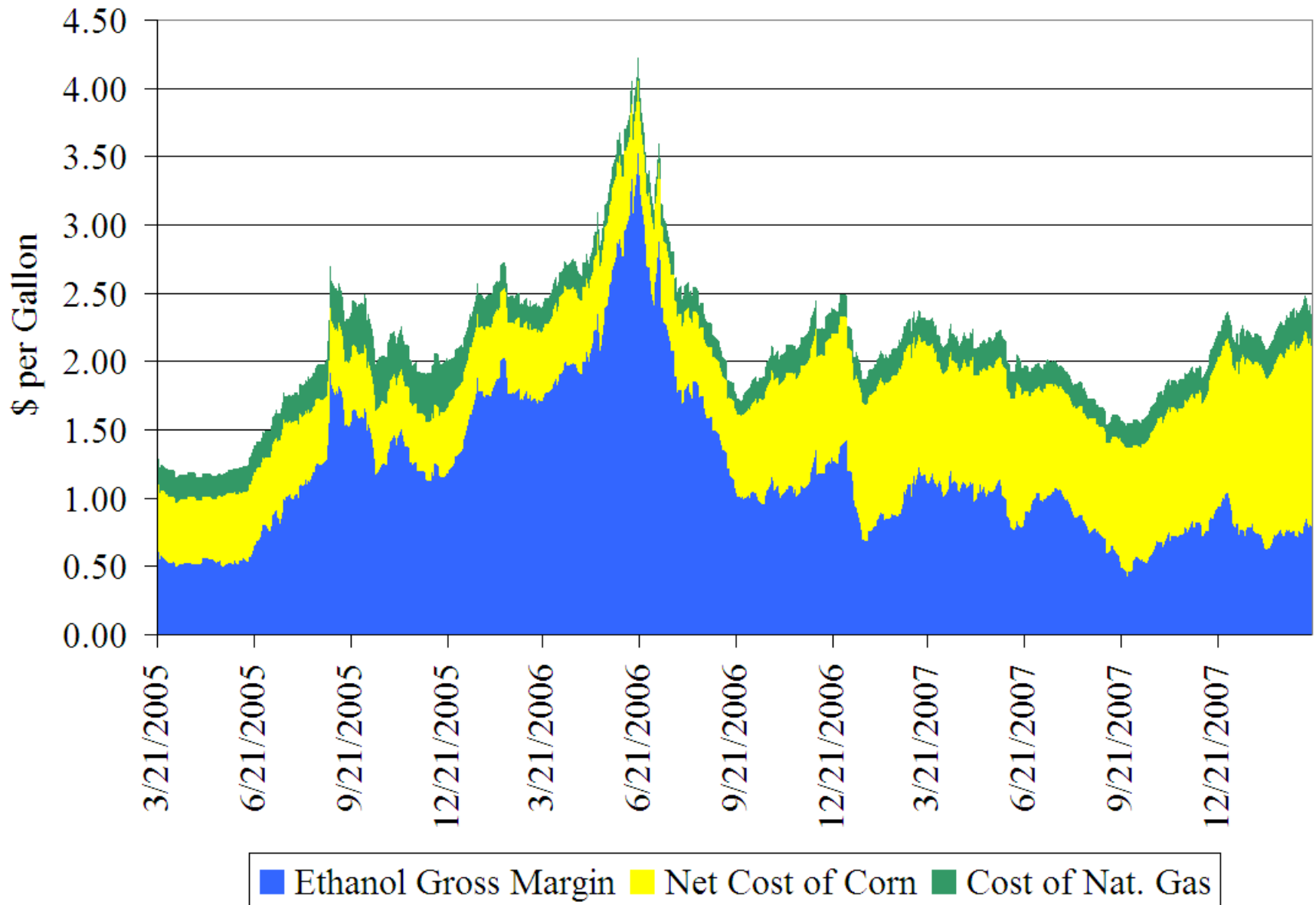
# RFS by Fuel



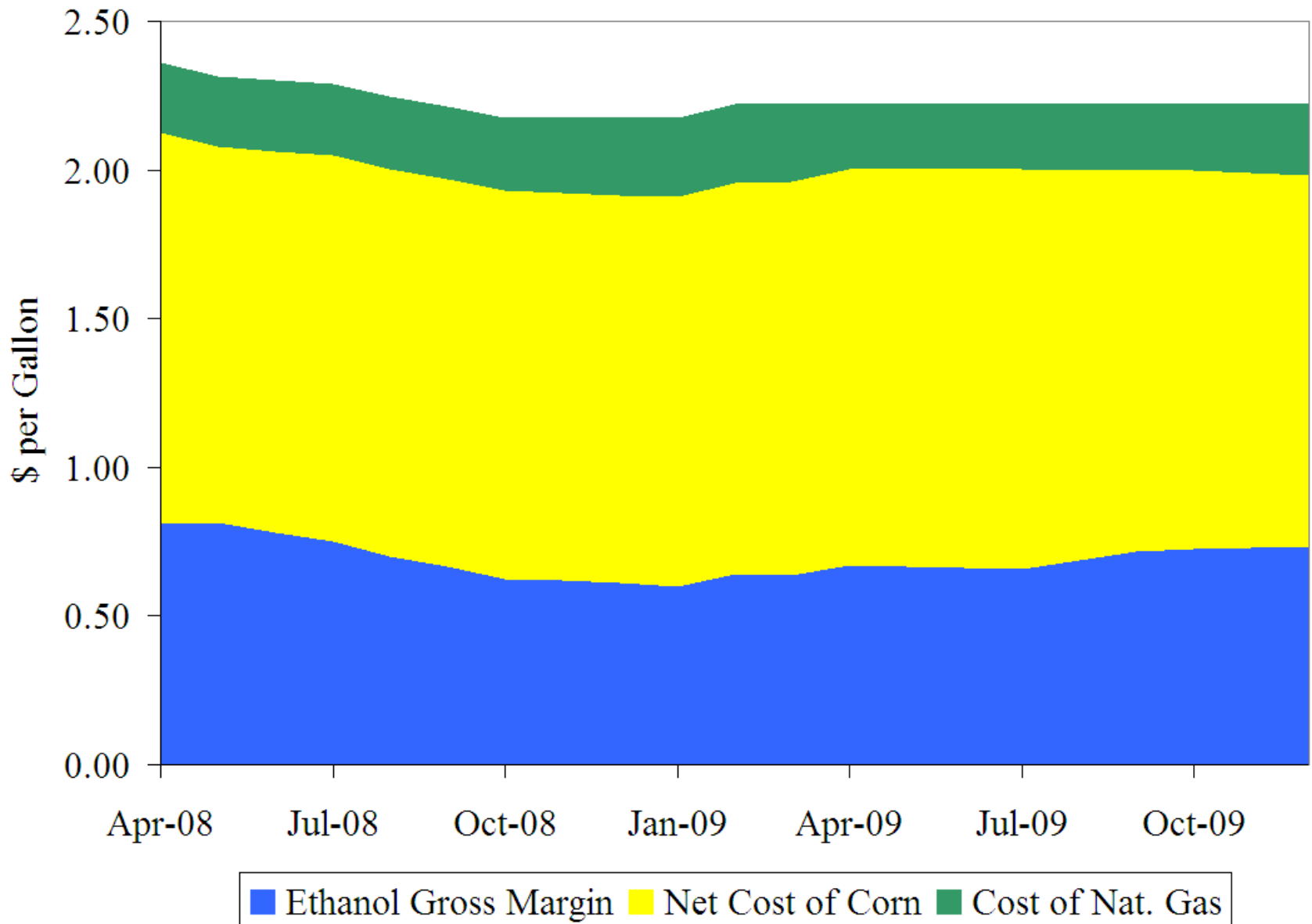
# Oil Futures As Of 3/20/2008



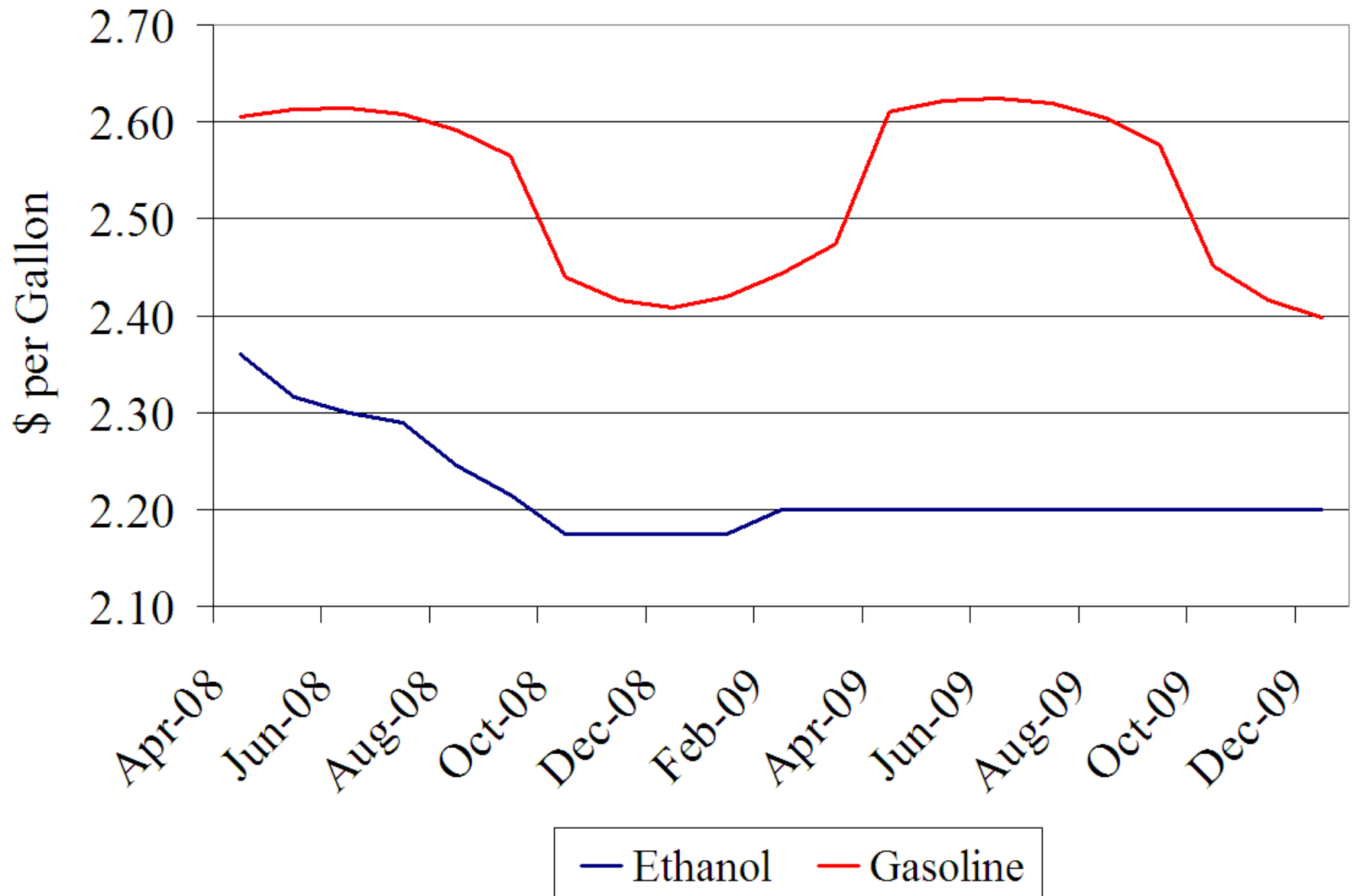
# Historical Ethanol Margins



# Projected Ethanol Margins



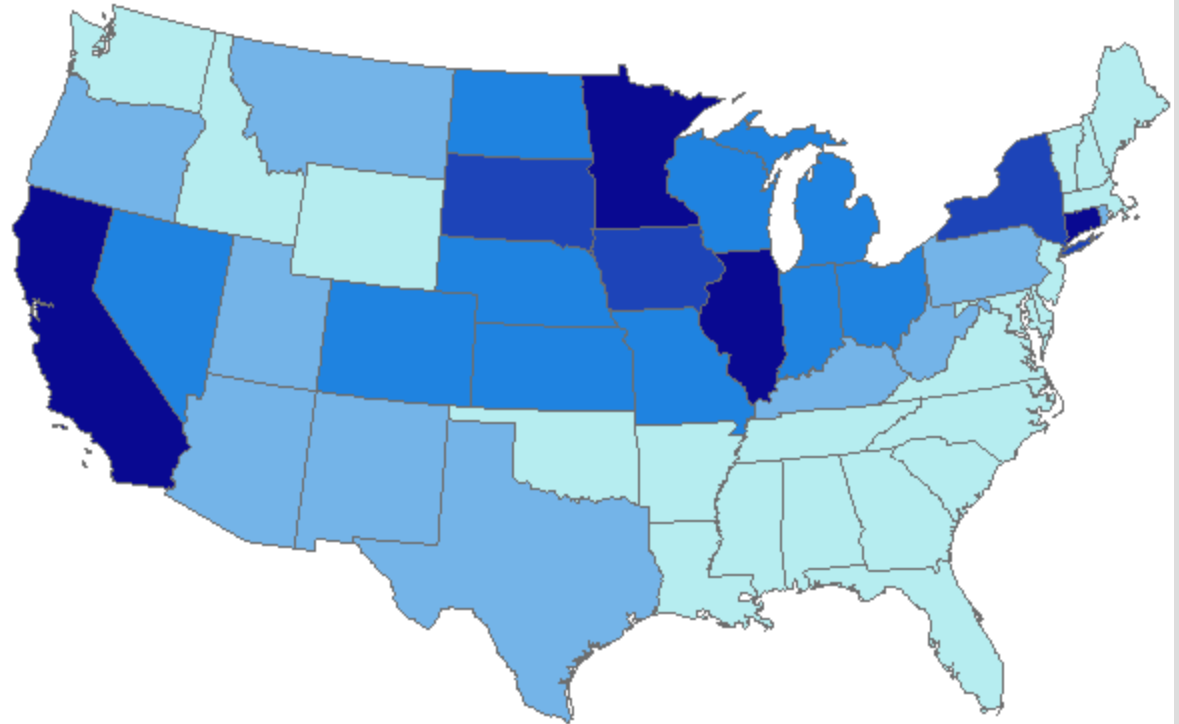
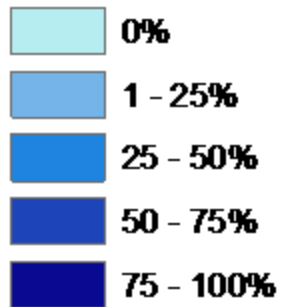
# Comparing Futures Prices



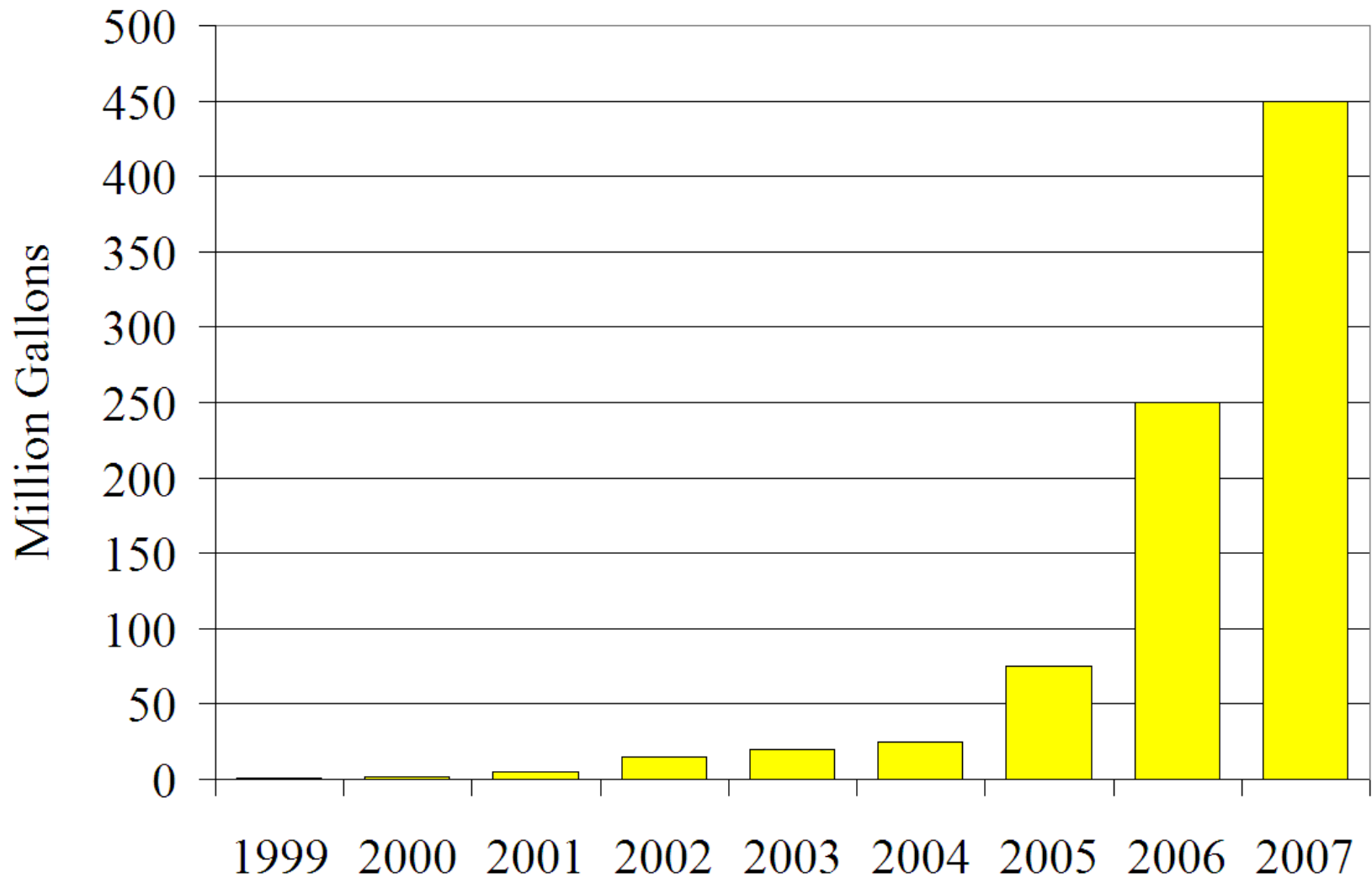


# Ethanol Usage - 2004 (latest available)

## Blending Percentage

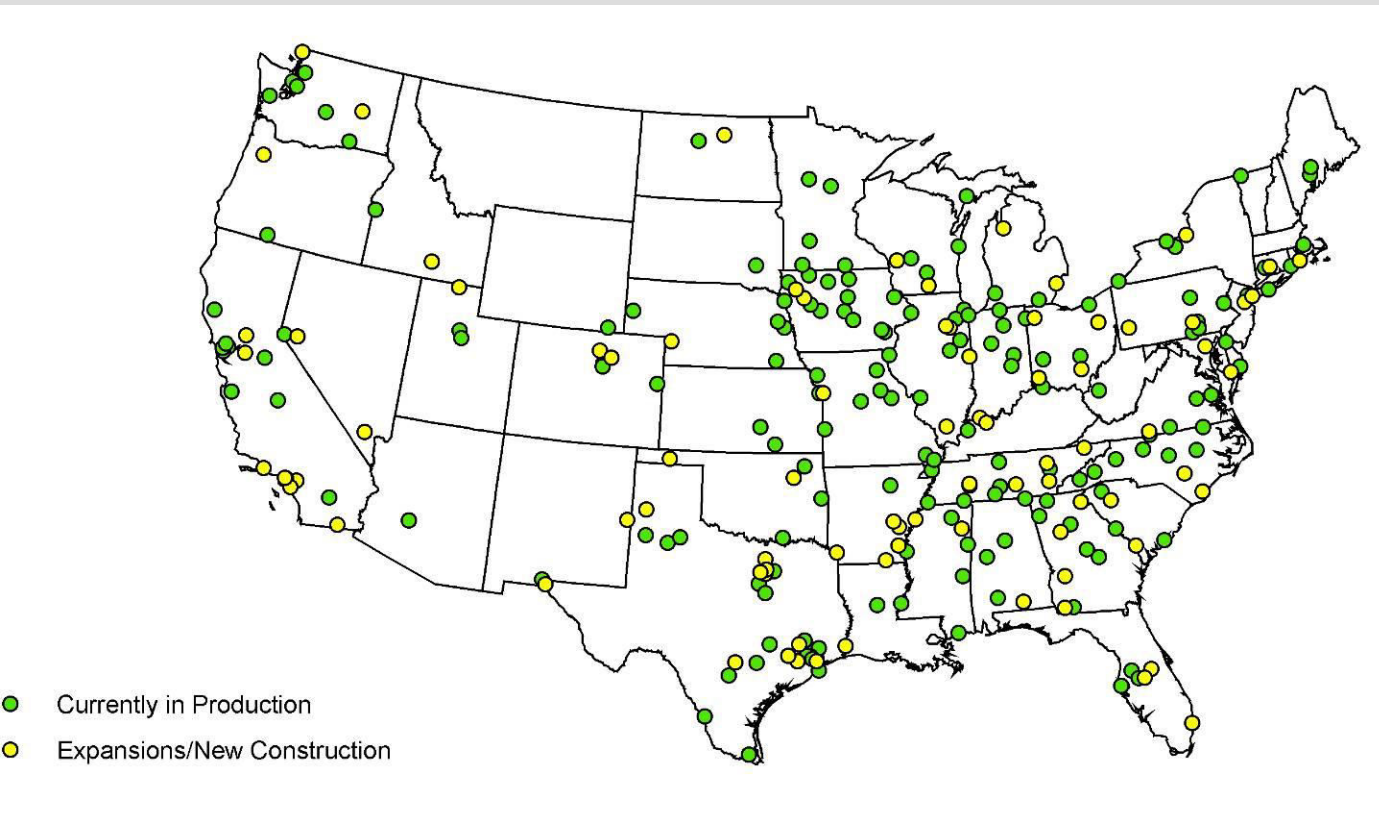


# Biodiesel Growth



Source: National Biodiesel Board

# U.S. Biodiesel Industry



- Current biodiesel capacity: 171 plants, 2.24 billion gallons/year

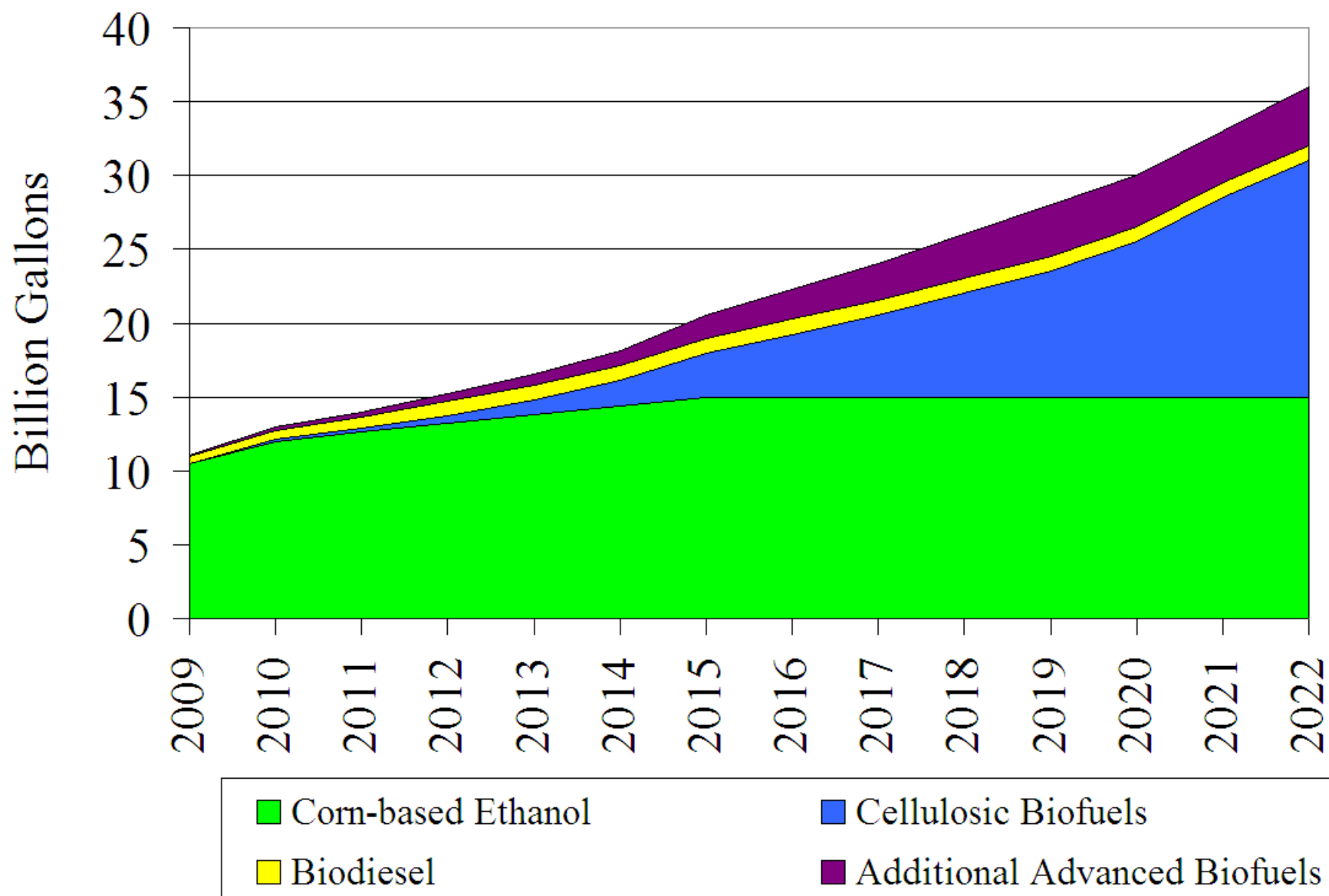
- Total capacity under construction and expansion: 1.23 billion gallons/year

- 60 new plants underway

- 2.8 billion pounds of soybean oil was used in producing biodiesel in 2006/2007 marketing year.

- 3.8 billion pounds of soybean oil are expected to be used in producing biodiesel for 2007/2008 marketing year.

# RFS by Fuel



# Biodiesel Internationally

## EU

Biofuel targets:      5.75% by 2010  
                                 10% by 2020

## Argentina

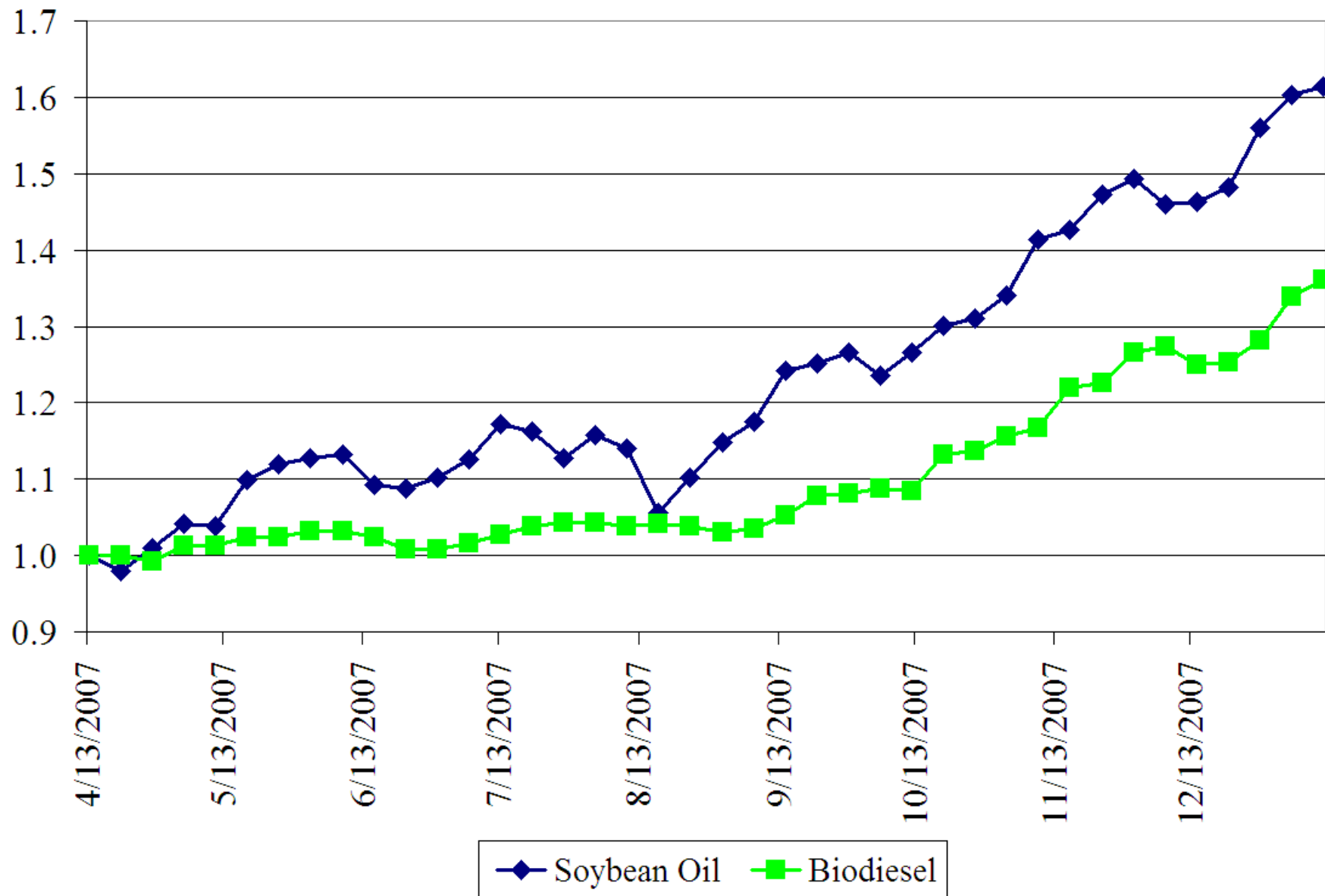
Biodiesel mandate:    5% by 2010

## Brazil

Biodiesel mandate:    2% in 2008  
                                 5% by 2010

Many U.S. producers have targeted the EU market

# Biodiesel Price Ratios



# Farm Bill Progress

- The House and Senate have both passed versions
- Both proposed farm bills face veto threats
- Conference members have not been formally named
- Major work will likely happen over the next couple of weeks
- Current farm bill has been extended to April 18, 2008

# Let's Start with the House Version

- Continues direct payment, counter-cyclical payment, and marketing loan programs
- Rebalances target prices and loan rates
- Opens up an optional revenue-based counter-cyclical program
- Modifies payments limits for commodity programs
- Extends the Milk Income Loss Contract Program until 2012



# House Target Price Changes

Crop	Unit	Current TP	Change
Corn	\$/bu.	2.63	0.00
Soybeans	\$/bu.	5.80	0.30
Barley	\$/bu.	2.24	0.49
Wheat	\$/bu.	3.92	0.23
Oats	\$/bu.	1.44	0.06
Cotton	\$/lb.	0.724	-0.024
Minor Oilseeds	\$/lb.	0.101	0.014

# House Loan Rate Changes

Crop	Unit	Current LR	Change
Corn	\$/bu.	1.95	0.00
Soybeans	\$/bu.	5.00	0.00
Wheat	\$/bu.	2.74	0.19
Malt Barley	\$/bu.	1.85	0.65
Feed Barley	\$/bu.	1.85	0.05
Oats	\$/bu.	1.33	0.13
Minor Oilseeds	\$/lb.	0.093	0.014

# Revenue Counter-Cyclical Option

- Gives producers a one-time option to choose between revenue- or price-based counter-cyclical payments
- Actual revenue = National average yield  
\*Max(Season-average Price, Loan Rate)
- Target revenue determined by Congress

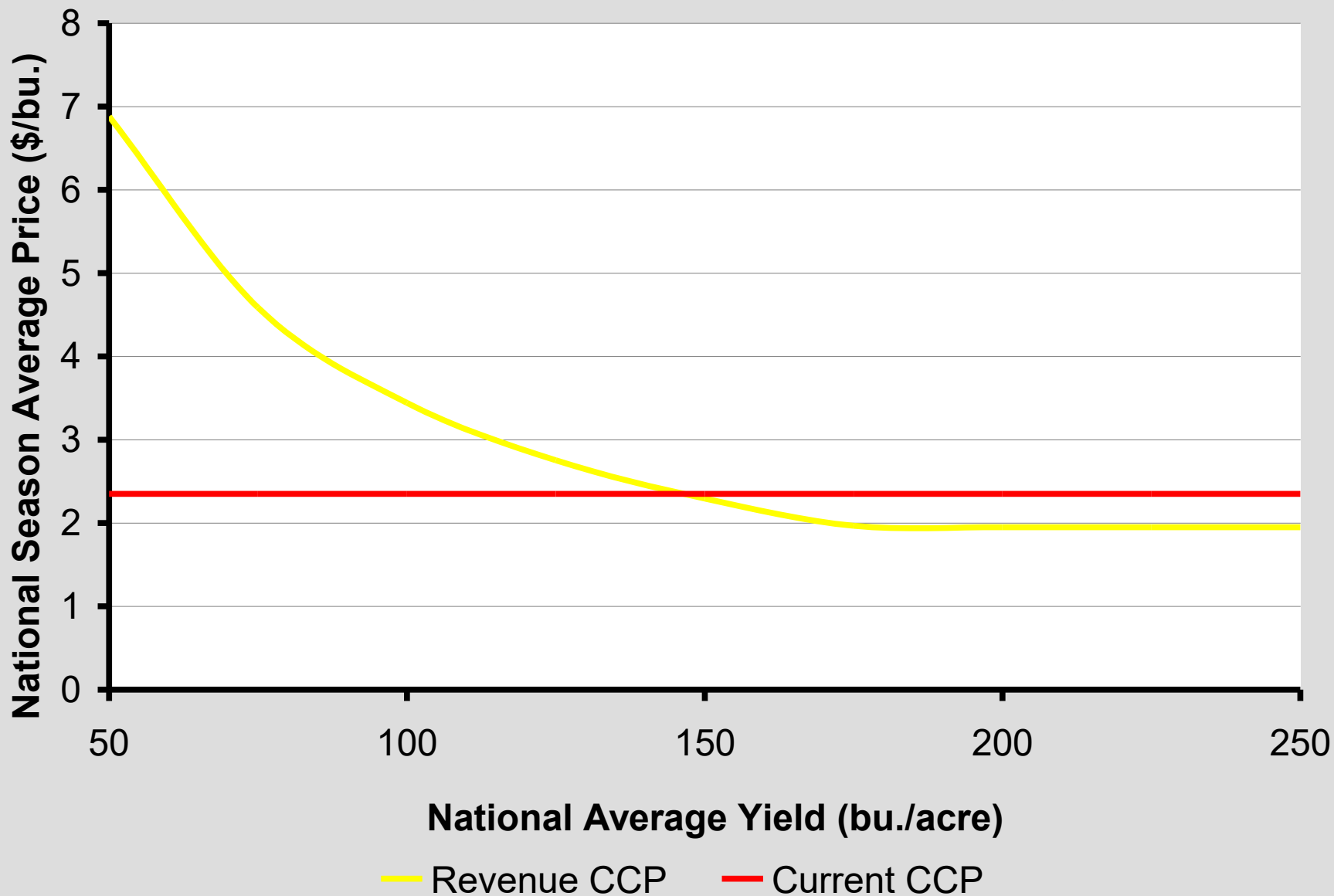
# House Per Acre Target Revenues

Crop	TR	Crop	TR
	(\$/acre)		(\$/acre)
Corn	344.12	Wheat	149.92
Soybeans	231.87	Oats	92.10
Sorghum	131.28	Cotton	496.93
Barley	153.30	Rice	548.06
Minor Oilseeds	129.18	Peanuts	683.83

# National Payment Rate

- $(\text{Target revenue per acre} - \text{Actual revenue per acre}) / \text{National payment yield}$
- Puts payment on a per yield unit basis
- $\text{Payments to producers are equal to National payment rate} * \text{Current CCP payment acres} * \text{Current CCP payment yield}$

# Counter-cyclical Payout Regions



# Payment Limitations

- Eliminates the 3-entity rule
- Direct attribution
- AGI cap of \$1 million (3-year average)
- If AGI > \$500K, 2/3 of income from agriculture
- Direct payment cap = \$60K
- Counter-cyclical payment cap = \$65K
- Marketing loan payment cap eliminated

# Conservation Title

- Expand EQIP (\$1.9 billion over 5 years)
- Prohibit additional CSP signups until 2012
- Change CSP structure (no more tiers)
- Extend CRP, WHIP, and WRP



# Energy Title

- Renews Biobased products program
- Extends loan guarantees for biorefineries, along with many of the energy programs in the current farm bill
- Research money for alternative feedstocks
- Feasibility study of ethanol pipeline
- Creation of Biomass Inventory Report and Biomass Energy Reserve

# Miscellaneous Title

- Drop crop insurance administrative and operating expense rate to a max of 21.6%
- Raise fee for catastrophic coverage to \$200 per crop per county
- Target loss ratio moved from 1.075 to 1
- COOL by 2008 for red meats only

# CBO Projections for the House Version

Title	Change, 2008-12	Title	Change, 2008-12
	(\$ million)		(\$ million)
Commodity	-973	Research	265
Conservation	2,792	Forestry	41
Trade	601	Energy	2,429
Nutrition	4,205	Hort. and Organic	548
Credit	-378	Misc. and Additional	-6,130
Rural Dev.	114	Total	3,514

## Now on to the Senate Version

- Continues direct payment, counter-cyclical payment, and marketing loan programs
- Rebalances target prices and loan rates
- Opens up an optional revenue-based counter-cyclical program
- Modifies payments limits for commodity programs
- Extends the Milk Income Loss Contract Program until 2012

# Senate Target Price Changes

Crop	Unit	Current TP	Change
Corn	\$/bu.	2.63	0.00
Soybeans	\$/bu.	5.80	0.20
Barley	\$/bu.	2.24	0.39
Wheat	\$/bu.	3.92	0.28
Oats	\$/bu.	1.44	0.39
Cotton	\$/lb.	0.724	-0.0015
Minor Oilseeds	\$/lb.	0.101	0.0264

# Senate Loan Rate Changes

Crop	Unit	Current LR	Change
Corn	\$/bu.	1.95	0.00
Soybeans	\$/bu.	5.00	0.00
Wheat	\$/bu.	2.74	0.20
Barley	\$/bu.	1.85	0.10
Oats	\$/bu.	1.33	0.06
Minor Oilseeds	\$/lb.	0.093	0.0079

# Average Crop Revenue Option

- Gives producers a one-time option (over a three year window) to choose a revenue-based counter-cyclical payment program
- Producers choose between the current stable of programs or Average Crop Revenue (ACR) with a fixed payment (\$15 per base acre for 100% of base) and recourse loans

# ACR

- State-level revenue counter-cyclical program starting in 2010
- Expected state yield based on linear trend yield per planted acre for state (1980-2006)
- ACR state pre-planting price is the average of revenue insurance planting prices for current year and previous 2 years



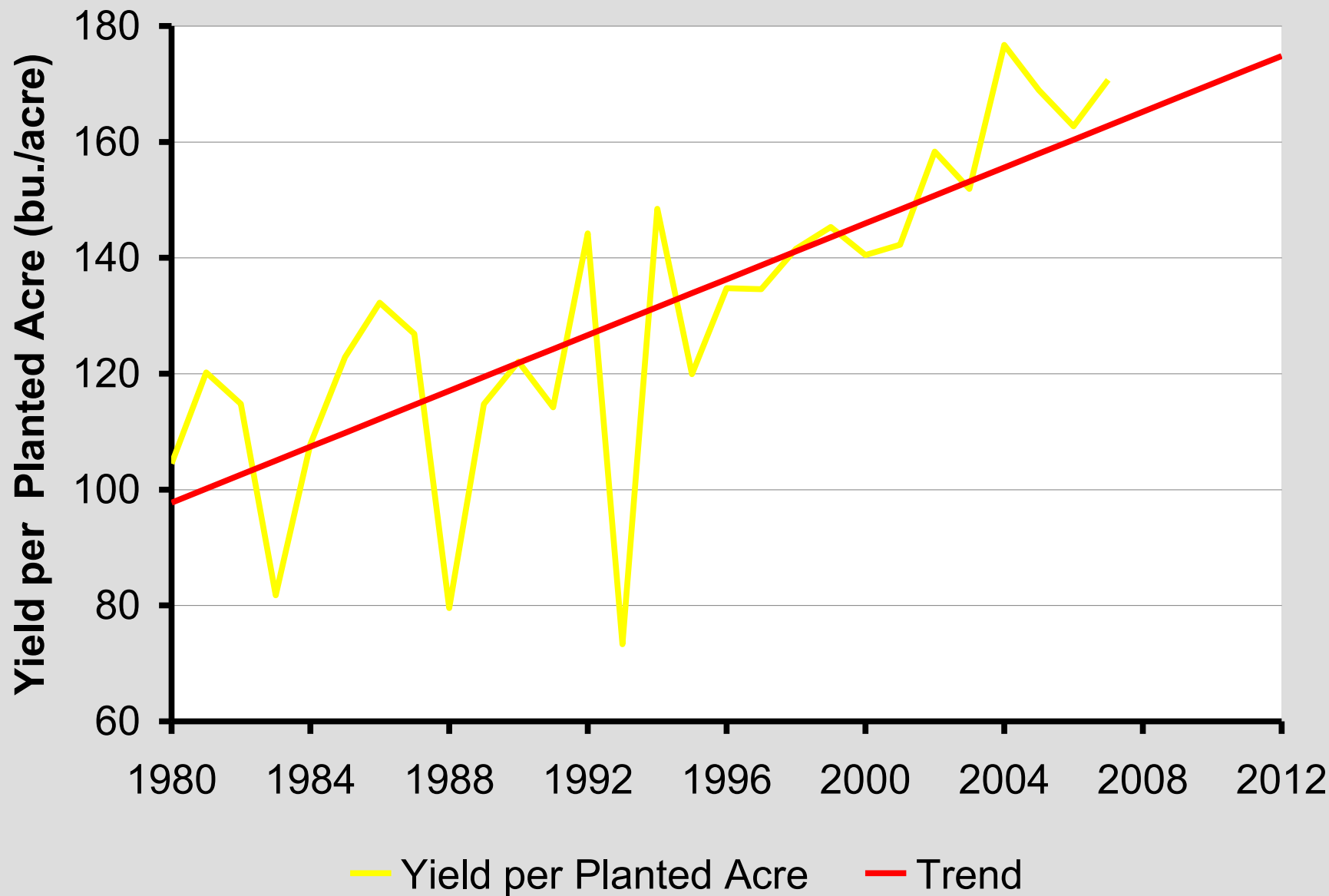
# ACR Structure

- Target Revenue =  $90\% \times \text{Expected State Yield} \times \text{ACR State Pre-Planting Price}$
- Actual State Revenue =  $\text{Actual State Yield per Planted Acre} \times \text{Revenue Insurance Harvest Price}$
- Payment triggered when actual revenue is below target revenue

# ACR Payments

- $\text{Payment Rate} = 90\% * (\text{Target Revenue} - \text{Actual State Revenue}) * \text{Ratio of Producer Insurance Yield to Expected State Yield}$
- Payments made on 85% of base acres

# ACR Yields for Iowa Corn

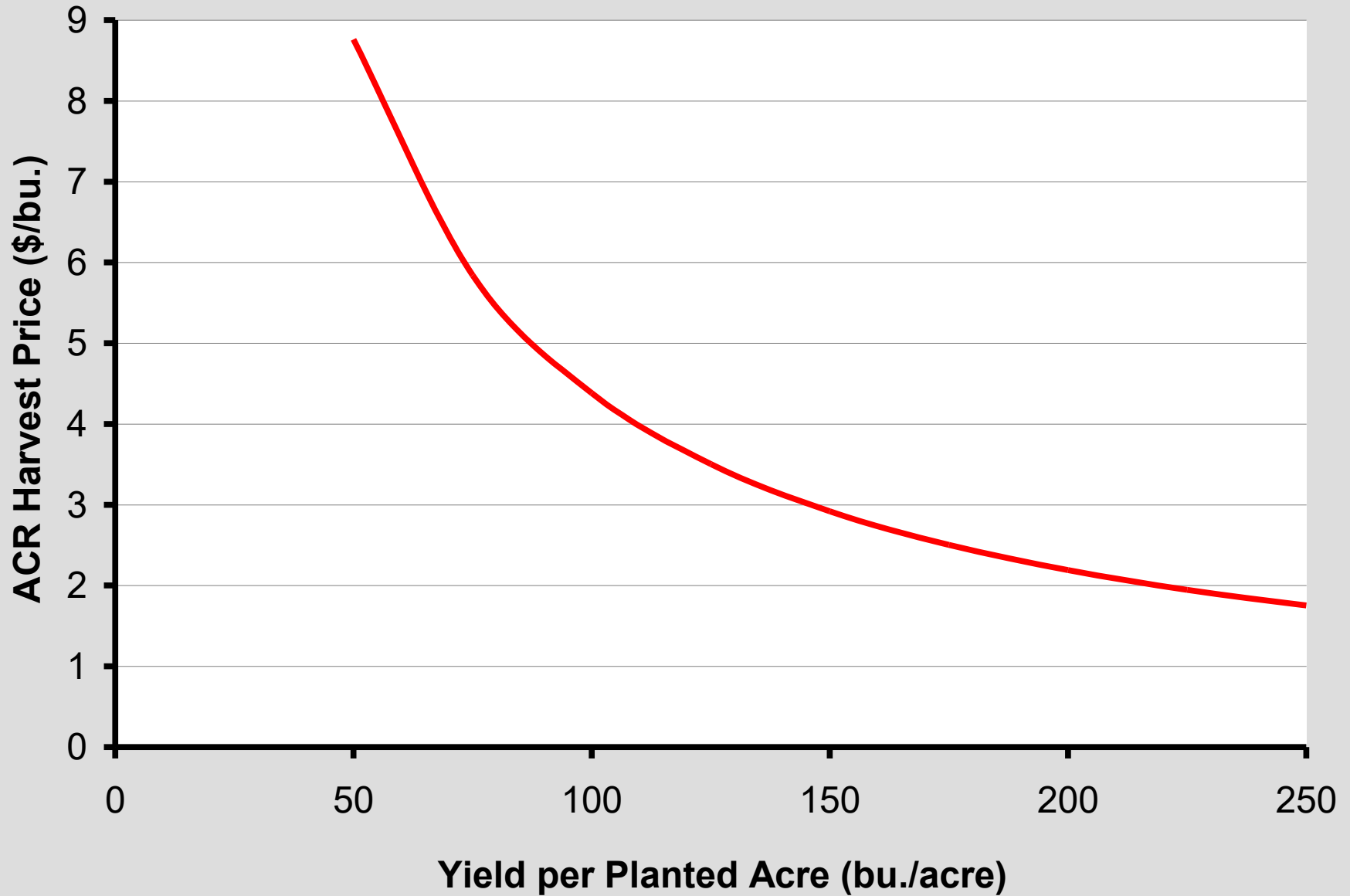


# ACR Parameters for Iowa Corn

Year	Trend Yield (bu/acre)	Year	Insurance Price (\$/bu)
2007	162.8	2005	2.32
2008	165.2	2006	2.59
2009	167.6	2007	4.06
2010	170.0		
2011	172.4	Average	2.99
2012	174.8		

For 2007, target revenue would be \$438.09 per acre

# ACR Payout Region



# Payment Limitations

- Direct attribution
- For 2009, AGI > \$1 million, 2/3 of income from agriculture
- For 2010 and beyond, AGI > \$750K, 2/3 of income from agriculture
- Direct payment cap = \$40K
- Counter-cyclical payment cap = \$60K
- Marketing loan payment cap eliminated
- No cap on ACR payments

# Crop Insurance in PIP Title

- Reduced target loss ratio from 1.075 to 1
- Removes authority for Premium Reduction Plan
- Moves timing of producer-paid premiums (earlier) and insurance company reimbursements (later)
- Reduces administrative & operating expense reimbursement on area insurance plans
- Increases fees for catastrophic insurance and NAP

# Conservation Title

- Rename and expand CSP (targeting nearly 80 million acres by 2017)
- Combining CSP and EQIP in the Comprehensive Stewardship Incentives Program (CSIP)
- Extend EQIP (no additional funds)
- Extend CRP, WHIP, and WRP



# Energy Title

- Renews Biobased products program
- Extends loan guarantees for biorefineries, along with many of the energy programs in the current farm bill
- Research money for alternative feedstocks
- Feasibility study of ethanol pipeline

# CBO Projections for the Senate Version

Title	Change, 2008-12	Title	Change, 2008-12
	(\$ million)		(\$ million)
Producer Income Protection	-7,501	Research	-152
Conservation	4,424	Forestry	0
Trade	175	Energy	1,020
Nutrition	5,271	Livestock	1
Credit	-278	Misc.	-153
Rural Dev.	355	Total	3,163

# Conference

- Right now, waiting for conference
- Conference members have not been named
- Harkin will chair conference committee
- With money outside of agriculture used for offsets, conference committee will need to include members from other committees (Finance, Ways and Means)
- Both House and Senate bills face veto threats

# Latest News

- Discussions centering around a farm bill that will spend \$10 billion over baseline in a 10-year window (Baseline: \$597 billion over 10 years)
- Negotiations ongoing on how to fund it and how to allocate it among the farm bill titles
- Targets for possible spending cuts:
  - Crop insurance
  - Commodity programs (direct payments?)

# Administration Wish List

- Administration would like a farm bill in the \$6-10 billion over baseline range, depending on “reforms”
  - Payment limitations
  - Revenue-based counter-cyclical program
  - No increases in commodity program parameters
  - Changes to marketing loan program
  - Elimination of planting restrictions for fruit and vegetables for direct payments

# Latest News

- Permanent disaster program is part of the mix
  - Producers may end up paying for it
- Some moves being made outside of farm bill
  - Amendment to lower payment limits (\$250K) has been submitted to the FY2009 budget resolution in the Senate

# One Step Forward, Two Steps Back

- Yesterday, ranking members of House and Senate Ag. Committees hammered out a general agreement on funding
- Senator Baucus (Finance Committee Chair) has already said it won't hold
  - Wants more money set aside for permanent disaster program

Thanks for your time!

Any questions?