

The Kiplinger Agriculture Letter

FORECASTS FOR AGRIBUSINESS DECISIONMAKERS • Vol. 80, No. 12

Dear Client:

Washington, June 5, 2009

For livestock and poultry producers...

A hard slog ahead, fighting back from losses that started racking up fast in '08 as first feed prices skyrocketed and then the recession choked sales. Exports especially were hurt, after growing for years.

LIVESTOCK OUTLOOK

Leading the bounceback: Broiler operations. They've slashed production...it's down 7% from year earlier levels...and cut young-hen flocks and chick hatching to ensure output stays down at least until fall. Meanwhile, exports of chicken so far this year are running 15% ahead of '08 levels. Prices started responding to the smaller flock in May, with leg quarters, for example, at 50¢/lb. wholesale, up from 30¢ in Jan. Orders for late summer...60¢.

Pork's recovery is ready to resume as well, after being derailed by the H1N1 virus scare. Despite high retailer margins, pork is selling well in the U.S. And exports had been up through March... 8% over a year ago...though H1N1 will cut the pace through this spring. Swine owners slowed farrowings last fall, resulting in a tighter market this year... a 6% drop in slaughter so far. Look for carcasses to climb into the low \$60s/cwt. within a month. But it'll take higher prices to return operations to profitability.

Slow beef demand will hold cattle in the profitless mid-\$80s/cwt. until fall. Retail prices are up from a year ago, while prices to ranchers and feedlots are down. Plus the bigger retail margin is eroding demand. The U.S. herd is at a very low count, and feedlot inventories will probably stay 2%-3% below year earlier levels for months. With exports 3% ahead of '08 so far this year, prices should rise modestly by fall.

Little relief for dairy farmers till '10, though. They're getting \$9-\$12/cwt. for milk, but essential operating expenses average about \$15/cwt. They're \$20-\$30 including labor, capital and so on. At \$4 a bushel, corn is down from last year, but still twice the usual price until '07. Hay, too, is much more costly in many areas. Abetted by a farmers' co-op buyout of 100,000 cows, the herd will shrink 4% this year. But domestic consumption has eroded, and exports will be down 40%-50% for '09. About 2400 commercial dairy farms have shut down annually during recent years. This year, even more will close their books, leaving barely 50,000 of them in '10.

For all, exports will prove vital in regaining profitability. In '08, 20% of pork and chicken...over 10% of dairy output...was exported. Modest shifts can be crucial.

Some good news: Meat and poultry exports are on track to climb this year, despite an expected \$20-billion drop in the value of overall U.S. agricultural exports.

Another bright note: Fair chances for a big corn crop, easing feed prices. Despite major rain delays, nearly all corn acreage was planted before June 1.

ECONOMIC OUTLOOK

↓	GDP Contracting by 2.7% in '09
↑	Unemployment Peaking near 10% in early '10
↑	Farm Labor Force Rising above 1.2 million with more workers available
↓	Ag Exports 20% drop soon leveling out
↑	Ag Imports Decelerating growth, up 2%
↔	Farm Loan Rates 6%-6.5%, but some lenders imposing stricter terms
↑	USDA Crop Loan Rate Up a bit, staying under 2%
↓	Diesel Fuel Prices \$2.30 by the end of July

TRADE
PACTS

Some languishing free trade deals are once again White House priorities: Obama wants ratification of pacts with Panama, Colombia and South Korea, all inked in recent years. He'll pick up on Bush's efforts for congressional approval. Democratic leaders in Congress will likely be more amenable to his persuasions.

The deals are politically strategic as well as helpful to the U.S. farm economy. Failure to ratify the Panama and Colombia agreements could alienate two key allies in Latin America and bolsters Venezuela's efforts to undermine the U.S. in the area. Similarly, leaving the pact with South Korea dangling could damage that alliance at a time when Seoul's help is essential in containing a nuclear armed North Korea.

Congress will OK the Panama pact by July. Most imports from both Panama and Colombia are already duty-free, so benefits outweigh the costs. The open access will boost U.S. exports of feed grains, wheat, chemicals, farm equipment, fertilizer, etc.

By year-end...the Colombia deal, shortly after Canada OKs its Colombia deal.

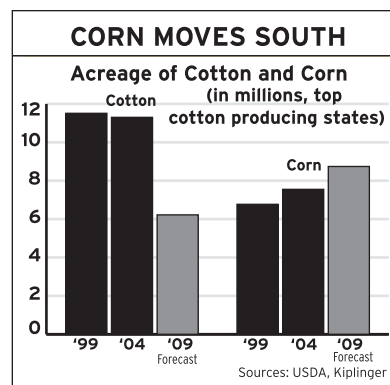
And next year...the pact with Korea. Farm staters are ready to proceed, now that Korea's ban on beef...linked to mad cow disease...has been eased. However, lawmakers will insist on adjusting the automobile provisions before giving it the nod.

CROPS

The Cotton Belt is raising much less cotton. American use of raw U.S. cotton is plunging, and sales depend heavily on exports. So farms in Ala., Ark., Ga., La., Miss., Mo., N.C., Tenn. and Texas are raising less cotton, switching to other crops.

Corn is joining soybeans as a top crop there.

Cotton acreage keeps falling, down 7% more this year. It'll tumble to less than 40% of soybean acreage... about 70% of corn's. The trend to corn is very strong: '09 harvested acreage will be up a third in 10 years. Soybeans...up 5%-6%, with most of that increase this year, largely because rains have delayed planting of other crops. Soybeans can be seeded a little later.

IMPROVING
THE SOIL

Mulling how to retain soil carbon to cash in on carbon cap and trade? Experts say you can convert grasslands to corn and still keep the carbon if you adopt no-till. Researchers in Neb. killed a bromegrass stand with herbicide and planted corn without plowing. They measured carbon levels in the soil and found they were nearly equal in corn and bromegrass areas at all depths tested. Releasing the soil carbon is a concern when converting land to corn to make ethanol.

Using starter fertilizer with phosphorus on corn can be a waste of money if the soil's phosphorus level is already high. Penn State Univ. researchers found that in such cases, an application boosted the corn's early growth but yields rose only 20% of the time, and then by just two to three bushels an acre...not enough to offset the cost. They suggest using an alternative starter...a light application of ammonium sulfate, for example...and offsetting its cost by applying less nitrogen.

ENERGY

Want a bird's-eye view of U.S. production, distribution and use of biofuels? It's on an interactive online map. You select a fuel...biodiesel, hydrogen, E85, etc...and the program shows all the sites of production, refueling stations or concentrations of users. Find refueling sites for your vehicle, or view where fuel is made vs. where it's used. Check it out at kiplinger.com/letterlinks/locate.

EPA's rule on biofuel emissions may shift markets for distillers grains a bit. Distillers wet grains get a lower emissions rating. They're fed to animals locally, quickly before the mash spoils. But for the growing export market, drying is a must. However, note that this part of the reg doesn't apply to plants started before Jan. '08.

FOOD SAFETY

Plans for a huge upgrade of U.S. food safety are moving ahead. Congress will mandate it late this fall or early in '10, now that top guns in the Senate and House are advancing their bills and will get bipartisan support and a nod from food companies. It'll be a lawmakers' trophy for the '10 elections. Obama is insisting on it, recently creating a food safety working group to advise the administration on improvements and legislation that'd be needed.

Changes will focus on the Food and Drug Admin...and not on the USDA, which inspects meat & poultry, or on state agencies that check restaurants, etc.

Food makers will have to set up detailed risk assessment systems, similar to the Hazard Analysis and Critical Control Point system that USDA uses for meat and poultry inspections. Commodities arriving from farms will have to be screened. All food companies will be required to register with FDA as well as pay a fee. The House draft bill would set it at \$1000 a year.

Plus FDA's authority will be beefed up with new powers to order recalls of bad food and require clearer traceability. More inspectors and labs as well, allowing more food...domestic and imported...to be checked by the agency.

LAND RENTS

Cash rents and land values are heading in opposite directions. Land values have receded from a mid-'08 spike, and many are still slipping. But rents are at or above '08 rates, with many rising since Jan. 1. One reason: The recession has thinned ranks of developers and other nonfarm land buyers, curbing sales. But landlords are still catching up with the '08 surge in prices. Rents lagged behind. Meanwhile, field crop prices are regaining strength, fueling farmers' desires for more acreage. Federal Reserve banks report early '09 rents for good cropland in the Midwest and Northern Plains are up 5% to 7% from year earlier levels.

CHECKOFFS

U.S. fruit and vegetable producers are poised to create a promotion entity to conduct research, develop new products and expand markets in the U.S. and abroad. Much like 18 similar programs operated for other farm commodities, it would be funded by an assessment. In fact, the growers and other producer groups that are preparing a proposal for the industry already have a funding level in mind: A levy of 0.046% of value on 40 crops, including fresh and some processed or dried, raising a \$30-million annual operating budget. By year-end, the industry may ask for the agriculture secretary's OK to launch its program. A producers' referendum may be held by late next year, creating the checkoff and levying assessments by '12.

But first...a solution to the dilemma of existing crop-specific checkoffs for mangoes, potatoes, blueberries and more. Producers already paying assessments in such programs will probably be allowed to deduct some or all of their current fees from what they'd pay to the new program or to opt out of the new checkoff altogether.

Dairy farmers will succeed in their decadelong quest to alter their checkoff: Imported dairy products will now be assessed along with U.S. farm milk to fund marketing programs. Most other checkoffs assess imports. The new fee for milk imports...7.5¢/cwt...equates to that on U.S. milk. Imposed on dairy imports of over 1 million metric tons, the levy will add \$6 million or so a year to the kitty. Congress OK'd the fee on imports in '02, but a legal glitch held up implementation until lawmakers fixed the provision in '08. USDA is now issuing regs to conform.

EQUIPMENT

Though the recession has slashed U.S. auto sales by a third... Farmers are buying equipment briskly. Sales of new tractors...the big ones common for farm use...are down just 5% from early '08, which was a strong year, and are 14% over '07 so far. Combine sales...up nearly 30% over the year ago pace.



PEST
CONTROL

Turns out fire is a good way to fight the spread of invasive plants.

It destroys the seeds as well as the living plant, say researchers.

And, like other natural controls, fire doesn't leave toxic residues. A limited fire destroyed 95% to 98% of invasive plant seeds when wheatgrass was spread lightly over a weedy area as fuel and burned. See the report at kiplinger.com/letterlinks/fire.

Expect more firewood quarantines as the emerald ash borer advances.

The pest is now found in two more states: Minn. and Ky. Since its discovery in '02 in Mich., the insect has spread to 11 other states plus Ontario and Quebec. State ag and forestry agencies plus USDA are mounting an awareness campaign asking the public not to transport firewood far from its origin. Some 16,000 signs saying "Burn It Where You Buy It" are being planted along roadsides in 16 states in the Northeast, Mid-Atlantic and Midwest. More info at kiplinger.com/letterlinks/eab.

A fistful of EPA regs on pesticide containers and labels take effect in Aug.

for distributors, commercial applicators, blenders and other pesticide handlers. They include new rules on disposing of empty containers and other operations at sites where pesticides are transported or dispensed and where containers are rinsed. An EPA pamphlet summarizing the provisions is at kiplinger.com/letterlinks/containers.

CLIMATE

Weather experts want temperature and rainfall reporting stations upgraded

after [a review of 1221 stations](#) found 89% were poorly placed...on pavement or near structures that compromised good readings...or were otherwise in bad shape. The reviewing meteorologist suggests that the problems throw into doubt conclusions that scientists have reached on climate change. Climatologists say that's not so... data used to study global warming are primarily atmospheric, not surface readings.

And researchers avoid readings from poorly located stations. But improving stations, they agree, would aid in forecasting and studying trends...a benefit to farmers as well.

The National Weather Service expects to begin replacing stations this fall...

a region-by-region upgrade, starting with 100 in Colo., Ariz., N.M. and Utah by '11.

USDA is using satellite monitors to get earlier drought warnings worldwide,

especially in areas where weather stations are sparse. Teamed with NASA experts, USDA remotely senses soil moisture by detecting electromagnetic radiation, which reflects the level of soil moisture. That helps USDA project crop production a little earlier and spot remote areas where drought and food shortages may await.

MARKETING

Growers want to expand Americans' lust for watermelon beyond July 4

and a few other summer days. Yearly per capita consumption is stalled out at 15 pounds. Hence, a new blog by the National Watermelon Promotion Board featuring regularly updated recipes and experts who'll answer watermelon queries: Raising them, selecting them, keeping them fresh and more. Or visit the site... kiplinger.com/letterlinks/melon...to become a backyard melon authority by the 4th.

TREADING
WATER

For U.S. agriculture, '09 will be the story of a glass half full. Americans

are spending just 1% less on groceries and 2% less on food services in restaurants, cafeterias, etc., despite the recession. Though market prices whipsaw farmers, economic slumps show agriculture's stable demand. Farm income in '09 will drop 20% from the '08 record but still top the 10-year average by \$5 billion.

Yours very truly,

The Kiplinger Editors
THE KIPLINGER EDITORS

June 5, 2009