

# The Kiplinger Agriculture Letter

FORECASTS FOR AGRIBUSINESS DECISIONMAKERS • Vol. 84, No. 5

Dear Client:

Washington, March 8, 2013

U.S. ag exporters will pocket more cash in '13 than last year...totaling around \$145 billion, owing to high commodity prices and improving growth in the world economy, which bolster foreign buying.

**TRADE** Volumewise, though, ag shipments will slip, because drought has zapped stocks of grains and oilseeds, reducing herds and flocks as well.

And volumes won't pick up overall till fall... then only if normal rainfall returns across the middle of the country, a shift that appears to have started.

Expect record red meat and poultry sales, by value, for beef, chicken and turkey. However, because of a tiny cattle herd, export tonnage for beef will fall as beef imports rise and more cattle arrive from Mexico and Canada. Russia's biotech-linked halt to imports of U.S. beef, poultry and pork will hurt sales. But Japan, the top U.S. beef buyer, eased its barriers linked to mad cow disease, so sales there will jump.

Pork exports are up to 27% of U.S. production and may set a record again in '13. But the value of sales will dip because '13 prices will be lower than in '12.

Export sales of fresh and processed fruit and veggies will also set records, jumping at least 10% overall, to as much as \$16 billion. Volume for most categories... also up, thanks largely to surging sales to Canada, Japan, South Korea and Europe.

Ditto, tree nuts... 1.4 million metric tons, up at least 15% from last year, to \$7.4 billion in sales, thanks to the appetites of China and the rest of Asia for almonds, pistachios and walnuts.



Soybean export sales will set a record, too...by value, thanks to prices above \$14/bu. at least into summer. But the tonnage of soybean shipments will be down 5% for the marketing year ending next Sept., and stocks will be depleted...just 4% of an annual crop will remain. So exports through this calendar year will be limited. Meanwhile, sales and volumes of wheat and rice...up, thanks to ample stocks and high prices. Farmers will average more than \$7/bu. for wheat this year. Spring wheat...over \$8. Long-grain rice...over \$14/cwt.

But shipments abroad of corn and sorghum are tumbling and will be down by a third this year...more if adequate rains don't arrive to ensure an average crop.

China will remain the U.S.' top customer, even though its imports of cotton, a leading U.S. product sold there, will be down sharply. China is importing, using and storing less cotton, and U.S. stocks are falling. But it's buying more soybeans, despite the U.S. shortage. Also more chicken and red meat, hides and livestock feed.

## ENERGY FORECASTS

Energy product	March 8, 2013	May 2013
Crude oil (WTI, per bbl.)	\$91.48	\$95-100
Natural gas (per MMBtu at wellhead)	\$3.59	\$3.10-3.30
Regular gasoline (per gallon)	\$3.71	\$3.75-3.95
Diesel fuel (per gallon)	\$4.10	\$4.05-4.25
Heating oil (per gallon)	\$4.06	\$3.90-4.10
Propane (per gallon)	\$2.49	\$2.05-2.25

**CROPS**

Crop revenue insurance will guarantee solid prices on major '13 crops, thanks to '12's small harvests and shrinking stocks. Moreover, the drought has lingered long enough to nudge the insured prices on '13 crops even higher than last year for most crops. Corn is now insurable at \$5.65/bu. in most areas. Soybeans...\$12.87/bu. Grain sorghum...\$5.70/bu. Spring wheat...\$8.44/bu. For organic crops, the insured prices are even higher: Corn...\$8.80-\$9.40/bu.

Strong prices will provide farmers with an incentive to plant more this year, including organic plums, nectarines and freestone peaches in Calif...all added to the list of organic crops eligible for better terms of coverage than those for conventional crops.

Yield advantages of biotech corn are strongest under poor crop conditions rather than favorable ones, an analysis of 20 years of yields from 500 varieties in Wis. indicates. Researchers say that the higher yields attributed to hybrids weren't evident in good crop years...a few even had lower production. One exception: Strains that make *Bacillus thuringiensis* (Bt bacterium) to kill European corn borers average 6 bu./acre more than conventional ones. See [kiplinger.com/letterlinks/yields](http://kiplinger.com/letterlinks/yields).

Note an attractive new club wheat variety...Cara...for Northwest growers. It resists fungal diseases...stripe rust, foot rot, powdery mildew...is high-yielding and has excellent milling quality. Learn more at [kiplinger.com/letterlinks/club](http://kiplinger.com/letterlinks/club).

**FORESTS**

Want to extract profits from public or private forests or other treed areas? There are many ideas on how to collect and sell "wildcrafting products"... nontimber items found in forests, such as herbs, medicine, syrup and pine straw. View them at [kiplinger.com/letterlinks/treeideas](http://kiplinger.com/letterlinks/treeideas). Also, check out a USDA site... [kiplinger.com/letterlinks/agforest](http://kiplinger.com/letterlinks/agforest)...for ideas and links to all aspects of agroforestry, such as alley cropping or growing tree nuts, plus related research and marketing info.

**ORGANICS**

A series of regs on organic farming and processing will be on the table at a National Organic Standards Board meeting in April. Public comments are invited till March 19 on rules for crop disease treatments, shielding organic seeds from mingling with biotech seed, amino acids in pet foods, aquaculture and more. For more information, or to comment, go to [kiplinger.com/letterlinks/nosbmeeting](http://kiplinger.com/letterlinks/nosbmeeting).

**LIVESTOCK**

The nation's cow herd overall is shrinking, but milk production is rising, because of improved animal health and production methods. Farmers will keep hiking milk output, getting at least 1% more milk from each cow per year. The herd will slip 1%-1.5% this year, but the biggest dairy farms will keep expanding. By '15, farms with over 500 cows will produce two-thirds of U.S. milk...vs. 46% in '03.

But the size of cow herds on U.S. beef cattle ranches isn't increasing much. While the U.S. inventory of cows for the beef sector is down 11% in the past decade, less than 17% of ranches will have over 500 cows this year, vs. 14% a decade ago.

USDA plans to OK the first U.S. horse slaughterhouse to operate since '07 when Congress suspended horsemeat production. Several states are pressing USDA to approve horse slaughterhouses as a humane way to dispose of abandoned horses. Okla. recently joined the cause. Congress won't intervene to block new openings.

But lawsuits may delay the opening of the first plant...a facility in N.M.

The level of stress endured by cows contributes markedly to beef quality, husbandry costs and ranchers' profits. Texas and Miss. researchers divided cattle into three groups according to temperament (tense to calm), then tracked several of the interrelationships, checking their immunity levels (resistance to bacterial toxins) and typical stresses: Weaning, transporting, vaccinating, etc. They say temperament is key to how much fat gets stored in the muscle...marbling...critical to beef quality. Nervous cattle have less marbling. Details at [kiplinger.com/letterlinks/calmcows](http://kiplinger.com/letterlinks/calmcows).



## THE NEXT CONGRESS

The Senate Agriculture Com. will have less clout as older members leave. Several committee veterans are also chairmen and high-ranking members of the Finance, Appropriations, Judiciary and Labor panels, which weigh heavily on farm policy and spending. Tom Harkin (D-IA), Saxby Chambliss (R-GA) and Mike Johanns (R-NE) will retire when their terms expire after next year. More turnover is likely, too, after the '14 elections because more panel members... facing reelection and now in their 70s and 80s...are likely to leave the Senate. The 20-member panel already has five new members...all of them joining the Senate since '09. They'll lack the power of senior senators for several years.

In the House Ag Com...a battle for the top GOP seat, whether Republicans retain control in '15 or not. House GOP rules will force Chmn. Frank Lucas (R-OK) to relinquish that post after six years. At least four high-ranking members will vie for the job. Rep. Collin Peterson (D-MN) will stay on as the top Democrat.

## ENERGY

The punitive tariff on U.S. ethanol sold to Europe will pinch U.S. producers. The European Union slapped a five-year antidumping duty on corn ethanol from the U.S. It's about 25¢/gal...a 10% surcharge on current U.S. wholesale prices. U.S. plants have ramped up exports since early '11 because few fuel distributors put over 10% ethanol into gasoline...thus, the domestic ethanol market is saturated. Six big U.S. biorefineries have closed since Jan., owing to limited domestic demand. The EU buys about 25% of U.S. exports, which compete with Brazil's sugar ethanol (usually cheaper to make than corn ethanol), so the tariff is sure to dent U.S. exports.

Demand for propane in Asia and Latin America will nudge up U.S. prices and U.S. exports in coming years. Enterprise Products Partners, Targa Energy Services and other American propane producers are expanding operations to meet demand. As propane prices rise gradually, their margin below natural gas prices will narrow.

## LAND &amp; WATER

Note ways to optimize the benefits of using a rye cover crop and a crimper... a system that organic and no-till farmers are starting to use to fight weeds. After four years of trying various crimpers and cropping systems, researchers in Ala. say it's critical to seed rye early enough so it matures before it's crimped in the fall. Doing so ensures that the rye is killed to form a thick cover for the next crop planted. See more of their findings and suggestions at [kiplinger.com/letterlinks/crimprye](http://kiplinger.com/letterlinks/crimprye).

A competitive sign-up in the Conservation Reserve Program begins May 20. Land in CRP has already plunged to 27 million acres because strong prices for crops bring an incentive to again plant idled acres. With CRP contracts for 3.3 million acres expiring this fall, USDA will enroll enough land to retain at least 25 million acres in CRP. It'll also sign up more acreage this year in the alternative continuous CRP.

USDA's application deadline for conservation innovation grants is March 22. State and local agencies, colleges and private parties can get 50% of costs covered for projects with new ideas to conserve and protect soils, water and wildlife habitat. USDA will award \$25 million for such projects. See [kiplinger.com/letterlinks/ideas](http://kiplinger.com/letterlinks/ideas).

## SHIPPING

If polar ice continues its recent melt, how soon could Arctic sea lanes open? Around midcentury. Experts say northern routes would open in the summer along Russia's Arctic Ocean coast from northern Europe to the Bering Strait (Alaska) and across northern Canada and Alaska on the [Arctic Ocean](#) as well. The forecast is based on studies of ice depth in the shipping channels and the melting needed to accommodate cargo ships. See details at [kiplinger.com/letterlinks/sealanes](http://kiplinger.com/letterlinks/sealanes).

But shipping U.S. ag commodities on such routes has limited advantages... the expanded Panama Canal will prevail for shipping to Asia from the eastern U.S.



**BUYING &  
SELLING**

MarketMaker, the online ag industry network, can help grow your business. The portal linking ag markets is run by state universities and ag agencies of 19 states. It features nationwide listings of school food managers, food banks, restaurants, retailers and others and provides a place for buying and selling foods, machinery, agritourism and more. Farm jobs are listed, too. No fees to participate.

Farmers throughout the country are invited to register...8,500 have so far. MarketMaker also has an app version...*foodsearcher.com*...accessible by smart phone, but so far it's available only in certain states. See [kiplinger.com/letterlinks/mktmaker](http://kiplinger.com/letterlinks/mktmaker).

New futures market regs may affect farmers' costs and hedging ability.

Traders are miffed about a push for stricter margin rules...in cash required and speed of compliance...posed by the Commodity Futures Trading Comm. The move aims to tighten monitoring of traders, including strict separation of customers' funds from other accounts. Steep increases in margin cash and a proposed requirement that margin calls be covered within one day...vs. the current three...has farmers and other ag operators fearing that new cost hikes for traders will be passed to them.

Odds are good that some proposed commodity trading rules will be eased... especially the tiny window to boost margin cash. If not, farmers would feel the pinch.

**TAXES**

Blackberry, papaya and raspberry growers get some friendly tax treatment: Their preproduction costs needn't be capitalized, says IRS. Generally, cash-accounting farmers can't immediately deduct costs incurred to grow plants that take over two years to grow a crop, unless they agree to other tax restrictions. IRS has removed the three crops from this restricted category, so farmers can switch to accounting methods that deduct growing costs. See [kiplinger.com/letterlinks/berry](http://kiplinger.com/letterlinks/berry).

Huge write-offs on new heavy SUVs continue, since 50% bonus depreciation is extended for '13. Example: If buying an SUV for \$65,000...solely for business and placed in use by year-end...you can expense \$25,000. Half of the remainder...\$20,000...can be bonus depreciation. Also, 20% of the \$20,000 left over...\$4,000... can be regular depreciation. Sum of first-year write-offs: \$49,000. Big pickup trucks (over 6,000 lbs. loaded weight and at least a six-foot bed) can be fully written off.

**MAIL**

The U.S. Postal Service will soften the blow of ending Saturday mail service. It will offer seven-day parcel service, adding Sundays this year or next... a boon to e-commerce as well as bricks-and-mortar businesses. Using USPS can help businesses budget their costs. Since increases are made just once a year and are tied to inflation, big hikes are unlikely. Parcel delivery volume is up 14% since '10, thanks to growth in online shopping and contracts with competing carriers.

**DEFINING  
RURAL**

One more thing for Congress to fight about: USDA's definition of "rural." A new USDA proposal would make all rural areas with populations of up to 50,000 eligible for housing, water and other rural development programs. That would make many more communities eligible to compete for government cash. Current regs are more limiting...some have population ceilings as low as 2,500. The Senate proposed the same higher threshold last year. But many House members oppose raising the bar. They say rural development programs should be earmarked for the least-populated areas and that a higher benchmark would dilute the aid.

Yours very truly,

*The Kiplinger Editors*  
THE KIPLINGER WASHINGTON EDITORS

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