

June 2009 Market Update

Department of Economic Analysis



In this month's edition:

- The General Economy: Bob Young, Chief Economist
- Crop Outlook: Terry Francl, Senior Economist
- Southern Crops Outlook: Megan Provost, Trade and Southern Crops Economist

Recently posted on SILO:

- Fertilizer Study: presented by Jeff MacKenzie via webinar on 5/21/09
- Crops Outlook: presented by Terry Francl on 6/27/09 at the Louisiana Farm Bureau's Annual Meeting in New Orleans

2nd Annual AFBF Commodity Outlook Conference
Sheraton Albuquerque Uptown Hotel, Albuquerque, NM
October 14-16, 2009

****Tentative Agenda & Registration Information available in August****

The General Economy

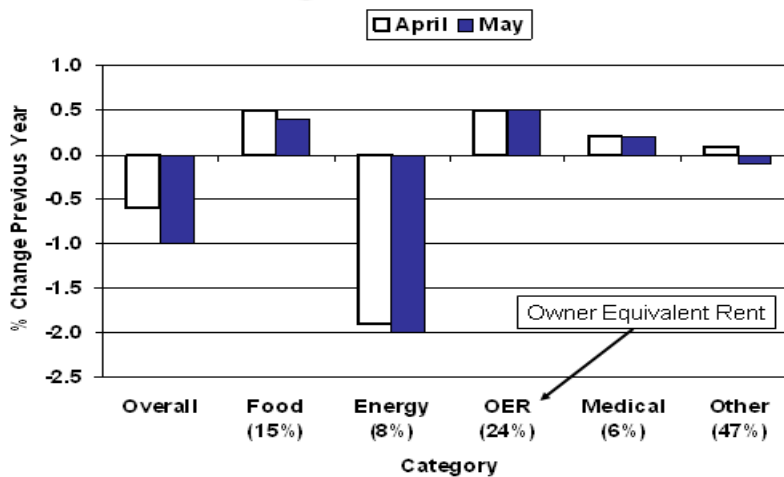
Bob Young, Chief Economist

There comes a time in every downturn – even though this has been a doozy – where you are not sure if you have hit a ledge on the way to the bottom, or if there is actually solid ground down there. While the crystal ball is still cloudy and we might not want to say things are getting better, at least we can say, things are ‘less bad’.

This column has repeatedly taken the components of the general economy apart in order to better understand some of the forces behind the numbers. In past discussions we've looked at the importance of the sharp decline in overall Gross Domestic Product (GDP) figures engendered by Gross Private Domestic Investments (GPDI). This figure includes fixed investments and the change in private inventories. With the collapse in housing starts, it should not be any surprise the figure shrank by 8.3% in the first quarter. But inventory declines – while negative for the overall economy – are a good thing in the longer term as manufacturers have to eventually reload shelves.

Housing starts also appear to have bottomed out. Recall we discussed several months back that fire departments responded to 400,000+ calls in 2006. That indicates we need to build around 300,000 per year just to replace stock. Not surprisingly then, housing starts have seemed to hit bottom around the 350,000 range, and actually moved up to the 400,000 level in May. Just simple arithmetic then suggests we will remove this major drag on GDP figures out in the third or fourth quarter if we just keep doing what we're doing today. Any growth in the housing sector would just be gravy. In other words, ‘less bad’ is a relative term.

CPI Change Contributions



Rather than delve even further into breaking apart the GDP figures, let us turn to measures of inflation, particularly the Consumer Price Index (CPI). Like the GDP, the CPI is made up of a number of components. If you forgot \$4.00 gasoline, let me remind you that gas prices are down substantially from where they were last year. This drop in overall energy costs by itself has lowered the overall CPI by 2% in May 2009 relative to observations a year ago. Even with energy prices creeping back up, it is unlikely we'll see oil prices back over \$100/barell this year.

So if you do the arithmetic it seems likely that energy will lower the overall CPI by at least one to one and a half percentage points through most of the year. This will continue to cause folks to discuss the possibility of deflation in this kind of a weak economy. But when you look at all the other components such as food, housing, medical care and the like, it is pretty clear deflation is not a worry. If anything, actions by the Federal Reserve to boost liquidity in the system have generated some significant longer term concerns about inflation, not deflation.

The jobs market data is also a clear example of things being 'less bad'. In any kind of a normal market if we talked about job losses in the 340,000 range, it would be with great sadness in our voice. Today, after having moved through the elimination of nearly 750,000 jobs in January, this doesn't seem so bad. Again, 'less bad' is a relative term. The automotive industry – including parts suppliers and dealerships – is going to continue to shed jobs as bankruptcy proceedings move forward. This is going to continue to place downward pressure on job numbers. Job losses in construction, as already implied, have probably already hit the bottom.

You add all that up, the fact that the housing sector cannot get much worse, that the financial sector seems to have turned the corner, that the automotive firms are working on quickly moving through bankruptcy and beyond, the effects of the stimulus package finally hitting the streets, you come to the conclusion that forces seem to be building for recovery in the general economy to come on line by the end of the year. We may even see some significant growth by the middle of next year.

Winston Churchill would have probably come up with something a lot more eloquent than 'less bad'. Words like 'the end of the beginning' come to mind, but we're economists after all and so will leave it as an economy that is 'less bad' today than we were six months ago.

Crop Outlook

Terry Francl, Senior Economist

USDA released their Planted Acreage and Grain Stocks reports on June 30th. The two biggest surprises both affected corn. The 2009 estimated corn planted acreage was one million acres more than last year, two million acres above the March 1 USDA estimate and three million acres larger than the average pre-report estimate. Likewise, estimated June 1 corn stocks came in 237 million bushels above a year ago and 87 million bushels above the average pre-report estimate.

Major U.S. 2009 Planting Levels*

| | 07/08 | 08/09 | USDA M-09/10 | Change 09 vs 08 | USDA E-09/10 | Change J09-M09 |
|--------------|---------------|---------------|-----------------|--------------------|-----------------|-------------------|
| Corn | 93.53 | 85.98 | 84.98 | -1.00 | 87.04 | 2.053 |
| Beans | 64.74 | 75.72 | 76.02 | 0.31 | 77.48 | 1.459 |
| Sprg Wht | 13.29 | 14.14 | 13.30 | -0.83 | 13.77 | 0.468 |
| Durum | 2.16 | 2.73 | 2.45 | -0.29 | 2.56 | 0.11 |
| Winter | 45.01 | 46.28 | 42.89 | -3.39 | 43.45 | 0.559 |
| All Wheat | 60.46 | 63.15 | 58.64 | -4.51 | 59.78 | 1.137 |
| Oats | 3.76 | 3.22 | 3.40 | 0.18 | 3.16 | -0.242 |
| Barley | 4.02 | 4.23 | 3.95 | -0.28 | 3.63 | -0.326 |
| Sorghum | 7.71 | 8.28 | 6.96 | -1.32 | 6.96 | 0 |
| All Cotton | 10.83 | 9.47 | 8.80 | -0.67 | 9.05 | 0.254 |
| Sunflowers | 2.07 | 2.52 | 2.07 | -0.45 | 2.10 | 0.028 |
| Rice | 2.76 | 3.00 | 3.18 | 0.19 | 3.02 | -0.165 |
| Total | 249.88 | 255.56 | 248.01 | -7.55 | 252.21 | 4.198 |

* millions of acres

Source: NARMS

There has been much speculation on how the late, wet spring would affect corn and soybean planted acreage. It was generally agreed that the weather would minimize the corn acreage expansion and that some acres designated for corn would ultimately be switched to soybeans. Clearly that did not happen, at least by the mid-June cutoff date for the Planted Acreage survey. It may be that in the end corn acreage might be reduced by another 500,000 acres or so but that will have relatively little impact on the over supply/demand situation.

According to the Planted Acreage report, soybean planted acreage was estimated to be 77.5 million acres, up 1.76 million acres from 2008 but 640,000 acres less than the pre-report estimate. The remaining major crop planted acreage numbers were fairly close to the pre-report estimates with spring wheat at 13.8 million acres, 700,000 acres more than the pre-report estimate, and durum at 2.56 million acres, up 170,000 acres. Cotton came in at just over 9 million acres, just slightly above the pre-report estimate.

To judge the impact of these reports on the various crops, new supply and demand estimates have been constructed, utilizing or adjusting for the numbers reported in the two reports. The previous crop year, 2008/09, is shown as are the June WASDE numbers for the upcoming 2009/10 crop year and my AFBF adjusted estimates for the 2009/10 crop year.

| U.S. Soybean Supply-Demand | | | |
|-----------------------------------|------------------|----------|-----------|
| | 2008/09 | 2009/10* | 2009/10** |
| | Million acres | | |
| Planted | 75.7 | 76.0 | 77.5 |
| Harvested | 74.6 | 75.0 | 76.5 |
| | Bushels per acre | | |
| Yield | 39.6 | 42.6 | 41.0 |
| | Million bushels | | |
| Beginning stocks | 205 | 110 | 100 |
| Production | 2,959 | 3,195 | 3,133 |
| Imports | 12 | 12 | 12 |
| Total Supply | 3,176 | 3,317 | 3,250 |
| Crushings | 1,650 | 1,675 | 1,675 |
| Exports | 1,250 | 1,260 | 1,280 |
| Seed & Residual | 167 | 171 | 171 |
| Total Use | 3,066 | 3,107 | 3,126 |
| Ending stocks, total | 110 | 210 | 124 |
| Stocks/use ratio | 3.4% | 6.8% | 4.0% |
| * USDA June WASDE | | | |
| ** AFBF estimate | | | |

For corn there is an added column showing the estimated impact of an increase in the ethanol blending rate from the current 10% level to 12%. The EPA is presently considering a petition to raise the rate to 15%. U.S. Energy Secretary Steven Chu recently said, "In virtually anything, once government steps in the natural tendency is to resist government intervention, but we'll see about whether the current fleet can take 15% or 13% ethanol," (Radio Iowa, June 22, 2009). A 12% blend rate has been selected for this example because it (and 13%) is considered substantially similar to a 10% blend. Therefore, the change can be made with a minimum impact to the various technical aspects of higher rates such as warranties on cars and small motors.

| U.S. Corn Supply-Demand | | | | |
|---|------------------|-----------------|------------------|-------------------|
| | 2008/09 | 2009/10* | 2009/10** | 2009/10*** |
| | Million acres | | | |
| Planted | 86.0 | 85.0 | 87.0 | 87.0 |
| Harvested | 78.6 | 77.8 | 79.5 | 79.5 |
| | Bushels per acre | | | |
| Yield | 153.9 | 153.4 | 155.0 | 155.0 |
| | Million bushels | | | |
| Beginning stocks | 1,624 | 1,600 | 1,725 | 1,725 |
| Production | 12,101 | 11,935 | 12,323 | 12,323 |
| Imports | 15 | 15 | 15 | 15 |
| Total Supply | 13,740 | 13,550 | 14,063 | 14,063 |
| Feed/Residual | 5,350 | 5,150 | 5,075 | 4,950 |
| FSI less ethanol | 1,290 | 1,310 | 1,310 | 1,315 |
| Ethanol | 3,750 | 4,100 | 4,100 | 4,500 |
| Domestic, total | 10,390 | 10,560 | 10,485 | 10,765 |
| Exports | 1,750 | 1,900 | 1,950 | 1,950 |
| Total Use | 12,140 | 12,460 | 12,435 | 12,715 |
| Ending stocks, total | 1,600 | 1,090 | 1,628 | 1,348 |
| Stocks/use ratio | 13.2% | 8.7% | 13.1% | 10.6% |
| * USDA June WASDE | | | | |
| ** AFBF estimate | | | | |
| *** AFBF estimate with 12% ethanol blend rate | | | | |

The probability of this higher blend rate has been greatly enhanced by the prospects for a larger corn crop in 2009. Even with the greater blend rate corn prices are not expected to be any higher than the current crop year and most likely will be less.

One must be mindful that we are a little less than half way through the growing season at this point for corn and soybeans. The implicit assumption in any forecast is that weather will be normal for the remainder of the growing and harvesting seasons. However, summer weather can have a profound impact on yields; in early July for corn as it goes into its reproductive phase and later in August for soybeans. Five bushels per acre can easily be added or subtracted from corn yields and one to two bushels to or from soybean yields. At this juncture the condition report for both crops is slightly above the five year average. Nevertheless, that can change significantly in a week's time.

| U.S. Wheat Supply-Demand | | | |
|---------------------------------|------------------|-----------------|------------------|
| | 2008/09* | 2009/10* | 2009/10** |
| | Million acres | | |
| Planted | 63.1 | 58.6 | 59.8 |
| Harvested | 55.7 | 48.9 | 50.4 |
| | Bushels per acre | | |
| Yield | 44.9 | 41.2 | 41.0 |
| | Million bushels | | |
| Carryin (Jun1) | 306 | 669 | 667 |
| Production | 2,500 | 2016 | 2,068 |
| Imports | 125 | 115 | 110 |
| Total Supply | 2,930 | 2,800 | 2,845 |
| Food/Seed | 1,001 | 1,033 | 1,022 |
| Feed/Residual | 250 | 220 | 220 |
| Domestic Use | 1,251 | 1,253 | 1,242 |
| Exports | 1,010 | 900 | 925 |
| Total Use | 2,261 | 2,153 | 2,167 |
| CARRYOUT (May 31) | 669 | 647 | 678 |
| Stocks/Use | 29.6% | 30.0% | 31.3% |
| * USDA June WASDE | | | |
| ** AFBF estimate | | | |

Southern Crops Outlook

Megan Provost, Trade and Southern Crops Economist

While most of the headlines regarding USDA's release of their June *Acreage Report* focused on the increase in corn planted acres, the report also noted some adjustments made to some of the southern commodities.

Cotton Planted Acres

U.S. cotton planted acres for 2009 were estimated at 9.054 million acres, which is 4% below last year. While most industry experts were predicting USDA's number would be even smaller (estimates put the number closer to USDA's March estimate of 8.811 million acres), this year's planted acres for all *and* for upland cotton are the lowest levels since 1983.

In Mississippi and Louisiana, producers planted the lowest upland cotton on record, planting just 270,000 and 240,000 acres respectively. The largest percent decline in cotton production was in California, where upland cotton producers planted only 65,000 acres, which is a 46% drop from last year. A few states saw increased planted acres in upland cotton. Those states were Arizona, Georgia, Oklahoma, South Carolina, Tennessee, and Virginia. American-Pima cotton producers planted 149,400 acres, which is down 14% from 2008 plantings.

All Cotton Area Planted

(Values in 1,000 Acres)

| State | 2008 | 2009 | Change | % Change |
|----------------|---------|---------|--------|----------|
| Alabama | 290.0 | 250.0 | -40.0 | -16% |
| Arizona | 135.8 | 141.0 | 5.2 | 4% |
| Arkansas | 620.0 | 520.0 | -100.0 | -19% |
| California | 275.0 | 195.0 | -80.0 | -41% |
| Florida | 67.0 | 65.0 | -2.0 | -3% |
| Georgia | 940.0 | 980.0 | 40.0 | 4% |
| Kansas | 35.0 | 35.0 | 0.0 | 0% |
| Louisiana | 300.0 | 240.0 | -60.0 | -25% |
| Mississippi | 365.0 | 270.0 | -95.0 | -35% |
| Missouri | 306.0 | 305.0 | -1.0 | 0% |
| New Mexico | 40.6 | 31.4 | -9.2 | -29% |
| North Carolina | 430.0 | 380.0 | -50.0 | -13% |
| Oklahoma | 170.0 | 180.0 | 10.0 | 6% |
| South Carolina | 135.0 | 140.0 | 5.0 | 4% |
| Tennessee | 285.0 | 340.0 | 55.0 | 16% |
| Texas | 5,015.6 | 4,917.0 | -98.6 | -2% |
| Virginia | 61.0 | 65.0 | 4.0 | 6% |
| United States | 9,471.0 | 9,054.4 | -416.6 | -4% |

Biotechnology

This year, producers planted 88% of their upland cotton acreage with seed varieties developed using biotechnology. This is up 2% from last year. Stacked gene varieties accounted for the most acreage (at 48% of the planted acreage), followed by herbicide-resistant varieties (on 23% of the planted acres), and then varieties containing Bt were planted on 17% of the planted acres.

Rice Planted Acres

U.S. rice planted acres for 2009 were estimated at 3.02 million acres, which is up 1% from 2008 planted acres. Wet conditions in April and May slowed down rice planting in the Delta. But, a lack of rain in California in March allowed growers there to get an early start. Nationally, 94% of the acreage was seeded by May 31, which is 3% behind normal.

All Rice Area Planted

(Values in 1,000 Acres)

| State | 2008 | 2009 | Change | % Change |
|---------------|-------|-------|--------|----------|
| Arkansas | 1,401 | 1,431 | 30 | 2% |
| California | 519 | 562 | 43 | 8% |
| Louisiana | 470 | 420 | -50 | -12% |
| Mississippi | 230 | 240 | 10 | 4% |
| Missouri | 200 | 195 | -5 | -3% |
| Texas | 175 | 170 | -5 | -3% |
| United States | 2,995 | 3,018 | 23 | 1% |

Planted acres for rice increased in Arkansas, California, and Mississippi; however, acres were down in Louisiana, Missouri, and Texas.

Long grain planted acres, which represents 75% of the total rice acreage this year, was down 5% from last year's mark. Medium grain rice planted acres, representing 24% of the total, was up 26% from last year's acreage. Area planted to short grain varieties was down 10,000 acres from 2008 and represented just 1% of total rice acreage.



American Farm Bureau Federation