

Agricultural Outlook

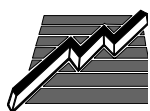
Purdue University

September 2003

2004 and Beyond!

Still Seeking Faster Economic Growth

Larry DeBoer



The recession may have ended in November 2001, but the recovery has not been all we hoped for. Over the past year Gross Domestic Product (GDP) grew only 2.5% above inflation, in part due to slow growth in business investment, exports, and in state and local government purchases. This growth rate has been too slow to bring down the unemployment rate which was 6.1% in August. The slow growth economy helped inflation remain low, at 2.1% over the year, despite energy price increases. Interest rates fell as the Federal Reserve reduced its federal funds interest rate three-quarters of a point during the year, to a 45-year low of one percent. Both short and long term interest rates fell during the year, though long term rates have increased in the past two months.

GDP growth above inflation will probably increase over the next year. Consumers show signs of increasing their spending—low interest rates and income tax cuts should help. Housing construction continues to boom and Federal defense spending is likely to increase further. The decline in the value of the dollar may inhibit imports and encourage exports. These positive factors should offset continued slow growth in business investment and spending cuts and tax hikes by state and local governments. Expect GDP to increase by 3% above inflation over the next four quarters. This is still not the faster economic growth we are searching for. That will only come when business investment rises more rapidly. Businesses have a lot of unused capacity, so they seem unlikely to increase investment much before 2005.

If GDP grows 3%, the unemployment rate is unlikely to change much. The unemployment rate should be around 6% by July 2004. Inventories are very low, so increases in sales must be met by new factory production. This could increase manufacturing employment, which has been falling. However, rapidly rising productivity may inhibit new hiring somewhat. If consumer spending growth is only modest, firms can raise output with their existing employees.

With unemployment near 6% and so much unused capacity, core inflation should fall. Core inflation—including food and energy prices—should drop to near one percent. But increases in energy prices, particularly natural gas, will increase the overall inflation rate to 2% over the

next 12 months.

The Federal Reserve has implied that it intends neither to reduce nor raise interest rates in the near future. That should keep short term interest rates near where they are now. Expect the 3-month Treasury interest rate to be 1.2% in July 2004. Excitement about expected Fed purchases of long term bonds drove long term interest rates down in May and June. Disappointment when the Fed did not do so pushed rates back up in July and August. Rates should eventually be only modestly higher than they are now at around 4.5% for 10-year Treasury rates.

Ag Policy Issues

Allan Gray and Otto Doering

The 2003 crops are the second year for the new farm program which will extend through the 2007 crop year. The odds of Loan Deficiency Payments (LDPs) for corn and soybeans this fall now appears to be low, however a quick review of those programs may still be useful.

County corn loans in Indiana vary from \$1.93 per bushel up to \$2.18. The average is about \$2.05 per bushel. For soybeans, the county loans range from \$5.01 to \$5.26 and average about \$5.14 per bushel. If Posted County Prices (PCPs) drop below the county loan, then producers are eligible for LDPs on all certified production. LDPs are the greatest when market prices are the lowest. As a general guideline, historical price lows for Indiana soybeans tend to be about the 10th of October, and in late October or early November for corn.



Two additional points regarding the LDP mechanism can add returns. First, today's LDP is actually based on yesterday's market price. Thus on a day when the corn market is up strongly, say 8 cents, the producer can price at today's higher price, and also get the favorable LDP based on yesterday's lower market price. Secondly, if grain or soybeans have been placed under loan, the LDP can be locked on a day of producer choice and remains locked on that grain for a 60 day period. (If the grain is under loan, it is now called a Marketing Loan Gain (MLG) instead of an LDP). This provides a 60 day free upward price speculation period in which the MLG is locked, but the grain can be priced at higher levels. On the other hand, if market prices drop in the 60 days, the grain reverts back to the regular MLG opportunity. The 60 day lock can only be used once on each lot of grain selected. The Farm Service Agency (FSA) should be consulted for all details.

Expected Counter Cyclical Payments (CCPs) now

look to be small or non-existent for the 2003 corn, soybeans, and wheat crops. CCPs are made when the national average price received by farmers for the marketing year are in a range bounded by the national loan on the low side and the target minus the direct payment on the high side. These boundaries are as follows for 2003 crops: Corn \$1.98 to \$2.32 per bushel; Soybeans \$5.00 to \$5.36 per bushel; and Wheat \$2.80 to \$3.34. As an example, if the average marketing year price received by farmers was \$2.25 per bushel, there would be 7 cents per bushel of CCPs (\$2.32 - \$2.25). If the season's average price is above \$2.32, there will be no CCPs.

For the 2004 to 2007 corn and wheat crops, loans drop somewhat and target prices rise somewhat, thus the boundaries of CCPs will expand. For soybeans, they do not change from this year's level.

In other policy areas, the EQUIP program is being funded including the opportunity for livestock producers to receive assistance on waste treatment plans that enhance the environment. Funds for the Conservation Security Program have largely been used to fund the disaster assistance programs for drought on the 2001 and 2002 crops so is not yet active. Finally, the energy bill will be debated this fall, with implications for the incentives provided to ethanol and biodiesel producers.

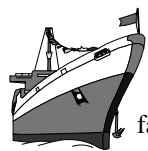
Agricultural Imports Rising Faster than Exports

Phil Paarlberg and Phil Abbott

Agricultural exports for fiscal year 2003/04 are forecast at \$57.0 billion. That forecast value is \$1.5 billion above the forecast for fiscal year 2002/03 of \$ 55.5 billion and compares with \$ 53.3 billion during the 2001/02 fiscal year.

Positive forces include a weaker U.S. dollar in major currency markets which should begin to be felt during the 2003/04 year and reduced crop prospects due to heat and dryness in Europe and Canada. Several factors negatively influence U.S. agricultural exports. One factor is slow global income growth with most major economies not expanding much. Further, South American exporters face pressure to export as a means of reducing their external macroeconomic imbalances. Large soybean crops in South American facilitate such exports.

Another drag on U.S. agricultural exports is the continuing controversy surrounding trade in farm products containing genetically modified organisms (GMOs). The European Union has introduced labeling and tracing rules that adversely affect U.S. exports. There is concern that European attitudes toward GMOs is spreading to other buyers. The United States has filed a complaint against the European Union in the World Trade Organization



regarding European Union barriers to agricultural products containing GMOs.

Agricultural imports by the United States in fiscal year 2003/04 are forecast to rise to \$ 47.5 billion. This rise continues a long run trend of increasing U.S. agricultural imports. In the past two years, imports have risen by a surprising \$6.5 billion. Imports have grown the most in the horticultural crops including fresh and processed fruits and vegetables, fruit juices, and wine. There have also been substantial increases in the value of cocoa and coffee imports. We are also importing more malting barley and some classes of wheat.

Thus, despite the weakness in the U.S. economy over the past couple of years, U.S. agricultural imports continued to expand. While a weaker U.S. dollar might limit import expansion in 2003/04, the major driving force behind expanding imports is the diversification of the U.S. diet to include more products of foreign origin and to have fresh fruits and vegetables available in seasons when we cannot produce them in the U.S.

As a result of these trends the U.S. agricultural trade balance is expected to fall to \$ 9.5 billion compared to \$10.5 billion in fiscal year 2002/03 and \$16.8 billion in 1997/98. With stagnant U.S. agricultural exports and rising U.S. agricultural imports, the trend in recent years has been one of a falling U.S. trade balance for U.S. agriculture.

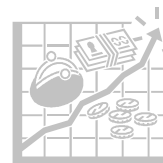
The long-run trends in U.S. agricultural trade are clear. After adjusting for inflation, the value of U.S. agricultural exports has grown little since the 1970s while the value of U.S. agricultural imports has increased. The export pattern reflects a situation where there has been little expansion of export volume while prices for agricultural goods have fallen. For imports, the expansion in import volume has outstripped the decline in prices. If these trends continue, the United States could once again become a net importer of agricultural goods as it was until the late 1950s.

Moderate Retail Food Price Rises To Continue

J. N. Uhl

Grocery store food prices are rising a little faster this year than last year as a result of lower meat supplies, weather problems in the major fruit and vegetable producing areas, and some economic recovery. Food store prices rose 2.2% from July 2002 to July 2003, compared to last year's rise of 1.3%. These rates of food price rise are below the average 1992-2002 Food store price rise of 2.4%. Retail food prices continue to be moderated by relatively low rates of inflation in marketing costs, intensive food industry competition, and large world food supplies.

Retail Food store prices are forecast to rise another 2.3-2.6% next year. This will be led by rising red meat prices and some increase in food marketing costs. Retail prices for



food eaten away from home will rise somewhat more than this. Consumers will spend about 10 percent of their disposable income for food this year and next year.

Producer-wholesale prices for finished foods fell by 0.85% last year. However, wholesale food prices have been rising significantly since March, led by year-over-year increases in crude foods and feedstuffs. Wholesale prices of finished foods are likely to rise 2-3% this year on the strength of higher grain and red meat prices and rising marketing costs.

Country of Origin Labeling (COOL)

Corinne Alexander

The 2002 Farm Bill includes an amendment to the Agricultural Marketing Act of 1946 that retailers must "inform consumers, at the final point of sale of covered commodities the country of origin." COOL applies to beef, pork, lamb, farm-raised and wild fish, peanuts, fruits, and vegetables. For these commodities, retailers must clearly display through the use of a label, stamp, mark or placard, the country or countries of origin. For example, for meat of U.S. origin, a label might read: Born, Raised and Processed in U.S. For ground meat with multiple origins, a label could be more complicated. For example, the label might read: Product of Mexico, Raised and Processed in U.S.; Product of Australia; Born and Raised in Canada, Processed in U.S.

The labeling program will be mandatory starting September 30, 2004. By that same date, the USDA must have in place regulations to implement the law; retailers must maintain verifiable (auditable) records for 2 years, and any *willful* violation can result in a fine of up to \$10,000. There has been substantial debate regarding what constitutes a verifiable record. In an effort to minimize the record-keeping costs, some have suggested that producers can "self-certify" or that retailers can assume U.S. origin unless otherwise labeled; only requiring the labeling of imported products. However, the USDA General Counsel has testified that neither of these suggestions are sufficient because they do not constitute auditable records.

The COOL provision has been hotly debated. Proponents of COOL argue that the consumer has a right to know where their food originates. Their goal is to capitalize on American consumer's belief that the U.S. food supply is the safest in the world, resulting in an increased demand for U.S. products, and thus protecting the U.S. market. They also argue that mandatory labeling is the only way to coordinate all segments of the food chain. Opponents of COOL are concerned about the cost associated with keeping the necessary records. They are also concerned that the liability and any fines will be transferred down the production chain to producers. In addition, there are several exemptions to the COOL law: poultry, dairy, ingredients in processed food products, food

service establishments, and retailers with less than \$230,000 per year in sales.

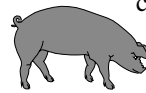
Currently, the fate of the COOL provision is uncertain. The USDA must administer COOL but the House of Representatives did not appropriate any funds for its administration. The Senate will vote on COOL this fall. However, with homeland security concerns, and importers demands for traceability, increased record-keeping appears inevitable. For now, it is recommended that producers keep records that would verify the country, or countries of origin of these commodities. One possible record would be the bill of sale with the previous owner's country of origin.

Hog Producer Face More Losses

Chris Hurt

The summer hog market was a disappointment. The June government inventory suggested that pork supplies would be down 2% to 3%, but have actually risen nearly 1%. The primary reason is greater imports from Canada.

While the border was closed to beef, it was open to pork. The only outlet for Canadian beef this summer has been the Canadian consumer. Canadian consumers increased beef consumption, which displaced some pork consumption. Pork and hog flows then increased to the U.S. For processed pork, June imports from Canada increased by 13 percent over May. The flow of live animals has also increased. Slaughter hog imports from Canada were about 1.5 percent of slaughter in early May, but expanded to three percent of slaughter by mid-August. In 2002, Canadian live hog imports (feeders and slaughter hogs) represented 5.7 percent of slaughter, by August of this year that rate was exceeding 8 percent.



The U.S. breeding herd has been decreasing for the last year and in June was down 4%. For the summer, producers reported intentions to reduce farrowings by 2%, with only a 1% reduction in the fall.

Pork supplies for 2003 are expected to be very close to the record production last year, although 4th quarter pork production is expected to be about 2% lower than the same quarter last year. In the first-half of 2004, production is expected to drop a modest 1%. This means that pork supplies will continue to be relatively large.

As the border begins to open to beef shipments this fall, some relief will likely be felt on incoming hog and pork supplies. This fall's hog prices will likely average in the upper mid-to-upper \$30s for 51% to 52% lean animals on a live weight basis.

In the winter, prices are expected to improve to the higher \$30, and then move into the low \$40s for the spring quarter.

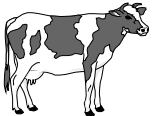
Costs of production will be back near \$40 for this coming 12 months, and thus producers can now expect to see a period with some losses once more this fall and winter. This

is coming after the industry suffered through a period of losses from March of 2002 until May of 2003.

The better news is that the Canadian beef situation will be working toward resolution by the end of the year, hog producers will likely trim their sow herds more aggressively this fall and profitability may return with more vigor in the last-half of 2004.

Cattle Prices Reach Records as Canada Suffers

Chris Hurt



Cattle prices have reached record highs with finished steers trading above \$90 per hundredweight. The reasons are a small U.S. herd, restricted imports from Canada, and light marketing weights.

The U.S. cattle cycle is at production lows. Total cattle and calf numbers on July 1 stood at 103.9 million head, the smallest number since 1990. The brood cow cycle, which encompasses a period of rising then falling numbers, has now spanned 14 years dating back to 1989.

May 20, 2003 was the day the Canadian government announced that a cow had tested positive for BSE. The border was closed at that point to both live ruminant animals and to ruminant meat products (primarily beef). In 2002, live cattle imports represented 4.7 percent of the cattle slaughtered in the U.S. In addition, processed beef imports were an additional 4.0 percent of U.S. beef supplies. Thus in 2002, Canada supplied over 8% of the beef consumed in the U.S.

On August 8th, USDA announced that muscle cuts from beef under 30 months of age would be allowed to come into the U.S. under a permit process. Canada is going to ramp up beef processing to move from 60,000 head of slaughter capacity to 85,000 head per week. Since they cannot export the live animals to the U.S., they will slaughter their animals in Canada and move the meat to the U.S. Additional beef cuts and live animal imports from Canada will be delayed.

Marketing weights since the May 20th announcement have been down nearly 3.5% adding to the already limited supply of beef.

For Canadian beef producers it has been a nightmare. Alberta finished cattle prices dropped to about \$25 per live hundredweight for much of the summer. The most recent prices are in the low \$40s.

How quickly beef cuts are allowed to flow to the U.S. will be one of the factors that will determine price directions this fall. As the border opens more widely, Canada will regain market share. The border situation makes it difficult to have much confidence in fall price forecasts. Choice steers are expected to average near \$80 this fall. The highest prices will likely be coming very quickly while Canadian supplies are still small. As the fall progresses, it is likely more beef will enter from the north and depress prices from record highs.

Still, with tight U.S. supplies continuing, prices will remain strong into 2004, at least by historical standards. Fed cattle prices in early 2004 could drop back into the higher \$70s, but would likely move back toward the mid-\$80s into the early spring.

The price bonanza will be felt by everyone holding cattle, including cow-calf producers. Steer calves weighting 500 to 550 pounds are already selling at over \$1 per pound at Plains auctions and it remains likely that calf prices could be \$10 to \$12 per hundredweight higher than last fall in the very high \$90s to \$1.10 per pound. This will be welcome news for cow/calf producers who should have a very profitable year in both 2003 and 2004.

Given the expectation that cattle prices will peak early this fall and then falter somewhat into the winter suggests selling cattle out of the feedlot as early as possible. Caution should be exercised in buying calves at these extreme high levels which will generally require well over \$80 finished cattle break-evens, Hedging should at least be considered. Finally, those with calves will likely want to sell them this fall rather than retaining ownership.



Higher Milk Prices-At Least for a While

Mike Schutz, Animal Sciences

The dairy industry has experienced very low milk prices for the past 18 months, but some relief is in sight for autumn 2003. Low prices throughout 2002 and in early 2003 have been attributed to overproduction of milk. In fact, milk production in 2002 only increased at a similar rate to the average of recent years. However it did exceed demand or commercial disappearance, which had not grown since the middle of 2001. Sluggish demand for dairy products coincided with the US recession, but did not appear to be directly related to the tragic events of 9/11/2001. Average increases in milk supply coupled with stagnant demand resulted in extremely high levels of stored powder, butter, and cheese with Federal Order milk prices at or below government support levels.

Milk prices began to recover in July, 2002. In part, this recovery was in response to recovering consumer purchases of dairy products and a usual seasonal decrease in supply. However, other circumstances have also contributed to diminished supply of milk, especially in the west. The detection of a single case of BSE (mad cow disease) in a Canadian beef cow has resulted in the closure of the Canadian border to transportation of all cattle, including culled dairy cows and replacement dairy heifers. As a result, there has been an increase in prices paid for slaughter cows and more milk cows going to slaughter. Simultaneously, Canada is off limits as a source of replacement heifers that have been needed to stock new and expanding US dairy farms. Also, a very hot and dry spring and summer in the southwest has reduced milk production per cow. In California, despite an increase of 46,000 cows, July milk

production was down .6 percent compared to a year earlier because of a decrease of 60 pounds per cow. As a result, less milk is being diverted from fluid use into their large cheese plants. This in turn has reduced stores of cheese and boosted Class III (milk for cheese) prices, which drive the prices for all classes of milk.

Indiana continues as the 15th leading dairy producing state. The number of start-up dairies, which accounted for growth of the Indiana dairy industry in recent years, is diminished in 2003. Indiana has about 2,000 dairy farms with 143,000 dairy cows. This is down from 155,000 cows as recently as December, 2001. Clearly, the number of cows on the start-up dairy farms has not kept up with the numbers on dairy farms exiting the industry.

With tight milk supplies and increasing consumer demand, higher milk prices are expected this fall. Economists with USDA predict an all milk price of \$13.20 to \$13.80 for October to December of 2003, which is about \$2.00 to \$2.50 higher than the first half of 2003. This would result in an all milk price of around \$12.20 for all of 2003, nearly identical to the annual price of \$12.11 for 2002. The modest rally is not expected to last long, with projected all milk prices falling to around \$11.70 for January to March, 2004 and \$11.25 for April to June, 2004. It is not yet clear what, if any, impact the Cooperatives Working Together (CWT) program to increase demand and reduce supplies of milk will have on prices.

Currently, Chicago Mercantile Exchange Class III futures estimates are running a bit ahead of USDA forecasts, which could indicate opportunities for dairy producers to protect against declining prices by using dairy futures, options, and forward contracts with milk handlers. Dairy producers are encouraged to review their Milk Income Loss Contract with their local FSA office to determine the appropriate starting month for the 2003-2004 fiscal year.

Hay More Available, Prices Still Strong

David Petritz

All hay production as well as the alfalfa crop are forecast to be 6% larger than last year, and the largest in 20 years due to both acreage and yield increases. On the other hand, the surrounding states of Michigan, Wisconsin, and Minnesota all had severe winters with a wet spring and a dry summer limiting production. Supplies of hay in both Michigan and Ohio are expected to be even smaller than last year.

In Indiana, the summer's hay crop is larger than last year's drought reduced crop, but still small compared to normal levels in the past decade. In 2003, all hay production is estimated to be up 25%, but this is still the smallest crop since 1992, other than last year. The alfalfa

crop is projected to be up 29%, again the smallest crop since 1991, with the exception of the tiny crop last year. Even though usage of hay was cut back due to high prices, the May 1, 2003 Indiana stocks were the smallest on record. Alfalfa hay prices at Northern Indiana auctions reached highs of \$300 per ton in the spring.

While hay production and stocks will be much higher this year, the available supplies of high quality dairy and horse hay will not be much different due to the wet spring that damaged much of the first and second cuttings, and to a dry stretch in August that limited summer production.

With late summer rains throughout the state, production numbers could be revised higher. Hay prices are therefore not expected to reach the levels of this past year, but normal seasonal price increases, to somewhat stronger than normal, are expected. Livestock producers who need hay should consider buying this summer as well as looking at potential alternatives in their rations. While hay prices have been very high recently, producers should carefully evaluate their potential market before expanding acreage.

Inputs Costs Rise for 2004

Alan Miller

Nitrogen fertilizer prices remain much more expensive now than they were a year ago. They are expected to stay higher than normal into the spring of 2004 because of relatively tight supplies of nitrogen fertilizers and relatively high prices for natural gas. Phosphate fertilizer buyers are taking a, "wait and see attitude" about committing to future purchases. This is expected to result in stable to slightly lower phosphate prices going into the spring of 2004. Potash fertilizer prices have essentially been flat in recent years, but did increase in the spring of 2003. Expect stable to slightly lower potash prices for 2004 as well.

The U.S. Energy Information Administration expects the annual pump price for unleaded gas to average 10 cents per gallon lower in 2004 relative to 2003 in response to expected lower crude oil prices. Ethanol use in unleaded gas appears likely to increase as California transitions from MTBE to ethanol. Diesel fuel prices locally are up a little more than 5 percent relative to a year ago at this time. Diesel prices are likely to stay at or slightly below current levels as we proceed through the fall harvest and then creep up as the demand for distillate fuels for heating kicks into high gear. Diesel prices should ultimately benefit from lower crude oil prices in 2004.

The maturity of the corn crop in Indiana has been slow and may result in a wetter harvest than usual. Drying fuel prices in mid-August were up more than 13 percent relative to a year ago at this time. The general concern about tight fuel supplies for home heating has contributed to higher prices. But, supplies of propane have turned out to be about average for this time of year, thanks in part to a record buildup of inventories in August. Most of the propane in the

U.S. is processed from crude oil, which suggests lower prices in 2004.

Higher technology fees for Roundup Ready biotechnology are expected to increase the price of an average bag of seed by \$2.00 per bag for soybeans and \$3.00 per bag for corn seed according to a Monsanto spokesperson quoted recently by Reuters. Non-GMO soybean seed prices are expected to increase comparable to Roundup Ready soybean seed. Non-GMO corn seed prices paid by Indiana farmers are likely to average around 3 percent higher. Wheat seed prices are expected to increase at least 3 percent. Seed supplies and quality are both expected to be good this fall as producers begin to line up their seed selection for 2004 crops.

The trend line for prices paid for farm chemicals as a group has been nearly flat for the last five years and that trend is likely to continue, although selected chemical product prices may be up by as much as 9%. After a slight downturn in 2003, prices paid for farm machinery are expected to increase from 1 to 3 percent in 2004 relative to 2003. Farm wages averaged annual increases of 4.9% from 1997-2002. Expect more of the same in 2004. With so many input prices either moving up or staying higher than normal, preliminary budget estimates indicate that the total costs of producing corn, soybeans, and wheat will be higher in 2004.

Indiana Farmland Values and Cash Rent

Craig Dobbins

The Purdue Farmland Value Survey indicated that for the year ending June 2003, Indiana farmland values increased between 4.9% to 5.5%. State wide, average bare

Indiana farmland had an estimated value of \$2,509 per acre. This increase continues the series of increases that began in 1987.

The limited supply of land for sale combined with a strong demand for farmland continues to support the price increases. Low long-term interest rates may be the most important factor influencing the demand for farmland at this time, but there are other factors as well. A renewed interest by non-farm investors and farmers in farmland purchases, a continued strong demand for country residences and non-farm development, and the strong liquidity of buyers continue to provide strength to the demand for Indiana farmland.

It appears that the long awaited economic recovery for the U.S. economy may be underway. In this economic environment, interest rates and the attractiveness of alternative investments will likely improve. We have already seen some increase in long-term interest rates, with the rate of 30-year conventional mortgages ending their long steady decline and increasing in July and August. However, these interest rates, at 5.53%, are still nearly 1%

lower than they were a year earlier. Rising interest rates will dampen the increase in farmland and other real estate values, but farmland values are still expected to increase between 2.5% and 3.5% for the year.

The Purdue Farmland Value Survey indicated that for the year ending June 2003, Indiana cash rents increased 2.2% to 3.4%. This increase was a bit larger than the increases reported for the last several years. Average bare Indiana farmland was estimated to have a cash rent of \$120 per acre.

As with farmland for sale, the supply of rental land is limited. While most land is rented using an annual lease, most rental agreements are renewed with the existing tenant. Demand remains strong because many operators are seeking to expand the size of business by renting. The strong demand and limited supply means that the cash rent on farms that do change hands is often at or above the current cash rent.

As one looks to the year ahead, it appears the margin from crop production after accounting for all costs but land will continue to narrow. Given, the current government program, revenues are expected to remain similar. However, it appears that the price of nitrogen fertilizer, fuel, and seed will be higher for the 2004 crop than the 2003 crop. These cost increases will make it difficult to maintain profit margins for corn and soybean production. However, even with the projected smaller margins, it is expected that cash rents will move 1% to 1.5% higher in the year ahead.

Corn Crop Beat The Heat!

Chris Hurt



The 2003 corn crop “beat the August heat” in the western Corn Belt according to USDA. Their September crop report dropped national yields to 138.5 bushels per acre, a drop of only 1.4 bushels per acre from August. The national crop size was set at 9.94 billion bushels, but this was about 140 million bushels higher than the average of trade guesses.

Yields in Indiana were estimated by USDA to be 145 bushels per acre which is about 5 bushels better than trend yields, and a dramatic recovery from last year’s 121 bushels per acre.

Usage of corn is expected to be close to the 9.9 billion bushel production level as domestic use and exports increase, but feed use declines with fewer cattle on-feed and lower hog numbers. Ending stocks are expected to remain about the same as for the 2002 crop at around 1 billion bushels.

World ending stocks have been declining since the 1998 crop and are expected to be the tightest since the mid-1970s. Tight world and U.S. stocks will be supportive to prices. U.S. prices may average about \$2.30 per bushel, somewhat higher than last year, or about \$2.40 for an Indiana average, near the average for the 2002 crop. Central and northern Indiana harvest lows are expected to be in the \$2.05 to \$2.20 range, with only about a 20% to 25% chance of seeing LDP’s at harvest. Ohio River markets will be about 10

cents per bushel higher. The best bet at this time is for a very small, or no, Counter Cyclical Payment for the 2003 crop.

Old crop corn is still at a 10 to 20 cent premium over new crop. So, look for these potential early harvest premiums.

Storage looks attractive. Expect to see price premiums of about 20 to 25 cents per bushel for late winter delivery versus harvest. This is based upon a 10 to 12 cent futures improvement from December to May and a 15 cent per bushel basis gain. Storage costs will be moderate for on-farm storage with September CCC loan rates at 2 ¼ % per year. This will add a net storage return of about 18 to 20 cents per bushel to harvest prices for on-farm storage.

Commercial storage will generally be priced such that there will be little expected net return for storage.

Corn prices tend to reach their peak in the late winter or very early spring. A normal price pattern this year would mean cash prices could reach \$2.50 to \$2.60 per bushel in central and northern Indiana and 10 cents higher on the Ohio River by next spring.

Indiana basis levels will be around 10 to 12 cents lower than last year as the crop is much larger this year placing greater demands on storage space. However, with the small carry in from the 2002 crop there will be sufficient storage space throughout the state, with commercial storage charges generally higher than last year.

Soybeans Price Move UP

Chris Hurt

USDA lowered yields in their September update by a surprising 3 bushels per acre to just 36.4 bushels well below the trend yield near 40 bushels per acre.



While the corn crop in the western Corn Belt “beat the heat and dryness in August,” beans did not, and yields were reduced in Iowa by 7 bushels per acre from August and by 6 bushels per acre in both Minnesota and South Dakota.

For Indiana, yields were left unchanged from the August estimate of 43 bushels per acre. Indiana yields are near the average of the last five years though out all of the state except northwest Indiana were they were trimmed by a dry August. The 2003 Indiana soybean crop was somewhat below average as yields are about 2 bushels below trend yields.

The national production of only 2.64 billion bushels is far below last year’s usage of 2.8 billion bushels, and ending stocks (carry in) from the 2002 crop was very low. Thus, utilization must be cut sharply again in the coming marketing year with higher prices. Last year usage was cut 130 million bushels, but must be cut an additional

150 million bushels this year.

To achieve this reduction in use, USDA estimates that U.S. average prices received by farmers will rise to \$5.70 per bushel (in a range from \$5.25 to \$6.15). Futures markets are likely to provide opportunities to price soybeans at harvest toward the top end of this range. In a short production year such as this year, one should anticipate the highest prices of the season to come early in the marketing year, somewhat before, or in the early stages of harvest.

The average county loan in Indiana is about \$5.15, so odds now appear tiny for soybean LDP’s this fall. Harvest bids in central and northern Indiana are expected to be around \$5.75 to \$6.00 per bushel. This is sharply above the Counter Cyclical Payment pivot point of \$5.36 per bushel (this is the national price above which there would be no CCP payment for the 2003 crop). Pricing above the CCP pivot point is desirable since one is generating at least the target price. As an example, a person forward contracting new crop beans for \$5.80 would also receive 44 cents of direct payment. The sum of these two equals \$6.24 a bushel which is above the \$5.80 target price set in the current legislation.

Look for early harvest premiums. Current shipment beans are trading at a 30 to 50 cent premium over new crop, and these premiums will likely continue into very early harvest. In the last 5 years, central Indiana prices have been about 45 cents per bushel higher on average in the second week of September compared to harvest lows in the second week of October. If the early harvest premiums are in place, those who have fields that can be harvested early would likely be best to price at cutting and then buy futures or options if they want to speculate on further upward price potential.

Soybean storage looks attractive only for short periods after harvest and only for existing on-farm storage. Futures premiums from November to March are near 0, and normal basis gains are about 15 to 18 cents per bushel from harvest into December. This means expected net returns to on-farm storage of soybeans might be about 10 cents per bushel (15 cents of basis gain minus 5 cents of interest costs). This is a lower return than would be expected for either corn or wheat. Expected price gains would not be expected to cover commercial storage costs.

What about speculating on soybeans prices? That has been a favorable strategy for the first 30 to 60 days after harvest on average over the past 5 years. During this period Indiana prices increased on average from harvest into early December by 30 cents per bushel. Over the 5 years, the price was ultimately higher in May, but not by enough to cover storage costs including the costs of moving beans out of storage in mid-May when the next season’s crop was being planted.

Current price signals suggests that storage beyond

the 30 to 60 day period after harvest is not anticipated to give a positive return as futures markets are inverted because of the expectation of a huge 6% increase in production in Brazil and Argentina.


However, speculation fever may be strong this year. The tight U.S. supply situation in combination with strong world demand and the uncertainty of the size of the South American crop could provide strong upside price potential. In addition, those who stored and speculated on higher bean prices have been winners the last two years. Prices for the 2001 crop in central Indiana were near \$4.00 per bushel at the peak of harvest, yet rallied to highs of around \$5.75 as the drought reduced crop of 2002 became apparent in July. The 2002 crop had harvest lows around \$5.00, but reached around \$6.50 in early May 2003. Thus, total speculative gains in each of the last two years have reached or exceeded \$1.50 per bushel.

Weather related threats to the South American crop this winter or the 2004 U.S. crop would cause massive increases in bean prices. Thus strategies that do some pricing before or near harvest time, some in late November or early December, and holding some crop for potential South American or 2004 U.S. weather problems make sense.

and vegetables.

World Wheat Production Still Low

Chris Hurt



U.S. wheat production rebounded with a 42% increase this year as 15% more acres were harvested and yields advanced 24%. However, the European heat/drought this summer trimmed their production by 10% and in the Former Soviet Union by 36%. The Canadian crop has recovered from last year's drought, but is still not back to normal levels. However, Australia's crop is expected to return to near normal after two years of severe drought. In total, world production will be down 3% this year and world stocks will be their tightest since 1972/73. Stunningly, the U.S. has a large supply of extra wheat at a time the world is very short. If the world does turn to the U.S. , then our exports could rebound sharply. The question remains just how much our exports will recover?

The potential for healthy exports is especially welcomed as domestic use for wheat has been flat for the past five years as per capita domestic consumption is falling. This may be due to weight loss programs such as the Atkins and South Beach diets that advocate reduction of carbohydrates in favor of lean animal proteins, fruits,

Soft red winter wheat, raised in our region, has been the wheat class in most excess supply for the past five years and has thus tended to average about 30 to 40 cents per bushel under the national average wheat price. However, that distinction has reversed this year as soft red will be the tightest of the classes. In fact, Indiana soft red prices may be within 10 cents of the national average wheat price which is currently estimated to be \$3.30 per bushel.

If so, this would put Indiana average prices at \$3.20 per bushel. There is an incentive to store wheat into December and January. The September to December futures carrying charge is 12 cents per bushel and the September to March 04 futures premium is 22 cents per bushel. Indiana cash wheat prices tend to peak in December or January.

What about planting wheat this fall? Looking at expected economic returns for 2004 crops, wheat appears to provide favorable returns on lower quality soils. However, the financial incentive to plant wheat is not as strong as last year at this time. Yields in northern Indiana were outstanding this year and may encourage some additional acres there.