# Louisiana Food and Fiber Industry Monitor

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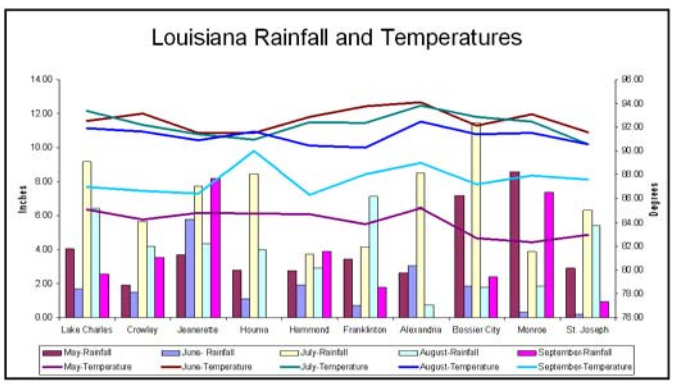
## Current Production Situation

Most producers around the state are busy with harvest. According to the National Agricultural Statistics Service (NASS), corn and grain sorghum harvest was over 90 percent complete through last week. Rice harvest was about 85 percent complete and soybean harvest was around 40 percent complete. Cotton harvest is just beginning with about 4 percent complete through last week. In addition to harvest, sugarcane planting was about 82 percent complete and land preparation for winter wheat planting is well underway.

Weather conditions have, in general, been favorable for producers. Temperatures thus far in September have averaged about 4 degrees cooler than the previous month. Rainfall has been fairly widespread over the last couple of weeks and has slowed harvest in some areas of the state. However, to this point, no major quality or quantity impacts have been noted due to delayed harvest.




Source: LSU AgCenter, Louisiana Agriclimatic Information

Despite the adequate rainfall received from July to September, dry conditions in late May and most of June appear to have had some negative impact on crop yields. According to NASS, state average yields will be down in the state for nearly all major row crop commodities from their 5 year averages. Only rice and sugarcane are expected to have better-than-average yields in 2009 (See Table 1).

The yield situation for the United States, however, appears to be the exact opposite of the situation in Louisiana as most major crops are expected to have at or above average yields. Very favorable conditions early in the planting and growing season have remained for most of the major growing areas and have generated very favorable yield projections

**Table 1. 2009 Yield Projections For Selected Commodities**

| | Louisiana | | | United States | | |
|---|---|---|---|---|---|---|
| Commodity | Sept. 09 Estimate | Change From Previous Month | Five Year Avg. | Sept. 09 Estimate | Change From Previous Month | Five Year Avg. |
| Corn (Bu) | 134.0 | 0.0 | 143.6 | 161.9 | 2.4 | 152.4 |
| Cotton (Lbs) | 864.0 | 6.0 | 856.8 | 835.0 | 19.0 | 838.4 |
| Sorghum (Bu) | 75.0 | 0.0 | 87.6 | 65.5 | 1.5 | 66.5 |
| Rice (Lbs) | 6,300.0 | 0.0 | 5,828.0 | 7,051.0 | -12.0 | 6,915.0 |
| Soybeans (Bu) | 35.0 | 0.0 | 35.8 | 42.3 | 0.6 | 41.9 |
| Cane (Tons) | 27.0 | 0.0 | 26.5 | 32.8 | -0.9 | 31.7 |

Source: USDA, National Agricultural Statistics Service

While current yield projections are very good for the United States, examining the development of the crops indicates that, for corn and soybeans, crop maturity is significantly behind historical levels (See Table 2). This later developing crop continues to bring concern about the potential for early a frost/freeze that could significantly impact expected production levels for these crops.

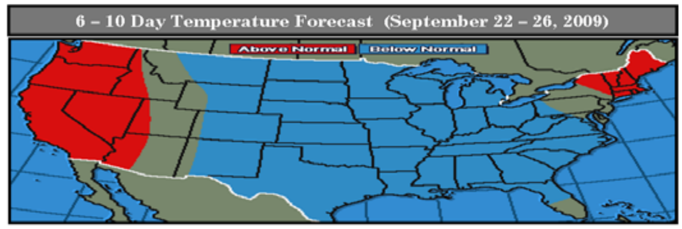
**Table 2. United States Crop Development**

| | 14-Sept-09 | Previous Week | Previous Year | 5 Year Average |
|---|---|---|---|---|
| Corn - % Dough | 93 | 86 | 95 | 98 |
| Corn - % Dented | 66 | 50 | 76 | 86 |
| Corn - % Mature | 12 | 8 | 17 | 37 |
| Cotton - % Setting Bolls | 97 | 94 | 99 | 99 |
| Cotton - % Bolls Opening | 35 | 25 | 36 | 45 |
| Rice- % Harvested | 32 | 25 | 25 | 38 |
| Soybeans - % Dropping Leaves | 17 | 7 | 20 | 36 |
| Sorghum - % Coloring | 70 | 60 | 69 | 75 |
| Sorghum - % Mature | 35 | 33 | 38 | 42 |
| Sorghum - % Harvested | 30 | 29 | 31 | 32 |
| Winter Wheat - % Planted | 13 | 5 | 9 | 13 |

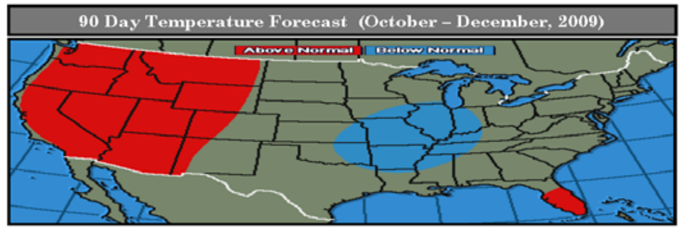
Source: USDA, National Agricultural Statistics Service

Current projections call for below normal temperatures for much of the Corn Belt in both the short and longer term. While cooler temperatures does not necessarily mean frost or freeze damage, it will likely keep the market's attention until these crops are harvested.

6 – 10 Day Temperature Forecast (September 22 – 26, 2009)




90 Day Temperature Forecast (October – December, 2009)

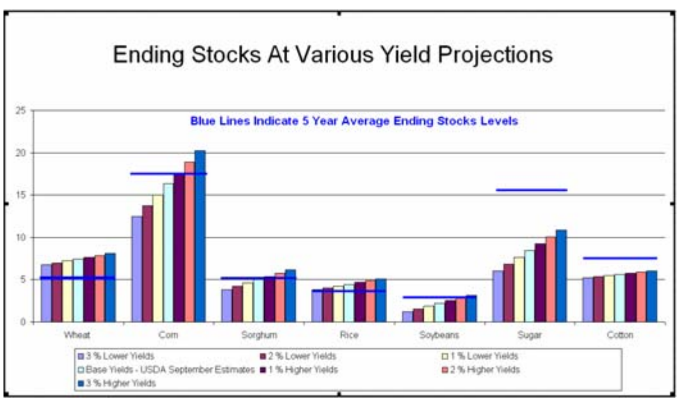



Source: DTN Online

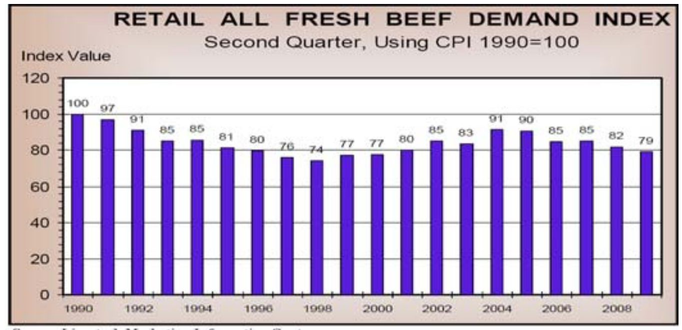
## Current Price Situation

As is generally the case at this time of the year, the big factor in the market from a supply and demand standpoint is the size of the crops. For some commodities, this is particularly a critical point this year as stocks levels are the lower end of historical levels. For commodities like corn, soybeans, and sugarcane, projected ending stocks for the 2009/10 marketing year are fairly tight making the final harvest totals a critical component in determining market prices.

A small change in the actual production levels for 2009 could make significant changes to the outlook for these commodities. The following graph shows ending stocks for selected commodities resulting from 1, 2, and 3 percent changes from USDA current projection of total 2009 crop production. The blue lines indicate the 5 year average for ending stocks for the commodities. The picture for wheat and rice indicates that ending stocks will be at or above the 5 year average regardless of a change in production levels from current projections. However, for soybeans, corn, and grain sorghum, a slight reduction could generate significantly tight stocks. For sugar and cotton, stocks are sufficiently below 5 year averages that regardless of the potential change from current projections ending stocks will likely remain significantly below 5 year averages.




The projections for ending stocks at various yield projections assume that demand remains constant and at current projections. While the economy has shown signs of improvement, there is still concern for the demand side of the equation. In fact, for the livestock sector, demand seems to be the limiting factor for prices. Beef demand, for example, has fallen for the past two years. Therefore, despite a 3 percent reduction in beef production and a 3 percent reduction in total red meat and poultry production, slower demand has left prices at significant discounts to last year.




Source: Livestock Marketing Information Center

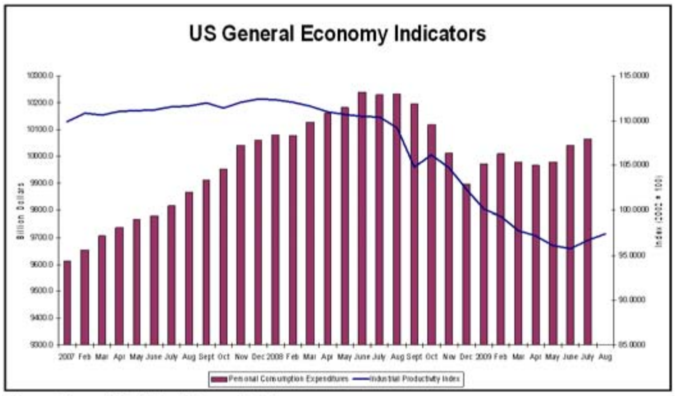
Currently, futures prices for nearly all commodities remain at significant discounts from levels experienced last year (See Table 3). The two exceptions to this rule are sugar and cotton. World sugar prices are significantly higher than the previous year as tighter domestic and world supplies support prices. The high world price coupled with the tight domestic stock situation should help continue to support strong sugar prices. For cotton, several years of reduced cotton acres and production have helped push ending stocks to below average levels. While this has helped support prices somewhat, prices are still not and will not likely be at favorable levels until sustained improvements in demand are experienced.

**Table 3. Closing Futures Prices (September 17, 2009)**

| | | Closing Price | | |
|---|---|---|---|---|
| Commodity | Unit | 09/17/09 | Previous Week | Previous Year |
| Corn | Bushel | $3.29 | $3.15 | $5.54 |
| Soybeans | Bushel | $9.53 | $9.27 | $11.39 |
| Wheat | Bushel | $5.06 | $5.02 | $7.70 |
| Cotton | Pound | $0.6418 | $0.6092 | $0.6142 |
| Rice | Hundredweight | $13.28 | $14.02 | $18.67 |
| Sugar (World Price) | Hundredweight | $22.50 | $21.79 | $12.22 |
| Fed Cattle | Hundredweight | $85.78 | $87.23 | $102.60 |
| Feeder Cattle | Hundredweight | $96.70 | $99.78 | $106.30 |
| Dairy Class III Milk | Hundredweight | $12.16 | $12.33 | $17.18 |
| Crude Oil | Barrell | $72.47 | $71.94 | $97.16 |
| Natural Gas | 1,000 Cu Ft | $3.46 | $3.26 | $7.91 |

Source: DTN, AgDayta Online

For the remainder of the commodities, the prospects for prices continue to seem to be dependent on 2009 production levels and the recovery of the economy. With the tight stock situation for several commodities, any significant weather related production difficulties could help support prices. Beyond a weather event, the only other factor that would seem to be able to provide significant support for prices would be a continued strengthening of the economy. With an improving economy, there would likely be some improvement in overall demand and could provide some spillover support from the financial and energy markets to the commodity markets. There are signs that the economy is beginning to turn the corner. However, it will likely take several months of sustained improvement to generate positive impacts on the commodity markets.



Source: Kansas City Federal Reserve Bank

### Current Input Price Situation

For the second consecutive month, the index of prices paid by producers for production inputs experienced a slight increase. While lower fuel and fertilizer prices in 2009 have helped lower production costs from the previous year, costs are still historically high. If the economy continues to show signs of improvement, input prices are likely to slowly creep higher as demand for production inputs begins to increase.

Source: USDA, National Agricultural Statistics Service

### Forestry Situation (Provided by Dr. Mike Dunn)

There are some signs that the US economy may finally be at a bottom and perhaps ready to turn a corner toward recovery. However, a recovery in the general economy does not necessarily mean a recovery in all sectors of the economy. For the forest products sector, recovery appears to be painfully slow because the domestic market for solid wood products is to a large degree dependent on construction, particularly single family home construction. How will we know when the forest products sector is ready for a recovery? Before the forest products sector can recover, the housing sector must recover. And before the housing sector can recover, several things must happen:

1. *Unemployment must decline to a lower level.* Unemployment is currently hovering around ten percent and is actually considerably higher if one counts the number of "discouraged workers" that have stopped trying to find a job, have taken a part time job instead of a full time job, or have run afoul of the time limit restrictions of unemployment insurance. When unemployment starts a steady retreat into the mid – single digits, this will be a signal to the broader economy and particularly to consumers that the economy is on the mend.

2. *Interest rates must remain low.* If Interest rates start to rise this will be a signal to both home buyers and home builders that there is uncertainty in the economy regarding the future and/or there is a threat of inflation. Higher interest rates make large purchases that are paid over years much more expensive.

3. *Current housing inventories must return to normal.* The good news is that the current inventory of new and existing homes has been falling from a high of around 12 months to its current level of around 9 months. The bad news is that foreclosures are continuing and this is continuously adding to the inventory even as others are buying and reducing the inventory. The overall inventory needs to return to a more healthy long term average of our 4 – 5 months.

4. *Housing prices must bottom out.* There is some evidence that national average home prices have bottomed and are starting to increase again. Increasing home prices are a signal to buyers that homes are a safer purchase because they are no longer losing value through time. However, if the federal government retreats from its support of those caught in the midst of the housing crisis, the effect could be to send ever increasing numbers of foreclosed homes on the market, which could result in declining home prices again.

5. *Capital markets must stabilize, remain stable, and make capital available.* With current tight credit markets and the banking industry rocked by the recession, money for capital improvements or expansion is hard to come by. Even in the forest products sector money can be hard to come by for everybody from the big national market makers moving massive quantities of lumber to a variety of wholesalers and retailers to the local logger looking for a loan for new equipment.

When the above conditions are met, the national solid and engineered wood forest products markets should start to heat back up. That will be reflected in the ramping back up of unused capacity in local sawmills, plywood mills, and OSB mills. This in turn will lead to a greater demand for stumpage and for loggers to harvest the wood, so we should see a return of loggers to the woods. When this demand increases, finally, we should start to see increases in sawtimber stumpage prices here locally.