

# 2008 Outlook for Louisiana's Agriculture



## **INTRODUCTION**

With an ever-changing production and marketing environment, agricultural producers face a number of difficult decisions. This publication provides Louisiana's agricultural producers with a view of the potential marketing and production environment they are likely to face in 2008. We hope the information will help producers as they make their farm management and production plans for 2008.

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## **ECONOMIC OUTLOOK**

### **DEK TERRELL**

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### **National Situation and Outlook**

Many forecasters have been gradually increasing their probabilities of a U. S. recession in 2008. As of this writing, some economists say the U. S. economy is already in recession and an even larger proportion would say that there is a 50-50 chance of recession. The key question is whether an economic stimulus package and Fed rate cuts can quickly address the current problems in the U. S. economy. Before turning to a more detailed discussion of the U. S. economy, it is worth noting that Louisiana is much more likely to deviate from national trends than other states; that is, high oil prices generate revenue and jobs at the same time high gasoline prices have a negative economic impact here and elsewhere. Likewise, the rebuilding of New Orleans will continue to provide a key source of jobs and a shot-in-the-arm to Louisiana's economy.

Consider first the U.S. economy. The key problems relate to a weak housing sector and high oil and commodity prices. The problems in the U. S. housing sector were created by a combination of subprime mortgages, often adjustable-rate mortgages held by borrowers in a weak financial position, and falling prices in some markets. When these adjustable-rate mortgages reset to higher rates, payments rise. If housing prices rise, however, borrowers have the option of either selling the property or refinancing. With falling prices, sometimes neither option is available because the value of the house price can be less than the amount owed on the mortgage.

Resulting foreclosures led to a greater supply of houses, creating a larger decline in housing prices. Even for borrowers who are not in any danger of defaulting on their mortgages, falling home prices imply less home equity and a drop in wealth. Overall, this leads to a more conservative

consumer compared to those who have fueled an economic expansion since November 2001.

In a Macroeconomics Principles context, the key question for the current economy is whether the negatives are affecting the economy through a reduction in aggregate demand or supply. The housing sector problems clearly contain a number of subtle issues that will play out over time, but are typically viewed as a shock to aggregate demand in a macroeconomic framework. The good news is a stimulus package of tax rebates or tax cuts and a monetary policy of lower interest rates can combine to offset this negative shock over time.

The other issue of significant importance is rising commodity prices, particularly the price of oil. A simple plot of oil prices over time reveals oil price increases have preceded all recessions since 1970. An increase in the price of oil or any other raw material reduces aggregate supply in a basic Macroeconomic model – creating a shock to the economy that cannot be overcome by fiscal or monetary policy. If rising commodity prices are the key problem in the U. S. economy, the current efforts to stimulate the economy will simply lead to inflation. This tradeoff explains the sometimes guarded response of the Federal Reserve Bank.

Assuming you have made it through the paragraphs above on economic theory, the next question is, "How will this affect the typical Louisiana citizen?" The good news is, "probably not too much." Over time, the impact of oil shocks on the U. S. economy has declined. This decline in part reflects the fact that more than 60 percent of crude oil used by the U. S. economy is in the transportation sector (primarily passenger and commercial vehicles). From 1973 to 1991, fuel efficiency of U. S. vehicles improved by 42 percent and oil expenditures as a percentage of GDP also has fallen. There is clearly plenty of room in the United States for the typical response of moving to smaller, more fuel-efficient vehicles in the presence of higher gasoline prices. For the typical consumer, the difference between a recession with a 0.1 percent fall in GDP and very slow growth of 0.1 percent will be small. For the

United States as a whole, expect unemployment to rise slightly. Inflation rates in 3 percent to 4 percent range are likely.

### **Louisiana Situation and Outlook**

After suffering through the devastation of hurricanes Rita and Katrina, a piece of good news is Louisiana is more insulated from a national recession than most states, particularly when higher oil prices are a culprit. In addition to consumers paying higher gas prices, our state has an oil industry that benefits from higher oil prices. New Orleans still has less population than before the storm, and major rebuilding projects are still planned for near future. The result is a tighter labor market and better opportunities for workers in Louisiana today. Likewise, our state's industrial base is dependent on the chemical sector, unlike the typical state that relies on consumer durables. Simply stated, Louisiana is better positioned to withstand a national recession where conservative consumers put off large expenditures on durable goods than most other states.

Thus, while national forecasts tend to be less optimistic today than last fall, this fall's *Louisiana Economic Outlook (LEO)* forecasts for the next two years require no such downward revision.<sup>1</sup> Hurricanes Katrina and Rita devastated the southeastern and southwestern portions of Louisiana. As of December 2005, Louisiana employment was down almost 109,000 for the year or 5.8 percent. During 2006, the state exhibited 4.7 percent employment growth and added almost 81,000 jobs. As the state neared pre-storm employment levels, the growth rate of employment also slowed in 2007. It is important to note New Orleans has not returned to pre-Katrina employment levels; thus, the recovery relies on gains in other areas of the state to offset losses in New Orleans.

For the future, the LEO is forecasting 1.9 percent annual growth in Louisiana employment

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<sup>1</sup> See Scott, Loren C., James A Richardson, and Dek Terrell, *Louisiana Economic Outlook*, 26<sup>th</sup> Annual edition, 2008-2009.

for 2008 and 2009, adding just over 37,000 jobs in both years. One key engine of growth is the large amount of construction activity scheduled for these years. At least eight construction expenditures totaling over \$1 billion are already planned. While some expenditures are recovery-related, others such as the \$3.2 billion Marathon refinery expansion in Garyville and the \$2.5 billion Shin tech plant near Baton Rouge are not.

In terms of regions, the key question in New Orleans lies in the pace of recovery. The New Orleans MSA ended 2005 with 165,000 fewer jobs than 2004 – a decline of 27 percent in the wake of Hurricane Katrina. The recovery that led to roughly 4,000 additional jobs each month in 2006 had slowed to around a 2,000 monthly job increase in 2007. This slowdown left the area with more than 100,000 fewer jobs or down 17 percent from pre-storm levels at the beginning of 2008. The LEO forecasts for the metro area to add 1,000 jobs per month on average in 2008 and 2009 or 24,000 over the two-year period. The annual growth rate of 2.4 percent exceeds historical averages to reflect the recovery, but also suggests the pace of recovery will slow.

The Baton Rouge MSA added more than 20,000 jobs between December 2004 and December 2005 and continued to grow (though at a slower rate) through 2007. Shintech and other expansions in the chemical sector, 12 new hotels, and the state's budget surplus should fuel continued job growth in the area. The LEO is forecasting 2 percent annual employment growth in the Baton Rouge MSA for 2008-2009. This growth translates into an economy growing at slightly below the post-storm 2005-2007 average growth rate (3 percent annual growth), but slightly above the typical growth observed prior to the storms.

Lafayette has benefitted from high oil prices and rebuilding of infrastructure in the Gulf of Mexico damaged by the hurricanes. This benefit translated into 14,000 net new jobs or 10 percent job growth from the beginning of 2005 to the end of 2007. With oil prices currently in the \$100

range, the LEO forecast of 6,300 jobs over the next two years may prove conservative.

With the exception of New Orleans, Houma had the largest employment growth in percentage terms of any of Louisiana's metro areas at over 17 percent during the post-storm period. With more than 7 percent of the area working directly in oil and gas, Houma benefits even more than Lafayette from high energy prices. The LEO projection is a gain of 2,500 jobs in 2008 with another 2,700 added in 2009. This projection would make Houma the fastest growing MSA in Louisiana, exceeding even the recovery pace of New Orleans in the growth rate of employment.

With the exception of Cameron parish, the Lake Charles MSA recovered quite quickly from Hurricane Rita. The damage to the MSA was less extensive than in New Orleans and, with minimal flooding, most infrastructure repairs to the area's refineries and other manufacturers were made quickly. Construction of LNG import terminals, the Sugar Bay Casino Resort and a continued infusion of Road Home monies should lead to continued construction to boost this economy. The LEO is projecting around 1.5 percent annual employment growth over the next two years in this MSA or 2,800 additional jobs over the two-year period.

Shreveport is third largest MSA in Louisiana. The economic impact from the storms was primarily limited to evacuees dislocated to the area and far less than in the five South Louisiana MSAs discussed above. With General Motors, Beird Industries and Frymasters, Shreveport also has the highest concentration of durable goods manufacturing in Louisiana. This concentration makes the MSA more sensitive to national recessions. The LEO's forecast of just over 1.5 percent annual employment growth during 2008 and 2009 for Shreveport accounts for potential expansions such as the Cyberspace Command at the Barksdale Air Force Base. This forecast could prove a bit optimistic if predictions of a national recession become a reality.

The last two Louisiana MSAs are Alexandria and Monroe. Alexandria is the smallest MSA in Louisiana with employment just under 66,000, while Monroe's employment is near 80,000. Alexandria has recently benefitted from major construction projects at Union Tank Car, the Pollock federal prison and England Airpark. The LEO is projecting employment growth of 1 percent to 1.5 percent in this MSA as the number of major construction projects declines. Monroe is projected to be the slowest growing Louisiana MSA in terms of employment with less than 1 percent growth in the number of jobs forecasted for both 2008 and 2009.

## **FARM INPUTS OUTLOOK**

### **KENNETH W. PAXTON**

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Farm inputs are those items used to produce the food and fiber needed by the United States and the world. The production process uses some inputs that are completely consumed in the yearly production cycle such as seed, fertilizer, chemicals, fuel or feed. Capital items are another input type having a life of several years and are only partially used up in the annual production cycle. Examples of long-term or capital input items are machinery and equipment, breeding livestock, orchards and facilities.

Louisiana agriculture is a large consumer of farm-produced and manufactured inputs. The United States Department of Agriculture estimated 2006 (latest year for which data are available) farm production expenses for Louisiana agriculture, including operator dwellings, at \$2.1426 billion, up from the \$2.0478 billion in 2005. While total farm expenses changed by less than 5 percent, individual components exhibited considerable change, especially in the purchased input category.

In 2006, purchased inputs for Louisiana totaled \$1,373.2 million (up from \$1,310.2

million): purchased feed, \$249.3 million (up 34 percent); purchased livestock and poultry, \$35 million (down 29 percent); purchased seed, \$113 million (down 6.6 percent); fertilizers and lime, \$150.8 million; pesticides, \$158.9 million; petroleum fuels and oils, \$138.1 million; electricity, \$33.7 million; repair and maintenance of capital items, \$109.7 million; custom work and machinery hire, \$30.8 million; marketing, storage and transportation, \$114.3 million; total labor expense, \$176.1 million; and miscellaneous expenses, \$233.5 million. Although most input categories exhibited increases over 2005 levels, decreased expenditures occurred in some categories. These changes reflect not only input price changes, but also changes in the amount of a particular input used within the state. For example, expenditures for pesticides decreased, and this decrease may reflect an increase in the use of genetically modified seed which reduces the need for surface applied pesticides. Because the cost of annual production inputs affect farm organization and net income immediately, changes in the cost of these items are very important to the producer.

Capital consumption is a non-cash expense component of net business income and returns to operators. Components include the replacement value of capital items consumed during the year and the value of accidental damage. Changes in the prices of long-term input items affect the producer as new investments are made. These expenses were estimated to be \$261.8 million in 2006. Farm origin expenses were estimated to be \$397.4 million in 2006 compared to \$341.8 million in 2005.

Payments to stakeholders totaling \$442.5 million are composed of employee compensation (hired labor), \$164.6 million; net rent for non-operator landlords, \$131.5 million; and interest payments \$146.4 million. Total payments to stakeholders increased from \$422.5 million in 2005 to \$442.5 in 2006. Expenses in the form of interest payments increased only slightly and hired labor increased by about 6 percent. Net rent for non-operators declined.

## **National Situation and Outlook**

The 2007 USDA Farm Income forecasts for the nation as a whole can be found on the Economic Research Service, Farm Income Data Web site:

<http://www.ers.usda.gov/data/FarmIncome/>

The USDA forecasts total U. S. production expenses will reach \$237.2 billion in 2007. This figure is a 4.9 percent increase from 2006. Farm origin inputs (feed, livestock, and seed) are forecast at \$60.8 billion, up about 5 percent from 2006. Manufactured inputs are forecast to be \$38 billion, up 7 percent from 2006. Interest charges are expected to total \$16.4 billion, up 8.6 percent. Other operating expenses are forecast up 8.7 percent to \$78.8 billion. U. S. agriculture generates a tremendous business cashflow in the process of producing food and fiber for domestic use and export.

## **Louisiana Situation and Outlook**

Each year, the LSU AgCenter's Department of Agricultural Economics and Agribusiness estimates cost of production for major Louisiana commodities. Electronic copies of this publication are available from the LSU AgCenter's Web site:

[http://www.agctr.lsu.edu/en/money\\_business/farm\\_business/budgets/](http://www.agctr.lsu.edu/en/money_business/farm_business/budgets/)

Farm input suppliers were surveyed in the late summer and early fall of 2007 to gather information concerning input costs to prepare the annual 2008 cost estimates. Data from all sources is summarized and compiled into a state or region average price for use in preparing the budgets. A summary comparison of estimated 2008 input prices with prior years is presented below. A detailed listing of inputs and prices used in the 2008 budget projections is shown in Tables 1a-d.



## Energy Prices

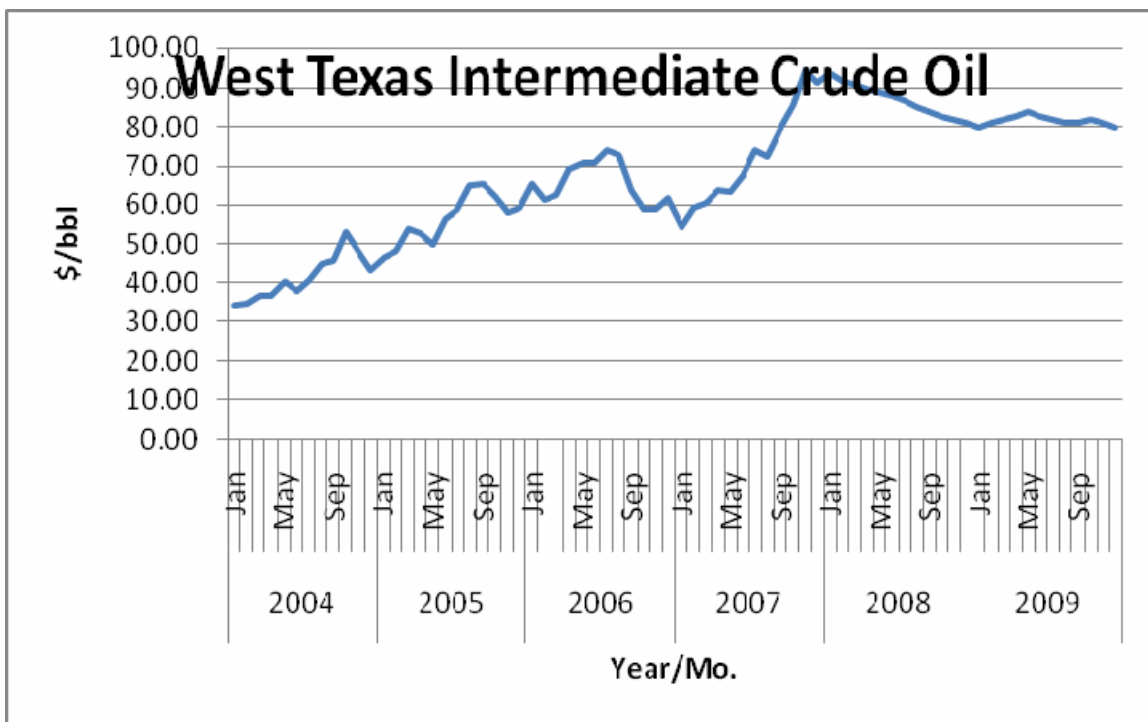
Energy prices have exhibited wide swings in recent years. Shortly after hurricanes Katrina and Rita, a spike in oil prices occurred due to the disruption of production in the Gulf of Mexico. Since then, oil prices have moderated, but still exhibit periodic spikes in price. Because oil prices have moderated somewhat, agricultural inputs derived from or having a large dependence on oil are not expected to have substantial price increases in 2008. Figure 1 shows West Texas Intermediate Crude oil monthly prices since 2004, with projections to 2009. As shown in Figure 1, crude oil prices reached almost \$100 per barrel in 2007, but are projected to moderate slightly.

The Energy Information Administration (EIA) estimates the United States consumed petroleum products at a rate of 20.7 million barrels per day (bbl/d). This rate represents a slight increase from 2006 levels. Gasoline consumption for automobiles is expected to increase by 0.8 percent in 2008 and about 1 percent in 2009 as the driving population grows and additional

ethanol enters the market. Winter weather projections and a predicted slowdown in the economy will contribute to a decline in rate of increase in demand for certain petroleum products.

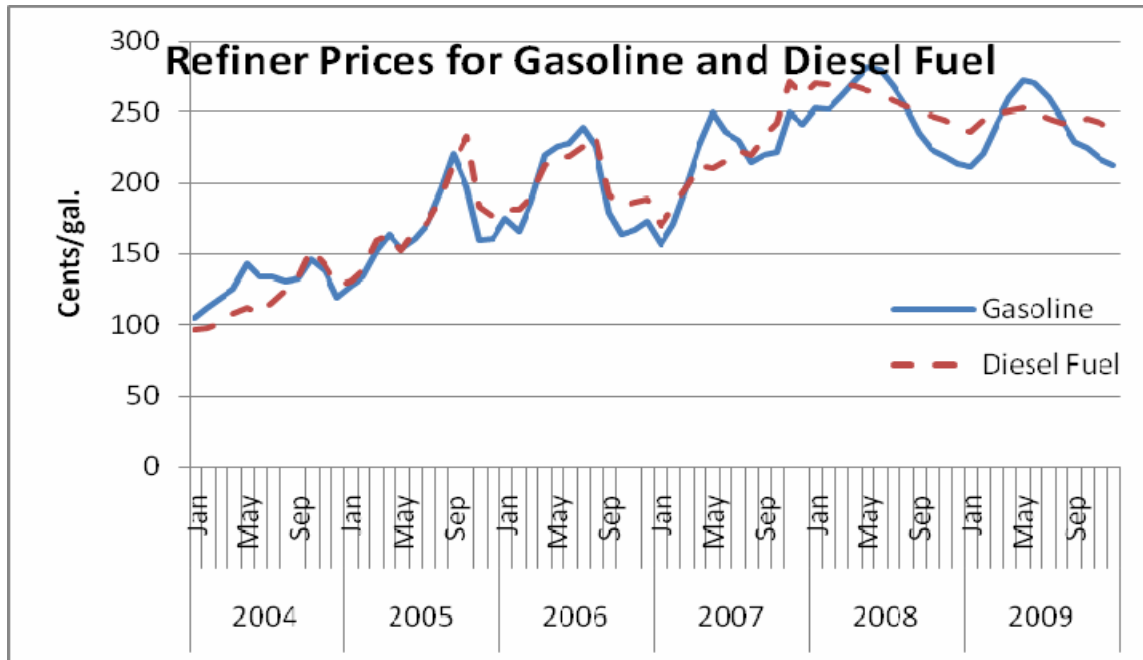
Energy prices are expected to remain high through 2008. The EIA estimates West Texas Intermediate (WTI) crude averaged about \$72 per barrel in 2007. Expectations are WTI will average about \$87 per barrel in 2008 (EIA, Short-Term Energy Outlook, January 8, 2008). Natural gas consumption increased about 6 percent during 2007. Increased demand occurred in all the major user sectors, including residential, commercial, and electric power generators. Assuming normal weather, the demand for natural gas is estimated to increase about 0.6 percent in 2008 and about 1 percent in 2009. The Henry Hub natural gas price averaged \$7.32 per thousand cubic feet (mcf) in 2007. This price is expected to increase to \$7.78 per mcf in 2008 and \$7.92 per mcf in 2009. (EIA, Short-Term Energy Outlook, January 8, 2008).

**Figure 1. West Texas Intermediate Crude Oil Prices, 2004-2009.**





**Figure 2. Refiner Prices for Resale, Gasoline and Diesel Fuel, 2004-2009.**



Source: Energy Information Administration: Short-Term Energy Outlook—January 2008,

<http://www.eia.doe.gov/emeu/steo/pub/contents.html>

### Louisiana Input Prices

Tables 1a-d show the input prices used in the 2008 enterprise budget projections. These prices represent an average of prices obtained from a number of input suppliers. As a general rule, the prices reflect pricing for consumption by commercial production agriculture. Also, prices do not include rebates or other incentives that may be offered by manufacturers.

Product prices may vary from one vendor to another. In addition, some products may be available in a number of formulations and sold under a variety of trade names. Such differences provide an opportunity for producers to substitute less expensive products and formulations for more costly products. Producers should carefully look at their input requirements and compare product prices to keep their costs of production as low as possible. Prices and services offered will

vary from dealer to dealer and production area to production area. Careful purchasing must take into consideration not only price but also quality and service. Price alone should not be the only guide in the purchase of production inputs.

Prices for the 2008 budget projections shown below were collected in the summer of 2007. Market conditions have changed significantly since these price estimates were prepared. Therefore, some prices may understate the current cost of a particular input. As a general statement, the prices shown below reflect only small changes from 2007 levels. The obvious exceptions are fuel and fertilizer items. As noted above, energy prices have increased significantly and this increase has contributed to higher fuel and fertilizer prices. In addition, the demand for fertilizer increased due to increased corn acreage, exerting additional upward pressure on prices.

**Table 1a: Estimated Prices for Operating Inputs in Louisiana, 2008**

Item Name	Unit	Price (\$)	Item Name	Unit	Price (\$)
<b>ADJUVANTS</b>			<b>TECHNOLOGY FEE</b>		
Crop Oil ( Seed Oil)	pt	2.46	BG Cot Tech Fee	thous	0.28
Crop Oil (Petroleum)	pt	0.80	BG Cot Tech Fee	cap/ac	19.50
Surfactant	pt	1.55	BG II Cot Tech Fee	thous	0.71
<b>CUSTOM FERT/LIME</b>			BG II Cot Tech Fee	cap/ac	40.00
App Fert by Air	cwt	5.00	BG II/RR Tech Fee	thous	1.38
App Fert by Air(Min)	appl	5.00	BG II/RR Tech Fee	cap/ac	56.00
Custom Apply Fert	acre	5.00	BG/RR Cot Tech Fee	thous	1.09
Custom Spread(Truc	appl	4.50	BG/RR Cot Tech Fee	cap/ac	49.00
Lime (Spread)	ton	40.00	Eradication Fee	acre	6.00
<b>CUSTOM SPRAY</b>			RR Cotton Tech Fee	thous	0.62
App by Air ( 1 gal)	appl	2.50	RR Cotton Tech Fee	cap/ac	29.00
App by Air ( 2 gal)	appl	3.00	<b>SEED/PLANTS</b>		
App by Air ( 3 gal)	appl	3.50	Corn Seed Bt	thous	1.96
App by Air ( 5 gal)	appl	4.50	Corn Seed BtRR	thous	2.01
App by Air (10 gal)	appl	6.50	Corn Seed Conv.	thous	1.55
Custom Apply	acre	5.00	Corn Seed RR	thous	1.87
Custom Terragator	acre	5.00	Cotton Seed Bt	thous	0.28
LARice GPS Charge-SW	acre	0.35	Cotton Seed BtRR	thous	0.46
LARice GPS Charge_NE	acre	0.25	Cotton Seed Conv.	thous	0.39
<b>CUSTOM PLANT</b>			Cotton Seed Liberty	thous	0.62
LARice Air Plant NE	cwt	5.50	Cotton Seed RR	thous	0.36
LARice Air Plant SW	cwt	5.60	Cotton Seed RR	thous	0.37
<b>CUSTOM HARVEST/HAUL</b>			Rice Clearfield 161	lb	0.50
Haul Corn	bu	0.20	Rice Clearfield XL8	lb	3.26
Haul Cotton	lb	0.02	Rice Seed (Levees)	lb	0.26
Haul Rice	bu	0.22	Rice Seed CF(Levees)	lb	0.50
Haul Rice (cwt)	cwt	0.25	Rice Seed Conv.	lb	0.26
Haul Sorghum	bu	0.20	Rice Seed Hybrid	lb	3.10
Haul Soybeans	bu	0.20	SC Cultured seedcane	acre	484.00
Haul Wheat	bu	0.20	Sorghum Concept	lb	1.40
LARice Haul	cwt	0.30	Sorghum NonConcept	lb	1.18
<b>GIN/DRY</b>			Soybean Seed Private	lb	0.38
Dry Corn	bu	0.19	Soybean Seed RR	lb	0.66
Dry Grain Sorghum	cwt	0.25	Wheat Seed Private	lb	0.27
Dry Rice	bu	0.40	<b>SERVICE FEE</b>		
Dry Rice (cwt)	cwt	0.90	Cotton Storage	bale	25.00
Gin	lb	0.09	Crop Consultant	acre	6.00
LARice Dry	cwt	0.90	Insect Scouting	acre	7.00
<b>IRRIGATION SUPPLIES</b>			Rice Consultant	acre	7.00
Rice Gates	each	3.65	Survey & Mark Levees	acre	4.00
Roll-Out Pipe	ft	0.20	Survey & Mark Levees	acre	3.50
			<b>GROWTH REGULATORS</b>		
			Early Harvest PGR	oz	1.55
			LA Polado	oz	0.38
			Mepex	oz	0.30
			PGR IV	oz	1.64
			Pix Plus	oz	0.56
			Pix Ultra	oz	0.47

**Table 1b: Estimated Prices for Operating Inputs in Louisiana, 2008**

Item Name	Unit	Price (\$)	Item Name	Unit	Price (\$)
<b>FERTILIZERS</b>			<b>HERBICIDES</b>		
Amm Nitrate (34% N)	cwt	16.00	2,4-D Amine 4	pt	1.72
Amm Sulfate (21% N)	cwt	12.00	2,4-D Ester	pt	1.93
Anhy Ammonia (82% N)	cwt	26.85	AAtrex 4L	pt	1.57
Boron (Solubor)	lb	0.40	AAtrex NINE-O	lb	2.74
DAP	cwt	16.00	Accent Gold	oz	7.14
Fert 10-34-0	cwt	16.00	Accent SP	oz	31.60
Fert 41-0-0-4	cwt	19.00	Aim 2EC	oz	5.82
LA Nitrogen	lb	0.54	Aim DF	oz	8.78
LA Phosphate	lb	0.44	Arrosolo	qt	7.50
LA Potash	lb	0.36	Assure II	oz	1.04
Phosphorus(46% P2O5)	cwt	14.00	Atrazine 4L	pt	1.17
Potash (60% K2O)	cwt	13.00	Atrazine 90DF	lb	2.10
Sulfur	lb	0.20	Authority 75DF	lb	26.40
UAN (32% N)	cwt	12.00	Axiom 68DF	lb	22.02
UAN + Sulfur (28% N)	cwt	12.00	Backdraft	pt	2.34
Urea, Solid (46% N)	cwt	17.00	Banvel	pt	9.51
Zinc	lb	0.65	Basagran	pt	10.48
<b>FUNGICIDES</b>			Basis Gold	lb	18.87
Apron Maxx RTA	oz	0.80	Beacon 75% WSP	oz	27.44
Apron XL	oz	5.78	Beyond	oz	4.10
Apron XL LS	oz	7.27	Bicep II Magnum	qt	9.41
Benlate 50 WP	lb	15.95	Bicep II zmsgnum	qt	10.58
Captan 4L	pt	2.83	Blazer Ultra	pt	7.81
Captan 50 WP	lb	3.41	Boa	pt	3.63
Cruiser 5FS	oz	17.38	Bolero 8EC	pt	5.96
Delta Coat AD	oz	3.75	Boundary	pt	10.13
Dithane F-45	qt	3.63	Buctril 4EC	pt	15.51
Dithane Rainsheild	lb	2.46	Butoxone 175(2,4-DB)	pt	2.70
Fungicide	lb	2.30	Butoxone 200(2,4-DB)	pt	4.05
Gem 25 WG	oz	3.41	Butyrac 175 (2,4-DB)	pt	2.64
Manzate 75 DF	lb	2.61	Butyrac 200 (2,4-DB)	pt	4.15
Manzate Flowable	pt	1.77	Canopy 75%	oz	2.55
Moncut 70 DF	lb	25.09	Canopy XL	oz	1.93
Orbit	oz	2.75	Caparol 4L	pt	3.99
Prevail	lb	11.53	Celebrity Plus	lb	87.70
Quadris	oz	1.97	Clarity	pt	11.60
Ridomil GoldPC 10G	lb	1.90	Classic	oz	13.26
Ridomil Gold PC	lb	2.04	Clincher EC	oz	1.70
Rovral 4F	pt	19.93	Cobra 2EC	oz	1.19
Shelter	oz	8.50	Command 3ME	pt	12.75
Stiletto	oz	0.54	Conclude XACT	pt	9.59
Stratego	pt	18.52	Conclude XTRA	pt	8.32
Terrachlor Flowable	pt	4.74	Cornerstone	pt	1.38
Terraclor 2EC	pt	1.91	Cotoran DF	lb	8.05
Terraclor Super X EC	pt	3.89	Cotton Pro Flowable	pt	3.32
Terraclor Super X G	lb	2.39	Crossbow	pt	7.18
Tilt 3.6 EC	oz	2.62	Delta Goal	pt	9.44
Vitavax 200	oz	0.49	Denim 0.16 EC	pt	24.06
Vitavax M Flowable	oz	1.06	Detail	pt	7.99
Vitavax RTU-Thiram	oz	0.35	Direx 4L	pt	2.29
Vitavax T-L	oz	0.20	Direx 80 DF	lb	3.89
			Diuron 4L	pt	2.22

**Table 1c: Estimated Prices for Operating Inputs in Louisiana, 2008**

Item Name	Unit	Price (\$)	Item Name	Unit	Price (\$)
HERBICIDES (continued)			HERBICIDES (continued)		
Diuron 80 DF	lb	3.15	Permit 75DF	oz	17.49
Domain 60DF	lb	12.75	Poast 1.53	pt	8.46
DSMA 4	pt	0.87	Poast Plus	pt	6.37
Dual II Magnum	pt	13.43	Propanil 4E	qt	5.15
Dual Magnum	pt	12.64	Prowl 3.3 EC	pt	3.10
Duet	pt	3.54	Pursuit DG	oz	11.34
Evik DF 80W	lb	6.78	Pursuit Plus EC	pt	6.33
Exceed	oz	10.71	Python WDG	oz	9.35
Exceed Custom Pak	oz	11.50	Raptor	oz	4.13
Expert	pt	3.65	Reflex 2LC	pt	12.55
Facet 75DF	lb	50.75	Regiment 80WP	oz	35.00
First Rate	oz	27.04	Remedy	pt	12.17
Flexstar HL	pt	12.88	Resource .86EC	pt	21.24
FloMet 4L	pt	4.82	Ricestar	pt	15.45
Freedom	qt	2.51	Roundup Original	pt	19.50
Front Row	oz	21.92	Roundup Original Max	oz	0.27
Frontier 6.0	oz	0.63	Roundup Ultra MAX	pt	6.14
Fultime	pt	3.75	Roundup Ultra Dry	lb	5.97
Fusilade DX	oz	1.16	Roundup WeatherMax	oz	0.35
Fusion	pt	19.84	Scepter 70 DG	oz	2.97
Glyphos	pt	2.26	Select 2EC	oz	1.35
Glyphomax	pt	3.49	Sencor 4F	pt	10.13
Glyphosate Plus 4L	pt	2.35	Sencor DF	lb	14.81
Glystar Plus	pt	2.35	Squadron CE	pt	4.55
Goal 2XL	pt	10.54	Stam 4E	qt	5.12
Gramoxone Max	pt	5.09	Stam 80 EDF	lb	4.81
Grandstand R	qt	21.53	Staple 85%	oz	18.97
Guardzman	pt	4.66	Staple Plus	oz	9.35
Guardzman Max	pt	5.50	Steadfast	oz	22.36
Harmony Extra	oz	14.83	Steel	pt	10.28
Hoelon 3EC	pt	9.08	Storm	pt	9.50
Karmex DF	lb	4.35	Strongarm	oz	43.04
LA Asulox	gal	47.75	Superwham	qt	6.56
LA Weedmaster	gal	24.79	Suprend	lb	10.17
Lariat	qt	5.33	Surpass 20G	lb	2.36
Lasso 4EC	qt	6.06	Surpass EC	qt	19.06
Layby Pro	qt	9.04	Touchdown	qt	9.32
Lexone 75DF	lb	18.90	Touchdown 4 IQ	pt	3.33
Liberty	pt	8.76	Touchdown Total	qt	8.68
Lightning	oz	12.18	Treflan HFP	pt	2.35
Lightning	oz	11.23	Treflan TR-10	lb	0.79
Linex 4L	pt	6.93	Tri-Scept	pt	5.24
Londax 60DF	oz	11.25	Trifluralin 4EC	pt	2.23
Lorox 50DF	lb	15.75	Trilin 10G	lb	0.79
MSMA 6.6	pt	2.01	Trilin 4EC	pt	2.12
MSMA6 + Surfactant	pt	1.98	Typhoon	qt	13.06
Newpath 2SL	oz	3.60	Valor WP	oz	4.23
Ordram 15-G	lb	1.38	Whip 360	pt	22.99
Ordram 8-E	pt	7.60	Zorial Rapid 80DF	lb	13.95
Osprey	oz	3.44			
Outlook	pt	18.47			
Pendimax 3.3	pt	2.84			

**Table 1d: Estimated Prices for Operating Inputs in Louisiana, 2008**

Item Name	Unit	Price (\$)	Item Name	Unit	Price (\$)
<b>INSECTICIDES</b>			<b>INSECTICIDES (continued)</b>		
Acephate 90SP	lb	6.50	Sevin XLR Plus	qt	8.14
Admire 2 Flowable	oz	4.78	Spintor 2SC	oz	4.71
Ammo 2.5 EC	oz	0.65	Steward	pt	22.28
Asana .66 XL	oz	0.71	Temik 15G Grit	lb	3.20
Aztec 2.1% G	lb	2.32	Thimet 20-G	lb	2.67
Baythroid 2	oz	2.88	Thionex 3EC	pt	3.47
Bidrin 8L	oz	0.84	Thionex 50W	lb	7.99
Capture 2EC	oz	2.59	Tracer	oz	6.38
Centric 40WG	oz	5.04	Trimax	oz	4.13
Comite	pt	7.06	Vydate C-LV	oz	0.56
Confirm 2F	oz	1.48	Warrior Z	oz	2.20
Counter 15G	lb	2.21	Warrior ZT	oz	2.16
Counter CR	lb	2.86			
Curacron 8E	pt	9.66	<b>HARVEST AIDS</b>		
Decis 1.5EC	oz	2.84	Accelerate	pt	2.76
Declare	pt	3.67	Ammonium Sulfate	lb	0.12
Denim 0.16EC	pt	26.81	Boll'd	pt	7.01
Di-Syston 15G	lb	3.35	CottonQuik	pt	3.59
Di-Syston 8	pt	13.10	Def 6	pt	7.14
Dimethoate 4E	pt	4.69	Dropp 50 WP	lb	44.00
Dimilin 2L	oz	1.64	Dropp SC	oz	2.67
Dipel DF	lb	10.56	Ethephon 6E	pt	5.22
Dipel ES	pt	4.04	Finish 6	pt	9.40
Force 3G	lb	4.54	Folex 6EC	pt	7.16
Furadan 4F	pt	9.13	Ginstar EC	pt	27.59
Fury 1.5 EC	oz	1.30	Gramoxone Extra	pt	4.86
Gaicho 480	oz	7.30	Gramoxone Max	pt	5.09
Intrepid 2F	oz	1.93	Harvade 5F	oz	0.60
Intruder 70WP	oz	8.00	Leafless	pt	18.56
Karate Z	oz	3.10	Prep	pt	5.44
Lannate LV	pt	7.10	Sodium Chlorate 3L	gal	3.04
Lannate SP	oz	1.41	Solium Chlorate 6L	gal	4.80
Larvin 3.2	oz	0.48			
Leverage 2.7	oz	3.00			
Lorsban 15G	lb	1.58			
Lorsban 4E	pt	4.40			
Malathion 57EC	pt	2.63			
Malathion 8E	pt	4.68			
Malathion ULV	pt	4.93			
Mepichlor 4.2% Liq	pt	5.91			
Methyl Parathion	pt	4.26			
Monitor 4	pt	13.16			
Monitor 4	pt	11.98			
Mustang Max	oz	1.63			
Orthene 90S	lb	8.85			
Orthene 97	lb	11.81			
Penncap M	pt	11.37			
Phaser 3E	qt	8.13			
Pounce 25WP	lb	10.48			
Pounce 3.2 EC	oz	0.91			
Provado 1.6F	oz	3.42			
Sevin 80S	lb	5.90			

## **FORESTRY**

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### **Louisiana Situation and Outlook**

The projected Louisiana gross farm value of forest products decreased significantly for the period October 1, 2006 through September 30, 2007, which constitutes the period reported in the 2007 Ag Summary. This decrease followed an increase in 2006. The 2007 total sawlog harvest decreased by 50 million board feet (3.76 percent) to a cut of 1,296,988,322 board feet. The total statewide harvest of pine sawtimber was 1,127,842,139 board feet, a decrease of 2.98 percent. The hardwood sawtimber harvest fell to 169,146,683 board feet (an 8.79 percent decrease) in 2007. Pine chip-n-saw harvested in 2007 totaled 878,019 cords, a decrease of 19.25 percent from 2006 totals. Over the last three years, chip-n-saw harvests have declined more than 50 percent.

The 2007 Louisiana pulpwood harvest was 5,966,475 cords, down 160,935 cords (2.66 percent) from the 2006 harvest. Pine pulpwood harvest increased 6.23 percent, from 4,540,106 cords in 2006 to 4,831,957 cords in 2007. Hardwood pulpwood harvest decreased by 452,786 cords (33.27 percent), from 1,587,304 cords in 2006 to 1,134,518 cords in 2007.

Stumpage prices for the period were mostly lower for sawtimber products and chip-n-saw, and slightly higher for most pulpwood products. Pine sawtimber prices were 6 percent lower in 2007, averaging about \$358 per mbf for the year. Oak sawtimber prices were 6 percent lower on average around the state in 2007, at approximately \$284 per mbf for the reporting period. Average Statewide pine pulpwood prices increased by 6 percent in 2007. Hardwood pulpwood prices also were 6 percent higher on average. This increase follows a gain in the two years prior of 28 percent. Chip-n-saw prices decreased 11 percent on average in Louisiana in 2007.

With wood-using industries and commercial timber harvesting activities occurring in all parishes in Louisiana, forestry benefits both urban and rural areas. In 2007, Louisiana's private forest landowners received an estimated \$600,699,072 from the sale of forest timber, down 10.71 percent from 2006. Timber harvesting contractors and their employees earned \$491,839,785 from harvesting the trees and moving wood to mills. This total was down 18.56 percent from 2006 levels. This income is re-circulated many times throughout the economy. In addition, Christmas tree growers received \$969,120 from the sale of trees, up sharply from the previous year, most likely due to hurricane recovery. Louisiana-produced pine straw sales made \$21,650 in 2007. Louisiana's private sector forest tree seedling nurseries produced a crop worth \$348,250 in 2007.

The payroll and income derived from money generated by the forestry and wood products industry totaled an estimated \$3.7 billion in 2007, a significant 23 percent decrease from 2006 totals. The gross farm income produced by all forestry-related products, such as timber, pine straw and Christmas trees totaled \$1.09 billion in 2007, down from the \$1.26 billion generated in 2006. The value added through further processing and delivery was \$2.6 billion, down 20.63 percent from the 2006 value added of \$3.3 billion.

The weaker United States dollar has helped exports of southern pine and hardwood products and should continue to help exports this year. At the same time, imports from other countries are down. The continued reconstruction effort in the Greater New Orleans area should continue to provide positive stimulus for Louisiana's forestry sector. Not all of the news is good, however. The rest of the country is suffering through a significant decline in housing starts and sales, the result of an overextension of credit by mortgage lending institutions and an overconsumption of credit by home buyers. Many blame low interest rates and adjustable rate mortgages for this problem. As interest rates increased, many homeowners could no longer afford their mortgage payments. Defaults have increased

significantly, and many of the large homebuilders are now in trouble. This trouble has an enormous ripple effect through the economy because so many other durable goods, nondurable goods and services related companies rely on housing construction activity.

Although the trouble in the housing market is not yet serious in Louisiana, odds are problems will be here soon if not sooner. Louisiana's business cycle tends to run contrary to the national business cycle, lagging the rest of the country by a few years. The decline in construction activity will hit us sooner or later and will exacerbate a decline in demand for wood products.

If the dollar gains strength, the resulting fall in exports could hurt demand even further. Therefore, there is no reason to believe forest products prices will increase this year. Prices should remain stable or fall slightly as the housing market continues to struggle, even though this trend is offset to some degree by the aforementioned post-Katrina reconstruction effort. Product prices, however, are still very much subject to local market conditions and weather. Therefore, prices will always be unpredictable to some degree.

## **COTTON OUTLOOK**

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### **SANDY STEWART**

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## **Introduction**

The most recent WASDE Report indicates domestic cotton production responded to market forces in 2007, and cotton acreage was reduced from 12.7 million acres in 2006 to 10.5 million acres in 2007. With the reduction in acreage, cotton yields reached a record 871 pounds of lint per acre. The increased yield was not sufficient to

offset the reduction in acreage, and total production of all cotton declined to 19 million bales in 2007. This 2.5 million bale decline in production, coupled with an almost 3 million bale increase in exports, leaves an ending stock of 8.3 million bales. For the 2007-08 marketing year, the U. S. stocks-to-use ratio is expected to be 38.4 percent, down considerably from the 52.8 percent for 2006-07.

Global cotton production in 2007-08 is projected at 118.25 million bales, a decrease of 3.82 million bales. World cotton mill use for 2007-08 is expected to be 128.02 million bales, about 4.43 million bales more than a year ago. Global ending stocks are projected at 54.75 million bales, a decrease of about 6 million bales from last year. The world stocks-to-use ratio declined from 49.2 percent in 2006-07 to 42.8 percent for 2007-08.

## **United States Situation and Outlook**

According to USDA's forecast, the total 2007-08 cotton crop is projected to be 19.03 million bales, almost 12 percent below the 2006-07 production level. A combination of factors led to a record lint yield per acre in 2007. Excellent growing conditions once again this season throughout most of the Cotton Belt have led to progressively higher production forecasts. Upland production currently is projected at 18.2 million bales, 2.6 million bales below last season, while the extra-long staple (ELS) crop is expected to reach 825,000 bales, almost 8 percent above the 2006-07 level. A summary of domestic cotton production and consumption is presented in Table 1.

Upland cotton acreage decreased in all cotton producing areas, with the largest percentage decreases occurring in the mid-South and Southeast. The mid-South experienced the largest decline, led by Louisiana with a 47 percent decline in cotton acreage. These shifts were largely in response to significant increases in corn prices. Virtually all of the acreage shifted from cotton in Louisiana was planted in corn. Similar changes were evident in other states.



**Table 1. U SDA Upland, ELS and All Cotton Estimates, February 8, 2008.**

Item	Unit	2004/05	2005/06	2006/07	2007/08
<u>Upland Cotton:</u>					
Planted acres	1000 acres	13,409	13,975	14,948	10,538
Harvested acres	"	12,809	13,534	12,408	10,204
Yield/harvested acre	lbs./acre	843	825	806	857
Beginning stocks	1000 bales	3,384	5,482	5,981	9,368
Production	"	22,505	23,260	20,823	18,208
Imports	"	8	9	10	10
Total supply	"	25,897	28,751	26,814	27,586
Domestic mill Use	"	6,629	5,820	4,907	4,565
Exports	"	13,683	17,029	12,338	14,880
Total disappearance	"	20,312	22,849	17,245	19,445
Difference (unaccounted)	"	-103	79	-201	-20
Ending stocks	"	5,482	5,981	9,368	8,121
<u>ELS Cotton:</u>					
Planted acres	1000 acres	250	270	326	292
Harvested acres	"	248	269	324	288
Yield/harvested acre	lbs./acre	1,443	1,126	1,136	1,374
Beginning stocks	1000 bales	66	13	69	109
Production	"	746	630	765	825
Imports	"	21	19	9	10
Total supply	"	833	662	843	944
Domestic mill Use	"	62	51	39	35
Exports	"	753	520	672	820
Total disappearance	"	815	571	711	855
Difference (unaccounted)	"	-5	-22	-23	-10
Ending stocks	"	13	69	109	79
<u>All Cotton:</u>					
Planted acres	1000 acres	13,659	14,245	15,274	10,830
Harvested acres	"	13,057	13,803	12,732	10,492
Yield/harvested acre	lbs./acre	855	831	814	871
Beginning stocks	1000 bales	3,450	5,495	6,050	9,477
Production	"	23,251	23,890	21,588	19,033
Imports	"	29	28	19	20
Total supply	"	26,730	29,413	27,657	28,530
Domestic mill Use	"	6,691	5,871	4,946	4,600
Exports	"	14,436	17,549	13,010	15,700
Total disappearance	"	21,127	23,420	17,956	20,300
Difference (unaccounted)	"	-108	57	-224	-30
Ending stocks	"	5,495	6,050	9,477	8,200

Source: World Supply and Demand Estimates (WASDE), USDA, February 8, 2008 Report.

## World Situation and Outlook

Global cotton production is forecast at 119.71 million bales, down about 3 million bales from the 2006-07 level. Most of this decrease was accounted for by the change in U. S. production. Foreign production decreased only slightly from the 2006-07 level of 100.48 million bales. World cotton production and consumption is summarized in Table 2. China, India and Pakistan combined are expected to account for 60 percent of total foreign production in 2007-08. China had an excellent crop in 2007 and other countries continue to produce increased yields. Cotton acreage has remained relatively constant in the major cotton-producing countries, except for the United States.

Although world production declined slightly this season, global cotton consumption continues to increase. In 2007-08, world consumption is forecast at 126.32 million bales. Exports are estimated to be 40.05 million bales for a total disappearance of 166.37 million bales. The unaccounted amount (primarily from China) is -3.47 million bales. Subtracting total disappearance from the total supply of 220.24 million bales leaves an ending stock of 57.33 million bales, down from the 60.71 million bales in 2006-07. This number implies an ending stock-to-use ratio of 45.4 percent.

**Table 2. USDA Projections of Total World Cotton Supply and Demand, February, 2008.**

	World		Foreign		United States	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
<u>Supply:</u>						
Planted Acres (million)					15.27	10.83
Harvested acres (million)					12.73	10.49
Yield (lb. lint/ac)					814	871
Beginning Stks (million)	60.18	60.71	54.13	51.23	6.05	9.48
Production (million bales)	122.07	119.21	100.48	100.18	21.59	19.03
Imports	37.28	40.32	37.26	40.3	0.02	0.02
Total Supply	219.53	220.24	191.87	191.71	27.65	28.53
<u>Disappearance:</u>						
Mill Use	123.59	126.32	118.64	121.72	4.95	4.6
Exports	37.4	40.05	24.39	24.35	13.01	15.7
Total Domestic Use					17.96	20.3
Unaccounted (million bales)	-2.17	-3.47	-2.39	-3.5	0.22	0.03
Ending Stocks (million bales)	60.71	57.33	51.2	49.13	9.48	8.2
Ending Stocks/Use (%)	49.1	45.4	43.2	40.4	52.8	40.4

Source: WASDE, USDA Supply and Demand estimates, February 8, 2008.

## Prices

Looking ahead, December 2008 futures have been trading in the mid-70 cent range in early 2008. This amount is about 15 cents higher than the December 2007 contract was trading this time last year. Further, the 2009 contracts are trading in the 80-cent range. This information would normally be very encouraging to cotton producers in the United States. These future price levels, coupled with the continued strong demand for cotton, provide a rationale for higher cotton prices in 2008. Higher world prices for cotton are expected for 2008.

Even with higher cotton prices, U. S. cotton acreage is expected to decline in 2008. The most recent planting intention survey from the National Cotton Council indicates total cotton acreage in the United States will be about 9.5 million acres.

This number represents about a 12 percent decline from the 2007 acreage. Extra Long Staple (ELS) cotton acreage is expected to decline about 20 percent. Most of this decline is expected to occur in California where concern for water is a major issue. In Louisiana, cotton acreage is expected to decline about 18 percent from the 2007 level.

While cotton prices are expected to be higher, competing crop prices are even higher in relative terms. Therefore, the relative profitability of alternative crops is much more attractive than cotton. Consequently, producers will be planting more of their traditional cotton acreage to competing crops such as corn, soybeans or wheat. A comparison of cotton and competing crop future prices are shown in Figure 1 and Figure 2.

Figure 1 Nearby New York Futures Price and Far East "A" Index Cotton Prices.

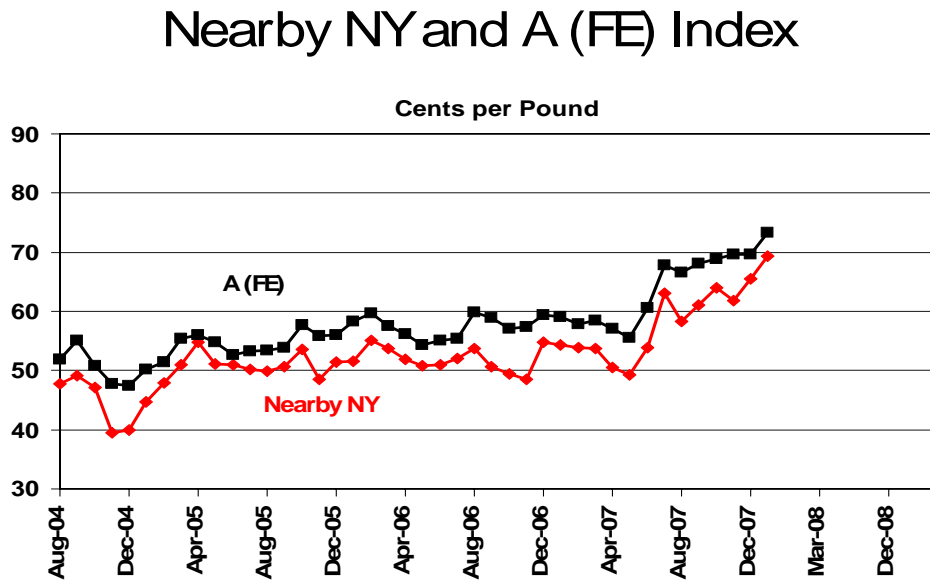
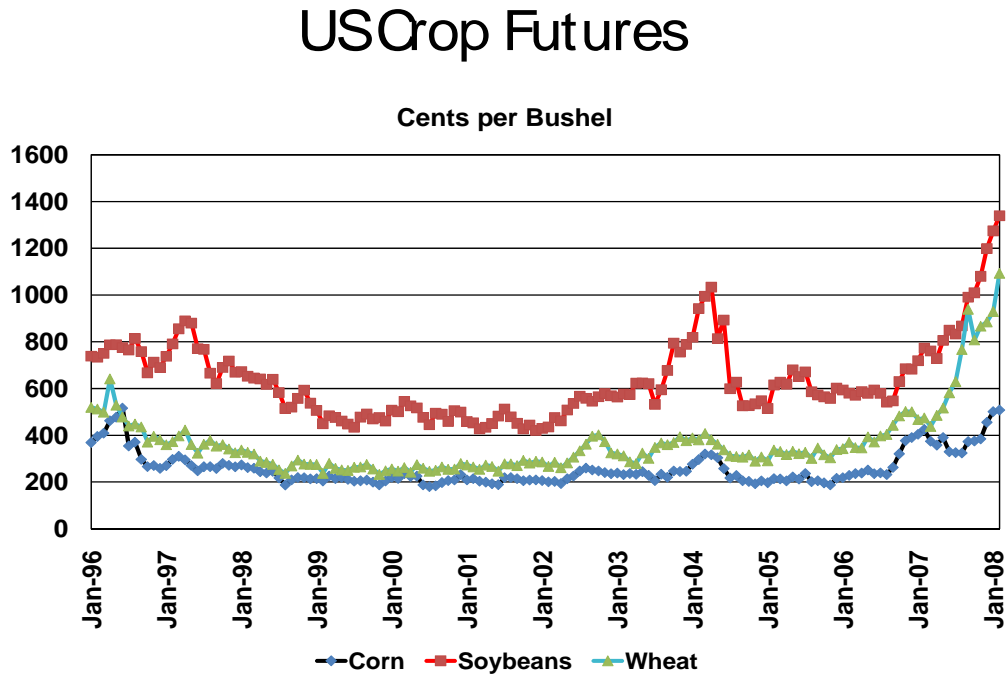


Figure 2. Futures prices for corn, soybeans, and wheat, 2008.



## **SOYBEAN OUTLOOK**

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### **Introduction**

The last year for the soybean market has really been an interesting one. The supply-and-demand situation has changed dramatically. The market has gone from one characterized by record-high levels of stocks to one approaching record-low levels of stocks. With the reduction in production experienced in 2007 along with strong domestic demand and very positive export demand, the current supply-and-demand situation for soybeans has improved dramatically and is expected to provide a very strong foundation for the 2008 growing season. Adding to the positive tone provided by the improved supply and demand situation has been the very bullish position taken by the speculative, noncommercial traders and the current battle between soybeans and corn for 2008 acres. All of these factors have created a price situation where soybeans are over \$4 per bushel higher than the same time last year.

### **National and International Situation and Outlook**

Several years of very strong production had created a market that saw stocks levels at the beginning of the 2007/08 marketing year at near record-high levels. Despite the negative supply and demand picture, however, soybean prices began the 2007 growing season at levels that seemed, by most accounts to be well-above what historical levels would indicate. The main reason for these relative strong prices was the soybean market's attempt to attract acres in the face of historically high feed grain prices. With corn prices hovering above the \$4 per bushel level to start 2007, the soybean market had to

push prices higher to attract any kind of acreage in 2007.

The competition for acres in 2007 and the expected reduction in total soybean acres were two key ingredients that helped push soybean prices higher in the spring of 2007. What has helped push prices in the fall of 2007 and early 2008 has been a dramatic shift in the supply-and-demand situation for this commodity. Soybean acres fell by nearly 12 million acres in 2007 as producers shifted acreage into feed grain production. Along with the lower acreage, average yields also fell from the previous year, resulting in more than an 18 percent reduction in soybean production from the previous year. The large decrease in soybean production allowed this market to go from starting the 2007/08 marketing year with stocks at 138 percent higher than the five-year average to ending the marketing year with stocks at nearly 50 percent below the five-year average.

Although the dramatic change in the supply-and-demand condition was certainly largely influenced by the reduction in acres, improved demand for soybeans has also played a role. Domestic demand for soybeans has improved substantially with domestic crush expected to be nearly 10 percent higher than the five-year average in 2007/08. As with the feed grain industry, some of the improvement of domestic demand can be traced to biofuel production and the increased demand base biofuel has created for soybean oil.

With solid domestic demand leading the way, soybean export demand has also performed at better-than-expected levels. A weak U. S. dollar spurred export demand during the first half of 2007 helping to reduce some of the burdensome stocks heading into the 2007 harvest. Better-than-expected export demand thus far in the marketing year has recently forced the USDA to increase its estimate for total exports during the 2007/08 marketing year. Through January 2008, the pace of soybean exports have been better than expected and are running roughly 5 percent below the previous

marketing year's pace as compared to the expected year to year change of a 10 percent decline. More important, China soybean purchases from the United States are over 6 percent higher through January 2008. Since China purchases nearly half of all soybeans exported by the United States, the improved pace of Chinese purchases has created some optimism.

Although the improved supply-and-demand situation and the bullish position currently taken by speculative traders provide an optimistic outlook for this market, the outlook is not totally without areas of concern. Soybean acres will likely increase in 2008. Ample evidence suggests a shift back to soybeans from corn. First, soybean futures prices for 2008 production are above the \$12 per bushel level. Additionally, increases in fuel and fertilizer prices are expected to result in double-digit increases in the cost of growing an acre of corn. Early projections suggest as much as a six million acre increase in soybean acreage for 2008. Just as the decrease in acres drastically altered the supply-and-demand picture for soybeans in 2007, a significant increase in acres in 2008 could bring about similar changes in 2008. Increased production and supplies of soybeans could dampen some of the enthusiasm currently being experienced in the market. Some time still exists for planting intentions to change, however, and weather conditions at planting can always impact final acreage numbers. At the beginning of 2008, the general consensus is soybean acres will be up from 2007 levels.

The second issue facing this market is world soybean supply-and-demand conditions are not nearly as positive as supply-and-demand conditions for the United States. Although soybean stocks are expected to decline in 2007/08, the world stocks-to-use ratio will still be around the five-year average. This scenario is vastly different picture from the United States situation where stocks are expected to be nearly 50 percent below the five-year average. World soybean production for the 2008/09 marketing

year is also expected to increase. Both Brazil and Argentina are expected to have increases in production when harvest is completed over the next two to three months. Brazil produced 60.5 million metric tons of soybeans in 2007, and Argentina produced 47 million metric tons in 2007. Early projections for 2008 predict production increases of 62 to 64 million metric tons for Brazil and 50 to 55 million metric tons for Argentina. Weather conditions and forward sales may provide the only glimmer of hope for the market in relation to South American production. The market often experiences great pressure on prices when South American soybeans are being harvested and marketed. Despite generally favorable weather conditions throughout most of the growing season, late-season weather patterns could affect yield and the ability to get soybeans harvested. Some reports also indicate as much as 80 percent of the Brazilian crop has already been sold.

### **Louisiana Situation and Outlook**

The largest impact of the significant increase in feed grain acres experienced in Louisiana in 2007 seemed to be on soybean and cotton acreage. Soybean acres in Louisiana fell to 605,000 acres in 2007, down from 870,000 acres in 2006. Even though 2007 started with soybean prices trading at the upper end of where prices had traded during the past several years, the profit potential with feed grain production was too enticing for producers. What soybeans were planted in the state did, however, experience nearly ideal weather conditions for most of the growing season.

In fact, Louisiana set a new yield record of 42 bushels per acre, 7 bushels per acre higher than the record set the previous year. Optimal rains and improved crop management by producers seem to be reasons for the yield improvement. While soybean rust did enter the state earlier than in years past and even though other diseases were present, the close attention provided by producers seems to have limited the impact of these diseases and, in fact, improve over all productivity. Last season dry spells and

hot temperatures did affect some of the later planted beans in terms of yields and particularly in terms of quality. High quality damage was a common theme for much of the later harvested soybeans and created some marketing difficulties for many producers. Overall, however, the 2007 season was generally viewed as very positive.

Looking forward to 2008 production, early projections predict increases in soybean acres in Louisiana. At average yields, the current price and cost expectations for soybeans and feed grains would indicate a slight edge to soybean production. This advantage to soybean production is amplified when their relative costs of production are considered. With soybean and feed grain production currently offering similar profit potential, having the ability to grow an acre of soybeans for roughly half the cost of growing an acre of corn certainly provides even more advantage to soybean production.

At the end of 2007, most analysis believed Louisiana could see soybean acres for 2008 in the 1 to 1.2 million acre range. However, higher corn prices to start 2008 and short soybean seed supplies have definitely altered the outlook for acres. Although soybean acres will undoubtedly increase in 2008, the exact magnitude of the increase will likely be determined more by seed availability than by economic forces. Currently, projections for soybean acres in Louisiana are 750,000 to 850,000 acres.

### **Price Outlook**

Futures contract prices for 2008 soybean production have started the year above the \$12 bushel level. The improved supply-and-demand situation for the soybean market, the bidding war between soybeans and corn to attract acres in 2008 and the continued long-term bullish stand of the speculative, noncommercial traders have all created an extremely positive situation for soybean prices. With the expectation of higher soybean production in the United States and in the world, the ability of the soybean

market to maintain these current price levels may be challenged.

When simply examining the supply shifts expected for 2008, projecting a supply-and-demand situation that does not include an increase in overall soybean stocks is difficult. Obviously, if the increase acreage in the United States is held to the 3 to 4 million acres, the fundamental supply-and-demand situation will still be positive enough to support very high prices. Increases in the neighborhood of 6 million acres or more would suggest fairly significant increases in soybean stocks and would place considerable pressure on prices as the 2008 harvest approaches.

Although the supply situation for soybeans both domestically and worldwide seems to be destined to increase, the true indication of where prices may go is not simply determined by the supply side of the equation but by the interaction of both supply and demand during the marketing year. Although demand figures tend to be much more difficult to project, some evidence suggests demand will continue to improve throughout the 2008/09 marketing year. First, continued expansion of the biofuel industry would seem to provide additional growth potential in soybean crush demand. Second, with the value of the U. S. dollar expected to remain fairly low for the next year, all commodity markets will have the opportunity to maintain export strength. Finally, although South America is currently expected to have larger production levels in 2008, some analysis suggest most of the 2008 crop is already sold. If this situation is indeed the case, the slowdown in U. S. export demand normally associated with the South American soybean harvest and the resulting pressure on prices may not be as dramatic in 2008. Such a development may help keep soybean demand strong and limit downward pressure on prices.

When examining potential supply-and-demand conditions for the 2008/09 marketing year, results indicate potential stocks-to-use ratios in the range of just below 5 percent to just above 9 percent. This range would compare to



the current expectation for stocks-to-use ratios in 2007/08 of 5.3 percent with a marketing year average price from \$10 to \$10.80 per bushel. Although examining the historical relationship between stocks-to-use ratios and prices may be of limited benefit given the radically different markets that have existed in the past two years, the examination does provide some foundation from projecting potential price outcomes. Historically, a 1 percent increase in the stocks-to-use ratio has meant roughly a \$0.10 per bushel reduction in the average marketing year price. Assuming this relationship will persist in 2008 and assuming a 3 to 5 percentage point increase in the stocks-to-use ratio, the projection for a marketing year price for the 2008/09 marketing year would be \$9.50 to \$10.00 per bushel. Again, acreage increases in excess of six million acres would likely reduce the projected price range.

## **SUGARCANE OUTLOOK**

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### **National Situation and Outlook**

U. S. cane sugar production for 2007/08 is projected at 3.697 million short tons, raw value (STRV), which is about 7.5 percent higher than the previous year. Total sugarcane harvested for the 2007/08 crop was estimated at 30.834 million tons from an estimated total acreage harvested of 883,000 acres. For the two major production states, sugarcane harvested acreage in 2007/08 was estimated at 396,000 in Florida and 420,000 in Louisiana. The U. S. average sugarcane yield was estimated at 34.9 tons per acre, up from 32.9 tons in 2006/07.

U. S. sugar beet acres planted for 2007 was estimated at 1.270 million acres, down about 7 percent from the previous year. The national sugar beet yield was estimated at 25.6 tons per

acre, down slightly from 26.1 tons in 2006. Sugar beet production was forecast as 31.912 million tons, down 6.3 percent from last year. Beet processors' forecast of 2007/08 beet sugar production is 4.819 million short tons, raw value (STRV), representing a decrease of 3.8 percent from the previous year.

The January 2008 WASDE report shows total U. S. supply of sugar at 12.556 million STRV. This total sugar supply comprised 1.799 million STRV in beginning stocks, 8.516 STRV of production and an estimated import level of 2.241 million STRV. This sugar supply level for the United States is approximately 2.7 percent higher than a year earlier.

On the demand side, sugar use is projected to increase slightly in 2007/08 over the previous year. Total U. S. sugar use for 2007/08 is projected at 10.550 million STRV, up 1.2 percent from a year earlier. Total domestic deliveries of sugar are projected at 10.300 million STRV. Domestic food use is forecast at 10.100 million STRV.

Ending stocks for the current fiscal year, (2007/08) are estimated to be up slightly, primarily the result of increased cane sugar production and higher projected imports. The January WASDE report estimated U. S. ending sugar stocks at 2.006 million STRV, up from 1.799 million STRV in the previous year. These projected ending stock levels result in a stocks-to-use ratio of 19.0 percent, compared with 17.3 percent in 2006/07.

### **Price Outlook**

Raw sugar prices during the 2007 calendar year fluctuated around the 21 cents-per-pound level and were generally about 1 cent below 2006 prices throughout the year. U. S. raw sugar prices averaged 20.03 cents per pound in January 2007 and rose to 22.72 cents per pound in July. As sugarcane began to be processed in the fall, however, prices declined and settled at 20.12 cents in December.

U. S. raw sugar prices for 2008 delivery are currently trading just above the 20-cent level. Nearby raw sugar futures prices (No. 14 contract on the New York Board of Trade) are currently trading at 20.03 for March delivery and 20.13 for May delivery. Futures contract prices for months in the 2008 sugarcane grinding season are trading in the 20.6-20.8 cents-per-pound range.

### **Louisiana Situation and Outlook**

In 2007, sugarcane was grown on 418,933 acres (a decrease of 14,644 acres or 3.4 percent when compared to the 2006 crop) by 609 producers (a decrease of 52 producers or 7.9 percent) in 23 Louisiana parishes (counties). An estimated 391,702 acres (a decrease of 11,700 acres or 2.9 percent) were available for harvest for sugar, assuming 6.5 percent of the total acres were used for seed cane purposes. Unlike in the previous year, no acres were abandoned and no cane was left standing in the field at the end of the harvest season because of an early December freeze. An early freeze in 2006 damaged the quality of cane still in the fields. This poor quality led to an inability to process the cane.

The 12 factories (11 raw sugar factories and one syrup factory) processed 13,372,571 tons of cane (an increase of 938,119 tons or 7.5 percent when compared to 2006). The sugar produced from the Lacassine syrup factory was crystallized at the Enterprise factory at Patoutville near Jeanerette, Louisiana. All total, the 11 raw sugar factories produced 1,456,355 short tons of sugar (96 pol) (an increase of 195,369 short tons or 15.5 percent). Accordingly, the average yield of cane produced per total acre was 31.9 tons (an increase of 3.2 tons or 11.1 percent). The average yield of cane produced from each harvested acre amounted to 34.1 tons (an increase of 3.0 tons or 9.6 percent). The average sugar recovery at the 11 factories was 10.89 percent or 218 pounds of sugar (96 pol) per ton of cane; this amount was an increase of 15 pounds of sugar per ton of cane or an increase of 7.4 percent when

compared to the 2006 crop. The yield of commercially recoverable sugar produced per total acre averaged 6,954 pounds (an increase of 1,137 pounds or 19.5 percent), and the sugar produced per harvested acre was approximately 7,434 pounds (an increase of 1,134 pounds or 18.0 percent).

The gross farm value of the 2007 sugarcane crop was \$387,159,584 for sugar and molasses (an increase of \$118,242,414 or 44.0 percent from the 2006 crop). The gross farm value reported above represents 60 percent of the value of the sugar and molasses produced, with the remaining percentage going to processing and marketing. The total value of the sugarcane crop to Louisiana producers, processors and landlords at the first processing level was actually \$645,265,960. Sugarcane still ranks first in value among the state's row crops. The higher gross value of the crop in 2007 was the result of increased yield of tons of cane per acre and increased yield of recoverable sugar per ton of cane; however, sugar prices remained low.

The 2007 crop was the second best crop in the history of Louisiana sugar production in terms of the yield of tons of cane and sugar per acre, being only surpassed by the 1999 crop. The total tons of cane produced were the 5th largest in the state's history while the total sugar produced was the 4th largest. A gradual trend towards fewer planted sugarcane acres has existed since 2000 when approximately 496,000 were planted. Sugarcane was grown on 77,000 less acres in 2007 when compared to 2000, a decrease of approximately 15.5 percent. The fewer acres can be attributed to urban encroachment and a switch to other crops, especially grain in the Northern region of the sugarcane belt.

During the past several years, sugarcane farmers have increased plantings of new varieties, especially HoCP 96-540 and L 97-128. In 2007, approximately 50 percent of the plant-cane crop was planted to these two varieties. Reports from producers indicated the yield in the plant-cane crop for the two varieties

generally exceeded 40 tons cane per acre with some reports of yields exceeding 50 tons cane per acre. Further, fewer acres were kept of older stubble, especially for LCP 85-384 which was grown on under 50 percent of the total area, the lowest percentage for this variety since the 2000 crop. Yield reports for the acres kept in this variety, however, were mixed with many producers reporting yields of less than 25 tons cane per acre.

Reports indicate many fields of LCP 85-384 were infected with common brown rust, which is known to have a significant impact on lowering yield of tons cane and sugar per acre. Serious rust infection also was found in one of the newer varieties, Ho 95-988; however, the total acreage in this variety remains low. Rust was also reported in HoCP 96-540 although the incidence of disease was low. The effects of the saltwater tidal surge caused by Hurricane Rita in 2005 are still being felt in some sugarcane areas. Those areas reported disappointingly low field yields.

Although rainfall was generally well distributed throughout the growing season, several areas of the state experienced brief periods of drought during the summer that may have adversely affected cane and sugar yields in those areas. For the most part, below-normal rainfall during the harvest season helped to improve the quality of harvested cane. Approximately 50 percent of the total acres harvested were treated with glyphosate, a chemical ripener which improves the yield of recoverable sugar per ton of cane by approximately 20 pounds. However, the fields with very high tonnage of the two new varieties, HoCP 96-540 and L 97-128, did not appear to respond as expected to the glyphosate.

Although cane and sugar yields were generally good throughout much of the sugarcane belt, producers reported lower than anticipated profits because of the low price of sugar and the high prices paid for fuel and fertilizer. In an effort to reduce fuel costs, many producers parked their combines and operated

their whole-stalk or “soldier” harvesters. Sugar prices for 2007 are even lower than received in 2006 (<\$20/cwt). Although field yields were much improved in 2007, profits for both producers and processors will be lower than expected because of the lower sugar price. On a brighter note, molasses price is averaging more than \$0.45 per gallon and are expected to remain firm till the end of the pricing period for the 2007 crop.

## **RICE OUTLOOK**

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## **Introduction**

Reduced acreage, record yields and strengthening prices characterize the domestic rice market, while tightening supplies and higher prices characterize the international market. Total U. S. rice supplies for the market year (August-July) 2007/08 are projected at 258.7 million cwt (hundredweight), slightly larger than last year. At 39.3 million cwt, beginning stocks are down 8 percent from a year earlier. Imports remain forecast at 21.5 million cwt, a record level. The 2007/08 U. S. rice crop remains forecast at 197.9 million cwt, up 2 percent from a year earlier. The increase in production more than offsets the 3 percent reduction in acreage as a result of record yield.

Global rice production in 2007/08 is projected at a record 420.5 million tons, slightly above last year's level of 417.7 million tons. Global rice consumption in 2007/08 is projected at 423.9 million tons, 1 percent larger than the previous year. Global ending stocks are projected at 72.2 million tons, down 2 percent from last month and the smallest since 1983/84.

## **United States Situation and Outlook**

The decrease in beginning stocks does not offset the larger production and record imports. At 39.3 million cwt, beginning stocks are down 8 percent from a year earlier. Imports are projected at a record level of 21.5 million cwt. The 2007/08 U. S. rough rice crop remains forecast at 197.9 million cwt, up 2 percent from last year. Although planted acres were down 3 percent, the larger crop is a result of all time record yields.

The average yield is forecast at 7,247 pounds per acre, an increase of 237 pounds per acre and almost 6 percent higher than a year ago. Yields are higher in every reporting state except Texas, with record yields estimated for Arkansas, Louisiana, Mississippi and Missouri. In contrast, U. S. plantings declined 3 percent to 2.75 million acres, mostly due to strong prices for competing crops and very high fuel and fertilizer prices. Arkansas and Missouri account for the bulk of the area decline.

Total U. S. rice supplies in 2007/08 are projected to be up slightly from a year earlier, since the larger crop and record imports more than offset a smaller carryin. At 258.7 million cwt, total supplies are 1.4 million cwt above last year. Medium/short grains account for all the increase in the rice supply. In contrast, the long-grain crop is almost 3 percent smaller than a year ago. California and Louisiana account for most of the 2007/08 increase in U. S. rice production.

Total use of U. S. rice in 2007/08 is projected at 233.7 million cwt, 7 percent larger than the previous year. Exports account for all of the upward revision. The 2007/08 U. S. export forecast was raised 2.0 million cwt to 109.0 million partly based on large early season export commitments. In addition, export bans announced this fall by Vietnam and India likely support stronger U. S. sales in early 2008 as well. U. S. exports are projected to be 19 percent above the previous year.

Rough rice exports were raised 1 million cwt to 35 million, up 9 percent from the previous year. Mexico and Central America account for the bulk of U. S. rough rice exports, buying exclusively long-grain rice. Combined milled and brown rice exports were raised 1 million cwt to 74 million, 25 percent above the previous year. Northeast Asia, the Middle East, Canada, the Caribbean and Sub-Saharan Africa are the top markets for U. S. milled rice.

Total domestic and residual use for 2007/08 remains projected at 124.7 million cwt, almost 2 percent below the previous year. Long-grain domestic disappearance remains projected at 89 million cwt, down 3 percent. Combined medium/short grain disappearance remains forecast at 35.7 million cwt, up almost 3 percent from the previous year.

U. S. ending stocks of all rice for 2007/08 are projected at 25.1 million cwt down 36 percent from a year earlier. Although both long- and medium/short-grain ending stocks were forecast lower, the ending stocks situation varies by class. At 12.2 million cwt, long-grain ending stocks are down 57 percent from a year ago. In contrast, medium/short-grain ending stocks are projected at 12.2 million cwt, up 12 percent from the previous year.

The 2007/08 U. S. season average farm price (SAFP) range was estimated at \$10.90 to 11.40 per cwt, compared with \$9.74 per cwt the previous year. The midpoint is the highest since 1980/81. The upward revision was based on reported monthly cash prices through mid-December and expectations regarding prices for the remainder of the market year.

## **World Situation and Outlook**

Global rice production for 2007/08 is projected at a record 420.5 million tons (on a milled basis), up less than 1 percent above the 2006/07 and 2005/06 crops. Global domestic disappearance is projected at a record 423.9 million tons, 1 percent larger than the previous year. Global ending stocks for 2007/08 are

projected at 72.2 million tons, 5 percent below the previous year. Ending stocks are the smallest since 1983/84. Global stocks-to-use ratio of 17.0 percent is down from 18.1 percent in 2006/07, the lowest since 1976/77.

The production estimates of three countries have been revised downward recently. First, Bangladesh's production was lowered 0.5 million tons to 28.5 million due to severe flooding caused by a devastating cyclone in mid-November. Second, Iran's production was lowered 0.3 million tons to 2.2 million tons based on smaller area and a lower yield. Finally, Australia's crop forecast was lowered 58 percent to just 150,000 tons, the smallest in more than 50 years.

Global rice trade for calendar year 2008 is projected at a record 29.8 million tons, 3 percent larger than the previous year. Export forecasts were raised this month for Brazil, Burma and the United States. Brazil's 2008 export forecast was raised 100,000 tons to 200,000 based on stronger shipments in 2007 and stronger global demand. The U. S. export forecast was raised 100,000 tons to 3.5 million based on large export commitments in late 2007, a higher global trade forecast and imposition of export bans by Vietnam and India. Finally, Burma's export forecast was raised 50,000 tons to 100,000 based on recent sales to Bangladesh.

Export price quotes for most grades of Thailand's regular milled white rice are up \$20-\$25 per ton from a month earlier, a result of strong global demand, tight supplies in other exporting countries and a stronger Thai baht. Prices for Thailand's high quality, 100 percent Grade B (fob vessel, Bangkok) milled rice for export was quoted at \$369 per ton for the week ending December 11, up \$24 from November 12. This price is the highest price since the summer of 1996. No real price quotes exist from Vietnam. In mid-September, Vietnam placed a ban on new export sales. The ban is expected to be lifted when the harvest of its main winter-spring crop begins in late first-quarter 2008.

Export price quotes for U. S. long-grain milled rice continue to increase, largely due to strong sales, high prices for other commodities, higher global rice prices and a weaker dollar. For the week ending December 12, price quotes for high quality southern long grain rice (No. 2, 4 percent broken, bagged, free alongside vessel, U. S. Gulf port) were quoted at \$491 per ton, up \$28 from the week ending November 13. U. S. prices are \$137 per ton above prices for comparable grades of Thailand's rice. Price quotes for U. S. long-grain rough rice (bulk, fob vessel, New Orleans) were reported at \$300 per ton for the week ending December 12, up \$5 from mid-November.

Prices for California package-quality medium-grain rice (sacked, loaded on a truck at a local mill) for domestic sales were quoted at \$584 per ton for the week ending December 12 unchanged from a month earlier. For both long-grain and medium-grain milled rice, U. S. prices are the highest since early 1994 when Japan began making its emergency purchases after a weak 1993 harvest.

## **FEED GRAIN OUTLOOK**

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## **Introduction**

Like 2007, this year started with historically high feed grain prices. Despite sharply higher production in 2007, both domestic demand and export demand performed exceptionally well, and demand is expected to keep overall corn and grain sorghum stocks below their five-year averages. Adding to the positive supply and demand situation is the bullish position taken by speculative, non-commercial traders. In the past several years, these traders have increased their

activity in the markets, and their long term bullish outlook has definitely created a positive for prices. With strong technical and fundamental support for prices and the competition between feed grains and soybeans for acres in 2008, the outlook for prices through the planting season looks very promising. Beyond the planting season, expected 2008 acreage and production should help form the long-term direction for prices.

### **National and International Situation and Outlook**

Prospects for tremendous increases in demand from the ethanol industry, relatively tight stocks ending the 2006/07 marketing year and lower world feed grain supplies all created historically strong corn and feed grain prices heading into the 2007 production year. With prices of competing commodities pressured by negative supply and demand conditions, the profitability potential for feed grains held a distinct advantage. As a result, the United States experienced a 15 million and 1.2 million acre increase in corn and sorghum acreage, respectively, in 2007. Strong yields along with sharply higher acreage resulted in a 13 billion bushel corn crop, 23 percent higher than the previous year. Under normal situations, such a large increase in total supplies in one year would normally result in significantly lower prices. Although prices did weaken at harvest, corn was able to remain well above its five-year average. The ability of prices to remain at historically high levels was due to a combination of strong domestic demand, improving export demand as a result of a lower U. S. dollar and increased activity in commodity futures markets by speculative, non-commercial traders.

Total domestic demand for corn and feed grains has experienced tremendous increases in the last year. Although most of this increase has been as a result of growing ethanol production, feed demand for livestock and other more traditional uses for corn have also performed well. Total feed demand for corn is expected to

be up more than 6 percent during the 2007/08 marketing year in response to expected increases in both poultry and pork production. Although total beef production is expected to moderate during the 2008 calendar year, heavy cattle placements in November and December, along with record cattle on feed levels to start 2008, all indicate strong feed demand by this industry through the first half of 2008.

Despite extremely high feed grain prices, export demand continues to perform well. A falling U. S. dollar has created somewhat of a competitive advantage in many of the agricultural commodities export markets. Also, with the world corn stocks-to-use ratio for the 2007/08 at the lowest level in the past 15 years, the resulting reduced export competition has allowed the United States to capture a higher percentage of the total world market. Through the first quarter of the 2007/08 marketing year, corn exports have been roughly 14 percent higher than the previous year while grain sorghum exports have been more than 130 percent higher.

Although vastly improved fundamental supply and demand conditions have been the basis for the price movement experienced, a factor that has been equally important to this market has been the technical trading done by speculative, non-commercial traders. Over the past five years, the volume of activity by these traders has increased dramatically. To this point, these non-commercial traders have had a long-term bullish view of this market. As such, the traders have continued to purchase futures contracts extending their net long position in the market. This activity has likely helped move prices to levels higher than would have been achieved simply by traditional supply-and-demand factors. Although this action has certainly been a positive, the tremendous price movement has resulted in much more volatility in the market. The volatility has increased the costs of traditional risk management strategies. Also, with traders having this much influence on the movement of the market, what will happen if and when these traders change their view of

the market and begin to offset their net long position?

Adding to the positive tone of the market is the prospects of lower acreage in 2008. Despite the high prices experienced in the feed grain market, sharp increases in fuel and fertilizer prices and markedly higher soybean prices have shifted the advantage for feed grains experienced in 2007 to soybeans. In December 2007, market analysts were projecting as much as a six million acre shift out of corn and into soybeans. However, increases in corn prices relative to soybean prices at the start of 2008 have closed the gap between corn and soybean profitability. Also, with availability issues for soybean seed in some areas of the country, the extent of the shift may not be as high as originally thought. Although the exact number of corn and grain sorghum acreage is still a fluid number at this time, a reduction in 2008 acreage should be expected. Obviously, with the positive fundamental and technical outlook currently being experienced by this market, any significant reduction in acres should be extremely supportive to prices.

### **Louisiana Situation and Outlook**

Historically high feed grain prices prior to the 2007 growing season were definitely a deciding factor in producer's planting decisions. Despite higher fuel and fertilizer prices, these high prices offered more potential profitability than competing commodities. As a result, corn acres increased to 740,000 acres while grain sorghum acres increased to 250,000 acres. For both commodities, the increases in acres in 2007 were well over a 100 percent increase from the previous year. The corn acreage in 2007 was the highest level in Louisiana since the 1940s while grain sorghum acreage was the highest level since the mid 1980s.

Along with the large increase in acres, growers also experienced nearly ideal growing conditions. Corn yields in the state averaged 165 bushels per acre. This yield was by far a record for Louisiana and was more than 30

bushels higher than the five-year average and nearly 20 bushels higher than the previous record. Although grain sorghum yields were not quite as impressive, the average of 97 bushels per acre was still 12 bushels higher than the five-year average and where within two bushels of matching the previous yield record.

Although the growing season offered very few issues to producers, 2007 was far from an issue-free year. Sharply higher production costs made the 2007 crop one of the most expensive crops many producers had ever grown. Also, with the tremendous increase in feed grain production, storage and marketing issues became evident very quickly. Although some additional on-farm storage was built in 2007, a considerable amount of temporary storage was used. Some quantity and quality losses were experienced from these less-than-ideal storage conditions. A lack of storage availability also created logistics difficulties for harvesting and delivering the crop and possibility aided in the decline of basis levels experienced in 2007.

Although prices at the start of 2008 were higher than the same time period in 2007, the general consensus is feed grain acres will decline in the coming year. Higher production costs and attractive cropping alternatives are expected to shift some acres away from feed grains, primarily to soybeans. Projections in the fall of 2007 suggested a relatively large shift in acreage. However, improving feed grain prices and a lack of soybean seed availability are now expected to limit the magnitude of the shift. Current projections place corn acres in the 550,000 to 650,000 acre range and grain sorghum acreage in the 150,000 to 200,000 range. Grain sorghum acres could potentially be higher depending on the severity of the soybean seed situation. Despite the expected reduction in acres, feed grain production in Louisiana will still be very substantial. Although additional storage capacity has been and will likely continued to be added, 2008 will follow a similar pattern to 2007 in terms of storage and harvest issues.



## **Price Outlook**

Since the start of the 2007/08 marketing year, corn futures prices have increased by more than \$1 per bushel. Currently, futures prices for corn are trading at or above \$5 per bushel. The continued strength of feed grain demand, the bidding for acres in 2008 and the continued long-term bullish view of the speculative funds have all created a price situation which is challenging the highest levels experienced in the last 20 years.

Like 2007, the optimism for the feed grain market and feed grain prices is very high. Unlike 2007, however, a general consensus of higher acreage and higher production in 2008 does not exist. With the large acreage increase expected in 2007, analysis thought the higher production levels could place downward pressure on feed grain prices at harvest. This pressure materialized to some extent as corn prices fell from well above the \$4 per bushel level at the beginning of 2007 to the low \$3 level at and around harvest. For 2008, early expectations are for a decrease in feed grain acres. Fewer acres planted should be a positive for prices assuming demand remains at strong levels.

Currently, estimates for corn acreage reduction have ranged from 3 million to 6 million acres in the United States. When examining potential supply-and-demand scenarios under various acreage levels for 2008, projections for stocks-to-use ratios range from 5 percent to 12 percent for 2008/09 marketing year. This range compares to the 2007/08 marketing year with a stocks-to-use ratio of about 11 percent and an average marketing year price of \$4 per bushel. Given the relationship between stocks-to-use ratios and prices, a stocks-to-use ratio range of 5 to 12 percent would likely mean a marketing year price for the United States in the high \$3 to high \$4 per bushel range.

Although 2008 prices look to be as strong as or stronger than 2007 prices, some uncertainty

still exists regarding basis levels. All of the reasons identified as factors creating the weaker basis levels in 2007 still seem to exist for 2008. Storage will still be an issue, transportation costs will be higher and technically driven futures prices still exist. Tight stocks and strong demand, however, are typically associated with stronger basis levels. Although the tight stock and strong demand situation may not override the negative basis factors, these factors could help to create moderately improved basis levels.

## **WHEAT OUTLOOK**

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### **Introduction**

After several years of lower wheat acreage in the United States, total wheat acres increased by 3 million acres in 2007. Although such a relatively large increase in planted acreage would typically suggest lower prices, weather-related production difficulties and increases in overall wheat demand have resulted in phenomenal increases in wheat prices. With improved prices, winter wheat plantings were increased in the fall of 2007. Adverse weather conditions, however, limited this increase, and these conditions have continued to cause some concern for the development of the planted crop. From a fundamental supply-and-demand standpoint, the positives have been coupled with the overall bullish trend established in the feed grain and oilseed markets to create all-time record-high prices.

### **National and International Situation and Outlook**

Prior to planting of winter wheat acres for the 2007/08 marketing year, prices for wheat started to inch higher with reduced production levels in 2006 and the growing optimism created in the

commodities markets by the biofuel explosion. This increase in wheat prices helped to increase wheat acres by 3 million acres to 60.4 million acres for 2007/08 marketing year. Nearly all of the 3 million-acre increase came in the form of winter wheat acres since spring wheat acres actually fell in 2007 as producers responded to historically high prices for corn.

With the increase in total wheat acres, the market was positioned for lower prices as the market moved toward the 2007 winter wheat harvest. For much of the beginning of the 2007 calendar year, prices began to drop because of pressure created by the potential for the larger winter wheat crop. Things changed drastically, however, during Easter weekend as a major cold front dropped temperatures to below freezing through most of the United States. The late-season freeze damaged much of the winter wheat crop in the southeastern United States. In addition, late-season rains severely limited harvest progress in Oklahoma and Kansas causing significant damage to the hard red winter wheat crops in those states. The impact of the weather induced lower production levels was amplified by wheat stocks starting the 2007/08 marketing year more than 20 percent below the five-year average.

At the same time the potential size of the winter wheat crop was falling, demand began to experience substantial improvement. Although domestic demand for wheat is a mixed bag of positives and negatives, total domestic demand is expected to remain mainly unchanged for the 2007/08 marketing year. The real improvement in wheat demand has come in the form of exports. A weaker U. S. dollar and smaller global wheat production and competition have all improved wheat export demand for the United States. Through January 2008, all wheat exports are up 63 percent from the previous year. Hard red winter wheat exports are up an amazing 132 percent from the previous year, and soft red winter wheat is up nearly 94 percent from the previous year.

Lower wheat production over the past few years in countries like Australia, Canada and the European Union has limited their ability to be aggressive in the world wheat market. As a result, the United States has been able to capture a larger market share of the world market over the last year. In addition to creating a more favorable export market for United States wheat, the weather-related production downturn in the world over the past few years has gone along way to making the world supply and demand situation for wheat very positive. Production in Australia for the past two marketing years has been 45 and 32 percent below its five-year average, respectively. Although Australia experienced the largest reduction in production over the past two years, other countries have also had downturns in one or both of the last two marketing years.

Canada saw production in the 2007/08 marketing year fall more than 15 percent its five-year average. Turkey saw production fall by more than 10 percent during the same time period. Although not as significant, the European Union also has experienced reductions to the levels of 2 and 6 percent below the five-year average during the past two marketing years. These reductions in wheat production have helped dwindle world wheat stocks and have created a very tight supply of wheat worldwide. For the 2007/08 marketing year, world wheat ending stocks are expected to be more than 12 percent below the previous year and more than 24 percent below the previous five-year average.

With tight U. S. and world wheat stocks, production levels during the 2008 harvest season will be critical to meet anticipated growth in demand. From the U. S. perspective, historically low wheat stocks have undoubtedly placed more emphasis on the 2008 winter wheat crop. To this point in the year, several factors have materialized that would suggest a smaller-than-originally expected winter wheat crop. First, the winter wheat seedlings report indicated only a 1.6 million acre increase in winter wheat acres. The general market's

sentiment assumed winter wheat acres would increase by more than 3 million acres. The smaller-than-anticipated winter wheat acres has definitively been viewed as positive for price prospects.

The dry conditions that limited planting of winter wheat acres in some areas of the country are still a concern. Extremely dry conditions prevailed for much of 2007 in the southeastern United States. Although these conditions have improved slightly, concerns still remain about the impact on crop yields. Also, dry conditions have developed in the panhandle section of Texas creating some concern about the prospects for that areas winter wheat crop. In other areas of the country, excessively wet conditions or colder-than-normal conditions have also placed the condition of the 2008 winter wheat crop at lower levels than the previous year. Although time still remains for improvement in the winter wheat crop, these current concerns have definitely provided some continued fuel to the upward trend in wheat futures prices.

### **Louisiana Situation and Outlook**

Sharply higher prices leading up to planting created continued interest in winter wheat in Louisiana. Winter wheat plantings for the 2008/09 marketing year are estimated at 400,000 acres, up 180,000 acres from the previous year. Last year was the second consecutive year in which winter wheat acres increased from the previous year by more than 80 percent. The 400,000 acres is the highest winter wheat plantings in Louisiana since 1990 and is nearly 240,000 acres higher than the previous 10-year average.

Winter wheat yields in Louisiana for 2007 continued four consecutive years in which the state average yield was around 50 bushels per acre. Despite some adverse weather conditions at times, weather conditions in Louisiana have been generally favorable with over the past several years. Although disease and an Easter freeze created difficulties in 2007, average state

yield was a record 54 bushels per acres. Yields in 2007 were 1 bushel better than the previous record set during 2000 and 2006.

Although drier-than-normal winter and early springs in the past several years have created very favorable yields for wheat in Louisiana, the 2008 crop seems to be experiencing a return to more typical Louisiana winters. Weather conditions thus far in the growing season have been characterized by extreme variations in temperatures along with generally wet conditions. Periods of warmer-than-normal temperatures has caused some concern that the winter wheat crop has developed too quickly. Also, fairly consistent rains have left many fields excessively wet and created additional disease concerns.

Despite the less-than-ideal growing conditions thus far, and despite increasing input costs, record high commodity prices still provide a positive outlook for the 2008 crop. Basis levels will likely continue to be pressured by high transportation costs and additional storage issues created by high feed grain production. Basis levels, however, have improved in parts of the country in response to the tight stock situation. Some potential exists for the current stock situation and continued strong demand to translate into slightly stronger basis levels in 2008.

### **Price Outlook**

Through January 2008, new crop soft red winter wheat futures prices moved from around the \$8 per bushel level to around of \$10 per bushel. Current prices for 2008 soft red winter wheat are some of the highest levels ever on record and are roughly \$5 per bushel higher than new crop futures prices during the same time last year. Several factors seemed to have led to this current price strength. First, supply-and-demand conditions for both the United States and the world are extremely positive. Historically tight wheat stocks both in the United States and the world should provide very good support to this market until either

production increases or demand slowdowns starts to significantly alter the current stocks situation.

The second factor helping to create these current prices are the lower-than-expected winter wheat plantings and the current concerns over the condition of the winter wheat crop. Although current high prices currently would generally be believed to attract additional spring wheat acres, competition from \$12 per bushel soybeans and \$5 per bushel corn will likely limit any type of increase in spring wheat acreages. In addition, given the spring wheat crop comprises roughly 25 percent of total wheat supplies, an increase in spring wheat production is unlikely to alter the current supply-and-demand situation.

The third factor helping wheat prices has been the aggressive bullish nature of the non-commercial speculative traders. With the positive long-term outlook for supply-and-demand conditions, these non-commercial traders have really taken an aggressive long position in the soft red winter wheat futures market. By aggressively purchasing futures contracts in establishing their long position, these traders have essentially helped push prices higher than perhaps traditional supply-and-demand conditions might suggest. As long as these traders continue to take this net long position in the market, prices should continue to be supported.

Looking toward the harvest of the winter wheat crop, the market should see prices supported as long as concerns and uncertainty over the winter wheat crop still exist. Obviously, a smaller-than-average winter wheat crop would only continue to fuel the optimistic outlook for this market. If the condition of the winter wheat crop improves, however, the market could experience modest pressure from potential changes to the supply-and-demand situation. These changes, in turn, could create enough uncertainty on the part of the non-commercial traders for some market liquidation to occur. Thus far in 2008, the upward trend in prices has been slowed by some periods of

market liquidations. Although the outlook for the current market remains extremely positive, the potential for and effects of market liquidations remain and should be considered.

Despite the concern over potential market liquidation on the part of the non-commercial traders, the underlying supply-and-demand conditions should provide ample support to keep prices at historically high levels. Currently, the USDA is projecting a stocks-to-use ratio of 11 percent for the 2007/08 marketing year with an average marketing year price from \$6.45 to \$6.85 per bushel. With the slightly higher winter wheat acres and potential for slightly higher spring wheat acres, an examination of potential supply-and-demand scenarios for the 2008/09 marketing year points to a projected stocks-to-use ratios in the 10-percent to 15-percent range. With stocks-to-use ratios in this area, average prices for the 2008/09 marketing year would be projected in the \$6.00 to \$7.50 range.

## **SWEET POTATO OUTLOOK**

### **Myrl Sistrunk**

County Agent (West Carroll Parish)

### **Tara P. Smith**

Assistant Professor (Sweet Potato Research Station)

## **National Situation and Outlook**

The estimated planted sweet potato acreage for 2007 was 100,000, about 5,000 acres more than 2006. The estimated harvested acreage was 97,500 or 4,100 more than 2006. Production was estimated at 18,452,000 cwt, or 36.9 million bushels, a slight increase from 2006. North Carolina, Louisiana, Mississippi and California account for approximately 90 percent of the sweet potato acreage and production in the United States. North Carolina's acreage was up approximately 4,000 acres from 2006. Acreage in Mississippi and California also increased in 2006, up 2,500 and 1,000 acres, respectively, compared to 2006. Louisiana's

acreage was decreased approximately 1,500 acres compared to 2006.

Louisiana dropped to third overall nationwide behind North Carolina and Mississippi in planted acreage. Mississippi increased its acreage in 2006 while the acreage dropped off in Louisiana. Both states reported an average production year in 2007. Some Louisiana producers dealt with drought conditions early, and wet conditions during the growing season contributed to delayed harvests in some areas. Mississippi's acreage has been increasing in the past few years, while adverse conditions in Louisiana have forced some growers out of business, resulting in a loss of acres. Beauregard, the leading variety in the United States, looks similar when grown on Louisiana and Mississippi soils, and brokers tend to prefer this look over the "russet appearance" of the Beauregard when grown in North Carolina soils.

North Carolina producers have in large part experienced a variety shift. The majority of North Carolina producers, approximately 60 percent, planted the "Covington" variety in 2007. The Covington was recently released from the North Carolina breeding program and is performing well on their soil types.

### **Louisiana Situation and Outlook**

In 2007, Louisiana producers planted about 16,000 acres of sweet potatoes. Acreage was slightly down from that of 2006. Production was estimated at 5.8 million bushels compared to 4.5 million in 2006. The 2007 planting season went well. The majority of the crop was planted early, and, with a few exceptions, most producers had a strong plant stand. Conditions were ideal for planting early in most areas while other areas were dry, particularly later in the planting season. Growers with irrigation capabilities used irrigation before and after transplanting to aid in transplant survivability and to improve overall stands. July was an unusually wet month. Most production areas received 10- to 20-plus inches of rain during July. Production

costs remained high in 2007 because of increases in costs of fuel and fertilizers. Production and packing costs were estimated to be \$2,500 per acre. Capture/Brigade brand insecticides (active ingredient = bifenthrin), along with several generic bifenthrin products, received a full federal label in 2007 and were used extensively in preplant and foliar spray programs for soil insects across the state.

Initial harvest reports from across the state were less than enthusiastic. The crop was slow to size, and harvests were delayed approximately two weeks. Initial reports from South Louisiana indicated significant white grub damage. In addition, a few isolated problems with sugarcane beetle damage and cucumber beetle damage existed across the state. During October, a key harvest month for Louisiana producers, the yield and quality of the crop improved considerably, and the majority of producers across the state finished the season on a positive note. Unlike 2006, when a large percentage of the crop was not harvested because of adverse weather conditions, the entirety of the crop was harvested and under shed by November 15. Yields and quality of the 2007 crop were above-average and will partially help to offset the decrease in acreage.

A year-round market has developed in recent years, and producers, shippers and brokers are interested in maintaining a year-round supply to meet their buyer's needs. Demand for both fresh-market and canner sweet potatoes has risen. Processed consumer-friendly sweet potato products, such as sweet potato fries, canned sweet potatoes and sweet potato chips and cookies, have led to the increased demand in canner potatoes.

The number of sweet potato producers in Louisiana has decreased during the last five years while the average acreage per producer has increased. The number of producers in 2006 and 2007 was relatively unchanged and is expected to be similar in 2008. As with many agricultural commodities, labor is a major concern.

The availability of labor, the cost of labor and the hassle of dealing with labor has discouraged some growers to the point of leaving the sweet potato business. Approximately 72 percent of Louisiana sweet potato production is in the northeastern parishes of West Carroll, Franklin, Morehouse and Richland.

The 2008 outlook for Louisiana sweet potato acreage is around 16,000 acres. The recent prices, especially on the early harvested portion of the crop have been up. The price received by grower/shippers is considered adequate if yields are up. The price of the remaining stored product during the spring and summer will depend on the availability and movement of product from other sweet potato producing states. The LSU AgCenter released a new variety, "Evangeline," in 2007 and producers across the state will have an opportunity to produce and evaluate the variety on a limited commercial scale in 2008.

## COMMERCIAL VEGETABLES

### **JAMES E. BOUDREAUX**

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### **ROGER A. HINSON**

Professor (Agricultural Economics)

### **National Situation and Outlook**

The USDA reported modest increases in vegetables, potatoes, melons and pulse crops in calendar year 2006, with a similar increase expected for 2007. Fresh and processed vegetable imports were higher. Supply levels and higher energy costs pushed retail prices for all fresh and processed fruits and vegetables to a level 5 percent above a year earlier—the biggest year-to-year increase since 1998. Of interest to Louisiana growers, tomato prices moved higher in the last half of 2007 as the result of weather patterns.

In the longer term, farm sales of domestic horticultural crops are expected to grow at an

average of more than 3 percent over the next decade, from the 2007 base of \$53.8 billion. Vegetables will be highest in production value compared to other horticultural crops, with respective values of production for vegetables, nursery and fruit crops of \$19.8 billion, \$17.5 billion, and \$17.2 billion, respectively. USDA/ERS expects annual growth over the next 10 years to be highest for fruits and tree nuts (3.5 percent), followed by vegetables (3 percent), and nursery crops (2.4 percent). Total horticultural imports are forecast to expand at a 3.7 percent annual pace over 10 years.

Nutrition and food safety remain issues for consumers. Organic production and the number of outlets where organic products can be purchased continue to expand. Although Louisiana growers are affected by national trends and events, the proportion of the state's output sold into those markets is relatively low. Local and direct markets, where availability of product and freshness are major factors, are more important.

### **Louisiana Situation and Outlook**

Vegetable Crops: The Louisiana vegetable industry involves 3,400 growers who grow 33 different vegetable crops on 9,300 acres for a gross farm value of \$44.6 million. The majority of the vegetable crops grown in Louisiana are sold by direct marketing at farmers markets and roadside stands. The remainder of the crops is delivered to grocery stores and fruit stands. Most of the watermelons are sold to peddlers. Only a small percentage of the vegetable crops grown in Louisiana are sold on the wholesale markets.

Tomatoes are the leading vegetable crop in Louisiana with \$11.9 million gross farm value. Watermelons at \$6.6 million and peppers at \$6.2 million are the second and third, while southern peas is fourth at \$4.3 million and okra in the fifth place with a gross farm value of \$3 million. The leading parish is vegetable production is Tangipahoa with 390 acres and a farm value of \$9 million. Tomatoes and bell peppers account

for more than \$8 million in gross farm sales. Plaquemines is second with \$3.2 million worth of vegetables grown on 324 acres. Tomatoes are the leading crop in Plaquemines Parish accounting for \$3 million of the gross farm value. Union and Bienville are third and fourth with a gross farm value of \$2.5 and \$2.4 million. The vast majority of this value is due to watermelons. Direct sales to the public at farmers markets and roadside stands have a significant increase the gross farm value of the state vegetable crops.

Citrus: The Louisiana citrus industry involves 450 growers in 17 parishes who grow 410 acres of navels, 347 acres of satsumas and 36 acres of other types of citrus for a gross farm value of \$5.2 million. Citrus is sold by direct sales at roadside stands and farmers markets and retail at grocery stores and fruit stands. Plaquemines is the leading parish with 500 acres of citrus with a gross farm value of 3.3 million. The surviving orchards in Plaquemines Parish are recovering from Hurricane Katrina. Citrus growers in other areas have step up their efforts in production and marketing citrus since the storm.

Strawberries: The Louisiana strawberry industry involves 84 growers who produce 497 acres of strawberries for a gross farm value of \$16.3 million. Strawberries are the leading fruit crop in the state. Tangipahoa is the leading parish with 400 acres of strawberries with a gross farm value of \$14 million. The majority of Louisiana strawberries are sold by peddlers, grocery stores and fruit stands. The rest are sold at farmer's markets and roadside stands. The use of plug plants from nurseries in Quebec, Canada has increase the availability of Louisiana strawberries from late November till mid-May. Early berries bring a premium price.

## **NURSERY CROP OUTLOOK**

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### **National Situation and Outlook**

USDA/ERS reported in Floriculture and Nursery Crops Yearbook (Dec. 2007) the value of production of greenhouse and nursery crops had increased from \$12.4 billion in 1997 to an estimated value of \$16.8 billion for 2006, for an average growth rate of about 3.6 percent. This rate was considerably lower than estimated growth rates for the 1980s and 1990s, and the estimated change from 2005 to 2006 was only 0.3 percent. Changes in the larger economy in terms of income growth and rising interest rates impacts probably have been responsible for these declines. The demand for plants and flowers as ornaments depends on consumer discretionary income and consumer preferences and on levels of other household expenses. Energy costs in particular probably have affected sales of ornamental plants and added to the cost structure of growers in production and transportation.

In 2006, an important factor in the economy was declining growth rates (in some cases actual declines) in prices of residential housing. This trend continued and might have been more pronounced in 2007. The trend shows few signs of abatement in early 2008. Forecasts of recession are common. In this environment, reduced growth rates for expenditures on nursery and floriculture products should be expected. The outlook a year ago was for a possible increase in sales at the national level of 2 percent to 3 percent. Apparently this increase did not happen. Furthermore, economic reports and declines in consumer confidence suggest consumers might lower spending.

The National Gardening Association, however, reported in 2006, "Homeowners spent a record \$44.7 billion...to hire lawn care and



landscape maintenance services, landscape installation and construction services, tree care services and landscape design services. Thirty percent of all households nationwide, or an estimated 34.5 million households, currently hire at least one type of lawn and landscape service. And the market for residential lawn and landscape services has increased at a compound annual growth rate of more than 10 percent a year for the past five years.” In addition, lawn and garden participation rates have not declined. So, factors suggesting market weakness are evident, but other pieces of evidence suggest any decline in expenditures on gardening may be moderate. Overall, conservative planning based on the assumption of sales, measured in dollars, for 2008 would be no higher than 2007 would be appropriate.

### **Louisiana Situation and Outlook**

Production and sales of nursery-grown ornamentals have significantly increased over the past five years. The farm-gate value of wholesale production is \$120-\$125 million with an additional \$75-\$100 million in plant inventory. Some growers feel these values are under-reported. Total sales for 2007 were up slightly from 2006 figures. Nursery crop sales in 2005 suffered because of Katrina (\$11 million) and Rita (\$5 million) hurricane-related losses but have rebounded. The Louisiana nursery industry, along with growers from Texas to Florida, is slightly ahead of national trends in wholesale productions sales. The extended drought in portions of the southeastern United States in 2007 hurt out-of-state sales for Louisiana nursery producers.

Woody ornamentals account for the vast majority of the wholesale farm-gate value of commercial nursery crops in Louisiana. The LSU AgCenter estimates wholesale sales of woody ornamental in Louisiana of \$75 annually. The prediction is for a continued increase for the next three to five years. Container production acreage has increased significantly in the last five years, while acreage in field production has been stagnant or decreased slightly. The major

container crops are azaleas, hollies, crape myrtles, Indian hawthorns, groundcovers and shade/flowering tree species. The number of acres in bigger container sizes is up significantly. Adequate inventory in 1-gallon and 3-gallon woody ornamental material was in extremely short supply for the spring 2007 season but should be slightly improved for the spring 2008 season. In addition, shortages of high quality larger container trees exist at the wholesale level in Louisiana.

Floriculture/bedding plants typically represent about 30 percent of Louisiana’s nursery crop production. At the wholesale level, about 40 percent of bedding plant/floriculture crop sales occur in late winter and early spring. Floricultural crop and bedding plant production (includes poinsettias, hibiscus, garden mums, lantana, impatiens, petunias and periwinkles) has experienced little growth in Louisiana in the past three to five years. Profit margins in floriculture crop production are shrinking because of energy price increases, transportation cost, fertilizer expenses and other factors.

Foliage plant production in Louisiana has slowed. Most foliage sold at the retail level now is imported from Florida or brought in from Florida by wholesale growers and brokers. In some cases, these imports are grown in Louisiana for several months prior to wholesale sale. Interest in wholesale production of tropical plants, however, has increased recently in Louisiana.

Although this category could fall into the floriculture/bedding plant category, outdoor tropical plants such as gingers, cannas, etc. have increased sales potential. Many greenhouse growers have profitable markets for these products.

Fruit/nut tree production is stable in Louisiana at the wholesale level. A slight increase has occurred in the last several years. Container citrus production has rebounded from 2005 when damages occurred via hurricanes Katrina and Rita. Availability of container-

grown improved pecan cultivars is significantly below market demand, and opportunities to grow these cultivars for wholesale or retail sales are considerable. Also, many new fruit cultivars could be grown to increase market potential. Citrus, figs, pecans, peaches, muscadines, blueberries, apples and pears represented the vast majority of wholesale production of container grown fruit and nut trees.

## **PECAN OUTLOOK**

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### **National Situation and Outlook**

The USDA January estimate for the 2007 pecan crop for the United States was 349 million pounds. This estimate is a 143 million pound (69 percent) increase over the 2006 crop of 206 million pounds. The 2007 estimated crop is 95 million pounds (37 percent) above the 10-year average of 254 million pounds. The 2007 crop is the largest crop since the 406 million pound crop in 1999. The 2007 pecan crop in Mexico, the leading pecan exporter to the United States, is expected to be 167 million pounds. Approximately 100 million pounds per year have been imported into the United States in recent years. A large portion of these pecans are returned to Mexico, since Mexico is the largest importer of U. S. pecans.

The USDA's preliminary January report for the 2007 pecan crop indicates the average price received by growers was \$1.08, which is 50 cents lower than the elevated prices growers have received during the previous three years. Many wholesale buyers concentrated on the large good quality crop in Georgia early in the season.

Pecans trees are alternate-bearing with a large on-year crop usually followed by a light off-year crop. In off-production years,

production is often reduced by more than 30 percent. Georgia, Texas, New Mexico and Arizona were the four top pecan producing states in 2007 with 83 percent of the U. S. crop. These four states had an on-year in 2007 with nut production in excess of 30 percent over their cyclic off year crop. The pecan production in the major producing states is expected to be significantly smaller in 2008 due to a predicted off-year.

Prices for the 2008 pecan crop should be improved over 2007 because of a much smaller crop. Beginning stocks in cold storage next season should not be excessive since USDA reports for pecans in cold storage on December 31, 2007 are only 3 percent above supplies in cold storage on December 31, 2006.

### **Louisiana Situation and Outlook**

Louisiana averages 14 million pounds of pecans annually. Pecan production is naturally cyclic with Louisiana producing from a low of 5 million to a high of 22 million pounds during the past 10 years. Commercial production of improved cultivars consists of approximately 39 percent of the state's production and is located primarily in the northern half of the state on approximately 11,000 acres. Approximately 6,000 of the improved variety acres are managed to control diseases, insect pests and weeds. Drip irrigation is used in rare cases. Orchards are harvested mechanically. Yield is higher and more consistent per tree and nut quality is higher. The remaining 5,000 acres frequently have low management due to small orchard size and lack of equipment. Many of these orchards are composed of older trees and are usually harvested only during good years.

Machine-harvested native groves are located primarily in Central and South Louisiana. Little effort is normally made in management of these native groves. This acreage is often involved in livestock production. The number of acres harvested varies with the size of the crop and the price being paid for pecans. The smaller and low-yielding groves are often not harvested in

years when pecan prices are low. Pecan acreage in this category is probably near 10,000 acres. Prices received for machine-harvested pecans are usually higher than hand harvested since the pecans are cleaned to improve quality and sold in volume directly to shellers.

Yard trees and small orchards are harvested and sold during years with heavy production and good prices. Many of these pecans are sold to accumulators in lots of less than 1,000 pounds. Some are sold retail from homes and farmers markets. The number of pounds and acreage involved in yard and small orchard production is hard to estimate. For example, St. Landry Parish has produced more than 1 million pounds of pecans while having less than 50 acres of known pecan orchards. Acreage in this category could be approximately 5,000 acres.

The USDA January estimates for Louisiana's 2007 pecan crop was 12 million pounds. This estimate is a nine-million-pound decline (43 percent) from the previous year's crop of 21 million pounds. The estimate, however, is only 2 million pounds below Louisiana's average. Although production in the main native pecan areas in Central Louisiana was light, some areas in South and North Louisiana had good production. Pecan production was hampered by excessive rain in June and July, which prevented one or more pesticide applications in most commercial pecan orchards. The heavy rains were followed by severe drought in August and September in most areas of the state.

The extreme weather led to nut quality problems in most areas. Lightweight kernels were a problem throughout the state. The cause was believed to be due primarily to the late summer drought and possibly to some damage to roots during extended periods of water logged soils during the heavy rains in June and July. Vivipary was a problem on many pecans due to insufficient moisture in September and October, which prevented the shucks from opening after the nuts matured. This problem often resulted in embryo rot or discolored kernel eye. Overloaded

trees in some areas also contributed to low quality nuts.

Accumulator pecan prices in Louisiana started at \$0.90 per pound for improved and \$0.60 per pound for native pecans. Some large lot sales were at \$1.25 for improved and \$0.75 for natives; however, many sales were below general accumulator prices due to low quality. Louisiana growers were able to make very few sales to the early high value gift box trade market, which made most of its purchases in Georgia. Louisiana growers with their own gift box trade had good sales.

The outlook for the 2008 pecan crop in Louisiana generally looks good. Louisiana is expecting to have an on-year crop while most of the nation is expecting an off year. This situation usually indicates good prices for a large pecan crop in Louisiana. One concern in the outlook is the large number of improved pecan trees, which produced lightweight pecans in 2007. These same trees may not produce a crop in 2008, which could reduce the size of the improved pecan crop in the state.

## **POULTRY AND EGGS**

**THERESIA K. LAVERGNE**

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### **National Situation and Outlook**

Total broiler production for 2007 is estimated to be 35.9 billion pounds, which is slightly higher than in 2006 (35.8 billion pounds). Wholesale price of broilers averaged 76.3 cents per pound, up 11.9 cents per pound from 2006. Total broiler exports for 2007 are estimated to be about 6.4 percent higher than in 2006. Egg production decreased slightly (1.1 percent) in 2007 (6.4 million dozen), and egg prices increased \$0.41 per dozen in 2007 (\$1.13 per dozen). Per-capita consumption was 249.2 eggs and 85.4 pounds of broiler meat in 2007.

Because of larger numbers of chicks placed for growout and increased average broiler weight at slaughter, broiler production is expected to increase 2 percent to 3 percent in 2008. Broiler prices are expected to remain the same in 2008. The broiler export market is expected to remain the same in 2008. Egg production is expected to increase slightly in 2008. Wholesale prices should decrease in 2008.

### **Louisiana Situation and Outlook**

In 2007, 1.06 billion pounds of broilers were produced. The gross farm value of broilers was \$794.9 million in 2007. Louisiana had 460 broiler producers and 814 egg producers 2007. Total eggs produced in 2007 was 17.7 million dozen. Farm value of commercial egg production was \$12.5 million in 2007.

Broiler production should follow the national outlook in 2008, which should increase. Broiler prices and net returns should remain similar to 2007. Also, wholesale egg prices should decrease some compared to the 2007 prices, and production should increase slightly in 2008. The number of egg producers should be similar to 2007.

## **BEEF CATTLE OUTLOOK**

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### **Introduction**

The 2007 calendar year was a challenging one for the cattle industry with sharply increased production costs and adverse weather conditions in the southeastern United States. With the explosion in the interest in biofuel production and the related high feed grain prices, cattle producers started 2007 with considerable concerns regarding profitability for the feedlot and cow/calf producer. While under

pressure at the start of 2007, prices rebounded as lower cattle supplies, improved forage availability and increased feed grain production all created a slightly improved outlook. In addition, lower supplies helped to send fed cattle prices to historic levels and helped to reduce the pressure experienced on feeder cattle and calf prices. Unfortunately, feed grain prices have moved significantly higher from harvest lows and have created concerns similar to 2007 heading into 2008. The major difference between the 2008 and 2007 outlooks seems to be the general consensus that feed grain production will fall in 2008 and will provide the same type of break in feed costs as was experienced in 2007.

### **National Situation and Outlook**

As the cattle industry begins 2008, considerable uncertainty exists regarding whether the positives of reduced supplies and stronger export demand will be enough to offset the negatives of higher feed costs, higher red meat production and a slowing economy. On the positive side, the industry continues to see a slow erosion of cattle numbers. Weather-related herd liquidations have prevented cow herd buildup, which will keep cattle supplies at very supportive levels. Also, total beef demand continues to be strong led, in large part, by continued strength in the export market. With a lower U. S. dollar, export demand continues to show significant increases as the industry attempts to re-capture export levels prior to the BSE scare at the end of 2003. Currently the USDA is projecting an increase in beef and veal exports of nearly 18 percent for 2008 as compared to the previous year.

For the second consecutive year, cow herd expansion in the United States failed to materialize since drought conditions in the Southern Plains in 2006 and in the Southeast in 2007 prevented any increase in cow herd numbers. USDA reported total beef cow numbers on January 1, 2008 were down 1 percent from the previous year. Severe drought conditions in the Southeast during the last half

of 2007 forced liquidation of some cattle herds and increased cow slaughter for the year. Also, with little to no prospects for fall and winter forage, producers resisted retaining replacement heifers. Beef heifer replacements were down 4 percent on January 1, 2008 as compared to the previous year. The USDA also reports the 2007 calf crop had fallen slightly from previous year and was the smallest calf crop since 1951. With small calf crop numbers, feeder cattle supplies should be limited and may help offset some of the downward pressure the market is certain to experience given higher feed costs and increased competition for beef.

Given the forced liquidation caused by the drought conditions in 2007, some analysts suggest cow herd expansion could be on the horizon if weather conditions return to normal. But the delayed expansion is not likely to turn into future herd expansion. Most U. S. cow-calf producers simply have no compelling profit motive to expand their herds. Additionally, rapidly rising costs and stiff competition for pasture are actually likely to lead to modest herd liquidation in 2008.

Although the adverse weather conditions affected beef cow and heifer inventories, the inability to get adequate moisture prior to fall and winter forage has also affected seasonal trends in beef production and supplies. Typically, cattle are placed on winter forage and wheat during the fall and winter and are pulled from winter pastures. Normally, placement of these cattle into feedlots would have been spread throughout the winter and spring as the cattle hit feedlot placement weights. Given the lack of forage and the competition with grain prices, however, these placements came earlier than normal. November 2007 placements were significantly higher than expected and were followed by heavy placements again in December 2007. The result was cattle on feed numbers of 12.1 million head in January 2008. This number was up 1 percent for the same period a year ago and was the highest level ever recorded since the cattle on feed statistic was initiated in 1996. Under these conditions,

greater fall placements has undoubtedly shifted fed cattle marketings ahead of a normal schedule with some of these cattle likely to be marketed earlier in the year than is consistent with typical seasonal patterns.

With the larger-than-normal fed cattle supplies expected to start 2008, beef production will likely be larger than originally anticipated for the first half of 2008. Increased beef production during the first half of the year could create difficulty for all of the cattle industry that normally sees a seasonal downturn in retail beef prices during the first quarter of the year. This increased production would likely pressure fed cattle prices at a time when feed costs continue to escalate, and without the potential for increased feed grain production in 2008, the market may not see much, if any, break in feed grain prices. As this situation continues to erode feedlot profits, feeder cattle and calf prices are expected to be affected.

Although beef production is expected to increase during the first half of 2008, given the unseasonably high number of fall placements into feedlots, total beef production is expected to remain largely unchanged for the entire year. While this factor could ease the supply-and-demand situation as the market moves to the last half of 2008, increased production of competing meat products may limit any kind of price support. The USDA is currently projecting increases in pork production of 3.7 percent, broiler production of 2.7 percent and turkey production of 1.6 percent for 2008. With per-capita consumption of total red meat and poultry expected to remain unchanged in 2008, higher production of pork and poultry likely will result in much stiffer competition for the beef industry to maintain its share in consumer's food budgets. Concerns of a slowing economy also could lead to shifts in consumer purchasing patterns as they look to reduce total food expenditures. The USDA is currently projecting increases in per-capita consumption in the range of 1 percent to 1.5 percent for pork and poultry while projecting a 2.4 percent decline in per-capita beef consumption.

## **Louisiana Situation and Outlook**

Although 2007 was a much kinder year for cattle producers in terms of forage production and forage availability, the industry still saw significant challenges resulting from sharply higher production costs and softening calf prices. With higher feeding costs, the cattle that seemed to be most adversely affected were the 500- to 600-pound cattle, the majority of the cattle marketed in Louisiana. With higher feed costs, feedlots looked to reduce the time cattle stayed on feed. As a result, demand for heavier feeder cattle remained strong and allowed those cattle to maintain their value relative to lighter cattle. The demand for heavier feeder cattle, along with improved forage availability, also helped lightweight calves to maintain some value as producers look to put cheap gain on these calves and market them at heavier weights.

In the January 2008 cattle inventory report, the USDA placed inventory of cattle and calves in Louisiana at 890,000, up 30,000 head from 2007. Beef cow inventory numbers were placed at 513,000 head, up by 23,000 from the previous year. The beef cow numbers for 2008 are the highest since 1996 and are now above the pre-hurricane levels. Beef heifer replacements were also up in 2008, totaling 90,000 head as compared to 86,000 in 2007. With better forage availability in 2007, producers continued to rebuild herds were affected most severely by the 2005 hurricanes and then again by the 2006 drought.

With ample moisture thus far through the fall and winter, prospects again look good for forage availability in 2008. The availability of forage may bring some optimism for calf prices in contrast to the bearish tone of the fed cattle market. Prices for 500- to 550-pound steers in Louisiana averaged \$101 per hundredweight in January 2008. This price is roughly the same level as seen in January 2007, but is down from the yearly average price in 2007 of \$109 per hundredweight. Although prices moved higher in 2007 after the first of the year, the prospects

for the same type of improvement seem to be limited given the high fed cattle supplies and increased beef production expected for the first half of 2008.

## **Price Outlook**

As is usually the case with agricultural commodities, several factors seem to be at odds in terms of providing direction for prices. Lower cattle numbers and lower feeder cattle supplies would generally be viewed as positives for price prospects. Also, the potential for improved forage supplies and availability for 2008 would be a factor that could add additional support to calf prices. These factors, among others, have been able to help maintain feeder cattle prices thus far in 2008. Feeder cattle futures are currently trading in the \$104 per hundredweight range as compared to \$100 per hundredweight during the same time in the previous year.

However, unseasonably high placements and supplies of fed cattle during the start of 2008 and sharply higher corn prices have started to affect fed cattle prices. Currently, fed cattle futures prices are trading around \$91 per hundredweight as compared to \$94 per hundredweight during the same period in 2007. Although current fed cattle prices are still historically high, feedlot profitability continues to be tested given sharply higher corn prices from a year ago. With less optimism for lower corn prices, the potential for feeder cattle and calf prices to remain at current levels seems to be at the mercy of the ability of fed cattle prices to improve. Maintaining this level may be difficult in a year when production of competing meat products are expected to experience relatively significant increases and when total red meat and poultry consumption is expected to stagnate as implications from a general economy slowdown takes effect.

With only minimal optimism for any significant increase in fed cattle prices, the hope for feeder cattle and calf prices may be solely placed on tighter supplies. As impacts of tighter calf supplies start to be fully realized in the

market there is some hope any price reductions may be limited. Currently, the USDA is projecting feeder steer prices in 2008 in the range of \$102 to \$109 per hundredweight. This projection compares to an average price for feeders in 2007 of \$108 per hundredweight. Although the USDA is currently projecting only moderate declines in feeder prices, any declines given vastly higher production costs would mean a continuation of shrinking profit margins for cow/calf producers.

## **EQUINE OUTLOOK**

**CLINTON G. DEPEW**

Professor (Animal Science)

### **National Situation and Outlook**

Approximately 9.2 million horses and 2 million horse owners reside in the United States. The total economic impact as reported by the American Horse Council is \$102 billion. Approximately \$32 billion is generated by recreational activities, \$28 billion from the horse show segment of the industry and \$26 billion from the racing segment. Almost \$15 billion is generated from other industry activities. The horse industry generates 453,000 direct jobs and 1.4 million total jobs. These numbers indicated approximately a 5 percent increase in horse population and impact per year. Some opportunities still exist for increases in horse numbers and activities in racing, competition horses and recreational areas.

The market, however, is showing some signs of saturation and a softening demand. Slaughter facilities have been banned in the United States, which adds 90,000–100,000 horses per year to the market. Mexico and Canada have expanded their slaughter operations and are taking about 60,000–70,000 horses per year. Prices for these horses are extremely low because of the high transportation cost. Therefore, the industry has about 100,000 unwanted horses, which have essentially no value. In addition, the price of gas

and a general softening of the economy are hurting the availability of recreational dollars that fuel about 70 percent of the horse industry. The industry can expect a general softening of the horse market as a result of excess horses, gas prices and the tightening of recreational funds.

### **Price Outlook**

Prices in horses vary drastically from million-dollar horses at the top of the market to essentially nothing for horses at the bottom of the market. Sales results indicate the top horses are still bringing top prices, and prices continue to remain high. This trend is true in thoroughbreds, quarter horses and all segments of the industry. Because of the emphasis on quality, prices for the top horses continue to escalate while average horse value is declining. Horses at the bottom of the market have little or no value. Breeders must emphasize quality and breed for the market to capture high prices and create a sustainable horse business. The cost of producing horses continues to increase with stud fees moving higher. The price of feed, vet supplies, facilities and labor are steadily increasing.

Basic cost for a very efficient operation will average \$5,000 to \$6,000 per horse. More extensive operations may average \$8,000 to \$10,000 or more. Therefore, the average yearling must be priced at \$8,000 to \$10,000 for breeders to produce a profit. Thoroughbred sales in Louisiana this year averaged slightly more than \$10,000 per yearling, with quality horses going up to \$25,000 to \$30,000. In addition, selected markets for quarter horses and others have demonstrated prices around \$7,000 to \$8,000-plus for quality horses with exceptional horses going considerably higher. Therefore, market prices are available to sustain a horse business if the quality of horses is sufficient to attract top buyers and production costs are minimized. Below-average horses or horse without a specific market niche will be losers in the current market.

## **Louisiana Situation and Outlook**

The influx of casino supported purses for the race horse industry has resulted in an increase in breeding mares from approximately 2,000 to 5,000 in the last three years. Training and racing operations are expanding also. Quality horses are still needed to capture the influx of money into the racing industry. The large purses are attracting outside breeders and owners, from Kentucky, California and Florida. Louisiana breeders should pay close attention to horse quality to be competitive and capture the economic opportunities being presented by the influx of casino funded purses. The race horse industry continues to face a declining audience and an aging producer population. The marketing and promotion of horses in the racing industry continues to be a problem. Relatively small fields in most races indicate that there are still opportunities for more horses in Louisiana racing.

Competition horses continue to expand primarily in areas of barrel racing, roping, ranch horse competition and others. Horse shows in general have declined with more emphasis on a few big shows as opposed to a lot of smaller shows. The specialty areas such as cutting, roping and barrel racing have attracted a larger field of competitors. A newly formed ranch horse association is expanding opportunities for Louisiana competitors in the show arena. The influx of youth and adult horse enthusiasts into the horse industry continues.

Trail riding and recreational activities are the primary interest of 70 percent of the Louisiana horse owners and continues to expand. The trail riding associations scattered around the state are the largest organizations in Louisiana. These horsemen spend a great deal of money in their recreational pursuits. Much of these expenditures are going out of state because of the lack of trails and campsite opportunities in Louisiana. A tremendous opportunity exists to capture the economic effects of these recreational riders by developing trails on the national forest and other state-owned lands.

More campsites, housing and dining facilities will be needed to keep these riders in Louisiana and to attract out of state trail riders. Opportunities for economic development of the trail riding community are readily available.

## **DAIRY OUTLOOK**

**WAYNE M. GAUTHIER**

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### **Influence of 2007 on 2008**

U. S. milk prices in 2007 reached record levels because of a combination of different forces and factors. Depressed milk prices combined with high feed and energy prices in 2006 held milk production growth to about 1 percent during the first half of 2007. This limited growth reduced stock levels, thus creating upper pressures on milk prices. Record-high commercial dairy export sales were the major contributor to high milk prices in 2007. Commercial disappearance increased 2.3 percent while exports increased by 28 percent. These sales were a consequence of earlier reforms in the European Union (EU) Common Agricultural Policy.

The European Union (EU) was a major exporter of dairy products until these reforms were enacted. The EU reforms had the effect of reducing the ability and incentives for EU farmers to increase milk production. The reforms also eliminated export incentives to producers. The combination of U. S. support prices for its dairy products at levels below world prices, plus the diminished strength of the U. S. dollar, increased the export demands for U. S. dairy products. In addition, Australia and Oceania were coping with the consequences of a multiyear widespread drought that diminished domestic milk production capacity. The United States became a much larger residual supplier of dairy products, which in turn depleted stocks. The strong export demand had the effect of



keeping U. S. stock levels of dairy products low, which placed upward pressure on milk prices.

Higher milk prices during 2007 led to an increase in total milk production as both cow numbers increased nationwide by 0.45 percent and milk production per cow increased by 1.63 percent over 2006 levels. As a consequence, total milk production increased 2.09 percent to 185,599 billion pounds. Milk production is forecast to rise 2.7 percent in 2008 over 2007, reaching 190.6 billion pounds. Cow numbers are forecast to increase about 1 percent in 2008. The forecasted increase is based on expectations that operators will retain 3 percent more heifers and that heifers expected to calve in 2008 are 3 percent above 2007 levels. The projected herd expansion comes despite expectations for soaring feed costs and declining milk prices.

Lower milk prices in 2008 are a virtual certainty because of the higher levels of total milk production, higher total dairy product production, possible slower growth in domestic consumption, and possible slower growth in dairy exports. Farm level milk prices in 2008 are expected to decrease from record high 2007 price levels. Even with the decrease, prices are likely to range between \$1.58 and \$2.28 per hundredweight for the all-milk price. At this range, 2008 prices are still expected to be the second set of record high milk prices. However, concentrate feed prices for corn and soybeans and input prices for fertilizer and fuel are also expected to increase and drive up production costs. Under these conditions, the milk-feed price ratio is forecasted to decline below 3.0, generating a contraction in expansion in the latter half of 2008.

Production is not expected to decline immediately because a lag exists between supply response (milk production) to relative changes in milk and feed prices under conditions of both falling milk/feed price ratios as well as rising milk/feed price ratios. Thus, the first half of 2008 is likely to be characterized by continued expansion in dairy herds for the first half of 2008. The expectation of high feed and

energy costs will shrink milk producers' net margins resulting in higher rates of culling in the latter half of 2008. Milk cow numbers are expected to decrease because of the increase in feed costs and lower profitability. Milk per cow should continue to increase and average about 1.6 percent more in 2008 because of a more abundant supply of replacement heifers.

### **National Situation and Outlook**

The forecasted growth in the 2008 milk supply is 2.7 percent despite the deteriorating milk/feed price ratio attributable to lower milk prices and higher input costs. Cull cow prices are expected to decline during 2008 as increased feed grain prices have the effect of increasing culling rates. However, enough replacement heifers are in inventory to maintain production despite lower prices. Domestic demand, particularly for fluid beverage milk, is likely to continue a downward trend. Experts expect a decline 0.5 percent relative to 2006. Domestic demand for cheese, butter and nonfat dry milk is likely to offset the decline in beverage demand and contribute to some small growth. Global demand is projected to grow at 2.7 percent per year because of a combination of growing per capita demand and population growth.

The class IV price, the price for milk used in producing butter and nonfat dry milk, is forecasted to range between \$15.05 and \$15.85 per hundredweight during 2008. These prices are \$2.51 to \$3.31 per hundredweight below the 2007 average of \$18.36 price per hundredweight. Similarly, the class III price, the price for milk used in producing cheese and whey products, is forecast to range between \$15.45 and \$16.15 per hundredweight. These prices are \$1.89 to \$2.59 per hundredweight below their \$18.04 average. The all-milk price is expected to range between \$16.85 and \$17.55 per hundredweight from its 2007 average price of \$19.13. This range suggests that the all-milk price in 2008 will range from \$1.58 to \$2.28 below the 2007 price. Under these circumstances, class III (cheese) prices in 2008 are more likely to be the mover of class I prices

in the federal orders than class IV (butter and nonfat dry milk) prices.

### **Changes in the Rules Governing Milk Production, Processing, Pricing and Distribution**

Changes in the rules governing milk production, processing, pricing and distribution have always been a constant. The rules originate in the physical, economic, political and cultural processes that render the milk market “man-made.” The rules foster adjustments within both the sets of physical transformation activities through which cows convert feedstuffs into milk as well as through the accompanying social system governing the industry’s practices within the dairy sector. At the same time, the relentless march of technology fosters changes in producer’s physical transformation practices that also get incorporated into the rules. Rule changes foster adjustment in milk production, processing, pricing and distribution. Some adjustments are minor while others are major. Proposed or modified rule changes likely to affect the economics of dairying in 2008 and beyond include the Louisiana Dairy Producers Tax Credit/Refund Program of 2007 and the Market Income Loss Contract (MILC) Program.

The Louisiana Dairy Producers Tax Credit / Refund Program of 2007: This legislation provides for Louisiana dairy farmers to receive tax credits/refunds against their state income taxes whenever the uniform price (UP) in Federal Milk Market Order 7 (FMMO 7) for the taxable year drops below a three-year moving average of annual “announced production prices” (APP) in the prior three years. The APP is a single value derived as the average of the prior three years of annual production prices (PP). The annual PP is an annual average of the monthly market balancing factors (MBF) and the estimated annual cost of milk production in Louisiana. The MBF is a monthly calculation of the difference between the costs of importing milk, the average of the UPs in the exporting orders plus the associated transportation costs to

New Orleans, into Louisiana and the UP paid to Louisiana dairy farmers in that month.

In 2008, tax credit calculations will be made for the 2007 tax year. Thus, for the 2007 taxable year, the UP in each calendar month of 2007 will be contrasted against the single-valued APP for calendar years 2004, 2005 and 2006. If the APP is greater than the 2007 calendar month’s UP, the calendar month in 2007 qualifies for the tax credit. Furthermore, if any one month in a calendar quarter qualifies for the tax credit, the entire calendar quarter qualifies for the tax credit. Preliminary indications are two (first and second) of the four quarters in 2007 will qualify for tax credits.

Milk prices are expected to decline in 2008, and the APP will be based on calendar years 2005, 2006 and 2007 prices, costs of transportation and costs of Louisiana milk production. Since UPs for milk in Federal Order 7 were record high in 2007 (\$20.40), low in 2006 (\$13.89) and in-between in 2005 (\$16.14), there is a strong likelihood that tax credits may not be realized in 2008 as 2008 prices are projected to be the second highest of record. For any given tax year, total program tax credits/refunds are capped at \$2.5 million while individual producer tax credits/refunds are capped at \$30,000.

The Market Income Loss Contract (MILC) Program: Provisions of the extended Market Income Loss Contract (MILC) program, which have been extended since August 2007 to the present are likely to become part of a new farm bill or at least retained in some alternative version of a farm bill for the immediate future. Changes are expected in the percentage of payment from 34 percent to 45 percent of the difference between the month’s reference price and the “trigger” price of \$16.94 per hundredweight as well as to the annual total production cap of from 2.4 million pounds to 4.15 million pounds.

## Concluding Observations

The 2008 outlook for dairy is a year of declines in milk prices with increases in feed and other input costs. The net effect will be a reduction in the milk-feed price ratio. The extent of the decrease in milk prices will be strongly affected by the relative strength of the export demand. Domestic demand is not expected to make a strong contribution to increased prices for either raw milk or dairy products. Increases in feed costs will be driven by the expanding demand for feedstocks for the energy markets.

The reduction in the milk-feed price ratio suggests the productive capacity of the Louisiana dairy industry will continue to shrink. In the long run, the industry is no longer sustainable on a pasture-based feeding program. Pasture-based feeding programs do not provide the production per cow levels nor the milk production volumes necessary at the farm level for Louisiana farms to be competitive long-term in milk production. The producer has little control over the milk price and the costs of inputs. To some extent, the producer has some control over the cost of production through cow culling and other management decisions. A key to gaining control over per hundredweight milk costs is increased production per cow. Identifying and retaining the higher producing cows requires current and accurate records. Culling lower producing cows might prove to be one way to increase profitability in 2008. As in all management actions, care must be taken to introduce replacements for culled animals at costs consistent with milk prices and feed costs.

Additional compensation to Louisiana dairy farmers in the form of tax credits and the MILC program will depend upon how much of a decline will be experienced in farm level milk prices. A strong potential exists for 2008 U. S. farm milk prices not to decline sufficiently to trigger tax credits/refunds for Louisiana dairy farmers and MILC payments. In a very real sense, such a situation would be a positive development for both the U. S. and Louisiana dairy industries. This situation would mean

2008 milk prices were higher than the average milk price for the last three years.

## AQUACULTURE OUTLOOK

### C. Greg Lutz

Professor (Aquaculture)

### Louisiana Situation and Outlook

Catfish: Pond-bank prices for farm-raised catfish were in decline by the last quarter of 2007, even in the face of declining supplies. Many growers may have had higher inventories because of supply-and-demand cycles and simply held fish while waiting for prices to rebound somewhat, but these effects will probably linger well into 2008. Additionally, demand for corn and other feed components will probably continue to push feed prices higher in 2008, resulting in reduced profitability. High energy costs also will continue to reduce catfish producers' overall profits in Louisiana and elsewhere. Louisiana's catfish acreage and production will probably continue to decrease, primarily because of a lack of access to startup and operating capital for any producers wishing to enter the business.

Crawfish: Higher energy prices and bait shortages will force many producers to adopt a more focused approach to water management and harvesting strategies. Some acreage may not be in production because of high pumping costs.

Alligators: Prices for alligator skins, like farm-raised catfish, tend to be cyclic in nature based on supply and demand. Following shortages of eggs and hatchlings, resulting from hurricane impacts on nesting habitats in 2005, production rebounded in 2007 and will probably increase somewhat in 2008. Factors bolstering prices in recent years appear to be continuing, especially continued economic development in a number of consuming nations, particularly in Asia. Global economic slowdown remains a threat,

however, and this slowdown could significantly reduce demand for alligator products.

Oysters: Hurricanes devastated much of Louisiana's oyster fleet, infrastructure and markets in late 2005, and the industry continues struggling to reorganize and return to full production. How quickly the industry will recover over the coming years is the subject of much speculation, but impacts will certainly continue through the first half of 2008.

Pet Turtle Hatchlings: Pet turtle hatchling production experienced considerable market disruptions during recent years. Industry survival will depend to a large extent on finding methods to certify salmonella free hatchlings to FDA satisfaction to re-open domestic markets in the United States. While some movement in this discussion appears to have occurred in the past 18 months, the industry will need a concerted political effort in 2008 to communicate the appropriate information to allow for access to these domestic markets.

Baitfish: Major expansions remain unlikely due to control of marketing and distribution channels by the industry in Arkansas. Continued improvements in artificial baits and marketing efforts by manufacturers will put pressure on live bait producers in 2008. One area ripe for expansion, however, will relate to the production of bait species suitable for use in coastal recreational fisheries.

## **HUNTING LEASE ENTERPRISES**

### **DONALD P. REED**

Associate Professor (Idlewild Research Station)

### **National Situation and Outlook**

Outdoor recreation has changed dramatically in the United States over the past years. Changing land-use patterns, the greater abundance of disposable income by many Americans and greater amounts of leisure time

have led to tremendous opportunities for hunting leases to provide substantial economic gains to landowners nationwide. The latest national survey of fishing, hunting and wildlife associated recreation reveals 12.5 million Americans participated in hunting related activities within the United States. These individuals spent \$22.9 billion in pursuing their hunting activities. Increasing human populations has led to urban sprawl in many parts of our country, which has in turn fragmented wildlife habitats.

Many farmers engaged in traditional agricultural commodities have begun to include hunting leases as part of their total economic return from the lands they manage. Numerous federal programs are available through the U. S. Farm Bill to promote wildlife enhancement and conservation. These same programs, which at one time heavily subsidized crop production, are now providing the means whereby landowners can greatly enhance wildlife habitat on their lands, leading to increased wildlife populations. These wildlife habitat improvement programs allow landowners to demand greater lease rates for lands under their control.

Private rural lands in the United States make up more than 60 percent of this country's total land area and cover approximately 1.28 billion acres. Due to the many farm bill programs promoting the return of marginal agricultural areas back to more suitable wildlife habitat, there has been a big increase in suitable wildlife habitat. The 2008 Farm Bill is expected to continue this trend in providing programs for private landowners to take advantage of numerous wildlife enhancement options. Many forestry and wildlife related farm bill programs provide for tree planting, which in turn have led to increasing numbers of ownerships and total acreage of private lands in forest cover.

Much of this forest cover provides excellent habitat for a wide variety of wildlife species, which in turn provides the opportunity for hunting lease enterprises to become part of a landowner's management options. Other federal

programs designed specifically toward the creation of wildlife habitat are available to private landowners. Many of these programs are tied into either long-term or perpetual easements requiring landowners to maintain habitat conditions as specified under terms of the contract. These areas, however, are available for landowners to engage in hunting lease enterprises.

### **Louisiana Situation and Outlook**

Landowners who engage in hunting lease enterprises are an important component in the management of wildlife in our state. Many of the wildlife improvements are made on lands leased for hunting. The lessee or lessor provide game and nongame wildlife species with the food and cover necessary for their success. In 2007, approximately 6,406 producers leased land in Louisiana under a fee-based hunting lease enterprise. This figure is represented by 5,213 individuals who participated in upland game leasing (predominately for deer and turkey) and 1,193 individuals who participated in waterfowl leases. Acreage leased for each of these operations was 5,883,158 for upland game and 1,378,393 for waterfowl.

Gross farm values for these leases amounted to \$44,123,685 for upland game and \$27,441,850 for waterfowl. Average lease rates were \$7.50 per acre for upland leases and \$20 for waterfowl leases. Waterfowl leases averaged \$15 per acre in coastal areas of the state and \$50 per acre in other areas. Leasing rates varied greatly throughout the state from lows of \$1 to highs of \$30 per acre for upland game leases. In all hunting lease enterprises, rates were dependent on location, habitat quality and species involved. While these factors were most important in setting the base price for hunting lease operations, the amount of amenities provided was another important factor. A high demand for a good hunting lease with extra amenities will many times bring prices greater than the state average. Value-added components raised the total economic impact of hunting leases in the state to \$75.1 million.

Public demand for hunting leases should continue to drive a strong market. Wildlife-related programs expected to be part of the upcoming farm bill will serve to further the commitment many Louisiana landowners make to provide additional habitat for game and nongame species. The wildlife habitat created by such programs as the Wetlands Reserve Program, Conservation Reserve Program and the Conservation Reserve Enhancement Program have made available hunting lease opportunities for many landowners within the guidelines of each specific program. A competitive market for hunting leases will continue to be the driving force that provides landowners with the potential for significant income gains from this revenue.

### **Recommendations**

Wildlife management is not a onetime endeavor whereby targeted wildlife will continue to benefit from the management performed. Landowners must be aware of the successional nature of land management, especially under the climatic conditions of the southeastern United States. Constant monitoring must be performed on lands managed. Tree plantings, timber cuttings, disking, mowing, prescribed burning, the use of herbicides and other habitat manipulation procedures are necessary to steer succession in the direction that benefits the targeted wildlife species. Landowners also must be aware of the risks involved in engaging in overly competitive markets for hunting leases. A serious threat to sport hunting will emerge if the large numbers of individuals comprising the core support of this recreational activity is lost.

## CONSERVATION PROGRAMS

**JOHN V. WESTRA**

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### Introduction

Conservation Programs in the United States, for the most part, are associated with the USDA Natural Resource Conservation Service (NRCS). Though the USDA-NRCS is not the only public agency or nonprofit organization providing technical or financial in Louisiana, it is the primary entity doing so, as measured by number of producers contacted, acres under conservation contracts and dollars obligated or spent for technical and financial assistance. So this inaugural situation and outlook on conservation programs will focus on the core programs USDA-NRCS has ongoing in Louisiana to address our natural resource concerns in agriculture.

### Program Overview

Since 1935, the Natural Resources Conservation Service (known back then as the Soil Conservation Service) has been a partner with private landowners and managers to help conserve their soil, water and other natural resources. In addition to landowners or managers, NRCS partners with other federal and state agencies, nongovernmental entities and land-grant universities like LSU to deliver conservation programs that address natural resource concerns in our state. NRCS staff provide science-based technical assistance to private landowners. This assistance is suited to specific needs of a producer. NRCS also provides financial assistance for many conservation activities to encourage the adoption of practices and resource conserving structures that may be prohibitively costly for producers to adopt otherwise. Producer or landowner participation in all NRCS programs is voluntary.

Conservation programs with NRCS are designed to help producers address local and

national resource concerns such as reducing soil erosion, reducing nutrient losses, enhancing water supplies, improving water quality, increasing wildlife habitat and reducing damages caused by floods and other natural disasters. When implemented appropriately, these conservation programs provide multiple benefits to society that enhance natural resources and in turn help sustain agricultural productivity and environmental quality while supporting continued economic development, recreation and scenic beauty. These ecosystems services are the principal public benefits provided by NRCS programs. In addition to such public benefits, producers and individual private landowners derive substantial private benefits from these programs.

One way to classify conservation programs is into land retirement or easement programs and working lands programs. With most easement or land retirement programs, producers voluntarily enter into a contract with USDA-NRCS, or in the case of CRP with USDA-FSA, to set aside land for a lengthy period (10 years or more) for specific conservation or environmental purposes. Easement programs that convert cropland into conservation or environmental reserves include the Conservation Reserve Program (CRP) and the Wetlands Reserve Program (WRP). Other easement programs like the Grassland Reserve Program (GRP) and the Farm and Ranch Lands Protection Program (FRPP) are designed to protect and preserve working agricultural lands from development.

In all easement programs, the federal government acquires certain rights over the property for the duration of the contract. Regarding working lands programs, however, a producer or land owner enters into an agreement with NRCS to implement some best management practices (BMPs). Using these BMPs or conservation practices (CPs), the producer modifies some field practices or builds a specific structure addressing some local or national resource concern.

Working lands programs include the Environmental Quality Incentives Program (EQIP) and Wildlife Habitat Incentive Program (WHIP). Total financial and technical assistance obligated by USDA from all these programs in 2007 was \$3.33 billion nationally and \$48.6 million in Louisiana (Table 1).

### **Easement Programs – Current Situation and Outlook**

Conservation Reserve Program (CRP): Started in 1985, the CRP is the oldest and largest easement program in the country. The program provides technical and financial assistance to eligible farmers and ranchers so that soil, water and related natural resource concerns on their lands can be addressed in an environmentally beneficial and cost-effective manner. The program is funded through the Commodity Credit Corporation (CCC) and is administered by the Farm Service Agency (FSA), with NRCS providing technical assistance. CRP encourages farmers to convert highly erodible cropland or environmentally sensitive areas to vegetative cover, such as native grasses, wildlife plantings, trees, filterstrips or riparian buffers. As a result, land enrolled in CRP reduces soil erosion and sedimentation in streams and lakes, improves water quality, establishes wildlife habitat and enhances forest and wetland resources. Farmers receive an annual rental payment for the term of the multiyear contract. Cost sharing is provided to establish the vegetative cover practices.

At the end of 2007, 34.6 million acres were enrolled in all categories of CRP in the United States. This enrollment constituted 753,022 contracts with 423,757 farms with an average annual rental payment of \$50.48 or \$1.75 billion annually nationwide (Table 1). When cost-share and incentive payments are included, the total obligation of financial assistance was \$1.85 billion for the upcoming year. In Louisiana at the end of 2007, total enrollment in CRP was 304,188 acres. This figure represents 4,580 contracts with 2,983 farms receiving an average annual rental payment of \$53.06 per acre. Total annual rental payments obligated by USDA in

Louisiana for all CRP contracts were \$16.1 million in December 2007.

For 2008 and beyond, acreage enrolled in CRP may be declining. Re-enrollment and extension results (REX) indicate 87 percent of acres under contracts expiring in 2007 were re-enrolled, while only 78 percent of acres expiring in 2008-2010 were re-enrolled in CRP. This decrease translates into 4.6 million eligible acres not being re-enrolled in CRP. Louisiana's re-enrollment numbers are slightly lower than the numbers for the United States – 83 percent for 2007 and 74 percent for 2008-2010. The primary driver for this increased pressure to place CRP land back into crop production is high commodity prices – primarily corn, soybeans and wheat. With record-high prices for these commodities, a producer's opportunity cost for continuing to retire land has increased substantially. Unless CRP rental rates increase commensurately, continued attrition of CRP acreage can be expected. And given current budget conditions at the federal level, this attrition is all but certain.

Wetlands Reserve Program (WRP): This voluntary program, begun in 1992, offers landowners an opportunity to protect, restore and enhance wetlands on their property. NRCS assists landowners with technical and financial support to help restore wetland on their property. With WRP, NRCS is seeking to achieve the greatest wetland functions and values, along with optimum wildlife habitat, on acres enrolled into this program. This program offers landowners an opportunity to establish long-term conservation and wildlife practices and protection as most contracts under WRP are perpetual easements.

As of the end of 2007, the cumulative nationwide enrollment in WRP was 1.92 million acres under 10,165 contracts with private landowners. These numbers include the additional 95,395 acres enrolled nationally during 2007, under 632 new contracts. The USDA obligated \$227.6 million in financial and

technical assistance to producers last year nationwide (Table 1).

In Louisiana, the cumulative enrollment in WRP was 219,459 acres under 609 contracts. Seven new contracts for 1,024 acres were enrolled in 2007 in Louisiana. Total obligation for financial and technical assistance to Louisiana landowners was \$13.3 million in 2007, representing previous contractual obligations. Louisiana is the most successful state under the WRP, both in terms of contracts and acres enrolled. More than 11 percent of the wetlands restored under WRP have been in Louisiana. WRP has provided millions of dollars in economic benefit to the state and the country.

Future prospects for WRP in Louisiana are unclear. The reason so few new contracts were signed or acres enrolled in 2007 is a function of the new method for valuing land for WRP contracts. This new method places values for new WRP lands at levels unacceptably low for producers in Louisiana. This new approach to valuing wetlands has greatly dampened the enthusiasm producers have previously demonstrated for this program. Local NRCS personnel are working with national staff to modify this valuation method. Unless the valuation method used in WRP is modified, however, prospects for increased enrollment in Louisiana are limited at best.

Farm and Ranch Land Protection Program (FRPP): Matching funds are provided by FRPP to help purchase development rights to keep productive farm and rangeland in agricultural uses. Working through existing programs, USDA-NRCS works with governments and nongovernmental organizations to acquire conservation easements or other interests in land from landowners. Under FRPP, USDA provides up to 50 percent of the fair market easement value of the conservation easement.

In 2007, total financial and technical assistance obligations for FRPP were \$72.8 million nationally and \$0.3 million in Louisiana

with the funds in Louisiana used to service applications; though no easements were filed in 2007 (Table 1). Funding for this program in 2008, which was not authorized beyond 2007 in the last farm bill, is expected to be less than 2007. This program has been relatively small in Louisiana and is expected to continue to be so.

Grassland Reserve Program (GRP): Landowners are given the opportunity to protect, restore and enhance grasslands on their property under the GRP created in 2002. NRCS, FSA and the Forest Service (FS) jointly implement GRP, which helps landowners restore and protect grassland, rangeland, pastureland and shrub land and provides assistance for rehabilitating grasslands. The program will conserve vulnerable grasslands from conversion to cropland or other uses and conserve valuable grasslands by helping maintain viable ranching operations. Nationally, \$2.3 million was obligated by USDA in 2007 for GRP. In Louisiana, slightly less than \$3,000 was obligated for GRP last year for servicing prior year contracts (Table 1). This program has had limited implementation in Louisiana, in part due to national program funding levels.

### **Working Lands Programs – Current Situation and Outlook**

The Environmental Quality Incentives Program (EQIP): Authorized under the 2002 Farm Bill, EQIP is the oldest working lands program promoting agricultural production and environmental quality as compatible national goals. EQIP helps eligible producers install or implement structural and management practices on eligible agricultural lands. EQIP offers contracts with terms ending from one to 10 years after a producer has implemented the last scheduled practices. EQIP contracts provide incentive financial assistance to implement conservation practices. Payment rates range up to 75 percent (90 percent for limited-resource or beginning farmers) of the costs of certain conservation practices. Incentive payments may be given to producers for up to three years to encourage implementation of management



practices that may be too costly otherwise. EQIP rules prohibit a producer from receiving, directly or indirectly, financial assistance or incentive payments exceeding \$450,000 for all EQIP contracts.

In 2007, national financial and technical assistance obligations to producers under EQIP totaled \$1.0 billion (Table 1). In Louisiana, USDA obligated \$18.0 million in technical and financial assistance to producers in 2007 (Table 1). Though this program is popular with producers as well as policymakers, budget concerns in Washington D.C. will most likely limit funding in 2008 to levels observed in 2007.

The Wildlife Habitat Incentives Program (WHIP): This program provides technical assistance and financial assistance (up to 75 percent) to landowners interested in establishing and improving fish and wildlife habitat on land that had been used in agriculture. WHIP agreements between NRCS and the landowner generally last from 5 to 10 years. This program has proven to be a highly effective and widely accepted program across the country since it began in 2002.

Nationally, WHIP obligated nearly \$40 million in technical and financial assistance to landowners in 2007 (Table 1). This figure represented approximately 325,000 acres under 2,700 contracts. In Louisiana, slightly more than \$0.4 million was obligated in 2007 for approximately 2,600 acres under 50 contracts. Although not authorized under the last farm bill beyond 2007, this relatively small working lands program is expected to receive similar funding levels in 2008.

Conservation Security Program (CSP): CSP seeks to conserve and improve soil, water, air, energy, plant and animal life (ecosystem services) on working lands by rewarding past stewardship behavior by producers. Working lands include cropland, grassland, prairie land, improved pastureland and range land, as well as forested land, which is an incidental part of an agriculture operation. This program is implemented on a watershed basis and is open to all eligible producers within the watershed but not to producers outside the designated watershed.

Nationally, technical and financial assistance obligations for CSP were \$237.3 million in 2007 (Table 1). In Louisiana, financial and technical assistance obligations were \$0.4 million for CSP last year to service and to make payment for prior year contracts. In 2007, nationwide no new signups were announced for CSP. Prospects for CSP in 2008 and beyond are unclear. Funding for this program has had problems since policymakers seriously underestimated the cost of nationwide implementation. As a result, this program has been limited to approximately 10 percent to 15 percent of potential producers in any given state. However, stringent requirements for eligibility have limited the number of producers who can potentially participate in any given watershed. The frustration these requirements have created for many producers has limited the impact of this program. Designed to "reward the best and encourage the rest," CSP has fallen short on the latter. Anticipated funding levels in 2008 appear to be at 2007 levels, again due primarily to budgetary considerations.

**Table 1. Technical and Financial Assistance Obligated by USDA the United States and Louisiana in 2007**

Program	Louisiana	United States
CRP	\$ 16,139,000	\$ 1,746,334,000
WRP	\$ 13,257,643	\$ 227,631,300
FRPP	\$ 303,935	\$ 72,801,948
GRP	\$ 2,738	\$ 2,329,874
EQIP	\$ 18,035,389	\$ 1,004,926,249
WHIP	\$ 435,720	\$ 39,915,746
CSP	\$ 416,113	\$ 237,344,712
Total	\$ 48,590,538	\$ 3,331,283,829

Source: USDA

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