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Crop Market Outlook

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Abstract

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Crop Market Outlook

By Chad Hart, Department of Economics

The delays in planting led to delays in crop development and conclude with delays in harvesting. As of Nov. 23, 86 percent of Iowa's corn was harvested, roughly 12 percent behind normal. The harvesting backlog, in combination with higher fertilizer prices, has fall fertilizer application behind as well. Normally, over half of fall fertilizer applications are done by this point in the year. Currently, we are at 32 percent. The delays of the 2008 crop are slowing the prep work for the 2009 crop.

Prices in the crop markets have dropped dramatically over the past five months, in combination with declines in energy prices and stock indexes. Concerns about the U.S. and world economies are being reflected in reduced demand for many products, including agricultural products. As corn and soybean prices rose earlier this year, we could point to strong export demand, growing biofuel demand, and significant feed demand. Now, all three of those demand sectors have shown signs of weakness.

Export demand has backed off with the strengthening of U.S. dollar versus many of the world's currencies and the resurgence of alternative feed grains, especially feed wheat. Feed demand for corn in the U.S. is projected to decline by 700 million bushels as the livestock industry continues through its consolidation. And the biofuel industries have seen lower fuel demand and prices over the past several months and continue to face tight operating margins.

The decline in prices comes at a time when farmers are also facing the prospects of higher input costs. Fertilizer and fuel costs have led the way, but the costs for seed, equipment, and land have also been on the rise. Preliminary estimates for 2009 production costs show breakeven prices above $4 per bushel for corn and near $10 per bushel for soybeans. Figures 1 and 2 display Iowa average corn and soybean prices and estimated production costs from Iowa State University Extension.

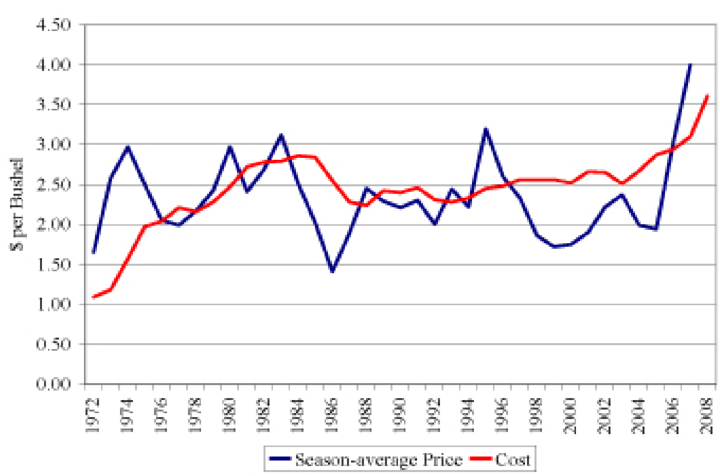

Figure 1. Iowa Corn Prices and Production Costs, 1972-2008

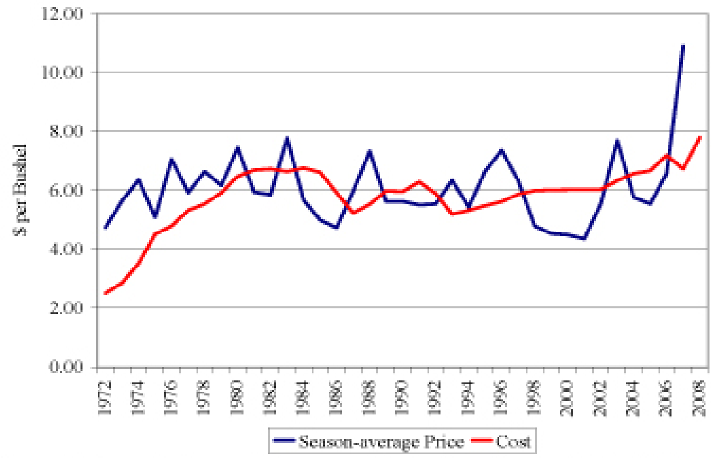

Figure 2. Iowa Soybean Prices and Production Costs, 1972-2008

The rise in crop prices and the subsequent rise in production costs we are experiencing now is somewhat like what happened in the early 1970s. Prices rose and stayed higher than the historical average. Costs rose to offset within a couple of years. With prices at or below projected costs, producers need to watch their bottom lines, know their own breakeven prices, and take advantages of marketing opportunities that cover their costs when they are available.

Factors indicate price strengthening for 2009 crops

While demand and prices are down, there are reasons to think prices will strengthen for the 2009 crops. One of the key factors is the continued growth of the biofuel industry. In 2009, the Renewable Fuels Standard calls for 11.1 billion gallons of renewable fuels. Biodiesel is to make up at least 500 million gallons of that target and corn-based ethanol could be used for 10.5 billion gallons of the standard. Figure 3 show the Renewable Fuels Standard for the next 3 years and translates the conventional biofuels portion into potential corn demand via ethanol.

Over the next few crop years, ethanol will continue to require more corn. And the standard may be providing some support for crop prices even today. Over the past couple of years, corn and soybean prices have tracked with crude oil prices. But within the past couple of months, that linkage has weakened as crude oil price has dropped more quickly than crop prices. During the last half of October, crude oil prices continued to slide as corn and soybean prices somewhat stabilized. One possible reason for the change in the relationship between oil and crop prices is the standard and the need to maintain biofuel and crop prices at a level where the standard will be met.

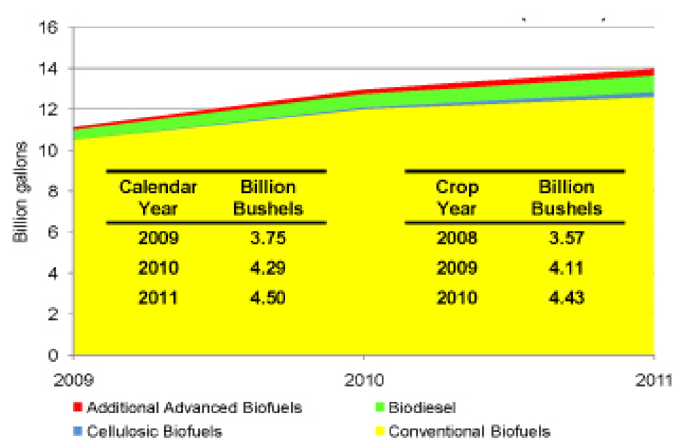

Figure 3. Renewable Fuels Standard, 2009-2011

Many of the factors influencing crop prices today will continue to affect crop prices throughout the 2008 and 2009 marketing years. The condition of the general economy will be a major driving factor. Corn and soybean stocks remain tight in the U.S., leaving us with little cushion in case of production shortfalls. The biofuel industry continues to build out and the livestock industry could continue its consolidation. Agriculture has expanded to meet food, feed, and fuel demand. In doing that, agriculture has also taken on the volatility that comes with the energy sector. And we are seeing that volatility in our crop prices, input costs, and land values.

Chad Hart is a grain markets specialist and an assistant professor of economics with research and outreach responsibilities in grain and bioenergy crop marketing.

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