August 2013 – Crop Market Update
Public Policy Department
Budget & Economic Analysis Team

In this edition:

- The General Economy: Bob Young, Chief Economist
- Crop Update: Todd Davis, Senior Economist

Recommended links:

- Recent Analysis and Presentations on SILO

Next Market Update:

- Livestock Market Update: Week of August 28th

6th Annual AFBF Commodity Outlook Conference
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The General Economy

Many will recall the economic meltdown in the 1990's that was brought on by currency crises in Mexico and then on into several Southeast Asian countries. As we went through the latest set of issues in the EU one of the same vocabulary words came up again. That word is 'contagion.' You might recall the 2011 movie by the same title – which included everybody from Matt Damon to Gwyneth Paltrow, from Laurence Fishbourne to Kate Winslet. We have typically thought of contagions, be they economic or medical, as something that happens somewhere else, something that happens it other people or other economies, but not to our economies.

Welcome to Detroit. Detroit became one of the largest cities in the nation to ever declare bankruptcy a few weeks ago. On its own, this was certainly expected. The city has faced a dramatic drop in population over the last twenty years. The services provided by the city have been downsized through time, but that shrinkage in the size of local government has not completely kept up with the demographic changes. It certainly has not kept up with the collapse in city revenue.

This has left the city in a position where it has been forced to default on numerous contracts and probably more importantly to our story, will have to default on several billions of dollars in municipal bonds. A sizeable chunk of the debt that Detroit will default on is that associated with the various pension funds for city employees. It is a sad state of affairs when city employees that have given decades of service to the city may – in all reality will – see their pension revenue cut substantially from the levels they were promised just a few years back.

Detroit, like many other cities as well as local and state governments did not fully support their pension funds as those were outlays that were going to be made several years or decades in the future. Why stop buying books for the local library today, if we can just cut back on our pension obligations for a year or two? We can always make that up later. Except later is almost now.
The outbreak of this government bankruptcy in Detroit has caused a number of investors to wonder if there might be more cases to pop up shortly. There are certainly a number of states that have very serious pension obligations that have gone un- or, at best, under-funded for some time. Illinois is a state example that comes almost immediately to mind, but there are numerous others.

So what does this have to do with contagion? Once one country, state, county, or city move to bankruptcy and all of the negative financial connotations that follow, it makes investors stop and think about whether or not some of these government-related bonds are such a safe bet after all. When the meltdowns happened in Southeast Asia it was sometimes a matter of hours in which financial markets sucked literally billions of dollars out of a country, just because they were scared.

Several municipalities in Michigan over the last few weeks had plans to issue bonds, some with the express intent of using the funds generated to boost their pension plan holdings. Many of these towns and cities have withdrawn their offerings due to concerns about the offers being undersubscribed. When there are more bonds being offered than there are buyers, it tends to do bad things to the price of the bond. The price of the bond can drop sharply and the interest rate then tagged to the bond can jump substantially.

Investors tend to see disease all around them when given a very real world example like a Detroit. So far, most of this contagion has been limited to other Michigan 'burbs, but it would not take much for this contagion to spread outside of the Wolverine state and translate into higher interest rates for all townships.

It is a horrible thing when disease happens somewhere else. When it happens here, it is a crisis.

Crop Update: August WASDE Projects Slightly Smaller Corn and Soybean Crop than Originally Projected

Since February, USDA has been projecting a record corn and soybean crop based on a return of trend yields. Of course, Mother Nature had her way with delaying planting progress across a large part of the Corn Belt coupled with cool weather which is not pushing plant development towards maturity. Prior to the August report, USDA has been projecting yield based on statistical models that account for planting date, temperature, and precipitation. The August report is the first projection that uses farmer surveys and field plot measurements of plants, ears/pods, and kernel/seed weight to project the 2013 corn and soybean yield and production.

The potential for a record corn and soybean crop is a beacon of hope for users who have had to ration demand the last year. In particular, livestock producers are hoping for a large crop to enable expansion. Similarly, the potential for much larger corn and soybean production is a warning for farmers that tighter profitability may be the theme for 2014 and future years if stocks continue to rebuild.

Corn

The market was most focused on the corn market as this market has experienced three consecutive years of below-trend yields coupled with strong demand that has kept ending-stocks unbearably tight. The August report projects the U.S. average corn yield at 154.4 bushels per acre which would be a 31 bushels per acre over the drought damaged 2012 crop. This translates to a crop of 13.76 billion bushels which is almost 3 billion more bushels than produced last year. The yield and production projections are a little lower than anticipated by the market but may reflect the late planting season and the cool and dry weather in the Western Corn Belt.

U.S. Corn Supply and Use

	2010-11 Actual	2011-12 Actual	2012-13 Estimated	2013-14 Aug. Forecast	Change from 2012-13
			Million Acres		
Planted Acres	88.2	91.9	97.2	97.4	+0.2
Harvested Acres	81.4	84.0	87.4	89.1	+1.7
% Abandoned	-7.7%	-8.6%	-10.1%	-8.5%	+1.6%
			Bushels per Acre		
Yield	152.8	147.2	123.4	154.4	+31.0
			Million Bushels		
Beginning Stocks	1,708	1,128	989	719	-270.0
Production	12,447	12,360	10,780	13,763	+2,983.0
Imports	28	29	165	30	-135.0
Total Supply	14,182	13,516	11,934	14,512	+2,578.0
Feed & Residual	4,792	4,548	4,450	5,100	+650.0
Food, Seed & Industrial	6,428	6,437	6,050	6,350	+300.0
Ethanol for Fuel	5,021	5,011	4,650	4,900	+250.0
Exports	1,835	1,543	715	1,225	+510.0
Total Use	13,054	12,527	11,215	12,675	+1,460.0
Ending Stocks	1,128	989	719	1,837	+1,118.0
Avg. Farm Price	$5.18	$6.22	$6.95	$4.90	-$2.05
Stocks-Use	8.6%	7.9%	6.4%	14.5%	+8.1%
Days of Ending Stocks	32	29	23	53	+29.5

The larger crop will allow for greater consumption than in the 2012-13 marketing-year. Feed use and exports are projected to increase by 650 million and 510 million bushels, respectively, from the previous marketing-year. In addition, ethanol demand for corn is also projected to increase by 250 million bushels, but the growth in ethanol use has played out as the market is reaching the blend wall.

The 2013-14 corn ending-stocks are projected to sharply increase from 719 million bushels for 2012-13 to 1,837 million for 2013-14. The increase in corn stocks would provide some breathing room for the market as the stocks-use ratio would change from 6.4 percent to 14.5 percent. Roughly speaking, this means that the U.S. corn market is going from a 23 day supply to a 52 day supply of corn. This increase in stocks will cause prices to decline from a marketing-average price of $6.95 per bushel for 2012-13 to a projected $4.90 per bushel in 2013-14.

Soybeans

The August report made several significant changes to the 2013-14 soybean projections. The planted and harvested acres were both reduced by 500 thousand acres from the June report based on the resurvey of key soybean states after the June *Acreage* report was released. USDA currently projects the 2013 soybean yield at 42.6 bushels per acre which is a 3 bushel per acre increase over the 2012 yield. The U.S. soybean crop is projected at 3.225 billion bushels which is a 240 million bushel increase over the 2012 crop, but is 104 million bushels less than the production record set in 2009. The August production projections are 165 million bushels less than the July production projections. This downward revision in production caused USDA to also reduce the use projections from those in the July report.

The August report projects 2013-14 soybean ending stocks to increase from 125 million bushels in 2012-13 to 220 million bushels in 2013-14. The stocks-use ratio is projected to increase from a thread-bare 4 percent for 2012-13 to 6.9 percent for 2013-14. Stated another way, soybean ending-stocks will increase from 15 days of stocks in 2012-13 to 25 days in 2013-14. The surprise to the market was that the July report suggested that soybean stocks would have grown even more for 2013-14 so this projected smaller crop and relatively tighter stocks is more supportive for soybeans and will cushion some of the decline in soybean prices. Projected marketing-year average prices are expected to decline from $14.40 for 2012-13 to $11.35 for 2013-14.

U.S. Soybean Supply and Use

	2010-11 Actual	2011-12 Actual	2012-13 Estimated	2013-14 Aug. Forecast	Change from 2012-13
			Million Acres		
Planted Acres	77.4	75.0	77.2	77.2	+0.0
Harvested Acres	76.6	73.8	76.1	76.4	+0.3
% Abandoned	-1.0%	-1.6%	-1.4%	-1.0%	+0.4%
			Bushels per Acre		
Yield	43.5	41.9	39.6	42.6	+3.0
			Million Bushels		
Beginning Stocks	151	215	169	125	-44.0
Production	3,329	3,094	3,015	3,255	+240.0
Imports	14	16	35	15	-20.0
Total Supply	3,495	3,325	3,219	3,396	+177.0
Crushing	1,648	1,703	1,685	1,675	-10.0
Exports	1,501	1,362	1,315	1,385	+70.0
Seed & residual	130	91	90	116	+26.0
Total Use	3,280	3,155	3,094	3,176	+82.0
Ending Stocks	215	169	125	220	+95.0
Avg. Farm Price	$11.30	$12.50	$14.40	$11.35	-$3.05
Stocks-Use	6.6%	5.4%	4.0%	6.9%	+2.9%
Days of Ending Stocks	24	20	15	25	+11

The statistical model USDA-NASS uses to project yields and production increase in accuracy as the crops reach physiological maturity. Given the late planting season for both corn and soybeans, especially in the Western Corn Belt, farmers should expect future reports to provide more accurate estimates that may differ significantly from the August estimate. Conversations with Iowa farmers suggest concern for the late developing corn and soybean crops and the concern of having an early killing frost in September. Conversely, I have heard of Ohio farmers stating the 2013 crop looks like the best crop ever produced. While the 2013 corn and soybean crops do not look excellent everywhere, the corn and soybean markets are anticipating much larger crops which will lead to lower prices and tighter profitability margins for 2014.

Wheat

The August report did not make major changes to the 2013-14 projections.

U.S. Wheat Supply and Use

	2010-11 Actual	2011-12 Actual	2012-13 Estimated	2013-14 Aug. Forecast	Change from 2012-13
			Million Acres		
Planted Acres	53.6	54.4	55.7	56.5	+0.8
Harvested Acres	47.6	45.7	49.0	45.7	-3.3
% Abandoned	-11.2%	-16.0%	-12.0%	-19.1%	-7.1%
			Bushels per Acre		
Yield	46.3	43.7	46.3	46.2	-0.1
			Million Bushels		
Beginning Stocks	976	862	743	718	-25.0
Production	2,207	1,999	2,269	2,114	-155.0
Imports	97	112	123	130	+7.0
Total Supply	3,279	2,974	3,134	2,962	-172.0
Food	926	941	945	958	+13.0
Seed, Feed & Residual	203	240	463	353	-110.0
Exports	1,289	1,050	1,007	1,100	+93.0
Total Use	2,417	2,231	2,416	2,411	-5.0
Ending Stocks	862	743	718	551	-167.0
Avg. Farm Price	$5.70	$7.24	$7.77	$7.00	-$0.77
Stocks-Use	35.7%	33.3%	29.7%	22.9%	-6.9%
Days of Ending Stocks	130	122	108	83	-25

The only change was a 25 million bushel increase in projected wheat exports to 1.1 billion bushels and a corresponding decrease in ending-stocks. The 2013-14 wheat ending-stocks are projected at 551 million bushels which is 167 million bushels less than the previous marketing-year's ending-stocks. While wheat stocks are declining, the overall weaker corn prices are dragging wheat lower from the previous marketing-year average prices.

Cotton

The August report provides the first look at the effect of drought in Texas and too much rain in Georgia on the 2013 cotton crop. The U.S. cotton acreage was reduced from the June *Acreage* survey estimates to 10.2 million planted acres and 7.7 million harvested acres. The adverse weather in the top two cotton states is reflected in the projected yield of 813 pounds per acre which is 74 pounds per acre less than the 2012 crop. Projected production is a little over 13 million bales which, if realized, would be 4.3 million bales less than was produced in 2012. Due to the smaller projected crops, exports were reduced to 10.6 million bales which would be a reduction in exports of 2.5 million bales. Ending stocks are projected to shrink to 2.8 million bales which is still an adequate stock level with a stocks-use ratio of 20 percent. The reduction in stocks is projected to support cotton prices at the $0.80 per pound level which may make cotton more attractive as compared to corn, especially if corn prices continue to decline.

U.S. Cotton Supply and Use

	2010-11 Actual	2011-12 Actual	2012-13 Estimated	2013-14 Aug. Forecast	Change from 2012-13
			Million Acres		
Planted Acres	9.15	10.97	12.31	10.20	-2.11
Harvested Acres	7.53	10.70	9.37	7.70	-1.67
% Abandoned	-18%	-2%	-24%	-24.5%	-0.63%
			Pounds per Acre		
Yield	777.0	812.0	887.0	813.0	-74.0
			Million Bales		
Beginning Stocks	6.34	2.95	3.35	3.80	+0.45
Production	12.19	18.10	17.32	13.05	-4.27
Imports	0.00	0.01	0.01	0.01	+0.00
Total Supply	18.53	21.06	20.68	16.86	-3.82
Domestic Use	3.46	3.90	3.45	3.50	+0.05
Exports	12.04	14.38	13.10	10.60	-2.50
Total Use	15.50	18.28	16.55	14.10	-2.45
Unaccounted	0.08	0.18	0.33	-0.04	-0.37
Ending Stocks	2.95	2.60	3.80	2.80	-1.00
Avg. Farm Price	$0.629	$0.815	$0.720	$0.800	+$0.08
Stocks-Use	19.0%	14.2%	23.0%	19.9%	-3.1%
Days of Ending Stocks	69	52	84	72	-11