

The Kiplinger Agriculture Letter

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Dear Client:

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Livestock operators will see margins improve next year...losses abating for some while profits return for others. Economic recession will dampen demand, but modestly, while the spike in operating costs eases.

LIVESTOCK OUTLOOK

Expect a bumpy '09...less painful than '08.

Cattle feeders will see black ink in early '09 after enduring losses for most of the past two years. With corn at \$5/bu., a feedlot owner needs more than the market's \$100/cwt. or so for a fat steer. For example, that \$100 bought 43 bu. of corn in '06 but just 19 bu. in Sept...not enough to feed the steer.

Cattle prices will climb this fall and in '09 because ranchers have reduced their herds so much that feedlots and packing plants will be caught short.

Hogs won't turn profits until well into '09. The U.S. herd hit a record in Sept...weekly slaughter topped 2.3 million. But a reverse is on tap. The herd of sows is being cut, resulting in 5% fewer baby pigs this fall. Result: Less pork in '09 while net exports, making up 18% of production, continue to soar.

Chicken prices will bump up this winter.

Processed broilers are 75¢-80¢/lb...fairly high prices. But feed is running about 25¢ per live-weight pound, pushing costs of raising and processing to over 80¢ per pound of meat, or well above what most markets pay for chicken. In the first quarter of '09, packers will process 3% less chicken than this quarter...prices will hit the high 80s.

Dairy farmers will soon benefit by limiting milk output to a 1% gain in the first quarter of '09 vs. a year earlier... down from 2% growth last summer. Lower output, bolstered by exports of milk powder, butter and cheese, will lift farmgate prices, letting farmers restore profits.

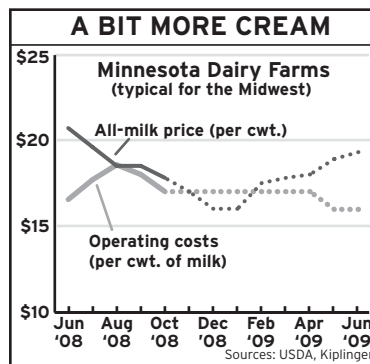
Feed reserves will be tight but adequate. Recently, USDA hiked its Sept. stocks estimates for corn and soybeans by 113 million bu. This fall, late-maturing soybeans and corn dodged early frosts, leaving ample yields. Globally, this year's crops will stabilize stocks of wheat and feed grains, accommodating 2009's increased needs.

Net result: Fairly high feed prices. Corn, over \$5/bu., sorghum, \$4.50, barley, over \$4...in general at or above '08 average. And hay will remain pricey but in better supply than '08 in all but the most droughty areas.

Feed costs will remain the main hurdle for operations trying to regain a margin of profit. While grocery prices have climbed 6% in the past year, U.S. livestock owners' feed bills jumped 21% last year and are up 26% this year. Feed is typically 60%-70% of basic operating costs, so such increases erase profits.

2009 FOOD CONSUMPTION (U.S., PER CAPITA)

↔	Pork Holding its own in recession, prices easing with supply up
↓	Beef Shrinking herd, higher prices
↑	Chicken A favored low-cost choice
↓	Cheese Cheddar, Colby up in homes but restaurant use dropping
↔	Vegetables Packaged items slipping, but total volume won't suffer
↔	Eggs Pricey, but still in demand, and adequate supply
↔	Turkey Normal holiday bird sales



CONGRESS

The financial rescue law is loaded with tax breaks for '08 storm victims. They're directed at disaster areas in La., Texas and 10 midwestern states repairing storm damage. Changes include: A penalty waiver to use retirement funds to fix flooded homes, and expanded allowances to expense the cost of repairs to damaged businesses. The provisions are detailed at kiplinger.com/letterlinks/relief.

Some of the tax relief plums will apply nationally for '08 and '09 taxes: Alternative minimum tax exemptions are raised for '08 to \$69,950 for marrieds and \$46,200 for single filers. Extended through '09, an extra standard deduction on real estate taxes, deduction of state sales tax and, for ag and other businesses, the 20% R&D credit. Machinery and equipment depreciation is accelerated, too.

Lawmakers also added a handy option for collecting disaster payments. The farm bill required farmers to insure crops before they can qualify for such aid. But lawmakers have amended the law, waiving that rule when fees to enroll the crop are more than 10% of the crop's market value, or if the crop is economically trivial.

A limitation was added to the aid program, too, requiring a minimum loss of 10% in overall yield and quality to at least one crop to qualify for disaster aid. Details on several tweaks to disaster aid are at kiplinger.com/letterlinks/cropaid.

Sure to enliven livestock interests in the next Congress: The beef checkoff, the program that assesses \$1 a head on cattle sales to support research and sales. Sen. Jon Tester (D-MT) will press for several changes, including a requirement for referenda every seven years for producers, who haven't been provided a vote on their program in 20 years, despite a petition drive and lawsuits challenging it.

Checkoff revisions will jell on Capitol Hill in '09, advanced by lawmakers from the West and Plains. The bill would make the Cattlemen's Beef Board, which runs the program, open its research and promotion contracts to more parties. Sure to be popular is a mandate to use 30% of checkoff funds to promote U.S. beef (vs. beef from anywhere). The text of the bill is at kiplinger.com/letterlinks/checkoff.

Conservation is in line for big hits when lawmakers trim farm bill spending next year to corral the budget. Congress continued FY '08 spending until next March, but FY '09 Senate ag spending bill cuts \$331 million from funds the farm bill had set for conservation...mostly from the broad Environmental Quality Incentive Program.

Will USDA open a short-term credit desk for grain dealers and traders?

Not soon. Banks have had access to the Federal Reserve Discount Window for such credit for a century. Farm and commodity groups are asking for the same. They want the ag secretary to consider employing USDA's Commodity Credit Corp. to extend credit to dealers who'll need a lot of seasonal credit to buy and store crops when market prices are high. Besides, bountiful crops are being harvested, so credit will be still a bigger challenge for those whose bankers are facing liquidity problems.

But Congress will soon widen access to USDA credit to cover market hedges by those buying and storing crops...likely by tweaking current USDA loan programs.

INCOME TAXES

Livestock owners in 41 states get extra time to defer gains on sales of cattle, sheep, etc., made in 2004 because of drought. Ranchers in counties that IRS lists as still suffering can buy replacement livestock and defer gains until at least the end of '09. The normal four-year replacement period for deferral of gains is waived for the drought areas. The list is at kiplinger.com/letterlinks/cows.

BUGS

Do crops and forests a favor: Help ladybugs thrive. Experts in N.Y. and S.D. see a decline in many of the continent's 400 types of ladybugs, which eat a horde of aphids and other pests. They need help locating some of the rarer bugs. Learn how to participate and report findings at kiplinger.com/letterlinks/ladybugs.



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FARM PAYMENTS

How would you define the phrase “actively engaged in farming?”

The question isn't frivolous. Riding on the answer is the future eligibility of potentially a large number of farmers for federal agricultural subsidies.

Northern and midwestern lawmakers want USDA to narrow the definition to refer only to people who work on and/or manage a farm for 1000 hours a year, at a minimum. Only they would be eligible to get farm subsidies in the future.

Southern lawmakers are opposed, noting the farm bill already imposes new limits on subsidies. They argue that a minimum time limit isn't needed, even though the current definition is so loose that just about anyone qualifies. Some of the highest subsidies now go to southern growers of cotton and rice.

Look for USDA to constrict the definition somewhat, though not as much as northern and midwestern lawmakers are calling for. Ag Secretary Ed Schafer backs Bush's call to trim subsidies further, and this is one way to do it.

The new rule will also curb what the farm bill calls “schemes and devices” that some farmers use to evade restrictions on subsidies any one farmer can get.

SHIPPING

A mixed outlook for ocean cargo containers: Shortages are growing worse on the East and West coasts, but more containers are being made available to agricultural shippers throughout the Midwest and other inland areas. Why?

Rail carriers are adding container service in the Midwest with new terminals for intermodal shipping. And BNSF Railway is putting containers on expedited trains, which move 700 miles a day. That'll bring more containers into the U.S. interior, where they're wanted for segregating specialized farm products for export shipments.

Moreover, ocean bulk rates are dropping, a break for commodities shippers, who've been using containers. Some will revert to cargo ships, freeing up containers.

But container rates will be stiff next year, same as this year. For example, the rate for shipping animal feed to East Asia tops \$2000 per standard container.

FERTILIZER

Note a brief window to save on urea, a principal nitrogen fertilizer.

Prices on imports at Gulf of Mexico ports are down \$100 to \$150 per ton since Aug. Extremely high nitrogen prices recently combined with a delayed harvest in the Midwest have led farmers to postpone fall applications, resulting in a surplus of urea in the market. World demand will soon ensure the extra supplies are gone.

CROPS

As '08 U.S. soybeans are harvested, a big crop is already shaping up for '09. South America's '09 soybeans, planted this fall, will falter, boosting demand for U.S. acreage next spring. Growers in Brazil and Argentina face credit shortages to buy their seed, fuel and fertilizer, and Argentina's soybean areas are in a drought.

Minimal U.S. stocks will erode further by next summer, despite a 14% jump in the U.S. crop this year and a small gain expected in world stocks. Corn will regain a lot of acres used for soybeans this year. And corn at about \$5/bu. through winter will keep soybeans over \$11/bu., ensuring that enough soybeans are planted.

Extreme prices for soymeal...recently over \$400 a ton...haven't slowed its use as feed in the U.S. or for export, and mandated use of biodiesel will keep soybean oil moving.

New varieties of prunes are sure to be a hit with consumers and farmers.

Prunes (dried plums) are being bred with fruity tones...peach and apricot, with cherry on tap. Plus added sweetness in new strains such as Muir Beauty, now being field tested, and Sutter, may find a niche in the gourmet desserts market.

For farmers, the new plums will allow extra weeks for harvest. They mature from one to two weeks earlier than the European variety that's grown in California, letting growers harvest more plums and save on labor and equipment expenses.



TRADE

European Union resistance to biotech crops will continue to crumble.

The EU's official laboratory reports it can't find any harmful health effects on human beings or livestock from eating foods from genetically modified crops.

The EU is OKing more biotech grains and feed, including, most recently, a strain of soybeans, used for soymeal, a major animal feed. The about-face is being driven by European farmers and feed producers pushing for more access to biotech feed and seeds for competitive reasons. In Europe, for example, most soymeal is imported from the U.S. and South America. Look for EU officials to also ease their zero-tolerance rule banning stray biotech kernels in imports.

Meanwhile, European farmers are planting more borer-resistant corn, the single biotech crop approved for cultivation there. 2008 acreage is up over 20% from 2007, especially in the east: Poland, Romania, Slovakia and the Czech Republic.

U.S. farmers are poised to sell more wheat seed to Canada now that regs requiring "visual distinguishability" of wheat characteristics are no longer in effect. Except for white wheat...grown mostly in the Pacific Northwest...little U.S. wheat was accepted in Canadian markets because it didn't pass muster in visual testing.

GENETICS

Newly discovered...a critical key to relieving aluminum toxicity in soils.

The toxicity is common to the East Coast, Gulf Coast, Pacific Northwest and other areas with highly acidic soils, countered now by applications of lime. Aluminum in the soil stunts plant growth by foiling cell division in the roots. But plant biologists have found a mutation that derails the impact on root growth.

The discovery one day may make most lime applications unnecessary as crops such as corn, alfalfa and soybeans are bred to withstand highly acidic soils.

Scientists have new strategies for controlling a common root parasite:

The northern root-knot nematode, a tiny worm that damages many crops and is expanding its range into warmer latitudes, threatening even more field crops. The genome has been sequenced and mapped, which will help researchers compare the worm with others and find ways to create biological controls for it.

FOOD SALES

With several groups and agencies overseeing humane animal husbandry...

It's not surprising to find a dizzying array of labels on meat products... "cage free," "grass fed" and "American Humane Certified," to name just a few.

A new guide can help farmers and consumers make sense of them all.

Prepared by the World Society for the Protection of Animals, it's available online at kiplinger.com/letterlinks/animalcare. WSPA also surveyed 23 U.S. grocery chains and rated their humane-related food marketing. See kiplinger.com/letterlinks/wspa.

Nearby universities can provide large new markets for local farmers.

Prodded by students and faculty, many colleges and universities are committing to buying food from local sources...creating new sales opportunities for area farmers.

Among helpful sources: A report on universities and their commitments to local food suppliers, which can be found at kiplinger.com/letterlinks/foodreport. Various local chapters of Slow Food on Campus at kiplinger.com/letterlinks/slow... good conduits for getting local, organic and sustainable foods into college cafeterias. Plus professors and students of sustainable agriculture, who can provide guidance. Note that sustainable ag courses are being taught at more and more universities.

Yours very truly,

The Kiplinger Editors

THE KIPLINGER WASHINGTON EDITORS

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