



Arbor Acres

# Broiler Economics Bulletin

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## The March 30<sup>th</sup> Prospective Planting Report

On March 30<sup>th</sup> every year the USDA announces the results of a comprehensive survey of the planting intentions. The Prospective Planting Report normally provides a fairly accurate prediction of what will actually be planted.

Seldom had a USDA report been awaited with such anticipation as the Prospective Planting Report this year. High corn prices brought about by increased use of corn in the production of ethanol had set up a situation where a small increase in corn acreage would have sent corn prices soaring while a large increase would send it falling from a high level. Corn prices were, if anything, highly unstable. Something was going to happen and the report did not disappoint. Something did indeed happen.

The report showed a huge increase in planting intentions. The number was higher than most had predicted and in the aftermath of the report came two days of sharply falling corn prices. In Chicago, corn futures were "limit down" for two days falling by 20 cents each day, the limit of what is allowed in a single day. May corn futures which just a couple of months ago were \$4.50 a bushel fell to \$3.50 as speculators unloaded positions in panic.

The set-up for the March 30<sup>th</sup> report was approximately the following;

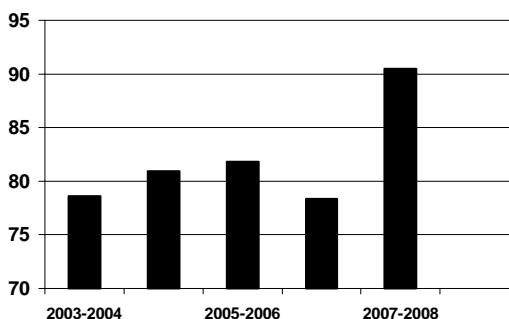
### March 30<sup>th</sup> Prospective Planting Scenarios – Millions of Acres

Corn Acres Increase	Resulting Corn Price May Increase Chicago
+ 8	\$4.50 or more
+ 10	\$ 4.00
+ 12	\$3.50 or less

If corn crop planting intentions had called for only an 8 million acre increase, corn prices would have risen from \$4.00 to a much higher number perhaps as high as \$4.50 or more immediately. In the case of an increase of only 8 million acres there would clearly have not been enough corn to go around even with a good harvest.

At the other extreme, if corn acres increased by 12 million acres there could be enough for everyone and therefore corn prices would be deemed to be too high and the price of the May contract would fall to \$3.50 or less. That is where the final report came in, a huge and unanticipated increase in the amount of land dedicated to corn. The amount of land dedicated to corn, 90 million acres is larger than any year since 1944 and 15% higher than last year.

### Prospective Corn Plantings – Millions of Acres



### What Happens Now?

Needless to say the corn crop is far from being harvested; it has not yet even been planted. There is a long road from April to October.

There now appears to be sufficient land dedicated to corn for exports, domestic animals and the ethanol industry if yields are normal this summer. The market therefore is shifting from a concern about having enough acres to a market that is concerned mostly about the weather. There is no margin for error. Inventory will be run down to pipeline levels at the end of the summer. In other words there will be no corn left in storage on August 31<sup>st</sup> of this year.

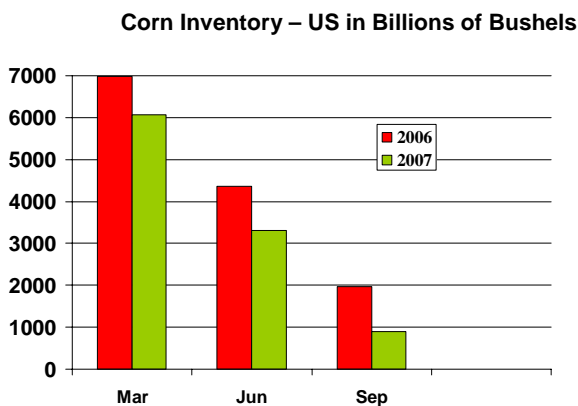
### Inventory

On March 1<sup>st</sup> of this year there were 6.1 billion bushels of corn in inventory in the United States. By June 1<sup>st</sup> there will be approximately 3.3 billion bushels and by September 1<sup>st</sup> there will be less than 1 billion bushels, just enough to keep the pipeline filled. The pipeline refers to the railcars, barges and temporary bins that hold corn being moved around and used. That compares to nearly 2 billion bushels of corn in inventory on the same date last year which provided a billion bushel cushion.

This year the US was able to engage in deficit spending of corn as the billion bushels of cushion was eliminated. Unlike governments that engage in deficit spending without having the revenue, there can be no deficit spending of corn without corn in the bins and there will be no corn left in the bins this year to engage in deficit corn spending.

The next crop year, which starts on September 1, will not have the extra cushion. Therefore, it will all be up to the productivity of the 90 million acres and the weather. If the weather is favorable corn prices should stay in the \$3 to \$4 per bushel range (\$120 to \$160 per metric ton). However, a late planting due to floods or a drought in the summer would push corn prices to much higher levels.

As can be seen on the following graph, inventory levels are about a billion bushels behind last year's levels.

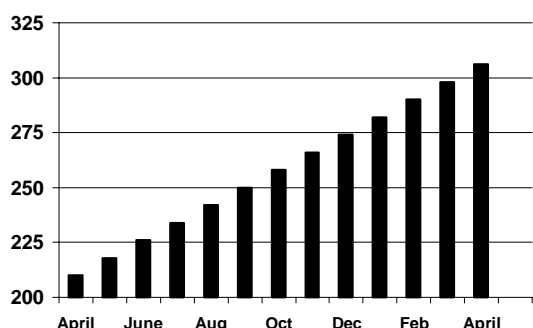


**Planting Next Year**

To get over the hump of increased ethanol production and the end of deficit spending, an additional 12 million acres of corn with normal yields were required. It now appears that those acres have been obtained.

Although the animal industries can heave a sigh of relief, the ethanol industry is not standing still. New ethanol plants are opening at the rate of one per week. Each plant uses 25 million bushels of corn per year. The use of corn for ethanol is therefore increasing at a rate of a

**Monthly Use of Corn for Ethanol – April 2007 to April 2008 in Million of Bushels**



billion bushels per year.

This rate of increase in the use of corn for ethanol is worrisome to other corn users and clearly unsustainable in the long run. There is a limit to the amount of land that can be dedicated to corn. At some point either a change in policy or economics will halt the process. If economics (extremely high corn prices) are required to stop this runaway train, the livestock and poultry industry could be hurt as well. Meanwhile, an additional 6 million acres will be required each year.

New Acreage Needed

**Crop Year 2007 – 2008**

- 6 million acres for additional ethanol production
- 6 million acres for the end of deficit corn spending
- 12 million required and apparently obtained

**Crop Year 2008 – 2009**

- 6 million acres for additional ethanol production

**Crop Year 2009 -2010**

- 6 million acres for additional ethanol production

**Corn Conclusion**

The prospective planting report goes a long way toward temporarily alleviating worries that rapidly expanding ethanol production would result in a corn shortage and extremely high corn prices. It now appears less likely that a corn supply crunch will cause a massive liquidation of livestock this year as was feared a few months ago. However, the livestock industry is not out of woods yet, any significant change in price relationships over the next month or unusual weather could alter planting plans or yields. In addition, the ethanol frenzy will consume an additional billion bushels of corn each year until the ethanol bubble bursts.

**Soybeans**

Somewhat lost in the excitement about corn is the outlook for soybeans. Soybean producers intend to plant 67 million acres in 2007 a decrease of 8.4 million acres or 11% from last year. That decrease in soybean acres is on the

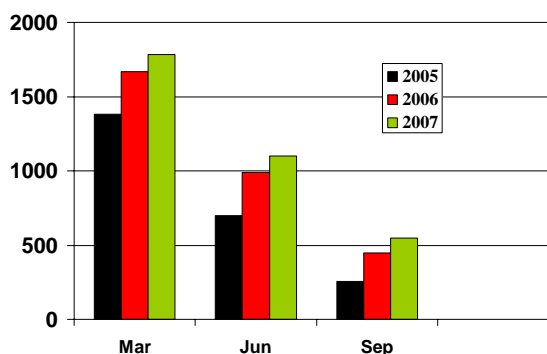
**Prospective Soybean Plantings – Millions of Acres**



high side of expectations.

It might have been expected that soybean futures would rise on the news of significantly reduced production. However, soybean prices have moved sideways since the Prospective Planting report. One reason for the lack of movement is the fact that soybeans have a relatively high level of inventory. As can be seen on the following graph inventories have risen each year in the last two years and are now at comfortable levels. This comfort margin is likely to be reduced next year because of lower soybean production.

**Soybean Inventory – US in Billions of Bushels**



The situation for soybeans is different from that of corn. In corn the US dominates world production and exports. In soybeans the US shares the stage with others, most notably Brazil and Argentina. As a result, reduced soybean production in the US can be easily accommodated by increasing production and exports from South America with little change in the world or US price. The US will export a less and South America will export more.

In addition, the by-product of ethanol production, distillers dried grains is a competitor to soybean meal. Even the production of bio-diesel made from soybean oil will not necessarily increase the price of soybean meal. Soybean meal is the by product after the oil is extracted. It appears the world will have plenty of protein for livestock and poultry.

As can be seen on the following graph, ethanol has caused a sharp divergence in the acreage dedicated to corn and soybeans in the US with corn acres rising rapidly and soybean acres falling rapidly. This trend is likely to continue for several years.

