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2010 Prospective Plantings Report Analysis

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The National Agricultural Statistics Service issued its annual Prospective Plantings report on Wednesday, March 31, 2010. This is the first major production related report of the year that provides a picture of what may be possible for crop production in the United States this year. At the end of this issue of the Economic Commentator refer to Table 1 for the U.S. Planting Intentions and Table 2 for South Dakota Planting Intentions.

The planting intentions for 2010 reflected moderate changes to planted acres again this year. Corn acres would increase 3%, soybean acres would increase by 1% and all wheat acres would decline by 9%; all intentions within trade expectations. As a result, there were no surprises in terms of acres exceeding or not meeting pre-report expectations. The corn numbers were viewed as bearish, with soybean and wheat numbers being viewed as neutral. Compared to 2007 and 2008 when there were very large acreage shifts between corn and soybeans, 2010 will likely result in a far less dramatic change in planted acres.

There was some concern during the winter months that the wet fall of 2009 and the heavy snowpack during the winter over much of the corn-belt and plains states might have an impact on acres planted to spring wheat and corn. However, based on the data contained in this report, it appears that farmers took the approach that their planting intentions would not be dictated by the weather conditions in late February and early March, but rather by expectations that planting would not be hindered in the

spring by lingering snow and excessive moisture. While water-logged soils will be a factor for many farmers, the rapid snowmelt and low rainfall conditions as of the end of March along with hopes for drier forecasts for the spring give the majority of farmers a better chance of having a more normal planting season than what might have been expected just a month ago. The question that typically arises once the intentions report is issued is whether these acres will hold true by the end of the planting season. There is little question that there will be changes but the extent of those changes are always hard to determine at this point in time. As always, changes in the weather and changes in commodity prices could easily influence any adjustment in the final acreage numbers compared to what farmer said they intended to plant.

It is important to note that price discovery for grains and oilseeds really begins with the number of acres planted to crops raised in the United States and around the world. It is the acres planted to corn, soybeans, wheat and other crops that provide the foundation for expectations of supply against which grain and oilseed demand and final carryover supply is then measured. This report is important in that it provides the first look at what farmers in the United States intend to plant giving both producers and buyers of grain an idea of potential production for 2010. Planted acreage prospects along with on-going estimates for foreign and domestic demand will help determine the potential growth or decline in carryover supplies and ultimately will influence longer term price direction.

CORN

USDA reports that farmers in the United States intend to plant 88.8 million acres of corn (2.3 million more acres than a year ago), up nearly 3% from 2009. This would be the second largest corn acreage in the last sixty years, second only to the 2007 record of 93.7 million acres.

South Dakota farmers reported that they will plant 5.0 million acres of corn, the same acres planted in 2009.

All the major corn producing states reported relatively modest changes in the acres intended for corn. Iowa reported 13.5 million acres, down 1% from a year ago. Illinois - 12.6 million acres, up 5% from 2009; Nebraska - 9.2 million acres, up 1% from a year ago; Minnesota - 7.6 million acres, unchanged from last year; Indiana - 5.7 million acres, up 2% from a year ago. North Dakota farmers intend to plant 2.1 million acres to corn, an 8% increase over 2009 but still significantly lower than the 2.55 million acres planted in 2008. Kansas reported a double digit increase in corn acres for 2010; 4.7 million acres, up 15% from 2009.

This increase in acres is viewed as bearish if for no other reason than this translates into more corn production that has to be consumed by steady demand. Carryover supplies have increased over the last three years but by small increments. Any growth in production that cannot be matched by usage would likely mean growth in supplies by this time next year.

USDA cited two factors for the increase in corn acres for 2010. One was the fact that winter wheat acreage was significantly reduced in the U.S. this year (which could explain the large growth of corn acres in Kansas) and expectations of improved net returns. Both factors are valid but the expectation of better net returns for corn can become a bit more tenuous if there is the chance for high yield variability from year to year and if input costs for corn are high. One factor supporting USDA's assertion is that corn yields can have higher rates of improvement than soybeans under good growing conditions and perhaps retain better yields under poorer growing conditions. If that were the case, one could argue that if yields are above average for corn, returns could be better for corn. However, the price relationship between corn and soybeans at the current time is such that one could argue that there are equal to better chances that soybeans may have the better net return. The challenge to this assertion is that like the weather, prices can change. As a result, it is important to remember that net returns for any crop are never realized until expense and gross income are established. This simply means that to improve the chances of better net return for any crop, one must have a solid grasp on cost of production of each crop produced and have an effective marketing plan to make sales when the market offers a profitable price. While every producer's costs and yields will vary the decision to plant more acres of one crop over another is highly influenced by expectations of net returns.

SOYBEANS

USDA's Prospective Plantings report indicated that U.S. farmers intend to plant 78.1 million acres of soybeans, a modest increase of 1% compared to a year ago. South Dakota producers indicate they will plant 4.4 million acres of soybeans, a 4% increase in planted acres compared to a year ago.

Soybean growers in practically all the major soybean producing states intend to make modest to no changes in the acres they intend to plant to soybeans. Iowa will likely plant 9.90 million acres, a 3% increase; Illinois 9.5 million acres, a 1% increase; Minnesota - 7.2 million acres, unchanged from last year; Indiana - 5.5 million acres, a 1% increase; Missouri - 5.4 million acres, a 1% increase; and Nebraska - 4.9 million acres, a 2% increase. Kansas farmers intend to plant 4.1 million acres, an 11% increase and North Dakota, with 4.0 million acres, a 3% increase.

The soybean trade tended to view the planting intentions for soybeans as neutral. While there was no unexpected change in soybean acres, there is an interesting dilemma of sorts when it comes to the longer term issue of soybean supplies. Domestic supplies of soybeans for the 2009-10 marketing year were projected at 190 million bushels in the March WASDE (World Ag Supply and Demand Estimates) report. While this is a larger carryover supply than a year ago, these supplies are still historically tight if one views them only from a domestic standpoint. World supplies are a different story; carryover supplies worldwide are estimated at 2.23 billion bushels, 685 million bushels greater than a year ago. With large anticipated production from South America this spring, world supplies have grown significantly and at some point may cause some pressure on domestic prices. The key will be U.S. production this year and whether the anticipated growth in soybean acres will translate into growing domestic supplies. As of late March, however, soybean prices have been competitive enough to prevent a loss of acres to corn but may have potential for future downside pressure if domestic supplies from this year's crop grow along with world supplies.

WHEAT

All wheat acres planted is expected to total 53.83 million acres compared to 59.13 million acres in 2009, a 9% decline. Winter wheat acres in the U.S. for 2010 were reported in January's Winter Wheat Planted acres report at 37.1 million acres. However, these acres were adjusted to 37.7 million acres in the Prospective Planting report. This reflects a 13% decline in winter wheat acres compared to a year ago. Acres expected to be planted to

spring wheat is reported at 13.91 million acres, a 5% increase from last year. South Dakota winter wheat growers reported planting 1.25 million acres of winter wheat, a 16% decline from 2009. Spring wheat acres in South Dakota are reported at 1.6 million acres, a 7% increase in acres compared to 2009.

Much can be said about all the grain markets and the influence of a variety of factors that can impact price. With wheat, huge domestic and world supply is the “800 pound gorilla in the room” influencing price. In two short years, domestic supply has grown from the smallest supply in over fifty years to the largest supply in the last twenty years. World supply is currently close to matching the record supplies of the late 1990s. At the same time, wheat growers responded to the market signals by planting less wheat in 2009 and again this year as prices have fallen consistently from the record levels of late 2007 to mid-2008. Winter wheat producers planted less winter wheat last fall and while much of the decline was likely due to price, fewer acres were also the result of weather problems that prohibited the planting of some acres. Late this winter, it appeared likely that the wet fall of 2009 and the heavy snowpack would result in fewer acres of spring wheat this

year. However, farmers reported they would plant 13.91 million acres of spring wheat, a 5% increase over a year ago. While this is not a large increase, it does indicate that farmers were not necessarily planning to write off a large number of spring wheat acres simply on the chance that there would be a late spring. However, the two factors that may still have an impact on spring wheat acres actually planted versus what was intended to be planted will be price expectations and crop rotation. If prices continue to remain weak, one could make the assumption that spring wheat acres may decline by the time planting season is over. At the same time, wheat fits well into crop rotation systems in the northern plains and has value for the longer term sustainability of farmers overriding the year to year evaluation of which crop could provide the best net return.

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Table. 1 Planting Intentions: United States.

	2010 Planting Intentions (acres)*	Average Pre-report Trade Estimate of planted acres *	2009 Actual final Acreage Planted*	% Change from 2009
Corn	88.80	88.94	86.48	+3%
Soybeans	78.10	78.55	77.45	+1%
All Wheat	53.83	53.33	59.13	-9%
Winter Wheat	37.70 (37.10) **	-----	43.31	-13%
Spring Wheat	13.91	13.56	13.27	+5%
Durum Wheat	2.22	2.47	2.55	-13%
All Hay	60.46 ¹	-----	59.75 ²	+1%
All Sunflower	2.18	-----	2.03	+7%
Oil	1.71	-----	1.70	+1%
Non-oil	467,000 acres	-----	322,000 acres	+41%
Cotton	10.51	10.40	9.15	+15%

* All acreage values are in millions of acres except for non-oil sunflower.

** Winter wheat acres reported in Winter Wheat Seedings report issued by USDA in January 2010

¹ Intended area **harvested** in 2010 as indicated by reports from farmers

² Area **harvested** in 2009

Source: USDA – National Agricultural Statistics Service (NASS).

Table 2. Planting Intentions: South Dakota.

	<u>2010 Planting Intentions (acres)*</u>	<u>2009 Actual final Acreage Planted*</u>	<u>% Change from 2009</u>
Corn	5.00	5.00	0%
Soybeans	4.40	4.25	+4%
All Wheat	2.86	3.21	-11%
Winter Wheat	1.25 (1.25) **	1.70	-16%
Spring Wheat	1.60	1.50	+7%
Durum Wheat ***			
All Hay	3.80 ¹	3.80 ²	0%
All Sunflower	605,000 acres	570,000 acres	+6%
Oil	510,000 acres	520,000 acres	-2%
Non-oil	95,000 acres	50,000 acres	+90%

* Acreage values are in **millions of acres** except for all sunflower categories.

** Winter wheat acres reported in Winter Wheat Seedings report issued by USDA in January 2010.

*** Durum Wheat planting intentions in SD is estimated at 8,000 acres, down 1,000 acres from last year.

¹ Intended area **harvested** in 2010 as indicated by reports from farmers.

² Area **harvested** in 2009

Source: USDA – NASS, South Dakota Agricultural Statistics Service.

