

The Kiplinger Agriculture Letter

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Dear Client:

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Can the run-up in farmland values continue?

Yes, very likely. So far...no signal of a pause.

Responding to Creighton University's April [survey](#), bankers in 10 Midwestern and Western states gave strong odds on land prices climbing till year-end.

It's quite a run. Despite stalling out in '08 and '09, U.S. average values, adjusted for inflation, are up 58% since '00. Nominally, values have doubled, and the U.S. total will approach \$2 trillion at year-end. Prime Midwest cropland shot up 15%-20% in '10, and some is up that much again already this year.

LAND MARKETS

Sizzling crop demand is fueling the pace.

Robust crop markets make land attractive:

First to farmers, who are bidding up top quality land in the Corn Belt to over \$11,000/acre in some cases... also to nonfarmers, who find the land's rising values and fixed rental income as incentives to invest. Plus...

Today's inflation fears make it more alluring.

Investors know land appreciates well over the years and quite often provides a hedge against inflation.

Rivalry for cropland is escalating worldwide,

courtesy of economies soaring throughout much of Asia and rebounding elsewhere. For-sale signs are everywhere. The Earth has 1.1 billion acres of [uncultivated land](#) with farming potential plus countless other tracts that can be reclaimed and enriched.

Prices are hopping around the globe. In '10, for example, values in Argentina and Brazil rose 10%-20%. In England...13%, with cropland averaging \$8,900/acre.

U.S. farmland price gains will follow high crop profitability of corn, wheat, soybeans and other row crops grown in the Midwest, Plains and elsewhere.

Two examples: Cotton acreage in Texas and Ariz., where land values sank in most areas in '08 and '09. With cotton now double its usual prices and the outlook for exports booming, farmers are bidding up cropland there to plant more cotton.

And Calif. cropland, thanks to strong sales of some fruits, nuts and veggies, especially for export, plus reservoirs filled from snowpack and ready to irrigate fields.

Meanwhile, odds of a market bubble are slim. Some financial regulators and analysts draw a scenario of commodity markets plunging, zapping farm income, while credit rates soar, squeezing farmers and leaving banks awash in bad ag loans. In fact, the roaring farmland market results from real demand for farm products. Besides, farm debt is but 2% of U.S. bank loans, and lenders aren't issuing mortgages on the basis of inflated values, but require a show of strong cash flow. What's more...

Many farmers are buying land with cash or making huge down payments.

Still, a word of caution. Farm input costs such as fuel, fertilizer and seed are high and may rise more. For livestock owners, feed is expected to stay pricey, too. With higher credit rates on the horizon as well, profits may vanish in some years.

MEAT & DAIRY PRODUCTION (U.S. OUTPUT THROUGH SUMMER)

↑	Pork Herds expanding slowly; more pounds per hog, too
↑	Beef High prices promote slaughter
↓	Lamb & Goat Meat Smaller flocks; fewer to slaughter
↓	Bison Lowest slaughter since '07; cows kept to expand herd
↑	Chicken More birds to fill rising U.S. and export market demand
↑	Turkey Up this summer, then slowing
↑	Milk Herds expanding a bit; milk per cow inching up

SHIPPING

The soaring size and efficiency of container vessels will save shipping costs for ag and other sectors in a few years. The Maersk Line has ordered delivery by '15 of 10 Triple-E class vessels with capacities of 18,000 20-foot containers (TEUs): 16% more than the largest such ship today. Also, existing orders for the top category of ships...over 8,000 TEUs...will nearly double fleet capacity of that class fairly soon. Fuel efficiency is on the upswing as well. Triple-E ships, for example, will use half of the fuel per container than the average container ship. The bulging ship capacity, combined with rising fuel efficiency, will help reduce rates for export shippers.

U.S. and Canadian rail carriers also continue to make strides in efficiency of design and operation of coal, grain and mixed-cargo trains. With so many trains over a mile long, most are now moved by at least two engines, usually placed in front and in back. Canadian Pacific's software positions engines within the trains to ensure the best efficiency. That's one reason North American carriers report they now move a ton of cargo 480 miles per gallon of fuel. That's twice as efficient as 30 years ago.

It may soon be cheaper to file a case with the Surface Transportation Board. As part of its proceedings on rail competition, it's proposing to cut its maximum fee for initiating a typical rate case to \$350. Fees now are all over the board... some are in the thousands. The idea will be a topic at the STB's [June 22 hearing](#).

ENERGY

Solar power's new frontier: Lakes and even farm reservoirs for flood control and watering livestock. A lot of juice can be generated by floating pontoons mounted with photovoltaic panels on water surfaces. Systems by SPG Solar of Calif., for example, can generate a megawatt of electric power on three acres of water.

New mileage standards for heavy trucks and vans will be posted midyear, and take effect with model year '14. They'll target increases of 7%-20% in efficiency by '18 compared with '11 models. The standards will be tailored to favor vehicles that haul the heaviest loads. Lighter-duty models will face the toughest mandates.

Regulators are looking to trim oil consumption by boosting fuel economy among commercial vehicles, after decades of exempting them from efficiency rules. Manufacturers will use current technology...low-friction tires, idle-speed controls and advanced aerodynamics...to accomplish most of the improvements in mileage.

Can U.S. biofuels production ramp up without cheating the food supply?

Yes, with the right methods, according to Michigan State Univ. analysts.

For farmers, the scientists say, that would include double-cropping 30% of soybean and corn acres with grasses in systems that make 100 billion gal. of biofuels a year without reducing food crops or spoiling the land. See kiplinger.com/letterlinks/xcrop.

ANIMAL WELFARE

Conflicts are heating up countrywide over space allotted to egg-laying hens. The National Organic Standards Board will set the bar for organic farms this fall, recommending to USDA the minimum areas for poultry and other livestock.

The likely standard: 1.5 sq. ft. per hen indoors plus some perch space and 2 sq. ft. outdoors. That's proposed by the NOSB's [livestock panel](#). A big disparity in viewpoints continues, however, among conventional and organic producers. Among organic farmers as well: Some would provide less space, while Organic Valley, a major organic cooperative, wants 1.75 sq. ft. indoors and 5 sq. ft. outdoors per hen.

On conventional farms, 0.8 sq. ft. may be the new benchmark. Some states... Calif. and Mich., so far...are mandating an end to tiny cages for hens. Now, lawmakers in Ore. and Wash. are following suit...the 0.8 sq. ft. rule along with reasonable space for each bird to perch. That approach is largely accepted by egg farmers, and it agrees with the yardstick of the American Humane Assn. Nonetheless, the Humane Society of the U.S. and other groups have launched ballot initiatives in those two states to force a 1.5 sq. ft. minimum. Such statewide campaigns have a high success rate.

LIVESTOCK

Note mounting safety and nutrition concerns about animal feed worldwide.
In the works: International standards that'll complement existing guidelines of United Nations agencies and respond to increasing demand for better certification of nutritional content and sanitary processing, among other things. Feed makers, who are helping draft the voluntary standards with the British Standards Institution, hope they'll serve as a clearinghouse for global standards on livestock and pet feeds. See the draft and a rundown by U.S. feed dealers at kiplinger.com/letterlinks/feed.

Meanwhile, in the U.S., oversight of animal feed is headed for a new level, courtesy of new muscle that Congress put in the food safety bill. It includes authority for the Food & Drug Admin. to halt sales of unsafe products and certify feed exports. Also, FDA is finishing [guidelines](#) that detail its cooperation with state feed overseers.

USDA will release a national animal disease traceability plan any day now. It'll be administered mainly by states and tribes, apply only to interstate movements of farm animals and replace a more complex national livestock identification system that was nixed after much opposition from cattle ranchers. To view the essentials of the plan and how it'll be implemented, go to kiplinger.com/letterlinks/tracking.

Is massive destruction of cattle necessary to arrest foot-and-mouth disease?
Perhaps not. Scientists at the Univ. of Edinburgh in Scotland have learned that cattle become infectious 12 hours after clinical symptoms appear, but remain so for only about 40 hours. Then, immune responses kick in, limiting virus replication and sharply reducing the odds that infected animals can keep spreading the disease. The study may lead to a change in policy. [See kiplinger.com/letterlinks/footmouth](http://kiplinger.com/letterlinks/footmouth).

A yeast extract may be a viable alternative to antibiotics for chickens and turkeys, and that could be a lifesaver for organic and other poultry farmers who avoid antibiotics. The extract boosts birds' immune systems. A long-term study to verify the product's efficacy is under way. See kiplinger.com/letterlinks/yeast.

VEGGIES

USDA is proposing a national food safety program for leafy green vegetables such as lettuce, spinach, chard, cilantro and endive. It would set standards and provide for inspection of such products, both grown in the U.S. and imported.

Participation would be voluntary...to a point. Modeled after similar programs in Calif. and Ariz., the program would collect fees from enrollees to cover costs and to enforce program standards. View the plan at kiplinger.com/letterlinks/leafy.

WHAT'S
IN A
NAME?

Sugar made from corn is...corn sugar, right? Not so fast, say the feds.
Makers of high fructose corn syrup (HFCS) want the simpler moniker for their product, noting the FDA calls corn-based dextrose "corn sugar."

HFCS got its name 40 years ago as a way of distinguishing corn syrup, which has no fructose, from corn syrup processed into fructose and glucose. The latter is now known as HFCS, though it's virtually the same as table sugar.

But HFCS is being linked to obesity, based on unverified claims that consuming the product isn't as healthy as eating traditional table sugar.

And that's a concern for its manufacturers, who fear consumer backlash to the product's use in bakery goods, sauces, jam, yogurt, ice cream and more.

Labeling HFCS as corn sugar isn't in the cards, at least not anytime soon. The FDA rarely changes food commodity descriptions and hasn't done so since it renamed prunes to dried plums in '00. Moreover, consumer groups and table sugar makers are lined up against the proposed name change, saying it would only confuse consumers further, not serve to better inform them.



**WATER
ISSUES**

Uncle Sam is poised to broaden the oversight of wetlands and streams.
And the agriculture, mining and construction industries are crying foul.

In moving to [clarify rules](#) governing implementation of the Clean Water Act, the EPA and U.S. Army Corps of Engineers are once again attempting to redefine which waters are navigable or near navigable waters. Opponents of such a move say that broadening the definition would fly in the face of two Supreme Court rulings that restrict the government's policing of activities in seasonal and small wetlands. Moreover, industry groups say the feds are moving too quickly with the rewrite... it will probably be sewn up soon after a 60-day comment period ends in late June.

A broader definition would require farmers to seek and get more permits for pesticide spraying near some wetlands now excluded from such requirements.

Legal challenges are a good bet to stop the move, but don't look for courts to act quickly. The new classifications may well be enforced for a few years to come.

What will climate change mean for the rivers and lakes of the U.S. West?

Less water for some: The San Joaquin, Truckee, Rio Grande river basins plus most of the Colorado River watershed, says a U.S. Bureau of Reclamation study. Warmer air will speed evaporation and snowpack melt-off...less water in the summer.

But more for others: Above all, in the Columbia and Missouri river basins of the Northwest and North Central regions, respectively. They'll get more rainfall... though less snow and it'll melt faster. So far, Western river basins have warmed 2° F... the study projects a rise of 5°-7° this century. [See kiplinger.com/letterlinks/rivers](http://kiplinger.com/letterlinks/rivers).

**CROP
INSURANCE**

The insured value of crops in USDA's program will soar by 40% this year vs. '10, to a record \$110 billion. Insured value, or liability, is proportionate to prices of crops insured, and most field crop markets are very strong. Moreover, farmers are planting more acres this year and insuring up to 10 million acres more than last year, further adding to insurance volume. Based on tallies of recent years, premiums will total 10%-11% of the value of insured crops. That breaks down into 4% from farmers' pockets and 6%-7% from USDA premium subsidies.

BIOTECH

Now on the Web: A user-friendly catalog of biotech crops worldwide, posted by an international ag biotech advancement group. It lists plant traits approved for commercialization, planting and/or importing for food or feed use with brief descriptions of the crop and trait. It's comprehensive and cross-referenced by crop, genetic event and other ways. See it at kiplinger.com/letterlinks/gmosearch.

CREDIT

The fiscal health of banks that lend to farmers continues to blossom.

Crop and livestock profitability is robust, and farmers and ranchers are paying off loans. The volume of farm operating loans was down 22% in Feb. vs. a year earlier. But farmers are also expanding...machinery loans were up 70%. Meanwhile, just 2% of farm loans were delinquent in the final quarter of last year, and the level will slip more in '11. Plus note the return on assets for banks that lend to farmers: 0.88% in the last quarter of '10 compared with 0.64% for all the banks.

**BAD
WEATHER**

If your farm is hit by tornadoes, flooding, droughts or other disasters...

The Farm Service Agency can help both crop and livestock producers.

Start by calling an FSA office or perusing fact sheets at kiplinger.com/letterlinks/help. Also, if your seeded fields have flooded, be sure to call your insurance agent pronto.

Yours very truly,

The Kiplinger Editors

THE KIPLINGER WASHINGTON EDITORS

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