2009 Ag Outlook Challenging, LSU AgCenter Experts Say

BATON ROUGE, LA.

Falling futures prices for farm commodities combined with a general economic effect on demand and the leftover effects of hurricanes Gustav and Ike will put Louisiana farmers in a bind for 2009, according to economists in the LSU AgCenter.

"Many producers are finding themselves in financially sensitive positions," said Dr. Kurt Guidry, an LSU AgCenter economist. "The 2008 hurricanes caused lost revenue combined with high costs of inputs – primarily fuel and nitrogen fertilizer. Although they're now coming down a bit, those costs are still relatively high compared to historical levels and in light of lower commodity prices."

Costs of production are moderating, Guidry said. Fuel costs have fallen to about half of what they were last year, and nitrogen fertilizer costs have fallen significantly. On the other hand, costs for other inputs, including seeds, chemicals and other fertilizer products, have not fallen significantly, he said.

"Profitability for most row-crop producers is uncertain," Guidry said. "Because commodity prices have fallen more than input costs, profit margins are squeezed for farmers."

For 2009, Guidry expects cotton and corn acreage in Louisiana to be down from last year. Wheat, which is planted in the fall, is already down significantly. Rice acreage will likely increase, more in north Louisiana than in the southern part of the state. And soybean acres will be up.

Commodity prices for rice will stay significantly above the recent long-term average in 2009, said LSU AgCenter economist Dr. Mike Salassi. "Prices won't be as high as 2008, but they won't be as low as 2007," he said.

In 2006, diesel and fertilizer costs rose and acres fell – about 20 to 30 percent in Louisiana, Salassi said.

"After acreage went down, prices went up, and the rice acres have been stable since then," he said.

Salassi said about half the U.S. rice crop is exported, so world supply and demand, the international economy and the strength of the dollar all play into rice prices.

Rice prices at the $12 to $15 per hundred pounds range are strong and should encourage Louisiana rice farmers to plant about the same acreage in 2009 as in 2008, he said.

"The costs of diesel and fertilizers have fallen and may bring more acres into production," Salassi added.

2008 Louisiana sugarcane tonnage was low, mostly because of dry growing conditions early in the year, Salassi said.

"Sugar per ton of cane, however, was one of the highest on record and estimated at 224 pounds," he said.

For 2009, lower fuel and fertilizer prices may be an advantage but probably will not offset the currently low raw sugar prices and lingering acreage and yield effects from the 2008 hurricanes, Salassi said.

"Net returns in 2009 will be very tight for many sugarcane farms in the state" he said.

"It looks at this time like we will have some amount of acreage that was planted in 2008 plowed out in 2009," Salassi said. "Acreage planted late last year because of the hurricanes could very likely not generate yields sufficient enough to keep that land in production. Replanting has a significant economic impact on perennial crops like sugarcane."

For 2009, with sugar prices where they are now and if fuel and fertilizer costs don't rise, sugarcane growers "will be okay," Salassi said.

"Sugarcane is an expensive crop to produce," Salassi said. "Equipment is expensive and underused. This inflates the fixed cost of growing a crop."

The cattle industry faces considerable uncertainty as 2009 begins, said LSU AgCenter economist Dr. Ross Pruitt.

"We're looking at a down year for all livestock commodities," Pruitt said, adding that profitability likely will suffer because of the economic downturn.

He said strong meat exports in 2008 fell off late in the year because of the strengthening dollar in the world economy.

"When prices fall at the feedlot, prices fall to the calf producers," Pruitt said, noting that the cattle industry in Louisiana consists primarily of cow-calf operations where producers sell calves to others who finish raising them for market.

While tightening supplies of fed cattle will lead to lower beef production in the first half of 2009, this year's calves in Louisiana are bound for the 2010 market.

"Consumers are choosing cheaper cuts of beef, such as roasts, as well as switching to pork and poultry," Pruitt said. "Lower feed costs are good for the state's poultry producers, even though the number of birds being raised is down."

Pruitt said he expects poultry production to fall because of a profitability squeeze.

The LSU AgCenter economists agree the world economy will have its effect on Louisiana agriculture.

"Producers will choose an enterprise mix that offers the best chance for success," Guidry said. "2009 is going to be a year where they're going to try to regroup."

Guidry sees producers likely to plant lower-cost crops, like soybeans, to mitigate their risks.

"The largest concern to the beef industry in 2009 will be the health of the general economy," Pruitt said.

The 2008 federal farm bill also will affect how producers approach their operations, Salassi said.

Because of restrictions on federal payment limits, every operator has to document being actively engaged and make a significant contribution in capital, equipment, land, labor or management in order to participate in subsidy payments, he said.

"Payment limitations are more significant to cotton and rice farmers than corn and soybean farmers because cotton and rice produce higher gross incomes but with higher costs," Salassi said.

Guidry said lenders likely will have money to lend to agricultural producers but may have more stringent qualifications than they have had in the past because of tight credit throughout the banking industry.

"The projected thin profit margins for 2009 and carryover debt caused by losses from the 2008 storms will likely make this a more difficult situation for many of our producers," he said.

"Agriculture is inherently a risky proposition," Guidry said. "Weather, pests and markets can all vary considerably from year to year. In uncertain financial times, lenders typically tighten their restrictions on those opportunities with higher risks associated with them." Δ