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**Impact of Farmer Planting Intentions of Commodities**

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## **Impact of Farmer Planting Intentions of Commodities**

### **Introduction**

The rapid rise in farm commodity prices has dramatically affected the planting intentions of farmers including those in Michigan. On March 31 the USDA released the intentions of farmers for this spring as well as acres already planted for winter wheat. If these intentions are carried out (and given weather or other factors there may be alterations in actual planting), there will be more soybeans and wheat planted and less corn and other crops planted.

This paper assesses the intentions of farmers with respect to some major field crops grown in Michigan, corn, wheat, soybeans, dry beans, and sugarbeets. Both national and Michigan intentions will be analyzed. One important consideration facing the Michigan agricultural community is the need to maintain sufficient acres in dry beans and sugarbeets to ensure that the processing and handling infrastructure for these commodities stay in place. If there is insufficient production of these commodities, the infrastructure for handling these commodities will disappear and once gone it is unlikely that they will ever return.

### **Corn**

Corn acres are expected to decline in 2008. It is anticipated that acres planted in corn will be 86.01 million acres in 2008, a decline of 8.1 percent from 2007. However, this represents an increase of 9.8 percent from 2006 (NASS, p.4). While there is a decline, by historical standards there will be a great deal of corn planted in 2008. The acres planted in corn in 2007 were the highest since 1944 (NASS, p. 27). Strong export demand and high demand from the ethanol industry will ensure high prices for corn in 2008.

Michigan corn acreage planted is expected to be 2.35 million acres in 2008, a decline of 11.3 percent from 2007, but an increase of 6.8 percent from 2006 (NASS, p.4). Michigan farmers are in sync with national trends.

There are several factors that have combined to reduce acres planted in corn from 2007 to 2008. High wheat and soybean prices have made these crops more competitive relative to corn. High input prices, especially fertilizers have also made the costs of growing corn more expensive relative to other crops. Also some farmers will cut back on corn acreage to return to their traditional crop rotations. Growing corn several years in a row tends to reduce per acre yields.

As a result of the planting intention report, the price of corn has remained strong. On April 1, September futures on the Chicago Board of Trade were \$5.84 a bushel and December futures are \$5.80.

## **Wheat**

Wheat acreage is up from 2007, and Michigan is one of the states with the biggest increase. Total wheat acreage planted is estimated to be 63.8 million acres, an increase of 5.6 percent over 2007, and an increase of 11.3 percent from 2006. Acreage for winter and spring wheat is expected to be up, with the biggest increase in percentage terms being durum wheat up 22.4 percent from 2007 (NASS, pp. 8-10).

Michigan wheat acreage at 730,000 acres is up 30.4 percent from 2007 (NASS, p.8). This also represents an increase of 10.6 percent from 2006. High corn prices in 2006 and 2007 led to a shift away from wheat to corn in 2007. High wheat prices have encouraged Michigan farmers to shift acres back to wheat.

The initial response to the planting intention report has been a reduction in wheat futures prices. Wheat futures were down the limit on March 31, and again in early trading on April 1. Chicago May futures were at \$9.10 and July futures were \$9.17. By historic standards these prices remain very high.

## **Soybeans**

Intended planted in soybeans are 74.8 million acres, an increase of 17.5 percent from 2007. However, this is still 1.0 percent below the acreage planted in 2006 (NASS, p. 13). Michigan farmers plan on planting 2.0 million acres of soybeans in 2008, an increase of 14.3 percent from 2007, but unchanged compared to 2006 (NASS, p.13).

The factors for increased soybean acres are the same as wheat, high prices relative to corn, higher input costs especially for fertilizer which makes soybeans comparatively less expensive to grow relative to corn, and an interest in maintaining good crop rotations.

The USDA report affected futures markets temporarily. Chicago soybean futures were down the limit on March 31 but rebounded on April 1.

## **Sugarbeets**

It appears that one crop that is suffering consistent declines in acreage is sugarbeets. Nationwide, planned sugarbeet acreage is 1.13 million acres, a decline of 10.9 percent from 2007. The number of planned sugarbeet acres is down 17.2 percent from 2006. It appears that high corn, soybean, and wheat prices are driving down acreage devoted to sugar beets (NASS, p.16).

Michigan farmers plan on planting 141,000 acres of sugarbeets, a decline of 6.0 percent from 2007, and a decline of 9.0 percent from 2006 (NASS, p.16). While this is not a large decline, if the trend continues, there may not be sufficient sugarbeet production to keep the current processing facilities employed. If processing plants close, it is unlikely

that they will ever reopen. The Michigan sugar industry would face the same fate as the Ohio, sugar industry and effectively cease to exist.

### **Dry Beans**

The same may hold true for dry beans. Nationwide, planned dry bean acreage is 1.4 million acres, a decline of 8.4 percent from 2007 and a decline of 14.2 percent from 2006. Michigan production which has been declining for some time, is planned to be 190,000 acres in 2008, a decline of 5.0 percent from 2007, and a decline of 15.6 percent from 2006 (NASS, p.16).

As is the case with sugarbeets, it appears that high prices for corn, soybeans and wheat are leading to a reduction in the production of dry beans. Foreign competition has also adversely affected dry bean production in the past. As is the case with sugarbeets, a long term decline in dry bean production may lead to the elimination of processing and handling infrastructure in the industry with the potential for the long term decline and perhaps the end of the industry in the state.

### **Implications**

High prices for soybeans and wheat have led to an increase in planned acres planted in wheat and soybeans. Some of this increased acreage has come from a reduction in corn acreage. However, corn acreage remains high by historical standards.

What does appear to have happened is that acres planted to other crops have declined. In Michigan sugar and dry bean acres have declined. In other states, especially in the South and West, cotton acres have declined. It is anticipated that cotton acreage will decline by 13 percent in 2008 compared to 2007, and is down by more than one-third from 2006 (NASS, p.15). The planting intentions of Michigan farmers mirror that of farmers throughout the U.S.

One issue this paper does not address is the impact of these high prices on land enrolled in the Conservation Reserve Program (CRP). Many contracts are set to expire in the next two to three years. If crop prices remain high, some of this land will go back into production.

An important consideration, especially for a state such as Michigan that has been reliant on specialty crops is to ensure that there is sufficient acres devoted to crops such as dry beans and sugarbeets, if these industries are lost, they are unlikely to ever return. Also, the less diversity in crops produced, the greater the risk farmers face. If Michigan crop production patterns begin to look like Iowa and Illinois, so will variation in farm income.

### **Source**

National Agricultural Statistics Service (NASS). *Prospective Plantings*, March 2008.