



Season 2 Episode 8 – Crops Acreage Report

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Adam Rabinowitz:

Welcome back to another episode of the Alabama Crops Report Podcast. This is your co-host, Adam Rabinowitz, an assistant professor and extension economist with the Alabama Cooperative Extension System.

Scott Graham:

I'm Scott Graham, extension entomologist. Adam, how's it going today?

Adam Rabinowitz:

Things are going pretty well. We're here entering July at this point, and we are moving along through summertime.

Scott Graham:

It's been one of the fastest summers I can remember.

Adam Rabinowitz:

Really is. I've been doing a lot of traveling lately. I feel like I've been out of Auburn more than usual, and, as a result, it's flown by.

Scott Graham:

Yep. That's not a bad thing, though. That means maybe football season and cooler weather will be here at some point.

Adam Rabinowitz:

Cooler weather, yes. We have certainly had some very hot weather.

Scott Graham:

All right. Well, in today's episode, we've got Dr. Wendiam Sawadgo, assistant professor and extension economist with responsibilities in agricultural marketing. Wendiam, how's it going?

Wendiam Sawadgo:

It's going real well. Been long summer for me, too, but really enjoying it. I have gotten to do some traveling lately, so can't complain.

Scott Graham:

Good. Well, Wendiam, as we bring you on today, today is July 1st. That means our USDA acreage report just came out, so we thought it'd be a good time to get you in, kind of talk about what it said, what that means for us for the rest of the year. How does our acreage planted compare to last year?

Wendiam Sawadgo:

There've been a couple changes from what we saw last year, mainly in terms of corn and soybeans. Last year we were around 93 million acres of corn nationwide. That dipped down to a bit lower than 90 million acres this year. Soybeans, on the other hand, up slightly, but I'd say the major changes have been with cotton and peanuts. Cotton up about 11% nationwide and peanuts down about 3%, so those are more of our Southern crops.

In terms of Alabama, though, specific, similar to what we see nationally down about 55,000 acres of corn to about 300,000 acres this year, so pretty sizable dip there for corn. Soybeans up about 13%, so you could see a bit of a switch from corn to soybeans in the state. Cotton up about 5%, so still strong cotton acres around 420,000 acres statewide, and peanuts up slightly. Sort of we're the only state that have, among the top four peanut producing states that actually saw acreage increase, so up about 5,000 acres there.

Adam Rabinowitz:

That's interesting to see an increase on the peanut acreage certainly. I know that was something that was not in part of the perspective planting release, which is what we talked about when you were here last with us. Can you elaborate maybe a little bit more on the differences between what we expected from the March report and what we've actually seen, at this point, with the producers' plant?

Wendiam Sawadgo:

I'd say the biggest change is the peanuts. We were expecting a lower peanuts crop this year or peanut acreage this year in March, and that continued to be true. The sort of lone increase was Alabama, but a lot of the other states that were projected to see increases, fell even further. We were expected to have about 1,570,000 acres of peanuts. That fell closer to 1,540,000 acres, so about a 30,000 acre dip there. That's one change.

Cotton, pretty similar to what we were thinking before. Maybe adding about 250,000 acres, but nothing too drastic there. Soybeans, back in the March report, I was saying expect a record planted acreage. That's come down a little bit, so down about three million acres, two to three million acres less than what we expected in March. But corn acreage, on the other hand, has come up a little bit.

Now I will say the big thing is we've planted fewer acres than we have in previous years, so just a lot of weather conditions sort of up in the Northern Great Plains, North Dakota, especially, been really slow at planting their corns. There are still about four million acres of corn, couple million acres of soybeans that have let yet to be planted that are still planned to be planted this year. Stuff could always change there.

Adam Rabinowitz:

Certainly, some weather impacts outside of Alabama affected planting. What do you think, though, in terms of where prices were, not... We'll get to where prices are right now, but where prices were, and how that potentially has affected what we've seen in terms of these planted acres?

Wendiam Sawadgo:

This spring, no surprise. We had cotton. In the past, it was well over a dollar expected, looking at a \$1.20 range. Corn prices, soybean prices, wheat prices, all the highest we've seen in over a decade. At least that was the case in March, and so no surprise we saw cotton acres sort of skyrocket. No surprise we saw corn and soybean acres remain pretty solid. Wheat acreage was up, too, so not a whole lot of surprise there, at least where we were at planting season.

Scott Graham:

As Adam just kind of mentioned, we're not where we were with the markets today as we sit here on the 1st of July. I'm guessing that's probably not directly correlated to this report because it just came out. But how do you think the market will respond to this report?

Wendiam Sawadgo:

If I had done this podcast two weeks ago, it'd be a whole different tune. But, from June 17th to June 30th, really, we saw prices dip across the board, agricultural commodities, other commodities, metals. There's just been a bit of a bear run right there. For instance, cotton prices, we've seen drop about a quarter from a \$1.20 or so on June 17th to about 98 cents, looking at the December's future contract there. Pretty good drop there.

Corn, soybeans, wheat dropped one to two dollars a bushel, so pretty big decrease. Going back to what this report might do, I think a lot of the numbers were sort of baked in. It was kind of expected that soybean acres would fall a little bit, corn acres would rise a little bit, cotton, wheat, pretty steady, so we've seen not a whole lot of change. I mean, soy beans, wheat, corn were pretty much unchanged by the report, maybe changed by five to 10 cents since the release of the report in about a day. But cotton prices did continue to drop, fell about two cents after the report, so the higher cotton acreage might not bode well.

Adam Rabinowitz:

You mentioned some of the global factors affecting this price drop recently. What does this really mean to producers as we looked at kind of some of these futures prices, especially, I think of cotton, in particular, here in Alabama. We were looking at December futures, \$1.20 as you mentioned, maybe even up to a closer to \$1.30 at one point a little over a month ago, and now we're under a dollar.

Wendiam Sawadgo:

It's the tough thing. There's a lot of uncertainty. I think that's one of the biggest things, getting into some of the factors that might be driving this, macroeconomic conditions, looking at persistent inflation not only affecting farmers on the input side, but affecting consumers as well. When consumers start to feel their budgets be a little bit tight, maybe they cut out some of their just non-essential items. Maybe clothing, stuff like that, ripples its way down to cotton prices eventually. Just a lot of concern. Are we going to see the market... The market's been strong for about a year into the last couple weeks. Is this just a temporary dip, or is this the start of something bigger?

Scott Graham:

Do you want to look into your crystal ball here on the podcast and say if this is a blip or if this is the start of something? The answer can be no.

Wendiam Sawadgo:

Not really.

Scott Graham:

When I think about our input prices and a lot of insecticides, as an etymologist, are kind of hard to get. They're costing more than they are in previous years in a lot of cases. I'm guessing those aren't going to change with the price of cotton changing. What do you think about trying to manage our variable costs and our input costs versus the prices of what we're seeing with the commodities?

Adam Rabinowitz:

I just got to say, Scott, first, you sound just like an economist there.

Wendiam Sawadgo:

Yes, you do.

Scott Graham:

I heard you say a bunch of buzz words, so I dropped them in. Variable costs and stuff like that.

Adam Rabinowitz:

We're bringing you over.

Scott Graham:

I'm learning.

Wendiam Sawadgo:

But you make a really good point. It's always good to have a marketing plan where you can lock in some prices, guarantee some profit as best as you can on some of your acres. With variable costs so high, the worst case scenario is you put in all that money up front, high inputs, spending a lot of money, and then see a market dip and not necessarily get the revenues to cover those costs. Having good knowledge of your production costs, maybe using some of the enterprise budgets we have on the ACES website can be useful in really trying to figure out what you can afford to sell your cotton at and still make profit or for all your crops, in general.

Adam Rabinowitz:

For those that may not have locked in those higher prices, it might be time to really think about is this an opportunity now to have to move and at least lock in something to cover some of those costs, even if it's just part of that acreage because we don't know if we're going to continue down the downward path or swing back up a little bit?

Wendiam Sawadgo:

Definitely.

Scott Graham:

This may be a question for both of y'all, but could this be a situation where you got some folks who kind of have the mindset mentality on farming yield, and you got some folks who are more farming quality than they are yield. Is this a situation where if I didn't lock in those high prices, should I start thinking more about quality over yield, or am I still pushing yield?

Adam Rabinowitz:

Well, that is actually an interesting question. I'll throw in another dynamic, because, from an economist, we're thinking not about managing quality or maximizing yield, but really maximizing profit.

Scott Graham:

Yeah, that's a great point too. We actually made that point at our Cotton Scout School this past week that this year, we need to be farming money and doing everything we can to maximize our margins.

Wendiam Sawadgo:

Going back to what you said, profit, it does depend on yield, but it does also depend on quality. I think as an economist, I'll throw in the word trade-off there, that there is some opportunity to think of you want to make sure you're covering those costs and making as much money as possible, but there might be different ways to go about doing that.

Adam Rabinowitz:

Certainly, we need to recognize a lot of the uncertainty. One of those uncertain factors is what's going to happen with our weather here in the state the rest of the growing season, and how that ultimately impacts the final yield in the crop that's produced.

Scott Graham:

Absolutely. Well, guys, anything else we need to cover or talk about before we wrap this thing up?

Wendiam Sawadgo:

You mentioned weather, I talked a little about the planning issues sort of in the North with corn and soybeans. Now it's the question of what are our yields going to look like? If our cotton and peanuts, that's always a pretty good question... Texas right now has been through some pretty bad drought. Thinking about that's the place that produced about a third of the cotton. If that effects yields there, that could have a pretty sizeable impact on what's expected in terms of yields this year. We've seen those cotton prices dip, but that's by no means what's going to happen for sure. Always supply side issues can always change up where markets are going.

I should also mention being in the Southeast with tropical storms being predicted to be maybe a little bit more than active this year, that could always reduce the percentage of cotton acreage that ends up harvested. Last year we had a really good year. Only about 10% of cotton acreage was unharvested. The previous couple years, we were closer to 30%. This year we might be towards that 25% range if we do have more storms than active. That could reduce some of our production as well, but weather, it's one of those things like prices. I can't always predict the best, so I got to always watch out for that.

Adam Rabinowitz:

Well, you're absolutely right. It's hard to predict the weather. It's hard to predict prices. There are always these external factors that come into play, too. Actually, just one last point that I had thought about as you were talking is that some of the speculative trading that goes on in the futures market, and especially as we see these prices come up and then come back down and a lot of increased trading that occurs. We've seen that in past run ups, and I think we've probably seen a little bit of that in the current one as well.

Wendiam Sawadgo:

Especially with cotton, that's such a big deal. You might say that some of the speculative trading meant cotton was over bought when we were at a \$1.30, and maybe it's a little bit under bought right now at 98 cents. That's part of the reason why I do think cotton prices might come up a little bit is these speculators switching off of long positions towards short positions, but potentially going to go back to somewhat of an equilibrium at some point.

Adam Rabinowitz:

No easy answers when it comes to pricing and the economics of agriculture. That's for sure. Well, we really appreciate you, Wendiam, coming and joining us, once again, a recurring guest on our podcast. Scott, it's been great. Enjoyed recording this episode with you.

Scott Graham:

Yep, yep. Enjoyed it. I learned some stuff today, so that's good. Hopefully, our listeners did, too. When we speak of our listeners, we appreciate y'all tuning in, listening to us every week. As always, if we can ever do anything to help, please don't hesitate to reach out and let us know.

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