News Release
Jan. 8, 2010

Contact: KayDee Gilkey
AVP-Communications and PR
509-340-5303 or e-mail: kaydee.gilkey@farm-credit.com

Managing Margins is Essential for Agriculture

Spokane, Wash. – With descriptions of a sluggish economy, a slow recovery and tighter margins as common themes among most agricultural commodities, higher prices seem less probable and cash flow concerns and anemic sales more likely for many Pacific Northwest producers.

The following highlights depict the general health of select industries included in Market Snapshots, which are published by Northwest FCS' Knowledge Center. Read all Market Snapshots at www.farm-credit.com/resources for more context and comprehensive review.

Beef: Beef producers may have ended 2009 with more questions than answers. Peaking at the onset of 2008, beef production met a global recession and declining beef demand. Today, consumer spending on food items has fallen nearly two percent, and spending in restaurants has fallen even more significantly. Domestic beef demand is expected to remain sluggish. Near-term increases are most likely to occur in exports of U.S. beef.

Wheat: Looking to 2010, producers' forecasted budgets face tighter margins. Increasingly, producers are matching significant input 'pre-buys' with forward contracts and proactive grain marketing as a best practice in profit margin management. Real estate sales activity and prices in dryland grain areas are slow to steady.

Dairy: A return to breakeven prices is met with a collective sigh of relief among Northwest dairy producers who have experienced more than a year of below breakeven prices, lost equity, and significantly stressed financial positions. As dairy producers retrench, they're revisiting dairy business models; increasing attention to risk management – specifically, margin management.

Apples: Conditions changed for the 2009/10 fresh apple crop at the end of the fourth quarter 2009. Although recent estimates peg the crop at 102 million boxes, some believe that quality issues that surfaced during and after harvest will shrink crop volume as packing progresses. This year's crop is not at the upper-end of historical quality, and warehouses will have higher packing cost. Marketing pace and retail pricing will be critical factors in working through the crop, and the rate of pack outs will be key to growers' profitability.

Hay: The slide in Pacific Northwest hay prices bottomed in August, following an uptick in milk prices. With larger milk checks, more dairies are coming into the hay market, and pent up demand should continue to accelerate hay movement and bolster prices. Despite increased demand, a significant amount of hay stocks are still in Northwest growers' hands. Dairies are very light on winter hay inventories, but rebuilding of stocks is likely to be a slow process.

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Forest Products: After five years of declining prices, the outlook for the forest products industry remains soft. While prospects of a bottom for the industry is supported by the U.S.' tentative emergence from recession and perceived stabilization in the housing market, high unemployment levels, unused manufacturing and logging capacity, and low housing starts signal a slow recovery.

Nursery/Greenhouse: Entering the spring 2010 shipping period, the "just in time and if needed" buyer mentality persists throughout the marketplace. The flight to cash mindset by producers anxious to pay expenses contributes to deep discounting that may have long-term implications within the industry. Sellers and buyers alike face cash flow challenges that incent creative terms and pricing to move product. Consumer confidence must improve to stimulate spending and spur plant sales. Expect this to gain momentum in the third and fourth quarters of 2010. Only time will tell whether consumers who forego vacations and stay home elect to buy plants.

Potatoes: Excellent yields and quality are the hallmark of the 2010 Idaho potato crop. Washington potato crops – while more variable in quality – share a common struggle with Idaho: declining prices. In Idaho, year-over-year potato production was up 13 percent, boosted by higher potato acres and record yields. Conversely potato acres and quality were down in Washington. Reflecting the affects of an early season frost, variability in Washington potato quality is significant, with variation by locale, farmer, and field.

Wine/Vineyard: The wine industry is feeling the sobering effects of a jarring one-and-a-half year recession that, by most estimates, ended some time in the third quarter of 2009. Many wineries have struggled with anemic sales in 2009 due to consumer frugality, weak restaurant demand and distribution challenges. The landscape is significantly changed following the economic downturn and wine business owners are searching for clues for where the market will go next.

Knowledge Center quarterly Market Snapshots include information on 18 industries and frequently include special reports. If you'd like to receive these updates on a regular basis via e-mail, please sign up to receive the e-newsletter version of the Market Snapshots at www.farm-credit.com/resources. By registering, you will have access to Northwest FCS' Knowledge Center tools as well as Northwest FCS Resources, like Dr. Dave Kohl and Dr. Ed Seifried's regular columns. Northwest FCS Knowledge Teams have been created for the major agricultural industries Northwest FCS serves and are comprised of experienced, front-line staff.

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