

INTRODUCTION

With an ever-changing production and marketing environment, agricultural producers face a number of difficult decisions. This publication provides Louisiana's agricultural producers with a view of the potential marketing and production environment they are likely to face in 2007. We hope the information will help producers as they make their farm management and production plans for 2007.

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ECONOMIC OUTLOOK

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National Economy

The United States economy has exhibited a great deal of stability over the last decade. The consensus forecast for growth suggests slower, but a respectable, 2.5 percent growth of real GDP in 2007. The most pessimistic signals are worries about weakness in the housing market and the inverted yield curve. However, the labor market continues to look strong both in terms of an unemployment rate under 5 percent and strong job creation. Likewise, the latest figures suggest 2 percent inflation for 2007, which has convinced most economists that the Federal Reserve is doing a good job reducing the risk of inflation.

Concerns about the housing market stem from the fact that the consumption plans of many households have incorporated a higher valuation of their homes. If these selling prices fall and households feel poorer, demand for consumption goods is likely to fall as well. An inverted yield curve occurs when short-term interest rates (usually the three-month United States Treasury Bill) exceed long-term rates (such as the 10-year Treasury note). Historical data suggest an inverted yield curve has preceded many recessions, which has generated some concern among economists. However, some inverted yield curves occurred without recessions and the gap between long and short rates is currently quite small.

Expect an inflation rate again near 2 percent for 2007 and the unemployment rate to again hover around 5 percent nationally. Thirty-year mortgage rates are expected to

remain in the 6 to 7 percent range during the year. After falling in value versus the Euro during most of 2006, the dollar has appreciated a bit in early 2007. Downward pressure on the dollar created by a large trade deficit continues to be offset by upward pressure created by foreign citizens demanding dollars to invest in United States asset markets. The net impact should be relatively stable exchange rates in 2007.

Louisiana Economy

In many respects, the Louisiana economy has shown enormous strength following hurricanes Katrina and Rita. The state's budget is in surplus, job vacancies are at record levels, and employment growth in some Louisiana regions, and wage growth in others have topped the nation during the post-Hurricane period. That said, the devastation from Katrina and Rita is clear in Orleans, St. Bernard, Cameron and other parishes. According to the Louisiana Health and Population survey, Orleans parish had lost 253,376 or 57 percent of its population as of October 2006 and St. Bernard parish population was down 62 percent.

The unusual strength in Louisiana's economy in the face of such devastation can be attributed primarily to two sources. First, and foremost, the rebuilding effort has pumped billions of dollars into the Louisiana economy. Second, Louisiana's oil industry has benefited from higher prices in 2007. The long-term key to Louisiana's economic well-being is to ensure the recovery in New Orleans plus growth elsewhere occurs before the recovery spending runs out.

The performance last year and forecast for the future differ dramatically by region. The forecasts discussed here are primarily updates of information contained in the LSU Division for Economic Development's *Louisiana*

Economic Outlook. Forecasts in the publication were produced using Loren Scott and Jim Richardson's Louisiana Economic Model (LEM).

Consider first the New Orleans MSA. Unlike most hurricanes where repairs can begin almost immediately on damages caused by an initial surge of water and wind, Hurricane Katrina left much of Orleans and St. Bernard parishes under water. Employment after a typical hurricane follows a "V" pattern, where the initial drop due to evacuation is replaced by a rapid surge in employment to reflect rebuilding. Katrina was no ordinary storm and the most affected parishes are still far from a full recovery. With no housing available, uncertainty about flood maps, and some citizens awaiting insurance and Louisiana Road Home money, rebuilding has been slow.

A key to Louisiana's economy over the next few years will be the infusion of \$7.4 billion in Road Home money. However, homeowners are given three options and are not required to make any final decision about rebuilding until a closing is held on their Road Home benefits. As of January 9th, 118 closings had been held and another 236 were scheduled. Most of those making initial selections were choosing to rebuild. However, many potential Road Home beneficiaries appear to be postponing decisions on rebuilding to see what neighbors do and to watch other events in the city.

The challenges in the New Orleans metropolitan area are primarily in Orleans, St. Bernard and Plaquemines parishes. Overall, the LEM is forecasting the New Orleans MSA to add 57,300 jobs over the next two years. Under normal circumstances, this increase would be very rapid job growth, but this growth still leaves employment well below 1980 levels for the MSA.

The Lake Charles MSA has shown the much more typical "V" pattern following Hurricane Rita. Although the MSA did see a slump in October 2005, nonfarm employment is quickly returning to pre-storm levels. Even though Cameron parish is clearly still suffering from Rita, the remainder of the MSA appears to have almost completely recovered from the storm. The LEM forecasts 2,000 additional jobs over the next two years for the Lake Charles MSA or 1.1 percent annual growth.

After an initial surge in population following the hurricanes, Baton Rouge's metro area population leveled out roughly 6 percent above the pre-hurricane levels one year after the storm. Given the historical average of 1.2 percent growth over the last 20 years, this increase implies the MSA experienced roughly 5 years of population growth in a single year – a large, but manageable, number of people. Employment grew by a similar amount (6.1%) post-hurricane. The area cannot continue to grow at this rate, but the LEM is projecting the Baton Rouge area will continue to grow rapidly, adding 15,000 jobs over the next two years.

Lafayette's employment rose by 7.1 percent in the wake of hurricanes Katrina and Rita. The oil industry, relocation and spending by evacuees provided a stimulus to the metro area. The Louisiana rig count has increased from 165 to 201 over time, which means more jobs for both the Lafayette and Houma MSA. The LEM is forecasting 2.5 percent annual employment growth or 7,000 jobs for Lafayette over the next two years.

Houma employment is projected to grow at 2.2 percent annually over the next two years. Expansions by Bollinger Shipyards and Edison Chouest lead the way. Like Lafayette, Houma's oil industry benefits from higher oil

prices and should generate significant employment growth if oil prices continue to exceed \$50 per barrel.

North Louisiana has been less affected by the hurricanes, although evacuees and some opportunities have extended to that portion of the state. Average weekly wages were up by 6.6 percent in Rapides parish – less than the Orleans, which led the nation at 28 percent, but clearly a very healthy rate. Driven by Cleco's Rodemacher power plant's retrofitting project and Union Tank Car, the LEM is projecting an increase of 2,500 persons in Alexandria employment over the next two years, or growth just over 2.1 percent annually.

Shreveport's strength over the next two years will be construction work on Interstate 49 and the SWEPCO and Steelscape construction projects. A permanent reduction in GM's workforce combined with a difficult environment for Shreveport's gaming industry in the face of increased competition from Oklahoma's Indian Casinos pose challenges. Overall, the LEM projects employment growth of 3,800 or 1.1 percent annually over the next two years.

Monroe lost more than 1,400 jobs over the 2004-2005 period, and employment is forecasted to remain flat over the next years. The potential closure of Delphi Lighting and worries about employment loss at Graphics Packaging and Glenwood Hospital offset possible gains elsewhere.

Overall, the Louisiana economy should perform well by typical measures in the upcoming year. However, one must be careful to realize a significant portion of the employment growth may be replacement of workers who left because of the hurricanes. Likewise, it is crucial for the state's economic base to recover to a point that it can sustain itself at a high level when the funds for rebuilding are expended and are no longer around to provide a stimulus to Louisiana's economy.

FARM INPUTS OUTLOOK

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Situation

Farm inputs are those items used to produce the food and fiber needed by the United States and the world. The production process uses some inputs that are completely consumed in the yearly production cycle such as seed, fertilizer, chemicals, fuel, or feed. Capital items are another input type that has a life of several years and is only partially used up in the yearly production cycle. Examples of long term or capital input items are machinery and equipment, breeding livestock, orchards and facilities.

Louisiana agriculture is a large consumer of farm-produced and manufactured inputs. The United States Department of Agriculture estimated 2005 (latest year for which data are available) farm production expenses for Louisiana agriculture, including operator dwellings at \$2.1297 billion, up only slightly from the \$2.0716 billion in 2004. While total farm expenses changed only slightly, individual components exhibited considerable change, especially in the purchased input category.

In 2005, purchased inputs for Louisiana totaled to \$1,314.5 million (up from \$1,260.9 million): purchased feed, \$186 million; purchased livestock and poultry, \$49.5 million; purchased seed, \$121 million; fertilizers and lime, \$153.8 million; pesticides, \$165.1 million; petroleum fuels and oils, \$131.2 million; electricity, \$30.3 million; repair and maintenance of capital items, \$116.7 million; custom work and machinery hire, \$48.5 million; marketing, storage and transportation, \$93.3 million; total labor expense, \$165.7 million; and

miscellaneous expenses, \$218.8 million. Although most input categories experienced increases, some decreased. Miscellaneous expenses increased about 23 percent from 2004 to 2005. Pesticide expenses decreased almost 12 percent while seed expenses increased 10 percent. These changes may reflect the increased use of genetically modified seed that reduces the need for pesticide applications. As expected, fuel expenses increased almost 15 percent and repairs increased about 17 percent.

Capital consumption is a noncash expense component of net business income and returns to operators. Components include the replacement value of capital items consumed during the year and the value of accidental damage. These expenses were estimated to be \$203.9 million in 2005. Farm origin expenses were estimated to be \$356.4 million in 2005 compared to \$330.6 million in 2004.

Payments to stakeholders totaling \$500.2 million are composed of employee compensation (hired labor), \$154.9 million; net rent for nonoperator landlords, \$200.3 million; and interest payments \$145 million. Total payments to stakeholders declined in 2005 from 2004 levels. Expenses in the form of interest payments increased about 15 percent while the other two categories decreased. The changes in the cost of the annual production inputs are of great importance to the producer because changes in these items affect farm organization and net income immediately. Changes in the prices of long term input items affect the producer as new investments are made.

National Outlook

The 2006 USDA Farm Income forecasts for the nation as a whole are published at the Economic Research Service, Farm Income Data Web site:

<http://www.ers.usda.gov/data/FarmIncome/>

The USDA forecasts total United States production expenses will reach \$237.2 billion in 2006. This amount is a 4.9 percent increase from 2005. Farm origin inputs (feed, livestock and seed) are forecast at \$60.8 billion, up about 5 percent from 2005. Manufactured inputs are forecast to be \$38 billion, up 7 percent from 2005. Interest charges are expected to total \$16.4 billion, up 8.6 percent. Other operating expenses are forecast up 8.7 percent to \$78.8 billion. United States agriculture generates a tremendous business cashflow in the process of producing food and fiber for domestic use and export.

Louisiana Outlook

Each year the LSU AgCenter's Department of Agricultural Economics and Agribusiness estimates cost of production for major Louisiana commodities. Electronic copies of this publication are available from the LSU AgCenter's Web site:

http://www.agctr.lsu.edu/en/money_business/farm_business/budgets/

Farm input suppliers were surveyed in the late summer and early fall of 2006 to gather information concerning input costs to prepare the annual 2007 cost estimates. Data from all sources is summarized and compiled into a state or region average price for use in preparing the budgets. A summary comparison of estimated 2007 input prices with prior years is presented below. A detailed listing of inputs and prices used in the 2007 budget projections is shown in Table 1.

Energy

Energy prices have exhibited wide swings since the two hurricanes in 2005. Shortly after the hurricanes, there was a big spike in oil prices due to the disruption of production in the Gulf of Mexico. Since that time, oil prices have moderated, but still exhibited periodic spikes in price. Because oil prices have moderated somewhat, agricultural inputs that are derived from or have a large dependence on oil are not expected to have substantial price increases in 2007.

The Energy Information Administration (EIA) estimated that the United States consumed petroleum products at a rate of 188,000 barrels per day (bbl/d). This rate represents a slight decline from 2005 levels. One contributing factor was that relatively low natural gas prices caused some electric power generators to switch to natural gas. In addition, a relatively mild winter reduced the demand for home heating oil. The EIA projects that total domestic energy demand will continue to increase through 2008 at an annual rate of about 1.3 – 1.4 percent per year.

(<http://www.eia.doe.gov/emeu/steo/pub/contents.html>).

Energy prices are expected to continue to remain high through 2008. The EIA projects West Texas Intermediate (WTI) crude price to average about \$64.42 per barrel in 2007 and about \$64.58 per barrel in 2008 (EIA, Short-Term Energy Outlook, January 9, 2007). The warmer winter has decreased the natural gas demand for space heating. This decrease in demand put a damper on price increases. The Henry Hub natural gas price averaged \$6.94 per thousand cubic feet (mcf) in 2006. This price is expected to increase to \$7.06 per mcf in 2007 and \$7.72 per mcf in 2008. (EIA,

Short-Term Energy Outlook, January 9, 2007).

Louisiana Input Prices

Table 1 shows input prices used in the 2007 enterprise budget projections. These prices represent an average of prices obtained from a number of input suppliers. As a general rule, the prices reflect pricing for consumption by commercial production agriculture. Also, prices do not include rebates or other incentives that may be offered by the manufacturer.

Product prices may vary from one vendor to another. In addition, some products may be available in a number of formulations and sold under a variety of trade names. Such differences provide an opportunity for producers to substitute less expensive products and formulations for more costly products. Producers should carefully look at their input requirements and compare product prices to keep their costs of production as low as possible.

Prices and services offered will vary from dealer to dealer and production area to production area. Careful purchasing must take into consideration not only price but quality and service as well. Price alone should not be the only guide in the purchase of production inputs. Prices for the 2007 budget projections shown below were collected in the summer of 2006. Market conditions may have changed significantly since the time these price estimates were prepared. As a general statement, the prices shown below reflect only small changes from 2006 levels. Some exceptions include inputs utilizing new technology or inputs in short supply. Some new technologies are available for 2007 that were unavailable in 2006, and there is no basis for making a comparison of these prices.

Table 1a: Estimated Prices for Operating Inputs in Louisiana, 2007

Item Name	Unit	Price (\$)	Item Name	Unit	Price (\$)
ADJUVANTS			TECHNOLOGY FEE		
Crop Oil (Seed Oil)	pt	2.12	BG Cot Tech Fee	cap/	19.50
Crop Oil (Petroleum)	pt	0.67	BG II Cot Tech Fee	thou	0.71
Surfactant	pt	1.39	BG II Cot Tech Fee	cap/	40.00
CUSTOM FERT/LIME			BG II/RR Tech Fee	cap/	56.00
App Fert by Air	cwt	5.00	BG/RR Cot Tech Fee	thou	1.09
App Fert by Air(Min)	appl	5.00	BG/RR Cot Tech Fee	cap/	49.00
Custom Apply Fert	acre	5.00	Eradication Fee	acre	5.50
Custom Spread(Truc	appl	4.50	RR Cotton Tech Fee	thou	0.62
Lime (Spread)	ton	40.00	RR Cotton Tech Fee	cap/ac	29.00
CUSTOM SPRAY			SEED/PLANTS		
App by Air (1 gal)	appl	2.50	Corn Seed Bt	thou	2.01
App by Air (2 gal)	appl	3.00	Corn Seed BtRR	thou	2.06
App by Air (3 gal)	appl	3.50	Corn Seed Conv.	thou	1.45
App by Air (5 gal)	appl	4.50	Corn Seed RR	thou	1.76
App by Air (10 gal)	appl	6.50	Cotton Seed Bt	thou	0.28
Custom Apply	acre	5.00	Cotton Seed BtRR	thou	0.44
Custom Terragator	acre	5.00	Cotton Seed Bxn	thou	0.00
LARice GPS Charge-SW	acre	0.35	Cotton Seed Conv.	thou	0.18
LARice GPS Charge NE	acre	0.25	Cotton Seed Liberty	thou	0.62
CUSTOM PLANT			Cotton Seed RR	thou	0.37
LARice Air Plant NE	cwt	5.50	Cotton Seed RR	thou	0.37
LARice Air Plant SW	cwt	5.60	Rice Clearfield 161	lb	0.45
CUSTOM HARVEST/HAUL			Rice Clearfield XL8	lb	3.26
Haul Corn	bu	0.16	Rice Seed (Levees)	lb	0.21
Haul Cotton	lb	0.02	Rice Seed CF(Levees)	lb	0.45
Haul Rice	bu	0.10	Rice Seed Conv.	lb	0.21
Haul Rice (cwt)	cwt	0.25	Rice Seed Hybrid	lb	3.04
Haul Sorghum	bu	0.16	SC Cultured seedcane	acre	484.00
Haul Soybeans	bu	0.16	Sorghum Concept	lb	1.36
Haul Wheat	bu	0.14	Sorghum NonConcept	lb	1.18
LARice Haul	cwt	0.25	Soybean Seed Private	lb	0.38
GIN/DRY			Soybean Seed RR	lb	0.64
Dry Corn	bu	0.19	Wheat Seed Private	lb	0.20
Dry Grain Sorghum	cwt	0.25	SERVICE FEE		
Dry Rice	bu	0.40	Crop Consultant	acre	6.00
Dry Rice (cwt)	cwt	0.90	Insect Scouting	acre	7.00
Gin	lb	0.09	Rice Consultant	acre	7.00
LARice Dry	cwt	0.90	Survey & Mark Levees	acre	4.00
IRRIGATION SUPPLIES			Survey & Mark Levees	acre	3.50
Rice Gates	each	3.65	GROWTH REGULATORS		
Roll-Out Pipe	ft	0.20	Early Harvest PGR	oz	1.55
			LA Polado	oz	0.38
			Mepex	oz	0.37
			PGR IV	oz	1.53
			Pix Plus	oz	0.47
			Pix Ultra	oz	0.79

Table 1b: Estimated Prices for Operating Inputs in Louisiana, 2007

Item Name	Unit	Price (\$)	Item Name	Unit	Price (\$)
FERTILIZERS			HERBICIDES		
Amm Nitrate (34% N)	cwt	17.00	2,4-D Amine 4	pt	1.66
Amm Sulfate (21% N)	cwt	12.00	2,4-D Ester	pt	2.00
Anhy Ammonia (82% N)	cwt	15.00	AAtrex 4L	pt	1.46
Boron (Solubor)	lb	0.66	AAtrex NINE-O	lb	2.54
DAP	cwt	17.00	Accent Gold	oz	7.14
Fert 10-34-0	cwt	17.00	Accent SP	oz	32.85
Fert 41-0-0-4	cwt	19.00	Aim 2EC	oz	5.66
LA Nitrogen	lb	0.39	Aim DF	oz	8.67
LA Phosphate	lb	0.31	Arrosolo	qt	8.26
LA Potash	lb	0.22	Assure II	oz	1.02
Phosphorus(46% P2O5)	cwt	15.00	Atrazine 4L	pt	1.18
Potash (60% K2O)	cwt	14.00	Atrazine 90DF	lb	2.21
Sulfur	lb	0.21	Authority 75DF	lb	26.40
UAN (32% N)	cwt	13.00	Axiom 68DF	lb	19.52
UAN + Sulfur (28% N)	cwt	12.00	Backdraft	pt	2.34
Urea, Solid (46% N)	cwt	18.00	Banvel	pt	9.15
Zinc	lb	0.24	Basagran	pt	10.26
FUNGICIDES			Basis Gold	lb	20.21
Apron Maxx RTA	oz	0.71	Beacon 75% WSP	oz	26.81
Apron XL	oz	7.84	Beyond	oz	3.97
Apron XL LS	oz	6.80	Bicep II Magnum	qt	10.54
Benlate 50 WP	lb	15.95	Blazer Ultra	pt	8.69
Captan 4L	pt	2.83	Boa	pt	3.63
Captan 50 WP	lb	3.57	Bolero 8EC	pt	4.95
Cruiser 5FS	oz	17.38	Boundary	pt	9.82
Delta Coat AD	oz	3.75	Buctril 4EC	pt	14.49
Dithane F-45	qt	3.52	Butoxone 175(2,4-DB)	pt	2.25
Dithane Rainsheid	lb	2.49	Butoxone 200(2,4-DB)	pt	3.22
Fungicide	lb	2.30	Butyrac 175 (2,4-DB)	pt	2.45
Gem 25 WG	oz	3.44	Butyrac 200 (2,4-DB)	pt	3.81
Manzate 75 DF	lb	2.55	Canopy 75%	oz	5.65
Manzate Flowable	pt	1.65	Canopy XL	oz	2.44
Moncut 70 DF	lb	23.83	Caparol 4L	pt	3.74
Orbit	oz	2.75	Celebrity Plus	lb	83.28
Prevail	lb	3.21	Clarity	pt	11.26
Quadris	oz	1.91	Classic	oz	13.02
Ridomil GoldPC 10G	lb	1.90	Clincher EC	oz	1.70
Ridomil Gold PC	lb	1.95	Cobra 2EC	oz	1.11
Rovral 4F	pt	19.83	Command 3ME	pt	12.06
Shelter	oz	8.50	Conclude XACT	pt	7.08
Stiletto	oz	0.51	Conclude XTRA	pt	8.32
Stratego	pt	18.46	Cornerstone	pt	1.79
Terraclor Flowable	pt	4.74	Cotoran 4L	pt	4.79
Terraclor 2EC	pt	1.87	Cotoran DF	lb	7.67
Terraclor Super X EC	pt	3.78	Cotton Pro Flowable	pt	3.44
Terraclor Super X G	lb	2.30	Crossbow	pt	6.54
Tilt 3.6 EC	oz	2.68	Delta Goal	pt	9.44
Vitavax 200	oz	0.46	Denim 0.16 EC	pt	24.06
Vitavax M Flowable	oz	1.06	Detail	pt	7.99
Vitavax RTU-Thiram	oz	0.31	Direx 4L	pt	2.38
Vitavax T-L	oz	0.27	Direx 80 DF	lb	3.89
			Diuron 4L	pt	2.26

Table 1c: Estimated Prices for Operating Inputs in Louisiana, 2007

Item Name	Unit	Price (\$)	Item Name	Unit	Price (\$)
HERBICIDES (continued)			HERBICIDES (continued)		
Diuron 80 DF	lb	3.44	Permit 75DF	oz	17.61
Domain 60DF	lb	12.75	Poast 1.53	pt	8.64
DSMA 4	pt	0.87	Poast Plus	pt	6.31
Dual II Magnum	pt	13.55	Propanil 4E	qt	5.15
Dual Magnum	pt	12.75	Prowl 3.3 EC	pt	2.75
Duet	pt	3.54	Pursuit DG	oz	11.54
Evik DF 80W	lb	6.64	Pursuit Plus EC	pt	6.21
Exceed	oz	10.71	Python WDG	oz	9.40
Exceed Custom Pak	oz	11.50	Raptor	oz	4.09
Expert	pt	3.78	Reflex 2LC	pt	12.25
Facet 75DF	lb	48.37	Regiment 80WP	oz	33.33
First Rate	oz	26.92	Remedy	pt	11.83
Flexstar HL	pt	12.93	Resource .86EC	pt	21.02
FloMet 4L	pt	4.48	Ricestar	pt	15.45
Freedom	qt	2.51	Roundup Original	pt	2.78
Front Row	oz	21.92	Roundup Original Max	oz	0.24
Frontier 6.0	oz	0.65	Roundup Ultra MAX	pt	5.97
Fultime	pt	3.78	Roundup Ultra Dry	lb	8.51
Fusilade DX	oz	1.11	Roundup WeatherMax	oz	0.32
Fusion	pt	19.26	Scepter 70 DG	oz	2.86
Glyphos	pt	2.13	Select 2EC	oz	1.46
Glyphomax	pt	3.49	Sencor 4F	pt	10.25
Glyphosate Plus 4L	pt	2.30	Sencor DF	lb	15.04
Glystar Plus	pt	2.32	Squadron CE	pt	4.55
Goal 2XL	pt	10.93	Stam 4E	qt	5.12
Gramoxone Max	pt	4.86	Stam 80 EDF	lb	4.53
Gramoxone Max	pt	4.86	Staple 85%	oz	18.49
Grandstand R	qt	21.16	Staple Plus	oz	9.35
Guardzman	pt	4.66	Steadfast	oz	21.79
Guardzman Max	pt	5.21	Steel	pt	10.28
Harmony Extra	oz	13.70	Storm	pt	10.52
Hoelon 3EC	pt	9.08	Strongarm	oz	41.08
Karmex DF	lb	4.11	Superwham	qt	6.43
LA Asulox	gal	47.75	Suprend	lb	9.99
LA Weedmaster	gal	24.79	Surpass 20G	lb	2.36
Lariat	qt	5.29	Surpass EC	qt	18.72
Lasso 4EC	qt	3.05	Touchdown	qt	9.32
Layby Pro	qt	9.02	Touchdown 4 IQ	pt	3.16
Lexone 75DF	lb	18.90	Touchdown Total	qt	8.52
Liberty	pt	8.60	Treflan HFP	pt	2.33
Lightning	oz	11.23	Treflan TR-10	lb	0.82
Lightning	oz	11.23	Tri-Scept	pt	5.24
Linex 4L	pt	6.92	Trifluralin 4EC	pt	2.14
Londax 60DF	oz	10.92	Trilin 10G	lb	0.79
Lorox 50DF	lb	15.37	Trilin 4EC	pt	2.12
MSMA 6.6	pt	2.06	Typhoon	qt	13.06
MSMA6 + Surfactant	pt	1.98	Valor WP	oz	4.23
Newpath 2SL	oz	3.91	Whip 360	pt	23.26
Ordram 15-G	lb	1.39	Zorial Rapid 80DF	lb	14.29
Ordram 8-E	pt	7.75			
Outlook	pt	17.61			
Pendimax 3.3	pt	2.54			

Table 1d: Estimated Prices for Operating Inputs in Louisiana, 2007

Item Name	Unit	Price (\$)	Item Name	Unit	Price (\$)
INSECTICIDES			INSECTICIDES (continued)		
Acephate 90SP	lb	7.59	Sevin XLR Plus	qt	7.47
Admire 2 Flowable	oz	4.78	Spintor 2SC	oz	4.63
Ammo 2.5 EC	oz	0.98	Steward	pt	22.01
Asana .66 XL	oz	0.72	Temik 15G Grit	lb	3.11
Aztec 2.1% G	lb	2.48	Thimet 20-G	lb	2.64
Baythroid 2	oz	2.70	Thionex 3EC	pt	3.26
Bidrin 8L	oz	0.81	Thionex 50W	lb	7.37
Capture 2EC	oz	2.45	Tracer	oz	6.33
Centric 40WG	oz	4.60	Trimax	oz	4.49
Comite	pt	10.52	Vydate C-LV	oz	0.56
Confirm 2F	oz	1.46	Warrior Z	oz	2.20
Counter 15G	lb	1.67	Warrior ZT	oz	2.04
Counter CR	lb	2.70			
Curacron 8E	pt	9.19	HARVEST AIDS		
Decis 1.5EC	oz	2.88	Accelerate	pt	2.75
Declare	pt	3.67	Ammonium Sulfate	lb	0.11
Denim 0.16EC	pt	25.16	Boll'd	pt	7.01
Di-Syston 15G	lb	2.77	CottonQuik	pt	3.66
Di-Syston 8	pt	12.91	Def 6	pt	6.91
Dimethoate 4E	pt	4.23	Def/Folex	pt	6.72
Dimilin 2L	oz	1.56	Dropp 50 WP	lb	44.00
Dipel DF	lb	9.71	Dropp SC	oz	2.67
Dipel ES	pt	4.47	Ethephon 6E	pt	5.12
Force 3G	lb	4.45	Finish 6	pt	9.34
Furadan 4F	pt	8.71	Folex 6EC	pt	6.52
Fury 1.5 EC	oz	1.30	Ginstar EC	pt	26.50
Gaicho 480	oz	10.45	Gramoxone Extra	pt	4.86
Intrepid 2F	oz	1.88	Gramoxone Max	pt	4.86
Intruder 70WP	oz	7.67	Harvade 5F	oz	0.72
Karate Z	oz	3.00	Leafless	pt	18.56
Lannate LV	pt	7.09	Prep	pt	5.43
Lannate SP	oz	1.39	Sodium Chlorate 3L	gal	3.00
Larvin 3.2	oz	0.46	Solium Chlorate 6L	gal	4.35
Leverage 2.7	oz	3.04			
Lorsban 15G	lb	1.59			
Lorsban 4E	pt	4.29			
Malathion 57EC	pt	2.63			
Malathion 8E	pt	4.02			
Malathion ULV	pt	4.38			
Mepichlor 4.2% Liq	pt	5.91			
Methyl Parathion	pt	4.26			
Monitor 4	pt	11.98			
Monitor 4	pt	11.98			
Mustang Max	oz	1.63			
Orthene 90S	lb	8.59			
Orthene 97	lb	11.61			
Penncap M	pt	3.48			
Phaser 3E	qt	8.13			
Pounce 25WP	lb	10.87			
Pounce 3.2 EC	oz	0.91			
Provado 1.6F	oz	3.38			
Sevin 80S	lb	5.41			

FORESTRY

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Louisiana Situation and Outlook

The projected Louisiana gross farm value of forest products increased for the period July 1, 2005 through June 30, 2006, which constitutes the period reported in the 2006 Ag Summary. This increase followed a significant decrease in 2005. The 2006 total sawlog harvest increased by 76 million board feet (5.8%) to a cut of 1,346,657,363 board feet. The pine sawtimber harvest increased by 4.8 percent to a total statewide harvest of 1,161,957,595 board feet. The hardwood sawtimber harvest increased to 184,699,768 board feet (a 12.7% increase) in 2006. Pine chip-n-saw harvested in 2006 totaled 1,064,987 cords, a decrease of almost 8 percent from 2005 totals. Over the last two years, chip-n-saw harvests have declined 33 percent.

The 2006 Louisiana pulpwood harvest was 6,127,410 cords, up 596,382 cords (10.2%) from 2005's harvest. Pine pulpwood harvest increased 6.8 percent, from 4,241,394 cords in 2005 to 4,540,106 cords in 2006. Hardwood pulpwood harvest increased by 297,670 cords (20.7%), from 1,289,634 cords in 2005 to 1,587,304 cords in 2006.

Stumpage prices for 2006 were lower overall than they were in 2005, based on statewide annual averages. Pine sawtimber prices were 1 percent lower in 2006, averaging about \$380 per mbf for the year. Oak sawtimber prices were 12 percent lower on average around the state in 2006, at approximately \$276 per mbf for the year. Statewide, average pine pulpwood prices decreased by 14 percent in 2006 reversing a 15 percent increase observed in 2005.

Hardwood pulpwood prices were the only prices to increase, showing a 2percent average statewide gain compared to 2005 prices. For the past two years, hardwood pulpwood average prices have increased by 28 percent. Chip-n-saw prices decreased 14 percent on average in Louisiana in 2006.

The overall gross farm value for all forest products for the 2006 Ag Summary period was \$1.26 billion, up 7 percent from last year's total gross farm value. Of this total, \$668.7 million was in payments to forest landowners (up 1.9% from 2005) and \$592.5 million was in payments to loggers and producers (up 13.3% from 2005). The value added from processing forest products was \$3.3 billion in 2006, which was a 5.5 percent decline from 2005's value added total. The total value of forest products for 2006 was \$4.56 billion, a slight 2.2 percent decline from 2005's total.

The reported product price numbers do not adequately or accurately reflect depressed market prices that existed, particularly in South Louisiana, during the last half of 2005 and on into 2006. For the most part, prices quoted by Timber Mart South are based on already-existing contracts. Therefore, it may not be reasonable to expect to obtain prices for timber stumpage in south Louisiana as they were quoted here.

Conflicting signals are in the forest products economy. The housing boom that lasted for the better part of 14 years finally slowed last year and, nationally, we are now in somewhat of a housing slump. This slump significantly lowers demand for Louisiana pine sawtimber. It could be offset, at least to some degree, by the potential boom in construction that either currently exists or will exist in the near future. However, that boom has yet to substantially materialize. Federal money has thus far been slow to move to

needed construction points. When that does occur, Louisiana should see a bump in demand for its forest products. This bump could always be offset by the fact that many other places have wood and they were not impacted by hurricanes. However, they are affected by the nationwide slowdown in housing. So there could be fierce competition to supply the Greater New Orleans area with the wood it will need.

Hardwood pulpwood markets continue to be stronger (relatively speaking) than their softwood counterparts. The degree to which the hurricanes are still affecting this market is unclear. General global economic conditions, however, continue to improve, and this can improve demand for paper products. Interest rates have not moved up recently, and not many forecast significant increases for the rest of this year. That will change if inflation data show that inflationary pressures are in the economy.

Energy prices peaked in 2005 around \$75 per barrel and now hover around the \$55 mark. Forecasters think it will dip below \$50 per barrel and land at around \$45, where it should stay for a while. This can be upset by more hurricanes or political instabilities around the world. Energy prices significantly affect productivity in the woods, because so much of the cost of harvesting trees is wrapped up in transportation costs.

COTTON OUTLOOK

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World Situation and Outlook

Global cotton consumption continues to increase faster than production. Table 1 summarizes data on the most recent estimates of global production and consumption. World production is forecast at 116.71 million bales, up slightly from the 114.14 million bales in 2005-06. All of this increase was accounted for with foreign cotton production. Foreign production totaled 90.25 million bales in 2005-06 and is forecast to reach 94.99 million this season.

China, India, and Pakistan combined are expected to account for 60 percent of total foreign production in 2006-07. China's crop is currently estimated at 30.7 million bales, up from 26.2 million a year ago. India, the second leading foreign producer, is expected to produce 21 million bales, up slightly from the 19.2 million bales in 2005-06. Meanwhile, Pakistan's cotton crop is forecast at 9.6 million bales, down only slightly from 9.85 million bales the previous year.

Both world production and consumption increased in 2006-07 over 2005-06 levels. Over the last 5 years, cotton consumption has expanded nearly 23 million bales and has doubled in the last 30 years. Foreign consumption surpassed 100 million bales in 2004-05, and is expected to climb to over 116 million bales this season.

World exports are projected to be 40.33 million bales in 2006-07. This represents a

decline from the 44.7 million bales the previous year. As a result of these supply and demand projections, global stocks are expected to decline slightly to 52.26 million bales, while foreign stocks fall about three percent to 45.16 million. The world stocks to use ratio is estimated to be 43.1 percent in 2006-07 and the foreign stocks to use ratio is 38.9 percent.

United States Situation and Outlook

According to USDA's forecast, the 2006 cotton crop is estimated to be 21.72 million bales, down from the record 23.7 million bales in 2005-06. Upland production currently is projected at 20.97 million bales, and the extra-long staple (ELS) crop is expected to reach 756,000 bales.

Upland cotton production is forecast to be lower in all areas of the country except the mid-South. The mid-South increased acreage from 7.433 million in 2005-06 to 8.245 million in 2006-07. Most of the increase was accounted for by increased acreage in Arkansas and Louisiana. Yields per harvested acre continue to increase and were near or above five-year averages in all areas of the country. The yield per harvested acre for upland cotton was 811 pounds of lint. This yield compares to 749 pounds for the five-year average.

The United States cotton demand forecast for 2006-07 is projected at 20.7 million bales, down from last year's record level of 23.93 million bales. United States cotton exports are projected at 15.7 million bales, as the global demand for cotton continues to grow. United States cotton mill use continues to decline and is estimated at 5 million bales for 2006-07. With United States cotton production rising more than the increase in demand, United States ending stocks are projected at 7.1 million bales, the highest since 2001-02.

Prices

Looking ahead to next year, Dec 07 futures have been trading in a 1-cent range around 60 cents. Most forecasters see no major change in factors that would cause prices to increase or decrease significantly. The consensus is that cotton acreage will be down in 2007-08 because of favorable corn and soybean prices. The National Cotton Council report of planting intentions indicated U.S. cotton acreage would be down about 14 percent from 2006 levels. Projections for Louisiana were for a 35 percent decrease in cotton acreage.

However, even with decreased acreage, there is little reason to expect the stocks to use ratio will change significantly. Obviously, weather plays a significant role in determining what cotton production will be in 2007. The year has started off with adequate moisture in most areas of the cotton belt. The weather at planting time will influence planting decisions. In Louisiana, many cotton producers plan to increase corn acreage, but if they are unable to plant corn, cotton acreage may not decrease as much as some are predicting.

An analysis of next year's foreign and world situation shows projected 2007-08 world stocks-to-use ratio continuing to decline. This ratio might suggest a rise in the A-index. However, one would not expect significantly higher world prices based on assumptions of reduced foreign acreage. With world prices above 50 cents, one would have an easier time believing that foreign growers will plant at least the same acreage, and that variations in foreign supply will therefore be mostly a function of foreign weather and yield.

Table 1: Cotton Acreage, Production and Use, 2005 & 2006						
	World		Foreign		United States	
	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07
Supply						
Planted Acres (million)	---	---	---	---	14.25	15.27
Harvest Acres (million)	84.98	86.83	71.18	74.10	13.80	12.73
Yield (lbs./ac.)	646.06	638.03	609.48	616.61	831.00	819.00
Beginning Stocks	54.10	54.33	48.60	48.28	5.50	6.05
Production	114.14	116.71	90.25	94.99	23.89	21.72
Imports	43.99	40.83	43.96	40.80	0.03	0.03
Total Supply	212.23	211.87	182.81	184.07	29.42	27.80
Disappearance						
Mill Use	115.80	121.17	109.91	116.17	5.89	5.00
Exports	44.70	40.33	26.66	24.63	18.04	15.70
Total Domestic Use	---	---	---	---	23.93	20.70
Unaccounted	-2.60	-1.89	-2.04	-1.89	-0.56	0.00
Ending Stocks	54.33	52.26	48.28	45.16	6.05	7.10
Ending Stocks/Use Ratio (%)	46.9	43.1	43.9	38.9	25.3	34.3
Unless otherwise noted: 1000 480-lb bales are the unit of measure						
Source: USDA, 1/12/07						

SOYBEAN OUTLOOK

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Introduction

Despite relatively bearish supply and demand numbers, the soybean market has been able to ride the momentum in the feed grain market to generate extremely strong prices entering the 2007 planting season. From a fundamental supply and demand perspective, soybean production is characterized by high supply and extremely burdensome stocks.

Currently, ending stocks for the 2006/07 marketing year are expected to reach the highest level in the past 26 years and one of the highest levels ever on record. Coupled with large United States supplies and stocks, the continued trend of expansion in South America has helped world soybean production and stocks to reach near record levels as well. To this point, however, the excitement and uncertainty caused by the explosion in the biofuels industries have been enough to override bearish fundamentals.

National and International Situation

By most accounts, the fundamental supply-and-demand situation for soybeans does not paint an optimistic picture. Soybean production in 2006 was ramped up as planted acres increased by more than 3 million acres. With the outlook for higher fuel and fertilizer prices prior to the start of the 2006 growing season, many producers shied away from corn in favor of soybean production. With the increase in acreage and above average yields,

total soybean production was increased by over 4 percent in 2006, and total soybean supplies increased by nearly 10 percent over the previous year. This sharp increase in soybean supplies continued a three-year trend of double-digit percentage increases in soybean stocks.

The world soybean supply situation has also, unfortunately, followed much of the same trends seen in the United States. From 2000 to 2004, soybean acres in Brazil have increased by more than 68 percent while acres in Argentina have increased by more than 38 percent. This sharp increase in acres has provided for an enormous rise in world soybean supplies. Although acreage has moderated somewhat in Brazil during the last couple of years with poor weather conditions and heavy disease pressure, current acreage is still 45 percent higher than in 2000. Argentina, on the other hand, has continued the trend from 2000 to 2004 and has continued to add to acres over the past few years.

The current crops in both Brazil and Argentina are generally viewed as very favorable. Although minor weather difficulties and soybean rust have been issues this year, yields are still expected to be very strong as harvest progresses over the next couple of months. Current estimates are for Brazil production to reach anywhere from 57 to 60 million metric tons while Argentina production was increased in the latest USDA projections to 44 million metric tons. Collectively, these production estimates represent nearly a 10 percent increase over the previous year and would result in record production levels. As such, there would not seem to be any help from South American production to help improve the overall bearish situation created by the United States current burdensome stocks levels.

On the demand side of the supply-and-demand equation, both domestic crush and exports are expected to improve during the 2006/07 marketing year. Domestic crush is expected to increase by slightly over 2 percent, and exports are expected to increase by nearly 18 percent. To some extent, growth in the bio-diesel industry is expected to support domestic crush. Although bio-diesel expansion has appeared to take a similar path as experienced by the ethanol industry, the few differences in the two industries make it difficult to expect the same impact on soybeans that has been seen in the feed grain market from ethanol. First, several different feedstuffs can be used to make bio-diesel that are as effective and efficient as soybean oil. In fact, some feedstuffs are more economical than soybeans to make bio-diesel. This is not the case currently with ethanol, which still has corn as its primary input. Therefore, the competition from other oils and fats in the production of bio-diesel will likely limit its impact on the soybean market.

Second, with crush margins highly dependent on soybean meal prices, the ability of soybean crush to increase substantially will be dictated by the ability to market soybean meal effectively. Soybean crush during the first quarter of the 2006/07 marketing year was up nearly 4 percent from the previous year. With increased soybean meal production, the market has already seen some pressure on prices. Soybean meal prices during the first quarter of the 2006/07 marketing year fell by \$10 - \$20 per ton. Also, with the increase in feed grain prices, the livestock sector will likely limit the amount and number of animals fed for much of 2007, which would likely further affect soybean meal prices.

Export demand has been relatively strong thus far in the marketing year. Through January 2007, soybean exports were up nearly

27 percent from the previous year. Supported by an increase in sales to China, export demand has been very strong and is currently on pace to exceed the year-to-year change expected by the USDA of 16 percent. However, with the large South American crop on the horizon and the seasonal slowdown normally experienced in the last half of the marketing year, some suggest export demand will slow down significantly. The USDA also seems to hold this view as export demand was decreased in its latest report by 20 million bushels. Although exports will still undoubtedly outperform the pace set the previous year, any reductions in demand will simply add to an already historic stocks situation.

With the latest revisions by the USDA, soybean stocks to start the 2007 crop year now stand at 595 million bushels. This figure represents a 32 percent increase over the previous year and a whopping 148 percent increase above the five-year average. These levels are certainly not stock levels that would conjure up ideas of \$8 soybeans. Therefore, the ability to keep prices in the same vicinity of current prices as the market moves closer to harvest will highly depend on production in 2007 and the ability of this market to shift acres out of soybean production and into feed grain production.

Currently, market analysts have suggested acreage decreases for soybeans from 4 to 7 million acres with the most common estimate of 6 to 7 million acres. This type of reduction would obviously help moderate some of the negative long-run outlook for this market by reducing supplies and hopefully, significantly reducing ending stocks levels. How acres are actually reduced this summer will likely be the most significant factor in this market. Weather conditions at planting along with the relationship between corn and soybean prices from now until the spring will likely

determine just how closely acres are able to approach the current acreage reduction estimates. With soybean prices currently around the \$8, producers will not shy away from planting soybeans should conditions to plant corn push plantings beyond the optimum time frame.

Louisiana Situation

Unlike the United States, Louisiana soybean acreage in 2006 was mostly unchanged as acres fell only 10,000 acres to 870,000 acres. Although thoughts of higher fuel and fertilizer costs resulted in lower corn acres in the state, those acres were not automatically converted into soybean production. In fact, most around the state had anticipated soybean acres to approach or even surpass the 1 million-acre level given a lack of more attractive alternatives. However, after a relatively good start to the planting season, drought conditions in May and June likely reduced the number of acres planted. Also, with the threat of Asian soybean rust expected to be higher in 2006, many producers likely wanted to limit their overall risk exposure and therefore limited their soybean acreage.

Unfortunately for some of the state's soybean producers, the drought conditions persisted beyond the planting season and had an impact on early planted and early maturity varieties. However, later maturing varieties and irrigation made up for the disappointing yields of the earlier maturing varieties. The state average yield was estimated at a record of 35 bushels per acre. Late-season rains potentially helped yield tremendously on the later planted crop. Also, although soybean rust was confirmed in 26 parishes around the state, the disease did not have widespread yield effects. The drought conditions experienced for a large portion of the growing season likely limited the spread of the disease,

and the disease likely came in too late in the growing season in many areas to have a severe yield impact.

Although soybean prices moderated fairly substantially around harvest, there were opportunities to lock in above average prices earlier in the growing season. With the favorable yields and generally good prices, soybean profitability was fairly good in 2006 for most producers. Typically, with the success of the previous season and strong prices, it would be expected that acres would increase in 2007. With extremely high corn and grain sorghum prices, however, much of the interest heading into the 2007 growing season seems to be on feed grains.

With high feed grain prices and the potential for increased severity in soybean rust, there is little to suggest a substantial increase in soybean acres. On the other hand, with current prices for the 2007 crop around the \$8 per bushel level, there is not much anticipation for a dramatic decrease in acres. Given a lack of motivation to either increase or decrease acres, 2007 acreage could come close to the 870,000 acres in 2006 with a logical range from 850,000 to 900,000 acres. Obviously, weather conditions later this spring will be critical in the final acreage figures. Given the relatively tight window to plant corn, any delays could push acres originally intended for corn into soybean production.

Price Outlook

The current price situation for this soybean market has more to do with what is happening in the feed grain markets than is happening in its own market. With the explosion seen in the ethanol industry, demand for corn and the other feed grains are expected to increase

dramatically. To meet this anticipated increased demand, the market realizes that it must attract additional corn acres by increasing prices. Similarly, the market realizes that if the relationship between corn and soybean prices deviates too much from average or typical levels, substantial acreage shifts could occur. As a result, soybean prices have improved as corn prices have trended higher to keep that relationship in a reasonable range. Over the last 5 years, soybean prices have typically been 2.4 times higher than corn prices.

With the rule of thumb that a soybean-to-corn price ratio at or around 2.5 generally meant that producers would be indifferent between to two crops, it is easy to understand the trend in acres toward a 50-50 split. However, with the increase in corn prices relative to soybean prices, the soybean-to-corn price ratio has fallen to as low as 1.9, heavily favoring corn. Although the ratio still favors corn, the trend over the last half of January 2007 and the first few weeks in February 2007 was to see this price ratio increase. Currently, the ratio is around the 2.0. If this trend continues as we move closer to planting, the reduction in soybean acres could be smaller than currently anticipated. This would obviously be a negative for the fundamental supply-and-demand picture for soybeans.

As long as corn prices remain strong, soybean prices will likely remain strong in an attempt to maintain potential 2007 acres. Once the uncertainty of 2007 planted acres comes a little clearer into view, the market will likely begin focusing on fundamental supply-and-demand conditions.

This condition occurs when soybean prices would likely come under some pressure. As mentioned, the supply-and-demand picture for soybeans looks fairly bearish at this time. Even with a relative significant reduction in acres in 2007, ending stocks for the 2007/08 marketing year would not likely fall below the five-year average of 250 million bushels. From a historical standpoint, this would put the stocks-to-use ratio around the 6 percent to 10 percent level, which has generally meant soybeans in the \$6 to \$6.50 range. Given the volatility in the market created by the feed grain markets, soybean prices could average on the high end of this range.

With current new crop soybean prices trading around \$8, and with the underlying supply-and-demand conditions, it is difficult to argue against protecting current prices on at least a portion of 2007 expected production. Although the volatility in this market could mean prices could continue to move higher, it is just as likely that we could see some downside pressure. Given this outlook for continued price volatility, forward pricing some of the crop would be logical. However, producers may want to look for those strategies or tools that still provide some upside price potential. Strategies, such as minimum price contracts, cash forward contracts in combination with purchasing call options or purchasing put options, all place a price floor on commodity prices while still allowing the producer to generate a higher price should prices trend higher.

SUGARCANE OUTLOOK

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National Situation and Outlook

United States cane sugar production for FY 2007 is projected at 3.537 million short tons, raw value (STRV), which is about 19.7 percent higher than the previous year. Total sugarcane harvested for the 2006/2007 crop was estimated at 27.852 million tons from an estimated total acreage harvested of 856,300 acres. In the two major production states, sugarcane harvested acreage in 2006 was up in Florida by 10,000 acres and down in Louisiana by 15,000 acres. The United States average sugarcane yield was estimated at 32.5 tons per acre, up from 28.8 tons in 2005/06.

United States sugar beet acres planted for FY 2007 (2006 crop year) was estimated at 1.367 million acres, up about 5.1 percent from the previous year. The national sugar beet yield was estimated at 25.9 tons per acre, up slightly from 22.1 tons in 2005. Sugar beet production was forecast as 33.765 million tons, up 23.0 percent from last year. Beet processors' forecast of FY 2007 beet sugar production is 5.078 million short tons, raw value (STRV), representing an increase of 14.3 percent from the previous year.

The January 2007 WASDE report shows total United States supply of sugar at 12.416 million STRV. This total sugar supply was comprised of 1.698 million STRV in beginning stocks, 8.615 STRV of production, and an estimated import level of 2.103 million STRV. This United States sugar supply level is approximately 2.0 percent higher than a year earlier.

On the demand side, sugar use is projected to increase slightly in FY 2007 over the previous year. Total United States sugar use for FY 2007 is projected at 10.615 million STRV, up 1.3 percent from a year earlier. Total domestic deliveries of sugar are projected at 10.415 million STRV. Domestic food use is forecast at 10.250 million STRV.

Ending stocks for the current fiscal year (FY 2007) are estimated to be up slightly, primarily the result of increased beet and cane sugar production and higher imports in 2006/07. The January WASDE report estimated United States ending sugar stocks at 1.801 million STRV, up from 1.698 million STRV in the previous year. These projected ending stock levels result in a stocks-to-use ratio of 17.0 percent, compared with 16.2 percent in FY 2006.

Price Outlook

Raw sugar prices during the 2006 calendar year fluctuated around 22 cents per pound and were generally about 2 cents above 2005 prices throughout the year. United States raw sugar prices averaged 23.61 cents per pound in January 2006 and were still in the 23-cent range in June. These high prices were the result of a perceived shortage in the domestic market. Little of the 2005 sugar crop was sold at these prices. As grinding began in 2006, raw prices dropped below the 22-cent level and ended the year at 21.74 in December.

United States raw sugar prices for 2007 delivery are currently trading at somewhat lower levels in January 2007, primarily due to excess supply currently existing in the market. Nearby raw sugar futures prices (No. 14 contract on the New York Board of Trade) are currently trading at levels just over 20 cents per pound. Futures contract prices for months in the 2007 sugarcane grinding season are

trading in the 20.2 cent-per-pound range. Although 2007 production of beet and cane sugar will have an effect on market prices throughout 2007, current price projections are lower than desired compared to previous years.

Louisiana Situation and Outlook

In 2006, sugarcane was grown on 433,577 acres in 24 Louisiana parishes (counties). This figure represents a decrease of 28,933 acres or 6.3 percent when compared to the 2005 crop. In 2006, Louisiana had 661 sugarcane producers, down 33 producers, or 4.8 percent, from 2005. An estimated 403,402 acres (a decrease of 22,107 acres or 5.2 percent) were available for harvest for sugar, assuming 6.5 percent of the total acres were used for seed cane purposes. In the past, this figure was 8.0 percent.

Approximately 60,000 tons of cane (3,094 acres) were left standing in the field in the Lacassine area of western Louisiana as a new syrup factory slated for operation in that area was not ready in time to process the entire 2006 crop prior to the closure of the factory receiving the syrup for crystallization into "raw" sugar. Because of the cane left in the field in the western area of the state, the actual acreage of sugarcane harvested for sugar was approximately 400,308 acres. The United States Department of Agriculture, Farm Service Agency, also reported that there were 2,346 failed acres across the state.

The 13 factories (12 raw sugar factories and 1 syrup factory) processed 12,434,452 tons of cane (an increase of 1,648,177 tons or 15.3 percent when compared to 2005). The sugar that was produced from the Lacassine syrup factory was crystallized at one of the 12 raw sugar factories. Total production by the 12 raw sugar factories was 1,260,986 short tons of sugar (96 pol)(an increase of 90,687

short tons or 7.7 percent). Accordingly, the average yield of cane produced per total acre (to include acres used for seed, abandoned and failed) was 28.7 tons (an increase of 5.4 tons or 23.2 percent). The average yield of cane produced from each harvested acre amounted to 31.1 tons (an increase of 5.5 tons or 21.5 percent).

The yield of commercially recoverable sugar produced per total acre averaged 5,817 pounds (an increase of 756 pounds or 14.9 percent). And sugar produced per harvested acre was approximately 6,300 pounds (an increase of 754 pounds or 13.6.3 percent). The average sugar recovery at the 12 factories was 10.14 percent or 203 pounds of sugar (96 pol) per ton of cane; this was a decrease of 15 pounds of sugar per ton of cane or a decrease of 6.9 percent when compared to the 2005 crop.

The gross farm value of \$268,917,170 for sugar and molasses (a decrease of \$23,636,576 or 8.1 percent from the 2005 crop), in spite of the increase yields of tons cane per acre and commercially recoverable sugar per acre, have continued to plummet since the 2002 crop year when the state experienced two tropical systems prior to and during the harvest season and experienced losses in excess of 35 percent. Losses of this magnitude were again experienced by the industry in 2005 caused by Tropical Storm Cindy and hurricanes Katrina and Rita.

The main reason for the lower gross farm value in 2006 has been the steady decline in the prices paid for raw sugar while, at the same time, molasses prices have remained high. The gross farm value reported above represents 60 percent of the value of the sugar and 50 percent of the value of the molasses produced, with the remaining percentage going to processing and marketing. The total value of the sugarcane crop to Louisiana

growers, processors, and landlords at the first processing level is actually \$453,269,527.

The onset of allotments, the gradual reduction in sugarcane acreage, the residual effect of the tropical systems that occurred during 2005, especially in those areas that experienced salt water tidal surges, the keeping of older stubble, the reduced yield in the older stubbles of the leading variety, LCP 85-384, the persistent drought in several of the cane producing parishes, the subfreezing temperatures that occurred throughout the sugarcane belt the first week or more of December and the unprecedented late season rain fall are, undoubtedly, responsible for reduced yields in 2006 even though the current crop was the best in yield of commercially recoverable sugar per acre since the 2003 crop. Even with the reduction in gross farm value, sugarcane still ranks first amongst row crops grown in the state.

The total area planted to sugarcane of 433,577 acres for the 2006 crop was the smallest area since 1998 when 425,000 acres were planted. Although the residual effect of the 2002 and 2005 tropical systems were minimal on the 2006 crop, many producers still had to plough out unproductive fields of LCP 85-384 in the spring of 2006. Approximately 72 percent of the 2006 crop was still planted to LCP 85-384, which has shown a significant decline in yield each year since the 2002 crop.

Further, data obtained during the last three years have shown this variety is very susceptible to common brown rust which was shown to reduce the yield of LCP 85-384 by as much as 7 tons of cane per acre in the heavier infected areas. The amount of plant cane continued to rebound in 2006 with approximately 29.8 percent, which undoubtedly, helped to boost overall yields. Only 41.8 percent of the 2006/07 crop was

second stubble and older; however, 88 percent of the older stubble was planted to LCP 85-384.

Due to weather conditions, the 2006 crop year was one of contrast. Temperature, as a degrees Fahrenheit average for all state reporting stations, was above normal for six of the 12 months, especially during the months of January (+6 degrees), March (+2 degrees), and April (+5 degrees). Only in February was the temperature below normal by more than 1 degree when it was 3 degrees. For the remainder of the year, the average monthly temperatures did not deviate from normal by more than 1 degree.

Rainfall, as an average for all state reporting stations, was below normal for eight of the 12 months and above normal for only four months (February, July, October and December); however, two of those months were during the grinding season, when the industry would like to see below-normal rainfall. Generally speaking, with the warm and dry winter and spring weather, the crop was off to an excellent start; however, much of the state had droughty conditions that persisted well into the summer resulting in below normal growth of the crop in several areas, especially western Iberia Parish and most of Pointe Coupee and northern Iberville parishes.

Fortunately, adequate rainfall in July helped provide moisture for growth for the remainder of the state. No tropical systems affected the crop; however, several periods of thunderstorms and heavy rainfall during the months of October and December caused much of the crop to lodge and made harvesting difficult. Then, during the first nine days of December, most of the sugarcane belt experienced subfreezing temperatures that ranged from lows of 25 F in Terrebonne and Lafourche parishes in the South to 19 F in

the Iberville, Pointe Coupee, Avoyelles and Rapids parishes in the North. Fortunately, most of the cane was harvested with the exception of the Lacassine area, albeit with lower sugar recovery as a result of deterioration caused by the freeze damage and loss of sugar caused by the excessive trash because of the wet weather.

Because of the low field yields, especially in older stubble, and/or the cost of operating the combine system, many growers reverted back to harvesting by the whole-stalk or "soldier" system in an effort to reduce cost. Growers who had the capability to harvest by the whole-stalk system also had an advantage following the freeze when it was recommended that the top 12-18 inches of the top of the stalks be removed because of freeze damage. The whole-stalk harvester has a positive topper, whereas the combine harvester has a stand-alone topper that can only remove tops in erect cane.

Rust did not appear to be much of a factor in reduced yields during 2006, and many producers reported that yields of LCP 85-384 rebounded even in the older stubble crops. However, most producers have begun to plant the newer varieties, namely, Ho 95-988, HoCP 96-540, L 97-128, L 99-226 and L 99-233, which have superior yield in both tons of cane per acre and commercially recoverable sugar per acre when compared to LCP 85-384. There was only limited planting of LCP 85-384 in 2006.

Sugar prices are at their lowest level in many years (<\$20/cwt). Although field yields were much improved in 2006, growers and millers may still have cash flow problems because of the low sugar prices. On the other hand, molasses prices are averaging over \$0.40 per gallon and are expected to remain firm until the end of the pricing period for the 2006 crop.

RICE OUTLOOK

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Introduction

Smaller supplies and strengthening prices characterize the domestic rice market, while tightening supplies and higher prices characterize the international market. Total United States rice supplies for the market year (August-July) 2006/07 are projected at 254.7 million hundredweight (cwt), down 8 percent from a year earlier. At 43.0 million cwt, beginning stocks are 15 percent above last year. Imports remain forecast at 18.0 million cwt, a record level. The 2006/07 United States rice crop remains forecast at 193.7 million cwt, down 13 percent from a year earlier. The 13 percent drop in production more than offset a larger carrying and record imports.

Global rice production in 2006/07 is projected at a record 416.4 million tons, slightly above last year's level. Global rice consumption in 2006/07 is projected at 418.2 million tons, 1 percent larger than a year earlier. Global ending stocks are projected at 78.6 million tons, 1.8 million tons less than last year. The 2006/07 ending stocks-to-use-ratio of 18.8 percent is down from 19.5 percent in 2005/06 and the lowest since 1981/82.

United States Situation and Outlook

On an annual basis, a big increase in beginning stocks and record imports do not offset the big drop in production and smaller crop. At 43.0 million cwt, beginning stocks

are 15 percent above a year earlier. Imports are projected at a record level of 18.0 million cwt. The 2006/07 United States rough rice crop remains forecast at 193.7 million cwt, down 13 percent from a year earlier and the second consecutive year of a smaller United States rice crop. This year's smaller crop is the result of a 16 percent reduction in area and slightly lower yields than expected.

The average yield is forecast at 6,686 pounds per acre, an increase of 232 pounds above a year earlier, but 120 pounds less than the record of 2004/05. The yield in 2006/07 is the second highest on record. Yields are projected to be higher than a year earlier in every reported state except, Louisiana, where yields are projected to be down 3 percent.

Total plantings remain estimated at 2.84 million acres, 16 percent below a year earlier and the lowest since 1996/97. Area is estimated lower in 2006/07 in all reported states, except Missouri and California, with Arkansas and Louisiana accounting for more than three-fourths of the 543,000 acre decline in United States plantings. Missouri's plantings are unchanged from the year-earlier record. An extremely wet and cool spring prevented California growers from expanding rice acreage despite high prices for medium and short grain rice. High fuel and fertilizer prices, difficulty in acquiring loans, and weather problems in some areas, primarily Arkansas, Louisiana and California, were responsible for the decline in United States rice acreage in 2006/07.

Long grain accounts for all of the 18 percent reduction in production in 2006/07 United States crop. Long grain production is currently estimated at 146.2 million cwt. Meanwhile, medium short grain production is estimated at 47.5 million cwt, 4 percent larger than a year earlier. By state, production estimates were raised in January 2007, for

Arkansas, California, Louisiana and Texas. On a year-to-year basis, rough rice production declined in every state except California, with Arkansas and Louisiana accounting for the bulk of the 29.5 million cwt total reduction.

Total use of United States rice in 2006/07 remains projected at 224.8 million cwt, 4 percent below a year earlier. Exports account for the entire decline in total use. Total exports for 2006/07 remain forecast at 102 million cwt, 12 percent below a year earlier. By type of rice, rough rice exports remain forecast at 38 million cwt, up 11 percent from a year earlier. Milled rice exports remain forecast at 64 million, 22 percent below 2005/06.

Total domestic and residual use remains forecast at 122.8 million cwt, an increase of 3 percent from a year earlier. The larger crop estimate in January resulted in a 2 percent increase in the 2006/07 ending stocks forecast to 29.9 million cwt, still 30 percent below a year earlier. The stocks-to-use ratio of 13.3 percent is 5 percentage points below a year earlier. The long-grain ending stocks forecast was raised 8 percent to 22.1 million cwt, 32 percent below last year. Medium/short grain ending stocks forecast was lowered 14 percent to 6.9 million cwt, 27 percent below a year earlier and the smallest since 1998/99.

The 2006/07 United States season average farm price (SAFP) was raised in January to \$9.70-\$10.00 per cwt from \$9.55-\$9.95. The 2006/07 SAFP is well above \$7.62 a year earlier, with the midpoint of \$9.85 per cwt. the highest since 1996/97. The January upward revision was based on reported cash prices through mid-December and expectations regarding prices for the remainder of the market year. Smaller United States supplies and higher global trading prices are behind stronger United States prices in 2006/07. In December, USDA

reported the November rough rice cash price at \$10.00 per cwt, up from a preliminary \$9.46, and reported a preliminary price of \$9.85 for December. The November price is the highest reported monthly price since October 1997.

World Situation and Outlook

Global rice production for 2006/07 is projected at 415.0 million tons (milled basis), down 1.4 million tons from last month and fractionally below a year-earlier record. Global domestic disappearance is projected at a record 417.7 million tons, down slightly for last month's forecast, but 1 percent larger than a year earlier. Global ending stocks for 2006/07 are projected at 77.7 million tons, down 1 percent from last month's forecast and 2.7 million tons below a year earlier. The stocks-to-use ratio of 18.6 percent is down from 19.5 percent in 2005/06, and the lowest since 1981/82.

Indonesia accounts for most of this month's downward revision in 2006/07 global production. Indonesia's production forecast was lowered 1.4 million tons to 33.7 million based on smaller area and slightly lower yield. The area and yield reductions are based on a delay in the rainy season and lack of rainfall last fall. This is the lowest production for Indonesia since 2002/03. In addition, Russia's 2006/07 crop forecast was lowered 55,000 tons to 445,000 tons, based on a lower, but still record yield.

These reductions were partially offset by four upward revisions in 2006/07 production forecasts. First, Turkey's crop was raised 45,000 tons to a record 405,000 based on record areas and yield. Second, Italy's crop was raised 20,000 tons to 870,000 tons based on larger area and a higher yield. Finally, both the United States and Senegal crop forecasts were raised this month.

Global rice trade for calendar year 2007 is projected at a near-record 28.9 million tons, up almost 1 million tons from last month and 1.2 million tons larger than a year earlier. Global trade in 2007 is projected fractionally below the 2005 record of 29 million tons. This upward revision in the 2007 global rice trade forecast is primarily due to a much larger import forecast for Indonesia. In addition, the 2007 Philippines' import forecast was raised 200,000 tons to 1.85 million based on higher consumption and some stock building.

Export price quotes for most grades of Thailand's regular milled rice are up \$10 per ton from early December. The higher price quotes are the result of upcoming large Asian tenders, primarily from Indonesia and the Philippines, and recent large purchases by Iran. Prices for Thailand's high-quality 110 percent Grade B (fib Bangkok) milled rice for export were quoted at \$321 per ton for the week ending January 8, up \$10 from the first week in December. Vietnam is currently not quoting export prices. Since November 12, a ban on exports has been in effect. The ban does not include previous government-to-government sales with Cuba and Indonesia. Expectations are the ban will be lifted when the winter-spring crop is available for sale late in the first quarter.

Export price quotes for U.S. long-grain milled and rough rice are unchanged from the start of December. Prices have risen \$5 per ton in early December, but declined again in early January. For the week ending January 9, price quotes for high-quality southern long-grain rice (No. 2-4 percent broken, bagged, free alongside vessel, U.S. Gulf port) were quoted at \$419 per ton, down \$5 from a week earlier but unchanged from early December. Prices are up \$100 from a year earlier.

Prices for California package-quality medium rice (bulk, fob local mill) for domestic sales were quoted at \$507 per ton for the week ending January 9, unchanged from a month earlier but up \$44 from a year earlier. The year-to-year increase in California prices is largely due to a second consecutive below average harvest and expectations of a very small 2006/07 Australian crop (to be harvested in March and April 2007).

FEED GRAIN OUTLOOK

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Introduction

The single biggest issue that has shaped the feed grain market over the last six months is the expansion of the ethanol industry. With ethanol still being primarily produced from corn, the increase in the number of facilities and the capacity of the industry has created a tremendous demand base for corn. This increase has generated sharply higher prices for corn and has indirectly influenced price movement of other feed grains and oilseeds. In addition to spurring prices, the frenzy created by the ethanol industry has also greatly affected the fundamental supply-and-demand outlook for the feed grain market. Truly, what was a market characterized by growing stocks and lower prices has evolved to one that is attempting to rationing stocks through markedly higher prices.

National and International Situation

With the outlook for considerably higher fuel and fertilizer prices heading into the 2006 growing season, many producers began to seriously re-think their crop mix. With feed grain and soybean prices at planting both hovering at five-year average levels, producers found very little incentive to maintain corn acreage at the previous year level. In fact, the overriding view of markedly higher nitrogen prices helped to curtail total corn acres by more than 3 million acres in 2006.

Although lower acreage and the building momentum in the ethanol industry provided some optimism for feed grain producers, the market still had to contend with high corn stocks and generally favorable growing conditions in 2006. Prices seemed to reflect a still relatively comfortable supply-and-demand situation and began to fall as the market moved closer to harvest. Once past the harvest season, however, the market began to focus on the momentum generated in the ethanol industry.

Optimism about the industry had reached an all-time high as extremely high crude oil prices helped increase demand, and prices for ethanol and reasonably priced corn prices helped to generate staggering profits for the ethanol industry. As a result, industry expansion was set on a fast track, and new plant construction and plant expansion exploded the number of new ethanol facilities that would soon be operating and the amount of corn that would be needed to supply this demand. This focus on potential explosive demand and the need to provide enough corn production to meet this demand generated the start of the price rally that continues today.

As the USDA started to rethink the supply-and-demand situation for corn, it was easy to see that corn stocks would be tightened to historically low levels. This anticipation for dramatically higher demand for corn in ethanol production and slightly lower 2006 production estimates resulted in a reduction of ending stocks for the 2006/07 marketing year by more than 1.2 billion bushels. Currently ending stocks for the 2006/07 marketing year now stand at nearly 52 percent lower than the five-year average and represent a stocks to use ratio of less than 7 percent, the second lowest level in the past 30 years and the lowest since the 1995/96 marketing year when the marketing year average price for corn reached \$3.25 per bushel.

With the vastly improved supply-and-demand situation and the need for the market to attract significantly higher corn acreage in 2007, corn prices have reached historically high levels. Corn prices have been at current levels less than 5 percent of the time in the last 26 years. While prices will likely remain strong until the market has a better feel for actual 2007 production, there will likely be some market adjustments that will evolve over the year that will ultimately determine the long-run viability of current prices.

The issue that remains to be seen is how current high prices will affect the other traditional uses of corn. Current price levels are expected to negatively affect both feed and export demand. Historically, high prices would be expected to effectively curtail demand in both the feed and export markets. During the 1995/96 marketing year when prices rose above \$3 per bushel, feed demand fell by roughly 15 percent from the previous year.

Feed demand during the first quarter of the 2006/07 marketing year was down roughly 4 percent from the previous year. Feed demand is expected to continue to lag last year's pace as livestock producers try to reduce the number of animals on feed as well as the time they are kept on feed. In addition, with the drought conditions of 2006 and the forced cattle liquidations slow down herd expansion, most in the market expect cowherd expansion and replacement heifer retention to increase in 2007 as forage availability improves. This is also expected to reduce total numbers of cattle on feed.

Surprisingly, however, the market has yet to experience a significant slowdown in export demand. Robust export sales have generated an export pace that is nearly 24 percent higher than the previous year. This pace has provided even more support to prices

over and above that created by the ethanol industry. One reason that the slowdown in export demand has yet to take place is that many of the competing export countries had relatively low production last year. In addition, China, a traditionally large corn exporter, has seen a dramatic reduction in their corn stocks, which has limited their ability to aggressively participate in the export market. In fact, the world corn situation is very similar to that of the United States in which corn stocks are at historically low levels. As a result, the United States should remain as the chief supplier of corn in the world for the next couple of months, until new crop production begins in many of the competing countries.

Although the market may experience some alterations in the supply-and-demand figures over the next several months, it is still safe to say that corn stocks will remain relatively tight as we move into the 2007 harvest. This factor will make the size of the 2007 crop extremely crucial to future price movement. Despite an expected slowdown in feed and export demand, corn used in ethanol production will be considerable as we move into the 2007 crop year. Lower crude oil prices and higher corn prices have definitely dampened the optimism for ethanol production during the fall of 2006 and heading into 2007. However, with 6 billion gallons of capacity expected to come on line in the next 18 to 24 months, corn needs for the ethanol industry will be substantial.

Currently, corn acres in 2007 are expected to increase anywhere from 6 to 10 million acres above 2006 levels. Acres on the high end of that range (8 to 10 million acres) will, assuming normal yields, likely provide enough supply in the 2007/08 marketing year to modestly curb concerns over tight stocks. Although stocks will likely still be low, they will likely be sufficient to pressure prices as

the full weight of harvest hits the market. If, on the other hand, increases in corn acres come in at the low end of the range (6 to 7 million acres), corn prices, and all feed grain prices, would likely remain at or above current levels. Therefore, it is fairly clear that acreage and production levels in 2007 will be one the chief factors in determining the ultimate direction of prices.

Louisiana Situation

Prospects for percentage increases in both fertilizer costs and fuel costs to reach double digits undoubtedly was a major motivating factor in Louisiana producer's cropping decisions heading into the 2006 growing year. Coupled with higher input prices, the price outlook for corn and feed grain prices in the lower \$2 range definitely influenced producers away from feed grains in 2006. Corn acreage in Louisiana fell 40,000 acres to 300,000 acres, more than 130,000 acres below the five-year average. Grain sorghum acres came in at less than 100,000 acres and were down by more than 150,000 acres from the 5-year average.

By most accounts, the 2006 growing season was a difficult one for Louisiana feed grain producers. Drought conditions, higher input prices, and commodity prices that stayed below the \$2.50 level through harvest created an extremely difficult situation for producers. While yield estimates by the USDA for corn and grain sorghum were above five-year average, the low commodity prices for much of the growing season and the higher production costs greatly affected profitability.

Heading into the 2007 growing season, however, the prospects for profitability have improved substantially. Since the beginning of October 2005, corn futures prices have increased by nearly a \$1.50 per bushel. This

increase has obviously been the market's signal that additional corn and feed grain acres would be needed in 2007. As a result, substantial increases in corn and sorghum acres are expected in Louisiana in 2007. Corn acres could easily increase by 150,000 to 200,000 acres in 2007 to over 500,000 acres. Grain sorghum acres are expected to at least reach its 5-year average of 150,000 acres and could potentially increase to 200,000 acres.

Price Outlook

Currently, the price situation for corn and grain sorghum is one of the highest levels experienced over the past 25 years. Cash forward contract offers for corn and grain sorghum are approaching, or, in some cases, above the \$4 per bushel level. From 1980 to 2006, average monthly U. S. corn prices have only been above \$3.25 per bushel 5 percent of the time while grain sorghum prices have been above this level less than 3 percent of the time. So, although there is still extremely good optimism for the feed grain markets, current prices are extremely strong from a historical perspective and currently offer extremely strong profit potential.

The question then becomes, do current prices need to be protected, or will there be future opportunities to see higher prices? As mentioned earlier, the single most important factor will be the number of acres planted in 2007. Assuming increases in corn acres from 6 to 10 million acres paints a very different supply-and-demand picture. At levels below 7 million acres, the current ending stocks and stocks-to-use ratio is likely to continue to fall in 2007. At levels from 8 to 10 million acres, ending stocks should stabilize and could possibly increase depending on how feed demand and export demand perform

Currently, the general consensus is that corn acres will increase somewhere in the

neighborhood of 8 million acres. If those acres are indeed planted and normal or average yields are obtained, it is likely that prices will be somewhat pressured as harvest approaches. Depending on how feed and export demand perform at these higher price levels, an 8- to 10-million acre increase in corn acres would likely result in a stocks-to-use ratio that would range from its current level of 6.39 percent to 10 percent. A stocks-to-use ratio in this range has historically meant prices in the \$3.00 to \$3.50 range. While still at historically high levels, these would be at a fairly significant discount to current prices.

With the extremely attractive profit margins that can be projected at current prices, it is difficult to argue against producers protecting current price levels.

However, with the uncertainty that currently exists and will likely exist until the size of the 2007 crop is more comfortably known, producers wanting to protect current prices should do so with marketing strategies that provide upside price improvement. Several strategies do exist that allow producers to protect prices but also allow the producer to benefit from price increases.

In addition, if a large feed grain crop materializes in 2007, storage availability may become an issue. Also, transportation (rail and barge) will likely see a dramatic increase in demand, causing prices for those services to increase. Both storage availability issues and increasing transportation costs can negatively affect basis. As such, producers will want to examine basis levels as well when implementing their marketing strategies.

WHEAT OUTLOOK

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Introduction

A three-year trend of lower wheat acres coupled with the impacts of weather on yields in 2006 have seemed finally to start offsetting the impact of relatively stagnant wheat demand. The result has been ending stocks for wheat have reached the lowest level since the 1995/96 marketing year and below 500 million bushels for only the fifth time in the last 30 years. The reductions in overall wheat stocks have improved price prospects for wheat producers along with the spillover affects of drastically higher corn prices. While the improved prices have certainly been a positive, the improvement has also attracted additional land into wheat production. With increased acres and the prospects for sharply increased production levels, the question becomes whether or not demand can improve its performance to compensate for higher supplies.

National and International Situation

While wheat acres planted for the 2006/07 marketing year were essentially unchanged from the previous year, drought conditions in the winter and spring forced many acres to be abandoned and resulted in the lowest harvested acreage level in the last 5 years. Along with lower harvested acres, the same weather conditions also dropped average yields to 38.7 bushels per acre, nearly 4 bushels below the previous year. This situation dropped total wheat production by nearly 300 million bushels.

Along with lower supplies in the United States, sharp reductions in production for major wheat exporters like the European Union and Australia resulted in similar supply-and-demand conditions for the world wheat market. As with the United States, world wheat stocks fell to historically low levels and generated uncertainty and volatility in the domestic and world wheat markets. Lower domestic and world wheat production and stocks, therefore, laid the foundation for improved prices.

Although lower wheat supplies certainly provided the market with ample support to strengthen prices, supplies needed assistance on the demand side of the equation to keep wheat prices consistently trending higher. Unfortunately, total wheat demand during the 2006/07 marketing year is expected to fall by nearly 130 million bushels. Although domestic demand (feed, food and seed demand) is expected to hold steady from the previous year, the real culprit is export demand. Exports are expected to fall by slightly over 125 million bushels, despite the fact that major export competitors are expected to produce over 20 million metric tons less wheat than the previous year.

Therefore, despite the improvement in the supply situation due to lower acres and lower yields, the demand side of the equation has not been able to provide any real boost to this market. As a result, although wheat prices have risen, they have been unable to consistently maintain an upward trend. Also, with no signs of improving demand, larger winter wheat plantings and significantly higher production could quickly end the positive tone of this market set by historically low wheat stocks.

Winter wheat plantings in the fall of 2006 were nearly 4 million acres higher than the previous year, a 9 percent increase. Hard red

winter wheat acres were up 9 percent from the previous year while soft red winter wheat acres were up a whopping 13 percent. Most of the reason for the increase in acres is strong wheat prices that have existed since the late summer/early fall. Assuming trend line yields, this increase in acres would represent an increase in production by over 140 million bushels for the 2007/08 marketing year. Also, if wheat prices stay in the generally favorable levels currently experienced, the market would likely see increases in spring wheat plantings later this year as well. Similar increases in spring wheat plantings could easily push total production for the 2007/08 marketing year well over 200 million bushels higher than the 2006/07 marketing year. Without a similar response in total demand, ending stocks could increase fairly substantially.

The condition of the winter wheat crop is generally a mixed bag. Drought type conditions at planting time in many of the major growing areas delayed some planting, prevented some planting and resulted in extremely variable field stands. However, the last few months of 2006 and the beginning of 2007 have started to help replenish soil moisture. Rain, freezing rain and snow have all helped to bring some much, needed moisture. At the same time, some concern over the impact of extremely cold temperatures has been mentioned. However, at this point, wheat coming out of dormancy is expected to be in fairly good condition and substantially better than was thought at the end of 2006. If the needed moisture continues to persist through the spring, the winter wheat crop would be expected to have at least average yields. With larger acreage and average yields, this would likely put some downward pressure on prices as the market moves closer to harvest.

Louisiana Situation

Winter wheat plantings in Louisiana in the fall of 2006 were up by more than 90 percent from the previous year at 220,000 acres. This is not a record for winter wheat plantings in the state, but it is the highest since 2002 and one of the highest since the early 1990s. Much of the interest in winter wheat this year was directly attributable to vastly improved price prospects. New crop wheat prices were approaching the \$5 per bushel level when wheat acres were being planted.

If not for a period of heavy rains in October and November, there would have likely been an even further increase in wheat acres. Heavy rains did cause some damage to wheat stands and did force some acres to be replanted. However, the rains have been able to replenish soil moisture that was somewhat of a concern last fall. Now, the question will be how alternating between mild temperatures and freezing temperatures have affected the wheat crop and how moisture conditions develop this spring.

Although futures prices quickly rebounded after the normal harvest pressure, many producers in Louisiana learned that high commodity futures prices do not always translate into high cash prices. Wheat basis levels in Louisiana during fell fairly significantly for much of 2006. Several reasons were believed to be the reason. First, while total wheat production was down, supplies of soft red winter wheat (the type grown in Louisiana) were not as limited as was the other types of wheat. In fact, soft red winter wheat yields were generally very favorable in most the soft red growing regions. So, there was not the perceived lack of supply, as would the case for hard red winter wheat.

Second, as mentioned earlier, export demand has been relatively stagnant. Therefore, with normal to slightly above average supplies of soft red winter wheat and only minimal export demand, basis levels were affected. Finally, transportation costs of moving grain down the river and to the ports were considerably higher due to higher fuel prices, limited barge availability and low water levels. All of these factors created basis levels that were much lower than historical levels. With additional wheat acres in the state and with export demand continuing to lag, basis levels could once again become an issue as producers harvest their crop later this year.

Price Outlook

Currently, new crop wheat prices are trading in the upper \$4 range. These prices had reached and surpassed the \$5 range, but as mentioned previously, the lackluster performance of demand failed to provide enough momentum to keep prices in above the \$5 range. At this time, the prospects for future price movement will likely be heavily dependent on the size of the winter wheat crop. With larger acreage and assuming normal yields, it is difficult to project anything but a fairly significant increase in wheat supplies. Without a similar expectation for demand, a large winter wheat crop and likely a larger spring wheat crop could mean a fairly substantial jump in wheat stocks. Although prices will likely remain fairly strong until the market has a better field for yield potential of the current winter wheat crop, prices would be expected to be pressured due to normal seasonal downturns as we reach harvest.

Another factor that will likely be influential in the final prices received by producers is basis levels. Wheat basis levels in Louisiana fell fairly significantly for much

of 2006. Although fuel prices have eased and river levels have rebounded, export demand continues to be fairly lackluster and, if yields are average or slightly above average, with the sharply higher acres, there could again be some pressure on basis levels. This situation would be particularly true should futures prices remain relatively high due to spillover impact of the corn and soybean markets. As such, producers should consider basis levels in addition to futures prices in making their marketing strategies.

Given the improvement in moisture levels in some of the major winter wheat growing areas, the prospects of this winter wheat crop are certainly better than they were in the later part of 2006. This winter wheat crop should come out of dormancy in fairly good shape and should set up for average to above average yields. Yields above average for the winter wheat crop would likely increase total wheat stocks up to the 500 to 600 million bushels. Historically, stocks in this range translate into prices in the \$3.50 to \$4.00 per bushel range. Given the volatility of all the grain markets, this would probably lead prices to the upper end of this range.

While \$4 wheat would be an above average price for wheat over the past 10 years, it would still be a considerable discount to current prices. As such, producers may consider protecting current prices. Unlike some of the other grains and oilseeds, where there is some upside potential, it seems that the wheat market has been unable to consistently get above the \$5 range. Therefore, with limited upside potential and considerable downside potential, a marketing strategy that protects current prices may offer producers the best opportunity for success. Marketing strategies, which limit basis risk would be logical given the experience with basis levels in 2006 and the potential for those conditions to return in 2007.

SWEET POTATO OUTLOOK

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National Situation and Outlook

The estimated planted sweet potato acreage for 2006 was 96,000, about 5,000 acres more than 2005. The estimated harvested acreage was 87,200 or 1,200 less than 2005. Production was estimated at 16,441,000 cwt or 32.9 million bushels. North Carolina, Louisiana, Mississippi and California account for approximately 90 percent of the sweet potato acreage and production in the United States. North Carolina's acreage was up approximately 4,000 acres from 2005. Acreage in Mississippi and California also increased in 2006, up 500 and 1000 acres respectively compared to 2005. Louisiana's acreage in 2006 was down approximately 500 acres from that of 2005.

Louisiana and Mississippi planted approximately the same acreage in 2006. Both states dealt with drought conditions early in the season and wet conditions during the 2006 harvest. Mississippi's acreage has been increasing in the past few years, while adverse conditions in Louisiana, particularly South Louisiana have forced some growers out of business, resulting in loss of acres. Beauregard, the leading variety in the United States, looks similar when grown on Louisiana and Mississippi soils, and brokers tend to prefer this look over the "russet appearance" of the Beauregard when grown in North Carolina soils.

Louisiana Situation and Outlook

In 2006, Louisiana producers planted about 16,000 acres of sweet potatoes. Acreage was slightly down from that of 2005. Harvested acres for 2006 were estimated at 13,000. Production was estimated at 4.5 million bushels compared to 4.93 million in 2005. The 2006 planting season varied across the state. Growers in North Louisiana dealt with a 13 inch rain deficit for much of the summer, while growers in South Louisiana received considerable more rain than in recent years, which helped with initial establishment of the crop. Growers with irrigation capabilities utilized irrigation before and after transplanting to aid in transplant survivability and to improve overall stands. Production costs remained high in 2006 because of increases in costs of fuel and fertilizers. Assail insecticide, which was examined in 2005 trials, was labeled in 2006 for control of cucumber beetles. Louisiana was also granted a 24c label for the use of Intrepid insecticide to control lepidopteran insects.

Much of the 2006 crop was planted early, and initial harvest reports from across the state indicated that producers in Louisiana were on track to have an above-average year. Before October 15, 60 percent to 75 percent of the crop was harvested, but the situation turned for the worse in mid- to late October. Growers across the state were inundated with rainfall in October and November, as much as 10 to 20-plus inches in some production areas. The rainfall spoiled harvest conditions and delayed harvest operations across the state. Several acres were abandoned statewide, and growers reported losses ranging from 20 percent to 40 percent. Despite the adverse weather conditions and the subsequent loss of sweet potatoes in the field and in storage, most growers felt that 2006 was an average year. Other growers, however, were severely affected. Barring any

additional unforeseen weather disasters, these growers are expected to recover from the extreme losses and bounce back in 2007.

A year-round market has developed recently, and brokers are interested in maintaining a year-round supply to meet their buyer's needs. This development has resulted in more producers investing in new and/or improved refrigerated storage facilities. In recent years, buyers are asking for a given number of roots per 40-pound box. This increase in the demand for sweet potatoes packed by the count may necessitate the need to modify packing lines, which can size the roots to the desired count.

The number of sweet potato producers in Louisiana is decreasing, while the average acreage has fluctuated slightly in recent years. The availability of labor, the cost of labor and the hassle of dealing with labor has discouraged some growers to the point of leaving the sweet potato business. Prior to 2006, South Louisiana producers had experienced several bad years, resulting in a significant loss of producers in the southern area of the state. Northeast Louisiana has experienced the loss of a few producers, but proportionally less than South Louisiana. Approximately 72 percent of the sweet potato production in Louisiana is in the Northeast parishes of West Carroll, Franklin, Morehouse and Richland.

The 2007 outlook for Louisiana sweet potato acreage is around 15,000 acres. The price received by grower/shippers is considered adequate if yields are up. In recent years, the yields for many growers have been low or below average.

Before the onset of bad weather conditions, yields in 2006 were above average and producers were on track to have a successful year. As it stands, some producers have been severely affected by the harvest situation in 2006 and the prospect of a break-even point or any significant profit is grim. Producers are hopeful the reduced supply of sweet potatoes will place an upward pressure on price, which may help to alleviate some of the strain experienced in 2006.

With the costs of production of one acre of sweet potatoes ranging from \$1,500-\$2,500, growers are having difficulty obtaining crop loans. To make matters worse, crop insurance is required by many lending institutions, and the current policies in place for sweet potato in Louisiana did not cover the majority of crop losses reported by producers in 2006.

Many producers are not willing to risk the dollars required to produce a crop when factors such as seemingly unstable weather, insects and weeds can lead to poor crop performance and failure in severe situations. On a positive note, the overall demand for sweet potatoes in the United States is increasing. Consumers are becoming increasingly health conscious, and sweet potatoes are filling an important niche in the diet of many people.

Long-term expectations are for Louisiana producers to increase their acreage to satisfy the increasing demands of more health conscious consumers, and to take advantage of niche markets to increase profitability.

COMMERCIAL VEGETABLES

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National Situation and Outlook

The USDA reported higher wholesale and retail prices for heat-stresses crops during summer of 2006. Prices declined during the fall, when favorable weather resulted in higher production. Despite higher overall prices, per-capita consumption values indicate a moderate increase in consumption continues. Of interest to Louisiana growers, tomato prices were higher in 2006 as the result of weather patterns.

Expected domestic harvested acres for fresh market vegetables and melons was forecast to increase slightly from a year ago. Imported fresh vegetable and melon products, on the other hand, rose in value by more than 20 percent compared to 2004. Imports of processed fruits and vegetables also continued to increase. Food safety, always a potential issue for consumers, was a concern during the year as the result of a highly visible and publicized outbreak of *E. coli* on fresh spinach during the summer of 2006. This outbreak emphasized the importance of good sanitary standards in the field. Louisiana growers are affected by these national level trends and events. However, the proportion of the state's output sold into those markets is relatively low. Local and direct markets, where availability of product and freshness are major factors, are more important.

Louisiana Situation and Outlook

Vegetables: The Louisiana vegetable industry saw 3,000 growers produce more than 30 different crops on 10,000 acres, for a

gross farm value of \$37 million in 2006. The leading parish in commercial vegetable production was Tangipahoa, with a gross farm value of \$8.1 million. Plaquemines was second, with a gross farm value of \$4.3 million. Union parish was third with a farm value of \$3.0 million. Most produce grown in the state is marketed by direct sales at farmers' markets or roadside stands. Direct marketing provides a simple low-risk means of marketing where growers can obtain a premium price for their crops.

Tomatoes: Tomatoes are the leading vegetable crop in the state with a gross farm value of \$9.7 million, followed by southern peas (\$4.9 million), watermelons (\$4.8 million), and bell peppers (\$4.7 million). Okra was fifth leading crop, at \$1.8 million while sweet corn and mustard greens was tied for sixth at \$1.4 million each.

Strawberries: In 2006, 85 producers grew 440 acre of strawberries in 2006 for a gross farm value of \$10.1 million. The majority of the strawberry acreage was planted to a variety called Strawberry Festival. This variety is from nurseries in Canada. The combination of the variety and the nursery results in earlier yield for Louisiana growers. The early fruit bring premium prices to the growers.

Citrus: The hurricanes of 2005 reduced the Louisiana citrus industry from 1,300 acres in 2004 to 750 acres in 2006. The total gross farm value for 2006 was \$3.6 million. This figure is a 50 percent reduction in farm value from 2004. This reduction is due to both a short citrus crop in 2006 and lost acreage in 2005.

NURSERY CROP OUTLOOK

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National Situation and Outlook

The demand for plants and flowers as ornaments depends on the discretionary income of consumers. Both total spending on floral and nursery crops and spending as a share of income increase as incomes rise, providing a stable expectation of base demand from year to year. The demand for floral and nursery crops is responsive to prices of competing household expenses, particularly for food and also for energy and clothing. Petroleum prices in particular probably have affected sales of ornamentals. High fuel prices have contributed to price pressures in production and transportation, in addition to the tradeoff between the discretionary products and necessities.

Another important factor has been a correction in residential housing prices over recent months. Demand for ornamental plants is sensitive to changes of this sort, though probably not as much so as some other categories of goods. As the result of these factors, USDA forecasted a gain in sales of ornamental plants of a little more than 2 percent for 2006 compared to 2005. At this time, forecasts of economic activity in 2007 are for conditions similar to 2006, and so it might be expected that sales at the national level again would increase in the range of 2 percent to 3 percent.

Louisiana Situation and Outlook

Production and sales of nursery-grown ornamentals has increased slightly over the last few years. The farm-gate value of

wholesale production is \$120-\$125 million with an additional \$75-\$100 million in plant inventory. Total sales for 2006 were up significantly from 2005. Nursery crop sales in 2005 suffered due to Katrina (\$11 million) and Rita (\$5 million) hurricane related losses.

Woody ornamentals account for the vast majority of the wholesale farm-gate value of commercial nursery crops in Louisiana. The LSU AgCenter estimates wholesale sales of woody ornamental in Louisiana of about \$70-\$75 annually. Predictions are for significant increases in production in the next three to five years. Container production acreage has increased significantly in the last five years, while acreage in field production has been stagnant or decreased slightly. The major container crops are azaleas, hollies, crape myrtles, Indian hawthorns, groundcovers, and shade/flowering tree species. The number of acres in bigger container sizes is up significantly. Adequate inventory in 1-gallon and 3-gallon woody ornamental material will be in somewhat short supply for the spring 2007 season. In addition, shortages of high quality larger container trees exist at the wholesale level in Louisiana.

Floriculture/bedding plants typically represent about 30 percent of Louisiana's nursery crop production. At the wholesale level, about 40 percent of bedding plant/floriculture crop sales occur in late winter and early spring. Floricultural crop and bedding plant production (includes poinsettias, hibiscus, garden mums, lantana, impatiens, petunias and periwinkles) has experienced little growth in Louisiana in the past three to five years. Profit margins in floriculture crop production are shrinking due to energy price increases, transportation cost, fertilizer expenses, and other factors.

Foliage plant production in Louisiana has slowed. Most foliage sold at the retail level

now is imported from Florida or brought in from Florida by wholesale growers and brokers. Some of these imports are grown in Louisiana for several months prior to wholesale sale. Interest in wholesale production of tropical plants, however, has increased recently in Louisiana. Although this category could fall into the floriculture/bedding plant category, outdoor tropical plants such as gingers, cannas, etc. have increased sales potential. Many greenhouse growers have profitable markets for these products.

Fruit/nut tree production is stable in Louisiana at the wholesale level. A slight increase has occurred in the last several years. Availability of container grown improved pecan cultivars is significantly below market demand, and opportunities to grow these cultivars for wholesale or retail sales are considerable. Also, many new fruit cultivars could be grown to increase market potential. Citrus, figs, pecans, peaches, muscadines, blueberries, apples, and pears represented the vast majority of wholesale production of container grown fruit and nut trees.

POULTRY AND EGGS

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National Situation and Outlook

Total broiler production for 2006 is estimated to be 35.8 billion pounds, which is up 1.3% from 2005. Wholesale price of broilers averaged 64.3 cents per pound, down 6.5 cents per pound from 2005. Total broiler exports for 2006 are estimated to be about 1.5% higher than in 2005. Egg production increased in 2006 (6.5 million dozen), and egg prices increased 5.9 cents per dozen in 2006 (71.4 cents per dozen). Per-capita consumption was 256.2 eggs and 87.5 pounds of broiler meat in 2006.

Due to larger numbers of chicks placed for growout and increased average broiler weight at slaughter, broiler production is expected to increase approximately 1 percent in 2007. Broiler prices are expected to remain the same in 2007. The broiler export market is expected to increase approximately 3 percent to 4 percent. Egg production is expected to increase slightly in 2007. Wholesale prices should increase in 2007.

Louisiana Situation and Outlook

In 2006, 468 broiler producers produced 1.04 billion pounds of broilers with a gross farm value of \$666.7 million. Also that year, 839 egg producers produced 23.7 million dozen eggs with a farm value of commercial eggs at \$16.9 million.

Broiler production should follow the national outlook in 2007, which should increase. Broiler prices and net returns should remain similar to 2006. Also, wholesale egg prices should increase compared to the 2006 prices, and production should increase slightly in 2007. The number of egg producers should be similar to 2006.

BEEF CATTLE OUTLOOK

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Introduction

For beef cattle producers throughout the United States, 2006 was a year that they would likely like to forget. Higher fuel and fertilizer costs, limited forage and hay production due to drought conditions and sharply higher grain prices in the last quarter of 2006 all created an extremely difficult and uncertain production and marketing environment. The only silver lining was that cattle prices remained at historically high prices and helped to offset higher costs and kept profitability at acceptable levels.

As 2007 begins, producers are faced with competing market factors. On one hand, a slowdown in cowherd expansion and beef production should help support cattle prices. On the other hand, escalating grain prices are expected to reduce profit margins for cattle feeders and are likely to have rippling effects all the way to the cow-calf producer.

National Situation

As market analysts examine cattle and cowherd inventories, most agreed that 2006 was going to be another year of herd expansion as the cattle cycle continued to progress along its logical path. During the expansion phase, cowherd numbers increase as more replacement heifers are retained cow slaughter declines. As cowherd numbers increase, total beef production is expected to increase as calf inventories grow, and the number of available cattle reaching feedlots increase. The expansion phase is typically followed by lower cattle prices as increases in

production begin to pressure prices for all classes of cattle. Therefore, 2006 and beyond was projected to be characterized by weakening prices as the expansion phase reached full scale.

However, the issue that market analysts could not and did not project was fairly devastating drought conditions that persisted through much of 2006. A lack of available forage and a large downturn in hay production forced many producers to liquidate cowherds. This liquidation, in turn, prevented a buildup of replacement heifer, essentially stalling the expansion phase of the cattle cycle. While the USDA did estimate a slight increase in total cattle numbers in 2006, it was only a fraction of the percentage increases that had been seen in the previous year.

In its January 1 inventory report, the USDA estimated total cattle numbers at 97 million head at the start of 2007, up less than 1 percent from the previous year. Further proving that cow herd expansion had stalled was the USDA's estimate of cow inventory of 32.9 million head and replacement heifer inventories of 5.9 million head, both down slightly from the previous year.

While total cattle inventory numbers showed a slight increase in 2006, it was not nearly the 1 percent to 2 percent that was experienced in 2005 and expected again for 2006. Also, with the reduction in both cow herd and replacement heifer inventories, the drought conditions in 2006 is now believed to have extended the current cattle cycle and will likely provide for a positive supply and demand balance sheet for the next couple of years. Any significant increase in cow inventories will likely have to come from the 2007 calf crop, which would imply that cow herd expansion could be at a reduced rate until 2009. Grazing conditions must improve and hay stocks must be replenished before

producers are likely to feel comfortable with holding back more heifers for herd expansion.

Although the drought conditions in 2006 have likely created a more favorable supply-and-demand situation for the cattle industry, the wild card to the long-term outlook will be the direction of grain prices. Sharply higher corn prices have definitively been a major area of concern for the cattle industry and the entire livestock sector. Despite historically high fed cattle prices, corn prices jumping by more than \$1 per bushel in the last six months have certainly been a negative factor in cattle feeder profitability.

Adding to difficulties faced by cattle feeders have been the extreme cold weather and heavy snowstorms in the Central Plains, which have definitely impaired cattle performance. With the effects being felt by cattle feeders, the typical reaction is for feeder cattle prices to be weakened. Steep increases in feed prices have caused reductions in feeder cattle prices by \$15 per hundredweight and reduction in calf prices from \$20 to \$25 per hundredweight.

Many analysts believe that improving moisture conditions in the Plains and the South this winter will help pasture conditions start at a more “normal” level this spring. This is expected to help boost demand for feeder cattle and provide some support in feeder cattle prices over the next several months. In addition, improved pasture conditions will likely limit cow slaughter, boost heifer retention and limit feedlot placements. While USDA is still currently projecting a slight increase in beef production in 2007, many market analysts believe that improved pasture conditions and high feed costs will spur cowherd expansion and effectively reduce total beef production.

While the potential for increased cattle imports for Canada could help offset some of the lower domestic production in 2007, most analysts agree that production in 2007 will hold steady, at best. Stagnant or lower beef production in 2007, coupled with increases in both domestic consumption and export demand, should create a fairly positive foundation for fed cattle prices in 2007. Export demand is expected to increase by more than 25 percent in 2007 as the United States continues to recapture markets lost during the BSE outbreaks and scares. In addition, domestic consumption should continue the trend of the past several years as total consumption is expected to increase by nearly 3 percent from the previous year. All of these are expected to help support fed cattle prices in 2007.

While fed cattle prices should be supported in 2007, higher corn prices are generally expected to have a negative impact on feeder cattle and calf prices. The uncertainty that remains in projecting the type of impact that will occur in feeder cattle and calf prices is the uncertainty that surrounds the size of the 2007 corn crop. Currently, corn acres are expected to increase dramatically in 2007. The exact nature of the increase will be dependent on weather conditions in the spring and summer. Most common projections are for an increase of 8 to 9 million acres in 2007.

Assuming normal yields, those additional acres should help ease concerns of corn shortages and help weaken prices. However, even with large increases in production, the tremendous expansion in ethanol capacity will likely increase demand for corn sufficiently enough to keep corn prices from falling back to levels experienced during the summer of 2006. So, while corn prices are likely to ease back from current levels, they will still likely be significantly higher than the previous five-year average. As such, the direction of prices

for feeder cattle and calves will likely be in a tug of war between the positive effects of higher demand and prices for fed cattle and the negative effects of higher feed costs.

Louisiana Situation

As with other areas of the country, Louisiana cattle producers suffered from a drought that limited both forage and hay production. Unfortunately, the drought came shortly after the hurricanes in 2005, which caused significant damage. In fact, many producers in the southwestern portion of the state were still feeling the effects of the hurricanes for much of 2006 where saltwater intrusion from the storms limited pasture availability and quality.

In its January 2007 cattle inventory report, the USDA placed total cattle numbers for the state at 860,000 head. Cow inventory numbers were placed at 490,000 head. This figure represents an increase of 27,000 head from the previous year. Although cow numbers were higher in 2006, the numbers are still below pre-hurricane levels in 2005. Even though cattle producers have been expanding cowherds, likely in an attempt to re-stock after the damage caused by the hurricanes, salt intrusion and drought seemed to have limited their ability to return to pre-storm levels.

With this winter's increased rainfall hopefully providing for a return to more typical and favorable forage conditions, the uncertainty and concern faced by Louisiana cattle producers is the direction of calf prices. The lack of consistent winter forage, a lack of hay, and higher grain prices have all started to have an effect on cattle prices. According to the USDA's Agricultural Marketing Service, prices in Louisiana for 500- to 550-pound steers averaged \$114 per hundredweight in 2006. So far, in 2007, those same steers have

averaged \$102 per hundredweight, a \$12 per hundredweight decrease.

Price Outlook

The cattle market is certainly one that would seem to be faced by very conflicting issues. On one hand, low cow slaughter, higher heifer retention and lower feedlot placements would all be considered positive signals that would be expected to support fed and feeder cattle prices. On the other hand, poor winter weather conditions, little forage and hay availability and extremely high grain prices would all be expected to pressure cattle prices. The general consensus in the market is that the prospects for improving forage conditions, for higher corn production and slightly lower corn prices will likely help keep cattle prices from the tremendous downturn that was once feared when sharp increases in corn prices began.

In fact, fed cattle prices are likely to at least hold steady with 2006 levels with the real likelihood of a slight increase as the supply and demand situation for beef production improves in 2007. The USDA's current price projection for fed cattle in 2007 is \$83 to \$88 per hundredweight for fed cattle. This compares to 2006 when fed cattle averaged \$85 per hundredweight. Many private forecasters actually project fed cattle prices closer to \$90 per hundredweight for 2007 as a result of a vastly improved supply and demand balance sheet.

Feeder cattle and calf prices, however, are not expected to fair quite as well. Grain prices will still likely be significantly higher than its five-year average. The USDA is currently estimating feeder steer prices in 2007 to range between \$99 and \$105 per hundredweight as compared to 2006 when they averaged nearly \$108 per hundredweight. Other private forecasters

expect a \$10 to \$15 per hundredweight drop in 500- to 550-pound steers from the previous year.

With high fuel and fertilizer prices, Louisiana cattle producers will not view positively any kind of a reduction in feeder cattle and calf prices. Although expected to decrease, feeder cattle and calf prices will still be especially positive from a historical perspective. Furthermore, even with lower prices, most private forecasters are still projecting a profitable year in 2007 for cow-calf producers. Obviously, the direction of corn prices and the ability to substitute cheaper feedstuffs into rations will have a large impact on the final direction taken by cattle prices.

DAIRY OUTLOOK

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Demand Outlook and Situation

Farm level milk prices in 2007 are expected to increase from 2006 price levels by over \$2 per hundredweight. However, concentrate feed prices are also expected to increase by as much per hundredweight due to the expanded demand for corn and soybeans as feedstocks for ethanol and biodiesel production. The expectation is the milk-feed price ratio will decline suggesting a contraction in expansion. However, the outlook is for an increase in United States milk production associated with actions taken to lock-in milk and feed prices.

All-milk prices are expected to increase during 2007. The Market Income Loss Contract (MILCX) program which was expected to expire in August 2007 will likely be extended, but with changes in major program provisions. Overall, prices and marketing conditions are expected to be more volatile in 2007 and to be characterized by increased farm prices, wider farm to retail price-cost margins and higher retail prices.

The expectation is for prices to increase in spite of an expansion in supply greater than domestic demand because of an export demand that is increasing at 2.7 percent per year. This observation underscores the critical significance of policies that stimulate exports of desired dairy products. Without that stimulus, the accelerated expansion in milk production would be greater than demand gains, specifically for skim solids, which would place downward pressures on milk prices. Milk cow numbers are expected to decrease due to the increase in feed costs and lower profitability. Milk per cow should

continue to increase and average about 2 percent in 2007. The rate of growth in milk per cow is expected to increase in 2007 because of the expected increase in farm level milk prices over 2006 levels.

Domestic demand, particularly for fluid beverage milk, cheese, butter and nonfat dry milk, is stagnant, but export demand is growing at a rate of 2.7 percent per year. Global demand is projected to grow at 2.7 percent per year due to a combination of growing per capita demand and population growth. The expectation is for fluid milk consumption to continue its long-term trend of declining 0.5 percent relative to the previous year. Comparisons of futures market prices between 2006 and 2007 foster expectations for product demands for butter to decline, but for cheese to increase. This comparison suggests that Class III (cheese) prices are more likely to be the mover of Class I prices than Class IV (butter and nonfat dry milk) prices. In recent times, the most important variable influencing the demand for dairy products has been changes in tastes and preferences.

Strong international demand for skim milk powder, whey and whey protein concentrates are driving Class III and Class IV futures higher. Strong international demand for dry proteins (skim milk powder and dry whey) has been bidding up prices. Because of a weaker dollar, the United States is now the leader in setting prices and providing surplus skim solids to the world's markets. The next step is to add more value-added protein products that customers are demanding (Bailey). However, the problem lies in FMMO regulations that create artificial incentives for actions contrary to market realities. The strengthened international market for United States dairy products is attributable to changes in weather as well as to policies in major milk-producing countries.

Frequent droughts in Australia are curtailing milk output, and the effects of the droughts will require, at best, a three- to five-year recovery period. The strengthened market also reflects a change in the European Union's Common Agricultural Policy that has ended casein production subsidies, limited entrance of skim milk powder and butter into intervention programs and severely curtailed export subsidies. Reductions in dairy price supports discourage production. In New Zealand, limitations in land availability hinder the expansion of milk production. The United States could become a reliable provider of value-added dairy products and is in a position to become a major global leader in the international protein market.

Production Outlook and Situation

Continuing growth in the milk supply will dominate the 2007 milk price outlook. This growth is a consequence of increases in production per cow great enough to overcome the decline in cow numbers attributable to lower profitability in 2006 and to a massive summer heat wave in the west that killed an estimated 57,000 cows. The drop in milk production due to the heat wave resulted in a dramatic reduction in the production of nonfat dry milk for the months of July through September. This reduction drew down manufacturers' stocks of nonfat dry milk, which placed upward pressures on Class IV milk prices. The result has been unstable milk prices for NDM (Bailey). The reduction also had the effect of raising 2006 prices above expected levels.

Strong domestic demand for protein has also had an effect on demand for whey protein. The strong milk prices of the past are attributable to export demands for nonfat dry milk. The United States has become an exporter of nonfat dry milk because its support price level now rests below market

prices. The expectation is for cull cow prices to decline during 2007 due to the earlier cyclical turn in the beef industry. Increased feed grain prices have the effect of increasing culling rates, which would tend to drive down cull cow prices.

Total milk production in 2007 is expected to increase slightly above the 2006 level primarily because of the increase in milk production per cow. For Louisiana, the expectation is for continuing decreases in cow numbers, total milk production and numbers of dairy farms during 2007. The reasons for the continuing decline in the sustainability of the Louisiana dairy farm sector are related to the inability to realize production per cow levels that would render Louisiana competitive in milk production.

Changes in the Rules Governing Milk Production, Processing, Pricing and Distribution

Changes in the rules governing the production, processing, pricing and distribution of milk have always been a constant. The rules originate in the economic, political and cultural processes operative in the market. They foster adjustments in both the physical transformation and social system of the dairy sector. At the same time, the relentless march of technology fosters changes in men's physical transformation practices, which also get incorporated into the rules. Rule changes foster adjustment in milk production, processing, pricing and distribution. Some of those adjustments are minor while others are major. Proposed rule changes likely to affect the economics of dairying in 2007 and beyond include some of the following.

The USDA proposes to make allowances in the Class III and Class IV product price formulas to help processors cope with

increases in energy and other costs. An increase in the make-allowances will put downward pressures on milk prices at the farm level. This result occurs because, with a fixed support price, processors bid down the price offered for milk used in the production of class III (cheese) and class IV (butter and nonfat dry milk) products to reflect the increased make-allowance. Under federal milk market orders, the higher of the class III or class IV price becomes the mover price for class I (fluid) products.

Expectations are that these changes in the “make allowances” would lower Class III prices by \$0.25/cwt and Class IV prices by \$0.17/cwt (Herndon). Since the higher of Class III or Class IV becomes the mover of Class I, a reduction in either results in a reduction in the Class I (fluid) price. Hearings are proposed to increase Class I and Class II price movers to account for increases in marketing costs. The estimated increase in costs of class I products would be \$0.77/cwt or \$0.067/gal. Such increases in costs are likely to dampen consumer demand and increase CCC purchases of surplus dairy products.

A possible future development during 2007 will be the reopening of the border with Canada to allow for the importation of “live cattle and other bovines for ‘any use’ born on or after March 1, 1999.” The reopening would have the effect of increasing the supply of replacement heifers and cows in the United States. The increased supply of replacement milk stock would bid down prices for replacement cows and heifers, which would increase the milk supply and place downward pressures on milk prices.

Concluding Observations

The outlook for dairying is for 2007 to be a year of increases in both prices and feed costs with the effect of reducing the milk-feed price ratio. Price increases for dairy products will be driven by an expanding export demand while increases in feed costs will be driven by the expanding demand for feedstocks for the energy markets. The reduction in the milk-feed price ratio suggests that the productive capacity of the Louisiana dairy industry will continue to shrink because it is no longer sustainable on a pasture-based feeding program. Pasture-based feeding programs do not provide the production per cow levels necessary for cows to be competitive.

Since the producer has more control over the cost of production than over the milk price and costs of feed, due diligence needs to be given to all items of expenditure in order to realize profitability. A key to gaining control over per hundredweight milk costs is increased production per cow. Identifying and retaining the higher producing cows requires current and accurate records. Culling lower producing cows might prove to be one way to increase profitability in 2007. As in all management actions, care must be taken to introduce replacements for culled animals at costs consistent with milk prices and feed costs.

EQUINE OUTLOOK

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National Situation

Approximately 9.2 million horses and almost 2 million horse owners are in the United States. The total economic impact as reported by the American Horse Council is \$102 billion. Approximately \$32 billion is generated by recreational activities, \$28 billion from the horse show segment of the industry and \$26 billion from the racing segment. Almost \$15 billion is generated from other industry activities. The horse industry generates about 453,000 direct jobs and 1.4 million total jobs. These numbers indicated approximately a 5 percent increase in horse population and impact per year. Opportunities still exist for increases in horse numbers and activities in racing, competition horses and recreational areas.

However, there are some signs of market saturation. Additionally, the anti-horse slaughter legislation pending in the United States Congress, if passed, will add 90-100,000 horses per year to the market. Over a period of 10 to 15 years, this bill would add a 1 million to 1 1/2 million horses to the existing population, which would obviously soften the market for horse producers and owners. Compounding the problem of anti-slaughter legislation is the fact that these are unwanted horses generally toward the lower-end of the market. These horses are typically lower-priced horses, and an additional million-plus horses would undermine the base for average to below-average horses.

Price Outlook

Prices in horses vary drastically from million-dollar horses at the top of the market

to \$500 horses at the bottom end of the market. Sales results indicate the top horses are still bringing top prices, and prices continue to escalate. This fact is true in thoroughbreds, quarter horses and all segments of the industry. Because of the emphasis on quality, prices for top horses continue to escalate, which draws up the average price of horses to slightly higher levels. However, horses at the bottom of the market have little or no value. Breeders must emphasize quality and breed for the market to capture high prices and create a sustainable horse business.

The cost of producing horses continues to increase with stud fees moving higher. The prices of feed, vet supplies, facilities and labor are steadily increasing. Basic cost for a highly efficient operation will average \$5,000 to \$6,000 per horse. Larger, more extensive operations may average \$8,000 to \$10,000 or more. Therefore, the average yearling must be priced at \$8,000 to \$10,000 for breeders to produce a profit. Thoroughbred sales in Louisiana this year averaged slightly over \$10,000 per yearling, with quality horses going up to \$25,000 to \$30,000. In addition, selected markets for quarter horses and others have been demonstrated prices from \$7,000 to \$8,000-plus for quality horses, with exceptional horses going considerably higher. Therefore, market prices are available to sustain a horse business if the quality of horses is sufficient to attract top buyers and production costs are minimized.

Louisiana Situation and Outlook

The influx of casino-supported purses for the horse racing industry has resulted in an increase in breeding mares and training and racing operations. Quality horses are still needed to capture the influx of money into the racing industry. The large purses attract outside breeders and owners, from Kentucky,

California and Florida. Louisiana breeders should pay close attention to quality horses to be competitive and capture the economic opportunities being presented by the influx of casino-funded purses. The horse racing industry continues to face a declining audience and an aging producer population. The marketing and promotion of horses in the racing industry continues to be a problem. Relatively small fields in most races indicate there are still opportunities for more horses in Louisiana racing.

Competition horses continue to expand primarily in areas of barrel racing, roping, ranch horse competition and others. Horse shows in general have declined with more emphasis on a few big shows as opposed to many smaller shows. The specialty areas such as cutting, roping and barrel racing have attracted a larger field of competitors. A newly formed ranch horse association is expanding opportunities for Louisiana competitors in the show arena.

Trail riding and recreational activities continue to expand in Louisiana. The trail riding associations scattered throughout Louisiana are the largest organizations in the state. These horsemen are traveling and spending a great deal of money in their recreational pursuits. Much of these expenditures go out of state due to the lack of trails and campsite opportunities in Louisiana. A tremendous opportunity exists to increase the economic effects of these recreational riders by developing trails on the national forest and other state-owned lands. More campsites, housing and dining facilities will be needed to keep these riders in Louisiana and to attract out-of-state trail riders. Opportunities for economic development of this group are readily available.

AQUACULTURE OUTLOOK

C. Greg Lutz

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Situation and Outlook

Louisiana continues to support one of the most diverse aquaculture industries in the nation, including species and products such as crawfish, catfish, alligators, oysters, tilapia, baitfish, hybrid striped bass, soft-shell crawfish and crabs, ornamental fish, baby turtles, a variety of freshwater game fish and other minor species. Louisiana's producers continue to lead the nation in crawfish, soft crawfish, oyster, pet turtle and alligator sales. New species, such as saltwater baitfish and cultured corals, are being evaluated commercially. In spite of continuing declines in acreage, Louisiana still ranks fourth among catfish-producing states.

Catfish: Pond-bank prices for farm-raised catfish showed some strength throughout 2006. Effects of increased stocking and feeding industry-wide over the past year to 18 months may result in comparatively abundant fish supplies in late 2007, and associated downward price pressure for growers. Additionally, demand for corn and other feed components will probably push feed prices higher in 2007, resulting in reduced profitability. Although energy prices may decrease somewhat, high costs in this area of operations also will reduce catfish producers' overall profits in Louisiana and elsewhere. Nonetheless, catfish should still represent a more profitable land use than many other traditional crops throughout Louisiana.

Typical catfish operations one might find in surrounding states are generally much larger and dedicated solely to the production of catfish, and many Louisiana producers cannot take advantage of these economies of scale.

Similarly, most Louisiana producers have access to only one processing facility within reasonable distance. Louisiana's catfish acreage and production continue to decrease, primarily due to lack of access to start-up and operating capital.

Crawfish: Louisiana crawfish acreage was estimated to be at roughly 130,000 acres going into the 2005-2006 season. However, widespread inundation from hurricane-related storm surge and backwaters resulted in many thousands of acres going out of production at the start of the season. Many ponds in production in the spring of 2006 had abundant supplies of late-season crawfish but some appeared to have suffered from population failures. Crawfish available for stocking were in shorter supply at season's end than would be expected in a typical year. These factors, and the fact that a certain amount of traditional rice acreage was not planted in 2006, have combined to create some uncertainty as to the overall crawfish acreage in production for the 2006-2007 season. Higher energy prices will force many producers to adopt a more focused approach to water management and harvesting strategies.

Alligators: Prices for alligator skins, like farm-raised catfish, tend to be cyclic in nature based on supply and demand. Following several years of impressive growth in the number of animals produced, shortages of eggs and hatchlings resulting from hurricane damage to nesting habitats may reduce overall production in 2007 and 2008. The factors bolstering prices in recent years appear to be continuing, especially continued economic development in a number of consuming nations, particularly in Asia.

Oysters: Hurricanes devastated much of Louisiana's oyster fleet, infrastructure and markets in late 2005, and 2006 saw the

industry struggling to re-organize and return to production. How quickly the industry will recover over the coming years is the subject of much speculation, but difficulties will certainly continue throughout 2007.

Pet Turtle Hatchlings: Pet turtle hatchling production experienced considerable market disruptions during recent years. Virtually all hatchlings are exported to markets in Asia and Eastern Europe. Although Asian demand continues to grow, the outlook for Asian markets is uncertain at this time. Prices quoted for turtle hatchlings appear to have fluctuated wildly in the months leading up to 2007. Industry survival will depend to a large extent on finding methods to certify salmonella-free hatchlings to FDA satisfaction to re-open domestic markets in the United States. Despite some apparent movement in this discussion in late 2006, the industry will need a concerted effort in 2007 to communicate the appropriate information to allow access to these domestic markets.

Baitfish: Major expansions remain unlikely due to control of marketing and distribution channels by the industry in Arkansas. Nonetheless, the number of baitfish producers and the farm-gate value of the crop have increased in Louisiana in recent years. One area ripe for expansion will relate to the production of bait species that are suitable for use in coastal recreational fisheries.

Tilapia: Domestic production of tilapia has stagnated, with the live market dominated by several larger producers. Competition for fingerling sales has also increased in international markets and is not expected to expand as quickly as sales of imported processed products to the food-service market.

Soft-shelled Crabs: Imports of crabmeat continue to take market share from domestic fishermen, and sources of peeler crabs continue to be reduced. The infrastructure associated with this industry was hit hard by Louisiana's two hurricanes in 2005. Technology for shedding crabs may eventually be adopted in less-developed countries where peeler crabs are abundantly available.

HUNTING LEASE ENTERPRISES

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National Situation and Outlook

Outdoor recreation has changed dramatically in the United States over the past years. Changing land use patterns, the greater abundance of disposable income by many Americans and more leisure time have led to tremendous opportunities for hunting leases to provide substantial economic gains to landowners nation wide. Increasing human populations have led to urban sprawl in many parts of our country, which in turn has fragmented wildlife habitats. Many farmers engaged in traditional agricultural commodities have begun to include hunting leases as part of their total economic return from the lands they manage.

Numerous Federal programs are available through the United States farm bill to promote wildlife enhancement and conservation. These same programs, which at one time heavily subsidized crop production, are now providing the means whereby landowners can greatly enhance wildlife habitat on their lands, leading to increased wildlife populations. These wildlife habitat improvement programs allow landowners to demand greater lease rates for lands under their control.

Private rural lands in the United States make up more than 60 percent of this country's total land area and cover approximately 1.28 billion acres. Due to the many farm bill programs promoting the planting of trees, there has been a trend toward increasing numbers of ownerships and total acreage of private lands in forest cover. Much of this forest cover provides excellent habitat for a wide variety of wildlife species,

which in turn provides the opportunity for hunting lease enterprises to become part of a landowners management options. Other Federal Programs designed specifically toward the creation of wildlife habitat are available to private landowners. Many of these programs are tied into either long-term or perpetual easements, requiring landowners to maintain habitat conditions as specified under terms of the contract. These areas, however, are available for landowners to engage in hunting lease enterprises.

Louisiana Situation and Outlook

Landowners who engage in hunting lease enterprises are an important component in the management of wildlife in our state. Many of the wildlife improvements made on lands leased for hunting whether by lessee or lessor, provide game and non-game wildlife species with food and cover necessary for their success. In 2006, approximately 7,827 producers leased land in Louisiana under a fee-based hunting lease enterprise. This figure represents 6,087 individuals who participated in upland game leasing (predominately for deer and turkey) and 1,740 individuals who participated in waterfowl leases. Acreage leased for each of these operations was 6,399,275 for upland game and 1,664,647 for waterfowl.

Gross farm values for these leases amounted to \$44,544,925 for upland game and \$35,468,725 for waterfowl. Average lease rates were \$7 per acre for upland leases and \$21 for waterfowl leases. Waterfowl leases averaged \$15 per acre in the coastal areas of the state and \$50 per acre in other areas. Leasing rates varied greatly throughout the state from lows of \$1 to highs of \$30 per acre for upland game leases. In all hunting lease enterprises, rates depended on location, habitat quality and species involved. Although these factors were most important

in setting the base price for hunting lease operations, the amount of amenities provided was another important factor. A high demand for a good hunting lease with extra amenities will many times bring prices greater than the state average. Value-added components raised the total economic impact of hunting leases in the state to \$83.9 million.

Public demand for hunting leases should continue to drive a strong market in the future. The great number of wildlife related programs, an essential part of the farm bill will serve to further the commitment many Louisiana landowners make to provide additional habitat for game and nongame species. The wildlife habitat created by such programs as the Wetlands Reserve Program, Conservation Reserve Program and the Conservation Reserve Enhancement Program have made available hunting lease opportunities for many landowners within the guidelines of each specific program.

A competitive market for hunting leases will continue to be the driving force that provides landowners with the potential for significant income gains from this revenue.

Recommendations

Wildlife management is not a one-time endeavor whereby targeted wildlife will continue to benefit from the management performed. Landowners must be aware of the successional nature of land management, especially under the climatic conditions of the southeastern United States. Constant monitoring must be performed on lands managed. Tree plantings, timber cuttings, disking, mowing, prescribed burning, the use of herbicides and other habitat manipulation procedures are necessary to steer succession in the direction beneficial to the targeted wildlife species. Landowners also must be aware of the risks involved in engaging in overly competitive markets for hunting leases. A serious threat to sport hunting will emerge if large numbers of individuals comprising the core support of this recreational activity is lost.

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