Market prompts shift in acreage

Market Outlook

By **ARLAN SUDERMAN**

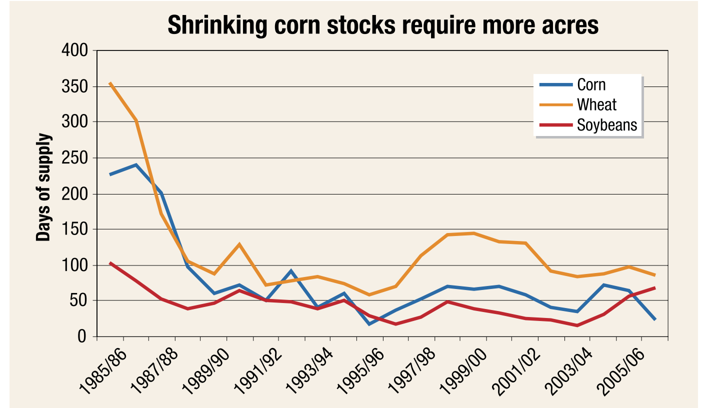
Key Points

- The marketplace must buy enough corn acres to meet demand.
- Surging demand will require another 12 million acres of corn.
- USDA will release its planting intentions survey results on March 30.

NEVER before has the American farmer been asked to make such a dramatic shift in his cropping plans to meet escalating demand. There are no government programs in place to dictate the shift, leaving it up to the marketplace to find a price relationship that will encourage a sufficient adjustment in production. On March 30, we'll learn if the marketplace did its job or whether it has more work to do.

Corn remains the driver, with the ethanol boom expected to increase corn demand at an exponential rate over the next couple of years. Plants currently under construction and expected to be operational in the 2007-08 marketing year are expected to send demand to record highs. An additional 12 million acres of corn will be needed to meet that demand, assuming we reach trend yields this summer. Trend yields looked probable when El Niño was gaining strength, but it's not a sure thing now that tropical Pacific waters are cooling once again.

Failing to get 12 million acres would require the marketplace to ration demand. Higher corn prices are the easiest way to do this, but cheaper ethanol and/or livestock prices could do the trick as well. USDA will report the results of its producer planting intentions survey on March 30, which will tell the industry whether the market has more work to do. Prices will respond accordingly, but then the focus will quickly shift to planting-season weather patterns.



Soybeans follow corn's lead

Soybeans will take their cue from corn. Corn must get the acres it needs, but soybean, cotton and wheat traders will each be protecting their turf to make sure the oilseed doesn't give up too many acres to corn. Most of this year's acreage shift will come out of soybeans because they have the most to give up near-term. Record-large domestic and world stocks without the 2007 crop the option of relinquishing some acres, although it likely will want some of those acres back in 2008.

For now, soybeans can safely give up close to 10 million acres in 2007, although that would leave things tight if adverse weather and/or Asian rust become a problem this growing season. High prices should encourage expansion of South America's production next year, robbing an additional share of our export market. Soy meal must get cheaper to compete with distillers grain, putting more of the burden of maintaining crush margins on soy oil. That shouldn't be a problem as long as crude oil prices remain high enough.

Demand is the driver, requiring traders to maintain a risk premium in prices and to be very sensitive to any emerging production threats. Volatility is here to stay, with wide price swings likely this year as money flows in and out of the market.

Scale sales into the rallies so you can sleep at night during the breaks. Be sure to price enough new-crop corn and soybeans to cover your fixed, variable and family living expenses so you may be more patient pricing the remainder of your crop when prices rally. This business approach to marketing can assure you the opportunity to grow your farm equity.

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Gain new perspective on risk and reward

Family Business

By **LANCE WOODBURY**

Key Points

- Risk and reward in farming and ranching exist in more than just finances.
- People can recover from financial issues, but family conflict is more devestating.
- Be disciplined in resolving conflicts; use a third party if necessary.

WITH current grain prices at historic highs, many farmers face exciting opportunities. For those in the cattle business, however, the same high grain prices create uncertainty and perhaps a greater degree of risk in their business's future.

No one can say that the business of agriculture doesn't have its share of risk and reward. Yet, while we usually consider risk and reward from a financial standpoint, I invite you to consider the concept of relationship risk and reward to reflect the opportunities you have — and the risks you face — in working in a closely held or family-owned business.

Opportunity

A family business provides rewards and opportunities you just don't find in public companies or larger organizations.

Spending significant time with people you love, discussing and making business decisions together, determining business strategies that fit the family's priorities and time horizon, participating in important family events during traditional work hours, creating a business opportunity for the next generation — these are a few rewards that are much more than financial in nature.

You might say the opportunity in a family business is to gain not only a better financial return by controlling your destiny, but also a return that is more emotionally or relationally fulfilling.

Risk

On the other hand, working together in a family business has its share of problems, and therefore, risk.

Disagreement over business goals, different family or financial priorities introduced by in-laws, conflicting philosophies about how to run the business, substance abuse, miscommunication over decisions, differing compensation and money-management expectations, divorce, historic conflict between siblings — these ingredients can create a powder keg of conflict, and the fuse's

length is often unknown.

What risk means for you

I often tell families that the relationship risk they face is as great or greater than the financial risk they face. We all know many people who have recovered from the wrong financial decisions. Very few families, however, recover from significant family conflict.

Managing the relationship risk in your business means using the same disciplines that are important in financial or marketing decisions.

Be disciplined in honestly assessing the relationships that aren't going well and how those might negatively impact the business. In other words, be honest about the consequences of unresolved conflict or relationship problems.

Be disciplined in regular family communication about the business or estate (and include in-laws), so everyone has a chance to understand where the business is headed.

Finally, be disciplined in resolving conflicts and not sweeping them under the rug, hoping they will go away. They won't. Use a third party if necessary, but don't let relationship risk go unmanaged.

Woodbury works at the Garden City office of Kennedy and Coe. For information, go to www.kcoe.com.