

CORPORATE NEWS

THE WEEK AHEAD

Food Processors Sweat Over Corn Crop

BY IAN BERRY

The U.S. corn crop is in trouble, with a blistering heat wave threatening to stunt growth and leave consumers with higher food bills and food producers with lower profits.

The scale of the problem will come into focus on Thursday, when the U.S. Department of Agriculture gives the first crop supply and demand projections of the year to include field surveys—rather than just an analysis of statistical trends.

The early signs are far from promising, which has helped to propel corn prices back above \$7 a bushel, a shift that will likely ripple through farmers, food producers and retailers.

The photographs of the crop right now—pored over by traders and food producers a month before harvest—have been alarming, said Hussein Allidina, head of commodities research at Morgan Stanley. “The entire cob is the size of a can of coke,” Mr. Allidina said. “Normally it’s just shy of a one-liter [bottle].”

While farmers have planted more corn to take advantage of tight global markets and a price that is up 80% from a year ago, a weak crop could exacerbate existing food shortages.

Prolonged drought in the U.S. Southwest has seen ranchers push cattle north, and meat production is set to fall for the third consecutive year as the country’s cattle and hog herds decline in size.

Tyson Foods Inc., which produces chicken, beef and pork, will provide an update on how it is handling these problems on Monday, when it reports third-quarter earnings.

Thursday’s USDA report will be “a very important day for all of us in agriculture,” said Mike Cockrell, chief financial officer of Sanderson Farms Inc., a large chicken producer.

The Midwest weather is one of the first things Mr. Cockrell checks from his southern Mis-



Chris Gast

Throughout July, the weather was blistering during the day and, just as important, hot at night. High night-time temperatures causes corn to devote more energy to maintaining the plant rather than adding to the size of its kernels.

Both Iowa and Illinois climatologists say July was the hottest month since 1955. Across the Midwest, the month was among the top-10 hottest of all-time, and there has been little relief so far in August.

That will affect the price

store for chicken, as well as beef and pork produced by companies such as Tyson and Smithfield Foods Inc. There are implications throughout the food chain, as the USDA last month forecast overall food inflation at 2.5% to 3.5% in 2012 but said price levels will hinge on Midwest weather through the end of this summer.

Morgan Stanley’s Mr. Allidina said that both the USDA’s yield and acreage projections are too low. “Corn supplies are at level in

15 years.

Meat producers won’t be the only ones closely watching the report. For fertilizer companies such as Mosaic Co. and Potash Corp. of Saskatchewan, a smaller crop estimate could reaffirm that boom times will continue through next year, with high corn prices prompting farmers to plant more acres and putting more money in their pockets, allowing them to withstand high fertilizer prices.

The report also serves as an indicator of the likely strength in the farm economy for equipment makers such as Deere & Co.

The USDA’s report won’t be the final word on the corn crop. Cooler temperatures later this month, followed by a late first frost, could help the crop rebound.

Plus, the report comes amid growing dissatisfaction with what market analysts have said are erratic month-to-month projections. In August of 2010, the USDA projected a record average yield of 165 bushels per acre, well above the actual final tally of 152.8 bushels.

While the USDA last month forecast a national yield of 158.7 bushels per acre, many expect the crop to be closer to 155 bushels, if not lower.

Pilgrim’s Pride Corp., the world’s second-largest poultry producer, expects to spend an additional \$500 million to \$600 million this year on corn. Chief Executive Bill Lovette said recently that the company, which filed for bankruptcy in 2008 due largely to soaring corn costs, was closing a Texas plant, and that the USDA’s most recent corn acreage estimate for the U.S. is too high.

He added that the July heat could “jeopardize the crop,” and is betting that prices will go higher.

“We still believe there is potential upside risk,” he said.

The Week Ahead looks at coming corporate events.