

IMPACT OF ECONOMIC UNCERTAINTY ON MNSP

Agribusiness in general and MnSP in particular are not insulated from the negative results of the current uncertain global economy. While we are not facing a shortage of available credit, some of our domestic customers are. (MnSP uses short term credit primarily to carry soybean and product inventories.) Such credit problems have resulted in MnSP reducing the amount of receivables risk we can tolerate with a large customer or two. Add to this, generally reduced demand for soybean meal, and you have the prescription for reduced profit margins. Soybean meal demand is reduced due to lower demand for meat exports and for soybean meal exports, and this reduction is aggravated by the availability of byproduct substitutes, such as canola meal and DDGS. Soybean oil demand presents a slightly less negative picture with fairly stable domestic demand but poor export prospects. Coupled with this weak demand environment is the low (and rapidly declining) soybean futures price. As farmers become more and more disappointed with this price trend and more and more unwilling to sell, we have to chase the few beans that are willing to come to market. Biodiesel, which was a drag on earnings in the year just ended, looks fairly favorable as soybean oil prices decline at a somewhat faster clip than do petroleum prices, especially diesel fuel.

While we cannot imagine facing the potentially devastating consequences being dealt with by many other industries, we do not expect a good year at all. We do not expect to be able to run our crushing plant at capacity during any month this year. We fully anticipate reduced crushing margins industry wide. Your management team and all of your employees will be watching every penny in an active effort to reduce expenses and conserve capital. Our merchandising team will be scrambling every day to make the best possible decisions about optimizing the margins that are available to us. The results won't be pretty, but the situation will be manageable.