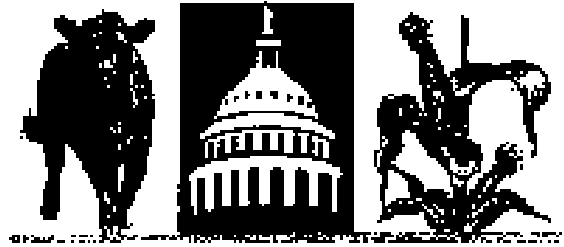


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Grain Market Situation and Update

Over the last few weeks, grain markets have had to digest both USDA's spring prospective plantings report and the latest supply and demand (WASDE) numbers, the latter of which showed some significant changes on the corn side.

You probably already know that the prospective plantings report estimated a 7.5 million acre (8%) decrease in corn plantings and more than an 11 million acre (18%) increase in soybean plantings for 2008. This shift was anticipated in the market before the report, but probably not to that magnitude.

As we started saying back in the fall, the 2007/2008 balance sheet for soybeans looks tighter than for corn. This is still true, but the difference has narrowed. It looks like the 2007 soybean crop was a little larger than estimated, and the WASDE balance sheet was modified a little to reflect that. Projected stocks-to-use in soybeans currently sits just over 5%. Although up slightly from March,

that's still only about three weeks' worth of beans in the US.

The real changes in the April WASDE were in corn. Feed and residual use was increased by 200 million bushels. At the same time, exports were increased by another 50 million bushels. The only decrease was in ethanol use, which was reduced by 100 million bushels. Still, the net effect was a decrease in ending stocks of more than 150 million bushels which pulled the stocks-to-use estimate for corn down below 10% for the first time this year. This number was over 15% back in the fall of 2007. Put simply, corn continues to get tighter and is trying to limit the shift to soybeans in 2008. Corn supply will probably be an even larger concern next year due to fewer acres and continued strong demand.

This explains a lot of what we have seen with prices recently. Up until early March, the price ratio between soybeans and corn had stayed pretty close to 2.5 to 1. In other words, \$5 corn meant \$12.50 beans. This ratio was generally favorable to soybean production. Since mid-March, the ratio has declined and has been hovering around 2.0 to 1, a ratio that is generally favorable for corn production relative to soybeans. The price ratio will likely stay favorable towards corn as the corn market tries to buy-back some of those acres.

It is important to remember that planting intentions surveyed in early March can easily change. The new price ratio has the potential to pull significant acreage back to corn. However, currently unfavorable planting conditions for corn, as well as the availability of seed and fertilizer, remain wildcards in this final shift. (Kenny Burdine and Greg Halich)

Handling Domestic Workers with the H-2a Program

Those familiar with the H-2a worker program are aware that there are many rules and regulations that must be followed. This article will outline requirements of H-2a employers when domestic workers request jobs.

When applying for H-2a workers (aka request certification), farmers submit an application including a job description with starting and ending dates for which the H-2a workers are needed. When this certification is granted through the U.S. Department of Labor, notice is sent to the Kentucky Office of Employment and Training (KY OET). The KY OET is required to inspect and certify the H-2a housing. When they make their inspections this year, the OET staff will bring with them a list of people in your area that have inquired about your job. At that time, you will have to respond if you have been contacted by any of these individuals and what the current status is (no contact, have an interview scheduled, hired, etc).

Remember that H-2a regulations require the employer to hire any qualified U.S. worker within the first half of the contract period. If a domestic person has contacted you and inquired about the job, there are certain steps you must follow. First, unless you want to otherwise employ this person, you are not required to hire them until the start date as listed on your H-2a contract. If they have contacted you prior to the start date, ask them to come back on the start date of the contract. Second, you must provide them with a copy of the H-2a contract. The applicant must be willing and able to complete the tasks that are listed in this contract. If the person is unwilling to abide by the terms in the contract, you are not obligated to hire them. At this point, you should send an email or letter to the KY OET and include the applicant's name and social security number.

If however, the person agrees to the terms and conditions in the H-2a contract, you must complete the necessary paperwork for hiring a domestic worker. The paperwork includes an I-9 form as well as the federal W-4 and the state K-4 forms.

(Remember the H-2a workers must also complete the I-9 form.) The I-9 is the Employment Eligibility Verification form and there is a new one available this year (go to www.uscis.gov/files/form/I-9.pdf for a copy of the new I-9 and instruction). The W-4 and K-4 are the federal and state withholding allowance forms (go to www.irs.gov and revenue.ky.gov/forms/curwhfrms.htm respectively for these forms). If the applicant refuses to complete any of these forms, do not hire them and send an email or letter (something in writing) to the KY OET (again, include the applicant's name and social security number). If they complete the forms, then you are required to hire the domestic worker. Remember that the domestic worker is entitled to the same benefits as listed in the H-2a contract.

Of course H-2a employers should be aware that if an H-2a worker abandons the job they are to contact the KY OET. Likewise, if a domestic worker was hired under the same H-2a contract, the employer must also contact the KY OET. (Laura Powers)

Kentuckians and Organic Food Purchases

Some early results are back from the March 2008 Kentucky Food Consumer Panel (KFCP) revealing some interesting perspectives on the purchase of organic foods by Kentucky households. This survey, targeting households in all 120 counties, provides insight into food purchase behaviors across a variety of demographics.

Organic foods have become much more accessible in recent years. The growth in natural foods merchandisers, farm markets, and imported organic foods has expanded this into a mainstream food category. Most conventional food retailers have accommodated this consumer trend by expanding their own offerings of organic foods. The category has grown steadily at about 20% per year, although for items like produce, organic only makes up about 2% of the total consumer expenditures.

The KFCP survey shows that about 16% of Kentuckians purchase some kind of organic food regularly and 35% purchase some organic product at least once per month.

Organic Food Purchases	Number	Percent
Rarely	231	65%
Occasionally (Once per month)	66	19%
Regularly (More than once per month)	58	16%
Total	355	

As one might expect, there was a slight difference with the propensity to purchase organic products among urban households (in counties with over 60,000 people) as opposed to those in more rural areas. Geographical differences in demand seem to exist for organic products. Other factors, such as age, income, gender, household size, education, and other demographic factors will be examined within this data set to better understand the organic consumer in Kentucky.

	Organic Food Purchases			Total
	Rarely	Occasionally (Once per month)	Regularly (More than once per month)	
Rural	151	42	27	220
	68.6%	19.1%	12.3%	
Urban	80	24	31	135
	59.3%	17.8%	23.0%	

Considerable attention has been directed nationally to the customer segment referred to as the Lifestyle of Health and Sustainability (LOHAS). Many companies specifically target this segment, recognizing these consumers are fiercely loyal, pay substantial premiums for health, social welfare, and environmental attributes associated with their products. This segment is a significant and thriving demographic within Kentucky and will continue to draw targeted product development from many direct marketing farmers and other food firms.

Additional details on the Kentucky Food Consumer Panel will be forthcoming over the next several months. Look for summaries and reports on this data set to be posted at the KFCP home page: <http://dept.ca.uky.edu/kyfood/home.aspx>. (Tim Woods)

Judging Financial Success on the Farm

By now, most farmers should have filed their 2007 income tax returns and moved on to the more enjoyable tasks on the farm. As they were working on and ultimately filing their return, they may have given a bit of thought as to how their farm business has been performing. A recent article in this newsletter pointed out the problems producers could have if they misinterpret the IRS definition of **profit**. The recommended solution to this problem of misinterpretation was the Accrual Adjusted Income Statement. Use of this income statement will provide a more meaningful estimate of the profitability of the farm business.

Farmers who are looking for a better measure of farm financial performance and progress, should be preparing and using a balance sheet. The balance sheet can provide the ultimate measure of financial success for the farm business or any business for that matter.

The balance sheet is a listing of all assets and liabilities of the farm business at a certain point in time. The difference between assets and liabilities is owner's equity or net worth. It is owner's equity that should be used as an indicator of financial performance of the farm business over time. The implied or inferred objective of the farm business manager is to maximize the value of owner's equity.

Looking at the balance sheet in the UK Farm Record Book (found on pages 68 -71), owner's equity can be found on Line No. 53. It is located in the lower right side of the form. As a farmer studies and compares balance sheets for the farm business over time, they should be looking for the equity or owner's net worth to increase over time. A continually growing net worth means assets are either getting bigger or liabilities are getting smaller, or both. All of these changes should ultimately prove beneficial as the farm business manager strives to maximize the value of net worth over time, his assumed overall goal for the farm business.

The Evolution and Use of Trimble's Box -- Users of the UK Farm Record Book balance sheet will undoubtedly notice it uses two columns for the value of both non-current assets and liabilities. This

is to allow or force the user to list assets and liabilities at both modified cost and market values. This requirement was the result of lessons learned and numerous unpleasant experiences arising from the Farm Financial Crisis of the late 1970's and early 1980's.

During the early 1970's, agriculture in the United States experienced some great economic times. Grain prices were not that great, but exports were outstanding. We were going to feed the world and they were going to pay our farmers handsomely to do it. Farm incomes were increasing rapidly. Farmers and investors were bidding this income earning ability into the price of land. Agricultural real estate values were going up at unbelievable rates.

Then things quickly changed. We experienced a grain embargo on exports to Russia. Grain prices fell in response. Concurrently, the general economy was experiencing hyper-inflation. In response, the Federal Reserve increased interest rates to gain control over inflation. The Fed was ultimately successful in their battle against inflation however the combination of low farm prices and high interest rates spelled doom for many farmers.

Low prices resulted in lower farmer income while increased interest rates increased their costs of production. This combination quickly turned cash flow negative for most of agriculture. In response, farmers started to sell some of the high valued land to help them make required loan payments. As this happened across the nation, everyone discovered that no one wanted to buy land. The result was a falling land market. Unable to make loan payments many farmers were forced to sell out or take bankruptcy. This tremendous decline in farm real estate values and all the associated problems gave rise to the 1980's Financial Crisis in Agriculture.

One of the many responses to that financial crisis was the two-column balance sheet. The reason to use two columns was to force users of the balance sheet to be aware of what was happening to the financial position of the farm business over time. Two columns were supposedly going to help make the user constantly aware of the difference between the market value and modified cost value of their owner's equity. This should help farmers avoid the

problems experienced by producers during the 1970's and 1980's.

Right below Line 54 on the lower right side of the Farm Record Book balance sheet is a small box containing five blanks. Filling in these five boxes with the appropriate values can help the user gain insight into the economic and financial performance of their farm business. It should also provide a greater degree of confidence in the estimate of owner's equity contained on Line 53.

This small box is often referred to in our educational workshops when we are teaching the preparation and use of the balance sheet as *Trimble's Box*. This reference has nothing to do with the original creation of the box. Rather it reflects the fact that no one else thought it worthwhile to continue to teach and emphasize this aspect of our balance sheet. However, with currently changing economic conditions, interest in the box has seemed to become more relevant.

Using Trimble's Box the user of UK's balance sheet can determine the source of growth in owner's equity over time. By supplying the value of contributed capital, which is the same in both the modified cost and market value columns, the value of owner's equity contributed by both retained earnings and valuation can be determined. Simply subtract the value of contributed capital from owner's equity in the modified cost column. The result is the equity resulting from retained earnings generated by the farm business. Inserting this value in the market value column allows the user to add the market value column's contributed capital and retained earnings. Once this value is calculated, it can be subtracted from the owner's equity amount in Line 53. The result is the amount of valuation equity.

Comparing the sources of equity, retained earnings versus valuation, one can determine the extent to which the farm business has been contributing to the ongoing growth in owner's equity. If the increase has been generated by farm earnings, the business has been performing and contributing to the overall success. If retained earnings have not been contributing and the increase in owner's equity has been resulting solely from increased valuation equity, the farm business has not been making money nor contributing to the

overall success of the farm business. In this situation, if land values decline rapidly as they did during the 1980's the farm business would be in a perilous situation. The owner would be in a position to lose equity quickly as many farmers did during the Financial Crisis of the 1980's.

If the farm business has been performing well and contributing retained earnings to the growth of owner's equity, use of the Trimble Box should help the user to develop greater confidence in the farm business. If the analysis suggests that the farm business has not been generating retained earnings, this could be an indication that corrective action must be undertaken to avoid future problems. (Dick Trimble)

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