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USDA Forecasts Record Net Farm Income in 2008: What about Kentucky?

USDA's Income Outlook report (released on August 28th) projected that U.S. agriculture will establish a record net farm income of $95.7 billion in 2008, 10.3 percent above last year's record high level and 57 percent above the 10-year average of $61.1 billion. Net farm income includes cash receipts and government payments, adjusted for production expenses and inventory changes. While input expenses on the national level are forecast to be up by 11% in 2008, the value of agricultural production is estimated to be nearly 20% higher compared to last year. For more details on the national outlook see: www.ers.usda.gov/Features/FarmIncome/

What about Kentucky? While USDA does release their 2008 estimates on the national level in August, they only officially release their final state level data for the preceding year. Despite the 2007 spring freeze and summer drought, as expected relatively strong prices and decent yields resulted in cash receipts setting an all-time record high last year for Kentucky totaling $4.4 billion, up from $4.0 billion in 2006. Kentucky's top two ag enterprises, horses and poultry brought in 45% of total cash receipts, followed by cattle, corn, soybeans, and tobacco.

Although cash receipts set a record this past year, higher production expenses and declining government payments caused net farm income to fall from $1.6 billion in 2006 to slightly below $1.5 billion in 2007. The Commonwealth's all time record high net farm income of $2.1 billion was established in 2005 which was inflated by a large number of eligible tobacco farmers opting for a lump sum distribution during the first year of the tobacco buyout. Interestingly, Kentucky's net farm income during the 2000-2004 (pre-tobacco buyout) period averaged $1.2 billion, while the post buyout (2005-2007) net farm income has averaged $1.8 billion. While growing cash receipts have contributed to this overall increase, a significant portion of the increase is attributed to tobacco buyout payments. As expected government payments to Kentucky farmers fell in 2007 due to lower grain payments and diminishing tobacco buyout payments.

What about Kentucky's 2008 farm income outlook? While USDA's official 2008 data for Kentucky will not be released until August 2009, the aggregate outlook appears relatively strong despite production cost increases and some late weather concerns. Prior to August, relatively strong and in some cases record level prices for many commodities, coupled with good anticipated yields had the potential of boosting Kentucky cash receipts to approach $5 billion. However, dry weather conditions coupled with some easing on prices in recent weeks will likely result in Kentucky farmers not achieving this lofty level for 2008 -- but cash receipts are expected to establish another record high in 2008. Moreover, escalating production expenses and the continued decline in government payments (as tobacco buyout dollars diminish and higher market prices significantly reduce government grain payments) could easily cause Kentucky's net farm income to remain near last year's $1.5 billion level. (Will Snell)

Kentucky Farm Income/Expense Data

	Cash Receipts ($1000s)	Purchased Inputs ($1000s)	Govt. Payments ($1000s)	Net Farm Income ($1000s)
2004	4,126,865	2,412,406	147,696	1,524,707
2005	3,987,485	2,208,668	829,633	2,227,702
2006	4,031, 162	2,335,259	499,506	1,639,023
2007	4,432,408	2,518,409	338,690	1,486,346

Source: Economic Research Service, USDA, August 29, 2008

Beef Herd Liquation Continues, Dairy Herd Grows

USDA's July Cattle report suggested that beef cattle numbers are continuing their slow decline. Estimates included a 1% reduction in the number of beef cows and a 2% reduction in the number of heifers being held for beef replacements. Slaughter reports had been suggesting that cow slaughter was running above year ago levels, which were also higher than normal. In short, it appears that slow liquidation is ongoing and, based on heifer retention, is likely to continue into 2009.

Droughts in 2006 and 2007 clearly impacted this most recent cattle cycle, but basic profitability challenges are also very much at play. Calf prices are softer than they were last year and production costs are much higher due to rising fertilizer, fuel, and feed costs. Producers are being squeezed to the point that few are expanding and many are liquidating.

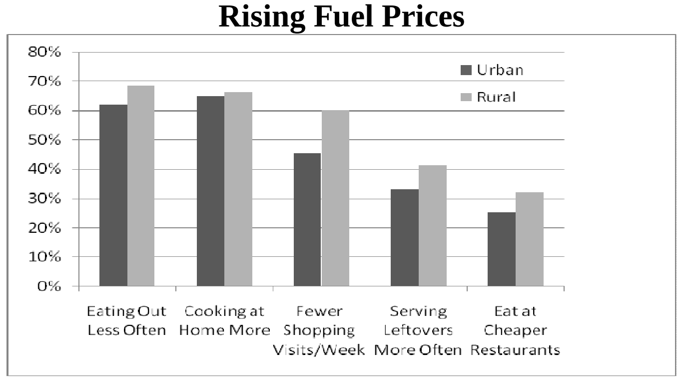
It is difficult to say how long liquidation will continue, but producers definitely don't expand when they are losing money. So, one of two things must happen, either production costs must fall enough to bring profit back, or calf prices must increase enough to offset the higher production costs. If production costs stay at these high levels, we will continue to liquidate cows until the smaller supply of calves brings prices high enough to restore profitability. And given the rapid rise in production costs recently, that process could take several years.

In contrast, milk cow numbers were estimated to be 1% higher than July of last year with dairy replacement numbers steady. US milk prices exceeded 2007 levels from January through May, which probably explains the growing numbers. Just like beef cattle operations, dairy producers are also being squeezed by rising feed and fuel costs. (Kenny Burdine)

Fueling Our Appetite: Kentuckians React to Prices at the Pump

In a recent survey of 437 households statewide, Kentuckians indicated that fuel prices have significantly impacted where and how often they purchase food. The Kentucky Food Consumer Panel, a series of online surveys about food and food oriented activities, asked panelists to identify food consumption behavior changes due to higher prices at the pump. Surprisingly, urban dwellers are making similar revisions to those of rural residents.

Food Consumption Changes Due to Rising Fuel Prices



The most common household changes, according to the survey, were an increase in home-cooked meals (66%) and a decrease in dining out (65%). Food retailers, large and small, have a new niche market as a result – the prepared foods department! Families that are pressed for time or expertise in the kitchen pay a premium for fresh, packaged items that are ready to serve. The impact? A higher profit margin for the retailer, and a possible savings of time and money for the consumer, compared to eating out.

One significant difference between urban and rural panelists when purchasing food was the frequency of grocery shopping. Fifteen percent more panelists living in rural areas are shopping fewer times a week than the urban dwellers. This may be supporting evidence that rural Kentucky families are traveling a sizeable distance to shop for food.

Although Kentucky's price per gallon of gasoline is consistently lower than the national average, citizens of the Commonwealth have been making considerable changes in behavior to compensate. Much of the data collected in the Food Consumer Panel supports the notion that demand for locally grown food will continue to increase. However, it also raises concern for restaurants and grocery stores that depend on consistent business from surrounding areas.

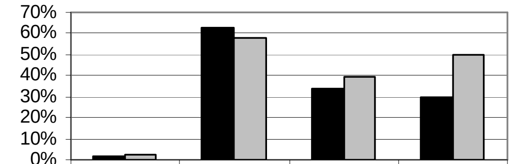
Data collected from the Kentucky Food Consumer Panel, under the direction of Dr. Tim Woods and Dr. Wuyang Hu, will be used to provide resources about food behaviors, consumption, and marketing to Kentucky communities. (Tim Woods & Sara Williamson)

VATM Carcass Data Improves from Last Year

In the July Economic and Policy Update, Lee Meyer described the Value Added Targeted Marketing (VATM) program. This month, we will look at some results and discuss what we have learned. Since the inception of the program, either full or partial carcass data has been collected on over 9,500 cattle. This data represents a broad cross-section of Kentucky's feeder cattle population. Kentucky producers receive individualized carcass reports on their cattle as compared with other cattle across the United States.

Over 1,600 head were tracked through the program in 2007. Overall, quality grades for Kentucky feeder cattle tracked through VATM in 2007 exceeded industry averages. Kentucky cattle are compared to USDA August slaughter data for comparison purposes. Sixty-three percent of Kentucky cattle graded Choice or Prime, which exceeded industry average by approximately five percent.

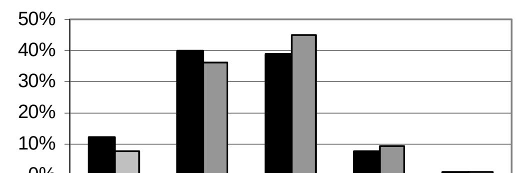
2007 Quality Grade Summary



	Prime	Choice	Select	Standard
KY	1.8%	63.1%	33.8%	30.0%
USDA August	2.3%	57.8%	39.3%	50.0%

Yield grades for Kentucky cattle in 2007 improved over previous years. Kentucky cattle outperformed the USDA averages in the number of yield grade 1 and 2 carcasses; however, the total number of yield grade 1, 2, and 3 carcasses were very close. Kentucky decreased the number of yield grade 4 and 5 cattle by 50% from the previous year, from 18.6% to 9.06%. (Jennifer Hunter)

2007 Yield Grade Summary



	1	2	3	4	5
KY	12.0%	40.0%	38.8%	7.9%	1.2%
USDA August	8.0%	36.0%	45.0%	9.7%	1.3%

A Look at Kentucky Dairies

Farms cooperating with the Kentucky Farm Business Management (KFBM) program provide income, financial, and production data for use in comparative analysis of various types of farms, including dairy farms. The number of dairy farms in the KFBM program more than doubled last year because of the Milk Incentive Leadership for Kentucky program. Here is a snapshot of the average participating dairy.

There were fifty-four dairies in the KFBM program for 2007. This average farm milked 130 cows averaging 17,952 lbs. of milk per cow. The average price of milk was $20.03 per cwt.

The farm grossed $429,329 on an accrual basis, which is $3,303 per cow. “Accrual basis” adjusts for prepaids, accounts payable, and inventories to find actual cost and returns. Net Farm Income averaged $116,645, or $897 per cow. Net Farm Income is the return to the operator’s labor, management, and investment. These farms averaged $1.42 per cwt of milk produced. Management Returns for the average dairy were $14,371. Management Returns measures what income is left to the operator after subtracting something for his labor and a return on his equity. Management Returns were significantly higher than in 2006.

The average farm cultivated 317 acres at an average cost of $133 per acre. Total crop costs per acre were essentially the same as 2006. Fertilizer increases were offset by decreases in pesticide costs.

The Value of Feed Fed averaged $236,135. This includes purchased feed plus the fair market value of raised feed. Feed fed was valued at $1,816 per cow or $10.29 per cwt produced.

The average dairy hired the equivalent of 2.32 full time employees at a total cost of $51,056. This translates to an average wage of $8.82 per hour. The farm employed 44.5 hours of paid labor per cow at a cost of $393. Producing a cwt of milk required one quarter hour of paid labor for a cost of $2.18.

Other significant expenses include Power and Equipment and Livestock Costs, including veterinary and medicine costs. Power and equipment totaled $120,022, a cost of $923 per cow or $5.33 per cwt. Livestock Costs totaled $38,417. Cost per cow was $296 and cost per cwt was $2.14. (Jerry Pierce)

2007 Average Dairy Farm Analysis

Number of Farms	54	Gross Farm Revenue	429,329
Herd Size	130	Net Farm Income	116,645
Operator Acres	317	Management Returns	14,371
Crop Costs per Acre	132.68	Paid Labor	51,056
Power & Equipment	120,023	Months Paid Labor	27.8
Livestock, Vet & Med	38,417	Value of Feed Fed	236,135
Cwt Milk Produced	22,532.9	Price Milk/cwt	20.03
Per Cow		**Per Cwt Milk Produced**	
Lbs. of Milk Produced	17,952		
Gross Farm Returns	3,302.53		
Power & Equipment	923	Power & Equipment	5.33
Livestock, Vet & Med	295.52	Livestock, Vet & Med	2.14
Labor Cost	392.74	Labor Cost	2.18
Labor Hours	44.5	Labor Hours	0.25
Value of Feed Fed	1,816.43	Value of Feed Fed	10.29
Net Farm Income	897.27	Net Farm Income	4.80

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