USDA Confirms Record Corn and Soybean Crops

The final estimates of the 2014 corn and soybean crops are in and the USDA has confirmed a record corn and soybean crop was produced. The record corn and soybean yields reflect the production capacity of US agriculture when near-ideal weather over much of the country occurs throughout the growing season.

U.S. Corn Situation and Outlook

The U.S. average corn yield was projected to be 171 bushels per acre, which is about 13 bushels per acre larger than the 2013 corn yield. The 2014 U.S. corn crop is projected at a record 14.2 billion bushels. This record crop was produced on 4.4 million fewer harvested corn acres as U.S. farmers responded to profitability signals by decreasing corn acres and increasing soybean acres in 2014. The total corn supplies for the 2014-15 marketing-year is about 15.5 billion bushels, which is about 786 million more bushels in the marketing-channel than in 2013-14.

Corn use is not projected to keep pace with the increased supply. Feed use is projected to increase as cheaper feed coupled with strong meat and poultry prices are sending expansion signals to the livestock and poultry sectors. Ethanol use is projected to increase slightly from 2013 to 5.175 billion bushels. The decline in oil prices has eliminated the profitability of processing ethanol, which will limit corn demand. Exports are projected to be slightly lower than in 2013-14 due to export competition from South America. China approved the biotech event MIR162 in December 2014, which may open the gate for more corn exports this marketing-year. For over a year, China was rejecting shipments of corn that had any presence of the unapproved biotech event, which curbed U.S. corn exports.

Corn stocks are projected to increase from 1.2 billion bushels in 2013-14 to a projected 1.88 billion in 2014-15. As corn stocks grow domestically and globally, the risk premium in the corn market is reduced and the US marketing-year average price is projected to be about $3.65 per bushel, which is about $0.80 per bushel lower than in 2013-14.

U.S. Soybean Situation and Outlook

While the 2013 corn crop allowed corn stocks to start rebuilding, the US soybean market needed a large crop in 2014 to start the stocks rebuilding process. The 2013-14 soybean ending-stocks were projected to be relatively tight as compared to corn, which signaled the need for more soybean acres in 2014. Farmers responded to the profitability signal and increased soybean harvested acres by 6.8 million over the 2013 crop. Coupled with the record yield of 47.8 bushels per acre, the 2014 soybean crop is just shy of 4 billion bushels.

Soybean stocks are projected to swell from 92 million bushel in 2013-14 to 410 million bushels in 2014-15. The 2014-15 U.S. marketing-year average soybean price is projected at $10.20 per bushel, which is $2.80 per bushel lower than in 2013-14.

Impact on Futures Market

The increased domestic and global stocks for corn, soybean, wheat and cotton are weighing on commodity prices until demand is stimulated through

http://www2.ca.uky.edu/agecon/index.php?p=209
lower prices, or until production problems somewhere in the world can reduce the volume of stocks available worldwide. South America is in the process of producing another record soybean crop, which is also pressuring soybean prices lower. The realization of further increases in global stocks was reflected in lower futures market prices after the January WASDE, Crop Production Annual and Grain Stocks reports were released on January 12.

Both corn and soybeans put in harvest lows of $3.21 and $9.13 per bushel, respectively, on September 30th. Prior to the January report, corn and soybean futures prices increased $0.80 and $1.39, respectively, from the harvest-time futures price. As of January 23, March corn and soybean futures closed at $3.86 and $9.72, respectively. Those holding soybeans from the harvest-time lows through the January report gained a $0.59 per bushel potential return to storage. Those holding corn have gained a potential $0.65 per bushel return to storage. 

~ Todd Davis

Volatile Burley Tobacco Outlook Ahead

The tobacco buyout celebrated its ten year anniversary this past year. Of course, that means tobacco buyout checks are history and the remaining tobacco growers face a market without any safety net measures to protect against market volatility.

As anticipated, the buyout did bring about massive consolidation, increasing scale of production, and geographical shifts in production. But volatility in burley prices and production has not evolved in the post-buyout era as expected … until now.

In reality, tight domestic and global supplies of burley enabled a seller’s market to evolve for most of the post buyout era. This resulted in relatively strong prices for lower quality leaf, a home for non-contract tobacco, and a viable auction market. However, a 30-35% increase in global burley production over the past two years, coupled with blended cigarette sales falling 5% or more in many traditional U.S. cigarette markets, abruptly changed the favorable supply/demand balance this past marketing season. Internationally, export demand for U.S. leaf is off by more than 20%; due not only to lower blended cigarette sales, but also in response to an abundance of lower priced leaf and an increasing value of the U.S. dollar. Collectively, these factors threaten to generate lower U.S. tobacco prices and contract volume for 2015.

One factor that could disrupt this projection has been the recent devastating flooding in Malawi; the world’s largest burley producer. While being a low quality burley producer, Malawi’s leaf output certainly impacts the overall global burley supply. A sizable loss of the 2015 Malawi crop, which is still much unknown at this time, could constrain the anticipated reduction in U.S. burley contract volume for 2015. If Malawi losses are minimal, the industry will need much less burley from U.S. growers in 2015; inducing double-digit percentage reductions in burley contract volume for the coming year, and significantly increasing the marketing risk of any non-contract burley production in 2015.

The demand for U.S. burley beyond 2015 remains very uncertain. One factor that may play a noticeable role will be the rapidly emerging e-cigarette/vaping market. Currently, the e-cig/vaping market is only around 2.5% of total U.S. tobacco product sales, but some analysts anticipate that it will continue to grow, and could overtake domestic cigarette sales within the next decade. Most of these “alternative” nicotine delivery products are presently derived from non-U.S. leaf sources; primarily China. While research and production efforts are evolving to see if U.S. tobacco growers can be a part of this market, it remains unclear if U.S. tobacco growers can supply the liquid nicotine at a cost-competitive/profitable level.

Currently, the e-cigarette/vaping market faces limited regulation and taxation. However, this is likely to change in the near future as policymakers, regulators, and public health officials debate the health issues surrounding these new products, and as governments face declining tax revenues from a loss in cigarette sales. Interestingly enough, it took domestic cigarette companies a couple of decades of watching increasing snuff sales before they entered the smokeless industry. However, the major cigarette manufacturers entered the growing e-cigarette/vaping market quickly, and continue to test consumer acceptance of new nicotine delivery products.

It appears that U.S. cigarette companies have greater economic incentives to expand alternative tobacco product markets, at the expense of traditional cigarette sales, in response to reportedly higher per unit profit margins, limited regulation/taxation, and lower Master Settlement Agreement (MSA) payments; since the latter is volume adjusted based on cigarette and not e-cig/vaping sales. If this market continues to grow, displacing traditional cigarette sales, it will most likely induce further reductions in U.S. tobacco acres unless domestic growers become a part of this emerging market.

~ Will Snell
Kentucky horticulture has changed rapidly over the past 10 years. Through data from the 2012 Census of Agriculture, we were able to put together some interesting information about how the horticulture industries across the Commonwealth have changed. Kentucky has seen a significant increase since 2002 in the number of farms producing vegetables and melons, and using direct marketing to sell edible products. There have also been increases in cash receipts since 2002 for vegetables and melons, and for direct marketing. Vegetable and melon acreage increased from 2002 to 2007, but fewer acres were planted in 2012. However, 2012 vegetable and melon acreage still exceeded 2002 acreage. Berry acreage also increased slightly from 2007 to 2012 (2012 Census of Agriculture).

Figure 1. Number of Kentucky Horticulture Farms, 2002 – 2012

Figure 2. Kentucky Horticulture Cash Receipts, 2002 – 2012

Figure 3. Acreage of Kentucky Horticulture Farms, 2002 - 2012

~ Miranda Combs

Cash vs. Accrual Income

There are two basic methods of accounting, cash and accrual. The cash method records income and expenses at the time of payment, while the accrual method records income and expenses when they are earned or incurred. Both of these methods are valuable to a farmer, but they serve a different purpose and should be used properly.

Farmers are allowed to use the cash method of accounting when filing tax returns and this can provide a valuable tax management tool. The cash method allows the farmer to hold grain, livestock, accounts receivable, and other income items in inventory without counting that income until the money is actually received. It also allows them to prepay certain crop expenses in the year before they will be used. The cash method allows farmers to lower their current tax bill by deferring income and/or increasing expenses unlike the accrual method. Contrary to what many farmers believe, the tax return will not always give a true picture of whether or not a profit is made in the current year.

The accrual method of accounting should be used when providing information to lenders, and it provides a more accurate picture of the farming operation than does the cash method. The goal of the accrual method is to show the whole picture of the farming operation by including income and expenses that were incurred during the year (inventories, accounts receivables, accounts payable, and accrued interest), and by excluding expenses that have not been incurred yet (end of year prepaid expenses). A farmer’s income should be based on each crop year; the accrual method is the only way this can be done properly.

Lenders who do not have all the information needed to create an accrual income statement will usually use 3-5 years of tax returns to “create” an accrual statement. There is still potential
that this may not show the true picture of the farming operation. Schedule F income may also be skewed by the use of Section 179 accelerated depreciation, whereas an accrual income statement will use economic (book) depreciation. A study conducted by Professor Freddie Barnard of Purdue University showed that there was a 52% difference between using an accrual income statement and a 3-5 year average from the Schedule F income. This study shows how important it is to collect all the data necessary to construct an actual accrual income statement instead of trying to construct one from just using schedule F incomes.

Lenders will want to make sure they use true accrual income statements rather than Schedule F income for 2014 income.

There is a very good chance that Schedule F incomes will be higher in 2014 due to selling the more valuable 2013 crop in 2014. At the same time, accrual incomes will probably be lower due to low grain prices for the 2014 crop.

It is very important for everyone involved to understand the need and purpose of both cash and accrual methods of accounting. They serve very different purposes and, if used incorrectly, can cost the farmer money or the opportunity for more money.

~ Michael Forsythe

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**USDA Congressional Delegation Profiles**

Last week, USDA released 2012 Census of Agriculture rankings by Congressional District. Kentucky’s 1st Congressional district, our state’s most dependent agricultural district, ranked relatively high in several categories. Among the 435 U.S. congressional districts, Kentucky’s 1st Congressional District ranked 4th in tobacco sales, 11th in poultry sales, 13th in the number of farms, 24th in government payments, 28th in grain sales, and 32nd in the total market value of agricultural products sold.

Below are a few summary statistics from each of Kentucky’s six congressional districts from the 2012 Census. Data profiles for each congressional district can be found online at [www.agcensus.usda.gov/Publications/2012/Online_Resources/Congressional_District_Profiles/index.php](http://www.agcensus.usda.gov/Publications/2012/Online_Resources/Congressional_District_Profiles/index.php), with congressional rankings online at [http://www.agcensus.usda.gov/Publications/2012/Online_Resources/Congressional_District_Rankings/](http://www.agcensus.usda.gov/Publications/2012/Online_Resources/Congressional_District_Rankings/).

~ Will Snell

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