The great debate throughout the winter has been which crop will win the battle for acres in the 2015 growing season. Since 2006, the fight for acreage between corn and soybeans was fierce due to a combination of surging demand and tight stocks. Farmers benefited from this battle by having prices rally heading into planting. The record 2014 corn and soybean crops have reduced the intensity of this battle. The pre-report market analysts’ expectations were framed as speculation of how many acres corn would lose and soybeans would gain. These expectations were based on University enterprise budgets projecting the returns for soybeans to be greater than the returns for corn production.

The USDA Agriculture Baseline Projections, released in mid-February, provided a pause in the thinking that corn would lose acres and soybeans would gain acres. USDA surprised the market with a projection of both soybean and corn acres declining for 2015. The Baseline projections are based on detailed economic models instead of a farmer survey. A survey of analysts prior to the release of the USDA Prospective Plantings report found expectations of corn acres declining by 2% to 88.73 million acres compared to 90.59 million acres in 2014. These analysts also projected soybean acres increasing to 85.92 million up from 83.7 million in 2014.

The Prospective Plantings report released March 31st projects a smaller than anticipated reduction in corn acres in 2015. The survey projects 89.2 million corn acres planted which would be a 1.5% decrease from 2014. If realized, this would be the third consecutive year of reduced corn area. The survey also projects soybean plantings increasing 1% to 84.6 million acres which would be a record if realized. This increase in soybean area was much smaller than the 2.2 million acre increase projected by the analysts.

The detailed 2015 planted acreage for corn and soybeans by state for the Midwest and South are provided in Table 1 and Table 2, respectively (see next page). These tables also report the trend-yield for each state and a projected production based on trend yields and average abandonment per state.

Table 1 shows the “I-States” (Illinois, Indiana, and Iowa) are projecting a slight reduction in corn acres. The larger percentage changes are projected away from the core corn producing states. For example, South Dakota and Missouri are projecting a 10% and 6% reduction in acreage (Table 1). Kentucky is also projected to reduce corn acres by 2.6% for 2015 (see Table 1, next page). The greater percentage increases are also projected in Louisiana and Mississippi.

The U.S. corn crop is currently projected to be reduced from the 2014 record crop. Only part of this is due to reduced planted acres. Table 1 shows that a return to trend yields would have a larger impact on reducing corn production in 2015 than due to the reduced area. U.S. production could be down 7.1% when using an unadjusted trend yield of 162.1 bushels/acre. Using USDA’s weather-adjusted trend of 167.2 bushels/acre implies a 4.2% smaller crop.
The “I-States” are projecting a slight increase in soybean acres in 2015 (see Table 2, next page). In the South, the Delta area is projected to increase soybean acreage from 2014. Kentucky is also projected to increase soybean acres slightly in 2015. While soybean acres are projected to be a record in 2015, a return to trend yields would produce a smaller crop than in 2014. For example, the 2014 yields in Illinois and Indiana where 9% and 8% above trend, respectively. A return to trend-yields would more than offset any increase in planted area. Assuming an unadjusted trend-yield of 45 bushels per acre, the U.S. soybean crop is projected to be 5.2% smaller in 2015. Using USDA’s weather-adjusted trend yield of 46 bushels/acre, the 2015 crop is projected to be 3.1% smaller than in 2014.
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The Prospective Plantings survey is conducted the first two weeks in March. Over the last twenty-years, the survey has been above the realized planted corn acreage sixty-five percent of the years. For soybeans, the survey has been above the realized planted soybean acreage forty-five percent of the years.

Since the Prospective Plantings survey was conducted, wet weather has delayed corn planting throughout the country. The April 20 Crop Progress Report published by NASS reported that plantings in the 18-state survey region are running 4% behind the five-year average. Noticeable delays are in Mississippi and Arkansas running 11% and 7%, respectively, behind their five-year average planting pace. Kentucky is projected to have 2% of the corn crop planted as compared to the five-year average of 29%. As corn planting is delayed in the South, the market is starting to consider that some of the intended corn acres may switch to soybeans.

The impact of this spring’s weather on final plantings will be addressed on June 30 in the Acreage report.

~ Todd Davis, todd.davis@uky.edu
Ag Trade Update

Agricultural trade has been a significant contributor to the growth in U.S. and Kentucky agriculture in recent years. Nationally, agricultural exports established a record $152 billion in FY2014, nearly a 60 percent expansion in 5 years despite sluggish economic growth in many importing markets. Like the U.S., Kentucky agriculture has benefited greatly from increasing trade opportunities with ag exports more than doubling over the past decade.

But the effect on various commodities and products varies. Stable grower prices coupled with a declining U.S. dollar relative to the Brazilian real resulted in the U.S.-Brazilian price differential for tobacco to virtually disappear from 2010-2012. Consequently, demand for U.S. burley in international markets was relatively strong during this period. But the recent strength of the U.S. dollar has been a major contributing factor leading to the price differential between U.S. burley and imported burley widening by approximately 40 cents per pound since 2012. In a recent article by Dr. Darryl Ray and Hardwood Schaffer, the authors argue that the higher valued dollar will potentially have a much greater negative impact on beef exports than on grain exports which the latter they declare is more affected by political decisions and residual supplies available in other markets (http://agpolicy.org/weekcol/765.html).

According to the USDA, the U.S. agricultural exports are expected to fall by approximately 10% in FY 2015, to around $140 billion, which would still be second or third highest level on record. Declining exports combined with continued growth in imports is expected to cause the U.S. ag trade surplus to decline to $22.5 billion in FY 2015 – almost 50% lower than its record high of $43.3 billion in FY 2014 and its lowest level since 2007. While exchange rates will continue to play an important role in U.S. agricultural trade, future export trends hinge more on global income growth, trade agreements, and of course weather-induced supply events.

~ Will Snell, wsnell@uky.edu
Profitability from Kentucky grain farms fell to 28% of the previous year’s Net Farm Income. This is based on the experience of 146 farms that participated in the Kentucky Farm Business Management program (KFBM) in 2013 and 2014. Profitability, as measured by Net Farm Income (NFI), averaged $135,787 in 2014 compared to $489,345 for the same farms in 2013. NFI is the value of farm production less total operating expenses and interest, plus net gain or loss on machinery and buildings sold. The 146 farms were included in the 2014 Preliminary Analysis and in the 2013 Annual Summary Data.

Costs of production associated with each year are nearly the same (Figure 1). Total average non-feed cost for 2014 averaged $856.51 per acre. Average cost for 2013 was $854.23 per acre. Chemical, seed, and fertilizer cost was down 5%; about $15 per acre. Power and equipment costs, drying and storage, and building repairs increased $5.41 per acre over 2013.

Figure 1: Selected Costs

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>2014</th>
<th>2013</th>
<th>Difference</th>
<th>% of 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soil Fertility</td>
<td>128.94</td>
<td>142.03</td>
<td>-13.10</td>
<td>91%</td>
</tr>
<tr>
<td>Pesticides</td>
<td>60.14</td>
<td>62.30</td>
<td>-2.17</td>
<td>97%</td>
</tr>
<tr>
<td>Seed</td>
<td>83.72</td>
<td>83.80</td>
<td>-0.07</td>
<td>100%</td>
</tr>
<tr>
<td>Crop Total</td>
<td>272.80</td>
<td>288.14</td>
<td>-15.34</td>
<td>95%</td>
</tr>
<tr>
<td>Power &amp; Equipment Total</td>
<td>118.92</td>
<td>114.82</td>
<td>3.99</td>
<td>103%</td>
</tr>
<tr>
<td>Drying, Storage, Building Repair</td>
<td>19.54</td>
<td>18.12</td>
<td>1.42</td>
<td>108%</td>
</tr>
<tr>
<td>Labor Paid</td>
<td>61.98</td>
<td>56.82</td>
<td>5.16</td>
<td>109%</td>
</tr>
<tr>
<td>Taxes</td>
<td>3.23</td>
<td>3.00</td>
<td>0.23</td>
<td>108%</td>
</tr>
<tr>
<td>Cash Rent</td>
<td>82.30</td>
<td>84.29</td>
<td>-1.99</td>
<td>98%</td>
</tr>
<tr>
<td>Leasing Cost</td>
<td>36.44</td>
<td>37.11</td>
<td>-0.67</td>
<td>98%</td>
</tr>
<tr>
<td>Land Cost</td>
<td>160.15</td>
<td>161.64</td>
<td>-1.49</td>
<td>99%</td>
</tr>
<tr>
<td><strong>Total Non-Feed Costs</strong></td>
<td><strong>856.51</strong></td>
<td><strong>854.23</strong></td>
<td><strong>2.29</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Gross Farm Returns (GFR) fell to 83% of 2013 GFR for the average grain farm in this comparison. Crop revenue declined $201 per acre. Other farm income added to the total $820.62 GFR per acre, a net decline of $168 per acre.

These farms added acres and shifted rental arrangements in 2014 (Figure 2). The average grain farm purchased 15 tillable acres and replaced 50 acres of crop share with 69 acres of cash rent. The net result after adjustments for crop share percentages was an additional 52 acres on which the farm operator received crop revenues.

Continued on Page 6
The preliminary data shows two reasons for the decline in crop revenue. First is the fall in commodity prices. Average price received for corn produced and sold in 2013 was $4.77 per bushel (Figure 3). Average price for corn produced and sold in 2014 was $3.91 per bushel. The $0.86 per bushel difference caused a $137 per acre loss for corn produced in 2014. For full season soybeans the price drop was $2.01 per bushel, lowering crop revenue by $94. Double crop soybeans produced less per acre in 2013, so the negative impact from price was only $73 per acre. Wheat prices declined $1.30 per bushel, resulting $92 less crop revenue per acre.

Reduced yield was the other reason for decline in crop revenue per acre. There was a 28 bushel per acre drop in corn yields compared to 2013. At the average 2014 price received for new crop corn there was a $132 per acre reduction in crop revenues from corn. For double crop soybeans, the yield difference was 13 bushels per acre: a loss of $171 in crop revenue per acre. Full season soybeans and wheat were not affected as sharply: crop revenue for full season soybeans fell by $76 per acre and wheat by $64 per acre.

How do Kentucky grain farms improve profitability? First, they can improve prices through adopting various marketing strategies to minimize price risks. Second, they can improve profitability by managing costs. This includes direct costs of production, fixed costs, and the cost of assets like land and equipment. Tools like budgets, cash flow projections, and enterprise analysis could be helpful in making better management decisions.

More information and data can be found in the Preliminary Grain Analysis 2014 at http://www.uky.edu/Ag/KFBM/pubs.php.

~ Jerry Pierce, jerry.pierce@uky.edu
Pricing Products for Farmers Market Sales

Pricing products for your farmers market booth can be a challenging part of selling directly to customers. So, where do you begin? The Center for Crop Diversification has been compiling price reports for farmers markets and produce auctions around Kentucky since 2005. Our goal in sharing price reports with the public is to help farmers learn about prices that are being charged at farmers markets or produce auctions for common products in order to better understand how to set prices that support profitability of their farm and, at the same time, are fair to consumers. Price and sales information is helpful to producers who are selling through markets such as farmers markets, produce auctions, and terminal markets. Farmers market prices are collected on a weekly basis and these reports are published as a service to the farming community to expose producers to the range of prices that are being paid for the products they grow. Producers tell us that it’s helpful to see a range of prices that other producers are selling products for across the Commonwealth. We rely on dedicated volunteers to provide price reports from several markets across Kentucky, and then we aggregate them into a weekly report. The weekly report showcases the common crops that are in season across the Commonwealth, so producers can continually find this information useful.

These reports are very useful for new producers who are starting to market their products through various channels. But still, how do you start pricing your products? Here are a few tips to get you started:

~Keep track of your production costs and calculate how much you need to make from that item.

~Think about seasonality – is this crop a little early or later than usual? Are you the only vendor with that crop this week? You can often command a more premium price if you are the only one selling a particular crop.

~We do notice average price differences, sometime significant, between rural and urban markets. Not every vendor has a choice of where to sell, but in some cases prices may justify a longer trip to market. Prices tend to reflect both the market demand in a particular community and also the available supply to the market.

~Use price reports that are available to you. Kentucky has our own Farmers Market Price reports available here: http://www.uky.edu/Ag/CCD/price.html. The USDA’s Agricultural Market Service also provides price lists for specialty crops on a wholesale basis. These reports can be found here: https://www.marketnews.usda.gov/mnp/fv-home. Also, for organic growers, the Rodale Institute provides organic price reports (again, mostly wholesale) here: http://rodaleinstitute.org/farm/organic-price-report/.

~Finally, talk with the other farmers at your farmers market. Try to avoid excessive price gaps between vendors; this will help you and the other farmers work together to understand how much to charge for items.

~ Miranda Hileman Combs, miranda.hileman@uky.edu