



NEWS

KENTUCKY FARM BUSINESS MANAGEMENT PROGRAM STATE NEWSLETTER

LETTER

Vol. 5 No. 1
May 2001

Suzy Martin, Editor
4800 A New Hartford Road, Owensboro, Kentucky 42303

Inside:

Grain Marketing	1
Livestock Returns	2
Rising Net Farm Incomes	3
National Meeting	4
Summer Board Meeting	4

WEST KENTUCKY GRAIN MARKETING PROJECT APRIL UPDATE- APRIL 24, 2001

by Steve Riggins

The fundamentals of the U.S. and world grain and soybean markets have remained relatively stable over the past several weeks. Probably the most important recent news is emerging information that world wheat supplies, particularly in China and India, are significantly larger than indicated by the past several issues of USDA data. This would help explain the disappointing performance of U.S. wheat prices over the winter. The U.S. crop is the smallest seeded area since 1973 and this crop has had some production problems. Additionally, planting progress of spring wheat is behind schedule, yet wheat prices can not stage any meaningful rally. It appears that both U.S. and world wheat supplies are judged by the market to be more than adequate to meet needs and unless, or until, a production problem occurs in one of the major wheat producing areas of the world, wheat prices will remain under pressure.

The U.S. corn market seems determined to follow soybean and wheat prices to near, or perhaps, even below Marketing Assistance Loan Rates. As mentioned last month, the

U.S. should use around 7.9 billion bushels of corn domestically during the 2001-2002 marketing year. If U.S. corn exports could recover somewhat from this year's disappointing level (currently pegged at 1.95 billion bushels, but actually probably closer to 1.9 billion bushels) it is quite likely that total disappearance of U.S. corn for all purposes could approach 9.9 billion bushels.



Carryover stocks at the end of the current marketing season should total about 2 billion bushels, a

stocks to use ratio of 20 percent not a large number by historical standards. To hold carryover stocks constant at 2 billion bushels the U.S. would need to produce a corn crop of 9.9 billion bushels. Farmers indicated they intend to plant 76.7 million acres to corn in the U.S. this spring. This should result, depending on the weather, in a harvest of about 70 million corn acres for grain. Most of the difference between the planted and harvested number is due to corn silage. A harvest of 9.9 billion bushels on this acreage requires an average yield of 141.4 bu/acre. The current U.S. record large corn yield of

Kentucky Farm Business Management Program

Will Snell
Extension Coordinator
859-257-7288

Bluegrass Association
Colby Blair
859-252-3673

Lincoln Trail Association
Rick Costin
270-737-4799

Louisville Association
Darwin Foley
502-633-5513

Ohio Valley Association
Craig Gibson
270-827-1395
Suzy Martin
270-685-8480

Pennyroyal Association
Dave Heisterberg
Terry Moss
Bart Peters
270-886-5281
Rush Midkiff
270-842-5823

Purchase Association
Russ Morgan
270-443-6634



138.6 bu/acre occurred in 1994. Last year's U.S. average corn yield was 137.1 bu/acre. Somehow the market seems convinced in late April that the U.S. will produce a corn crop of something close to this size. If the U.S. produces such a crop coupled with large exportable supplies from Argentina and China the market will have been correct to begin the devaluation process so early in the year.

However, it seems likely that if the crop were somewhat smaller, such that a high probability existed that carryover stocks would be drawn down some, current market action may in fact be overdone. A repeat of last season's yield of 137.1 bu/acre, the 2nd best ever, produces a crop of roughly 9.6 billion bushels. This probably would not produce a significant price recovery, but it should provide some brief pricing opportunities.

The main point of last month's column (<http://www.uky.edu/Ag/AgEcon/wkymktupapr.html>) was for farmers to have a marketing plan and be ready to make pricing decision whether the market rallied or fell. The market had tried several times and failed to take out a \$2.43 bottom in December corn futures. The author had been using the contract low of \$2.2925 as a reservation price, i.e. all pricing will be completed before the market falls through that level. The author suggested it might be prudent to move the reservation price to the higher \$2.43 level. If the market failed to rally to "hoped-for-pricing- targets" the down side price risk would be covered more quickly before prices eroded. Further, the author was concerned that if the old support were broken the market might quickly try to set a new life-of-contract low.

If corn prices keep slipping lower it won't be long before the marketing situation is like that for wheat and soybeans. The most straight forward strategy for those crops appears to be one of storing the crop and looking for an opportunity to use the 60- day "lock" procedure on the loan repayment and hoping that cash prices rise during the 60 day period such that a farmer can capture a total price somewhat above the county loan rate level.

Farmers should not lose sight of the corn fundamentals mentioned above. At this writing in late April, only 10 percent of the corn is planted and a large section of the Western corn-belt is very wet while a significant portion of the Eastern and Mid-South corn-belt is becoming very dry. This is not advice to wait and do nothing with a marketing plan. For example, March 2001 corn futures today closed at \$2.30. With an anticipated January delivery basis of -5 to -10 cents a farmer could reasonably expect to collect \$2.20 to \$2.25 for corn. If the U.S. has the great weather outcome, farmers should receive an LDP in the range of 15-25 cents. In total, a farmer could net \$2.35 to perhaps \$2.50 per bushel for a January delivery. This is still better than the \$1.99 to \$2.12 government loan rate price faced by many farmers.

If the 2001 corn crop encounters production problems, real or imagined, farmers should be prepared to take action. This could involve buying futures contracts (for those who have the knowledge, money and attitude), or purchasing call options to cover existing contract sales or the scale up sales of additional quantities.

LIVESTOCK RETURNS SHOW AN INCREASE

by Rick Costin

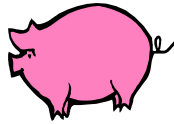
Total returns and returns above \$100 feed fed increased in 2000 over 1999 for the average swine and beef producer. If one was to assume that indicators of profit were the two above mentioned returns, then producers should have realized a better year in 2000.

Total swine returns increased considerably from \$35.75 cwt in 1999 to \$44.34 in 2000. Beef cattle herds with calves sold off the cow realized a \$2.90 increase in total returns for 2000. In 1999 cattle returns were \$72.46 while for 2000 they averaged \$75.36. In livestock operations feed cost is usually the major expense. Looking at the returns for \$100 feed fed both the swine and beef realized major improvements for 2000. Farrow to finish operations increased from \$188 to \$230 while the beef operations realized a \$34 increase from \$172 to \$206 in 2000.

While these indicators are not the only factors determining the profit in a livestock enterprise, they are two important ones. Obviously other production figures and costs related to the enterprise help determine the net returns for the enterprise.



HOG AND GRAIN OPERATIONS - THE POWER BEHIND RISING NET FARM INCOMES



by Colby Blair

Preliminary data from the Kentucky Farm Business Management program shows an enormous rise in net farm income over 1999 final data. Net farm income is reported using the accrual method. Table one summarizes historical net farm income by area since 1989.

What has led to such a change? Many factors can be considered and discussed. Most would immediately argue that the astronomical government payments received in 2000 are a primary reason for the rise. That may be true although some of that income was surely offset by rising fuel prices and land rental rates. Others would say that only the best of the best are left and the data should naturally reflect stronger farms. This argument also has validity in that many less able

managers have left the business of farming and pursued other ventures.

Upon further dissection of the data it is evident that the presence of farms classified as either Hog or Grain led to the surge in Net Farm Income (see Table Two). Although other types of farms did show positive net farm incomes for the year, it was the hog and grain farms that, in every area, outperformed the average farm for that area. Granted, the number of hog farms included in this study is fairly small, and for the most part, only the class of the field is left. However, it is obvious that higher pork prices coupled with cheaper feed and superb management skills resulted in financial success for the hog farms participating in the Kentucky Farm Business Management program. The grain farms also prospered. The absence of a drought coupled with USDA windfalls in the form of mailbox cash led many farmers in the state to trade in their 4 row planters for 4 row mailboxes. Nonetheless, management of these returns was essential in reaching a desirable bottom line. Of the

four types of farms listed on the next page only the hog and grain types experienced, on average, positive management returns. A follow up article will discuss the composition of management returns and some theories as to why these types experienced positive management returns while others did not.

What do we make of all this? I say not much right now. It would take a further look at balance sheets and various financial ratios to see if the farms that make up these averages truly were better off at the end of 2000 versus the end of 1999. Changes in modified cost basis net worth and such figures as working capital, debt/asset and debt/equity ratios can be gleaned from the final data that will be released later this year. One can then further analyze the situation of farmers who participate in the Kentucky Farm Business Management program.

TABLE ONE - HISTORICAL DATA: NET FARM INCOME BY AREA

YEAR	PURCHASE	PENNYROYAL	OHIO VALLEY	LINCOLN TRAIL	LOUISVILLE	BLUEGRASS
1989	70507	61785	81857	68171	47679	31462
1990	69560	39506	56040	45326	62856	41414
1991	33741	41083	30233	42045	29098	9216
1992	124200	107823	113440	72416	57021	44738
1993	89019	68956	88646	87214	66439	36024
1994	102586	97986	71877	31140	23685	16691
1995	175257	119564	75938	69696	50990	6037
1996	163808	190374	94838	75439	49461	27377
1997	104994	99765	53151	30991	21189	34505
1998	30312	13862	-6378	-4389	37106	10107
1999	69502	73046	51715	58896	46415	29779
2000	170678	112961	144812	147562	135069	66056
10 Year Avg.	106410	92542	71827	61101	51647	28053
5 Year Avg.	107859	98002	6628	61700	57848	33565

TABLE TWO - 2000 DATA: NET FARM INCOME BY TYPE

AREA	BEEF	NO.	DAIRY	NO.	HOG	NO.	GRAIN	NO.	ALL	NO.
CENTRAL KENTUCKY	27,027	9	91,735	9	136,299	8	176,278	19	127,141	46
OHIO VALLEY	(12,200)	4	N/A	N/A	251,797	3	150,717	52	144,812	59
PENNYROYAL	18,030	8	45,055	16	138,805	4	121,125	89	112,961	120
PURCHASE	N/A	N/A	N/A	N/A	N/A	N/A	170,678	11	170,678	11
KENTUCKY	16,128	21	61,860	25	160,067	15	139,429	171	126,378	236

KENTUCKY SPECIALISTS TO HOST NATIONAL MEETING

by Darwin Foley

Kentucky Farm Business Analysis Specialists will be hosting the 29th Annual Meeting of the National Association of Farm Business Analysis Specialists at Bowling Green, Kentucky from June 11 to 15, 2001. Over 100 specialists from 13 or more states are expected to attend. The theme of the conference will be the Dynamics of Agriculture - 2001 and Beyond. On Tuesday, June 12, Dr. Jerry Skees, Dr. Roy Black and Dr. Barry Barnett will conduct a day long risk management training session. Also featured will be Jack Jackson, a speaker who is nationally known for his organizational and business analysis skills. The meeting is viewed by specialists as their best opportunity to exchange ideas and to learn how to better serve their farm clientele. In addition to training sessions, specialists will be touring vegetable, poultry and pork operations in the area. Committee reports and business relating to this organization of professionals will also be conducted.

KFBM SUMMER BOARD MEETING

by Colby Blair

The 2001 KFBM summer board meeting will be hosted by the Bluegrass Association on July 24th, 2001. The day will begin with a tour of the Labrot and Graham Distillery located outside of Versailles in Woodford County. The tour will begin at 11:15 AM and we can purchase our own lunches at the distillery following the tour. Another tour will commence at 2:00 PM at the UK Beef Research Farm also located in Woodford County. A dinner will be served at Midway College located in Midway. The dinner is set to begin at 5:30 PM. All times are Eastern and for those who are interested the Lexington Legends Single A baseball team has home games that begin at 7:00 PM on July 23rd and the 24th.

CLOSING QUOTES FROM MARK TWAIN

*The man who is a pessimist before forty-eight knows too much; the man who is an optimist after forty-eight knows too little.

*I like criticisms, but it must be my way.

*Fleas can be taught nearly anything that a Congressman can.

*I have never let schooling interfere with my education.



Agricultural Economics
University of Kentucky
400 Charles E. Barnhart Building
Lexington, KY 40546-0276

Phone: 859-257-5762
Fax: 859-323-1913
URL: www.uky.edu/Ag/AgEcon/

Disabilities accommodated with prior notice.