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# KENTUCKY FARM BUSINESS MANAGEMENT PROGRAM STATE NEWSLETTER

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Inside:

2003 Annual Summary.....	1
Crop Prices.....	2
Beef, Dairy & Hog .....	3
Bluegrass, Lincoln Trail & Ohio Valley....	4
Pennyroyal & Purchase.....	5
Department Update & New Specialists....	6
Your Credit Score.....	7

## 2003 Annual Summary

*Dave Heisterberg*

Kentucky commercial farmers experienced a dramatic increase in net income for 2003 as compared to the major decrease in profitability for the 2002 production year. As measured by Net Farm Income, profitability of farms participating in the Kentucky Farm Business Management Program (KFBM) increased 312% from the prior year. It is important to note that management returns and net farm income for any farm are highly variable from year to year. However, on average, net returns were significantly above the five and ten year averages. This increase in net returns, while certainly to be enjoyed, should still be viewed with cautious optimism and each operator still needs to examine their financial situation closely.

Net farm income, plus any non-farm income sources, less family living and income taxes will approximate the change in net worth. Without any non-farm income, farmers in all areas should have been able to increase their net worth and in some areas this should have been a large increase.

Major factors contributing to the increase in incomes were significantly higher crop yields for most cash grain crops, and higher commodity prices. Somewhat offsetting these positive influences was an increase in several areas of expense, lower milk prices for dairy farmers, and tobacco yields that were down slightly from 2002. When compared by type of farm (grain, beef, dairy or hog), grain farms fared the best with management returns of \$50.19 per acre in 2003. Hog, dairy and beef farms followed respectively. Net farm income was similar, with

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grain farms the highest at \$197,037 per farm and beef farms the lowest at \$20,990 per farm.

## **Crop Prices**

### ***Craig Gibson***

Until July, crop prices appeared that they would follow the typical seasonal pattern, lower from spring to harvest. Corn and soybean prices were grinding lower from higher 2002 price levels. Wheat prices had shown some improvement from 2002 harvest levels due to some world supply and demand situations, but not much. Other crops, such as barley and grain sorghum, were following corn and soybean leads. Then, things began to change. After the July USDA report, the market began to focus on the strong demand emerging from China as well as the dry weather conditions surfacing in the Corn Belt. Because the U.S. corn crop was further along in development, the U.S. soybean crop was at greater risk and soybean prices posted a dramatic upward assent as the dry weather persisted.

The average "old crop" corn price was higher than "new crop" and thereby mirrored the typical seasonal price trends. Because the 2003 U.S. corn crop was not reduced as dramatically as the U.S. soybean crop, average new crop corn prices were actually lower than the average 2002 new crop prices. However, the 2003 ending inventory value for yellow corn was the same as in 2002 at \$2.50. Soybean prices were quite different. The average "new crop" price in 2003 exceeded the "old crop" price average as well as the average 2002 "new crop" price. Astute market watchers may wonder why the average 2003 "new crop" soybean price reported is not closer to the \$7 area witnessed during the 2003 soybean harvest. The answer rests with the relatively large amount of forward pricing at much lower price levels executed prior to harvest. This may also be the source of the large variation in average new crop soybean prices found across the various areas as related to both "full-season" and "double-crop" soybeans. The end of the year inventory price for soybeans was set at \$7.90 per bushel as compared to \$5.90 at the end of 2002.

White corn prices typically mirror yellow corn prices. The price relationship typically shows that white corn has a price premium. The KFBM 2003 data is consistent with this. However, there is also a large variation in the 2003 new crop average price among the local association averages. One reason for the variation is again due to contracting. In years when production levels are large, the price premium

evaporates for white corn, unless producers have production contracts. This is apparently what happened in 2003. In some areas, producers without contracts sold white corn during the fall at levels very close to yellow corn market price. There is a larger price risk in producing white corn without a grower contract. As with any crop, there is no price reward for larger production levels.

In recent history, grain sorghum prices have become more attractive when compared to yellow corn prices. In part, this may be due to production problems elsewhere in the U.S. as well as increased demand. It is interesting that the "new crop" average grain sorghum price exceeded the "old crop" level as well as "new crop" yellow corn in 2003. However, it was lower than the 2002 average new crop price.

Only one association showed any average barley prices. In comparison to 2002, 2003 barley prices were somewhat higher. As barley, like most course grains, maintains some price relationship with corn, the higher corn prices, resulting from the 2002 production year, caused barley prices to average \$.35 and \$.50 per bushel higher than "new crop" and "old crop" price levels in 2002, respectively, given that the barley crop is harvested earlier in the calendar year.

Although tobacco prices reported is a mixture of dark and burley tobacco for some associations, it is interesting that both "old crop" and "new crop" average prices were higher in 2003 than 2002. Whether or not this is a result of contract purchases is debatable, as the data to support either side of the argument is not available. However, although it is not shown, contracting tobacco prices is becoming more prevalent among producers. Looking forward, it will be interesting to learn what will happen to tobacco prices if, or when, there is a tobacco "buy - out."

Producers must be very careful in 2004 with respect to crop prices. Historically, price volatility comes with shorter supplies and higher prices. Unbelievable price swings can take place and producer frustrations will cause indecision. The best words of wisdom in such an environment are; "do not attempt to market crops at the perceived market top," instead, have a marketing plan in place for systematic sales.

## **Beef Summary**

***Colby A. Blair & Brian D. Lacefield***

Beef farms experienced a financially rewarding year in 2003. Net Farm Income for our sample of 29 Beef farms was \$20,990 dollars resulting in Management Returns of (\$34,527) dollars. This is up from 2002's Net Farm Income of \$405 dollars for 29 farms. The 2003 "High 3<sup>rd</sup>" farms had a Net Farm Income of \$43,137 dollars and positive Management Returns of \$508 dollars while the "Low 3<sup>rd</sup>" had Net Farm Income of (\$6,079) dollars and Management Returns of (\$66,265) dollars. Another figure that exhibits the ability for a livestock enterprise to generate a profit is Returns Above Feed Costs per cow (RAFC/Cow). For the 47 herds classified as a "Cows with Calves Sold" enterprise (321) RAFC/Cow was \$168 dollars. The 45 herds classified as "Cows with Calves Backgrounded" enterprises (326) RAFC/Cow averaged \$210 dollars.

Leading indicators of the positive performance of the beef enterprise for 2003 include higher beef prices received and the abundance of a low-cost, grazeable forage. We also feel that beef returns could have been even higher had Kentucky not experienced adverse weather in early 2003, including a horrendous ice storm in the late winter/early spring. The harsh weather resulted in higher death loss for beef enterprises. Death loss as a percent of pounds produced was 6.9% for 321 enterprises in 2003 vs. 5.5% for 2002 and the 326 enterprises had a death loss of 5.7% in 2003 vs. 5.0% in 2002. Market prices received by the 321 enterprise were \$85.50/cwt. for 2003, up from \$77.30/cwt. in 2002. The 326 enterprise was also up from 2002's \$77.68/cwt. to \$83.27/cwt. in 2003.

## **Dairy Summary**

***Rush Midkiff***

The year 2003 can be summarized quickly as another low profit year for most dairy farmers. Milk prices averaged \$13.87 / cwt compared to \$13.29 / cwt in 2002. The average farm in the dairy sort of 30 farms produced 17,414 pound of milk per cow and had an average butterfat of 3.65% compared to 17,259 pounds per cow and butterfat of 3.70% in 2002.

Feed costs also began rising in 2003. This reflects in slightly higher feed cost for dairy farms in 2003. In 2002, value of feed fed was \$7.36/cwt of milk produced. In 2003, those cost increased to \$7.68/cwt of milk produced. Many dairies book their feed

needs for one year at a time and the larger increase has not yet come into play. If feed prices stay high, when book prices come out, there will be significant increases.

Looking at the differences between the high one third group and the average farm numbers - the high third group produced more milk per cow - 20,290 pounds vs. 17,414 pounds; had a higher butterfat of 3.75% vs. 3.65%; and had a higher price per cwt of milk sold - \$14.56 vs. \$13.87; and milked more cows - 179.2 vs. 144.7. The high third group percent cull rate was also lower at 21.10% versus 24.8% for the average herd. This means the high return group is keeping more cows in the herd.

Taking all this into account, the high return group made \$8.23 per cwt over feed cost and the average herds made \$6.92 return per cwt for feed cost. So, for every million pounds of milk sold, the high return group had net returns of \$12,100 more than the average herd.

With all the hype of higher milk prices in 2004, dairies should not get lax. It has been pointed out to dairies in KFBM, that cost control is the most determining factor in a dairy operation's profitability. So, watch all your cost and put some of these high milk prices in the bank or as one dairy farmer said, "I'm going to pay everybody I couldn't pay last year."

## **Hog Summary**

***Rick Costin***

Kentucky hog producers continue to realize the importance of efficient production. With prices averaging just shy of \$40 for 2003 only the more efficient managers will be profitable. Feed cost, pigs weaned per female year, and death loss are areas that continue to challenge the hog producer to become a better manager. Some of the better managers realized high net farm incomes and pulled the average up to a very respectable \$114,663.

The \$5 increase in price received from 2002's average of \$35 did give more hope and optimism but feed cost increased as well as other production costs and the bottom line remained the same or did not increase enough to be profitable for the marginal hog farmer.

## **Bluegrass Area Summary**

*Colby A. Blair*

Bluegrass Area farms experienced a financially rewarding year in 2003. Net Farm Income for our sample of 20 farms was \$98,385 resulting in Management Returns of \$23,054. This is up from 2002's Net Farm Income of (\$1,319) for 17 farms. Leading indicators of the positive performance of the Bluegrass Area for 2003 include higher beef prices received by beef producers, the plentitude of a low cost grazeable forage, new crop soybean prices of \$6.22/bushel, and corn and soybean yields at 144 bu./acre and 51 bu./acre, respectively. The Dairy farms in the Bluegrass Area lagged in performance compared to other size type farms. The primary reason for this was a lower milk price received by the producer. Another factor that affected returns in the bluegrass area was the ice storm that occurred in the late winter and early spring. Many pounds of beef were lost thus having a negative effect upon beef returns for many livestock operations as well as causing substantial cleanup costs to all farms.

## **Lincoln Trail Area Summary**

*Rick Costin*

2003 started out as a wet and difficult crop year, but with moisture being available throughout the growing season many farmers realized their best production year ever for corn and beans. Some fields remained wet throughout the planting season and were left idle creating problems if insurance was not available. Overall the average net farm income was a very respectable \$74,343 per farm in the Lincoln Trail Area resulting in positive management returns of \$992.

Dairy farmers continued another year of low milk prices and sellouts in Central Kentucky were plenty. With low milk prices and beef producers realizing high prices, the dairy enterprise lagged behind the other size-type farms.

Hog producers stayed on their course of raising pork more efficiently realizing that 40 cent hogs only allow the efficient producers to make money. But even with 40 cent hogs, the producers in Lincoln Trail were close to the overall average net farm income realizing \$74,104 per farm.

Challenges were plenty for the beef producers in 2003. Poor quality hay plagued many producers as well as the question of when to sell and buy cattle.

The BSE situation was kept under control and prices did rebound and end the year with optimism.

## **Ohio Valley Area Summary**

*Suzy Martin*

Management Returns turned positive in the Ohio Valley Area in 2003. This is something not found since the year 2000. Improved crop yields were the main reason for the improvement. This certainly was a surprise given the high percentage of late planted crops.

Gross Farm Returns increased \$108.87 per operator acre from the 2002 level. Each component in determining Gross Farm Returns was higher in 2003. The component with the greatest increase was Crop Returns. Livestock Returns Above Feed Costs increased \$8.18 and Tobacco Returns increased \$4.25 per operator acre.

Crop Returns improved to \$360.81 per operator acre from \$264.92 in 2002. Most of the improvement was due to 39 bushels per acre increase in the yellow corn yield, 11 bushels per acre increase in the single crop soybean yield, 18 bushels per acre increase in the wheat yield, 15 bushels per acre increase in the double crop soybean yield, 17 bushels per acre increase in the grain sorghum yield, and 28 bushels per increase in the white corn yield. It is estimated that \$72.78 (or 76%) of the \$95.89 improvement in crop returns resulted from improved yields in these crops. The remaining \$23.11 difference was due to prices, especially soybean prices, and land use.

Due to the soggy, wet conditions in May, corn acreage was slightly lower in 2003 and grain sorghum acreage was slightly higher than in 2002. Wheat acreage was also higher, attributable to the anticipated need of cash by producers during 2003 due to the overall poor net incomes realized in 2002. Interestingly, due to the phenomenal increase in soybean prices during 2003 as well as the higher yield, the increased soybean acreage enhanced returns. Supplemental data sets of Ohio Valley Area producers indicate that double crop soybeans and wheat as well as single crop soybean cropping activities resulted in the greatest returns over allocated costs. In contrast, during 1999 through 2002, yellow or white corn cropping activities had contributed the greatest returns over allocated costs.

Total non-feed costs per operator acre were also higher in 2003 than 2002. Each cost center (i.e.,

crop, power and equipment, building, labor, other, and land) showed a greater cost in 2003 than 2002. Higher nitrogen prices contributed to larger crop costs. Higher fuel prices and larger depreciation expense contributed to the larger power and equipment costs. Higher drying costs, due to corn being of higher moisture when harvested, and a higher building depreciation expense caused building costs to increase. Higher imputed charges for unpaid labor and land also contributed toward higher total non-feed costs. In addition, the average cash rent for crop land increased to \$96.64 per acre from \$93.88 in 2002. This may surprise some in that 2002 was a relatively poor year in terms of profitability. Clearly, the desire to increase farm size is quite prevalent. Also surprising, the higher per operator acre cost in 2003 occurred with an increase in average farm size as measured by both tillable acres and operator acres. Tillable acres increased 94 acres and operator acres increase 67 acres in 2003 to the levels of 1,571 and 1,295 acres, respectively.

With positive Management Returns, it naturally follows that the average Net Farm Income was higher. Although, not achieving the year 2000 levels, the Net Farm Income in the Ohio Valley Area jumped from \$8,034 in 2002 to \$129,540 in 2003. Net Farm Income measured in other terms also increased. Measured in terms of operator acres, Net Farm Income rose from \$6.54 to \$100.03 per operator acre. In terms of Operators (or 12 month equivalents of unpaid labor), Net Farm Income jumped from \$5,671 in 2002 to \$88,827. These compare to the five-year Net Farm Income averages of \$68.52 per operator acre and \$55,893 per operator. To say the least, given 2002 was a very devastating year, it is hoped that 2004 may yield as good or better results than 2003!

## **Pennyroyal Area Summary**

*Terry Moss*

In the most successful year in over seven years, farm operators belonging to the Pennyroyal Farm Analysis Group averaged a net farm income of \$183,897 per operation in 2003. These earnings were more than double those of the previous year and were only \$6,477 shy of the record \$190,374 earnings achieved in 1996. The 2003 earnings for Pennyroyal operators were \$36,727 higher than in 2001, a year of relatively comparable, if not higher, yields.

Cropping conditions were near ideal for many if not most of the farmers across the area.

Following a late start on planting caused by excessive wet weather early in the spring, conditions improved notably to the extent that farmers were eventually back on schedule. Wheat harvest and double crop soybean planting went very well. While parts of the Pennyroyal area were dryer than others during the summer, rainfall generally came at the right times for corn pollination and while soybeans were setting pods. There were no pockets in the area of severe yield damaging drought as has been the case in many past years.

With favorable weather conditions existing in 2003, farmers generated excellent crop yields overall. The soybean crop did exceptionally well with record yields established for both the full season crop at 48 bushels per acre and for the crop following small grains at 46 bushels per acre. Yellow corn yields of 153 bushels per acre were below the 158 record yields of 2001, but were well above both the five and ten year averages.

As with corn yields, the 2003 wheat yields at 70 bushels per acre were below record levels of 81 bushels per acre established in 2001. Unlike corn crop yields, the wheat yields failed to beat the five year average. However, this result is more an indication of how high the bar has been set over the recent past on wheat yields in the Pennyroyal area due to intensive wheat management practices, more than to any shortfall on production. Indeed, the 70 bushel crop combined with the 46 bushel double crop soybean crop (mostly following wheat) should have generated profitable results for most area producers.

As with earnings for other groups across the state, Pennyroyal Group earnings were enhanced considerably by commodity price increases that occurred during the course of the year. This was the principal reason earnings were higher in 2003 than in 2001, the year record yields were established for yellow corn and wheat. Higher beef cattle prices also provided a boost for livestock farmers in the Pennyroyal. This combination of improved prices along with excellent yields provided a benchmark year and allowed many farmers a partial recovery from some of the less than profitable years experienced in the past.

## **Purchase Area Summary**

*Jennifer Rogers*

Purchase Area farms did well during 2003 exhibiting an average net farm income of \$237,939, well above

the 2002 average net farm income of \$89,201. According to past records this level of average net farm income is a record high for the area. A major portion of this increase in farm income can be attributed to the increase in crop yields and increases in prices.

Crop yields were significantly higher for the major Purchase area crops of corn, wheat, and soybeans in 2003. Corn yields increased 46 bushels on average to 146 bushels per acre. Corn was not the only crop to experience better yields, full season soybean yields in the area increased from 38 bushels per acre in 2002 to 44 bushels per acre in 2003. Double crop soybean yields also increased, jumping up 11 bushels per acre to an average of 43 bushels per acre in 2003. Wheat yield experienced the same effect increasing 16 bushels per acre to a level of 61 bushels per acre on average.

Despite the market rumblings of \$7 and \$8 soybeans the average price received in the Purchase area was much less, averaging between \$5.59 and \$6.81. The lower average can be attributed to contract pricing early in the growing season, however, the 2003 price received was approximately \$1 per bushel higher than the prices received in 2002. The corn price remained fairly stable averaging \$2.50 per bushel for old crop sales and \$2.29 per bushel for new crop sales. Wheat prices actually fell for those holding 2002 wheat into 2003. The new crop average price for wheat in 2002 was \$2.71 per bushel while old crop 2003 wheat sold for an average of \$2.60 per bushel. New crop wheat prices did rebound to \$3.08 per bushel.

Net management returns averaged \$78,959 in 2003, a drastic increase from the (\$10,424) net management returns that were realized in 2002. The five year average for net management returns in the Purchase area is \$33,394. Overall, the majority of cooperators in the Purchase area had a good year in 2003 with higher yields, slightly higher prices, and a higher return for their management and labor.

## **Department Update**

*Will Snell*

The budget continues to provide challenges in addressing departmental needs. However, the department has been able to hire Dr. Helen Pushkarskaya to a teaching/research position in agricultural finance and have been granted approval

to move ahead to advertise the vacant extension livestock and forages position.

Several members of the department have recently received awards. The Kentucky Rural Health Works Program, (Eric Scorsone, Bethany Adams, Victoria Burke, among others) received the Outstanding Extension Program Award, while Steve Isaacs received the M.D. Whiteker Award for Outstanding Extension Specialist. This is the second year in a row that Ag Econ received a program/project award and the third time in the past five years that one of our own was named the college's outstanding extension specialist! In addition, Dr. Mike Reed received the George Mitchell award for outstanding service to graduate students.

The department has recently conducted a periodic review of all our research, teaching, and extension programs. The KFBM futuring report was certainly beneficial in outlining the actions we are undertaking to improve our KFBM program. Several recommendations of the futuring report have been implemented and we will continue to assess our progress in our upcoming staff conference and during the summer months.

On a personal note, my term as Extension Coordinator will expire on June 30, 2004. I certainly want to thank all the specialists and cooperators for their input and continued support of the KFBM program as we addressed many challenging issues over the past four years. I truly believe that the program is moving in the right direction under David Heisterberg's leadership and I certainly look forward to working with our new extension coordinator to further improve our KFBM and other extension programs.

## **New Specialists**

*Lynn Robbins*

We are pleased and excited to announce that Jennifer Rogers and Ross Key have joined us as new specialists. Jennifer has been working at the Purchase Association since November of last year. She holds an MS ('03) and BS in Agricultural Economics from the University of Kentucky and replaces Russ Morgan who resigned to pursue private consulting. Jennifer was teaching at Perkins Job Corps Center in Prestonsburg when we contacted her about this position. She and her husband, Stephen, who is working for the Kentucky Division of

Forestry, interviewed and started work in the Graves County area at the same time.

Ross Key, an MS student at Kansas State University, has accepted our offer to replace Dave Heisterberg as Specialist for the Pennyroyal Farm Analysis Association, as Dave has assumed the position of Program Coordinator. Ross' goal is to complete the work for his MS and begin with us this August. He received his BS in AEC from Purdue. Ross has been owner operator of Key farms in Princeton Indiana since 1995. Ross, his wife, Shannon and their four children are excited about moving to Hopkinsville

Thanks to Steve Isaacs and Dave Heisterberg, who served as the search committee, the specialists, faculty and both the Purchase and Pennyroyal Board members who helped with the interview processes. I think you will all agree that all who assisted did a great job.

Please join us in welcoming Jennifer Rogers and Ross Key to the AEC family.

## **Your Credit Score**

***Brian D. Lacefield & Colby A. Blair***

Recent attendance at the Southeastern Agricultural Lenders School reinforced the importance of credit scores. A credit score is a numerical value based on your credit history. This value, ranging from 300 (lowest) to 850 (highest), is used by lenders to make lending decisions. From the credit score, lenders are able to make "lend or don't lend decisions" and they are able to determine the interest rate.

The most common scoring method is the FICO score developed by Fair Isaac and Company. They worked with the three major credit bureaus (Experian, Equifax, and TransUnion) to develop scoring methods in the early 1980's. Your FICO score is based on:

- 35%--Payment History
- 30%--Amount Owed
- 15%--Length of Credit History
- 10%--New Credit (are you taking on more debt)
- 10%--Types of Credit (your mix of credit cards, retail, installments, mortgages)

*"Understanding Your Credit Score", Fair Isaac's and Co.*

It is important for consumers to be aware of their credit score. Periodically, you should check your credit report (the authors check theirs every other year). A study cited on the American Association of Retired Persons (AARP) web page stated that 29% of credit reports had errors. Your report can be obtained from any of the three major credit bureaus. Inspect the report for errors and notify the reporting agency of errors. Also, being aware of your credit score will let you know where you stand compared to other consumers. Fair Isaac's and Company state based on the U.S. population that:

- 20% score below 620
- 20% score between 620-690
- 20% score between 690-740
- 20% score between 740-780
- 20% score above 780

After obtaining your report and checking for errors there are other things you can do to improve your credit score. They include:

- Pay all bills by the due date.
- Keep account balances below your available credit limit and refrain from carrying credit card balances.
- Apply for credit only when you need it, resist opening store credit cards for a discount.
- Comparison shop for loans quickly. If you are checking with multiple lenders prior to taking out a mortgage or term loan, do so within a 14-day period. Your FICO score will treat multiple inquires from lenders for the same type of loan as just one inquiry as long as they occur within two weeks.

To check your credit report contact one of the following:

- Equifax:  
1-800-685-1111; [www.equifax.com](http://www.equifax.com)
- Experian:  
1-888-397-3742; [www.experian.com](http://www.experian.com)
- TransUnion:  
1-800-888-4213; [www.transunion.com](http://www.transunion.com)

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