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# KENTUCKY FARM BUSINESS MANAGEMENT PROGRAM STATE NEWSLETTER

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### **State Board Meeting**

Everyone is encouraged to attend the annual board meeting August 10<sup>th</sup>. There will be lunch at Good Ol' Days Barbecue in Midway, KY with a farm tour in Fayette County to follow. Todd Clark Farms, Inc. will be hosting the farm tour. He raises burley tobacco, hay, and feeder cattle. If you would like more information please feel free to contact your specialist.

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### **Marketing 2006 Corn, Soybeans and Wheat Crops**

*Steven K. Riggins, UK*

Since early December 2005 corn and wheat futures markets prices for 2006 crops have exhibited a steady uptrend to price levels well above those of most years while soybean prices have posted a modest recovery from harvest lows but have been mostly sideways.

The wheat price rally has been based on global production and consumption estimates for the 2006-07 marketing year that indicate a decline in production while demand remains robust. If the current projections are reasonably accurate global wheat production will fall short of consumption for a second consecutive year and, more importantly, below consumption for eight out of the past ten marketing seasons. It is difficult to accurately measure global wheat

stocks. However, USDA maintains their current estimate of 2006-07 ending global wheat supplies will remain at the lowest level on record for the past 25 years. In addition to surging global demand for wheat, futures market prices have been propelled by the devastating drought in several of the major U.S. hard-red wheat producing states.

The “unbridled enthusiasm” for corn prices is based on an expectation of structural change in the corn market. The major part of this structural change is the relatively new use of corn as a fuel source as compared to a history of corn being primarily a food or feed source. The second factor, which has been predicted for many years – but has still not occurred with any regularity, is the eventual need for China to become a consistent net importer of corn from the world and primarily from the U.S.

Total disappearance of U.S. produced corn first topped 9 billion bushels during the 1998-99 marketing year and it took 5 years, until the 2003-04 marketing year, to exceed 10 billion bushels of disappearance. It took only two more years (the current marketing year – 2005-06) to reach a projected total disappearance of 11 billion bushels of U.S. corn.

This was accomplished via solid growth in demand and consumption of meat and therefore consumption of corn with feed use of corn up 500 million bushels or 10 percent above the 1998-99 level (feed use is still the single largest use category on the balance sheet). However, corn used to produce ethanol fuel exploded from 526 million bushels in the 1998-99 marketing year to a currently projected 1.6 billion bushels in the 2005-06 marketing year which will end August 31, 2006.

In their first forecast of a corn balance sheet for the 2006-07 marketing year USDA has projected corn for ethanol use at 2.150 billion bushels and total disappearance of U.S. produced corn at 11.645 billion bushels. Market expectations seem to be that corn ethanol use will continue on a robust expansion path for at least a few more years. If the U.S. can produce the corn supply

market analysts are projecting total corn disappearance to approach 12 billion bushels for the 2007-08 marketing year.

Record U.S. corn production to-date totals 11.8 billion bushels. This harvest occurred with a record yield of 160.4 bu/acre on 73.6 million acres. Farmers planted 80.9 million acres of corn for all purposes in 2004 (corn for silage is the big difference between planted and harvested for grain acres). The most acres planted to corn in the U.S. over the past 30 years was 1976 when farmers seeded 84.5 million acres to corn for all purposes.

The current corn balance sheet from USDA indicates less than 1.1 billion bushels of corn will be left in the U.S. by harvest time 2007 while disappearance will have grown to a record setting 11.6 billion bushels during the 2006-07 season and market expectations will be for a further increase in use for the 2007-08 marketing year. This is a very modest carryover level relative to use based on historical comparisons.

Therefore, either the 2006 corn crop will need to be larger than the current estimate of 10.6 billion bushels or corn production in 2007 will need to expand in a major way or corn prices will have to go high enough to ration use, especially during the 2007-08 and probably the 2008-09 marketing season's.

For a farmer trying to manage price risk this is a long way into the future and a lot of “what-if” is involved. What happens to the price of oil, trade relations – especially with China – and a new Farm Bill, not counting weather could substantially alter market expectations about corn, soybean and wheat price outlook.

The soybean price outlook over the next 6 months is one of large supply and modest prices unless weather intervenes. After January 1, 2007 the question of crop size in Brazil and the fight over corn, soybean and spring planted crop acres will be a major factor.

In addition to crop insurance, farmers should consider the use of options to manage some price risk. Current prices for corn and wheat are high

by historical comparison and with good weather between now and harvest soybean prices should weaken from current levels. However, the above story implies the real possibility of even higher prices. Don't be afraid to price for fear of selling too cheap. These contracts can be covered with the purchase of calls or call spreads. Don't forget about buying puts; these can be "rolled-up", for an added cost, if prices explode even higher. Don't forget about the possibility of using an option window for stored grain to provide both a minimum price and a maximum price while one waits for the basis to improve. Given what is likely to be very wide harvest-time basis for corn and soybeans, as it currently is for wheat, consider adding storage capacity. It is not often that a farmer has the opportunity to pay for a major portion of capital construction projects on the farm in one or two years.

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## **Round Bale Silage – A Viable Forage Option for Kentucky**

*R.W. Eldridge*

With the spring hay season upon us, and the five-day forecast calling for chances of rain more often than not, it seems appropriate to discuss round bale silage as an option for harvesting Kentucky forages. Kentucky producers have been putting up round bale silage for a few years now in an effort to overcome the less-than-desirable hay curing weather this time of year. Round bale silage offers many benefits for a relatively low capital investment.

Conventional hay harvesting methods require in the neighborhood of three days for hay to cure before it is ready to bale. Commonly wet springs in Kentucky make it challenging to put up without it getting wet in the field. With round bale silage, producers often mow the hay one day and bale/wrap it within 24 hours. With this timely harvest, curing losses and the risk of rain damage decrease considerably. Another form of dry matter forage loss from conventional hay making is the shatter loss from raking and baling the hay. Since round bale silage is put up at much higher moisture level (approximately 45%

– 65%), this shatter loss is much lower. This is especially important with legume forages such as alfalfa and clover.

Round bale silage has also helped many producers address hay storage issues. It is no secret that hay stored outside on the ground will suffer hefty dry matter losses before it is fed. UK research has shown that hay stored this way from May to December will lose approximately 18% dry matter. This is on top of the relative decrease in digestibility of the forage that one would expect during the same time period. However, with round bale silage, digestibility has been shown to remain constant during this storage period and dry matter losses were virtually non-existent.

Making round bale silage doesn't require a lot of extra equipment over conventional haymaking. Most Kentucky producers already own a mower, rake, and hay baler. The only other equipment needed is some form of bale wrapper. Although most late model balers will handle high moisture forages, some of the older models will not. There are kits available to aid in baling this wet forage and depending on the make and model of the baler, these might be a necessity. Assuming the baler will handle this high moisture forage, the only other consideration is to use a plastic or untreated sisal twine or net wrap. Avoid the treated sisal twine due to the fact that the chemical preservatives can cause the plastic wrap to prematurely degrade.

There are a variety of different bale wrappers on the market. Many of you have probably seen the individual bale wrappers as well as the in-line bale wrappers. They both have their advantages and the best type for a particular operation will depend on the amount of forage harvested each year and relative storage and feeding locations. The cost of these bale wrappers range from around \$5,000 for a basic single bale wrapper to over \$20,000 for some of the in-line wrapping machines. For producers interested in trying round bale silage for the first time, many forage equipment dealers and farm supply stores rent bale wrapping machines. Depending on the area,

there are also some custom operators doing this around the state.

Along with the wrapping machine, producers will also have to purchase the plastic. There are different colors and brands of plastics available at a cost of about \$2.50 per bale. The white plastic film containing a UV inhibitor is recommended in Kentucky.

As with all practices, some disadvantages are present as well. These high moisture bales are much heavier than their conventional counterparts with some bales weighing nearly a ton. This additional weight may lead to larger tractor requirements to safely feed the forage. Although some equipment is available to move the bales after they have been wrapped, most producers will likely find they have to wrap the bales where they intend to store them until feeding. If the plastic is torn or punctured, it will have to be taped up to prevent spoilage. Forages that are wrapped either too dry or too wet will not ensile properly. Producers will likely have to harvest smaller cuttings of hay at one time to ensure enough time to bale and wrap within that target window of 45% to 65% moisture. After the forage has been fed, there is a lot of bulky plastic to dispose of. Some counties are implementing recycling programs, but much of this plastic has ended up in landfills in the past.

Round bale silage may not be for everyone, but it does offer additional options when fighting the weather during hay harvest. The majority of Kentucky farmers can't economically justify the equipment needs of harvesting traditional chopped silage to feed their cattle. However with the relatively small capital investment needed for round bale silage, they now have an option worth considering. The advantages of being able to harvest a higher quality feed along with the minimal storage loss will continue to make round bale silage a viable option for Kentucky producers.

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## **New Tax Bill**

*Rush H. Midkiff*

We have a NEW TAX BILL. Congress recently passed the Tax Increase Prevention and Reconciliation Act (TIPRA).

A few key points farmers should take note of are:

- 1) Extends the top tax rate (15%) on long term capital gains and on most corporate dividends through 2010.
- 2) Extends the current \$100,000 Section 179 limit (adjusted for inflation) for 2 additional years. So it will be in effect through the tax year beginning in 2009.

There is talk of another tax bill later in the year. Our Fall Newsletter will go into more depth on tax changes for 2006 and beyond.

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## **Departmental Update**

*Lynn W. Robbins Professor and Chair*

I have a lot of exciting farm-analysis related news to share given all that has and is going on in the Agricultural Economics Department. In addition to personnel changes, and awards, probably the most exciting event is the recently completed external review of the farm analysis program itself.

## **KFBM External Review**

Five professionals from different universities around the US spent four intensive days from May 30 through June 2<sup>nd</sup> interviewing cooperators, administrators, specialists, past specialists, county agents and faculty in preparation for giving us recommendations for action. The purpose of the review was forward looking. The team is helping us move forward by reviewing issues of concern. Their recommendations, which are to be given to us by June 30, are to be forward looking and issue oriented. The goal is to add focus to the question, "Where do we go from here?" Among the issues they will address is the role of specialists in providing general extension

education while serving cooperators, specialist turnover, non-usable records, State Coordinator duties, data management, internal consistency, potential for growth, tax preparation, publication timeliness and standardization. In addition to all the interviews the team came to us having studied a background document that included pertinent information on all the issues and more. Once they arrived they also had aggregated results from the cooperator survey which featured responses from 225 cooperators.

The team consisted of the following individuals:

NAME	STATE	Title
Chuck Cagley	IL	State Administration Coordinator, Farm Business Management
Delton Gerloff	TN	Farm and Financial Management Professor
Michael Langemeier	KS	State Research Coordinator & Farm Management Professor
Jerry Pierce	AL	Farm Business Management Specialist
Guido Van Der Hoeven	NC	State Extension Specialist in Farm Management

I hope you all look forward to hearing the results of the review as eagerly as I. We already have a meeting of specialists planned July 18<sup>th</sup> to begin the planning for implementing the team’s recommendations. We are meeting so we can share our early intensions with the State Board at their summer meeting August 10<sup>th</sup> in Lexington.

### Awards

This past February Will Snell, Steve Isaacs, Tracy Probst & **the Kentucky Farm Business Management Specialists** received the Southern Agricultural Economics Association’s Outstanding Extension Program Award for their “Tobacco Buyout Program.” Their efforts will also be recognized next month when the same group will be recognized with the American Agricultural Economics Association’s Distinguished Extension Group Award. Clearly your specialists do a great job teaming with you to optimize your operation but are also an

invaluable resource on a regional and national scale.

### People

In the last year or so we have had a number of personnel changes that should be of interest to farm analysis cooperators.

Any of our readers who took agricultural economics classes, were advised in the department or who were generally associated with the College of Agriculture likely knew our award winning teacher, Dr. Loys Mather, who retired in January after 38 years of service to UK.

We have appointed two new Assistant Extension Professors who joined the department this month. Dr. Alison Davis Reum will specialize in Community and Economic Development while Dr. Greg Halich will work in Farm Management Extension.

Although not new, Kenny Burdine was promoted from Extension Associate to Extension Livestock and Forage Specialist this past January. Kenny more than adequately fills the void we had for so many years in this area.

We will have one specialist vacancy beginning July 1 with Brian Lacefield leaving us to take a job with a Hopkinsville bank. We will miss Brian. He was strong contributor to our program, whether it was working with a cooperator or serving on a committee. He was always a great representative of the program, department and College. The position is currently being advertised and will close by the end of the month.

We have two great new farm analysis specialists. RW Eldridge took over in the Bluegrass Association a little over a year ago now, and Jody Welsh started in the Pennyroyal Association last December. Both did remarkably well dealing with their first “season” and we look for continued good work from them into the future. We want to thank Dave Heisterberg and the other specialists for mentoring and supporting these two new specialists. They are a welcome addition to the Agricultural Economics family.