Kentucky Farm Economy Hit Hard In 2009, 2010 Outlook A Mixed Bag

LEXINGTON, KY.

The global recession and the bursting of 2008's commodity price bubble resulted in a one-two punch to Kentucky's agricultural sector in 2009. Agricultural economists with the University of Kentucky College of Agriculture estimate Kentucky farm cash receipts to be $4.29 billion this year, down about $550 million from 2008's record high. However, if global economic recovery proceeds as predicted, overall cash receipts for 2010 should remain at approximately the same level, or slightly higher.

The U.S. Department of Agriculture forecasts that net farm income to American agriculture will be down 34 percent this year as compared to 2008 and $6.5 billion below the 1-year average of $64 billion. Net farm income is estimated to be $1.07 billion for this year.

"We can expect Kentucky agriculture to follow the same trend of sharply lower gross receipts for this year," said Craig Infanger, extension professor in the UK Department of Agricultural Economics.

However, Infanger said, there is a general consensus that the U.S. economy is in recovery mode; third quarter growth was positive.

Infanger, fellow UK agricultural economists Kenny Burdine, Will Snell, Cory Walters, Tim Woods and Lee Meyer and Kentucky Farm Business Management Program Coordinator Jerry Pierce presented an overview and outlook of the Kentucky farm economy as part of the annual Kentucky Farm Bureau Federation conference in Louisville today.

Estimated livestock receipts of $2.46 billion show a decline of $450 million from 2008. The reduction was driven by a decline in equine receipts, which come primarily from Thoroughbred sales and stud fees.

"The Thoroughbred industry, which has recently been the largest single part of farm gross receipts in Kentucky, has had a particularly difficult time," Infanger said. "The global recession has pushed auction sale prices down for two years, with prices being down 30 to 40 percent in recent sales. When you combine the reduced income from Thoroughbred sales with lower prices for grain, milk and hogs, the result is lower income on most Kentucky farms this year."

Beef cattle numbers are as low as they were in the 1960s, but weak demand has kept prices soft. Calf prices rallied from late 2008 levels, but plummeted in the fall, resulting in a price decline of more than $20 per hundredweight from spring to fall. If demand strengthens in the coming year, calf prices should rally into the spring of 2010, Burdine said.

The dairy sector also experienced hardships brought on by the weak economy. Kentucky mailbox prices will likely average around $6 per hundredweight below 2008 levels. The USDA accounted for 86,000 dairy cows in Kentucky at the start of 2009, but the expectation is that number will be lower at the start of 2010. Burdine expects that the lower herd numbers coupled with improvement in dairy stocks should result in mailbox prices above 2009 levels by $2 to $4 per hundredweight.

Sheep and goat production in Kentucky is relatively stable, said Meyer, with a few more sheep and a slightly smaller goat herd. Prices for both species are expected to average near current levels in 2010, but continue with a high level of seasonal variability.

Hog production declined slightly in 2009, but that couldn't keep hog prices from plummeting due to weak demand. A weak economy that reduced consumer expenditures affected demand, as did the H1N1 influenza virus, which impacted consumer attitudes about pork. And exports, while still high, declined. As a result, prices were down 20 percent, averaging just under $40 per hundredweight (live weight basis). With feed costs remaining at high levels, most producers struggled to cover cash expenses. Hog prices are likely to improve in 2010 on the basis of smaller supplies and an improving economy, Meyer said adding, if exports rebound as forecasted by the USDA, prices could improve by 10 percent, averaging in the mid $40s.

Poultry was the largest component of livestock income in 2009, continuing three years of increased sales. Total broiler production for 2009 was down 4 percent from the previous year, and exports dropped by 6 percent, though exports remained at almost 20 percent of industry production. While broiler demand is expected to increase about 2 percent in 2010, stronger demand will offset the increased production, so economists expect prices to remain at approximately $.80 per pound, near the level of the past two years.

Prices were down substantially in the crop sector from the 2008 highs. Cash receipts declined for corn, wheat, hay, fruits and greenhouse products. Total cash receipts for crop marketing are estimated to be $1.83 billion, 43 percent of total farm cash receipts in Kentucky, compared to 40 percent in 2008.

Tobacco farmers grew a relatively large crop in 2009, despite the wet growing season. A boost in burley acres and better yields helped offset a significant drop in dark tobacco acres, according to Snell. The USDA predicts Kentucky's tobacco production will total 207.4 million pounds, which is slightly more than the 2008 crop and the highest production level since the 2004 buyout. Demand declined on both the domestic and export side. Snell said quality will be an even greater factor in determining the fate of the 2009-2010 U.S. burley market. Excellent quality burley, based on contract prices plus incentives, should continue to gross in the $1.70s and $1.80s per pound. However, Snell said, lower quality tobacco within contracts will likely receive noticeable price discounts, while lower quality tobacco grown outside contracts could generate very disappointing offers. Snell does not expect buyers to ask Kentucky growers to plant additional acres in 2010.

Corn production continued its growth, totaling 12.92 billion bushels, a 6.8 percent increase over 2008. Exports and use for ethanol and feed are expected to increase over 2008 by 7.5 percent. Taking into account changes in production and use, Walters said it still appears that corn use will exceed production in the coming year, thereby reducing ending stocks. The USDA report also expects average farm price to decrease by 12.6 percent to $3.55 per bushel from 2008.

Soybean crop size sat at a record 3.32 billion bushels according to the USDA November crop report. This would be 12 percent larger than in 2008. Soybean production should exceed use for the 2009-10 marketing year, thereby increasing ending stocks. USDA average farm price is expected to decrease 7.7 percent to $9.20 per bushel from 2008.

Kentucky's produce and nursery/greenhouse industries have shown steady growth over the past eight years. Woods said current industry sales trends point toward 2009 gross sales as being between $110 and $115 million. He estimates that total sales for produce are primarily from direct market channels, although auction and other wholesale channels have experienced significant growth. The outlook is for steady growth in commercial fruit and vegetable production in the state for 2010.

A weak economy and relatively high input costs resulted in another weak marketing season for Kentucky's green industry – greenhouse, nursery and sod production. The green industry is fueled nationwide by new home construction and healthy consumer spending. Consequently, the sector has been hit hard by the recent economic slowdown. Woods says he expects that Kentucky would be fortunate to pass $65 million in sales in 2009, far below the record of $81.2 set in 2006.

Still, UK economists, who see signs that the overall economy might be improving, believe there is some cause for optimism.

"As economic growth is restored, prospects for Kentucky agriculture will improve in 2010," Infanger said, "but it may be a long, slow recovery phase." Δ