

Kentucky Farm Economy To See Record Cash Receipts

LOUISVILLE, KY.

Though the increase in farm cash receipts for 2008 won't match 2007's double-figure increase, it will rise 7 percent to \$4.7 billion, continuing a two-year record-breaking trend. Agricultural economists with the University of Kentucky College of Agriculture predict the overall cash receipts for 2009 will decline slightly.

"What we've seen this year is that gross income improvements are being driven from the crop side, rather than from the animal side," said Economist Lee Meyer. "Historically livestock have contributed about two-thirds to farm cash receipts."

Meyer, and fellow economists Kenny Burdine, Craig Infanger, Larry Jones, Will Snell, Cory Walters and Tim Woods presented an overview and outlook of the Kentucky farm economy as part of the annual Kentucky Farm Bureau Federation conference in Louisville.

Though Kentucky's farm economy still leans toward the animal side, the estimated livestock receipts of \$2.7 billion, about 57 percent of the total receipts, showed a decline this year, probably due to effects of the drought and overall lower prices for horses and cattle.

"As the economy has weakened, we've seen demand go down," he said. "A lot of the beef market is driven by restaurants, the high end cuts especially. So as restaurants get hurt by the economy, which is where people often cut back, beef gets hit that way."

On the other hand, high crop prices spurred crop receipts, which rose about 40 percent this year, an increase of \$600 million over the 2007 level. Crops contributed 43 percent to the total cash receipts. The state has seen dramatically higher income from corn, soybeans and especially wheat. Corn rose 51 percent to \$701 million, soybeans are up 41 percent and wheat is about three times the 2007 level.

Cory Walters, UK agricultural economist, said this year's corn crop, driven by an increase in both acreage and yields, is expected to be the second largest on record, topped only by the 2004 crop.

Next year's grain crops will be influenced by global consumption; financial, energy and currency markets; and crop development in the southern hemisphere. The latter particularly will affect soybeans and wheat.

Vegetable production continues to climb in Kentucky. UK Agricultural Economist Tim Woods said Kentucky has more than doubled cash receipts from vegetables over the past 10 years, with total vegetable acreage for 2008 being up 17 percent over 2007. There was a strong demand for locally grown products, and wholesale vegetable prices were exceptionally strong. Nursery and greenhouse sales have been hit hard by the slowdown in housing with forecasts of a continuing slump. This sector peaked at around \$80 million in 2006. Still, according to Woods, horticulture only makes up about 3 percent of all farm cash receipts in the state.

Will Snell, UK agricultural economist, forecasts tobacco income in 2008 will have risen 13 percent to \$375 million, its highest level since 2004. He attributes the estimated 6 percent increase in Kentucky's overall crop to increased acreage in dark tobacco, which grew by more than 40 percent this year. This is well beyond pre-buyout levels.

Input prices steeply rose in all sectors this year. Livestock feed was up about 20 percent, fertilizer prices rose by more than one-third and fuel costs increased by 25 percent. Despite the increase in production costs, net farm income rose by more than 10 percent.

Meyer predicts a slight decline of 2 percent in overall cash receipts in 2009. Based on the strength of the state's poultry industry and on modest improvements in the equine industry, Meyer said livestock receipts are forecast to increase to about \$2.7 billion, though cattle and dairy likely will continue their decline. Income from crops is likely to decline by 6 percent, down to \$1.9 billion.

The recession and accompanying factors will provide a set of unique challenges for farmers in the upcoming year, Meyer said.

"The weak economy is going to hurt in a couple of ways," he said. "One is reduced demand for food products. It could also affect land prices, though we're not sure what impact that could have. We don't think there's the same vulnerability now as there was in the early 1980s when farmers were borrowing every last dollar to expand their farms. Farmers' equity would go down, but it won't necessarily hurt their ability to farm except for the few farmers who are marginal in terms of equity."

Meyer said exchange rates probably will be one of the biggest economic factors in 2009. Since the summer, there has been a 15 percent increase in the value of the dollar compared to benchmark currencies, after a 45 percent decline from 2002 to mid-2008, which Meyer said is likely to affect continued expansion of exports.

Snell agrees.

"I think the global recession along with the strengthening dollar will hurt our export demand which is critical to our state's ag economy. Plus our government payments will likely fall as (tobacco) buyout payments diminish," he said.

On the plus side, however; interest rates are going to stay low and production costs are not expected to go up the way they did this year, though they will still be of some concern.

"In fact, they're probably going to go down a little bit next year," Meyer said. "Government payments (excluding buyouts) will probably stay pretty stable. So we think the net farm income should not change much in 2009."

"The Kentucky Agricultural Economic Outlook for 2009", including information on individual farm sectors, is located at http://www.uky.edu/Ag/AgEcon/pubs/ext_0ther/2009KYOutlook.pdf. △