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Fall 2006

Agricultural Situation and Outlook Fall 2006

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Agricultural Situation and Outlook



Fall 2006

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Agricultural Situation and Outlook Fall 2006

University of Kentucky Department of Agricultural Economics Extension

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U.S. Economic Outlook, Fall 2006
Craig Infanger and Larry Jones
Department of Agricultural Economics

U.S. Economic Outlook: As widely expected, the U.S. economy continued to expand in 2006 despite the shocks of record-high crude oil prices, sharply higher interest rates, and a costly Iraq War. After rapid growth in the first quarter, the economy slowed to a 2.9% growth rate in the second quarter as the housing market cooled and high energy prices impacted businesses and households. Although third quarter results will not be released until late October, it is widely expected that the economy will continue to expand at about 3% for the year. Fed Chairman Ben Bernanke is saying, "Overall, the U.S. economy seems poised to grow in coming quarters..." The outlook for growth in 2007 is positive at about 3.2%.

The Federal Reserve's priority to control inflation prompted a continued series of interest rate hikes beginning in mid-2004, ending four years of low interest rates. With economic growth slowing, energy prices declining in late summer, and the core rate of inflation remaining within expectations, the Fed "paused" and did not raise rates in August and September. It is now widely expected that the Fed will halt further rate increases, meaning consumers may now be facing the high end of the interest rate cycle. Although unemployment has hovered around 5% for the nation and 6% for Kentucky, job growth slowed as the economy cooled.

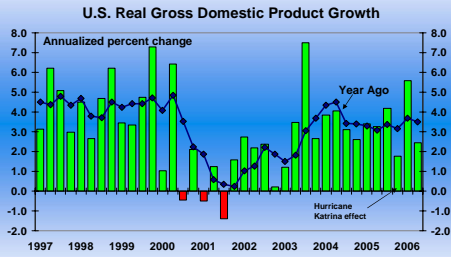
There remain considerable risks to economic expansion in 2007. Did the Fed stop interest rate hikes in time to insure a "soft landing"? Will high energy prices return? Is the end of the Iraq War imminent? How long can the U.S. import more than it exports? The trade deficit keeps breaking new records every year, \$718 billion for 2005 and another record deficit expected for this year. The federal budget deficit in 2007 is estimated to be nearly \$400 billion, but larger if you account for other off-budget expenses and war expenses. Joseph Stiglitz, a Nobel Prize-winning economist, is voicing the warning shared by many economic analysts: "These imbalances cannot go on forever."

Agricultural Economy: The agricultural economy in 2006 has "cooled" from the lofty levels of the past two years. Net farm income this year is forecast at \$54.4 billion according to the U.S. Department of Agriculture, down 26% from 2005 and likely to be slightly below the average of the past 10 years. The decline represents a combination of lower gross commodity receipts, lower government payments and higher production expenses.

Total crop revenues (including government payments) are forecast to be the second highest on record at \$134.5 billion. Livestock receipts are projected to decline nearly 5% to \$119 billion but this level follows a record \$125 billion last year. Government payments are projected to decline from \$24.3 billion last year to \$18.2 billion in 2006. Production expenses, in contrast, will likely rise nearly 5% and the increase will be led by increases in energy dependent inputs including fertilizers, chemicals and fuels.

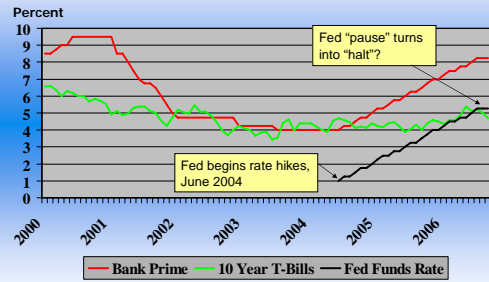
Kentucky's agricultural economy fared better than the national average in 2005. Net farm income for 2005 set a record by exceeding \$2 billion, primarily due to favorable prices in the crop and livestock sectors plus Tobacco Buyout payments. This year, Kentucky farm cash receipts will probably be flat and production expenses higher than last year. USDA farm program payments are anticipated to be lower, so net farm income will likely be down from the 2005 record.

Economic growth continues but with signs of slow down.



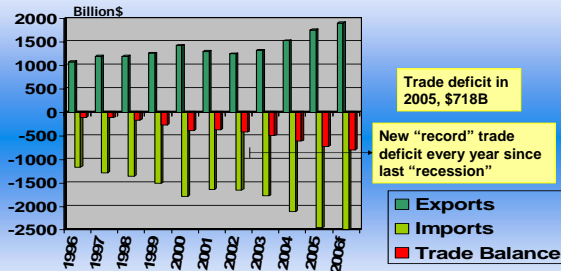
Source: Jason Henderson, Kansas City Fed Bank and Bureau of Economic Analysis

Has the Federal Reserve "halted" or "paused" on interest rate hikes?



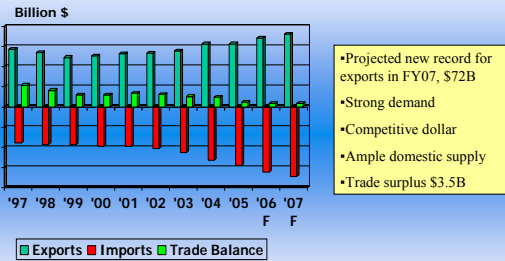
Source: Federal Reserve Bank

U.S. International Trade Balance 1996-2006



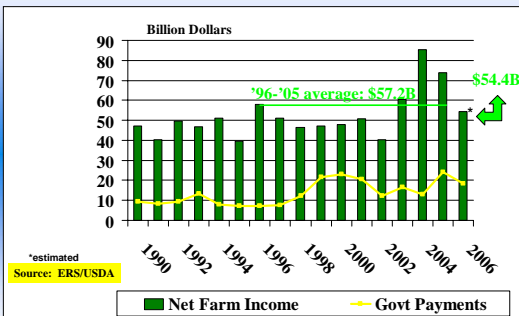
Source: U.S. Department of Commerce

U.S. Agricultural Trade Balance 1997-2007



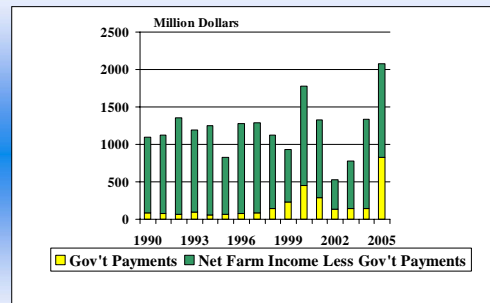
Source: USDA, ERS

U.S. Net Farm Income



*estimated
Source: ERS/USDA

Kentucky Net Farm Income



Source: ERS/USDA

Kentucky Hay Market Outlook for 2006 / 2007
Kenny Burdine
September 2006

The USDA gave their first state-by-state estimates of the 2006 hay crop in August. For the most part, 2006 appeared to be shaping up reasonably well for Kentucky hay producers. Kentucky hay production is expected to be higher this year due to both larger acreage and improved yields. That is not the case for the US as a whole as yields are expected to be down considerably, more than offsetting slight increases in acreage. Much of the United States has dealt with serious drought conditions and several key hay producing states are likely to see decreases in production this year including Texas, Oklahoma, Kansas, Virginia, and the Dakotas.

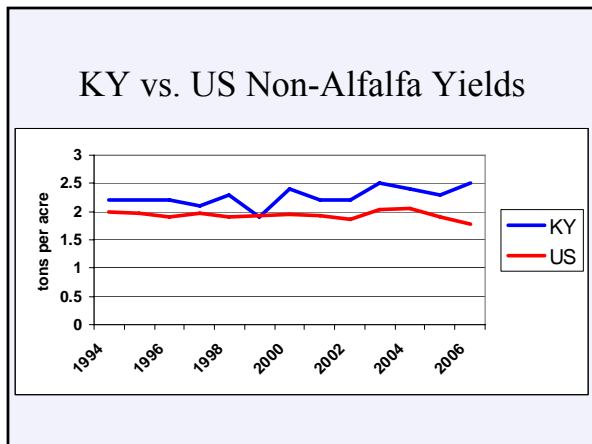
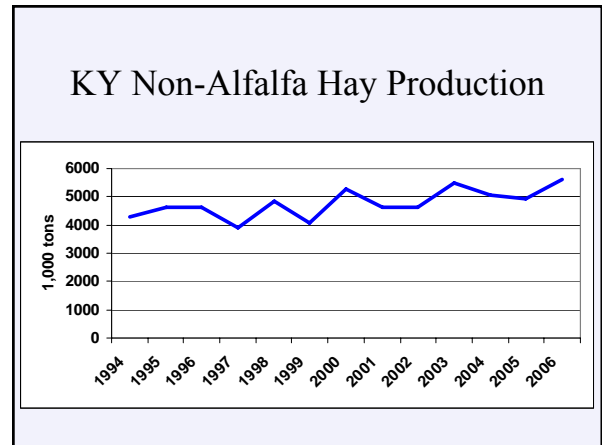
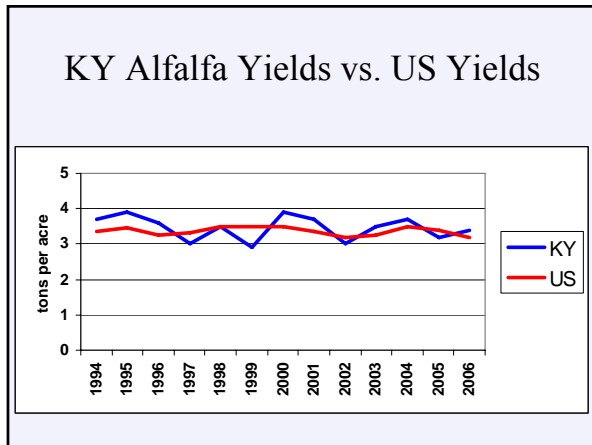
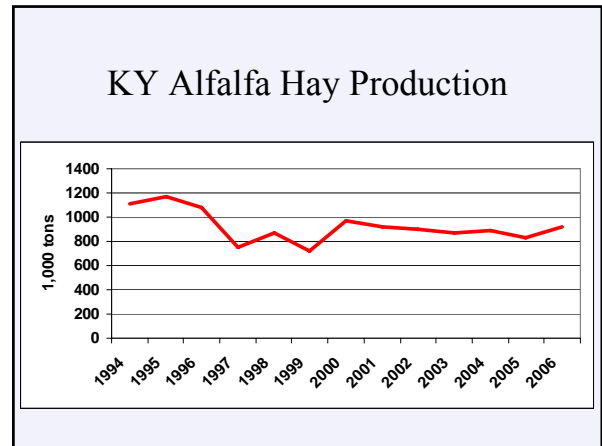
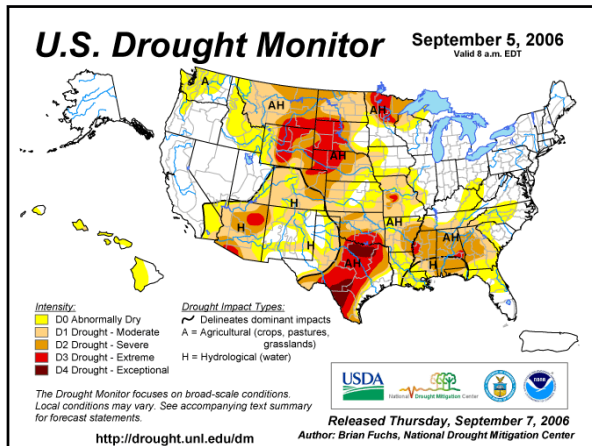
The August estimate for Kentucky Alfalfa yield was 3.4 tons per acre, up by 6% from 2005. Total KY alfalfa production was estimated to increase by about 10% this year as approximately 10,000 more acres are expected to be harvested. The Kentucky production increase compares to an expected US production decrease of more than 6%.

The All Other Hay yield estimate for Kentucky was 2.5 tons per acre, which would be an increase of over 8% from last year. Combining this with increased acreage has USDA expecting Kentucky non-Alfalfa hay production to be up by more than 13%. Nationally, non-Alfalfa hay production is expected to be down by about 5%.

If the August estimates were to hold, 2006 would be the largest Alfalfa crop in Kentucky since 2001, and the largest "other hay" crop in the last decade. Rains in August and September (after the report) may have had a positive affect on yields, but it's not clear how quality may have been affected. Also, there were several reports of flood damage to hay following the September 22nd and 23rd storms. We really won't know the extent of this damage for a while.

Looking back on the last few years for KY, 2004 was a good year and hay supplies were comfortable going into the winter of 2004 / 2005. Supplies were pulled down during the summer of 2005 as many producers were forced to feed hay earlier due to drought. A good hay year was need in 2006. While production will likely increase, quality will be critical this winter.

Given that some areas of the country will be very short on hay, there may be some increased opportunities for producers to ship quality, high-value hay to other states. Of course, the market for grass and mixed hay tends to be quite local. Despite the higher production levels, frequent rains coupled with rising fuel and fertilizer prices made hay a challenging crop in 2006 for Kentucky's forage producers.



Kentucky Dairy Market Outlook for 2006-2007
Kenny Burdine
October 2006

2006 Summary

Coming off two straight profitable years, the dairy industry isn't likely to remember 2006 fondly. Prices have been well below 2005 levels each month of the year. In the second quarter, the US All Milk price averaged \$12 / cwt., representing the worst quarter since the second quarter of 2003. Prices improved very little in the 3rd quarter, but September prices did show moderate improvement. Much of this was due to higher butter and cheese prices, which had been pulling the complex down.

By year's end, milk production should be up by almost 3% due to more cows in production (+1%) and more milk per cow (+2%). Expansion of the US dairy herd appears to have continued in 2006 as the number of dairy replacement heifers was up in both the January and July inventory reports. This is surprising given the disappointing nature of prices this year. Expansion is likely occurring in large commercial dairies, where cost of production is considerably lower.

At the local level, rapid liquidation appears to be ongoing in Kentucky. The January 1, 2006 inventory report showed a 7% reduction in Kentucky dairy cow numbers. Although we won't know until January 2007, monthly milk production reports suggest that Kentucky milk cow numbers could decrease another 5% by the end of the year.

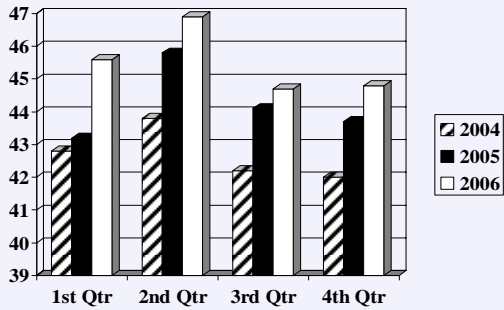
As is typical, Kentucky mailbox prices were a little better than the US All Milk price, but still very disappointing in the second quarter, averaging \$12.32. Although prices are likely to improve for the remainder of 2006, they are not likely to reach 2005 levels. Most Kentucky dairy producers will likely see negative economic returns for the year.

Outlook for 2007

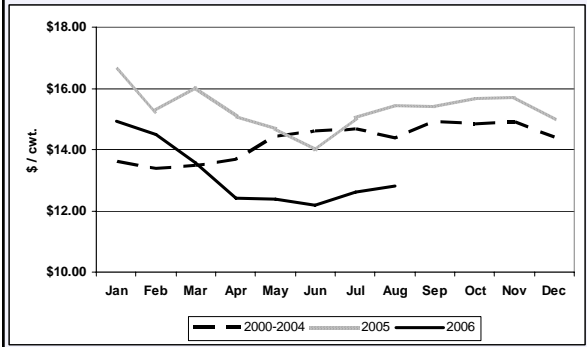
As stated earlier, expansion of the US dairy herd appears to have continued in 2006. USDA ERS is projecting an end to this expansion in 2007. Even if correct, production per cow is likely to increase again and offset any reductions in cow numbers. 2007 production will likely be very close to 2006 levels.

An outlook for steady milk production in 2007 is not good news given the low price levels of 2006. Producers will likely need help from the demand side to see improved prices next year. Since much of the weakness in 2006 was due to poor butter and cheese prices, producers could see some improvement if these components hold up. Considering everything, the price outlook is for slightly better prices in 2007 as hopefully the 2nd and 3rd quarters won't pull the annual average down as much as they did in 2006.

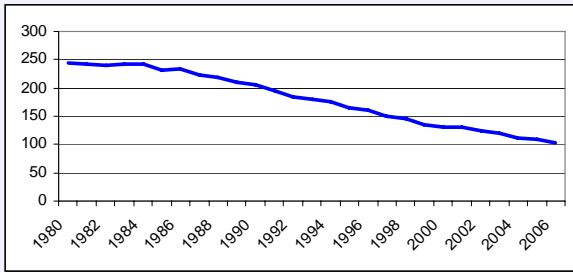
US Milk Production (billion lbs)



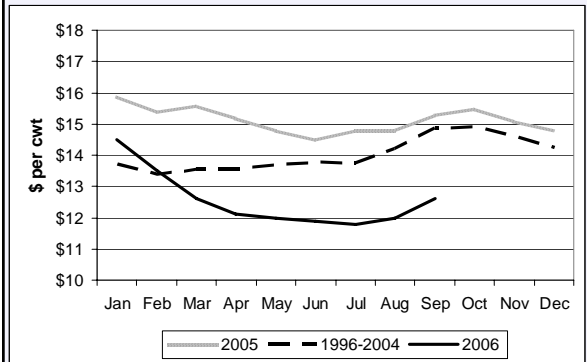
KY Mailbox Prices



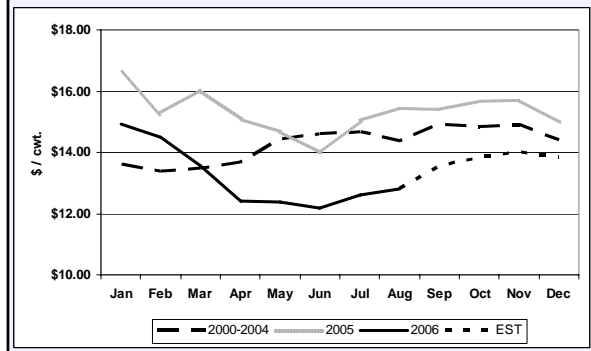
KY Dairy Cow Numbers



US All Milk Price



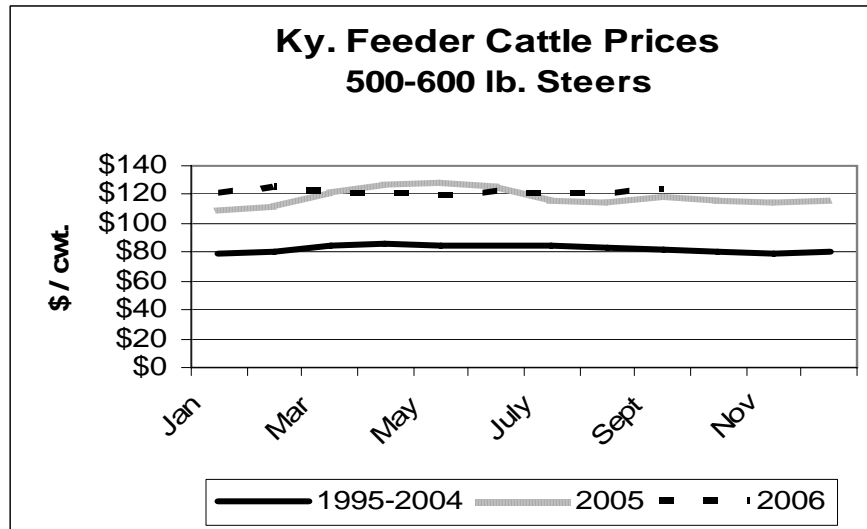
2006 / 2007 Projections



Kentucky Cattle Situation and Outlook

Lee Meyer and Kenny Burdine

The graph showing Kentucky feeder cattle prices is a good summary of the financial situation facing cattle producers. Kentucky prices so far in 2006 have been record high, with 500-600 pound feeder steers averaging about \$121 per cwt. through September, up slightly from last year and \$30 per cwt. over the 10 year average. While we don't have a good benchmark for production cost, we do know that good moisture conditions this past summer have provided abundant pasture and hay supplies.



Of course, Kentucky prices are only a reflection of the national and even international beef market. U.S. beef production for 2006 will be 5% to 6% over the 2005 level. This is the first substantial increase in four years, and is putting modest downward pressure on slaughter cattle prices. Slaughter steer prices averaged \$90/cwt. during the first quarter of the year, but have declined since then and are likely to average about \$82/cwt. under the 2005 price of \$87.

While there are some hints of weakening demand, the fact that slaughter cattle prices have only declined slightly in face of substantially more beef on the market suggests that demand is steady. The export market, with Japan finally being opened, will help offset domestic demand weakness.

In the short run, a key factor in cattle prices will be total slaughter. According to the USDA's September Cattle on Feed report, there are 10% more cattle in feedlots, the number placed was up 15%, with the greatest increase in the light weight category. More cattle on feed translates into more cattle at the packing plants, but they will be spread out over the next six months. Slaughter cattle prices should average in the \$86 - \$89 area for most of the next six months, before declining seasonally in the summer of 2007.

Most of the profits in the cattle industry have been going to the cow-calf operation, and this should continue. Feedlots should be making a small profit this fall, with breakevens in the mid \$80s. That, along

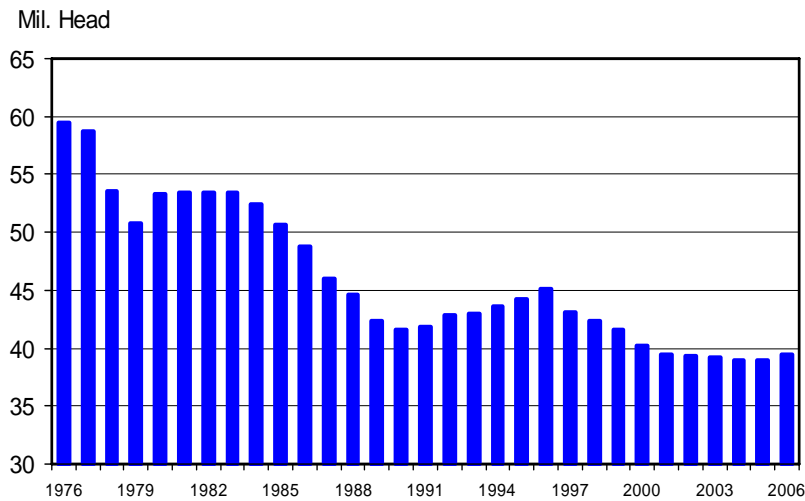
with futures markets prices in the \$85 to \$90 range over then next nine contracts will support feeder cattle prices.

The USDA just released its annual cost of production data for the cow-calf enterprise. The “value of production” in the Eastern Uplands (Kentucky’s region) was \$530 per cow in 2005, \$140 over the 10 year average. Total operating costs were \$503 per cow, \$49 over the 10 year average, leaving a return over operating costs of \$27 per cow, \$95 over the average. However, total profitability, taking all costs into account, declined to -\$465.

With a very tight supply of feeder cattle, as shown in the graph, Kentucky prices for steer calves are likely to follow normal seasonal patterns, with a decline of about five percent this fall, with a price increase during the spring. Yearling prices are likely to hold steady, in the \$100 to \$105 range.

JULY 1 FEEDER CATTLE SUPPLIES

Residual, Outside Feedlots, U.S.



Livestock Marketing Information Center
Data Source: USDA/NASS

C-N-32
09/08/06

Producers budgeting wintering programs (backgrounding, CPH-45, etc.), are likely to forecast modest profits. Those who can upgrade cattle and/or utilize some of the commodity feed rations in efficient production systems can expect returns of \$50 to \$80 per calf.

The key decision for the cow-calf operator is the long run price outlook. This forecast has changed for the better. The drought in the south central cattle area has effectively put the brakes on expansion. While very large beef cow slaughter (up 32% from mid-August to mid-September) is adding to the supply in the short run, it will cut the calf supply for next year and hold back beef production for the next couple of years. The number of beef cows was up one percent at the beginning of 2006, but may even be down slightly at the beginning of 2007. That doesn't guarantee large profits for cow calf operations, because factors like increased feed costs or declining demand could turn prices around quickly.

Hog Market Analysis

Lee Meyer

The hog/pork sector has become more concentrated and one industry change has been the reduction in large year-to-year fluctuations in production and prices. Production has been growing an even 1% per year in 2004 and 2005. Likewise, prices and profitability have also been somewhat stable.

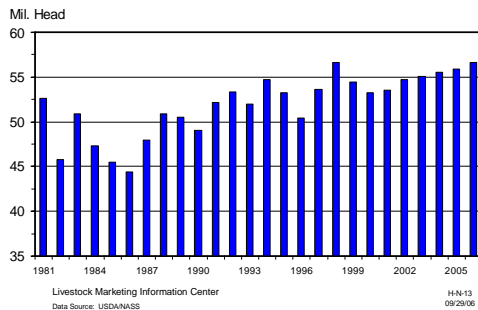
This situation may be changing. For 2006, prices have dropped. The graph of barrow and gilt prices shows that in the first quarter prices were well under last year, down 17% due to more production and weaker consumer demand (even though exports remained strong). The rest of the 2006 has been better and prices for the year will end only about \$3-4 per cwt. (live weight) under the 2005 level.

The September USDA Hogs and Pigs report was released on September 29, 2006. As shown in the graph, total U.S. inventory up 1.4% over 2005 and the largest since 1998. Based on sow numbers and farrowing plans, the report also indicated modest increases in production over the next year. The number of sows is up 2% and farrowing intentions for the Sept. to Nov. quarter are up 1%, with a 2% increase planned for the first part of 2007.

With strong exports, prices are likely to remain strong going into 2007. But, increasing production will put downward pressure on prices, which may average 5% to 10% lower in the second half of the year. The pork enterprise is expected to remain profitable for the first part of next year, but if prices decline as expected and if corn prices continue to climb, hog production may not cover its costs.

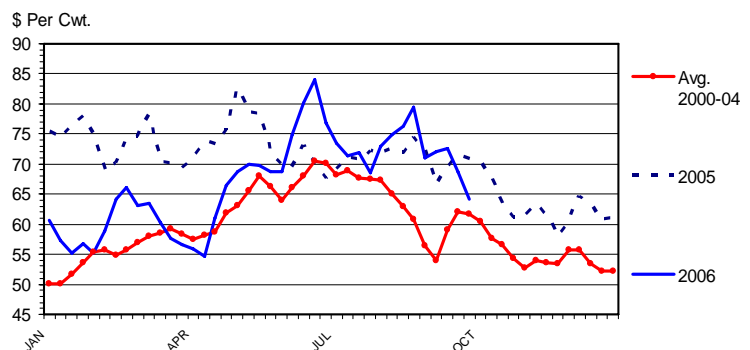
SEPTEMBER 1 MARKET HOGS

U.S. Inventory (Prior to 1988 Estimated)



BARROW AND GILT PRICES

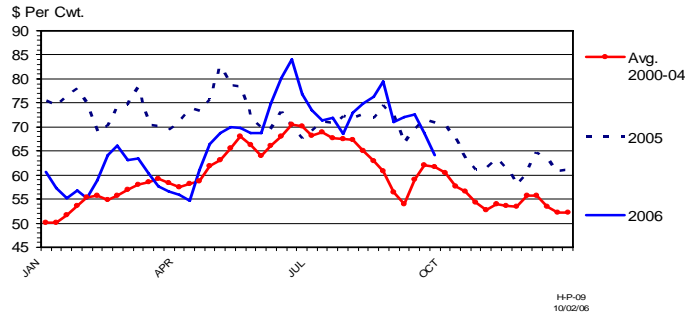
Iowa - So. Minnesota, Carcass Basis, Weekly



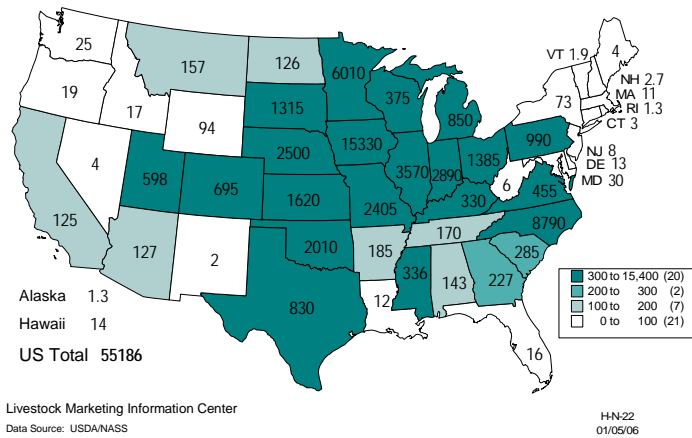
Hog Market Situation

BARROW AND GILT PRICES

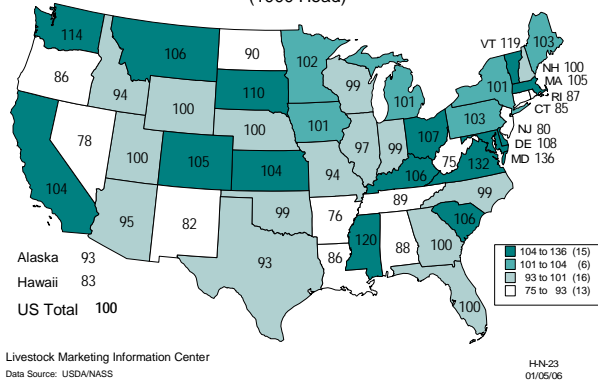
Iowa - So. Minnesota, Carcass Basis, Weekly



DECEMBER 1 MARKET HOGS AND PIGS 2005 (1000 Head)



DECEMBER 1 MARKET HOGS AND PIGS 2005 AS A PERCENT OF 2004 (1000 Head)



Broiler Situation

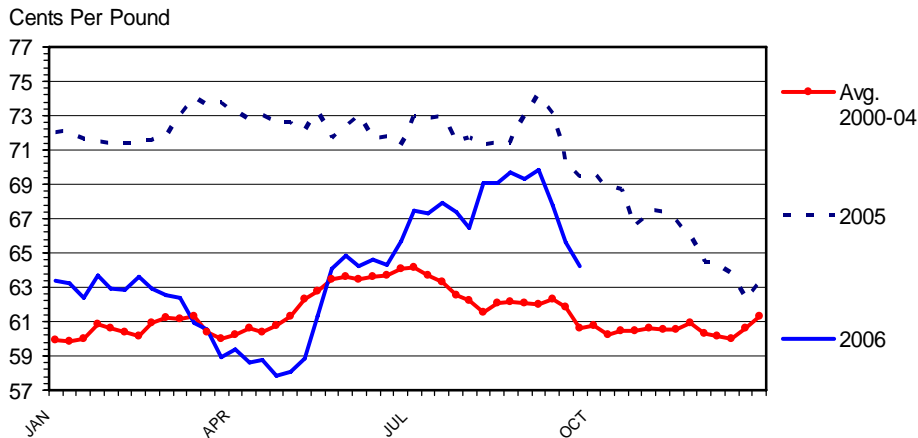
Lee Meyer

After years of increases, broiler consumption is likely to level off - at least for a while. The USDA is predicting U.S. per capita chicken consumption at slightly over 87 pounds per person for 2006, with a slight drop for 2007. However, this does not mean that the industry is shrinking. About 2% more broiler meat is expected to be produced. Some of that will be consumed by a larger population and the rest will be going into the export market. The U.S. is a major exporter - with a large portion of the product going to Russia and Eastern Europe.

Broiler prices peaked at \$.74 per pound in 2004. Since then, prices have declined. They averaged \$.70 per pound in 2005 and are likely to be at their low point this year, averaging about \$.65 per pound. The USDA is forecasting a 3% increase in prices for 2007.

Profitability of the industry is going to depend on feed costs as much as on bird prices. The changing feed grain market, due to the role of corn in ethanol production, will have an uncertain impact on the broiler industry. Corn prices are fluctuating, but the role of the by-product feeds in the poultry sector is also a wildcard.

BROILER PRICES
12-City Composite, Weekly



LMIC P-P-01
10/03/06

Outlook for Kentucky's Tobacco Industry

Will Snell

Following a year of transition evolving from the buyout, Kentucky's tobacco production, despite disease pressure and labor problems is expected to rebound in 2006. Production and acreage were down by more than 30% last year as many Kentucky tobacco farmers exited during the first year of the post-buyout era and many remaining growers were reluctant to expand acreage amidst an uncertain marketing environment. Additional price incentives, coupled with a better growing season is expected to boost Kentucky's total tobacco production in 2006 to 194.3 million pounds (+11%) according to USDA's September crop report. Kentucky's burley production (160.6 million pounds) is forecast to up by 12%, while dark air-cured (14.6 million pounds) is expected to be 41% higher, with a 6% drop in dark fire-cured production (19.1 million pounds) as contracted acres declined.

Around 100 Kentucky counties remain in tobacco production following the buyout, but, as anticipated, production is shifting west. According to USDA data, the Midwestern and Central crop reporting regions accounted for 40% of Kentucky's burley production in 2005 vs 32% of the state's output during the pre-buyout 1980-2004 period. Alternatively, Eastern Kentucky which had grown around 13% of the state's burley historically accounted for 8% of Kentucky's burley last year. Additional shifts likely occurred in 2006 as a significant number of growers in the western 1/3 of Kentucky expanded acreage.

Outside of Kentucky, burley growth is continuing in non-traditional states/areas such as Pennsylvania (12.1 million pounds versus 4.8 million pounds in 2005) and North Carolina (7.6 million pounds versus slightly less than 5 million pounds in 2005), but still falling in the Tennessee (29.4 million pounds versus 34.0 million pounds in 2005). Although the belt may produce a 225 (+/-) million pound crop, it still remains below the projected 275 to 300 million pounds needed by the industry to meet current use levels. While pre-buyout pool and manufacturer stocks are making up for the deficit in the short-run, buyers remain concerned about future leaf supplies, especially given the critical labor supply situation. Worldwide burley production has stabilized, but has tended to decline in countries outside the U.S. producing full-flavor, quality burley (e.g., Brazil and Argentina).

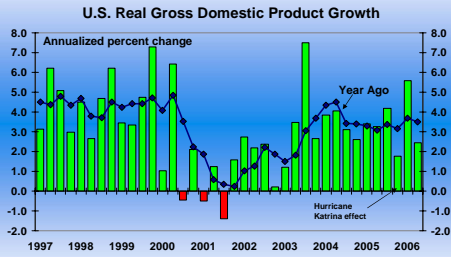
What about post-buyout burley demand? U.S. burley disappearance has historically been in the 500 to 600 million pound range. However, in recent years disappearance has fallen below 300 million pounds, caused primarily by losses in the domestic market. U.S. burley exports have fallen from their record high in the early 1990s, but following a period of stability, U.S. burley exports have been relatively strong in recent years. According to USDA trade data, U.S. burley exports in calendar year 2005 were up 4.2% to approximately 200 million pounds (farm-sales weight). Historically, this represented the third largest burley export volume on record and considerably above the 135 to 140 million pounds exported during the latter years of the federal tobacco program. The upward trend in U.S. burley exports is due to improved U.S. burley competitiveness in international markets in response to lower U.S. burley prices following the buyout, better quality marketings, and a relatively strong Brazilian currency. Burley exports of approximately 200 million pounds, coupled with a domestic market that is using around 100 million pounds annually reveals the need for larger U.S. burley crops in the near future to meet anticipated disappearance levels.

Burley prices for the 2005 crop generally averaged in the \$1.55 to \$1.60/lb range, compared to around \$2.00/lb during the latter years of the federal tobacco program. Based on contract price incentives and the anticipated quality of the crop, the average burley price in 2006 is expected to be up by ten cents/lb or more compared to the 2005 crop. Despite higher anticipated prices for the 2006 crop, increasing input costs and frustrations over the labor situation may constrain additional acreage expansion in 2007, without further price incentives.

What about dark tobacco? While grower prices for dark tobaccos are also anticipated to be lower following the buyout, the smokeless tobacco companies did provide large enough price incentives to entice most growers to remain in the industry. Dark tobacco demand continues to improve in response to the sustained expansion in domestic smokeless tobacco consumption which is in its 18th straight year of growth. In addition to strong product demand, Kentucky dark tobacco growers continue to benefit from limited overseas competition of quality dark tobaccos, and the ongoing close relationship with domestic smokeless tobacco manufacturers.

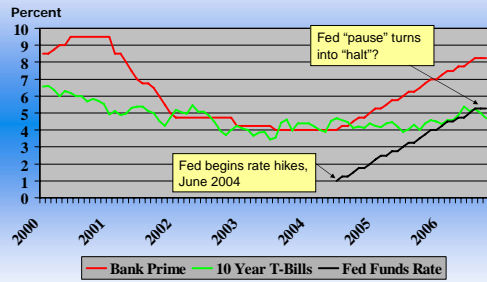
Accounting for both burley and dark tobacco production, the value of production for the 2006 Kentucky tobacco crop will rebound back above \$300 million. Consolidation in the number of growers will likely continue in 2007, with production continuing to shift to the areas that can consistently produce the quality attributes demanded by the companies at the lowest cost. While the future for those remaining in the sector remains very uncertain, production and cash receipts for the Kentucky tobacco sector does have the potential to expand in future years (in response to demand opportunities) if growers are encouraged to remain in production.

Economic growth continues but with signs of slow down.



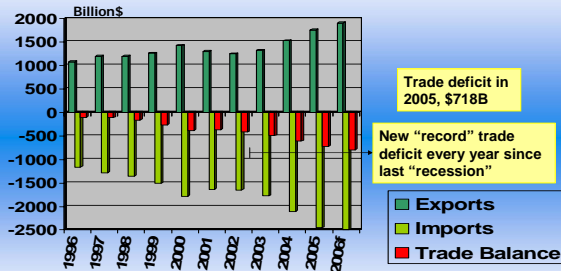
Source: Jason Henderson, Kansas City Fed Bank and Bureau of Economic Analysis

Has the Federal Reserve "halted" or "paused" on interest rate hikes?



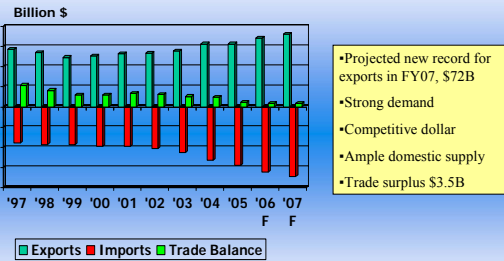
Source: Federal Reserve Bank

U.S. International Trade Balance 1996-2006



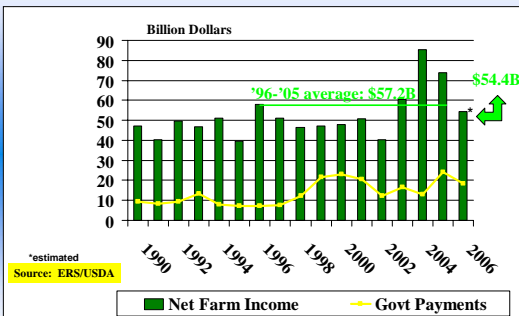
Source: U.S. Department of Commerce

U.S. Agricultural Trade Balance 1997-2007



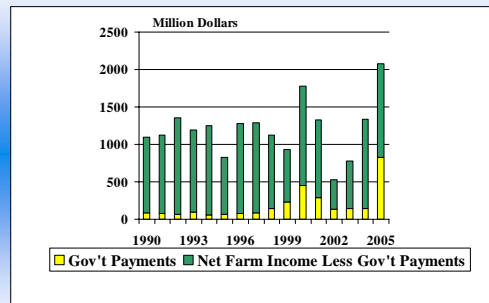
Source: USDA, ERS

U.S. Net Farm Income



*estimated
Source: ERS/USDA

Kentucky Net Farm Income



Source: ERS/USDA

Forestry
Greg Halich

Current Situation – Forestry:

The general timber market in Kentucky and adjoining states has been somewhat soft in 2006. Lumber prices for red and white oak, which make up nearly 50% of the total sawtimber volume in the state, have been below historical price levels for the last two years in Kentucky. Although lumber values can be used as a rough indicator of price levels, it is stumpage values that are directly linked to actual returns for forestland owners. Unfortunately, no good data exist for stumpage prices in Kentucky. However, West Virginia (2006 data not available yet), Southwest Pennsylvania, Ohio, and Missouri have stumpage data compiled from logger survey which can be used as a basis to evaluate the current opportunities for forest landowners in Kentucky.

2006 stumpage prices for red oak are down 15% in Pennsylvania, 14% in Ohio, and unchanged in Missouri from 2005 levels. White oak stumpage prices are down 13% in Pennsylvania, 17% in Ohio, and up 11% in Missouri. Ash stumpage prices are down 18% in Pennsylvania, 11% in Ohio. Hard maple is up 6% in both Pennsylvania and Ohio, while soft maple is relatively unchanged in both states. Yellow poplar is down slightly in Pennsylvania and unchanged in Ohio. Hickory is down slightly in Ohio, the only state in this group that tracked this species. Walnut was down slightly in Ohio and up 64% in Missouri. This later statistic in Missouri may be misleading as there were few data points for this species in the state. Black cherry was down 2% in Pennsylvania and unchanged in Ohio.

Recommendations:

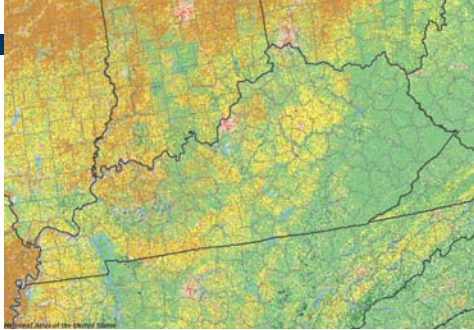
I would generally not advise cutting medium and high-quality oak stands at this time. A nice benefit of timber ownership is that timber does not need to be harvested at frequent intervals. Unless overmature, stands can go years without serious quality decline. Prices will hopefully rebound in the next five years for the oak species, and thus it probably makes sense to wait to harvest these stands. On the other hand, low-quality oak stands in need of thinning to release favored crop trees may still be good candidates for harvest. In these cases, marked trees will have had low value to begin with, and the slight loss if stumpage value will probably be less than the benefit of releasing the rest of the stand.

Hard maple, soft maple, and black cherry are at very high stumpage levels and have generally been rising for the last decade. Although hard maple is not normally widespread throughout Kentucky, there are a few areas in the state where they will make a sizeable component of the overall stand (there are ten counties in Kentucky where this species makes up between 10 and 25 % of the sawtimber volume). Mature stands with a sizeable hard maple component should be considered for harvest. Soft maple prices are roughly half those for hard maple, but have risen substantially in recent years. Stands with a sizeable component of soft maple should also be evaluated for potential harvest. Black cherry tends to make up a small component of the better quality sites in the state and is rarely a dominate species in Kentucky. There are only six counties in Kentucky where this species makes up more than 5% of the sawtimber volume. However, those landowners who are fortunate enough to have a sizeable component in their stands should be aware of the current value of this species. Stumpage increases for black cherry have been phenomenal in the past 10 years, and can easily be 4-5 times that of oak. Now is a good time to consider harvesting these stands.

Yellow-poplar and hickory are two of the main species in Kentucky that have remained fairly stable in recent years. Hickory is normally associated with oak stands, and thus would normally be harvested when the more significant oak component is reached financial maturity. Yellow-poplar is often a dominate species, especially on better sites. For yellow-poplar stands that have reached financial maturity, there is probably no reason to delay harvest for this species.

Recommendations for ash stands are more difficult. Ash has declined significantly from the early 1980's and has not risen back to levels anywhere near what it saw during this time period. Compounding the price drop in recent years is the presence of the emerald ash borer in Ohio. This pest has devastated ash trees in southern Michigan and northern Ohio and is quickly spreading southward. Unless a biological control can be found, the borer will likely move into Kentucky. Forestland owners whose stands have a heavy ash component face a dilemma: waiting in hope of rising stumpage prices, but with the possibility that their stands may eventually become worthless! Salvage cuts just ahead of the borer's path have the potential to flood already weak ash markets.

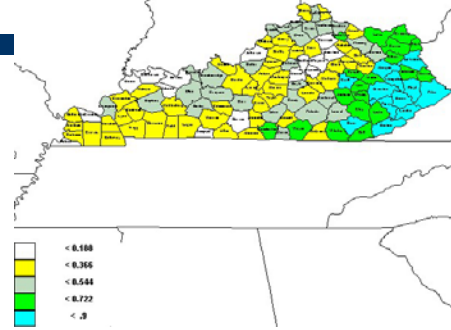
Kentucky Forests and Land Use



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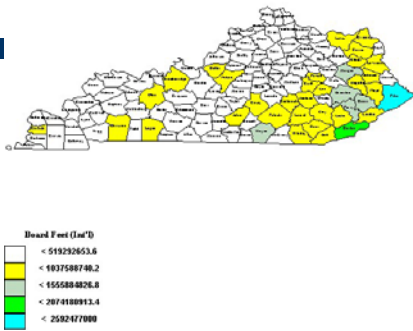
Percent Private Timberland



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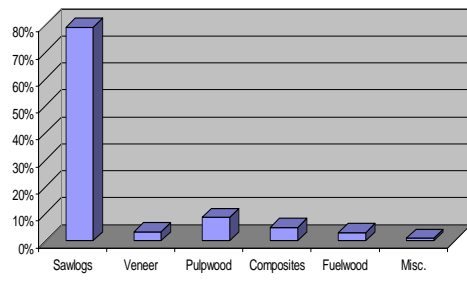
Total Board Feet (In³) on Private Timberland



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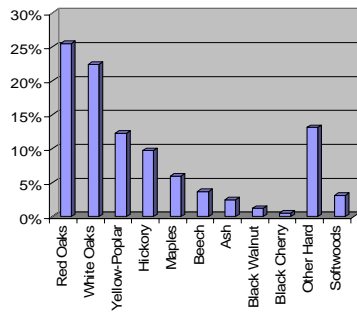
Kentucky Forest Products (% of Total)



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Sawlogs by Species Mixture

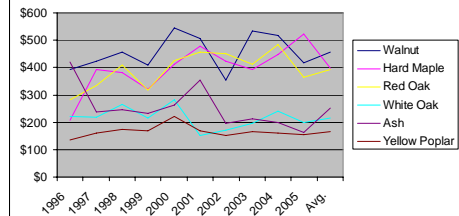


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Timber Prices

West Virginia Stumpage 2006\$ (Doyle Scale)



7

10/26/2006

Kentucky Horticulture Situation and Outlook - 2006

Tim Woods and Jim Mansfield

Kentucky's horticulture industry continued to expand in 2006 at a modest pace. Favorable weather, strong consumer demand and increased direct marketing activities helped the horticulture industry grow. The extent of horticulture production in Kentucky appears to be on the low side compared to many of the surrounding states. (See 2002 Census data charts below).

Fruits / Vegetable Production:

Produce acreage estimates resulting from the "2006 Produce Planting Intentions Survey" (Woods, et al) showed an 18% growth in overall produce acreage to approximately 10,611 acres.

Marketing channels: Direct markets for horticulture crops continued to be popular with both consumers and farmers. The Kentucky Department of Agriculture recorded 107 farmers markets operating in 2006 with an estimated 1,808 vendors participating. The number of Kentucky Farm Bureau Certified roadside markets (on-farm markets) increased to 78, an all time high for the program. Ten percent more farmers surveyed in 2006 reported selling directly to restaurants and 6% more reported sales at produce auctions. Four produce auctions operated in Kentucky in 2006. The oldest and largest produce auction – Fairview Produce Auction, reported sales of one million dollars or more for the last 3 years (\$1.2 million in 2005). Only two of Kentucky's produce marketing cooperatives operated in 2006 and these at a lower level of production. Expensive operational costs combined with price and weather risks proved to be too much for the fledgling organizations. According to reports from UK horticulture extension field personnel most of the former co-op vegetable growers continue to grow produce crops for other markets. An analysis of 1992 to 2002 Census of Agriculture data reveals a strong consolidation trend of U.S. produce production shifting west (see chart).

Grapes:

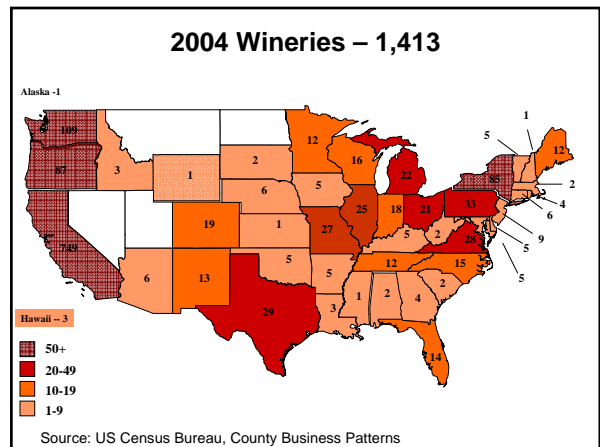
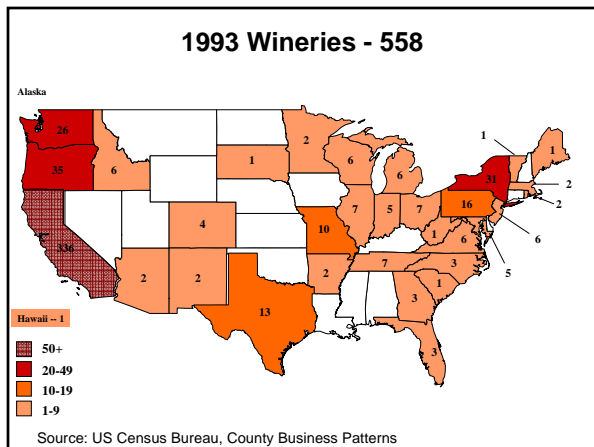
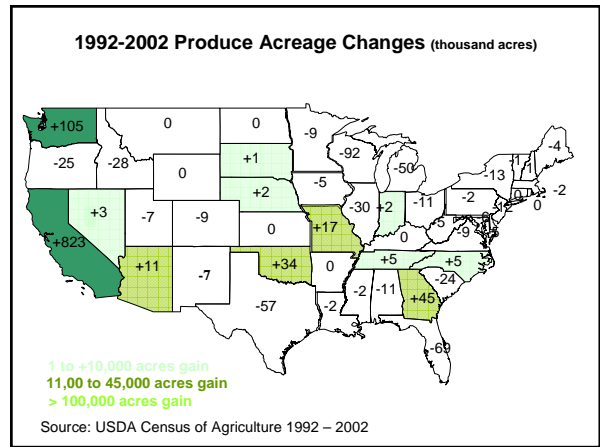
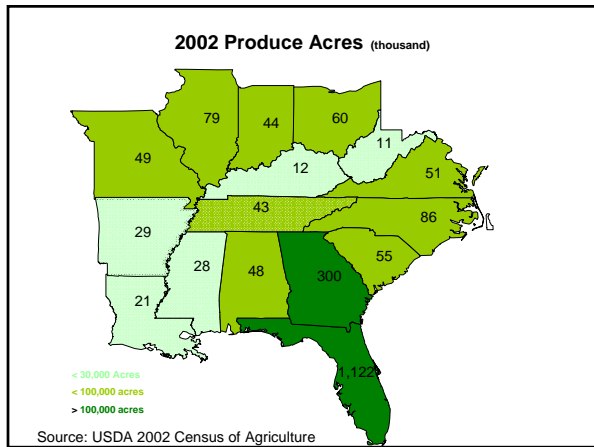
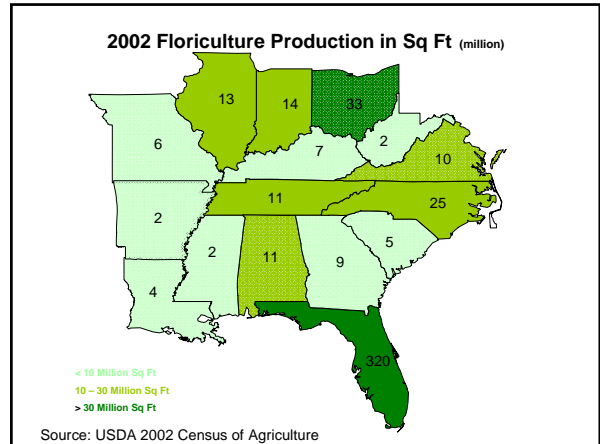
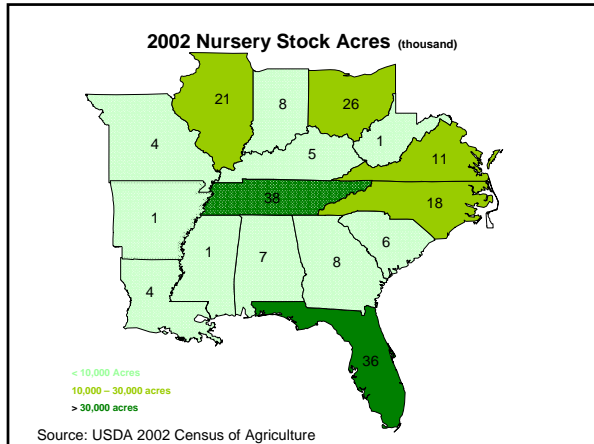
There are 30 active vintner and winery license holders in Kentucky at present which is a dramatic increase from 5 active licenses holders in 2001. Grapes acres in the state are estimated at 505 acres with approximately 410 predicted to bear fruit in 2006. This will be approximately a 100% jump in productive wine grape acres.

Greenhouse/ Floriculture:

Floriculture and greenhouse production have steadily and strongly expanded for the last 10 years. Cash receipts from farm marketing doubled from 1996 (\$21 million) to 2005 (\$43 million). Several large firms selling to big-box stores both in and out of state account for much of this growth.

Nursery

Kentucky's nursery crop industry experienced moderate growth of 17% from 1996-2005. As with other horticultural crops, Kentucky nursery crops appear to be on the low side of production acres compared to the neighboring states.



Introducing: Dr. Alison Reum

I am a new Assistant Extension Professor at the University of Kentucky. My area of specialty is rural economic development. I am currently the director of the Rural Health Works (RHW) program. The purpose of RHW is to provide a process by which community residents can evaluate their health system. The process leads to increased use and expansion of health services and ensures the existence of health services. RHW engages community residents in local health care decision-making by showing them the importance of the health care sector to their local economy. In addition RHW works with health care providers to improve the accessibility of health care.

My program recognizes that quality and accessible health care is required for sustainable growth. Businesses when making locational decisions often evaluate the prosperity of an area by first evaluating the available health care. It is also important to recognize that the health care in rural areas typically is a large driver for economic growth because it is often the largest employer in the area. Thus, I anticipate focusing a lot of my energy on health care issues both with RHW and HEEL (Health Education through Extension Leadership) at UK.

In addition, I intend on developing programs that will target appropriate business recruitment with a larger focus on business retention. I intend on helping communities recognize the types and sizes of business that will be long run, successful contributors to the local economy at the same time reinforcing the needs of the current successful small businesses in the area.

In the near future, I would like to work with extension agents to provide an agri-tourism program. In the short time since I have been in the state, I have met a lot of local residents with tremendous entrepreneurial spirit but they are faced with a very limited market for their product or service. I would like to help them succeed and I look forward to working with these individuals in the future.

My long run goal is to work with the extension agents to improve the quality of life for residents of rural areas in Kentucky by addressing health care, education, employment, and housing issues.

Kentucky's Land Situation and Outlook for 2006

Richard L. Trimble

The upward trend in farm real estate values continued during 2005, according to information released by the USDA. The value of all land and buildings on farms across the US averaged \$1,900 per acre as of January 1, 2006. This is a 15 percent increase over the 2005 value. The \$1,900 is a record high for US land values and is \$250 more than last year. The increase was widespread across the country. In general, crop land values increased 13 percent while pasture land went up by 22 percent. Regionally, the increase in land values ranged from a high of 35 percent in the Mountain region to a low of 8.9 percent in the Delta region. The Corn Belt had an increase of 12 percent.

Kentucky Land Values

As indicated in Figure 1, Kentucky real estate values also increased during 2005. As of January 1, 2006, Kentucky's average value of farm real estate was \$2,750 per acre. This is an increase of 10.0 percent or \$250 per acre over the 2005 value. While this is a robust increase, it was among the smallest increases in our region; only Ohio (9.4%) and Tennessee (7.7%) experienced a smaller increase. Other surrounding states exhibited much greater increases. Most notable were the increases experienced by Virginia (21%), Indiana (15.6%), and Illinois (14.1%).

A survey of Kentucky County Extension Agents was conducted in October 2005 to supplement the USDA information. Results of that survey, shown in Figure 2, indicated Kentucky farm real estate values may be higher than indicated by the USDA survey. The average value of Kentucky farm land was estimated to be \$2,683 per acre. Regionally, the estimated values were: East Region - \$2,757, Central Region - \$2,525, and West Region - \$2,742.

Kentucky Land Rental Rates

The USDA also reported estimated crop land cash rental rates for 2006. The Kentucky crop land cash rental rate was estimated to be \$78.00 per acre, a \$5.00 increase from the \$73.00 reported in 2005. No bordering state reported an increase greater than that experienced in Kentucky.

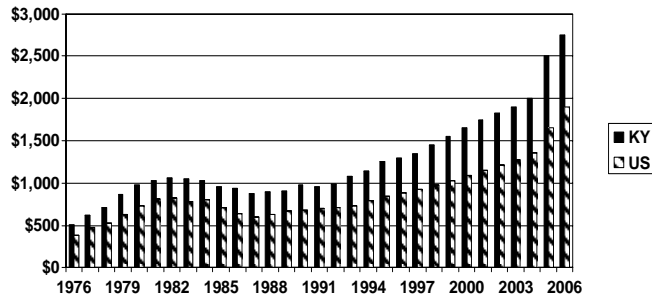
The survey of County Agents also collected information on cash rental rates for both crop and pasture land. As indicated in Figure 3, the Agent's Survey found the state average rental rate to be \$80.71 per acre for crop land, which was just a bit higher than that reported by the USDA. The rental rate for pasture land from the Agent's Survey was \$31.35 per acre. The USDA does not report rental rates for pasture land in Kentucky.

As farm real estate values have increased over time, cash rent as a percent of value has declined. As Figure 4 indicates, the Agent's Survey found crop land cash rent as percent of value was about 3.7% while it was about 2.2% for pasture land.

Future Directions

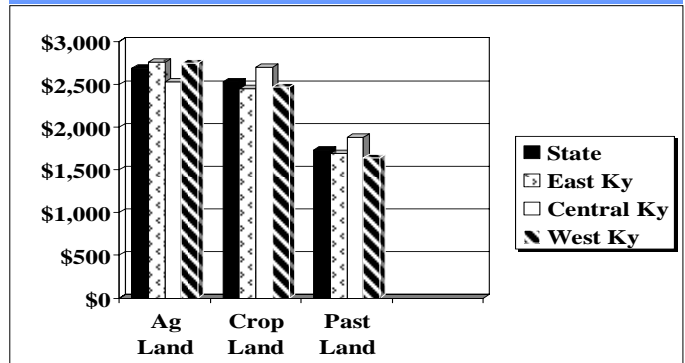
Low interest rates, a robust economy, and a strong demand for farm land for non-agricultural uses have all contributed to the ongoing increase in farm real estate values. If these conditions continue, we can expect land values to continue to increase. Should any of these conditions change, we can expect farm land values to respond accordingly.

Figure 1. Historical Land Values, US and Kentucky, Dollars Per Acre, 1976-2006.



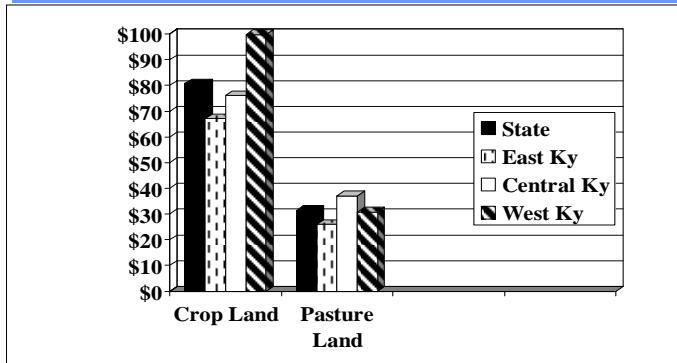
Source: National Agricultural Statistics Service, USDA, Washington, D.C.

Figure 2. Average Price, per acre, of Kentucky Agricultural Land, October, 2005



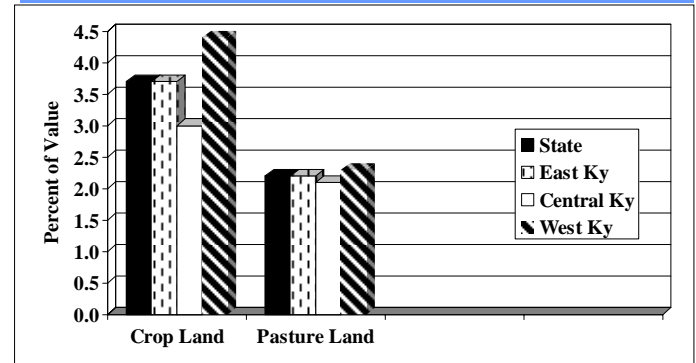
Source: Survey of participants in ESM Meetings, October, 2005

Figure 3. Typical Kentucky Crop and Pasture Land Cash Rental Rate, per acre, October, 2005



Source: Survey of participants in ESM Meetings, October, 2005

Figure 4. Typical Kentucky Crop and Pasture Land Cash Rent as Percent of Value, October, 2005



Source: Survey of participants in ESM Meetings, October, 2005