Fall 2010

Agricultural Situation and Outlook Fall 2010

Sara Williamson
University of Kentucky, sara.williamson@baruch.cuny.edu

Kenneth H. Burdine
University of Kentucky, kburdine@uky.edu

UK COOPERATIVE EXTENSION SERVICE
UNIVERSITY OF KENTUCKY — COLLEGE OF AGRICULTURE

Agricultural Situation & Outlook

Fall 2010

ESM-36 – October 2010

Department of Agricultural Economics
The University of Kentucky
400 C. E. Barnhart Building
Lexington, KY 40546-0276
Phone: 859-257-5762
Fax: 859-323-1913
http://www.ca.uky.edu/AgEcon/

FOREWORD

This publication is prepared by the faculty and staff of the Department of Agricultural Economics, University of Kentucky. These articles present information on the economic situation and outlook for Kentucky agriculture and are intended to assist farmers, agribusiness professionals, Extension field staff, and others with interest in agriculture and agribusiness. Information presented here is based on the most recent information and research available. However, the rapidly changing economic and policy conditions for agriculture limit the usefulness and life span of conclusions and recommendations cited here. Decision makers should keep these facts in mind. Feel free to use the information included in this publication for other uses, but please provide professional citation about the source. The papers contained in this publication are published without formal review. The views expressed are those of the author and do not necessarily reflect the views of the University of Kentucky, the Agricultural Experiment Station, or the Cooperative Extension Service. To obtain additional information, or to provide comments or suggestions, contact the author or the editor.

A list of authors (in alphabetical order) and contact information is provided below.

Kenny Burdine	859-257-7273	kburdine@uky.edu
Greg Halich	859-257-8841	greg.halich@uky.edu
Craig Infanger	859-257-7274	craig.infanger@uky.edu
Lee Meyer	859-257-7276	lmeyer@uky.edu
Jerry Pierce	270-737-4799	jspier2@uky.edu
Will Snell	859-257-7288	will.snell@uky.edu
Cory Walters	859-257-2996	cgwalters@uky.edu
Sara Williamson	859-257-7272, x 223	sara.williamson@uky.edu
Tim Woods	859-257-7270	tim.woods@uky.edu

Some of the AEC Extension family members: (from left) Lee Meyer, Greg Halich, Craig Infanger, Jerry Pierce, Kenny Burdine, Laura Powers, Jennifer Hunter, Dick Trimble, Tim Woods, Sara Williamson

About the Authors

Meet UK's AEC Extension Specialists

Extension Specialists in Ag Economics are dedicated to providing communities across the Commonwealth with educational programming, resources, and expertise over a wide range of agricultural and rural development topics. This is accomplished in a variety of ways, and for all 120 counties across the state. Their depth and diversity of expertise includes marketing, farm management, rural development, policy, and leadership. Agricultural Economics extension specialists have a far-reaching impact on the more than 85,000 farms that exist in Kentucky.

Chair, Dept of Agricultural Economics
Lynn Robbins, *Administration*; *Ag Business & Marketing*

Extension Coordinator
Tim Woods, *Agribusiness & Horticulture Marketing*

Specialists

Kenny Burdine……..	*Marketing & Profitability: Livestock, Forage, Equine*
Alison Davis…….	*Rural Economic Development*
Greg Halich……...	*Farm & Forestland Management*
Dick Trimble…….	*Farm & Risk Management*
Steve Isaacs……...	*Farm Management & Ag Leadership*
Craig Infanger……..	*Policy, Economic Development, & Leadership*
Lee Meyer……...	*Marketing & Sustainable Agriculture*
Jerry Pierce……	*KY Farm Business Management Program***
Will Snell……..….	*Ag & Tobacco Policy & Leadership*
Cory Walters…….	*Grain Marketing*
Lionel Williamson….	*Cooperatives & Youth Leadership Development*

Associates

Angie Anandappa ...	*Food Systems Innovation Center*
Miranda Hileman..…	*MarketReady™ training program*
Sarah Lovett…….	*Risk Management Programs - Annie's Project and KYFARMSTART; Sustainable Agriculture Topics*
Laura Powers…….	*Tobacco Labor & Management*
Sara Williamson…….	*Food Marketing & Consumer Research; SARE (Sustainable Agriculture Research & Education)*

** ***KFBM Specialists*****:** Evan Conrad, Michael Forsythe, Suzy Martin, Rush Midkiff, Lauren Omer, Bart Peters, Jennifer Rogers, Jonathan Shepherd

400 C. E. Barnhart Building
Lexington, KY 40546-0276
Phone: 859-257-5762
Fax: 859-323-1913
http://www.ca.uky.edu/AgEcon/

Special Programs:

Visit the Department website to learn more about these valuable and effective programs that AEC offers.

KY Ag Leadership Program
Farm Business Analysis
Moneywise
Kentucky Rural Heath Works
Annie's Project
FSA Borrower Training
Tax Education Seminars
Food Systems Innovation Ctr
MarketReady ™
KYFARMSTART

2010-2011 AGRICULTURAL SITUATION & OUTLOOK

Editors
Kenny Burdine & Sara Williamson

The 2011 Economic & Agricultural Outlook

Fall 2010

Craig L. Infanger

U.S. Economic Outlook

The recession 'officially' ended as of June, 2009. We are now nearly two years removed from the financial crisis, but the U.S. economy has not yet fully recovered to anything resembling 'normal'. Economic growth has been positive for four quarters, but the forecast for economic growth remains in the "low, positive" range of 1.5-2.5%. Despite all the Economic Stimulus spending, the length of the recovery now appears to be more like 2-4 years. The unemployment rate, which remains above 9%, is the biggest economic policy challenge. Until the economy starts consistently generating more than 125,000 jobs per month, we may be in another 'jobless recovery', similar to the last two recessions (1990-91 & 2001). Inflation has disappeared as consumer spending dropped and energy prices receded from record highs in 2009, and there has been discussion of 'deflation' risks. With low growth and serious unemployment, the Federal Reserve is keeping interest rates at historic lows – a clear sign that the economy is still in recovery mode. The massive government borrowing needed to finance spending programs is resulting in record high budget deficits. After a record high deficit of $1.4 trillion in FY09, the deficit in FY10 was almost as high -- $1.3T. The major consequence is an explosion in the national debt, from $5 trillion in 2008 to an expected $14.5 trillion in 2018, which will require nearly $700 billion in annual debt service payments.

ECONOMIC FORECASTS

GDP growth
Slow growth -- +1.5% to 2.5%

Interest rates
Remain low – Prime to 3.75% - 4% by summer 2011

Inflation
Low in near term; risk of deflation

Energy Prices
Crude oil trends in $75-$85 range; natural gas price remains low

Unemployment
Slowly declining over 2-3 years; jobless recovery

Trade deficit
Large but manageable

Budget deficit
Another near-record high of $1.3T declines to $1T in 2011

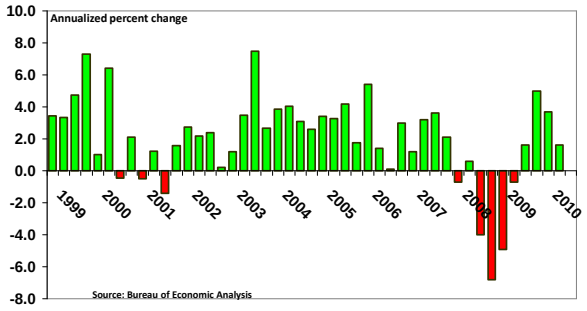
Economic Outlook for Agriculture

U.S. agriculture rebounded quickly from the effects of the commodity market 'crash' in 2008 and the global recession. After dropping by one-third in 2009, USDA is projecting U.S. net farm income to be up 24% this year to $77 billion – well above the 10-year average of $72 billion. When you examine the balance sheet for agriculture, it is clear that most of the increase in farm income is coming on the livestock side as cattle, hog, dairy, poultry and egg cash receipts have increased markedly this year. USDA may increase their estimate of crop cash receipts with the surge in corn prices. Total cash receipts from crop and livestock marketing will top $301 billion this year, a strong increase, but below the record-high $318 billion in 2008. USDA commodity program payments are anticipated to be about $12 billion, essentially the same level for the last four years. Global economic recovery has resulted in a dramatic increase in U.S. agricultural exports. After plunging in 2008 from $115 billion to $96 billion last year, agricultural exports have rebounded to a projected $113 billion this year. Larger grain volumes at higher prices, as well as improved horticulture and meat exports, are behind the reversal in exports. After a short dip in 2009, food imports are forecast to be another record-high next year as economic recovery continues.

Kentucky's agricultural economy and net farm income generally mirror trends in the U.S. agricultural economy. This year is no exception. Total cash receipts in 2009 were $4.3 billion, down 10% from the record-high in 2008. Poultry is now the #1 source of cash receipts in the state, replacing horses. Net farm income in 2009 (including government payments) was $1.3 billion -- just below the state's 10-year average. With agricultural exports booming and the economy in slow recovery, both cash receipts and net farm income for 2010 should be significantly higher with a positive outlook for 2011.

Worst Recession Since WWII

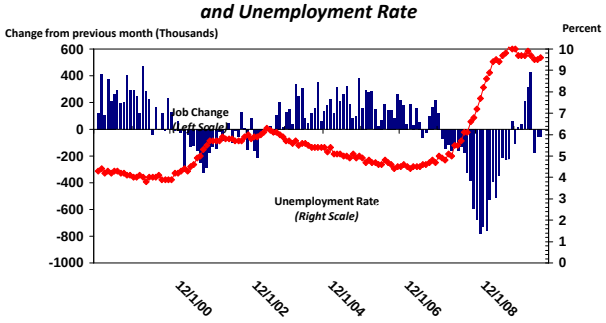
Quarterly Change in U.S. Real GDP



UK Agricultural Economics

Jobless Recovery

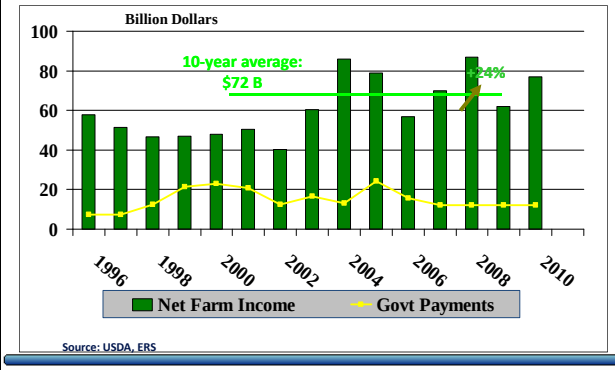
Change in Payroll Employment and Unemployment Rate



UK Agricultural Economics

U.S. Net Farm Income

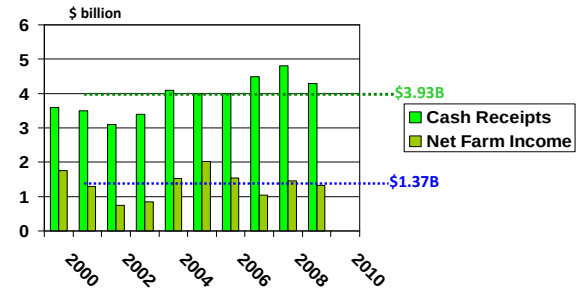
Net Farm Income rebounds in 2010



UK Agricultural Economics

KY Cash Receipts and Net Income

Down but near 10-yr average



UK Agricultural Economics

Situation & Outlook 2010-11

BURLEY & DARK TOBACCO

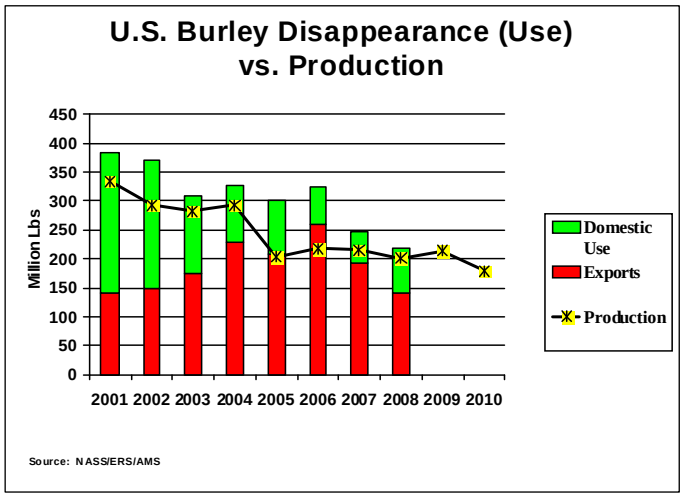
Will Snell

Burley Situation and Market Outlook

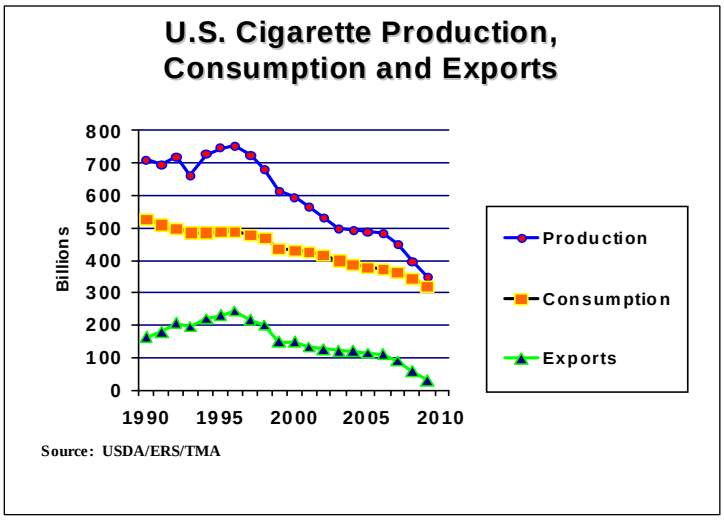
Contract volume was significantly reduced in 2010 due to softness in both the domestic and international markets. On the domestic front, tobacco companies likely overbought the past couple years anticipating that U.S. cigarette consumption would not decline at the levels observed and predicted in today's marketplace. Higher prices (due to both tax increases and manufacturer price increases), along with the overall weak economy, may have induced some price-conscious consumers to switch to lower quality brands which contained less domestic burley. Plus, the uncertainty of FDA regulations likely led domestic companies to be even more conservative in their purchasing plans for 2010.

On the international front, the value of the dollar has kept U.S. burley price-competitive in the world market in recent years. But, a doubling of burley production in the African market from 2007 to 2009 flooded the international tobacco market, displacing U.S. burley around the globe. Concerns over the international flavorings ban may also lead to some conservative purchasing decisions for 2010. Plus, it appears that manufacturers and dealers worldwide are lowering their desired inventory levels in response to technological advances in cigarette manufacturing and to minimize storage costs and speculative risks.

As a result of these and other adverse factors, U.S. burley acreage is forecast to be down 11% in 2010, with 10,000 less acres in Kentucky, but 1,000 more acres in Tennessee relative to last year. Acreage is also up slightly in Pennsylvania. Extreme weather conditions (too wet early, coupled with heat and drought later in the season) took its toll on both yields and quality. Plus, the early curing conditions have not been conducive to a quality crop. According to the September USDA crop report, the U.S. burley crop is expected to total 180 million pounds in 2010, 16% lower than last year's 215 million pound crop. USDA no longer tracks world tobacco production. Relying on the August 2009 Universal Leaf Tobacco Company Production Report, world burley production is estimated to be 10% lower in 2010, following an increase of 36% during the 2007-2009 period. According to the report, 2010 burley production in Brazil is down 26%, while African production is 12% less than last year.



On the demand side, domestic use of U.S. burley continues to decline in the midst of higher taxes, smoking restrictions, shifting of U.S. cigarette production overseas, and technological changes in cigarette manufacturing. Domestic use may be down to approximately 50 million pounds, compared to averaging nearly 400 million pounds during the decade of the 90s. And after three straight years of growth to record high levels (exceeding 250 million pounds in 2007), U.S. burley exports fell by more than 40% in calendar year 2008, another 15% in 2009 (to approximately 130 million pounds), and are down another 14% during the first half of 2010. Combining domestic usage estimates with observed export volume likely resulted in burley disappearance falling below 200 million pounds for the 2009-2010 marketing year.



Declining consumption, regulatory uncertainties, and the potential for a lower quality crop raise a lot of concern for the upcoming U.S. burley marketing season, despite a smaller than expected crop. Early indications reveal that the industry could be setting itself up for a three tier price market for the 2010-2011 marketing season. Top quality tobacco under contract (#1s and #2s) will continue to receive prices in the $1.70s and $1.80s. A middle priced market (perhaps in the $1.40s-$1.60s) for medium quality tobacco under contract or top quality tobacco without a contract. And a severely discounted market for all low quality tobaccos which could easily fall below $1.00 per pound.

The outlook for 2010 hinges critically on what evolves on the regulatory front. While FDA is a concern for burley growers, the domestic market now comprises less than 25% of the market. The major issue confronting the U.S. burley industry evolves from potential international regulations on flavorings, which eventually could impact actions taken by FDA as well.

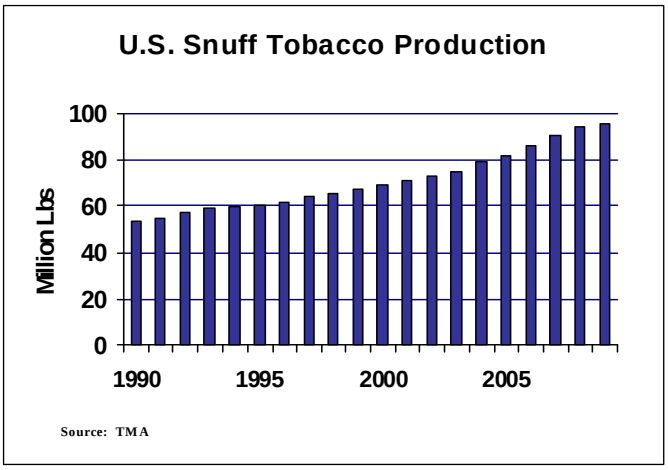
Last year the Canadian government imposed a ban on tobacco flavorings which virtually banned the sale of blended cigarettes (which is a combination of burley, flue-cured and oriental tobaccos) in the Canadian market. Burley is claimed by manufacturers to have a harsh taste to the tobacco consumer if certain flavorings are not added to the product. Anti-tobacco officials claim that these flavorings are an enticement to tobacco consumers (especially younger smokers) and successfully lobbied the Canadian government to ban all flavorings except menthol. To no avail, the tobacco industry countered that the flavorings they use to make burley more palatable in a blended cigarette pose no additional adverse health consequences. In reality, it's not a big

loss to the U.S. burley market since less than 2% of the cigarettes consumed in Canada contain burley tobacco.

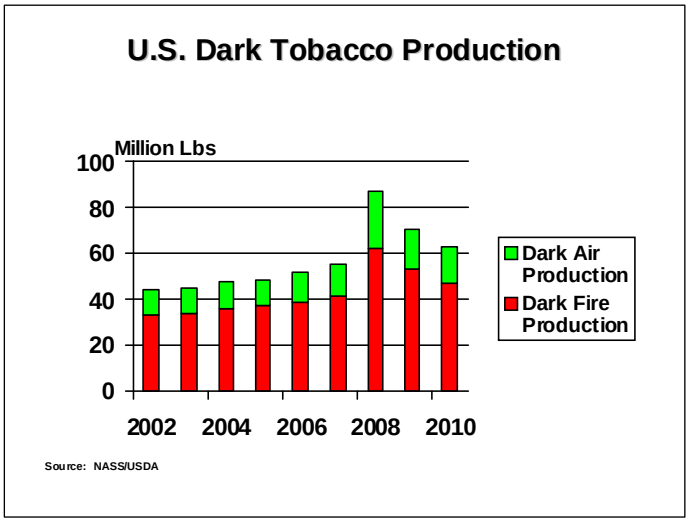
Following the Canadian lead, the World Health Organization (WHO) is currently reviewing the flavoring issue as part of its Framework Convention on Tobacco Control (FCTC). Over 170 countries worldwide, including the United States, have signed the tobacco control treaty, but the U.S. Congress, along with several other countries, has not ratified the treaty. Several farm organizations and congressional members from tobacco-producing states, international tobacco manufacturers and dealers, and other burley tobacco growing nations have expressed their concerns over this issue. Given mixed scientific evidence of a difference in the harm of blended vs. non-blended tobacco products, some opponents claim that the WHO actions would be a violation of World Trade Organization (WTO) guidelines.

Others point out that a ban on ingredients would not reduce overall worldwide smoking rates as blended tobacco consumers would switch to non blended (Virginia-style or flue-cured) cigarettes, or this action would induce a black market for blended products to rapidly evolve to accompany a growing worldwide problem of illegal tobacco trade. The bottom line on all of this impending regulatory action is that it poses arguably the biggest threat ever faced by U.S. burley growers, but one that may take time to play out. In the mean time, if the flavorings ban is adopted by the WHO/FCTC, international buyers of U.S. burley will likely be very selective in their 2010 purchases and will probably be very conservative in their U.S. burley contract offerings for 2011.

Dark Tobacco Production and Outlook



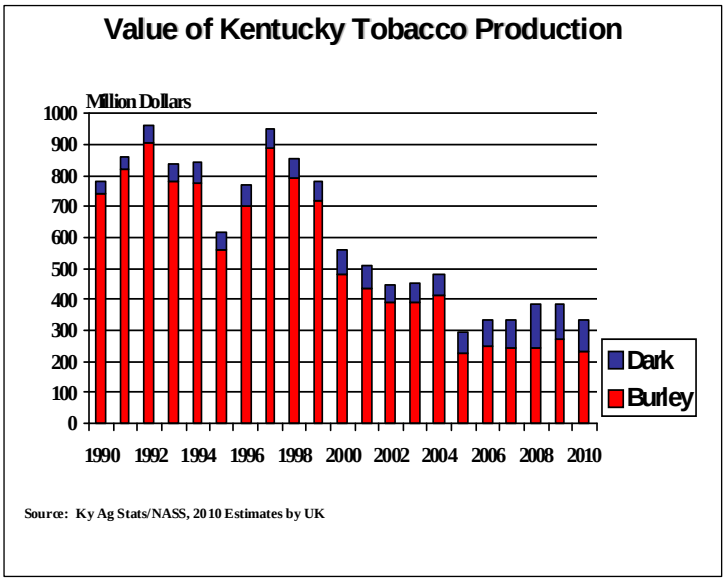
The situation for dark tobacco growers is much different from what burley growers are experiencing. Dark continues to benefit from growing domestic snuff sales in response to successful marketing efforts, introduction of new products, additional smoking restrictions, and potential reduced health risk perceptions compared to cigarette consumption. Smokeless sales during the first half of 2010 were up around 8%. Following two straight years of supply adjustment, it appears that the industry once again is close to an acceptable supply/demand balance as dark tobacco contracts for 2010 remained relatively constant.



According to the USDA's September crop report, U.S. dark fire-cured acres are off around 5% in 2010, while dark air-cured acres are up slightly. However, unfavorable growing conditions also reduced yields. Total U.S. dark fired production is pegged by USDA at 47.0 million pounds, compared to 53 million pounds in 2009. For dark air-cured, USDA is projecting a 2010 crop of 16.2 million pounds versus a 17.0 million pound crop in 2009. These combined production levels are more in line with usage levels in recent years that averaged a little over 50 million pounds. Look for dark tobacco prices to remain near recent levels ($2.25 per pound for dark air-cured and $2.50 per pound for dark fire-cured) for the 2010-2011 marketing year.

Kentucky's Tobacco Economy

Kentucky's tobacco industry has experienced unprecedented changes over the past decade. The number of farms growing tobacco in Kentucky has dwindled from nearly 30,000 in 2002 to around 8,000 in 2007, and will probably fall below 5,000 in the very near future. Tobacco now comprises less than 10% of Kentucky agricultural sales vs. nearly one-fourth of cash receipts back in the 1990s. Following a record crop of more than $900 million in the late 1990s, the value of the crop fell to around $300 million immediately after the buyout. After some adjustment period, tobacco sales did rebound in response to additional burley export and dark tobacco opportunities, enabling the crop to surpass $380 million in 2008 and 2009. But declining domestic cigarette sales, slumping exports, labor and infrastructure challenges, along with poor growing conditions, will likely cause the crop to fall back to around $300 million in 2010 with domestic and international regulatory concerns creating much additional uncertainty about its future.



Situation & Outlook 2010-11

BEEF

Kenny Burdine

2010 Summary

The 2010 feeder cattle market was generally stronger than 2009, but with about as much volatility. While spring was relatively wet, many areas began dealing with a lack of moisture in mid-summer. By late September, much of the state was classified as 'abnormally dry' or 'moderate drought'. Pasture conditions were not good in many areas and hay was being fed early. The year 2010 marked the 3rd year in the last four that drought has been a major issue for much of Kentucky. Hay production levels will likely be below 2009 levels, but hay prices have remained relatively low.

In terms of the market, 2010 was more favorable, averaging more than a dime higher than 2009 for much of the spring and summer. Seasonal patterns were very predictable once again, as yearling prices peaked in July and August and calf prices peaked in April and May. The seasonal price declines really started affecting markets in early September and were ongoing at the time of this writing. These seasonal tendencies were further amplified by a corn market that gained about 50 cents per bushel during the first three weeks of September. So, the pattern of steep fall price declines appears to be continuing. Assuming corn can find a top in the near future, it is likely that fall calf markets will not drop as much as was seen last year.

Outlook for 2011

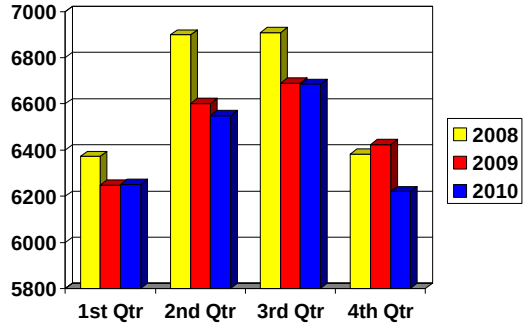
Despite the frustrations associated with the fall calf market, most supply-side fundamentals are positive for feeder cattle. Beef cow and calf crop numbers remain very low historically. Based on summer heifer retention numbers, it is likely that we will begin 2011 with another decrease in beef cattle inventory.

The immediate threat to feeder cattle markets lies in corn price. As this is being written, corn futures are above $5 through September 2011, despite what looks like another 13 billion bushel corn crop. As we look towards 2011, it's clear that another sizeable crop will be needed. We still have not had a bad crop year in the current corn market environment, and it is scary to think about the impact of a serious drought in the corn-belt.

Beef demand will be the other big question as we look towards next year. Most analysts are suggesting continued economic recovery in 2011, however slow that recovery may be. Beef demand may also be negatively affected by increases in pork and poultry production in 2011.

Unless there are drastic changes in the grain markets or in the US economy, calf prices will likely follow a similar pattern to last year, reaching their bottom in the early winter, but rallying nicely into spring. I would expect a stronger fed cattle market in 2011, but a very similar feed cattle market as higher corn prices offset the positive effects of higher slaughter prices.

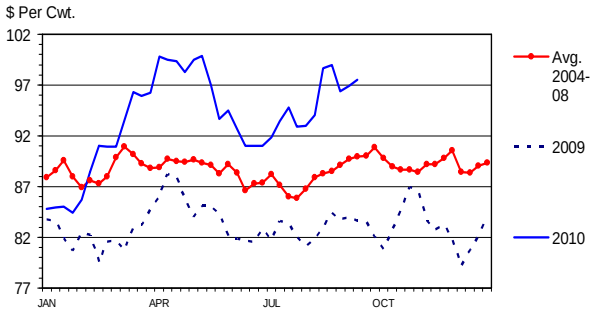
US Beef Production (2008–2010)



UK Agricultural Economics

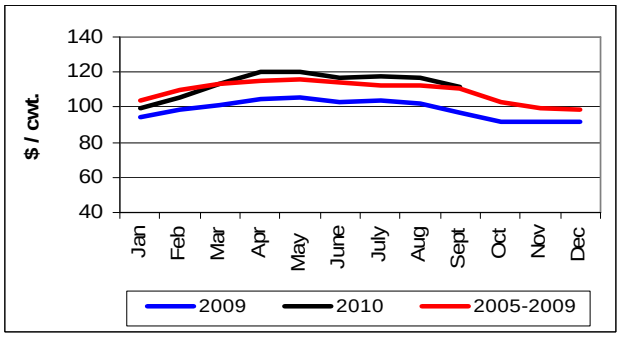
SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



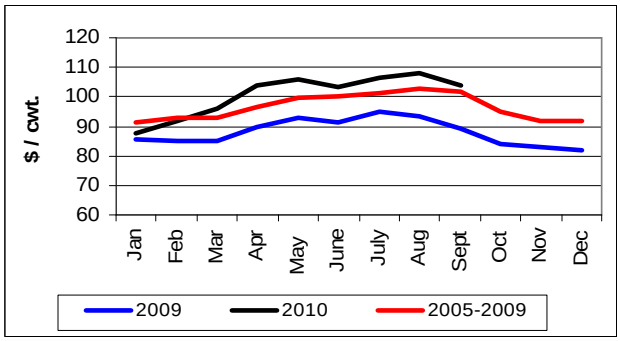
UK Agricultural Economics

Med / Large Frame #1 Steers 500 to 600 lbs.



UK Agricultural Economics

Med / Large Frame #1 Steers 700 to 800 lbs.



UK Agricultural Economics

Situation & Outlook 2010-11

DAIRY

Kenny Burdine

2010 Summary

By historical standards, 2010 was an average year for dairy producers with mailbox prices averaging around $17 in Kentucky. Compared to last year, however, this was a welcome improvement as prices increased by $2-3 per cwt. and were $4-$5 stronger during the summer. Production costs remained a challenge as feed prices rose through the summer. It is becoming increasingly clear that drastic differences exist in production costs across dairy operations.

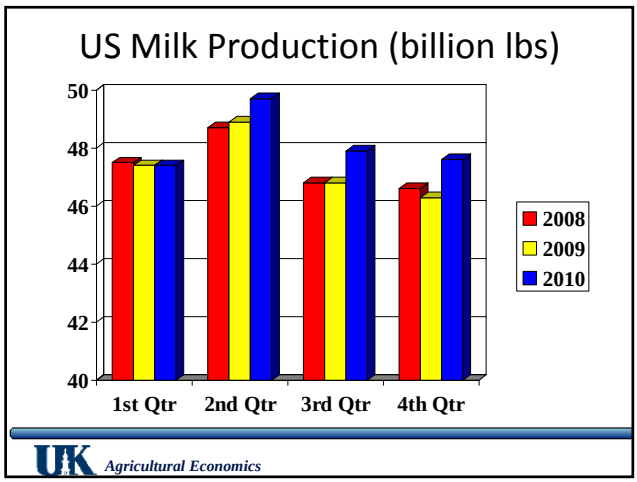
Three rounds of dairy herd retirements had an impact on dairy cow numbers during 2009 and we began 2010 with fewer cows. However, dairy producers responded to the stronger prices and dairy cow numbers have increased. By year's end, we are likely to see about a 2% increase in milk production from 2009. One of the most encouraging factors in this year's milk market has been that we have absorbed this production increase quite nicely.

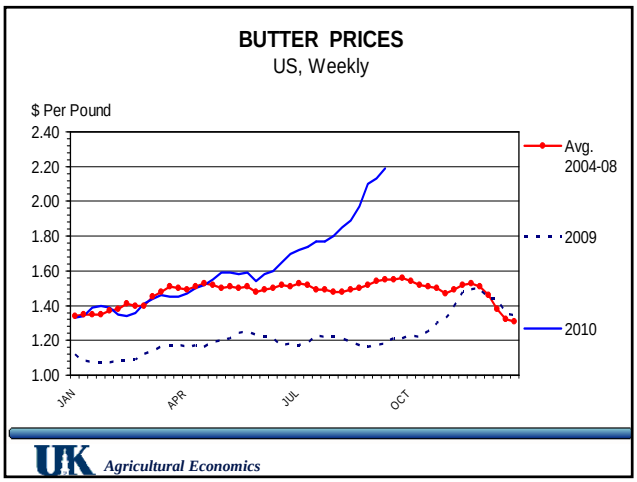
In general, stocks are at more attractive levels than were seen last year. Cheese, butter, whey, and non-fat dry milk prices have all been above year ago levels since the first of the year. Demand for cheese has been strong, and butter prices have literally soared since mid-summer. Strong butter and non-fat dry prices have class IV trading at a premium to class III at the time of this writing.

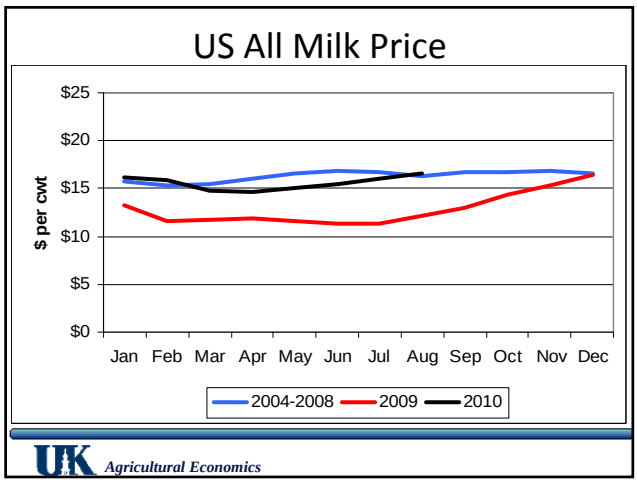
Outlook for 2011

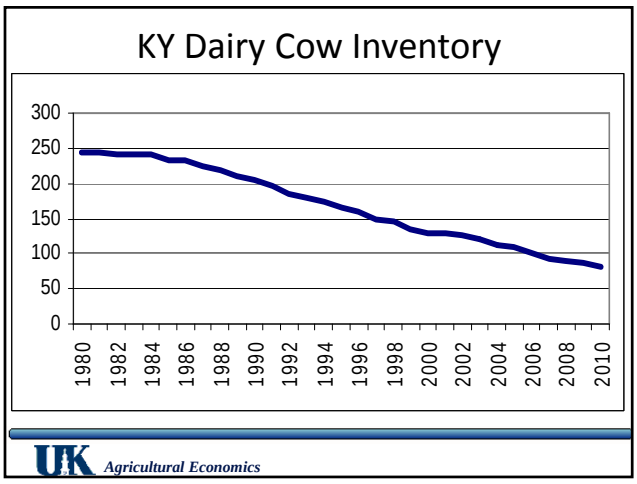
US milk production is expected to increase in 2011 and it is also very likely that global production will rise as well. Increased production outside the US will probably result in less export demand for US dairy products. The net effect of increased production and decreased exports suggest larger domestic supplies next year.

Even with the expectation of a gradually improving economy, larger supplies will make significantly stronger prices unlikely. Milk prices in 2011 are generally expected to be slightly higher than was seen in 2010. USDA is currently forecasting the US All Milk price in the $16 to $19 range for 2011, which would put Kentucky mailbox prices in the $17 to $20 range for a yearly average. My gut is that we will need some help from the demand side for those price levels to materialize. I would expect prices closer to 2010 levels with Kentucky mailbox prices in a range of $15-18.


US Milk Production (billion lbs)
50
48
46
44
42
40
1st Qtr
2nd Qtr
3rd Qtr
4th Qtr
2008
2009
2010
Agricultural Economics


BUTTER PRICES
US, Weekly
$ Per Pound
2.40
2.20
2.00
1.80
1.60
1.40
1.20
1.00
JAN
APR
JUL
OCT
Avg. 2004-08
2009
2010
Agricultural Economics


US All Milk Price
$25
$20
$15
$10
$5
$0
$ per cwt
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2004-2008
2009
2010
Agricultural Economics


KY Dairy Cow Inventory
300
250
200
150
100
50
0
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
Agricultural Economics

HOGS

Lee Meyer

2010 Summary

A year ago (2009), hog prices were dismal. Prices were under $40 per hundredweight (cwt.) during the third quarter of 2009, which was well below cost of production. Producers were taking losses of $20 to $30 per head until early 2010. But, while many analysts expected only a modest and slow recovery, the futures market prices for the summer of 2010 were very optimistic, with carcass basis prices in the mid $70s. And… the futures markets were right!

The rough market conditions pushed hog numbers down. The industry cut numbers and USDA's estimates of hog inventory were down about 3% in each of the last three quarterly reports. The lower number of hogs resulted in a 3% drop in the production of pork for 2010.

Prices increased as a result of reduced supply, and also because of stronger demand. An indicator for strength of domestic demand is the price of wholesale cuts, and the USDA reported that belly ("bacon") prices were up almost 50% and loin prices rose about 25%. Once all of the adjustments are made, however, it will become clear that less pork is available for the U.S. market and is being sold at higher prices – a record high $3.23 per pound, up 10% from the 2009 price. As a result, per capita consumption of pork, which has been about 50 pounds for the past 5 years, will dip by about 6% during 2010 and may drop a bit more into 2011. Exports were also strong. Overall, pork exports are going to be up 5 to 10% for 2010.

Outlook for 2011

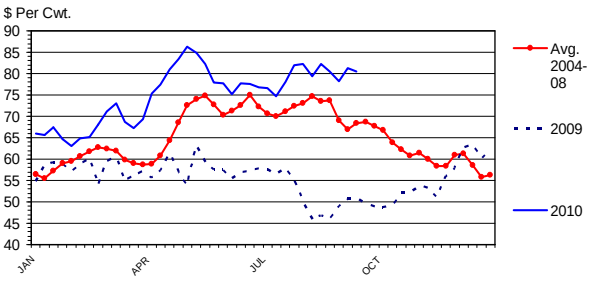
The hog price situation for the rest of 2010 and for next year is going to depend largely on demand. On the supply side, little change is expected to occur. The number of sows is down by about 2% and farrowing intentions for the next six months show little change. With continued improvements in production efficiency, consumers will have a constant supply of pork on the market – but still somewhat less than in recent years.

Slaughter hogs are currently selling for about $80/cwt. (equal to about $58 on a live weight basis). As demand declines seasonally, prices are likely to drop $5 to $10 per cwt. during the winter, but then increase again next spring and summer. The April 2011 slaughter hog futures contract is trading near $80/cwt. and the June contract price is about $85/cwt. (as of late Sept., 2010). The recent good record of the futures market adds some confidence to these prices as forecasts.

While prices are higher and producers are no longer selling at a loss, profitability is being hurt by increasing grain prices. Corn price is $1.10 per bushel higher than fall 2009, adding more than $10 per head to the cost of production. With other feed costs higher and expected to rise more in 2011, the hog enterprise will be more profitable than in 2009, but not quite as healthy as the higher hog prices would indicate.

BARROW AND GILT PRICES

Iowa - So. Minnesota, Carcass Base Price, Weekly



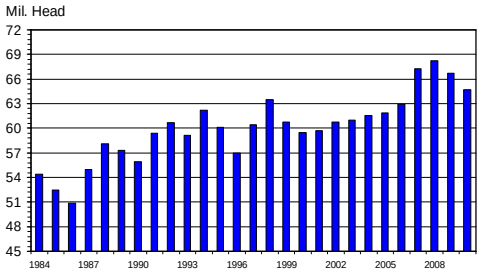
Data Source: USDA-AMS, Compiled & Analysis by LMIC

H-P-09
09/20/10

UK Agricultural Economics

SEPTEMBER 1 ALL HOGS AND PIGS

U.S. Inventory (Prior to 1988 Estimated)



Livestock Marketing Information Center

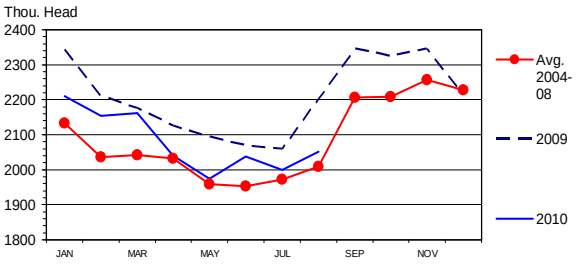
Data Source: USDA/NASS

H-N-14
06/25/10

UK Agricultural Economics

FEDERALLY INSPECTED HOG SLAUGHTER

Weekly Average, By Month



Livestock Marketing Information Center

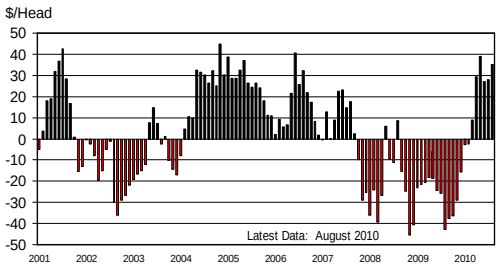
Data Source: USDA/NASS

H-S-10
09/24/10

UK Agricultural Economics

IOWA MARKET HOG PROFIT

Farrow/Finish, Monthly



Livestock Marketing Information Center

Data Source: Iowa State University

09/17/10

UK Agricultural Economics

Situation & Outlook 2010-11

POULTRY

Lee Meyer

2010 Summary

The value of chickens produced in Kentucky has become the largest gross revenue agricultural product in Kentucky. Most understand that this is a contract integrated industry and that most decisions are made by the integrators. Farmer growers are not making marketing decisions, but are affected by the industry's profitability.

U.S. broiler production continues to increase. For 2010, it is likely to hit 36.4 billion pounds, up about 3% from last year. With exports down about 4%, that leaves more available for U.S. consumers – probably about 82 pounds per person. While chicken consumption is up a bit, it is still down about three pounds per person from the peak production levels of five years ago. As feed costs skyrocketed, poultry production was cut back and hasn't fully recovered.

Outlook for 2011

The USDA is forecasting broiler production for the last half of 2010 to be about 2% over the 2009 level, but less than originally predicted. Hot weather hurt gains, so broilers are being processed at lighter weights. One impact has been a decline in the amount of breast meat available, leading to sharply higher prices during the summer. For 2011, the USDA is forecasting an additional increase in production.

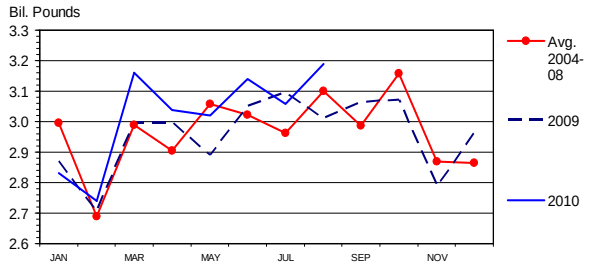
The overall demand for broiler meat is expected to stay strong. Moderate growth in the general economy and very high retail pork and beef prices are positive factors, as well as an expected 3% increase in exports. (About 20% of U.S. broiler production is exported.) As a result, prices are expected to be moderately higher.

While prices will be higher, profits will not. Corn price is up about $1.10 per bushel from year-ago levels, reducing the profitability of broiler production. And, with forecasts of even higher feed costs, returns for 2011 will be lower than for 2010.

Turkey prices have been above year-earlier levels all year, probably due to smaller production in the first half of the year. As production increases, prices are expected to moderate, but still higher than last year. Little change is expected for 2011, either in production or in prices. The profitability of turkey production will be challenged with higher feed costs, just like the chicken industry.

BROILER PRODUCTION

Federally Inspected, Ready-to-Cook Weight, Monthly



Livestock Marketing Information Center

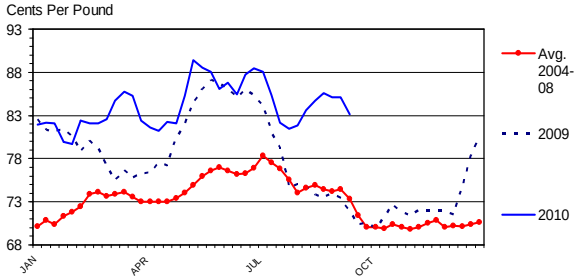
Data Source: USDA/NASS

P-S-12
09/27/10

UK *Agricultural Economics*

BROILER PRICES

12-City Composite, Weekly



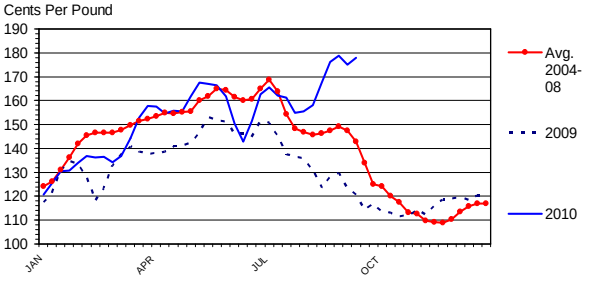
Data Source: USDA-AMS, Compiled by LMIC

P-P-01
09/20/10

UK *Agricultural Economics*

WHOLESALE CHICKEN BREAST PRICES

Skinless/Boneless, Northeast, Truckload, Weekly



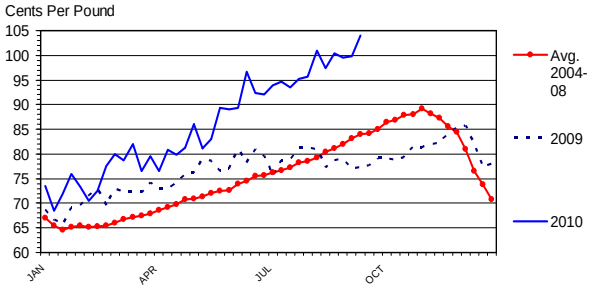
Data Source: USDA-AMS, Compiled by LMIC

P-P-02
09/20/10

UK *Agricultural Economics*

TURKEY PRICES

National Hens, 8-16 Pounds, Weekly



Data Source: USDA-AMS, Compiled by LMIC

P-P-08
09/20/10

UK *Agricultural Economics*

Situation & Outlook 2010-11

SHEEP & GOAT

Lee Meyer

2010 Summary

Sheep and goats play an important part in Kentucky agriculture, but they are clearly niche, not commodity enterprises. The market is large enough that sheep and goats have well developed markets, but there are opportunities for direct marketing as well. The auction markets tend to move with major regional markets, like San Angelo, Texas and New Holland, Pennsylvania.

Nationally, sheep numbers were virtually unchanged from 2009 to 2010. However, there was significant change within individual states, with numbers increasing for some, and significantly decreasing for many others. This was especially true in the South, where declines were significant and numbers are much lower than other regions, as shown on the map. Nationally, there were about 5.6 million sheep in the U.S. as of Jan. 1, 2010, down 2% from 2009. Kentucky sheep numbers were down about 7% to 37,000 according to the USDA.

While there are not nearly as many goats in the U.S. as sheep (3.04 million goats, compared to 5.6 million sheep), that doesn't hold true for Kentucky. As of January 1, 2010 there were about 85,500 goats in Kentucky – 79,000 meat goats and 6,500 dairy goats. Kentucky ranks seventh in the U.S. in goat numbers. Texas leads with almost a million meat goats.

2010 has been a great year for both sheep and goat prices. For the first nine months of the year, lamb prices have averaged almost 20% higher than last year and 25% over the five year average. Lambs are selling for $1.40 to $1.50 per pound at New Holland and about $1.20 to $1.30 in Central Kentucky.

Goat prices are also higher, averaging about $68 per head (about $1.35 per pound) for 40-60 lb., selection #2 kids at New Holland. On a year-to-date basis, goat prices are 25% higher than 2009 and 20% over the 2008 level. Prices paid at September graded goat sales in Kentucky are near these same levels.

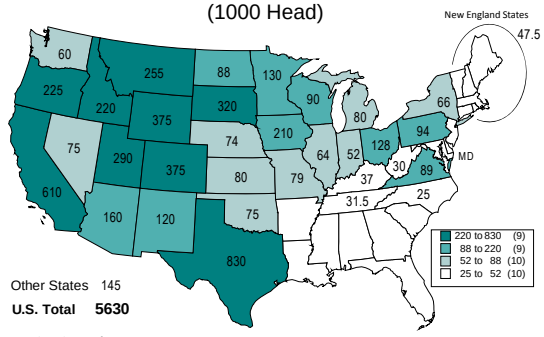
Outlook for 2011

Several factors will affect prices in 2011. Although demand is somewhat affected by changes in the strength of the economy, it is not expected that any changes in 2011 would be significant enough to filter down to the farm level.

Domestically produced lamb and goat meat supplies are unlikely to change much unless there is significant drought in the major producing areas. An important factor for this year has been the strength of the Australian and New Zealand dollars against the U.S. dollar. While lamb imports have not changed much, the cost is considerably higher.

SHEEP & LAMB NUMBERS JANUARY 1, 2010

(1000 Head)



Other States 145

U.S. Total 5630

Livestock Marketing Information Center

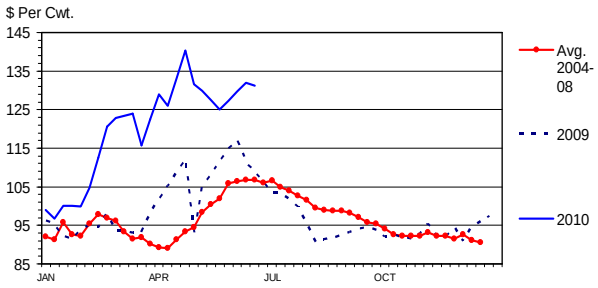
Data Source: USDA/NASS

S-N-05
01/29/10

UK *Agricultural Economics*

SLAUGHTER LAMB PRICES

Wooled, 110-130 lbs, Sioux Falls, Weekly



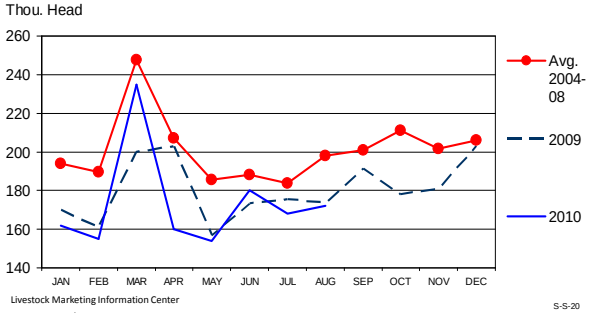
Data Source: USDA-AMS, Compiled by LMIC

S-P-05
09/22/10

UK *Agricultural Economics*

FI LAMB & YEARLING SLAUGHTER

Monthly



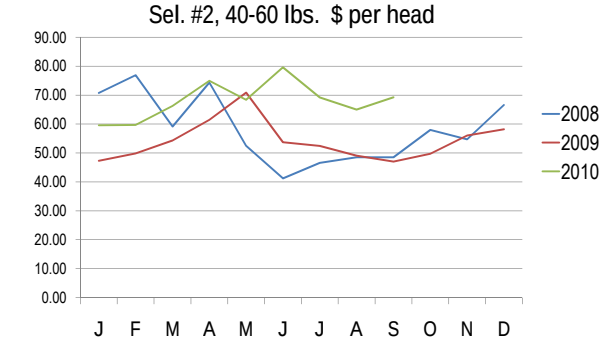
Livestock Marketing Information Center

Data Source: USDA/NASS

S-S-20
09/24/10

UK *Agricultural Economics*

Meat Goat Prices
New Holland, PA
Sel. #2, 40-60 lbs. $ per head



UK *Agricultural Economics*

GRAIN

Cory Walters

2010 Summary

Commodity prices continue to be volatile due to market uncertainty surrounding U.S. crop size, global production, demand, exports, and the state of the economy. This uncertainty has pushed prices for many commodities past yearly contract highs. Continue to expect a high level of price volatility over the next few months as the size of the crop is determined.

A look at the September 2010 World Agricultural Supply and Demand Estimates (WASDE) report helps explain some of the uncertainty surrounding prices. According to the September 2010 WASDE report, U.S. corn production is estimated to be up less than 1% over the 2009 crop. The small increase is being driven by a larger planted acreage (up 1.4 million acres). Since the August WASDE report, corn yields dropped 1.5% due to warmer than average growing season temperatures. For Kentucky, corn yields are expected to be 135 bushels per acre, down 19% from 2009, or 81% of 2009's yield. On the consumption side, the USDA reduced feed and residual, and increased: ethanol, exports, and food, seed, and industrial. Total use is forecast to increase 35 million bushels, or less than 1% from last year.

Traders who are considered speculators hold a little more than 27% of open interest in the corn market. Of that 27%, 82% are "long" - meaning they initially bought, which is an indication that speculators are very bullish in the corn market. Commodity index traders represent about 25% of the corn market, with almost all of them in a "long" position. Index traders have increased their long positions throughout the spring and summer, an indication that purchasing commodities is a better use of their money than purchasing stocks and bonds.

U.S. Soybean production is estimated to be up almost 4% over the 2009 crop. The increase in supply comes from both additional acreage (planted acreage up 1.4 million acres) and yield (up 0.7 bushels per acre). On the consumption side, the USDA decreased crushings, exports, seed; and increased residual. Total use is forecast to decrease by 2.1%. Ending stocks for 2010 are expected to increase by 133% over the tight 2009 ending stocks.

Speculators in the soybean market represent a little less than 25% of open interest, of which 83% are "long". Like in the corn market, speculators are bullish about the corn market. Commodity index funds represent 30% of the soybean market of which almost all are net "long". Like corn, they have increased their holding over spring and summer.

U.S. wheat supply is estimated to be up 2.2% over the 2009 crop. The increase is attributed to a larger yield (up 2.5 bushels per acre). For wheat use, increases over 2009 are expected in food, seed, and feed. Ending stocks are expected to decrease by 7.3% over last year.

Speculators in the wheat market represent 27% of open interest. Unlike the corn and soybean market, speculators' positions are split 50/50 between "long" and "short". This indicates that speculators are uncertain of which way the wheat market is headed. From the previous month, the percent of speculators who were long has decreased, indicating some bearishness. Commodity index traders hold an astounding 50% of open interest with more than 80% in a "long" position.

2011 Outlook

2011 harvest prices have risen significantly along with the nearby futures prices. At the time of this writing, December 2011 corn is trading around $4.75 per bushel, November 2011 soybeans is trading around $10.70 per bushel, and July 2011 wheat is trading around $7.40 per bushel. With these prices, 2011 marketing plans should be starting to take shape. Successful plans consider selling 2011 crop when large profits are available and/or in small percentages so as to take advantage of unexpected future price rallies. It is also wise choice to protect against declines in yield and/or price declines by purchasing crop insurance.

USDA SUPPLY/DEMAND AND COMMITMENT OF TRADERS REPORT FOR CORN

	10-11 Projection	% Change from a year ago
	Millions of Acres	
Acres planted	87.9	1.6%
Acres harvested	81.0	1.8%
Bu./harvested acre	162.5	-1.3%
	Millions of Bushels	
Beginning stocks	1,386	-17.2%
Production	13,160	0.4%
Total Supply	14,556	-1.6%
Use:		
Feed and residual	5,250	-5.0%
Food, seed, & industrial	6,090	3.2%
Ethanol for fuel	4,700	3.6%
Exports	2,100	6.1%
Total Use (Demand)	13,440	0.3%
Ending stocks	1,116	-19.5%
Ending stocks, % of use	8.3	-19.7%
U.S. season avg. farm price, $/ bu.	$3.70	-8.9%
Speculators		% Change from previous month
% of open interest	27.20%	4.8%
% who are long (i.e., bought)	82.00%	5.0%
Commodity index funds		
% of open interest	25.70%	-5.6%
% who are long (i.e., bought)	96.00%	-2.0%

Source: USDA, WASDE and CFTC

UK Agricultural Economics

USDA SUPPLY/DEMAND AND COMMITMENT OF TRADERS REPORT FOR SOYBEANS

	10-11 Projection	% change from last year
	Millions of Acres	
Acres Planted	78.9	1.8%
Acres Harvested	78.0	2.1%
Bu./Harvested Acre	44.7	1.6%
	Millions of Bushels	
Beginning Stocks	150	8.7%
Production	3,483	3.7%
Total Supply	3,643	3.7%
Use:		
Crushing	1,650	-5.7%
Exports	1,485	-0.7%
Seed & Residuals	158	33.9%
Total Use	3,293	-2.1%
Ending Stocks	350	133.3%
Ending Stocks, % of Use	10.6	138.3%
U.S. season avg. farm price, $/ bu.	$9.80	2.1%
Speculators		% Change from previous month
% of open interest	24.74%	0.0%
% who are long (i.e., bought)	83.00%	-2.0%
Commodity index funds		
% of open interest	30.00%	1.0%
% who are long (i.e., bought)	95.00%	3.0%

Source: USDA, WASDE and CFTC

UK Agricultural Economics

USDA SUPPLY/DEMAND AND COMMITMENT OF TRADERS REPORT FOR WHEAT

	10-11 Projection	% change from last year
	Millions of Acres	
Acres Planted	59.8	1.2%
Acres Harvested	50.4	1.00%
Bu./Harvested Acre	43.3	-2.5%
	Millions of Bushels	
Beginning Stocks	973	48.1%
Production	2,265	2.2%
Imports	100	-16.0%
Total Supply	3,338	11.6%
Use:		
Food/Seed	1,016	2.9%
Feed & Residual	170	14.1%
Exports	1,250	41.9%
Total Use	2436	20.7%
Ending Stocks	902	-7.3%
Ending Stocks, % of Use	37%	-23.2%
U.S. Season Aver. Farm Price, $/ Bu.	$5.3	8.1%
Speculators		% Change from previous month
% of open interest	27.0%	-15.0%
% who are long (i.e., bought)	50.0%	-3.0%
Commodity index funds		
% of open interest	47.0%	-6.0%
% who are long (i.e., bought)	84.0%	1.0%

Source: USDA, WASDE and CFTC

UK Agricultural Economics

Situation & Outlook 2010-11

CROP PLANTING DECISIONS

Greg Halich

Expected commodity prices for corn and soybeans are considerably higher than they were a year ago in late September. Last year at this time, the expected corn price was $3.50/bu and the expected soybean price was $8.25/bu for fall 2010. This year, the expected corn price is $4.40/bu and the expected soybean price is $10.40/bu for fall 2011, or roughly 25% higher. Moreover, expected input prices are about the same as last year. The total expected cost to put out and harvest a crop this year are projected at $390/acre for corn (150 bu) and $220/acre for soybeans (45 bu). *Note: these figures do not include land rent but do account for depreciation, labor, and other non-cash costs. They also assume an efficient producer.* As a result, profit is expected to increase more than 40% compared to last year at this time.

Baseline Scenario: Net returns (average for rotation corn and soybeans) calculated at current fall 2011 futures prices and assuming a -$.35 basis for corn and a -$.35 basis for soybeans are approximately (*elevator prices of $10.40 soybeans and $4.40 corn*):

$205 for 125 bu corn and 39 bu soybean rotational ground
$280 for 150 bu corn and 45 bu soybean rotational ground
$360 for 175 bu corn and 51 bu soybean rotational ground

Note: This does not include land rent but accounts for depreciation, labor, and other non-cash costs.

Increase in Commodity Prices: If prices increase $.50/bu for corn and $1.10/bu for soybeans from the baseline scenario then expected net returns will increase, to (*elevator prices of $11.50 soybeans and $4.90 corn*):

$260 for 125 bu corn and 39 bu soybean rotational ground
$350 for 150 bu corn and 45 bu soybean rotational ground
$430 for 175 bu corn and 51 bu soybean rotational ground

Note: This does not include land rent but accounts for depreciation, labor, and other non-cash costs.

Decrease in Commodity Prices: If prices decrease $.50/bu for corn and $1.10/bu for soybeans from the baseline scenario then expected net returns will decrease, to (*elevator prices of $9.30 soybeans and $3.90 corn*):

$150 for 125 bu corn and 39 bu soybean rotational ground
$220 for 150 bu corn and 45 bu soybean rotational ground
$290 for 175 bu corn and 51 bu soybean rotational ground

Note: This does not include land rent but accounts for depreciation, labor, and other non-cash costs.

The above figures would be most applicable in the regions of Kentucky that have good grain infrastructure, where anhydrous ammonia is used as the nitrogen source, and have a relatively short distance to a grain elevator (15 mile one-way trucking assumed in the above costs). They also assume an efficient operator. Other regions will have higher production costs. Using reasonable land rents for the various land productivity classes, the current baseline scenario looks extremely profitable at expected commodity and input prices.

Expected Production Costs 2011 Corn & Soybeans		
Inputs:	**Corn (150 bu)**	**Soybeans (45 bu)**
Seed	$76	$45
Nitrogen	$61	$0
P, K, and Lime	$58	$44
Pesticides	$30	$20
Total Inputs	$225	$109
Machinery and Labor	*$102*	*$72*
Other:		
Drying Grain	$19	$0
Crop Insurance	$15	$15
Misc.	$15	$15
Land Rent	$0	$0
Operating Interest	$11	$6
Total Other	$60	$36
Total Costs	***$387***	***$217***

UK *Agricultural Economics*

Expected Profit 2011 (per acre)
Baseline Scenario
$ 10.40 Soybeans (elevator)
$ 4.40 Corn (elevator)
$.38-N; $.45-P; $.40-K

	Net Revenue Corn	Net Revenue Soybeans	Net Revenue Rotation
125 bu corn 39 bu soybeans	*$202*	*$210*	***$206***
150 bu corn 45 bu soybeans	*$293*	*$276*	***$284***
175 bu corn 51 bu soybeans	*$385*	*$338*	***$361***

Note: *Does not include land rent.*

UK *Agricultural Economics*

Expected Profit 2011 (per acre)
High Commodity Price Scenario
$ 11.50 Soybeans (elevator)
$ 4.90 Corn (elevator)
$.38-N; $.45-P; $.40-K

	Net Revenue Corn	Net Revenue Soybeans	Net Revenue Rotation
125 bu corn 39 bu soybeans	*$264*	*$253*	***$259***
150 bu corn 45 bu soybeans	*$368*	*$326*	***$347***
175 bu corn 51 bu soybeans	*$472*	*$394*	***$433***

Note: *Does not include land rent.*

UK *Agricultural Economics*

Expected Profit 2011 (per acre)
Low Commodity Price Scenario
$ 9.30 Soybeans (elevator)
$ 3.90 Corn (elevator)
$.38-N; $.45-P; $.40-K

	Net Revenue Corn	Net Revenue Soybeans	Net Revenue Rotation
125 bu corn 39 bu soybeans	*$139*	*$167*	***$153***
150 bu corn 45 bu soybeans	*$218*	*$226*	***$222***
175 bu corn 51 bu soybeans	*$297*	*$281*	***$281***

Note: *Does not include land rent.*

UK *Agricultural Economics*

HORTICULTURE

Tim Woods

2010 Summary

Just ten years ago, when Kentucky was starting to make a concerted push toward diversification and development of the horticulture industry, the value of all horticulture cash receipts $78.6 million. This was the sum of all floriculture, nursery, greenhouse, and sod ($59.7), and produce ($18.9) in the state. Despite a difficult economy, Kentucky's produce (vegetables/fruit) industry has seen steady growth over this period. The green (nursery/greenhouse) industry, however, has been more negatively impacted during the slow recovery. Current industry sales trends point toward 2010 gross sales winding up somewhere around $115-$120 million, which is about the same as in 2009.

Produce Industry: Gross produce receipts appear to be about equal to where they were in 2009 as more producers benefited from additional direct market channels, especially farmers' markets, and more auction sales. After a very strong spring, dry conditions in late summer slowed size of growth and overall yields for some items. Over 2,300 vendors sold in farmers markets in 2010 and the number increases each year. Auction and other wholesale channels have experienced significant growth in producer numbers with the sustained interest in local produce in Kentucky markets.

Preliminary planting intentions for 2010 indicated an expected acreage increase for produce crops of 4% overall and a total of around 13,000 acres. Fruit crop acreage was projected to be up slightly at an estimated 3,000 acres and vegetable crop acres estimated at 10,000. Kentucky had around 10,500 acres in all produce in 2002. While Kentucky remains a relatively minor produce supplier compared to surrounding states, the sales growth in Kentucky has outpaced that of surrounding states, especially for fruit (Figures 1 and 2).

Green Industry: The green industry nationwide is driven by new home construction and healthy consumer spending, both of which have been in a deep and extended slow down for the past 2 years. Greenhouses, sod operations, landscapers and mid-size nursery businesses grew rapidly from 2002-06, but have each seen difficult times since. A continued weak overall economy and relatively high input costs, especially labor, resulted in another weak marketing season for Kentucky's green industry. Demand has remained subdued for most green products, particularly trees, shrubs, and sod.

Outlook for 2011

Direct market, auction and independent grower-shipper wholesale sales will likely increase again this next year. Two new produce auctions started in 2010 and another is planning to open in 2011. A number of important issues, however, will shape commercial fruit and vegetable production in Kentucky. A recent survey of Horticulture Extension Specialists in the Southeast pointed to labor management and food safety standards and compliance as the top issues influencing production at this time. These will remain as the key industry drivers during the next few years. Gross sales will continue to be driven by higher-value direct marketing at farmers' markets, as well as sales directly off the farm and directly to foodservice. Wholesale opportunities will continue to expand as demand for local products remains strong in local markets. Overall produce acreage will continue to move higher and higher-value market channels should see sales increasing over the next few years.

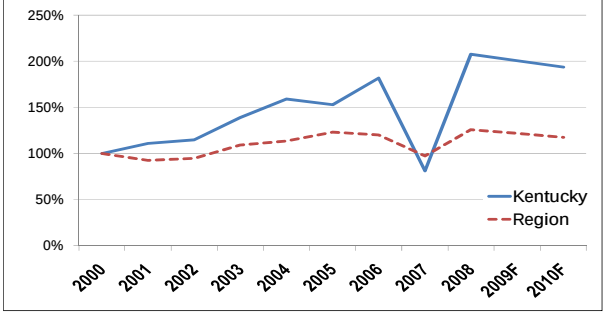
Producer expectations for the next three years were surveyed in the 2010 planting intentions and marketing survey. Many growers are expecting to stay about the same, but the number increasing substantially outpaced the number expecting to decrease, even more so than when growers were surveyed in 2008. This was pretty much the case in every market channel.

Kentucky Produce Marketing Channels:
Farms Selling More Than 10% into One Channel

---Markets---	2003	2009
Farmers' markets	52%	52%
On-farm markets	50%	41%
Cooperatives	15%	2%
Non co-op wholesale	17%	15%
Internet		2%
Direct to grocery	21%	15%
Direct to restaurant	12%	8%
Auction	9%	19%
CSA	3%	4%

UK Agricultural Economics

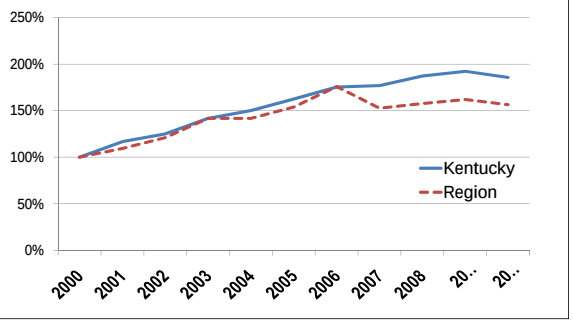
Figure 1. Comparative Tree Fruit and Nut Sales:
2000-2010



Source: Adapted from ERS data, regional sales includes WV, VA, OH, IN, IL, AR, TN

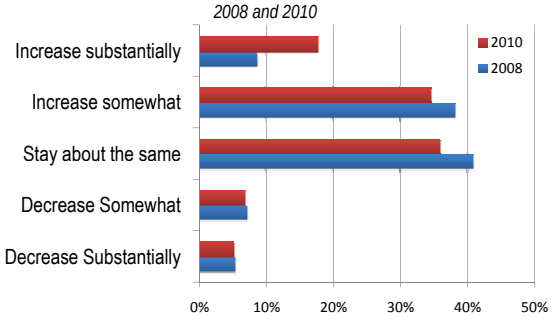
UK Agricultural Economics

Figure 2. Comparative Vegetable Sales
2000-2010



UK Agricultural Economics

Figure 3. Planting Intentions for the Next Three Years for Kentucky Producer Growers
2008 and 2010



UK Agricultural Economics

Situation & Outlook 2010-11

TIMBER

Greg Halich

Current Situation:[1]

We have had some improvement in the timber market in 2010, but prices are still extremely low compared to five years ago. Stumpage prices (prices paid to landowners for standing timber) for red oak, the dominant timber species in Kentucky, have finally stabilized, but are down 50% from just five years ago. Stumpage prices for white oak have stabilized. Stumpage prices for walnut have increased from the sharp drop a year ago. Stumpage prices for black cherry and hard maple have stabilized but have fallen significantly in over the past few years. Prices for yellow poplar, hickory, and ash are still quite low.

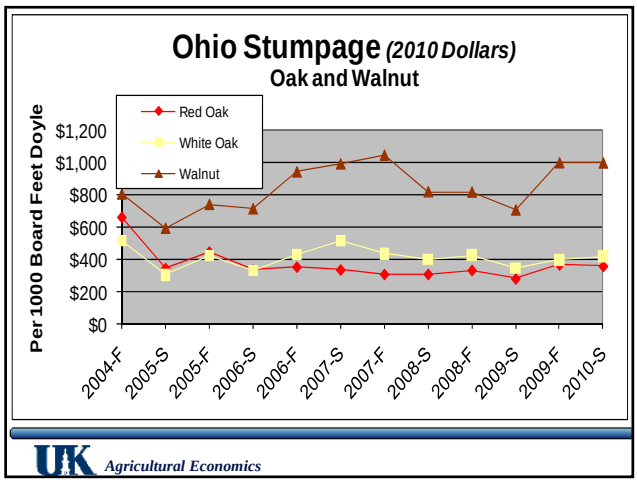
Recommendations:

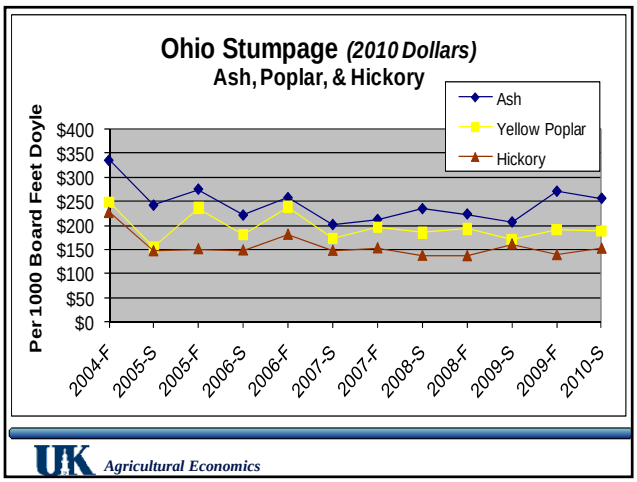
As with the last three years recommendations, I would generally not advise cutting high-quality red and white oak stands at this time. Although not as strong as the last few years, the railroad tie market is still doing well compared to the overall timber market. Hardwood stands of poorer quality in need to thinning are good candidates for this market. Thinning these stands can improve the overall health and quality of the stand. In general though, I would not harvest quality hardwood timber right now unless absolutely necessary.

Timber prices could continue to drop in the next few years, but there is much potential for upward movement in the next 5-15 years. Timber is a long term investment and should be treated as such. Wait for improved market conditions if you can. On the other hand, if you need to sell timber for whatever reason in the next 1-3 years, it is quite possible that prices may not get any better and could get worse. Be prepared to receive considerably less for your timber then what you would have expected five years ago.

The emerald ash borer has been confirmed inside Kentucky for over a year now and will be difficult to control at this point. Salvage cuts just ahead of the borer's path have the potential to flood already weak ash markets. Landowners should seriously consider liquidating ash trees before they get caught in this situation.

[1] Prices quoted here are based on stumpage prices from adjoining states.





Red Oak
Guidance & Recommendations

1. Prices declined over 50% in recent years.
2. Much potential for upward movement in the long-term (5-15 years).
3. Possibility that it could get worse in short-term.
4. ***I would not sell quality red oak timber in current market, if you can wait.***

UK Agricultural Economics

White Oak
Guidance & Recommendations

1. Stumpage prices for higher-grade timber have declined.
2. KY stumpage hasn't decreased as quickly, due to a decent railroad tie-market.
3. ***I would only sell stumpage on poorer quality white oak stands, and stands that need timber stand improvement.***

UK Agricultural Economics

Situation & Outlook 2010-11

KFBM: Kentucky Farm Business Management

Jerry Pierce

Net Farm Income (NFI) for farms participating in the Kentucky Farm Business Management (KFBM) program continued to increase over the past decade. NFI is the value of farm production less total operating expenses, plus gain or loss on machinery and buildings sold. It includes a return to the operator's labor, capital invested, and management.

Figure 1 shows NFI for all KFBM farms remained nearly unchanged from 2008, at $307,633. Although the trend line indicates an upward rise overall, there were significant dips in NFI during 2002 and 2005. Note that these farms experienced NFI below the trend in four years and above the trend in five years.

Management Returns reflect the reward to owner/operators for decision making and risk taking. The operator's labor and interest that could have been earned on his capital invested in the farm are subtracted from NFI. Figure 2 shows that Management Returns for KFBM farms follows NFI closely during the last 10 years. The opportunity cost of the operator's labor and investment has increased an average of 4.25 percent per year.

Figure 3 compares NFI for grain farms and livestock farms. While grain farms produce a higher return than livestock farms, the two lines are similar in ups and downs through 2005. The trend that began in 2006 is divided into two distinct agricultural enterprises in Kentucky. Incomes on grain farms increased or stayed the same for the period 2006-2009. Livestock farms experienced a decline that snowballed over the same period.

The dairy industry experienced a major downturn in 2009. Table 1 shows Net Farm Income (profitability per cow) for three sizes of dairies participating in KFBM. The middle size farms were profitable in 2009, largely because they increased crop production. Note that large size dairies experienced a reduction in NFI of $865 per cow between 2008 and 2009.

The beef cow-calf farms participating in KFBM produced a return of $249 per cow over feed costs. Table 2 shows that Non-Feed costs for the whole farm totaled $1,372. It appears from the number and weight of calves sold that several farms in this group held calves over for sale from 2008 AND sold most of their 2009 calf crop.

Finally, Figure 4 compares family living to NFI for the same 10-year period. Family living expenditures have increased an average of 7.8 percent each year to $73,395 in 2009. Non-farm income for this group has been declining since 2006, possibly a result of the decline of the general economy. Contributions rose higher than other family living expenses for this group, an average 11% per year.

Figure 1. HISTORICAL NET FARM INCOME
All KFBM Farms

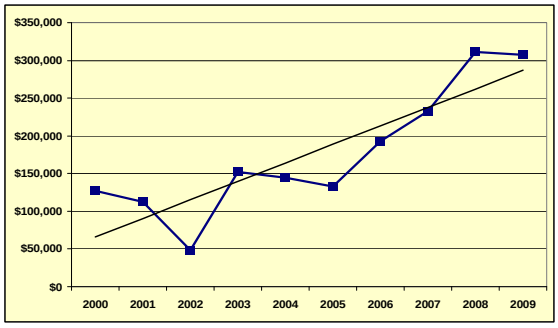


Figure 2. NET FARM INCOME
& MANAGEMENT RETURNS
All KFBM Farms

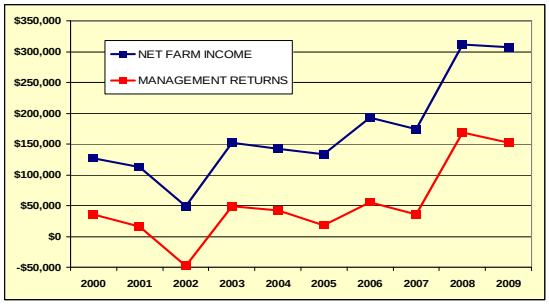
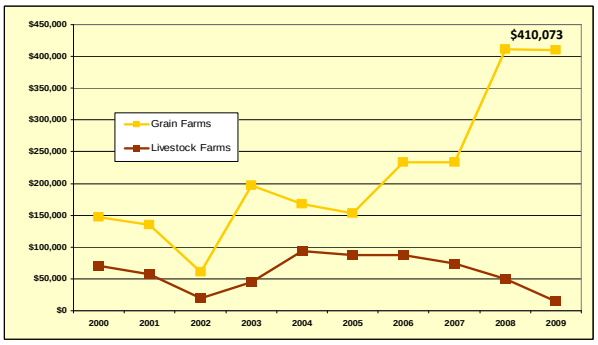


Figure 3. **HISTORICAL NET FARM INCOME**

Grain and Livestock Farms



UK *Agricultural Economics*

Table 1. DAIRY HERD COMPARISON

(2008 - 2009)

	2009 Per Cow		
Number of Cows	60.2	130.0	369.8
Lbs Milk Produced/Cow	17,410	18,437	19,994
Avg Price of Milk	14.90	14.79	14.86
Livestock Returns Above Feed	1,329.44	1,369.59	1,295.43
Net Farm Income	**-169.60**	**358.95**	**23.41**
MANAGEMENT RETURNS	**-1,130.89**	**-479.56**	**-399.82**

	2008 Per Cow		
Net Farm Income	**545.19**	**954.15**	**862.16**
MANAGEMENT RETURNS	**-476.55**	**35.03**	**356.79**

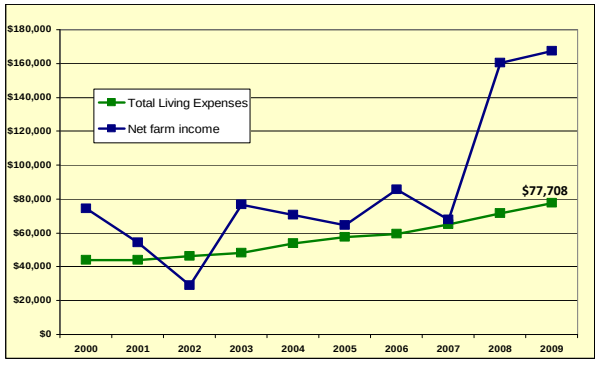
UK *Agricultural Economics*

Table 2. COW-CALF BEEF FARM (2009)

	Per Cow
Number of Cows in Herd	66
Calving %	91%
Death Loss	3%
Number Sold Market	95
Weight Per Market Animal Sold	693
Price Received Per Cwt-Market	$90.32
Returns Above Feed Fed	$249
Non-Feed Operating Expense	$1,372

UK *Agricultural Economics*

Figure 4. **TOTAL FAMILY LIVING & NET FARM INCOME**



UK *Agricultural Economics*