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2006 Economic Outlook for Georgia's Food and Fiber Industry

Georgia agribusiness was poised for a relatively profitable year in 2005 until hurricanes blew ever higher energy prices into the picture. While most of Georgia's crop businesses had already realized somewhat higher fuel and energy cost before the price spike from Rita and Katrina, late season harvesting and processing were impacted most in 2005. The prospects for 2006 crop agribusiness is particularly uncertain as energy prices impact almost all crop production inputs from fuel to fertilizers. While some crop adjustments may be possible as producers look for ways to manage the higher input cost, the main adjustments may occur on acreage planted and, thus, total inputs purchased. Georgia's animal agribusiness sector will be less impacted by energy prices. The demand for most animal products remains good and with low feed prices brought about by large national crops as well as continued good prospects, with a few exceptions, for profitability in 2006 in Georgia's largest agribusiness sector. Georgia's growth rate in animal, particularly poultry, production will exceed the US growth rate and the poultry sector will expand on its current majority share of the Georgia food and fiber industry.

Animal Industries

Broiler producers enjoyed an excellent profit year in 2005 and will look to expand production by 4% to 5% again in 2006. Georgia's production gain will easily exceed twice the US growth rate. Broiler prices fell only slightly from 2004's mid 70 cents per pound level despite a solid 4% growth rate in production. Producers have a strengthened export market to thank as bans on US exports were lifted, Asian production continued to suffer from *Avian influenza* outbreaks, and Russian quotas expanded. With feed cost declining in 2005 and expected to remain low through 2006, profit prospects are such that US expansion may be more likely to exceed the 2005 growth rate. Even if growth trends to 5% in 2006, it now seems likely that broiler prices will remain above the 70 cents per pound level for the third consecutive year resulting in another banner profit year for the industry. Threats to the rosy broiler producer outlook are increased export competition from Brazil, the world's largest broiler exporter since 2004, and more influenza-related market disruptions. Also, the inability of white meat prices to hold the 2004 gains in 2005 may foreshadow continued deterioration in domestic product demand in the face of growing supplies of competing meats. Turkey production will increase in 2006 and prices will likely fall into the mid 60 cents per pound range for a yearly average price. Egg producers are scheduled to increase production by about 2% but egg prices may continue in the mid 60 cents per dozen range again in 2006 but still considerably lower than the 80 cents per dozen record established two years earlier.

Beef cattle production in Georgia will expand in 2006 but only at about the rate of US production. Beef cattle producers are expanding as a result of historically high prices. The remarkable story in the beef sector is that the high prices were possible while the majority of the highly significant export market was closed. Beef prices will not likely exceed the 2005 prices in 2006 but will remain at profitable levels for the next few years, particularly as Asian markets are once again open to U.S. and Georgia producers.

U.S. pork production is expected to set another record in 2006 at 20.8 billion pounds. Additional supplies of competing meats and a slight decrease in total meat demand will mean lower prices for pork in Georgia. For the year, market prices are expected to average about 42 cents per pound. By the end of the year, it is likely that some producers will be covering their variable costs but not all of their total costs.

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Despite the surge in milk production across the U.S. in 2005, milk prices continue to be supported by strong domestic and international demand. The devastating effects of Hurricane Katrina have had an impact on regional production but have not slowed the growth in national production. Milk production growth in the U.S. is maintaining its strong upward trend while Georgia production remains flat at best. Milk production and milk and dairy product sales will determine milk prices in 2006. The growth in milk production will keep milk prices below those experienced in 2005. Prices for all of 2006 will decline about $2.00 per cwt from 2005's favorable prices, but will still average above the past 5-year average price.

Crop Industries

Georgia experienced a significant increase in acreage planted to peanuts in 2005. Producers planted 140,000 more acres for a total of 760,000 acres. This is the highest Georgia acreage since 1991. The increase in acreage is largely in response to market conditions and continued adjustment to the new peanut program. Lower prices for corn and cotton combined with higher fertilizer prices made peanuts more attractive for growers. US peanut acreage jumped to 1.65 million acres, 215,000 more than the 2004 level. Also, good peanut prices in 2004 formed optimism for 2005.

Another factor in the increased Georgia acreage has been the recent favorable yields experienced by Georgia producers. Georgia peanut yields have averaged 3,000 pounds per acre or above in three of the last four years, including record yields in two years. The US average yield in 2004 was the second best on record at 3,057 pounds per acre. Georgia accounts for 45% of the total US production. The average 2005 yield for Georgia was projected to better 2004's production but dry weather in September dropped yield prospects to below 3,000 lbs. Still, US production is expected to be above 2 million tons because of increased acreage leading to a build-up of peanut stocks.

The US peanut industry has been fortunate that supply and demand have moved in the same direction the last couple of seasons. Peanut use has been growing at a strong pace, but the 2005 increase in consumption was not enough to keep pace with the increase in production. Domestic food use has been the source of growth during the last three years. The USDA forecast for the 2005/06 marketing year is for food use to continue to increase by 7%. Further growth in peanut use will have to come from the export market and crush markets, which have not been competitive with food use market. Under the 2002 peanut program, peanut prices are not differentiated according to use. Domestic, export and crush markets are competing for the same peanut and the National Posted Price for peanuts has not dropped to a level that would be competitive in the export or crush market. With over a million ton crop, a larger ending stock of peanuts is projected at 880,000 tons to be carried over to the 2006 marketing year. With the projected surplus, the majority of peanut growers will go into the marketing loan program in which growers receive the loan rate of $355 per ton. Early projections are that peanut farmer receipts will total $380 to $400 million for Georgia in 2005. For the 2006 crop year, producers will be faced with tough decisions on crop enterprise mix and acreage. Though peanuts require relatively little fertilizer, it is a capital intensive crop. Low prices and higher energy prices will likely cause financial stress among peanut producers and Georgia producers in general.

Georgia cotton acreage has moderated in recent years due largely to an increase in peanut acres since passage of the 2002 farm bill. Compared to the high of 1.5 million acres in 1995 and again in 2000, Georgia farmers planted 1.29 million acres in 2004 and 1.22 million acres in 2005. Compared to a string of mostly poor years from 1995-2000, yields have improved due to improved varieties planted and more favorable weather– setting a new state record yield of 853 lbs/acre in 2005.

For 2006, the forecast is for the state's cotton acreage to likely be 1.2 to 1.3 million acres. Although cost increases in nitrogen, fuel, and chemicals would seem to work against an increase in cotton acreage, cotton is coming off a very good year yield-wise in 2005 compared to peanuts. Optimism could carry over to increased plantings in 2006 but much will also depend on the contract/price prospects for peanuts at planting time.

US cotton acreage planted has averaged 13.82 million acres annually since passage of the 2002 farm bill (2002-2005). Acreage has varied only slightly from a low of 13.48 million acres in 2003 to 14.18 million acres in 2005. Unless significant economic or policy shocks occur, US acreage appears fairly stable with production capability in the 19 to 22 million bale range depending on actual plantings, acreage abandonment, and yield.

With the decline of the US domestic textile mill industry (now purchasing only approximately 6 million bales of US cotton), the US must consistently find a home for 13 to 16 million bales of cotton annually. To date, this has not been a problem thanks to the tremendous growth of the textile industry in China.

China's textile industry has outgrown the country's production capability. A very good crop in 2004 was still 9.5 million bales short of use and the gap grew to 18.5 million bales for the 2005 crop. China is the #1 market for US exports. The US typically provides 40-50% of China's import needs.

The US is the worlds 2nd largest cotton producer and the largest cotton exporter. World demand continues to trend upward and foreign production is not adequate to meet foreign demand. Provided that world demand remains strong (which to us means that the US is exporting large supplies of cotton), the cotton market would, therefore, be largely supply-driven (total supply being old-crop inventories plus new production). The world and US price of cotton must be sufficient to encourage enough acreage to meet demand.

For 2005, world cotton production was down 8.12 million bales from 2004. Production was down in most major producing foreign countries– in some cases due to reduced acreage and/or more typical yields compared to very good yields in 2004.

World demand continues to increase although at a slower pace. Demand increased 5.6% for 2005-06 compared to 10.2% for 2004-05. Is this cause for concern? US exports are clearly dependent on foreign demand.

World stocks of cotton (old-crop in storage at the beginning of the new crop marketing year) are expected to be down slightly at the end of the 2005 crop marketing year on July 31. The stocks-to-use ratio is expected to be 44.3% compared to 47.3% for the 2004 crop. This tighter position should support prices but there is still adequate supply of cotton to keep a lid on prices (likely keep prices in the 50's) until we know more about the production and supply prospects for 2006.

Fruit, Vegetable and Nut Industries

Georgia is fast becoming a major player in the fruit industry. Although Georgia is known for its peach production, presently peaches represent only 16 percent of all the fruits produced compared with five years ago when peaches represented almost 20% of total production while blueberries were barely 10%. Last year, blueberry production captured 21.4% of total fruit production and generated $48.6 million in farm gate value while peaches dropped to 16% generating $36.3 million. Pecans still remain as the dominant fruit or nut contributing 53.3% of total fruit/nut production and generating $121.1 million in Georgia farm gate value. Overall, there was a 37.5% increase in the 2004 total fruit crop farm gate value compared to 2003. Other major fruit crops produced in Georgia include apples, blackberries, grapes and strawberries.

The bearing age acreage and total peach production in 2006 are expected to drop slightly. Consequently, prices may increase above 30 cents per pound. Pecan prices are expected to remain high next year but not as high as $1.77 per pound observed in 2004 due shortages caused by hurricanes and tropical storms. More-so, 2005 is the (alternate) good year for pecan production. Blueberry prices have been constantly on the rise but if harvested acreage and yield continue to increase, prices will continue to increase but at a declining rate. Apple production is expected to increase from 12 to 13 million pounds, representing an 8% increase. This might have a negative impact on the seasonal price of 22.8 cents per pound recorded in 2004.

Although Georgia is known for its over three dozen different vegetable crops, the first ten in terms of acreage ranking are: watermelon, sweet corn, snap beans, onions, cucumber, cabbage, collards, turnip greens, yellow squash and cantaloupe. On the other hand, the first ten in terms of value ranking are: onions, tomato, watermelon, bell pepper, cucumbers, sweet corn, yellow squash, cantaloupe, snap beans and cabbage. Even though onions rank fourth in acreage, it ranks first in terms of farm gate value, generating $108.7 million in 2004. Tomato and bell pepper rank 11^{th} and 13^{th} in acreage, but 2^{nd} and 4^{th} in value, respectively. Cucumber is the only vegetable that maintained its ranking (5^{th}) in both acreage and value.

Tomato, cucumber, and squash prices were relatively higher in 2004 due to the low yield per acre caused by multiple hurricanes and tropical storm. However, there is a slim chance that producers will enjoy these same prices next year. Watermelon prices for 2003 and 2004 were the best in a decade and the price is expected to trend down from this level next year. Overall, the significant growth in the Georgia vegetable industry (farm gate value of $725.3 million) is expected to continue over the next few years.

Ornamentals

Despite the relatively healthy growth of the US and Georgia economy, sales prospects for ornamental crops in 2005 were modest. Sharply higher energy and fuel prices in the 3^{rd} and 4^{th} quarters of 2005 were expected to dampen consumer spending on discretionary goods such as ornamental crops. Declines in sales are projected for cut flowers and cut cultivated greens while no growth in sales is expected for indoor foliage plants and seasonal crops such as poinsettias. Overall, floriculture crop receipts were expected to realize a 2% gain in 2005, largely due to strong sales during the spring buying and planting months for bedding and garden plants, and propagative material. A slightly lower sales growth of 1.5% is expected in 2005 for nursery and other green industry crops. Year-end estimates for 2005 suggest that sales per household at the wholesale level for floriculture crops will be $47 and $94 for nursery and other greenhouse crops. These will amount to total sales per household in 2005 for floriculture and nursery crops at the wholesale or grower level exceeding $140, excluding expenditures for sod or turfgrass.

As for spring 2006, consumer spending on floriculture and nursery crops will hinge mightily on the fuel and energy expenditures for transportation and heating. Higher petroleum prices will also affect the production costs experienced by Georgia growers, impacting not only the costs of heating and airflow in greenhouses, but also the costs of fertilizers, pesticides, containers, and delivery charges for these products, media, any pre-finished plant material, and marketing or distribution. Labor costs may also rise as employees seek out wages that cover their own needs and family expenditures. Operating loan interest rates are also projected to increase. Forecasts for year-end 2006 consumer spending may show an increase over the 2005 values, but the results will be due to rising retail price rather than purchase quantity increases.◙

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