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# The Georgia Economic Issues Newsletter

## Georgia's Food and Fiber Industry Outlook

The year 2004 will likely be remembered in drastically different ways by Georgia's agribusiness industry. Animal producers will fondly recall a year in which prices and production grew for most products. Crop producers will remember hurricane induced losses and lower prices for many of their products. The prospects for 2005 are about as uncertain as the track of several of the 2004 storms. Some animal product prices, most notably poultry in Georgia, were beginning to fade at year's end as producers responded to the best profit margins in 5 years. Poultry production will be up again in Georgia in 2005 as companies continue to expand here but prices will be lower. Two of Georgia's best know crops, cotton and pecans, were severely injured by the multiple hurricanes in 2004. Prospects for recovered production levels in 2005 are good but the price prospects are uncertain, particularly for cotton as processing demand continues to shift overseas. On balance, gains in animal production offset crop and vegetable losses in 2004.

### Animal Industries

Animal agriculture comprises the largest agribusiness sector in Georgia representing more than 50% of the farm gate value produced. Of this total, broiler production alone represents 40%. Southwest Georgia gained a new broiler producing company and accompanying complex in 2004. Production will come on line in 2005 from the new complex and thus Georgia's nation-leading broiler production sector will show value gains in 2005 despite lower product prices.

Broiler producers enjoyed another year of improved prices and, as a result, an excellent profit year in 2004. Broiler prices remained above the 70 cent range through the first two thirds of 2004. A return to pre-1998 profit margins and prospects for low feed cost

fueled an industry expansion, turning an expected 2% increase in production into more than 4% for all of 2004 and accelerating by year's end. As a result of larger output and some apparent softening in white meat demand by mid-year, prices fell back into the 60 cent range with breast prices actually below 2003 the last part of the year. However, for the year as a whole, broiler prices were 19% or 12 cents per pound above average 2003 levels. With two years of double digit year-to-year price gains and little or no threat of profit robbing feed cost hikes, the industry will be hard pressed not to return to the days of 5% or more production increases in 2005. As a result, prices will be lower, falling back to around the mid 60 cent range for the 2005 yearly average. Industry profits, while not equaling 2004, will still be respectable with stable and low feed prices, likely leading to future increases in production. While this may lead some in the industry to conclude the good old days to be back, a consistent improvement in white meat demand and/or a significant improvement in the export market will be needed to sustain the return to profit glory.

For the second year in a row, egg prices averaged above the rarified 80-cent per dozen mark in 2004, but 5 cents lower than the 2003 average. A 2 % increase in production coupled with a weaker egg demand led to price averages well below 2003 during the last half of 2004. Apparently the sticker shock of \$1.00 plus egg prices averages experienced in late 2003 and early 2004 set in with consumers around the end of 2004. Another 2% or so increase in production may be in store for 2005 resulting in egg prices falling into the mid to low 70 cent per dozen range for the year, but still above production cost in the low 60 cent range.

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# Georgia's Food and Fiber Industry Outlook (Continued from Page 1)

Beef cattle prices should remain favorable for Georgia producers in 2005. A smaller calf crop, reduced live cattle imports, and good demand should combine to keep cow calf producers in the black for another year. For 2005, prices for Georgia 500-600 pound steers are forecast to average slightly better than \$100/cwt with choice fed steers hovering in the low \$80s.

Pork prices are expected to remain the primary beneficiaries of reduced beef exports. Commercial pork production is expected to set another record in 2005. Even so, with increased exports and overall demand, Georgia cash prices are expected to be in the mid to upper \$40s per hundred pounds and remain at generally profitable level.

Milk prices have begun to decline from record high levels. Available data suggest that cheese market fundamentals did not support a speculative rise in cheese prices in 2004. Also, the milk supply has begun to recover more quickly than expected. The most recent milk production report indicated that cow numbers have grown six months in a row. August U.S. milk production was up by an estimated 1.2 percent on a daily average basis. The expectation is that cheese and butter prices will be back to more normal levels by the end of 2004,

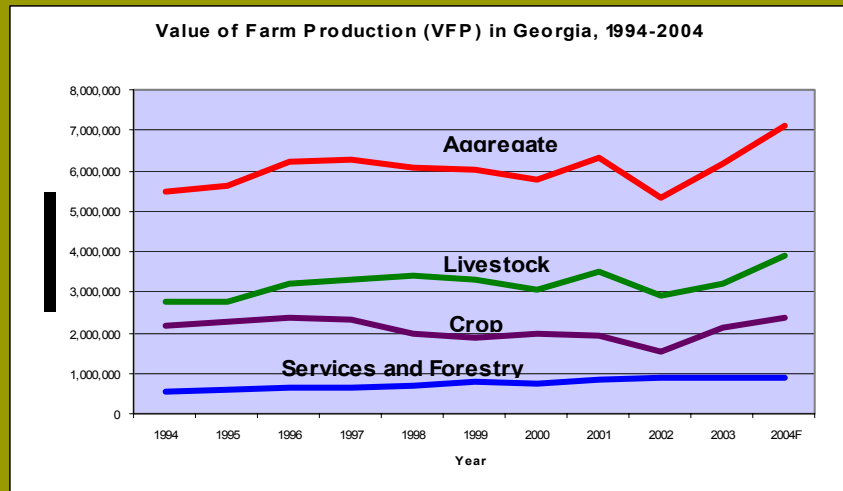
and that milk prices in 2005 will likely fall below the five-year average

## Crops

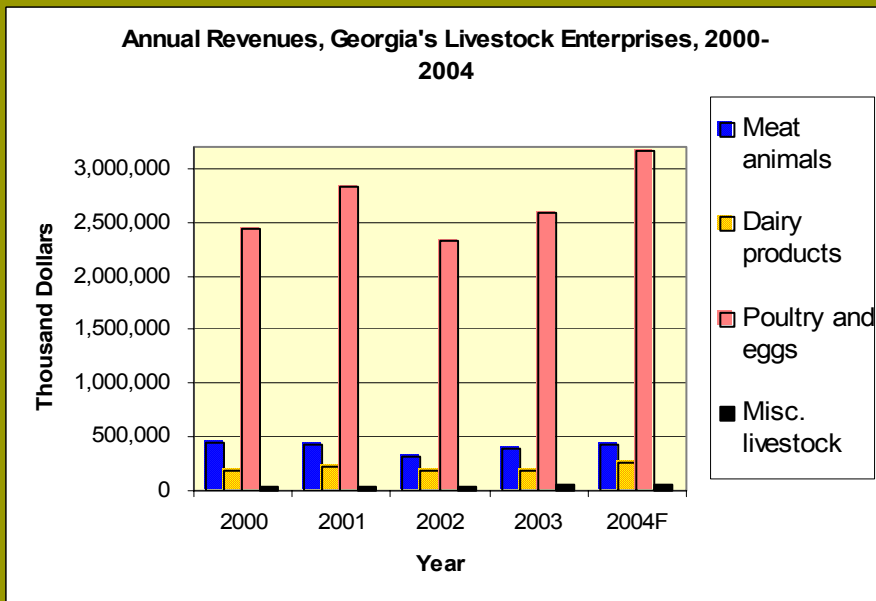
Row crops represent roughly 18% of Georgia's farm gate production value. Cotton (46% of crop value), peanuts (21%), tobacco (7%), corn (7%), and soybeans (3%) are the most important of the crops produced. Late season 2004 hurricanes impacted production of cotton and peanuts with cotton most affected. The prospects for improved returns in 2005 will mostly hinge on price prospects. Cotton, corn, and soybean prices are not encouraging while peanuts show some promise. Tobacco acreage will be impacted by the prospects for a government tobacco quota buy-out. Tobacco is the last major crop in Georgia to have government imposed limits on production removed.

## Peanuts

A very encouraging market trend for peanuts is the growth in domestic food use by over 9% in 2004. This growth represents more than three times the normal growth in food use. The beginning of the 2004-05 marketing season also produced encouraging figures that



Source: Economic Research Service (ERS), U.S. Department of Agriculture (USDA)



surpass last year's shelled edible use. USDA projects over 7% growth for the next year in food use. Peanut acres have shifted from traditional production to more competitive areas throughout the peanut belt in the past two years. The Virginia Carolina region has seen acres move south geographically. The Southeast has seen a similar shift to lighter soils closer to the Atlantic and Gulf Coasts. New infrastructure is being built in South Carolina and parts of Georgia for new producers. A big incentive for growing peanuts in these new areas is the rotational benefits to cotton from growing peanuts as well as better yields from "virgin" ground. A new peanut shelling plant, owned and operated by producers, began operation in late 2003 in southwest Georgia. Another producer-owned shelling plant is planned for south central Georgia in 2005. Texas and Oklahoma have cut back planted acreage dramatically.

The 2004 crop was poised to set U.S. yield record for the second year in a row if not for delays in the harvest of the crop in the Southeast and Southwest. The projected U.S. average yield as of mid-December is 3,027 pounds per acre which would result in another two million ton plus crop. Peanut disappearance in 2005 is projected to increase by 5.5% led by another strong year in food use. The fundamentals suggest prices to farmers should remain the same if not improve. However, lower prices for cotton, corn and soybeans will likely put downward pressure on 2005 peanut contract prices to farmers. Other factors that will encourage more peanut acres are higher fertilizer prices, higher seed costs for cotton, corn and soybeans, and the threat of Asian soybean rust. Given these trends it is expected Georgia will increase peanut acres in 2005 unless the other markets recover with a spring bounce.

## *Cotton*

For the 2004-2005 marketing year, the world demand for cotton is expected to be a record 103.3 million bales—topping 100 million bales for the first time and 4.9% above 2003-2004. The U.S. textile mill industry continues to shrink but has been more than offset by tremendous expansion by foreign mills, especially in China and other Asian and Southeast Asian countries.

Provided that world use of cotton remains strong, price will be determined largely by cotton production and supply. The supply side has been the major driving force for the 2004 crop and may pose hurdles, at least early on, even as we look ahead to price prospects for the 2005 crop.

The US is expected to produce a record cotton crop of 22.8 million bales for 2004—25% above 2003 and a record yield of 828 pounds per acre. The total world crop for 2004 is also expected to be a record. World production is forecast at 114.0 million bales—19.2 million bales or 20% above 2003. Most (80%) of this tremendous increase in production can be accounted for by increased acreage and/or good yields in just 4 countries— the U.S., China, Pakistan, and India.

Although demand has been very strong, an even much larger increase in supply will mean that World ending stocks (2004 or earlier cotton still on hand as we enter the 2005 crop marketing year on August 1, 2005) are projected to increase by 10.8 million bales or 30%. This will be the largest level of stocks since 2001. Large stocks may keep a lid on prices as we look ahead to early 2005 and the planting season. As the year progresses, however, prices will increasingly depend on U.S. and foreign crop prospects and the performance of U.S. exports.

Unless the U.S. and world can produce back-to-back record crops, prices for the 2005 cotton crop could be improved from 2004 levels provided that demand remains strong. Higher prices may retard demand (export purchases), however, so any potential price increase will be influenced by the supply and competitiveness of other countries. A weaker US dollar has aided exports and helped support prices even in the face of large supplies.

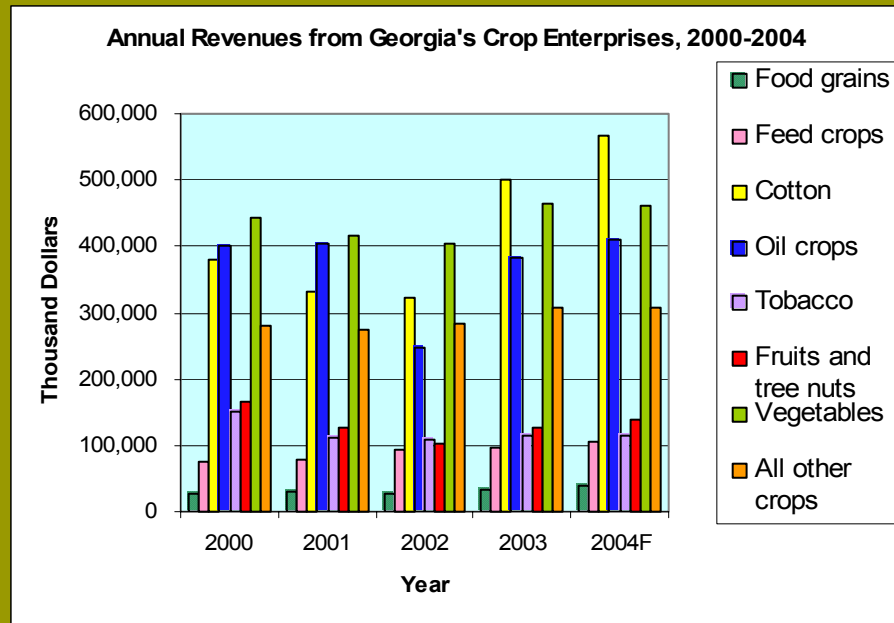
Cotton producers can reasonably plan on a combination of LDP and cash sale or loan plus Loan Gain or equity of about 58 cents per pound. As long as cotton futures prices are below about 60 cents, an LDP is likely to be in effect and total money to the producer will be about 58 cents. Futures prices above the low 60's are needed to make the producer better off. Prices for the 2004 crop will likely average 42-45 cents for most producers unless producers took advantage of higher contract opportunities early in 2004. Prices for the 2005 crop could easily rebound into the 50's unless another large world crop is realized. Even higher prices are possible, but not likely. Another large world crop and/or slow U.S. exports would push 2005 prices below 2004 levels.

## *Tobacco*

The outlook for U.S. flue cured tobacco, and to a lesser extent world flue cured tobacco, will be shaped by the end of the U.S. tobacco program. As congress wrapped up work before the elections, an agreement was reached to buy out all tobacco quota owners and compensate the actual growers of tobacco. The quota program was a supply control program which limited U.S. production and thus supported prices. With most of the U.S. and Brazil crops under contract, changes in production after a buyout will be largely coordinated by international leaf

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Source: USDA-ERS

and cigarette merchants. Since the 2005 Brazil crop was contracted for and planted by the time the buyout legislation passed, it is unlikely that leaf merchants or cigarette manufacturers will expand 2005 U.S. production substantially. However, U.S. flue cured production will likely increase towards a level of 800 million pounds over the next two to three years. Many flue cured farmers will exit production with the end of the program. The pace of consolidation of production units will increase resulting in fewer farms, but larger aggregate U.S. production. Price will likely decline to under \$1.50 per pound within one to two years and could decrease toward \$1.25 as U.S. production expands.

The production impact in Georgia is expected to be much like that in the U.S. with fewer farms producing more tobacco. The buyout itself will inject more than \$612 million

into Georgia's rural tobacco growing counties over the next 10 years with approximately \$428 million going to quota owners (who may be growers also) and \$183 million going to the actual tobacco grower.

### *Soybeans*

Georgia expanded soybean acres in 2004 for the first time in many years in response to very high 2003 crop prices. Currently the Georgia crop appears to be on pace for record or near record yields as soybeans was one crop actually helped by the rain produced from multiple hurricanes. U.S. acres were at a record level as many farmers saw soybeans as a very profitable crop. Crop progress has been a bit slow this year due to cooler than normal weather along the northern Corn Belt and yields are expected to be below trend. Despite disappointing yields, the crop will be very large and will pressure prices during the fall of 2004 and into early 2005. Georgia seasonal average soybean prices will average near \$5.35 per bushel for the 2004 crop, down from nearly \$7.40 last year.

### *Corn*

The U.S. will likely have a record large corn crop this year due to both record large acreage and record large yields. Georgia corn growers expanded acreage as well and appear to have a very nice crop ready to harvest. National yields are currently projected to be near 160.2 bushels per acre, well above the record set just last year of 142.2 bushels per acre. Combining the record acres and yields means a record large crop of almost 11.7 billion bushels. Total supply and corn usage will both register record levels. Supply will be 12.7 billion bushels while a large corn usage level is expected due to a large increase in ethanol production. For perspective, ethanol production will utilize nearly 1 in 8 corn acres this year. Georgia corn prices will average near \$2.40 per bushel, which is down only slightly from last year's levels.

### *Fruits, Vegetables and Nuts*

Georgia's fruit and vegetable industry represented about 11% of the value of all farm products grown in Georgia in 2003. The industry is going through many changes that will positively or negatively impact future trend. A mandatory traceability requirement, a detailed record-keeping procedure aimed at addressing food safety and bio terrorism as well as a consumers' right to know are examples of the industry changes. Although complete vegetable and fruit traceability is impossible and the whole process is cost driven, the good news is that it is generally cheaper to establish and maintain the system for perishable product such as fruits and vegetables than with other commodities.

The mandatory country of origin labeling (COOL) requirement is yet another policy that could be beneficial for U.S. produce growers if adopted. COOL has been implemented in Europe for the past two decades, and the EU is a market in which the U.S. must expand its exports of fresh fruits and vegetables. More so, due to the increasing purchasing power parity and stable banking and financial institutions, the EU member countries, Canada and Japan, who currently dominate the demand side in the fruits and vegetables trade, are willing to pay for better quality products all year round. The mandatory COOL could enable the U.S. to take advantage of these markets and facilitate increased market share.

In the past decade, three regions, the European Union (EU), the North American Free Trade Agreement (NAFTA) area and Asia (East, South-east, and South), played a dominant global role as producers, suppliers and consumers of fruits and vegetables. This has significantly increased the world agricultural trade share for fruits and vegetable to 16.9 percent in 2001, up from 10.6 percent in the past four decades. With the current addition of Central America Free Trade Agreement (CAFTA\_5), and the provision to include Dominican Republic to the CAFTA\_5 countries, the world agricultural trade share is expected to increase further, thus providing the U.S. at large and Georgia in particular the opportunity to expand its fruit and vegetable market share regionally and internationally.

At the state level, area harvested was up 12% and 28% in 2004 for snap beans and onions, whereas cabbage and cantaloupes remained unchanged during the same time period. Prices received by farmers have been relatively good and this trend is expected to continue next year.

Georgia produced 32%, 26% and 23% of all pecans in the U.S. in 2001, 2002 and 2003, respectively. Price per pound was 61, 100, and 95 cents in 2001, 2002 and 2003, respectively. Prices for 2004-2005 will be very good and higher than in 2002 due to the supply scarcity resulting from hurricane damaged pecan orchards in Georgia, South Carolina and North Carolina. Georgia's crop was particularly hard hit and some trees, and thus potential 2005 production, were also lost.

Georgia peach production has fluctuated but is expected to normalize to 100 million pounds in 2004. Furthermore, the damages caused by hurricane Frances will not be felt this year as the crops were already harvested but might impact yields during the subsequent crop season. If this hypothesis is correct then the industry could experience higher peach prices in 2005.

### *Ornamental Horticulture Industries*

Although green industry sales were flat in the aggregate during 2004, sales of floriculture crops decreased slightly, sod and turf sales rose modestly, and nursery crop sales for container grown and field grown plants decreased marginally. Producer level sales of the green industry crops exceeded \$18 billion nationwide in 2003, of which over \$600 million were realized by Georgia producers. Greenhouse and nursery crops constitute a third of total farm cash receipts from horticulture crops, which include vegetables, fruits and tree nuts. Cash receipts for greenhouse and nursery crops are estimated at \$14.3 billion in 2003.

Lower sales of greenhouse and nursery crops in 2003 reflect both weak domestic demand and more intense import competition. U.S. consumption of ornamental crops on a per household basis was \$140. Of this amount, \$54 was spent on floriculture crops, and the rest on nursery and other greenhouse crops. In turn, of the \$54 spent, \$9 was used to purchase cut flowers and \$45 for flowering and foliage plants. The average household's consumption (expenditure) for sod/turf was \$29.

The green industry outlook for Georgia producers and consumers in 2005 is brighter than in many other green industry producing states. This is attributed to the continuing boom in residential and commercial construction, longer growing/landscaping seasons, a recovering economy that is encouraging property owners to refocus on their immediate environments (instead of rising energy costs, wage and employment uncertainties, rising consumer debt, and other negatively impacting concerns), and latent or pent up demand for the gardening or landscaping experience.

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## **Recent Publications**

### ***Georgia Demographic and Economic Trends (04-27), Nov. 2004***

A look at Georgia's demographic and economic trends for counties and Extension districts; available as a viewable presentation via web browser or downloadable presentation

### ***Economic & Demographic Data by Extension Districts (04-26), Nov 2004***

***Demographic and Agricultural Community Profiles presented and compiled in 2004*** (publication number in parentheses):

- \* Gwinnett County Community Profile (04-01)
- \* Fannin County Community Profile (04-02)
- \* Haralson County Community Profile (04-03)
- \* Charlton County Community Profile (04-04)
- \* Putnam County Community Profile (04-05)
- \* Putnam County Economic Importance of Food & Fiber (04-05A)
- \* Lumpkin County Economic Importance of Food & Fiber (04-06A)
- \* Seminole County Economic Importance of Food & Fiber (04-07A)
- \* Warren County Community Profile (04-08)
- \* Dougherty County Economic Importance of Food & Fiber (04-09A)
- \* Chattooga County Community Profile (04-10)
- \* Polk County Economic Importance of Food & Fiber (04-11A)
- \* Polk County Community Profile (04-11)
- \* Lanier County Economic Importance of Food & Fiber (04-12A)
- \* Peach County Community Profile (04-13)
- \* Peach County Economic Importance of Food & Fiber (04-13A)
- \* Pike County Community Profile (04-15)
- \* Pike County Economic Importance of Food & Fiber (04-15A)
- \* Oglethorpe County Economic Importance of Food & Fiber (04-17A)
- \* Hancock County Community Profile (04-18)
- \* Seminole County Community Profile (04-19)
- \* Brantley County Community Profile (04-20)
- \* Madison County Community Profile (04-21)
- \* Tattnall County Community Profile (04-23)
- \* Tattnall County Economic Importance of Food & Fiber (04-23A)
- \* Crawford County Community Profile (04-24)
- \* Crawford County Economic Importance of Food & Fiber (04-24A)

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