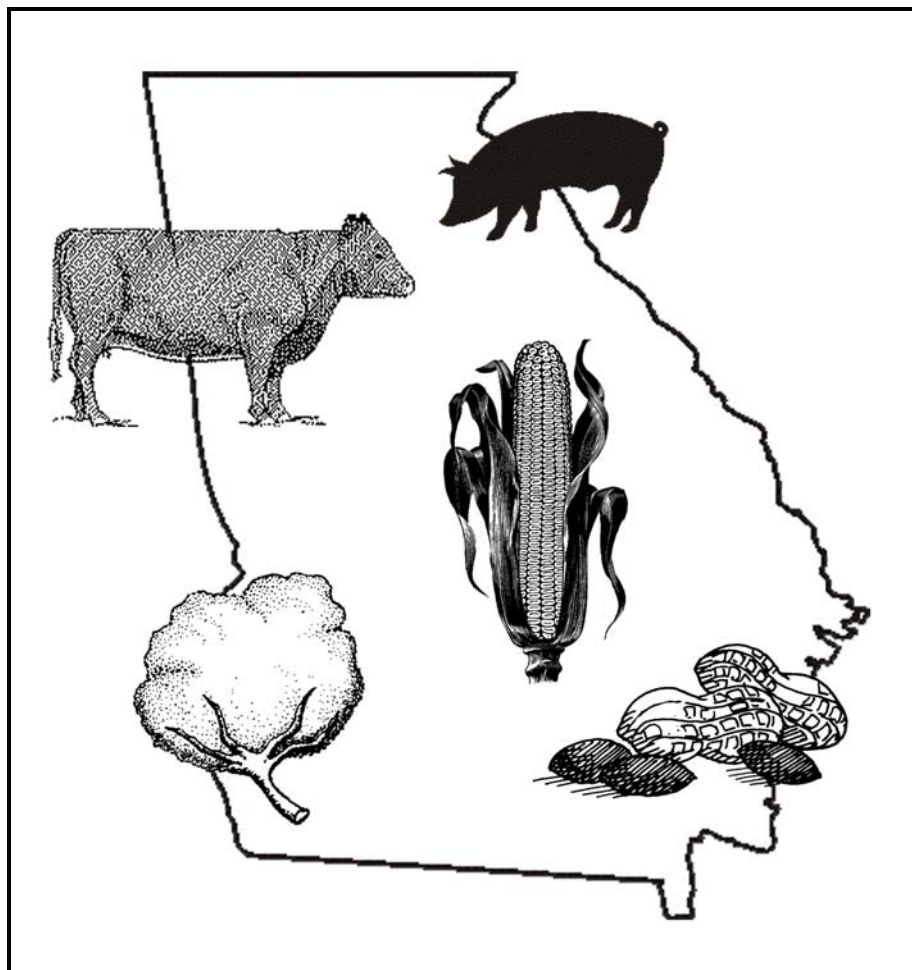


# 2005 GEORGIA FARM OUTLOOK AND PLANNING GUIDE



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## TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	1
ECONOMY, AGRICULTURE ECONOMY, AND FARM FINANCIAL	
General Economy and Agricultural Economy .....	1
Farm Financial Conditions and Outlook .....	2
ROW CROPS	
Corn Market Situation and Outlook .....	3
Outlook For The 2005 Soybean Crop .....	4
Cotton Situation and Outlook For 2005 .....	5
2005 Peanut Market Outlook .....	6
Direct and Counter-Cyclical Payments .....	8
LIVESTOCK ENTERPRISES	
Beef Cattle Outlook .....	9
2005 Pork Outlook .....	10
2005 Poultry Industry Outlook .....	12
Dairy Outlook .....	13
HORTICULTURAL CROPS	
Outlook For Fruits, Vegetables, and Pecans .....	13
Floriculture and Nursery Crops Outlook .....	15
MANAGEMENT AND MARKETING IMPLICATIONS	
Squeezing More From The Cotton Market When Prices Are Low .....	16
2005 Crop Costs/Returns and Comparative Analysis .....	18
Livestock Management Considerations .....	20

# 2005 Georgia Farm Outlook and Planning Guide

Department of Agricultural and Applied Economics  
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## EXECUTIVE SUMMARY

The outlook for Georgia farm commodities is mixed, but mostly good as we look ahead to 2005. Despite the effects of 3 hurricanes, most Georgia row crops still performed well in 2004 although fruit, vegetables, and pecans were not as fortunate. 2004, although still a good year in relative terms, could have been even better had it not been for the impacts of the weather.

Prices for major row crops such as cotton, corn, and soybeans trended down during 2004. The price outlook for 2005 is generally stable but possibly higher for most of Georgia's major row crops. Cotton might be the exception. Corn and soybean prices could be improved from 2004 levels. Peanut price is expected to be about the same as 2004. Cotton price is most likely about the same as 2004, but could move lower.

Crop producers suffered through high fuel costs during 2004 and the outlook for 2005 is much of the same. Crop enterprises will be impacted by higher fertilizer costs, continued high fuel prices, and (for some crops) increased seed cost (including technology fees, if applicable). Livestock operations generally enjoyed a very good year in 2004 thanks to lower feed costs and high prices. The outlook for 2005 is also favorable. Cattle and hog prices are expected to remain high. Broiler and egg operations should enjoy another good year.

Farmers will see higher interest rates in 2005 compared to 2004. Farmers, especially on cropland with acreage base and payments eligibility, will continue to be pressured with high land rent in 2005 as in 2004.

Georgia's fruit, vegetable, and pecan industries were severely damaged by the 2004 hurricanes. Prices for some commodities escalated as a result. Prices are expected to return to more normal levels in 2005. The demand for floriculture and nursery crops is expected to increase.

## GENERAL ECONOMY, OVERALL AG ECONOMY, AND FINANCIAL

### General Economy and Agricultural Economy

Archie Flanders and Fred White

Continued economic expansion is expected for the U.S. in 2005. Gross Domestic Product (GDP) is forecast to increase by 3.7 percent according to a composite of reports by Oxford Economic Forecasting, International Financial Statistics, and the International Monetary Fund that is released by the United States Department of Agriculture (USDA). This compares to a normal rate of 3 percent and an increase in 2004 of 4.4 percent. These increases greatly surpass GDP growth rates of below 2 percent during the most recent recession.

The Selig Center for Economic Growth at the University of Georgia (UGA) predicts core inflation (which excludes food and energy) will rise to 2.5 percent in 2005 from the 2 percent rate in 2004. Energy prices are expected to recede from 2004 levels, but tighter conditions of supply and demand in many commodity markets, depreciation of the dollar, and increased labor costs will exert upward pressure on the overall general price level.

World GDP, in the composite report released by USDA, is forecast to increase by over 3 percent with the greatest increases occurring in Asia and the transitional economies of Eastern Europe. World GDP growth in 2005 would be less than in 2004, but comparisons indicate substantial increases over the period of world economic downturn that characterized early years of this decade. Rising incomes in world markets are beneficial to the demand for U.S. production. Recent depreciation of the dollar is forecast to continue in 2005, but projections by USDA indicate that the exchange rate will remain high by historical standards. This does not favor greatly increased exports of U.S. agricultural commodities.

USDA forecasts U.S. production of red meat and poultry to increase by 2 percent in 2005. Consumption is also expected to increase but the world production increases for beef, pork, and poultry are expected to surpass consumption. The result is a general decline in U.S. farmer prices received for meat commodities. A projected

decrease in ending stocks for beef in 2005, however, should maintain the higher U.S. price levels experienced in recent years.

Ending stocks for most U.S. crops are expected to increase in 2005 from 2004 levels. World crop production increases for the marketing year ending in 2005 will lead to downward pressure on crop prices. In terms of bulk volume, greater exports are expected in 2005 than 2004, primarily due to increased corn and soybean exports. Lower prices in 2005, however, lead to a USDA forecast of decreased export values in 2005 for wheat, corn, soybeans, and cotton. Pork and dairy exports are expected to remain strong and poultry should increase slightly. Import value increases in 2005 for fruits, vegetables, beef, and alcoholic beverages continue the expansion of recent years.

USDA baseline projections for 2005 net farm income are optimistic. Lower commodity prices are expected to lead to only modest reductions in income. Prices received by farmers overall will be lower than 2004 but still favorable for most commodities compared to the early 2000's. Projections are for farm production expenses to increase by less than the general rate of inflation.

Prospects for Georgia agriculture correspond to that of the nation. Although there are no expectations of increased prices in 2005, prices for most commodities with the greatest aggregate importance to Georgia producers are expected to be higher than earlier years of this decade. Rising incomes in the developing and transitional economies should benefit demand for Georgia poultry exports. High world cotton production and international policies do not favor improved cotton prices, but world demand is expected to remain strong. Peanut prices received should continue well above the loan rate, which could lead to further shifting of Georgia crop acreage into peanut production.

Economic expansion for Georgia should continue in 2005 according to the UGA Selig Center for Economic Growth. Gross state product (GSP) is forecast to increase at a rate of 3.2 percent, which is slightly less than the 2004 rate of 3.8 percent. These growth rates are lower than the boom period of the previous decade, but are significant improvements over the rates of the previous recession. Georgia's economy has large clusters of information technology, air transportation, hospitality, and manufacturing. Of these, all but air transportation will be major sources of job creation in 2005. Job creation is expected to increase by 1.5 percent in 2005, compared to the increase of 1.1 percent in 2004. Unemployment should fall from 4 percent to 3.8 percent, reflecting both job creation and potential workers who are no longer seeking employment.

The industrial base in Georgia is more consumer oriented than is the national economy. Businesses rather than consumers will power economic growth in 2005, leading the Selig Center to predict growth in Georgia will lag behind national recovery. Atlanta is the nation's largest market for new home construction, and anticipated increases in mortgage rates will have a negative impact on this sector. Tightening federal budgets will slow growth in the state more than the nation as a whole, because Georgia has a relatively high concentration of federal employment.

### **Farm Financial Conditions and Outlook**

Cesar L. Escalante

Late in 2004, certain macroeconomic indicators have fallen short of expectations. Overall, however, the national economy had shown encouraging signs of growth and recovery during the year. Gross domestic product figures grew from 3.3% to 4.5% during the first three quarters of the year. Non-farm payrolls steadily increased by about 85,000 to 303,000 jobs created each month from July to November. Personal incomes and expenditures grew slightly during the year. These economic data, along with the continued weakening of the dollar relative to other currencies and concerns about inflation, have led the Federal Open Market Committee to bump up the federal funds rate in its five final meetings in 2004. By year-end, the rate has been increased to 2.25%, a significant jump from the June 2004 level of 1%.

These rate hikes resulted in immediate increases in consumer loan rates based upon the prime lending rate, which has risen to 5.25% by the end of the year. According to a survey of terms of bank lending to farmers conducted by the Board of Governors of the Federal Reserve System, the average weighted interest rates charged to farms during the first 3 quarters of 2004 ranged from 5.2% in the 2<sup>nd</sup> quarter to 5.5% in the 3<sup>rd</sup> quarter. A year earlier, the weighted average rates had been recorded at 5.6% and 5.9% during the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2003, respectively, but reached a low of 5.0% in the 4<sup>th</sup> quarter. Among lenders in the Southeast Region, weighted average farm lending rates were higher than the national averages. For the 1<sup>st</sup> three quarters of 2004, weighted average lending rates ranged from 5.2% in the 3<sup>rd</sup> quarter to 6.4% in the 2<sup>nd</sup> quarter. These rates were slightly higher than the average rates obtained in 2003 which ranged from 4.8% to 6.1%.

Should the FRB continue on its rate-hike campaign in 2005, short-term farm lending rates are expected to adjust upward accordingly, while changes in long-term mortgage rates will depend on investors' periodic assessments of the growth prospects of the economy. Since long-term farm mortgage rates usually have a lagged, gradual adjustment in response to changes in overall macroeconomic conditions and federal monetary and fiscal policies, borrowing rates to finance farmland and fixed asset investments will remain favorable in early 2005.

**National and Southeast Regional Average Farm Interest Rates, By Quarter**

<b>Period</b>	<b>National Weighted Average Farm Lending Rate (%)</b>	<b>Southeast Weighted Average Farm Lending Rate (%)</b>
1 <sup>st</sup> Quarter, 2003	5.6	5.6
2 <sup>nd</sup> Quarter, 2003	5.9	6.1
3 <sup>rd</sup> Quarter, 2003	5.2	4.8
4 <sup>th</sup> Quarter, 2003	5.0	5.2
1 <sup>st</sup> Quarter, 2004	5.3	5.9
2 <sup>nd</sup> Quarter, 2004	5.2	6.4
3 <sup>rd</sup> Quarter, 2004	5.5	5.2

Source: Agricultural Finance Databook, Board of Governors, Federal Reserve System, Third Quarter 2004.

Sustained strong demand for non-agricultural land uses and continued favorable commodity prices (or relatively high government payments), will continue to support farm real estate values in 2005. In 2004, Georgia cropland values grew 5.6% to \$2,270 per acre from \$2,150 per acre in 2003. Irrigated cropland registered a 10.5% growth while non-irrigated crop land grew by 4.5%. On the other hand, pasture values grew by 7.3%, with an acre valued at about \$2,950 in 2004 compared to \$2,750 in 2003.

Cropland and pasture rental rates also increased in 2004 as a result of favorable production and price trends for most farm commodities. The average rental rates for an acre of Georgia farm land were estimated as \$110/acre for irrigated cropland, \$42/acre for non-irrigated cropland, and \$24/acre for pasture.

The USDA has reported substantial increases in net farm income levels for the national farm economy. A 24.5% increase led to a record \$73.7 billion aggregate net farm income in 2004. Net value added figures for 2004 grew by 17% to another record level of \$118.9 billion. These notable trends resulted from significantly large domestic crop harvests, greater export demand for crop and livestock commodities, favorable livestock and milk prices, and relatively modest increases in production costs vis-a-vis value of production. Among farm enterprises, livestock farm operations (other than those specializing in beef cattle) lead the pack of income gainers in 2004. Among three broad farm categories defined by the USDA, farm-related receipts among commercial farms (with a minimum of \$250,000 in annual sales of farm commodities) will significantly account for the overall increase in farm household income. In contrast, the other two smaller farm size categories depended more on non-farm income receipts.

In Georgia, livestock receipts (including poultry) have accounted for over 50% of the state's value of farm production since 1996. Substantial contributions of livestock enterprises to state farm revenues cushion economic blows in the crop sector such as the series of hurricanes experienced in Fall 2004. Analysts are hoping for economic recovery in 2005. Farmer decisions in reaction to prices, weather, and other factors will effect acreage use. Agriculture's growth and contribution to the state's economy will depend on livestock and crop prices received, acreage and production, government market support payments, and the economic health of agri-input, value-added, and processing industries.

**ROW CROPS**

**Corn Market Situation and Outlook**

George Shumaker

It's a familiar situation for corn growers – excellent yields, plenty of corn and low market prices. This is the fifth year in the last seven where season average prices are likely to be below the \$2.00 level.

U.S. corn growers planted 81 million acres in 2004, the largest since 1985 and harvested 73.3 million acres, also the largest since 1985. Mother nature provided almost ideal growing conditions for most corn growers this year and the crop responded in an astounding manner to yield 160.2 bushels per acre-- a full 20 bushels more than the record set just last year. All the work of our plant breeders came to fruition this year. The crop was 11.74 billion bushels, also a record. Total supplies were 12.7 billion bushels, again a record level.

On the consumption side, we are also likely to see record off take in both domestic feed use and food, seed and industrial uses, mainly on the back of a large increase in ethanol production. A rebounding livestock herd plus lower prices will stimulate buyers to feed 6.075 billion bushels. FS&I use will be near 2.795 billion bushels with ethanol production accounting for nearly one-half or 1.425 billion bushels. For perspective, ethanol corn use will equal the production of nearly one in 8 harvested acres. Exports will be strong at about 2 billion bushels-- the first time since 1985 exports will be at that level. Total off take will be about 10.87 billion bushels.

Ending stocks will nearly double to 1.85 billion bushels, the largest since 1999 and represent 17 percent of use. Season average national prices will be near \$1.90 with southeastern and Georgia prices closer to \$2.25 per bushel.

The outlook for 2005 is a little better, assuming a reduction in acreage and yields back closer to trend levels. If harvested acreage is near 71.2 million acres and yields are near 141.5 bushels per acre and off take remains constant, we could see end stocks falling to near 1 billion bushels or about 10 percent of use. That stocks level would project a season average national price near the \$2.40 level. Those are the working numbers as we approach the end of 2004 and look ahead to 2005.

### **Outlook For The 2005 Soybean Crop**

George Shumaker

Soybean growers increased acreage in 2004 for the first time since 2000 planting 75.1 million acres, the largest acreage ever. It appears the high prices from the 2003 crop stimulated the rise to record soybean acreage. Yields during 2004 were up sharply over the drought reduced yields of 2003 at 42.6 bushels per acre versus 33.9 bushels in 2003. Generally excellent growing conditions across the country appears the main reason for the excellent yields along with improved yielding varieties.

Soybean production totaled a record 3.15 billion bushels, up from 2.45 billion bushels produced in 2003. Carry in stocks were record low at 112 million bushels. Total supply of soybeans was 3.27 billion bushels, up from 2.64 billion bushels for the 2003 marketing year.

Off-take will rebound from the 2003 marketing year that was limited by the short supply situation. The 2004 off-take will be close to 2.8 billion bushels and probably the second largest use level on record. There continues to be strong global demand for protein around the world and that has provided a firm floor under the market. The demand for vegetable oil is also very strong this year and early in the marketing year is adding significantly to the demand for raw beans by the crushers. Domestic crush will expand to 1.65 billion bushels-- exceeding the average for the last 4 years due to demand from an expansion in grain consuming animal units in the U.S. and strong oil demand.

Exports will rebound from the very short levels of last year to over 1 billion bushels. Expectations are for increases in acreage of perhaps 4 to 6 percent in Brazil and Argentina in the coming year despite continuing financial woes. If that crop is seeded without problems, weather remains favorable, and Asian rust does not significantly reduce yields, we can expect a large southern hemisphere crop next spring. Early season exports are looking good and are at a pace to meet projections with China a noted buyer early in the marketing year. Total use of soybeans will be near 2.8 billion bushels, up from 2.526 billion used last year.

Despite the strong demand, ending stocks will rise to a very large level projected to be 460 million bushels, the largest level since 1985. The stocks-to-use ratio of 16.4% also reflects the large stocks situation. Prices will likely be near the loan rate under this supply and demand scenario, at least until the South American situation becomes more clear.

U.S. season average prices are projected to average near \$4.95 per bushel-- well below the \$7.34 for the 2003 crop. Market makers will keep a weather eye toward South American crop conditions and take price direction from events down there. Georgia growers should keep a close eye on the markets and be ready to move out their soybeans held in storage on any rallies. Price could well be lower this spring than during the winter months.

Very early 2005 crop projections point toward a reduction in U.S. soybean acreage in 2005. If planted acreage is near 73.6 million acres and yields near the 5 year trend of 38.4 bushels per acre, the crop would be about 2.7 billion bushels. Total supplies would be near 2.95 billion bushels. Unless demand grows sharply above the projected level for the 2004 crop, even the reduced acreage will produce almost enough soybeans to meet demand for 2005. Early projections for the 2005 crop are for prices to average about \$5.15/bushel unless either demand surges or production is sharply reduced.

### **Cotton Situation and Outlook For 2005**

Don Shurley

Prices for the 2004 crop are clearly being driven by record US and world crops. Thankfully, demand (cotton mill use) is also high. A weak US dollar has also helped. China is the number one market for US exports and although China will produce almost 30 million bales for 2004, US export sales to China and other countries have thus far been very good due to record foreign mill use and a weak dollar which makes US cotton relatively cheap.

There has been much concern that 2004 crop prices could dip into the 30's as in 2001– the last time we faced such burdensome supplies. Thus far, however, the market has shown no tendency to do so and is trying to hold to a minimum (floor) of the low 40's or possibly higher. Perhaps the weaker dollar and a change made in the Step 2 (user certificate) provision under the 2002 farm bill are acting to support prices above 2001 levels.

For the 2004 crop 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 US textile mill industry continues to shrink but this has been more than offset by tremendous expansion by foreign mills, especially in China and other Asian and southeast Asia countries.

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

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 US, China, Pakistan, and India.

Although demand has been strong, an even 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) are projected to increase by 10.8 million bales or 30%. This will be the largest level of stocks since 2001. US ending stocks are projected to be 7.7 million bales– 1.5 million bales more than US mill use and the largest ending stocks since 1985.

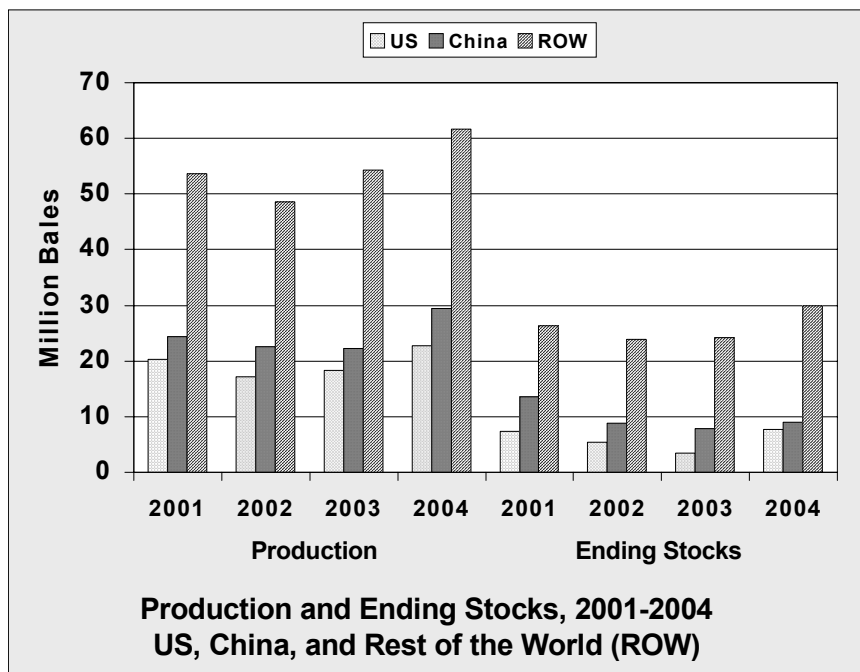
Such large stocks both in the US and worldwide, could certainly keep a lid on prices as we look ahead to early 2005 and the planting season. As the year progresses, however, prices will increasingly depend on US and foreign '05 crop prospects and the performance (pace) of US exports. Any substantial price improvement will not likely come until at least late spring or early summer. Large 2004 supply and stocks will prevent new crop prices from advancing too much, too soon. Also, higher prices for 2005 could retard demand (export purchases), so any potential price increase must be validated through supply and competitiveness with other countries.

The biggest unknown, looking ahead to 2005 is US and World production. Looking at key production areas, in 2004 harvested acreage was up significantly in Australia and India. Both acreage and yield were up significantly in China, Pakistan, and the US. While it seems unlikely that 2005 production could match the record level of 2004, total supplies (carry-in stocks plus new crop production) could still be sufficient to keep prices low.

China is likely to continue the path of high acreage to support it's burgeoning mill industry and US acreage may increase from 2004 levels due to low prices for other crops and LDP support provided by cotton. Assuming other key production areas reduce acreage somewhat in response to low world prices and assuming US and foreign yields are near recent historical averages, the 2005 World cotton crop could be 105 to 110 million bales compared to 114 million bales in 2004.

Prices (futures) for the 2005 cotton crop could range from 35 to 55 cents per pound. An argument could be made for prices higher or lower than 2004 depending on the supply/demand situation that develops. If acreage increases, the US could make a crop of 19 to 20 million bales at average or trend yields – in which case exports

would need to be 13-14 million bales in order to avoid building stocks even further. This would place downward pressure on prices unless demand growth and foreign production competition support such a large level of US exports. Prices would move to the upper end of this expected range provided demand remains strong and US and World production is on the lower side of expectations.



### 2005 Peanut Market Outlook

Nathan Smith

The 2004 crop did not turn out to be as good as 2003 for Georgia peanut producers. During late summer of 2004, the National Agricultural Statistics Service (NASS) estimated a 3,300 lbs per acre average yield for Georgia. Storms from hurricanes Charlie, Francis, Ivan and Jeanne knocked Southeast yields down in September and October. Georgia's final 2004 yield estimate was 3,000 lbs per acre. Much of the yield loss was due to delayed harvest as well as flooding and increased disease pressure.

Financially speaking, the lower yield was offset some by higher prices in 2004 for farmer stock peanuts. Marketing contracts offered by shellers were typically \$45 per ton above the loan rate, or \$400 per ton. Seed contracts included a \$25 per ton premium. The estimated gross income per acre for 2004 is estimated as \$609. This is would be \$29.25 per acre less than 2003. Input costs were up in 2004 as diseases pressure increased requiring more sprays and input prices increased over 5%. Thus, net income was down by a greater percentage. Note that the price used in the following table is the average price received by producers as reported by NASS. The actual price an individual producer received will vary by grade and type of contract.

#### **Gross Income Per Acre Not Including Base Payments for Peanuts, 2001 to 2004.**

	Avg. GA Price cents/lb	Avg. GA LDP cents/lb	Avg. GA Yield lb/acre	Income Per Acre
<b>2001</b>	0.215	n/a	3330	\$715.95
<b>2002</b>	0.178	0.014	2600	\$499.20
<b>2003</b>	0.185	0	3450	\$638.25
<b>2004</b>	.203*	0	3000	\$609.00

\*UGA forecast, final 2004 season average price to be published August 2005.

Peanut acreage continued to increase in the Southeast and Georgia last year. Producers planted 75,000 more acres in Georgia for a total of 620,000 acres. The Southeast has increased planted acreage to 1 million acres which is up from 806,000 in 2002. Texas and Oklahoma acreage continued to decline by dropping to below 300,000 while the Virginia-Carolina region has steadied at 138,000 acres. US acreage was 1.43 million.

Total peanut production exceeded 2 million tons again in 2004 despite my saying the likelihood was low this time last year. The large crop was a result of several thousand late planted acres in Georgia and the second best US average yield on record. The 3000 lb barrier was broken for only the third time. That makes two years in a row of excellent yields. Fortunately, strong demand has coincided with the large crops as carryover stocks have not become burdensome.

**2004 Final Peanut Production <sup>1</sup>**

<b>State</b>	<b>Planted Acres (1,000 acres)</b>	<b>Harvested Acres (1,000 acres)</b>	<b>Average Yield (lbs/acre)</b>	<b>Production (1,000 lbs)</b>
Alabama	200	199	2800	546,000
Florida	145	130	2800	338,000
Georgia	620	610	3000	1,830,000
New Mexico	17	17	3500	48,300
North Carolina	105	105	3400	357,000
Oklahoma	35	33	3100	104,000
South Carolina	35	33	3400	112,200
Texas	240	235	3300	763,750
Virginia	33	32	3250	102,400
US	1,430	1,394	3057 <sup>2</sup>	4,201,350

1/ USDA-NASS, January 2005.

2/ 2<sup>nd</sup> best yield (2003 = 3159 lbs/ac, 2001 = 3029 lbs/ac)

Unlike last year, peanut marketing contracts for 2005 had not been offered by the first of January. Georgia peanut acreage is expected to increase again in 2005. There is potential to reach 700,000 acres. This would be another large jump but could happen given lower market prices for corn and soybeans. The cotton market is also lower but net prices including the LDP are in the 58 to 60 cents range making cotton still competitive with peanuts. Another factor favoring more peanut acres is an increase in fertilizer prices and seed technology fees for corn, cotton and soybeans. Asian rust has soybean producers wary of additional spray expenses in 2005.

Peanut food use in 2004 is forecast to be 1.336 million tons, an 8.8% increase. Adding 100,000 tons for seed gives a consumption level of 1.436 million tons before exports, crush and residual. Using carryover stocks to meet part of the demand, a minimum of 815,000 harvested acres would be needed to meet food demand projections. When crush, exports and residual use forecasts are added, 1.29 million acres are needed given a 2800 pound average yield. Current forecasts suggest the market needs a minimum of 1.3 million acres to keep a comfortable level of stocks. One factor that could change the outlook is the export market. Argentina increased acreage for 2005 and could again compete strongly with the US for European exports or import again into the United States to meet part of domestic demand.

The season average price for 2003 peanuts was \$386 per ton resulting in a \$73 total counter-cyclical payment for peanuts per base acre. Given that 2004 contracts were \$400 and above, the counter-cyclical payment will be less for the 2004 crop. The first four months (Sep - Dec) suggest about \$50 per ton total counter-cyclical payment.

Overall, peanuts have a bright outlook with strong domestic demand and steady exports. The peanut program has worked fairly smoothly to date. The market fundamentals suggest prices should remain the same, but farmer prices will likely start out lower in 2005 due to lower prices for competing commodities, maybe \$380 per ton. The question is will producers be willing to contract at that level or will they wait and utilize the marketing loan, waiting for the prospect of higher prices. The 2005 crop could be the first real test of the new peanut program.

## Direct and Counter-Cyclical Payments

Don Shurley, George Shumaker, and Nathan Smith

Direct (DP) and counter-cyclical payments (CCP) are available to eligible producers under provisions of the 2002 farm bill. Producers have until June 1, 2005 to enroll for the 2005 DCP program. Although the farm bill extends through 2007, producers must enroll in the DCP program annually.

DCP payments are made on 85% of the farm's base acres. The payment is calculated as:

$$\begin{aligned} \text{DP} &= \text{Base acres} \times 85\% \times \text{Direct Payment Yield} \times \text{Direct Payment Rate} \\ \text{CCP} &= \text{Base acres} \times 85\% \times \text{Counter-Cyclical Yield} \times \text{Counter-cyclical Payment Rate} \end{aligned}$$

The Direct Payment rate is fixed as established in the 2002 farm bill. Counter-cyclical payments, however, may vary depending on market prices. So unlike the Direct Payment, the CCP has a degree of uncertainty. The formula for the CCP is:

$$\text{CCP} = \text{Target Price} - \text{Direct Payment} - \text{higher of MYA or Loan Rate}$$

MYA is the Market Year Average Price for the crop. This formula means that the CCP will be maximum if the MYA is equal to or less than the Loan Rate. If the MYA is above the loan rate, the CCP will be lower by that amount. If the MYA is equal to or higher than the Target Price minus the Direct Payment, the CCP will be zero.

Below is a payment calendar for 2004-2005 DCP payments. Payments are available and paid approximately on this schedule if the producer is eligible and enrolled. Otherwise, payments cannot be made until the producer is enrolled and advance payment is requested. Partial (advanced) CCP payments are made based on USDA forecast estimates of the MYA price. If the actual MYA price is higher than expected, the second partial payment may not be made or may be smaller than the first. If the actual (final) MYA price is high enough, the actual CCP may be less than advances the producer may have received. In which case, overpayments must be repaid (deducted from future payments).

**DCP Payments  
Schedule For 2004-2005 Crop Payments <sup>1</sup>**

Oct 2004	Dec 2004	Feb 2005	Sep <sup>2</sup> 2005	Oct 2005	Dec 2005	Feb 2006	Sep <sup>2</sup> 2006
35% Advance 2004 CCP	50% Advance 2005 DP	2 <sup>nd</sup> 35% Advance 2004 CCP	Final 2004 CCP	Final 50% 2005 DP	50% Advance 2006 DP	2 <sup>nd</sup> 35% Advance 2005 CCP	Final 2005 CCP
				35% Advance 2005 CCP			

1/ CCP may not be available depending on MYA price or payment may vary depending on forecast and actual final MYA price.

2/ The final CCP is made after the end of the marketing year for the commodity and the final actual MYA is determined. This varies by commodity. The marketing year ends May 31 for wheat, oats, and barley; July 31 for cotton and peanuts; and August 31 for corn, grain sorghum, and soybeans.

Direct Payment (DP) rates for 2005 crops and the preliminary/forecast Counter-Cyclical Payment (CCP) rates for the 2004 crops are summarized in the following table. CCP rates for 2005 crops, if applicable, will not be announced until October 2005. The estimated 2004 CCP for corn, cotton, and grain sorghum is the maximum allowable by the formula. This means the 2004 MYA price for those crops is expected (forecast by USDA) to be below the loan rate for the crop.

The 35% advanced partial CCP for 2004 is \$0.035/bu for wheat, \$0.14/bu for corn, \$0.0945/bu for grain sorghum, \$0.0056/bu for oats, \$0.091/bu for soybeans, \$0.0481/lb for cotton, and \$25.55/ton for peanuts. The second advance CCP will be available in February '05 and will be equal to or less than the first payment depending on any revision by USDA in the MYA forecast for the crop.

**Forecast 2004 Counter-Cyclical and 2005 Direct Payment Rates, By Crop**

<b>Crop</b>	<b>2004 Forecast Counter-Cyclical Payment <sup>1</sup></b>	<b>2005 Direct Payment <sup>2</sup></b>
Corn	\$0.40/bu	\$0.28/bu
Cotton	\$0.1373/lb	\$0.0667/lb
Grain Sorghum	\$0.27/bu	\$0.35/bu
Oats	\$0.016/bu	\$0.024/bu
Peanuts	\$73.00/ton	\$36.00/ton
Soybeans	\$0.26/bu	\$0.44/bu
Wheat	\$0.10/bu	\$0.52/bu

1/ USDA-Farm Service Agency, News Release 0455.04, October 22, 2004. Payments will be made as follows: 35% in October 2004, 35% in February 2005, and the balance in September 2005.

2/ USDA-Farm Service Agency, News Release 0426.04, October 1, 2004. Payments will be made as follows: 50% in December 2004 and 50% in October 2005.

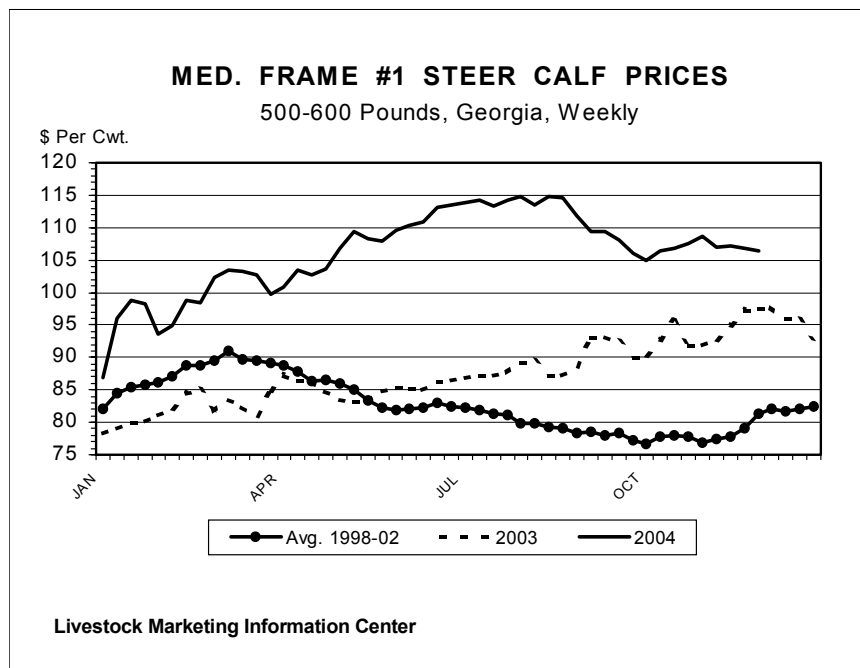
**LIVESTOCK ENTERPRISES**

**Beef Cattle Outlook**

John McKissick and Curt Lacy

2004 was a very good year as virtually all cow-calf producers covered their fixed and variable expenses. Stocker operators also enjoyed reasonable profits for most of the year. Cattle feeders started the year with handsome profits but as the year progressed, high priced calves and feeders placed breakevens at incredibly high levels. As a result many feeders with cattle on feed were facing losses by year's end.

For the year, 2004 prices averaged almost 30% more than the 5-year average, and roughly 25% above last year's prices. In late summer, 2004 prices were almost half-again those of the 5-year average. Price comparisons for 700-800 pound feeder steers are very similar with the average increase being about 15% compared to 2003 and 22% above the five-year average. These phenomenal prices can be attributed to numerous factors including excellent beef demand, tight cattle supplies, and cheap corn.



2005 is expected to be another good year for Georgia cattlemen. Even though January 1 beef cow inventory numbers are expected to show an increase in the numbers of beef cows and heifers held for replacements, calf and feeder cattle numbers will remain snug enough to keep prices very favorable. If the anticipated expansion does materialize, cattlemen can expect a spike in prices as buyers scramble to find cattle to fill their orders.

International developments will also play a key role in beef and cattle prices in 2005. Japan and most of the world should begin allowing the importation of U.S. beef in spring. However, American beef will have to compete with Australian beef for the Japanese dollar.

Canadian cattle less than 30 months of age will also begin making their way south in the form of feeder and fed cattle in 2005. Historically, Canadian cattle account for a small percentage (less than four percent) of U.S. production. Therefore, even though these cattle will add to supply their numbers should not impact prices greatly.

Forecast prices for steers sold in Georgia auctions are presented in the following table. Clearly these prices assume we do not have any major market disruptions such as an outbreak of BSE, more domestic terrorist events, etc.

**Forecast Georgia Auction Cattle Prices for 2005**

<b>2005</b>	<b>U.S. Beef Production</b>	<b>Fed Cattle Nebraska Direct</b>	<b>GA 500-600 Pound Steer</b>	<b>GA 700-800 Pound Feeder</b>
Jan-Mar	5,938	\$84.00	\$107.50	\$94.00
Apr-Jun	6,397	\$88.00	\$105.00	\$93.00
Jul-Sep	6,578	\$85.00	\$103.00	\$91.00
Oct-Nov	6,211	\$83.00	\$100.00	\$88.00
<b>Year</b>	25,124	\$84.00	\$105.00	\$92.00

### **2005 Pork Outlook**

Curt Lacy and John McKissick

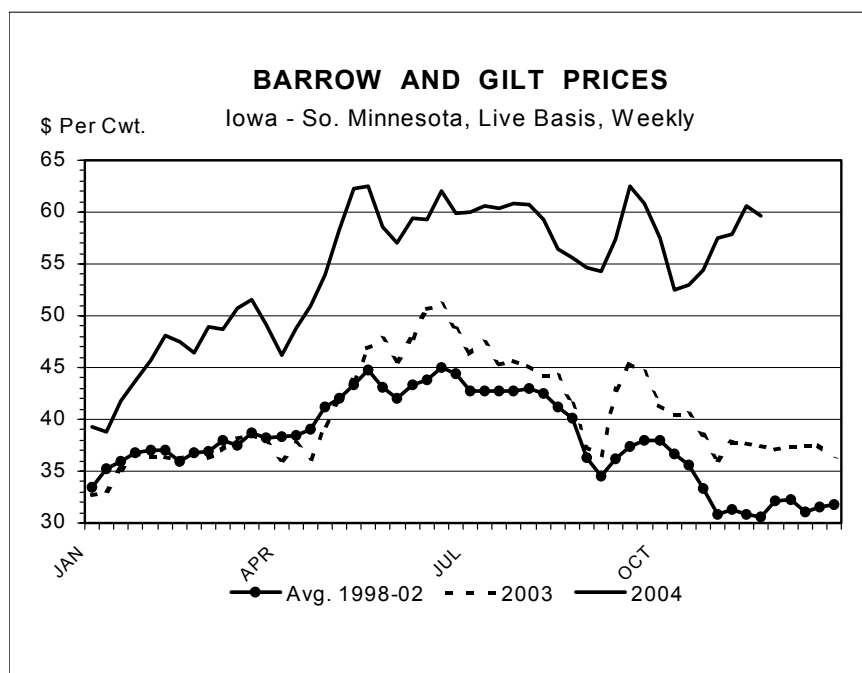
2004 was an incredible year for hog producers. High sales prices and low costs of gain combined to make it one of the most profitable years in history. According to data from Iowa State University, pork producers covered their total cost of production every month after January. Preliminary analysis shows that profits for the year averaged about \$20.50 per sow. These profits helped many producers replace some of the equity that was removed in past years.

The average market price for barrows and gilts in 2004 was almost \$60/cwt on a live weight basis. Through the end of November, prices were a full 41 percent over the five-year average and 33 percent over 2003's average. The phenomenal prices were brought by increased pork exports and strong domestic demand. For the year, pork exports on a tonnage basis were up more than 21 percent compared to 2003. This huge increase in exports was due almost entirely to the elimination U.S. beef exports following the discovery of a single case of BSE in December 2003.

Domestic demand also increased as consumer interest in low-carbohydrate diets boomed and beef prices escalated. In 2004 pork production increased by 3.15 % over 2003 and yet retail prices still increased. From January-October of 2004, retail pork prices were 4.97 percent above those for the same period in 2003 and 9.2 percent above the 5-year average.

Pork production is expected to increase in 2005 as more hogs come to market at heavier weights. Total pork production for the year is expected to approach 21 billion pounds-the largest ever. Much of this increase in production can attributed to an increase in the number of females held for breeding as well as increased carcass weights of market hogs.

The September 1, 2004 Hogs & Pigs Report published by USDA showed that producers intend to farrow 2.86 billion sows, one of the highest numbers on record. As pigs weaned per litter approaches 9.0 it is easy that there will be many "little piggies going to market". Finally, as carcass weights continue their upward march toward the 200 pound mark for barrows and gilts, one can only conclude that there will be plenty of BBQ in 2005.



**Pork Production: 2001-2004 (projected)**

	2002	2003	2004	2005
Quarter	<b>Pork Production Millions of Pounds</b>			
Jan-Mar	4,780	4,889	5,130	5,191
Apr-Jun	4,797	4,734	4,897	5,003
Jul-Sep	4,832	4,795	5,046	5,156
Oct-Dec	5,255	5,446	5,482	5,595
<b>Year</b>	<b>19,664</b>	<b>19,864</b>	<b>20,555</b>	<b>20,945</b>

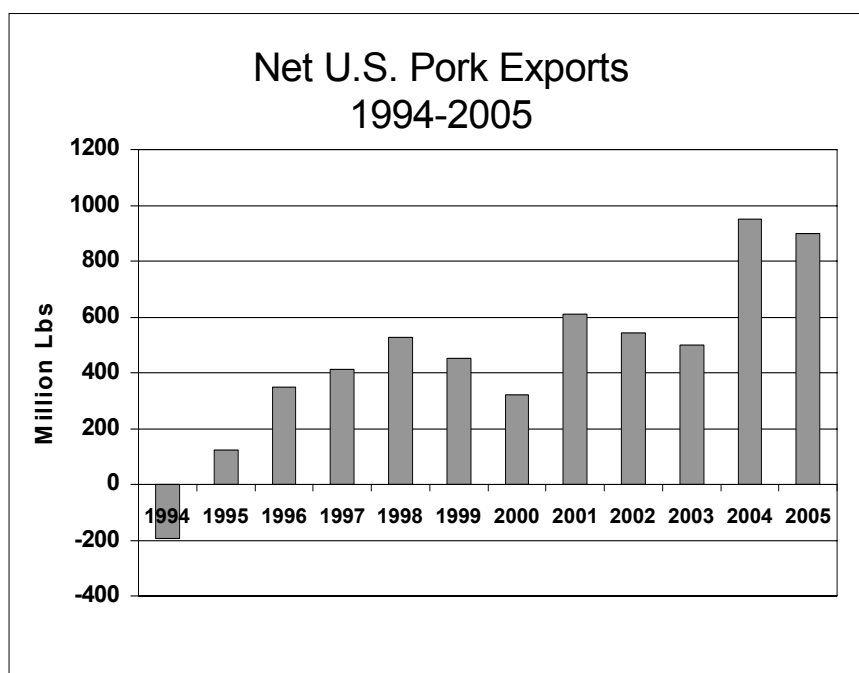
Source: Livestock Marketing Information Center (LMIC).

Demand for pork products is expected to remain strong even though it appears the low-carb craze has apparently hit its high water mark. Although the low carb diet fad is subsiding, it is expected that many consumers will stick to the high protein part of the diet. Furthermore, the relatively high prices of beef and poultry make pork an attractive protein source.

In 2004, the retail price for pork averaged \$2.79/pound through October, an increase of almost five percent. However, when the price of pork is compared to beef, the percentage actually decreased from 80 percent to 77 percent. Thus, even though pork is more expensive in terms of dollars, it is actually a better value compared to beef than in 2003. As long as pork supplies remain plentiful and beef supplies remain somewhat tight, this trend would be expected to continue.

Internationally, net exports of pork are expected to remain very favorable for the foreseeable future. As stated previously, when much of the world banned the importation of American beef, U.S. pork exports were a major beneficiary. This situation is expected to continue as it is projected that it will take several months or years for U.S. beef exports to work their way back to pre-BSE levels.

With very favorable prices and low feed costs, 2005 should be another profitable year for pork producers. Forecast prices, expected cost of production, and expected profits are given in the following table. As always, producers are encouraged to keep a close watch on feed costs and avail themselves of any price risk opportunities that may arise.



#### Hog Prices: 2001-2005 (projected)

	2002	2003	2004	2005
Quarter	Iowa/Southern Minnesota Live Hog Price (\$/Cwt.)			
Jan-Mar	\$ 39.65	\$ 37.26	\$ 45.89	\$49.50-\$52.50
Apr-Jun	\$ 35.84	\$ 45.31	\$ 56.63	\$49.50-\$53.25
Jul-Sep	\$ 34.04	\$ 44.76	\$ 58.79	\$47.25-\$51.00
Oct-Dec	\$ 30.34	\$ 39.40	\$ 56.24	\$41.50-\$46.00
<b>Year</b>	<b>\$ 34.41</b>	<b>\$ 41.81</b>	<b>\$ 54.39</b>	<b>\$46.50-\$49.50</b>
	<b>Cost of Production (\$/Cwt.)</b>			
<b>Yearly</b>	<b>\$ 38.50</b>	<b>\$ 39.00</b>	<b>\$ 40.21</b>	<b>\$ 36.52</b>

Source: LMIC, USDA and UGA

#### 2005 Poultry Industry Outlook

John McKissick

Broiler producers enjoyed another market price improvement in 2004 with the first of the year continuing the steady increase begun in 2003. However, by mid year the weight of a 4% expansion in production, the largest since 1998, began to weigh on the markets. The production expansion was fueled both by heavier bird weights and increased numbers of birds. Production will increase again in 2005 by 3% to 4% given the industry profitability enjoyed the last two years.

Breast meat prices were actually below year earlier levels as 2004 closed, stirring concern about white meat demand once again. White meat demand improvements noted in 2003 were in contrast to the slumping demand of the prior two years. If domestic white meat demand does not return to prior levels, production increases beyond forecast levels will be difficult to absorb without damage to market prices in 2005.

Export markets slumped again in 2004. Export gains in Canada and Mexico were offset by declines in the Asian countries, particularly Hong Kong/China, Korea, and Japan. Export demand in 2005 is likely to be only slightly improved in 2005 as lower leg quarter prices stimulate some renewed export interest. It should be noted that the export market holds the greatest chance for a positive price surprise even though the current export outlook is unchanged from 2004.

On balance, broiler producers should enjoy a third year of the kind of profit margins enjoyed by the industry prior to 1999, even with export and domestic demand concerns. Such profitability will be dependent on the industry holding production growth to 4% or less. Profit margins will also be enhanced in 2005 by lower feed cost brought on by large grain and soybean crops.

#### **Broiler Outlook Summary**

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Broiler Production (Mil. Lbs)	31,895	32,747	34,075	35,150
12 City Price (Cents/Lb.)	55.04	62.00	75.00	70.00
Yearly Cost of Production (Cents/Lb.)	47.80	49.00	48.50	48.00

Source: USDA and The University of Georgia

Egg producers found the first and second half of 2004 to be total opposites in price direction. The first half of 2004 found prices over \$1 per dozen for much of the time. By the last half of the year, prices had fallen by more than 30 cents per dozen from earlier in the year and averaged 40% lower than the last half of 2003. Because of the early year prices, 2004's average price was still a very profitable 83 cents per dozen. With another 1% to 2% increase in production forecast for 2005, average yearly prices will decline into the mid 70 cent per dozen range. The 2005 price decline will not likely be severe enough to threaten egg producer profitability.

#### **Egg Outlook Summary**

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Egg Production (Mil. Doz.)	7,221	7,273	7,399	7,495
Grade A NY Price (Cents/Doz.)	67.10	87.90	83.50	74.00
Yearly Cost of Production (Cents/Doz.)	64.90	67.50	66.50	66.00

Source: USDA and The University of Georgia

#### **Dairy Outlook**

Bill Thomas

Milk prices in 2004 were among the highest in history. 2005 prices will be 50 cents per cwt. lower but still among the top five average annual milk prices received. Demand for dairy products continues strong. Through September, 2004 commercial disappearance of skim solids was up 3.9% and butterfat use up 0.7% despite record high milk prices. U.S. production growth is still modest and the dairy industries production control program (Cooperatives Working Together) will cut production starting in December 2004. There are indications that the increase availability of BST next year will not significantly increase production. The last of Canadian replacements will also limit production increases. World dairy prices are high and rising. The dollar is weak and weaker. All these factors should keep milk, cheese, and butter prices above historical norms well into 2005.

#### **HORTICULTURAL CROPS**

##### **Outlook For Fruits, Vegetables and Pecans**

Esendugue Greg Fonsah

The fruits and vegetable industry is going through many changes that will positively or negatively impact future trends. Although this industry has been growing exponentially, the Georgia vegetable industry is actually growing

faster than the fruit industry. For the past three years the vegetable industry has grown from a \$600 million to a \$900 millions industry whereas the fruit industry has maintained status quo at about \$165 million during the same time period. However, the combined industry is worth over \$1 billion and contributed about 10.8 percent of Georgia farm gate value in 2003.

In 2004, hurricanes Frances, Jeanne and Ivan hit the state causing substantial shortage for fall vegetable crops and fruits. These hurricanes and tropical storms damaged a substantial amount of an estimated 45,000 acres of assorted vegetable crops planted. The vegetables mostly affected were peppers, tomatoes, squash, cucumbers, eggplants, sweet corn and snap beans. The total damage was estimated at \$145 million. The Georgia pecan and peach industry also suffered significant damage. There were uprooted pecan trees, broken limbs and loss of nuts. Peach trees were uprooted and suffered broken limbs although the fruits were already harvested.

Another change is mandatory traceability requirements. This is simply a well designed recordkeeping procedure aimed at addressing food safety and bioterrorism to consumers' right to know. It is an expensive operation even though complete traceability is impossible. However, it is generally cheaper to establish and maintain the system for perishable horticultural products such as fruits and vegetables than with other commodities. The Perishable Agricultural Commodity Act, (PACA) is another buffer for the horticultural commodities. PACA does not require lot numbers, size specification on boxes and specific recordkeeping system.

The mandatory country of origin labeling (COOL) requirement is yet another policy that would 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 especially now that the U.S. dollar has depreciated about 30 percent. More-so, due to the increasing purchasing power parity and stable banking and financial institutions, the EU member countries, Canada and Japan who are currently the dominant demand-side factors for fruits and vegetables trade, are willing to pay for better quality products all year round. The mandatory COOL would enable the U.S. to take advantage of these markets and increase market share.

#### Zucchini

A comparison of small zucchini prices show that the 2003 spring crop commanded better prices than fall crop. In 2004, not only spring prices were initially lower than 2003, an unexpected price jump occurred in the fall 2004 crop. The price rose to \$22.61 per 1/2 and 5/9 bushel in September 2004 compared with \$6.57 in 2003.

A similar trend was observed with medium size zucchini. In Spring 2003, prices were relatively higher than in the fall. The highest price was recorded in June when medium zucchini sold for \$5.85 per 1/2 and 5/9 bushel compared with the highest price of \$5.20 in October of the same year. In 2004, all the spring monthly prices were relatively lower than the previous years and worse of all, the highest 2004 spring price of \$4.01 per 1/2 and 5/9 bushel was 45.9 % lower than 2003. However, there was a dramatic escalation in September 2004 as the price skyrocketed from \$4.01 to \$19.13 per 1/2 and 5/9 bushel of medium zucchini. This same trend was observed with other vegetables such as pepper, squash, tomatoes, cucumbers etc.

#### Pecans

Georgia produced 32%, 26% and 23% of all pecans in the U.S. in 2001, 2002 and 2003 respectively. These figures also represent a 41% drop in production in 2002 compared with 2001 and 33% increase in 2003 compared to 2002. Price per pound was 0.61, 1.00 and 0.95 cents in 2001, 2002 and 2003 respectively. Pecan price in 2004 ranged from \$1.24 to \$1.91 per pound with the average being \$1.58 depending on the variety. This price is the highest ever seen since 1992 when the average price was \$1.54 per pound. The price per point also varies from \$3.40 to \$3.85.

**Georgia 2004 Pecan Prices Paid to Growers**

Variety	Meat %	Price Per Pt.	Price per Pound
Desirable	50 - 51	\$3.60 - \$3.75	\$1.87 - \$1.91
	48 - 49		\$1.73 - \$1.78
	45 - 46		\$1.62 - \$1.73
Stuart	47 - 48	\$3.40 - \$3.85	\$1.74 - \$1.75
	45 - 46		\$1.57 - \$1.68
	43 - 44		\$1.50 - \$1.52
	40 - 42		\$1.24 - \$1.39
Machine Harvested blend	47 - 48	\$3.50 - \$3.80	\$1.65 - \$1.82

Source: USDA-AMS, TV\_FV140 (2004), Thomasville, Georgia.

## Peaches

Georgia peach production trend has been fluctuating and is expected to normalize to 100 million pounds in 2004. For the past three years, production has dropped to as low as over 80 million pounds in 2002 to as high as 120 million pounds in 2003.

Nation wide, the highest peach production was recorded in 1980 when over 3,067 million pounds were produced thus obtaining one of the lowest price of 16.6 cents per pound. The best price ever was in 1996 when a pound of fresh peach sold for 33.1 cents. Since then, prices have been fluctuating between 25 to 30 cents per pound.

## Blueberries

The Georgia blueberry industry has experienced substantial growth in both harvested acreage and prices obtained. Since 1998, production has been floating around 4500 acres. Yields per acre have increased in recent years when compared with 1998 but it is still below national average.

In Georgia three kinds of blueberries are grown: Southern Highbush in soil, Rabbit eye and High Density. Fresh blueberries command better prices than processed but only less than 50 % of the fruit is sold fresh.

Georgia has suffered from successive hurricane attacks in 2004. The damage subsequently created a scarcity of some vegetables and fruits. As a result of the extreme shortage, prices skyrocketed. The vegetables mostly affected were peppers, tomatoes, squash, cucumbers, eggplants, sweet corn and snap beans and they all showed a similar price trend. The total damage was estimated at \$145 million. The Georgia pecan and peach industry also suffered serious damage. The scarcity caused by the shortage contributed to the exponential price increase. Vegetable growers should not be tempted to increase harvested acreage in 2005 as this will likely drive prices down. The recent price hike is temporal. Production cost for both the pecans and peach growers will likely go up in 2005. The spillover effect of the hurricane will negatively affect next year's quality, yield and overall production.

## **Floriculture and Nursery Crops Outlook**

Forrest Stegelin

Although grower receipts from greenhouse and nursery crops are expected to be up by less than one-percent for 2004, they still represent another year of an unbroken series of annual sales increases. Among floriculture product groups, cut flowers, potted flowering plants, and cut cultivated greens are expected to register lower sales due to continuing rising prices. Bedding and garden annual and perennial plants and propagative materials are the only floriculture crops whose sales are expected to be higher in 2004, with a continuation of this trend into 2005. Nursery crops (both container grown and field grown) are also forecast to continue annual sales gains in 2004 and into the spring of 2005. Robust housing and commercial property construction is the motivation for these sales gains, as well as a lower share of imports in the floriculture and nursery crops.

Per-household expenditures for greenhouse and nursery crops in 2004 is to exceed \$139, down from its peak in 2002. Nonetheless, the greenhouse and nursery crop sector will post total national sales in excess of \$15.3 billion in 2004, a value exceeded nationally only by corn, soybeans, and vegetables among crops. With per household income gains being projected for 2005, expenditures for the floriculture and nursery crops should rebound on a per household basis to \$140 (the 2002 peak).

### **Greenhouse and Nursery Crops: Value of U.S. Sales at Wholesale**

<b>Crop Group</b>	<b>2002</b>	<b>2003</b>	<b>2004f</b>	<b>2005p</b>
<b>Total U.S. Sales</b>	-----Million Dollars-----			
Floriculture crops	5,090	5,069	5,076	5,089
Nursery & other greenhouse	9,981	10,125	10,228	10,347
Greenhouse & nursery crops	15,071	15,193	15,302	15,436
<b>Sales Per U.S. Household</b>	-----Dollars-----			
Floriculture crops	47	47	46	47
Nursery & other greenhouse	92	93	93	94
Greenhouse & nursery crops	140	139	139	140

[f = forecast; p = projected; industry sales represent growers with \$10,000+ in annual sales from the 36 major states, including Georgia]

Recent prices of bedding plants and potted flowering plants are flat, when indexed using the 2000 year prices as a base. The indexes show potted flowering plants at slightly higher prices (relative, using the indexes) than bedding and garden plants. Field grown trees and shrubs have also shown a relatively flat pricing trend among growers in Georgia. Such flattened price trends do not take into account inflation, which has been averaging less than five-percent per year since 2000, so in reality, grower prices have not been keeping up with inflation. This observation is due, in part, to the huge market share the retail mass merchandisers (department stores, home improvement centers, wholesale clubs) have, compared to the independent garden centers and retail nurseries.

## MANAGEMENT AND MARKETING IMPLICATIONS

### Squeezing More From the Cotton Market When Prices Are Low

Don Shurley

Prices for the 2004 crop will likely average around 45 cents for most producers unless they took advantage of higher contract opportunities early in 2004. Prices for the 2005 crop could rebound into the 50's but also could remain near 2004 levels or lower as discussed in the outlook.

A Loan Deficiency Payment (LDP or POP) or Marketing Loan Gain (MLG) is the difference between the Loan Rate and the Adjusted World Price (AWP) if the AWP is less than the Loan Rate. The AWP is calculated weekly and is the weekly average A-Index (the world price of cotton) "adjusted" for US grade and location. So,

$$\text{LDP or MLG} = \text{Loan Rate} - \text{AWP} = \text{Loan Rate} - (\text{A-Index} - \text{Adjustment})$$

The A-Index and US prices tend to generally move together. Therefore, when cotton prices are low (when there is an LDP or POP in effect), producers know that their "total money" will include either (a) the LDP/POP plus a cash sell, (b) the loan plus a merchant equity, or (c) a marketing loan gain (MLG) plus cash sell. It depends on how the producer markets the crop.

What producers may not realize, however, is that the "total money" received is not necessarily dependent on prices alone. What is more important is the *relationship* between cash prices and the Adjusted World Price (AWP). It is this *relationship* that determines the "total money", not necessarily the prices themselves.

When prices are low (when an LDP/POP) is in effect, the most important relationship is what might be called the "AWP spread" or "AWP basis". This is the difference between cash prices and the AWP. When an LDP/POP is in effect or when an equity or marketing loan gain (MLG) is involved, the "total money" changes only as this "spread" changes.

The current "AWP basis" (as of this writing in mid-December) is about -7 cents. In the table below, note that this -7 cents is the result of 3 other relationships-- the A-Index is about 5 ½ cents above futures (this is called the A-Index spread), the cash market is about 2 ½ cents under futures, and the adjustment is about 15 cents.

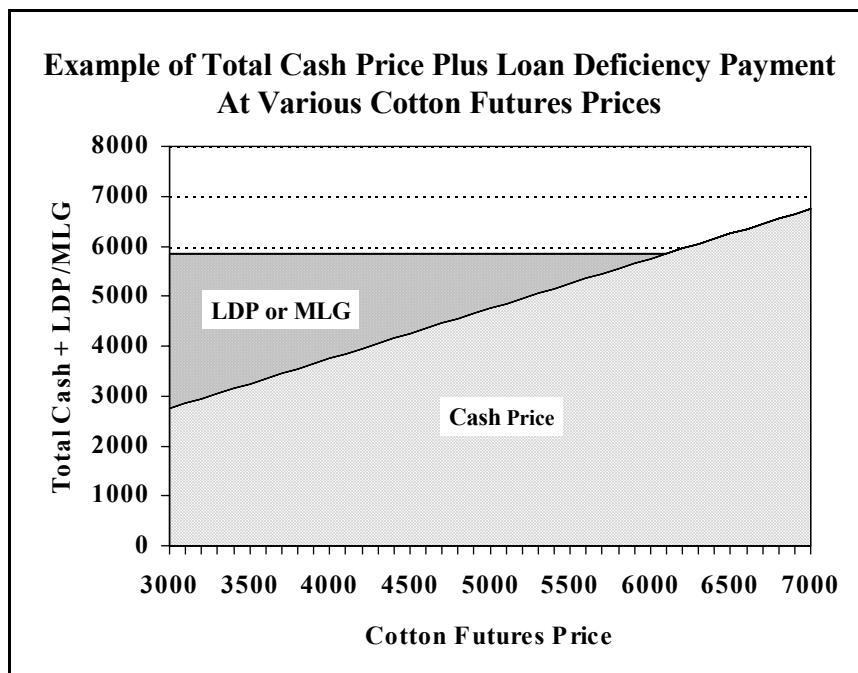
**Example of Total Cash Price Plus LDP, Mid-December 2004, Georgia**

March Futures	4300	+548	A-Index	4848
Cash Basis	-250		Adjustment	-1506
Cash Price	4050	-708	AWP	3342
			LDP	1858
<b>Total LDP + Cash</b>	<b>5908</b>			

As prices (futures and the A-Index) change, provided that all 3 of these relationships hold (as long as the AWP basis is -7), the total money (LDP plus cash sale, in this example) will always be 5908. This is depicted also in the following graphic. Given the current relationships in the market, as long as cotton futures prices are below about 61 cents, the total money to the farmer never changes. Based on current market price relationships, as long as cotton futures prices are below about 61 cents, an LDP is likely to be in affect and total money to the producer will be about 58 to 59 cents.

Lower prices result in lower cash for cotton but a larger LDP. Higher prices result in higher cash for cotton

but with a lower LDP. The 2 sources of “total money” tend to offset each other. Futures prices above the low 60’s are needed to make the producer better off in terms of “total money”.



For the 2005 crop, as previously mentioned, prices could improve into the 50’s if 2005 production is below this year and US export prospects remain very strong. Prices could also be below 2004 crop levels. Prices in the 50’s, however, would not necessarily make the producer better off compared to 2004. Higher cash prices, if they happen, would likely only be offset by a lower LDP/POP.

So, producers might say “If the outcome is going to be the same regardless of what happens, why should I do anything in terms of marketing?” Still other producers might say “If the outcome is always going to be the same, how can I do any better?”

The key to “squeezing more money from the market” lies in taking advantage of changes in this relationships as they occur to your advantage or making decisions when you can put the relationship in your favor. Several examples include:

1. Use a basis contract if an attractive basis is available.
2. If you anticipate it is likely that prices will be lower at harvest time, contract at a higher price if available prior to harvest. If prices then decline as anticipated, this will result in both a high price and high LDP.
3. Same conditions as #2 but purchase a Put Option rather than contract. A risk in #2 is that if prices should move higher rather than lower, you will end up with a low price AND little or no LDP. A Put Option would act to protect from a loss in the LDP by still allowing you to sell cotton at the higher price.
4. For a “spot sale” (cash cotton outside the loan), time the sale when the “AWP basis” widens (for example, goes from a -7 to a -9). This means either the cash market is improving relative to the A-Index and AWP or that the AWP is falling (and thus the LDP increasing). Either way, “total money” is increased. Over time, the A-Index and US futures prices tend to catch up with each other so the trick here is timing. Catch the wider spread before either side has time to adjust.
5. For cotton in the loan, the same situation as in #4. When the basis or spread widens, this means Marketing Loan Gain (MLG) has increased relative to cash prices or that merchant equities should be increasing. Take advantage of this by timing of loan redemption or equity contract.
6. Forgoing the LDP/POP at harvest and instead placing cotton in loan does not guarantee higher “total

money” in the end. If the relationships remain the same during the loan period as they were at harvest or before cotton was placed in loan, the end result will be the same. Consider using Call Options as a way to make additional money off a move up in the market.

7. If taking the LDP/POP, realize that if you continue to hold cotton from the market that you are unprotected. If prices go up, “total money” will increase. If prices should fall, however, you no longer have the LDP (an increase in LDP) to protect you.

### **2005 Crop Costs/Returns and Comparative Analysis**

Don Shurley, Nathan Smith, and George Shumaker

Crop acreage decisions are based primarily on costs and relative comparison of expected net returns of competing crops, risks, crop rotations, and weather during the planting season. The following is a comparison of projected (estimated) net returns for cotton and selected other crops for 2005. These projections are estimates based on projected prices, including LDP's if applicable, and cost of production estimates. Net returns and how crops compare will change based on yield, prices, and costs. Because yield potential and cost vary greatly within the state and from producer to producer, producers are encouraged to develop their own estimates and comparisons and then monitor and plan carefully as planting season approaches.

**Estimates of Per Acre Costs and Net Returns <sup>1</sup>  
and Comparison of Estimated Net Returns, Georgia, 2005**

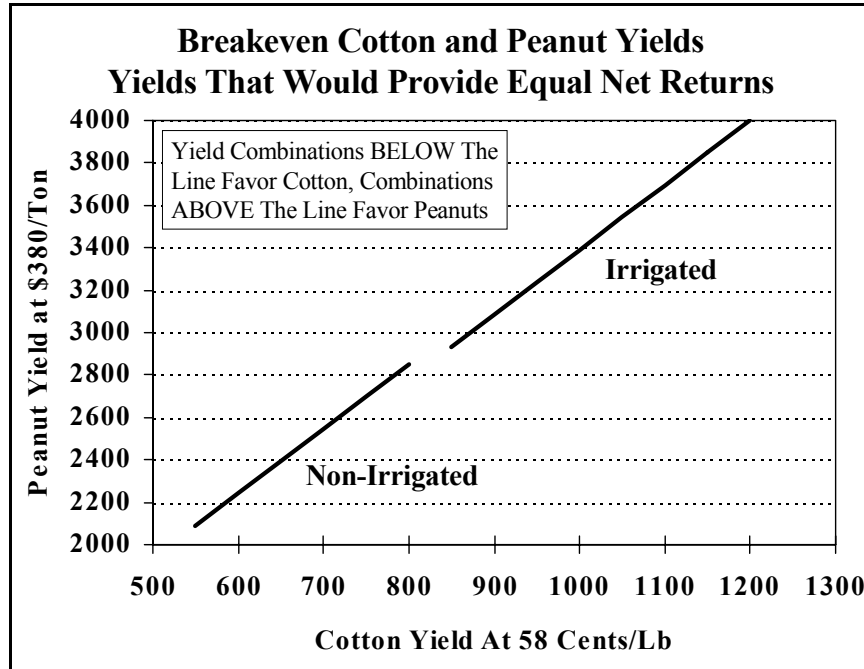
<b>Crop</b>	<b>Expected Yield/Acre</b>	<b>Expected Avg Price</b>	<b>Expected Income</b>	<b>Estimated Variable Cost/ Acre</b>	<b>Net Return Per Acre</b>
<b>Non-Irrigated Production</b>					
Corn	85 bu	\$2.65 bu	\$225	\$197	\$28
Cotton- BR	650 lbs	\$0.58 Lb	\$377	\$324	\$53
Peanuts	2500 lbs	\$380 ton	\$475	\$402	\$73
Soybeans	30 bu	\$5.15 bu	\$155	\$148 <sup>2</sup>	\$7
<b>Irrigated Production</b>					
Corn	185 bu	\$2.65 bu	\$490	\$347	\$143
Cotton- BR	1000 lbs	\$0.58 Lb	\$580	\$413	\$167
Peanuts	3500 lbs	\$380 ton	\$665	\$477	\$188
Soybeans	50 bu	\$5.15 bu	\$258	\$178 <sup>2</sup>	\$80

1/ Prices (including LDP if applicable) based on 2005 futures prices or expected prices or contracts as of mid-late December 2004. Costs based on 2004 UGA budget estimates adjusted for expected increases for 2005. Actual/final cost estimates may vary from estimates shown.

2/ Does not include possible Asian Rust control.

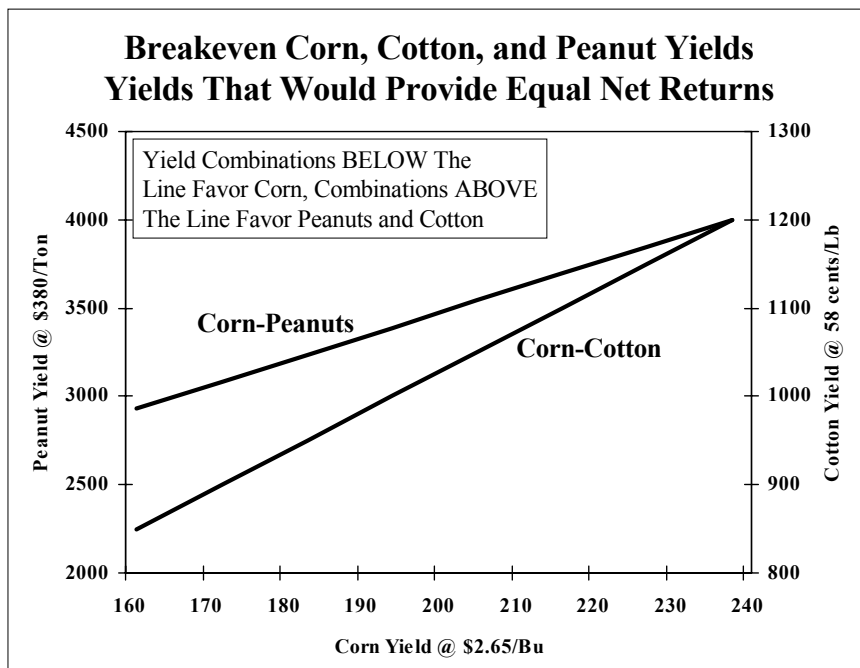
Based on present (forecast) and expected market conditions and based on the cost estimated and yields assumed, peanuts and cotton compare favorably to other crops (corn and soybeans). Peanuts appear to offer slightly better expected net returns than cotton.

The following chart provides a general guide comparing both irrigated and non-irrigated cotton and peanuts based on the prices, yields, and costs assumed in the above table. Price, including LDP, is assumed to be 58 cents/lb for cotton and \$380/ton for peanuts. The chart shows yields that would provide equal net returns at these prices and at the 2005 estimated costs assumed. For example, if expected cotton yield was 700 lbs per acre, a peanut yield of approximately 2,550 lbs would provide the same net returns. If equivalent soils and conditions would yield 700 lbs on cotton but more than 2,550 lbs on peanuts then net returns would favor peanuts. Likewise, if equivalent soils and conditions would yield 2,550 lbs on peanuts but more than 700 lbs on cotton then net returns would favor cotton.



Under irrigation, if expected cotton yield is 1000 lbs/acre, peanut yield of approximately 3400 lbs/acre would provide equal net returns. If equivalent soils and conditions would produce 1000 lbs/acre cotton but more than 3400 lbs/acre peanuts, then net returns would favor peanuts. Likewise, if equivalent soils and conditions would yield 3400 lbs/ac on peanuts but more than 1000 lbs/ac on cotton, then net returns would favor cotton.

The following graphic depicts the break-even yield relationship comparing corn to cotton and peanuts. Again this is assuming the expected average prices and costs shown earlier. The analysis is for irrigated production. For example, 185 bushels irrigated corn would be equivalent to about 950 lbs cotton or 3250 lbs peanuts. If your expected average corn yield is 185 bushels/acre, corn would bring higher net returns than cotton if cotton yield were less than 950 or peanut yield less than 3250. At 185 bushels/acre for corn, yields of better than 950 and 3250 on cotton and peanuts respectively, would favor those crops over corn.



For assistance in comparing crop net returns and break-even prices and yields, an Excel spreadsheet "Crop Comparison Decision Aid" can be found on the Web at the following address:

<http://www.ces.uga.edu/Agriculture/agecon/cmpdec.htm>

Producers should remember that if planting less than your payment acres (less than 85% of the base acres), then you have no "production hedge" against any decline in the Counter-cyclical Payment (CCP). On actual planted acres equal to or less than your payment acres, any decline in the CCP for that crop (due to increased prices) is compensated by having production to sell at the higher price. The CCP is reduced when the MYA (Market Year Average Price) is above the Loan Rate for the crop. When making acreage planting decisions, *only if you intend to plant less than your payment acres by switching acres to another crop*, consideration should also be given to which crop is most likely to have a MYA below or nearest to its loan rate.

### **Livestock Management Considerations**

Curt Lacy

#### **Beef Cattle Management Considerations**

2004 was a very profitable year for most beef cattle producers. The outlook for 2005 is also very positive but concerns about herd expansion tempers optimism much past 2006. Even so, producers still have a few years to implement key decisions that will impact their ability to stay in the beef industry long-term.

Some key steps that cow-calf producers should consider taking now to insure continued success in the beef business in the next few years are discussed below

1. Cull any non-productive cows. Cow prices will be very favorable for the next several years. Therefore cattlemen should cull any open or poor performing cows. In some cases, older cows and/or cows whose calves have been declining in quality and weight may need to be culled even though they are still delivering live calves.
2. Pay off any non-secured debt. Lines of credit, outstanding balances with feed companies, equipment dealers, etc should be paid first. Doing so will improve credit scores and eliminate the usually higher interest rates that accompany unsecured debt. Producers with several outstanding balances should pay off smaller notes first and then proceed to the next largest.
3. Improve pastures. Poor pasture management is one of the most limiting factors to profitability for many Georgia cattlemen. In general, properly managed pastures help greatly in reducing feed costs and increasing profits. Improving pastures in the near term now accomplishes several objectives for producers, reducing taxable income, having an almost immediate impact, and building a resource base that can be used in lean years at very little or no cost.
4. Upgrade genetics. Improving the genetic composition of the cow herd is an investment in the future. If implemented correctly, better genetics will have long-term dividends for most cattle operations.
5. Purchase new land and/or equipment. Good years sometimes create problems for agricultural producers because they buy land or equipment based on current high prices and then have difficulty making payments when price decline. Producers desiring to purchase land or equipment should strive to pay cash. If that is not possible, they should pay down as much as possible and then base their payments on the 10-year average calf price not current prices.

Stocker and feeder operators should pay close attention to current and projected prices for feeders and live cattle. Typically when prices are at current levels it is more difficult for stockering or feeding to be profitable because of the expense of the calf and the downside market risk. Cattlemen stockering or feeding cattle should closely monitor the market situation and utilize the numerous tools that are available to limit their sales and feed risk.

#### **Hog Management Considerations**

2004 was also very profitable for virtually all hog producers in every segment of the industry. 2005 is also expected to be a good year with good prices and low feed costs. Returns for farrow to finish producers appear to be very favorable with much of the large profit margin per head is due to increasing weights of hogs. Producers should keep a close eye on supply-demand factors and avail themselves of any opportunities to limit downside risk.

**Risk-Rated Returns and Probabilities  
For Selected Georgia Livestock Enterprises, 2005.**

Enterprise	Expected Price Per Cwt.	Sale Weight	Variable Cost Per Cwt.	Total Cost Per Cwt.	Return Above Variable Cost/Hd Sold	Return Above Total Cost/Hd Sold	Probability of Covering	
							Variable Cost	Total Cost
Cow/Calf- Fall Calving	\$ 103.00	550	\$90.95	\$100.36	\$168.75	\$ 9.06	64%	51%
Cow/Calf- Spring Calving	\$ 100.00	525	\$96.05	\$104.35	\$133.37	\$(26.21)	62%	16%
Feeder Cattle- Winter Stockering, Sell in Spring 2002	\$ 94.00	750	\$104.93	\$108.50	\$(80.53)	\$(108.66)	22%	15%
Custom Fed Cattle- Placed in Fall 2001	\$ 88.00	1175	\$85.89	N/A	\$24.84	N/A	66%	N/A
Hogs- Farrow to Finish	\$ 47.00	265	\$30.38	\$36.39	\$46.52	\$30.25	99%	94%

The University of Georgia College and Agricultural & Environmental Sciences and Ft. Valley State University, and the U.S. Department of Agricultural and counties of the state cooperating. The Cooperative Extension Service offers educational programs, assistance and materials to all people without regard to race, color, national origin, age, sex or disability.

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