Welcome to the 2012 Georgia Ag Forecast

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THE UNIVERSITY OF GEORGIA
COLLEGE OF AGRICULTURAL & ENVIRONMENTAL SCIENCES
Agribusiness Economy Georgia’s Largest Sector

65 products with significant farm value production - $12.0B farm value, $68.9B direct and indirect value - 380,000 jobs

Ag Forecast 2012 Authors – Humphreys, Escalante, Fonsah, Shumaker, Smith, Smith, Shurley, Stegelin, McKissick, Lacy, Morgan, Shepherd, Wolfe, Kane, Gaskins, Molpus
2009 Total Farm Gate Value
GA = $11.3 B

2010 – Up significantly to $12.1 B
2011 – Likely higher from Crops
2012 – Even higher from Animals
What About 2012?

- Slow Rate of Growth for US and GA.
- Commodity Prices Peaked in 2011, Remain Relatively High/Variable.
- Input Prices/Cost Continue to Rise, especially crops.
- Weak Dollar Helps GA and Ag Exports, But Growth Limited. Europe Crisis is Strong Headwind to Growth.
- More Policy Uncertainties, Election Year Politics vs. Needed Fiscal Policy
- Another Dry Spring? Greater Potential to Impact Production.
KEY MACRO FACTORS

- Economic growth
- Energy cost
- Exchange Rates
- Employment
- Interest rates
- Deficits
- Housing market
Economic Growth

Gross Domestic Product

<table>
<thead>
<tr>
<th>Year</th>
<th>Household (Billion)</th>
<th>Business (Billion)</th>
<th>Government (Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6,830</td>
<td>1,731</td>
<td>800</td>
</tr>
<tr>
<td>2001</td>
<td>7,149</td>
<td>1,846</td>
<td>900</td>
</tr>
<tr>
<td>2002</td>
<td>7,439</td>
<td>1,647</td>
<td>1,000</td>
</tr>
<tr>
<td>2003</td>
<td>7,804</td>
<td>1,730</td>
<td>1,100</td>
</tr>
<tr>
<td>2004</td>
<td>8,285</td>
<td>2,233</td>
<td>1,200</td>
</tr>
<tr>
<td>2005</td>
<td>8,819</td>
<td>2,370</td>
<td>1,300</td>
</tr>
<tr>
<td>2006</td>
<td>9,323</td>
<td>2,518</td>
<td>1,400</td>
</tr>
<tr>
<td>2007</td>
<td>9,806</td>
<td>2,974</td>
<td>1,500</td>
</tr>
<tr>
<td>2008</td>
<td>10,105</td>
<td>2,674</td>
<td>1,600</td>
</tr>
<tr>
<td>2009</td>
<td>10,349</td>
<td>2,878</td>
<td>1,800</td>
</tr>
<tr>
<td>2010</td>
<td>10,500</td>
<td>2,915</td>
<td>2,000</td>
</tr>
<tr>
<td>2011</td>
<td>10,455</td>
<td>1,828</td>
<td>2,100</td>
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</table>

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Federal Surplus or Deficit

Federal Surplus or Deficit [-] (FYFSD)
Source: The White House: Office of Management and Budget

Shaded areas indicate US recessions.
2011 research.stlouisfed.org
CBO expects that the economic recovery will continue but that real (inflation-adjusted) GDP will stay below the economy’s potential—a level that corresponds to a high rate of use of labor and capital—until 2017.

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.
Notes: Real gross domestic product is the output of the economy adjusted to remove the effects of inflation. Potential GDP is CBO’s estimate of the output that the economy would produce with a high rate of use of its labor and capital resources. Data are quarterly. Actual data for GDP, which are plotted through the second quarter of 2011, incorporate the July 2011 revisions of the national income and product accounts. Projections of GDP, which are plotted through the fourth quarter of 2021, are based on data issued before the revisions. Shaded bars indicate periods of recession.
Agricultural Outlook
**Ag Inputs and Production Expenditures**

Variable costs of producing crops will climb another 15-20% in 2012, with volatile fertilizer and seed prices being primary drivers of increases.

**Fertilizer** price follows the oil price; increasing use of complex genetic traits have increased **seed** prices.

**Pesticide** prices will vary by product.

**Farm equipment** prices anticipated to rise nearly 10% as well, as manufacturers realize high commodity prices at harvest mean more money in farmers’ pockets who may still have pent up demand for new or nearly new farm equipment and machinery.

**Land** prices and rents also expected to increase with low interest rates and farmers with cash.
Meat supplies were slightly larger in 2011 but will be lower in 2012

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2010</th>
<th>2011 Projected</th>
<th>2012 Forecast</th>
<th>11 vs 10</th>
<th>12 vs 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef</td>
<td>26.41</td>
<td>26.30</td>
<td>25.08</td>
<td>-0.42%</td>
<td>-4.86%</td>
</tr>
<tr>
<td>Pork</td>
<td>22.46</td>
<td>22.78</td>
<td>23.21</td>
<td>1.40%</td>
<td>1.85%</td>
</tr>
<tr>
<td>Total Red Meat*</td>
<td>49.18</td>
<td>49.37</td>
<td>48.58</td>
<td>0.38%</td>
<td>-1.63%</td>
</tr>
<tr>
<td>Broilers</td>
<td>36.52</td>
<td>36.84</td>
<td>36.11</td>
<td>0.87%</td>
<td>-2.02%</td>
</tr>
<tr>
<td>Total Poultry**</td>
<td>42.59</td>
<td>43.09</td>
<td>42.39</td>
<td>1.16%</td>
<td>-1.65%</td>
</tr>
<tr>
<td>Total RedMeat &amp; Poultry</td>
<td>91.77</td>
<td>92.46</td>
<td>90.97</td>
<td>0.75%</td>
<td>-1.64%</td>
</tr>
</tbody>
</table>

Source: USDA-WASDE, January 2012 Report
NO SWIMMING OR DIVING
The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://droughtmonitor.unl.edu/

Released Thursday, January 19, 2012
Author: Laura Edwards, WRCC, South Dakota State University
Continuing drought will keep hay prices high and limit expansion in the beef sector.
BEEF COWS THAT HAVE CALVED
JANUARY 1, 2011
(1000 Head)

<table>
<thead>
<tr>
<th>State</th>
<th>Livestock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska</td>
<td>5.1</td>
</tr>
<tr>
<td>Hawaii</td>
<td>79</td>
</tr>
<tr>
<td>US Total</td>
<td>30865</td>
</tr>
</tbody>
</table>

Livestock Marketing Information Center
Data Source: USDA/NASS

C-N-15
01/28/11
Record High Prices in 2011

MED. & LRG. #1 & 2 STEER CALF PRICES

500-600 Pounds, Georgia, Weekly

Livestock Marketing Information Center
Data Source: USDA-AMS, Compiled & Analysis by LMIC

01/18/12
Projected Prices 2012 and Beyond

Source: USDA, LMIC and UGA
COW-CALF RETURNS AND CATTLE INVENTORY
U.S., Annual

Livestock Marketing Information Center
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC
Cost of production will be higher but should be manageable for most.
How Did Broiler Producers Fare in 2011 – What Does it Mean for 2012?

BROILER-TYPE HATCHING LAYERS
Average Number On Hand During Month

- **Avg. 2005-09**
- **2010**
- **2011**

Million

50 51 52 53 54 55 56 57 58

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Broiler Prices Higher in 2012 on Production Cuts – Profits Much Improved if Feed Prices Moderate!
Broiler Prices Higher in 2012 on Production Cuts – Profits Much Improved if Feed Prices Moderate! + $3/cwt.
Milk Prices Remain High, Profits Improved With Reduced Forage and Feed Costs?

$22/Cwt.

2011

2012
CROPS OUTLOOK
Crop Agriculture – Can Increased Revenues be Repeated (Doubtful)?

- Prices Good in Almost all Georgia Row Crops on Tight Supply.
- High Prices Have Cut Into Demand.
- Will Feed Prices Improve for Animal Agriculture? Yes some!

**Row & Forage Crops**
- $2.4 B 2010
- UP Big in 2011
- DOWN in 2012

$30,000,000 - $100,616,482
$15,000,000 - $30,000,000
$5,000,000 - $15,000,000
$1,000,000 - $5,000,000
$0 - $1,000,000
Irrigated Returns Above Variable Costs Comparison for Georgia’s Major Row Crops, 2011 and 2012
(Does not include land rent, custom work, hand weeding, or fixed costs)

<table>
<thead>
<tr>
<th>Crop</th>
<th>Returns Above Variable Costs, '11</th>
<th>Returns Above Variable Costs, '12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$486</td>
<td>$532</td>
</tr>
<tr>
<td>Cotton</td>
<td>$532</td>
<td>$452</td>
</tr>
<tr>
<td>Gr. Sorghum</td>
<td>$169</td>
<td>$183</td>
</tr>
<tr>
<td>Peanuts</td>
<td>$507</td>
<td>$711</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$374</td>
<td>$290</td>
</tr>
</tbody>
</table>
Corn Utilization

Million bushels

- Feed and Residual
- Ethanol
- Exports
- Food Seed and Other Industrial

Periods:
- 96/97
- 97/98
- 98/99
- 99/00
- 00/01
- 01/02
- 02/03
- 03/04
- 04/05
- 05/06
- 06/07
- 07/08
- 08/09
- 09/10
- 10/11
- 11/12

Quantities:
- Feed and Residual: 4,700, 5,000, 4,700
- Ethanol: 1,600, 1,410
- Exports: 1,600, 1,410
- Food Seed and Other Industrial: 1,600, 1,410
Ornamentals (Green Industry) Summary

- Economy and Demand Key
- Flexibility in Retail
- New Products also Key

$586M 2010, down in 2011, stable in 2012
Environmental Horticulture
Situation and Outlook Georgia 2012

• **Key industry success factors:**
economies of scale, production and marketing of premium quality plants, expansion of export markets, use of appropriate growing structures and technology, wise water management.

• **Profit margins to suffer in 2012 as price competition puts squeeze on operating incomes albeit input and production costs continue to climb; lower pre-order quantities and numbers of orders.**

• **Inelastic demand** for environmental horticulture means a price increase is marketer’s and producer’s primary means of capturing revenue and re-growing business after the recession.
What About 2012?

- Animal prices higher, better profit potential.
- Crop prices remain relatively high due to overall tight supply demand balance, decent profits again but lower farm gate value.
- Vegetable and fruits production value growth assuming…
- Ornamental markets stable

Bottom Line – returns high enough if can make the crop or have the animal? Deal with input and output variability!
Policy Impacting Georgia Ag in 2012 (and Beyond!!)

- **Labor** – Immigration reform state and federal? Changes to guest worker programs. What about E-VERIFY and Education to use???
- **Exports/Imports** – Free trade pacts? Savannah harbor deepening, Exchange rates.
- **Regulatory - Especially Animals** – Fed. “Greenhouse gas” emissions, pesticide registrations, point source pollution permits, \((GIPSA)\) contract production, other animal ag potential regulations. NEW Food Safety law.
- **Energy Policy** – GHG regulations, Cap and Trade, Food/fuel debate & tax and development incentives, mandates, import restrictions for bio and alternative fuels
- **FARM BILL 2012** – Tight funding, Concern – safety net for crop ag in Georgia, Conservation Funding, “crop” insurance and possible expansion to other products.
- **Water** – Ga’s 10 regional water plans including S & D, CI Fed ruling, contingency plans, other.
Thank you for attending!