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2010

NATIONAL PEANUT BOARD/SOUTHEAST PEANUT
RESEARCH INITIATIVE
EXECUTIVE SUMMARY FOR WORK
DONE UNDER RESEARCH AGREEMENT

Executive Summary
September 30, 2011

INSTITUTION:	University of Georgia		
PROJECT TITLE:	Economic Analysis of the Competitive Position of United States Peanut Producers in the Domestic and International Markets		
RES. AGR. NO.:	25-21-RD314-204	PROJECT LEADER:	Dr. Stanley Fletcher
GACCP Budget No.:	4-938-653-5		
EXPIRATION DATE:	June 30, 2011	NPB CONTACT:	Maria Mehok
		NPB Budget No.:	111

EXECUTIVE SUMMARY: FAPRI's January 2011 baseline was incorporated into the simulation analysis of the NCPC's US peanut representative farms in order to examine the potential economic viability of the US peanut farming sector for 2011. There were significant improvements in the peanut farming sector relative to 2010. A major reason for this improvement was the significant crop price increases such as cotton, corn, wheat and soybeans. Thirteen of the 22 representative farms are in the green in terms of overall economic viability. None of the 22 farms are in the yellow and 9 of the 22 farms are in the red. Thus, the overall economic viability has improved. Further analysis of the results indicate that there are significant regional differences in terms of economic viability just as was found last year. The Virginia-Carolina area was in the best economic position with the Southwest being in the worse economic position.

Further analysis was conducted to determine the major contributing factor to the representative farms having a poor economic viability outlook. Fixed expenses and debt were closely examined. If fixed expenses and the associated long term debt were eliminated, many of the representative farms were still in the poor overall economic viability category. It seems that many of the farms have large operating loans with significant interest payments which accumulate over time which forces the farms into the poor economic viability category. Thus, there has not been much improvement relative to their situation in 2010.

The peanut representative farms panel members provided their 2010 peanut and other crop yields as well as the prices recieved for their crops. This data was inputed into the respective representative farms' data base. Cash flow analysis was performed by region utilizing the representative farms. Peanuts, cotton and corn were the primary crops analyzed. The results indicate that for this year (2011), cotton prices were the driving force as to the level of peanut acreage. In reviewing the NASS acreage estimates, these conclusions were born out. Peanut prices offered to peanut farmers were not nearly high enough to compete with the cash flow generated by the cotton prices.

Since production cost for all commodities started rising sharply in 2005, producers, manufactures, and consumers may no longer realize at what level the actual safety net for

peanut producers needs to be. Coupled with the increase of production costs the peanut industry has witnessed changes in expected yields. Some areas are expecting to yield more, while some areas may not be as optimistic. The reason for the differences in expected yields vary from one region of the United States to the next. Some areas have been fortunate to have new higher yielding varieties, some have improved rotations, while some are falling victim to higher disease pressures along with a diminishing supply of ground water for irrigation. All of the above mentioned factors have a significant effect on the viability of the peanut producers. The University of Georgia National Center for Peanut Competitiveness utilized it's 22 U.S. Representative Peanut Farms database to do a preliminary analysis of the impact of these factors on an adequate safety net. The marketing loan of \$355 per ton FSP is usually assumed to cover a producer's total variable costs. We computed the total variable cost for runner peanuts which includes all variable costs of producing and harvesting peanuts except the returns to management and debt service. The total variable cost per ton for irrigated runner peanuts from the U.S. representative farms ranged from \$403 to \$420. For dryland runner peanuts, the total variable cost per ton ranged from \$377 to \$413.

NATIONAL PEANUT BOARD/SOUTHEAST PEANUT
RESEARCH INITIATIVE

Final Report

FINAL REPORT FOR WORK

June 30, 2011

DONE UNDER RESEARCH AGREEMENT

INSTITUTION: University of Georgia

PROJECT TITLE: Economic Analysis of the Competitive Position of United States
Peanut Producers in the Domestic and International Markets

RES. AGR. NO.: 25-21-RD314-204 PROJECT LEADER: Dr. Stanley Fletcher
GACCP Budget No.: 4-938-653-5

EXPIRATION DATE: June 30, 2011 NPB CONTACT: Maria Mehok
NPB Budget No.: 111

FINAL REPORT: FAPRI's January 2011 baseline was implemented into the new FLIPSIM computer program delivered to us by Texas A&M. Significant modifications were made to the program due to changes in the 2008 Farm Bill. In particular, the ACRE program and SURE program are significant changes from prior farm programs. The 22 peanut representative farms were analyzed based on the updated baseline data as well as utilizing the updated production data from each respective representative farm. There were significant improvements in the peanut farming sector relative to 2010. A major reason for this improvement was the significant crop price increases such as cotton, corn, wheat and soybeans. Thirteen of the 22 representative farms are in the green in terms of overall economic viability. None of the 22 farms are in the yellow and 9 of the 22 farms are in the red. Thus, the overall economic viability has improved. Further analysis of the results indicate that there are significant regional differences in terms of economic viability just as was found last year. The Virginia-Carolina area was in the best economic position with the Southwest being in the worse economic position.

Further analysis was conducted to determine the major contributing factor to the overall decline in the economic viability of the representative farms. Fixed expenses and debt were closely examined. If fixed expenses and the associated long term debt were eliminated, many of the representative farms were still in the poor overall economic viability category. It seems that many of the farms have large operating loans with significant interest payments which accumulate over time which forces the farms into the poor economic viability category given the low commodity prices relative to the input prices. These results corroborated the findings from last year.

Postcards were sent to the 22 peanut representative farms panel members to obtain their 2010 peanut and other crop yields as well as the prices received for their crops. This data was inputted into the respective representative farms' data base. Cash flow analysis was performed by region utilizing the representative farms. Peanuts, cotton and corn were the primary crops analyzed. The results indicate that for this year, cotton prices were the driving force as to the level of peanut acreage. In reviewing the NASS acreage estimates, these conclusions were born out. Peanut prices offered to peanut farmers were not high enough to compete with the cash flow generated by the cotton prices.

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The conservation stewardship program (CSP) in the 2008 Farm Bill is being investigated as to the potential impact on peanut farmers utilizing the representative farms. This program includes the resource conserving crop program which crop rotation is one component. Several meetings with a regional NRCS person have occurred in order to collect information as to how this program is being implemented. Data has been collected and inputted into a spreadsheet in order to analyze the economic impact on peanut farms. Results indicate that this program would be very useful to peanut farmers. A preliminary analysis was completed on the effect of net cash farm income for the 22 U.S. representative peanut farms. Every one of the farms would have benefited. Many of the farms would have exceeded the maximum cap allowed of \$40,000 per year. However, indications are that changes to the implementation of this program have been made that render the program in-effective for peanut producers.

Since production cost for all commodities started rising sharply in 2005, producers, manufacturers, and consumers may no longer realize at what level the actual safety net for peanut producers needs to be. Coupled with the increase of production costs the peanut industry has witnessed is a change in expected yields. Some areas expecting to yield more, while some areas may not be as optimistic. The reason for the differences in expected yields vary from one region of the United States to the next. Some areas have been fortunate to have new higher yielding varieties, some have improved rotations, while some are falling victim to higher disease pressures along with a diminishing supply of ground water for irrigation. All of the above mentioned factors have a significant effect on the viability of the peanut producers. The University of Georgia National Center for Peanut Competitiveness utilized it's 22 U.S. Representative Peanut Farms Database to do a preliminary analysis of the impact of these factors on an adequate safety net. The marketing loan of \$355 per ton FSP is usually assumed to cover a producer's total variable costs. We computed the total variable cost for runner peanuts which includes all variable costs of producing and harvesting peanuts except the returns to management and debt service. The total variable cost per ton for irrigated runner peanuts from the U.S. representative farms ranged from \$403 to \$420. For dryland runner peanuts, the total variable cost per ton ranged from \$377 to \$413.

The revised FLIPSIM computer program from Texas A&M that included the ACRE program was utilized in the analysis of the ACRE program. A preliminary analysis of the potential impact of the ACRE program on peanut farms was done. Due to data requirements in order to analyze this program, only Georgia farms could be analyzed. There are 8 Georgia representative peanut farms which is sufficiently large enough sample for analysis. We examined the change in net cash farm income on those 8 Georgia farms for the years 2010-2015 if those farms had elected to enroll in the ACRE program instead of the traditional marketing loan program that included counter cyclical payments. Seven of the representative farms would have had significantly lower net cash farm income when utilizing the ACRE program. The reduction in net cash farm income ranged from the \$20,000 to \$30,000 range to a high of \$116,950 reduction.

Print Request

**University of Georgia Check Request
Request Information**

Request Number: 0747411 **Date:** 04/28/2011 **Amount:** \$2025.00
Request Status: Approved for Payment
Type of request: Pmnt. to Off-Campus Mrch.

Remit to Individual / Company

(User supplied information for company not on file)

Name: INFORMA UK LTD
Address: THE PUBLIC LEDGER
P O BOX 32794
City: HARTFORD **State:** CT **Zip:** 06150-2794

Direct departmental inquiries to

Name: DEBRA BELVIN
Phone: (770) 228-7231

Description/Comments

RENEWAL OF SUBSCRIPTION ORDER 1090905, CUSTOMER NO 2400244 --
ACADEMIC/EDUCATIONAL RATE \$2025.00

INVOICE ATTACHED

UGA accounts to charge

Account / Object	Amount	Disc/Credit
2521RD314204 - 72723	\$2025.00	\$0.00

Delivery Information

Optional, was not entered.

Request Approval History

04/28/2011 11:11:26: Belvin, Debra I initiated the request
04/28/2011 11:16:43: Belvin, Debra I approved the request and sent it to Koppius, Karina Alexandra
04/28/2011 11:41:06: Koppius, Karina Alexandra approved the request and sent it to Ramirez, Octavio A
04/29/2011 15:23:10: Ramirez, Octavio A approved the request and sent it to Contracts & Grants
04/29/2011 16:47:20: Mcgarity, Jay Edward approved the request and sent it to Accounts Payable
05/02/2011 09:07:44: Caldwell, Leslie Ann approved the request and sent it to Accounts Payable
05/05/2011 10:19:41: Bell, Sarah Christina approved the request and sent it to Accounts Payable
05/05/2011 15:25:33: Johnson, Wesley R approved the request and sent it to >>approve For Pmnt<<