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AGRICULTURE & NATURAL RESOURCES EDUCATION

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December 16, 2023

Kentucky Farm Economy

After achieving remarkable success the previous two years, Kentucky's agricultural economy will likely experience a modest decline in 2023 and some sectors will face continued challenges in 2024. This downturn is primarily attributed to price declines for several key farm commodities and has significantly impacted the state's agricultural sector. According to University of Kentucky Extension Agricultural Economists' discussion at the recent Kentucky Farm Bureau annual meeting.

UK Department of Agricultural Economics professor Will Snell said, "Increased global production is leading to significant price drops for several important Kentucky commodities like corn, soybeans, wheat, and dairy. Moreover, the global economic slowdown is diminishing the demand for agricultural products. Political tensions and ongoing conflicts abroad are also disrupting key trade routes. Higher interest rates and labor costs are more than offsetting lower feed and fertilizer expenses. Land values are continuing to be relatively strong, despite shrinking farm profit margins and climbing interest rates. However, signs indicate that land price growth is slowing down, but overall, the balance sheet for agriculture remains favorable heading into 2024."

Kentucky’s agricultural cash receipts are expected to decrease from a record high $8.3 billion in 2022 to $8.1 billion in 2023. This drop stems mainly from lower earnings in corn, soybeans, dairy, and tobacco despite notable gains in cattle and wheat receipts. Poultry remains the top commodity for cash receipts, with cattle prices seeing a significant rise. Kentucky's agricultural exports, traditionally a strong economic contributor, are likely to decline in 2023. Factors such as the strengthening United States dollar and a weaker global economy contribute to this downturn. This reduction in exports, combined with increased agricultural imports, might result in an unusual trade deficit for U.S agriculture, diverging from its history of significant trade surpluses.

Notably, the state's cattle markets have shown resilience. Even though the markets have cooled off this fall, Kentucky's calves and feeders are fetching much higher prices compared to 2022. This is a positive sign for local producers, reflecting a healthy demand for quality livestock. However, this optimism is tempered by looming challenges. Hay supply and costs are becoming increasingly concerning for cow-calf operations as winter approaches. From a national context, the cattle industry does not appear to be expanding. The projection is for a smaller cow herd size in 2024 and likely 2025, a trend that could continue to support higher prices due to reduced supply.

The poultry sector faces its own set of challenges. The recent closure of Tyson's plant in Corydon, Indiana, has significantly impacted Kentucky growers, disrupting the supply chain and possibly affecting income streams. Additionally, the national rise in Avian Influenza cases is a concern, requiring vigilance to protect poultry stock’s health and industry stability.

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An excess supply of corn has led to a planting strategy shift, with some producers considering more soybean in 2024 due to corn's excess supply and price decline. In contrast, soybeans have maintained steady prices, bolstered by market bullishness and expansion in U.S. crush capacities. The wheat market is experiencing notable impulsiveness, significantly impacted by Russia and Ukraine, causing price fluctuations, and introducing market uncertainties. Brazil's recent rise as a major agricultural player is surpassing the U.S. in corn exports, reshaping global trade dynamics. This particularly affects U.S. market shares and relationships with key importers like China. Additionally, Ukraine's conflict has also introduced risks in transporting goods from the Black Sea region, affecting global supply chains.

Kentucky's farm cash receipts have been relatively high in recent years. The key to financial survival is net farm income (NFI) which, in addition to cash receipts, considers expenses as well as government payments. NFI data is pulled from operations participating in the Kentucky Farm Business Management Program (KFBM), which assists member farms with their financial performance. This income directly influences the financial well-being of the farm and family involved. Government payments, which played a crucial role in farm recovery since 2017, dropped substantially in 2022. This change, coupled with projected lower gross income and higher total costs for the current year, anticipates a further decline in NFI.

Looking ahead, challenges loom with expected decreases in profitability. Farms will likely face a tight balance between loan repayments, operational expenses, family living costs and maintaining a healthy balance sheet. This is especially true for farms below the average income.

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