

SOUTHEAST REPRESENTATIVE PEANUT FARMS: A COMPARISON OF POTENTIAL RETURNS FOR PRIMARY CROPS

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A study was carried out by the National Center for Peanut Competitiveness to compare potential returns of primary crops produced on Southeast representative peanut farms. The study focused on returns above variable costs for peanuts and cotton at various commodity prices. Expected yields and costs used in the study were from the representative farm database. Given current world events and recent spikes in energy costs, scenarios considering increased fuel and fertilizers costs were also included. USDA reported agricultural input prices were used to determine the changes in fuel and fertilizer prices. These scenarios compared current input prices (December 2004) to 2002 average input prices for fuel and fertilizer.

Four marketing prices were considered for both peanuts and cotton. The peanut prices considered were \$380/ton, \$355/ton, \$305/ton and \$295/ton. The prices below current loan rate were considered because the current farm bill does not allocate for government payment of handling, grading, and storage fees in the final year of the farm bill. These fees could roughly amount to \$50/ton to \$60/ton and could have to be paid by the producer. The prices considered for cotton were \$0.70/lb, \$0.60/lb, \$0.58/lb and \$0.52/lb. At each price it was determined how many of the farms showed a greater cash flow above variable costs for peanuts and how many for cotton. For irrigated comparisons, there were nine representative farms that grew both irrigated peanuts and cotton and for non-irrigated there were 10 farms that grew both cotton and peanuts.

If peanuts were marketed at \$380/ton, seven of the irrigated farms showed higher returns for peanuts compared to cotton at \$0.70/lb which had two with higher returns. For non-irrigated farms at these prices, eight of the farms had higher returns for peanuts with two farms showing higher returns for cotton. For all other cotton prices considered when peanuts were at \$380/ton, all farms had higher returns for peanuts for both irrigated and non-irrigated.

When energy price increases were considered with peanuts marketed at \$380/ton, the study showed similar results. The only change was that one additional farm showed greater returns for peanuts when compared to cotton at \$0.70/lb, bringing the total to eight. All other relationships at these price levels remained unchanged.

The next scenarios compared peanuts marketed at \$355/ton with the various cotton prices stated. For the irrigated farms, five showed greater returns for peanuts at \$355/ton when compared to cotton at \$0.70/lb which showed four farms with greater returns for cotton. For non-irrigated the number of farms having higher returns for peanuts was seven and cotton was three at the \$355/ton and \$0.70/lb prices. For non-irrigated farms, at all other prices considered for cotton and peanuts at \$355/ton, no farms showed higher returns for cotton. However, for irrigated farms with cotton marketed at \$0.60/lb, one farm had higher returns for cotton and the other eight had higher returns for peanuts at the \$355/ton. When the cotton price dropped to \$0.58/lb, eight farms had higher returns for peanuts and one farm showed no difference between cotton and peanuts. If cotton was marketed at \$0.52/lb all farms showed higher returns for peanuts at the \$355/ton price.

When energy prices were increased the returns for peanut enterprises with peanuts priced at \$355/ton were even more favorable than cotton enterprises. When cotton was priced at \$0.70/lb two of the

irrigated farms and two of the non-irrigated farms showed higher returns for cotton than peanuts. Seven farms had higher returns for peanuts for both irrigated and non-irrigated and one non-irrigated farm was indifferent at the \$0.70/lb price. When lower cotton prices were considered all 10 non-irrigated farms had higher returns for peanuts. For irrigated farms and \$0.60/lb cotton, one farm was indifferent and the other eight had higher returns for peanuts. At lower cotton prices all nine irrigated farms showed higher returns for peanuts.

Given the cotton prices considered, when prices for peanuts were lower they were not as dominate. When a \$305/ton price was considered for peanuts, only two irrigated farms had higher returns for peanuts than cotton at \$0.70/lb and for non-irrigated the split was five for peanuts and five for cotton. At \$0.60/lb cotton five irrigated farms fared better with peanuts at \$305/ton, three fared better with cotton and one was indifferent. For non-irrigated the split was seven for peanuts and three for cotton. If the cotton price dropped just 2¢ to \$0.58/lb, peanuts' position improved to seven farms and only two farms finding cotton more favorable for both irrigated and non-irrigated. For non-irrigated one farm was indifferent at these prices. When cotton prices fell to \$0.52/lb only one farm for both irrigated and non-irrigated had higher returns for cotton as compared to peanuts at \$305/ton.

When higher energy costs were considered at the \$305/ton price, irrigated peanuts gained one additional farm at the \$0.70/lb cotton price and two additional farms at the \$0.60/lb cotton price. There was no change at the lower cotton prices for irrigated farms. For non-irrigated farms, at the \$0.60/lb cotton price, one farm went from favoring cotton to being indifferent between cotton and peanuts and at \$0.58/lb one farm went from being indifferent to favoring peanuts. With cotton priced at \$0.52/lb one farm went from favoring cotton to being indifferent between peanuts and cotton.

When peanuts were priced at \$295/ton, only one irrigated farm showed peanuts more favorable than cotton at \$0.70/lb. Non-irrigated farms showed three peanut farms more favorable, six cotton farms more favorable, and one indifferent at these prices. When cotton prices were lowered to \$0.60/lb four irrigated peanut farms had higher returns and five cotton farms had higher returns and non-irrigated peanuts were favored by six farms and cotton by four. At \$0.58/lb cotton, five irrigated farms had higher returns for peanuts, three for cotton and one was indifferent. Non-irrigated peanuts gained an additional farm at these prices (seven for peanuts and three for cotton). When \$295/ton peanuts were compared to \$0.52/lb cotton, eight farms had higher returns for peanuts and one had higher for cotton for both irrigated and non-irrigated. For non-irrigated, one farm was indifferent at these prices.

When increased energy costs were considered at \$0.70/lb cotton and \$295/ton peanuts one farm moved from being cotton-favorable to peanut-favorable for both irrigated and non-irrigated. At \$0.60/lb cotton, irrigated peanuts were more favorable at six farms, cotton at two farms and one was indifferent. There was no change for non-irrigated cotton at \$0.60/lb. At \$0.58/lb cotton, seven farms showed higher returns for both irrigated and non-irrigated peanuts, two farms showed higher returns for cotton and one non-irrigated farm was indifferent. For irrigated farms at the \$295/ton and \$0.52/lb prices and increased energy costs there was no change, but for non-irrigated farms at these prices, one farm moved from indifferent to peanut-favorable.

This study helps to point out the importance of comparing returns above variable costs to aid in determining the impact on cash flow position by various commodity prices.

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