

United States Representative Peanut Farms January 2007 Baseline Executive Summary

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Energy cost increases since 2004 has caused many of the essential input costs of a farming operation to skyrocket. Increases in the cost of fuel and fertilizers as well other associated input costs are expected to negatively impact the economic viability of not only peanut farms but southern agriculture as a whole. The extent of this impact is yet to be determined.

To attempt to answer this question, the National Center for Peanut Competitiveness (NCPC) utilized its 19 U.S. Representative Peanut Farms Database. This report presents the results of the August 2004, August 2006, and January 2007 Baselines in a risk context using probabilities and ranges for annual net cash farm income values. The probability of a farm experiencing negative ending cash reserves and the probability of a farm losing real net worth are included as indicators of the cash flow and equity risks facing farms through the year 2012. Results are summarized in Tables 1 and 2 on the following page.

Under the January 2007 Baseline, 2 of the 19 farms are forecast to have good economic viability for 2007 through 2012. Eight farms are forecast to have marginal economic viability, and 9 farms are forecast to have poor economic viability for 2007 through 2012. Two of the 19 farms have less than a 25% probability of negative ending cash, 4 farms are between 25% and 50% probability, and 13 farms have greater than 50% probability of negative ending cash. Ten of the 19 farms are forecast to have less than a 25% probability of declining net worth. Two farms are forecast to have between 25% and 50% probability of declining net worth, while 7 farms are forecast to have greater than 50% probability of declining net worth.

The January 2007 Baseline analysis is a slight improvement over the August 2006 Baseline, where 12 of 19 farms were forecast to have poor economic viability, 5 farms marginal, and 2 farms good through 2012. The bottom line is that the economic viability of the US Representative Peanut Farms is no where near as promising as it was with the August 2004 baseline, where 7 of the then 11 Southeastern Representative Peanuts Farms were forecast as good, 3 farms as marginal, and only 1 farm was forecast to have a poor economic viability through 2010.

These comparisons illustrate the decline in economic viability of the representative farms since the August 2004 baseline was released. The decrease in the probability of economically viable peanut farms is largely due to the increases in fuel and fertilizer costs along with rising interest rates since the August 2004 Baseline was released. It should be stressed that this decline in viability is due to diminished returns in all crops across a whole farm basis. The peanut enterprises alone are not the sole reason for declines in economic viability. Analyses of current baseline projections are not promising for the United States peanut farming industry. Unless overall profitability of all crops produced on a peanut farm in the Southern United States increases, the economic viability is in jeopardy for this sector of the country.

Table 1. Number of Total Representative Peanut Farms in Each Category

US REPRESENTATIVE PEANUT FARMS	Probability of OVERALL VIABILITY			Probability of Negative Ending Cash			Probability of Net Worth Decline		
	<u>Good</u>	<u>Marg.</u>	<u>Poor</u>	<u><25%</u>	<u>25-50</u>	<u>>50%</u>	<u><25%</u>	<u>25-50</u>	<u>>50%</u>
August 2006 Baseline (19 US Farms)	2	5	12	2	4	13	6	4	9
January 2007 Baseline (19 US Farms)	2	8	9	2	4	13	10	2	7

Table 2. Percentage of Representative Peanut Farms in Each Category.

US REPRESENTATIVE PEANUT FARMS	Probability of OVERALL VIABILITY			Probability of Negative Ending Cash			Probability of Net Worth Decline		
	<u>Good</u>	<u>Marg.</u>	<u>Poor</u>	<u><25%</u>	<u>25-50</u>	<u>>50%</u>	<u><25%</u>	<u>25-50</u>	<u>>50%</u>
August 2004 Baseline (11SE Farms Only)	64%	27%	9%	64%	18%	18%	82%	9%	9%
January 2005 Baseline (11SE Farms Only)	18%	27%	55%	27%	0%	73%	36%	18%	46%
August 2006 Baseline (19 US Farms)	11%	26%	63%	11%	21%	68%	32%	21%	47%
January 2007 Baseline (19 US Farms)	11%	42%	47%	11%	21%	68%	53%	11%	37%

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