



"Learning from our Past, Cultivating our Future"
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Economic Outlook for Colorado Agriculture Rising Costs Squeeze Ag Profits, Despite Record Receipts

Colorado's farmers and ranchers will surely remember 2008 for its unprecedented market volatility and soaring input costs. Despite record total cash receipts approaching \$7.6 billion, net farm income for 2008 is expected to fall sharply from the 2007 all-time high of \$1.5 billion to \$968 million. For the most part, this nearly 35 percent decline can be attributed to surging expenses for feedstuffs, fuel, fertilizer and seed, as well as higher land costs. Looking ahead to 2009, net farm income is expected to remain on par with 2008 as a moderating of input costs will be offset by generally weaker commodity prices and a decline in livestock marketings. Of course, a weakening U.S. economy and the specter of a global economic slow down overhangs agriculture.

While Colorado's agriculture sector is diverse, it is also highly concentrated with the top five industries accounting for nearly 80 percent of total farm and ranch sales. Cattle and calves rank as the state's leading agricultural industry with cash receipts totaling more than \$3 billion annually, representing almost half of total farm and ranch sales. Also included among the state's top five agriculture industries are dairy, corn, wheat and hay.

For cattle feeders, 2008 was among the industry's most challenging in terms of profitability. Record high costs of production caused red ink throughout the cattle industry. Look for some improvement in profit margins in 2009 as feed input costs moderate. Cattle prices are also expected to increase three to four percent as the industry places fewer cattle on feed, reflecting a continuation of the downsizing of the U.S. and Colorado herd.

Cattle producers and feeders may also benefit from steadily increasing exports of beef and beef variety meats. Exports of beef from Colorado surged more than 80 percent in the first half of 2008, ranking Colorado second among all states and signaling that customers around the world recognize Colorado as a reliable and quality supplier of beef. Potential exists for continued growth of exports as greater access to Japan and Korea is achieved; however, a slowing global economy and stronger dollar could constrain export growth to other countries.

The state's dairy industry continues to experience robust growth with cash receipts estimated at \$600 million for 2008. During the past five years, herd size has expanded by 30 percent to 130,000 head and annual milk production has increased by roughly 35 percent to 2.9 billion pounds. Key to the industry's success has been production costs lower than other major milk producing areas and that dairies have been able to achieve per cow milk production levels that are among the highest in the nation at 23,000 pounds – a level roughly 10 percent higher than the national average. Milk prices for 2009 are expected to weaken by 10 - 15 percent, largely due to increasing national supply. While the dairy industry has been a key driver to growth of Colorado's organic alfalfa industry, future growth of the dairy industry could potentially be limited by the availability of organic feedstuffs.

Colorado corn producers responded to high market prices in 2008 by increasing acreage, opposite the national trend as flooding, etc., impacted Midwestern states. Although corn market prices have declined significantly from the record-breaking \$7 per bushel level reached in mid-2008, prices remain well above

the \$2 - \$3 per bushel range that corn had traditionally traded in for much of the past half century. Prices near \$4 per bushel, along with the combination of increased acres and yields averaging 140 bushels per acre will push cash receipts for 2008 to \$570 million. Colorado acreage planted to corn in 2009 is expected to decrease slightly, mostly due to higher seed and fertilizer costs prompting producers to shift planting to less capital-intensive crops. For example, producers are reporting seed costs for 2009 approaching \$300 per bag for stacked-trait seed corn varieties, a nearly \$100 per bag increase over 2008. With fewer acres planted, prices are expected to trend upward holding cash receipts for 2009 about equal to 2008.

Colorado's corn industry is also squarely at the center of the ongoing "food or fuel" debate. Some consumer advocacy groups fear that increasing utilization of corn for ethanol production will lead to an overall increase in food costs. Similarly, while ethanol production has created new demand and generally higher market prices for corn, it is those same higher prices that have squeezed profitability from the cattle feeding industry. Given the recent and steep decline in ethanol prices, there is currently less enthusiasm among investors to construct new plants – in fact, toward the end of 2008, some new plants recently constructed across the U.S. were sitting idle rather than operating at a loss.

The wheat industry has recently also experienced extreme market volatility with prices spiking upward for a short time in late spring to more than \$12 per bushel. Prices fell by more than 50 percent as 2008 progressed but, as with corn, remained well above historic levels. Although Colorado 2008 wheat yields were generally 25 percent less than for 2007, cash receipts will surpass the 2007 level by \$30 million. The increase in cash receipts stems from a combination of higher average prices throughout 2008 and that the sale of some 40 million bushels from the 2007 crop was carried over into 2008. Better than average fall moisture is creating a level of optimism among wheat producers for improved yields in 2009. Prices are likely to decline from the levels experienced in 2008, reducing cash receipts to \$380 million.

Prices for alfalfa hay throughout Colorado have risen sharply in recent years on strong demand for organic alfalfa from horse owners and the state's burgeoning dairy industry. Prices have increased from about \$85 per ton in 2003 to \$140 - \$150 per ton in 2008. As corn and other feedstuffs prices moderate, prices for hay will soften into 2009 but because of historically high prices, a higher percentage of hay produced will be sold off-farm. Cash receipts for 2009 will increase by \$10 million over the 2008 level to reach \$390 million.

Among Colorado's other agriculture industries, potato growers and shippers are benefitting from tighter supplies that have 50 pound cartons selling at prices above \$20 per hundredweight for the first time since 2001. Going into 2009, producers are likely to cut back on acres planted due to a combination of higher production costs and concerns about the availability of water supplies for irrigation. Even so, cash receipts are expected to increase in 2009 from \$180 million to \$190 million. Conversely, Colorado's dry bean industry is expected to contract as producers shift acreage to other crops, including sunflowers. Colorado's sod, nursery and floriculture industries have posted steady sales in recent years at about \$330 million. Sales growth will be modest, at best, until the housing market stabilizes and there is a resumption in new home building.

For hog producers, exports of pork to China and other foreign markets helped absorb record large U.S. production in 2008, supporting prices. Still, most hog operations were not profitable in 2008 due to record high costs. Colorado hog numbers may see some contraction in 2009 but prices will likely improve. Total cash receipts for 2009 are projected at \$195 million. Similarly, Colorado's sheep and lamb industry is expected to contract slightly into 2009 with cash receipts forecast at \$110 million – a decrease of about \$10 million from 2008.

Cash receipts from fruit production have remained relatively flat in recent years at just under \$30 million. Trends seem to point to older apple orchards being replaced by peaches and grapes. Colorado's winemakers have long suggested that the wine produced can only be as good as the grapes and believe that wines made from 2008 grapes will be among the best vintages in recent years.

Government payments also contribute to the bottom line of Colorado's farmers and ranchers. In 2008, those payments were projected at some \$240 million with about two of every three dollars received by producers being related to conservation programs or to providing relief from crop and/or livestock weather related disasters. As crop prices have been generally high, counter cyclical and direct program payments to producers have declined dramatically in recent years and are estimated at \$83 million in 2008. Total government payments are projected to decline by about \$20 million in 2009.

Agricultural producers are also deriving additional income from new ventures including agritourism and lease payments from wind development and energy-related projects, as well as from participation in more direct-to-consumer marketing strategies. Additionally, growing demand is being observed among ethnic groups for goat meat and as such, there is beginning to be some expansion in goat production across Colorado.

Colorado farmers and ranchers remain optimists, believing that rains will come when most needed or that prices will be higher next year. It is that kind of spirit that has allowed Colorado's farmers and ranchers to not only survive, but thrive, amidst the current backdrop of increasing global competition, highly volatile market prices, rising input costs, and consumers feeling the pressure of recession.

Agriculture Sector Cash Receipts & Farm Income								
2000 --- 2009								
Year	Livestock	Crops	Total Value of Production	Value of Services and Forestry ¹	Government Payments ²	Gross Value of Farm Revenue	Total Farm Production Expenses	Net Farm Income
Million Dollars								
2000	\$3,325.3	\$1,229.2	\$4,554.5	\$537.9	\$351.4	\$5,443.8	\$4,683.5	\$760.3
2001	\$3,303.5	\$1,417.9	\$4,721.4	\$584.3	\$320.1	\$5,625.8	\$4,366.6	\$1,259.2
2002	\$3,208.1	\$1,319.4	\$4,527.5	\$679.5	\$211.0	\$5,418.0	\$4,706.3	\$711.7
2003	\$3,445.8	\$1,442.7	\$4,888.5	\$643.6	\$319.9	\$5,852.0	\$4,871.4	\$980.6
2004	\$4,279.8	\$1,381.1	\$5,660.9	\$645.0	\$221.2	\$6,527.1	\$5,173.2	\$1,353.9
2005	\$4,084.0	\$1,481.3	\$5,565.3	\$737.0	\$382.0	\$6,684.3	\$5,429.5	\$1,254.8
2006	\$4,168.5	\$1,597.9	\$5,766.4	\$788.2	\$244.6	\$6,799.2	\$5,940.1	\$859.1
2007	\$4,331.9	\$2,156.6	\$6,488.5	\$837.6	\$197.4	\$7,523.5	\$6,002.6	\$1,520.9
2008 ³	\$4,232.0	\$2,246.0	\$6,478.0	\$850.0	\$240.6	\$7,568.6	\$6,600.0	\$968.6
2009 ⁴	\$4,169.0	\$2,209.0	\$6,378.0	\$865.0	\$220.0	\$7,463.0	\$6,500.0	\$963.0

1) Includes sales of forest products, custom feeding fees, custom harvest fees, and other farm income.
2) Includes farm program payments directly to producers.
3) Estimated.
4) Forecast.

Source: Colorado Business Economic Outlook Agricultural Committee.

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