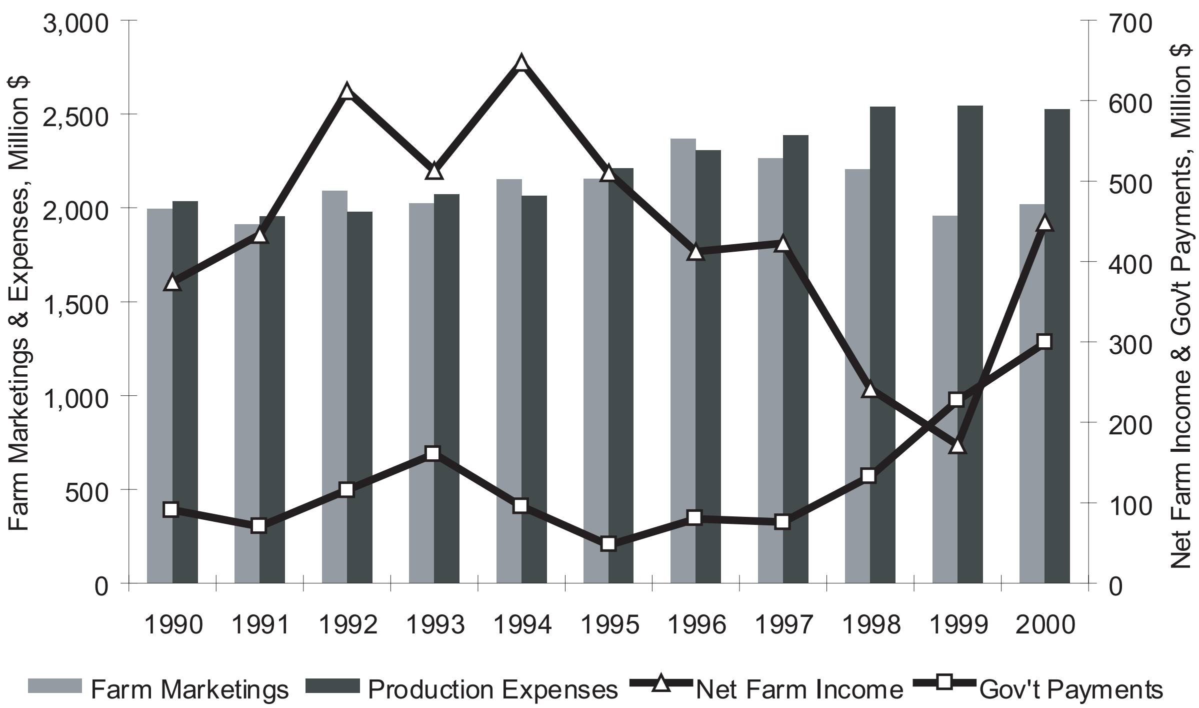
Overview and Prospects for Tennessee Agriculture

Tennessee Production Agriculture Review

Coming off of a record low year for agricultural income in 1999, Tennessee's agriculture sector rebounded considerably in 2000 (Figure 2.4). In 1999, net farm income in the state fell to $172 million and without government payments totaling $227 million, net farm income would have shown a net loss of over $55 million. This marked the first time since record keeping began in 1949 that direct government payments were necessary to allow for a positive net farm income for Tennessee agriculture. Net farm income rose to $449 million in 2000. While the increase in net farm income over the 1999 level was substantial, it was only one percent above the average net farm income level for 1990-1999. Total direct government payments to Tennessee farmers in 2000 totaled $299 million; thus two of every three dollars in net farm income in the state were from direct government payments.

Figure 2.4. Tennessee Receipts from Farm Marketings, Production Expenses, Government Payments, and Net Farm Income, 1990-2000.

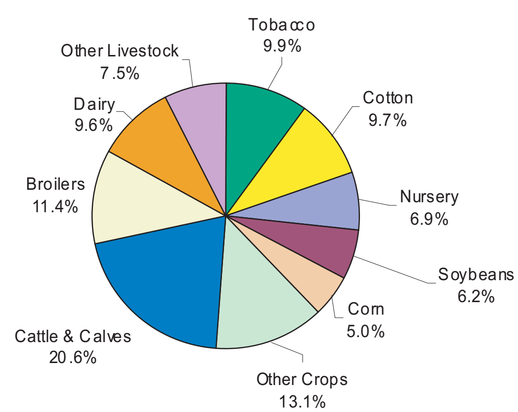


Source: Tennessee Agricultural Statistics Service.

Much of the blame for low incomes in 2000 rests with continued depressed prices. Yields were much stronger in 2000, but prices continued at near record low levels for many crops. Production expenses continue along an upward trend. If government payments had been at their projected level authorized in the 1996 farm bill, net farm income in Tennessee would have been only half the reported level.

Cash receipts from agricultural marketings in 2000 totaled $2.02 billion, up just three percent from receipts in 1999 totaling $1.96 billion (Figure 2.5.). Livestock and crop receipts were nearly equal with crops contributing $1.03 billion (51%) and livestock contributing $990 million (49%). Cattle and calves led livestock receipts contributing over $416 million, or more than one in ever five dollars of all agricultural receipts. Broilers contributed $230 million, followed by dairy products, contributing $193 million. Receipts from hogs were up more than 50 percent in 2000 to $61 million, but still more than 40 percent below their 1996 level. Although still the leading crop in 2000, tobacco receipts were down 8 percent compared to 1999 to just under $200 million, their lowest level in more than a decade. Receipts from cotton were just behind tobacco receipts at $196 million. For the second year in a row, nursery crops were the third leading cash crop generating over $140 million, followed by soybeans ($126 million) and corn ($102 million). Floriculture crops were up nearly 15 percent in 2000 and if combined with nursery crops, would account for the largest share of crop cash receipts in Tennessee.

Figure 2.5. Tennessee Agricultural Cash Receipts from Farm Marketings, 2000.



Source: Tennessee Agricultural Statistics Service.

Crop Outlook

Major Row Crops

Producers are anticipating excellent yields for Tennessee's major row crops in 2001. Forecasted yields for the state's 2001 corn crop are the highest on record (133 bushels per acre), while the latest projections for cotton indicate the highest yield since 1994, expected to average 690 pounds of lint per acre. Soybean yields are forecast at 35 bushels per acre, 10 bushels above the 2000 crops that suffered drought conditions. Compared to 2000, production in 2001 is projected to be up by 13 percent for corn (to 75.8 million bushels), 23 percent for cotton (to 870,000 bales), and 28 percent for soybeans (to 36.8 million bushels). While higher production due to strong yields will boost agricultural income in Tennessee, continued low prices will dampen the impact on income. World cotton prices have suffered from global slackening of demand coinciding with rebounding world production. Current prices in late 2001 are down about 40% from late 2000. Corn, soybean and wheat prices are projected to remain near their 2000 levels, still considerably lower than their averages over the late-1990s.

Yields are also projected to be up for Tennessee tobaccos, at 2,000 pounds per acre for burley and a record 2,800 pounds per acre for dark-fired tobacco. Despite projections for higher tobacco yields, tobacco production for 2001 is forecast at 68 million pounds, which would be the smallest crop since 1989. The decline is due to a reduction in tobacco acreage of more than 10 percent. While the tobacco basic quota in Tennessee increased by about one third in 2001, the effective quota decreased by 14 percent to just under 75 million pounds, leading to further reductions in tobacco acreage. The effective quota in Tennessee in 2001 was 60 percent lower than the 1998 level and nearly one third less than the five-year average production level. Tobacco quotas are projected to be near the 2001 level in 2002, thus a rebound in tobacco production in Tennessee is not indicated. Lower fuel and fertilizer costs and lower interest rates will benefit Tennessee net farm income in 2002 on the production cost side, although crop receipts are not likely to jump significantly as prices are expected to remain low and tobacco production will not recover significantly.

Nursery

Tennessee's first Nursery Production Survey of nine nursery categories (conducted by the Tennessee Agricultural Statistics Service) revealed that the state ranks sixth in the U.S. in total gross sales. Deciduous shade and flowering trees accounted for nearly half of total gross sales in the state, with Tennessee ranking fourth and third, respectively, in sales of deciduous shade and flowering trees. Propagation material accounted for 14 percent of all nursery sales. For 170 nursery operations in the state with sales greater than $100,000 in 2000, gross value of sales totaled $124 million for sales of 12.5 million units. In addition to the 170 nursery operations with more than $100,000 in gross sales, another 182 operations in the state reported sales of $10,000 or more. These 352 nursery operations reported production area of 1.32 billion square feet, or just over 30 thousand acres. Growth in the green industry in Tennessee is projected to continue over the next three to five years.

Forest Products

While not formally include in the state's agricultural income statistics, forest products contribute significantly to the state's food and fiber economy. Income from the sale of timber in Tennessee has more than doubled over the last decade, topping $420 million in 2000. Tennessee continues to be one of the nation's leading producers of quality hardwood lumber, leading the nation in production of hardwood flooring and pencils and second in the nation in hardwood lumber production. In 2000, Tennessee's forest resources produced sawlogs to manufacture approximately 934 million board feed of hardwood products and 194 million board feet of softwood lumber. In addition to sawlog production, Tennessee produced over 800 thousand cords of hardwood pulpwood and over 1 million cords of softwood pulpwood. The 1999 forest survey indicated that almost 55 percent of the total land area in Tennessee is forested, approximately 14.4 million acres. The trend toward increasing forested area is primarily due to reversion of farm lands to hardwood forest, with nearly 90 percent of Tennessee's forest classified as hardwood. Nonindustrial private individuals own 11 million acres of Tennessee's forest, or about 70 percent. Private ownership of forestland is shifting from farmers to absentee landowners, the number of landowners is increasing sharply, and average tract size is decreasing.

Livestock Outlook

The number of livestock operations in Tennessee has declined significantly over the last decade. Since 1991, the number of hog operations in Tennessee has fallen by more than 78 percent to just 1,500 operations. Dairy operations have also been reduced by more than 60 percent with just over 1,600 reported in 2000. Although not as dramatic as the reduction in hog and dairy operations, cattle operations have declined by 25 percent from 67,000 in 1991 to 50,000 in 2000. This downward trend is expected to continue, despite expectations for low feed grain prices and increasing demand. While the number of operations has dropped dramatically, the level of production has declined proportionately less.

Tennessee livestock producers have been making profits over the past year. Weakness in the U.S. economy will be felt in the livestock industry, as consumer incomes have been a strong factor in increasing demand for meat over the last few years, but it is too early to project the extent of the weakness. A continued decline in demand for beef is expected in the coming year, along with small increases in both pork and poultry. The trend toward contract hog production is continuing and stronger profits will likely lead to modest future expansion and slightly lower prices. The poultry industry will continue to see increasing profits as the trend toward strong exports continues. Wholesale broiler prices are likely to average in the upper $50s to low $60s for 2002. The dairy industry has seen a surprising recovery in 2001 as milk prices increased. Predicted 2002 price levels should sustain the state's dairy industry although profit margins will likely be low. Production costs will remain low with cheap feed grains keeping the milk-feed price ratio high.

The U.S. cattle herd is declining slightly, continuing the downturn in the current cattle cycle. 2001 marks the fifth year of the downturn in the cattle cycle, following a six-year increase during the cattle cycle upturn. There is no significant sign of cattle expansion in the nation. During the past two years cattle prices have rallied while corn and feed grain prices have remained low. Strong slaughter cattle prices, with cheap feed, leads to expectations of strong feeder cattle prices in 2002. The cattle industry is poised to continue its dominance of the state's livestock sector in the near future. Continued depressed prices for feed grains and projections for continued low prices, barring unforeseen supply shifters such as major droughts, are holding a positive outlook for cattle and calves from the production cost side.

A new Tennessee Beef Cattle Improvement Initiative was launched in 2001. This statewide effort focusing on improving the value, quality, and performance of the Tennessee beef cattle industry aims to add income in the Tennessee beef cattle industry without additional significant investment. The program includes significant efforts in the areas of producer education and communication, management tools, marketing strategies, breeding and genetics, and herd health. The initiative is a collaborative effort of public and private partners including the Tennessee Department of Agriculture, the University of Tennessee, the Tennessee Farm Bureau, breed and cattlemen's associations, agribusinesses, and others. A focused priority in the beef cattle industry in Tennessee will further strengthen and promote this important sector of the state's agricultural economy.

Farm Bill Legislation Outlook

The 1996 Farm Bill marked a significant departure from previous farm bills. The 1996 legislation eliminated all farm program mechanisms that support or moderate farm prices or restrict or otherwise affect planted acreages. The 1996 Farm Bill was intended to be transition legislation: transition from dependence on government commodity programs to dependence on a fully functioning market economy. The vehicle for transition in the legislation was a gradual reduction in direct payments to farmers over the seven-year life of the 1996 Farm Bill. But rather than declining government payments and movement toward market-induced stability and prosperity, we have witnessed prices and incomes at record or near-record lows and government expenditures at all-time highs. The legislation was budgeted to cost $43.6 billion over seven years. By the end of the sixth year of the 1996 Farm Bill, costs had exceeded $93 billion, farm prices were significantly lower than under previous legislation and the U. S. Congress was in the process of writing a new farm bill to replace the 1996 Farm Bill.

At the time of this writing (December 2001), the Senate and House were considering separate farm bill legislation with several common threads. Both of the bills are expected to cost in the vicinity of $170 billion over the 2002-2011 period. In seeking to standardize the emergency Market Loss Assistance payments farmers have received over the last several years, the two bills allocate the money differently among producers of various crops. The House legislation is a ten year farm bill while the Senate version runs for five. The Senate bill front loads the costs into the first five years and leaves it to another time to re-budget the last five years. The Senate bill also spends a little more on conservation and has higher loan rates than the House.

Members in both chambers of Congress are trying to complete the writing of the new legislation in time to capture the $170 billion allocated to agriculture in the 2002 budget resolution for the 2002-2011 period. There is concern in the agricultural community that with the current recession, and increased spending in the wake of September 11, the extra funds will not be available and agriculture may be limited to a $95 billion baseline budget. Whether or not the White House will sign legislation like that moving through the House and Senate is uncertain. Instead, the administration has actively been calling for Congress to wait until 2002 to pass a farm bill.