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2014–2015 Agricultural Situation and Outlook

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2014 – 2015 Agricultural Situation & Outlook



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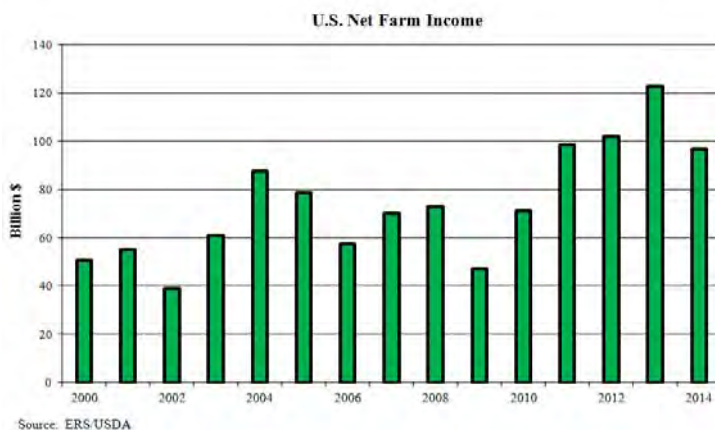
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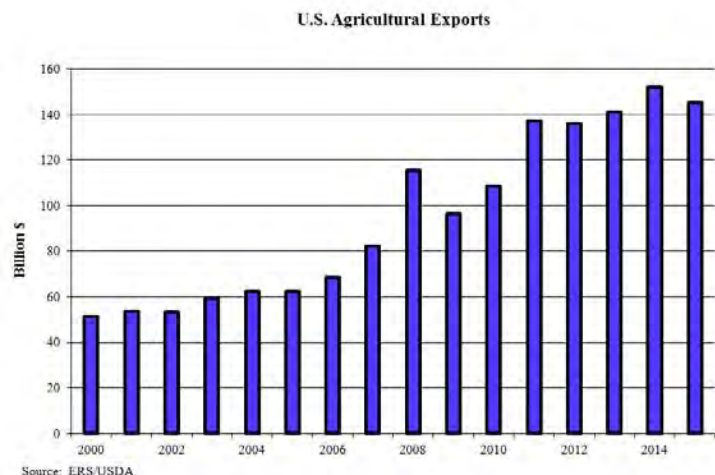
2014 U.S. Review

- USDA projects US net farm income to total \$96.9 bil. in 2014, 21% below the 2013 level & the lowest since 2010.
- US farm cash receipts are expected to fall by 1% in 2014 as the anticipated drop in crop receipts (-12%) will nearly be offset by the forecast gain in livestock receipts (+14%).
- US farm expenses are estimated to be 6% higher in 2014, while government payments will fall by 4%.
- US ag exports are forecast to set a record in 2014 on the heels of strong livestock exports.
- Despite a slumping ag economy, land values continued to increase, although at a much slower pace, while debt levels increased modestly leading to a relatively strong financial position entering 2015.



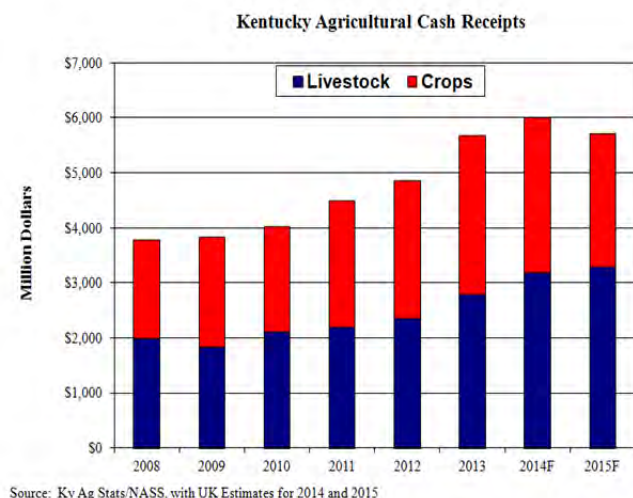
2014 Kentucky Review

- KY ag cash receipts will total \$6 billion in 2014, compared to the 2013 adjusted official USDA level of \$5.7 billion.
- KY crop receipts are forecast at \$2.8 billion (-2%) benefiting from higher priced 2013 crops sold in 2014.
- Strong beef, dairy, poultry and hog prices boosted KY livestock receipts to a record \$3.2 billion (+15%).
- KY net cash income (cash receipts + government payments – cash expenses) may retreat from the 2013 record high level but will remain relatively strong.



2015 Outlook

- KY cash receipts forecast to decline 5% in 2015 to \$5.7 billion in response to a 15% forecast drop in crop receipts versus an estimated 3% gain in livestock receipts.
- Significantly lower grain prices and anticipated reductions in land rents will challenge grain profitability in 2015.
- Increasing livestock supplies may constrain the growth in record prices, but demand and profitability will remain relatively strong,
- Kentucky net farm income will be challenged with anticipated lower crop receipts and the ending of tobacco buyout payments, which have averaged 10% or more of Kentucky net farm income in recent years.
- Issues to follow in 2015 will be how cropland rents/crop mix adjust to a lower priced grain environment, export value, and volume with increased global crop supplies and a stronger U.S. dollar; the degree of expansion in the livestock sector amidst a favorable price/profitability outlook; and potential changes in U.S. energy policy and immigration reform.

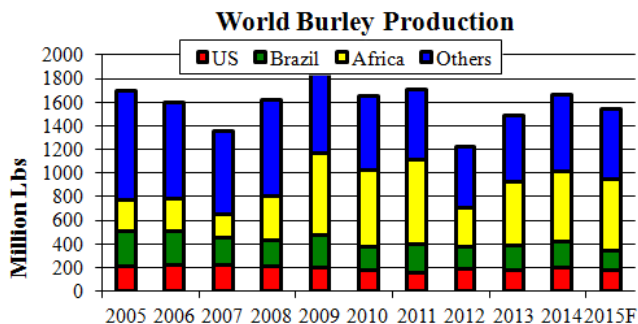


2014 Review

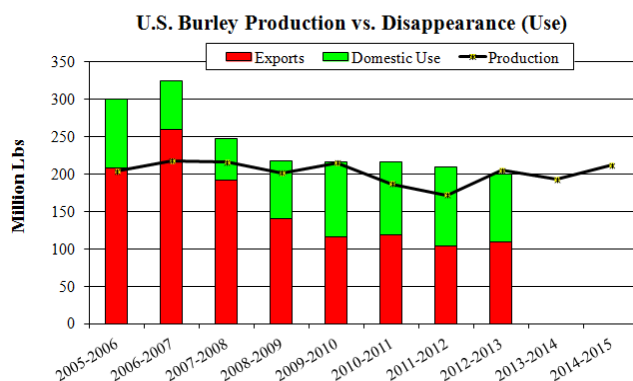
- World burley production increased 12% in 2014, following a 22% larger crop in 2013, with most of the growth in low quality/filler tobacco from Africa (Universal Leaf Company estimates).
- USDA estimates the 2014 U.S. burley crop at 211.5 million pounds, 10% above the 2013 crop.
- U.S. burley disappearance (domestic use plus exports) was relatively stable at around 210 to 220 million pounds from 2008-2012, but fell to 200 million pounds in 2013 and will likely fall farther in the 2014 marketing year responding to both lower leaf exports and slumping domestic cigarette sales.
- Despite a crop that most buyers expect to be smaller than current USDA estimate, 2014 U.S. burley production will still likely be greater than anticipated use; leading to more critical grading and prices retreating from their record high of \$2.06/lb for the 2013 crop.
- The 2014 U.S. dark fire cured crop is expected to total around 50 million pounds, and the 2014 U.S. dark air-cured crop totaling around 15 million pounds (just slightly above last year's levels).
- Expansion in smokeless tobacco consumption appears to be slowing in 2014, but the current supply/demand balance for dark tobaccos indicates relatively strong leaf prices for the current crop (\$2.65-\$2.70/lb for top quality dark-fire and \$2.35-\$2.40/lb for dark-air).
- Lower burley demand, coupled with a mixed quality crop, will likely cause the value of 2014 production to fall below \$400 million.

2015 Outlook

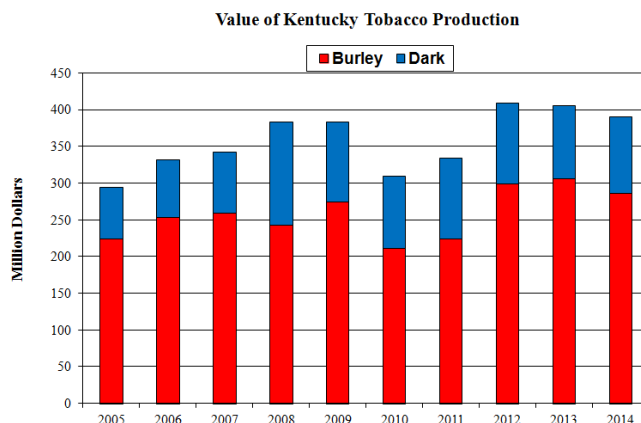
- Excess world burley supplies and slumping demand will likely induce tobacco companies to reduce contract volumes in the U.S. and South America in 2015.
- Cheaper international leaf, combined with an appreciating U.S. dollar, may reduce the competitiveness of U.S. burley and overall export volume in international markets.
- Dark tobacco production/demand may remain relatively stable, but reduced burley demand coupled with labor/infrastructure challenges will likely cause the value of Kentucky tobacco production to retreat below \$400 million.
- Domestic and international tobacco regulations, trade agreements, immigration reform, and market demand for alternative tobacco products (e.g. e-cigs) will be key issues that U.S./KY tobacco farmers will follow in 2015.



Source: Universal Leaf, November 2014



Source: NASS/ERS/AMS,



Source: USDA/NASS

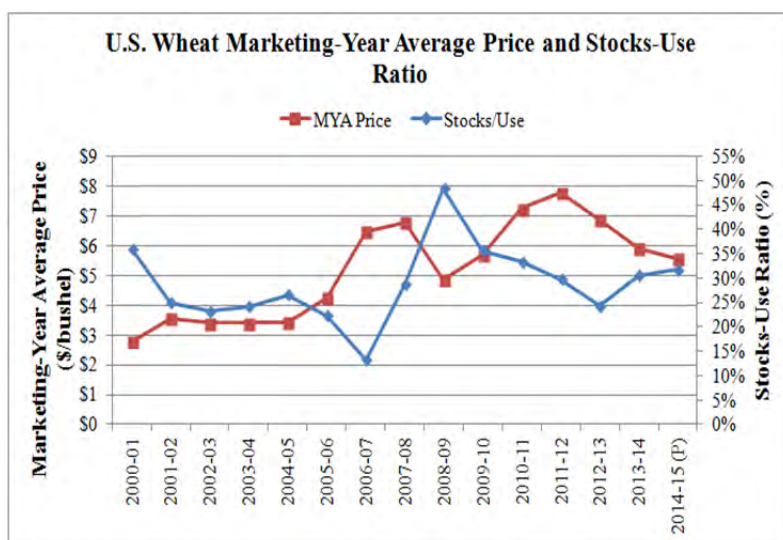
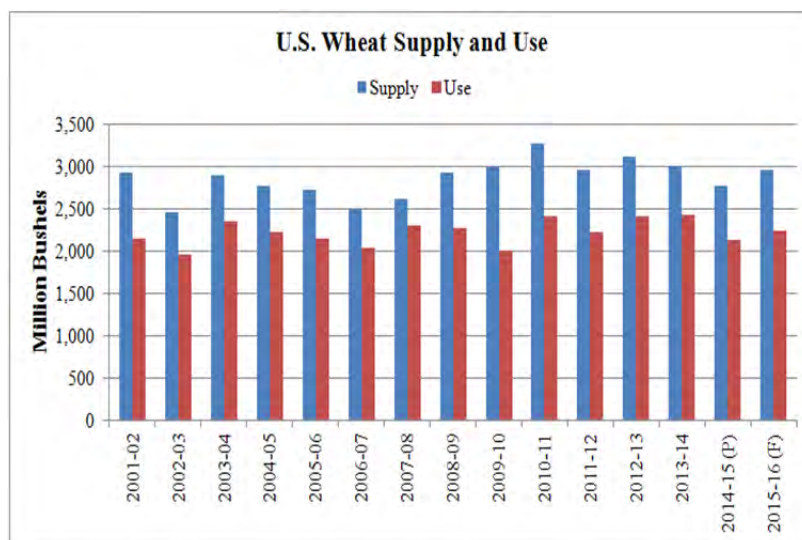
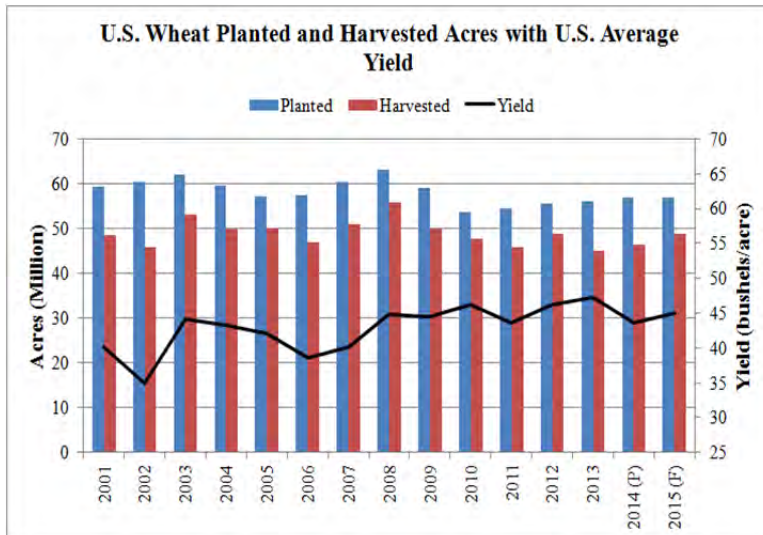
Wheat

2014 Review

- Lingering drought in Texas and Oklahoma continues to reduce U.S. yield and production.
- Stocks increasing due to reduced demand. Exports 250 million bushel less than last year.

2015 Outlook

- Planted acres about the same as 2014. Improved weather should reduce abandonment and increase harvested acres.
- A trend-yield of 45 bushels/acre would generate a wheat crop of 2.2 billion bushels.
- A return to more normal levels of exports would whittle away at the larger crop. If exports remain sluggish, building stocks will dampen price.
- Stocks projected to increase to 700 million bushels. Average price ranging from \$5.30 to \$5.60 per bushel.

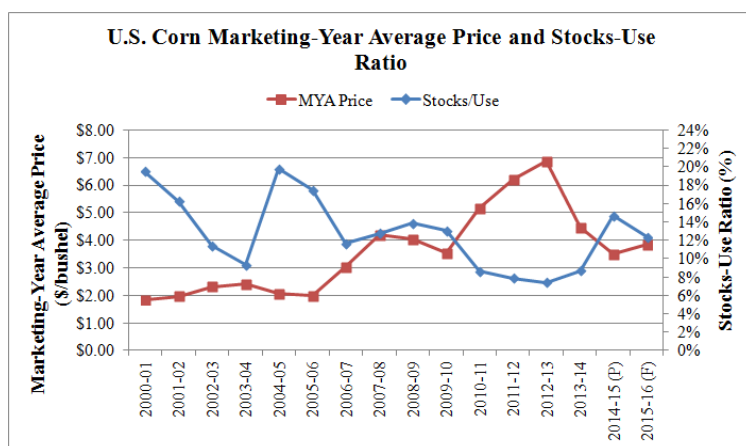
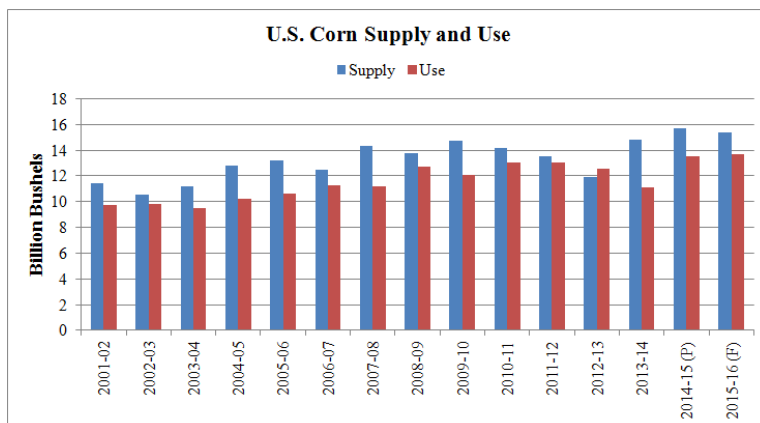
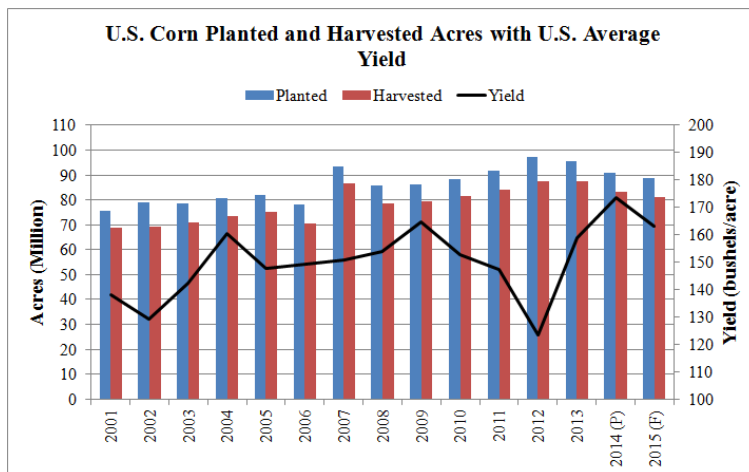


2014 Review

- Ideal growing condition across the U.S. produces record corn yield of 173.4 bushels/acre.
- Planted and harvested acres decline as stocks rebuild.
- 2014-15 ending stocks projected slightly above 2 billion bushels. This is the largest stocks since 2004-05.

2015 Outlook

- Planted acres projected to decline due to lower profitability compared to alternative crops.
- A 2% reduction in acreage and “normal” weather producing a trend-yield of 163 bushels would suggest the 2015-16 corn supply marginally reduced from 2014-15.
- Ending stocks could be reduced to 1.7 billion bushels, which is a 12% stocks-use ratio.
- Export demand is the wild card. If China resumes importation of corn then ending-stocks would reduce further and would support slightly higher prices.
- U.S. marketing-year average price is forecasted in the \$3.80 to \$3.90 price range.

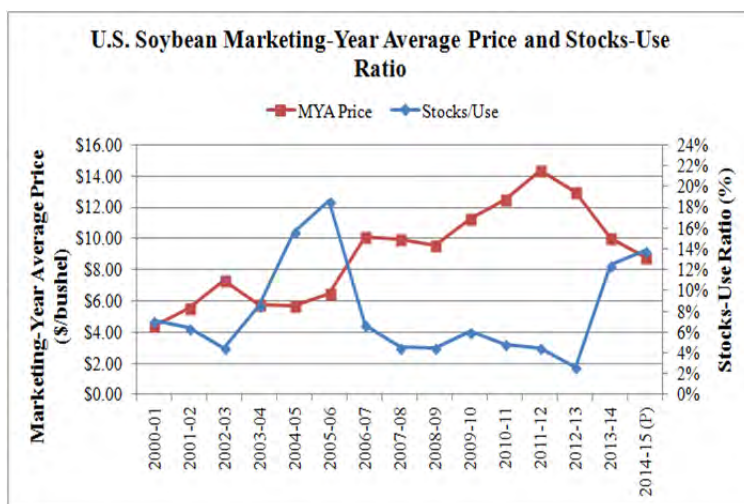
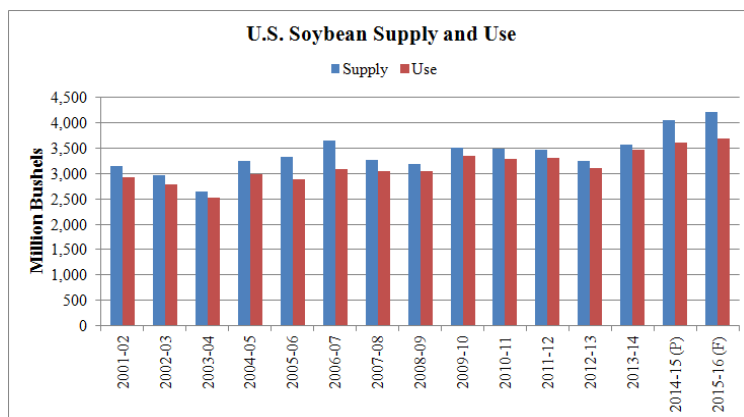
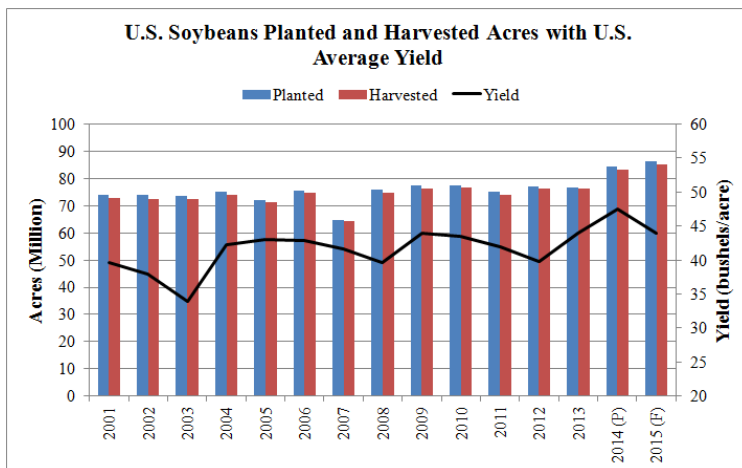


2014 Review

- Ideal growing condition across the U.S. produces record soybean yield of 47.5 bushels/acre.
- Record planted and harvested acres as beginning stocks remain tight for another year.
- 2014-15 ending stocks projected at 450 million bushels. This is the largest stocks since 2006-07.

2015 Outlook

- Planted acres projected to increase due to greater profitability compared to alternative crops.
- A 2% increase in acreage and “normal” weather producing a trend-yield of 44 bushels would suggest the 2015-16 soybean supply 3.6% larger than 2014 - 2015.
- Ending stocks could increase slightly to 470 million bushels.
- Export demand is the wild card. If China continues importation of U.S. soybeans into May instead of buying from South America, then stocks would reduce further and would support slightly higher prices.
- U.S. marketing-year average price is forecasted in the \$8.60 to \$9.00 price range.



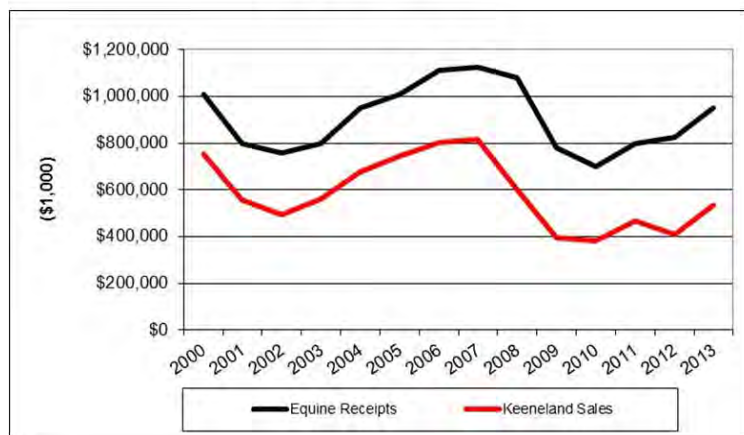
2014 Review

- Equine market continues to show recovery from 2009-2011 challenges.
- After huge improvement in 2013, sales suggest continued strength for 2014.
- Major sales very comparable to year-ago levels both in terms of value and numbers sold.
- Kentucky equine receipts likely steady with much improved 2013 levels.
- Operations continued to deal with hay prices well above 2008-2012 levels.
- Over the last several years, a large amount of hay ground has been converted to row crop production, adding to supply issues.

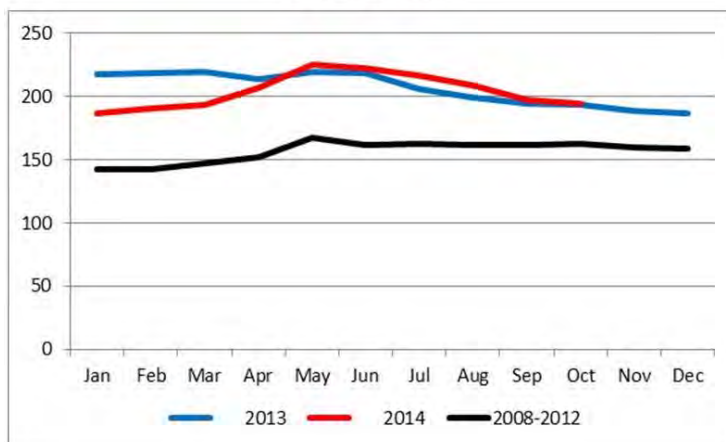
2015 Outlook

- Continued strength in major markets likely to continue to support both sales and stud fees in 2015.
- Softer commodity prices likely to reduce pressure to convert hay ground to row crops.
- Lower feed prices resulting from large 2013 and 2014 crops may also have spillover effect in hay markets.

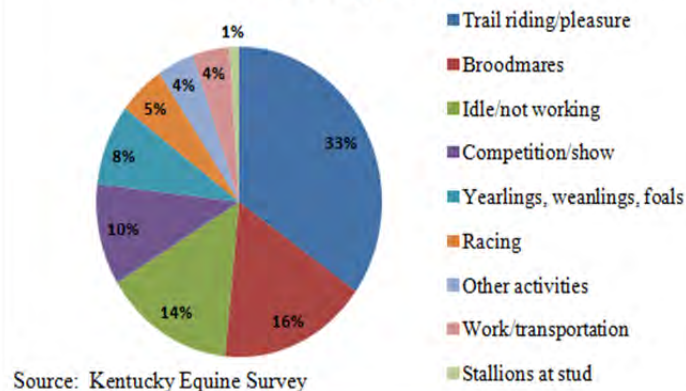
KY Equine Market and Sales



US Alfalfa Hay Prices



Primary Use of Kentucky Equine As of July, 2012



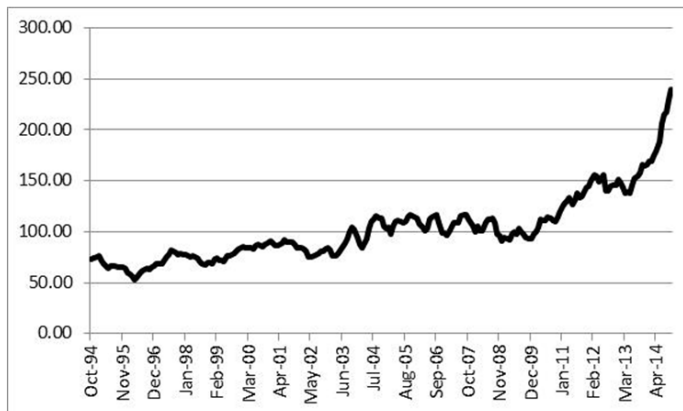
2014 Review

- The US Beef herd entered 2014 at inventory levels comparable to the early 1950's.
- A late spring resulted in delayed grazing and increased hay feeding days in the first quarter for cow-calf operators.
- Adequate moisture for much of the state through summer and fall created opportunities for cow-calf operators and stocker operators.
- Throughout 2014, tight supplies, strong fed cattle prices, and decreasing corn prices resulted in unprecedented feeder cattle price levels.
- Heifer retention likely increased in some parts of the US as weather was generally favorable and profitability was extremely high.
- Cow slaughter, which began to decrease in the summer of 2013, has continued to remain well below year-ago levels and further suggests that the size of the cow-herd likely stabilized.
- Summer stocker operators enjoyed good pasture conditions and a rising feeder cattle market, which resulted in extremely high profit levels.
- Winter backgrounders were presented with relatively attractive margins, but also high calf placements costs and market risk in the fall.

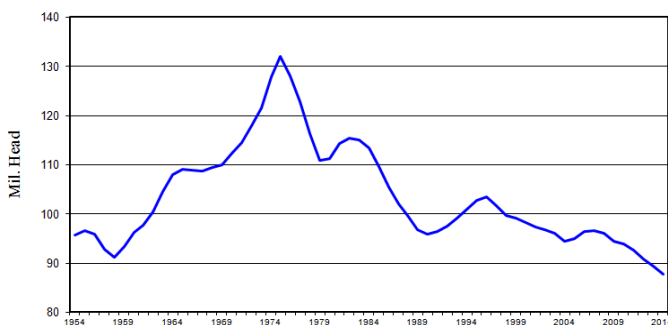
2015 Outlook

- Calf prices in spring likely to set new records as strong deferred futures prices and spring grass demand converge.
- Fall calf prices likely to be down slightly from 2014, but also likely to be the second highest fall calf market on record.
- Weather permitting, cow-herd expansion is very likely in many parts of the US as cow-calf operators remain very profitable.

Nearby Feeder Cattle Futures (October 1994 to October 2014)

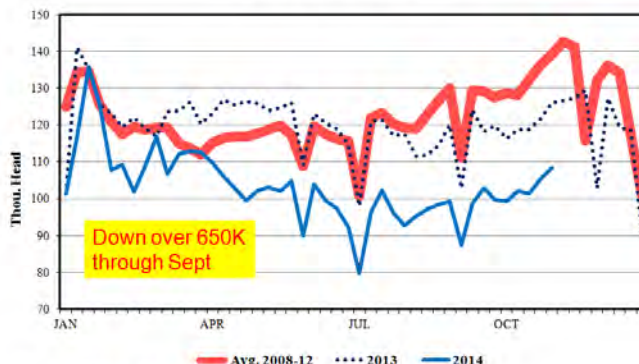


JANUARY 1 TOTAL CATTLE INVENTORY
U.S., Annual



Livestock Marketing Information Center
Data Source: USDA/NASS

TOTAL COW SLAUGHTER
Federally Inspected, Weekly



Livestock Marketing Information Center
Data Source: USDA-AMS & USDA-NASS

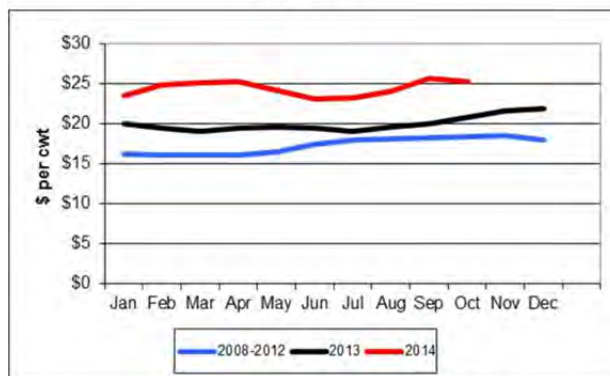
2014 Review

- Milk production grows in 2014 on increases in dairy cow inventory and milk per cow.
- The decline in Kentucky dairy numbers continued in 2013 as Kentucky entered 2014 with an estimated 68,000 dairy cows in production.
- Dairy producers have enjoyed extremely attractive margins with much higher milk prices and much cheaper feed costs.
- Cheese, butter, and whey prices have exceeded year-ago levels for much of the year.
- Butter and non-fat dry have moved down from spring and summer.
- The Margin Protection Program for Dairy (MPP-Dairy) was authorized in the 2014 farm bill and established in the fall.
- MPP-Dairy will be the dairy safety net program through 2018 and signup for 2014-2015 occurred September-November.

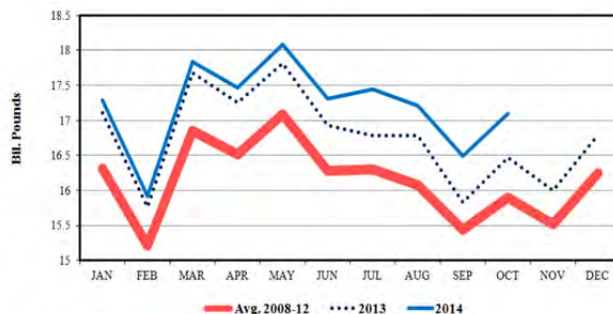
2015 Outlook

- Increases in dairy cows numbers and productivity are expected to result in moderate production increases for 2015.
- Price declines expected for most components due to increased production and decreased exports.
- Farm level milk prices likely to decline throughout 2015, and margins likely to tighten closer to historical levels.
- Dairy producers will sign up for MPP-Dairy for the 2016 calendar year July-September.

US All Milk Price

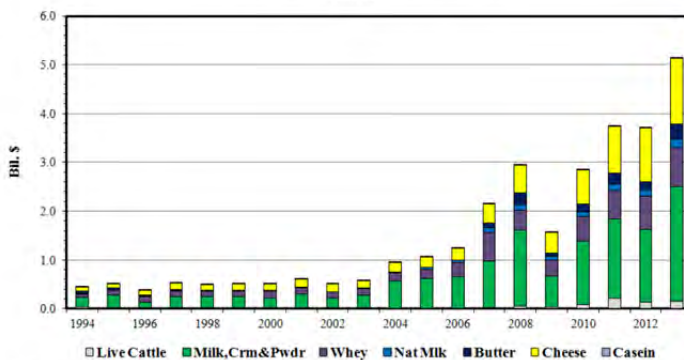


MILK PRODUCTION
US Total, Monthly



Data Source: USDA-NASS
Livestock Marketing Information Center

US DAIRY INDUSTRY EXPORT VALUES
Annual



Data Source: USDA-FAS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

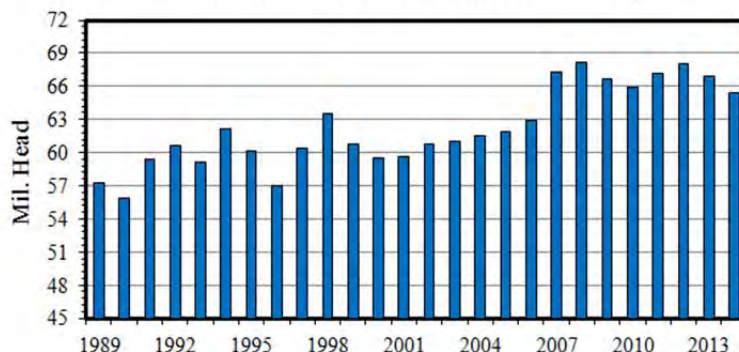
2014 Review

- Retail pork price is at a record high level at about \$5.50 per pound.
- Due to high feed costs, pork production had been trending downward. Production in 2014 was down 2% and lower than production was in 2010.
- Hog prices have been extremely variable, but prices for 2014 were up over 15%.
- Over 20% of U.S. pork production was sent overseas in 2014, similar to levels of the past few years.

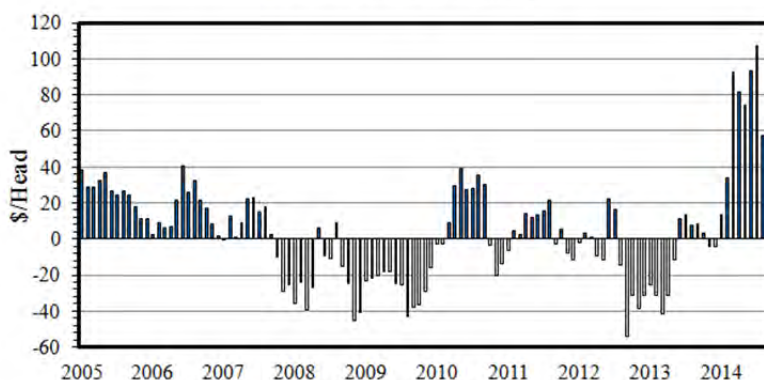
2015 Outlook

- Increased prices and lower feed costs are enhancing profits, and will lead to increased production (probably putting 2% to 4% more pork on the market in 2015).
- Prices will respond to increased supplies, declining by 10% to 15% for the year. Prices will decline most in the first half of 2015, but remain below 2014 levels for the whole year.
- Lower prices will help the competitiveness of U.S. pork in world markets, perhaps adding 200 million pounds (about 4%) to exports levels.

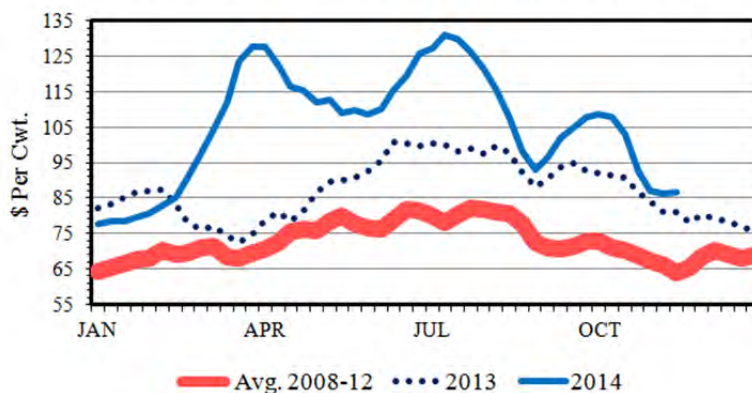
SEPTEMBER 1 ALL HOGS AND PIGS
U.S. Inventory (Prior to 1988 Estimated)



IOWA MARKET HOG PROFIT
Farrow/Finish, Monthly



BARROW AND GILT PRICES
Iowa – So. Minnesota, Carcass Base Price, Weekly



2014 Review

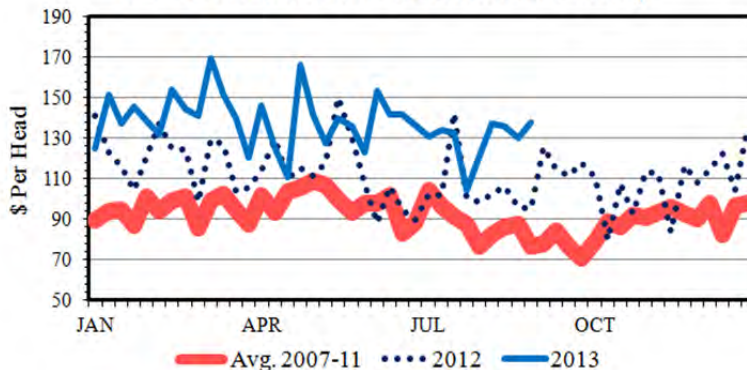
- Total goat inventory in the US was 2.3 million in 2014, up 8% from 2013, but 9% below 2010 (so 2014 broke the trend, but the future is uncertain). The Kentucky goat inventory jumped up to 72,000 head (about a 4% increase from 2013).
- For sheep, total U.S. numbers continued to decline, falling slightly to 5.2 million head at the beginning of 2014, but 10% lower than five years ago. In contrast to the national trend, Kentucky's sheep inventory increased to 41,000 head, a 17% increase from last year and twice the number ten years ago.
- Slaughter kids continued to sell at higher prices, averaging with Selection #2, 40-60 lb kids selling for \$170/head at New Holland.
- Market lamb prices were much higher in 2014, up 25%. Closer to Kentucky, 90 lb lambs were selling for \$2 per lb at New Holland late in the year.

2015 Outlook

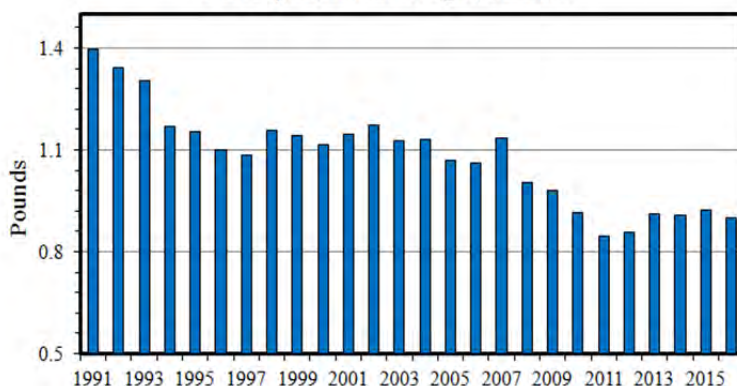
- Higher prices are likely to continue for both goats and lambs.
- Kentucky inventories for both lamb and goats are likely to buck national trends, with numbers continuing to increase.

SLAUGHTER KIDS & YEARLINGS SELECTION #1 PRICES

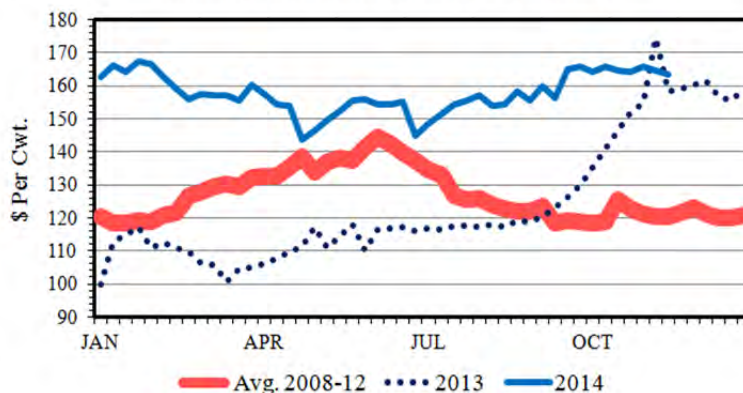
40-60 Pounds, New Holland, PA Auction, Weekly



US LAMB & MUTTON CONSUMPTION
Per Capita, Retail Weight, Annual



SLAUGHTER LAMB PRICES
Wooled, 110-130 lbs, Sioux Falls, Weekly



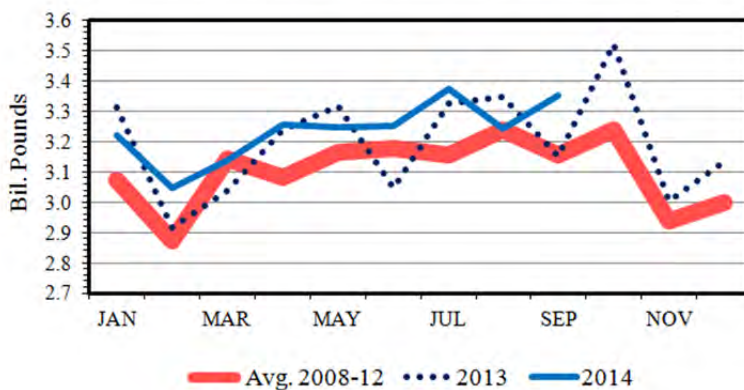
2014 Review

- Broiler production continues a steady upward trend. 2014 production was 6% over 2011 level and up 3% from 2013.
- Broiler production makes up about 40% of US meat production, with per capita consumption about 83 pounds of the 201 total.
- Trade is a very important part of the chicken business. The 7.4 billion pounds exported in 2014, 19% of production, was unchanged from a year earlier.

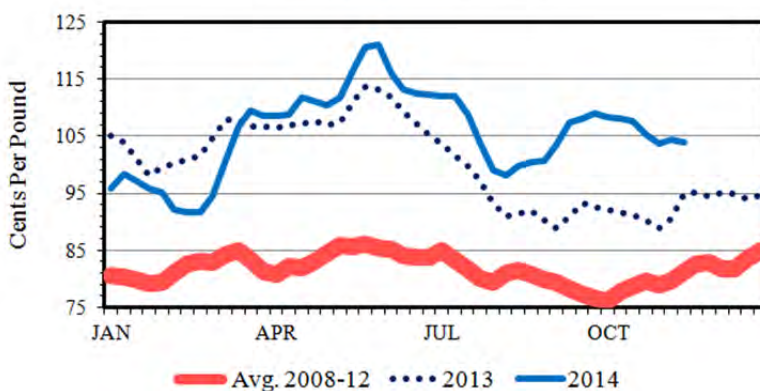
2015 Outlook

- Declining feed costs will enhance profits for 2015 and are expected to lead to a 2% to 4% increase in production.
- Broiler prices are expected to decline slightly with the increase in production.
- Lower prices will keep the U.S. competitive in global markets, with exports near 2014 levels.

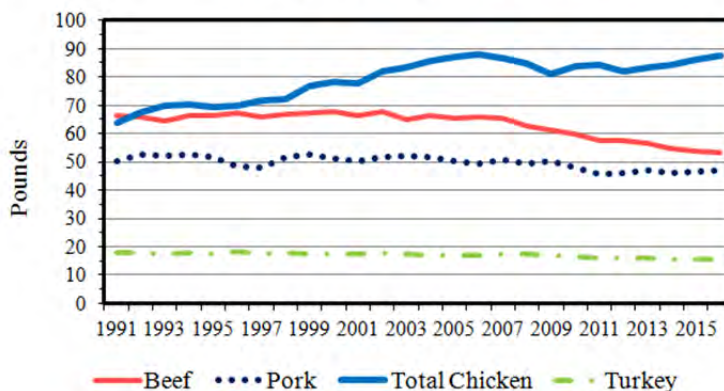
CHICKEN PRODUCTION
Federally Inspected, Ready-to-Cook Weight, Monthly



BROILER PRICES
National Composite, Weekly



US RED MEAT & POULTRY CONSUMPTION
Per Capita, Retail Weight, Annual



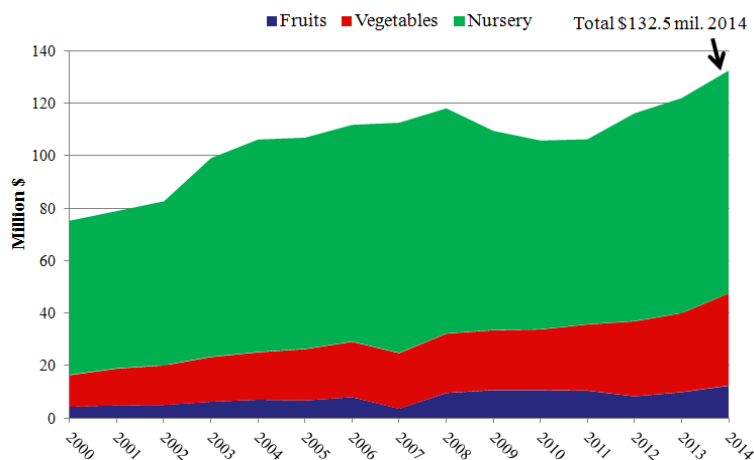
2014 Review

- Direct markets continue to drive growth for produce markets in Kentucky.
- Farm markets and vendor numbers up nationally as well as in the state.
- KY Proud, farm-to-school, Restaurant Rewards, KFB Roadside Market Program, and other local marketing programs having a big demand impact.
- Direct markets contribute over 50% of produce sales.
- Auction markets contribute 10-15%.
- Estimated vegetable and melon sales for 2014 at \$31.4 million.
- Estimated fruit sales for 2014 at \$12.3 million.
- Nursery and greenhouse sector still flat nationally with slow recovery following 2007 recession.
- Nursery sector recovery stronger in Kentucky.
- Nursery & greenhouse sales for 2014 estimated at \$91 million.

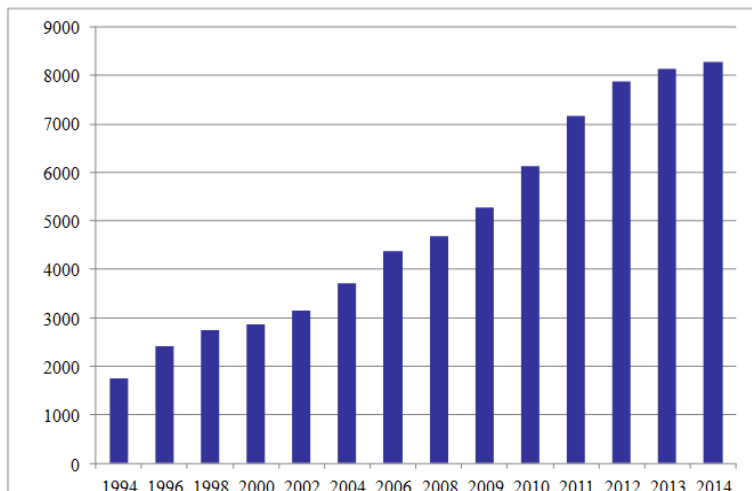
2015 Outlook

- Direct markets should continue to expand in 2015.
- Continued interest in local products from grocers, restaurants, schools, and other institutions should buoy demand for Kentucky produce.
- Nursery and greenhouse sales will remain fairly flat, but also buoyed by local market sales.

Kentucky Horticulture Cash Receipts

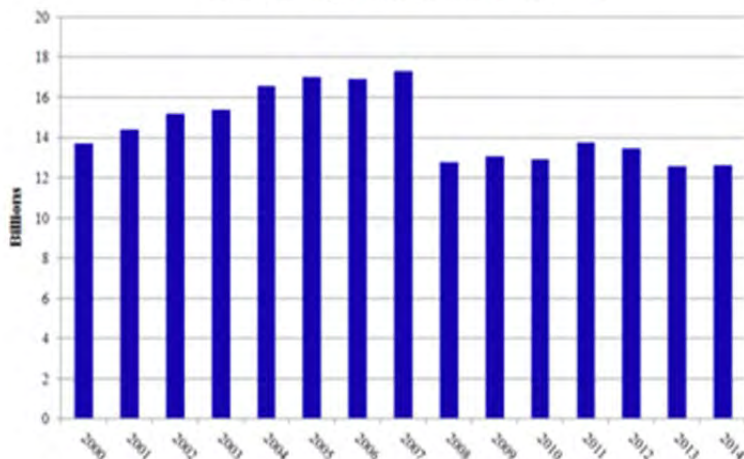


U.S. Farmers Market Growth: 1994-2014



Source: USDA-AMS 2014; USDAAMS Marketing Services Division
Farmers market information is voluntary and self-reported to USDA-AMS

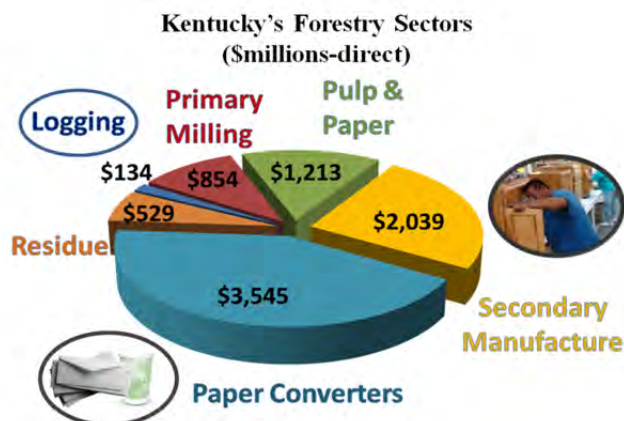
National Nursery & Greenhouse Sales 2000 - 2014



Source: USDA ERS Farm Income and Wealth Statistics, 2014

2014 Review

- **Forestry Sector:** The 2014 estimated direct economic impact of Kentucky's forest and wood industry is \$8.3 billion, which represents a 5% increase from 2013. The total economic impact (direct, indirect, and induced) was \$12.8 billion.
- Employment in Kentucky's forest and wood industry for 2014 is estimated to be 28,202 jobs in 109 counties, a 2% increase from 2013. The total employment impact (direct, indirect, and induced) was 57,753 jobs.
- The paper and paper converters forestry subsectors saw the biggest gains in 2014 compared to 2013. Combined, those two forestry sub-sectors accounted for 9,824 jobs, but more than \$4.7 billion of the direct economic impact.
- **Exports:** Export value of Kentucky's wood products is estimated to reach more than \$273 million in 2014, which will be an increase of over 30% from 2013. Exports were led by wood barrels (\$97 million). While all global regions increased their imports of Kentucky wood products, Asia led the way increasing 78% compared to 2013.
- **Commodities:** Delivered log prices continued to climb in 2014; prices across all grades, species and regions were 24% higher than last year. Red and white oaks showed the largest gain at 30%. Production was also up 4.4%, indicating good demand and pricing.
- Stave logs also increased throughout 2014 to \$963 per MBF up 10% from 2013.
- Tie log demand remained stable, but delivered prices softened in the second half of year losing 5 to 10 percent.
- Markets for low grade logs also softened, but remained good due in part to a flood of used construction mats into the market place.
- Significant movement in hickory markets have occurred with demand and prices for sawlogs and veneer logs up. Hickory tie logs remained above average for other species.
- Pulpwood markets remained stable with prices declining only slightly (-3.2%) for hardwoods in 2014.



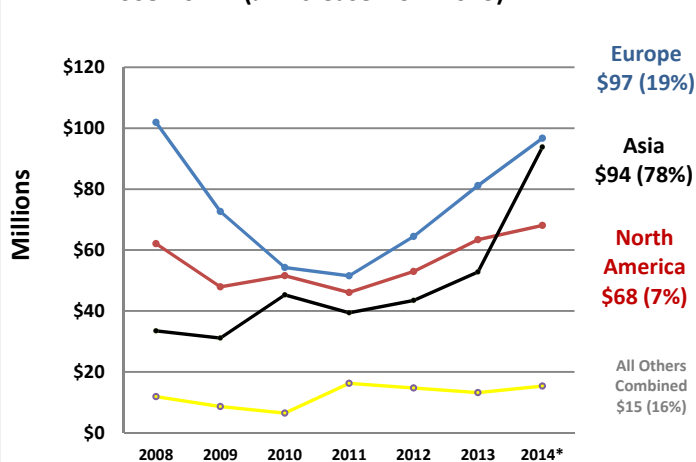
Percent Change in Delivered Log Price For All Grades

| Species | Grade 1 | Grade 2 | Grade 3 |
|----------------------------|---------|---------|---------|
| Percent Change 2013 - 2014 | | | |
| Ash | 24 | 35 | 19 |
| Hickory | 23 | 34 | 33 |
| Hard Maple | 29 | 28 | 31 |
| Red Oak | 30 | 39 | 14 |
| White Oak | 30 | 34 | 14 |
| Walnut | 11 | 4 | 12 |
| Yellow-Poplar | 14 | 22 | 18 |
| | 23 | 28 | 20 |

2015 Outlook (Commodities)

- The demand and pricing for sawlogs for factory lumber manufacturing softened in the second half of 2014. However, they will follow the US economy and are expected to be stable in 2014.
- Stave log markets will continue to be robust and are projected to be so for the next 5 years, reflecting the strong global demand for whiskey and wine.
- Demand and pricing for low grade logs including tie logs will remain stable in 2015.
- Pulpwood markets may be affected by the proposed purchase of New Page by Verso slated to occur in 2015.

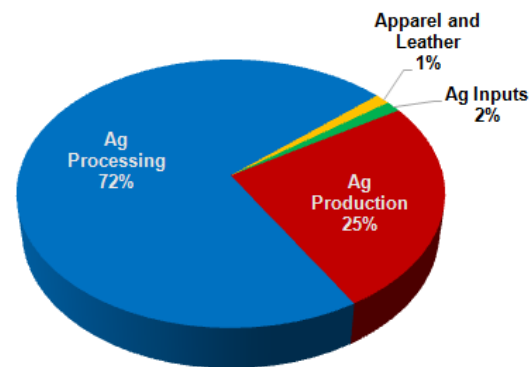
Export Destinations
2008-2014* (% increase from 2013)



Overview

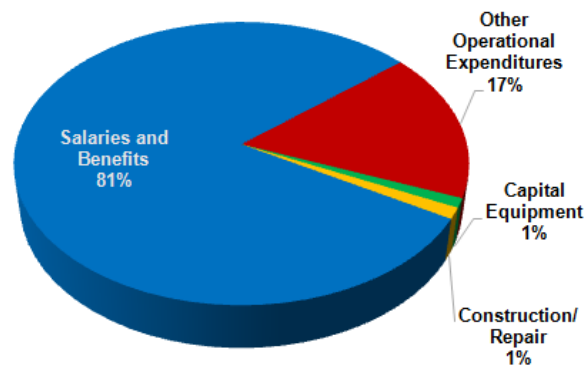
- Total economic impact of the agriculture industry in Kentucky is approximately \$43 billion.
- The agricultural input sector, which has an economic impact of about \$565 million, includes manufacturing of inputs in agricultural production such as fertilizers, pesticides, and farm equipment/machinery.
- Agricultural production includes the value of grains, oilseeds, vegetables, fruits, tree nuts, and other horticulture products grown in Kentucky. Production accounts for about 25% of total economic impact of agriculture, and generates about \$11 billion.
- Agricultural processing is the largest sector in the agriculture industry, contributing about 72% of the industry's total economic impact for a total of roughly \$31 billion. The processing sector transforms agricultural products into finished goods such as cane sugar, confectionary, frozen foods, textiles and fabrics, etc.
- Apparel and Leather industries add to the economic impact of agriculture because their primary inputs are products from the processing sector. These industries combined generate about \$548 million.
- The total economic impact of federal research and extension dollars equals about \$11.5 million.
- Salaries and benefits comprise of outlays on research, extension, and support personnel and represent the largest expenditure in this sector. The economic impact of salaries and benefits totals \$9.3 million.
- The category Other Operational Expenditures includes miscellaneous expenses incurred for research or extension purposes. These expenses contribute about \$2 million to the total economic impact of this sector.
- Capital Equipment accounts for purchases of computer hardware, farm equipment, etc. Construction/Repair measures outlays on new construction and renovation or repairs of existing structures.
- The economic impact of agriculture in KY was estimated at about \$42 billion dollars. Using more recent data, the economic impact is approximately \$43 billion, which is a modest but significant increase.
- This economic impact analysis was conducted using a conservative approach. Therefore, the estimate is likely to be slightly lower than the actual impact.

Economic Impact of Agriculture in Kentucky



Source: Census of Agriculture, 2012 and IMPLAN 2010 Datasets

Economic Impact of Research and Extension in Kentucky



Source: University of Kentucky, College of Agriculture, Food and Environment, Agricultural Business Center

Economic Impact of Agriculture in Kentucky

| | Employment | Output | Employee Compensation |
|---------------|----------------|-----------------------|-----------------------|
| Ag Production | 136,886 | 10,825,497,520 | 1,298,267,184 |
| Ag Processing | 124,170 | 30,830,007,467 | 4,691,467,863 |
| Apparel | 4,470 | 513,163,542 | 164,014,201 |
| Leather | 270 | 34,592,403 | 8,473,292 |
| Ag Inputs | 1,780 | 564,794,231 | 82,691,467 |
| Total | 267,576 | 42,768,055,163 | 6,244,914,006 |



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