University of Kentucky
College of Agriculture, Food and Environment

Economic & Policy Update

Edited by:
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September 2019 Newsletter Volume 19, Issue 9

Market Demand for Specialty Small Grains in Kentucky

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Across Kentucky, we have seen an increase in the local food movement, where consumers prefer to eat food and consume beverages which are grown, farmed, or produced locally. The local food movement is evident from the recent boom seen in the craft food and beverage market. Furthermore, the staple spirit of Kentucky, bourbon, has seen a rapid expansion in production and new distilleries entering the market. As such, producers of craft foods and beverages targeting the local food movement often desire locally sourced inputs. Specialty small grains (e.g., cereal rye, hard red winter wheat, and malting barley) are a vital input into products like artisan bread, craft beer, and bourbon. Therefore, there are potential opportunities for Kentucky farmers to supply various specialty small grains to support the expansion in these markets.

Unfortunately, farmers are hesitant to enter specialty grain production without known and proven markets. On the other hand, food and beverage entrepreneurs are hindered in their development of regional or specialty small grain products due to lack of supply from farmers. Therefore, we set out to help bridge the gap of information in the specialty small grain value chain. With support from the Kentucky Small Grain Growers Association, we

conducted stakeholder interviews with end-users of specialty small grains. The goal of these interviews was to identify critical success factors for these markets to flourish in Kentucky. These end-users included millers, maltsters, bakers, brewers, and distillers. From these interviews, five themes arose:

1.) The strongest demand is from bakers and distillers, however emerging enterprises in both milling and malting will demand more specialty small grains soon,

2.) Grain quality traits must be met and are more stringent and less flexible than commodity grains,

3.) On-farm storage will be required to allow for just-in-time delivery to the processor or value-adders,

4.) Flavor profiles of the grains are important so variety selection will encompass more than yield and disease resistant characteristics,

5.) All stakeholders valued both the professional and interpersonal relationships with farmers and suppliers. These relationships build a story that helps brand products and link the product back to Kentucky farms and their sustainable practices.

In addition to conducting interviews, we hosted the inaugural Southeastern Grain Gathering on September 15-16 in Lexington, KY. This event brought together over 150 farmers, millers, bakers, chefs, researchers, maltsters, brewers, distillers, and consumers to build a community and conversation around specialty small grain value chains in the region. This event was inspired by the authors' work on a recently funded Southern SARE Research and Education Grant and made possible by all of the event sponsors, participating staff and students throughout UK's College of Agriculture Food and Environment, and many local farmers and chefs. This event was the first step at building our local value chains by providing networking opportunities and linking key stakeholders along the value chain. Hands-on baking demonstrations and classes, value chain panel discussions, and great food and beverages highlighted the two-day gathering. Hopefully, this event was the start of fostering those interpersonal relationships that are critical success factors for specialty small grain markets to flourish in Kentucky. If you are interested in participating or attending the next Southeastern Grain Gathering, please visit our website: https://localgrains.ca.uky.edu/segg or contact the authors directly.

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What to do When You Have "Too Much" Money

Kayla Brashears

It's no secret that agriculture is a capital intensive industry that forces farmers to be "cash poor" for the vast majority of the year (or decade?). However, the issue of having too much cash is a "problem" that may come up from time to time. Whether it's from years of profitable farming, a well-timed land sale, or an exponentially successful new crop venture, we're taking a look at what to do when you have "too much" cash in the bank.

As we're walking through a spend money exercise, it's best to start at the top of the balance sheet and work down. First, let's make sure all the current liabilities are satisfied. Is the operating line current (no prior years' crop debt)? Are account payables with merchants zeroed out? Is there enough money to make all of the debt payments for the upcoming year? Next, let's explore cash injections that can set the farm up for success the following year. Can inputs be prepaid to reduce the overall cost of next year's crop? Can fuel or rents be locked in at a low price?
A producer that's been struggling for years to make debt payments on equipment notes and land purchases may be drawn to immediately funnel extra cash to intermediate or long-term debt repayment. In a lot of scenarios, that's a bad idea. One point to remember about paying extra principal on intermediate and long-term debts is that once you pay it, it's gone. Well, of course! More importantly, it also means you no longer have ***access*** to that cash. The chances of you being able to access the equity in your equipment and/or land at a comparable ***price*** to what you originally had are slim.

There are many that believe the incredible low interest years are behind us. The farm you bought in 2011 when the prime rate was 3.25% is not going to allow you cheap access to that equity if you need hard, cold cash in 2021. If you're looking to expand in the near future, it makes more sense to hold onto cash as a down payment on a new property which almost assuredly will be locked into a higher interest rate. "But, my checking account only gets 0.01% interest!" I understand. For the time being, move your excess funds into a money market account. Many financial institutions offer CDs with a "free" period every 12 months to access your money or lock it in for another 12, increasing the interest return. If you're really concerned about needing to access your cash, ladder the CDs on a rolling 3-month basis. Once you're sure all current liabilities are satisfied and you've conquered the urge to pay off debt, it's time to move on to the fun part.

Next, invest in your operation. Have there been upgrades, or repairs that have been put off due to the lack of funds? Now is the time to make those improvements. Of course, it's never a good idea to spend money just because you have it or to try to pull one over on Uncle Sam. But, if there are genuinely needed improvements and upgrades that could add value to your operation, use this opportunity to make them.

Once the obvious farm needs are met, consider tax-advantaged retirement options. The typical retirement plan for many farmers is comprised of dirt, iron, and paint. Remember though, that cash is king, and maximizing retirement contributions may be advantageous tax wise and also intangibly – it may help you sleep better at night! Are there other investment opportunities you've been curious about but haven't had the capital to pursue?

Each operation is unique and there is not a set outline or flow chart to describe the best way to spend money. For example, in some situations, especially that of a high-risk borrower, it may be pertinent to pay off high-interest equipment debt. Other operators may find value in investing outside of the farm, or even the agriculture industry. When making these decisions, be sure to consider your five-year plan and the goals for your operation. It helps to have input from an outside source. Consider meeting with your tax preparer, or your KFBM specialist to help you flesh out ideas and examine all angles. Arguably, the problem of having too much cash on hand is one of the best types of problems to have.

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Fall 2019 Wheat Planting Decision

Greg Halich

Due to the early dry-down of corn this year, Kentucky grain farmers have been well ahead of pace in harvesting corn and are getting to the point where they will decide if and how much wheat they will plant this fall. Compared to last year there is a modest decrease in wheat prices, and a slight increase in soybean prices. These changes will make planting wheat less attractive relative to last year. The following analysis attempts to quantify the extent of the relative change in profitability for crops harvested in 2020. The analysis includes estimated returns comparing double-cropped wheat/soybeans with full-season soybeans for the 2020 crop, and the likely implications for Kentucky grain farmers.

Additional costs associated with double-cropping are accounted for, including fuel, fertilizer, herbicides, machinery repairs and depreciation[1], labor, hauling, etc. The analysis assumes a blended mix of selling directly from the field and selling from storage for both wheat and soybeans, as well as expected basis for each crop with those scenarios. This results in 2020 crop prices of $4.80/bu for wheat and $9.30/bu for soybeans. Note that the basis for soybeans for fall/winter 2019/20 has improved from last year, and I am assuming it will be close to normal by fall 2020.

Two regions with different agronomic characteristics are evaluated. The first region is along the southwest tier of counties roughly between I-24 and I-65, which traditionally does a lot of double-cropping. The second region is along the northwest tier of counties (Ohio Valley region) that has some of the best yields for corn and soybeans, but traditionally plants less wheat. Cash rent is assumed to be $175/acre for both these regions for the average ground and $225/acre on the best ground (*note: this will vary substantially, but is done here for illustrative purposes only*). Other major assumptions are: $2.25/gallon fuel, 25 mile one-way grain hauling, $.40/unit N, $.32/unit P, and $.30/unit K.

Southwest Tier Assumptions (Average Ground):

72 bu wheat
42 bu double-cropped soybeans
50 bu full-season soybeans

Resulting net profits:
-$34 double-crop
-$7 full-season soybeans

This results in a $27 difference in favor of full-season soybeans. The double-crop soybean yield would need to increase to 45 bushels to equal the profitability of full-season soybeans. This would equate to a 10% yield loss of double-cropped soybeans compared to full-season soybeans.

Southwest Tier Assumptions (Best Ground):

90 bu wheat
51 bu double-cropped soybeans
60 bu full-season soybeans

Resulting net profits:
+$79 double-crop
+$33 full-season soybeans

This results in a $46 difference in favor of the wheat-soybean double-crop. The double-cropped soybean yield could drop down to 46 bu before full-season soybeans were as profitable. This would equate to a 23% yield loss of double-cropped soybeans compared to full-season soybeans.

Northwest Tier Assumptions (Average Ground):

65 bu wheat
42 bu double-cropped soybeans
50 bu full-season soybeans

Resulting net profits:
-$66 double-crop
-$7 full-season soybeans

[1] $20/acre was deducted from the double-crop scenario to account for fixed depreciation on the wheat enterprise that should not factor into the wheat planting decision.

This results in a $59 difference in favor of the full season soybeans. The double-cropped soybean yield would have to increase to 48.5 bu in this case before wheat/double-crop soybeans were as profitable. This would equate to a 3% yield loss of double-cropped soybeans compared to full-season soybeans.

Northwest Tier Assumptions (Best Ground):

75 bu wheat
51 bu double-cropped soybeans
60 bu full-season soybeans

Resulting net profits:

+$11 double-crop
+$33 full-season soybeans

This results in a $22 difference in favor of full-season soybeans. The double-cropped soybean yield would have to increase to 53.5 bu before wheat/double-crop soybeans were as profitable. This would equate to a 9% yield loss of double-cropped soybeans compared to full-season soybeans.

Given the current expected market conditions for 2019, planting wheat looks attractive this fall only on the best wheat ground. On the best ground in the south-west tier of counties, the wheat-soybean double-crop is projected to net about $45/acre more than full-season soybeans. In the other three scenarios evaluated, full-season soybeans were more profitable.

This analysis doesn't account for potential payments from the ARC and PLC Farm Bill programs. However, these programs would pay on base acre crop allocation and not planted acres, so there would be no effect on the planting decision.

To change the assumptions above to your specific conditions and evaluate your expected profitability, go to the grain budget site at:
http://agecon.ca.uky.edu/budgets
The Corn-Soybean Budgets and Wheat Budgets can be downloaded or opened directly from this page.

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