

# ECONOMIC & POLICY UPDATE

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## 2022 Tobacco Budgets

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The 2022 Kentucky-Tennessee tobacco budgets for burley, dark air-cured, dark fire-cured, cigar wrapper tobaccos are now available for download on our [budgets page](#). These budgets are developed by Alan Galloway, University of Tennessee (UT), Mitchell Richmond (UT), Bob Pearce, Andy Bailey, and myself, Will Snell, from the University of Kentucky (UK).

As we always like to remind our users, budgets are just a tool that producers should draw upon in their decision-making. The costs and returns evolving from these budgets are based on assumptions made by UK and UT economists and tobacco production specialists. Every farm will have a different set of assumptions based on its unique production, management, and marketing outcomes. In reality, tobacco returns will generally generate a much greater variation across growers compared to many other agricultural enterprises given tobacco producer differences in labor source (H2A vs non-H2A), labor requirements, yield expectations, equipment and housing/stripping facilities, GAP fees, and price outcomes. Consequently, growers are encouraged to use our budget templates to develop a baseline that fits their individual farm and then review price and yield sensitivity tables (a separate tab in the spreadsheet) to assess a wide variety of outcomes.

### **General Observations for 2022**

For all budgets, we have increased the price of labor to \$16.50/hour to reflect the increased H2 Wage Rate for 2022 (\$13.89/hour for Kentucky and Tennessee vs \$12.90/hour in 2021), along with additional costs (e.g. housing, transportation, worker's compensation, and fees) associated with hiring workers under the federal H2A labor program. The budgets also reflect higher prices for very volatile fertilizer and chemical inputs. In general, input costs are projected to increase around 25 cents/lb in 2022 for burley, relative to 2021, with lower cost increases for dark types on a per pound basis given higher yield potential. Contract prices for 2022 were not available prior to the release of these budgets. Consequently, we used a range of prices centered around prices observed for the 2021

crops. Growers should adjust prices to reflect 2022 contract prices and incentives and anticipated yields for their operation.

**Burley** – Given our base scenario assumptions (2,300 lb yield, \$2.10/lb market price, 150 hours of hired labor at \$16.50 /hr) the net return above variable (cash) costs is \$520 or 23 cents/lb. Accounting for fixed costs (\$560/acre), and land value (\$200/acre), the net return to operator labor and management for 2022 given our assumptions is projected to be -\$240/acre or -10 cents/lb. In comparison, during the early years after the buyout, burley producers generally anticipated a return to labor and management in the neighborhood of \$1000/acre.

**Dark** – Dark tobacco returns continue to dwarf burley returns but are also being adversely impacted by increased labor, fertilizer, chemical and other costs coupled with minimal gains in market prices. For 2022, our base scenarios (2,800 lbs/acre for dark air and 3200 lbs/acre for dark fire) generate a net return to operator labor and management of \$964/acre for dark air-cured tobacco and \$2,012/acre for dark fire-cured tobacco.

**Cigar Leaf** – Given the introduction of cigar wrapper tobaccos in Kentucky and Tennessee in recent years, we have put together budgets for Dark Air-Cured Wrapper (Connecticut Broadleaf) and Dark Fire-Cured Wrapper. These tobacco types typically offer higher prices, but lower yields, increased labor and chemical costs, along with additional management oversight. Returns are quite volatile depending on the percentage of leaf graded as a “wrapper” compared to “filler” and “trash.”

The tables below provide burley, dark air-cured, and dark fire-cured returns **above variable costs** for various prices and yields. This would represent the income left over after paying all cash costs to compensate for the grower for his own labor, land, fixed costs, and management.

**Table 1: 2022 Burley Tobacco Budget - Sensitivity Tables**

PER ACRE RETURN OVER VARIABLE COSTS AT VARYING YIELDS AND PRICES					
Yield per Acre	Average Sale Price Per Pound				
	\$2.00	\$2.05	\$2.10	\$2.15	\$2.20
2000	-\$310	-\$210	-\$110	-\$10	\$90
2100	-\$110	-\$5	\$100	\$205	\$310
2200	\$90	\$200	\$310	\$420	\$530
2300	\$290	\$405	\$520	\$635	\$750
2400	\$490	\$610	\$730	\$850	\$970
2500	\$690	\$815	\$940	\$1,065	\$1,190

**Table 2: 2022 Dark Air Cured Tobacco Budget - Sensitivity Tables**

	PER ACRE RETURN OVER VARIABLE COSTS					
	AT VARYING YIELDS AND PRICES					
Yield per	Average Sale Price Per Pound					
Acre	\$2.30	\$2.40	\$2.50	\$2.60	\$2.70	
2500	\$754	\$1,004	\$1,254	\$1,504	\$1,754	
2600	\$984	\$1,244	\$1,504	\$1,764	\$2,024	
2700	\$1,214	\$1,484	\$1,754	\$2,024	\$2,294	
2800	\$1,444	\$1,724	\$2,004	\$2,284	\$2,564	
2900	\$1,674	\$1,964	\$2,254	\$2,544	\$2,834	
3000	\$1,904	\$2,204	\$2,504	\$2,804	\$3,104	
3100	\$2,134	\$2,444	\$2,754	\$3,064	\$3,374	

**Table 3: 2022 Dark Fired Tobacco Budget - Sensitivity Tables**

	PER ACRE RETURN OVER VARIABLE COSTS					
	AT VARYING YIELDS AND PRICES					
Yield per	Average Sale Price Per Pound					
Acre	\$2.62	\$2.72	\$2.82	\$2.92	\$3.02	
2800	\$1,364	\$1,644	\$1,924	\$2,204	\$2,484	
2900	\$1,626	\$1,916	\$2,206	\$2,496	\$2,786	
3000	\$1,888	\$2,188	\$2,488	\$2,788	\$3,088	
3100	\$2,150	\$2,460	\$2,770	\$3,080	\$3,390	
3200	\$2,412	\$2,732	\$3,052	\$3,372	\$3,692	
3300	\$2,674	\$3,004	\$3,334	\$3,664	\$3,994	
3400	\$2,936	\$3,276	\$3,616	\$3,956	\$4,296	

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