

ALABAMA EXTENSION

AgOutlook

2023





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Increasing prices were seen across the board for agriculture in the crops and livestock sectors in 2022. As a result, the USDA is projecting a 26.5 percent increase in net cash farm income in the United States. Tempering that growth was the continued increase in production expenses in almost all expense categories. This is even more apparent when looking at regional variations in net cash farm income, where the Southern Seaboard, which includes much of Alabama, is projected to decrease by 11.8 percent. Further concern also exists about maintaining revenue levels as prices begin to stabilize. While examining supply and demand factors provides a marketing look ahead, other factors also affect agricultural production and farm profitability.

The Alabama Agricultural Outlook Conference provides an opportunity to gain insight into the state of the agricultural sector concerning critical issues affecting risk management decisions in the year ahead. This is a glimpse into the presentations from the December 15, 2022, conference that covers crop and livestock sectors, forestry, land ownership, and agricultural policy topics. We hope this science-based information provides you with the resources necessary to make informed decisions for the year ahead.



Preparing for the Next Farm Bill from an Alabama Perspective

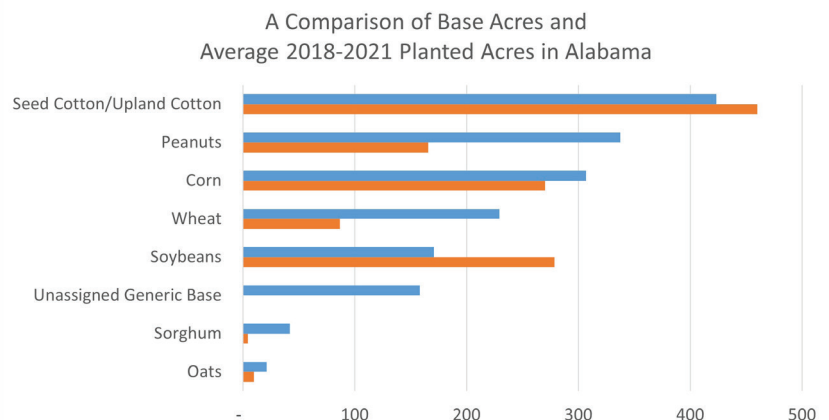
Adam Rabinowitz, Assistant Professor and Extension Economist, Auburn University

The 2018 farm bill is set to expire on September 30, 2023. The new congressional session will be an important period of hearings, listening sessions, and negotiations for the next farm bill. Current estimates are that the next farm bill will cost more than \$1 trillion during the 10-year budget period for the first time in farm bill history. Roughly 25 percent of that is focused on agricultural programs, primarily within commodity, crop insurance, and conservation programs.

Some of the critical issues relevant to Alabama agriculture include the following:

- Effectiveness of commodity safety net programs ARC/PLC and questions about margin-based coverage or increased reference prices.
- Crop insurance opportunities and the need for more responsive disaster assistance. Ad hoc disaster allocations have been needed every year since the 2017 growing season.
- Future conservation programs after the addition of about \$16 billion in spending through the Inflation Reduction Act of 2022.

Another issue often discussed is an update of the current base acres to a more recent planted acre history. In the below figure, I compare the current base in Alabama to a 4-year average of the planted acres for the same commodity. Payment-eligible cotton acres would increase, although the current unassigned generic base acres (previous cotton acres) would disappear. While there is a potential increase in soybean acres, a more significant decrease would occur in peanut acres. Overall, there would be a decrease in all base acres of about 24 percent of the current state total or 17 percent of the current payment-eligible base.



Foreign Investment in Agricultural Lands

Mykel Taylor, ALFA Eminent Scholar, Auburn University

Lately, there has been much coverage by the media regarding the purchase of U.S. agricultural land by foreign entities, especially those purchased by Chinese companies and individuals. Foreign entities' purchasing of U.S. cropland, pasture, and forestland is monitored by the Agricultural Foreign Investment Disclosure Act (AFIDA) of 1978. This federal law does not prevent the purchase of land by foreign entities but rather requires that they inform the U.S. government of the amount, location, and value of the land purchased. Data reported under AFIDA indicate that the overall trend in agricultural land purchases by foreign investors has been increasing over the past several years. The leading country purchasing U.S. agricultural

land is Canada, with 32 percent, followed by the Netherlands (13 percent), Italy (7 percent), and the United Kingdom (6 percent). In Alabama, 1.8 million acres, 6.2 percent of all privately held agricultural land in the state, is owned by foreign entities. Across the United States, Chinese investors have 352,140 acres, slightly less than 1 percent of all foreign-held acres. Determining how much land foreign entities can own is a state-level issue, and there is variability by state in what is allowed. However, the data provided by AFIDA reveal that while Chinese purchases are of great interest to policymakers and the media, they make up a small percentage of the foreign-owned agricultural land in the United States (figure 1).

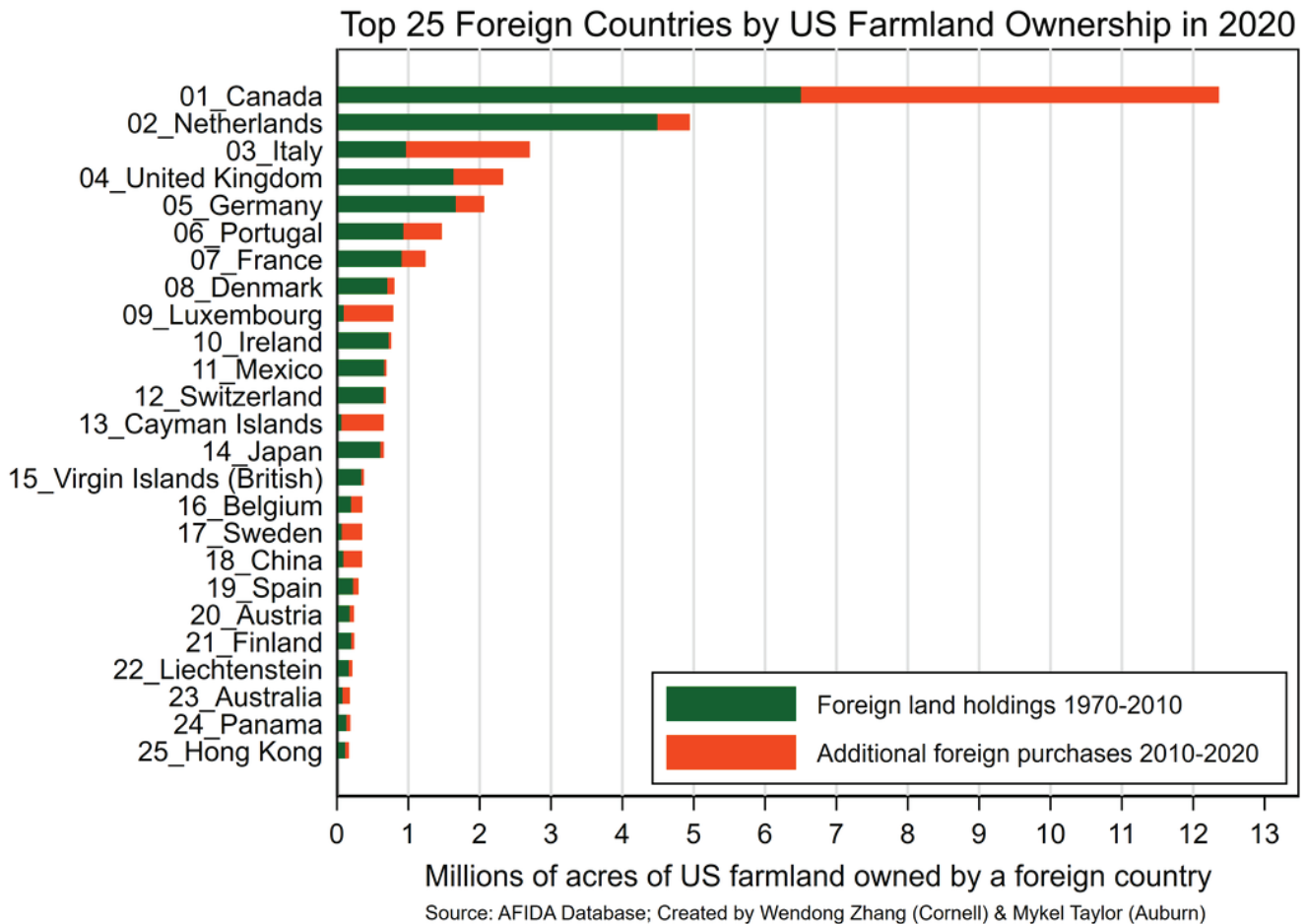


Figure 1. Foreign Land Holdings of U.S. Agricultural Land

Poultry Market Outlook and the Future of the Tournament Pay System

Dennis Brothers, Associate Extension Professor, Auburn University

The commercial poultry industry had a good 2022. Poultry prices maintained an overall high for the entire year, though prices are currently falling. It is expected that prices will stay above past averages well into spring of 2023—likely held up by sustained inflationary pressure and the looming talk of recession. The supply is good and should help hold prices in check.

For growers, the recent merger of Wayne-Sanderson (W-S) under the Cargill umbrella holds particular interest. The FTC has directed W-S to modify the pay system for broiler growers, disallowing tournament pay. W-S may follow the pattern of the Lincoln Premium Poultry (COSTCO) in Nebraska, setting a base pay and only allowing for small positive performance incentives.

If successful, integrators with complexes overlapping W-S may be forced by grower competition to change their pay programs. Growers considering such opportunities must look at their current revenues and their potential compared to the alternative guaranteed pay. A new system may represent a decline in potential revenue for better-than-average growers.

There is also a discussion of broiler and breeder growers being paid per square foot with no performance variances. In such cases, a company may only have welfare guidelines moderating



pounds per square foot through a house. They could, in theory, increase pounds without increasing pay for growers as their expenses increase accordingly. A pay-per-pound system is the only way to offset this potential.

Farm A and B represent two scenarios for broiler farms with a \$28,800 total difference in annual farm income. Only \$10,800 of that difference is from lower expenses or efficiency improvements. The other \$18,000 (62 percent) in additional income results from performance improvements, both in increased pay rate and increased pounds. According to where a guaranteed pay rate falls, this total revenue increase may or may not be available to a grower in a nontournament pay system.

Broiler Farm Income Estimates	2 - 66' X 600'	
	Farm "A"	Farm "B"
Total Square Footage	72,000	72,000
Gross Revenue per SF (\$\$ per lb annualized)	\$ 2.75	\$ 3.25
Gross Revenue	\$ 198,000.00	\$ 234,000.00
Variable Expenses	\$ (69,300.00)	\$ (58,500.00)
Income Before Debt Service	\$ 128,700.00	\$ 175,500.00
Debt Service Assignment (50%)	\$ (99,000.00)	\$ (117,000.00)
Annual Net Farm Income	\$ 29,700.00	\$ 58,500.00
ANFI per SF	\$ 0.71	\$ 1.39

Conservation-Practice Trends and Marketing Opportunities for Alabama Row-Crop Producers

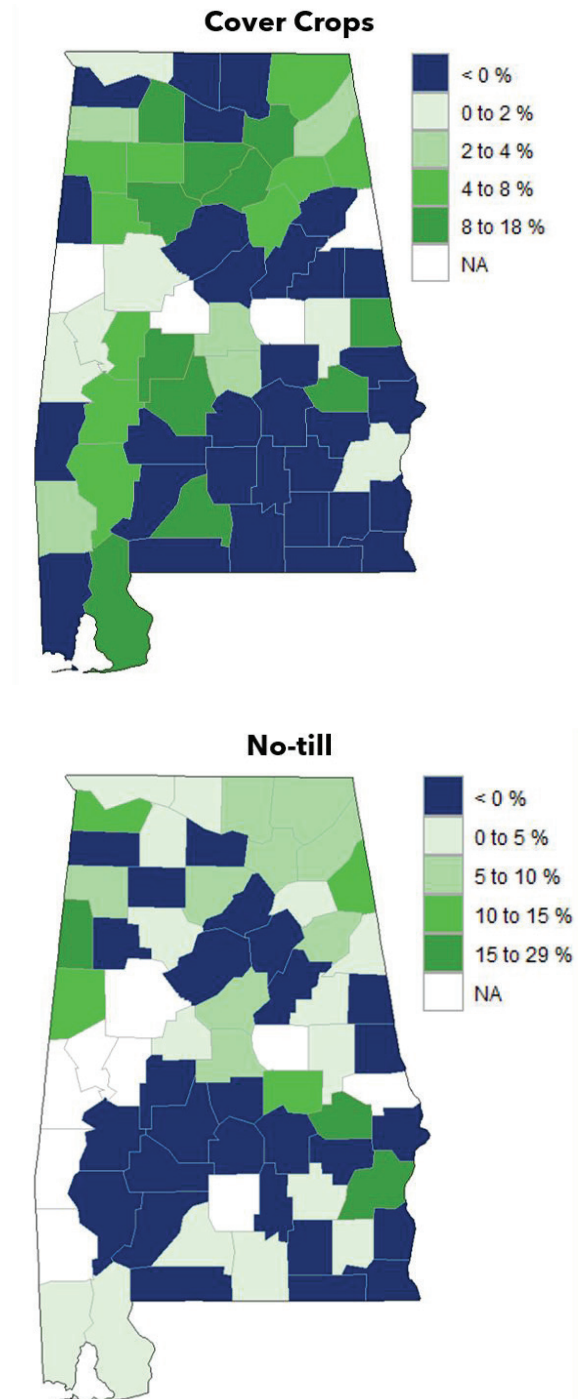
Wendiam Sawadgo, Assistant Professor and Extension Economist, Auburn University

Carbon markets—programs in which companies pay farmers to adopt conservation practices such as cover crops and no-till—present a new potential revenue source for farmers. There might be opportunities for farmers to benefit from these programs considering that cover crops and no-till were already used on 8 percent and 27 percent of Alabama cropland before the recent emergence of novel carbon markets, which are both above the national average. One factor important to the success of carbon markets is permanence, or the idea that practices need to be used continuously to generate carbon credits. This is because discontinuing the use of cover crops can reduce carbon benefits, while a single pass of tillage can undo the carbon sequestration benefits that were achieved.

Between 2012 and 2017, the percentage of Alabama cropland in cover crops and no-till increased by more than 1 percentage point. While these values show overall progress in adopting conservation practice use, they hide the disadoption of conservation practices that occurred at less-aggregated levels. Between 2012 and 2017, almost half of Alabama’s counties saw declines in cover crop and no-till acreage, as shown by the counties in blue in the figure below. This is important because the disadoption of conservation practices might threaten the success of carbon markets, as sustained use of conservation practices will likely be necessary for farmers to benefit from carbon programs.



Changes in Alabama Cover-Crop and No-Till Use from 2012 to 2017





Alabama Forest Industry: Timber Market and Trending Topics

Adam Maggard, Harry E. Murphy Associate Professor and Extension Specialist
College of Forestry, Wildlife, and Environment, Auburn University

Currently, the timber inventory is the largest in recorded history for Alabama. Standing timber volume in Alabama is continuously increasing. Up nearly 1.3 percent since 2020, Alabama has approximately 727 million tons of softwood growing stock and about 607 million tons of hardwood growing stock. Of the softwood growing stock, more than 82 percent of it is loblolly pine, and that leads the nation. The forest industry in Alabama is vibrant with more than a \$28 billion economic output, providing more than 44 thousand direct jobs, and ranks second for pulp and paper production, third for lumber production, and sixth for wood panel production in the contiguous United States. Demand for timber products has been strong in recent years. Sawtimber stumpage prices have not been the same since the 2008 housing market collapse and economic recession, with average prices increasing slightly for the first time in over a decade and partly a result of some extreme wet weather seen during the last quarter of 2021 and the first quarter of 2022 (figure 1). The housing market, economy, international trade (import and export demand for forest products), and timber supply on the stump are all key factors that landowners and forest managers should keep an eye on moving forward. The

housing market has been strong for a while now. However, the oversupply of standing timber has negated much of that impact concerning stumpage prices for landowners.

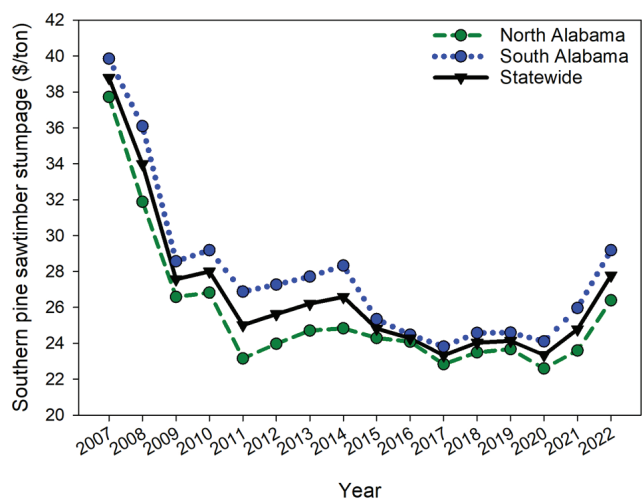


Figure 1. Average annual southern pine sawtimber stumpage price in dollars per ton from 2007 through the second quarter of 2022 for North Alabama, South Alabama, and overall state average. North Alabama and South Alabama are separated roughly by Interstate 85 if continued from the Georgia state line to the Mississippi state line.

Cattle Marketing and Transparency

Josh Maples, Associate Professor, Mississippi State University

Timely and reliable reporting of trusted market data is critical to efficient cattle markets. This reporting provides transparency to market participants and reduces information barriers. Publicly reporting prices increases the information available to all participants. This reporting is generally considered a public good: everyone can consume it, and anyone using it does not exclude others from using it. The primary motivation for government involvement in collecting and disseminating this information is that the private sector would unlikely provide these data in a format or level that is useful to all participants. Market reporting alone is not price discovery; it certainly contributes to the price discovery process.

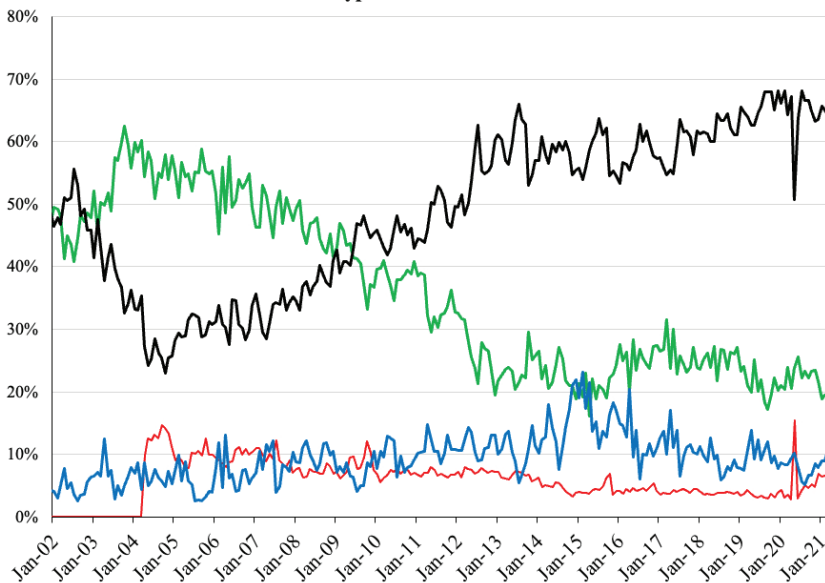
Availability of market information to all participants can improve efficiency and help markets reach the market clearing price quicker. Market participants generally look to public sources because they are more likely to have confidence that data are reliable and free of manipulation.

Market reporting in the United States has evolved from a voluntary reporting program from the Agricultural Marketing Act of 1946 to the Livestock Mandatory Reporting Act passed by Congress in 1999. The current structure likely provides the most

complete information ever publicly available to the cattle sector. However, the debate will always persist about potential improvements. Most recent discussions have focused on negotiated purchases and formula arrangements: reporting categories that didn't exist before 2002.



Transaction Type as Percent of Total Domestic





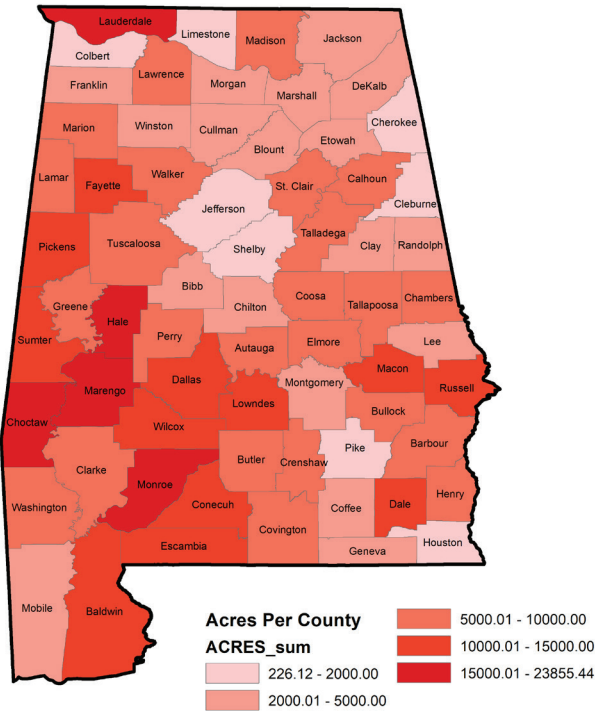
Heirs' Property in Alabama: Where is it, how does it relate to agriculture, and what can be done about it?

Ryan Thomson, Assistant Professor, Auburn University

Heirs' property is real property trapped under a clouded title created following the intestate passing between family members without a will or estate plan. Heirs' properties can have dozens of owners who cannot access most government programs, bank loans, commercial credit, or infrastructural improvements. The gray legal status of these properties obstructs production while hindering the transfer and growth of intergenerational wealth. Heirs' property has prevented long-term investments into rural areas, and as a result, farmland has gone fallow and forests abandoned, with significant impacts on local economies. With the recent rollout of the USDA Heirs' Property Relending Program earlier this year, the issue has become a national hot topic, with Alabama and Mississippi as ground zero.

There is much concern regarding Alabama's 40 thousand properties and combined 500 thousand acres of land currently trapped as heirs' property. The figure below shows the prevalence of heirs' property in Alabama by total acreage. Significant variation exists across Alabama from the Blackbelt, down to Gulf Shores, across to the Wiregrass, and up to the Tennessee Valley; heirs' property problems vary across different land use patterns. A number of approaches in neighboring states address the issue, including expanding the right of first refusal, affidavit strategies, and adapting current government programs. USDA FSA policy changes also provide solutions through expanded access to farm numbers and programs before obtaining a cleared title.

Estimated Total Acres of Heirs' Property By County 2019



ROW CROPS | LIVESTOCK | SPECIALTY CROPS | AQUACULTURE | FORESTRY

Ag ECONOMIC UPDATE

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