

Overview

Energy prices and the resultant increase in the demand for grain as a source of energy, especially corn for the production of ethanol, is changing the role and structure of agricultural production nationally, as well as in Utah. Cheap grain prices are not expected to return in the short and perhaps long run. This will affect farmers as well as livestock producers.

National Perspective

The net agricultural income in the United States is projected to be about \$59 billion in 2006. This is a decline of about \$15 billion from 2005. Most of this decline was the result of increases in the cost of production and reduced government payments (a decline from \$24.3 billion in 2005 to \$16.5 billion in 2006). One of the major factors affecting production costs is the rise in energy prices. According to USDA, inflation adjusted prices paid for diesel, gasoline/gasohol, and LP rose 94% between 2002 and September 2006. These were partially offset by declines in the price of natural gas, which declined nearly 40% between December 2005 and July 2006, which reduced fertilizer prices.

USDA estimates indicate that the value of agricultural production in the U.S. is expected to be about \$279.5 billion in 2006. The actual value of production will probably exceed this estimate because the price of grain, especially corn, has risen dramatically since harvesting started. The change in the price of corn is being driven by demands for corn in the production of ethanol. The magnitude of this demand is illustrated by the recent data for Iowa. Some estimates indicate that the ethanol plants there are currently operating and those that are currently under construction (plants that are being planned are not included) will be able to use all of the corn that is usually produced in the state. USDA projections suggest that about 2 billion bushels of corn will be used to produce ethanol in 2006 which is up from the 500 thousand bushels that were used a decade ago. As a result, corn prices are expected to be at or near record levels in the coming year.

Corn prices dictate the price for essentially all of the grain crops because of substitution effects, and because more bushels of corn are raised in the United States than any other grain. Nearly twice as many bushels of corn, 11.1 billion bushels, were produced in 2005 than the combined bushels of wheat (2.1 billion), barley (212 million), soybeans (3.1 billion), oats (115 million) and sorghum (394 million). The increase in the price of grain is one of the major reasons why the value of crop production is expected to increase dramatically in 2007. These prices will also likely exist for some time into the future. Many analysts believe the era of "cheap grain", having existed for about two decades, has passed. Higher grain prices also increase the price paid for forages such as hay and corn silage.

The increase in the price of feed will dramatically affect the cost of feeding livestock and the prices paid for younger animals. For example, prices paid for feeder cattle have declined as corn prices increased. The increased demand for corn for ethanol production and the resultant increase in grain prices represents a new factor that livestock producers have not had to consider in the past. However, this increase is a mixed blessing. While the price of grain has increased, the supply of distillers grain has also increased. These by-products of ethanol production are best utilized by ruminant animals. Hog and poultry producers have limited ability to utilize distiller grain in rations compared to dairy and beef operators. This will lead to shifts in animal production in favor of beef and away from hog and poultry production. For example, cash receipts for beef production are expected to top \$50 billion when the final numbers for 2006 are released, a result of greater domestic consumption and an expected doubling of export demand. It is also likely that the acres devoted to crops will shift because returns from growing grains is now competitive with the production of other crops such as hay.

One subtle change happening in some agricultural production areas is an increase in revenues from agri-tourism activities such as hunting, fishing, horseback riding, and petting zoos. According to the USDA, about 45,000 farms (about 2%) are involved with agricultural-based recreation enterprises which generated about \$664 million in income. Most of the recreational income was earned by commercial operations and not part-time "rural residential lifestyle" farms as one might expect. It should also be noted that greenhouse/nursery sales are expected to reach an all time high of \$16.6 billion in 2006. These two changes, as well as increased demand for fruits, vegetables, and "organic" or "natural" foods, reflect how close agricultural production is related to the desires of the urban population.

Utah Perspective

Essentially all of the factors noted above have implications that will affect agriculture in Utah. Most areas in Utah experienced above average rainfall during the past crop year and growing conditions were generally favorable throughout 2005. This resulted in relatively abundant forage for grazing and improved production per acre for wheat yields on dry farm lands. Water for irrigation was not limited in most areas of the state and yields for most crops are expected to be at or above historic levels. Moisture conditions for the new crop year, which started in October, were relatively favorable especially in the southern part of the state. If the normal amount of snow is received this winter and rainfall is close to normal next spring, farmers should experience favorable production during 2007.

While data are no longer published concerning estimated agricultural income for Utah, the production and prices suggest that 2006 was a relatively good year. The increased cost of fuel probably affected dry farmers and those who pumped water using diesel, gasoline, or LP more than most farming operations. Production of most crops was favorable in essentially all areas of the state. The prices received for cattle and calves declined late in the year, but were still high by historic standards. Milk prices were, however, unfavorable while crop prices were generally improved. The prices of most inputs were relatively stable, the exception being fuel. As a result, net agricultural income in Utah was probably relatively high in 2006 by historic standards.

The financial position (net worth) of farmers in Utah continues to be strong because land prices continue to increase. This makes it difficult for new farmers to enter the industry, but existing farmers continue to reap the benefits of increasing asset values. At the same time, higher land prices may shift some land from agriculture to industrial or commercial uses.

Regional/Sector Issues

Cattle. The production of cattle and calves has been the largest sector in Utah agriculture. Producers who either sold or contracted the sale of animals before prices declined in the late fall obtained near record prices for their animals. However, increased grain prices will likely have a negative impact on the prices paid for feeders produced in the state in the future. Nevertheless, demand for beef (domestic and export) is expected to remain strong. While distillers grains are expected to be a relatively inexpensive source of feed, they are best used as a finishing ration by operators that are located close to ethanol plants. As a result, producers who are able to economically use pasture and rangelands in places such as Utah may benefit by raising young animals on forage-based systems that provide feeder animals for finishing operations in the Corn Belt.

Dairy. The dairy industry in Utah has gone through a difficult year. Milk prices plummeted in 2006 from the highs that existed in early 2005. This was the result of increased production nationally. There is some indication that prices will increase in 2007 but the increase will probably be modest and not occur until mid-year. In addition, the price of feed which generally represents about half the cost in producing milk will continue to be high. As a result, net returns from the production of milk will continue to be a major issue for some dairy operations.

Other Sectors. Northern Utah and southern Idaho represent one of the major mink producing regions in the nation. Over the last few of years, this industry has experienced a resurgence in prices. As a result, profitability has improved and production is increasing. The nursery industry in Utah contin-

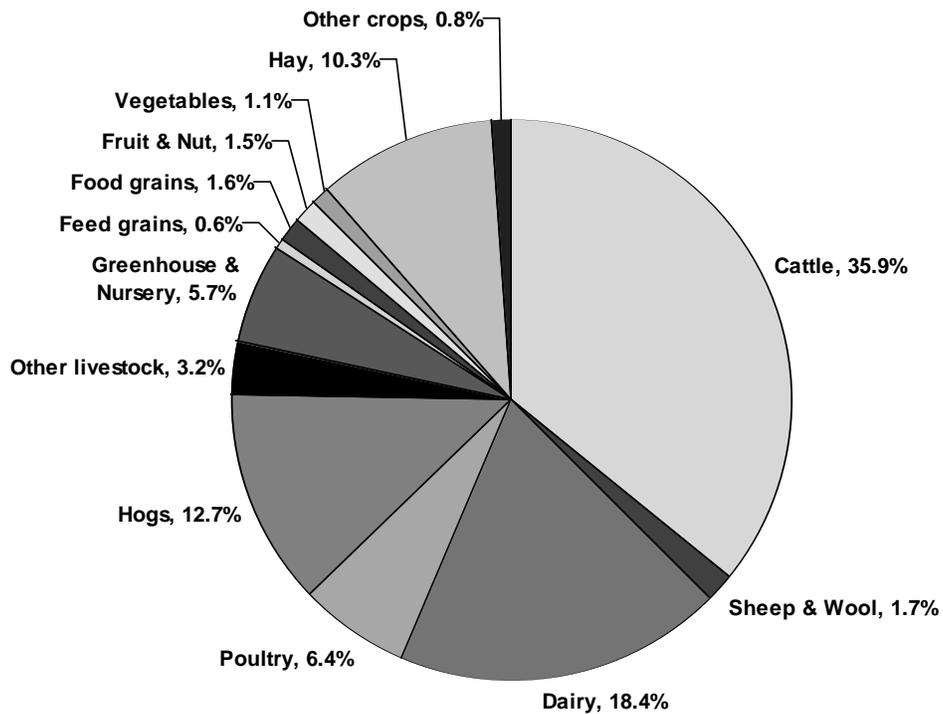
ues to grow and is becoming an increasingly important segment of Utah agriculture. While the number of firms that produce nursery products has declined, those that remain have experienced increasing sales of bedding/garden plants and flowering plants. The fruit industry has recently realized an increase in revenues with the trend likely to continue.

The recent growth in the mink and nursery industries is in stark contrast to the production of trout. The spread of whirling disease has reduced sales from \$1.9 million in 1998 to about \$559,000 in 2005 as firms have exited the industry. The sheep and wool industry has also slowly declined over time, but there is some indication that the rate of decline will slow. It should also be noted that the production of goats is a small but growing segment of Utah agriculture.

2007 Outlook

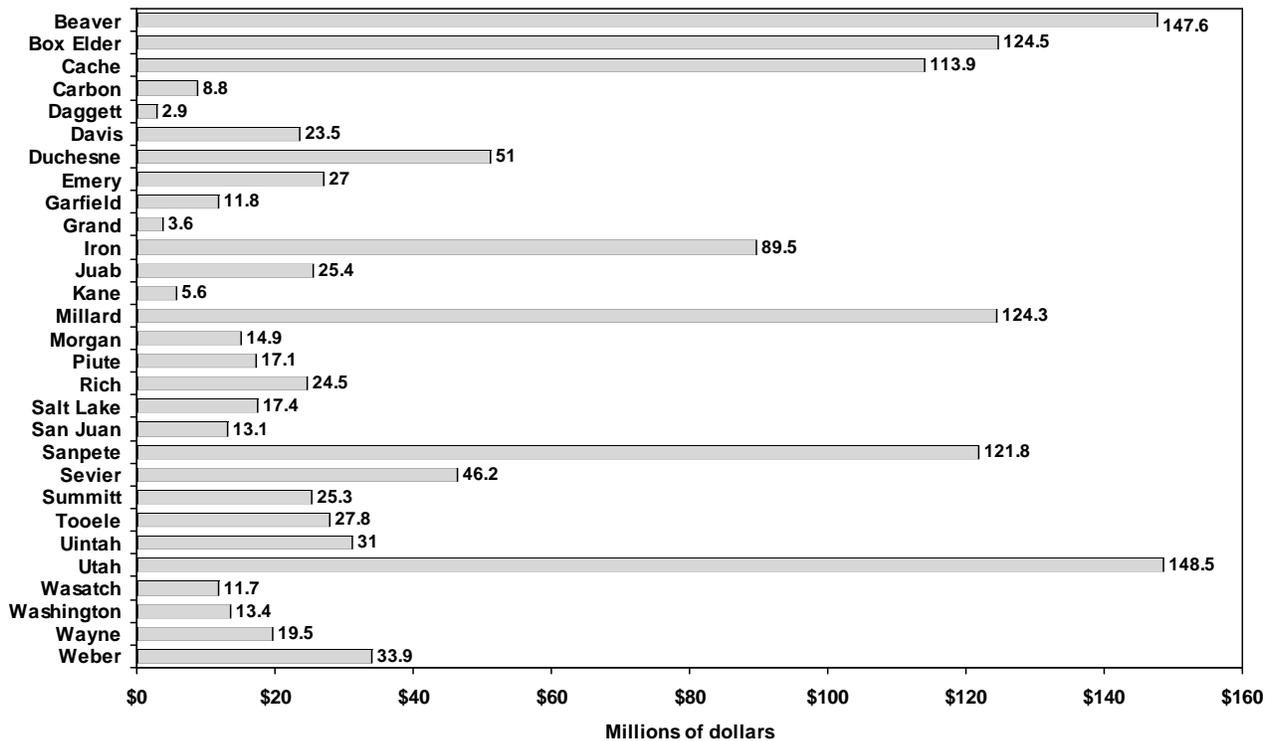
Crop producers are expected to realize significant growth in revenue, more so than the revenue growth in other agriculture sectors. The changes occurring through 2006 are expected to continue in the future. For example, farmers in Utah planted 65,000 more acres of corn in 2006 than they did in 2005, and the number of acres harvested for grain was up 42% from the previous year. This increase was partially offset by decreases in the number of acres of wheat planted while the number of harvested acres of barley was up nearly 25%. Increases in prices should result in favorable incomes for most crop producers in 2007. This will likely lead to a reversal in the percentage of cash receipts from the sale of crops compared to livestock in the coming year. The value of livestock production is not expected to decline very much, if any, in most counties, but crop production should lead agricultural incomes in the coming year.

Figure 59
Utah Agricultural Cash Receipts by Commodity: 2005



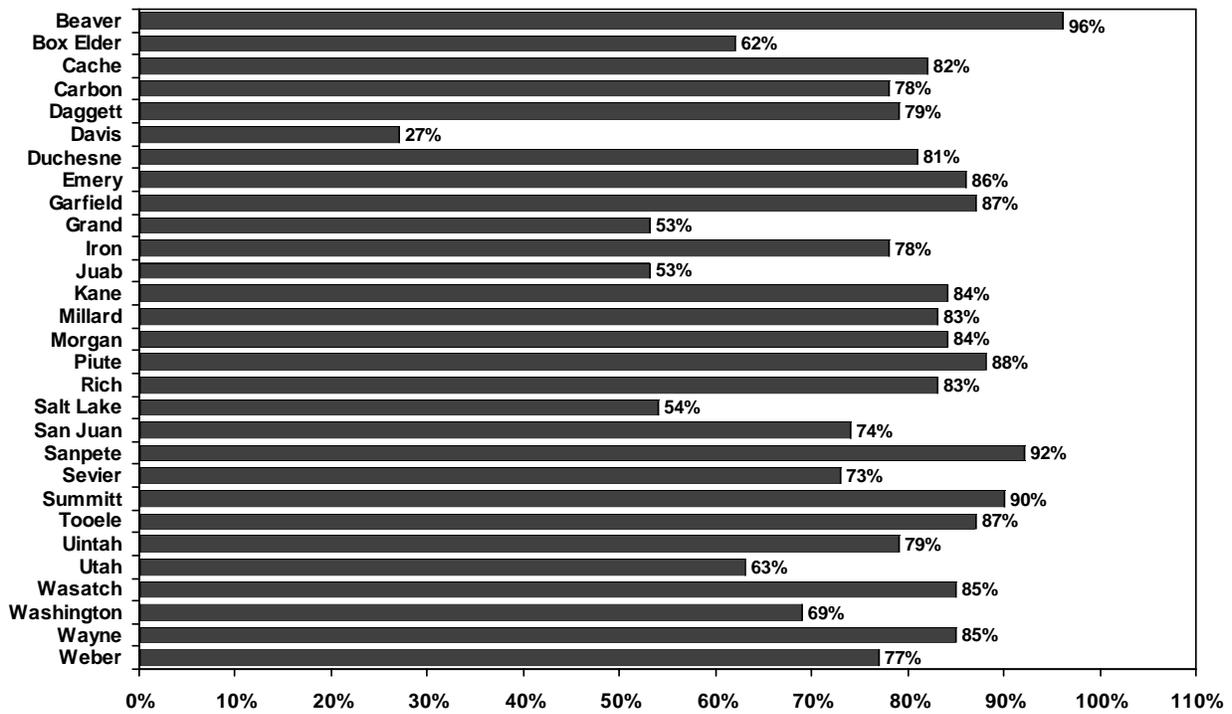
Source: Utah Agricultural Statistics Service, U.S. Department of Agriculture

Figure 60
Agricultural Cash Receipts by County: 2005



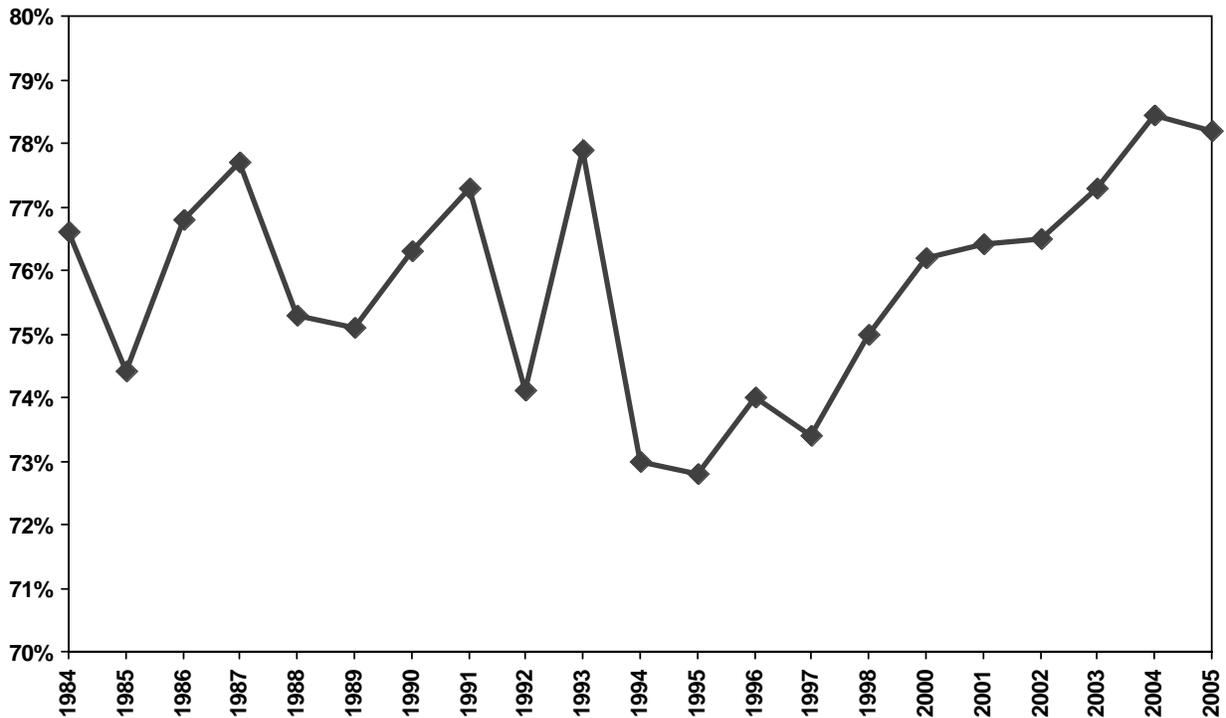
Source: Utah Agricultural Statistics Service, U.S. Department of Agriculture

Figure 61
Livestock Products as a Percentage of Total Cash Receipts by County: 2005



Source: U.S. Department of Agriculture

Figure 62
Livestock Receipts as a Percent of Total Cash Receipts



Source: U.S. Department of Agriculture

Table 79

Percent of Agricultural Receipts by Sector

Sector	2000	2001	2002	2003	2004	2005
Cattle	34.5	33.5	33.4	35.2	34.4	35.9
Sheep & Wool	2.1	1.5	1.8	1.8	1.6	1.7
Dairy	18.4	21.2	18.2	17.0	20.0	18.4
Poultry	8.0	7.9	9.7	9.0	7.1	6.4
Hogs	9.7	9.5	9.9	11.6	12.4	12.7
Other livestock	3.4	2.8	3.2	2.7	3.0	3.2
Greenhouse & Nursery	5.9	5.6	6.5	6.3	5.9	5.7
Feed grains	1.5	1.2	1.1	1.0	0.9	0.6
Food grains	1.9	1.7	1.7	1.5	1.6	1.6
Fruit & Nut	1.8	0.9	0.6	1.6	1.4	1.5
Vegetables	2.1	2.8	1.7	1.7	1.5	1.1
Hay	9.7	11.4	11.4	9.7	9.2	10.3
Other crops	1.0	0.5	0.8	0.9	1.0	0.8

Source: Utah Agricultural Statistics Service, U.S. Department of Agriculture

