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<http://www.griffin.uga.edu/caes/cotton>

Budgeting For 2006 Is A Sobering And Eye-Opening Experience

Over the past few weeks, I have been trying to complete my annual task of making cotton enterprise budget costs and returns estimates for the upcoming crop season. It's an important task and the numbers are relied on and used by many folks including producers, lenders, county Extension agents, consultants, seed and chemical company reps, and agri-supply dealers. These budgets, it seems, are receiving even more attention this year because costs are getting so high and profit margins even thinner. For this reason, special care is taken to make sure the estimates are "close". While it is impossible to represent all situations, it is nevertheless important that the numbers closely represent the typical or average situation for the grower.

I must admit that the process this year has been an eye-opening and sobering experience... much care has been taken to put together realistic numbers, yet it appears to me that (1) I am still way off or (2) there is just very little money (profit) to be had. For the world to see, a copy of our UGA estimates for non-irrigated BR cotton are on page 2. In reality, individual farms vary greatly in yields, inputs, and production practices. Also, actual production cost will depend on the situations we get into as the season progresses. Costs could easily be 10-15% higher or lower than our best "guestimate". But take a long hard look at the budget and let's decipher what we see.

Costs for fertilizers (especially nitrogen), seed, and chemicals will be up compared to last year. Fuel will be above the average for 2005 but below the highs of late-summer and fall of '05. Our estimate of total variable (out-of-pocket operating cost) is \$396 per acre including ginning and warehousing and excluding rent. At an optimistic yield of 700 lbs/acre, that's about 56 cents per lb of lint. At 650 lbs/acre, the cost would be about 60 cents per lb.

In an economic and political environment where we loosely throw around word's like "competitiveness" and with a new farm bill looming in 2 years, unless these numbers are way off base one can only conclude (1) there would be less US cotton without the marketing loan and LDP's and (2) there would be no (or certainly much less) land rent paid without DCP program payments. If we are to maintain a viable US cotton industry and one that can continue to be the world's largest exporter, this story needs to be told.

"Competitiveness" is often synonymous with producing and marketing a product "cheaper". Look at the budget. How could the cost/lb of lint (not per acre) be lowered? It's a challenge. In the Southeast (well, in Georgia at least) we still must/should use residual chemistry even in a RR system (due to the weed/grass spectrum and to avoid resistance). Even in a BG system, we do occasionally still spray for worms and routinely spray for bugs. These technologies are convenient but the key to lower cost/b continues to also be yield.

I was fortunate last week to be invited to participate in the second "First 40 Days" workshop in Dallas sponsored by Bayer CropScience. From our UGA budget, the estimate is that about 45% of the total variable cost is incurred before and during the first 40 days. For the most part, these are costs that cannot be trimmed if we expect to make a crop and get off to a good start.

Profit margins are thin and almost non-existent without above average yields and LDP. I truly hope my cost numbers are high and the situation better than it appears. Producers spending this kind of money will need good yields. Producers able to get by cheaper can do so and improve profitability only if yield is not sacrificed.

A handwritten signature in black ink, appearing to read "Don Shurley".

Don Shurley, University of Georgia
229-386-3512 / donsbur@uga.edu

COTTON
ESTIMATED PER ACRE COSTS AND RETURNS, SOUTH AND EAST GEORGIA, 2006

Seed Technology:	BR	Row Spacing:	36
Tillage:	Conventional	Seed Per Foot:	3
Production:	Non-Irrigated	Seed Per Bag or Lb:	250000
		Lbs/Acre	Price/Lb
		Income/Ac	Cents/Lb
INCOME *		700	0.60
		\$420.00	60.00
VARIABLE COST	Unit	No. Units	Price/Unit
		Cost/Acre	Cents/Lb
Land Rent	Acre	1	0.00
Seed and Tech Fee			0.00
Seeds Per Acre	Bag	0.175	400.00
Lime- Custom Spread	Ton	0.33	30.00
Fertilizers			
Nitrogen	Lbs	70	0.48
Phosphate (P2O5)	Lbs	50	0.30
Potash (K2O)	Lbs	80	0.24
Boron	Lbs	0.5	2.50
Others	Acre	1	0.00
Herbicides			
Pre-Plant, Incorporated	Acre	1	4.50
Post-Emergence, OTT	Acre	1	21.00
Post-Emergence, Directed	Acre	1	5.00
Others	Acre	1	0.00
Insecticides			
In-Furrow	Lbs	3.5	3.00
Spray- Pyrethroid	Appl	1	5.75
Spray- Other	Appl	1	4.45
Nematicide	Acre	1	0.00
PGR	Ounces	16	0.39
Boll Opener and Defoliant	Acre	1	18.00
Custom Application- Air			
Insecticides	Appl	0	0.00
Herbicides	Appl	0	0.00
PGR	Appl	0	0.00
Defoliation	Appl	1	5.00
Scouting	Acre	1	7.50
BWEP	Acre	1	2.75
Machinery and Equipment			
Fuel and Lube	Gal	13.6	2.25
Repairs and Maintenance	Acre	1	27.00
Custom Picking	Acre	0	0.00
Crop Insurance	Acre	1	18.00
Labor	Hrs	2.35	10.00
Interest on Operating Capital	\$338.63	0.5	0.075
Ginning and Warehousing			
Ginning	Lbs	700	0.085
Storage and Warehousing	Bale	1.4	10.00
Promotions, Boards, Classing	Bale	1.4	5.30
Minus Value of Cottonseed	Ton	0.455	80.00
TOTAL VARIABLE COSTS			\$395.85
NET RETURN ABOVE VARIABLE COST			\$24.15
Tractors and Sprayer	Acre	1	26.00
Equipment/Implements	Acre	1	15.00
Picker	Acre	1	55.00
Owned Land Charge	Acre	1	0.00
Misc Overhead	Acre	1	19.79
Management	Acre	1	19.79
TOTAL FIXED COSTS			\$135.58
TOTAL COST			\$531.43
NET RETURN			-\$111.43

* Price includes POP/LDP or Loan Gain, if applicable. Excludes DCP Payments.