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Prices, Payments, and Crops For 2008

The market for the 2008 cotton crop continues to circle the wagons around the 70-cent area—the low 70's to be more exact. There is talk of prices eventually making their way closer to 80 cents. Is this possible? Sure. As long as the corn and soybean markets remain strong, cotton must keep pace and bid for acres until such point that price begins to curtail demand. What this “demand-resistant” price is, who knows-- but the market seems comfortable where it is for now.

	Cotton Net Return Per Acre			
Price (cents/lb)	50.0	60.0	70.0	80.0
LDP (cents/lb)	8.0	0.0	0.0	0.0
Yield	700	700	700	700
Crop Income	406.00	420.00	490.00	560.00
Variable Expenses	373.00	373.00	373.00	373.00
Net Return	33.00	47.00	117.00	187.00
DP (cents/lb)	6.67	6.67	6.67	6.67
CCP (cents/lb)	13.73	5.73	0.00	0.00
DP per acre	46.69	46.69	46.69	46.69
CCP per acre	96.11	40.11	0.00	0.00
Total	175.80	133.80	163.69	233.69

* Net Return per acre planted equal to or less than Payment Acres.
 Based on 2007 costs. Assumes DP and CCP yield equal to actual yield.

The 2002 farm bill works “wonderfully well” when prices are low. As the table to the right shows, the farmer is actually worse off or no better off at higher prices until price gets above the Target Price minus Direct Payment (about 66 cents/lb). This table is based on 2007 costs and UGA estimates so they won't fit everyone but are good examples. At 70 cents for the 2008 crop (basis the current Dec08 futures) the producer will be better off than 60 cents for this years crop but not as well off compared to 50-cent cotton.

At the prices we are currently seeing/expecting for the '08 crop, there would be no LDP or CCP (this assumes the 2002 farm bill CCP formula- changes may be forthcoming in the 2007 farm bill). But crop income and net returns (assuming 2007 costs) would improve. CCP would be zero but more than offset by the improvement in crop income.

Comparison of 2008 Preliminary Estimated Net Returns				
	Corn	Cotton	Peanuts	Soybeans
Price/ lb, bu, or ton	3.85	69.0	475.00	8.75
LDP	0.00	0.00	0.00	0.00
Yield Per Acre	85	700	2500	30
Crop Income Per Acre	327.25	483.00	593.75	262.50
Variable Expenses	198.00	373.00	398.00	137.00
Net Return Per Acre	129.25	110.00	195.75	125.50

* Based on 2007 costs and basis the futures market or expected contract as of Oct 5, 2007.

As the table above shows, the rally in the cotton market (assuming the costs and yields shown) has brought cotton into striking distance of being competitive with corn and soybeans. Peanuts, if contract opportunities are high enough, could attract acreage. There would be no LDP or CCP on cotton but CCP is not received on actual production and thus does not need to be considered in planting decisions. Looking ahead to 2008, once the new farm bill provisions are known, producers should closely budget the whole-farm situation including all payments.

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