

Is cotton viable for 2008?

BY DON STALLINGS

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There have been some rumors that cotton buyers may pump the price of cotton up to entice growers to return to cotton.



In the January 18th, 2008 edition of the Cotton Marketing News, a publication of Southern Cotton Growers, Inc., Don Shurley of the University of Georgia answered his own question of whether a cash price in the mid to upper 70's would attract the attention of (cotton) producers by saying "To some degree I'd say yes-it may slow the decline in acres for 08 but there will likely be an acreage reduction nevertheless".

Every farm is different. What is the right decision for one farm may be wrong for another. For example, a farm that is

set up for grain with on farm storage, precision leveled fields and plenty of irrigation lends itself to grain production whereas a farm with sandy loam dirt, high cotton yields, new cotton pickers and a gin lends itself more to cotton production. But I think everyone would agree that some degree of diversification is good both from a production standpoint as well as a financial risk standpoint. Soybeans phenomenal price run has taken other grain prices upward and is having a positive effect on cotton prices as well. As a result of these improved prices, crop planting options look much better this year than last. There is a lot of good cotton equipment out there right now that can be picked up at a good price, so if your situation lends itself to planting cotton, now might be a good time to consider it.

Our firm has developed crop planning software that will help you decide the right crop mix for you. We have also put together a matrix of per acre net incomes

under various cropping scenarios.

From the matrix we can see that if you are paying \$100 per acre rent, with 1,200 lbs of cotton at 75 cents you should be able to net \$122 an acre after equipment payments and land rent. If your yield is 1,400 lbs and you net 75 cents you should be able to net \$272 an acre. Contrast this with \$89 an acre net on 40 bushel soybeans at \$11 per bushel or \$309 an acre net on 60 bushel soybeans at \$11 per bushel. 200 bushel corn at \$5 should net \$354 an acre, but 160 bushel corn at \$4.50 nets only \$81 per acre. 200 bushel rice at \$6.00 per bushel nets a whopping \$502 an acre, but 150 bushel nets only \$132 an acre at \$5.50 per bushel. You also need to factor in the risk with direct costs on corn running in the \$475 range, cotton in the \$560 range and soybeans in the \$175 range.

We all know crop rotation is good, but if you are close to retirement and can hit a good lick the next couple of years, crop rotation takes a back seat in the planning process.

My perspective is that you need at least 75 cents net to the farmer and reasonable expectations of at least a 1,200 lb yield before cotton becomes a choice at all. And 85 cents net to the farmer with reasonable expectations of at least a 1,200 lb makes a lot more sense to me.

Again, let me emphasize that every farm situation is different. That is why it makes sense to plug your own farm variables in some good planning software and to sit down with a knowledgeable farm advisor before making cropping decisions.

Many of you already have a copy of our crop planning software, but if you would like a free copy give me a call at 662-887-4557 or e-mail me at dstallings@bairdandstallings.com. **DBJ**

(Don Stallings is a shareholder in the Indianapolis, Ms. accounting firm, Baird and Stallings, CPAs, P.A. He is a certified public accountant, a certified valuation analyst, and a certified forensic financial analyst.)