

# **COSTS and RETURNS**



**Commercial  
Tobacco-  
Livestock  
Farms**

**Bluegrass Area,  
Kentucky**

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## FARM COSTS AND RETURNS STUDIES

This report is part of a continuing nationwide study of costs and returns on commercial farms and ranches in selected farming regions. The study is conducted under the general supervision of Wylie D. Goodsell, Farm Production Economics Division, Economic Research Service. Objectives, methodology, procedure, and terms are uniform for all areas studied.

The 1969 costs and returns studies cover the following commercial farms and ranches by type and size:

- Dairy Farms, Southeastern Wisconsin and Central New York
- Cash Grain Farms, Corn Belt
- Hog-Beef Feeding Farms, Corn Belt
- Egg-Producing Farms, New Jersey
- Broiler Farms, Georgia
- Cotton Farms, Mississippi Delta
- Cotton Farms, Southern High Plains, Texas
- Tobacco Farms, Coastal Plain, North Carolina
- Tobacco-Livestock Farms, Bluegrass Area, Kentucky
- Northwest Cattle Ranches
- Migratory Sheep Ranches, Utah-Nevada
- Southwest Cattle Ranches

Substantial revisions have been made in some series to portray farming operations representative of major producers of specified products. Some series were discontinued because they no longer represent a major sector of commodity production or because the farm enterprise could be better represented by another series.

Information on the studies can be obtained from Farm Production Economics Division, Economic Research Service, U.S. Department of Agriculture, Washington, D.C. 20250.

# **COST AND RETURNS**

## **COMMERCIAL TOBACCO-LIVESTOCK FARMS**

### **INNER BLUEGRASS AREA, KENTUCKY, 1969**

Owen K. Shugars, John H. Bondurant, and Daphene E. Tippet<sup>1</sup>

*Abstract: Net farm income averaged about \$11,300 in 1969 on tobacco-livestock farms in the Inner Bluegrass of Kentucky. Income was up about 6 percent from 1968 and 42 percent above the 1960-64 average. Tobacco returns were down slightly as a record burley tobacco yield failed to offset lower prices. Prices received for cattle and calves were at record levels in 1969. Farms were larger, output per farm was greater, and prices received were higher than in the 1960-64 period.*

*Key Words: Tobacco-livestock farms, Kentucky, net farm income, burley tobacco prices, farm output, feeder calf prices.*

In 1969, the U.S. burley tobacco crop sold for \$413.1 million, only slightly less than the value of the 1968 crop. Lower prices were nearly offset by a 4.7-percent increase in 1969 output, which totaled 591.4 million pounds. Last year burley was produced in eight States, but around two-thirds of it was grown in Kentucky. Tobacco farms generally predominate in that State, particularly in the Inner Bluegrass area, where burley is the only type of tobacco produced.

Inner Bluegrass farmers typically have larger burley acreages than growers elsewhere. Commercial tobacco-livestock farms depicted in this study typically contain about 240 acres of total land with around 50 acres of cropland harvested (table 1). Tobacco area averaged 5.9 acres per farm in 1969. Although these farms generally are diversified, they depend heavily on tobacco. In 1969, tobacco sales accounted for 58 percent of their cash receipts. The other major source of income is a beef cattle (cow-calf) enterprise. Sales of cattle and calves in 1969 amounted to about one-third of total cash receipts. Hogs, principally feeder pigs, are another income source.

#### **Costs and Returns, 1969**

##### **Returns**

Farm income in 1969 netted about \$11,300 per farm, up nearly 6 percent from the 1968 level. Gross farm income advanced more than \$1,300, while operating expense rose by nearly \$700 (table 2).

Cash receipts from tobacco were off slightly in 1969. Prices in Inner Bluegrass area markets averaged

\$71 per 100 pounds, down almost \$3 from 1968, but greater tobacco production nearly offset the effect of the lower price. Yield per acre for Inner Bluegrass farms was up 3 percent to a record.

The quality of 1969's crop was not as good as 1968's. About 48 percent of last year's crop was classified in grades rating support prices of 70 cents per pound or better. In 1968, around 60 percent was

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Table 1. Size, organization, and production, tobacco-livestock farms, Inner Bluegrass area, Kentucky, 1968 and 1969

Item	Unit	Tobacco-livestock farms, Inner Bluegrass Area		
		Average 1960-64	1968	1969 <sup>1</sup>
Land in farm .....	Acre	216	240	240
Cropland harvested.....	do.	57.6	50.0	49.5
Crops harvested:				
Burley tobacco .....	do.	7.9	5.9	5.9
Corn .....	do.	11.0	11.5	11.0
Small grains.....	do.	4.2	2.9	3.0
Alfalfa hay.....	do.	18.6	8.7	9.6
Other hay .....	do.	15.9	21.0	20.0
Crop yield per harvested acre:				
Burley tobacco .....	Pound	1,924	2,641	2,720
Corn for grain .....	Bushel	71	86	88
Wheat .....	do.	31	29	34
Alfalfa hay .....	Ton	2.8	3.4	3.1
Other hay .....	do.	1.6	2.1	2.0
Livestock on farm, Jan. 1:				
All cattle.....	Number	50.6	69.5	71.6
calf cows .....	do.	31.3	45.6	46.8
Brood sows.....	do.	2.8	2.5	2.5
Ewes.....	do.	52.1	25.0	20.0
Pigs raised.....	do.	34.2	34.3	32.3
Total farm capital, Jan. 1 .....				
Land and buildings .....	Dollar	104,120	140,240	145,400
Machinery and equipment.....	do.	89,550	121,200	124,800
Livestock .....	do.	5,300	6,520	7,530
Crops .....	do.	7,260	10,300	10,730
Total labor used.....				
Operator and family labor.....	Hour	4,710	4,030	4,050
	do.	2,820	2,420	2,430

<sup>1</sup> Preliminary.

in the same grades.<sup>2</sup> U.S. burley growers placed about 158.5 million pounds of tobacco under Government loan in 1969. This was the largest placement since 1963 and nearly three times the volume assigned from the 1968 crop.

Returns from cattle and calves advanced about \$1,150 per farm because of price increases and a greater quantity sold. Continued strong consumer demand for beef was reflected in higher prices for feeder calves and yearlings. Feeder calf prices averaged \$30.50 per cwt., up about \$4 from 1968

and a record. The yearling price was also a record at \$26.48 per cwt., up \$3.25. Nearly three-fifths of the increase in receipts from calves and yearlings was due to higher prices.

Cash receipts from sheep, lambs, and wool changed little from a year earlier. Prices were higher in 1969 but quantities sold declined. Hog prices advanced strongly, boosting returns from the rather small hog enterprise by about \$200 per farm.

#### Production Expenses

Total production expenses rose in response to increased inputs and higher prices paid for many

<sup>2</sup>Consumer and Marketing Service, Light Air-Cured Tobacco Market Review, U.S. Dept. Agr., TOB-LA-14 (part 1), May 1970.

Table 2.—Income, operating expenses, and related data, tobacco-livestock farms, Inner Bluegrass area, Kentucky, 1968 and 1969

Item	Tobacco-livestock farms, Inner Bluegrass area		
	Average 1960-64	1968	1969 <sup>1</sup>
	<i>Dollars</i>	<i>Dollars</i>	<i>Dollars</i>
Total cash receipts . . . . .	14,913	18,815	19,743
Tobacco . . . . .	9,471	11,498	11,386
Cattle and calves . . . . .	3,397	5,737	6,557
Hogs . . . . .	734	844	1,040
Sheep, lambs, and wool . . . . .	1,098	595	611
Other, including Government payments . . . . .	213	141	149
Value of perquisites . . . . .	1,449	1,858	1,931
Change in inventory of crops and livestock . . . . .	226	102	423
Gross farm income . . . . .	16,588	20,775	22,097
Total cash expenditures . . . . .	8,696	10,203	10,838
Feed purchased . . . . .	849	1,294	1,623
Other livestock expense . . . . .	1,028	661	778
Fertilizer and lime . . . . .	731	736	692
Other crop expense . . . . .	471	437	443
Machinery . . . . .	1,936	2,453	2,487
Farm buildings and fences . . . . .	821	1,025	1,016
Labor hired . . . . .	1,813	2,291	2,477
Taxes . . . . .	480	639	640
Other . . . . .	567	667	682
Inventory adjustment, machinery and buildings . . . . .	-65	-110	-54
Total operating expenses . . . . .	8,631	10,093	10,784
Net farm income <sup>2</sup> . . . . .	7,957	10,682	11,313
INDEX NUMBERS (1957-59 = 100)			
Net farm income <sup>2</sup> . . . . .	110	150	159
Net farm production . . . . .	115	126	128
Operating expense per unit of production . . . . .	102	110	114
Production per unit of input . . . . .	106	115	116
Prices received for products sold . . . . .	97	113	117
Prices paid, including wages to hired labor . . . . .	104	125	129

<sup>1</sup> Preliminary.      <sup>2</sup> Information presented here assumes farms are debt-free and producers are full owners, primarily for comparability between types of farms. Net farm income is the return to the operator and unpaid family labor, to capital and management.

goods and services. A slight decline in 1969 prices paid for fertilizer materials and some feeds was more than offset by increases in wage rates, machinery prices, and repair costs.

Wage rates averaged 7.5 percent above the 1968 level. Expenditures for hired labor increased nearly \$190 per farm although about the same quantity was used as in 1968. Indications are that a shortage of workers, particularly during the tobacco harvest season, was widespread.

More feed was purchased than in 1968 because of slightly decreased feed crop production and more animals fed. Corn yields increased but the acreage grown was down a little. Hay production was down 5 percent because of lower yields per acre. However, hay yields were second only to year-earlier levels.

Prices paid for grain averaged higher in 1969 but roughage prices were lower, as were prices for protein feeds. Expenditures for feed amounted to about \$1,620 per farm, 25 percent above the outlay a year earlier.

## Costs and Returns in the Sixties

Inner Bluegrass tobacco-livestock farms underwent many changes in the 1960's. These farms were larger at the end of the decade; also, output was greater and net returns were higher. Net farm production in 1969 and total acreage per farm were each about 11 percent above the 1960-64 average. However, net farm income per farm exceeded the 1960-64 average by about 42 percent.

Tobacco allotments were increased in the early 1960's, bringing the acreage grown on these farms during the decade to peak levels of 8.3 acres in 1962 and 1963. Beginning with 1964, burley tobacco allotments were cut 3 years in a row. The burley acreage declined to 5.9 acres per farm in 1966 and remained at that level through 1969 (fig. 1). Despite this smaller acreage, 1969 output of tobacco per farm was 6 percent greater than the 1960-64 average. The tobacco yield on these farms was 2,720 pounds per acre in 1969, about 800 pounds above the 1960-64 average. Tobacco prices in Inner Bluegrass markets ranged from \$59.58 per cwt. in 1962 to \$73.79 in 1968. The price was above \$70 in the last 3 years.

## Returns

Cash returns from tobacco averaged about \$9,470 per farm in 1960-64 and around \$11,300 in 1969 (table 2). Returns trended upward in the early 1960's. They turned down in the middle of the decade and then up again after 1965. Although output per farm was a record in 1963, the higher prices received in 1968 boosted that year's cash returns to a record high despite a tobacco crop 17 percent smaller (figs. 2 and 3).

Inner Bluegrass farmers expanded their beef herds in the 1960's (table 1). The farms averaged about 30 brood cows in 1960-64, but by 1969 this number had increased to 47. The quantity of beef marketed in 1969 was about 36 percent above the 1960-64 average. Prices received for feeder calves (the major livestock class sold by these farmers) ranged from \$19.93 per cwt. in 1964 to a record \$30.50 in 1969. The 1960-64 average price of feeder calves was \$23.70. Cash returns from sales of cattle and calves in 1969 were nearly double the 1960-64 average.

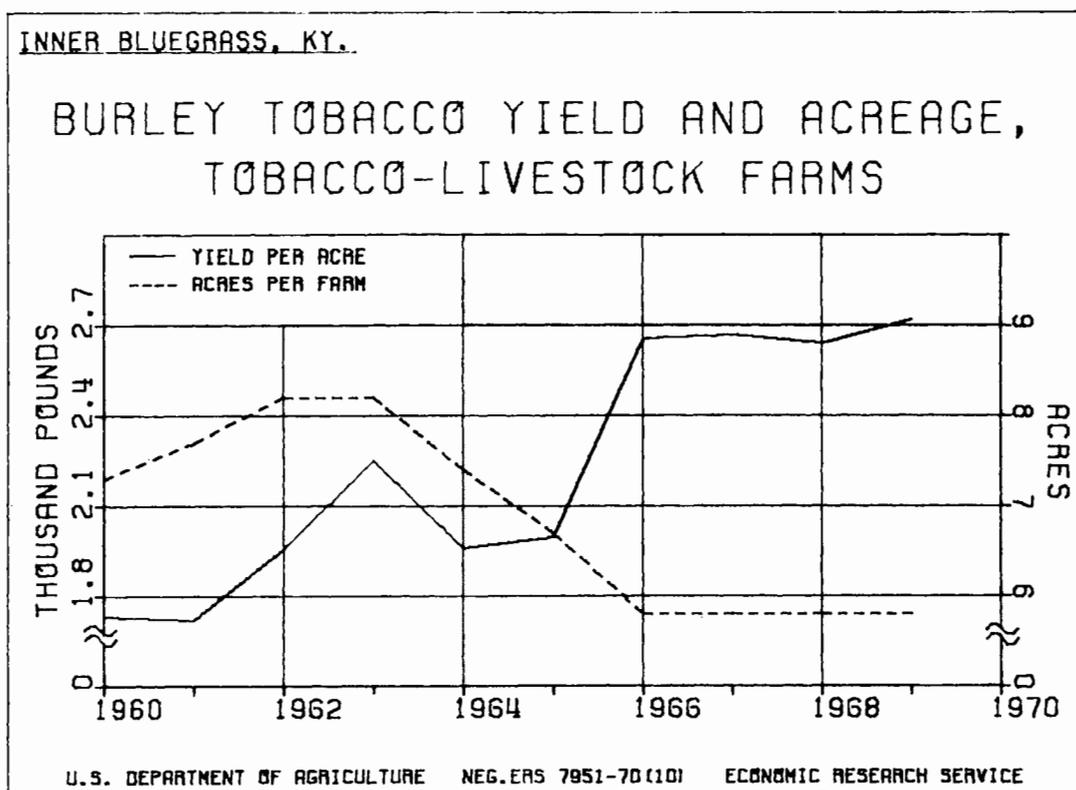


Figure 1

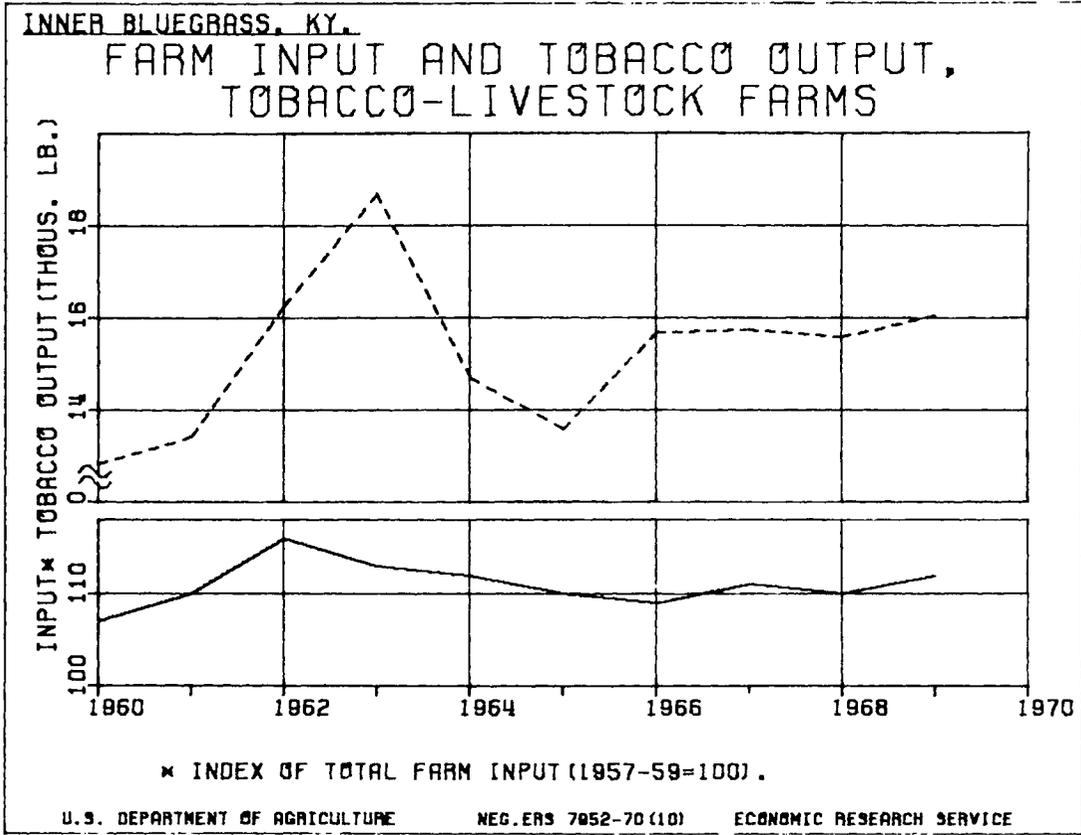


Figure 2

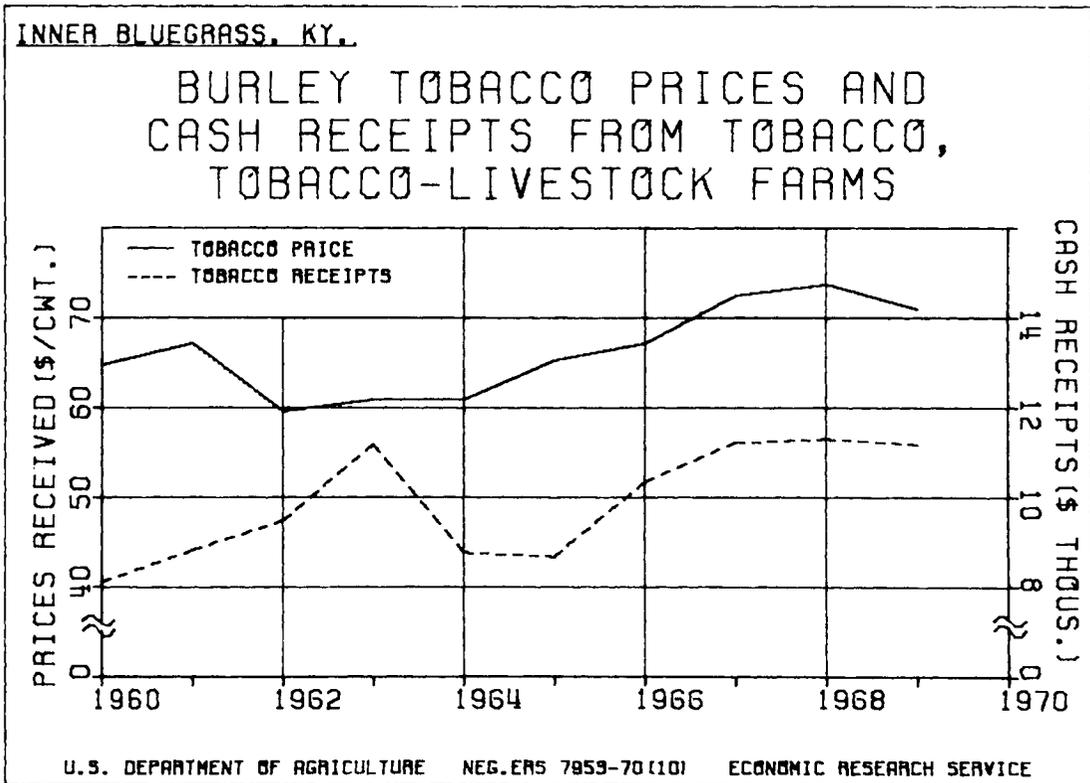


Figure 3

Sheep and lamb production declined during the 1960's. By the beginning of that decade, the number of sheep per farm had already peaked. Thereafter they declined rather rapidly, mostly because fewer farms were keeping sheep. Wool prices were variable, trending upward in the early years then declining sharply after 1966. On the other hand, lamb prices averaged higher in the last half of the decade. Cash receipts from sheep, lambs, and wool averaged about \$1,100 per farm in 1960-64 but only around \$600 in 1969.

The size of the hog enterprise fluctuated within a rather narrow range in the 1960's. However, cash receipts from sales of feeder pigs and fat hogs in 1969 were about \$300 above the 1960-64 average. Hog prices last year were second only to the record level of 1966.

### **Production Expenses**

Operating expenses per farm averaged one-fourth greater in 1969 than in 1960-64. Total farm input was about the same in both periods but prices paid for production goods and services (inputs) averaged 24 percent higher in 1969.

Cost rates for major input items advanced sharply in the 1960's (fig. 4). Wage rates trended

strongly upward as did machinery prices. These two inputs accounted for about 46 percent of total cash expenditures in 1969, a slightly higher proportion than in 1960-64. Prices of building and fencing materials were relatively stable in the early sixties, but they turned up in the last half of the decade.

### **Purchasing Power**

In general, net returns in the last 4 years of the decade were relatively good despite rapidly rising cost rates. Prices received for tobacco and beef cattle, the main products sold, were above those of the early 1960's and net farm income climbed to a record level in 1969 (fig. 5). Purchasing power<sup>3</sup> of net farm income was relatively stable from 1966 through 1969, a level well above the decade's earlier years, except 1963. However, the gap between net farm income and its purchasing power widened during 1966-69. Except for 1969, changes from year to year in purchasing power paralleled those in net farm income. In 1969, purchasing power dipped slightly despite a substantial rise in net farm income.

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<sup>3</sup>Purchasing power is calculated by deflating net farm income by the U.S. index of prices paid by farmers for family living items.

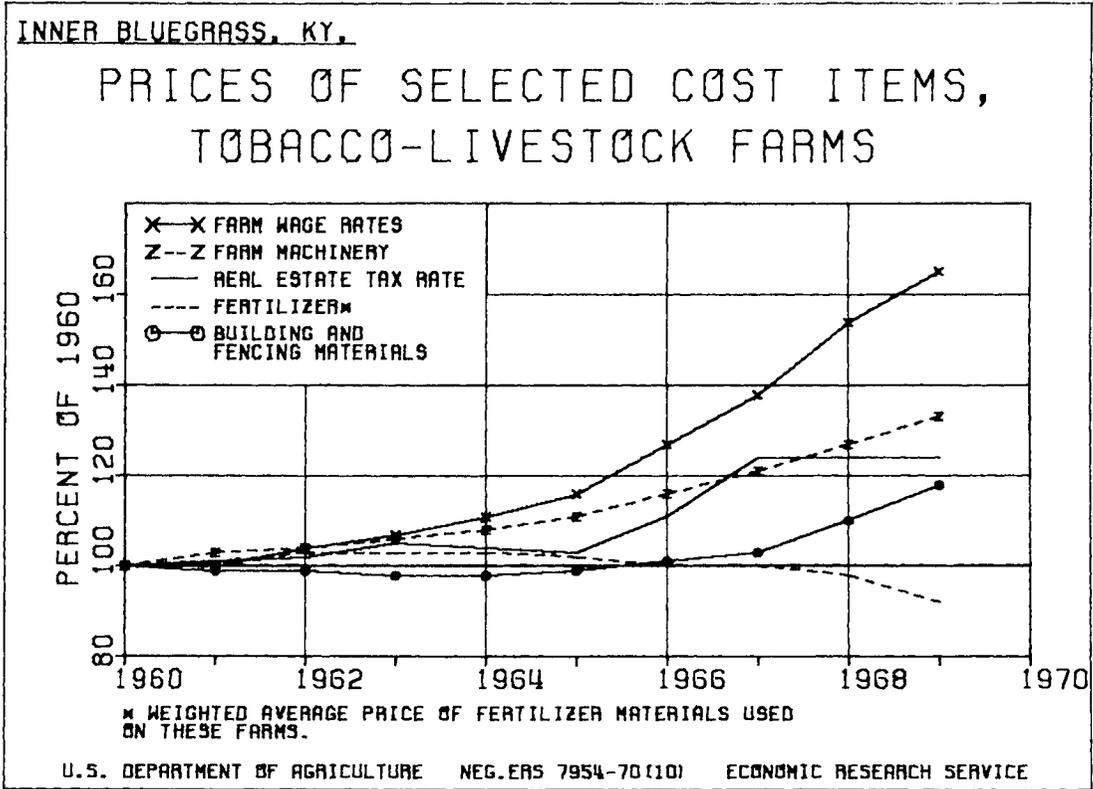


Figure 4

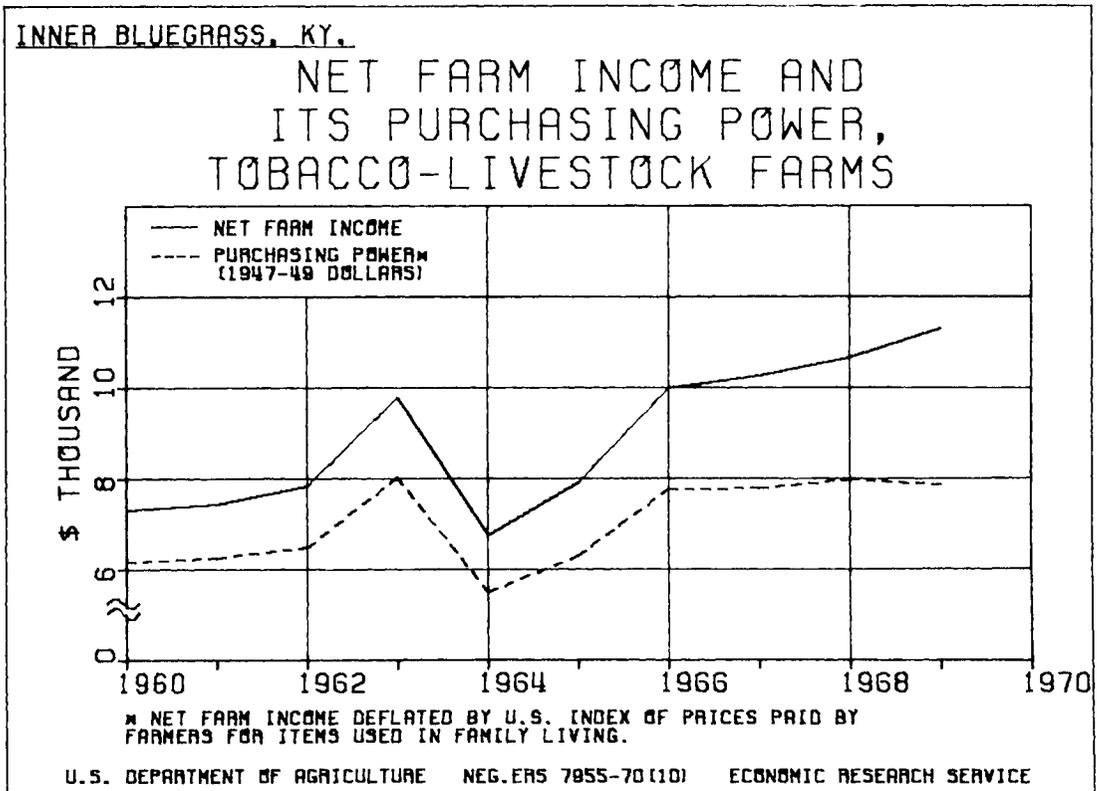
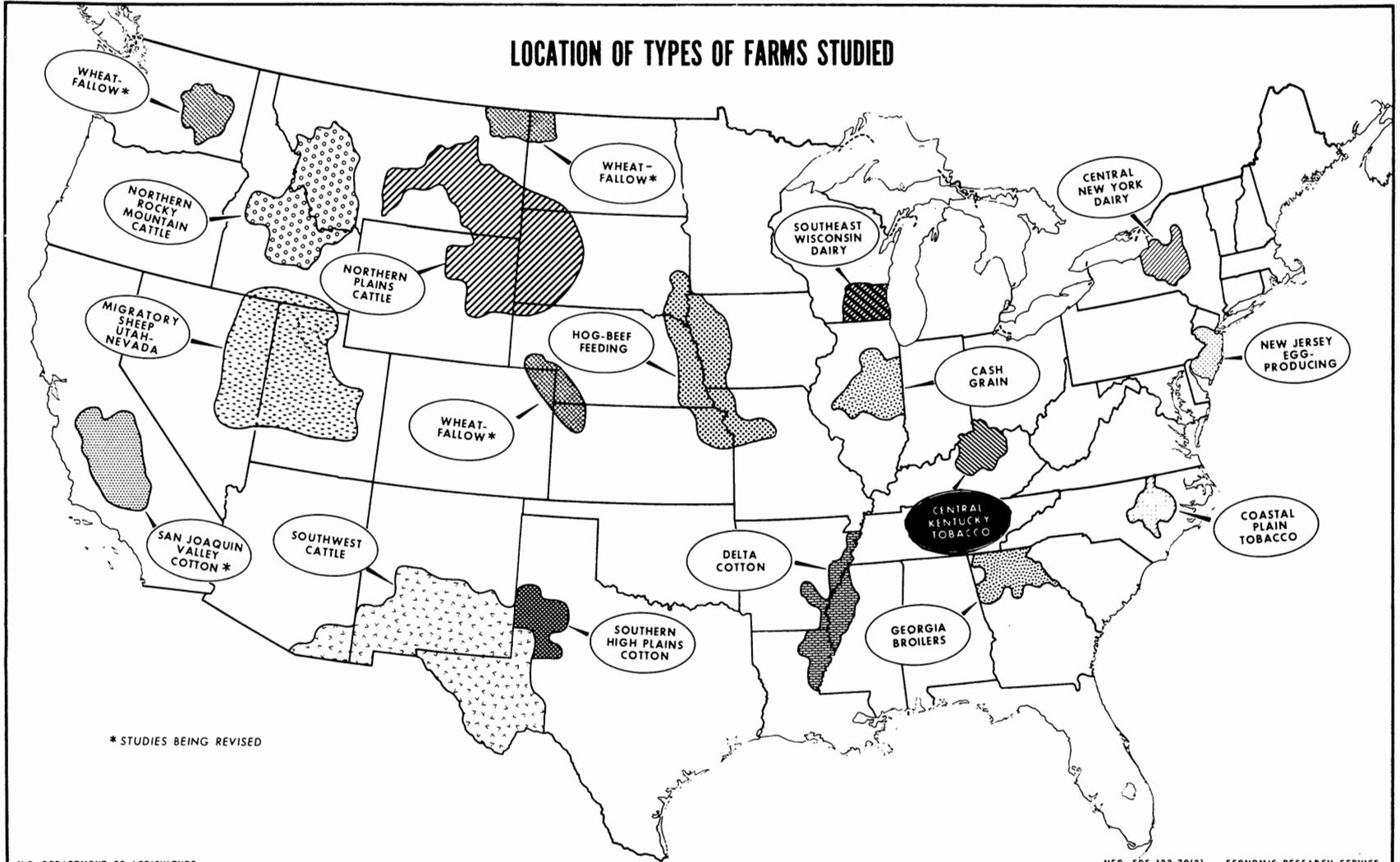


Figure 5

### LOCATION OF TYPES OF FARMS STUDIED

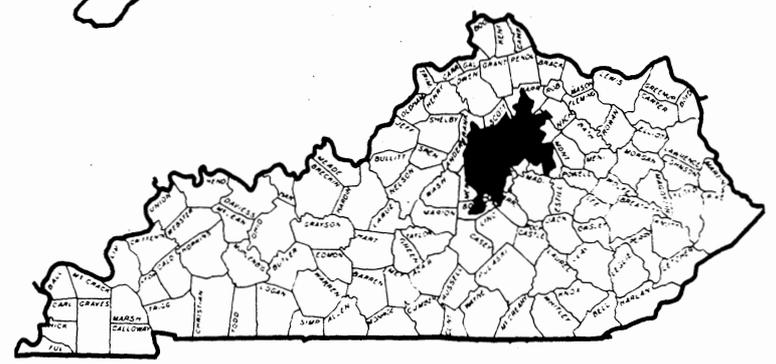


\* STUDIES BEING REVISED

# INNER BLUEGRASS AREA OF KENTUCKY



LOCATION IN STATE



UNITED STATES DEPARTMENT OF AGRICULTURE  
WASHINGTON, D.C. 20250

OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE, \$300



POSTAGE & FEES PAID  
United States Department of Agriculture