

COST ESTIMATE OF FLUE CURED PRODUCTION IN 2007

Flue cured acreage in Georgia was 18,000 acres in 2006, according the Georgia office of the National Agricultural Statistics Service. This was a slight increase over 2005. And 2006 average yield was higher. But we must remember that 2005 had many production problems.

We estimate the cost for producing flue cured tobacco in 2007 to be an estimated 3% above 2005. It is difficult to foresee many input prices this far in advance of the production season. The prices of some items may be below 2005. But there is always the chance some prices will be higher. A result is an estimated 3% increase.

Will Contract Prices Increase 3%?

We don't know! And we can't forecast any more-than-usual production problems.

The on-farm market for flue cured leaf is different than three years ago. The contract price offers the last two years have been less than total per pound production costs. But last year's acreage increase yield tells us tobacco growers must have felt flue cured leaf is still a good crop alternative.

Why? Because if they have production equipment in place, the use of the equipment still gives a greater return above variable cost than many other crops. Our cost estimate per pound of hand harvested tobacco in 2007 (2,200 pound yield) is \$1.39 and machine harvested cost is \$1.32 per pound. A contract price of \$1.45 gives a return per acre above variable costs for both harvest systems. This is not enough to cover all fixed costs, but it lets us use these facilities that would be unused with no tobacco production.

How About Higher Yields?

The following tables indicate the projected returns above variable costs one could expect given various yield levels and prices.

As we might expect, there is little possibility of profit with yields less than 2,200 pounds per acre, even with prices greater than we've seen the last two years.

We see a small profit with a 2,200 lb. Yield and with prices \$1.45 and above. But this is small given the amount of work required to grow an acre of tobacco. Plus, this amount is returns to fixed resources (except land) used to grow tobacco.

But once we get into yields of 2,400 lbs. and above, we see more returns to these fixed resources. We know yields are highly dependant of a variety of factors – particularly TSWV and the weather - too much or too little rain.

But it is still worth while to work within production guidelines to try to obtain these yields. Tobacco production takes a lot of money and time. So let's plan as best we can to get these yields and, in turn, a higher quality leaf.

Returns Above Variable Costs For <u>Hand Harvested</u> Flue Cured Tobacco, Various Yields and Contract Prices					
	Average Contract Price				
Yield	\$1.35	\$1.40	\$1.45	\$1.50	\$1.55
1,800 lbs.	-531	-441	-351	-261	-171
2,000 lbs.	-311	-211	-111	-11	89
2,200 lbs.	-91	19	129	239	349
2,400 lbs.	129	249	369	489	609
2,600 lbs.	349	479	609	739	869
2,800 lbs.	569	709	849	989	1,129

Returns Above Variable Costs For <u>Machine Harvested</u> Flue Cured Tobacco, Various Yields and Contract Prices					
	Average Contract Price				
Yield	\$1.35	\$1.40	\$1.45	\$1.50	\$1.55
1,800 lbs.	-371	-281	-191	-101	-11
2,000 lbs.	-151	-51	49	149	249
2,200 lbs.	69	179	289	399	509
2,400 lbs.	289	409	529	649	769
2,600 lbs.	509	639	769	899	1,029
2,800 lbs.	729	869	1,089	1,149	1,289