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Challenges and Opportunities for North Carolina Farm Families

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Natural disasters, tobacco quota cuts, low commodity prices, high energy prices and odors from animal waste systems are just some of the problems and challenges facing North Carolina farm families and impacting farm incomes. However, North Carolina agriculture is incredibly diverse and provides many opportunities as well.

The data in Table 1 illustrate the fluctuations in commodity cash receipts between 1980 and 1999. Between 1997 and 1999, the cash receipts generated by North Carolina farms dropped by almost one-fifth, from $8.2 billion to $6.7 billion. Overall crop sales and livestock sales were both affected in the same proportion. However, there were dramatic differences among individual commodities. Most of the decline in livestock revenue occurred in hogs. Hog receipts declined by over 40 percent, largely as a result of lower prices. However, many hog producers grow hogs under a contract that insulates them from the effects of low prices. Overall, poultry receipts held their own, but broiler and egg sales increased while income from turkeys declined.

Large supplies and reduced demand for many of the traditional farm commodities

Table 1. Cash Receipts for North Carolina Farms, by Commodity ($million)

COMMODITY	1980	1989	1997	1998	1999
Total Receipts	3,593	4,550	8,230	7,190	6,687
All Livestock	1,444	2,505	4,723	3,956	3,850
All Crops	2,148	2,046	3,507	3,233	2,837
Poultry	784	1,568	2,210	2,225	2,238
Hogs	317	509	2,059	1,323	1,160
Greenhouse & Nursery	80	214	934	948	973
Tobacco	1,113	946	1,193	998	784
Vegetables	123	158	246	258	256
Cotton	23	47	299	406	234
Dairy	221	224	194	194	208
Cattle	113	148	213	154	193
Soybeans	242	243	270	175	154
Corn	244	189	193	129	118
Peanuts	63	111	91	107	82
Wheat	31	78	112	78	68

have resulted in lower farm prices between 1997 and 1999. Prices for a number of these commodities have been at or below the cost of producing the crop. Although many market analysts expect prices to recover eventually, only a crop disaster in another major production region would cause North Carolina commodity prices to recover in the near term. Government emergency assistance and farm program payments have helped offset some of the effects of weather damage and low market prices. In 2000 government payments made up almost 10 percent of gross farm receipts. Government payments have been especially important for cotton and soybean farms. Support has come in the form of loan deficiency program payments, production flexibility payments and market loss payments. In contrast to the traditional row crops, greenhouse and nursery crops have posted increases in total receipts recently.

Tobacco

Tobacco was the number one crop in North Carolina for most of the last twenty years, but reductions in quota have forced sharp declines since 1997. Tobacco revenue dropped by over one-third because of these cuts in quota. Government emergency payments as well as payments arising from the national tobacco lawsuit settlement offset part of the financial consequences of the decline in tobacco production. However, these payments did not benefit all producers equally. Among tobacco farmers, those who rent much of their quota were affected the most. Nevertheless, tobacco remains an important crop because it is profitable and because many tobacco dependent farms lack attractive alternatives. Although many growers believe 2000 represented a low point in production, it is not clear whether quota levels will increase in the future and, if they do, by how much and how quickly. Other sources of uncertainty include industry lawsuits, foreign competition and industry changes such as contracting and barn retrofitting.

Row Crops

Weather problems and low commodity prices affected other row crops, including cotton, soybeans, corn, and wheat, which created financial stress for many North Carolina farm families. The 1999 growing season started out with a drought and ended with three hurricanes and flooding in the eastern part of the state. Compounding the financial stress caused by the hurricanes and flooding was the method of government support. Current farm programs provide support for prices, but this does not help farmers who suffered from reduced yields and had less to sell. Many farmers have crop insurance, but insurance claims do not fully compensate for shortfalls in production. The 2000 growing season was a very good one for many producers, but many farms still will not recoup the losses from previous years because of continued low commodity prices.

Of the traditional farm commodities, cotton production has expanded most, from $23 million in 1980 to $234 million in 1999, a ten-fold increase in spite of poor production and prices in 1999. This dramatic increase in cotton has come at the expense of other traditional row crops, particularly corn. However, cotton is not suitable for many farm situations because a large acreage is required to achieve efficiency and low production costs.

Poultry/Hogs

Although the recent controversy over the impact of the swine industry on the environment has garnered the headlines, over the last twenty years there have been some dramatic changes in the livestock sector, and more changes can be expected. Back in 1980, livestock crop sales accounted for 40 percent of farm receipts. By 1998 the livestock share of farm receipts had grown to 55 percent, and its importance increased to 58 percent in 1999. Poultry — broilers, turkeys and eggs — dominate the livestock side and account for one-third of total farm receipts. The value of poultry production has tripled since 1980. Hog production has more than tripled over the same time period, and now accounts for 17 percent of farm sales.

Both poultry and hogs have provided income opportunities for farm families with small farms or less productive soils. The moratorium on new hog facilities has capped the opportunities for this farm enterprise. But even if the moratorium was lifted, new rules requiring setbacks from property lines mean a larger acreage would be required for new units. Concerns about odors and water quality are driving the search for new waste management systems, but it is not clear what the future requirements will be or the impact these might have on the profitability of existing farms. In all likelihood, hog production has reached a plateau. So far, poultry producers have been less affected by livestock waste management rules. However, most poultry are produced under contract, and production is controlled by a handful of firms. Future expansion will depend on the attractiveness of North Carolina relative to other regions, consumer demand, and the business decisions of the major integrators.

Greenhouse/Nursery Cops

Greenhouse and nursery crops now surpass tobacco in total farm receipts. Since 1980, these crops have expanded steadily from $80 million to almost $1 billion, a twelve-fold increase. Vegetable production doubled from $123 million in 1980 to $256 million in 1999. However, two points are noteworthy for individuals looking for opportunities in these crops. Many of these specialty crops have limited opportunities for expansion because local markets can be easily saturated. Second, marketing these crops demands a high level of skill, time and effort. Farmers interested in these crops need to possess good marketing skills if they are to succeed.

Facing the Challenges

From the preceding discussion, it is evident that some farmers have taken advantage of new opportunities while others are experiencing financial difficulties. However, even within a given type of farm enterprise, not all farms are affected equally because many factors affect the economic health and performance of a farm.

Each farm family situation is unique. Some farm families who are experiencing difficulties likely can make it through with some fine-tuning of the farm operation and family finances. A small percentage will not survive in farming, and a third group must make major adjustments to their farming operations if they are to stay in farming. Many may not know the full extent of their financial stress, and some with severe problems may be reluctant to seek help unless forced to do so by their lenders. However, all farm families have much to gain by taking a pro-active approach to finding solutions to their problems and evaluating new opportunities.

The starting point for addressing financial problems and evaluating opportunities is to have a clear idea of what is most important. For family farms, personal, family and business goals are intertwined. Family members should think about their personal and business goals and talk about their priorities. It is often helpful for each family member to think about his or her own personal and business goals first and then discuss these as a family in order to reach agreement on priorities. These goals should include both short- and long-term goals, and financial goals should be spelled out clearly and precisely in dollar terms. The most important goals should be set down in writing.

The next step is to take a careful look at the health and performance of the farm business. Develop a net worth statement, a cash flow summary, and an earnings statement to assess the financial well-being of a farm business. Figure the cost of production for each enterprise. Take an inventory of farm and personal resources. This information will help identify problem areas and will guide the development of a sound business plan for the future.

Finally, a key resource in any business is the primary manager. Some farmers either do not see themselves as the manager of a business or feel uncomfortable in this role. The primary manager should understand his or her role: planning, implementing the plan effectively, monitoring and evaluating farm financial performance and problem solving.

Many factors are beyond a farmer's control, including weather and prices, and a manager must adjust to these by focusing on the factors he or she can control. More than ever, business management skills determine who will thrive and prosper in agriculture. Good production skills are essential, but these alone are not sufficient. Managers should carefully assess their own strengths and weaknesses and get help in areas of weakness, either by developing their own skills and knowledge or by seeking outside assistance to complement their own strengths.

Conclusion

Change is continuous in agriculture: Prices fluctuate, farm programs and trade policies change, new technology creates opportunities and challenges, markets and consumer preferences change. Add to these changes the impact of weather on yields and prices and financial pressures on farm families can be severe. Some farm families have successfully adapted to these changes while others have failed. There are no "silver bullets," but there are several key factors that seem to make a difference.

When a family farm faces serious challenges, it is important that members of the family keep a clear focus on the goals and priorities that they have set. For some families the best decision may be to scale back or stop actively farming altogether. For those who both want to remain in farming and are able to do so, it is important to maintain a "can do" attitude, both towards the farm business and towards their roles as managers. Many farm families have successfully adjusted to change in the past and can succeed in the future with a positive attitude and by adopting sound business and financial management practices. This can be hard work, and it may require some outside assistance, but it can pay off in the form of a successful farm business.

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