

## **Peanut Situation and Outlook 2004/2005**

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### **Introduction and Overview**

Peanut producers hope to follow 2003 with another record year for peanut yields in 2004. The US peanut yield averaged 3,159 pounds per acre breaking the previous record set in 2001. The Southeast led the way with a 3,238 pound yield followed by the Virginia-Carolina (V-C) region at 3,126 pounds per acre and the Southwest at 2,962 pounds per acre. The Southeast share of total production was 67%, the V-C share was 10%, and the Southwest share was 23% (Figure 1). The Southeast has picked up 8% of the production market share since 2001 shifting from the Southwest and V-C. The shift has occurred from a combination of decreased acres in the Southwest and V-C and increased acres in the Southeast.

An encouraging market trend for peanuts is the growth in domestic food use by over 9% this past year (Figure 2). The growth is more than three times what would be considered normal growth in food use. Also, peanut producers received a higher price for the 2003 crop at 18.8 cents per pound or \$376 per ton on average (Figure 3). The average price in 2002 was \$364 per ton. Thus, many producers have looked upon 2004 and 2005 with optimism for peanuts.

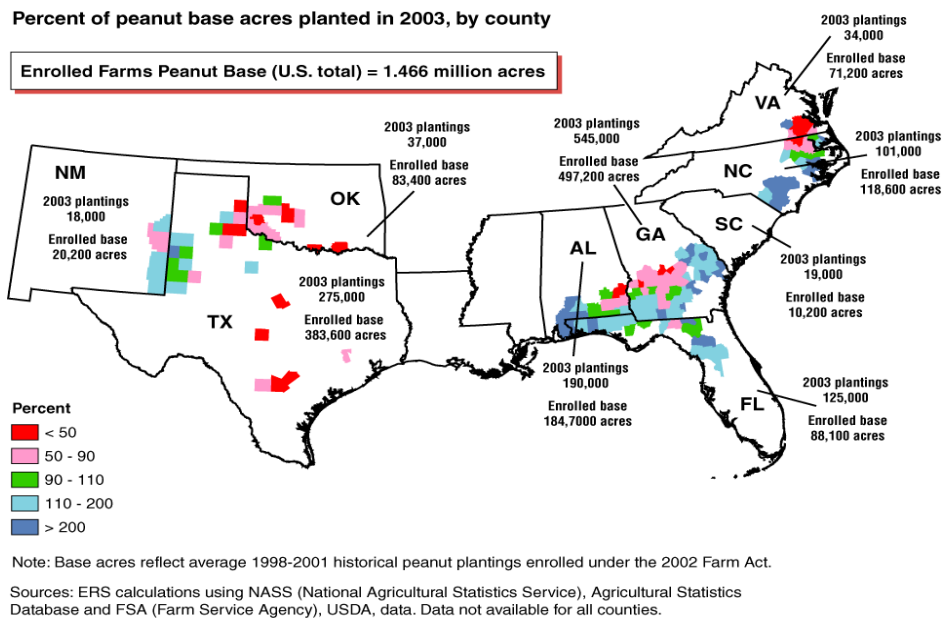
The primary method of marketing peanuts is contracting with shellers. The marketing loan program is being utilized through sheller contracts which are based off the loan repayment rate. Producers are offered so many dollars above the loan repayment rate. These contracts are termed "option contracts" that give the sheller the right to purchase a producer's peanuts during a specified time period in exchange for the option price. The producer is essentially guaranteed the loan rate plus the option price. To give an example, last year a typical option price for runner peanuts was \$25 above loan repayment rate. The producer receives \$25 plus the loan repayment rate which was \$355 most all of last year. The net price to the producer is \$380 per ton.

Acreage shifts have occurred in response to the new peanut program implemented by the 2002 Farm Bill. Peanut acres have moved from less productive areas to more competitive areas throughout the peanut belt. The Virginia-Carolina region has seen acres move south geographically. The Southeast has seen a similar shift to lighter soils closer to the Atlantic and Gulf Coasts. South Carolina and parts of Georgia are seeing new infrastructure built for new growing areas. A big incentive for these producers is rotational benefits in predominantly cotton producing counties. A new shelling plant that is owned and operated by producers began processing in southwest Georgia this past year and another is planned for south central Georgia. Texas and Oklahoma have cut back dramatically in planted acreage. The lost acres are in areas of low yields and with a history of abandoned acreage. The map below shows 2003 planted

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acreage compared with peanut base acreage<sup>2</sup>. The blue shaded counties show areas of expansion and the red shaded areas show areas of decreased acres.



Much like last year the market is in a supply mode. With the majority of the crop contracted, the market is watching harvest. Some questions relate to what the harvested acreage will be but the main concern is the yield. Another record yield is projected as of mid-September at 3,188 pounds per acre and would result in another two million ton plus crop. However, the impact of hurricanes Frances, Ivan and Jeanne is uncertain as harvest was beginning when the hurricanes hit the Southeast and carried heavy rain and wind up the Atlantic Coast states. Heavier disease pressure is a concern for delayed harvest resulting in lost kernels due to sprouting and weakened vines. Based on projected demand for 2004/05 marketing season, the US average yield needs to be 3000 pounds per acre to maintain current stock levels. It appears the US yield should be near this number and the market will remain strong for 2005.

## U.S. Peanut Supply

**Challenges:** Up until September, 2004 crop condition ratings pointed toward a record yield. September conditions, however, have declined as disease pressure and adverse weather have affected the eastern region of the peanut producing states. Yield estimates will most likely decrease with harvest progress. Uncertainty surrounds harvest due to a very active hurricane season and wet conditions exacerbating disease problems. US peanut crop conditions at late-September showed 64% of the crop in good to excellent condition, down from last year but 15 points higher than 2002. Twenty-six percent of the crop was fair compared to 22% in 2003 and 37% in 2002. Poor to very poor conditions were reported at 8% mainly in Alabama and Georgia.

<sup>2</sup>Special thanks to Erik Dohlman with ERS/USDA for providing the map found in ERS publication OCS-04G-01, "Peanut Policy Change and Adjustment Under the 2002 Farm Act" by Erik Dohlman, Linwood Hoffman, Edwin Young, and William McBride, July 2004.

Heavy diseases pressure has been reported late in the growing season causing concern at harvest and a drop in conditions. Tomato-spotted wilt has returned in 2004 also affecting yields in the Southeast.

**Good News for Yield and Acreage Trends:** USDA's September estimate of the 2004 average U.S. peanut yield is for another record at 3,188 pounds per acre (Figure 4). The US yield record of 3,169 pounds per acre was set last year surpassing the recent record from 2001 of 3,029 pounds per acre. Before breaking the 3,000 pound barrier, the best crop was produced in 1984 at 2,883 pounds per acre. This is an encouraging trend for the US and will help the US remain competitive in peanut production. Advances in peanut research and extension of the research including managing for diseases and new varieties are definitely helping along with better weather in recent years. The three major production regions are projected to yield in 2004 the following: Southeast 3,165 pounds per acre, 2% below last year; Virginia-North Carolina 3,177 pounds per acre, 2% above 2003; Southwest 3,300 pounds per acre, 11% above 2003. State level yield forecasts are given in Table 1 as well as harvested acres and production.

<b>Table 1: U.S. Peanut Acreage, Yield and Production, 2003 &amp; 2004.</b>						
State	Harvested Acres		Yield		Production	
	2003	2004	2003	2004	2003	2004
	<i>1000 Acres</i>	<i>1000 Acres</i>	<i>lbs./Acre</i>	<i>lbs./Acre</i>	<i>Million lbs.</i>	<i>Million lbs.</i>
<b>AL</b>	185	195	2750	2800	508.7	546
<b>FL</b>	115	135	3000	3100	345	418.5
<b>GA</b>	540	610	3450	3300	1863	2013
<b>SC</b>	17	33	3400	3100	57.8	102.3
<b>SE</b>	<b>857</b>	<b>973</b>	<b>3238</b>	<b>3165</b>	<b>2774.6</b>	<b>3079.8</b>
<b>NM</b>	17	16	2700	3000	45.9	48
<b>OK</b>	35	32	2800	3200	98	102.4
<b>TX</b>	270	235	3000	3300	810	775.5
<b>SW</b>	<b>322</b>	<b>283</b>	<b>2962</b>	<b>3300</b>	<b>953.9</b>	<b>925.9</b>
<b>NC</b>	100	105	3200	3200	320	336
<b>VA</b>	33	32	2900	3100	95.7	99.2
<b>V-C</b>	<b>133</b>	<b>137</b>	<b>3,126</b>	<b>3177</b>	<b>415.7</b>	<b>435.2</b>
<b>US</b>	<b>1,312</b>	<b>1,393</b>	<b>3,159</b>	<b>3,188</b>	<b>4,144.2</b>	<b>4,440.9</b>

Planted acreage in 2004 is up 6% at 1.429 million acres. The increase is a reversal of a downward trend occurring since the 1996 Farm Bill. The increase comes from the Southeast showing 121,000 more acres. Alabama, Florida, Georgia and South Carolina all increased

acreage in 2004. The Southwest continues a decline in acreage since 2001 dropping another 39,000 acres, mostly from Texas. Harvested acres are forecasted to be 97% of planted acres or 1.393 million acres. The 3% forecast of abandoned acres is low historically but can be considered normal under the new program.

**Record Yield to Increase Stocks:** USDA projects total production in 2004 to be 4.441 billion pounds (2.22 million tons), a 7% increase over last year (Figure 5). Regionally, Southeast production is expected to be up 11% from 2003 at 3.08 billion pounds (1.54 million tons). Southwest production is estimated down 3% from 2003 to 925 million pounds (462,950 tons). Virginia-North Carolina is estimated at 435 million pounds (217,600 tons), up 5% from last year. An increase in carry-in stocks on August 1, 2004 is estimated at 1,121 million pounds or 560,500 tons farmer stock equivalent (Figure 6). The projected ending stocks on July 31, 2005 is expected to grow to 1.335 billion pounds (667,500 tons). This would be more than enough stocks to carry over to 2005. Roughly four months use is in the stocks inventory. A question concerning stocks is whether the majority is for the edible market or for crush. The market would become nervous if the inventory dropped to two months supply or about 650 million pounds (325,000 tons).

USDA estimates imports to be 50 million pounds which would be above the 2003/04 total of 35 million pounds. However, imports are still well below the minimum-access levels indicating US peanuts are preferred over foreign origin peanuts. The US could potentially import more peanuts if a shortage was to develop in the future. Adding carry-in stocks, imports and production, the total supply of peanuts is projected to increase by 11% to 5.61 billion pounds in 2004.

## **U.S. Peanut Use**

**Consumption - Good News and Questions:** The bad news of the year is supply will exceed demand again. Crush and seed/residual uses decreased last year while domestic food use increased (Figure 6). The good news is that domestic food use made a dramatic jump and the supply increase was due to excellent yields. The two million ton crop came at the right time for domestic food use. The 2003-04 marketing year for peanuts ended July 31<sup>st</sup> showing total use of shelled peanuts for primary products increased 9.24%. This is a sizable increase for peanuts as year-to-year growth is typically between one and three percent when not negative. The increase is attributed to peanut butter use growing 8.8% and snack use growing 21.4%. Factors leading to the food use increase are greater than before promotion and advertising, diet and health benefits, and lower shelled prices as a result of policy change in 2002. Domestic food use is estimated as 2.448 billion pounds for 2003/04 (Figure 7). USDA is forecasting an increase of 3% for the 2004 crop to 2.523 billion pounds. The question concerning consumption is despite the large increase in food use, total disappearance of peanuts did not quite equal the 2002/03 marketing year. Crush and seed/residual uses were down 31% and 5% respectively. Planted acreage was down and the oil and meal market tighten raising prices. Are stocks being carried-over because of lower demand for peanut meal and oil or is there another reason?

**Exports Hold Steady:** The export market was a major concern for shellers heading into the 2003/04 marketing year. US peanuts historically have not been competitive in the world market

at \$355. The National Posted Price (NPP) for peanuts was thought to work like the adjusted world price for cotton, however, it has reflected a domestic market price for US peanuts. The NPP has actually served to bring the world price up for peanuts as Argentina and China have experienced production shortages the last couple years. The shortage allowed the US to maintain exports and increase volume by a small percentage. The projection for the 2004-05 marketing year is to increase exports by 8% to 550 million pounds. Exports comprise 13% of the total consumption of US peanuts.

**Domestic Food Use on the Rise:** As mentioned earlier, total use of shelled peanuts for primary products was up by over 9% from last year. Peanut butter use was up 8.8% , snack use grew 21.4%, and candy use increased 1.1%. Government purchases of peanut butter for food and child nutrition programs dropped 10% after a big jump in 2002. Peanut butter purchases are still above the five year average and is the majority of government purchases. Roasted nuts purchased by the government went up by 72% during the 2003-04 marketing year but total government purchases ended up being down by 8.5%. Total government purchases amount to only about 1.5% of domestic food use. Domestic food consumption makes up over 60% of the total consumption of US peanuts.

**Peanut Meal and Oil Prospects:** Peanut meal and oil prices improved during the 2003/04 marketing year to levels not seen since 1998. Tight supplies in the soybean meal and oil markets helped raise peanut meal and oil prices along with a higher farmer stock price for peanuts for crush. But apparently the higher prices have hurt demand as peanuts crushed fell from 857 million pounds to 588 million pounds. The main factor is likely the higher farmer stock price for peanuts due to the program change. Peanuts for crush now compete on the same plain as domestic and export use peanuts. Peanut oil and meal are not as competitive at the \$355 loan rate. Peanut meal prices averaged \$178 per ton during the 2003/04 marketing year. Oil prices were historically high averaging \$0.61 per pound. A tight soybean crush market helped last year but the soybean meal and oil markets are expected to return closer to 2002/03 supply and usage levels. Curiously, peanut crush is projected to rebound to 726 million pounds and would comprise 17% of the total consumption but current market conditions do not seem to agree with the projection.

**Farmer Stock Prices Higher:** Figure 3 shows the average monthly price received for peanuts in 2002 and 2003. The season average price denoted as the MYA (marketing year average). Producers received a higher price for peanuts produced in 2003 by \$22 per ton on average. Figure 32 shows the CCP (counter-cyclical payment) threshold where a CCP would no longer be paid for peanuts. The map above (page 2) showing base acres and 2003 planted acres illustrates the importance of the season average price for peanuts. Several thousand peanut base acres do not have peanuts being grown on them. As the price received rises, CCPs decline. The total CCP in 2002 was \$95 per ton on 85% of the base. The estimated total for 2003 is \$73 per ton. Given that the majority of 2004 peanut crop will receive \$400 per ton or better, the CCP projection for next year to drop below \$60 per ton. Beyond the next marketing year, prices for 2005 will again be influenced by cotton and other commodities come spring time bidding for acres. Producers have shown a willingness to contract peanuts given limited alternatives other than value-added opportunities.

Figure 1: Peanut Production Percentage by Region, 2001 versus 2003

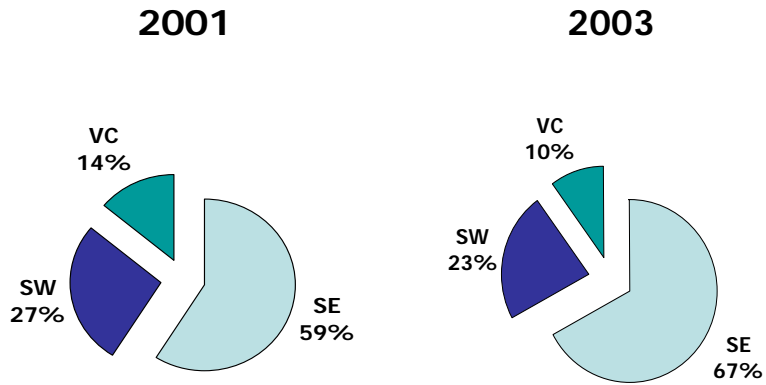
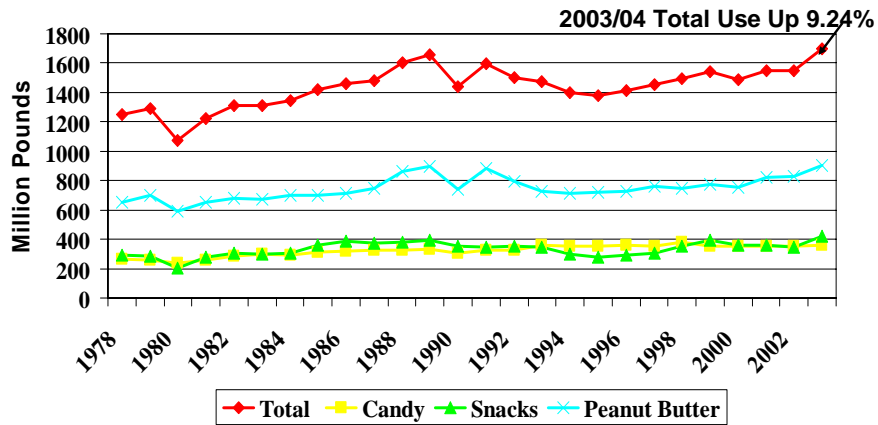
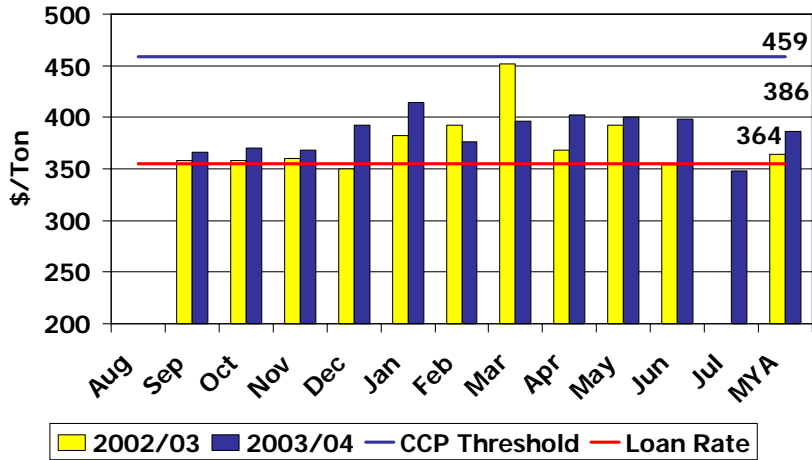


Figure 2: US Domestic Food Use Of Peanuts



Source: USDA/NASS Peanut Stocks and Processing Report, August 2004

Figure 3: Monthly Average Peanut Price Received & Marketing Year Avg.



Source: National Agricultural Statistics Service, Agricultural Prices Report

Figure 4: US Peanut Yield, (1978 - 2004)

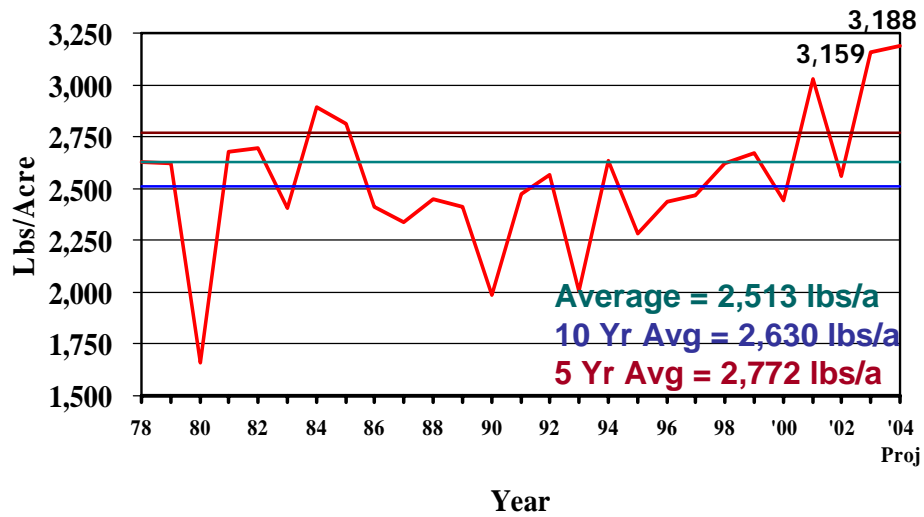


Figure 5: US Peanut Production, 1978 - 2004

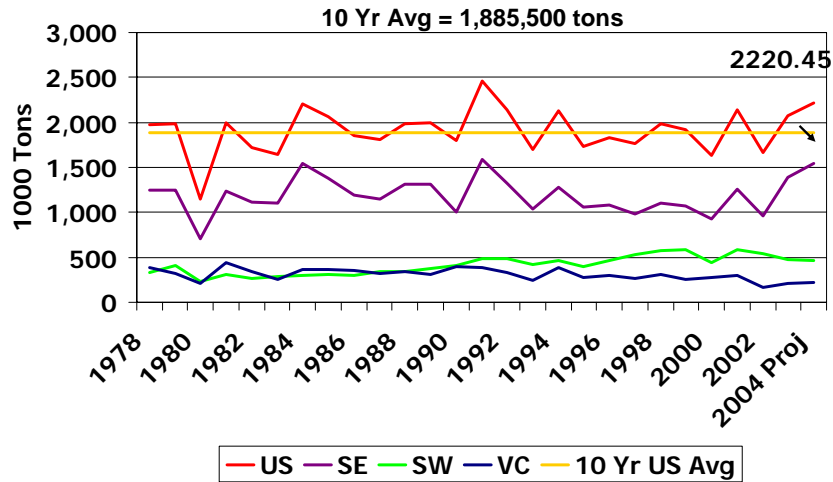


Figure 6: Peanut Production, Consumption, and Ending Stocks

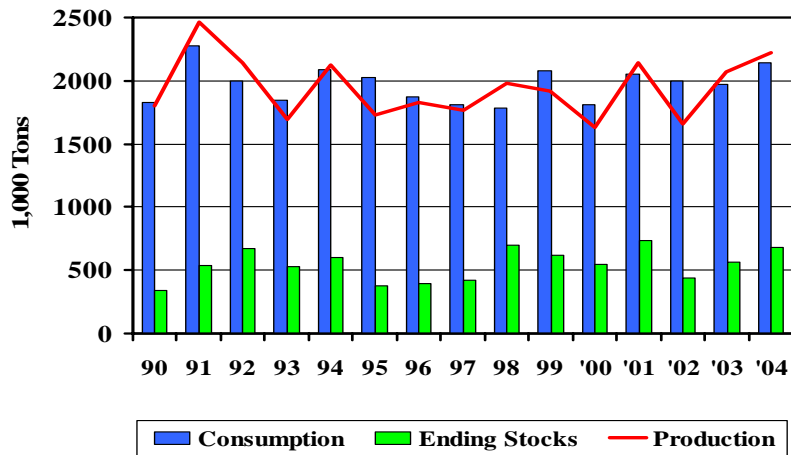


Figure 7: Peanut Balance Sheet, Sept. 13, 2004.  
(million pounds)

	2002/03	2003/04	2004/05	% of Last Yr
<b>Beg Stocks</b>	1,476	875	1,121	128
<b>Production</b>	3,321	4,144	4,441	107
<b>Imports</b>	75	35	50	143
<b>TOTAL SUPPLY</b>	4,873	5,055	5,612	111
<b>Domestic Food Use</b>	2,241	2,448	2,523	103
<b>Crush</b>	857	588	726	123
<b>Seed &amp; Residual</b>	4092	388	478	123
<b>Exports</b>	490	510	550	108
<b>TOTAL DISAPPEARANCE</b>	3,997	3,934	4,277	109
<b>Ending Stocks</b>	875	1,121	1,335	119