

2006 Will be a Difficult Year for Agriculture Even with Improved Markets Start Planning to Cope with Drought and High Energy Costs *Jose G. Peña, Professor and Extension Economist-Management*

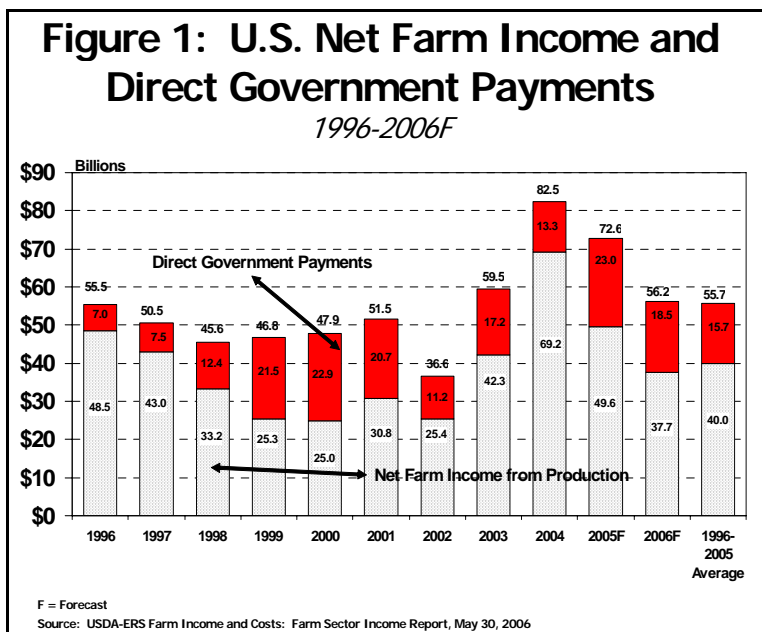
While livestock and grain markets have improved significantly and the outlook appears good, the continuing drought and high energy costs indicate that 2006 will be a difficult year for agriculture.

USDA's initial forecast of net farm income for 2006 at \$56.2 billion is down \$16.4 billion (22.6%) from \$72.6 billion in net income in 2005, but slightly above the ten year average of \$55.7 billion. (See Figure 1).

Both farmers and ranchers face major crop failures this year as a result of the continuing drought. For

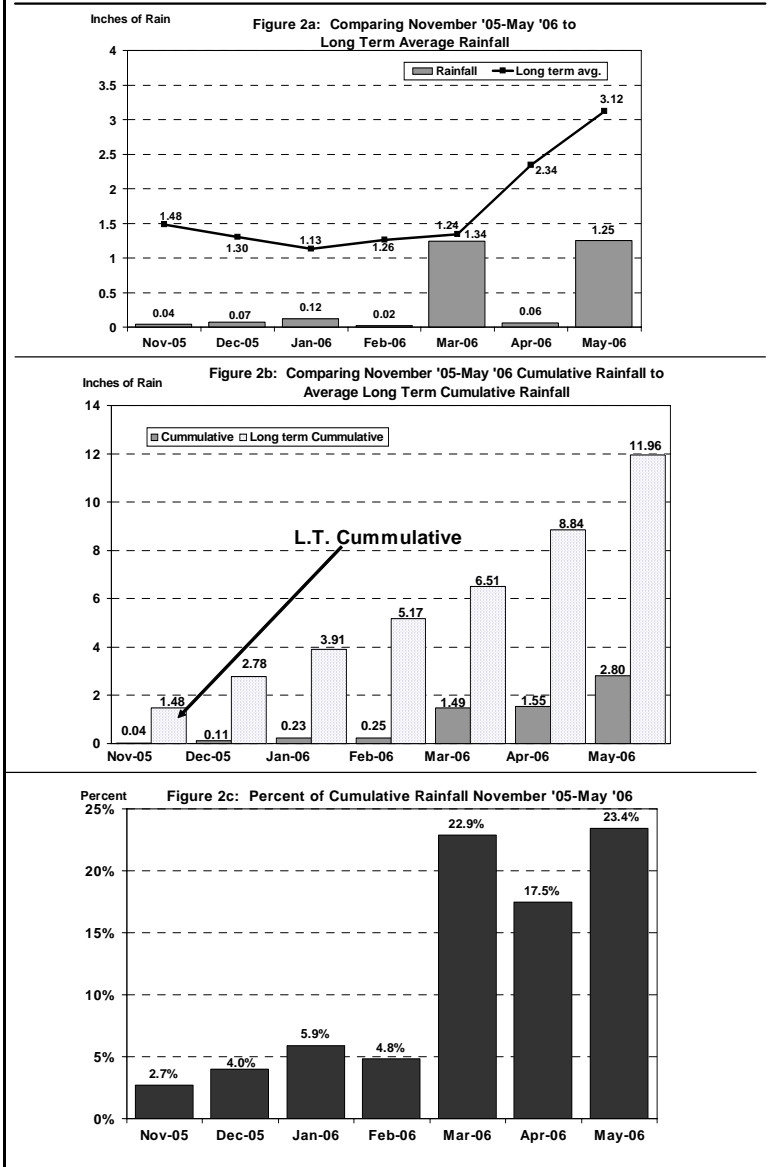
example, while wheat and cattle prices reached 2-3 year highs, the wheat harvest in South Central Texas was down about 80 percent from last year and ranchers had to liquidate a large portion of their herds due to the drought. Crop agriculture is experiencing increased irrigation requirements at a critical time of record high energy costs.

While light to heavy thunderstorms deposited about one-half to over six inches of much needed rainfall last week in a narrow belt through the Hill Country to the upper coast



of Texas, most of Texas, especially the south and southwest regions remain very dry. May '06 ended with rainfall in a large portion of southwest Texas, down 60 percent from the long term average. The southwest Texas region, which probably mirrors the moisture situation in over 50 percent of state, has only received about 2.8 inches of scattered rainfall in 229 days, since the last economically significant rainfall of over one inch on October 13, 2005. This 229 day period will go down in history as the driest on record. (See Figure 2). Unseasonably hot temperatures are aggravating the dry spell.

Figure 2: Rainfall by Month November '05-May '06
Uvalde Research and Extension Center



The drought really started in June '05 when cumulative rainfall dropped to 73 percent of the long term average. Weathermen define a true drought as a period when 75% or less of the long term average yearly rainfall has been received. And, weather forecasts indicate that the drought will persist in the South Central portion of the U.S. through the summer.

The current drought has entered into a severe classification. Agricultural producers should prepare in-depth financial plans which cover short and long term goals and

objectives and take into account the effects of a potential continuing drought over the next few years.

In terms of forage production for livestock, historically about 70 percent of the annual forage production occurs in the spring. With spring almost behind us, sufficient forage will not be produced this year to sustain even a minimal level of livestock. Current conditions may extend through next spring. Hay is scarce and expensive. Adequate levels of supplemental feeding to sustain livestock through the hot, dry, summer dormant season will be expensive. If livestock remain, stock densities should be reduced to match forage availability. In the case of expensive breeding stock, ranchers may want to consider moving the livestock to leased pastures with adequate forage or to feedlots to be maintained.

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