



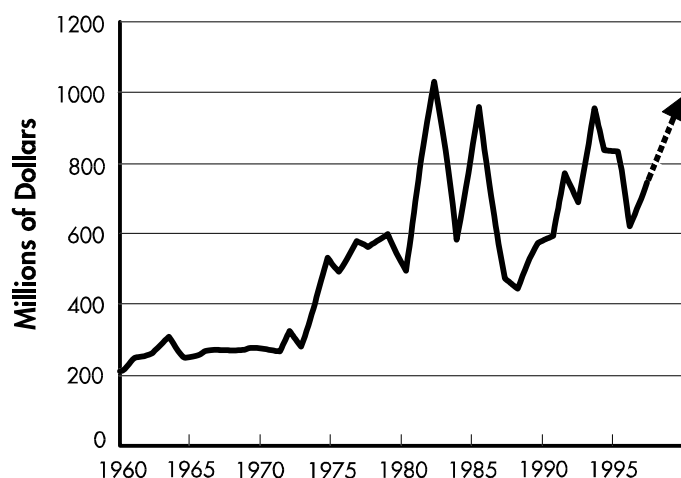
OVERVIEW OF KENTUCKY'S TOBACCO ECONOMY

by Will Snell and Stephan Goetz

Tobacco has historically been a very important part of the Kentucky agricultural economy and culture. This factsheet provides an overview of the Kentucky tobacco industry and its effects on the state's agricultural and total economy.

- The value of tobacco production in Kentucky has averaged more than \$800 million during the decade of the 1990s (1990-1996), compared to averaging \$705 million during the 1980s, \$443 million during the 1970s and \$250 million during the 1960s. Quota increases provide the potential for Kentucky farmers to grow more than \$1 billion of tobacco in 1997.

Value of Kentucky Tobacco Production



Source: KY Agricultural Statistics

- While being volatile over the past two decades, Kentucky's tobacco production is currently higher than production levels some 20 to 25 years ago.

- Kentucky farmers grow three types of tobacco: burley, dark fire-cured, and dark air-cured. Burley tobacco, comprising more than 90% of total production, is grown in 119 of Kentucky's 120 counties and is used primarily in cigarettes. Dark fire-cured and dark air-cured production is concentrated in 33 western

Kentucky counties and is used primarily in smokeless tobacco products such as snuff, chewing and pipe tobacco. The value of tobacco production generally exceeds \$1 million annually for more than 100 Kentucky counties.

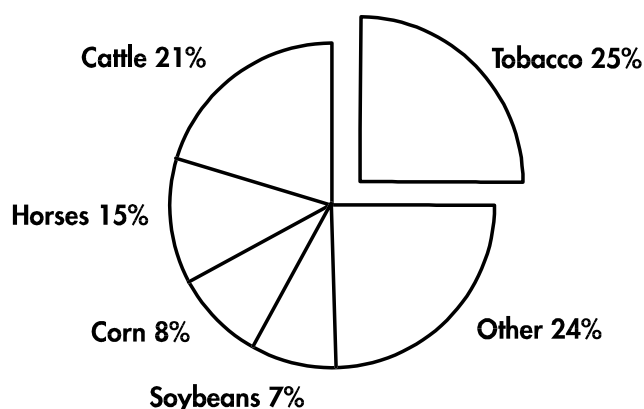
- Kentucky is the nation's largest producer of burley tobacco and dark fire- and air-cured tobaccos. Only North Carolina surpasses Kentucky in tobacco production.

- Kentucky is the most tobacco-dependent state in the United States. Although North Carolina grows more tobacco than Kentucky, tobacco accounts for a larger percentage of Kentucky's agricultural income.

- Tobacco currently accounts for around 50% of Kentucky's crop receipts and 25% of Kentucky's total agricultural cash receipts, yet tobacco uses 1% of the farmland in Kentucky. The latest Census of Agriculture (1992) revealed that tobacco accounted for more than 40% of the net cash return from agricultural sales in Kentucky.

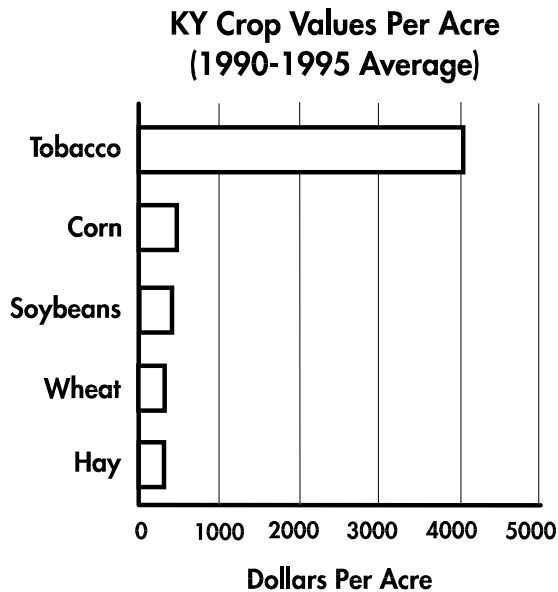
- An acre of tobacco averages around \$4,000 in (gross) returns at the farm level while contributing around \$40,000 in federal, state, and local tax revenue as a result of excise taxes on tobacco products.

Kentucky Ag Cash Receipts (1990-1995)



Source: Kentucky Agricultural Statistics

- Other traditional Kentucky crops, such as corn, soybeans, and wheat, yield significantly lower returns per acre and thus do not offer a viable alternative to most small Kentucky farms. According to 1997 University of Kentucky crop budgets,



Source: KY Agricultural Statistics

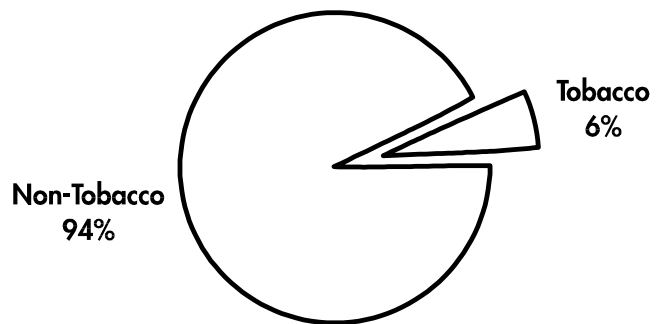
farmers would have to produce around 50 acres of either hay or double-crop wheat and soybeans or 100 acres of corn to generate the same net return to land, capital and management of 5 acres of burley tobacco. Census data reveal that the average harvested cropland for Kentucky tobacco farms is 22 acres. The profit potential of other “alternative crops,” such as fruits and vegetables, may rival tobacco income in some years, but these crops generally have much greater price and income volatility compared to tobacco.

- In several Kentucky counties, tobacco farming directly accounts for more than 10% of the total personal income from all income sources. According to a U.S.D.A. report, seventeen of the

United States’ 20 most tobacco-dependent counties are in Kentucky. Most of these counties are located in regions with limited off-farm employment opportunities.

- Every \$1 million of additional tobacco production contributes a total of \$3.6 million to the Kentucky economy through direct, indirect, and induced effects. Accounting for multiplier effects, Kentucky’s tobacco production and processing sectors account for 6% of the total gross value of goods and services produced in Kentucky and 6% of Kentucky’s total employment.

Contribution of Tobacco to the Total Gross Value of Goods and Services Produced in Kentucky



Source: Goetz, Bailey (Ag Economics, University of Kentucky)

- Kentucky agriculture is noted for its small family farms. Currently Kentucky has the fourth largest number of farms in the United States. According to the latest (1992) Census of Agriculture, more than 59,000 of Kentucky’s 89,000 farms grow tobacco. This represents nearly 50% of the total number of farms growing tobacco in the United States. Tobacco accounts for more than 50% of the total agriculture sales for 43,000 of Kentucky’s 59,000 tobacco farms.

- U.S. Census data reveal that the average *tobacco* farm in Kentucky consists of 113 acres, with 4.6 acres being the average tobacco acreage planted on these farms. Ninety percent of Kentucky tobacco farms produce fewer than ten acres of tobacco.

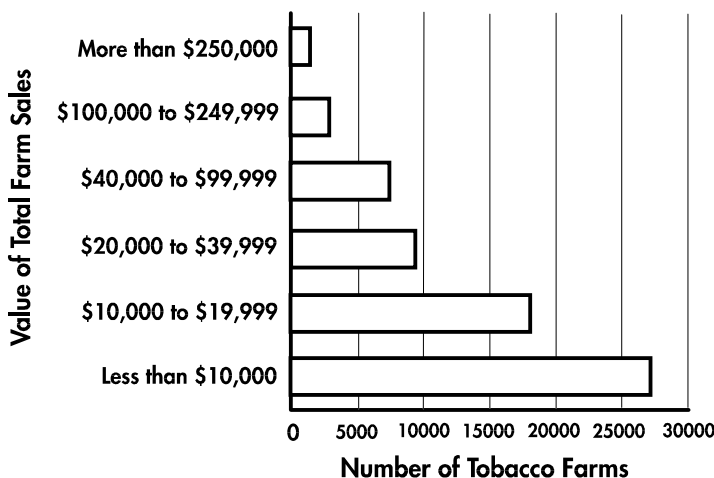
- More than 50% of Kentucky tobacco farms have agricultural sales totaling less than \$10,000.

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Distribution of Kentucky Tobacco Farms By Value of Farm Sales



Source: U.S. Census of Agriculture (1992)