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Co-ops managing through low margins

By KERI L. JACOBS*

The current environment for Mid-west firms marketing corn and soybeans presents challenges for identifying margin opportunities. Rising grain inventories, a stable basis and hesitant selling by producers continue to depress overall grain margins. Agricultural retailers, despite being faced with similar optics on the producer side — declining average net farm incomes, low commodity prices and tighter lending situations for some — are faring a bit better.

Quarterly data from agricultural cooperatives in Iowa illustrate the trends in margins that reflect these factors and are likely affecting grain merchandisers and agricultural retailers (Figure 1). For this group, average year-over-year grain product margins reported in the first quarter of 2016 came in at 1.4%, a substantial drop from gains reported in the first quarter of 2016 — e.g., AGP, CoBank, CHS and Land O’Lakes — which is included in the total and is accounted for their regional partners for every dollar of sales to their local operations (“local income”), in addition to the income they make from local operations ("local income"), local agricultural cooperatives receive patronage from their regional partners for every dollar of sales in the first quarter of 2016, compared with the prior five-year average of about 1.0 cent per sales dollar.

As illustrated in Figure 2, profitability at the regional level fills in the income slack local cooperatives experience. In Iowa, for example, cooperatives recorded about 1.7 cents of patronage from regional partners for every dollar of sales in the first quarter of 2016, compared with the prior five-year average of about 1.0 cent per sales dollar.

1. Quarterly margins and service revenue for grain and farm supply cooperatives in Iowa

2. Quarterly income and sales for grain and farm supply cooperatives in Iowa

Key financial indicators, Iowa grain and farm supply cooperatives

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