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Estimating costs of crop production for 2009

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Estimating costs of crop production for 2009 will be extremely difficult. Some farmers have received forwarding pricing, some set a quantity only and still others will use the spot market. The price consequences of these decisions are substantial.

Foreign competition for material, the current U.S. financial crises, the energy price situation and a host of other factors compound estimation problems for Iowa farmers. In these times it is easy to simply say it can’t be done with any accuracy so why bother trying it.

Such thoughts are understandable but it is precisely times of uncertainty when estimating the costs of production is the most crucial. Farmers need an estimate of costs for cash flow planning purposes. Credit markets have tightened considerably and working with a lender having a clear understanding of credit needs will aid in securing credit for 2009.

Farmers need to know their costs of production when they establish their marketing plan. Based on USDA monthly price reports for Iowa, corn prices have dropped 22 percent from July through mid October and soybean prices have dropped 27 percent over the same time period. Farmers need to know their costs of production in such volatile times if they are going to be able to follow a sound marketing plan. The old saying is you won’t go broke locking in a profit but you do locking in a loss. Without knowing costs of production the farmer can’t tell.

Markets for just about all inputs have soared as commodity prices increased. Farmers need to know their costs of production so they can tell where to concentrate for trimming expenses. Too often in such times the strategy is simply cutting back but this can do more harm than good if cuts are made in the wrong area. Time should be spent concentrating on where costs are out of line rather than areas where costs are more reasonable with respect to averages.

Fuel

Diesel fuel costs show considerable volatility. Current reported fuel prices are down 25 percent from just a month ago and down 28 per-

Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Estimated Costs of Crop Production for 2009 – A1-20 (12 pages)
Suggested Closing Inventory Prices for 2008 – C1-40 (2 pages)
2008 Land Values Survey – C2-70 (5 pages)

Please add these files to your handbook and remove the out-of-date material.

continued on page 6

continued on page 2

Brazil's ethanol industry .......... ........................................Page 4

Ag Decision Maker is compiled by:
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cent from the highest reported prices. Yet, they are only
down one percent from a year ago.

Where the prices will go over the next several months
is subject to debate. What isn’t debated too widely is
that they will continue to trend upward. Farmers are
well advised to continue to find ways to cut machinery
costs. Evaluating trips, keeping power units tuned, and
properly inflating tires are just some of the ways to re-
duce diesel use. Of course, when replacing machinery
energy efficiency needs to be a consideration.

Seed
Reported seed costs showed considerable variation this
year. The biggest difference was the traits contained
in the seed but even when comparing similar traits,
reported seed prices varied widely depending upon
the source. Differences of up to 30 percent were not
uncommon.

The seed industry continues to change. Concentra-
tion in the industry will reduce competition which will
increase prices. But, the traits and combination of
traits being offered seem to continue to increase almost
exponentially.

Farmers need to carefully evaluate seed selection and
planting rates. The standard evaluations for yield,
standability, moisture at harvest and so forth are all still
important. But, with the new traits and multiple stacks
farmers need to carefully consider if the trait being of-
ered is one they need or will benefit from.

Seeding rates are also important. Research reported in
the Iowa State University ICM newsletter suggests that
higher seeding rates are advantageous in some cases.
The maximum profit rule of using an input to the point
of marginal cost equal to marginal return is very im-
portant to remember. Expected output prices and seed
costs will determine the optimum seeding rates.

Fertilizer and Pesticides
Costs for fertilizers have soared in the past few years.
Based on data from the Iowa Farm Business Associ-
tion, fertilizer and lime costs per acre for corn have in-
creased by 64 percent in just the past 5 years. Costs for
2008 and estimated costs for 2009 will be even higher.
Estimating fertilizer costs has become increasingly dif-
ficult as prices change within the season and different
payment regimes are initiated.

World competition for plant nutrients has led to the
increase in prices. So, too, has the increased concentra-
tion in the industry. With fewer manufacturers, prices
are more closely tied to output prices. In addition,
costs for storage can be pushed further down to the
final user, increasing costs and changing terms of sale
for farmers.

Current prices are projected to remain steady for N and
P but uncertain for K. There should be some reduction
in prices as the lower priced material works its way into
the world market and the higher priced material is sold.

Farmers need to follow sound agronomic practices
as they assess their situation in the new environment.
Proper soil tests are more important than ever. New
tools are developed to help determine proper applica-
tion rates with different input and output price combi-
inations. Staying up-to-date with the latest agronomic
recommendations is essential.

Pest management is another area where costs have
increased considerably. Projections for 2009 for at
least one of the more popular herbicides are for almost
da doubling in price. Data from the Iowa Farm Busi-
ness Association shows that herbicide costs per acre for
soybeans and corn have been flat to drifting downward.
This appears to be over starting in 2009.

Land
Cash rent for 2009 is projected to be up but the amount
of increase will vary considerably based on conditions
and the quality of the land. Average rents are projected
to increase by eight percent over 2008 levels.

Cash rents will follow land values. Land values, in
turn, are dependant upon the income that can be earned.
Decreased commodity prices and higher input costs
will lower returns and should eventually lead to lower
rents.

The average rent per acre has increased by almost 30
percent in the past 3 years. Farmers need to try and
work with landlords to develop flexible leases. With
rapidly rising and volatile costs and changing markets
this is especially important. A landlord may want a
fixed amount but be willing to share above a certain
price. Flex features can be worked out between the
tenant and landlord.

Costs for 2009
Taking all these uncertainties into account, the prelimi-
nary estimated costs of production for continuous corn are $5.40, $5.10, and $4.88 per bushel. For expected yields of 125, 145, and 165 bushels per acre, respectively. For the medium yield, the 2009 estimated costs are 22 percent higher than last year for continuous corn. They are 67 percent higher than 5 years ago.

The estimated costs of production per bushel for corn following soybeans are $4.48, $4.32 and $4.21 assuming 140, 160, and 180 bushels per acre, respectively. These cost estimates are, for the medium yield, 24 percent higher than last year’s estimate and 68 percent higher than the 2004 estimated costs.

Cost of production estimates, per bushel, for soybeans are $10.04, $9.81 and $9.64 assuming 45, 50 and 55 bushels per acre, respectively. The estimate for the medium yield is 25 percent higher than a year ago and 49 percent higher than the estimated costs 5 years ago.

For corn, land represents approximately 30 percent of the total costs of production. Values of $178, $205, and $232 per acre rent charges for the low, medium and high quality land were assumed. The variable costs represent almost 60 percent of the costs of production. Of the variable costs, nitrogen and seed costs are almost half the costs for either continuous or rotated corn. Nitrogen was charged at $.68 per pound and seed was assumed to cost $250 per bag.

Land represents just over 41 percent of the costs of production for soybeans, while the variable costs represent 46 percent. Seed and potassium are almost half of the variable costs. Phosphorus was charged at $.90 per pound and potassium at $.72 per pound.

Changing seed prices by 20 percent causes approximately a 3 percent change in the cost per bushel for corn. A 13 percent change in the price per pound of nitrogen causes a 2.5 percent and 2 percent change in the costs of production per bushel for continuous corn and rotated corn, respectively.

If we assume that the cash rent charge did not change from last year, and a 5 percent decrease in the average yield, then the costs of production per bushel would decrease by 1.9 percent, 2 percent and 3 percent for continuous corn, rotated corn, and soybeans, respectively. However, if we assume that rents increase by 21 percent from 2008, then costs per bushel would increase 5 percent, 6 percent, and 8 percent for continuous corn, rotated corn, and soybeans, respectively.

**Conclusions**

Costs of production will be up considerably for Iowa farmers. How much will depend on individual circumstances and the validity of the assumptions that need to be made. The average costs, per bushel, are estimated to be approximately 30 percent higher than last year. And, over 70 percent higher for corn and over 50 percent higher for soybeans, than the estimated costs just 5 years ago.

Farmers need to be prepared for volatility in input prices and commodity prices. Risk management is going to take on a new meaning and urgency in the years ahead. In some cases the wild gyrations of the past few years will settle out but for the most part this will be at a higher level. For most of our inputs, however, fluctuations caused by increased world competition, increasing industry concentration, fluctuating energy costs and other factors will continue.

The recent energy related boom for agriculture has faded. When and if it will return are being debated. But, one thing is clear, Iowa farmers have to start preparing for rapid fluctuations in input and output prices.

Currently, the outlook for 2009 isn’t especially bright. Commodity prices are down almost a fourth from recent highs and input costs are estimated to be almost the same percentage higher in 2009. It is easy to get discouraged and neglect sound business practices in such times. But, now is the time when we need to know our costs. Average estimates and estimates from other farms can be good guidelines but nothing substitutes from knowing our own costs of production. Remember that over the past 40 years there has only been one year when the top third farms in the Iowa Farm Business Association didn’t make money. Somebody is always making money in Iowa agriculture.