Volume 13 | Issue 11 Article 2

2015

# Lower prices and higher costs may squeeze cash rents

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August brings the state fair, the start of school, and sometimes hot, dry weather. It is also the season for renewing farm leases. Although many farmers have rented land from the same owners for a long period of time, the amount of cash rent paid for the land is often adjusted every few years or even annually.

The past few years have seen some wild gyrations in crop prices and input costs. Much of this has been related to volatile energy markets, a world wide recession, and movements in exchange rates of international currency. The end result has been a great deal of uncertainty about what a fair cash rent is for Iowa farmland.

Iowa State University surveys tenants, landowners, farm managers and agribusiness professionals each year to learn the typical cash rental rates in the counties.The table on the next page shows what the average responses have been for various regions in Iowa for the past five years. The impact of sharply higher grain prices since 2007 is obvious. The big question now is, "Has the bubble burst for 2010?"

## Price prospects

Let's look at grain prices first. Many cash rents are set in late summer for the following crop year, so futures market prices being offered for the next year's crop give some indication of potential profits. Keep in mind that the actual cash prices that farmers realize at harvest are typically $.30 to $.40 per bushel lower than the futures prices.

The tables on the next page show the average futures prices that were available during the summer months of 2008 and 2009 for the following year's crops at harvest time, using the December contracts for corn and November contracts for soybeans. A year ago the futures markets were offering prices over $6 per bushel for corn and $14 per bushel for soybeans. It is no wonder that renters were aggressively bidding for more acres.

Since then fuel prices have dropped, which impacts prices offered by biofuel producers, livestock numbers have begun to drop, and grain prices have tumbled. Subtracting a $.40 basis from July futures prices leaves only about $3.40 for corn and $8.30 for soybeans in 2010. Even with relatively good production prospects for the 2009 crops, gross income and profits will be lower this year than for the 2008 crop, and prospects for 2010 are less than rosy. For expected yields of 170 bushels for corn and 50 bushels for soybeans, plus $20 for direct payments, gross revenue would be about $598 for corn and $435 for soybeans.

## Input costs

Are there bright spots? Costs for the major crop inputs, at least those related to energy, will likely be lower in 2010. The big shock for 2009 was nitrogen fertilizer, especially anhydrous ammonia. Some producers paid over $1,000 per ton for it last fall, but prices varied dramatically depending on when and where the product was purchased. Since then nitrogen prices have decreased to more traditional levels, and prices for diesel fuel and LP gas for drying corn are actually lower than a year ago. Costs for seed and pesticides will likely continue to gradually increase, though it is too early for firm estimates. The table shows some typical production costs for 2009 and some guesses for 2010. Even if production costs are lower in 2010, the estimated decreases of $57 per acre for corn and $16 per acre for soybeans will not offset expected lower revenues. Subtracting the estimated nonland costs from the estimated gross revenues per acre would leave only $174 per acre for corn and $164 per acre for soybeans for rent and profit.

## Safety nets

For the 2008 crop many producers received checks from their crop insurance companies, due mostly to a large price decrease from February, when insurance coverages were established, to harvest. The initial prices used to set guarantees for revenue insurance in 2009 were quite a bit lower though, $4.04 for corn and $8.80 for soybeans. Assuming producers purchased coverage at 75 percent of expected revenue (the most popular level), and obtain average yields, the effective price guarantees at harvest are $3.03 and $6.60 per bushel. Since crop insurance is based on futures prices,

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a typical basis value would have to be subtracted to arrive at a local price.

The new ACRE program from the U.S. Department of Agriculture will add another safety net for grain farmers. The state level revenue guarantees for the 2009 crop under ACRE should be about $635 per acre for corn and about $457 for soybeans. This translates to price guarantees of about $3.65 for corn and $9.12 for soybeans, with average yields. Guarantees can drop no more than 10 percent for the 2010 crop, which would result in price guarantees of at least $3.28 and $8.21, depending on actual yields for this year and next. These are about in line with current futures prices for fall of 2010, adjusted for basis.

Tenants and landowners need to put together these potential prices, expected yields for their own farms, and possible costs of production to estimate how much income is available for cash rents for 2010. Don't forget to add in direct payments from FSA, which will be 20 percent lower if the farm is enrolled in ACRE. The worksheets available under "Leasing" on the Ag Decision Maker website (www.extension.iastate.edu/agdm) are useful for this.

If a flexible or variable cash lease agreement is already in place, rents will automatically reflect most of these factors. For fixed rents, though, adjustments will need to be made for current and future conditions.

**December Corn Futures Prices, Monthly Averages, $ per bushel**

| Calendar Month | December 2009 Contract Price During 2008 | December 2010 Contract Price During 2009 | Price Decline |
|---|---|---|---|
| May | $6.00 | $4.45 | $1.55 |
| June | $6.70 | $4.35 | $2.35 |
| July | $6.40 | $3.80 | $2.60 |
| August | $6.10 | ? | |

**November Soybean Futures Prices, Monthly Averages, $ per bushel**

| Calendar Month | November 2009 Contract Price During 2008 | November 2010 Contract Price During 2009 | Price Decline |
|---|---|---|---|
| May | $13.20 | $9.50 | $3.70 |
| June | $14.50 | $9.60 | $4.90 |
| July | $14.00 | $8.70 | $5.30 |

**Potential Production Costs for Corn and Soybeans (example)**

| | Corn (after corn) | | Soybeans | |
|---|---|---|---|---|
| | 2009 | 2010 | 2009 | 2010 |
| Seed | $94 | 100 | 54 | 57 |
| Fertilizer | 170 | 127 | 97 | 87 |
| Pesticides | 38 | 38 | 22 | 25 |
| Insurance, interest, misc. | 43 | 39 | 31 | 28 |
| Machinery, drying, labor | 136 | 120 | 83 | 74 |
| Total nonland costs | $481 | $424 | $287 | $271 |

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**Overall Average of Typical Cash Rents for Row Crop Land in Iowa**

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Area 1 | $134 | $135 | $150 | $174 | $186 |
| Area 2 | 136 | 137 | 150 | 180 | 201 |
| Area 3 | 135 | 139 | 155 | 182 | 194 |
| Area 4 | 131 | 135 | 144 | 174 | 173 |
| Area 5 | 139 | 143 | 153 | 185 | 198 |
| Area 6 | 138 | 139 | 149 | 173 | 189 |
| Area 7 | 146 | 144 | 156 | 190 | 198 |
| Area 8 | 148 | 147 | 164 | 188 | 192 |
| Area 9 | 155 | 161 | 172 | 198 | 198 |
| Area 10 | 122 | 121 | 135 | 160 | 169 |
| Area 11 | 115 | 118 | 129 | 159 | 147 |
| Area 12 | 124 | 124 | 144 | 160 | 169 |
| State | $135 | $137 | $150 | $177 | $185 |

*Updates, continued from page 1*

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

## Internet Updates

The following updates have been added on www.extension.iastate.edu/agdm.

**Natural Resources Custom Rate Survey** - A3-11 (2 pages)

**Machinery Leasing – Is it for you?** – A3-35 (2 pages)

**Farm Machinery Joint Ventures** – A3-37 (4 pages)

**Do I Need a Written Lease ?** – C2-03 (2 pages)

**Introduction to Governance** – C5-70 (2 pages)

**The Role of the Board of Directors** – C5-71 (3 pages)

## Current Profitability

The following profitability tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html to reflect current price data.

**Corn Profitability** – A1-85

**Soybean Profitability** – A1-86

**Ethanol Profitability** – D1-10

**Biodiesel Profitability** – D1-15

**Returns for Farrow-to-Finish** - B1-30

**Returns for Weaned Pigs** - B1-33

**Returns for Steer Calves** - B1-35

**Returns for Yearling Steers** - B1-35



Issued in furtherance of Cooperative Extension work, Acts of May 8 and July 30, 1914, in cooperation with the U.S. Department of Agriculture. Jack M. Payne, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.