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# Credit Needs and Cash Rents Impacted by Higher Input Costs

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# Credit Needs and Cash Rents Impacted by Higher Input Costs

## **Abstract**

Corn and soybean farmers have been enjoying record high prices and sizable profits for their past two crops. But higher input prices will eat into those margins in 2009. Many producers have already been confronted with soaring prices for fertilizer, with anhydrous ammonia selling for up to \$1,000 per ton, payable in advance. Potash and phosphate fertilizers have shown similar increases. There are various reasons behind the sharply higher prices, but most of them are related to higher energy prices and their impacts on transportation and manufacturing costs. Seed, pesticide and fuel prices have also been affected, though to lesser degrees.

## **Keywords**

Economics

## **Disciplines**

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**Cash Rental Rates for Iowa 2008 Survey** can be [downloaded](#) or ordered from the [ISU Extension online store](#).

## Credit Needs and Cash Rents Impacted by Higher Input Costs

By William Edwards, Department of Economics

Corn and soybean farmers have been enjoying record high prices and sizable profits for their past two crops. But higher input prices will eat into those margins in 2009.

Many producers have already been confronted with soaring prices for fertilizer, with anhydrous ammonia selling for up to \$1,000 per ton, payable in advance. Potash and phosphate fertilizers have shown similar increases. There are various reasons behind the sharply higher prices, but most of them are related to higher energy prices and their impacts on transportation and manufacturing costs. Seed, pesticide and fuel prices have also been affected, though to lesser degrees.

Gary Schnitkey, farm management specialist at the University of Illinois, has estimated that nonland costs of production in Illinois could be up \$141 per acre for corn and \$82 per acre for soybeans from 2008 to 2009. Mike Duffy from Iowa State University has estimated increases of \$120 to \$140 per acre for corn and \$65 per acre for soybeans next year. However, actual prices for many inputs could change significantly by this coming winter.

### Credit Needs Grow

The total dollars needed to plant a crop next spring may find some operators exceeding their operating line limits from past years. An early consultation with the short-term lender will help adjust credit availability to the new cost levels. Fortunately, profits from the past two years have made it possible for many producers with high levels of operating debt to pay down their balances. More valuable crop inventories have made current ratios and operating capital values look healthier as well.

The volatile grain and input prices make budgeting much more difficult. Extension has several electronic spreadsheets available for developing cash flow budgets. They can be downloaded from the [Ag Decision Maker Web site](#).

### Cash Rents

The annual rent negotiations with landlords are in full swing, as well. Most landowners are well aware of where grain prices have been. They may be less aware of the higher input costs. Tenants should be honest about both their costs and profits, and be prepared to negotiate 2009 rents in good faith. Rents that were renegotiated for 2008 may not change much for 2009, but rents that are still at levels set prior to 2007 will likely be brought up to current market levels.

Some producers and landowners have developed flexible cash leases in the past two years, with cash rents being determined by actual yields and the prices available at or prior to harvest. Often a base rent is specified, with a bonus paid when gross revenue exceeds a certain level.

One easy way to reflect higher input costs in a flexible lease is to increase the level of gross revenue needed to trigger a bonus payment. In other words, start sharing revenue after the tenant has earned enough to cover all nonland

costs plus the base rent.

*William Edwards is a professor of economics with extension responsibilities in farm business management.*

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