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2012 crop input costs increase, along with profit margin opportunities

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2012 crop input costs increase, along with profit margin opportunities, continued from page 1

These particular cost estimates are for a corn-following-soybean rotation for conventional tillage. Note that increasing yield expectations also carry a higher cash rent equivalent – values that range from \$222 to \$296 per acre.

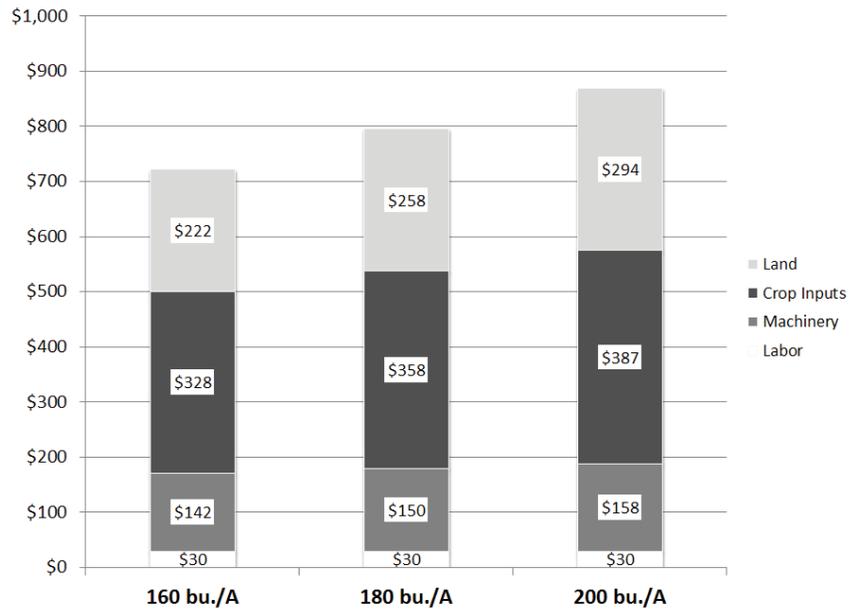
Using the middle column of this bar chart (180 bu./A corn yield) would have a total cost estimated at \$796 per acre or \$4.42 per bushel. Note that the cash rent equivalent used was \$258 per acre and serves to help estimate the cost for producing 180 bu./A corn in 2012. The marketplace will set the Iowa cash rental rates on tillable farmland. ISU Extension conducts a cash rental rate survey each spring.

Many cash rental rates for 2012 are still being established between landlords and tenants. An August report from a private survey of professional farm managers in Iowa, Minnesota and Illinois found that \$400 cash rents will be commonplace in 2012 on highly productive land. Increases of 10 percent to 20 percent were thought to be common, depending on when the lease terms were established.

Many farmers own their land or have multi-year land rental agreements. Some have already “locked in” fertilizer for application this fall at prices much lower than those available today. Farmers who control the land and have fertilizer prices “locked in” have already established two of the largest and most important crop production costs for 2012. These two prices added together for land and fertilizer likely represent nearly 50 percent of the total costs.

The ability to now “lock in” a cash sales price on a portion of the 2012 crop has the potential for a positive margin. With December 2012 corn futures

Figure 1. 2012 Cost Estimate: Corn following Soybeans



Source: Duffy, ISU Extension Economics, July 2011

trading over \$6.65 per bushel in late August, a harvest cash price of \$6 per bushel is available at many elevators, processors and river terminals in the Corn Belt. A comparison of crop costs, crop revenue and margin per acre can now be made.

The assumption in Figure 2 is that cash corn prices average \$6 per bushel. Using the 180 bu./A yield estimate and a direct payment from the government of \$23 per acre, the crop revenue totals over \$1,100 per acre. The margin is calculated by subtracting the total costs of \$796 per acre from this \$1,100 crop revenue. The difference is over \$300 per acre and more than 38 percent return above the total costs.

Those farmers who are margin managers will likely tie production and pricing decisions together for 2012. Current corn futures prices and cost levels suggest it is possible to “lock in” profits on at least a portion of the acres to be planted to corn in 2012.

Additional considerations might focus on hedging corn futures versus committing a larger number of bushels to delivery usually through the use of forward cash or hedge-to-arrive contracts.

2012 crop input costs increase, along with profit margin opportunities, continued from page 2

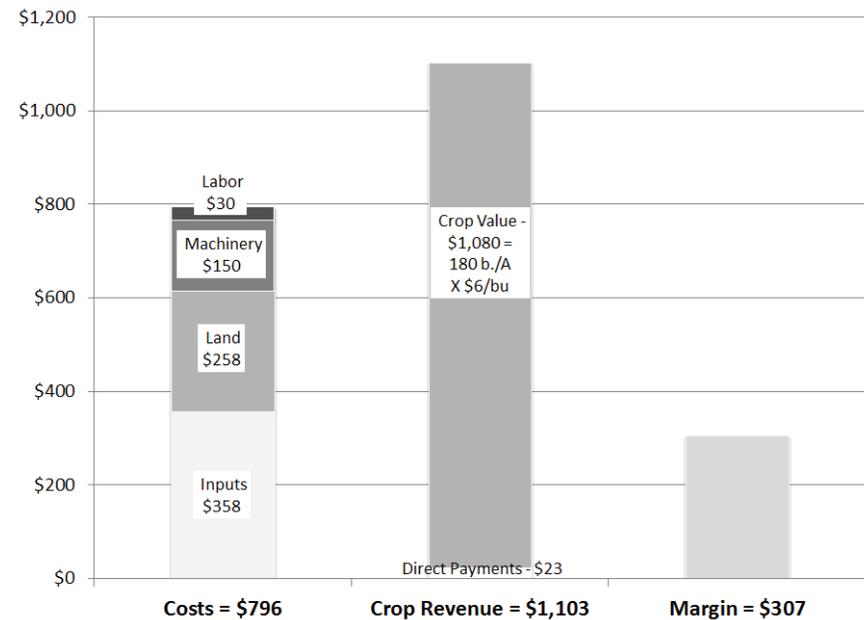
Also the use of crop insurance products to be used in 2012 should be a consideration. While the projected price will not be determined until the month of February 2012, the use of revenue protection (RP) at higher levels of coverage (75 percent or greater) should be considered.

Conclusion

Managing margins is nothing new to row crop farmers, but the increased risk of these high crop prices is that they might lead to a decrease in demand; a very real concern for 2012. While nearby 2011 corn futures prices approach \$8 per bushel, you can expect demand to decline, especially the demand for corn fed by U.S. livestock producers. This demand could be slow to

return in the short run and have a negative impact on 2012 price prospects.

Figure 2. 2012 Margin Estimate: Corn following Soybeans



Source: Duffy & Johnson, ISU Extension Economics, July 2011



Road safety: a shared responsibility

By Charles Schwab, Agricultural and Biosystems Engineering, cvschwab@iastate.edu; Willy Klein, Extension Communications and External Relations, wklein@iastate.edu

Getting harvest from the field to market can be dangerous work, but doing it in traffic on Iowa’s highways and county roads extends the hazards to other drivers and their passengers. Conditions creating additional risks on Iowa roadways during harvest are drivers who don’t understand how to avoid collision with agricultural equipment, those who are driving distracted and heavier than normal traffic on rural highways due to flooding and construction detours.

Highway safety is a shared responsibility for both the motor vehicle operators and agricultural equipment operators. Both have reasons and rights to be on those roads.

Agricultural equipment operators need to remember that vehicle drivers, especially those rerouted to rural highways, may not have the necessary understanding to avoid collision with agricultural equipment: how to approach a slow moving vehicle (SMV), left turns of equipment and how to pass oversized equipment and unique shapes of combines. Operators of agricultural equipment are reminded to make sure all SMV emblems are properly mounted, not faded, and to always signal before making turns.

Motorists may be unfamiliar with the outlines of farm equipment, especially at dusk when operators are returning from fields or moving between fields. Unfamiliarity can cause a split-second delay in reaction that, in many cases, can lead to a collision.