2015

Profitable opportunities for 2013

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While farmers were concerned with drought in 2012, they still worry whether they’ll get enough rain between now and next spring to recharge subsoil moisture supplies. It’s time to look ahead and plan for 2013 crop production and marketing. Keep your focus on profit margins for 2013. Trying to pick the highest price and sell all your crops at that price seems futile after this past summer’s experience. Besides, it’s net revenue – yield times price minus total costs – that will determine if you made money from your corn and soybean crops.

Consider making consistent pre-harvest sales that align with your 2013 profit margins. While input costs are expected to remain fairly flat, plugging in 2013 harvest prices available today is already providing attractive margins. In July, Iowa State University Extension economist Mike Duffy released early estimates for 2013 crop production costs to assist farm operators and landlords in cash rent negotiations. Duffy’s expectations are that non-land costs for 2013 will increase less than 5 percent over those realized in 2012, led by higher land, seed and crop protection costs. Machinery and equipment costs should change very little, with steady fuel costs and less tillage this fall likely.

Cash rent is up slightly
Iowa State University’s cost estimates for producing corn and soybeans are made according to crop rotation and displayed as four different categories: land, crop inputs, machinery and labor. For a rotation of corn following soybeans, there are three different yield expectations: 160 bushels per acre, 180 bushels and 200 bushels. Costs are then assigned based on these expected yield levels. The cash rent

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equivalent cost is estimated at $276 per acre, but keep in mind that yield expectations above 180 bushels will likely carry a higher rent.

Many cash rental rates for 2013 are still being established between landlords and tenants, despite the fact that the termination deadline for existing leases has passed. In Iowa, the deadline is September 1 for one party to serve a termination notice to the other party on a cropland lease. Increases of 5 to 10 percent in cash rent for 2013 will likely be common on the more productive Iowa land. An upward limit on cash rents is expected depending on the impact of drought on yields and when the lease terms are established.

Many farmers own land and rent land with multi-year land rental agreements. Most locked in their fertilizer for fall application. Farmers who control the land and have fertilizer prices locked in have already established two of the largest crop production costs for growing corn in 2013. These two prices added together for land and fertilizer likely represent nearly 50 percent of the total cost to produce the crop.

Additional considerations might focus on hedging new crop futures versus committing a larger number of bushels to delivery usually through the use of forward cash or hedge-to-arrive (HTA) contracts. Buying put options now means paying more for the time value reflected in the premiums. A strategy might be using forward cash contracts or HTAs for some of your early 2013 sales this fall and winter, then buying put options next spring on bushels you’d prefer not to commit to delivery.

Focus on profit margins
The ability to now lock in a cash sales price on a portion of the 2013 crop has potential for a positive margin. With December 2013 corn futures trading over $6.50 per bushel, a harvest cash price of above $6 per bushel would be available at many elevators, processors and river terminals in Iowa. A comparison of crop costs, crop revenue and margin per acre can now be made and most farmers use five-year average yields as opposed to just one year.

Those farmers who are margin managers will likely tie production and pricing decisions together for 2013. 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 both corn and soybeans in 2013.

Crop insurance coverage
The use of crop insurance products for 2013 crops is a consideration. While the projected price will not be determined until the month of February, the use of a Revenue Protection policy at higher levels of coverage (75 percent or greater) is a likely choice for many farmers along with the use of the Trend Adjusted APH Yield Option.

Managing margins is nothing new to row crop farmers, but the increased risk of the high crop prices and missed opportunities in 2012 are on their minds. However, those high crop prices led to a decrease in demand for grain, a very real concern realized in 2012. As corn cash prices approached $8 per bushel in August, demand for corn fed by U.S. livestock producers declined. This demand will be slow to return in the short run and will have a negative impact. Demand will be a key factor as to whether corn and soybean prices can climb to the extremely high levels in 2013 some analysts believe is possible.

While many farmers will remember the $17 per bushel cash prices available for soybeans in 2012, very few bushels were actually sold at that price level. With expectations of larger planted soybean acres in South America for harvest in February/March of 2013, these high price levels might be a distant memory of another missed opportunity for U.S. growers. Of course, that assumes farmers in Brazil and Argentina don’t run into weather problems.
American farmers and ranchers will soon have the opportunity to make a positive impact on their communities by taking part in the 2012 Census of Agriculture. Conducted every five years by the U.S. Department of Agriculture’s (USDA) National Agricultural Statistics Service (NASS), the census is a complete count of all U.S. farms, ranches and those who operate them.

“It is important that all growers, state farmers, women farmers and ranchers respond,” says Mike Duffy, Iowa State University Extension economist. “Census information is your voice and helps to shape the farm future as farmers. The Census of Agriculture is the only opportunity to know the state of U.S. agriculture. The census data can be used for research projects, general information on trends, basis for policy decisions and a host of other activities. Farmers benefit from completing the census as completely and accurately as possible because the information is used in a variety of ways that can affect them directly. Agriculture, especially production agriculture, is changing dramatically. Every five years, farmers are given the chance to be sure we understand and know what is happening in agriculture. If we don’t know the true situation in agriculture, we have to rely on anecdotal evidence.”

“The census remains the only source of uniform, comprehensive agricultural data for every county in the nation,” said Renee Picanso, director of NASS’s Census and Survey Division. “It’s a critical tool that gives farmers a voice to influence decisions that will shape the future of their community, industry and operation.”

The census looks at land use and ownership, operator characteristics, production practices, income and expenditures and other topics. This information is used by all those who serve farmers and rural communities from federal, state and local governments to agribusinesses and trade associations. For example, legislators use the data when shaping farm policy and agribusinesses factor it into their planning efforts.

“In 2007, U.S. farmers reported over 2 million farms, spanning across more than 922 million acres. This showed nearly a 4 percent increase in the number of U.S. farms from the previous census in 2002. These new farms tended to have more diversified production, fewer acres, lower sales and younger operators, who also worked off-farm. This telling information and thousands of statistics are only available every five years as a direct result of farmer responses to the census.

NASS will mail out census forms in late December to collect data for the 2012 calendar year. Completed forms are due by Feb. 4, 2013. Producers can fill out the census online via a secure website, www.agcensus.usda.gov, or return their form by mail. Federal law requires all agricultural producers to participate in the census and requires NASS to keep all individual information confidential.

For more information, visit www.agcensus.usda.gov. The Census of Agriculture is your voice, your future, your responsibility.