Farmland rental rates increase sharply for 2011, continued from page 1

The Cash Rental Rates for Iowa 2011 Survey is available online as a downloadable document; from the Ag Decision Maker website http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-10.pdf and from the ISU Extension online store at http://www.extension.iastate.edu/Publications/FM1851.pdf.

Other resources available for estimating a fair cash rental rate include the Ag Decision Maker information files Computing a Cropland Cash Rental Rate (C2-20) http://www.extension.iastate.edu/agdm/wholefarm/html/c2-20.html and Flexible Farm Lease Agreements (C2-21) http://www.extension.iastate.edu/agdm/wholefarm/html/c2-21.html. Both documents include decision file electronic worksheets to help analyze leasing questions.

2011 ACRE enrollment deadline nears

by Steven D. Johnson, farm and ag business management specialist, Iowa State University Extension, (515) 957-5790, sdjohns@iastate.edu

Farmers nationwide have until June 1, 2011, to sign up at their USDA Farm Service Agency (FSA) office for the annual Direct and Counter-Cyclical Payment (DCP) program. This is the same deadline to also enroll in the Average Crop Revenue Election (ACRE) program.

The ACRE enrollment is optional by FSA farm number with payments triggered by state-level, crop specific revenue losses. ACRE acts in place of the price-only based Counter-Cyclical Payment (CCP). The ACRE program is a much better revenue safety net than the price-only CCP if you have a combination of yield and price that results in low state and farm revenue.

Iowa farmers have only enrolled 16 percent of their base acres in the ACRE program to-date, according to FSA data. Once a farm is enrolled in ACRE, that farm stays in the program through the 2012 crop year and the farmer gives up 20 percent of the annual direct payment and loan rates for bushels on that farm are reduced by 30 percent. In summary, farmers can enroll farms by FSA farm number in the ACRE program and receive revenue protection based on a state-level, crop specific revenue guarantee.

Will Iowa farmers enroll additional farms in the 2011 ACRE program?

The probability of collecting a 2011 ACRE payment in Iowa seems remote based on current price forecasts for the 2011-12 marketing year which begins Sept. 1.

In February 2011, USDA projected the national average cash price for corn would be $5.60 per bushel and $13 per bushel for soybeans. These numbers could be updated in the May 11, 2011 USDA World Ag Supply and Demand Estimates (WASDE) report. With continued tight U.S. ending stocks forecast for both 2011 corn and soybean crops, ACRE payments in Iowa will be hard to trigger.

The 2011 ACRE projected revenue guarantee for corn in Iowa is expected to be $645 per acre. This uses a 169 bushel per acre average for the 5-year Olympic average yield times the 2-year average cash price of $4.48 per bushel times 90 percent. However, the state trigger can’t change by more than 10 percent from the 2010 guarantee which was $586.36 per acre. Thus, the 2011 projected guarantee is limited to no more than $58.64 per acre more than the $586.36 per acre 2010 revenue guarantee.

Using the 2011 ACRE revenue projected guarantee of $645 per acre, a combination of a low state yield and a low national average cash price would be needed to trigger a 2011 ACRE payment at the state level. Since Iowa is the largest corn producing state, the chance of this occurring isn’t likely.

Corn Example: Suppose in 2011, Iowa produces a final state corn yield equal to the 5-year Olympic average yield of 169 bushel per acre. The national average cash price for the 2011 crop would have to drop below $3.81 per bushel ($645/A divided by 169 bu/A) to trigger an ACRE payment at the state level. In February 2011 USDA forecast a national average cash price of $5.60 per bushel for the 2011-12 marketing year.

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Collecting a 2011 ACRE payment for soybeans is possible but not likely. The 2011 Iowa revenue guarantee increases to $479.50 per acre for beans using a 50.5 bushel per acre average for the 5-year Olympic average yield times a 2-year simple average cash price of $10.55 per bushel times 90 percent.

Soybean Example: Suppose in 2011, Iowa produces a final state soybean yield equal to the 5-year Olympic average state bean yield of 50.5 bushel per acre. The national average cash price for the 2011 marketing year would have to drop below $9.49 per bushel ($479.50/A divided by 50.5 bu/A). In February 2011 USDA forecast a national average cash price of $13 per bushel for the 2011-12 marketing year.

The potential for 2011 ACRE payments seems limited, especially in Iowa which leads the nation in both corn and soybean production. Should Iowa have a 2011 final state yield that is below the 5-year Olympic average yield, the likelihood is national prices would be higher. Thus, with tight U.S. ending stocks forecast for the 2011-12 crop marketing year, the probability of triggering 2011 ACRE payments seems quite low.

For ACRE analysis go to Iowa State University Extension's Ag Decision Maker site:
www.extension.iastate.edu/agdm/crops/html/a1-45.html
www.extension.iastate.edu/agdm/crops/html/a1-33.html

Financial management with high prices

by William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

Rarely do Midwest agricultural producers see above average prices for both grains and livestock at the same time. Even though prices of feed, seed and fertilizer are also at historical highs, many farm families will find themselves with more than the usual amount of cash left over in 2011.

Much has been written about financial management strategies when times are tough. In reality, the most important financial decisions are often made when times aren't so tough. As one ag lender said, "Most bad loans are made in good times." So how can farmers position themselves for the inevitable downturn?

Replace assets. Updating the machinery line and replacing equipment now will lower cash flow requirements in the future. It is possible to "live off depreciation" when margins get tighter. But don't invest in larger machinery unless you really need the extra capacity. And use equity dollars as much as possible.

Expand cautiously. Many farmers want to invest extra cash in land, but when everyone is looking to buy, prices rise rapidly. Buying land with 50 percent or more equity will help ensure that the payments will cash flow even under lower prices. The same holds true for livestock facilities. Highly leveraged expansion projects during high price periods often come on line just in time for lower selling prices. Borrowing to grow the business is acceptable, but keep the ratios in line.

Improve efficiency. Look for ways to invest in cost-saving technology. Innovations like automatic guidance systems and seed shut-offs save money in the long run. Improved feeding systems can cut waste and lower costs of gain.

Reduce debt. Look for the highest interest rate loans you have, and see if there is any penalty for prepaying principle. Reducing debt provides a guaranteed return on your investment, and leaves equity available for borrowing again in the future.

Fix interest rates. Current interest rates are low by historic standards. The small penalty charged for a fixed rate could look like a bargain in a few years.

Forward price production. Many grain producers who forward priced their products in 2010 felt cheated when prices soared at harvest time. But that was an exceptional year. Tight supplies could possibly lead to even higher prices, but you don't have to hit a home run if you get enough singles and doubles. Don't overlook opportunities to forward price livestock, too. Livestock Gross Margin and Livestock Revenue Pro-

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