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Grain farming profitability headed down

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As Iowa farmers go to the fields this fall to harvest large corn and soybean crops, they will be facing tight profitability prospects. In general, rising production costs and sliding crop prices are combining to create a profitability situation that farmers have not faced in recent years.

Corn

The situation is especially acute for corn where increased input costs like nitrogen fertilizer have pushed up the cost of production for the

2009 crop dramatically. Although production cost levels vary dramatically among farmers, it appears that costs for a typical cash rent farmer increased by about 25 percent over last year and about 50 percent over two years ago.

Figure 1 shows the increase in production costs per bushel for a cash rent farmer from the 2005 to the 2009 crop year. The various production cost components are shown to provide a visual perspective of their impact. The cost of production goes up in a stair-step fashion from one crop to the next. Also, production cost increases gradually during the year due to interest accruing on the production costs. The crop year is configured on a marketing year basis starting when the crop is harvested and extending until the following year's harvest (Sept. 1 to Aug. 31.)

Converting corn production costs per acre to costs per bushel allows us to compare the cost per bushel to the price of corn. Figure 2 shows the monthly average corn price in

relationship to the cost of production for each crop. Three farm cost situations are included. These include a farmer who owns all of the land (free of debt), a farmer who rents all of the land and a farmer where some is owned with moderate debt and some is rented.

For the 2005 crop and previous years, the margins were very tight for crop farmers, especially those with large amounts of cash rented land and high debt levels. Starting with the 2006 crop, corn price began to quickly move upward to new historic highs, peaking in the summer of 2008. Corn production costs followed this rise. Since the summer of 2008, corn price has been drifting downward and appears that it will intersect with the cost per bushel for the 2009 crop, resulting in a negative profit margin for many crop farmers.

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Handbook updates
 For those of you subscribing to the handbook, the following updates are included.

Custom Farming: An Alternative to Leasing – A3-15 (4 pages)

Seasonal Hog Price Patterns – B2-14 (4 pages)

2008 Iowa Farm Costs and Returns – C1-10 (12 pages)

Iowa Farmland Rental Rates 1994-2009 – C2-09 (1 page)

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Lower prices and higher costs may squeeze cash rents.....Page 3

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Soybeans

The situation for soybeans appears to be more positive. Figure 3 shows the increase in production costs per bushel for a cash rent farmer from the 2005 to the 2009 crop year. The various production cost components are shown to provide a visual perspective of their impact. Although costs have risen substantially, soybeans have

not been hit by high nitrogen prices.

As with corn, the 2005 crop and previous year, the margins were very tight for crop farmers, especially those with large amounts of cash rented land and high debt levels, as shown in Figure 4. Starting with the 2006 crop, soybean prices began to quickly move upward

Figure 1. Cash Rent Farmer Corn Costs (cost per bu.) (2005 to present)

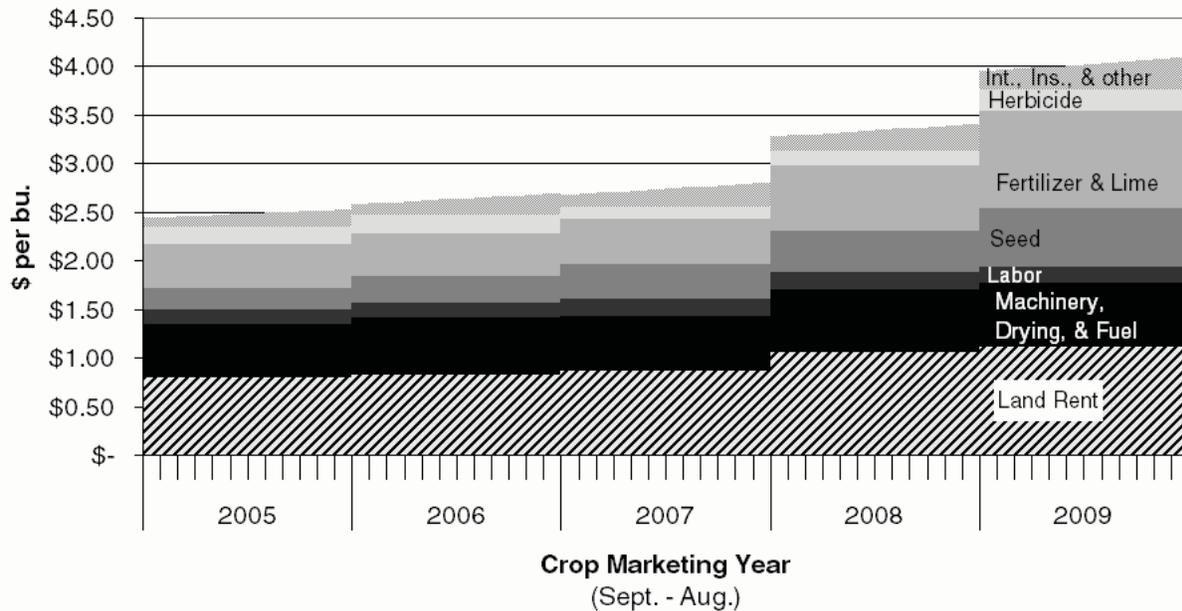
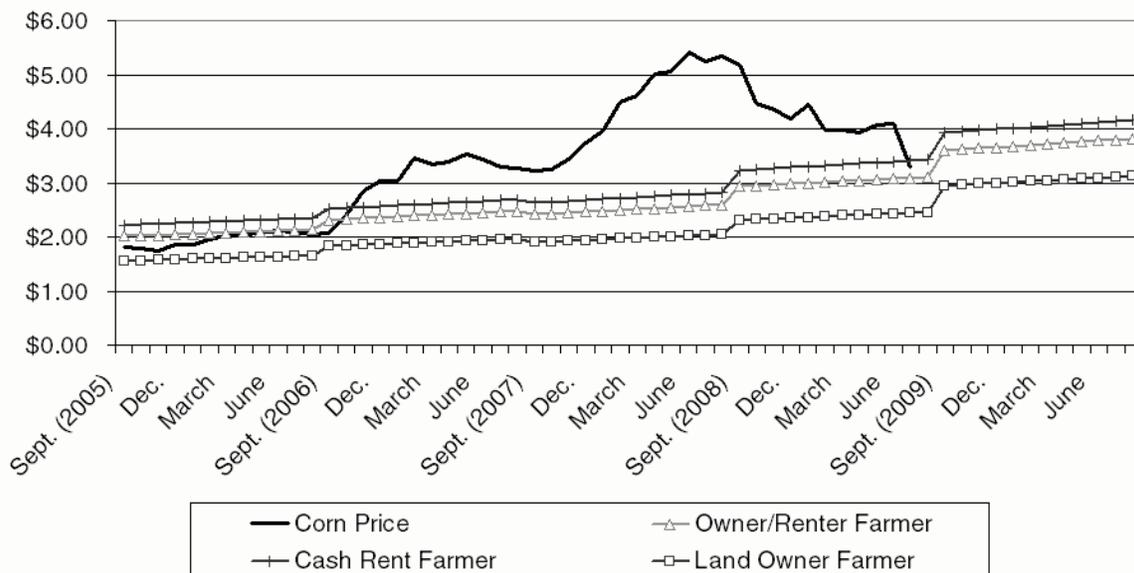


Figure 2. Corn Price and Production Costs (costs are net of govt. payments) (2005 crop to present)



Note: The cost breakeven increase for 2006 is from a reduction in government payments due to higher corn prices, not a sudden increase in corn production costs.

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to new historic highs, peaking in the summer of 2008. However, since the summer of 2008, soybean prices have stayed relative strong, dropping last winter but rebounding into this summer. Current soybean prices levels appear to provide a profitable picture for most crop farmers as they begin marketing the 2009 soybean crop.

Changes in “cost per bushel” from year to year may not correspond with changes in “cost per acre” because cost per bushel takes into account changes in yield from year to year (e.g. higher cost per acre may be offset by spreading those costs over more bushels from a higher yield, resulting in lower cost per bushel, and vice versa).

Figure 3. Cash Rent Farmer Soybean Costs (cost per bu.) (2005 to present)

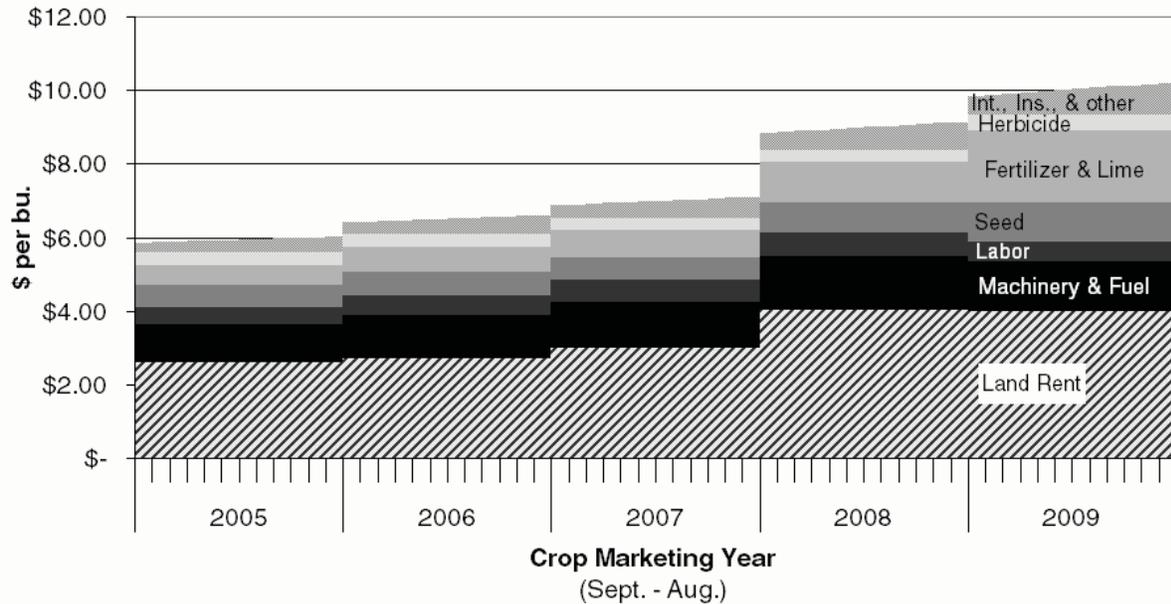
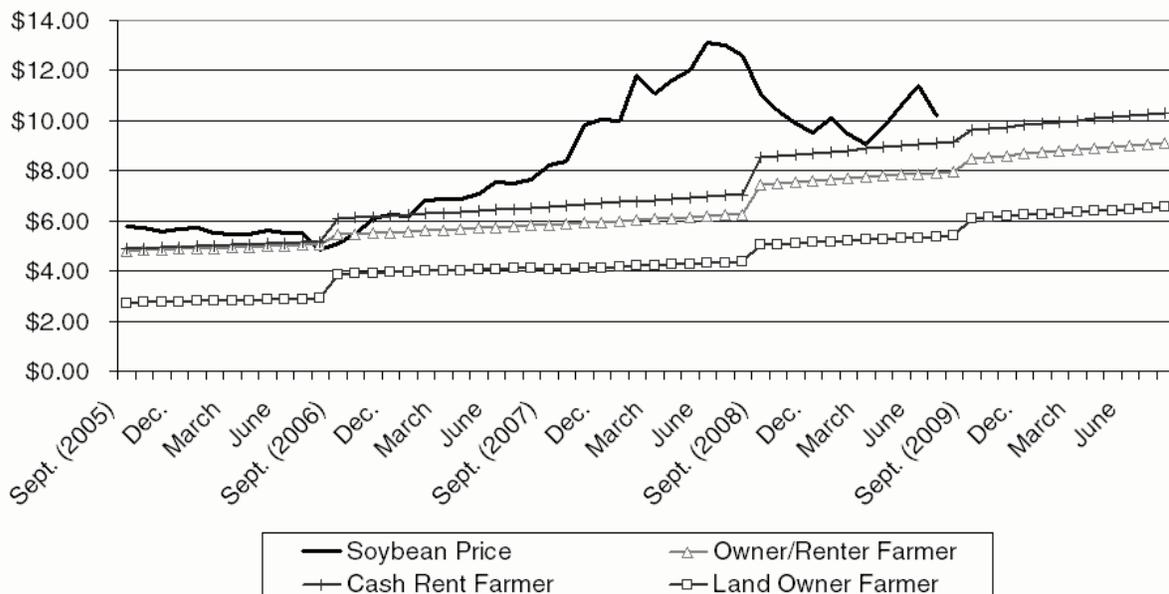


Figure 4. Soybean Price and Production Costs (costs are net of govt. payments) (2005 crop to present)



Note: The cost breakeven increase for 2006 is from a reduction in government payments due to higher corn prices, not a sudden increase in corn production costs.