



Managing 2012 Margins: Expect Costs to Increase and Prices to Decline

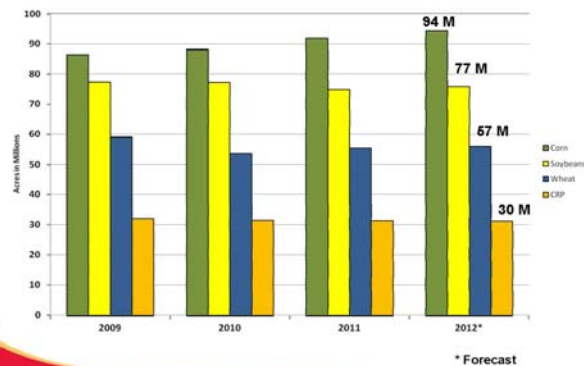
U.S. farmers are expected to increase planted acres for both corn and soybean acres in 2012. While USDA will not release their forecast until late February, the expectation is that over 6.5 million acres that were not planted or were flooded in 2011 are expected to be planted.

Corn acres are thought to increase to 94 million acres with increased corn-on-corn rotation. Soybean planted acres are expected to approach 77 million acres, as many farms benefit from drier winter conditions and more soybeans are double cropped behind winter wheat.

with a strengthening U.S. dollar due to the continuing European debt concerns, U.S. exports may not return to their 2010-11 marketing year levels. Corn and soybean prices for 2012 are expected to be lower than the \$6.40 per bushel national average cash corn price and \$11.60 per bushel cash soybean price estimates from USDA in the December 9th WASDE report for the 2011-12 marketing year.

Weather for 2012 will be difficult to forecast. With normal growing conditions in both the southern and northern hemispheres in 2012 and increased planted acres, ISU Extension Economist Chad Hart is forecasting \$5.25 per bushel national average cash corn price and \$11 per bushel national average soybean price respectively for the 2012-13 marketing year. That marketing year begins September 1st, 2012, and prices are weighted averages reflecting all bushels that will be sold over a 12-month period.

2012 U.S. Planted Acreage Forecast



IOWA STATE UNIVERSITY
Extension and Outreach

Source: USDA NASS & Johnson, ISU Extension, December 2011

Price Expectations

Depending on southern hemisphere production, global ending stocks in 2012 should increase with normal weather conditions in the U.S. and other areas of the northern hemisphere. In combination

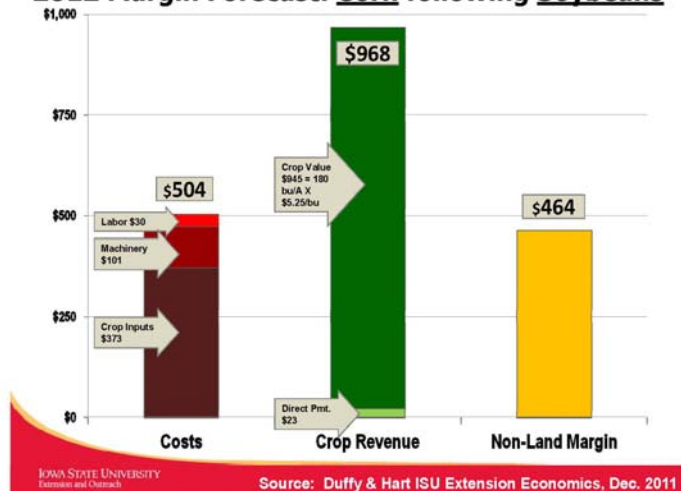
2012 Crop Cost Estimates

Each January ISU Extension Economist Mike Duffy releases Iowa crop cost estimates for a variety of crop rotations assuming conventional tillage and use of commercial fertilizer. Duffy uses farms enrolled in the Iowa Farm Business Association to draw past cost history, and then conducts a variety of interviews to come up with the year ahead cost estimates.

For 2012, Duffy anticipates non-land costs to increase around 5% for corn over those of 2011. Leading these cost estimates higher are fertilizer and machinery costs. Total non-land costs of \$504 per acre for a corn following soybean rotation and a medium yield of 180 bushel per acre are expected.

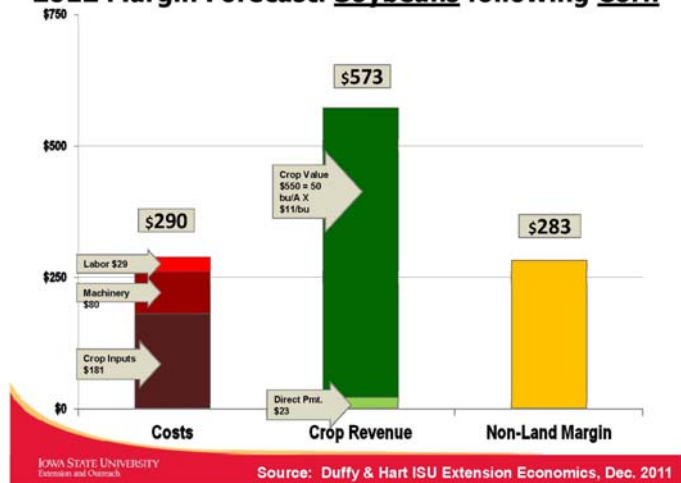
Assuming a direct payment of \$23 per acre plus the 180 bushel per acre yield times \$5.25 per bushel equals a \$968 per acre total crop revenue. The difference provides a non-land margin estimate of \$464 per acre. That estimate is nearly \$150 per acre less than was realized in 2011 using state average yields of 171 bushels per acre times that \$6.40 per bushel national average cash price.

2012 Margin Forecast: Corn following Soybeans



Duffy anticipates non-land costs will increase approximately 15% for a soybeans following corn rotation over that realized in 2011. Leading these cost estimates higher are fertilizer, seed and machinery costs.

2012 Margin Forecast: Soybeans following Corn



Total non-land costs for a soybean following corn rotation and a medium yield of 50 bushel per acre average yield are expected to be \$290 per acre. Assuming a direct payment of \$23 per acre plus the 50 bushel per acre yield times \$11 per bushel equals a \$573 per acre total crop revenue. The difference provides a non-land margin estimate of \$283 per acre. That estimate is \$50 per acre less than was realized in 2011 using the state average yield of 50.5 bushels per acre and the \$11.70 per bushel national average cash price.

Cash Rent Equivalent

Note the cash rent equivalent considered for calculating breakeven costs would be \$258 per acre for these medium yields considerations. For lower yields a \$220 per acre value and for higher yields a \$296 per acre cash rent equivalent. ISU Extension will conduct a statewide cash rental rate survey in March to determine these cash rental rates for various yield expectations and release the results in May. Those findings are broken down by county and the state's 9 crop reporting districts.

Conclusion

Managing the risks associated with compressed profit margins will be a challenge for many producers in 2012. Assuming normal spring planting conditions and normal summer weather may be difficult to imagine. Expect the likelihood that new crop futures prices will be higher in the spring months than were reflected during the winter months as they follow the typical seasonal patterns, especially corn.

Know your costs and estimate your own 2012 margins. Separate owned land from rented land in making these calculations. Consider use of revenue protection crop insurance coverage and the new trend-adjusted yield endorsement to increase your actual production history (APH) on your farms. Pre-harvest marketing strategies might include delivery of a large portion of these guaranteed crop insurance bushels. Another advantage of this strategy is that on March 1st, the projected prices for revenue protection products are known. Consider selling bushels for harvest or later delivery when December corn futures and November soybean futures are at or above these projected price levels.