

CROP MARKETING STRATEGIES

Managing Higher Crop Input Costs

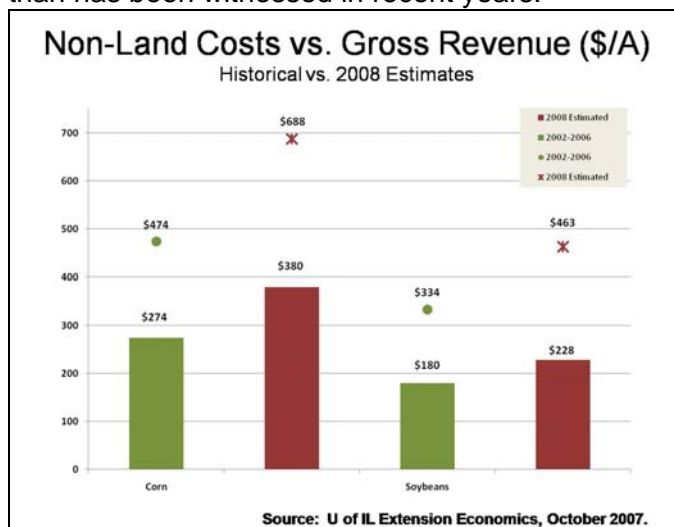
As farmers make plans for their 2008 crop rotations, the escalating cost for fertilizer, seed and fuel will weigh heavily on their decisions. Expect overall fertilizer costs to increase about 20% over 2007, with shortages this fall in some areas of the Western Corn Belt. Seed will not be in short supply in 2008, but expect seed corn to increase 5 to 10% and seed beans by a much smaller percentage. Fuel cost will likely be 20% higher in 2008, as crude oil trades at record highs approaching \$100 per barrel this fall, before the historic pattern of moving lower late this winter.

Comparing Costs and Margins

However, when comparing 2008 direct costs to those paid on average in 2002 through 2006, there is some optimism. Note below the actual direct costs of 1,300 farms in Central Illinois that produced corn and soybeans, and are enrolled the Farm Business Association. Direct costs are expected to go up 38% for corn and 27% for soybeans, comparing this 5-year baseline period to the 2008 forecast. This does not include land costs, which are expected to go up 25% during this same time periods. When subtracting direct costs for corn production during this 2002 to 2006 base period from the total revenue received, the difference is \$200 per acre. This is the amount needed to pay for land and provide a return to management. If cash rent was \$160 per acre, then about \$40 per acre would have been a return to management for corn production.

In 2008, the forecast for fall cash price is \$3.80 per bu., thus an increase in gross corn revenue totaling \$688 per acre, or 45% greater gross revenue. If cash rent increases to \$200 per acre in 2008, then over \$100 per acre would be a return to management, or more than 2½ times that was realized on average during the 5-year baseline.

The return to management for soybeans was barely breakeven on average from 2002 to 2006. However, in 2008 when soybeans with a forecast for fall cash price at \$8.50 per bu. occurs, a rapid increase in gross revenue of nearly 39% over the 5-year baseline occurs. If \$200 per acre cash rent is assumed, a return to management of at least \$35 per acre would be realized, a much higher profit margin for soybeans than has been witnessed in recent years.



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2008 Crop Price Outlook

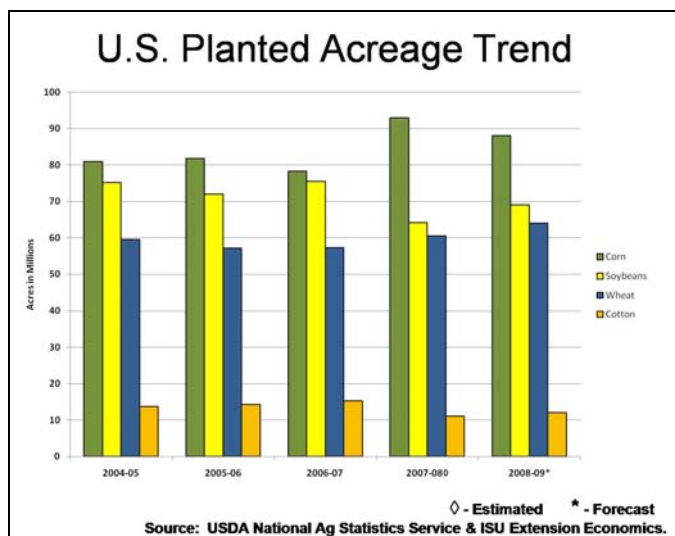
Crop price outlook looks promising for 2008, with new crop December corn futures expected to trade from \$4 to \$4.50/bu this late fall and winter. New crop November soybeans should maintain a roughly 2.3 to 1 price ratio to that of corn. New crop November soybean futures trading from \$9.20 to \$10.35/bu, respectively, during this same period. Producers can respond to higher input costs by making new crop sales at some of the highest new crop prices ever witnessed for both crops.

2008 Planted Acres

The “acreage war” is already underway as winter wheat was seeded this fall across many parts of the Western Plains and Eastern Corn Belt at record futures price. Expect continued price volatility to occur throughout the fall, winter and early spring months. While many producers will respond to high crop prices, others will respond to the risk of paying much higher crop input costs.

As noted in the chart below, prior to 2007 there was very little shifting of acres across the 4 major commodities; corn, soybeans, wheat and cotton. With an increase in corn plantings to 93.6 million acres nationwide, soybeans lost 11 million planted acres while corn gained over 15 million. Look for the trend to shift in 2008, as corn acres decline by approximately 5 million acres, while soybeans increase by this same amount. Wheat acres are forecast to increase slightly, while cotton stays nearly the same.

The uncertainty of planted crop acres will likely be impacted by a farm's cost of production and profit margin expectation. The likely spring planting conditions, summer weather forecasts and overall new crop futures prices will influence 2008 crop rotation and planting decisions. Perhaps not until next summer's June 30th USDA Planted Acreage Report will the mix of actual acres be known.



Should November 2008 soybean futures remain above \$9.50/bu. into late spring, expect a significant increase in double cropped soybeans planted immediately following the winter wheat harvest.

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Conclusion

The rapid increase in crop input costs in 2008 will influence producers' decisions for crop rotation. The large increase in U.S. corn planted acres in 2007 to 93.6 million acres, will likely decline by around 5 million acres. Soybean planted acres will likely increase in 2008 by roughly this same amount. Perhaps even more acres will be planted to soybeans following the harvest of winter wheat, but may depend on weather conditions and the level of the November soybean futures price.

Producers can respond to these higher crop input costs by making corn and soybean sales at some of the highest new crop prices ever witnessed. Appropriate crop insurance revenue products can be selected in 2008 as a compliment to these new crop sales in order to guarantee both yield and price.

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