



# Ag Decision Maker

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## 2012 crop input costs increase, along with profit margin opportunities

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

While most producers are concerned with their shrinking 2011 corn crop potential, keeping your focus on profit margins for 2012 is advised. Trying to pick the highest price and sell all your crops at that price seems futile.

Besides, it's net revenue; yield times prices minus total costs

that will determine if you made money from your corn and soybean crops.

Consider making consistent pre-harvest sales with the consideration of your 2012 profit margins. While input costs are expected to rise, plugging in 2012 harvest prices available today is already providing attractive margins.

increase approximately 15 percent over those realized in 2011; led by higher fertilizer, fuel, seed and crop protection costs.

Iowa State cost estimates are made by crop rotation and displayed as four different categories; land, crop inputs, machinery and labor. Figure 1 is for a corn following soybean rotation and three different yield expectations: 160 bu./A, 180 bu./A and 200 bu./A. Costs are then assigned based on these expected yield levels.

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### Handbook updates

For those of you subscribing to the handbook, the following new update is included.

**Monthly Swine Farrow to Finish Returns (10 year summary)** -- B1-31 (2 pages)

**Monthly Cattle Feeding Returns (10 year summary)** -- B1-36 (2 pages)

**Iowa Farmland Rental Rates (USDA)** -- C2-09 (1 page)

Please add these files to your handbook and remove the out-of-date material.

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### 2012 cost estimates and profit margins

ISU Extension economist Mike Duffy released early estimates for 2012 crop costs in July to assist farm operators and landlords in cash rent negotiations. Iowa has a Sept. 1 farm lease termination deadline to make changes for the following crop year, much earlier than most states.

Duffy's expectations are that non-land costs for 2012 will

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These particular cost estimates are for a corn-following-soybean rotation for conventional tillage. Note that increasing yield expectations also carry a higher cash rent equivalent – values that range from \$222 to \$296 per acre.

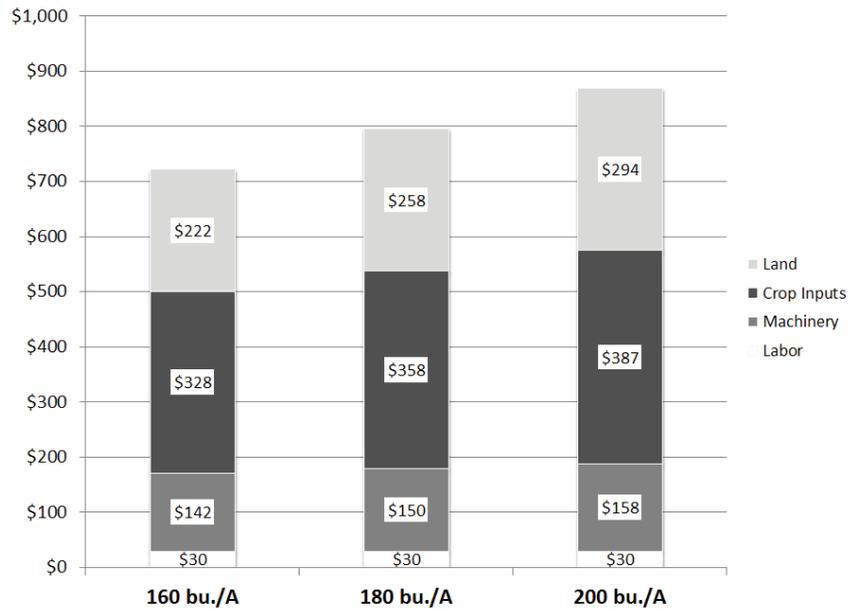
Using the middle column of this bar chart (180 bu./A corn yield) would have a total cost estimated at \$796 per acre or \$4.42 per bushel. Note that the cash rent equivalent used was \$258 per acre and serves to help estimate the cost for producing 180 bu./A corn in 2012. The marketplace will set the Iowa cash rental rates on tillable farmland. ISU Extension conducts a cash rental rate survey each spring.

Many cash rental rates for 2012 are still being established between landlords and tenants. An August report from a private survey of professional farm managers in Iowa, Minnesota and Illinois found that \$400 cash rents will be commonplace in 2012 on highly productive land. Increases of 10 percent to 20 percent were thought to be common, depending on when the lease terms were established.

Many farmers own their land or have multi-year land rental agreements. Some have already “locked in” fertilizer for application this fall at prices much lower than those available today. Farmers who control the land and have fertilizer prices “locked in” have already established two of the largest and most important crop production costs for 2012. These two prices added together for land and fertilizer likely represent nearly 50 percent of the total costs.

The ability to now “lock in” a cash sales price on a portion of the 2012 crop has the potential for a positive margin. With December 2012 corn futures

**Figure 1. 2012 Cost Estimate: Corn following Soybeans**



Source: Duffy, ISU Extension Economics, July 2011

trading over \$6.65 per bushel in late August, a harvest cash price of \$6 per bushel is available at many elevators, processors and river terminals in the Corn Belt. A comparison of crop costs, crop revenue and margin per acre can now be made.

The assumption in Figure 2 is that cash corn prices average \$6 per bushel. Using the 180 bu./A yield estimate and a direct payment from the government of \$23 per acre, the crop revenue totals over \$1,100 per acre. The margin is calculated by subtracting the total costs of \$796 per acre from this \$1,100 crop revenue. The difference is over \$300 per acre and more than 38 percent return above the total costs.

Those farmers who are margin managers will likely tie production and pricing decisions together for 2012. 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 corn in 2012.

Additional considerations might focus on hedging corn futures versus committing a larger number of bushels to delivery usually through the use of forward cash or hedge-to-arrive contracts.

2012 crop input costs increase, along with profit margin opportunities, continued from page 2

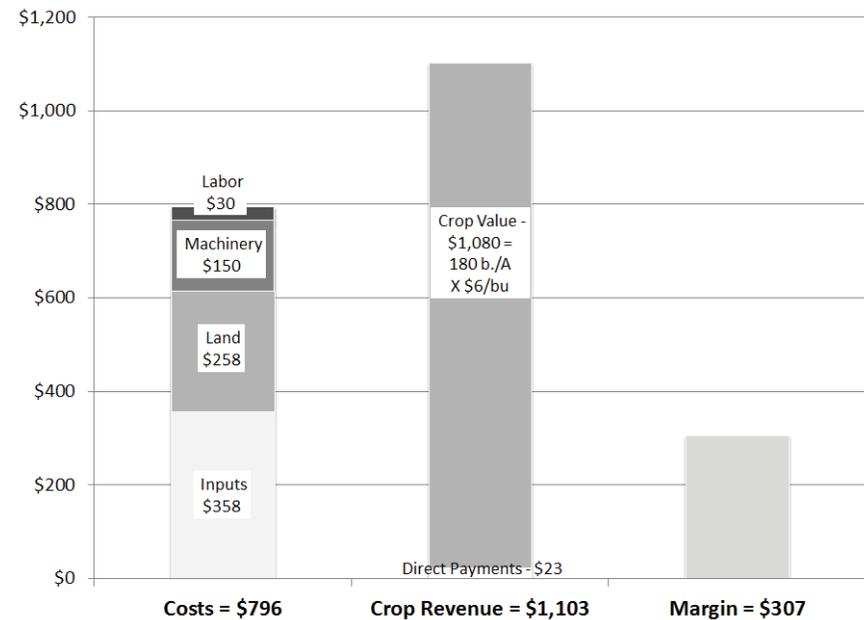
Also the use of crop insurance products to be used in 2012 should be a consideration. While the projected price will not be determined until the month of February 2012, the use of revenue protection (RP) at higher levels of coverage (75 percent or greater) should be considered.

**Conclusion**

Managing margins is nothing new to row crop farmers, but the increased risk of these high crop prices is that they might lead to a decrease in demand; a very real concern for 2012. While nearby 2011 corn futures prices approach \$8 per bushel, you can expect demand to decline, especially the demand for corn fed by U.S. livestock producers. This demand could be slow to

return in the short run and have a negative impact on 2012 price prospects.

**Figure 2. 2012 Margin Estimate: Corn following Soybeans**



Source: Duffy & Johnson, ISU Extension Economics, July 2011



**Road safety: a shared responsibility**

By Charles Schwab, Agricultural and Biosystems Engineering, [cvschwab@iastate.edu](mailto:cvschwab@iastate.edu); Willy Klein, Extension Communications and External Relations, [wklein@iastate.edu](mailto:wklein@iastate.edu)

Getting harvest from the field to market can be dangerous work, but doing it in traffic on Iowa’s highways and county roads extends the hazards to other drivers and their passengers. Conditions creating additional risks on Iowa roadways during harvest are drivers who don’t understand how to avoid collision with agricultural equipment, those who are driving distracted and heavier than normal traffic on rural highways due to flooding and construction detours.

Highway safety is a shared responsibility for both the motor vehicle operators and agricultural equipment operators. Both have reasons and rights to be on those roads.

Agricultural equipment operators need to remember that vehicle drivers, especially those rerouted to rural highways, may not have the necessary understanding to avoid collision with agricultural equipment: how to approach a slow moving vehicle (SMV), left turns of equipment and how to pass oversized equipment and unique shapes of combines. Operators of agricultural equipment are reminded to make sure all SMV emblems are properly mounted, not faded, and to always signal before making turns.

Motorists may be unfamiliar with the outlines of farm equipment, especially at dusk when operators are returning from fields or moving between fields. Unfamiliarity can cause a split-second delay in reaction that, in many cases, can lead to a collision.

Road safety: a shared responsibility, continued from page 3

Proper lighting and marking for farm vehicles is only half of the solution. Motor vehicle drivers also must be attentive, watch for farm traffic and heed the signs especially in the weeks ahead.

Motor vehicle operators need to be patient, show understanding and not drive distracted – rushing and not paying attention to the road causes opportunities for collisions. It is important to understand the issue about coming upon a SMV when traveling at a high rate of speed.

**Defensive driving tips for rural roads**

Defensive-driving tips for rural roads this fall:

- As soon as you see a slow-moving vehicle (SMV) emblem, brake as if you were approaching a stop sign.
- Look for hand or turn signals from the farm vehicle operator, indicating a left turn.
- When passing, make sure you can see the farm vehicle in your rearview mirror before you get back in your lane.

While farm tractors and other farm equipment comprise a small percent of total motor vehicles nationally, the percentage of fatal motor vehicle collisions involving farm equipment is almost five times higher than other vehicle collisions. In

crashes involving farm vehicles, the farm vehicle operator was killed nearly twice as often as an occupant of the other motor vehicle.

The most likely types of collisions are left-turn and rear-end collisions. The left-turn collision happens when the farm vehicle is about to make a wide left turn and the vehicle behind begins to pass. The second most common incident is the rear-end collision, where another vehicle approaches farm equipment and is unable to slow down to avoid a collision. This happens because of large difference in travel speeds of these two types of vehicles.

Vehicle drivers must stay alert, especially in areas where rural roadways are experiencing heavier than normal traffic due to flooding and construction detours. Higher speeds used on rural roads, changeable conditions and a variety of traffic all contribute to injuries. Motorists must stay attentive and watch for farm traffic, which can be difficult to spot, recognizing it travels at much slower speeds than normal traffic.

Remember that agricultural equipment operators in these areas will be limited in their ability to use the shoulder as they move down the road, since shoulder conditions could have changed considerably this summer because of flooding (washed away, weak or steeper than before).



**New publication helps farmers use data for tractor selection**

*by Dana Petersen, Farm Energy Conservation and Efficiency Initiative, 515- 294-5233, petersen@iastate.edu; Mark Hanna, extension engineer, 515-294-0468, hmhanna@iastate.edu*

**E**yeing a new tractor? Your fleet of farm equipment represents a significant capital investment, second only to land in many farm businesses. Likewise, tractor operations represent a significant portion of annual on-farm fuel costs. A new publication from Iowa State University Extension discusses tractor test data to consider when leasing or purchasing a tractor.

“Fuel Efficiency Factors for Tractor Selection” (PM 2089O) is available to download from the ISU Farm Energy Initiative at <http://farmenergy.exnet.iastate.edu>.

“During the decision making process, tractor test data can be used to evaluate drawbar power and to estimate fuel consumption,” said Mark Hanna, ISU Extension agricultural engineer. “For example,

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New publication helps farmers use data for tractor selection, continued from page 4

before purchasing a larger or heavier tractor, consider that at least seven percent of tractor power is commonly required just to overcome rolling resistance created by the tractor's weight."

This publication illustrates the most relevant data that is available to estimate tractor fuel efficiency before purchasing a new tractor. Test measurements include drawbar load tests, lift capacity, hydraulic power and power and fuel use during power-take-off (PTO) operations. Tractor test data for tractors manufactured in the U.S. is available from the Nebraska Tractor Test Laboratory (NTTL) at the University of Nebraska-Lincoln.

"If you're considering adding new equipment to your fleet before harvest begins, the tractor

test data can help you compare newer and older models effectively," said Dana Petersen, ISU Extension program coordinator with ISU Farm Energy. "Seeking the best tractor to suit your operation can reduce costs by conserving fuel."

The Farm Energy publications are part of a series of farm energy conservation and efficiency educational materials being developed through the ISU Farm Energy Initiative. These publications address a variety of energy efficiency topics for farmers and raise awareness of on-farm energy conservation.

For more tips on energy efficiency around the farmstead, visit the website or follow @ISU\_Farm\_Energy on Twitter.



## Harvest crop insurance reminder checklist

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

The 2011 growing season saw extreme weather conditions that will likely result in yield variability even within a field. Harvest projected prices are determined in the month of October by using the average futures price for December corn and November soybean. These final projected prices will be watched closely as they have the potential for increasing final indemnity payments.

It is estimated that 90 percent of Iowa's row crops are covered by crop insurance in 2011. Most producers use farm level policies such as Revenue Protection (RP) or Yield Protection (YP). Special attention to detail prior to and during harvest is recommended.

Always practice good communication skills with your crop insurance agent.

Consider these reminders to maximize your potential indemnity payment:

- 1. Any old crop grain still stored on-farm should

- be measured by an adjuster prior to harvest.
- 2. Notify your agent before destroying or chopping corn for silage.
- 3. Contact your agent within 72 hours after discovering damage to a crop.
- 4. Keep production records so that yields for each unit can be separated.
- 5. Mark production records including yield monitor data and scale tickets by unit, farm name or specific reference.
- 6. Keep track of feed records for production that is being fed.
- 7. Report your actual production history (APH) for each unit to your agent immediately following harvest.

Should you have questions, notify your crop insurance agent.

Source: USDA Risk Management Agency and private industry sources, August 2011.

Updates, continued from page 1

**Internet Updates**

The following information files and tools have been added or updated on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

**Beef Cow Joint Agreements** -- C2-36 (4 pages)

**Beef Cow Share Agreement Analysis** -- Decision Tool

**Current Profitability**

The following tools have been updated on [www.extension.iastate.edu/agdm/info/outlook.html](http://www.extension.iastate.edu/agdm/info/outlook.html).

**Corn Profitability** -- A1-85

**Soybean Profitability** -- A1-86

**Ethanol Profitability** -- D1-10

**Biodiesel Profitability** -- D1-15

**Returns for Farrow-to-Finish** -- B1-30

**Returns for Weaned Pigs** -- B1-33

**Returns for Steer Calves** -- B1-35

**Returns for Yearling Steers** -- B1-35

**... and justice for all**

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