Farm and Ranch Management

Tight crop margins to continue

DON'T expect higher corn and soybean prices this fall, according to a survey of farm managers, ag lenders and others attending the recent 89th annual Iowa State University Soil Management and Land Valuation Conference. Over 280 farm managers, rural appraisers, real estate brokers, ag lenders and others attended. And 191 of them participated in the survey, which asked for their predictions for corn and soybean prices, land values and cash rent.

The survey respondents believe by November 2016, corn prices will be $3.75 and soybeans $9.44 per bushel. They predict Iowa cropland values will average $7,776 per acre in November 2016 and $7,572 in November 2017. The survey predicts land values and commodity prices for 2016, as well as estimates for future years.

A panel discussion of farm managers and ag lenders concluded that downward pressure on cash rents in Iowa will continue into 2017. Factors include low crop prices, financial stress on farmers, tighter lending conditions and lower land values. Low prices are likely to continue for the foreseeable future, unless something unexpected happens.

"Farmers need to lower their breakeven costs by making adjustments to their fixed and variable costs," says Wendong Zhang, an ISU Extension economist. "They can do that by focusing on ways to trim crop production costs without hurting yields, by negotiating lower cash rents, by controlling machinery and equipment expenditures, and by lowering family living expenses."

Spending adjustments needed

Participants agreed that adjustments need to be made in farmer spending, there will be more cash flow and income statement problems, and the need to communicate with landlords is greater than ever. Tenants who are heavily leveraged and cash-rent most of the land they farm have the greatest risk of financial problems.

Cash rents move in the same direction as land values, and both are connected to crop prices, production costs and net profit per acre. But cash rents tend to lag behind changes in farm income, notes Zhang. One reason is because farmers generally hesitate to give up rented land for fear they'll never get it back. Some farmers are willing to subsidize rented land with cash reserves. That can't continue for an extended period of time.

The panelists explained why they don't foresee a repeat of the 1980s farm crisis, but they emphasized that changes need to be made in financial management by farmers in 2016 and the next few years.

The challenge is a cash flow shortage driven mainly by the high cost of production, including high cash rent, machinery and equipment investments, and living expenses. The current downward cycle in the ag economy is different from the 1980s, the panel said. That situation was driven by high land prices, high levels of debt relative to asset values, and high interest rates and variable-rate loans. Loan requirements now are more stringent. Another difference is crop insurance is available today that provides greater coverage and financial protection as a risk management tool.

Presentations also were made on climate change, soil conservation and water quality. See *register.extension.iastate.edu/smlv/presentations.*

Source: Iowa State University

Farm and Ranch Management

Profits down in north-central ND

BRIGHT SPOT: Field pea was one of the most profitable crops in north-central North Dakota last year, but overall farm profit margins declined significantly.

BY **AL GRANER**

Key Points

- Average profit margins were down in north-central N.D. in 2015.
- Cow-calf enterprises, field pea, barley, sunflower were profitable.
- Numbers are from Farm Business Management participants.

AS has been the case in all regions of North Dakota, the north-central region saw a decrease in net farm income again in 2015, according to the annual report posted by the North Dakota Farm Business Management Program.

The report, consisting of data from 165 farms enrolled in the area Farm and Ranch Business Management Program, showed an average farm profit of $20,361. This was a 77% decrease from the 2014 farm profit number and a 93% decrease from the highs seen in 2012.

Gross farm income for the average farm in 2015 was $586,542, representing a decrease of $72,978 from 2014. Much of the decrease can be attributed to lower commodity prices received for crops, lower direct government program payments received due to the new farm bill and the continued increase seen in operating expenses. The average farm saw a decrease in working capital to $174,301, which is 30% less than seen in 2014.

The average farm consisted of 1,983 acres and 308 acres of pasture. This is also a slight decrease from the previous year. The average operator is 44 years old and has been farming for 19.8 years. Both the average age of the operators and their years in farming decreased slightly. This can be attributed to more beginning producers entering the industry.

Major crops grown in the area had mixed results. Leading the list of profitable crops for 2015 were field peas, barley and sunflowers. All remaining crops showed negative net returns on cash-rented acres. 2015 crop yields and net returns on cash-rented acres showed field peas had an average yield of 45.8 bushels per acre, slightly higher than the 45.3 bushels per acre produced in 2014. The average net return in 2015 was $86.06 per acre.

Barley had an average yield of 69.5 bushels per acre, which was lower compared to the 75.4 bushels per acre seen in 2014. Net returns for barley on cash-rented acres showed up at $60.30 per acre.

Sunflower (oil) showed an average yield of 16.87 cwt per acre in 2015 compared to 16.78 cwt in 2014, with a net return for the average producer at $7.14 per acre.

Hard red spring wheat had an average yield of 54.5 bushels per acre, which was 3 bushels lower than the 57.5 bushel yield recorded in 2014. The 2015 net return was a negative $28.51 per acre.

Soybeans had an average yield of 28.1 bushels per acre, which was lower than the 30.2 bushels per acre in 2014. Average net returns for soybeans came in at a negative $35.93 per acre.

Canola showed an average yield of 18.14 cwt per acre, slightly lower than the 19.82 cwt per acre shown in 2014, with an average return of a minus $29.07 per acre.

Cow-calf enterprises in the region again did show positive returns in 2015, although not at the levels seen in 2014. The average producer saw the gross margin — made up of beef calves sold, transfers out of the enterprise, cull sales, purchases, transfers into the enterprise and inventory change — total $918.83 per cow with a net return of $311.06 per cow. This was lower than in 2014, where the average producer had a gross margin of $1,343.62 with a net return of $664.38 per cow.

2015 still produced the second-highest gross margin and net return seen by cow-calf producers in history. Overall cost per cow for the average producer did see a decrease of 11% to $607.77 per cow, compared to $679.24 as seen in 2014. Much of the decrease was in direct expenses, other than feed costs. Backgrounding enterprises did see a decrease in returns to a negative 63 cents per cwt for the average producer compared to a net return of $78.36 per cwt in 2015. Most of the lower returns can be attributed to the higher cost of the calves entering into the enterprise and the lower prices received at the end of the backgrounding period.

The full north-central regional report can be viewed at *ndfarmmanagement.com* — click on "Reports" — or you may contact the local Farm Business Management Program serving your area. The Farm Business Management Program is sponsored by the North Dakota Department of Career and Technical Education. For more information on the program, visit *ndfarmmanagement.com* or contact Aaron Anderson, state supervisor for agricultural education, at 701-328-3179.

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Get your cut of wheat program payments

BY **LON TONNESON**

IN October, you should start receiving your share of about $150 million in safety net payments on wheat base acres from the 2015 crop year, says Andrew Swenson, North Dakota State University Extension farm management specialist.

However, some counties may not be eligible for payments due to high yields.

Here are eight things to know about the program payments:

■ The national average wheat price for the 2015 marketing year was $4.89 per bushel, compared with $5.99 in 2014. This is well below the reference price of $5.50, which was set in the 2014 Farm Bill and will trigger a 61-cent-per-bushel Price Loss Coverage payment rate.

■ About one-fourth of the 9.6 million wheat base acres in North Dakota are enrolled in the PLC program. Those acres will generate payments of 61 cents per bushel multiplied by a farm's wheat PLC payment yield multiplied by 85%. For example, the PLC payment calculation for a farm with 100 acres of wheat base and a 50-bushel PLC payment yield would be $2,592.50 ($0.61 payment rate x 50 bushel payment yield x 85% x 100 base acres). Actual payments will be somewhat less. The Budget Control Act of 2011 required the U.S. Department of Agriculture to reduce payments by 6.8% last year, and a similar sequestration of around 7% is likely this year.

■ About three-fourths of North Dakota wheat base acres are enrolled in the Agriculture Risk Coverage – County program. Whereas the PLC program considers only price, the ARC-CO program protects against revenue shortfall at the county level. Both prices and county yields are considered to determine the safety net and whether a payment is triggered.

■ The final 2015 average yield for all wheat grown in each county has not yet been released by the Farm Service Agency; however, there is preliminary information available for most of the counties. Based on this information, about one third of North Dakota counties will receive the maximum ARC-CO payment. "Depending on the county, the payment could range between $18 and $36 per wheat base acre.

■ About one-third of North Dakota counties will not receive a wheat ARC-CO payment because high yields in 2015 offset the low price and provided revenue above the revenue guarantee. However, the high 2015 yields should increase revenue guarantees and the likelihood of payments in future years.

■ About one-third of North Dakota counties should receive some ARC-CO payments on wheat base acres but less than the maximum payment.

■ Payments based on the 2015 crop year, will be made sometime after Oct. 1.

■ The increase in payments on wheat base acres only represents a partial safety net and is a fraction of the revenue lost in the marketplace due to low wheat prices.

NDSU Extension contributed to this article.