



*Profitable opportunities for 2013, continued from page 1*

equivalent cost is estimated at \$276 per acre, but keep in mind that yield expectations above 180 bushels will likely carry a higher rent.

Many cash rental rates for 2013 are still being established between landlords and tenants, despite the fact that the termination deadline for existing leases has passed. In Iowa, the deadline is September 1 for one party to serve a termination notice to the other party on a cropland lease.

Increases of 5 to 10 percent in cash rent for 2013 will likely be common on the more productive Iowa land. An upward limit on cash rents is expected depending on the impact of drought on yields and when the lease terms are established.

Many farmers own land and rent land with multi-year land rental agreements. Most locked in their fertilizer for fall application. Farmers who control the land and have fertilizer prices locked in have already established two of the largest crop production costs for growing corn in 2013. These two prices added together for land and fertilizer likely represent nearly 50 percent of the total cost to produce the crop.

### **Focus on profit margins**

The ability to now lock in a cash sales price on a portion of the 2013 crop has potential for a positive margin. With December 2013 corn futures trading over \$6.50 per bushel, a harvest cash price of above \$6 per bushel would be available at many elevators, processors and river terminals in Iowa. A comparison of crop costs, crop revenue and margin per acre can now be made and most farmers use five-year average yields as opposed to just one year.

Those farmers who are margin managers will likely tie production and pricing decisions together for 2013. 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 both corn and soybeans in 2013.

Additional considerations might focus on hedging new crop futures versus committing a larger number of bushels to delivery usually through the use of forward cash or hedge-to-arrive (HTA) contracts. Buying put options now means paying more for the time value reflected in the premiums. A strategy might be using forward cash contracts or HTAs for some of your early 2013 sales this fall and winter, then buying put options next spring on bushels you'd prefer not to commit to delivery.

### **Crop insurance coverage**

The use of crop insurance products for 2013 crops is a consideration. While the projected price will not be determined until the month of February, the use of a Revenue Protection policy at higher levels of coverage (75 percent or greater) is a likely choice for many farmers along with the use of the Trend Adjusted APH Yield Option.

Managing margins is nothing new to row crop farmers, but the increased risk of the high crop prices and missed opportunities in 2012 are on their minds. However, those high crop prices led to a decrease in demand for grain, a very real concern realized in 2012. As corn cash prices approached \$8 per bushel in August, demand for corn fed by U.S. livestock producers declined. This demand will be slow to return in the short run and will have a negative impact. Demand will be a key factor as to whether corn and soybean prices can climb to the extremely high levels in 2013 some analysts believe is possible.

While many farmers will remember the \$17 per bushel cash prices available for soybeans in 2012, very few bushels were actually sold at that price level. With expectations of larger planted soybean acres in South America for harvest in February/March of 2013, these high price levels might be a distant memory of another missed opportunity for U.S. growers. Of course, that assumes farmers in Brazil and Argentina don't run into weather problems.

# Census countdown begins for America’s farmers and ranchers

Contact Sue duPont, (202) 690-8122, Krissy Young, (202) 690-8123, National Agricultural Statistics Service

America’s farmers and ranchers will soon have the opportunity to make a positive impact on their communities by taking part in the 2012 Census of Agriculture. Conducted every five years by the U.S. Department of Agriculture’s (USDA) National Agricultural Statistics Service (NASS), the census is a complete count of all U.S. farms, ranches and those who operate them.

“It is important that all growers, state farmers, women farmers and ranchers respond,” says Mike Duffy, Iowa State University Extension economist. “Census information is your voice and helps to shape the farm future as farmers. The Census of Agriculture is the only opportunity to know the state of U.S. agriculture. The census data can be used for research projects, general information on trends, basis for policy decisions and a host of other activities. Farmers benefit from completing the census as completely and accurately as possible because the information is used in a variety of ways that can affect them directly. Agriculture, especially production agriculture, is changing dramatically. Every five years, farmers are given the chance to be sure we understand and know what is happening in agriculture. If we don’t know the true situation in agriculture, we have to rely on anecdotal evidence.”

“The census remains the only source of uniform, comprehensive agricultural data for every county in the nation,” said Renee Picanso, director of NASS’s Census and Survey Division. “It’s a critical tool that gives farmers a voice to influence decisions that will shape the future of their community, industry and operation.”

The census looks at land use and ownership, operator characteristics, production practices, income and expenditures and other topics. This information is used by all those who serve



farmers and rural communities from federal, state and local governments to agribusinesses and trade associations. For example, legislators use the data when shaping farm policy and agribusinesses factor it into their planning efforts.

“Your answers to the census impact farm programs and rural services that support your community,” Picanso said. “So do your part and be counted when you receive your form, because there’s strength in numbers that only the census can reveal.”

In 2007, U.S. farmers reported over 2 million farms, spanning across more than 922 million acres. This showed nearly a 4 percent increase in the number of U.S. farms from the previous census in 2002. These new farms tended to have more diversified production, fewer acres, lower sales and younger operators, who also worked off-farm. This telling information and thousands of statistics are only available every five years as a direct result of farmer responses to the census.

NASS will mail out census forms in late December to collect data for the 2012 calendar year. Completed forms are due by Feb. 4, 2013. Producers can fill out the census online via a secure website, [www.agcensus.usda.gov](http://www.agcensus.usda.gov), or return their form by mail. Federal law requires all agricultural producers to participate in the census and requires NASS to keep all individual information confidential.

For more information, visit [www.agcensus.usda.gov](http://www.agcensus.usda.gov). The Census of Agriculture is your voice, your future, your responsibility.



## Planning for the future with enterprise analysis

by *Kristen Schulte, farm business management specialist, Iowa State University Extension, [kschulte@iastate.edu](mailto:kschulte@iastate.edu), (563) 547-3001*

As the harvest comes to a close, planning for next year will begin with deciding desired crop mixes. Livestock producers will continue to determine profitability potential in the coming months based on feed inventory or availability and production output. Proper economic, financial and production (agronomic or efficiency) analysis is required to ensure long-term profitability of an operation. Closely analyzing the different activities in the business can be critical to determining the success of the whole business. Many businesses, especially farming operations, are comprised of several enterprises; that is, more than one commodity contributes to net revenue. These enterprises may compete, complement or supplement one another depending on the associated requirements of inputs such as capital, facilities, feed, land or labor.

Enterprise analysis helps to allocate the limited resources of land, labor and capital of an operation to specific enterprises to determine its profitability and contribution to the whole operation. Additionally, based on the contribution to whole farm profit and use of input resources, one can evaluate the proper enterprise mix for the operation. Enterprise analysis can also help to determine the desired selling price of a commodity or evaluate production practices and associated cost of production.

For example, if a farm has a 200 head beef feedlot, what is the appropriate crop mix and number of required acres to complement the beef feedlot? This decision may be based on feed requirements or providing adequate returns to the whole farm within restrictions of available labor and machinery. The appropriate mix may be based on capital and labor available. For example, forage crops require more labor hours annually than a corn enterprise; the availability and timing of labor and machinery may define the types of crops and associated acres chosen.

Another example is a producer raising specialty crops. Fruit or vegetable crops take a varying amount of labor, capital and land. Some vegetable and fruit crops can generate positive returns on a relatively small amount of acreage compared to conventional crops; however, these enterprises may, in turn, have higher labor or capital investment requirements. Therefore, if a producer has a small land base and ample labor availability, a specialty crop acre mix to effectively utilize labor and capital to generate returns can be determined from enterprise analysis.

Enterprise budgets are available through ISU Extension on Ag Decision Maker. Budgets are available for crops including conventional and organic corn, soybeans, oats and forage; pasture; and fruit and vegetable production. Livestock budgets are available for swine and beef production at various production stages, along with budgets for sheep and dairy production.

In each ISU Extension budget, a break-even price for the commodity produced is calculated. When comparing between enterprises, only variable costs, such as machinery fuel and repair costs, need to be included. Fixed costs do not need to be considered because they will remain the same regardless of which enterprises are selected. However, fixed costs, such as cost for land or buildings, should be included when evaluating an enterprise to determine break-even cost of production. Enterprise budgets also include receipts from the enterprise. Be sure to include all sources of revenue, including manure for a livestock enterprise or corn stalk bales for a corn enterprise. Subtracting variable costs from expected revenue calculates a net return over variable costs per acre or hour for each enterprise, which can be used as criteria for choosing among them for an adequate mix on a whole farm basis.

Planning for the future with enterprise analysis, continued from page 4

When evaluating enterprises, one should note that a snapshot of one production year may not be typical. Due to unusual growing conditions or crop rotations, one year may not be representative of the profitability of that enterprise. Therefore, an average of returns and inputs over time or a projection of long-term returns based on crop rotations may more accurately reflect potential profitability.

Enterprise budgets for crops and livestock are available online; however, individual farm factors such as availability to input suppliers and markets may affect costs and returns, so each farm should adjust the inputs to represent their own situation. Iowa State University budgets can act as a benchmark for average enterprises in Iowa or a starting place to make adjustments for analysis. Budgets are available on Ag Decision Maker, [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm), or by contacting your local extension office.

## Is Brazil the reservoir of future agricultural productive capacity?

by Daryll E. Ray, *Blasingame chair, Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and director, UT Agricultural Policy Analysis Center (APAC); (865) 974-7407; dray@utk.edu; and Harwood D. Schaffer, research assistant professor, APAC, hdschaffer@utk.edu; <http://www.agpolicy.org>*

**B**ack in 2001, we estimated that Brazil could bring 200 to 300 million acres of land into agricultural production—an area equal to the U.S. acreage involved in major crop production. Two years later, the USDA Foreign Agricultural Service (FAS) estimated that over time the potential added production acreage could be closer 420 million acres.

In our 2003 article describing the FAS report, we wrote: “The long-term trend suggests that this expansion would proceed at the rate of 3 to 4 percent a year, if current conditions continue to prevail. Significantly lower crop prices or higher cattle prices could retard the expansion of crop acreage, while high crop prices could accelerate the growth in crop acreage.”

“This growth is premised on three conditions: 1) the legalization of the production of GMO crops in Brazil; 2) the widespread adoption of high-yield crop varieties; and 3) improvement in the transportation infrastructure in Brazil that will lower the cost of getting agricultural crops to the port.”

Let’s look at this information once again, nearly a decade later. Crop prices this year are at record levels. Brazil has long since adopted the cultivation of GMOs and soybean yields match

or exceed those in the United States, depending upon weather. The only obstacle Brazilian farmers face is getting the crop from the field to international markets, though that will not always be a problem.

Thus, we were not surprised to read, in a series of three DTN articles by Alistair Stewart, that “record prices will prompt Brazilian farmers to plant soybeans on any available ground this season [note the word “season” not “year”], whether it be old pasture in the east of Mato Grosso, recently cleared scrub in the new frontier lands of the northeast, or land previously earmarked for corn in the south. As a result, soybean-planted area is set to rise for a fifth consecutive year—by 8 percent to 12 percent to 67 million to 69 million acres—forecasters say.”

And that is not all. If farmers in a number of areas are able to get the soybeans growing in time, they will be able to double-crop their fields with corn in late February. While corn yields in Brazil are well below those in the United States, a second crop of corn helps cover fixed costs, increasing already profitable margins per hectare. Those who are able have every reason to try to double-crop their fields.

*Is Brazil the reservoir of future agricultural productive capacity?, continued from page 5*

Though today's Brazilian corn yields are nowhere near those in the United States, that is unlikely to be the case in the long run. The current high prices will certainly drive investment in the research necessary to increase yields.

In addition to double cropping, Brazilian farmers have the option to rotate crops with cattle production, an option unavailable to most Iowa and Illinois farmers. In 2003, when we talked to a member of the FAS team that estimated the 420 million acres, he told us that the rotation of livestock and crops, particularly soybeans, accounted for a portion of the increased acreage the team had identified. That option is particularly attractive given the synergy between crop and livestock production.

In the last decade, Brazil has made some progress improving its transportation infrastructure, but with the huge increase in crop production, there is still a long way to go. However, once

again today's high prices are driving long-term investments in paving roads, extending railroads and improving port facilities, all with the goal of reducing transportation costs.

To us, all of this suggests that, for the foreseeable future, the world's ability to grow crops, lead by Brazil, will continue to run ahead of population growth, putting a downward pressure on crop prices. As suggested by the word "continue," this is indeed what has been happening over the decades, with the major geographical contributions to agricultural productivity varying over time.

However, there are those who believe that agriculture has entered a "new era." They argue that future agricultural supply and demand conditions will cause inflation-adjusted agricultural prices to reverse their historical patterns and trend upward in the years and decades ahead.

**In Memoriam:** We were saddened to learn of the death of Wendell Williams. Wendell had been an Iowa State University Extension associate working with the Farm Financial Planning Program since 1984. He played an instrumental role in extension's response to the financial crises of the 1980s. His open personality, generosity and his knowledge will be missed. A full obituary is available at: <http://www.turnerfuneralhomes.com/obituaries/Wendell-Williams3/>.

*Updates, continued from page 1*

**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

**Biodiesel Profitability** – D1-15

**Soybean Profitability** – A1-86

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

**Iowa Cash Corn and Soybean Prices** – A2-11

**Returns for Weaned Pigs** – B1-33

**Season Average Price Calculator** – A2-15

**Returns for Steer Calves** – B1-35

**Ethanol Profitability** – D1-10

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

**... and justice for all**

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