

Crop Production Costs

By Ray Massey

Let me state up front that the information contained here is plagiarized from the best sources I can find. Trying to come up with something original would be reinventing wheels.

Each year several entities try to estimate the cost of production for various crops. The University of Missouri Food and Agriculture Policy Institute (FAPRI) has one of the better budgets. Below you will see cost of production that are updates from the latest budgets published by FAPRI, along with some explanation of what I see happening that made me modify it.

Price per bushel. I increased FAPRI's corn price from \$3.15 to \$5.00/bushel; soybeans from \$7.90 to \$12.00. The new energy bill increased the ethanol mandate and that helped push up prices. There is a fair amount of talk about funds (non-agricultural investors) driving up the price of commodities. Undoubtedly they have increased the price some. At the current futures prices, a profit for almost anyone can be hedged. Anyone who thinks fund speculation is increasing commodity prices has more reason to forward price. If funds are driving up prices, when they finally get a sell signal, they will sell lots and you will see limit down days.

Fertilizer. I can't keep up with fertilizer prices. Every time I talk with someone they give me a higher price than the last person. I increased FAPRI's nitrogen price from \$.34/lb to \$.45; P₂O₅ from \$.38/lb to \$.42/lb. I have heard of higher prices but I just have a hard time putting them down in black and white. Fertilizer price increases are due mainly to increased fuel costs but some also to increased worldwide demand.

Fuel. FAPRI estimated diesel at \$2.70/gallon. I raised it to \$3.00 to reflect current farm delivered prices. Most indications are that prices will continue to be at or above \$3.00 for the rest of the year.

Insurance. FARMDOC has a website that gives crop insurance premiums for all counties in Missouri. I modified FAPRI's insurance estimate by selecting Saline County and pricing 75 percent Revenue Assurance – Base Price option. Crop insurance was high last year and is higher this year due to higher prices that the insurance companies must pay out should an indemnity be paid. There is no getting around the fact that high commodity prices drives up the value of all inputs and therefore all inputs, including insurance, rise in price.

Real estate charge. I left FAPRI's estimate of land charge alone but thought that I would point out that I recently have had more calls from landowners wanting to renegotiate rental rates than in my previous 15 years in extension. Rental rates are interesting because they change in a stair-step manner. A farmer might rent a field for the same rate for 15 years. Then something happens (like an heir taking over the land or news stories about the high price of commodities) and landowners

wake up and wonder if they should be getting more for their land. Frequently the increase being contemplated is not 10 or 15 percent but over 50 percent since the rental rate has been stable for so many years.

While every input is increasing in price, the price of commodities is rising even faster. I'm not sure I could go back far enough in the data to find income above all expenses greater than they currently are. Over \$300/acre expected income above expenses. Did I mention that tax bills went up this year also?

Projected 2008	Dryland	Soybeans
	Corn	
Yield, bushels	155	50
Price per bushel	5.00	12.00
Income per acre		
Primary crop	775.00	600.00
Net payments (fixed)	14.15	14.15
Total income per acre	\$ 789.15	\$ 614.15
Operating costs per acre		
Seed	60.00	36.27
Fertilizer	104.00	40.50
Crop protection	26.85	6.07
Crop supplies	1.00	1.00
Crop insurance	27.35	23.00
Custom hire and rental	4.50	0.00
Machinery fuel, drying, and irrigation energy	35.00	14.00
Machinery repairs and maintenance	18.74	11.25
Operator and hired labor	14.80	10.58
Operating interest	11.69	5.71
Operating costs per acre	\$ 303.93	\$ 148.37
Ownership costs per acre		
Farm business overhead	3.73	4.20
Machinery overhead	26.11	17.48
Machinery depreciation	35.82	22.09
Real estate charge	107.50	107.50
Ownership costs per acre	\$ 173.17	\$ 151.27
Total costs per acre	\$ 477.10	\$ 299.64
Income over operating costs per acre	485.22	465.78
Income over total costs per acre	312.05	314.51

Ray Massey
MasseyR@missouri.edu