



Revisions to the 2014 Crop Budgets Indicate Need to Conserve Cash

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Crop budgets for 2015 were originally released in July 2014. The 2015 Crop Budgets have been revised and are now available in the management section of *farmdoc* (see [here](#)). The major change has been a reduction in commodity prices. The June version had per bushel prices of \$4.20 for corn, \$10.50 for soybeans, and \$5.50 for wheat. The September version of the budgets have prices of \$3.80 for corn (a \$.40 per bushel reduction from July budgets), \$9.75 of soybeans (a \$.75 per bushel reduction), and \$5.00 for wheat (a \$.50 reduction). These new prices result in very low returns, and indicate the need to conserve cash.

Revised Budgets

The revised prices are based on prices on Chicago Mercantile Exchange (CME) futures prices during middle September 2014. Both corn and soybean prices have decreased since July. The price on the December 2015 corn contract decreased from around \$4.30 in July 2014 to roughly \$3.90 in mid-September 2014. The price of the September 2015 soybean contract decreased from \$11.40 in early July to \$9.70 in middle September. A factor causing these decreases are above average yields projected for harvest in 2014.

Table 1 shows revised budgets for corn and soybeans grown in central Illinois. Budgets for other regions are available on *farmdoc* (see [here](#)). Corn and soybeans yields are at expected levels, which are much lower than projected 2014 yields. The corn-after-soybeans yield is 199 bushels per acre and the soybean-after-corn yield is at 57 bushels per acre.

Total non-land costs are \$585 per acre for corn-after-soybeans and \$370 per acre for soybeans-after-corn. The projected 2015 costs are down from 2013 levels, but near the same as 2014 levels. As of yet, reported fertilizer, seed, and other prices do not indicate that 2015 cost levels will be less than 2014 levels ([farmdoc daily, September 16, 2014](#)).

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Table 1. 2015 Crop Budgets, Central Illinois -- High Productivity Farmland

	Corn- after- Soybeans	Corn- after- Corn	Soybeans- after- Corn	Soybeans- after-Two Years-Corn
Yield per acre	199	189	57	59
Price per bu	\$3.80	\$3.80	\$9.75	\$9.75
Crop revenue	\$756	\$718	\$556	\$575
ARC/PLC	20	20	20	20
Crop insurance proceeds	0	0	0	0
Gross revenue	\$776	\$738	\$576	\$595
Fertilizers	\$148	\$158	\$49	\$49
Pesticides	60	66	40	40
Seed	124	124	78	78
Drying	23	22	1	1
Storage	5	5	4	4
Crop insurance	27	27	18	18
Total direct costs	\$387	\$402	\$190	\$190
Machine hire/lease	\$11	\$11	\$9	\$9
Utilities	5	5	4	4
Machine repair	25	25	22	22
Fuel and oil	24	24	21	21
Light vehicle	2	2	1	1
Mach. depreciation	69	69	63	63
Total power costs	\$136	\$136	\$120	\$120
Hired labor	\$18	\$18	\$16	\$16
Building repair and rent	8	8	5	5
Building depreciation	7	7	11	11
Insurance	10	10	10	10
Misc	8	8	8	8
Interest (non-land)	11	11	10	10
Total overhead costs	\$62	\$62	\$60	\$60
Total non-land costs	\$585	\$600	\$370	\$370
Operator and land return	\$191	\$138	\$206	\$225

Return Projections

Operator and land returns are projected at:

\$191 per acre for corn-after-soybeans,
 \$138 per acre for corn-after-corn,
 \$206 per acre for soybeans-after-corn, and
 \$225 per acre for soybeans-after-two-years-corn.

Operator and land returns are at very low levels, with corn returns being \$300 per acre lower than average levels from 2009 through 2013 (see [here](#)). Average cash rents are near \$300 per acre. Cash rents at these levels would result in significant losses to farmers in 2015 if returns are at levels shown in Table 1.

Even 50-50 share rent arrangements would result in losses to farmers. A 50-50 arrangement has the land owner and farmer share equally in revenue and direct costs, with the farmer incurring all the power and overhead costs. Many of these arrangements have farmers pay an additional rent to the land owner. The current rate is around \$25 per acre. At the price, yield, and cost levels shown in Table 1, a farmer would have a -\$20 return under a 50-50 share rent arrangement.

These low returns suggest the need for farmers to conserve cash by:

1. Lowering or eliminating capital purchases. Only necessary machinery purchases should occur.
2. Lowering fertilizer and seed costs. These two costs represent a large share of non-land costs. It seems prudent to evaluate whether fertilizer amounts can be lowered and whether lower priced hybrids and varieties should be planted.
3. Lowering cash rents. If cash rents cannot be lowered, it may be prudent to no longer farm a piece of farmland. If return projections hold, significant losses in 2015 could cause the financial position of farms to deteriorate.
4. Reducing other cash flows. Evaluate whether other costs can be reduced and evaluate the level of family living expenditures that can be maintained.

Corn and Soybean Plantings

Budgets shown in Table 1 suggest that soybeans will be more profitable than corn. Soybeans-after-corn is projected at a \$206 return compared to \$138 for corn-after-corn (see Table 1). Corn typically is more profitable than soybeans in central Illinois. In lower productivity areas, soybeans likely will have more of a relative return advantage than is projected for central Illinois.

Current prices favor soybean planting over corn planting by a relatively large margin. Unless relative corn and soybean prices adjust, there could be large shift to more soybeans planting in 2015. Over the next several months, relative prices on futures exchanges likely will adjust as planting intentions become clearer.

Summary

Current futures prices are suggesting low returns for 2015. Given these low returns, farmers will need to adopt practices that conserve cash. Current price levels suggest that soybeans will be more profitable than corn.

Of course, returns projections could change. For example, it is highly likely that prices will differ from projections shown here. Supply and demand factors could change resulting in higher prices. Obviously, prices could be lower. Another large harvest in 2015 could result in lower prices than those shown in 2015 budgets.

In perspective, the low prices projected for 2014 and 2015 may be below the long-run average, just as the prices from 2010 through 2013 were above the long-run average. Swings in prices have occurred in the past, and are likely to occur in the future. These swings also cause swings in profitability. The long-run profitability of agriculture likely has not changed. Now a period of low returns likely is occurring, just as above average returns occurred from 2010 through 2013.

References

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