



Continued Downward Pressure on 2017 Cash Rent

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Recent USDA reports confirmed large corn and soybean crops for 2016 (see [farmdoc daily August 15, 2016](#)). Large 2016 production leads to low projected corn and soybean prices for 2017. Given low prices, projected 2017 returns will be very low. Even after substantial decreases in non-land costs, many farms will have projected losses in 2018 on cash rent farmland. For farmland with an expected corn yield of 200 bushels per acre, cash rents would have to be below \$218 per acre before farmers would be projected to have a non-negative return. A \$218 per acre rent is well below current, average levels of cash rents.

2017 Budget for Central Illinois High-Productivity Farmland

Table 1 shows 2017 budgets for high-productivity farmland in central Illinois. The first column is corn, the second is soybeans, and the third gives an average for corn and soybeans. These budgets represent projections for averages across many farms with high-productivity farmland. Historical values for these farms are summarized from Illinois Farm Business Farm Management (FBFM) data and made available in a publication entitled "[Revenue and Costs for Corn, Soybeans, and Wheat, and Double-Crop Soybeans](#)". Points concerning 2017 budgets are:

- A \$3.50 per bushel price is used for corn and a \$9.00 per bushel price is used for soybeans. Current bids on 2017 fall-delivery futures contracts form the basis for determining 2017 projected prices.
- The 200 bushels per acre yield for corn and 64 bushels per acre yield for soybeans are trend yields representing yields given average growing conditions.
- No revenue is included for Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) payments. Most acres in Illinois are enrolled in ARC at the county level (ARC-CO). ARC-CO benchmark prices continue downward, such that trend yields and budgeted prices will not result in 2017 ARC-CO payments for corn and soybeans. Payments shown in Table 1 are for 2017 production. If there are payments for 2017, they would be received in 2018. There could be ARC-CO payments received in 2017, but these will be payments associated with the 2016 crop.

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- Direct costs are budgeted at \$340 per acre for corn and \$160 per acre for soybeans. Direct costs include fertilizer, seed, chemical, drying and storage, and crop insurance. The \$340 budget price for corn continues a downward trend. Direct costs \$422 in 2014 and \$403 in 2015. Direct cost for corn are budgets at \$360 per acre for 2016. A \$340 per acre cost in 2017 would be \$82 per acre lower than 2014 costs. Soybean direct costs also have trended downward: \$202 in 2014, 197 per acre in 2015, with \$173 per acre budgeted for 2016. A \$160 direct costs in 2017 would be \$42 lower than in 2014.
- Power costs relate primarily to machinery and are set at \$115 per acre for corn and \$98 per acre for soybeans. Power costs for corn were \$132 per acre in 2014, with the 2017 budgeted value being \$17 below the 2014 value. Power costs for soybeans were \$117 per acre in 2014, with the 2017 budgeted value \$19 below the 2014 value.
- Overhead costs for 2017 are projected at \$65 per acre for corn and \$60 per acre for soybeans. Overhead costs have not changed much over time.
- Cash rents are set at \$245 per acre for 2017. Average cash rents for this productivity farmland were \$293 in 2014 and \$278 per acre. Cash rents are budgeted at \$268 per acre for 2016. The \$245 budgeted cash rent for 2017 is \$48 lower than the \$293 value in 2014. The \$245 value represents an average. There is considerable variability around these averages. Some rents are \$50 to \$75 per acre higher than these averages.

Table 1. 2017 Crop Budgets for High-Productivity Farmland in Central Illinois

	Corn	Soybeans	Average
Yield	200	64	
Price	\$3.50	\$9.00	
Crop revenue	\$700	\$576	\$638
ARC/PLC	0	0	0
Gross revenue	\$700	\$576	\$638
Direct costs	340	160	250
Power costs	115	98	107
Overhead costs	65	60	63
Non-land costs	\$520	\$318	\$420
Operator and land returns	\$180	\$258	\$218
Cash rent	245	245	245
Farmer return	-\$65	\$13	-\$27

Commentary on 2017 Budgets

Costs shown in the budgets in Table 1 are much lower than in recent years. If costs occur as projected, the \$520 per acre of non-land costs for corn would be \$97 per acre lower than the \$617 per acre costs in 2014. The \$318 projected non-land costs for soybeans would be \$60 lower than the \$378 cost in 2014. A \$245 per acre cash rent would be \$48 per acre lower than the \$293 per acre cost in 2014.

Even given these cost decreases, operator and farmland returns are projected to be very low. Operator and farmland return for a 50% corn – 50% soybean rotation is \$218 per acre (see Table 1). This means that a cash rent above \$218 per acre would result in a loss to the farmer. A \$245 per acre cash rent results in a -\$27 return to the farmers.

Low returns occur because of lower expected gross revenue (see [farmdoc daily August 2, 2016](#)). The 2017 projected prices of \$3.50 for corn and \$9.00 for soybeans are low compared to the prices from 2010 to 2013. Moreover, ARC-CO payments are projected to be \$0 in 2017, a reduction of levels associated with ARC-CO for many counties in 2015 and likely to be occurring in 2016.

Even given a substantial reduction in average cash rents, many farmers will be projected to have negative returns on cash rent farmland in 2017. Given current price projections, average cash rent levels would have to be below \$218 per acre before farmer returns are at \$0 per acre. A \$218 per acre cash rent would be a substantial decrease from current levels.

Summary

Even after substantial decreases in costs, more reduction in non-land costs and cash rents are needed if farmers are expected to have non-negative returns on cash rent farmland. High 2016 production leads to low prices which causing a further need to cut costs in 2017.

References

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