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Weekly Farm EconomicsHigh Cash Rents and Farmer Returns

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December 3, 2013

***farmdoc daily* (3):229**

Recommended citation format: Schnitkey, G. "High Cash Rents and Farmer Returns." *farmdoc daily* (3):229, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, December 3, 2013.

Permalink: http://farmdocdaily.illinois.edu/2013/12/high-cash-rents-farmer-returns.html

http://farmdoc.illinois.edu/podcasts/fefo/FEFO_13_22.mp3

An open question is: How long will it take before "high" cash rents are lowered? The answer to this question will depend on the willingness of farmers to sustain losses on "high" cash rent farmland. In this post, farmer returns are estimated for average and "high" cash rents. Farmers with average cash rents are projected to have marginal returns in 2014. Losses around $60 per acre range are projected to occur with "high" cash rents.

Calculation of Farm Returns

Table 1 shows estimates of 2014 operator and farmland returns for northern, central, and southern Illinois. Central Illinois is further divided into categories for high productivity farmland (195 bushel per acre expected corn yield) and low-productivity farmland (186 bushel per acre expected yield). Returns are calculated for the expected yields shown in Table 1, a corn price of $4.60 per bushel, a soybean price of $11.00 per bushel, and costs contained in the 2014 Illinois Crop Budgets (here). Rotations are 2/3 corn – 1/3 soybeans for northern and central Illinois with high productivity farmland, 1/2 corn – 1/2 soybeans for central Illinois with low productivity farmland, and 1/3 corn – 1/3 soybeans – 1/3 wheat-double-crop-soybeans for southern Illinois.

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Table 1. Projected 2014 Returns Under Different Cash Rent Levels.

Region	Expected 2014 Yields and Returns[1]			Average Rent		High Rent	
	Corn Yield	Soybean Yield	Operator and land Return	Cash Rent[2]	Farmer Return[3]	Cash Rent[4]	Farmer Return[3]
	Bu/acre	Bu/acre	$/acre	$/acre	$/acre	$/acre	$/acre
Northern	186	58	284	275	9	350	-66
Central-High	195	58	330	300	30	375	-45
Central-Low	186	53	284	275	9	350	-66
Southern	161	48	181	208	-27	283	-102

[1] Calculated from 2014 Illinois Crop Budgets using a $4.60 per bushel corn price and a $11.00 per bushel soybean price.

[2] See the September 10, 2013 FarmdocDaily article entitled 2013 Count Cash Rents: Levels, Variability, and 2014 Cash Rent Decisions.

[3] Operator and land return minus cash rent

[4] Average cash rent plus $75 per acre.

Returns include $20 per acre of revenue from a Federal commodity program. These are included under the presumption that some form of commodity program will exist for the 2014 year, perhaps in the form of a revenue program. All returns would be projected $20 per acre lower if these commodity program payments are not included in the following calculations.

Farmer Returns

In northern Illinois, the expected corn yield is 186 bushels per acre and the expected soybean yield is 58 bushels per acre (see Table 1). The operator and farmland return is projected to be $284 per acre. This is the amount that can be split between the farmer and the cash rent land owner.

Based on National Agricultural Statistical (NASS) cash rents, the average cash rent for northern Illinois is $275 per acre (see the *farmdoc daily* post entitled "2013 County Cash Rents: Levels, Variability, and 2014 Cash Rent Decisions" here for the equation used to estimate average cash rents). This average cash rent leaves a farmer return of $9 per acre ($284 operator and land return – $275 average cash rent).

At average cash rents, farmer returns are low or negative in all regions. Central Illinois with high productivity farmland has a $30 per acre farmer return, central Illinois with low productivity farmland has a $9 per acre farmer return, and southern Illinois has a -$27 per acre return

Many rents are $75 per acre higher than the average (see the *farmdoc daily* post entitled "2013 County Cash Rents: Levels, variability, and 2014 Cash Rent Decisions" here). At these "high" cash rents, farmer returns are negative. Northern Illinois has a -$66 per acre farmer return, central Illinois with high productivity has a -$45 per acre return, central Illinois with low productivity has a -$66 per acre turn, and southern Illinois has a -$102.

Commentary

Obviously, actual realization of 2014 yields, prices, and costs will cause results to vary from those shown in Table 1. While actual results will vary, the above provides an accurate portrayal of expected returns at the time of this post's writing.

In most cases, farmer returns at average cash rent levels will be marginal. "High" cash rents will result in negative returns. How quickly these "high" cash rents come down likely depends on the willingness of farmers to take losses on "high" cash rent farmland.

A farmer's willingness to sustain loses likely depends on a farm's land tenure and ownership positions.

Those farms most vulnerable to suffering large losses on a total farm basis have a large percentage of the acres cash rented (90% or higher) at high average cash rent levels (see *farmdoc daily* post entitled "Proportion of Farms with High Cash Rent Percentages and Levels" here). These farms may quickly face financial difficulties.

Many farms have a small proportion of their acres with high cash rents. These farms will be able to have overall positive financial results while still taking losses on farmland with "high" cash rents. In essence, other farmland will be used to subsidize the "high" cash rent farmland. It would be prudent for farmers to evaluate financial returns with and without "high" cash rent acres as part of their operations. Financial results may be improved if "high" cash rent are not farmed and the farm contracts in size.