

News Column

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Crop Budgeting in a Struggling Ag Economy

Rupert Murdoch once said "...we all know economists were created to make weather forecasters look good." Every year, the Kansas State University Agricultural Economics Department releases Farm Management Guides for a multitude of cropping systems across the state. These are specific to six regions across the state and can be a useful tool in making cropping decisions, especially in years when the agricultural economy appears to be struggling. In short, the projections are quite worrisome.

The 2017 Farm Management Guides were released in a new format. In fact, they are available in spreadsheet form so that producers can manipulate them with their own estimations readily. At a recent training, the new format was discussed and producers may find some of that information interesting.

First, the cost-return budgets are designed to estimate the 55th or 60th percentile producer, or slightly above average. Obviously this explains some producers concern that the guides are not representative of their operations. If a given producer is highly efficient in reducing costs, they would most likely be in a much higher percentile. Of course, the opposite is true as well.

Next, there was an in-depth discussion over where their cost estimates are derived. For their yield projections, a three year average of the National Ag Statistic Service (NASS) yields multiplied by 75% are calculated. The per bushel price estimates are derived by Grain Marketing Specialist Dan O'Brien, Northwest Kansas Ag Economist. Inputs costs like fertilizers are derived by surveying suppliers from across the state. For the field work line items, the Custom Rates survey data is used and the Risk Management Association (RMA) provides the estimated crop insurance costs.

The budgets have two distinct estimated returns once the income and expenses are derived: Return above direct expenses, and Return above specified expenses. Simply put, these two differ in that direct expenses are often categorized as variable costs (fertilizer, seed, fuel, etc.) and the specified expenses would also include both the direct expenses and fixed costs (land, depreciation, taxes, etc.).

The economists freely admitted that the costs on these guides should be considered an economic cost, not a cash cost. Cash costs are considered one-half to two-thirds of the economic costs. The difference between the two is most likely the dreaded opportunity cost, which is defined as the loss of potential gain from other alternatives (i.e. the farmer could have rented out his ground for someone else to farm).

How bad are the northwest Kansas projections? Well no surprise that wheat does not look promising. The guide estimates wheat in a rotation of either sorghum or corn to have a negative return to direct costs of -\$20.90/acre and -\$65.90/acre if fixed costs are included. But if the cash price estimate of two-thirds the economic costs is assumed, these numbers rise to a positive return of \$50.57/acre direct costs and \$5.57/acre for fixed costs respectively. This might be looked upon as an optimistic projection with an estimated yield of 52 bushels and a price of \$3.76/bushel.

A wheat-sorghum-fallow rotation projection shows a positive return to direct costs of \$39.40/acre but with a negative return to fixed costs of - \$5.60/acre. Once again, if a two-thirds price is supposed, these rise to \$116.14/acre and \$71.14/acre respectively. I couldn't help but notice that this estimated budget does not project an expense for spraying the sugarcane aphid.

The wheat-corn-fallow rotation projections show a return to direct expenses of a negative -\$11.35/acre with a further loss of -\$45.35/acre if fixed costs are included. The cash cost projection jumps these returns to positive \$127.79/acre direct costs and \$82.78/acre fixed costs.

A wheat-soybean-fallow rotation pencils out a return on direct expenses of \$39.96/acre with a negative return on fixed costs of -\$5.04/acre. The cash cost projection increases the returns to \$106.38/acre direct costs and \$61.38/acre fixed costs.

While it is not the most enjoyable task, producers need to contemplate their management decisions in times like these. Since these budgets are now in spreadsheet form, producers should consider using their own estimates to evaluate where their enterprise stands. These cost-return budgets can be found at www.agmanager.info/ in the purple header at the top click onto Farm Management Guides. If you have questions or would like more information, please call me at the (785) 628-9430, or e-mail me at scampbel@ksu.edu.