

A Challenge: Can You Make A Profit Selling Grain at the Loan Rate?

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If want to stay in business and compete either with your neighbors or with farmers in other countries, producing crops for the loan rate or less may be required. Can you do it in a year of average yields?

Most farmers will say that they can't produce corn for \$1.83 or soybeans for \$4.93 per bushel and make any money. These prices are the 2006 loan rate prices offered in Nobles County, Minnesota. Others are actually keeping their costs of production below the loan rate and still others are willing to think "outside of the box" and try to do it. It is almost a certainty that those who can consistently keep their yields high and their costs low will be the last ones standing as agriculture continues to sift out the least efficient.

In 2005, the average farmer in the Southwest Minnesota Farm Business Management Association (SWMFBMA) spent \$382 to produce an acre of corn on cash rented land. That includes \$350 of direct and overhead expenses and \$32/acre labor charge for operators' labor. For soybeans, the figure was \$284 per acre.

The 5- year average yield for the SWMFBMA has been 159 bushel/acre for corn and 45 bushel/acre for soybeans. Therefore, the total cost to produce one bushel of corn was \$2.20/bu. ($\$350/159$), and for a bushel of soybeans it was \$6.31 ($\$284/45$) for an average Association farmer using 2005 costs.

A typical corn producer will have to lower 2006 costs by 17% or about \$.37 per bushel or \$59.00 per acre to reduce the cost of production to the loan rate (\$1.83/bu.).

Soybean producers will have to lower 2006 costs about 22% or \$1.38 per bushel or \$62.50 per acre to reduce costs down to the loan rate (\$4.93/bu.).

Cutting costs is tough to do. Here is the breakdown of individual crop expenses and how much they make up of the total expenses of each crop. The data is from the SWMFBMA records projected for 2006.

Percentage Make-up of Production Cost

	Corn	Soybeans
Land	26%	37%
Fertilizer	15%	4%
Seed	12%	8%
Machinery Depreciation	6%	6%
Chemicals	7%	8%
Operator labor/living	7%	8%
Machinery/building repairs	6%	6%
Interest	3%	3%
Fuel	7%	5%
Hired labor	3%	3%
All other costs	8%	12%
Total costs	100%	100%

Cost per bushel is a function of costs and yield. A high yield at a given cost will give a lower cost per bushel, than a low yield at a given cost. So the two ways to lower the cost of production per bushel are to increase yield and/or lower costs.

Previous studies have shown that most of your management time should be spent focusing on the production (yield) side of cost of production. Increasing production has more impact of profit

than does cost cutting. Since, yields influence profits more than do costs, first priority should be given to improving yields.

Yield Increase Practices:

- Plant early. Early planted crops usually yield better.
- Select varieties for yield performance. Varieties, that cost the same, often have significantly different yields. Study your variety production records and study variety trials. Talk to others about good varieties. Lower risk by choosing several good yielding varieties. Follow the advice of your yield monitor.
- Farm well drained soils. When buying or renting, take the well-drained farm as it will significantly out yield wet farms nearly every year. Work with the landowner to install needed field drainage systems.
- Keep weeds under control. Weeds rob yield from crops. Find cost effective control methods.
- Narrow row widths. The narrower the row, the better the yield in most cases. Check University research. Consider going to narrow rows when making machinery trades. However, question if drilling is a real option. If you drill soybeans, you tend to have more white mold problems, and no option to cultivate if iron chlorosis or root rot problems develop. Drilling increases seed costs. In this low price environment, income gains from increased yields are lower and may not offset increased production costs.
- Control insect infestations as they develop or use insect resistant varieties maintain high yields.
- Use a good planter. A good even, controlled depth planting can greatly increase yields.
- Find a specialty crop that you can raise that will make more profit than corn or soybeans.

After yields have been cost effectively maximized, cutting costs should be the next priority.

Here are some ways to shave production costs. Most are quite conventional, but some are

not. We challenge you to come up with creative ways to cut your costs beyond what is listed here.

Reducing Costs:

- Share machinery. The cost of modern machinery makes it almost impossible to own a full line of machinery on an average sized farm. Cutting machinery costs by 30% will require a total investment of less than \$200 per acre. Sharing combines, planters and tractors among several farms may be the only way to utilize newer, high-tech, reliable machinery.
- Work resources harder. Consider double cropping, 24-hour/day-machinery use, leasing land for recreational uses when not in crop, covering more ground with your machinery, utilizing your labor force fully and productively when not engaged in crop production.
- Add more farmland to the operation. Spreading a given set of overhead costs (machinery, labor, family living costs, and interest) over more acres will reduce the overhead costs per acre.
- Cut fertilizer, chemical and seed costs. Soil test, figure marginal returns on each dollar invested, band apply chemicals, cultivate, use the rotary hoe, cut seeding rates, buy cheaper but equal performance varieties, negotiate to get some free or low cost livestock manure.
- Apply fertilizer with planter to reduce field time.
- Keep accurate records. You have to know what your costs are so you can appropriately cut costs which have limited or no impact on yields.
- Rent machinery by the day from an implement dealer for short-term usage. Or rent it by the day from your neighbor.
- Minimize drying costs. Plant early: if planting is delayed, consider shorter season varieties: check dryer efficiency: contract propane when low price is offered: leave corn in field longer to dry naturally.

- Cut machinery field time to reduce fuel and repair costs. Make fewer trips, use bigger equipment.
- Practice preventative maintenance on machinery. Treat machinery with “tender care”, do repairs yourself, select machinery known for few repairs, get your sister to marry a repairman, work out an agreement with handy neighbor to repair your machinery in exchange for whatever you do well, use lots of grease and oil. Make sure you allow only qualified/careful operators to run your equipment.
- Evaluate custom or leased options to reduce machine costs. If you can get it done well for less cost than owning it, do so. Evaluate short-term leases. Exchange work with a neighbor who can use his machinery on your ground. Lease a wheat combine for corn and beans when it is not in use in Montana.
- Do custom work with your machinery to cut ownership costs on your acres.
- Limit machinery purchases. Don’t buy it unless there is no other way to get the job done and it will pay for itself. Purchase less costly reconditioned equipment instead of new.
- Match tractor size to equipment size to maximize fuel economy.
- Utilize site specific technology to match fertilizer and chemicals only to areas where needed.
- Sell grain standing in the field to a livestock producer to eliminate harvest expenses.
- Harvest at higher moisture for livestock feed.
- Tolerate late weed escapes.
- Negotiate lower rent. Try to implement flexible rent with a base plus a bonus for higher yields or prices. Negotiate with landowner to put in tile on wet spots if they won’t budge on rents.
- Keep family living expenses at a minimum. Use a budget, limit family draws to so much a month and live with it. Don’t spend money on “wants”; spend only on “needs”. Secure scholarships/grants for college, manage all personal spending.
- Cut interest costs. Refinance high short-term rates at lower longer-term rates. Sell

unnneeded assets and pay off debt. Seek lower interest rate loans.

- Evaluate whether new technology like BT corn will pay off. If seed costs more than spraying, it may not be worthwhile.
- Do the spraying yourself rather than hiring it done.
- Evaluate cost effectiveness of spraying compared to cultivating.
- Band P & K, soil test and skip application if soil tests are high. Reduce N rates, side dress instead of over applying in the fall.
- Find a low cost source of manure to replace commercial fertilizer.
- Lease ground with corn residue to cattle producer after harvest to increase income and reduce amount of volunteer corn growing in soybeans the next year.

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