

Farm Financial Situation and Costs of Crop Production

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Issues Impacting Iowa Farmland Owners and Tenants for 2021
Webinar 8/25/20
ISU Center for Ag Law and Taxation

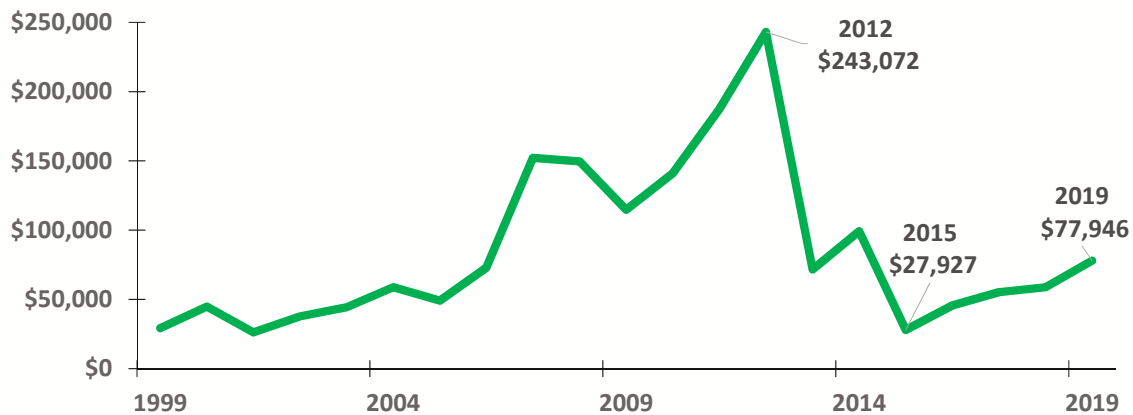
Overview

- Financial situation of Iowa farms in January 2020
- Projected costs in 2020
- Projected revenues in 2020
- Current trends for 2021

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Average Net Farm Income increased in 2019...

Mid-size Iowa farms with Gross Revenue > \$100,000
(accrual, not adjusted for inflation)

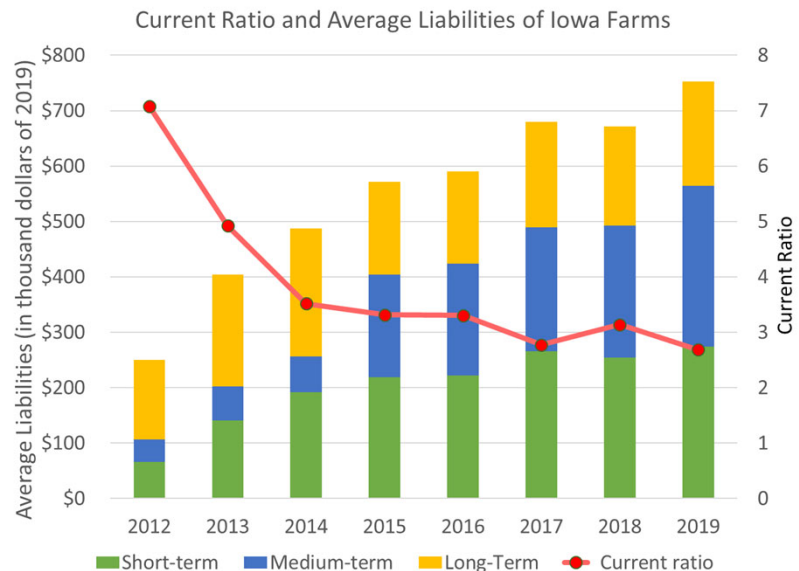


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Source: Iowa Farm Costs and Returns.
Ag Decision Maker File C1-10. Various years.
Based on data from Iowa Farm Business Association

...but non-real estate farm debt increased, and liquidity declined...



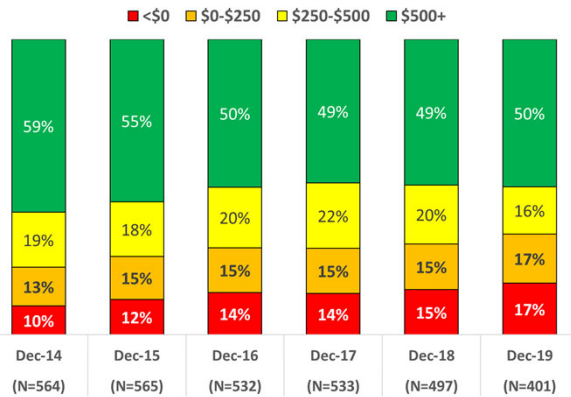
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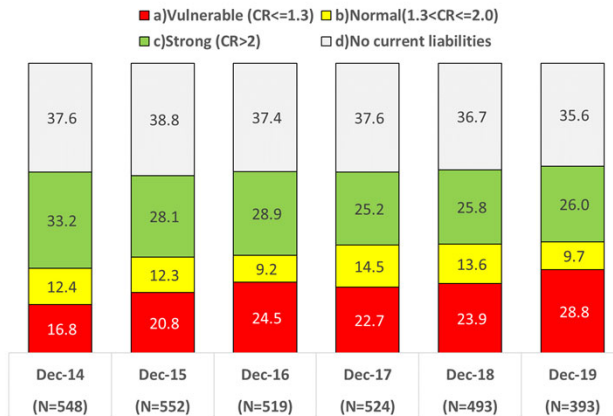
Source: Iowa Farm Costs and Returns.
Ag Decision Maker File C1-10. Various years.
Based on data from Iowa Farm Business Association

1 in 3 Iowa Farms had Weak Liquidity

Distribution of Working Capital per Acre



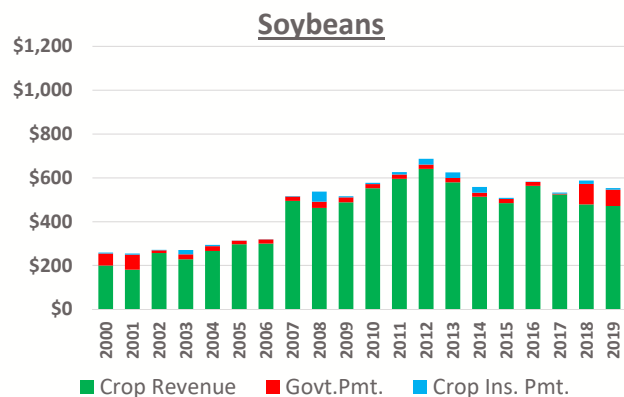
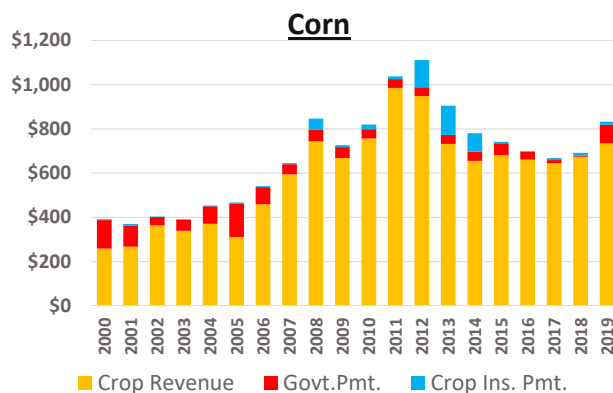
Percent of Farms by CR Status



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Source: Plastina, A. "Mixed liquidity results for Iowa farms in 2019." AgDM Newsletter, June 2020.

Average Gross Revenue per Acre increased for Corn but declined for Soy



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2019 Govt. Pmt. : tranches 1-3 MFP + CFAP 50% yield+ 2018/19 ARC-CO
Crop revenue=Oct-Dec price received by Iowa farmers X Yield

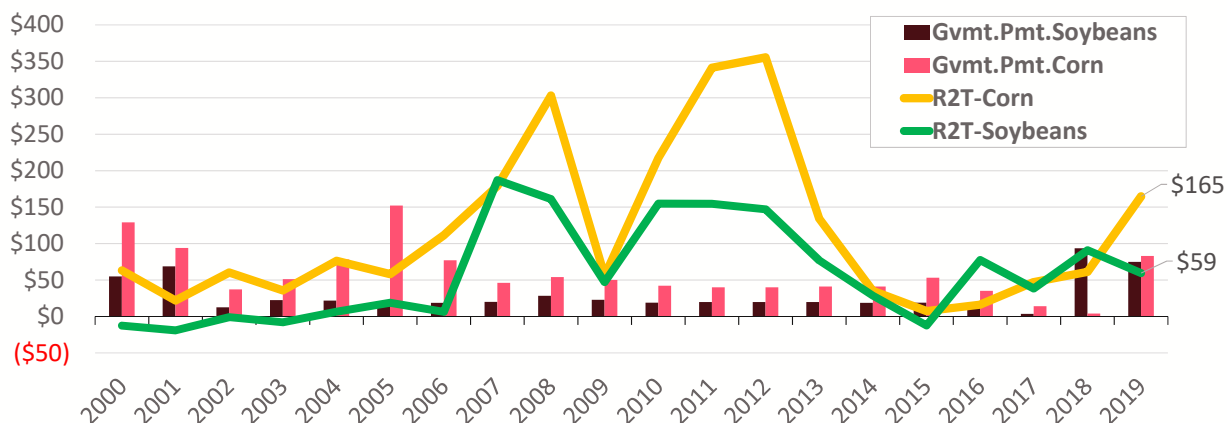
...and so did the Average Net Returns to Tenants (\$ per acre, not adjusted for inflation)



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Net Return to Tenants = R2T = Gross revenue (incl. Govt. Pmt. & Crop Ins. Pmt.) – Total Cost of Production per Acre.
Cost projections from AgDM File A1-20. cash rents from AgDM File C2 10.

50% of R2T-Corn and 100% of R2T-Soy from Government Payments

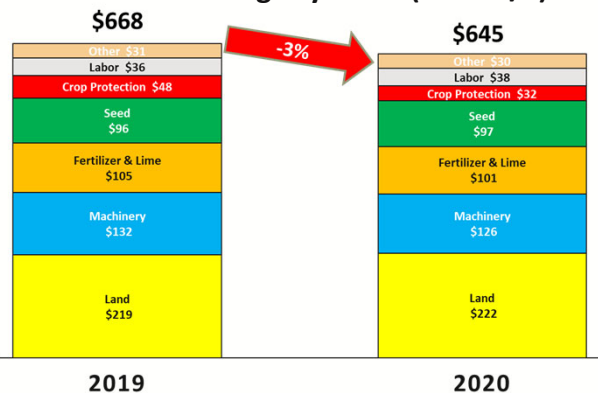


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Govt. Pmt. Corn: \$84 = MFP \$66 + CFAP \$16 + ARC-CO \$2
Govt. Pmt. Soybean: \$74 = MFP \$66 + CFAP \$6 + ARC-CO \$2

2020 Costs of crop production on rented land 3% lower than in 2019...

Corn following soybeans (199 bu/a)



Soybeans following corn (56 bu/a)



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Source: Cost projections from AgDM File A1-20 (Jan 2020) adjusted with cash rents from AgDM File C2-10 (May 2020).

...despite a 2% increase in average Cash Rents

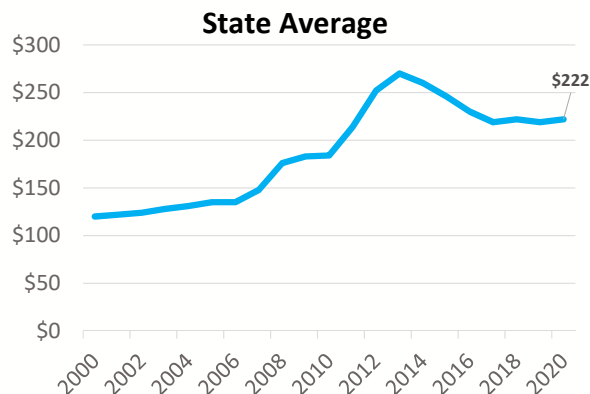
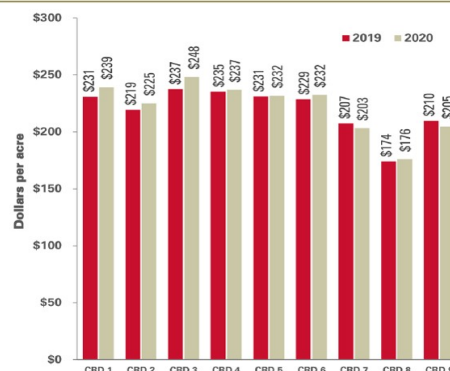


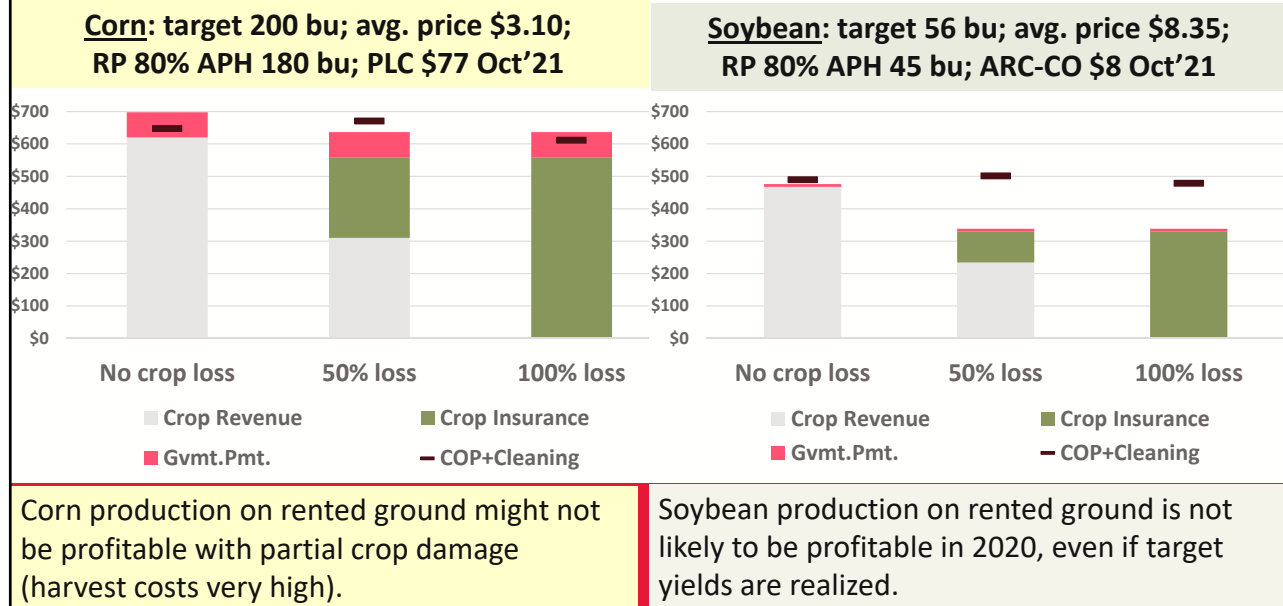
Figure 1. Comparison of average cash rent by crop reporting district (CRD), 2019-2020



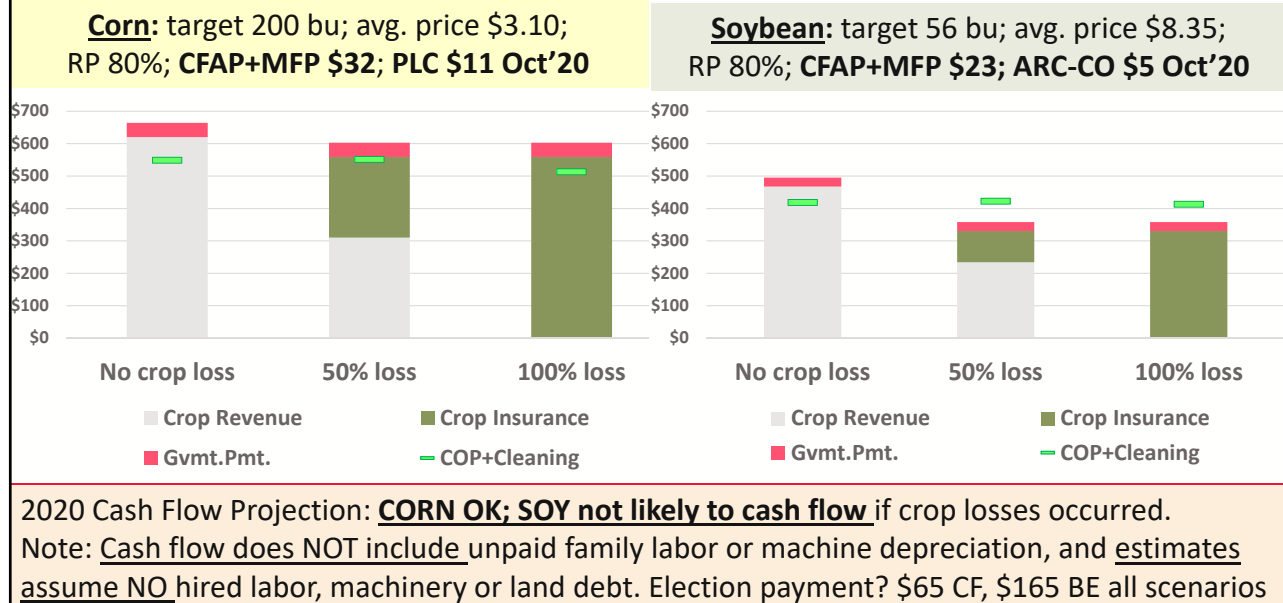
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Source: AgDM File C2-10 (May 2020)

2020 Tenant's Gross Revenue & Costs: Accrual (projected \$ per acre)

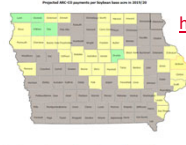


2020 Tenant's Gross Revenue & Costs: Cash (projected \$ per acre)



Local conditions will be different...

- Crop damage, combining speed & direction
- Government payments



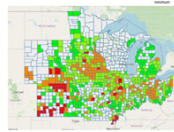
<https://www.card.iastate.edu/tools/farm-bill/arc-plc/>

- Cash rents



<https://www.card.iastate.edu/tools/ag-risk/cash-rental-rates/>

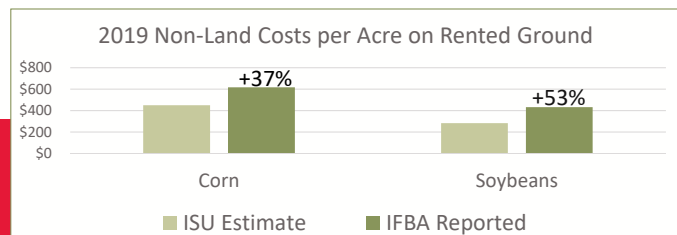
- Yields



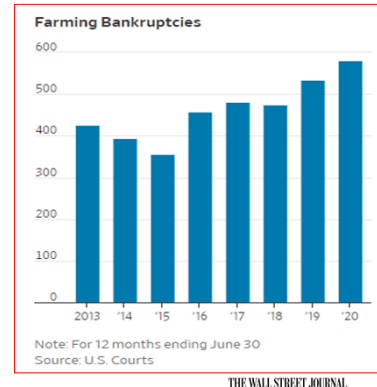
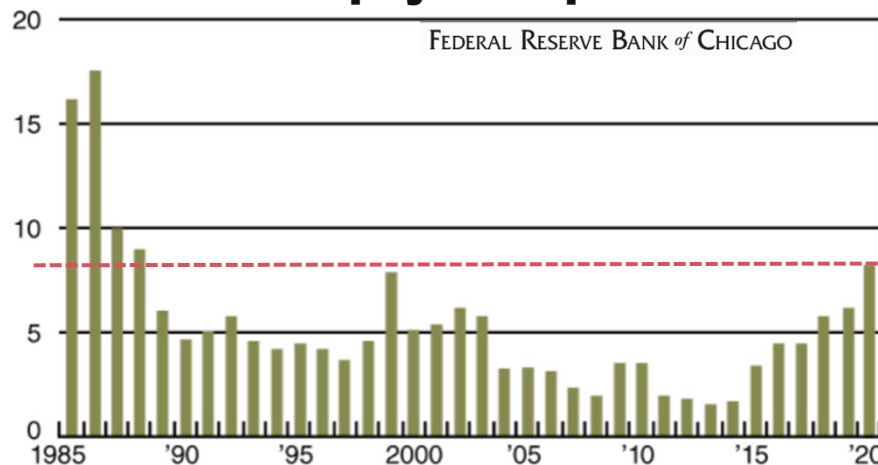
<https://www.card.iastate.edu/tools/yield-prediction/>

- Other ...

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Increasing share of Farm Loans with “major” or “severe” repayment problems & bankruptcies



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Sources: Oppedahl, D. *AgLetter*. Chicago Fed. Aug. 2020;
Newman, J. “More Farmers Declare Bankruptcy Despite Record Levels
of Federal Aid.” *The Wall Street Journal*, Aug. 6, 2020.

Current Trends in Costs for 2021

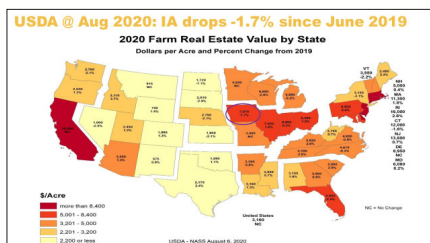
- U.S. EIA projects +1% diesel price, +5% gasoline price
- ↑ crop protection costs (fewer options, +volunteer crops)
- Fertilizer futures prices (UREA Gulf of Mexico-CME) higher than for 2020
- Labor costs, interest rates stable to lower
- Ad-hoc Government Payments in 2021?



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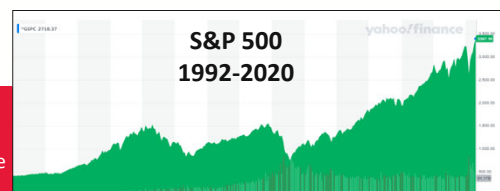
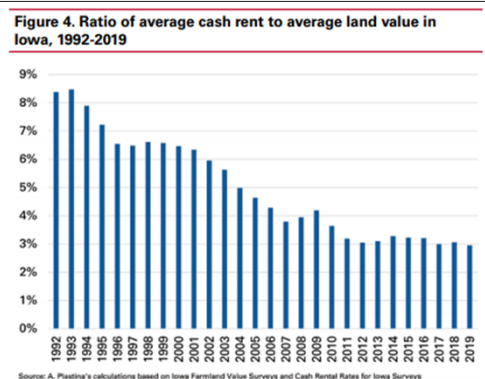
Land as Investment

- 2012-2019 “Gross Return to Land” at 3%
- Land values slightly lower, lower rents?
- Interest rates stable/lower, lower rents?
- Stocks close to historical levels, higher rents?



Dr. Zhang, USDA data

AgDM Newsletter, May 2020



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Yahoo Finance

Thank you for your time!
Questions? Comments?

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