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## Ag Review for 2016: Low Profit Year for Livestock

This is the second article of a two-part series highlighting what happened agriculturally in 2016. This week, the focus is on livestock profitability, input costs, grain prices, and land value trends in 2016.

### Livestock Profitability

A continual pattern of low profit margins throughout most of 2016 is significantly impacting the bottom line for most hog, beef, and dairy producers. Farrow-to-finish hog farmers witnessed minimal profit margins during the first half of this year.

However, profit margins pretty much turned negative in the second half of the year. Wean-to-finish profit margins have been negative throughout most of 2016, with average losses of \$30-45 per head. Based on data from Iowa State University, the current total cost to take a hog from weaning to market weight is about \$65-70 per hundredweight (cwt) of lean carcass weight, which compares to carcass market hog prices of less than \$55 per cwt., or less than \$40 per cwt. on a live-weight basis in the fourth quarter of 2016. Hog producers have faced very low or negative profit margins for the past 18 months.

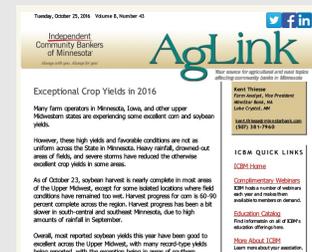
2016 has also been a financially difficult year for the cattle-feeding industry, with losses of \$100-300 per head or more. Total production costs for finishing cattle eased somewhat as the year progressed, due to significantly lower costs for feeder cattle, compared to earlier in the year, as well as some decline in feed costs later in the year. Feeder cattle market prices have listed between \$105-120 per cwt. during the second half of 2016, which have been well below average break-even market prices of approximately \$125 per cwt. Similarly, profit margins for beef cow/calf producers have also gotten much tighter during 2016, with the current price for 500-600 pound calves near \$175 per cwt. at most locations, compared to over \$250 per cwt. earlier in the year.

Dairy producers also experienced financial difficulty throughout the first half of 2016, with average milk prices below the average

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break-even price level of approximately \$18 per cwt. for most producers. However, milk prices have improved in recent months, allowing some dairy producers to show a small profit. Poultry production rebounded nicely in 2016, following the major production losses in 2015 that resulted from the devastating Avian Flu outbreak in many areas of the Upper Midwest. The bad news for the poultry industry is that there are excess supplies of eggs, turkey, and other poultry products, which have driven down market prices.

### **Input Costs**

Average crop input costs in 2016 were slightly lower than 2015 levels in most instances, marking the third straight year that input costs have shown a modest decline. Fertilizer and fuel costs have shown the greatest decline, while seed costs have remained steady, and chemical costs have actually increased slightly. Corn drying costs in 2016 were relatively low in most areas of the Upper Midwest, due to the favorable growing season and manageable Fall harvest weather. Land rental rates in most areas of the Upper Midwest were steady to slightly lower in 2016. However, many average land rental rates were still higher than the breakeven levels for some producers in 2016.

Feed costs for livestock producers remained quite manageable during 2016 and other production expenses remained fairly steady. Agriculture interest rates (both for operating loans and longer term loans), remained quite low in 2016. However, there were indications late in the year that there could be a slight adjustment upward in the coming months. The Federal Reserve recently made a modest increase to the prime interest rate, which is used to set local interest rates.

### **Grain Prices**

Local cash-grain prices in southern Minnesota started 2016 at about \$3.25-3.35 per bushel for corn and from \$8.00-8.25 per bushel for soybeans. Local cash prices increased to near \$3.70 per bushel for corn and over \$10.50 per bushel for soybeans by mid-June this past Summer. Regional cash grain prices are just over \$3.00 per bushel for corn and near \$9.50 per bushel for soybeans as we end 2016.

New crop prices for the Fall of 2017 at local grain markets are currently near \$3.25 per bushel for corn and close to \$9.40 per bushel for soybeans. Average breakeven grain prices in southern Minnesota for the 2017 crop year (based on average crop yields, input costs, and land expenses) are expected to be near \$3.75-4.00 per bushel for corn and near \$9.00-9.50 per bushel for soybeans.

### **Land Values**

Based on the latest Iowa Land Value Survey in November 2016, the average value of tillable farmland in Iowa was \$7,183 per acre, which is a decline of \$449 per acre, or 5.9 percent from a year earlier.

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The average value of Iowa farmland has now declined three years in a row, which is the first time that this has occurred since the 1980s. Iowa farmland values have now declined 17.5 percent from the peak average value of \$8,716 per acre in 2013.

Average land values rose dramatically from 2004 to 2013, due to the ethanol boom, record farm incomes, and low long-term interest rates. Much lower farm income levels in the past couple of years have caused land values to modify from peak values in 2013.

For more information, contact Kent Thiesse, Farm Management Analyst and Vice President, MinnStar Bank, Lake Crystal at: 507-381-7960 or [kent.thiesse@minnstarbank.com](mailto:kent.thiesse@minnstarbank.com).

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