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Independent Community Bankers of Minnesota

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## Tight Profit Margins Likely to Continue in 2017

As we look ahead to 2017, it appears that the tight profit margins that have existed in crop production for the past two years will continue in 2017.

The combination of continued, projected market prices for corn and soybeans that are lower than breakeven levels, together with only minor reductions in input costs for seed, fertilizer, and chemicals, will limit any potential profit opportunities in 2017, assuming average crop yields. Another major variable for breakeven levels in crop production are required loan payments on capital investments, such as farm machinery, facilities, and land purchases.

Approximately two-thirds of the corn and soybean acres in southern Minnesota are under some type of cash-rental agreement. Based on farm business management records for the southern third of Minnesota, the average land rental rate in 2015 was near $235 per acre. However, there is a significant variation in land rental rates across the region. The above rate is a decline from an average cash-rental rate of near $250 per acre in both 2013 and 2014 in the same region.

Most likely, average cash-rental rates for 2016 in many areas of the region were either nearly the same as the as 2015 rental rates, or slightly lower. Based on early reports from farm operators, it appears that land rental rates for 2017 in some locations across the region may adjust slightly downward. However, many rental rates continue to remain quite high, relative to the profit potential for the coming year.

The University of Minnesota's Center for Farm Financial Management (CFFM) has a website called FINBIN, which allows people to look at average income levels, direct and overhead expenses, and net return levels on farms. The FINBIN data is based on actual farm management material submitted by producers through the various farm business management programs. The data can be sorted on the basis of whole farms, crop or livestock farms, location, farm size, income levels, owned versus cash-rent land, as well as other data selections.

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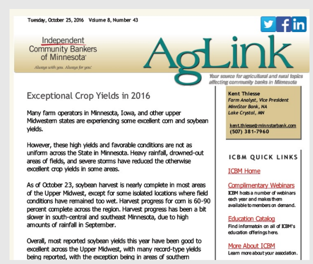

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Exceptional Crop Yields in 2016

Many farm operators in Minnesota, Iowa, and other upper Midwestern states are experiencing some excellent corn and soybean yields.

However, these high yields and favorable conditions are not as uniform across the State in Minnesota. Heavy rainfall, drowned-out areas of fields, and severe storms have reduced the otherwise excellent crop yields in some areas.

As of October 23, soybean harvest is nearly complete in most areas of the Upper Midwest, except for some isolated locations where field conditions have remained too wet. Harvest progress for corn is 60-90 percent complete across the region. Harvest progress has been a bit slower in south-central and southeast Minnesota, due to high amounts of rainfall in September.

Overall, most reported soybean yields this year have been good to excellent across the Upper Midwest, with many record-type yields being reported, with the exception being in areas of southern

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Another FINBIN tool is "Benchmark Report," which allows for the comparison of actual, individual farm management data from a producer's farm, compared to average data from similar farm operations in the same geographical area.

Based on a FINBIN 2013-2015 analysis of over 800 crop farms on cash-rented corn acres in southwest, south-central, and southeast Minnesota, the average net return over average direct and overhead expenses, including land rent, was calculated at a negative $36.53 per acre, per year. Further analysis showed that there were negative averages of nearly $7 per-acre net return in 2013, over $44 per-acre net return in 2014, and a negative $56 per-acre net return in 2015. It is likely that 2016 will again show a negative average net return for many producers, even with the above average crop yields in many areas.

Breaking down the FINBIN analysis a bit more, indicated an average corn yield of 206 bushels per acre in 2015, which was the highest ever in the farm business management groups in southern Minnesota. This compares to average corn yields of nearly 167 bushels per acre in 2014 and over 171 bushels per acre in 2013. Average corn yields in 2016 were similar to 2015 yields in many areas of southern Minnesota, but were also lower in other areas, especially in south-central Minnesota, due to excessive moisture during the growing season.

The average corn price received by farmers in 2015 was $3.52 per bushel, which was down from the average prices of $3.97 per bushel in 2014 and $4.49 per bushel in 2013. In addition, producers received an average of $148 per acre in crop insurance payments in 2014, and just over $100 per acre in 2013, which compared to less than $2 per acre in 2015.

The average total cost of direct expenses for corn production, excluding land rent, was near $445 per acre in 2015, which compares to $497 per acre in 2014 and $517 per acre in 2013. The biggest portion of the reduction in operating expenses was due to reduced fertilizer expenses and lower fuel costs. Corn drying expenses were also lower in 2015 than the previous two years, due to the ideal growing season. Costs for seed, crop chemicals, and most other inputs have remained fairly steady over the three-year period. Crop expenses in 2016 were probably similar to 2015 for many corn producers. Overhead expenses for machinery, labor, term-loan interest, etc., was near $110 per acre in 2015, and has also remained fairly steady in recent years.

The average, direct, and overhead cost per bushel of corn produced in southern Minnesota in 2015 was $3.83 per bushel, which compares to $5.15 per bushel in both 2013 and 2014. The 2015 reduction was primarily due to the record corn yields in 2015. If we assume similar production expenses, land rental rates, and overhead costs for corn production in 2016 (approximately $790 per acre), the breakeven corn price would be $4.27 per bushel with a yield of

185 bushels per acre, $4.05 per bushel at 195 bushels per acre, and $3.85 per bushel at a yield of 205 bushels per acre. The cash-corn price for the 2016 corn crop at most locations in southern Minnesota has been $3.00-$3.25 per bushel in recent weeks.

As we plan ahead for another year of tight margins in corn and soybean production for 2017, it is a good time for farm operators to review all aspects of a crop operation. Obviously weather conditions can account for a large portion of the crop yield variation. However, there are other, more controllable crop management factors that may also contribute to yield differences. Looking for ways to reduce or control direct and overhead expenses, including land rental costs, is also a key to improving profit potential for crop producers. Decisions that are made on crop marketing and crop insurance, as well as potential payments from government farm programs, can also have a significant impact on potential profitability for 2017.

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