



KANSAS FARM MANAGEMENT ASSOCIATION

Your Farm - Your Information - Your Decision

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2009 WHEAT BUDGET PROJECTION

Over the next few months Kansas wheat farmers will plant roughly 10 million acres of hard red winter wheat. This is a time of extreme volatility and also uncertainty about the future. High wheat prices coupled with rapidly rising input prices raises the question: What kind of profit potential exists with the 2009 wheat crop? One way to help answer this question is to analyze a projected crop budget using current input prices and expected (or future) crop prices.

The purpose of this newsletter is to provide producers with a projected wheat budget for the 2009 wheat crop. To accurately project a 2009 wheat budget, an attempt was made to recreate the north central Kansas wheat budget developed by the Agricultural Economics Department at Kansas State University. To recreate the budget, current crop input prices were used in conjunction with crop input application rates as recommended by Kansas State University. These crop inputs include seed, fertilizers, herbicides and fungicide.

Custom machinery rates provided by the Agricultural Economics Department at Kansas State University were used in the budget to project machinery costs associated with the 2009 wheat crop. In order to capture increases in fuel costs, the custom machinery rates have been arbitrarily increased by 20 percent. It is important to note that custom machinery rates include labor, repairs, fuel and oil, and

depreciation. Other costs included in the budget are net crop insurance premiums, miscellaneous expense, non-machinery labor, a land charge or cash rent, and interest on ½ of all non-land costs. Net crop insurance premiums and miscellaneous expenses have been estimated by increasing 2007 Kansas Farm Management Association, North Central enterprise costs by 20 percent.

The projected 2009 north central Kansas wheat budget is shown in Table 1. As can be seen, total cost of \$309.79 per acre is projected. Seed cost was calculated using a seeding rate of 100 pounds of seed per acre at a cost of \$0.17/lb. Total fertilizer cost in the budget represents 80 lbs of nitrogen fertilizer applied at a cost of \$0.98/lb and 25 pounds of phosphorus at \$0.91/lb. Finesse costing \$13/oz applied at a rate of 0.4 oz per acre was used to calculate herbicide cost. Fungicide costing \$1.18/oz applied at a rate of 10 oz per acre was used to determine fungicide cost. As mentioned earlier, machinery costs were calculated by adjusting Kansas State University custom machinery rates by 20 percent in order to capture rising costs. In this particular budget, machinery costs include two trips each with a disk and field cultivator. Machinery costs also include drilling, fertilizer application, fungicide application, and harvesting.

In addition to projected costs per acre, Table 1 also shows projected income per acre as well as return per acre and a break-even production price at a yield of 45 bushels per acre. As one can see, 45 bushel per acre wheat sold at a price of \$8.00/bu could result in a \$67.34 per acre

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return over total costs.

Figure 1 represents break-even prices per bushel at various levels of production. As one can see, historically strong commodity prices are needed to maintain levels of profitability. If the current wheat price holds through next summer, producers should, with average to above yields, experience profitability. With increased volatility in the marketplace, producers may want to consider pricing some of their 2009

wheat crop prior to harvest. In addition to managing price risk, it is also important for producers to take time to analyze all costs associated with the upcoming wheat crop. This is a time of great volatility and uncertainty. By putting together budgets, producers can get a better feel for what the future might hold.

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TABLE 1.

2009 PROJECTED NC KANSAS WHEAT BUDGET

INCOME PER ACRE

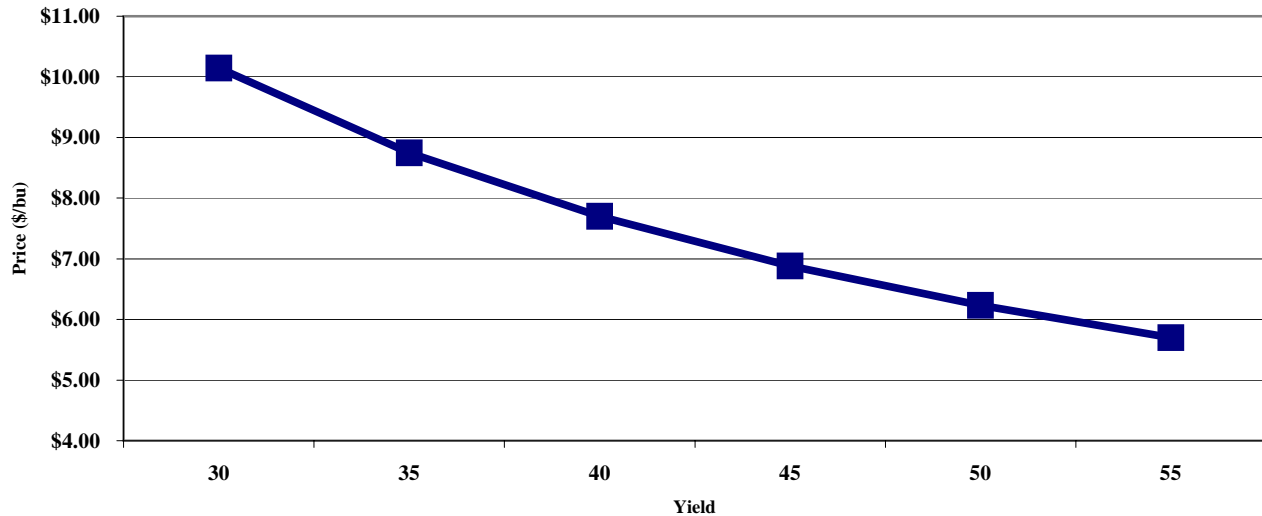
Yield Per Acre	45.0
Price Per Bushel	\$8.00
Government Payment	\$17.13
GROSS INCOME PER ACRE	\$377.13

COSTS PER ACRE

Seed	\$17.00
Herbicide	5.20
Fungicide	11.80
Fertilizer	101.15
Crop Insurance	8.69
Miscellaneous	7.58
Machinery Expense	89.70
Non-Machinery Labor	9.30
Land Charge/Cash Rent	50.00
SUB TOTAL	\$300.42
Interest on 1/2 Non-land Costs	9.37
TOTAL EXPENSE PER ACRE	\$309.79

NET PROFIT PER ACRE	\$67.34
BREAK EVEN PRICE PER BUSHEL	\$6.88

Figure 1
2009 Projected Breakeven Wheat Prices



DO FARMERS WANT TO BET \$100 ON GOOD WEATHER FOR THEIR FALL CROPS?¹

There is a real lack of information for farmers trying to make informed decisions before paying 2008 NAP and CAT fees to be eligible for SURE payments on 2008 crop losses. The other confusing fact is ACRE is not available until 2009 but SURE (“free” disaster aid) covers 2008 crops and 2009-2012.

In Kansas crops are not crops until they are in the bin. Therefore, growers with 2008 wheat losses or those that expect to have a large number of fall harvested crop acres will probably want to **pay the \$100 NAP fees on pasture and other uninsured crops.** Farmers should check with their FSA office to make sure all of the crops are covered with either crop insurance, NAP, or CAT and all fees have been paid to maintain eligibility for SURE on 2008 crops. Clearly there are still weather perils that could destroy fall harvested crops and the SURE payment would be helpful. So is it worth the risk to save a couple of hundred dollars on a large farm even if we assume FSA makes decisions that are not favorable to farmers? That is about two tanks of gas for your pickup!

Farmers must pay NAP or CAT fees before September 16, 2008 on any 2008 uninsured crops to maintain SURE coverage on 2008 crops. Farmers who have completed harvest of most of their crops, for example a farm that is mostly wheat, hay, and cattle, would only pay the fees if they had a loss. However, farmers with mostly fall harvested crops will not know their production until after September 16, so do they want to take the risk of no SURE payments to save a \$100 NAP fee? Yes, it is probably a waste of a \$100 but if weather damages those fall crops, then loss of SURE payments will be even larger. There are still likely to be hurricanes that can stir up some bad weather before harvest.

What is the optimal level and type of insurance for winter wheat? The lack of information on SURE is also a problem for farmers making winter wheat insurance decisions. If buying revenue insurance eliminates any SURE payments, some farmers may want to cut their coverage level and save premium. Because there are still so many unknowns and one will likely not have answers

before September 30, the best suggestion is to **buy the level and type of crop insurance you planned to buy on wheat without considering SURE**. The one exception is farmers who have been buying CAT insurance so they will be eligible for ad hoc disaster with a 65% yield trigger. This is no longer a good strategy. CAT insured farmers will have their SURE coverage based on 50% coverage at 55% of the price. There is little effective coverage under either program, so those farmers may want to consider buyup at the 65% or 70% level.

One complicating factor is farmers with high risk ground who are allowed to insure at the CAT level and then purchase buyup (65% for example) on the rest of their acres. One would assume those acres would be based on CAT for the SURE program too. The reason those farmers are buying CAT is that in some cases the premium rate can exceed 100%.

Don't forget the pasture. Farmers will need to pay NAP fees for pasture and hay to maintain eligibility for 2009 SURE. In many cases those fees are not due until December 1, so it is possible that more information will be available on SURE rules. Farmers should check with their FSA office for the final NAP payment dates on all of their uninsurable "crops". The NAP fee has been increased from \$100 to \$250 for 2009 crops.

The most important SURE questions have not been answered. Thus, it is difficult for farmers to make informed decisions on the type and level of crop insurance coverage to purchase on their winter wheat. It is extremely unlikely that FSA will provide any official answers before the sales closing date for winter wheat crop insurance. There are many questions but these are some of the more important questions:

1. How will the "expected price" used to set the SURE guarantee and the 90% cap on SURE payment be defined for farmers insured under Crop Revenue Coverage (CRC) and Revenue

Assurance with Harvest Price Option (RA-HPO) be set? Will FSA use the price guarantee in the RA/CRC policy that is the higher of the planting price or the harvest price or will all SURE coverages be based on the APH² price, regardless of the type of insurance purchased?

2. There are uninsurable acres when neither crop insurance nor NAP is available. For example if a farmer's crop is hailed out and the claim is settled but the farmer decides to replant those failed crop acres after the final planting date, then those acres will not be covered by crop insurance. The question is will those uninsurable acres violate the SURE requirement that all acres must be insured or is there some definition of a "ghost crop"? If no, then will the revenue from those uninsurable acres count against the SURE guarantee?
3. The Law appears to state that any yield in farmers' historical aph that were replaced with a "plug yield" (60% of T) will receive an adjusted SURE aph by dropping all of the plug yields from the yield history and average the remaining actual yields for the years with yields greater than 60% of T. Is that correct?
4. Will the net or gross crop insurance indemnity payment count against the SURE guarantee?
5. Will SURE make any adjustment for prevented planting or late planting? Under prevented planting the crop insurance coverage is reduced to 60% of the guarantee. There is also a 1% reduction in the insurance guarantee for each day insured farmers plant after the final planting date.
6. If farmers plant wheat in the fall and do not insure it but destroy the wheat in the

spring before harvest and replant to soybeans, will they regain their eligibility for SURE? If yes, would these same farmers be ineligible if they graze the wheat in the fall or spring before replanting to soybeans?

7. Will farmers who farm in two separate counties need a Secretary's disaster declaration in both counties to be eligible for SURE? If yes, then this means farmers will need to meet the 50% farm level yield loss across both counties to be eligible for SURE. Is that correct?
8. Is brome grass growing on a few acres in a water way a "crop" and therefore requires NAP fees? If farmers hay or graze the brome grass is it then a "crop", i.e. no allowance for a de minimis crop?
9. How will FSA set the SURE coverage level for farmers insured with

GRIP/GRP, or forage insured under Pasture, Rangeland, Forage Vegetative Index (PRF-VI) or the Pasture, Rangeland, Forage Rainfall Index (PRF-RI)? How will FSA do farm level SURE loss adjustment for farms that are insured under the area plans? How will FSA set SURE coverage and complete farm level loss adjusting for farmers insured under Adjusted Gross Revenue (AGR) and AGR-Lite that are based on income tax records?

10. Will the 07/08 MYA NASS price and the 08/09 MYA NASS price be used to set the strike price in the 2009 ACRE program? If so will FSA provide an estimate for the 2009 SURE guarantee to farmers at signup?

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²Capitalized APH is used to indicate the yield coverage product. The old product name was Multi Peril Crop Insurance (MPCI). The lower case aph is used to describe the proven yield that is used for APH and revenue insurance products.

The Kansas Farm Management Association (KFMA) Newsletter is distributed monthly to provide farm management information to farm decision makers. Further farm management information can be found on the KFMA program website: www.kmar105.com/kfma; and, on the Extension Agricultural Economics website: www.agmanager.info. The Newsletter is edited by Michael Langemeier, Professor, Department of Agricultural Economics, Kansas State University.



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