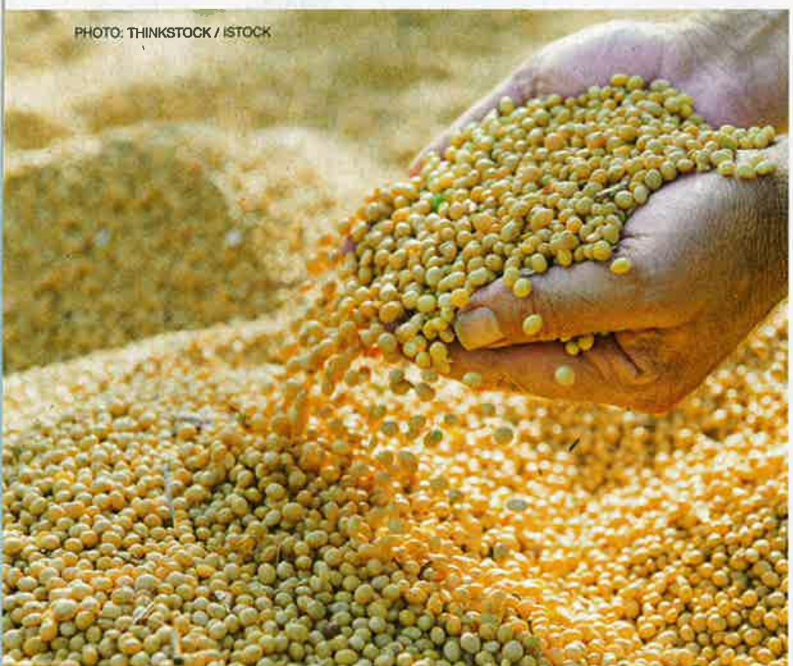
GREGG HILLYER

YIELD **Counts More Than Ever**

Growers are no strangers to the boom and bust cycles of agriculture. But it still doesn't make it any easier when the market turns bearish. We all know farming is a lot more fun when commodity prices are riding on the backs of bulls.

This downturn may be especially painful. America's grain farmers have just come off one of the longest periods of prosperity from 2006 to 2012. Growers reinvested their profits to pay off debt, expand their land base and upgrade their infrastructure—machinery, grain storage and machine sheds. As our cover story on page 20 points out, this windfall has left much of U.S. agriculture better prepared for normal times.



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BIG CROPS. LOWER PRICES. That won't make the economic pain any easier. Since 2012, net farm income has been falling from historical highs. It's forecast to be $96 billion in 2014, down nearly 27% from last year's $131 billion. If the numbers hold up, net farm income this year would be the lowest since 2010. Still, that's $8 billion above the previous 10-year average.

You can blame the drop in commodity prices for the lower income. Crop receipts are forecast to shrink some 12% in 2014, led by a projected $11 billion and $6 billion decline in corn receipts and soybean receipts, respectively. Livestock receipts are forecast to increase in 2014.

The June 30 Acreage Report did little to raise the near-term hopes of farmers. USDA estimated soybean acres at a record-high 84.8 million acres. That's up 11% from last year. Planted corn acres are forecast at 91.6 million acres, down 4% from 2013. Nevertheless, it would be the fifth largest on record since 1944.

For other major crops, USDA expects all planted wheat to hit nearly 57 million acres, up less than 1% from a year ago. Cotton is projected to be up 9% from 2013, some 11 million acres for all plantings.

As I write this in early July, barring weather problems, University of Illinois ag economists estimate that the average price for this year's corn crop could be near $4 per bushel and soybeans around $10.50 for the 2014/15 marketing year. That would represent the lowest prices in five years.

With lower income in store for the foreseeable future, cost control will again be at the forefront as farmers calculate budgets for their operations. But should costs be your primary emphasis?

COSTS VS. YIELD. According to recent analysis by ag economists, the answer is not necessarily. While in the past costs were oftentimes the big driver in the differences between high-profit and low-profit farms, income is now the big driver. And that income isn't necessarily the result of selling crops at the top price. Instead, explains former Kansas State University ag economist Kevin Dhuyvetter, yield determines why some producers make more money than others.

Using Kansas Farm Management Association crop enterprise data from 2011–2013, he found the difference between the average profit for high-profit and low-profit farms ranged from $113 per acre for double-crop soybeans to $335 per acre for irrigated corn.

"Yield still relates to management," he stresses. "Some people are just doing a better job of getting higher yields." Not only did the top third—the most profitable group—generate the highest income almost always due to highest yield, but those producers also kept their costs in check. "We have people out there getting better yields than their neighbors and not spending any more money per acre," Dhuyvetter stresses. ●

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