

Strong crops, weak prices

Bin-busting crops in corn and soybeans are causing furrowed brows rather than smiling faces for many Minnesota farmers this year.

Strong crop yields in the state — and record-breaking crops nationally — have produced plentiful grain in 2014. However, bountiful supplies mean lower prices per bushel, and some Minnesota growers will lose money or consider themselves lucky to break even.

“Given the challenges with late planting and some flooding and an early frost, guys have to be thankful for what we got,” said Minnesota Corn Growers Association President Bruce Peterson, who farms near Northfield. “It certainly isn’t anywhere near a disaster by any means, but it’s a little bit disappointing in the final numbers.”

With 95 percent of the state’s corn harvested, the latest USDA report estimates that Minnesota corn production will be 1.29 billion bushels, 1 percent below last year’s production, and yields are expected to average 165 bushels per acre, up 5 bushels from 2013.

Minnesota soybean production is forecast at 305 million bushels, a 10 percent increase from last year.

Robert Craven, a University of Minnesota Extension economist, estimated that corn growers pay a little more than \$5 a bushel for seed, fertilizer, land rent and other costs, on average, and they are faced with prices well below \$4 a bushel. Average costs to grow soybeans are also higher than current selling prices, he said.

Whether producers lose money depends on a host of factors, Craven said, including whether they presold some of their 2014 crop early in the year when prices were higher, how much land they rent and how much debt they hold in land and equipment loans.

The good news, he said, is that corn and soybean growers are coming off several years of healthy profits, and good managers who know the ups and downs of the market had a chance to build up their working capital: cash in the bank and other liquid assets.

“In some of the projections we’ve done a lot of producers are going to do just fine,” Craven said. “It really becomes a question of how long this slump in [crop] prices lasts, and how quick the costs will adjust.”

Those most vulnerable to losses, he said, are those who overextended themselves with land and equipment purchases, or beginning farmers who are carrying more debt than established producers.

Mickey Peterson, who farms about 3,200 acres with four brothers near Sacred Heart in western Renville County, said 2014 was more challenging than usual. The late spring and its frozen ground delayed planting by about two weeks, he said, and was followed in June by heavy rains that drowned crops in some fields and required replanting.

“Overall, the crop came in considerably better than we anticipated,” Peterson said, and the fall weather was ideal to get the corn and soybeans harvested quickly with little down time. But he noted that recent local prices for corn are about \$3.35 per bushel, compared with \$4.50 to \$5.00 per bushel a year ago.

“Being a farmer for 40 years, I know it’s like a roller coaster with prices up and down, and you’ve got to go with the flow,” he said. Peterson and his brothers are watching market prices closely, he said, and won’t be buying any expensive land or major new equipment.

Effects on economy

Major farm equipment manufacturers foresaw the eroding crop prices and laid off workers earlier this year, and implement dealers have been downsizing their inventories.

“We’re already hearing about equipment sitting on the dealers’ lots,” said Dale Nordquist, associate director of the Center for Farm Financial Management at the University of Minnesota. “That’s the first ripple” of how the decline may affect some parts of the rural economy, he said.

But on the other side, Nordquist said, low prices for corn and soybeans mean lower feed costs for hog and dairy producers, which are flourishing after several years of struggling.

“They’re flush with money and they’ll hold up their part of the bargain in terms of helping out the local economies because they’re in position to do some things that they haven’t been able to do in the last few years,” Nordquist said. “In certain parts of the state that will have a bigger impact maybe than the downside on the crops.”

Nordquist said it’s more important than ever for farmers to get ahead of the game in projecting their cash flows for next year, which could be tougher than 2015 in terms of profits. “Projections we’ve done have been very tight,” he said.

Peter Scheffert, vice president and agricultural loan officer for Farmers State Bank of Hartland, also expects that 2015 will be a challenge for crop farmers. Growers are beginning to project costs and cash flows for next year, he said, adding up estimates for seed, fertilizer and land rent, and comparing them to average crop production and expected sale prices.

“Like any business it’s an individual business and you’ve got to work as hard with your head as you do with your hands,” he said.

Some producers are discovering that income won’t cover expenses unless costs can be shaved or prices improve, Scheffert said.

“They haven’t seen that for a while,” he said. “That’s part of the struggle as we think about the harvest this year, and it’s part of the change and the flip from where we’ve been the past few years.”

Scrutinizing costs

John Mages, who farms about 800 acres of corn and soybeans near Belgrade in Stearns County, has been looking toward 2015 with calculator in hand.

Costs for seed and fertilizer have not come down much, he said. Rental rates for cropland that rose dramatically during the past several years will likely remain high, he said, and take at least a couple of years to readjust slightly downward.

“Next year we’re looking at not a very good year even with good yields,” Mages said.

Mages said he may plant a little less corn next year and slightly more soybeans, which don’t need as much fertilizer and are less expensive to get in the ground.

Doug Albin, who farms about 1,200 acres near Clarkfield in western Minnesota’s Yellow Medicine County, said he had an especially tough year, with more than a foot of rain in June that drowned or stunted crops, and no rain in July and August when he needed it. “We ended up with the worst of both worlds,” he said. “I’m not going to make a profit.”

Albin said he has saved during the past three or four years of good crops and profits, but he still faces some tough decisions about what’s ahead.

“We’ll be all right between the crop we did harvest and federal crop insurance that we bought,” he said. “That gives us enough to not necessarily make money, but it’ll keep us farming for another year.”

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