Cropping Decisions

Consider Finances, Crop Outlook When Making Planting Decisions

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Cotton budgeting claimed some attention from Chuck Danehower, University of Tennessee extension area farm management specialist, recently. He looked at the cost and returns of production and the things that influence a producer's planting decisions. Some of those are the profitability outlook, what the input costs are for the crops and what the projected yield is.

Chuck Danehower, University of Tennessee Extension Area Farm Management Specialist, has been looking at cotton budgeting and the things that influence a producer's planting decisions.
Photo by John LaRose, Jr.

"Other influences on planting decisions are the financial position of the producer and his ability to get financing, and that can depend on the different crops he's raising," Danehower said. "Other considerations are if the land he's farming is owned, or cash rent or share rent ground; then also he has to consider what his rotational needs are."

From a tool standpoint, there are crop budgets available to producers from other universities, but those from the University of Tennessee are in an Excel format.

"They're pretty user friendly, producers can and do use those," Danehower added. "Of course we do encourage producers to make changes to fit their situation. These budgets can be downloaded from the internet at <economics.ag.utk.edu/budgets>."

While studying basic cotton budgets it's important to look at a range of prices and yields. The common price range is somewhere in a 65 cent to 75 cent range. Producers need to consider what their net would be from those figures.

"That would include putting in a loan of 52 cents or hopefully a little higher if they get a premium and they could possibly have a quality issue or discount," he said. "Consider both the 52 cent loan, plus any equity the producer might have. Then typically in Tennessee this last year we've been getting 3 to 4 cents for seed and what the gins would call hauling to put cotton in the module for the gin. So there's a few extra cents in there for that.

"When you factor all that in I think 65 cents certainly to 75 cents would be a realistic range," he continued. "Yield wise, our state average yields are probably about 825 pounds; if we kick out the low year and the high year we're probably looking at an olympic average close to 875 pounds. Looking at a range of yields from 800 pounds to maybe even 1,000 pounds on the top end, from the state standpoint of course, we're looking at returns of 65 cents at 800 pounds at a negative $17, and that's after variable costs and land costs come out. Then I usually figure, as comparison, land cost at a share rent of 25 percent. The landowner is not paying any fertilizer on that; of course there are different share situations out there.

"At the upper end of the range of 75 cents and 1,000 pounds, the return is a positive $156, and if you look in the middle, 900 pounds at 70 cents is about a $66 per acre return. I think that would be pretty realistic and indicative of what is going on."

Farmers also need to compare returns to other crops. The average situation, the olympic average on corn, cotton and soybeans at various different levels is important to consider.

"Corn at 125 bushels a price of $3.80; 875 pounds of cotton at 67 cents with everything considered; and then about 40 bushels of soybeans at $9," he suggested. "When we look at the revenue and the expenses that are associated with that, expense wise, we've got about $322 in an acre of corn, we have $408 in an acre of cotton and we have $214 in an acre of soybeans."

Presently, the costs are a little higher on these crops, much of which is due to glyphosate resistant weeds.

"That is an issue producers have to start planning for in their budgets," Danehower added. "Glyphosate resistant weed control is going to cost anywhere from $20 to $30 on the low side; if that doesn't control the weeds, there will be quite a bit more expense. We do have to factor that in our budgets this year."

Factoring all those variables in, returns of about $34 an acre on corn can be expected. Cotton returns could be $39 an acre, and soybeans $56 an acre.

"There's not a huge difference between those crops," he noted. "A bushel here or there, some 50 pounds difference on cotton and we could see one crop favored over the other, so there's not just a huge difference on the crops at today's price levels.

"I think some producers may question land costs. Cotton has a land cost at that yield rate of $148 and that's higher than what corn or beans would be. If the farmer were paying that amount for cash rent the returns would be a little different. Corn would be a $5 return, cotton still at $39 and beans would have a negative $2 return. So, depending on the land rent situation, there could be a difference in the crop."

Looking at returns another way, comparing cotton at its highest yield of a couple of years ago when statewide yields were 945 pounds, that year corn averaged 125 bushels and beans 39 bushels. Prices on corn can range from below $3 to $4, beans can range from $8 to $10. Using $3.25 on corn and $8.25 on beans, and considering that cotton could easily go to 75 cents including seed and hauling, there could be a return on cotton of $120 an acre, a negative $17 return on corn and a $28 return on soybeans.

"I'm not trying to favor cotton over the other grains but cotton does have a good place in the rotation in the crop mix in Tennessee, especially if the farmer is set up for cotton," Danehower said. "If he needs to buy equipment we have to look at a more detailed plan to determine if it's feasible or not. If he has the equipment, I think cotton is comparable in returns and possibly could have a greater return this year because we are looking probably at a more favorable price outlook.

"Overall, prices are at a level on all crops where a change in yield one way or the other makes the difference," he said. "We have no idea what the weather is going to do this summer, so you don't know what crop will be the one to hit. One crop could easily out yield the others just based on the rainfall. So that tells me it's best to diversify among crops, maybe even diversify among maturity groups with different varieties coming off at different times. Certainly we need to take any opportunity we can to rotate our ground for long term profitability on the crops."

He encouraged producers to do some kind of planning, whether it's budgeting, partial budgeting or a whole farm plan.

"We do that in Tennessee, we sit down with producers and do a whole farm plan, going through every aspect of the operation," he added. "We'd be glad to do that with producers; if they have an interest they can contact the local county extension office in Tennessee. In other states they probably can contact the extension offices in those states too." Δ

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