

## Profitability Outlook Update - Non-Irrigated - April 9, 2015

The profitability outlook has been updated after the release of the April 9, 2015 USDA WASDE reports. Today's market reaction while negative, did not change much in the profitability outlook. I would like to point out the cotton price of 70 cents that is being used in the profitability outlook. I would guess that there has been very little cotton priced for 2015. The price of 70 cents is made up of a cash price of 62 – 63 cents and gin rebates (seed & hauling) of 7-8 cents. The cash price of 62-63 cents is composed of a loan rate of 52 cents or 53 cents with a slight premium and a 10 cent equity from the buyer. This 70 cent price has been used for the last few months even while cotton prices have changed up and down. Basically, this is a result of the way the cotton marketing loan program works. As long as cotton prices stay in a roughly 63-70 cent December futures range, cotton equities most likely will stay in that 10 cent range. My observations and discussions with cotton buyers would indicate that if futures move above 70-71 cents, then the prices to the producers would start to move up penny for penny. At this point of the season in Tennessee, crop selection will depend more on planting conditions as affected by the weather more so than projected profitability. It should be noted the grain sorghum profitability projections. Grain sorghum due to the positive basis at many elevators is projecting to be the crop with the least loss as well as the lowest cost to produce. Producers considering grain sorghum should discuss with their grain elevator the possibilities of delivery in the fall and get some assurances that it will be deliverable coming out of the field (if on farm storage is not available). Producers might also want to consider locking in at least the basis on grain sorghum. Producers should look at these returns as what could be if no adjustments are made in their operation and consider it a warning sign that adjustments will need to be made in 2015 to be sustainable. These estimates do not consider any USDA or crop insurance payments from the new farm bill. Please contact your local County Extension office or Area Specialist – Farm Management for assistance in developing your own budget or farm financial plan. This table below should be used as a guide as yields, prices, and expenses will vary among producers and locations. Expenses will vary among producers and production systems. Cotton prices include revenue for cottonseed and hauling. For reference, in variable expenses below, fertilizer expense per acre is estimated as follows: Cotton - \$ 120, Soybeans - \$43, Corn - \$161 (includes 170 units of N), Milo - \$103, and Wheat/Soybeans - \$117. Cost of production will continue to be adjusted as information becomes available. Weed control costs with resistant weeds have also been difficult to estimate. These costs will vary greatly among producers and individual fields. Production costs are estimates based on the 2015 University of Tennessee Crop Budgets with adjustments made where needed. Please visit with your farm supplier on estimated cost in your area. Producers with owned land and or cash rent can use Returns Over Variable as a

guide in decision making. Producers with share rent ground should use Returns Over Variable and Land Costs as a guide with their appropriate share rent calculated. A land cost of 25% of revenue minus 25% of crop insurance cost is used in the table as a guide or method of comparison and should not be construed as the appropriate rent for a particular area. Producers who are not making major equipment changes can use UT budgets and this table as a guide in developing their own cropping decision budgets. If equipment changes are being made, then a whole farm financial plan would be better suited as a decision aid.

2015 Estimated Returns					
	Cotton	Soybeans	Corn	Milo	Wheat/Soybeans
Yield	864 lbs.	42 bu.	132 bu.	85 bu.	64 bu./30 bu.
Price (as of 4/9/15)	\$0.70 lb.	\$9.39 bu.	\$3.88 bu.	\$4.43 bu.	\$5.35 bu./\$9.39 bu.
Revenue	\$605	\$394	\$512	\$377	\$624
Variable Expenses	\$459	\$285	\$412	\$234	\$448
Returns Over Variable	<b>\$146</b>	<b>\$110</b>	<b>\$100</b>	<b>\$142</b>	<b>\$176</b>
Land Costs (25% of Revenue-25% crop insurance)	\$149	\$96	\$125	\$93	\$152
Returns Over Variable and Land Costs	<b>-\$3</b>	<b>\$14</b>	<b>-\$25</b>	<b>\$49</b>	<b>\$24</b>
Fixed Costs Depreciation & interest on machinery	\$142	\$76	\$73	\$69	\$107
Returns Over Specified Costs	<b>-\$145</b>	<b>-\$62</b>	<b>-\$97</b>	<b>-\$20</b>	<b>-\$83</b>
Breakeven Price at Average Yield and Specified Cost	\$0.87	\$10.88	\$4.62	\$4.67	\$6.21/\$10.39

## Profitability Outlook Update- Irrigated - April 9, 2015

As with dryland production, lower prices have squeezed profit margins in the irrigated crops creating negative margins for all crops considering variable, land and fixed cost. Producers should look at these returns as what could be if no adjustments are made in their operation and consider it a warning sign that adjustments will need to be made in 2015 to be sustainable. The table below is an estimate of returns for crops under irrigation. Since irrigated yields are not as of yet kept separate in Tennessee, yields below are an estimate of irrigated yields. Irrigation fixed costs and energy costs will vary greatly among producers and systems. These projections include in variable expenses energy costs for irrigation of \$21 per acre and \$11 per acre of irrigation repairs and maintenance. Fixed costs of \$88 per acre for irrigation equipment are used. Please contact your local County Extension office or Area Specialist – Farm Management for assistance in developing your own budget or farm financial plan. This table below should be used as a guide as yields, prices, and expenses will vary among producers and locations. Expenses will vary among producers and production systems. Cotton prices include revenue for cottonseed and hauling. For reference, in variable expenses below, fertilizer expense per acre is estimated as follows: Cotton - \$ 125, Soybeans - \$43, Corn - \$206 (includes 225 units of N), Milo - \$135, and Wheat/Soybeans - \$117. Cost of production will continue to be adjusted as information becomes available. Weed control costs with resistant weeds have also been difficult to estimate. These costs will vary greatly among producers and individual fields. Production costs are estimates based on the 2015 University of Tennessee Crop Budgets with adjustments made where needed. Please visit with your farm supplier on estimated cost in your area. Producers with owned land and or cash rent can use Returns Over Variable and Fixed IR Costs as a guide in decision making. Producers with share rent ground should use Returns Over Variable, Fixed IR Costs and Land Costs as a guide with their appropriate share rent calculated. A land cost of 25% of revenue minus 25% of crop insurance cost minus 25% of the irrigation equipment fixed cost is used in the table as a guide or method of comparison and should not be construed as the appropriate rent for a particular area. A management cost of \$30 per acre is included in Fixed Costs – management labor, depreciation & interest on machinery. This is an additional \$15 above the dryland crop management labor. Producers who are not making major equipment changes can use UT budgets and this table as a guide in developing their own cropping decision budgets. If equipment changes are being made, then a whole farm financial plan would be better suited as a decision aid.

## 2015 Estimated Returns - Irrigation

	Cotton	Soybeans	Corn	Milo	Wheat/Soybeans
Yield	1100 lbs.	60 bu.	190 bu.	130 bu.	64 bu./45 bu.
Price (as of 4/9/15)	\$0.70 lb.	\$9.39 bu.	\$3.88 bu.	\$4.43 bu.	\$5.35 bu./\$9.39 bu.
Revenue	\$770	\$563	\$737	\$576	\$765
Variable Expenses( include energy cost)	\$502	\$317	\$504	\$300	\$481
Fixed Irrigation Costs per Acre	<b>\$88</b>	<b>\$88</b>	<b>\$88</b>	<b>\$88</b>	<b>\$88</b>
Returns Over Variable & Fixed IR Costs	<b>\$180</b>	<b>\$158</b>	<b>\$145</b>	<b>\$188</b>	<b>\$196</b>
Land Costs (25% of Revenue-25% crop insurance-25% fixed irrigation costs)	\$168	\$116	\$159	\$121	\$165
Returns Over Variable, IR Fixed Cost and Land Costs	<b>\$12</b>	<b>\$42</b>	<b>-\$14</b>	<b>\$67</b>	<b>\$31</b>
Fixed Costs- management labor, depreciation & interest on machinery	\$151	\$91	\$86	\$84	\$122
Returns Over Specified Costs	<b>-\$139</b>	<b>-\$49</b>	<b>-\$100</b>	<b>-\$17</b>	<b>-\$91</b>
Breakeven Price at Average Yield and Specified Cost	\$0.83	\$10.20	\$4.40	\$4.56	\$6.21/\$10.52