

Marketing challenge in 2008



Getting Started

By BOB GUNZENHAUSER

In a previous article, I wrote that I'd like to receive at least \$4 a bushel for corn and \$9 a bushel for soybeans. During January, February and March this year, it wasn't too hard to reach those prices, and then some. I'm not sure many farmers expected to see soybeans reaching \$15 per bushel on the board and corn reaching \$6 per bushel.

And how about wheat! What is in the water up there at the Minneapolis Grain Exchange? One day the price hit \$25 a bushel for hard red spring wheat. It has since moved off that high, but the daily moves were amazing and not for the faint of heart.

Crude oil is now trading over \$100 a barrel, and I suppose \$3-plus per gallon of gas is here to stay for a while. Anhydrous ammonia, our primary nitrogen source, is priced over \$700 a ton, maybe more. Urea, diammonium phosphate and potash have also increased significantly. Glyphosate, even generic, has more than tripled in price from a couple of years ago.

Maybe the only saving grace is interest rates. With the idea of staving off inflation, the Fed has lowered rates to levels not seen for a while. This allows us to borrow money for operating at less cost. We'll probably spend the same amount in interest this year, but over more volume.

Fine-tune your plan

So, what's a farmer to do? How do you know if you've made the right decision in either marketing outputs or locking in inputs?

My new goal is to sell corn for more than \$5.50 a bushel, and soybeans for more than \$13.50 a bushel. If the oats get seeded in a timely manner and there is sufficient test weight, I hope to sell them for \$3.50 a bushel or better.

On hay, I'll arrange bales into lots of 24 or 48 and sample them. With the analysis from the lab, I'll use the nutrient values to determine price. All hay

will be sold by the ton, possibly with some adjustment for moisture content. Maybe I'm overdoing it, but I hope this arrangement will prove to be beneficial to both parties.

I've already put on some anhydrous ammonia last fall and will do some this spring. I've locked in the spring price, but still have some dry fertilizer to apply that hasn't been priced. I also purchased enough Roundup to cover the first spraying round, and enough fungicide to cover about half of my soybean acres.

I've also started contracting fuel for both spring and fall needs. Contracting fuel is a new opportunity for me; sometimes it pays, sometimes not.

Contracting ahead

In the fall of 2006, I contracted fuel and ended up saving maybe 8 cents per gallon. In 2007, I saved perhaps 40 cents per gallon. I contracted road diesel for the first quarter of 2008; for January and February I was paying about 12 cents more than the price at the pump, but in March I saved 16 cents, just in time for grain hauling.

My idea: Lock in prices that, even if weather turns ugly and yields suffer, will still produce a profit, and purchase inputs ahead of time before major price increases, especially if they are critical to the operation of the farm.

Crop insurance is also very necessary. I went with 75% coverage on Revenue Assurance with the Harvest Price Option. Corn and soybean insurance went up about \$10 to \$15 per acre, but the plan is insuring a lot more than before. I calculate the corn insurance will provide up to \$500 an acre revenue assurance on some of my corn acres. Try getting that kind of coverage a few years ago!

Look into the future

So, should you try to lock in these good prices for 2009, 2010 and beyond? We do see prices in these future years to be quite similar to what we have now, but what about the uncertainties? Will anhydrous ammonia be over \$1,000 a ton? Will it even be possible to buy DAP or potash? Will seed corn and beans take another leap? We might be able to lock in \$5 corn now, but will that be nearly

breakeven then?

Think about how much corn we contracted one or two years ago when it got to \$3 per bushel. We thought we were on easy street. How little did we know that \$3 per bushel would soon become the new breakeven.

Also, what if the ethanol mandates don't pan out? What if certain states and cities are able to opt out of ethanol blending and demand starts to dry up? Will we go back to \$2.50 a bushel corn, but still have high input costs?

I guess the best thing to do is get into a position to weather potential storms. A farm adviser once said a farm operation should have at least 50% cash reserves for operating expenses and at least 50% equity in land, equipment and livestock. I hope 2008 and 2009 will pro-

More from Bob

You can read Bob Gunzenhauser's blog "The South of Iowa" online. Go to www.WallacesFarmer.com and click on Bob's Blog in the left-hand short-cuts menu.

vide opportunities for us to get into that kind of position. Pay down debt, store up some cash reserves and be ready when the time comes.

Note: I want to extend my respect and apologies to the family of Lee, the farmer I wrote about in my last article. In no way did I mean any ill feelings by writing about him and his death. Please accept my sincere condolences.

Land values up 11% in 6 months

IOWA farmland prices have increased by an average of 18% during the past 12 months, according to the latest survey by the Iowa Farm and Land Realtors Institute.

The survey of farm real estate brokers shows an average increase of 11% for the six-month period September 2007 to March 2008. "When that 11% is combined with the 7.1% increase we reported in September, it shows a statewide average increase of 18.1% for the year March 1, 2007, to March 1, 2008," says Troy Louwagie, who helps compile the twice-per-year survey.

Louwagie, a realtor with Hertz Real Estate Services at Mt. Vernon, says, "These results show continuing strength in Iowa's farmland market. This was the highest dollar-per-acre number we've ever had, the second-highest six-month gain and the third-highest annual increase in the last 30 years since the survey began."

Iowa's farmland values have gone up just shy of 67% during the past five years, he says.

The survey breaks land into high-, medium- and low-quality grades for Iowa's nine crop reporting districts. Statewide, the best farmland rose 21% in the year ending March 1, 2008. In seven of the districts, high-quality land is now exceeding \$5,000 per acre. The average for the state is \$5,223 for the

best cropland. West-central Iowa has the highest value at \$5,630 per acre.

Last September, there was just one district where high-quality land exceeded \$5,000 per acre, he says. Looking at the lower-quality cropland in the recent survey, the average is \$3,345 per acre statewide.

Survey respondents were asked to estimate the average price of farmland as of March 1. They said continued increases in grain prices, expansion of Iowa's ethanol industry, a limited amount of land offered for sale, good crop yields last year and a positive attitude about agriculture contributed to the rise in land prices. Other positive influences on the farmland market are the relatively low long-term interest rates and higher cash rent for farmland.

Concerns about the future for land prices are: uncertainty about the government farm program, increased fuel and fertilizer costs, and decreasing returns for livestock.

The survey results are consistent with those of the Federal Reserve Bank of Chicago and Iowa State University. The Chicago Fed's most recent survey showed Iowa farmland prices rose 6% in the fourth quarter and 18% in 2007. ISU Extension's annual survey released in December showed Iowa prices rose 22% in the year that ended in November 2007.



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