

Agricultural Update

October 29, 1999

Government Programs

FSA EXTENDS MORATORIUM ON HOG FACILITY LOANS

This news release discusses that FSA is currently not providing loans for building new or expanding existing hog facilities. The moratorium is one of the measures the federal government is using to limit pork production.

CCC CHANGES PROCEDURES FOR LOCKING IN LOAN REPAYMENT RATES (LDP related)

The locked-in rate will be in effect for 60 calendar days, except that it will always expire 14 calendar days before loan maturity. However, producers will be able to lock in a rate one time only for any specific portion of the crop. This will allow producers to obtain multiple lock-ins on different portions of a commodity, but will end their ability to obtain multiple locked-in rates on the entire outstanding loan quantity.

Upon expiration of the locked-in repayment rate, and before the loan matures, the producer may repay the loan at the lower of: (1) principal plus interest, or (2) the effective repayment rate in effect on the date of payment. After the loan matures, the producer may either deliver the collateral to CCC in satisfaction of the loan obligation or repay the loan at principal plus interest.

While the locked-in rate is in effect, producers will not be able to utilize the current repayment rate, even though it may be lower than the locked-in rate.

Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Act, 2000

Funding Authorized by President Clinton on October 22, 1999 include:

1. \$25 million for emergency disaster loans
2. \$5.5 billion for supplemental payments to commodities producers
3. \$125 million for additional payments to dairy producers
4. \$1.2 billion for crop loss assistance, under a program similar to the single year crop loss disaster assistance program in 1999
5. \$328 million in payments to tobacco producers
6. A doubling of the payment limitations for loan deficiency payments and marketing loan gains from \$75,000 to \$150,000, applicable only to the 1999 crop year

7. \$472 million in payments to oilseed producers, based on 1997 or 1998 production, except for new producers
8. \$200 million for livestock producers for losses resulting from natural disasters

And, other provisions

- a. \$400 million for a one-year crop insurance buy-up incentive
- b. A one-year recourse program for honey
- c. A one-year recourse program for mohair
- d. A one-year extension of the dairy support program
- e. Funding for the Dairy Indemnity Program
- f. Funding for Step II payments for cotton handlers
- g. The elimination of the sugar marketing assessment

[\\$22.5 Billion in Assistance to Farmers in 1999: Complete Summary](#)

General

Traditional Versus Custom Farming

This discussion is about the farming alternatives a producer may want to consider when farming land. Historically, farmers have primarily used their own equipment and labor for tilling, planting, applying herbicides and chemicals, and harvesting. The expected machinery costs for farming under a typical machinery owned alternative is listed in the Projected Crop Production Costs for 2000 at the end of this discussion. For corn and soybeans, the total machinery related items sum to \$73.50 and \$52.50 per acre, respectively. And, there are some labor costs associated with these operating machinery. The average labor cost is assumed to be \$10/acre. The remainder of the labor charge is a management charge. Alternatively, a farmer may want to consider either a traditional or farmer managed custom farming operation.

Traditional custom farming refers to the farmer paying for all input costs, except those related to machinery, and hiring out for a fixed fee ALL field operations required to raise a crop, which includes from seedbed preparation through harvest with the hired person's equipment. Also, the hired person may receive some management compensation for coordinating the tillage, planting, and harvesting operations. According to "Custom Farming" rates reported in the [1997 Custom Rates for Farm Services in Missouri](#) (MU Guide 302), the custom farming rate for corn and soybeans was \$67.97 and \$60.34 per acre, respectively (values are in 1999 dollars by adjusting reported values with an annual 2% inflation rate).

Farmer managed custom farming refers a farmer paying all input costs, except those related to machinery, and the farmer managing the coordination of having field work, planting, application, and harvest custom hired. According to "Custom Farming" rates reported in the [1997 Custom Rates for Farm Services in](#)

Missouri (MU Guide 302), the farmer managed custom farming rate for corn and soybeans was \$63.87 and \$56.91 per acre, respectively (values are in 1999 dollars by adjusting reported values with an annual 2% inflation rate). Grain hauling costs are not included in the farmer managed custom farming cost calculations. The following table summarizes the costs of farming under the 3 different farming types.

Machinery cost (\$/acre) for three alternative management types

	Own Machinery ^a	Custom Farm	Farmer Managed Custom Farm ^b
Corn	\$83.50	\$67.97	\$63.87
Soybeans	\$62.50	\$60.34	\$56.91

- a. Labor charge of \$10/acre added to machinery costs to account for operator time
- b. Values due not include grain hauling charge

For corn, the custom farming costs are clearly lower than owning one's own machinery. For soybeans, there is little difference between traditional farmed machinery costs and traditional custom farming. Not owning machinery may reduce interest and fixed costs because not as many buildings will be needed to house machinery and there will be no interest accruing on machinery. There is a slight difference between the custom farm and farmer managed custom farm because the farmer managed custom farm demands some management returns to the producer for coordinating the farming activities.

This back of the envelope analysis indicates that an economically viable option to owning machinery and farming is to custom farm your land. Why is the machinery cost from custom farming less expensive than a farmer owned machinery operation? Custom harvesters can spread their fixed costs over more acres and the persons carrying out these activities may be more efficient because they are specialized. To notes of concern with custom farming:

1. A producer can not depreciate machinery they don't own, i.e., there may be tax advantages to owning machinery.
2. You will depend on someone else to get to your field in a timely fashion

Lastly, landowners considering either a cash or crop-share lease agreement should be aware that one party may be able to pay more, or offer a greater percentage of the production, depending on the type of farming alternative they have chosen. That is, one potential tenant may be able to offer \$5/acre more than the other potential tenant because the tenant chooses to custom farm the land.

- Joe Parcell, Extension Economist

Projected Crop Production Costs for 2000

Corn and Soybeans

	Corn	Soybeans
<i>Estimated Operating Costs/Acre</i>		
Seed	\$27.50	\$20.00
Fertilizer	46.00	7.75
Crop Chemicals	28.00	25.00
Machinery fuel, oil, and repair	30.00	20.00
Machinery hire and Services	6.50	4.50
Labor	27.00	23.50
Miscellaneous	20.00	13.00
Operating interest (operating costs x 9% for 1/2 year)	<u>9.25</u>	<u>5.12</u>
Total Operating Costs	\$194.25	\$118.87
<i>Estimated Ownership Costs/Acre</i>		
Machinery depreciation. and interest	37.00	28.00
Real estate taxes, depreciation, and interest (or rent)	<u>\$95.00</u>	<u>\$83.00</u>
Total Ownership Costs/Acre	\$132.00	\$111.00

<i>Estimated Total Costs/Acre</i>	\$326.25	\$229.87
Estimated Yield/Acre (bushels)	117	35
Estimated Total Cost/Bushel	\$2.79	\$6.57

Note: The estimates on this page are derived from the 1998 Management Information Records Summary and an estimate of price changes from 1998 to 2000. With the expectation of grain market prices below those estimated here, farmers likely will minimize some costs such as skipping on P and K fertilizer or buying lower cost seed.

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Web Sites to Check

[Iowa State University's Interactive LDP Marketing Strategy Page \(covers Missouri to\)](#)

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