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Wheat Profits Reach Ten Year High

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CORNHUSKER ECONOMICS

Wheat Profits Reach Ten Year High

With concerns about increasing costs on the minds of wheat farmers, it is time to look back at the past ten years to evaluate wheat production profitability. To maintain consistency over the past ten years, two systems (pivot irrigated and clean till dryland wheat fallow) were compared across the past four University of Nebraska Crop Budgets (1999, 2001, 2004 and 2006), and a 2008 update completed for Nebraska Panhandle crops.

For the irrigated production, a yield goal of 80 bushels per acre is used to determine the cost structure and to compute the potential returns for each year. The dryland yield is 40 bushels per planted acre in the traditional wheat fallow system. Although average yields in Nebraska vary by year, many producers use a yield goal for planning such inputs as seed, fertilizer and harvest costs. If the crop varies significantly from those yield goals, the producer will adjust during the season, but has to begin with some expectation of cost moving into the season. This is even more challenging for winter wheat producers who plant the crop in the fall with harvest expected in the mid-summer of the next year.

Over the past ten years there have been only a few years where the wheat producer has been able to find prices high enough to assure a profit above total costs. The wheat price has remained below \$3.50 per bushel for most of the past decade. Since 2006, the price of wheat, along with most other commodities, has moved to historically high levels. The market year average price of wheat in Nebraska has increased from \$2.20 per bushel in 1999 to \$4.57 per bushel in 2006, with a United States Department of Agriculture (USDA) projected price for the 2008 crop of \$6.25 - \$8.75 per bushel (\$7.50/bu is used in this example).

The recent increase in prices has more than offset the increase in cost of production, as noted in both Table 1 and Table 2 (on next page). Winter wheat producers have realized record profits and record high prices over the past two years, and prices look to remain relatively strong through the next year. Irrigated winter wheat budgets for 2008 show a projected

Market Report	Yr Ago	4 Wks Ago	7/25/08
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$90.26	\$98.00	\$95.21
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.....	127.70	127.05	126.76
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.....	117.15	117.10	116.83
Choice Boxed Beef, 600-750 lb. Carcass.....	140.77	164.25	163.11
Western Corn Belt Base Hog Price Carcass, Negotiated.....	70.15	72.78	80.00
Feeder Pigs, National Direct 50 lbs, FOB.....	54.87	33.25	46.00
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	74.01	79.77	84.81
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.....	102.50	115.50	111.75
National Carcass Lamb Cutout, FOB.....	254.52	271.49	285.72
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.....	5.59	8.45	7.34
Corn, No. 2, Yellow Omaha, bu.....	3.12	7.17	5.33
Soybeans, No. 1, Yellow Omaha, bu.....	7.45	15.08	13.80
Grain Sorghum, No. 2, Yellow Dorchester, cwt.....	5.11	12.13	8.64
Oats, No. 2, Heavy Minneapolis, MN, bu.....	2.70	4.29	*
<u>Feed</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.....	135.00	190.00	190.00
Alfalfa, Large Rounds, Good Platte Valley, ton.....	85.00	77.50	77.50
Grass Hay, Large Rounds, Premium Nebraska, ton.....	*	85.00	85.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.....	*	195.00	176.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.....	40.50	72.50	62.75
*No Market			

profit of more than \$110 per acre, and dryland producers were in line for nearly \$70 per acre profit this year. If prices remain strong, producers should be expecting a profitable 2009, but input costs are rising at the present time. As we begin to prepare for the planting season in wheat production areas, the price of fuel, fertilizer, seed and land rents are continuing to move upward. Producers should be aware that these increasing costs will have a dramatic impact on the cost of producing the 2009 wheat crop.

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Table 1. Cost and Return Budgets for Dryland Winter Wheat Under a Conventional Tillage System from 1999 to 2008

Cost Category	UNL Budget Year				
	1999	2001	2004	2006	2008
Fertilizer	9.40	22.40	23.36	24.96	58.76
Herbicide	0.00	4.14	4.16	4.26	3.05
Insecticide	0.00	1.26	1.32	0.61	2.00
Seed	9.00	7.20	12.00	9.60	8.00
Fuel & Lube	5.14	4.46	4.46	8.97	11.75
Repairs	6.74	6.19	6.63	8.98	8.41
Custom	1.75	4.10	3.20	4.75	7.68
Labor	6.93	6.60	6.60	6.60	5.49
Depreciation	20.47	13.84	14.21	17.79	17.71
Operating Interest	1.81	3.19	2.47	2.75	3.99
Overhead	2.04	3.00	3.00	3.00	3.00
Management	12.25	11.26	11.26	11.26	12.54
Machinery THII	15.30	11.90	12.12	15.83	16.24
Land Rent	48.75	60.00	60.00	60.00	72.00
Total Cost	\$139.58	\$159.54	\$164.79	\$179.36	\$230.62
Expected Yield	40	40	40	40	40
Price	\$2.20	\$2.75	\$3.23	\$4.57	\$7.50
Total Revenue	\$88.00	\$110.00	\$129.20	\$182.80	\$300.00
Net Return	-\$51.58	-\$49.54	-\$35.59	\$3.44	\$69.38
Break Even Price	\$3.49	\$3.99	\$4.12	\$4.48	\$5.77

Table 2. Cost and Return Budgets for Center Pivot Irrigated Wheat from 1999 to 2008

Cost Category	UNL Budget Year				
	1999	2001	2004	2006	2008
Fertilizer	22.90	42.40	43.36	80.16	146.40
Herbicide	0.00	4.14	4.16	4.26	3.30
Insecticide	0.00	1.26	1.32	0.61	0.87
Fungicide	0.00	10.20	11.24	11.24	8.92
Seed	18.00	14.40	24.00	19.20	15.60
Fuel & Lube	34.01	20.81	20.81	38.20	59.22
Repairs	10.29	10.40	9.45	9.97	7.97
Custom	5.25	11.80	9.60	13.75	21.31
Labor	11.61	8.07	8.07	6.27	6.27
Depreciation	26.89	25.48	24.81	28.59	28.60
Operating Interest	5.13	7.00	5.28	7.35	7.35
Overhead	5.36	6.00	6.00	6.00	6.00
Management	22.75	21.50	21.50	21.50	21.50
Machinery THII	19.50	9.70	8.62	9.43	9.43
Irrigation TII	2.99	0.72	12.04	14.87	14.87
Land Rent	75.41	100.00	95.00	110.00	132.00
Total Cost	\$260.09	\$293.88	\$305.26	\$381.40	\$489.61
Expected Yield	80	80	80	80	80
Price	\$2.20	\$2.75	\$3.23	\$4.57	\$7.50
Total Revenue	\$176.00	\$220.00	\$258.40	\$365.60	\$600.00
Net Return	-\$84.09	-\$73.88	-\$46.86	-\$15.80	\$110.39
Break Even Price	\$3.25	\$3.67	\$3.82	\$4.77	\$6.12