CORNHUSKER ECONOMICS

University of Nebraska–Lincoln Extension

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Institute of Agriculture & Natural Resources
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Leasing Decisions for the Volatile Year Ahead

Market Report	Yr Ago	4 Wks Ago	10/24/08
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$92.27	$97.79	$89.56
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	117.62	113.90	107.83
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	114.29	109.42	100.05
Choice Boxed Beef, 600-750 lb. Carcass	143.66	158.60	143.96
Western Corn Belt Base Hog Price Carcass, Negotiated	55.14	70.80	59.28
Feeder Pigs, National Direct 50 lbs, FOB	48.73	48.00	37.60
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	60.40	75.01	65.68
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct	*	95.50	95.50
National Carcass Lamb Cutout, FOB	264.88	270.39	264.89
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	7.38	6.34	4.50
Corn, No. 2, Yellow Omaha, bu.	3.43	5.26	3.64
Soybeans, No. 1, Yellow Omaha, bu.	9.22	11.06	8.47
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	6.41	7.82	4.79
Oats, No. 2, Heavy Minneapolis, MN , bu.	*	*	*
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	155.00	190.00	202.50
Alfalfa, Large Rounds, Good Platte Valley, ton	97.50	77.50	77.50
Grass Hay, Large Rounds, Premium Nebraska, ton	*	85.00	75.00
Dried Distillers Grains, 10% Moisture, Nebraska Average	*	167.50	147.50
Wet Distillers Grains, 65-70% Moisture, Nebraska Average	38.00	58.50	51.00

*No Market

As if the economic environment for production agriculture isn't risky enough already, we are now heading into an *'economic headwind'* that few of us could even have imagined just a few short months ago. A global financial system brought to a screeching halt along with massive asset devaluation, has brought the United States and the rest of the world community to a financial crisis unseen since the depression of the 1930s. While policy makers are responding with measures to divert economic disaster, there seems to be little disagreement that we are, in the very least, staring into the face of a potentially long and deep global recession.

For the agricultural production sector in this part of the country, we have in recent years, enjoyed profitable times. And thanks to the more conservative decisions of both lenders and borrowers, we are not experiencing the degree of economic hardship facing many other regions of the country. Nevertheless, serious impacts on the U.S. agricultural sector are still being felt. As seen by the recent down-turns in agricultural commodity prices, we in the nation's heartland are closely tied to the emerging realities of a global recession that could significantly curtail demand for both food and fuel.

In light of the above, both landowners and tenants face difficult leasing decisions for the year ahead. And the question is, "*what would be fair and reasonable to both parties*?"

Unfortunately, the answer is neither simple nor universal across all leasing situations. But there are some guiding principles.

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#1 *Today's level of economic risk and uncertainty trumps everything else.*

Both tenant and landowner need to heed the reality that risk exposure going into 2009 is greater than ever before.

In the case of cash leasing, the tenant basically carries the bulk of the annual risk, and the landowner must realize this risk is costly and becoming more so. Tenants cannot simply continue to bid up cash rents, in light of the fact that there is serious risk exposure on both the purchased-input side and the commodity price side. Perhaps the best advice for those renegotiating 2009 cash rental rates is, if the 2008 lease was at a rate that was reasonable and competitive for the local area, then it may be best to hold it at that rent level for 2009. In fact, using our *UNL Farm Lease Calculator,* with current commodity prices and projected 2009 input costs, we are generally concluding there is little economic justification for raising 2009 lease rates above the 2008 levels.

#2 Landowners hoping for higher cash rents in 2009 must be willing to take on their share of the risk.

For landowners, it's time to heed that familiar saying, *"No pain-no gain."* As dizzying as the markets for agricultural commodities and inputs are, landowners who don't want the management and marketing responsibilities of crop share leasing, and yet are looking for higher cash rent returns, could consider a *flexible cash lease,* where there would be a base payment and also a portion triggered on harvest time crop price levels and/or total seasonal crop revenues. Tenants also may be interested in this variation of a straight cash lease, since it can be part of their overall risk-management strategy. However, both parties need to be well informed and willing to expend some effort in developing a good flexible cash lease for their particular situation.

#3 During volatile times, the crop-share lease tends to be the most fair and equitable of the cropland leasing arrangements.

Over recent years, both tenants and landowners have tended to move towards cash leasing and away from crop-share leasing — tenants because of the greater management flexibility, and landowners because of the fixed cash payment they can count on with little management responsibility on their part. Now, however, as we try to ride out this global economic storm, it may be time for both parties to reconsider leasing on a crop-share basis. When a landowner and tenant have a good working relationship, they may agree, "We're in this together through both the ups and the downs."

But, bear in mind that some of the old traditional crop-share arrangements no longer fit the type of crop-production agriculture we have today. For example, under the conventional 50-50 crop share arrangement for irrigated land, the landowner's relative dollar contribution to the contract is often greater than that of the tenants. However, by altering the proportional shares of the variable inputs instead of sharing in the same proportions as output, the balance is basically restored. Again, using our *UNL Farm Lease Calculator,* both parties can assess the equity of the various shares of output and variable inputs to arrive at a fair arrangement.

#4 *Good relationships matter!*

Given the recent catastrophic meltdowns of our financial institutions, it should go without saying that economic decisions today based on mutual**trust, forthrightness** and **integrity** are more important than ever. In the case of agricultural land leasing, landowners, tenants and (if they are involved) professional farm managers, all need to be striving for one common cause — a fair and equitable leasing arrangement with the long-run sustainablility of the land and the agricultural community in mind. When that is achieved, there is a *win-win* outcome that will carry us through these volatile economic times ahead.

Note: The *UNL Farm Lease Calculator* and other leasing resources are available on the Department of Agricultural Economics website: http://www.agecon.unl.edu

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