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2012 Nebraska Crop Budgets

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CORNHUSKER ECONOMICS

University of Nebraska–Lincoln Extension

2012 Nebraska Crop Budgets

Market Report	Yr Ago	4 Wks Ago	12/9/11
Livestock and Products,			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$100.79	\$126.39	\$120.46
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb....	147.75	158.46	169.51
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb....	117.00	151.48	148.50
Choice Boxed Beef, 600-750 lb. Carcass.....	164.40	189.92	188.57
Western Corn Belt Base Hog Price Carcass, Negotiated.....	65.68	82.24	82.68
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	78.36	91.19	89.48
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.....	157.00	167.50	158.00
National Carcass Lamb Cutout, FOB.....	350.77	411.25	403.36
Crops,			
Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.....	6.74	6.22	5.93
Corn, No. 2, Yellow Omaha, bu.....	5.71	6.44	5.99
Soybeans, No. 1, Yellow Omaha, bu.....	12.71	11.60	11.00
Grain Sorghum, No. 2, Yellow Dorchester, cwt.....	9.27	10.84	10.04
Oats, No. 2, Heavy Minneapolis, MN, bu.....	3.99	3.39	3.24
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.....	140.00	190.00	155.00
Alfalfa, Large Rounds, Good Platte Valley, ton.....	72.50	132.50	132.50
Grass Hay, Large Rounds, Good Nebraska, ton.....	*	92.50	95.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.....	181.50	231.50	216.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.....	58.50	76.00	70.00
*No Market			

The 2012 Nebraska Crop Budget projections are complete. They will soon be available on the web as Adobe PDF files and also as Excel worksheets at <http://cropwatch.unl.edu/web/economics/budgets>. These include projected costs for 51 individual production systems covering 13 different crops.

Overall, average projected cash costs per unit of production for 2012 are almost 15 percent higher than the 2011 projections made in April.

Some of this increase is due to a higher labor wage. Twenty dollars per hour was used as the wage rate in 2012, compared to \$12 per hour in 2011. Wage rates vary substantially from one producer to the next, and there is no suitable index for determining a representative wage. It is not likely that actual wages paid increased that much from one year to the next, so this change represents an adjustment upwards as well as an estimated increase.

Higher energy prices are also a factor. Diesel prices increased from \$3.00 to \$3.50 per gallon, and electricity rates increased from \$0.088 to \$0.095 per kilowatt-hour. Diesel prices used in these budgets always appear low when compared to advertized retail prices, but highway taxes are not paid on fuel used off-road.

Machinery prices also contributed to increased cash costs. A formula from the American Society of Biological and Agricultural Engineers Handbook is used to estimate repair costs. This formula uses the list price for new, comparable equipment as the basis of estimation. These prices are obtained from the web sites of equipment manufacturers and are higher than those used in past years. As an example, the list price used for a 175 horsepower tractor in the 2012 budgets is \$178,000, compared to \$141,262 in 2011.

The increased cash costs per unit varied substantially between the different systems for a given crop. For

instance, it increased 19.3 percent per bushel for corn in an ecofallow corn-wheat rotation (going from \$2.58 to \$3.08 per bushel), compared to a 9.7 percent per bushel increase for a pivot irrigated, no-till, corn-soybean rotation system (going from \$2.24 to \$2.46 per bushel).

The increased cash cost per bushel of soybeans produced varied from just over six percent for dryland, tilled soybeans (going from \$3.91 to \$4.16 per bushel) to over 17 percent for a ridge-tilled, gravity irrigated system (going from \$4.15 to \$4.86 per bushel).

Average increases in cash costs for other crops include 15.5 percent per ton for sugar beets (going from \$25.33 to \$29.25), 18.5 percent per bushel for wheat (going from \$3.36 to \$3.98 per bushel), and 15.7 percent per bushel for dry beans (going from \$12.87 to \$14.89 per cwt).

Increased cash costs only tell part of the story. When non-cash costs are added, the average increase in cost of production per unit for all budgets is nearly 17 percent higher in 2012 than it was in 2011. Most of these non-cash cost increases are machinery depreciation, which is also impacted by higher list prices for new, comparable machines.

It is possible that increases in non-cash costs will be much greater than projected in these budgets because of increasing farm real estate values. The budgets include an opportunity cost for land which is obtained by multiplying the estimated real estate value times four percent. The projected 2012 crop budgets use real estate values obtained from the 2010-2011 Nebraska Farm Real Estate Market Development Report. Results from the 2011-2012 survey will not be available until later this spring. However, reports of some sales indicate that farm real estate values are increasing rapidly.

While these budgets can provide useful information, it is important to realize that they rely on a set of assumptions that may not represent any individual farm operation. Given the diverse nature of farming, production costs probably vary substantially throughout the state, and from one operation to the next for a given locale. Managers are advised to develop budgets specific to their individual operations, so they can make informed decisions.

The Excel spreadsheets used to create these budgets are also available on the web, so they can be downloaded and modified where desired. However, another ‘System-wide’ spreadsheet is available from the University of Nebraska-Lincoln’s Agricultural Economics Department, designed to be used by individual producers. It uses the systems approach to budgeting where multiple, interactive budgets are created to simultaneously calculate the costs of all enterprises in an entire operation.

Calculating all enterprise budgets for an operation in a single spreadsheet provides the opportunity for the

software to allocate system-wide costs, such as tax accounting, insurance, etc., to the individual enterprises. It also allows for machinery costs to be allocated among the enterprises based on use. Another important benefit when all enterprises in an operation are in a single spreadsheet is it provides for economic and financial analysis.

Budgeting is a process for modeling the economics of an operation. This model’s usefulness, like all models, depends to a great extent on how accurate it is. An accurate model is very valuable for testing alternatives, while an unreliable model may be detrimental. Measuring the accuracy of a model and making adjustments to improve accuracy is known as validation. UNL’s spreadsheet for system-wide crop budgeting provides both a method for evaluating the models reliability as well as making adjustments needed for validation.

Budgeting takes time and the commitment of management. While the budgeting spreadsheet facilitates the process, it doesn’t make it easy. In fact, it may not be worth the effort to create a single budget. However, once a set of budgets have been created and validated, the value of easily making modifications to a spreadsheet may prove to be well worth the effort to create them.

Producers wanting to evaluate the Excel templates for system-wide crop budgeting should contact Roger Wilson by email at rwilson6@unl.edu, by calling (402) 472-1771 or by writing to:

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