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CORNHUSKER ECONOMICS

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University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
<http://agecon.unl.edu/cornhuskereconomics>

Adjusting Farm Custom Rates and Grain Storage Rental Rates for 2011

Market Report	Yr Ago	4 Wks Ago	3/25/11
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$94.00	\$112.00	\$115.00
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	129.10	152.22	151.23
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	108.43	129.31	133.64
Choice Boxed Beef, 600-750 lb. Carcass.	161.73	169.90	187.66
Western Corn Belt Base Hog Price Carcass, Negotiated.	65.95	80.76	83.61
Feeder Pigs, National Direct 50 lbs, FOB.....	*	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	72.39	91.77	93.06
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.....	*	172.50	204.50
National Carcass Lamb Cutout, FOB.	273.75	361.89	389.32
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.....	3.60	7.58	7.06
Corn, No. 2, Yellow Omaha, bu.	3.45	7.02	6.61
Soybeans, No. 1, Yellow Omaha, bu.	9.34	13.31	13.35
Grain Sorghum, No. 2, Yellow Dorchester, cwt.....	5.46	11.68	10.98
Oats, No. 2, Heavy Minneapolis, MN, bu.	2.12	3.87	3.46
<u>Feed</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	135.00	130.00	140.00
Alfalfa, Large Rounds, Good Platte Valley, ton.....	87.50	72.50	72.50
Grass Hay, Large Rounds, Premium Nebraska, ton.	*	*	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	100.00	204.25	196.50
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	31.00	68.75	69.50
*No Market			

Custom Rates - How much should custom rates be adjusted this year? That's a question on the minds of a lot of operators as they prepare to go to the field. The economic structure of agriculture has changed dramatically in the past 12 months. Unfortunately, this is the off-year to conduct our biennial Nebraska Custom Rates Survey. The survey was last conducted a year ago, in the January to March time period of 2010.

Increased Costs Due to Fuel Price Increases - The big change in machinery costs in the past year is fuel costs. When the survey was completed last year, rates were based on a diesel fuel price of about \$2.50 per gallon. This year the farm delivered price could be a dollar higher, or an increase of 40 percent.

1. Fuel Consumption Approach

Fuel consumption varies considerably with the field operation being performed and the size of the power unit. Below are average fuel consumption rates by the type of operation, and the corresponding increase in machinery costs based on a diesel price of \$3.50 per gallon:

	Fuel Use Gal/Acre	Increased Fuel Costs/Acre
Chiseling and	0.6	\$.60
Field Cultivating	0.4	\$.40
Planting	0.6	\$.60
Haying Operations	0.5	\$.50
Combining	2.0	\$2.00

Note that these are averages. The fuel consumption for your specific operation or situation may vary from these averages. If for example, the custom rate for combining was \$28 per acre in 2010, this increase in diesel cost would result in \$30 per acre as an appropriate charge in 2011. This does not account for corresponding increases in lubrication costs.

The percentage of total costs represented by fuel costs varies with the operation. Following are general guidelines for fuel costs as a percentage of total ownership and operating costs:

Tillage Operations	7%
Planting	10%
Combining	15%
Haying Operations	12%

For tillage operations, for example, this means that the other costs of owning and operating machinery are 93 percent. This includes repairs, depreciation, overhead (including interest and insurance) and labor.

2. Rule of Thumb Approach

A rule of thumb sometimes used is for every \$.50 per gallon increase in fuel price the total costs of machinery operations increase about five percent. Hence, for a dollar increase in the fuel costs, total machinery costs would increase ten percent. With the \$28 per acre example combining charge, this would result in an increase of \$2.80 per acre, or a revised charge of \$30.80 per acre.

Other Machinery Cost Increases

Based on the changes in the indexes of farm input costs over the past year, other custom rate cost components have increased as follows:

Supplies and Repairs	3%
Machinery Prices	3%
Wage Rates	2%

These percentages indicate that the costs of owning machinery and performing field operations have increased about three percent in the past year, in addition to the fuel cost increases.

Combining Fuel Costs and Other Machinery Costs

By weighting the fuel costs and the other machinery costs, a weighted percentage increase in the costs of providing machinery services can be calculated. The cost components are as follows:

	Percentage of Total Costs	
	Fuel	Other Costs
Tillage Operations	7	93
Planting	10	90
Combining	15	85
Haying Operations	12	88

By factoring in fuel cost increases of 40 percent and other cost increases of three percent, the total cost increases are as follows:

Tillage Operations	5.6%
Planting	6.7%
Combining	8.6%
Haying Operations	7.4%

Summary

These calculations show that based on diesel increasing about a dollar a gallon over a year ago, the costs of performing custom operations have increased from five to nine percent over the rates reported in the 2010 Custom Rates Survey.

Renting Grain Storage

There has been an increased demand for any available on-farm grain storage facilities in the last few years. This increased competition, combined with higher grain prices has moved storage rental rates up somewhat. Commercial rates have also increased in recent years. Typically, on-farm storage rates have been about three-fourths of the local rates for commercial storage. A discussion of grain storage costs, including example calculations was presented two years ago in the April 1, 2009 *Cornhusker Economics* newsletter. That article can be referenced at: <http://go.unl.edu/9k7> or you may go to <http://agecon.unl.edu>, click on "More Cornhusker Economics" - 2009 - and then the article for 4-1-09. Those calculations showed the full cost of owning a 20,000 bushel bin with drying facilities was \$0.20 per bushel per year.

For on-farm storage, a seasonal rate is recommended rather than a monthly rate. The seasonal rate allows flexibility to the renter in terms of when the grain will be removed, but guarantees the owner an income for the year, since they have only one chance to rent it each year. The seasonal rate is also based on the capacity of the bin, rather than on how many bushels might be put in the bin. In today's market, seasonal rates are in the range of 16 to 20 cents per bushel, or possibly higher depending on the local supply and demand. Some rental arrangements put a limit on how long the rental period is, but typically it is for at least six months.

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