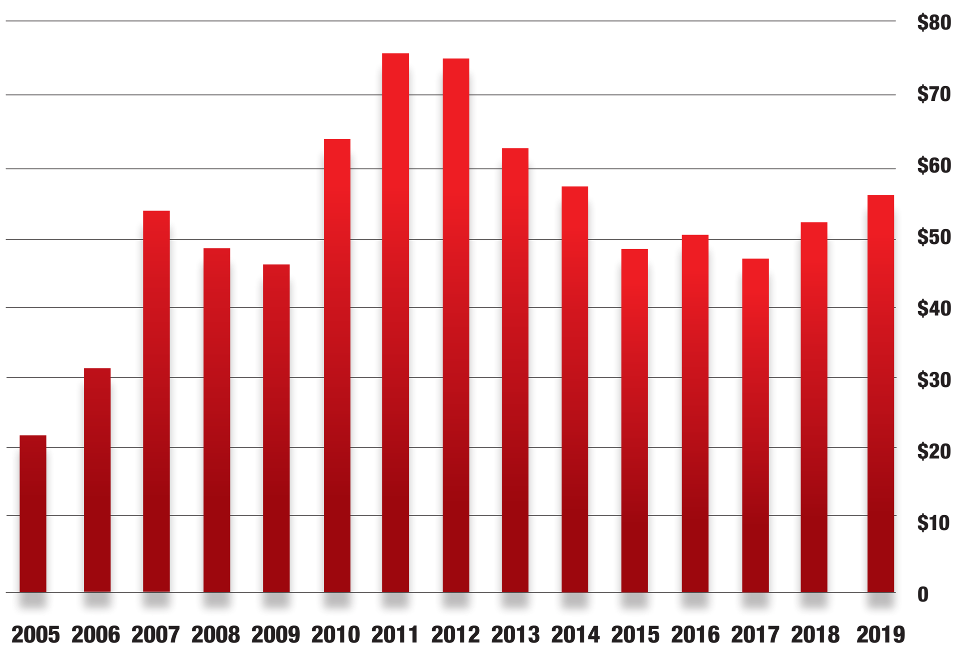
By Al Kluis

Revenue per Acre: Corn (2018 and 2019 Est.)



The corn revenue chart is the main driver of farm profits in the Corn Belt. When revenue is moving higher, farm profits increase. This chart shows the large increase in corn revenue from 2005 to the peak in 2011. It's worth noting that corn revenue turned lower in 2012 even though prices went to new all-time highs. Corn revenue in 2012 went down because of lower yields. If my projections for 2019 are correct, then the two years of higher revenue will confirm 2017 as a major low in corn revenue and profits.

HOW TO STAY PROFITABLE IN TOUGH TIMES

HERE ARE THREE GOOD HABITS TO INCREASE YOUR PROFITS IN 2019.

I enjoy speaking at farm seminars and industry meetings across the U.S. This winter, I logged a lot of frequent flyer – and driver – miles speaking at farm meetings, seed meetings, futures industry meetings, and bank meetings. I learn a lot from the questions I get at these gatherings.

I also enjoy sitting in on other speakers' presentations. Recently, I was asked to speak at a banker convention. I learned a lot about how banks look at ag credit and how banks can work with farmers to keep the farms in business during a time of sustained low prices.

In 40 years of working with farmers, I have always looked at my customers as being in four categories.

- **10% have nonfarm income as the largest source of income.** In most of these farms, they have high-paying off-farm jobs to help them stay liquid and profitable even in the tough times.
- **30% have a lot of equity.** They make money in low-price years and a lot of money in high-price years.
- **30% are usually younger.** They have more debt and leverage. They stay profitable by maximizing yields and making the right marketing decisions.
- **30% struggle to keep profitable.** They are carrying too much debt or they do not have a good marketing plan. This last 30% work hard, but they are not always taking a business approach to their farm.

The lending conference I attended was focused on the bottom 25% of the farms. These farms had difficulty making their payments on time or they were delinquent on their loans by more than 30 days. The focus on the bottom 25% was not to liquidate the farm. The focus was on how to restructure the debt, reduce the debt load, or get more collateral to shore up the loan.

The banks with the most regulatory scrutiny had more than 25% of the ag loans in their loan portfolio behind in payments or were unable to project a profit in 2019. As an outsider hearing these numbers, I was impressed with how hard most banks will work with the farmers who are struggling. I also was amazed at how the top 30% of the farms have stayed profitable – even increased profits – in the last three years.

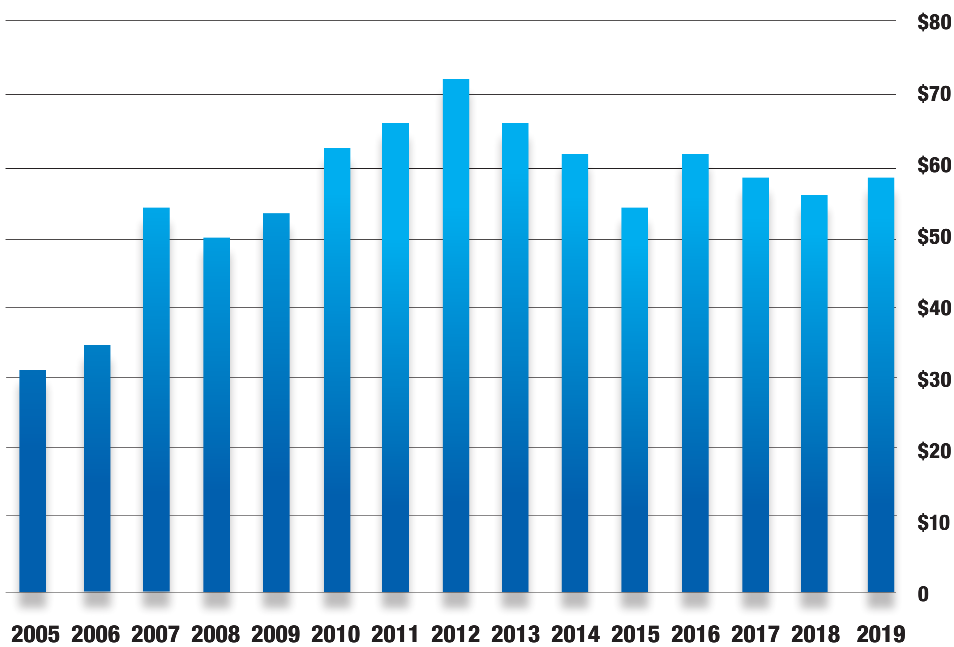
A lot of those profitable farms in that top 30% are my customers. I have studied in depth what this top group of farmers do to maintain good profit margins in the current low price environment.

3 GOOD HABITS

Following are three good habits that I see on those farms that stay profitable.

1. They manage their costs. The two main variables I observe from farm to farm are the land rent they pay and equipment costs. The profitable farms are will-

Revenue per Acre: Soybeans (2018 and 2019 Est.)



This chart shows the dramatic increase in soybean revenues from 2005 until 2012. The combination of higher yields and higher prices had a dramatic and positive impact on soybean profits for seven years. Soybean revenue appears to have hit a major low in 2015 and even with the economic turmoil in 2018, prices and profits held above 2015. I look for a slight increase in total soybean revenue in 2019. Note that the 2018 soybean revenue does not include the $1.65 Market Facilitation Program payment.

ing to pay high rent, but only for land that has high yield potential.

The other big difference is in equipment cost. The profitable farms cover a lot of land and they have a low cost per acre. They are not afraid to sell off equipment they are not using. Some of the smaller farms have older pieces of equipment that do a good job and they do not have any annual payments on that equipment. That is how they keep their cost low. Many medium-size farms have worked out a way to share equipment with neighbors to reduce their cost per acre.

2. They do whatever they can to maximize yields. They may have older equipment. However, they have invested in technology, so they have a planter that results in ideal seed placement and the right seeding rate per acre. Their crops are planted on time. They work with their seed supplier to get the right seed on the right field.

> **The farmer who can reduce costs by 5%, increase yields by 5%, and increase average selling price by 5% can make an additional $50 to $75 per acre.**

3. They work hard at marketing. They have a marketing team and they have a marketing plan. They are proactive in making new-crop sales on weather scare rallies. They understand grain merchandising. By making the right merchandising decisions and using their bins, they can add 30¢ to 50¢ per bushel each year.

The farmer who can reduce costs by 5%, increase yields by 5%, and increase average selling price by 5% can make an additional $50 to $75 per acre. For most farmers, that is the difference between a profit and a loss the last several years. That will likely be the same in 2019. SF

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Al Kluis has been trading grain futures since 1974. Sign up for a free trial to his daily morning email and weekly "Al Kluis Report" by going to alkluis.com.

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