Enterprise budgets help producers shift cropping strategies to increase returns

AT A GLANCE
Economic tools allow producers to measure the relative profitability of different crop options using their own data, tailoring budgets to their individual farm and evaluating alternatives.

The Situation
Farmers are typically price-takers, with no impact on crop prices. They deliver their crops to the local elevator, perhaps trying to market them several times during the year when prices look better than average. Due to a worldwide grain glut and a strong dollar, grain prices fell dramatically in 2016 and have only risen slightly since that period, causing a dramatic shift in relative returns by crop (Fig. 1). Careful analysis of relative economics by crop choice is needed to reduce losses during periods of low crop prices.

Most farmers know their total costs for seed, fertilizers, chemicals, fuel, labor, machinery, insurance and land, as they have to gather this information for tax purposes and crop-share arrangements. However, few farmers analyze relative profitability by crop each year in order to determine the profit-maximizing combination of crop choices. While grain crops are typically the most profitable choices in the dryland inland northwest production region, in recent years all grain crops were unprofitable for the typical producer. Alternative crops including garbanzos and lentils were the only profitable crop options in the 2016-2017 period (Fig. 1, bottom).

Our Response
To highlight this drastic shift in relative profitability by crop, an UI Extension bulletin with accompanying crop budgets was produced (Painter, 2017). These enterprise budgets are developed in Microsoft Excel, which are easily updated each year and can be tailored to each individual. They are available online at the Idaho AgBiz website.

Program Outcomes
The dramatic decline in returns for soft white winter wheat, the dominant crop in this region, falling from an average of $64 per acre during 2011-2015 to a negative $82 per acre in 2016, has large direct and indirect economic repercussions. These results were presented
at various producer events in northern Idaho, including a report at the Boundary County Variety Trials and Field Day in 2017, a poster at the 2018 Cropping Systems Conference in Kennewick, WA, and at the 2018 Cereal Schools held in Lewiston, Greencreek and Bonners Ferry.

In response to these conditions, average acreage of garbanzos increased over 70 percent in the 2017-2018 crop years relative to the 2011-2016 period in Idaho’s northern district (Fig. 2). In the same period, planted acreage for winter wheat, typically grown on over 40 percent of all acreage, fell from an average of 347,450 acres from 2011-2016, to 305,100 acres in 2017, a decline of about 14 percent (Fig. 3).

These enterprise budgets serve many useful purposes for our clientele, from farm-level decision making, including lease arrangements and capital purchases, to informing broader policy implications such as crop breeding programs, pesticide registrations and crop insurance programs. They are used in legal settings as well, helping to determine crop values in different stages of production. Researchers also rely on current crop enterprise budgets to measure feasibility of potential alternative crops, among other uses.

The Future

While our UI Extension efforts cannot claim full credit for this reduction in planted acreage, no doubt our efforts to highlight this condition served to increase the bottom line for a large number of producers across the region by helping them access, use and understand these enterprise budgeting tools and increase their profitability at the farm level.


FOR MORE INFORMATION

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