

COSTS OF PRODUCTION

A Quick Guide

An Overview of Reasons, Tips, and Tools for Maintaining Economic Oversight of Your Operation

Why Should We Care?

Crop prices have dropped from historical highs...

...and cattle prices are not far behind

Ag market downturn is even evident in input markets!

Where are Ag Markets Heading?

Most crops: 2015/16 and 2016/17 are predicted to be 10-year low points

Cattle: expected continued price drop
Other livestock: similar to crops

Source: FAPRI, Aug 15

Factors that Will Potentially Affect Markets

El Nino, Interest rates, TPP, Exchange rates, Geopolitics

Don't Forget Uncertainty

Lines indicate level of uncertainty (coefficient of variation)

Source: Lawrence, et al., 2016

Great! Now What?!!

Better Yet...

If Economists Were to Become Farmers, Where Would They Start?

Assemble the Data

Pick the low-hanging fruit: What are the easiest data to gather?

Tips and Ideas

Try to get a historical perspective: 5-10 years

Organize, organize, organize: time consuming but worth it

2 Consider Economic Costs

IRS (Schedule F) collects accounting costs

Necessary to also consider opportunity costs (i.e., forgone revenue opportunities)

Common Examples:

Your labor requirements

If you didn't farm, you could be earning money elsewhere

Opportunity cost of using land

If you didn't use your land for farming, you could lease or sell it

Tips and Ideas

Opportunity cost of land can be approximated using land rental rates (for Montana counties: goo.gl/3Yubm1)

Labor rates can be approximated using:

- Custom application rates
- Machinery use in hours per acre (sources and links below)

3 Benchmarking

How you might feel about your operation before benchmarking to others...

...and how you might feel after benchmarking to others

Finding Benchmark Information

Data are nearly non-existent; 1996 was last large-scale data collection effort

MT Dept of Ag 2014 models: goo.gl/SbVUSZ

North Dakota (northwestern) is most consistent source, but is it representative?

NDSU 2016 models: goo.gl/I10fyB

Northern Idaho is closest match, but most recent version is 2014

U. Idaho 2014 models: goo.gl/kYYNq8

Other opportunities:

- Private financial and lending organizations
- Co-operatives and producer organizations

MSU's Dept of Ag Econ & Econ Cost of Production Project

Objectives: Develop producer-driven benchmarking database and tools

Current status: Collected base information; developing web-based anonymous data collection modules

Methods: Anonymously collect MT producers' information to establish aggregated detailed economic benchmarks

Biggest need: Producer buy-in and participation

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View as infographic with clickable links

<https://goo.gl/44ku7E>