

Crop Risk Management for 2024

Prices, Budgets, and Risk Management Decisions

farmdoc



Gary Schnitkey



Nick Paulson

2024 Risk Management Series

Today's webinar

- Budgets
- 2024 decisions
- Looking ahead to 2025

March 4, 2024 @ 11 am

- Crop insurance decisions in greater detail



Topics

- Prices
- Production Costs
- 2024 Risk Management decisions
 - Marketing
 - ARC or PLC
 - Crop insurance
- Longer-term



Context

Farm Incomes were exceptional in 2021 and 2022

Most farmers have (re)built
a strong financial position

Lower prices, Continued high costs

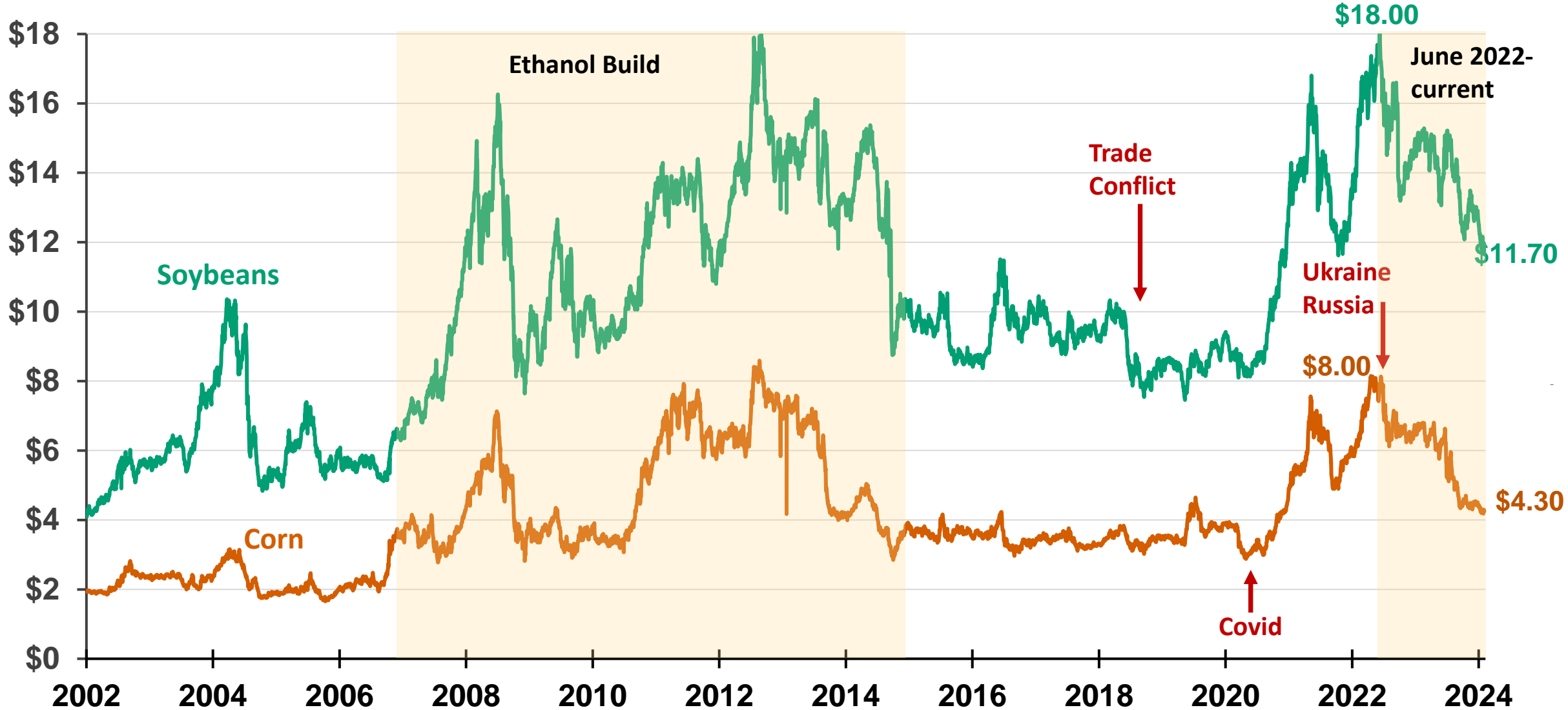
→ higher break-even prices, lower returns



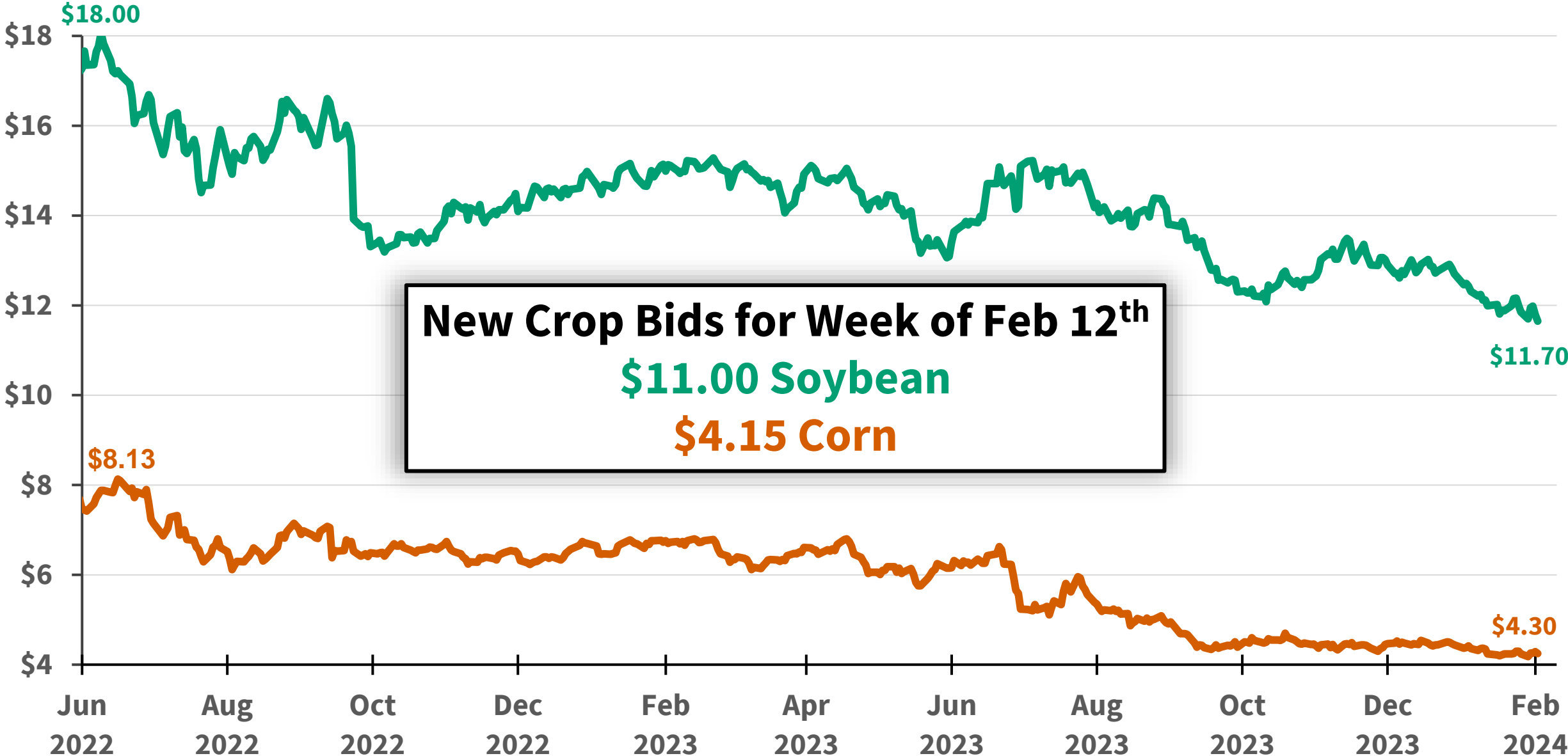
Corn and Soybean Prices



Corn and Soybean Cash Prices, Central Illinois



Corn and Soybean Cash Prices, Central Illinois



U.S. Prices by Marketing Year

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Corn	3.61	3.56	4.53	6.00	6.54	4.80	4.40
Soybeans	8.48	8.57	10.80	13.30	14.20	12.65	11.20
Wheat	5.16	4.58	5.05	7.63	8.83	7.20	6.00
							PROJECTED

National Market Year Average (MYA) price by year

- September to August for corn and soybeans
- June to May for wheat

USDA price forecasts

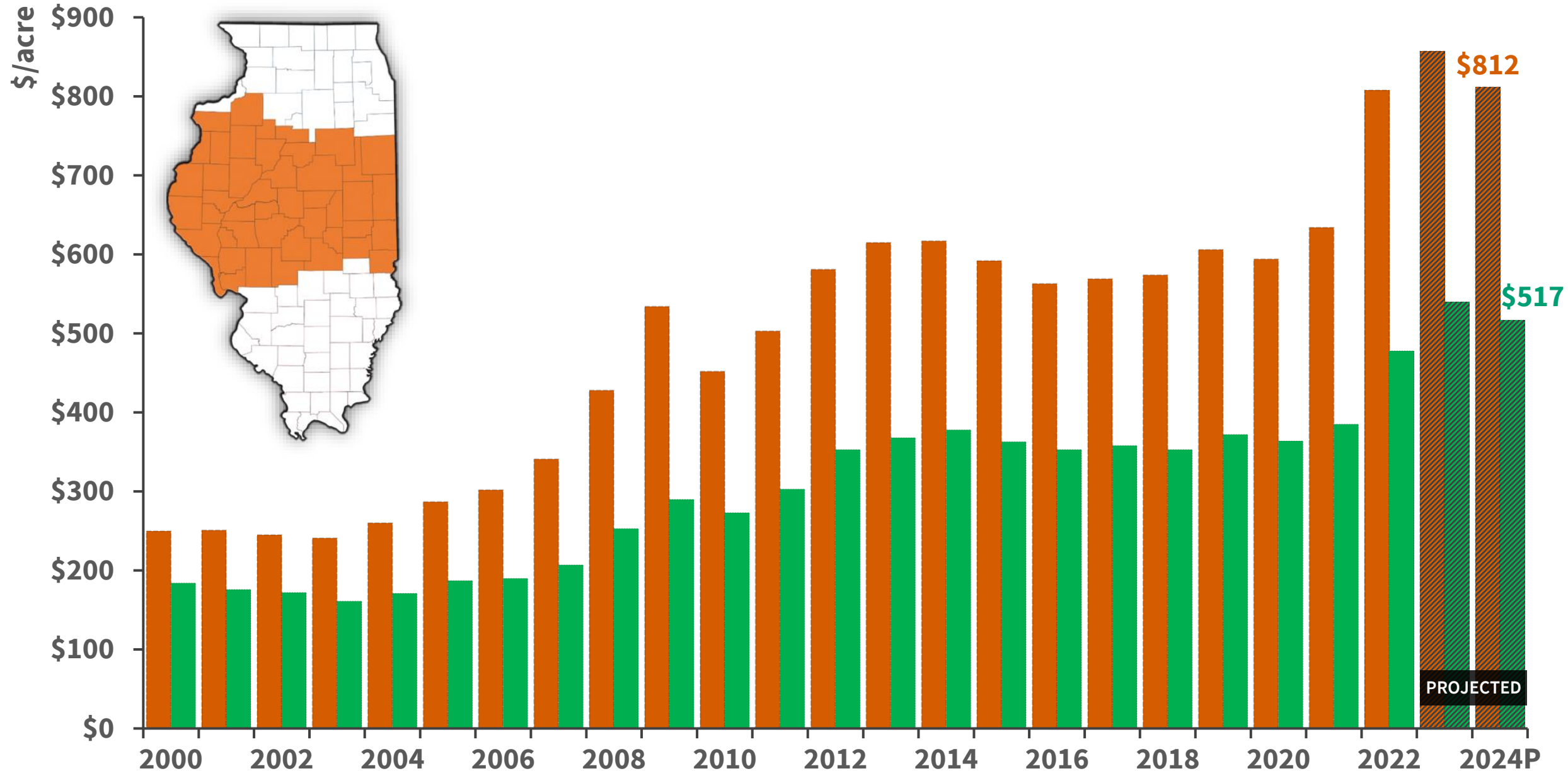
- 2023-24 is USDA forecast from Feb WASDE
- 2024-25 is USDA forecast from last week's Outlook Forum
- Longer-term USDA prices, glide paths by 2026 to **\$4.30 corn, \$10.50 soybeans, \$6.00 wheat (Ouch!)**

Production Costs

for Central Illinois High Productivity Farmland



Total Non-Land Costs of Producing Corn and Soybeans, Central Illinois

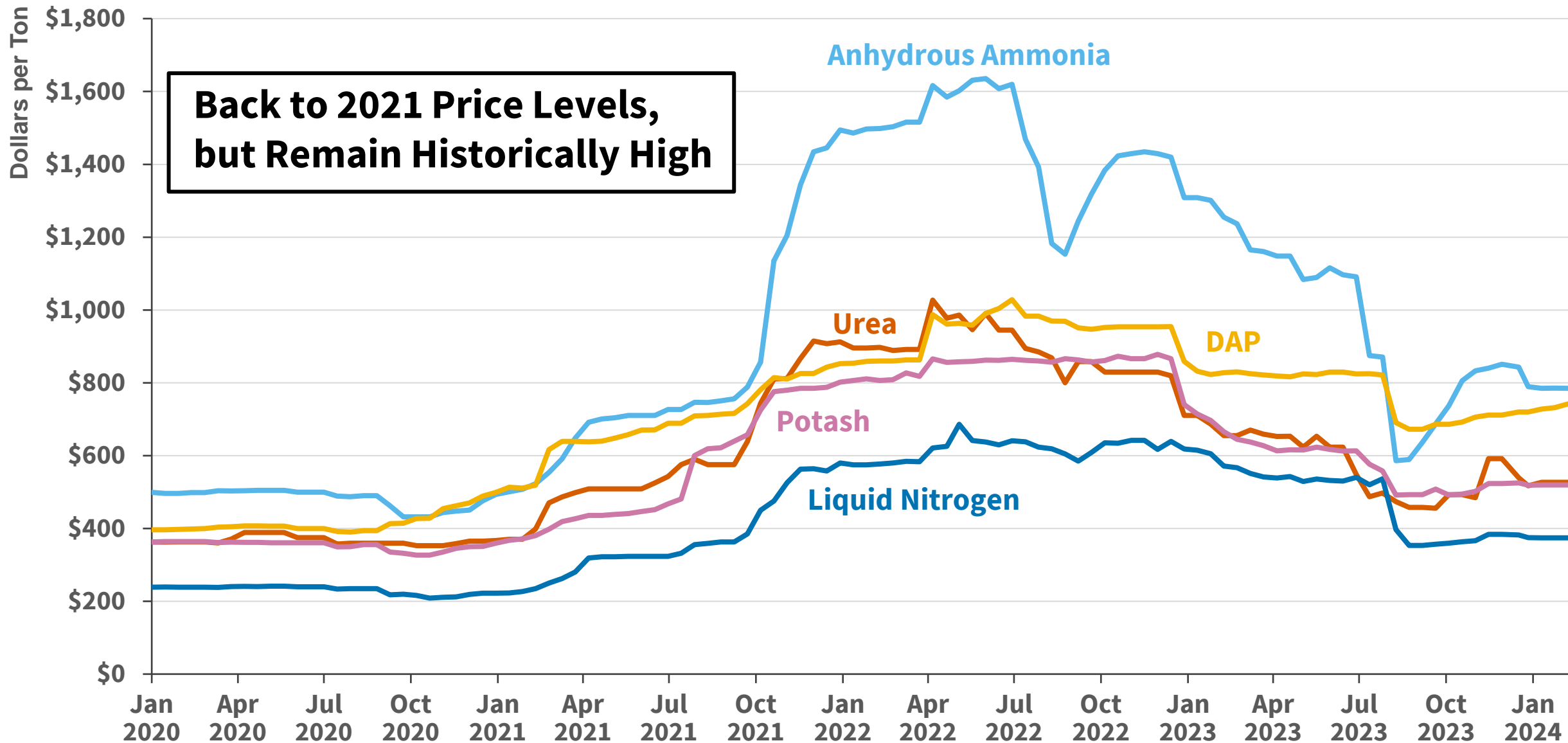


Source: Illinois Farm Business Farm Management

Avg Fertilizer Prices

Illinois Production Cost Report from Jan 4, 2020 to Feb 8, 2024

AMS Livestock, Poultry and Grain Market News IL Dept. of Ag Market News



Avg Diesel Fuel Prices

Illinois Production Cost Report from Jan 4, 2020 to Feb 8, 2024

AMS Livestock, Poultry and Grain Market News IL Dept. of Ag Market News



Corn and Soybean Budgets, Jan 2024

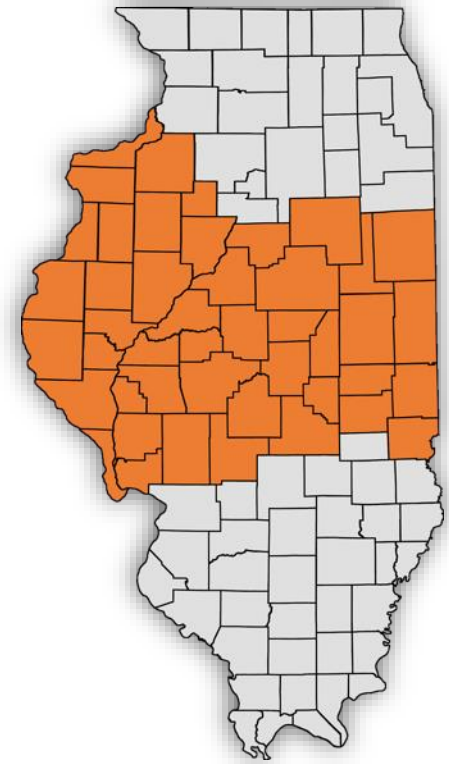
Central Illinois



	Corn			Soybeans		
	2022	2023P	2024P	2022	2023P	2024P
Yield per acre	235	222	227	71	69	72
Price per bu	\$6.40	\$4.80	\$4.50	\$14.00	\$12.90	\$11.50
Gross revenue	\$1,506	\$1,076	\$1,022	\$998	\$890	\$828
Total direct costs	\$558	\$579	\$520	\$252	\$295	\$261
Total power costs	\$167	\$187	\$190	\$149	\$161	\$165
Total overhead costs	\$83	\$91	\$102	\$77	\$84	\$91
Total non-land costs	\$808	\$857	\$812	\$478	\$540	\$517
Operator and land return	\$698	\$219	\$210	\$520	\$350	\$311
Land costs	358	363	363	358	363	363
Farmer return	\$340	-\$144	-\$154	\$162	-\$13	-\$52

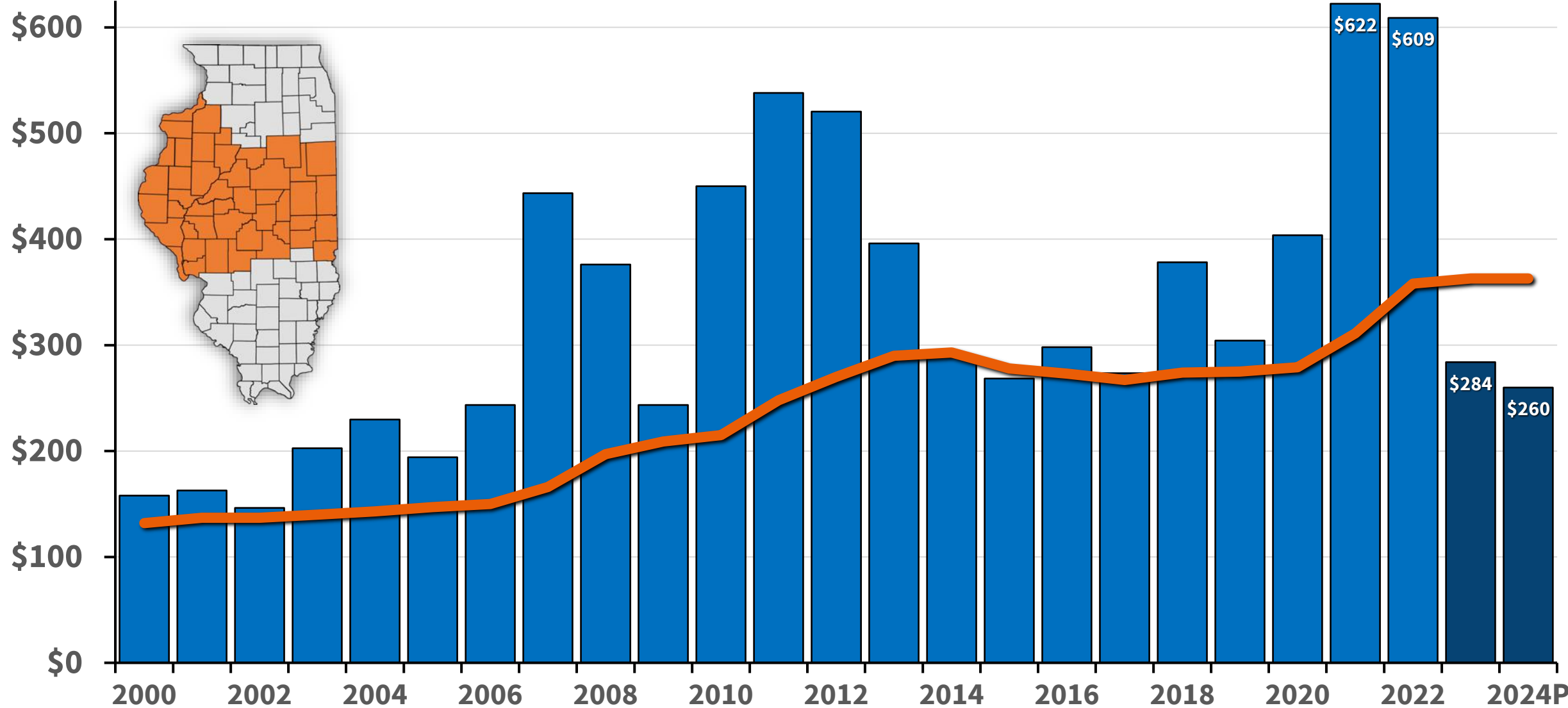
2024 Break-even Prices

Central Illinois

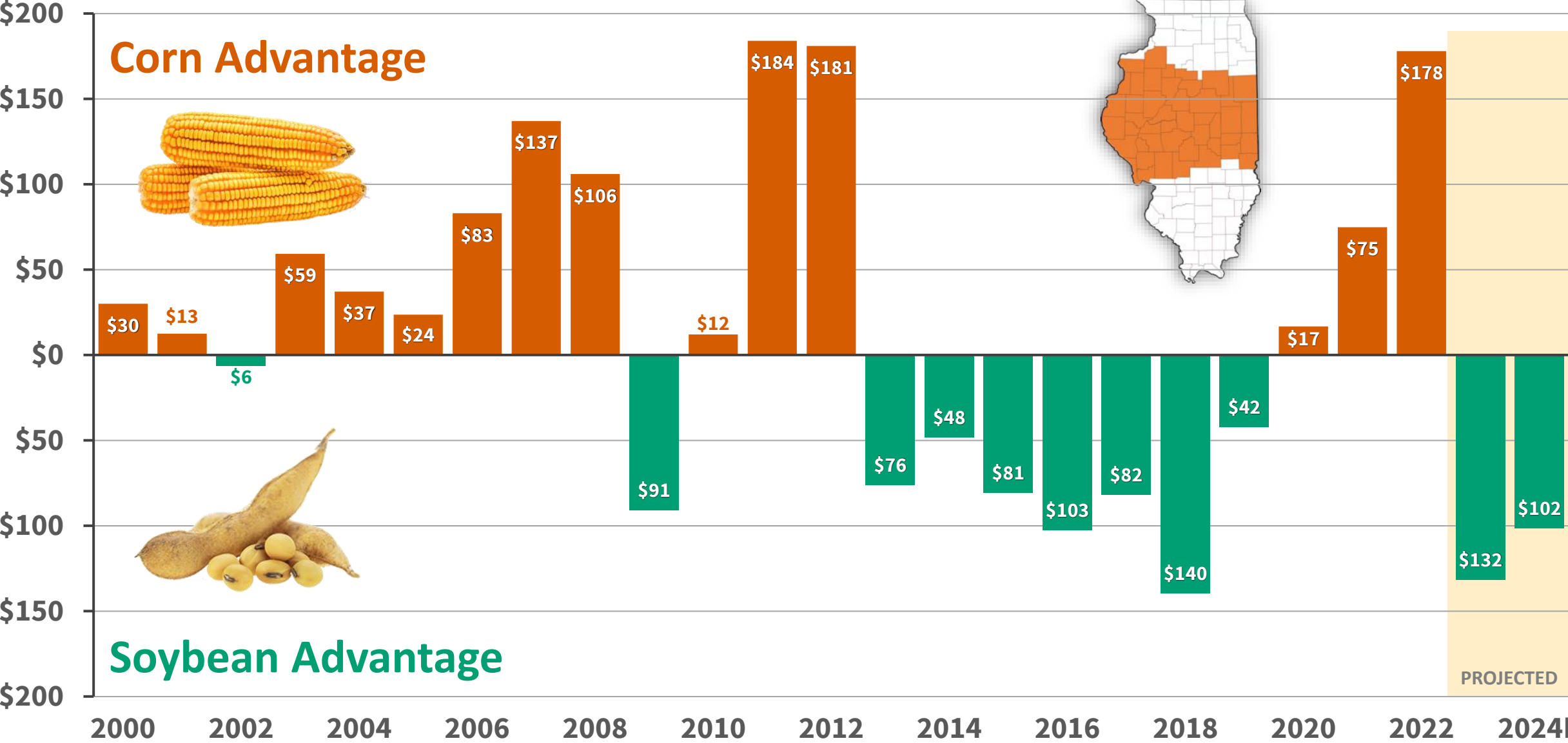


To Cover:	Corn	Soybeans
Non-Land Costs	\$3.58	\$7.18
Non-Land + Cash Rent	\$5.18	\$12.22

Operator and Land Return and Cash Rent in \$ per acre Central Illinois, 50-50 Corn-Soy Rotation



Corn Advantage Over Soybeans, Central Illinois



2024 Risk Management Decisions

- Marketing
- ARC or PLC
- Crop insurance

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Are you marketing more of the 2024 crop than at this point last year?

Yes

No



Marketing

Table 2. Typical Amounts of Pre-Harvest Hedging by Date Prior to Harvest.

Date [rior to harvest	None	Percent of Expected Corn Production ¹					Average Percent Hedged ²
		1 and 10%	11 to 25%	25 to 50%	50 to 75%	Over 75%	
January 1	29%	33%	34%	3%	1%	0%	10%
April 1	16%	15%	34%	28%	5%	2%	22%
July 1	9%	2%	14%	38%	33%	4%	41%

¹ Farmer were asked how much of 2018 expected production was forward priced using forward of futures contract.

² Average percent hedged weight responses to arrive at an average percent hedged.

fdd

From farmdoc Daily, May 15, 2018

<https://farmdocdaily.illinois.edu/2018/05/pre-harvest-hedging-revenue-protection.html>

Need to track pricing opportunities carefully over the next few months

2024 Commodity Title Choices

ARC vs PLC

have till
March 15th
to make decision

MARCH						2024	
SUN	MON	TUE	WED	THU	FRI	SAT	
31					1	2	
3	4	5	6	7	8	9	
10	11	12	13	14	15 ARC ? PLC ?	16	
17	18	19	20	21	22	23	
24	25	26	27	28	29	30	

but do not wait until the 15th

The Decision

Have until March 15

Farm	Program Crop	Crop Choice	OR
FSA Farm 1	Corn	PLC/ARC-CO	ARC-IC
	Soybeans	PLC/ARC-CO	
FSA Farm 2	Corn	PLC/ARC-CO	ARC-IC
	Soybeans	PLC/ARC-CO	

Situations where ARC-IC might be considered:

- Farms with significant production variability
- Highly productive farms (farm benchmark yield significantly higher than county benchmark yield)
- “High” share of FSA farm acreage planted to non-program crops

<https://farmdocdaily.illinois.edu/2019/10/the-case-for-looking-at-the-arc-ic-arc-individual-program-option.html>

Where are you leaning for program choice for CORN?

- ARC-CO
- PLC
- ARC-IC
- Portfolio approach (multiple programs)



Where are you leaning for program choice for SOYBEANS?

- ARC-CO
- PLC
- ARC-IC
- Portfolio approach (multiple programs)



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Commodity Title Choice

- Payments still fairly unlikely on corn, soybean, or wheat base even with lower price expectations.
- Lean to ARC-CO for corn and soybeans, PLC for wheat, but....
- Other Considerations:
 - Crop insurance choices/options (use of SCO requires PLC)
 - What type of risk concerns you most?

Corn, from Farm Bill What If Tool

Program Selection	PLC minus ARC-CO	State = Illinois, County = Champaign, Crop = Corn, Year = 2024 ARC-CO Benchmark Yield = 224.84, Benchmark Price = \$4.85, Guarantee \$937.81 PLC Yield = 180, Effective Reference Price = \$4.01
Price Change	\$ 0.15	
Yield Change	5	

-2024												
County Yield	2024 Market Year Average Price											
	\$3.25	\$3.40	\$3.55	\$3.70	\$3.85	\$4.00	\$4.15	\$4.30	\$4.45	\$4.60	\$4.75	
250	24	18	27	36	24	2	0	0	0	0	0	
245	24	4	12	20	24	2	0	0	0	0	0	
240	24	1	-3	5	12	2	0	0	0	0	0	
235	24	1	-18	-11	-4	2	0	0	0	0	0	
230	24	1	-22	-27	-21	-14	0	0	0	0	0	
225	24	1	-22	-43	-37	-31	-4	0	0	0	0	
220	24	1	-22	-45	-53	-48	-22	0	0	0	0	
215	24	1	-22	-45	-68	-65	-39	-12	0	0	0	
210	24	1	-22	-45	-68	-82	-57	-30	-3	0	0	
205	24	1	-22	-45	-68	-91	-75	-48	-22	0	0	
200	24	1	-22	-45	-68	-91	-92	-67	-41	-16	0	

* A positive value indicates that PLC will pay more, a negative value indicates that ARC-CO will pay more.

Soybeans, from Farm Bill What If Tool

Program Selection		State = Illinois, County = Champaign, Crop = Soybeans, Year = 2024										
Price Change		ARC-CO Benchmark Yield = 71.09, Benchmark Price = \$11.12, Guarantee \$679.85										
Yield Change		PLC Yield = 60, Effective Reference Price = \$9.26										
-2024												
County	2024 Market Year Average Price											
Yield	\$7.75	\$8.15	\$8.55	\$8.95	\$9.35	\$9.75	\$10.15	\$10.55	\$10.95	\$11.35	\$11.75	
81	33	40	36	16	0	0	0	0	0	0	0	0
79	20	27	33	16	0	0	0	0	0	0	0	0
77	10	13	19	16	0	0	0	0	0	0	0	0
75	10	-1	4	9	0	0	0	0	0	0	0	0
73	10	-11	-10	-6	0	0	0	0	0	0	0	0
71	10	-11	-25	-21	-13	0	0	0	0	0	0	0
69	10	-11	-31	-36	-29	-5	0	0	0	0	0	0
67	10	-11	-31	-51	-45	-22	0	0	0	0	0	0
65	10	-11	-31	-51	-61	-38	-16	0	0	0	0	0
63	10	-11	-31	-51	-67	-55	-34	-12	0	0	0	0
61	10	-11	-31	-51	-67	-67	-51	-30	-9	0	0	0

* A positive value indicates that PLC will pay more, a negative value indicates that ARC-CO will pay more.

Are you going to change crop insurance coverage for 2024?

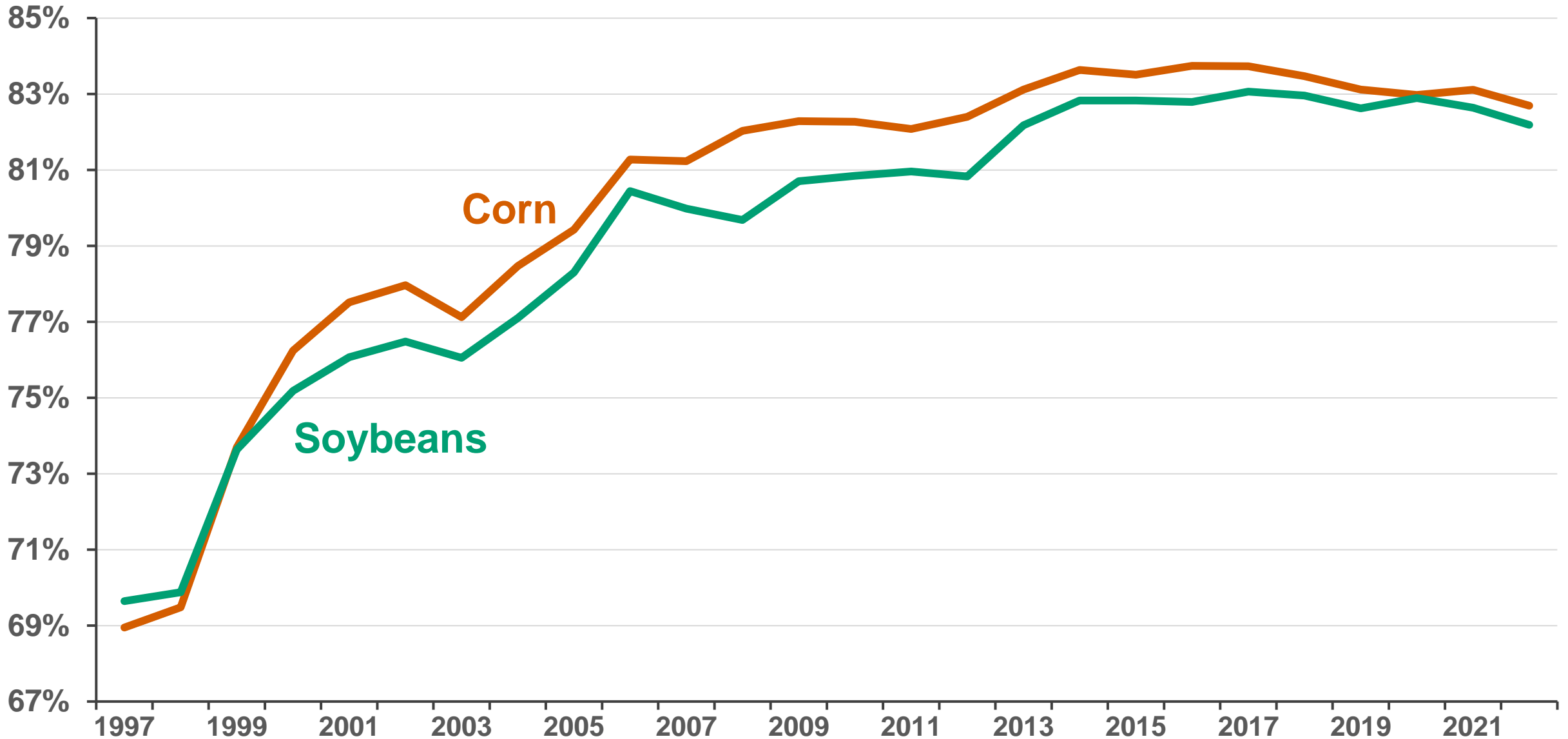
- No change
- Lower coverage level
- Lower coverage level, add SCO/ECO
- Increase coverage level and/or add SCO/ECO
- Have not decided

Crop Insurance

Most farmers take Revenue Protection (RP)
at “high” coverage levels

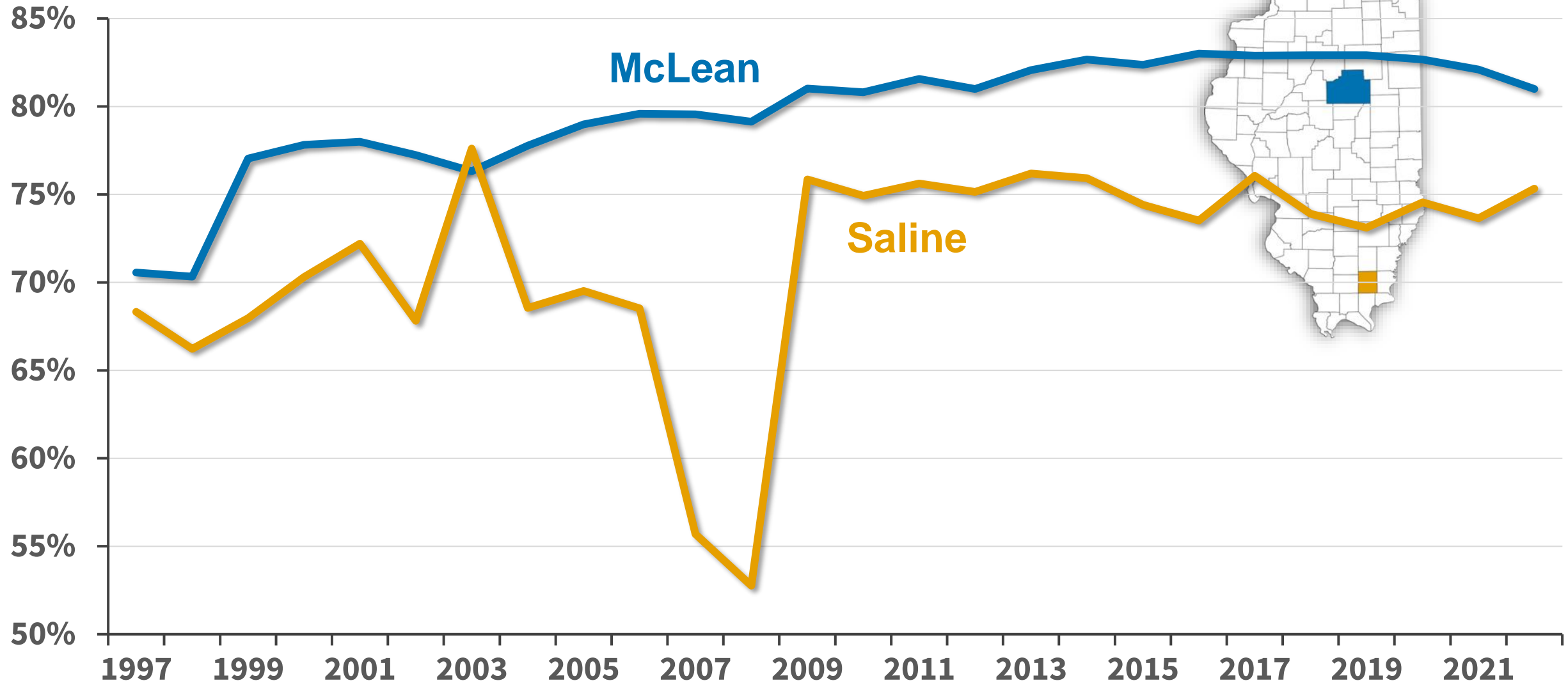


Average Coverage Level on RP Policies, Illinois



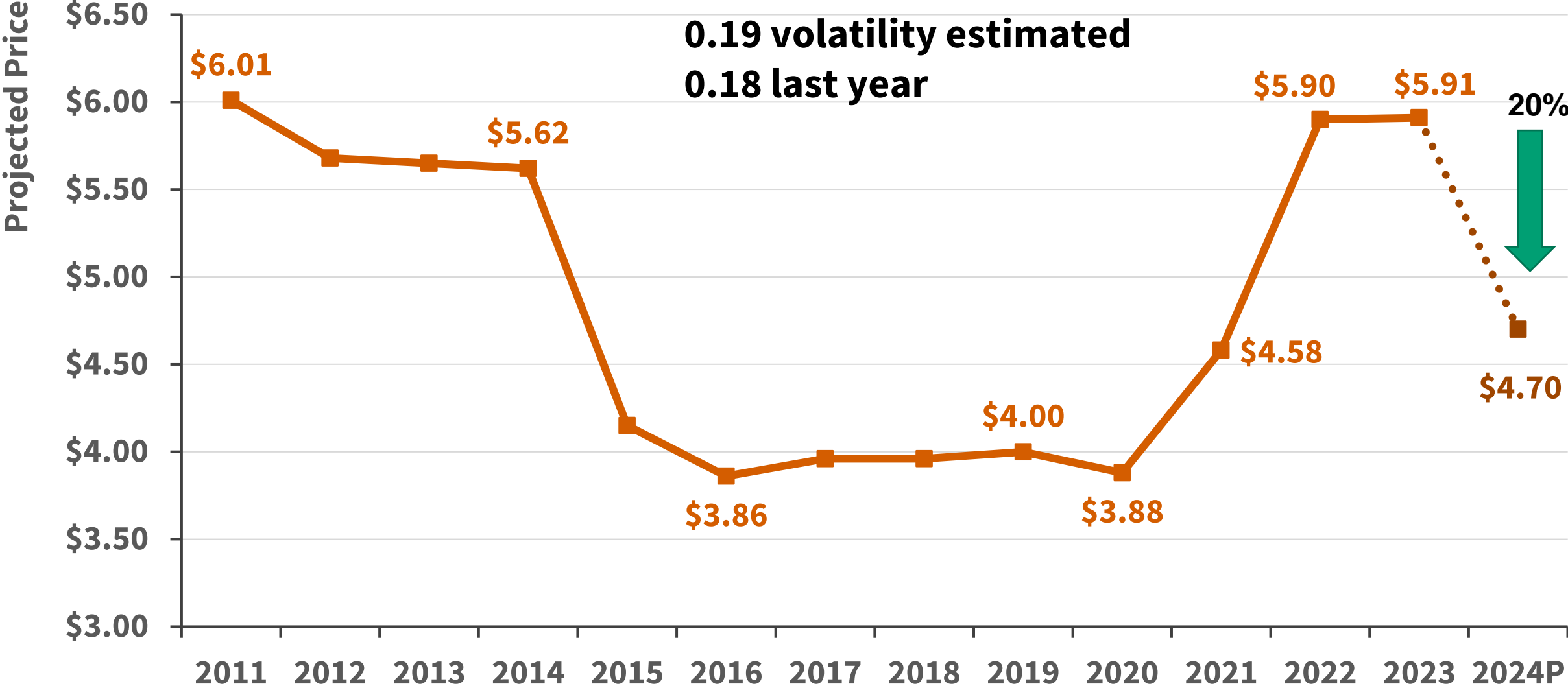
Source: Summary of Business, Risk Management Agency

Average Coverage Level on RP Policies, Corn, McLean and Saline County

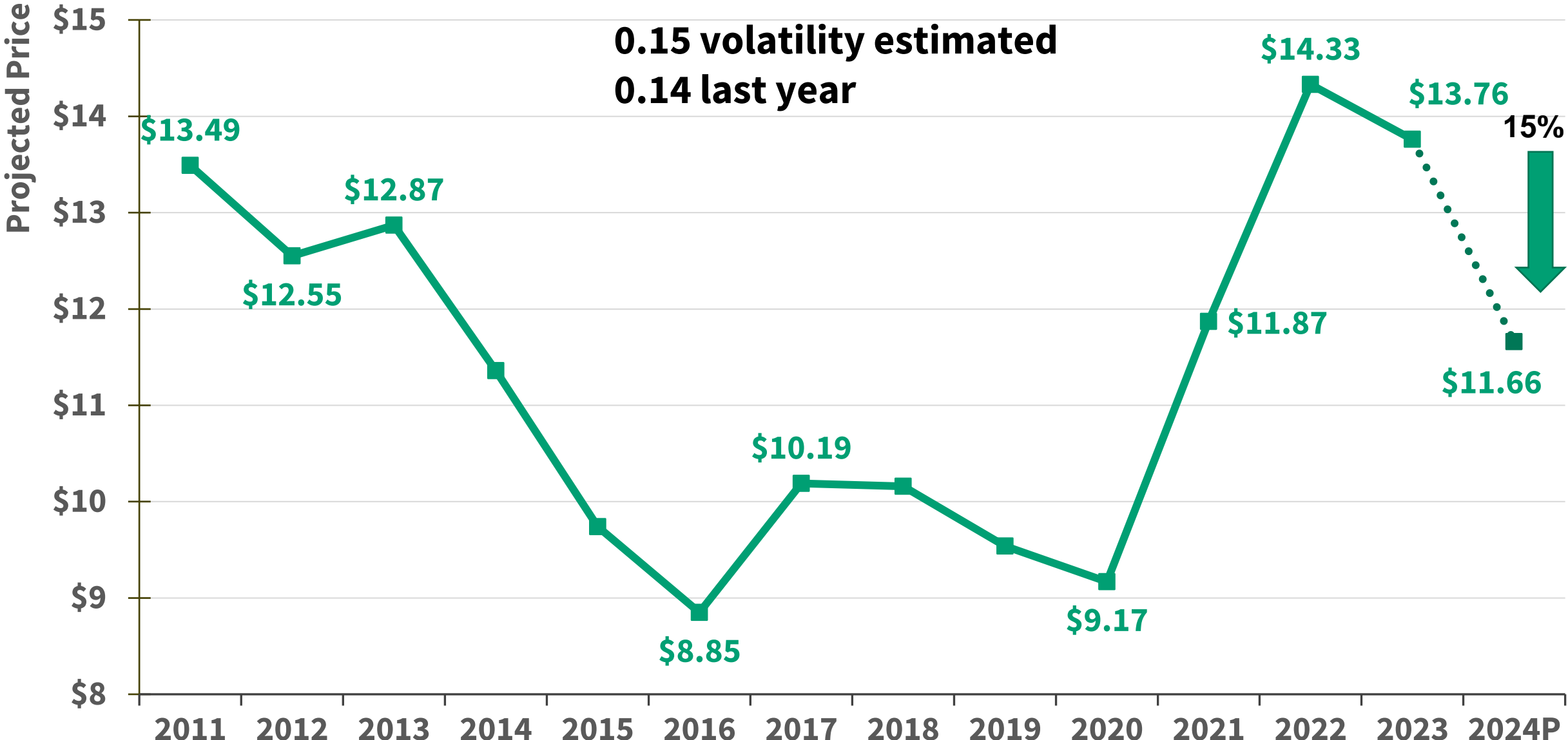


Source: Summary of Business, Risk Management Agency

Corn Projected Prices for insurance



Soybean Projected Prices for Insurance



Crop Insurance

Most farmers take Revenue Protection (RP)
at “high” coverage levels

Premiums should be lower for
same coverage this year,
but guarantees will also be lower

To increase revenue guarantees, could invest “savings” in:

- Higher individual coverage
- SCO/ECO



2024 decisions and beyond

2024 Decisions

Pre-harvest marketing

Know cost of production

Insurance coverage (RP) allows you to be more aggressive

Commodity title choice

ARC-CO vs PLC; SCO consideration

Keep insurance coverage

Not the place to cut costs

Summer 2024

Track pricing opportunities for 2024 and 2025 crops

Parallels between now and 2024/25

Looking ahead



2025 Budget?

Central Illinois

High-Productivity farmland

	Corn	Soybeans
Non-land costs (2024P)	\$812	\$517
Cost Adjustment (?)	-\$75	-\$40
Cash rent (?)	\$340	\$340
Total costs	\$1,077	\$807

Break-evens:

Corn: \$1,077 / 230 bu. per acre
= \$4.68 per bushel

Soybeans: \$807 / 73 bu. per acre
= \$11.19 per bushel

< \$4.00 corn price

< \$10.75 soybean price

Serious erosion of financial position
and cost adjustment pressures
(or ad hoc?)

\$4.20 to \$4.60 corn price

\$11.00 to \$11.50 soybean price

Owned land OK, breakeven to
negative on rented land;
costs should plateau (see 2014 - 2019)

> \$4.80 corn price

> \$11.75 soybean price

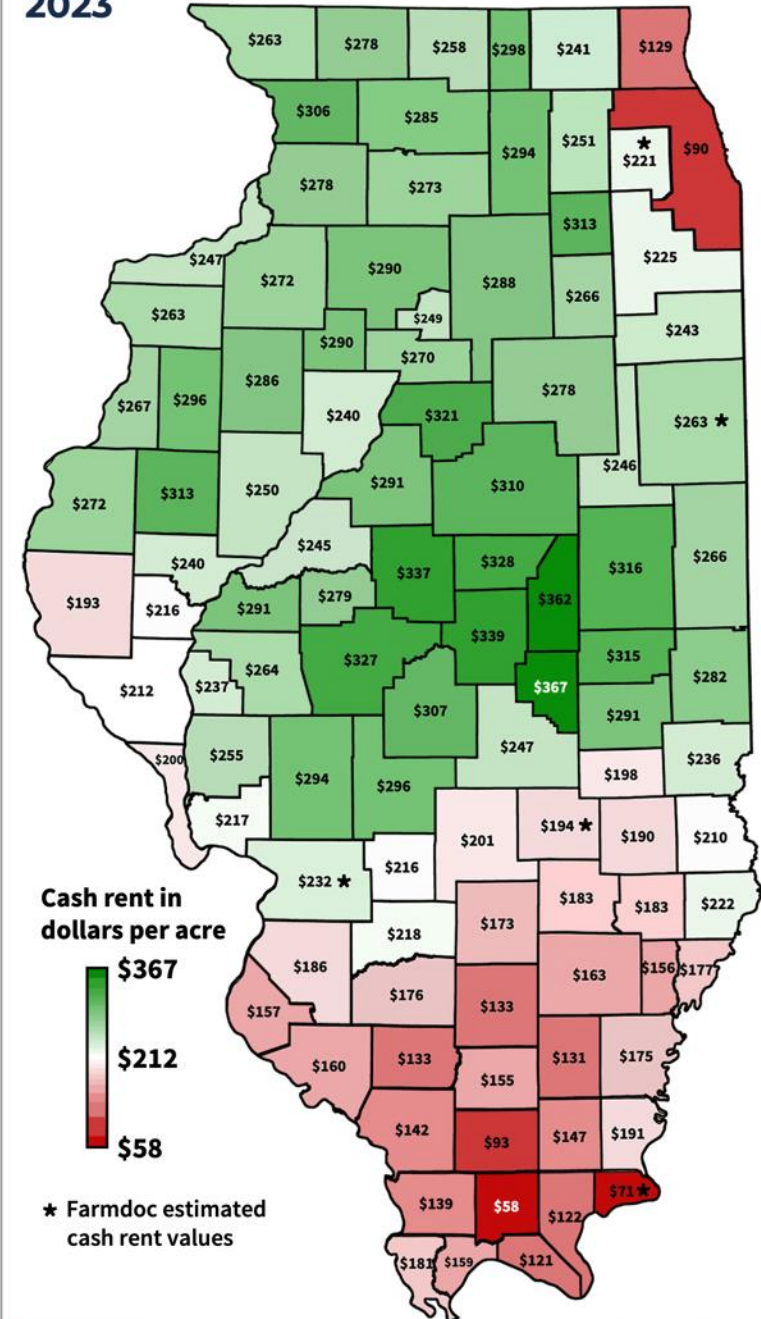
Lower but OK farm income
Costs will stay up

2025 Cash Rent Negotiations

Most cash rented farmland will generate negative returns when cash rents are at, or above averages given land productivity

Take this into consideration during rental negotiations

Figure 2. Illinois County Cash Rents in 2023



Upcoming 2024 IFES Webinars

February 22

The Renewable Diesel Boom: What Does the Future Look Like?

by Scott Irwin

Crop Risk Management for 2024 Webinar Series

Monday February 19 and Monday March 4

This two-part webinar series will provide an in-depth analysis of risk management decisions and strategies for the 2024 crop year. Lower commodity prices are expected for the 2024 crop and marketing years compared to the past 3 years, resulting in a much tighter margin environment and increased importance of risk management decisions



Register at <http://go.illinois.edu/CropRisk2024>



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Register for this free webinar series at Go.Illinois.edu/SafeAg2024

The farmdoc Team, WILLAg.org, and University of Illinois Extension are proud to present the All Day Ag Outlook. This meeting has been an annual tradition in the month of March at the Beef House in Covington, Indiana since 1991.



The poster features a dark blue background with white and orange text. At the top left, it says 'Tuesday March 5, 2024'. At the top right is the Beef House RESTAURANT logo, which includes a circular image of a cow's head. The main title 'All Day Ag Outlook' is in large white font. Below that, logos for Illinois Extension (University of Illinois Urbana-Champaign), willag.org, and farmdoc are displayed. At the bottom, the logo for the College of Agricultural, Consumer & Environmental Sciences (University of Illinois Urbana-Champaign) is shown.

Tuesday
March 5, 2024

Beef House
RESTAURANT

All Day Ag Outlook

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This year's event is scheduled for Tuesday, March 5, 2024.

The **doors open at 7:30 a.m. central / 8:30 a.m. eastern time** and includes both coffee and rolls in the morning and a Beef House lunch.

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