Net revenue for cotton is slated for 7 straight years of losses

Over the last three weeks, we have examined the costs and returns for corn, soybeans, and wheat production—the three most widely grown row crops in the US—and the picture has not been pretty. Using the season average price paid to farmers to calculate the profit or loss per acre for each of the crops over the last four years (2013-2016 crop years), the four-year loss for corn has been $154.57 per planted acre, while for wheat the loss has been $318.16 per planted acre. The picture for soybeans has been positive—$93.43 per planted acre—but not by much. The assertion that the high prices of the 2008-2012 period represented a new plateau and that market forces would keep them there has been shown to be, at best, overly optimistic.

This week we turn our attention to cotton which was planted on 9.5 million acres in the 2016 crop year. The 2016 cotton yield was 804 pounds per planted acre, 12 pounds more than a year earlier. Similarly, the yield of cottonseed was 1300 pounds per planted acre, up by 19 pounds from 2015.

Cotton farmers were able to reduce their operating costs per planted acre by $10.11. This reduction was led by a decrease in fertilizer costs of $13.30 per planted acre, followed by fuel, lube, and electricity at $5.31 per planted acre; and seed by $1.33 per planted acre. Items experiencing an increase in cost per planted acre were ginning, $4.68; chemicals, $2.92; custom operations, $0.92; interest on operating inputs, $0.71; repairs, $0.43; and purchased irrigation water, $0.17; all per planted acre.

The largest percentage increase was 263 percent in interest on operating inputs while fertilizer costs fell by 17.6 percent.

Among the expenses in allocated overhead, only the opportunity cost of land declined: $1.47 per planted acre—a 2.1 percent reduction. Increases were led by capital recovery of machinery and equipment at $2.12 per planted acre followed by opportunity cost of unpaid labor (the farmer or farm family member), $1.03; hired labor, $0.92; general farm overhead, $0.21; and taxes and insurance $0.07; all per planted acre. The total increase in allocated overhead was $2.88 per acre.

Cotton farmers were able to reduce total listed costs by $7.23 per planted acre resulting in total cost of $722.99 per acre.

The season average cotton price paid to farmers increased by $0.05 per pound to $0.70 while the season average price paid to farmers for cottonseed fell by $0.016 per pound. As a result of yield increases in both cotton and cottonseed, an increase in the price of cotton and a decrease in the price of cottonseed, the revenue per planted acre increased by $30.90 to $687.14 per planted acre.

With costs of $722.99 per planted acre and revenue of $687.14 per planted acre, farmers were left with a loss of $35.85 per planted acre, a smaller loss than the 2015 loss of $73.99 per planted acre.

The four-year loss (2012 through 2016 crop years) for cotton farmers was $587.29 per planted acre.

With a projected 2017 crop year yield of 809 pounds of cotton per planted acre and a midpoint projected price of $0.69 per pound, farmers would receive $588.32 for their cotton. Adding $117 for cottonseed, the total revenue for cotton is projected to be in the range of $705
per acre. If they were able to hold their costs to the 2016 level, they would end up with a loss of around $13.00 per acre.

With 7 straight years of losses is not surprising that we are hearing stories of cotton farmers who are finding it difficult to arrange financing for the 2018 crop.

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