Production costs for corn and soybeans will be higher in 2006 than in 2005. Increases in energy prices have caused large increases in per acre costs for fertilizer and fuel. In addition, per acre seed and pesticides costs are likely to increase in 2006.

**Corn Impacted More by Cost Increases than Soybeans**

The 2006 cost increases continue a string of years beginning in 2002 in which per acre variable costs have increased substantially. Data from grain farms enrolled in Illinois Farm Business Farm Management were used to project cost increases in Illinois. Variable costs for corn have increased an average of $12.25 per acre each year since 2002. The $12.25 per acre increase compares to an average yearly increase of $1.20 per acre between 1981 and 2002.

Soybean costs have a similar trend. The average yearly increase for variable costs in soybeans is $5 per acre each year since 2002. This $5 increase compares to an average yearly increase of $1.25 between 1981 and 2002.

Recent cost increase favors soybean production. Between 2002 and 2006, per acre costs for corn have increased $49 per acre while soybean costs have increased $20 per acre. Relative to soybeans, corn profitability has been reduced by $29 per acre ($49 increase for corn minus $20 increase for soybeans). Changes in profits may cause a switch from corn to soybeans in 2006, particularly on acres where corn profits are questionable, such as on farmland where corn was grown last year.

**Energy Related Costs**

Energy prices have large impacts on diesel fuel, nitrogen fertilizer, and other fertilizer costs. Of the $49 per acre increase in corn costs between 2002 and 2006, about $25 of these costs are in items that are directly impacted by energy prices (diesel fuel and fertilizer). For corn, about 50% of the cost increases are energy related. Of the $20 per acre soybean variable cost increases, about $13 per acre are in energy sensitive items, so that 65% of soybean cost increases are energy related. Averaged over corn and soybean production, about 58% of the costs are energy related.

The 58% of per acre production costs related to energy may decline if energy prices decline. Energy price declines, however, are by no means certain. Energy prices are
likely to be volatile over the next several years, causing per acre corn and soybean costs to be volatile as well.

The 42% of the cost increases not energy related occur in seed and pesticide categories. Reductions in these costs over the next several years are not likely.

**Summary**

Farmers can have a profitable year in 2006. Cost increase, however, lower the level of profits that can be obtained. On average, variable costs likely will average $34 per acre higher in 2006 than in 2002. Hence, farmers are starting with $34 less in profits in 2006 as compared to 2002. Increases in revenue, likely caused by high crop yields, are required to offset these production cost increases.