Production costs will be considerably higher in 2008 as compared to 2007 levels. Non-land costs for high-productivity farmland are estimated to be $370 per acre for corn, an increase of near $50 over 2007 levels. Soybean costs for 2008 are projected at $220 per acre, an increase of near $20 per acre over 2007 levels.

Over 50 percent of the cost increase is associated with fertilizer. For corn, fertilizer costs are projected near $120 in 2008, an increase of over $30 per acre from 2007 levels. Fertilizer costs have increased less for soybeans, primarily because soybeans do not need nitrogen. Fertilizer costs for soybeans are projected near $40 per acre, an increase of over $10 per acre from 2007 levels.

Fertilizer costs will vary across farms depending on the timing of fertilizer pricing. For the 2008 production year, fall 2007 fertilizers prices were lower than projected spring prices. Many farmers purchased anhydrous ammonia in the mid to high $500 per ton range in the fall of 2007. Spring anhydrous ammonia price likely will exceed $700 per ton. Similarly, potash prices were in the low $300 per ton range in the fall. Potash is projected at the mid and high $400 range for the spring. Overall, per acre fertilizer costs for corn could average $30 higher given spring pricing rather than fall pricing. For soybeans, fertilizer costs will average approximately $10 higher given spring pricing rather than fall pricing.

The above cited estimates are for non-land costs. Land costs, such as cash rent, need to be added to non-land costs to arrive at total production costs. Adding a $180 per acre cash rent to $370 of non-land costs for corn gives total costs of $550 per acre. The $550 per acre production costs is significantly above actual costs from five-years ago when gross revenues in the middle $400 range were considered good. These higher costs lead to higher break-even prices to cover costs. Given total costs of $550 per acre and a 180 bushel corn yield, the break-even price of corn to cover costs is $3.06 per bushel ($550 total costs / 180 bushel yield). This break-even price level is well above the 1974 through 2005 average corn price received by U.S. farmers of $2.36 per bushel.

Adding $180 for cash rent to $220 of projected non-land costs results in total costs of $400 per acre for soybeans. Given a 54 bushel per acre soybean yield, the break-even soybean price to cover costs is $7.41 per bushel. Again, this break-even price is significantly above historical levels. Between 1973 and 2005, the average corn price received by U.S. farmers averaged $5.96 per bushel.

Cost increases in 2008 continue a string of years of rising costs. Since 2003, corn non-land costs have increased over $120 per acre while soybean costs increased over $50
per acre. These production cost increases are negating some of the gains associated with higher commodity prices. A return to historic commodity levels would lead to low or negative net incomes.