

What's Popcorn Really Worth?

Mike Gastier, ANR Huron County

Although popcorn production was down significantly in Ohio for the 2006 crop year, there will be some opportunities for contract production in 2007. At least initially, contracts will be offered to growers that have contracted in the past; however, this is always dependant upon the acres committed. At this point, two major popcorn companies (Weaver in western Ohio and ConAgra in central Ohio) do have plans for contract production in Ohio. If you are a contract grower and a contract is offered to you, what's popcorn really worth considering the uncertainty in the grain market?

Many variables have to be factored into the equation. Let's start with the price versus hybrid conflict. Contract prices that I have heard range from \$12.50/cwt to \$15.25/cwt depending on the variety. Typically, the contractor offers a higher price for hybrids that historically have lower yields, however, an experienced grower may know of a particular variety that is well suited for his or her operation and is also on the top end of the payment schedule. Certainly a known variety is preferable to an unknown variety. If growers can raise a variety that they feel comfortable with for \$15.00/cwt, they owe it to themselves to at least consider popcorn production this season. Conversely, an unproven variety looks very unattractive if it is on the low end of the scale.

The second factor to consider is **RISK**. Additional risk has always been inherent to popcorn production, but this year, the risk factor seems even more significant because the weather outlook is surrounded by talk of El Niño. Popcorn, when compared to field corn, suffers much more during periods drought stress. Hopefully a drought scenario is purely speculation, but at this point in the season, it's a very real production risk. The impact of production risk is even more significant if we factor in the opportunity cost of cropland. With the price of corn firmly above \$3.50 per bushel for fall delivery, and the lower risk associated with field corn, it may be difficult to make a good case for popcorn production, but we can guard against some of this risk.

Federal crop insurance is a good method of reducing some of the risk of popcorn production. Depending on the county in which you raise popcorn, the options for insuring the crop will vary significantly. The federal government has set the 2007 popcorn insurance price at \$12.00/cwt. compared to \$3.30/ bushel which the feds have set for field corn. For the sake of argument, I equate a 4000 # popcorn crop to a 140 bushel field corn crop on a per acre basis. At a 70% crop insurance level, field corn coverage would be equivalent to \$323.40 per acre while popcorn would ensure \$336 of income per acre. Now let's assume we encounter rather severe drought stress during the growing season. Again, I'm taking some liberties here, but let's say that field corn yields 95 bushels per acre while the popcorn yields just 2000# per acre which is realistic for popcorn under stress. Total income from field corn (\$3.50) and insurance (70%) would be \$342/acre while total income from popcorn (\$15/cwt) and insurance (70%) would be \$396.

I know that there is doubt circulating, so let's look at a really bad drought. This time field corn averages 70 bushels/acre and the popcorn yields just 900#/acre. Assuming that the insurance coverage and prices remain the same, the field corn plus insurance will return \$337/acre while the popcorn plus insurance will return \$363. While the \$12/cwt price for popcorn seems low compared to the contract price, it actually is not as detrimental to producers as it first appears. One obvious oversight is that if we had widespread drought this season, the corn price could go off the charts, meanwhile popcorn is locked in at \$15/cwt.

These scenarios assume that the popcorn is grown under a fixed price contract for 100% of the crop produced and that insurance is available for popcorn in the production area. This is not always the case. In many cases the entire crop can not be priced prior to delivery. Moreover, in some areas it is not practical to insure a crop of popcorn. Both of these situations add significant risk to an already risky crop.

If you review a crop budget, the cost of producing popcorn has actually decreased relative to the cost of field corn. This is due mainly to marked increases in the prices of seed (field corn) and nitrogen. Popcorn seed has always been relatively expensive, but it has increased at a slower rate than field corn particularly if you use genetic traits. Nitrogen should be a savings for popcorn growers because of the lower N requirements of popcorn versus field corn. In practice however, many producers apply N as liberally to popcorn as they would to field corn. In most cases it is not warranted, so lower N is a potential cost savings. All of the other cost advantages favor field corn. Depending on your location and the insect pressure on any given year, a popcorn producer should expect to spend between \$5 and \$55 more per acre as compared to field corn on that same acre.

If you have raised popcorn in the past, you are probably an optimist by nature, so let's look at a really good year. I equate 5000# per acre of popcorn to 185 bushels per acre of field corn. If corn prices soar to \$4.00/bu, 185 bushels/per acre produces a return of \$740. This seems like a lofty figure, but probably about what we should be shooting for given current conditions. Let's add \$20 per acre for addition cost. Popcorn must gross \$760 /ac in this scenario to compete. \$760/acre divided by 5000#/ac comes to \$15.20/cwt. You must look at your own situation and factor in the additional risk that you can not offset via insurance or other avenues. Remember that the opportunity cost for that acre of cropland is the highest that we have seen in decades... That makes production risk more of a factor than it's been in decades. Protect your profits when you can.

Disclaimer: This article is written as an illustration rather than sound financial advice. Use your own budgets to see how popcorn stacks up to field corn in your operation.

Mike Gastier
ANR Extension Educator
Huron County