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## South Dakota 2004 Custom Rates Survey

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# ECONOMICS COMMENTATOR

South Dakota State University

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## **SOUTH DAKOTA 2004 CUSTOM RATES SURVEY**

by

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### **Farm Custom Rates Survey Available**

Updated listings of custom rates for various farming operations are now available from most county offices of the South Dakota State University Cooperative Extension Service. The fact sheet can also be downloaded from the South Dakota Agricultural Statistics Service internet site at: <http://www.nass.usda.gov/sd/releases/customrates2004.pdf>

The custom rates survey includes data for tillage, planting, harvesting, forage handling and other common farming practices. The fact sheet also includes machinery rental rates and various rates for miscellaneous farm services.

The fact sheet summarizes data collected from South Dakota farmers, ranchers, and agribusinesses during June and July by the USDA's South Dakota Agricultural Statistics Service. This project was a joint effort between the Department of Economics, South Dakota State University Cooperative Extension Service and South Dakota Agricultural Statistics Service. All parties would like to thank those who supplied data.

Custom rates information for various farming services was collected from a cross-section of producers, agribusinesses, implement dealers, and chemical applicators. A total of 3400 questionnaires were mailed and 2,069 mail and telephone responses

were summarized. The survey was designed to provide state and regional averages.

### **Why Custom Operations**

Sometimes farmers have opportunities to earn extra income by providing custom services for other farmers. The users of custom services may face time constraints or lack adequate equipment. For producers with adequate or surplus machinery (the contractor), the idea of spreading fixed costs over additional acres is appealing. However, in order for the custom work to be economically beneficial for the contractor, the custom rate must cover fixed and direct costs. Per acre fixed cost is reduced through additional hours of annual use; direct costs per acre can be expected to increase because of overall annual repairs and maintenance.

Farmers desiring to have custom work performed may benefit in several ways. Benefits may include lower capital and labor costs, tax advantages, and/or economic opportunities through new or additional crops. Also, the ability to complete field operations in a timely manner can have significant benefits. Farmers desiring to perform or have custom work performed should remember that custom work involves certain risks. Some of these risks are timeliness of the work, quality of the work, and field contamination of weeds or insects.

### **The Custom Rates Survey**

The 2004 Custom Rates fact sheet lists the number of responses, range in rates, average rates, and the three most frequently reported rates at the state level. Regional data is also reported, however only the most frequent rates are shown. Extremely low or high values which may have been misreported or represented unusual situations were excluded before tabulating results.

The custom rates reported include charges for the use of necessary equipment, fuel and supplies such as baling wire or twine provided by the custom operator, and labor. Seed, fertilizer and chemical costs are not included. The results reflect the average of those responding to the specific questions.

The **Average Rate** reported should provide an accurate estimate of the prevailing charge for a specific operation, particularly if there are a large number of responses. The **Most Frequent Reported Rate** is the rate reported more often than any other for that practice and the first, second and third most frequent reported rates are included. The **Range** gives the minimum and the maximum amounts reported. It indicates the range of conditions under which the work was performed. The range also may reflect the fact that some rates consider travel to and from the field while others do not. The rates do not necessarily measure the full economic cost of performing the work specified. Some custom operators may only charge for the operating costs of fuel and labor. Other operators may charge for all

costs including depreciation on equipment and a charge for risk. Field conditions such as size, terrain, and location vary, which will account for some of the range in the rates charged.

Custom rates can also be used as an estimate of the cost of owning and operating farm machinery. This information sheet is intended only as a guide. Farmers desiring to perform or have custom work performed should realize that these rates are often negotiable. Also, per acre costs and hours of annual use will likely vary for each producer; therefore producers should use their own costs whenever possible. Additionally, input costs and interest rates are increasing. Producers should consider any needed adjustments accordingly.

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