Habits of Financially Resilient Farms

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Operator and Farmland Returns

Figure 1. Operator and Land Return for Grain Farms in McLean County, Illinois, 1996 to 2015
Resiliency of Returns

- Are some farms consistently outperforming their peers?
  - YES

- How are these farms outperforming their peers?
  - Revenues, Costs, Other characteristics

Operator and Farmland Returns
Performance Groups

- **Central and Northern IL Counties**
  - Champaign, Ford, McLean, Piatt
  - Dekalb, La Salle, Lee, Ogle

- **Two time periods**
  - High/rising returns, 2010 to 2012
  - Low/declining returns, 2014 to 2016

- **Define performance groups over 3-year horizon**
  - Top 1/3 of returns
  - Mid 1/3 of returns
  - Low 1/3 of returns

### Revenue, Costs, and Returns

<table>
<thead>
<tr>
<th></th>
<th>2010 to 2012</th>
<th></th>
<th>2014 to 2016</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Top 1/3</td>
<td>Mid 1/3</td>
<td>Diff</td>
<td>Top 1/3</td>
</tr>
<tr>
<td>Revenue</td>
<td>$958</td>
<td>$870</td>
<td>$88</td>
<td>$783</td>
</tr>
<tr>
<td>Direct Costs</td>
<td>$248</td>
<td>$247</td>
<td>$1</td>
<td>$270</td>
</tr>
<tr>
<td>Power Costs</td>
<td>$98</td>
<td>$115</td>
<td>-$17</td>
<td>$118</td>
</tr>
<tr>
<td>Overhead Costs</td>
<td>$64</td>
<td>$72</td>
<td>-$8</td>
<td>$67</td>
</tr>
<tr>
<td>Total Costs</td>
<td>$409</td>
<td>$433</td>
<td>-$24</td>
<td>$455</td>
</tr>
<tr>
<td>Returns</td>
<td>$549</td>
<td>$437</td>
<td>$112</td>
<td>$328</td>
</tr>
</tbody>
</table>
Top vs Mid Groups – Northern IL

Mid vs Low Groups – Northern IL
### Revenue Factors

- **Bigger yields on higher return farms**

<table>
<thead>
<tr>
<th></th>
<th>2010 to 2012</th>
<th>2014 to 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>14 bu/ac</td>
<td>9 bu/ac</td>
</tr>
<tr>
<td>Beans</td>
<td>4 bu/ac</td>
<td>2 bu/ac</td>
</tr>
</tbody>
</table>

- **Higher prices on higher return farms**

<table>
<thead>
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<th>2010 to 2012</th>
<th>2014 to 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$0.15-0.20/bu</td>
<td>$0.05-0.10/bu</td>
</tr>
<tr>
<td>Beans</td>
<td>$0.40-0.50/bu</td>
<td>$0.10-0.15/bu</td>
</tr>
</tbody>
</table>

### Main Cost Factors

- **Direct**
  - Seed, fertilizer, pesticide, drying and storage

- **Power**
  - Machinery depreciation, hire, and repair; fuel and oil, utilities, light vehicle

- **Overhead**
  - Hired labor, building, insurance, misc, non-land interest
Other Characteristics

- Farm size
  - High return group operate more acres
  - 100 to 200 acre difference across groups

- Soil productivity not different across groups

- Close to 50/50 corn/soy rotation

Summary

- Some farms outperform their peers consistently over time

- These farms tend to have higher revenues and lower costs
  - Revenues accounted for larger share of difference during high return period
  - Costs accounts for larger share of difference during lower return period
Summary

• Focused on operator and farmland returns

• Do land costs tend to wash out these differences?
  – No
  – Farms identified in higher return groups tended to have lower land costs, pay average or lower cash rents as well

Thank You!