



Illinois Farm Income Outlook

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2008 Illinois Farm Economics Summit
The Profitability of Illinois Agriculture: Looking Ahead in Extraordinary Times

Today's presentation...



- Some thoughts on the current status of the farm economy
- A look at a few trends on Illinois farms
- Income projections for 2008
- What about 2009?
- Summary and conclusions

Current status of the farm economy



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- Extreme commodity price volatility
- Escalating input costs, but some have seem to peaked (fertilizer) and others declining (fuel)
- Continued pressure to raise cash rents when 2009 price and input cost projections do not support it
- More than the usual amount of uncertainty regarding 2009 planting intentions due to higher input costs and commodity price volatility
- The factors outlined above have led to changes in purchasing behavior and applications rates for certain inputs (fertilizer) by some producers

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Trends on Illinois Grain Farms



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	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>% change</u> <u>2003 - 2007</u>
Tillable acres	923	959	977	1,005	1,019	14%
Percent owned	24	24	23	23	23	-4%
Percent crop share	43	41	40	40	38	-18%
Percent cash rent	34	36	37	37	39	21%
	-----Dollars per tillable acre-----					
Crop returns	381.91	423.44	406.97	480.75	656.68	47%
Fertilizer	38.71	46.05	53.54	54.86	65.97	40%
Pesticides	32.94	32.49	36.08	31.16	32.72	6%
Seed	<u>30.11</u>	<u>32.52</u>	<u>36.10</u>	<u>39.23</u>	<u>46.18</u>	<u>42%</u>
Crop total	101.76	111.07	125.72	125.26	144.87	33%
Fuel and oil	10.47	12.80	16.50	18.37	21.03	49%
Insurance	12.68	14.59	15.09	19.22	25.21	53%

Source: Illinois FBFM Association

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Projecting 2008 incomes

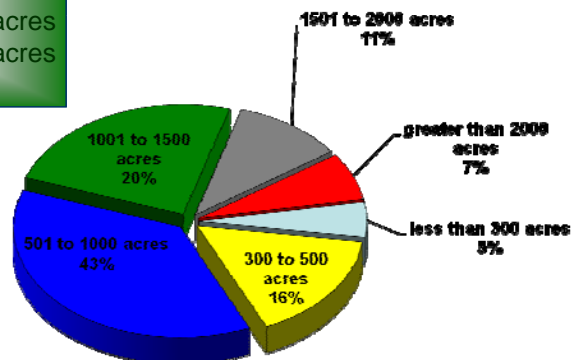


- Use a sample of Illinois FBFM grain farms with historical financial records.
- Use projections of yields and prices to determine revenue for each farm.
- Adjust historical expenses and financial data for each farm.
- Project net farm income and net worth change for each farm in the sample.

Sample Farms by Size



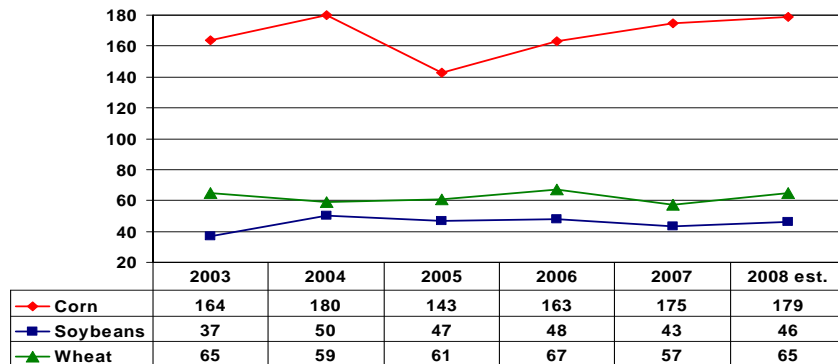
701 grain farms
Average farm:
1,002 total acres
786 operator acres



Good Corn and Soybean Yields



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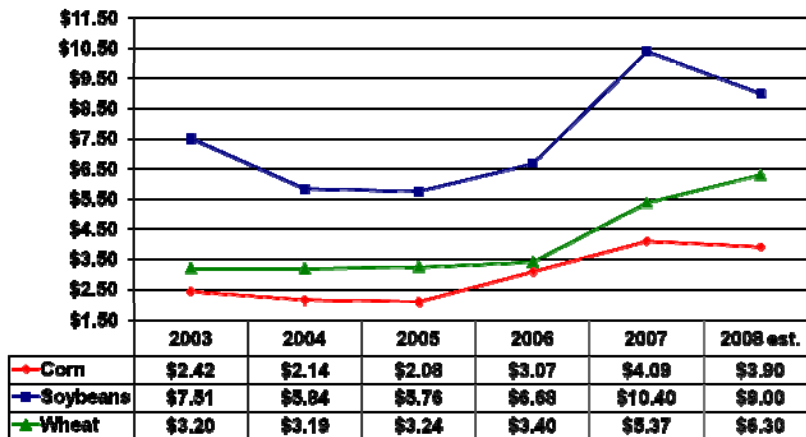


2008 corn yield second highest ever

Increasing/Decreasing Grain Prices*



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* Marketing year average for Illinois

Key Assumptions



- Estimated prices received / year end inventory price
 - Corn: \$3.50 / bu.
 - Soybeans: \$8.50 / bu.
 - Wheat: \$6.30 / bu.
- Only farm program payments are direct payments, no LDP's or CC payments
- No estimate of crop insurance income included but there will be some payments

Key Assumptions – cont.



- Marketing margins on old crop
 - Corn: Gain of \$0.96/bu. – 67% of crop (\$4.71)
 - Soybeans: Gain of \$1.73/ bu. – 63% of crop (\$11.73)
- Pricing opportunities on new crop
 - Corn – 25% sold at \$4.50 (\$1.00 over inv.)
 - Soybeans – 25% sold at \$10.25 (\$1.75 over inv.)
- Use NASS November report of district projections of yields

Estimated Yields



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FBFM Adjusted Yields Crop Reporting District	Soybean Yield		Corn Yield	
	2007	2008	2007	2008
Northwest	52	50	187	189
Northeast	51	48	196	184
West	48	51	198	192
Central	54	53	198	199
East	55	51	190	180
West Southwest	49	51	200	188
East Southeast	49	45	175	166
Southwest	33	50	127	157
Southeast	37	44	127	156
NASS Weighted Average	49	49	182	181

November 2008 NASS projections.
Yields adjusted to represent differences
between NASS and FBFM

Other Key Assumptions



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- Average increase in farm size -- 3.0%
- Operating expenses adjustments from 2007
 - Crop expenses -- 25% increase
 - Fuel and oil -- 30% increase
 - Other machinery expenses -- 10% increase
 - All other expenses -- 15% increase
- Machinery economic depreciation -- 10% increase
- Land values -- 15% increase
- Interest expense -- no change

Net Farm Income



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2004	\$92,614	} Actual
2005	58,204	
2006	94,617	
2007	197,736	

2008 \$180,000 – \$200,000 Estimate
About \$66,600 of income due to marketing gain from 2007 crop sold in 2008.

Net farm income does not include:

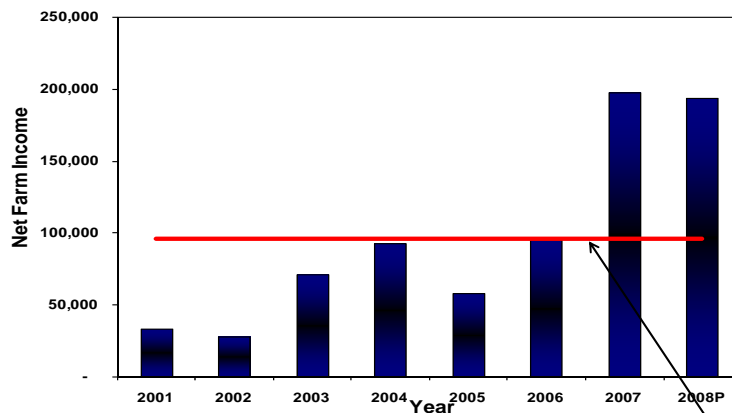
- Payments for operator labor/family withdrawals
- Nonfarm income
- Income and SE taxes

Net Farm Income 2001 - 2008



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Figure 1. Average Net Farm Income on 701 Grain Farms Enrolled in FBFM, 2001 - 2008P.



* 2008 Estimated 2001 – 2008 average net farm income = \$95,987!!

Sensitivity of Estimate



	<u>Change in Average Income</u>
One bushel change in	
Corn yields	\$ 1,800
Soybean yields	2,500
Change in effective price	
Corn price - \$.10	\$ 8,500
Soybean price - \$.25	3,500

Impact of Grain Prices



- Corn-\$2.50 Soybeans-\$6.25 NFI-\$76,390
- Corn-\$3.00 Soybeans-\$7.50 NFI-\$136,800
- Corn-\$3.50 Soybeans-\$8.50 NFI-\$193,600
- Corn-\$4.00 Soybeans-\$10.00 NFI-\$257,500

Net Farm Income by Region



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Crop Reporting District	Actual				Projected
	2004	2005	2006	2007	2008
Northwest	\$ 82,346	\$ 42,473	\$ 87,713	\$ 204,997	\$ 223,235
Northeast	81,551	35,078	126,333	216,501	179,432
Central & West	84,872	48,973	92,557	205,547	215,217
East	92,200	71,320	97,176	208,670	193,015
West Southwest	114,462	68,675	109,196	212,677	239,966
East Southeast	105,515	76,022	96,866	215,991	146,769
Southwest	79,940	52,054	46,403	120,614	146,660
Southeast	93,621	65,607	87,974	121,860	133,054
NASS Weighted Average	92,614	58,204	94,617	197,736	193,613

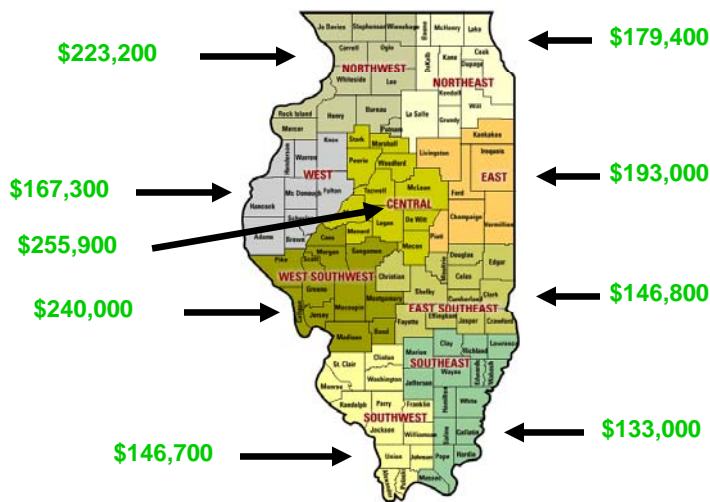
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2008 Net Farm Income by Region



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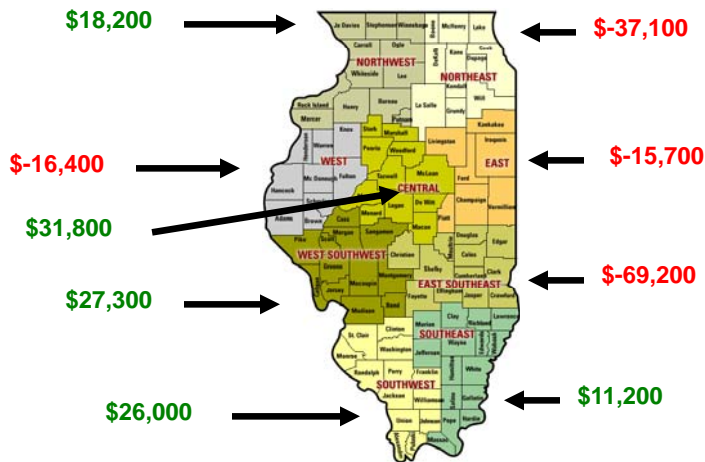
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Change in Net Farm Income 2007 to 2008



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Changes to Net Worth



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Net Income	\$193,613
- Family Living	71,725
+ Nonfarm Income	33,690
- Income Taxes	31,539
-/+ Valuation Change	<u>104,329</u>

Total Change in Net Worth
2007 to 2008 \$228,368

Assumptions:

- 15.0% increase in land values
- no change in machinery values

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Significance of Government Payments



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Net Farm Income	\$	Average	193,613
Government Payments			16,930
Direct payments			16,930
Counter-cyclical payments			0
Loan deficiency payments			0

Direct Payment		Counter Cyclical Payment		LDP Assumptions	
Corn	0.28	Corn	0.00	Corn	0.00
Soybeans	0.44	Soybeans	0.00	Soybeans	0.00
Wheat	0.52	Wheat	0.00	Wheat	0.00

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What about 2009??



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- **Disclaimer** - high probability of error in projections due to more than the usual amount of variability in input costs and grain prices, let alone yield estimations, but.....
- Five year average trend yield for corn and soybeans, 180 bu./acre corn yield and 52 bu./ acre soybean yield – Illinois
- Price projections from Darrel – 2009/10 marketing year price for corn = \$4.50 and soybeans = \$10.00
- Input cost changes from **2007**, crop costs up 98%, fuel down 20%, other machinery up 17%, other operating and overhead expenses up 35% (cash rent, insurance, etc.)

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What about 2009?? - results



- **Corn-\$4.50 Soybeans-\$10.00 NFI=\$116,118**
(Darrel's presentation)
- **Corn-\$3.50 Soybeans-\$8.50 NFI=\$6,579**
(2008 end of year prices used in study)
- **Corn-\$3.00 Soybeans-\$7.25 NFI=(\$55,786)**
(Let's not think about this!!)
- **Corn-\$4.00 Soybeans-\$9.75 NFI=\$69,000**
(To cover farm operating costs and family living expense)

Conclusions and Summary



- Grain farms only, limited livestock returns
- Excellent corn yields, good soybean yields. Although declining, relatively good expected average prices received for corn and soybeans results in good incomes for 2008 for many producers
- Positive marketing margin from 2007 crop sold in 2008 a significant contribution to 2008 income (about one third)
- Government payments only 9% of net farm income
- Significant increase in some input costs in 2008

- Good incomes across most areas of the state, some regions higher and some lower than 2007
- Financial positions remains strong due to good incomes and strong asset values (land), but have we hit the peak for now
- Projections for 2009 look less optimistic due to higher input costs and lower grain prices
- Much more potential for larger income variability in 2009 due to marketing decisions, pricing of inputs and farmland leasing arrangements, give thought and implement plans for controlling risk

**Thank you and have a Happy
Holiday Season**

