2016 Income Outlook: Making Cash Flows Fit Revenue

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Summary

1. Farm income will be down considerably in 2015, and 2016 likely will be a repeat of 2015 if significant cost cuts do not occur.

2. Non-land costs plus cash rents exceed gross revenue, need to cut costs.

3. Many farmers are financially strong and could postpone cost cutting decisions, but should not.

4. Environment is different today than in last 20 years.
Farm Income Down in 2015 and 2016
Table 3. Corn Revenues and Costs, Central Illinois -- High Productivity Farmland, Actual for 2009 through 2014, Projected for 2015 and 2016.¹

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Yield per acre</td>
<td>192</td>
<td>168</td>
<td>174</td>
<td>126</td>
<td>197</td>
<td>231</td>
<td>196</td>
<td>198</td>
</tr>
<tr>
<td>Price per bu</td>
<td>$3.62</td>
<td>$5.07</td>
<td>$6.24</td>
<td>$6.93</td>
<td>$4.52</td>
<td>$3.75</td>
<td>$3.65</td>
<td>$3.85</td>
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<tr>
<td>Operator and land return</td>
<td>$198</td>
<td>$456</td>
<td>$630</td>
<td>$611</td>
<td>$358</td>
<td>$268</td>
<td>$164</td>
<td>$240</td>
</tr>
<tr>
<td>Land costs</td>
<td>209</td>
<td>215</td>
<td>248</td>
<td>270</td>
<td>290</td>
<td>293</td>
<td>288</td>
<td>258</td>
</tr>
<tr>
<td>Farmer return</td>
<td>-$11</td>
<td>$241</td>
<td>$382</td>
<td>$341</td>
<td>$68</td>
<td>-$25</td>
<td>-$124</td>
<td>-$18</td>
</tr>
</tbody>
</table>

Table 4. Soybean Revenues and Costs, Central Illinois -- High Productivity Farmland, Actual for 2009 through 2014, Projected for 2015 and 2016.¹

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield per acre</td>
<td>55</td>
<td>60</td>
<td>56</td>
<td>50</td>
<td>58</td>
<td>64</td>
<td>64</td>
<td>58</td>
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<tr>
<td>Price per bu</td>
<td>$10.03</td>
<td>$11.47</td>
<td>$12.75</td>
<td>$14.66</td>
<td>$13.25</td>
<td>$10.25</td>
<td>$8.90</td>
<td>$8.90</td>
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<tr>
<td>Operator and land return</td>
<td>$289</td>
<td>$444</td>
<td>$446</td>
<td>$430</td>
<td>$429</td>
<td>$286</td>
<td>$235</td>
<td>$195</td>
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<tr>
<td>Land costs</td>
<td>209</td>
<td>215</td>
<td>248</td>
<td>270</td>
<td>290</td>
<td>293</td>
<td>288</td>
<td>278</td>
</tr>
<tr>
<td>Farmer return</td>
<td>$80</td>
<td>$229</td>
<td>$198</td>
<td>$160</td>
<td>$139</td>
<td>-$7</td>
<td>-$53</td>
<td>-$83</td>
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</tbody>
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¹Results for 2009 through 2014 are summarized from grain farms enrolled in Illinois Farm Business Farm Management. Projections are made for 2015 and 2016.
Net Income on Illinois Grain Farms

Projected 2015 and 2016 levels back to 1998-2002 levels
Revenues Exceed Costs
Non-land Costs, Corn and Soybeans, Central Illinois

Year

Corn

Soybeans

$ per acre

00 01 02 03 04 05 06 07 08 09 10 11 12 13 14P 15P

0 100 200 300 400 500 600 700

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Operator and Land Returns and Cash Rents, Central Illinois

[Graph showing the comparison of corn, soybeans, and cash rent from 2000 to 2016.]

- **Corn** (blue bars)
- **Soybeans** (red bars)
- **Cash Rent** (green line)

The graph illustrates the fluctuation in returns and cash rents for corn and soybeans, with cash rent showing a steady increase from 2000 to 2016.
# Corn Budgets, 2015 and 2016

<table>
<thead>
<tr>
<th></th>
<th>2015P</th>
<th>2016P</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop revenue (196 x $3.65)</td>
<td>715</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crop Revenue (198 x $3.85)</td>
<td></td>
<td>762</td>
<td>47</td>
</tr>
<tr>
<td>ARC</td>
<td>40</td>
<td>30</td>
<td>-10</td>
</tr>
<tr>
<td><strong>Gross Revenue</strong></td>
<td>755</td>
<td>792</td>
<td>37</td>
</tr>
</tbody>
</table>

**Cash rent**: 288, 258 (-30)
**Fertilizers**: 156, 125 (-31)
**Seed**: 125, 122 (-3)
**Mach. depreciation**: 68, 64 (-4)
**Pesticides**: 60, 60 (0)
**Machine repair**: 25, 25 (0)
**Crop insurance**: 24, 24 (0)
**Drying**: 23, 23 (0)
**Hired labor**: 17, 18 (1)
**Fuel and oil**: 20, 17 (-3)
**Machine hire/lease**: 12, 12 (0)
**Building depreciation**: 12, 12 (0)
**Interest (non-land)**: 11, 12 (1)
**Insurance**: 10, 10 (0)
**Misc**: 9, 9 (0)
**Building repair and rent**: 7, 7 (0)
**Storage**: 5, 5 (0)
**Utilities**: 5, 5 (0)
**Light vehicle**: 2, 2 (0)

**Total Costs**: 879, 810 (-69)

**Farmer return**: -124, -18

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**Need a $100 costs for average levels in 2015**

**Costs cuts have to come from**
- Machinery
- Fertilizer
- Seed
- Cash rent
# Anhydrous Ammonia, $ per Ton

<table>
<thead>
<tr>
<th>Month</th>
<th>2008-12</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
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<tbody>
<tr>
<td>Sept</td>
<td>771</td>
<td>687</td>
<td>715</td>
<td>664</td>
</tr>
<tr>
<td>Oct</td>
<td>793</td>
<td>678</td>
<td>718</td>
<td>652</td>
</tr>
<tr>
<td>Nov</td>
<td>800</td>
<td>684</td>
<td>725</td>
<td>653</td>
</tr>
<tr>
<td>Dec</td>
<td>777</td>
<td>670</td>
<td>728</td>
<td></td>
</tr>
<tr>
<td>Jan</td>
<td>767</td>
<td>650</td>
<td>729</td>
<td></td>
</tr>
<tr>
<td>Feb</td>
<td>758</td>
<td>655</td>
<td>730</td>
<td></td>
</tr>
<tr>
<td>Mar</td>
<td>752</td>
<td>658</td>
<td>732</td>
<td></td>
</tr>
<tr>
<td>Apr</td>
<td>744</td>
<td>720</td>
<td>733</td>
<td></td>
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<tr>
<td>May</td>
<td>746</td>
<td>754</td>
<td>732</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>725</td>
<td>756</td>
<td>730</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>712</td>
<td>717</td>
<td>730</td>
<td></td>
</tr>
<tr>
<td>Aug</td>
<td>681</td>
<td>683</td>
<td>708</td>
<td></td>
</tr>
</tbody>
</table>
Seed Costs, $ per acre

Figure 1. Seed Costs per Acre

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Cash Rents

- Focus of next session
- Need to be reduced
- Some follow a strategy of not losing farmland
- Cash rent levels need to work given $4.50 corn and $10.50 soybeans (not there in 2016)
Many Farmers are Financial Strong
Can Postpone Decisions
Working Capital Losses Per Acre in 2015

Owned land = -$11 per acre
Cash rent land = -$171 per acre
Share rent land = -$72 per acre

farmdocDaily article on October 8, 2015 titled “Significant Reduction in Working Capital Likely in 2015 on Grain Farms”
Working Capital, 1996 through 2014

- Current assets relative to current liabilities
- First line of defense for cash shortfalls
- Measures:

\[
\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}
\]

\[
\text{working capital} = \text{current assets} - \text{current liabilities}
\]

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Where We Are At

Strong, but weakening, financial position (e.g., current position)

Evaluate current position now and at end of 2015 (current ratio and/or working capital)

If current ratio is less than 2.0, no choice, cut costs

If still strong position, can delay cutting costs
Different Environment

1. Since 1980s, macro events lead to strengthening financial statements
   - Interest rates
   - Farmland price
Figure 2. Rates on Ten-Year Constant Maturity Treasury Bonds

Source: St. Louis Fed, Fred database
Different Environment

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   - Farmland price

2. The 2006 price increase made a lot of aggressive cash rents look smart
Different Environment

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   - Farmland price

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3. It's difficult to identify potential good demand surprise
Pork Consumption in China and U.S.

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Different Environment

1. Since 1980s, macro events lead to strengthening financial statements
   - Interest rates
   - Farmland price

2. The 2006 price increase made a lot of aggressive cash rents look smart

3. It's difficult to identify potential good demand surprise

4. There is likely no increase in government payments.
Summary

1. Farm income will be down considerably in 2015, and 2016 likely will be a repeat of 2015 if significant cost cuts do not occur.

2. Non-land costs plus cash rents exceed gross revenue, need to cut costs.

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