FARM BUSINESS MANAGEMENT

FARM ECONOMICS Facts & Opinions

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2000 FARM INCOME RESULTS SHOW IMPROVEMENT

Average farm operator returns for labor and management on 3,143 Illinois farms increased in 2000 compared to returns experienced by producers in 1999. The 2000 returns were the highest since 1996. Good corn and soybean yields across most of the state along with continued strong livestock returns for most livestock enterprises were the major reasons for the improved incomes. Government farm program payments also continue to be an important factor in supporting farm incomes.

Farm earnings were highest in the southern and central areas of the state. Earnings in southern Illinois were at some of its better levels in recent years due to very good corn and soybean yields. Earnings were lowest in the northern part of the state. All areas of the state except the northwestern region experienced higher earnings than the year before.

OPERATOR'S LABOR AND MANAGEMENT EARNINGS

The average return to the operator's labor and management income in 2000 was $33,707. This figure can be thought of as the farmer's "wage" or "salary". This is what remains from the operator's net farm income after a fair return to the operator's equity in machinery and land has been subtracted. The 2000 return was $15,535 above the 1999 average of $18,172 and $10,806 above the average for the last five years.

Labor and management incomes have varied greatly during the last five years, ranging from a low of a ***negative*** $8,461 in 1998 to the high of $42,639 in 1996. These figures are based on results from summaries of records kept by farmers enrolled in the Illinois Farm Business Farm Management Association (FBFM) record keeping and business analysis program.

CROP YIELDS AND PRICES

Corn yields were 6 bushels per acre higher in 2000 compared to the yields recorded in 1999 while soybean yields were the same as the year before. The average corn yield on the 3,143 farms was 156 bushels per acre. Soybean yields averaged 47 bushels per acre. Corn and soybean yields were generally highest in the central part of the state. Year-end inventory price for the 2000 corn crop of $1.95 was 15 cents higher per bushel than a year earlier. Soybeans were inventoried at a 45 cents higher price than a year earlier. Grain that was still eligible for loan deficiency payments (LDP) was inventoried at loan rates.

Grain prices have declined since the first of the year, especially for soybeans. The 2000 crop marketed in 2001 at prices below beginning of the year inventory values will have a negative impact on 2001 farm incomes. Average sales prices received for the 1999 corn and soybean crop sold in 2000 were slightly above the inventory prices resulting in a positive marketing margin. Crop returns averaged $368 per tillable acre, $35 per acre higher than the 1999 crop returns.

OPERATOR'S NET FARM INCOME

The study indicates that a reasonable charge for the farm operator's debt-free capital invested in machinery, equipment, land and inventories averaged $19,834. Added to the $33,707 average wage, the operator's share of net farm income was $53,541. This amount, plus any non-farm income, is what the operator has available for family living expenses, income and Social Security taxes and to repay long-term debt.

Family living studies indicate that on average it takes about $50,000 to meet family living expenses and to pay income and social security taxes. The average net farm income figure for 2000 would just about be equal to the average family living requirements, resulting in little change in net worth. Additional nonfarm income could result in an increase in net worth.

EARNINGS BY FARM TYPE

Wages earned by farm operators were highest on hog farms followed by grain, dairy and beef farms. Returns to operator's labor and management averaged $68,621 on hog farms, $34,157 on grain farms, $16,028 on dairy farms and a *negative* $11,451 on beef farms. Farms classified as grain farms were 84 percent of all farms while hog farms comprise 5 percent of the total.

GOVERNMENT FARM PROGRAM PAYMENTS

Government farm program payments continue to be an important factor in sustaining farm incomes. Farm program payments consist of production flexibility, market loss assistance, oil seed and loan deficiency payments. In 2000, government farm program payments were about 21 percent of gross farm returns.

The average size of these farms continues to grow, averaging 850 tillable acres in 2000. This was 17 acres larger than the previous year and 66 acres larger than five years ago. Farms classified as grain farms averaged 915 tillable acres compared to dairy farms, which averaged 356 tillable acres.

With improved incomes, farmers spent more for machinery and equipment than the year before. Expenditures increased 25 percent in 2000 compared to 1999, averaging $31,879 per farm, or $38 per tillable acre. Machinery purchases in 1999 averaged $31 per tillable acre and in 1998 averaged $38.

COSTS TO GROW CORN AND SOYBEANS

Total economic costs per acre to produce corn and soybeans in 2000 increased slightly as compared to 1999. Cost per bushel to produce corn increased slightly in northern Illinois and central Illinois on the higher productive soils and decreased in central Illinois on the lower productive soils and in southern Illinois. Costs per bushel to produce soybeans increased in northern and central Illinois and decreased in southern Illinois. Costs per bushel decreased considerably in southern Illinois due to significant increases in yields. Led by an increase in fuel costs, variable costs increased on average $4 per acre for both corn and soybeans. Total economic costs per acre to raise corn and soybeans on these farms averaged $416 and $341 respectively.

From a sample of pure grain farms in the state, the total economic costs per bushel of corn produced were $2.63 with an average yield of 158 bushels per acre. This was the lowest cost per bushel to grow corn since 1994. The total costs per bushel of soybeans were $7.29 with an average yield of 47 bushels per acre. This compared with costs per bushel of $2.68 and $6.94 for corn and soybeans respectively in 1999.

The variation in yields and costs during the past few years make it important to analyze these costs over more than one year. The 1995-99 five-year average to produce corn and soybeans on these farms is $2.94 per bushel for corn and $7.29 per bushel for soybeans.

LIVESTOCK RETURNS

Returns to hog enterprises in Illinois were higher in 2000 compared to the year before while beef cattle and dairy enterprises experienced lower returns. Improved hog prices and continued low feed costs were the main reasons for improved hog returns. Farrow-to-finish hog producers were about $6 to $7 per hundredweight above the breakeven level in covering total costs in 2000. Dairy producers experienced lower returns due to lower milk prices, $1,238 returns above feed per cow in 2000 compared to $1,759 in 1999. Milk prices were 19 percent lower compared to the year before. Milk production per cow was slightly higher than the year before. Feeder cattle enterprises experienced lower returns due to higher replacement cattle prices even though market cattle prices were higher. Slaughter cattle prices received were 7 percent higher while prices paid for replacement feeder cattle were 13 percent higher. Returns above feed per cow dropped somewhat for beef cow enterprises due to higher feed costs although prices received for market animals remained strong. Returns were still above the last 5-year average.

During the last couple of years livestock producers have benefited from relatively low feed costs. Any weather problems that reduce grain production will most likely result in higher feed costs.

GOOD RECORDS A KEY

With larger volume business and smaller margins, it is critical for producers to have complete and accurate financial records. The FBFM record keeping program is a service geared towards providing production and financial business analysis for today's commercial farm operators. More information about FBFM can be obtained from contacting the local FBFM specialist, the local University of Illinois Extension office or calling the Department of Agricultural and Consumer Economics at the University of Illinois at 217/333-0754. The FBFM website address is http://web.aces.uiuc.edu/fbfm/.

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