FARM BUSINESS MANAGEMENT

FARM ECONOMICS Facts & Opinions

Department of Agricultural and Consumer Economics • College of Agriculture, Consumer and Environmental Sciences
University of Illinois at Urbana-Champaign

November 21, 2000 **FEFO 00-01**

GRAIN FARM INCOMES IN 2000 AND PROSPECTS FOR 2001

Projected net farm incomes for 1,037 Illinois grain farms suggest that 2000 incomes will be slightly lower than 1999 incomes. These 1,037 farms are enrolled in Illinois Farm Business Farm Management (FBFM) and have an average of 833 tillable acres. Average net income on these farms was $33,180 per farm in 1999. Projected 2000 net income is $32,414, about $750 lower than 1999 income.

Lower 2000 net incomes result primarily because of higher expenses. Fuel costs rose dramatically in 2000. Overall, crop expenses are projected to be 4 percent higher in 2000 as compared to 1999 expenses. Other expenses are projected to be 1 percent higher. Offsetting expense increases are higher yields in 2000. Average corn yield in Illinois is projected at 153 bu. per acre in 2000, up by 14 bu. over the 1999 yield of 140 bu. per acre.

The 2000 income continues a string of low average incomes occurring in 1998 ($13,827 average net income) and 1999 ($33,180). At these income levels, about 75 percent of the 1,037 farms will see net worth declines. For most of these farms to have net worth gains, net income needs to be above $50,000, close to the average income for the decade of the 1990s.

Moreover, some farms will see substantial net worth declines during 2000 due to a variety of factors. Not all farmers, for example, have higher yields in 2000. The Illinois Agricultural Statistical Service reports that the average yield in the East district (comprising Livingston, Kankakee, Ford, Iroquois, Piatt, Champaign, and Vermilion counties) is 144 bu. in 2000, down by 9 bu. over the 1999 average yield of 153 bu.

Overall, 2000 incomes suggest that most farms will maintain their financial position. Some farms will see their financial position erode because of lower yields and higher expenses. A small minority of farms will see their financial position improve.

Incomes for 2001

Substantial improvements in grain prices would cause 2001 net income to be above 2000 levels. If prices do not improve, four factors suggest that 2001 income will be below 2000 income.

First, above average yields may not occur in 2001. Trend-line yield projections indicate that the expected yield for Illinois in 2001 is 140 bu., 13 bu. below the average state yield in 2000. If Illinois returns to average yields, without significant price improvements, average net income for the 1,037 grain farms will decline by about $8,000 per farm.

Second, expenses in 2001 are likely to increase over 2000 levels. While fuel prices increased in 2000, many farmers did not feel the full brunt of the increase because fuel was purchased before price increases occurred. All fuel purchases for 2001 crop production will occur at higher prices. In addition, other operating costs likely will increase. Nitrogen fertilizer costs will be significantly higher in 2001 as compared to 2000. Drying costs may be higher due to higher fuel prices and potentially higher grain moisture levels at harvest. Projections suggest these cost increases could lower average income for the 1,037 farms by $4,000 per farm.

Third, Agricultural Marketing Transition Act (AMTA) payments are scheduled to decline in 2001. The 2000 rate for corn is $.334 per base bushel. The 2001 rate is scheduled to be $.26 per bu. This decline will cause net incomes for the 1,037 farms to decline by about $3,000 per farm.

Fourth, Market Loss Assistance (MLA) payments may not be at 2000 levels. In 2000, MLA payments are $.363 per base corn bu., $.637 per base wheat bu. and $.1408 per documented soybean bu. A continuation of MLA payments requires legislation to be passed by the U.S. Congress. If no payments occur, average income for the 1,037 farms will decrease by about $16,000 per farm.

Farm Adjustments

The above projections suggest that 2001 incomes will be low. The potential for low incomes means that performing cash flow projections for the upcoming year is critical. Cash flow planning will point out potential cash flow problems and suggest areas where adjustments can be made.

Potential areas for adjustments include reducing operating costs. Given low commodity prices and higher costs, it may be prudent to reduce fertilizer application rates. Moreover, low commodity prices may signal the need to switch from higher to lower priced inputs. For example, use of non-biotechnological altered seeds may be advisable for the 2001 year.

Obviously, an increase in grain prices would dramatically change income prospects. There are some prospects that this may occur. When this will occur is best addressed by outlook analysts. At this point, we suggest using loan rate prices in making 2001 cash flow projections. This will give the "worst case" scenario for prices. Planning for the worst and having higher prices result will be a pleasant surprise.

References

Income projections for Illinois grain farms are more fully reported in a paper entitled " Estimated 2000 Farm Income and Financial Position of Illinois Grain Farms". This paper is available at farm.doc (http://web.aces.uiuc.edu/farm.doc). It is in the management section under newsletters and reports.

Projections of per acre yields are available at the Illinois Agricultural Statistical Service web site (http://www.agr.state.il.us/agstats.htm).

An Excel spreadsheet for performing cash flow projections is available at farm.doc. The spreadsheet is in the finance section under FAST tools (http://web.aces.uiuc.edu/farm.doc/finance/business.html).

For market outlook, see the marketing section at farm.doc (http://web.aces.uiuc.edu/farm.doc/marketing/index.html).

Issued by: Gary Schnitkey, Dale Lattz, and Paul Ellinger, Department of Agricultural and Consumer Economics