FARM BUSINESS MANAGEMENT

FARM ECONOMICS Facts & Opinions

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STUDY SHOWS DROP IN 2001 FARM INCOMES

Average farm operator returns for labor and management on 3,072 Illinois farms decreased significantly in 2001 compared to returns experienced by producers in 2000. The 2001 returns were the lowest since 1998 and the second lowest since 1991. Incomes declined despite good corn and soybean yields recorded by producers across most of the state. Lower soybean prices and higher costs were the major reasons for the decline in incomes. For the most part, livestock returns were good, which helped support incomes on farms producing livestock. Although lower rates paid for government Production Flexibility Contract and Market Loss Assistance payments contributed to the lower incomes, government farm program payments continue to be an important factor in supporting farm incomes.

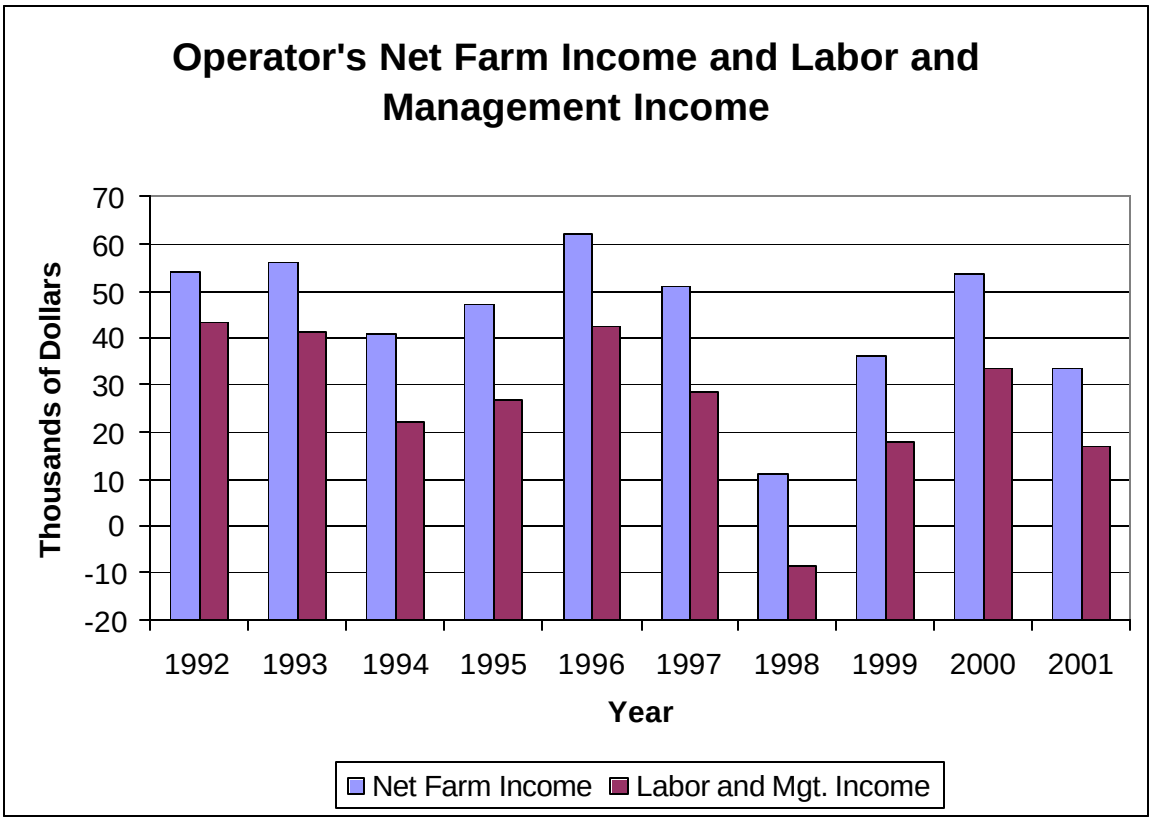

Figure 1. Operator's Net Farm Income and Labor and Management Income, 1992 through 2001.

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Farm earnings were highest in the east central and southern areas of the state. Earnings in southern Illinois were supported by the region's second straight year of good corn and soybean yields. Earnings were lowest in the northern part of the state. All areas of the state experienced lower earnings than the year before.

OPERATOR'S LABOR AND MANAGEMENT EARNINGS

The average return to the operator's labor and management income in 2001 was $16,712 (Figure 1). 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 2001 returns were $16,995 below the 2000 average of $33,707 and $1,003 below 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 $33,707 in 2000. 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 3 bushels per acre higher and soybean yields were 1 bushel per acre higher in 2001 compared to the yields recorded in 2000. The average corn yield on the 3,072 farms was 159 bushels per acre. Soybean yields averaged 48 bushels per acre. Corn yields were generally highest in the east central part of the state while soybean yields were generally highest in the central part of the state. Differences in average yields among different geographic regions of the state were less than in most years. Year-end inventory price for the 2001 corn crop of $2.00 was 5 cents higher per bushel than a year earlier. Soybeans were inventoried at $4.40 per bushel, 55 cents lower than December 31, 2000. Grain that was still eligible for loan deficiency payments (LDP) was inventoried at loan rates.

Average sales prices received for the 2000 soybean crop sold in 2001 were below their inventory price resulting in a negative marketing margin. Prices received for the 2000 corn crop sold in 2001 were close to the inventory price. Crop returns averaged $347 per tillable acre, $21 per acre lower than the 2000 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 $16,684. Added to the $16,712 average wage, the operator's share of net farm income was $33,396. The operator's share of net farm income in 2000 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 2001 would be below the average family living requirements, resulting in a decline in net worth. Additional nonfarm income could reduce the drop or even increase net worth, depending on the level of nonfarm income.

EARNINGS BY FARM TYPE

Wages earned by farm operators were highest on dairy farms followed by hog, grain and beef farms.

Returns to operator's labor and management averaged $41,807 on dairy farms, $37,397 on hog farms, $15,763 on grain farms and a *negative* $15,454 on beef farms. Hog farms recorded the highest earnings in 2000. Farms classified as grain farms were 84 percent of all farms while hog farms comprise 6 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 contract, market loss assistance, oil seed and loan deficiency payments. In 2001, government farm program payments were about 21 percent of gross farm returns.

The average size of these farms continues to grow, averaging 879 tillable acres in 2001. This was 29 acres larger than the previous year and 89 acres larger than five years ago. Farms classified as grain farms averaged 941 tillable acres compared to dairy farms, which averaged 365 tillable acres.

Despite lower incomes, farmers spent slightly more for machinery and equipment than the year before. Expenditures increased 9 percent in 2001 compared to 2000, averaging $34,702 per farm, or $39 per tillable acre. Machinery purchases in 2000 averaged $38 per tillable acre and in 1999 averaged $31. Unless farm income prospects for 2002 improve, expenditures for machinery and equipment can be expected to decline.

COSTS TO GROW CORN AND SOYBEANS

Total economic costs per acre to produce corn and soybeans in 2001 decreased slightly as compared to 2000 in northern Illinois and in central Illinois on the higher productive soils. Costs per acre increased slightly in central Illinois on the lower productive soils and in southern Illinois. Generally, cost per bushel moved in the same direction as cost per acre for the different geographic areas of the state. Cost per bushel to produce corn decreased slightly in northern Illinois and central Illinois on the higher productive soils and increased in central Illinois on the lower productive soils and in southern Illinois. Costs per bushel to produce soybeans decreased in northern and central Illinois and increased in southern Illinois. Led by an increase in fertilizer costs, variable costs increased on average $10 per acre for corn and $2 per acre for soybeans. Total economic costs per acre to raise corn and soybeans on these farms averaged $420 and $338 respectively.

From a sample of pure grain farms in the state, the total economic costs per bushel of corn produced were $2.61 with an average yield of 161 bushels per acre. The total costs per bushel of soybeans were $6.99 with an average yield of 48 bushels per acre. This compared with costs per bushel of $2.63 and $7.29 for corn and soybeans respectively in 2000. This was the lowest cost per bushel to grow corn since 1994. The variation in yields and costs the past few years make it important to analyze these costs over more than one year. The 1997-01 five-year average to produce corn and soybeans on these farms is $2.76 per bushel for corn and $7.13 per bushel for soybeans.

LIVESTOCK RETURNS

Returns to farrow-to-finish hog enterprises in Illinois were slightly lower in 2001 compared to the year before while dairy, beef cow and feeder pig finishing enterprises experienced higher returns. Returns to feeder cattle enterprises declined. Lower year-end inventory prices for hogs was the main factor for the slightly lower hog returns. Farrow-to-finish hog producers were still about $4 to $5 per hundredweight above the breakeven level in covering total costs in 2001. Dairy producers experienced higher returns

due to higher milk prices, $1,845 returns above feed per cow in 2001 compared to $1,239 in 2000. Milk prices were 25 percent higher compared to the year before. Milk production per cow was 2 percent higher than the year before. Feeder cattle enterprises experienced lower returns due to higher replacement cattle prices and lower year-end inventory prices even though market cattle prices were higher. Slaughter cattle prices received were 6 percent higher while prices paid for replacement feeder cattle were 3 percent higher. Returns above feed per cow increased somewhat for beef cow enterprises due to lower feed costs and higher prices received for market animals. Returns were above the last 5-year average.

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

GOOD RECORDS A KEY

With a larger 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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