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FARM INCOMES VARY CONSIDERABLY ACROSS ILLINOIS IN 2002

Average farm operator returns for labor and management on 3,165 Illinois farms varied considerably between geographic areas and decreased slightly in 2002 compared to returns experienced by producers in 2001. Higher grain prices and slightly lower costs did not offset lower corn yields and less government payments. Lower livestock returns also contributed to lower incomes on farms producing livestock. Changes in the government farm program and higher grain prices sharply reduced the amount of government farm program payments producers received in 2002.

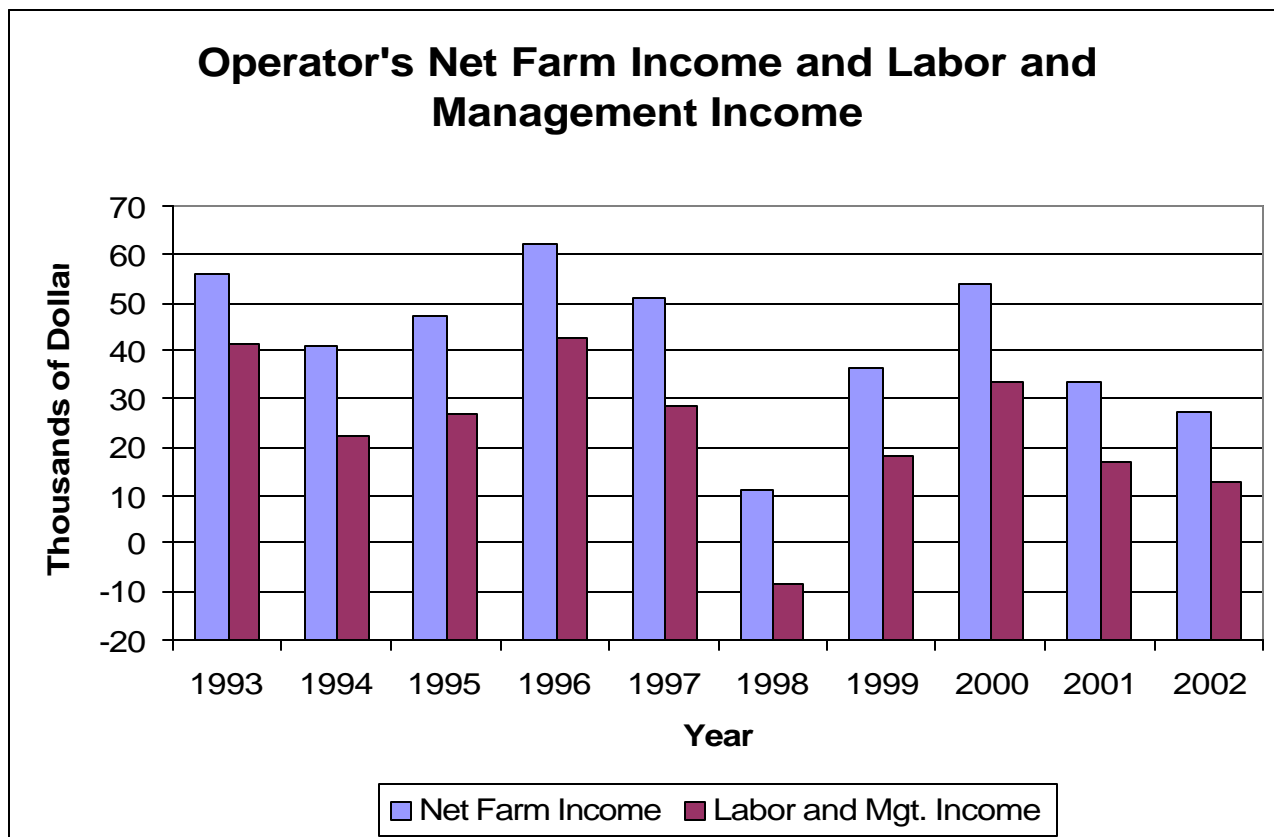


Figure 1. Operator's Net Farm Income and Labor and Management Income, 1993 through 2002.



Farm earnings were highest in the west central and central areas of the state. Earnings were lowest in southern and northeastern Illinois where dry weather reduced corn and soybean yields. Producers in far southern Illinois experienced large losses due to very low yields caused by drought conditions during last summer.

OPERATOR'S LABOR AND MANAGEMENT EARNINGS

The average return to the operator's labor and management income in 2002 was \$12,976 (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 2002 returns were \$3,736 below the 2001 average of \$16,712 and \$1,645 below the average for the last five years.

Operator's labor and management income was \$20,000 to \$25,000 in central Illinois, *negative* \$10,000 to \$15,000 in southern Illinois and *negative* \$60,000 to \$70,000 in far southeastern Illinois. Northeastern Illinois also experienced negative earnings. Labor and management earnings averaged \$15,000 to \$20,000 in northwestern Illinois.

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 14 bushels per acre lower and soybean yields were 1 bushel per acre lower in 2002 compared to the yields recorded in 2001. The average corn yield on the 3,165 farms was 145 bushels per acre. Soybean yields averaged 47 bushels per acre. Corn yields were generally highest in the western and northwestern part of the state while soybean yields were generally highest in the central, western and northwestern areas of the state. Differences in average yields among different geographic regions of the state were much greater than in most years. Year-end inventory price for the 2002 corn crop of \$2.30 per bushel was 30 cents higher per bushel than a year earlier. Soybeans were inventoried at \$5.50 per bushel, \$1.10 higher than December 31, 2001.

Average sales prices received for the 2001 corn and soybean crop sold in 2002 were above their inventory price resulting in a positive marketing margin. Crop returns averaged \$337 per tillable acre, \$10 per acre lower than the 2001 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 \$14,228. Added to the \$12,976 average wage, the operator's share of net farm income was \$27,204. The operator's share of net farm income in 2001 was \$33,396. 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 \$55,000 to meet family living expenses and to pay income and social security taxes. The average net farm income figure for 2002 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 grain farms followed by dairy, beef and hog farms. Returns to operator's labor and management averaged \$15,677 on grain farms, \$12,760 on dairy farms, **negative** \$11,509 on beef farms and a **negative** \$15,839 on hog farms. Dairy farms recorded the highest earnings in 2001. Farms classified as grain farms were 85 percent of all farms while hog farms comprise 5 percent of the total.

GOVERNMENT FARM PROGRAM PAYMENTS

While still an important part of farm income, government farm program payments declined significantly in 2002 compared to 2001. This was due to the implementation of a new government farm program and higher grain prices. The new farm program replaced Production Flexibility Contract Payments with Direct Payments, the ad hoc Market Loss Assistance Payments were discontinued and to some extent replaced by Counter Cyclical Payments. The Loan Deficiency /Marketing Loan Gain Payment provisions of the old farm program were included in the new farm program. While producers earned Direct Payments in 2002, higher commodity prices resulted in limited Loan Deficiency Payments and no Counter Cyclical Payments. Government farm program payments in 2002 were about 7 percent of gross farm returns compared to 21 percent in 2001.

The average size of these farms continues to grow, averaging 895 tillable acres in 2002. This was 16 acres larger than the previous year and 90 acres larger than five years ago. Farms classified as grain farms averaged 959 tillable acres compared to dairy farms, which averaged 339 tillable acres.

Partially as a result of lower incomes, farmers spent less for machinery and equipment than the year before. Expenditures decreased 10 percent in 2002 compared to 2001, averaging \$31,092 per farm, or \$35 per tillable acre. Machinery purchases in 2001 averaged \$39 per tillable acre and in 2000 averaged \$38. Unless farm income prospects for 2003 improve, expenditures for machinery and equipment cannot be expected to increase much, if any.

COSTS TO GROW CORN AND SOYBEANS

Total economic costs **per acre** to produce corn and soybeans in 2002 decreased as compared to 2001 in all areas of the state. Lower fertilizer, nonland interest and land costs were the main factors resulting in lower costs. Cost **per bushel** to produce corn and soybeans decreased slightly in northern Illinois and increased sharply in southern Illinois. Cost per bushel to raise corn and soybeans increased significantly in southern Illinois due to the low yields. Cost per bushel to raise soybeans decreased in central Illinois while cost to raise corn was about the same or slightly higher depending on the geographic area in central Illinois. Total economic costs per acre to raise corn and soybeans on these farms averaged \$403 and \$324 respectively.

From a sample of pure grain farms in the state, the total economic costs per bushel of corn produced were \$2.77 with an average yield of 145 bushels per acre. The total costs per bushel of soybeans were \$6.75 with an average yield of 48 bushels per acre. This compared with costs per bushel of \$2.61 and \$6.99 for corn and soybeans respectively in 2001. This was the lowest cost per bushel to grow soybeans since 1994. The variation in yields and costs the past few years makes it important to analyze these costs over more than one year. The 1998-02 five-year average to produce corn and soybeans on these farms is \$2.71 per bushel for corn and \$7.04 per bushel for soybeans.



LIVESTOCK RETURNS

Returns to all livestock enterprises except feeder cattle were lower in 2002 compared to 2001. Lower market hog prices were the main factor for the lower hog returns. Farrow-to-finish hog producers were about \$6 to \$8 per hundredweight below the breakeven level in covering total costs in 2002. Dairy producers experienced lower returns due to lower milk prices, \$1,370 returns above feed per cow in 2002 compared to \$1,845 in 2001. Milk prices were 18 percent lower compared to the year before. Feeder cattle enterprises experienced slightly higher returns due to lower replacement cattle prices. Slaughter cattle prices received were 9 percent lower while prices paid for replacement feeder cattle were 8 percent lower. Returns above feed per cow decreased somewhat for beef cow enterprises due to higher feed costs and lower prices received for market animals. Returns were slightly below the last 5-year average.

During the last number of years livestock producers have benefited from relatively low feed costs. Feed costs did increase in 2002 for all livestock enterprises due to higher grain prices. With relatively low grain stocks, weather problems that reduce grain production will result in higher feed costs for livestock producers.

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://www.fbfm.org>.

Issued by: Dale Lattz, Department of Agricultural and Consumer Economics

