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ILLINOIS FARM INCOMES HIGHER IN 2003

Average farm operator returns for labor and management on 3,018 Illinois farms was higher for all geographic areas in the state and increased considerably in 2003 compared to returns experienced by producers in 2002. Record breaking corn yields along with higher grain prices offset below average soybean yields. Improved livestock returns also contributed to the better incomes on farms producing livestock. A change in the method of calculating depreciation also affected the earnings figure. As a result of the higher grain prices, for the second year in a row government farm program payments were at levels considerably below farm program payments made during the 1998 through 2001 time period.

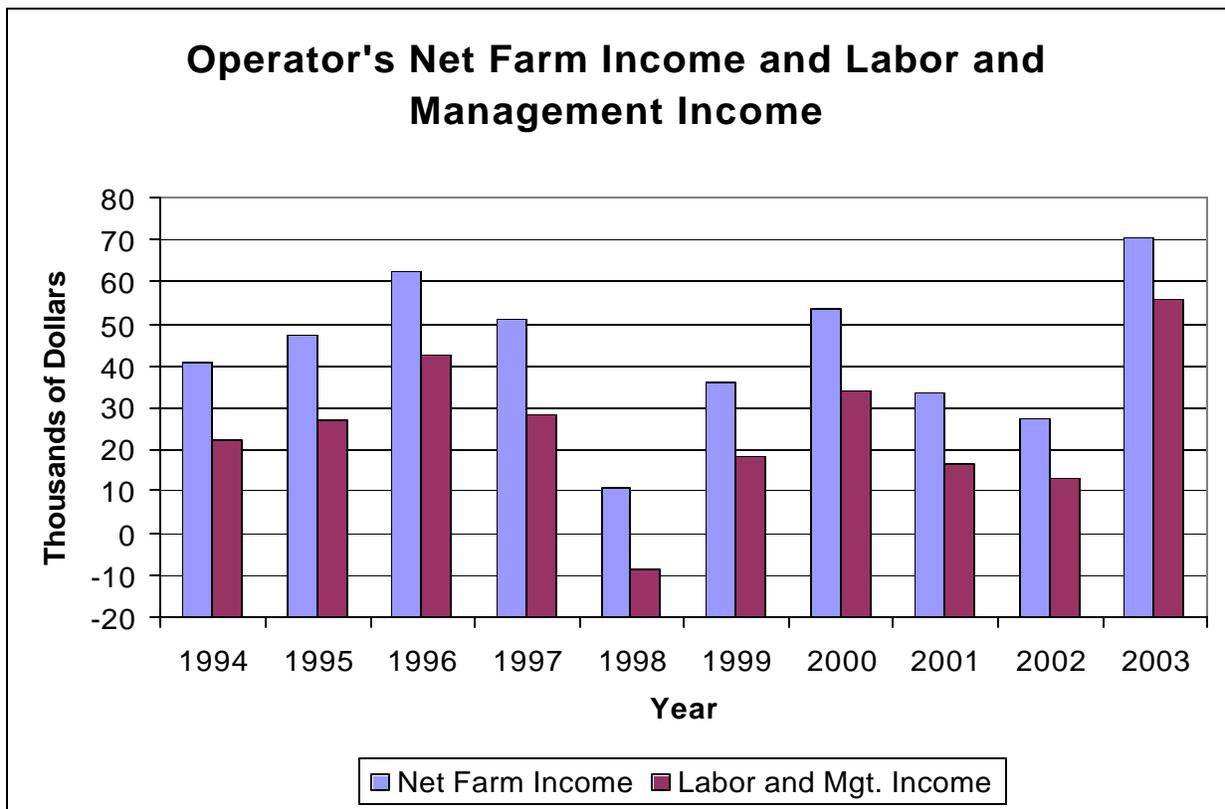


Figure 1. Operator's Net Farm Income and Labor and Management Income, 1994 through 2003.

Farm earnings were highest in the central and far southern areas of the state. Earnings were modestly lower as you moved farther north. In general though, earnings were fairly consistent across most areas of the state with the exception being the two areas that recorded the highest earnings. After a very wet spring in many areas of southern Illinois, yields turned out respectable in that area of the state given the less than ideal early weather conditions.

OPERATOR'S LABOR AND MANAGEMENT EARNINGS

The average return to the operator's labor and management income in 2003 was \$55,678 (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 2003 returns were \$42,702 above the 2002 average of \$12,976 and \$28,229 above the average for the last five years. Although the 2003 earnings figure is a substantial improvement when compared to the last few years, the 1999 through 2003 five year average is only about one half that at \$27,449.

Operator's labor and management income was \$40,000 to \$45,000 in northern Illinois and \$50,000 to \$60,000 in many parts of central and southern Illinois. The Springfield area and far southern Illinois experienced the highest earnings, averaging over \$90,000. Far southern Illinois experienced large negative earnings in 2002. The average earnings for the last two years combined in that area of the state is still only \$12,129.

Labor and management incomes have varied greatly during the last five years, ranging from a low of \$12,976 in 2002 to the high of \$55,678 in 2003. 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.

CHANGE IN METHOD FOR CALCULATING DEPRECIATION

A change in the method of calculating the depreciation deduction for machinery and buildings increased stated earnings. Until 2003, the depreciation deduction was based on Internal Revenue Service guidelines. In other words, the depreciation expense used for analysis purposes was the same as the depreciation expense used for completing the tax return. As changes in the tax law allowed larger and larger write-offs in the year machinery and buildings were purchased, the depreciation method used for analysis was changed to more closely reflect the actual decline in the value of machinery and buildings. The new method does not utilize the additional bonus depreciation or expense election write-off in the year of purchase, uses a slightly longer life and a lower rate than the IRS allowed methods for tax depreciation. It should be noted the change in methods does not increase or decrease the total amount of depreciation that can be claimed on an item, it is simply a timing issue as to when the depreciation is claimed. It is estimated that the change to the new depreciation method resulted in \$10,000 to \$15,000 less in depreciation per farm in 2003 compared to what would have been deducted if the tax depreciation figure was used.

CROP YIELDS AND PRICES

Corn yields were at record high levels, 27 bushels per acre higher in 2003 compared to yields recorded in 2002 while soybean yields were 9 bushels per acre lower. The average corn yield on the 3,018 farms was 172 bushels per acre. Soybean yields averaged 38 bushels per acre. Corn and soybean yields were generally highest in the central part of the state although many areas recorded high corn yields. Year-end inventory price for the 2003 corn crop of \$2.35 per bushel was 5 cents higher per bushel than a year earlier. Soybeans were inventoried at \$7.50 per bushel, \$2.00 higher than December 31, 2002.

Average sales prices received for the 2002 corn and soybean crop sold in 2003 were above their inventory price resulting in a positive marketing margin. Crop returns averaged \$382 per tillable acre, \$45 per acre higher than the 2002 crop returns.

EARNINGS BY FARM TYPE

Wages earned by farm operators were highest on grain farms followed by hog, beef and dairy farms. Returns to operator's labor and management averaged \$57,993 on grain farms, \$51,359 on hog farms, \$51,200 on beef farms and \$42,492 on dairy farms. Grain farms also recorded the highest earnings in 2002. Farms classified as grain farms were 85 percent of all farms while hog farms comprise 4 percent of the total.

GOVERNMENT FARM PROGRAM PAYMENTS

While still an important part of farm income, government farm program payments remained at lower levels similar to the level of payments made in 2002. Direct payments were the main payment producers received in 2003. Higher grain prices resulted in limited loan deficiency payments. A small counter cyclical payment was estimated for corn and wheat but higher grain prices will result in that being paid back if producers took the advance payment. Government farm program payments in 2003 were about 7 percent of gross farm returns, the same as in 2002. In 2001, farm program payments were 21 percent of gross farm returns.

The average size of these farms continues to grow, averaging 923 tillable acres in 2003. This was 28 acres larger than the previous year and 90 acres larger than five years ago. Farms classified as grain farms averaged 989 tillable acres compared to dairy farms, which averaged 372 tillable acres.

Spending for machinery and equipment was higher than the year before. Expenditures increased 15 percent in 2003 compared to 2002, averaging \$35,869 per farm, or \$39 per tillable acre. Machinery purchases in 2002 averaged \$35 per tillable acre and in 2001 averaged \$39.

COSTS TO GROW CORN AND SOYBEANS

Total economic costs **per acre** to produce corn and soybeans in 2003 decreased as compared to 2002 in all areas of the state. The main factor for the decrease in per acre costs was due to lower machinery and building depreciation costs, which was discussed earlier. Cost **per bushel** to produce corn decreased significantly in all areas of the state due to high corn yields. Cost **per bushel** to raise soybeans increased in all areas of the state except for southern Illinois. Lower soybean yields were the main factor resulting in the increased costs per bushel. Total economic costs per acre to raise corn and soybeans on these farms averaged \$395 and \$320 respectively. From a sample of pure grain farms in the state, the total economic costs per bushel of corn produced were \$2.27 with an average yield of 174 bushels per acre. The total costs per bushel of soybeans were \$8.42 with an average yield of 38 bushels per acre. This compared with costs per bushel of \$2.76 and \$6.79 for corn and soybeans respectively in 2002. This was the lowest cost per bushel to grow corn since 1994 and the highest for soybeans since 1988. The variation in yields and costs the past few years makes it important to analyze these costs over more than one year. The 1999-03 five-year average to produce corn and soybeans on these farms is \$2.58 per bushel for corn and \$7.24 per bushel for soybeans.

LIVESTOCK RETURNS

Returns to all livestock enterprises were equal to or higher in 2003 compared to 2002. Higher market hog prices were the main factor for the higher hog returns. Although returns were better, farrow-to-finish hog

producers were still about \$1 to \$2 per hundredweight below the breakeven level in covering total costs in 2003. Dairy producers experienced slightly better returns due to higher milk prices, \$1,480 returns above feed per cow in 2003 compared to \$1,370 in 2002. Milk prices were 4 percent higher compared to the year before. Feeder cattle enterprises were the big winners last year experienced significantly higher returns due to higher slaughter cattle prices. Slaughter cattle prices received were 22 percent higher while prices paid for replacement feeder cattle were 10 percent higher. Returns above feed per cow increased for beef cow enterprises due to higher prices received for market animals. Returns were slightly above the last 5-year average.

During the last number of years livestock producers have benefited from relatively low feed costs. Feed costs did increase again in 2003 for most livestock enterprises due to higher grain prices. Feed costs will also increase in 2004 as grain prices continued to increase. With relatively low grain stocks, livestock producers are hoping for at least average to above average yields to limit the increase in feed costs.

GOOD RECORDS A KEY

The author would like to acknowledge that data used in this study comes from the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 6,000 plus farmers and 60 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM field staff provides on-farm counsel with computerized recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the University of Illinois Department of Agricultural and Consumer Economics at 217-333-5511 or visit the FBFM website at www.fbfm.org.

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