

April 14, 2005

FEFO 05-07

### RECORD YIELDS BOOST 2004 FARM EARNINGS

Based on Illinois Farm Business Farm Management Association (FBFM) records that have been recently summarized, average farm operator returns for labor and management on 3,015 Illinois farms was higher for all geographic areas in the state in 2004 compared to 2003 and significantly above the average for the last five years. Record breaking corn and soybean yields and strong grain prices early in the year more than offset increased costs. Relatively high livestock prices also contributed to the better incomes on livestock farms. Lower grain prices at harvest resulted in the opportunity for producers to receive loan

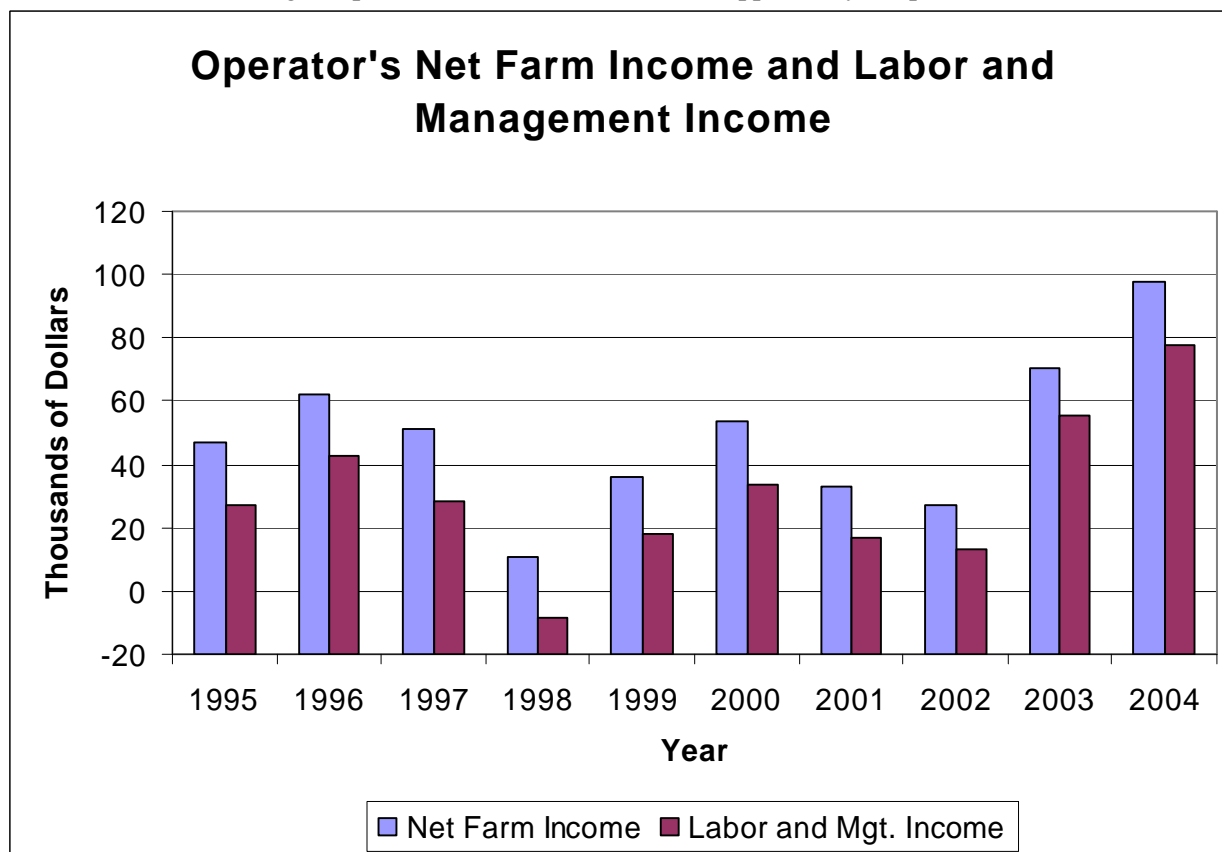


Figure 1. Operator's Net Farm Income and Labor and Management Income, 1995 through 2004.

deficiency payments on corn and for part of the time on soybeans. Thus, total government payments received in 2004 by producers were above payments received in 2002 and 2003. Farm earnings were highest in the west central and far southern areas of the state. Earnings were lowest in the northeastern part of the state.

## **OPERATOR'S LABOR AND MANAGEMENT EARNINGS**

The average return to the operator's labor and management income in 2004 was \$77,906 (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 2004 returns were \$22,228 above the 2003 average of \$55,678 and \$38,510 above the average for the last five years. Although the 2004 earnings figure is a substantial improvement when compared to the last few years, the 2000 through 2004 five year average is a modest \$39,396. 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 \$77,906 in 2004.

Operator's labor and management income was \$50,000 to \$70,000 in northern Illinois and \$75,000 to \$100,000 in central and southern Illinois. Like 2003, the Springfield area and far southern Illinois experienced the highest earnings. Earnings are higher in southern Illinois in part due to the larger size of farms in the southeastern part of the state.

## **CHANGE IN METHOD FOR CALCULATING DEPRECIATION**

This was the second year that a different method was used for calculating the depreciation deduction for machinery and buildings. Instead of using the tax depreciation amount, 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. The change in the depreciation method, to approximate more closely the useful life and average annual cost, has the effect of lowering the depreciation deduction in the current year and raising it in future years

## **CROP YIELDS AND PRICES**

Corn yields were at record high levels, 12 bushels per acre higher in 2004 compared to yields recorded in 2003. Soybean yields were also at record high levels, 15 bushels per acre higher than in 2003. The average corn yield on the 3,015 farms was 184 bushels per acre. Soybean yields averaged 53 bushels per acre. Corn and soybean yields were generally highest in the western and central part of the state although most areas recorded high corn and soybean yields. Year-end inventory price for the 2004 corn crop of \$1.85 per bushel was 50 cents per bushel lower than a year earlier. Soybeans were inventoried at \$5.40 per bushel, \$2.10 lower than December 31, 2003. Average sales prices received for the 2003 corn and soybean crop sold in 2004 were above their inventory price resulting in a positive marketing margin. Crop returns averaged \$423 per tillable acre, \$41 per acre higher than the 2003 crop returns.

## **EARNINGS BY FARM TYPE**

Wages earned by farm operators were highest on hog farms followed by dairy, grain and beef farms. Returns to operator's labor and management averaged \$185,569 on hog farms, \$83,953 on dairy farms, \$74,696 on grain farms and \$37,246 on beef farms. Farms classified as grain farms were 86 percent of all farms while hog farms comprise 4 percent of the total.

## **GOVERNMENT FARM PROGRAM PAYMENTS**

Total government farm program payments to producers increased in 2004 compared to 2003 and 2002 because of lower grain prices at harvest time. The lower prices resulted in producers taking loan deficiency payments on a large percentage of the corn crop and about one half of the soybean crop. The marketing year price for corn might average low enough for counter cyclical payments to be paid out also. While payments were higher in 2004 compared to the previous two years, they still are less than payments made in 1999, 2000 and 2001. Government farm program payments in 2004 were about 13 percent of gross farm returns. In 2003, farm program payments were 7 percent of gross farm returns.

The average size of these farms continues to grow, averaging 959 tillable acres in 2004. This was 36 acres larger than the previous year and 109 acres larger than five years ago. Farms classified as grain farms averaged 1,018 tillable acres compared to dairy farms, which averaged 408 tillable acres. This was the first time that grain farms averaged over 1,000 acres.

Spending for machinery and equipment was higher than the year before. Expenditures increased 40 percent in 2004 compared to 2003, averaging \$50,163 per farm, or \$52 per tillable acre. Machinery purchases in 2003 averaged \$39 per tillable acre and in 2002 averaged \$35.

## **COSTS TO GROW CORN AND SOYBEANS**

Total economic costs per acre to produce corn and soybeans in 2004 increased as compared to 2003 in all areas of the state. The main factor for the increase in per acre costs was due to higher crop, fuel and machinery repair costs. Cost per bushel to produce corn also increased in all areas of the state due to the higher costs, except for southern Illinois. Cost per bushel to raise soybeans decreased in all areas of the state because of the significantly higher yields in 2004 compared to 2003. Total economic costs per acre to raise corn and soybeans on these farms averaged \$425 and \$333 respectively.

From a sample of pure grain farms in the state, the total economic costs per bushel of corn produced were \$2.31 with an average yield of 184 bushels per acre. The total costs per bushel of soybeans were \$6.23 with an average yield of 54 bushels per acre. This compared with costs per bushel of \$2.27 and \$8.42 for corn and soybeans respectively in 2003. This was the second lowest cost per bushel to grow corn since 1994 and the lowest for 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 2000-04 five-year average to produce corn and soybeans on these farms is \$2.50 per bushel for corn and \$7.06 per bushel for soybeans.

## **LIVESTOCK RETURNS**

Except for the feeder cattle enterprise, returns to all livestock enterprises were higher in 2004 compared to 2003. Higher market hog prices were the main factor for the higher hog returns. Returns for farrow-to-finish hog producers were estimated to be about \$10 to \$12 per hundredweight above the breakeven level in covering total costs in 2004. Dairy producers experienced better returns due to higher milk prices, \$2,029 returns above feed per cow in 2004 compared to \$1,480 in 2003. Milk prices were 29 percent higher compared to the year before. Returns to feeder cattle enterprises were at acceptable levels but below 2003 returns due to higher prices paid for replacement feeders. Slaughter cattle prices received were 7 percent higher while prices paid for replacement feeder cattle were 17 percent higher. Returns above feed per cow increased for beef cow enterprises due to higher prices received for market animals. Returns were significantly above the last 5-year average. Higher grain prices during the first half of 2004 resulted in increased feed costs for all the livestock enterprises.

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## **■ EXTENSION**

## **LOOKING AHEAD TO 2005**

Farm earnings could drop significantly in 2005 if we return to more average yields without a significant increase in grain prices. Also having a negative impact on earnings is a sharp increase in certain input costs, like fertilizer, drying gas and fuel. Producers need to plan accordingly for 2005 and monitor their actual cash flows against projections.

## **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 provide 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](http://www.fbfm.org).

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