FARM BUSINESS MANAGEMENT

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GOOD YIELDS AND HIGHER GRAIN PRICES IMPROVE FARM EARNINGS IN 2006

Based on Illinois Farm Business Farm Management Association (FBFM) records that have been recently summarized, average farm operator returns for labor and management on 2,640 Illinois farms was higher for all geographic areas in the state in 2006 compared to 2005 and above the average for the last five years. Good corn and soybean yields along with higher grain prices were the main reasons for the higher incomes and more than offset higher costs. Livestock returns were lower due to lower product prices and higher feed costs. Higher grain prices resulted in lower farm program payments.

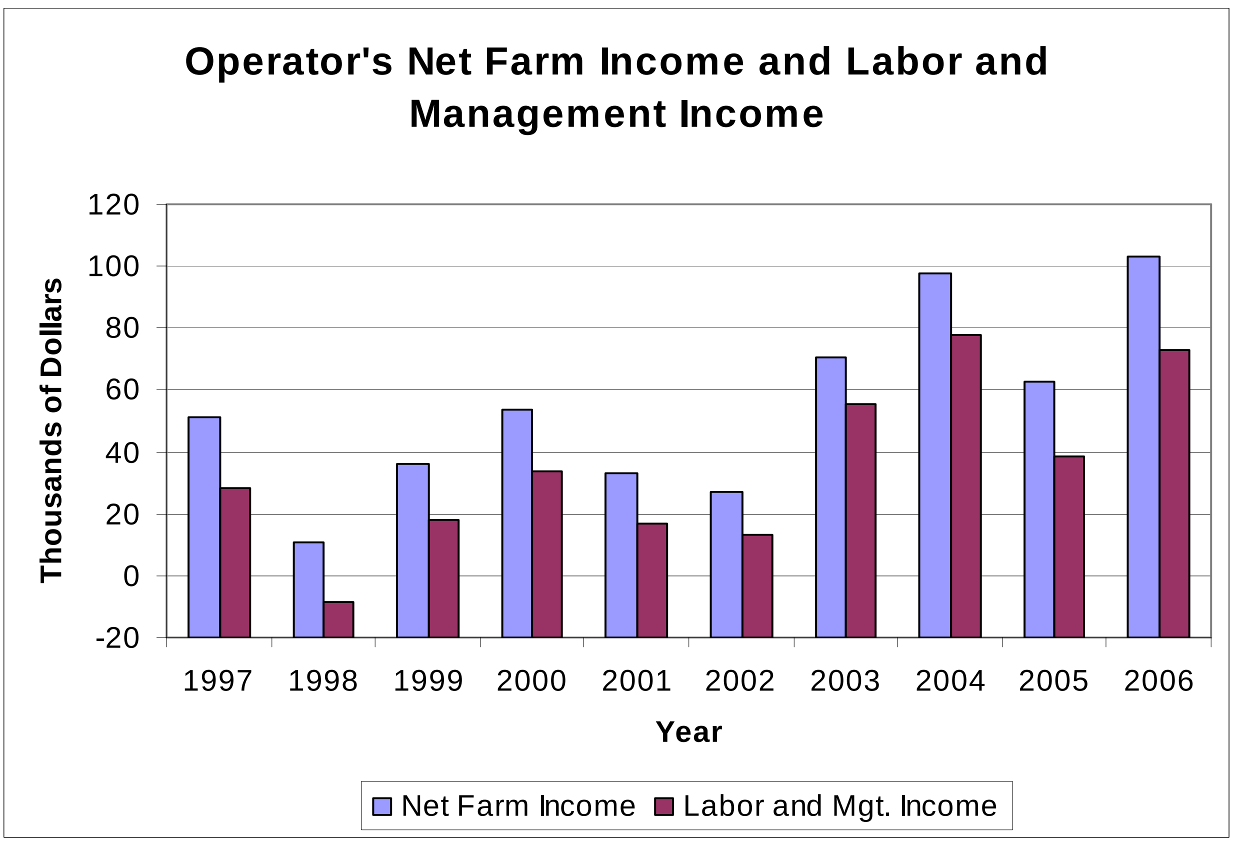

Figure 1. Operator's Net Farm Income and Labor and Management Income, 1997 through 2006.

Farm earnings were highest in the northeast, north central and west central areas of the state. Earnings were lowest in the northwestern part of the state.

OPERATOR'S LABOR AND MANAGEMENT EARNINGS

The average return to the operator's labor and management income in 2006 was $72,818 (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 2006 returns were $34,031 above the 2005 average of $38,787 and $21,185 above the average for the last five years. Operator's labor and management income ranged from about $48,000 in northwestern Illinois to $90,000 in north central and northeastern Illinois. The 2006 earnings are the second highest for any year during the last five years. The 2004 earnings were higher. 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.

CROP YIELDS AND PRICES

Corn yields were significantly above the relatively low yields recorded the year before. Corn yields were 25 bushels per acre higher in 2006 compared to yields recorded in 2005. Soybean yields were 1 bushel per acre higher than in 2005. The average corn yield on the 2,640 farms was 173 bushels per acre. Soybean yields averaged 52 bushels per acre. Corn and soybean yields were generally highest in the central and northern parts of the state. The average corn yield was the third highest on record and the average soybean yield was the second highest. Year-end inventory price for the 2006 corn crop of $3.30 per bushel was $1.35 per bushel higher than a year earlier. Soybeans were inventoried at $6.25 per bushel, 35 cents higher than December 31, 2005. The average sales price received for the 2005 corn crop sold in 2006 was above their inventory price while the average soybean sales price received was below the inventory price. Crop returns averaged $481 per tillable acre, $74 per acre higher than the 2005 crop returns.

EARNINGS BY FARM TYPE

Wages earned by farm operators were highest on grain farms followed by hog, dairy and beef farms. Returns to operator's labor and management averaged $78,899 on grain farms, $66,149 on hog farms, $17,120 on diary farms and a negative $13,600 on beef farms. Farms classified as grain farms were 89 percent of all farms while hog farms comprise 3 percent of the total.

GOVERNMENT FARM PROGRAM PAYMENTS

Higher grain prices resulted in lower farm program payments compared to the year before. Thus, total government payments received in 2006 by producers were below payments received in 2004 and 2005 and the lowest since 2002 and 2003. Loan deficiency payments were available only for a limited time early in harvest, then increased prices eliminated any loan deficiency payments. The marketing year price for the 2006 corn, soybean and wheat crops will average high enough that counter cyclical payments will not be paid out. Payments per acre were similar to payments received by producers during the 2002 through 2003 time period. Government farm program payments in 2006 were only about 6 percent of gross farm returns. In 2005, farm program payments were 19 percent of gross farm returns.

The average size of these farms continues to grow, averaging 1,005 tillable acres in 2006. This was 28 acres larger than the previous year and 110 acres larger than five years ago. Farms classified as grain farms averaged 1,068 tillable acres compared to beef farms, which averaged 424 tillable acres.

Spending for machinery and equipment was higher than the year before. Expenditures increased 3.5 percent in 2006 compared to 2005, averaging $45,659 per farm, or $45 per tillable acre. Machinery purchases in 2005 averaged $45 per tillable acre and in 2004 averaged $52.

COSTS REMAIN HIGH

Per acre fertilizer, chemical and seed costs were similar to the year before but significantly higher as compared to five years earlier. Crop costs on the 2,640 farms averaged $125.26 per acre in 2006 compared to $125.72 in 2005. Fertilizer increased 2.5 percent, pesticides decreased 14 percent and seed increased 9 percent. Compared to 2002, fertilizer costs have increased 50 percent, pesticides 1 percent and seed 38 percent. Fuel and oil costs averaged $18.37 in 2006 compared to $16.50 in 2005 and $9.46 in 2002. These costs are expected to increase in 2007.

COSTS TO GROW CORN AND SOYBEANS

Total economic costs per acre to produce corn and soybeans in 2006 increased as compared to 2005 in all areas of the state. The main factors for the increase in per acre costs was due to higher fertilizer, seed, machinery and nonland interest costs. Cost per bushel to produce corn decreased in all areas of the state except for southern Illinois due to higher corn yields. Cost per bushel to raise soybeans decreased slightly in northern Illinois but increased in all other areas of the state primarily because of the higher costs in 2006. Soybean yields were 4 bushels per acre higher in northern Illinois and similar to the previous year in central and southern Illinois. Total economic costs per acre to raise corn and soybeans on these farms averaged $488 and $375 respectively.

From a sample of pure grain farms in the state, the total economic costs per bushel of corn produced were $2.80 with an average yield of 174 bushels per acre. The total costs per bushel of soybeans were $7.09 with an average yield of 53 bushels per acre. This compared with costs per bushel of $3.05 and $6.84 for corn and soybeans respectively in 2005. Even with the relatively high yield, this was the second highest cost per bushel to grow corn since 1998. The 2006 cost to grow soybeans was slightly above the last five-year average and slightly below the last ten-year average. The variation in yields and costs the past few years makes it important to analyze these costs over more than one year. The 2002-06 five-year average to produce corn and soybeans on these farms is $2.64 per bushel for corn and $7.07 per bushel for soybeans.

LIVESTOCK RETURNS

Returns to all the major livestock enterprises were lower than the year before. Also, returns to all five enterprises in 2006 were equal to or below the last five-year average. All livestock enterprises recorded lower returns compared to the year before and all enterprises except the beef cow enterprise recorded higher feed costs. Lower market hog prices and higher feed costs were the main factors for the lower hog returns. Even with the lower returns and higher feed costs, returns for farrow-to-finish hog producers were estimated to be about $2 to $3 per hundredweight above the breakeven level in covering total costs in 2006. Dairy producer's experienced lower returns due to lower milk prices and higher feed costs, $1,501 returns above feed per cow in 2006 compared to $2,196 in 2005. Milk prices were 13 percent lower compared to the year before. Returns to feeder cattle enterprises were at their lowest level for any year in the last five years. Returns were lower due to continued high prices paid for replacement cattle, lower end-of-year inventory prices and higher feed costs. Slaughter cattle prices received were about $25 per hundredweight lower than prices paid for replacement cattle. Returns above feed per cow decreased for beef cow enterprises due to lower end-of-year inventory values. Returns were below the last five-year average.

LOOKING AHEAD TO 2007

Current grain prices being offered for fall delivery for the 2007 crop are still relatively high. With average or above average yields, farm earnings for 2007 should be good. However, costs have steadily increased the last few years and with any significant drop in grain prices and/or yields, incomes can be substantially lower than what is currently projected. Better incomes will also lead to pressures to increase cash rents. Incomes on livestock farms will be lower than in recent years due to higher feed costs.

Producers need to plan accordingly for 2007 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 5,500 plus farmers and 58 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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