

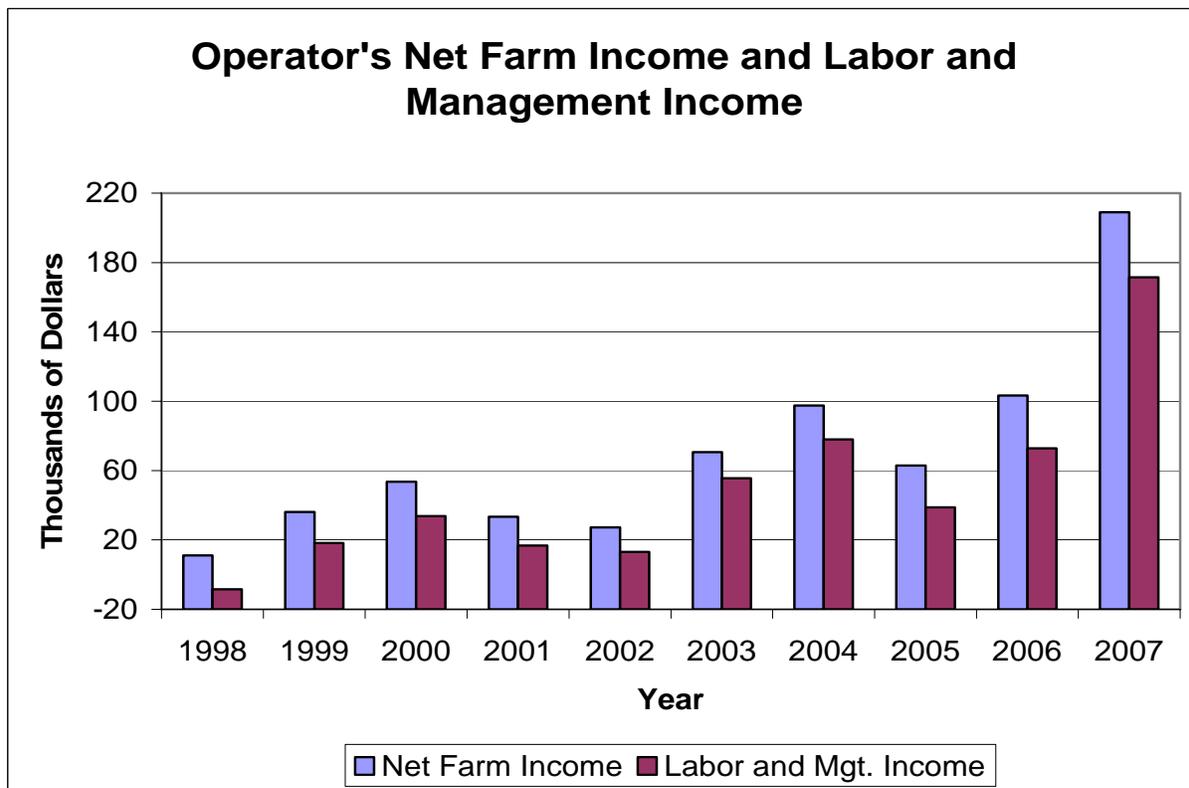
April 18, 2008

FEFO 08-08

GOOD YIELDS AND HIGH GRAIN PRICES LEAD TO STRONG FARM EARNINGS IN 2007

Based on Illinois Farm Business Farm Management Association (FBFM) records that have been recently summarized, average farm operator returns for labor and management on 2,748 Illinois farms was higher for all geographic areas in the state in 2007 compared to 2006 and above the average for the last five years. While costs were up, higher grain prices, excellent corn yields, and good soybean yields more than counteracted costs increases and were the main reasons for higher incomes. Hog returns were lower due to higher feed costs and stable product prices while returns to dairy enterprises were higher, even with the higher feed costs, due to higher milk prices. Higher grain prices resulted in minimum farm program payments.

Figure 1. Operator's Net Farm Income and Labor and Management Income, 1998 through 2007.



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

OPERATOR'S LABOR AND MANAGEMENT EARNINGS

The average return to the operator's labor and management income in 2007 was \$171,507 (Figure 1). This return 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 2007 returns were \$98,689 above the 2006 average of \$72,818 and \$88,168 above the average for the last five years. Higher average returns occurred in the northern and central parts of the state and lower returns occurred in southern Illinois. The 2007 earnings are the highest for any year during the last five years. The 2005 earnings were the lowest. Labor and management incomes have varied greatly during the last five years, ranging from a low of \$38,787 in 2005 to the high of \$171,507 in 2007.

While the 2007 labor and management earnings are at historic high levels, this does not mean that these high incomes will last indefinitely. Farm earnings, like earnings for many other businesses, exhibit wide swings from year to year. Farm earnings are dependent on a number of factors outside the farmer's control, such as weather, markets, and government policy. From that standpoint, it maybe helpful to look at farm earnings over a longer period of time. The 2003 through 2007 five-year average of labor and management earnings was \$83,339 while the 1998 through 2007 ten-year average of labor and management earnings was \$40,817, \$130,690 below the 2007 earnings. The 2007 level of earnings is considerably above the last five and ten-year averages.

CROP YIELDS AND PRICES

Corn yields were above the relatively good yields recorded the year before. The average corn yield on the 2,748 farms was 189 bushels per acre. Corn yields were 16 bushels per acre higher in 2007 compared to yields recorded in 2006. Soybean yields averaged 50 bushels per acre. Soybean yields were 2 bushels per acre lower than in 2006. Corn and soybean yields were generally highest in the central and northern parts of the state. Dry weather conditions in parts of southern Illinois lowered yields in that area of the state relative to central and northern Illinois. The average corn yield was the highest on record and the average soybean yield was tied for the fourth highest. Year-end inventory price for the 2007 corn crop of \$3.75 per bushel was 45 cents per bushel higher than a year earlier. Soybeans were inventoried at \$10.00 per bushel, \$3.75 higher than December 31, 2006. The average sales price received for the 2006 corn crop sold in 2007 was below their inventory price while the average soybean sales price received was above the inventory price. Crop returns averaged \$657 per tillable acre, \$176 per acre higher than the 2006 crop returns. The average crop returns per acre were at an all time high.

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 \$183,038 on grain farms, \$117,024 on dairy farms, \$55,150 on beef farms and \$52,330 on hog farms. Farms classified as grain farms were 90 percent of all farms while hog farms comprise 3 percent of the total.

GOVERNMENT FARM PROGRAM PAYMENTS

Continued high grain prices resulted in slightly lower farm program payments compared to the year before. Thus, total government payments received per acre in 2007 by producers were the lowest since 1996. Prices were high enough to not trigger loan deficiency payments. The marketing year price for the 2007 corn, soybean and wheat crops will average high enough that counter cyclical payments will not be paid out either. Payments per acre were below but similar to payments received by producers during 2002, 2003 and 2006 time periods. Government farm program payments in 2007 were only about 3 - 4 percent of gross farm returns. In 2006, farm program payments were 6 percent of gross farm returns



while in 2005 farm program payments were about 20 percent of gross farm returns.

The average size of these farms continues to grow, averaging 1,019 tillable acres in 2007. This was 14 acres larger than the previous year and 96 acres larger than five years ago. Farms classified as grain farms averaged 1,072 tillable acres compared to dairy farms, which averaged 416 tillable acres.

Spending for machinery and equipment was considerably higher than the year before. Expenditures increased 38 percent in 2007 compared to 2006, averaging \$62,951 per farm, or \$62 per tillable acre. Machinery purchases in 2006 and 2005 averaged \$45 per tillable acre.

COSTS CONTINUE TO INCREASE

Per acre fertilizer, chemical and seed costs were higher compared to the year before and significantly higher as compared to five years earlier. Crop costs on the 2,748 farms averaged \$144.87 per acre in 2007 compared to \$125.26 in 2006. Fertilizer increased 20 percent, pesticides increased 5 percent and seed increased 18 percent. Part of this increase can be attributed to more corn and less soybeans being grown. The crop costs for corn are more than soybeans. Compared to 2003, fertilizer costs have increased 70 percent, pesticides have decreased 1 percent and seed has increased 53 percent. Fuel and oil costs averaged \$21.03 in 2007 compared to \$18.37 in 2006 and \$10.47 in 2003. These costs are expected to continue to increase in 2008.

COSTS TO GROW CORN AND SOYBEANS

Total economic costs per acre to produce corn and soybeans in 2007 increased as compared to 2006 in all areas of the state. The main factors for the increase in per acre costs was due to higher fertilizer, seed, machinery, insurance and nonland interest costs. Cost per bushel to produce corn increased in all areas of the state except for central Illinois with the higher rated soils. Costs per bushel increased due to higher costs per acre. Cost per bushel to raise soybeans increased in all areas of the state primarily because of the higher per acre costs. Some areas also experienced lower yields in 2007 than in 2006. Soybean yields were 2 bushels per acre lower in northern Illinois, the same as the previous year in central Illinois and 11 bushels per acre lower in southern Illinois. Total economic costs per acre to raise corn and soybeans on these farms averaged \$542 and \$416 respectively.

From a sample of pure grain farms in the state, the total economic costs per bushel of corn produced were \$2.85 with an average yield of 190 bushels per acre. The total costs per bushel of soybeans were \$8.14 with an average yield of 51 bushels per acre. This compared with costs per bushel of \$2.80 and \$7.09 for corn and soybeans respectively in 2006. Even with the high yield, this was the third highest cost per bushel to grow corn since 1998. The 2007 cost to grow soybeans was above the last five-year and ten-year average and the highest cost per bushel 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 2003-07 five-year average to produce corn and soybeans on these farms is \$2.66 per bushel for corn and \$7.34 per bushel for soybeans.

LIVESTOCK RETURNS

Return above feed cost to dairy and feeder cattle enterprises were higher than the year before while returns to hog and beef cow enterprises were lower. Also, except for dairy, returns to all five enterprises in 2007 were below the last five-year average. All livestock enterprises experienced significantly higher feed costs in 2007 compared to 2006. Higher feed costs were the main factor for the lower hog returns. Mainly due to the higher feed costs, returns for farrow-to-finish hog producers were estimated to be about \$7 to \$8 per hundredweight below the breakeven level in covering total costs in 2007. Dairy producer's experienced higher returns due to higher milk prices, \$2,360 returns above feed per cow in 2007 compared to \$1,501 in 2006. Milk prices were 38 percent higher compared to the year before. Returns to feeder cattle enterprises were higher than the year before but only the second highest for any year in the



last five years. Returns were higher due to higher prices received for market cattle. Prices paid in 2007 for replacement cattle were slightly below the year before. Slaughter cattle prices received were about \$18 per hundredweight lower than prices paid for replacement cattle. Returns above feed per cow decreased for beef cow enterprises due to higher feed costs. Returns were the lowest for any year during the last five years.

LOOKING AHEAD TO 2008

Current grain prices being offered for fall delivery for the 2008 crop are still relatively high. With average or above average yields, farm earnings for 2008 should continue to be good. However, costs continue to increase with some costs, like fertilizer, increasing significantly. With any significant drop in grain prices and/or yields, incomes can be substantially lower than what is currently projected. Better incomes have also lead to increased cash rents, which will cut into operator returns. Incomes on livestock farms will continue to be challenged due to the high feed costs. Producers need to plan accordingly for 2008 and monitor their actual cash flows against projections. Utilizing available risk management tools is more important than ever due to the large investment in planting and growing a crop.

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 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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