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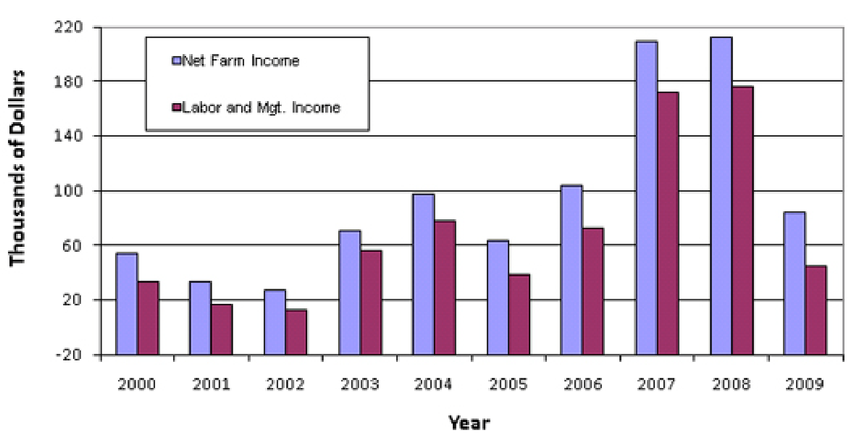
LOWER CROP RETURNS AND HIGHER COSTS LEAD TO LOWER FARM EARNINGS IN 2009

Based on Illinois Farm Business Farm Management Association (FBFM) records that have been recently summarized, average farm operator returns for labor and management on 2,624 Illinois farms was lower for all geographic areas in the state in 2009 compared to 2008 and below the average for the last five years. Lower corn yields along with higher input and drying costs were the main reasons for the lower incomes. Hog returns were higher due to lower feed costs while returns to dairy enterprises were lower due to lower milk prices. Farm earnings were highest in the most southern portion of the state. Earnings were lowest in the north east part of the state.

Operator's Labor and Management Earnings

The average return to the operator's labor and management income in 2009 was $44,551 (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 2009 returns were $131,007 below the 2008 average of $175,558 and $56,093 below the average for the last five years. Operator's labor and management income ranged from about negative $2,200 in northeastern Illinois to over $90,000 in the most southern part of Illinois. Earnings are higher in southern Illinois in part due to the larger size of farms in the southeastern part of the state. The 2009 earnings are the second lowest 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 $175,558 in 2008.

Figure 1. Operator's Net Farm Income and Labor and Management Income, 2000 through 2009.



Crop Yields and Prices

Corn yields were below the record yields established the year before. Corn yields were 12 bushels per acre lower in 2009 compared to yields recorded in 2008. Soybean yields were 1 bushel per acre lower than in 2008. The average corn yield on the 2,624 farms was 182 bushels per acre. Soybean yields averaged 50 bushels per acre. Corn and soybean yields were generally highest in the central part of the state. Wet weather conditions in parts of northern Illinois lowered yields in that area of the state relative to central Illinois. The average corn yield was the fourth highest on record and the average soybean yield was tied for the fourth highest. Year-end inventory price for the 2009 corn crop of $3.50 per bushel was the same as a year earlier. Soybeans were inventoried at $9.75 per bushel, $.75 higher than December 31, 2008. The average sales price received for the 2008 corn crop sold in 2009 was above their inventory price as well as the average soybean sales price received. Crop returns averaged $654 per tillable acre, $95 per acre lower than the 2008 crop returns. The average crop returns per acre were at an all time high in 2008.

Earnings by Farm Type

Wages earned by farm operators were highest on grain farms followed by beef, dairy and hog farms. Returns to operator's labor and management averaged $52,733 on grain farms, negative $36,441 on beef farms, negative $47,369 on dairy farms and negative $85,657 on hog farms. Farms classified as grain farms were 90 percent of all farms while dairy 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 2009 by producers were the lowest since 1996. Some of this is also due to the 20% decrease in direct payments for farms enrolled in the ACRE program. Commodity prices were high enough so as not to trigger loan deficiency payments and counter cyclical payments. Payments per acre were below but similar to payments received by producers during 2002, 2003, 2007 and 2008 time periods. Government farm program payments in 2009 were only about 3 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 1,031 tillable acres in 2009. This was 15 acres higher than the five year average and 54 acres larger than 2005. Farms classified as grain farms averaged 1,089 tillable acres compared to dairy farms, which averaged 370 tillable acres.

Spending for machinery and equipment was similar to that of the year before. Expenditures averaged $89,589 per farm, or $87 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 2,624 farms averaged $230.77 per acre in 2009 compared to $183.17 in 2008. Fertilizer increased 31 percent, pesticides increased 7 percent and seed increased 31 percent. Compared to 2005, fertilizer costs have increased 120 percent, pesticides have increased 16 percent and seed has increased 97 percent. Drying costs averaged $22.10 in 2009 compared to $14.16 in 2008 and $6.03 in 2007. Seed costs are expected to continue to increase in 2010 while fertilizer and drying cost are expected to decrease.

Costs to Grow Corn and Soybeans

Total economic costs per acre to produce corn and soybeans in 2009 increased as compared to 2008 in all areas of the state. Items with the largest increases were fertilizer, seed, drying and machinery depreciation. Cost per bushel to produce corn increased in all areas of the state due to higher costs per acre and lower yields. Corn yields were 22 bushel per acre lower in northern Illinois, 6 bushel per acre lower in central Illinois and 5 bushels per acre lower in southern Illinois. 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 2009 than in 2008. Total economic costs per acre to raise corn and soybeans on these farms averaged $756 and $522 respectively.

From a sample of pure grain farms in the state, the total economic costs per bushel of corn produced were $4.12 with an average yield of 184 bushels per acre. The total costs per bushel of soybeans were $10.15 with an average yield of 51 bushels per acre. This compared with costs per bushel of $3.34 and $9.33 for corn and soybeans respectively in 2008. This was the highest cost per bushel to grow corn since 1988. The 2009 cost to grow soybeans was the highest cost per bushel on record. The variation in yields and costs the past few years makes it important to analyze these costs over more than one year. The 2005-09 five-year average to produce corn and soybeans on these farms is $3.23 per bushel for corn and $8.30 per bushel for soybeans.

Livestock Returns

Return above feed cost to all livestock enterprises was higher than the year before except dairy. Also, returns to all enterprises in 2009 except feeder cattle were still below the last five-year average. All but the dairy enterprise experienced slightly lower feed costs in 2009 compared to 2008. Lower hog prices caused lower hog returns. Returns for farrow-to-finish hog producers were estimated to be about $8 to $9 per hundredweight below the breakeven level in covering total costs in 2009. Dairy producer’s experienced lower returns due to lower milk prices, $838 returns above feed per cow in 2009 compared to $1,775 in 2008. Milk prices were 31 percent lower compared to the year before. Returns to feeder cattle enterprises were higher than the year before being just above the five year average. Returns were higher due to lower feed costs. Prices paid in 2009 for feeder cattle were below the year before. Slaughter cattle prices received were about $11 per hundredweight lower than prices paid for feeder cattle. Returns above feed per cow increased for beef cow enterprises due to lower feed costs. Returns were the second lowest for any year during the last five years.

Looking Ahead to 2010

Even with fertilizer and drying cost projected to be below 2009 amounts, other costs are projected to remain at relatively high levels or increase in 2010. For farm earnings to remain at average levels, crop yields, grain prices or both will need to be above the last five-year averages. Incomes on livestock farms will be continue to be challenged due to projected lower product prices and higher feed costs. Producers need to plan accordingly for 2010 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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