



# Illinois Farm Income Outlook

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# Objectives

- Evaluate the financial condition of Illinois grain farms for 2005.
- Evaluate the impact of the current farm program.
- Look ahead to 2006.

# Approach

- Use a sample of Illinois FBFM grain farms with historical financial records.
- Use projections of yields and prices to determine revenue for each farm.
- Adjust historical expenses and financial data for each farm.
- Project net farm income and net worth change for each farm in the sample.

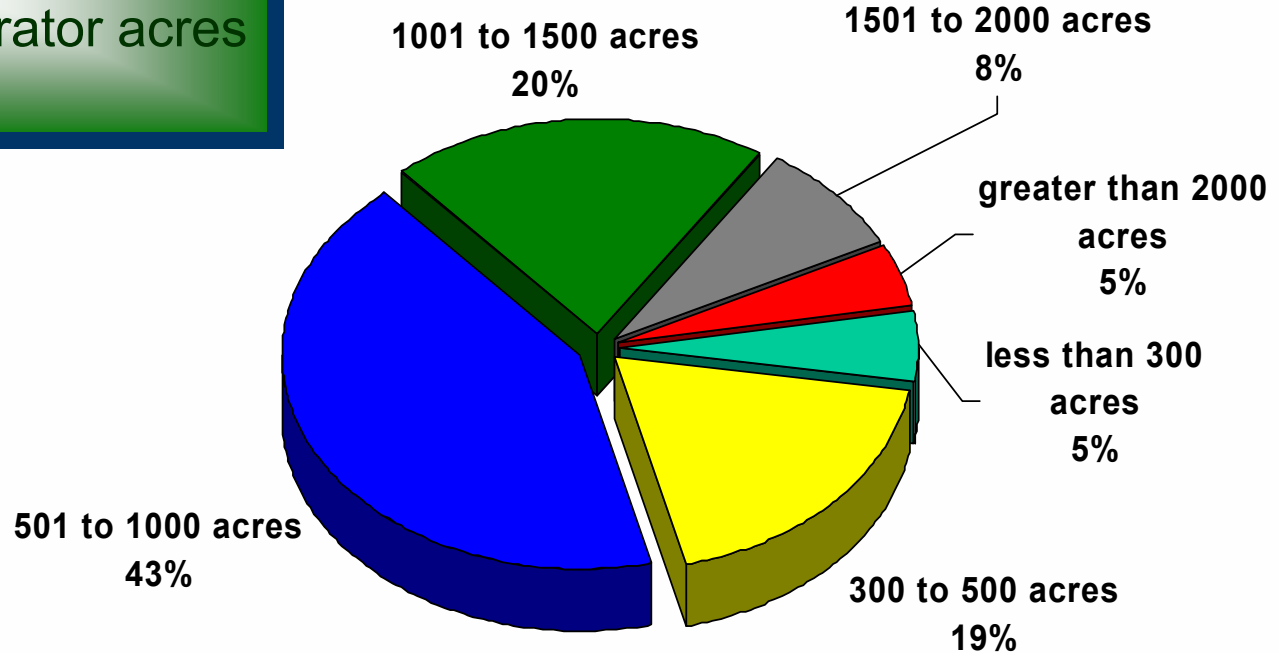
# Sample Farms by Size

805 grain farms

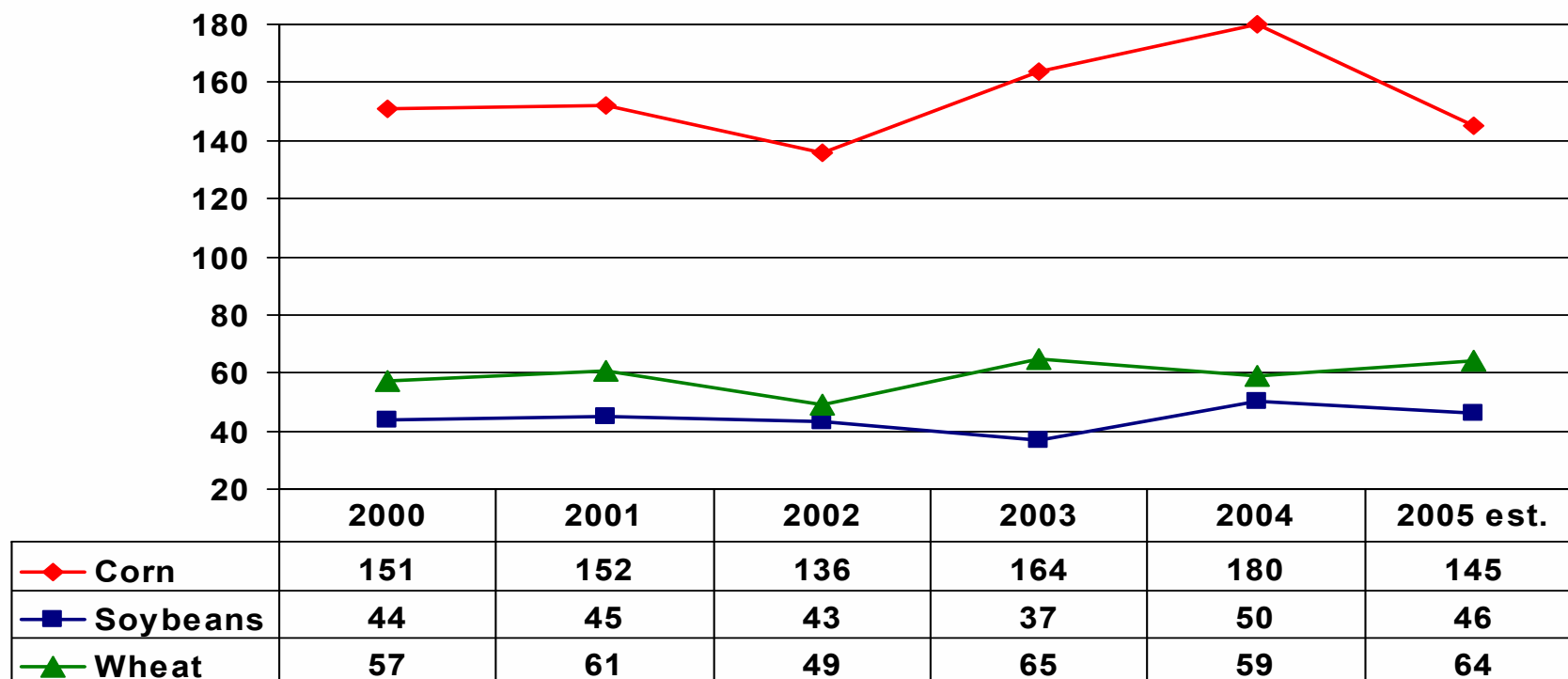
Average farm:

908 total acres

702 operator acres



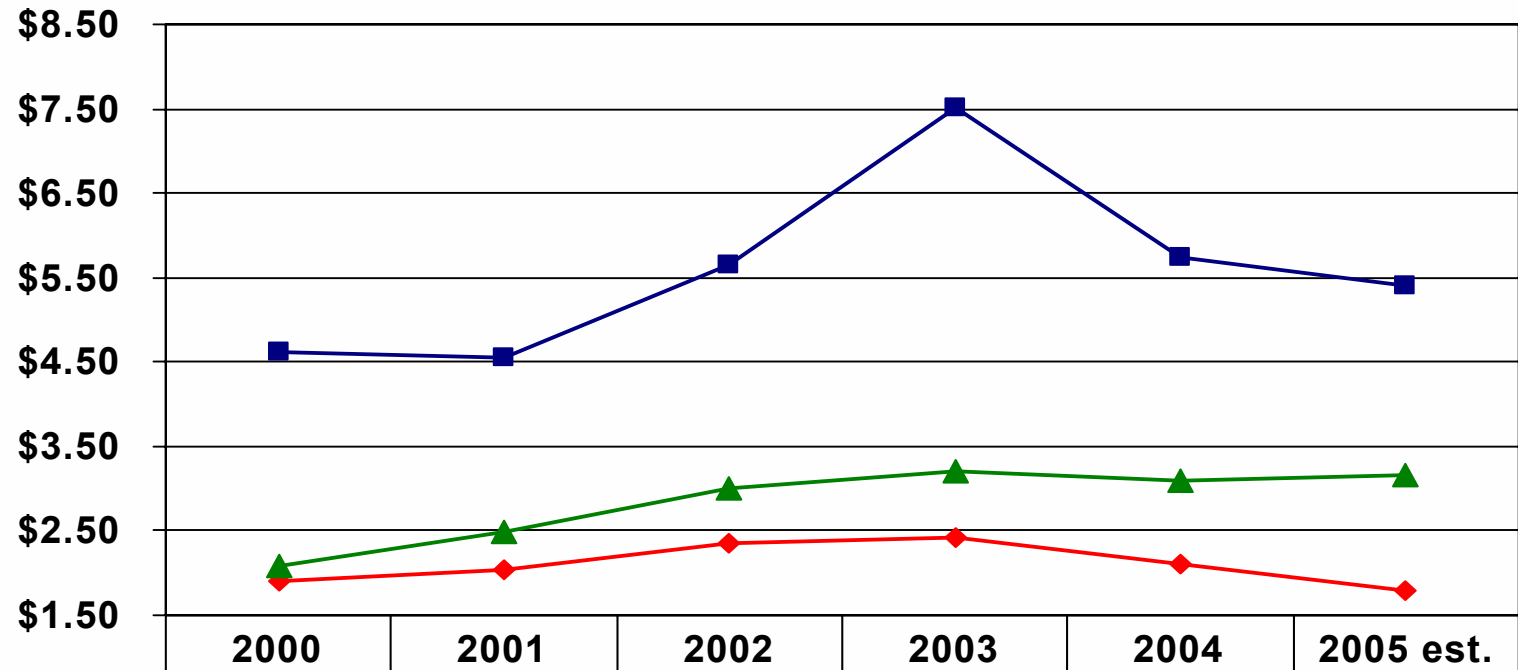
# Corn and Soybean Yields in 2005 are a Mixed Bag



Good News: Not quite as bad as early forecasts:

Aug. report: Corn = 125 Soybeans=39

# Declining Grain Prices\*



◆ Corn	\$1.91	\$2.04	\$2.35	\$2.42	\$2.10	\$1.80
■ Soybeans	\$4.62	\$4.55	\$5.66	\$7.51	\$5.75	\$5.40
▲ Wheat	\$2.09	\$2.49	\$3.01	\$3.20	\$3.10	\$3.15

\* Marketing year average for Illinois

# Key Assumptions

- Estimated prices received / year end inventory price
  - Corn: \$1.80 / bu.
  - Soybeans: \$5.40 / bu.
  - Wheat: \$3.20 / bu.
- Estimated LDPs included
  - Corn: \$.35 / bu.
  - Soybeans: \$.00 / bu.
- Counter-cyclical payments estimated at \$.40 per bu. for corn, \$.00 for beans and wheat

# Key Assumptions – cont.

- Marketing margins on old crop
  - Corn: **Gain** of \$0.25/bu. – 69% of crop
  - Soybeans: **Gain** of \$0.50/ bu. – 59% of crop
- Pricing opportunities on new crop
  - Corn – 10% sold at \$2.30 (**+\$0.50 over inv.**)
  - Soybeans – 10% sold at \$6.50 (**+\$1.10 over inv.**)
- Use NASS November report of district projections of yields



# Estimated Yields



FBFM Adjusted Yields Crop Reporting District	Soybean Yield		Corn Yield	
	2004	2005	2004	2005
Northwest	54	50	185	141
Northeast	53	46	182	127
West	55	52	197	158
Central	56	52	190	157
East	53	53	183	168
West Southwest	55	49	194	166
East Southeast	53	46	177	137
Southwest	49	46	158	123
Southeast	49	48	161	134
<b>NASS Weighted Average</b>	<b>54</b>	<b>50</b>	<b>185</b>	<b>150</b>

November 2005 NASS projections.  
Yields adjusted to represent differences  
between NASS and FBFM

# Other Key Assumptions

- Average increase in farm size -- 3.0%
- Operating expenses adjustments from 2004
  - Crop expenses - - 8% increase
  - Fuel and oil - - 50% increase
  - Other machinery expenses - - 5% increase
  - All other expenses - - 3.5% increase
- Market value machinery -- no change
- Machinery economic depreciation --10% increase
- Land values -- 10% increase
- Interest expense – 15% increase

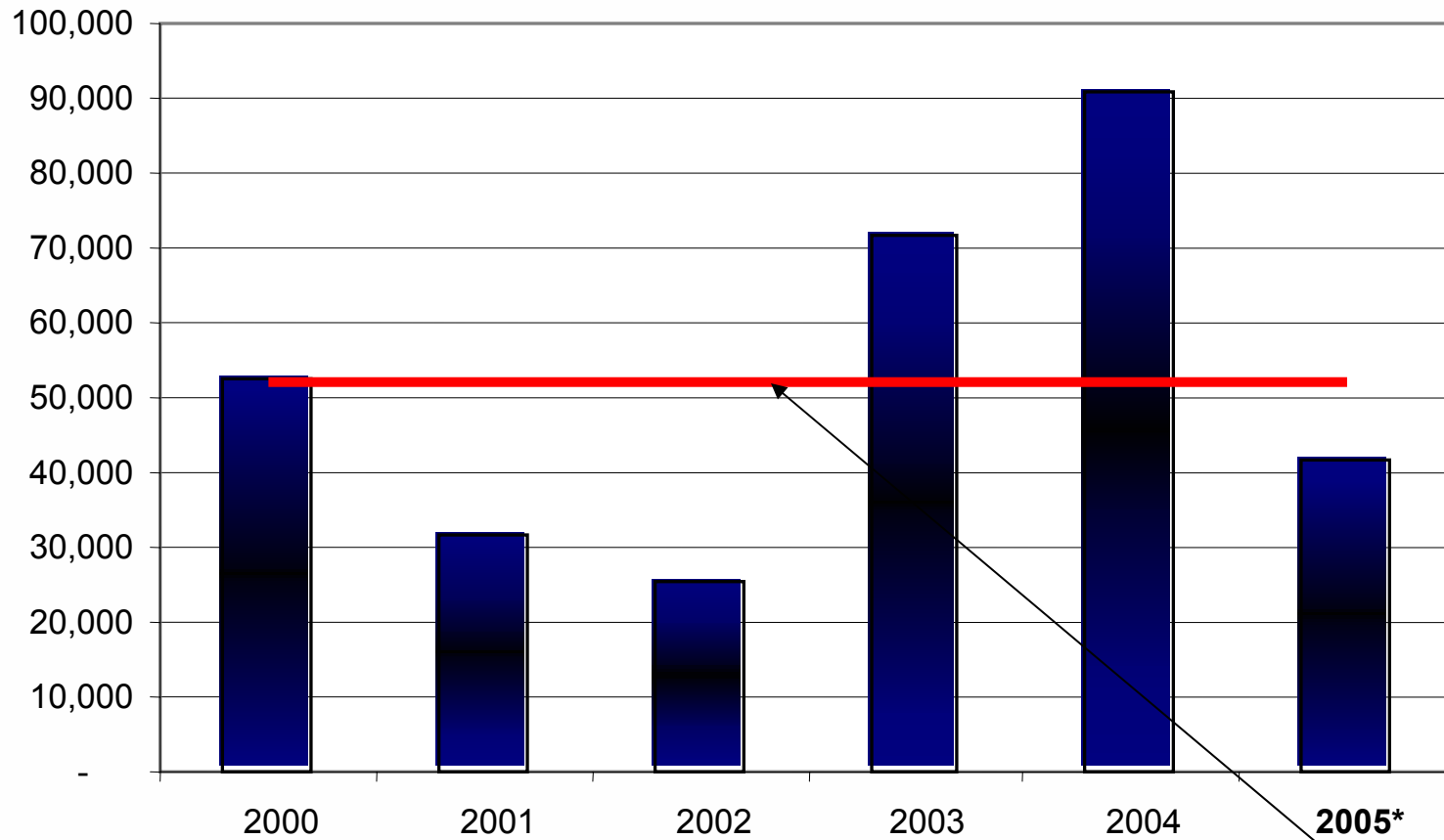
# Net Farm Income

2001	\$31,746	}	Actual
2002	25,346		
2003	71,459		
2004	90,651		
<b>2005</b>	<b>39,000 – 45,000</b>		<b>Estimate</b>

Net farm income does not include:

- Payments for operator labor/family withdrawals
- Nonfarm income
- Income and SE taxes

# Net Farm Income 2000 - 2005



\* Estimated

**2000 – 2005 average net farm income = \$52,300!!**

# Sensitivity of Estimate

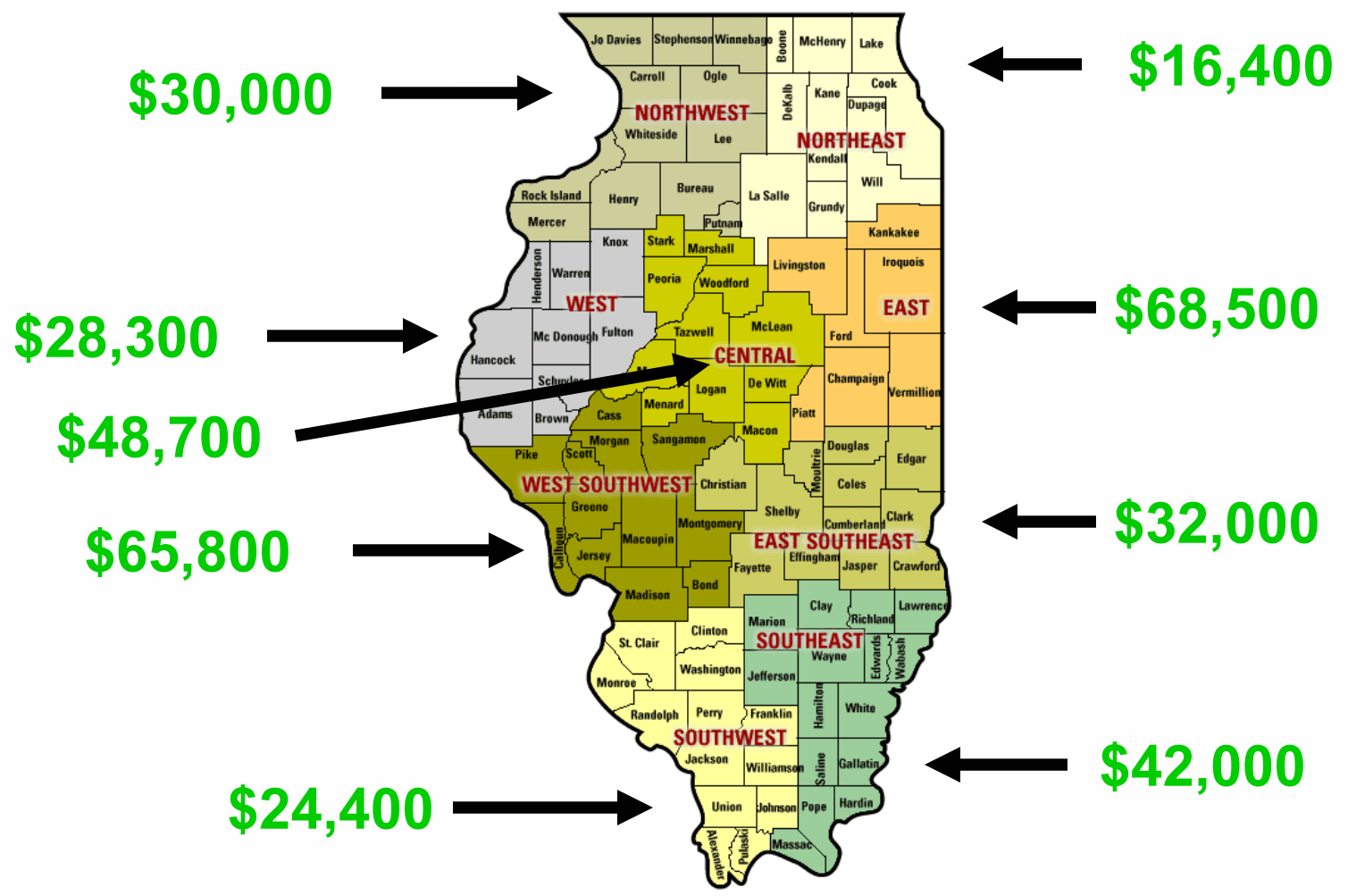
	<u>Change in Average Income</u>
One bushel change in	
Corn yields	\$ 900
Soybean yields	1,800
Change in effective price	
Corn price - \$.05	\$ 3,000
Soybean price - \$.20	3,200

# Net Farm Income by Region

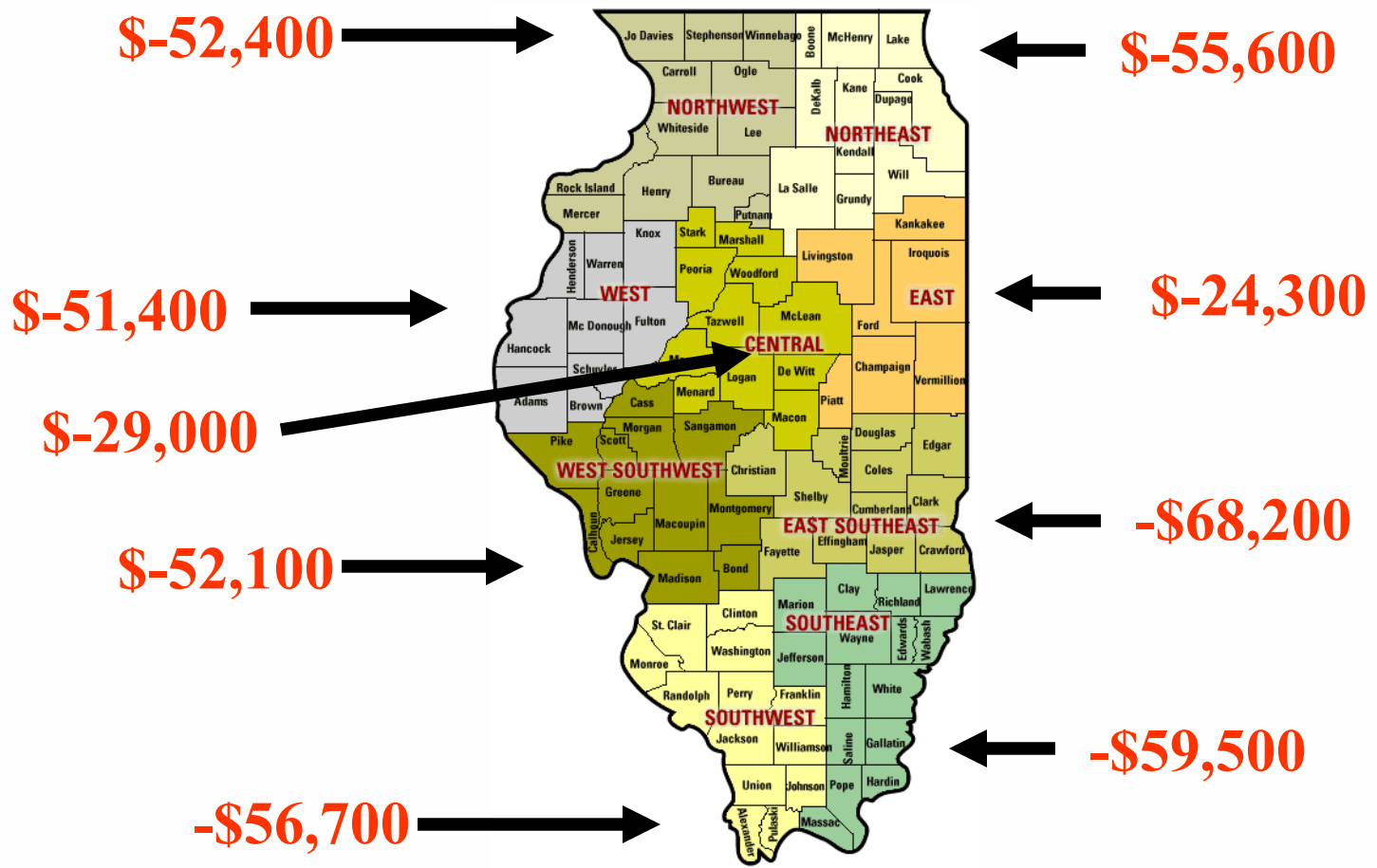


Crop Reporting District	Actual		Projected		
	2001	2002	2003	2004	2005
Northwest	\$ 19,257	\$ 34,389	\$ 51,386	\$ 82,436	\$ 30,038
Northeast	23,729	17,645	55,109	72,015	16,407
Central & West	29,348	31,749	65,722	78,106	45,981
East	37,395	42,927	67,377	92,772	68,454
West Southwest	21,423	47,829	105,160	117,949	65,806
East Southeast	47,117	14,228	87,762	100,243	32,049
Southwest	31,107	(7,714)	71,504	81,059	24,362
Southeast	49,483	(19,877)	61,509	101,504	42,001
<b>NASS Weighted Average</b>	<b>31,746</b>	<b>25,346</b>	<b>71,459</b>	<b>90,651</b>	<b>41,837</b>

# 2005 Net Farm Income by Region



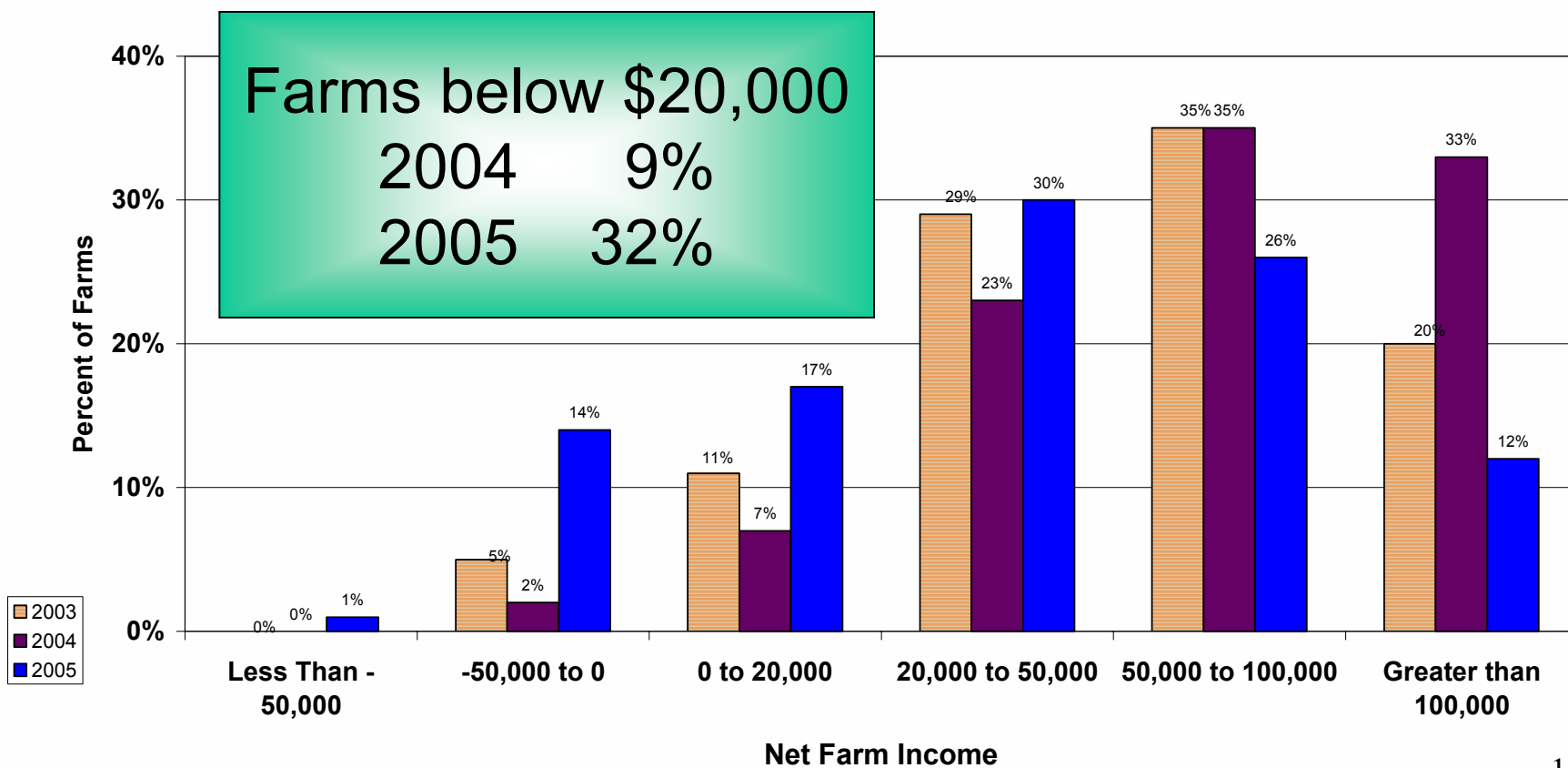
# Change in Net Farm Income 2004 to 2005





# Distribution of Net Farm Income

Distribution Net Farm Incomes of Illinois Grain Farms



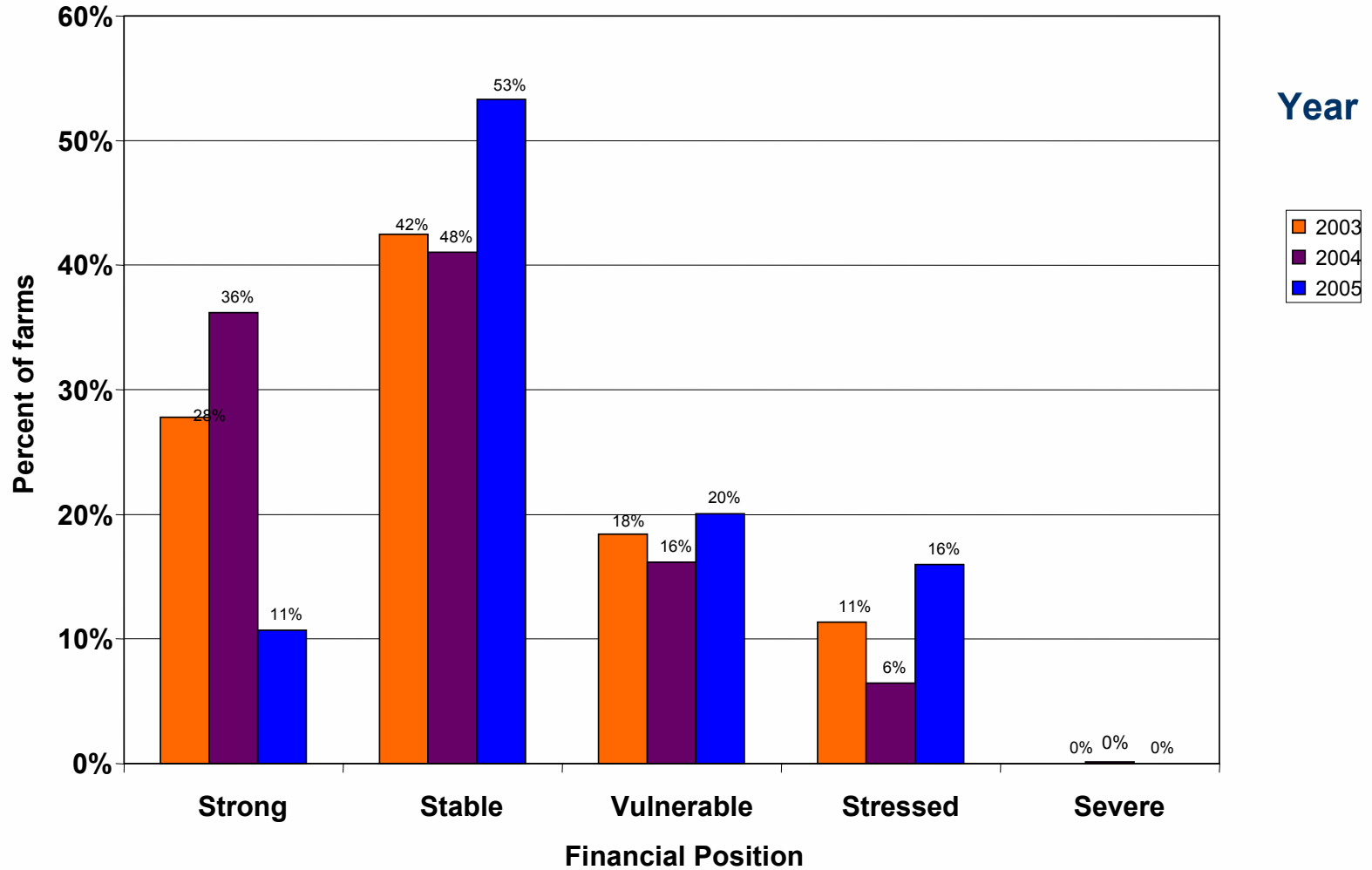
# Changes to Net Worth

Net Income	\$41,837
- Family Living	63,346
+ Nonfarm Income	28,860
- Income Taxes	13,789
-/+ Valuation Change	<u>53,095</u>
 Total Change in Net Worth 2004 to 2005	 \$46,657

## Assumptions:

- 10.0% increase in land values
- no change in machinery values

## Distribution of Illinois Grain Farms by Financial Position Category, 2003-2005



# Maximum Counter-Cyclical Payment Rate

	Corn	Soybeans	Wheat
	-----\$ per bu. -----		
<b>Target price</b>	<b>\$2.63</b>	<b>\$5.80</b>	<b>\$3.92</b>
<b>Direct payment rate</b>	<b>0.28</b>	<b>0.44</b>	<b>0.52</b>
<b>Trigger price <sup>1</sup></b>	<b>2.35</b>	<b>5.36</b>	<b>3.40</b>
<b>Loan rate</b>	<b>1.95</b>	<b>5.00</b>	<b>2.75</b>
<b>Max. counter-cyclical payment <sup>2</sup></b>	<b>0.40</b>	<b>0.36</b>	<b>0.65</b>

<sup>1</sup> Trigger price equals target price less direct payment rate.

<sup>2</sup> Equals trigger price minus loan rate.

Higher of loan rate or season average price used in rate calculation

# Outlook for 2005 CC Payments

	<u>Corn</u>	<u>Soybeans</u>	<u>Wheat</u>
Trigger price	\$2.35	\$5.36	\$3.40
12 month est. price for 2005*	\$1.80	\$5.35	\$3.40
<b>2005 CC Payments??</b>	<b>.40 (max)</b>	<b>.??</b>	<b>.??</b>
<b>We used...</b>	<b>.40</b>	<b>.00</b>	<b>.00</b>
<b>Advance</b>	<b>.14</b>	<b>.00</b>	<b>.00</b>

\* Midpoint of Nov. 10 USDA Supply and Demand Report

\*\* See Counter-cyclical tool in Marketing section of *farmdoc*

# Significance of Government Payments

Net Farm Income	\$	Average	41,837
Government Payments			54,365
			↓
Direct payments			15,733
Counter-cyclical payments			17,873
Loan deficiency payments			20,759

Direct Payment		Counter Cyclical Payment		LDP Assumptions	
Corn	0.28	Corn	0.40	Corn	0.35
Soybeans	0.44	Soybeans	0.00	Soybeans	0.00
Wheat	0.52	Wheat	0.00	Wheat	0.00

# LDP and Market Loan Gains

<b>Crop Year</b>	<b>LDP Payments</b>	<b>Market Loan Gain</b>	<b>% Bu. Receive LDP or Gain</b>	<b>Effective Bu. Rate</b>
<b>Corn</b>				
2002	\$0	\$1,514,160	2.1%	\$0.00
2003	\$15,074,900	\$2,964,600	17.6%	\$0.01
2004	\$530,644,710	\$25,277,600	88.3%	\$0.27
2005*	Incomplete data but large percent of crop will be LDP'd			
<b>Soybeans</b>				
2002	\$3,441,330	\$34,810	9.1%	\$0.01
2003	\$1,560	\$71,960	0.1%	\$0.00
2004	\$54,040,840	\$1,192,220	48.9%	\$0.11
2005*	Incomplete data but small amount of crop expected to be LDP'd			

<http://www.fsa.usda.gov/dafp/psd/reports.htm>

\*As of Nov. 22 – Incomplete!!

# A Quick Look at Livestock

## Livestock and Milk Prices Received

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	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005*</u>
Hogs	44.93	34.64	40.41	53.54	53.22
Cattle	73.70	67.50	85.54	86.08	86.89
Beef calves	110.25	94.54	98.54	112.50	121.11
Milk	15.09	12.08	12.83	16.64	15.74

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\* Through September



# Looking Ahead to 2006

- 5 year average corn (160 bu.) and soybean (47 bu.) yields
- Corn price = \$2.25 Soybean price = \$5.80
- No LDP and 10 cent CC payment for corn
- Increase in crop costs

# Looking Ahead to 2006

Net Farm Income similar to 2005  
income, in the \$40,000 –  
45,000 range or about **\$10,000**  
**less** than the 5 year average!!

# Conclusions and Summary

- Grain farms only, limited livestock returns
- Excellent soybean yields, below average corn yields, lower grain prices and higher input costs result in lower incomes
- Could have been much worse, if August crop report yields happened, income would have been \$30,000 less without price response
- Crop insurance important, adds \$3,000 to net farm income average

# Conclusions and Summary – cont.

- Highest income across central part of the state, lower incomes follow lower yields, northeastern Illinois
- Due to lower grain prices, first time since 2001 government payments more than net farm income
- Increasing land values and non farm income keep balance sheets in good condition
- **RED FLAG!!** Cash flow could be tight next year, above average yields and/or higher prices needed to offset higher input costs