

Illinois Farm Income Outlook

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Executive Summary

Estimates of 2006 financial performance for 742 Illinois grain farms are compared to actual financial performance in 2003, 2004 and 2005. Comparisons indicate that:

- The average net farm income for these farms in 2006 is projected between \$90,000 and \$95,000. This is approximately \$30,000 above the average for the last six years. The average net farm income for the same farms was \$72,086 in 2003, \$91,106 in 2004 and \$57,670 in 2005. Incomes for 2006 as compared to 2005 are higher due to higher corn and soybean yields and higher grain prices.
- Approximately 8 percent of the farms will have net farm incomes below \$20,000 during 2006 while 42 percent of the farms are projected to have net incomes greater than \$100,000.
- Projected net farm income levels for 2006 are the highest in the northern, central and east central regions of Illinois. Projected incomes are lowest in the western and southwestern regions. Projected incomes for 2006 as compared to 2005 are higher for all areas of the state except southwestern Illinois.
- Total government farm program payments are estimated to be lower for 2006 than in 2005 due to the higher grain prices which will most likely result in limited loan deficiency payments and no counter cyclical payments. Total farm program payments are estimated to be about \$16,000 in 2006 compared to \$60,000 in 2005. Average net farm income in 2005 would have been negative without farm program payments.
- Because of the high net farm income along with significant nonfarm income, average net worth is projected to increase for Illinois grain farms. A moderate increase in land values also contributes to the increase in net worth.
- About 87 percent of the farms are projected to have increases in net worth with 23 percent of the farms projected to increase their net worth by more than 10 percent between 2005 and 2006.
- Actual net farm income and net worth changes on individual farms will depend on a number of factors, including actual grain yields, the efficiency and equity position of the farm, land ownership and lease arrangements and actual valuation changes in machinery and land.
- Future increases in net worth will need to come from earnings above withdrawals as increases in farmland values are moderating.



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Objectives

- Evaluate the financial condition of Illinois grain farms for 2006.
- Look at the impact of changing grain prices
- Evaluate the impact of the current farm program.

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.

Trends on Illinois Grain Farms

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>% change</u> <u>2001 - 2005</u>
Tillable acres	879	895	923	959	977	111
Percent owned	24	24	24	24	23	96
Percent crop share	45	45	43	41	40	89
Percent cash rent	31	32	34	36	37	119
-----Dollars per tillable acre-----						
Crop returns	347	337	382	423	407	117
Fertilizer	39.60	36.48	38.71	46.05	53.54	135
Pesticides	30.88	30.88	32.94	32.49	36.08	117
Seed	<u>26.71</u>	<u>28.34</u>	<u>30.11</u>	<u>32.52</u>	<u>36.10</u>	135
Crop total	97.19	95.70	101.76	111.07	125.72	129
Fuel and oil	10.80	9.46	10.47	12.80	16.50	153
Insurance	11.77	11.85	12.68	14.59	15.09	128
Cash rent per acre	121	121	124	129	130	108

Source: Illinois FBFM Association

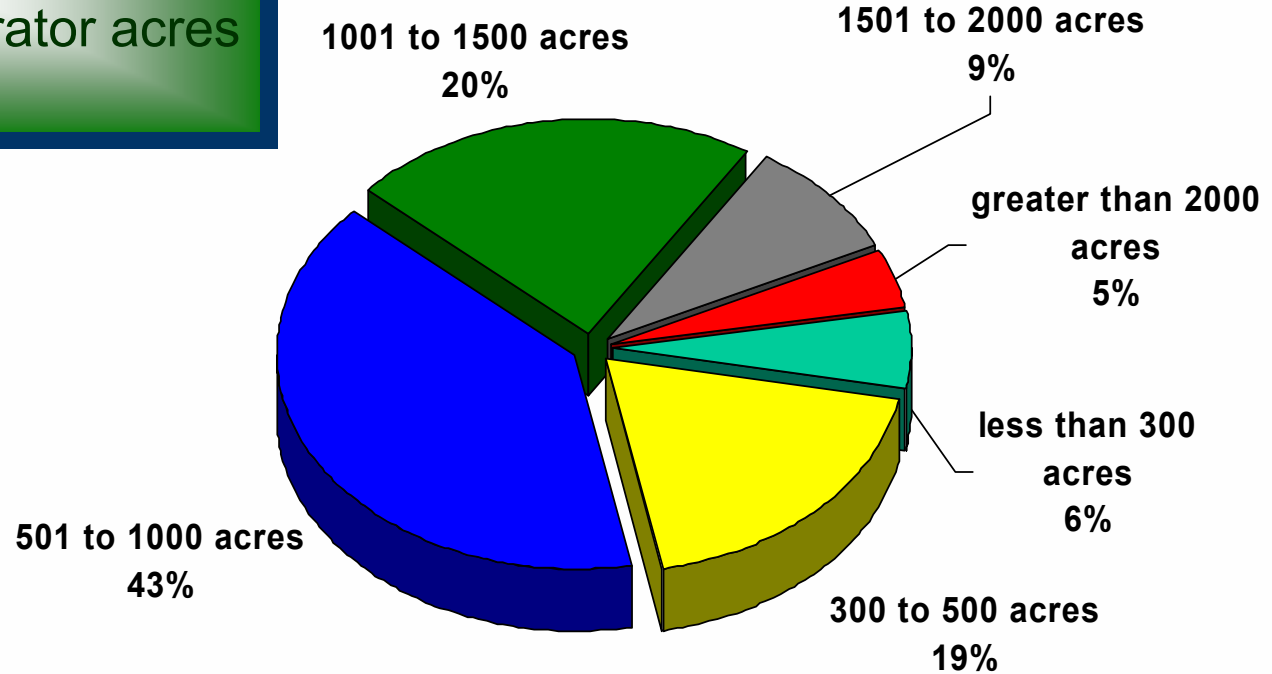
Sample Farms by Size

742 grain farms

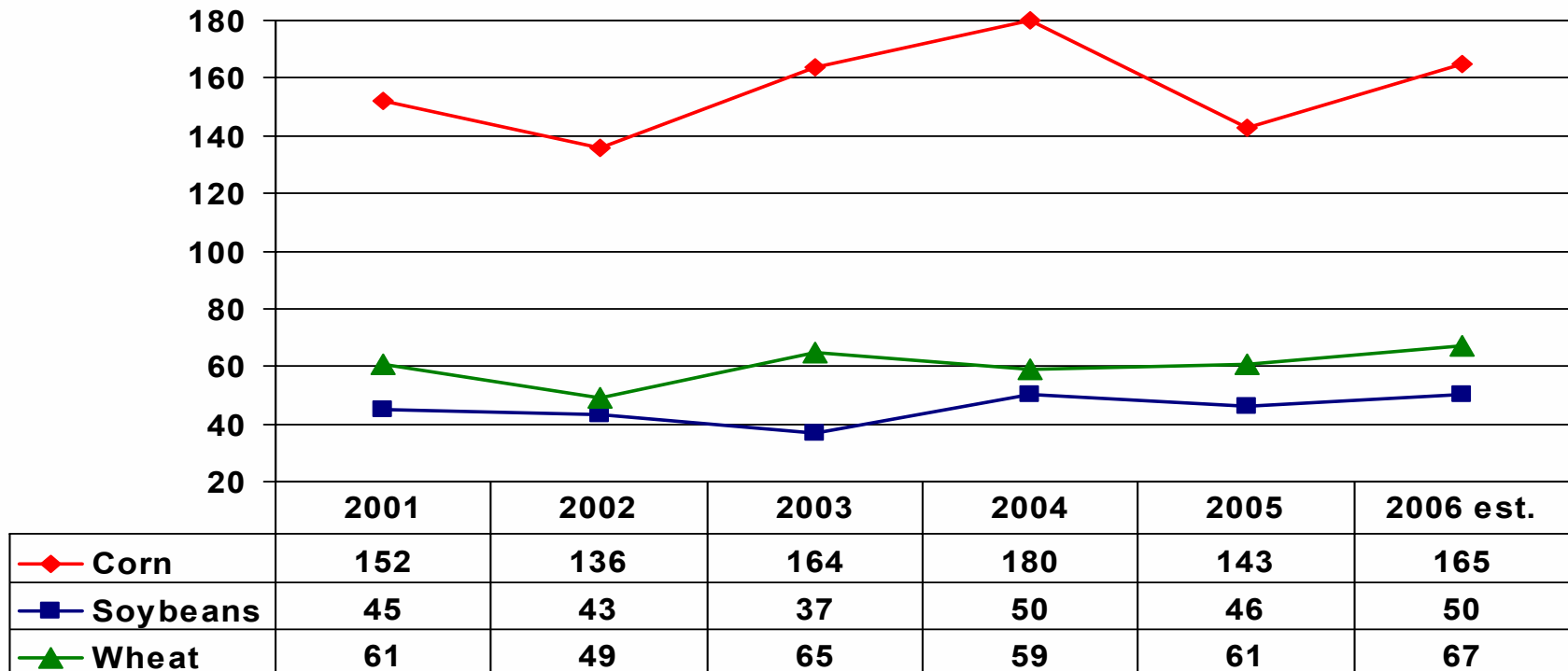
Average farm:

912 total acres

712 operator acres

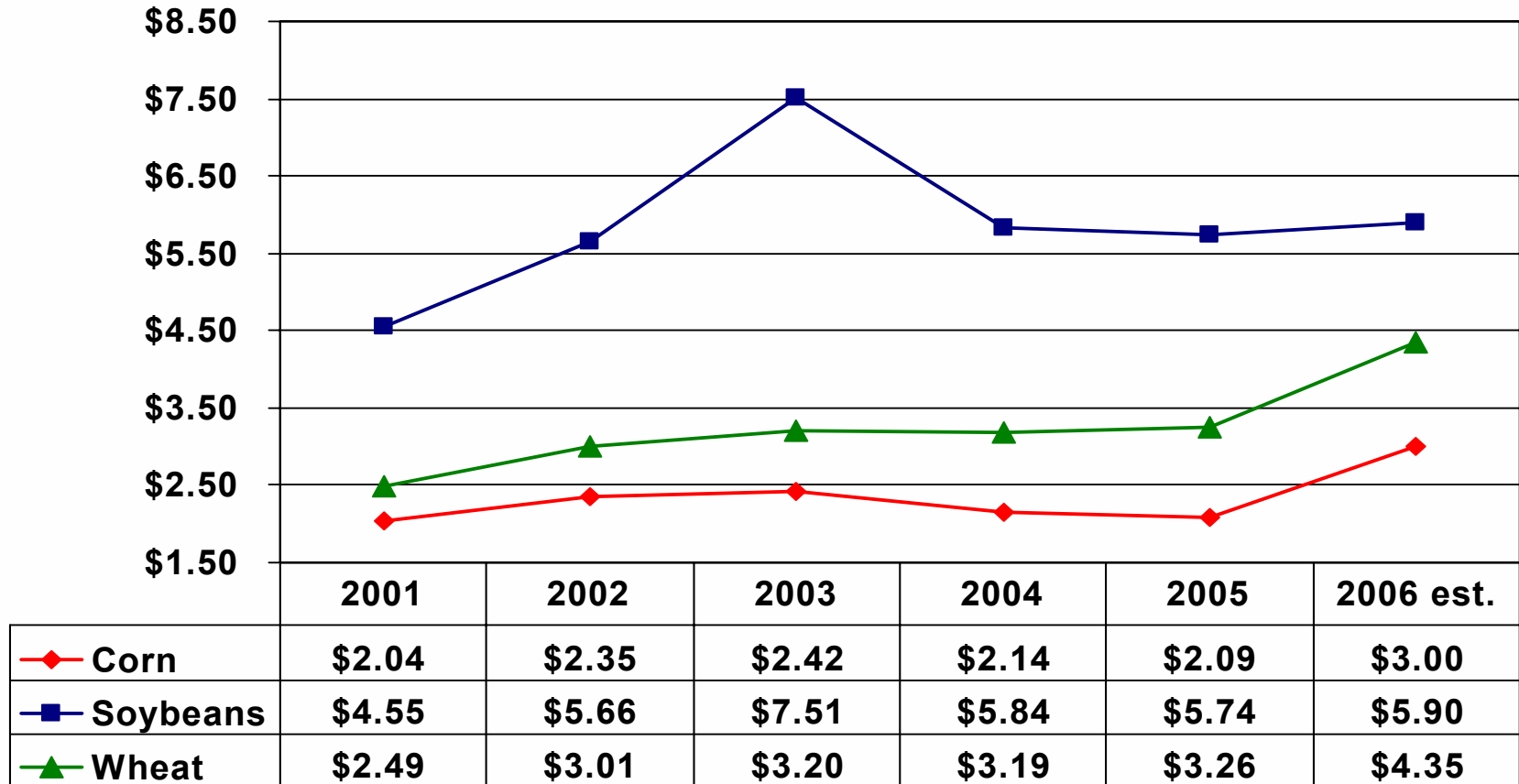


Good Corn and Soybean Yields in 2006



Soybeans tied for highest, corn second highest ever

Increasing Grain Prices*



* Marketing year average for Illinois

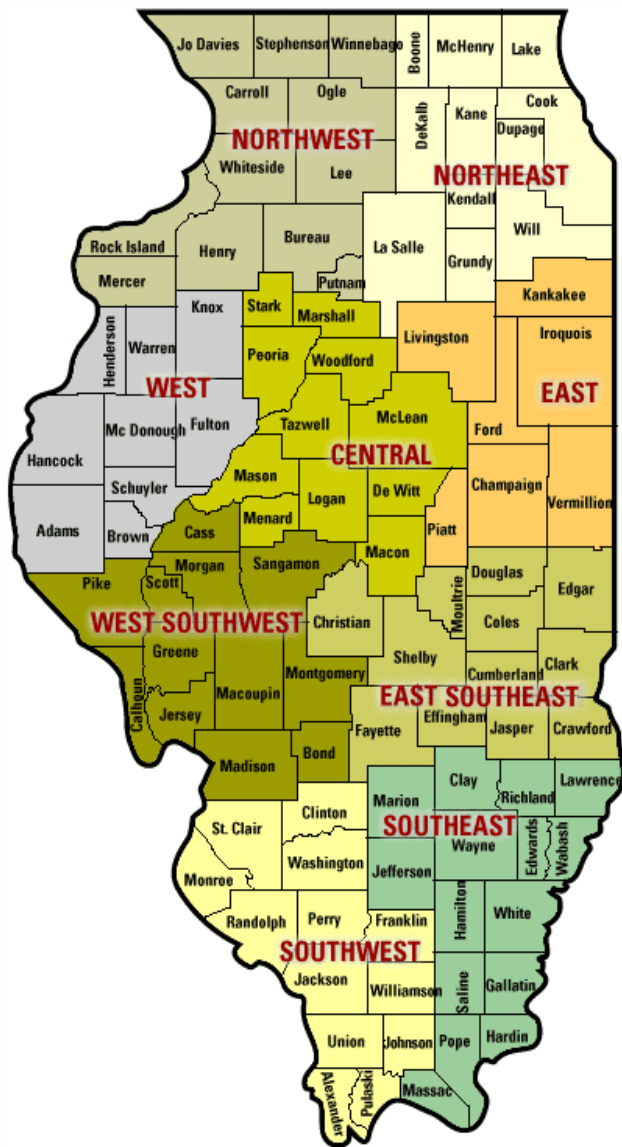
Key Assumptions

- Estimated prices received / year end inventory price
 - Corn: \$3.25 / bu.
 - Soybeans: \$6.10 / bu.
 - Wheat: \$3.30 / bu.
- No estimated LDPs included
 - Corn: \$.00 / bu.
 - Soybeans: \$.00 / bu.
- No counter-cyclical payments

Key Assumptions – cont.

- Marketing margins on old crop
 - Corn: **Gain** of \$0.21/bu. – 59% of crop
 - Soybeans: **Loss** of \$0.13/ bu. – 52% of crop
- Pricing opportunities on new crop
 - Corn – 15% sold at \$2.40 (**-\$0.85 under inv.**)
 - Soybeans – 10% sold at \$5.90 (**-\$0.20 under inv.**)
- Use NASS November report of district projections of yields

Estimated Yields



FBFM Adjusted Yields Crop Reporting District	Soybean Yield		Corn Yield	
	2005	2006	2005	2006
Northwest	52	56	143	183
Northeast	48	54	135	189
West	51	47	140	154
Central	53	56	143	176
East	52	56	157	174
West Southwest	51	53	154	176
East Southeast	53	55	153	164
Southwest	49	48	138	121
Southeast	51	51	131	145
NASS Weighted Average	52	55	146	175

November 2006 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 2005
 - Crop expenses -- 9% increase
 - Fuel and oil -- 15% increase
 - Other machinery expenses -- 3% increase
 - All other expenses -- 4% increase
- Market value machinery -- no change
- Machinery economic depreciation -- 5% increase
- Land values -- 3% increase
- Interest expense -- 20% increase

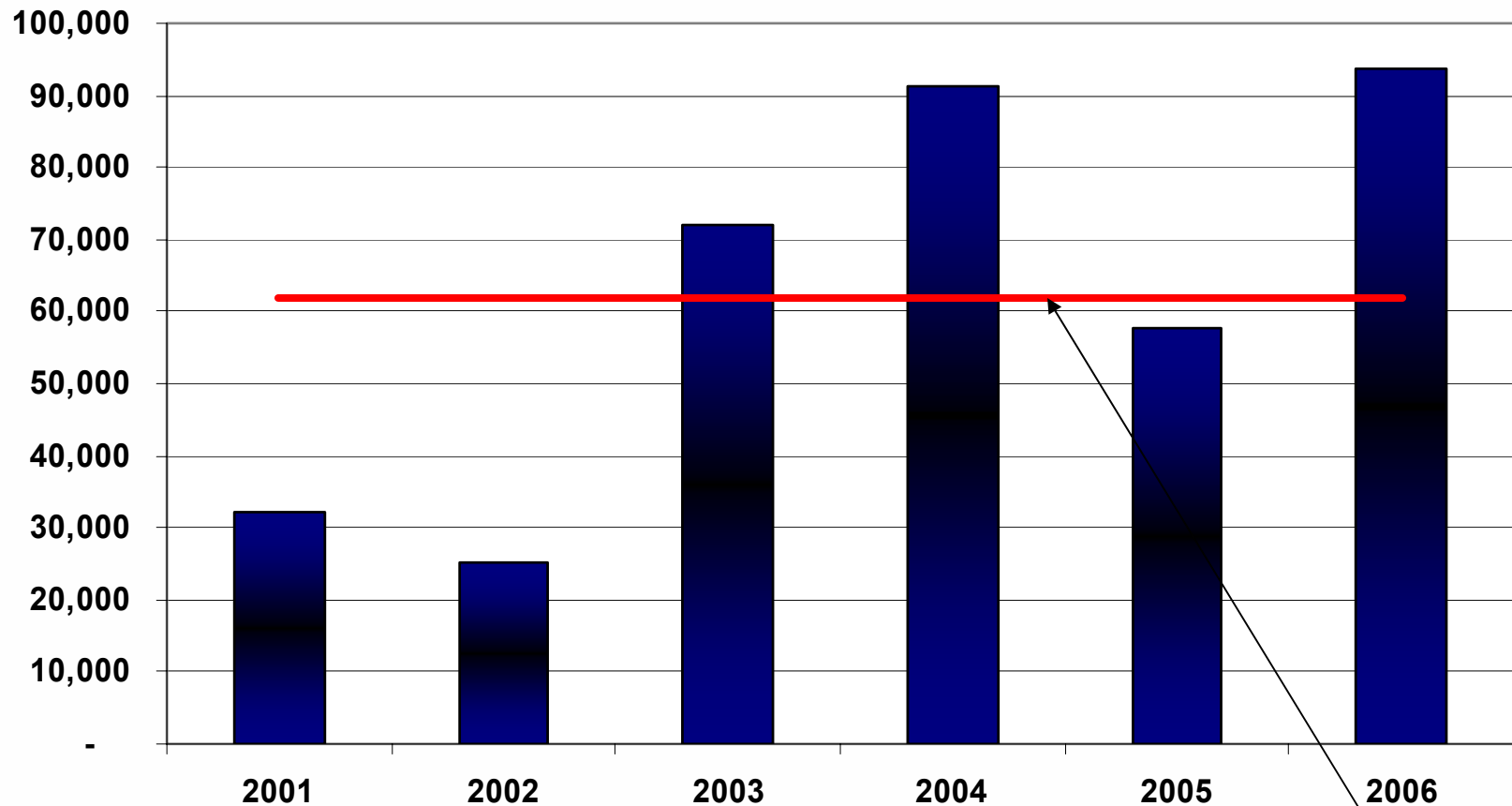
Net Farm Income

2002	\$25,336	}	Actual
2003	72,086		
2004	91,106		
2005	57,670		
2006	90,000 – 95,000		Estimate

Net farm income does not include:

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

Net Farm Income 2001 - 2006



* 2006 Estimated

2001 – 2006 average net farm income = \$61,985!!

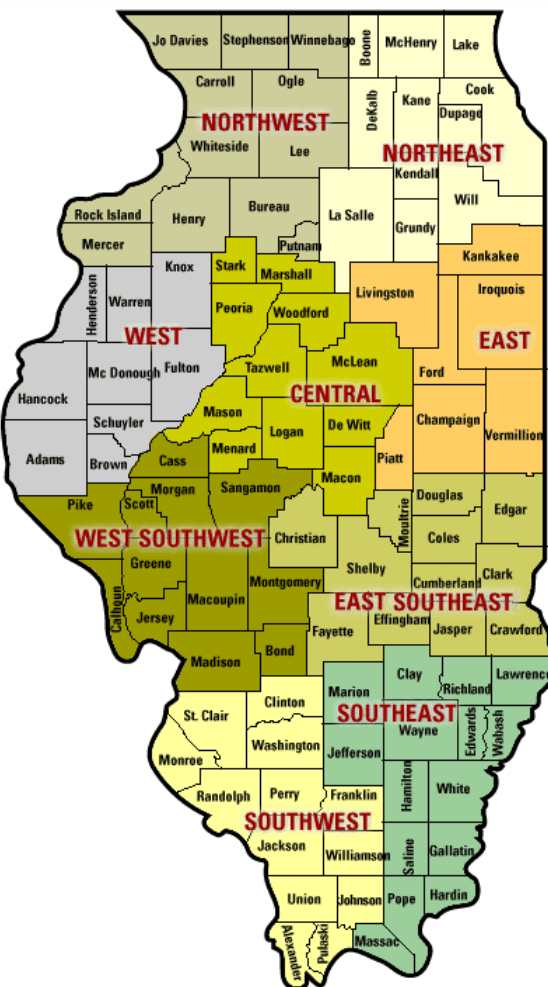
Sensitivity of Estimate

	<u>Change in Average Income</u>
One bushel change in	
Corn yields	\$ 1,300
Soybean yields	1,900
Change in effective price	
Corn price - \$.05	\$ 3,500
Soybean price - \$.20	3,500

Impact of Grain Prices

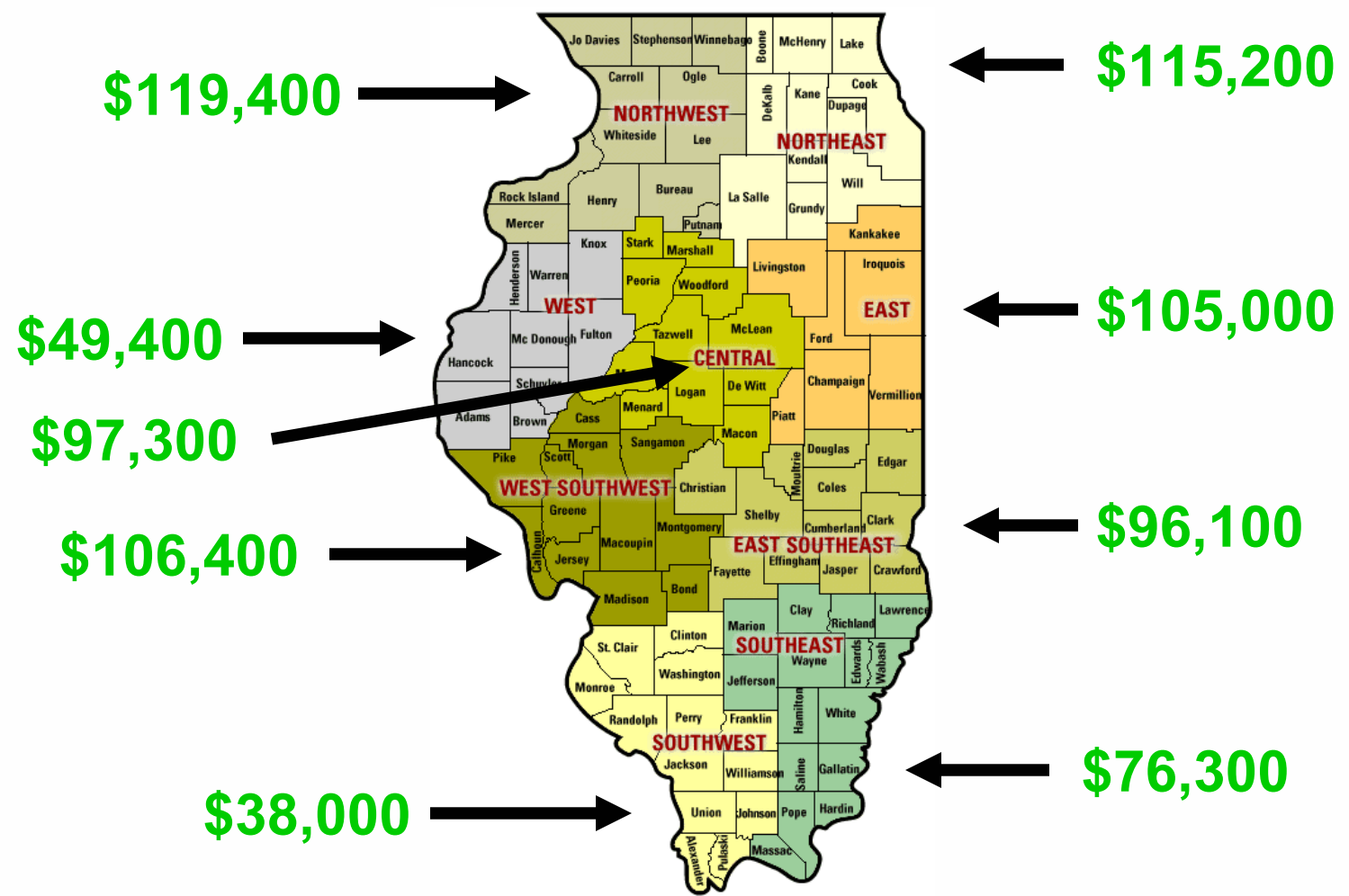
- Corn-\$2.50 Soybeans-\$5.50 NFI-\$30,340
- Corn-\$3.25 Soybeans-\$6.10 NFI-\$93,600
- Corn-\$3.50 Soybeans-\$6.40 NFI-\$116,400

Net Farm Income by Region

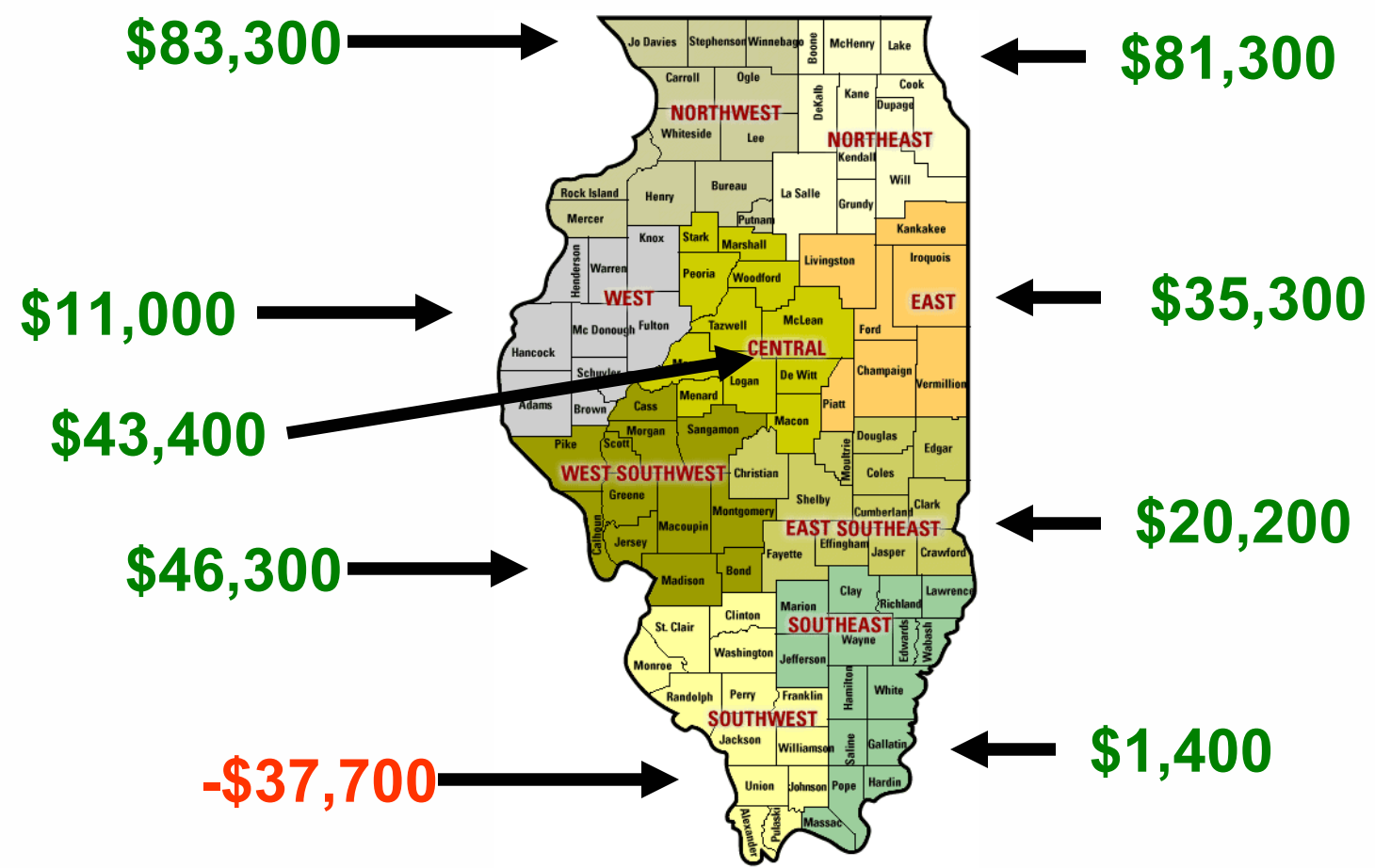


Crop Reporting District	Actual			Projected	
	2002	2003	2004	2005	2006
Northwest	\$ 31,584	\$ 49,986	\$ 80,851	\$ 36,134	\$ 119,397
Northeast	18,539	58,015	73,357	33,814	115,154
Central & West	34,085	65,863	79,235	51,916	91,179
East	42,938	67,737	94,278	69,590	104,893
West Southwest	49,840	101,070	112,639	60,065	106,403
East Southeast	12,789	91,627	102,667	75,911	96,137
Southwest	(11,007)	74,914	83,589	75,649	37,987
Southeast	(19,877)	61,509	101,504	74,964	76,324
NASS Weighted Average	25,336	72,086	91,106	57,670	93,578

2006 Net Farm Income by Region

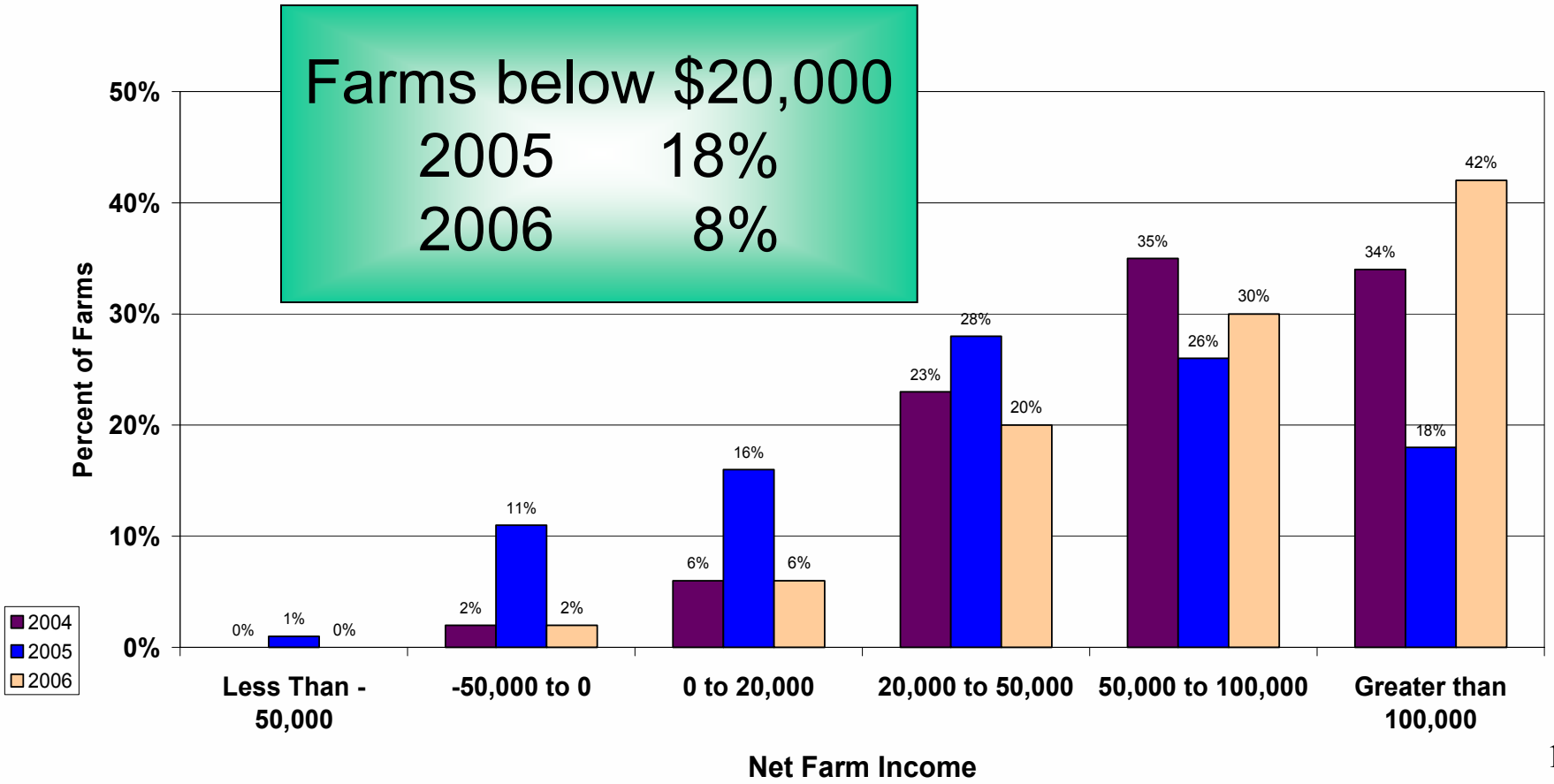


Change in Net Farm Income 2005 to 2006



Distribution of Net Farm Income

Distribution Net Farm Incomes of Illinois Grain Farms



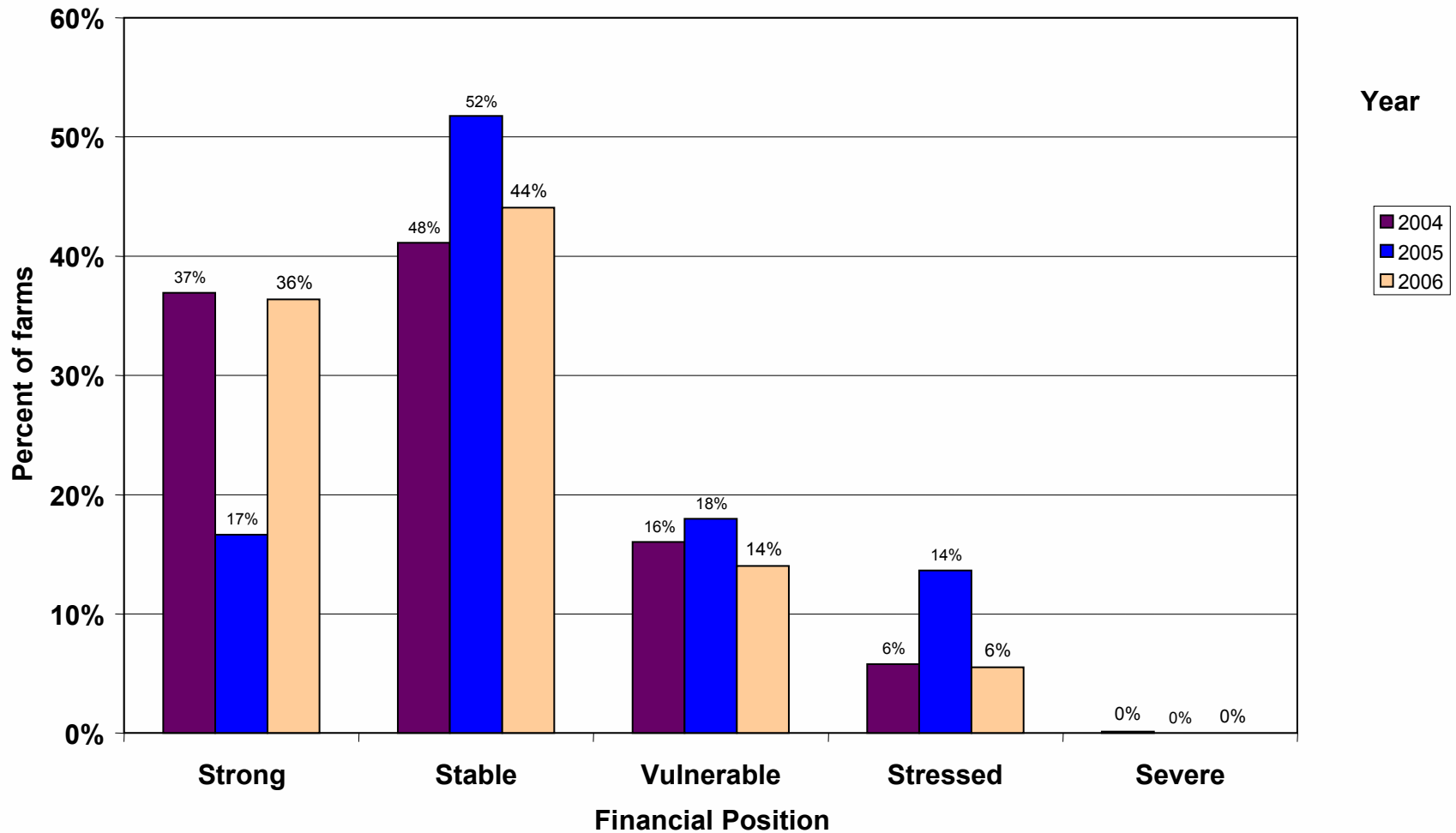
Changes to Net Worth

Net Income	\$93,578
- Family Living	60,003
+ Nonfarm Income	29,257
- Income Taxes	24,164
-/+ Valuation Change	<u>17,913</u>
 Total Change in Net Worth 2005 to 2006	 \$56,582

Assumptions:

- 3.0% increase in land values
- no change in machinery values

Distribution of Illinois Grain Farms by Financial Position Category, 2004-2006



Maximum Counter-Cyclical Payment Rate

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

¹ Trigger price equals target price less direct payment rate.

² Equals trigger price minus loan rate.

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

Outlook for 2006 CC Payments

	<u>Corn</u>	<u>Soybeans</u>	<u>Wheat</u>
Trigger price	\$2.35	\$5.36	\$3.40
12 month est. price for 2006*	\$3.00	\$5.90	\$4.35
2006 CC Payments??	‘Most likely no payments’		
We used...	.00	.00	.00
Advance	.00	.00	.00

* Midpoint of Nov. 9 USDA Supply and Demand Report


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

LDP and Market Loan Gains

Crop Year	LDP Payments	Market Loan Gain	% Bu. Receive LDP or Gain	Effective Bu. Rate
Corn				
2003	\$15,074,900	\$2,964,600	17.6%	\$0.01
2004	\$537,015,540	\$25,622,610	89.4%	\$0.27
2005	\$672,204,300	\$23,381,510	93.8%	\$0.41
2006	\$12,950	\$0	0.0%	\$0.0
Soybeans				
2003	\$1,560	\$71,960	0.1%	\$0.00
2004	\$54,665,570	\$1,195,700	49.3%	\$0.11
2005	\$4,461,810	\$1,414,940	20.0%	\$0.01
2006	\$2,894,560	\$330	5.2%	\$0.01

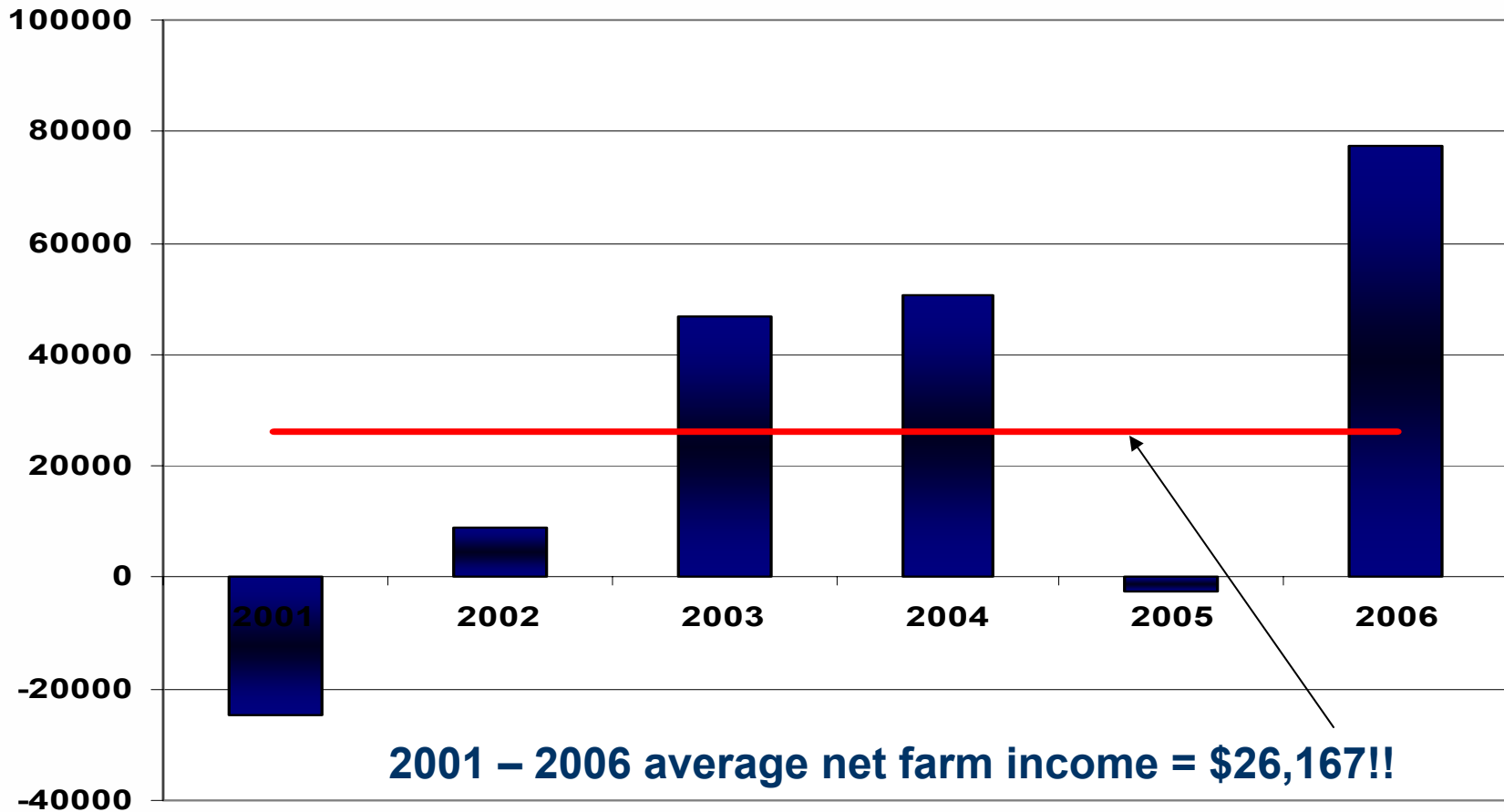
<http://www.fsa.usda.gov/dafp/psd/reports.htm>

Significance of Government Payments

Net Farm Income	\$	Average	93,578
Government Payments			16,026
			
		Direct payments	16,026
		Counter-cyclical payments	0
		Loan deficiency payments	0

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

Net Farm Income less Government Payments



A Quick Look at Livestock

Livestock and Milk Prices Received

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006*</u>
Hogs	34.64	40.41	53.54	51.50	48.50
Cattle	67.50	85.54	86.08	87.79	86.44
Beef calves	94.54	98.54	112.50	121.33	122.67
Milk	12.08	12.83	16.64	15.78	13.79

* Through September

Conclusions and Summary

- Grain farms only, limited livestock returns
- Excellent soybean yields, good corn yields, significantly higher grain prices result in much higher incomes
- Timing of marketing important, how much grain contracted early, how much will be sold at high prices
- Due to higher prices, government payments much less, basically only direct payments
- Higher input costs masked by high grain prices and good yields

Conclusions and Summary – cont.

- Highest income across northern, central and east central part of the state
- Financial position remains strong due to good incomes, land value increase moderating, will it decline??
- High grain prices resulting in pressure to increase cash rents for next year
- Due to higher costs, good yields and/or high grain prices needed to keep net farm incomes up