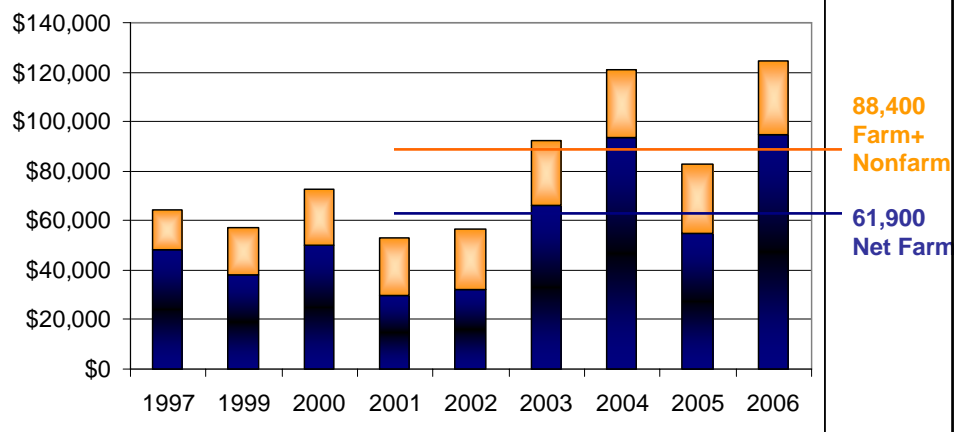


Objective

Evaluate the impact of the various components on the profitability of typical Illinois grain farmers for the next 3 years



Historical Profitability



Average U.S. Household = \$53,600

Uses of Net Income



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Family Living

Replace Assets

Pay Off Debt

Invest in Additional Assets

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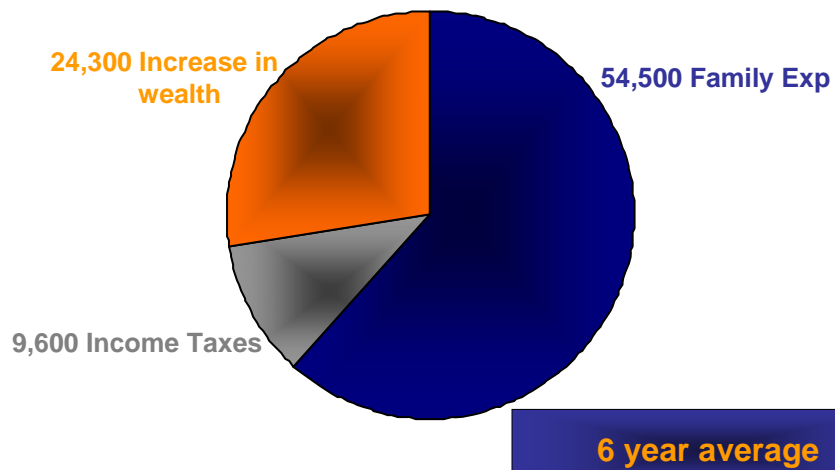
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How much income is needed?



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Average \$88,400 Net Income (farm & nonfarm)



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Strategies for high income



1. **Check adequacy of working capital**
Current and 2008 needs
(level of short term debt relative to short-term assets)
2. **Assess overall debt level**
(zero debt is not necessarily optimum)
3. **Carefully evaluate alternative investments**
 - Farm
 - Nonfarm
 - Retirement

**Use Financial Benchmarks
on CD to assess your health**

Income across farm types

high and low values highlighted



	2006	2005	2004	2003	2002	2001
Operators' Total Net Farm Income	\$103,303	\$62,940	\$97,514	\$70,640	\$27,204	\$33,396
Grain Farms....	\$109,569	\$60,273	\$94,046	\$72,637	\$29,619	\$31,982
Hog Farms.....	108,461	122,184	209,968	73,182	4,116	63,741
Dairy Farms....	57,073	103,370	108,395	60,600	31,408	62,473
Beef Farms....	12,243	50,733	66,784	72,456	10,576	8,469

Source: Illinois FBFM Association and the Department of Agricultural and Consumer Economics

Future look at profitability



- Simulate farm profitability over the next three years across a set of representative farms
- Evaluate the performance across different leverage levels and sizes of farms



2007 Profitability



- **U.S. farm profitability**
 - \$87.5 billion, up \$30 billion from 10 year average and \$29.5 from last year
- **Illinois**
 - Average expected corn yields 178
 - Average expected soybean yields 44

3 year assumptions



- **Corn Price** **\$3.50 per bushel**

- **Soybean Price** **9.00 per bushel**

- **Yield increases ~ 1.25% annually or approximately 2 bushels per acre (corn) per year**

Assumptions, continued



- **Budgets based on farmdoc estimates**
- **Inflation and cost increase estimates from farmdoc**
 - 10% cash rent, fuel and direct costs
 - 3% other costs
- **Existing government program**
- **Simulate:**
 - 3 farm locations (northern, central, southern IL)
 - 3 sizes of farms (~600, 1,000 and 1,500 ac.)
 - 3 leverage levels (20%, 40% and 70% debt/asset)

Assumptions, continued



	<u>Northern</u>	<u>Central</u>	<u>Southern</u>
Cash Rent/Acre	180	190	100
Corn Yield/Acre	164	171	131
Soybean Yield/Acre	50	52	39

Sometimes forecasts miss the target



- **I think there is a world market for maybe five computers.”**

Thomas Watson, *chairman of IBM, 1943*
- **“The radio craze will die out in time.”**

Thomas Edison, 1922
- **“There is no reason anyone would want a computer in their home.”**

Ken Olson
chairman and founder of Digital Equipment Corp., 1977
- **“Video won’t be around more than six months; people will soon get tired of staring at a plywood box.”**

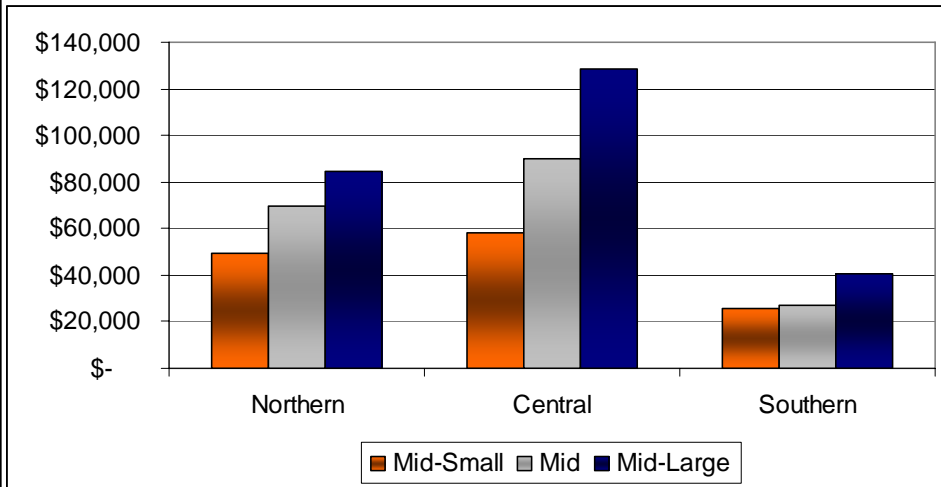
Daryl F. Zanuck *president of 20th Century Fox, 1946*

Net Farm Income (3 yr ave.)



Low leverage

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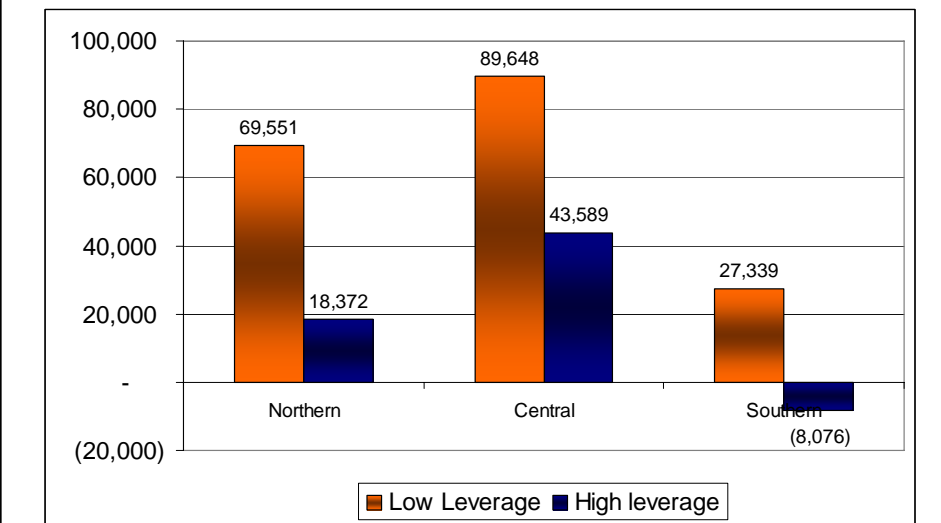


Impact of leverage



mid-size farms - Net Farm Income

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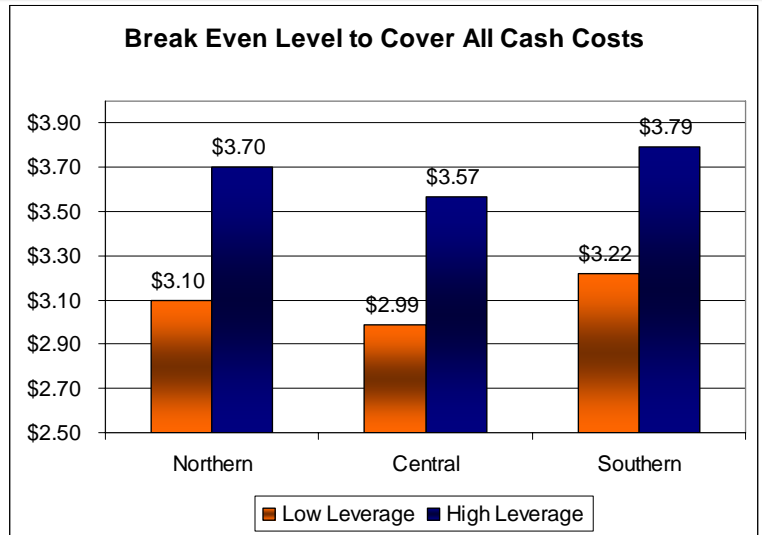
**Breakeven Prices:
All Cash Flows**

CORN	Northern	Central	Southern
Mid-Small	\$3.17	\$3.08	\$3.23
Mid	\$3.10	\$2.99	\$3.22
Mid-Large	\$3.08	\$2.94	\$3.12

SOYBEANS	Northern	Central	Southern
Mid-Small	\$8.16	\$7.92	\$8.30
Mid	\$7.97	\$7.69	\$8.27
Mid-Large	\$7.91	\$7.56	\$8.04

Impact of debt

Corn break evens – mid size farm

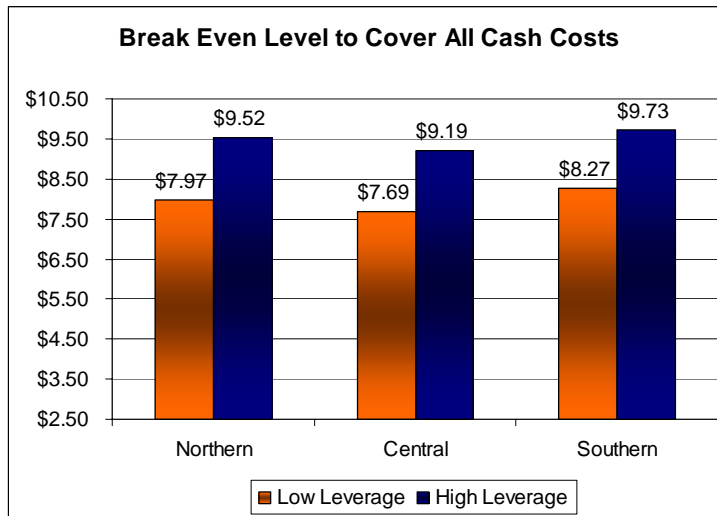


Impact of debt



Soybean break evens – mid size farm

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What about risk?



From Lattz

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- Price variability is higher
- Price protection government programs may be less when prices are higher
- Revenue must fall more in periods of higher prices before insurance payments are received
- Cash rent levels and future uncertainty
- Input cost variability



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Results – Low and High Leverage



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what cushion do we have?

Debt Repayment Margin	Northern	Central	Southern	} LOW LEVERAGE
Mid-Small	\$ 13,317	\$ 21,220	\$ 4,700	
Mid	29,732	43,935	6,207	
Mid-Large	52,383	84,723	28,077	
% Crop Revenue Change to Eliminate Margin				
Mid-Small	4%	8%	1%	} LOW LEVERAGE
Mid	7%	10%	2%	
Mid-Large	7%	12%	5%	
Debt Repayment Margin				
	Northern	Central	Southern	} HIGH LEVERAGE
Mid-Small	\$(48,487)	\$(31,601)	\$(74,459)	
Mid	(62,625)	(40,785)	(70,055)	
Mid-Large	(60,973)	(28,962)	(85,293)	
% Crop Revenue Change to Eliminate Margin				
Mid-Small	-16%	-11%	-20%	} HIGH LEVERAGE
Mid	-14%	-10%	-20%	
Mid-Large	-9%	-4%	-15%	

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What about forecast



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assumptions?

- **Prices:**
 - \$0.05 (corn) or \$0.25 (beans)
 - \$3,000– 5,000 change in net income / farm
- **Yields**
 - per 1 bushel corn
 - \$1,000 – 3,000 change in net income / farm
 - per 1 bushel soybeans
 - \$2,000 – 6,000 change in net income / farm

Reminder – average farm levels

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Conclusions: Profitability



- Baseline “average” is optimistic
- Many sources of variation around average
- Maintaining historical income level will require a higher than average historical prices
- Land rents will strongly influence profitability on farms with significant leasing
- Margins will continue to be squeezed with fertilizer, seed and fuel cost increases

Final forecast

