



Incomes in 2010 and 2011: Evaluations and *FAST* Introduction

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2010 Illinois Farm Economics Summit
The Profitability of Illinois Agriculture: Managing in a Strong Ag Economy

2011 Outlook

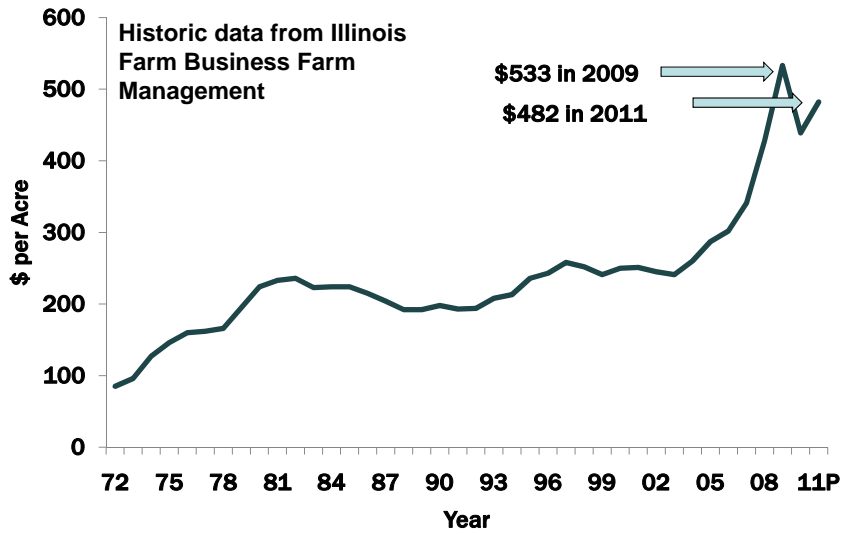


- Looks great right now. 2011 harvest-time bids in December 2010:
 - Near \$5.00 per bushel for corn
 - High \$11.60 per bushel for soybeans
- Costs are going up, probably not to 2009 levels

Production Costs for Corn



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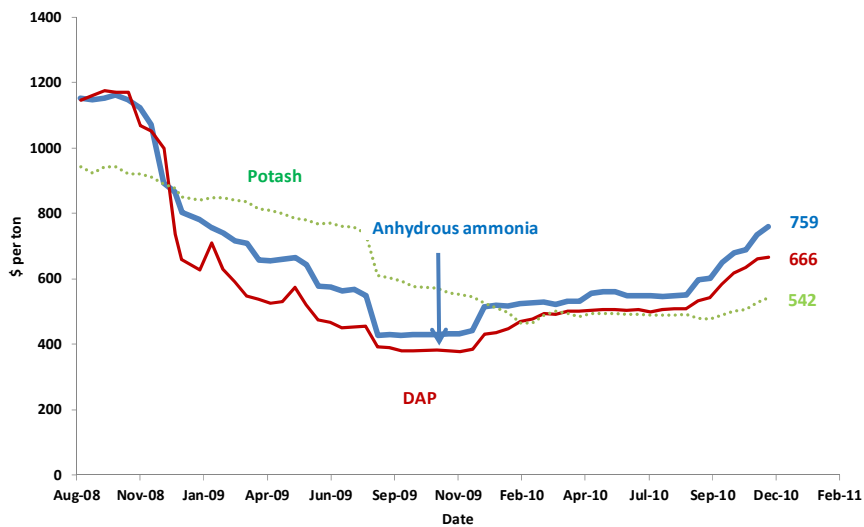
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Fertilizer Prices, Illinois



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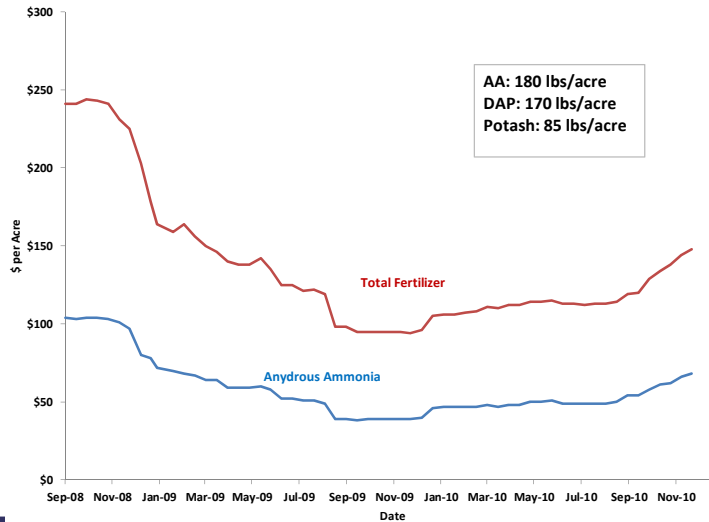


Source: Agricultural Marketing Services, U.S.D.A.

Estimated Fertilizer Costs, Illinois



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Direct Costs, Central Illinois (\$ per acre)



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	— Corn —			— Soybeans —		
	2009	2010P	2011P	2009	2010P	2011P
Fertilizer	\$185	\$110	\$135	\$62	\$50	\$60
Pesticides	52	52	52	31	31	31
Seed	90	93	98	58	60	62
Drying	38	9	19	1	1	1
Storage	14	11	11	7	5	5
Crop Insurance	21	21	21	14	14	14
Total	\$400	\$296	\$336	\$173	\$161	\$173

Source: Illinois Farm Business Farm Management

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Corn and Soybean Budgets, Central Illinois, High-Productivity



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	— Corn —			— Soybeans —		
	2009	2010P	2011P	2009	2010P	2011P
Yield	192	165	195	56	57	56
Price	\$3.52	\$5.15	\$4.80	\$9.80	\$11.10	\$11.00
Revenue	\$713	\$896	\$960	\$566	\$660	\$640
Direct cost	\$400	\$296	\$336	\$173	\$161	\$173
Power costs	80	89	91	72	73	74
Overhead costs	53	54	55	46	47	47
Total costs	\$533	\$439	\$482	\$291	\$281	\$294
Opr and Land Return	\$180	\$457	\$478	\$275	\$379	\$346

Source: Illinois Farm Business Farm Management

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Cash Rents in Illinois



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Year	Illinois (USDA)		FBFM Farms In Central IL. (\$ per acre)
	Cash Rent (\$ per Acre)	Percent Change	
2002	122	2.5%	137
2003	123	0.8%	140
2004	126	2.4%	144
2005	129	2.4%	147
2006	132	2.3%	150
2007	141	6.8%	166
2008	163	15.6%	197
2009	163	0.0%	209
2010	169	4.6%	216 *

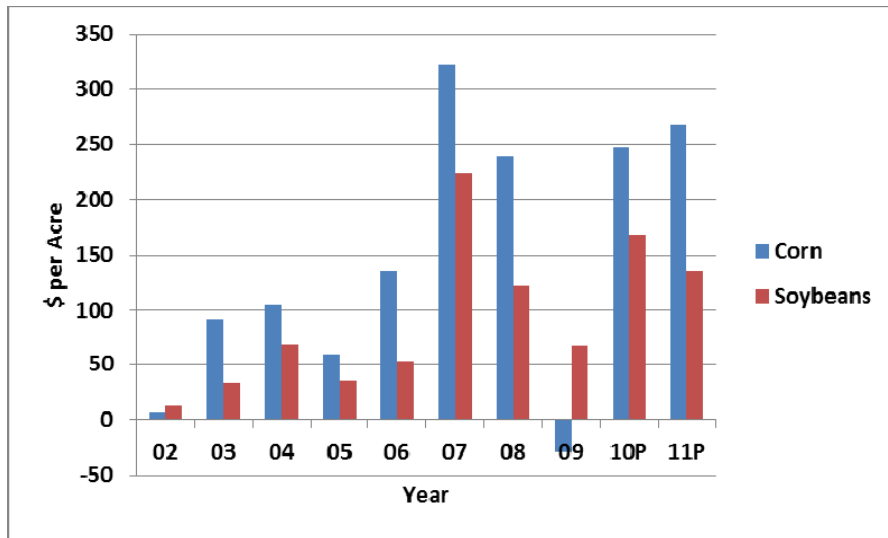
* Preliminary based on 3.6% increase

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Operator Returns, Central Illinois, High Productivity Farmland



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Average Net Farm Income, Grain Farms



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Year	Net Income
2004	\$93,000
2005	\$60,008
2006	\$109,000
2007	\$220,000
2008	\$225,000
2009	\$93,000
2010	High \$100,000s
2011	Low \$200,000s

Net income from 2004 through 2009 are actual.
Income in 2010 and 2011 is projected

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Lower incomes for




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- Low yielding farms, particularly in western Illinois
- “Aggressive” farms:
 - High percent of acres in “high” cash rents
 - Large amounts of pre-harvest hedging
 - Below average yields
- Pre-harvest price a large amount of grain

New FAST Tool



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Grain Farm Budget and Income Projection Tool

Continue

Updated 11/12/2010

With this program, the user can calculate per-acre budgets for different crops. These budgets can be used to put together a whole farm budget and calculate breakevens. Projected financial statements, and return sensitivities can then be calculated. The effects of farm level crop insurance and hedging can then be analyzed.

[For recent updates on this tool and other FAST tools, visit us at www.farmdoc.illinois.edu](http://www.farmdoc.illinois.edu)

Support Provided By:  

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- Available for download from fast section of farmdoc

Download	Tool	Size	Date	User Guide	Demo
<input type="checkbox"/>	2011 Crop Insurance Decision Tool	21989k	12/8/2010		
Calculates premiums, evaluates insurance payments, and provides historical data useful when making crop insurance decisions for multiple crops. Estimates are for crops in states that are harvested in 2010.					
<input type="checkbox"/>	Grain Farm Budget and Projection Tool	1303k	12/8/2010		
This program calculates per-acre budgets for different crops and a whole farm budget and includes breakevens. Projected financial statements and return sensitivities are available. The effects of farm level crop insurance and hedging can be analyzed.					

- Training will occur in February (check the farmdoc website)

- Crop budgets
- Income projection
 - Enter: Land base
 - Enter: Debt
- Scenario analysis: Crop insurance and marketing alternatives

Crop Budgeting



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CROP BUDGETING TOOL

Central-High Productivity Budget
Default Direct Expenses

Name:				
Budget default:		Corn after beans	Soybeans	Per Acre <<
Acres		0.50	0.50	1.00
Yield per acre		198	56	
Price per bu		\$4.50	\$10.50	
Revenue		----- \$ per acre -----		\$/acre
Crop revenue		\$891	\$588	\$740
Other Revenue 1		0	0	\$0
Other Revenue 2		0	0	\$0
Government payments		24	24	\$24
Total revenue		\$915	\$612	\$764
Expenses		----- \$ per acre -----		\$/acre
Fertilizer		\$130	\$60	\$95
Pesticide		49	31	40
Seed		98	62	80
Drying		19	1	10
Storage		11	5	8
Crop insurance		21	14	18
Other Direct Expense		0	0	0
Total direct expense		\$328	\$173	\$251

Default budgets for four regions of Illinois

Begin with these budgets and modify for individual situation

Income Projections



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ACRES

Farm Name	Corn after beans	Soybeans	Total	Rental Type
Owned land	120.0	80.0	200.0	owned
Share rent land	360.0	240.0	600.0	share rent--split 1
Cash rent land	360.0	240.0	600.0	cash rent
xxxxxxxxxxxxxx	0.0	0.0	0.0	owned
xxxxxxxxxxxxxx	0.0	0.0	0.0	owned
xxxxxxxxxxxxxx	0.0	0.0	0.0	owned
xxxxxxxxxxxxxx	0.0	0.0	0.0	owned
xxxxxxxxxxxxxx	0.0	0.0	0.0	owned
xxxxxxxxxxxxxx	0.0	0.0	0.0	owned

Enter
Land base
Debt levels
Reconcile cash flows from budgets

Income Projections



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PROJECTED NET FARM INCOME

	Total Farm	Operator Acre	Tillable Acre
Crop revenue	\$846,780	\$770	\$605
Other Revenue 1	\$0	\$0	\$0
Other Revenue 2	\$0	\$0	\$0
Government payments	\$26,400	\$24	\$19
Other farm revenue	\$0	\$0	\$0
Total revenue	\$873,180	\$794	\$624
Variable costs	\$352,320	\$320	\$252
Other costs	204,320	\$186	\$146
Total operating costs	\$556,640	\$506	\$398
Income before interest expense	\$316,540	\$288	\$226
Interest costs	\$36,000	\$33	\$26
Income before depreciation	\$280,540	\$255	\$200
Depreciation	\$57,120	\$52	\$41
Net farm income	\$223,420	\$203	\$160

Prepares:

Income statement

Cash flow

Capital repayment capacity

Crop Insurance/Hedging Analysis



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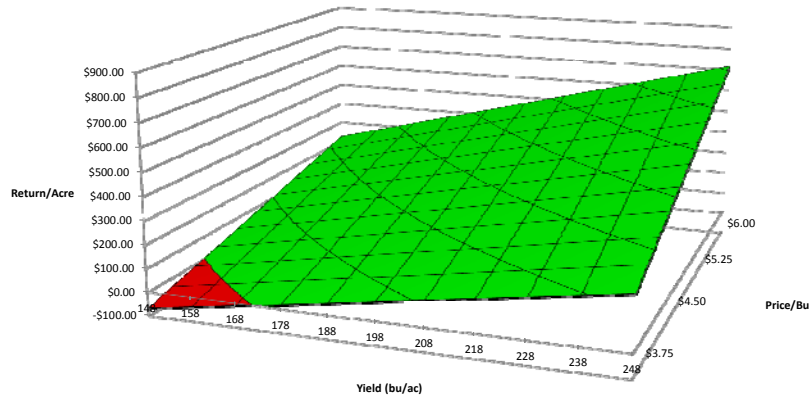
CROP INSURANCE AND HEDGING ANALYSIS

CROP INSURANCE INFORMATION

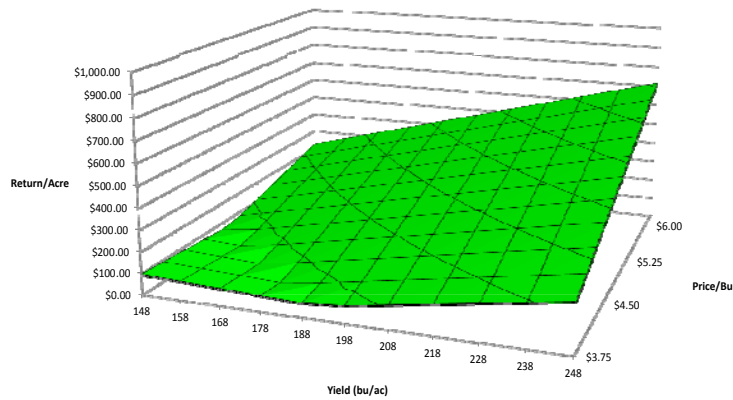
	Corn	Soybeans	Wheat
Product	RP / 80%	RP / 80%	None
APH	180	48	0
Coverage Level	80%	80%	0%
Yield Guarantee	144.0	38.4	0.0

Base Price	\$5.00	\$12.14	
Harvest Price			
	\$720.00	\$466.18	\$0.00

Projection without Insurance



Projection with Insurance



Corn Price	Soybean Price	Net Income
4.50	11.60	\$250,000
4.00	10.00	\$145,000
3.50	9.00	\$95,000
3.00	8.50	-\$21,000

Projections for

1,400 acre farm (200 acres owned, 600 cash rented, 600 share rented)
\$600,000 of debt
Yield and price shown in 2011 budgets above

Point: Need “high” prices to maintain incomes given high costs and cash rents

Summary

Possibility for “all green” with risk protection if crop insurance projected price near \$5 for corn and \$11.75 for soybeans. Suggest:

- Crop insurance purchase at high coverage level
- Pre-harvest hedge grain

- In my judgment, 2011 projected prices are above average and above long-run historic averages
- Don't base long-run cash rent and land purchase decision on current prices
- Risk management concern: Falling prices across years