

2016 Income Outlook: Making Cash Flows Fit Revenue

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Summary

1. Farm income will be down considerably in 2015, and 2016 likely will be a repeat of 2015 if significant cost cuts do not occur
2. Non-land costs plus cash rents exceed gross revenue, need to cut costs
3. Many farmers are financially strong and could postpone cost cutting decisions, but should not
4. Environment is different today than in last 20 years

Farm Income Down in 2015 and 2016

**Table 3. Corn Revenues and Costs, Central Illinois -- High Productivity Farmland,
Actual for 2009 through 2014, Projected for 2015 and 2016.¹**

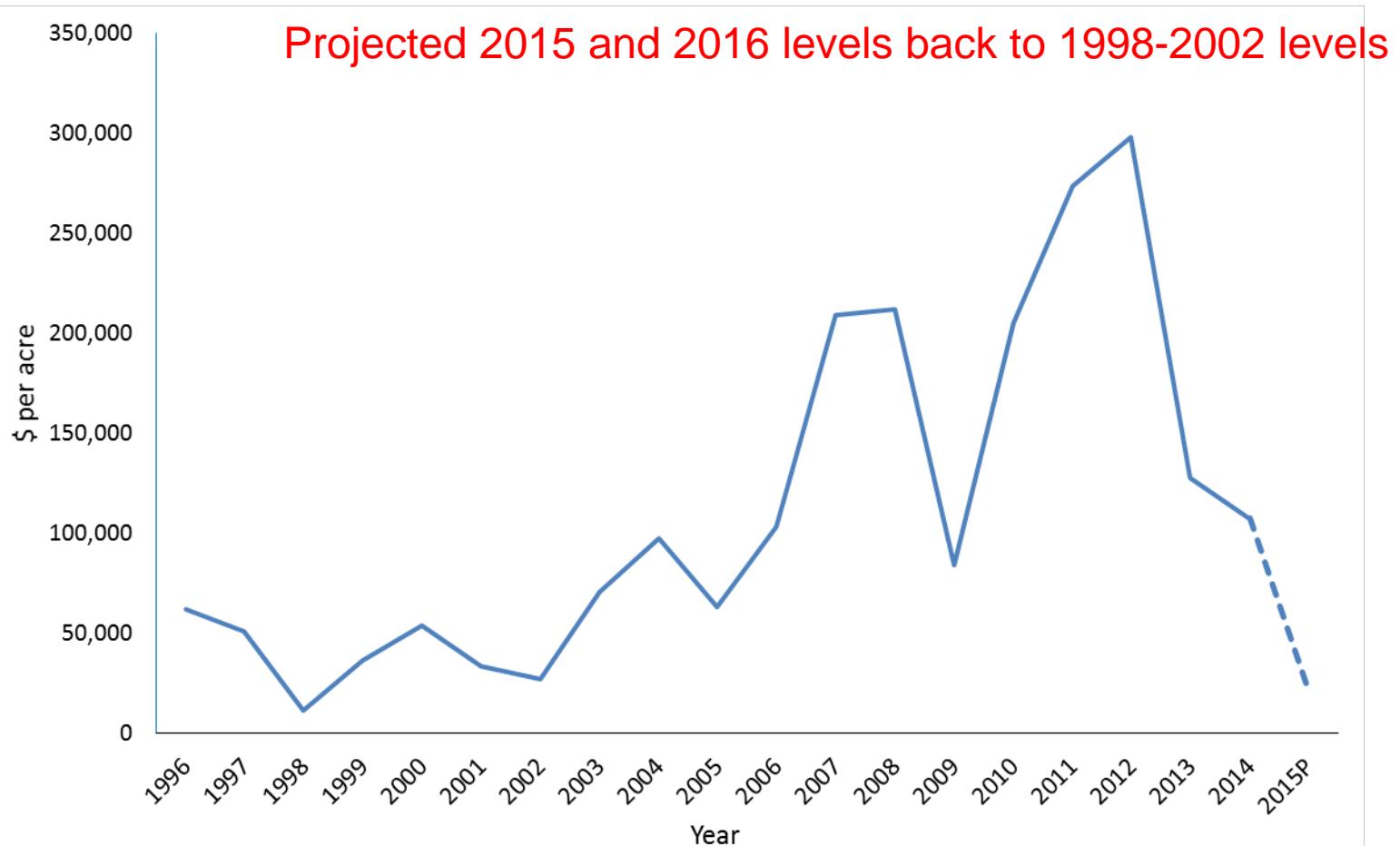
	Year							
	2009	2010	2011	2012	2013	2014	2015P	2016P
Yield per acre	192	168	174	126	197	231	196	198
Price per bu	\$3.62	\$5.07	\$6.24	\$6.93	\$4.52	\$3.75	\$3.65	\$3.85
Operator and land return	\$198	\$456	\$630	\$611	\$358	\$268	\$164	\$240
Land costs	209	215	248	270	290	293	288	258
Farmer return	-\$11	\$241	\$382	\$341	\$68	-\$25	-\$124	-\$18

**Table 4. Soybean Revenues and Costs, Central Illinois -- High Productivity Farmland,
Actual for 2009 through 2014, Projected for 2015 and 2016.¹**

	Year							
	2009	2010	2011	2012	2013	2014	2015P	2016P
Yield per acre	55	60	56	50	58	64	64	58
Price per bu	\$10.03	\$11.47	\$12.75	\$14.66	\$13.25	\$10.25	\$8.90	\$8.90
Operator and land return	\$289	\$444	\$446	\$430	\$429	\$286	\$235	\$195
Land costs	209	215	248	270	290	293	288	278
Farmer return	\$80	\$229	\$198	\$160	\$139	-\$7	-\$53	-\$83

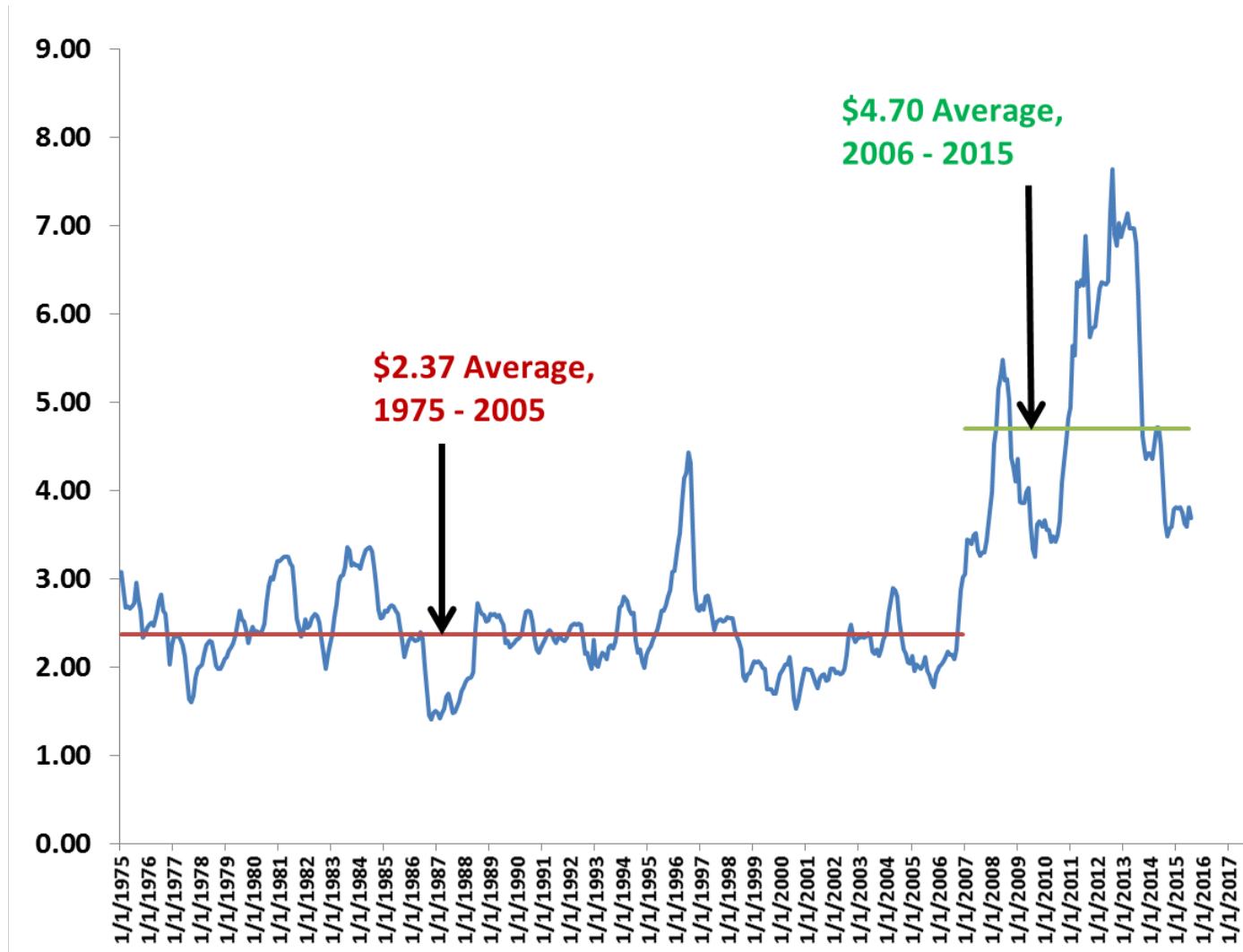
¹Results for 2009 through 2014 are summarized from grain farms enrolled in Illinois Farm Business Farm Management. Projections are made for 2015 and 2016.

Net Income on Illinois Grain Farms

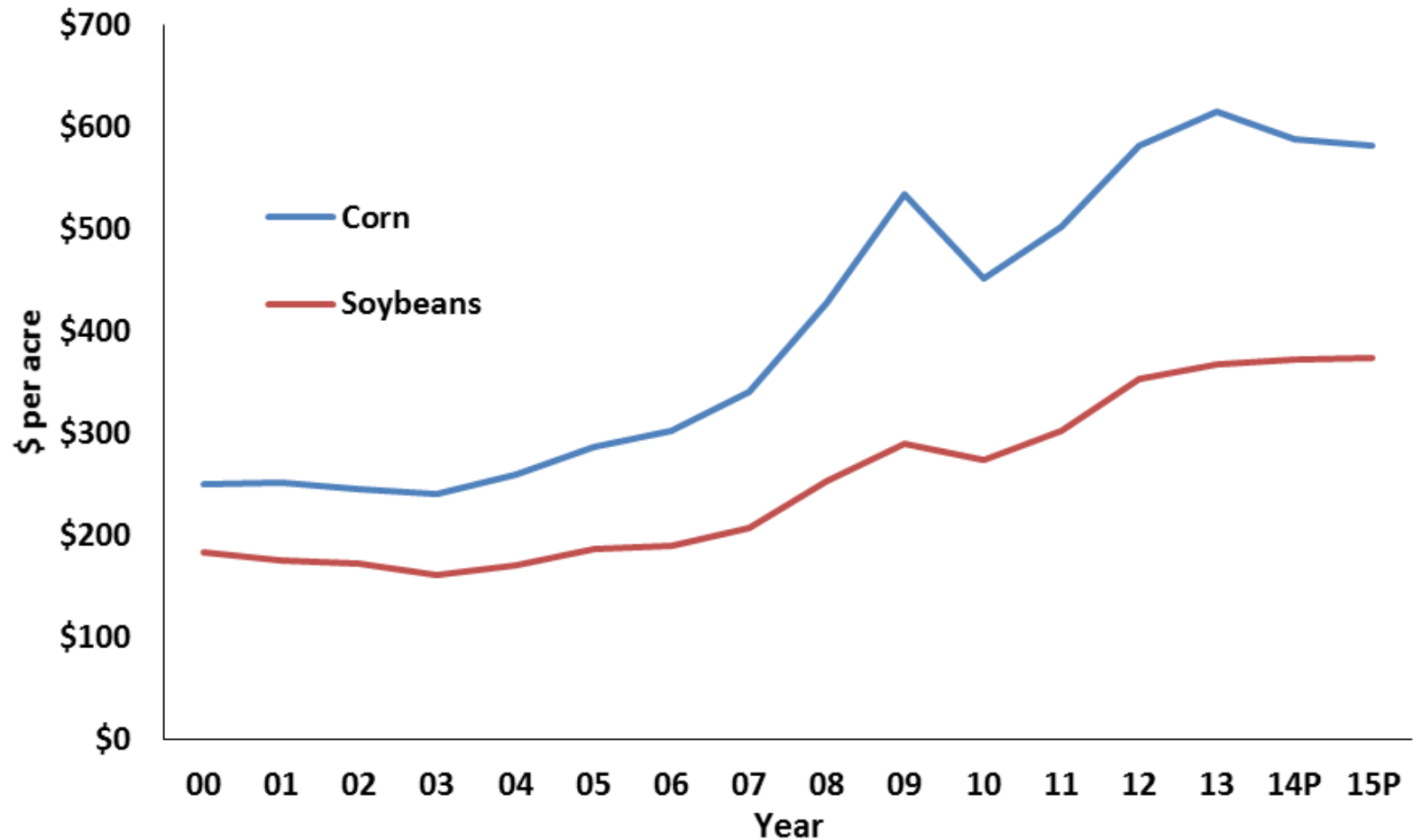


Revenues Exceed Costs

Monthly Corn Prices, 1975 - 2016

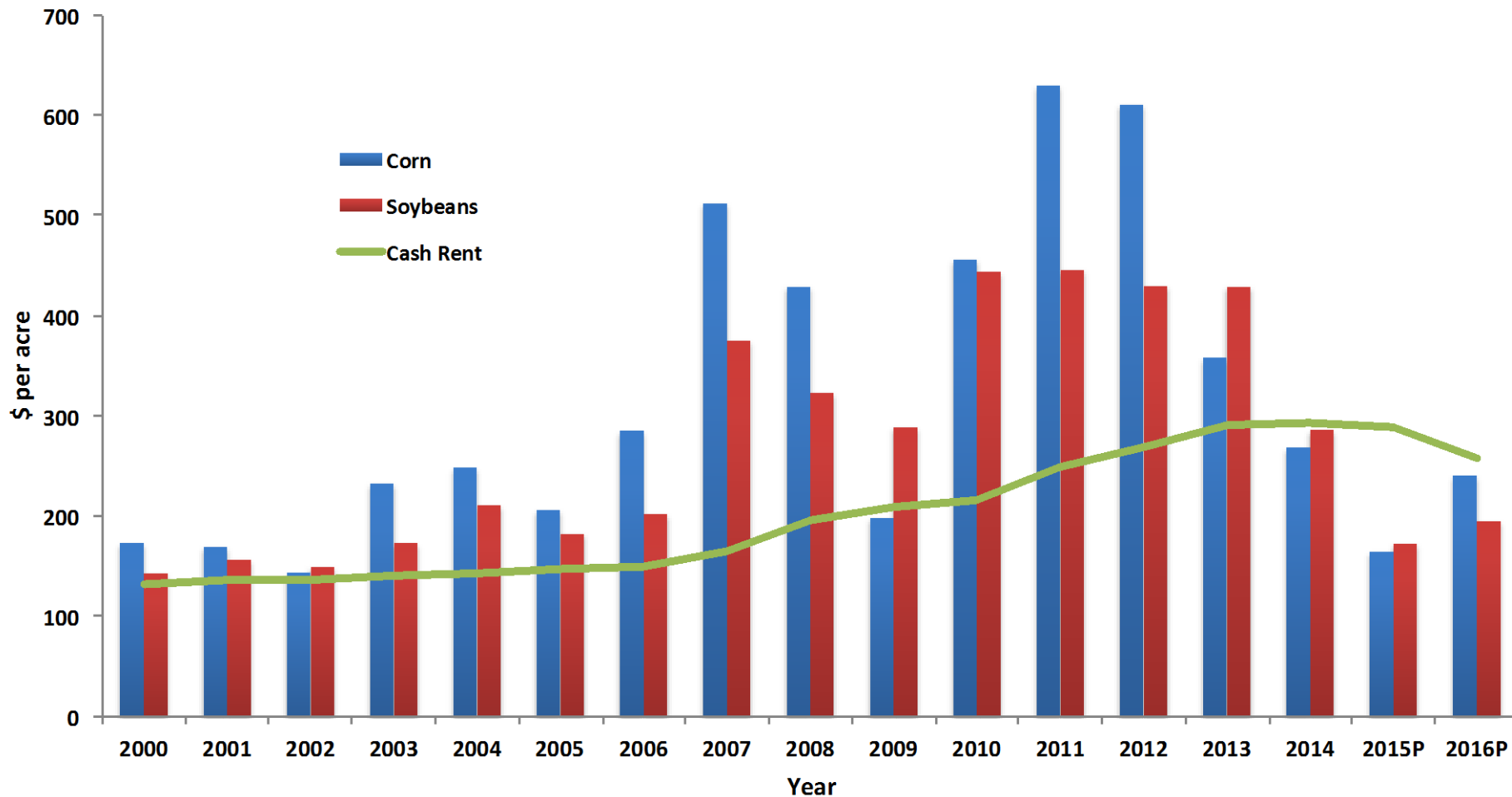


Non-land Costs, Corn and Soybeans, Central Illinois



www.farmdocdaily.illinois.edu

Operator and Land Returns and Cash Rents, Central Illinois



www.farmindustryinstitute.com

Corn Budgets, 2015 and 2016

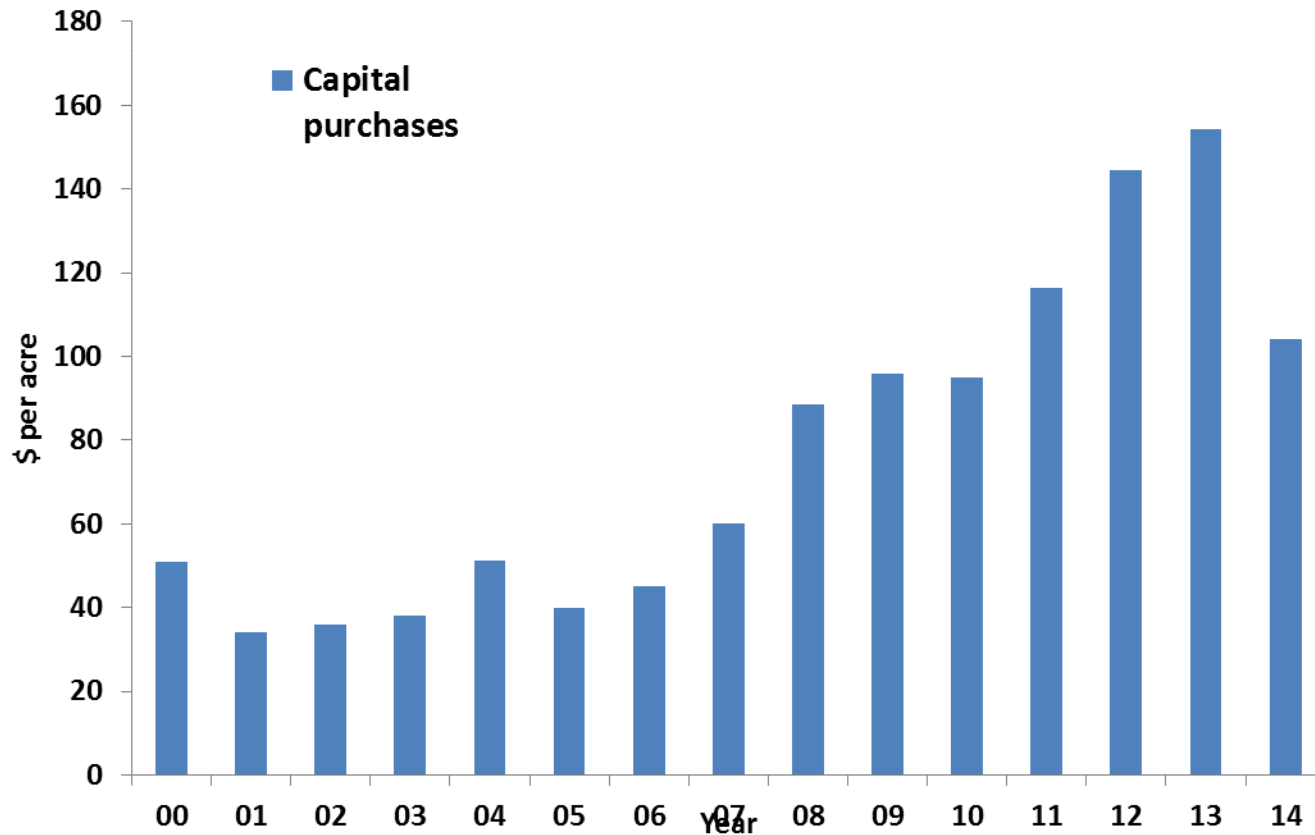
	2015P	2016P	Difference
Crop revenue (196 x \$3.65)	715		
Crop Revenue (198 x \$3.85)		762	47
ARC	40	30	-10
Gross Revenue	755	792	37
Cash rent	288	258	-30
Fertilizers	156	125	-31
Seed	125	122	-3
Mach. depreciation	68	64	-4
Pesticides	60	60	0
Machine repair	25	25	0
Crop insurance	24	24	0
Drying	23	23	0
Hired labor	17	18	1
Fuel and oil	20	17	-3
Machine hire/lease	12	12	0
Building depreciation	12	12	0
Interest (non-land)	11	12	1
Insurance	10	10	0
Misc	9	9	0
Building repair and rent	7	7	0
Storage	5	5	0
Utilities	5	5	0
Light vehicle	2	2	0
Total Costs	879	810	-69
Farmer return	-124	-18	

Need a \$100 costs for average levels in 2015

Costs cuts have to come from

- Machinery
- Fertilizer
- Seed
- Cash rent

Per Acre Capital Purchases, Illinois Grain Farms



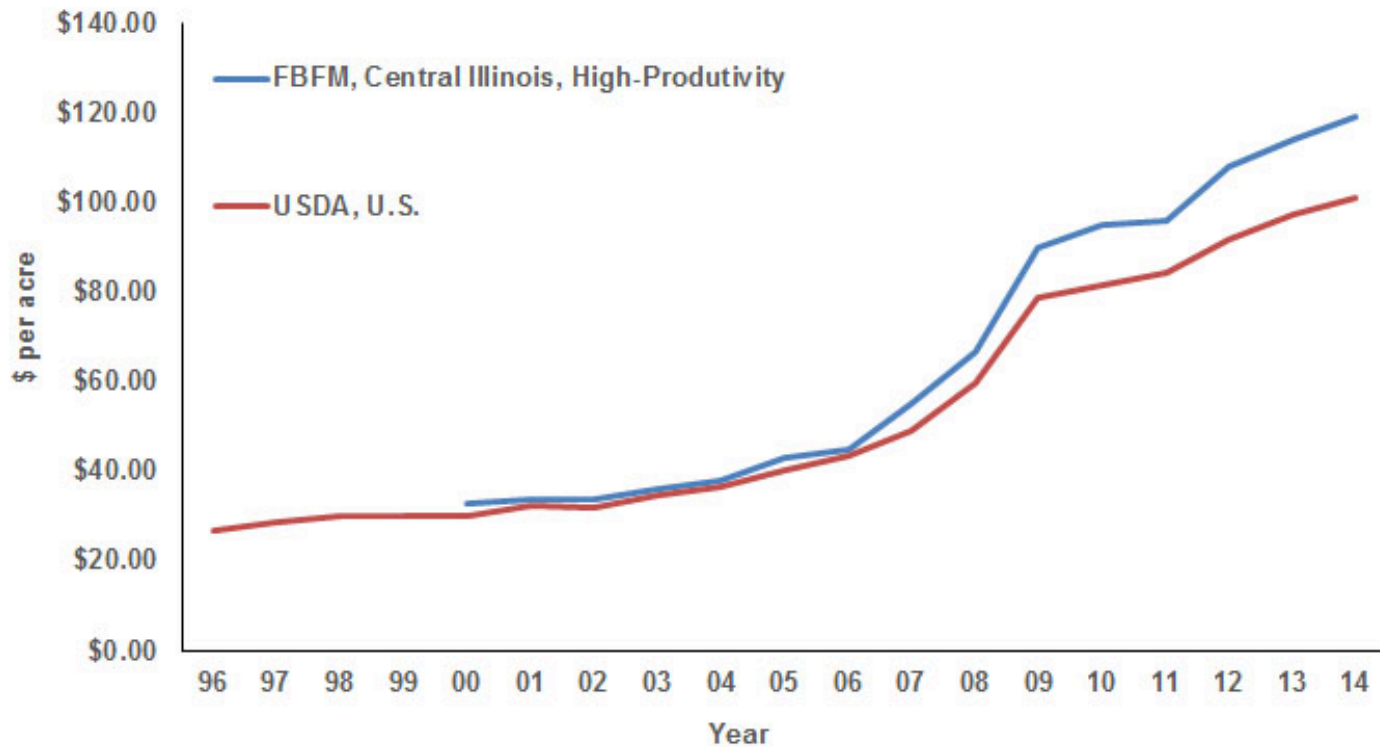
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Anhydrous Ammonia, \$ per Ton

Month	----- Year -----			
	2008-12	2013-14	2014-15	2015-16
Sept	771	687	715	664
Oct	793	678	718	652
Nov	800	684	725	653
Dec	777	670	728	
Jan	767	650	729	
Feb	758	655	730	
Mar	752	658	732	
Apr	744	720	733	
May	746	754	732	
June	725	756	730	
July	712	717	730	
Aug	681	683	708	

Seed Costs, \$ per acre

Figure 1. Seed Costs per Acre



Cash Rents

- **Focus of next session**
- **Need to be reduced**
- **Some follow a strategy of not losing farmland**
- **Cash rent levels need to work given \$4.50 corn and \$10.50 soybeans (not there in 2016)**

Many Farmers are Financial Strong Can Postpone Decisions

Working Capital Losses Per Acre in 2015

Owned land = -\$11 per acre

Cash rent land = -\$171 per acre

Share rent land = -\$72 per acre

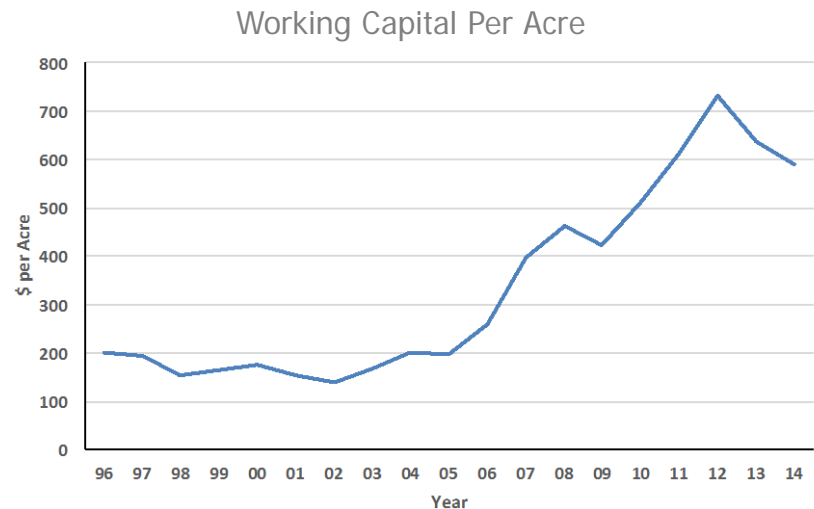
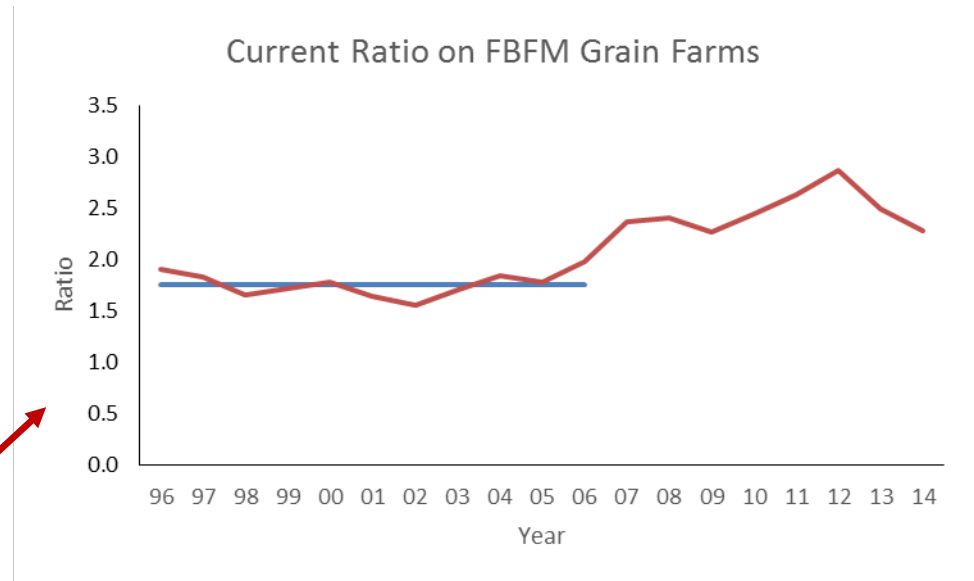
farmdocDaily article on October 8, 2015
titled "Significant Reduction in Working
Capital Likely in 2015 on Grain Farms"

Working Capital, 1996 through 2014

- Current assets relative to current liabilities
- First line of defense for cash shortfalls
- Measures:

$$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{working capital} = \text{current assets} - \text{current liabilities}$$



Where We Are At

Strong, but weakening, financial position (e.g., current position)

Evaluate current position now and at end of 2015 (current ratio and/or working capital)

If current ratio is less than 2.0, no choice, cut costs

If still strong position, can delay cutting costs

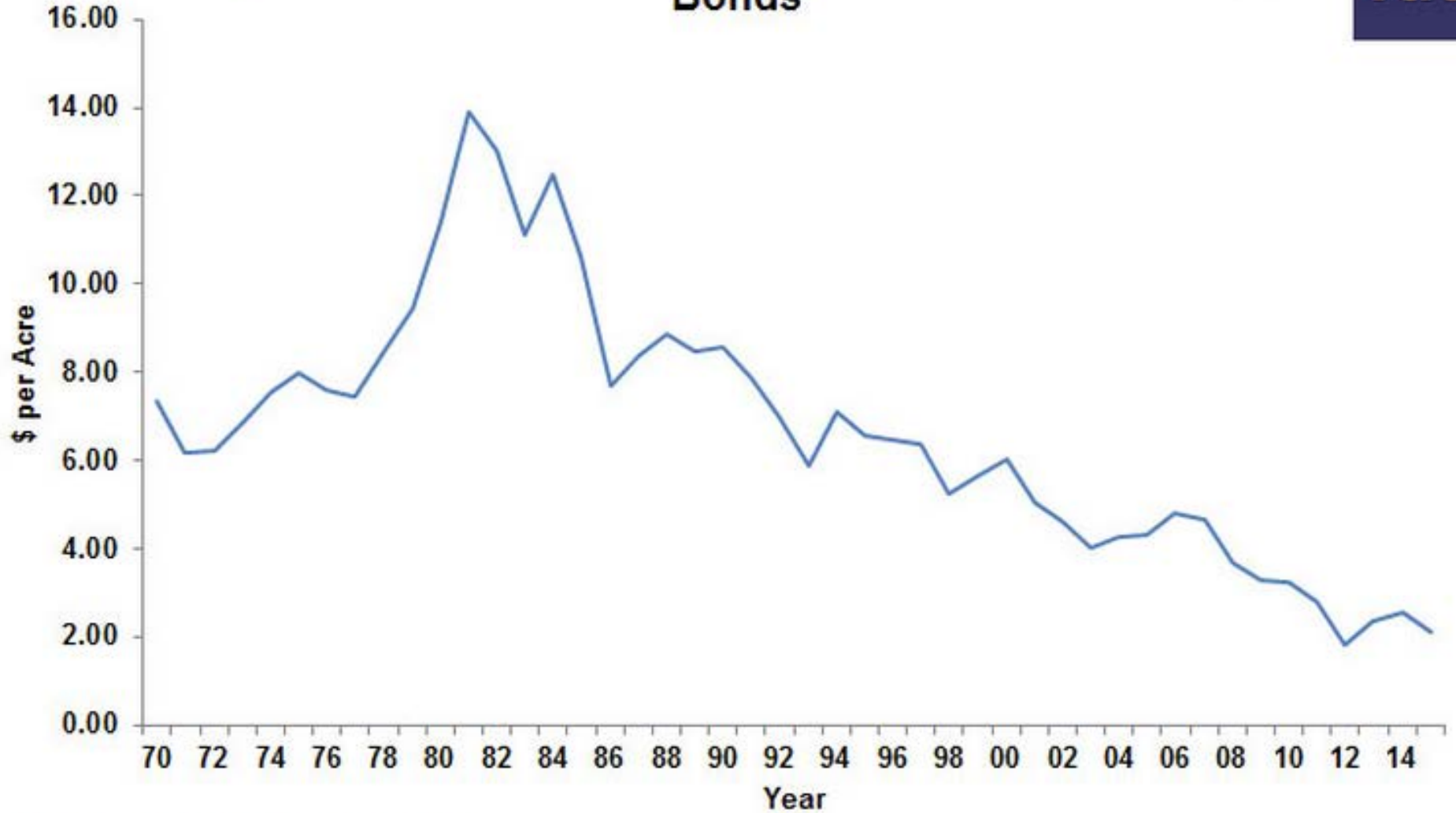
Different Environment

1. Since 1980s, macro events lead to strengthening financial statements

Interest rates

Farmland price

Figure 2. Rates on Ten-Year Constant Maturity Treasury Bonds



Source: St. Louis Fed, Fred database

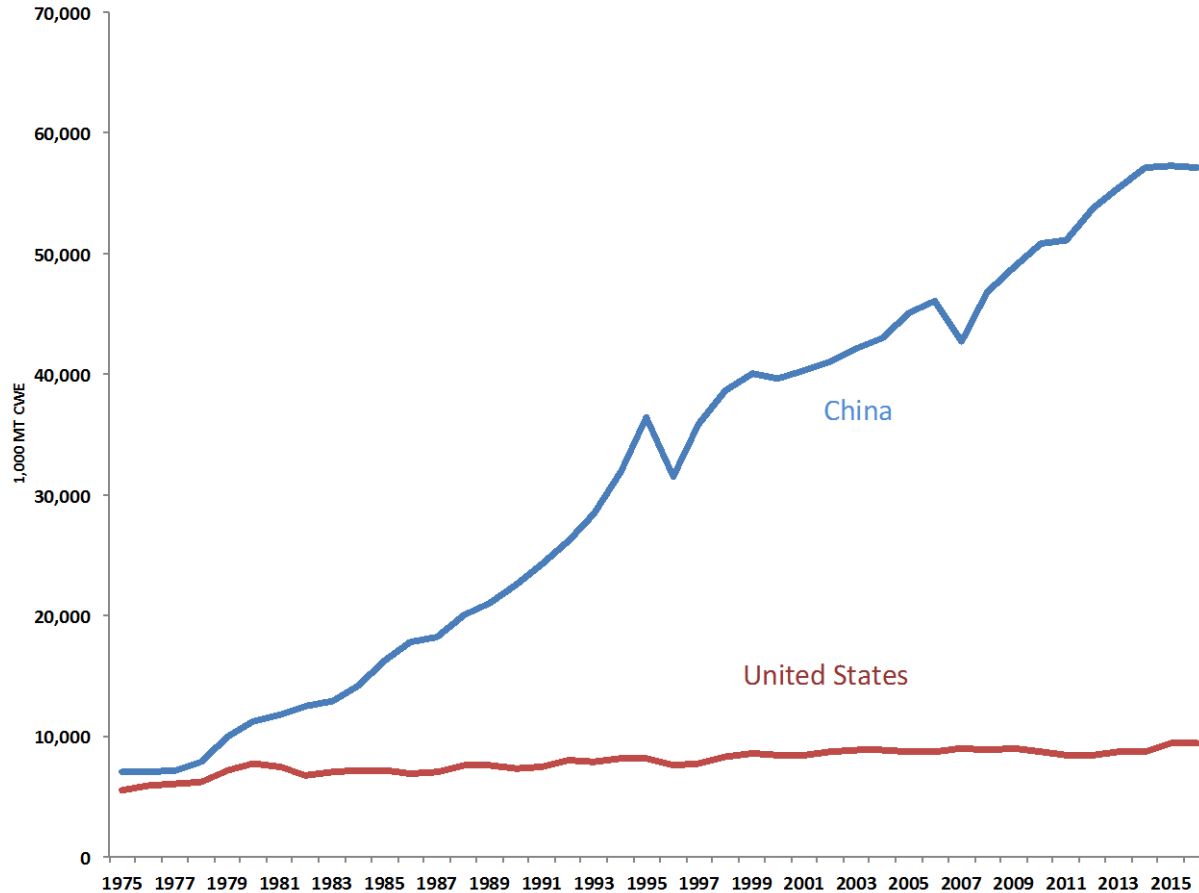
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 - Interest rates
 - Farmland price
2. **The 2006 price increase made a lot of aggressive cash rents look smart**

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3. **Its difficult to identify potential good demand surprise**

Pork Consumption in China and U.S.



Different Environment

1. **Since 1980s, macro events lead to strengthening financial statements**
 - Interest rates**
 - Farmland price**
2. **The 2006 price increase made a lot of aggressive cash rents look smart**
3. **Its difficult to identify potential good demand surprise**
4. **There is likely no increase in government payments.**

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