In 2015 and 2016, average net incomes on grain farms in Illinois are projected at levels similar to those from 1998 through 2002, the last time very low incomes occurred in agriculture. Current projections place average net income on Illinois grain farms at about $20,000 per farm, considerably below the $104,000 per farm average for 2014. At current projections of commodity prices, net incomes in 2016 likely will be low as well.

Net Incomes over Time

Figure 1 shows average net incomes on Illinois grain farms enrolled in Farm Business Farm Management (FBFM) from 1996 through 2014, along with a projection for 2015. Farms summarized in these averages are located in Illinois and represent a variety of farm sizes, tenure positions, and debt levels. Farms have increased in size over time. In 2014, average farm size was near 1,500 acres, but the sample includes many smaller and larger farms.

Between 1996 and 2014, the lowest net income of $11,100 per farm occurred in 1998. From 1998 through 2002, there were a series of relatively low incomes, with an average income of $32,200 per farm. This period of low incomes occurred because of a drop in commodity prices.

From the 1998 – 2002 period of low incomes, net incomes rose to an average of $77,000 per farm from 2003 through 2005. Then, net income increases considerably because of higher commodity prices caused by increased use of corn in ethanol. From 2006 through 2014, net incomes averaged $180,000 per farm. The highest levels occurred between 2010 and 2012 when incomes averaged over $200,000 per farm. Net incomes averaged $128,000 in 2013 and $107,000 in 2014.
Cause of Decline between 2014 and 2015

Net income in 2015 will be lower than in 2014. There are three major factors leading to lower 2015 incomes:

- Lower corn yields. Many farms will have lower yields in 2015 as compared to 2014. USDA estimates average corn yield in Illinois for 2015 at 168 bushels per acre, down by 32 bushels from a 200 bushels per acre yield in 2014. USDA estimates soybean yields the same for both 2014 and 2015 at 56 bushels per acre.

- Lower soybean prices. Price received for soybeans produced in 2014 averaged $10.20 per bushel. The estimate of the 2015 average soybean price is $8.90 per bushel. Corn prices are at roughly similar levels.

- Lower marketing gains. Most net income statements for farms are prepared using modified cost principles. Grain revenues typically include crop sales and changes in grain inventory values between beginning and ending balance sheets. Much of the grain produced and un-priced in 2013 was valued on the end-of-year 2013 balance sheet at prices lower than the grain sold in 2014. The resulting gain contributed around $50 per acre to 2014 net income. Marketing gains likely will be small or negative in 2015 (farmdoc daily May 27, 2015).

Impact of ARC payments

Agricultural Risk Coverage county option (ARC-CO) payments are estimated to contribute around $35,000 to 2015 revenue. These are 2015 payments that will be received in the fall of 2016. There still is a great deal of uncertainty surrounding these payments as neither county yields nor market year average prices are known at this point.

Without these payments, many farmers would have negative incomes for 2016.

2016 Net Income Projections

At this point, commodity prices for 2016 are projected to be below $4.00 for corn and $9.00 for soybeans. These commodity prices will result in low incomes. Cost cutting will be a key factor determining 2016
incomes. If costs are not reduced, and trend yields materialize, 2016 net incomes will be close to 2015 net incomes.

Commentary

The current projection of $20,000 of income per farm is close to that made in August (farmdoc daily July 21, 2015). This $20,000 net income estimate presumes that cost cutting occurred in 2015. If costs were not cut, significantly lower incomes could result.

Grain farms likely will have low incomes for several years. The mid-2010s are shaping up as a period comparable to 1998 -- 2002, the last time grain farming experienced a protracted period of low prices. As with all periods of low incomes, cost control and working capital management will be key to financial stability.

References


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