IFES 2015: 2015 Crop and Income Outlook - Conserve Cash Income

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This is a presentation summary from the 2015 Illinois Farm Economics Summit (IFES) which occurred December 14-18, 2015. A complete collection of presentations including PowerPoint Slides (PPT) and printable summaries (PDF) are available here.

Net incomes on Illinois farms have decreased form an all-time high near $290,000 in 2012. In 2014, net income for Illinois grain farms enrolled in Illinois Farm Business Farm Management (FBFM) averaged near $100,000 per farm. Much lower income levels are expected in 2015. If commodity prices do not increase in 2016, net income in 2016 likely will be at similar levels to that in 2015.

Lower Corn and Soybeans Cause Lower Incomes

The major cause of lower net incomes is lower prices for corn and soybeans. In 2012, central Illinois grain farms received an average of $6.75 per bushel for corn produced in 2012. Corn price has steadily decreased from his high. Prices were $4.52 in 2013 and $3.75 in 2014. It appears that average price will be near $3.70 for 2015. Soybean price averaged $14.66 in 2012. Soybean prices were $10.25 in 2013 and $10.25 in 2014. Soybean prices likely will average near $9.00 for soybeans in 2015. As of this writing, 2016 expectations are for corn price near $3.85 for corn and $8.90 for soybeans. At these price levels, many farms will experience cash flow shortfalls and reductions in working capital.

Need to Reduce Cash Flows

If low commodity prices continue to persist, there will be a need to lower costs. In 2015, costs exceed revenue by around $100 per acre on cash rented farmland. Some combination of cash rent cuts and non-land cost reductions are needed to meet this $100 per acre level. Suggests for lowering costs include:

Lower or eliminate capital purchases: Capital purchases were high in 2010 through 2013. During these years, capital purchases on Illinois grain farms exceeded $100 per acre. Now machinery purchases need to be reduced due to lower cash flows.

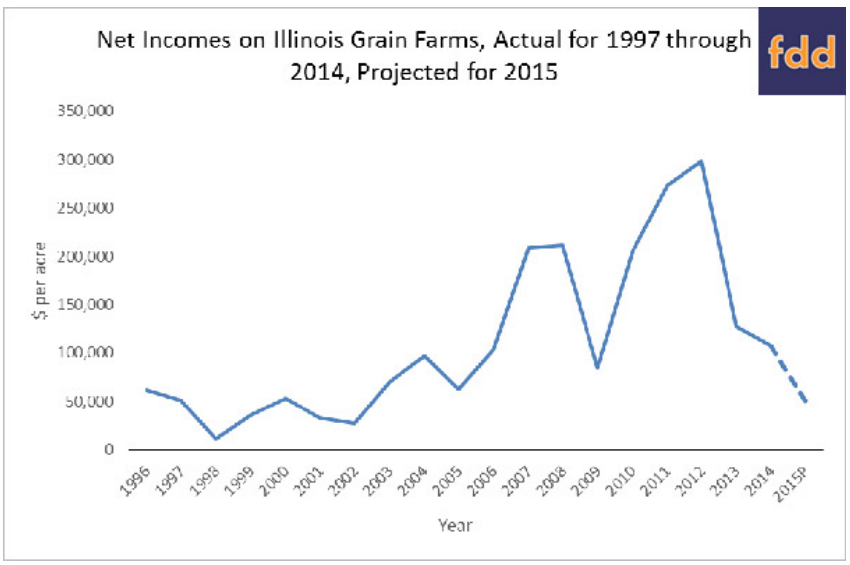
Lower fertilizer and seed costs: Over the last several years, these costs have risen dramatically. In central Illinois, fertilizer costs for cost rose from $82 per acre in 2006 to $193 in 2013, an increase of $111 per acre. Seed costs increased from $45 per acre in 2006 to $114 per acre in 2013, an increase of $69 per acre.

As of fall 2015, fertilizer prices appear to be decreasing from 2014 levels. On November 13th, the Agricultural Marketing Service reported the average Illinois prices for anhydrous ammonia of $653 per ton, a decrease of about $75 per ton from year-earlier levels. Decreases also occurred for dry fertilizers.

Many seed companies have announced seed prices for 2016 that are relatively the same as for 2015 prices.

Lower cash rents: At current price levels, average cash rents need to be lowered by at least $50 per acre. This $50 per acre reduction assumes significant reductions in non-land costs. Giving up farmland may be a prudent strategy if cash rents cannot be lowered. If return projections hold, significant losses in 2015 could cause the financial position of farms to deteriorate.

Reduce other cash flows: There may be a need to reduce other cash flows such as family living expenditures.



Additional Resources

The slides for this presentation can be found at:
http://www.farmdoc.illinois.edu/presentations/IFES_2015

For current farm management information
http://www.farmdoc.illinois.edu/manage/index.asp

Schnitkey, G. "Taking Losses on Cash Rent Farmland to Avoid Losing Farmland: A risky Strategy." *farmdoc daily* (5):189, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 13, 2015.

Schnitkey, G. "Significant Reductions in Working Capital Likely in 2015 on Grain Farms." *farmdoc daily* (5):284, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 6, 2015.

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