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Weekly Farm Economics: Perspectives and Strategies for Dealing with Low Farm Incomes in 2024 and Beyond

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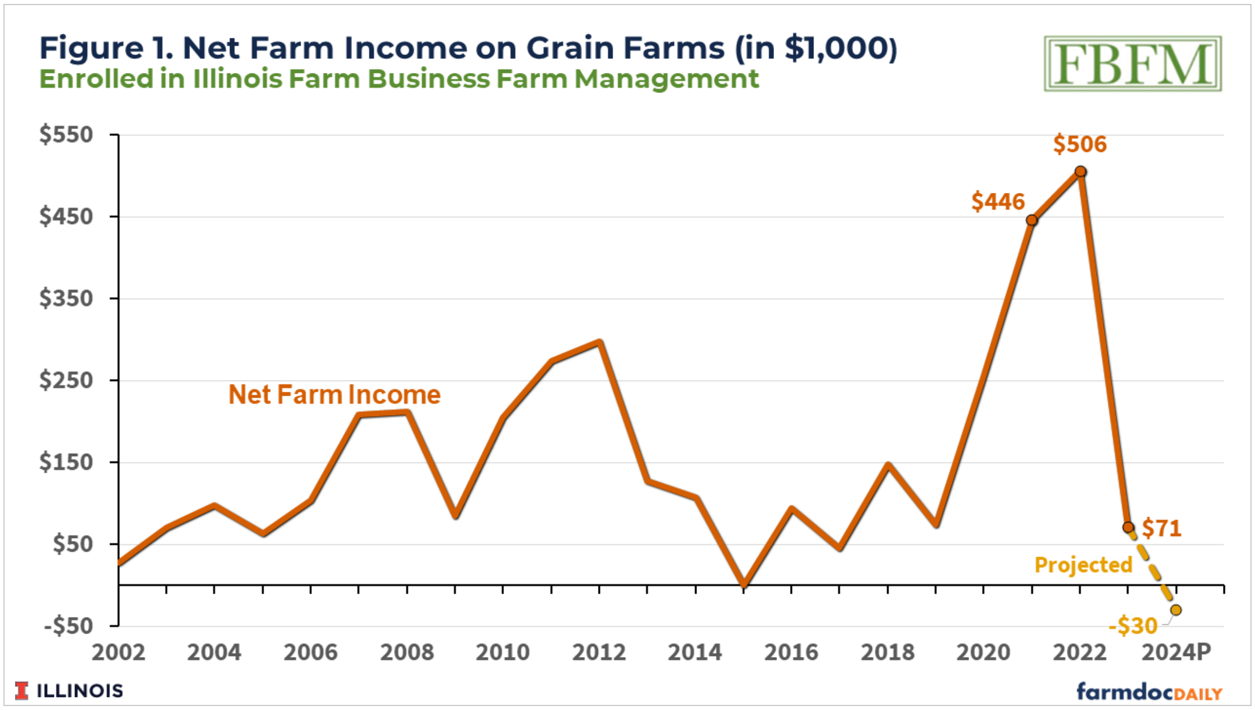
Net incomes on many Midwest grain farms will be negative in 2024, some of the lowest in the past thirty years. Low incomes could continue into future years. Herein, we present eight strategies for dealing with low incomes. Also, prospects for ad hoc Federal payments are discussed. Ad hoc disaster payments could present issues regarding slowing necessary economic adjustments within the agricultural sector.

Farm Incomes and Financial Position

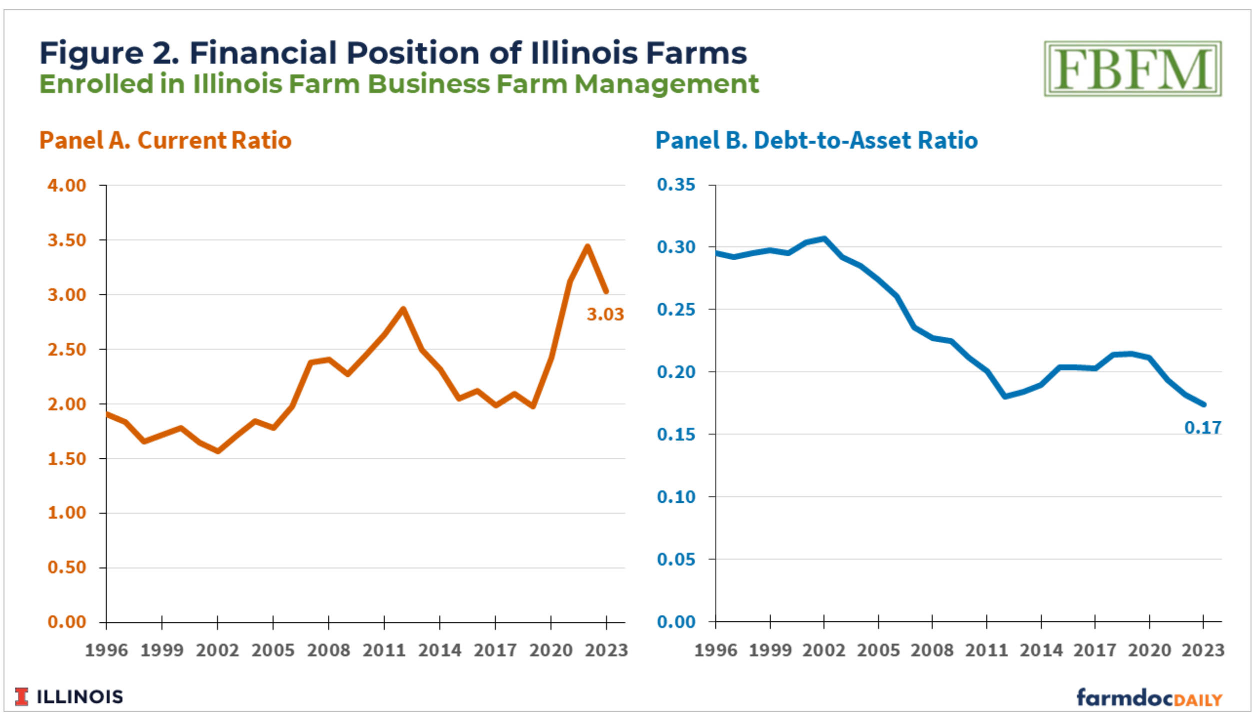
Lower corn and soybean prices and stubbornly high costs will cause 2024 net incomes on Illinois grain farms to be significantly below those of recent years. Unless corn and soybean prices rebound considerably from current levels, average farm income across all Illinois farms could be below -$30,000 per farm.

That -$30,000 net income would be well below levels realized in the recent low-income period (see Figure 1). From 2015 to 2019, incomes were low, and the average income on Illinois grain farms enrolled in FBFM was $487 per farmer in 2015. Prices for 2024 are projected to be higher than in 2015. For example, corn is projected at $4.00 in 2024 compared to $3.61 in 2015. The reason for much lower incomes in 2024 is much higher costs. Non-land costs for 2024 on high-productivity farmland in central Illinois are projected at $772 per acre, $180 higher than the $592 per acre in 2015. Cash rents have also increased.

Cash rents in 2024 are projected at $359 per acre for 2015, $81 higher than the $278 per acre value in 2015. Overall, the total costs of cash-rent farmland are $261 per acre higher in 2024 than in 2015.



Significant depletion of cash reserves and working capital will occur because of low incomes. Fortunately, most Illinois grain farms are in a solid financial position. Farm incomes were at record levels in 2021 and 2022, and most farmers built financial reserves. Current ratios reached a high at the end of 2022 at a level of 3.44 (see Figure 2). A 3.44 current ratio means $3.44 of current assets exists per $1 of current liability. Current ratios declined to 3.03 at the end of 2023 due to lower 2023 net incomes and lower inventory valuations compared with 2022. Still, the 3.03 is the third highest since 1996.



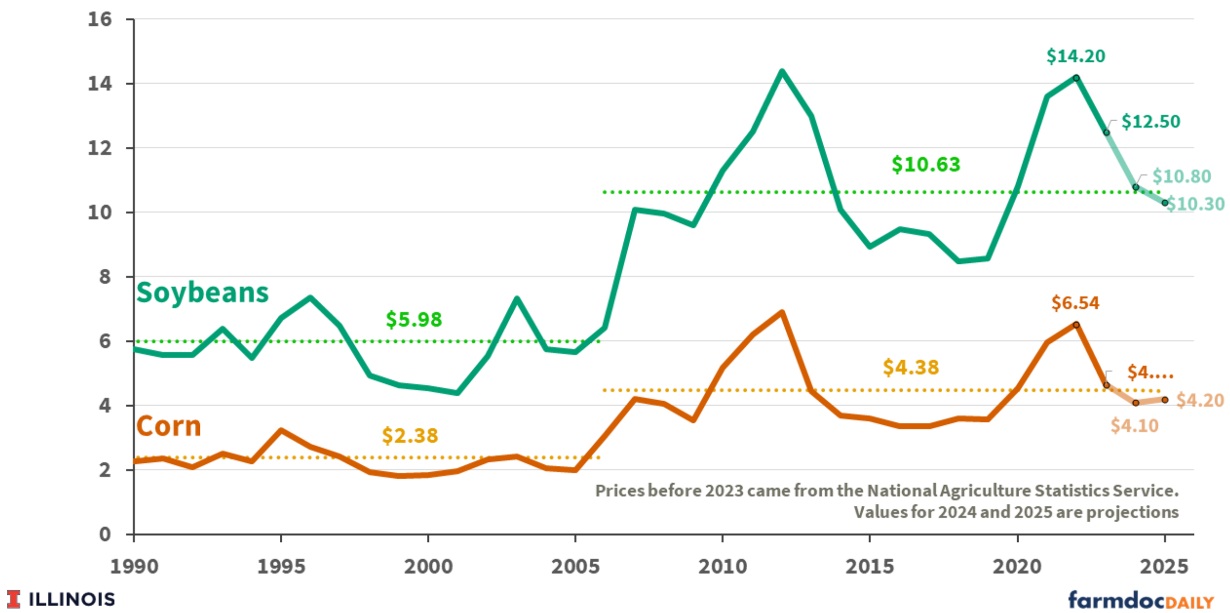
Similarly, solvency positions were strong with the average debt-to-asset ratio at historically low levels (see Figure 2). At the end of 2024, the debt-to-asset ratio averaged .17, meaning there was $.17 of debt per $1 of assets. Most Illinois farmers had solid financial positions, with the lowest average debt-to-average ratio in recent history.

Current ratios and debt-to-asset ratios will worsen at the end of 2024. Worrisome is how large the negative incomes are projected to be for 2024. Despite overall sector strength, farmers with lower working capital levels and higher debt-to-asset ratios will face financial stress (see *farmdoc daily*, April 26, 2024 for a distribution of debt-to-asset ratios). As is usually the case, most of those farmers are younger and in the process of building their operations.

How Long Will Low Incomes Last?

Periods of low incomes are not unusual in agriculture, typically occurring after commodity prices decline from higher levels (for more discussion, see *farmdoc daily*, July 9, 2024). The last period of low prices began with the fall from highs in 2012. National market year average corn prices fell from $6.89 per bushel in 2012, to $4.46 in 2013, $3.70 in 2014, and $3.61 in 2015 (see Figure 3). From 2015 to 2019, corn prices averaged $3.50 per bushel. Corn prices then rose to $4.53 in 2020, $5.95 in 2021, and $6.54 in 2022.

Figure 3. U.S. Market Year Average Prices for Corn and Soybeans 1960 to 2025P



Periods of low returns typically continue until higher prices again occur. The 2015-2019 low return period ended in 2020 when a Derecho impacted production in Iowa, and a buildup in the Chinese hog herd began. Significant funding from Federal Coronavirus programs also increased 2020 incomes. Prices further strengthened as the Ukraine-Russia war began, and production issues arose in South America. The series of events leading to higher prices is unpredictable. It could occur shortly, or it could happen far into the future.

Strategies for Dealing with Low Returns

Management strategies for dealing with periods of low income are straightforward, well-known, yet difficult to implement. Below is a list of eight strategies that are prudent to follow even during periods of higher incomes:

1. Realize there is no way to market out of a period of low returns: Corn and soybeans are commodities, with all producers facing the same market forces. There is no evidence that some farmers can time market sales to their highs, as commodity markets are mostly efficient. Even so, developing a strategy to spread sales has risk management benefits. There are some limited ways to differentiate oneself:

- Diversifying by producing differentiated grains, such as non-GMO soybeans or food-grade corn, and

- Using on-farm storage to be in a position to take advantage of post-harvest marketing opportunities and spread sales.

While valuable, those strategies have limits, and some farmers could reasonably decide not to pursue them.

2. Be a low-cost producer: In a commodity market, low-cost producers often maximize profits. Examination of FBFM records indicates that some producers consistently have lower costs than other farmers, with lower costs occurring across all direct input, power, and overhead cost categories (see *farmdoc daily*, July 21, 2023). We suggest taking an intensive review of farming practices, focusing on the following items:

- Keep nitrogen applications within university recommendation, typically between 180 and 200 pounds of nitrogen per acre (see *farmdoc* Webinar, October 12, 2023)

- Reducing phosphorous and potassium applications if soil levels are above university recommendations.

- Reduce fungicide applications. At lower prices, a higher yield response is needed to justify applications (see *farmdoc daily*, May 1, 2024).

- Reduce overhead. Overhead costs include hired labor, building repair and rent, building depreciation, insurance, misc., and interest costs. Low cost producers often have considerably lower overhead items than high-cost producers

- Examine machinery strategies making sure that machinery complements are sized for the farming operation.

Overall, input decisions should be based on the profits produced rather than striving for the highest yields.

3. Take every government payment: While some farmers have philosophical difficulties with Federal support programs, not taking Federal payments will disadvantage a farm, particularly with young producers. Government payment strategies include:

- Sign up for Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) elections by March 15.

- Take crop insurance, likely using Revenue Protection (RP) at high levels. This year, the Enhanced Coverage Option (ECO) may be worth an examination, given its higher subsidy levels. For corn and soybeans, the deadline for making crop insurance decisions is March 15.

- Ad hoc disaster assistance programs such as the Emergency Relief Program (ERP) may become available. If available, those programs can provide funds for a farming operation.

- Make use of loan programs available from Farm Service Agency (FSA).

4. Delay capital purchases: Machinery purchases should be delayed if possible. Priority should be given to those operations that have the potential to more directly increase revenue, such as drainage projects, on-farm storage, and farmland purchases.

5. Develop a farmland rental strategy: Farmers projecting for more than a ten-year career likely need to expand acreage, with some of that expansion occurring through renting farmland. Producers, particularly young producers, will need to develop:

- A marketing approach for the farm business so that potential landowners will know about their farming operation.
- A farm resume and talking points that differentiate their operations from other operations.
- An estimate of how much they are able to pay for cash rent farmland.

It is vital to determine how much rent can be justified for farmland. Paying too high a cash rent and not receiving a financial return can destabilize a farm business. Given the competitive nature of farmland markets, other alternatives to invest available resources should be evaluated, as some other activities could have higher returns.

6. Prepare a projected cash flow and examine future financial position: Projecting cash flows will aid in making decisions, allowing analysis of break-even commodity prices and break-even cash rental bids. Preparing a projected cash flow will also assist in deciding how long the current trajectory is sustainable. Once you have created the cash flow, review it as the actual costs are recognized as well. There are several FAST programs available here for cash flow planning. Illinois FBFM also has cash flow projection methods for their clientele.

7. Find another source of income: Most grain farms already have sources of income other than cropping activities. Given the realities of Midwest agriculture, the need for other sources of income will likely continue, particularly for younger operators. Options include:

- Off-farm income, particularly if health benefits come with employment,
- Contract feeding operations,
- On-farm business such as seed sales and custom work, and
- Other businesses.

Individuals within farming operations usually have entrepreneurial and business acumen, making businesses attractive options. However, those activities should be cash-generating to offset the often-delayed cash flows from cropping operations.

8. Build expectations of buying farmland in the future: Buying farmland is a significant drain on cash flow. Most farmland purchases that utilize debt will not generate positive cash flows, requiring funds from other sources to make debt repayments. Thus, farmland purchases can reduce financial flexibility for an operation as associated debt is paid down.

Still, the most financially stable operations generally have an owned land base that was built over time. Despite the need for financial reserves in the short-term, owned land will eventually provide a financial buffer against low income periods in the future.

This recommendation must be considered with the understanding that farmland prices could decline in the future. At the current time, farmland returns are low, cash rent on farmland faces severe downward pressures, and interest rates remain high – all factors creating potential headwinds for farmland values. The timing of farmland purchases does matter. Individuals who purchased farmland before the fall of the 1980s faced serious disadvantages relative to those who purchased following the decline in land values. However, timing farmland price declines is difficult if not impossible.

This recommendation is given as a reminder that opportunities exist in agriculture and that owning farmland will likely be beneficial. In the long run, agriculture in the Midwest likely will be profitable, with much of that return coming from farmland appreciation. Of course, risk taking should be prudent so chances of reaching the long run are enhanced.

Prospects of Ad Hoc Payments

There has been some discussion of additional ad hoc disaster assistance to farmers, potentially legislated after the election in a new or an extension to the existing farm bill. We note the following on ad hoc disaster assistance:

- It is true that Midwest grain farms could be facing some of the lowest incomes in 2024. Our projections place incomes significantly lower than any that occurred since the 1980s. Still, incomes were at record levels in 2021 and 2022, allowing most grain farms' financial position to increase to strong levels.

- Additional ad hoc disaster assistance could slow the necessary economic adjustments that result from lower prices, including reductions in non-land costs and cash rents.

- Ad hoc disaster assistance is generally not the preferred avenue for assisting farmers. During the 1980s and 1990s, many efforts went into the Federal crop insurance programs to avoid ad hoc disaster assistance. Improvements to crop insurance and commodity title programs are a better avenue for developing a safety net for agricultural producers.

Summary

We have again entered a period of low returns to crop farming. It is concerning to see how low returns could be in 2024. How long this period of low incomes will last is unknown, as the market forces leading to higher prices are difficult to predict. Being prudent with financial reserves using the eight strategies above will aid farmers in this projected period of low returns.

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