



2011 IFES: Stress Testing Agricultural Returns in 2012 and Beyond

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This is a presentation summary from the 2011 Illinois Farm Economics Summit (IFES) which occurred December 12-16, 2011 at locations across Illinois. Summaries and MP3 podcasts of all presentations will be republished on farmdoc daily. The 'Presentations' section of the farmdoc site has PDF presentation slides and MP3 podcasts from all presenters [here](#).

<http://farmdoc.illinois.edu/IFES/2011/IFES-2011-GarySchnitkey.mp3>

A period beginning in 2006 and ending sometime in the future likely will be viewed as a "golden age" for crop farm incomes. Beginning in 2006, corn and soybean prices have reached higher levels due to increased use of corn in producing ethanol and sustained export demands for grain. Higher commodity prices then have led to higher net farm incomes for grain farms. For grain farms enrolled in Illinois Farm Business Farm Management (FBFM), net farm income has an average of \$66,000 per farm from 2001 through 2006 increasing to \$177,000 per farm from 2006 through 2010.

Net farm incomes on grain farms likely will average over \$200,000 in 2011 because of high corn and soybean prices. Current WASDE estimates place the average price during the 2011/12 market year between \$6.20 and \$7.20 per bushel for corn and between \$11.60 and \$13.60 per bushel for soybeans. While average incomes will be over \$200,000, incomes will vary across farms because of yield differences across farms. Many farms have had yields significantly below average, particularly in the central and western Illinois. As a result, many farms in central and western Illinois will have lower incomes while farms in northern Illinois will have higher incomes.

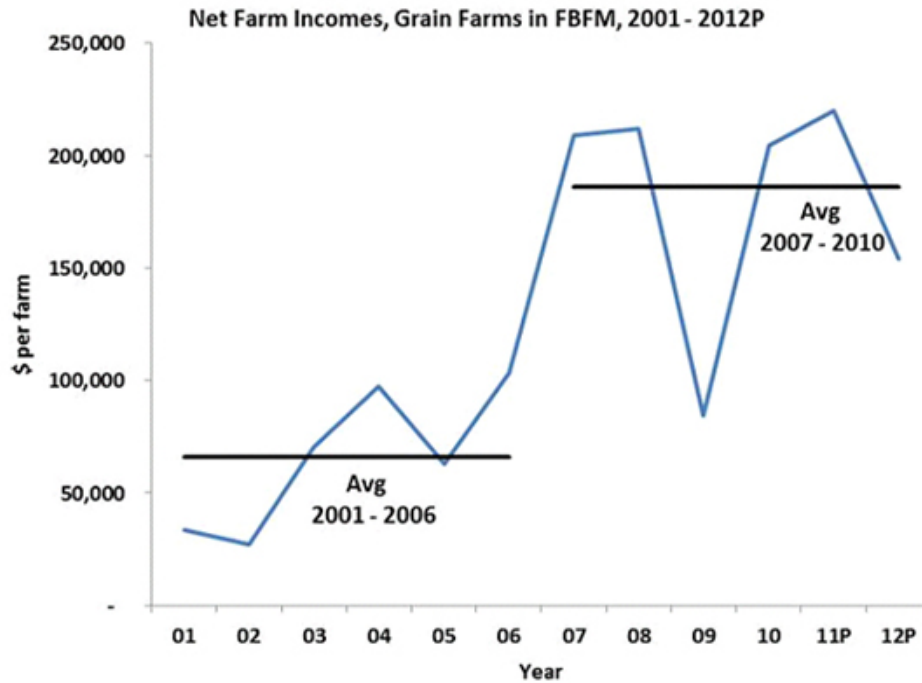
Current projections place 2012 corn and soybean prices around \$5.00 per bushel for corn and \$11.00 per bushel for soybeans. These prices are substantially below 2010 and 2011 prices farms and will result in lower 2012 net farm incomes. Given normal yields and no unexpected cost increases, a \$5.00 per bushel corn price and \$11.00 per bushel soybean prices will result in average grain farm income around \$150,000 per farm.

Overall, a \$150,000 of average net farm income for 2012 will result in another good income year for crop farmers. Further declines in prices could lead to less profitable times and more financial stress. Take, for instance, a \$4.50 per bushel corn price and a \$10.50 per bushel soybean price. These prices represent estimates of "long-run" prices. There will be variability around these long-run prices over the next five years, but the average over the five-years likely will be close to \$4.50 per bushel for corn and \$10.50 per

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bushel for soybeans. These prices would result in \$86,000 of net income for grain farms, much closer to the \$66,000 average per farm income from 2001 to 2006 than the \$177,000 average from 2006 to 2010.

All grain farms need to consider ways of withstanding period where crop prices are significantly below the long-run averages of \$4.50 for corn and \$10.50 for soybeans. Understanding how to responds to a \$3.50 corn price and \$8.50 soybean price will be a worthwhile planning activity. Farms particularly vulnerable to price downturns are farms that have a percent of their farm base cash rented. Building financial reserves is a practically now is a particularly good way of being able to withstand periods of low incomes. Farms also need to find ways of lowering cash rents when periods of low prices are on the horizon.



Net Farm Incomes on a 1,200 Grain Farm Given Differing Tenure Situations and Cash Rents for Different Price Scenarios Without Insurance¹.

Name	Price Scenario		10% Owned	100% Cash Rent	
	Corn Price	Soybean Price	30% Share Rent	\$275 Cash Rent	\$350 Cash Rent
			60% Cash Rent	Cash Rent	Cash Rent
2012 projected	\$ per bushel 5.00	\$ per bushel 11.00	\$ per farm 15,800	\$ per farm 126,000	\$ per farm 5,568
Long-run	4.50	10.50	86,500	40,900	-80,000
Low	3.50	8.20	-26,000	-91,000	-211,000
Poor	3.00	7.00	-26,000	-92,000	-212,000

¹ With Insurance is a Revenue Protection insurance product with an 80 percent coverage level. Projected prices are \$5.30 for corn and \$11.30 for soybeans.

Additional Resources

The slides for this presentation can be found at:

http://www.farmdoc.illinois.edu/presentations/IFES_2011

Incomes More Sensitive to Price Declines on Cash Rent Farms

http://www.farmdocdaily.illinois.edu/2011/11/incomes_more_sensitive_to_pric.html

Projected Incomes Given Differing Commodity Prices

http://www.farmdocdaily.illinois.edu/2011/11/projected_incomes_given_differ.html

2012 Crop Budgets

http://www.farmdoc.illinois.edu/manage/2012_crop_budgets.pdf