



Editor's note: Kent Vickre and Dwight Raab write a tax and finance column for each issue of *Pioneer GrowingPoint*® magazine. Vickre is state coordinator of the Iowa Farm Business Association. Raab is state coordinator of Illinois Farm Business Farm Management. They address issues that influence agribusiness success.



Something to cheer about

High crop prices lead to record per-acre returns.

It was a very good year for Illinois farms in 2010. Average crop returns per acre hit a record high as farm operator returns for labor and management were almost four times higher on average than in 2009.

While returns in Illinois may differ from returns in other states, the Illinois numbers should provide a reasonable benchmark for most major crop-producing states. And what a year it was for the 2,588 Illinois farms reporting to Illinois Farm Business Farm Management.

Average 2010 returns for an operator's labor and management income was an impressive \$160,118 — a whopping \$115,567 above the 2009 average of \$44,551. The five-year average is \$35,208.

A reasonable charge for the farm operator's debt-free capital invested in machinery, equipment, land and inventory averaged \$44,513. Combined with labor and management returns, the average operator saw a net farm income of \$204,631.

Market prices hike profits

Higher new crop prices along with lower fertilizer and drying costs were the main reasons behind the significantly higher incomes. Meanwhile, those high grain prices resulted in minimal farm program payments. Total

government payments in 2010 were historically low, however, they were the highest since 2006 due to increased ACRE (Average Crop Revenue Election) and SURE (Supplemental Revenue Assistance Payments) program payments.

In Illinois, 2010 corn yields averaged 164 bushels per acre, lagging both 2009 yields and the five-year average. Corn yields were 18 bushels per acre lower than in 2009 and 16 bushels below the five-year average. On the other hand, soybean yields were five bushels per acre higher than in 2009 at an average of 55 bushels per acre.

The average crop returns per acre were at an all-time high in 2010. Crop returns averaged \$755 per tillable acre, \$100 per acre higher than the 2009 crop returns. In addition, the average price received for the 2009 corn and soybean crop sold in 2010 was above their inventory price, resulting in a positive marketing margin.

Livestock fares well

Returns above feed cost for all livestock enterprises were higher than in 2009. Hog returns above feed costs were higher due to higher prices for pork. Returns to dairy enterprises were higher due to higher milk prices.

Returns above feed cost to all livestock enterprises

were higher than the year before. Also, returns to most enterprises were above the five-year average. Dairy and beef cow enterprises experienced slightly lower feed costs in 2010 compared to 2009.

Mainly due to the higher nonfeed costs, returns for farrow-to-finish hog producers were an estimated \$3 to \$8 per hundredweight below the breakeven level in 2010.

Dairy producers experienced higher returns due to higher milk prices. The average was \$1,506 above feed per cow in 2010 compared to \$838 in 2009. Milk prices were 24 percent higher than in 2009.

Returns to farrow-to-finish hog producers rose significantly to an average of \$53.74 per hundredweight in 2010 versus \$39.13 the year before. Feed costs increased, averaging \$33.96 per hundredweight.

The average price received per hundredweight for slaughter cattle and the price paid for replacement feeder cattle both rose.

The result: Returns to feeder cattle enterprises were the second highest during the last five years. Returns beat both 2009 levels and the five-year average. Prices received for market cattle were up while prices paid in 2010 for feeder cattle were above 2009 levels. Returns above feed per cow increased for beef cow enterprises due to higher prices received for beef.

Net worth rises

We can make estimates in net worth change by adjusting net farm income for nonfarm income, withdrawals for family living and income and Social Security tax paid. This amount would be a modified-cost-basis change in net worth, which excludes changes due to inflation.

These estimated changes in net worth increased statewide. Changes in net worth among individual farm operators will vary greatly due to differences in farm and nonfarm income and family living withdrawals.

Average operator interest paid in 2010 was \$22,128, up \$1,103 from 2009. Interest rates have been up and down recently. On a per acre basis, interest paid has decreased from a high of \$25 in 2007 to a low of \$17 in 2004 and back up to \$21 in 2010. Interest paid as a percentage of gross farm returns was down to 3.3 percent in 2010 from 3.7 percent in 2009.


Production cost impacts

Total economic costs per acre to produce corn and soybeans decreased from 2009 levels due mainly to lower costs for fertilizer, pesticides and grain drying. However, the cost per bushel to produce corn increased in all areas of the state except in the northern sections. This was due mostly to lower yields.

On the bright side, the average cost per bushel to raise soybeans decreased in all areas of the state. Average soybean yields were one bushel per acre higher in all areas of Illinois, except in

central Illinois where there was no change, possibly because of the area's lower-rated soils.

Total economic costs per acre to raise corn and soybeans on these farms averaged \$705 and \$515, respectively. A sample of pure grain farms in the state found the total economic cost per bushel of corn produced was \$4.30 with an average yield of 164 bushels per acre. The total cost per bushel of soybeans was \$10.24 with an average yield of 56 bushels per acre. This compared with costs per bushel of \$4.11 for corn and \$10.24 for soybeans in 2009.

This was the highest cost per bushel to grow corn since this study began in 1972. The 2010 cost to grow soybeans tied 2009 as the highest cost per bushel for this study. The 2006-10 five-year average to produce corn and soybeans on these farms is \$3.48 per bushel for corn and \$9.01 per bushel for soybeans. However, the variation in yields and costs during the past few years makes it important to analyze these costs over more than one year. 

Key corn production costs*										
Illinois and Iowa, 2006-10										
	2006		2007		2008		2009		2010	
	Ill.	Iowa	Ill.	Iowa	Ill.	Iowa	Ill.	Iowa	Ill.	Iowa
Soil fertility	80	70	89	78	124	110	185	147	122	112
Pesticides	39	28	39	27	46	30	52	33	44	30
Seed	46	47	54	54	67	67	90	85	95	94
Drying, storage	11	12	15	9	30	22	52	29	35	11
Mach. repair, fuel, hiring	42	45	49	52	52	67	45	64	47	72
Economic mach. deprec.	21	27	23	29	29	35	35	40	38	45
Total economic cost	488	451	542	501	655	625	786	713	717	688
Average yield (bu/acre)	174	167	190	171	199	179	192	188	168	174

Key soybean production costs*										
Illinois and Iowa, 2006-10										
	2006		2007		2008		2009		2010	
	Ill.	Iowa	Ill.	Iowa	Ill.	Iowa	Ill.	Iowa	Ill.	Iowa
Soil fertility	25	8	28	9	42	16	62	16	42	20
Pesticides	25	19	25	24	28	33	31	37	27	27
Seed	33	29	37	32	43	35	58	43	61	46
Drying, storage	3	3	5	2	6	2	8	2	7	2
Mach. repair, fuel, hiring	37	42	43	50	45	62	40	58	43	63
Economic mach. deprec.	18	26	20	28	26	34	31	39	34	41
Total economic cost	375	338	416	386	485	457	546	480	539	479
Average yield (bu/acre)	53	54	51	55	54	51	55	53	60	53

* All figures in dollars per acre except average yield

This data comes from the farm business/management associations in Iowa and Illinois. Illinois and Iowa Farm Business/Farm Management Associations provide on-farm counsel with computerized recordkeeping, farm financial management, business entity planning and income tax management.

- Final 2010 comparative data available at: www.iowafarmbusiness.org and www.fbfm.org.
- Iowa economic depreciation is calculated at 10 percent per year with 10 percent salvage. Illinois uses economic depreciation, with most machinery calculated at 10 years, 125 percent declining balance.
- Total cost includes non-cash "average" equity charge on asset values and "average" unpaid labor and management charge.