

Keys to Profitability: Resilience in 2019 and Beyond

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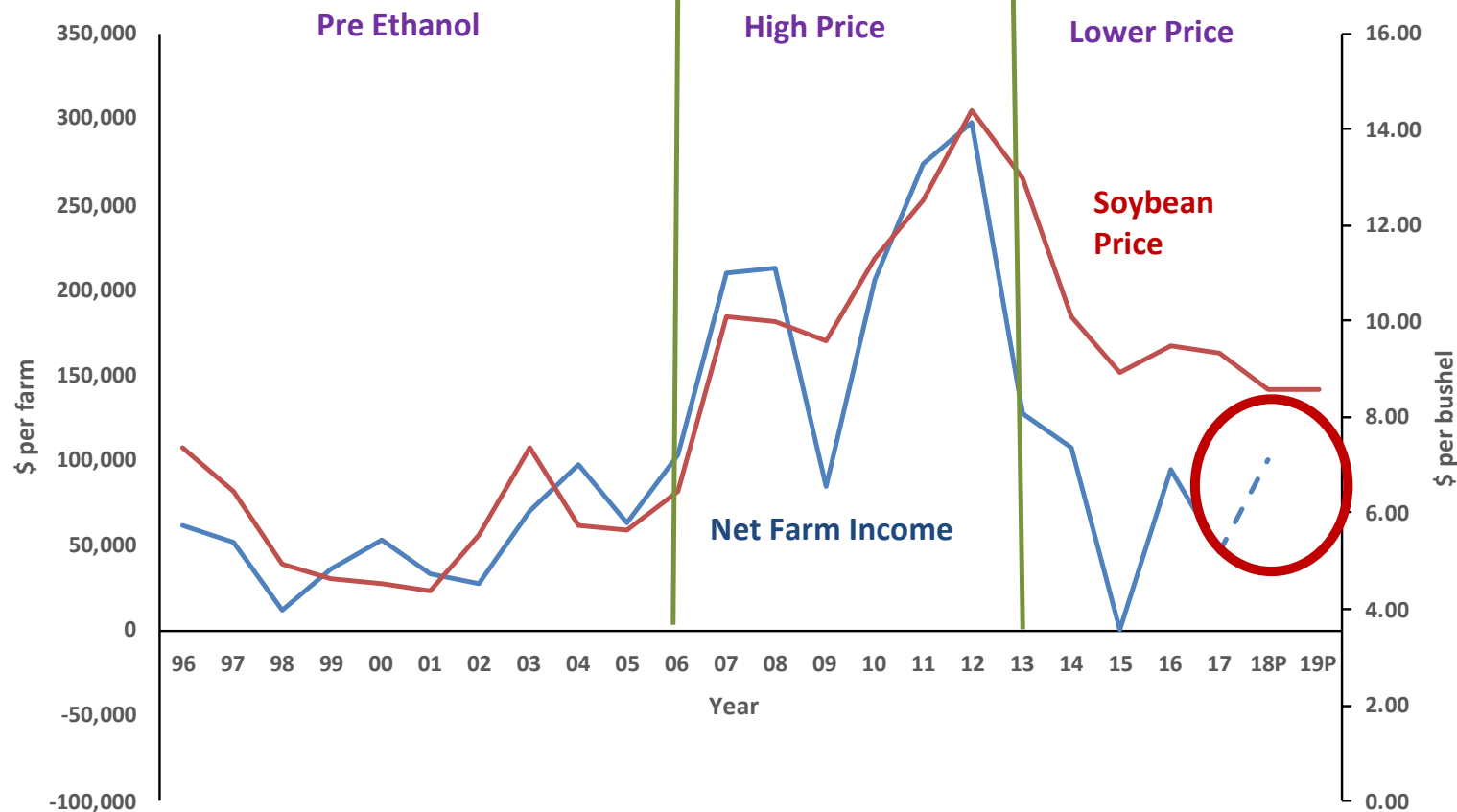
Topics

1. Income Outlook for 2019
2. Suggestions for 2019
3. Characteristics of Resilient Farmers



Grain Farm Income in 2018 Expected Higher than in 2017

Grain Farm Income and Soybean Prices



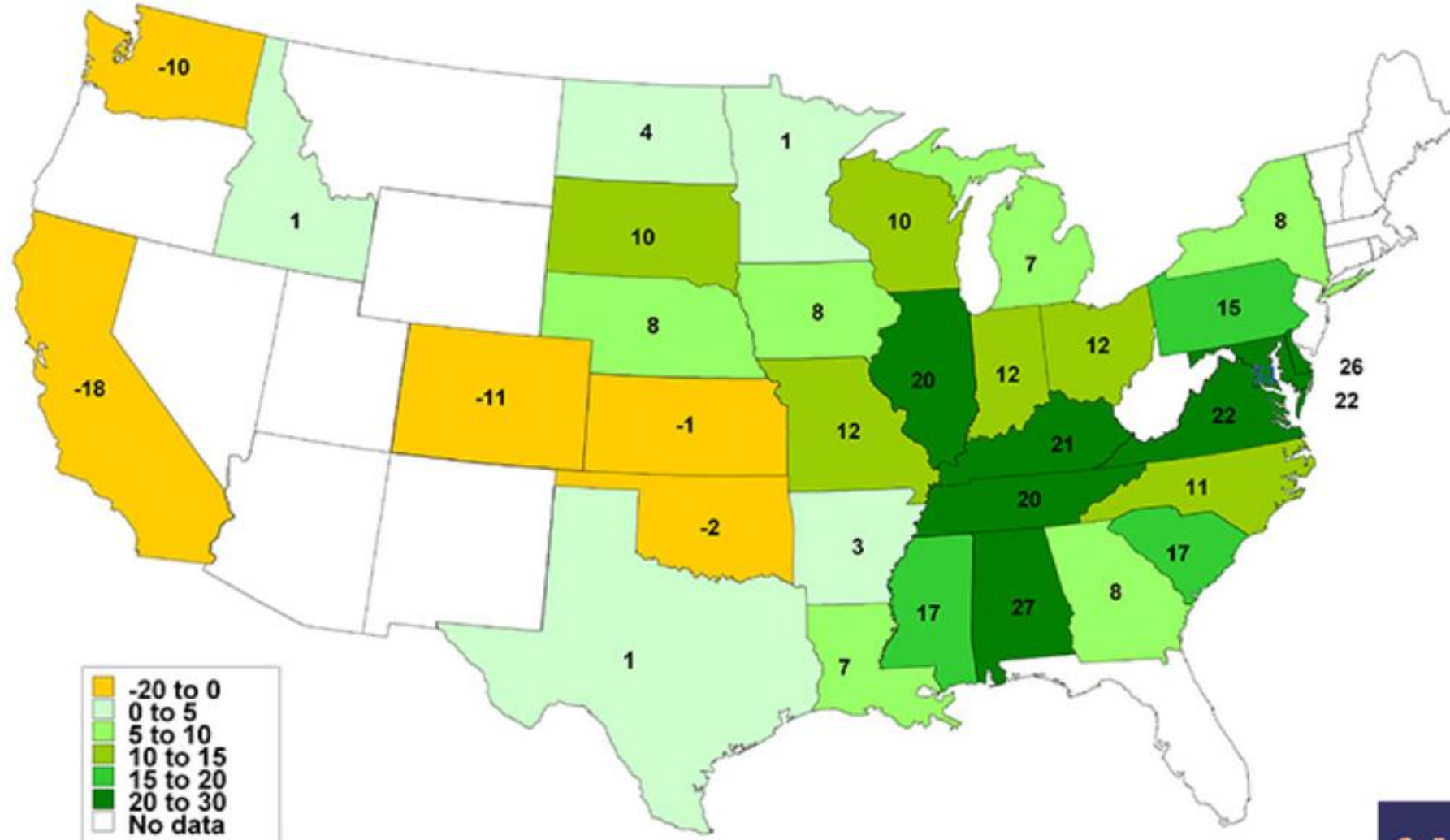
Should see improvement in working capital and debt-to-asset positions on many (not all) farms.

Why?

1. Exceptional yields
2. Chance to price grain at higher prices in spring
3. Market Facilitation Program payments



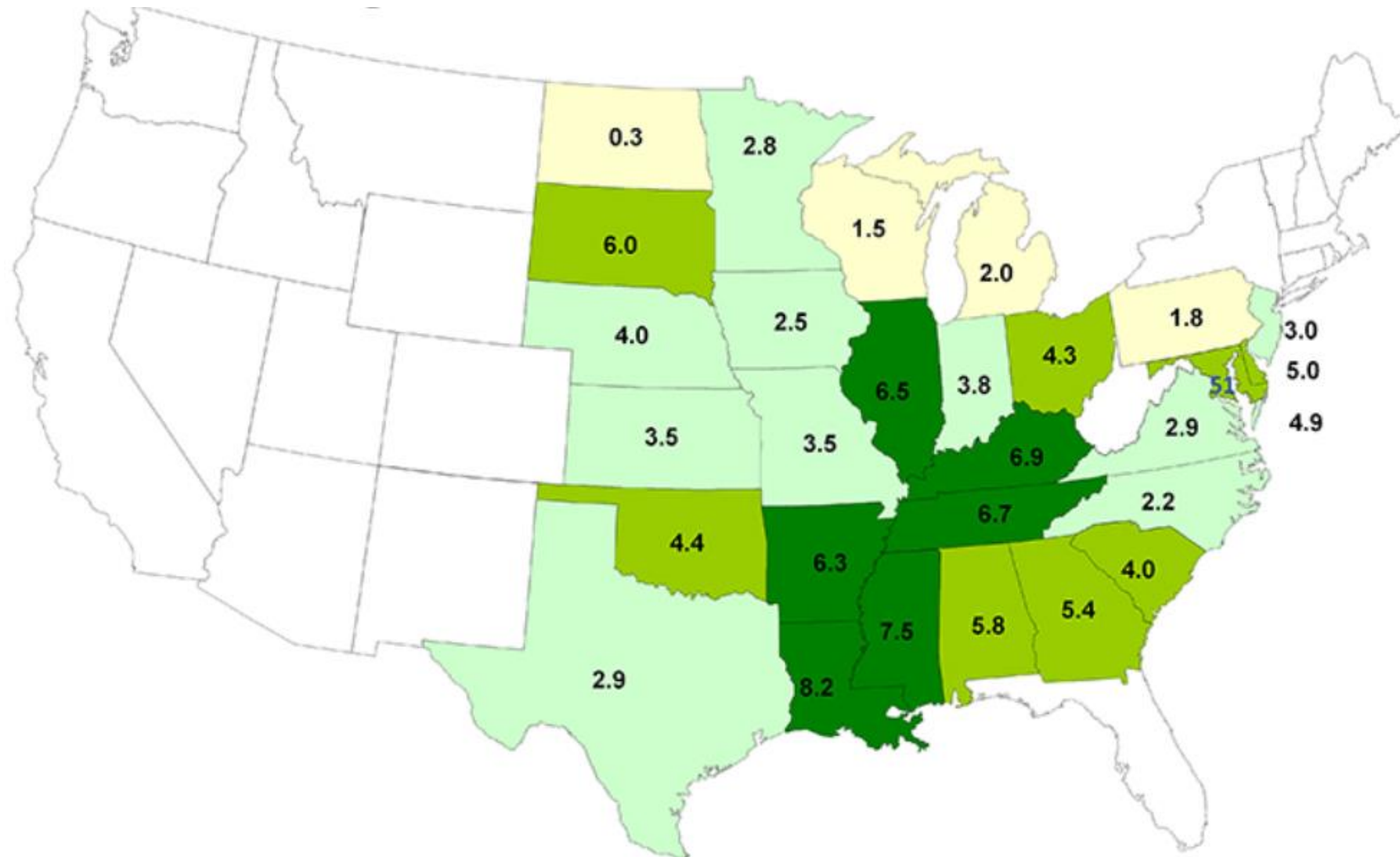
Average Yield-From-Trend, Corn, 2013-2018



Source: Yields from National Agricultural Statistical Service.



Average Yield-From-Trend, Soybeans, 2013-2018



Source: Yields from National Agricultural Statistical Service.



Market Facilitation Program Payments

Rates

Soybeans:	\$1.65 per bushel
Wheat:	\$.14 per bushel
Corn:	\$.01 per bushel
Dairy:	\$.12 per cwt
Pork:	\$8 per head
Sorghum:	\$.86 per bushel
Cotton:	\$.06 per pound

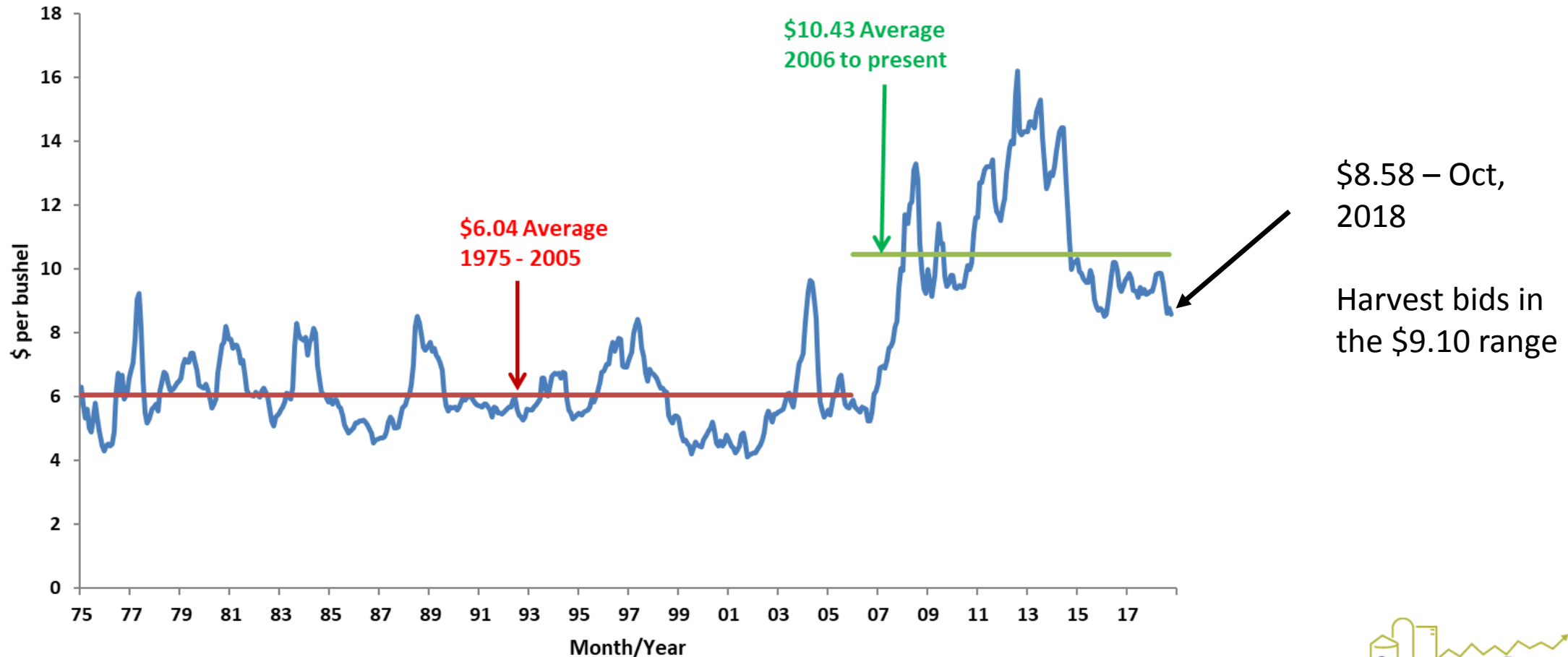
Points

- Important to 2018 income
- Most farmers have received total MFP payments
- Have to Jan 15 (likely to be extended) to sign up for MFP payments
- Administration has indicated that there will not be payments 2019



What has changed? Soybean prices

Soybean Prices, U.S. Monthly from 1975 to Oct, 2018



What has changed?

Increasing Costs

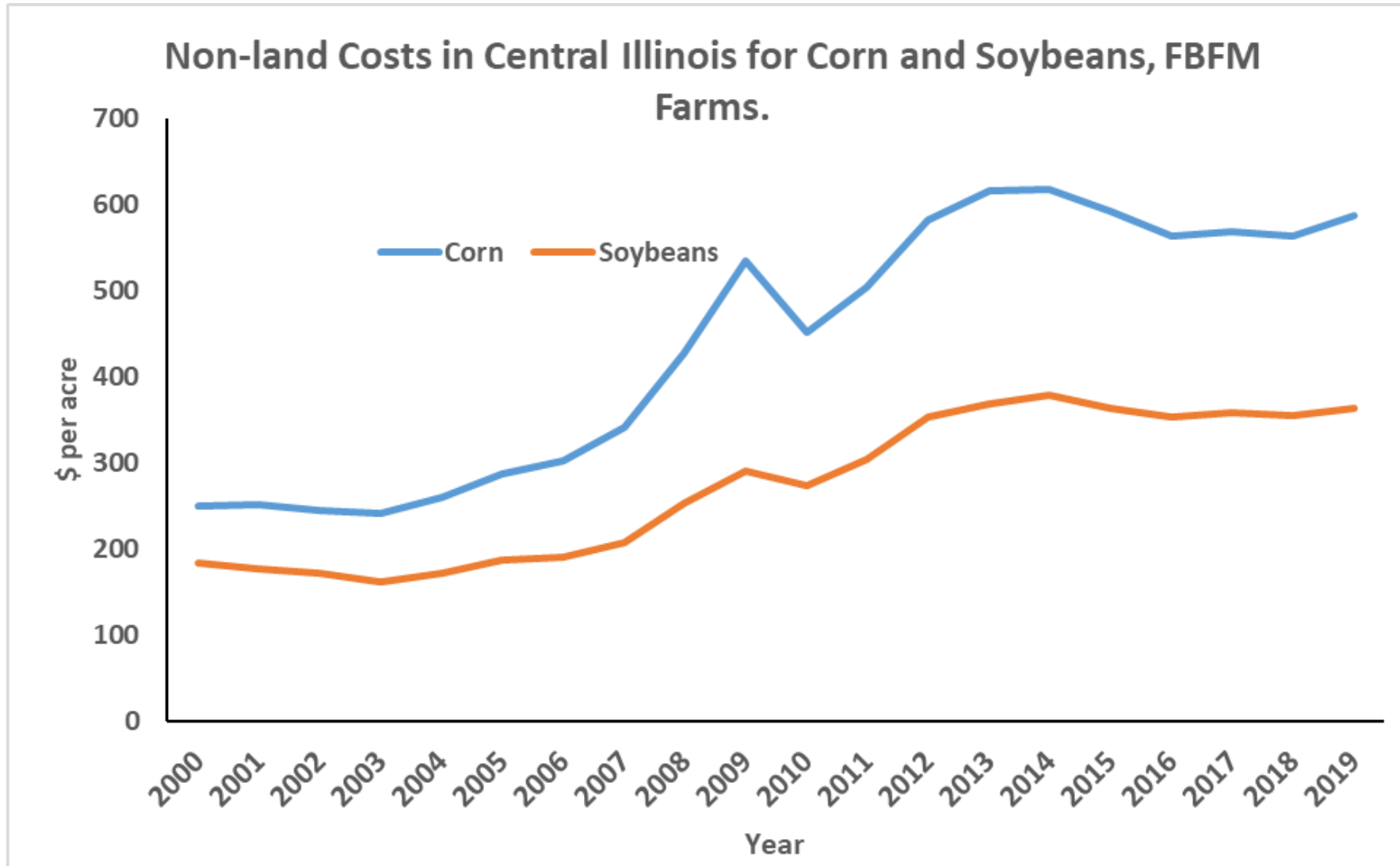
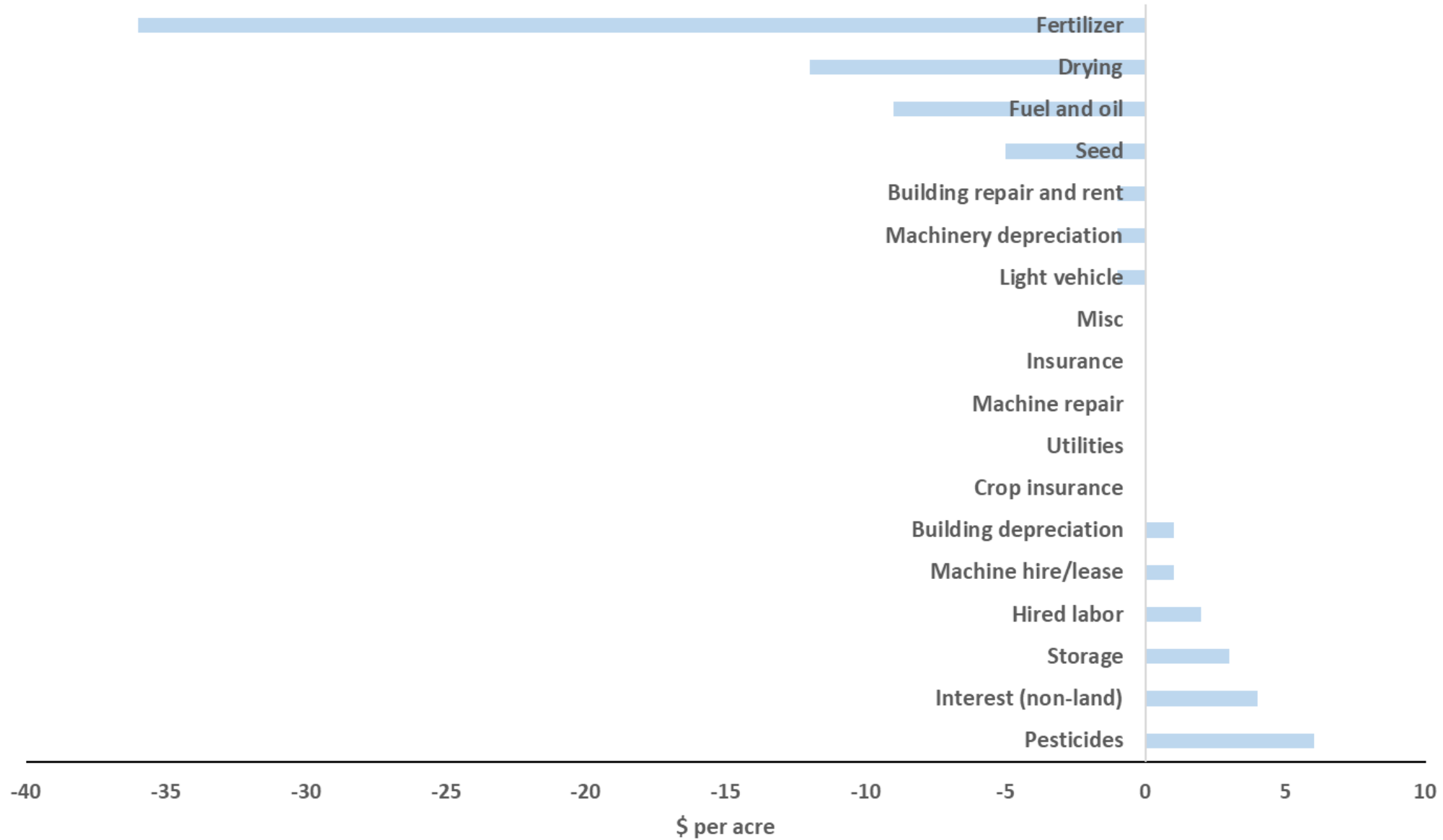


Figure 1. Change in Non-Land Cost from 2014 to 2017,
High-Productivity Farmland in Central Illinois, Corn



Source: Illinois Farm Business Farm



2019 Income Projections

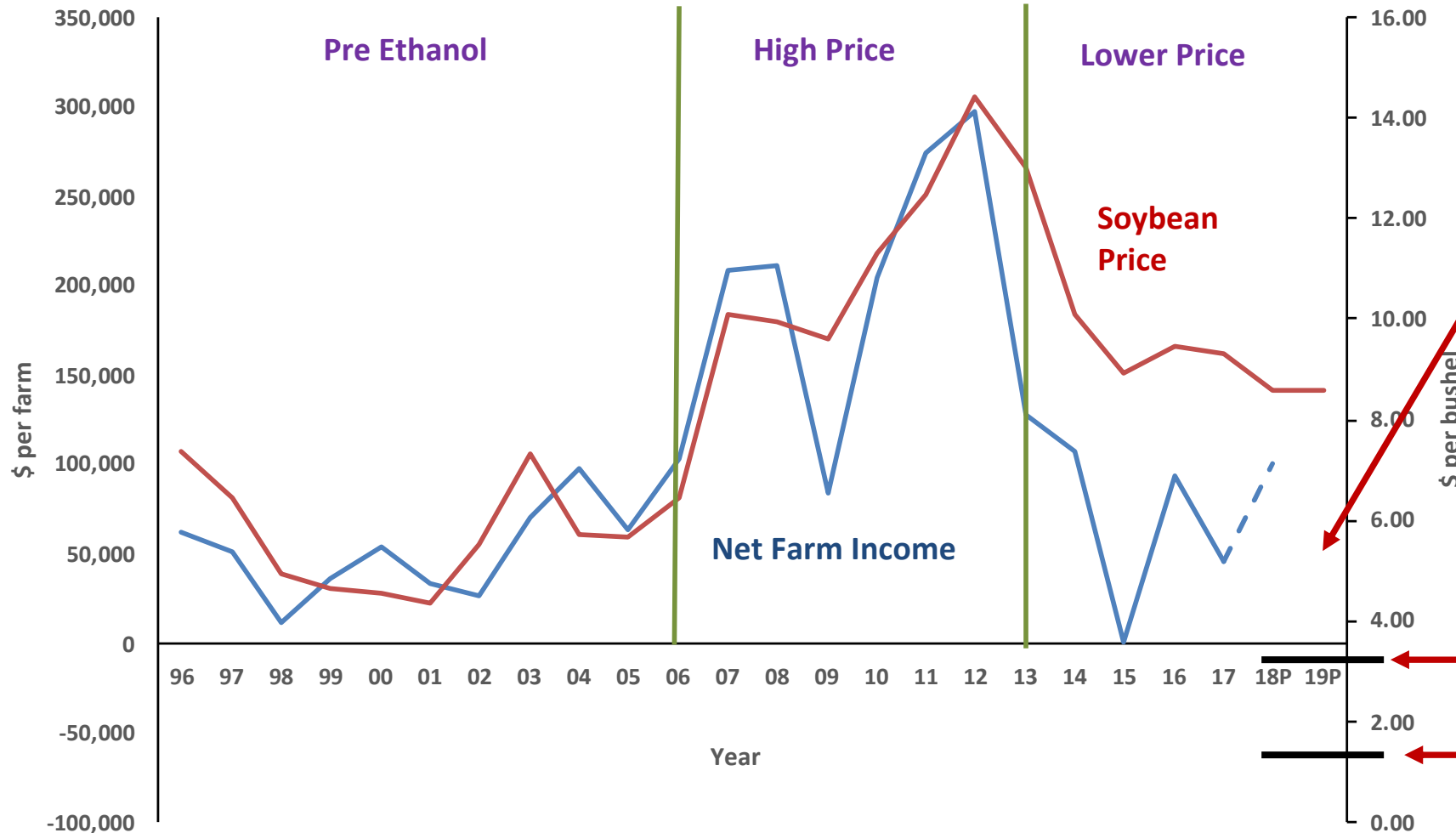
- 2019 Projections: \$3.60 corn and \$8.50 soybeans
- \$7 per base acre in PLC payments

- Increases in non-land costs
 - \$25 per acre for corn
 - \$10 per acre for soybeans

- Cash rents stay the same



2019 Income Projections



Most likely scenarios for ~\$60,000 income

Above-trend yields and \$4.00 corn and \$9.50 soybean prices

or

Above-trend yields and Market Facilitation Program payment

or

A drought and over \$5 corn and over \$10 soybeans

-\$3,000 if we get above trend yields like 2016-2018

-\$60,000 with trend yields Worst incomes since we have records

Suggestions for 2019 -- Caution

1. Build working capital (2.00 current ratio, \$300 per acre working capital)
2. Forgo capital investments
3. Purchase a high level crop insurance product
 - Revenue Protection (RP)
 - At high coverage level



Suggestions for 2019 (farmdocDaily, Nov 13)

4. Prepare a 2019 cash flow

Prices of \$3.60 corn, \$8.50 soybeans

Two sets of yields

1. Five year average yields
2. Approved yields for crop insurance (much lower than five year average yields)



Suggestions for 2019 -- Caution

5. Begin marketing 2019 crop

Dec 2019 CME corn = \$4.00

Nov 2019 CME soybean = \$9.60

Projected Prices, Crop Insurance					
	2015	2016	2017	2018	2019P
Corn	\$4.15	\$3.86	\$3.96	\$3.96	\$4.00
Soybean	\$9.74	\$8.85	\$10.19	\$10.16	\$9.60



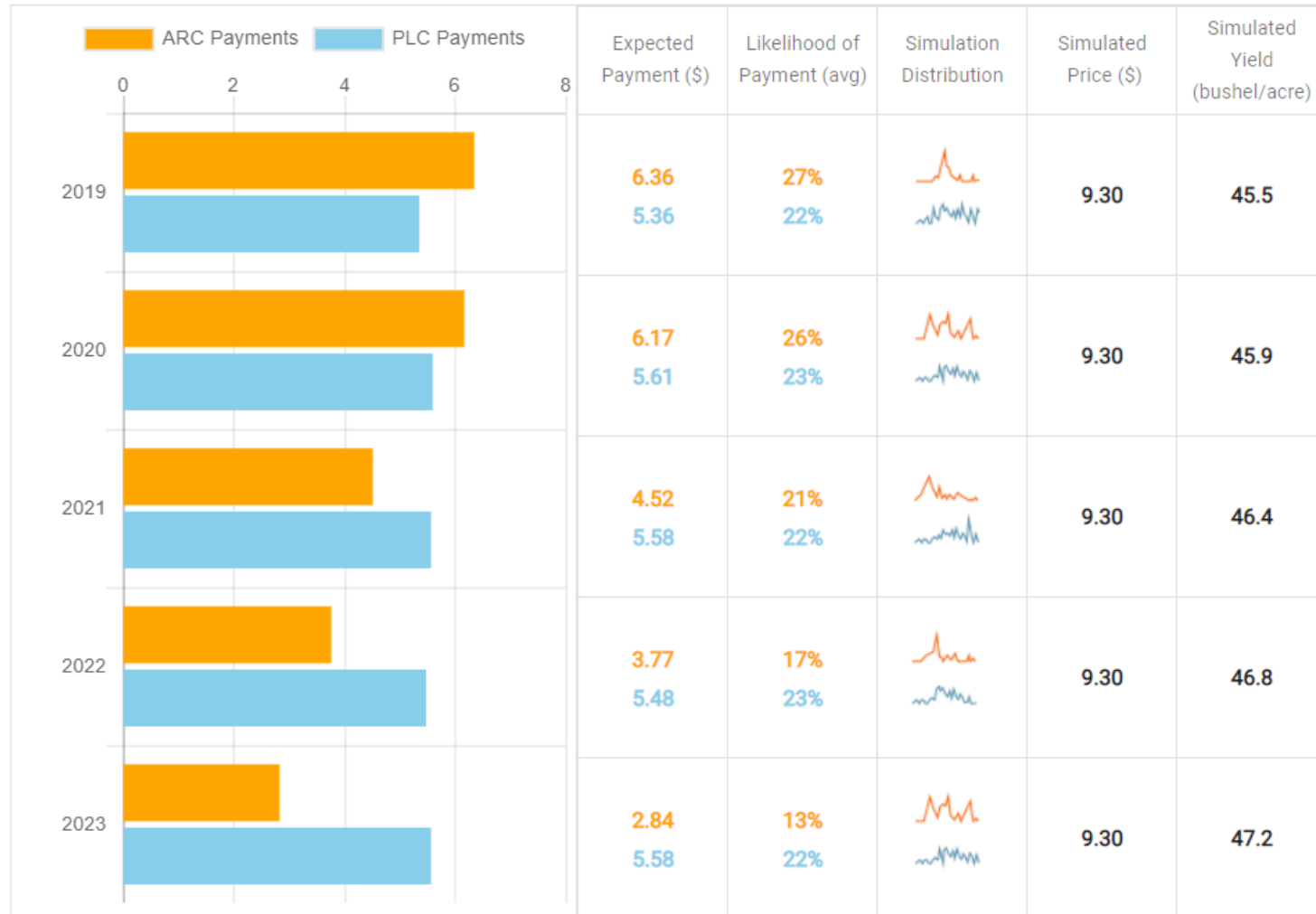
Suggestions for 2019 -- Caution

Expected Payments from ARC and PLC
Soybeans, Clinton County, Illinois
Will be tool on Farmdoc

6. Have a choice between
ARC and PLC

-- Most choose ARC County
for 2014 Farm Bill

-- Look at PLC (Price Loss
Coverage)

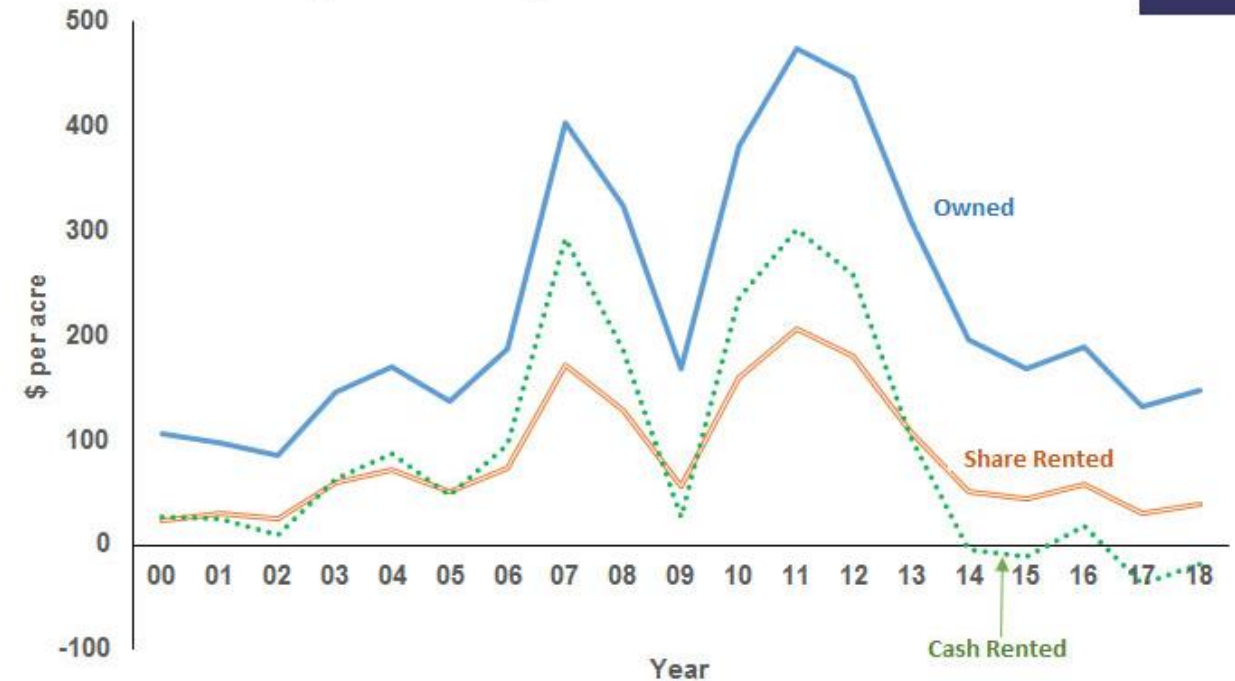


Suggestions for 2019 -- Caution

7. Talk to landowners

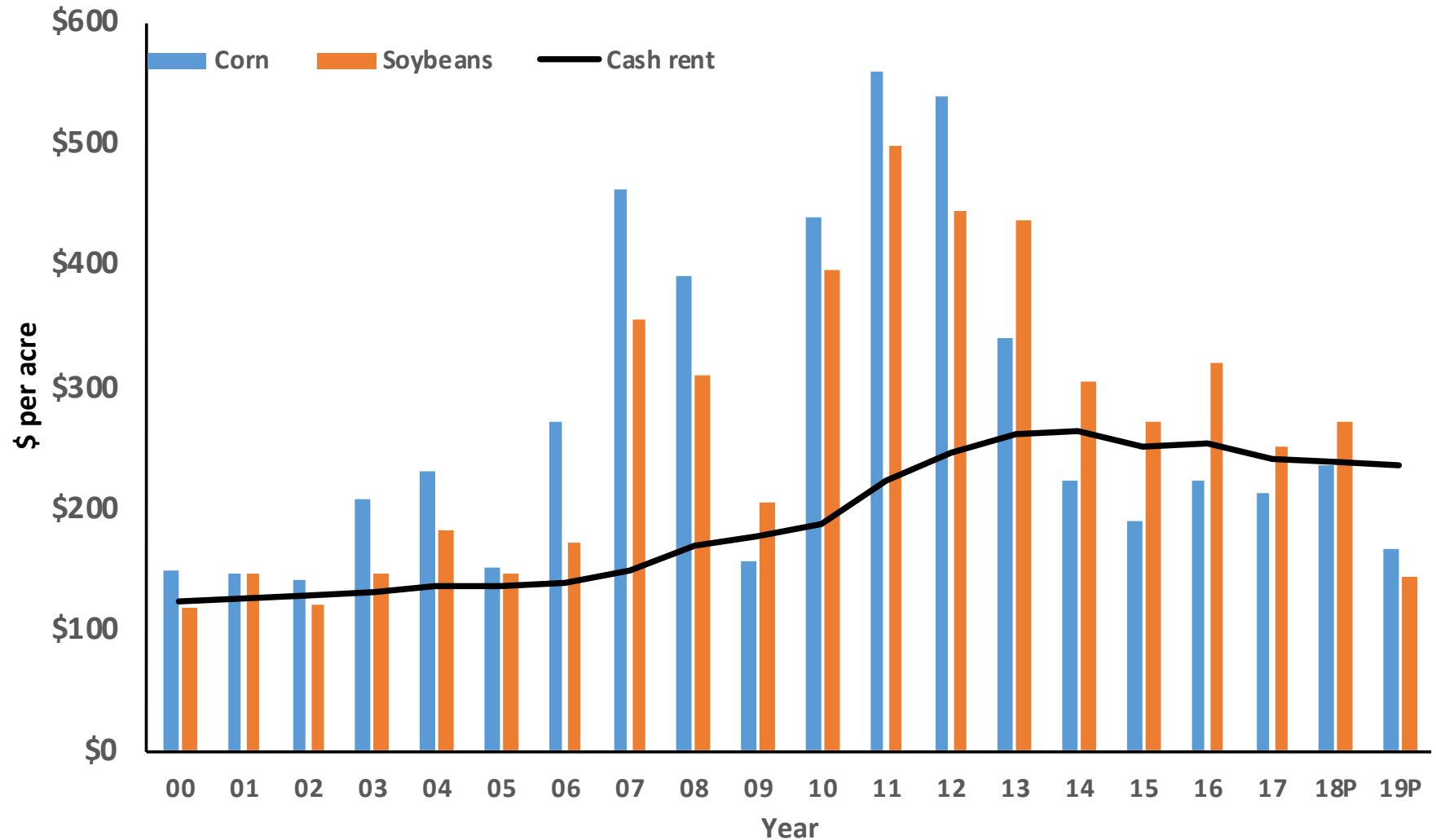
Likely have below \$9
soybean price,
leads to declines in
corn prices

Figure 3. Returns to Owned, Share Rented, and Cash Rented High-Productivity Farmland in Central Illinois



Suggestions for 2019 -- Caution

8. Consider
acreage
allocation decisions



Seven Habits



1. **Production maintained at high levels**
2. **Innovative but not on the bleeding edge**
3. **Always evaluating production technologies**
4. **Returns are the evaluation criteria**
5. **Cost control is paramount**
6. **The right expertise is brought to the farm**
7. **Create additional revenue**



Performance Groups

- **Central and Northern IL Counties**
 - Champaign, Ford, McLean, Piatt
 - DeKalb, La Salle, Lee, Ogle
 - Southern Illinois
- **Two time periods**
 - High/rising returns, 2010 to 2012
 - Low/declining returns, 2014 to 2016
- **Define performance groups over 3-year horizon**
 - Top 1/3 of returns
 - Mid 1/3 of returns
 - Low 1/3 of returns

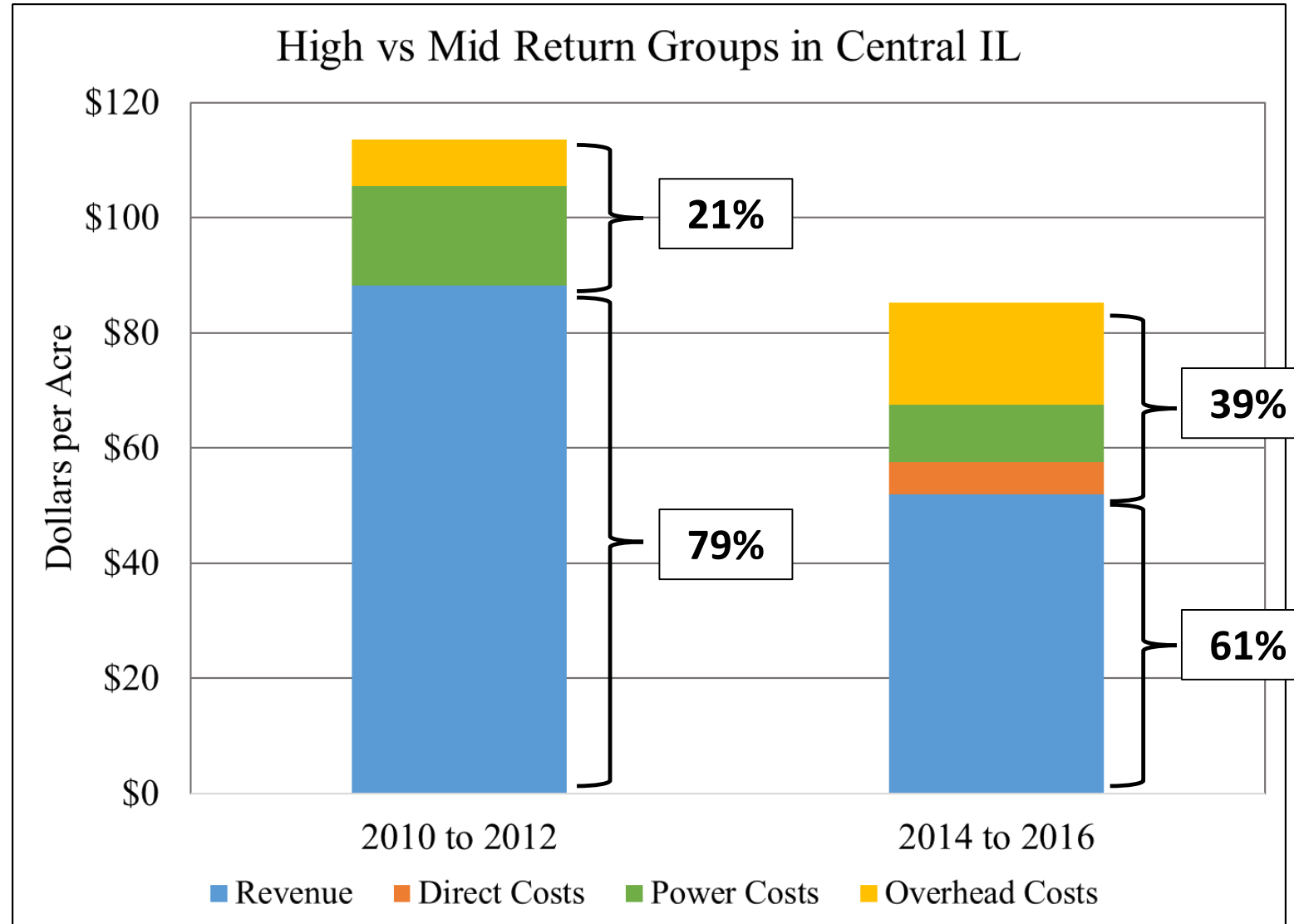


Revenue, Costs, and Returns

	<u>2010 to 2012</u>			<u>2014 to 2016</u>		
	Top1/3	Mid 1/3	Diff	Top1/3	Mid 1/3	Diff
Revenue	\$958	\$870	\$88	\$783	\$731	\$52
Direct Costs	\$248	\$247	\$1	\$270	\$276	-\$6
Power Costs	\$98	\$115	-\$17	\$118	\$128	-\$10
Overhead Costs	\$64	\$72	-\$8	\$67	\$85	-\$18
Total Costs	\$409	\$433	-\$24	\$455	\$488	-\$33
Returns	\$549	\$437	\$112	\$328	\$242	\$85

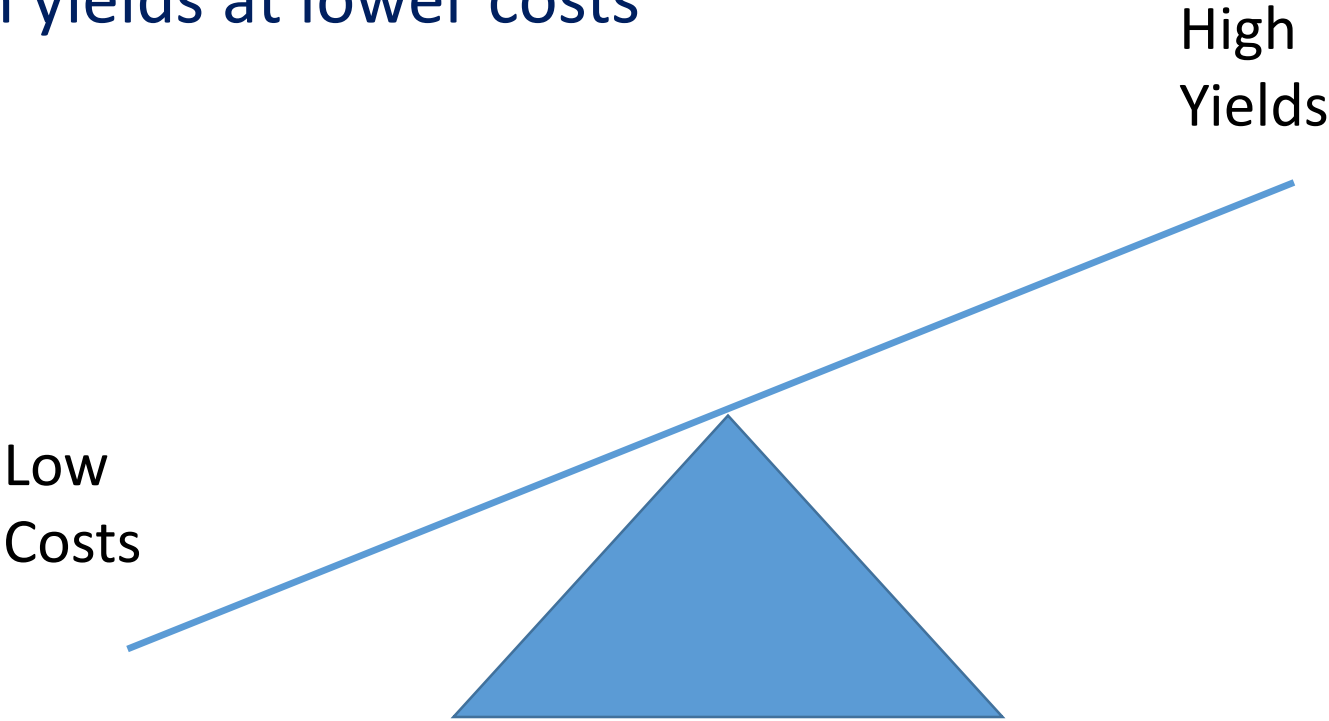


Top vs Mid Groups – Central IL



The Fundamental Issue

Getting high yields at lower costs



Summary

1. Incomes lower in 2019
2. Take preventive strategies
 1. Maintain yields with low costs (Resilient farmer)

