

# Keys to Profitability: Resilience in 2019 and Beyond

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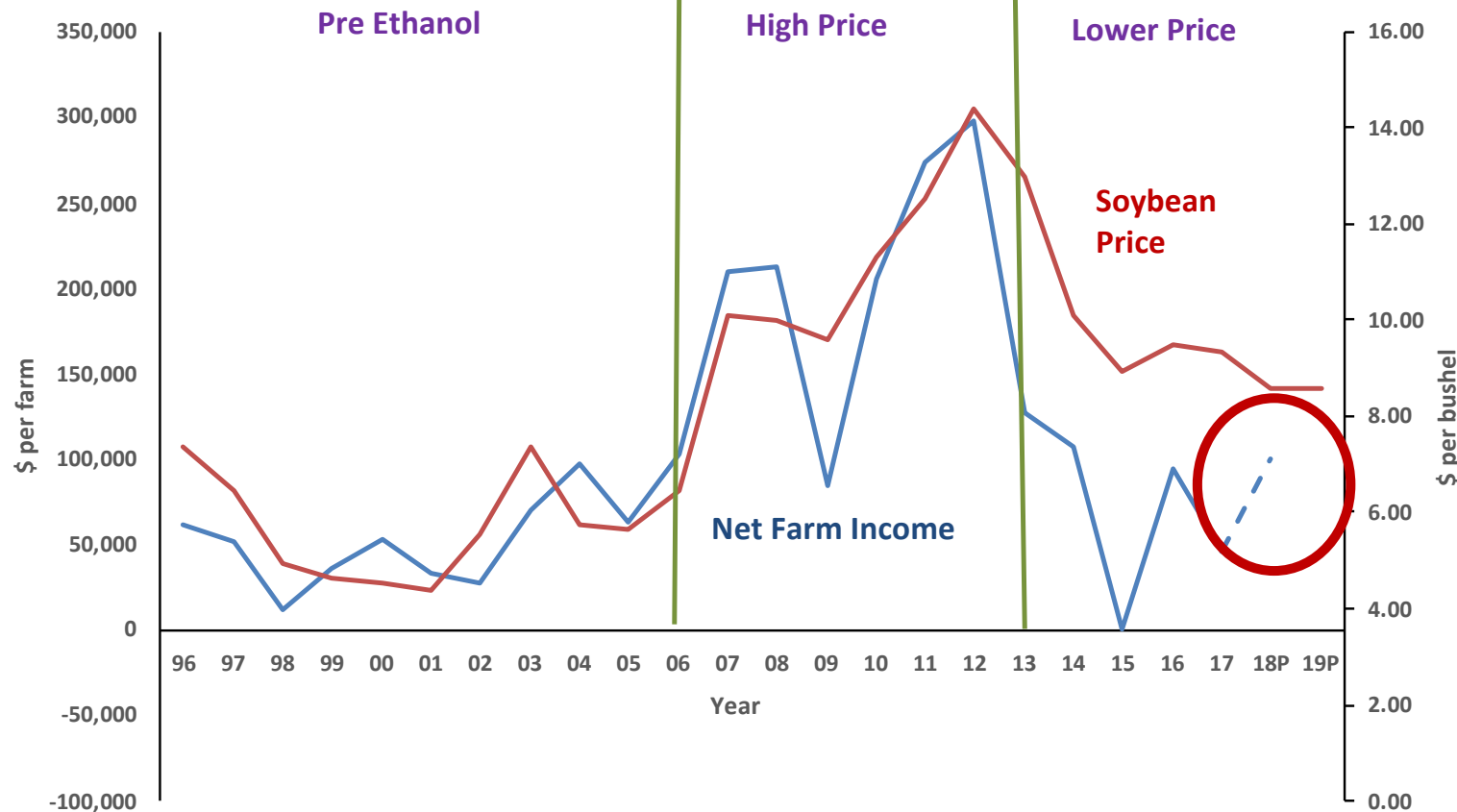
# Topics

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.

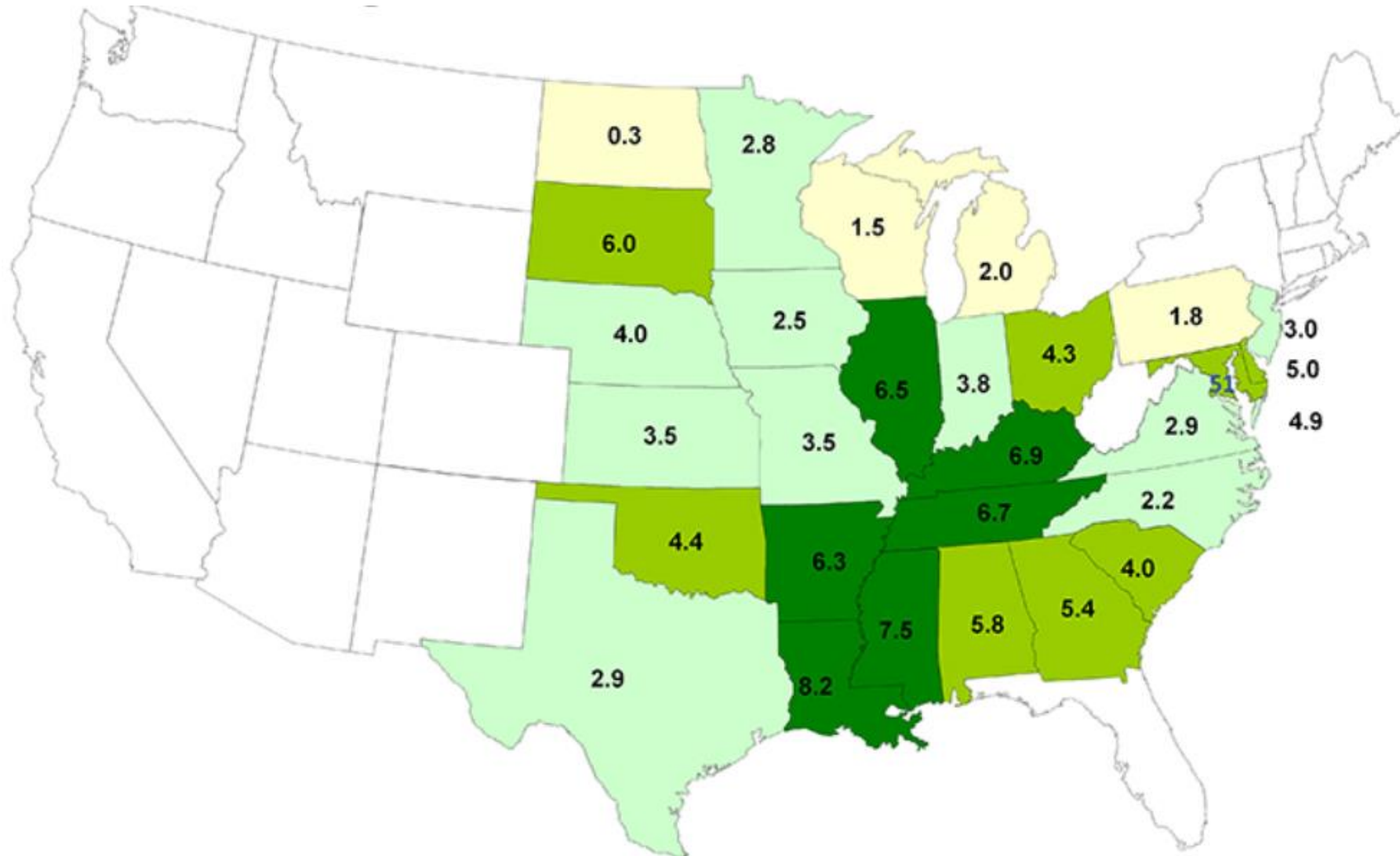
Why?

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





# Average Yield-From-Trend, 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

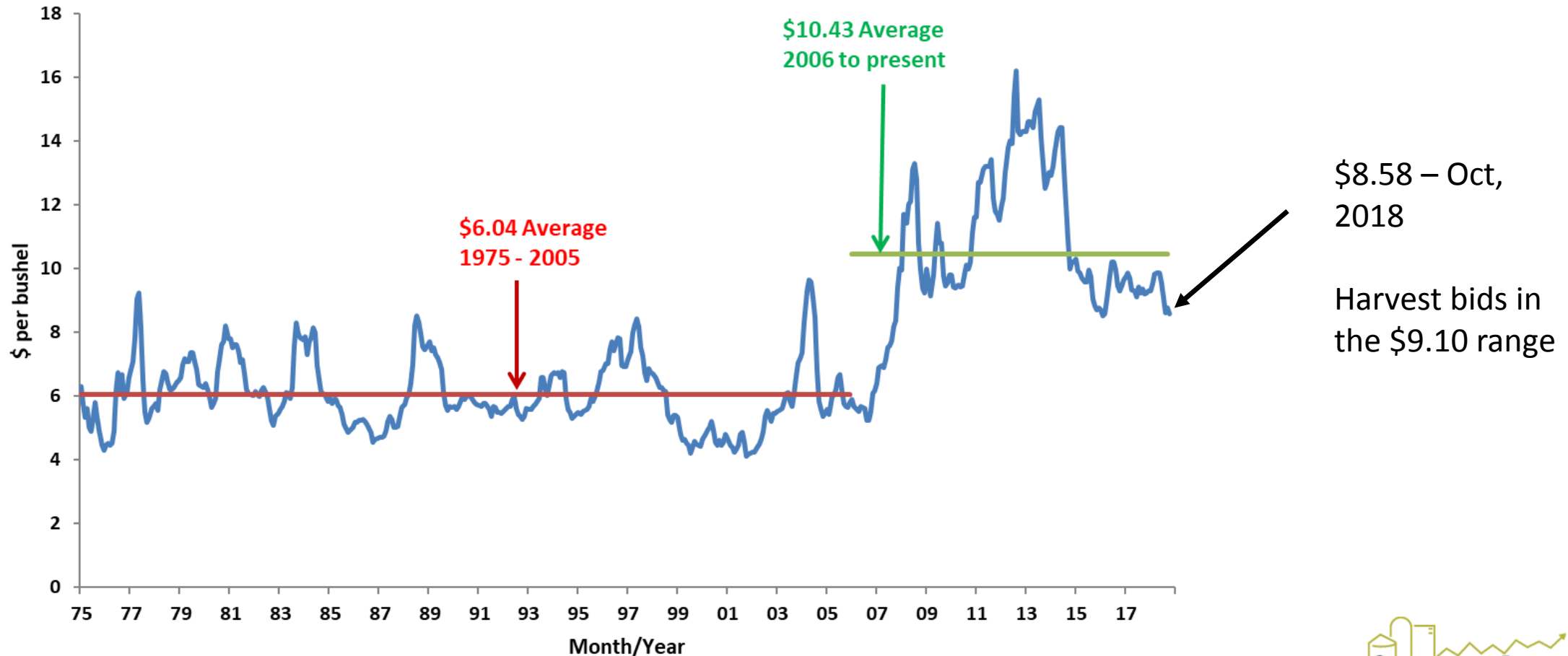
## Points

- 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 form 1975 to Oct, 2018



# What has changed?

# Increasing Costs

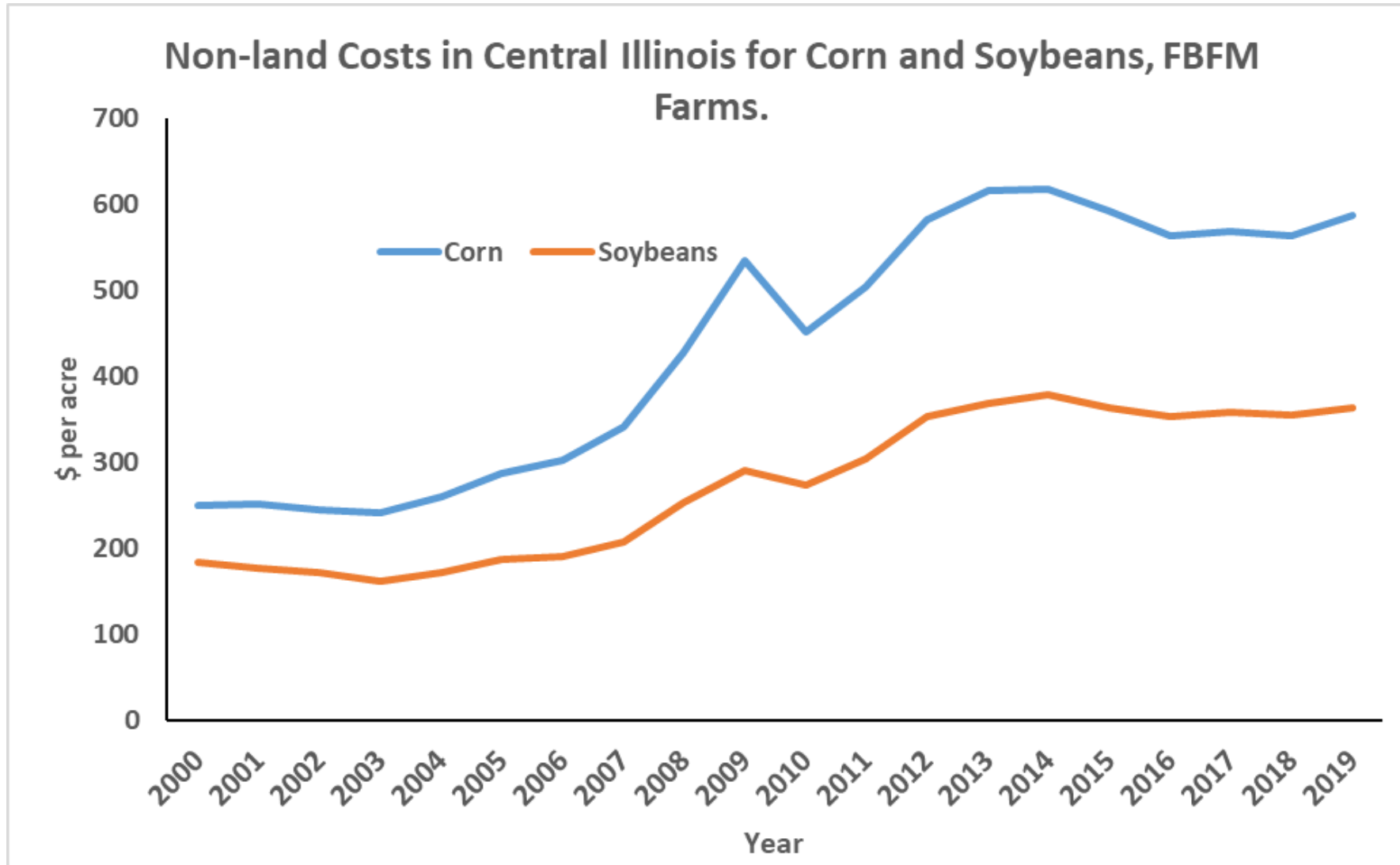
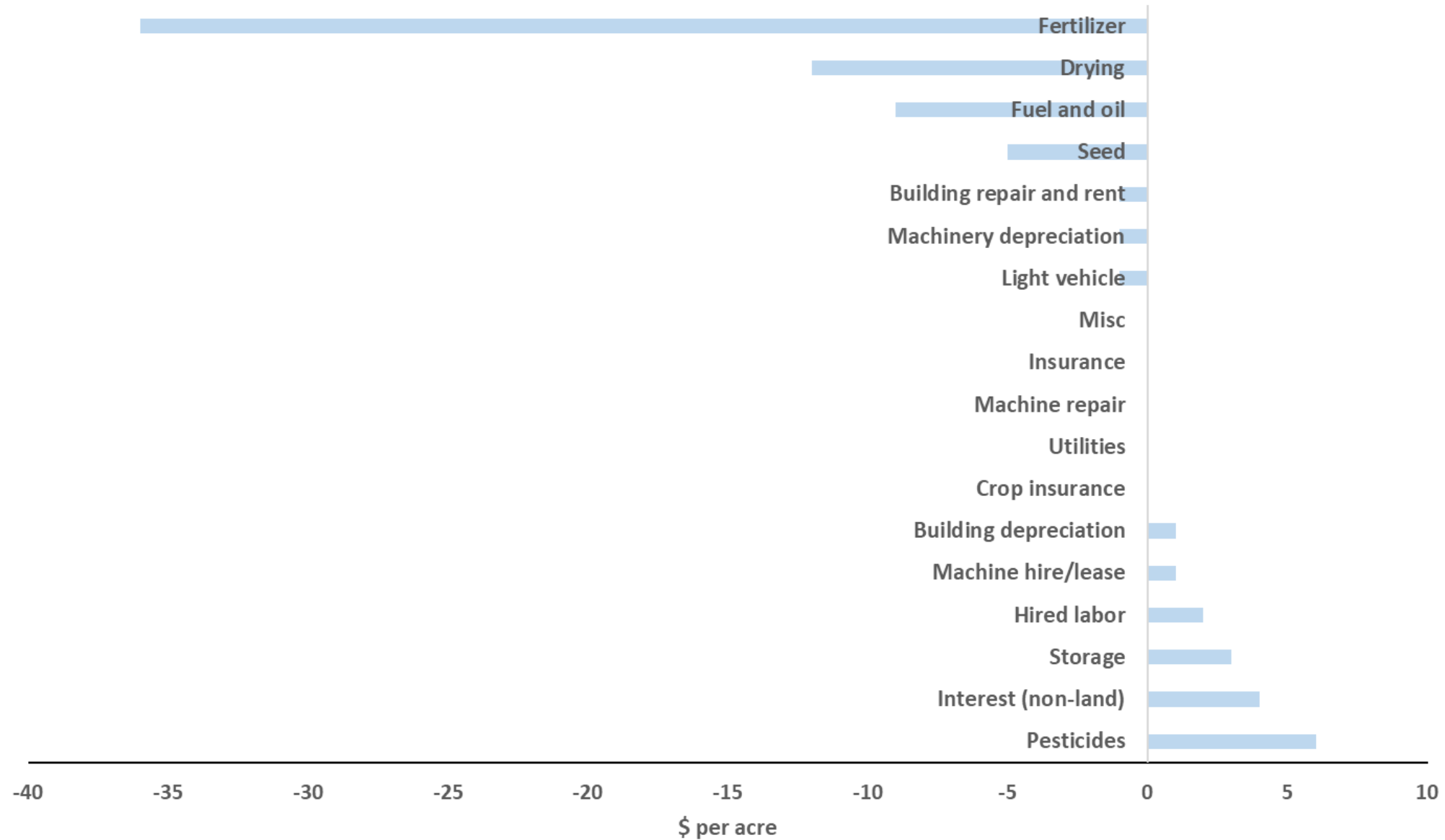




Figure 1. Change in Non-Land Cost from 2014 to 2017, High-Productivity Farmland in Central Illinois, Corn



Source: Illinois Farm Business Farm

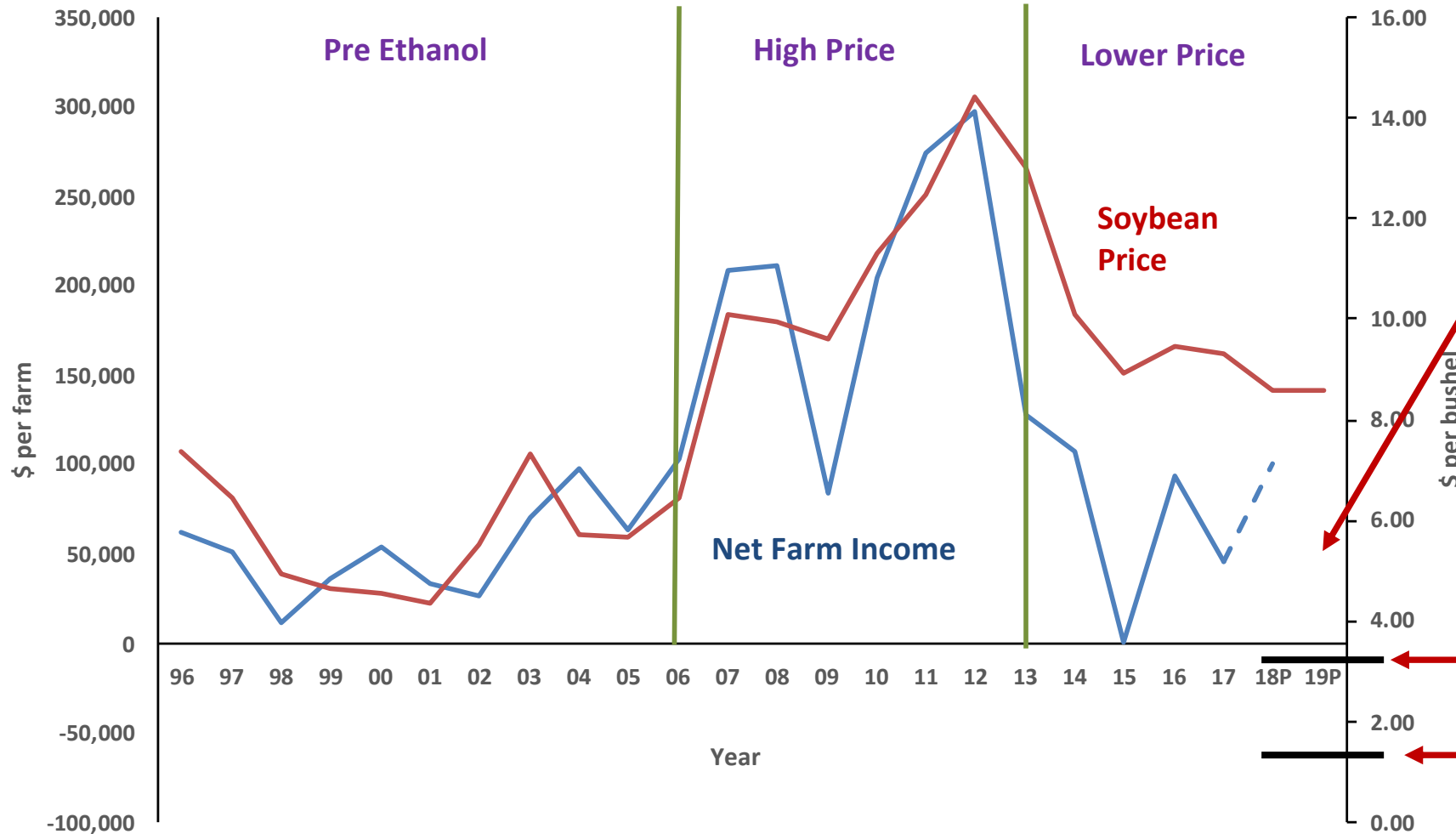


# 2019 Income Projections

- 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



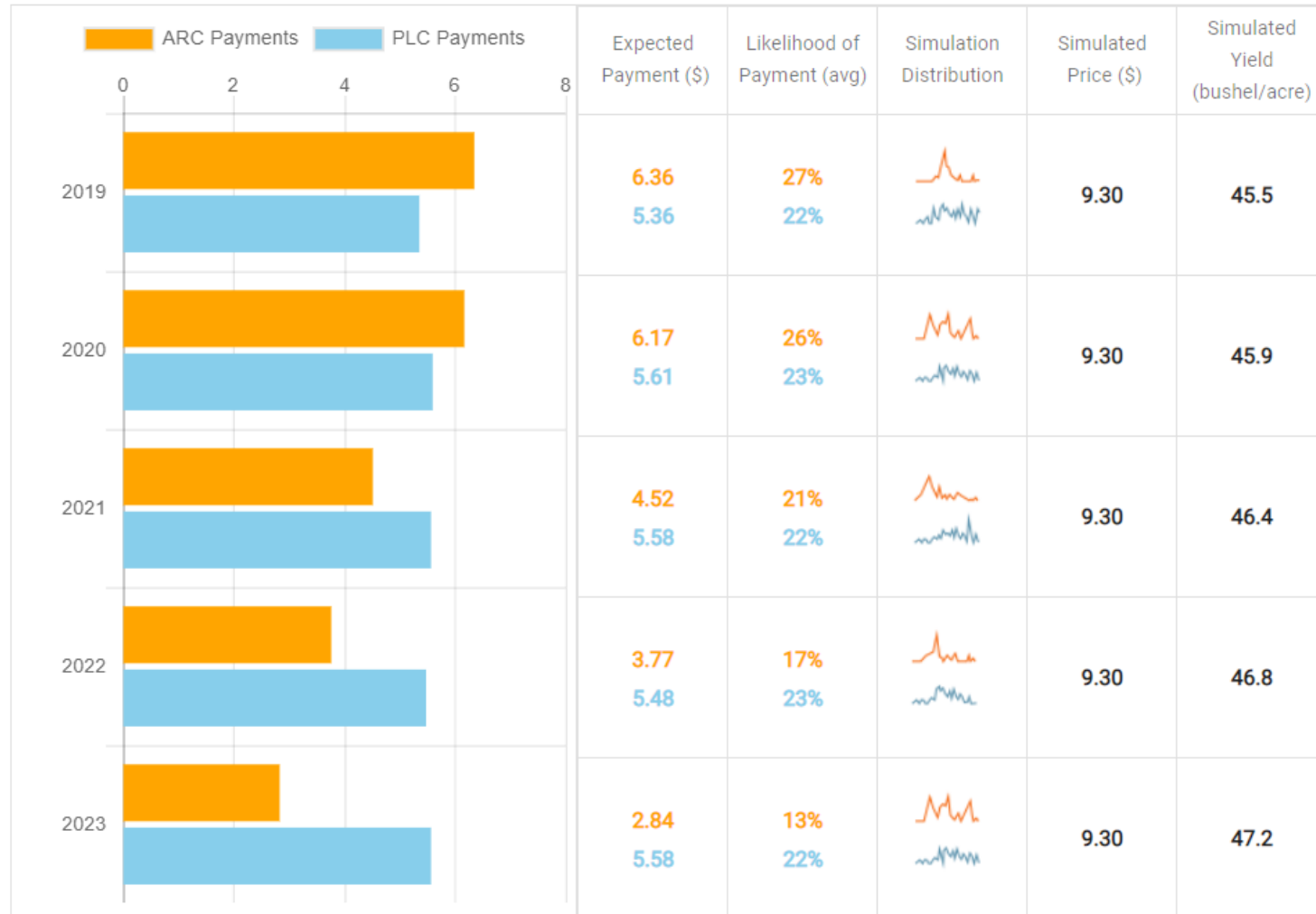
# Suggestions for 2019 -- Caution

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)

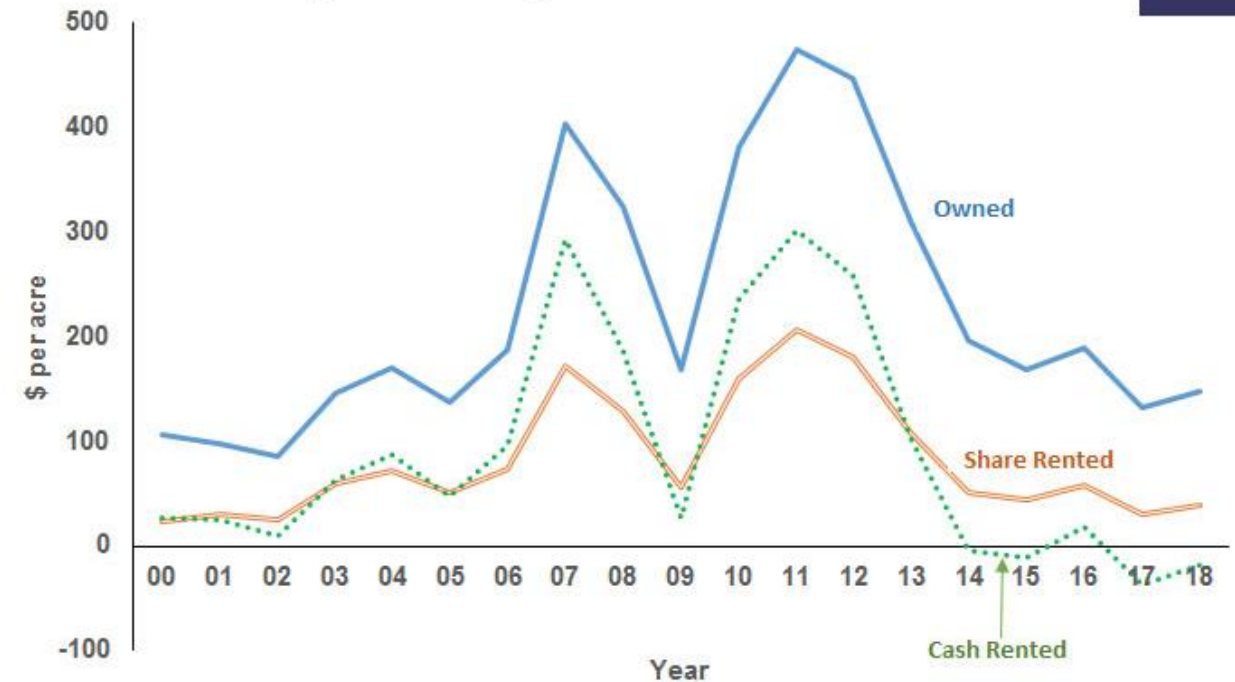


# Suggestions for 2019 -- Caution

## 7. Talk to landowners

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

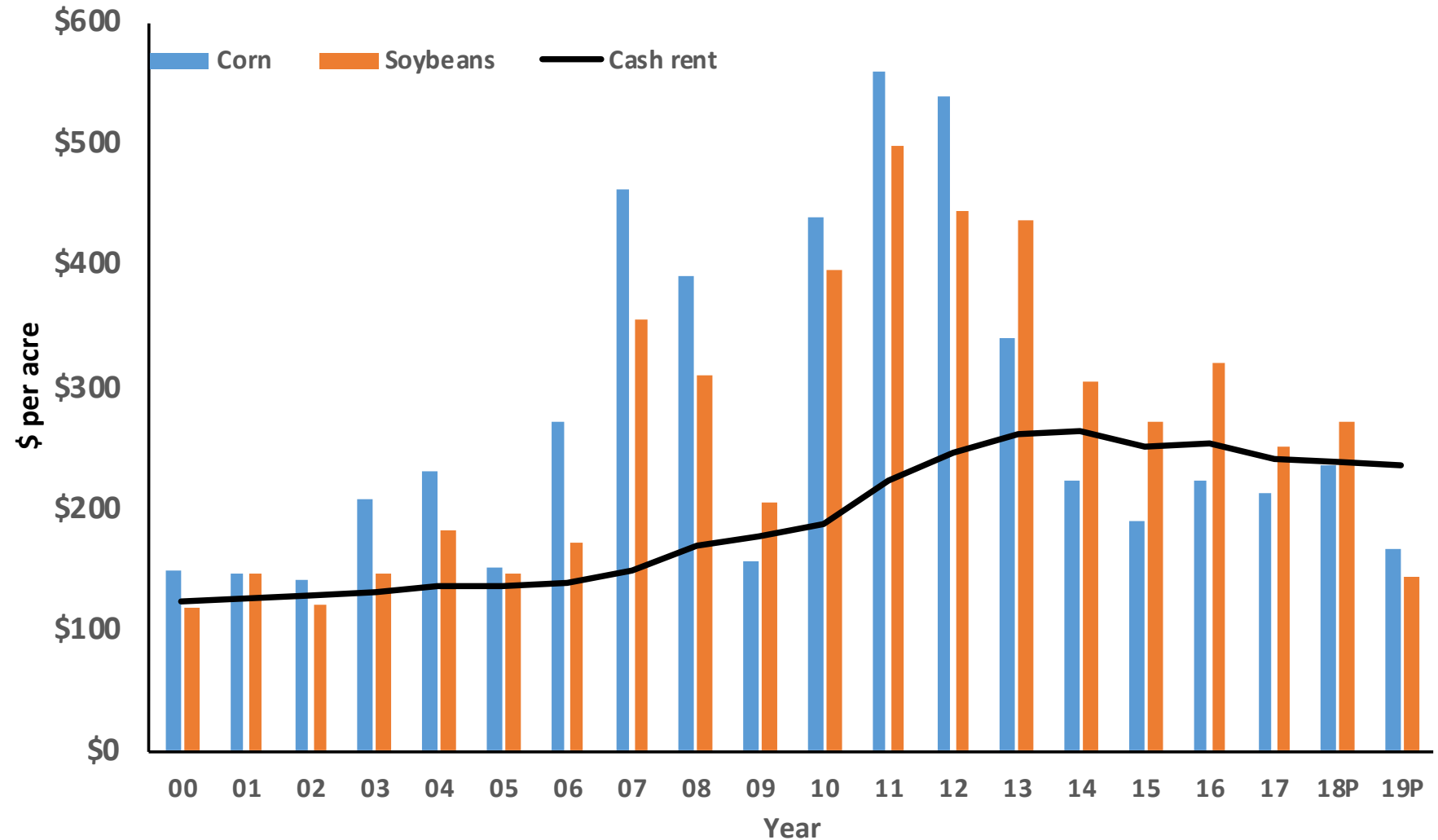
Figure 3. Returns to Owned, Share Rented, and Cash Rented High-Productivity Farmland in Central Illinois





# 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

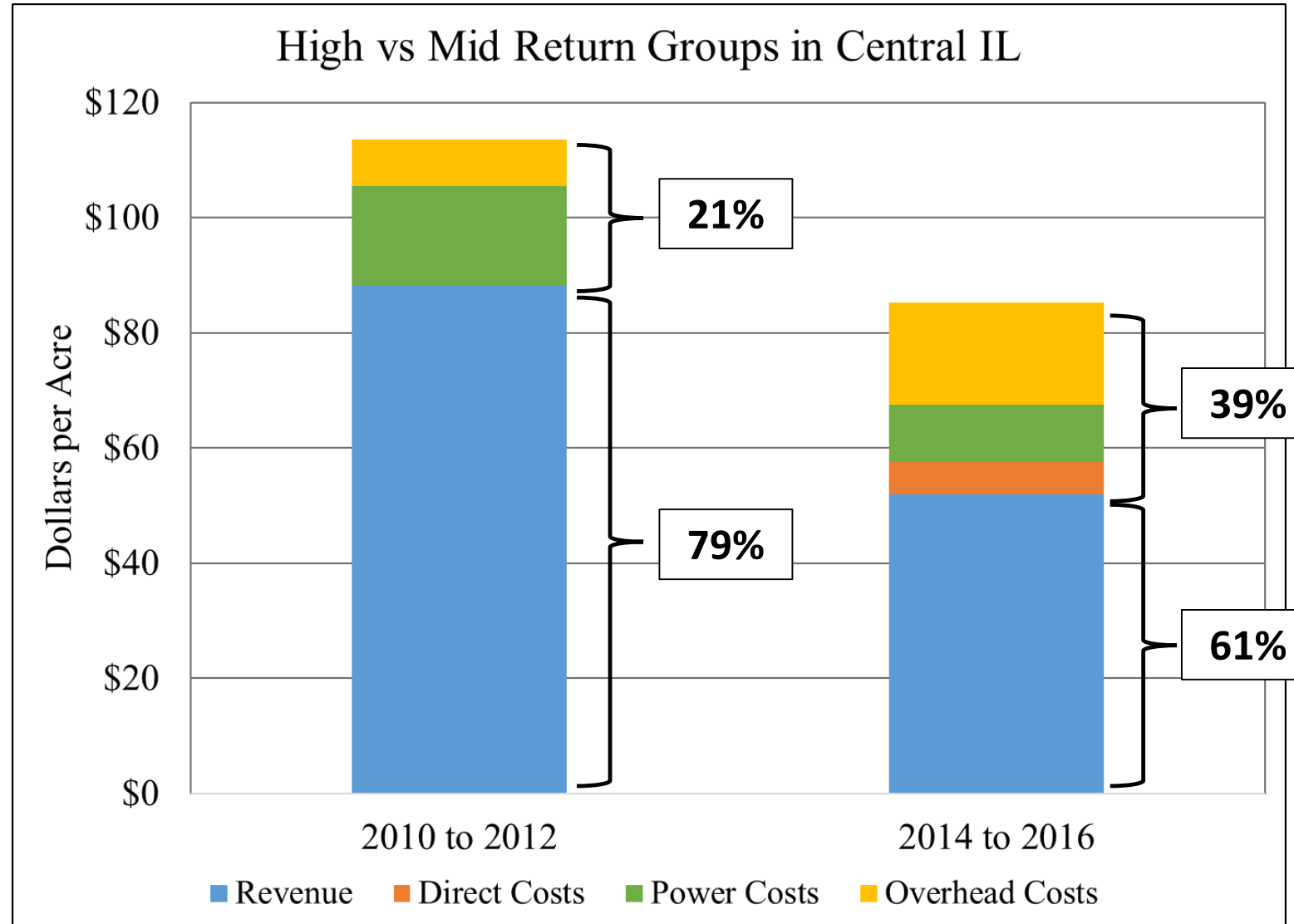


# Revenue, Costs, and Returns

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

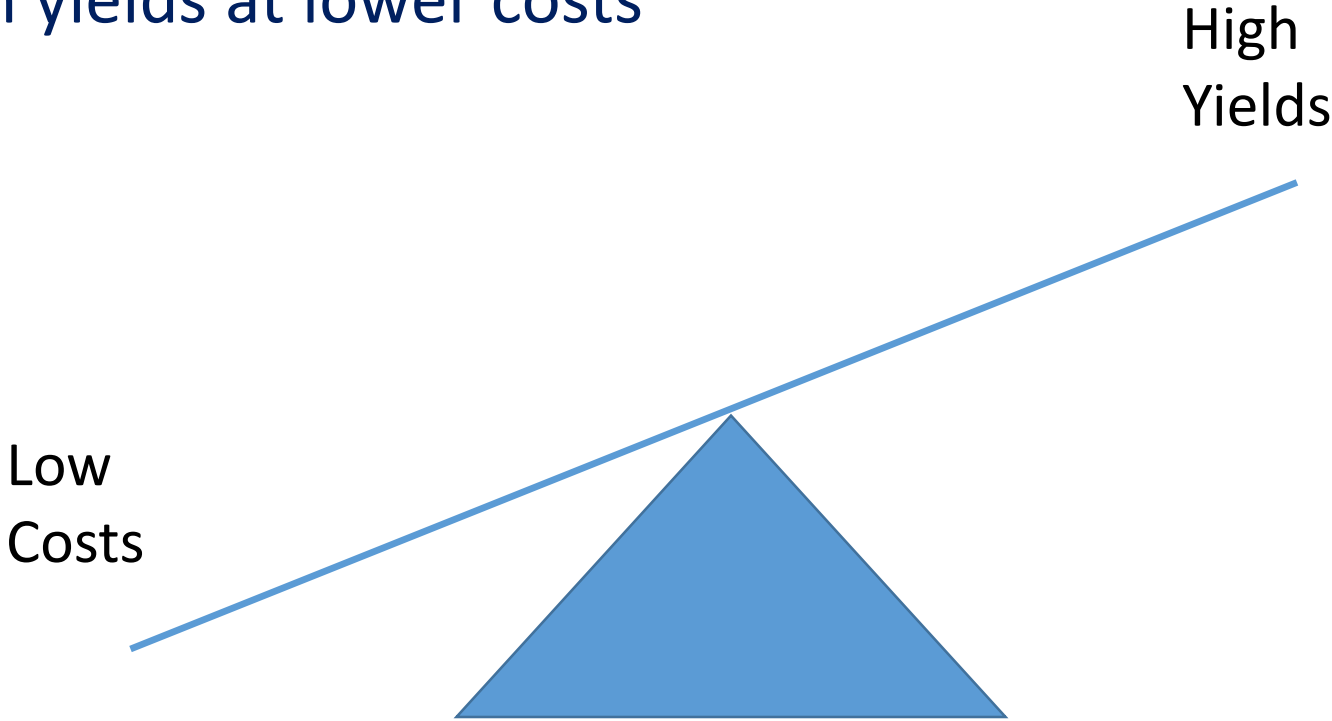


# Top vs Mid Groups – Central IL



# 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)

