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Early Indications Suggest Improved 2004 Farm Earnings

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Illinois farm incomes in 2004 are likely to average over 20% higher than in 2003. This projection is based on data from over 750 grain farms in which 2004 projected income is compared to 2003 actual incomes. Projections are made by personnel in the Department of Agricultural and Consumer Economics at the University of Illinois.

The most significant factor contributing to improved incomes are higher yields. According to the U.S. Department of Agriculture, 2004 corn and soybean yields for Illinois are projected at record highs. Corn yields in 2004 are estimated at 180 bushels per acre, 16 bushels above the 2003 yield. This increase is remarkable because the 2003 yield was the previous record high yield. Soybean yields in 2004 are projected at 49 bushels per acre, 12 bushels over the 2003 yield. The 2004 yield is three bushels above the previous high set in 1994.

During the first half of 2004, corn prices were often above $2.50 per bushel and soybean prices were above $7.50, significantly above recent prices. Many farmers carry over grain from the previous cropping year. High commodity prices offered these farmers the possibility of realizing higher revenues for the 2003 crop.

Government payments are likely to be contributors to higher incomes. Corn and soybean prices have fallen precipitously such that prices are now well below loan rates. As a result, farmers are likely to receive sizable loan deficiency payments and projections are that counter-cyclical payments will be made.

Livestock prices have been reasonably good throughout 2004. Beef, hog, and milk prices in 2004 are above 2003 levels. These higher prices will contribute to improved incomes on farms with livestock enterprises.

Cost increases occurred in 2004. Fuel-related costs have increased in 2004 over 2003 levels. While 2004 incomes would have been higher had these increases not occurred, the major impact of these increases likely will be felt in 2005. Fuel cost increases usually lead to higher fertilizer and chemical costs. Fertilizer and chemical costs could be substantially higher for the 2005 cropping year.

While average incomes are projected to increase, not all farmers will experience income increases in 2004. There always is substantial variation in incomes across farms. Income variations are likely to be larger in 2004 than in previous years because of commodity price swings. Timing of corn and soybean sales will have a large impact on 2004 incomes. Those farmers that held a great deal of grain from 2003 and sold it in the
first half of 2004 will have higher incomes than those that did not. Also, farmers that pre-priced or hedged a substantial amount of there 2004 crop prior to harvest likely will have higher incomes than those that did not.

Both 2003 and 2004 incomes are relatively high compared to incomes from 1998 through 2002. It is not likely we have reached a new plateau of higher incomes in agriculture. Using trend yields, current commodity prices, and higher production cost increases suggest that 2005 incomes will be below 2003 and 2004 levels.