Higher commodity prices since the latter half of 2006 have led to relatively high farm incomes. In 2006, net incomes for grain farms enrolled in Illinois Farm Business Farm Management (FBFM) averaged over $100,000 per farm. Net incomes in 2007 likely will be as high because commodity prices continue to be above historical averages and because many farms had above average yields in 2007.

Incomes near or above $100,000 have not occurred previously. Between 2003 and 2006, yearly net incomes averaged $84,000 per farm. Net incomes on Illinois grain farms were $73,000 in 2003, $94,000 in 2004, and $60,000 in 2005. Incomes for the 2003 through 2006 period averaged above those of the 1998 through 2002 period. Between 1992 through 2002, farm incomes averaged $34,000 per farm.

High incomes in 2006 and 2007 are occurring because of above-average commodity prices and good corn and soybean yields. From 1973 through 2005, prices averaged $2.36 per bushels for corn and $5.98 for soybeans. Currently, futures prices on the Chicago Board of Trade indicate that reasonable expectations for corn prices are in the mid to high $3.00 per bushel range for 2008 through 2010. Futures contracts suggest soybean prices in the high $8 to $9 per bushel range from 2008 through 2010. While these expectations are high, changes in supply and demand conditions could occur easily, causing prices to decline.

Besides prices, production costs also have increased dramatically. Non-land costs for producing corn in northern Illinois have increased from $244 per acre in 2003 to a projected $380 per acre in 2008, an increase of $136 per acre. Similarly, non-land costs for soybeans have increased from $161 per acre in 2003 to a projected $228 per acre in 2008, an increase of $67 per acre.

Land costs are increasing as well. A survey of the membership of the Illinois Society of Professional Farm Managers and Rural Appraisers indicate that cash rents will increase by over $40 per acre from 2006 to 2008 on professionally managed land. A $40 per acre increase likely overstates the average increase in Illinois, as non-professionally managed land may increase less than professionally managed farmland. Still land costs likely will continue to escalate.

Given these cost increases, many farms will now have to receive prices above $3.00 per bushel for corn and $8.00 per bushel for soybeans to cover costs. In corn, for example, costs per acre total $555 per acre given that non-land costs equal $380 per acre and cash rent equals $175 per acre. Given a 180 bushel corn yield, corn prices must be
above $3.08 per bushel to cover costs ($3.08 = ($555 \text{ non-land costs} + $175 \text{ cash rent}) / 180 \text{ bushel yield})$.

Declines in corn prices to the low $3 range and soybeans to the low $8 range could easily occur because of changes to supply and demand conditions. In fact, historical price variations suggest that price declines to these levels should be expected. Hence, net incomes below $50,000 per farm like those occurring from 1998 though 2002 could occur again.