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Cornhusker Economics

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## 2008 Nebraska Farm Income Prospects

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# CORNHUSKER ECONOMICS

## 2008 Nebraska Farm Income Prospects

Market Report	Yr Ago	4 Wks Ago	9/5/08
<b><u>Livestock and Products,</u></b>			
<b><u>Weekly Average</u></b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$93.99	\$99.66	\$98.22
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.....	128.76	130.01	123.06
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.....	121.49	117.91	113.93
Choice Boxed Beef, 600-750 lb. Carcass.....	148.47	160.94	159.05
Western Corn Belt Base Hog Price Carcass, Negotiated.....	62.54	87.42	71.85
Feeder Pigs, National Direct 50 lbs, FOB.....	56.39	49.00	30.26
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	68.23	90.56	77.37
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.....	103.25	103.37	96.62
National Carcass Lamb Cutout, FOB.....	260.65	278.01	274.80
<b><u>Crops,</u></b>			
<b><u>Daily Spot Prices</u></b>			
Wheat, No. 1, H.W. Imperial, bu.....	7.13	7.11	6.69
Corn, No. 2, Yellow Omaha, bu.....	3.07	4.72	5.22
Soybeans, No. 1, Yellow Omaha, bu.....	8.16	11.72	11.70
Grain Sorghum, No. 2, Yellow Dorchester, cwt.....	5.27	7.16	8.02
Oats, No. 2, Heavy Minneapolis, MN, bu.....	2.65	*	*
<b><u>Feed</u></b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.....	135.00	190.00	190.00
Alfalfa, Large Rounds, Good Platte Valley, ton.....	85.00	77.50	77.50
Grass Hay, Large Rounds, Premium Nebraska, ton.....	*	85.00	85.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.....	*	169.00	169.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.....	38.25	64.00	57.75
<b>*No Market</b>			

There's a quiet late-summer hush over Nebraska's cropland these days. Except for swaths of earlier hail and extended flooding, crops are looking good just about everywhere. And if good weather holds through harvest and prices remain strong, a banner year for Nebraska's crop producers could be in the making. While it is still too early to call it official, the income potential associated with our major crops may be nothing short of "bin-busting."

Even so, the situation is almost bitter-sweet in this diverse state where livestock and crop production go hand-in-hand. Record-level prices for corn and soybeans convert to escalating feed costs for livestock producers, who for the most part, have not yet seen their revenues catch up with their rising production costs. For many, profit margins in recent months have been slim to non-existent. In fact, unless the livestock producers were feeding their own produced feed grains, per-head profit losses in recent months have been more the rule than the exception.

But let's take a closer look at what 2008 cash receipts and income levels may be for this state's agricultural production sector, using United States Department of Agriculture (USDA) historical income series and forecasts as the primary basis for our estimates.

First, consider cash receipts. As noted in Table 1 (on next page), the build-up of cash receipts over time for Nebraska's agricultural sector has been phenomenal, especially in recent years. As the historical data indicates, total agricultural production output basically hovered around \$10 billion per year from 1990 through 2002. During that time, the majority of those cash receipts (more than 60 percent) were from livestock sales. Since 2003, however, the dollar cash receipts from both the crop and the livestock sector have advanced significantly, leading to new plateaus of dollar value output. But particularly, crop receipts have surged ahead reaching a forecasted \$9 billion for 2008. With current crop prices at double the levels of just three years ago, the 2008 crop cash receipts are nearly three times the beginning-decade level. And for the first time ever, cash receipts from the crop sector are expected to exceed livestock receipts for the year.

While crop cash receipts have shot upward in recent years, the influence of the Federal Farm Program and the associated Annual Direct Government Payments have declined in relative importance. These payments to Nebraska producers exceeded \$1.4 billion per year in three of the past ten years (1999, 2000 and 2005). But current preliminary estimates for 2007 and forecasted 2008 levels have direct government payments in the \$500 million range — just 35 percent of these previous highs. In short, market forces are now playing the major role in income conditions for Nebraska producers.

Given the dramatic upswing in cash receipts over the past two years, the state's projected aggregate net farm income has advanced. Our own preliminary 2007 estimates place the annual net income close to previous-record levels, while our 2008 forecast moves net farm income to a whole new plateau of \$4.25 billion, a full **21 percent increase** above the 2007 level, and nearly 90 percent higher than the previous 10-year average.

As noted at the outset, not every agricultural producer is seeing 2008 in this perspective. Quite the contrary. What looks like crop producers' most profitable year, may be an income-short year that many specialized livestock producers would probably like to forget. Dissecting the numbers behind these aggregate income estimates reveals the degree of disparity involved.

For the crop sector, comparing 2008 with 2007 levels suggests that the estimated revenues of this year's combined major crops will likely be up nearly \$2.8 billion (approximately \$2.3 billion of production in 2008 plus \$500 million of crop commodities carried over from the previous year). At the same time, input costs for the crop sector have

risen substantially as well, for a combined increase of the major crop inputs of nearly \$1.3 billion (fertilizer costs alone rose an estimated \$522 million, or 58 percent, from 2007 to 2008). Subtracting these additional crop production costs from the additional revenues expected for 2008 leaves an addition to aggregate net farm income from Nebraska's crop sector in the vicinity of \$1.5 billion.

From the perspective of the livestock sector, higher revenues are also expected in 2008 — up over \$500 million as prices received have gradually risen from levels of a year ago. However, the complication is that feed grain costs, the primary input item, have risen even more, perhaps as much as \$700 million. Those costs, in combination with other inputs, have pushed total livestock sector costs up by as much as \$1.25 billion over 2007 levels. So here the math turns *south* — the state's livestock sector looks to be falling behind in net income for 2008 by as much as \$750 million.

**Bottom-line:** The crop sector is staged to reap an additional \$1.5 billion of net farm income in 2008, while the livestock sector may well experience a \$750 million reduction in net earnings compared to 2007. Combining these countervailing outcomes leads to the approximate \$750 million increase in total forecasted 2008 net farm income for the state.

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**Table 1. Farm Cash Receipts and Income Series for Nebraska, 1990-2008**

Year	Ag Sector Cash Receipts: Dollar Value Of:			Direct Government Payments	Net Farm Income
	Crop Production	Livestock Production	Ag Sector Production		
	----- Million Dollars -----				
1990	3,042	6,227	9,784	624	2,510
1991	2,956	5,897	9,378	491	2,274
1992	3,248	5,757	9,452	479	2,510
1993	2,487	6,005	8,997	806	2,009
1994	3,726	5,316	9,567	348	2,242
1995	3,141	5,328	9,078	507	1,662
1996	5,187	5,393	11,233	389	3,466
1997	4,207	5,624	10,507	455	2,023
1998	3,875	5,095	9,783	815	1,816
1999	3,080	5,359	9,281	1,412	1,707
2000	2,793	5,889	9,530	1,408	1,444
2001	3,490	5,946	10,357	1,298	1,904
2002	3,125	5,709	9,731	539	859
2003	4,055	6,907	12,060	725	2,735
2004	4,693	7,428	13,361	729	3,545
2005	3,955	7,697	12,788	1,421	2,923
2006	4,137	7,837	13,173	812	2,100
2007P	6,730	8,281	16,121	464	3,500
2008F	9,040	8,801	19,007	522	4,250

Source: For years 1990-2006, ERS/USDA Briefing Room – <http://www.ers.usda.gov/Data/FarmIncome/Finfidmu.htm>. Preliminary 2007 and forecasted 2008 USDA estimates are adjusted for mid-year national and state conditions with input from Nebraska observers.