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2016 Net Farm Income

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AGRICULTURAL ECONOMICS

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Cornhusker Economics

2016 Net Farm Income

Market Report	Year Ago	4 Wks Ago	7/7/17
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	120.57	135.00	117.56
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	172.89	187.68	171.62
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	148.60	*	173.38
Choice Boxed Beef, 600-750 lb. Carcass.	209.33	250.22	221.09
Western Corn Belt Base Hog Price Carcass, Negotiated	76.77	78.72	87.77
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	89.01	91.04	103.98
Slaughter Lambs, wooled and shorn, 135-165 lb. National.	158.51	182.77	185.44
National Carcass Lamb Cutout FOB.	347.17	422.54	425.01
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	3.19	3.28	4.57
Corn, No. 2, Yellow **Columbus**, bu.	3.23	3.43	3.63
Soybeans, No. 1, Yellow **Columbus,** bu.	10.13	8.48	9.47
Grain Sorghum, No.2, Yellow Dorchester, cwt.	5.09	5.81	6.20
Oats, No. 2, Heavy Minneapolis, Mn, bu.	2.58	2.89	2.78
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	165.00	*	147.50
Alfalfa, Large Rounds, Good Platte Valley, ton.	75.00	70.00	75.00
Grass Hay, Large Rounds, Good Nebraska, ton.	80.00	*	*
Dried Distillers Grains, 10% Moisture Nebraska Average.	137.50	101.00	103.50
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	38.50	39.50	42.00

*** No Market**

The Nebraska Farm Business published results from their 2016 Farm Financial Averages program in May. The data included is from farms and ranches across Nebraska that participate in their financial analysis program. The data is a result of the averages from the individual farms which the producers can use as benchmarks, but also provide a source of actual farm level information to gauge the financial health of the producers in Nebraska.

There were many positives that were highlighted in the 2016 data, including an increase in the average net farm income, lower family living costs and a smaller net worth loss than in 2015. However, there were also some areas of concern, specifically the average debt load, working capital and excellent yields.

It may seem strange to be concerned about excellent yields in 2016, but it's important to remember not to take them for granted. If we think about how the changes from 2015 to 2016 may correlate into an outlook for 2017, it is a concern. As we project income out into 2017 and 2018, it is hard to assume that we will be able to again achieve record high yields so we have to forecast with an average yield. When we use an average yield the loss of income is significant. For example, average soybean yields in 2016 were almost 72 bushels per acre. The 20-year average is only 59 bushels

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	2015	2016
Net Farm Income	$29,432	$45,703
Corn Price (Cash Sales)	$3.77	$3.50
Soybean Price (Cash Sales)	$9.46	$8.96
Per Acre Cost Irr. Corn Cash Rented Land	$791.45	$793.13
Family Living Expense	$91,991	$83,210
Total Debt	$1,030,673	$1,167,108
Debt-to-Asset Ratio	28%	28%
Working Capital to Gross Revenue	28.1%	26.7%
Accrual Gross Income	$954,821	$1,029,963
Crop Acres	961	1,088
Net Worth Changes	$-33,707	$-13,200

per acre. Even if yields in 2017 come in 10 bushels below the record high, a producer would be short $90 per acre (with a $9.00 per bushel payment). The average producer included in the data has about 500 acres of soybeans. That is $45,000, which is just about all the profit generated in 2016.

Another area that is starting to show some interesting data is the split between operations. When we look at the average income split by the high profit one-third and the low profit one-third, we see a spread of $416,344. Some of that is certainly due to the struggles in the livestock industry, especially the cattle feeding sector that experienced significant losses for a second year in 2016, but we are seeing that divide within the crop industry as well. The average net return per acre for irrigated corn was $95.49 per acre for the high one-third and -$77.72 for the low one-third. While some of this difference was definitely due to slightly higher yields (210 vs 200 bu/ac) and slightly better marketing ($3.32 vs $3.25), there was also a $90 per acre difference in costs. As we saw with the yield example above, a $90 per acre difference is significant on the whole farm level. The biggest differences per acre are fertilizer, machine cost and land cost. It shouldn't be much of a surprise that the large increases in both machinery and land costs during the past 10 years are now significantly impacting operations. For those producers who have not made adjustments to their operations (re-evaluating cash rents, selling equipment that is not returning to its investment, holding off on trades, etc.), the impact of higher costs is translating into lower profits, tighter working capital and higher debt loads.

The 2016 data certainly provides some hope in the 2017 and 2018 outlook in that we saw the first increase in net farm income since 2012 and turning that corner is a big step. The other story it tells is of concern as while the average has turned that corner, not all individual operations have made those adjustments. Without another year of record high yields, those producers who haven't made adjustments could be looking at a tough loan renewal.

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