



## **NEWS COLUMN**

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### **Commodity prices resulting in \$50,000 net farm income**

URBANA – People who do freelance writing or sales can calculate how many hours they'll have to work or how many widgets they'll need to sell to net a certain income but what about farmers? University of Illinois agricultural economist Gary Schnitkey wanted to calculate some of the variables farmers have to juggle to determine how commodity prices and other costs combine to equal a net income of \$50,000.

"If the goal is a net farm income of \$50,000 from a 1,200-acre farm, given costs we're going to see in 2012 and a typical tenure relationship, what commodity prices would we have to have?" Schnitkey asked. "The scenario used a farm with 15 percent of acres owned, 45 percent share rented and 40 percent cash rented. In order to make \$50,000, the corn price needs to be \$3.70 corn price and an \$8.51 soybean price."

The \$50,000 benchmark net farm income roughly represents the average farm income during the late 1990s and early 2000s. During this period, many farms were "holding their own" financially, with some farms having deteriorating financial positions. Given today's cash flows, a \$50,000 net farm income would result in financial deterioration on many farms.

Schnitkey said the calculations they used anticipate a bad market scenario and attempt to predict what commodity prices would create that scenario.

"\$3.70 for corn isn't likely to happen next year, but it could happen in several years," he said. "After we've had a couple of good crops, we could very easily see corn prices below \$3.70 and bean prices below \$8.51."

It was key that the calculations include crop insurance.

"We used an 80 percent Revenue Protection policy," Schnitkey said. "When you get to low price levels, crop insurance kicks in. To give you an example, that break-even level goes from \$3.70 up to \$4.03. Crop insurance adds \$.033 to the break-even price."

Schnitkey said this year shouldn't be a problem.

"Right now we're looking at high \$5.00 corn prices and close to \$13 in soybean prices. So right now you'd say 2012 is looking like a fairly good year."

What are the impacts on the rental agreements on the break-even commodity prices?

“If we use a totally cash-rent farm with \$280 per acre in cash-rent, we come up with a \$4.42 break-even corn price and a \$10.17 break-even soybean price,” he said. “If you raise the cash-rent to \$360 per acre, our break-even is \$4.89. So it has a large impact.”

Schnitkey’s report stated that while 2012 farm incomes are projected to be positive, commodity prices resulting in \$50,000 are within the realm of possibility. Several above-average-yielding years in the United States or around the world could result in near \$4.00 corn and \$9.00 per bushel soybean prices.

He noted that the \$3.70 corn and \$8.51 soybean prices are well above prices that occurred prior to 2006. Between 1975 through 2005, corn prices averaged \$2.40 per bushel for corn and \$6.10 per bushel for soybeans. Commodity prices near these levels would cause financial stress today.

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