



NEWS COLUMN

UNIVERSITY OF ILLINOIS EXTENSION
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Date: November 29, 2011

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Incomes More Sensitive to Price Declines on Cash Rent Farms

URBANA - Grain farms with a higher percentage of acres cash rented will have much lower incomes when commodity prices decline than farms with lower percentages cash rented, according to University of Illinois agricultural economist Gary Schnitkey.

Schnitkey used a 1,200-acre cash grain farm to illustrate four different price scenarios. The farm has expected yields of 187 bushels of corn and 54 bushels of soybeans, grows corn on two-thirds of its acres, has non-land costs of \$546 per acre for corn and \$306 per acre for soybeans, and has \$480,000 of debt.

The four price scenarios are as follows.

1. Projected 2012 prices (\$5.40 for corn, \$11.70 for soybeans)
2. Long-run prices (\$4.50 for corn, \$10.50 for soybeans)
3. Low-price year (\$3.50 for corn, \$8.20 for soybeans)
4. Poor-price year (\$3.00 for corn, \$7.00 for soybeans)

Incomes are generated for a typical farm with 10 percent of acres owned, 30 percent share rented, and 60 percent cash rented (\$275 per acre cash rent). The typical farm is compared to a farm that cash rents 100 percent of its acres for two cash-rent levels: \$275 per acre and \$350 per acre.

For the complete report and details on all four scenarios, visit www.farmdocdaily.illinois.edu/2011/11/incomes_more_sensitive_to_pric.html

“Projected 2012 prices of \$5.40 per bushel for corn and \$11.70 per bushel for soybeans result in above-average incomes, and most farms would have good financial incomes,” Schnitkey said. “Price reductions to long-run averages result in lower incomes, particularly for farms with high percentages of cash rent. At high cash rents, farms with 100 percent of their farm cash rented would have negative incomes. Lower prices would result in further reductions in net incomes,” he said.

When lower commodity prices occur, farms with high amounts of cash rents will face difficult decisions, Schnitkey explained.

“Attempts may be made to lower cash rents so large financial losses do not occur,” Schnitkey said. “Alternatively, these farms will have to absorb financial losses under the hope that commodity prices turn upward quickly so that the farm moves into a positive income situation.”

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