EXECUTIVE SUMMARY
2008 ANNUAL REPORT OF MISSOURI
FARM BUSINESS MANAGEMENT ANALYSIS PROGRAM

By
Norman F. Rohrbach, Missouri FBMA Specialist

The average net farm income (NFI) for the 141 farms included in the 2008 annual report of the Missouri Farm Business Management Analysis Program was $52,507. As usual, there was a wide range in income among program participants. The bottom 25% of the farms (35) showed an average NFI of -$86,832, while the top 25% averaged $214,319. Of the 141 farms, 26 had a negative net farm income.

2008 Distribution of Net Farm Income (Cost)

(NFI from all farms are included in the Median and Average figures but 1 farms' NFI is excluded from the graph because of range.)

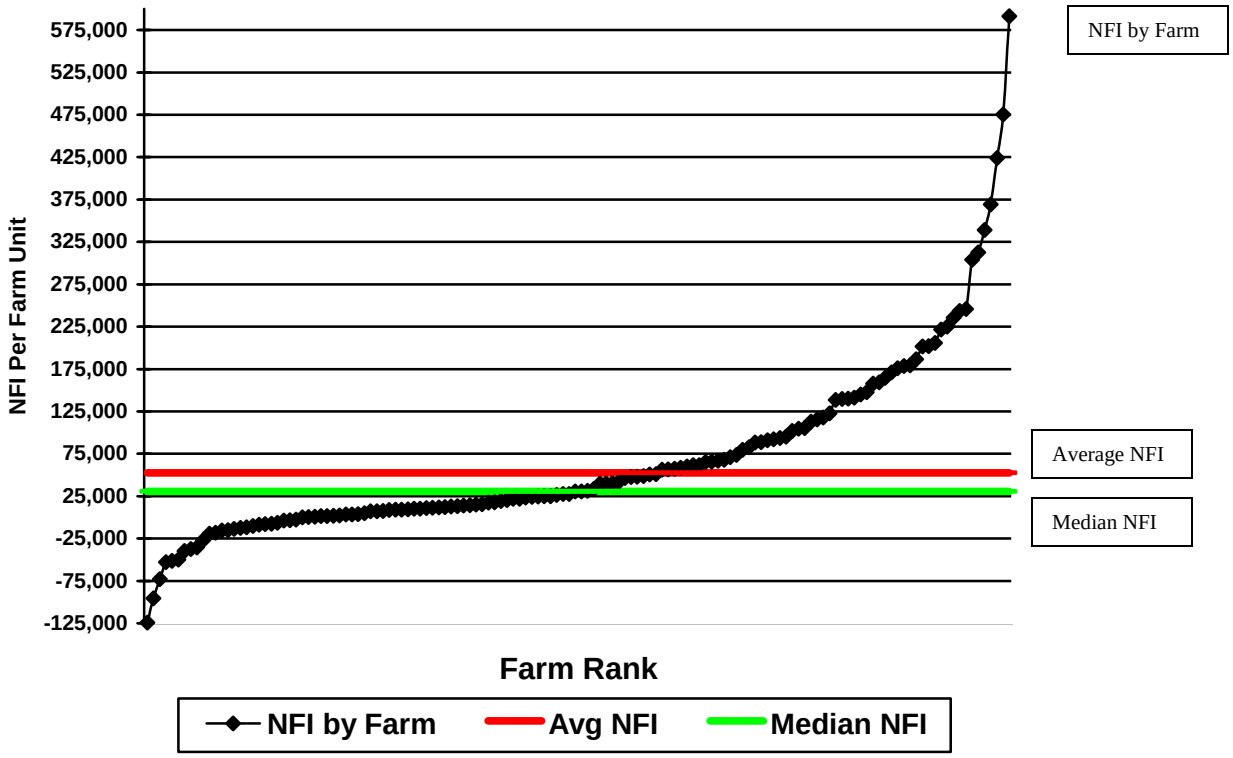

Figure 1

The average age of the operator on the 141 FBMA farms was 46.4 years and the average years in farming was 23.2 years.

The net farm income/unpaid labor hour averaged $32.50/hr. and ranged from -$69.68 in the low profit group to $93.35 in the high profit group. This figure is used for comparison to a per-hour wage in non-farm occupations.

Government payments (of all types) averaged $14,479, representing approximately 3.6% of the gross cash farm income and approximately 27.6% of the net farm income (up from 13.4% in 2007 and 26.5% in 2006).

The average rates of returns on assets (ROA) and equity (ROE) were 4.2% and 3.7% respectively, with assets valued at cost.

The 141 farms completing a cost balance sheet ended the year with a net worth of $742,049 (farm and non-farm). The average increase in net worth for the year was $31,982. The average debt to asset ratio (farm) was 34%. The average farm borrowed $193,626 and paid $158,144 in principal payments in 2008.

Observations from the 2008 Summary – Even though making comparisons between record summaries can be risky when some farms drop out and new farms are added, it is reasonable to make several general observations when comparing this year's summary to 2007. In general, Missouri FBMA farms took a hard slide backward in terms of profitability. 2008 proved to be the least profitable year since 2003. Net farm income decreased by an average $70,188 per farm, or a nearly 57% decrease from 2007. That decrease came from a group of 2007 farms that were slightly smaller in size than this year's group in terms of gross cash income (3.6% difference). Crop farms fared much better than anything else, but still suffered a 32% decrease in NFI from last year. All other farm types netted less than half of 2007 profit levels (dairy was not reported in 2007).

The livestock sector continued its decline from last year. Hog farms, already having suffered strong losses in 2007, plunged to much worse levels this year. Net farm incomes from the beef farms, even though still positive, continued to slide to less than half of the 2007 level and are down 80% from 2006.

There were several noticeable changes in expense sources in 2008. Land rent increased from 5% in 2007 to 7% of cash farm expense in 2008. Direct crop expenses increased from 27% in 2007 to 29% in 2008. Fuel and oil costs increased from 5% in 2007 to 6% in 2008. The cost of hired labor decreased from 7% in 2007 to 4% in 2008.

It seems that 2008 was a year when lower crop yields and higher input costs filled in the profit gap. Commodity prices were a mixed bag, with crop prices generally good while livestock prices continued to slide. Crop yields were generally down with corn down 6 bushels per acre and soybeans down 7 bushels per acre. Wheat came in with a small increase in yield.

Summary: Why the big drop in net farm income in 2008? While gross farm income was up 3.5% from 2007, cash expenses increased by 5.2% during the same period. However, the bigger problem is that the end of 2007 showed a positive change in total inventories of $58,884, while the end of 2008 reflected a change of -$5,931. Farms *sold off* their inventories during 2008 and those decreases are reflected in net farm income at the end of the year. The difference in the crops and feed inventory change alone from the beginning to the end of the year was a decrease of over $70,000.

Many FBMA farms depend on livestock for a significant portion of their livelihood. The livestock industry continues to suffer from increased production costs and lower prices. The cost

of production per cwt produced in cow/calf enterprises increased by over $10/cwt while average price per cwt decreased again in 2008. Hog farms are in the toughest shape, with a cost of production of over $70 per cwt. carcasses sold compared to an average sale price of $64.28 per cwt.

Even though the cost of several key production inputs has declined, 2009 brings a lot of uncertainty for Missouri farmers. Risk management is on every farmer's mind and risk management strategies are becoming the primary focus in most operations. It is difficult to *put enough away* in good years to cover for tough times, like those being faced by the hog-industry today. Only four years ago (2004) FBMA hog farmers' profits were more than triple those of any other farm type ($396,850). This year marks the second year they are deep in the red. Missouri agriculture is in an extremely volatile environment. There has probably never been a time when a good analysis of production costs and financial benchmarks has been more valuable to producers as they plan their operations.

2008 Missouri FBMA Income Sources

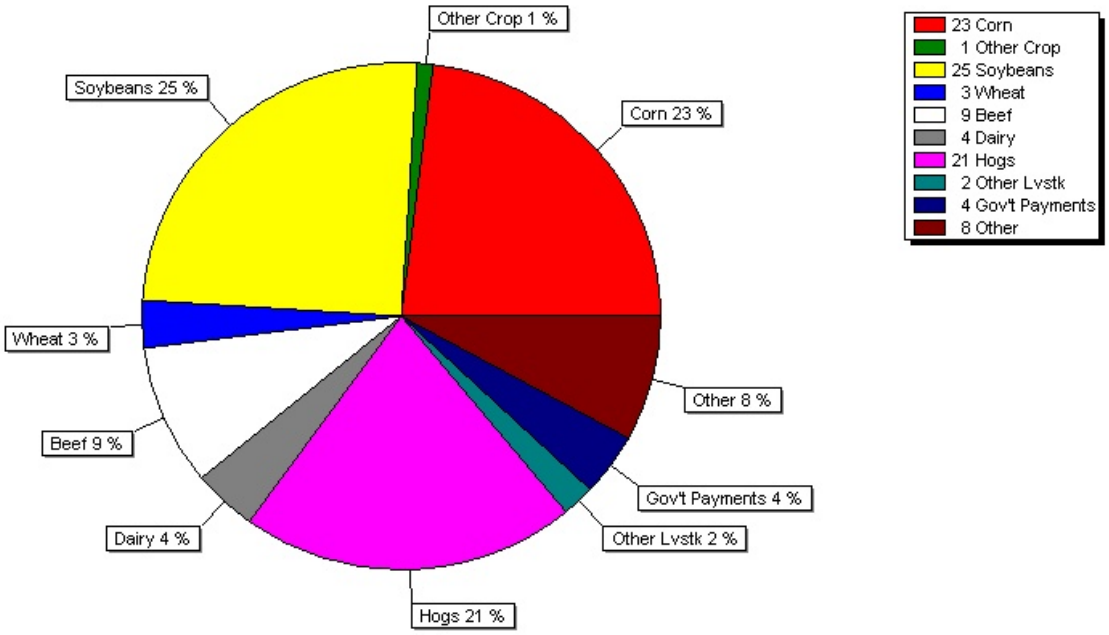

Figure 2

2008 Missouri FBMA Expense Sources

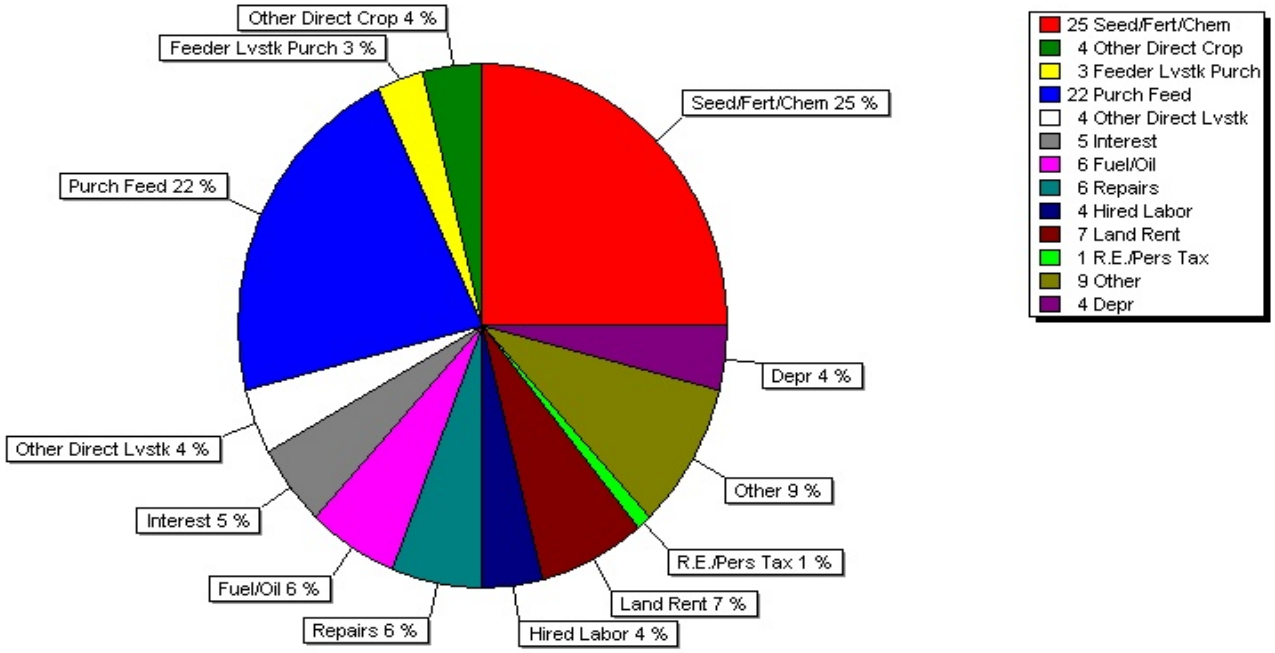

Figure 3

Results by Type of Farm

The 141 farms in the report were classified by type (e.g. crop, dairy, hog) on the basis of having at least 70% of gross sales in each category (reference page 32). Using this 70% rule, there were 58 crop farms, 6 dairy farms, 4 hog farms, 15 beef farms, and 33 crop and beef farms and 6 crop and hog farms. Twenty-eight of the farms did not have a single source (or pair of sources) of income over 70%.

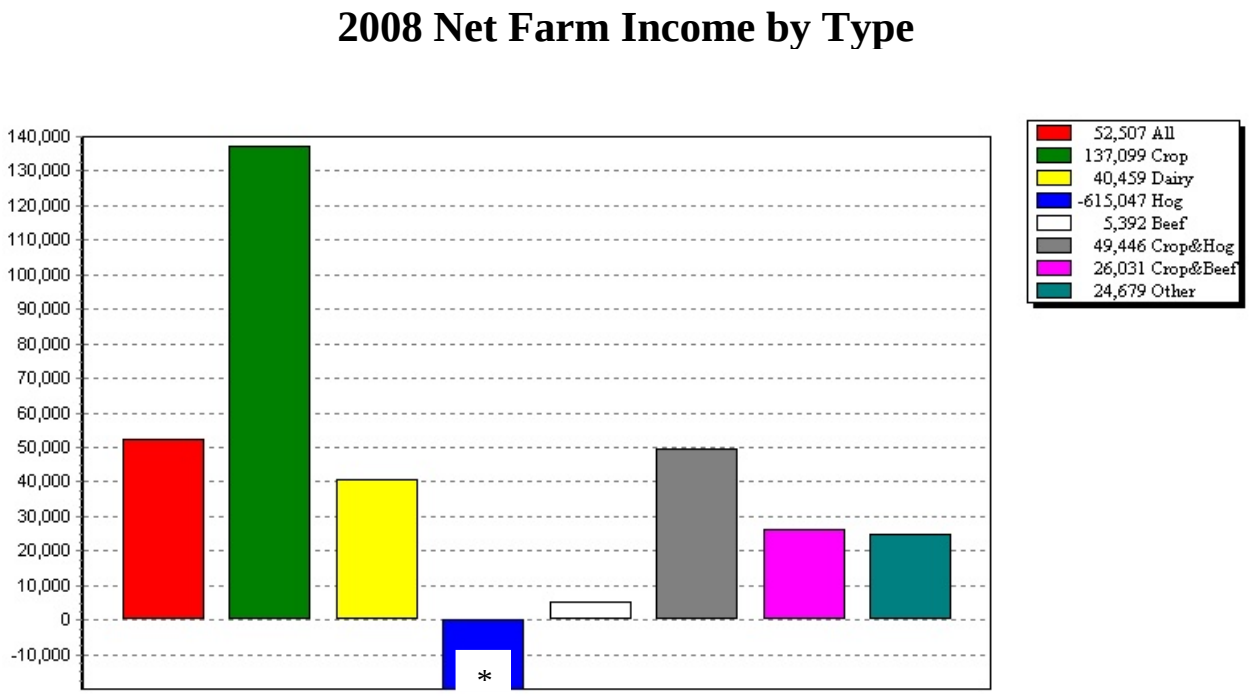

Figure 4
** Hog bar was cut off so the other bars could be represented proportionately.*

2008 Rate of Return on Assets by Type (Cost)

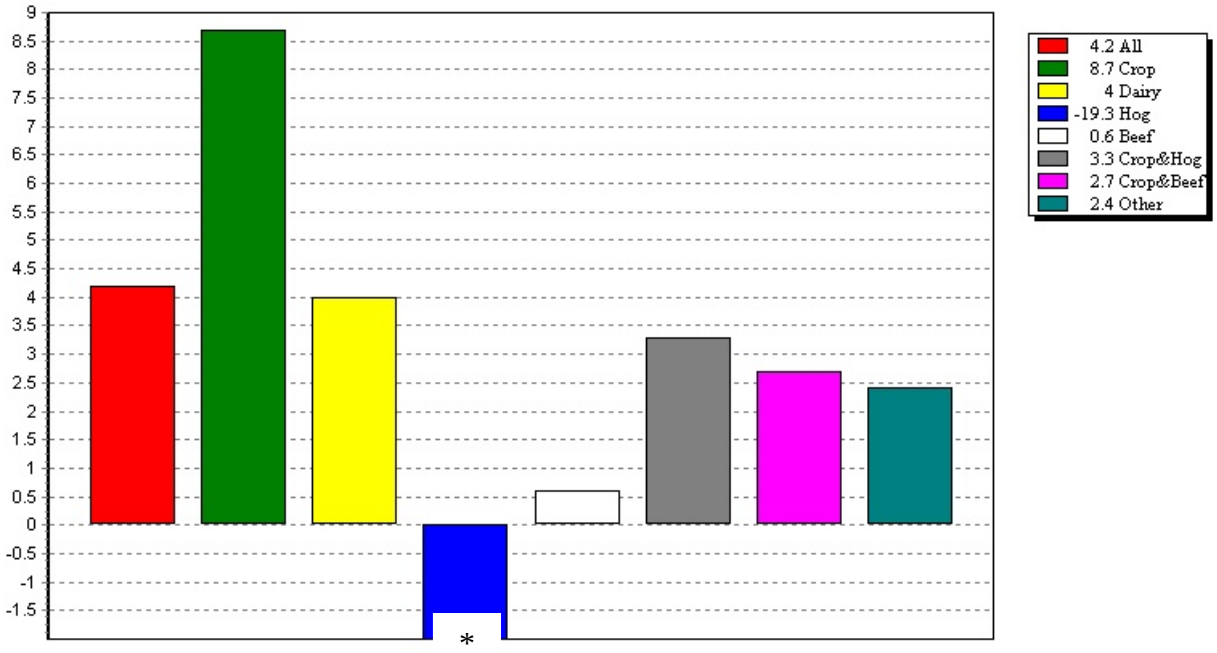

Figure 5
** Hog bar was cut off so the other bars could be represented proportionately.*

2008 Farm Debt to Asset Ratio by Type (Market)

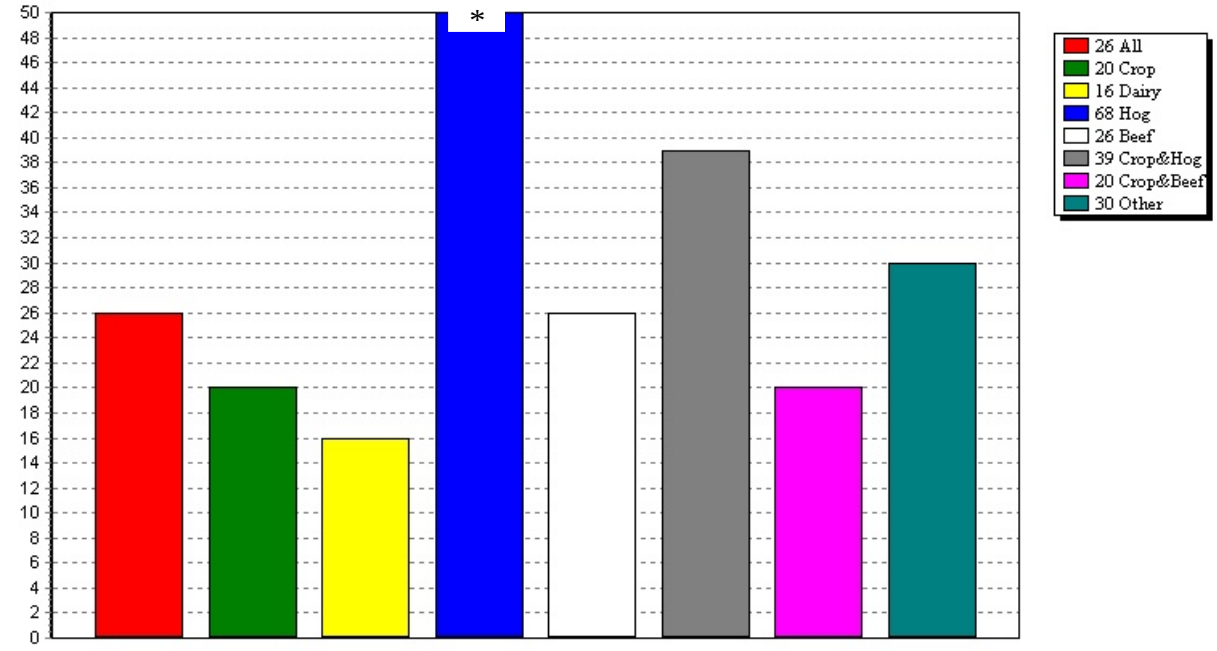

Figure 6
** Hog bar was cut off so the other bars could be represented proportionately.*

Results by Farms with a Full-Time Operator

Page 35 of the report represents 79 of the 141 FBMA farms that reported at least 2000 hours operator/manager labor. This included sole proprietorships and partnerships with 2000 or more unpaid operator hours and corporations with more than 2000 paid manager/operator hours. The 62 remaining farms were classified as part-time farms. When sorted this way, the average 2008 NFI of the full-time operations was $76,309, as compared to the mean NFI of $52,507 reported for all farms.

Results by Farms with a Part-Time Operator

Page 36 of the report represents 62 of the 141 FBMA farms that reported less than 2000 hours of unpaid operator labor. In other words, they represent less than a full-time operator per farm. This group includes a number of young producers who are working their way into the profession, and also some older operators that have begun to scale back. The average NFI for this group of 62 part-time farms was $22,178.

Page 37 represents averages for the 32 smallest operations in the group as classified by unpaid operator labor. Those 32 farms reported less than 1000 hours of unpaid operator labor per unit. The average NFI for this group of 32 farms considered less than half-time was $11,933 in 2008.

Percentile Rank Report w/Group Medians

With the exception of the information presented on page 41, data tables in this summary report, unless marked otherwise, represent average or mean data. For example, the 2008 mean net farm income of the 141 farms in this summary was $52,507. This information is found by simply adding the NFI of each farm in the group to a total and then dividing by 141 for the mean or average. Sometimes, a few farms at the high end of the range with extremely high NFIs can skew the mean. The same could be true of a few extreme NFI farms at the low end. For that reason, median figures can be very helpful when comparing summary data to an individual farm operation. The median is often described as the *halfway point in the middle-figure*. In other words, half of the farms fell below the median and the other half were above. So, while the average or mean NFI for 141 farms in the summary was $52,507, the median, or half-way point, was $30,394. This indicates that farms with high NFI's included in the group that more than offset lower NFI's of farms at the other end of the range.

The median figures for selected factors are reported on page 41 along with percentile ranks in 10% intervals. Each line is independent from the next with the data for each line broken into percentile ranks in 10% intervals. This presentation can be helpful in understanding the range of data for each factor for the entire group of farms, and in looking at where each farm fits in by using the "my-farm" column.

Key Points and Limitations in Interpreting the Data

1. There is a wide range in size and type of farms included in the group of 141. A few large farms can have considerable input on the averages, particularly when sorted down to a small number for comparison (e.g. five hog enterprises or five wheat enterprises).

2. Farm financial information throughout the report was carefully checked for complete and defendable farm data. However, the non-farm income and expenses and non-farm assets and liabilities, while complete on many farms, were incomplete on a number of others, making any data resulting from non-farm information less useful for accurate comparisons.

3. Naturally, the greater the number of farms or enterprises in a database, the more reliable the output information will be. Consequently, when as small a group as five farms is averaged for crop or livestock enterprise data, comparisons are more limited than for a larger group.