

# EXECUTIVE SUMMARY

## 2010 ANNUAL REPORT OF MISSOURI FARM BUSINESS MANAGEMENT ANALYSIS PROGRAM

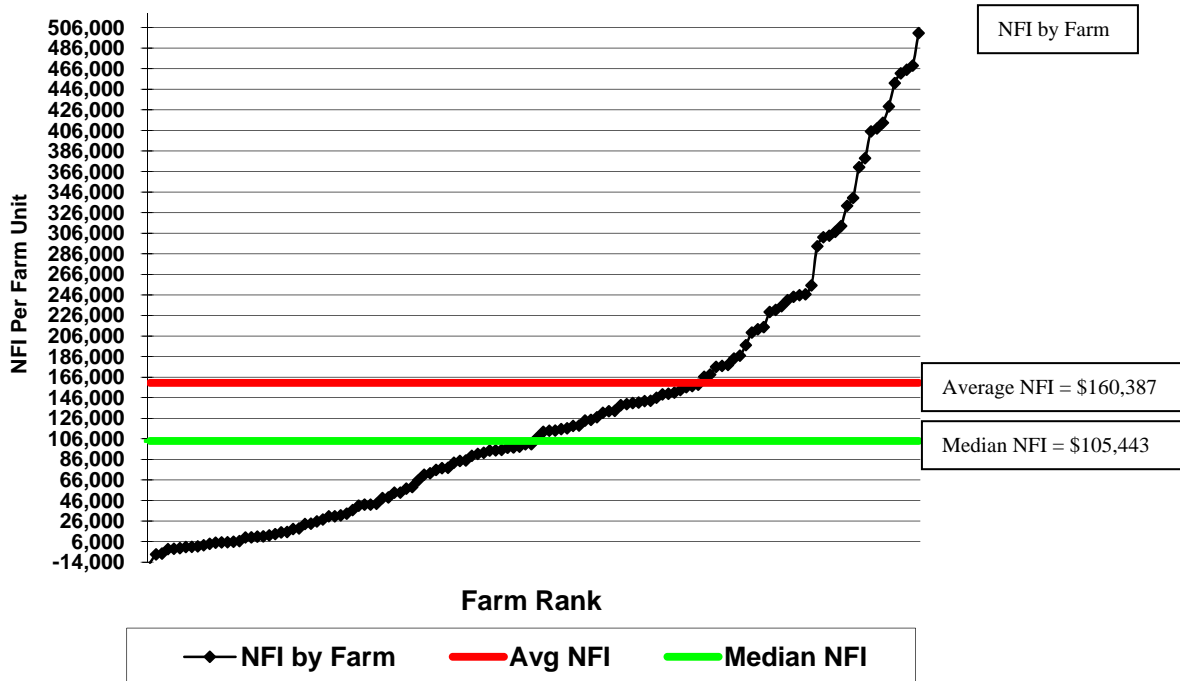
By  
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The average net farm income (NFI) for the 138 farms included in the 2010 annual report of the Missouri Farm Business Management Analysis Program was \$160,387. As is the case every year, there was a wide range in income among program participants. The lowest 25% of the farms (34) showed an average NFI of -\$2,551, while the highest 25% averaged \$424,467. Of the 138 farms, 10 had a negative net farm income.

Median net farm income, or the income earned by the middle farm, was \$105,443, substantially lower than the average NFI, indicating that the average was skewed by high profits of the most profitable farms.

### 2010 Distribution of Net Farm Income (Cost)

(NFI from all farms are included in the Median and Average figures but 4 farms' NFI is excluded from the upper and 4 from the lower end because of range.)



*Figure 1*

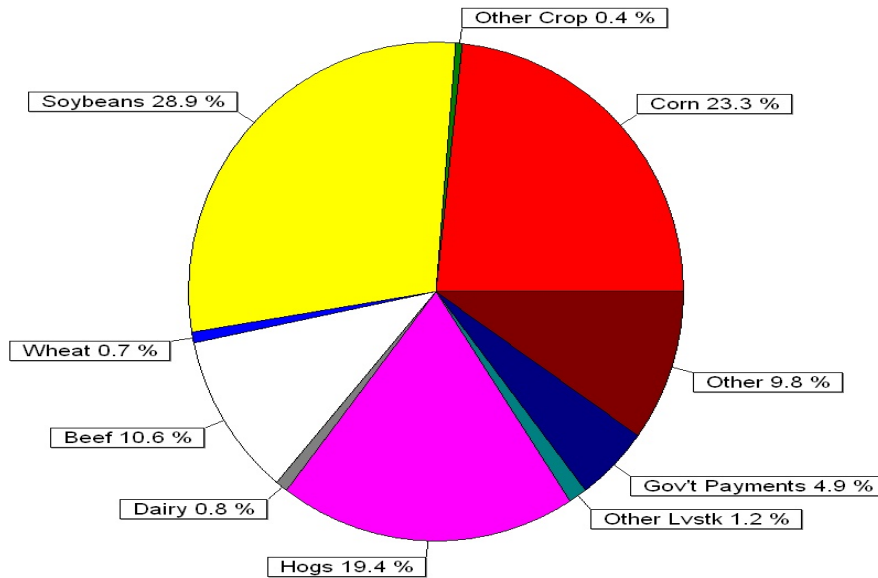
The average age of the operator on the 138 FBMA farms was 49.5 years and the average years in farming was 27.1 years.

The net farm income/unpaid labor hour averaged \$103.45 and ranged from -\$3.21 in the low profit group to \$239.90 in the high profit group. This figure is used for comparison to a per-hour wage in non-farm occupations.

Government payments (including CRP, but not crop insurance proceeds) averaged \$27,589, representing approximately 4.9% of the gross cash farm income and approximately 17.2% of the net farm income. This amount is up slightly from 15.7% in 2009 and down from 27.6% in 2008.

The relationship of farm income and expense sources as compared to gross farm income and total farm expenses maintains a very durable pattern from year to year. Even though some new farms are added to the group each year while others drop out, the income and expense patterns change slowly. As an example, the only income sources that changed their share of the total more than one percentage point from 2009 were hogs, which increased from 17.5% of gross income in 2009 to 19.4% in 2010, government payments, which increased from 2.9% to 4.9%, and other farm income (including crop insurance proceeds), which decreased from 12.8% in 2009 to 9.8% in 2010. All other income sources remained within one percent of where they were in 2009.

**2010 Missouri FBMA Income Sources**



*Figure 2*

Likewise, there were only four expense sources that changed more than one percentage point's share of the total from 2009 to 2010. Feed purchased decreased 2.2% and other farm expenses were down 1.6%, while other direct livestock expense and fuel and oil expense increased by 1.3% and 1.6% respectively.

### 2010 Missouri FBMA Expense Sources

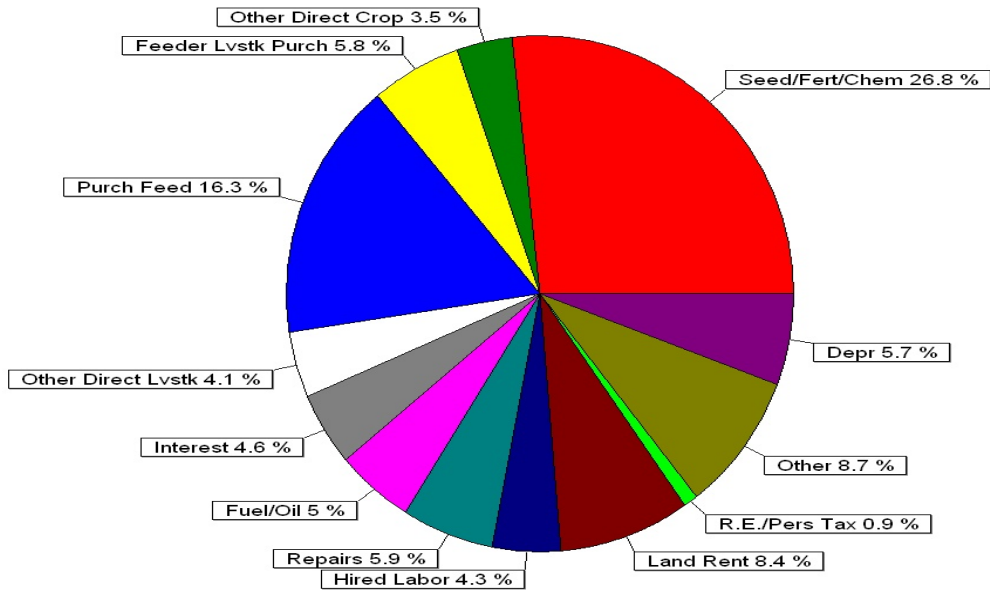


Figure 3

The average rates of returns on assets (ROA) and equity (ROE) both made strong gains in 2010, coming in at 10.6% and 13.4% respectively, with assets valued at cost (cost value being defined as the actual cost of the asset minus accumulated economic depreciation).

### 2010 Rate of Return on Assets by Type (Cost)

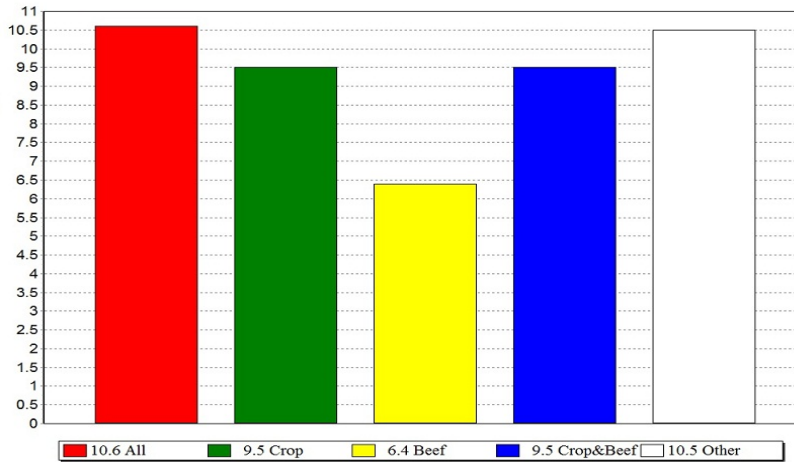


Figure 4

The average farm reported net worth growth of \$183,881. Net worth growth from earnings (farm and non-farm) averaged \$134,768. The remainder resulted from market valuation changes in asset values. The average farm debt to asset ratio (farm) was 24% at market values and 32% at cost values. The average farm borrowed \$189,536 and paid \$163,855 in principal payments in 2010.

### 2010 Farm Debt to Asset Ratio by Type (Market)

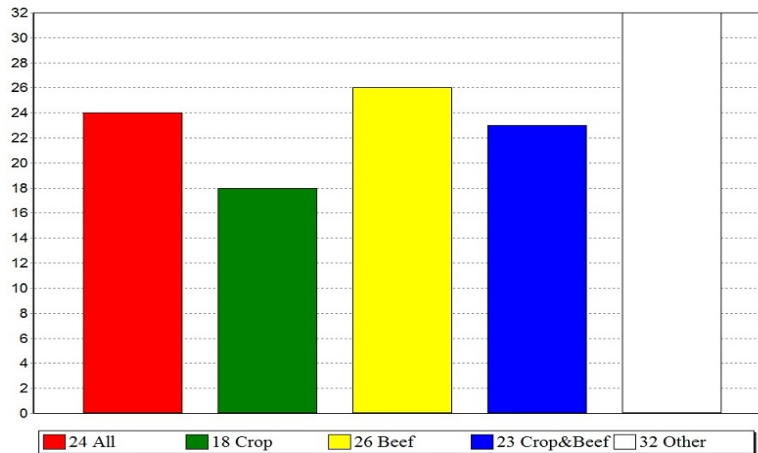


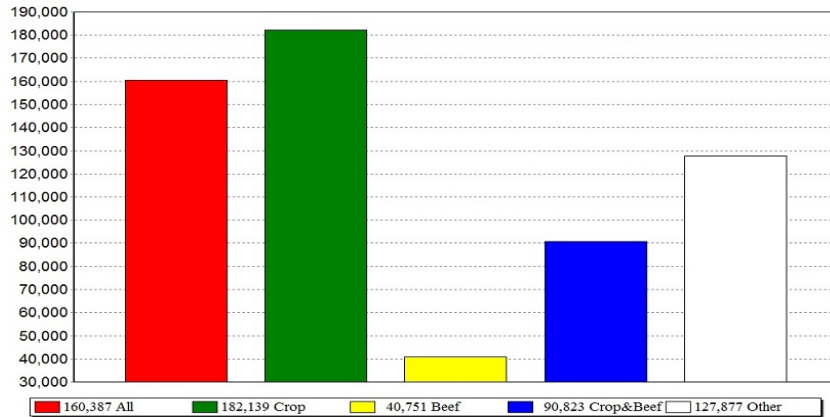
Figure 5

Observations from the 2010 Summary – Even though making comparisons between annual record summaries is imperfect when a few farms drop out and new farms are added each year, over 90% of the farms in the summary are the same ones from 2009, so it is reasonable to make several general observations when comparing this year’s summary to 2009. The average net farm income of FBMA farms in 2010 represented a significant increase over 2009, and overall, was one of the best years on record for Missouri farms. Net farm income increased by an average of \$68,368 per farm, or a 74% increase from 2009.

Crop farms were most profitable, with corn and soybeans making up nearly 98% of crop receipts on FBMA farms, and crop farms continued making strong gains on other enterprises. Livestock farms also made up a lot of ground this year, with hogs becoming profitable for the first time since 2006, and beef farms turning around from losses in 2009 to a much better year in 2010. Average prices received for corn and soybeans remained nearly the same for 2010 as 2009, but inventory values of both crops were considerably higher at the end of 2010, making a strong contribution to the high net farm income. Higher commodity prices across the board for most FBMA farm enterprises as we progressed through 2010 made for a very good profit year for most Missouri farms.

The 138 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 41). Using this 70% rule, there were 75 crop farms, 16 beef farms, and 20 crop and beef farms. Several of the farms did not have a single source (or pair of sources) of income over 70%. Also, when there are less than four farms with a single source of income over 70%, they are not reported as a group.

### 2010 Net Farm Income by Type\*



\* Groups of less than four farms are not reported here.

Figure 6

Summary – 2010 was the best year profit-wise in a long time for many Missouri farms. The number one reason is quite evident if you have noticed recent land sales of crop ground around the state. Consequently, the key trend that describes the last seven years of FBMA farms is that in 2004, livestock receipts accounted for 53% of gross cash farm income while crop receipts (including government payments) accounted for 39%. Since then, crop’s share of gross cash farm income has mushroomed, while livestock’s share has steadily declined. In 2010, crops counted for 58% of cash receipts, while livestock only accounted for 32%. This represents a complete turnaround plus some. Profits were certainly much improved for livestock producers in 2010 because of stronger prices, but input volatility and regulatory concerns will likely keep the industry on edge for some time to come. For those who have been involved in agriculture for any period at all, 2010 confirms the notion that “things down on the farm are getting really interesting.”

### Livestock/Crop Percent of Gross Receipts

Missouri FBMA Program Data

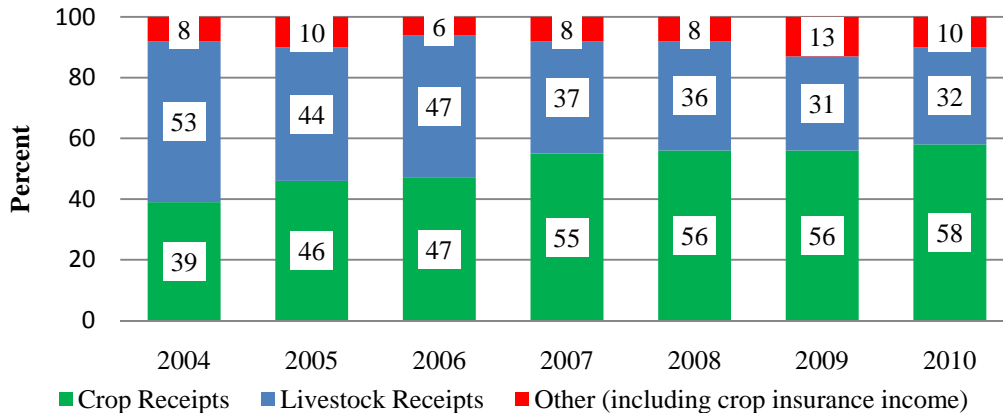
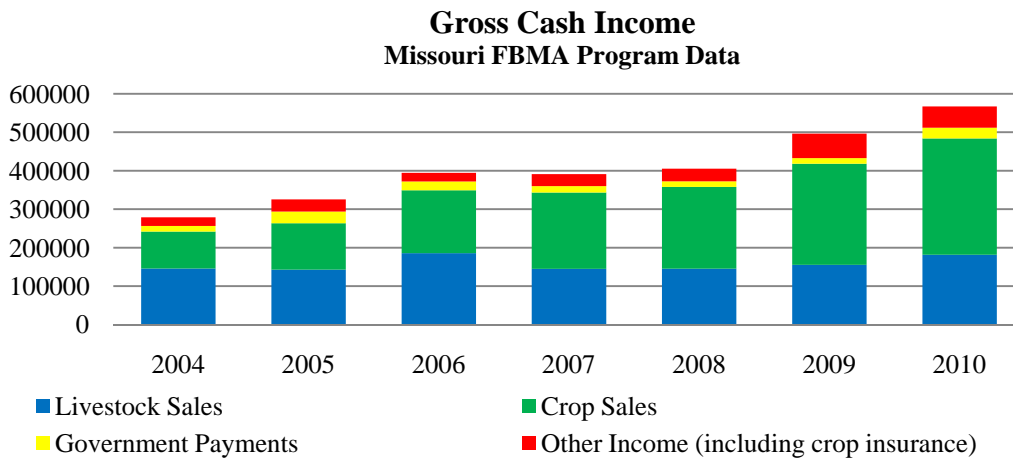
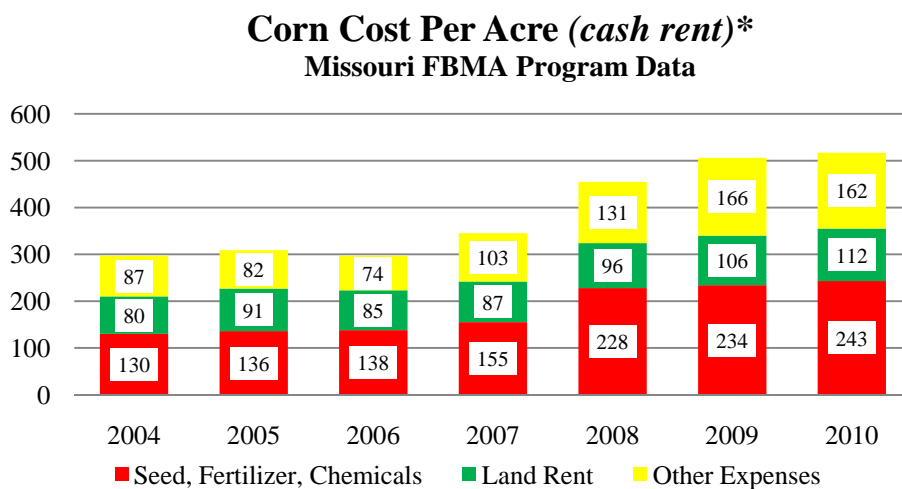


Figure 7



*Figure 8*

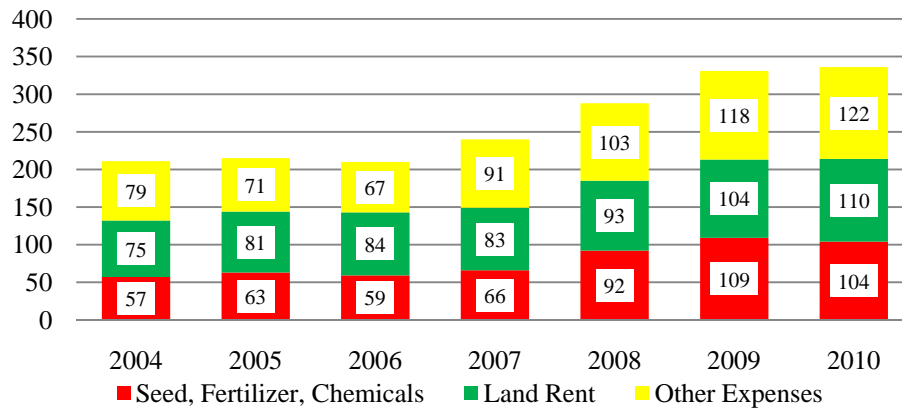
Even though soybeans and corn were very profitable in 2010, direct input and related operating costs continue to increase and are subject to greater volatility. As costs/unit produced increase, risk increases dramatically. 2010 FBMA farms that completed a comprehensive crop enterprise analysis as represented in figures 9 and 10, ended up with a cost of production of \$4.84 per bushel on corn and \$7.82 per bushel on soybeans (cash rented, including direct and overhead costs, labor and management not included). These costs look good when corn is selling for \$7.00 per bushel and soybeans are selling for \$13.00 per bushel, but the volatility of both commodity prices and input costs of recent years helps temper our optimism. Strong business planning, cost management, a solid marketing plan, and a comprehensive risk management plan are more important than ever. FBMA farms with records to prove their actual costs of production for the major enterprises in their businesses have a real advantage in planning, working with lenders, and managing risks. “Driving the desk” becomes more important than ever, especially for producers that are subject to higher levels of risk.



\* FBMA farms that included a complete crop enterprise analysis, including all direct and overhead costs (43 farms in 2010).

*Figure 9*

**Soybean Cost Per Acre (cash rent)\***  
**Missouri FBMA Program Data**



\* FBMA farms that included a complete crop enterprise analysis, including all direct and overhead costs (49 farms in 2010).

*Figure 10*

*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 138. 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 defensible 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.
4. People often think of farm operations as one-family units, but it's important to note that many of the farms in the group represented here provide the primary livelihood for more than one family.