EXECUTIVE SUMMARY
2011 ANNUAL REPORT OF MISSOURI
FARM BUSINESS MANAGEMENT ANALYSIS PROGRAM

By
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The average net farm income (NFI) for the 151 farms included in the 2011 annual report of the Missouri Farm Business Management Analysis Program was $148,886. As is the case every year, there was a wide range in income among program participants. The lowest 25% of the farms (37) showed an average NFI of $4,281, while the highest 25% averaged $417,774. Of the 151 farms, 8 had a negative net farm income.

Median net farm income, or the income earned by the middle farm, was $74,806, substantially lower than the average NFI, indicating that the average was skewed by high profits of the most profitable farms.

2011 Distribution of Net Farm Income (Cost)
(NFI from all farms are included in the Median and Average figures but 1 farm NFI is excluded from the upper because of range.)

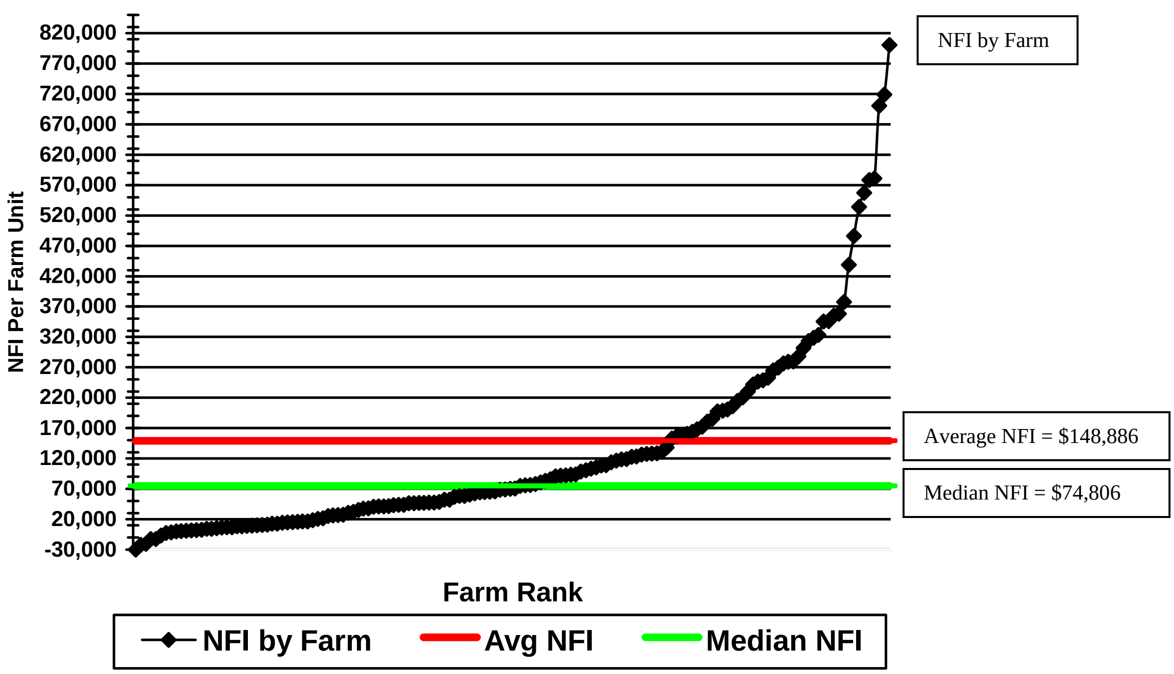


Figure 1

The average age of the operator on the 151 FBMA farms was 48.9 years and the average years in farming was 26.2 years.

The net farm income/unpaid labor hour averaged $100.55 and ranged from $2.17 in the low profit group to $216.95 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 $16,051, representing approximately 2.8% of the gross cash farm income and approximately 10.8% of the net farm income. This amount is down from 17.2% of NFI in 2010 and down from the recent high of 27.6% of NFI 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 increased their share of the total more than two percentage points from 2010 were corn, which increased from 23.3% of gross income in 2010 to 26.2% in 2011, and hogs, which increased from 19.4% to 22.1%. Income sources that decreased their share of the total by more than two percentage points were soybeans, which decreased from 28.9% in 2010 to 25.6% in 2011, and government payments, which decreased from 4.9% to 2.7%. All other income sources remained within two percent of where they were in 2010.

2011 Missouri FBMA Income Sources

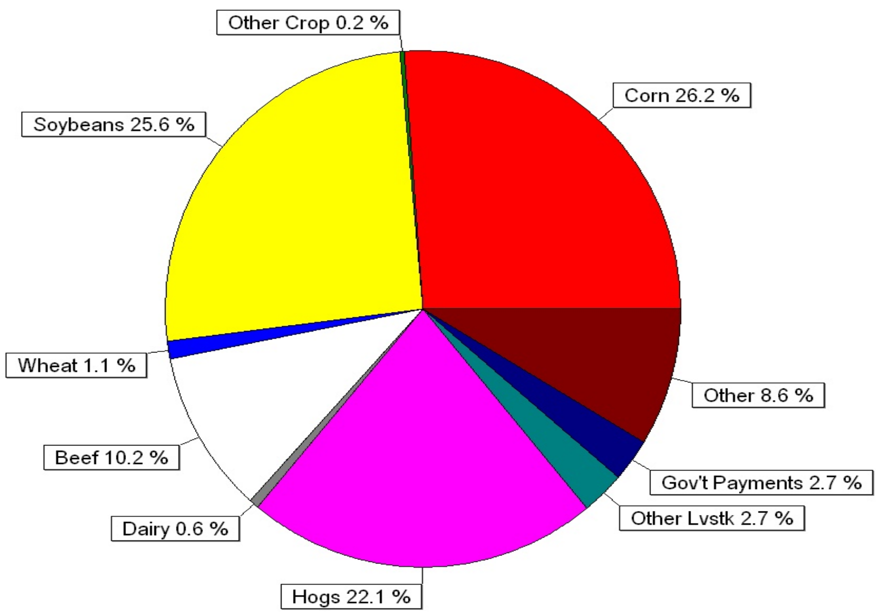


Figure 2

Likewise, there was only one expense source that changed more than two percentage point's share of the total from 2010 to 2011. Feed purchased increased 3.5% from 16.3% in 2010 to 19.8% in 2011.

2011 Missouri FBMA Expense Sources

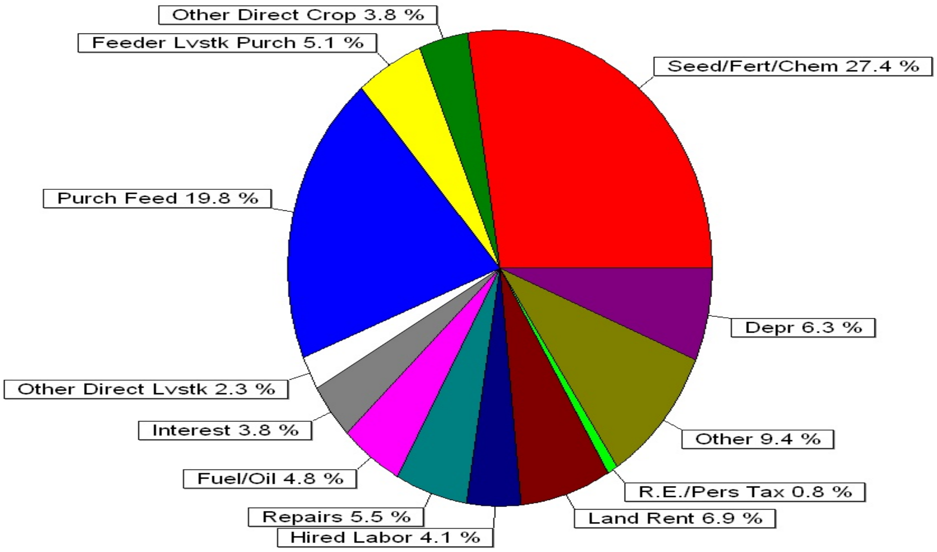


Figure 3

The average rates of returns on assets (ROA) and equity (ROE) were both strong in 2011, coming in at 9.0% and 11.1% respectively, with assets valued at cost (cost value being defined as the actual cost of the asset minus accumulated economic depreciation). However they both lost some ground, as ROA were 1.6% lower in 2011 and ROE fell 2.3% from 2010 results.

2011 Rate of Return on Assets by Type (Cost)

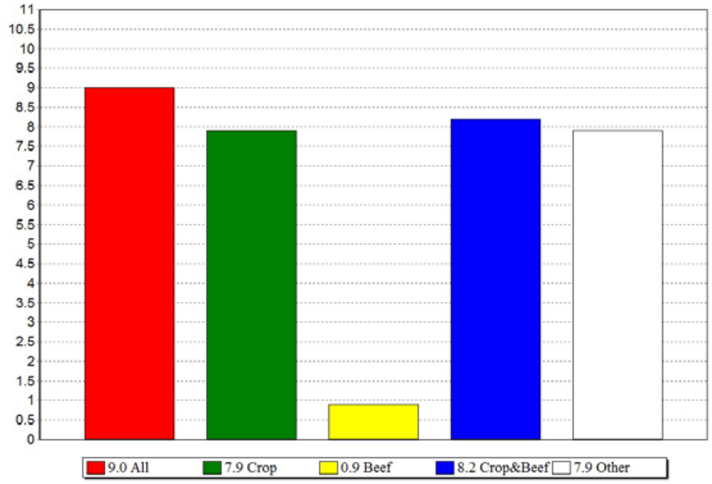


Figure 4

The average farm reported net worth growth of $195,143. Net worth growth from earnings (farm and non-farm) averaged $120,943. The remainder resulted from market valuation changes in asset values. The average farm debt to asset ratio (farm) was 22% at market values and 30% at cost values. The average farm borrowed $235,445 and paid $218,346 in principal payments in 2011.

2011 Farm Debt to Asset Ratio by Type (Market)

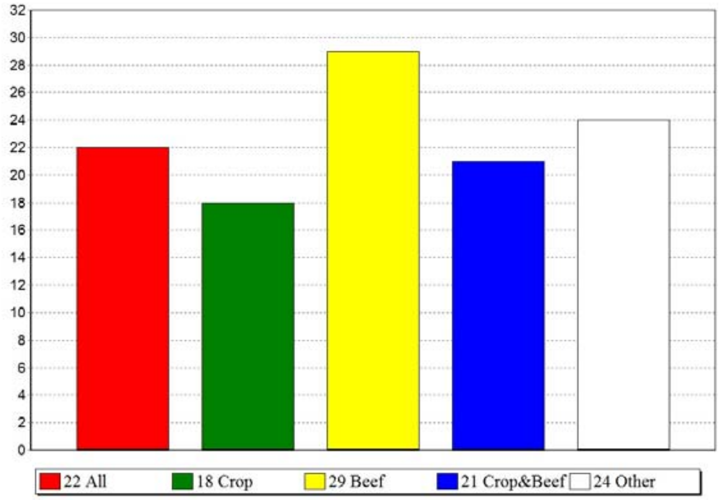


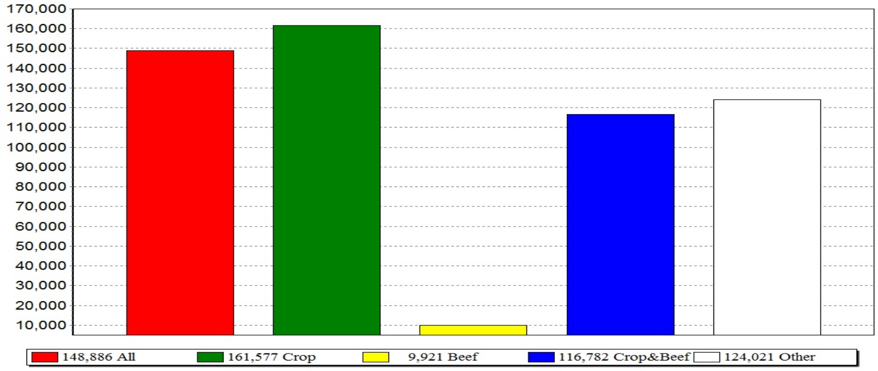
Figure 5

<u>Observations from the 2011 Summary</u> – Even though making comparisons between annual record summaries is imperfect when a few farms drop out and new farms are added each year, approximately 90% of the farms in the summary are the same ones as 2010, so it is reasonable to make several general observations when comparing this year's summary to 2010. In addition, the new farms added to the summary this year appeared to be representative of the group carried over from prior years. It is also important to note that there were more new farms added than normal, bringing more substance to the database. Even though the average net farm income of FBMA farms in 2011 declined somewhat from the record incomes of 2010, it was still a very profitable year for Missouri farms. Net farm income decreased by an average of $11,501 per farm, or a 7% decrease from 2010.

Crop farms were still most profitable, with corn and soybeans making up over 97% of crop receipts on FBMA farms, and crop farms holding their ground against other enterprises. Livestock farms were a mixed bag, with hogs continuing to be profitable for the second consecutive year, while beef farms lost considerable ground from 2010. Average prices received for corn and soybeans increased approximately $2.00/bushel from 2010 to 2011, but significant increases in input costs held profits in check. Several areas of the state where FBMA farms are located had lower crop yields because of weather problems, creating lower income and losses on farms in those areas.

The 151 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 39). Using this 70% rule, there were 75 crop farms, 14 beef farms, 27 crop and beef farms, and 29 "other" farms. "Other" farms were those that 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.

2011 Net Farm Income by Type*



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

Figure 6

Summary – 2011 was a good year profit-wise for many Missouri farms. Commodity prices were good pretty much across the board and crop yields held their own, with soybeans dropping four bushels per acre and corn picking up over five bushels per acre. As mentioned previously, crop prices increased approximately $2.00/bushel, and both weaning and backgrounding cattle average price increased by approximately 22¢/lb. over 2010 prices. The key trend that describes the last eight 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 2011, the trend retreated a bit, but still represents a significant change in the enterprise make-up on Missouri farms. With the strong increase in commodity prices, and comparable yields, incomes would normally respond positively, but increases in production costs more than offset revenues, holding profits in check. For example, the cost of producing an acre of corn increased by approximately $100/acre, and costs for producing an acre of soybeans increased by over $50/acre. Direct and overhead costs per head in the cow/calf enterprise increased significantly as well. Input volatility and regulatory concerns continue to keep the industry on edge and will likely continue to do so for some time to come.

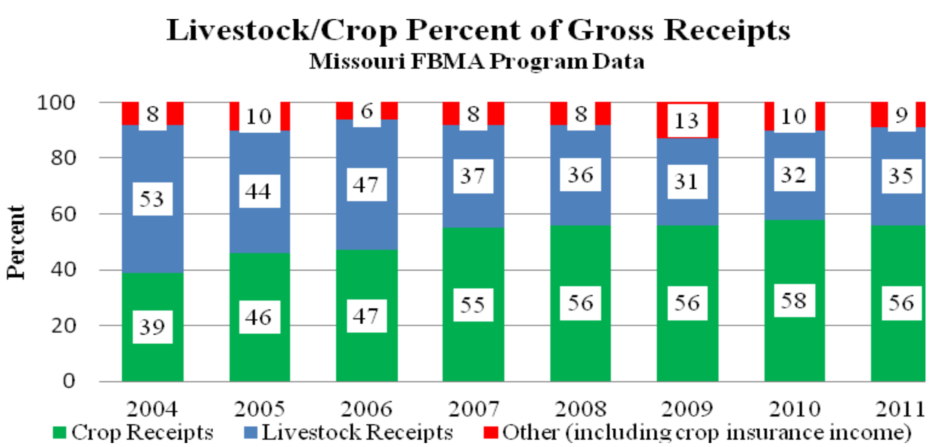


Figure 7

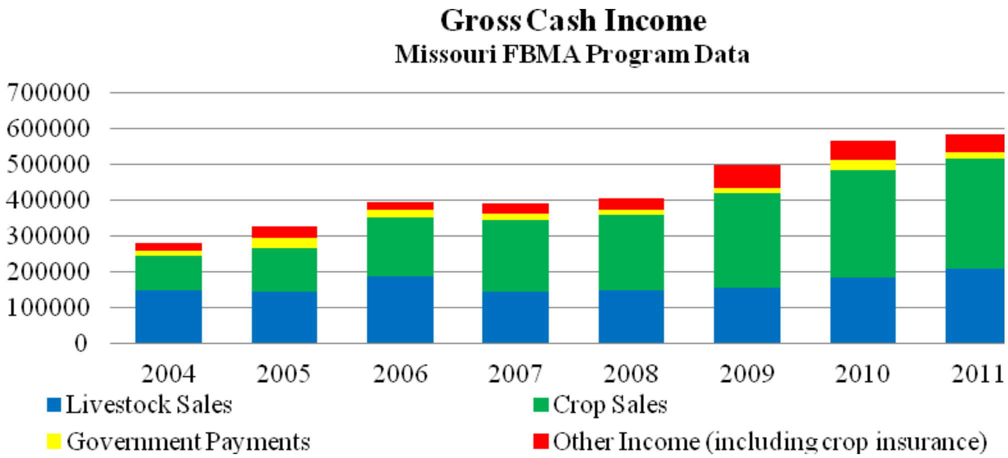
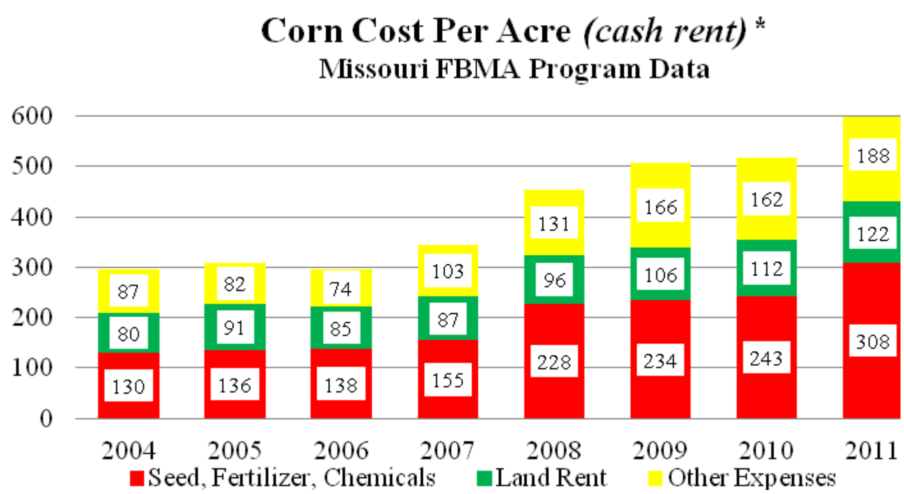


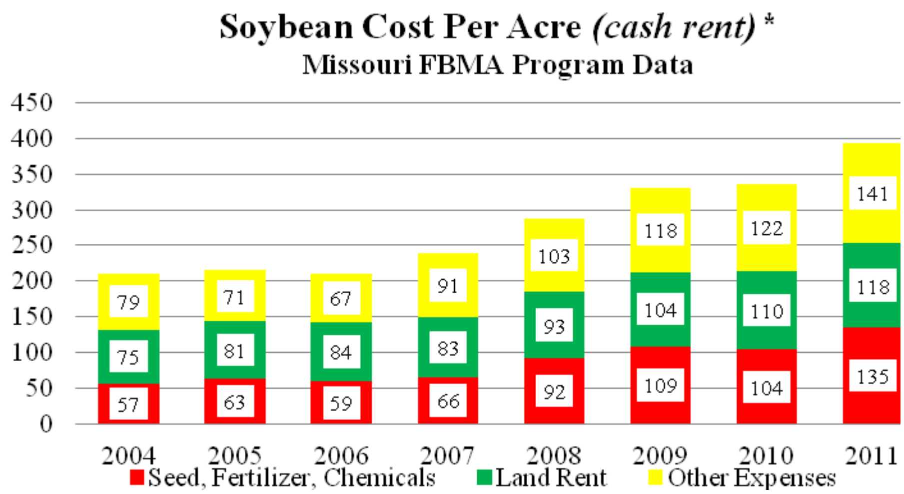
Figure 8

As direct input and related operating costs increase at a significant rate, costs/unit produced increase and risk increases dramatically. 2011 FBMA farms that completed a comprehensive crop enterprise analysis as represented in figures 9 and 10, ended up with a cost of production of $5.57 per bushel on corn and $9.92 per bushel on soybeans (cash rented, including direct and overhead costs, labor and management not included). That looks O.K. when corn is selling for $6.00 per bushel and soybeans are selling for $12.00 per bushel, but the volatility of both commodity prices and input costs of recent years continues to temper 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.



* FBMA farms that included a complete crop enterprise analysis, including all direct and overhead costs (48 farms in 2011).

Figure 9



* FBMA farms that included a complete crop enterprise analysis, including all direct and overhead costs (53 farms in 2011).

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 151. 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.

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.