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CORNHUSKER ECONOMICS

April 9, 2008

University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
<http://www.agecon.unl.edu/Cornhuskereconomics.html>

2007 Nebraska Farm Income Averages

Market Report	Yr Ago	4 Wks Ago	4/4/08
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$99.77	\$90.24	\$86.30
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.....	127.61	130.47	117.06
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.....	109.22	101.46	98.93
Choice Boxed Beef, 600-750 lb. Carcass.....	156.20	150.03	138.07
Western Corn Belt Base Hog Price Carcass, Negotiated.....	60.61	52.32	55.13
Feeder Pigs, National Direct 50 lbs, FOB.....	70.33	46.52	38.64
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	65.15	59.13	56.90
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.....	85.50	84.36	*
National Carcass Lamb Cutout, FOB.....	248.76	260.40	255.69
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.....	4.36	11.31	9.58
Corn, No. 2, Yellow Omaha, bu.....	*	5.33	5.66
Soybeans, No. 1, Yellow Omaha, bu.....	*	13.12	12.01
Grain Sorghum, No. 2, Yellow Dorchester, cwt.....	5.54	9.21	9.70
Oats, No. 2, Heavy Minneapolis, MN, bu.....	2.90	3.79	3.79
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.....	135.00	135.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton.....	92.50	85.00	85.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton.....	90.00	*	*
* No market.			

The Nebraska Farm Business, Inc. farm income averages for the 2007 year are just about finished, and to no one's surprise, it was an excellent year. The average net farm income for 2007, reported by the participants of the program is \$193,259 per operation. Since some of these operations are organized with more than one member, the per operator net farm income of \$160,726 is also important.

What lessons can be learned by a year when almost everyone made money?

1. The first lesson is that not everyone made money. There were seven percent of the operations that had an accrual basis net loss in 2007. All these farms had heavy livestock influence. When you break the farms down by type of enterprise, those with more than 70 percent of their income from crops and hogs show an average Net Farm Income (NFI) of seven percent of those with just mainly crop income. Beef operations' NFI was also less than crops by 31 percent. The dairy operations were the only livestock based farms that had outstanding years.
2. The second lesson I've been discussing with producers is that it was hard to find numbers in their analysis that didn't look good. But if you are a crop farmer and your efficiency didn't improve, and if your leverage levels didn't go down, it is a really important time to look at the financial health of your business. Farming is a very cyclical business, just ask the swine producers, and history tells us that incomes like this will not be around forever. Taking the extra income from a record



high year and reducing debt needs to be considered, as well as improving your equipment and adding land. Those producers who have heavily financed new capital purchases based on the cash flow from 2007 may find themselves hurting for cash if the margin returns to even one-half of what it was this year, before those liabilities were repaid.

3. The final major lesson is that the cost of production is on the rise. This is not news to any producer either, but the extent that it has risen may surprise some. In 2007, the average cost of production for irrigated corn rose by 44 cents per bushel or \$47.05 per acre. That's a 13 percent increase over 2006's per acre cost. Soybeans and wheat showed similar increases. When compared to the cost of production from five years prior, in 2002, the increase really showed (Table 1 below).

While \$115.15 per acre for corn seems like a large increase, the increase from 2007 until 2008 may be just as large in one year. Purdue University is calling for a 16 percent increase for 2008 expenses, but with

the cost of irrigation in Nebraska, we will certainly be higher than that. If we have a 25 percent increase, it will cut the net return per acre to 16 percent of 2007, or only less than \$20/ac.

The increase in cost of production means an increased level of risk on each acre of production. This increased level of risk means that if and when things turn for the worse, the ability for your financial health to quickly go bad, and be worse than ever before, is at a higher level than ever experienced. The good part of increased risk is the increased level of reward. Good years, like 2007, need to be used to improve the financial health of the farm business, so that when the bad year(s) come your business will be strong enough to withstand it.

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Table 1.

	2002 COP/AC	2007 COP/AC	INCREASE
Irrigated Corn	\$296.96	\$412.11	39%
Irrigated Beans	\$221.03	\$298.06	26%
Dryland Wheat	\$92.70	\$168.92	82%