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Net Farm Income Remains Low

For the second year in a row, 2016 featured record corn and soybean yields for many producers, relatively low crop and livestock prices, and very modest average net farm income levels in southern Minnesota.

The Farm Business Management (FBM) summary for southern and west-central Minnesota was recently released by Farm Business Management instructors. This summary includes an analysis of farm business records from farms of all types and sizes in southern and western Minnesota. This annual farm business summary is probably one of the best gauges of the profitability and financial health of farm businesses in the region on an annual basis.

The following are some of the key points and data that were in the 2016 FBM summary:

Background data

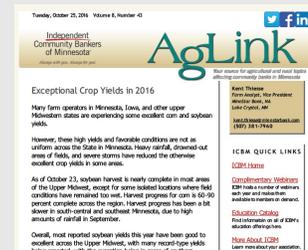
- A total of 1,380 farms from throughout south-central, southwest, southeast, and west-central Minnesota were included in the 2016 FBM summary.
- The average farm size was 693 acres. The top 20 percent of net income farms averaged 1,137 acres, while the bottom 20 percent net income farms were also above average at 888 acres.
- 54 percent of farm operations were cash-crop farms and 17 percent were single-entity livestock operations.
- 372 farms (27%) were under \$250,000 in gross farm sales in 2016; 330 farms (24%) were between \$250,000 and \$500,000 in gross sales; 354 farms (26%) were between \$500,000 and \$1 million in gross sales; and 324 farms (23%) were above \$1 million in gross sales.
- In 2016, the average farm business received \$19,150 in government farm program payments, representing approximately 41% of the average 2016 net farm income, which compares to nearly 85% in 2015. The larger farm program payments are due to lower crop prices in recent years.

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- The average family living expense in 2016 was \$71,026, which compared to \$58,037 in 2015, with a large portion of the increase related to medical expenses and health insurance costs. The average non-farm income in 2016 was \$24,352, compared to \$39,527 in 2015.
- In 2016, the average farm business spent \$844,795 for farm business operating expenses, capital purchases, and family living expenses. Most of these dollars were spent in local communities across the region.

Farm financial analysis

- The average net farm income for 2016 was \$46,472, which was 25% above the 2015 average net farm income of 37,070. However, 2016 was the second lowest net farm income level in the past decade. Both the gross farm income and total farm expenses declined by about 6 percent from 2015 to 2016. The average gross income for 2016 is approximately 6 percent lower than the 2011 level. However, 2016 cash expenses were about 3 percent higher than 2011.
- The net farm income is the return to labor and management, after crop and livestock inventory adjustments, capital adjustments, depreciation, etc. have been accounted for. This is the amount that remains for family living, non-farm capital purchases, income tax payments, and for principal payments on farm real estate and term loans.
- As usual, there is a large variation in net farm income for 2016, with farms in the top 20 percentile of profitability averaging a net farm income of \$228,908, and the bottom 20 percent averaging a negative net farm income of \$-98,728. Nearly 40 percent of farm operations listed a negative average net income for 2016.
- The farm term debt coverage ratio in 2015 and 2016 dropped below 100%, which means that the average farm operation did not generate enough net farm income to cover the principal and interest payments on existing real estate and term loans, and had to use working capital or non-farm income sources to cover the difference.

Bottom line

Overall, net returns from both crop and livestock operations were positive for a majority of farm operators in 2016, but net returns were also negative for an increasing number of producers.

Fortunately, the record 2016 crop yields for many crop producers helped offset the low crop price levels in 2016, and livestock profit margins started to improve later in the year. The overall average financial health of FBM farm businesses remained fairly strong in 2016. However, there are some caution flags on the horizon, with lower working capital, increased debt-to-asset ratios, and extremely tight term-debt coverage ratios.

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