

Kansas Agriculture: An Economic Overview
Kansas Farm Management Program

Martin Albright

Administrator, Kansas Farm Management Program
Department of Agricultural Economics
K-State Research and Extension
308 Waters Hall
Kansas State University
Manhattan, KS 66506
phone: (785) 532-1513
fax: (785) 532-6925
e-mail: albright@agecon.ksu.edu

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Abstract

Net Farm Income averaged \$39,197 per farm in 2000 for the 2,083 farms in the Kansas Farm Management data bank. This represents a 7.7% drop from the 1999 average of \$42,488, a 10.8% decline from the 5 year average of \$43,946, but a 3.9% increase over the 10 year average of \$37,727. Dry growing conditions and rising energy prices were key factors in the decline in net farm income. However, the commercial Kansas farm is in relatively good financial health. Government payments and stronger livestock returns have allowed producers to maintain adequate cash flow and debt service. Strong land values, partially a function of high government payments, are also keeping the financial picture strong.

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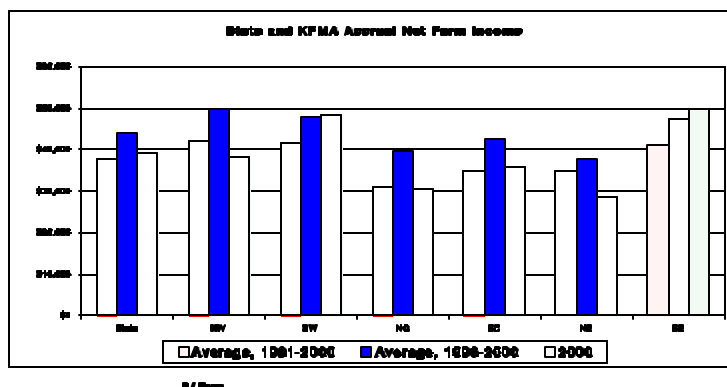
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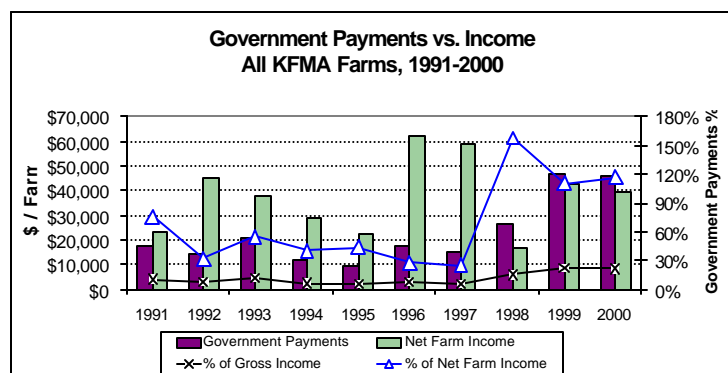
The K-State Research & Extension Kansas Farm Management Association (KFMA) *ProfitLink* Program collects and analyzes financial and production information from farms across the state. This information is verified by Extension Agricultural Economists for completeness and accuracy. Of the 61,593 Kansas farms counted in the latest Agricultural Census¹, 13,436 farms have sales of \$100,000 or more. The KFMA farms are full-time commercial operations mainly representative of farms with gross sales exceeding \$100,000 (KFMA State average = \$214,104). The farms in the sample are also representative of the various farming areas and farm types in Kansas. Kansas Farm Management data represent the operators share of all income, expense, and balance sheet items.

The *Executive Summary*, attached as an appendix, summarizes many of the key income, expense, and financial indicators for KFMA member families. The Department of Agricultural Economics issues this report soon after the 23 Extension Economists have finalized their data with the assistance of the K-MAR-105 staff. The *Executive Summary* provides the first glimpse each spring at key income and financial trends for Kansas farmers at the State and Farm Management Association level.

Net Farm Income (Accrual Basis)



Accrual Net Farm Income, which gives a much clearer picture of the financial picture, averaged \$39,197 per farm in 2000 for the 2,083 farms in the data bank. This represents a 7.7% drop from the 1999 average of \$42,488, a 10.8% decline from the 5 year average of \$43,946, but a 3.9% increase over the 10 year average of \$37,727. Dry growing conditions and rising energy prices were key factors in the decline in net farm income.



For the 3rd year in a row, all government payments, which include Agricultural and Marketing Transition (AMTA) payments, CRP payments, Market Loss Assistance (MLA) payments, Oilseed payments, and Loan Deficiency Payments (LDP) and Marketing Loan payments, exceeded Net Farm Income. Government payments remain an important contributor to gross and net farm income.

Net Farm Income is a return to Operator Equity, Labor and Management. Therefore, family living expenses (and income taxes) and a return to the producer's equity and labor have not been subtracted from Net Farm Income. Machinery replacement costs may be partially allocated by the non-cash depreciation

¹USDA 1997 Census of Agriculture Kansas State and County Data, Vol. 1, Part 16, March 1999.

included in total expenses.

Family living expenses and Federal and State Income taxes are a significant expenditure for Kansas farm families. Family living expenses were \$34,467 in 2000 and \$8,438 was paid out for federal and state income taxes and self employment taxes, making the total outflow of expenditures for family living and taxes \$42,905. Family living expenditures and income taxes are paid from one or a combination of three sources of income: Net Farm Income, Net Non-Farm Income and/or Borrowed Capital. Thus, \$23,869/farm was left to contribute towards debt service, machinery replacement, and net worth.

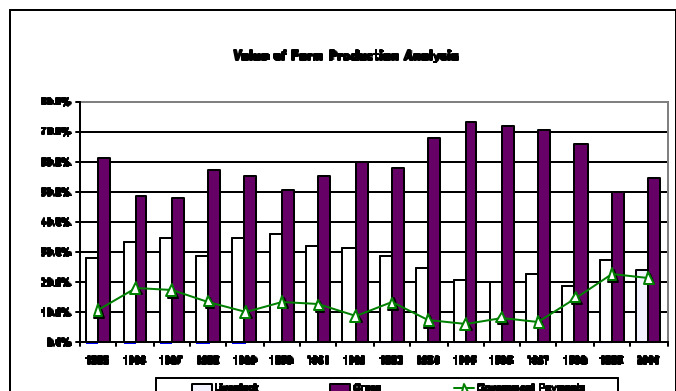
2000 KFMA Income / Expense Analysis, Farm and Non-Farm							
	NC	SC	SW	NE	NW	SE	State
# Farms in Analysis	131	50	87	44	151	100	564
Net Farm Income	\$28,344	\$31,618	\$34,883	\$19,343	\$38,330	\$43,460	\$34,319
Non-farm Income	\$37,809	\$26,972	\$34,745	\$36,793	\$29,565	\$28,191	\$32,455
Total Net Income	\$66,153	\$58,590	\$69,628	\$56,136	\$67,895	\$71,651	\$66,774
Family Living Expenditures	\$31,968	\$33,181	\$38,034	\$32,468	\$37,256	\$31,730	\$34,467
Income Taxes	\$7,901	\$6,560	\$10,729	\$8,634	\$10,169	\$5,351	\$8,438
Total Non-Farm Expense	\$39,869	\$39,741	\$48,763	\$41,102	\$47,425	\$37,081	\$42,905
Available for debt service / machinery replacement, etc.	\$26,284	\$18,849	\$20,865	\$15,034	\$20,470	\$34,570	\$23,869

For example, KFMA-NC farms keeping detailed family and non-farm income-expense information for 2000 had total Net Farm Income of \$28,344 and Net Non-Farm Income of \$37,809 for a total Net Income of \$66,153. Total family living expense was \$31,968 and income taxes were \$7,901 for a total of \$39,869. Over 57% of all income came from off the farm in 2000 for these 131 NC-KFMA farms. Thus, \$26,284 was available for debt repayment, machinery replacement, and net worth accumulation.

Gross Income Sources - The gross value of crops produced ended its four year decline as a percentage of total Value of Production in 2000. Higher crop prices, especially the small Dec-00 grain rally which increased the ending inventory values, were the major determinant.

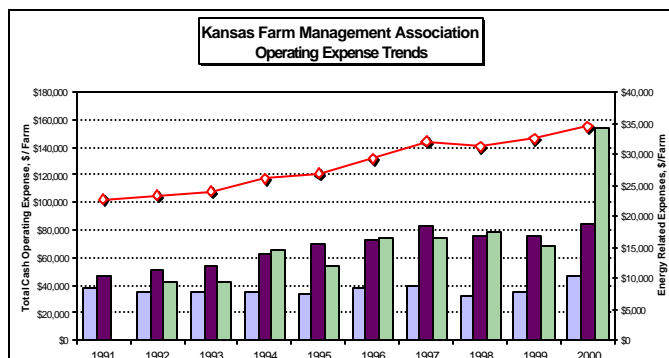
Livestock Value of Production, while slightly lower than 1999, posted another strong year as a percentage of total Value of Production relative to the late 1990's. Continued strength in the cow-calf and swine enterprises combined to keep livestock at 23.8% of gross.

Government payments continue to be a significant component of total Value of Production, finishing 2000 over 21%. This is



nearly triple the values seen during the mid-1990's. As the *Executive Summary* illustrates, government payments are generally highest per farm in the western areas of Kansas (in absolute dollars) and decline as one moves east. Government payments would have been higher if not for the drought-stricken yields which lowered Loan Deficiency Payments. LDPs are paid on a per bushel basis (difference between the loan rate and the cash price) on actual production. Thus in areas with lower yields, total government payments were lower.

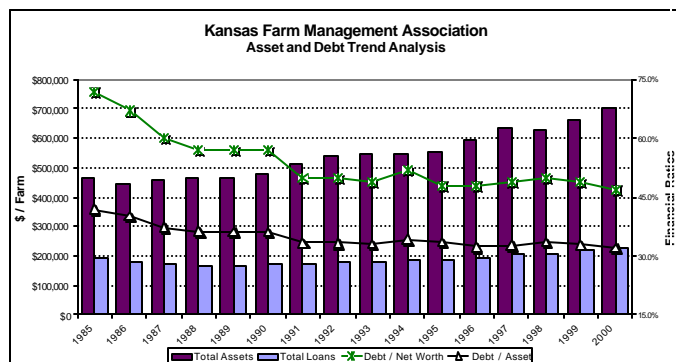
Farm Expenses- Cash operating expenses increased 6.2% to \$155,136 per farm. Rising energy prices had a significant impact on Kansas farmers. Higher diesel and natural gas prices increased fuel, irrigation energy, and fertilizer costs. Gas-fuel-oil expenses increased \$2,551 per farm or 33%. Irrigation energy costs for farms classified as cash crop irrigated farms increased 127% to \$34,206 per farm. Higher energy costs were compounded by increased volume of water being pumped due to hot, dry growing conditions. Finally, fertilizer costs increased \$1,734 or 10.3% per farm. Sharply higher natural gas prices which translated into higher nitrogen fertilizer



prices were the primary determinant of the increased fertilizer costs. Given that energy and fertilizer costs remain elevated, farmers should be evaluating their optimal crop mixes, fertilizer application rates, and tillage practices in 2001.

Financial Variables - Grain and livestock inventories comprise a significant portion of current assets. Current assets increased an average of \$2,973 in 2000. Again, the small grain rally in late 2000 contributed somewhat to this increased inventory valuation. Intermediate and long-term assets increased \$32,200 in 2000, primarily a reflection of land value adjustments.

Debt increased \$5,695 per farm in 2000 while the Debt/Equity Ratio declined to 0.47. Farm Net Worth (Equity) increased \$29,478 from 1999. Machinery is valued at a remaining economic value which may tend to lag actual fair market value. Therefore, the Debt/Equity ratio in the KFMA Analysis tends to be higher (worse) when compared to national benchmarks. The D/E Ratio in the mid-1980's for KFMA farms increased from 0.48 in 1980 to 0.72 in 1985, then dropped to a more comfortable 0.50 in 1991.



Total loans have gradually increased since 1991 as farms have increased in size and machinery has replaced labor. The total debt per farm is 15-20% above the mid-1980's, but asset values are over 50% greater than in the mid-1980s. Debt is less than one-third of the average farms assets today compared to almost 40% of asset value in the 1980s. The Debt/Asset Ratio fell to 0.32 for the KFMA farms in 2000. The

commercial Kansas farm is in relatively good financial health. Government payments and stronger livestock returns have allowed producers to maintain adequate cash flow and debt service. Strong land values, partially a function of high government payments, are also keeping the financial picture strong.