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The Difference in Agriculture

NEWS & INFORMATION FROM THE FIRST TRUST & SAVINGS BANK

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Managers Take

I'd like to think we had a successful harvest, considering the many set-backs endured this season. Despite planting delays, droughty conditions early in the growing window, all the way to shipping delays this fall, the 2022 season may end up just short of 2021 in regards to profitability. Local yields on average were outstanding, with a few areas affected by the early droughty conditions more than others. All of that being coupled with commodity prices not seen year to year since the ethanol boom beginning in 2008.

With that being said, and with fear of being doom and gloom, the 2023 and beyond outlook is less optimistic. After the record profits of the last two years, volatile commodity prices, accelerating fertilizer costs, and macro global issues, there are many obstacles to maintaining the profitability seen recently.

In this issue of The Difference in Agriculture, more in-depth budgetary, marketing, and forward-thinking questions will be explored as we prepare for 2023 and beyond.

Take care,

Scott Zumwalt
Agri-Business Specialist

Healthcare Lags in Rural America

Lisa Foust Prater, Family & Farmstead Editor, Successful Farming, 11/17/2022

Hospital closings and a lack of primary and specialty healthcare providers are causing big problems in rural America.

The U.S. Department of Health and Human Services Agency for Healthcare Research and Quality (AHRQ) has just published its 20th annual National Healthcare Quality and Disparities Report. Congress mandates this study to demonstrate disparities in care received by those in different socioeconomic and racial groups.

The report outlines quality of care in six areas: patient safety, person-centered care, care coordination, effective treatment, healthy living, and care affordability. It aims to answer the

continued on page 2

question, "How successfully does the nation ensure that people actually benefit from the scientific advancements and effective treatments available today?"

COVID-19 had a dramatic effect on health measures in this report. It says that in 2020, life expectancy for Americans decreased for the first time ever because of the pandemic. That decline was greater for the Hispanic and Black population.

RURAL AMERICANS DISPROPORTIONATELY AFFECTED

The percentage of those covered by health insurance has increased greatly over the past decade, although American Indian, Alaska Native, and Hispanic groups are much less likely to have insurance than other groups. There are more people under age 65 with health insurance than ever before, but rural communities, along with low-income households, minorities, and inner-city populations are significantly less likely to have coverage.

Nearly 63% of all counties in the U.S. are seeing a shortage in primary healthcare professionals to the extent that access to services is threatened. Rural counties are disproportionately affected by this shortage compared with their urban counterparts. There are 28 million people living in non-metropolitan counties designated as having a shortage of healthcare professionals.

This trend started before COVID-19. Between 2010 and the start of the pandemic, 135 rural hospitals closed, leaving a gap in services in those areas.

The Government Accountability Office found people living in areas where these hospitals closed lost access to more than just critical, emergency, and after-hours care. They also had to travel farther to access dental, mental health, substance abuse, and obstetric services.

The report examined the increased travel required for different services after these hospital closures. In 2012, before the closures, the median distance patients had to travel for an emergency department, general inpatient care, operating room, intensive care, obstetric care, or emergency psychiatry was under five miles. After the closures in 2018, all of those services were more than 20 miles away. Dental care went from around three miles to nearly 40 miles, and alcohol and drug treatment went from just over five miles to more than 40.

MATERNAL HEALTH

Maternal health is affected by location, with higher mortality and morbidity rates among rural patients. Only 6% of all OB-GYNs are located in rural areas, and the ratio of OB-GYNs to the population is lower in rural than metropolitan areas. Other factors contributing to maternal health include food insecurity, substance abuse, pollution, and COVID-19.

The report says the Department of Health and Human Services has identified maternal health as a national priority, and is working to address the higher pregnancy-related mortality rate among rural women. It also states the White House Blueprint for Addressing the Maternal Health Care Crisis outlines the Biden administration's intentions to address this issue through investments in rural maternal care.

ORAL HEALTH

The study has identified more than 7,000 geographic areas that are considered dental health professional shortage areas, and nearly three-quarters of those are rural.

It says children and adults in rural areas are less likely to have had a dental visit in the past year than those in metropolitan areas. This may be related to the data showing metropolitan residents are consistently more likely year-over-year to have private dental insurance than those in rural areas, although the report shows a lack of local access is an even greater barrier.

continued on page 3

that is covered by the farm income. In addition, there is another $29 per acre in social security and income taxes to be covered by the farm in 2021. The five-year average for these taxes was $30 per acre. A 24 cent price change on 200 bushels of corn per acre is equal to the 2021 family living cost that would be covered by the farm. If you added the amount of social security and income taxes that would be a 38 cent price change on 200 bushel of corn per acre.

More information about Farm and Family Living Income and Expenditures can be found here.

The author would like to acknowledge that data used in this study comes from farms across the State of Illinois enrolled in Illinois Farm Business Farm Management (FBFM) Association. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 5,000 plus farmers and 70 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM field staff provide on-farm counsel with computerized recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State Office located at the University of Illinois Department of Agricultural and Consumer Economics at 217-333-8346 or visit the FBFM website at www.fbfm.org.

A video representation of this and other 2021 results can be found on the farmdoc YouTube channel at https://go.illinois.edu/FBFM2021 government payments were small in 2021. Costs had begun to rise, but many farmers had yet to experience a significant increase in fertilizer and other expenses in 2021.

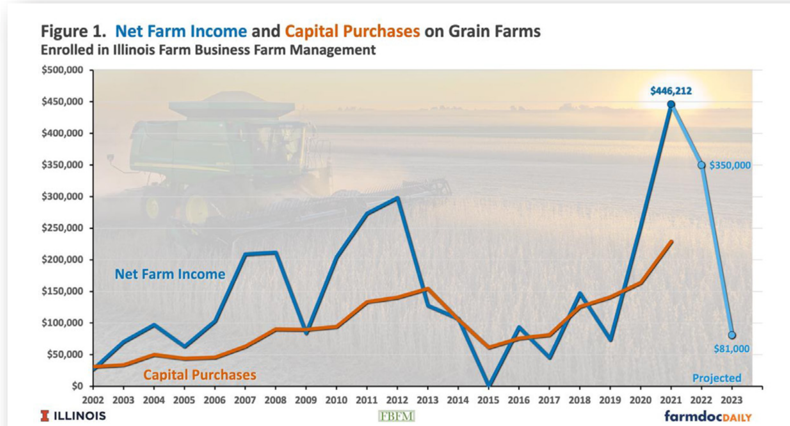


Figure 1. Net Farm Income and Capital Purchases on Grain Farms Enrolled in Illinois Farm Business Farm Management

Grain Farm Projections for 2022 and 2023

The projected 2022 average income is $350,000 per farm, $96,000 lower than the 2021 level. Prices used in 2022 projections are $6.40 for corn and $14.00 for soybeans. Those 2022 prices are well above the 2021 actual prices:

- The $6.40 corn price for 2022 is $.50 higher than the $5.90 price for 2021 and

- The $14.00 soybean price is $.60 higher than the $13.40 price for 2021.

Higher commodity prices were more than offset by cost increases. From 2021 to 2022, non-land costs have increased by over $120 per acre for corn and $100 per acre for soybeans (see Figure 1 of farmdoc daily, August 2, 2022).

For 2023, incomes are projected at $81,000 per farm, a projection close to the 2014-2019 average of $78,000 per farm. Yields in 2023 are trend estimates. Costs are projected to continue to increase. Prices used in projections are $5.50 per bushel for corn and $13.00 per bushel for soybeans, still high by historical standards, but lower than 2022 prices. Given the higher cost structure, prices above $5.00 per bushel for corn and $12.00 for soybeans are now needed to break even (farmdoc daily, December 21, 2021).

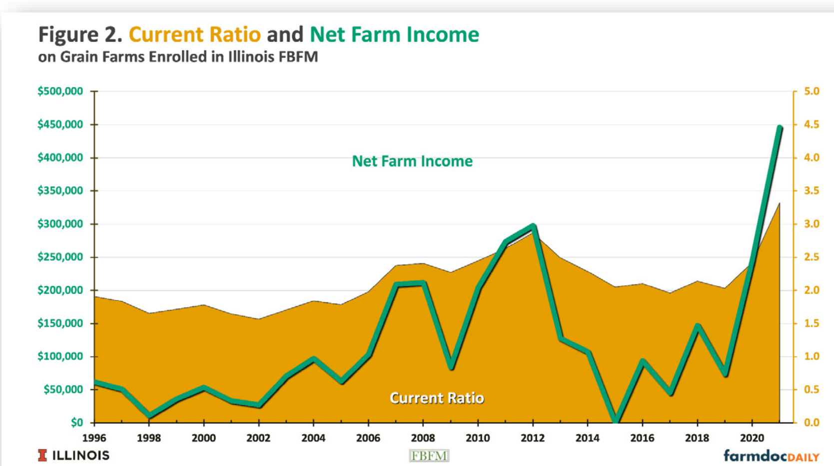


Figure 2. Current Ratio and Net Farm Income on Grain Farms Enrolled in Illinois FBFM

Financial Position of Farms

Farmers have generally made capital investments on their farms during this period of higher incomes. Average capital purchases on grain farms were $164,000 in 2020 and $229,000 in 2021. The 2020 value was a record level, and the 2021 value eclipsed this 2020 record level (see Figure 1). Farmers typically make larger capital purchases during years of higher income and then reduce purchases during years of lower income. For example, capital purchases were lower from 2014 to 2017, a period of lower income than from 2011 to 2013, a period of much higher income (see Figure 1). When incomes inevitably fall, many farmers have built equipment reserves and will be able to lower their capital purchases.

Farmers have also built their working capital, as indicated by the current ratio. The current ratio equals current assets divided by current liabilities, with higher values indicating more current assets relative to 3 farmdoc daily November 15, 2022 current liabilities. In 2021, the current ratio was 3.32, the highest level since 2000 (see Figure 2). The 2021 ratio exceeded the previous high of 2.83, set after the high-income year in 2012.

Current assets are primarily composed of cash and marketable securities, prepaid expenses, and grain inventories, with grain inventories valued using market prices at year end. Potential future declines in grain prices will necessarily reduce current assets and the current ratio. Even given this factor, farmers are in a strong current position.

continued on page 5

Debt relative to assets also has decreased in recent years. The debt-to-asset ratio was 21% in 2021, a relatively low level. Debt-to-asset ratios averaged 18% in 2012 (see Figure 3).

Overall, debt-to-asset ratios have been at relatively low levels in recent years, with increasing asset values playing a significant role in the low debt-to-asset ratio. Debt levels per acre have increased over time and will likely increase again in 2023, as the high levels of the cost will necessitate larger operating loans on many farms. Still, debt-to-asset positions are relatively strong.

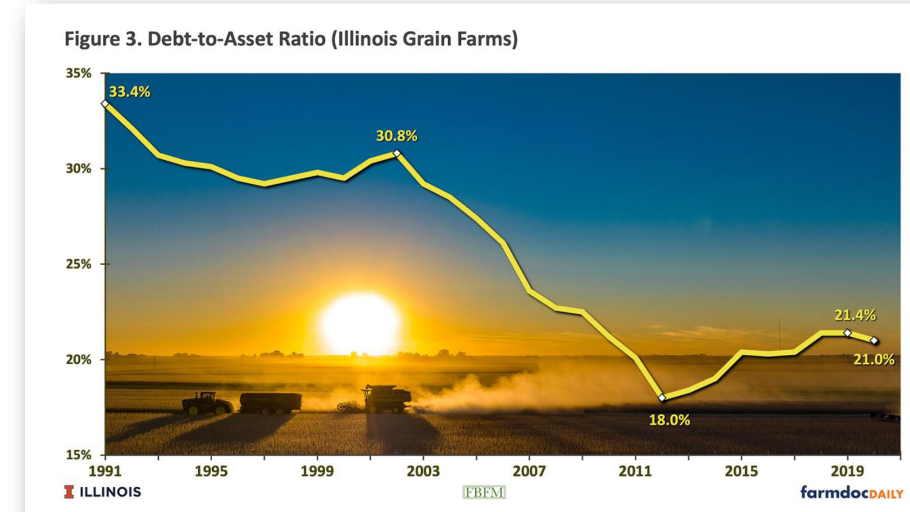


Figure 3. Debt-to-Asset Ratio (Illinois Grain Farms)

The above shows averages across all Illinois grain farms. Some farms will have fewer financial reserves. For example, younger farmers typically have higher debt-to-asset ratios and lower current ratios than an older cohort. Moving forward, farmers with more debt may face additional adversity as interest rates have risen.

Summary

Grain farm incomes have been above the historical average in 2020 and 2021, and projections indicate another above-average income year in 2022. Those incomes have occurred because of relatively high commodity prices. In addition, farmers have used this period of higher incomes to build equipment and financial reserves.

Projections are for a return to lower incomes in 2023. Obviously, much remains to be seen before 2023 incomes are realized. Higher incomes are possible with a combination of higher yields and continued 2022 levels of prices. However, current fall bids for 2023 indicate lower prices, likely built on an expectation of relatively good yields in South and North America. As is always the case, much uncertainty exists for incomes a year in advance.

However, it is reasonable to expect grain farm incomes to return to a lower level in the future, as always happens in agriculture. Higher costs will lead to lower incomes even at historically high corn and soybean prices. Prices below $5.00 per bushel for corn and $12.00 for soybeans will result in low incomes if not accompanied by higher yields or declines in costs.

Still, farmers are in excellent financial positions and will continue to build their financial positions in 2022. Farmers are preparing for lower incomes that inevitably occur in agriculture.

References

Schnitkey, G., K. Swanson, C. Zulauf and J. Baltz. "2023 Crop Budgets: Higher Costs and Lower Returns." farmdoc daily (12):113, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, August 2, 2022.

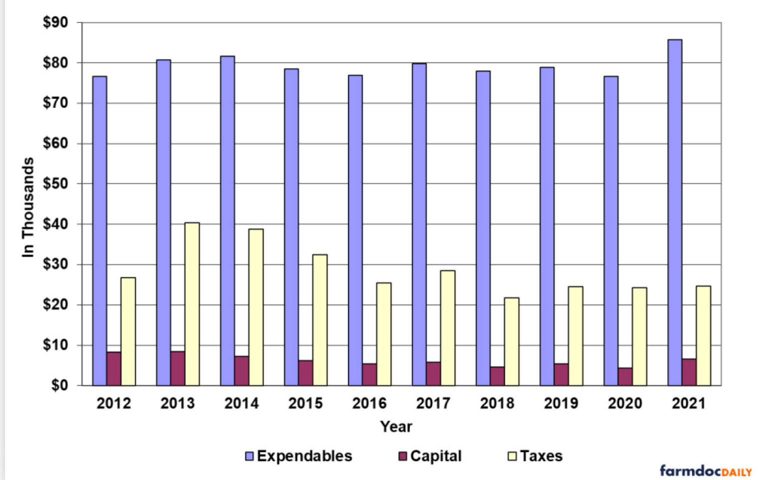
Schnitkey, G., C. Zulauf, N. Paulson and K. Swanson. "2022 Break-Even Prices for Corn and Soybeans." farmdoc daily (11):168, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, December 21, 2021

When Creating 2023 Crop Budgets, Keep in Mind Family Living Costs

Zwilling, B. "When Creating 2023 Crop Budgets, Keep in Mind Family Living Costs." farmdoc daily (12): 159, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 21, 2022.

In 2021, the total noncapital living expenses of 1,213 farm families enrolled in the Illinois Farm Business Farm Management Association (FBFM) averaged $85,828--or about $7,200 a month for each family (Figure 1). This average was about 12 percent higher than in 2020. Another $6,509 was used to buy capital items such as the personal share of the family automobile, furniture, and household equipment. Thus, the grand total for living expenses averaged $92,337 for 2021 compared with $81,026 for 2020, or a $11,311 increase per family.

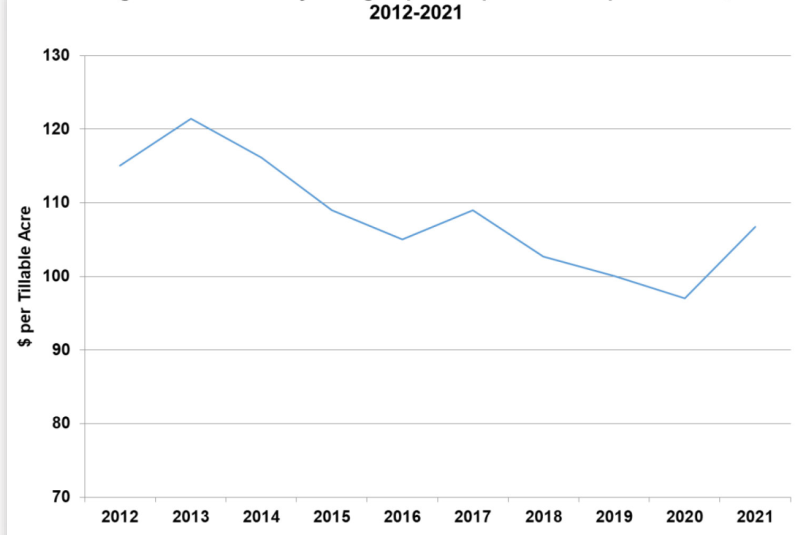
Figure 1. Expendables and Capital Purchases for Family Living and Social Security and Income Taxes, 2012-2021



Income and social security tax payments increased 1.8 percent in 2021 compared to the year before. The amount of income taxes paid in 2021 averaged $24,654 compared to $24,214 in 2020. Net nonfarm income increased, averaging $51,409 in 2021. Net nonfarm income has increased $14,631, or 39.8 percent in the last ten years.

In Figure 2, total family living expenses (expendables plus capital) are divided by tillable operator acres for 2012 to 2021. In 2012, all of the family living costs per acre averaged about $115 per acre. This increased to $121 per acres in 2013, but decreased to $97 per acre in 2020 and then back up to $107 in 2021. $108 was the 10-year average of total family living expense per acre. If we compare this to the 10-year average of net farm income per acre of $517, then 20% of the net farm income per acre is family living expense. However, that is due to a very high per acre net-farm income in 2021, so if we leave out 2021, then it would be $139 leading to total family living expenses to be 77% of net farm income per acre. If we look at the average year over year change for the last ten years for family living per acre, the annual change was 0.1% per year. The five-year annual change per year would average 0.5%. Therefore, as you work on your crop budgets, keep in mind that a $107 per acre family living is equal to a 54 cent per bushel price change on 200 bushels per acre for corn.

Figure 2. Total Family Living Expenses per Tillable Operator Acre, 2012-2021



When you take total family living expenses minus net nonfarm income this equals $47 per acre in 2021 and was $48 per acre for the five-year average. This would be the part of family living

continued on page 7

Strategies proposed by several experts for reducing dental workforce shortages in rural areas are shared in the report. They include prioritizing students from rural areas for admission to dental schools, including rural dentistry in dental school curricula, recruiting rural dentists and oral healthcare providers through financial and tax incentives or loan forgiveness, enabling primary care providers to offer some dental services, and enabling other health professionals like dental therapists to provide oral healthcare.

SUBSTANCE ABUSE

Drug overdose deaths involving synthetic opioids grew at a similar rate between 2018 and 2020 regardless of geographic location.

While opioids are definitely a problem in rural areas, they had the lowest death rate per capita of all geographic classifications, regardless of race. In fact, the death rate among non-Hispanic Black people in large urban areas was four times as high as the same group in rural areas.

BEST AND WORST STATES

When ranked nationally across all care segments, Maine, Massachusetts, New Hampshire, Pennsylvania, Rhode Island, Iowa, Minnesota, North Dakota, Wisconsin, Colorado, and Utah had the highest overall scores.

The lowest ranked states were Alaska, Arizona, California, Montana, Nevada, New Mexico, Wyoming, Georgia, Mississippi, Oklahoma, Texas, and New York. The District of Columbia also ranked in the bottom tier.

Weekly Farm Economics: Grain Farm Income Projections for 2022 and 2023

Schnitkey, G., C. Zulauf, N. Paulson, and J. Baltz. "Grain Farm Income Projections for 2022 and 2023." farmdoc daily (12): 172, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, November 15, 2022

Grain farm incomes have been above average in 2020 and 2021 and are projected to remain above average in 2022. For 2023, projections are for lower incomes because of higher costs and projected lower grain prices. Much uncertainty exists about 2023. Farmers have built equipment and financial reserves to withstand low incomes that will inevitably happen sometime in the future.

Grain Farm Income History

Figure 1 shows the average net income on Illinois grain farms enrolled in Illinois Farm Business Farm Management (FBFM), a cooperative education and farm record-keeping service operated in Illinois. Each year's income is the average of those farms whose income comes predominately from grain operations. Average farm size and tenure have changed over time as farms have grown. In 2020, the average farm size was 1,300 tillable acres, with 23% of the farmland owned.

Net farm incomes were at high levels in 2020 and 2021. In 2020, the average farm income was $225,000 per farm, the third highest average income, only exceeded by $274,000 in 2011 and $298,000 in 2012. Net farm income in 2021 was $446,000, a record level. Higher 2020 and 2021 incomes stood in contrast to average incomes from 2014 to 2019, when net incomes averaged $78,000 per farm.

Grain farm income in 2021 was high primarily because of above-trend yields and historically high grain prices. In 2021, Illinois farmers averaged $5.90 per bushel for corn and $13.40 for soybeans. Both 2021 corn and soybean prices were well above averages from 2014 to 2020: $3.65 for corn and $9.64 for soybeans. In addition,

continued on page 4