



Farm Management Newsletter

Decatur, Giles, Hickman, Lawrence, Lewis, Marshall, Maury, Perry and Wayne Counties
John Campbell, Area Farm Management Specialist

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NEW YEAR PLANS UPCOMING

With the new year upcoming, a number of questions present themselves to producers when considering plans for next year. The recent volatility both in the prices of inputs and market prices for farm products raises concerns about the profitability of certain enterprises. Producers will be well-served to begin constructing preliminary budgets for next year's production. Producers can develop budgets using varying prices for inputs and sales to get an idea of the potential profitability of various enterprises. Enterprise budgets are an important component of the information that a farm family needs to complete intensive farm plans. Intensive farm planning using the FINPACK Computer Farm Analysis is available to all Tennessee farm families through Extension's MANAGE Program. Intensive planning helps farm families answer the following questions about their financial situation. "Where am I?" "Where do I want to be?" "How do I get there?" Farm families can utilize long-range planning to compare the potential of new enterprises, new resources, different sizes or combinations of current enterprises, changes in efficiency or changes in debt structure. Long-range planning enables you to easily investigate the feasibility of a change before it is implemented. Cash flow planning projects farm cash flows for one or more years of business. Based on your plans for crop and livestock production and sales, capital purchases and sales, loan payments and other transactions, cash inflows and outflows are projected monthly or annually for up to ten years. You can use cash flow planning to project annual operating loan needs and the timing of borrowing and repayment during the year. Intensive planning helps prevent problems before they occur. There is no cost to participating farm families and all financial information is strictly confidential. Contact your county University of Tennessee Extension office for more information.

FARM MANAGEMENT WEB SITE

For more information on Extension farm management educational programs and educational information on a variety of topics, go to my web site at www.utextension.utk.edu/managecamp. The website also has links to a variety of agricultural related sites that provide educational and market information.

CUSTOM RATES & EQUIPMENT COST

One of the more frequently asked questions to an Extension Agricultural Agent is, "What should I charge (or pay) for custom work?" While the questioner is often seeking a single, definite answer, a correct answer is much more difficult. Extension does not have a list of custom rate charges that were calculated to fit all situations. Several states survey farmers to obtain custom rates that are actually being paid and/or received. These survey results are then published giving an average charge and low and high charge for each operation that was surveyed. This data may or may not apply to a particular situation. The data is also specific to the time of the survey and may not reflect current input costs. This has been particularly true this year due to record high fuel prices. I believe that many custom operators do not charge enough to cover all their costs. Custom operators should also include a charge for their labor in the total rate.

So let's look at the factors that determine actual equipment cost per acre. The American Society of Agricultural Engineers (ASAE) has adopted operating standards for farm equipment. These standards are used to calculate the time required to complete various equipment operations based on the width of the implement, operating speed in miles per hour, and field efficiency. The efficiency rate reflects time lost in the field due to turning and idle time, materials handling time, cleaning clogged equipment, and machinery adjustments. New cost, expected life in years, annual hours of use are used to calculate depreciation. (This is not the same calculation used for depreciation for income tax purposes.) Interest is calculated as an opportunity cost for the money that is invested in the equipment. Housing and insurance also add to the total cost. Fuel costs are based on the horsepower of the engine being used. The University of Minnesota uses a diesel fuel consumption factor of 0.044 gallons of fuel per PTO horsepower per hour. Add another 10% to 15% for oil and filter costs. This tells us that being over horsepower for an operation increases costs.

I hope this information helps to explain why "What should I charge/pay for custom work?" is not an easy question to answer. In the end, it is up to the two parties involved to negotiate a rate suitable to them.

UPDATE FINANCIAL STATEMENT JANUARY 1

An excellent financial practice to adopt is that of completing an updated financial statement (balance sheet) on January 1 of each year. A balance sheet is a statement of how your money is invested in the farm business (assets), and the financing methods used (liabilities and owners equity) at a given point. In brief, it is a record of what you own and what you owe. Assets and liabilities are broken into three categories: current, intermediate, and long term. Assets types are based primarily on how easily can each be turned into cash. Liability types generally depend on the length of the loan. A balance sheet completed at regular intervals can provide a historical database of information that can show the farm family the amount of financial progress (or lack there of) over a period of years.

CONSUMERS EATING AT HOME MORE

Data compiled from the monthly Advanced Retail Sales survey reveals consumers are eating at home more and eating out less. This is not good news for the meat and dairy industries. Strong restaurant sales generally represent a higher demand for meat and cheese. This demand drops as families reduce restaurant purchases as a result of slowing economy. Grocery store sales and food service sales are measured by month-to-month percentage increases. The percentage increase in month-to-month food service sales has been on a downward trend since January 2006. This increase has dropped from near 9.5% in January 2006 to near 4% this past September. During this same time period, grocery store month-to-month sales increases have increased from 3.5% to near 7%.

2007 PRODUCTION EXPENSES

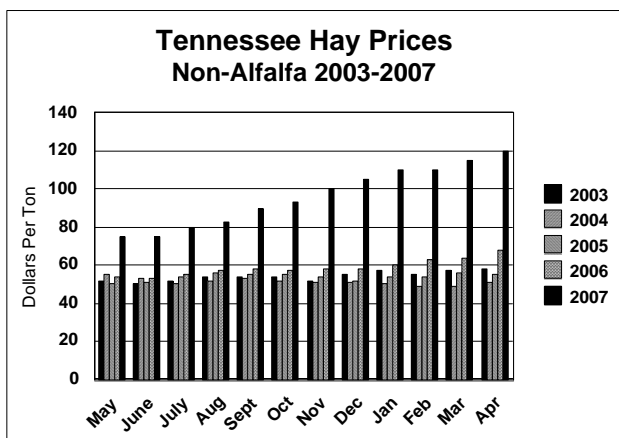
USDA has released data on farm production expenses for 2007. Total U. S. farm production expenses were \$260 billion, an increase of 9.3% from 2006 and a 30% increase over the past five years. Fuel costs increased 15% while fertilizer and lime costs were up 26% and feed 22%. It will be interesting to see these numbers for 2008.

COUNTY EXTENSION AGENTS

Decatur	Steve Glass	731-852-2831
Giles	Kevin Rose	931-363-3523
	Erin Marks	931-363-3523
	Darby Payne	931-363-3523
Hickman	Troy Dugger	931-729-2404
Lawrence	Calvin Bryant	931-762-5506
	Wendell Smith	931-762-5506
Lewis	Jason Morris	931-796-3091
Marshall	Rick Skillington	931-359-1929
Maury	Richard Groce	931-375-5301
	Dill Hughes	931-375-5301
Perry	Rick Ritter	931-589-2331
Wayne	Ken Burress	931-722-3229

HAY PRICES SURGE IN 2007

The fact that hay prices in Tennessee surged in 2007 is well known, especially to livestock producers searching for a hay supply after the freeze and drought. Data from NASS actually shows that prices started to increase in February 2007, before the freeze and drought. Low yields for the 2007 hay crop pushed prices to near \$120 per ton in April 2008. See the graph below. Hay prices had been relatively stable from 2003 through 2006.



WHO NEEDS AN ESTATE PLAN?

Conventional wisdom tells us the answer to this question is everyone. Many people have put much thought into their estate plans. Others have done nothing. In reality we all have an estate plan. We either create one for ourselves or the state of Tennessee creates one for us.

MANAGEMENT INFORMATION LINE

The Tennessee MANAGEMENT Information Line is available for all Tennessee farm families for confidential information about farm management, stress management and family financial management. Calls are answered by trained staff who understand farming and who are interested only in providing assistance to you. The toll-free number is 1-800-345-0561.

CLOSING NOTE

Seldom do you have control over the changes around you, but you do have control over your response.

For more information contact:

John C. Campbell
Area Specialist-Farm Management
P. O. Box 415, Columbia, TN 38402-0415
931-375-5301 jccampbell@utk.edu
Web Site www.uttextension.utk.edu/managercamp
MANAGEMENT Information Line 1-800-345-0561