



Farm Management Newsletter

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

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WHAT IS ON THE HORIZON?

Agriculture has never seen times such as these. Market prices for corn, soybeans, and wheat have reached record levels. But the costs of production inputs, especially fuel and fertilizer, are at new highs. Poultry processors have announced cut backs in production due to the higher feed prices. Feedlots finishing beef cattle are also operating in the red. This fact along with rising fuel prices have lowered the market price for feeder cattle in Tennessee. Higher feed costs to dairy producers are offsetting historically good prices for milk. Hedge fund investors have become heavily involved in the commodity futures markets raising some concerns over this influence on the markets. Some grain buyers have experienced problems with credit lines to meet margin calls and were forced to cease offering forward contracts to producers for fall delivery. Increased family living costs for all people could reduce demand for meat and dairy products. While I do not want to sound negative, I think it is vitally important for farm families to closely monitor their financial situation this year. There is probably more uncertainty this year that has been experienced in several years.

One important thing to consider this year is to carefully prepare enterprise budgets. By itemizing costs, you are more aware of the potential effect of changing input prices. It is also very important to monitor the markets and consider opportunities to lock in profitable prices when available. With higher production costs, the adverse effects of downturns in market prices will be greater.

All Tennessee farm families have the opportunity to work toward improving their farm financial management skills through intensive farm planning. Intensive planning using the FINPACK Computer Farm Analysis is one component of UT Extension's MANAGE Program. By utilizing intensive planning, families can often prevent problems before they occur. Some families find areas where considerable improvements can be made. Others find they are on the right track and that no major changes are needed. There is no cost to participating farm families and all information is confidential. Contact your county UT Extension office for more information. County office phone numbers can be found on page two of this newsletter.

INCREASING COSTS REQUIRE ANALYSIS

Often when costs for production inputs are rising rapidly, one might consider reducing a particular input in order to save money. Sometimes this may be the prudent thing to do, but at others it will not. Let's look at some examples.

Higher fertilizer costs may have hay producers considering reducing nitrogen applications. Dr. Gary Bates, Extension forage specialist, estimates a 30% reduction in grass hay yield when reducing nitrogen applications from 60 pounds actual N to 30 pounds. If hay yields are normally 2.5 tons per acre, a 30% reduction would 0.75 tons. Valuing hay at \$80.00 per ton, the value of the hay production lost is \$60.00. If nitrogen costs 72 cents per pound, the savings from reducing nitrogen application by 30 pounds is \$21.60. Saving \$21.60 in production costs to lower income by \$60.00 is not a very good deal.

Clover in grass pastures and hay fields will reduce the need for added nitrogen. A stand of 30% clover and 70% grass could produce 75 pounds of nitrogen per year. At 72 cents per unit of actual N, the clover replaces \$54.00 in purchased N.

The \$6.00 cost for a soil test may be a better bargain than ever before. If one soil sample covers 10 acres, the cost of sampling is 60 cents per acre. The difference in fertilizer cost between a low and medium test for phosphorus and potassium is about \$38.00 at today's prices. Spending 60 cents to save \$38.00 sounds like a good deal to me. This is definitely the year to analyze per unit costs and returns. Your cost may not exactly follow these examples. The important issue is for every producer to do your own calculations and make decisions based on that information.

FARM MANAGEMENT WEB SITE

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

DEBT COVERAGE RATIO

One critical factor in the success of a farm is the ability to generate sufficient cash to make scheduled loan payments. While lenders are very interested in the farms ability to make payments on time, families can also benefit from analyzing their debt repayment capacity. Debt repayment capacity can be analyzed by using the debt coverage ratio. Long-range planning using the FINPACK Computer Farm Analysis calculates this ratio. This ratio compares the net cash income before loan payments to the regularly scheduled loan payments for the year. All cash coming into the business and household (non-farm income) is included. It also includes cash farm expenses, family living expenses, and income tax payments.

Calculating Debt Coverage Ratio			
1		Net Farm Income	45,000
2	+	Interest Expense	15,000
3	+	Depreciation Expense	15,000
4	+	Non-farm Income	25,000
5	-	Family Living Expense	40,000
6	-	Income Taxes Paid	10,000
7	=	Debt Coverage Margin	50,000
8	÷	Total Annual Principal & Interest Payments	40,000
9	=	Debt Coverage Ratio	1.25

A goal for the farm business should be to have a debt coverage ratio of 1.25 or above. This would be generating \$1.25 of cash that is available to make \$1.00 of loan payments. The margin is important in years when income may be lower than expected. The higher the debt coverage ration, the stronger your repayment ability.

TARGET COST CUTTING EFFORTS

One of the goals of developing farm financial plans is to identify ways to increase income and/or reduce expenses. When targeting reducing expenses, you must avoid reducing income more than you saved. Concentrate on your largest expenses. The largest expenses are often purchased feed, fertilizer, chemicals, labor, and interest. Some might also want to add fuel and repairs to this list. Reducing your largest expenses by 5-10% will have a much greater impact on total expenses than completely eliminating some smaller categories.

RISING FOOD PRICES

Increased costs to food manufacturers are resulting in higher prices at the grocery store. The January-February all dairy Consumer Price Index (CPI) was up 13% over a year ago. The all food CPI was up 4% in 2007, the highest increase since 1990. The all food CPI for 2008 is projected up 3.5% to 4.5%. The largest gains are expected in fats/oils up 7.8% and cereal/bakery up 6.5% to 7.5%.

AMERICANS SUPPORT RENEWABLE FUELS

The Renewable Fuels Association commissioned the Mellman Group to survey American opinions on the use of renewable fuels. In the survey of 1,000 adults, 74% believe the U. S. should increase its use of domestically produced renewable fuels like ethanol. Eighty-seven percent believe the government should actively support the development of a domestic renewable fuels industry. Seventy-seven percent think Congress should encourage oil refiners to blend more ethanol with gasoline. Also, 84% said they do not believe ethanol production causes higher food prices. However, Ron Plain, University of Missouri agricultural economist, states that if every acre of every crop was targeted for ethanol production, the U. S. would still need 50 billion gallons of gasoline to supply current demand.

COUNTY EXTENSION AGENTS

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	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
Mauzy	Richard Groce	931-375-5301
	Dill Hughes	931-375-5301
Perry	Rick Ritter	931-589-2331
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CLOSING NOTE

People who live beyond their means should act their wage.

For more information contact:

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