



Farm Management Newsletter

Decatur, Giles, Hickman, Lawrence, Lewis, Marshall, Maury, Perry and Wayne Counties
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Summer 2009

HIGHER HORSEPOWER EQUALS HIGHER COST

Increases in fuel costs the past few years coupled with even more volatility of prices makes it more difficult for producers to accurately calculate their cost of operating farm equipment. The difference between \$2.00 per gallon for diesel fuel and \$4.00 is significant when looking at per acre equipment cost. One way to look for more efficiency in crop production is matching horsepower to the job. Are you using a higher horsepower tractor than needed? Some studies estimate diesel fuel usage at 0.044 gallons per PTO horsepower per hour. Using this rate, a 75 horsepower uses 3.3 gallons per hour while a 100 horsepower tractor uses 4.4 gallons per hour. When diesel is \$2.00 per gallon, the 100 HP tractor's fuel cost is \$2.20 more per hour than the 75 HP tractor. With \$4.00 diesel, the difference becomes \$4.40 per hour. When it is feasible to use a smaller tractor, cost savings can be realized.

CATTLE PRICES DOWN FROM 2008

Beef cattle prices on Tennessee Auctions are running lower than year ago levels. This is due to lower finished cattle prices and increased feed costs to cattle finishers. The downturn in the U. S. economy has also lowered consumer demand for beef. Increased dairy cow slaughter has pressured utility cow prices. The following table shows the differences for January through June prices compared to last year.

January-June Beef Cattle Price Comparison			
	2008	2009	% Diff.
300-400 Steers	119.88	112.41	-6.2
400-500 Steers	113.16	105.89	-6.4
500-600 Steers	105.89	100.10	-5.5
600-700 Steers	98.20	92.92	-5.4
700-800 Steers	92.40	87.24	-5.6
Utility Cows	53.50	48.52	-9.3
Kansas Fed Steers	91.82	83.30	-9.3

WHERE DO YOU STAND?

During tighter economic times it is often more important to pay attention to farm financial performance measures. Past history tells us that tough economic times cause some producers to pay less attention to important details. There are different areas of performance measures to help producers determine where they stand.

Liquidity determines whether all financial obligations can be paid on time. The **current ratio** measures the relationship between total current assets and total current liabilities. The higher this ratio, the better the farm is equipped to pay all the bills on time. **Working capital** is a measure of funds available to purchase inputs after the sale of current farm assets and payment of all current liabilities. The amount of working capital needed depends on the size of the operation.

Solvency refers to the level that farm assets are secured by debt. The **debt-to-asset ratio** is important here. Basically this ratio tells how much of the value of farm assets is covered by outstanding debt.

Profitability is the difference between income and expenses. **Net farm income** is an important measure of profitability. Annual rates of return on total farm assets and net worth can be calculated once profitability is determined. The level of profitability goes a long way in determining liquidity and solvency levels.

Financial efficiency ratios show what percent of gross farm income went to pay operating expenses, depreciation, and interest, and how much was left for net farm income.

Repayment capacity measures whether cash from farm operations and other sources will be enough to make all loan payments on time.

Intensive planning provided by Extension's MANAGE Program can help you calculate these measures for your farm. Contact your county UT Extension office for more information. All personal financial information is kept confidential and there is no charge for the program.

THOUGHTS FROM LEADING ECONOMIST

Dr. David Khol is recognized as one of the leading agricultural economists in the U. S. He recently did an hour long webinar titled "Agricultural in Uncertain Times." Here are some of the more interesting and important points that he made.

- The U. S. and Mexico have 5% of the world population, but account for 20% of the world economy.
- 87% of U. S. farm assets are in real estate.
- 80% of economics is psychological.
- Land is a wealth accumulator, not a cash flow provider.
- In the future, borrowers will have to earn a lower interest rate by better business performance.
- 25% of small business bankruptcies (including agriculture) are filed after most profitable year.
- Producers determined to hit the peak when pricing commodities are destined to hit the valley.
- Risk management now three-pronged - output prices, input costs, interest rates
- While succession planning for the transfer of assets is vitally important, planning for management succession needs more emphasis.
- Producers now need a marketing plan, a financial plan, and a risk management plan.

DEEDS, EASEMENTS, AND LEASES

Land transactions have become more complex over the years as hunting leases, cell phone towers, conservation easements, and other such items have increased in number. Landowners need to be familiar with differences between deeds, easements, and leases.

Deeds involve the conveying of title or interest in the property to another. Deeds must be recorded and are transferable. We generally think of land transactions and ownership when referring to deeds. But deeds can also be issued to the purchaser of standing timber while the land is excluded.

Easements grant the right of ingress and egress across a property and is usually created by a deed. Usually easements are tied to the land and would pass to a new owner. Easement holders normally cannot remove anything from the land, but only use the land for a stated purpose. Easements have lasting value while right-of-ways are usually temporary.

Leases transfer to another party the right to possess a part or purpose of property. Title to the property does not transfer to the lease holder, but a "possession" has been parted with. Leases often involve rental of farm land, buildings, equipment, hunting rights and other recreational purposes.

MISINFORMATION PROVES COSTLY

According to Ron Plain, agricultural economist at the University of Missouri, the unfortunate misnaming of the H1N1 influenza virus cost U. S. hog producers \$90 million during the first three weeks of the "swine flu" outbreak. Cash hog prices dropped \$10.00 per hundredweight (about \$25.00 per head) as people incorrectly tied the H1N1 flu to hogs and pork. Similar occurrences could affect any of our agricultural commodities.

CONSUMERS POSITIVE TOWARD FARMERS

The United Soybean Board funded a study surveying a random sample of 1,000 registered voters with characteristics representative of the U. S. population. Key findings of the study included:

- Individuals somewhat or very favorable toward poultry and livestock producers rose from 69% in 2008 to 78% in 2009.
- Nearly 90% of consumers do not see farmers as a major reason for increases in retail food prices.
- Most consumers agree that is important to subsidize farmers to ensure that there is a safe food supply.
- After hearing that anti-confinement legislation could force Americans to get their milk, egg, and meat from foreign producers, 78% of consumers are against the legislation.

CLOSING NOTE

Youth is a gift of nature, but age is a work of art.

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