



## Farm Management Newsletter

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

### Winter 2008

#### WHAT WILL 2008 BRING?

In reality there are very few years in agriculture that could be called normal for a majority of enterprises. But 2007 was probably one of the most abnormal years farmers in middle Tennessee have experienced. Not only was production impacted by the late freeze and the extended drought, but prices for several commodities broke through the historical predictors. Milk prices set a record in 2007 with the Southeast Federal Order Blend price averaging \$20.40 per hundredweight, \$3.46 over the previous high in 2004. Corn can be contracted near \$5.00 per bushel for fall deliver with soybeans near \$12.00. Feeder cattle price have declined somewhat due to increased feed costs for feedlot operators. We have also seen the cost of some inputs increase dramatically. Higher prices for fuel and fertilizer affect almost all producers. Higher feed prices are increasing costs for livestock producers.

When considering how all these issues can affect farm profits, this is a year when intensive planning will be particularly beneficial. Extension offers intensive planning using the FINPACK Computer Farm Analysis as one of its programs in farm financial management. Intensive planning can help farm families prevent problems before they occur. Intensive planning can help farm families answer these questions about their financial situation. "Where am I?" "Where do I want to be?" "How do I get there?" There is no charge for the program and all information is confidential. The planning can be done in the privacy of your home. Contact your county University of Tennessee Extension office for more information or contact me directly at 931-375-5301. You may also call the Tennessee MANAGEMENT Information Line, 1-800-345-0561 (toll-free), for confidential information about farm management, stress management and family financial management.

#### 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](http://www.utextension.utk.edu/managecamp). The website also has links to a variety of agricultural related sites that provide educational and market information.

#### NEW INSURANCE PRODUCT AVAILABLE

Adjusted Gross Revenue-Lite (AGR-Lite) is a whole-farm revenue protection plan of insurance. The plan provides protection against low revenue due to unavoidable natural disasters and market fluctuations. Most farm-raised crops, animals, and animal products are eligible for protection. AGR-Lite can stand alone or can be used with other Federal crop insurance plans except for Adjusted Gross Revenue. AGR-Lite uses a producer's 5-year historical average as reported on the IRS Schedule F form and an annual farm report as a base to provide a level of guaranteed revenue for the insurance period. This plan provides coverage for multiple commodities in one insurance product. Revenue is established as a common denominator for the insurance of all agricultural commodities. The sales closing date for this insurance is March 15. Premiums are subsidized by USDA. To obtain coverage producers must provide a 5-year history of allowable income and expense data from IRS tax returns, an annual farm report for the insurance year to include name, quantity and expected price of each commodity. Insurance is provided against loss of revenue due to any unavoidable natural occurrences or market fluctuations that cause a loss of revenue during the current insurance year. Producers have some choice in choosing coverage levels and payment rates. The coverage level is the percentage of revenue that the producers chooses to insure. Producers can insure 65%, 75%, or 80% of expected revenue. The coverage level determines when indemnity payments begin. The payment rate is the percentage of loss that will be paid the producer. Payment rates of 75% or 90% are available. Suppose a producer has an *Approved Adjusted Gross Revenue* of \$100,000. With an 80% coverage level, the producer is covering \$80,000 of revenue. If actual revenue is \$70,000, there is a \$10,000 loss of revenue. If the producer chose a payment rate of 75%, then the insurance would pay \$7,500. If the producer chooses a 65% coverage level and 90% payment rate, actual revenue most fall below \$65,000. If actual revenue is \$50,000, the covered loss is \$15,000 with a payment of \$13,500. These examples are for general discussion only. Contact a crop insurance agent for more information. More information can also be found at [www.rma.usda.gov/pubs/rem/fctsh.html](http://www.rma.usda.gov/pubs/rem/fctsh.html).

## LIVESTOCK RISK PROTECTION INSURANCE

Livestock Risk Protection Insurance (LRP) is a crop insurance product that provides single-peril coverage for future livestock sales. The coverage is actually price insurance. LRP became available in Tennessee on July 1, 2007 and covers feeder cattle, finished cattle, and market hogs. It is sold primarily by the same vendors which sell crop insurance. The coverage must be written in the state where the livestock are produced. LRP only offers price protection. No other peril such as death or poor performance is covered.

The USDA Risk Management Agency (RMA) introduced LRP in 2002 in a selected number of states as an alternative for protecting future price levels for hogs and cattle. The LRP coverage provides price risk protection by paying producers if a national cash price index drops below the insured price level. The coverage works similar to a put option by allowing the producer to set a floor price while keeping the opportunity to benefit from rising prices. The producer pays a premium for this protection. The policy does not guarantee a cash price received, but does guarantee the right to collect an indemnity payment based on average market prices. Coverage for feeder cattle is divided into two weight classes – less than 600 pounds and 600 to 900 pounds. Steers, heifers and Brahm and dairy breeds in both weight classes can be insured. There is no lower limit to the number of cattle that can be insured. This makes LRP more attractive to smaller producers who do not have enough cattle for a 50,000 pound futures or options contract. LRP also offers some flexibility in the length of coverage offered. It is not designed to increase profits, but to prevent large losses should prices drop significantly. Premiums are set daily after the futures and options markets close. Premiums are cheaper when prices are high and increase when prices decline. Additional information on LRP can be found at [www.utextension.utk.edu/managercamp](http://www.utextension.utk.edu/managercamp) under the “Educational Resources” link. Information can also be found at [www.tnbeefcattleinitiative.org](http://www.tnbeefcattleinitiative.org) and <http://livestockinsurance.unl.edu>.

### COUNTY EXTENSION AGENTS

Decatur	Steve Glass	731-852-2831
Giles	Kevin Rose	931-363-3523
	Erin Williams	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

## LAND VALUES INCREASE

Average farm real estate values in the U. S. were a record high in 2007, up 14% from 2006, according to USDA’s Agricultural Statistics Service. Cropland values were up 13% to \$2,700 per acre. Factors driving the increase include strong grain prices, farm programs, outside investors, favorable interest rates, tax incentives, and the ethanol boom.

## RECORD NET FARM INCOME FORECAST

USDA’s Economic Research Service predicts a record net farm income of \$87.1 billion for 2007. This record is expected despite production costs running 8.5% higher than the previous year. Much of this increase is from higher grain prices. But livestock cash receipts are also projected to be up 17.5% as a result of higher meat and dairy prices.

## 2007 CORN CROP SETS RECORD

Despite reduced yields from dry weather in some parts of the U. S., the 2007 corn crop set a production record. The 13.1 billion bushel crop topped the previous record of 11.8 billion bushels set in 2004. This crop also achieved the second highest yield on record at 151.1 bushels per acre. Soybean production was down 19 percent from the record 2006 crop. The prospect of the demand of corn for ethanol fueled this change. Current soybean prices are attempting to move some of the 2008 acres back to soybeans.

## FARM BILL DEBATE LINGERS

At this writing, the new farm bill is awaiting a Senate/House conference committee. The 2002 farm bill was extended to March 15. One version of the new proposal spends \$288 billion over 5 years. But 66% of this goes to nutrition programs. Farm commodity programs make up only 14% of the proposed farm bill spending, representing only 0.2% of the total U. S. budget.

## CLOSING NOTE

The pessimist complains about the wind, the optimist expects it to change, and the realist adjusts the sails.

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