August 26, 2016

FARM ECONOMY PICTURE HAS CHANGED

Area farmers and landlords are experiencing that we have headed into an economic storm or path that is not good. Low crop and cattle prices have cut farm incomes and are starting to push down the value of agricultural land and downward pressure on cash rents. Today, as I write this column, Farmers Cooperative is bidding fall delivery corn at $2.86, milo at $2.51, soybeans at $8.92 and wheat at $2.93. Maybe when this great nation of ours realizes they have run out of winter wheat for bread, a large rebound will occur in price.

When the 2014 Farm Bill became law during high prices of grain, nobody could have predicted wheat LDP's would actually become available. There was a 9 cent per bushel LDP today (August 26). LDP's are a USDA program through the Farm Service Agency. They are direct payments made in lieu of marketing assistance loans when the CCC determined value, which is based on the current local price in a county, is below the applicable county loan rate. The payment is the difference between the two rates times the eligible quantity.

Farm program payments (sometimes called "shallow loss payments") under the 2014 Farm Bill have become substantial as prices have declined over the past few years. Farm program payments on the 2014 crop that were paid in late 2015 contributed more than $600 million to Nebraska producers' cash flow and bottom lines, helping to cushion some of the challenges of lower commodity prices. Payments on the 2015 crop due this October are also expected to be substantial given current yield and price estimates. And, looking forward, payments could be large again on the 2016 crop to be paid in 2017 before shrinking substantially on the 2017 and 2018 crops.

I have updated our website with Brad Lubben's ARC payment forecast spreadsheet that is an indicator of payments this October. What's frustrating to me as an extension educator, there were not enough farmers in Saline County that volunteered their yield information to the Nebraska Ag Statistics Service (there are very strict government rules how that information is used). It only takes about 30 farmers in a county to report to estimate a county average. In Brad Lubben's spreadsheet, there is a blank in Saline County under last year's county average dryland and irrigated corn yield. A blended yield was reported two years in a row now. Because of this, it has to be "unblended" which is an educated guess and not as accurate. Accurate information is crucial with this Farm Bill which uses county average yields. It is not entirely our farmers fault because NASS needs to draw new names on their list too. A Friend farmer indicated to me last year he had religiously reported for 20 years, it was time for somebody else to pick up the pace. Please, report your yields on dryland and irrigated crops to NASS this fall when asked, it's very important.

The ARC payment for wheat is known in Saline County at $26.80 per base acre (not planted acres). Estimated dryland soybeans is in the neighborhood of $49, irrigated soybeans $74. For corn it's hard to know right now, because of our "blended" yield issue with not enough farmers reporting, but one prediction is $98 per irrigated base and $37 for dryland corn. Multiply that by 85% of the base acres on the farm less another estimated 7% sequestration decrease. For other counties, go to: saline.unl.edu on the front page.

The farm economy drop in incomes could affect some farmers' ability to repay loans and take out new ones, which could begin to force foreclosures and forced sales. How can this be after historic high net farm incomes? Farm income has dropped like a rock three years in a row. Farming involves a lot of expense and risk and our younger generation of farmers do not have past history to draw on the experience of "the 80's" although we cannot compare the current situation to the 80's.

We've heard experts talk about "Cash is King" for years but why is it really important? The Nebraska Farm Business association recently wrote about working capital and how that is changing. There has been a steady decline in working capital in individual farm operations. The average working capital to gross revenue fell to 28.1% at the end of 2015, which was the first time it registered below 30% since 2006. What is more alarming is to see the number of individual operations whose working capital has eroded to a dangerous level. How do we fix working capital shortages in farming?

There are really just a few things: 1) Increase net income (includes reducing expenses); 2) Refinance debt to move current debt to an intermediate or long term position; and 3) Sell assets to generate more cash. More information is available on how working capital is changing in the following NE Farm Business Association link at: http://ow.ly/VGCr303CsGM

Somebody once said a farmer has to remain optimistic to farm. That is the general rule. The future will always be better and the current down cycle will change.

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