Adjusting the Farm Business to Adverse Price Conditions

The Situation

After near record crop prices in 1996 Iowa farmers suddenly find themselves faced with a new set of circumstances for making decisions:

1. Crop yields will be average or above for most producers.
2. Grain production for some producers was reduced by flooding and ponding, hail, and wind.
3. Hog and cattle prices have been at unprofitable levels for most of the year.
4. Grain prices have fallen to their lowest levels in years, and may remain there through 1999.
5. U.S.D.A. programs no longer provide a deficiency payment based on a target price of $2.75 per bushel for corn.
6. Farm income levels for 1998 will be below those of recent years, and prospects for 1999 are highly uncertain. Market stabilization mechanisms for grains are no longer in effect.

Crop Production and Marketing

1. Store new crop grain as well as remaining old crop grain, if possible. Check for on-farm storage to rent.
2. Utilize temporary storage structures when spoilage and other losses can be controlled.
3. Document actual yields for crops that are insured. Crop revenue insurance policyholders may receive indemnity payments depending on the level of coverage purchased.
4. Take advantage of marketing loan and loan deficiency payment eligibility. Complete application process early. Check wording of forward contracts.
5. Document grain production for FSA marketing loan and loan deficiency payment eligibility.
6. Consider storage hedges for spring delivery. Potential returns have been above normal recently.
7. Consider deferring application of phosphate and potash fertilizer on high testing fields when planning for next year's fertility needs.
8. Carefully compare costs and returns for new crops and technology.

Livestock Production and Feeding

1. Follow markets carefully and book purchased feed during low price periods.
2. Increase the grain content of rations if forage quantity or quality is low.
3. Rebalance rations to find least cost combinations. Corn prices have fallen more than soybean meal.
4. Consider buying extra feed if storage is available.
5. Consider retained ownership of calves to take advantage of low cost feed and potentially higher cattle prices in 1999.
6. Sell premium quality forage to dairy producers and substitute cheaper grain in beef or sheep rations.

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FM 1664 | Revised | September 1998

7. Consider selling standing corn as silage to livestock producers who have low hay inventories.
8. Feedlots should consider purchasing lighter weight animals with a longer feeding period.

Rental Arrangements for Land and Facilities

1. Negotiate with cash rent landlords to adjust rental rates for 1999 if rents have been increased the past 3 years.
2. Consider a crop share or flexible cash rental agreement for next year, given the uncertainty of yields and prices.
3. Communicate with cash rent landlords regarding delaying rental payments while grain is stored, particularly into the next tax year.
4. Rent unused corn cribs and flat storage for storing extra grain. Typical rental rates are 5 to 10 cents per bushel for ear corn storage and flat storage.

Financial Management

1. Postpone large cash expenditures such as for the purchase of machinery or equipment until income is more certain.
2. Plan on a different marketing sequence for corn and soybeans due to changes in price trends.
3. Complete a new cash flow budget for the next six months, based on changed marketing patterns.
4. Discuss possible adjustments in scheduled loan payments with your lenders, using stored grain as collateral.
5. Review your crop insurance coverage for 1999 with your insurance agent. Consider revenue insurance coverage, but anticipate lower guarantees due to lower grain prices.
6. Review your eligibility for marketing loans and loan deficiency payments with FSA officials.
7. Monitor your financial situation closely. ISU Extension has counselors available with software for projecting financial budgets.

Income Tax Management

1. Indemnity payments received from crop insurance may be deferred until the following tax year if the insured crops would normally have been sold and income reported in that year.
2. Calculate potential taxable income carefully. If personal gross taxable income is lower than total personal deductions and exemptions, increase sales or defer expenses. Unused deductions cannot be carried forward or back.
3. If you obtain a CCC market loan on your crop, check with your income tax preparer to see how you have reported such loans in the past. You can change from reporting income when the loan is canceled to reporting it when the loan is obtained with IRS permission, but not vice versa.

Summary

Current market conditions call for tightening cash flow requirements. The careful manager will draw on financial and credit reserves, and delay large expenditures.

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File: Farm Management

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Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Stanley R. Johnson, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.