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Some Thoughts - Farm Business Management - Fall 1998

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Some Thoughts - Farm Business Management - Fall 1998

Market Report	Yr Ago	4 Wks Ago	10/9/98
Livestock and Products,			
Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb			
Omaha, cwt.....	\$65.88	\$56.75	\$56.25
Feeder Steers, Med. Frame, 600-650 lb			
Dodge City, KS, cwt.	81.27	*	68.50
Carcass Price, Ch. 1-3, 550-700 lb			
Cent. US, Equiv. Index Value, cwt.	97.75	990.41	90.65
Hogs, US 1-2, 220-230 lb			
Omaha, cwt.....	48.60	30.05	29.00
Feeder Pigs, US 1-2, 40-45 lb			
Omaha, hd.	*	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	101.20	98.13	97.10
Slaughter Lambs, Ch. & Pr., 115-125 lb			
Sioux Falls, SD, cwt.	82.00	73.13	65.50
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb			
FOB Midwest, cwt.	159.50	165.00	158.00
Crops,			
Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W.			
Omaha, bu.	3.64	2.52	2.85
Corn, No. 2, Yellow			
Omaha, bu.	2.59	1.70	1.79
Soybeans, No. 1, Yellow			
Chicago, bu.	6.94	5.08	5.42
Grain Sorghum, No. 2, Yellow			
Kansas City, cwt.	4.44	3.01	3.15
Oats, No. 2, Heavy			
Omaha, bu.	*	*	*
Hay,			
First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better			
Platte Valley, ton.	127.50	*	*
Alfalfa, Lg. Round, Good			
Northeast Nebraska, ton.	90.00	52.50	58.00
Prairie, Sm. Square, Good			
Northeast Nebraska, ton.	82.50	70.00	70.00
* No market.			

Crop and livestock prices have been universally low for Nebraska farmers and ranchers in the last few months. There have been conversations about whether the current conditions constitute a crisis, and how it is different from the farm financial crisis of the 1980's. Regardless of the differences or similarities with the 80's, many farm and ranch families are facing drastic reductions in income. There are, of course, exceptions. In view of the current situation which most families are facing, I was recently asked to speak on the topic of "Strategies for Dealing with Low Prices." Following is a brief summary of the suggestions that I presented.

1. Don't give away the nickels -- When the price of soybeans drops over a dollar a bushel in a relatively short period of time, one may get discouraged, not pay close attention to the markets, and pass up an opportunity for a nickel. The nickel may mean more at a low price level than when prices were higher. The market and the government programs may offer opportunities. While each one may be small, taken together they add up to significant income. Be alert to take advantage of opportunities. Don't leave any nickels laying on the table.

2. Exercise good income tax management in the last months of 1998 -- Gary Bredenstener, Director of the Nebraska Farm Business Association, says that income tax management is more important in low income years than in high income years. Cash basis taxpayers should carefully estimate their taxable income or net operating loss, and establish objectives for income tax management. If they paid income taxes in 1996 and 1997, they might want to carry an operating loss back and get a refund. To reduce income tax liability over a period of



years, they will want to not “waste” their personal exemptions and standard deductions.

3. Analyze government payment options -- Government payments offer producers a tool for shifting income between 1998 and 1999 (to accomplish income tax management objectives). Producers can choose to take their 1999 Freedom to Farm payment in one payment or two equal payments during the period from October 1988 through September 1999.

Evaluate the income tax effects of each farm program option. For example, a producer who plans to store corn until after January 1 might take the loan deficiency payment of approximately 20 cents per bushel. If the same producer wanted to increase their 1998 income, and had previously treated a government crop loan as income, they could take out a government loan on the crop at the county loan rate of approximately \$1.80 per bushel.

4. Lock in feed prices -- Producers who will be buying feed for livestock during the next year should consider taking advantage of the current low prices and hedge or contract supplies.

5. Be wary of offers that sound too good to be true -- When families experience financial stress, they are vulnerable to people that want to “help” them. There are usually some enterprising individuals who are aware of this, and come up with schemes that sound good, but may be costly in the long-run.

6. Look beyond the alligators -- There is that old saying that goes something like this, “It’s hard to remember that your long-term goal is to drain the swamp, when the alligators are nipping at you.” It is difficult to think long-term when you are experiencing severe cash flow problems. But, in the midst of the current low prices, we are going through a rapid structural change in agriculture. The talk of food chains, a consumer driven market and designer crops and livestock is for real. This can be a threat or an opportunity, depending on how you deal with it. It is doubtful that most families will be able to conduct “business as usual” even after the commodity prices recover.

7. Examine your trends -- The farms in the Nebraska Farm Business Analysis program data base have been increasing their gross income by \$8,000 per year since 1986, but their net farm income has remained essentially the same as it was in 1986. Family living expenses have been increasing at the rate of over \$1,200 per year. Each family should calculate these trends for their operation. Are the current low commodity prices

the only problem, or did they accentuate a problem that has been developing for several years?

8. Know your unit costs -- I have observed many approaches to calculating the cost per bushel, ton or hundredweight to produce crops or livestock. Sometimes these costs include the direct costs for an enterprise, but do not include all of the overhead costs. It is important that the total production cost be like the advertisement for a spaghetti sauce, and make sure that “everything’s in there.” If family living expense is to be paid from farm earnings, each enterprise must pay a share of it.

9. Know your operation -- If it seems like I’m hammering on records and analysis, I am. It is easy to get discouraged by the coffee shop stories. In the good times, they feature who is doing best, and in the bad times, they concentrate on worst case situations. Families should judge the performance of their operation by hard numbers, not rumor. Records and analysis can provide the reassurance that the business is performing well, or the early warning signs that some changes need to be made.

10. Try and keep things in perspective -- When families discuss what is most important to them, many times the top items deal with family relationships, health, faith, etc. When income falls drastically, it is easy to get caught up in blaming, judging and focusing on objectives that may not be on the top of the list. This may be a time to step back and re-assess what is really important.

Looking at this list of ten suggestions, the first five are short-run actions that can be taken. Items 6 through 10 are long-term items. We often find ourselves dealing entirely with the short-term items, because they are always urgent. It is difficult for many families to deal with the long-term, unless they have a framework for meaningful discussion, some guidance and encouragement. A new extension education program, *Decisions Now: Building Your Future* will be offered in twenty locations across Nebraska this winter. This program is designed to help families analyze their business, do a self assessment and write goals for the future. Inquire at your extension office or call 800-535-3456 for more information.

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