

# Managing Margins in 2017

**12<sup>th</sup> Farming for the Future Conference**

**Coalition to Support Iowa's Farmers**

Ames, Iowa  
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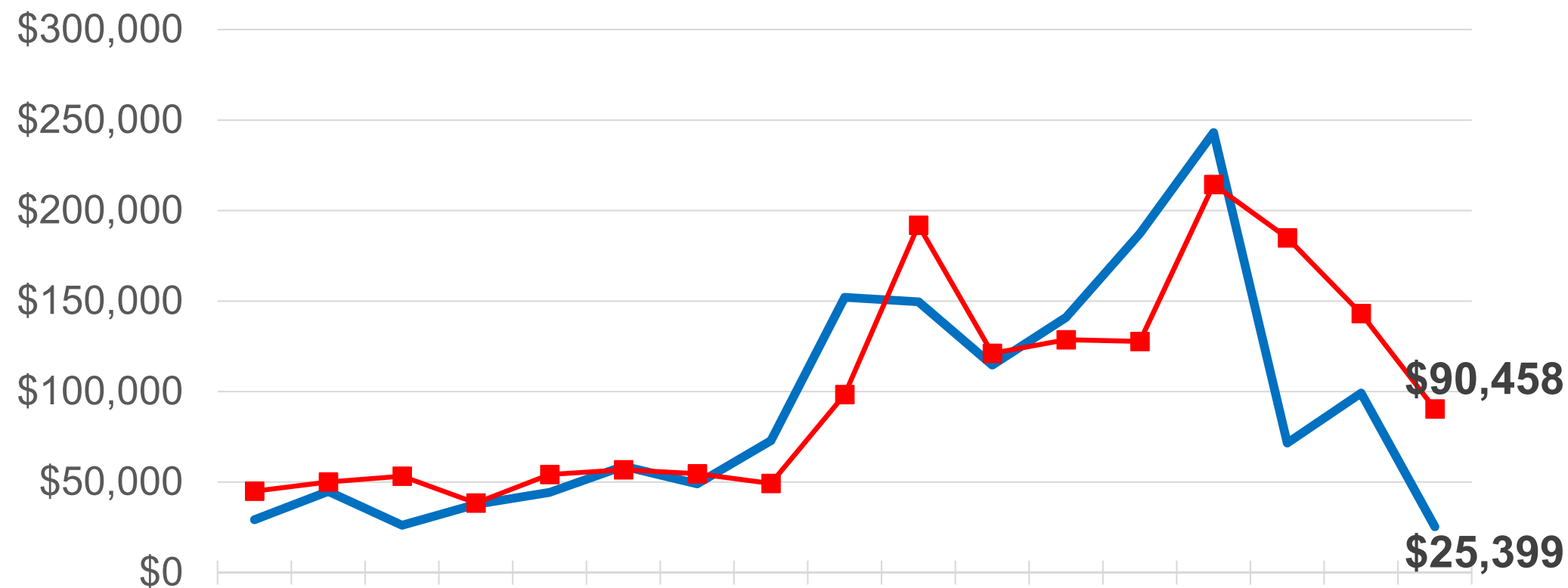
# Recent Trends

- Low crop prices
- Declining, but lagging input costs
- Low profit margins
- Declining Net Farm Income
- Deterioration in Farms':
  - Financial liquidity (hurt most)
  - Financial solvency
- How to manage margins?

# Farm Income in Iowa 1999-2015

(Source: Iowa Farm Business Assoc.)

— Net farm income-accrual    — Net farm income-cash



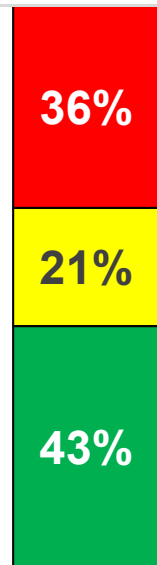
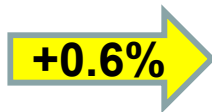
**After asset depreciation and changes in inventories, Farm Income ~ \$25,000**

# Changes in Liquidity and Solvency Ratings (Jan 2015 vs Jan 2016)

## Liquidity (Current Ratio)

Jan'15

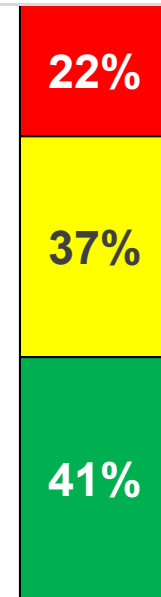
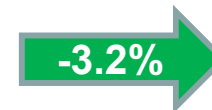
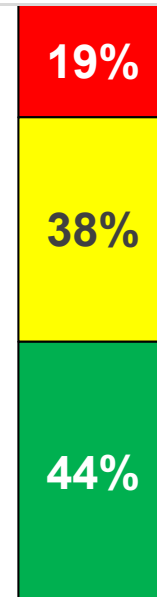
Jan'16



## Solvency (Debt-to-Asset Ratio)

Jan'15

Jan'16



■ Vulnerable ■ Under Watch ■ Strong

■ Vulnerable ■ Under Watch ■ Strong

316 farms, Iowa Farm Business Association

# How much working capital did Iowa farms burn through in 2015?

Liquidity Rating Jan'15	Liquidity Rating Jan'16	Change in Working Capital (\$)	% Change vs. Jan'15	Number of Farms
Vulnerable	Vulnerable	-42,752	-45%	77
Vulnerable	Under Watch	68,959	256%	13
Vulnerable	Strong	141,041	141%	2
Under Watch	Vulnerable	-326,265	-66%	28
Under Watch	Under Watch	75,857	-22%	29
Under Watch	Strong	129,166	42%	7
Strong	Vulnerable	-356,407	-79%	9
Strong	Under Watch	-169,874	-45%	24
Strong	Strong	-71,937	-10%	127
All Farms		-91,658	-24%	316

# U.S. Corn Supply and Use

		2013	2014	2015	2016	2017
Area Planted	(mil. acres)	95.4	90.6	88.0	94.0	90.0
Yield	(bu./acre)	158.1	171.0	168.4	174.6	170.8
Production	(mil. bu.)	13,829	14,216	13,601	15,148	14,060
Beg. Stocks	(mil. bu.)	821	1,232	1,731	1,737	2,403
Imports	(mil. bu.)	36	32	67	55	50
Total Supply	(mil. bu.)	14,686	15,479	15,400	16,940	16,513
Feed & Residual	(mil. bu.)	5,040	5,280	5,130	5,600	5,500
Ethanol	(mil. bu.)	5,124	5,200	5,206	5,325	5,325
Food, Seed, & Other	(mil. bu.)	1,369	1,401	1,429	1,435	1,440
Exports	(mil. bu.)	1,920	1,867	1,898	2,225	1,950
Total Use	(mil. bu.)	13,454	13,748	13,662	14,585	14,215
Ending Stocks	(mil. bu.)	1,232	1,731	1,738	2,355	2,298
Season-Average Price	(\$/bu.)	4.46	3.70	3.61	3.40	3.30



# World Corn Production

Country or Region	2015/16 estimate	2016/17 forecast	Change from December 9	Change from 2015/16	
<i>Million Tons</i>					
World	961.1	1,037.9	-1.80	76.8	+8%
United States	345.5	384.8	-1.97	39.3	+11%
Foreign	615.6	653.1	0.17	37.6	
Argentina	29.0	36.5	--	7.5	+26%
Brazil	67.0	86.5	--	19.5	+29%
Mexico	25.8	24.5	--	-1.3	
Canada	13.6	13.2	--	-0.4	
European Union	58.5	60.7	-0.02	2.2	
Serbia	6.0	7.5	0.50	1.5	
FSU-12	39.8	46.6	--	6.7	+17%
Ukraine	23.3	27.0	--	3.7	
Russia	13.2	15.5	--	2.3	
South Africa	7.9	13.0	--	5.1	
China	224.6	219.6	--	-5.1	
India	21.8	24.5	--	2.7	

— No change

January 12, 2017

# U.S. Soybean Supply and Use

		2013	2014	2015	2016	2017
Area Planted	(mil. acres)	76.8	83.3	82.7	83.4	85.5
Yield	(bu./acre)	44.0	47.5	48.0	52.1	47.9
Production	(mil. bu.)	3,358	3,927	3,926	4,307	4,050
Beg. Stocks	(mil. bu.)	141	92	191	197	480
Imports	(mil. bu.)	72	33	24	25	30
Total Supply	(mil. bu.)	3,570	4,052	4,140	4,528	4,560
Crush	(mil. bu.)	1,734	1,873	1,886	1,930	1,935
Seed & Residual	(mil. bu.)	107	146	121	128	130
Exports	(mil. bu.)	1,638	1,842	1,936	2,050	2,100
Total Use	(mil. bu.)	3,478	3,862	3,943	4,108	4,165
Ending Stocks	(mil. bu.)	92	191	197	420	396
Season-Average Price	(\$/bu.)	13.00	10.10	8.95	9.50	9.35

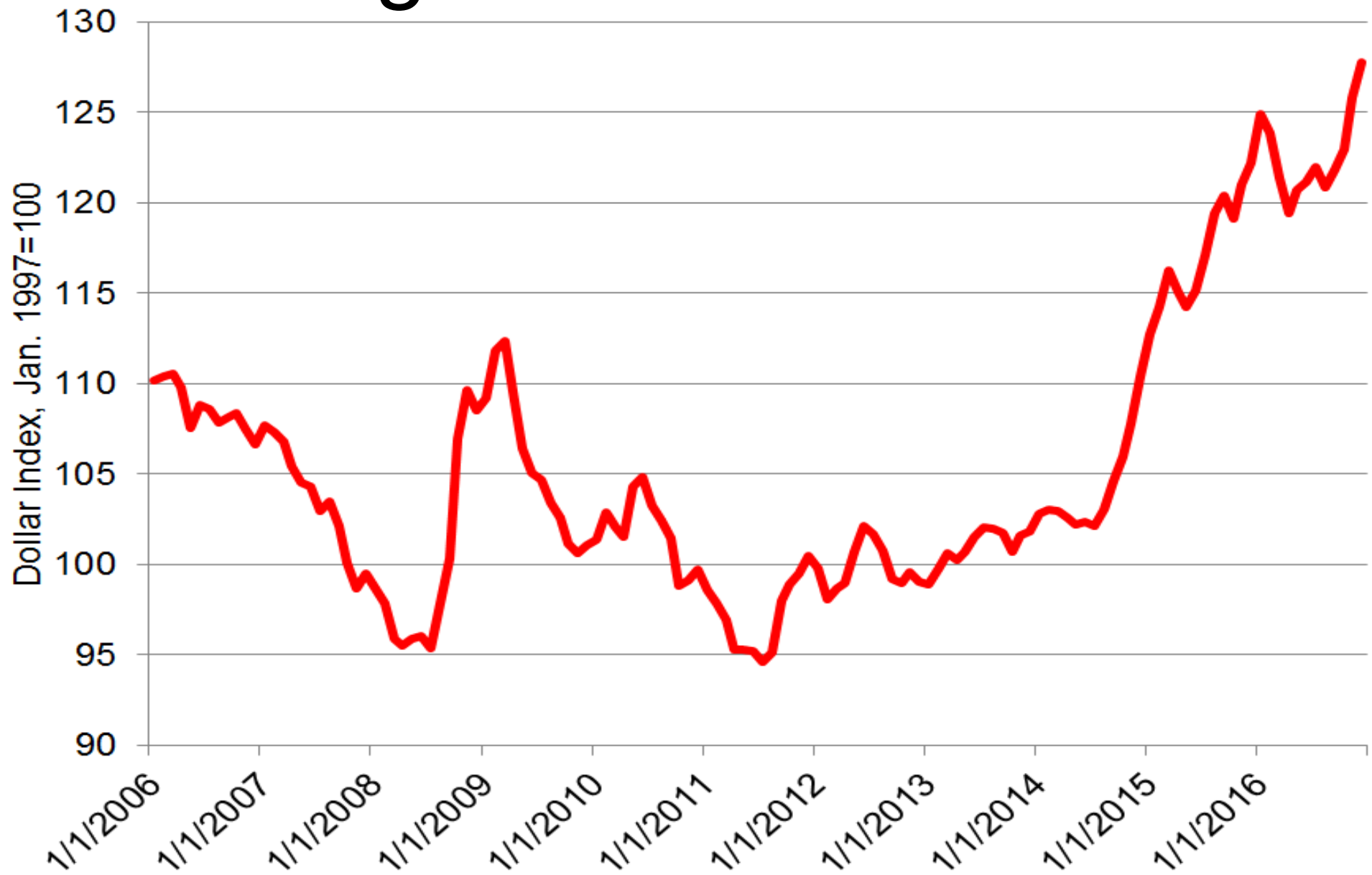


# World Soybean Production

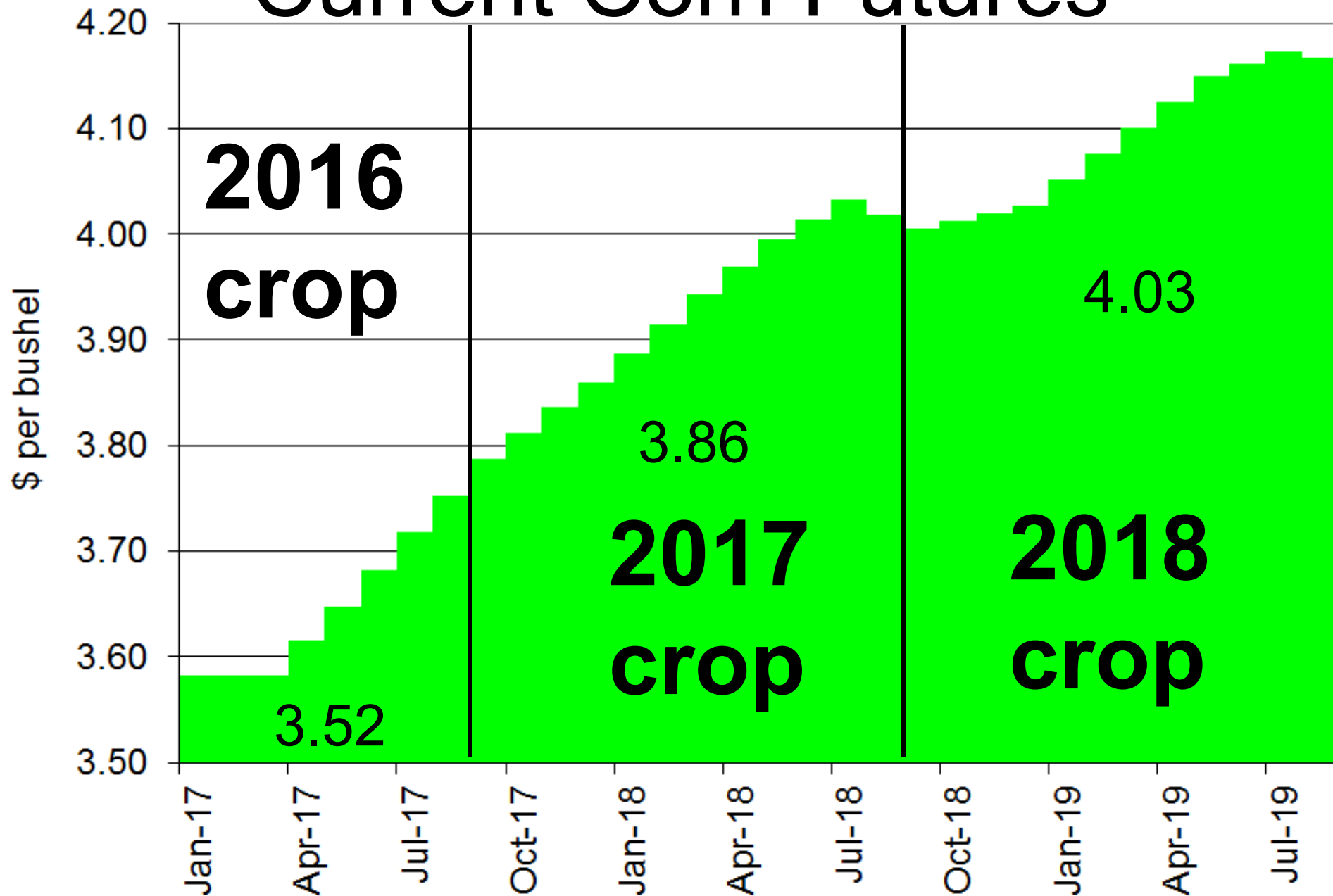
Country or Region	2015/16 estimate	2016/17 forecast	Change from December 9	Change from 2015/16	
<i>Million Tons</i>					
<b>World</b>	<b>313.5</b>	<b>337.9</b>	<b>-0.15</b>	<b>24.3</b>	<b>+8%</b>
<b>United States</b>	<b>106.9</b>	<b>117.2</b>	<b>-1.48</b>	<b>10.4</b>	<b>+10%</b>
<b>Foreign</b>	<b>206.7</b>	<b>220.6</b>	<b>1.33</b>	<b>14.0</b>	
<b>Argentina</b>	<b>56.8</b>	<b>57.0</b>	<b>--</b>	<b>0.2</b>	
<b>Brazil</b>	<b>96.5</b>	<b>104.0</b>	<b>2.00</b>	<b>7.5</b>	<b>+8%</b>
<b>Paraguay</b>	<b>9.0</b>	<b>9.2</b>	<b>--</b>	<b>0.2</b>	
<b>Ukraine</b>	<b>3.9</b>	<b>4.0</b>	<b>--</b>	<b>0.1</b>	
<b>India</b>	<b>7.1</b>	<b>11.5</b>	<b>--</b>	<b>4.4</b>	
<b>China</b>	<b>11.8</b>	<b>12.9</b>	<b>0.40</b>	<b>1.1</b>	

-- No change

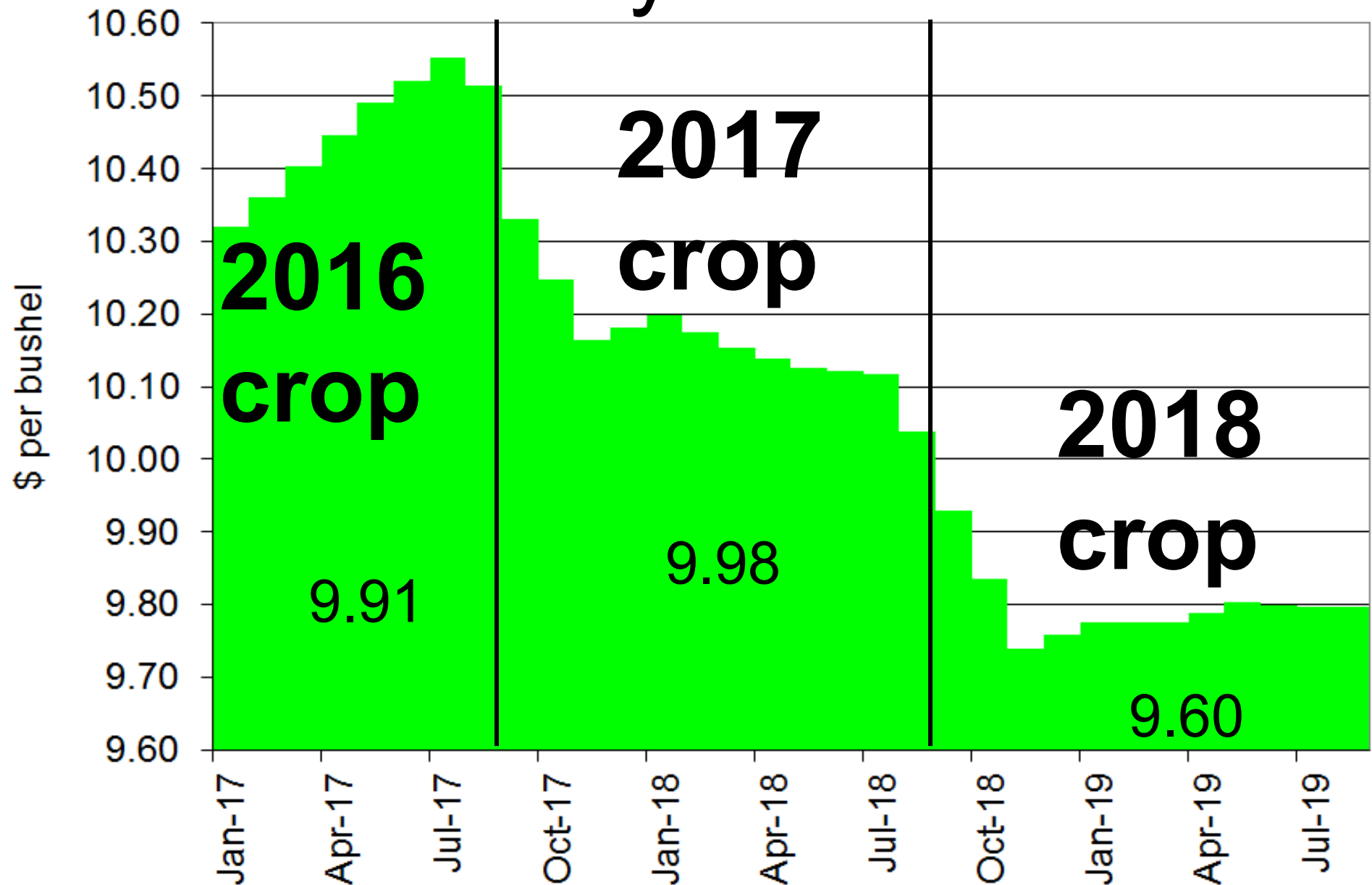
# Strength of the U.S. Dollar



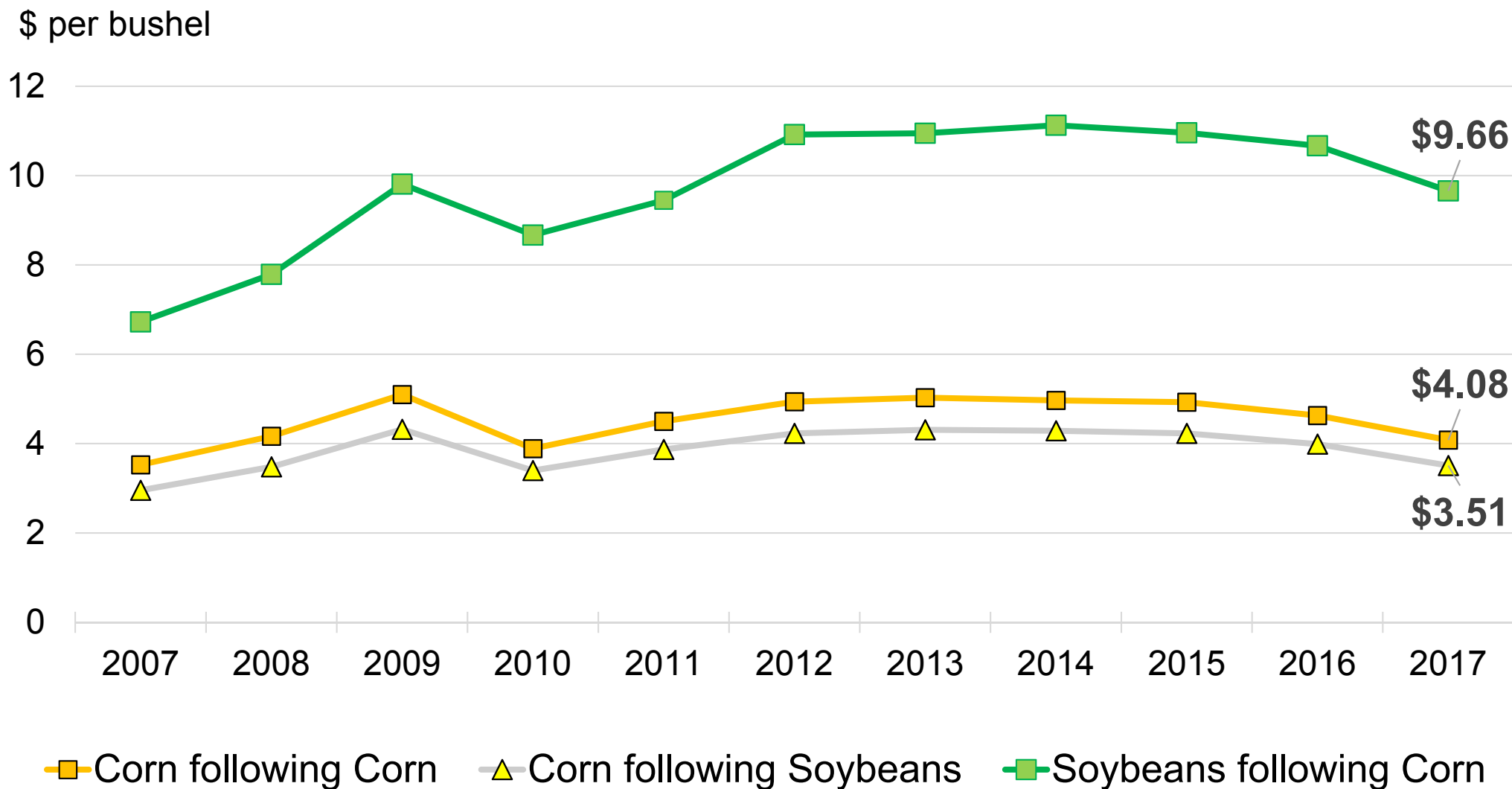
# Current Corn Futures



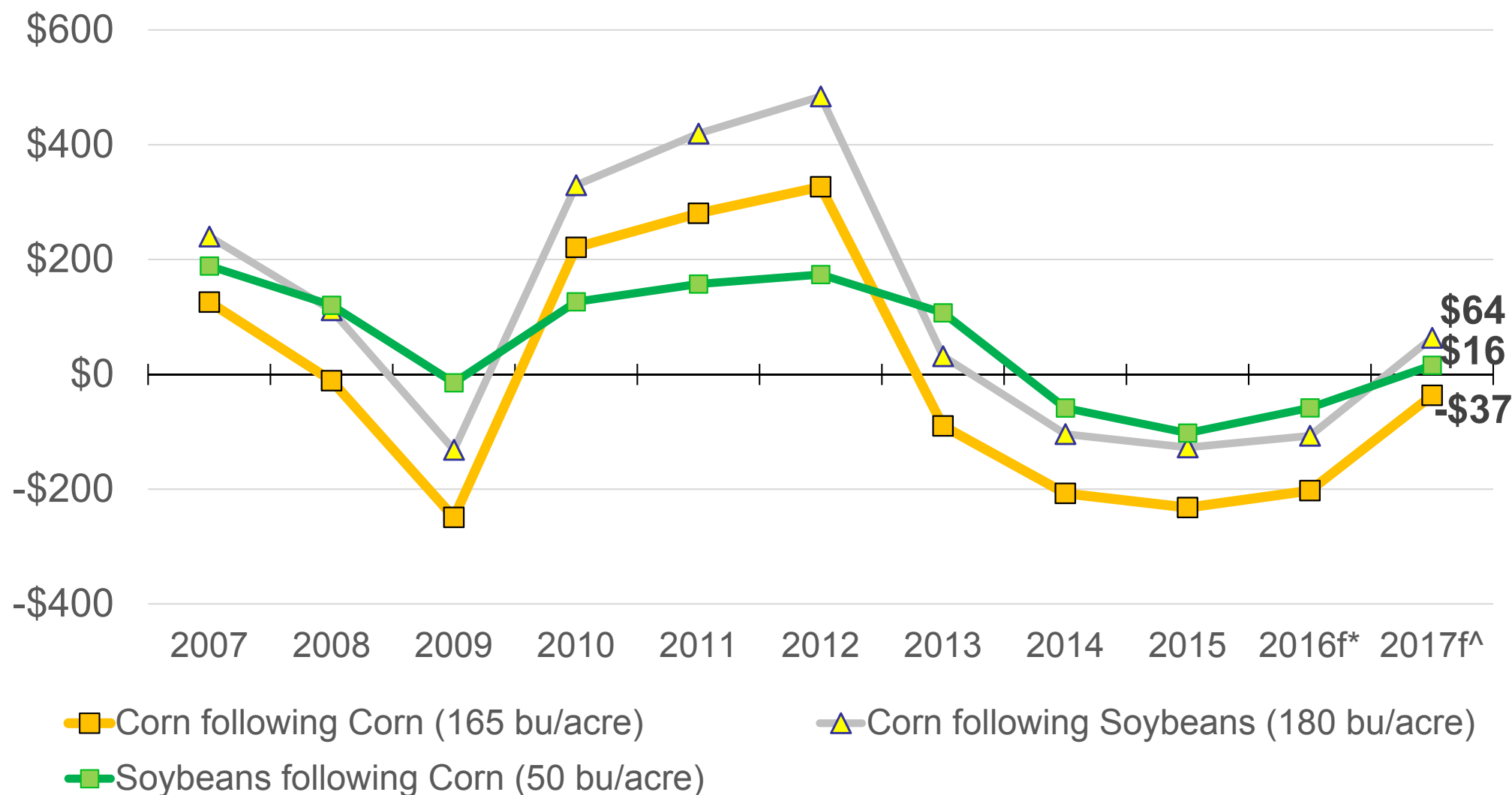
# Current Soybean Futures



# Costs of Crop Production in Iowa



# IA Gross Margins per Acre (Price - Cost)



\*USDA/WASDE Forecast (Mid-point). Jan 12, 2016.

^Calculation by Dr. Chad Hart based on Futures Prices (CME Group). Jan 12, 2016.



# 9 Strategies to manage margins

- **Major concern: cash flow / liquidity**
- **Solvency** hit, but less:
  - Declining land values in Iowa
  - Declining machinery values
- Long term problem → strategy for 2-3 years

# Strategies:

## 1. Protect your working capital

- Revise scale of operation and fixed costs over next 2-3 years. In particular:
  - Recent asset purchases
  - Rented land
- Manage taxes: visit with tax advisor
  - Carry back operating losses to obtain tax refunds

# Strategies:

## 2. Avoid cash shortages

- Plan for operating losses (rented land)
- Maintain cash reserves
- Secure operating loan/emergency loan terms
- Be very careful with new capital expenditures

# Strategies:

## 3. Diversify Income

- Add or don't lose non-farm income
- Consider alternative sources of revenue with your assets: custom work, snow removal, truck driving in fall & winter, ???



# Strategies:

## 4. Revise production costs

- Revise production plans, especially for rented land (renegotiate land rent?)
- Can you make changes that generate savings that offset reductions in revenue?
- ↓ N 20 lbs per acre? Savings \$10. If yield ↓ smaller than 2.59 bu/acre @ \$3.86/bu, GO AHEAD! Otherwise, NO GO.
- Switch to seeds with fewer traits (+crop management)? Net savings \$25/acre. If yield ↓ smaller than 6.47 bu/acre @ \$3.86/bu, GO AHEAD! Otherwise, NO GO.
- Seek volume discounts in seeds, chemicals, etc.
- Visit with Agronomist: update your production skills, evaluate how to control costs

# Strategies:

## 5. Actively Manage Risks

- **Know your break-even prices**
- Design a marketing plan with price and date targets and stick to it
- Lock-in margins whenever possible
- Revise crop insurance (Explore ways to maintain protection while lowering costs)
- Revise use of forward contracts & crop insurance for pre-harvest marketing



# Strategies:

## 6. Revise family living expenses

- Average NFI (2015): \$25,000
- Average farm size in sample: 800 acres
- Need ~1,300 acres to afford \$40,000 in living expenses
- And ~2,250 for \$70,000!
- Revise family living expenditures:
  - Vacation plans
  - House remodeling plans
  - Truck purchase

# Strategies:

## 7. Secure repayment capacity

- Short repayment schedules reduce cash flow vs. long repayment schedules
- Try to extend repayment schedules on equipment & real estate loans (low interest rates)
- Work a plan with your lender(s) for 2017-2018

# Strategies:

## 8. Revise Growth Strategy

Depending on your growth stage:

- Offload unproductive assets
- Downsize
- Slow down growth
- Beginning farmers: wait to buy land
- Align short term needs with long term growth goals

# Strategies:

## 9. Know your ARC/PLC Payments

- Payments vary widely across counties and programs
- PLC payments in Oct 2017:
  - 7 cents per corn base acre;
  - no beans payment.
- Average ARC-CO Payments in Oct 2017:
  - \$34 per Corn base acre (range \$0 - \$85)
  - \$16 per Soybean base acre (range \$0 - \$55)







# Summary

- Expect low to negative margins in 2017
- Visit with:
  - ✓ Agronomist – control costs?
  - ✓ Lender – refinance, lower payments?
  - ✓ Tax advisor – refunds from previous years?
  - ✓ Crop insurance agent – change coverage?
- Use resources @ Ag Decision Maker:  
<http://www.extension.iastate.edu/agdm/>

Thank you for your time!

Questions?

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