

Report to the Farm Financial Stress Task Force

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Bottom line

- Wide variability in financial performance of Iowa farm operations
- On average, farms burned through \$92,000 of working capital in 2015
- Between Jan 1 2015 and Jan 1 2016:
 - 65% maintained their liquidity and solvency rating
 - 26% lower liquidity and/or solvency rating
- Successful farms: production mix, marketing, costs, yields

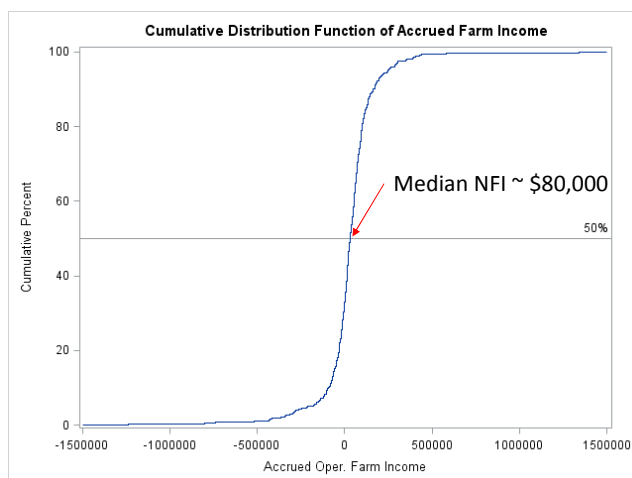
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Sources of data

- Farm-level data from the Iowa Farm Business Association (IFBA)
- Commercial farms, typical size 750-800 acres
- 2 studies:
 - all farms (N=558);
 - farms with beginning and ending balance sheets (N=316).
- First time data shared with ISU in 8 years
- Working on new MOU between ISU and IFBA

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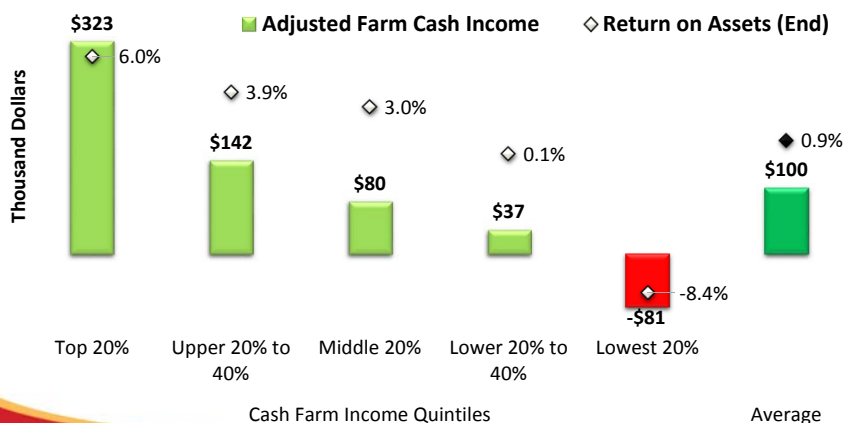
2015 Accrued Net Farm Income



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N=558

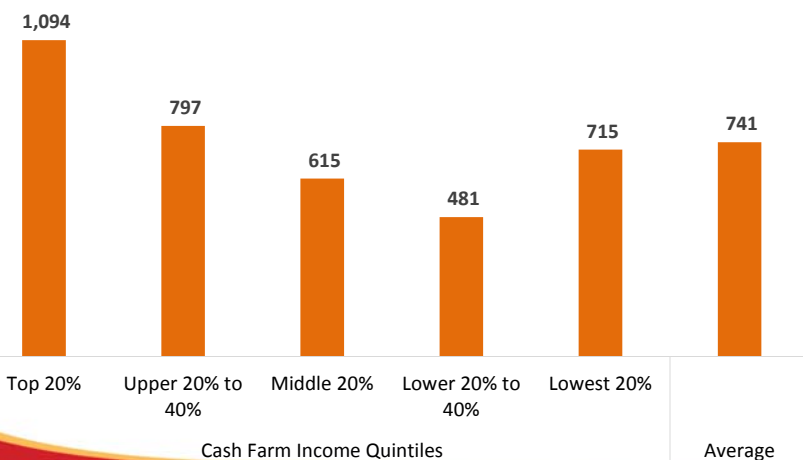
2015 Average Adjusted Farm Cash Income* (NFI+Depreciation) & ROA



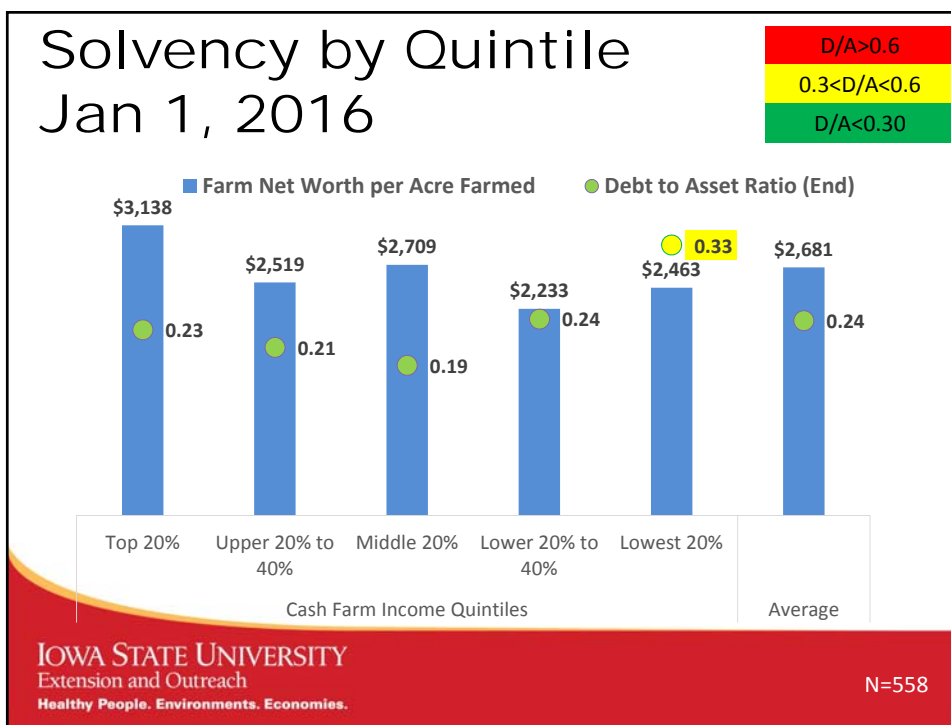
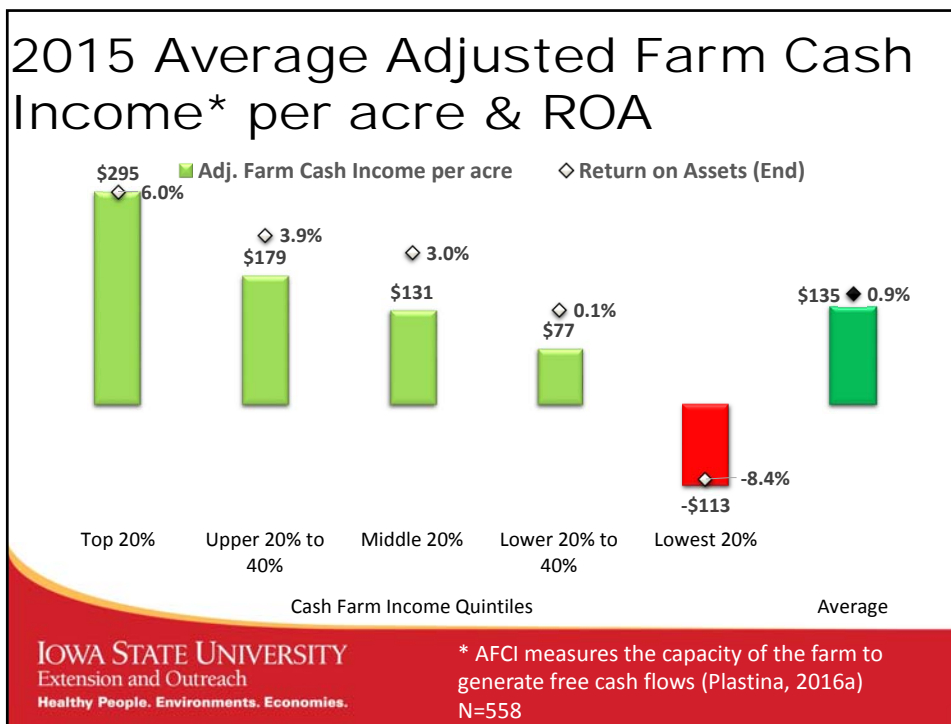
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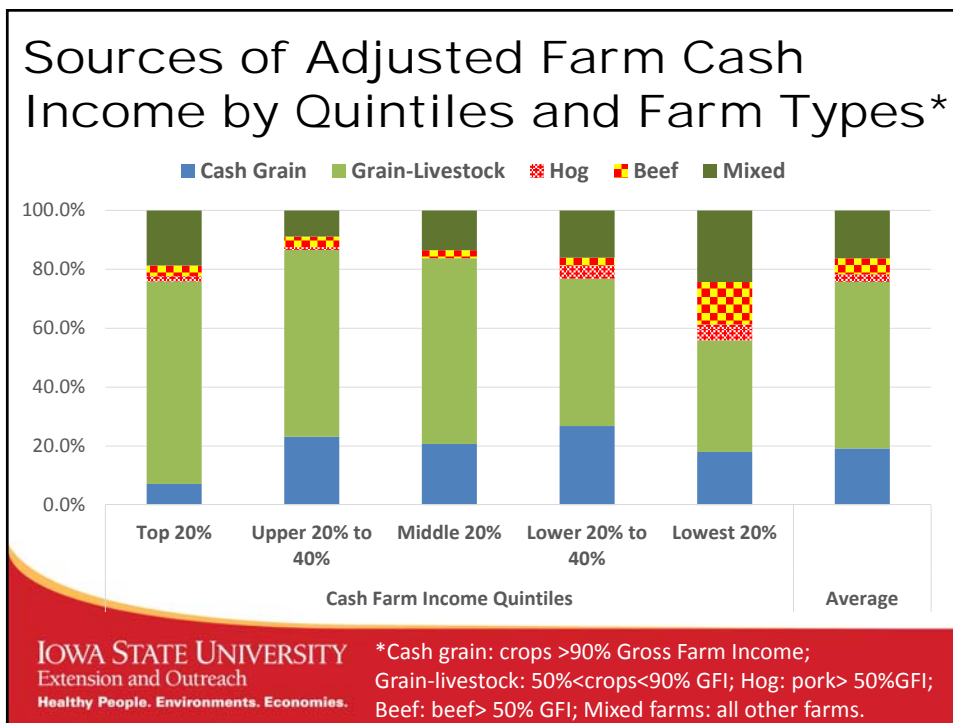
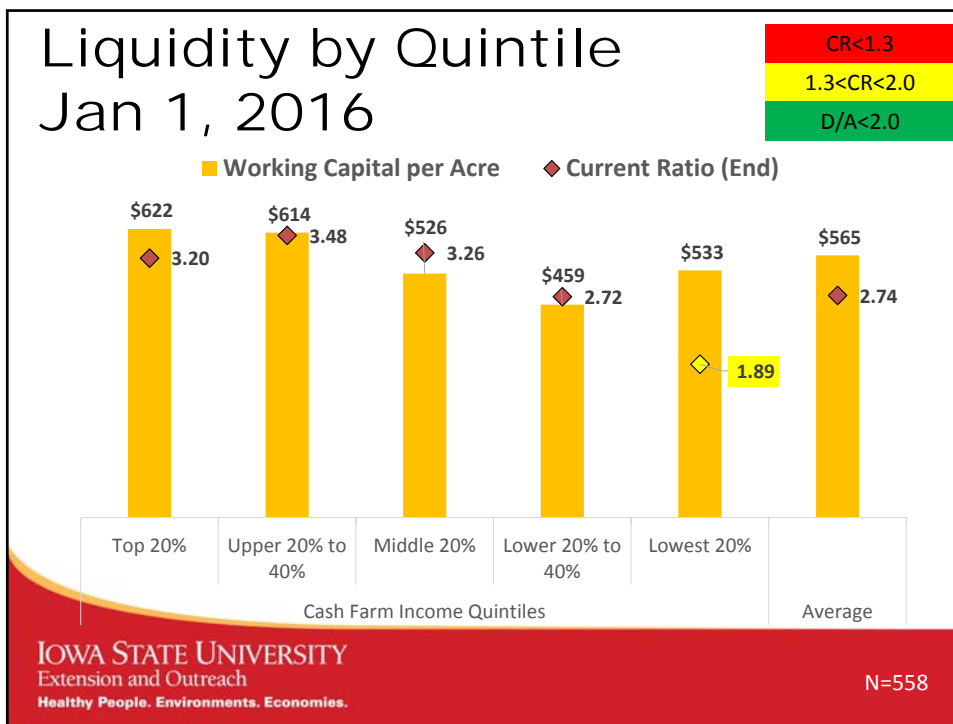
* APCI measures the capacity of the farm to generate free cash flows (Plastina, 2016a)
N=558

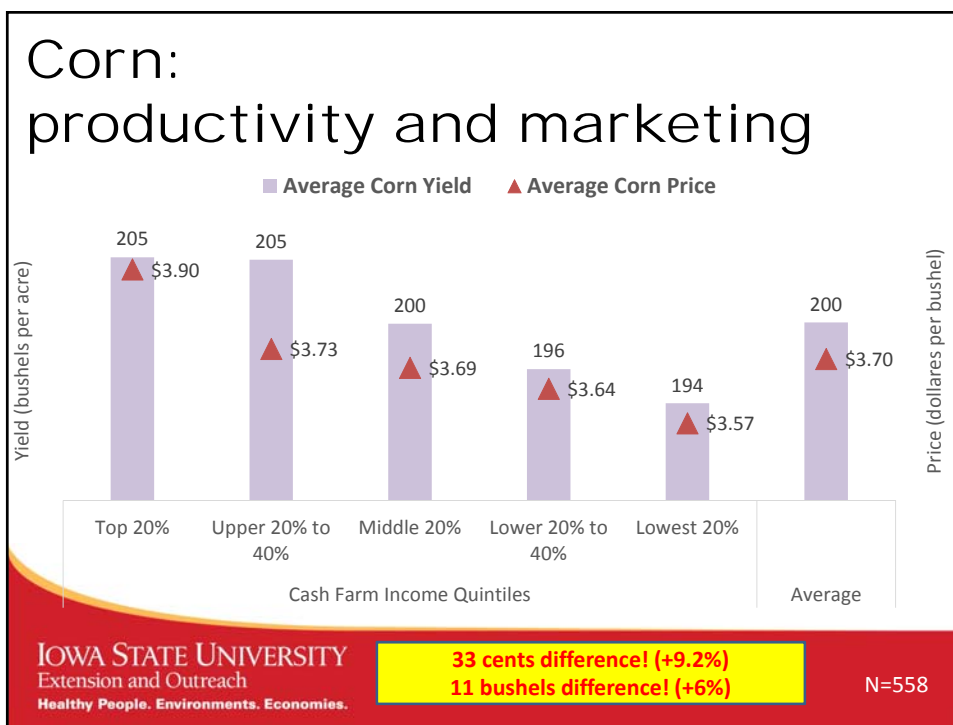
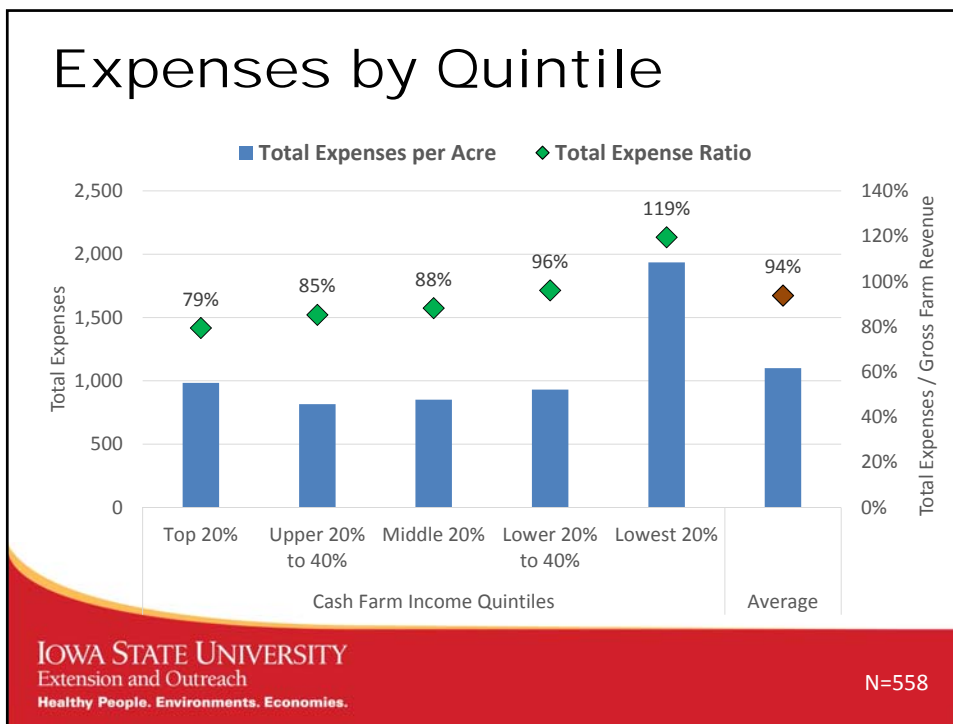
Operator Crop Acres by Quintile



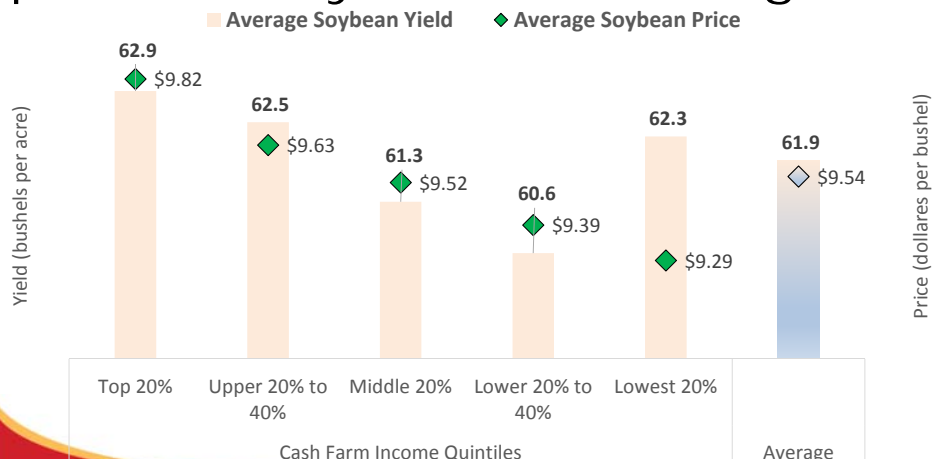
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Soybeans: productivity and marketing



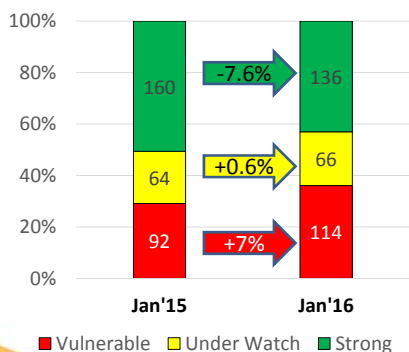
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0.53 cents difference! (+5.7%)
0.6 bushels difference! (+0.1%)

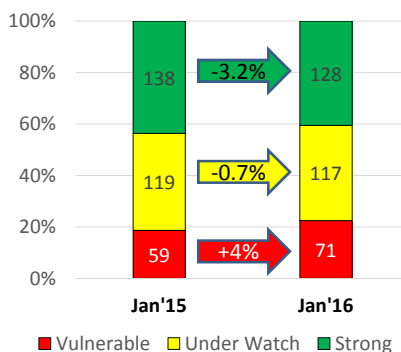
N=558

Liquidity and Solvency Ratings (Jan 2015 vs Jan 2016)

Liquidity (Current Ratio)



Solvency (Debt-to-Asset Ratio)



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Thresholds:
Current Ratio: 1.3, 2.0
D/A Ratio: 0.3; 0.6

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Liquidity and Solvency Classification Matrix

Table 2. Classification matrix for individual farms

		Solvency: Total Debt-to-Asset Ratio		
		Vulnerable: Above 60%	Under Watch: Between 30% and 60%	Strong: Under 30%
Liquidity: Current Ratio	Vulnerable: Below 1.3	Category 1. Vulnerable liquidity and solvency	Category 2. Vulnerable liquidity and solvency under watch	Category 3. Vulnerable liquidity and strong solvency
	Under Watch: Between 1.3 and 2.0	Category 4. Liquidity under watch and vulnerable solvency	Category 5. Liquidity and solvency under watch	Category 6. Liquidity under watch and strong solvency
	Strong: Over 2.0	Category 7. Strong liquidity and vulnerable solvency	Category 8. Strong liquidity and solvency under watch	Category 9. Strong liquidity and solvency

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Liquidity and Solvency

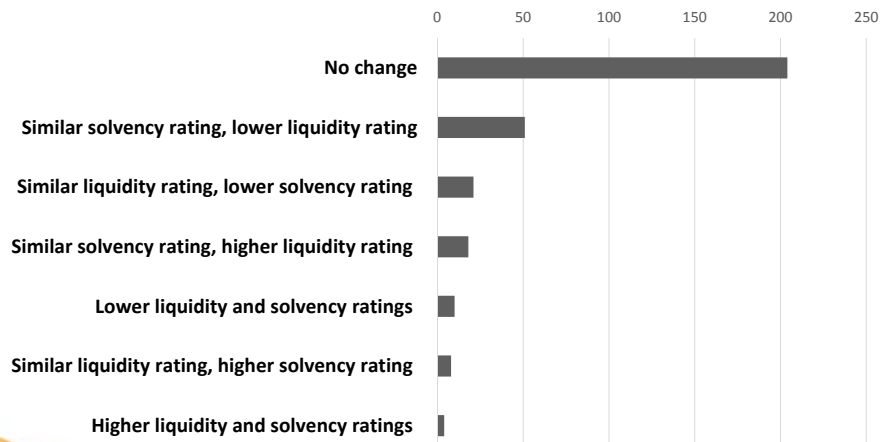
		Jan 2015 Solvency: Total Debt-to-Asset Ratio			
		Vulnerable: Above 60%	Under Watch: Between 30% and 60%	Strong: Under 30%	All
Jan 2015 Liquidity: Current Ratio	Vulnerable: Below 1.3	13.3% (42)	13.6% (43)	2.2% (7)	29.1% (92)
	Under Watch: Between 1.3 and 2.0	3.5% (11)	10.4% (33)	6.3% (20)	20.3% (64)
	Strong: Over 2.0	1.9% (6)	13.6% (43)	35.1% (111)	50.6% (160)
	All	18.7% (59)	37.7% (119)	43.7% (138)	100% (316)

		Jan 2016 Solvency: Total Debt-to-Asset Ratio			
		Vulnerable: Above 60%	Under Watch: Between 30% and 60%	Strong: Under 30%	All
Jan 2016 Liquidity: Current Ratio	Vulnerable: Below 1.3	17.7% (56)	15.5% (49)	2.9% (9)	36.1% (114)
	Under Watch: Between 1.3 and 2.0	3.2% (10)	10.8% (34)	7% (22)	20.9% (66)
	Strong: Over 2.0	1.6% (5)	10.8% (34)	30.7% (97)	43% (136)
	All	22.5% (71)	37% (117)	40.5% (128)	100% (316)

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Summary of Changes in Liquidity and Solvency Jan 2015 – Jan 2016



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Changes in Working Capital, by Liquidity rating Jan'15, Jan'16

		Jan 2015 Liquidity: Current Ratio							
		Vulnerable: Below 1.3		Under Watch: Between 1.3 and 2.0		Strong: Over 2.0		All	
		Change \$	N	Change \$	N	Change \$	N	Change \$	N
Jan 2016 Liquidity: Current Ratio	Vulnerable: Below 1.3	-42,752	77	-326,265	28	-356,407	9	-137,149	114
	Under Watch: Between 1.3 and 2.0	68,959	13	-75,857	29	-169,874	24	-81,520	66
	Strong: Over 2.0	141,641	2	129,166	7	-71,937	127	-58,445	136
	All	-22,957	92	-162,986	64	-102,629	160	-91,658	316

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Full Reports:

- Plastina, A. 2016a. "Iowa Farm Financial Conditions in 2015." Ag Decision Maker File C1-11.
- Plastina, A. 2016b. "Iowa Farms: From Strong to Vulnerable in a Year?" Ag Decision Maker File C1-12.
- Plastina, A. 2016c. "2015 Iowa Farm Costs and Returns." Ag Decision Maker File C1-10.

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Thank you for your attention!

Questions?

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