A Time for Farmers to Sharpen Their Pencils

By Dallas P. Tonsager
Chairman and CEO
Farm Credit Administration
Published in "American Soybean," Vol. 4, No. 4
Spring 2017

Farmers face challenging times as farm incomes retreat from the peaks attained in 2013. The squeeze farmers are experiencing is real. Input prices are adjusting to the new crop price environment with a lag. With the exception of fertilizer and fuel prices, most crop input prices are only slightly lower or even higher than they were in 2013.

Many people are asking how the current period of stress compares to the 1980s. I don't believe we are headed for a crisis or anything resembling the situation experienced in the 1980s. But I do believe we could be facing a very challenging period for the next three to five years. Farming is a risky business and those risks ebb and flow over time. I believe the uncertainties facing American agriculture are considerable. Among them are uncertain future trade, farm, and biofuels policies. Growing production capacity overseas makes marketing our products more competitive. And economic growth potential appears to be moderating in the face of an aging population. This higher risk environment calls for a management response.

Fortunately, many producers entered this period of adversity from a position of strength after several years of strong incomes. Nevertheless, working capital is eroding on many farms, making it necessary to take decisive steps to reduce costs and enhance efficiencies. This may involve selling unneeded equipment, negotiating lower cash rents and reducing family living expenses, where possible. And, of course, all this economizing must take place in a rising interest rate environment, which will only add to the pressure to reduce costs.

Sharpening one's pencil applies to both the cost side and revenue side of the business. Greater emphasis will have to be placed on eliminating the least profitable enterprises and ensuring that one's marketing program is well conceived and disciplined.

Access to credit can be critical to producers experiencing cash flow difficulties. A key step to ensuring one's access to credit is to communicate with one's lender early and keep him or her informed of any issues that may affect the farm's financial position. Making sure one's records are in good order and complete is also important. Also, generating realistic income and cash flow projections under alternative scenarios will help the farmer and his or her lender better understand the risks that must be managed going forward.

This can be a tough time to get started in farming. However, I believe it can be done with proper planning, access to mentors, and a lot of hard work. Acquiring the necessary experience can be the most difficult hurdle to scale for those aspiring to farm. A second challenge is acquiring access to the resources, land, and equipment needed to have a viable operation. Frequently, having an off-farm source of income will be instrumental to having a successful start in farming.

Clearly, beginning farmers should use credit prudently. All Farm Credit System institutions have programs designed to meet the needs of young, beginning, and small (YBS) farmers and ranchers. I suggest anyone considering launching a farming or ranching business contact their System branch office to find out about their YBS lending program and any other resources that may be available.

Having grown up on a dairy farm and managed a grain operation in South Dakota, I can attest to the challenges associated with farming in a risky environment. But challenges also bring rewards. Facing those challenges can make us stronger managers and position us to take advantage of the opportunities that come our way during the next cycle.