

SOUTHEAST RISK MANAGEMENT EDUCATION

Managing Farming Risks Into the 21st Century

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"SHOULD I SELL MY FARM & GET ANOTHER JOB ?"

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Reducing costs and expanding production generally means more profit for farmers. This concept has often resulted in increased US agricultural production and lower farm prices (unless demand increases enough to take care of the supply). It comes as no surprise, then, that we are often asked the question "Would I be better off if I sold my farm and got another job?" The right answer to this question depends on the individual farm and farmer's situation.

Doane's analyzed 20-years of simulated farm income on a 320 acre midwest farm (corn and soybeans) which may help in making the farm/no farm decision. The farm studied had no beginning debt. Local yields, commodity prices, costs and land prices were used. The results they got are shown below. These numbers are for comparison purposes only and only coincidentally will represent an individual southeastern farming operation. Remember that other investment alternatives exist that were not compared here. Midwestern farm yields are also often less volatile than southern farm yields.

SIMULATED FARM BUSINESS ALTERNATIVES

1975-98 A Favorable Time For Expansion

ALTERNATIVE	Net Worth	Net Worth
	1975	1998
Buy 320 More Acres	\$230,080	\$1,935,998
Share/Rent 320 Acres	230,080	1,185,867
Farm 320 Acres	230,080	798,404
Sell Farm - Get Another Job	230,080	908,179

Buying land was the best alternative if we began in 1975. This well timed purchase would have boosted net worth to more than \$1.9 million in 1998. In addition, share renting was better than putting money in the bank. Keeping the operation status quo (320 acres) was the worse alternative for building wealth. Selling out and getting another job was the next to the worst alternative and would have resulted in losing a \$1 million over doubling land holdings.

These results changed dramatically when 1980 was used as the starting point.

SIMULATED FARM BUSINESS ALTERNATIVES

1980 - 1998 A Bad Time For Expansion

ALTERNATIVE	Net Worth	Net Worth
	1980	1998
Buy 320 More Acres	\$588,800	\$673,701
Share/Rent 320 Acres	588,800	295,759
Farm 320 Acres	588,800	700,877
Sell Farm - Get Another Job	588,800	1,755,435

Considering just these 4 alternatives, selling out and getting another job is clearly the best choice if this representative farmer doubled his land holdings during the inflated land price era of the early 80's. In this instance, buying high priced land in 1980 added little to net worth during the following years. This is in contrast to buying land in 1975 when land values were relatively low and where land appreciation contributed significantly to net worth over the following years. Expansion during the 80's clearly increased financial risk in this example situation. Purchasing an additional 320 acres (to farm a total 640 acres), resulted in almost the same ending net worth situation as did staying with the status quo of farming 320 acres. Share renting (during a time of high land prices and high rental rates) was clearly the worse alternative.

Strategies for Southern Farmers

Southern farmers get most of their income from crops other than corn and soybeans. As we move further away from government support programs fluctuations in farm income will likely be higher in future years. Farming will get riskier. Farmers should consider how much they can afford to lose and when to cut their losses.

Even in bad times land ownership looks like a fairly good long term economic strategy. However, past economic studies have shown that if cash flow is a problem for the farm operation buying land is definitely a bad choice. With that in mind, if wealth accumulation is the important consideration, and if the cash flow problems can be managed, purchasing land may be a good bet.

The answer to the question whether to keep on farming depends on the individual situation. Initial debt, net worth, cash flow, timing, family, and other factors enter into the decision. Investment in land is comparable to a savings investment. It's a good wealth accumulator, but in the meantime makes life difficult by restricting cash flow. Not all farming risks can be blamed on prices, the weather or the government. Nor can all of the wealth accumulated by farmers be credited to good farming. Investment decisions are critical to both. From the numbers shown above, it looks like a successful farmer is one who is a good farmer and is also good at investing for the future.

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