

Volatile Times in Agriculture

Volatility is nothing new to agriculture. In the past there may have been a range of 8 to 10 cents on corn and 15 to 20 cents on soybean prices during a year. Fertilizer and seed prices would remain fairly stable with small increases.

Over the last four months corn prices have fallen by \$3 per bushel and soybean prices have fallen by \$7 per bushel. Many traditional grain buyers have stopped offering forward contracts to farmers. At the same time land values and cash rents have increased significantly. The cost of commercial fertilizers has tripled since last year. Other input prices have also skyrocketed. All of these factors have added to the amount of stress and uncertainty being felt by farmers.

So what can be done to lessen these factors? Learn to use the risk management tools that are available to everyone through commodity brokerages. This includes the use of futures contracts and options to lock in prices for unsold 2008 crop and 2009 production. Establishing a price is critical when committing to a cash rent contract.

A flexible cash rent lease can also be used as a means of reducing the risk involved in a rent contract. Flexible cash leases can be crafted so that price and production risk as well as profit opportunities are shared between landlords and tenants.

The actual rent adjusts as production or price changes. They can be designed so that the owner doesn't have to be involved in decision making. With a flexible cash lease, rent can vary with prices and yield. It can vary with yield only or price only.

An excellent reference tool is Iowa State University Extension's Ag Decision Maker Web site at www.extension.iastate.edu/agdm. Many farm management publications and decision tools (spreadsheets) are available at no charge at this site.

Financial decisions are difficult to make any time, but especially during times of extreme volatility. Iowa State Extension is pleased to be able to provide the services of the Farm Financial Planning Associates at no charge.

Farm Financial Planning is Iowa State University Extension's farm financial analysis program. It consists of one-on-one financial counseling, a computerized analysis of the farm business, and referral to other extension programs or outside services that may be useful.

This service can be provided as a result of a grant from CF Industries. CF has provided these funds to help farmers who have been adversely impacted by this summer's weather and all Iowa farmers.

Farm Financial Planning helps answer three basic questions of sound business management. Where am I today? Where do I want to be in the future? How do I get there?

For more information on the associate serving your county or to find out more about the program contact your local county extension office or visit our web site at:

<http://www.extension.iastate.edu/farmanalysis/>