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Crop Budgeting is Vital in our Current Farm Environment

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There have been many conversations this spring surrounding crop projections and budgets. With the fear of instability in the crop markets due to foreign trade policy and the continued high costs of inputs, the profit margin for most row crop enterprises seem tight. These tight margins have emphasized the importance of projecting revenues and expenses for the crops to help budget the costs associated with production in order to ensure profitability. While crop projections and budgets are an important tool, producers don't need to stop there. A whole farm budget and cash flow is just as important, especially when making marketing decisions.

Crop projections are a great place to start in the budgeting process. Typically, crop projections are completed on a per acre basis. To create a crop projection a producer must do just that, project or estimate what they think the revenue and expenses for a particular crop will be. Typically, the revenue side of the projection is the easiest. If you know your average crop yield you can multiply that by the price you expect to receive upon harvest. Expected price can be estimated using the futures market. Remember to consider the typical basis at the time that you will be selling and any storage or drying deductions. Expense projections typically take a little more effort as you will need the current costs for inputs (seed, fertilizer, and chemicals) and determine the rates at which you will use these inputs on the crop. Added to this is the complexity that every acre may not be treated the same. After direct crop input expenses, a producer will need to estimate other costs associated with the production of the crop. These costs include, but may not be limited to, fuel, labor, machine hire, rent, repairs, insurance, utilities and equipment. Expected revenues, minus expected expenses will equal expected crop returns. It will be important to do a little sensitivity analysis on these expected returns. What if crop prices fall? What if yields are 10% less than projected? What if there is a weed problem and you have to spray an additional time? Will you still have positive returns? If projected returns are negative, how much additional yield is needed? How much does price need to increase to project a profit?

While crop projections can help producers determine a crop plan, it is important to follow through and complete a whole farm projection as well. Producers need to determine if the current plan will allow for payments of debts and family living expenses as well as all of the costs associated with production. Whole farm projections again start with revenues, but you are looking at the total dollars of income that the farm will receive. These revenues will include income from the sale of crops, but may also include government payments, patronage dividends, crop insurance claims as well as any other income that you expect to receive. Expenses will include all costs associated with the operation of the farm. These include the crop expenses mentioned above, but will also include property taxes, whole farm insurance, and interest expenses. Other outflows of cash will include debt payments and family living costs. This whole farm projection will enable a producer to determine if there will be enough revenue from the farm to cover all costs as well as debt payments. Some producers may choose to start with the expense side of the projection to determine how much total revenue will be required. This may help in determining the crop production plan. Which crops should be grown? This projection will also help determine what expenses need to be cut and can an operation afford another loan payment.

Whole farm projections can be used as a tool throughout the production year. As crops are marketed, you can adjust the expected revenue, locking in the sale of marketed bushels, while still projecting those that are unsold. Update the costs of inputs as to what has actually been purchased or paid. By the end of the growing season, a producer should have a cash flow report, showing revenues for all crops and other income as well as all expenses that were paid out for the crop. If the net return is positive, the farm did well. This tool can be used to evaluate what went as expected and where efficiencies can be made to improve for the next year. If net returns are negative, or even projected to be negative, the producer needs to have a conversation with their lender to determine how the short fall will be covered. If the farm had enough working capital coming into the year to cover the shortfall, that helps. However, if a farm continues to spend their working capital on production expenses it is possible that a bigger operating line or debt refinancing may be needed in the future.

During this period of tight farm incomes, it is important that producers use all of the financial tools that they have available to help measure their profits and losses. Good working relationships with your financial team are vital. If you need assistance putting together a crop projection the crop budgets produced by the University of Kentucky are a good place to start and provide a good framework to work from. Whole farm projection assistance is likely available from your lender and your farm records. If you are a Kentucky producer and are not utilizing the Farm Management Specialists of the Kentucky Farm Business Management Program, please reach out and see if we can help you will all your farm financial and recordkeeping needs.

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