


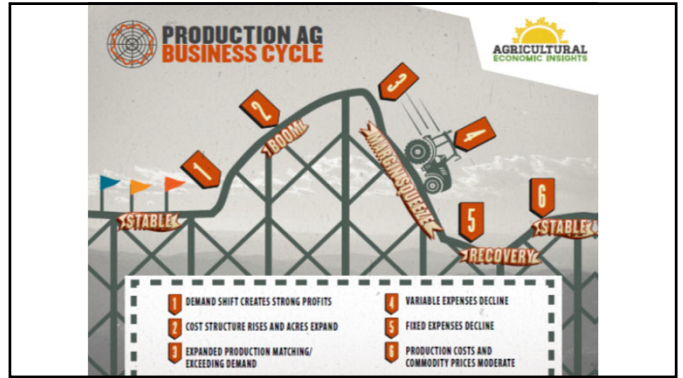
## State of the Farm Economy

David Widmar

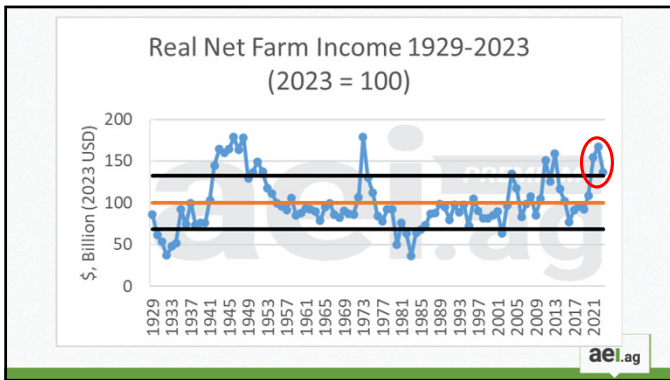
August 2023



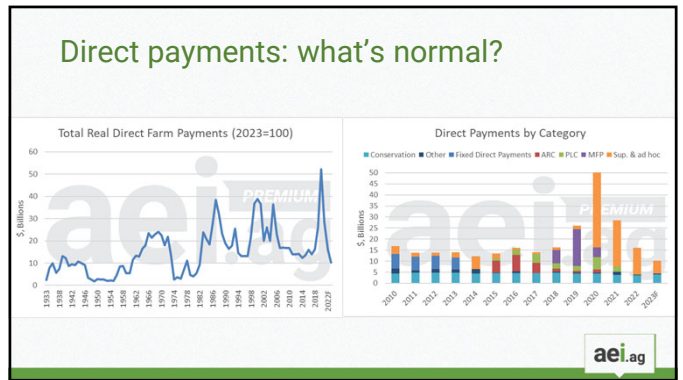
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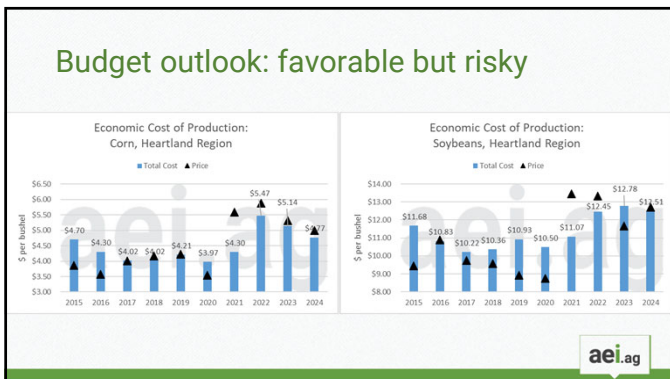
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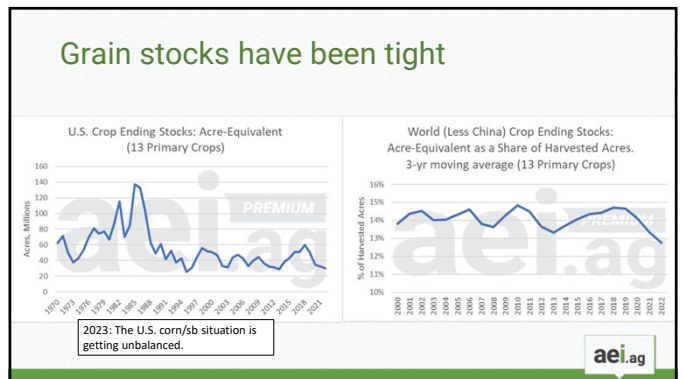
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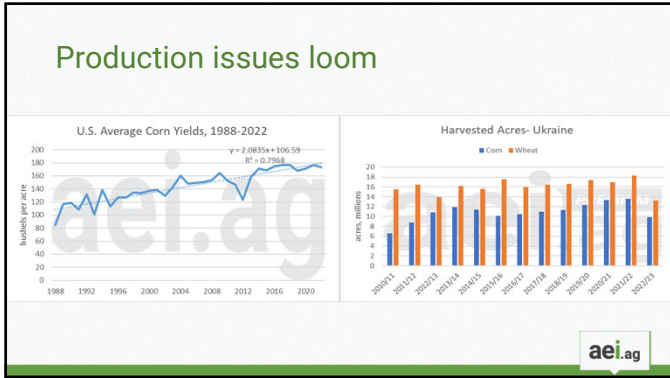
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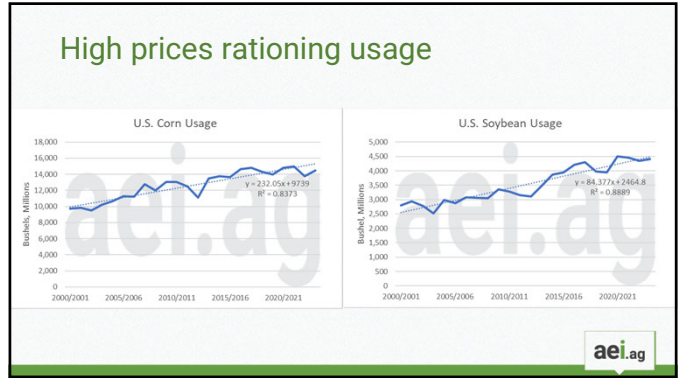
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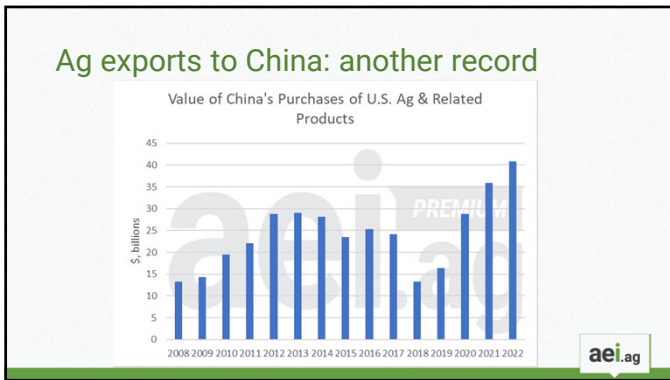
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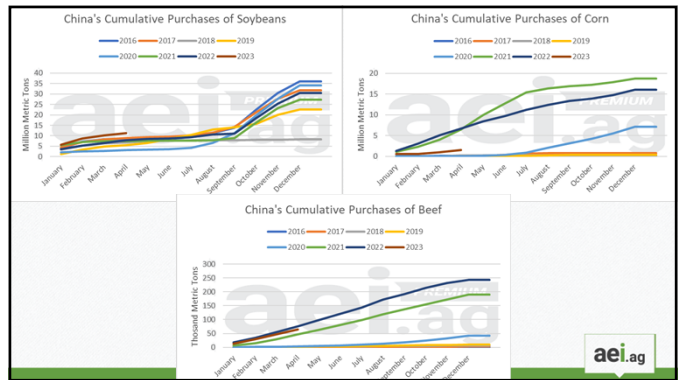
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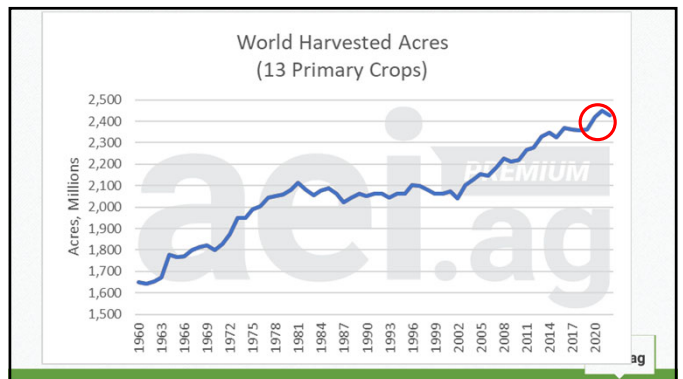
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- ### To Summarize:
- 2024 (and 2023) less favorable but still positive
  - A shift in direct government payments underway
  - Supply issues remain, but abating
  - Soybeans positioned to be more favorable in 2024
  - How quickly will usage recover?
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**Farm Booms Always End.**

**How they end is the concern.**

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**Working capital: lower than I expected**

U.S. Farm Sector- Real Working Capital  
2023=100

Working Capital to Gross Revenue Ratio,  
U.S. Farm Sector. 2009-2023

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**Farm debt**

Real U.S. Farm Debt, by Type  
(2023=100)

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**Distribution of farm debt**

Percent of Farm Businesses and Total Farm Debt  
by Farm Sales Class, 2021

Percent of Farm Businesses With Debt  
by Farm Sales Class, 2021

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**Farm size and profitability**

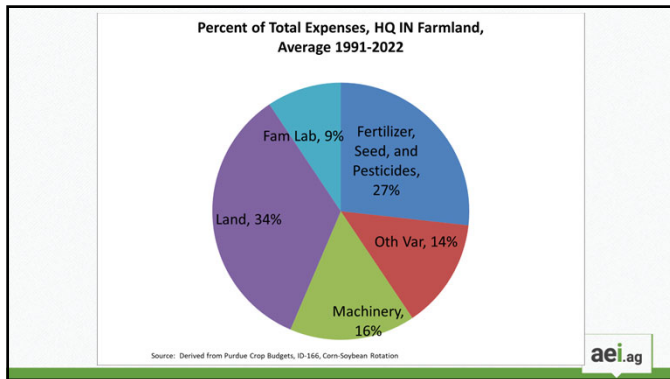
Average Farm Household Income, by Farm Type.  
2018 (On-Farm + Off-Farm Income)

17

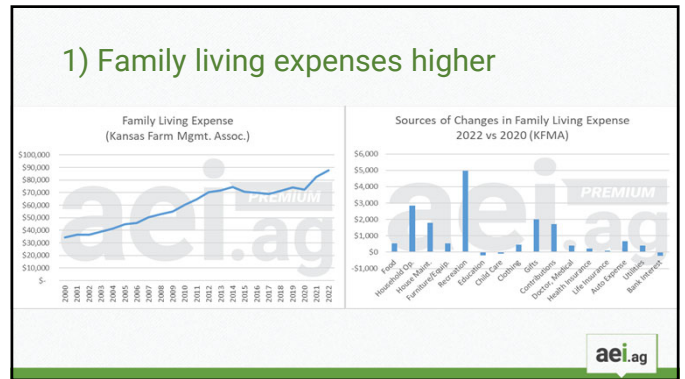
**It's not the decisions made in the lean years  
that get us into financial trouble....**

**It's the decision made during the boom years  
that won't cash flow in the lean year.**

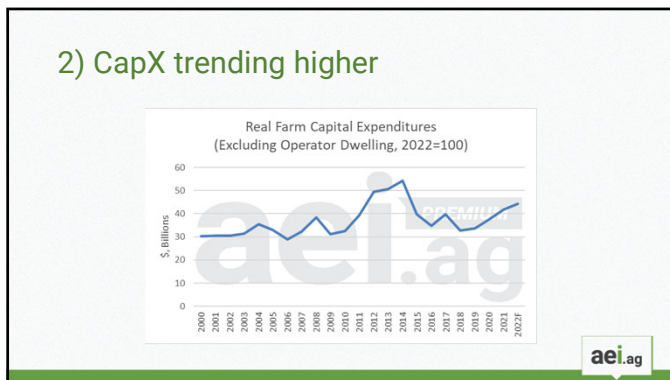
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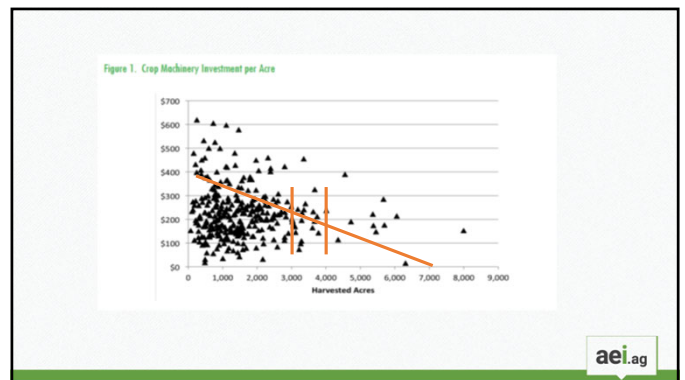
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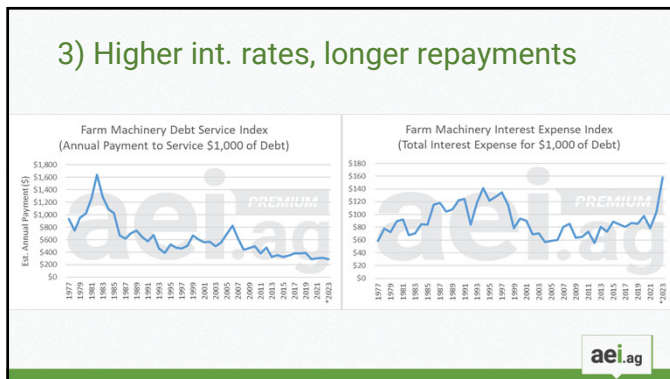
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### Mapping it out: an example


Item	Purchase Yr.	Annual Cash Flows										
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Combine	2015	\$ 45,000	\$ 45,000	\$ 45,000								
Baler	2020				\$ 65,000							
50 Heifers	2015			\$ 35,000	\$ 35,000							
Machine Shed	2009	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000							
180 acres	2009	\$ 62,500	\$ 62,500	\$ 62,500	\$ 62,500	\$ 62,500	\$ 62,500					
Tractor	2014											
Planter	2012											
...												
<b>Total</b>		<b>\$122,500</b>	<b>\$122,500</b>	<b>\$122,500</b>	<b>\$112,500</b>	<b>\$162,500</b>	<b>\$ 62,500</b>	<b>\$ 62,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**Questions for this year:**

- Combine vs. tractor vs. planter
- Trade-off:** Cash or financing; how many years?

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### 4) A cautionary example: accelerated depreciation & debt



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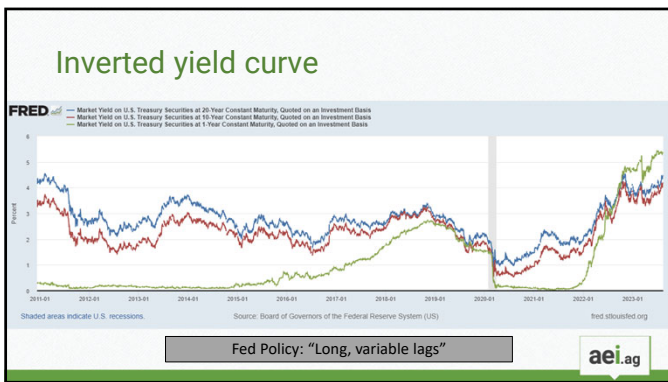
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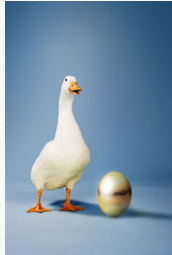
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### What would you pay?



- How much income is generated?  
• Revenues less costs
- What are future earnings worth today?  
• How long will the goose live?  
• What is \$100 dollars earned in ten years (2032) worth today?

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### Future earnings

- Scenario 1: Future value of a saving account
- Scenario 2: Present value


<ul style="list-style-type: none"> <li>• PV = \$100; Rate = 1% • FV (10yrs) = \$110</li> <li>• PV = \$100; Rate = 7% • FV (10yrs) = \$196</li> </ul>	<ul style="list-style-type: none"> <li>• FV = \$100; Rate = 1% • PV (10yrs) = \$90</li> <li>• FV = \$100; Rate = 7% • PV (10yrs) = \$51</li> </ul>
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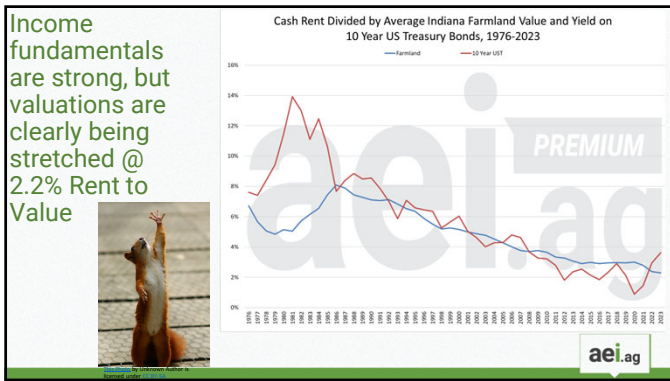
### Why farmland is so important:

- A big share of the balance sheet:
  - 83% of all farm assets
  - 70% of all farm debt
- A significant annual obligation:
  - Land ~ 35% of economic costs
- Long-term implications

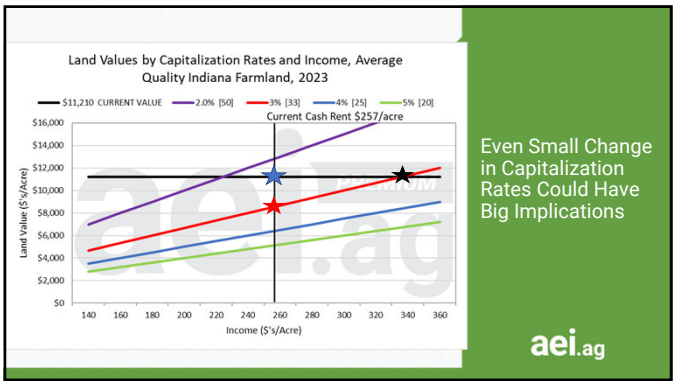


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**The Next Margin Squeeze**

- Less balance sheet flexibility
  - Less working capital
  - Long repayment periods = fixed cash flow obligations
  - Higher int. rates = refinancing land won't be as feasible
- ARC and PLC will be less helpful
- When and how will farmland adjust?

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Let's talk about the long run...

- What is your <plan> and are you taking action?
- Base hits win the game.
- Manage fixed expenses ruthlessly.

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Ymfsp&tz&

Escaping 1980 America

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