

History Helps Us With The Future



The year 2007 should go down in history as one of the best years ever for net farm income. However, as one of our clients, Rick Larson from Underwood, IA, says, it might be “one and done,” as he looks at costs and revenue for 2008.

As Harry Truman once said, “The only thing new in the world is what we have not learned from history.” History tends to repeat itself so it might be helpful to take a look at the history of net farm income for the last nine decades.

Here is a chart of net farm income from 1915 through 2005,

both in nominal dollars and in 1982 constant dollars. It tells an interesting story. I think it reveals some things that can be food for thought rather than food for fuel that we hear so much about.

John White, the client who provided the data, pointed out to me that the adjusted income based on 1982 dollars was adjusted for changes in the Consumer Price Index. The Producer Price Index might have provided a more accurate picture, but the data was not available.

First, it points out that good times are followed by not-so-good

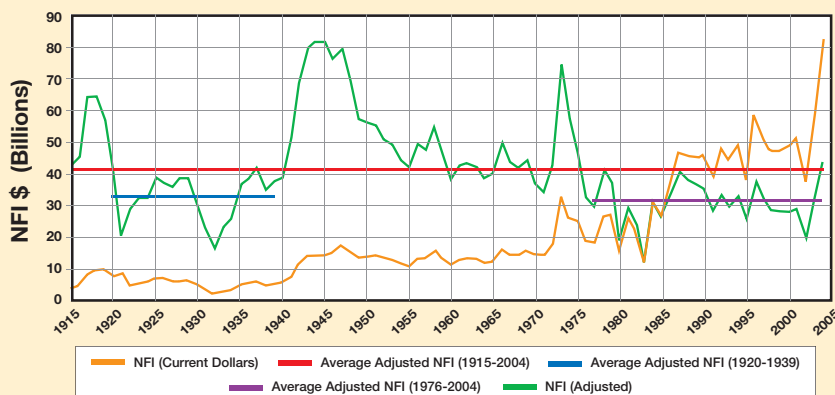
times. That’s not rocket science, but when we are all caught up in the euphoria of the current times, it is hard to see the opposite side of the farm economy. In my experience, big mistakes are made on both sides of the farm economy – being too cautious in bad times and being too aggressive in good times.

Second, the chart shows that since 1915, we have had three times of fundamental changes in the agricultural economy, and we are likely in the fourth. Those three times were around 1917-1918, 1943-1947 and 1973-1975. Will this fourth period of change be as short-lived as the 1973-1975 period? History might indicate so.

Interestingly, the best times in the last nine decades were not that period. The best was the 1943-1947 time period. Also, the worst years were not the Depression years of the 1930s. The worst years were the early 1980s. Having lived through those years in the lending business, it gives me some solace that I really did make it through those times. Sadly, many did not.

What’s notable, though, are producers who “kept their powder dry” during the mid 1970s, bought farms in the mid 1980s when others were having farm sales. Is there something to be learned here? I think so. Having good working capital, about 50% or more of your annual expenses, and keeping debt leverage below 50% of total assets should serve you well in the next decade. ■

Historical Net Farm Income



Since 1985, net farm income has been below the 90-year adjusted average. Interestingly, that is when the current genetics of farm bills were introduced.

Take the government’s contribution to net farm income out and where are asset values supported?

Kelvin Leibold, Iowa State University Extension specialist, indicates the gross income pie in cash grain farming is made of three factors: price, yield, government payments and a wild card. Crop insur-

ance is a part of the wild card, and that is highly supported by the government. We are really relying on demand from the fuel industry (and its government support) to keep the current status quo.

I hope our next farm bill is as good or better than our last. But if it is not and we have to compete on a global basis in the food and fiber industry, the last 20 years would indicate we have some adjusting to do. That may affect how this chart looks when we have 10 more decades of data. ■

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