UNIVERSITY OF DELAWARE
COOPERATIVE EXTENSION

Farm Management Playbook During Rising Inflation

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Farming during 2022 has been extremely stressful for agricultural producers with so many things changing about the economy, commodity markets, global events, and production costs soaring. It is essential for producers to think about strategies to manage their operation's financial aspects during times of inflation. There is nothing producers can do to control input prices or the price they receive for their outputs. The only aspect of farming that producers do have control over are management decisions about how to manage cash, what to purchase and when, and determining the cost of money that is borrowed. This information sheet will discuss three different strategies producers can use during times of inflationary pressures.

1. Operate Efficiently

Efficiently operating is the main key during times of rising production costs. This is particularly true regarding fertilizer. Fertilizer prices soared this year over the price paid for last year's crops. Producers have been economical in the amount of fertilizer they used this season. Some producers decided to bank on “excess” fertility they have. Others have decided to abandon rotations and plant more soybeans to avert higher nitrogen costs. Poultry litter was used tremendously by producers this year, despite at times being scarce to find. Knowing the return value of each fertilizer unit applied is essential for farming during times of inflation. Machinery efficiency is essential during times of inflation as well, particularly when fuel costs have soared. Machinery expenses are some of the most substantial expenses for a farm and having sufficiently operating machinery is key. Evaluate your mechanical needs. Not only does the size of the equipment relative to operation size determine efficiency, but also the need for the equipment itself. If there is equipment that hasn’t been used in a while and is sitting around the farm, consider selling. This can provide a considerable source of cash, especially with the price of machinery increasing. Not only will this provide a cash source, but it will also eliminate upkeep and insurance expenses of maintaining the equipment. Reliable farm labor is becoming difficult to procure and expensive to keep. Efficiency in labor resources is essential during inflationary periods. Ensure labor resources are being used to maximize efficiency and managed at the best your ability. Although it can be difficult to eliminate positions, it might prove to be necessary. Farming enterprises are businesses and should always be evaluated every year to determine the most efficient use of resources to maintain profitability objectives.

2. Keep Cash

Last year was a phenomenal one for producers not only in Delmarva, but nationwide. Last year was the optimal growing season, and it was complimented by increasing prices, particularly in grain. Many producers had more cash on hand going into the 2022 growing season than in years past. When a cash excess is available, producers often consider ways to benefit their operation over the long run using that cash. Producers may be tempted to opt into large capital purchases or pay off long term debts. During the current economic environment, a greater option may be to hold onto cash reserves. Cash reserves can be used to offset any shortfalls in being able to pay back expenses, particularly when higher input costs put pressure on a crops ability to cash flow. Holding a cash reserve will potentially limit, or even prevent, the need to refinance operating expenses over a long period of time.

3. Lock Interest Rates

Anyone that remembers farming during the farm financial crisis of the 1980’s remembers the interest rates of that time. Unfortunately, interest rates are on the rise. Any long-term debt that you carry now, could be at a cheaper rate than you could borrow money for in the future. There is less incentive to pay off debts right now with lower rates to turn around and need to borrow money at a higher rate. Let your money work for you. If you have term loans that need to be consolidated or are not at a fixed rate, consider talking to your lender immediately about locking in current rates. You can save your operation a substantial amount by securing lower interest rates and reducing the amount of interest cost during the time of the loan.

Conclusion

Operating an effective farming operation can be extremely difficult when external factors out of a producer's control brings financial difficulties to the operation. Fortunately, lessons learned during the farm crisis of the 1980's have taught us the foundation to weather challenges such as what we are facing today.