

## ACCOUNTING

# Agricultural outlook for 2010

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At a recent meeting of an agricultural consulting group in Chicago, several predictions were discussed. The predictions included:

1. Higher interest rates coming in the next 9 to 12 months. Operating loan rates projected at 10 to 12 percent and mortgages at 9 to 10 percent.
2. Lower commodity prices.
3. Variable costs up 8 percent.
4. Fixed costs up 3 percent.
5. Higher fertilizer costs.

Perhaps the scariest of these predictions deals with interest rates. The U.S. (Fed) Prime Rate has been at 3.25 percent since December 16, 2008, due to the target range for the fed funds rate of 0 percent to .25 percent as established by the Federal Open Market Committee. Looking at the history of the U.S. Prime Rate dating back to 1947 this is the lowest it has been since a period from December, 1947, through October, 1955. For most of the last 35 years the U.S. Prime Rate has been at

least twice what it is today. On October 13, 1978, the U.S. Prime Rate moved up to 10 percent and did not go below 10 percent until June 18, 1985. That was a six-and-a-half year period with interest rates topping 10 percent. The Prime rate was 20 percent or more on April 2 through April 17, 1980, December 10 through February 2, 1981, and May 19, 1981, through September 15, 1981. The Prime Rate peaked on December 19, 1980, at 21.5 percent.

Interest rates are this low today because of intervention in the markets by the Federal Reserve. They have had success with short term interest rates, but have been less effective with long term rates.

Put this in the context of your farm. Assuming you have total average debt on operating, equipment, and land of 4 million dollars, your annual interest expense would be \$130,000 assuming a prime variable rate of 3.25 percent. Assuming a prime variable rate of 20 percent on a debt of 4 million dollars your annual interest expense would be \$800,000. How many farms could survive that even for a year, much less for six years?

A case could be made for low interest rates for years due to various economic variables. I would just point out that most farmers could survive locking down long-term rates today even though they are

higher than variable rates, but almost none could survive prolonged variable rates much above 10 percent.

I don't know who coined the phrase, but we have all heard it, "Plan for the worst; hope for the best." The number one recommendation I have for you is to put your operation down on paper and run several different scenarios. Include your CPA, banker, and other financial advisors in this process to help devise a plan for your farm.

I've been flying an airplane for around 15 years now and have accumulated almost 1,000 hours as a pilot. I assure you I am alive today because my instructors made me practice emergency procedures. I survived an engine out at 1,000 feet only because I had gone over an engine out scenario with two different instructors the day before. Within ten seconds I had the engine running again with maybe a fifty foot drop in altitude. I didn't panic and didn't get scared until later because my response was so automatic. The reason it was so automatic was the practice I had the day before.

The same thing applies to your farming operation. When you encounter the worst case scenario, the practice you have had with emergency procedures will dictate the outcome. If you practice emergency procedures and put them down on paper,

you will not panic in an emergency and you will be able to control your emotions which are your worst enemy.

I don't care how busy you are today, or how good the hunting and/or fishing are, get with a good financial advisor and plot out what you need to do to survive the next few years.

And if you never have to face what I have presented to you in this article we can have a good laugh about how bad I scared you. But you will still be farming!!

If you would like a free copy of our crop planning software give me a call at (662) 887-4557 or e-mail me at [dstallings@bairdandstallings.com](mailto:dstallings@bairdandstallings.com). Prepare your plan, stick to your plan, and make money in 2010. **DBJ**

*(Don Stallings is a shareholder in the Indianapolis, Ms. accounting firm, Baird & Stallings, CPAs, P.A. He is a certified public accountant, a certified valuation analyst, and a certified forensic financial analyst.)*



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