

A little perspective on this drought

DATELINE DROUGHT

By **GLENN LEIGHTY**



EVERYONE is in a frenzy, worrying about crop prospects and wondering if they will have anything to harvest. I feel fairly certain there are many areas that will not even have a combine run over the field.

Most discussions use as a point of reference the 1983 and 1988 crop failures. I've been thinking back to the parameters we were dealing with then compared to today. Here is what came to mind:

- Interest rates in '83 were in the mid-to-high teens, and I believe in '88 they were around 12% to 13%. Interest rates today are the lowest in years. Farm Credit Service is 4.5% to 4.75%.

- Direct and countercyclical government payments didn't exist back then. While they may not offer a lot, they are available today.

- Crop insurance covered yield only. Today's products, if properly matched to the borrower's risk profile, covers price and yield, and guarantees "X" dollars per acre. This normally protects the variable cost of planting the crop. If you can cover

Key Points

- There are a lot of differences between the 2012 drought and those of the 1980s.
- Interest rates are a lot lower today than they were in the 1980s.
- Farmers have become more adept at managing risk.

out-of-pocket costs, you can live to fight another day. If you can't, your choice is to either mortgage something and term out the carryover, or sell something.

- Land values bottomed around 1986, and farmers had no equity to shore up their borrowing power. Land prices today are the highest in history. There should be some security to collateralize a loan. That was not the case in 1988.

- The general economy is pretty good here. If you're willing to work, there are jobs to help cover living expenses. While these jobs may not be the most desirable vocations, they'll help shore up cash flows.

- By late '88, most machinery lines were getting worn out. If you look around most farms today, almost the entire line has been replaced in the past five years. I think most operations could go at least three to five years without having to make any high-capital purchases.

- We now have the ability to grid-map soil-test our farms and put fertilizer where it's needed. That technology was in its infancy in the '80s.

- Most operations have some working capital going into this year. By '88 most operations had no cushion or had big negative working capital, which was being rolled year to year.

- There are marketing tools available to help mitigate price risk, which didn't exist in the '80s. A properly executed options strategy can offset a portion of market volatility at a known cost.

- Today's farmers are more attuned to risk management and have access to tools to reduce financial exposure. There were limited programs available 20-plus years ago.

Find the opportunity

Many younger producers have never lived through a downturn. While it's not enjoyable,

it creates better managers. Adversity creates opportunity. Young operators, if focused, could turn this into the opportunity to expand.

If I had to choose between a crop disaster in the '80s or today, I would take today, hands down. Good times don't go on forever — but neither do tough times.

Leighty is a fifth-generation Lawrence County farmer from St. Francisville. He has worked in agricultural lending since the mid-1970s and is the farm loan manager for the Farm Service Agency in Vincennes, Ind. He is active in the operation of the family farm with his son Greg, who handles the day-to-day management. The farm's main crops are corn and seed beans.



Drought-focused reports available

THE widespread drought that's gripping the Corn Belt is causing a range of problems and concerns for readers. It's a fast-moving situation that requires you to keep up. At Farm Progress, we're doing what we can to help. We've fired up a new website, www.DatelineDrought.com, where we'll have a daily video update from Max Armstrong, Farm Progress broadcast director, that will include the latest news on the drought.

In addition, you'll find a roundup of the most recent drought information from our Farm Progress family of magazines, so you can monitor key issues impacting farmers across the country as they deal with an issue that's influencing farms in new ways. Keep up on Drought 2012 at this new site.