

Jackson & Trempealeau County Agricultural News



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LIQUIDITY

Liquidity is a measurement of a business's ability to pay current liabilities with current assets. Current liabilities are all liabilities due and payable in one year's time. Current assets are assets that can or will be converted to cash in one year's time. Current assets would include grain in storage, fattening livestock normally sold in one year, and cash on hand. Current liabilities are all principal and interest payments due in one year, family living, operating expenses, and tax liabilities.

Liquidity is important because liquidity or lack of liquidity is an indicator of financial performance of your business. Like a temperature gauge on your tractor, liquidity can give us a picture of what is happening with our business. If the temperature gauge indicates your engine is running hot, it does not mean your tractor is broken and needs to be scrapped. A high temperature means the tractor needs some attention to find out why the engine is running hot. Poor liquidity in your farm business is the same. Your business is not defunct and in need of closing if liquidity is poor. Your business needs some attention before it becomes defunct. Like running a tractor engine at high temperature for a long period of time, running your farm business for a long period of time with poor liquidity can cause damage that may require drastic measures to repair.

How do we measure liquidity? Like many financial measures, we can calculate a ratio. The current capital ratio is calculated by adding our current liabilities, adding our current assets, and dividing current assets by current liabilities. If our current asset ratio is 2.0 or better, we are thought to be in a strong position. A ratio of 2 or better means that for every dollar of current liabilities we owe, we have two dollars of assets to meet that liability. Ratios over 1 and less than 2 indicate a business that is vulnerable to short term cash flow issues. Less than 1 is an indicator of a business that is in trouble, at least short term.

A current capital ratio in the vulnerable or trouble category needs to be analyzed to discover the reason for the poor ratio. If the farm business experienced a traumatic event like a barn fire that wiped out the milking herd, a challenging current ratio could be expected. In this case, if the equity position of the operation is good, the farm business may be able to emerge from the challenge with some work and diligence. If a farm business has struggled repeatedly with poor current ratios and overall equity challenges, the manager may need to make some difficult choices.

Some debt may need to be re-financed into long term debt to bring payment size down to a smaller amount so there is less strain on cash flow. Re-financing an operating loan onto farm real estate can increase long term risk to the business. Operating loans should be paid off in the year the loan is obtained. Re-financing short term loans into long term debt may be a sign of structural problems in the farm business.

Assets can be sold to generate income. Selling assets works if the sale of the assets does not impact production or efficiency on the farm. The wooded forty can be sold without impact to the farm business rather than selling the flat forty by the barn that grows 250 bushel corn. It is always nice to have land to hunt on and pick morel mushrooms in the woods. Selling assets is not an easy decision.

Look at your current capital ratio. Like the gauges on your tractor, current ratio is an indicator of the overall health of your business. If you need help, call me 715-538-5097.

SEASONAL CROP PRICE PATTERN

Nine years out of ten, the highest prices of any crop marketing year are seen in the months of April through June. Prices usually begin to decline around the Fourth of July. The years of 2012 and 2020 were the outliers where prices increased after the Fourth of July and into harvest. Prices for corn and soybeans are continuing to rise as I write this article.

What should you do? I cannot answer that for you, but I know what I would do. If I had grain in storage, I would begin to market the grain, either through cash sales or forward contracts. My bins would be empty, or all grain would be committed by July 4, minus any amount I needed for feeding before the new crop is harvested.

I would know my cost of production for new crop corn and soybeans. Prices over the cost of production would be locked in with forward contracts for any grain to be sold at harvest. I would not contract any grain over my APH for crop insurance and I would have already bought crop revenue insurance. If I use options, either puts or calls, I would be careful to use them wisely. Options can expire as worthless paper if a farmer is not careful to exit the option at the appropriate time. I would set a goal for the option, write down the goal, and stick to the goal. For example, I buy a call option to capitalize on a rising corn market for grain I forward contracted in March because the price offered was over my cost of production. I set a goal that I want to make \$0.50 per bushel after premiums on the call option. I make the \$0.50 goal, so I sell the call. This money is added to the contract price for the corn sold in March.

Brokers make money every time you trade. Avoid the trap of rolling positions into the next month and so forth. That costs money and you never stop marketing your grain. Market your grain once and be done. Somewhere there is a person still marketing grain from 1992. Don't be that guy.

Use the current price situation to make a profit. Try not to worry about missing the highest price of the marketing year. We only know what the highest price was by looking back, often when it is too late to get the highest price.



PASTURE MANAGEMENT

Managing pasture is important if you have livestock grazing. Properly managed pasture will return the most dollars to your operation of any forage you feed.

The first step in managed grazing is dividing pastures into smaller parts, or paddocks. If a farmer has a 40 acre pasture and divides the pasture into two, three, or four smaller paddocks and grazes a paddock until half the forage is used, then moves the livestock to the next paddock, greater production will be realized versus continuous grazing. Under continuous grazing, the livestock will eat the tender regrowth and the less palatable forage will not be grazed. Utilization of forage will be poor. Moving livestock to new forage every week will allow for better regrowth, stronger roots, and higher utilization of forage. When a perennial plant is cut, roots die in proportion to the amount of forage cut from the top growth. The plant must regrow roots at the same time the above ground portion is growing, often at the same

proportion. If grass plants are cut too low, regrowth is slowed because there is not enough leaf area for photosynthesis and grass plants do not store much carbohydrate in their roots like legumes do.

Fertility management is another often overlooked area of pasture management. Grazing animals dunging and urinating on pastures help to return a lot of the nutrients to the pasture, however, about 15% of the phosphorus and potassium are exported as meat, milk, or wool. These nutrients must be replaced or the pasture system will suffer long term.

Soil samples need to be taken from a pasture to manage nutrient applications. Pastures should be divided into five acre areas and one sample should be taken from a five acre area. Five to six cores, six inches deep into the soil should be composited into one soil sample. Avoid areas where animals concentrate near water and under trees or walking lanes. Apply nutrients as recommended in the soil test report.

If pastures are below 30% legume, nitrogen will need to be applied to maximize grass yield. Nitrogen should be applied prior to the summer slump period to extend grazing yields into the hot, dry period of July and August. Nitrogen can be applied at different times, to different paddocks, as the livestock are moved out to stagger the growth of grass.

To maintain greater legumes in your pastures, the pastures should be grazed lower one time per season. The lower grazing height will open up the canopy and allow clovers to thrive. Many fields have ample seed bank of clover and wild types of white clover will grow. Medium red clover can be seeded in pastures every two to three years. Medium red will yield better than white clover. There is little difference between the clover species in terms of nitrogen fixation. The difference is the species that yield more biomass will yield more nitrogen. White clover does not leak nitrogen out during the growing phase. All nitrogen from legumes in pastures is from root die back and decay of plant materials and the nodules on the roots. Including legumes in your pastures is beneficial for your livestock, your wallet, and the grasses in your pasture.

Properly managed pastures will return dollars per acre that will rival any grain operation. If you have forage consuming livestock, use managed grazing.

Upcoming Programs

BADGER CROP CONNECT

Every 2nd and 4th Wednesday of the month

To register: <https://fyi.extension.wisc.edu/grain/badger-crop-connection/>

May 26th

Shawn Conley, UW-Madison Extension Soybean and Small Grain Specialist

•*Soybean crop progress- know the growth stages*

Erin Silva, UW-Madison Extension Organic Agriculture Specialist

•*Agronomic management with roller crimped winter cereal rye*

COVID-19 and SOCIAL DISTANCING

During this period of social distancing the Extension Office is currently closed to the public. This does not mean we are not working for you.

In the meantime I am able to be reached Monday through Friday from 8am to 4:30pm on my office cell phone 715-538-5097. Please feel free to leave a voice mail message and I will return your call.

OR

For faster response use my email at steven.okonek@wisc.edu with any questions you have.

Hopefully, we will be back to hosting and attending in-person meetings soon.

Electronic Communication

Do you have an email address you check regularly? If yes, please share it with us so we can send this newsletter and other communications to you electronically. If you do not have email or you do not check your email regularly, no worries we will continue to mail the newsletter and other communications to you.

By receiving electronic communications, the links to other sources that are imbedded in communications will be live and will provide more information. Also, we will make better use of your tax dollars by being more efficient in sending information.

I will not clog your inbox or increase items sent more than what you receive already. If you feel you are receiving too many emails from our office please let us know by emailing michelle.rose@wisc.edu and she will remove you from the email list and add you back on the mailing list.

Please send your email address to michelle.rose@wisc.edu