

# The Critical Need For Budgeting

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As we look back on the year of 2008 and think about the financial burdens we endured with high input prices, increasing land rents, and the wild market swings with commodities, it becomes living proof that budgeting assists with being able to handle those situations and making the best managerial decisions possible. Therefore, it becomes even more critical for the coming year to consider budgeting as a primary guidance tool for managerial decision making. One reason for this is land rent. I haven't heard of any of those agreements coming down in price or there were those that locked in a multi-year agreement and are stuck with the higher rents for the coming year(s). Secondly, input costs are still on the higher side of things than they were a couple years ago. True, diesel has come down, but seed costs, fertilizer, and equipment are still relatively high. More importantly, the higher marketing prices are not there right now and so if you didn't market ahead for the coming year, the income potential is going to be less to offset these higher prices.

This brings us back to the budgeting and planning process. I would tend to use last year's input prices as expected costs. I think they will tend to be more closely representative of actual costs rather than an average. I would then use my farm averages for yields to predict what type of inventory I will have to work with. Using last year's yields might not be as close to average

due to the extreme weather conditions we endured. Finally, I would look at crop insurance and cover your intended pre-harvest sales. The remaining is anyone's best guess but needs to be done to ensure either profitability or the minimization of losses. Having a window of opportunity to work with helps guide you in your decision making for other farm decisions.

There are several tools out there to assist you with budgeting. Each will have its own significance to your operation. However, if you are looking for a tool to assist you with this process, the University of Missouri and FAPRI have developed the Crop Budget Generator which is an Excel spreadsheet that is free of charge and can be downloaded onto your computer. Using your numbers as data, it will compute some budgetary numbers for you based on the things you choose to do with your farm. This is an interactive decision tool that can change the outcome of the answers based on the decisions you choose to make. More importantly, the data that the spreadsheet uses to base its decisions off of come from Missouri Representative Farms. Therefore, the data is about as close as you can come in determining a desired outcome for your farm.

If you have any questions about this or any other related topic, please don't hesitate to call myself at (660) 646-0811 or Bob Kelly at (816) 279-1691. The spreadsheet can be found on FAPRI's website at <http://fapri.missouri.edu> and click on farmer's corner. Δ

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