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Managing Financial Stress on the Farm in Uncertain Times

By Ed Staehr, Executive Director

Current economic uncertainty related to COVID-19 is resulting in stress for many farmers. Normal consumer patterns of expenditures on food away from home have been altered, as restaurants are limiting service to take out and consumers are staying home. For the dairy industry, consumers are purchasing more fluid milk; however, this may not fully offset reduced demand in cheese utilized by restaurants and milk provided by schools. Stress cannot be avoided; nonetheless, one can take steps to identify stressors and manage them by putting together a plan for the future.

An inability to consistently meet cash commitments is a key indicator of financial stress, as well as a sign that farm financial condition could benefit from closer examination. Fluctuating prices, excessive debt, high input costs, and other factors can result in financial stress on farms. Addressing financial issues early on allows for an increased level of control during the decision-making process. Implementing measures to manage the situation as soon as possible will help reduce stress and prevent the need to take extreme actions in the future. Postponing the process of developing and implementing a farm business financial management plan leaves farmers with fewer options to explore in the future.

Developing a cash flow management plan to meet cash commitments is critical for farm business continuity in the short term. There are a number of options for farms to consider when implementing a plan, such as selling unproductive assets, taking advantage of lower interest rates to refinance debt, especially current liabilities, or reducing non-farm expenditures. Moreover, identifying a farm business' largest expense categories and examining measures to reduce expenses within categories could also free up cash. Thoroughly evaluating purchases is another effective way to reduce financial stress by avoiding unnecessary spending.

One should develop cash flow projections based on expected income and expenses to identify time periods when expenses could exceed income. Bringing in outside help is also beneficial. For example, involving one's lender can be critical in developing a plan to manage financial stress. A short term option that some lenders employ is allowing interest only payments on debt.

Although having sufficient cash flow is critical in the short term, taking steps to ensure profitability is key to long term farm business survival. There are a number of profitability measures to utilize for financial analysis, including, but not limited to net farm income, return on assets, and return on equity. A farm business may be profitable in the long term, even though experiencing cash flow difficulties in the short term. On the other hand, a farm business could have adequate cash flow and be unprofitable. An example is a dairy farm that sells heifers to improve cash flow, but reduces a future income stream in milk sales by not having an adequate number of livestock for replacement or business growth. Immediately concentrating on managing cash flow, while making a long term, focused effort on ensuring farm business profitability is a two-pronged approach to employ when managing in uncertain times.



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An initial step in dealing with uncertain economic times is to acknowledge the situation. Some time may be needed to come to terms with the present economic circumstances; however, conducting business as usual and not adapting can be detrimental. Searching for blame can waste valuable time and energy necessary to find workable solutions.

Talking with family members involved in the farm business is critical in developing a plan. Discussing the farm's financial status helps family members share concerns and avoid stress that may occur if they lack information. When everyone is familiar with available options and necessary actions, there may be an increased willingness to help. Financial stress may upset an entire family; nevertheless, open communication and working together can overcome numerous obstacles.

Managing financial stress requires a variety of approaches on farms and options vary among farm businesses. Each situation is unique, and NY FarmNet has helped thousands of farm families work through financial, personal, and family stress issues. NY FarmNet consulting is free and confidential. If financial and/or personal and family stress are causing issues on your farm, give us a call at 1-800-547-3276 or contact us through our website at www.nyfarmnet.org.