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# Farm Liquidity: Then and Now

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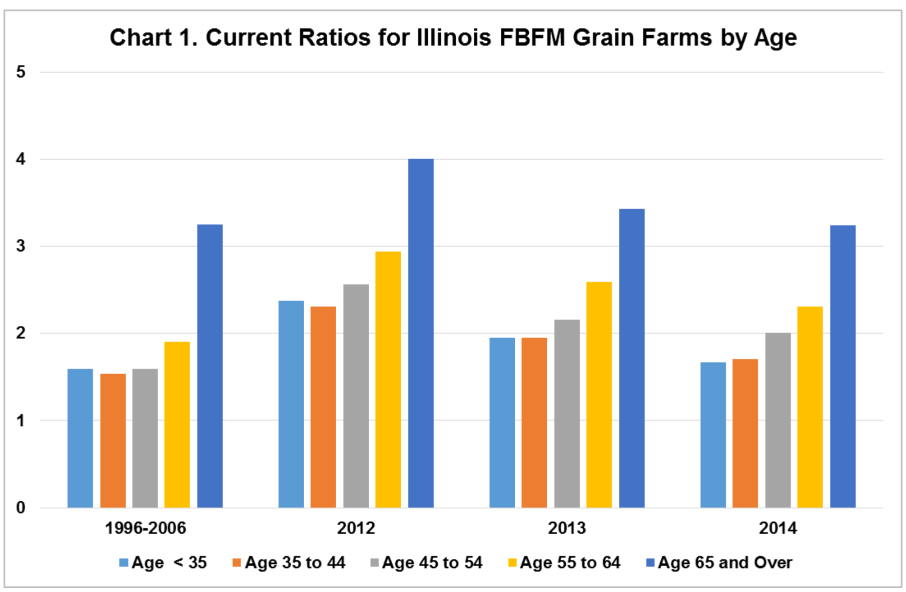
With increased focus on financial liquidity, today's article reviews the current ratio for a group of Illinois grain farms using an eleven-year average from 1996 to 2006 and then makes a comparison to the current era – 2012, 2013 and 2014. Some think that we are heading into an era that might be similar to the 1996 to 2006 era. With the information in today's article you can make that decision for yourself.

While working capital is calculated as current assets (cash, accounts receivable, grain and market livestock inventories and prepaid expenses) less current liabilities (operating debt, accounts payable and the current portion of all term debt); the current ratio is calculated as current assets divided by current liabilities. It is difficult to make comparisons using working capital as the metric. It is much easier to make comparisons using the current ratio as a metric.



From Chart 1, the eleven-year average (1996 – 2006) shows the current ratio of those under age 65 to be remarkably similar in the 1.5 to 2.0 range. Those age 65 and over report a current ratio of just over 3.0 in that same time period.

The same chart shows the current ratio of the under age 35 group at just under 2.4 in 2012 and decreasing to 1.95 in 2013 and at 1.66 in 2014. The 2014 current ratio for this group is slightly above the 1996 – 2006 average of 1.59.

The current ratio of the 35 – 45 age group is 2.31 in 2012 and decreasing to 1.95 in 2013 and at 1.70 in 2014. The 2014 current ratio for this group is again better than the 1996 – 2006 average of 1.53.

The current ratio of the 45 – 55 age group is 2.56 in 2012 and decreasing to 2.16 in 2013 and at 2.01 in 2014. The 2014 current ratio for this group is again better than the 1996 – 2006 average of 1.59.

The current ratio of the 55 – 65 age group is 2.94 in 2012 and decreasing to 2.59 in 2013 and at 2.31 in 2014. The 2014 current ratio for this group is again better than the 1996 – 2006 average of 1.90.

The current ratio of the age 65 and over group is 4.00 in 2012 and decreasing to 3.43 in 2013 and at 3.25 in 2014. The 2014 current ratio for this group is back to the 1996 – 2006 average of 3.25.

Liquidity is much like fuel in the tank. When the tank is full and your business is cruising along, things are going well and you are not looking for the bright lights of the next truck stop. When the tank is half empty and there is nowhere in sight to re-fuel one gets a bit nervous and the bright lights of that next truck stop can't come soon enough. One has the annual opportunity to 're-fuel' from farm earnings left after expenses, debt and family living expenses are paid. Other opportunities to re-fuel and improve the current ratio involve 1) the sale of non-current assets, 2) re-structuring existing operating debt as intermediate and long term debt and 3) capital being added from other non-farm business sources of the owners or from outside investors.

The authors would like to acknowledge that data used in this study comes from the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 5,700 plus farmers and 60 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM field staff provide on-farm counsel with computerized recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the University of Illinois Department of Agricultural and Consumer Economics at 217-333-5511 or visit the FBFM website at www.fbfm.org.