

Farm Finance Theme Overview: Are the Good Times Really Over?

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In the Merle Haggard country song entitled “are the good times really over”, he asks “are we rolling downhill like a snowball headed for Hell?” With farmland values continuing to decline in some areas (Kauffman and Clark, 2016; Oppedahl, 2016; USDA-NASS, 2015; Zhang, 2016) and net farm income projected to decrease again in 2016, expressions of concern about the agricultural sector’s financial position and performance are mounting (Patrick, Kuhns, and Borchers, 2016). Deteriorating cash flow positions have contributed to slower loan repayment rates with increases in loan renewals and extensions, increased demand for non-real estate loans and some decline in the quality of the agricultural loan portfolio (Kauffman and Clark, 2016; Oppedahl, 2016). These changes follow several years of record profits, in which new borrowing was low and land values appreciated dramatically. During this period of prosperity, a new Farm Bill was negotiated focusing on risk management. The “Agriculture Act of 2014” ended direct payments, counter-cyclical payments and ACRE payments for all covered commodities, substituting a new revenue protection program, Average Risk Coverage (ARC), and a new price protection program, Price Loss Coverage (PLC). And, beginning in 2015, supplemental coverage options (SCO) for crop insurance on covered commodities enrolled in PLC (and cotton) and the Stacked Income Protection Plan (STAX) for cotton producers were added.

Records now show that net farm income peaked in 2013 (Patrick, Kuhns, and Borchers, 2016). As net farm income expectations adjusted, so did farmland values with rates of growth first braking, then declining in a number of states. Uncertainty abounds about how well the new farm bill provisions will protect farm income and wealth. Some measures of farm financial stress such as the debt-to-asset ratio remain low compared to the 1980s, but analysts question how well it illuminates the current situation. While comparisons of the current downturn to the 1980s farm crisis are inevitable, how different are things? And how much do they differ for different segments of the farm population? For instance, Zwilling, Krapf and Raab discuss changes since 2009 in the working capital of Illinois farms by operator age, highlighting the relatively lower levels of median working capital for younger operators.

The authors contributing to this theme provide timely insights on several dimensions of the agricultural economy. In “The Current State of U.S. Farm and Income Wealth”, Patrick, Kuhns and Borchers provide a historical perspective along with the latest projections on net cash and farm income plus the sector’s financial position. Also noted is the importance of non-operator landowners to the agricultural sector. The authors point out concerns about changes in the sector’s balance sheet and solvency measures.

In “Structural Change Implies Unique Role for Federal Credit”, Ahrendsen and Dodson highlight changes in farm structure in recent years, noting a further shift in production to larger farms accompanied by a growth in their share of debt plus incomes more variable than those of smaller producers. Lender consolidation is observed along with shifts in their portfolios and market segmentation. The role of Farm Service Agency lending programs and their use by agricultural producers and commercial providers of agricultural credit are discussed.

In “Leverage of U.S. Farmers: A Corporate Perspective”, Ellinger, Featherstone, and Boehlje look at distributions of traditional leverage measures as well as alternative measures used by Moody’s Credit Risk Methodology. A

national perspective of overall levels of cash flow and income relative to debt is provided along with distributional insights developed from state-level Farm Management Association data. Working capital position, estimated cushion and cash burn rates resulting from changes in margins at the farm level point out vulnerabilities of the agricultural sector.

For more information

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