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May 2014

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Gayle Ann Morris

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NEC33X

Farm Financial Conditions for the United States and Nebraska in 1983

Gayle Ann Morris Research Associate, Agricultural Economics

This report concerns 1983 financial conditions in the Nebraska and U.S. farm sector. U.S. information is taken from a report by the Economic Research Service, USDA. Nebraska information was available from university publications and banking institutions. 2

Demand for Credit

The demand for short and intermediate-term credit by the U.S. farm sector is expected to decline during 1983 because of reduced production expenditures, advance payment provisions of commodity programs and operators' general reluctance to borrow. Short-term credit needs are estimated to decline \$2.5 to \$3.0 billion from 1982. Intermediate-term credit needs may drop \$125 to \$140 million from last year.

Key agricultural bankers and Federal Intermediate Credit Bank (FICB) personnel report that the PIK program has improved some farmers' 1983 cash flow prospects. As a result, some financially short farmers will continue to receive credit.

USDA projects a decline in the volume of credit extended by commercial banks, Farm Credit System banks, and the commodity credit corporation. Agricultural bankers and personnel at Federal Intermediate Credit Banks and the Federal Land Banks indicate that this decline in credit demand in the U.S. farm sector and the PIK program will change interest rates only slightly. Agricultural lenders in Nebraska think interest rates will either remain the same or decline slightly in the state.

Debt Outstanding

As a result of the acreage reduction and PIK programs, national farm debt is forecast to total \$221.7 billion on January 1, 1983, an increase of only 2 percent from year-earlier levels. The small increase in national farm debt is due to reduced credit needs, some farmers' ineligibility for additional credit, increased debt retirement, and PIK entitlements which will reduce CCC debt.

CCC's share of total farm debt is forecast to decline to 6.8 percent, down from a pre-PIK estimate of 8.7

percent. Market shares for most other lenders are estimated to increase slightly.

As of May 18, 1983, Production Credit Association in Nebraska indicated an overall decline in loans outstanding of 2 percent. Without the PIK program a 5 percent increase in credit had been projected.

Distribution of Debt

In spite of the frequently quoted statistic that almost half of all American farmers are debt-free, significant numbers of commercial-sized farms are carrying a heavy debt load. USDA statistics show farmers reporting over \$200 thousand in sales represent only about 4.5 percent of all farmers, but generate approximately 50 percent of farm cash receipts and owe about 40 percent of total farm debt.

The 1979 Census of Agriculture Farm Finance Survey indicated about 50 percent of all farm debt was held by operators with debt/asset ratios over 40 percent. Operators carrying a debt-to-asset ratio of 40 percent can earn a positive rate of return on equity only if the return on farm assets is at least 4.4 percent (slightly under the average for the decade of the seventies, excluding the 1973 aberration of 10 percent).

According to the 1979 Farm Finance Survey, 34 percent of Nebraska's farms were debt-free at the end of 1979³. Farm operations without debt averaged \$281,400 in total farm assets per owner on January 1, 1983. About 41,600 farm operators in Nebraska in 1979 held agricultural debt. In January 1983 these operators averaged \$493,800 in total farm assets. Average claims against those assets were \$214,000, implying an average debt-to-asset ratio of 43 percent (\$214,000 divided by \$493,800).

Interest Expenses

Interest expenses paid by farmers across the US during 1982 totaled \$23 billion, 16 percent of total farm production expenses. Interest expenses paid by farmers during 1983 are estimated to decline by about 2 percent or \$520 to \$570 million from 1982 levels. Reduced credit needs, increased debt retirement, and the PIK program will contribute to this decline.





¹ Financial Conditions in the Farm Sector. National economics Division, Economic Research Service USDA. April 19, 1983.

² Bruce Johnson, "Financial Conditions in Nebraska Agriculture," Business in Nebraska Vol. 62 No. 28, 1983. Bruce Johnson and Ron Hanson, "Current Farm Real Estate Values," Cornhusker Economics April 13, 1983. Personnel at the Federal Intermediate Credit Bank of Omaha and the Federal Land Bank of Omaha also supplied information.

³ This paragraph is paraphrased from Bruce Johnson "Financial Conditions in Nebraska Agriculture" Business in Nebraska Vol. 62 No. 28, June 1983.

Interest Rates

Nominal interest rates (unadjusted for inflation) have declined considerably in the U.S. since the middle of last year. Though nominal rates have declined, interest costs remain high in real terms. Farm interest rates have also declined, but not as quickly as money market rates or those of large banks. The maturity on the sources of funds at smaller agricultural banks and farm credit banks is longer than that of large commercial banks. Hence, most farm interest rates change more slowly than money market rates.

Interest rates on farm loans for Nebraska rose sharply in 1980-81, but declined in 1982 and the first quarter of 1983 (Table 1). Similar to the U.S. trend, interest rates on farm loans in Nebraska lagged bank prime lending rates in 1982 and 1983. The average interest rate in May, 1983 on Federal Land Bank loans in Nebraska was 12.25. The average interest rate on PCA loans in April, 1983 was 11.26. Individuals at both of these banks predicted the above interest rates would fall slightly during 1983.

Table 1. Average annual interest rates on farm loans for Nebraska.

Loan type	1979	1980	1981	1982	1983*
Feeder cattle	10.8	15.1	16.8	15.8	13.9
Other operating	11.3	15.2	16.8	15.8	14.0
Intermediate (1-7 years)	11.3	15.8	17.0	16.3	14.3
Real estate (long term)	11.2	15.0	16.5	16.0	14.2
Bank prime lending rate	12.7	15.3	18.9	14.9	10.9

^{*}Data available only for first quarter of 1983. SOURCE: Federal Reserve Bank Kansas City

Farm Real Estate Values

Recent Federal Reserve bank surveys indicate the rate of decline in farmland values in the United States slowed during the fourth quarter of 1982. As the farm economy recovers, a stronger land market and some stabilization in land values is expected by the end of 1983. If this occurs and activity in the land market increases nationally, lenders will be more willing to accept equity in farmland as security, and more farmers will qualify for credit. An increase in land market activities should permit a more orderly withdrawal by less successful farmers. Land will probably be transferred to farmers who have less serious cash flow problems and are less exposed to risk.

In the year ending February 1, 1983, Nebraska farmland values declined an average of 10.8 percent⁴. Lower values were reported throughout the state, with declines of 6 percent in the Southeast to nearly 17 percent in the South. In general, irrigated land reported the largest percentage declines in value during 1982, averaging a 13

percent drop. (Interest in irrigation development subsided during 1982 for a number of reasons: low crop returns, high interest rates, and above average rainfall.) Nebraska farmland values were off approximately 14 percent from the peak level reached in 1980.

Recent land value declines have resulted in large financial losses for farmers who have been forced to reduce debts or maintain cash flow by selling land. Others have experienced problems as falling equity has reduced their ability to borrow funds for annual operating expenses. Qualifying for credit will continue to be difficult for some farmers.

Perceptions of Farm Lenders

All farm lenders are experiencing higher than normal delinquency rates and liquidations. Delinquencies and other indicators of credit problems have increased during the last three years. USDA has estimated that as much as 65 percent of the farm debt is owned by operators with debt-to-asset ratios equal to or greater than 40 percent. The Payment-In-Kind program will help some of these farmers stay in business another year, but lenders believe the credit problems experienced by these farmers in 1982 will continue in 1983.

In spite of the difficulties and risks faced by most farm lenders, they have been exercising forebearance with their financially distressed farm customers. For most farm lenders, problem loans as a percent of total loans outstanding continues to remain small. The most commonly cited characteristics of financially troubled farmers are that they are highly leveraged and/or poor managers. Lenders are working closely with such borrowers, to help them restructure their balance sheets to put them on a more sound financial footing. A survey of agricultural bankers conducted by the American Bankers Association in February indicated that the bankers will "stick with" about 95 percent of their farm customers in 1983. Indeed, farm lenders have an attitude of cautious optimism, primarily due to the PIK program and lower nominal interest rates.

⁴Paraphrased version of Bruce Johnson and Ronald Hanson "Current Farm Real Estate Values" Cornhusker Economics April 13, 1983.