

Agricultural Cycles and Implication for the Near-Term

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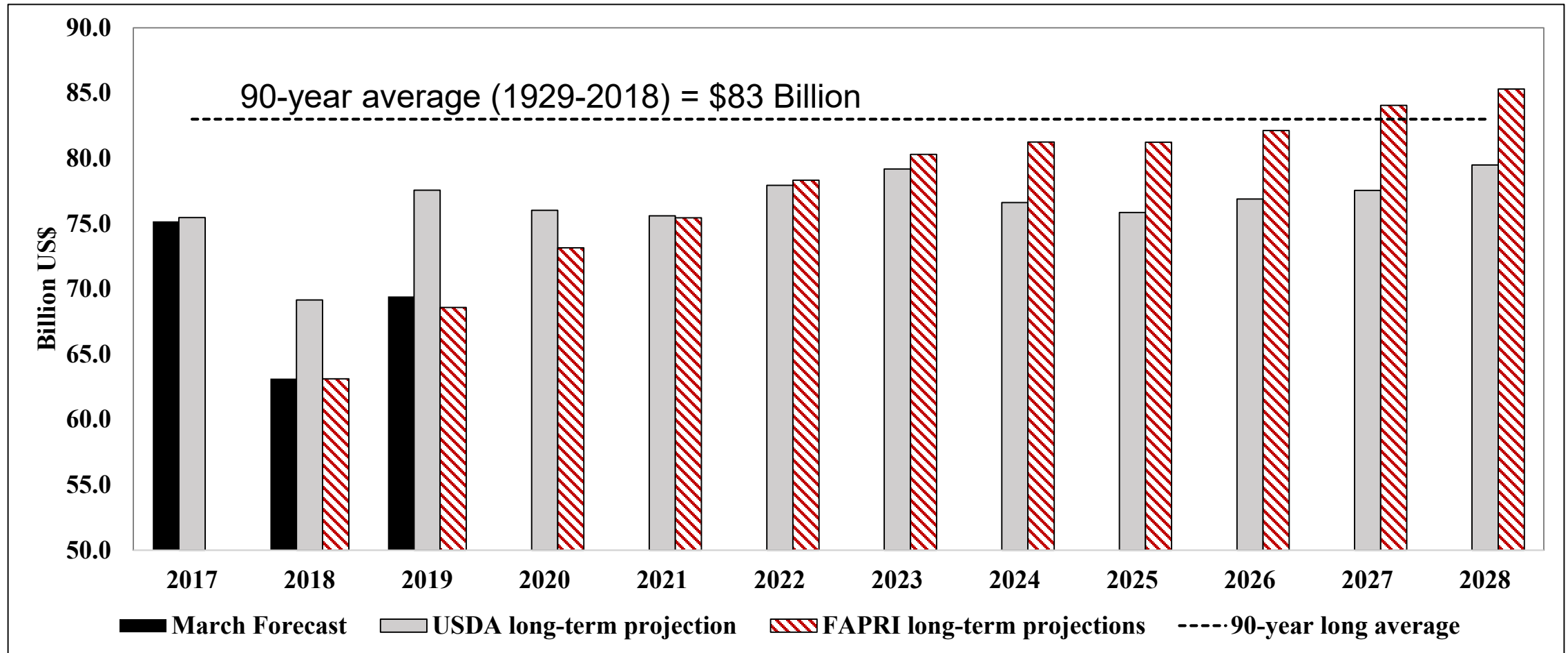


Introduction

- U.S. agriculture has experienced several booms mainly due to increased exports and higher demand for agricultural commodities.
- Following these booms in the farm economy were busts as the economic and financial conditions changed.
- The last large bust was during the 1980s farm crisis.
- Similar patterns can be seen in recent years:
 - Rising commodity prices coupled with strong exports and renewable fuels demand since 2006
 - Farm economy is experiencing a period of declining farm incomes, lower commodity prices, and land values that have dropped but recently stabilized.
- Are we repeating the farm crisis from the 1980s?

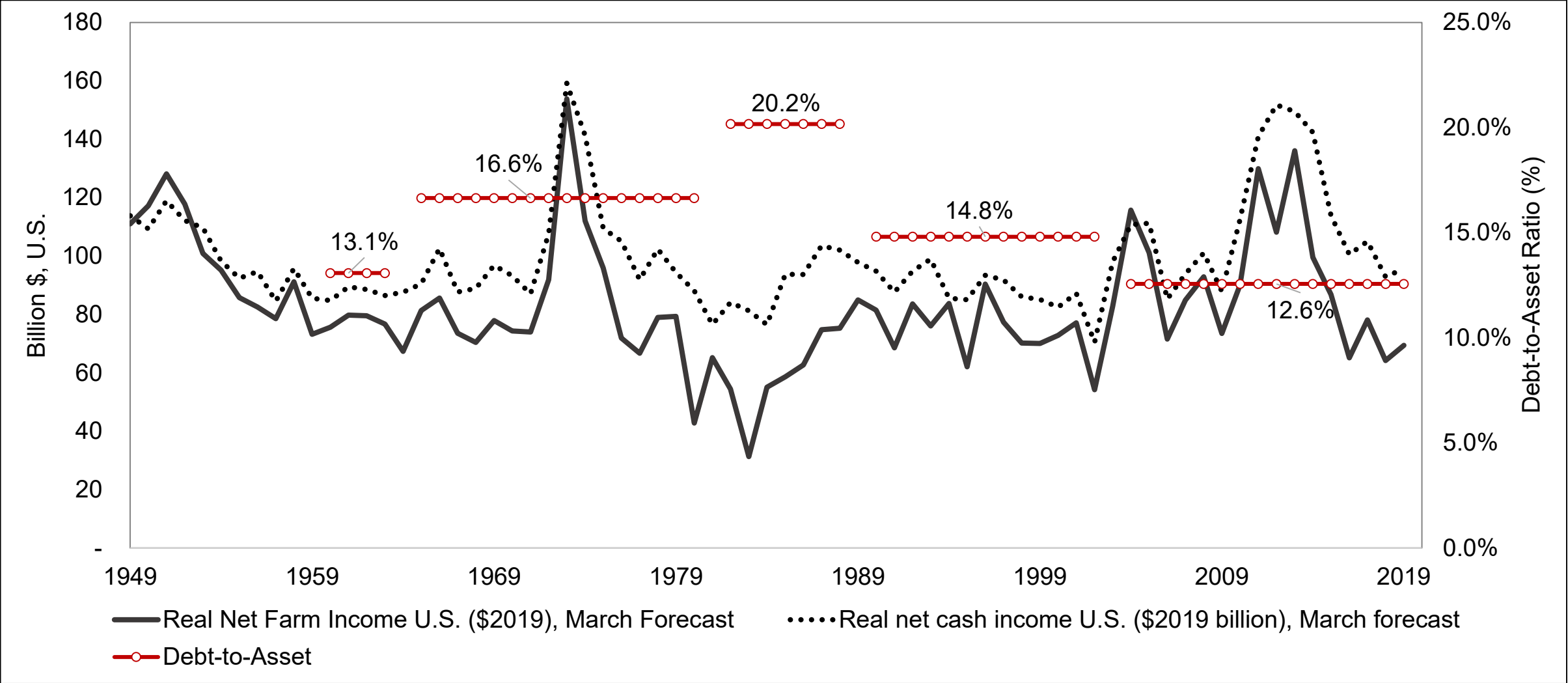


U.S. net farm income is projected to be below the 90-year average for the next years



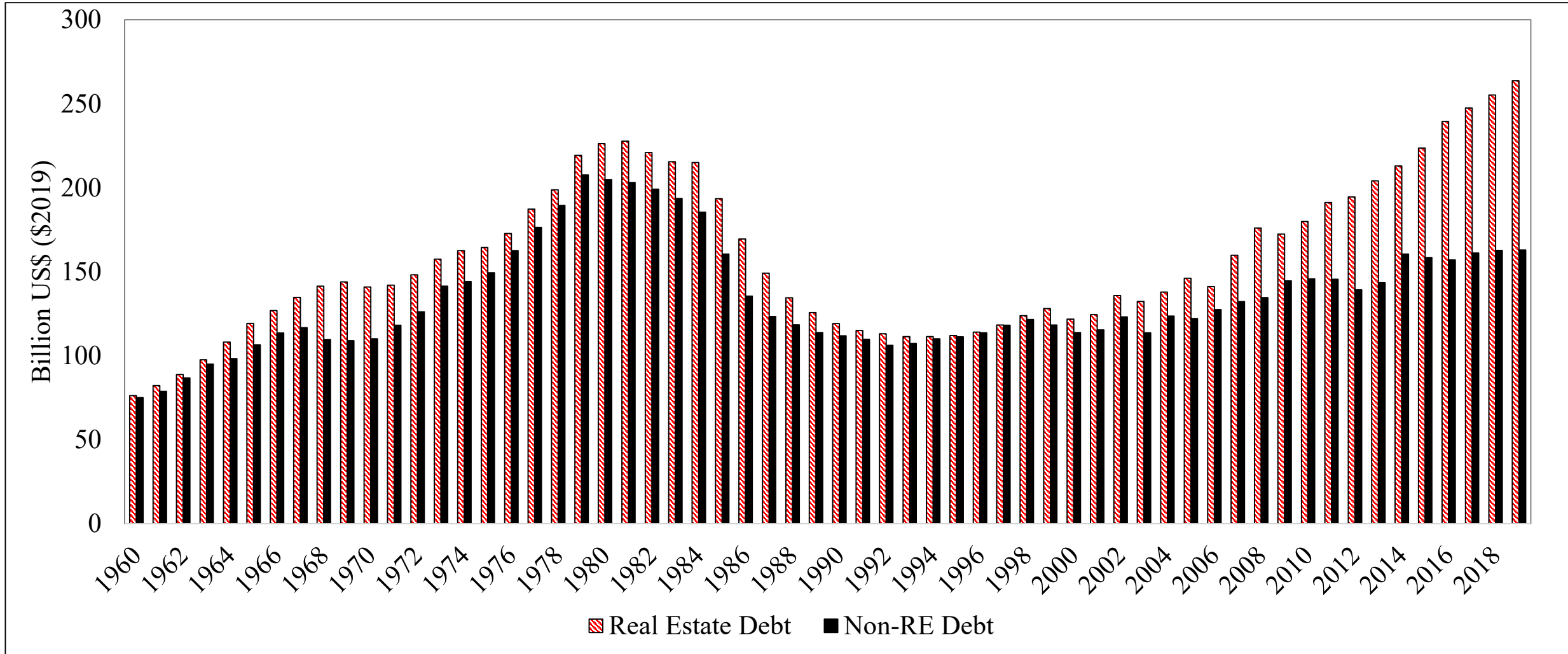
Sources: USDA – ERS Farm Income and Wealth Statistics. Long-term Agricultural Projections; FAPRI-MU. 2019 U.S. Baseline Outlook.

Current downturn in net farm income occur at the lowest debt-to-asset ratio since 1960s



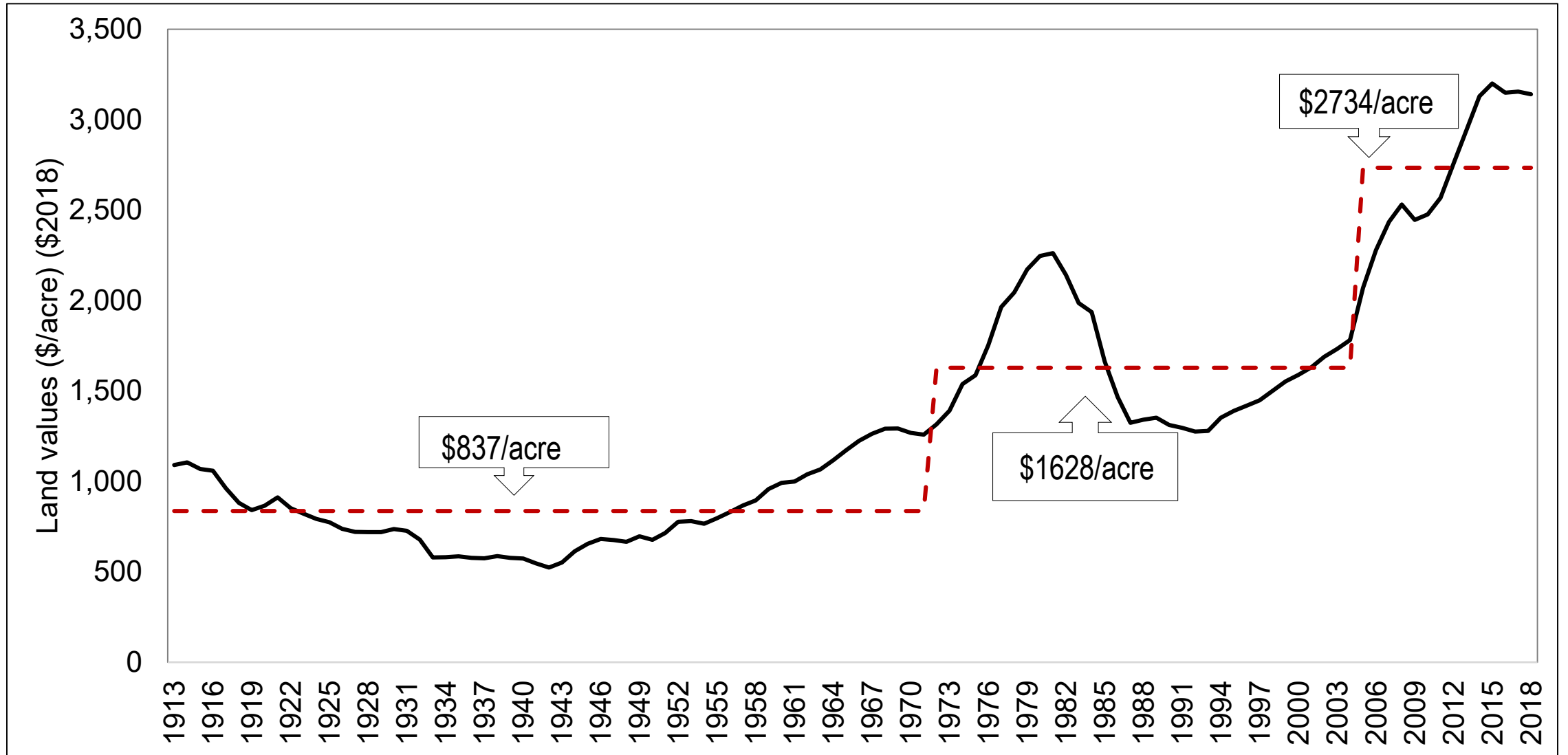
Source: Farm Income and Wealth Statistics, ERS, USDA. Graph prepared by Katchova and Sant'Anna.

Constant increase in real estate debt and stabilization in non-real estate debt since 2010

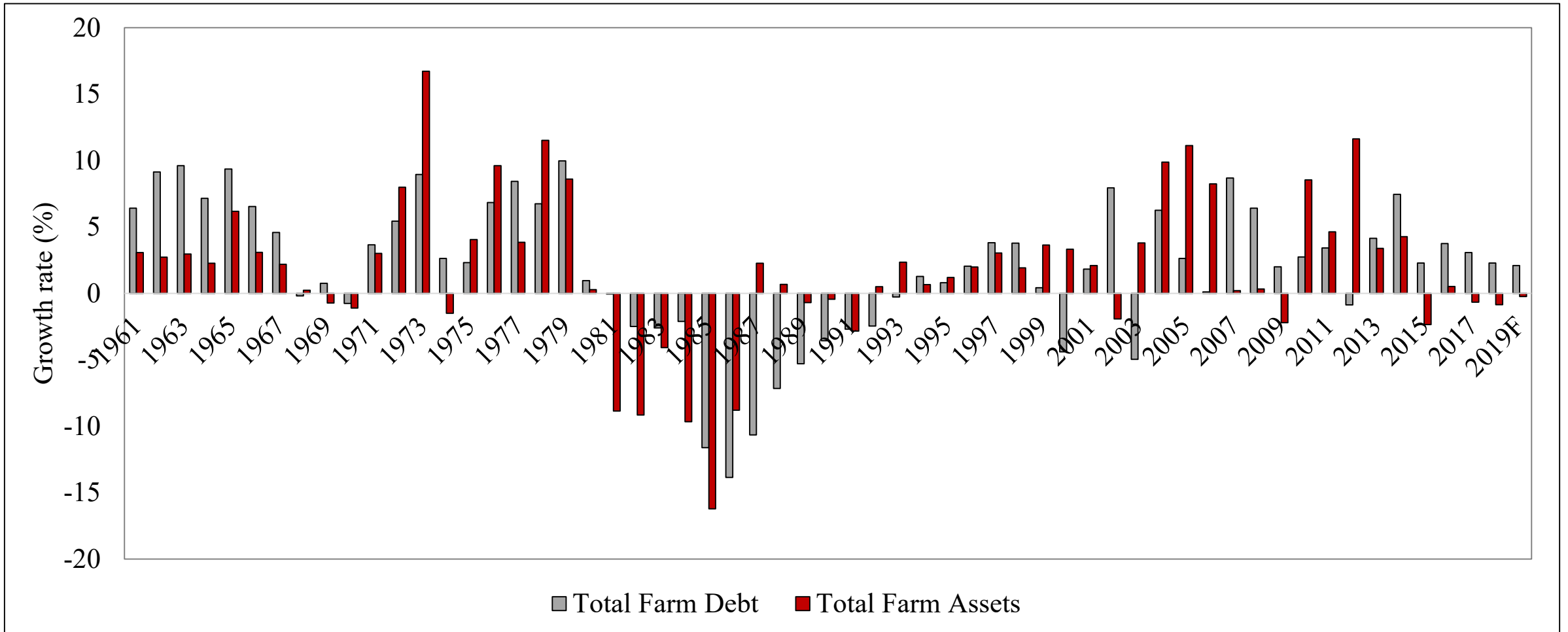


Source: Farm Income and Wealth Statistics, USDA, ERS.

Land values reaching new plateaus faster

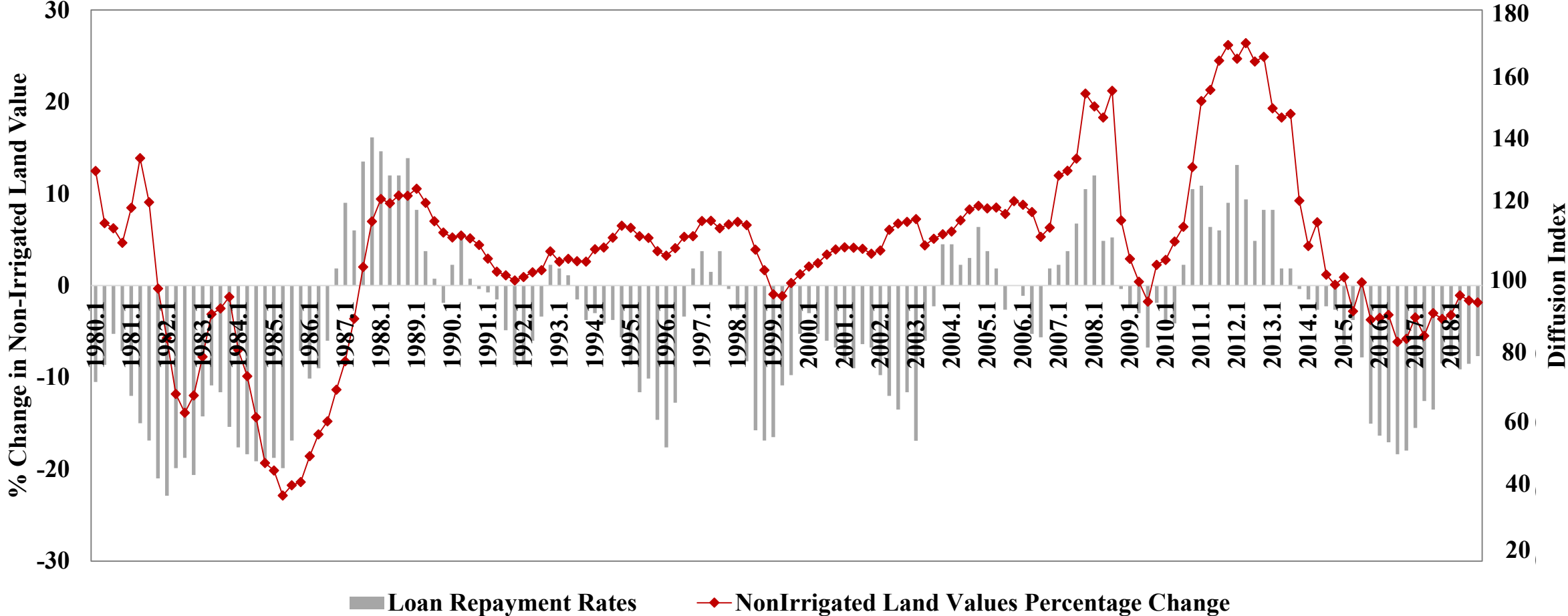


Farm debt and assets growing in opposite directions since 2015 – different trend from the 1980s



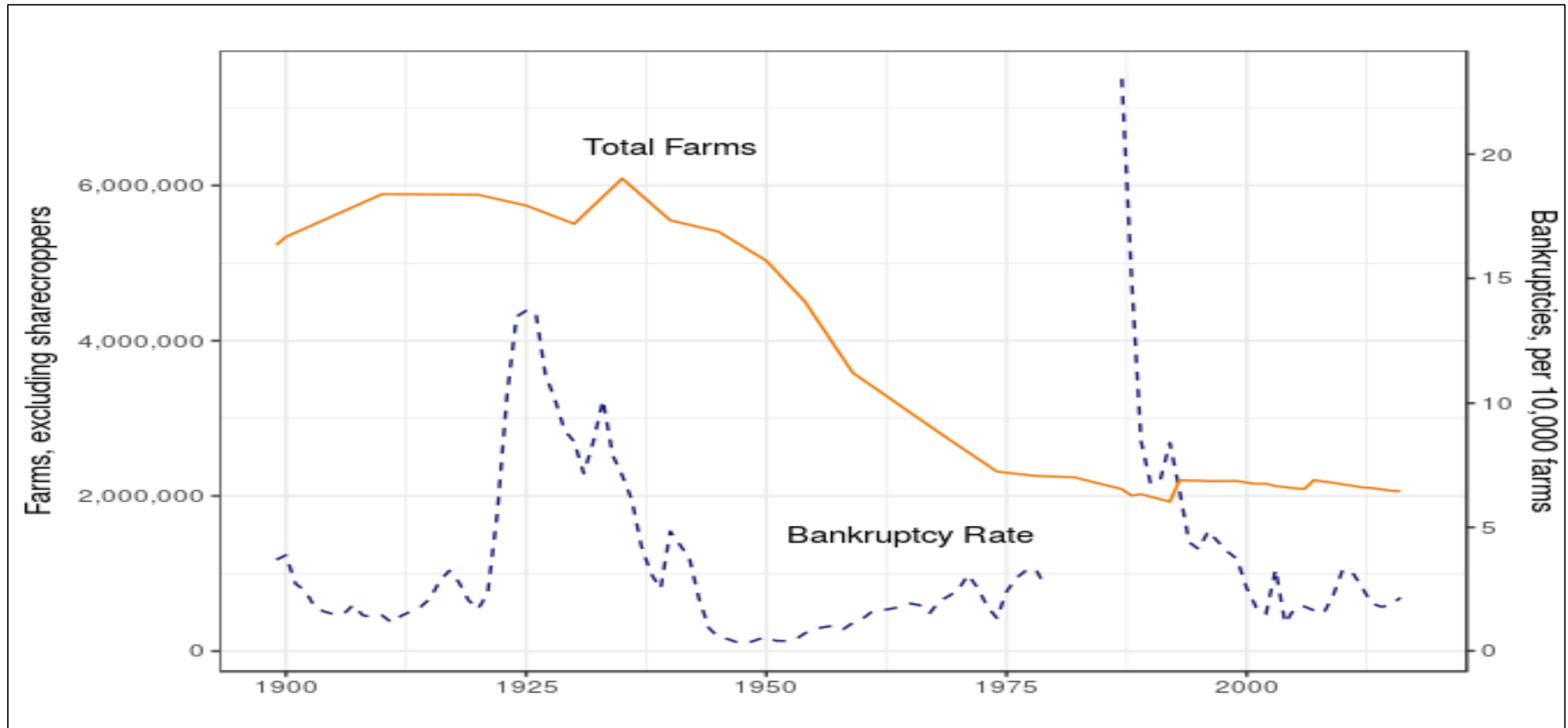
Source: Farm Income and Wealth Statistics, USDA, ERS. Graph prepared by Katchova and Sant'Anna.

Continued periods of lower repayment rates may cause lenders to restrict credit supply putting downward pressure on land values



Source: Ag Credit Survey, Federal Reserve Bank of Kansas City. Graph prepared by Katchova and Sant'Anna.

Bankruptcy filings remain stable in recent years. Interest and unemployment rates are stronger predictors of bankruptcies than net farm income.



Source: Dinterman, Katchova, and Harris (2018). Observations: Chapter 12 started in 1986.

Farm economy outlook for 2020 and beyond

- Farmers are in better financial conditions than in the 1980s due to:
 - Land values reaching higher plateaus
 - Lower interest rates
 - Net farm income and solvency indicators better than 1980s values
 - Low agricultural delinquency rates and bankruptcy rates
- Different credit conditions than in the 1980s. Prolonged period of low farm income has eroded working capital and increased financial stress.
- Concern over the length of the agricultural downturn.
- Gradual and prolonged declines as opposed to fast down falls as during the 1980s farm crisis.
- Farm income not expected to reach its 90-year average in coming years



Conclusions

- U.S. agriculture is currently undergoing an agricultural downturn with many agricultural economic and financial indicators worsening.
 - Drop in farm incomes by 50% since 2013
 - Farm debt growth that exceeded the growth of farm assets
 - Worsening credit conditions
- Farmers are in a stronger position today than three decades ago.
- Agricultural loan delinquency rates and farm bankruptcy rates have remained stable over the past few years.
- It is unlikely we will see a repeat of the 1980s farm crisis.

