

AGRIBUSINESS IN THE AGRICULTURAL FINANCIAL CRISIS

Glenn H. Glover

The current agricultural crisis has impacted virtually every aspect of agribusiness. Many sectors of the general economy not directly linked to agribusiness have also felt the crisis. Information provided in this discussion is intended to: facilitate understanding of the current financial situation in agriculture, identify factors that have contributed to the situation, and explore alternative strategies for agribusiness firms.

The current financial crisis in agribusiness might be described in several ways. To simplify this review, consider that a financial crisis exists when available financial resources are not adequate to meet current financial obligations. From the short-term perspective, it is a problem of inadequate cash flow. Over a longer term, a financial crisis is a problem of inadequate assets.

In 1985, farmers in the United States had debt of about \$210 billion for real estate and non real estate, Table 1. This compares with about \$92 billion 10-years ago. At a 14 percent interest rate, the annual interest payment on this debt would be \$29.4 billion. If the \$110 billion owed on farm real estate had an average repayment period of 25 years, the annual principal repayment would be of near \$4.4 billion. If the \$100 million of non real estate debt were repaid in 3 years, the annual principal payment would be about \$33.3 billion. Addition of the annual interest and principal payments for the \$210 billion debt indicates that United States farmers needed net cash income of about \$67.1 billion during 1985 to make loan payments. The cash flow to farmers after production expenses during 1985 was forecasted by USDA to be between \$79 and \$82 billion (USDA (d), p. 16). This included off farm income that was forecast to be between \$39 and \$43 billion. If \$80 billion is used as cash inflow and the \$67 billion debt service is deducted, \$13

billion is left for capital expenditures and farm family expenses. With 2 million farmers in the United States, the \$13 billion averages to \$6,500 per farm family for living and capital investment requirements during the year. It is obvious that this level of annual income reflects a crisis situation in terms of cash flow.

During September 1985, there were 124,909 active borrowers of funds from the Farmers Home Administration for farm ownership in the United States (USDA (c)). These borrowers had principal outstanding at that time of \$7.5 billion. Twenty-one percent of these borrowers were delinquent on repayment of their loans. The amount of unpaid principal outstanding for the delinquent borrowers was \$1.8 billion which represented 25 percent of the total unpaid principal for all active borrowers from FmHA. The delinquent amount was \$344 million or 19 percent of the total amount outstanding by the delinquent borrowers. Loans in other categories such as emergency and economic opportunity had higher delinquency rates than the farm ownership loans. Individual rural housing loans by the FmHA, where payments are made monthly by the borrowers, had a

TABLE 1. FARM DEBT, UNITED STATES, 1974-85

Year	Real estate	Non-real estate	Total
	billion dollars		
1974	44.7	37.1	81.8
1975	49.7	42.0	91.7
1976	55.3	48.8	104.1
1977	63.5	59.5	123.0
1978	71.6	69.5	141.1
1979	85.6	80.5	166.1
1980	95.8	86.6	182.4
1981	105.8	96.3	202.1
1982	110.0	107.2	217.2
1983	112.6	103.6	216.2
1984	111.6	100.9	212.5
1985	110.0	100.0	210.0

Source: USDA (e).

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TABLE 2. DELINQUENCY FOR FARMERS HOME ADMINISTRATION LOANS, SEPTEMBER 30, 1985

Geographic area and type of loan	Active borrowers	Delinquent borrowers	Delinquent to active borrowers
	number	number	percent
United States:			
Farm ownership, individual	124,909	26,007	21
Emergency, individual	121,709	47,276	39
Rural housing, individual	911,060	185,997	20
(monthly payments)			
Georgia:			
Farm ownership, individual	2,669	835	31
Emergency, individual	5,403	3,764	70
Rural housing, individual	32,801	7,620	23
(monthly payments)			
Iowa:			
Farm ownership, individual	5,210	969	19
Emergency, individual	6,867	1,620	24
Rural housing, individual	18,809	2,788	15
(monthly payments)			

Source: USDA (c).

delinquency rate of 20 percent during September 1985, Table 2.

Delinquency rates experienced by the FmHA varied substantially by state. In Georgia, the farm ownership loans were 31 percent delinquent during September 1985 and the individual rural housing loans with monthly payments were 23 percent delinquent. Iowa had a farm ownership delinquency rate of 19 percent and an individual rural housing delinquency rate was 15 percent. Most other midwestern states had rates in this range.

The crisis of asset value relative to debt is made obvious by the asset-to-debt ratio from

the farm balance sheet, Figure 1. Since the early 1980s, asset value has declined faster than debt. An average ratio of about \$6.00 of assets for each \$1.00 of debt existed during the 1970s. The ratio declined to about \$4.50 per \$1.00 during 1985. Changes in the asset-to-debt ratio during the 1980s varied substantially by region of the country. The United States average decline was about 20 percent, Figure 2. The Southeast experienced a 17 percent decline, while the Corn Belt had the largest drop at more than 30 percent and the Southern Plains had the lowest decline at near 2 percent (GAO, p. 26).

Farmland is the major asset owned by most farmers. High commodity prices and robust farm income during the early 1970's fueled farmers' expectations and placed upward pressures on farmland prices. The upward trend was reversed in the early 1980s. From 1981-85, land prices dropped dramatically, Figure 3. In some states, the decline was more than 50 percent. Repercussions from this decline are currently being addressed by farm lending institutions and the Farm Credit System.

Higher commodity prices followed by higher land prices during the 1970s also caused a shift in the liquidity of farmers. This shift affected their ability to repay borrowed funds during the 1980s. During the 1970s, liquid assets such as livestock were sold and

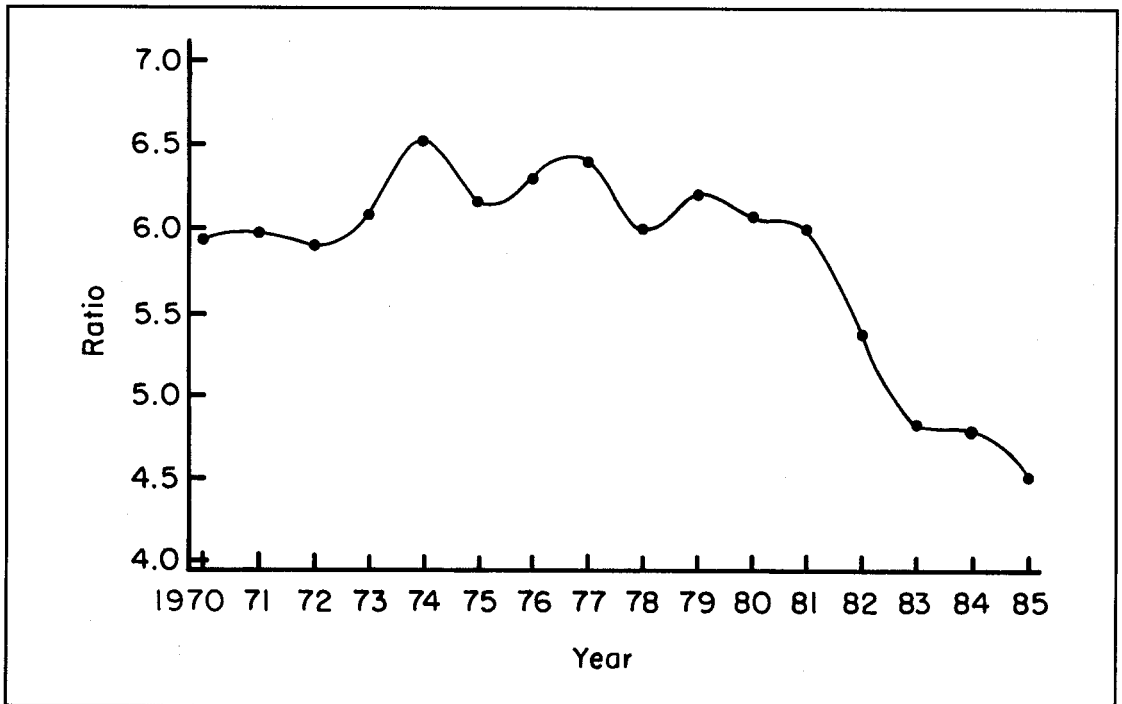


Figure 1. Farm Asset-to-Debt Ratio, United States, 1970-85. Source: GAO, p. 18.

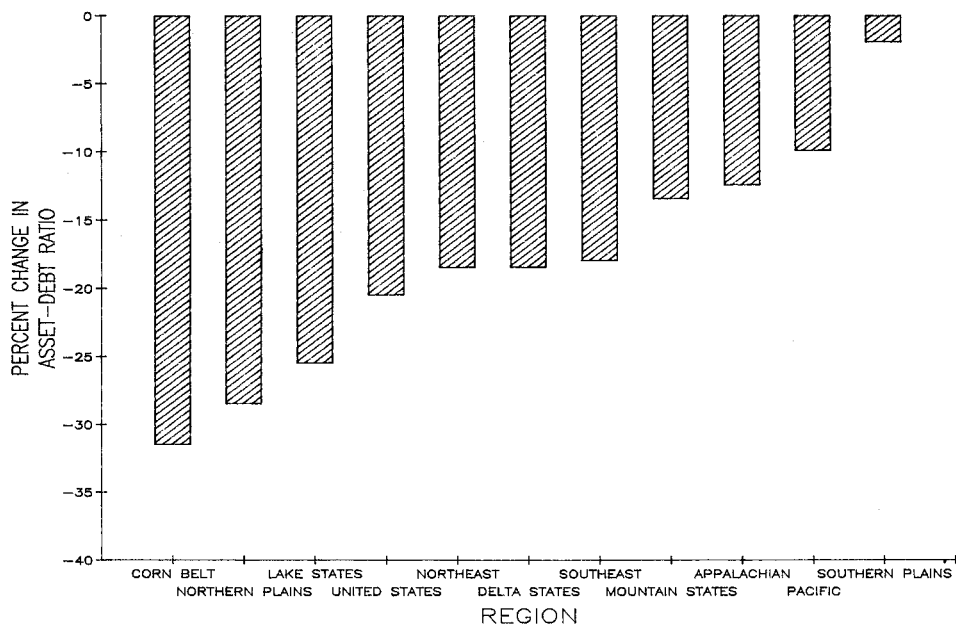


Figure 2. The Decline in Farm Asset Position for United States and Regions, 1980-84. Source: GAO, p. 26.

fixed assets such as land and large machinery were bought.

Another measure of financial health for businesses is the rate of return on equity. The return for the farm sector has a history of wide fluctuations, but 1981 was the first time in the recent past that it was negative, Figure 4. Both low income and the decline of farm asset values since 1979 contributed to this condition.

Changes in farm earnings since 1979 have had a substantial impact on the nonfarm sector of the agribusiness economy. Suppliers of both durable and nondurable farm inputs have faced difficulties. Firms and organizations serving the financial needs of farmers have also felt the impact.

Farm machinery and implement businesses have been in a depressed condition since the late 1970s. Unit sales of most large farm machinery items during 1985 were less than half the number sold in 1979, Table 3. Depressed conditions in this business area since 1977 were estimated to have caused losses

of \$26.2 billion in total output, 327,000 jobs, and \$6.4 billion in personal income (GAO, p. 40).

Fertilizer use during 1985 was down 9.2 percent from the high of 53.99 million gross tons sold during 1981. The decline was 8.5 percent on a primary nutrient content basis, Table 4. During the 4 years from 1982 through 1985, 82.9 million tons of primary fertilizer nutrients were sold compared with 89.9 million tons during the 4 years from 1978 through 1981. Thus, average annual con-

TABLE 3. SALES OF SELECTED FARM EQUIPMENT, 1979 AND 1985

Item	Number of units sold	
	1979	1985
Tractors, 40+ HP	54,728	20,193
Self-propelled combines	5,100	1,436
Balers	3,208	1,404
Forage harvesters	1,154	423
Mower conditioners	4,266	2,576
Windrowers	1,234	395
Grinder-mixers	5,901	923
Corn heads	2,462	788

Source: GAO, p. 40.

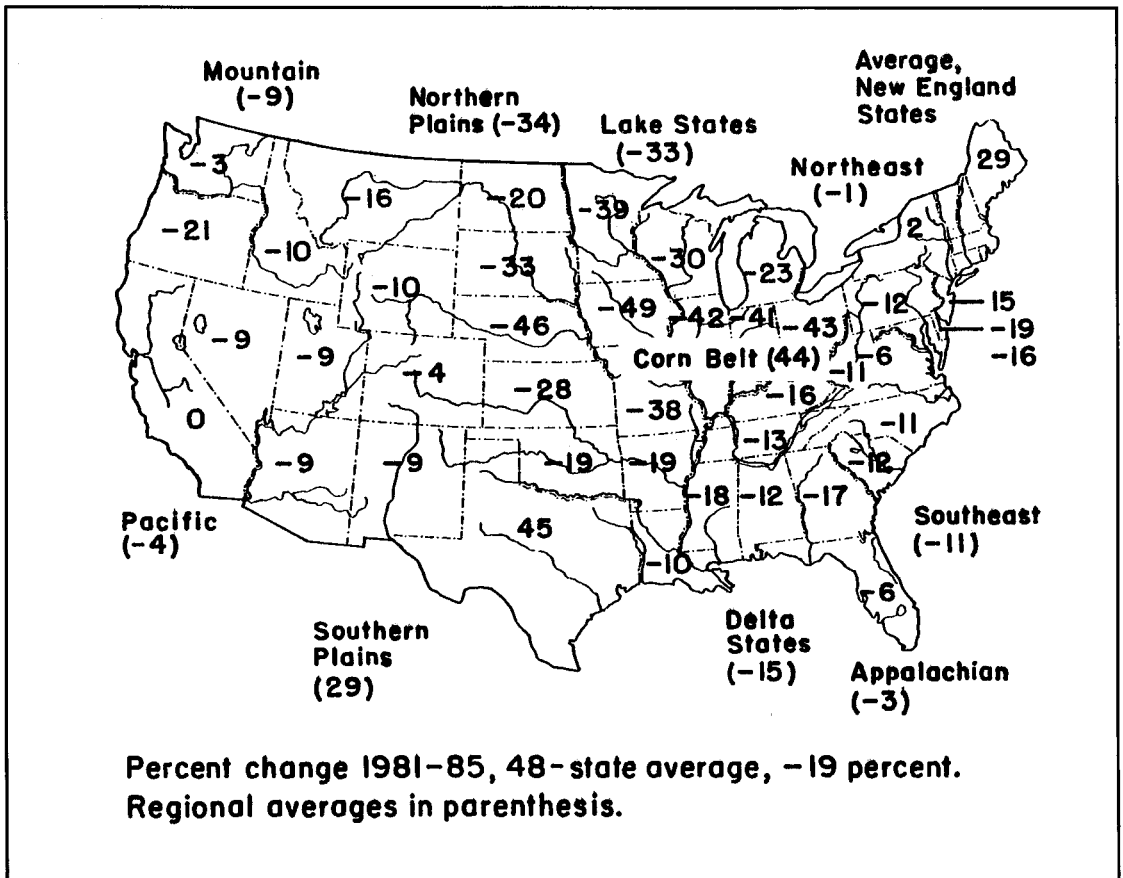


Figure 3. Percent Change in Farmland Value, United States, 1981-85. Source: GAO, p. 5.

sumption during the past 4 years was down 1.75 million tons.

Demand for other farm inputs is influenced by the acreage planted to major crops, Table 5. This indicates that the demand for inputs used in production peaked in 1980 and 1981 and bottomed out in 1983.

Bad debt losses by agribusiness firms were also substantial during the past few years. By using the ratio of bad debt losses to volume from a small sample of farm supply firms and

applying it to total farm production expenditures, as estimated by USDA, we get indications that total bad debt losses in the United States were nearly \$7 billion over the past 4 years, (USDA (a)), Table 6. This partially explains the dilemma that many farm supply firms face at the present time.

ALTERNATIVES FOR AGRIBUSINESS

There appears to be three basic alternative strategies for agribusiness to consider in maintaining financial viability under these depressed conditions. These include: (1) to diversify by redeploying asset into nonagribusiness areas, (2) to scale back the size of operations where they are in line with existing demand and thus can operate efficiently, and (3) to exit the agribusiness area. Each of these alternatives is being implemented to some extent throughout the country.

Diversification by redeploying assets into nonagribusiness areas is being done by several firms, especially those in machinery manufacturing. Technologies used in designing

TABLE 4. FERTILIZER CONSUMPTION IN THE UNITED STATES, 1975-85

Year ending June 30	Total gross tons	Primary nutrient tons
 million tons	
1975	42.5	17.6
1976	49.2	20.8
1977	51.6	22.1
1978	47.5	20.6
1979	51.5	22.6
1980	52.8	23.1
1981	54.0	23.7
1982	48.7	21.4
1983	41.8	18.1
1984	50.1	21.8
1985	49.0	21.7

Source: USDA (f).

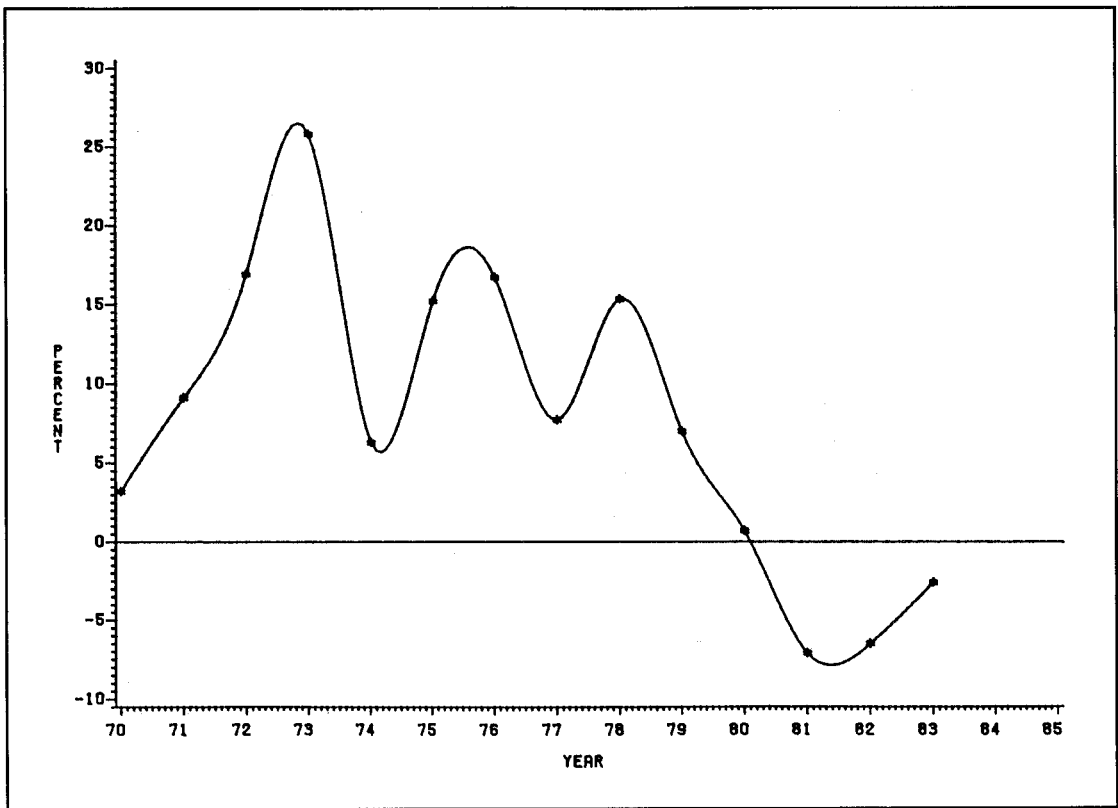


Figure 4. Rate of Return to Equity, U.S. Agriculture, 1970-85. Source: GAO, p. 31.

and constructing farm machinery seem to be adaptable to manufacturing different types of equipment needed for national defense and in other commercial uses.

Firms that specialize in providing farm production inputs such as seed, fertilizer, feed, and herbicides apparently have not found many opportunities to directly redeploy assets and technologies. Their opportunities are to limit either adjusting the scale of operations where efficiencies and positive returns can be realized or exiting the industry. Many firms that operate wholesale and retail farm supply businesses have made and are still making adjustments to accomplish desired efficiencies. Other firms in that segment have exited either voluntarily or involuntarily.

Some agribusinesses have actually benefited from depressed commodity prices. These

TABLE 6. ESTIMATED BAD DEBT LOSSES BY FIRMS MARKETING FARM INPUTS, 1982-85

Item	Calendar year			
	1982	1983	1984	1985
Farm production expenditures, (billion dollars) ^a	130.9	131.3	128.3	127.0
Bad debt, (percent) ^b	2.4	1.1	1.4	0.6
Bad debt cost, (billion dollars)	3.1	1.5	1.8	.7

^a Source: USDA (a).

^b Estimated from bad debt cost experienced by selected agribusiness firms.

are primarily in the poultry and livestock areas that use large quantities of feed. The demand for poultry meat has increased about 4 percent annually since 1983. Lower feed ingredient costs helped keep broiler costs and retail prices at bargain levels and thus stimulate demand.

TABLE 5. UNITED STATES ACREAGE PLANTED, SELECTED CROPS, 1978-85

Item	Calendar year							
	1978	1979	1980	1981	1982	1983	1984	1985
	million acres							
Corn	81.7	81.4	84.0	84.1	81.9	60.2	80.4	83.2
Cotton	13.4	14.0	14.5	14.3	11.3	7.9	11.1	10.7
Peanuts	1.5	1.5	1.5	1.5	1.3	1.4	1.6	1.5
Soybeans	64.7	71.4	69.9	67.5	70.9	63.1	67.7	63.2
Total	161.3	168.3	169.9	167.4	165.4	132.6	160.8	158.6

Source: USDA (d).

In summary, a crisis exists in a major part of the United States agribusiness economy. Conditions are most severe in business areas that are directly or indirectly associated with traditional row crop farm enterprises. Current trends in the United States agricultural trade balance indicate less United States participation in world trade in each year except one since 1981, Table 7. We know that supply and demand contribute to price determination. When the supply and demand of United States agricultural products and resources associated with the industry are brought more nearly into balance, the agricultural crisis will be over.

TABLE 7. AGRICULTURAL TRADE STATISTICS, 1970-85

Marketing Year	Exports value	Imports value	Trade balance
	million dollars		
1970	6,958	5,686	+ 1,272
1971	7,955	6,128	+ 1,827
1972	8,242	5,936	+ 2,306
1973	14,984	7,737	+ 7,247
1974	21,559	10,031	+11,528
1975	21,817	9,435	+12,382
1976	22,742	10,497	+12,250
1977	23,974	13,357	+10,617
1978	27,289	13,886	+13,403
1979	31,979	16,186	+15,793
1980	40,481	17,276	+23,205
1981	43,780	17,218	+26,562
1982	39,095	15,489	+23,606
1983	34,776	16,375	+18,401
1984	38,013	18,910	+19,103
1985 (est.)	32,000	19,500	+12,500

Source: USDA (b).

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