Farm Income And Wealth: Trends in Financial Stress

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Greg Lyons
Economic Research Service, USDA

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Summary

Lower farm incomes, a weaker market for farmland and an uptick in interest rates have raised questions about farm operators’ financial stress

- Are operators earning enough income to service their debt?
- Do operators have the savings and liquid assets on hand to meet their short-term obligations?
- Are more operators at risk of becoming insolvent?
Farm sector profits expected to decline in 2018

F= Forecast. Values are inflation adjusted using the Chain-type GDP deflator, 2018=100.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics
Data as of November 30, 2018
Are operators earning enough income to service their debt?

**Term Debt Coverage Ratio**

\[ \frac{\text{Net Operating Income}}{\text{Interest} + \text{Principal}} \]

**2000 - 2017 TDCR average**

The share of larger farms whose debt payments exceed their income has risen.
Do operators have the savings and liquid assets on hand to meet their short-term obligations?

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

Liquid assets have returned to average

Short term liabilities have largely increased

The share of farmers who do not have enough liquid assets to cover their current obligations has increased.
Farm Sector Balance Sheet Remains Strong

Assets = Debt + Equity

F= Forecast. Values are adjusted using the chain-type GDP deflator, 2018=100
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics
Data as of November 30, 2018
Are more operators at risk of becoming insolvent?

Debt to Asset Ratio = \frac{\text{Total Debt}}{\text{Total Assets}}

F= Forecast.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics
Data as of November 30, 2018
More large farms are becoming highly leveraged

Highly leveraged farm businesses are younger, larger than farms with low leverage

<table>
<thead>
<tr>
<th>Debt to Asset Ratio</th>
<th>Percent of farms</th>
<th>Acres</th>
<th>Operator Age</th>
<th>Gross Cash Farm Income</th>
<th>Net Cash Farm Income</th>
<th>Percent Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 0.1</td>
<td>75%</td>
<td>573</td>
<td>63</td>
<td>187,432</td>
<td>54,463</td>
<td>34%</td>
</tr>
<tr>
<td>0.1 to 0.2</td>
<td>8%</td>
<td>946</td>
<td>57</td>
<td>592,130</td>
<td>167,729</td>
<td>62%</td>
</tr>
<tr>
<td>0.2 to 0.4</td>
<td>9%</td>
<td>1,139</td>
<td>54</td>
<td>677,774</td>
<td>171,593</td>
<td>67%</td>
</tr>
<tr>
<td>0.4 to 0.7</td>
<td>5%</td>
<td>970</td>
<td>51</td>
<td>748,704</td>
<td>151,753</td>
<td>73%</td>
</tr>
<tr>
<td>More than 0.7</td>
<td>3%</td>
<td>1,051</td>
<td>52</td>
<td>920,095</td>
<td>212,247</td>
<td>88%</td>
</tr>
<tr>
<td>All farms</td>
<td>100%</td>
<td>686</td>
<td>60</td>
<td>312,520</td>
<td>83,306</td>
<td>47%</td>
</tr>
</tbody>
</table>

Delinquency and Bankruptcies, 1987 to 2018

Data Sources: Bankruptcy data through 1987 from Stam et al., 1991. Subsequent data comes from U.S. Courts Statistical Tables. Delinquency Rate comes from the Ag Finance Databook, Federal Reserve Bank of Kansas City.
Conclusion

Some farm operators are showing signs that they are having trouble servicing their debt

Liquid assets were drawn on during the current period of lower net farm income, but may not be as readily available if lower farm incomes continue

Solvency measures have weakened, but remain strong by long-run historical comparison
2019 Forecast Scheduled for March 6th

Farm Sector Income and Finances:
https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/

Contact Information:
farmincometeam@ers.usda.gov