Past as Prologue: Lessons from the 1980s Farm Financial Crisis

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Net Farm Income
Distribution of 2014 and 2015 Kansas Farm Management Net Farm Income
Distribution of 2014 and 2015 Kansas Farm Management Net Farm Income
Kansas Farm Economy

• The financial situation in the agricultural economy has changed considerably over the last two years
• 2015 farm income in Kansas was the lowest since 1985
Changing Kansas Farm Economy

![Graph showing changes in debt to asset and capital debt repayment capacity over time. The graph displays trends from 1973 to 2013.]
Repayment Capacity Defined

Capital Debt Repayment Capacity

\[ \text{Capital Debt Repayment Capacity} = \frac{\text{Net Farm Income} + \text{Nonfarm Wages} + \text{Depreciation} - \text{Income Taxes} - \text{Family Living Expenses}}{\text{Required Principal Repayments}} \]
Repayment Capacity

• Repayment capacity was key in the 1980s
  • It fell from 152.8% to 16.3% from 1979 to 1981
• Two key factors
  • Increase in interest payments by 65.3%
  • Decline in value of farm production by 15.7%
• Land values could no longer be supported
Repayment Capacity

- 2011: 149.39%
- 2012: 128.63%
- 2013: 117.34%
- 2014: 94.88%
- 2015: 16.63%
Repayment Capacity

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• Repayment capacity fell from 149.4% to 16.6% from 2011 to 2015
  • Increase in interest payments from $18,898 in 2012 to $20,567 (8.8%)
  • Decline in value of farm production from $629,056 in 2012 to 512,502 (18.5%)
Repayment Capacity Summary

• The repayment situation has deteriorated
  • 2015 repayment capacity in Kansas was the lowest since 1981
  • 2016 was a continuation of 2015
  • Consistent with USDA forecasts, 2017 could be more negative yet unless adjustments are made
  • 2018 could become a bit more positive
Recent and Projected Kansas Farm-Level Crop Prices
Forward Price Computation

• Using the futures prices at harvest through 2019, prices are more like the 2007 to 2009 period subtracting a $0.44 basis for soybeans, a $0.33 basis for wheat, and a $0.12 for corn (Salina, KS – 5 year average)
### Non-Irrigated Kansas Cost of Variable Cost of Production per Acre

<table>
<thead>
<tr>
<th>Year</th>
<th>Corn</th>
<th>Soybean</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$312</td>
<td>$225</td>
<td>$180</td>
</tr>
<tr>
<td>2014</td>
<td>$322</td>
<td>$229</td>
<td>$172</td>
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<tr>
<td>2013</td>
<td>$308</td>
<td>$224</td>
<td>$182</td>
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<tr>
<td>2012</td>
<td>$325</td>
<td>$202</td>
<td>$183</td>
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<tr>
<td>2011</td>
<td>$281</td>
<td>$192</td>
<td>$158</td>
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<tr>
<td>2010</td>
<td>$268</td>
<td>$176</td>
<td>$148</td>
</tr>
<tr>
<td>2009</td>
<td>$267</td>
<td>$173</td>
<td>$160</td>
</tr>
<tr>
<td>2008</td>
<td>$265</td>
<td>$167</td>
<td>$153</td>
</tr>
<tr>
<td>2007</td>
<td>$231</td>
<td>$145</td>
<td>$117</td>
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<tr>
<td>2006</td>
<td>$191</td>
<td>$125</td>
<td>$98</td>
</tr>
<tr>
<td>2005</td>
<td>$188</td>
<td>$118</td>
<td>$95</td>
</tr>
</tbody>
</table>
Projected Income per Crop Acre
Kansas Inflation-Adjusted Land Values
Land Value Effects

• The long-run multiplier is 21.71 or an implied capitalization rate of 4.61%
  • Long-run elasticity is 96.9%
• At a net farm income per acre of $46, the projected long-run Kansas land price is $999, a decline of about 50%
Kansas Farm Management Association
Debt Levels

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$321,292</td>
</tr>
<tr>
<td>2006</td>
<td>$330,590</td>
</tr>
<tr>
<td>2007</td>
<td>$339,373</td>
</tr>
<tr>
<td>2008</td>
<td>$359,904</td>
</tr>
<tr>
<td>2009</td>
<td>$373,243</td>
</tr>
<tr>
<td>2010</td>
<td>$403,172</td>
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<tr>
<td>2011</td>
<td>$432,464</td>
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<tr>
<td>2012</td>
<td>$453,208</td>
</tr>
<tr>
<td>2013</td>
<td>$493,069</td>
</tr>
<tr>
<td>2014</td>
<td>$540,763</td>
</tr>
<tr>
<td>2015</td>
<td>$563,590</td>
</tr>
</tbody>
</table>
Debt to Asset Ratio is Lower in 2015 than 1979
Debt to Asset Ratio is Lower at the end of 2015 than 1979

- Average debt to asset ratio for Kansas Farm Management Farms:
  - 1979 – 24.6%
  - 2014 – 19.7%
  - 2015 – 23.7%

- Farms Greater than 40% debt to assets
  - 1979 – 19.4%
  - 2014 – 13.6%
  - 2015 – 20.3%

- Farms Greater than 70% debt to assets
  - 1979 – 1.3%
  - 2014 – 2.3%
  - 2015 – 3.8%
Distribution of Debt to Asset Under Simulated Land Value Declines

Debt to Asset Ratio Range (%)

- 2015
- 2015 (-10%)
- 2015 (-20%)
- 2015 (-30%)
- 2015 (-50%)

KANSAS STATE UNIVERSITY
Agricultural Economics

AgManager.info
## Debt to Asset Ratios under Declining Land Values

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Average Debt/Asset Ratio</th>
<th>% of Farms &gt; 40%</th>
<th>% of Farms &gt; 70%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>23.7%</td>
<td>20.3%</td>
<td>3.8%</td>
</tr>
<tr>
<td>2015 (-10%)</td>
<td>24.7%</td>
<td>23.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>2015 (-20%)</td>
<td>25.8%</td>
<td>25.1%</td>
<td>5.1%</td>
</tr>
<tr>
<td>2015 (-30%)</td>
<td>27.0%</td>
<td>27.0%</td>
<td>6.1%</td>
</tr>
<tr>
<td>2015 (-50%)</td>
<td>30.1%</td>
<td>32.0%</td>
<td>8.1%</td>
</tr>
</tbody>
</table>
Kansas Farm Economy

- Previous analysis has examined only a change in land values
- Repayment capacity is a serious issue that could lead to additional borrowing
- 2016 was another difficult year in terms of capital debt repayment capacity
- 2017 could be more troublesome in terms of capital debt repayment capacity than 2016 if yields return to normal with no upward adjustment in price
Conclusion

• 2016 was another difficult year farm income wise.
• 2017 will be a pivotal year in production agriculture
• Given the 2016 income levels, some agricultural producers and lenders to make difficult decisions before entering the spring of 2017
• A further erosion in the income picture in 2017 could make lending decision before the spring of 2018 more difficult
Contact Information

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References

• Kansas Farm Management Association Enterprise Information, http://www.agmanager.info/kfma/enterprise-reports

• Kansas Farm Management Association Whole Farm Analysis, http://www.agmanager.info/kfma/whole-farm-analysis

