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United States Department of Agriculture

Farm Income And Wealth: Trends in Financial Stress

USDA 2019 Agricultural Outlook Forum February 21, 2019

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Economic Research Service, USDA

The Findings and Conclusions in This Preliminary Presentation Have Not Been Formally Disseminated by the U.S. Department of Agriculture and Should Not Be Construed to Represent Any Agency Determination or Policy. This research was supported by the intramural research program of the U.S. Department of Agriculture, Economic Research Service.



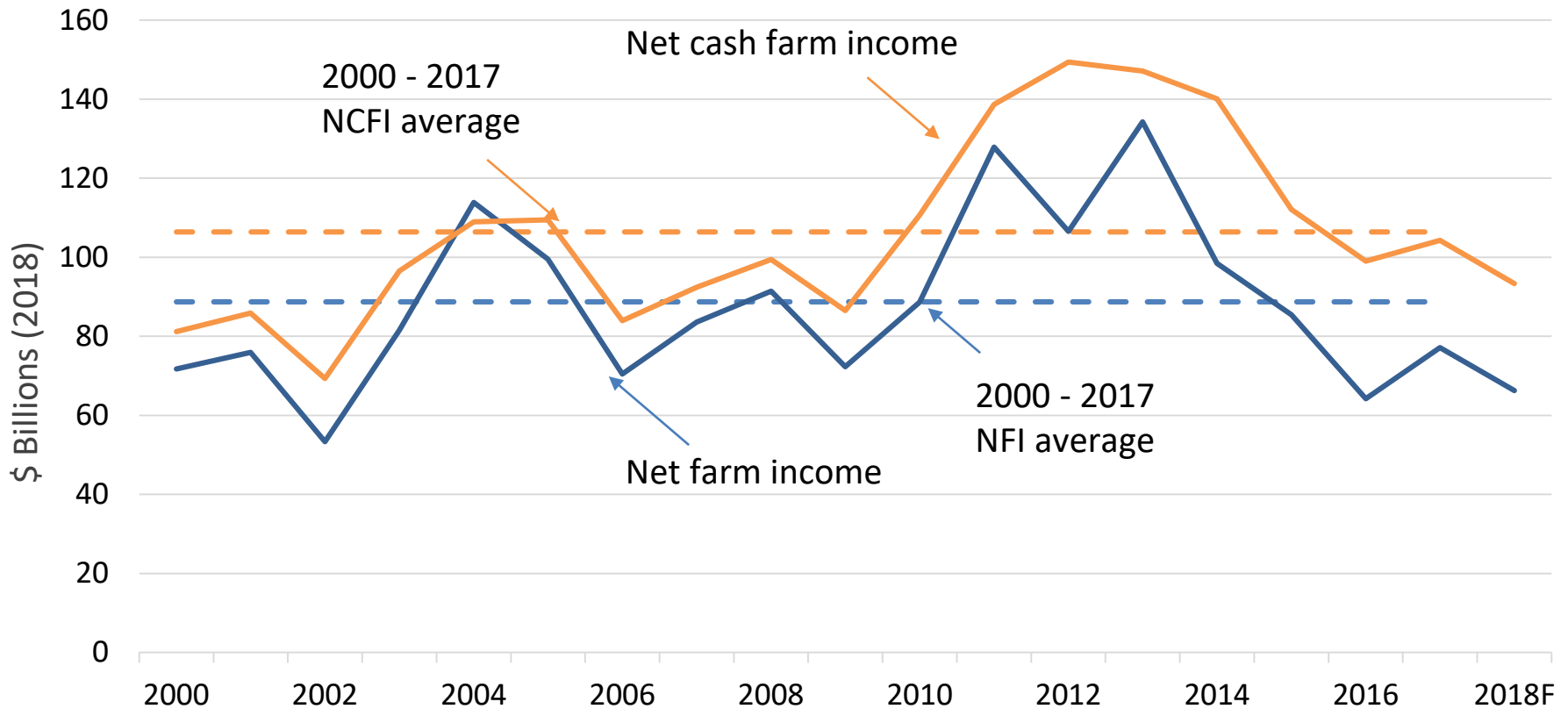
Summary

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



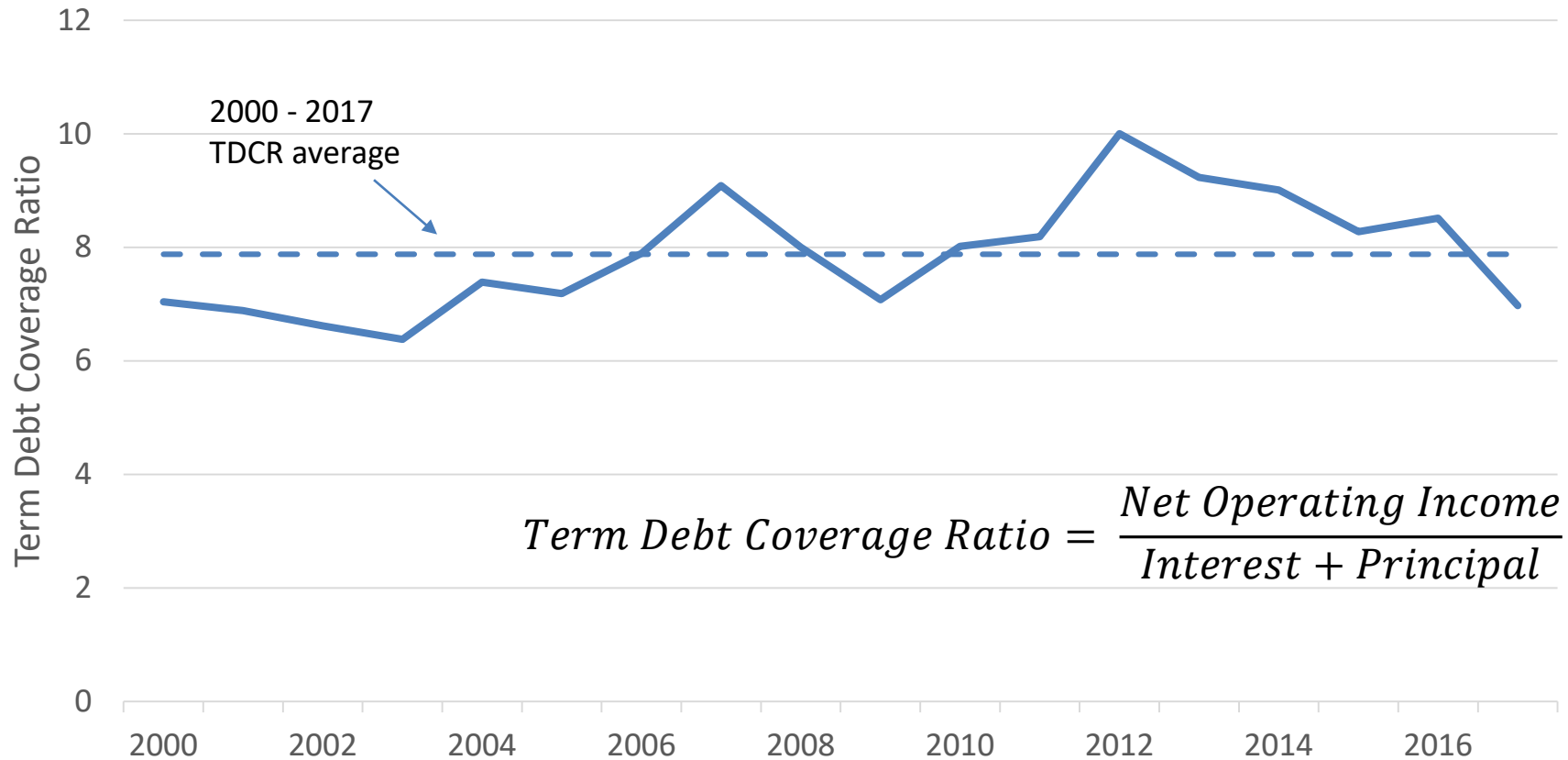
F= Forecast. Values are inflation adjusted using the Chain-type GDP deflator, 2018=100.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics

Data as of November 30, 2018



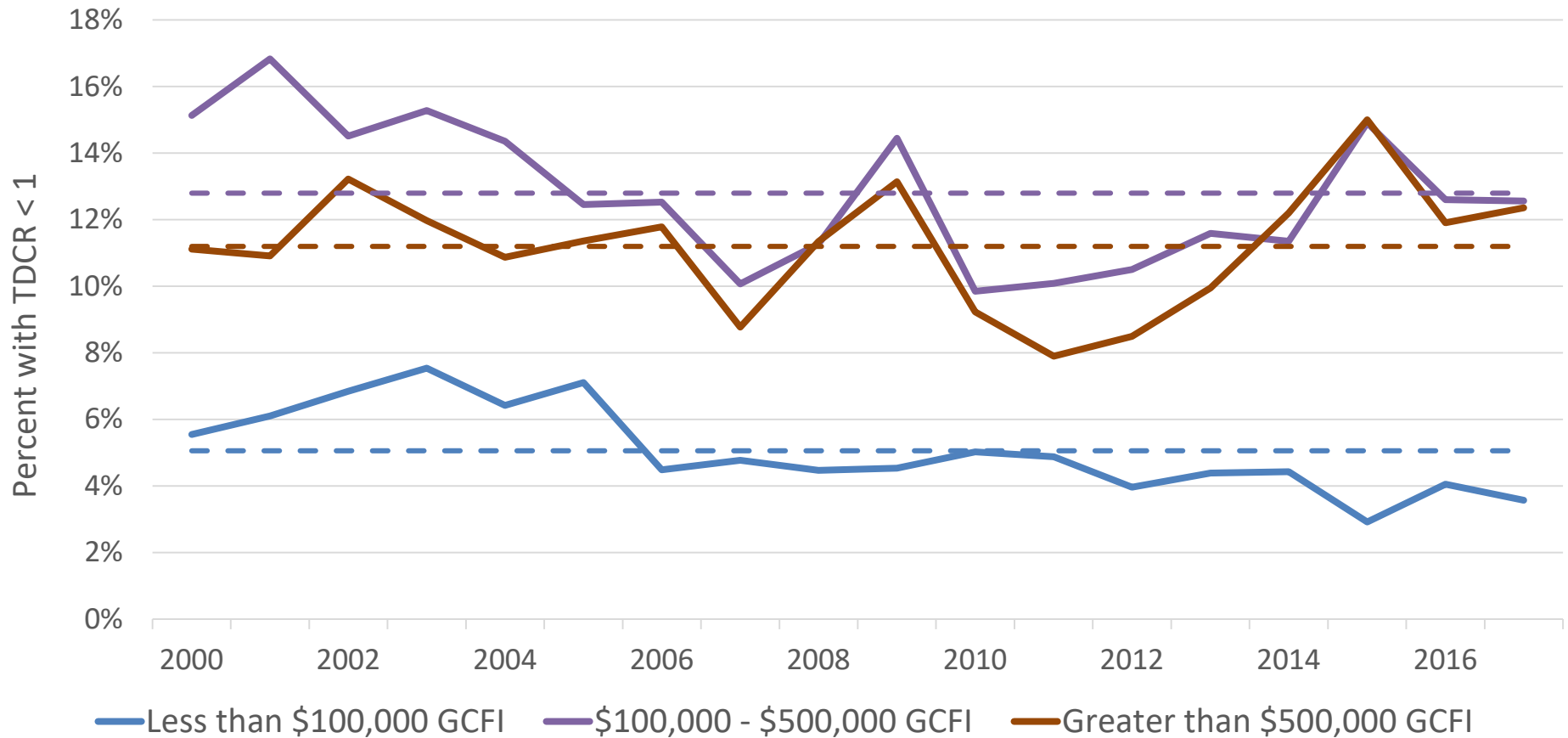
Are operators earning enough income to service their debt?



SOURCE: Economic Research Service, using USDA data from ERS and NASS, Agricultural Resource Management Survey, 2000 - 2017



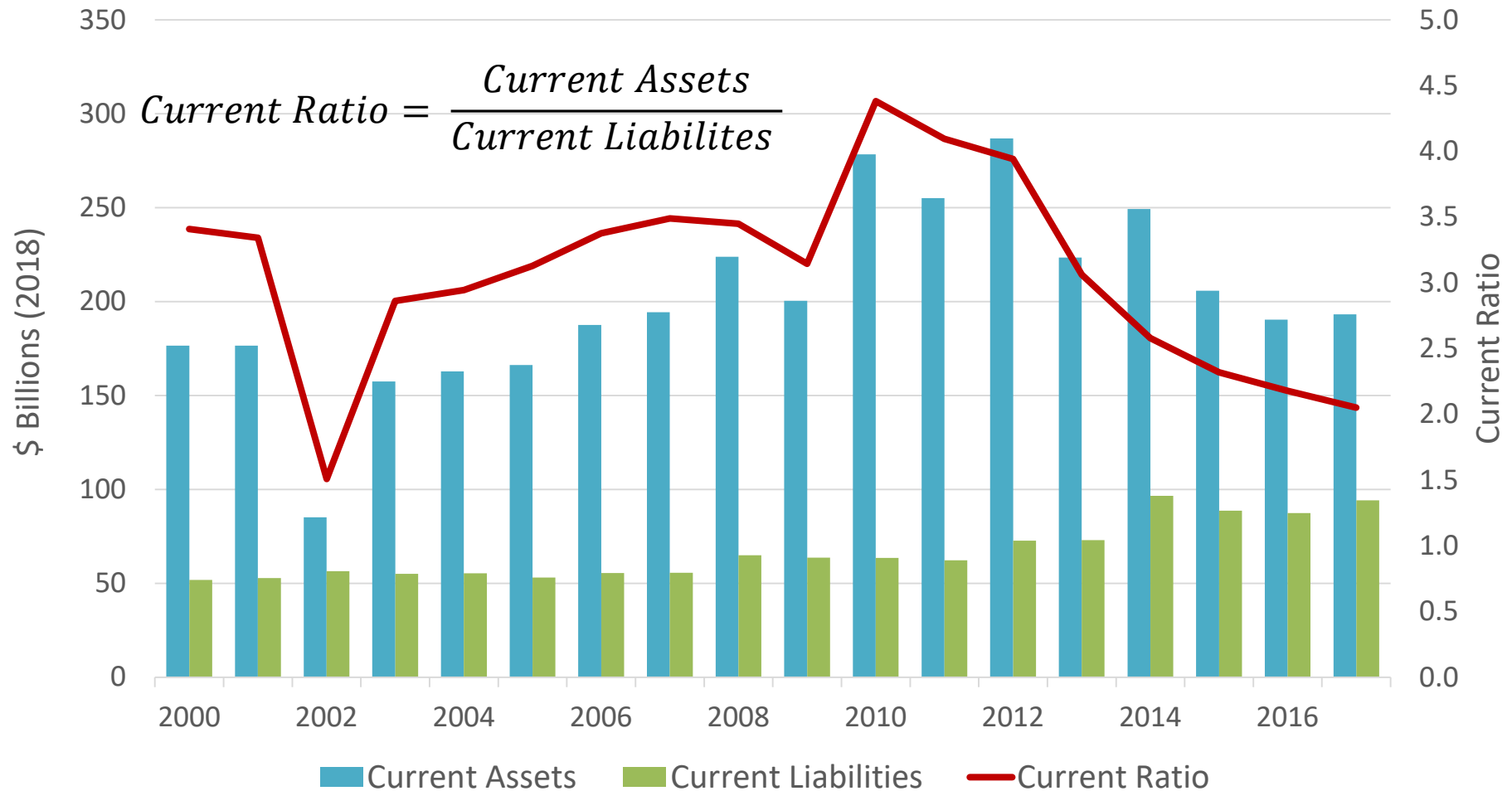
The share of larger farms whose debt payments exceed their income has risen



SOURCE: Economic Research Service, using USDA data from ERS and NASS, Agricultural Resource Management Survey, 2000 – 2017. Gross cash farm income is adjusted using PPI for farm products, 2018 = 100.



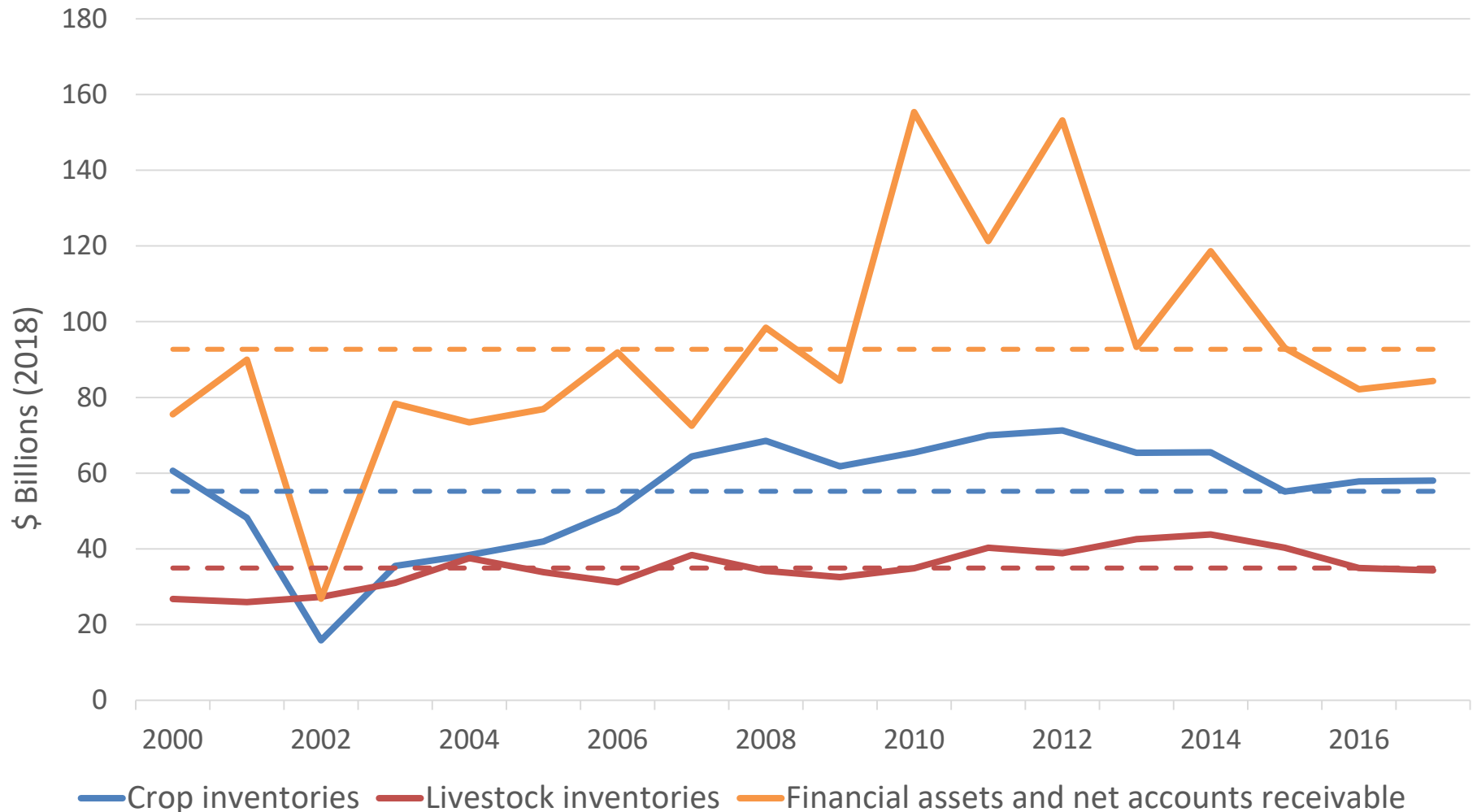
Do operators have the savings and liquid assets on hand to meet their short-term obligations?



SOURCE: Economic Research Service, using USDA data from ERS and NASS, Agricultural Resource Management Survey, 2000 – 2017. Values are inflation adjusted using the Chain-type GDP deflator, 2018=100.



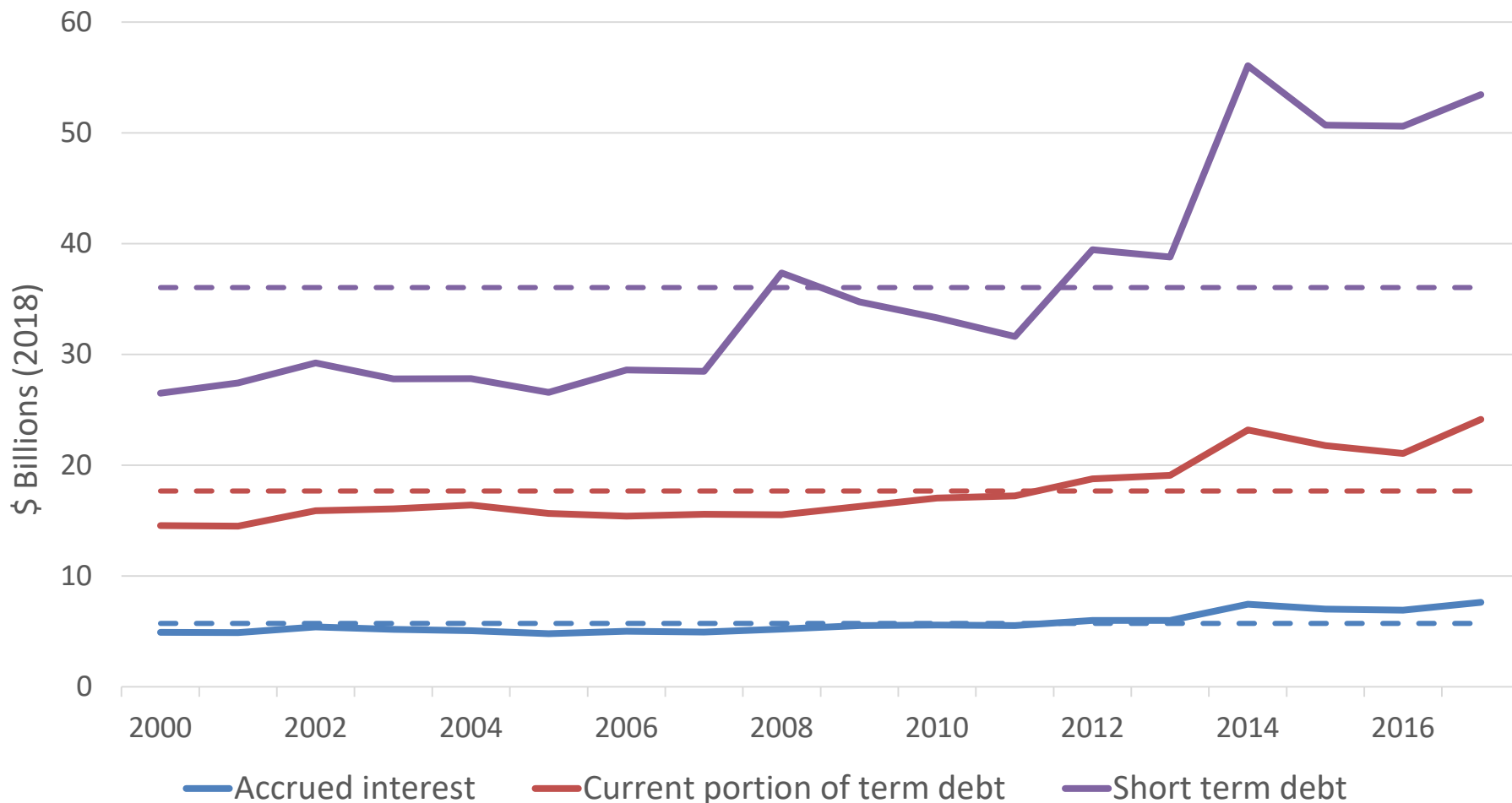
Liquid assets have returned to average



SOURCE: Economic Research Service, using USDA data from ERS and NASS, Agricultural Resource Management Survey, 2000 – 2017. Values are inflation adjusted using the Chain-type GDP deflator, 2018=100.



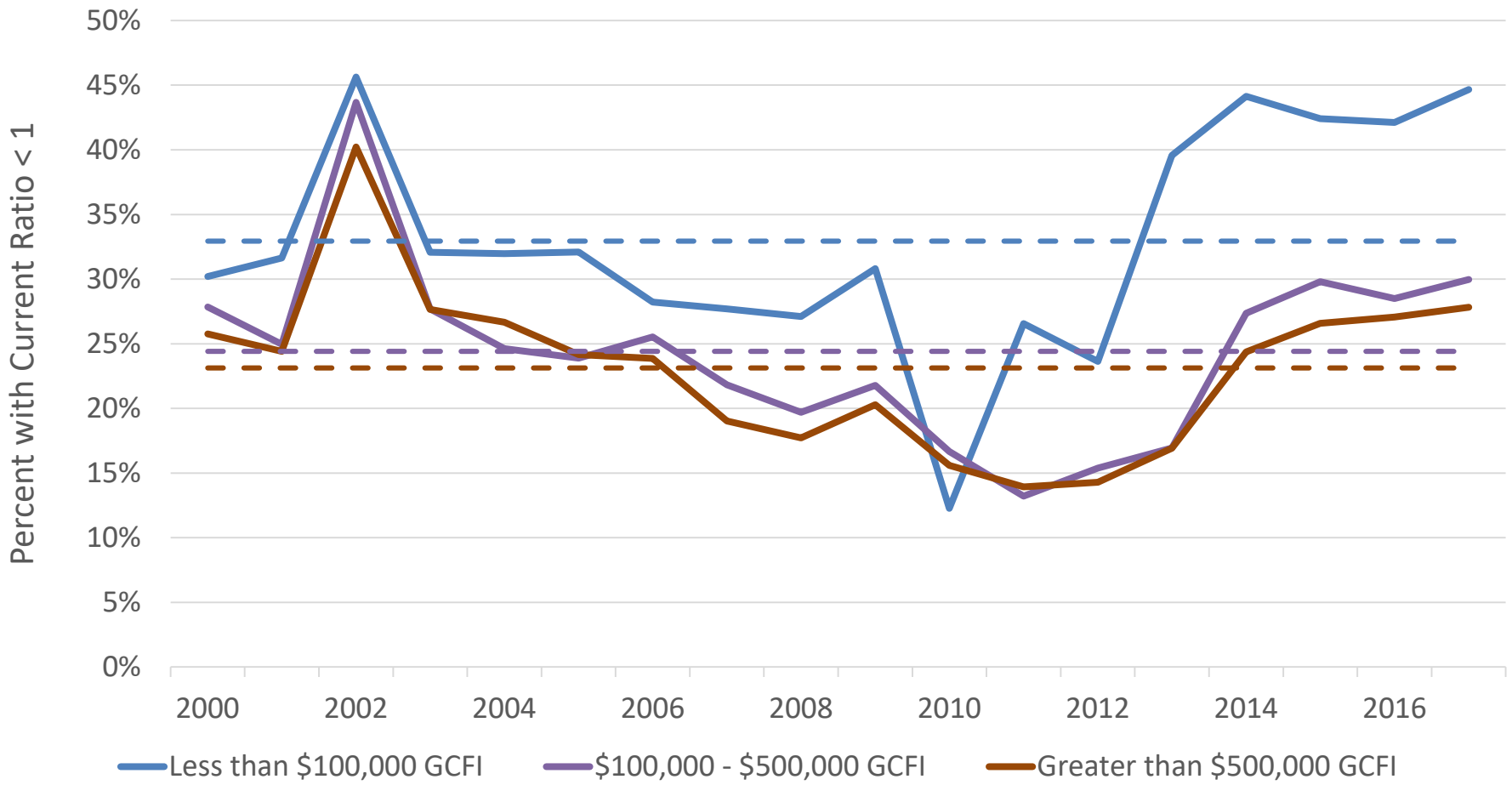
Short term liabilities have largely increased



SOURCE: Economic Research Service, using USDA data from ERS and NASS, Agricultural Resource Management Survey, 2000 – 2017. Values are inflation adjusted using the Chain-type GDP deflator, 2018=100.



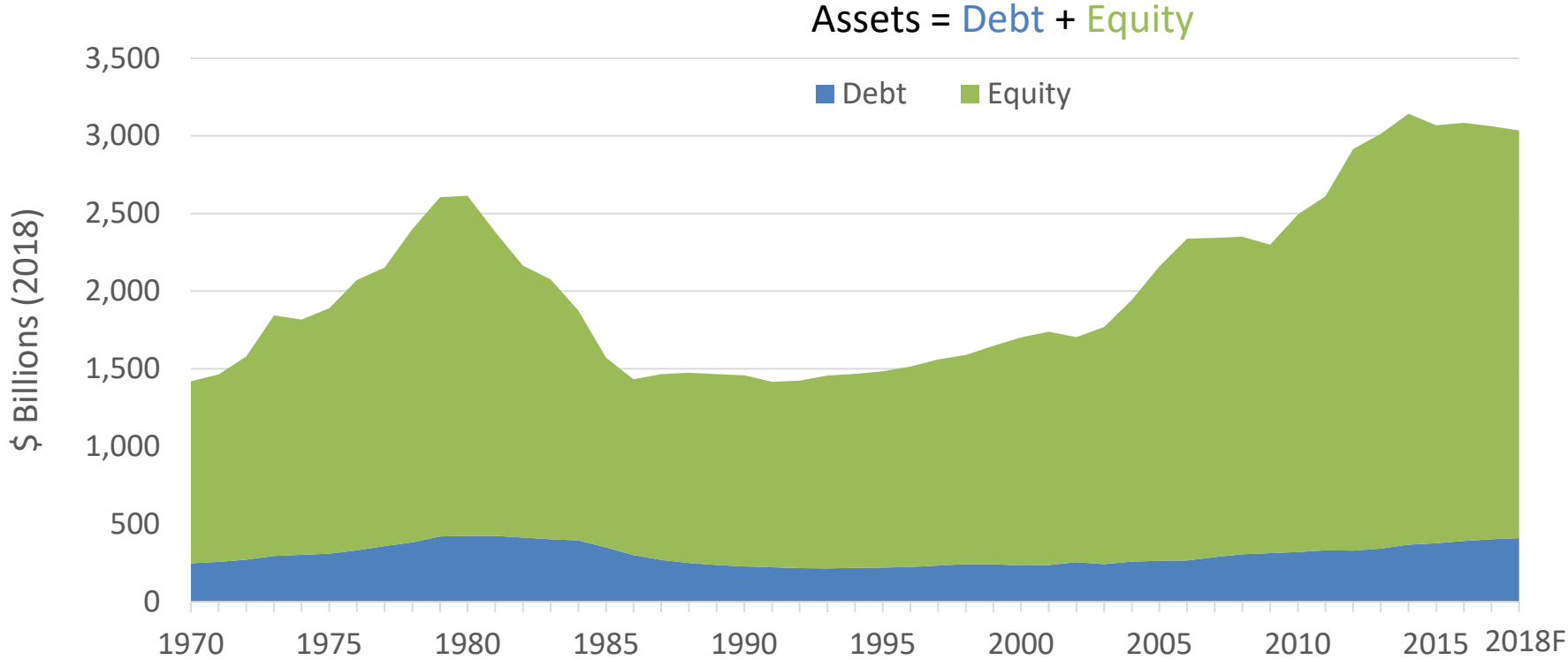
The share of farmers who do not have enough liquid assets to cover their current obligations has increased



SOURCE: Economic Research Service, using USDA data from ERS and NASS, Agricultural Resource Management Survey, 2000 - 2017



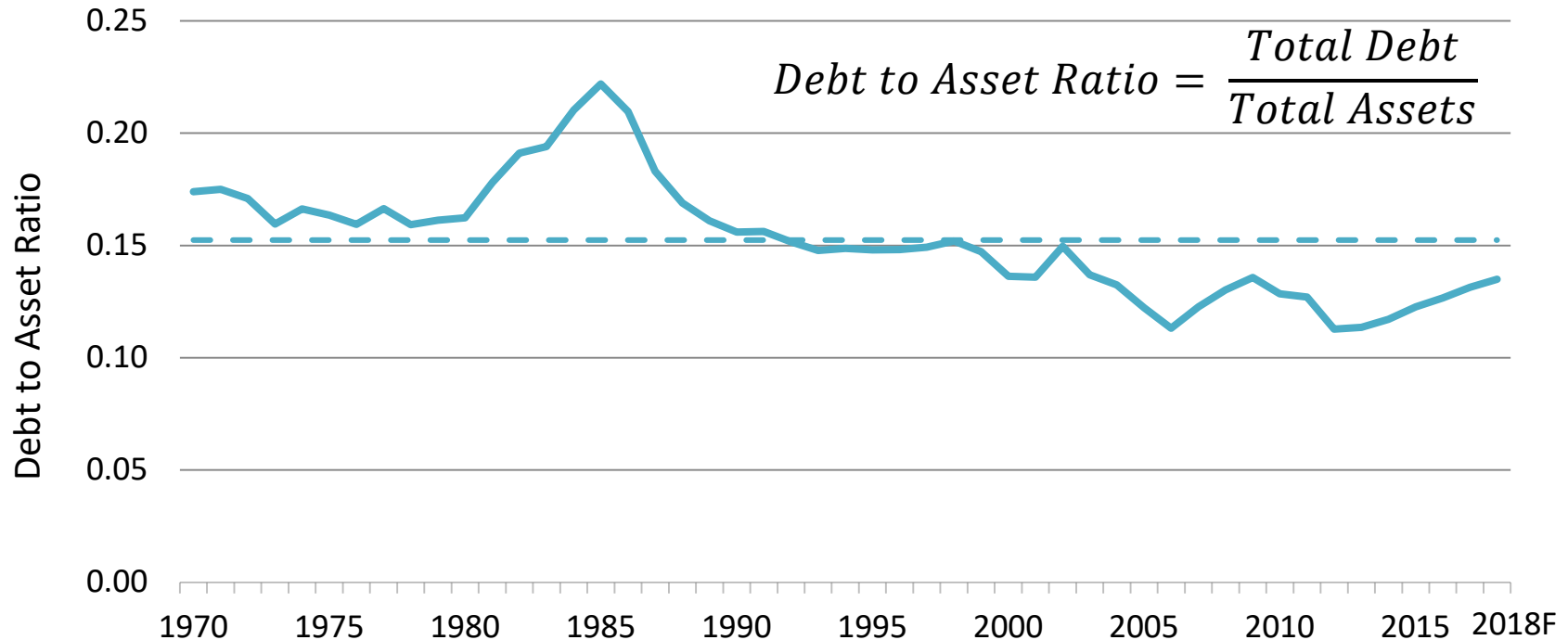
Farm Sector Balance Sheet Remains Strong



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?



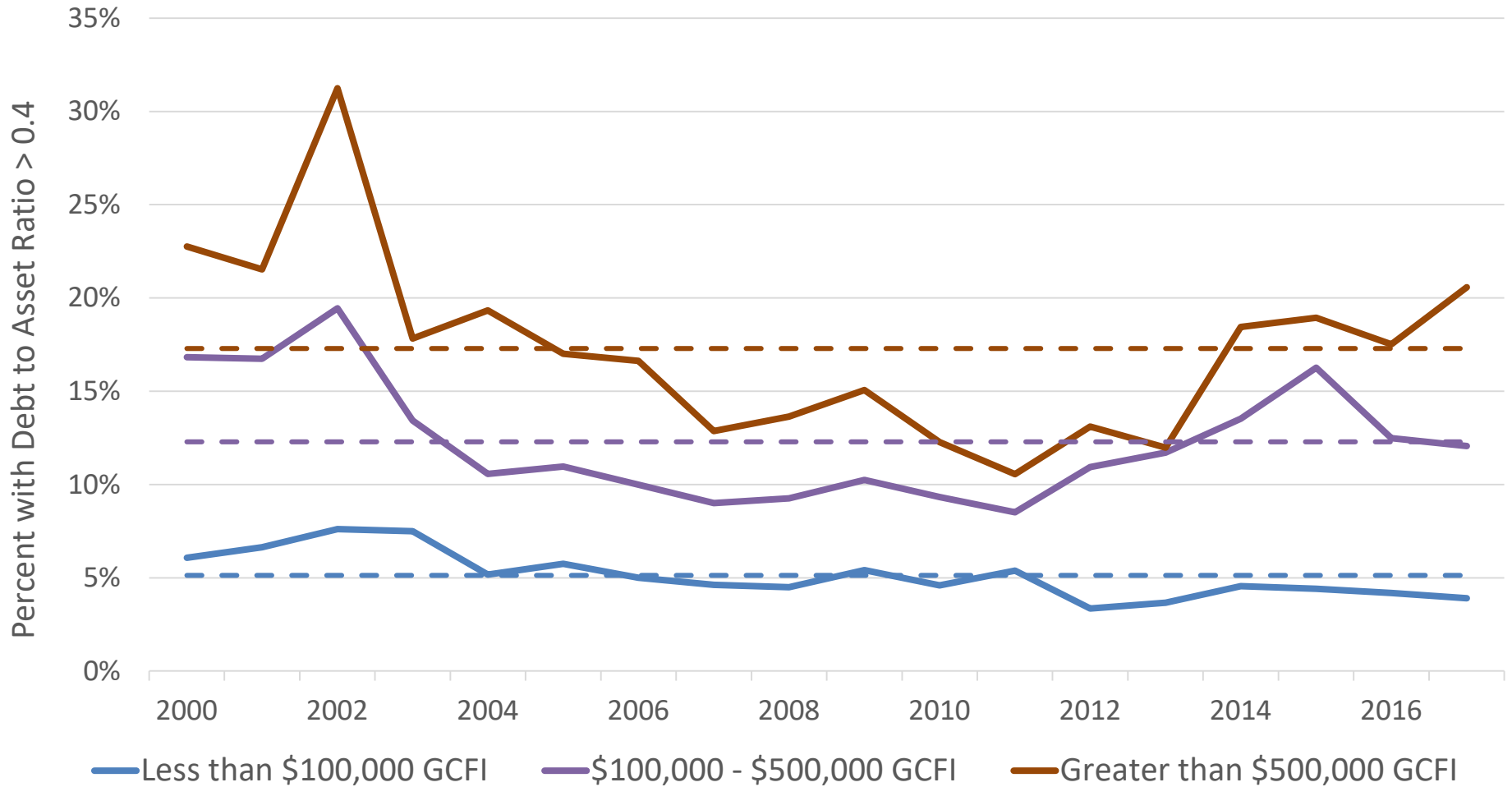
F= Forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics

Data as of November 30, 2018



More large farms are becoming highly leveraged



SOURCE: Economic Research Service, using USDA data from ERS and NASS, Agricultural Resource Management Survey, 2000 - 2017



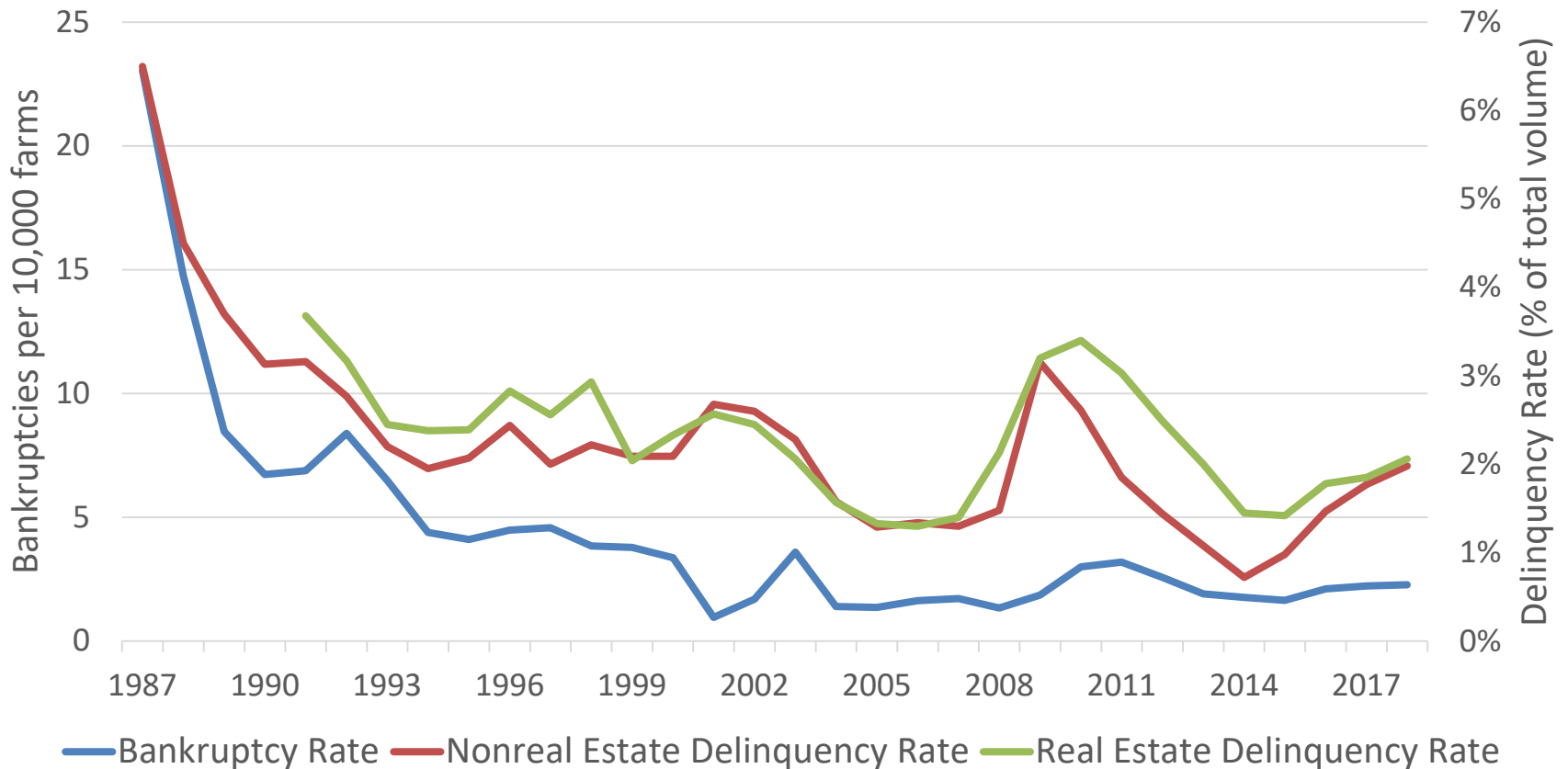
Highly leveraged farm businesses are younger, larger than farms with low leverage

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

SOURCE: Economic Research Service, using USDA data from ERS and NASS, Agricultural Resource Management Survey, 2017



Delinquency and Bankruptcies, 1987 to 2018F



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/>

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