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As we reflect back to the end of 1982 and these first ten months of 1983, it seems apparent that the crisis decisions and economic alarm at the end of 1982 have subsided to some degree during 1983 and in general this is due to the PIK program. The year of 1983 has been a time of adjustment, both from the farmer or producer-borrower standpoint and the lenders standpoint. PIK, in a great many cases, has afforded the opportunity to project a positive cash flow and delay hard decisions until the end of 1983 and possibly till the first quarter of 1984.

On the horizon, however, the drouth, especially in the midwest corn belt and parts of the south and southwest, has compounded the economic problems of agriculture as we move into 1984 and probably beyond. The areas with drouth situations are not only presenting problems to producers, but are compounding problems of lenders also. It appears that the outlook for relief in any sector of agriculture, producer, agri-business or lender will not be forthcoming in the near future. After visiting with commercial bankers across the nation and with farm credit people in my immediate area, I am judging that 1984 is going to be a hard year.

#### Conditions at end of 1982 and start of 1983

Seems appropriate to review briefly a few factors which contributed greatly to our present dilemma in agriculture:

1. Inflation was the main culprit with rising land costs as much as 20% in one year.
2. Past two years dramatic rise in interest rates culminating by the end of 1982 in many negative cash flows for producers and actual dramatic drop in net worth, due to a decrease in market values of land and livestock and commodity prices.
3. With increase in value of dollar, export markets were decreasing and no prospect of expansion of these markets due to world wide recession.
4. As producers over-produced by trying to compensate for the above decreases realized in cash flow, surpluses piled up compounding solutions to the problems.

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### What has transpired during 1983?

As we started 1983, some lenders had made some hard and distasteful decisions already at the end of 1982, but many were yet to come in the first quarter of 1983. Commercial ag bankers and other ag lenders scrambled the first half of 1983 in various ways to keep their borrowers and themselves on an even kiel. Lenders suggested partial liquidation in many instances, which was selling off portions of land, machinery sales or tightening up on risk factors with borrowers by hedging either in livestock operations or of commodities and forward contracts.

One big factor which assisted producers of commodities was the PIK program. When PIK's potential was interjected in cash flow projections, many appeared to have positive positions again, so PIK very definitely in the short run had a good and positive effect. Now later in 1983, of course, we see side effects detrimental to the livestock industry with narrow margins.

As we move on in 1983 to mid year, it becomes more apparent that with the advent of partial liquidations of personal property, prices received for machinery and livestock are getting stickier and stickier. Also, land acres being offered for sale were increasing by the month, which stalemated sales in many areas, thus decreasing the possibility of debt reduction for those in trouble. With most of these factors coming to light, investors also became reluctant to invest. Another side effect from the above problems being faced was the moral outlook on payment of debt. More bankruptcies appeared or came to the surface in 1983.

The ABA, American Bankers Association, took a mid year survey in July, the final results of which will be given at our November conference in Los Angeles, however a preliminary summary would indicate the following:

1. Deterioration of ag portfolios continued in 1983 but at a slower rate or not as drastically as in 1982.
2. Financial situations appeared to ease, partly due to PIK projections.
3. Fewer borrowers were loaned up to their credit limits, this also partially due to PIK, which cut back inputs necessary under the program.
4. Credit has slowed or there is less demand during the first half of 1983.
5. Banks have ample funds for loaning. Loan to deposit ratios, which had an average of 67% in 1979, now show 61% as an average with many below this.
6. Interest rates have averaged 13½% on ag loans this year. This is down 2½% from a year ago.
7. Per cent increase in farm debt appears at this point to be the smallest increase in many years.

This survey is being done and compiled by Bill Herr, head of Agri Business and Economics Department at Southern Illinois University.

Another factor which I mentioned in my opening remarks that is affecting the ag economy is the drouth. On top of the financial or economic problems facing the producer, we add on further stress from the drouth situation. Those who did not participate at all or to any great extent in the PIK program face more severe financial burdens. Livestock people in drouth areas also are facing real problems as the cost of feed has risen dramatically causing many western cow herds to be put on the auction block. Feed prices are also having their impact on all livestock programs; dairy, hogs and poultry. In the drouth areas, and it is true in other areas also but more pronounced in the drouth areas, lenders are seeing a second tier of producers having more severe financial problems. By second tier I mean borrowers that have been in the business longer than 10 years, ones that have been good managers in general and also have kept their noses to the grindstone. This is a group whom many lenders felt would weather this period, not necessarily unscathed but could pull through O.K. Some of these may be faced with debt reduction decisions.

I have mainly talked about the producer in agriculture up to this point and I think we should consider the agri business sector also and touch on the ag lender as well. I can only voice an opinion on the commercial bank area.

Many agri businesses have felt the troubled times of the producer showing up in slow accounts receivables plus more producers entering into delayed payments by entering a type of reorganization under bankruptcy proceedings. We are seeing the large elevators feeling the effects of PIK on the other side by having less grain in storage, thus less income to the grain dealer. This is just now appearing as a problem for 1984 and possibly beyond. Machinery dealers have had the tightening of the belt already and from visiting with bankers across the nation in a conference call just recently and other private conversations, it appears that we will continue to have problems with many agri businesses during 1984 and probably more pronounced than even in 1983.

Ag bankers, as a part of the ag lending sector, are having some real struggles in 1983. We have seen a marked increase in charge off loans as well as an increase in non earning assets or non accrual loans. These two factors coupled with less loan demand will see earnings of agricultural banks decline in the year of 1983.

In looking at 1983 as a whole, I would like to say that in general it has been a year of readjustment. On the positive side, PIK has afforded some breathing space for the producer of commodities. Many will be helped enough to probably get them through this economic down turn. On the other hand it has only delayed the fish or cut bait decisions we know are necessary for others. What per cent of the borrowers will not be with us in 1984 or in 1985 I don't believe anyone can predict, but I will say this, there will continue to be more getting out of production agriculture in the next two years than the average we've had in the past. Agri businesses will be tightening their belts further in 1984, especially if they are in lines dependent on large ticket items.

### What is ahead for 1984 and possibly beyond

From a lenders point of view, it appears that some of the old conservative guidelines will be the vogue in the near future. The conservative approach will and should be used in making business and lending decisions. Cash flows are necessary for any projections with progress being measured by retained earnings and earned net worth.

Do not see 1984 being a good year in agriculture as may be the case in some areas of the economy as the stock market seems to indicate. I think 1984 will be more of the same, with production agriculture having problems and borrowers facing continuing difficult decisions along with lenders needing patience and time to help work out of this struggle for profit.

Why do I see continuing problems? Let's take what our producers are saying. We can't stand to have more money for disaster loans as we can't pay back what we have now. I agree. With no PIK in 1984, fence row to fence row planting will probably be the program again. This was no solution before.

Another area to be faced in 1984 is the dairy surplus. Already, dairymen are feeling the pinch in many areas according to a conference call survey recently with ag bankers from New York to California. If cow numbers are reduced by sale of these cows, this will of course affect the other red meat industries, a problem which is still on the horizon for 1984.

In looking ahead it appears that the agricultural sector of our economy will be the laggard in pulling out of the economic slump. It has problems ahead that will take stable government policies directed at long term solutions rather than reactions to crises situation. Inputs from all segments or levels of agriculture must be heard in order to have solidified direction. Programs in areas of expanded markets appear necessary and may be less expensive than direct crises subsidies to producers.

In summary, I would like to say that 1983 has been a leveling off period with not as many crises situations arising, however, problems are still with us. We will see these problems continuing into 1984 and probably more than we've had in 1983. Patience and time on all those involved will be necessary to avoid depressing the market price of land and personal property further, which will help no one. We will need another turn downward in interest rates to assist in helping our producers to climb back. If this is not possible we will see some of those second tier producers in trouble by the end of 1984.