Summary of Financial Condition of Farmers

By Norman J. Wall

The assets of agriculture viewed as a single industry totaled 122 billion dollars on January 1, 1948. Physical assets amounted to 100 billion dollars and selected financial assets owned by farm people to 22 billion. The rights of operators and landlords in these assets were valued at 113 billion dollars and the claims of creditors at only 9 billion dollars.

During 1947 total assets increased from 110 billion to 122 billion dollars. Farm real estate increased in valuation from 59 billion to 63 billion dollars and other physical assets from less than 31 billion to more than 37 billion. Price changes were a primary cause of the increases, physical changes of inventory having been generally small. Financial assets also increased, rising from a total of about 21 billion dollars to 22 billion. These financial assets include currency, bank deposits, United States savings bonds, and equities in cooperative associations. Debts increased from 8 billion to 9 billion dollars and the residual proprietary equities of farm operators and landlords increased from 102 billion to 113 billion during the year.

Summary

Briefly summarized, prospects for the principal assets and liabilities of farmers in the country as a whole during the outlook period under the conditions assumed are that:

(1) Farmers' holdings of liquid assets will be worked down to a lower level from the current volume of more than 20 billion dollars. Under the most favorable conditions assumed, they will work toward a level of about 16 or 17 billion dollars; under the least favorable conditions, a level of about 13 or 14 billion dollars.

(2) The non-real-estate "short-term" debts of farmers will increase further from the current level of more than 4 billion dollars, whether the conditions assumed are "high" or "low." Conflicting tendencies will operate, some tending to increase the debt, others tending to reduce it, but on balance a further increase is expected particularly in the next year or two. This would likely be followed by a leveling off under the least favorable conditions assumed.

(3) Farm-mortgage debt is expected to increase further from the current level of nearly 5 billion dollars, whether conditions assumed for the outlook period approximate the most favorable, or the least favorable. Here also, conflicting tendencies will operate, but on balance the farm-mortgage debt is expected to continue its current upward trend to a higher level for the outlook period.

(4) Land values, under the most favorable conditions assumed, will probably be at levels within a range of 10 percent above or below current levels. Under the least favorable conditions, they may be

expected to drop 15 or 20 percent below current levels. Farm real estate values during the outlook period will depend to a considerable extent upon whether farm income appears likely to continue at the levels established during the outlook period or whether it shows a tendency to drop to lower levels.

(5) The aggregate value of other physical farm assets, including livestock, machinery, crop inventories, and household goods on farms, is expected to decline under either level assumed for the outlook period.

(6) The net worths of farmers are expected to decline under either level assumed for the outlook period. Under the least favorable conditions assumed, the decline could be as much as 20 percent.

Financial Conditions of Individual Farmers will Vary Widely.- A reduction in the net worth of farmers will bring about varying degrees of financial problems among farmers, depending upon the composition of their assets and liabilities and the amount of decline in their individual net incomes. Farmers free of debt will find that the reduction in income merely reduces the amount of their current savings. Their reduction in net worth may be principally a paper loss with little or no resulting financial distress. Other farmers will find the drop in income sufficient to require the use of some of their past savings or liquid assets to meet expenses. Some of these may also find it necessary to borrow on equities in their property. For those farmers whose properties have been freed of debt and whose savings have been substantial, the financial problems that arise can be met without any particular distress.

However, a substantial number of farmers have been unable to acquire any substantial savings or equities in their farms because their farms are small and the high incomes of the war still did not exceed both their increased farm costs and their living expenses. Other farmers acquired liquid assets during the war and immediate postwar period but they spent these savings and acquired additional liabilities to buy land, machinery, and livestock, and otherwise to improve and enlarge their farms. A substantial number of these farmers may find that their reduced income is too small to cover their fixed expenses. With little or no savings or equities as reserves, these farmers are likely to be forced into debt delinquency. This is often accompanied by lowered levels of living, run down land and buildings, and even actual foreclosure and loss of the farm.

With this appraisal of the over-all position of agriculture's financial position, it may be appropriate to point out some of the regional variations that appear to be in the offing. These will be discussed under four major headings: The Northeast, the North Central States, the South, and the West.

Northeastern States

As a whole, agriculture has shown relatively more economic stability in the Northeastern States than in most other regions of the country. This stability is closely associated with the large urban population and the character of the region's farm products. Farmers in this region do not prosper as much in good times nor do they experience as much financial distress in depressions as do farmers in most other regions.

The 1950-54 outlook for northeastern agriculture appears better, relatively, than the outlook for other regions. The lower feed prices assumed for the outlook period and the probability of gradually declining prices for dairy cattle should reduce production costs. Moreover, prices of dairy and poultry products are likely to decline less than for other agricultural products. Thus farmers in this region will probably retain during the outlook period more of the gains made since 1940 than will farmers in the other three regions. But some localities, those specializing in fruit, potatoes, and other vegetables, for instance, may experience conditions that are considerably less favorable than average for the region.

The economic stability of the Northeastern States is reflected in land values which have fluctuated less over the last four decades than in any other section of the country. This stability in values has continued during the present war period. In the future, values in the Northeast are likely to change less than the United States average.

The liquid asset holdings of northeastern farmers on January 1, 1948 are estimated at about 2.5 billion dollars. This is about 150 percent greater than the amount held on January 1, 1942. The increase for the United States as a whole is estimated at about 280 percent. Any decline from present levels in the Northeast, however, is expected to be moderate in the outlook period. Under the most unfavorable conditions assumed, they are not expected to fall below 2 billion dollars, and under the more favorable conditions assumed, they might increase slightly.

Relatively stable conditions in the Northeast - particularly of land values - have resulted in a level of farm-mortgage debt which has changed comparatively little since World War I. On January 1, 1948 the total mortgage debt for this region was 437 million dollars or about 11 percent greater than the low of 394 million reached two years earlier. This upward trend is likely to continue for a few years; and then level off.

Non-real-estate loans of the principal lending institutions showed exceptionally great expansion in this region during 1946 and 1947. In large measure, this appears to be due to the high cost of dairy cattle and feed and to increased purchases of machinery and building materials. With the prospect of a decline in costs of feed and dairy cows, a leveling-off of the non-real-estate debt of farmers in the Northeastern region may be expected.

The North Central States

For this area as a whole, the outlook appears at least as favorable as for the entire country. This is particularly true for livestock and dairy areas, as prices of meat animals and dairy products are expected to be maintained at fairly satisfactory levels. However, prices of wheat and corn are expected to decline substantially.

In the North Central area, land values are still substantially lower than those of 1920. Values were highly inflated in the World War I boom, and during the depression and the drought of the 1930's, the drop in values was greater here. During the current rise, land values have been less responsive to rising income than for the country as a whole.

Changes in values in this area as a whole are likely to follow about the same trend as those for the entire United States. Under the high employment assumption, values in crop-production areas are likely to be somewhat lower than at present. Under the lower employment assumption, values in such areas may decrease more than for the United States average. On the other hand, in the livestock areas, values are likely to increase somewhat further in case of high employment, and to decrease less than the United States average in case the lower levels prevail.

On January 1, 1948, farmers in the North Central States held an estimated 8.3 billion dollars in liquid assets, or about 41 percent of the liquid-asset holdings of farmers in the United States.

These liquid assets are expected to decline to about 6.5 billion dollars, under the more favorable income conditions, and 5.5 billion under the less favorable income assumption. Lower prices for wheat are likely to mean greater liquid-asset depletion for farmers in the Great Plains States than for farmers in either the dairy areas of the Lake States or the livestock and general farming areas of the central Corn Belt.

With reduced farm income probable during the outlook period, fewer farmers will be able to finance their operations with cash and more will require production loans. The number of livestock on feed in this region will probably increase, and purchases of farm machinery will continue high. Further, a considerable number of farmers will find it desirable to extend their credit over longer periods. These factors will tend to maintain or to increase the outstanding amount of short-term loans. On the other hand, livestock prices and other costs may be expected to decline, and with lower farm prices and incomes, lenders may reduce the amounts loaned per borrower. However, on balance, a further increase in non-real-estate loans of farmers in this region is expected for the outlook period.

The farm-mortgage debt in the North Central region on January 1, 1948 was less than one-third of that on January 1, 1924 and at the beginning of this year it was nearly as low as the debt in 1910. The downward trend, however, has about stopped and for 1948 the debt may level off or increase slightly. Recently in this region, new loans have increased and pay-offs have declined. Principal repayments can be expected to decline further and only a small decrease in new mortgages is in prospect. Thus farm-mortgage debt probably will increase rather sharply in the next few years.

With the net income prospects for the North Central region relatively favorable, it appears that the decline in liquid assets and the increase in debts will not be sufficient to bring serious financial distress to any large proportion of farmers. Some farmers who have bought farms in the last year or two and some who buy farms in the next few years, will find it difficult to meet their debt-repayment schedules. Delinquencies on both short-term and long-term debts will no doubt increase, and foreclosures and bankruptcies will be more numerous. But financial distress will be confined chiefly to those individuals who have incurred excessive debts or depleted their savings and to farmers in areas in which crop or price conditions are especially unfavorable.

Southern States

The financial position of agriculture in the South was considerably improved during the World War II period, both actually and relative to other parts of the country. Although the outlook is less favorable for the major cash crops of the South than for those of other major regions, it is probable that southern agriculture has benefitted from the war-period readjustments.

With favorable prices and production, gross farm earnings were more than three times as high in the South in 1947 as they were in 1935-39. And, as was generally true, net farm income increased much more than did gross farm earnings. Moreover, an exceptionally heavy migration of underemployed farm workers to non-agricultural employment during the war period contributed to relatively great increases in per capita farm output and net earnings.

The response of farm real estate values to war-period increases in farm earnings was much higher in the South than for the country as a whole. In view of this higher response to increases in income, it appears likely that land values will decline more in the Southern States than for the entire country. The liquid assets of southern farmers are also expected to decline, from an estimated 6.8 billion dollars on January 1, 1948 to between 4.5 and 5.0 billion dollars for the outlook period.

The South has had a greater expansion in non-real-estate agricultural debt since 1940 than other regions. On January 1, 1948 southern farmers owed 30 percent of such debt in the United States, as compared with 24 percent on January 1, 1940. Because of prospective declines in farm earnings and some long-term refinancing, this type of indebtedness will probably level off in the near future.

The farm-mortgage debt in the Southern States is still nearly two-thirds as high as the 1923 peak level. And, during the last two years mortgage debt in the South has increased nearly 18 percent. Under the squeeze of high fixed costs and declining incomes, it is probable that this upward trend will continue during the outlook period. If prices of major crops in the South decline substantially, however, it is likely that a changed attitude of both borrowers and lenders would result in a less rapid rate of increase. An increase in the use of credit to finance technological and other farm improvements might be of major importance in offsetting this tendency.

Western States

Although the Western region contains widely diverse kinds of agriculture, there are certain general characteristics that make the financial outlook for agriculture here different from other regions. Many parts of this region will continue to experience economic growth at a greater rate than will older regions. This growth will be reflected in the value of assets used in agriculture and in credit used by farmers. The rapid growth of urban population along the Pacific seaboard will provide a greater demand for certain farm products. This will help to bolster the agriculture against general downward readjustments in incomes, prices, and asset values.

But these downward adjustments may still be substantial. With falling income during the outlook period, land values may be in for a somewhat greater downward readjustment than in the North Central region. Land values in fruit and truck-crop production areas have already shown considerable weakness, and this tendency is likely to continue. In those areas in which livestock is important, the prospective decline in prices of livestock will influence directly the value of total farm assets. Despite the influence of population and general economic growth in the area, therefore, the value of assets used in farming is likely to decline somewhat more during the outlook period than in the country as a whole. Within the region, however, the trends are likely to diverge.

Liquid assets held by western farmers increased at about the same rate from January 1, 1942 to January 1, 1948, as for the entire country. On January 1, 1948, liquid assets held by western farmers are estimated at 2.7 billion dollars. Liquid assets of farmers in this area are not expected to fall below 2 billion dollars during the outlook period, and under the most favorable conditions assumed they might remain as high as 2.3 billion.

Throughout the period 1940-48, non-real-estate debts of western farmers to the principal credit institutions were about 21 percent of the total for the country. Although some further increase may be anticipated, a moderate reduction in the amount of such credit used by farmers is expected to accompany the reduction in costs projected for the outlook period. Real estate debts are likely to continue their upward trend. Continued growth of the area in the form of new irrigation developments and expansion of dairying is likely to draw in substantial amounts of capital in the form of mortgage loans, and lower incomes in many parts of the region will reduce the rate of principal repayments. This new debt, however, will be matched in part with new assets, so that the change in the net-worth position of western farmers may differ very little from that for farmers generally.

With the foregoing appraisal of the outlook for the financial condition of farmers, it may be appropriate, in closing, to raise a few questions:

1. With the over-all financial position of agriculture the best in its history, what policies and decisions on the part of farmers will aid most in conserving these important financial gains?

2. What are the needs for financial reserves, as between different types of farming areas, to meet the readjustments ahead?

3. What types of investment should be made to obtain the best combination of resources - land, labor, and equipment - to obtain the lowest possible production costs?

4. How far can farmers go in making investments that will reduce the disparity between farm and city homes in the way of conveniences and comfort?

These questions deserve the careful consideration of all workers in the agricultural field. Seldom have farmers in such large numbers had the opportunity of putting into operation sound plans for their future financial security.