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Headache for farmers as they get less cash for more crops

By Russell Hubbard / World-Herald staff writer

Midwestern and Nebraska farm economics are deteriorating, with crop prices and land values falling as loan defaults rise, conditions serious enough for authorities to invoke the disastrous 1980s.

The Kansas City branch of the Federal Reserve said in a recent report that land values for all types of farm and ranch land were down 6 percent from a year earlier in Nebraska, Kansas, Oklahoma, western Missouri, Colorado, Wyoming and the northern half of New Mexico.

The decrease in the third quarter was the sharpest year-over-year reduction in the Fed's 10th District since the mid-1980s, the regional branch of the central bank wrote in a report last week. And farm debt-to-income is going to be worse this year than any year since 1985, according to USDA projections.

"Farmers were fairly flush with cash during the really good times," said Nathan Kauffman, assistant vice president at the Omaha branch of the Kansas City Fed. "We continue to see deterioration in general in credit conditions, repayment rates, liquidity, farm income, all of those measures that would kind of be wrapped up in the general financial picture for farm borrowers."

It can be blamed on the efficiency of those very same U.S. farmers, who have again produced what is expected to be a record corn and soybean crop, creating an oversupply that depresses prices. And after corn reached an all-time high of $8 a bushel in 2012, the rest of the world amped up production to chase the returns U.S.

farmers were enjoying. End result: corn prices falling by more than half. Farm income is down 42 percent from the record set in 2013, according to the USDA.

Along the way, farmland values are expected to fall 20 percent by 2018, according to MetLife Agricultural Finance. Nebraska irrigated and nonirrigated farmland values fell about 5 percent from a year earlier, the K.C. Fed said in its report last week, while ranch land values fell 9 percent.

Loan defaults are a pressing problem. Ag loans not being paid as agreed were about 1.5 percent of total ag loans, the regional Fed said, reaching their highest level this year in about three years, but still well below the 4 percent level seen during the 2008-09 recession.

At Omaha-based Farm Credit Services, a member-owned ag lender, loans not being paid as agreed more than doubled to $165 million in the first nine months of the year when compared with the same period in 2015. Non-accrual loans as percent of total loans remain "acceptable" at 0.67 percent, the cooperative said. Net income fell 7 percent in the first nine months to $344 million.

"Factors contributing to lower net income included an increase in provision for loan losses, primarily in the grain and beef feedlot industries," Farm Credit said in a statement this month.

Mark Jensen, chief credit officer at Farm Credit, said in an interview that "worldwide supply certainly is having an impact" by pushing down prices.

Still, he said a minority of farmers are in trouble and that higher debts by some producers should not obscure that the world is looking to America to provide the higher preference for protein-rich food such as beef that is satisfying world demand as living standards rise globally.

Jim Farrell, president of Omaha farmland manager and owner of Farmers National, said borrowing is up by farmers for working capital — the cash used to pay for day-to-day operating expenses. In the third quarter, about 30 percent of banks reporting to the K.C. Fed cited material deterioration of working capital for farmers, about twice as many as the same time in 2015.

Banks, said Farrell, who is on the board of the Omaha branch of the K.C. Fed, are in turn pressuring their borrowers to rein in costs. That, he said, shows up in his business when tenant farmers begin driving hard bargains for lower land rent from Farmers National — a surefire sign of troubled farmland income statements and balance sheets.

“There is definitely a deterioration in cash flows,” Farrell said. “The big crop will offset some of that but not enough at these prices we are seeing.”

The price picture is dismal. Futures prices for corn are down 3.5 percent this year and have fallen by more than half from their all-time high in 2012. With cattle and hogs plunging more than 38 percent from records in 2014, net farm income will slip to a seven-year low of $71.5 billion in 2016, compared with $123.8 billion in 2013, the U.S. Department of Agriculture estimates.

Farm debt in 2016 will be five times larger than net income, up for a third straight year and the highest ratio since 1985, USDA data show.

“It is going to take a weather event,” Farrell said, meaning misfortune somewhere else in the world, to make U.S. corn more valuable. “Barring that, most of us aren’t too optimistic about 2017.”

Mark Jagels, who farms corn and soybeans in Davenport, Nebraska, said so-called input prices for the most part aren’t giving farmers a break, either. “Fertilizer is coming down,” he said. “Seed and herbicide not so much.”

Jagels said it is going to be a tough year for farmers without price increases for the grains that mostly go to feed the cattle that provide the meat for a hungry world. He said everyone from ag equipment dealers to small town general stores are hurting because farmers have less cash.

“They are feeling the crunch, too.”

Jagels said his operation is not in peril — he uses modern financial maneuvers such as futures contracts. But not all do.

“Anyone who was not diligent is on tough times,” Jagels said of those farmers who spent and borrowed heavily when corn was high.

Fred Russell, principal at Fredric E. Russell Investment Management Co. in Tulsa, Oklahoma, said there is always "disruption in the market when land values drop and bankruptcies rise." He has a stake in ag through owning shares in Omaha-based irrigation gear makers Valmont Industries and Lindsay Corp. Russell said "irrigation systems are not cheap" and the problems farmers are having slice through the whole ag economy.

"You just hope the bad news is over," Russell said. "The world is producing more people and those people are demanding a better diet."

There are bright spots, with soybean prices boosted by trouble with the crop in South America. And the K.C. Fed noted that most producers are in good shape and that while defaults are rising, they are still low, at only a fraction of total ag loans.

This report includes material from Bloomberg News.

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BRENDAN SULLIVAN/THE WORLD-HERALD

U.S. farmers have again produced what is expected to be a record corn and soybean crop. Futures prices for corn have fallen by more than half from their all-time high in 2012.