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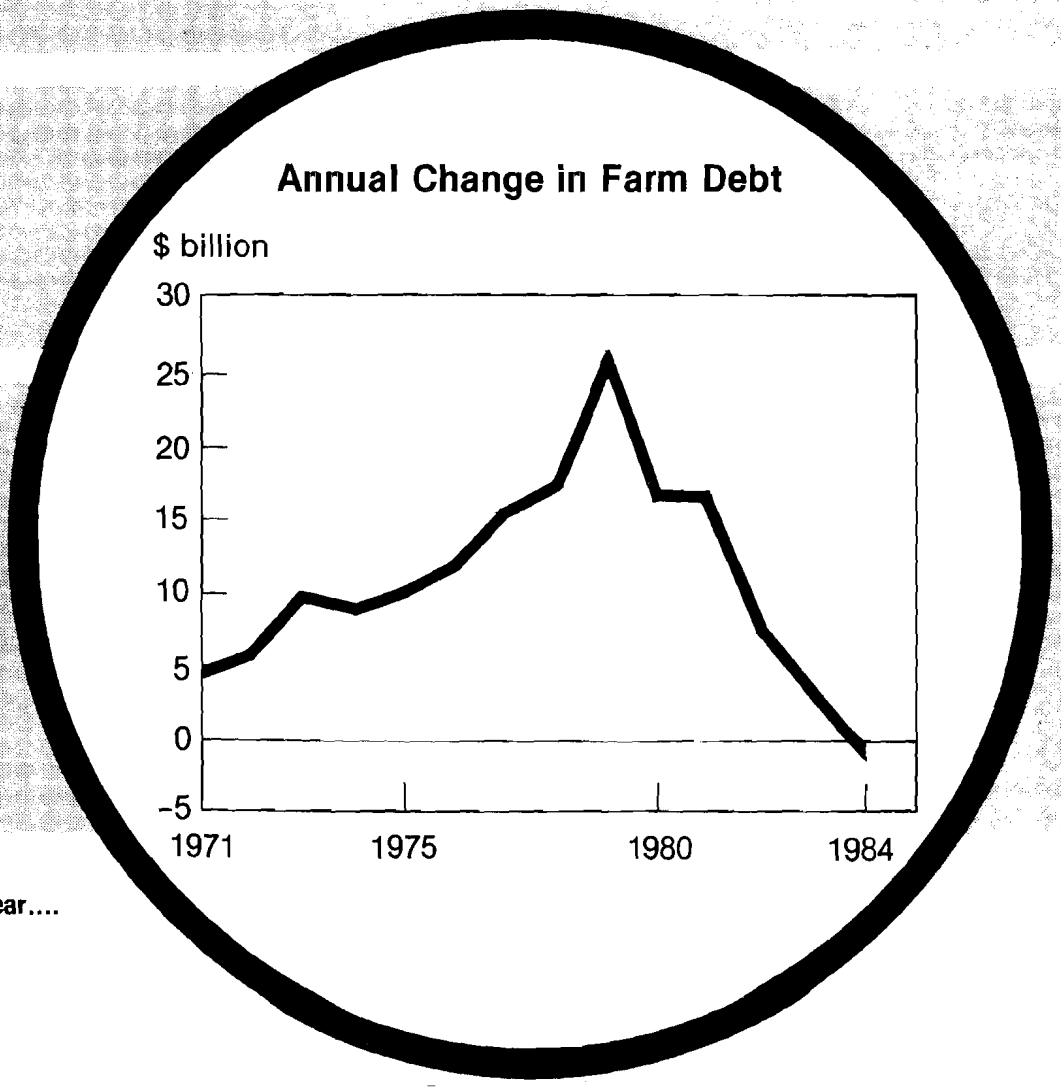

Total farm debt declines for second consecutive year....

CONTENTS

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Many agencies and organizations help in collecting survey data and other information contained in this report. They include the American Bankers Association, Federal Reserve Banks, the Farm Credit Administration, Federal Land Banks, Federal Intermediate Credit Banks, the Extension Service, the Farmers Home Administration, the Agricultural Stabilization and Conservation Service, life insurance companies, commercial banks, and farm machinery manufacturing companies.

SUMMARY

The outlook for 1985 suggests continued cash flow difficulties for highly leveraged farmers. Although the PIK program provided many farmers with relief during the year, the farm sector's economic outlook is weak. Crop prices will generally stay below those of a year earlier and real interest rates will probably remain high. The pickup in demand for U.S. farm products will not match the increase in production.

On a brighter note, export volumes are up following several years of decline, and farm input prices should increase only moderately.

During 1984, the U.S. economy probably experienced its strongest growth in over 30 years. Real gross national product rose about 7 percent, industrial production increased about 10, and civilian employment climbed about 4. Overall, the 1984 recovery led to a strong year for domestic consumer demand for farm products. Low inflation kept farm costs down.

However, a strong U.S. dollar, an uneven world economic picture, continued large foreign agricultural production, high interest rates, and declining farmland values have kept pressure on the farm sector. A small but growing share of farmers are experiencing moderate to severe cash flow problems.

A recent American Bankers Association survey of agricultural banks indicates a continued deterioration in farm loan delinquencies, liquidations, and bankruptcies. For the year ending June 1984, delinquency rates at agricultural banks on farm loans rose to 4.5 percent, up from 3.7 a year earlier. For the same period, the incidence of bankruptcies, while still relatively low, has more than doubled, rising from 1.1 to 2.6 percent.

The nominal value of farm assets, including farm households, is expected to fall 0.8 percent in 1984, after rising 1.8 in 1983. Forecasts also indicate that the nominal value of farm assets will drop by about 0.5 percent in 1985. Farm real estate values are expected to delcine 2 percent in 1984 and are forecast to fall another 1.5 in 1985. Two important factors dampen the demand for farmland: the current low returns to agriculture, and more important, the concern that returns will not increase in the near future.

Total farm debt has also declined in 1984, down 1.2 percent from 1983. This is the second consecutive year of decline since farm debt peaked at $215.3 billion on January 1, 1983. Total farm debt is expected to decline about 0.2 percent by the beginning of 1986. The decline in total farm debt for this year is distributed between a 0.7-percent decline in real estate debt and a 1.7-percent fall in nonreal estate debt.

The financial condition of agriculture lenders has also worsened because a growing share of farmers are not able to meet their financial obligations. The conditions have created higher lending costs and a reevaluation of credit standards and loan policies. Agricultural lenders in areas where farm cash flow problems are most severe will show increasing signs of stress in 1985

GENERAL ECONOMIC CONDITIONS

1984 in Review

Strong U.S. economic growth over the year stimulated domestic demand for farm products, while low inflation moderated increases in farm costs. On the other hand, an increasingly strong dollar, an uneven world economy, and continued large foreign agricultural production contributed to weak foreign markets.

During 1984, the U.S. economy continued to rebound by showing its strongest growth in over 30 years. For the year, the real gross national product (GNP) rose about 7 percent, industrial production was up about 10 percent, and civilian employment increased about 4 percent. In fact, growth was so strong during the first half of the year that the Federal Reserve feared a potential resurgence of inflation and began to tighten monetary growth. This caused interest rates to rise during the spring and summer. Economic growth then slowed considerably during the second half of the year, inflation remained low, and interest rates tapered.

Real disposable personal income grew about 6 percent, indicating an exceptionally strong year for consumer demand. Personal consumption expenditures on nondurable goods--a major indicator of domestic demand for farm products--rose about 7 percent. When adjusted for inflation, real consumption of nondurables was up a strong 5 percent.

Overall, domestic consumer demand for agricultural products showed considerable strength in 1984. Retail sales at food and grocery stores rose about 7 percent, while spending at eating and drinking establishments was up 10 percent. This highlights the fact that consumer demand for restaurant products is more income-elastic than it is for grocery store items.

Yet problems remained, largely due to the foreign trade sector. The U.S. dollar continued to rise against major foreign currencies and was up about 6 percent on a trade-weighted basis. The strong dollar not only dampened export sales by causing U.S. products to be higher priced in foreign markets, it also boosted import demand by causing foreign products to be more competitively priced in the U.S. market.

For example, while retail sales and consumer expenditures on clothing and shoes were up nearly 10 percent in nominal terms and 9 percent in real terms, this did not result in increased farm-level demand for cotton. Instead, textile imports surged to meet the increased demand. This problem spread throughout export and import-competing industries, as the U.S. set a record merchandise trade deficit of over $100 billion for 1984. In real terms, merchandise imports rose over 30 percent, while exports rose less than 7 percent.

In addition to the strong dollar, a spotty world economic recovery held down growth in exports. Non-U.S. gross domestic product (GDP) was up only about 3 percent in real terms. Only Japan and a few selected lesser developed countries (LDC's) enjoyed a U.S.-style boom. Canada and major industrialized nations in Europe showed weak growth and many debt-ridden LDC's continued to decline.

Overall, 1984 was one of the worst years for foreign trade in U.S. history. There are, however, positive impacts of a trade deficit. Foreign economic growth is stimulated by U.S. demand for goods produced abroad. This set up the so called "locomotive effect," as the U.S. recovery pulls along other countries. Also, the current account deficit has resulted in record capital inflows to even out the balance of payments. The increased flow of foreign capital has helped to finance the Federal budget deficit and has prevented interest rates from rising to much higher levels than if the budget deficit had to be internally financed.

Finally, domestic inflation has been held down by the strong dollar, helping to minimize increases in farm costs. Import prices were held down, as the implicit deflator for merchandise imports fell 2.5 percent in 1984 following a 5.3-percent drop in 1983. Perhaps more important, declining import prices put downward pressure on the entire U.S. wage/price structure through the threat of foreign competition. This has affected prices of nonfarm origin inputs from fertilizer to tractors. Farmers have benefited from a

strong dollar on the cost side even though they have been hurt on the demand side.

Outlook for 1985

The economic recovery is expected to continue at a more moderate pace in 1985, with most forecasts showing real GNP up 3 to 4 percent. Gains in consumption and disposable personal income should also be around 3 percent. This indicates some further expansion in domestic demand for farm products, but at only about half of 1984's increase.

Foreign economic activity is generally forecast to increase at about the same pace of 1984. The dollar could either strengthen or weaken slightly from 1984's average, with the most likely scenario showing no major change. Thus, export demand for major U.S. farm products will not match the increase in production. Export volumes are expected increase slightly from 1984.

On the cost side, inflation is expected to stay low, perhaps between 4 and 5 pecent. This increase represents a maximum increase of about 1 percentage point over 1984's rate and should contribute to only moderate increases in farm costs, since prices paid by farmers tend to move one-for-one with general inflation over time.

Finally, a consensus of analysts expect interest rates to trend upward over the year if large Federal budget deficits clash with an expected moderately tight monetary policy. Current forecast suggest that the Federal deficit will be about $200 billion and the growth of the two most widely used definitions of the money supply, M1 and M2, are preliminarily targeted at 4 to 7 and 6 to 8.5 percent, respectively, for 1985. By year's end, short- and long-term rates are expected to be 100-200 basis points above 1984 yearend levels. Overall, demand and supply side linkages from the general economy suggest another potentially difficult year for the farm sector.

FARM SECTOR AGGREGATES

In 1984, the U.S. farm sector showed signs of benefiting from the general economic recovery; however, the gains did not offset losses resulting from continued excess supplies. High dollar values tempered foreign demand. Commodity prices increased less than those in other sectors, meaning that sector returns will continue to be under pressure. And while cropland committed to production returned to normal levels, net investment in farm capital continues to decline. The sector continues to be a major source of foreign exchange earnings because of its positive balance of trade even though the trade deficit in other sectors continued to grow.

Aggregate Supply and Related Income Flows

After severe drought and PIK-reduced acreages led to an 18-percent drop in farm output in 1983, a return to a near normal weather pattern and a smaller acreage retirement program in 1984 allowed the sector to operate with normal cropland levels. The sector responded with a 26-percent increase in crop production, while livestock production is about the same. This level of crop production is more than market demand will absorb. So stocks are being rebuilt and crop prices will soften some in 1985 in order to move the larger crop volumes. Crop cash receipts are not expected to increase much in 1985, after showing little growth in 1984.

An important point for the farm marketings and farm cash-flow picture is the uniqueness of 1983. Land and associated crop inputs were withdrawn or withheld from the sector because of drought and acreage controls, and income flows were maintained by liquidating stocks. Because of the lower production, the farm share of GNP dropped from 2.7 percent in 1981 to 1.9 percent in 1983. In 1984 and 1985, the farm sector will be operating closer to normal levels of production, and its relative contribution to the Nation's output should rise. With this rise, more normal farm input demands and reliance on current year production for income flows should return.

Aggregate Demands and Their Impacts

The supply of farm products in 1984 and 1985 should be more than adequate to meet

market demands. Prospects for significant increases in aggregate demand in the near term are not bright. Domestic food demand is the largest market for U.S. farm products. Per capita food consumption has been within 20 pounds of the 1,380 pounds retail weight equivalent for the past 26 years. Thus, aggregate domestic food demand in general grows with population.

Agricultural exports, the next largest market for U.S. farm products, particularly crops, is a more volatile demand. But in the near term, the strong U.S. dollar and large worldwide supplies of traded farm commodities temper any near term expectations of strength from this market. After 4 straight years of declines, export volumes may increase, but soft world prices are expected to keep 1985 export values close to 1984 levels.

The usual farm sector adjustment to stagnant aggregate demand and increased supplies is stock accumulation and lower prices; 1984 and 1985 will be no exception. The value of farm inventories is expected to rise $6 to $10 billion in 1984 and the Index of Prices Received by Farmers for all commodities is likely to drop 1 to 3 percent in 1985. This means that owners of factors of production in the sector will continue to receive returns less than those earned elsewhere in the economy.

Figure 1 shows annual changes in the implicit price deflator for GNP and gross farm product (GFP). (GFP is the value of goods and services originating in the farm sector.) Both GNP and GFP can be viewed as the sum of factor payments in the U.S. economy and the farm sector, respectively.

When changes in the deflator for GFP are lower than changes in GNP, the market is signaling that farm sector factor prices are growing less rapidly than factor prices in general. Under these circumstances, production resources will move away from the farm sector. In figure 2, this is seen occurring in farm investment. Defining net investment as gross capital expenditures less depreciation, net investment started dropping after 1979, the last year the GFP deflator rose more than the GNP deflator. While net investment is but one indicator of factor commitment, its performance since 1979 suggests the farm sector is adjusting to economic signals.

Farm Impacts on General Economy

While the general economy has been accumulating record trade deficits, the agricultural trade balance has continued to be positive in the fiscal year just ended. If we become a net debtor nation, agriculture will become important as a source of foreign exchange to pay our international debts. The positive agricultural trade balance should continue.

Farming is a major source of interest payments in the general economy. While the

Figure 1

GNP and Farm Deflators

Percent change

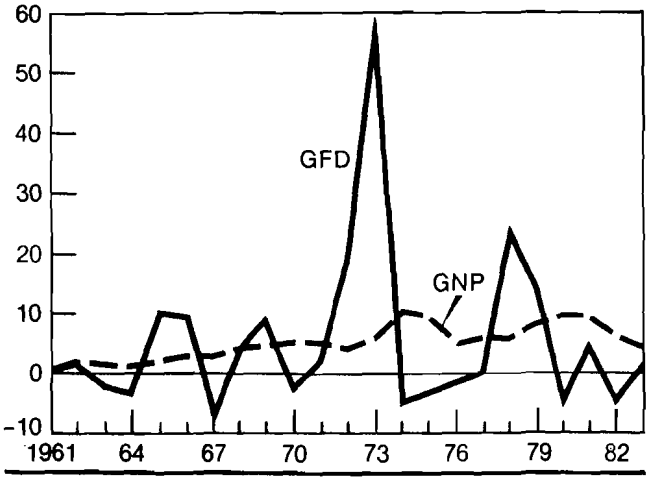
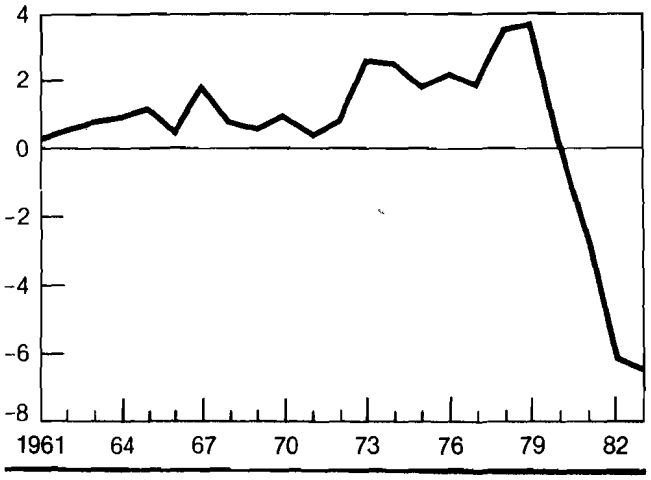


Figure 2

Farm Net Investment

$ bil.



farm sector accounts for around 2 percent of GNP, its payments of interest account for 7 percent of net interest payments by businesses in the U.S. economy. This share may have dropped some in 1984 because total farm debt dropped, but the farm sector is likely to continue to pay more interest than its relative size in the economy.

FARM FINANCIAL CONDITIONS

A prolonged period of persistent pressure on farm incomes and net worth is causing severe cash flow problems for a growing number of commercial-sized family farmers. Many of these farmers were considered to be high enough on the economic ladder less than 2 years age to be safe from financial stress. Their income, profitability, and resources are no longer adequate for many to meet commitments for farm expenses, debt service, taxes, and family living. The drastic change is occurring largely because of the inability to meet loan commitments incurred in the 1970's, and the need to refinance such debt at significantly higher interest rates. Many farmers continue to receive some forbearance on the debt they owe. However, some will no longer have debt servicing assistance available as their financial position worsens.

There are no hard data on the precise number of farm businesses experiencing financial stress, the degree of stress, or the circumstances leading to stress. However, the survey data available permit some estimates that serve as useful proxies. These estimates help set the outer "ballpark" boundaries within which the problems fall. In this report, will rely heavily on results of the 1983 Farm Production Expenditure Survey conducted by USDA and the American Bankers Associations' 1984 Farm Credit Survey.

Lenders and financial analysts agree that in today's circumstances a commercial farmer having debts equal to 40 percent or more of the value of his assets is highly likely to be feeling financial stress. Farms with debts equal to 70 percent or more of asset values are highly likely to face partial or total liquidation or will require major restructuring of debts and assets to survive.

Farm Financial Stress

Farm Operators Under Financial Stress by Sales Class

At the beginning of 1984, 6.6 percent of all farm operators had debt/asset ratios of 70 percent or more. This is about twice the percentage of farmers in this category 4 years earlier (table 1). Over 17 percent of all farm operators had debt/asset ratios of 40 percent or higher on January 1, 1984. This compares to 12.2 percent in 1980. Higher farm debt and lower asset values in many regions of the country pushed many farmers into the higher leverage situations.

The greatest concentration of very highly leveraged farmers occurs in the top sales classes (table 2). Over 15 percent of the farmers with sales of $500,000 or more have debt/asset ratios of 70 percent or higher. The percent of operators with very high financial leverage, in the $250,000 to $499,999 and $100,000 to $249,999 sales classes, is 12.6 percent and 9.2 percent, respectively. In the smaller sales classes, the percentage of highly leveraged farmers drops considerably.

Table 1--Distribution of Farm Operators by Farm Type and Debt/Asset Ratio Class, January 1, 1980 and 1984

Farm Type	Debt/Asset Ratio			
	Very high (over 70%)		High to very high (over 40%)	
	1980 1/	1984 2/	1980 1/	1984 2/
Cash grain	4.2	7.6	15.6	21.8
Field crops	4.0	8.9	13.3	20.7
Vegetable and melon	5.0	6.3	13.6	24.1
Fruit and tree nut	1.9	4.0	7.8	11.7
General crop	2.4	4.6	9.6	11.3
General livestock	2.7	7.1	9.9	17.7
Dairy	2.2	8.7	13.3	26.5
Poultry	5.6	17.7	19.4	35.6
All farms	3.4	6.6	12.2	17.7

1/ Source: 1979 Farm Finance Survey, Census of Agriculture. Data compiled by ERS, USDA.
2/ Source: 1983 Farm Production Expenditure Survey, USDA.

Table 2--Distribution of Farm Operators, Debt, and Assets by Sales Class and Debt/Asset Ratio, January 1, 1984

Sales Class	Debt/Asset Ratio: Very high (over 70%)	Debt/Asset Ratio: High to very high (over 40%)
	Percent of Total Operators	
$500,000 and over	15.3	32.7
$250,000 to $499,999	12.6	31.6
$100,000 to $249,999	9.2	27.3
$50,000 to $99,999	8.7	23.4
$25,000 to $49,999	7.9	17.6
$10,000 to $24,999	4.0	11.9
Under $10,000	4.5	12.6
	Percent of Debt	
$500,000 and over	30.1	60.3
$250,000 to $499,999	23.8	52.5
$100,000 to $249,999	20.4	56.4
$50,000 to $99,999	21.9	57.2
$25,000 to $49,999	28.5	52.8
$10,000 to $24,999	23.5	53.1
Under $10,000	21.2	58.1
	Percent of Assets	
$500,000 and over	5.5	16.4
$250,000 to $499,999	5.9	19.5
$100,000 to $249,999	4.3	18.6
$50,000 to $99,999	4.1	16.9
$25,000 to $49,999	3.7	10.0
$10,000 to $24,999	1.8	6.4
Under $10,000	1.5	7.4

Source: 1983 Farm Production Expenditure Survey, USDA.

A similar pattern emerges if the focus is broadened to include farmers with debt/asset ratios of 40 percent or above. Roughly 30 percent of the sector's farms with sales of at least $100,000 have debt/asset ratios of 40 percent or more. These numbers suggest that between 20 and 30 percent of all commercial farmers (sales over $100,000) are facing financially stressful conditions, requiring decisive steps to improve cash flow and profits.

A subset of these farmers, numbering between 5 and 15 percent of all commercial farmers, are likely experiencing severe financial stress. While these high to very highly leveraged commercial farmers represent only about 5 percent of the total, they account for roughly 23 percent of cash receipts and 24 percent of production expenses. Hence, the balance sheet adjustments and general belt tightening required by these highly to very highly leveraged operators over the next few years could have a substantial impact on agribusiness.

Farm debt owed by high to very highly leveraged operators is distributed fairly evenly across sales classes. But the $500,000 and over sales class has a greater concentration of debt among high and very highly leveraged farmers--30.1 percent percent in the 70 percent and over debt/asset category, and 60.3 percent in the 40 percent and over debt/asset ratio categories. However, these very large farms are generally very efficient and have high average net incomes. Many of these farms rent a significant proportion of the land they operate and thus may have more productive capacity than their asset holdings indicate.

Farm Operators Under Financial Stress by Type of Farm

The degree of financial difficulty varies significantly by type of farm (table 3). Poultry, field crops, and dairy farms have the highest concentration of farmers in the very high debt/asset ratio category (70 percent or higher), with 17.7, 8.9, and 8.7 percent, respectively. However, these farmers are earning some of the highest net cash incomes in the sector, tobacco and other field crop farms excepted. Additionally, most poultry operations are highly integrated and represent a low risk to lenders. Dairy producers have also been a low risk to lenders because of guaranteed price supports. Producers of field crops are often able to support higher debt to asset ratios because of the income stabilizing effects of price and income supports.

Hence, these higher income farms may not be in as difficult a financial position as other farms with a lower concentration of high and very highly leveraged operators. For example, 7.6 percent of cash grain farms and 7.1 percent of general livestock farms (cattle, hogs, and sheep) are very highly leveraged. The average net cash income for these farms is substantially lower than poultry, cotton, and dairy farms, and there is a greater incidence of problems in meeting financial obligations. Farms with the fewest very highly leveraged operators include general crop farms (4.6 percent) and fruit and tree nut farms (4 percent).

Poultry, dairy, and vegetable and melon farms have the highest concentration of high and very highly leveraged operators, with 35.6 percent, 26.5 percent, and 24.1 percent, respectively. Again, the income characteristics of these farms suggest that they can support higher debt ratios than other types of farms. That is not to say that none of the farmers in these categories are experiencing difficulty. It does suggest, however, that the degree of difficulty may not be as great as for lower-income farmers with comparable degrees of financial leverage.

Table 3--Distribution of Farm Operators, Debt, and Assets by Farm Type and Debt/Asset Ratio, January 1, 1984

Region	Debt/Asset Ratio: Very high (over 70%)	Debt/Asset Ratio: High to very high (over 40%)
	Percent of Total Operators	
Cash grain	7.6	21.8
Field crops	8.9	20.7
Vegetable and melon	6.3	24.1
Fruit and tree nuts	4.0	11.7
General crop	4.6	11.3
General livestock	7.1	17.7
Dairy	8.7	26.5
Poultry	17.7	35.6
Other livestock	9.1	21.7
All farms	6.6	17.7
	Percent of Debt	
Cash grain	20.8	54.2
Field crops	31.4	58.8
Vegetable and melon	34.6	61.8
Fruit and tree nuts	17.5	35.3
General crop	25.9	52.8
General livestock	23.1	55.2
Dairy	26.4	63.3
Poultry	52.9	81.0
Other livestock	10.3	59.2
All farms	23.7	56.2
	Percent of Assets	
Cash grain	4.5	18.7
Field crops	6.1	16.8
Vegetable and melon	6.0	18.1
Fruit and tree nuts	2.0	5.9
General crop	1.9	6.5
General livestock	3.8	13.3
Dairy	6.9	25.0
Poultry	10.4	23.0
Other livestock	1.0	12.1
All farms	3.9	14.5

Source: 1983 Farm Production Expenditure Survey, USDA.

Almost 22 percent of all cash grain farmers had debt-asset ratios over 40 percent. This ranks cash grain farmers just below vegetable and melon farms in concentration of high to very highly leveraged operators and, given the lower income earned by cash grain farmers in recent years, suggests that they are among the farms experiencing the most difficult financial conditions.

General livestock farms rank relatively low in percentage of farmers with debt/asset ratios over 40 percent. However, the 17.7 percent that fall into this category is still a substantial number, particularly considering these farms' relatively poor income performance over the past few years.

Farm Operators Under Financial Stress by Region

The highest concentration of very highly leveraged farm operators appears in the Mountain States, Northern Plains, Lake States, and Southeast (table 4). The regions with the lowest percentage of farmers with very high debt/asset ratios are the Northeast (3.9 percent), Appalachian (4.8 percent), and the Pacific States (5.5 percent).

If we consider both high and very highly leveraged farmers, the ranking changes somewhat. However, the Lake States and the Northern Plains remain at the top, with 22.5 and 22.3 percent of the farmers in those regions carrying debt ratios over 40 percent. The Appalachian and Delta States had the lowest concentration of farmers in the high to very highly leveraged category, 12.0 and 14.4 percent, respectively.

The reasons for various regions, rankings are not completely clear. Developments in farmland markets recently do not explain everything. It is likely the large drop in farmland values in the Lake States and the Northern Plains contributed to the high debt to asset ratio of many farmers in those regions. But while land values held relatively stable in most of the Mountain States, this region contains many high leveraged farmers. Possibly the importance of the livestock industry explains the high ranking of the Mountain States.

On the other hand, several years of drought in the Southeast probably contributed

to the high percentage of very highly leveraged farmers in this region. These regional data mask great State-to-State variations within the regions. The visibility of financial stress has been greatest in the western corn belt States that experienced rapid increases in land values in the late 1970's and sharpest declines in land values since 1981.

The distribution of farm debt differs markedly from that of farm operations. Like the type of farm distributions, debt is more highly concentrated in the highly leveraged farm operations. This again suggests that farm lenders may also face a difficult financial situation, particularly lenders whose portfolios are dominated by agriculture. Although the Delta States and the Southeast rank low in percentage of farmers with debt/asset ratios of 40 percent or more, they rank one and two respectively in percent of debt owed by farmers in that category. About 64 percent of the farm debt in those regions is owed by high to very highly leveraged farmers. Over 63 percent of the debt in the Lake States falls in this category.

The Delta and Southeast also have the highest percentage of debt owed by very highly leveraged farmers, 38.0 and 35.6 percent, respectively. The Corn Belt and the Northeast have the least, with 15.6 and 17.9 percent, respectively. Apparently, a small number of farmers carry very high debt loads in the Delta and Southeast, producing difficult credit problems for lenders in those regions.

Almost 4 percent of all farm assets are owned by very highly leveraged farmers. But over 14 percent are owned by farmers that are considered to be either in high or very highly leveraged positions. The Lake States and the Northern Plains have the highest percentage of assets in both categories--each with about 5.5 percent in the 70 percent and over category and about 20 percent in the 40 and over group. The percentages in the other regions range from 2.8 percent in the Northeast and Pacific to 5.1 in the Delta States for the very high leverage category, and 8.5 in the Southern Plains to 16.7 in the Corn Belt for farmers in the high to very highly leveraged class.

The principal implication of the distribution of farm assets is that a significant percentage of the farm assets in many regions of the country are owned by high to very highly leveraged farmers, many of whom will be under pressure to sell assets to reduce debt and improve cash flow. This suggests continued softness in asset markets in agriculture, primarily those for farmland and machinery and equipment. By this criterion, some regions are in better shape than others.

However, with very thin markets for farmland, in normal times only 2 to 3 percent of all farmland changes hands in a given year,

Table 4--Distribution of Farm Operators, Debt, and Assets by Region and Debt/Asset Ratio, January 1, 1984

Region	Debt/Asset Ratio: Very high (over 70%)	Debt/Asset Ratio: High to very high (over 40%)
	Percent of Operators	
Northeast	3.9	19.8
Lake States	8.0	22.5
Corn Belt	5.9	17.8
Northern Plains	8.4	22.3
Appalachian	4.8	12.0
Southeast	7.9	15.0
Delta States	6.5	14.4
Southern Plains	6.9	15.9
Mountain	9.1	19.2
Pacific	5.5	15.8
United States	6.6	17.7
	Percent of Debt	
Northeast	17.9	58.6
Lake States	26.5	63.3
Corn Belt	15.6	51.6
Northern Plains	25.9	60.2
Appalachian	25.6	49.7
Southeast	35.6	63.9
Delta States	38.0	64.6
Southern Plains	27.3	52.1
Mountain	24.3	52.7
Pacific	22.5	51.6
United States	23.7	56.2
	Percent of Assets	
Northeast	2.8	15.0
Lake States	5.8	20.3
Corn Belt	3.1	16.7
Northern Plains	5.5	20.0
Appalachian	3.1	9.1
Southeast	4.3	11.0
Delta States	5.1	12.5
Southern Plains	3.1	8.5
Mountain	4.2	14.1
Pacific	2.8	10.7
United States	3.9	14.5

Source: 1983 Farm Production Expenditure Survey, USDA.

it would not take much land coming on the market to lead to continued weak prices.

Delinquencies, Farm Liquidations, and Bankruptcies

Financial stress in agriculture manifests itself in a variety of indicators. A recent American Bankers Association Survey of agricultural banks indicates continued deterioration in such indexes as farm loan delinquencies, liquidations, and bankruptcies. The bankers surveyed indicated that after falling from 3.9 percent in June 1982 to 3.7 percent in June 1983, delinquencies on their farm loans rose to 4.5 percent in 1984 (table 5). The largest increase occurred in the Corn Belt and Northeast. Bankers in the South have experienced declining delinquency rates since June 1982, when they averaged 4.6 percent. In June 1984, delinquency rates at southern agricultural banks averaged 4.0 percent, according to the survey. Delinquencies were highest in dairy and cotton areas (table 6). Only in the hog producing areas did delinquencies drop from June 1983 to June 1984. This followed an increase in delinquencies during the previous year, while areas with other types of farming show improved delinquency rates.

Bankers indicated that nationwide, about 3.6 percent of all farmers went out of business. This compares with about 2.2 percent during each of the previous two periods. About 2.4 percent left farming because of the economic environment, up from 1.4 percent reported in 1983. It appears the Northeast and the Plains deteriorated most. The percentage of farmers who went out of business did not vary substantially by type of farming area. The largest increase occurred in areas where feedlots and hog production dominate.

Bankruptcies have more than doubled from mid-1983 to mid-1984, according to the survey. While still a relatively low percentage, rising nationally from 0.75 percent in 1982 to 1.1 percent in 1983 to 2.6 percent in 1984, the trend is a source of concern.

In spite of their declining delinquency rates, southern agricultural banks report a sharp rise in bankruptcies, to 4.9 percent in 1984 from 1.9 percent the previous year. Given the nature of the survey responses in the South, it appears that most of the bankruptcies reported by the banks are associated with customers of other lenders. Although sharp increases in bankruptcies occurred in all the major regions of the country, the South showed the highest, suggesting considerable stress in some sectors of the region. Only in hog production areas did the bankers believe that bankruptcy rates dropped since June 1983. This occurred in spite of a sharp rise in farm liquidations. Apparently hog producers are liquidating their businesses without recourse to bankruptcy. At the same time, this clears loans from the books and causes delinquency rates in these areas to drop.

Outlook for 1985

The outlook for 1985 suggests farmers face a prolonged period of restricted debt servicing capability. The most vulnerable types of farms include cash grain and general livestock farms.

A major uncertainty is the dynamics of the adjustment process in farm asset markets. That is, to what extent will farmland prices overadjust due to the current stress in some areas? How will lenders who take possession of farm assets handle their disposition to prevent asset prices from falling below equilibrium levels? There are many farmers with small debts who will have a good crop this year and who will show very good returns above cash costs. Some of these farmers are watching for good land buys and may provide some of the needed support for the land market.

Developments of the past few years should continue in 1985. The concentration of high leverage farmers has increased significantly over the past 4 years, suggesting continued higher rates of farm liquidations.

Over 56 percent of all farm debt is owed by farmers with debt/asset ratios of 40 percent or more. Nearly 25 percent is owned by very highly leveraged farmers. Most of these farmers are undergoing some degree of financial stress and will have difficulty servicing their debt over the next few years if prices do not improve. Hence, it is likely that many farm lenders will continue to have problems with their agricultural portfolios.

Table 5--Indices of Financial Stress in Agriculture, by Region[a]

	United States			Northeast[1]			Corn Belt[2]			South[3]			Plains[4]			West[5]		
	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984
	Percent																	
Farm Loan volume delinquent 30 days or more	3.9	3.7	4.5	3.4	3.5	5.3	4.0	3.5	4.3	4.6	4.3	4.0	3.7	3.5	4.1	5.0	4.5	5.0
Farm borrowers who had bank financing discontinued (during year ending in June)	3.3	2.9	3.4	2.8	2.7	3.5	2.8	2.5	3.0	6.4	4.4	4.5	3.3	3.0	3.7	3.3	3.3	2.8
Farm borrowers who banks anticipate discontinuing (during year ending next June)	4.4	2.0	3.1	3.5	1.8	3.2	4.2	1.5	3.0	7.7	2.7	2.4	4.5	2.6	3.4	2.5	2.1	3.1
Farm borrowers loaned-up to practical limit in June	31.9	28.1	32.8	26.1	26.7	30.1	27.3	26.0	31.2	49.0	40.5	45.9	31.9	27.0	30.7	40.9	32.1	39.5
Farm borrowers expected to be loaned-up to practical limit next June	34.8	28.6	33.9	29.7	27.2	31.8	31.4	26.2	31.6	50.4	40.6	46.3	34.2	28.0	32.0	41.9	32.2	42.1
Farmers in bank lending area who went out of business (during year ending in June)	2.2	2.3	3.6	1.8	2.0	3.4	1.9	2.2	3.6	3.9	3.1	4.4	2.1	2.4	3.8	2.2	2.3	3.0
Farmers in bank lending area who went through bankruptcy (during year ending in June)	.75	1.1	2.6	.37	1.0	2.6	.73	1.0	2.3	1.6	1.9	4.9	.81	.94	2.3	.47	1.2	2.3

[1] CT, DE, DC, ME, MD, MA, MI, MN, NH, NY, NY, PA, RI, VT, WI
[2] IL, IN, IA, MO, OH
[3] AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV
[4] KS, NE, ND, OK, SD, TX
[5] AK, AZ, CA, CO, HI, ID, MT NV, NM, OR, UT, WA, WY

[a]Source: American Bankers Association mid-year Farm Credit Survey, 1982, 1983, 1984.

Table 6--Indices of Financial Stress in Agriculture, by Type of Farming Area[a]

	Feed, Food Crop, Soybeans			Dairy			Cow-Calf			Beef Feedlots			Hog and other Livestock			Cotton		
	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984
	Percent																	
Farm Loan volume delinquent 30 days or more	4.0	3.5	4.4	3.6	3.8	5.3	4.5	4.5	4.8	3.4	3.7	4.5	3.0	3.8	3.3	5.2	3.9	6.5
Farm borrowers who had bank financing discontinued (during year ending in June)	3.1	2.7	3.4	3.4	3.1	3.2	2.9	3.9	3.1	2.8	2.2	5.1	2.8	2.6	2.7	5.2	3.5	3.7
Farm borrowers who banks anticipate discontinuing (during year ending next June)	4.4	1.9	3.2	4.4	1.9	2.7	4.0	2.4	3.3	3.8	1.6	4.7	7.1	3.7	2.9	5.7	2.5	1.8
Farm borrowers loaned-up to practical limit in June	30.7	27.0	33.0	25.4	25.7	27.4	35.0	32.5	34.9	37.9	27.8	43.4	27.4	29.8	25.7	41.2	33.9	56.3
Farm borrowers expected to be loaned-up to practical limit next June	34.5	27.2	33.9	27.8	26.9	28.9	36.4	34.5	37.1	39.5	27.3	46.6	30.7	29.0	26.2	41.3	34.6	58.0
Farmers in bank lending area who went out of business (during year ending in June)	2.2	2.2	3.6	1.8	2.6	3.5	2.3	2.4	3.5	1.7	1.9	3.9	1.6	1.9	3.5	4.8	2.8	3.0
Farmers in bank lending area who went through bankruptcy (during year ending in June)	.72	1.0	2.2	.51	.91	3.9	.92	1.3	2.0	.37	.47	3.1	.66	2.2	1.5	1.7	.73	2.4

[a]Source: American Bankers Association mid-year Farm Credit Survey, 1982, 1983, 1984.

There will be continued downward pressure on farm asset values, particularly those of farmland and machinery and equipment. Many debt burdened producers will have to restructure their balance sheets over the next few years to improve cash flow and profitability. This will require reducing debt and selling assets to generate cash.

Farm Income

Although the PIK program provided much needed temporary relief to many farmers during the past year, economic conditions in the farm sector remain weak. Current prospects indicate little improvement ahead:

- land values will likely remain soft
- commodity prices will generally stay below year-earlier levels
- cash flow may continue to be tight
- interest rates will probably remain high by historical standards and
- the economic growth and thus demand for agricultural products may slow.

Current dollar net cash income, which was record high in 1983, largely because of PIK, is expected to fall in 1984 and again in 1985, as farm output rises and supplies begin to build. The excess supply situation will be the main reason for lower net cash income in the coming year.

Some potential bright spots in the agricultural economy include:

- an expected increase in export volume in 1984/85
- continued small increases in farm input prices as inflationary pressures in the general economy remain moderate and
- lower feed prices, which may hurt cash grain farmers but should reduce costs for livestock producers.

The impact of PIK was still felt strongly in 1984, as 1983 PIK crops continued to be disbursed into the second quarter. The safety net provided by deficiency payments and CCC loans will likely remain very important to farmers through 1985.

Farm Prices

Farm prices for all commodities in 1984 averaged about 5 percent higher than in 1983. Crop prices will likely average 8 percent higher because strong prices for fruits and nuts (+45 percent), cotton (+7 percent), and oil crops (+7 percent) outweighed lower prices for food grains (-3 percent).

Livestock and products likely averaged 3 percent more this year than a year earlier. However, prices received for dairy will fall 1 percent. In 1985, prices for all farm products may decline as much as 4 percent. Lower crop prices will likely outweigh slightly higher livestock prices.

Prices paid by farmers for all items rose less than 3 percent in 1984. Prices paid for inputs with farm origin (feed, feeder livestock, seed) remained fairly stable; higher seed and slightly higher feed prices offset lower feeder livestock prices. Manufactured (nonfarm-origin) inputs rose 2 percent in 1984, mostly because of higher machinery and fertilizer prices. Of all inputs, seed and autos/trucks rose the most, 7 percent each. In the year ahead, prices paid by farmers for all items are expected to rise 2 to 4 percent, as nonfarm input prices rise faster than prices for farm-origin inputs. Feeder livestock and autos and trucks are expected to rise the most in 1985.

Total farm output in 1984 likely rose 16 percent from the drought- and PIK-shortened 1983 output. Sharply bigger crops of feed grains, cotton, and oilseeds were the most important in raising overall crop output. The production of livestock and products fell slightly from the record 1983 level, as lower milk output and stable meat animal production outweighed stronger poultry production.

In 1985, total farm output is expected to rise 0 to 4 percent on the strength of larger crops. Livestock production will probably about equal that of 1984, as expanded poultry output offsets lower meat animal production. Milk output is not expected to change much from 1984.

Cash Receipts

Total cash receipts from 1984 marketings of farm products rose 1 to 3 percent from 1983's $138.7 billion (table 7). Crop cash receipts are expected to have increased 0 to 2 percent from the low $69.5 billion in 1983. Crop receipts may have risen because of stronger prices, especially during the first half of the year. The stronger first-half prices outweighed lower overall marketing volume caused by the low 1983 crop output.

Livestock cash receipts for 1984 marketings rose 2 to 4 percent from 1983's $69.2 billion. The rise was mostly due to stronger prices received; overall marketing volume was about the same as in 1983. Livestock receipts will likely exceed the 1983 total for all categories, except milk and hogs.

For the year ahead, total cash receipts are expected to increase 1 to 5 percent, as crop receipts climb 1 to 5 percent and livestock receipts move up 0 to 4 percent. Livestock receipts will likely depend on slightly stronger volume and a small rise in prices. Without extreme weather in the growing season, crop output could exceed the 1984 total. The resulting increased marketing volume will then be the key to higher crop receipts, as average prices decline. Crop receipts are forecast to increase somewhat, with receipts for corn, sorghum, rice, cotton, and wheat outweighing expected declines in soybeans, peanuts, and tobacco.

Table 7--Cash Receipts, 1981-85

	1981	1982	1983	1984F	1985F
	Billion dollars				
RECEIPTS					
Crops 1/	73.3	74.6	69.5	68-72	70-74
Food gr.	11.6	11.5	10.0	8-10	9-11
Feed gr./hay	17.1	18.3	16.8	15-17	15-19
Oil crops	13.9	14.0	13.3	13-15	11-15
Others	30.7	30.8	29.4	30-32	30-34
Livestock	69.2	70.1	69.2	70-74	71-75
Meat animals	39.8	40.9	38.8	40-42	40-44
Poultry/eggs	9.9	9.5	10.0	11-13	10-12
Dairy prod.	18.1	18.3	18.8	17-19	17-19
Others	1.3	1.4	1.6	1-2	1-2
Total	142.5	144.8	138.7	139-143	142-147

F = Forecast.
1/ Includes net CCC loans.

Food grain receipts are expected to have declined 5 to 7 percent in 1984 as wheat receipts likely fell 6 to 8 percent, outweighing a 4- to 6-percent gain in rice receipts. Wheat receipts probably fell because of both reduced marketings (caused by the lower 1983 output) and lower prices. Rice receipts may have risen because of higher prices earlier in the year and increased marketings from this year's crop. In the coming year, receipts from food grains could rise somewhat, with rice receipts, on the strength of increased marketings, rebounding substantially and wheat receipts increasing modestly.

Feed grain cash receipts probably fell 6 to 9 percent in 1984, mostly because of a one-tenth drop in corn receipts. Although corn production rose 81 percent in 1984, most of this will be marketed in 1985. Corn marketings in 1984 were down because of the very small 1983 crop. These lower marketings likely outweighed somewhat higher prices, leaving 1984 receipts lower. In 1985, corn receipts are expected to rebound despite lower prices, with the volume of marketings improving. Sorghum receipts are not expected to have exhibited much change in 1984, but they will likely increase measurably in 1985 as marketings improve.

Government Payments

As in 1983, Government payments contributed significantly to 1984 income. Preliminary indications are that direct Government payments (cash plus PIK disbursements) in 1984 totaled $7 to $10 billion, with the 1983 record of $9.3 billion well within range.

Advanced payments on the 1985/86 crop likely rose during the final quarter of 1984. These advances supplemented the 1984 cash flows of wheat, rice, feed grain, and cotton farms. Thus, total 1984 cash payments (deficiency, diversion, storage, and conservation programs) probably totaled $3 to $5 billion, compared with 1983's current dollar record of $4.1 billion. Milk diversion payments (most of which are financed by operators through milk marketing assessments) and wheat deficiency and diversion payments will likely account for a major portion of total 1984 cash payments.

Government payments during first-half 1984 totaled about $5.4 billion, with about 83 percent in PIK disbursements. The value of PIK wheat likely totaled about $300 million during second half 1984. Producers may elect not to take possesion of a small amount of 1984 PIK wheat until January 1985.

Cash Government payments under the various wheat programs totaled about $300 million during first-half 1984, with diversion payments accounting for 92 percent. Wheat deficiency payments, most of which are expected to have been disbursed during December, probably exceeded $1 billion in calendar 1984. The cotton and rice programs each totaled over $100 million during first-half 1984, with most being 1983-crop deficiency payments. Payments under the Wool Act (for wool sold in 1983) totaled about $117 million this year, up from $84 million a year earlier.

Advanced deficiency and diversion payments, which farmers may request when they sign up for 1985 farm programs, may have shifted nearly $1 billion in Government payments to the fourth quarter of 1984. Because signup extends until March 1985, advances could also provide additional cash flow in first-quarter 1985. Total potential advanced payments on the 1985/86 crop are about $2.6 billion, although it is highly unlikely that all will be taken in advance.

In 1985, direct Government payments will consist almost entirely of cash payments, with just a trickle of PIK wheat payments likely to be disbursed in January. Direct Government payments are forecast to range from $4 to $7 billion in 1985, with more than half in deficiency payments and another quarter in diversion payments, including those for milk.

Other Farm Income Sources

Income from other sources (such as machine hire, custom work, and recreational income) likely rose a third in 1984, up from 1983's $1.5 billion. The rise was due to increased income from machine hire and custom work--the result of more acreage farmed and a 26-percent rise in crop output. In 1985, slightly expanded acreage will likely result in somewhat higher earnings from these other cash sources.

Production Expenses

The rebound in 1984 planted acreage and the subsequent recovery in input use were the main reasons for the expected 5- to 7-percent increase in 1984 cash production expenses. Total production expenses, which include depreciation, farm dwelling expenses, and labor perquisites, are expected to have risen 4 to 6 percent (table 8).

Input use is expected to have shown an increase of 3 to 5 percent, recovering much of the PIK-induced decline of 1983. Since expenses are determined by changes in both overall input use and the prices paid for those inputs, and since prices for production inputs rose just 2 percent in 1984, increased input use was about twice as important in the overall expense picture.

For 1985, continued moderation in the prices of production inputs, combined with stable input use, will lead to a 1- to 5-percent increase in cash expenses and a 0- to 4-percent rise in total production expenses. Total farm production expenses for 1984 are estimated between $141 and $143 billion.

Gross Cash Income

Increased cash receipts from marketings and rising machine hire and custom work income likely outweighed lower direct Government payments in 1984, leaving gross cash income up about 2 percent to a nominal record high.

Table 8--Farm Production Expenses, 1981-85

	1981	1982	1983	1984F	1985F
	Billion dollars				
Inputs					
Farm origin	31.7	30.5	31.2	30-32	30-34
Manufactured	24.5	22.9	20.9	22-24	22-26
Interest charges	19.9	22.2	21.2	22-24	22-26
Other operating	28.3	31.1	30.6	32-34	31-35
Other overhead	32.5	32.8	31.4	31-33	31-35
-Total expenses	136.9	139.2	135.3	141-143	142-147
-Cash expenses	111.4	113.4	109.5	115-117	118-122

F = Forecast.

Nevertheless, because larger expenses outweighed higher gross cash income, preliminary indications are that net cash income fell in 1984--leaving farmers with fewer funds available for living expenses, investment, taxes, and debt repayment. A range of $34 to $38 billion is forecast, compared with last year's record $40.1 billion. This was the first decline in net cash income since 1981, when like 1984, cash expenses increased more rapidly than cash sources of income. It was only the second decline since 1977.

In 1985, gross cash income is forecast to rise slightly, as higher marketing receipts are only partially offset by reduced Government payments caused by the end of PIK. Even though cash Government payments will probably hit nominal records, direct Government payments will still likely be $1 to $3 billion less than 1984. As in 1984, the small gain in gross income will likely be outweighed by increased cash expenses, even though the rise in cash expenses will also be small. Thus, net cash income is expected to fall again in 1985, to between $31 and $36 billion. This lack of improvement will result in continued farm financial stress and declining asset values.

Gross Cash Flow

In 1984, gross cash flow likely declined from the 1983 level of $47.3 billion, to between $41 and $45 billion. This decline likely occurred because reduced net cash income and lower loans outstanding outweighed higher rental income.

Capital expenditures (excluding dwellings) likely experienced a fifth straight year without an increase, and may have even declined. Sales of farm inputs especially harvesting equipment, such as combines and forage harvesters, were down again in 1984, because interest rates remained high by historical standards, financial problems persisted for some farmers, and general uncertainty regarding future farm policy and income loomed larger.

These changes in gross cash flow and capital expenditures likely forced net cash flow down in 1984, the fifth consecutive annual decline in this income measure which primarily reflects the liquidity of the sector. Most of the decline during the past few years has been caused by smaller credit inflows, as farmers continue to rely more on internal financing for operations and refrain from purchasing land or machinery. In 1985, gross cash flow could fall because both net cash income and borrowing are reduced. With little change expected in capital expenditures and reduced net cash income, net cash flow will also likely total lower in 1985, the sixth consecutive decline.

Net Farm Income

In recent years, net farm income has been much more volatile than net cash income because of extremes in weather and crop output. In 1983, severe drought combined with PIK produced a record year-to-year cut in crop output. This dwindled stocks, leaving the value of the physical change in commodity inventories at a record negative $11.7 billion.

In 1984, crop output increased 26 percent, replenishing stocks and causing a $6- to $10-billion increase in the change in farm inventory. Because net farm income seeks to approximate a net value of production, increased output and 1984 prices likely left net farm income nearly twice as high as 1983's $16.1 billion, and likely range between $29 and $33 billion.

Off-farm income, which includes nonfarm wages and salaries, pensions, and interest income is expected to have totaled $41 to $45 billion in 1984. Since 1980, off-farm income has accounted for the majority of total income for farms with agricultural commodity sales of less than $100,000 a year. Farms with sales exceeding $100,000 (12 percent of all farms accounting for two-thirds of total farm output), mostly rely on farm-generated revenue.

In 1985, income prospects could be influenced from month to month by such variables as weather, the world economy, and U.S. exports. Net farm income is forecast between $19 and $24 billion in 1985, as rising expenses and reduced Government payments outweigh the volume-induced increase in commodity marketing receipts and a small rise in inventories. In 1985, off-farm income is forecast to total $43 to $47 billion as salaries and wages continue to increase in the general economy.

Table 9--Farm Income and Cash Flow Statement

Item	1981	1982	1983	1984F	1985F
	Billion dollars				
Farm income sources					
1. Cash receipts	142.6	144.8	138.7	139-143	142-147
Crops 1/	73.3	74.6	69.5	68-72	70-74
Livestock	69.2	70.1	69.2	70-74	71-75
Cash Government payments	1.9	3.5	4.1	3-5	4-7
Value of PIK commodities	0.0	0.0	5.2	4-6	0
2. Direct Government payments	1.9	3.5	9.3	7-10	4-7
3. Other cash income 2/	1.9	2.0	1.5	1-3	1-3
4. Gross cash income (1+2+3) 3/	146.4	150.2	149.6	150-154	150-155
5. Nonmoney income 4/	13.6	14.2	13.6	12-14	12-14
6. Realized gross income (4+5)	160.0	164.4	163.2	163-167	163-168
7. Value of inventory change	7.9	-2.6	-11.7	6-10	-2-2
8. Total gross income (6+7)	167.9	161.8	151.4	171-175	163-168
Production expenses					
9. Cash expenses 5/ 6/	111.4	113.4	109.5	115-117	118-122
10. Total expenses	136.9	139.5	135.3	141-143	142-147
Income statement					
Net cash income: 1/ 6/					
11. Nominal (4-9)	35.0	36.8	40.1	34-38	31-36
Deflated (1972$) 7/	17.9	17.8	18.6	15-17	13-15
Net farm income: 1/					
12. Nominal total net (8-10)	31.0	22.3	16.1	29-33	19-24
Total net (1972$) 7/	15.9	10.8	7.5	13-15	8-10
Total net (1967$) 8/	11.4	7.7	5.4	9-11	6-8
13. Off-farm income	39.8	39.4	41.0	41-45	43-47
Other sources and uses of funds					
14. Change in loans outstanding 6/	15.5	6.8	2.9	0-4	0-4
Real estate	9.3	3.7	2.1	-2-2	-2-2
Nonreal estate 9/	6.2	3.1	0.8	0-4	0-4
15. Rental income	5.7	5.6	4.3	4-6	4-6
16. Gross cash flow (11+14+15)	56.1	49.3	47.3	41-45	38-43
17. Capital expenditures 6/	16.8	13.6	13.1	12-14	11-15
18. Net cash flow 1/ 6/ (16-17)	39.3	35.6	34.2	29-33	26-31

F = forecast. 1/ Includes net CCC loans. 2/ Income from custom work, machine hire, and farm recreational activities. 3/ Numbers in parentheses indicate the combination of items required to calculate a given total. 4/ Value of home consumption of farm products and imputed rental value of farm dwellings. 5/ Excludes depreciation and perquisites to hired labor. 6/ Excludes farm dwellings. 7/ Deflated by the GNP implicit price deflator. 8/ Deflated by the CPI-U. 9/ Excludes CCC loans.

Balance Sheet of the Farm Sector – January 1, 1985

Farm Assets

The value of farm assets, including those of farm households, is expected to have fallen 0.8 percent between January 1, 1984, and January 1, 1985. The January 1, 1985, forecasted value of assets totals $1,022.4 billion, $67.4 billion less than the peak nominal value on January 1, 1981 (table 10).

Farm real estate values are expected to have dropped 2.0 percent during 1984 after drops of 1 percent in 1983 and 6 percent in 1982. Low farm income and reduced expectations of income growth in the future, together with high interest rates have resulted in substantially lower bids for farm real estate.

In 1984, net cash income is expected to decrease as cash expenses increase more than receipts. Nominal interest rates on new loans for purchasing farm real estate are higher in

1984 than in 1983. Bankers report that they are requiring more collateral for farm loans. These higher requirements, higher interest rates, and the deterioration in cash flow make it more difficult for farmers to qualify for new loans. Two key factors in dampening the demand for farmland, and hence its price, are the depressed returns on the money invested in agriculture and the expectations that returns will not increase in the near future. Export markets are not generating enough demand for our crop production, leaving large inventories that tend to depress prices. The world supply of crops is likely to exceed demand for some time.

There are some reports that the supply of farmland on the market is increasing, because more farmers are liquidating part of their assets to repay loans or improve their cash flow. At the same time, few buyers are willing to buy, most are waiting until the expected return on farmland equals or exceeds returns that can be earned on other investments.

Nonreal estate physical assets are expected to have increased 2.1 percent during 1984 to total $221.1 billion on January 1, 1985. Most of the increase is expected in crop inventory, because farmers increased planted acreage in 1984. The value of livestock and poultry in inventory is expected to increase 1.2 percent. Cattle values, accounting for 90 percent of the inventory value, are forecasted to increase slightly during 1984, with increases in price more than offset by the decrease in cattle and calve quantity.

The value of motor vehicles, and farm machinery and equipment is forecasted to decrease 1.6 perent between January 1, 1984, and January 1, 1985. The inventory value of farmer owned automobiles and trucks is expected to have increased during 1984. Rural businesses reported that sales of automobiles and trucks in 1984 mirrored the sales in the general economy. The increase in farmers off-farm income in 1984 boosted their ability to purchase motor vechicles for personal use. The value of farm machinery and equipment is expected to have decreased. The return on farming investments is not conducive to the purchase of farm machinery. Sales of nearly all types of farm machinery and equipment are reported to be low in 1984.

Farmers' selected financial assets, including their net worth in farmer owned cooperatives, is expected to have grown 4 percent in 1984. Most of the increase will have come from the stock held in cooperatives. Farmer owned deposits and currency is expected to increase slower than inflation since farmers' net cash income is expected to have decreased in 1984.

Farm Debt

Farm debt by lending institutions can change in response to a number of variables, such as interest rate differences, legal restrictions, stock requirements, differences in services provided, and others. Total farm debt is forecast to decline 1.2 percent to $212.1 billion on January 1, 1985 (tables 10 and 11). This is the second consecutive year of decline after the alltime peak of $216.3 billion was reached in 1983. The last time total farm debt declined two or more consecutive years was in 1944-45. Excluding CCC debt, the total was essentially unchanged in 1984. Total farm debt increased at a compound annual rate of 13.2 percent during 1971-80, but this slowed to 3.9 percent yearly for 1981-85.

Farm Real Estate Debt

Total farm real estate debt is expected to have declined 0.7 percent in 1984 (table 12). This is the first year-over-year decline since 1945. The compound annual growth rate in farm real estate debt was 12.2 percent during 1971-80, but only 3.8 percent during 1981-85. The slower expansion in farm real estate debt in the 1980's is the result of 5 straight years of farm sector financial difficulties. Relatively low real farm income, high real interest rates, and lower land values have first slowed and then reversed the expansion in real estate debt. Total farm real estate debt is forecast to be $110.9 billion on January 1, 1985.

Federal Land Bank (FLB) real estate debt in 1984 increased only 1.0 percent and is estimated to be at $48.4 billion. This is the lowest rate of annual increase since 1948, a year in which the FLB portfolio actually decreased. The compound annual rate of growth for FLB's was 17.1 percent during 1971-80, but declined to 7.8 percent for

Table 10--Balance Sheet of the farming sector, 1977-1985

Items/year (Jan. 1)	1977	1978	1979	1980	1981	1982	1983	1984	1985[a]	% change 1984-85
					Billion dollars					
Assets										
Physcial assets:										
Real estate	496.4	554.7	655.0	755.9	828.4	818.9	769.2	764.5	749.2	-2.0
Nonreal estate:										
Livestock and poultry	29.0	31.9	51.3	61.4	60.8	53.6	53.0	49.8	50.4	1.2
Machinery and motor vehicles	71.0	77.0	85.1	96.8	102.5	108.8	111.0	108.2	106.5	-1.6
Crops stored on and off-farm	22.1	24.8	28.0	33.5	35.9	36.3	41.3	33.7	38.2	13.4
Household equipment and furnishings	12.1	13.8	16.0	17.2	19.4	20.8	23.0	24.8	26.0	5.0
Financial assets:										
Deposits and currency	14.8	15.2	15.5	15.9	16.2	16.7	17.4	18.2	18.7	3.0
Savings bonds	3.8	3.9	4.2	4.0	3.8	3.6	3.5	3.6	3.7	2.6
Investments in co-ops	14.9	15.2	18.3	20.8	22.8	24.8	26.9	28.3	29.7	4.9
Total assets	664.1	736.5	873.4	1,005.5	1,089.8	1,083.5	1,045.2	1,031.1	1,022.4	-0.8
Claims										
Liabilities										
Real estate debt	55.2	63.3	71.4	85.4	95.5	105.6	109.5	111.6	110.9	-0.7
Nonreal estate debt to										
CCC	1.0	4.5	5.7	5.1	5.0	8.0	15.4	10.8	8.3	-23.0
Other	47.7	54.9	63.7	75.3	81.5	88.1	91.4	92.2	93.0	0.8
Total liabilities	103.9	122.7	140.8	165.8	182.0	201.7	216.3	214.7	212.1	-1.2
Proprietors' equity	560.2	613.8	732.6	839.7	907.8	881.6	828.9	816.4	810.7	-0.7
Total claims	664.1	736.5	873.4	1,005.5	1,089.8	1,083.3	1,048.8	1,031.1	1,022.4	-0.8
					Percent					
Debt to asset ratio	15.6	16.7	16.1	16.5	16.7	18.6	20.6	20.8	20.7	-0.5

[a]Preliminary.

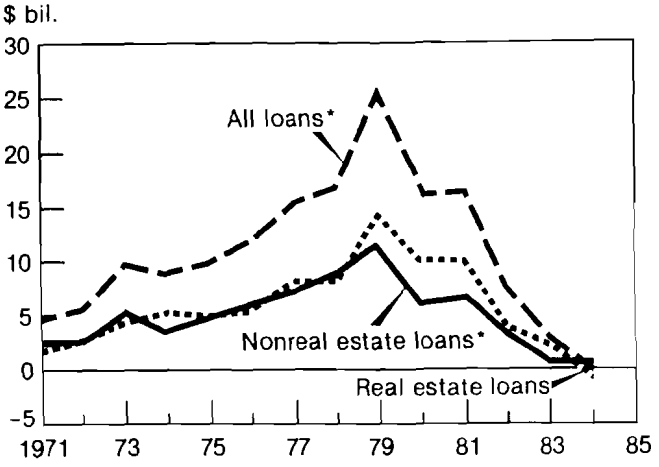
Table 11--Total farm debt 1971-1985[a]

Year	Real estate debt	Nonreal estate debt: Excl CCC price support and storage loans	Nonreal estate debt: CCC price support and storage loans	Nonreal estate debt: Incl. CCC price support and storage loans	Total debt: Excl. CCC loans	Total debt: Incl. CCC loans
			Million dollars outstanding Jan. 1			
1971	30,346	22,262	1,876	24,138	52,608	54,484
1972	32,192	25,114	2,262	27,376	57,306	59,568
1973	35,094	27,965	1,793	29,758	63,059	64,852
1974	39,527	33,054	750	33,804	72,581	73,331
1975	44,637	36,687	319	37,006	81,324	81,643
1976	49,603	41,552	375	41,927	91,155	91,530
1977	55,157	47,687	1,040	48,727	102,844	103,884
1978	63,307	54,896	4,540	59,436	118,203	122,743
1979	71,413	63,735	5,666	69,401	135,148	140,814
1980	85,421	75,312	5,070	80,382	160,733	165,803
1981	95,513	81,465	4,978	86,443	176,978	181,956
1982	105,565	88,107	8,011	96,118	193,672	201,683
1983	109,507	91,379	15,433	106,812	200,886	216,319
1984	111,635	92,242	10,801	103,044	203,877	214,679
1985	110,854	92,963	8,312	101,275	203,817	212,129
			Percent change in year			
1971	6.1	12.8	20.6	13.4	8.9	9.3
1972	9.0	11.4	-20.7	8.7	10.0	8.9
1973	12.6	18.2	-58.2	13.6	15.1	13.1
1974	12.9	11.0	-57.5	9.5	12.0	11.3
1975	11.1	13.3	17.6	13.3	12.1	12.1
1976	11.2	14.8	177.3	16.2	12.8	13.5
1977	14.8	15.1	336.5	22.0	14.9	18.2
1978	12.8	16.1	24.8	16.8	14.3	14.7
1979	19.6	18.2	-10.5	15.8	18.9	17.7
1980	11.8	8.2	-1.8	7.5	10.1	9.7
1981	10.5	8.2	60.9	11.2	9.4	10.8
1982	3.7	3.7	92.6	11.1	3.7	7.3
1983	1.9	0.9	-30.0	-3.5	1.5	-0.8
1984	-0.7	0.8	-23.0	-1.7	.0	-1.2
			Percentage distribution of debt outstanding Jan. 1			
1971	55.7	40.9	3.4	44.3	96.6	100.0
1972	54.0	42.2	3.8	46.0	96.2	100.0
1973	54.1	43.1	2.8	45.9	97.2	100.0
1974	53.9	45.1	1.0	46.1	99.0	100.0
1975	54.7	44.9	0.4	45.3	99.6	100.0
1976	54.2	45.4	0.4	45.8	99.6	100.0
1977	53.1	45.9	1.0	46.9	99.0	100.0
1978	51.6	44.7	3.7	48.4	96.3	100.0
1979	50.7	45.3	4.0	49.3	96.0	100.0
1980	51.5	45.4	3.1	48.5	96.9	100.0
1981	52.5	44.8	2.7	47.5	97.3	100.0
1982	52.3	43.7	4.0	47.7	96.0	100.0
1983	50.6	42.2	7.1	49.4	92.9	100.0
1984	52.0	43.0	5.0	48.0	95.0	100.0
1985	52.3	43.8	3.9	47.7	96.1	100.0

[a]1985 Preliminary

Figure 3

Annual Change in Farm Debt



1984 preliminary. *Excluding CCC Loans.

1981–85; it was only 3.6 percent during 1982–85. The FLB's market share increased to 43.7 percent, making them even more dominant in the real estate lending category.

Life insurance companies' (LIC's) outstanding farm real estate debt is expected to have decreased 2.7 percent in 1984, resulting in a total of $12.4 billion on January 1, 1985. This was the third straight year of decrease. After having a compound annual rate of increase of 8.0 percent during the 1971–82 span, the LIC's total loans outstanding decreased 2.7 percent annually for 1982–84. LIC market share has fallen to 11.2 percent after 6 straight years of decline from the 14.7 percent recorded in 1979.

Commercial bank farm real estate loans are forecast to have increased 9.2 percent to $10.2 billion by January 1, 1985. Their market share has increased for 2 consecutive years and is expected to be 9.2 percent in 1984. The farm sector's financial difficulties has caused many commercial banks to become more cautious and to require real estate as collateral more frequently for short and intermediate loans. This includes a higher than typical rate of refinancing nonreal estate loans as real estate secured loans. The interest rates of commercial banks in many instances also have become more competitive with those offered by the FLB's. Commercial banks using marginal cost pricing have been able to reflect the general decline in interest rates to customers more quickly than have the FLB's, who use average cost pricing based on the sale of Farm Credit System (FCS) securities.

The Farmers Home Administration (FmHA) is expected to increase its holdings of farm real estate debt 6.7 percent in 1984 to a total of $9.96 billion on January 1, 1985. This represents a market share of 9.0 percent. FmHA real estate debt increased at a compound annual rate of 12.6 percent during 1971–80, but this has slowed to a rate of 6.6 percent annually for 1981–85.

Real estate debt held by individuals and others is forecast to decline 7.5 percent in 1984 to a total of $29.9 billion on January 1, 1985. This is the first year-over-year decline in the series since 1944. It is difficult to obtain information on real estate debt held by individuals and others because it is a noninstitutional source of financing. According to the Farm Real Estate Market Developments Survey for the year ending March 1, 1984, farmland sellers financed 28 percent of all credit-financed farmland transfers, down from 33 percent in 1983 and 41 in 1982. This lower share combined with a major slowdown in the total number of farmland transfers has served to reduce the market share of individuals and others to 27.0 percent on January 1, 1985. It was 35.3 percent 10 years earlier.

Farm Nonreal Estate Debt

The total outstanding nonreal estate debt is forecast to decline 1.7 percent in 1984, to $101.3 billion (table 13). This is the second consecutive year of decline, the first time this has occurred since 1944/45. Total nonreal estate debt has declined $5.5 billion or 5.5 percent since it peaked at $106.8 billion on January 1, 1983. The compound annual rate of increase was 14.3 percent during the 1971–80 period, but this slowed to 4.0 percent annually for 1981–85. The 1984 decrease was the result of continued weakened demand for farm input financing and another year of decline in CCC loans outstanding.

Nonreal estate debt held by commercial banks is expected to increase 3.8 percent in 1984, to $40.6 billion. This is the second consecutive year that commercial banks have increased their market share; this had not happened since 1972/73. Their market share has jumped from 33.8 percent on January 1,

Table 12--Real estate farm debt, 1971-1985[a]

Year	Debt owed to reporting institutions: Federal land banks	Life insurance companies	All operating bank	Farmers Home Administration	Total	Individuals and others	Total
			Million dollars outstanding Jan. 1				
1971	7,145	5,610	3,772	2,440	18,967	11,379	30,346
1972	7,880	5,564	4,219	2,618	20,281	11,911	32,192
1973	9,050	5,643	4,792	2,835	22,320	12,774	35,094
1974	10,901	5,965	5,458	3,013	25,337	14,190	39,527
1975	13,402	6,297	5,966	3,215	28,880	15,757	44,637
1976	15,950	6,726	6,296	3,369	32,341	17,262	49,603
1977	18,455	7,400	6,781	3,657	36,293	18,864	55,157
1978	21,391	8,819	7,780	3,982	41,972	21,335	63,307
1979	24,619	10,478	8,557	4,121	47,775	23,638	71,413
1980	29,642	12,165	8,623	7,111	57,541	27,880	85,421
1981	35,945	12,928	8,745	7,715	65,333	30,180	95,513
1982	43,564	13,074	8,387	8,744	73,769	31,770	105,539
1983	47,180	12,802	8,441	9,085	77,507	32,000	109,507
1984	47,948	12,718	9,321	9,329	79,315	32,320	111,635
1985	48,444	12,375	10,179	9,956	80,954	29,900	110,854
			Percent change in year				
1971	10.3	-0.8	11.9	7.3	6.9	4.7	6.1
1972	14.8	1.4	13.6	8.3	10.1	7.2	9.0
1973	20.5	5.7	13.9	6.3	13.5	11.1	12.6
1974	22.9	5.6	9.3	6.7	14.0	11.0	12.9
1975	19.0	6.8	5.5	4.8	12.0	9.6	11.1
1976	15.7	10.0	7.7	8.5	12.2	9.3	11.2
1977	15.9	19.2	14.7	8.9	15.6	13.1	14.8
1978	15.1	18.8	10.0	3.5	13.8	10.8	12.8
1979	20.4	16.1	0.8	82.6	20.4	17.9	19.6
1980	21.3	6.3	1.4	8.5	13.5	8.2	11.8
1981	21.2	1.1	4.1	13.3	12.9	5.3	10.5
1982	8.3	-2.1	0.6	3.9	5.1	0.7	3.8
1983	1.6	-0.7	10.4	2.7	2.3	1.0	1.9
1984	1.0	-2.7	9.2	6.7	2.1	-7.5	-0.7
			Percentage distribution of debt outstanding Jan. 1				
1971	23.5	18.5	12.4	8.0	62.5	37.5	100.0
1972	24.5	17.3	13.1	8.1	63.0	37.0	100.0
1973	25.8	16.1	13.7	8.1	63.6	36.4	100.0
1974	27.6	15.1	13.8	7.6	64.1	35.9	100.0
1975	30.0	14.1	13.4	7.2	64.7	35.3	100.0
1976	32.2	13.6	12.7	6.8	65.2	34.8	100.0
1977	33.5	13.4	12.3	6.6	65.8	34.2	100.0
1978	33.8	13.9	12.3	6.3	66.3	33.7	100.0
1979	34.5	14.7	12.0	5.8	66.9	33.1	100.0
1980	34.7	14.3	10.1	8.3	67.4	32.6	100.0
1981	37.6	13.5	9.2	8.1	68.4	31.6	100.0
1982	41.3	12.4	7.9	8.3	69.9	30.1	100.0
1983	43.1	11.7	7.7	8.4	70.8	29.2	100.0
1984	43.0	11.4	8.3	8.5	71.0	29.0	100.0
1985	43.7	11.2	9.2	9.0	73.0	27.0	100.0

[a]1985 Preliminary

1983, to an expected 40.0 percent on January 1, 1985.

Outstanding Production Credit Association (PCA) nonreal estate farm debt declined for a third year in a row. PCA debt is forecast at $18.1 billion, down 3.2 percent from the previous year. For over two decades PCA farm production loans rose at a more rapid rate than did those of commercial banks. During the latter part of this period (1971-1980) PCA loans grew at a compound annual rate of 14.6 percent, compared with 12.1 for the commercial banks. Some factors contributing to the competitive advantage of PCA's were the absence of legal lending limits that constrained the ability of small rural banks to fund larger farmers, the relative greater availability of loanable funds for PCA's during periods of restrictive monetary policy, and the often greater farm lending experience for PCA's.

In the latter part of 1981, farm loan volume at PCA's and nonreal estate loans at banks began to diverge in an unprecedented

Table 13--Nonreal estate farm debt, 1971-1985[a]

Year	Debt owed to reporting institutions (excluding CCC): All operating banks	Production credit assoc.[b]	Federal Intermediate credit banks[c]	Farmers Home Admin.	Total	Individuals and others[d]	Total excluding CCC loans	CCC price support and storage loans	Total including CCC loans
				Million dollars outstanding Jan. 1					
1971	11,102	5,295	220	795	17,412	4,850	22,262	1,876	24,138
1972	12,498	6,078	237	771	19,584	5,530	25,114	2,262	27,376
1973	14,315	6,607	251	781	21,954	6,011	27,965	1,793	29,758
1974	17,167	7,814	331	877	26,189	6,865	33,054	750	33,804
1975	18,238	9,482	374	1,044	29,138	7,549	36,687	319	37,006
1976	20,160	10,717	350	1,772	32,999	8,553	41,552	375	41,927
1977	23,283	12,170	368	1,877	37,698	9,989	47,687	1,040	48,727
1978	25,709	13,428	374	3,141	42,652	12,244	54,896	4,540	59,436
1979	28,273	14,876	509	5,780	49,438	14,297	63,735	5,666	69,401
1980	31,034	18,021	665	8,982	58,702	16,610	75,312	5,070	80,382
1981	31,567	19,611	810	11,756	63,744	17,721	81,465	4,978	86,443
1982	32,948	21,014	913	14,452	69,327	18,780	88,107	8,011	96,118
1983	36,149	20,070	871	14,759	71,849	19,530	91,379	15,433	106,812
1984	39,066	18,735	850	14,646	73,297	18,945	92,242	10,801	103,044
1985	40,551	18,129	877	15,206	74,763	18,200	92,963	8,312	101,275
				Percent change in year					
1971	12.6	14.8	7.7	-3.0	12.5	14.0	12.8	20.6	13.4
1972	14.5	8.7	5.9	1.3	12.1	8.7	11.4	-20.7	8.7
1973	19.9	18.3	31.9	12.3	19.3	14.2	18.2	-58.2	13.6
1974	6.2	21.3	13.0	19.0	11.3	10.0	11.0	-57.5	9.5
1975	10.5	13.0	-6.4	69.7	13.3	13.3	13.3	17.6	13.3
1976	15.5	13.6	5.1	5.9	14.2	16.8	14.8	177.3	16.2
1977	10.4	10.3	1.6	67.3	13.1	22.6	15.1	336.5	22.0
1978	10.0	10.8	36.1	84.0	15.9	16.8	16.1	24.8	16.8
1979	9.8	21.1	30.6	55.4	18.7	16.2	18.2	-10.5	15.8
1980	1.7	8.8	21.8	30.9	8.6	6.7	8.2	-1.8	7.5
1981	4.4	7.2	12.7	22.9	8.8	6.0	8.2	60.9	11.2
1982	9.7	-4.5	-4.6	2.1	3.6	4.0	3.7	92.6	11.1
1983	8.1	-6.7	-2.4	-0.8	2.0	-3.0	0.9	-30.0	-3.5
1984	3.8	-3.2	3.2	3.8	2.0	-3.9	0.8	-23.0	-1.7
				Percentage distribution of debt outstanding Jan. 1					
1971	46.0	21.9	0.9	3.3	72.1	20.1	92.2	7.8	100.0
1972	45.7	22.2	0.9	2.8	71.5	20.2	91.7	8.3	100.0
1973	48.1	22.2	0.8	2.6	73.8	20.2	94.0	6.0	100.0
1974	50.8	23.1	1.0	2.6	77.5	20.3	97.8	2.2	100.0
1975	49.3	25.6	1.0	2.8	78.7	20.4	99.1	0.9	100.0
1976	48.1	25.6	0.8	4.2	78.7	20.4	99.1	0.9	100.0
1977	47.8	25.0	0.8	3.9	77.4	20.5	97.9	2.1	100.0
1978	43.3	22.6	0.6	5.3	71.8	20.6	92.4	7.6	100.0
1979	40.7	21.4	0.7	8.3	71.2	20.6	91.8	8.2	100.0
1980	38.6	22.4	0.8	11.2	73.0	20.7	93.7	6.3	100.0
1981	36.5	22.7	0.9	13.6	73.7	20.5	94.2	5.8	100.0
1982	34.3	21.9	0.9	15.0	72.1	19.5	91.7	8.3	100.0
1983	33.8	18.8	0.8	13.8	67.3	18.3	85.6	14.4	100.0
1984	37.9	18.2	0.8	14.2	71.1	18.4	89.5	10.5	100.0
1985	40.0	17.9	0.9	15.0	73.8	18.0	91.8	8.2	100.0

[a]1985 Preliminary. [b]1975-82 revised to exclude aquatic loans. [c]Financial Institutions other than PCA's that obtain funds from the FICB's.
[d]Includes Samll Business Administration farm loans.

manner. Farm loan volume at PCA's has decreased 23.1 percent or $2.9 billion during 1982-85, while nonreal estate loans of commercial banks have increased 13.7 percent or $7.6 billion. Different pricing structures are one reason commercial banks recently have outperformed PCA's. As noted above, the FCS bases its loan rates on the average cost of their bonds outstanding, while commercial banks use marginal cost pricing. Thus, changes in PCA interest rates tend to lag behind changes in the rates that commercial banks charge. The FCS tends to have a competitive interest rate advantage when rates are rising. When rates decline as they did over much of the post-1981 period, the FCS's competitive edge in interest rates can disappear. Commercial agricultural banks also have been liquid throughout this period and many were seeking quality farm loans.

Farm debt held by Federal Intermediate Credit Banks (FICB's) is expected to increase to $877 million, a 3.2-percent increase. FICB's provide funds to other financial institutions, which are mostly agricultural credit corporations linked with commercial banks. The 1984 increase comes after 2 years of decreases in FICB lending.

FmHA nonreal estate debt is expected to increase 3.8 percent in 1984 to about $15.2 billion. This increase follows a year of slight decrease (0.8). FmHA's nonreal estate loan portfolio grew at a compound annual rate of 30.9 percent during 1971-80, but this has slowed to 6.6 percent during 1981-85. The FmHA market share is estimated to be 15.0 percent on January 1, 1985. FmHA disbursed $6.0 billion under the Economic Emergency (EE) loan program during the fiscal years 1978-81. These loans were discontinued in fiscal years 1981-82, but were resumed and totaled $599.3 million in fiscal 1984. This program is not funded for fiscal 1985. Total FmHA nonreal estate lending in 1985 is subject to a complex set of variables including the weather and the need for the Emergency Disaster program and the acceptance by commercial lenders of the new FmHA Debt Adjustment Program.

Nonreal estate debt held by individuals and others is expected to decrease 3.9 percent in 1984 to $18.2 billion. This is the second consecutive year of decline in individuals and others debt; the last time this occurred was in 1969-70. Continuing adverse financial conditions have softened the demand for purchased inputs, which are often financed by individuals and other noninstitutional sources. For example, the farm loans outstanding for six full-line manufacturers of farm machinery increased only 0.6 percent in 1984, and new loans made declined 2.5 percent (table 14). The market share of nonreal estate farm debt for individuals and others is forecast to decline to 18.0 percent.

The CCC holds the most changeable portion of nonreal estate debt. CCC lending is a direct result of the Federal Government's policies affecting crop production, interest rates, farm price supports, and other factors that affect farm commodity prices and amounts going into storage. In 1984, considerable commodity disbursements were made under the PIK program, thus lowering Government inventories and loan totals. In addition, the 1983/84 cropyear was one of strong prices for feed grains. This greatly reduced CCC loan activity, since farmers sold their new production instead of placing it in storage under Government programs. All this brought an expected 23.0-percent decline in CCC debt during 1984, to a total of $8.3 billion on January 1, 1985. The CCC market share of

Table 14--Loan funds supplied by six large full-line farm machinery manufacturers for retail purchases of farm machinery and equipment a/

Year	Loans outstanding end of year		Loans made during year	
	Million dollars	Percent change	Million dollars	Percent change
1970	170	--	928	--
1971	1,179	.7	936	.9
1972	1,499	27.1	1,329	42.0
1973	1,183	-21.1	1,065	-19.9
1974	1,160	-1.9	876	-17.7
1975	1,530	31.9	1,236	41.1
1976	2,192	43.3	1,915	54.9
1977	3,067	39.9	2,682	40.1
1978	3,131	2.1	2,661	-.8
1979	3,488	11.4	3,133	17.7
1980	4,860	39.3	4,396	40.3
1981	6,129	26.1	4,683	6.5
1982	5,897	-3.8	3,842	-18.0
1983b/	5,593	-5.2	4,160	8.3
1984c/	5,629	.6	4,054	-2.5

a/ Excludes loans estimated to have been made for nonfarm purposes. Years shown are company fiscal years: October 31 for 4 companies, December 31 for the other two. Data, including estimates for 1984 and revisions, were provided by the six companies. b/ Revised. c/ Estimated.

nonreal estate farm debt is forecast to decline to 8.2 percent by the end of 1984.

Status in 1985

The percentage distribution of the $212.1 billion in total farm debt as of January 1, 1985, by lender is summarized in table 15. Individuals and others are estimated to hold 22.7 percent of the total. The largest institutional lender category is the commercial banks with 23.9 percent of the total. The FLB's follow closely behind with 22.8 percent of all farm loans. The FmHA is next in line with 11.9 percent followed by PCA's (8.6 percent), life insurance companies (5.8 percent), CCC (3.9 percent), and FICB's (0.4 percent). As a unit, the various parts of the Farm Credit System (FCS) together account for 31.8 percent of all farm loans. So when considered as one institution the FCS is the dominant farm lender, leading commercial banks by 7.9 percentage points (31.8 to 23.9 percent).

Farm Sector Equity

Farm sector equity is expected to have decreased $5.7 billion between January 1, 1984 and January 1, 1985 as asset values decreased more than debt. This will be the fifth consecutive year that farm sector equity value has declined in real terms. Farmers have looked to gains in real wealth for a significant portion on their total return to farming. The decline in real wealth resulted in negative total returns to investment and reduced borrowing capacity. The debt/asset ratio is expected to have increased slightly during 1984. The debt/asset ratio is a measure of the solvency of the firm and is used as an index of the risk involved in loaning funds.

Table 15--Distribution of farm debt by lender, January 1, 1985a/

Lenders	Type of debt		
	Real estate	Nonreal estate	Total
	Percent of Total		
Commercial banks	4.8	19.1	23.9
Farm Credit System	22.8	9.0	31.8
Federal Land Banks	22.8	--	22.8
Production Credit Associations	--	8.6	8.6
Federal Intermediate Credit Banks b/	--	0.4	0.4
Farmers Home Admin.	4.7	7.1	11.9
Life insurance co.	5.8	--	5.8
Individuals and others c/	14.1	8.6	22.7
Commodity Credit Corp.	--	3.9	3.9
Total	52.3	47.7	100.0

a/ Preliminary. Due to rounding some subcategories may not add to totals. b/ Financial institutions other than PCAs that obtain funds from the FICB's. c/ Includes Small Business Administration farm loans.

Balance Sheet of the Farm Sector - January 1, 1986

The value of farm assets including farm households is forecast to decline 0.5 percent in 1985 to total $1,016.8 billion (table 16). The change in value of farm real estate is the dominant force that will cause total farm assets to fall. Real estate is expected to fall about 1.5 percent in 1985. This expected drop in nominal values is attributable to the low income returns on farm sector's equity and the expectation that farm income and returns will not improve in the near term.

Farmers' liquidations of farm assets also contributes to lower farmland values. Nonreal estate physical assets is forecasted to rise 1.5 percent in 1985. The inventory values of machinery and motor vehicles, and crops is forecasted to decrease while household furnishing, and livestock and poultry inventory is expected to increase in value. A 4.5-percent gain in farmers' financial assets is expected during 1985.

Farm real estate debt is forecast to decline about 1 percent in 1985, to $110 billion. The projected drop reflects the need of many farmers to restructure their balance sheets to remain in business. Nonreal estate debt is expected to increase by 1 percent next year, totaling 101.8 billion on January 1, 1986. Slightly larger planted acreage should boost operating credit needs.

In nominal terms, total farm sector equity is expected to decline to $805 billion by January 1, 1986. Therefore, farmers' real wealth will continue to fall in 1985; making it more difficult for lenders to continue exercising forebearance with their problem farm customers.

Table 16--Balance sheet of the farming sector, 1985-1986

Items/Years (Jan. 1)	1985[a]	1986[b]	Percent change
	Billion dollars		
Assets			
Physical assets:			
Real estate	749.2	738.0	-1.5
Nonreal estate			
Livestock and poultlry	50.4	54.6	8.3
Machinery and motor vehicles	106.5	104.8	-1.6
Crops stored on and off-farm	38.2	37.5	-1.9
Household equipment and furnishing	26.0	27.5	5.7
Financial assets:			
Deposits and currency	18.7	19.4	3.7
U.S. Savings bonds and investments in cooperatives	33.4	35.0	4.8
Total assets	1,022.4	1,016.8	-0.5
Claims			
Liabilities:			
Real estate debt	110.9	110.0	-0.8
Nonreal estate debt	101.3	101.8	0.5
Total liabilities	212.1	211.8	-0.2
Proprietors' equity	810.7	805.0	-0.7
Total claims	1,022.4	1,016.8	-0.5
Debt-to-asset ratio	20.7	20.8	0.4

[a]Preliminary. [b]Forecast.

DEVELOPMENTS IN AGRICULTURAL LENDING

The length, as well as the depth, of the current farm recession has been a source of concern to both farmers and their lenders. The significant setbacks in the farm economy during the 1980's have caused the financial condition of agricultural lenders to worsen as well. Loan losses at farm lending institutions have increased as farm borrowers began to experience difficulties in making loan payments. The incidence of delinquencies, loan liquidations, discontinuances, foreclosures, bankruptcies, and workouts all have increased from previous levels. These changing conditions have created higher lending costs, more lender frustration, and reevaluations of credit standards and loan policies.

Stress in Agricultural Lending

Agricultural lenders have been increasingly concerned about farm loan defaults and delinquencies. In 1983, loan losses as a share of outstanding loans were 1.20 percent for PCA's, 0.93 percent for agricultural banks, 0.02 percent for FLB's, and 0.15 percent for the FmHA. Some 2.60 percent of life insurance company mortgage loans were in the process of foreclosure in 1983. The general level of lender stress has increased in 1984. In response, farm lenders have tightened credit requirements and more overdue accounts are being closed out.

Agricultural interest rates remain high despite their decline since 1981-82. Real cash farm income is low. Many farmers do not have the financial flexibility they need to cope

with their accumulated debts. Lenders are likely to remain cautious in the current environment. A large share of their farm customers will continue to face serious cash flow problems even with some improvement in farm income. Farm lenders are thus likely to face major challenges for some time to come.

Commercial Banks

The Board of Governors of the Federal Reserve System defines agricultural banks as those with less than $500 million in assets and with farm loans accounting for 25 percent or more of total loans. Other smaller banks are defined as those with less than $500 million in assets and with farm loans accounting for less than 25 percent of total loans. As of March 31, 1984, there were 440 insured commercial banks with total assets of $500 million or more, and 13,963 banks with total assets of less than $500 million. Of the 13,963 banks with assets of less than $500 million, 4,077 were identified as agricultural banks and 9,886 were identified as other smaller banks.

A significant decline in loan quality at agricultural banks relative to their recent performance and relative to other smaller banks is indicated by call report data. Beginning in December 1982, all banks were required to report their total amounts for each of four categories of delinquent loans: (1) past due 30 to 89 days and still accruing; (2) past due 90 days or more and still accruing; (3) nonaccrual; and (4) renegotiated "troubled" debt. The data show that on June 30, 1984, banks more heavily involved in farm lending tended to have a higher proportion of delinquent loans and that their recent delinquency rates had risen sharply, while those of the more urban banks had declined somewhat. Specifically, total delinquent loans at agricultural banks increased to 5.5 percent of total loans on June 30, 1984, up from 4.7 percent a year earlier. However, at other smaller banks, the proportion declined from 4.9 to 4.3 percent during the same period.

The tendency for agricultural banks to have a higher proportion of delinquent loans was most pronounced for nonaccrual loans. Between June 1983 and June 1984, nonaccrual loans at agricultural banks rose from 1.0 percent to 1.6 percent of total loans, while the rate at smaller nonagricultural banks remained at 1.2 percent.

The comparative trends in the percentage of loans being delinquent since December 1982 follow:

	Quarter						
	1982	1983				1984	
Cat.	4	1	2	3	4	1	2
Ag.	4.7	5.3	4.7	5.0	5.2	6.1	5.5
Other	5.3	5.3	4.9	4.8	4.7	4.6	4.3

The comparative trends in the percentage of nonaccrual loans since December 1982 follows:

	Quarter						
	1982	1983				1984	
Cat.	4	1	2	3	4	1	2
Ag.	.7	.9	1.0	1.1	1.2	1.5	1.6
Other	1.1	1.2	1.2	1.2	1.1	1.2	1.2

Another measure of lender stress is that of total net loan charge-offs (losses) as a percentage of total loans outstanding. Annual data for 1979-83 show a rising trend for all banks with total assets under $500 million, but a faster rate of increase for the agricultural banks.

The exact percentages follow:

Cat.	1979	1980	1981	1982	1983	1984
Ag.	.19	.32	.42	.69	.94	N/A
Other	.30	.38	.40	.61	.67	

The 1983 annual provision for possible loan losses equalled 1.11 percent of agricultural bank outstanding loans, compared with 0.80 percent at other smaller banks. As recently as 1981, both the loan loss and provision for loan loss percentages were equal for both agricultural and other smaller banks. Loans losses greater than 2.5 percent of outstanding loans reflect the level at which losses would begin to exceed income before losses at the typical agricultural bank. In 1979, only 1 percent of all agricultural banks

made provision for loan losses of greater than 2.5 percent. This figure rose to 3 percent in 1981 and 9 percent in 1983. Some 5 percent of all agricultural banks made provision for loan losses between 1.0 and 2.49 percent in 1979; by 1983 the figure was 21 percent.

First-half 1984 net loan charge-offs of all farm loans totaled 0.68 percent of farm loans outstanding (0.30 percent in the first quarter and 0.38 percent in the second). The rates were particularly high in California and were significantly above the national average in the western Corn Belt. Total loan charge-offs at agricultural and other smaller banks for the first half of 1984, compared with earlier years, show the most recent insights. The rate of net charge-offs for all loans at agricultural banks (0.41 percent) was significantly below the rate for farm loans. But charge-offs at farm banks has grown substantially in recent years, evidently led by rising farm loan losses.

The first-half year loan charge-off percentages for 1979-84 follow:

Cat.	1979	1980	1981	1982	1983	1984
Ag.	.04	.07	.09	.15	.29	.41
Other	.10	.14	.13	.17	.28	.23

Profitability of banks is another indicator of their general condition. The 1983 rate of return to total assets was 1.0 percent for agricultural banks compared with 0.8 percent for other smaller banks. Agricultural banks have enjoyed this advantage for a number of years. In 1980 and 1981 the rate of return to assets of agricultural and other smaller banks was 1.3 and 1.0 percent, respectively, for both years. The rate of return to equity capital in 1983 was identical for agricultural and other smaller banks (11 percent). Agricultural banks held a 3-percentage point advantage in 1976 (14 to 11) and 2 percentage points (14 to 12) as recently as 1982. But agricultural banks have been increasing their capital-to-asset ratios, while other smaller banks have been decreasing theirs (from 8.1 percent in 1981 to 7.9 percent in 1983).

The higher capital ratio of agricultural banks compared with other smaller banks (9.0 to 7.9 percent in 1983) caused the same rate of return to equity for both groups in 1983, although the agricultural banks enjoyed a higher rate of return to total assets. Agricultural banks have traditionally had higher capital ratios than other smaller banks. The capital ratio for agricultural banks has been increasing steadily since it was 7.4 percent in 1973, with much of the more recent growth resulting from large increases in provisions for loan losses. The 9.0-percent capital in 1983 of agricultural banks makes it appear that this group is now better prepared to deal with loan losses than they were before the financial difficulties began. But the potential for loan losses has grown considerably at the same time.

The number of problems banks, as defined by the Federal Deposit Insurance Corporation (FDIC), serve to further illustrate the worsening condition of agricultural banks during 1984. Between January and August, the total number of problem commercial banks grew by approximately 100. A bit over 80 percent of this increase was accounted for by 10 contiguous States (Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, South Dakota, Wisconsin, and Wyoming) that compose much of the Midwest and Northern Plains regions. The inclusion of California and Texas on the list would mean that all other States together experienced a net decline in the number of problem banks during this period. The recent increase in the number of problem banks in the 10 States of the Midwest and Northern Plains regions brings their problem bank rates to levels approximately equivalent to the average for the rest of the Nation. The rate of increase in problem banks for that region, nevertheless, suggests a potential for significantly greater problems in the future.

Categorizing problem banks by type further illustrates the recent increase of problems facing commercial banks that serve the farm sector. As shown below, while the number of problem banks as defined by the

Class	Problem Commercial Banks by Type of Bank			
	June 1983	Dec. 1983	June 1984	Oct. 1984
Ag	106 (22%)	146 (24%)	231 (34%)	272 (36%)
Other	375 (78%)	457 (76%)	440 (66%)	483 (64%)
Total	481(100%)	603(100%)	671(100%)	755(100%)

FDIC increased substantially between June and December of 1983, the proportion designated as agricultural changed very little. Moreover, the relative number of agricultural banks with problems was below the overall share of commercial banks; some 28 percent of all commercial banks are agricultural. This quickly changed, however, during the first half of 1984. The percentage of problem banks defined as agricultural grew from about 24 percent to just over 34 percent. The increase in agricultural problem banks in absolute terms more than accounted for the total growth in problem banks over the first half of 1984. Between June and October, the percentage of problem agricultural banks increased still further.

The banking industry for most of its history has experienced an extremely low failure rate because of extensive Government regulation and conservative management practices. The number of bank failures have increased sharply in recent years, however. During 1971–80, 83 banks failed (data include mutual savings banks). Another 100 banks failed during 1981–83 and 70 have failed in 1984 through October. Various explanations have been offered for the recent increases in problem or failed banks, including increased competition from deregulation, the severity of the recent recession, the unevenness of the recovery with certain lagging regions and industries, and continued high real interest rates.

The failure rate of agricultural banks lagged behind the general bank failure rate until recently. In 1983, only 6 of the 44 bank failures (data exclude mutual savings banks) were agricultural banks. In 1984 (excluding mutual savings banks), through June, only 8 of the 42 bank failures involved agricultural banks. Beginning July 1 and running through October, however, 11 of the 22 bank failures were agricultural banks.

Farm Credit System

The FCS has experienced growing economic stress in the 1980's. This first occurred among the PCA's and after a significant lag became evident among the FLB's. The declines in PCA net earnings after 1981 and FLB net earnings after 1982 are the results of a complex set of factors. The continued drain on cash flow has caused farmers to restructure their debt and pay down loans.

Initially, this affected PCA's the most. But the softening farmland prices and low turnover rates in the real estate market has affected FLB's. When the farm stress first hit, FCS interest costs had been high and the FCS cut interest margins which resulted in lower earnings. Loan losses and delinquencies have increased markedly and other lenders have become more competitive.

PCA's absorbed loan losses of $109.5 million for all of 1970–79; loan losses totaled $463.8 million during 1980–83. FLB's experienced total loan losses of $6.7 million during 1970–80. This increased to $12.5 million for 1981–83. PCA net loan losses as a percentage of the PCA allowance for loan losses (reserves) never rose above 7.5 percent during 1970–81, but this ratio rose to 26.1 percent in 1982 and 42.3 percent in 1983. FLB net loan losses as a ratio of FLB allowances for loan losses were insignificant most years following 1970, but increased to 2.0 percent in 1983.

PCA loan charge–offs as a share of loans outstanding rose from 0.11 percent in 1980 to 1.20 percent in 1983. PCA loans in the process of liquidation were 0.38 percent of all loans on December 31, 1980, but by September 30, 1984, the ratio was 2.68 percent. Some 3.21 percent of PCA loans were 90 days or more past due on September 30, 1984. The FLB situation is more positive, with only 0.02 percent of their loans being charged–off in 1983. FLB loans in process of liquidation increased from being 0.15 percent of all loans on December 31, 1980, to 1.74 percent on September 30, 1984. FLB loans 90 or more days past due totaled 0.45 percent of all loans on September 30, 1984.

Trends for both the PCA and FLB loan delinquency rates have followed a seasonal peak at the end of the first quarter of the year then a decline in the second quarter. The recent trend is that the rate of delinquencies recorded in the first quarter is higher than those found in the previous year's first quarter. Stress on PCA borrowers reached its peak earlier this year, as 8.1 percent of outstanding PCA loans were delinquent on March 31, 1984, compared with 6.1 percent a year earlier.

Although the rate subsided to 4.7 percent on September 30, 1984, it was still higher than the 3.4-percent rate reported a year earlier. The amount of all FLB delinquencies continues to constitute a small share of outstandings, peaking at 0.8 percent on March 31, 1984, compared with 0.7 percent a year earlier. It was 0.6 percent on September 30, 1984. The number of delinquent FLB loans increased significantly, however, in the first quarter of 1984 to 4.4 percent of all loans, compared with a first-quarter 1983 figure of 4.0 percent, before falling back to 3.4 percent on September 30, 1984.

Although PCA's and FLB's have set aside substantial reserves against possible loans losses, the combined impacts of charge-offs, the need to maintain or rebuild reserves, and nonperforming loans are requiring them to manage their portfolios carefully and to take steps to ensure adequate earnings. Some banks now find it necessary to raise interest rates to restore reserves and to maintain investor confidence.

Since the farm sector's loan difficulties emerged, a number of PCA's have been liquidated. Other PCA's have been merged primarily because of financial problems. Still others now face the prospect of liquidation, but their situation may be resolved through the infusion of capital from FICB's or by invoking loss-sharing agreements with other PCA's. A sizable portion of PCA's are under financial stress. There now are approximately 385 PCA's and 475 local FLB associations.

Farmers Home Administration

FmHA's farm credit programs include the provision of adequate credit to owner- and tenant-operators of not larger than family-size farms, assistance to young and limited-resource farmers, aid to farmers suffering economic and natural disasters, and the development of water and conservation facilities. A longstanding, guiding objective of FmHA has been the provision of credit to those farmers unable to obtain funds elsewhere at reasonable rates and terms. So it would be expected that FmHA would have a loan portfolio dominated by highly leveraged operators.

FmHA farmer program delinquencies are shown for June 30, 1984, in table 17. Then 35.4 percent of the caseload and 21.3 percent of the amount of unpaid principal outstanding were delinquent. Comparable figures for 4 years earlier on June 30, 1980, were 16.7 and 4.6 percent, respectively. The amount of principal delinquent increased from $827.6 million to $5.4 billion, an increase of 552.2 percent between June 30, 1980, and June 30, 1984, while the total amount of outstanding principal grew only 39.5 percent. The highest delinquency rates on June 30, 1984, were for the Economic Opportunity loans, but they comprise a minor program. Among the major farmer programs, the highest number of cases delinquent (46.7 percent) was for the Economic Emergency program, and the largest share of delinquent principal (34.0 percent) was for the Emergency Disaster program (table 17).

Despite the generally high delinquency rates, FmHA write-offs or loan losses have been held to a minimum. Actual FmHA write-offs of principal and interest as a percent of debt outstanding for fiscal 1983 (latest available information) were 0.681, 0.017, 0.098, and 0.164 for the respective Farm Operating, Farm Ownership, Emergency Disaster, and Economic Emergency loan programs.

Limited historical information is available regarding the discontinuation of farming by FmHA borrowers. Some 2.46 percent of farmer program borrowers gave up farming because of financial difficulties in fiscal 1984, compared with 2.78 percent in fiscal 1983 (table 18). Most left their occupation through unforced procedures. In fiscal 1984, 21.2 percent left due to foreclosure; 18.1 percent were foreclosed in fiscal 1983 (table 18). FmHA foreclosed on only 0.13 percent of its farmer program borrowers in 1984, or 5.3 percent of those who discontinued. This was a decline in FmHA foreclosures from 1983. Bankruptcy preceded 16.7 percent of the discontinuations in fiscal 1984, down from 18.5 percent in fiscal 1983. Voluntary sales and conveyances to FmHA preceded over 60 percent of the borrower discontinuations.

Some 29.6 percent (80,985) of FmHA's 273,197 active farmer program borrowers on September 30, 1984, were behind schedule on their debt payments. Two years earlier there were about 14,500 fewer problem borrowers and 24.6 percent of the total were delinquent.

Table 17--Farmers Home Administration farmer program delinquencies, June 30, 1984

Farmer Programs (individual loans)	Number of active borrowers (caseload)			Principal outstanding		
		Delinquent			Delinquent	
	Total	Total	Proportion	Total	Amount	Share of total
	Number		Percent	Mil. dollars		Percent
Farm ownership	123,390	28,610	23.2	6,696.3	301.8	4.5
Farm ownership--nonfarm enterprises	1,415	391	27.6	53.8	3.9	7.3
Operating loans--excluding youth	116,735	42,341	36.3	4,072.2	783.0	19.2
Operating loans--youth	2,299	671	29.2	8.2	2.0	24.4
Emergency disaster	125,029	52,662	42.1	9,938.0	3,374.2	34.0
Economic emergency	60,331	28,187	46.7	4,288.7	901.0	21.0
Recreation	226	66	29.2	13.9	1.4	10.0
Soil and water	16,853	4,808	28.5	297.2	29.5	9.9
Economic opportunity	577	501	86.8	0.7	0.6	95.5
Total	446,855a/	158,237a/	35.4a/	25,369.0	5,397.5	21.3

a/ Duplicated cases because some borrowers have loans under several different programs. On June 30, 1984, there were 270,806 unduplicated borrowers under FmHA farmer programs of which 93,643 (34.6 percent) were behind schedule in making payments.

Source: Farmers Home Administration, Farm and Housing Activity Report and 616 report.

Table 18--Farmers Home Administration farmer program borrowers discontinuing farming, fiscal years, 1983-84

Borrower category	Fiscal 1983		Fiscal 1984	
	Number	Percent	Number	Percent
Active farmer program borrowers:	271,099	100.0	273,197	100.0
Total borrowers who discontinued farming due to financial difficulties:	7,529	2.8	6,713	2.5
Discontinued borrowers who did so:				
a) Under bankruptcy	1,392	18.5	1,124	16.7
b) With FmHA foreclosure	615	8.2	356	5.3
c) With other foreclosure	742	9.9	1,066	15.9
d) With voluntary conveyances to FmHA	1,486	19.7	1,409	21.0
e) With transfer and assumption to others	627	8.3	571	8.5
f) With sales, other than foreclosure	2,667	35.4	2,187	32.6

Source: Farmers Home Administration, Farm and Housing Activity Report, various issues.

FmHA provides several forms of assistance to its borrowers who are experiencing difficulty with their debt payments. Assistance includes the deferral of interest or principal payments and rescheduling, consolidating, or reamortizing loans. About 1 percent of the borrowers each year receive the benefit of deferred payments on their debt. Ten percent of the farm program borrowers have received some form of debt restructuring in each of the past 2 years. Another form of assistance, the financial analysis of a borrower's position, is provided for about one-third of the borrowers each year.

Life Insurance Companies

Life insurance companies had $599.2 billion assets in 1982. Some $142.0 billion, or 24.1 percent, of this total was invested in mortgages of all types. Farm mortgages with a total of $13.1 billion made up 2.2 percent of total life insurance company assets and 9.2 percent of their mortgage assets. Also in 1982, there were 2,048 life insurance companies of all types in the United States. Depending on the year, some 73 to 78 companies hold approximately 80 to 84 percent of all mortgages held by life insurance companies. The 1985 $12.4 billion farm real estate loan portfolio is held by fewer than 20 life insurance companies. Over 90 percent of this portfolio is held by 13 companies; 6 companies hold about 80 percent of the total.

The delinquency rates, based on the number of loans delinquent as a percentage of all such loans in the category, were lower for life insurance company farm mortgage loans than for their nonfarm counterparts throughout the 1970's. The farm delinquency rate first exceeded the nonfarm rate in June 1981, and has done so continuously since June 1982. The rate peaked at 3.88 percent in June 1984, compared with a nonfarm rate of 1.17 percent that same month.

The delinquency rates by the amount of loans outstanding are somewhat less favorable for the farm mortgages because the larger farm loans have tended to become delinquent more frequently. The farm mortgage rate of delinquency as a percent of outstanding loans has exceeded the nonfarm rate since June 1978. The farm rate peaked in June 1984 at 10.38 percent, when the nonfarm rate was 0.93 percent. It was 8.27 percent in December 1983, compared with the nonfarm rate of 0.90 percent.

Next, consider the more restrictive measure of life insurance company mortgage loans in the process of foreclosure. The farm mortgage foreclosure rates by number of loans have exceeded the nonfarm rates since June 1979 and stood at 1.14 percent, compared with a nonfarm rate of 0.16 percent in December 1984. Farm mortgage foreclosure rates by amount of loans outstanding have exceeded the nonfarm rates since June 1978. In June 1984, 2.97 percent of outstanding farm loans was being foreclosed, compared with 0.30 percent for nonfarm loans.

Life insurance company farm mortgage loans are concentrated among companies with large mortgage portfolios of $800 million or more. Total delinquent loans and loans in foreclosure also are centered in this large portfolio category as expected. The farm mortgage loan delinquency and foreclosure rates by size of total loan mortgage portfolio shows a different picture, however. Here the higher rates of problem loans are concentrated among mortgage portfolios of $200 to $800 million.

Current Situation

Commercial Banks

Agricultural banks as a group are in sound condition with adequate profits, capital reserves, and liquidity, but there are some trends that bear watching. Increasingly, banks more heavily involved in farm lending have tended to possess a higher proportion of delinquent loans and loan losses. Failures are up among agricultural banks. The unfavorable trends are expected to continue into 1985 at agricultural banks, whose loan portfolios, both farm and nonfarm, are strongly influenced by poor farm conditions.

Despite the growing financial stress, the problems are not universal. Banks located in California, the Corn Belt, and the Northern Plains appear to be encountering more severe loan repayment problems than banks in other regions. Adverse weather has created widespread repayment problems in the Southeast. But commercial lenders have avoided such problems because they have been

transferring their worst borrowers to the public sector during the past several years.

Agricultural banks will continue to work closely with their troubled borrowers in 1985, as they have so far during the economic stress of the early 1980's. Much of their assistance will come through refinancing and restructuring loans. Many also will turn to the FmHA to expand the bank's use of loan guarantees. The new FmHA Debt Adjustment Program will hasten this latter action.

Despite the hard work of many lenders, debt repayment problems may continue at recent high levels well into 1985, especially if the farm economy is faced with a year of poor prices or yields and high interest rates. Lenders will aggressively seek out the large number of quality borrowers for continued loan portfolio growth. Future agricultural loans may become increasingly more concentrated as fewer borrowers have larger loans. Commercial lenders in agriculture in 1985 have to draw upon resources accumulated during stronger periods to weather the current high level of problem loans, but the industry's long-term viability, despite some continued contraction, still appears strong.

Farm Credit System

The financial condition of the FCS continued to worsen in 1984 because the ability of borrowers to repay debts failed to improve. As with commercial counterparts, there is a wide variation in regional financial conditions. Parts of the Corn Belt and Northern Plains regions have the highest frequency of problem loans. Throughout the Nation, however, loan losses and late payments are up, profits have declined, and competition is strong for quality borrowers. PCA losses currently exceed those of the FLB's by a wide margin. This does not necessarily imply that PCA's are in worse condition, but that PCA problem loans surfaced earlier than those of FLB's. Often short-term lenders allow borrowers to service long-term debt from their operating lines of credit. As short-term lenders terminate this practice, "hidden" FLB problem loans may appear rapidly. This phenomenon may have started for some FLB's in 1984.

The FCS is suffering losses that are very high by historical standards and will continue to be high until their loan portfolio is improved. Growing losses at FLB's are an important concern since they have recently been the strength of the FCS. However, reserves and strong credit history are expected to provide the FCS as a whole with the resources to survive its current and any developing problems. Short-run losses, mergers, and consolidations may work to strengthen the long-run viability of the FCS and put it in a better position to earn long-term profits in the changing financial environment of agriculture.

Without a sharp improvement in farm income, however, the credit problems that have faced the FCS during the past 2 years will continue. Delinquencies, foreclosures, loan losses, and credit quality will continue to be a major problem in 1985. Further increases in FCS delinquencies and foreclosures could occur, but a rebound in farm income would help to minimize the damage. In any event, the FCS probably will realize at least one more year of high losses.

Farmers Home Administration

FmHA typically carries the largest share of high-risk loans, because as the lender of last resort, it lends to farmers who cannot obtain credit elsewhere. Other lenders can often transfer marginal accounts to FmHA to improve their position and avoid added risk. FmHA has over $25.4 billion in outstanding farm debt. Of the total amount, 21.3 percent is owed by borrowers who are behind schedule in their payments, and who account for some 29.6 percent of the total farmer program borrowers. FmHA's delinquent farm debt has grown rapidly over the past 4 years, from $827.6 million to about $5.4 billion. Although the Corn Belt and Northern Plains regions hold the most FmHA debt, the three production regions stretching from South Carolina to Oklahoma and Texas pose the greatest problem with delinquent borrowers.

The rate of FmHA farm lending in 1985 will be subject to a complex set of factors ranging from the weather to commodity prices. Given the economic stress now in the farm sector, it is not likely that FmHA's role will diminish nor that its protfolio will improve much as a result of reduced delinquencies. Indeed, some farmers may

increase their reliance on FmHA in the short run.

FmHA has recently initiated an approved lender program, which will cause guaranteed loans to increase, and is likely to expand restructuring and deferrals under the impetus of the new Debt Adjustment Program. Although FmHA has exercised much forebearance in recent years, considerable information that points to a deteriorating ability of FmHA's borrowers to meet their debt repayments, and for a concentration of problems in particular programs and locations.

Life Insurance Companies

Delinquencies, foreclosures, and bankruptcies continue to be a problem for the life insurance companies holding farm mortgage loans, typically at higher frequencies in 1984 than during earlier periods. Numerous farm properties have been acquired by the companies through foreclosure or borrower default. The industry is selling some, renting some, and directly managing others. Companies are making credible efforts to work with farm borrowers who have the equity and potential cash flow to meet debt requirements. Loans are being considered case by case on their individual merits.

Life insurance mortgage loan funds continue to be available, but often at terms unattractive to qualified potential borrowers under current interest rates and present farm economic conditions. In some companies, competition from alternative investment opportunities is keen; some have a limited supply of farm funds for existing customers only. The outlook is not optimistic. Improvement is not expected without lower interest rates, improved export markets, or lower crop production.

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