

Is This Going to be Like the 1980s?

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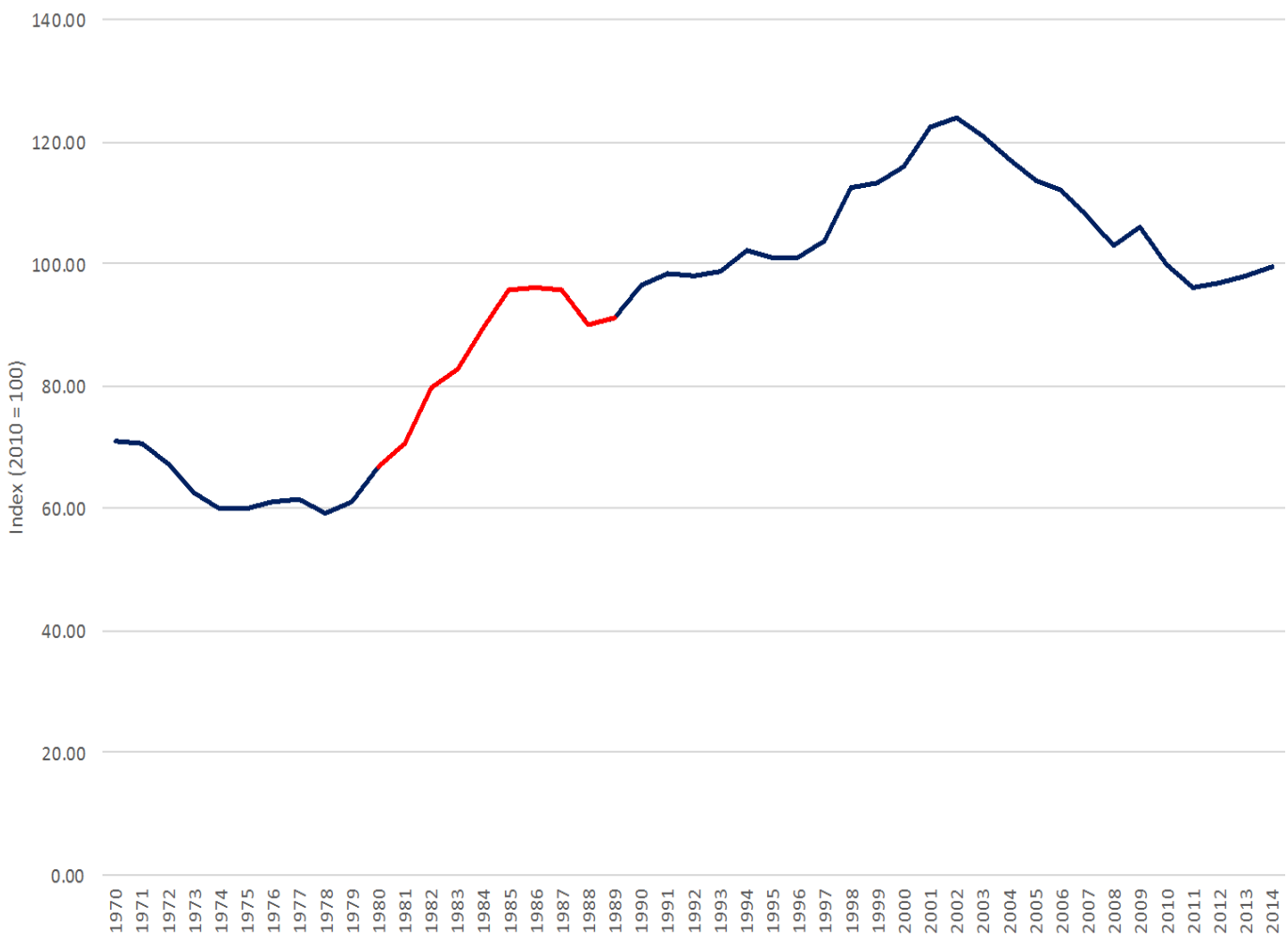
Southern Outlook Conference
Atlanta, GA

September 26, 2016

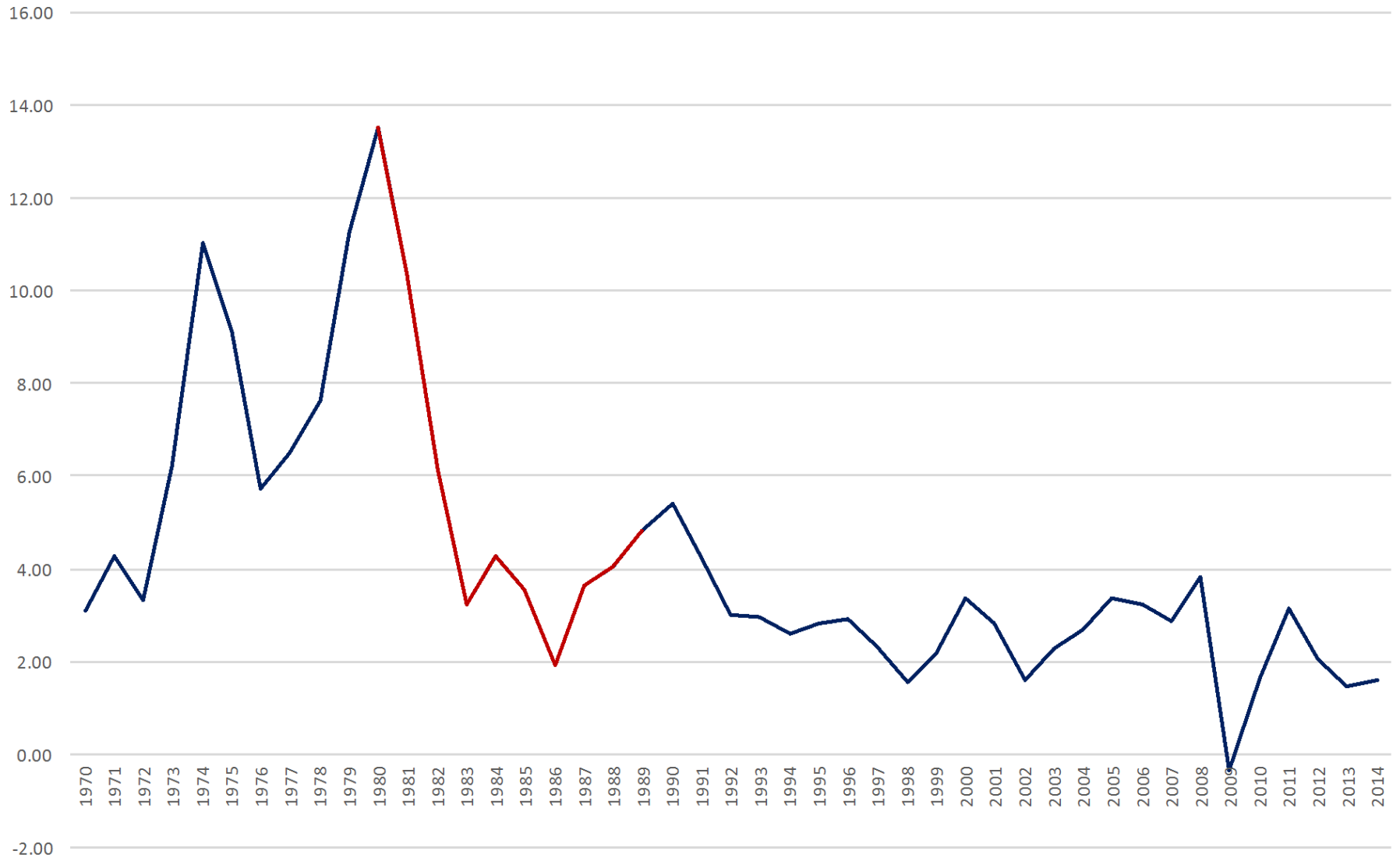
1970s – “The Golden Years” in Ag

- Demand for farm commodities increased dramatically... so did incomes
- Combo of rising incomes and inflation led to increase in land values
 - Credit availability was increasing as well
- Farmers encouraged to plant “fence row to fence row” to meet demand
- New technologies led to more labor savings but required more acres to justify
- Investments were made with land as collateral
- Interest rates soared as Fed tightened monetary policy to fight inflation

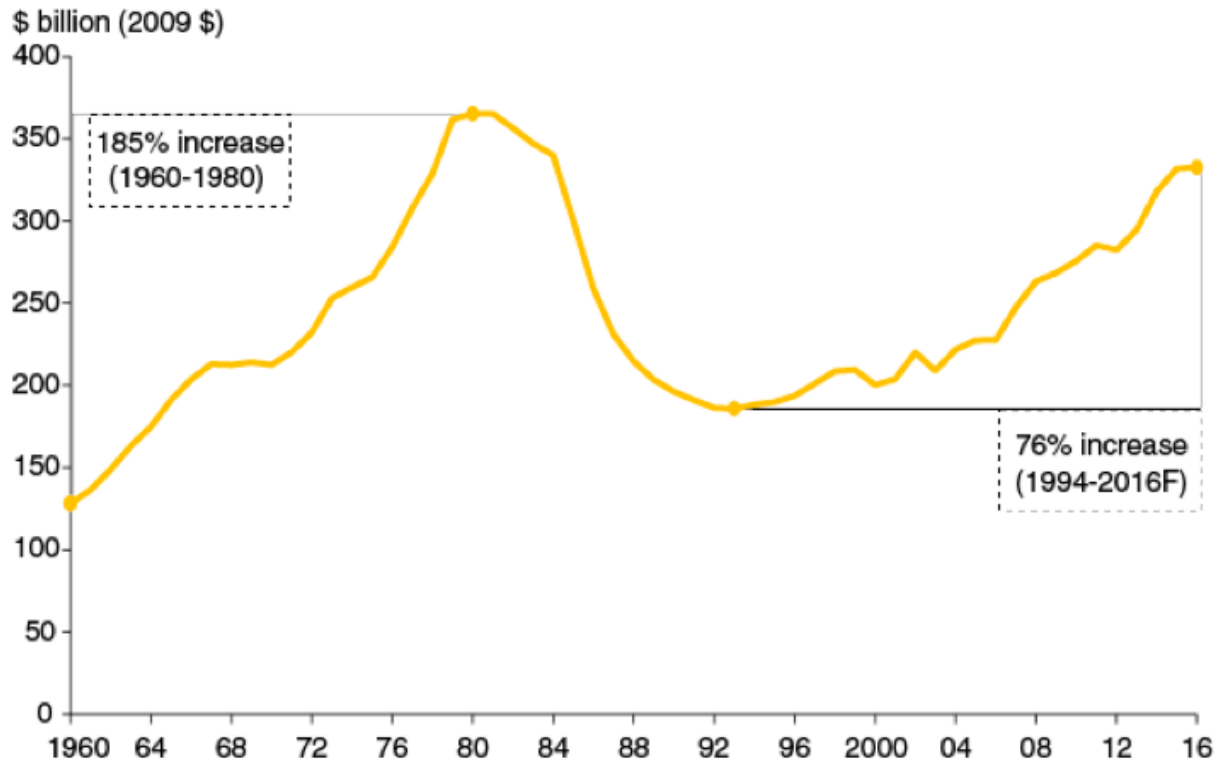
U.S. Agricultural Trade Weighted Exchange Rate, 1970 to 2014.



Annual Change in Consumer Price Index 1970 to 2014



Farm debt growth has been more gradual during period since 1994 than in the decades leading up to the 1980s farm financial crisis



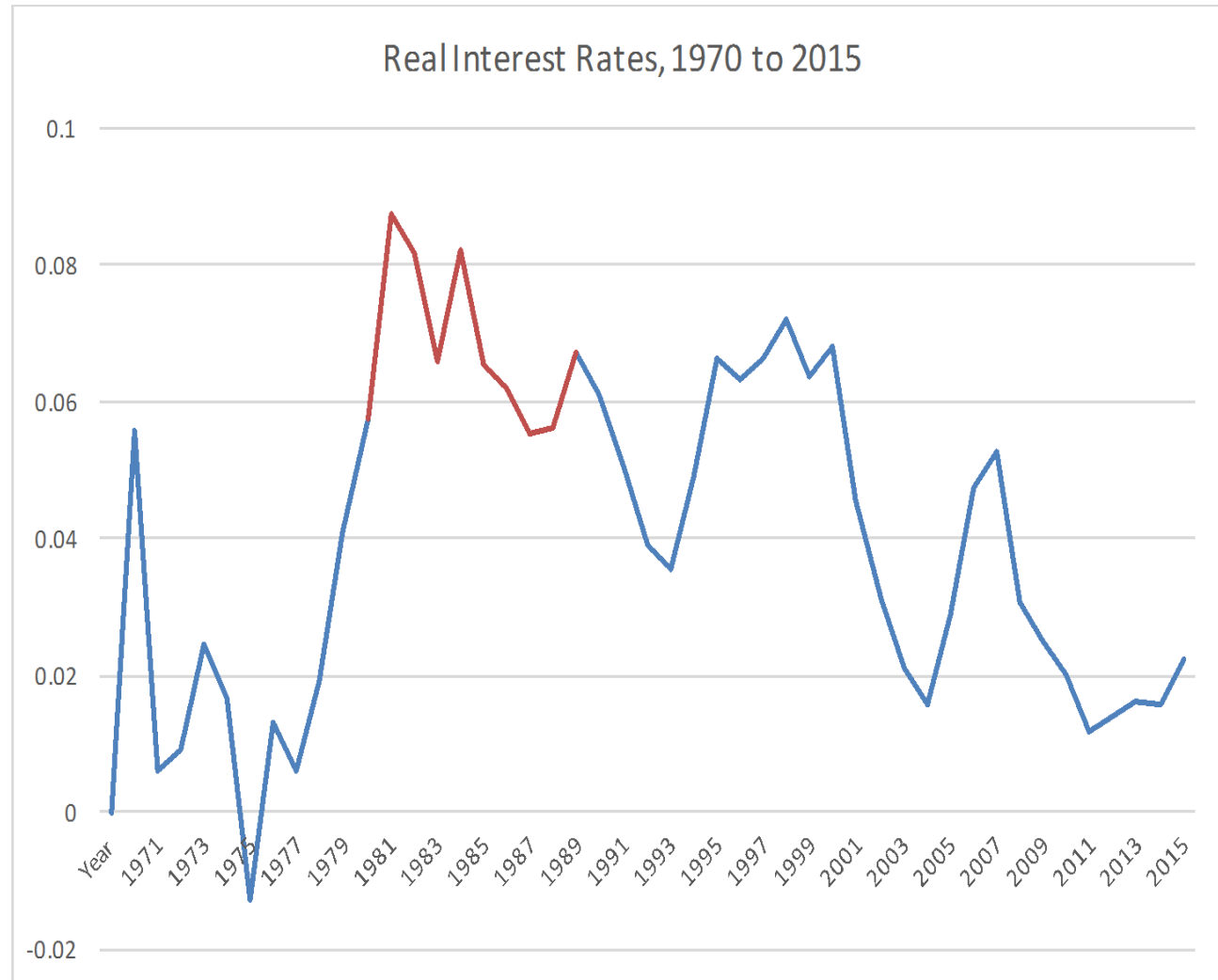
F= Forecast. Values are adjusted using the chain-type GDP deflator, 2009=100.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 9, 2016.

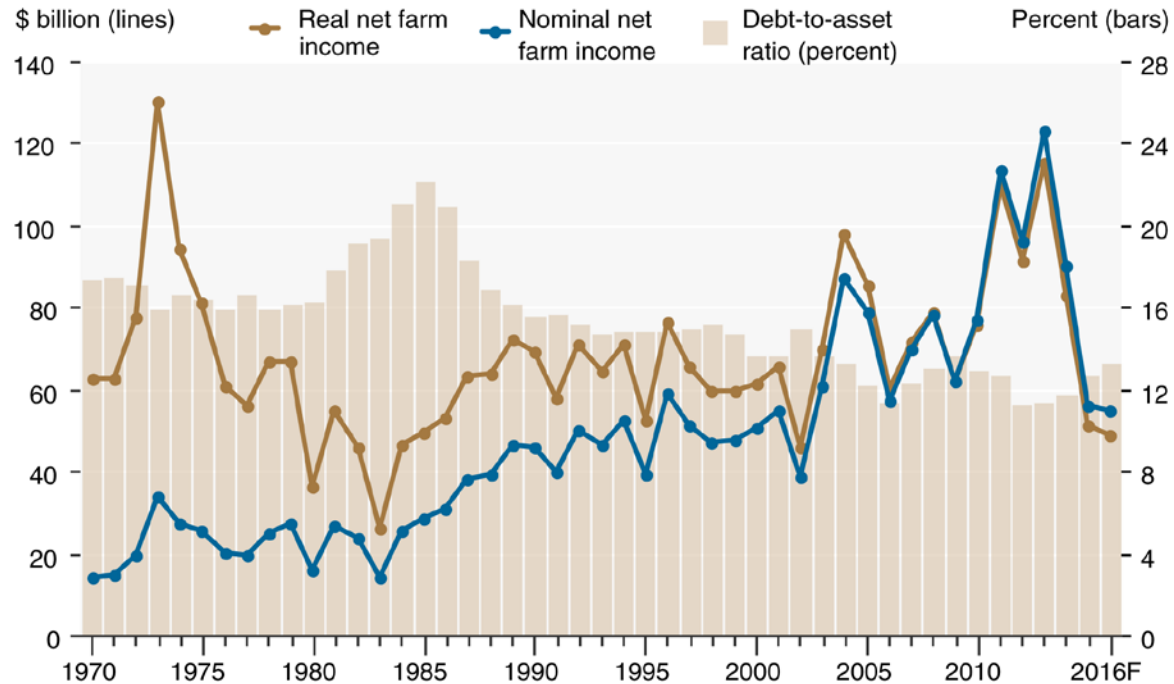
1980s - While the Music Was Good – Times Were Bad in Ag

- By the end of the 1970s and farmers had a lot of debt with declining collateral values and high interest rates
- In 1980, the export market for U.S. farm commodities
- It looked so promising that Secretary of Agriculture Robert Bergland declared, “The era of chronic overproduction . . . is over”
- The expansion of credit was greatly facilitated by the fact that many agricultural bankers continued basing their farm loans on collateral value rather than on cash-flow analysis
- Real net farm income fell over \$100 billion from the high in 1973 to 1983
- In 1981 only 1 Ag bank failed by 1985 62 Ag banks had failed accounting more than half of all bank failures that year

Real Interest Rates, 1970 to 2015



U.S. net farm income (nominal and real) and farm sector debt-to-asset ratios, 1970-2016F

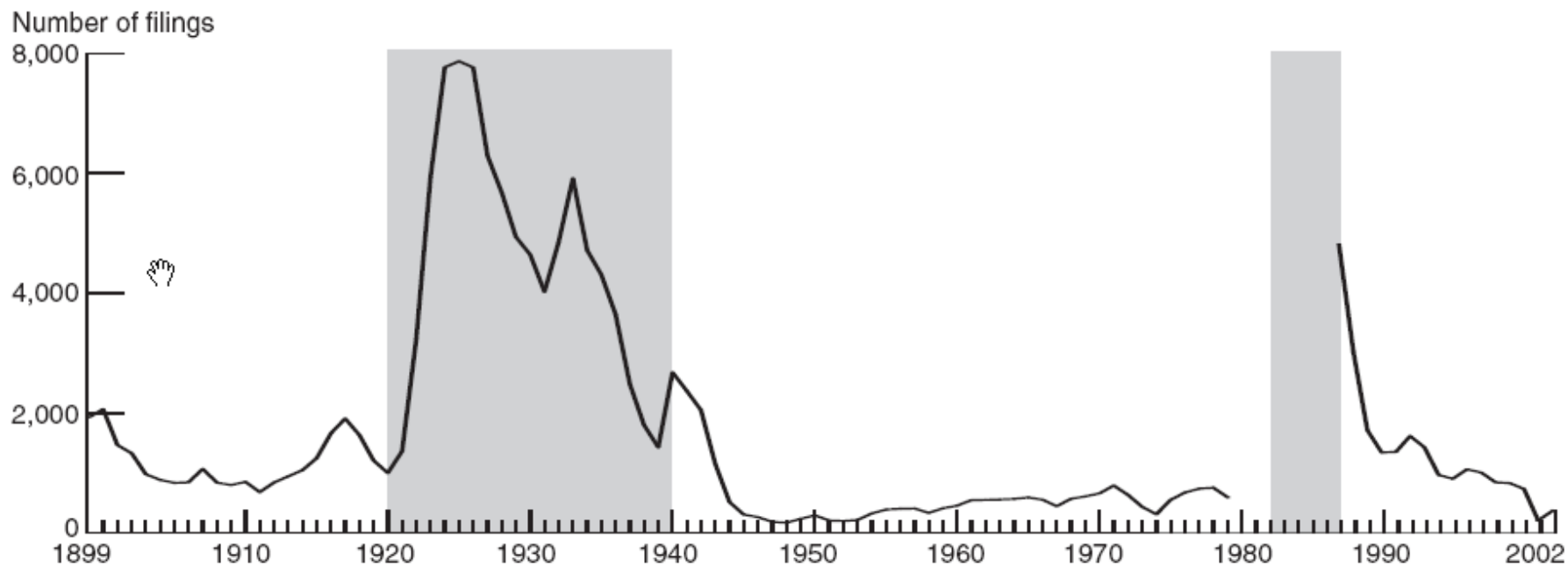


Note: F = Forecast. The gross domestic product (GDP) chain-type price index is used to convert the nominal (current-dollar) statistics to real (inflation-adjusted) amounts (2009=100).

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

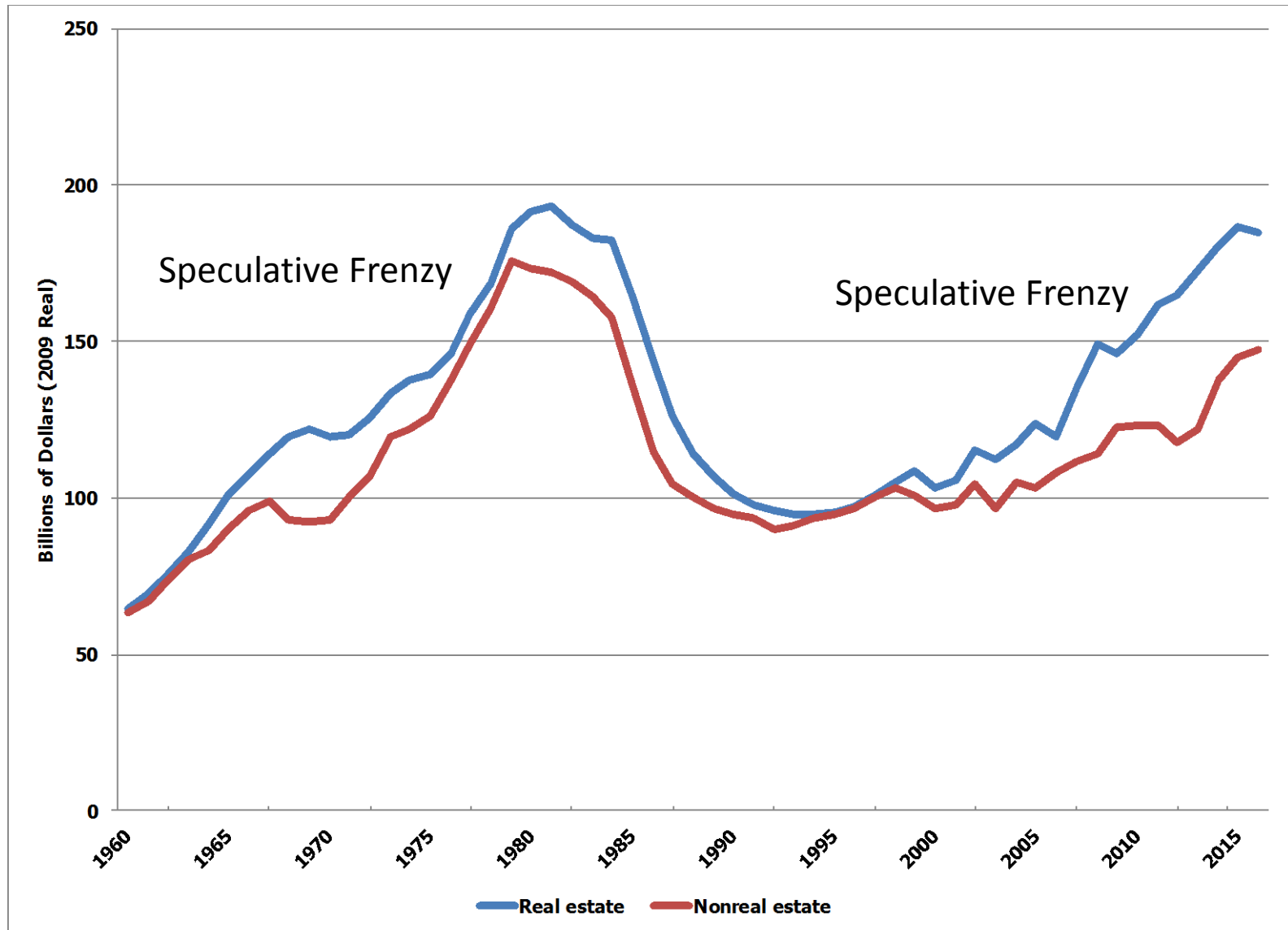
Data as of February 9, 2016.

Figure 2. Total farmer bankruptcy cases filed, by year, 1899-2002



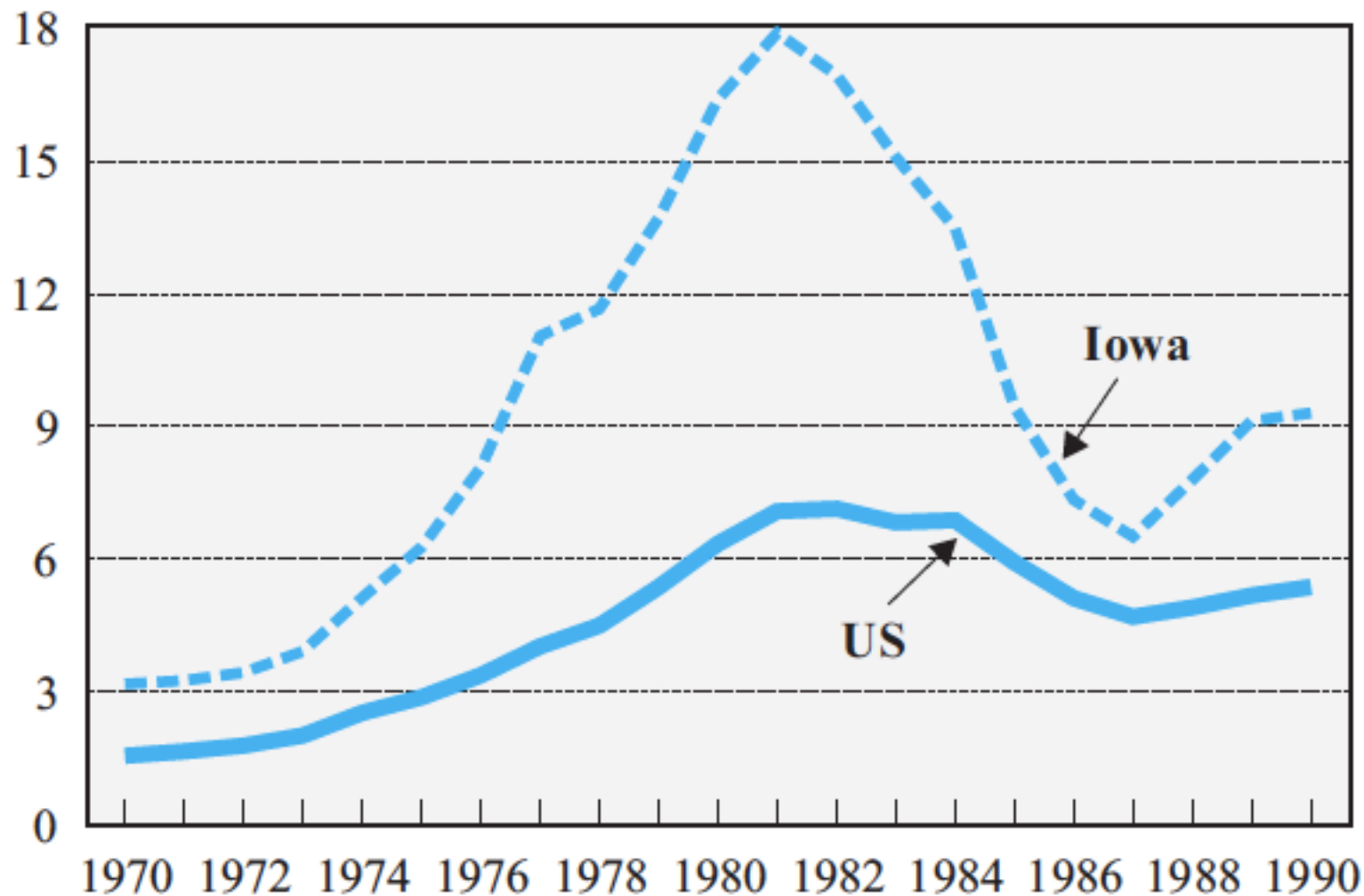
Note: Shaded areas indicate general periods of farm financial stress. All applicable bankruptcy chapters were included for the 1899-1979 data. Data for 1987-2002 are for Chapter 12 only. Data for 1980-86 are not reported due to changes in the bankruptcy law. Sources (2, 4, 5, 6, 52, and 55).

U.S. Real Estate and Nonreal Estate Debt, 1960 to 2016



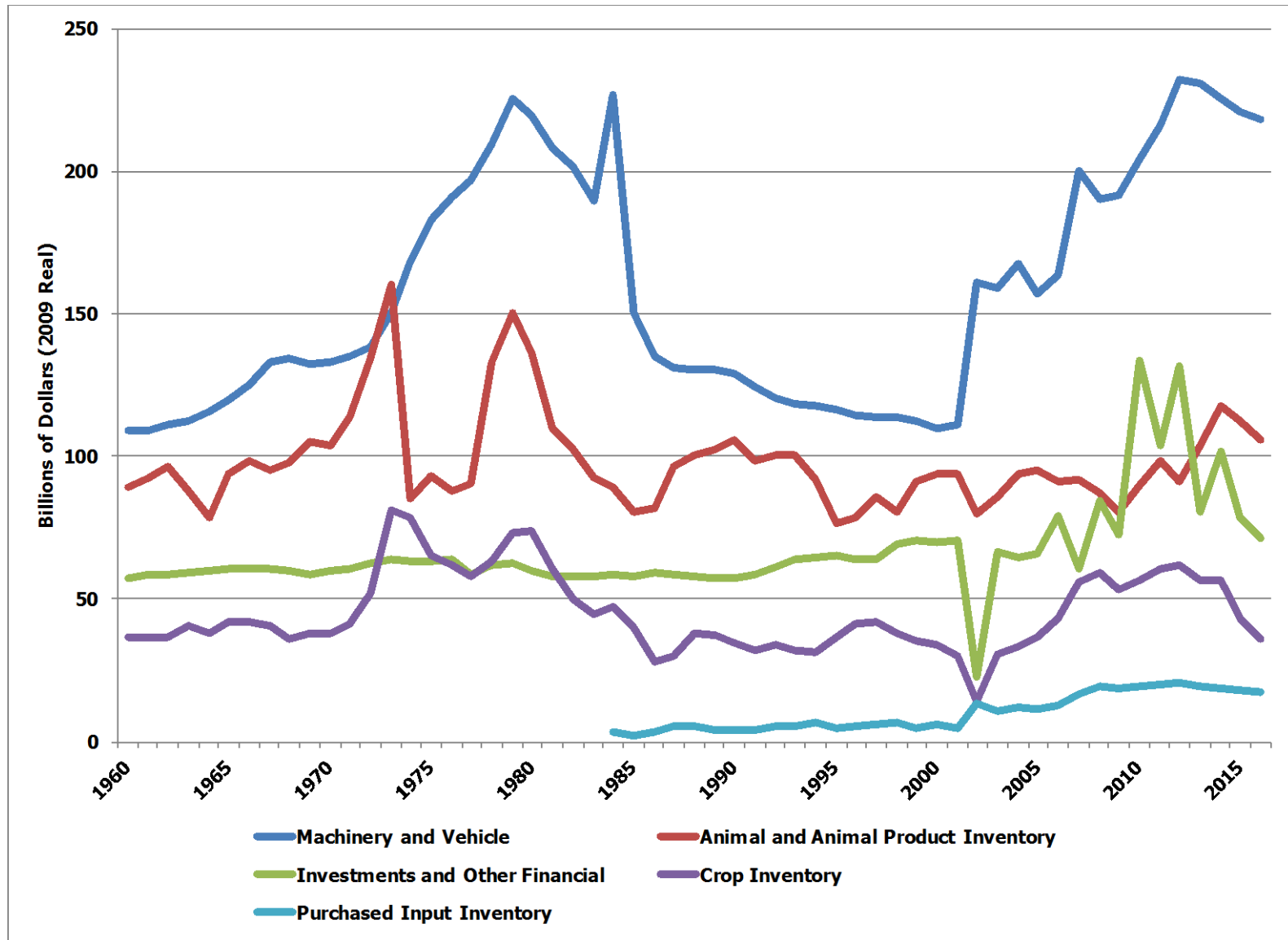
Farmland Value per Acre, U.S. and Iowa, 1970–1990

\$Hundreds

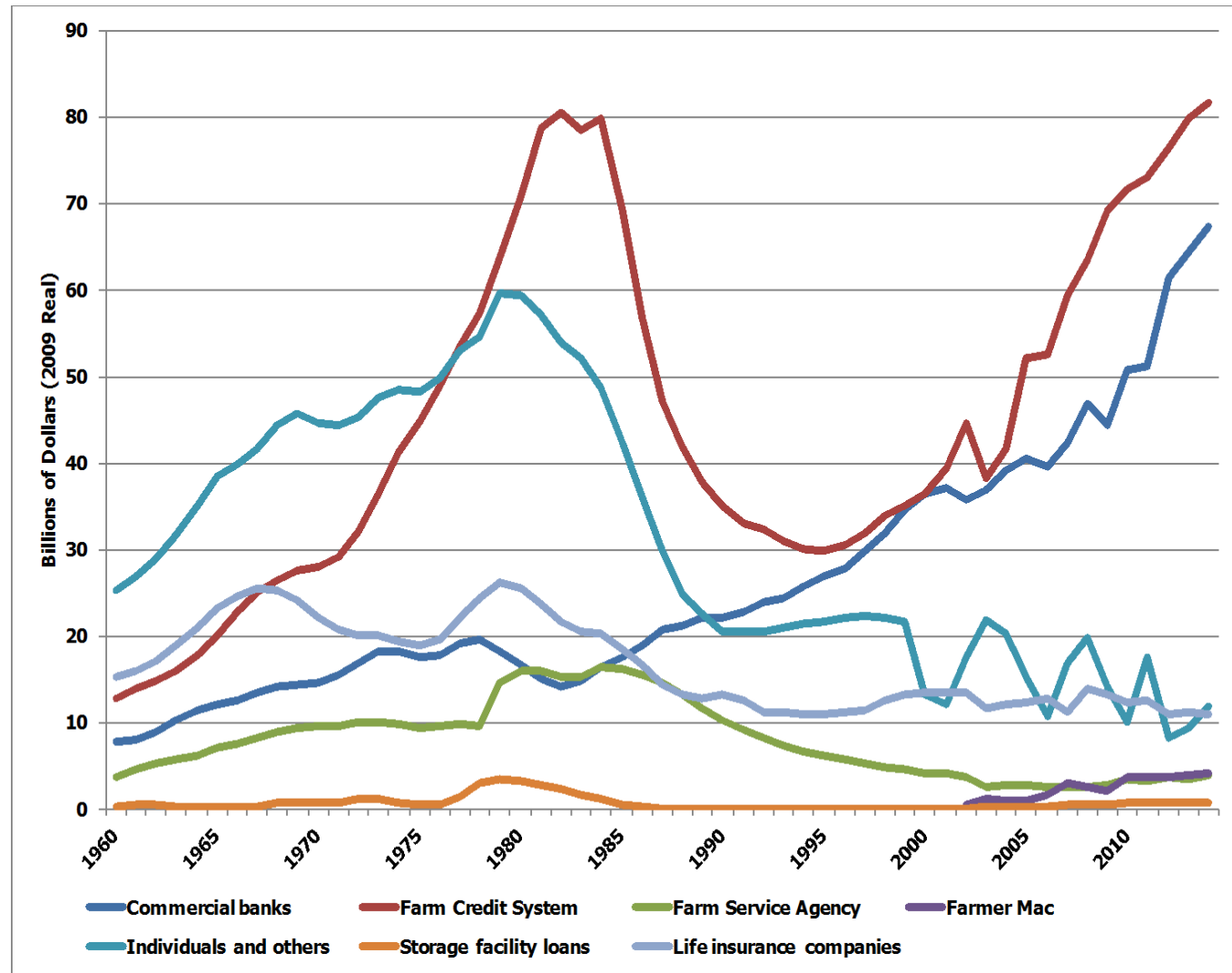


Source: Economic Research Service, U.S. Department of Agriculture.

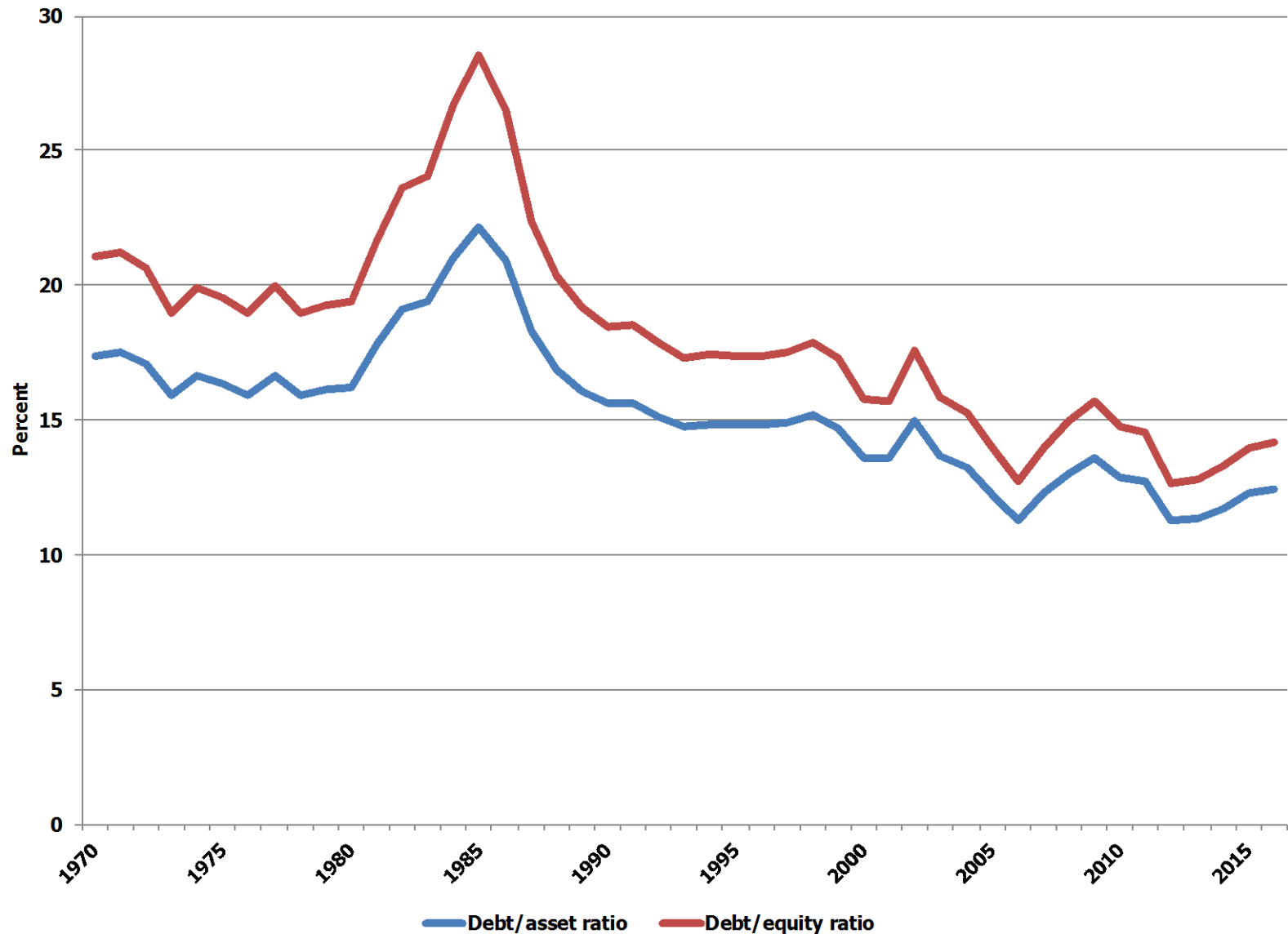
Real Value of Farm Assets Other Than Land, 1960 to 2016



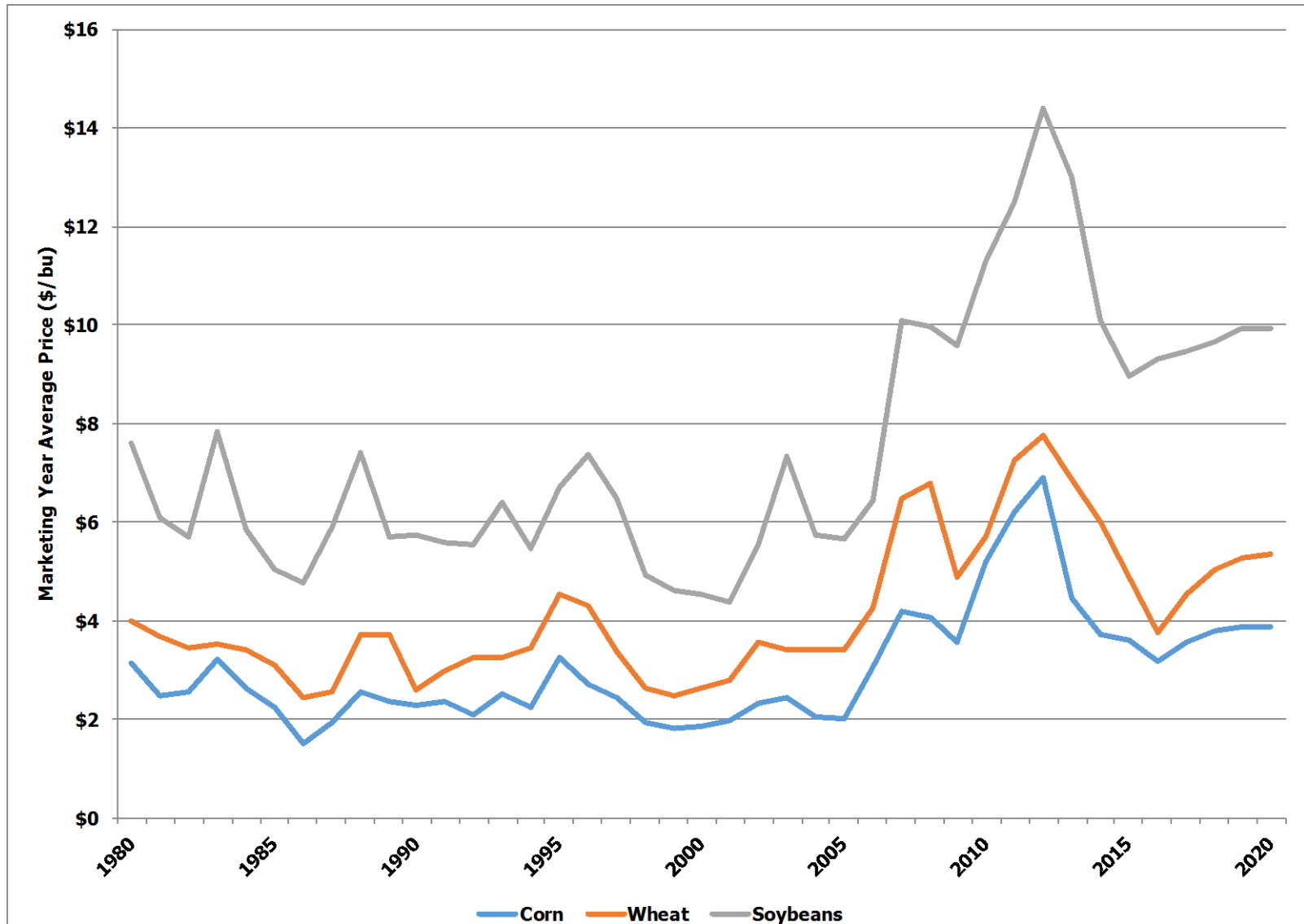
Trends in Debt by Lender, 1960 to 2016



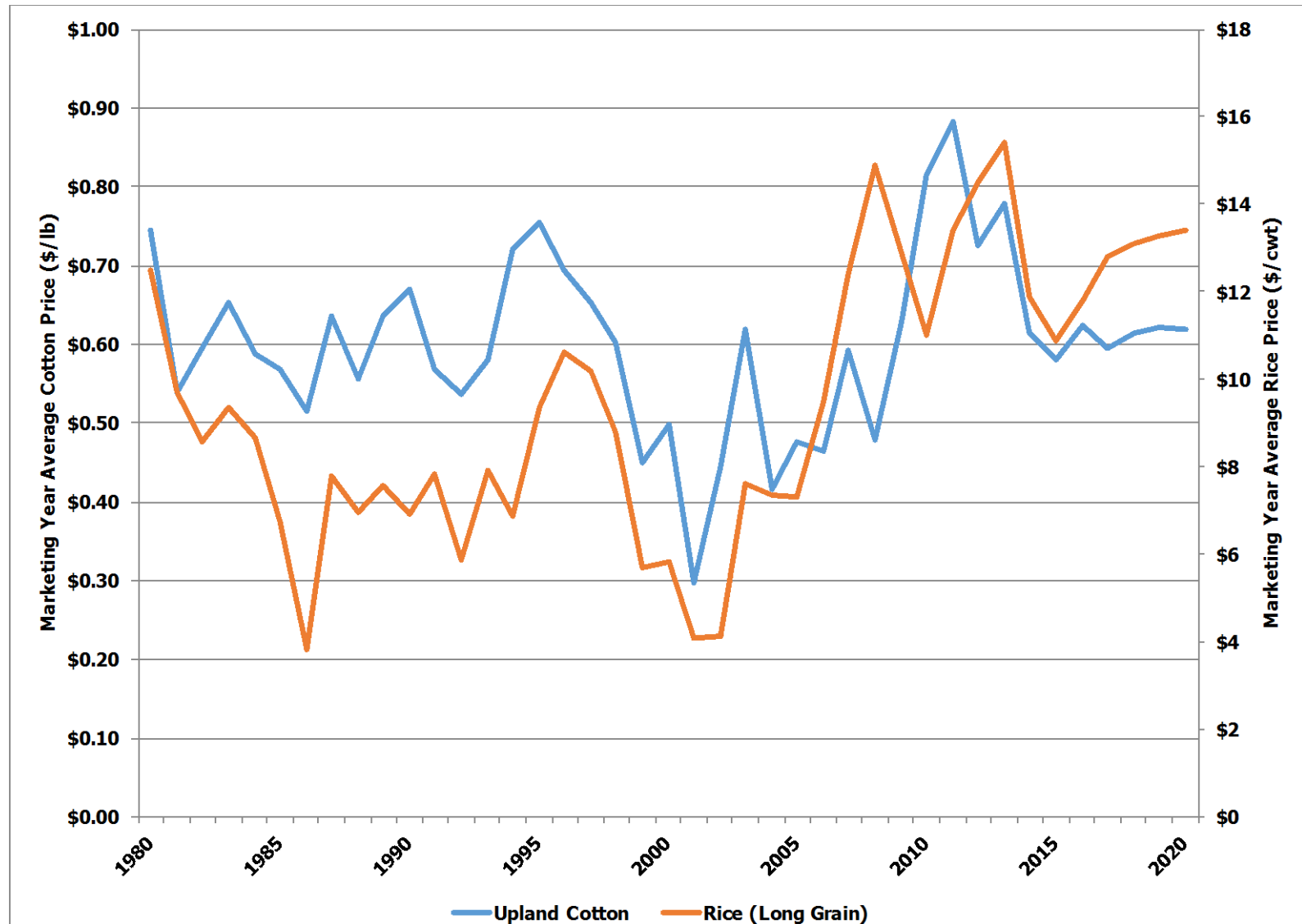
U.S. Debt to Asset & Equity Ratios, 1970 to 2016



Historical and Projected Corn, Wheat and Soybeans Prices, 1980 to 2020



Historical and Projected Upland Cotton and L.G. Rice Prices, 1980 to 2020



My Scorecard on Conditions

| | 1980s | Now |
|----------------------------------|-----------------------------------|----------------------------------|
| High interest rates | Yes | No |
| High inflation rates | Yes | No |
| Favorable exchange rates | Less than 1970s | Trending no |
| Farm debt under control | No | No |
| Market prices | Down from 1970s highs but not bad | Way down from recent highs - Bad |
| Debt to Asset values troublesome | Yes | No |
| Asset values | Eroded quickly | Eroding quickly |
| Financial community prepared | No | No really |

Conclusions

- Probably not going to happen like the 1980s but...
 - Already hearing about farm sales
 - Already hearing about tax problems due to Section 179 equipment needing to be sold
 - FSA ran out of money for loan guarantees
 - Going to be bad... Maybe real bad
- Really depends on how many years of bad prices

Thanks!!!

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