U.S. Agriculture and the World Economic Downturn: Implications for Small Farmers

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Over the last several months, the United States has been hit hard by the worldwide economic downturn. These economic conditions are very dynamic, with significant events in both the private and public sectors occurring almost daily. It is difficult for economists to predict how long the recession will last, however, most economists predict negative growth for the U.S. economy for most, if not all, of this year and that it will impact every sector, including agriculture, either directly or indirectly.

In the short term, the impact of the economic downturn on agriculture will affect both supply and demand, however, the effects will be different for agricultural producers based on the type and size of their operations. The good news for U.S. agriculture is that high prices, record profits, and conservative borrowing habits have provided some protection from the economic downturn.

What does all this mean for agriculture?

Fortunately for agriculture, farm borrowers were in a strong financial condition going into 2008. Estimated profitability of U.S. farms in 2008 was a record $89.3 billion. This may soften the impact of the recession on agriculture.

However, there are several issues that may have a negative impact on agriculture in the short term. First, farm income is expected to decrease in 2009, especially as foreign demand for U.S. agricultural products is likely to decline as incomes worldwide shrink. According to USDA’s Economic Research Service, “net farm income is forecast to be $71.2 billion in 2009, down $18.1 billion (20 percent) from the preliminary estimate of $89.3 billion for 2008. Still, $71.2 billion would be 9 percent above the average of $65 billion earned in the previous 10 years.”

Second, as financial institutions confront the fallout from troubled assets, credit availability may continue to constrict. Continued disruptions in financial markets could lead lenders to make fewer loans. Depending on how banks and borrowers respond to government interventions, such as the recent “stress testing” of major banks, funds available for lending may decline if lenders need
to increase their reserves. According to the Federal Reserve’s survey of agricultural credit conditions, lenders will tighten their underwriting standards. Borrowers should expect increases in collateral requirements. “Credit provided by some input suppliers could be affected by the lack of credit available in the commercial paper (short-term borrowing between banks and large companies) market. Consequently, producers should be especially careful in assuming that such sources of credit will be available.” However, most agricultural lenders have not been involved in the risky financial transactions that have hurt other financial institutions so their ability and willingness to make loans is not as constrained. Furthermore, agricultural lenders and borrowers tend to have long term relationships that will help maintain the flow of loans to farms.

Third, problems in the credit markets are also leading to decreases in the availability of export credit. Exporters are demanding greater evidence as to the creditworthiness of import buyers and their financial institutions; all of which will likely lead to decreases in U.S. exports and commodity prices.

Fourth, increasing unemployment rates have reduced the opportunity for farm families to enhance their family finances with off-farm income. This is particularly troubling as the economic well-being of most U.S. farm households depends on income from both on-farm and off-farm activities. According to research by Mark Drabenstott at the Rural Policy Research Institute’s Center for Regional Competitiveness, the recession is affecting rural communities differently depending on their economic base. Rural communities that are dependent on farming were growing until September 2008, whereas rural communities dependent on manufacturing have been in a slow decline since January 2008. These findings suggest that the strength of the agricultural sector has provided some protection to farm-dependent communities during the recession.

Finally, production expenses are expected to decrease. All producers should benefit from declines in energy prices and fuel-related costs. The livestock sector should also benefit from reduced feed costs. However this comes with the reduction in prices for commodities that are tied to biofuels, such as corn. However corn and soybean prices are still well above historical averages. It is also important to note that farm expenses have increased since 2002 and in 2008 we saw the largest year-over-year increase on record. Therefore, expenses are still high even though they should decline.
What does all this mean for small farms?

Declines in foreign demand may have less of an impact on small farmers since they are less directly affected by exports. Small farmers tend to be more dependent on local markets, however, so what is happening in local economies and with local food systems may be more important. So far, interest in locally grown foods and “buying local” have not diminished much during the recession.

Regarding credit for small farmers and ranchers, recording and proving creditworthiness should be of utmost importance. In the coming years, farmers and ranchers should expect lenders to demand more information on repayment ability. Additionally, some economists argue that farmers should expect higher interest rates as greater competition for all forms of credit will affect the interest rates paid by borrowers.

The current economic downturn is unprecedented and difficult to predict and it is difficult to assess long-term impacts for American farmers and ranchers. Only weeks ago economists were questioning how long the recession would last. Now analysts are noticing some signs of improvements in the U.S. economy. The March pending home sales index from the National Association of Realtors increased 3.2 percent from February. Most economists are warning that if the recession persists in international markets and reduces foreign demand for U.S. agricultural products, then overall farm income will continue to decline. This could be compounded if the dollar increases in value, further reducing foreign demand. Additionally, farmland values are facing downward pressure. The extent of these changes varies by region and state. Nationally, farmland values are projected to fall by about 2 percent in 2009. However, as with farm income, farmland values are declining relative to historic highs.

Given that, it’s impossible to know for sure what the impacts of this recession will be on agriculture, especially in the long term. Farm financial management techniques, such as maintaining good financial and production records, should be an important priority to farmers and ranchers now and in the future. These records are important decision-making tools for farmers and lenders. It’s also important to be knowledgeable about insurance, forward pricing, and contracts, as well as other risk mitigation strategies. For more information on risk management education go to: http://srrme.tamu.edu/regionalcenters.html
Lessons from the 1980s
Agricultural Credit Crisis

Some in the agricultural community have asked if we are going to see another farm credit crisis like we saw in the 1980s, but some evidence suggests that lenders do not expect this; creditors have plenty of money to lend even though they will probably tighten underwriting standards. Many factors distinguish today’s credit crunch from the crisis of the 1980s. Today, the government is taking unprecedented action to prop up the U.S. financial sector and economy as a whole. Additionally, agricultural lenders have maintained conservative lending habits, and farmers and ranchers make greater use of risk management strategies and tend to have less debt. Nonetheless, the success of farmers and ranchers requires good financial stewardship.

1 This article was drawn from the following sources:


