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Cautious optimism seen on ag economic conditions

Academics and Federal Reserve bank surveys show improvements in farm incomes and stabilizing farmland values.

Jacqui Fatka 1 | Nov 14, 2017

With some improvements in 2017 in farm income and farm assets, optimism is slowing growing for finding the bottom in the current low agricultural economic cycle.

The downturn in agriculture has been gradual over the last three years, with increases in farm incomes and farm assets forecasted for 2017. Strength in farmland markets has helped as cropland values and cash rents remain flat for the U.S.

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"Livestock cash receipts are expected to increase, and we do see strength in farmland markets, where declines are seeming to stabilize," Ani Katchova, Ohio State University associate professor and chair of the farm income enhancement program, said during Ohio State's recent Agricultural Policy & Outlook Conference held Nov. 9.

If the improvements continue, that would be good news, she said, adding "Only the future will tell, but I am cautiously optimistic about the outlook for this year and next year."

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Katchova said academics remain more optimistic than lenders, but lenders, too, are finally seeing a potential turn in recent dismal conditions.

The Kansas City Federal Reserve Bank reported that the farm economy in the 10th District continued to show signs of stabilizing in the third quarter of 2017, even as financial stress continued to build and income continued to decline. Although farm income was down from a year ago, the decrease was smaller than in recent years. Farmland values also continued to weaken, but only marginally.

Although agricultural credit conditions continued to weaken, bankers indicated that they do not expect the deterioration to lead to a sharp rise in asset liquidation. Bankers in Kansas, Nebraska and Oklahoma also expected the decline in farm income to slow in the months ahead, according to Nathan Kauffman, assistant vice president and Omaha, Neb., branch executive, and Matt Clark, assistant economist at the Federal Reserve's Kansas City, Mo., branch.

The report also pointed out that, “Although the pace of decline in farm income has moderated, the prolonged downturn in the district’s farm economy has continued to cut into the working capital of farm borrowers. Nearly 82% of bankers reported a year-over-year decline in crop producers’ working capital."

The Chicago, Ill., Federal Reserve reported in its latest AgLetter , written by David Oppedahl, that the district’s agricultural credit conditions deteriorated in the third quarter. The availability of funds for lending by agricultural banks was down relative to a year ago – the first such occurrence in 11 years.

“Both crop and livestock net cash earnings were expected to shrink this fall and winter from their levels of a year ago, based on the predictions of survey respondents. For crops, only 2% of survey respondents anticipated net cash earnings to rise over the next three to six months, while 85% anticipated these earnings to fall,” Oppedahl stated.

According to responding bankers, hog, cattle and dairy farmers are expected to encounter diminished net cash earnings this fall and winter relative to a year ago, although to a lesser degree than crop farmers. Nineteen percent of the survey respondents predicted higher net earnings for hog and cattle operations over the next three to six months relative to a year ago, while 44% predicted lower net earnings. Similarly, 8% of survey respondents anticipated higher net earnings for dairy operations over the fall and winter compared with a year ago, while 39% anticipated lower net earnings.

In the AgLetter, concern was also noted not only for the health of the agriculture industry but also for the vitality of rural economies. “Nearly two-thirds of the survey respondents expressed the view that a weakening agricultural economy had led to weaker Main Street business activity, while 18% did not agree (and 17% were not certain). Until the outlook for farming improves, the economy of the rural Midwest is likely to remain constrained,” the AgLetter noted.

The St. Louis, Mo., Federal Reserve branch reported that “bankers were modestly more optimistic when asked about the prospects for farm income in the fourth quarter.” Compared with the expectations registered in the second-quarter survey, proportionately more bankers reported that the demand for loans, the rate of loan repayment and farm income were stronger than they initially expected, according to the latest Agricultural Finance Monitor .

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