

Ohio Farm Financial Conditions and Outlook

Farm Income and Assets, Farmland Markets, and Farm Financial Stress

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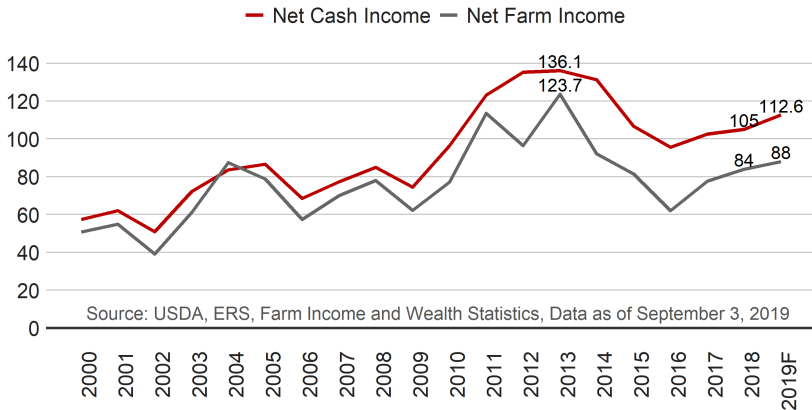
November 12, 2019

Farm financial conditions and outlook themes

- Farm income and assets:
 - ▶ In 2019, US net farm income and net cash income are forecast to increase for a third consecutive year.
 - ▶ The growth in farm income is mainly driven by higher government payments and farm-related income, but with lower expected crop cash receipts.
- Farmland markets:
 - ▶ Modest growth in land values and cash rents (1-2%) for US and Ohio for 2019, which remain stagnant after adjusting for inflation.
 - ▶ Ohio land values and cash rents remained stable in 2019 compared to other states in the Midwest that have experienced declines.
 - ▶ Property tax on farmland (based on CAUV values) in Ohio is expected to decline through 2020, which will reduce upward pressure on cash rents.
- Farm financial stress:
 - ▶ While there is some financial stress, ag loan delinquency rates and bankruptcy rates have remained at historic lows during the last few years.

US farm income forecast for 2019

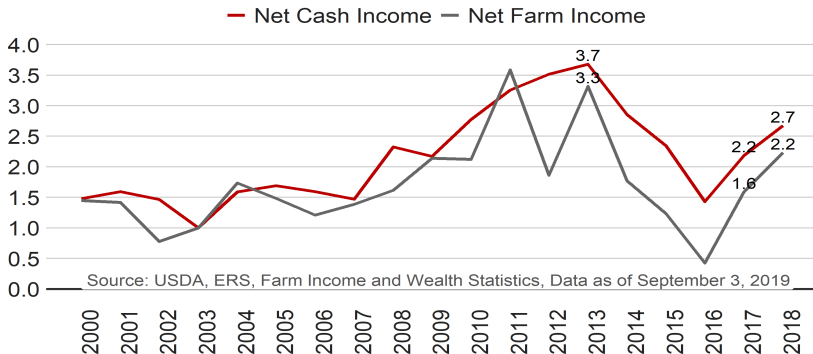
US net farm income and net cash income, 2000-2019 (in billion \$)



- Net cash income (\$112.6B) and net farm income (\$88B) are forecast to increase by 7.3% and 4.8% respectively in 2019.

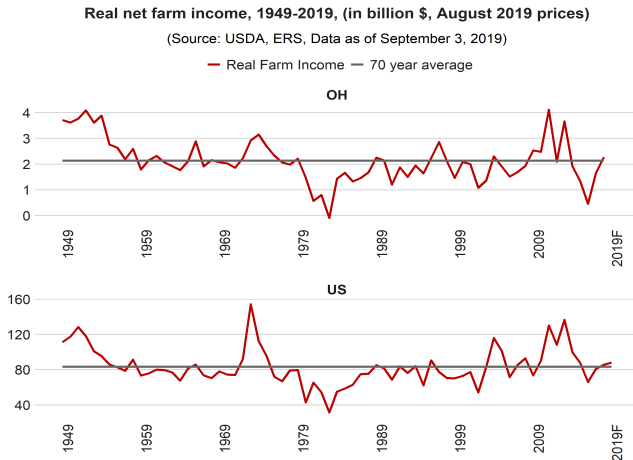
Ohio farm income estimates for 2018 and outlook for 2019

Ohio net farm income and net cash income, 2000-2018 (in billion \$)



- Ohio net cash income (\$2.7B) and Ohio net farm income (\$2.2B) experienced an increase in 2018 for two consecutive years. An increase in Ohio farm income for 2019 is likely to occur if following historic trends.

Net farm income using August 2019 prices

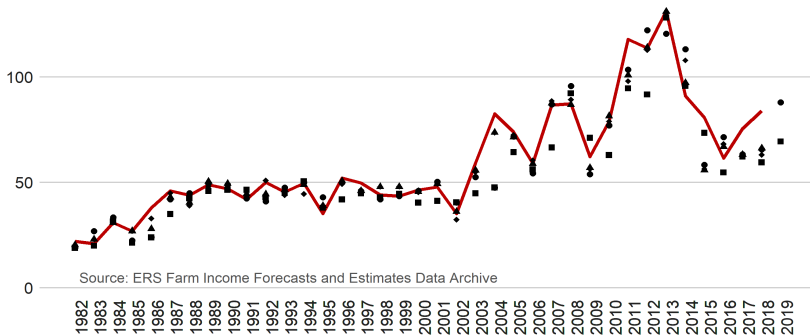


- Net farm income increased to the level of the long-term average in real terms after remaining below it during the last three years.

Accuracy of farm income forecasts

USDA net farm income forecasts, 1982-2019, (in Billion \$)

- February Forecast • August Forecast ▲ November Forecast ◆ February (t+1) Forecast

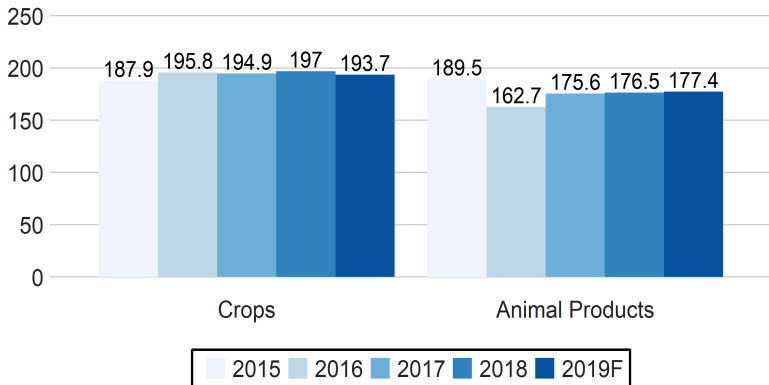


- Bora, Katchova, and Kuethe (2019) suggest that USDA forecasters systematically under-predict initial forecasts due to high costs associated with over-prediction yet are still rational expected loss minimizers.

US crop and livestock receipts

US cash receipts, (in billion \$)

(Source: USDA, ERS, Data as of September 3, 2019)

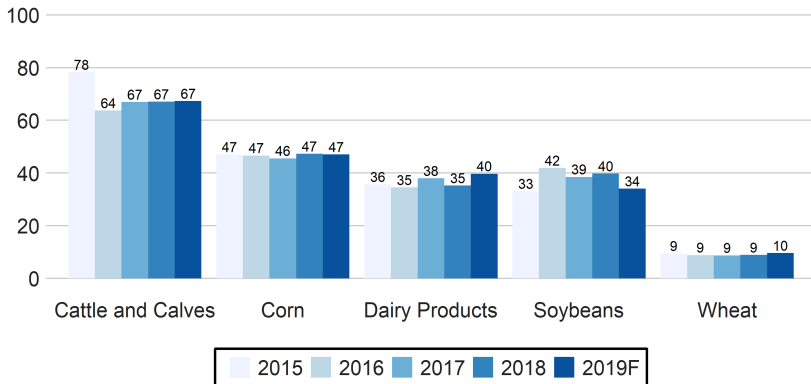


- US cash receipts are expected to decline. Crop receipts are expected to decline while animal product receipts are expected to remain flat in 2019.

US cash receipts by commodity

Cash receipts for selected commodities, (in billion \$)

(Source: USDA, ERS, Data as of September 3, 2019)

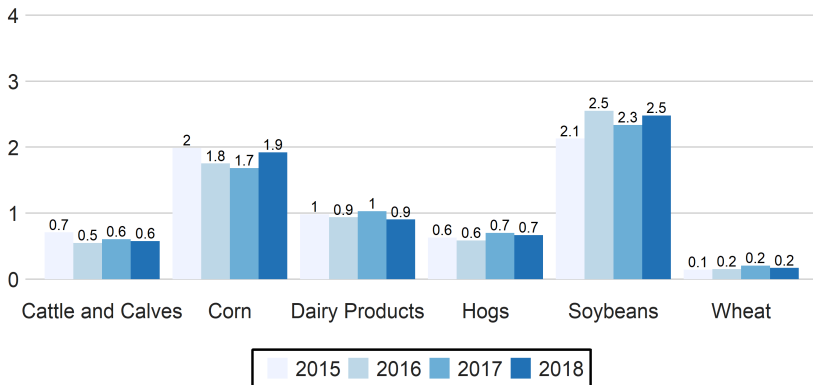


- The expected decline in US crop receipts is driven by expected decline in soybean cash receipts due to lower prices and lower quantities sold.

Ohio cash receipts

Ohio cash receipts for selected commodities, (in billion \$)

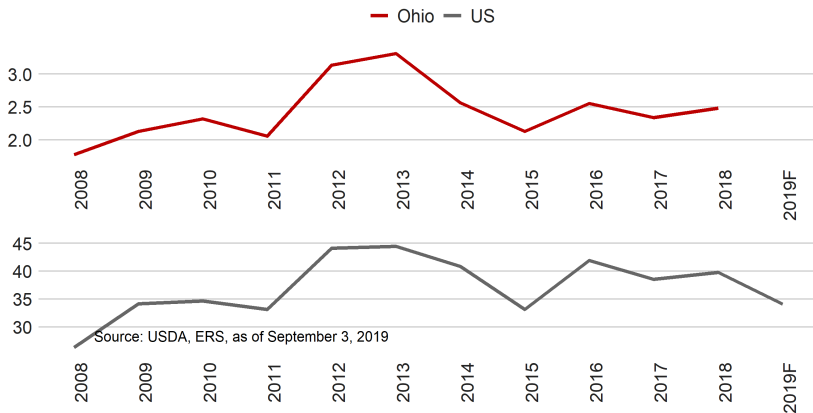
(Source: USDA, ERS, Data as of September 3, 2019)



- Ohio cash receipts for corn and soybeans increased in 2018.

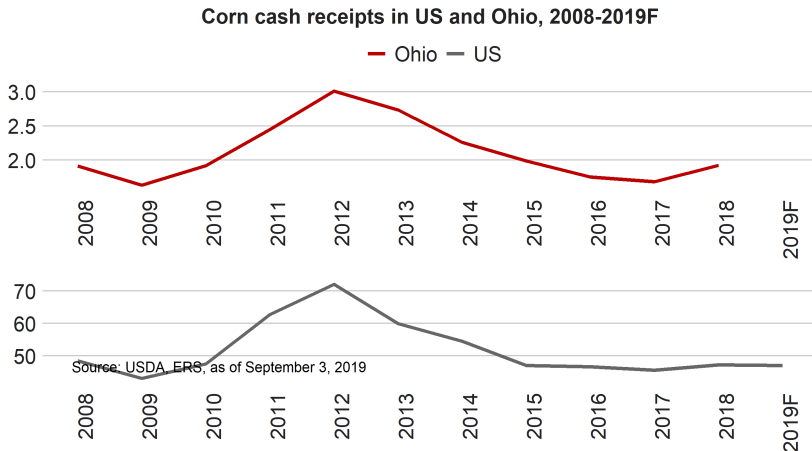
Soybean cash receipts in Ohio and the U.S.

Soybean cash receipts in US and Ohio, 2008-2019F



- Ohio soybean receipts follow similar trends to U.S. Therefore, Ohio farmers can expect to have lower soybean cash receipts in 2019.

Corn cash receipts in Ohio and the U.S.

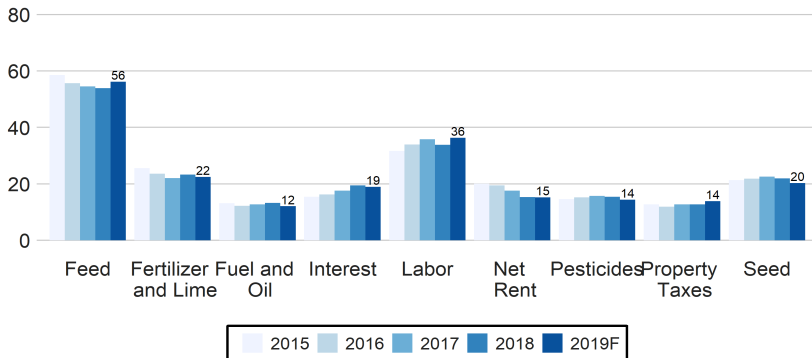


- Corn cash receipts in Ohio may have a slight decline in 2019.

Farm expenses

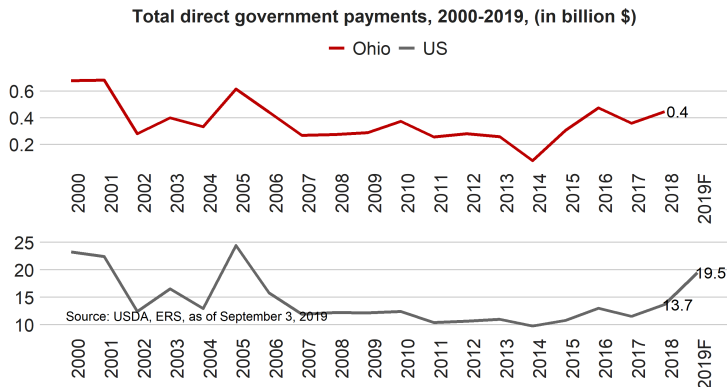
U.S. farm expenses, (in billion \$)

(Source: USDA, ERS, Data as of September 3, 2019)



- Farm expenses are forecast to increase slightly in nominal terms. Labor and feed expenses are expected to increase, while interest, seed, and fuel expenses are expected to decline.

Government payments

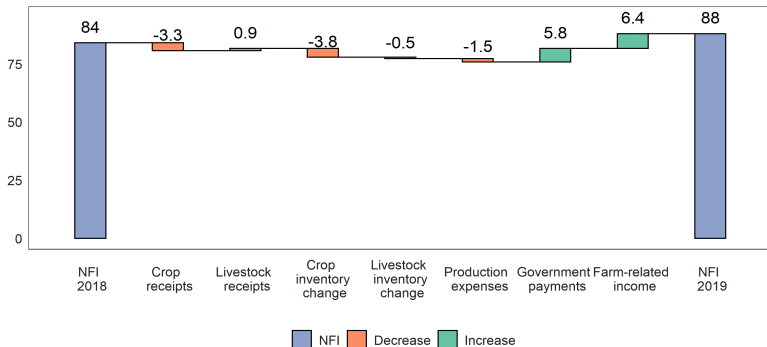


- After 19.1% increase in 2018, government payments are expected to further increase by 42.3% in 2019 to \$19.5 billion, from \$13.7 billion in 2018.
- Market Facilitation Program payments are expected to increase from \$5.1 billion in 2018 to \$10.7 billion in 2019, more than 100% increase.

Government payments and farm-related income drive net farm income in 2019

Changes in net farm income components in 2019, (in billion \$)

(Source: USDA, ERS, Data as of September 3, 2019)

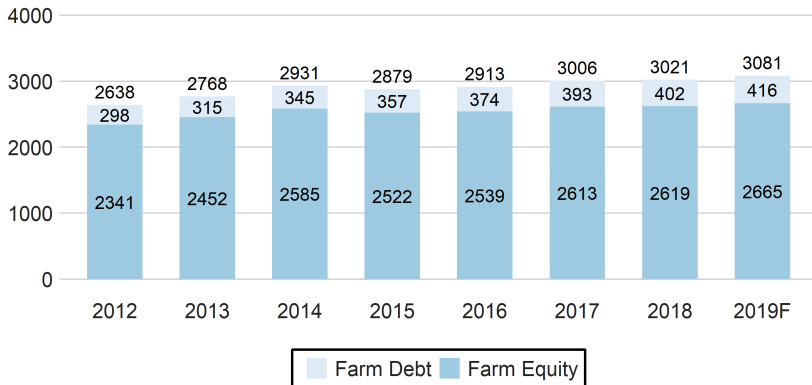


- Increases in government payments and farm-related income (crop insurance payments) drive the overall increases in net farm income in 2019 offsetting lower crop receipts.

Farm assets, equity and debt

U.S. farm debt/equity structure, (in billion \$)

(Source: USDA, ERS, Data as of September 3, 2019)

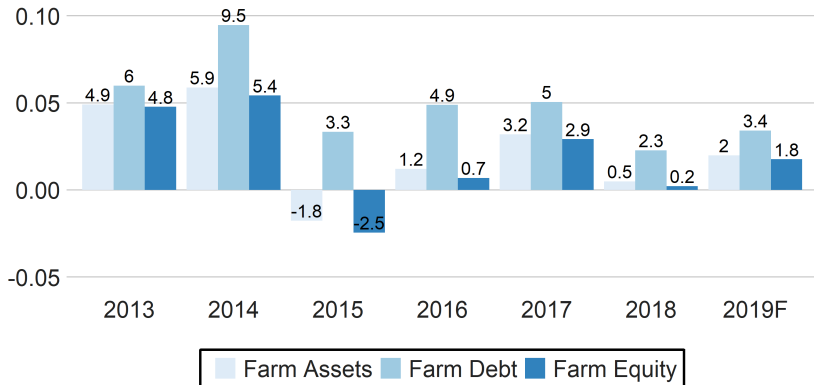


- Farm assets, equity and debt are forecast to increase slightly in 2019.

Balance sheet forecasts

Farm sector assets, equity, and debt % changes

(Source: USDA, ERS, Data as of September 3, 2019)

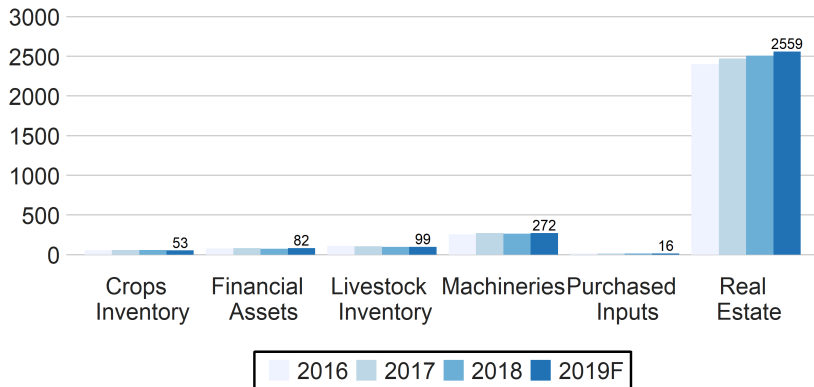


- Farm debt is expected to grow by 3.4% in 2019, and again outpace the growth in farm equity and assets.

Farm assets by type

Farm sector assets by type, (in billion \$)

(Source: USDA, ERS, Data as of September 3, 2019)

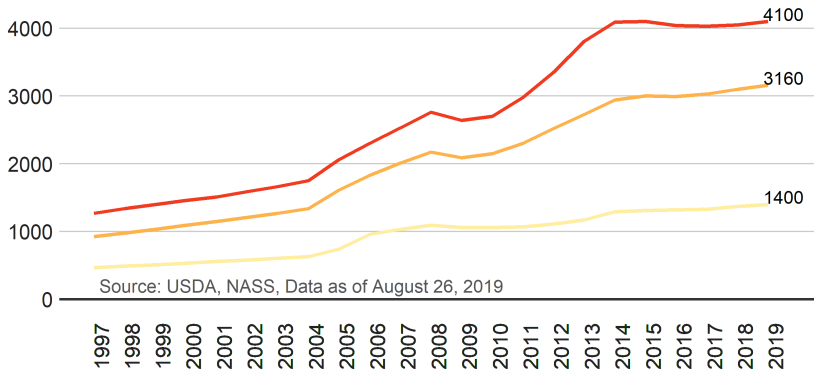


- Farm real estate assets, representing 83% of farm assets, expected to increase 1.9% in 2019.

US cropland values

US cropland values, per acre, 1997-2019

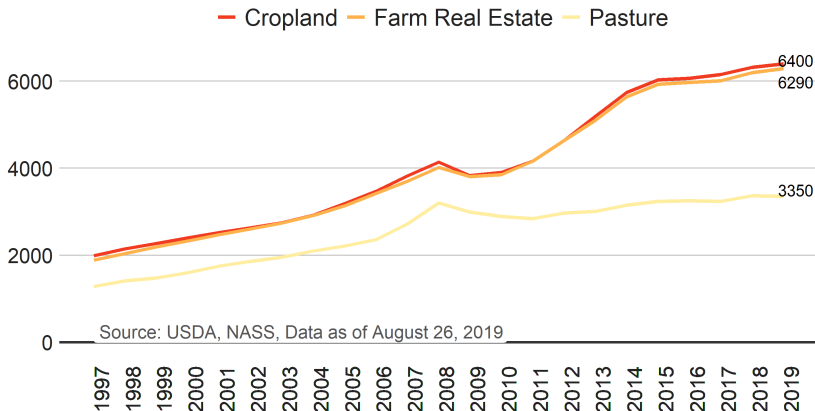
— Cropland — Farm Real Estate — Pasture



- US cropland values increased by 1.2% from \$4050/acre in 2018 to \$4100/acre in 2019. Small but steady growth in land values in the U.S.

Ohio cropland values

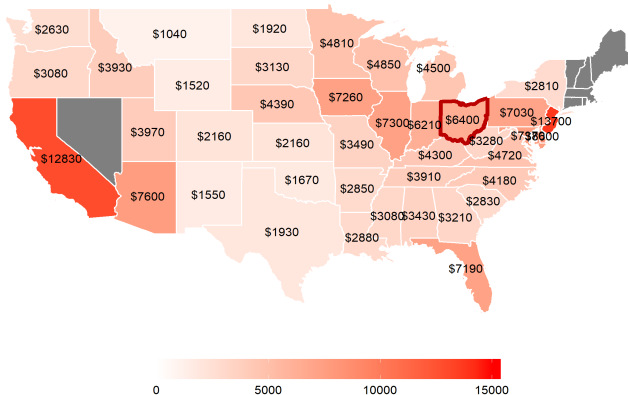
Ohio cropland values, per acre, 1997-2019



- Continuing the trend from last year, Ohio cropland value increased by 1.3% from \$6320/acre in 2018 to \$6400/acre in 2019.

Cropland values by state

Cropland values, per acre, 2019
(Source: USDA, NASS, Data as of August 26, 2019)

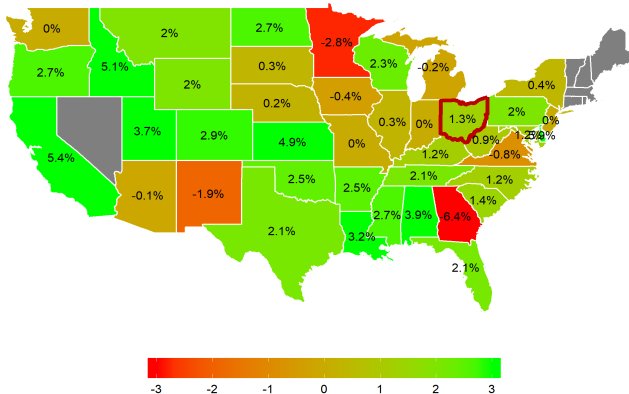


- Cropland values show major differences by state. Ohio land values remain above the national average.

Changes in cropland values in 2019

Percent Change in cropland values, per acre, 2018-2019

(Source: USDA, NASS, Data as of August 26, 2019)

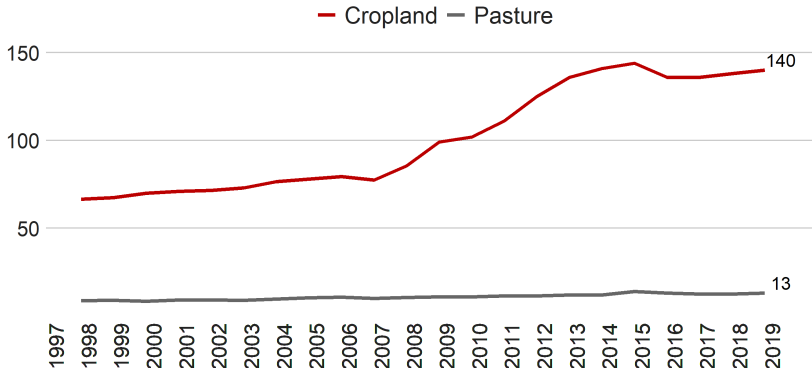


- Many states in the Midwest reported either flat or small decline in cropland values. Ohio fares slightly better than other states in the Midwest.

US cash rents

US cash rents per acre, 1998-2019

(Source: USDA, NASS, Data as of August 26, 2019)

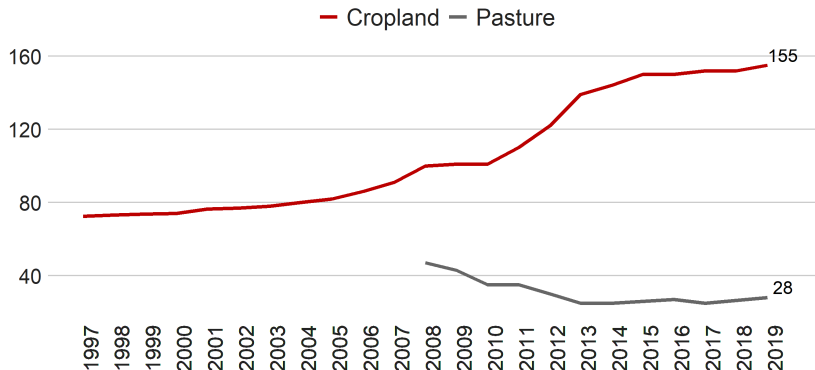


- US cash rents for cropland increased by 1.4% from \$138/acre to \$140/acre in 2019.

Ohio cash rents

Ohio cash rents, per acre, 1998-2019

(Source: USDA, NASS, Data as of August 26, 2019)

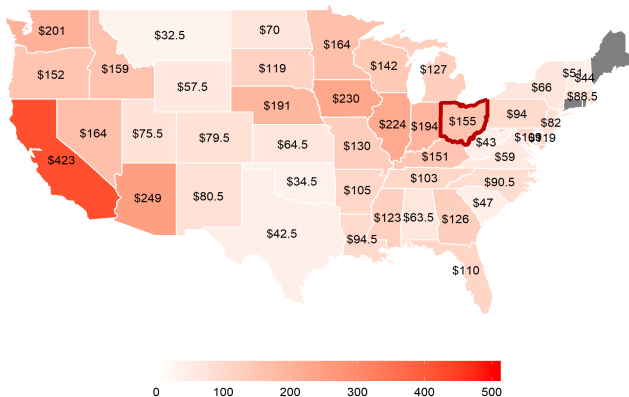


- After remaining flat last year, Ohio cash rents increased by 1.9% from \$152/acre in 2018 to \$155/acre in 2019.

Cash rents by state

Cash rents, per acre, 2019

(Source: USDA, NASS, Data as of August 26, 2019)

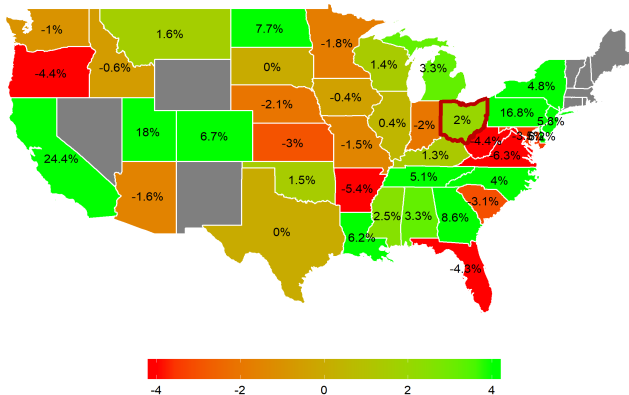


- Cash rents in the Midwest are among the highest in the U.S.

Changes in cash rents in 2019

Percent change in cash rent, per acre, 2018-2019

(Source: USDA, NASS, Data as of August 26, 2019)

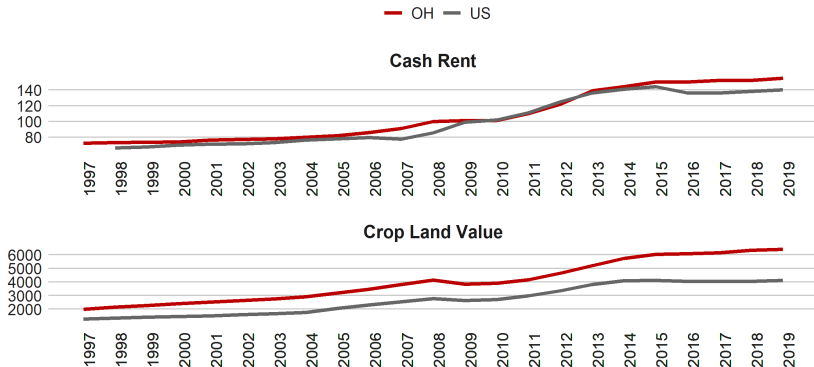


- Cash rents remained stagnant or declined in most states in the Midwest, while Ohio cash rents increased.

Land values and cash rent for Ohio and the U.S.

Land values and cash rents in the US and Ohio

(Source: USDA, NASS, Data as of August 26, 2019)

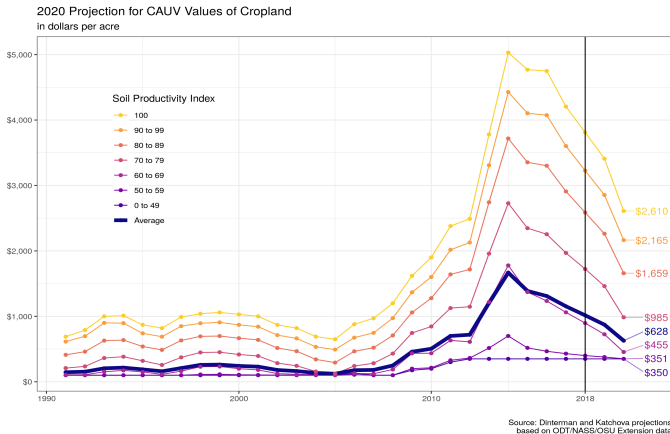


- Ohio cropland values and cash rents are above the national average.
- Ohio cash rents have been higher than national levels since 2013.

Farmland property tax and CAUV values in Ohio

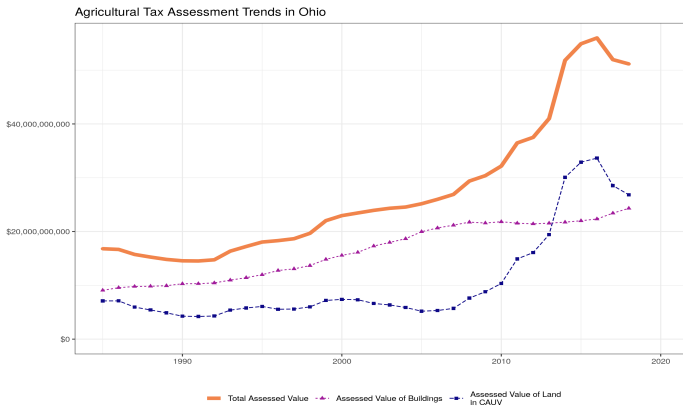
- **Current Agricultural Use Value Program (CAUV)** taxes farmland at use-value based on soil type as opposed to its market value.
 - ▶ CAUV uses a capitalization formula based on expected net operating income from corn, soybeans, and wheat.
 - ▶ Low interest rates and high commodity prices are the largest factors for recent increases, which prompted changes in formula most recently in 2017.
- Our projections are for about 28% decline in CAUV values for 2020 from 2019.
 - ▶ Because CAUV values and property tax on farmland in Ohio are expected to decline in 2020 and 2021 (for a fifth and six consecutive year), this will reduce upward pressure on cash rents in Ohio.
 - ▶ About 30-40% of the farmland property tax in Ohio gets transferred from the landowner to the farmer operating rented land in the form of higher cash rents (Dinterman and Katchova, 2019).

2020 CAUV values are projected to decline



- Our projections are for about 28% decline in CAUV values for 2020 from 2019. The sharp drop in 2020 is because the “phase-in” is no longer present.

Property taxes in agriculture



Source: Ohio Department of Taxation, Robert Dinterman, 2019-10-25

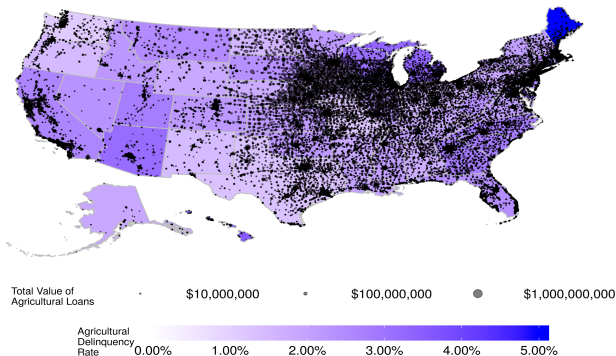
- Agricultural tax assessed value in Ohio show that assessed values of land in CAUV shows fluctuation while the assessed value of buildings changes steadily.

Ag loan delinquency rates in the U.S.

Agricultural Performance Q3 2018 to Q2 2019

Avg Total Ag Loan Value of \$185,113,000,000

Delinquency Rate of 2.05%



FDIC Call Reports, Robert Dinterman, 2019-10-31

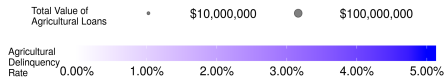
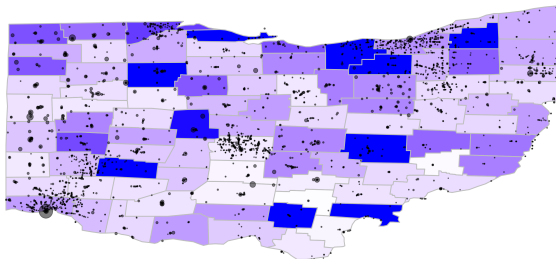
- Ag loan delinquency rates has remained relatively low at 2.05% during the last four quarters. Concentration of ag loans in the Midwest but low ag loan delinquency rates.

Ag loan delinquency rates in Ohio

Agricultural Performance Q3 2018 to Q2 2019

Avg Total Ag Loan Value of \$3,798,000,000

Delinquency Rate of 1.59%

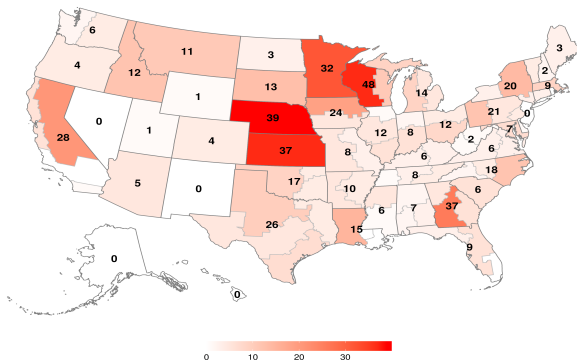


FDIC Call Reports, Robert Dinterman, 2019-10-31

- Ohio ag loan delinquency rate was 1.59% in the last four quarters, which is below the U.S. average. Some pockets of increased delinquency rates across Ohio.

Chapter 12 bankruptcies

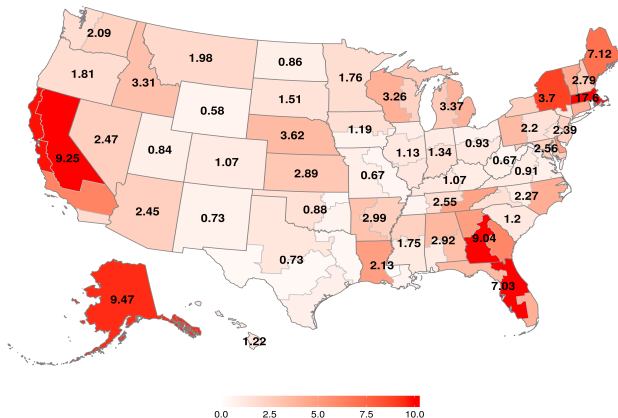
Total Farm Bankruptcies Filed
From October 2018 through September 2019: 583



- Recent uptick in chapter 12 bankruptcy filings to 583 filed during the last year, mostly affecting Midwest areas concentrated in dairy (Wisconsin and Minnesota) or states with declining land values (Kansas and Nebraska).

Farm bankruptcy rates in Ohio and the US

Farm Bankruptcies filed per 10,000 farms
Annualized from January 2006 through September 2019: 2.18



- Ohio farm bankruptcy rate of 0.93 Chapter 12 filings per 10,000 farms has been consistently about half of the U.S. bankruptcy rate.

Ag outlook for 2019 and beyond

- With farm incomes forecast to grow for the third consecutive year, the farm economy shows signs of recovery since the agricultural downturn started in 2013. However, the recovery has been slow, as farm incomes remain well below the historic highs of 2013.
- Expected increases in farm income for 2019 mostly due to increases in government payments and farm-related income, while expecting lower crop cash receipts.
- Strength in farmland markets has helped, with cropland values and cash rents increasing at the pace of inflation for US and Ohio in 2019.
- Expected declines in CAUV values/property tax for 2019 and 2020 will help farm income and will not put further upward pressure on cash rents in Ohio.
- Farmers are experiencing some financial stress but still at historic lows for ag loan delinquency rates and bankruptcy rates.
- Although financial stress may increase for some indebted farmers, significant stress is not likely in the next year or two thanks in part to increased farm income and strong farmland markets.

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Farm Income Enhancement Program
<http://aede.osu.edu/programs/farm-income-enhancement-program>