Farm financial picture looks brighter in 1980's

WASHINGTON, D.C. — What are the financial prospects for the farm sector over the next 10 years?

With agriculture's future tied so closely to other domestic and foreign developments, there aren't any sure answers. But even while admitting that uncertainties abound, many economists see the 1980's as a growth decade.

Although growth may start slowly and may not touch all segments of farming, the overall picture is one of increased strength and profitability for U.S agriculture, says Dean Hughes and Stephen Gabriel, two finance analysts of USDA's Economics and Statistics Service

Behind that outlook are expectations that rising foreign demand will provide steadily expanding export markets. At the same time, a sustained recovery in the U.S. economy could touch off renewed growth in consumer incomes — spurring demand for red meats.

The analysts also project that the annual rate of inflation will turn down from recent high levels and may slow even further as 1990 approaches. That's a dramatic reversal from the steady acceleration in the inflation rate since 1950, and it has major implications for the farm sector.

The alternative — continued acceleration in the inflation rate — could fuel unparelleled increases in farm production costs That would probably force major adjustments in the way U.S. farming is organized and would almost certainly lead to greater government involvement in agriculture.

A Slow Starter

Even with an improving economy, Hughes and Gabriel expect relatively slow growth in net farm income until the mid-1980's. This year should be an exception, but the increase will probably look impressive only in comparison with last year's drought-reduced income.

After 1981, the projections indicate that gradual — but steady — gains in the farm sector's gross income will be largely offset by rising production expenses, which will generally keep pace with the inflation rate throughout the economy.

Thus, net farm income may grow at an average annual rate of only 4-5 percent between 1982 and 1985. If the analysts' projections turn out to be accurate, the inflation rate will be somewhat higher than this, so farmers will still be losing ground in purchasing power.

However, in the second half of the decade, net farm income could start to grow rapidly with mounting export demand, a slowing inflation rate, and higher consumer incomes.

In fact, Hughes and Gabriel foresee net farm income growing at about double the average annual rate of the early 1980's. The acceleration in farm income, while inflation continues to moderate, would give farmers substantial gains in purchasing power. Farm income could actually be rising faster than income in the nonfarm sector.

For the decade as a whole, farm production expenses could increase by an additional $240 billion above 1980's estimated $132 billion. However, gross farm income is expected to increase even more.

The result: Net farm income may more than double by 1990 Even after adjusting dollar figures for the projected inflation rate, farmers' purchasing power would increase by a tenth over the 10-year period.

What About Assets and Debts?

Net income isn't the only measure of farmers' financial status. Assets, debts, and the relationship between the two are important as current income to agriculture's financial well-being

While it took two centuries for U.S. agriculture to accumulate 1980's $1 trillion ($1,000 billion) in assets, it may take only another decade to triple that figure. Real estate values may grow at an average rate of about 14 percent a year through 1990, accounting for most of the increase in assets.

This will add to the wealth of landowners and make it more difficult for new farmers to get started. Also, higher land prices will greatly increase the need for borrowing to refinance the ownership of land as it is consolidated among fewer and fewer owners.

Partly for this reason, farm debt will continue to grow, perhaps passing the $600 billion mark by 1990 — more than three times the level of December 31, 1980.

While farm debts as a percentage of assets may rise to near 20 percent in the mid-1980's, the ratio will probably drop closer to recent 17-18 percent levels as farm incomes accelerate in the latter part of the decade

The strong competition for loan funds to meet the spiraling capital needs of agriculture will impose heavy demands on farm credit markets. But Hughes and Gabriel expect that the profitability and promising outlook of the farm sector will enable it to compete successfully with other sectors of the economy for the funds it needs.

In fact, a greater share of the financing will probably come from commercial money markets. Government's share of total farm debt, which grew from 6 percent 5 years ago to 14 percent today, may decline to about 9 percent by the end of this decade.

However, both analysts are quick to admit that many factors could alter their optimistic projections. For example, slow growth in exports or a sluggish domestic economy coupled with higher than expected inflation would continue to squeeze farm incomes.

Such conditions could lead to greater government involvement in agriculture. Why? Private lenders would probably limit their commitments to agriculture, while farm debt could build to as much as $1 trillion by 1990.

The generally optimistic outlook for the farm sector is now without its trouble spots, however.

Financing problems may be particularly acute in the next few years when farm income growth may be sluggish and many far-

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