More farmers leav

WASHINGTON, D.C. — Whatever its final impact, the farm debt restructuring program announced in September comes at a time of severe financial stress on a small, but significant, proportion of the nation's farms.

Many operators have already found it necessary to refinance short-term loans, others have been forced to sell off some land or equipment, and some have given up or faced foreclosure. For their part, farm lenders are increasingly concerned about defaults and delinquencies. Credit requirements have been tightened, and more overdue accounts are being closed out.

Net Income to Drop

"Many farmers are doing very well, but there's no doubt that others need help with cash flow and debt problems," says Agriculture Department economist Gary Lucier of the Economic Research Service. Although agricultural interest rates have fallen since 1981 and 1982, they remain high. Last year, net cash farm income, adjusted for inflation, reached the highest level since 1980, but PIK program disbursements take much of the credit. On an inflation-adjusted basis, 1984 net cash income is expected to drop below the figures for the last several years.

If overall conditions for agriculture appear more stable than they were a year or two ago, as many economists contend, the greater stability has not yet given some farmers the breathing room they need to handle their accumulated debts. In a recent issue of USDA's FARMLINE magazine, economists Stephen Gabriel and George Amols point to several signs of continuing financial difficulties:

— Based on responses of 522 agricultural lenders to a January survey by the American Bankers Association, 2.5 percent of their loans were under foreclosure and 8.7 percent were considered distressed. Another 22 percent were under close supervision. The numbers are small, but they are up.

— The Federal Reserve Bank of Minneapolis estimated that, between October 1983 and March 1984, 3.4 percent of farmers and ranchers in its area discontinued farming because of financial difficulties. For comparison, the estimate was 2 percent for the same period a year earlier.

— The American Council of Life Insurance reported that 2.6 percent of the farm debt held by life insurance companies last December was in the process of foreclosure. Figures were 2.4 percent for 1982 and 1.2 percent for 1981.

USDA analysts don't have precise figures, but they agree that more farmers are leaving agriculture because of financial troubles.

Why, Who, and Where?

They also say that farm financial problems cannot be traced to a single source. Agriculture's long-term pattern of growing volume, lower margins on sales, and declining real prices for farm commodities may be partly to blame.

A more direct cause was the fairly abrupt shift from the rapid appreciation in farmland values, high inflation, and low interest rates of the 1970's. It was an environment that encouraged credit-financed expansion, and, in some cases, overexpansion. Farmers who borrowed heavily to expand or enter agriculture were hit by a sharp rise in interest rates, the recent recession, the slump in farm exports, and the decline in land values–the collateral base for much of the credit.

"In the last few years, the agricultural sector has been experiencing extremely difficult financial conditions," explains Stephen Gabriel. "Low and volatile real farm income, growing debt, record-high interest rates, variable-rate loans, and the declining value of farmland have all converged to place many farmers, particularly the highly leveraged operators, in vulnerable financial positions."

Cash Grain Hit

Although debt problems are not limited to any specific commodities, regions, or farm sizes, debt tends to be more heavily concentrated among certain types of farms in certain areas. Cash grain farms, for example, show a relatively high proportion of operators with large debts relative to their assets.

The Corn Belt, Northern Plains, Great Lakes states, and the Mississippi Delta are identified as areas where the debt-to-asset ratios of farmers registered the greatest increases between 1980 and 1983. In the Corn Belt, debts reached an average of 21.4 percent of assets in 1983, up from 15 percent in 1980.

Average debt-to-asset ratios were even higher in the Northern Plains and Great Lakes area, at 26 percent and 25 percent, respectively. In contrast, debts amounted to less than 16 percent of assets in

DEBT TABLE

Interest Rates Are Down From Earlier Peaks, But They're Much Higher Than They Were 10 Years Ago

	Rural banks	PCAs	FmHA
	interest rates on new short-term farm loans[1]		
1974	8.53	9.27	6.75
1976	9.09	8.49	8.50
1978	9.20	8.64	8.00
1980	16.39	13.65	12.01
1981	17.02	14.19	14.15
1982	17.40	14.84	14.85
1983	14.20	11.77	10.25
1984	14.10	12.10	10.25

[1]Rates shown are for the second quarter of each year

BEVERAGE TABLE

Soft Drinks and Beer Gain at the Expense of Coffee and Milk

	1963	1973	1983
	gallons per person		
Milk	33.2	30.7	26.5
Fruit Juices	3.3	5.6	7.1
Tea	6.6	7.5	6.6
Coffee	37.7	32.8	25.3
Soft drinks	17.7	26.8	40.0
Beer	15.3	20.1	24.3
Wine	0.9	1.7	2.3
Distilled spirits	1.4	1.9	1.8
All beverages	**116.1**	**127.1**	**133.9**

[1]Excludes tomato and other vegetable juices
[2]Excludes water and reconstituted drink mixes