

Financial stress reported by 13 percent of farmers

WASHINGTON — About 13 percent of farmers responding to a new U.S. Department of Agriculture survey of 1985 farm financial conditions reported financial stress due to a combination of a high debt load and an inability to generate enough cash to pay their bills.

However, more than four-fifths of U.S. farms were found to be in relatively sound financial condition, according to the survey report, "Financial Characteristics of U.S. Farms, January 1985," released today by USDA's

Economic Research Service.

ERS Administrator John Lee said more than half of the 214,000 farmers reporting financial stress have annual sales of at least \$40,000.

These data were gathered by USDA's Farm Costs and Returns Survey, which provides financial details on about 1.7 million U.S. farms, Lee said. The survey, conducted this spring, reflects the financial status of farms as of Jan. 1, 1985.

Lee said the degree of financial

stress is based on two measures — a farm's debt/asset ratio and its estimated cash flow.

The debt/asset ratio compares the amount owed to creditors with the value of farm assets and indicates a farm's overall financial soundness. When the debt/asset ratio rises to 40 percent, a farm is considered to be highly leveraged and susceptible to financial problems.

The farm's cash flow position indicates the ability of the farm business and household to generate

income from farm or nonfarm sources to meet production expenses, repay debt installments on principal and interest, and provide for family living expenses.

The survey indicated that nearly one-third of all farms with annual sales over \$40,000 face some form of financial difficulty. About 20 percent of farms with \$40,000 or more in sales show financial stress because of both high debt load and negative cash flow. An additional 10 percent are considered at risk of developing financial problems

because of high debt loads, despite positive cash flow last year.

Lee said these developments are critical because farms with more than \$40,000 in annual sales — while only 34 percent of all farms — account for 90 percent of all farm sales. Only 9 percent of the smaller farms with annual farm sales less than \$40,000 are financially stressed.

A large proportion of farm debt is owed by highly leveraged farm operators. The survey showed that as of Jan. 1, 1985, 29 percent of the farm debt was owed by farmers with debt/asset ratios over 70 percent, and that another 33 percent was owed by farmers with debt/asset ratios of 40-70 percent. The Southwest, Southern Plains, Pacific, and Corn Belt regions have the largest share of debt owed by farmers with debt/asset ratios over 70 percent. Two-thirds of the debt owed by farmers with debt/asset ratios over 70 percent is owed by farmers with sales of more than \$100,000 per year.

Study finds soybean price not manipulated in '84

ST. LOUIS — There is no evidence that market manipulation was a factor in the collapse of soybean prices in early 1984, according to an independent study just released by a farmer task force of the American Soybean Association (ASA).

Roy Smith, a soybean farmer from Nebraska and Chairman of ASA's Futures Advisory Committee, says that while there continues to be concern about "unethical business practices" related to soybean futures trading and attempts to "bully" the market by certain individuals and/or firms, the results of the year-long investigation indicate soybean price action during the period studied was a true reflection of supply/demand conditions.

The study was initiated as a result of farmer concern early in 1984 that sharp market declines were brought on by systematic manipulation by a few large trading firms.

The Soybean Association report is based on statistical analysis of trading history and information gathered in interviews with representatives of the grain merchandising industry and futures industry officials.

The report was the conclusion of several ASA actions in response to farmer concern over futures trading activity. In April of 1984, ASA officially expressed its concerns to the Chicago Board of Trade (CBOT) and the Commodities Futures Trading Commission (CFTC). ASA urged the CBOT to take immediate action to restore farmer confidence in futures trading. ASA also requested that the CFTC initiate a special inquiry into soybean futures trading to determine if illegal activities had occurred. At the same time a special ASA Futures Advisory Committee was established to conduct ASA's own independent investigation.

According to Smith, Soybean Association actions over the last two years have produced several beneficial results for farmers. Most important, the CBOT established an Agricultural Advisory Committee made up of farmer commodity representatives who review and monitor trading activities. The CFTC also responded favorably to ASA's concerns by initiating its own study of CBOT futures trading, and establishing an advisory committee of commodity organization representatives.

"We hope these actions and the study will encourage greater confidence among ASA members and farmers at large in the future market," says Smith.

In its formal report, the committee listed the following conclusions:

- Price levels achieved during the 1983/84 period reflected the true value of soybeans compared to periods of similar supply/demand fundamentals in the past.

- Soybean prices are more volatile now than 10 or 15 years ago, but the increase in volatility is

related to higher price levels and changes in supply/demand factors.

- On the average, price volatility within a trading day during the time studied appears relatively evenly distributed, with only slight increases during the opening and

close.

- Changes in commodity tax laws in 1981 have decreased trading volume in further out contract months.

- Soybean futures trading volume has not diminished because of increases in trading in

other commodities.

- Computer and other forms of technical trading do not impact the long term economic value of soybeans.

- Volume in the soybean futures market in relation to crop size has increased sharply in recent years.

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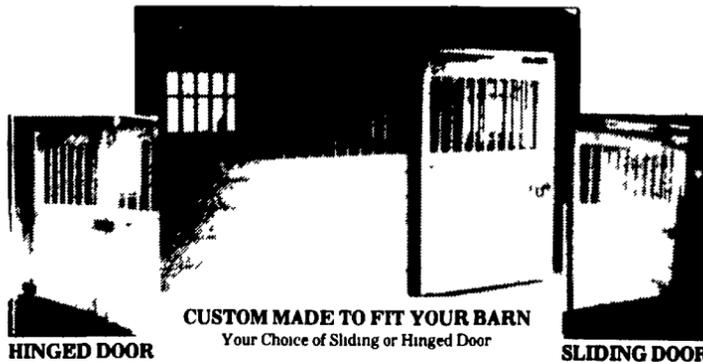
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