ERS Report Shows '85 Cash Flow Improved, Equity Declined

WASHINGTON — Farmers' cash flow positions improved during 1985 largely because of continued high direct Government payments and greatly increased Commodity Credit Corporation loans, according to a report to be issued August 15 by the U.S. Department of Agriculture's Economic Research Service.

Farmers' equity declined and their debt-to-asset ratios increased due to declining land values, according to the ERS analysis of data gathered in early 1986. Also, private farm lenders have considerable risk exposure in their farm loan portfolios.

Developments during the first six months of 1986 and forecasts for the year suggest a little change in operators' income and further slow deterioration in their equity positions. Larger direct Government payments and reduced production expenses will essentially offset lower marketing receipts. But continued declines in asset values, particularly land values, will more than offset lower operator debt.

The ERS report, "Financial Characteristics of U.S. Farms, January 1986," will include data collected in USDA's "Farm Costs and Returns Survey" conducted in early 1986.

Net farm income in 1985 was in the $29-32 billion range, slightly below the 1984 level of $34 billion, preliminary analysis of the information indicates. Net cash income last year rose to $43-46 billion from $38-39 billion in recent years. Off-farm income continued to grow in 1985, reaching $40-42 billion. Many operators have taken advantage of these relatively favorable incomes to reduce debts.

Overall, debt owed by operators for farm purposes declined about $7 billion, with only the CCC showing a major increase in lending in 1985.

Farm cash flow improved somewhat from 1984 to 1985. Over 55 percent of farms had positive cash flows after considering all sources of family income and cash obligations, including interest, principal payments, and minimal family living expenses. This was up from 49 percent in 1984. Nearly 50 percent of all debt was owed by farms with positive cash flows, as opposed to 36 percent in 1984.

Debt-to-asset ratios, in contrast, increased slightly. Twenty-one percent of farms, which owed 66 percent of the debt, had high debt-to-asset ratios (over .4). In 1984, 19 percent of farms, owing 62 percent of the debt, had high debt-to-asset ratios.

The proportion of farms with the most serious financial problems — both high debt-to-asset ratios and negative cash flows — declined from about 12.5 percent in 1984 to about 11 percent a year later. These farms accounted for about 37 percent of operator debt in 1985, compared with 45 percent in 1984.

The Upper Midwest had the highest proportion of farms at risk because of debts. Three regions — the Corn Belt, Northern Plains and Lake States — accounted for over two-thirds of these farms. Financial stress also was highly concentrated among farms with annual sales of $40,000 and above, among grain and general livestock farms, and among younger and middle-aged farmers.

About 40 percent of all farms in the nationwide survey owed no debt on January 1, 1986 and another 40 percent had debts equal to less than 40 percent of the value of their assets. Among farms with annual sales of $40,000 or more, about 19 percent were debt-free and another 48 percent had low debts relative to assets.

Lenders still face considerable risk of losses because over two-thirds of operator debt is owed by highly leveraged farmers, with 37 percent owed by farmers who were both highly leveraged and had negative cash flows. As expected, the Farmers Home Administration had the highest proportion of operator loans at risk. Other lenders typically had 10-15 percent of their farm loan portfolios owed by operators whose debts exceeded their assets, and half or more of their portfolios owed by operators with debt-to-asset ratios of .4 to 1.0.

Extension Honors Economist

CREAMERY — Sara Danehower, Lansdale, was honored recently by the Pennsylvania Association of Extension Home Economist for her outstanding contribution to the Cooperative Extension Service.

Sara has served as a 4-H clothing, foods, and organizational leader for over 35 years. In addition, she worked closely with the 4-H Teen Council and continues to serve on the Extension Executive Board and the Farm, Home and 4-H Foundation board of directors. She has been instrumental in the recent establishment and renovation of the Montgomery County 4-H Center in Creamery.

Mrs. Danehower is a retired home economist teacher from the North Penn School district. She has also been cited for her work with handicapped youth in the North Penn area.