

Agriculture and The Credit Crisis

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The Financial Condition and Sources of Financial Risk for Agriculture in 2009: A National and Texas Perspective

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Unprecedented price volatility for agricultural commodities and inputs dominated production agriculture in 2008, but what does this mean for the state of the agricultural economy in 2009 and beyond? In an effort to better understand what is happening in the agricultural economy, a survey was conducted in January 2009 by the Extension Risk Management Education Regional Centers and the Center for Farm Financial Management at the University of Minnesota, funded through the USDA CSREES Risk Management Education Program.

Survey Respondents

The following charts describe the perspective of national and Texas respondents on the current and future farm financial situation. Over 2,200 agricultural professionals responded, representing a

broad cross-section of agricultural stakeholders from all 50 states. In Texas, 92 responses were obtained providing a state specific assessment of the agricultural business climate.

Probability of Financial Stress

Eighty-four percent of U.S. agricultural professionals surveyed expect the probability that producers will experience financial stress in the next three years is high or very high. If we look at just lender responses, the view is not quite as negative. Twenty-five percent of lenders think the probability is very high that producers will experience financial stress in the next three

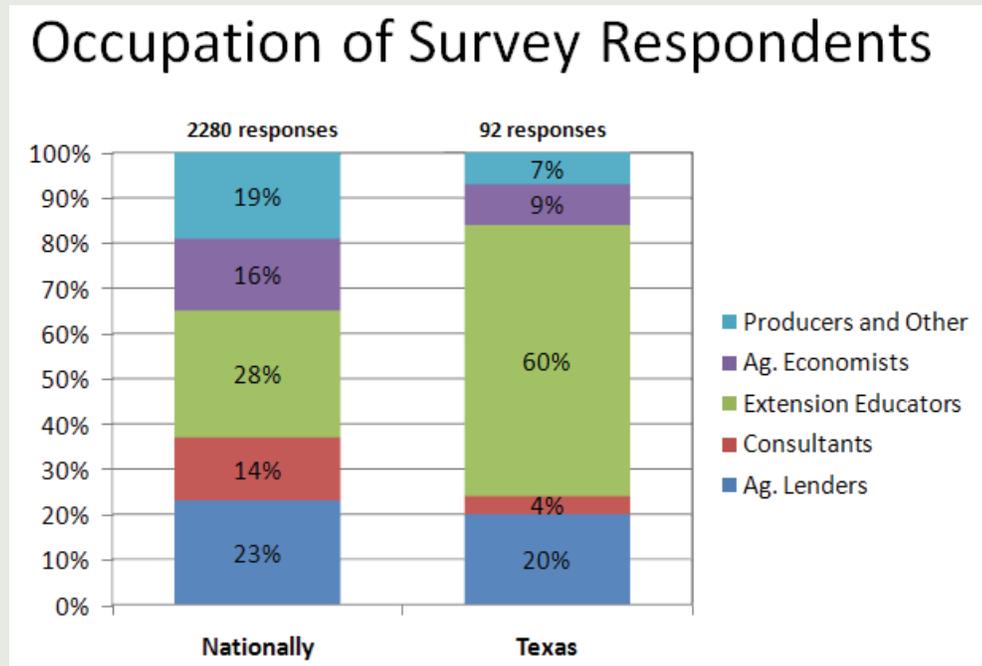


Chart 1. Occupation of Survey Respondents to the Agricultural Financial Conditions Survey.

Financial Stress in the Next Three Years

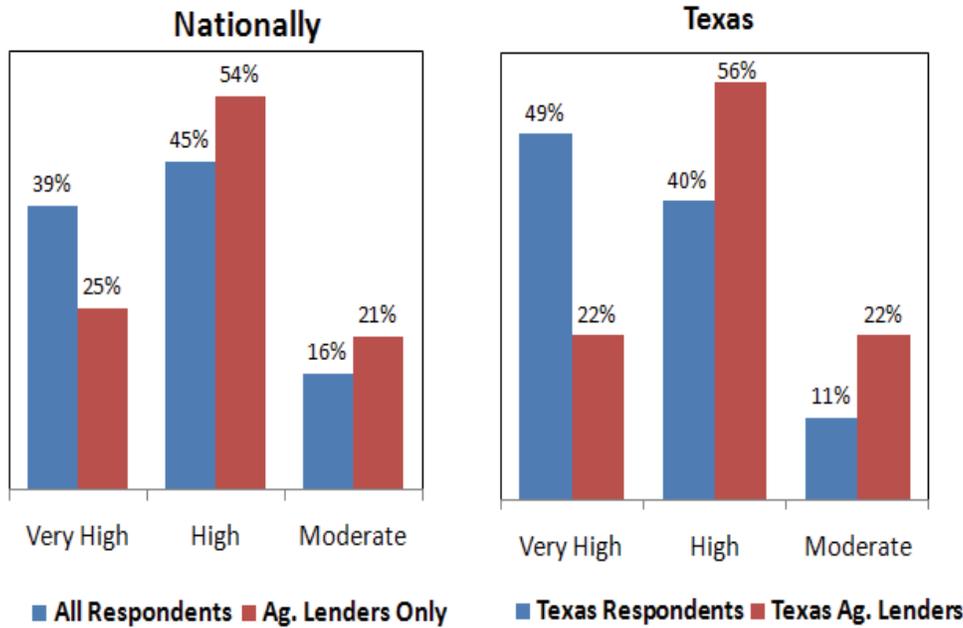


Chart 2. Probability that Agricultural Producers will Experience Financial Stress in the Next Three Years.

years versus 39 percent of all respondents. Eighty percent of lenders expect the probability is high or very high. Within Texas, the expected probability of financial stress for producers is slightly higher (89 percent). The perspective of Texas agricultural lenders mirrors the view of their national colleagues.

To provide more specific information, respondents were asked to identify the percentage of agricultural producers with whom they work that are experiencing financial stress now and what percentage of producers they expect will experience financial stress in the next three years. On a U.S. level, 62 percent of respondents stated that currently 10 percent or less of the producers they work with are experiencing financial stress, with 38 percent indicating that less than 5 percent of the producers they

work with are currently experiencing financial stress. In the next three years,

however, more than 28 percent of respondents expect at least 30 percent of their agricultural clients will experience financial stress. Seventy-five percent of respondents expect 11 percent or more of producers will experience financial stress in the next three years. The expectations for declining financial conditions are confirmed by Texas respondents. Twenty-five percent of Texas respondents indicated that 5 percent or less of producers that they currently work with are experiencing financial stress. However, only 7 percent of Texas respondents indicated that the same financial conditions for producers would exist in three years. Both the US and Texas perspectives depict an expected trend moving toward a sizeable increase in the percentage of producers experiencing financial stress.

Percent of Agricultural Producers Experiencing Financial Stress Now or Will Within the Next 3 Years

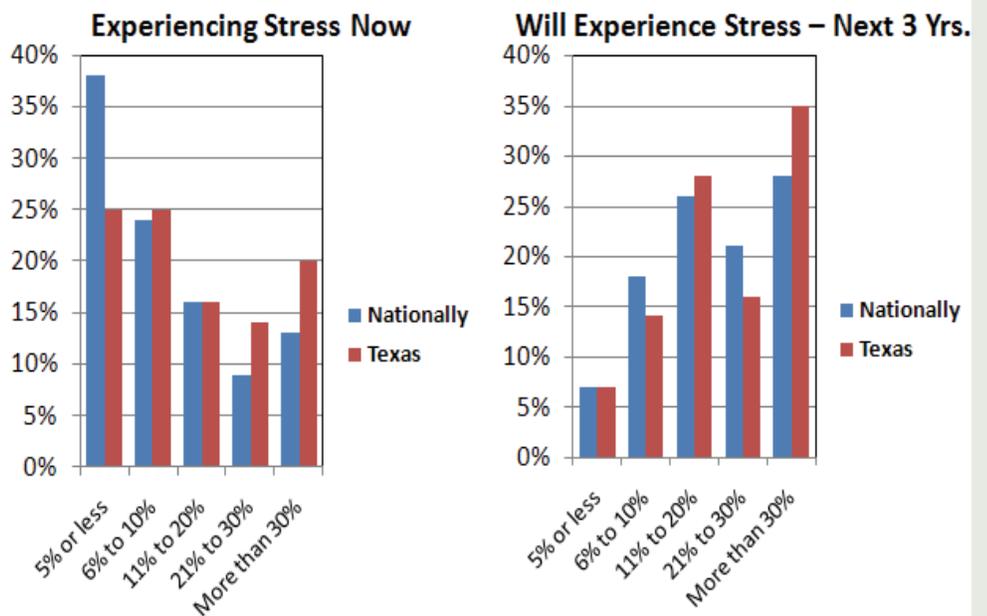


Chart 3. Percentage of Producers that are Currently Experiencing Financial Stress or Will Within the Next 3 Years.

Financial Documentation Requirements

Due to a combination of factors including a global financial crisis, there have been some changes in the loan documentation required of producers requesting financing from agricultural lenders. While some survey respondents did not identify this phenomenon, about three quarters of the survey respondents (nationally and within Texas) indicated that documentation requirements have increased slightly or substantially in recent months.

Changes in Documentation Required of Producers Requesting Financing from Lenders in Recent Months

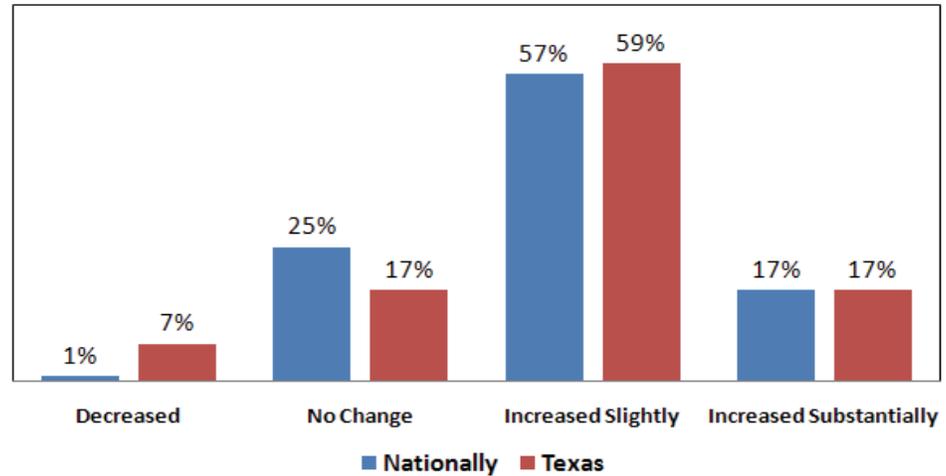


Chart 4. Changes in the Documentation Required of Producers Requesting Financing from Lenders in Recent Months.

Factors Contributing to Farm Financial Stress

Respondents were asked to identify whether various factors

were having a low, moderate, or high impact on farm and ranch financial stress. From both a U.S. and Texas perspective, the two most cited “high impact” forces affecting farm and ranch financial stress were price/input cost

margins and price volatility. Both of these factors were identified as “high impact” by more than 75 percent of respondents. Negative cash flows were identified as “high impact” by more than 40 percent of U.S. and Texas respondents. The combination of all of these factors highlights the magnitude and breadth of the numerous factors providing financial stress to agricultural producers.

Producer’s Level of Financial Management Skills

According to respondents, only 7 percent of producers are “well equipped” in terms of financial management skills to navigate their businesses through periods of financial uncertainty like the one that prevailed during the last year. On a positive note, respondents indicated

Which Factors Contribute to Farm Financial Stress?

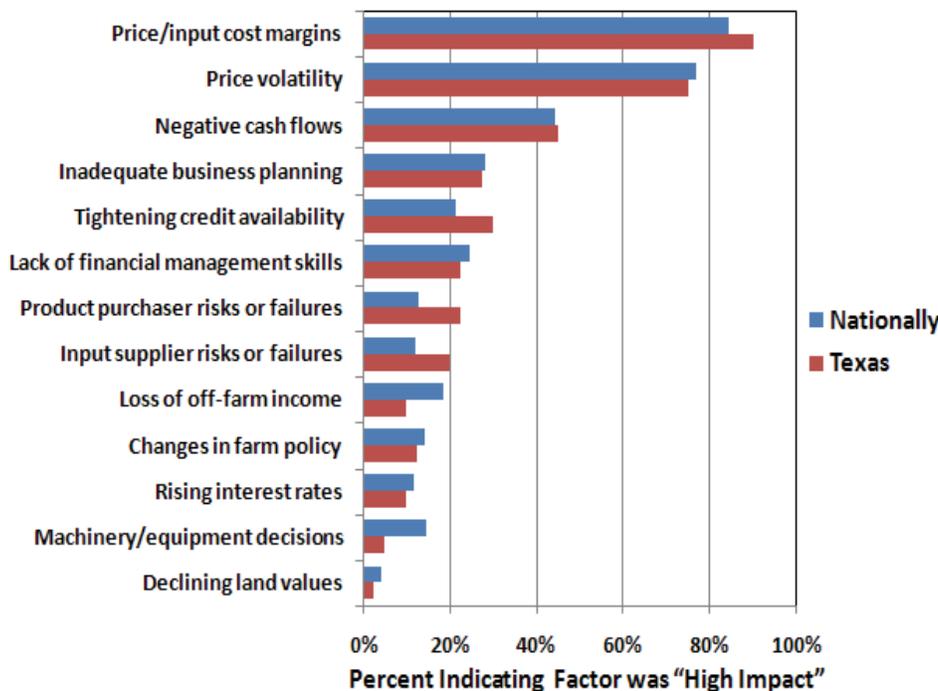


Chart 5. Factors Contributing to Farm Financial Stress

Skill Level of Agricultural Producers to Manage Increased Risks

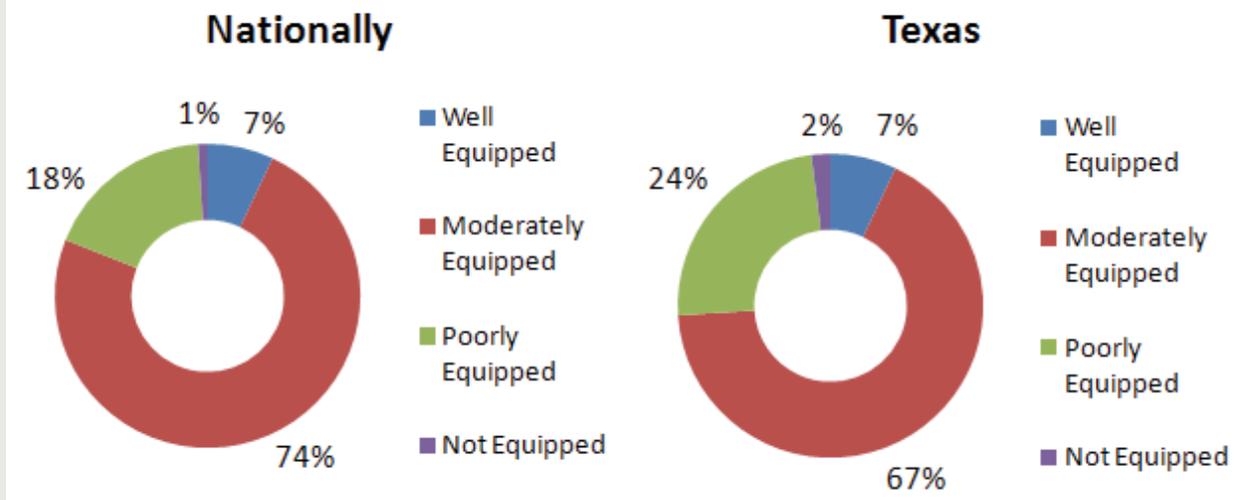


Chart 6. Financial Management Skill Level of Agricultural Producers to Manage Their Business Through a Period of Financial Stress.

that the majority of producers were “moderately equipped” to address the increased financial risks. This implies that with some assistance could do a good job of managing financial stress. Texas respondents estimated a slightly higher level of “poorly equipped” producers than compared to the national assessment of skills (24% in Texas versus 18% nationally). Increased management education focused on “managing profit margins” and improved familiarity with risk management tools are two possible strategies that will assist producers to improve their management skills.

Conclusion

Agricultural stakeholders throughout the U.S. and within Texas indicated a high

probability that the volatility of input prices, commodity prices, and profit margins in agriculture will likely lead to increased levels of financial stress in the coming years. The resulting business climate will place even more emphasis on superior financial management skills and documentation to secure external funding for operations. All agricultural producers should begin (or continue) their process of examining the many risk factors that threaten their future profitability and survival. If necessary, new or expanded risk management skills and strategies should be developed by farm and ranch managers to ensure that they are able to remain viable through this period and avoid financial stress in the future.

Survey conducted by:

The Center for Farm Financial Management
University of Minnesota Extension
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