

Understanding the Changing Farm Economy: A Guide for Social Service Providers

If you live in Iowa for very long, you become aware of agriculture, its importance in the state's economy, as well as its ups and downs. Once again, there are an increasing number of reports about eroding financial and economic conditions for farmers, some agricultural businesses, and rural communities. This change in fortune seems unexpected coming on the heels of a period of apparent prosperity and expanding opportunities for agriculture.

Why are we in this situation again? Who is most likely to be affected? Will this agricultural downturn result in increasing demand for social assistance or spiritual support? The purpose of this briefing paper is to provide you with a little background on Iowa's changing farm economy so that you might relate more effectively to clients or parishioners who are dealing directly or indirectly with the consequences of these changes.

What is Going on Anyway?

In a nutshell, farm income in Iowa has dropped abruptly from levels experienced in 1996 and 1997. For some farm families, this reduction may be small – 10 to 20 percent. For others, particularly those carrying a lot of debt or experiencing production difficulties, the decline is likely to be much greater – 150 percent or so. In fairness, however, incomes in the previous two years were excellent, contributing to a very optimistic outlook for farming. Nevertheless, farm incomes for 1998 are, on average, still well below the expected trends.

Why is This Happening?

There are two key factors at play. First, the

current period of low prices is due largely to overproduction relative to our capacity to process and market what we produce. Some of this overproduction is cyclical – “normal” if you will. Some is due to growth in our domestic industry as well as our foreign competitors. In addition, demand for agricultural products has been reduced, in part, because of the difficult economic conditions experienced in Asia and Russia.

The second major factor – particularly in the pork sector, is the ongoing restructuring of the industry. Large scale, highly efficient livestock businesses have entered the market over the past 10 years or so and displaced many of the small operations that once characterized the Iowa pork industry. This transformation poses a clear competitive threat to Iowa's family-owned, diversified pork producers. Furthermore, restructuring may change the way markets behave, access to processing facilities, business relationships, and even the meaning of family farming. Whether these changes are good or bad for society remains to be seen. But it is clear that the rules of the game have been significantly altered for Iowa farm families.

Are There Other Forces at Work?

Certainly. The demand and supply situation and the restructuring process are arguably the most important. But Iowa farmers also face challenges from:

- market-oriented farm and trade policies
- environmental awareness, activism and regulation

- increasing reliance on trade
- new technologies that further segment and integrate the agricultural sector
- increased risk

For most farm families, these changes will require a deliberate managerial response.

Who is at Risk?

Our estimates of the at-risk farm population are based on actual financial records from 1,200 Iowa commercial farm businesses. The estimates suggest that if commodity prices remain near average levels expected for 1998-2000, approximately a third of Iowa's farm operations will require restructuring if they are to continue in business. Restructuring for some might mean simply changing repayment terms on existing debt. For other farm businesses, restructuring may mean sale of farmland to reduce debt as well as the elimination of specific production enterprises. Certainly some farm families will

choose to sell out and leave farming.

The most vulnerable farm businesses are those:

- With a small land base
- With a younger operator
- In livestock production, particularly pork
- Experiencing production difficulties or managerial problems
- With a higher debt load

Table 1 summarizes some of the key characteristics of farm businesses that comprise four financial performance categories. The categories, based on cash flow and net worth projections, are defined as follows:

1. **Strong.** Farms in this group show adequate to excellent liquidity and acceptable solvency. Expansion may be feasible.
2. **Stable.** Farms in this group will not likely fail. However they may experience moderate

Table 1. Projected Financial Status of Iowa Farm Businesses Under Average 1998-2000 Conditions

	Financial Status			
	Strong	Stable	Weak	Severe
Operators (%)	18.3	44.7	22.6	14.4
Liabilities (%)	11.4	33.9	27.0	27.9
Financial Measures (\$/1000)				
Assets	817.7	908.2	654.3	607.8
Liabilities	126.0	155.1	243.1	380.9
Net Worth	691.7	753.1	411.2	226.9
Net Farm Income	63.7	21.7	-18.4	-43.2
Off-Farm Income	18.9	9.3	6.6	8.1
Net Cash Flow (available for principal payments)	71.8	12.1	-29.3	-54.8
Farm Type (%)				
Cash Grain	49.3	34.6	26.1	22.3
Grain-livestock	28.0	31.3	28.4	24.1
Hog	7.1	19.8	33.7	45.2
Beef	10.0	7.8	6.9	3.0
Other	5.6	6.5	4.9	5.4
Total	100.0	100.0	100.0	100.0
Operator age	45.2	50.8	46.2	42.8

Source: Iowa Farm Business Association

cash flow problems or capital replacement may be less than levels required to remain in business long term.

3. **Weak.** Farms in this group can survive if operating changes and asset or debt restructuring occurs. Farms are vulnerable to income losses or asset value declines. Note this group contains farms with large losses and high equity as well as those with positive earnings and low equity.
4. **Severely stressed.** Survival of the farm is unlikely.

Is the Current Farm Situation Like the 1980s?

There are some significant difference from the 1980s. Comparing, say 1998 to 1983:

- The general economy is much stronger
- Interest rates are lower as is inflation
- Off-farm employment is much more available
- On average, farm debt levels are lower
- Farmers, lenders, and public officials understand farm financial stress much better and have more programs and tools with which to work

However, for a farm family, unable to pay its bills or service debt because of reduced incomes, the situation is very similar to the 1980s.

What are the Key Characteristics of the Current Farm Situation?

Consider the following characteristics that might be relevant to social service providers:

- Income losses are likely to be perceived by farm families as abrupt and unexpected.
- Farm families are impacted unevenly – some severely, some not at all.

- The economic situation for some farm families may be directly attributable to specific management decisions they have made – expanding facilities or land or entering into a business relationship with another firm.
- Most non-farm wage earners will not be affected by declining farm incomes – at least in the short run.
- Many non-farm workers in agriculturally-related industries **will** be affected however. Layoffs may occur in machinery and construction businesses. In contrast, food and meat processing workers may continue to face extremely long work weeks as demand for their services remains high.
- The causes of economic problems appear outside the control of individuals.
- The “rules of the game” for farming appear to be changing because of restructuring in the industry.
- The duration and severity of the current farm problem is very uncertain.
- The government is unlikely to provide a significant level of support to financially stressed farm operations.

These and other factors will affect the well-being and coping capacity of Iowa farm families for the next year or two. Social services providers can play an essential role in assisting individuals and families who are affected by declining farm income and structural change. In all likelihood the support provided through communities, churches, and local social service agencies will be as significant as any change in farm policy or other form of public intervention.

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