The global financial crisis caused significant economic turmoil across most economic sectors. The agricultural sector was not impervious to the impacts of the financial crisis. So what has happened in the last 20 months since the initial shockwaves of the global crisis?

The International Monetary Fund estimates that global writedowns since the onset of the crisis have been $2.3 trillion. Declines in the stock market exceeded 40% in March 2009, but have since recovered to within 10% of the August 2008 levels. Nationally, housing prices declines have exceeded 27%.

Unemployment levels remain as a major headwind to economic recovery. The labor markets deteriorated through the crisis resulting in unemployment rates of 10.1% in October 2009 and underemployment of 17.4%. Labor markets have shown signs of a modest recovery in recent months with unemployment and underemployment rates in April 2010 of 9.9% and 17.1%, respectively. The number of unemployed people per job opening at the end of March was 5.6, an increase over the pre-recession level of 1.8.

In general, agriculture has weathered the financial crisis. The resulting economic downturn continues to stress rural labor markets, impact aggregate demand for agricultural commodities and increase delinquency rates at financial institutions. Relative to other lenders, agricultural lenders generally remain healthy. Many of the agricultural-related institutions did not participate in high-risk housing lending procedures nor were they significantly invested in the structured debt securities that lost substantial market value.

The key stress sectors in the portfolios of agricultural lenders are dairy, pork, poultry, ethanol, and timber. Agricultural lenders in Illinois were buoyed by strong farm incomes in 2007 and 2008. The average net farm income levels for Illinois farms declined from averages exceeding $200,000 in 2007 and 2008 to $84,000 in 2009. Farmland and machinery values have remained strong.

Unemployment in rural areas has now impacted the debt repayment capacity of many Illinois farm borrowers. The Illinois unemployment rate at the end of March was 11.5%. LaSalle (16.1%), Mason (16.5%), Ogle (16.7%), Winnebago (17.5%) and Boone (19.9%) were the counties experiencing the highest unemployment rates in Illinois.

Widespread bank failures in 2009 resulted in the FDIC imposing an additional assessment to banks for prepayment of three years of premiums. Of the 205 commercial
bank failures in the U.S. from January 1, 2009 through May 7, 2010, 31 failed banks were from Illinois and 23 had loans to agriculture totaling $279 million. Of the 700 banks estimated to be on the FDIC watch list, 43 are from Illinois and hold approximately $662 million agricultural loans, the highest volume state in the U.S. Challenges facing rural community banks include continued stress in the commercial and residential real estate loans sectors, prolonged unemployment in rural areas, increased vulnerability to interest rate risk, and reduced profit margins resulting from the substantial increase in the FDIC assessment in 2009. The Farm Credit System has also experienced stress in its portfolio, but remains healthy as a result of a strong capital position.

In summary, despite a very turbulent economy, agricultural lenders in Illinois continue to lend. Even as credit standards tighten, many institutions have taken on new agricultural loans. Borrowers can expect to prepare more detailed financial statements and have thought more about their marketing and their risk mitigation plans as they apply for future loans.