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AGRICULTURAL DEBT INCREASES BUT STILL MANAGEABLE

Nominal, agricultural debt in Illinois has been increasing since 1991. In this paper, data from the U.S. Department of Agriculture (USDA) and Illinois Farm Business Farm Management (FBFM) are presented to see if increasing debt levels pose problems for the financial health of Illinois farms. While a small number of farms are financially stressed, increasing debt levels do not appear to seriously threaten many farms.

Overall Agricultural Debt Levels in Illinois

USDA publishes estimates of total agricultural debt outstanding in Illinois (see Economic Reporting Service, USDA website at <http://www.ers.usda.gov/>). This series is available from 1960 onwards and gives the amount of debt outstanding as of the year-end.

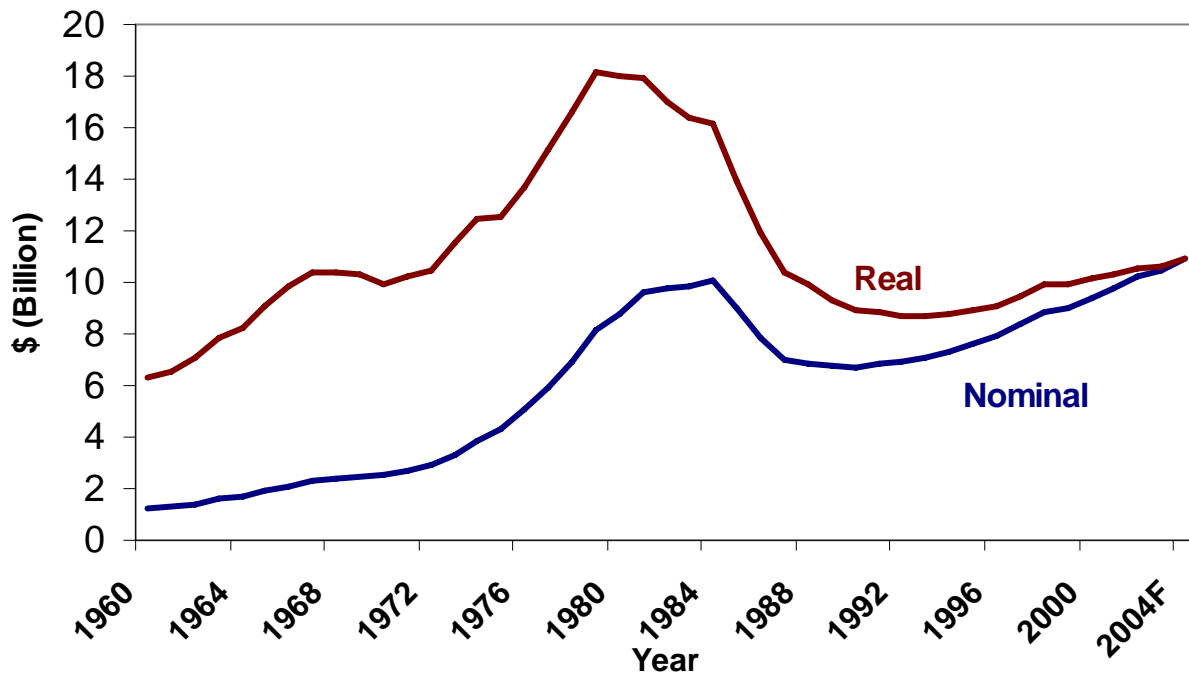
Nominal, agricultural debt reached a peak in 1984 of \$10.1 billion (see nominal line in Figure 1). From 1984 through 1990, agricultural producers retired debt and agricultural lenders wrote off some debt, resulting in a decline in debt. By 1990, agricultural debt had declined by 34%, reaching a level of \$6.7 billion.

Since 1990, agricultural debt increased an average of 3.5% per year. The rate of increase varied from year-to-year but exhibited no escalating or decreasing trends. The highest rates occurred between 1996-97 and 1997-98 when rates were 5.7 and 6.1%, respectively. Increases of less than 3% occurred between 1990-91, 1991-92, 1992-93, and 2002-03.

At the end of 2002, agricultural debt reached \$10.2 billion, surpassing the previous high set in 1984. Increasing debt levels may cause concerns that financial stress occurring during the 1980s may repeat. However, the above debt levels are stated in nominal terms and do not take into consideration inflation's devaluing impacts on the dollar.

Using the gross national product – implicit price deflator to state nominal debt levels in terms of 2004 dollars gives a different picture of debt levels (see real line in Figure 1). In terms of 2004 dollars, agricultural debt reached a peak of \$18.1 billion in 1979 before declining until 1993. Since 1993, agricultural debt in real terms increased. Since 1990, the rate of increase averaged 1.4% for real debt levels, much lower than the 3.5% nominal rate.

Figure 1. Total Farm Debt in Illinois, End of Year from 1960 to 2004.



Sources: Debt levels from U.S. Department of Agriculture. Real debt levels are calculated using GDP-Implicit Price Deflator. End of year 2004 debt levels estimated based on changes to national debt levels.

Debt Levels on FBFM Grain Farms

Additional perspective on debt can be obtained by analyzing farm level data from FBFM. Table 1 presents average data for grain farms enrolled in FBFM who have certified-usable balance sheets. All data are stated in nominal terms and debt levels are stated as of year-end 1991 through 2004. Three measures of debt level are presented in Table 1: debt-to-asset ratio, debt per tillable acre, and interest expense per tillable acre.

The debt-to-asset ratio had a very slight downward trend since 1991. In 1991 and 1992, the debt-to-asset ratio was 33.4 and 32.1%, respectively. In 2003 and 2004, the debt-to-asset ratios were 29.2 and 28.7%, respectively. During this period, both asset and liability levels rose, with asset levels increasing slightly faster than debt levels.

Increases in debt can be seen by examining debt per tillable acre. Debt levels were \$258 per tillable acre in 1991 compared to \$368 in 2004, an increase of over \$100 per acre (see Table 1). Between 1991 and 2004, debt per tillable acre increased an average of 2.8%, less than the average debt level increase in Illinois of 3.5%.

While debt levels have increased, interest expense per tillable acre actually declined since 1991. Interest expense was \$20.72 per tillable acre in 1991 and \$18.63 in 1992, while in 2003 and 2004 interest expense was \$16.02 and \$15.18, respectively. Lower interest rates in the late 90s and early 2000s caused the reduction in interest expense per tillable acre in the face of rising debt levels per acre.

Concluding Comments

Increases in debt levels during the 1990s and early 2000s do not appear to be a cause of concern for Illinois' agricultural sector. Debt level increases have not resulted in a worsening debt-to-asset position nor have they resulted in an increase in interest expense per tillable acre.

While debt levels do not appear to be a concern, agricultural returns are not likely to increase in the near future. Production expenses and cash rents recently have increased causing per acre returns to decrease. These return decreases are not likely to lead to severe problems in servicing debt or substantial increases in default risks. However, farmers will continue to face difficulties in generating sufficient funds to support farm living. This will lead to pressures to maintain or increase cash flows by increasing farm size, seeking off-farm opportunities, and decreasing per acre costs. Obviously, this situation is not new, having been occurring during the past several decades, but becoming more pronounced after the commodity price decline occurring in 1998.

Results in this paper may suggest that holders of agricultural debt are changing. Since 1990, agricultural debt has increased an average 3.5% while grain farms in FBFM increased debt by 2.8%. This difference is suggestive that individuals other than farmers may be increasing their share of agricultural debt. A logical group that may be increasing their share is non-operators purchasing farmland. Statistics in this paper are too limited to draw definite conclusions of this potential trend, but future studies may wish to examine who holds agricultural debt.

Acknowledgments

Data used in this study comes from the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 6,000 plus farmers and 62 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM field staff provides on-farm counsel with computerized recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the University of Illinois Department of Agricultural and Consumer Economics at 217-333-5511 or visit the FBFM website at www.fbfm.org.

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Table 1. Debt Measures for Illinois Grain Farms Enrolled in FBFM, 1991 - 2004.

Year	Debt-to-Asset Ratio	Debt per Tillable Acre	Interest Expense per Tillable Acre
	%	\$ per acre	
1991	33.4	\$258	\$20.72
1992	32.1	267	18.63
1993	30.7	271	17.27
1994	30.3	277	15.95
1995	30.1	270	17.57
1996	29.5	288	17.17
1997	29.2	316	18.79
1998	29.5	329	19.97
1999	29.8	329	20.33
2000	29.5	337	20.18
2001	30.4	349	19.76
2002	30.7	354	17.25
2003	29.2	357	16.02
2004P	28.7	368	15.18

Source: Illinois Farm Business Farm Management.
P indicates preliminary data