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Farm Financial Stress in a Changing Economic Environment: Simulating Credit Risk with New Imputed ARMS Data on Farm Debt

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Abstract



Current USDA forecasts indicate that US farms are entering a period of lower net farm income, following historical highs in 2012 and 2013. A sustained period of lower net farm income may lead to lower farmland values as returns to farmland decline, raising questions about whether specific sectors of the U.S. farm economy will become financially stressed in this environment. Using USDA's 2013 Agricultural Resource Management Survey data (ARMS) with new imputed farm debt data we assess financial stress for both borrowers and lenders under scenarios of lower net farm income and land values. To accomplish this, we use both financial ratio analysis and a synthetic credit rating model. We then examine scenarios of a 25% drop in net farm income, and a 35% drop in land values. Our results suggest that the overall financial health of the U.S. farm economy is relatively strong, however some sectors remain vulnerable. We find that a drop of 35% in farmland values will negatively impact specific sectors, including: peanut, tobacco, and poultry farms; highly leveraged farms, farms with gross sales over 1 million dollars, and farmers who rent a majority of their farmland.

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