Agriculture by Susan B. Cohen

Interest rates hound U.S. farms

Producers looked to 1981 for relief from last year's inflation and credit crunch. It hasn't come.

The U.S. Department of Agriculture has reduced its earlier projections for both net farm income and farm exports in 1981. Prompting the readjustments is the continued pressure of usurious interest rates, which for the second year in a row have slapped farm producers with soaring production costs, dampened foreign trade potential, and seriously undercut the commodity markets.

At the beginning of the year the USDA projected 1981 net farm income within the $27 to $32 billion range—a slight recovery from the $22 billion low of 1980, and a sharp 30 percent drop from 1979 net income levels. But, as of the first quarter of 1981 net farm income was running at an annual rate of $18 billion, nearly 20 percent below last year's low! Even if—and it's a big *if* at this point—prices pick up in the last half of the year, last year's losses will hardly be recouped.

Similarly, the USDA has scaled down their projections for 1981 farm exports, for the second time since the beginning of the year. Several months ago the USDA adjusted export projections down $1 billion to $47 billion, attributing the drop to the effect of continued high interest rates in depressing world economic activity and undercutting export demand as well as the unexpectedly good crop turnout in the Southern Hemisphere.

Last week, the USDA again reduced their projection by a billion dollars. $46 billion worth of exports is still a record, but the trend is discouraging. With another bumper wheat crop now in sight—the 1981 winter wheat harvest is estimated at a record 2.08 billion bushels, up 10 percent from last year—and a bumper corn and feedgrain crop entirely possible, the market pressures will be all on the downside in coming months.

As we reported several weeks ago, tight credit and high rates are hurting the livestock industry even more directly. At least 20,000 ranchers and feedlot operators have gone out of business in the past year.

Last year farm producers had to slash capital investment in an effort to stay afloat under the terrific financial pressure of high rates and soaring production costs—farm equipment sales dropped by 15 percent, and layoffs spread throughout the farm machinery manufacturing sector. Many producers didn't make it. Since March 1980 more than 100,000 have gone out of business. Those who survived looked to 1981 for relief.

Now, according to the latest monthly report of the Farm and Industrial Equipment Institute, sales of major farm machinery for the first four months of 1981 were running *behind* 1980—when sales plunged more than 30 percent in the first quarter! The report prompted a survey by the Institute, which found that farm equipment manufacturers now believe that machinery sales will rise only 5 to 8 percent over last year—in spite of "pent-up demand." Manfacturers have virtually written off 1981 and have targeted 1982 for a possible turnaround in the dismal situation. The only conditions under which any improvement can be hoped for in 1981, manufacturers freely admit, is if interest rates come down significantly by harvest-time.

These concerns are reflected in credit and banking surveys of the farm belt, where, although rural banks are flush with funds, the high rates have suppressed loan demand. Surveys in the Ninth and Tenth Federal Reserve districts, around Minneapolis and Kansas City, respectively, found that more than half the regional bankers anticipated that more of their producer borrowers would have more serious loan repayment problems this year than last, and expressed concern about the farm income picture.

Initiatives have been taken in various parts of the country to prevent the wave of bankruptcies the continued high rates threaten.

In Colorado, for instance, the state legislature has just passed a bill mandating the Colorado Agricultural Development Authority to issue tax-exempt bonds to raise money to provide below-market-rate financing for Colorado farmers purchasing farmland and machinery. "When agriculture is currently earning only 5 percent on their investment, they need this type of legislation," State Sen. Ray Power (R), a prime sponsor of the measure said. "I think this bill can help hold down food prices and help keep farmers in business."