Are You Confident? Take Action to Build for the Future

By Dallas Tonsager

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I have spent a good bit of time lately thinking about confidence, and I've come to the conclusion that confidence is key to the success of almost any endeavor — especially farming.

My brother and I started farming around 1970. Although I have not actively farmed for some time, I have seen my brother go through many ups and downs over the years. He has thrived at times and struggled at times. But like many South Dakota farmers, he is confident that he has what it takes to farm: persistence and a willingness to work hard, to learn, and to change.

But current conditions in the farm economy are enough to shake the confidence of most any farmer. Those of you who have been farming for 30 years or more have noted some troubling similarities between present conditions and those of the late '70s and early '80s.

Back then, a perfect storm raged in agriculture for almost a decade. The combination of low commodity prices and sky-high interest rates led to thousands of farm bankruptcies and an enormous exodus of people from rural America.

But are things today likely to get as bad as they did back then? To answer that question, let's take a quick look at the similarities and differences between now and then.

The similarities

Of course, the biggest, scariest similarity is low commodity prices and their effect on farm income. After years of historic highs, farm income reached a peak in 2013, and it has dropped every year since then. And just like the current decline, the '80s decline came on the heels of several years of record-high farm income. Overproduction drove the decline then just as it does now. And, unfortunately, there are no signs of meaningful price improvements on the horizon.

Trade represents another area in which we had challenges both then and now. Back in the late '70s and early '80s, we relied heavily on exports, just as we do today. So when our country enacted a trade embargo in 1980 against one of our biggest grain customers, U.S. farmers took a major hit.

Farmers today are feeling the effects of weaker exports, too. The strong dollar has made it difficult for the United States to compete against countries with weaker currencies. And the downturn in the global economy has further weakened export demand. Any changes in trade policy could also affect ag exports.

So, yes, there are some worrisome similarities between conditions today and those of the 1980s, but there are also many comforting differences.

The differences

For one, corn producers have a huge new market they didn't have in the 1980s. Today, ethanol soaks up 35 percent of our nation's corn crop. Crop insurance is another advantage. More farmers today use crop insurance than they did in the 1980s.

And interest rates today look nothing like they did in the early ’80s when the 10-year Treasury rate climbed to over 15 percent. Today the rate is only about 2.5 percent.

And what about farmland values? After several years of rapid growth, farmland values stalled in 2014, and they are now declining in the Midwest. But here again we’re much better off than we were 30 years ago. With a more diverse group of investors showing interest in farmland these days, it appears to be holding its value much better than it did in the ’80s.

And then there’s farm debt. Over the past year or two, the farm sector’s ratio of debt to net cash income has been rising, but that, too, is much better than it was 30 years ago.

So the takeaway from this comparison is that we’re in a much better position today than we were in the 1980s in almost every respect. We can feel more confident knowing that, despite the challenges today, we weathered much worse 30 years ago.

No time for complacency

Of course, that doesn’t mean we can be complacent. Conditions are changing. Interest rates are trending up. Collateral values are softening. Debt levels are rising. Credit risk is growing. For all of these reasons and more, farmers need to take action to build confidence in the future.

I would suggest three steps farmers could take to meet the challenges of the farm economy head on. First, I would suggest reviewing your business plans and working with your lenders to plan for coming years. Second, I would encourage you to explore ways to switch up your mix of crops or livestock to strengthen your profitability.

And third, I would encourage you to think broadly — to consider possible innovations that could bring new opportunities to the agricultural industry. Look at what ethanol did for the corn industry. Surely there are other potential industries to explore that can again help the ag economy move forward.

The role of farm lenders

But it’s not just producers who need to take action to meet the challenges of the ag economy. Farm lenders need to be proactive, too.

In the 1980s, many producers lost all confidence in their lenders. To keep that from happening again, I’m encouraging farm lenders to seek the “best possible outcome” for every borrower. Of course, just like farmers, lenders have to watch their bottom line — they have to stay safe and sound in order to meet the needs of all their borrowers and potential borrowers. If a producer is unlikely to be able to recover from financial difficulties and become profitable again, continuing to lend to the borrower would be both unwise and unhelpful. In a case like that, achieving the best possible outcome may require having some hard conversations — because credit can never be a long-term substitute for income.

In many cases, however, I believe that producers *can* pull through their difficulties and return to a position of strength and growth. So I’m encouraging lenders to consider each producer individually. Does he or she have a good business plan, a sound operation, and a good chance of making it when the economy improves? If so, I’m encouraging them to do what they can, within the bounds of safe and sound lending practices, to help the producer through the difficulties.

By always looking for the best possible outcome for every borrower, lenders can strengthen the confidence that farmers and ranchers have in their future.

I don't know what lies ahead for the farm economy, but I do have confidence that U.S. farmers and ranchers have the skills, the wisdom, the ingenuity, and the tenacity they need to survive and thrive.

Dallas Tonsager is chairman and CEO of the Farm Credit Administration, the independent federal agency that regulates the institutions of the Farm Credit System. From 2009 to 2013, he was undersecretary for rural development at USDA. Mr. Tonsager grew up on a dairy farm near Oldham, South Dakota. For many years, he and his older brother owned Plainview Farm in Oldham, a family farm on which they raised corn, soybeans, wheat, and hay.

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