Approved ________________________
Date

MINUTES OF THE Joint Senate House COMMITTEE ON Agriculture and Small Business and Agriculture and Livestock Committee.

The meeting was called to order by the Chairmen, Rep. Bill Fuller and Senator Fred Kerr
Chairperson

12:00 noon a.m./p.m. on March 22, 1984 in room 311-S of the Capitol.

All members were present except:

Committee staff present:

Conferees appearing before the committee:

Dr. Don Pretzer, Department of Economics, KSU
Keith Harimon, Production Credit Association, Manhattan
Wilbur Levering, Merchants National Bank, Topeka
Marion McMillan, Trego-Wakeeney State Bank
John White, Farmers and Drovers Bank, Council Grove
Richard Parker, Krause Plow Corporation, Hutchinson
Larry Davis, Farmers Home Administration, Topeka

The meeting was called to order, and it was announced that the meeting was a joint effort on the part of both committees, legislative staff, and the Governor's staff, to gain input from people involved in the financial aspect of agriculture. It was noted that while there are indicators that employment and the economy are improving, that fact is not apparent at the farm level.

Dr. Don Pretzer told the joint committee that there are serious problems in production and that relatively low commodity prices coupled with increased costs and higher interest have eroded farm income. He directed attention to charts which are a part of his prepared statement. (See Attachment 1.) He said another year of drought would create havoc to agri-business.

Keith Harimon reviewed the history of agriculture and said that during the 1960's and 1970's inflation caused agricultural assets to appreciate, and a favorable interest rate encouraged farmers to invest with borrowed money. He told the group that the situation is almost totally reversed at this time, finding farmers overextended. This situation is compounded by adverse weather. (See Attachment 2.)

Wilbur Levering, appearing as a correspondent bank, told the group that this is the most serious period since the 1930's. He said this is not only his opinion, but that of other banking acquaintances throughout Kansas. He explained that the cost of fuel, fertilizer, machinery and interest have increased greatly, to cause difficulty for farmers. In addition, alternating drought and excessive rainfall added to the plight of farmers. He said there is more land on the market than anytime in the last fifteen years; and bankruptcies are occurring. He said that the bankers he had talked with indicated that the group most affected was in the 24-40 age bracket. He urged that efforts be made to provide stronger domestic and foreign markets which will produce higher prices and lower interest rates. (See Attachment 3.)

Marion S. McMillan said that he did not have a great deal of data and statistics to back up his statements, but believed his experience qualified him to discuss the agri-problems. He noted that agriculture and agribusiness are the mainstay of the Kansas economy, and that the recent poor crops have impacted on all segments of agribusiness. He said that inflation which has increased costs for equipment and supplies has caused problems for farmers and related industry. He suggested a long term national agriculture is badly needed, and said that inconsistencies greatly limit the abilities of farmers to plan. He also suggested a renovation of the programs administered by the Farmers Home Administration. He told the group that while they do an excellent job they are spread too thin. He said he felt the FmHA could benefit by looking at the Small Business Administration to streamline their delivery system. (See Attachment 4.)

John White told the joint committee that his bank is primarily an agricultural bank, and while he cannot add anything different to the crisis situation, he does have some accurate analysis. (See Attachment 5.) He said that he anticipates 1984 will bring double the amount of previous liquidations; that this represents nearly $1 million in loans and about 10 percent of the bank's total farm loans.

Richard Parker noted that previous speakers had talked about the plight of farmers but pointed out how that impacts on other agribusiness. He said that all major farm equipment manufacturers have been struggling, and some have even taken bankruptcy. He said the economic losses over the past four years is almost incomprehensible. He told the group that in ten manufacturing concerns there has been a decrease of over 2700 jobs from 1979 to 1984. Major suppliers throughout the United States report they have 44 percent fewer employees than they had in 1979. He expressed the opinion that it would be better to develop and expand exports than spend money to encourage farmers not to produce. (See Attachment 6.)

Larry Davis testified that it is the goal of the Farmers Home Administration to keep farmers in business, but the general outlook is not bright. He said they have been hesitant to re-write loans because they feel it is not beneficial to the borrower. He predicted that farmers will continue to have a cash flow problem, but he feels corn producers and livestock feeders will experience some financial relief. He expressed the fear that wheat producers will not. (See Attachment 7.)

There was a question and answer period which was limited by time constraint.

The meeting was adjourned at 1:45 P.M.

Discussion Ideas Concerning
"Condition of Kansas Agriculture"[1/]

1

I'm pleased to have the opportunity to share some brief thoughts, gleaned from my 25 years of extension, tempered by conditions unique to the 1980's.

If there are overriding thoughts, they are:

1) We have serious people problems in production agriculture related to who will survive the 80's.

2) While production agriculture is strong, the difference between the "top group" and the "low group" continuous to widen at a more rapid pace in the 1980's.

3) Relatively low commodity prices (both crops and livestock) along with cost escalation, including interest, have eroded income to cover living, pay taxes, pay principal and get some return on equity investment.

4) Another year of drought would create havoc concerning survival, concerning land prices, and have strong impacts on agri-business.

1/ Prepared by Dr. Don D. Pretzer, Extension Economist Farm Management, Kansas State University for Presentation to the Joint Agriculture Committee of the Kansas Legislature, March 22, 1984.

Atch. 1

To understand "where we are going" we need to see where we are coming from.

I Financial Balance Sheet (Kansas Farms USDA)

	1979	1980	1981	1982	1983
# Farms	75,000	75,000	76,000	76,000	76,000
Total Assets (million dollars)	$32,789	$37,577	$38,601	$38,498	$37,284
Total Debt	5,839	6,660	7,002	7,729	8,680
Equity	26,950	30,917	31,999	30,769	28,604
Debt/Assets	17.8	17.7	18.1	20.1	23.3

II Financial Ratios Commercial Farms (KS Fm. Mgmt. Assoc.)
(Pretzer definition of commercial farms are those making or trying to make a living solely from the farm)

	1979	1980	1981	1982	1983
Debt/Assets (all)	.37	.32	.36	.37	up slightly
High Net $\frac{1}{4}$th	.31	.24	.24	.28	down
Low Net $\frac{1}{4}$th	.48	.46	.50	.54	up

III Size and Income (KS Fm. Mgmt. Assoc.)

	1979	1980	1981	1982	1983
Capital Managed	$787,723	$1,021,190	$1,019,852	$1,009,552	down
Total Acres	1415	1396	1446	1436	steady
# Operators	1.12	1.12	1.14	1.14	steady
Gross Income	$150,167	$ 133,455	130,238	149,039	up
Net Income	43,667	14,697	-1871	11,053	steady
Expense/Gross	.71	.89	1.01	.93	steady
% Interest of Expenses	11.8	13.4	15.2	16.4	up

IV 1984 ? ? ? ? & Beyond ? ? ? ?

If average crop yields (assuming average weather) prevail for 1984 and 1985, along with reasonable livestock profits, Kansas agriculture will remain strong and viable.

Some entry and exit always prevail. Forced sales during the 1960's and 1970's varied from a low of .4 per 1000 ~~sales~~ farms to 1.2. Estimates for 1984, with the above assumption, are expected to be 1.5 to 2.0 per 1000 ~~sales~~ farms. Of the 76000 farms (by census definition) only about 12,000 are commercial farms. The rest (64000) must be recognized as part-time or near retirement farms.

The worst situation of another drought will spell disaster for up to 25% of the farms which will have large impacts on agri-business including agri-lenders.

2

TESTIMONY TO THE HOUSE AND SENATE AGRICULTURE COMMITTEES

Representative Bill Fuller, Chairman

Senator Fred Kerr, Chairman

(2)

By Keith E. Harimon, President

Manhattan Production Credit Association

I greatly appreciate the opportunity to provide input regarding the financial condition of farmers and ranchers of Kansas. My name is Keith Harimon and I am the president of the Manhattan Production Credit Association, Manhattan, Kansas. Today I am representing all Kansas Production Credit Associations, along with the Federal Land Bank and Federal Land Bank Associations, and the Bank for Cooperatives which form the Farm Credit System whose specific mission is to improve the income and well-being of American agriculture through the extension of sound and constructive credit to farmers, ranchers, and their cooperatives.

WHERE HAVE WE BEEN IN AGRICULTURE

In the inflationary years of the late 1960's and 70's, particularly the latter part of the 70's, the value of agricultural assets rapidly appreciated. This factor coupled by favorable interest rates and prices permitted higher debt to be incurred with many new and established farmers heavily investing borrowed funds in equipment and farmland.

WHERE ARE WE TODAY

The arrival of the 1980's totally reversed the once favorable inflation/ interest rate relationship greatly affecting the overextended, highly leveraged farmer. This factor combined with thin profit margins and adverse weather conditions particularly in Eastern Kansas where we have recently witnessed our

Atch. 2

fourth year of crop failure, have yielded major losses to erode the farmers equity to a critical scenario.

How Critical? - This is not to say that all Kansas farmers and ranchers are broke. Fortunately many have little or no debt to service. However, based on my experience in working with Eastern Kansas borrowers in the current economic climate, I maintain that with the thin profit margin and high interest rates, on an average, the farmer of today must possess at least a 70 percent owner equity (net worth ÷ total assets = owner equity) if he is to effectively service his debts.

Unfortunately there are a significant number of farmers with owner equities well below that debt servicing level. Nationally about 65 percent of all farm debt is owed by farmers carrying owner equities of 60 percent or less. Farmers with owner equities of 30 percent or less account for one-third of all the farm debt.

To bring the picture closer to home, we regularly see equity positions that have eroded to 30 percent and in some cases as low as 10 and 15 percent. Also, this plight has no respect for age as in our shop the hardest hit group is in an age bracket of 31-50 years who show an average owner equity of 44% compared to other ages as follows:

0-30 yrs*	31-50 yrs	51-65 yrs	66 yrs or above
60% O.E.*	44% O.E.	67% O.E.	85% O.E.

*Many co-signed by financially sound individual who may also aid in subsidizing the operation. The financial condition of the co-signer is not included in these figures.

WHAT ABOUT THE NEXT TWO YEARS

The profit picture will remain thin for the farmers for this year and into 1985 due to the following:

1. Input expenses will increase,
2. Interest rates will remain high,
3. Reduction in government payments,
4. Possibility of a limited export program due to the value of the American dollar in the foreign markets along with the depressed economies world wide,
5. And, no significant increase in prices is anticipated.

Considering this flat profit picture, it will be imperative that to survive the Kansas farmer has good production in 1984-85, does some further belt tightening, and in some cases restructures his balance sheet through the liquidation of assets.

The farmer with extremely thin owner equities which require unrealistically high profit margins to service his debt cannot remain in business. Therefore, we can expect farm liquidation to continue higher than normal the next two years. Through this liquidation, the farm sector will lose many inefficient or poorly managed businesses which I feel will be good for the industry in the long term. However, we may also lose some operators whose only fault was that they entered into farming at the wrong time.

The trend will be toward fewer and larger agricultural units along with an increase in more part-time farmers who will depend on outside income to support their way of life.

In summary, the next two years will be full of changes and challenges for the Kansas farmer. The farmland will, however, continue to be farmed and the livestock will be produced. However, those who survive to carry on will be the lower leveraged, efficient, and adaptable.

Thank you.

THE AG SITUATION - 1984

by W. E. Levering

Kansas Senate & House Ag Committee 3/22/84

(3)

I'm glad to appear here and share some thoughts with you, but it is not a pleasure to talk about the ag situation which I believe to be in the most serious economic time for agriculture since the mid-1930's. I believe that most everyone would agree that the latter part of 1979 and 1980 saw the end of many years of inflation and a jump in the cost of fuel, fertilizer, machinery and interest. At the same time, the prices received for agricultural commodities remained relatively steady or actually declined, thus creating a very crucial cost price squeeze for farmers. In the four years since then, 1980 through 1983, we have seen two drought years, one very wet year, thus compounding the ag economic situation.

I was asked to visit with you today from the viewpoint of a correspondent banker who has daily contact with a number of Kansas bankers and who works with many community bankers in extending credit to Kansas farmers. I have asked several, from various parts of the state, to share some of their thoughts with me and I'm going to give you a summary of their responses.

One said, "Our agriculture situation is very serious. We have more land listed for sale than any time in the last fifteen years. We see numerous situations that are past due on real estate payments by one year and some of them to two years' delinquent. We have been saying for the last four years that things are really going to be tough next year if we don't have a good year this year. In my opinion, that "next year" has come and thus, we are seeing many more farm sales, real estate being listed, property being deeded to lenders and bankruptcies; all due to the very poor ag

Atch. 3

economy. We will continue to have problems until we see lower rates or we see some good prices and profits in agriculture."

Another said, "The debt structure has gradually been building up. Interest due on principal has been added to the principal when renewed. The time has come when we must stop this and that is the reason why we look for a lot more farm foreclosures and bankruptcies in 1984. There will be as many go out of agriculture this year as there has been in the last two or three years put together. The problems and losses of the last four years have accumulated to the point where liquidation must take place in many cases."

The Federal Reserve confirms that the agriculture debt has continued to rise faster than agricultural assets have grown and that the debt to asset ratio has increased from about 16½% to 20% in the last four years. We still have a good amount of equity in agriculture, but the trend is in the wrong direction and unfortunately, a minor percent of our farmers are in serious trouble and the number is increasing.

Another banker said, "The cash grain farmer makes up the largest percent of farmers in Kansas and they are having severe difficulties. We're looking toward 1984 with a threat of larger grain supplies and lower prices. Our farmers do not need an additional source of loan funds, but a consistent farm policy, farm program and foreign policy that will encourage better farm incomes."

Several bankers expressed the concern that the age group most affected by this serious ag situation is the 25-40 year age group, although some of the 40-60 year age group are also in trouble, especially if they have helped a son or son-in-law to get a start in agriculture. Several also were concerned that young people in their communities are discouraged and are leaving the farm to look for employment elsewhere.

Most of the bankers also mentioned that agri-business sales were down last year due especially to the payment-in-kind program and reduced acreage therefrom along with the drought situation and other factors affecting purchasing power of farmers. But those sales are expected to be back up somewhat this year as farmers again plant more acres. However, they indicated a potential problem if farmers are not able to pay for the fuel and fertilizer and other items purchased due to low farm income.

In summary, I think it is obvious that we have the most serious situation in Kansas agriculture since the 1930's as a result of four disastrous years of agriculture coupled with extremely high costs and relatively low prices for farm commodities.

For those who have debt, it is nearly impossible to generate sufficient cash flow to pay operating and family living expenses and to have money left with which to service debt. Thus, there will be more farmers going out of business in the next year or two than any time in recent history, perhaps as many as 5-7%; still not a very large percent of the total, but yet, 2-3 times as many as normal and the trend will continue if conditions do not improve. The problem is complicated by the fact that many need (and are willing) to sell assets to lower their debt structure, but they are unable to sell these assets due to a lack of demand, especially for real estate where values are down as much as 15-20%. These deflated values have further complicated the problem as the balance sheet and net worth of our farm customers has deteriorated due to these conditions.

Agri-business firms and others up and down main street are also feeling the effect of reduced farmer purchasing power.

It is reasonable to assume that lending institutions with a high-level of agricultural loans have some problems. However, I believe that few, if any, Kansas banks have problems that will significantly impair the capital of their bank.

According to a Federal Reserve bulletin, Americans will save about 7% of their total income in 1984. If the government uses 6/7 of the savings to service the federal deficit, little is left for business and therefore, as business expands, interest rates will probably increase ---- thus, another high-cost situation begins to develop and probably will stimulate another recession----which agriculture cannot afford.

Agriculture needs an economy that will provide a stronger demand from both domestic and foreign markets that will generate a higher price for the farm products that we have to sell as well as providing for lower interest rates on borrowed capital----so as to provide profits that will increase the return on assets above the 2-3%, or less, which has been occurring in agriculture.

4

(4)

Joint Agriculture Committee Hearings

Kansas Legislature

Thursday, March 22, 1984

Confrere Presentation:

Marion S. McMillan, President

Trego WaKeeney State Bank

WaKeeney, Kansas

Thank you for inviting me to make a presentation to this Joint Agriculture Committee of the Kansas Legislature. I understand that my charge is to relate from my perspective the status of Agriculture and Agricultural Lending in my geographical area of the state (Northwest Kansas). My comments are not backed up by vast amounts of technical data and study, but I believe do reflect hands on experience in day to day agriculture lending.

Obviously Agriculture and Agribusiness are the mainstay of our local economies and as agriculture goes so goes the local economy. Farmers have been under considerable financial stress as you are aware. In our local area, we have experienced back to back late Spring Freezes which severely damaged the 1981 and 1982 winter wheat crops. While the 1983 wheat crop was a near record, the severe late Summer drought almost completely wiped out the Fall grain sorghum and feed crops. Lack of sub-soil moisture last Fall made it extremely difficult for area farmers to get a good stand of Winter wheat, and the effect of the extreme cold Winter on this years wheat crop has yet to be determined.

As previously stated last Falls short feed and roughage crop had a great impact on cow-calf operations. Local sale barn commission company officials have commented that this Winters runs of beef cows have been above normal, pointing out that many farmers simply didn't have the feed to carry their herds through the Winter. Hay and roughage prices skyrocketed making buying feed for their cow herds cost prohibitive in many cases. However, strong red meat prices cushioned some of the blow in those cases where farmers were forced to partially-liquidate their herds.

The effects of the national economy has likewise been felt in rural Kansas. Record levels of inflation pushed up the cost of every input item purchased by the farmer from fertilizer to credit. All segments of our economy were caught up by the inflationary psychology. Buy today before the price goes higher - Expand your operation to spread out your overhead costs; were popular themes. As the theory goes use of borrowed funds to finance expansion is prudent because as inflation continues you are able to repay your debts with cheaper dollars. However, in a deflationary period as cash drys up those borrowed dollars become

Atch. 4

very expensive. Likewise inflation and huge government deficits drove interest rates sky-high. Many borrowers found they were unable to meet their debt obligations and requested their lenders to renew their loans and add in accrued interest. This compounded the problem as high interest rates continued on larger loan principal balances.

Seventy three percent of the Trego WaKeeney State Bank's total loan portfolio are direct loans to farmers. In our Bank as is the case of most Kansas banks today loan demand is slack. The percent of total loans to total deposits is a common method of expressing loan demand. Through much of 1979 to mid 1983 our Bank's loan to deposit percentage ranged from 68% to 72%. Today that same percentage is near 63% with many Kansas banks reporting loan to deposit percentages from 40% to 60%. Ag lenders are anxious to increase their loan portfolio but, with the financial stress encountered in agriculture and agri-business, finding good quality loans is a problem.

Despite my previous comments the outlook for agriculture and agricultural finance is not all bleak! The national economy is experiencing a slow but steady expansion. In my limited experience of observing recessionary periods it appears that the impact of these recessions are felt in the Midwest and more particularly rural areas approximately a year later after hitting the East and West coasts of our nation. Likewise, when an economic recovery is underway, as it is now, we likewise have a delay in experiencing an improving economy.

While an increased number of farmers are experiencing credit problems it is still a small percentage to the whole. I recently read that only half of America's farmers have debt — even on their land. That leaves half of the farmers with debt and their financial conditions will range from very strong to marginal. Exact figures are difficult to determine but I would venture to state that 5% or less of our Bank's farm borrowers are experiencing severe financial problems and less than 2% will go out of business.

Our Bank's approach toward management of our loan portfolio has changed greatly over the past several years. Cash Flow or debt servicing ability, and not net worth or loan equity margin, is the primary credit concern we have for our farm loan customers. Today we are cash flow lenders and no longer equity based lenders. Obviously net worth and equity are still important, however only cash repays loans and operating expenses. Principal debt can only be serviced from net profits after taxes. Normally sale of loan collateral other than production livestock and grain are secondary methods of repayment.

Our Bank and all ag banks are experiencing more loan problems. However, we believe we are fully aware of our problem loans and are aggressively pursuing written repayment plans. Workouts are extremely tough and refinancing of short term bank debt has been hampered by the drying up of long term credit sources to refinance land equity and pump working capital back into farming operations. Our local Federal Land Bank Association recently reported that 80% of the applications submitted for refinancing purposes are presently being denied. Likewise our local Farmers Home Aministration office has reported that approximately 50% of the applications for refinancing are being turned down.

The amount of debt to be serviced by the operation and the cash flow available to meet debt servicing requirements is critical. Farmers and their bankers are closely evaluating farm financial statements and are asking, "is this asset or enterprise making a significant contribution to the bottom line." Current economic times are forcing them to look at all assets including the possibility of liquidating a part of their real estate holdings as a viable alternative to reducing debt load. Early detection of loan problems is important to both the farmer and banker in minimizing possible lossess and having the maximum number of options available to solve the problems. Obviously these loan problems did not happen over night and recovery will be slow.

In order to place these comments in proper context, I wish to point out that farmers and their lenders have been through tough times before and survived, emerging stronger than ever. All commercial banks engaged in agriculture lending are very concerned for the well being of our farm clientele. The management philosophy followed by our Bank is simple. Our financial services are geared toward increasing the long term profitability of our borrowers, which will in turn be reflected in the long term profitability of the Bank. Clearly this philosophy means that "we are in business for the long pull". We intend to continue to finance viable farming operations and believe our lending policies have been such that will allow us to continue to do so.

You as State Representatives and Senators are obviously interested in what you as a Legislative Body can do to help Kansas' largest industry. I believe the issues involved are more National in scope and there is a limit as to what can be done on a state level. However, you are in a position of considerable influence and a state wide census must be developed and communicated to Washington.

In my opinion, the following are suggestions that would greatly aid all farmers in weathering the current economic situtation and strenghten Agriculture for the future:

1. <u>A Consistent Long Term National Agriculture Policy</u>

   The uncertainty of weather and commodity prices has long been a plight that farmers have learned to live with, however on again - off again farm policies create havoc. The lack of a consistent Ag policy means that a farmer's planning horizon is severely limited. It takes time to increase or decrease livestock numbers and adjust cropping programs. Washington must also undrestand that decisions to plant or not to plant wheat are made in early Summer as a seed bed is being prepared and not Mid-September when grain drills are pulled into the fields.

I have studied with great interest, the recent report of Governor Carlin's bipartisan "Agriculture Working Group" which suggests a new approach to developing Agriculture policy. I feel their conclusions have considerable merit and may provide the framework for positively impacting future development of National Agriculture Policy.

2. <u>Structure of Farmers Home Administration</u>

In my opinion the delivery system for the wide variety of excellent programs Farmers Home has to offer is in need of renovation. The two local area FmHA offices at Hays and Oakley serve our trade territory. I have high praise for the county administrators and their staff, however the job they are asked to do, given their staff resources is sorely inadequate. The Hays office for example serves Ellis, Trego, Ness, and Rush Counties. In addition to processing the large number of new applications due to present financial conditions and our area drought declaration, they are also responsible for servicing approximate 300 active farm loan files. Five full time staff members which includes the county supervisor is wholly inadequate.

I would suggest, that FmHA look to the methods employed by the Small Business Administration to streamline their delivery system for their farm programs. More involvement by Commercial Lenders in the application, approval and servicing process would help a great deal. This involvement by Commercial Lenders would also enhance FmHA fledgling attempts to promote their guaranteed lending programs.

These are but two possible changes in National Policy that would greatly aid Kansas Farmers. In these difficult times, I am positive that initiatives can be found to solve our common problem.

Thank you again for inviting me to express my thoughts on these important challenges.

5

5

PRESENT AG SITUATION

I. FARMERS AND DROVERS BANK IS PRIMARILY AN AGRICULTURAL BANK.

A.) Sixty-four percent (64%) of the Bank's Seventeen Million ($17,000,000.00) loan portfolio is represented by agricultural loans.

II. SELECTED TWENTY (20) GOOD FARM LINES OF CREDIT FOR ANALYSIS.

A.) These Lines are percent 3.5 Million in loans to the Bank;

B.) Constitute one-third (1/3rd) of the Bank's agricultural loans;

C.) Analysis of the Operators' Financial Statements indicate that over the last two (2) years there has been a ~~five~~ Twenty percent (~~5~~%) 25% decrease in their net worth;

D.) These Lines represent full time farming operations.

III. INCREASING TREND IN LIQUIDATIONS.

A.) In 1983, Bank observed farm liquidations which represented Lines of Credit totaling Four Hundred Fifty Thousand Dollars ($450,000.00);

B.) 1984-it appears that we could anticipate nearly double this amount of liquidations which would represent nearly a million dollars in loans;

C.) This would represent about ten percent (10%) of the Bank's total farm loans;

D.) All farm income continually see an increase in the number of farm families being forced to seek off-farm employment by one or both spouses in order to subsidize the farming operation.

IV. OTHER FACTORS.

A.) Increase in Federal Land Bank foreclosures;

B.) Non-replacement of machinery and equipment;

C.) Inability to pay interest;

D.) Decline in value of real estate resulting in inability to restructure debt;

E.) Weather conditions;

1.) 1982 Wheat;
2.) 1983 Milo.

Atch. 5

V. COMMODITIES PRICES.

A.) Fall, 1983, cattle and hog prices;

B.) Spring, 1984, replacement prices.

VI. CONCLUSION.

A.) Will see a drastic decrease in the number of owner-operated farming operations;

B.) Effect on farm industry sales and profits;

C.) Greater reduction of value of real estate if forced sales continue;

D.) Presently, it appears only the best farm operations can hope to survive even the short term future.

REPORT TO THE JOINT AGRICULTURE

COMMITTEES OF THE KANSAS LEGISLATURE

March 22, 1984

(6)

My name is Richard Parker. I am President of Krause Plow Corporation. A company that manufactures farm equipment in Hutchinson.

In 1800, 90% of the population in this country produced 100% of the food we needed. In 1982, 3% of the population produced 120% of the food we required. There are far more votes in the big cities than there are on the farm, and unfortunately, most of these voters do not seem to be aware of just how important the health of the Ag business is to the entire country.

We should not forget that, with a little dirt, seed and fertilizer, the farmers of this country produce 150 billion dollars in new wealth each year. No other industry comes close to that.

Agriculture has been good to politics, but politics has not been good for agriculture. The politicians, in Washington, constantly make the wrong decisions for the right reasons, because it is politically expedient.

Yes, the PIK program did put quite a little money in the hands of the farmers, and yes, the PIK program did help reduce some of the surpluses, but that was a very short-range program. It did not address the major problem in agriculture in the U. S. today.

I don't think I need to tell you that Ag business, which includes both the farmer and the suppliers to the farmer, have come upon hard times these past few years. It's public knowledge that all of the major farm equipment manufacturers have been struggling. Some have taken Chapter 11 into the Bankruptcy Court, and others are on the verge of doing so. The cumulative economic losses of these companies over the past four years is almost incomprehensible.

When companies announce, with great fanfare and glowing letters to their

Atch. 6

stockholders, that business is really getting good because they lost less money this year than they did a year ago; you know that the overall health of the agriculture business is pretty bad.

Obviously, nothing happens until the farmer grows or raises something, be it wheat, corn, soybeans, rice, cattle, or hogs.

Most people in this country, and even many in our own industry, have a blind spot when they talk about agriculture. They do not seem to realize what a tremendous impact farming has on all of our lives, and the fact that agriculture is this country's largest industry. Its assets, today, totaling over one trillion dollars; that amount is equal to almost 90 percent of the total assets of all the manufacturing corporations in this country. Also, agriculture has been this country's largest employer, outside the government itself. Around 15 million people work in some phase of agriculture; the growing, the storing, the transporting, the processing, the merchandising, and the marketing of all farm commodities.

And, you, gentlemen living in a farm state are well aware that agriculture makes a tremendous contribution to the U.S. Balance of Payments. Farm exports in 1981 (before the Embargo), totaled over 45 billion dollars and it gave us a surplus in Balance in Payments of 26.7 billion in agriculture products.

I don't think we should forget that farmers are also large consumers. For example, the annual purchases for farm machinery, farm tractors, trucks and other vehicles, total 14 billion dollars. For fuel, lubricants, maintenance of vehicles and equipment; the farmer spends over 13 billion dollars a year. Agriculture uses about six and a half million tons of steel every year. That's enough to account for 40 thousand jobs in the steel industry.

Let's talk particularly about the State of Kansas now. Last week, I called <u>some</u> of the major farm equipment manufacturers and suppliers in the State of Kansas, and asked them where they are today compared to where they were in 1979. The companies in this survey included: Hesston Manufacturing in Hesston, Cessna Hydraulics in Hutchinson, Sunflower Manufacturing in Beloit, American Products in Spearville, Flex-King in Quinter, Haven Steel Products in Haven, Cross Manufacturing in Lewis, Landoll Manufacturing in Marysville, Kent Manufacturing in Tipton, and Krause Plow in Hutchinson. In those companies alone, there has been a decrease from 1979 to March 1984 of over 2700 jobs, or 46% of their total work-force and none of these companies see any significant improvement in sight.

We at Krause have 500 implement dealers, 80 in Kansas alone. You can imagine the tremendous impact lower machinery sales have had on their business. Nearly all have had to reduce their workforce, some have had to close their doors, and many are struggling for survival.

I also called some of our major suppliers, located throughout the U.S., and asked them the same question. Those companies were: Ingersoll Steel Products in Chicago; Tex-Tube in Houston, Texas; Regal Tube in Chicago; Fafnir Bearing Company, which has plants in Tennessee, Arkansas, and Connecticut; Prince Manufacturing in Sioux City, Iowa; Can-Am Industries in Quincy, Illinois; and B. F. Goodrich, whose plant in Miami, Oklahoma, supplies tires to the farm equipment manufacturers. I learned that these companies, today, have 44 percent fewer employees than they did in 1979. That total would be in the thousands.

It's obvious that the health of the agriculture business in this country is still in bad shape.

The latest report shows that one-sixth of this nation's 2.4 million farms are financially vulnerable. Five percent of the farmers will be forced out. Thirty-two percent will lose money, and 45 percent will lose in net worth.

The farmers' debt has doubled since 1976, to 220 billion dollars. With interest rates as they are today, it takes the Gross Cash Receipts from the sale of all wheat (9.8 billion dollars), corn (13.4 billion dollars), and cotton (4.9 billion dollars) just to service this debt. To pay the interest only - not principal.

All the PIK programs, set-asides, target prices, and so forth in the world will not solve this problem. Anytime we cutback in production, Canada, Australia, Argentine, Brazil, and the European commonmarket pick up the slack. Our only hope of regaining a strong producing agriculture business is to regain the large portion of export business that we once had. We need a unified National Export Plan. Our agriculture export policy must be aggressive. We must concentrate on market share.

The European community farm trade subsidies, last year, amounted to 6 billion dollars. (It seems obvious to me that most of the money we are spending to encourage our farmers not to produce would be far better spent in developing and expanding our exports) We do not need and do not want a trade war. There should be other ways to accomplish our goal of increasing exports. We are a low-cost agricultural producer and should have a much larger share of the export market.

Our farmers are the most productive segment of our economy today, and that should be a plus, not a minus. We are constantly urging our other industries to bring their productivity up to the level of the Japanese. But our farmers, who far exceed any other country in their productivity, are being made to suffer because of it. (The only way we will be able, in the near future, to take advantage of the ability of our farmers to produce a quality product for a fair price is to help them in exporting their product.) For the benefit of the entire country, we must have our farmers producing. Our Federal Government must be export oriented through an aggressive National Export Policy - our goal should be to sell to, to become the dominant force in agriculture trade.

Gentlemen, I realize that my time is limited, so the details of the statistics that I have just presented to you are in the written material you have before you.

Thank you for your time.

MAJOR FARM EQUIPMENT MANUFACTURERS

SALES

	YEAR 1981	YEAR 1983	DIFFERENCE
ALLIS-CHALMERS	$2,041,000	$1,300,000	Down 36%
DEERE & COMPANY	5,447,000	3,968,000	Down 27%
HESSTON CORPORATION	280,000	198,000	Down 29%
INTERNATIONAL HARVESTER	7,041,000	3,601,000	Down 49%
MASSEY-FERGUSON	2,646,000	1,500,000	Down 43%
STEIGER TRACTOR	148,000	108,000	Down 27%
TOTALS	$17,603,000	$10,675,000	Down 39%

The 1984 Forecast is for Sales of $12,850,000

FARM EQUIPMENT MANUFACTURING SUPPLIERS

EMPLOYEES 1979 VS. 1983

CAN-AM INDUSTRIES, QUINCY, ILLINOIS	Down 74%
FAFNIR BEARING COMPANY, CONN., ARK., AND TENN.	Down 40%
B. F. GOODRICH, MIAMI, OKLAHOMA (ONLY)	Down 21%
INGERSOLL STEEL PRODUCTS, CHICAGO, ILLINOIS	Down 37%
PRINCE MANUFACTURING, SIOUX CITY, IOWA	Down 37%
REGAL TUBE, CHICAGO, ILLINOIS	Down 39%
TEX-TUBE, HOUSTON, TEXAS	Down 61%

KANSAS MANUFACTURERS AND SUPPLIERS FOR AG-INDUSTRY

NUMBER OF EMPLOYEES

	YEAR 1979	MARCH 1984	DIFFERENCE
AMERICAN PRODUCTS	175	80	Down 54%
CESSNA HYDRAULIC DIVISION	2,300	1,125	Down 51%
CROSS MANUFACTURING	700	230	Down 67%
FLEX-KING	100	80	Down 20%
HAVEN STEEL PRODUCTS	85	60	Down 29%
HESSTON CORPORATION	1,787	1,133	Down 37%
KENT MANUFACTURING	105	30	Down 71%
KRAUSE PLOW CORPORATION	360	245	Down 32%
LANDOLL MANUFACTURING	135	75	Down 44%
SUNFLOWER MANUFACTURING	130	90	Down 31%
TOTALS	5,877	3,148	Down 46%

7

United States Department of Agriculture

Farmers Home Administration

444 SE Quincy Street
Topeka, Kansas 66683

7

Senator Fred Kerr, Chairman
Senate Agriculture Committee

March 21, 1984

Representative Bill Fuller, Chairman
House Agriculture Committee
Capitol Building
Topeka, Kansas 66612

Dear Senator Kerr and Representative Fuller:

I want to thank you for granting Farmers Home Administration the opportunity to address the current financial condition of Kansas agriculture. Permit me to address the following issues:

Funding
Delinquencies
Foreclosures, Bankruptcies and Voluntary Conveyances
Wheat, Corn, Cattle and Hog Projections
Overall Outlook

Funding: FY October 1 through September 30

	Actual FY 1981	Actual FY 1982	Actual FY 1983	Budget FY 1984
Operating Expenses	18.7 million	24.3 million	31.8 million	52.1 million
Farm Ownership	27.9 million	22.1 million	24.8 million	21.3 million
Economic Emergency	21.3 million	-0-	-0-	19.2 million
Emergency Loans (Natural Disaster)	69.4 million	30.4 million	2.3 million	No limit

Farmers Home Administration presently has 8,200 farm borrowers which is an increase of 700 over the last three years. This represents approximately 10% of all farmers in Kansas. These 8,200 farmers have loans that total $515 million dollars.

Atch. 7

Delinquency (Farm Borrowers)

December 1981.................. 675
December 1982.................. 939
December 1983..................1,267

The above figures represent a combination of partial payments, total payments and total loans.

Foreclosures, Bankruptcies and Voluntary Conveyances:

	Actual FY 1981	Actual FY 1982	Actual FY 1983	FY 1984 To Date
Bankruptcies	17	46	117	45
Foreclosures by FmHA	7	9	11	0
Foreclosures by other leinholders	No record	No record	14	4
Voluntary Conveyances	No record	20	39	12

During 1983, 2.2% of our borrowers went out of business.

Wheat, Corn, Cattle and Hog Projections:

Wheat:	1982	1983
Supply	2.8 billion bu	2.4 billion bu
Export	1.5 billion bu	1.4 billion bu
Feed Use	221 million bu	450 million bu
Acres	76.8 million planted 61.5 million harvested	82.6 million planted

The national price ranged from $3.45 to $3.55 during 1983 and USDA projects $3.30 for 1984. While acreage reduction policies brought wheat production down 14% in 1983/84, foreign wheat producers have increased output by 4%.

Corn:	1982	1983
Supply	10.5 billion bu	7.34 billion bu
Export	1.87 billion bu	1.90 billion bu
Acres	60 million	84 million

The farm price for corn averaged $2.68 in 1983 and is projected to be between $3.20 and $3.40 for the last part of 1983 and 1984. Corn supplies will still be large enough to satisfy total needs and leave carryout stocks near the levels experienced in the mid 1970's.

Livestock:

Beef production was up 3% in 1983 but is likely to be down in 1984. Beef exports continued to rise in 1983 and another modest increase is expected this year. Imports were down in 1983 and are expected to be down again this year. Price for fat cattle is expected to be in the $70 to $72 range.

Hog producers have reduced breeding inventories and pork output is expected to decline in 1984. Pork exports were off slightly in 1983 but imports rose about 12%. Imports will remain fairly high in 1984 but should decline from the 1983 level.

Per capita meat consumption was up in 1983 reaching a record high of more than 209 pounds. A decline of 2% is likely for 1984.

Outlook:

The above information indicates that corn producers and livestock feeders should experience some financial relief, however, the wheat producer will not. Recently, the dollar has weakened 5 to 10 percent which should improve our ability to increase exports.

The most obvious conclusion is that no one can predict the future.

I believe there is more than adequate credit available for the farmer. As you are aware, the problem has not been available credit but lack of sufficient cash flow and/or security. In my opinion, the diversed Kansas farmer may experience a slight improvement but not a major turnaround. The wheat farmer can expect 1984 to be similar to 1983 and may even experience some deterioration. Overall the Kansas farmer will continue to have cash flow difficulties. Furthermore, the ag related business will continue to experience problems.

Farmers Home Administration will continue to go the extra mile to keep the farmer in business. We will not be liquidating large numbers of our borrowers and anticipate assisting new borrowers whenever possible.

Sincerely yours,

Larry E. Davis

LARRY E. DAVIS
State Director

LED:ejy

cc: Members of Senate Agriculture Committee
Members of House Agriculture Committee