A Lender's View of the Ag Economy

Silver Linings Hidden in Farm Economy Headwinds

By Katie Micik
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CHICAGO (DTN) -- CoBank President Mary McBride thinks the ag economy is facing some stout headwinds: a lower price environment, a strong U.S. dollar, deceleration of the Chinese economy and increased global competition in the coarse grain trade.

U.S. net cash income is expected to decline by 40% in 2015, a dramatic change from the strong profits farmers received several years ago.

But she also pointed out the silver linings to attendees of DTN's Ag Summit.

"What's interesting to us is U.S. farm assets versus debts," McBride said. "As a banker, one of the things we focus on is, does anybody get overleveraged when their financial situation changes? We feel generally that farmers are in solid shape financially."

Farm assets are 135% higher than they were in 2000. Farm debt increased 100% during the same time frame. Farmland values account for the largest part of the increase in assets, and while CoBank isn't seeing depreciation in farmland values just yet, McBride anticipates it's going to happen.

"But the good news from our perspective is that, overall, farmers haven't overleveraged themselves as these asset values have increased," she said. "So we anticipate that while there won't be great years in the next few years, they won't be as bad as they could have been if you had too much debt."

The next biggest headwind is the U.S. dollar, which has strengthened 20% compared to other currencies since the middle of last year and makes U.S. exports more expensive for other countries, as evidenced by lagging corn and wheat export sales. But McBride sees some good news here as well.

"I think the dollar is going to remain strong. I don't anticipate that it's going to weaken, but I think the bulk of appreciation has already occurred. So I don't think we're going to continue to see other currencies weaken significantly against the dollar like they have been."

SHIFTS IN CHINESE ECONOMY

One of the U.S. ag's top export markets, China, is also adding to the headwinds. China's government is trying to shift that economy from being export-driven to consumer-driven. The country's rate of GDP growth has slowed, and CoBank estimates this year will total just 6.3% compared to 10% several years ago.

McBride said that for many developed countries, that'd be a phenomenal growth rate. But it's a huge change for China and ripples across the global economy.

"China, obviously, is a significant importer of U.S. commodities. We anticipate that growth in the importation of U.S. commodities will still continue. We just don't see the trajectory of that growth being as fast as it once was," she said.

Ukraine served as China's largest corn supplier last year, and McBride said global competition is getting tougher. In 2005, the U.S. accounted for nearly 56% of U.S. coarse grain trade. Today it's more like 33%, primarily due to increased production from Brazil and the Ukraine.

Currencies in these emerging markets play a role. McBride thinks the difference between those and the dollar will moderate, weather patterns will change and supply situations are bound to occur.

"We'll see the U.S. become strong once again in global trades," she said. "One of the things that I think is most interesting to us at CoBank is really the importance of the U.S. producers and companies to realize they're part of a global market."

McBride said overseas grain companies believe they can't continue to be strong participants in global trade unless they have a global presence.

"And that global presence cannot be just exporting U.S.-sourced grain. It must be able to export grain that's sourced from South American and Eastern Europe. They have got to be in all of the markets all of the time. And even more important than that is they couldn't just be traders. They have to have infrastructure. We really are a part of the global environment, and that environment is going to require significant investments."

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