



For Immediate Release

NR 17-10 (07-13-17)

Contact: Mike Stokke or Christine Quinn,
703-883-4056

Email: info-line@fca.gov

Current Downturn in Farm Economy Unlikely to Become 1980s-Style Crisis

McLEAN, Va., July 13, 2017 — At its monthly meeting today, the Farm Credit Administration board received a report from the agency's chief economist on the similarities and differences between the farm crisis of the 1980s and the current economic downturn in the farm economy.

According to Chief Economist Stephen Gabriel, many observers are asking if the current downturn is a prelude to a 1980s-style crisis. "The likelihood of this is very low," he said. "A confluence of adverse factors led to the crisis that occurred in the 1980s. It would take a similar combination of adverse developments to precipitate another crisis in the farm economy."

These two periods are indeed similar in some respects, said Gabriel. Both downturns were preceded by a "demand shock" that pushed up grain and soybean prices and, consequently, farm incomes. In each case, farmland values and farm debt rose quickly before the downturn. And in each case, grain prices and farm incomes fell sharply after the downturn. But there are also some important differences, said Gabriel.

"Interest rates were very high in the 1980s, exacerbating the debt burden of many farmers. Today's interest rates are historically low. And though short-term rates are rising, they are likely to rise slowly," he said.

The price of oil is another major difference, according to his report. In 1979 and 1980, the price surged, while today it is declining. Also, the general economy is in better shape today than it was in the 1980s. The country experienced two recessions during the 1980s' crisis whereas today we're in an "extended, if lackluster, economic expansion," Gabriel said.

Finally, real estate mortgage underwriting appears to have been "far more conservative during the most recent run-up in farmland prices" than it was during the 1980s.

"Nevertheless, conditions in the agricultural economy could deteriorate further if grain and soybean prices remain at low levels, or if interest rates rise quicker than

expected,” said Gabriel. Economic shocks, such as disruptions in international trade, could also weaken the agricultural economy.

“Fortunately, the Farm Credit System is well positioned to manage additional stress,” he concluded. The System is well capitalized, and its credit quality is good. What’s more, the Farm Credit Administration, which regulates the System, now has enforcement authorities it did not have during the crisis of the 1980s.

Notational Votes

Since the June FCA board meeting, the following notational votes have occurred. Notational votes are actions taken by the FCA board between board meetings.

- On June 15, the board granted preliminary approval of the proposed plan of merger of Farm Credit Ness City, FLCA, with and into Farm Credit of High Plains, FLCA, a wholly owned subsidiary of High Plains Farm Credit, ACA. The board’s approval is subject to certain conditions. If all conditions for final approval are met, the merger is scheduled to take effect Oct. 1, 2017.
- On June 21, the board approved a request from the Federal Agricultural Mortgage Corporation to invest up to \$250 million in Rural Enterprise Bonds secured by pools of loans.
- On June 28, the board authorized the agency’s chief financial officer to reallocate funds in the Office of Information Technology’s budget.
- On June 29, the board approved CoBank’s request to invest up to \$2.8 million in bonds issued by an assisted living and hospice care facility that is a subsidiary of a rural hospital in Colorado. FCA placed conditions on CoBank in conjunction with this investment.

###

The Farm Credit Administration is the safety and soundness regulator of the Farm Credit System. The System consists of two government-sponsored enterprises — a nationwide network of cooperative banks and associations established in 1916, and a secondary market entity known as the Federal Agricultural Mortgage Corporation (Farmer Mac) that was established in 1988. The System’s borrower-owned banks and associations provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible and creditworthy borrowers. Farmer Mac provides a secondary market for agricultural real estate loans, rural housing mortgage loans, and certain rural utility loans. Members of the FCA board are Dallas P. Tonsager, board chairman and CEO, and Jeffery S. Hall. FCA news releases are available on the web at www.fca.gov.