Rural America in 2010

Producers, lenders recover from recession

As the U.S. economy emerges from recession, prospects for a rebound in rural America are also rising.

"2010 looks promising for farmers and agricultural lenders alike," says Jason Henderson, an economist and Branch executive at the Federal Reserve Bank of Kansas City's Omaha office. "Rural job losses are slowing, farm incomes are rising, access to credit is improving and farm programs are evolving."

Henderson, along with Maria Akers, an associate economist, recently researched the financial challenges facing farms as well as the year ahead for rural America. Economists Brian Briggeman, also at the Omaha Branch, analyzed two farm programs and Alison Felix looked at fiscal challenges.

The Kansas City Fed commits resources specifically to understanding the rural areas of its region during both good and bad economic times, Henderson says. This tradition stems from the makeup of the Tenth Federal Reserve District—western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico—and its large agricultural presence. Efforts include dedicating research staff to rural issues, maintaining a fixed presence around the region, hosting events and producing numerous publications examining rural economies.

"We're always tracking rural America," Henderson says. "More recently, there's reason to be optimistic."

Here's a look back and what may be ahead.

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BY BRYE STEEVES, EDITOR

Recovery

In 2009, the farm boom faded and activity on Main Street took a hit. By yearend the global economy rebounded and rural economies stabilized, though at low levels. In past recoveries with slow job growth, rural areas recovered more quickly than metro areas. This time, rural economies have kept pace with their metro peers. The rural economy in 2010 may be shaped by the national recovery. Stronger global economies and a weak dollar could offer new export opportunities.

Fiscal Challenges

Fiscal challenges at state and local governments are a potential threat to economic recovery in rural America. Rural communities depend heavily on intergovernmental transfers from the states to provide local services, and many people rely on state or local governments for their jobs and on Medicaid as part of their income. Although strong rural real estate markets continue to support property tax revenues, rural governments must still find ways to offset declines in intergovernmental transfers. Tough times require tough choices, but there is an opportunity for rural America to spur new innovation in service delivery through consolidation, cooperation and privatization of services.

Credit

Some farmers have struggled to obtain financing. In 2009, farm profits dropped and lending risks grew. In response, ag lenders raised their credit standards. Credit conditions remain tight despite the crisis easing, but new profit opportunities and lower loan default rates should improve access to credit for many producers in 2010.

Producers

Overall, farm debt levels remain near historical lows, but some ag sectors are more highly leveraged than others. Larger farming operations, livestock producers and young and beginning farmers typically have higher debt levels and less ability to service debt, especially when demand for ag products is declining and farm incomes fall. Rebounding farm profits, spurred by a global economic recovery, should bolster farm income statements and balance sheets. This could open up the flow of credit and foster additional investments in U.S. agriculture.

Lenders

Ag banks had a relatively strong performance during the financial crisis and remain in solid financial condition. However because the recession curbed ag profits and the demand for ag products, the risk on ag loans has risen. Still, interest rates on ag loans remain low and banks report funds are available for borrowers who can meet higher collateral requirements to qualify for financing.

Farm Programs

This year many farmers will choose to remain in the more familiar 2002 farm program or enroll in the new Average Crop Revenue Election (ACRE) program, which protects against revenue shortfalls from falling prices or low yields, but requires farmers to forgo a portion of their traditional 2002 farm program payments. The decision to enroll in either program will affect farm profits, which, in turn, could reshape farmland values and the overall costs of farm programs.

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"FINANCIAL CHALLENGES FACING FARM ENTERPRISES"
By Jason Henderson and Maria Akers

"WILL THE RURAL ECONOMY REBOUND IN 2010?"
By Jason Henderson

"THE NEW ACRE PROGRAM: COSTS AND EFFECTS"
By Brian C. Briggeman and Jody Campiche

"RURAL AMERICA'S FISCAL CHALLENGE"
By Alison Felix and Jason Henderson

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