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Economic Situation for Iowa Farmers

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The 1990s will be a period of uncertainty for Iowa farmers. With the uncertainty will come challenges and opportunities. The farmer who is able to adjust and successfully deal with the changes will be profitable. Those who do not will either just hold on or will exit farming.

This paper focuses on three areas that will impact the economic situation of Iowa farmers in the 1990s. Other areas could be developed and the ones presented will not be covered in depth. The idea is to discuss three of the major phenomena that will impact the economic situation of Iowa farmers.

The major areas include the observation that there is considerable differences in profitability on Iowa farms, the changing structure of Iowa agriculture, and the general level of uncertainty surrounding agriculture and the U.S. economy. Each of these areas and their ramifications will be discussed.

Farm Profit Differences

The phenomena of differences in farm profitability has been known for a long time. Data from the Iowa Farm Business Association shows that the average profit for the high third has been positive in every year since 1959 except for 1981. Similarly the low third has a negative profit in every year except 1973.

The key factor in farm profitability is efficiency. Farms in the Farm Business Association reported an average total cost to produce corn in 1990 of \$2.64 per bushel. For the high third profit group the average corn production cost was \$2.24 per bushel. The average corn cost was \$2.95 per bushel for the low third profit group.

Similar results can be found in other data sets. Iowa State Extension, through the Integrated Crop Management Program is keeping enterprise records for over 60 farms. In 1990 the average corn production costs were \$1.96 and \$2.34 per bushel for the high third and low third profit groups, respectively. For these same farms soybeans total costs averaged \$4.09 versus \$6.13 for the high and low profit group.

Such differences in profitability are important for a number of reasons. Farmers need to examine the cost structure and try to emulate the action of the profitable farms. Lenders and agri-businesses need to assist in ensuring profitable production.

The overriding key to profitability is efficiency. In the Farm Business data the livestock return per hundred dollars of feed fed and corn yield per acre is always higher for the high third profit groups. Number of acres, total capital managed, amount of livestock, and so forth vary depending on the year and whether or not the high third is more or less than the low third.

In addition to the efficiency criterion, the machinery costs per acre are also a dominant determinant of profitability. In the ISU data the corn machinery costs varied on the average by \$34 per acre between the high and low third.

Analyzing the determinants of profitability is continuing. Although some major factors such as yield and machinery costs have been identified, it appears that the good managers just seem to do everything a little bit better.

Efficient, profitable farm operations will prosper in the 1990s. It is important to watch and determine what makes these farms profitable. We must fully employ all of the resources available, including labor and management.

Farm Numbers

The average Iowa farmer is changing considerably and arguably the average farmer no longer exists. Iowa farms have been undergoing a radical transformation and this process is likely to continue. In 1935 Iowa farm numbers neared their peak at 222,000 farms. Since then there has been approximately a one to three percent decrease in farm numbers every year. Today in Iowa there are approximately 103,000 farms with sales of \$1000 or more.

The average numbers can be misleading when considering full-time family farms. In 1978 there were 121,339 farms in Iowa. Of these, 76 percent (92,309) listed farming as their principal occupation. Nine years later in 1987, there were 105,180 farms with 72 percent (75,279) listing farming as the principal occupation. The number of farms decreased by 15 percent while the number listing farming as the principal occupation decreased 23 percent.

The change is even more dramatic looking at farms with sales of \$10,000 or more. In 1978 there were 98,407 such farms, or 81 percent of the total farms. Of these farms with \$10,000 or more in sales, 84,551 or 86 percent listed farming as the principal occupation. By 1987 there were 82,631 farms with sales of \$10,000 or more (79 percent of all farms). Of these farms, 67,738 (82 percent) listed farming as the principal occupation. Instead of the 15 percent decrease in all farms, there was a 19 percent decrease in farms with \$10,000 or more in sales. For this class of farms listing farming as the principal occupation, there was a 25 percent decrease.

This trend in decreasing commercially viable farms will likely continue in the 1990s. The 1991 Iowa Rural Life Poll reported that 19 percent of farmers responded yes definitely or yes probably when asked if they would retire in the next five years.

Uncertainties

The third factor of additional uncertainty will also influence Iowa farm profitability. Farmers have always dealt with uncertainty from the weather, markets, and pests. In the 1990s, however, this uncertainty takes on new dimensions for which we must be prepared.

The health of the U.S. economy and how the budget deficit is resolved will have significant impacts of the U.S. agriculture. For years concern has been expressed over the deficit but in FY92 the projected deficit is a record at \$362 billion or \$687,000 per minute! This is a very serious problem that will have to be dealt with at some point in the future.

Additional uncertainty is the 1990s focuses on the outcome of the dissolving of the USSR and the opening of Eastern Europe. For years the Soviet Union has been a major customer for U.S. grain. What the future holds is unknown but there is a significant chance that rather than being a customer the Soviets could become competitors.

Similar trade uncertainties surround Western Europe. In 1992 the European community is scheduled to form a common market alliance. There should also be a general agreement on tariffs and trade. The impact of both these phenomena are unknown at this time.

A final area of uncertainty surrounds possible environmental regulations and restrictions. The U.S. started expressing environmental concerns with the 1985 farm bill. These concerns are still being expressed and will likely continue into the future. Agriculture has to become more proactive and be perceived as part of the solution and not the problem. Agriculture must use its political capital wisely.

Conclusion:

The general economic situation for Iowa Farmers is one of uncertainty. Uncertainty over export markets, the U.S. economy, possible environmental changes and declining farm numbers add to the general overall uncertainty. We also have a situation with wide discrepancies in costs of production.

Given these conditions it is possible to argue a large array of possible scenarios for Iowa farms. These scenarios have significantly different outcomes depending on what happens in a few key areas.

My feeling is that we are going to continue to see a decrease in farm numbers and a continuing polarization with a large number of part-time farmers and relatively few full-time farms. The full-time farms that continue to operate will be more sophisticated in their purchasing and use of inputs. We will see more management services provided and a more full

utilization of all our resources. Decisions on input use will be based on a need basis not past experience or practice.

Land values will continue to be under pressure. We will see land shifting more towards its highest and best use. In parts of Iowa there will be little change but in some areas there will be a substantial change in land use patterns.

After World War II agriculture enjoyed a relatively stable period until the early 1970s. The 1970s were a time of general euphoria characterized by a feeling things would never get bad. The 1980s were just the opposite with a general feeling things would never get any better. Today in the 1990s there are very mixed, uncertain feelings. The 1990s offer agriculture a challenge. Things will not be like they were but that does not mean they have to be worse. The efficiently run Iowa farms will prosper. They do not have to grow to megafarms and probably will not. They do have to be efficient and fully utilize the resources available. Times of uncertainty can cause paranoia and pessimism. They can also offer opportunities and challenges. We can be a paralyzed pessimist or a positive realist and capture the opportunities. The choice is ours to make.