

AG MARKETS: 2019 UPS AND DOWNS

FOREIGN TRADE

Tariffs and retaliatory actions have been a theme in 2019 for ag producers of all types in all states. Agriculture and the states that depend on agriculture await anxiously to see what the new U.S.-Mexico-Canada trade agreement will bring, as well as the impacts from a new trade agreement with China and the new trade agreement with Japan.

The year 2019 saw impacts from U.S. tariffs on China and that country's retaliation.

According to a Nov. 11, 2019, *Washington*

Post article quoting the American Farm Bureau Federation, U.S. agriculture exports to China dropped from \$20 billion in 2017 to \$9 billion in 2018. But the U.S. Department of Agriculture also provided a market facilitation program to help bolster bottom lines for some grain growers.

MARKET ASSISTANCE OFFSETS

In an August 2019 [newsletter](#) the U.S. Department of Agriculture said that \$14.5 billion in direct payments would be available in 2019 and possibly early 2020 for ag producers affected by “unjustified trade retaliation from foreign nations”. (The initial amount was \$16 billion, with another \$12 billion referenced. The newsletter indicated \$14.5 billion.)

For Montana, the per acre payment rate was \$15, which was the base rate. Some counties in some states may have received up to \$150 an acre, based on “the impact of the unjustified trade retaliation in that county”, according to the USDA Market Facilitation Program [website](#).

Nationwide, ag-related bankruptcies are projected to rise 24% over 2018.

Montana saw 11 ag-related bankruptcies from 9/30/18 through 9/30/19 – compared with 54 total in 10 years through 2018.

USDA's Market Facilitation Program has provided offsets to trade retaliation.

Nearby beneficiaries' amounts & ranks:

- North Dakota, \$784.5 million (7)
- South Dakota, \$665 million (10)
- Montana, \$115 million, (23)
- Idaho (31)
- Wyoming (41)

A *Billings Gazette* Dec. 1, 2019, article titled “Montana trade war subsidies up to \$115M,” said Montana farmers had received \$115 million in subsidies, although there was no timeframe listed. The *Billings Gazette* cited the Environmental Working Group’s tally of subsidies for each state and noted that most of the money went to soybean producers. The *Gazette* further noted that most of Montana’s subsidies went to wheat producers (\$25.5 million), although hog farmers individually received the most money in Montana.

Separately, testimony by the chairman of the Independent Community Bankers of America’s Agriculture-Rural America Committee before a House Agriculture Committee subcommittee in mid-December, noted that in inflation-adjusted terms net farm income in 2019 “would be 32.3 percent below its peak of \$136.6 billion in 2013.” And, while the projected \$92.5 billion in 2019 net farm income is slightly above the annual average since 2000 of \$90 billion – nearly one-fourth is attributed to government payments.

Information presented at the Montana Economic Outlook seminars early in 2020 showed that Montana cash receipts for agriculture and livestock have dropped for the past two years, despite an increase in government assistance in 2019 from 2018 levels. Poor prices for cattle, in particular, have been a culprit.

The review further noted depressed expectations for the next year, with more than half responding to the Montana Extension survey that they expect to be worse off, while 38% anticipate staying the same, and 10% are optimistic for improved conditions. Those responses are almost the same as what farmers and ranchers reported for current conditions, except that the portion of those saying they were better off now than earlier was just 4%.

Montana Extension Survey 2019

Current Status vs 2018: Farm finances are:

Better Off 4% Worse Off 54% About the Same 42%

Next 12 Months Expectation: Farm finances will be:

Better Off 10% Worse Off 52% About the Same 38%

CHANGES IN TRADE AGREEMENTS

Japan's agreement to lower tariffs on U.S. agricultural products began as of January 2020. Once implementation of the U.S.-Mexico-Canada Trade Agreement begins, additional market stabilization is expected. The new agreement with China is anticipated to improve exports of grains, to a greater degree than livestock. The Montana Extension Service report for the Montana Economic Outlook seminars showed that the top four markets for American beef exports in 2018 were Japan, Mexico, Canada, and South Korea. China was down the list at number 12. Whether market shifts have occurred (export markets changing sources) may be more evident in 2020.

BANKRUPTCIES

The Washington Post [article](#) from Nov. 11, 2019, also quoted the American Farm Bureau Federation as saying farm bankruptcies across the United States rose 24% in 2018. In Montana, although hearsay indicated that 30 farms or ranches were underwater this year, banking data show that 11 farms or ranches had entered Chapter 12 bankruptcy between Sept. 30, 2018, and Sept. 30, 2019. This compares with 54 in the 10-year period ending in 2018. Montana is not alone and not faced with the most severe number of bankruptcies, as the table above shows.

Bankers and agricultural interests have suggested that some farms and ranches are having increasing difficulty in obtaining operating capital, particularly if the owners are cutting back loan repayments. For some, the arrears stretch back to 2018 operating loans, according to reports from the Montana Farm Bureau.

Among suggestions offered for state assistance for struggling farms and ranches is property tax relief in some fashion. As noted by a representative of the Montana Independent Bankers Association, bankruptcy typically does not discharge a tax liability in part because the bank will pay the taxes to maintain collateral. However, the tax bill is considered only a small part in comparison with weather-related disasters and local and world market prices.

The following Question-Answer format helps put the bankruptcy issue in perspective. The answers were provided by one of the financial examiners with the Montana Division of Banking and Financial Institutions.

- Are bankruptcies higher this year or projected to be higher next year than the average over the past 10 years?

Yes, they are higher this year. In the 12 months from September 30, 2018, through September 30, 2019, Montana has had 11 Chapter 12 Bankruptcy filings. For perspective, from 2009 through 2018 there were a total of 54 filings of Chapter 12 bankruptcy in Montana. (For overall bankruptcy data,ⁱ see endnote.)

Chapter 12 is designed for "family farmers" or "family fishermen" with "regular annual income." It enables financially distressed family farmers and fishermen to propose and carry out a plan to repay all or part of their debts. Under chapter 12, debtors propose a repayment plan to make installments to creditors over three to five years. There was initially a cap that to file pursuant to Chapter 12, an ag producer could not have more than \$4.2MM in debt; however, Congress just approved increasing that cap to \$10MM.

Neighboring State Bankruptcies	States with Highest Bankruptcies
(For 12-month period ending Sept. 30, 2019)	
South Dakota - 13	Wisconsin - 48
Idaho - 12	Nebraska - 37
Montana - 11	Kansas - 37
North Dakota - 3	Minnesota - 31
Wyoming - 1	
Data: Division of Banking & Financial Institutions	

- If so, what are the suspected causes or do they vary?
Causes are multi-factor. There has been a sustained period of low commodity prices. There were difficult growing seasons in recent years – 2017 most notably.
- What impacts do bankruptcies have on the community and on government revenues?

The Chapter 12 Bankruptcy was designed specifically for ag producers to try and allow a reorganization of the debt rather than to liquidate assets. Studies show that when farmers and ranchers are able to reorganize debt, this mitigates losses to the bank.

100% of Montana respondents to a Minneapolis Federal Reserve survey indicated they expect a decrease in net farm income in 2019's last three months. 60% see a drop in the rate of loan repayments vis-à-vis last year. See Nov.15, 2019 [article](#).

Not surprisingly, banks in the eastern half of Montana have higher levels of ag concentrations than those in the western half. Agriculture is the crux of their local economies and it is expected that banks will have significant agricultural loan portfolios there.

- Are certain lenders more likely to have looser credit than others?
While some banks may have more flexible terms in some aspects of credit underwriting, all of our banks try to maintain satisfactory underwriting standards. In a time of economic strain, banks work with their borrowers to try to find ways to minimize losses to both the customer and the bank and may make some exceptions to normal underwriting standards in order to accommodate fluctuations in the market. However, that only works for a certain period of time and the current slump in commodities prices has been going on for 5-6 years. Strong management teams and lenders help to minimize losses.
- Is there state legislation that could help cushion or reset credit concerns for farmers/ranchers?
The only thing that may help would be some sort of grant program for struggling farmers and ranchers; however, this would be a heavy lift to administer in terms of qualification for assistance and funding. Montana bankers do an excellent job of working through these tough times with their borrowers and are committed to doing what they can to help their borrowers succeed. Additionally, the federal government already does a lot of spending/legislating to help farmers/ranchers.

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ⁱ [USCourts.gov](#) (accessed 12/10/2019) shows that for Montana between 9/30/2018 and 9/30/2019 overall bankruptcy filings were up 5.3%, rising from 1,279 to 1,347. Terminated cases dropped 15.4%, going from 1,442 to 1,220 cases. Pending cases were up 8.7%, rising from 2,860 to 2,954. The USCourts.gov data echoes the 11 filings for chapters other than chapters 7, 11, or 13 (most likely chapter 12). The filings for chapters 7, 11, or 13 numbered 1,347, with the majority for chapter 7 (1,094).