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Debt Use By U.S Farm Businesses, 1992-2011

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What Is the Issue?

Farm businesses' debt-use decisions can affect their growth and survival, as well as the economic vitality of farm-dependent rural communities. Thus policymakers, agricultural lenders, and other farm-sector participants closely follow trends in farm debt. During the early 1980s, farm income plummeted and interest rates rose rapidly, which contributed to numerous farm bankruptcies and rural bank failures. Today, the farm sector overall is in a strong financial position after several years of generally rising income. However, the potential for lower income and higher interest rates in the future has raised concerns about current trends in the use of debt by farm businesses. This study analyzes how farm businesses used debt from 1992 through 2011, with a focus on the considerable heterogeneity among farm businesses in their debt obligations.

What Did the Study Find?

While total debt held by farm businesses increased 39 percent from 1992 to 2011 (after adjusting for inflation), the average farm business debt-to-asset ratio was 0.13 in 1992, rose to 0.15 in 1997, and declined to 0.09 in 2011. Further, the share of highly leveraged farm businesses (those with a debt-to-asset ratio greater than 0.40) has declined since 1992, as has the share of the value of production contributed by highly leveraged farms.

The broad types of debt used by farm businesses were relatively stable from 1992 to 2011—total debt was comprised of about 60 percent real estate debt, 20 percent non-real-estate debt, and 20 percent short-term debt throughout the entire period.

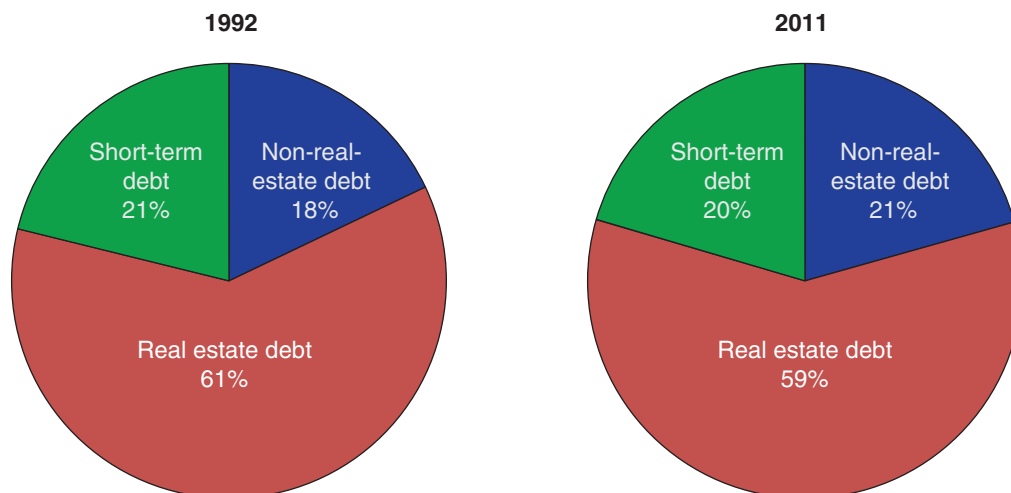
Although stable overall, U.S. farm debt use varied widely by farm size, specialization, operator age, and other farm characteristics.

Key factors that influenced debt use include:

- **Farm business size and organization.** Large-scale family farms (those with annual gross cash farm income of \$1 million or more) hold the largest share of farm business debt (about 35 percent). The share of debt held by these farms has increased since 1992, while the share held

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U.S. farm business debt share by type of debt, 1992 versus 2011



Source: USDA, Economic Research Service and National Agricultural Statistics Service; 1992 Farm Costs and Returns Survey and 2011 Agricultural Resource Management Survey.

by small-scale family farms with a farming occupation (farms whose principal operator has farming as his or her primary occupation and annual gross cash income less than \$350,000) has declined.

- **Commodity specialization.** Farm businesses specializing in dairy and poultry production have the highest average debt-to-asset ratios (0.19 and 0.18 in 2011, respectively) while field crop, specialty crop, and beef farm businesses have the lowest debt-to-asset ratios (0.10, 0.10, and 0.06 in 2011, respectively).
- **Region.** Debt-use levels vary by region, but these differences are not as substantial as between the other categories considered in this study. In 2011, farm businesses in the Northern Crescent had the largest average debt-to-asset ratio (0.12), and farm businesses in the Basin and Range had the smallest (0.07). These patterns largely reflect regional differences in the types of farm commodities produced.
- **Operator's age.** Farm business debt-to-asset ratios decrease as operator age increases. While most age groups experienced an overall decline in debt-to-asset ratios over 1992-2011, the youngest group (age 34 or younger) did not experience a substantial decline in financial leverage. Farmland purchases and ownership may play an important role in these trends.

How Was the Study Conducted?

This study was conducted using data from the Farm Costs and Returns Survey (1992-95) and the Agricultural Resource Management Survey (1996-2011), which were both conducted jointly by the U.S. Department of Agriculture's Economic Research Service (ERS) and National Agricultural Statistics Service. The study considered only farm businesses—family farms with annual gross cash farm income of \$350,000 or more, smaller family farms whose principal operator reports farming as his or her major occupation, and nonfamily farms—which held about 79 percent of all farm debt and made up 42 percent of all U.S. farms in 2011. Farm businesses were separated into four subcategories (small family farms that had farming as their major occupation, midsize family farms, large-scale family farms, and nonfamily farms) based on the ERS farm typology. Gross cash farm income was adjusted for inflation when classifying farm businesses, and the key variables considered were debt uses, total debt, and debt-to-asset ratios.