BUSINESS

Minnesota farmers tightening belts, with ripple effects on the rural economy

Impact of weak farm economy rippling through main streets.

By Tom Meersman (http://www.startribune.com/tom-meersman/10645426/) Star Tribune

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Ed McNamara sat in the driver's seat of his John Deere combine recently, musing about crop prices as he mowed through six rows of corn at a time.

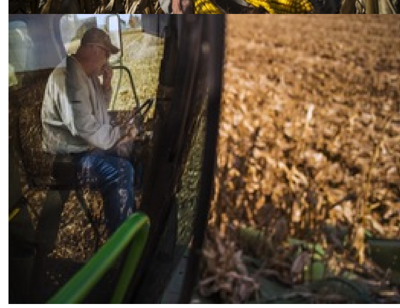
Thousands of Minnesota farmers have withstood stubbornly low crop prices during the past 27 months, and farmers' average net income has been dropping steadily for the past three years. McNamara, who has been farming just south of the Twin Cities near Goodhue since 1978, has seen the farm economy cycle up and down several times and knows the drill when profit margins are slim to none.

"Tighten your belt, cut back on inputs but don't hurt your yield, run machinery a little bit longer, and try to get the best deal for supplies," he said, including seed, fertilizer and other chemicals.

As farmers cut back, the doldrums caused by lackluster prices for crops and livestock have started to ripple onto the main streets of rural Minnesota. When farmers have less money to spend, it affects anyone who is selling farm equipment, marketing fertilizer, or building new barns, bins and sheds.

Low commodity prices also put a squeeze on cash rents for land that many retired farmers or their families depend on for income.

Successful farmers were adjusting their budgets even before corn prices dropped below $4 per bushel in mid-2014, considered to be near the break-even point for many producers.



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RICHARD TSONG-TAATARII, STAR TRIBUNE

Ed McNamara is a one-man farming crew as he set off to harvest his 200 acres of corn.

Record yields should help

Many hope to salvage marginal profits in 2016 thanks to generally good weather and record or near-record yields forecast for the second consecutive year.

But David Preisler, executive director of the Minnesota Pork Producers Association, said the direct effects of weak crop and livestock prices show up quickly in many small towns.

"The first ripple effect you see is going to be any sort of capital purchases that are more discretionary in nature," he said.

New data released by University of Minnesota professor and Extension economist Bill Lazarus confirm some of that slowdown. He analyzed spending by more than 1,000 producers across the state on machinery and equipment, farm buildings, fertilizer and land rent.

The average spending for machinery and equipment in 2012 and 2013, when crop prices peaked, was about $117,000 per farm. That plummeted to about $67,500 in 2014 and $48,000 in 2015. Farm building purchases such as grain bins and hog barns had a similar drop-off, from about $36,000 per farm in 2013 to $21,000 in 2014 and $16,000 in 2015.

The report also found that fertilizer purchases fell more than 14 percent from 2013 to 2014 before rebounding slightly in 2015. And land rent, which typically lags behind the ups and downs of crop prices, increased in the two years after crop prices peaked, but last year fell about 3 percent.

Effects felt widely

AGCO, a major farm machinery manufacturer in Jackson, Minn., is feeling the pinch. In a quarterly report issued two weeks ago, AGCO's North American net sales were down nearly 10 percent for the first nine months of 2016 compared with the same period last year. Large tractor sales were down 11 percent, and sales of combines were down 20 percent. The company said that sales of smaller equipment were up slightly.

Big machinery makers John Deere and Caterpillar also reported declines in sales due to softness in ag and construction markets.

“The biggest driver of our business is definitely farm income,” said Greg Peterson, AGCO’s director of investor relations. “So where commodity prices are certainly play a big part of that.”

Peterson said the company has adjusted to the pullback in business by cutting costs across the board and slowing production at its plant in southwestern Minnesota. That meant laying off about 10 percent of its workforce in 2015, he said, and another 10 percent in 2016. The plant currently employs about 850 workers, Peterson said.

Slowdown shifts tax base

Slowdowns in farm country during down cycles don’t surprise mayors, including Dave Smiglewski of Granite Falls.

“Every farmer is basically running a business,” he said, “and every one of those businesses is an important economic contributor to the life of the community.”

Besides the decline in big ticket purchases, Smiglewski said that crop prices affect the value of farmland. When corn and soybean prices reached record levels in 2011 and 2012, he said, land values jumped and cities and school districts in Yellow Medicine County received more of their tax revenue from ag land.

Now that land values have plateaued or even declined a bit, Smiglewski said, things are changing again. “We’re now seeing the tax burden shift back in-town, toward city properties and away from the rural properties,” he said.

Smiglewski said it’s more difficult to track some of the other ripple effects that may affect a small community’s economy. A generation ago, he said, less disposable income for farmers would have meant fewer trips to the local hardware store or less money spent at downtown stores and restaurants.

But now producers may buy parts and equipment online, direct from the manufacturer, he said. And many of their families have shifted their shopping to larger stores and supermarkets in regional centers such as Willmar, Marshall and Hutchinson.

Harold Wolle, president of the Minnesota Corn Growers Association, said the effects of weak farm prices, while difficult to track, are still immense.

“Production ag is a tremendous part of Minnesota’s economy, and particularly the rural economy,” he said.

Next year will be telling

If low prices persist well into 2017, Wolle said farmers with equity and experience will tough it out, while beginning farmers or those who have aggressively expanded and paid high rents will be more vulnerable.

Ag lenders have been working with producers already, he said, sometimes charging interest only on farmland loans or devising other ways to stretch out payments. Helping cash flows temporarily are the federal farm program payments that many producers received last month because of market downturns in 2015, Wolle said.

But the true test will be after producers tabulate their yields this year. “This all becomes more of a reality as farmers get into winter and start doing cash flows and start arranging with their bankers for their operating lines of credit,” Wolle said. “That’s when the rubber meets the road.”

Suzanne Hilgert, mayor of Olivia in Renville County, knows it could be difficult but does not expect a crisis to emerge with large numbers of farm failures as happened in the 1980s. She and many ag economists say that lenders and farmers learned from that experience to be far more careful with credit and debt.

Farms have also become larger in recent years, Hilgert said, and many operate at a scale that gives them more flexibility to hold grain longer in storage until prices improve.

“When you have that kind of large farm, you are better able to withstand these market cycles,” she said.

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