

Debt Levels of KFMA Farms

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Introduction

Farmer's balance sheets appear to be very strong when examining the debt-to-asset (D/A) ratio for all farms in the Kansas Farm Management Association (KFMA). By historical measures, the D/A ratio is probably the lowest it has ever been. However, are balance sheets giving a false impression of what is actually happening on farms? Preceding the 1980's farm crisis, farmers balance sheets also looked very strong. Until the last year, low interest rates made carrying large amounts of debt relatively painless for most business. With rising interest rates though, large debt levels may become problematic again. This article examines the actual debt and assets behind the D/A ratio to see if the very low D/A ratios being reported really indicate low levels of debt.

Procedure

The balance sheets for all KFMA farms with useable data were examined from 1974 through 2020. The assets, debt, and equity were averaged across farms within the eastern, central, and western regions of Kansas and presented in Figure 1. Figure 2 examines the debt per crop acre while Figure 3 shows the Debt/Asset ratio by region.

Discussion

Figure 1 is a stacked area graph that has the amount of average farm debt in the darker blue and the amount of equity in the lighter blue. The average farm assets then is the line at the top of the equity area.

In all three areas of the state, average farm assets are at historical highs. Most of this asset increase has been because of

appreciating land values. Debt levels are also at historic highs as farmers have added more debt over the last 10 years. Much of this debt was added from 2010 to 2015. The amount of debt added over the last five years has been less. The western region of the state has added the most average debt.

This added debt can be seen more clearly when looking at the debt per crop acre. The crop acre number includes both crop acres on owned land as well as crop acres on rented land. Figure 2 shows the effects of the 1980's farm crisis as well as the aftermath. Since the early 1990's debt per crop acre has risen steadily and is now at historic highs. The central region though as leveled off for the last four years.

Figure 3 illustrates one of the issues of relying solely on financial ratios to evaluate a farm business. In central and eastern Kansas, the debt-to-asset ratio is the lowest it has ever been in the entire history of computerized KFMA farm records (46 years). Both regions are at a 20% D/A ratio, normally considered to be very strong. However, the improvement is due to appreciating land values and not a reduction in debt as debt has increased during this period of D/A improvement.

Figure 3 also illustrates a potential problem in western Kansas. Debt there has increased far more than in the rest of the state. The D/A ratio in western Kansas has risen over the last 7 years to 28% while in the central and eastern regions, the D/A ratio has fallen to 20%. Typically, the 3 regions track fairly close together. The increasing debt in western

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Kansas can also be seen in Figure 1 although it may not be quite as apparent as in Figure 3.

Farmers should really be watching their debt levels as we move to a time of higher inflation and higher interest rates. Even though the D/A ratios are the best they have ever been, this is a little misleading as farmers have

added more debt to their farms. While this might not be a problem at the moment, the current environment is looking more and more like the conditions that preceded the 1980's farm crisis. A future paper will examine this possibility.

Kansas Balance Sheet by Region

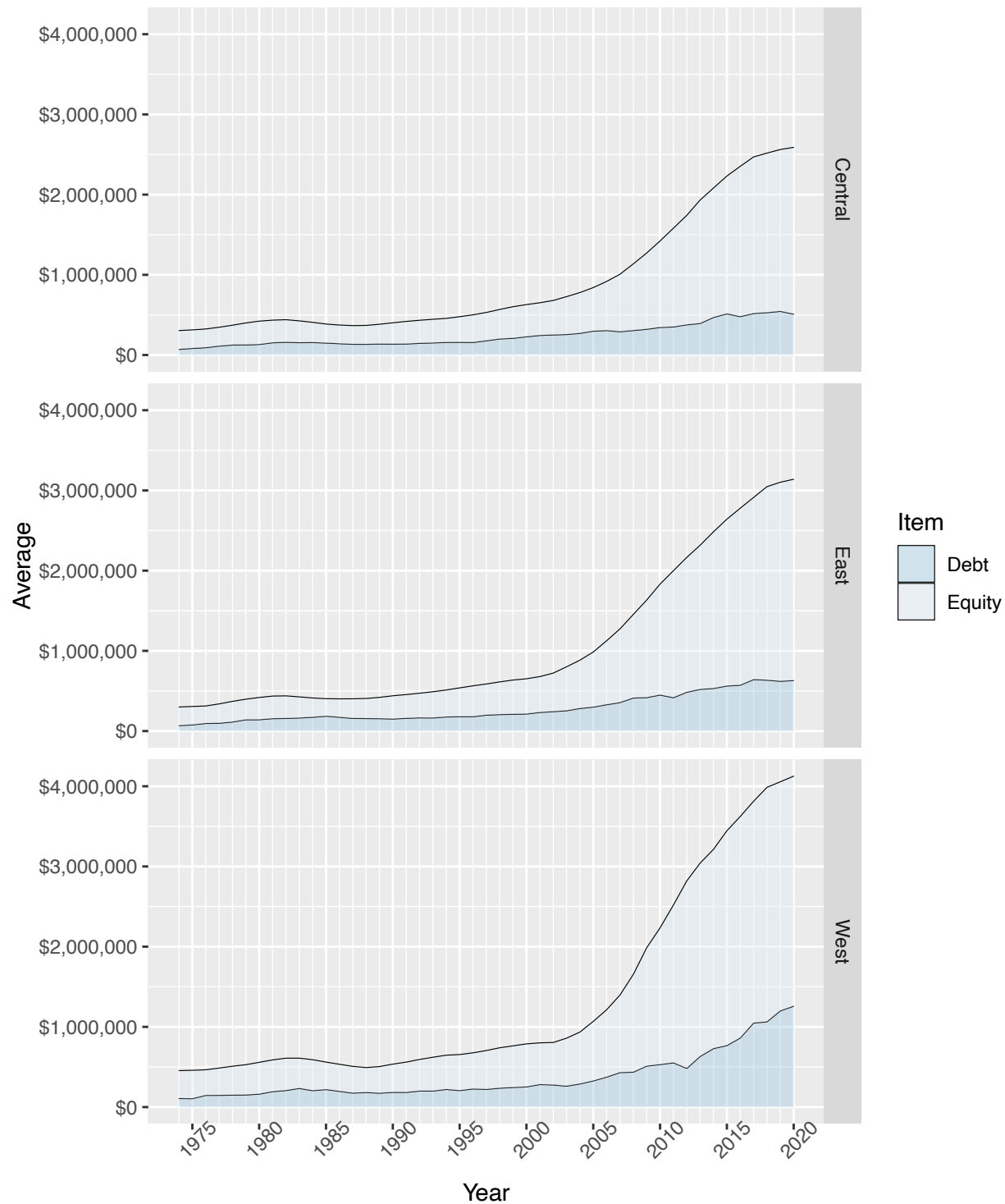


Figure 1. Balance Sheet of Average KFMA Farm by Region

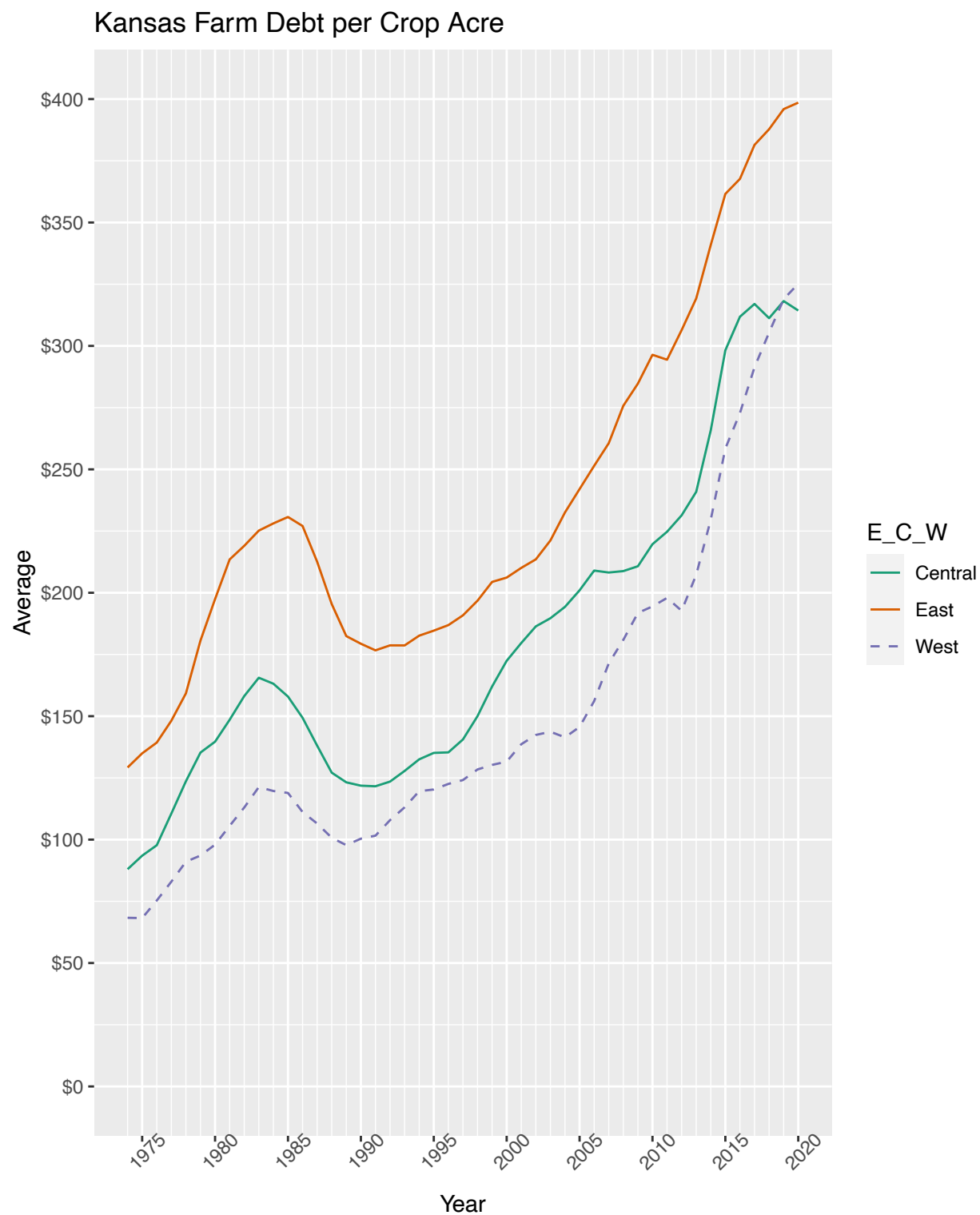


Figure 2. Farm Debt per Crop Acre

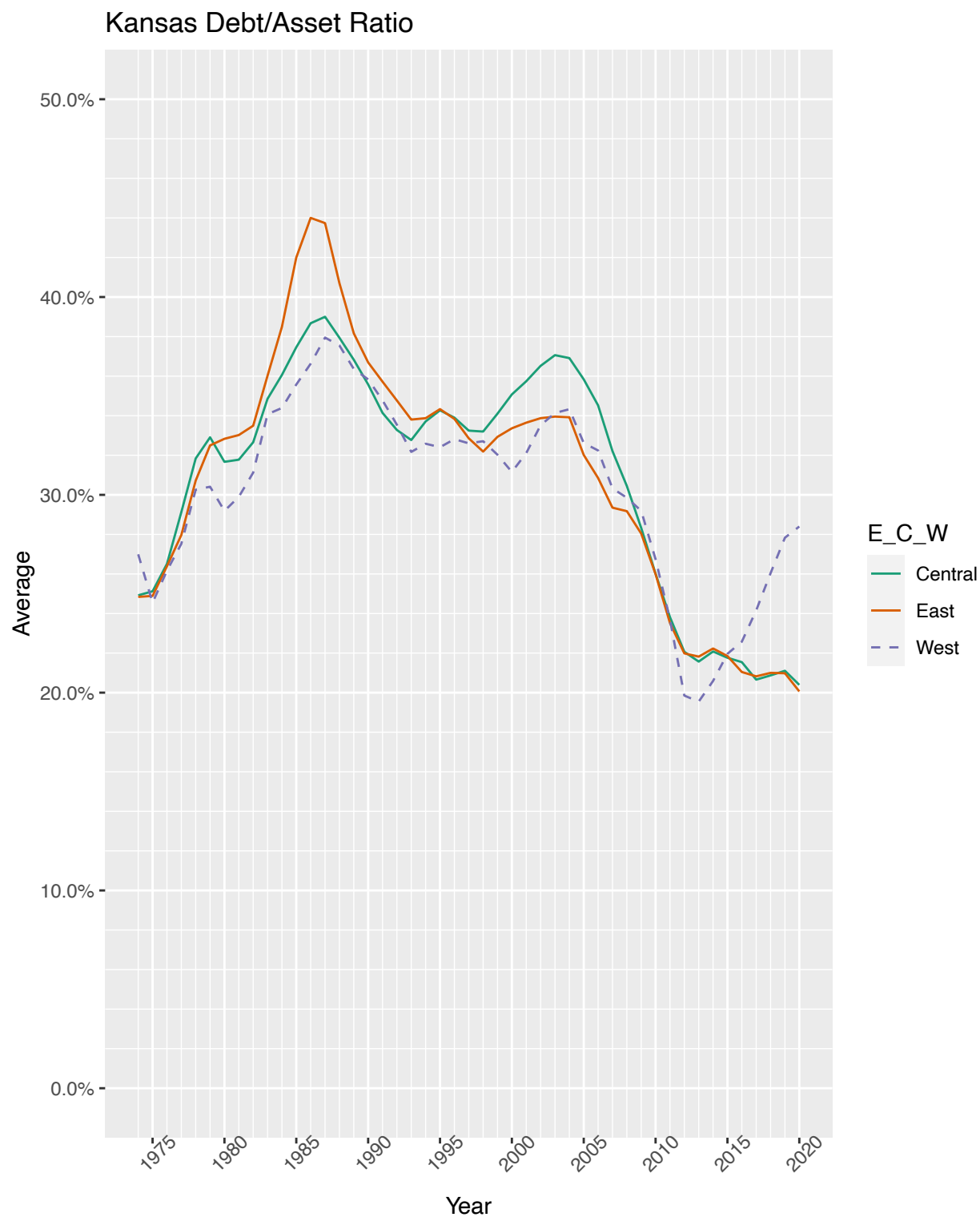


Figure 3. Historical Debt-to-Asset Ratios in Kansas by Region