Interest: ‘The important thing is for the Fed to rein in inflation’

Continued from Page 1

Inflation risk

American Farm Bureau Federation Chief Economist Roger Cryan said the Federal Reserve’s increases in short-term interest rates will have an impact, “but a much bigger risk is the Fed not raising interest rates and letting inflation get away from us.”

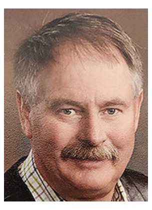
Roger Cryan

Monetary policymakers lacked sufficient discipline in the 1970s, when “some of us can remember farm loan rates at 20% interest,” he said.

“In the 1980s, the Federal Reserve fixed” inflation by dramatically raising interest rates, Cryan said, “but it was very painful.”

“Now the important thing is for the Fed to rein in inflation so that we can maintain stable long-term interest rates,” he said, “because that’s what’s best for farmers and ranchers and the whole economy. … It’s a little medicine now to prevent a much worse problem down the road.”

The annual inflation rate was 7.9% this year through February. That’s up from 1.23% in 2020.



Terrell Sorensen

The money supply — the amount of dollars in circulation in the economy — has jumped about 40% since March 2020, fueled by federal coronavirus relief spending. That means more money has been chasing goods and services and driving up prices.

Terrell Sorensen, University of Idaho Power County Extension educator, previously farmed and worked as an ag lender. Operating loan rates in the early 1980s included average rates of 12-14% — and some up to 18%, he said.

“Interest went from being a small operating cost overall, compared to other things, to being a huge part of your operating expense,” Sorensen said. “One year, I think I paid $40,000 in interest.”

Farmland values also dropped, reducing the borrowing capacity of farmers who used their land as collateral.

“Luckily we haven’t got that now,” Sorensen said. “Land prices have been strong and our interest has been low.”

Many banks use the Prime Lending Rate as a base for loans. Prime is set 3 points above the federal funds rate. The recent quarter-point boost in the federal funds rate pushed Prime to 3.5%, up from 3.25% one year ago.

The current average farm operating loan rates of 4.5-5% from commercial lenders are up 0.25% from a year ago, in keeping with the Fed’s action. Loan rates vary based on borrower profile and operation size.

Robison of Northwest Farm Credit said higher long-term interest rates “will make the cost of buying farms, equipment, and other assets that are typically financed with fixed-rate loans more costly over time as interest expenses increase.

“However, fixed interest rates are likely to remain well below the levels seen in past business cycles, and interest expense remains a relatively small part of the expenses paid by producers,” he said.

Brad Carlson/Capital Press

Richard Durrant, right, and Reyes Rangel clean soft white wheat for seed March 4 at Big D Ranch south of Meridian, Idaho.

Brad Carlson/Capital Press

Miguel Villafana remotely moves a sprinkler pivot to make room for a fertilizer spreader at a winter wheat field near Greenleaf, Idaho, March 1.

Brad Carlson/Capital Press

Matt Dorsey at his farm outside Caldwell, Idaho.

Brad Carlson/Capital Press

Logan and Paul Skeen outside their farm shop near Nyssa, Ore.

It all adds up

Richard Durrant, 61, who farms south of Meridian and is vice president of the Idaho Farm Bureau Federation, said his net income is down from two years ago despite higher crop prices. Fertilizer and small-grain seed prices have doubled. The price of one herbicide nearly quadrupled.

His family grows corn for grain and silage, sweet corn, sugar beets, alfalfa hay, peppermint, wheat and dry beans. At their bonded and licensed warehouse, they store and market wheat, corn and beans for local producers.

“You are seeing a 1 (point) or better increase in the cost to borrow money, and that is compounded with prices that are already inflated,” Durrant said.

Some farmers saw higher interest rates coming and planned ahead.

“I was going to be debt-free before 50,” said Matt Dorsey, 49, who farms near Caldwell, Idaho.

But late last year, he scrapped that plan.

“Knowing that producing a crop takes a lot of capital, I wanted to restructure, because it’s going to take even more capital now,” Dorsey said.

He took on long-term debt, secured by property, to lock in a low interest rate and “have the cash available to continue farming, because the margins stay the same even though we are putting so much more money into it,” he said.

“A young farmer doesn’t get that chance,” Dorsey said. “And if I’m much older, I’m not going to do it.”

“I’m in a position to be able to choose if I want to continue to produce food or I don’t,” he said. “I didn’t take that choice away from myself ... we’ll see how it turns out.”

Dorsey produces carrot seed, beans, alfalfa hay, small grains and cattle.

He has two sons, ages 23 and 20, who want to farm. One reason for restructuring “was to give the following generation a chance to produce food,” he said.

Miguel Villafana, 30, has worked in agricultural lending and underwriting. He started his own farm in 2019.

He has seen some farmers grow more hesitant to take out long-term debt, such as for 20-25 years, as they get older.

Villafana has bought land over the last couple of years as opportunities arose, mostly to ensure more future control over what he grows and where.

“Even though prices are going up, I am always a glass-half-full person,” said Villafana, who also bought some equipment. He grows sugar beets, corn and wheat.

Passing costs on

The rising costs of farming — higher interest rates, fuel prices and input expenses — leave farmers frustrated.

“There are just too many people who think we can grow this stuff for nothing, and they’ve been able to pass it (the costs) onto us,” said Paul Skeen, 68, Logan’s father, now in his 50th year of farming. “And we’ve felt like whatever they passed on, we’ve had to live with.”

They grow onions, sugar beets, wheat and peas for seed, popcorn seed and sweet corn seed. Occasionally, they grow carrot seed and garden seed beans.

Logan Skeen said that in 10 years of farming on his own, “I haven’t tried to conquer the world with expansion, but I’ve tried to take advantage of good opportunities that have been presented.”

He farms with his father in addition to running his own farm — where higher expenses and interest rates will show up on his bottom line.

“Even though I am down in acres, my costs will be higher this season,” Logan Skeen said.

Drought: ‘I look at it as an environmental disaster’

Continued from Page 1

‘Weathering the storm’

North Unit is one of eight irrigation districts that make up the Deschutes Basin Board of Control. It has the most junior water rights on the Deschutes River, meaning it is the first to be shut off under Oregon’s “first in time, first in right” policy.

The district gets most of its water from Wickiup Reservoir southeast of Bend. However, the reservoir is currently at a record low, measuring 55% of capacity on April 1. That is 5% less than a year ago and 42% below average, according to the U.S. Bureau of Reclamation.

Josh Bailey, NUID manager, said he has heard from growers who are planting 30-40% of their ground this year. By consolidating water on fewer acres and leaning on higher commodity prices, they hope to make ends meet.

“Those who have debt are having a hard time weathering the storm,” Bailey said. “The bottom line is everybody is severely affected by this drought.”

It is a similar story in southwest Oregon, where Wanda Derry, manager of the Talent Irrigation District, said their three primary reservoirs — Hyatt, Howard Prairie and Emigrant lakes — are storing a combined 11% capacity, an all-time low.

While TID has yet to announce its allocation for irrigators, Derry said it could be even less than it was in 2021, when there was only enough to last five weeks.

‘Trickle-down effect’

Marty Richards, a Madras-area farmer and chairman of the North Unit board of directors, said he is farming one-third of his total acres this year, cutting out less valuable rotational crops such as alfalfa, wheat and peppermint to concentrate water on his seed crops.

The economic impact, he said, ripples beyond the farm to Main Street businesses and dealerships in rural communities that depend on agriculture.

“When agriculture is in trouble, there’s a trickle-down effect,” Richards said. “If it keeps going much longer, there’s going to be some people leaving the area. There won’t be the jobs here for them. That’s probably our biggest concern.”

What’s more, Richards said more fallow land could lead to more intense dust storms and soil erosion, stripping away organic material and making the ground less productive.

“I look at it as an environmental disaster, in a sense, not just economic,” he said.

Water budgets needed

Curt Covington, senior director of institutional credit for AgAmerica, a Florida-based farm lender, said bankers are “keenly aware” of the drought crisis. He said more lenders are requiring a “water budget” as part of the borrower’s overall financial plan.

“I think water budgets are becoming as popular as cash flow budgets anymore out West,” Covington said.

The best advice he can give, Covington said, is for farmers to be prepared, come up with a plan and keep in touch with their lenders.

“This isn’t something you want to sweep under the carpet,” he said. “There might have to be some decisions made here about how much we’re able to finance, given what your water needs will be.”

George Plaven/Capital Press

Upper Klamath Lake

Inflows: Project serves approximately 175,000 acres

Continued from Page 1

Meanwhile, the fate of farmers and ranchers hangs in the balance as they await how much, if any, water will be allocated to the Klamath Project.

The project serves approximately 175,000 acres of irrigated farmland straddling Southern Oregon and Northern California, as well as delivering water to two national wildlife refuges that are important stops for migratory birds along the Pacific Flyway.

Last year’s shutoff resulted in alarming scenes across the basin as fields turned into blowing dust, canals were choked with weeds and hundreds of domestic wells failed, leaving residents without the ability to shower or flush their toilets.

Paul Simmons, executive director of the Klamath Water Users Association, said concern is once again running high in the agricultural community.

“We can’t have a ‘last year’ again,” Simmons said. “We have to have a meaningful supply of irrigation water.”

The KWUA has pointed to what it perceives as flaws in the Bureau of Reclamation’s interim operations plan for Upper Klamath Lake. Simmons described it as a “Frankenstein’s monster” that simply does not work in dry years.

“There is physically enough water to irrigate 100% of the project this year,” Simmons said. “Most of it is going to go to other purposes.”

Person said the Bureau of Reclamation will continue to use the interim operations plan through 2022 before re-initiating consultation with the National Marine Fisheries Service and U.S. Fish & Wildlife Service on a new plan beginning in 2023, when the removal of four hydroelectric dams along the lower Klamath River is scheduled to begin.

“That is, of course, going to change the river landscape,” he said.

In setting this year’s Klamath Project allocation, Person said the bureau is in discussions with agricultural groups, counties, tribal governments and other regulatory agencies to balance the competing interests.

“We are constrained by the numbers. We are constrained by the requirements of the ESA. But within that framework, we’re working to make the best informed decision we can,” he said. “When you have a shortage of water, it makes the allocation process an incredible challenge.”