Loans: ‘Demand for credit is going to climb’

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Carol Ryan Dumas/Capital Press

Justin Willis, vice president commercial and agricultural loan officer at D.L. Evans Bank, at his office in Twin Falls, Idaho.

Carol Ryan Dumas/Capital Press

Eric Bennett, relationships manager at Northwest Farm Credit Services, crunches the numbers on operating loans at his office in Twin Falls, Idaho, on June 14.

Higher input prices

“Higher input costs made it necessary to increase operating commitments for many borrowers,” he said.

Doug Robison

But customers remain well positioned despite the challenging inflationary environment, and he expects the number of operating loans as well as loan amounts to grow, he said.

The Producer Price Index for farm products in the U.S. increased by more than 34% from April of 2021 through April of 2022, he said.

“The costs for fertilizer and chemical increased at an even faster pace, with the Producer Price Index for nitrogen-based products increasing more than 49% while spot prices for many products have increased by more than 100%,” he said.

Input costs for agricultural producers have significantly outpaced the inflation rate often cited in relation to the Consumer Price Index, which has been above 8%, he said.

Loan officer Bennett has already updated quite a few operating loans since the first of the year, increasing the amount because producers underestimated the cost of fuel and fertilizer. By mid-May they had already determined it was going to take more money to grow this year’s crops, he said.

“The demand for borrowing has increased because of the anticipated cost of production,” he said.

The increase varies, but it’s up 10% on the low end with some loans up 40% year over year, he said.

Financial health

Producers came into the year in good shape, and Northwest Farm Credit has been able to meet their increased needs, he said.

“I think, in general, credit quality was up because most people made money the last couple of years,” he said.

People added working capital and paid down debt. There wasn’t a lot of debt from last year’s operating cycle, he said.

Crop outlooks

Water was the biggest concern this year until rains came in April and May and brightened the outlook. But the earlier expectations of cutbacks changed cropping plans. There’s a lot less corn being grown and a lot more wheat as prices neared double-digits a bushel, he said.

“We’re going to be pretty darn short on corn silage this year. Demand will stay high, supply will stay low and it will drive the price high,” he said.

Feed costs — 60% to 66% of a dairy’s cost of production — are going to stay high, he said.

“Dairies are making money now. The concern for dairies is breakeven is going to stay high, but will the milk price hold?” he asked.

If the milk price doesn’t stay at $20 to $21 a hundredweight, dairies are going to lose money, he said.

Row crop farmers are going to be OK, he said.

Labor a factor

Labor is another component of the high cost structure, whether it’s crops or dairy. He knows one dairyman who’s already given milkers three raises this year. On average, those wages are $14 to $15 an hour, he said.

Farmers can mitigate some of the risks with crop insurance and revenue protection programs, as well as futures and options to lock in a price floor, he said.

“It would help if the expense side would come down,” he said.

But oil and fuel prices aren’t likely to come down, and labor costs aren’t coming down, he said.

“Farmers are seeing inflation way higher than 8%. Just the cost of doing business is much more than a year ago, two years ago or five years ago,” he said.

“Demand for credit is going to climb,” he said.

Cost crunch

Across town, D.L. Evans Bank is also seeing a significant rise in agricultural loans.

“We increased our operating lines about 35% on average,” said Justin Willis, vice president commercial and agricultural loan officer.

Typically, operating loans are fairly close to the previous year, he said.

“This is the highest year of cost of production farmers have seen in my career (21 years),” he said.

Farm diesel is $5 to $5.24 a gallon, up $1 to $1.50 since the beginning of the year. Most producers have on-farm storage for fuel and purchased their needs earlier this year in the $4.50 a gallon range, he said.

“So they dodged that bullet a little bit,” he said.

Fuel was definitely higher this spring than a year ago, and farmers have already absorbed the increase. But other costs are high as well, he said.

“Repairs, maintenance, parts have gone up dramatically, if we can get them … even belts,” Willis said.

All have at least doubled, and the price of used equipment has gone up. An older Peterbilt semitruck that would normally sell for $15,000 to $20,000 has doubled in price, he said.

Another issue for farmers is interest rates. The Federal Reserve raised the prime interest rate to 4.75% in mid-June to tame inflation, and it’ll probably continue to raise interest rates through the year, he said.

Countering costs

On the flip side, crop prices have increased substantially. The price of hay is up 30% from the beginning of the year, and there’s a lot of speculation it will top $300 a ton across the board, not just for dairy hay, he said.

Grain corn prices last year were pushing $5 to $6 a bushel. Contracts were $7 to $7.50 this spring, and the price in June was $8 to $8.50. Wheat prices went from $5.50 to $6 a bushel last year to as high as $9.25 now, he said.

“On a positive note, budgeted revenue is up 40% to 45%,” Willis said.

Because growers don’t contract all of their anticipated production, some of that revenue might be pushing 50% higher than last year, he said.

“The budgeted expenses are up 35% but could be 40% because of rising costs,” he said.

The good news is projected net profit margins have increased 2% to 5% from last year due to the high commodity prices, he said.

“So even though production costs have increased in 2022, revenue is exceeding those costs and profitability is projected to increase by 2% to 5% from the previous year,” Willis said.

Increased costs will increase the bank’s lines of credit for farmers, but they’re all going to get renewed, he said.

“Banks love ag credit. Food is not a commodity that goes out of style. It’s a good risk for the bank. In agriculture, there’s always somewhere to take your crop to sell … people always need food,” Willis said.

He is worried, however, about food costs next year and how that’s going to affect consumer spending and the economy.

This year’s higher commodity prices haven’t gone into the food chain yet, but they will after harvest, he said.

Lawsuit: ‘These rules aren’t all reasonable’

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Capital Press File

Business and timber groups have filed a lawsuit to block Oregon’s heat and smoke workplace rules.

Sara Duncan, spokeswoman for Oregon Forest Industries Council, said OFIC considers OSHA’s rules unreasonable.

“Given extraordinary events like the 2020 Labor Day wildfires and last summer’s heat dome, we agree with all Oregonians that the health and safety of employees must be prioritized, and employers should adapt as we acclimate to a changing climate,” said Duncan. “But these rules aren’t all reasonable — many go far beyond extreme events and are dramatically more strict than any other state.”

Duncan pointed out, for example, that the air quality index requirements under Oregon’s new rules are twice as stringent as California’s rules.

According to Oregon OSHA, the heat rules apply to outdoor and indoor work activities where there is no climate control when the heat index equals or exceeds 80 degrees Fahrenheit.

These requirements, Duncan of OFIC said, “will significantly restrict work in benign circumstances like a typical Oregon summer day.”

Industry groups are also concerned about smoke-related rules. In court documents, plaintiffs allege that the rules “do not distinguish between contributions to the Air Quality Index level from wildfire smoke in comparison to other pollutants” and don’t give employers a method by which to determine whether particulates from wildfire smoke are present at a work site.

Rex Storm, executive vice president of Associated Oregon Loggers Inc., another plaintiff, said he “concurs” with Oregon Forest Industries Council’s statements, though he did not elaborate.

Aaron Corvin, of Oregon OSHA, said OSHA’s staff “do no comment on pending litigation.”

PCUN, an Oregon-based farmworker union, expressed frustration that business groups filed the lawsuit.

“We’re frustrated to see corporate lobbyists and lawyers attempt to delay the recently adopted heat and smoke standards from going into effect, right as summer heats up,” said Reyna Lopez, PCUN’s executive director and president.

Oregon OSHA’s rules, she said, provide workers with “common-sense protections such as access to cool water, shaded rest areas and additional breaks in high-heat temperatures.”

Wolf: ‘It’s not always about the best available science’

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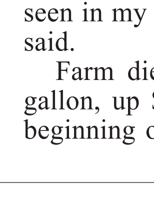
Commissioners Melanie Rowland and Lorna Smith are seeking a stronger rule than proposed by the staff. Rowland said she didn’t want to waste any more time on a rule that won’t be adopted.



Kelly Susewind

“I think it’s pretty clear that we, Lorna and I, do not have a majority in terms of people who want a rule,” she said.

Earlier in the meeting, Rowland said killing wolves was a “big deal.”

“My personal belief is that we’re doing it because we were raised on the big, bad wolf theory, and people don’t like wolves. They’re scared of them,” said Rowland, a recent Inslee appointee.

“We think it’s a big deal to kill wolves, too,” Fish and Wildlife Director Kelly Susewind answered.

> ***‘WE THINK IT’S A BIG DEAL TO KILL WOLVES, TOO. BETTER OR WORSE, THERE’S ONE PERSON IN THE STATE WHO CAN AUTHORIZE IT AND THAT’S ME, AND I TAKE IT AS A VERY, VERY BIG DEAL.***
>
> **Kelly Susewind**, Fish and Wildlife Director

“Better or worse, there’s one person in the state who can authorize it and that’s me, and I take it as a very, very big deal. And it bothers me when people think I don’t,” he said.

“I’m sure not doing it because it’s the ‘big, bad wolf,’ “ Susewind said.

Whether under a rule or the current protocol, Fish and Wildlife requires ranchers to use non-lethal means to prevent wolf attacks before the department resorts to shooting wolves.

Wolf policy coordinator Julia Smith said the department hopes the non-lethal measures work, but they aren’t proven.

“There is a body of science on lethal removal showing it is effective, not long term, not forever, no tool is effective forever,” she said.

“We have no science whatsoever on things like range-riding, yet we are huge proponents of range-riding because we think it works. We think it has the the possibility to work,” she said.

“It’s not always about the best available science. It’s about, Let’s try things out and see what we can do,” Smith said. “We are promoting methods for which there is no science.”