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A report summary from the Economic Research Service

Agricultural Income and Finance Situation and Outlook: 2021–23 Edition

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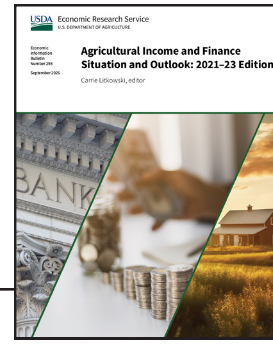

Key Points

- Farm household income grew 20 percent between 2019 and 2023, exceeding the growth in both consumer prices (19 percent) and farm household expenditures (16 percent). Income and expenditures for U.S. households in general grew by 23 percent, exceeding consumer price increases and farm household income and expenditure growth.
- The Federal Reserve increased the short-term Federal funds rate to tame persistent inflation, which resulted in higher interest rates and subsequently higher interest expenses. Interest expenses were one of the fastest growing farm production expense categories in 2022 and 2023. In 2023, more than 3 percent of all farm operations were in extreme financial stress, defined as having a debt-to-asset ratio above 55 percent and a term debt coverage ratio of below 1.
- The agricultural banking sector was minimally affected by the regional banking crisis of 2023. Agricultural banks saw less than a 2 percent decrease in deposits held during the first quarter of 2023, on average, compared to more than 6 percent for the average non-agricultural regional bank.

Why Does This Matter?

This report presents three economic studies of the farm sector during the period of high inflation and interest rates starting in 2021, which had the potential to be detrimental to the financial health of farm operations and households. The inflation rate peaked in mid-2022 and then generally fell throughout 2023. This inflationary period was accompanied by higher consumer, farm input, asset, and agricultural commodity prices and higher interest rates. In 2023, higher interest rates and increased bank withdrawals by depositors (including agricultural depositors) precipitated the collapse of three regional banks, representing three of the four largest bank collapses in U.S. history. The research evaluates the effects of higher prices on farm household income and consumption, analyzes the impacts of rising interest rates on farm financial stress, and reviews the performance of commercial agricultural banks during the 2023 banking crisis. The findings provide insight into the potential vulnerability of the farm and agricultural banking sectors while showing their resilience during this period.

A Few More Details

The first chapter studying farm household well-being used data from the U.S. Department of Agriculture's Agricultural Resource Management Survey (ARMS) to measure farm expenses, household income, and consumption expenditures over time. Information on farm input prices is from the Prices Paid Indices series from USDA, National Agricultural Statistics Service, and household spending information for U.S. households is from the Consumer Expenditure Survey from the U.S. Department of Commerce, Bureau of Labor Statistics. The study of farm financial risk in chapter 2 used data from ARMS to categorize farms and measure financial stress. In chapter 3 the study of agricultural banking during the 2023 regional banking crisis used the U.S. Federal Financial Institutions Examination Council's quarterly Reports on Condition and Income for all commercial banks registered in the United States. Banks were classified based on size (total assets), with agricultural banks being defined as those with at least 25 percent of their loans related to agriculture.

Additional findings from this report include:

Farm Income

- Farm input expenses grew between 2019 and 2023, but gross farm income grew by more, resulting in strong net farm income growth for farm operations.
- Together with increases in farm income, farm households saw rising off-farm income and asset values leading to higher levels of net worth.

Financial Stress

The rate of indebtedness and the share of farm operations in extreme financial stress varied by farm size.

- About three-fourths (75 percent) of all large farms and more than two-thirds (68 percent) of all midsize farms used some debt to fund their operations, compared to less than a quarter (23 percent) of all small farm operations. In aggregate, almost a quarter of all farms had some debt.
- Among borrowers, in 2023, 5 percent of midsize farms were in extreme financial stress, compared to 3 percent of small and large farm operations.
- Among farms with debt, the share in extreme financial stress fell from 2022 to 2023 in every farm size category.

Agricultural Banking

- Agricultural banks had a comparably high share of their assets held as liquid assets, making them more resilient than regional banks to potential deposit outflows.
- There was limited scope for the regional banking crisis to severely impact agricultural lending because only about 12 percent of the total commercial agricultural loan volume (in dollars) was held by regional banks.

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