Farm Income and Farm Financial Conditions

Net farm income has been maintained near the average of the 1990s over the past few years largely by sizable direct government payments to the sector that balanced lower cash receipts during this period of generally low commodity prices. Government payments are projected to decline in the baseline, leading to an initial drop in farm income, but then as commodity prices and market receipts recover, net farm income rises through the remainder of the projections.

Net Farm Income and Government Payments

Net farm income prospects for the next decade are on par with the decade of the 1990s. With the production, prices, and government payments projected in the baseline, net farm income during 2001-2010 is expected to average $46 billion compared with $45.2 billion during 1990-99. Net farm income initially declines in the baseline to a low of $35.6 billion in 2002. Net farm income then gradually increases through the rest of the baseline as farm prices strengthen over the decade. By the end of the projections, income exceeds the record of $54.9 billion set in 1996, a year of both exceptional harvests and market opportunities. Overall, net farm income increases nearly 24 percent in the baseline, averaging about 2 percent annually.

Total cash receipts from farm sales are expected to reach $200 billion in 2001 for the first time since 1997. But government payments, which bolstered farm revenues in 1999 and 2000 and will continue to be an important source of farm income again in 2001, are projected to be considerably less in 2002 and beyond. Total government payments, forecast at $22.1 billion for 2000 and $14.1 billion for 2001, fall to $7.8 billion in 2002 and remain below $7 billion throughout the rest of the baseline period. Under existing farm legislation, government payments should be expected to decline. Production flexibility payments, established in the 1996 Farm Act, were mandated to trend downward according to a declining fixed allocation budgeted for each successive year of the program. Production flexibility contract payments are assumed to continue at the 2002 level through the remainder of the baseline.

Loan deficiency payments, which are intended to be countercyclical with commodity prices, also will have reduced importance as a component of government assistance. Lower prices experienced in recent years reduce loan rates for many commodities in 2002 and beyond as the baseline assumes a return to market-price based, formula determination of loan rates for corn, wheat, and soybeans, lowering loan rates for other feed grains and other oilseeds, as well. The combination of lower loan rates and increasing market prices results in smaller per-unit payment rates. As a result of modestly higher prices for several commodities and the lower loan rates offered, loan deficiency payments are expected to fall by nearly $3 billion from 2001 to 2002.

The "emergency" provisions of the Omnibus Consolidated and Emergency Supplemental Appropriations Act for Fiscal Year 1999 and the Agricultural Appropriations Act of 2000 and 2001 provided supplemental assistance in the form of market loss and crop loss payments, adding to gross income in 1998, 1999, 2000, and 2001. On a calendar-year basis, these programs added $2.8 billion to farm revenues in 1998, $7.8 billion in 1999, about $8.9 billion in 2000, and are forecast to provide $3.6 billion in 2001.

In total, direct government payments to the farm sector will be down about $8 billion in 2001 from 2000. Government payments then continue to be a less important component of farm sector income through the rest of the decade.

Farm Cash Receipts

Following a reduction in global trade and U.S. exports at the end of the 1990s, baseline projections indicate exports returning to steady growth through the coming decade. Prices and cash receipts are expected to rise as exports expand. Total cash receipts from sales of farm commodities can be expected to grow at nearly 3 percent per year from 2001 onward. This expected growth will raise projected cash receipts from $200 billion in 2001 to $257.5 billion by 2010.

Overall, total crop output expands through the baseline. Additionally, recovering crop prices will be important to expanding crop receipts over the next decade. By 2010, crop cash receipts are projected to be $133 billion as compared with the $100 billion forecast for 2001. After adjusting for inflation, crop receipts (in 1996 dollars) range between $92 and $96 billion throughout the baseline, remaining well below the $109 billion record of 1997.

Livestock receipts, in contrast to crops, are forecast at a near-record level of $100 billion for 2001. After a small decline in 2002, livestock receipts continue to grow to $124 billion by 2010. The gain in livestock receipts in the baseline is lower than the growth expected for crop receipts. Cattle and calf returns represent 40 percent of the increased livestock receipts; pork, 2 percent; broilers, 14 percent; and dairy, 35 percent.

Farm Production Expenses

Farm production expenses are expected to grow modestly over the entire baseline. In the next few years farmers will try to adjust their costs in the face of lower income prospects, but these efforts will be somewhat hampered by price increases for production items. Feed purchases will begin to move upward again, having retreated the last several years from a peak in 1997, as the cattle cycle is projected to move into its expansion phase in 2003 and feed crop prices rise. Seed expenditures will grow slowly as crop acreage recovers and seed prices rise.

Prices of fuel and oil, which were low in 1998 and early 1999, grew dramatically in the second half of 1999 and 2000. Even with larger equipment and machinery-saving field crop practices, overall costs of fuel and oil are expected to increase over the decade. Fertilizer and pesticide expenses also are expected to increase, reflecting higher prices and recovery in area planted. However, changes in technology and in cropping practices will affect quantities purchased.

Hired labor expenses, which constitute about 11 percent of total production costs, are expected to increase an average of 2.4 percent annually, due to a combination of increased sector output and rising farm wage rates.

While anxiety over inflationary pressures prompted Federal Reserve actions to boost interest rates for 2000, rates during the 2001 to 2010 period are expected to be stable and slightly below current rates. At the same time, current low prices and expected receipts will prompt farmers to manage debt carefully and lenders to be cautious in offering credit. In the short term, the cautious behavior of both farmers and borrowers should result in a slowdown in the rise in debt in 2001 and 2002. While interest expenses are anticipated to rise in 2001 and 2002, the combination of relatively stable debt levels and retreating interest rates are expected to reduce interest expenses in 2003 and 2004. The conservative behavior of borrowers is expected to result in a low rate of increase in debt as prices and farm cash receipts recover. Consequently, debt and interest expenditures are expected to grow very slowly for the remainder of the baseline. As a share of production costs, interest payments, which averaged 13 percent in the 1980s and 7.3 percent in the 1990s, are expected to decline to about 6.8 percent over the next decade.

Net rent to non-operators rose in 2000 due to higher cash receipts and government payments. Lower government payments more than offset gains in crop cash receipts in 2001, reducing net rents in the near term. In recent experience, share rents have been more downwardly responsive than cash rents. Rents are most likely to rise again as crop receipts begin rising and area planted increases. The projection is for net rent expenditures to rise by about 24 percent from 2000 to 2010 while crop cash receipts are rising 38 percent.

Farm Balance Sheet

With reduced farm income and cash flow over the next few years, debt management will be crucial to the financial condition of the agricultural sector. Even with the near-term cash flow difficulties facing the sector, a strong basic financial position achieved during the 1990s will help farmers weather the lows in major crop prices until exports and prices recover. In the longer run, increasing farm incomes and relatively low interest rates will contribute to asset accumulation and assist in debt management, thus leading to an improving balance sheet.

The value of farm real estate, the largest component of farm assets, is expected to increase more slowly in the next few years. Real estate assets are anticipated to rise at an average rate of 1.8 percent through 2005, a substantial slowdown from the 3.4-percent growth rate of the 1990s. Average farmland values per acre are forecast to rise modestly on a nationwide basis despite near-term projected declines in farm income. In the past, the value of farmland has been slow to respond to decreases in farm income. Further, pressures from non-agricultural sources such as housing and recreational uses also affect farmland values.

Farm business debt is projected to rise 1.2 percent in 2001, following a 2.4-percent increase in 2000. Thereafter, with farm incomes reflecting greater dependence on market forces and less reliance on government payments, debt growth is expected to average about 1 percent through 2010.

Assuming that farmland maintains its value in the near term, rising again as cash receipts recover, and that farm debt remains stable, the financial balance sheet of the aggregate farm sector should weather the current decline in cash income and end the baseline period in a strong position. Under these assumptions, the debt-to-asset ratio for the sector improves from 16.1 percent in 2001 to 13.8 percent in 2010.

Table 32. Farm receipts, expenses, and incomes in nominal dollars

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
						Billion dollars						
Cash receipts:												
Crops	93.1	96.6	100.2	103.7	107.1	110.6	114.1	117.7	121.6	125.4	129.6	133.2
Livestock and products	95.5	99.5	99.8	98.4	100.8	104.7	107.9	110.1	113.4	116.9	120.7	124.3
All commodities	188.6	196.0	200.0	202.0	207.9	215.3	222.0	227.8	234.9	242.3	250.3	257.5
Farm-related income	15.8	16.3	16.1	16.6	16.9	17.2	17.5	17.8	18.1	18.5	18.8	19.2
Government payments	20.6	22.1	14.1	7.8	6.6	6.5	6.4	6.4	6.3	6.3	6.3	6.2
Gross cash income	225.0	234.4	230.2	226.4	231.4	238.9	245.9	251.9	259.4	267.1	275.4	282.9
Cash expenses	170.4	178.0	179.5	180.6	184.2	188.6	192.7	196.5	201.2	206.2	211.7	217.0
Net cash income	54.6	56.4	50.7	45.7	47.2	50.4	53.2	55.5	58.2	60.8	63.7	65.9
Value of inventory change	-0.9	-1.0	0.7	0.3	0.9	2.1	2.2	1.9	2.0	1.3	1.2	1.2
Non-money income	11.4	11.7	12.1	12.2	12.2	12.4	12.6	12.9	13.1	13.4	13.7	14.0
Gross farm income	235.5	245.1	243.0	238.8	244.6	253.4	260.7	266.8	274.6	281.8	290.4	298.2
Noncash expenses	16.0	15.8	16.2	16.4	16.6	16.7	16.9	17.1	17.2	17.4	17.6	17.7
Operator dwelling expenses	5.7	5.9	6.0	6.1	6.2	6.3	6.4	6.5	6.7	6.8	6.9	7.0
Total production expenses	192.1	199.7	201.7	203.2	207.0	211.7	216.0	220.1	225.1	230.4	236.2	241.7
Net farm income	43.4	45.4	41.3	35.6	37.5	41.8	44.7	46.7	49.5	51.4	54.2	56.5
Farm assets	1,116.6	1,121.0	1,132.1	1,137.8	1,148.4	1,183.9	1,224.2	1,265.7	1,308.9	1,355.1	1,403.3	1,454.3
Farm debt	176.4	180.6	182.8	183.7	184.6	186.5	188.3	190.2	192.1	195.0	197.9	200.9
Farm equity	940.1	940.4	949.3	954.1	963.7	997.4	1,035.9	1,075.5	1,116.7	1,160.1	1,205.3	1,253.4
							Percent					
Debt/equity ratio	18.8	19.2	19.3	19.3	19.2	18.7	18.2	17.7	17.2	16.8	16.4	16.0
Debt/assets ratio	15.8	16.1	16.1	16.1	16.1	15.8	15.4	15.0	14.7	14.4	14.1	13.8

Table 33. Farm receipts, expenses, and incomes in 1996 dollars

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
						Billion 1996 dollars 1/						
Cash receipts:												
Crops	88.9	90.0	91.2	91.9	92.5	92.9	93.4	93.8	94.3	94.7	95.3	95.4
Livestock and products	91.1	92.7	90.8	87.2	87.0	88.0	88.3	87.7	88.0	88.3	88.8	89.0
All commodities	180.0	182.7	182.1	179.1	179.4	180.9	181.6	181.5	182.3	183.0	184.1	184.4
Farm-related income	15.1	15.2	14.7	14.7	14.5	14.4	14.3	14.2	14.1	14.0	13.9	13.7
Government payments	19.7	20.6	12.9	6.9	5.7	5.4	5.2	5.1	4.9	4.8	4.6	4.5
Gross cash income	214.8	218.5	209.6	200.6	199.7	200.8	201.2	200.7	201.3	201.7	202.6	202.6
Cash expenses	162.7	165.9	163.4	160.1	159.0	158.5	157.7	156.5	156.1	155.8	155.7	155.4
Net cash income	52.1	52.6	46.2	40.5	40.7	42.3	43.5	44.2	45.1	46.0	46.8	47.2
Value of inventory change	-0.9	-1.0	0.6	0.2	0.8	1.8	1.8	1.5	1.6	1.0	0.9	0.9
Non-money income	10.8	10.9	11.0	10.8	10.6	10.4	10.3	10.3	10.2	10.1	10.1	10.0
Gross farm income	224.8	228.5	221.2	211.6	211.1	213.0	213.3	212.5	213.0	212.9	213.6	213.5
Noncash expenses	15.2	14.8	14.7	14.6	14.3	14.1	13.8	13.6	13.4	13.1	12.9	12.7
Operator dwelling expenses	5.5	5.5	5.5	5.4	5.4	5.3	5.3	5.2	5.2	5.1	5.1	5.0
Total expenses	183.4	186.1	183.6	180.1	178.7	177.9	176.8	175.3	174.6	174.0	173.7	173.1
Net farm income	41.4	42.3	37.6	31.6	32.4	35.1	36.5	37.2	38.4	38.8	39.9	40.4
Farm assets	1,065.7	1,044.9	1,030.5	1,008.5	991.1	994.9	1,001.7	1,008.4	1,015.4	1,023.7	1,032.1	1,041.6
Farm debt	168.4	168.3	166.4	162.8	159.3	156.7	154.1	151.6	149.0	147.3	145.6	143.9
Farm equity	897.3	876.6	864.1	845.7	831.7	838.2	847.6	856.9	866.3	876.4	886.6	897.7

1/ Nominal dollar values divided by the GDP chain-type price index.