Agricultural Economy

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U.S. Farm Income Decline In 2000 to be Tempered by Government Payments

The cumulative effect of 4 consecutive years of bumper crops in major agricultural producing countries is bearing down on U.S. farm income. By historical standards, this period has been unusually favorable for crop production. Not only has there been little adverse weather, but rainfall has generally been abundant and timely. In late 1997 and in 1998, rising world commodity supplies in the face of weak international demand put downward pressure on farm prices and reduced the value of U.S. agricultural exports.

At the conclusion of 1999, supplies of most agricultural commodities remain large, as stocks carried over from 1998 were augmented by large 1999 world crops. Since little or no growth is expected for farm product demand in the near term, commodity prices are unlikely to improve unless widespread adverse weather curtails global production and reduces supplies. In 1998 and 1999, the U.S. government helped maintain farm income and temper financial hardship for many producers by enacting emergency legislation to increase assistance to farmers.

Abundant supplies, low commodity prices, and increased government assistance provide the context for calendar-year 2000 income forecasts. Net farm income is forecast at $40.4 billion in 2000, a decline of $7.6 billion from the preliminary estimate of $48.1 billion for 1999. Net cash income is forecast at $49.7 billion, $9.4 billion less than the preliminary estimate for 1999. From a longer term perspective, net farm income in 2000 is forecast to be 88 percent of its 1990-99 average, with net cash income at 90 percent of the 1990-99 average.

The impact of low commodity prices is reflected in a $1.7-billion drop in total crop receipts from 1999 to $93.3 billion, the lowest since 1994. Year 2000 receipts are forecast down by $2.1 billion for major field crops, although up $1.2 billion for fruit, vegetable, and greenhouse/nursery products. Livestock receipts will increase for the second consecutive year to $96.5 billion as a result of continued growth in the poultry sector and modest improvement in cattle and hog operations. Dairy receipts are expected to fall by nearly $2 billion from 1999, reaching their lowest level since 1997.

Government assistance recently has played a key role in stabilizing gross and net income for the U.S. farm sector, particularly for grain, soybean, and cotton farms. For 2000, government payments are forecast at $17.2 billion, accounting for 8 percent of projected gross cash income. This is a $5.5-billion decline from 1999's estimated record of $22.7 billion. Continued low commodity prices for major crop commodities generated a substantial increase in 1999 loan deficiency payments (LDP's) over 1998 and will continue to do so in 2000. LDP's are forecast at $7.9 billion for 2000, up from preliminary estimate of $6.9 billion in 1999 and $1.8 billion in 1998. Some portion of the 2000 LDP forecast could be taken by farmers as marketing loan gains which are treated as cash receipts.

The forecast for 2000 direct government payments also includes $2.8 billion in emergency assistance from the fiscal year 2000 agricultural appropriations legislation, in addition to payments under production flexibility contracts, conservation, and other programs.

Government payments, including additional emergency assistance, were sufficient to maintain 1998 and 1999 net farm income at, and even above, the average for the decade. The majority of payments came from three government programs: production flexibility contract payments, loan deficiency payments, and emergency supplemental appropriations enacted in October 1998 and again in October 1999. The forecast for government payments for 2000 is markedly smaller than the amount paid to farmers in 1999, with the difference largely due to the two fiscal-year emergency supplemental appropriations. The forecast for 2000 includes modestly declining production flexibility contract payments and rising LDP's.

Total farm production expenses, forecast at $192.3 billion in 2000, are expected to change by less than 1 percent for the third straight year, after rising more than 4 percent each year from 1993 to 1997. A large part of this leveling-off in expenses has been due to the fall in cash grain prices, resulting in lower feed costs to livestock producers. Total production expenses in 2000 will equal 84 percent of gross receipts (exceeding 90 percent of gross

U.S. Farm Income to Drop in 2000

	Average 1990-99	1996	1997	1998	1999	2000	Change 1999-2000
				$ billion			
Value of crop production	95.6	115.4	112.1	102.0	95.0	93.5	-1.5
Food grains	8.8	10.7	10.1	8.7	7.4	6.7	-0.7
Feed crops	22.1	27.2	27.1	22.9	20.6	19.5	-1.1
Cotton	5.9	7.0	6.3	6.0	5.0	5.3	0.4
Oil crops	14.9	16.3	19.7	17.2	14.6	14.3	-0.3
Value of animal production	91.3	92.1	96.5	94.3	96.0	96.8	0.8
Meat animals	47.6	44.2	49.7	43.6	46.9	47.7	0.8
Dairy products	20.8	22.8	20.9	24.3	23.4	21.4	-1.9
Poultry and eggs	19.1	22.4	22.2	22.8	22.8	23.6	0.7
Services and forestry	19.4	20.8	22.5	24.6	25.4	25.2	-0.2
Total value of production	206.4	228.4	231.2	220.8	216.4	215.5	-0.9
Direct government payments	10.6	7.3	7.5	12.2	22.7	17.2	-5.5
Net cash income	55.1	57.5	58.9	55.0	59.1	49.7	-9.4
Net farm income	45.8	54.9	48.6	44.1	48.1	40.4	-7.6

1999 preliminary; 2000 forecast.
Economic Research Service, USDA

receipts less government payments). Operating margins (gross receipts minus expenses) will be the tightest since the 1980-84 period.

For farm households, a relatively large decline in 2000 farm income will be partially offset by increasing off-farm income. Average farm household income is forecast at $59,350, down from an estimated $61,363 in 1999 but close to the 1998 level. Farm operators' household income has averaged about the same as U.S. household income during the past three decades. While earnings from farming activities have been volatile over time, earnings of operator households from off-farm sources have been steadily increasing.

Debt Stable but Repayment Problems to Intensify

Farm business balance sheets, despite the increase in debt in recent years, have shown steady improvement throughout the 1990's, especially since 1992. Equity positions have generally improved, and debt-to-asset ratios have declined as the increase in farm business debt has been more than offset by the rise in farm asset value. Farm debt is anticipated to stand at $172.5 billion by the end of 2000, down slightly from 1999. With farm assets forecast at $1,073.5 billion for 2000, farm equity should reach $901 billion by the end of 2000. At this level, farm equity would be $7.2 billion above 1999.

With the reduction in income and narrowing of margins in 2000, farmers will be managing tighter cash flows. A higher proportion of debt service capacity will be used, reducing farmers' credit reserves and exposing a larger share of farms to potential debt repayment problems. The key factor that may contribute to expected rising debt service problems is lower incomes rather than substantially rising debt levels or falling asset values.

Farm debt repayment capacity use (actual debt expressed as a percentage of maximum debt that farmers could service with current incomes) effectively measures the extent to which farmers are using their available lines of credit. This ratio indicates that, in 2000, farmers are expected to use more than 66 percent of the debt that could be supported by their current incomes. Farmers used about 59 percent of this hypothetical credit capacity in 1998. The infusion of government payments in 1999 boosted net cash income and increased the level of debt that farmers could service, which reduced debt repayment capacity use to 56 percent. While debt repayment capacity use remains relatively low compared with levels in 1977 through 1985, a period of economic turmoil in the farm sector, its projected 2000 value will be its highest level since 1985.

WINDOW on the PAST

Excerpts from USDA publications

Farm Income in 1975

First quarter farm income estimates and prospects for the rest of 1975 was estimated at a $21½ billion seasonally adjusted annual rate. This compares with $26.4 billion in October-December 1974, and a $32.9 billion annual rate in January-March 1974.

A downturn in gross and net farm income is indicated for this year. Assuming favorable yields for 1975 crops, a good possibility based on June 1 crop conditions, net income for the entire year could fall to around $20 billion. Bumper crops, compared with the drought-plagued 1974 output, would lead to significant declines in crop prices and receipts. Livestock marketings, with ample feed from a large 1975 crop, could be slowed temporarily in favor of feedlot placements as feed costs eased. Thus, with a sharp drop in crop receipts and little change in livestock receipts, farmers' gross income would recede from the record level of 1974.

From the inaugural issue of* Agricultural Outlook*, June 1975

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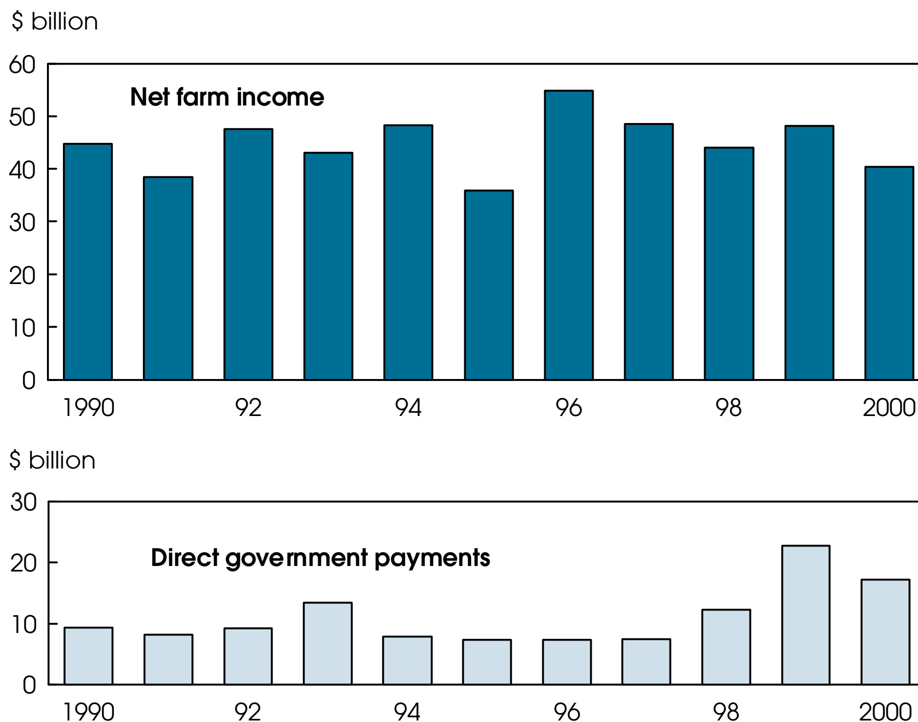
Loan deficiency payments (LDP's) compensate farmers for the difference between posted country prices and Commodity Credit Corporation crop loan rates and essentially help establish minimum per unit revenue for the applicable commodities. Once the posted county price falls below the loan rate, the rise in LDP payments essentially tracks the decline in cash receipts, or sales. ***Production flexibility contract payments*** and the "market loss" component of emergency aid, generally paid proportionally to production flexibility contract payment recipients, serve to augment revenues for farmers with production flexibility contracts. ***Conservation and other programs*** provide rental income to certain farmers who have contracts under those programs. In addition, there are ***disaster payments*** in the form of indemnities (to those persons with contracts), and in 1999 there was a ***buy-down of crop insurance premiums*** charged farmers (i.e., increased subsidy level). The premium buy-down continues in 2000.

Government Payments Maintained Farm Income in 1998 and 1999



1999 preliminary; 2000 forecast.
Economic Research Service, USDA

Farm Income Outlook By Region & Commodity

The persistence of low commodity prices will aggravate cash-flow problems in 2000 for farm businesses in several regions. Relative to 1998, the largest declines in average net cash income are expected in the *Mississippi Portal*, *Eastern Uplands*, *Southern Seaboard*, and the *Heartland* (see map, page 20). Southern areas of the country will be hard hit by continued low prices for corn and soybeans and dramatic year-over-year price declines for rice and tobacco. Higher cattle prices and relatively cheap feed should boost average net cash income in the *Northern Crescent*, *Northern Great Plains*, and *Prairie Gateway* regions relative to their 1994-98 averages.

In all regions except the *Heartland* and the *Northern Crescent*, at least one in four farm businesses will not cover cash expenses. Relative to 1998, the largest increases in the share of farms with negative net cash income occur for the *Southern Seaboard* and *Mississippi Portal* (7 percentage points each). The *Eastern Uplands* and *Heartland* regions also experience relatively large increases in the proportion of farms with negative net cash income (up 6 percentage points each).

A relatively high percentage of farm businesses in the *Northern Great Plains* and *Prairie Gateway* regions have had persistent debt repayment problems. While the *Northern Great Plains* has had the highest incidence of debt repayment difficulty, this situation should improve in 2000. In the *Prairie Gateway*, 18 percent of farm businesses are expected to have debt repayment problems, a slight increase over 1998, but well below 1997. A substantial increase in farm businesses with debt repayment difficulties is expected in the *Mississippi Portal*. Its share of 20 percent with debt repayment difficulty would be the highest of any region in 2000.

Current expectations are for net cash incomes for all farm types to be less in calendar-year 2000 than in 1999. The story for net cash income is basically the same for all commodities; a stable or, at best, very modest increase in livestock receipts will not be sufficient to offset the continued erosion of crop receipts; an assumed reduction in government payments from 1999 levels; and a continued modest rise in production expenses.

Reductions in net income will be largest for major row-crop farms, with income less than the previous 5-year average. Specialty crop and livestock farms will also experience declines from 1999, but these farms, except hog operations, should have incomes in 2000 that exceed their 1994-98 average. Farms with the largest deviation from the 5-year mean will include tobacco, cotton, peanut, and soybean farms, and general crop farms. The greatest increase in use of debt service capacity will be among major cash grain farms, especially those that specialize in production of wheat and corn. AO

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