Farm Income and Farm Financial Conditions

Farm income prospects for 1997-2007 appear favorable in the baseline. Net cash income through the end of the millennium and into the early 2000s is projected to hover around $56-57 billion. At this level net cash income will average higher than the first half of the 1990s ($53 billion for 1990-95), but fall below the record $60 billion achieved in 1996. If current expectations prevail, a steady growth in net cash income will begin in the early 2000s, eclipse the 1996 record, and continue until the end of the baseline, reaching over $66 billion in 2007. The rate of projected growth over the baseline period (1997-2007) is a modest 2 percent per year. With expected inflation of 3 percent annually, the sector's inflation-adjusted net cash income by the end of period could be lower than forecast for 1997. The implication is that real net cash income in the future, unless key variables change notably, is expected to not look much different than it does today.

Net farm income, which adds changes in farm inventories to cash receipts as a measure of revenue, is more reflective of the changing weather and market conditions than net cash income. Cash sales of farm output can be managed between years, by holding or drawing upon inventories to benefit from improving prices and to stabilize year-to-year net cash income. Net farm income, however, incorporates the full impact of annual swings in production and prices. The baseline projections of net farm income are an abstraction from the substantial variability typical of this measure. Since annual variations in weather, crop yields, and indirectly market prices cannot be foreseen, projections of net farm income are represented as a slow but steady incline to end of the baseline. Net farm income is projected to be higher than the early 1990s ($44 billion), but not reach 1996's record of $52 billion until well into the baseline period. The rate of increase projected is approximately 2.5 percent, marginally lower than the expected rate of general inflation. In real terms, then, net farm income in 2007 may be little different than it is today.

In 1994, crop sales surpassed livestock sales as the largest source of receipts and is projected to remain so throughout the baseline period. The dollar value of crop receipts is projected to rise at a rate of 2.7 percent per annum. But with 3 percent inflation, the real value of crop output is declining slightly. The lack of growth in the real value of crop receipts reflects declining real prices. The quantity produced of major crops, such as corn, wheat, soybeans, and cotton is expected to increase over the baseline period. The trends projected for these commodities indicate that production will reach or exceed each of these commodity's record output by the end of the baseline period. Consequently, while crop output can be expected to expand, larger cash receipts (in current dollars) will not likely be reflected in larger real farm income.

Livestock receipts are expected to grow steadily, a total of 27 percent (or 2.4 percent annually) over the baseline period. The overall rate of growth in livestock receipts is slightly slower than for crops. Cattle and broiler receipts are projected to increase faster than receipts for dairy products, eggs, and hogs. The expected result of the cattle cycle during the baseline period is for a short-term decline in commercial beef output offset by higher prices, followed by both output and prices drifting upward toward the end. Commercial beef output is not projected to reach as high, nor are prices expected to fall as low, as occurred in 1996. A steady rise in broiler output underlies the projected rise in broiler receipts. By contrast, the expanded output of hogs expected during the first half of the baseline is foreseen as pressuring prices downward, resulting in lowered receipts to hog producers over much the 1997-2007 period. In real terms, the changes in livestock receipts projected for the baseline will not contribute to increasing real sector income.

Already a relatively small portion of cash sources of income (3.3 percent in 1996), direct government payments are expected to trend downward. The 1996 Farm Act replaced deficiency payments linked to plantings and prices of eligible commodities with production flexibility contract payments that have maximum budgetary allocations preset through 2002. Government payments for 1996 and 1997 reflect a transition to the new legislation. Production flexibility contract payments made in 1996 and 1997 were adjusted for previous years' deficiency payments occurring in those years, as well as for repayments of unearned deficiency payments. Payments in 1998 will be governed by the new legislation, and total government payments will begin to follow the declining allocations for production flexibility payments through the year 2002. Almost all government payments are from production flexibility contract payments or CRP payments. The baseline assumes that production flexibility contracts payments continue at their 2002 levels beyond the expiration of the 1996 Farm Act. CRP enrollment is nearly flat after 2000, so CRP payments are relatively constant in those years. Beyond 2000, direct government payments account for less than 3 percent of gross cash income, the lowest share since 1982. Thus, the farm sector increasingly relies on the marketplace for its income.

Total cash expenses grow moderately, at a projected 2.5 percent over the baseline. Expenditures for farm-produced inputs--feed, feeder livestock, and seed--show the least upward movement. Farm origin expenses, which represent about a quarter of cash farm production expenses, increase at an average rate of about 1 percent per year. The generally slow rise in farm product prices is also reflected in the prices of farm-origin inputs. Manufactured input expenses rise more rapidly (3 percent), near the pace of inflation. Interest expenses appear to represent a nearly stable share of cash expenses (about 8 percent) throughout, although interest rates on agricultural real estate loans rise slightly. Real estate debt is projected to rise slowly (2 percent per year), reflecting the present conservative attitude of farm operators toward borrowing to expand their basic resource base. Nonreal estate debt, a large share of which is turned over annually to finance production expenditures, rises slightly faster than the overall increase in cash farm expenses. This suggests that a marginally greater proportion of annual production expenses may be financed over the baseline period. Labor costs, which account for approximately 12 percent of cash expenditures, are projected to be the most rapidly rising expense item. Even so, labor expenses are projected to rise at about the rate of inflation.

Baseline farm business asset values rise at a slower pace than recent history, mostly reflecting increases in the value of real estate assets. Farmland values have risen at about 6 percent or more every year since 1993. Farm real estate values are forecast to have risen by almost 6 percent in 1997 and another 5 percent for 1998. The projected rate of increase in land values for the baseline is 4 percent, slightly above the inflation rate. Increased variability in net returns to farm assets under the new, more market-oriented 1996 Farm Act could affect farmland values. Also, future farmland prices will adjust to account for expected lower government payments. Both the additional risk assumed by producers and the reduction in revenue from government payments will be factored into what purchasers are prepared to pay for farmland in the future. However, the effects of nonagricultural factors such as urban pressure on farmland values could mitigate the expected downward direction of these adjustments. Farm debt is projected to grow at an even more modest rate, reducing debt-to-asset ratios to below 13 percent by 2005. Farm debt grew in the mid-1990s, after adjusting downward from the mid-1980s. Increases in total farm business debt averaged over 3 percent during 1994-1997 and are projected at 2.4 percent over the baseline. The recent and projected increases are relatively small compared with annual debt changes during the 1970s, when outstanding loan balances grew at an average annual rate of over 12 percent. Thus, farm operators' expanding use of credit is not expected to place excessive demands on their ability to service debt. With larger increases in farm asset than farm debt, farm equity rises during the baseline.

The 1996 Farm Act transferred income variability risk from the Government to farmers, so management of risk will be important for farmers. Although baseline projections assume no shocks, normal variations in supply and demand will occur in the future. With the 1996 farm law, net farm income is potentially more variable from year to year in response to these supply and demand variations because production flexibility contract payments are fixed regardless of market prices. The Government carries little risk while farmers in general will face greater risk of income volatility due to price variability, as total revenue reflects market price variation more directly. Previously, a portion of this risk was managed through deficiency payments which were linked to market prices. Marketing alternatives to manage risk and buffer a portion of this potentially greater income volatility will become more important for many farmers. Some farmers will expand their use of futures and options markets, possibly using new instruments such as yield contracts. Many producers continue to use crop insurance for yield protection and may expand coverage using revenue insurance now available in some areas. Other alternatives to manage risk include diversification of production, contracting in advance for the future sale of the commodity, integrated ownership, and involvement with more value-added processing beyond the farm gate.

Table 29. Farm receipts, expenses, and incomes in nominal dollars

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
						Billion dollars						
Cash receipts:												
Crops	109.4	108.4	108.3	109.2	112.7	117.4	121.5	125.7	130.5	134.7	138.1	141.4
Livestock and products	92.9	92.7	94.7	98.7	99.3	100.9	103.3	106.6	109.3	112.0	114.7	117.5
All commodities	202.3	201.2	203.0	207.9	212.0	218.3	224.8	232.3	239.7	246.7	252.8	258.9
Farm-related income	11.0	11.2	11.4	11.6	11.9	12.2	12.5	12.8	13.1	13.4	13.7	14.0
Government payments	7.3	7.9	7.3	7.4	6.8	6.0	5.9	5.8	5.8	5.8	5.8	5.8
Gross cash income	220.6	220.2	221.6	226.8	230.7	236.5	243.2	251.0	258.7	265.9	272.4	278.7
Cash expenses	160.8	165.6	164.9	169.4	173.7	178.6	183.7	188.9	194.6	200.7	206.6	212.1
Net cash income	59.9	54.6	56.7	57.4	56.9	57.9	59.5	62.0	64.1	65.2	65.8	66.6
Value of inventory change	2.8	0.9	-0.7	0.2	1.8	1.8	1.1	0.9	1.0	1.0	0.9	0.8
Non-money income	10.2	10.7	11.0	11.3	11.6	11.9	12.2	12.5	12.8	13.1	13.4	13.7
Gross farm income	233.6	231.9	232.0	238.4	244.1	250.1	256.4	264.4	272.5	280.0	286.6	293.2
Noncash expenses	15.4	15.5	15.5	15.8	16.1	16.3	16.4	16.7	16.7	16.7	16.8	16.9
Operator dwelling expenses	5.2	5.2	5.2	5.2	5.2	5.3	5.3	5.3	5.4	5.4	5.4	5.4
Total production expenses	181.4	186.3	185.6	190.4	195.1	200.1	205.4	210.9	216.7	222.8	228.8	234.5
Net farm income	52.2	45.6	46.4	47.9	49.0	50.0	51.0	53.5	55.8	57.2	57.8	58.7
Farm assets	1,034.8	1,082.5	1,131.2	1,174.5	1,220.5	1,274.8	1,334.1	1,396.5	1,460.3	1,526.7	1,592.3	1,656.2
Farm debt	156.1	162.2	167.2	169.5	172.7	177.3	181.7	186.1	190.8	195.5	200.4	205.2
Farm equity	878.7	920.3	964.1	1,005.1	1,047.8	1,097.5	1,152.4	1,210.4	1,269.5	1,331.2	1,391.9	1,451.0
							Percent					
Debt/equity ratio	17.8	17.6	17.3	16.9	16.5	16.2	15.8	15.4	15.0	14.7	14.4	14.1
Debt/assets ratio	15.1	15.0	14.8	14.4	14.1	13.9	13.6	13.3	13.1	12.8	12.6	12.4

Table 30. Farm receipts, expenses, and incomes in 1992 dollars

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
							Billion 1992 dollars					
Cash receipts:												
Crops	99.3	96.3	93.9	92.0	92.0	92.8	93.1	93.4	94.0	94.1	93.5	92.8
Livestock and products	84.2	82.4	82.1	83.1	81.1	79.8	79.1	79.2	78.7	78.2	77.7	77.1
All commodities	183.5	178.7	176.0	175.1	173.1	172.6	172.3	172.6	172.7	172.2	171.1	170.0
Farm-related income	10.0	9.9	9.9	9.8	9.7	9.6	9.6	9.5	9.4	9.4	9.3	9.2
Government payments	6.6	7.0	6.3	6.2	5.5	4.7	4.5	4.3	4.2	4.1	3.9	3.8
Gross cash income	200.1	195.6	192.2	191.1	188.4	186.9	186.3	186.5	186.3	185.7	184.4	183.0
Cash expenses	145.8	147.1	143.0	142.7	141.9	141.2	140.7	140.4	140.2	140.1	139.9	139.3
Net cash income	54.3	48.5	49.2	48.4	46.5	45.8	45.6	46.1	46.1	45.6	44.5	43.7
Value of inventory change	2.5	0.8	-0.6	0.2	1.5	1.4	0.8	0.7	0.7	0.7	0.6	0.5
Non-money income	9.3	9.5	9.6	9.5	9.5	9.4	9.3	9.3	9.2	9.1	9.1	9.0
Gross farm income	211.9	206.0	201.1	200.8	199.4	197.7	196.5	196.4	196.3	195.5	194.0	192.5
Noncash expenses	14.0	13.7	13.5	13.3	13.2	12.9	12.6	12.4	12.0	11.7	11.4	11.1
Operator dwelling expenses	4.7	4.6	4.5	4.4	4.3	4.2	4.1	4.0	3.9	3.8	3.7	3.6
Total expenses	164.5	165.4	160.9	160.4	159.4	158.2	157.4	156.7	156.1	155.6	154.9	154.0
Net farm income	47.4	40.5	40.2	40.4	40.0	39.5	39.1	39.7	40.2	39.9	39.1	38.5
Farm assets	938.6	961.5	980.9	989.7	997.0	1,007.9	1,022.3	1,037.6	1,051.9	1,066.0	1,077.9	1,087.3
Farm debt	141.6	144.1	145.0	142.8	141.1	140.2	139.3	138.3	137.4	136.5	135.7	134.7
Farm equity	797.0	817.4	835.9	846.9	856.0	867.7	883.1	899.3	914.5	929.5	942.2	952.6

Nominal dollar values divided by the GDP deflator.