

# CRS Report for Congress

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## The U.S. Farm Economy

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### Summary

Early forecasts of two key indicators of U.S. farm well-being in 2004 — net cash income and the debt-to-asset ratio — suggest a very robust U.S. agricultural sector. In 2004, net cash income for U.S. farmers is projected to be a record \$77.5 billion, up \$9 billion (13.1%) from the previous record of \$68.6 billion in 2003, according to income forecast data from the USDA's Economic Research Service (ERS). Market prices for livestock and products (cattle, hogs, broilers, milk, etc.) were significantly higher in 2003 and 2004 than in previous years, and are the primary force behind record farm income in both of those years. Crop receipts are also projected to reach a record high in 2004 on the strength of record corn, soybean, cotton, and rice crops. Direct government payments are projected to be nearly unchanged in 2004 at \$15.7 billion, although the composition of payments changes significantly.

Strong farm income growth is expected to support higher farm asset values, projected up 3.6% in 2004. Although farm debt is projected to be a record \$113.6 billion in 2004, its increase (of less than 3%) is more than offset by farm asset value growth. As a result, the farm debt-to-asset ratio is expected to decline to 14.3% in 2004. This report will be updated as events warrant.

The year 2004 is projected to be a year of record receipts, expenses, and income for the U.S. farm economy (see **Table 1**). Most livestock prices are expected to remain near 2003's relatively high levels, contributing to record cash receipts for livestock products at \$121.9 billion — up \$16.1 billion from 2003 (see **Table 2**). Crop prices are projected lower across the board in 2004. However, record corn, soybean, cotton, and rice production will push crop receipts to a record \$111.9 billion (up \$5.7 billion from 2003). The combined value of cash receipts from marketings of both crop and livestock commodities is expected to be a record \$233 billion in 2004, up \$21.8 billion from the previous year's record. The record cash receipts easily offset the projected record high cash production expenses of \$188.7 billion in 2004 (\$13.3 billion above 2003 costs)

Government payments under commodity programs are projected to be about \$15.7 billion in 2004, down only slightly from \$15.9 billion in 2003. However, the composition of government payments is expected to change significantly. Projected lower market

prices (relative to crop loan rates) are expected to push loan deficiency payments and marketing loan gains up sharply to \$4.5 billion in 2004. Fixed direct payments are estimated at \$5.3 billion, down \$1.4 billion from 2003. Fixed direct payments were unusually large in calendar 2003 due to the timing of market-year payments. Ad hoc emergency assistance payments are also expected to be lower in 2004. Most of the \$2.9 billion in emergency payments for agriculture announced as part of the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act (P.L. 108-324) of October 13, 2004, is expected to be paid out in 2005.<sup>1</sup> Farm disaster assistance and emergency assistance payments have figured heavily in sectoral income in 14 of the previous 15 years (1989-2003).

Total cash production expenses are forecast up sharply at a record \$188.7 billion in 2004 (\$13.3 billion above 2003 costs) due to nearly across-the-board increases in most input expense categories. Despite record high international petroleum prices in September, October, and November 2004, farm fuel costs for 2004 were up only about 10%. According to ERS, the fuel cost increase is attributable to a 13.8% rise in prices paid for fuels, partially offset by reduced use.

According to ERS, total farm debt is forecast to be up \$5.8 billion in 2004 at a record \$203.8 billion. However, the debt-to-asset ratio declines modestly to 14.3% on the strength of higher farm sector asset value, particularly real estate (up 4.1% in 2004), machinery value, and stored crop values. The U.S. farm debt-to-asset ratio peaked in 1985 at 23.0.

ERS publishes a periodical, *Agricultural Income and Financial Outlook*, that provides historical estimates and forecasts of farm sector financial information.<sup>2</sup> The report gauges the financial health of the nation's farmers and ranchers. Common topics include trends in farm sector receipts, expenses, debt, assets, and costs of producing crops and livestock. Each issue concentrates on a particular area of the farm financial picture. In addition, ERS publishes online several summary data tables of historical, current, and projected indicators relevant to understanding the U.S. agricultural economy. These include the following.

**Farm Income Data.** These tables, which include national- and state-level data on farm income, cash receipts, production expenses, balance sheet, and government payments for 2000-2004, are available at [<http://www.ers.usda.gov/data/FarmIncome/finfidmu.htm>].

**Farm Structural Characteristics.** These charts and text, which include information about both farm characteristics (such as farm size, tenure, specialization, and sources of income) and characteristics of the sector (such as concentration and contracting), are available at [<http://www.ers.usda.gov/Briefing/FarmStructure/Questions/farmstruct.htm#conc>].

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<sup>1</sup> For more information, see CRS Report RL31095, *Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY1989-FY2005*.

<sup>2</sup> Current and historical copies of *Agricultural Income and Financial Outlook* are available at [<http://www.ers.usda.gov/publications/so/view.asp?f=economics/ais-bb/>].

**State Fact Sheets.** State-specific data tables that provide information on population, employment, income, farm characteristics, and farm financial indicators for each state in the United States are available at [<http://ers.usda.gov/StateFacts/>].

## Other Resources

**USDA's National Agricultural Statistics Service (NASS).** NASS publishes reports on farm production data, prices received, and prices paid for most agricultural activities undertaken in the United States, which are available at [<http://www.usda.gov/nass/pubs/pubs.htm>].

In addition, NASS publishes charts and supporting data highlighting trends in U.S. agriculture such as farm numbers, land values, commodity production, etc., from the early 1900s; these are available at [<http://www.usda.gov/nass/pubs/trends/>].

**USDA's Agricultural Marketing Service (AMS).** AMS continuously monitors prices at major commodity and terminal markets; see [<http://www.ams.usda.gov/marketnews.htm>].

**USDA's Farm Service Agency (FSA).** FSA administers commodity support programs and publishes fact sheets describing program operations along with activity details; they are available at [<http://www.fsa.usda.gov/pas/publications/facts/pubfacts.htm>].

In addition, FSA publishes information on various program budgetary outlays (current and projected), as well as commodity specific outlays in Summary Table 35, "CCC Net Outlays by Commodity and Function"; see [<http://www.fsa.usda.gov/dam/bud/bud1.htm>].

**USDA's Foreign Agricultural Service (FAS).** FAS monitors and publishes U.S. and international commodity supply and demand data; see [<http://www.fas.usda.gov/psd/>]. FAS also monitors and publishes U.S. agricultural trade data by country and commodity; see [<http://www.fas.usda.gov/ustrade/>].

**USDA's World Agricultural Outlook Board.** WAOB uses data from NASS, AMS, FSA, FAS, and other sources to make monthly supply and demand projections for major commodities. These projections are published monthly in the *World Agricultural Supply and Demand Estimates* (WASDE) report, available at [<http://www.usda.gov/oce/waob/index.htm>].

**The Center for the Study of Rural America (CSRA).** CSRA at the Federal Reserve Bank of Kansas City publishes a summary of the rural nonfarm and farm economies, which is available at [<http://www.kc.frb.org/RuralCenter/AtaGlance/AtaGlanceMain.htm>].

**Table 1. Overview of the U.S. Farm Economy**  
(\$ billion)

Commodity	2000	2001	2002	2003	2004F <sup>a</sup>
1- Cash receipts	192.1	200.1	195.1	211.6	233.4
<i>Crops<sup>b</sup></i>	92.5	93.4	101.3	106.2	111.9
<i>Livestock</i>	99.6	106.7	93.8	105.5	121.5
2- Government payments <sup>c</sup>	22.9	20.7	11.0	15.9	15.7
<i>Fixed direct payments<sup>d</sup></i>	5.0	4.0	3.8	6.4	5.3
<i>CCP<sup>e</sup></i>	0.0	0.0	0.2	2.3	1.9
<i>LDP &amp; MLG<sup>f</sup></i>	7.6	6.2	1.7	0.8	4.5
<i>Conservation</i>	1.7	1.9	2.0	2.2	2.8
<i>Ad Hoc &amp; emergency</i>	8.6	8.5	1.3	3.1	0.9
<i>All other<sup>g</sup></i>	0.0	0.1	1.9	1.1	0.3
3- Farm-related income <sup>h</sup>	13.7	14.8	16.0	16.3	17.2
4- Gross cash income	228.7	235.6	222.0	243.9	266.3
5- Cash expenses	172.0	176.0	171.3	175.4	188.7
6- NET CASH INCOME	56.7	59.5	50.7	68.6	77.5
7- Total gross revenues <sup>i</sup>	241.3	248.3	230.7	256.9	285.5
8- Total expenses <sup>j</sup>	193.4	197.7	193.4	197.6	211.8
9- NET FARM INCOME	47.9	50.6	37.3	59.2	73.7
Farm Assets	1,203.2	1,255.9	1,304.0	1,378.8	1,428.7
Farm Debt	177.6	185.7	193.3	198.0	203.8
Debt-to-asset	14.8	14.8	14.8	14.4	14.3

**Source:** USDA, Economic Research Service, *Farm Income and Costs: Farm Sector Income* briefing room, available at [<http://www.ers.usda.gov/Briefing/FarmIncome/nationalestimates.htm>].

a. F = forecast.

b. Includes CCC loans.

c. For more information on U.S. farm commodity programs, see CRS Report RS21779, *Grains, Cotton, Oilseeds, and Peanuts: Payments Under the 2002 Farm Bill*; for information on agricultural conservation programs see CRS Issue Brief IB96030, *Soil and Water Conservation Issues*.

d. Direct payments include production flexibility payments of the 1996 Farm Act through 2001, and fixed direct payments under the 2002 Farm Act since 2002.

e. CCP = counter-cyclical payments.

f. LDP = loan deficiency payments; MLG = marketing loan gains.

g. Peanut quota buyout, milk income loss payments, and other miscellaneous program payments.

h. Income from custom work, machine hire, recreational activities, forest product sales, and other farm sources.

i. Gross cash income plus inventory adjustments, the value of home consumption, and the imputed rental value of operator dwellings.

j. Cash expenses plus depreciation and perquisites to hired labor.

**Table 2. U.S. Prices and Loan Rates for Selected Farm Commodities, 1998/99-2004/05**

Commodity	Unit	Year <sup>a</sup>	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05F <sup>a</sup>	Loan Rate
Wheat <sup>b</sup>	\$/bu	Jun-May	2.65	2.48	2.62	2.78	3.56	3.40	3.20-3.50	2.75
Rice <sup>b</sup>	\$/cwt	Aug-Jul	8.89	5.93	5.61	4.25	4.49	7.49	7.00-7.50	6.50
Corn <sup>b</sup>	\$/bu	Sep-Aug	1.94	1.82	1.85	1.97	2.32	2.42	1.70-2.10	1.95
Sorghum <sup>b</sup>	\$/bu	Sep-Aug	1.66	1.57	1.89	1.94	2.32	2.39	1.55-1.95	1.95
Barley <sup>b</sup>	\$/bu	Jun-May	1.98	2.13	2.11	2.22	2.72	2.83	2.30-2.60	1.85
Oats <sup>b</sup>	\$/bu	Jun-May	1.10	1.12	1.10	1.59	1.81	1.48	1.30-1.50	1.33
Soybeans <sup>b</sup>	\$/bu	Sep-Aug	4.93	4.63	4.54	4.38	5.53	7.34	4.55-5.35	5.00
Soybean oil <sup>c</sup>	¢/lb	Oct-Sep	19.8	15.6	14.1	16.5	22.0	30.0	21.5-24.5	—
Soybean meal <sup>c</sup>	\$/st	Oct-Sep	138.6	154.1	173.6	167.7	181.6	256.1	145-175	—
Cotton, Upland <sup>b</sup>	¢/lb	Aug-Jul	60.2	45.0	49.8	29.8	44.5	61.8	NA <sup>d</sup>	52.0
Choice Steers <sup>e</sup>	\$/cwt	Jan-Dec	61.5	65.6	70.0	72.6	67.0	84.7	84.2	—
Barrows/Gilts <sup>e</sup>	\$/cwt	Jan-Dec	33.5	34.0	45.3	45.8	34.9	39.5	51.7	—
Broilers <sup>e</sup>	¢/lb	Jan-Dec	63.0	58.1	56.2	59.1	55.6	62.0	74.6	—
Eggs <sup>e</sup>	¢/doz	Jan-Dec	75.8	65.6	68.9	67.1	67.1	87.9	81.4	—
Milk <sup>e</sup>	\$/cwt	Jan-Dec	15.43	14.35	12.32	14.98	12.11	12.52	15.95-16.05	—

a. Calendar year data is for the first year, e.g., 1998/99 = 1998. F=forecast from *World Agricultural Supply and Demand Estimates (WASDE)* Oct. 12, 2004. NA = not available. — = no loan rate. USDA's out-year 2004/05 forecast for crop prices first appeared in the May 2004 WASDE report.

b. Season average farm price from USDA, National Agricultural Statistical Service, *Agricultural Prices*.

c. USDA, Agricultural Marketing Service (AMS), Decatur, IL, cash price, simple ave. crude for soybean oil, and simple ave. 48% protein for soybean meal.

d. USDA is prohibited by law from publishing cotton price projections [12 U.S.C. 1141(j)(d)].

e. USDA, AMS: choice steers — Nebraska, direct 1100-1300 lbs.; barrows/gilts — national base, live equivalent 51-52% lean; broilers — wholesale, 12-city average; eggs — Grade A, New York, volume buyers; and milk — simple average of prices received by farmers for all milk.