

# CRS Report for Congress

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## The U.S. Farm Economy

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### Summary

According to USDA's Economic Research Service (ERS), net farm income — a key indicator of U.S. farm well-being — is expected to experience a decline in 2006 following three years of robust receipts and income.<sup>1</sup> Net farm income is forecast to decline by \$16.5 billion or 23% to \$56.2 billion in 2006 due to declines in cash receipts (down \$7.3 billion) and government payments (down \$4.6 billion) combined with rising production expenses (up \$6.8 billion). Three years of bountiful harvests have pressured crop prices lower, while hog, poultry, and dairy prices are also expected to weaken in 2006. In contrast, the cost of fuel and fertilizer, as well as higher interest charges, are expected to continue to rise.

Farm asset valuation at \$1,672 billion and total farm debt at \$219 billion are both projected at record levels in 2006. The debt-to-asset ratio of 13.1 represents a fourth consecutive year of decline (and the lowest level since 1960), suggesting a strong financial position for the agricultural sector as a whole. This report will be updated as events warrant.

### Introduction

Two indicators that measure the economic well-being of the farm economy are net cash income and net farm income. *Net cash income* compares cash receipts to cash expenses. As such, it is a cash flow measure representing the funds that are available to farm operators to meet family living expenses and make debt payments. *Net farm income* differs from net cash income by including the value of home consumption, changes in inventories, capital replacement, and implicit rent and expenses related to the farm operator's dwelling that are not reflected in cash transactions during the current year. Net farm income is a value of production measure, indicating the farm operator's share of the net value added to the national economy within a calendar year, independent of whether it is received in cash or a noncash form. Net cash income is generally less variable than

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<sup>1</sup> ERS's 2006 farm sector income forecast was last updated on Feb. 10, 2006; available at the *Farm Income and Costs Briefing Room*, at [<http://www.ers.usda.gov/Briefing/FarmIncome/nationalestimates.htm>].

net farm income. Farmers can manage the timing of crop and livestock sales and of the purchase of inputs to stabilize the variability in their net cash income. For example, farmers can hold crops from large harvests to sell in the forthcoming year when output may be lower and prices higher.

## Outlook for Calendar Year 2006

Net farm income prospects for 2006 of \$56.2 billion represent a sharp decline from last year's \$72.6 billion and are well below 2004's record of \$82.5 billion (**Table 1**). When measured in cash terms, net cash income in 2006 is also projected to decline sharply to \$64.7 billion, down 21.9% from \$82.8 billion in 2005.

**Cash Receipts.** The combined value of cash receipts from marketings of both crop and livestock commodities is projected at \$231.7 billion in 2006, the third-highest amount on record and behind only the values of 2004 and 2005.

**Crops.** Bountiful supplies — U.S. producers have harvested more feed grains, soybeans, rice, and cotton over the past two years than any comparable period in history — have pressured prices lower despite record use for that same period. As a result, crop cash receipts in 2006 are expected to fall to a four-year low. Cash receipts for fruits and nuts, and greenhouse and nursery crops are expected to rise slightly while vegetable receipts decline. Total crop receipts for 2006 are projected \$4.7 billion lower to \$109.4 billion.

**Livestock.** Cash receipts by the livestock sectors continue to be dominated by strong returns to beef, and demand is expected to strengthen in 2006 as several Asian countries resume imports of U.S. beef following a BSE-related ban. Cattle prices in 2006 are expected to remain in the mid-\$80s per cwt. Poultry and egg receipts are also projected slightly higher due to strong demand. In contrast, cash receipts for hogs and dairy products are projected lower in 2006 due to stronger supply growth and lower prices. In sum, livestock receipts are projected down \$2.6 billion at \$122.3 billion.

**Government Payments.** Government direct payments are forecast at \$18.5 billion in 2006, down from a record \$23.0 billion in 2005. A large increase in counter-cyclical payments (CCP) of \$4.1 billion in 2006 are expected to be more than offset by declines of \$2.1 billion in marketing loan benefits (LDPs, marketing loan gains, and certificate exchange gains) and \$2.6 billion in ad hoc and emergency program payments.<sup>2</sup> Most of the benefits to agriculture in 2005 under emergency payments are not authorized for 2006.<sup>3</sup> Farm disaster assistance and emergency assistance payments have figured heavily in sectoral income in 16 of the previous 17 years (1989-2005). Fixed direct payments are estimated at \$5.2 billion, down marginally from 2005. Direct payment rates are fixed in legislation and are not affected by the level of program crop prices. However, changes in enrollment from year to year can affect the program acres

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<sup>2</sup> For more information on commodity programs, see CRS Report RL33271, *Farm Commodity Programs: Direct Payments, Counter-Cyclical Payments, and Marketing Loans*, by Jim Monke.

<sup>3</sup> For more information, see CRS Report RL31095, *Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY1989-FY2005*, by Ralph M. Chite.

and yields used to determine payments. In making its forecast, USDA assumes that 7% of 2006 payment participants receive 50% of their direct payment in advance.<sup>4</sup>

**Production Expenses.** Total cash production expenses are forecast at a record \$203.5 billion in 2006, up \$6.8 billion from last year's record level. Higher costs for energy, fertilizer, and interest charges are behind the surge in costs.

**Farm Asset Values and Debt.** Continued strong net cash income and government payments, coupled with relatively low long-term interest rates, are expected to support higher farm asset values, projected up 5.2% in 2006 to a record \$1,672 billion, on the strength of higher values for real estate, machinery, and financial assets. Farm debt is projected to rise by a much smaller 2.9% (or \$6.1 billion) to a record \$219 billion in 2006. Farm equity is projected at a record \$1,453 billion, while the farm debt-to-asset ratio in 2006 is expected to decline to a 45-year low of 13.1%. The U.S. farm debt-to-asset ratio peaked in 1985 at 23%.

## Additional Farm Financial Information

ERS publishes a periodical, *Agricultural Income and Finance Outlook*, that provides historical estimates and forecasts of farm sector financial information.<sup>5</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 2001-2005, are available at [<http://www.ers.usda.gov/data/FarmIncome/finfidmu.htm>].

**Farm Structural Characteristics.** 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>].

**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/>].

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<sup>4</sup> USDA, ERS, Farm Income and Costs: 2006 Farm Sector Income Forecast, Feb. 10, 2006; available at [<http://www.ers.usda.gov/Briefing/FarmIncome/nationalestimates.htm>].

<sup>5</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/>].

## 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.nass.usda.gov/Publications/index.asp>]. 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 on; 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 and 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 international commodity market circulars; U.S. agricultural attache reports from around the world; U.S. and international commodity supply and demand data; and U.S. agricultural trade data; available at [<http://www.fas.usda.gov/markettradedata.asp>].

**USDA's World Agricultural Outlook Board (WAOB).** WAOB uses data from NASS, AMS, FSA, FAS, and other sources to make monthly supply and demand projections for major commodities, published monthly in the *World Agricultural Supply and Demand Estimates* (WASDE) report, available at [<http://www.usda.gov/oce/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	2001	2002	2003	2004	2005F <sup>a</sup>	2006F <sup>a</sup>
1. Cash receipts	200.1	195.0	216.6	241.2	239.0	231.7
<i>Crops<sup>b</sup></i>	93.3	101.0	111.0	117.8	114.1	109.4
<i>Livestock</i>	106.7	94.0	105.6	123.5	124.9	122.3
2. Government payments <sup>c</sup>	20.7	11.2	17.2	13.3	23.0	18.5
<i>Fixed direct payments<sup>d</sup></i>	4.0	3.9	6.4	5.2	5.3	5.2
<i>CCP<sup>e</sup></i>	0.0	0.2	2.3	1.1	4.1	5.3
<i>Marketing Loan Benefits<sup>f</sup></i>	6.2	1.7	2.0	3.8	6.2	4.1
<i>Conservation</i>	1.9	2.0	2.2	2.3	2.5	2.8
<i>Ad Hoc &amp; emergency</i>	8.5	1.6	3.1	0.6	2.9	0.3
<i>All other<sup>g</sup></i>	0.1	1.9	1.2	0.2	2.0	0.8
3. Farm-related income <sup>h</sup>	14.8	14.8	15.7	17.2	17.5	18.0
<b>4. Gross cash income (1+2+3)</b>	<b>235.6</b>	<b>221.0</b>	<b>249.5</b>	<b>271.7</b>	<b>279.5</b>	<b>268.2</b>
5. Cash expenses	175.5	171.6	177.9	186.2	196.7	203.5
<b>6. NET CASH INCOME (4-3)</b>	<b>60.1</b>	<b>49.5</b>	<b>71.6</b>	<b>85.5</b>	<b>82.8</b>	<b>64.8</b>
7. Total gross revenues <sup>i</sup>	248.7	229.9	259.8	292.3	293.6	285.4
8. Total expenses <sup>j</sup>	197.1	193.4	200.3	209.8	221.1	229.2
<b>9. NET FARM INCOME (7-8)</b>	<b>51.5</b>	<b>36.6</b>	<b>59.5</b>	<b>82.5</b>	<b>72.6</b>	<b>56.2</b>
Farm Assets	1,255.9	1,304.0	1,378.8	1,500.8	1,589.5	1,671.6
Farm Debt	185.7	193.3	198.0	206.9	212.6	218.7
Farm Equity	1,070.2	1,110.7	1,180.8	1,293.9	1,376.9	1,452.9
Debt-to-asset ratio (expressed as %)	14.8%	14.8%	14.4%	13.8%	13.4%	13.1%

**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 RS21999, *Farm Commodity Policy: Programs and Issues for Congress*, by Jim Monke; for more information on agricultural conservation programs see CRS Issue Brief IB96030, *Soil and Water Conservation Issues*, by Jeffrey Zinn.
- 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. Includes: LDP = loan deficiency payments; MLG = marketing loan gains; and commodity certificate exchange 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, 1998/1999-2005/2006**

Commodity	Unit	Year	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006F	2006/2007F	Loan rate
Wheat <sup>a</sup>	\$/bu	Jun-May	2.48	2.62	2.78	3.56	3.40	3.40	3.35-3.45	—	2.75
Corn <sup>a</sup>	\$/bu	Sep-Aug	1.82	1.85	1.97	2.32	2.42	2.06	1.75-2.05	—	1.95
Sorghum <sup>a</sup>	\$/bu	Sep-Aug	1.57	1.89	1.94	2.32	2.39	1.79	1.60-1.80	—	1.95
Barley <sup>a</sup>	\$/bu	Jun-May	2.13	2.11	2.22	2.72	2.83	2.48	2.35-2.55	—	1.85
Oats <sup>a</sup>	\$/bu	Jun-May	1.12	1.10	1.59	1.81	1.48	1.48	1.55-1.60	—	1.33
Rice <sup>a</sup>	\$/cwt	Aug-Jul	5.93	5.61	4.25	4.49	8.08	7.33	7.65-7.95	—	6.50
Soybeans <sup>a</sup>	\$/bu	Sep-Aug	4.63	4.54	4.38	5.53	7.34	5.75	5.20-5.80	—	5.00
Soybean oil <sup>b</sup>	¢/lb	Oct-Sep	15.6	14.1	16.5	22.0	30.0	23.0	20.5-22.5	—	—
Soybean meal <sup>b</sup>	\$/st	Oct-Sep	154.1	173.6	167.7	181.6	256.1	182.9	165-180	—	—
Cotton, Upland <sup>c</sup>	¢/lb	Aug-Jul	45.0	49.8	29.8	44.5	61.8	41.6	— <sup>c</sup>	—	52.0
Choice Steers <sup>d</sup>	\$/cwt	Jan-Dec	65.6	70.0	72.6	67.0	84.7	84.8	87.3	83-88	—
Barrows/Gilts <sup>d</sup>	\$/cwt	Jan-Dec	34.0	45.3	45.8	34.9	39.5	52.5	50.1	42-45	—
Broilers <sup>d</sup>	¢/lb	Jan-Dec	58.1	56.2	59.1	55.6	62.0	74.1	70.8	65-69	—
Eggs <sup>d</sup>	¢/doz	Jan-Dec	65.6	68.9	67.1	67.1	87.9	82.2	65.5	68-73	—
Milk <sup>d</sup>	\$/cwt	Jan-Dec	14.35	12.32	14.98	12.11	12.52	16.05	15.15	13.10-13.80	—

a. Season average farm price from USDA, National Agricultural Statistical Service, *Agricultural Prices*. Calendar year data is for the first year, e.g., 2000/2001 = 2000; F = forecast from *World Agricultural Supply and Demand Estimates (WASDE)* Feb. 9, 2006; — = no loan rate; and USDA's out-year 2006/2007 crop price forecasts will first appear in the May 2006 WASDE report.

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

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

d. 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.