Briefs

Ag Economy

Farm Income Down in 2000

Net farm income in 2000 is forecast to decline to $39.7 billion—the lowest since 1995. This would be $4.5 billion below the preliminary estimate of $44 billion for 1999, and down $0.7 billion from the initial 2000 forecast issued last December. Net cash income is forecast at $48.6 billion, down from the preliminary 1999 estimate of $54.5 billion. The income drop is due to an expected decline in government payments from a record high in 1999, as well as higher production costs resulting from rising fuel prices. Net farm income is forecast at 79 percent of its 1990-99 average, with net cash income at 80 percent.

With large supplies of most agricultural commodities and prospects for little or no near-term growth in demand, prices for major crops will likely remain low. While production expenses have risen with the recent rise in fuel prices, they may stabilize and perhaps decline as farmers adjust practices to reduce costs.

Total *crop receipts* are forecast up slightly from 1999 but are still below 1996-98 levels. Receipts for soybeans are showing healthy increases over 1999, with corn steady and wheat down slightly. For tobacco farmers, decreased marketing quotas have resulted in dramatic declines in receipts for both 1999 and 2000. In the livestock sector, hog receipts are showing the most improvement (up nearly 30 percent), and receipts for cattle and calves are up 6 percent. Dairy receipts, however, could see a 9-percent drop after declining 2 percent last year.

Assuming no emergency funding legislation, total *government payments* to farmers in 2000 are expected to drop to $15.9 billion (7.1 percent of gross cash income) from $20.6 billion in 1999. The revised 1999 estimate is $2.1 billion less than the forecast issued in December 1999 by USDA's Economic Research Service. The new estimate reflects data from USDA's Farm Service Agency indicating about $1.5 billion less emergency aid disbursed in calendar 1999 than anticipated (shifting more to 2000) and lower loan deficiency payments than earlier expected. Government payments are estimated at 9.1 percent of gross cash income in 1999.

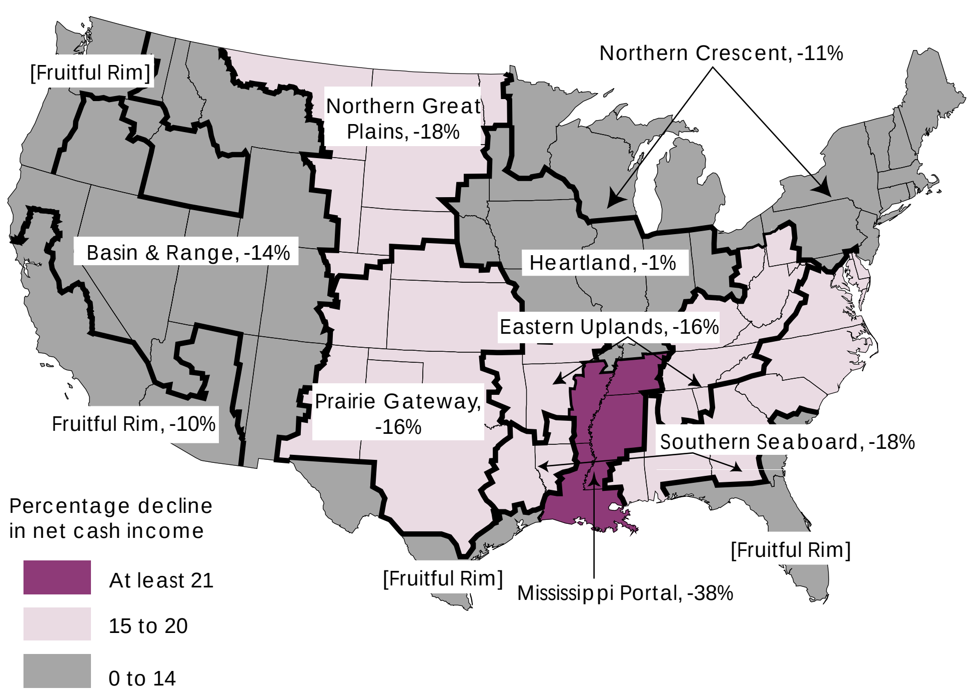
Total *production expenses* in 2000 are forecast to rise 2.9 percent to $197.5 billion, or 88 percent of gross cash income—the highest share since 1980-84. Rising fuel prices are a major factor behind the higher costs, and fuel expenses for 2000 are currently forecast at $9 billion, up 40 percent from 1999. Although crude oil prices retreated somewhat in late March, fuel prices will be only modestly affected until at least late summer when planting is complete (see following article).

While fuel and oil expenses are directly accounting for only about 4.5 percent of total production expenses, rising energy costs affect a broader set of inputs. Higher fuel prices are also reflected in higher expenses for machine hire and custom work, repairs, and transportation. In addition, higher expenses for fertilizer and chemicals (derived from oil) could be seen over the next several crop years if oil prices remain at current levels. Some farmers will likely make some adjustments to their production and harvesting practices to moderate impacts.

Nationally, net cash income for farm businesses (gross sales over $50,000) is forecast down 11 percent for 2000, but up 12 percent from the 1994-98 average. The brunt of cash-flow problems is expected to fall most heavily on farming operations in the Mississippi Portal, Southern Seaboard, and Northern Great Plains regions, where average net cash income is forecast down 38 percent, 18 percent, and 18 percent, respectively.

For the Mississippi Portal, generally higher expenses and lower expected government payments for cotton and soybeans—major crops grown in the region—leave income down more than in any other

Farm Income Is Forecast Down Sharply in the South in 2000



Based on average net cash income for U.S. farms and ranches with gross sales above $50,000.

Economic Research Service, USDA

Nearly All Farm Business Types To Show Decline in Net Cash Income in 2000

	Average net cash income				2000 change from:		Share of
	1994-98 average	1998	1999	2000	1994-98 average	1999	U.S farm businesses
	$1,000 per farm				*Percent*		
All U.S. farm businesses	61.6	78.6	77.7	69.1	12	-11	100
Commodity specialization*							
Wheat	41.2	38.4	48.2	29.9	-28	-39	4
Corn	51.1	60.7	55.5	46.0	-10	-16	13
Soybeans	39.4	39.2	34.1	28.4	-28	-17	7
Mixed grains	51.9	59.5	59.0	47.8	-8	-19	14
Tobacco, cotton, and peanuts	68.8	83.3	67.8	39.3	-43	-42	5
Specialty crops	134.0	220.0	215.5	206.9	54	-4	8
Beef cattle	39.6	56.6	67.5	68.3	72	1	15
Hogs	60.4	55.1	60.1	91.5	51	52	5
Poultry	55.8	71.3	73.9	69.4	24	-6	5
Dairy	64.8	95.7	95.2	76.7	18	-19	15

Average for farms and ranches with gross sales above $50,000. 1999 preliminary and 2000 forecast.
*Specified commodity accounts for at least 50 percent of farm's sales.
Economic Research Service, USDA

region. In addition, while cotton and soybean receipts are rebounding from last year, rice prices are off, pushing total crop receipts down 2 percent.

The share of farms in the region expected to end the year in a favorable financial position (positive net income and relatively low debt) is lower than last year—57 percent, down from 67 percent. At the same time, the share of vulnerable farms (negative net income and relatively high debt) could rise to 7 percent, up from 5 percent last year. These farm businesses will need to address the shortfall in earnings quickly by liquidating inventories or tapping other working capital, selling off machinery and equipment, or offsetting farm losses with savings or off-farm income. Those without sufficient equity may need to restructure loan terms.

Average net cash income in the Southern Seaboard region is expected down, due primarily to lower crop receipts and higher production expenses. Livestock receipts should remain relatively steady for the year as lower dairy receipts offset higher hog and cattle receipts. Government payments, while falling in 2000, will not drop as much as in the Mississippi Portal, where program commodities account for more production. As in all other regions, the share of farms in a favorable financial position will fall slightly while the share of financially vulnerable farms will increase somewhat. In the Northern Great Plains, lower government payments and higher expenses are more than offsetting higher receipts.

In 2000, wheat farms (more than 50 percent of gross sales from wheat) will be affected more than any other major commodity farms, with average net cash income dropping 39 percent. Livestock, primarily cattle, is important to many wheat farms, but higher cattle receipts will not be enough to offset lower government payments for wheat and increased production expenses. Corn farms could see net cash incomes fall an average 17 percent.

Net cash income for cattle operations will hold about even as higher cattle prices are offset by lower government payments (for crops) and higher expenses. Hog farms will be unique in 2000 as the one category of farm showing an income gain, forecast up 52 percent. Higher hog prices will overcome lower government payments and higher expenses.

Dairy operations will take a hit from all sides—lower dairy sales, only slightly higher government payments, and higher expenses. Average incomes are expected to fall 19 percent this year.

These forecasts are averages for all farms in the regions or among farms producing specific commodities. Some farms will outperform the average in their region or commodity group. **AO**

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Net cash income is the difference between cash receipts and cash expenses. This cash-based concept measures the total income farmers receive in a given year, regardless of the year in which the marketed output was produced. It indicates the availability of funds to cover cash operating costs, finance capital investments and savings, service debts, maintain living standards, and pay taxes.

Net farm income is the difference between gross farm income and total expenses. This accrual-based concept measures the profit or loss associated with a given year's production. Additions to inventories are treated as income. Nonmoney items such as depreciation, the consumption of farm-grown food, and the net imputed rental value of operator dwellings are included.