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U.S. Farm Income Down in 2000

U.S. farm income is forecast down in 2000 as government payments to farmers decline from a record high in 1999 and as rising fuel prices push up production costs. Assuming no new emergency funding legislation, net farm income in 2000 is forecast to decline to $39.7 billion from the preliminary estimate of $44.2 billion for 1999. With field crop prices remaining relatively low and hog and cattle prices moving higher, crop farms will be affected more than livestock.

Fuel costs for farmers will be only modestly affected by the recent retreat in crude oil prices until at least late summer, after plantings are complete. The agriculture sector generally has limited ability, in the short run, to pass on higher fuel costs to consumers in the form of higher output prices.

A Fair Income for Farmers?

Political debate over agricultural subsidies and the notion of a "fair" income from farming is likely to continue as farmers face persistent low field crop prices and the prospect of reduced farm income in 2000. To address policy implications of the debate, USDA's Economic Research Service (ERS) analyzed the financial performance of farms, delineating them by enterprise (commodity) type. Financial performance was measured by examining a farm's revenue relative to its economic costs of production.

Focusing on wheat farms (those for which at least half of total value of production is from wheat), ERS found that the characteristics of U.S. wheat farms and their financial performance indicate diversity in the ways farmers manage their businesses and earn their living. Such heterogeneity illustrates the difficulties that confront policymakers in reaching consensus about the level and distribution of government income support.

Farm Finances Remain Healthy

The overall financial health of farmers and their lenders remains solid in early 2000, despite low prices for major farm commodities over the last few years. Large Federal payments to farmers producing food and feed grains, oil crops, and cotton have mitigated the negative effect of lower prices on farm financial conditions and have played a key role in stabilizing farm income. Government payments, by providing liquidity to farmers, are reducing demand for credit and underpinning farm creditworthiness. All major institutional lender groups continue to report generally healthy farm loan portfolios, and most lenders report low levels of delinquencies, foreclosures, net loan charge-offs, and loan restructuring.

Higher interest rates in the general economy are expected in second-half 2000 and first-half 2001, putting upward pressure on interest rates for farm loans. However, the expected rise in farm loan rates is less than for nonfarm interest rates, reflecting the less-interest-sensitive deposit base of rural banks as well as the strong competition they face from the Farm Credit System.

U.S. Soybean, Corn, & Cotton Plantings to Rise in 2000

Planting intentions for the eight major U.S. field crops (corn, soybeans, wheat, barley, sorghum, oats, cotton, and rice) total 252.6 million acres in 2000, up about 1 million from last year's planted area. On the eve of planting decisions, farmers faced mixed price signals for major field crops—prices were up for corn, soybeans, and cotton from a year earlier, but down for winter and spring wheat. Farmers intend to plant a record 75 million acres of soybeans and the largest cotton area (15.6 million acres) since 1995. Corn plantings are expected to expand 1 percent to 78 million acres. U.S. farmers have indicated their intention to modestly cut back the biotech share of planted acreage.

Dry bean growers intend to reduce acreage 9 percent from 1999's 2 million. With low dry bean prices, planting intentions are down in each of the six major dry-bean-producing states—North Dakota, Michigan, Nebraska, Minnesota, Colorado, and California. Reduced output and somewhat stronger export demand should trim dry bean stocks this season, pushing aggregate dry bean prices for 2000/01 slightly above lows experienced during 1999/2000.

Curbing Nitrogen Runoff: Production & Trade Effects

Policy decisions to mitigate the environmental impacts of agricultural production involve tradeoffs among economic interests and environmental goals. USDA's Economic Research Service posited a goal of 10-percent reduction in agricultural nitrogen release, analyzing four alternative generic policy approaches: a "green payment" to producers for reducing fertilizer use; regulation limiting per-acre nitrogen use; a tax on nitrogen fertilizer; and buffer strips and other land retirement. These policy approaches have varying effects on commodity prices, on agricultural trade and other economic indicators, on government costs, and on consumers, as well as ancillary effects on soil erosion.