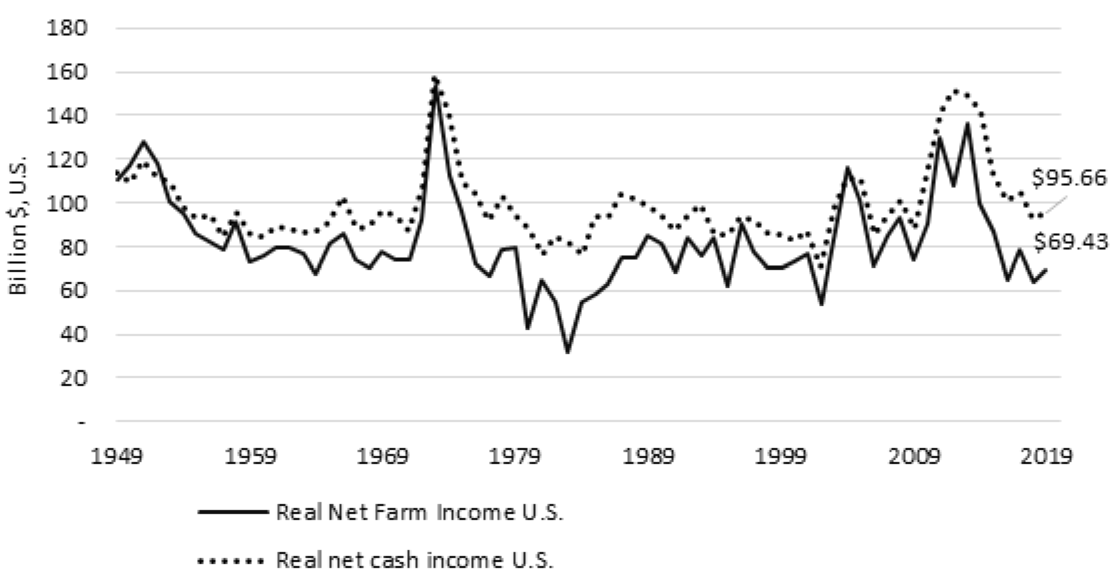
Net farm income forecasted higher in 2019: Is the worst over?

Ana Claudia Sant'Anna and Ben Brown

The United State Department of Agriculture (USDA), on March 6, forecasted U.S. net farm income for 2019 to increase 10% from last year- $63.1 billion in 2018 to $69.4 billion in 2019 as illustrated in Figure 1. The 10% increase is partly due to the change in net farm income forecasted for 2018. The March 6 net farm income forecast is 4.7% lower than the November 30 2018 forecast, decreasing from $66.3 billion to $63.1 billion. Net cash income- receipts from farming plus farm related income and government payments minus cash expense- is projected to increase 4.7%, from $91.3 billion in 2018 to $95.7 billion in 2019 (Figure 1). These forecasted increases in net farm income and net cash income contrast to the decline from 2017 to 2018. However, both net farm income and net cash income in inflation-adjusted values remain below historical averages from 2000-2017. The percent increase in net farm income is still smaller than its last increase of 22% from 2016 to 2017. This raises the question if the current 2019 farm income forecast is a temporary rebound or a signal of increasing farm incomes to come.

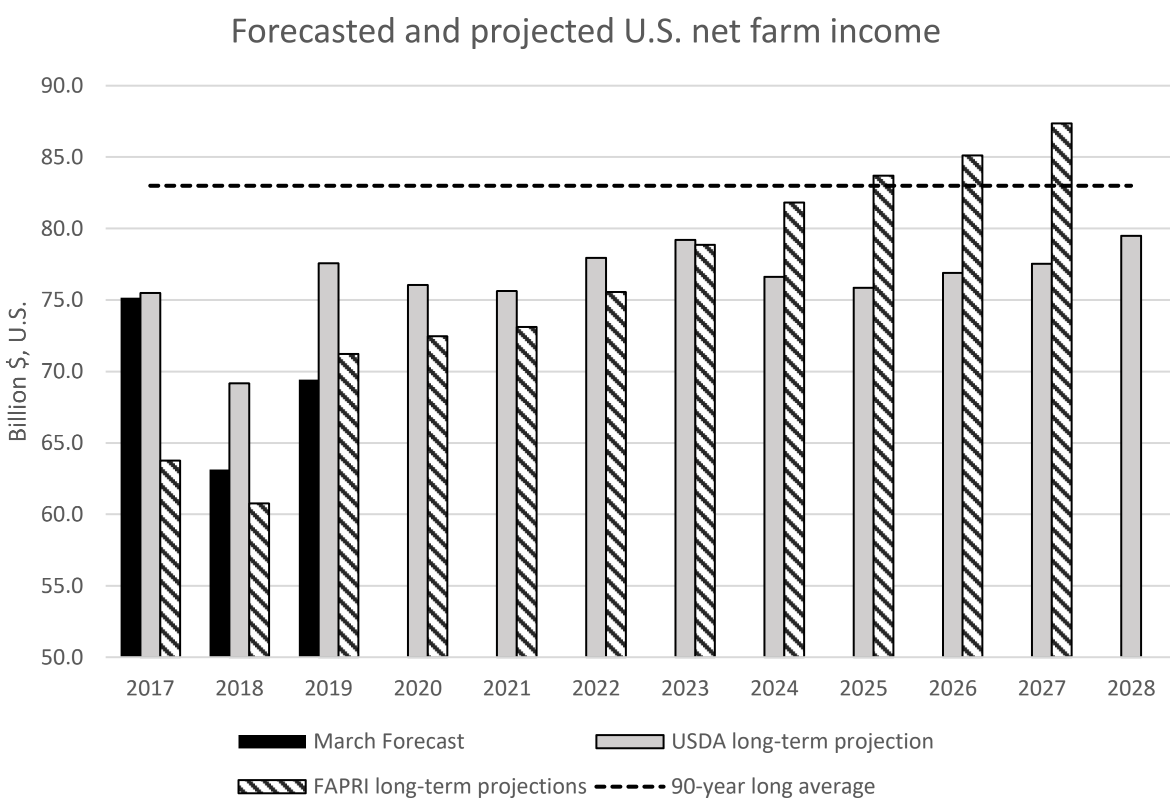
Figure 1: Real U.S. net cash income and net farm income (2019 USD)



Source: USDA – ERS. Farm Income and Wealth Statistics. Graph elaborated by the authors.

Cash farm receipts from crops and livestock are forecasted to increase $8.6 billion in 2019. Increases in corn, fruit & nuts, wheat and cotton receipts more than offset losses in soybeans. For livestock cash receipts, increases in cattle, broilers, dairy products & milk offset losses in hogs. Direct government farm program payments reduced in 2019, due to lower Agricultural Risk Coverage and Price Loss Coverage payments from the 2018 crop, and reductions in miscellaneous programs like the Market Facilitation Program. Farm expenses are set to rise up $2.2 billion dollars in 2019 from 2018. The largest increase in farm expenses comes from farm labor, though feed purchases, interest expenses and property taxes are also projected to increase in 2019.

On average, the first forecast of the year tends to be lower than the final estimate (Kuethe, 2018). If this is true, then net farm income may be even higher than the current forecast of $69.4 billion. Projections from the USDA and the Food and Agricultural Policy Research Institute at the University of Missouri (FAPRI) have net farm income for 2019 at $77.6 billion and $71.2 billion, respectively (Figure 2). Nevertheless, for the forecasted value to reach the 90-year average of $83 billion estimated by Gloy and Widmar (2018), an increase of 20% or about $13.4 billion would be needed, on top of the March 6 forecast. So when can we expect to see net farm income reach the $83 billion 90-year average mark? Available projections from FAPRI expect incomes to rise to this level in 2025 while projections from the USDA do not foresee this happening within the next 10 years.



Notes: Estimates for 2017 and forecasts for 2018 are from the USDA-Economic Research Service estimates from August 30, 2018. Sources: USDA – ERS. Farm Income and Wealth Statistics; USDA. Long-term Agricultural Projections; FAPRI-MU. 2018 U.S. Baseline Outlook. Graph elaborated by the authors.

What could influence the final 2019 estimates?

1) Yields for corn and soybeans above historical averages in 2019 would be a positive sign for producers, affecting crop receipts. High yields in the Eastern Corn Belt (Illinois, Indiana, Michigan and Ohio) supported farm incomes in 2018. An above trend year in 2019 would be the seventh consecutive year of above trend yields for corn and the sixth consecutive year for soybeans. High yields can increase income for grains, but also decrease the feed cost for livestock producers on larger supplies.

2) A continuation of the Market Facilitation Program (MFP) payments associated with 2018 production and inventory numbers for row crops and livestock. The Department of Agriculture Secretary has continued to express that payments were for 2018 only and would not be continued in 2019. The American Soybean Association during their annual meeting held in coordination with Commodity Classic voted to support another round of MFP payments if retaliatory tariffs continued by China on U.S. soybeans. A resolution to trade negotiations with China and the increased market access for animal products under a ratified North America Free Trade Agreement is expected to support agriculture prices.

3) Some form of yield shortfall around the globe for commodities. Considering most of the world (excluding the U.S.) is well into their harvest season or past grain development, any large shortfall in world corn and soybean production in 2019 will occur as a result of a yield shortfall in the United States. The majority of U.S. producers have high coverage levels of revenue insurance under the Federal Crop Insurance Cooperation. A yield short fall with a harvest price option would likely increase federal payments to producers. However, lower production values would also increase costs to livestock producers. Historical analysis shows that in years of drought, crop incomes rise enough to counter the income loss to livestock producers. Thus a U.S. drought may increase total farm income.

Main Points

- The March 6, USDA Farm Income Forecast is a positive sign to producers after a drop in farm income in 2018.
- The first forecast of the year has historically been lower than the final estimate.
- Current projections by USDA and FAPRI have farm income remaining below the 18-year historical average in 2019, but also through the majority of the projection period.
- Adjusting for inflation, net farm income remains roughly $20 billion below the 18-year historical average.
- Developments during the last nine months of the year will have large implications on final net farm income and net cash income estimates.

References

Food and Agricultural Policy Research Institute, University of Missouri (FAPRI-MU). (2018). “2018 U.S. Baseline Outlook”. Retrieved March 6, 2019, from: https://www.fapri.missouri.edu/publication/2018-u-s-baseline-outlook/

Gloy, B. and Widmar, D. (2018, September 4). “After 2017 Rebound, Net Farm Income to Fall in 2018”. *Agricultural Economic Insights*. Retrieved September 10, 2018, from: https://ageconomists.com/2018/09/04/after-rebounding-in-2017-net-farm-income-to-slump-in-2018/

Kuethe, T. "Adjusting USDA’s Net Farm Income Forecast Based on Historic Performance." farmdoc daily (8):222, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, December 5, 2018.

United State Department of Agriculture (USDA), Economic Research Service (ERS). (2019). “2019 Farm Sector Income Forecast”. Retrieved March 6, 2019, from https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast/

United State Department of Agriculture (USDA), Office of the Chief Economist. (2019, February). “Farm receipts, expenses, and income”. Retrieved March 6, 2019, from https://www.usda.gov/oce/commodity/projections/