Ohio Farm Income Outlook

Ani Katchova

Professor and Farm Income Enhancement Chair
Department of Agricultural, Environmental, and Development Economics
The Ohio State University

Contributions by Rabail Chandio, Kexin Ding, Xiaoyi Fang and Zhining Sun
2022 AEDE Agricultural Policy and Outlook Conference

November 15, 2022
US net farm income and net cash income are forecast to increase in 2022.

The increase in farm income is mainly driven by higher cash receipts and lower production expenses, which are offset by lower expected government payments and lower crop inventory.

US farm income is expected to decline in 2023 and 2024 and then hold steady through 2027.

Farm solvency and financial performance are expected to improve in 2022.

Ag credit conditions have improved but with slowing pace due to increasing interest rates and inflation concerns, with ag loan delinquency rates remaining low.
US net farm income and net cash income, 2002-2022 (in billion $)

- **Net Cash Income**
- **Net Farm Income**

Source: USDA, ERS, Farm Income and Wealth Statistics, Data as of September 1, 2022

- **US net farm income ($147.7B) in 2022** is expected to be up 15.1% from last year and more than 50% higher than 2020.
- **US net cash income ($168.5B) is expected to increase by 5.2% in 2022.**
Ohio net cash income ($4.4B) and Ohio net farm income ($4.7B) experienced an increase in 2021. Ohio farm income has been about 3.2% of US farm income but has had higher volatility over the last decade.
US real net farm incomes is expected to be above its long-term average in 2022. Ohio is expected to follow a similar trend.
Isengildina-Massa, Karali, Kuethe, and Katchova (2021) find an underprediction bias in the USDA farm income forecasts. Bora, Katchova, and Kuethe (2021) suggest that the bias is due to high costs associated with over-prediction yet the forecasts are still rational.
USDA baseline projections show expected increase in net cash income and net farm income in 2022 and then decrease in 2023 and 2024, but mostly flat after that.
Bora, Katchova, and Kuethe (2022) show that projections remain informative for up to 2-3 years ahead and then become uninformative after that.
Total crop receipts are expected to increase to $274 billion in 2022.

Total animal product receipts are expected to increase to $251 billion in 2022.

Expected increase in cash receipts across all commodities this year.
Ohio Cash Receipts

Ohio cash receipts for selected commodities, 2015-2021 (in billion $)

- Ohio cash receipts for corn, soybeans, and hogs increased in 2021.

Source: USDA, ERS, Data as of September 1, 2022
US and Ohio Corn Cash Receipts

Corn cash receipts in US and Ohio, 2008-2022F (in billion $)

- Ohio
- US

Source: USDA, ERS, Data as of September 1, 2022

- US corn cash receipts are expected to increase in 2022. Ohio corn cash receipts increased in 2021.
US soybean cash receipts are expected to increase in 2022. Ohio soybean cash receipts increased in 2021.
US farm expenses are forecast to increase in 2022 for most items.
Direct government payments are expected to decrease by 49.6% in 2022 to $13 billion, from $25.8 billion in 2021.
Increases in crop and livestock receipts, and decreases in production expenses drive the overall increase in net farm income in 2022, offsetting lower government payments and crop inventory.
USDA has more optimistic outlook for 2022. Net farm income and net cash income are expected to increase in 2022, after expected decrease in the February forecast.

Farm income in 2022 is expected to be 50% higher than in 2020 and about twice as high as five years ago.

Most farm income is from the market this year - higher cash receipts for both crops and livestock due to higher commodity prices.

The increase in farm income is partially offset by higher production expenses and lower government payments in 2022.

Longer-term outlook for farm income is pessimistic - shows expected decrease in the next couple of years which would likely come from higher production costs and lower government payments.
Farm Assets, Equity, and Debt

U.S. farm equity and debt, 2012-2022 (in billion $)

- Farm equity, debt, and assets are all expected to increase in 2022.

Source: USDA, ERS, Data as of September 1, 2022
Farm assets and equity are expected to outpace the growth in farm debt. After the inflation adjustment, the debt is forecast to decline by 1.2%. Overall, farm balance sheets are expected to improve in 2022 compared to last year.
Debt-to-asset ratios increased sharply for Ohio in 2020. These ratios are still historically low, indicating good solvency.

- Solvency for Ohio farms has remained slightly better than for Midwest farms, but solvency for US farms has remained best.
- Stronger balance sheets suggest improved solvency.
Stronger current ratios for farmers imply higher liquidity.

Liquidity for Ohio farmers was lower than the Midwest and the national average in 2020, but still acceptable.
Profitability continued to decline for Ohio farms with worsening and negative profitability in 2020.

Profitability for Midwest and US farmers improved in 2020.
Farm Profitability: Return on Equity

- Return on equity showed similar trends as return on assets.
- Profitability has remained problematic for Ohio farmers in recent years, with negative return on assets.
- Expected increases in profitability for 2022 due to higher farm incomes.
Outlook for US and Ohio Farm Financial Stress

- Farm debt growth is outpaced by assets and equity growth, leading to improved solvency in 2022.
- Farm debt growth is expected to be negative in real terms in 2022, showing stronger balance sheets in 2022.
- Farm liquidity and ability to repay debt is acceptable.
- Ohio farms have struggled with lower (even negative) profitability during the pandemic.
- Stronger farm incomes in 2022 are expected to improve profitability.
Agricultural loan volume increased slightly in the US in 2022, with increases in real estate loans. Production loan volume decreased corresponding to stronger farm incomes in 2021 and 2022.
Agricultural loan volume also increased slightly to $3.9B in Ohio in 2022.
Ohio farmers have proportionally more real estate loans than US farmers, indicating more farmland holdings.
Ag loan delinquency rates have remained low at 1.08% in 2022.

Real estate loans have had slightly higher delinquency rates than production loans.
US ag loan delinquency rate remained relatively low at 1.27% for the past four quarters.

Concentration of ag loans in the Midwest but with low delinquency rates.
Ohio ag loans have had slightly lower delinquency rates than for US loans in the recent past.
Ohio ag loan delinquency rates were relatively low at 1.01% in 2022. Some Ohio counties had elevated ag loan delinquency rates.
According to the Federal Reserve Bank of Kansas City, ag credit conditions remain strong but the pace of improvement is slowing.

Agricultural loan volume increased for the US and Ohio in 2022, but rising interest rates will slow demand for ag loans.

Loan delinquency rates remained very low nationally due to high farm income in the last few years.

Midwest and Ohio loan delinquency rates remained lower than the national rates.

With increasing interest rates, ag delinquency rates are expected to increase slightly.
Farm incomes are expected to increase in 2022 after several years of continued growth, indicating that the farm economy shows resiliency but still faces many challenges and uncertainty.

Strong cash receipts due to higher commodity prices have helped boost farm incomes in 2022 with less reliance on government payments.

Long-term projections of farm income show slight decreases and then flatten or become uninformative after 2-3 years.

Farmers are experiencing some financial stress but with improved solvency and relatively low ag loan delinquency rates.

Concern about rising interest rates and high inflation, though ag credit conditions are still strong.

Long-term projections raise some concerns mostly regarding the continuation of government aid to stabilize farm incomes and keep ag loan delinquencies low.