

Farm Income and Finance Outlook

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Contributions by Siddhartha Bora, Kexin Ding, and Kevin Kim
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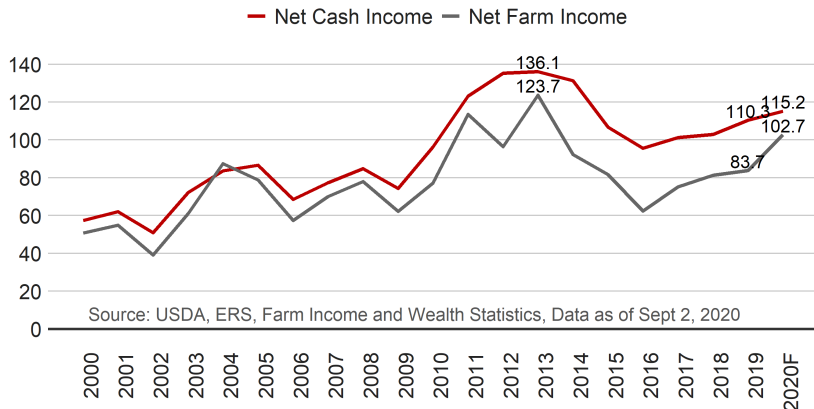
November 9, 2020

Farm income and finance outlook themes

- US net farm income and net cash income are forecast to increase in 2020, for a fourth consecutive year.
- The growth in farm income is mainly driven by higher government payments, but with lower expected livestock receipts.
- Long-term farm income and price projections typically show stability after 2-3 years.
- Ag loan delinquency rates and bankruptcy rates have had recent upticks but have remained relatively low during the last few years.

US farm income estimates and forecast

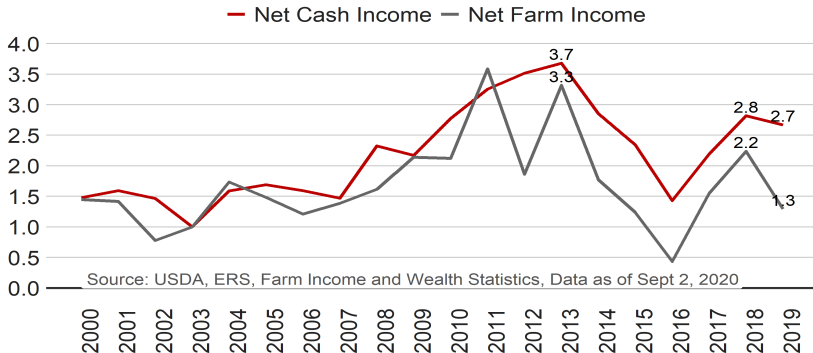
US net farm income and net cash income, 2000-2020 (in billion \$)



- US net cash income (\$115.2B) and net farm income (\$102.7B) are forecast to increase by 4.5% and 22.7% respectively in 2020.

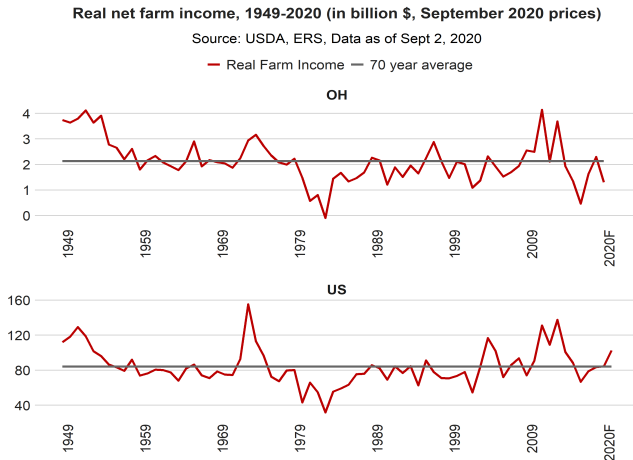
Ohio farm income estimates

Ohio net farm income and net cash income, 2000-2019 (in billion \$)



- Ohio net cash income (\$2.7B) and Ohio net farm income (\$1.3B) experienced a decrease in 2019 after increasing for two consecutive years. Farm income in Ohio has been 2.4-2.5% of US farm income but with higher volatility over the last decade.

Real net farm income

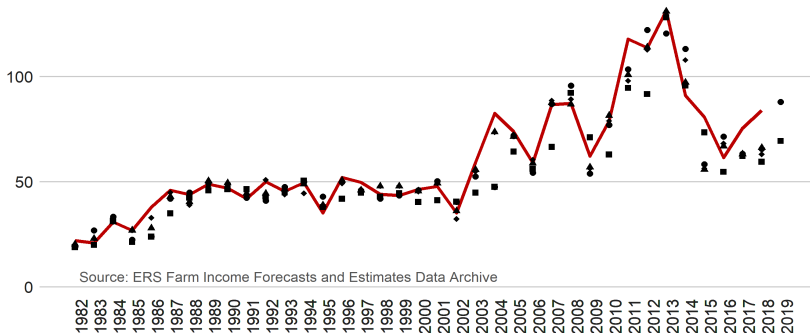


- US real net farm income is expected to rise above its long-term average in 2020, while Ohio real net farm income fell below its long-term average in 2019.

Accuracy of farm income forecasts

USDA net farm income forecasts, 1982-2020 (in Billion \$)

- February Forecast • August Forecast ▲ November Forecast ♦ February (t+1) Forecast

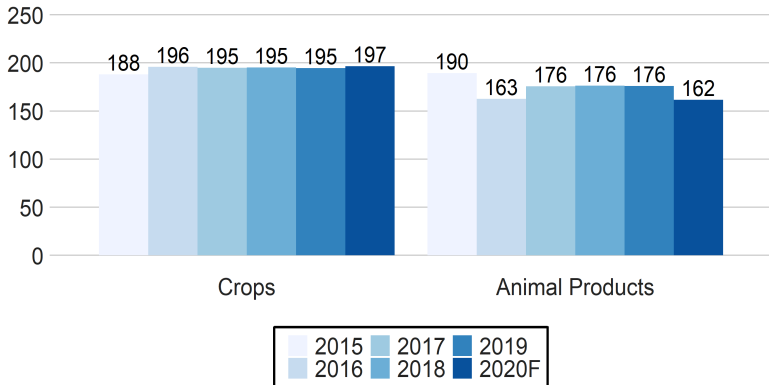


- Isengildina-Massa, Karali, Kueth, and Katchova (2020) find an underprediction bias in the USDA farm income forecasts.
- Bora, Katchova, and Kueth (2020) suggest that the bias is due to high costs associated with over-prediction yet the forecasts are still rational.

US crop and livestock receipts

US cash receipts, (in billion \$)

Source: USDA, ERS, Data as of Sept 2, 2020

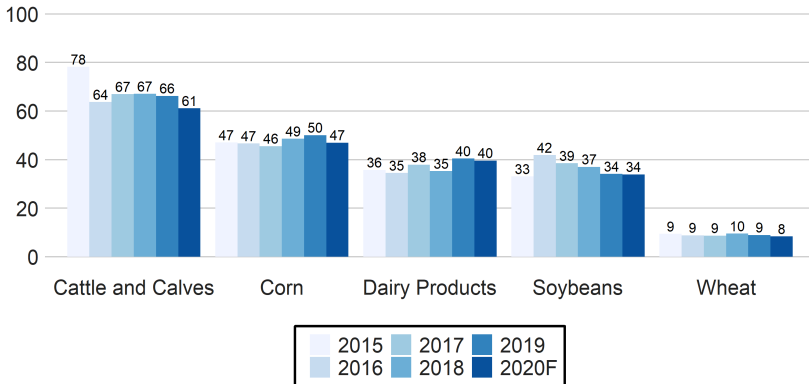


- Crop receipts are expected to increase to \$197 billion, while animal product receipts are expected to decline to \$162 billion in 2020.

US cash receipts by commodity

Cash receipts for selected commodities, (in billion \$)

Source: USDA, ERS, Data as of Sept 2, 2020

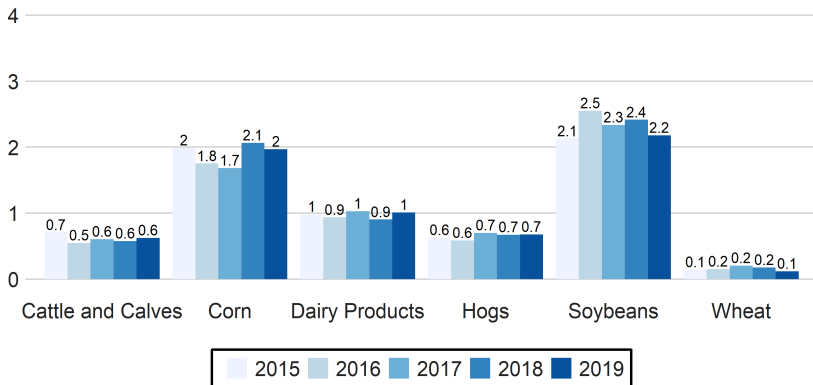


- The expected decline in cash receipts across several commodities, including cattle and calves and corn.

Ohio cash receipts

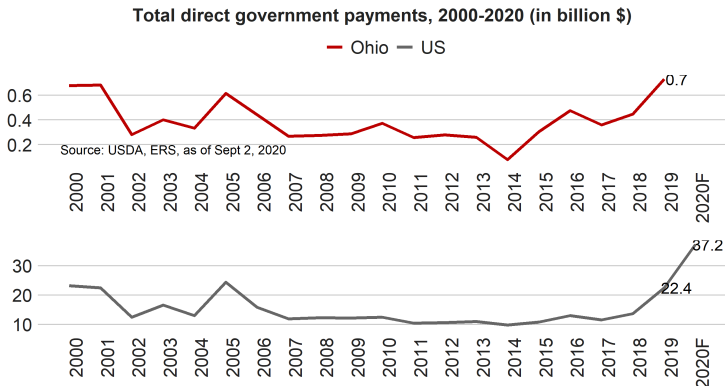
Ohio cash receipts for selected commodities, (in billion \$)

Source: USDA, ERS, Data as of Sept 2, 2020



- Ohio cash receipts for corn, soybeans, and wheat decreased in 2019.

Government payments

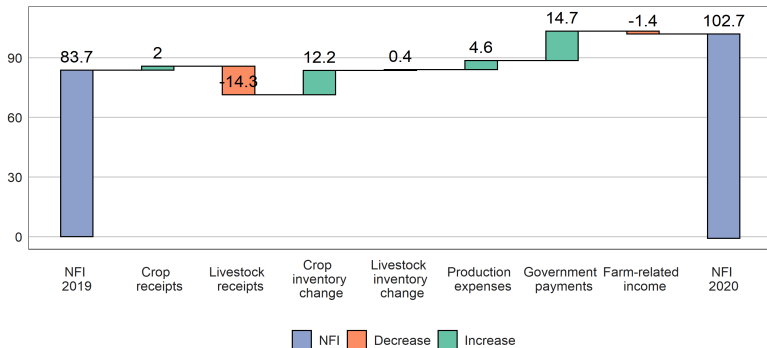


- Direct government farm payments are expected to increase by 65.7% in 2020 to \$37.2 billion, from \$22.4 billion in 2019.

Changes in net farm income components

Changes in net farm income components in 2020 (in billion \$)

Source: USDA, ERS, Data as of Sept 2, 2020

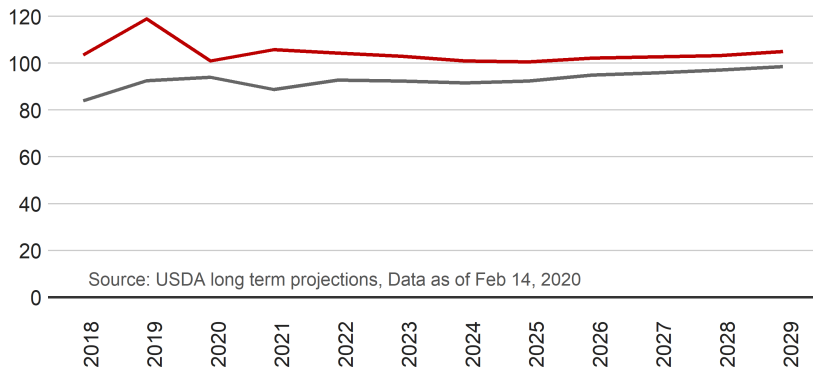


- Increases in government payments and crop inventory change drive the overall increases in net farm income in 2020 offsetting lower livestock receipts.

Long-term projections of farm income

US farm income projections to 2029 (in billion \$)

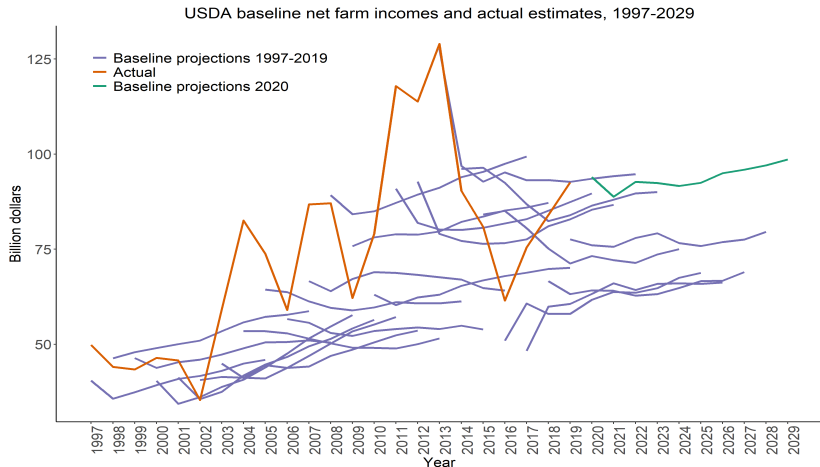
— Net Cash Income — Net Farm Income



Source: USDA long term projections, Data as of Feb 14, 2020

- The USDA baseline projections show expected increase in net cash income in 2021 and then decrease in 2022, but the opposite trend of expected decrease in net farm income in 2021 and then increase in 2022.

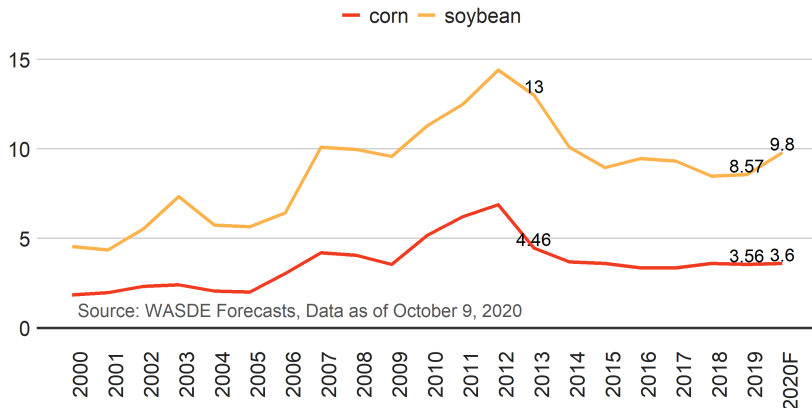
Historical baseline projections of farm income



- Bora, Katchova, and Kuethe (2020) show that projections remain informative for up to 2-3 years ahead and then become uninformative after that.

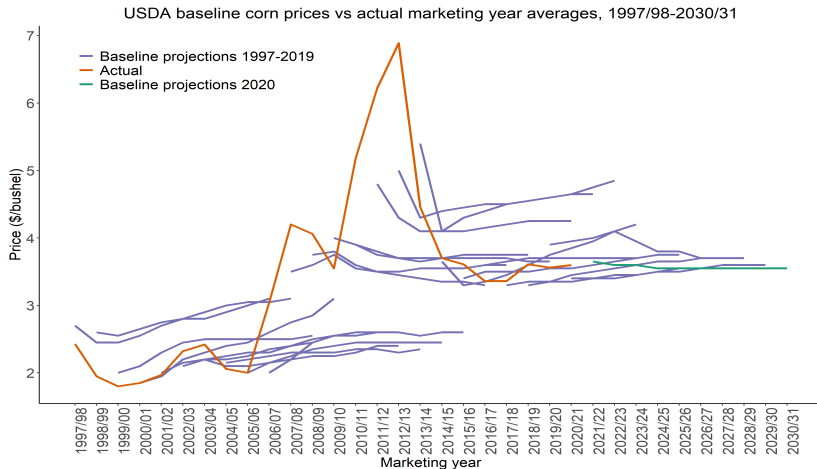
Crop prices

Average price for major crops, 2000-2020 (\$/bushel)



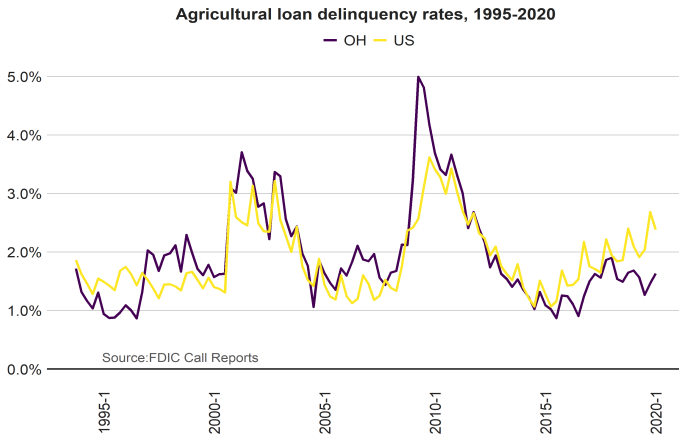
- Corn price is expected to increase to \$3.60 per bushel in 2020/21. The soybean price is expected to increase to \$9.8 per bushel in 2020/21.

Historical baseline projections of corn price



- Corn price is projected to increase to \$3.60 for the 2020/21 marketing year and then to remain flat at \$3.55 after 2024/25.
- Bora, Katchova, and Kuethe (2020) find that crop price projections beyond two years are not informative.

Ag loan delinquency rates



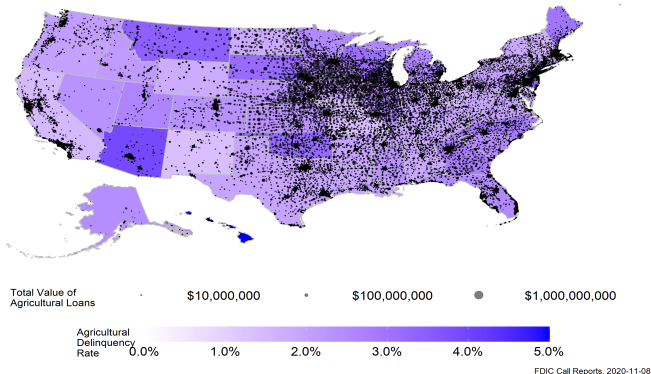
- US ag loan delinquency rates have had recent upticks, but Ohio ag loan delinquency rates have shown slight declines.

US ag loan delinquency rates

Agricultural Performance Q3 2019 to Q2 2020

Avg Total Ag Loan Value of \$181,360,000,000

Delinquency Rate of 2.25%



- Ag loan delinquency rates have remained relatively low at 2.25% during the last four quarters, but increased from 2.05% in the previous year.

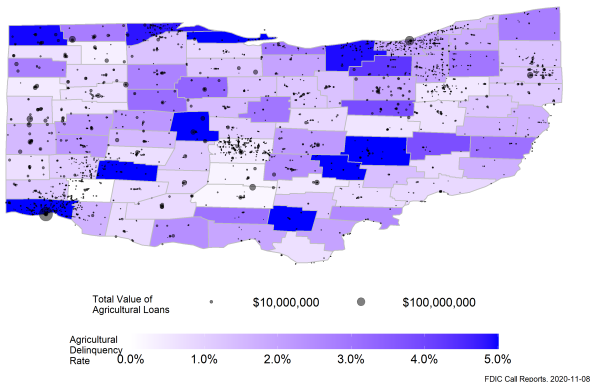
Concentration of ag loans in the Midwest but low ag loan delinquency rates

Ohio ag loan delinquency rates

Agricultural Performance Q3 2019 to Q2 2020

Avg Total Ag Loan Value of \$3,882,000,000

Delinquency Rate of 1.49%

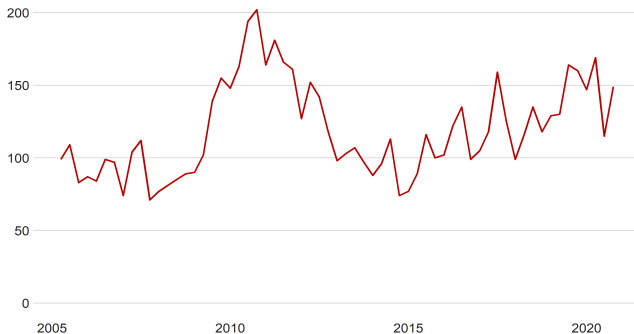


- Ohio ag loan delinquency rate was 1.49% in the last four quarters, which is below the U.S. average. Surprisingly, the Ohio delinquency rate decreased from 1.59% in the previous 12 months. Some pockets of increased delinquency rates across Ohio.

Chapter 12 bankruptcies

Quarterly Chapter 12 Filings

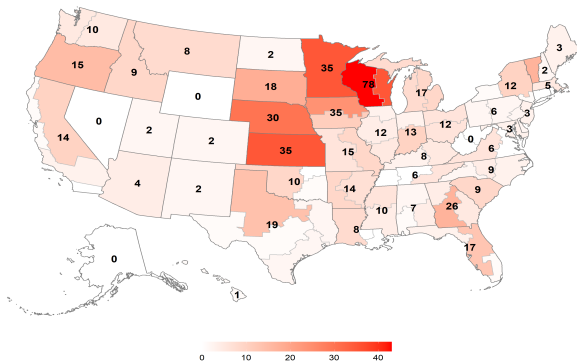
Source: US Courts, Sep 30, 2020



- Chapter 12 bankruptcy filings have had some recent upticks but have remained low in the recent years.

Chapter 12 bankruptcies filed

Total Chapter 12 Bankruptcies Filed
From October 2019 through September 2020: 580

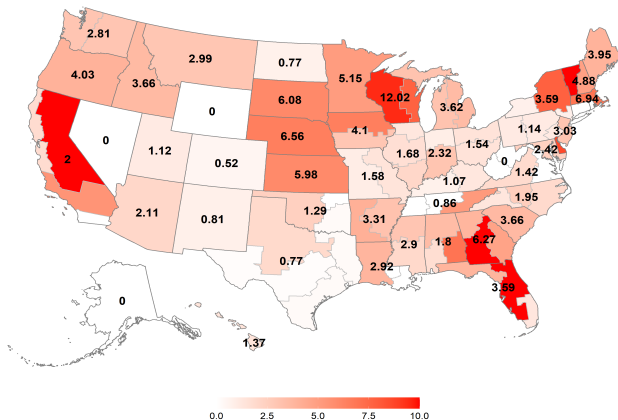


- There were 580 chapter 12 bankruptcy filings from October 2019 to September 2020, which is slightly lower than 583 in the previous 12 month period. There were twelve chapter 12 bankruptcy filings in Ohio from October 2019 to September 2020.

Farm bankruptcy rates

Total Chapter 12 Bankruptcies Filed per 10,000 Farms

From October 2019 through September 2020: 2.78



- Ohio farm bankruptcy rate of 1.54 Chapter 12 filings per 10,000 farms has remained the same as last year. Ohio has about half of the U.S. bankruptcy rate of 2.78, which remained similar to the 2.8 in the prior 12 months.

Farm income and finance outlook

- With farm incomes expected to grow for the fourth consecutive year, the farm economy shows resiliency but still faces many challenges and uncertainty during the pandemic.
- Government payments from the Market Facilitation Program and CFAP 2 due to the trade wars and the pandemic, have significantly helped to boost and stabilize farm income in 2020.
- Long-term projections of farm income and crop prices show slight increases/decreases and then flatten/become uninformative after 2-3 years.
- Farmers are experiencing some financial stress with recent upticks but relatively low ag loan delinquency rates and bankruptcy rates.
- Long-term projections raise some concerns if these ag conditions persist. The severity of the concerns will significantly depend on the continuation of ad hoc government aid to stabilize incomes and keep ag loan delinquencies and farm bankruptcies low.

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Farm Income Enhancement Program
<http://aede.osu.edu/programs/farm-income-enhancement-program>