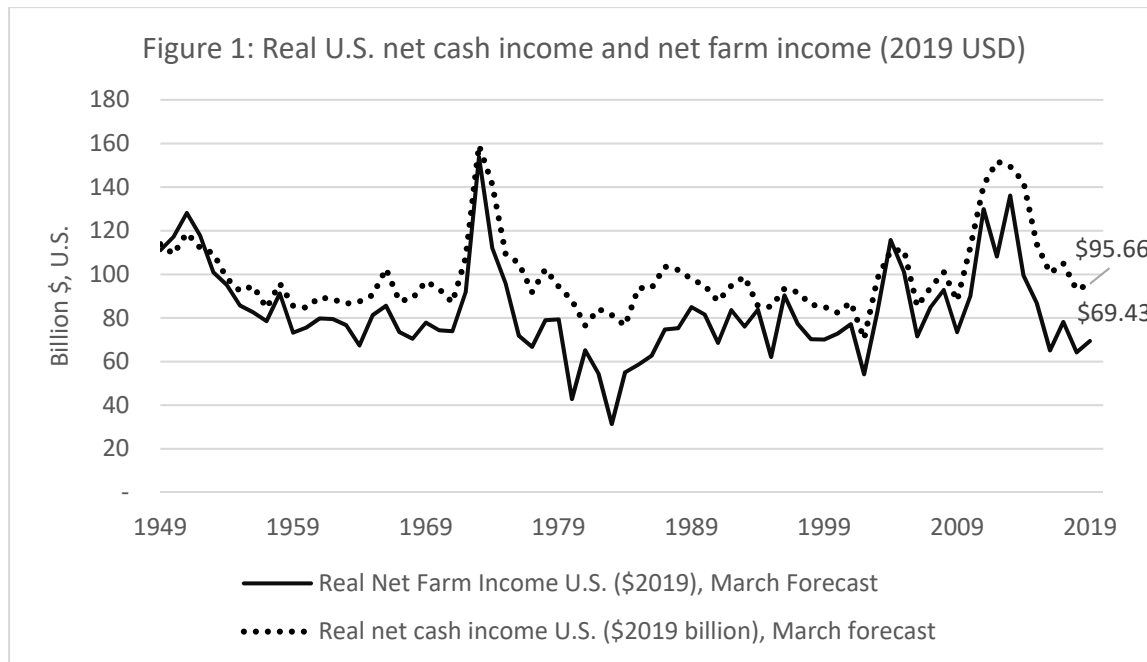


Net farm income is forecasted to increase in 2019

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The United State Department of Agriculture (USDA), on March 6th, forecasted U.S. net farm income for 2019 to increase 10% from last year, from \$63.1 billion in 2018 to \$69.4 billion in 2019 (USDA 2019) (Figure 1). The 10% increase is partly due to the change in net farm income that was forecasted for 2018. The March 6th net farm income forecast for 2018 is 4.7% lower than the November 30th 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 \$95.6 billion in 2019 (USDA 2019) (Figure 1). These forecasted increases in net farm income and net cash income for 2019 are in contrast with the declines 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.



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

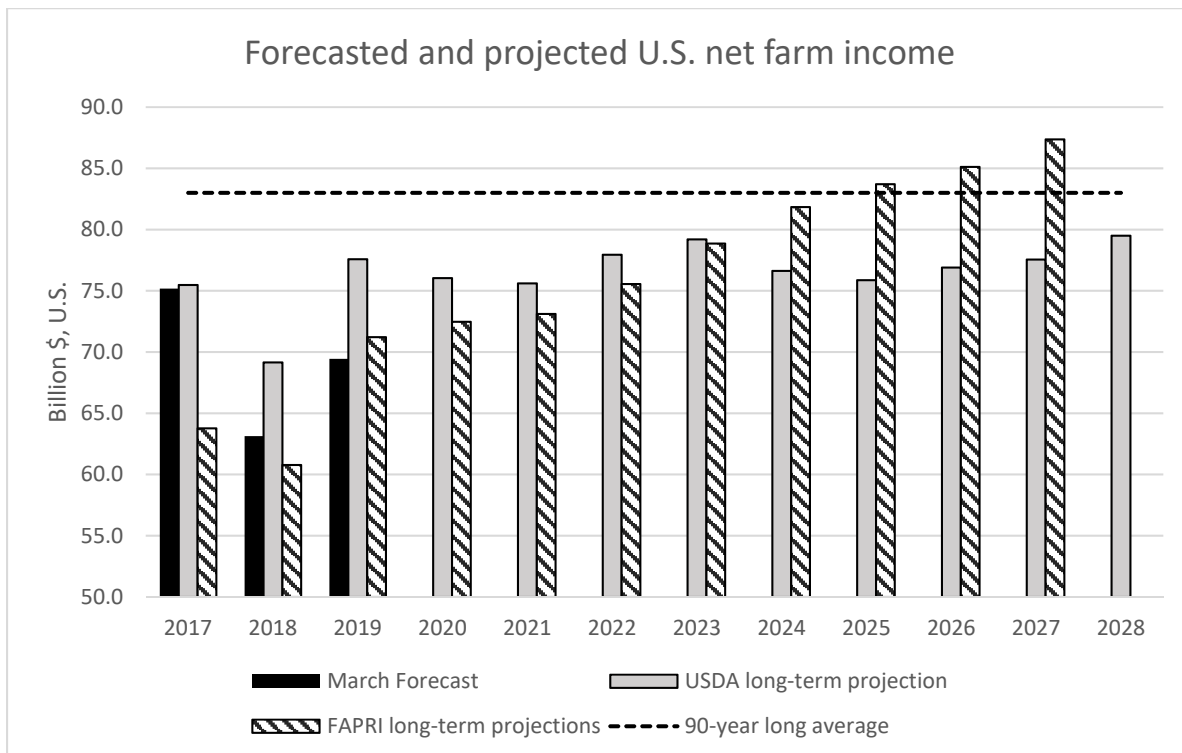
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Cash farm receipts from crops and livestock are forecasted to increase \$8.6 billion in 2019. Increases in corn, fruit & nuts, wheat and cotton cash receipts more than offset losses in soybean receipts. For livestock cash receipts, increases in cattle, broilers, dairy products & milk offset losses in hogs. Direct government farm program payments are forecasted to decline 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 expected to increase by \$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) forecast 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 prepared by Sant’Anna, Katchova, and Brown.

What could influence the final 2019 farm income 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 yield in 2019 if realized 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 grain producers, but also due to the decrease in price lower the feed cost for livestock producers.
- 2) A continuation of the Market Facilitation Program payments associated with 2018 production and inventory numbers for row crops and livestock. The Secretary of Agriculture has continued to stress that payments were for 2018 only and would not be continued. A resolution to the trade negotiations with China and the increased market access under a ratified North America Free Trade Agreement could also 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 shortfall in corn and soybean production in 2019 will probably occur in the United States. The majority of U.S. producers have high coverage levels of revenue insurance under the Federal Crop Insurance Corporation. A yield short fall with a harvest price option would likely increase federal payments to producers.

Main Points

- The United State Department of Agriculture (USDA), on March 6th, forecasted U.S. net farm income for 2019 to increase 10% from last year, from \$63.1 billion in 2018 to \$69.4 billion in 2019. This 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 90-year 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 next nine months of the year with respect to crop yields and trade negotiations will have large implications on final net farm income and net cash income estimates.

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