2017 net farm income projected to drop by half compared to 2013

On February 7, 2017, the United States Department of Agriculture (USDA) released its forecast of 2017 farm income and expenses (http://tinyurl.com/gs2typz). Net farm income for the current year is forecast to be $62.3 billion or $5.9 billion less than 2016.

Notwithstanding poor weather or an unexpected surge in demand, this would be the fourth year in a row that farmers experience a decline in net farm income. If farm income comes in as expected, it would be half (50.4 percent) of the $123.7 billion that farmers received in 2013. This is the largest four-year decline in income that farmers have seen in the last 25 years.

To illustrate the problem that farmers face, during the 2012 crop marketing year for corn (September 2012 through August 2013) farmers earned $1.35 per bushel above expenses compared to a loss of $0.43 per bushel in the 2015 crop marketing year, the latest year for which the cost of production is currently available. With corn prices over the next ten years projected to stay below $4.00, crop farmers are looking at a bleak future.

Often, when crop prices are low, livestock prices are high. But at this point in time, US calendar year cattle prices have dropped from $126.58 per hundredweight in 2013 to $121.67 in 2016. Dairy producers saw milk prices average $20.04 per hundredweight in 2013. During 2016, milk prices averaged $16.24. As a result, the value of farm production declined from $473 billion in 2014 to $405 billion in 2016, with a forecast of $400, billion in 2017.

In 2013, direct government payments were $11 billion or 8.9 percent of net farm income. The forecast for 2017 shows direct government payments of $12.5 billion or 20.0 percent of net farm income.

The last time we faced a sustained period of low prices was 1998-2001. In 1998, direct government payments were $12 billion or 26.3 percent of net farm income. A year later that calculation had increased to 45.1 percent as a result of $22.5 billion in direct government payments. Direct government payments were $23.2 billion and $22.4 billion in succeeding years. As a result, direct government payments accounted for 45.8 and 40.9 percent of net farm income for 2000 and 2001 respectively. In a number of states, direct government payments were above 100 percent of net farm income.

There is nothing like the kind of Congressional support farmers received in the 1998-2001 period on the horizon this time.

Leading up to the farm crisis of the 1980s, banks were willing to make loans to farmers based on increasing net worth (based mostly in increasing land prices) even in years with a projected negative cash flow. Between 1982 and 1988, the debt-to-asset ratio ranged between 19.11 and 22.19 percent.

Since 2012, the debt-to-asset ratio has increased from 11.36 percent to a forecast of 13.93 percent, a far cry from what it was in the 1980s. But farmers face a different situation today. As a result of the farm crisis of the 1980s, bankers are reluctant to make operating loans based on net worth. They are more interested in a positive cash flow.

Those two changes leave today's farmers between the proverbial rock and a hard place. Banks want to see a positive cash flow and Congress has shown no willingness to consider emergency payments.

The squeeze that many farmers find themselves in is the result of a failed farm policy paradigm that has no mechanism to deal with an extended period of low prices. Revenue insurance looked like the best thing since sliced bread when prices were high and rising, but it provides little help now that prices are low.

And, the Agricultural Risk Coverage and Price Loss Coverage programs simply backfill low prices with inadequate payments and do nothing to reduce the modest amount of surplus production that is the cause of the low prices.

If we have another year of trendline production and a continuation of low milk and meat prices, farmers could be facing a crisis like the one faced by the rest of the economy in 2009.

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