Farm Income Analysis:
A mixed bag for
U.S. agriculture

The USDA Economic Research Service (ERS) recently released new figures for Net Farm Income (NFI) in the United States, and for the first time in 4 years the projected NFI reflects an increase from the previous year. The increase may be a good omen for farmers and ranchers across the country, showing that the major decreases in NFI over the past 3 years – equal to a 50% drop – might finally be reversing course. However, if you scratch below the surface, the news isn’t all it’s cracked up to be.

The ERS had projected 2016 NFI to be $68.3 billion, but its August 30 update reduced actual 2016 NFI by 10% to $61.5 billion.

The revised 2016 NFI, and the projected 2017 NFI of $63.4 billion, represent a respective 50% and 49% decrease from the 2013 high of $123.8 billion. Thus, although the projected increase in NFI in 2017 is a positive sign, downgraded conditions in 2016 are the real story. Instead of a 50% drop in farm income over 4 years, farmers have had to weather that drop in a matter of only 3 years. Even if the projected increase for 2017 is realized, the last two years’ NFI would remain at its lowest level since 2009.

Source: https://data.ers.usda.gov/reports.aspx?id=17830
NFI is often analyzed in nominal dollars and, by the first graph above, one can interpret NFI as increasing over time with an upward trend. However, another way to look at historical NFI is in “real dollars,” allowing for an “apples to apples” comparison. When looking at NFI adjusted in real 2017 dollars over time, it is clear that while NFI has remained relatively stagnant, the value of production and expenses have trended upward despite real declines in recent years.

The increase in value of production and expenses shows that farmers are putting more money on the line while taking home about the same amount. This can be seen in the following table by comparing the “real dollars” average from 1930 to 1950 with 2000 to 2017. Farmers and ranchers are risking more now than ever before, emphasizing the need for a strong farm safety net.

<table>
<thead>
<tr>
<th>Real dollars comparison (in thousands)</th>
<th>1930-1950</th>
<th>2000-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Production</td>
<td>$191,054,046</td>
<td>$385,635,609</td>
</tr>
<tr>
<td>Expenses</td>
<td>$102,319,527</td>
<td>$299,823,249</td>
</tr>
<tr>
<td>NFI</td>
<td>$88,734,519</td>
<td>$85,812,360</td>
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</tbody>
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Farmers and ranchers have managed through this stagnant NFI only by increasing their productivity. Increased yields, decreased inputs and technology have all allowed farmers to remain competitive – doing more with less.

The last aspect that should not be overlooked about the NFI reports is that all of these numbers are national numbers that gloss over farm type or regional differences. NFI was high in 2011 and allowed many farmers and ranchers to build equity and reserves to help them through the current tough times.

In 2011, 41 of 50 states had NFI that was above average from 2000 to 2015. However, nine states experienced a below average NFI, including Alabama, Alaska, Arkansas, Florida, Georgia, Mississippi, North Carolina, South Carolina and Texas. These states did not experience the prosperity of a few years ago but nevertheless are sharing in the difficult times without the benefit of equity and reserves. The graph below shows how NFI by region does not track together throughout history.

Conclusion

On the surface, the new ERS report on NFI shows promising signs for the potential recovery of the farm economy. However, a closer look at the data in the report shows that tough times persist. The data for 2017 is still a forecast while the data for 2016 is actual data. The larger than projected decrease in 2016 shows that the farm economy hit tougher times quicker than expected, meaning farmers will need to burn through reserves and equity quicker as well.

The real focus of the report then should be the immense decrease in actual NFI in 2016, equaling a 50% drop in 3 years, and the farmers and ranchers who continue to deal with extremely hard times, thin to negative margins and dwindling reserves and equity that small, projected increases – or increases on paper – may do little to mitigate.

These are the facts of national economic analysis that are the reality for each farm family. Farm policy has never guaranteed a profit nor detached farmers from the risks of business. Rather, it provides a foundation that the best and brightest have built upon in creating the most independent, consumer-oriented, productive, efficient and diverse agricultural sector in history. With the 2018 Farm Bill fast approaching, we should resolve to stand by these independent farm enterprises in a time of real need.