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Farm Income Expected To Increase While Net Worth Declines in 2010

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Net value added, net farm income, and net cash income, the three key indicators of U.S. farm sector income, are expected to improve in 2010. Net farm income is forecast to be $63 billion in 2010, up 11.9 percent ($6.7 billion) from 2009. While the 2010 forecast is $25 billion below the all-time record in 2004 and near record in 2008, it represents a rebound from 2009 when the global recession dampened demand for U.S. crops and livestock.

Net value added, USDA's measure of agriculture's contribution to the U.S. economy's production of goods and services, is forecast to rise $6.1 billion and net cash income (gross cash income minus cash expenses), $5.5 billion.

Adjusting for inflation provides a better way to compare the current health of the U.S. farm sector to longrun trends. While increases are expected in 2010, each of the three farm income measures remain below the most recent 10-year average (measured in constant 2005 dollars). Inflation-adjusted net value added is expected to be roughly 6.4 percent below its 2000-2009 average. Inflation-adjusted net farm income and net cash income will be below the 10-year averages by 13.4 and 7.1 percent, respectively.

The value of farm sector business assets is expected to continue falling in 2010 as expectations for declining crop receipts and continued volatility in agricultural commodity and input markets affect future expected returns on investments in land and other farm capital. Although interest rates are expected to remain low and farm credit available, producers could face tighter credit requirements.

Farm sector equity, or "net worth" (farm sector assets minus farm sector debt), is expected to fall 3 percent in 2010, with the value of farm assets declining 3.5 percent and farm debt 6.8 percent.

Rebounding Economy Will Boost Livestock Sector Sales. . .

The U.S. and world economy are expected to stabilize and grow in 2010. USDA's baseline projections call for inflation-adjusted U.S. Gross Domestic Product to increase 2.5 percent, and economic growth in the rest of the world, 2 percent. Better economic conditions are behind improving expectations for livestock producers in 2010. Meat, milk, and eggs are higher cost items whose demand is subject to consumer budgeting considerations. As the recession ends, consumer demand for these foods is expected to increase.

The livestock sector is expected to lead a rebound in the U.S. farm economy in 2010. The value of livestock production is forecast to grow 10.2 percent, with milk sales expected to increase $7.4 billion and cattle and calf sales, $2.8 billion. Higher prices and increased sales will boost average net cash income for farm businesses specializing in livestock or poultry. Dairy farm businesses are likely to experience the largest increase—a per farm average of $105,000—but will remain substantially below their 2007-08 levels.

. . . While Crop Sales and Government Payments Will Decline

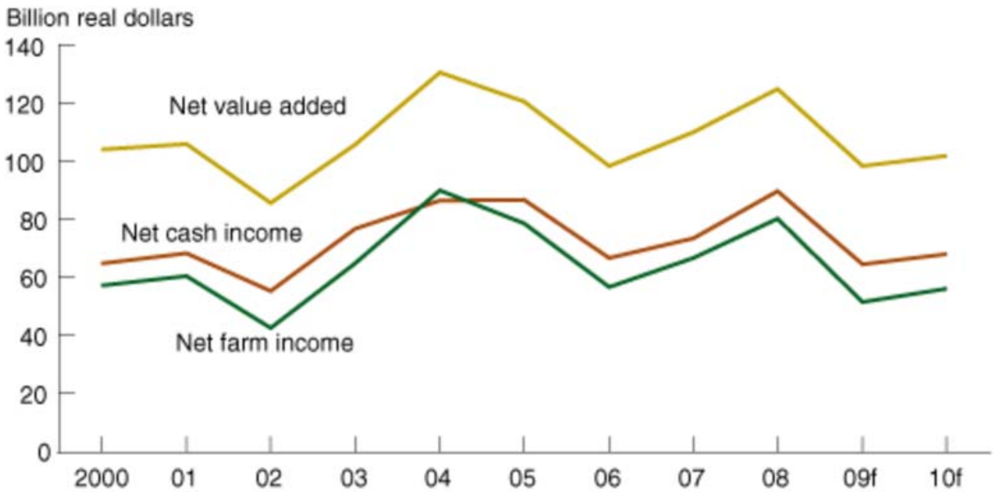
Unlike livestock producers, crop producers are not expected to see much, if any, improvement. The value of crop production is expected to fall $4.3 billion in 2010, led by a $2.5-billion decrease in wheat sales. Declines in the value of crop production reflect expected lower prices combined with stable or slight declines in quantities sold. Average annual net cash income of crop farms is expected to fall in 2010, with the largest average decline ($11,800) expected for corn farms.

Direct U.S. government payments to the U.S. farm sector—going primarily to crop producers—are expected to drop by $0.5 billion in 2010 reflecting somewhat stronger cotton and milk prices and changes in marketing assistance loans for the 2010-12 crop years.

Higher Farm Income Will Offset Increased Production Expenses

The expected increase of $7.4 billion in 2010 gross farm income (the value of production, and revenues from services, forestry, and direct government payments) will exceed the forecast increase of $0.7 billion in total farm production expenditures. Purchased inputs, the largest category of farm production expenditures, are expected to remain stable as declines in feed and fertilizer costs are offset by higher costs for fuels and oil, livestock and poultry, and pesticides. The index of annual prices paid for production items, interest, taxes, and wage rates is forecast to rise around 1 percent in 2010, while total output of crops and livestock is expected to decline about the same amount.

Net value added, net farm income, and net cash income expected to rise in 2010



f = forecast. Base year 2005. GDP chain-weighted deflator.
Source: USDA, Economic Research Service.

This finding is drawn from . . .
ERS Briefing Room on Farm Income and Costs.
You may also be interested in. . .
USDA Agricultural Projections to 2019.

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