| United States Department of Agriculture |

Farm Income Expected To Decline in 2009

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Over the last several years, the U.S. agricultural sector has enjoyed economic prosperity not seen since the 1970s. Robust world economic growth stimulated food demand, biofuels emerged as a major alternative use for corn and soybean production, and the reduced value of the U.S. dollar helped expand exports to record levels.
But, the U.S. farm economy took a sharp downturn toward the end of 2008. Commodity prices dropped while input costs continued to rise. And a continuing global economic slowdown disrupted credit and commodity markets. The key question is, how much will farm earnings drop from the record levels set in 2008?
Based on USDA's early forecast, after 7 consecutive years of increases, U.S. cash receipts from crops are expected to drop by 10 percent from the record level reached in 2008. But at $162.4 billion, crop receipts in 2009 would still reflect the second highest level ever attained. Most of the decline is expected to come from corn and wheat sales, but nearly all crop commodities are forecast to have lower receipts in 2009.

Livestock receipts are forecast to drop nearly 8 percent from the record amounts received in 2008, but the 2009 total would still stand as the third highest in history.
Milk and dairy product receipts are driving the decline, with dairy receipts dropping 35 percent below the record levels received in 2007 and 2008. Hog, cattle, and broiler receipts are forecast to increase in 2009.
After registering one of the largest annual increases in 2008, U.S. farm production expenses are forecast to decline in 2009 but would still be 9 percent higher than they were in 2007. Most of the reduction stems from lower energy prices forecast for 2009, reducing farm expenses on fuels, oils, and fertilizer. Feed is the other major expense component expected to decline substantially in 2009, reflecting lower crop prices.
Even though most expense items are expected to fall in 2009, the ratio of cash expenses to gross cash income is forecast to increase in 2009. Operating margins will be the tightest of the decade, with 76 cents of each dollar of cash income used to pay operating costs.
As a result of these developments, the 2009 outlook for all three measures of farm sector income—net value added, net farm income, and net cash income—is down. Net

value added, a measure of agriculture's contribution to the U.S. economy's production of goods and services, is forecast to fall nearly 13 percent from the historic high reached in 2008, but will still be the fifth highest on record. At $71.2 billion and $77.3 billion, respectively, both net farm income and net cash income are expected to be well below the record levels for 2008, but well above the average levels for the last 10 years.

Despite the economic downturn, the U.S. farm sector's balance sheet is expected to remain sound in 2009. The value of farm real estate, which represents more than 85 percent of total farm assets, is projected to increase by 2 percent in 2009. Farm debt is forecast to increase for the sixth consecutive year, driven by the need for credit to finance real estate purchases. Nonetheless, the rise in debt is expected to be less than the rate of increase in total assets, leaving the sector's debt-to-asset ratio the lowest level on record.

This finding is drawn from . . .
ERS Briefing Room on Farm Income and Costs.

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