Latest Indicators Point to Continued Strength of Farm Finances

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Over the last two decades, U.S. farm net cash income (earnings generated by production activities that are available to pay debts and household living expenses) largely has been increasing, as evidenced by net cash income generally exceeding its 10-year moving average. In 2007, even though farm expenses are up, government payments to farms are down, and some isolated regions are experiencing drought, net cash income is forecast at $85.9 billion, up $18 billion from 2006 and $20.5 billion from its 10-year average. The recently released (August 30, 2007) estimate of farm income for 2006 and the forecast for 2007 are the first estimates based on farm-reported data for 2006 receipts and expenses. Perhaps even more notable than the sector’s strong income performance has been the continued increase in farm sector equity and the record-low debt-to-asset ratio. Farm equity has increased in real terms for 16

consecutive years. Growth in farm asset and debt values reflects farm investors' and lenders' expectations about long-term profitability of farm sector investments.
Farmland and building values of the farm sector—about 85 percent of farm asset values--are expected to rise by nearly 13.7 percent in 2007. This solid growth in farm real estate asset values is largely due to favorable returns to farm assets over much of the period. In addition, nonfarm demand for farmland for recreation and nonfarm development will continue to exert upward pressure on U.S. farmland values, especially in urban and urbanizing areas.
By itself, net income of the farm sector or of farm businesses is not an indicator of the well-being of farm operator households because other stakeholders in farming, such as landlords and contractors, also receive some of the returns of net farm income. In addition, besides farm investments, farm operator households may depend on nonfarm investments, jobs, businesses, and other links to the nonfarm economy that are separate from their farming interests. Moreover, farm household well-being may be affected by other factors, such as health insurance coverage, that are not relevant in a business sense.
The average farm operator household income from farm and off-farm sources, in 2006 was $86,694. This is 20 percent greater than the average income of the general U.S. population; average farm operator household income has exceeded the average of all U.S. households for more than a decade.
Because the majority of farms are small rural residences, but the majority of production is on large farms, it is meaningful to consider the financial position of farm operator households by the size of the farm they operate. Commercial farm households (the largest 8 percent of family farms) rely more on farm income than other farm households. Their household incomes are projected to average over $200,000 in 2007, compared with $60,029 for intermediate farms and $83,105 for rural residence farms.
For the first time, ERS has developed an estimate of the share of farm operator household members who do not have health insurance. In the past, many economists speculated that the uninsured would account for a large share of the farm population because farmers are self-employed, although most also have off-farm work. In fact, 13.8 percent of persons in farm operator households were uninsured in 2006. This compares with 15.8 percent of the general U.S. population.

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