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21st Century Rural America: New Horizons for U.S. Agriculture

Kenneth Auer

Agricultural and Rural Finance Markets in Transition

Proceedings of Regional Research Committee NC-1014

Washington, DC

October 2-3, 2006

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21st Century Rural America:
New Horizons for U.S. Agriculture



About Farm Credit

Farm Credit Is One of Three GSEs Serving Agriculture

The Farm Credit System

Federal Agricultural Mortgage Corporation

Federal Home Loan Bank System



About Farm Credit

The Farm Credit System Today

101 Institutions

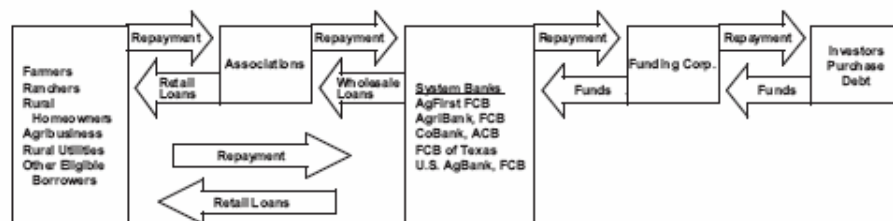
Five Banks

96 Associations

Regulated by The Farm Credit Administration



About Farm Credit



About Farm Credit

Farm Credit Is Financially Strong

\$112 billion in loans

\$23.5 billion in capital

\$2.1 billion net income in 2005



About Farm Credit

**Established by Federal Farm Loan Act Signed
by President Woodrow Wilson in 1916**



About Farm Credit

Authority and Mission has not been static:

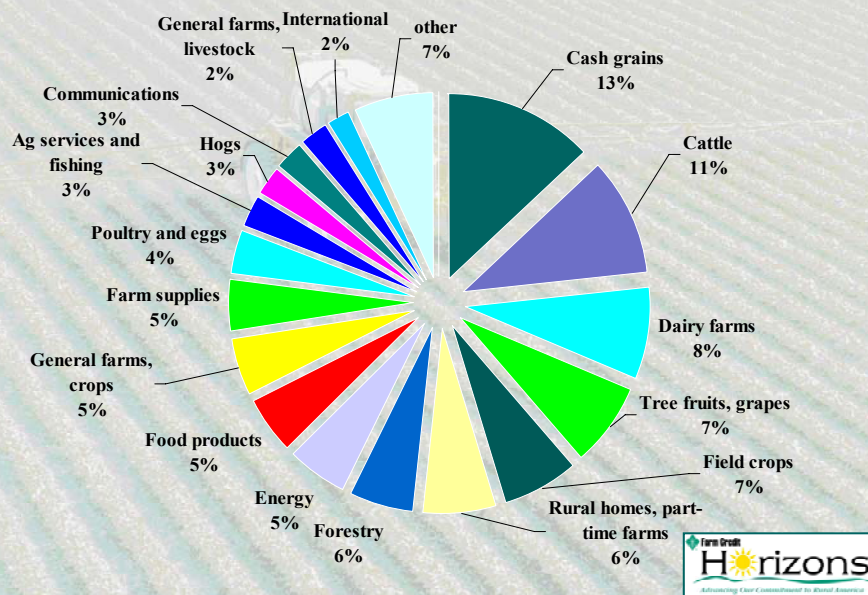
TODAY --

To provide sound and dependable credit to all types of farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses that have a basis for credit.

Loans for purchase of rural homes; to finance rural communications, energy and water infrastructures; to support agricultural exports; and to finance other eligible entities.



About Farm Credit





Comprehensive, forward looking strategic planning effort

Started April, 2004

Combined effort by Farm Credit Directors and Management



HORIZONS Project Research:

- **Surveys of Farm Credit System associations and banks**
- **Academic research papers on agriculture, the food industry, and rural and agricultural finance**
- **Secondary studies compiled by government agencies and trade associations**
- **Local, regional and national meetings with various farm and rural groups**



HORIZONS Findings:

- Eight key findings about the future of agriculture and rural America
- Findings demonstrate the need for policy solutions that will help farmers, rural businesses and rural communities succeed in the emerging marketplace.
- Project identifies how incremental changes to the Farm Credit System can free up additional capital to help agriculture while maintaining the System's historic mission



KEY FINDINGS

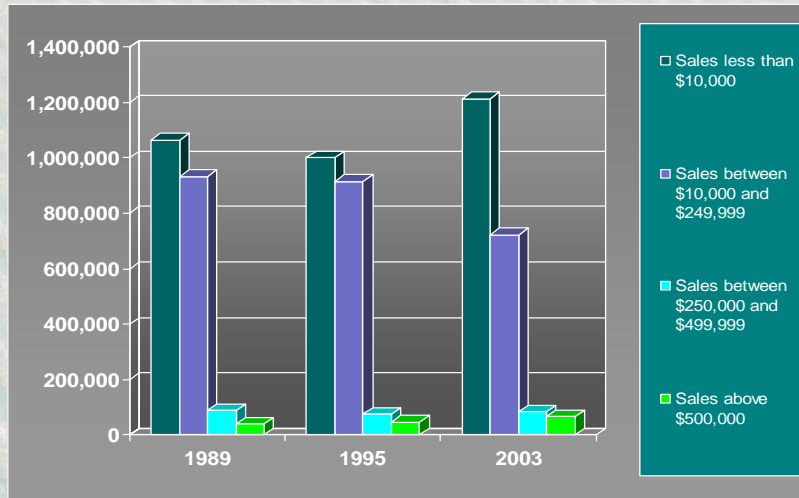
From the HORIZONS Final Report

1. American farmers are not a homogenous group:

- There is tremendous diversity in farm size, annual revenue, ownership structure and marketing approaches.
- To a lesser extent, we see an emerging diversity in the age, ethnicity and gender of owners and operators.
- An overwhelming majority of small-scale farms dominate the rural landscape and a relatively small number of large-scale farms dominate the food and fiber production system.



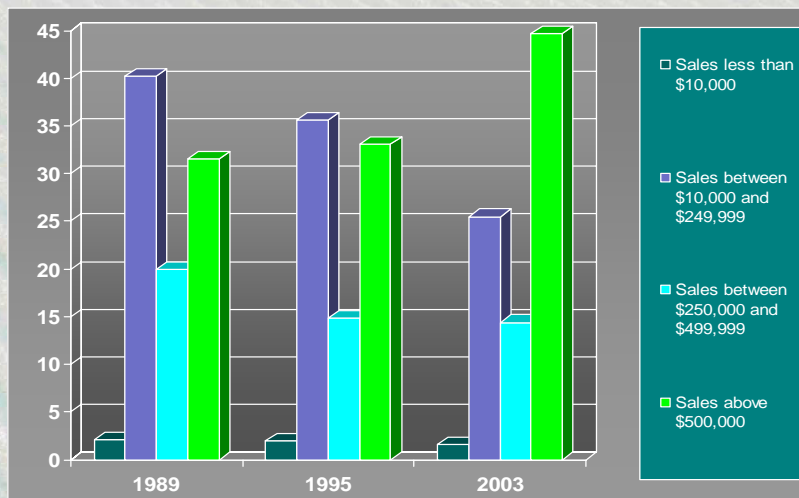
Number of Farms by Sales Class



Source: USDA Economic Research Service



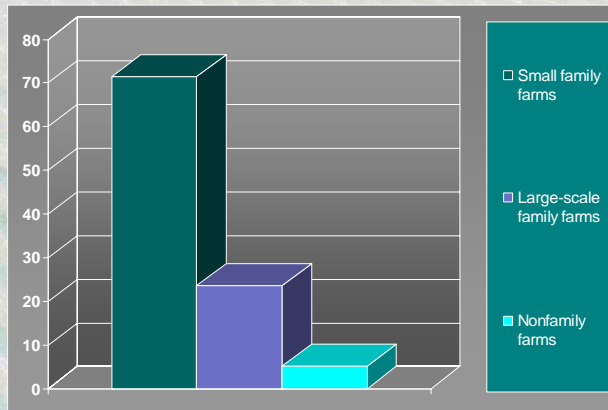
Distribution of Value of Production by Sales Class



Source: USDA Economic Research Service



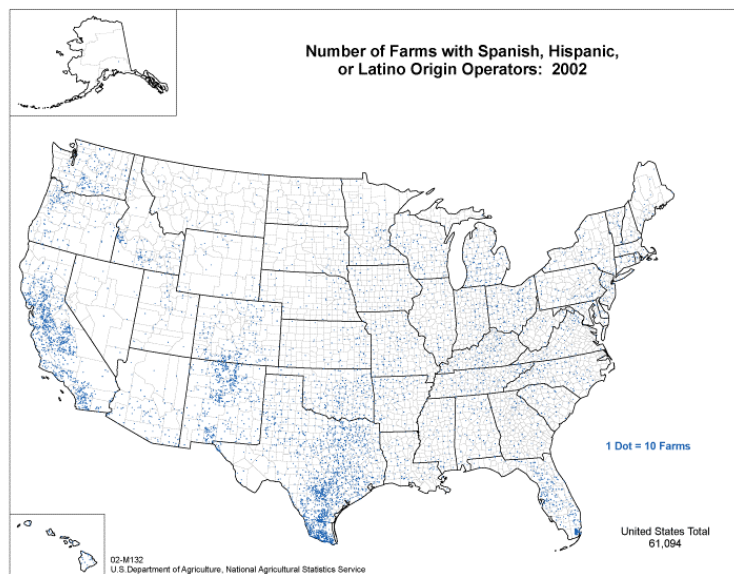
Ownership of Farm Assets



Source: USDA Economic Research Service

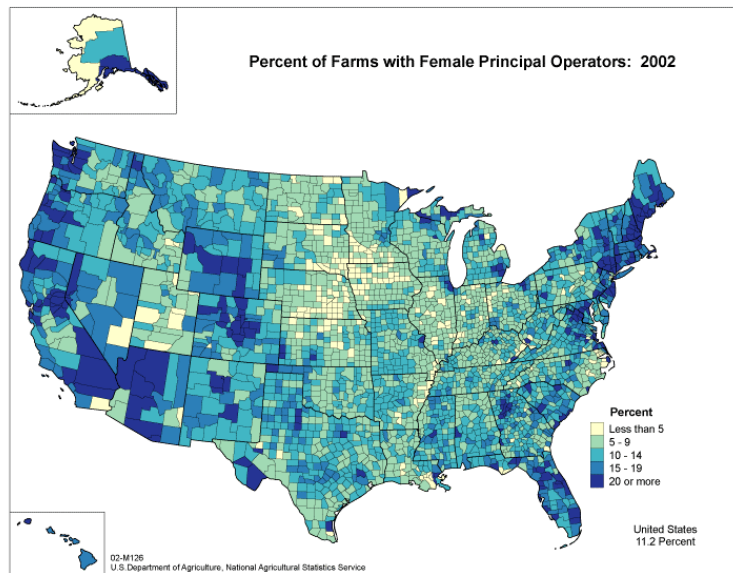


1982 -- 16,183 operators 2002 -- 61,094 operators



1982 -- 121,599

2002 -- 237,819



KEY FINDINGS

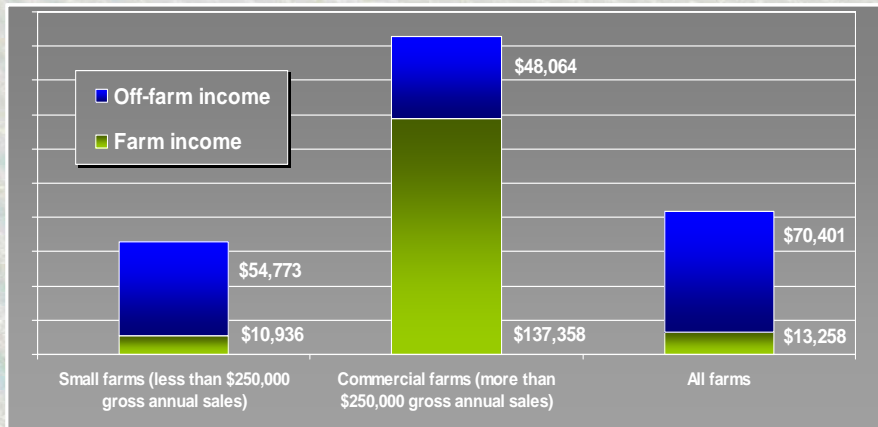
From the **HORIZONS** Final Report

2. A small number of farming-only businesses remain in today's agriculture:

- The overwhelming majority of all farmers, but especially small operators, rely on off-farm employment to stay in agriculture.
- Even large operators diversify their income as a risk management strategy through agriculturally related and non-farm investments.



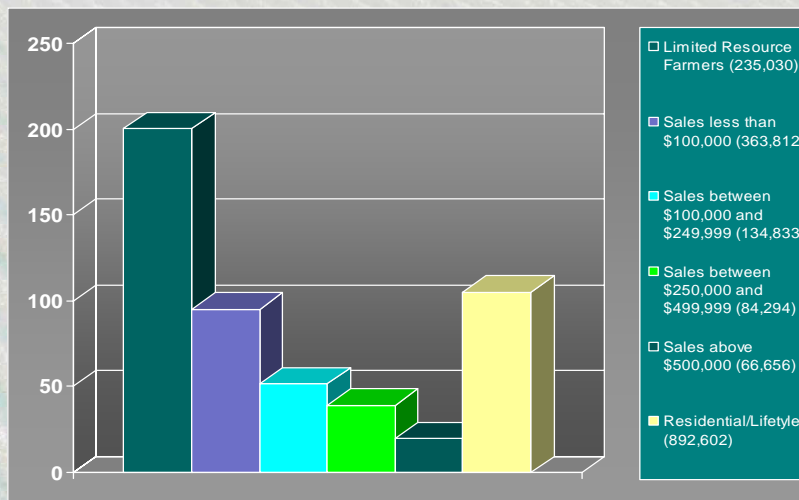
Average Income of Farm Households for 2005



Source: USDA Economic Research Service



Percentage of Income from Off-farm Sources



Source: USDA Economic Research Service



KEY FINDINGS

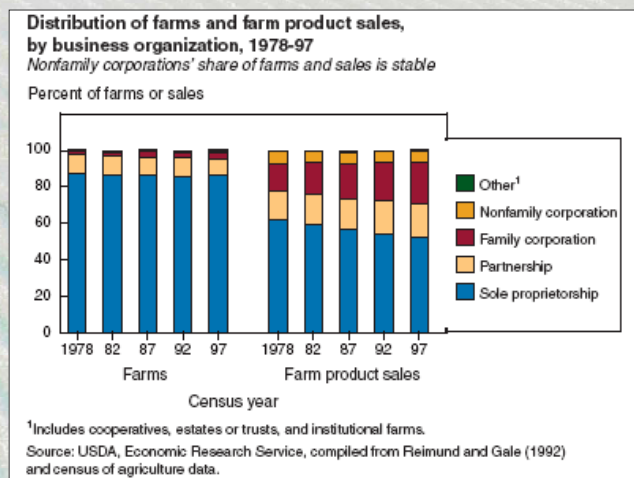
From the HORIZONS Final Report

3. The business models and farmer ownership structures of the businesses on which farmers rely continue to evolve and adapt:

- Farmers depend on a wide range of businesses for products, services, marketing and processing directly and indirectly related to their farming operations.
- These businesses may or may not be owned by farmers or located in a rural community, but they are essential to agriculture.



Farm Product Sales by Business Organization



KEY FINDINGS

From the HORIZONS Final Report

4. While the number of farmers, agriculturally related jobs and industries, and agriculturally dependent communities has declined, the future of U.S. agriculture remains bright:

- New small and niche agricultural enterprises have injected local communities with new vitality.
- Other advances have resulted in agriculture becoming an increasing source of energy production, feedstock for industry and medicine, and other value-added products.



New Enterprises: Ethanol

- 2003/04: 1.2 billion bushels of 10.1-billion-bushel U.S. corn crop used for ethanol
- Up 23 percent from 2002/03
- 2002/03 up 36 percent from 2001/02

VOLUME 3 • ISSUE 2	<p>FINDINGS</p> <p>Ethyl Alcohol Becomes a Global Commodity</p> <p>Ethyl alcohol can be made from any commodity containing starch or sugar, including sorghum, barley, grasses, and even paper. The U.S. Postal Service has investigated converting undeliverable mail to ethyl alcohol. Corn is the primary commodity used in the U.S. however, because, in this country, it is the least costly way to generate starch. In 2003/04, 1.2 billion bushels of the 10.1-billion-bushel corn crop was used to produce ethyl alcohol, up 23 percent from 2002/03, which itself was a 36-percent rise from 2001/02.</p> <p>Why the increase in ethyl alcohol pro-</p>	<p>MARKETS AND TRADE</p>  <p><small>Darryl Elser/Darryl Elser Photography</small></p> <p>effectively reduces the price consumers pay for ethanol. In addition, the requirements of the Clean Air Act amendments have prompted some States, including California, Connecticut, and New York, to switch to using ethanol as an oxygenate in gasoline.</p> <p>Among the largest suppliers are the countries of the Caribbean Basin Initiative, which are exempted from duties on any ethanol produced from regional feed stocks to stimulate economic growth in this region. Another large supplier is Saudi Arabia, which</p>
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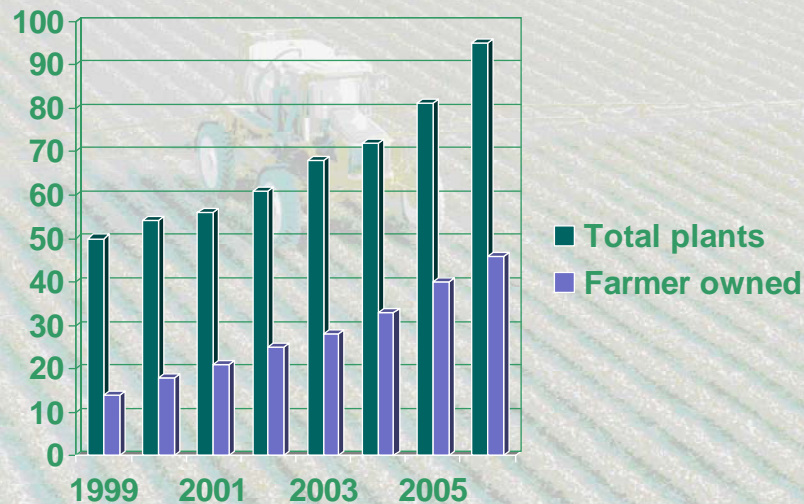
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FINDINGS	MARKETS AND TRADE
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Ethanol Plant Numbers



Source: Renewable Fuels Association



KEY FINDINGS

From the HORIZONS Final Report

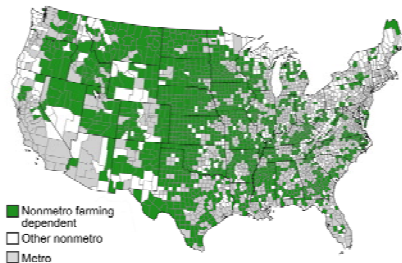
5. Some rural areas retain few ties to agriculture. Conversely, more agriculture and related businesses are located in suburban areas and near metropolitan centers:

- It is becoming increasingly difficult to define a “rural” community solely by population.
- Rural communities continue to grow if they are near growing urban areas, regional economic centers, scenic resources, or are attractive retirement destinations.

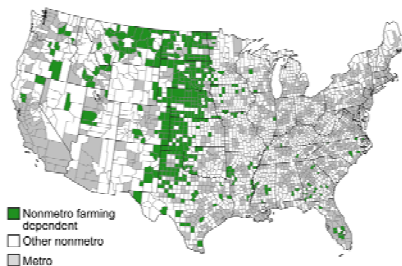


Figure 1. Farming-Dependent Counties in 1950 and 2000

Nonmetro farming-dependent counties, 1950



Nonmetro farming-dependent counties, 2000



Source: Farming dependent counties are defined by ERS. Metro/nonmetro status is based on the Office of Management and Budget (OMB) June 2003 classification.



1982 -- 121,599

2002 -- 237,819

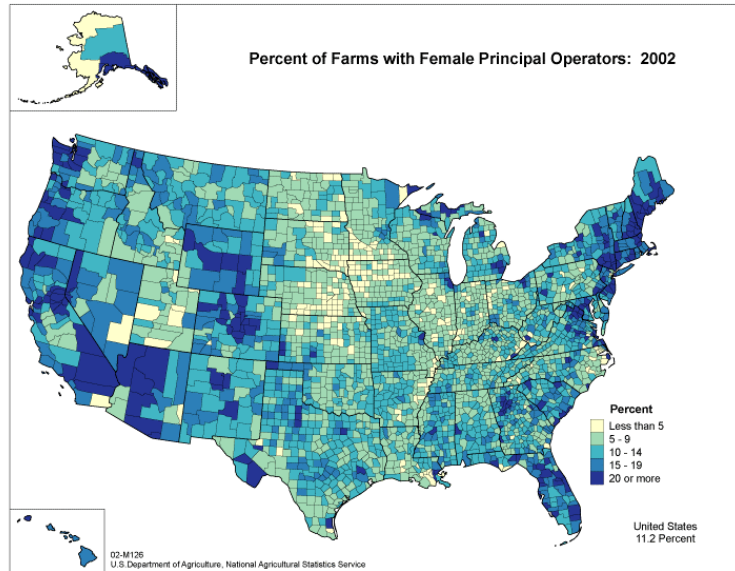
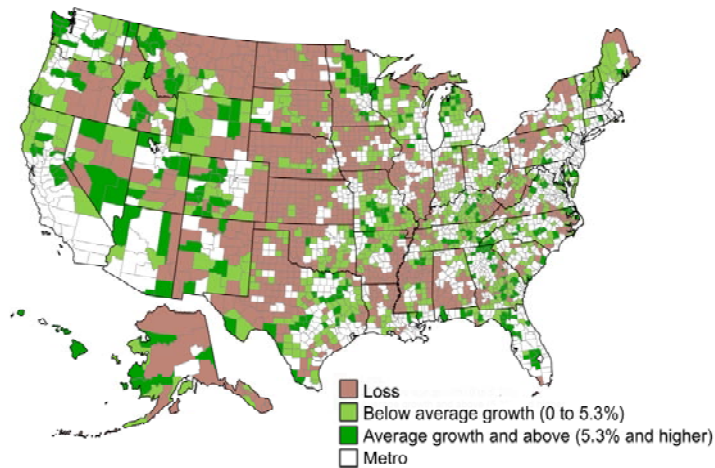


Figure 3. Nonmetro Population Change, 2000-05



Source: Prepared by ERS using Census Bureau 2005 population estimates.

“Even in farming-dependent counties, payments to farms are less than one-fifth of all Federal assistance in those counties.”

2006 GAO report found that while USDA had the most programs providing economic development assistance to rural areas, the U.S. Department of Transportation provided the largest amount of assistance.



KEY FINDINGS

From the **HORIZONS** Final Report

6. Regional collaboration, public-private partnerships and coalitions of investors are key to the future of many rural communities:

- **To create new jobs and attract new business, agriculture and rural America must find new ways to reinvest farm real estate equity and to form new partnerships.**



KEY FINDINGS

From the HORIZONS Final Report

7. Entrepreneurs remain the lifeblood of American agriculture:

- As skilled, experienced and innovative business owners, today's rural entrepreneurs, farmers and ranchers continue to need access to capital, essential infrastructure, and business support services.



KEY FINDINGS

From the HORIZONS Final Report

8. Ongoing access to debt and equity capital is paramount to the future prosperity of U.S. agriculture and rural America:

- The specialized financial needs of U.S. agriculture and rural America are as great as ever.
- The diverse farms, rural businesses and rural communities of the 21st Century need access to dependable, flexible and competitive financial products and services.



- **Access to a dedicated, specialized lender to meet complete credit needs**
- **Businesses on which farmers depend require ongoing access to reliable, flexible financial products**
- **Investors and business partners to fuel growth in rural America and agriculture**
- **Access to full-service residential mortgage products and ability to leverage real estate equity**



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