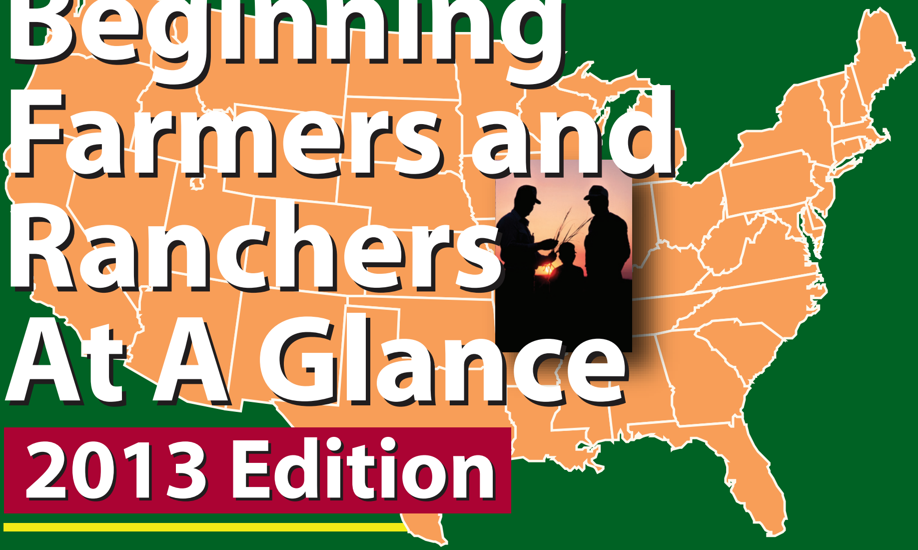
Beginning Farmers and Ranchers At A Glance

2013 Edition



A farm or ranch is considered a beginning farm/ranch if the operators have managed a farm or ranch for 10 years or less (see box, "Definitions"). In 2011, beginning farms or ranches accounted for 22 percent of the Nation's 2 million family farms, 10 percent of the value of agricultural production by family farms, and 11 percent of the acres operated by family farms, according to USDA's Agricultural Resource Management Survey (ARMS). Some 98 percent of all U.S. farms are defined by USDA as family farms—that is, the majority of farm assets are owned by the principal operator and his or her extended family. USDA programs have targeted assistance to beginning farmers and ranchers since the 1992 Agricultural Credit Improvement Act, and subsequent farm legislation has supported and extended such assistance.

Beginning Farms and Ranches Have Been Declining for at Least Two Decades

The Censuses of Agriculture offer trend data based on principal operators—those responsible for most of the day-to-day farming decisions—with less than 10 years of experience farming their current farm (see data section at end of report). In 1982, 38 percent of principal farm operators had less than 10 years of experience farming, compared with 26 percent of principal farm operators in the latest Census of Agriculture, conducted for 2007 by USDA's National Agricultural Statistics Service.

Share of beginning farmers has been declining

Note: Census data are based on the experience of the principal farm operator only.
Source: USDA, National Agricultural Statistics Service, Census of Agriculture, 1982-2007.

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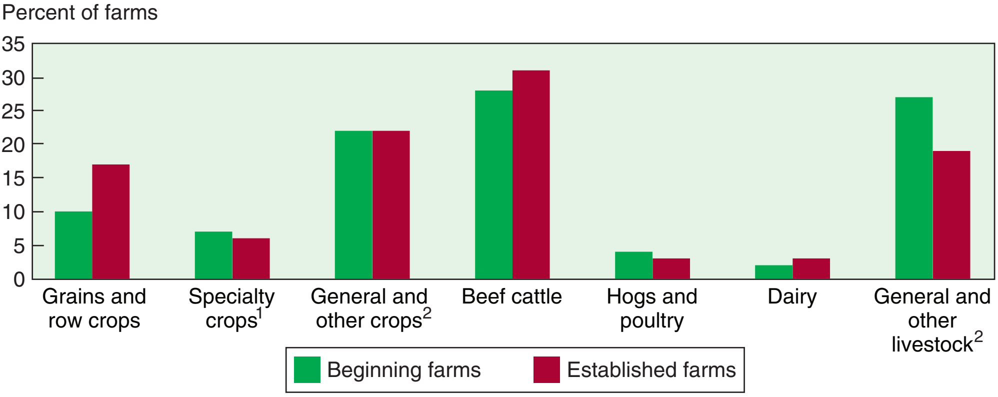
Consistent with the declining percentages of beginning farmers and ranchers during the 1982-2007 period, the share of young operators was also declining (Ahearn and Newton, 2009). In 1982, 16 percent of all principal operators were under 35 years old; by 2007, only 5 percent were under 35 years old. The average age of principal operators of beginning farms in 2011 was 49, compared with 60 for established farms. Even so, only 14 percent of principal operators of beginning farms were under 35 years old. Nearly half of all beginning farmers (49 percent) were 35 to 49 years old, 25 percent were 50-64 years old, and 12 percent were 65 years or older. Most principal operators are men, whether beginning or established, but beginning farms are more likely than established farms to have a principal operator who is a woman (12 percent versus 10 percent).

Beginners Less Likely To Specialize

Beginning farms are more likely to be general livestock farms and less likely to specialize in grains and row crops or dairy than established farms. For both types of farms, the most common specialty is beef cattle, but fewer beginning farmers than established farmers specialize in raising cattle.

Beginning farms are less likely to specialize in grains and row crops than established farms



[1]Fruits, tree nuts, vegetable, greenhouse, and nursery crops.
[2]General crop and livestock farms are those where no single commodity accounts for 50 percent of the total value of production.
Source: USDA, National Agricultural Statistics Service and Economic Research Service, Agricultural Resource Management Survey, 2011.

A significant share of U.S. farms produces no agricultural commodities for sale in a typical year. In 2011, 30 percent of beginning farms and 25 percent of established farms did not produce any marketable agricultural commodities. This is largely because most farmers operate small farms, earn significant off-farm income, and/or are elderly. Their property is still defined as a farm, which is any place from which $1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the year (see box, “Definitions”).

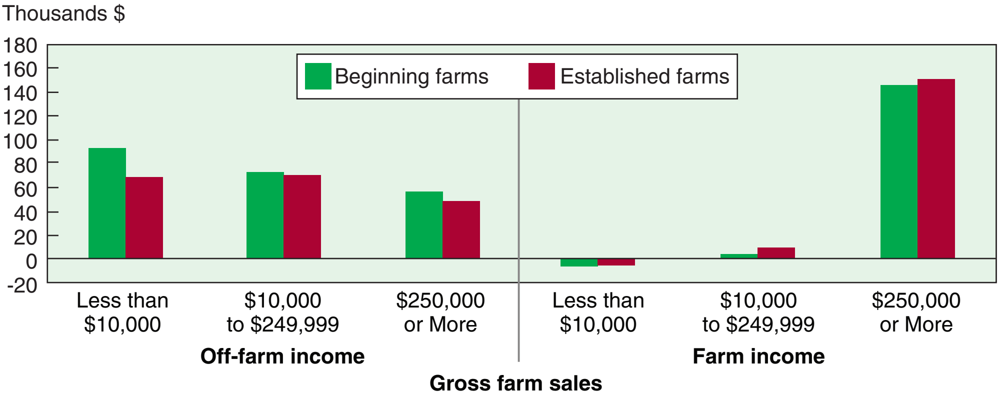
Both beginning and established farms use a variety of ways to market their products. In recent years, about 10-12 percent of all farms used marketing or production contracts to market their commodities. How products are commonly marketed depends, in part, on what is produced. For example, production contracts are common in poultry and hog production, and marketing contracts are common for many crops, such as sugar beets, peanuts, and some fruits and vegetables. Of farms with positive values of production in 2011, 2 percent of beginning farms used production contracts compared with 3 percent of established farms, and beginning farms also were less likely to use marketing contracts (9 and 14 percent, respectively, in 2011).

Of farms with positive values of production in 2010, 19 percent of beginning farms and 15 percent of established farms sold products directly to individual consumers (for consumption) or to intermediaries who sell directly to individuals (e.g., at a restaurant or grocery store). These beginning farms are more likely than established farms to be engaged in direct sales, such as at farmers’ markets (18 percent and 13 percent in 2010), and fewer than 3 percent of beginning farms sold to local retail intermediaries in 2009-10. Beginning farms that sold directly to consumers, rather than to local retail intermediaries, were less likely than other beginning farms to make a profit.

Households Receive Most of Their Income From Off-Farm Sources

For decades, most farm households—whether beginning or established—received a majority of their household income from off-farm sources. On average, off-farm income accounted for 83 percent of farm operator household cash income in 2011. Most farm families operating small farms have negative net farm income (after depreciation)—that is, in a typical year, they lose money farming. The average farm income of beginning farm households is less than that for established farm households ($1,902 versus $18,119 in 2011), but their households had higher average off-farm incomes than established farm households ($89,015 versus $68,172). Beginning farm households received less farm income and more off-farm income than established farms regardless of farm size.

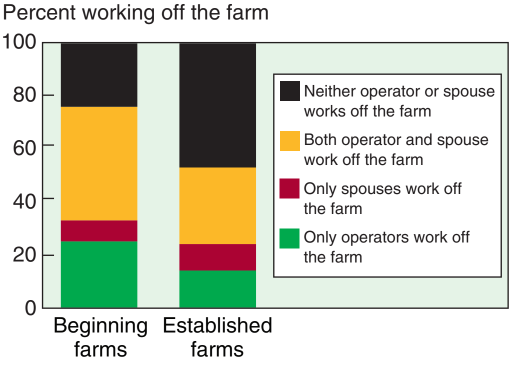
Households operating beginning farms have higher average off-farm income and lower average farm income at every farm size



Note: Households of principal operators only.
Source: USDA, National Agricultural Statistics Service and Economic Research Service, Agricultural Resource Management Survey, 2011.

Principal operators provide a majority of the farm labor—operators of beginning farms worked an average of 1,071 hours per year on their farms in 2011, while operators of established farms worked 1,344 hours. On average, spouses on established farms also contributed more hours of farm work per year (369 in 2011) than those on beginning farms (320 hours). However, while farm families tended to provide fewer total hours on beginning farms, they provided a larger share of the total farm labor hours (87 percent) in 2011, compared with established farms (72 percent). Beginning farms are smaller, on average, than established farms, and larger farms are more likely to hire labor to meet their greater labor requirements.

Households operating beginning farms work more off the farm, less on the farm



Source: USDA, National Agricultural Statistics Service and Economic Research Service, Agricultural Resource Management Survey, 2011.

Operators and spouses on beginning farms are more likely to work at off-farm jobs and businesses, and operators of beginning farms are more likely to have a college degree than established farm operators (30 percent compared with 23 percent in 2011). Off-farm income can enable beginning farmers and spouses to meet living expenses and/or expand farm operations if their long-term goal is to farm full time.

Family farm households allocate a disproportionately large share of their time to farming compared with the share of income they receive from farming. This is because returns from farming transcend cash income. For example, the farm often provides tax advantages and long-term capital gains from farmland appreciation. During the last decade, the average annual rate of return to farm assets (a measure of profitability) was 2.1 percent and, when real capital gains are considered, the return was 6.6 percent. Additional returns from farming include onfarm housing and enhanced quality of life.

The Challenge of Acquiring Capital and Land

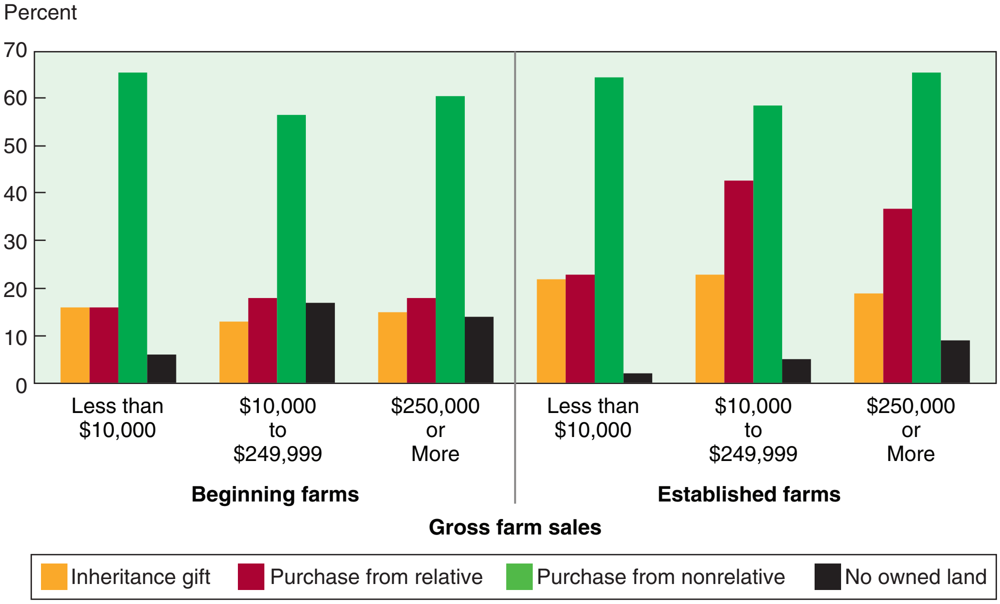
Beginning farmers often report that their biggest challenge in getting started in farming is access to enough capital and farmland to operate at a size capable of earning a sufficient profit (Shute, 2011). The average beginning farm was 200 acres in 2011, compared with 434 acres for established farms. Not surprisingly, the households of beginning farm operators also have lower farm and nonfarm net worth than the households of established farms. The majority of beginning farms include some owned land, but a higher share of beginning farms than established farms have only rented land. The most common way for U.S. farmers to have acquired "owned land" for their operation is to have purchased it from a nonrelative. This is true for both beginning and established farms. Established farms at all size classes, however, are more likely than beginning farms to have inherited or purchased their owned land from relatives.

The challenges of acquiring land in today's market have likely been exacerbated by the prolonged rise in farm real estate values. The per-acre value of farm real estate in 2012 averaged $2,650, up 10.9 percent from 2011, although there was considerable variation across the Nation (USDA/NASS, 2012). The Northern Plains experienced the largest 2011-12 increase in farm real estate value, at 26.7 percent. The highest State-level real estate values were for some of the Northeastern States, where four States had averages exceeding $10,000 per acre. The Corn Belt region as a whole had the highest average regional value of $5,560 per acre.

Not only should a beginning farmer expect to have low returns in the startup phase, but even established farms must be of a significant size before they are likely to earn positive returns. For example, when size is measured by the gross value of production, it is not until farms are in the $25,000-$30,000 range that the majority of farms have positive net cash returns. Less than one-quarter of beginning farms exceed $25,000 in gross value of production. And the average farm asset base for farms with $25,000 to $30,000 in value of production is over $800,000.

A useful indicator of the ability of a farm to expand by borrowing capital is its debt repayment capacity utilization (DRCU). DRCU is calculated as the ratio of current farm debt relative to the maximum feasible farm debt supportable out of farm income (assuming a 6.0-percent interest rate and a 7-year term). Since it considers only the farm income available to support debt, a DRCU exceeding 100 percent indicates that debt payments must be made by drawing on additional sources, such as off-farm income or household/farm assets. Twenty-three percent of beginning farms had a DRCU exceeding 100 percent in 2011, compared with 13 percent of established farms. The average DRCU of beginning farms in 2011 was 50 percent, compared with 28 percent for established farms.

Most common method of land acquisition is from a nonrelative, but established farms of all sizes are more likely to inherit land or purchase it from a relative



Source: USDA, National Agricultural Statistics Service and Economic Research Service, Agricultural Resource Management Survey, 2010.

Government Support of Beginning Farmers

Historically, Government farm programs have targeted specific crops, conservation goals, and disaster relief. But, since 1992, USDA has provided targeted support to beginning farmers and ranchers. Consistent with their production choices, beginning farms are less likely than established farms to participate in Government direct-payment programs, many of which are focused on cash grain production. (Direct payments include those made to farm operators under commodity, conservation, and disaster programs, but exclude loans.) While they represented 22 percent of all farms, beginning farms accounted for only 14 percent of all farms that received Government payments in 2011 and received only 9 percent of all payments that year. Beginning farms are less likely than their established counterparts to participate in Federal crop insurance programs as well; while they accounted for nearly 11 percent of land in farms, they operated only 7 percent of the acres enrolled in crop insurance (USDA, 2011 ARMS).

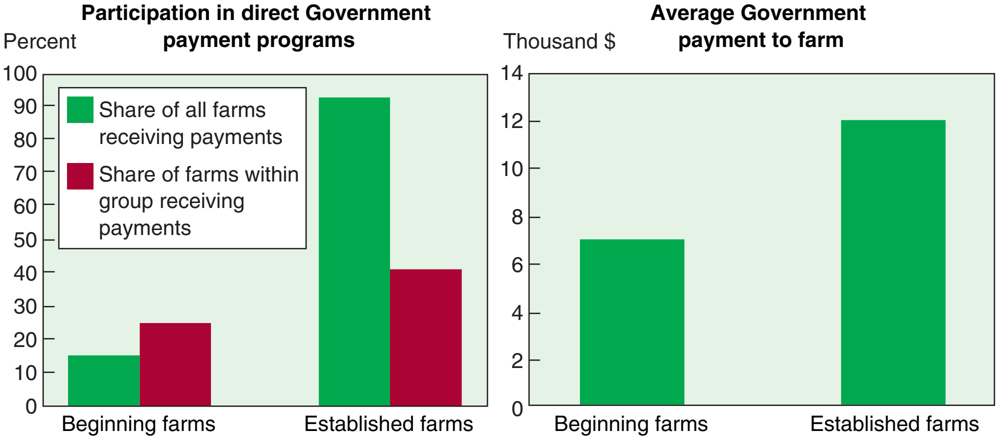
Beginning farmers and ranchers avail themselves of other farm programs. In fiscal year (FY) 2012 (October 1, 2011 to September 30, 2012), USDA's Farm Service Agency (FSA) made 13,384 direct loans to beginning farmers for a total of $1.1 billion in obligations (almost two-thirds of FSA's total direct loan obligations that year). FSA guaranteed another 2,659 loans to beginning farmers for a total of $639 million, representing 33 percent of FSA's guaranteed loan count and 26 percent of FSA-guaranteed loan obligations in FY 2011. The two programs combined made 50 percent of their loans in FY 2011 and 42 percent of their loan obligations to beginning farmers. In January 2013, FSA announced a microloan program for beginning and small farmers to allow them to borrow small amounts, up to $35,000, for operating loans.

In calendar year 2011, the Farm Credit System (FCS), an independent system of cooperative lenders, made 61,995 loans to beginning farmers, totaling $9.6 billion. These loans represented 19 percent of total FCS farm loans made and 14 percent of total new FCS farm loan volume in 2011.

The 2008 Farm Act authorized $25 million for USDA to establish a Transition Incentive Program (TIP) to encourage enrolled Conservation Reserve Program (CRP) participants to transfer land coming back into production to beginning (and socially disadvantaged) farmers and ranchers engaged in sustainable practices. Enrolled CRP participants must be retired (or farmers or ranchers retiring within 1 year of CRP contract expiration) and are then eligible to receive an additional 2 years of CRP rental payments under TIP. To date, $22.7 million has been allocated. CRP-TIP has 1,719 contracts enrolled or pending enrollment, covering 275,608 acres of land in 26 States.

The 2008 Farm Act also provided for management training programs that target beginning farmers and ranchers. From 2009 to 2012, 145 awards in 46 States, the District of Columbia, and the Virgin Islands were made to training organizations, totaling $70 million.

Beginning farms are less likely to participate in Government direct payment programs, and when they do, average payments are less



Source: USDA, National Agricultural Statistics Service and Economic Research Service, Agricultural Resource Management Survey, 2011.

Looking to the Future

Beginning farms are experiencing success in a variety of ways, and no one pathway to success is dominant as beginning farmers seek to find their niche. There is some evidence that younger beginning farmers experience higher returns, on average, and are less likely to experience negative returns than older farmers. To the extent that this is true, this is encouraging for the future of U.S. agriculture, since beginning farmers are more likely to be in younger age groups.

Data Sources

The two national sources of data on the beginning-farmer population are the Agricultural Resource Management Survey (ARMS), conducted by USDA's Economic Research Service and National Agricultural Statistics Service, and the Census of Agriculture, conducted every 5 years by NASS (USDA/ERS; USDA/NASS, 2009). See Ahearn and Newton (2009) for a detailed explanation of how these data differ. In the ARMS, the work experience of up to three operators farming their current or other farms is considered. Some farmers have 10 years or less of farming experience and operate a farm jointly with experienced operators; they are not considered beginning farmers and ranchers in this analysis when data on multiple farm operators are available. Of all operators with 10 years or less of farming experience, fewer than 10 percent are jointly operating a farm with an experienced operator.

Data about USDA farm support programs and FCS loans come from several agencies, including:

- Farm Service Agency (FSA). It is estimated that 37 percent of FSA loan guarantees are for Farm Credit System (FCS) loans, so there is some overlap in the FCS loans and FSA loan guarantees reported here. FSA is also a source of data on the Conservation Reserve Program-Transition Incentive Program (CRP-TIP).
- National Institute of Food and Agriculture (NIFA). It provides data on beginning farmer training grants.
- Farm Credit Administration (FCA). Data on FCS lending to beginning farms and ranches are administrative data supplied by FCA. A beginning-farmer loan, as reported by FCA, is a loan made to a farm or ranch where at least one operator has 10 or less years of experience in farming.

Definitions

Farm—Any place from which $1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the year.

Principal operator—The farm operator identified by a survey respondent as being the major day-to-day decision-maker for the farm business. Personal characteristics are reported for the principal operator.

Family farm—The majority of farm assets are owned by the principal operator and his or her extended family. Ninety-seven to 98 percent of U.S. farms are defined as family farms; only 2 to 3 percent are not family farms.

Beginning farm/ranch—All operators have 10 years or less of farming experience.

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ERS Website and Contact Person

Information on beginning farmers and ranchers can be found on the ERS website at **http://www.ers.usda.gov/topics/farm-economy/beginning-disadvantaged-farmers.aspx**. For more information, contact **Mary Ahearn** at **mahearn@ers.usda.gov** or **202-694-5583**.

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