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Outlook for the 2013 U.S. Farm Economy

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2013 USDA Ag Outlook Forum



Highlights

Net farm income in 2013 forecast: **\$128.2 billion**

Net cash income in 2013 forecast: **\$123.5 billion**

excludes depreciation, change in inventory values, and nonmoney income

Farm financial risk indicators continue at historically low levels.

2013 Forecast

2013 farm income is forecast based off of 2012, which is also a forecast

2012 forecast does not account for producer responses to 2012 drought

In the next forecast (August 2013), 2012 will become an estimate

The February 2013 forecast is based on the most recent forecasts of

- Commodity demand
- Crop and livestock inventories
- Acres planted, yields, and production
- Input use and costs

AND is different from the USDA long-term projections that we formulated in December 2012

Several factors that will influence 2013 outcomes

- Actual planting decisions
- Weather (both during planting and throughout the growing season)
- Farm and fiscal policy

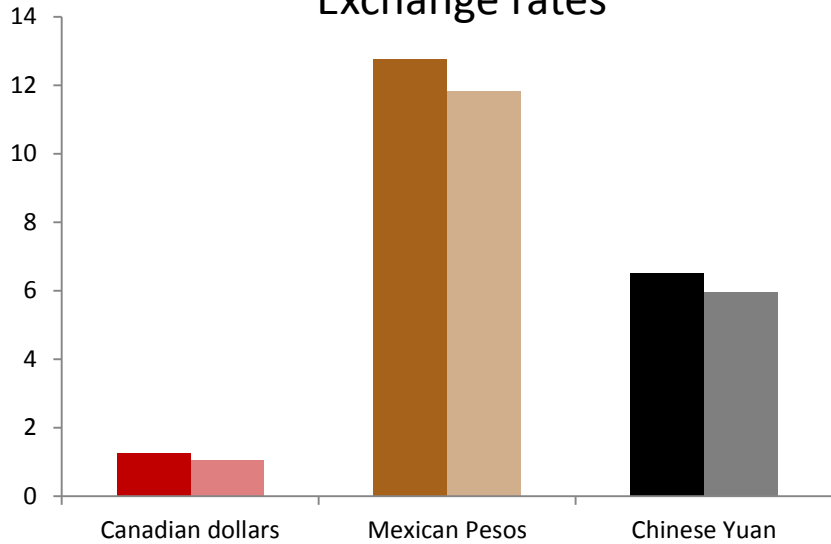
U.S. monetary policies and world economic conditions create an environment for recent growth and volatility in farm income

- **Weak dollar**
 - Current exchange rates encourage rise in agricultural exports
 - Increases in oil costs and other input costs
 - Growth in foreign economies' standard of living
- **Low interest rates**
 - Increased real estate values
- **Production disruptions caused by adverse weather**
 - Lead to lower ending stocks
 - Price volatility

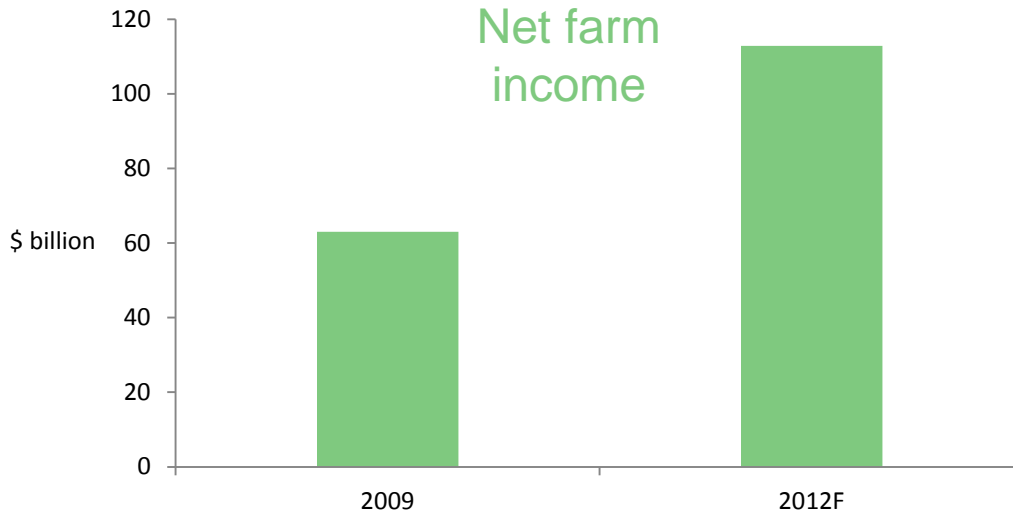
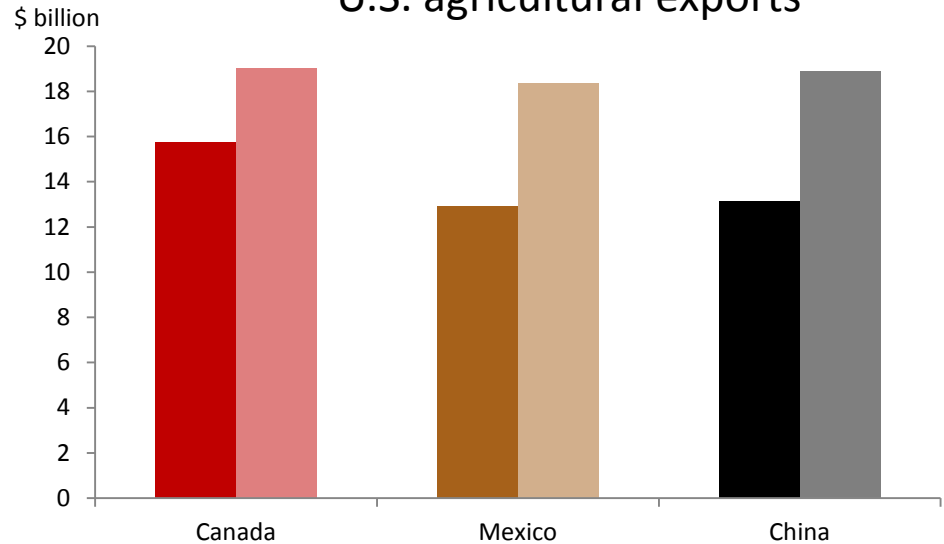
Rising U.S. agricultural exports influence net farm income, 2009 compared to 2012F

foreign currency
U. S. dollar

Exchange rates

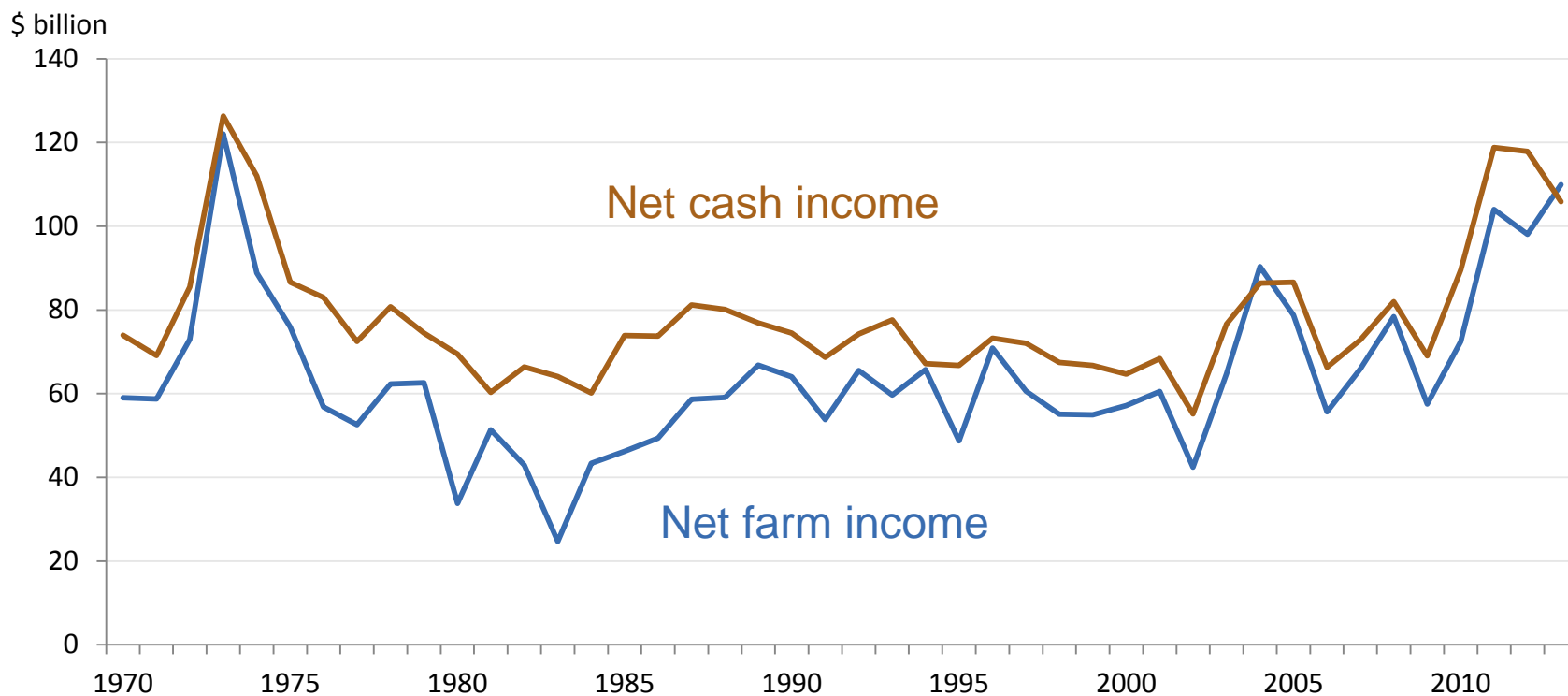


U.S. agricultural exports



Income measures expected to be at historic levels

Net farm income and net cash income, 2002-2013F
Inflation adjusted^{1/}



Net farm income
\$128.2

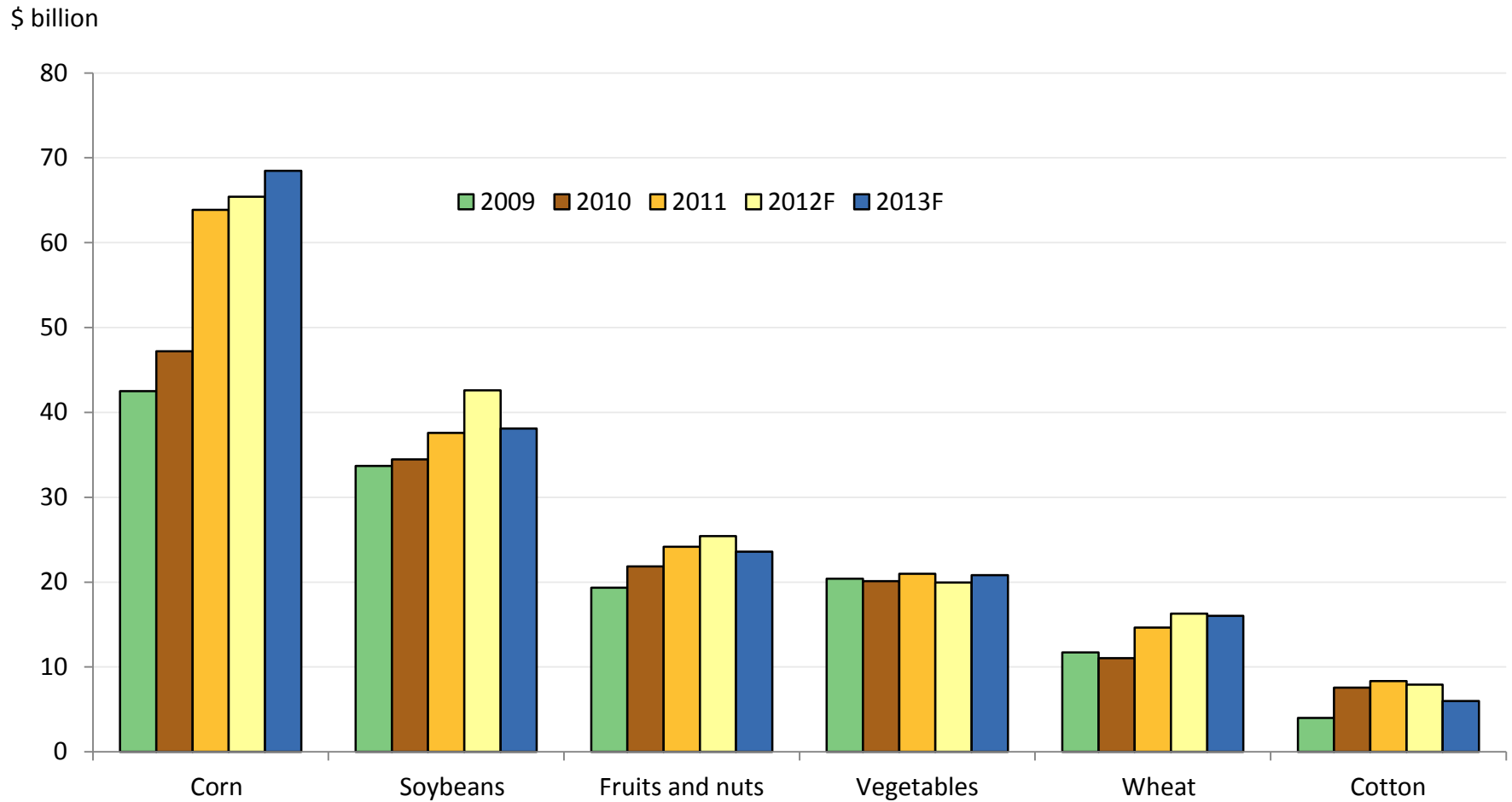
Net cash income
\$123.5

^{1/}The GDP chain-type price index is used to convert the current-dollar statistics to real (inflation adjusted) amounts (2005=100).

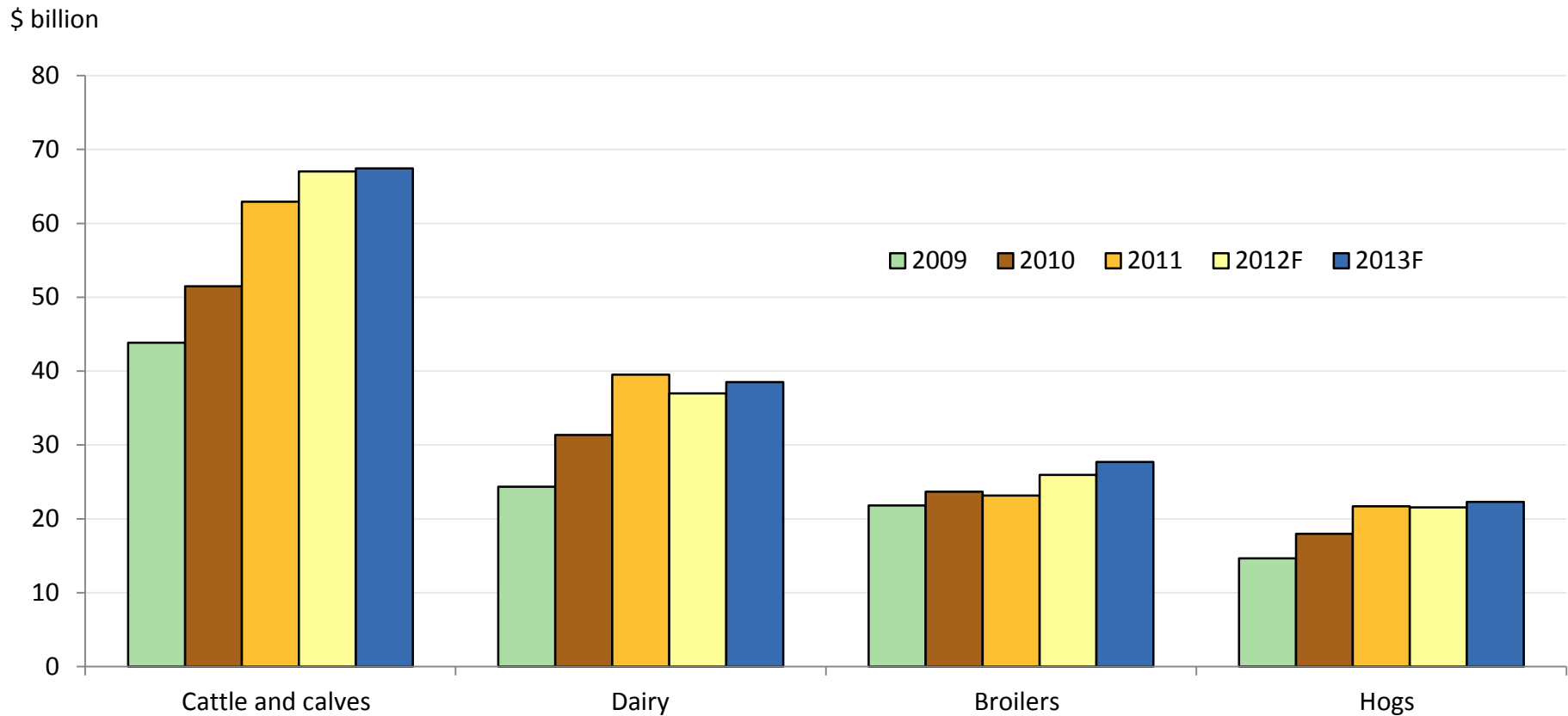
Expected changes in corn inventories are driving differences between 2013F net cash income and net farm income

	2012F	2013F
All Crops		
Cash Receipts	218.9	216.5
Value of Inventory Change	-10.0	17.0
Value of Production	208.9	233.4
Corn		
Cash Receipts	65.4	68.3
Value of Inventory Change	-6.4	<u>13.5</u>
Value of Production	59.0	81.7

Receipts for selected crops, 2009-2013F

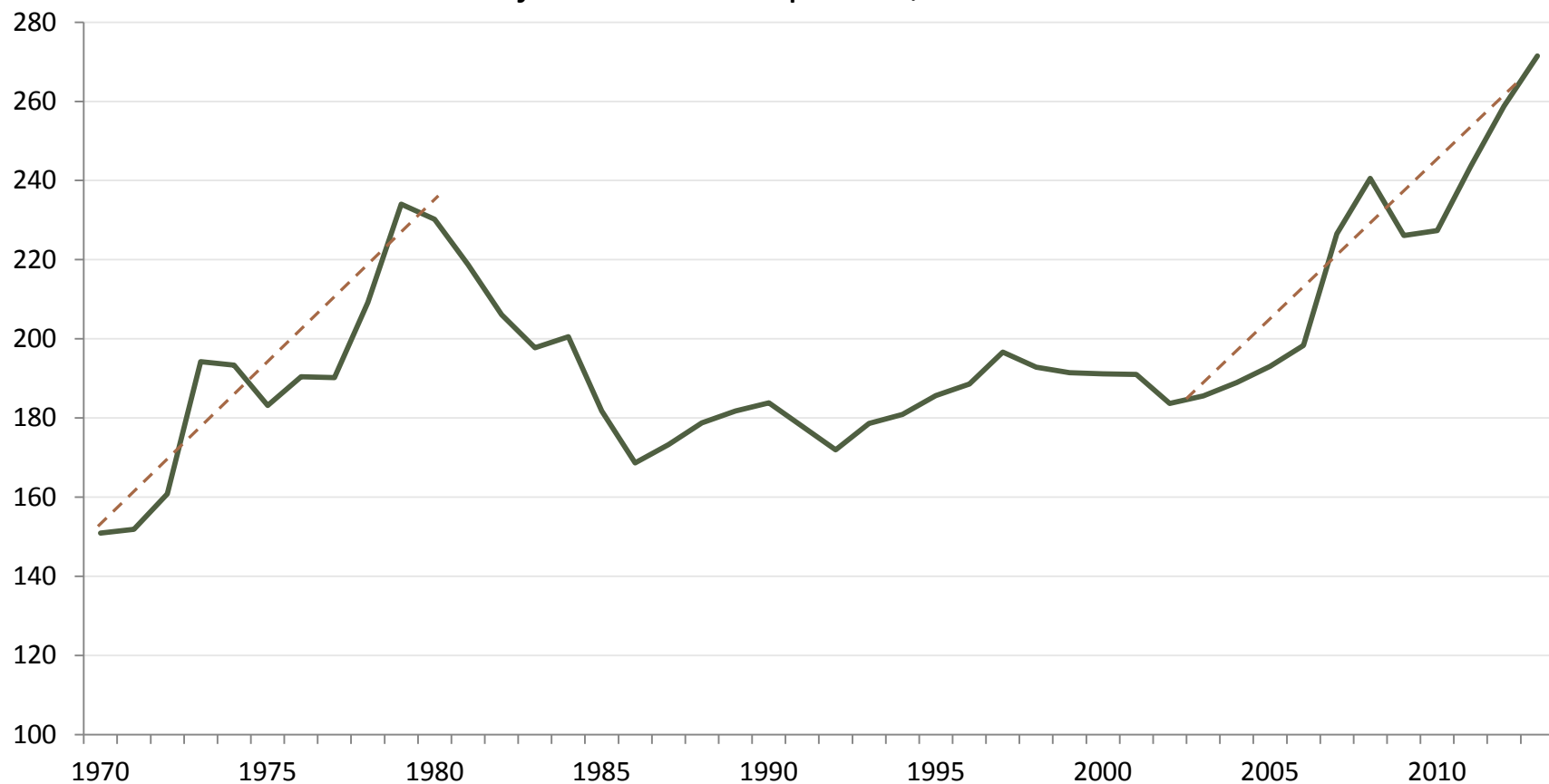


Receipts for selected livestock products, 2009-2013F



Real cash expenses expected to continue rising in 2013

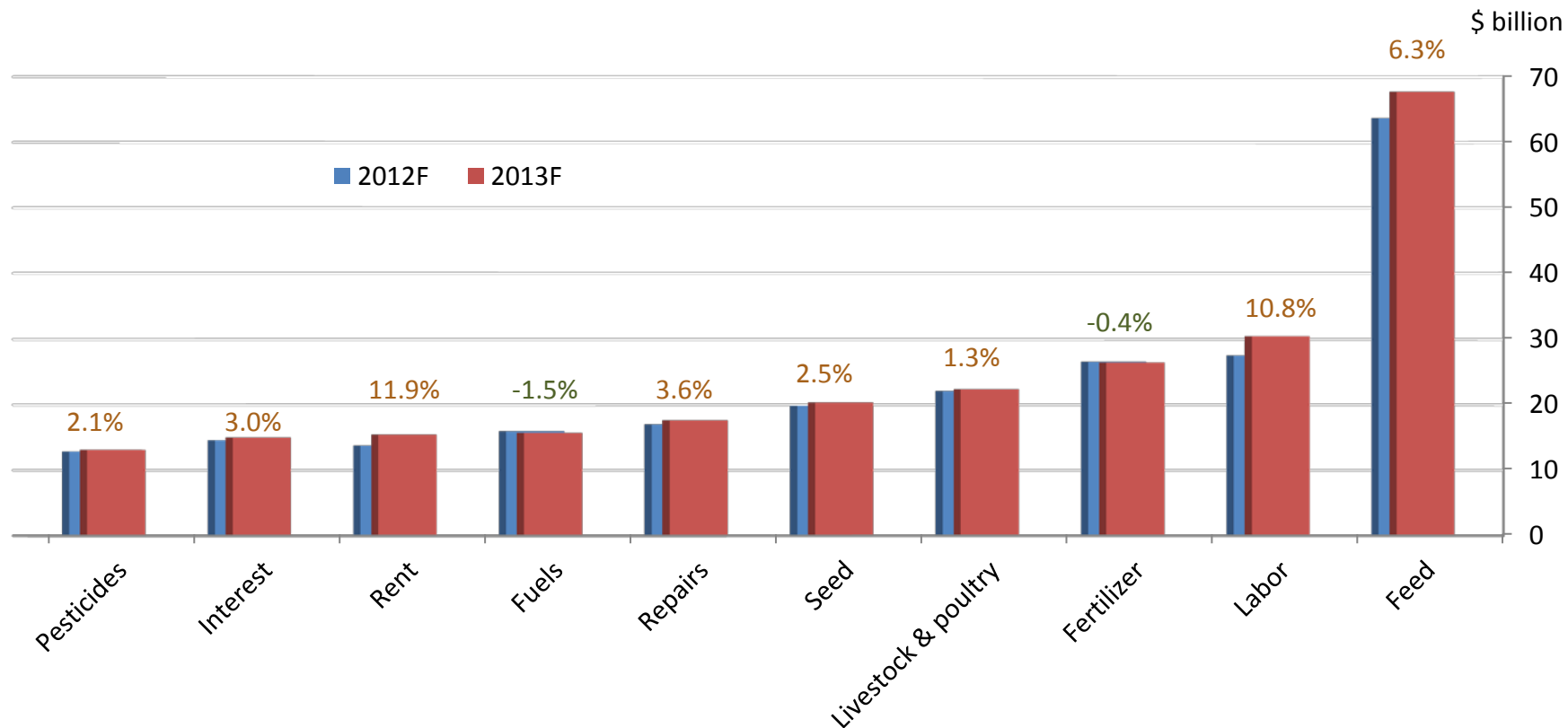
Inflation-adjusted^{1/} cash expenses, 1970-2013F



1/ The GDP chain-type price index is used to convert current-dollar amounts to real (inflation adjusted) amounts (2005 = 100).

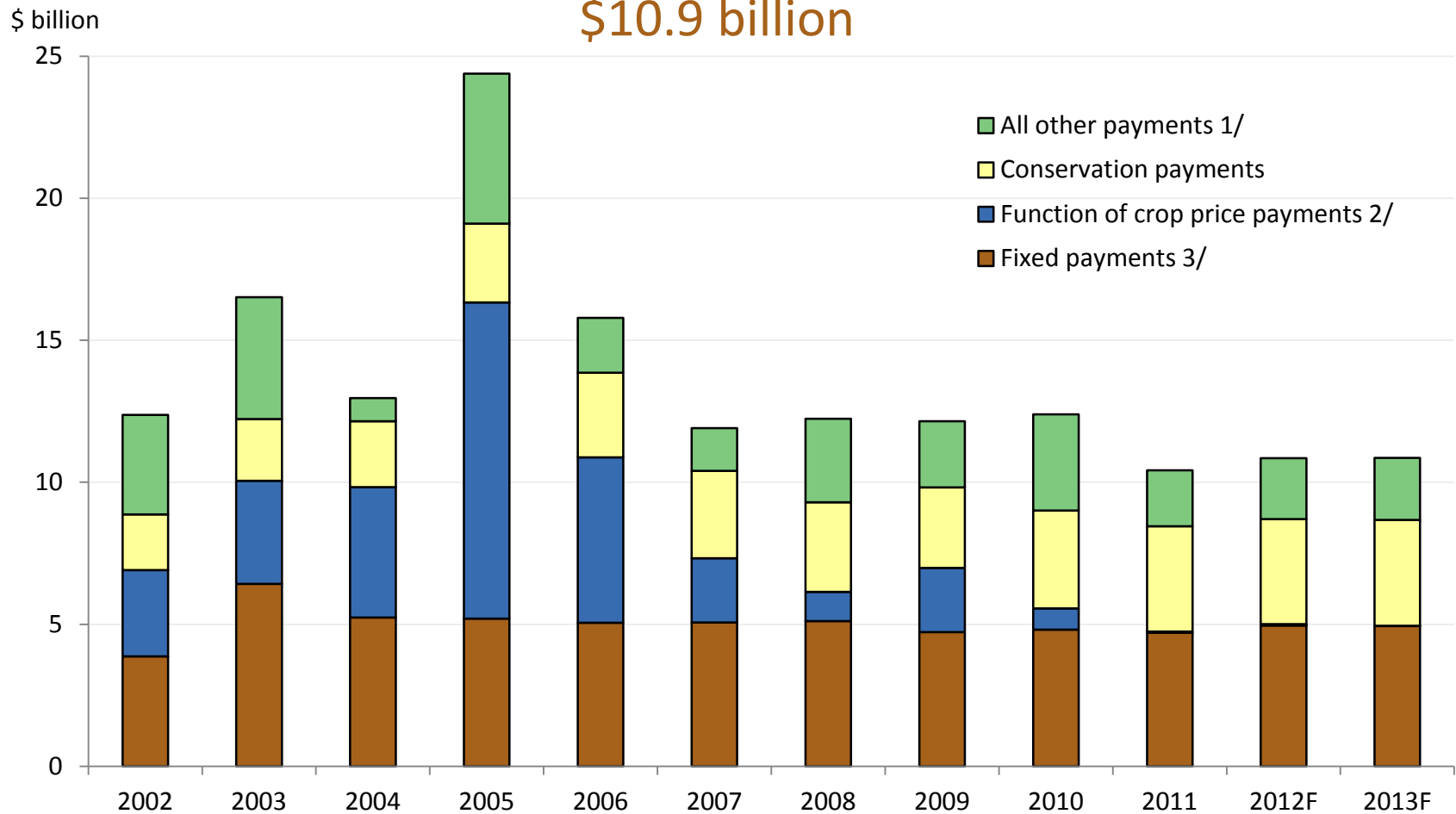
Production expenses forecast up over \$19 billion led by increased feed and labor expenses

Changes in expense items, 2012F - 2013F



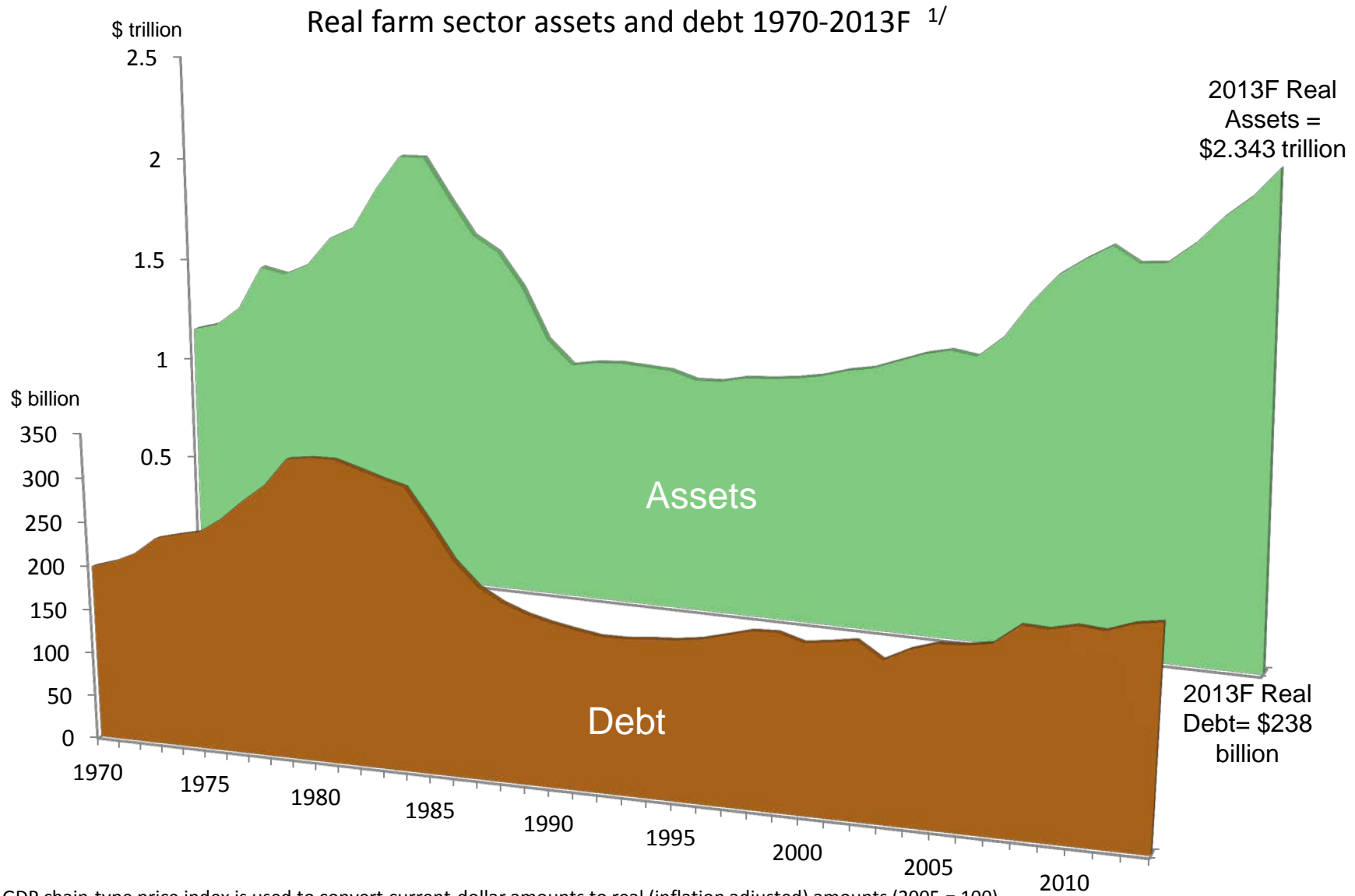
Note: Percent change from 2012 to 2013 is indicated at the top of each set of bars.

Government payments forecast up in slightly 2013 to \$10.9 billion



1/ All other payments include disaster relief payments, tobacco transition payments, and dairy program payments.
 2/ Counter-cyclical payments, loan deficiency payments, marketing loan gains, certificate exchange gains, and ACRE payments vary with crop prices.
 3/ Production flexibility contract payments and direct payments are fixed by legislation.

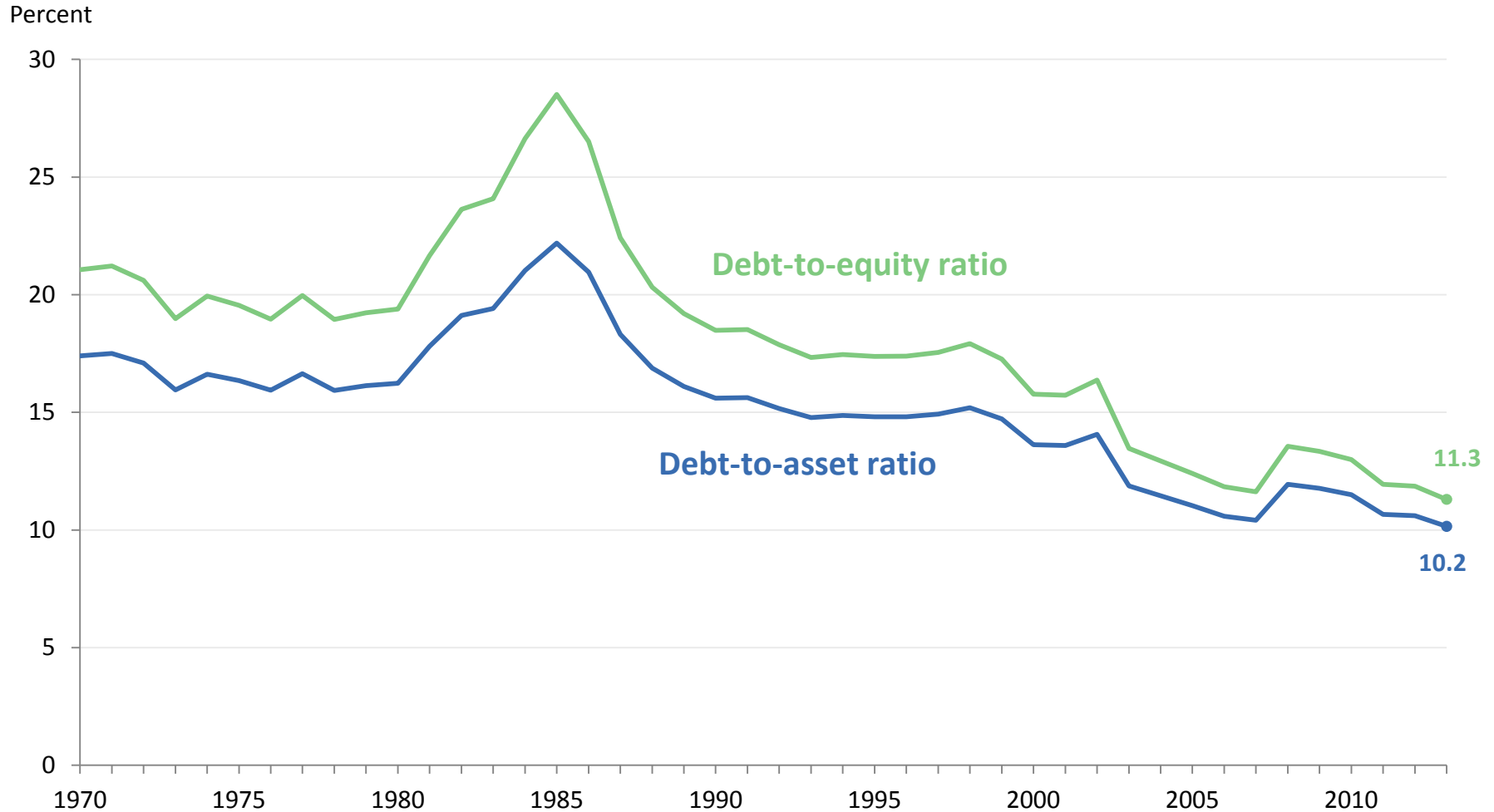
Real value of assets expected to establish new record in 2013



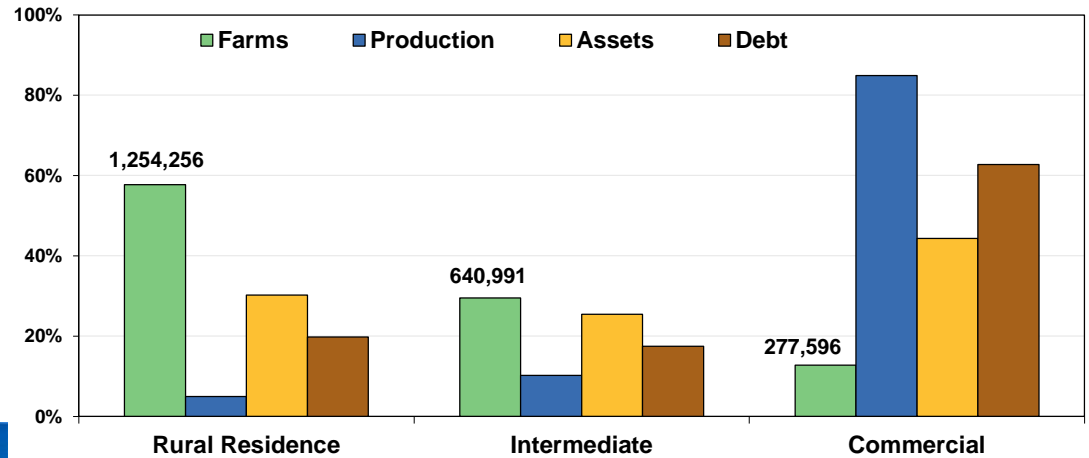
^{1/} The GDP chain-type price index is used to convert current-dollar amounts to real (inflation adjusted) amounts (2005 = 100).

Debt to asset and debt to equity ratios forecast to continue downward trend in 2013

Farm debt ratios, 1970 - 2013F



Farm businesses represent almost 919,000 farms and account for 95 percent of production



Small farms whose operators report they are retired or they had a major occupation other than farming.

Small farms with sales less than \$250,000 whose operators report farming as their major occupation.

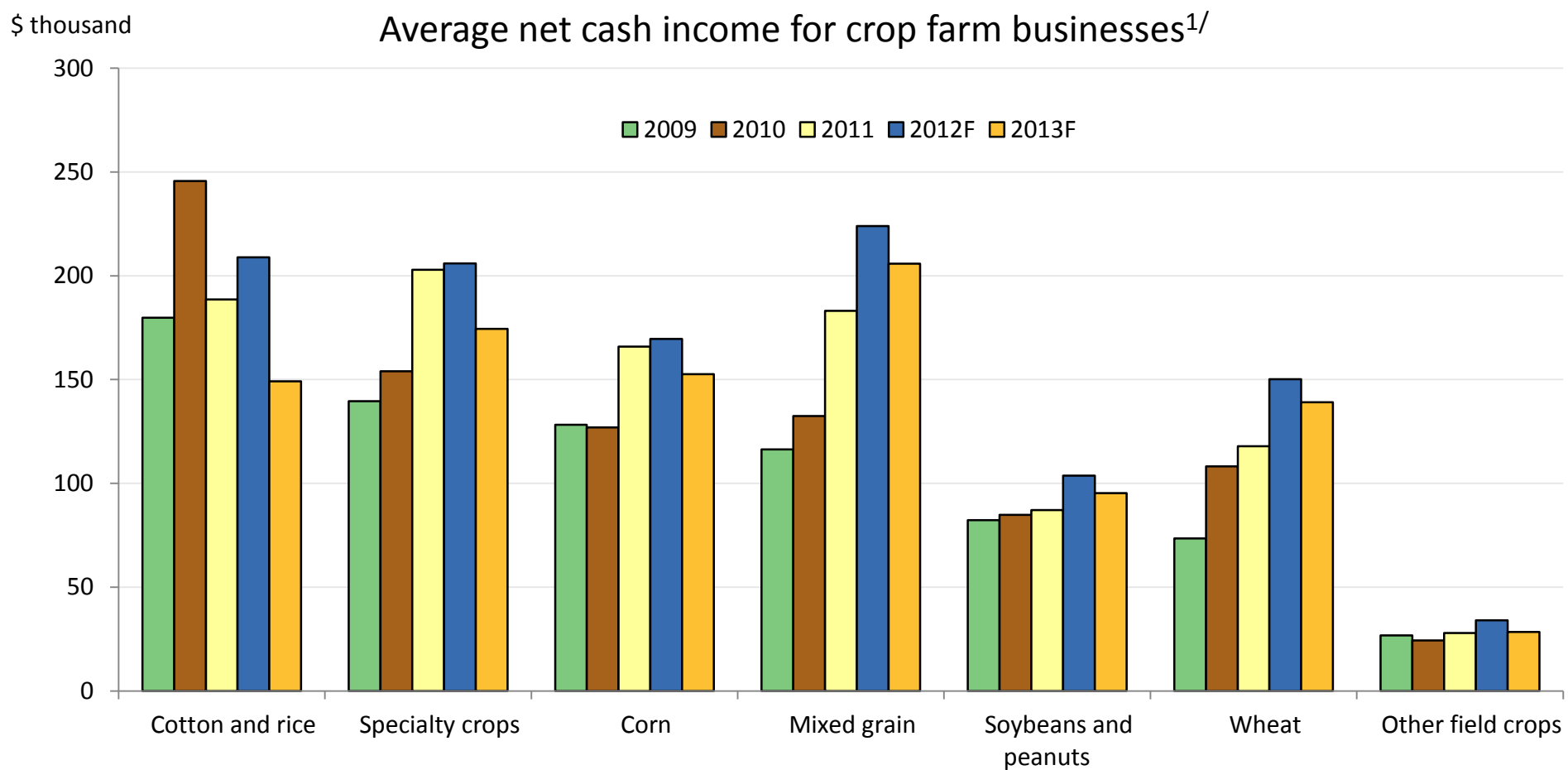
Farms with sales greater than \$250,000 and farms organized as nonfamily corporations or cooperatives.

Farm Businesses



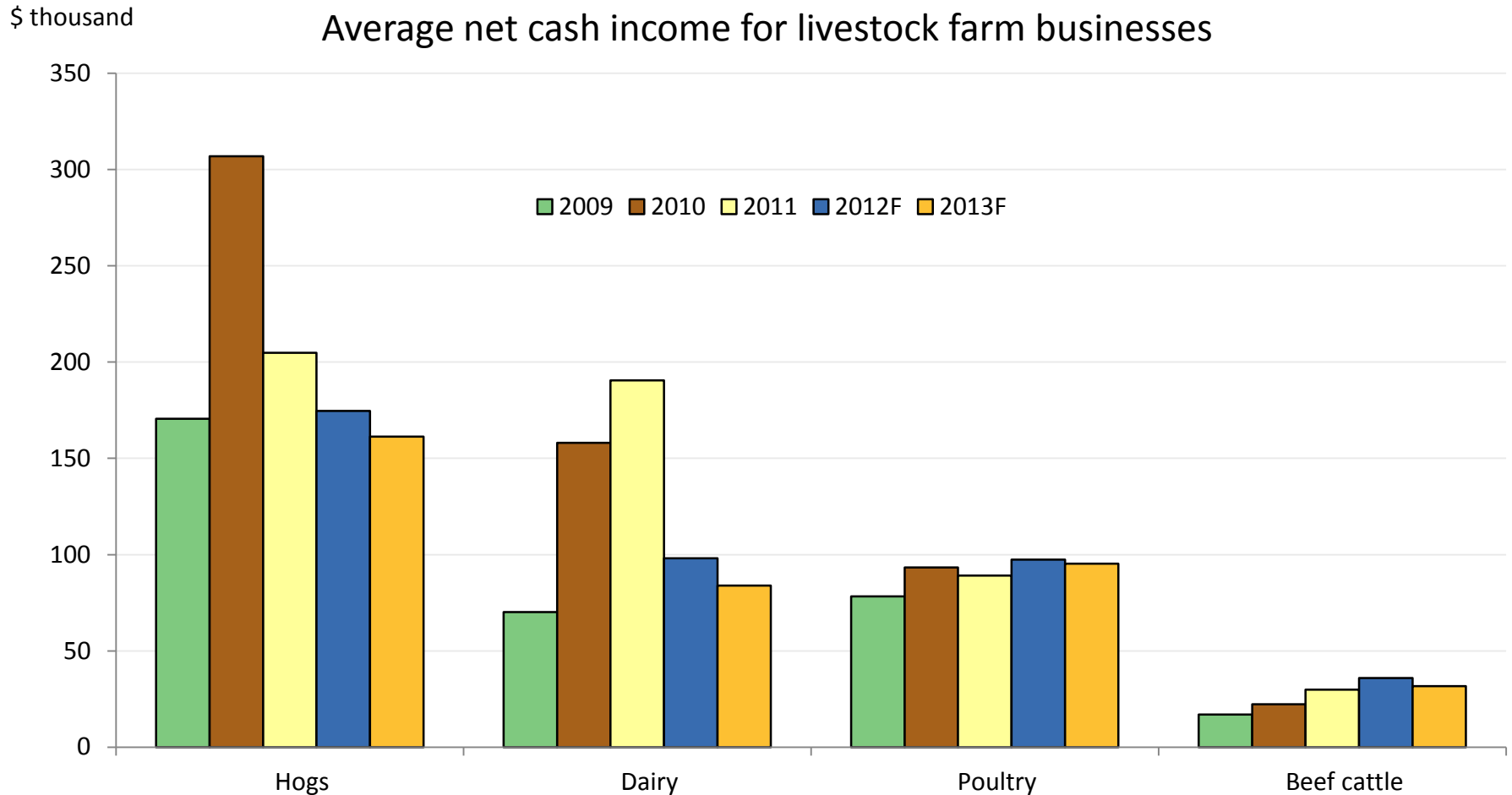
Photo by: Daniel Marti

Cost increases expected to outpace receipts leading to lower average net cash income for all crop farm businesses in 2013



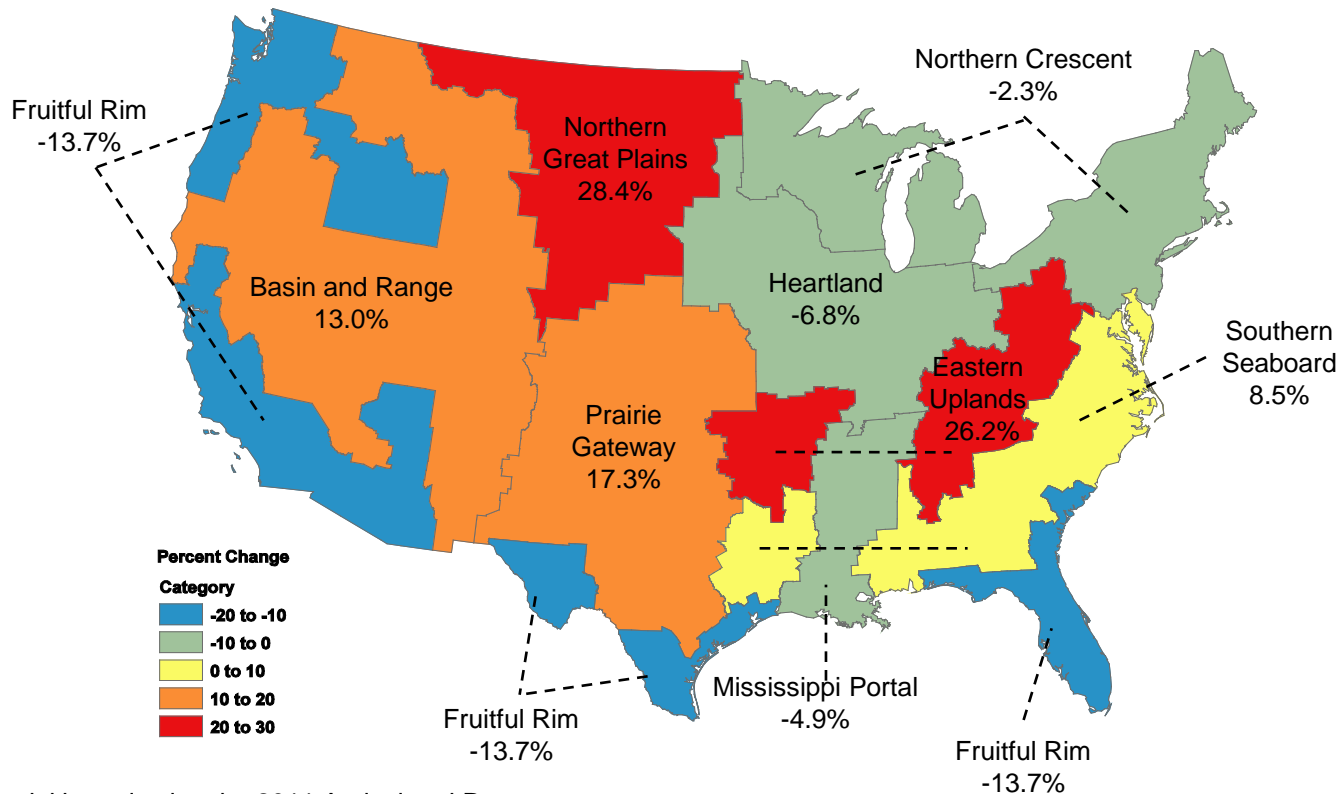
^{1/}The farm level forecasts are derived from partial budget modeling using the 2011 *Agricultural Resource Management Survey (ARMS)* and parameters from the sector forecasts. The model is static and therefore does not account for changes in crop rotation, weather, and other local production impacts that occurred after the base year.

Average net cash incomes forecast lower in 2013 for all livestock farm businesses



Net cash incomes forecast up in the Eastern Uplands, Prairie Gateway, Northern Great Plains, and Basin and Range for 2013 compared to 2009-2012F

2013 Farm business net cash income forecast compared with 2009-2012F



Source: ERS partial model based using the 2011 Agricultural Resource Management Survey (ARMS) and parameters from the sector forecasts. The model is static and therefore does not account for changes in crop production impacts that occurred after the base year. F = forecast

Questions?

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<http://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances.aspx>

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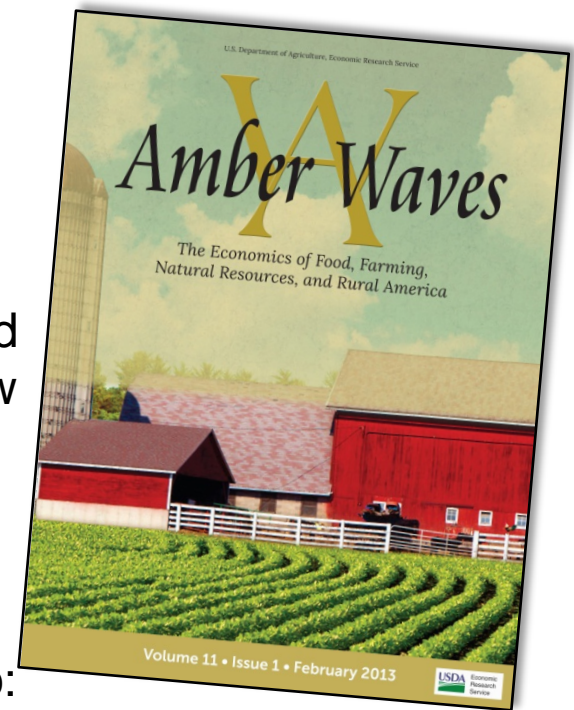
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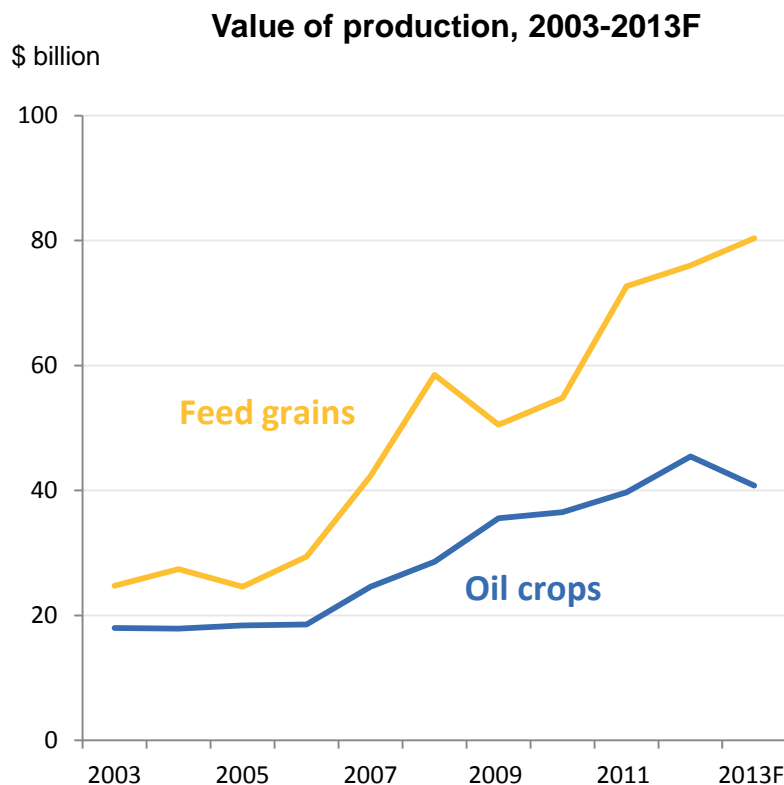
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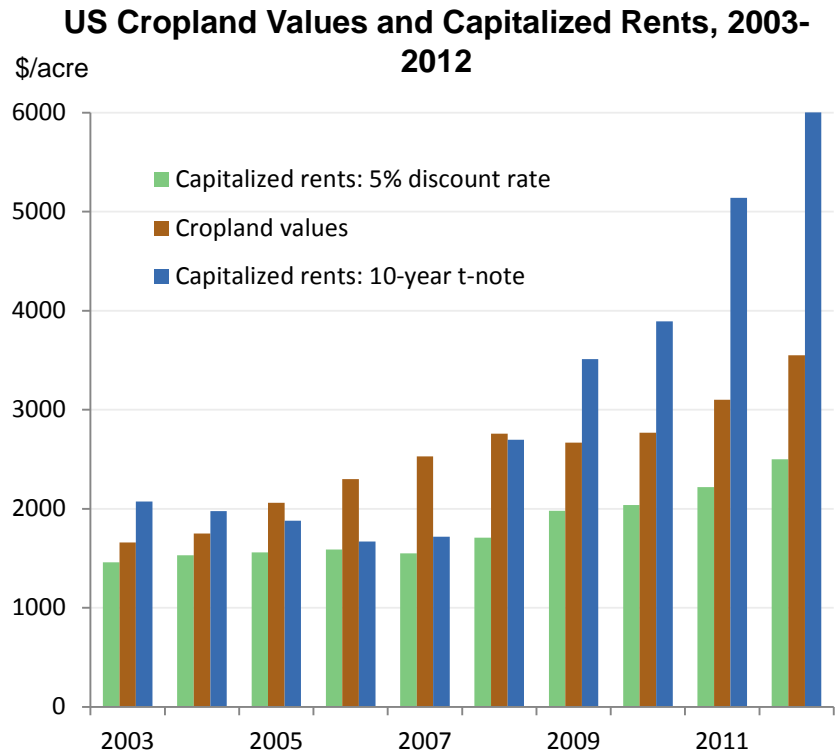
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Current cropland prices are supported by high farm income and macroeconomic policies



Note: Value of production is calculated as cash receipts plus changes in inventory from the previous year Source: ERS



Source: NASS; Capitalized rents are calculated as cropland rents divided by a discount rate (for this chart, either 5% or the 10-year treasury note rate).