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FARM FINANCIAL PROSPECTS: WHAT'S AHEAD FOR FARM BUSINESSES BY TYPE AND REGION OF THE COUNTRY

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The impacts of six consecutive years of large harvests for the world's major agricultural producing countries are clearly reflected in USDA's initial income forecast for the year 2000. By historical standards, this period has been unusually favorable for crop production. At the conclusion of 1999, supplies of most agricultural commodities remained abundant due to large crop harvests around the world. The outlook for farm product demand suggests little or no near-term growth. As a result, a significant and sustained commodity price recovery is unlikely in the near-term without unfavorable weather. In both 1998 and 1999, the U.S. government reacted with legislation to increase assistance to farmers. Payments forthcoming as part of emergency legislation coupled with the first extensive use of the Loan Deficiency Payment Program has helped to maintain farm income and temper financial hardship for many producers (figure 1).

Low Commodity Prices and Government Assistance Figure Prominently in 2000 Forecast

Net farm income is forecast to be \$40.4 billion in 2000, a decline of \$7.7 billion from the preliminary estimate of \$48.1 billion for 1999, as a consequence of diminished expectations for near-term improvements in many commodity prices and government payments receding from 1999's historical high (table 1). Net cash income in 2000 is forecast at \$49.6 billion, nearly \$10 billion less than the preliminary estimate for 1999 of \$59.1 billion. Prices for major crops will likely remain low, but stable expenses and potential cost savings as farmers adjust production practices should help lessen the impacts on farmer's bottom lines. Placing the farm income forecast for the year 2000 into a longer-term perspective, net farm income is forecast to be 88 percent of its 1990-99 average of \$45.8 billion. Likewise, the forecast for net cash income places it at 90 percent of the previous decade's average of \$55.2 billion.

Crop receipts are forecast to fall by \$2 billion in 2000, reaching their lowest level since 1994. The decline in crop receipts is concentrated within major field crops--food grains, feed grains, cotton, oil crops, and tobacco. Cash receipts will be up \$350 million for fruit, vegetable, and greenhouse or nursery crops. Loan deficiency payments to producers of major field crops, such as corn and soybeans, are forecast at \$7.8 billion for 2000. In 1999, about \$6.9 billion of direct payments were for loan deficiency payments (LDP). LDP's compensate farmers for market prices being below the

Commodity Credit Corporation loan rates and increase with declines in market prices, once prices are below the loan rate.

In 1998 and 1999, government payments, with additional emergency assistance, were sufficient to maintain net farm income at and even above the decade average. The majority of the payments came from three government programs: the production flexibility contract (PFC) payments, the loan deficiency payments (LDP), and emergency supplemental appropriations enacted in October of both 1998 and 1999 (figure 2). The forecast for 2000 includes substantial support from PFC and LDP payments with the total from the two programs being about the same as 1999. Under current legislation, government payments are expected to decline by \$5.5 billion in 2000, which nearly represents the difference between the current 2000 farm income forecast and the decade average.

Total production expenses are forecast to be \$192.3 billion, an increase of one-half of one percent over the preliminary estimate for 1999. With little change forecast for crop or livestock production, farmers are not expected to make significant adjustments in the quantities of inputs purchased. The lack of optimism for any rise in crop prices received by farmers and small increases in prices paid by farmers implies that farmers will continue to experience a cost-price squeeze. As a consequence, farmers are likely to exhibit additional caution in the purchase of large capital items and may well increase the scrutiny of their selections and application rates for operating inputs and their operating practices for potential adjustments leading to cost savings.

Farm business debt is anticipated to stand at about \$172.5 billion by the end of 2000, down slightly from 1999, which is also estimated to be slightly below its 1998 level. Given likely 2000 price and income levels, and uncertainty concerning the timing of price improvements in cash markets for many agricultural commodities, lenders are expected to encourage their farmer clients to improve their balance sheets by applying some of their government payments to existing debt. Actual changes in farm business debt levels in both 1999 and 2000 will depend heavily on the timing and the extent to which farmers use these payments to improve future financial risk positions by reducing outstanding loan balances.

Despite the increase in debt in recent years, farm business balance sheets have shown steady improvement throughout the 1990's, especially since 1992 (figure 3). Equity positions have generally improved, and debt-to-asset ratios have declined, as the increase in farm business debt has been more than offset by the rise in the value of farm business assets. The value of farm real estate has risen by more than 30 percent from 1992 through the end of 1999, while farm mortgage balances have increased less than 20 percent. As a result, the degree of U.S. farmland leverage has declined substantially, providing most producers with an added equity cushion to lessen the impact of short-term declines in income.

Low Commodity Prices Aggravate Cash-flow Problems for Farm Businesses in Several Regions

Relative to 1998, the largest declines in average net cash income are expected in the *Mississippi Portal*, *Eastern Uplands*, *Southern Seaboard*, and the *Heartland* (see box on ERS Resource Regions). In addition to continued low prices for corn and soybeans, some of these areas of the country will be hard hit by lower prices for rice, and a decline in tobacco receipts. Higher cattle prices and

relatively cheap feed should boost average net cash income in the *Northern Crescent*, *Northern Great Plains*, and *Prairie Gateway* regions relative to the 1994-98 average. For most regions, at least one in five farm businesses will not cover cash expenses in 2000. The exceptions are the *Heartland* and *the Northern Crescent* where smaller shares of farms are expected to have negative cash incomes. The largest increases relative to 1998 in the share of farms with negative net cash income (7 percentage points) occur for the *Southern Seaboard* and *Mississippi Portal* regions (figure 4). The Eastern Uplands and Heartland regions also experience relatively large increases in the percent of farms with negative net cash income.

Unexpected declines in farm business earnings can lead to debt repayment problems. A relatively high percentage of farm businesses in *the Northern Great Plains* and *Prairie Gateway* regions have had persistent debt repayment problems (figure 5). Even though the *Northern Great Plains* region has had the highest incidence of debt repayment difficulty, this situation should improve in 2000. In the *Prairie Gateway*, 18 percent of farm businesses are expected to have debt repayment problems, which is a slight increase over 1998, but well below 1997. A substantial increase in farm businesses with debt repayment difficulties is expected in the *Mississippi Portal* region. The share of farm businesses with debt repayment difficulty of 20 percent in the *Mississippi Portal* would be the highest of any region in 2000.

On Average, Net Cash Income Is Expected to Decline for All Farm Types In 2000

Current expectations are for net cash incomes for all farm types to be less in calendar year 2000 than they were in 1999. The story for net cash income is basically the same for all commodity specialties. A stable or, at best, a very modest increase in livestock receipts will not be sufficient to offset the continued erosion of crop receipts, a reduction in government payments from their historic high levels of 1999, and a modest rise in production expenses.

While reductions in net income will be larger for major row-crop farms, specialty crop and livestock farms will also experience reductions in income from 1999. When compared with the average amount of income earned during the 1994-98 time frame, a slightly altered picture emerges. Income for major row-crop farms will be less than the previous five-year average. Farms with the largest deviation from the five-year mean will include tobacco, cotton and peanut farms, general crop farms, and soybean farms. Specialty crop and livestock farms, apart from hog operations, should have incomes in 2000 that exceed their 1994-98 average. Beef cattle farms will have the largest increase of any farm type (table 2).

The reduction in income in 2000 will require farmers to manage cash flows more tightly. A higher proportion of debt service capability will be used, eliminating credit reserves and exposing a larger share of farms to potential debt repayment problems. Lower incomes rather than substantially rising debt levels or falling asset values will be the key factor that may contribute to rising debt service problems. The greatest increase in use of debt service capacity will be for major row-crop farms, especially those farms that specialize in the production of wheat and corn.

Net Farm Income Prospects for the Next Decade Are Expected To Be Lower Than for the Decade of the 1990's

Based upon USDA's Baseline projections, net farm income for 2001 could fall below \$35 billion, significantly less than 1999's forecast of \$48.5 billion and the 2000 forecast of \$40.4 billion (figure 6). From 2001 forward net farm income is expected to gradually recover as farm prices strengthen over the decade. Average net farm income for the decade 2000-2009 is projected to be about \$44.6 billion compared with the \$45.8 billion average for 1990-1999. A record net farm income of \$54.9 billion was set in 1996; a year of both exceptional harvests and market opportunities. In the baseline, income of this level is not reached until near the end of the first decade of the new millennium (table 3).

The continuance of low commodity prices puts estimates of cash receipts at similar levels during the 1999-2001 period. However, government payments, which bolstered gross income for 1999 and 2000, are projected to be considerably less in 2001 and beyond. Total government payments, now forecast at \$22.7 billion for 1999 and \$17.2 billion for 2000, are projected fall to \$10 billion in 2001 and continue trending downward through the first half of the decade. Under current farm legislation, government payments should be expected to decline. Production flexibility payments, established in the 1996 Farm Act, were mandated to trend downward according to a declining fixed allocation budgeted for each successive year of the program. The reduction in program benefits from calendar year 2000 to 2001 is expected to be about \$900 million. Loan deficiency payments, which are intended to be counter-cyclical, also will have reduced importance as a component of government assistance. Because the CCC loan rates for many commodities are based upon a moving average of market prices, the lower prices experienced in recent years will reduce the applicable loan rate. The combination of lower loan rates and increasing market prices results in a smaller amount of crop that will be eligible for benefits and a smaller payment rate. Lower loan rates are expected to have an impact beginning with 2001 when loan deficiency payments are expected to fall by more than \$3 billion.

The "emergency" provisions of the Omnibus Consolidated and Emergency Supplemental Appropriations Act for Fiscal Year 1999 and the Agricultural Appropriations Act of 2000 provided supplemental assistance in the form of market loss and crop loss payments adding to cash receipts in 1998, 1999, and 2000. On a calendar year basis these programs added \$2.8 billion to farm receipts in 1998, and are forecast to provide \$8.7 in 1999 and \$2.4 billion in 2000. Most of these funds will have been disbursed by the end of 2001, and since these emergency provisions have a pre-determined life span, there will be an additional decline in 2001 over 2000 payments. In all, about \$7 billion less in government payments will be available to the farm sector in 2001 than in 2000, and total payments are expected to continue being a less important component of farm sector income through 2006. For 2001, the decline in government payments slightly exceeds the decline from 2000's forecast net farm income.

Recovering crop prices will be the key to the expanding crop receipts over the next decade. Crop receipts are projected to be \$137 billion by 2009 as compared with the \$93 billion forecast for 2000. Total cash receipts from sales of farm commodities can be expected to grow at more than 3.0 percent annually from 2000 onward. This rate of growth will be more rapid than the rate of expansion in cash receipts from 1990 to 1996. Expected growth will bring projected cash receipts from \$190 billion in 2000 to \$254 billion by 2009. Livestock receipts, in contrast to crops, are forecast at a near record level of \$96 billion for 2000, and from there will continue to grow to \$114 billion by 2009. Cattle and

calf returns represent 30 percent of the increased livestock receipts, pork 7 percent, broilers 15 percent, and dairy production accounts for 38 percent.

Farm production expenses are expected to grow modestly over the entire baseline. Farmers will take steps to adjust their costs in the face of lower income prospects. Feed purchases will be lower in 1999-2001 reflecting lower cattle numbers and crop prices, but cattle numbers will recover and crop prices rise. Seed expenditures will grow slowly as crop acreage recovers.

With reduced farm income and cash flow, debt management will be crucial to the financial condition of the agricultural sector. Even with the near-term cash flow difficulties facing the sector, a strong basic financial position achieved during the 1990's will help farmers weather the lows in major crop prices until exports and prices recover. In the longer run, increasing farm incomes and relatively low interest rates will contribute to asset accumulation and assist in debt management, thus leading to an improving balance sheet.

The value of farm real estate, the largest component of farm assets, is expected to stagnate in the next few years. The value of farmland has been slow to respond to decreases in crops cash receipts because government payments have bolstered farm income. The value of farmland also is affected by pressures from non-agricultural sources such housing and recreational uses. With farmland maintaining its value in the near term and growing again as cash receipts recover in combination with stable farm debt, the financial balance sheet of the aggregate farm sector should weather the current decline in cash income and end the baseline period in a strong position.

Farmers' Use of Repayment Capacity Rises Through 2001 Debt Stable but Repayment Problems to Intensify, then Ease

Lower income will reduce farm operators' ability to fully meet debt service payments on their loans in 2000. Anticipated interest rate rises are not expected to be large enough to cause a substantial increase in total farm sector interest payments, as any rate increase is likely to be offset by a stable to declining level of total farm sector debt. Although some additional operators may experience difficulty in generating sufficient farm income to meet principal and interest payments, widespread financial stress is unlikely.

However, farmers are expected to increase their use of repayment capacity substantially in 2000. Farm debt repayment capacity use (actual debt expressed as a percentage of maximum debt that could be repaid from current income) effectively measures the extent to which farmers are using their available lines of credit. This measure indicates that, in 2000, farmers are expected to use almost 66 percent of the debt that could be supported by their current incomes. Use of debt repayment capacity was 53 percent in 1997 and 59 percent in 1998. It declined to 56 percent in 1999, as farm incomes were bolstered by the infusion of government emergency assistance payments. The expected 2000 level would be the highest since 1986.

Debt service difficulties are expected to first worsen, then improve throughout the Baseline period. Further farm debt repayment problems are expected in 2001, when farmers' use of debt repayment capacity is projected to rise to 73 percent (figure 7). Then, as incomes rise, debt increases by modest increments, and interest rates remain generally favorable, farmers' use of repayment capacity declines

continuously throughout the Baseline period, decreasing to 66 percent by 2004 and 55 percent by 2009.

Despite the rise in use of available credit capacity, the debt-to-asset ratio indicates that farmers' financial position is not expected to deteriorate in 2000. The farm sector debt-to-asset ratio is projected to modestly decrease to 0.162 at the end of 2000, as farm asset values are anticipated to rise slightly and debt levels stabilize. However, substitution of maximum debt into the debt-to-asset ratio computation indicates that any improvement due to rising asset values may be potentially offset by lower cash incomes. The maximum debt-to-asset ratio that could be supported from current cash income fell from 0.40 in 1997 to 0.37 in 1998 then rose to 0.40 in 1999. In 2000, it is expected to decline to 0.33; the lowest since 1984. The difference between actual and maximum debt-to-asset ratios suggests that farmers, in total, have the capability to safely manage existing debt. However, lower income available to service debt, coupled with lenders' emphasis on loan approval based on repayment ability rather than collateral values, will probably restrain any increase in farmers' borrowing activities.

USDA's Baseline Projections have Differential Impacts Across Resource Regions and Farm Types

As noted in the discussion of farm sector net income trends, income declines through 2001 and begins a gradual recovery. The initial fall in average net cash income is projected to have the largest impact on farms in the *Mississippi Portal* where there is a high concentration of cotton, rice, and soybean production (figure 8). Low commodity prices for the major crops in this region translate into two consecutive years of 30% or higher annual declines in average net cash income for 2000-01. During this two-year period all regions experience a decline in average farm business net cash income. The only exception is a small increase for farms located in the *Fruitful Rim* for 2001. The average decline in net cash income between 2000 and 2001 approaches 30% for the *Northern Great Plains* and *Prairie Gateway* regions. These regions have a relatively large concentration of field crop production and historically have had a high incidence of debt repayment problems.

The outlook for lower commodity prices and reduced level of government assistance has the largest impact on average income of wheat and soybean farms. During 2000-01, average net cash income of wheat farms is projected to have annual declines of 38 percent and 59 percent, respectively (figure 9). Farms that specialize in the production of soybeans should see income declines of 30 percent and 40 percent during this two-year period, respectively. Farms producing other cash grains should experience 30 percent annual declines in average net cash income. For livestock farms, the largest decline in average net cash income during 2000-01 is expected for dairy (figure 10).

The Outlook is Sensitive to Changes in the Farm Economy

The year 1996 was a banner year for farm income because exports were up and grain and soybeans prices were strong. The "market loss" payments provided in Congress' emergency legislation in the last two years are recognition of the sensitivity of farm income to exports and to grain and oilseed prices. Changes in prices of corn and soybeans, crops that represent 30 percent of total crop receipts, can cause crop receipts to vary widely (figure 11). If currently expected prices for corn and soybeans were

replaced by 1996 values, crop cash receipts would be \$20 billion (or 22%) higher than the current 2000 forecast. Over the last decade cash receipts for crops has been far more variable than receipts from livestock.

Government payments, with the recent importance of loan deficiency payments and the passage of emergency relief legislation in 1998 and 1999, have been a highly variable source of farm receipts. From 1990 to 1998, government payments ranged from a low of \$7.3 to a high of \$13.4 billion. Forecasts for 1999 government payments are nearly \$23 billion. Consequently, farm income is very sensitive to government payments.

Livestock feed is the largest single item in farm expenses (21 percent), and one of the most variable expense items. Feed costs depend upon both the number of animals fed and prices of the grain and oilseed components of these feeds, which do not necessarily move in same direction or by the same magnitude. The cost of feed has varied by more than \$1.0 billion from year-to-year for the years 1990 through 1998. Feed expenses for 1999 are expected to be \$1.0 billion less than 1998 due to lower crop prices and fewer cattle on feed. Given the uncertainty surrounding petroleum prices, petroleum related inputs such as fuel and oil as well as fertilizer and pesticides are potentially important sources of variability in farm expenses. Combined, these expense items represent 26 percent of total production costs. From 1997 to 1998, fuel and oil expenses fell by \$645 million due to lower petroleum prices. By mid-1999 OPEC's agreement to curtail production had raised prices notably. The result of this action is an expected increase of \$775 million in fuel and oil expenses in 1999, and an additional increase of \$1.0 billion for 2000. Management decisions employed by farmers and the availability of new technologies and production systems such as minimum tillage and precision agriculture can help reduce the impact of higher input prices, including petroleum, on the sector income.

Implications of the Financial Outlook

As difficult as the financial prospects for agriculture appears in the near term, there are aspects of the current economic situation that are encouraging. The Clinton Administration's proposed budget for the U.S. Department of Agriculture for fiscal year 2001 contains new spending aimed at providing a stronger safety net for farmers. The initiatives set forth are designed to broaden Federal support to more producers of more commodities in more areas of the country. Assistance to agriculture and rural communities could total more than \$11 billion during 2000-2002 from these legislative proposals and current authorities. The impact of these programs is not anticipated in the Baseline.

In general, lenders are adequately prepared to handle any potential increases in loan repayment problems. All major institutional lender groups except the Farm Service Agency (FSA) continue to experience historically low levels of delinquencies, foreclosures, net loan charge-offs, and loan restructuring. In 1985, over 10 percent of all bank nonreal estate loans to farmers were either delinquent (past due 30-90 days) or nonperforming (past due 90 days or more plus nonaccruals). In the first quarter of 1999, the number of such loans was less than 2 percent (figure 12). Bank charge-offs rates, which reached 3.36 percent of nonreal estate loans in 1986, remained below 0.2 percent in the first quarter of 1999. In contrast, nonagricultural commercial bank consumer loan charge-offs typically run in excess of 2 percent, while consumer credit card charge-off rates have exceeded 4 percent

annually since the late 1980's, and are currently above 6 percent.

Currently, the availability of funds is not the problem. Lenders continue to be more cautious in extending agricultural credit. Congress has authorized over \$5.7 billion in FSA guaranteed and direct loan program authority in fiscal 2000 to assist farmers in obtaining needed credit. This is \$1.9 billion over the \$3.8 billion obligated during fiscal 1999. In the last two fiscal years, Congress has provided large supplemental appropriations for FSA farm loan programs to handle increased demand. Much of the increase in lending authority comes from greater operating loan funding. There is \$3.0 billion in guaranteed operating loan (OL) authority for fiscal 2000, or more than \$1.2 billion more than was obligated in fiscal 1999. The increase in authority represents a large shift in FSA's presence in farm credit markets. As recently as fiscal 1998, FSA had obligated only \$2.2 billion in direct and guaranteed loan programs. If all the authority for fiscal 2000 is obligated, the \$5.7 billion would be the greatest amount of FSA lending activity since the farm financial stress of the mid-1980s.

Prosperity in the general economy is important to maintaining farm household income levels. In 1998, off-farm earnings constituted 88 percent of operators' household income for all family farms. Most groups of small family farms (limited-resource, retirement, residential/lifestyle, and farming occupation/lower sales) received negative returns from farming activities (figure 13). Operators of limited-resource and retirement small family farms rely heavily on Social Security and other public programs for most of their income. Although we expect declines in income from farming activities in 2000, we expect little change in the total house income of operators of these small family farms. Households operating the remaining farms rely more heavily on farm earnings. Farming occupation/higher sales farms received 43 percent of operator household income from farm sources, large family farms received 56 percent of operator household income from farm sources, and very large family farms received 84 percent of operator household income from farm sources. Since households operating these larger farms are affected more by changes in income from the farm sector, we expect that household income for the operators of these farms will be down substantially.

As we approach the 2000 planting season, low prices are not a surprise. In fact, we have had at least a year of experience in dealing with their consequences. Many farmers, if they have not already done so, will be extensively reviewing all of their farm and household expenditures to determine where any potential savings can be found. That should be the focus of their early season planning. Results of several studies have suggested that cost savings are one of the most important ways to improve the bottom line. It also requires that items be prioritized and that sacrifices be made. It is not too early to think about marketing opportunities and a host of risk management tools that are available.

Geographic Areas Based on Land Resource Regions and Commodity Clusters

- **Northern Crescent.** Dairy farms were 17% of farms in 1997. Other major farm types included general field crop (23%) and cash grain farms (19%). Area had 9% of U.S. cropland; slightly more than proportional acreage in corn, soybeans, and specialty crops. Most populous region.
- **Eastern Uplands**--15% of nation's farms but only 5% of the value of production. Beef farms most prevalent type (48% of farms). Tobacco, general field crop, and other livestock were also prominent. Region has 6% of U.S. cropland. 60% of farms had sales of less than \$10,000 in 1997.
- **Southern Seaboard**--11% of nation's farms and 9% of value of production in 1997. Two-thirds of farms were livestock farms. Beef farms most common type followed by general field crop and other livestock. Area covered 6% of Nation's cropland, but is over represented in rice, cotton, and specialty crop acreage. Region has 11% of U.S. population.
- **Heartland**--More than 20% of nation's farms located here, accounting for 23% of the value of production. Region has more than 25% of U.S. cropland, and the largest concentration of corn, soybean, and sorghum acreage. Cash grains and field crops dominate (3 of each 5 farms). Hog farms are also more common than elsewhere.
- **Mississippi Portal**--5% of farms and 4% of value of production in 1997. Beef farms were most common (44% of all farms). Cotton, rice, mixed crop and livestock farms were also common to the region. Region has 4.9% of cropland, but more than proportionately represented in cotton and rice.
- **Northern Great Plains**--Characterized by nation's largest farms, measured by acres operated. Cash grain, field crop, and beef farms are 95% of all farms. Region has 17% of cropland; more than proportionately represented in wheat, barley, oats and specialty crops.
- **Prairie Gateway**--Second highest share of U.S. cropland (19%). Tied with Northern Great Plains in wheat, oats, and barley acreage (35%) and is second behind Mississippi Portal in rice and cotton acreage.
- **Basin and Range**--4.5% of nation's farms and 4% of value of production in 1997. Features second largest farms based on acres operated. Beef farms were the most common farm type (41%). Farms growing high value crops 2nd most common (13%), followed by general field crop operations. Cash grains were 10% of farms. Region has 4% of cropland despite a large land area due to federal land holdings.
- **Fruitful Rim**--8% of cropland but 32% of specialty crop acreage and 21% of rice and cotton acres. Region has largest share of large and very large family operations as well as a large share of non-family farms. Over 37% of farms specialize in production of high value crops.

Resource Regions

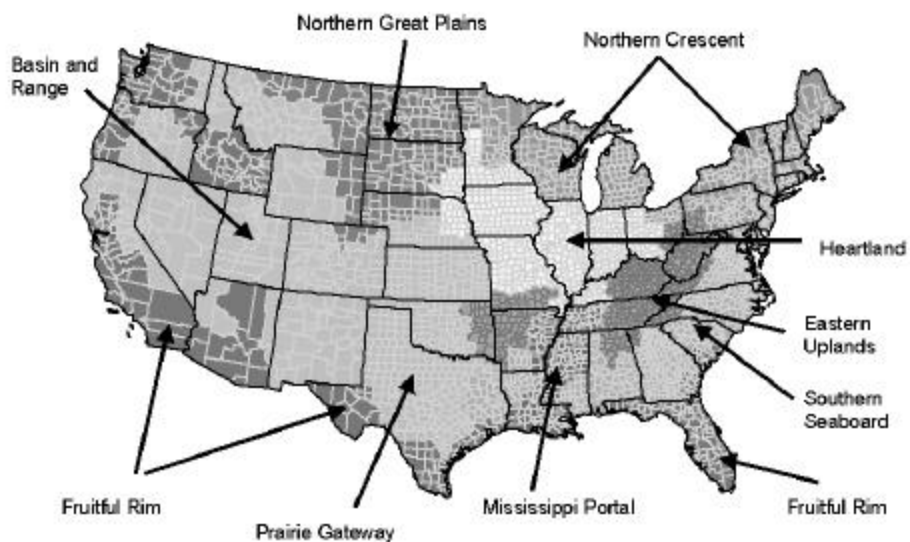


Table 1—Income statement for U.S. farm sector, 1996-2000F

	1996	1997	1998	1999P	2000F	Change from 1999 to 2000	
	\$ billion					\$ billion	%
Cash income statement:							
1. Cash receipts	199.1	207.6	196.8	191.9	189.9	-2.1	-1.1
Crops 1/	106.2	111.1	102.2	95.1	93.3	-1.7	-1.8
Livestock	93.0	96.5	94.5	96.9	96.5	-0.3	-0.3
2. Direct Government payments	7.3	7.5	12.2	22.7	17.2	-5.5	-24.3
3. Farm-related income 2/	11.0	12.4	13.8	14.4	14.1	-0.3	-2.1
4. Gross cash income (1+2+3)	217.4	227.5	222.8	229.1	221.1	-7.9	-3.5
5. Cash expenses 3/,4/	159.9	169.0	167.8	170.0	171.5	1.5	0.9
6. NET CASH INCOME (4-5)	57.5	58.5	55.0	59.1	49.7	-9.4	-15.9
Farm income statement:							
7. Gross cash income (1+2+3)	217.4	227.5	222.8	229.1	221.1	-7.9	-3.5
8. Nonmoney income 5/	10.3	10.6	11.3	11.5	11.6	0.1	0.9
9. Inventory adjustment	8.0	0.5	-1.0	-1.4	-0.1	na	na
10. Total gross income (7+8+9)	235.7	238.7	233.1	239.1	232.7	-6.5	-2.7
11. Total expenses	180.8	190.0	189.0	191.1	192.3	1.2	0.6
12. NET FARM INCOME (10-11)	54.9	48.6	44.1	48.1	40.4	-7.6	-15.9

P = preliminary. F = forecast.

1/ Includes CCC loans. 2/ Income from custom work, machine hire, recreational activities, forest product sales, and other farm sources. 3/ Excludes depreciation and perquisites to hired labor. 4/ Excludes farm households. 5/ Value of home consumption of farm products plus the imputed rental value of operator dwellings.

Totals may not add due to rounding.

Table 2--Farm business average net cash income forecasts

	Average 1994-98	1998	1999F	2000F	2000/ 1994-98 average	2000/ 1998	Share of U.S farm businesses
	\$1,000 per farm				Percent Change		Percent
All U.S. farm businesses	61.6	78.6	81.8	68.3	11	-13	100
Resource Region:							
Heartland	49.7	58.6	59.8	49.3	-1	-16	31
Northern Crescent	61.0	87.1	88.5	77.1	26	-11	16
Northern Great Plains	48.6	64.1	79.4	60.5	25	-6	8
Prairie Gateway	54.1	70.0	85.3	67.7	25	-3	13
Eastern Uplands	35.5	42.1	41.3	33.7	-5	-20	7
Southern Seaboard	60.1	80.6	71.5	57.5	-4	-29	7
Fruitful Rim	120.9	172.7	173.2	157.4	30	-9	11
Basin and Range	57.2	69.6	77.2	66.4	16	-5	3
Mississippi Portal	78.6	78.5	80.7	48.3	-39	-38	4
Commodity Specialization:							
Mixed grain	51.9	59.5	65.5	45.5	-12	-24	14
Wheat	41.2	38.4	58.1	36.0	-13	-6	4
Corn	51.1	60.7	61.2	44.2	-14	-27	13
Soybeans	39.4	39.2	39.8	27.9	-29	-29	7
Tobacco, cotton, peanuts	68.8	83.3	68.9	41.6	-40	-50	5
Other crops	79.7	72.9	73.9	50.6	-36	-31	6
Specialty crops	134.0	220.0	218.3	220.7	65	0	8
Beef cattle	39.6	56.6	74.5	70.8	79	25	15
Hogs	60.4	55.1	55.3	56.3	-7	2	5
Poultry	55.8	71.3	72.6	67.3	21	-6	5
Dairy	64.8	95.7	95.3	74.9	16	-22	15
Other livestock	42.0	65.0	58.0	49.8	19	-23	3

F = forecast

Table 3--Farm receipts, expenses, and incomes in nominal dollars

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Billion dollars									
Cash receipts:										
Crops	93.3	96.6	100.4	105.5	110.7	115.5	120.9	126.9	132.0	136.9
Livestock	96.5	95.3	97.0	100.0	103.1	105.9	108.7	111.4	114.1	117.0
All commodities	189.9	191.9	197.5	205.5	213.8	221.5	229.6	238.3	246.2	253.9
Farm-related income	14.1	14.3	14.6	14.9	15.2	15.5	15.8	16.1	16.4	16.7
Government payments	17.2	9.9	8.1	7.3	6.2	6.1	6.0	6.0	6.0	6.0
Gross cash income	221.1	216.2	220.1	227.7	235.1	243.0	251.4	260.3	268.5	276.5
Cash expenses	171.5	172.4	174.8	180.1	185.2	190.1	195.2	200.5	206.0	210.9
Net cash income	49.7	43.8	45.3	47.5	49.9	52.8	56.2	59.9	62.5	65.6
Value of inventory change	-0.1	0.2	0.5	1.1	0.5	0.6	0.6	0.7	0.9	0.6
Non-money income	11.6	11.6	11.8	12.0	12.2	12.4	12.6	12.8	13.1	13.3
Gross farm income	232.7	228.0	232.3	240.8	247.8	256.0	264.6	273.8	282.5	290.5
Noncash expenses	15.3	15.7	16.0	16.3	16.4	16.4	16.3	16.3	16.3	16.3
Operator dwelling expenses	5.5	5.5	5.5	5.5	5.5	5.5	5.6	5.6	5.6	5.6
Total production expenses	192.3	193.6	196.3	202.0	207.1	212.1	217.1	222.3	227.8	232.8
Net farm income	40.4	34.4	36.1	38.8	40.7	43.9	47.6	51.5	54.7	57.7
Farm assets	1,072.8	1,074.0	1,088.1	1,119.5	1,160.4	1,200.8	1,245.0	1,293.7	1,347.3	1,402.9
Farm debt	172.5	167.2	168.2	170.4	172.3	174.0	175.6	177.1	179.1	180.8
Farm equity	900.4	906.8	919.9	949.2	988.1	1,026.8	1,069.4	1,116.6	1,168.2	1,222.2
	Percent									
Debt/equity ratio	19.2	18.4	18.3	17.9	17.4	16.9	16.4	15.9	15.3	14.8
Debt/assets ratio	16.1	15.6	15.5	15.2	14.8	14.5	14.1	13.7	13.3	12.9

Figure 1

Farm Income Sources, 1997-2000F

Crop receipts fall, while direct government payments rise

\$ billion

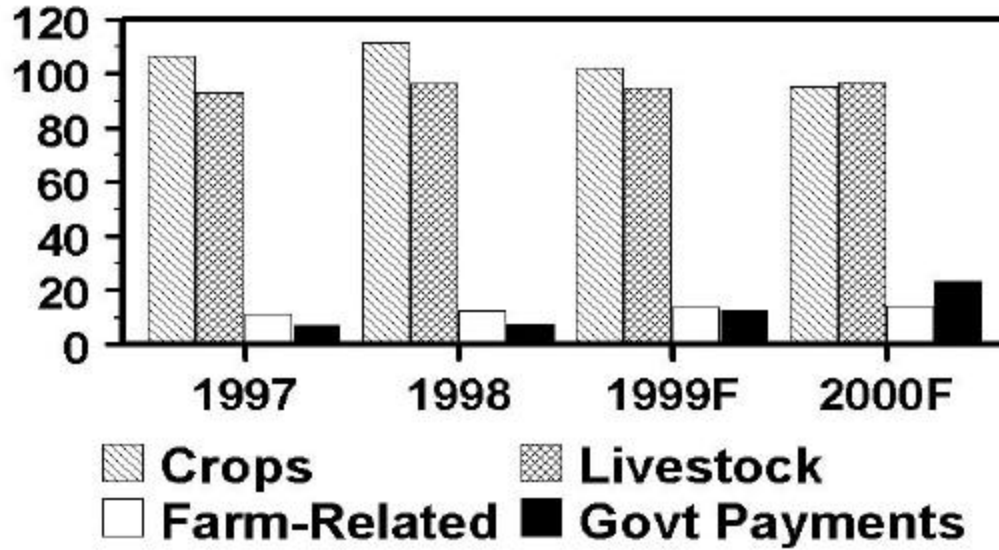


Figure 2

Government payments by type 1997-2000f

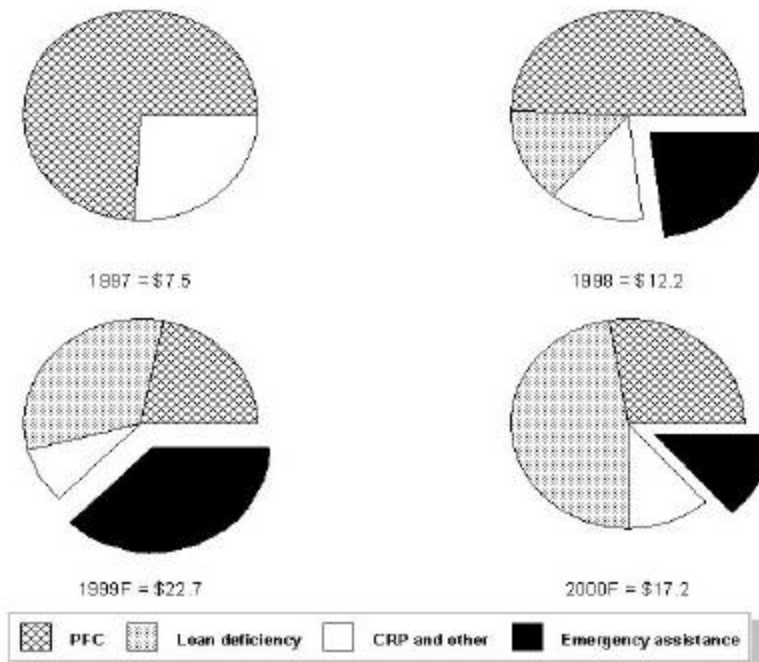


Figure 3

Farm assets, debt, and equity

Equity increasing since 1986

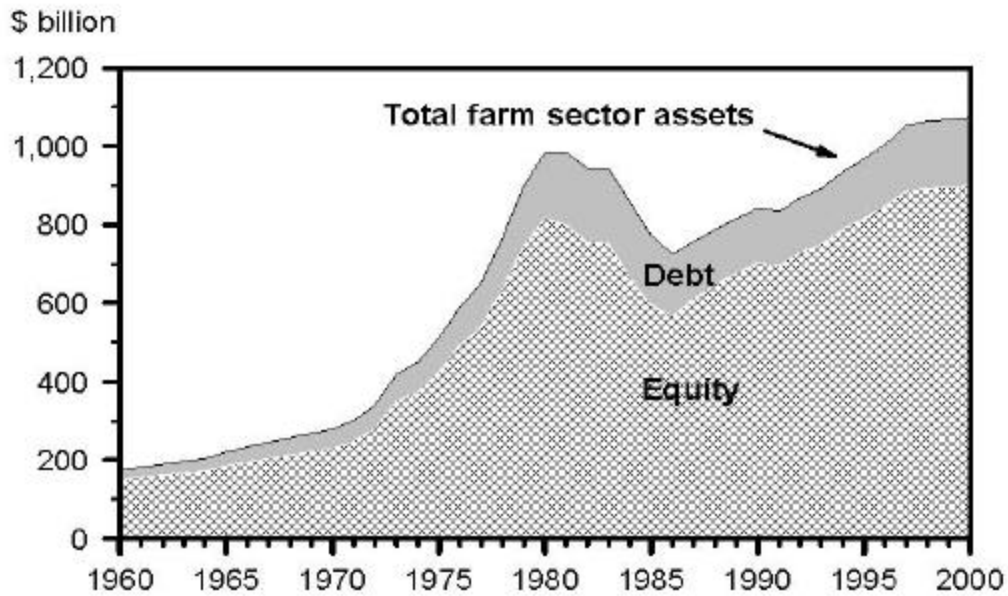


Figure 4

Farms with negative net cash income increase most in the Heartland and Southern Seaboard

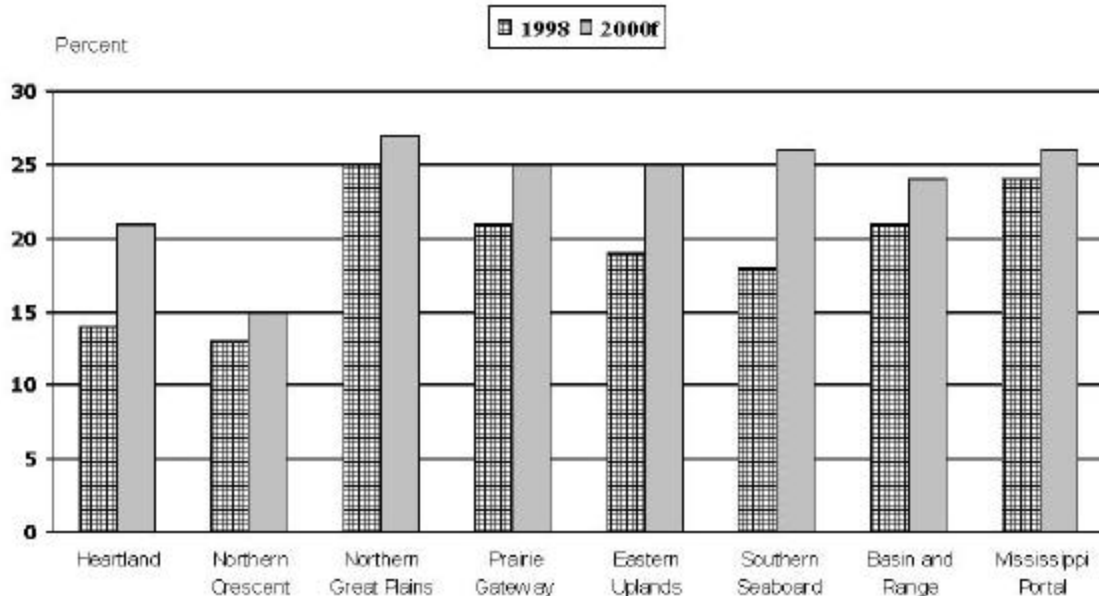


Figure 5

Debt repayment problems persist for some farms and emerge in other regions

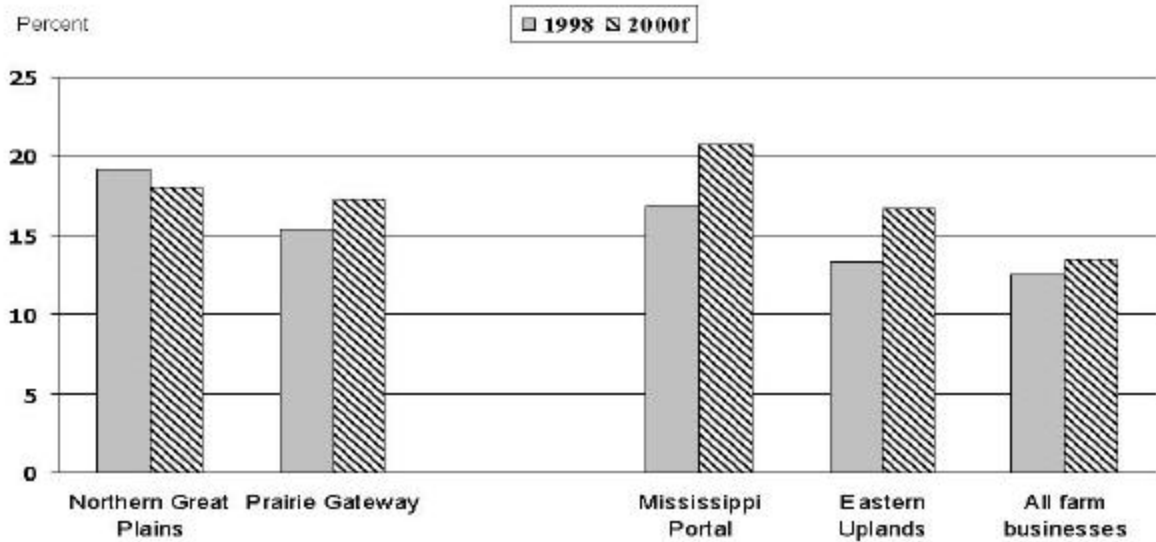


Figure 6

Net farm income to fall in the short term, remaining below the 1990-98 average for most of the next decade

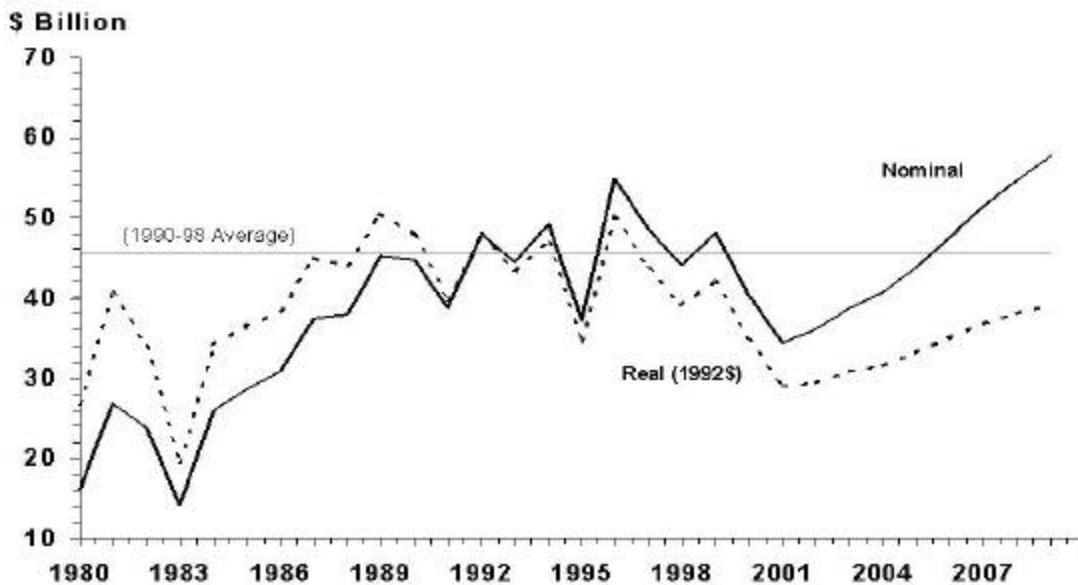


Figure 7

Rising debt repayment capacity utilization remains below high levels of the 1980's

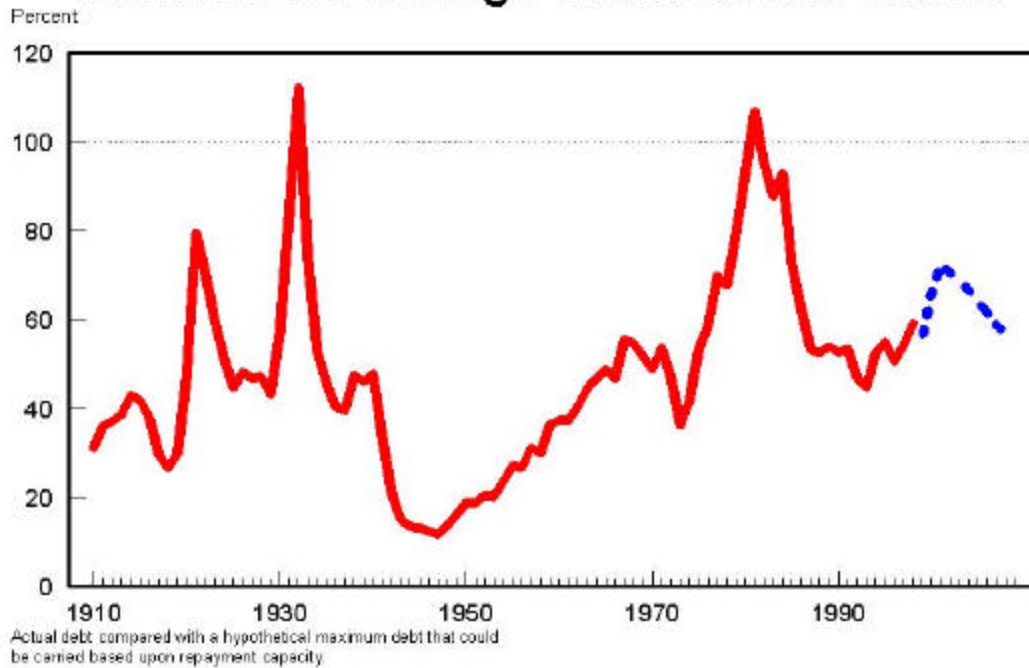


Figure 8

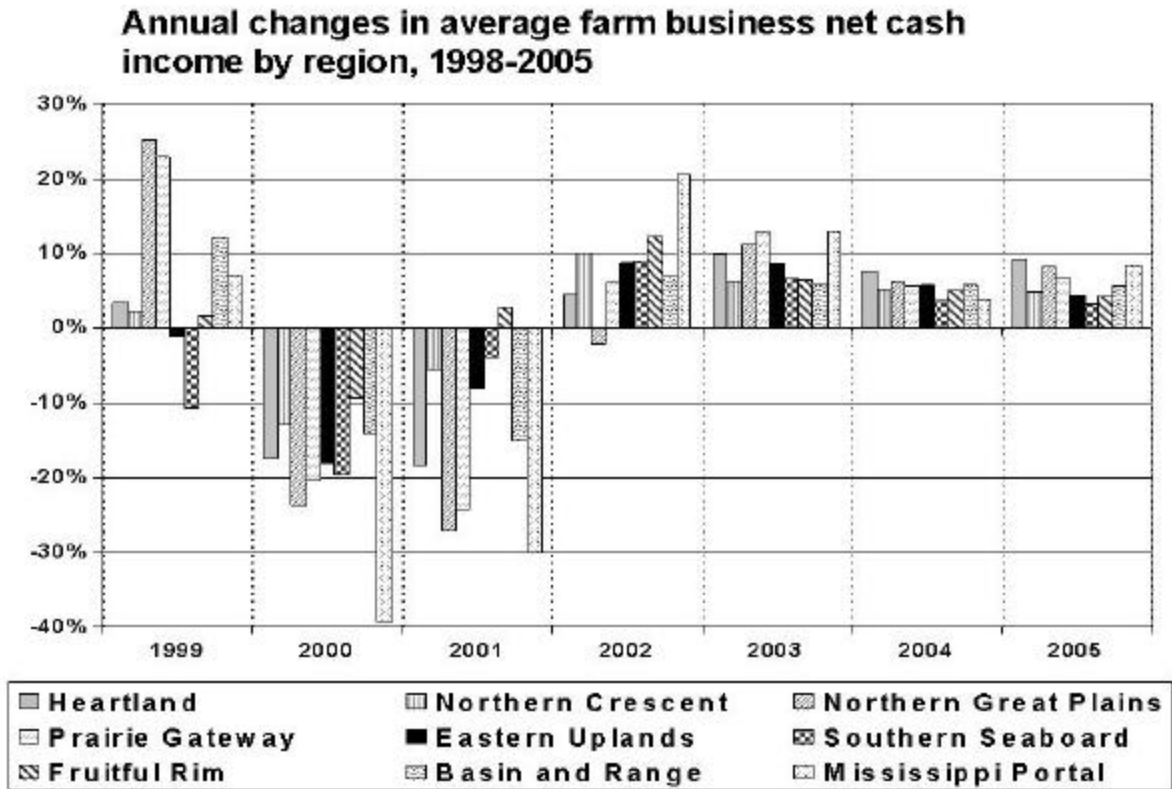


Figure 9

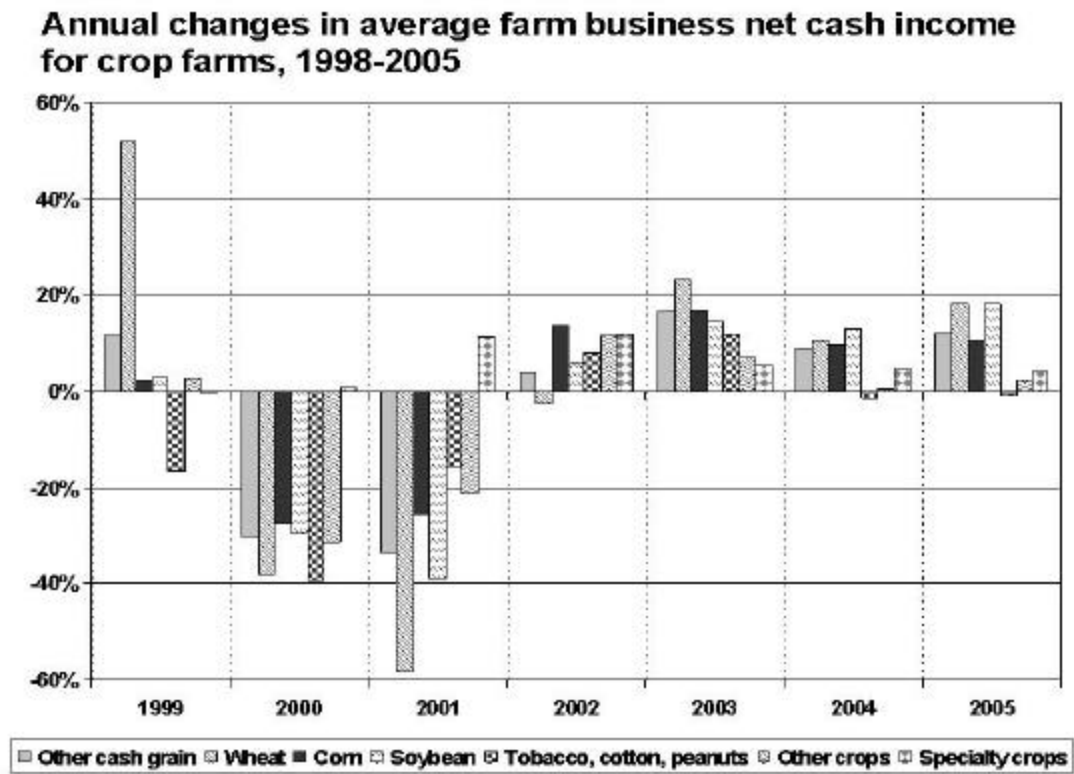


Figure 10

Annual changes in average farm business net cash income for livestock farms, 1998-2005

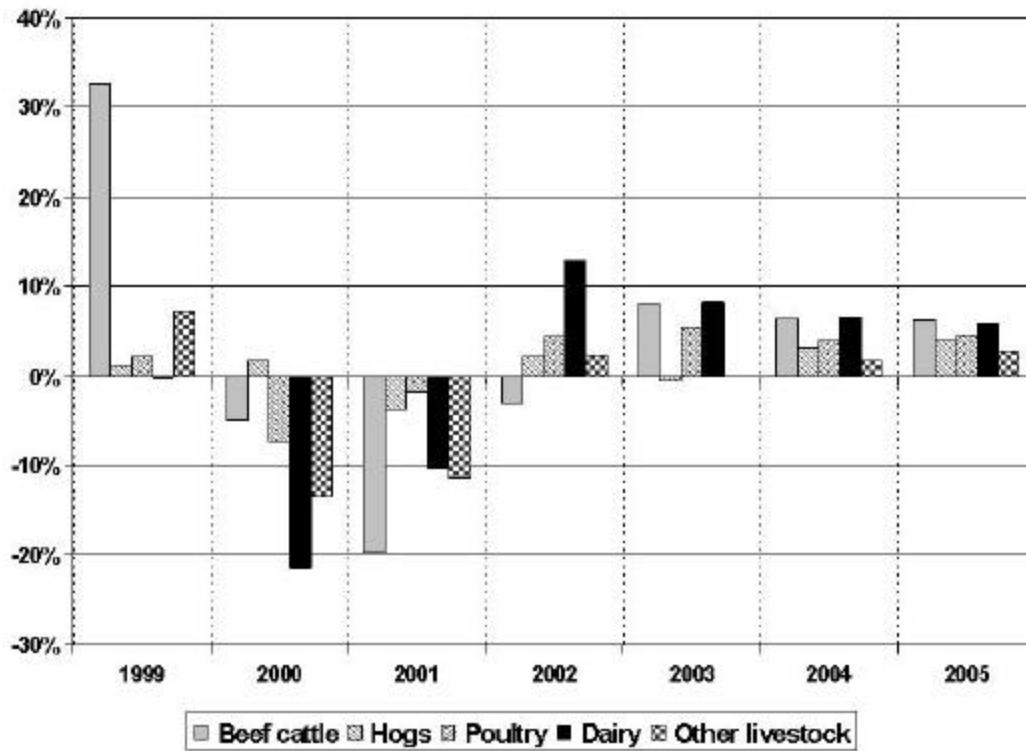


Figure 11

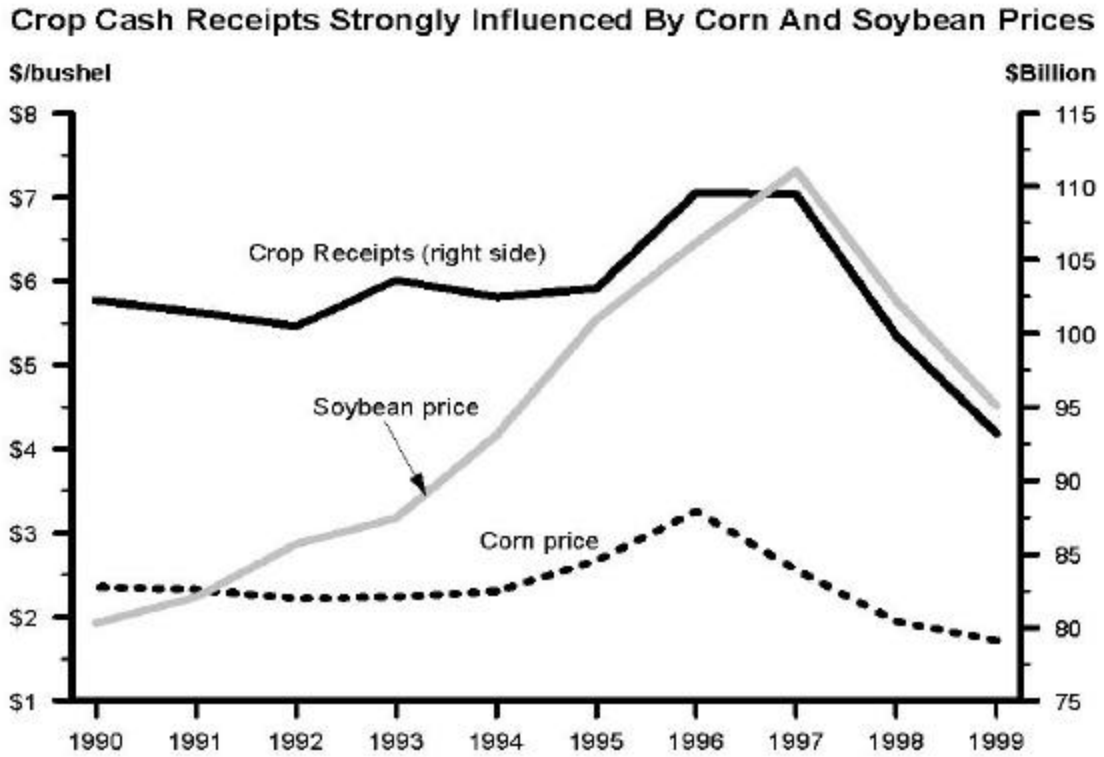


Figure 12

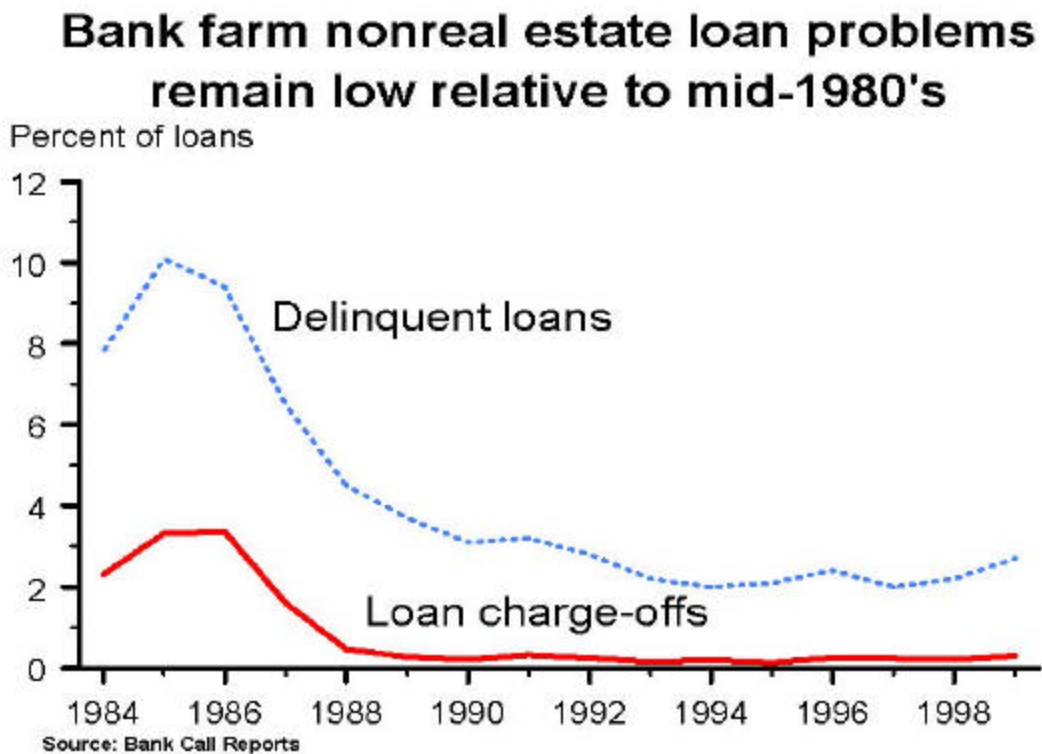


Figure 13

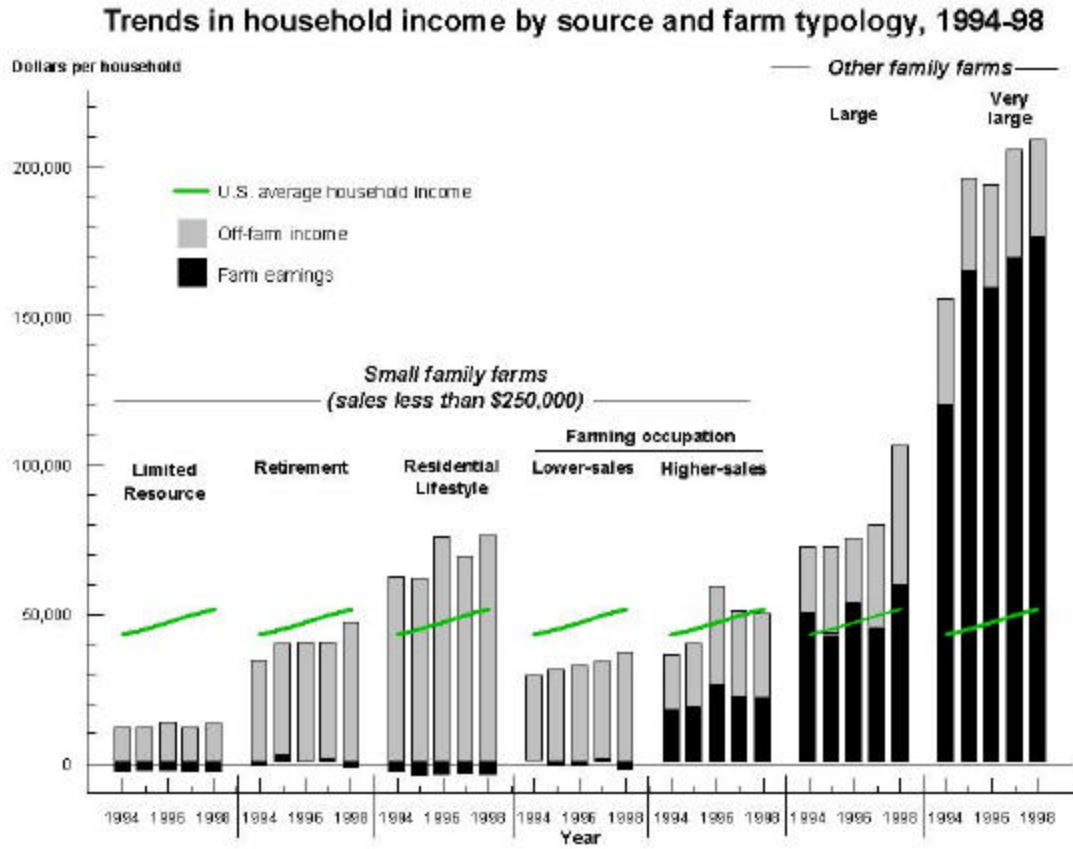


Figure 14