



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

INCOME OUTLOOK FOR U.S. FARMS AND THE FARM ECONOMY IN 2007

James Johnson and Mitch Morehart
Agricultural Economists, Economic Research Service
U.S. Department of Agriculture

Building on the momentum of favorable market conditions that began last fall, the financial condition of U.S. farmers and other agricultural stakeholders is expected to improve in 2007. Net farm income, a measure of the sector's profitability, is forecast to be \$66.6 billion. This 10-percent rise in income would supplant the amount earned in 2006 as the third largest nominal amount of income earned by U.S. farms, following only 2004 and 2005. Improvements span both crop and livestock sectors as nominal record levels of receipts are anticipated for both crop and livestock commodities in 2007. The balance sheet of U.S. agriculture is also expected to strengthen in 2007. Consistent with recent trends, increases in debt are forecast to be offset by larger increases in farm asset values. As a result, the sector's debt-to-asset ratio should remain at a historical low level in 2007.

The year ahead is one of particular uncertainty for U.S. agriculture given the fluidity of domestic and international commodity markets, unusual winter weather, volatile energy prices, and the likely passage of a new Farm Bill. Natural, economic, or other policy-based events, which may affect crop and livestock markets, terms of trade between the farm and non-farm sectors of the U.S. economy, or terms of trade between the U.S. and trading partners, are a part of farm and ranch business life. Changes in a farm's economic environment may take place quickly, requiring farmers to make adjustments in how their businesses operate. Some actions, which may be limited due to timing, may need to be taken to avoid or lessen intra-year losses. Other adjustments may take place in the context of longer-term planning about business operations. Regardless of timing, taking stock and keeping track of performance results, noting how results correspond to plans, and adjusting to align production and financing activities with business conditions and goals are key functions of farm managers as they strive to maintain or enhance income and the value of holdings.

USDA monitors production, marketing, and business management through a series of surveys conducted on an on-going basis throughout the year. Data from production, marketing and price surveys are used by the Economic Research Service (ERS) and the National Agricultural Statistics Service (NASS) to develop estimates of receipts and production values. These estimates help form a basis for forecasts provided in this paper and in periodic updates developed throughout the year. ERS also uses data from its annual farm finance and business management survey, conducted jointly with NASS, to assess input cost levels and to monitor changes in cost structure and business formation. Business management decisions monitored through the survey process include use of owned and leased assets and a variety of business arrangements in farm operations, including the presence of multiple persons in farms' ownership and management structures. Production and price changes and adjustments in business structure may affect not

only the level of output and income, but also its distribution between farms and other stakeholders and among an individual farm's owners and operators.

The next section of the paper presents the national outlook for the measures of income developed by ERS. The income outlook is followed by a discussion of production, ownership and operating structures of farms drawn from survey responses. Information about the organizational and operating structures of farms is then used to assess the income outlook for different types and sizes of farms. The last two sections of the paper examine prospects for changes in assets, liabilities and farm equity, and draw out implications of the Baseline forecasts for income and farm finances.

Farm Output and Income Projected to Rise in 2007

USDA develops three primary measures of income with each designed to provide a different perspective on the performance of farms and the overall farm economy. Value-added shows the sum of all farm stakeholders' contribution to economic activity originating on farms and ranches. Value-added tracks the final sale of goods and services purchased by consumers to the points where value originated in the economy. Since net value-added deducts the costs of all purchased inputs except an industry's own factors of production, it represents the total return to all factors used in the farming industry. In practice, net value-added is equal to the sum of net farm income and payments to employees, non-operator landlords, and lenders. Net farm income is income earned by operators in return for their labor, capital, management and entrepreneurial services. Net farm income is the long-standing traditional measure of income of U.S. farmers produced by USDA. The third measure, net cash income, is a financial indicator that measures the amount of cash available to cover withdrawals for family living and other expenses, pay taxes, and service debt. All three measures of income are forecast to rise over 2006 levels in 2007, with cash income having the smallest nominal increase.

Net value-added. Net value added is forecast to rise 8 percent in 2007 to \$118 billion. The forecast anticipates an increase over 2006 largely because of a more than 8 percent increase in the value of farm output led by a 30 percent increase in the value of feed crops (figure 1). The increase in farm output is forecast to be large enough to more than offset a projected 6 percent rise in purchased input costs and a reduction of almost a fourth in government payments. Putting the 2007 forecast in historical context shows that, if achieved, 2007 would be the third largest amount of value-added recorded for the farm sector and the fifth consecutive year that net value-added has exceeded \$100 billion.

Agriculture, not just farm operators, but also stakeholders that contribute resources, has had a period of five consecutive years of economic activity and returns that result in the five largest amounts of net value added on record. After adjusting for changes in price levels, the nearly \$9 billion increase forecast for value-added is large enough to sustain growth from 2006 in real terms. In real terms, value-added generated within agriculture during the 2003-2007 period will have been surpassed only by the amounts of value-added produced in the early and late 1970's and prior to that the 1940's and early 1950's.

With the combination of rising costs and lower payments, a more than \$20 billion increase in value of farm production is the key factor contributing to an increase in net value added in 2007. The value of crop production and revenues from forestry and services are forecast to reach nominal record levels in 2007, while value of livestock production would be the second largest,

trailing only 2005 (figure 2). Even after accounting for changes in general price levels, value of production in real terms will about equal 2004's level and, except for 2004, will exceed the level of earnings generated in any other period over the last 25 years. Value of crop production is forecast to rise by over \$18 billion from 2006's \$120 billion and will exceed the previous record established in 2004 by more than \$12 billion. Gains in value of output will be widespread with only the vegetable sector forecast to generate a smaller value of production in 2007 than in 2006, a nominal record high year (figure 3). A projection of lower prices is the primary factor underlying the reduction in the value of vegetable production in the 2007 forecast. Meanwhile, the value of feed crops production is forecast to be 30 percent higher in 2007, followed by food grains at 20 percent, tobacco at nearly 10 percent, and oil crops at more than 6 percent. Rising prices for each of these major crop sectors are key factors underlying the forecast of higher receipts. Nowhere is the rise in price more evident than for corn where price levels for the 2006/07 crop have risen sharply and resemble those earned over a decade earlier. The increase in value of livestock production will be about one-sixth the increase for crops, rising about \$3 billion versus \$18 billion for crops. Over half of the increase in value of livestock production will come from dairy with higher prices being the primary reason for the increase. Poultry and cattle will also contribute higher value of production while hogs are forecast to be lower (figure 4). The reduction in hog value of production is a result of a lower price forecast, which may be more than 10 percent below those received in 2006.

Government payments are forecast to be \$12.4 billion in 2007, down nearly a fourth from the \$16.3 billion received in 2006 (figure 5). The largest reduction in payments in 2007 will be for payments that are sensitive to changes in prices for payment-eligible crops. Prices for these crops, such as corn, wheat, and soybeans, are generally expected to be higher this year. Price sensitive crop payments include counter-cyclical, loan deficiency and marketing loan gains. Together, these three payment categories will account for 86 percent of the reduction in total direct payments from 2006's level.

The cost of purchased inputs is forecast to rise for the sixth consecutive year to a nominal record of \$164 billion. Taking into account capital consumption, payments of rents, wages and interest to stakeholders, and taxes, registration and license fees to governments adds another \$87 billion to the forecast of farm expenses for 2007. Like purchased inputs, total production costs are forecast to reach a nominal record. Including 2007, farm expenses have risen from \$7-\$15 billion annually in the last five years—high by historic standards. When expressed as a percent change, however, changes in expenses during this period resemble changes that occurred in the late 1980's and mid-1990's and lags behind the annual percent changes in costs that occurred from 1971 through 1981.

Different expense categories have led the increase in costs during the last five years. Early in the period costs for farm origin inputs such as feed, livestock and seed increased more than expenses for manufactured inputs such as fertilizer, or other inputs and services (figure 6). From 2003 to 2005, costs of inputs such as fuels, fertilizer, marketing, storage and transportation, and miscellaneous inputs rose more rapidly. In 2007, the cost of feed, a farm origin input, is forecast to increase by about 13 percent over 2006, the largest increase forecast for any input item. Costs of inputs such as repairs, marketing, machine-hire and custom work, and contract labor services are forecast to increase from five to nine percent and, as a group, will trail only feed in terms of the year-over-year percentage increase. Unlike the increase in feed, which is expected to be driven almost entirely by changes in prices, increased expenditures for the wide variety of operational inputs and services used in agriculture are expected to reflect both higher prices and

greater use arising from a larger amount of agricultural output. Manufactured inputs, as a group, are forecast to increase at a slower percentage rate than other purchased inputs in 2007. In a turn about from recent years, fuel costs are forecast to be slightly lower, a result of lower prices. If this forecast holds, 2007 would be the first reduction in fuel expenses since 2002 when total expenditures were about \$300 million less than in 2001. The cost of purchased livestock is also forecast to be less in 2007, again the result of lower prices.

Net Farm Income. Sources of gross income, including sales of commodities, government payments, imputed rents for occupied dwellings, and other earnings such as machine hire or on-farm use of farm products, are forecast to increase at a slightly faster pace than total farm expenses. This results in the increase in income for farming as a sector of the U.S. economy. In 2007, net farm income will account for nearly 56 percent of net value added by the sector, about the same as in 2006, but down from the 60-plus percent share earned during 2003 to 2005. In 2007, operator's share of value added as net income will more nearly resemble the share earned earlier this decade and in the 1980's and early 1990's. Rents, wages and interest costs which, together, form the stakeholder share of net value added will return to a level more nearly like the 1990's.

Net Cash Income. Net cash income, a measure of agriculture's cash margin, is the difference between farming's sources of cash income and cash expenditures for all production inputs. Net cash income is forecast to be \$67.2 billion in 2007, only slightly more than the \$66.7 billion estimated for 2006. Gross cash income, at \$289.8 billion, is projected to be \$12.7 billion higher than 2006's level and a nominal record high amount. Meanwhile, cash outlays for production inputs are forecast to increase by \$12.2 billion to a nominal record of \$222.6 billion. Putting the estimate of \$67.2 billion for 2007 into an historical context indicates that 2007 will be the fourth largest amount of cash earnings, trailing the record setting period of 2003 to 2005. Moreover, net cash income in 2007 will remain above the prior 10-year average, even though this period includes 7 of the top 10 net cash income earning years on record. Measured in constant dollars, the 2007 forecast of \$56.6 billion will be down from both 2006 at over \$57 billion and the prior 10-year average at \$61.9 billion.

Comparing cash operating expenses to sources of income indicates that nearly 77 cents of each dollar of earnings will be used to purchase inputs in 2007, leaving 23 cents to cover unpaid labor, management, taxes and capital costs (figure 7). Expense to income ratios have shown production expenses taking about 75 cents or so out of each dollar of cash revenue since 2000, except for the record setting years of 2004 and 2005. This is roughly 3 to 5 cents more than in the previous decade. Rising expenses to revenues suggests continued pressure on cash margins and points to the importance of actions taken by farmers to adjust their businesses to manage their cash positions and to utilize practices to help control production costs and enhance income.

Farm Production, Ownership, and Operating Structures Differ

Decisions regarding asset acquisition and use of complex organizational structures in farming have widened the number and types of entities participating in U.S. agriculture. Ownership and business structure decisions, made during startup or when adjustments are undertaken to re-cast business activities, can affect the distribution of value-added and income generated from farming. Primary organizing decisions that affect the distribution of value added include those that center on ownership, tenure, and farm capital structure. Decisions to own or lease assets,

particularly land and machinery, combined with decisions to use owner equity or debt financing to acquire capital items and operating inputs establish how many parties have a claim on farm income and wealth. The outcome of these decisions governs what share of value added will be paid to stakeholders and what share will accrue to farm business establishments as net income. Farms differ greatly in the use of lease and finance arrangements. Once a farm's net income is established, other business organizing or formation decisions affect how income will be shared among claimants. Examples of organizing decisions that affect the distribution of earnings include whether multiple owners or operators are included in the business governance and operating structure, or whether any of a variety of business arrangements, such as a production contract or joint venture with a neighbor or other party is used. These organizational decisions, whether formal or informal, establish rules for distributing net income that accrues to individual claimants. As with ownership, there is considerable variation in business arrangements and ultimately how farm earnings are shared.

Farmers lease land, machinery and equipment, structures, and livestock. In 2005, 32 percent of all farms and 54 percent of commercial farms incorporated some leased land in their business operations. Leased acreage accounted for nearly 44 percent of total acres operated in 2005. About 6 percent of farmers reported leasing machinery, 12 percent of commercial farms, while 2 percent reported livestock share leases. Moving to use of debt financing, 40 percent of farmers reported owing debt at year-end 2005. Like leasing, use of debt financing varies greatly among farms. About three-fourths of farms with sales of \$250,000 or more reported owing debt in 2005 while only a third of farms with sales less than \$100,000 reported debt. Data on debt use and leasing suggest that landowners and/or creditors share in the value added produced by at least 40 percent of farms, at a minimum, through lease and debt service payments.

In 2005, about 3.4 million owners were associated with the nation's 2.1 million farms. Three million of these owners were the operator or members of the operator's household, most likely reflecting joint ownership of the business by the operator and his or her spouse. A variety of legal structures are reported for farms, with the most common form being proprietorships, which account for 92 percent of farms. The remaining 8 percent of farms include partnerships, corporations and other entities such as trusts and estates. Operators of non-proprietor business forms report multiple owners and or operators, which accounts for over 425,000 owners that reside outside principal operators' households. Combined, partnerships and corporate forms of farm businesses reported 400,000 partners and members of corporate boards in 2005, leaving a relatively small number of owners originating from informal partnering or other business arrangements. Like leasing and debt financing, the number of owners and operators tend to increase with size of farm, rising from 1.6 owners per farm, on average, for farms with less than \$100,000 in sales to 2.7 owners, on average, for farms with over \$1 million in sales.

Farming includes a variety of business arrangements in business ownership and governance structures. In 2005, about 2 percent of farms reported having a production contract, with the percentage rising to twenty-five percent of farms with over \$1 million in sales. About 3 percent of farms were organized as limited liability companies and nearly one percent indicated that the business was part of a larger firm or corporation. Ownership and governance structures differ among farm types based on the commodity emphasized in production. For example, in 2005 poultry, general livestock, bean and corn farms reported the largest share of owners being a part of the operator's household. The smallest shares were for hog, rice, cotton, tobacco and peanut farms.

Income Outlook and Financial Circumstances Vary Among Farms

Net cash income for farm businesses (intermediate and commercial operations including non-family farms) is projected to average \$68,680 in 2007. Consistent with sector-wide forecasts, this represents a relatively small increase (1.3 percent) from the 2006 forecast of \$67,761 per farm. At the farm level, the 2007 forecast remains 9 percent higher than the previous five-year average. The projected change in income prospects for farm businesses will not affect all farm operations in the same manner or to the same degree. As illustrated above, there is considerable variation in business structure, including the extent to which assets are owned, the mix of crop and livestock enterprises produced, the contribution of Government payments to gross income, and the relative importance of energy inputs and borrowed capital to production costs, which may affect how projected changes in the economic outlook will differ among farms.

The income forecast across farm types reflects the dichotomy in expected market conditions and production costs between different crops and between crop and livestock producers in 2007. Farms that specialize in the production of mixed cash grains, wheat, and corn are projected to have their highest average net cash incomes of this decade with projected increases that range from 17 to 29 percent over levels forecast for 2006 (figure 8). In contrast, average net cash incomes are forecast to decline for specialty crop producers by 9 percent and are projected to be almost 4 percent below 2006 levels for farms that specialize in cotton and rice. For these crops, receipts are increasing, but at a slower pace than the nearly 6-percent projected increase in production costs. This would be the first decline in average net cash income for specialty crop producers since 2002, but 2007's income forecast remains 20 percent above the previous 5-year average. The only increase in average net cash income forecast for livestock producers in 2007 is for poultry, although at 1.5 percent it is expected to be a relatively small increase over 2006 (figure 9). The largest projected decline is for general livestock farms at 23 percent. Income for hog farms is projected to be 19 percent lower in 2007. With exports expanding less rapidly than in previous years and production expected to increase, hog prices are forecast to decline by 11 percent in 2007. Income reductions are further compounded by expectations of higher feed costs. Even though a slight decline (1.5 percent) is forecast for average income of farms that specialize in beef production, they are the only livestock specialty where 2007 income remains above the previous five year average. Strong growth in the last three years is expected to put cattle producers in the strongest position of any farm type (37 percent above) relative to the previous five-year average. Dairy farms, on the other hand, with three consecutive years of declining income, would be in the worst position (minus 29.7 percent) relative to the previous 5-year average.

Geographic concentration of commodity production explains much of the regional variation in the income outlook for farm businesses. Areas of the county with concentrations of grain and soybean production such as the *Heartland*, *Northern Great Plains*, and the *Mississippi Portal* are forecast to have 10-percent increases in average net cash incomes. The largest declines in average net cash income are expected to occur in the *Fruitful Rim* (minus 10.5 percent) where much of the specialty crop production takes place and in the *Southern Seaboard* (minus 8.6 percent) where hog production is prominent. Three regions—*Northern Crescent*, *Eastern Uplands*, and *Basin and Range*--are forecast to have a decline in average net cash income of less than 2 percent. Average net cash income in the *Mississippi Portal* and *Southern Seaboard* are projected to be more than 20 percent below the previous five-year average.

There is also considerable variation in projected net cash income by size of farming operation in 2007. Commercial operations, which represent about 9 percent of farms and 75 percent of production, are expected to experience less than a 1 percent increase in average net cash income for 2007. The 2007 forecast for these farms is still 6 percent higher than the previous five-year average. The largest percentage increase (almost 6 percent) is forecast for intermediate farms (primary occupation of farming and gross sales below \$250,000) and results in net cash income that would be 2 percent below the previous five-year average. Two-thirds of U.S. farms are classified as rural residences—operators of which typically earn most of their household income from off-farm sources. In contrast with operators of intermediate and commercial farms, the vast majority of these rural residence farmers were employed off-farm prior to becoming a farmer, with a much larger share of both operators and their spouses having off-farm jobs. The farm operations of these households have for many years averaged a negative net cash income, with 2007 as no exception.

Assets, Liabilities, and Farm Equity Forecast to Rise

Rising farmland prices and cautious borrowing are expected to keep farm balance sheets at historically sound levels in 2007, as measured by debt in relationship to owner equity and by debt relative to the total value of farm assets. Farm real estate, which represents about 85 percent of total farm assets, is projected to increase by 4.7 percent in 2007. This would be a slow down from the tremendous rates of growth in land values that occurred between 2003 and 2005 when values rose by 34 percent over this period. In contrast with this large run up in values that was driven by non-farm demand for real estate and historically low-interest rates, the expectations for growth in crop receipts has buoyed farm investors' and lenders' collective expectations about longer-term profitability of farming. In 2007, real estate will account for 86 percent of farm asset values. Real estate's share of asset value is up from about 75 percent in the 1990's and 78 percent as late as 2000. These relationships underscore the effect of the change in farmland prices in recent years on farm capital structure. The value of U.S. agricultural assets is forecast to rise by 3.9 percent in 2007, which represents a return to growth rates more typically seen during the 1990's and earlier parts of this decade.

Farm sector debt has been rising since 1989 and is expected to increase by 4 percent in 2007 reaching \$235 billion (figure 10). The 2007 forecast would be a continuation of the slowdown in debt accumulation that has occurred since 2005. The financial position of the U.S. farm sector, as measured by total farm liabilities relative to either total farm assets or total farm equity, has improved since 2002. In 2007, the debt-to-asset ratio is forecast to be 11.8 percent—identical to 2006's forecast value and the lowest value of the ratio since annual measurements began in 1960. Farm sector equity, the difference between assets and debt, is forecast to rise by 3.9 percent. The cumulative gain in farm equity since 2003 would approach \$580 billion, or about a third of the total value of equity held in farm assets. Equity values have increased each year since 1986. The change in equity has exceeded the change in debt each year during this 21-year time span. The result is that equity has risen dramatically relative to debt, with debt-to-equity ratios falling from 26.5 to the projection of 13.4 in 2007. Debt capital, forming 13.4 percent of agriculture's asset base in 2006 and 2007, is the smallest relative contribution of debt to agriculture's capital base since the 1960's and, once again, reflects the sustained rise in real estate values since the 1980's. A key point from the discussion of farm organizational decisions is that over 40 percent of the land in farm operations is leased. This means that the increase in farm equity value, which accrues to owners, may be broadly shared among persons and entities some of whom only participate in farming through the ownership of a production asset.

Implications of USDA's Baseline Forecast for Farm Income and Financial Performance

Incorporating the longer-term outlook for crop and livestock production, prices, and production expenses into projections of value added and net income point to a farm sector that is expected to build on 2007's contribution to the U.S. economy. Net value added is projected to experience nominal annual increases between one and five percent during the first half of the baseline period. Smaller, but positive changes are projected for remaining years included in the baseline (figure 11). Steady annual increases in value-added are projected to lead the sector to new nominal record levels of economic contribution, with the sector projected to surpass the \$129 billion set in 2004 within the first half of the 10-year baseline.

Current indications are that net farm income should be relatively stable in the mid to upper \$60 billion range through the baseline period. For most years of the baseline, net farm income is not projected to increase as much as overall value contributed to the U.S. economy. Stakeholders in the form of lenders, employees, and landowners are projected to take an increasing share of value-added as payment for access to production services. A ratio of net farm income to net value added which averaged 0.54 during the 10-year period, 1996-2005, is projected to be about the same level in 2007 prior to pulling back to 0.50 or below through the baseline period. Even with a larger share of value-added going to stakeholders, net farm income is projected to average \$66.7 billion through the baseline period. This compares to \$57.4 billion during the prior 10-year period, which includes the record setting levels of income earned during 2004 and 2005. Measured in real terms, net income is projected to remain in the \$48 to \$52 billion range for the first 5-6 years of the baseline before being eroded by changes in price levels in the outer years of the baseline period.

Both crop and livestock receipts are expected to expand through the baseline period with total receipts for all commodities projected to approach or exceed the \$300 billion level by the end-years of the baseline. With growth in receipts and gross farm income, a larger share of farm revenue is projected to come from market sources. Payments as a share of gross cash income are projected to drop from the 7 percent level in 2005-2006 to about 3 to 4 percent of gross income during the baseline period. Current projections suggest that charges for interest, rent payments, and wages to hired labor will increase at a higher rate than costs for most other input items, including manufacturing inputs. Payments to owners of these factors of production will keep pressure on net income earned by farms. Net cash income is not projected to reach the records established during 2004-05. However, expansion in cash revenues is projected to be sufficient to result in net cash income nudging above the \$70 billion level in nominal dollars during the mid-years of the baseline and to average over \$69 billion for the entire period. In comparison, for the prior 10-year period, 1997-2006, net cash income averaged \$64.6 billion. Through the baseline, cash expenses are projected to require 77-80 cents of each dollar of revenue, leaving 20 to 23 cents available to meet operator withdrawals, capital expenditures, taxes, debt payments and other needs. The share of revenues needed to cover cash expenditures is up from 73.5 during 1997 to 2006, indicating that farmers will need to be diligent in dealing with continued pressure on cash positions even though incomes are projected to be at a higher over all level. This is further illustrated by estimates of farmers' use of debt repayment capacity which is projected to gradually increase from a level of near 60 percent in 2006 to a level near the mid and upper 60's in the out years of the baseline period.

Figure 1. Net value-added and net farm income rising in 2007

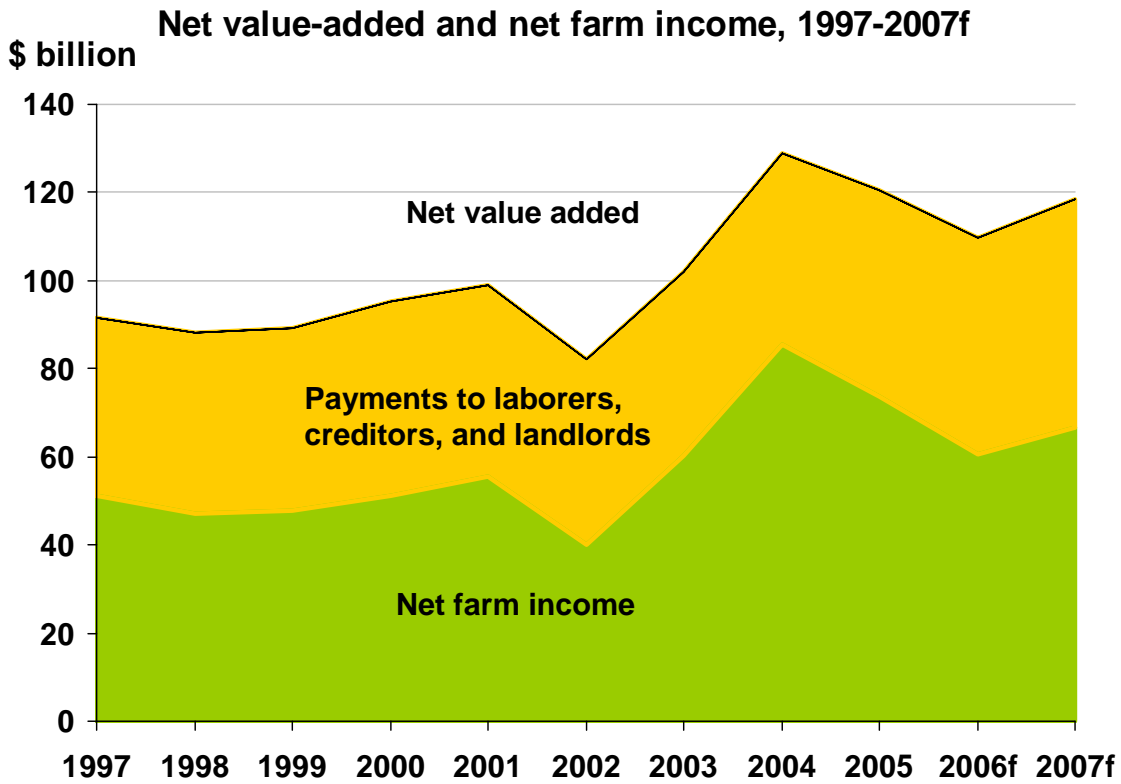


Figure 2. Crop and livestock value of production increase in 2007, with crop value reaching a record.

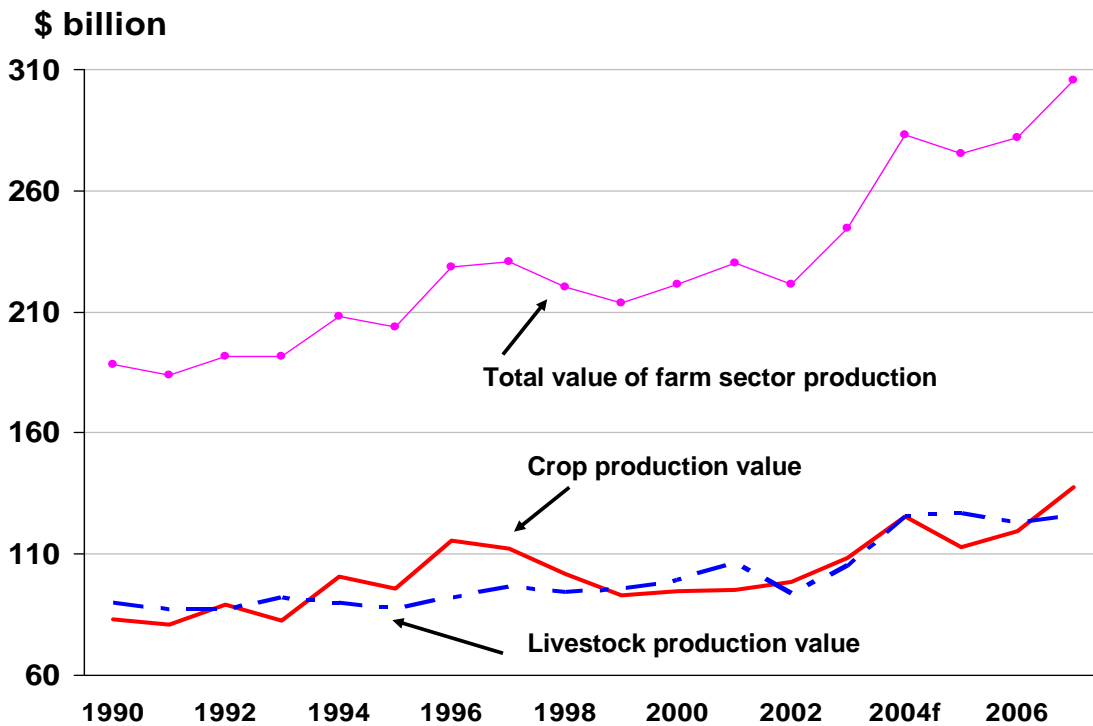


Figure 3. Receipts increase for most crops, with corn, wheat, soybeans and hay accounting for a large portion of the rise from 2006.

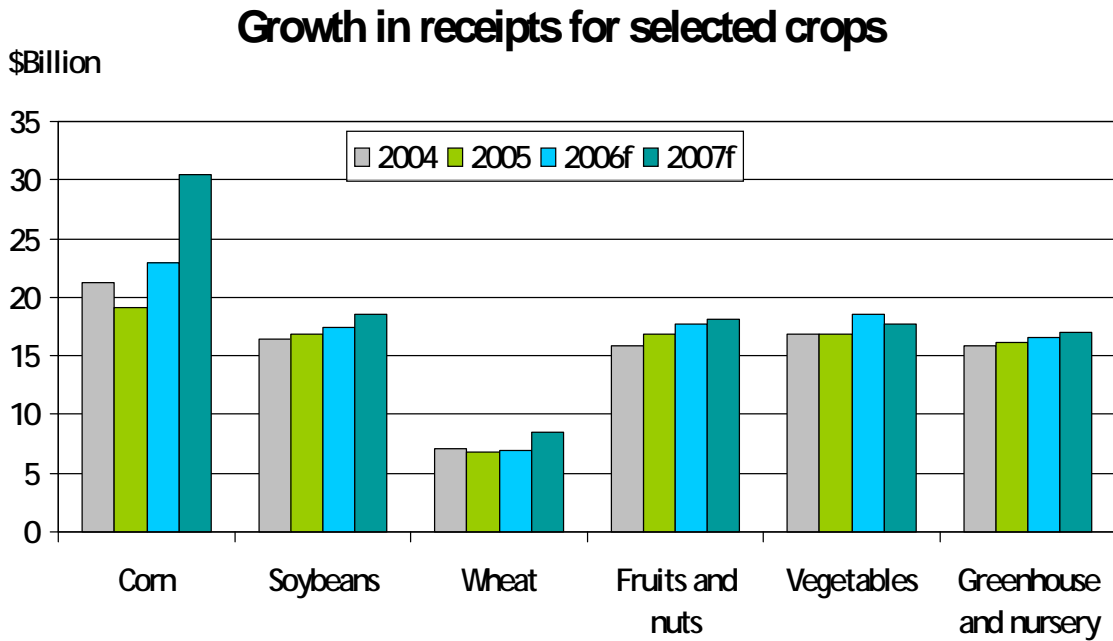


Figure 4. Livestock receipts exceed \$100 billion for fifth consecutive year.

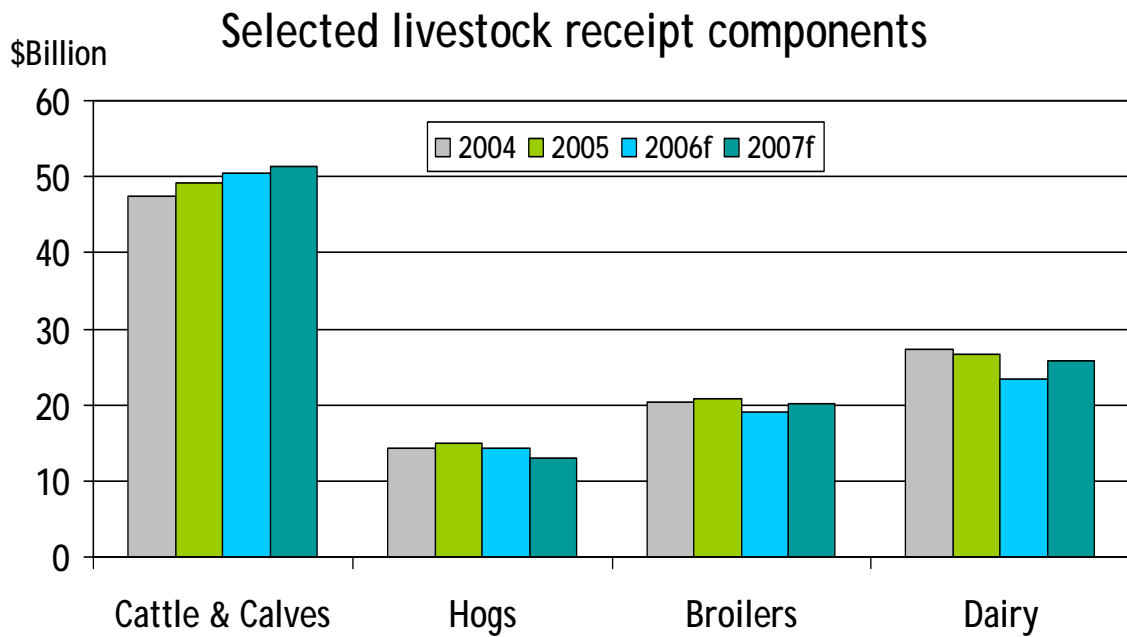
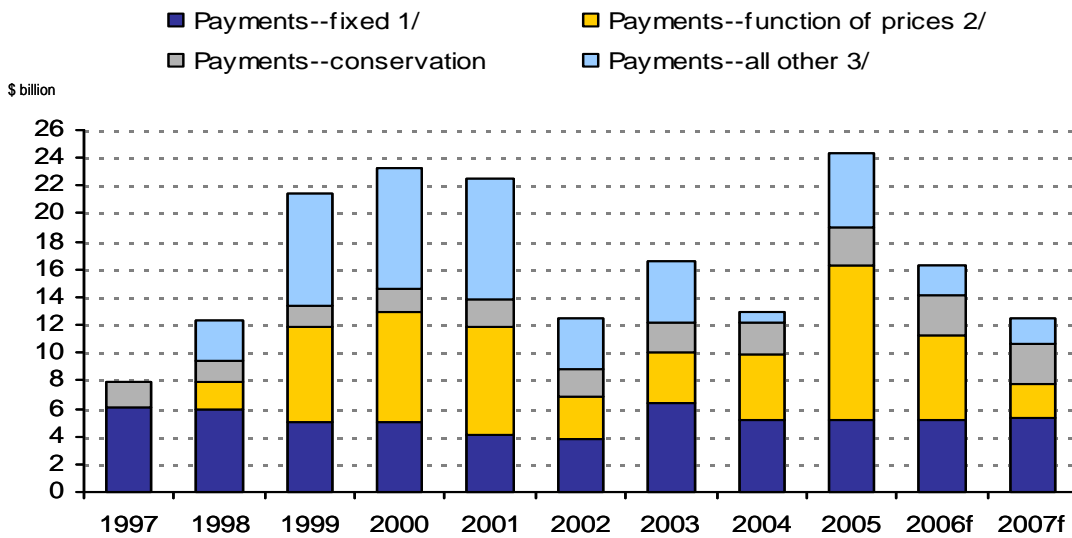


Figure 5. Government payments forecast at lowest level since 2002.

Government payments, 1997-2006f



f = forecast.

1/ Production flexibility contract payments and direct payments, where payment rates are fixed by legislation.

2/ Counter-cyclical payments, loan deficiency payments, marketing loan gains, and certificate exchange gains, where payment rates vary with market prices.

3/ Ad hoc and emergency program payments, tobacco transition program payments, milk income loss program payments, peanut quota buyout payments, and other program payments.

Figure 6. Farm expenses are forecast to be nearly 6 percent higher in 2007, with feed increasing most over 2006.

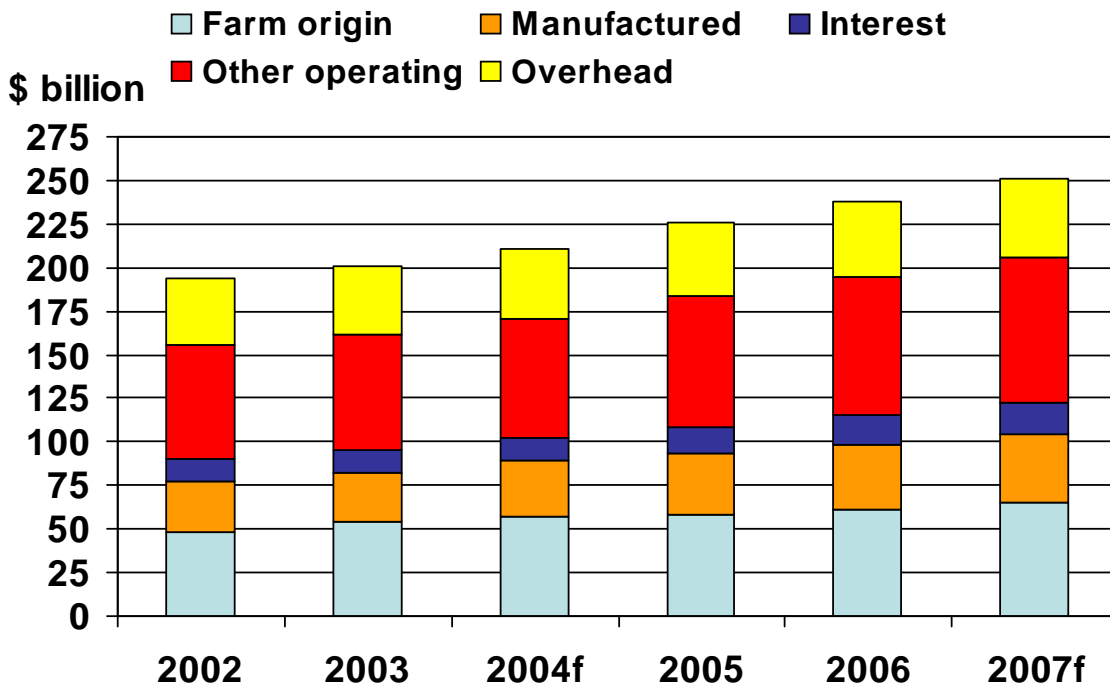


Figure 7. Ratio of cash expenses to gross cash income indicates larger share of funds needed to pay cash costs in 2007.

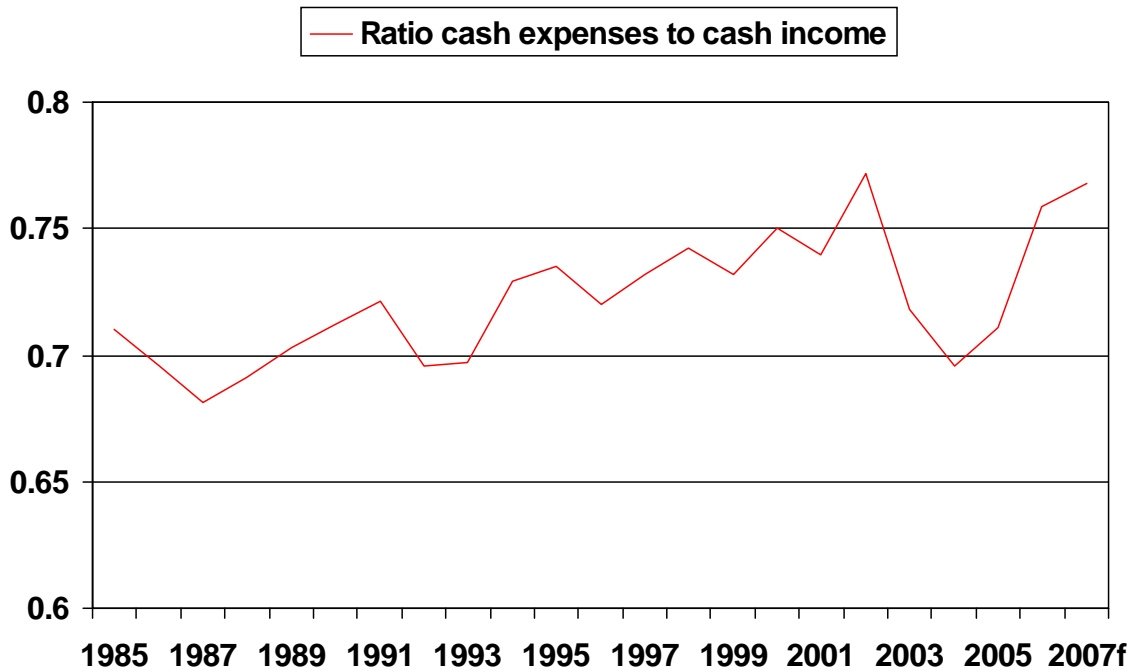


Figure 8. Average incomes forecast to increase for most program crop producers.

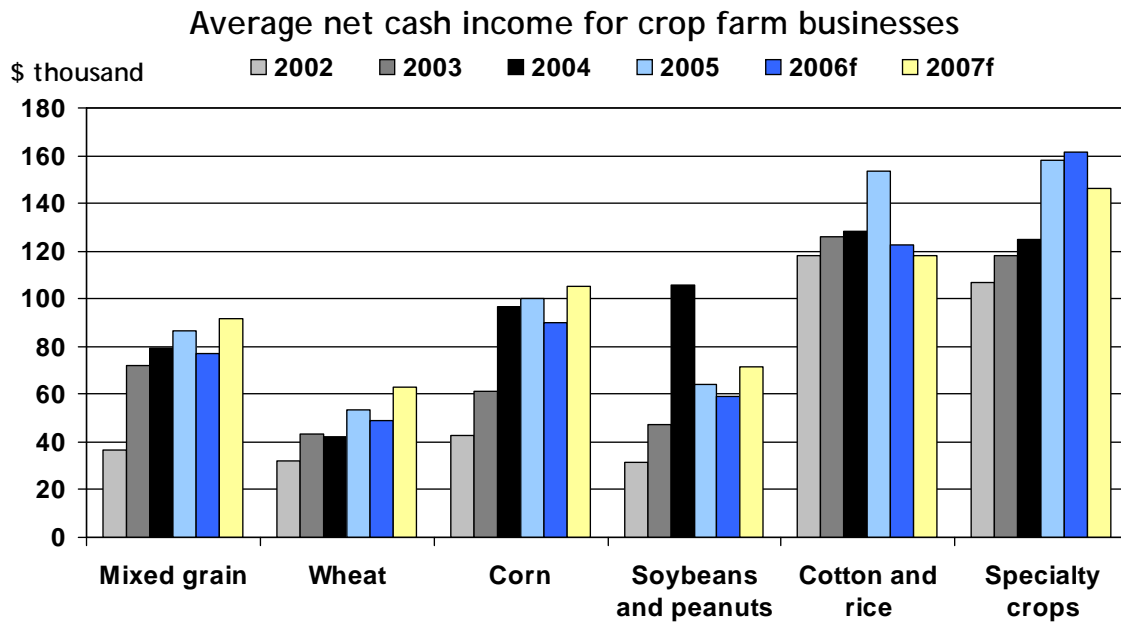


Figure 9. Expense increases outpace gains in receipts for most livestock farms.

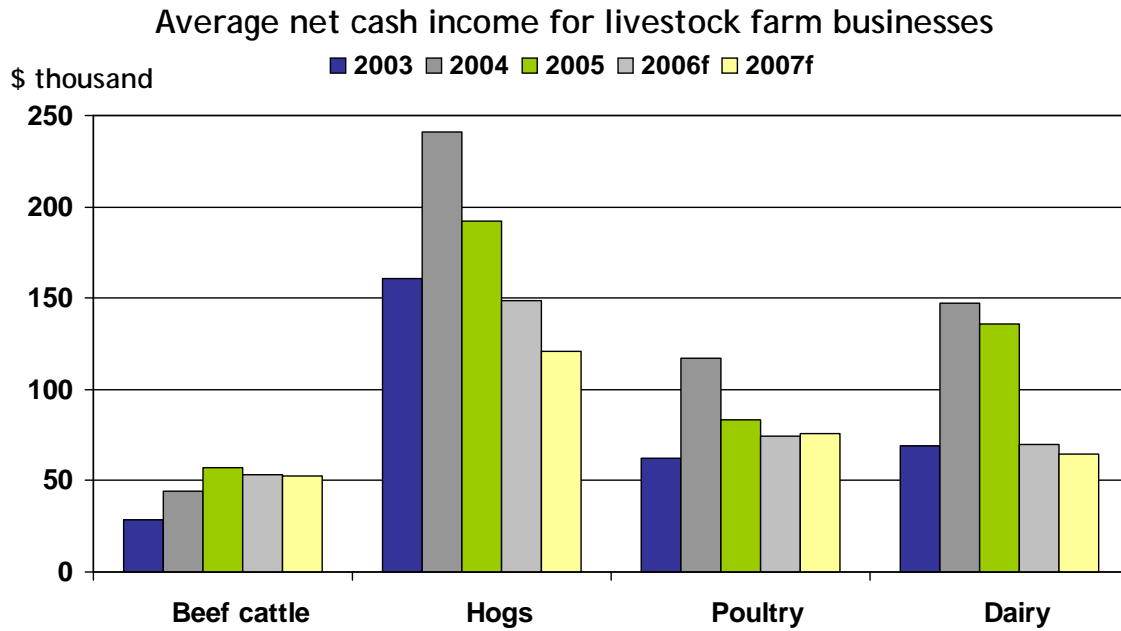


Figure 10. Farm Assets, Debt and Equity at Record High Nominal Levels in 2007.

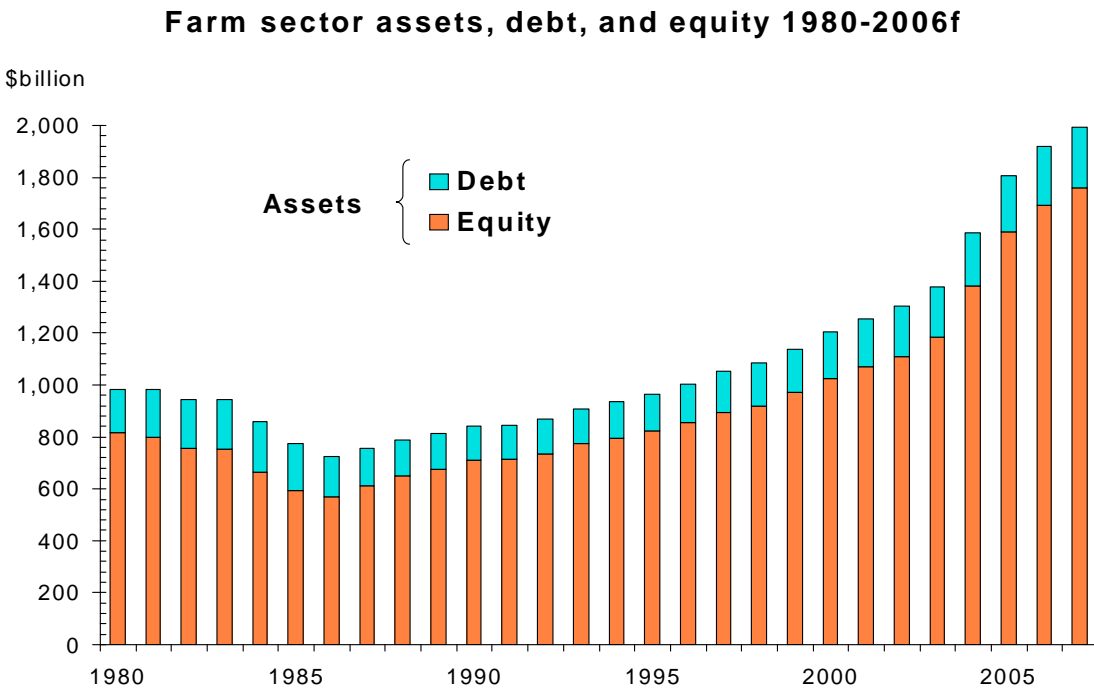
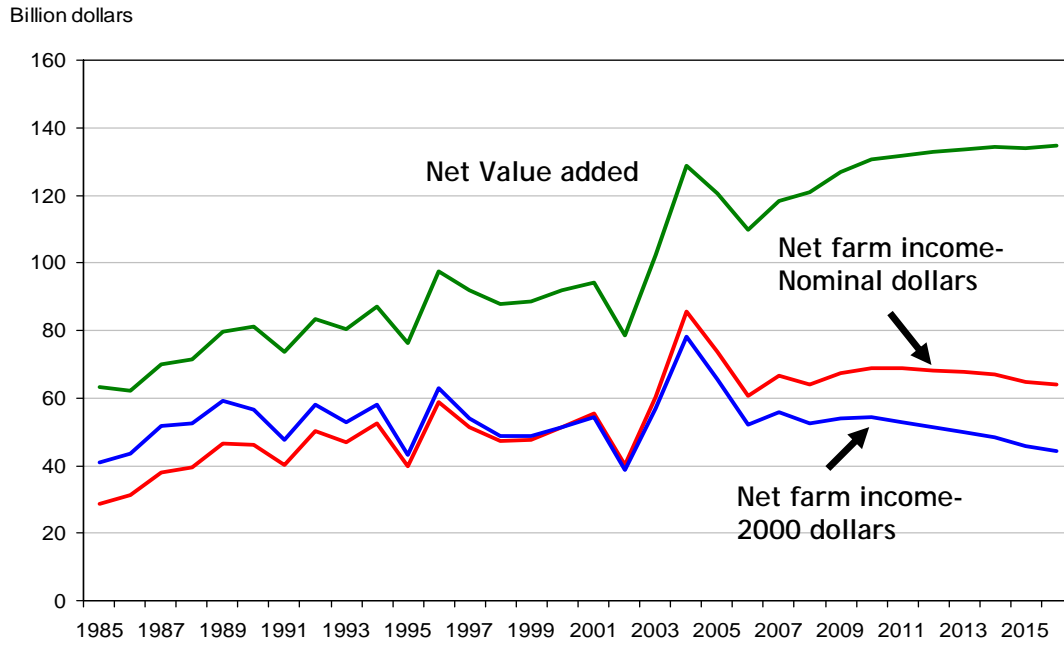


Figure 11. Net Value-added forecast to expand through baseline period; nominal net income remains in mid-to-upper \$60 billion range.



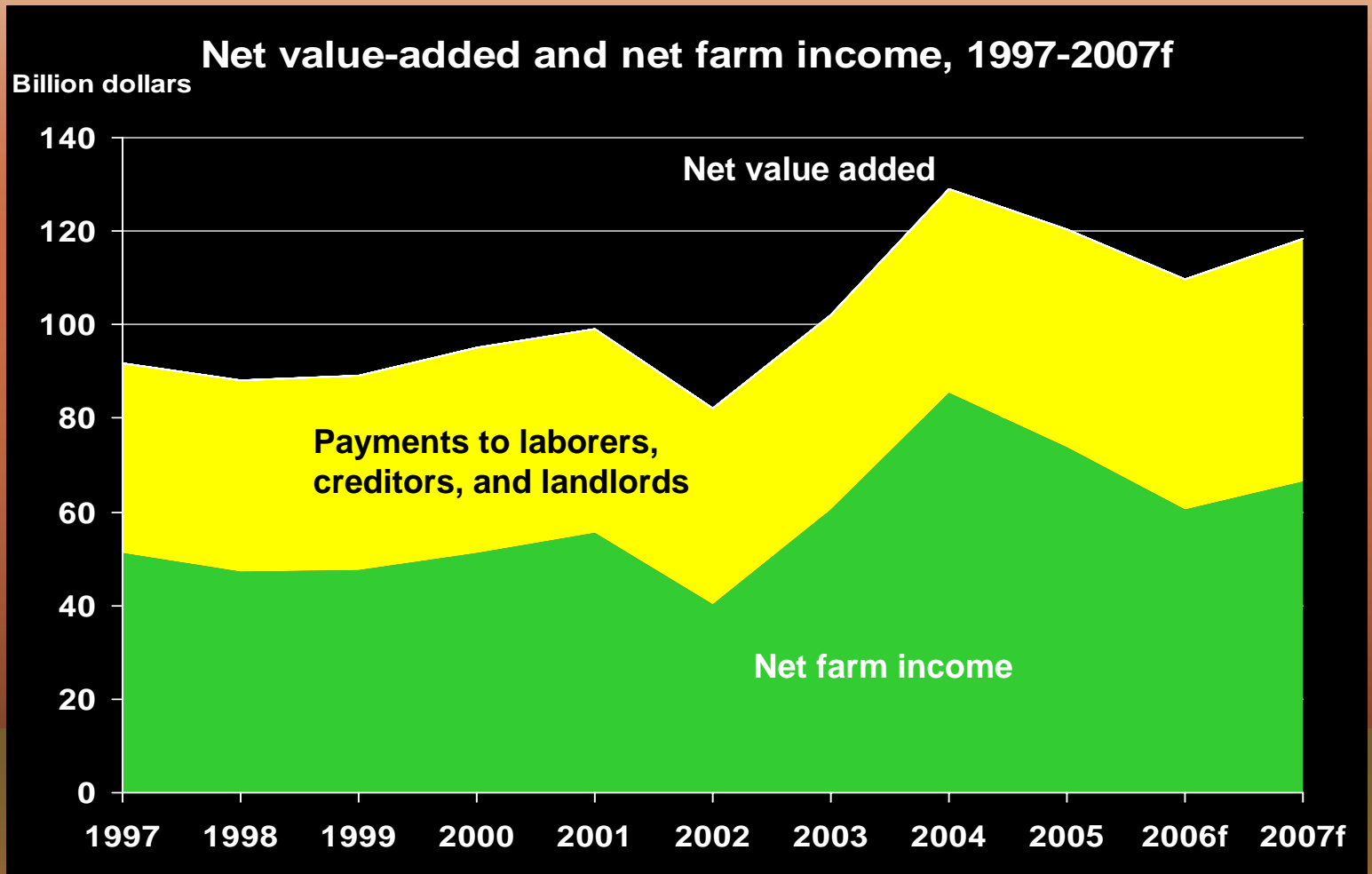


Income Outlook for U.S. Farms and the Farm Economy in 2007

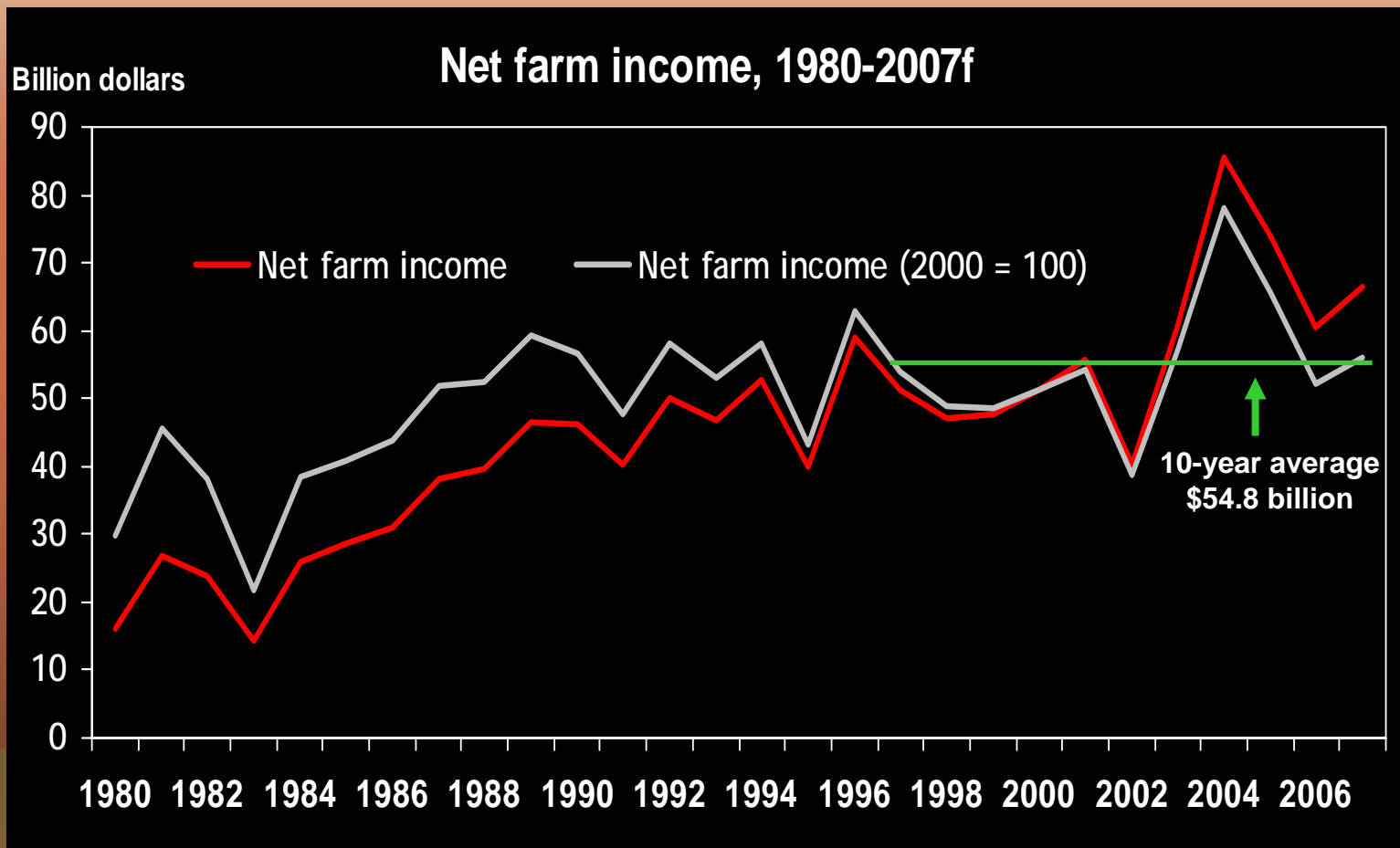
Economic Research Service

USDA Outlook Forum
March 2007

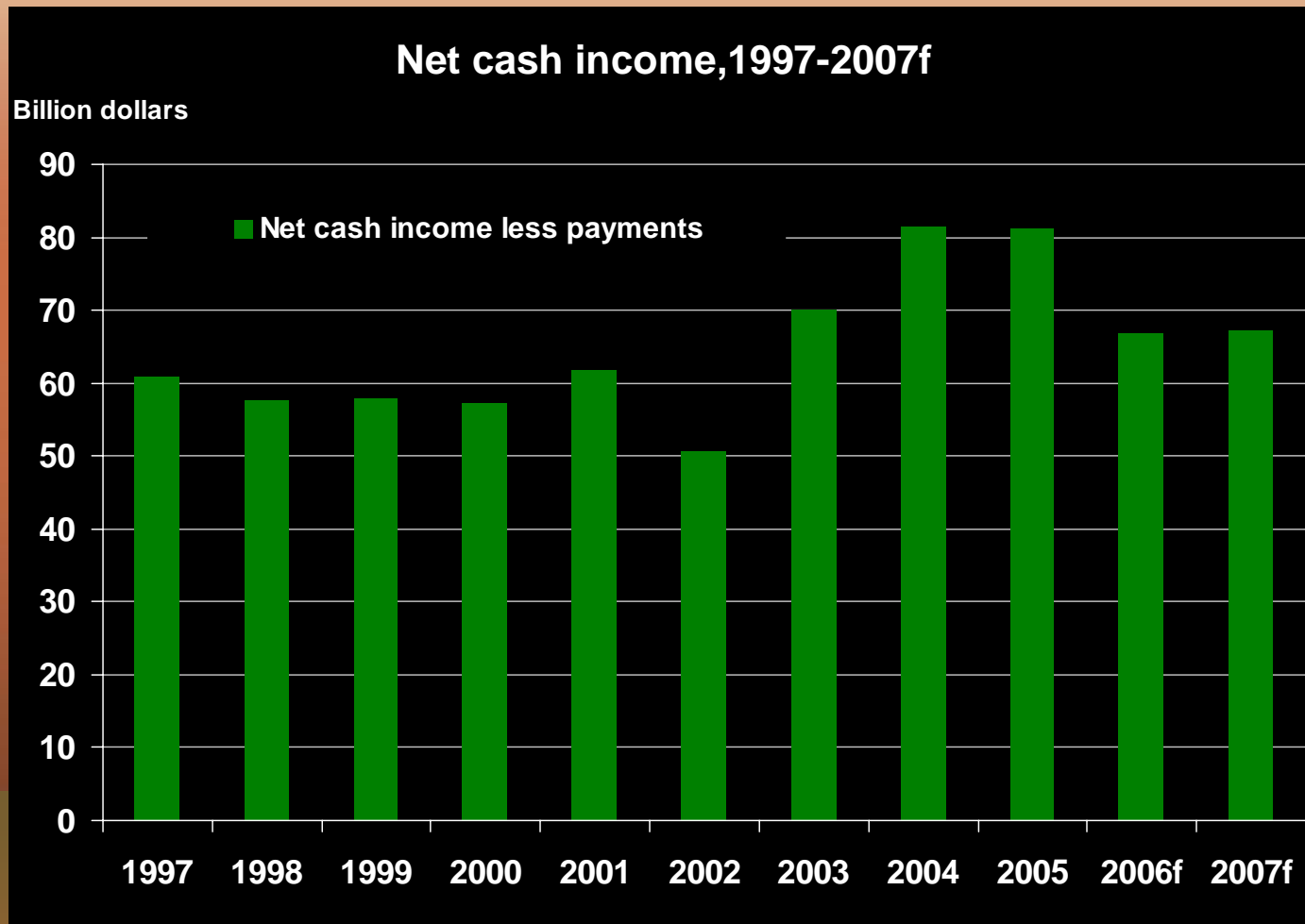
Net value-added and net farm income rising in 2007



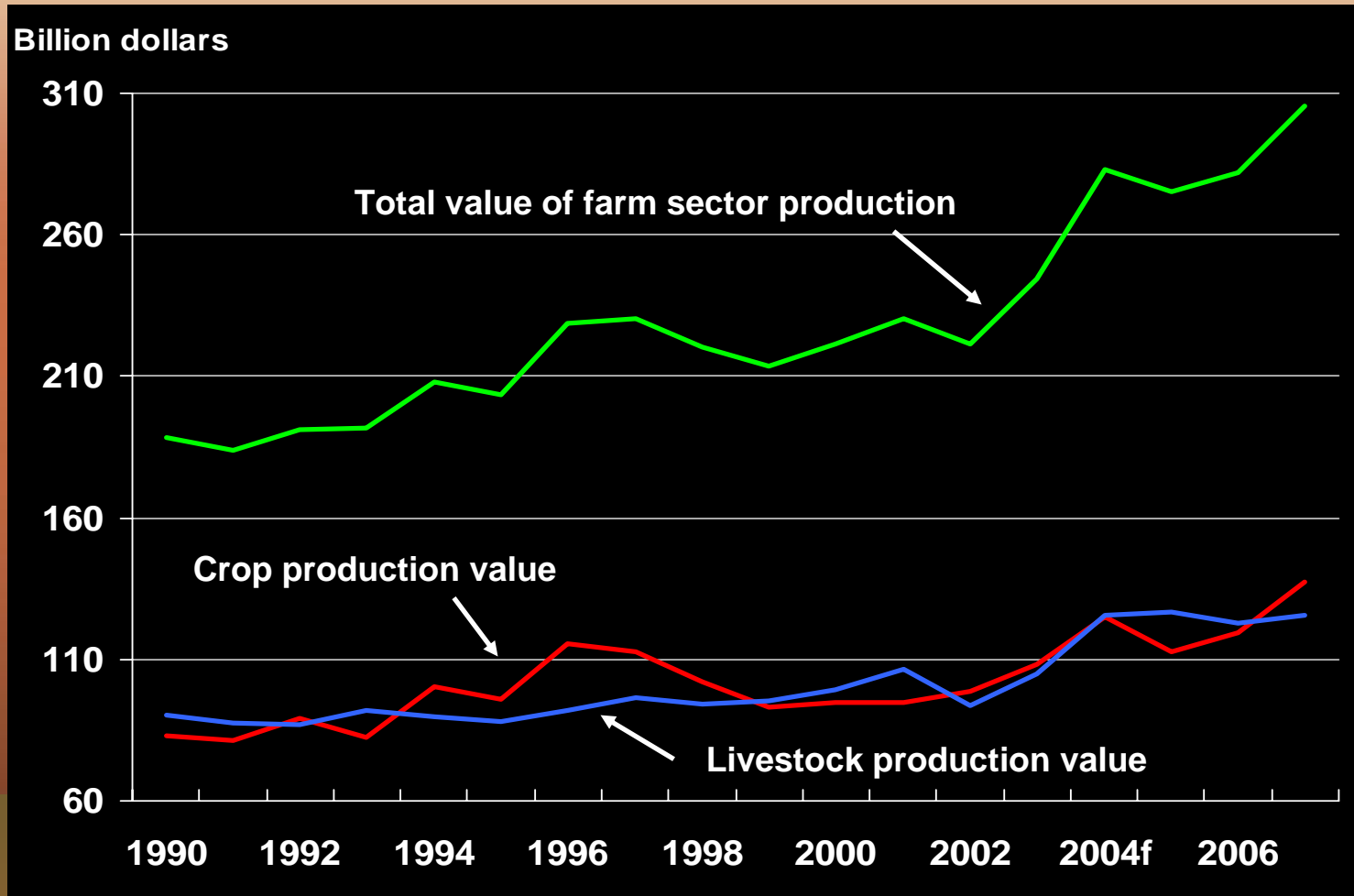
Taking into account changes in price levels indicates that farm sector net income to be above 10-year average in 2007



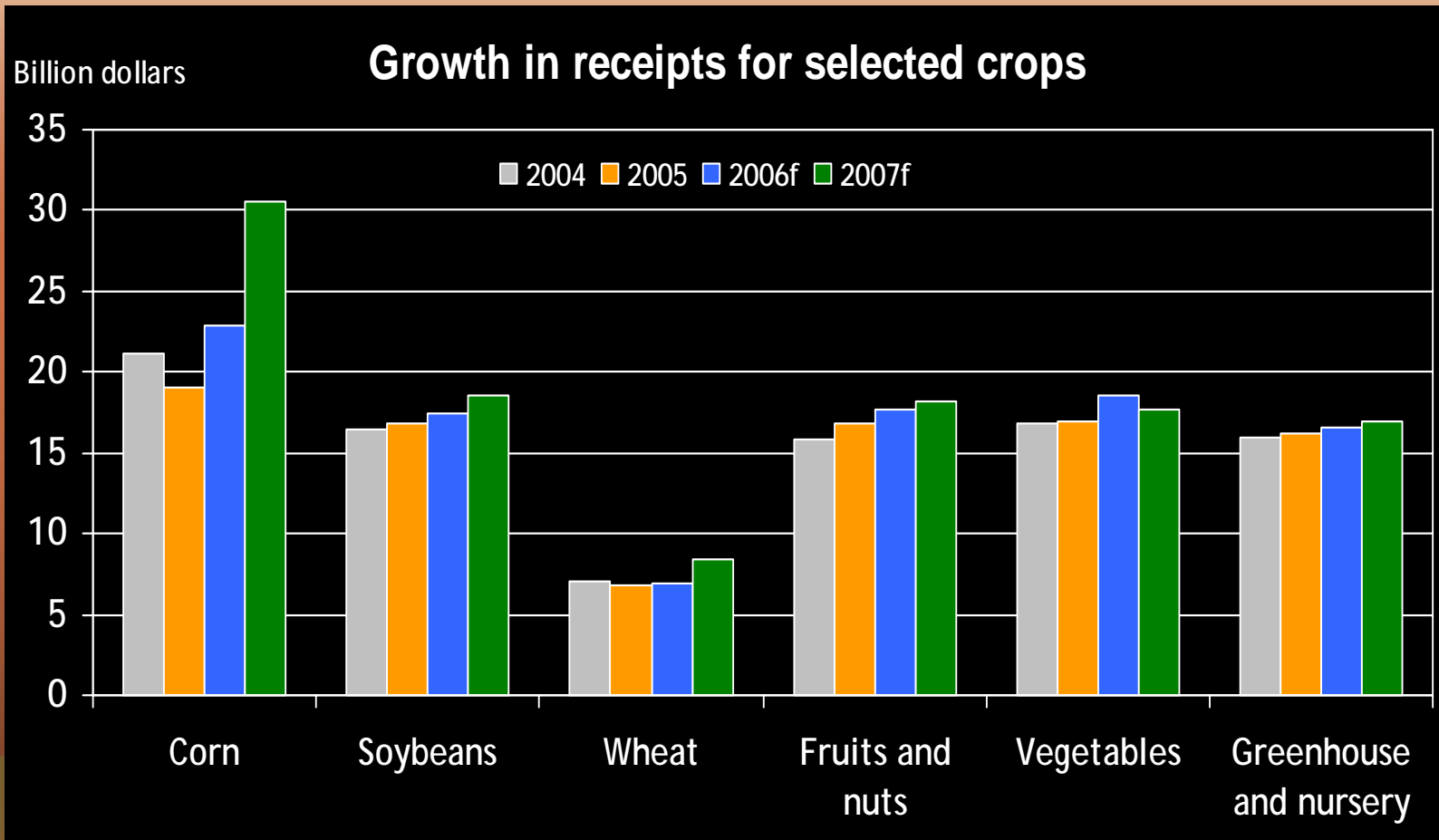
Cash income expected to increase in 2007, but remain below 2004-05 records



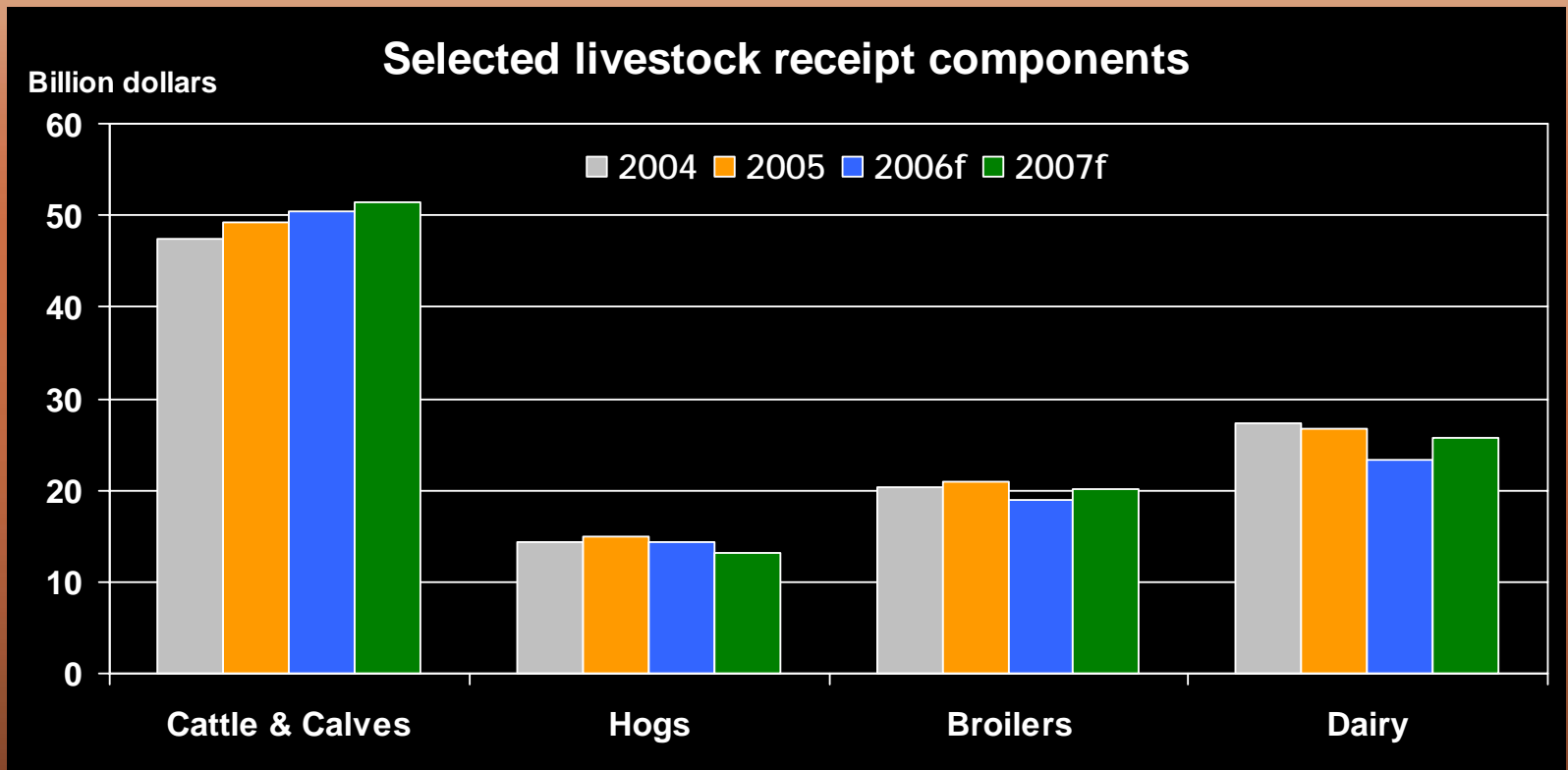
Crop and livestock value of production increase in 2007, with crop value reaching record high



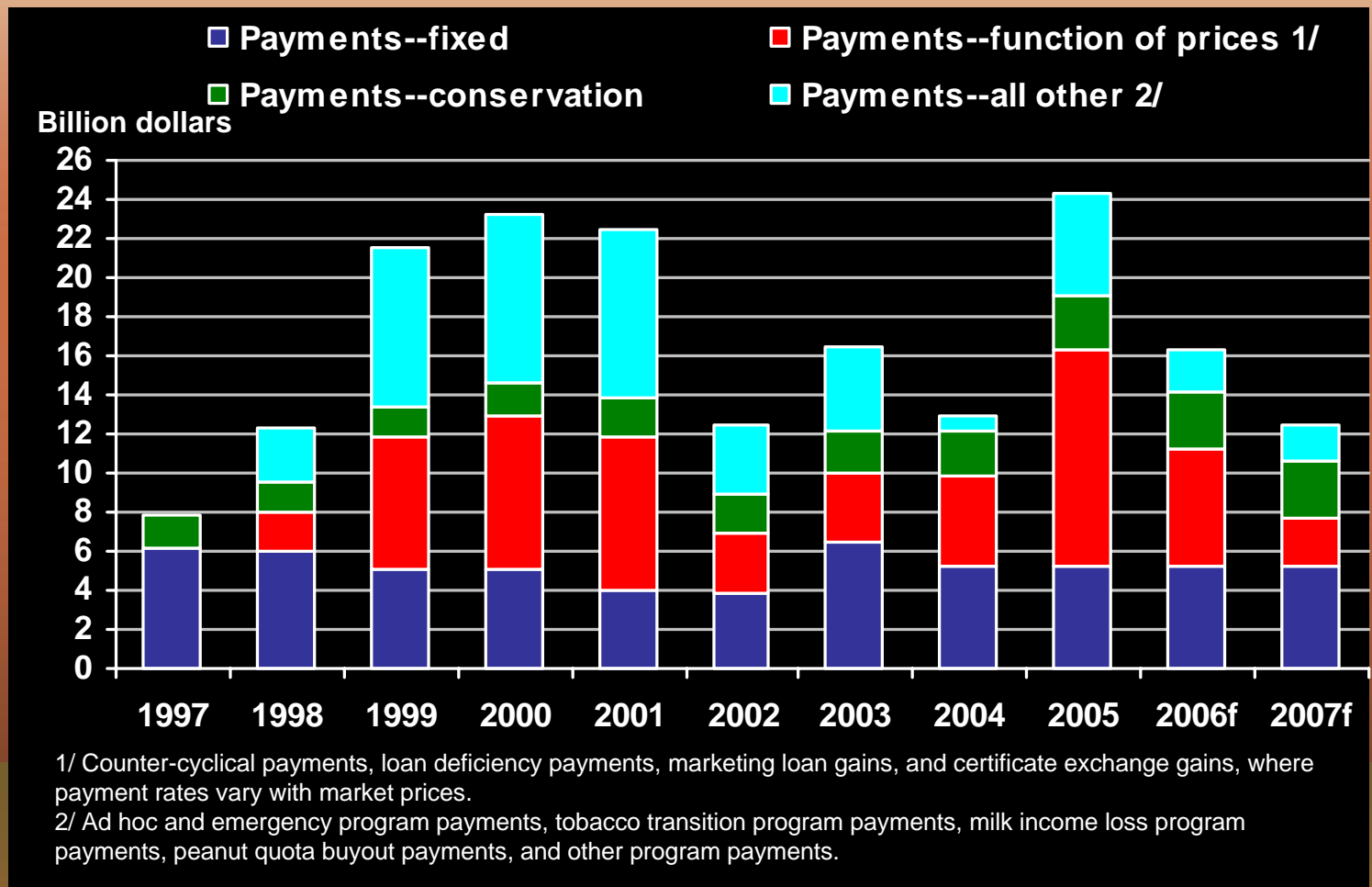
Receipts increase for most crops; corn, wheat, soybeans and hay account for large majority



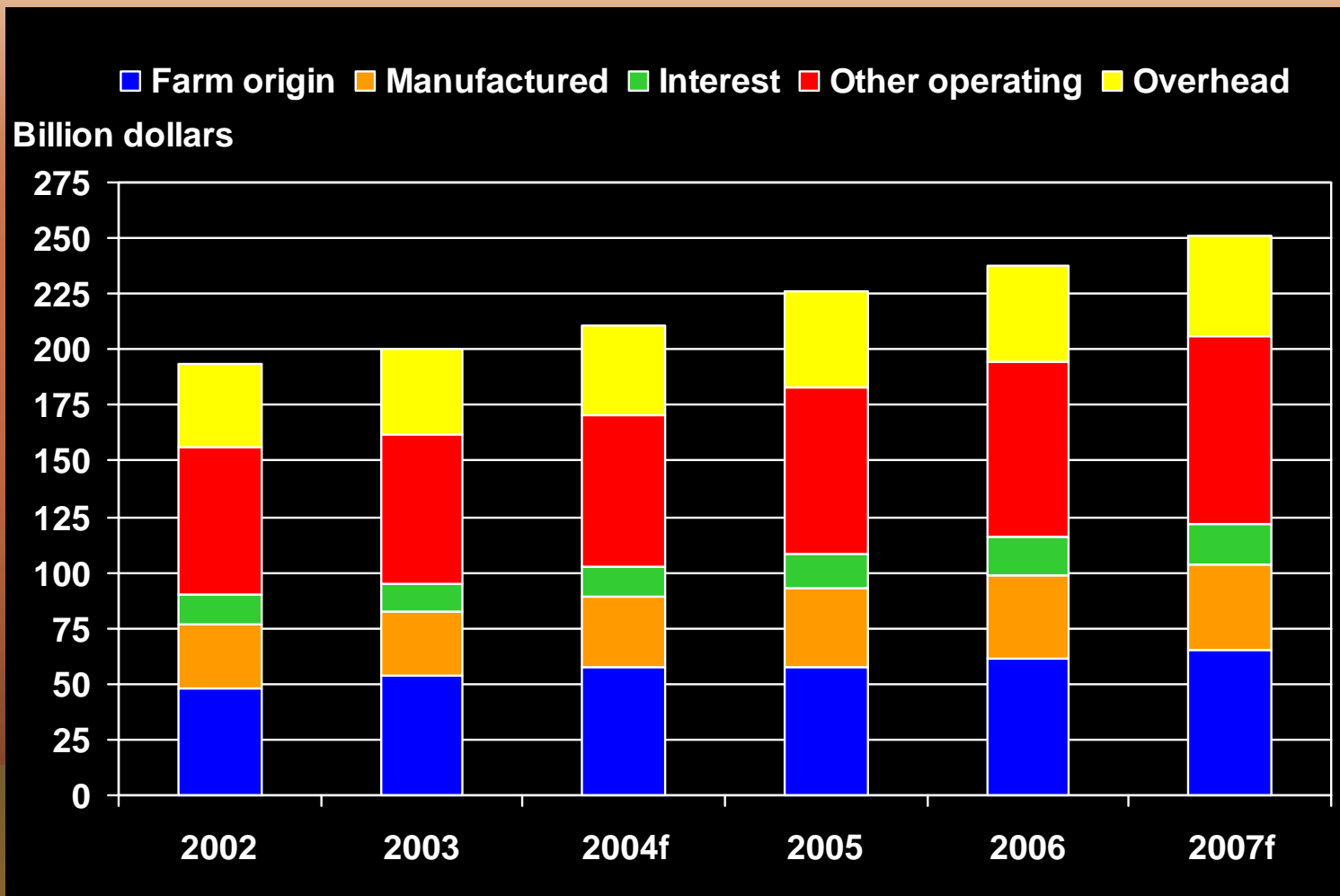
Livestock receipts exceed \$100 billion for fifth consecutive year



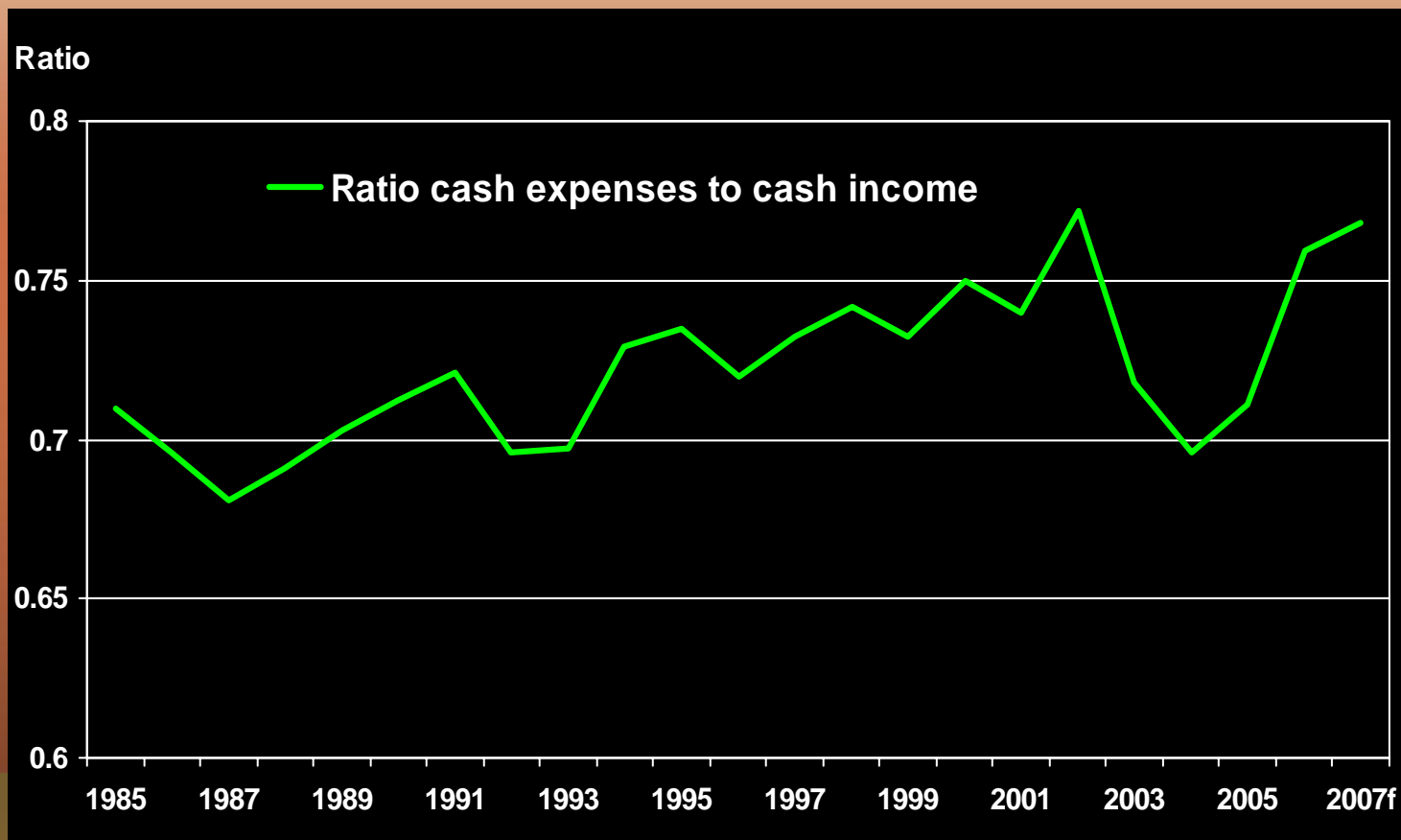
Government payments forecast at lowest level since 2002



Farm expenses are forecast to be nearly 6 percent higher in 2007, with feed increasing most over 2006



Ratio of cash expenses to gross cash income indicates larger share of funds needed to pay cash costs in 2007



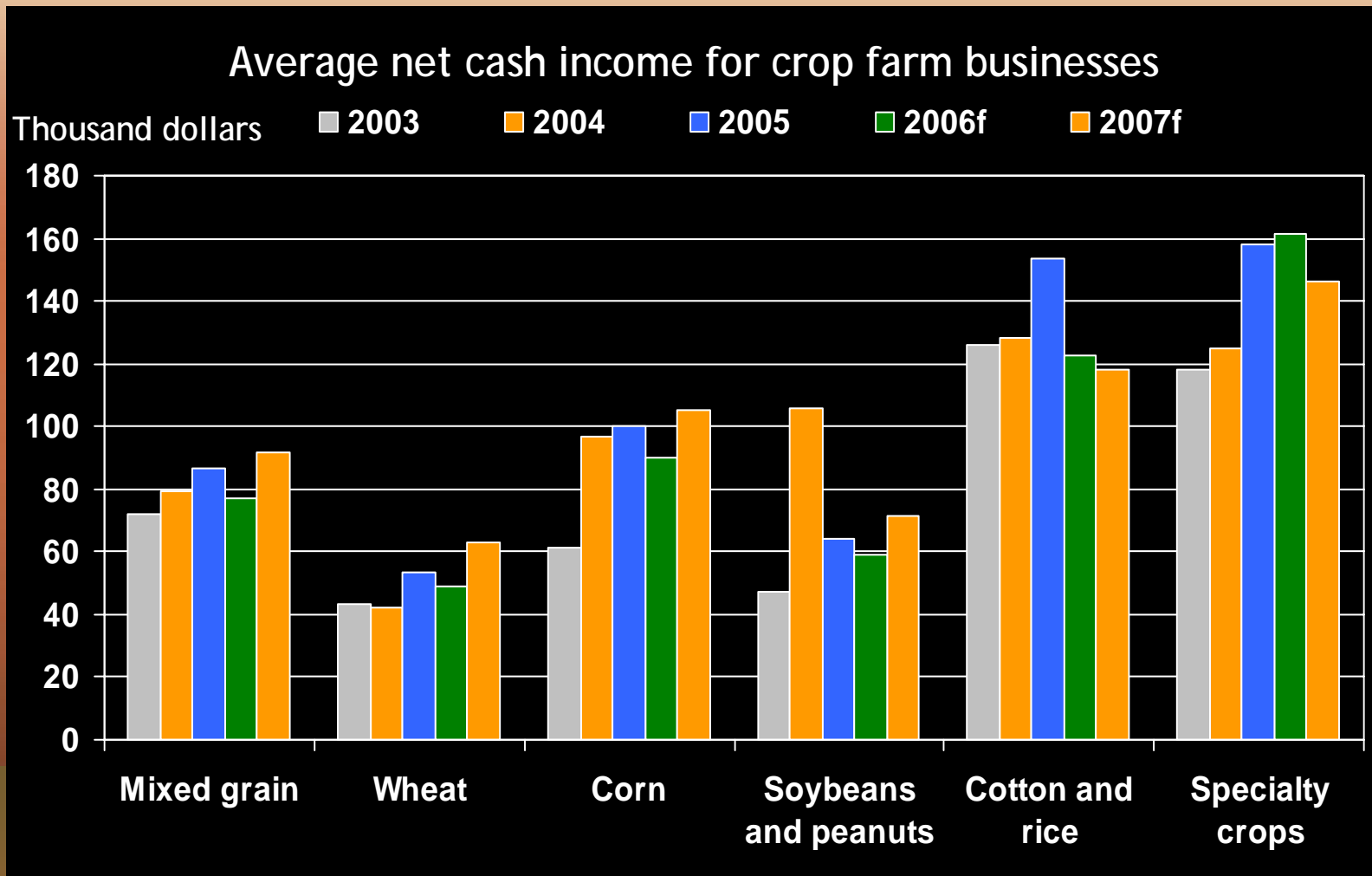
Farmers input acquisition practices affect the distribution of output and value added to stakeholders



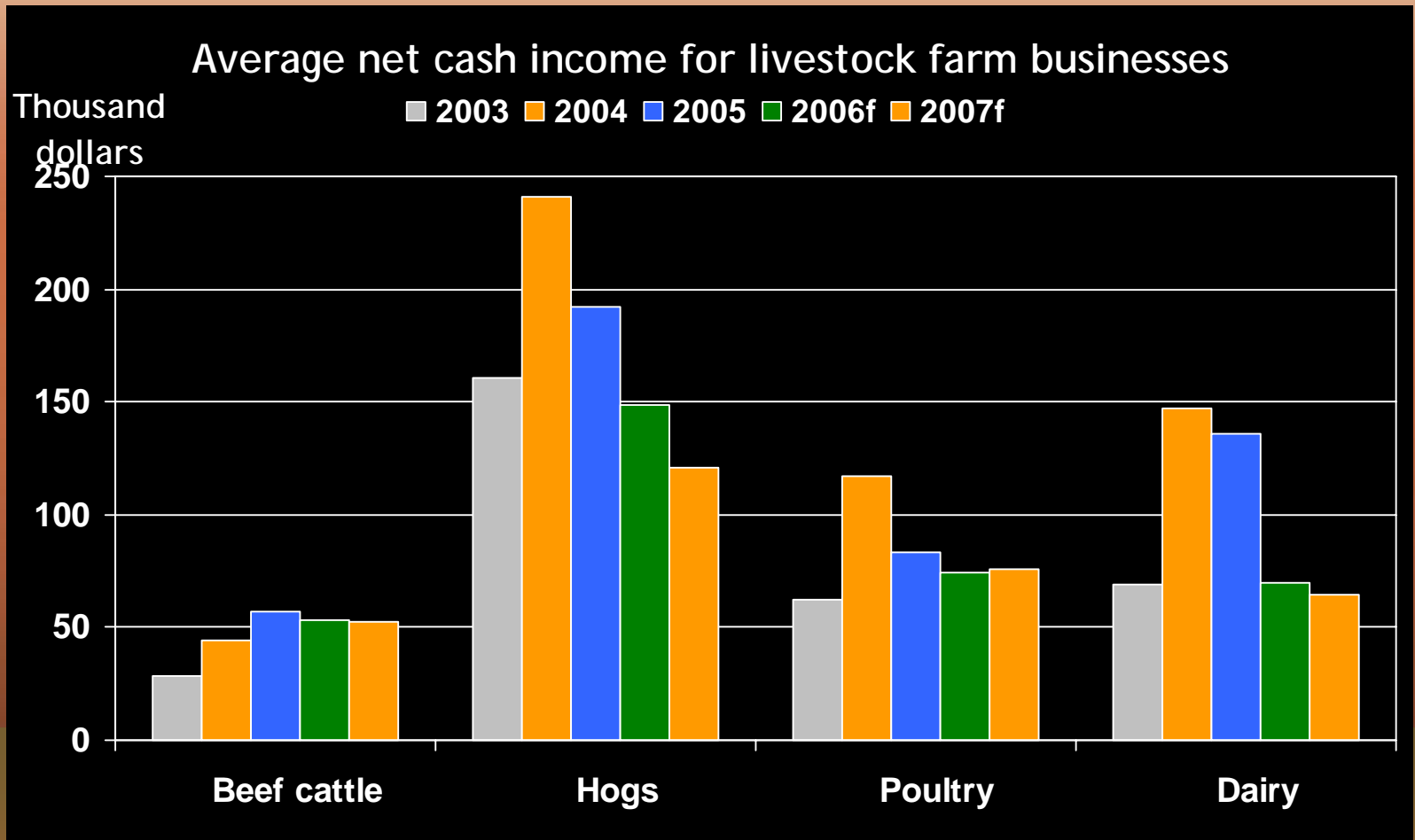
Farm ownership and use of business arrangements affect the distribution of a farm income



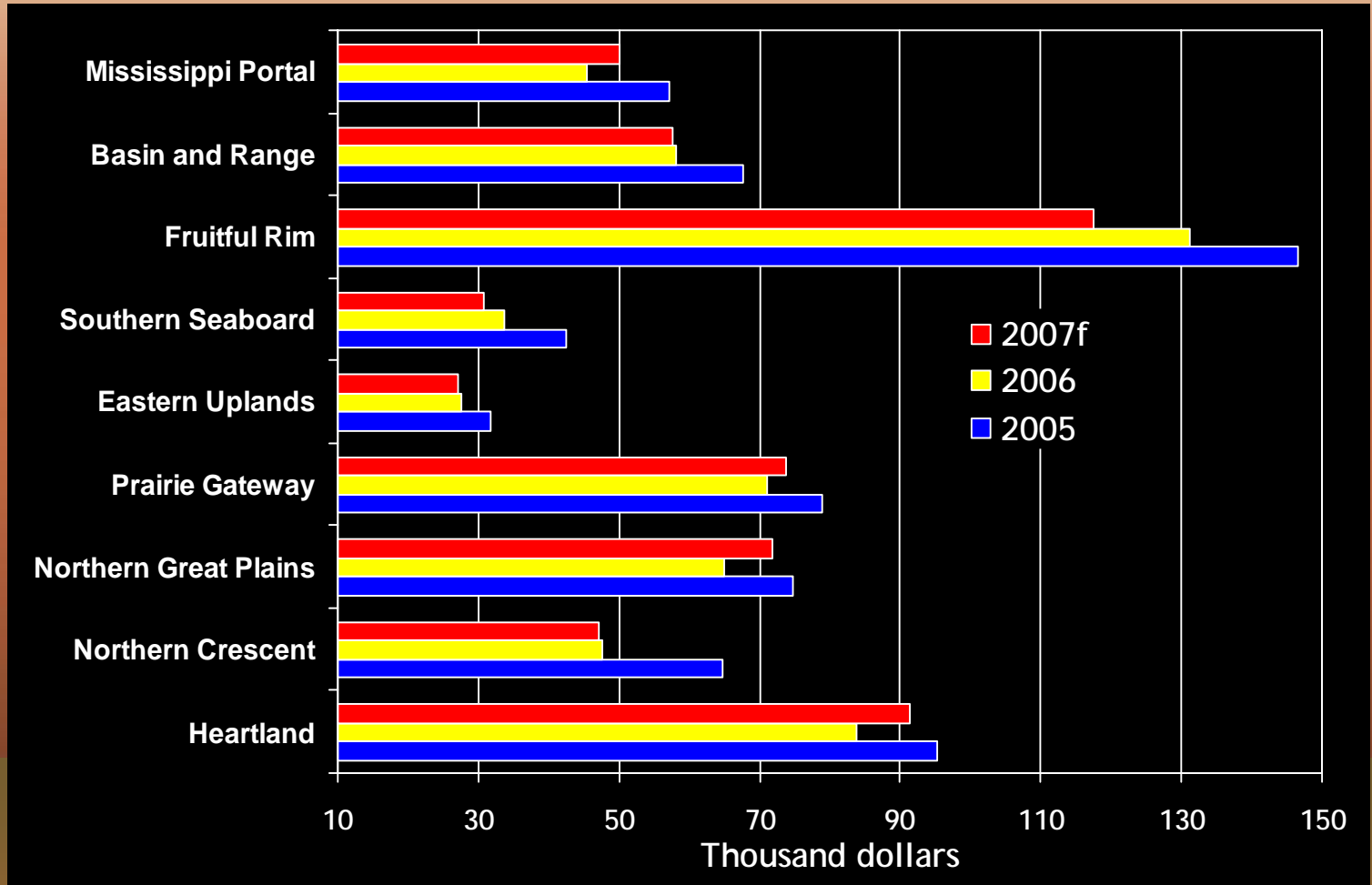
Average incomes forecast to increase for most program crop producers



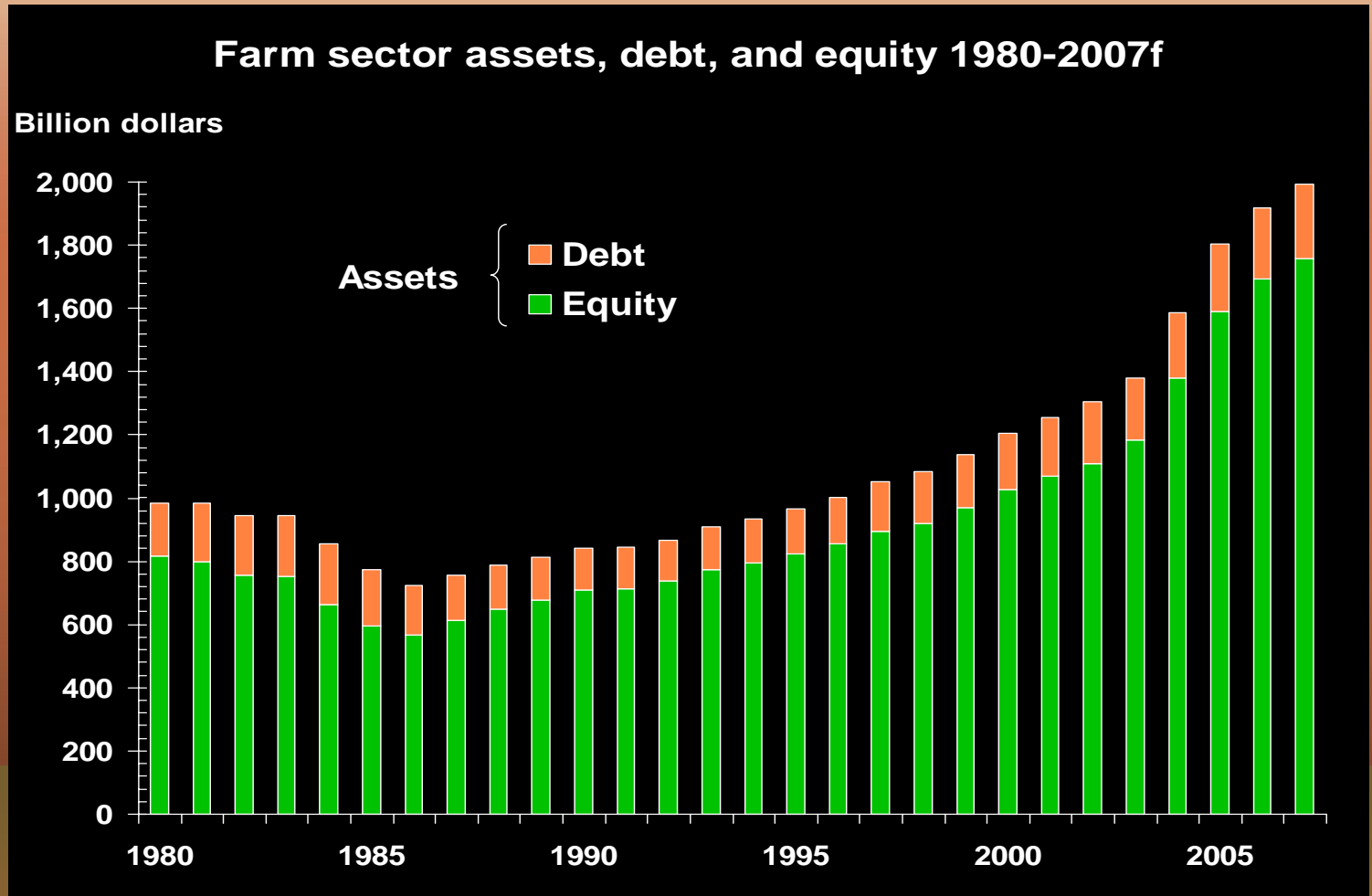
Expense increase outpace gains in receipts for most livestock farms



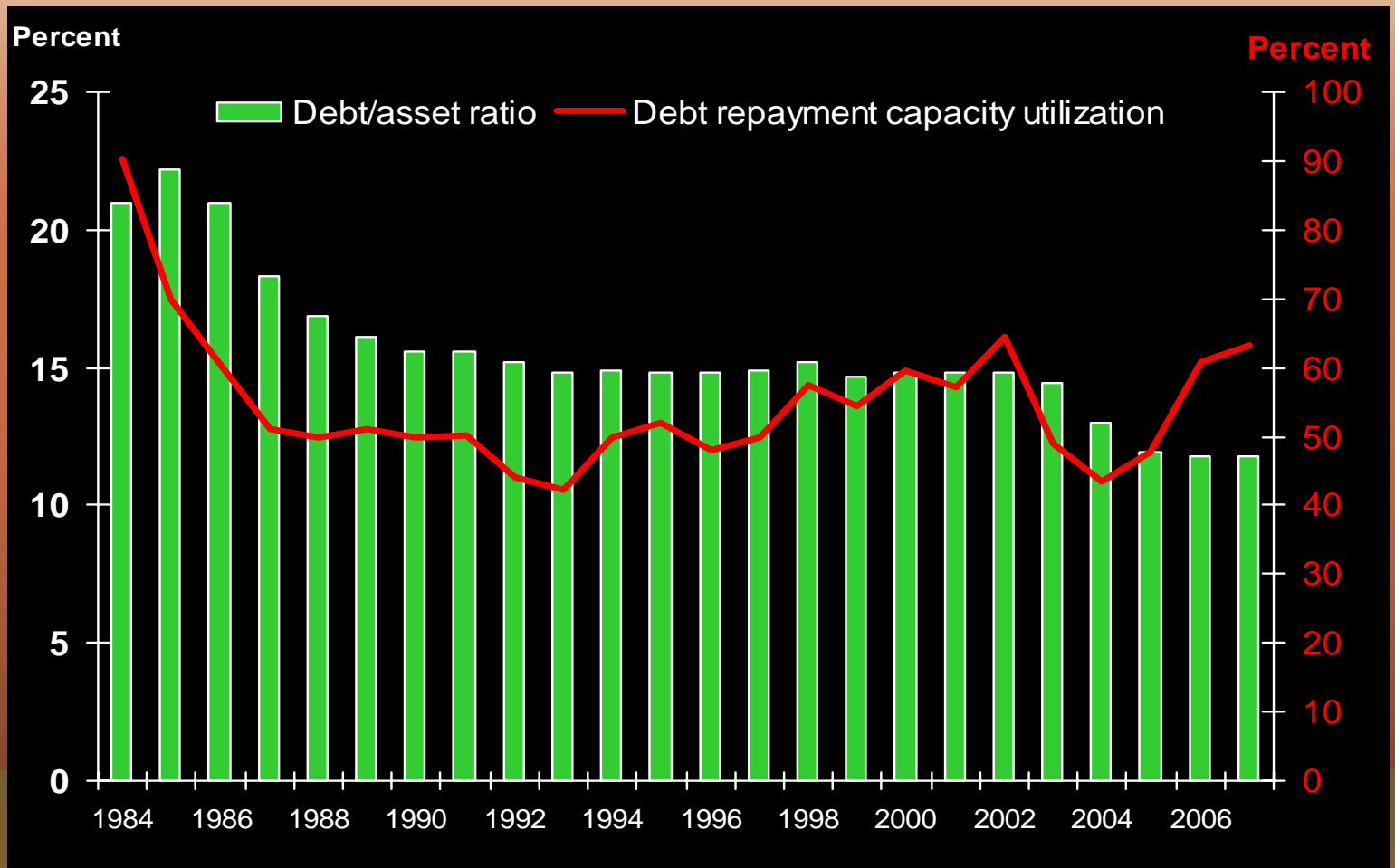
Average net cash income is projected to increase most in Northern Great Plains, Mississippi Portal, and Heartland



Farm Assets, Debt and Equity at Record High Nominal Levels in 2007



Farm Sector Debt/Asset Ratio and Debt Repayment Capacity Utilization (DRCU), 1984-2007f



Net Value-added forecast to expand through baseline period; nominal net income remains in mid-to-upper \$60 billion range

