U.S. Farm Income and Financial Outlook for 2017

Ag Outlook Forum
February 23, 2017

Presented by
Kevin Patrick
Farm sector summary

- 2+ million farms
- 900+ million acres
- 6+ million people living in farm households

Source: Farm Income and Wealth Statistics Data Product & Agricultural Census
Data and Analysis

Farm Sector Income and Wealth Statistics

Historical State Estimates     Historical National Estimates     National Forecasts

Farm Sector Income and Wealth Statistics Timeline

First 2017 forecast & Current data product release
February 7 2017

Update 2017 forecast & Convert 2016 forecast to estimate using survey data
August 30 2017

Data product updated 3 times per year
Recent Release: February 7, 2017
Next Release: August 30, 2017

Update 2017 forecast
November 2017
## Farm sector metrics

### Profitability

- **Net cash income** and **Net farm income**

  **2017 forecast:** Mixed
  **Prior 5-year trend:** Weaken

### Solvency

- **Debt-to-asset ratio**

  **2017 forecast:** Weaken
  **Prior 5-year trend:** Weaken

### Liquidity

- **Working capital and Current ratio**

  **2017 forecast:** Weaken
  **Prior 5-year trend:** Weaken

### Key insights:

- **Value of agricultural sector production** is forecast to fall for the third straight year but the rate of decline has slowed.

- **Total production expenses** are forecast to remain stable, after falling for two straight years.

- Declining **farm sector assets** (down 1.1 percent) and rising **debt** (up 5.2 percent) are forecast to erode **equity** by 2.1 percent.

- **Current assets** are forecast to decline by 6.7 percent, while **current debt** is expected to grow by 5.5 percent.
Farm sector metrics

### Profitability

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### Liquidity

**Working capital and Current ratio**

- **2017 forecast:** Weaken
- **Prior 5-year trend:** Weaken

**Key insights:**
- Current assets are forecast to decline by 6.7 percent, while current debt is expected to grow by 5.5 percent.
Net cash farm income forecast to fall below 10-year moving average

Values are adjusted using the chain-type GDP deflator, base year=2017.

Net cash farm income and net farm income forecast to fall below their 10-year moving averages.

$\text{Billion (2017 Dollars)}$

$F$=forecast

Values are adjusted using the chain-type GDP deflator, base year=2017.

Net farm income forecast driven lower by changes in crop inventory, partially offset by higher Federal indemnity payments, relative to 2016

Net farm income forecast to fall $5.9 billion

Note: Data from 2016 and 2017 are forecasts. Source: USDA, Economic Research Service, Farm Income & Wealth Statistics. Data as of February 7, 2017
Crop receipts forecast stable for most major crops in **2017**

- **Crop cash receipts forecast flat.**
- **Corn** and soybeans cash receipts also forecast steady.
- **Cotton** receipts expected to grow **21.5%** on higher prices and production.
- **Wheat** receipts forecast to **16.6%** decline on lower prices and production.

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F= Forecast.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics
Data as of February 7, 2017
Cattle/calves and dairy cash receipts expected to move in opposite directions in 2017


Cattle/calf receipts down 6.7% on lower price forecast.

Dairy cash receipts forecast 13.7% higher on milk prices and production.

F= Forecast.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics
Data as of February 7, 2017
Federal Government payments forecast to decrease 4 percent to $12.5 billion in 2017

This would be the second highest Federal Government payments to farmers in 10 years.

Federal Government payments include Agricultural Risk Coverage (ARC), Price Loss Coverage (PLC), Conservation, and other payments.

**Agriculture Risk Coverage** payments forecast to make up the largest share of payments in 2017

- **$12.5b** total forecast for 2017
  - **$5.4b** ARC payments
  - **$3.2b** PLC payments
  - **$3.3b** Conservation payments
  - **$0.6b** Other payments

**Majority of ARC payments** expected for:
- Corn

**Majority of PLC payments** expected for:
- Wheat
- Long-grain rice
- Peanuts

_F= Forecast._

**Federal commodity insurance premiums** relatively stable over time and forecast stable in **2017**

The farmers’ share of **Federal commodity insurance premiums** forecast up $0.3 billion.

F = Forecast.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics
Data as of February 7, 2017
Federal commodity insurance indemnities much more volatile, forecast up in 2017

2017 Federal commodity insurance indemnities are forecast up 63% ($2.8 billion) from 2016.

This represents a long-run 20-year average.

F= Forecast.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics
Data as of February 7, 2017
Cash expenses grew annually by 6.0% on average from 2009 to 2014.

Forecast to shrink by 3.1% on average from 2014 to 2017.

Total cash expenses forecast to flatten in 2017

Percent change from prior year

-4.4% 1.7% 10.3% 11.3% 1.2% 5.9% -6.8% -2.6% 0.2%

F= Forecast.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics
Data as of February 7, 2017
Reduced spending on livestock purchases and fertilizer projected to lead cash expenses lower

Forecast indicates a drop in expenses for inputs that traditionally come from the farm sector, including feed, feeder cattle, and barrows/gilts.

F = forecast
Farm sector metrics

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### Solvency
- **Debt-to-asset ratio**
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### Liquidity
- **Working capital and Current ratio**
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### Key insights:
- **Value of agricultural sector production** is forecast to fall for the third straight year but the rate of decline has slowed.
- **Total production expenses** are forecast to remain stable, after falling for two straight years.
- **Declining farm sector assets** (down 1.1 percent) and rising **debt** (up 5.2 percent) are forecast to erode **equity** by 2.1 percent.
- **Current assets** are forecast to decline by 6.7 percent, while **current debt** is expected to grow by 5.5 percent.
Farm real estate assets* represent the majority of the sector’s assets

Inflation-adjusted value of farm assets forecast **down 2.1%** relative to 2015, including real estate (**down 1.8%**).

F= Forecast. Values are adjusted using the chain-type GDP deflator, base year=2017.

*Real estate includes the value of land and buildings

**Farm sector debt** forecast to increase in 2017 driven by **real estate debt**

$ billion (2017 Dollars)

- **Nonreal estate debt** peaked in 2014 and remained stable since.
- **Real estate debt**

F = Forecast. Values are adjusted using the chain-type GDP deflator, base year=2017.

Farm real estate debt forecast above 1980’s peak

Nonreal estate debt peaked in 2014 and remained stable since.

F= Forecast. Values are adjusted using the chain-type GDP deflator, 2009=100.
Farm real estate debt forecast above 1980’s peak

However, interest rates farmers face are much different than in the 1980’s.

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>2017F</th>
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</thead>
<tbody>
<tr>
<td>Total debt</td>
<td>11.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Real estate</td>
<td>9.4%</td>
<td>4.9%</td>
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<tr>
<td>Nonreal estate</td>
<td>13.3%</td>
<td>4.6%</td>
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F = Forecast. Values are adjusted using the chain-type GDP deflator, 2009=100.
The farm sector **debt-to-asset** ratio expected to continue upward trend in 2017

The Debt-to-asset (D/A) is a solvency ratio. Higher values indicate higher likelihood of default and decreased ability to overcome adverse financial events.

If realized, this would be the highest D/A since 2002 when it reached 15%

For the fifth straight year, the farm sector D/A ratio is forecast to rise, but remain low by historical standards (since 1970).

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**Percent**

![Graph showing the debt-to-asset ratio from 1970 to 2017. The highest ratio is 22.2% in 1985, and the forecast for 2017 is 13.9%.]

F= Forecast.
Farm sector metrics

**Profitability**

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<tr>
<th>Metric</th>
<th>2017 Forecast</th>
<th>Prior 5-Year Trend</th>
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<td>Net cash income</td>
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**Solvency**

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**Liquidity**

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Current assets forecast down $87 billion between 2012 and 2017

Current assets includes:
- Financial assets
- Net accounts receivable
- Crop and non-breeding animal inventory
- Purchased input inventory

**Current debt** forecast up $30 billion between 2012 and 2017

**Current assets** includes:
- Financial assets
- Net accounts receivable
- Crop and non-breeding animal inventory
- Purchased input inventory

**Current debt** includes:
- Real estate debt due within 12 months
- Nonreal estate debt due within 12 months

Working capital forecast to shrink between 2012 and 2017

Working Capital = Current Assets – Current Debt


□ = $1 billion

Liquidity
Farm businesses account for 41% of farms, but over 90% of value of production.

<table>
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<th>Farm Businesses</th>
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<tr>
<td><strong>Residence</strong></td>
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<tr>
<td>Operators report they are retired or have a major occupation other than farming.</td>
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<tr>
<td><strong>Intermediate</strong></td>
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<tr>
<td>Gross cash farm income less than $350,000 and operators report farming as their major occupation.</td>
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<tr>
<td><strong>Commercial</strong></td>
</tr>
<tr>
<td>Gross cash farm income greater than $350,000 or farms organized as nonfamily corporations or cooperatives.</td>
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Source: 2015 Agricultural Resource Management Survey (ARMS)
Financial ratios weaken for an increasing share of crop and livestock farm businesses.
Financial ratios weaken for an increasing share of **crop** and **livestock** farm businesses

Share of farm businesses

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<td>D/A ratio (solvency)</td>
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<tr>
<td>Net cash income (profitability)</td>
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Threshold level:
- **D/A ratio (solvency)**: Greater than 0.5
- **Current ratio (liquidity)**: Less than 1
- **Net cash income (profitability)**: negative

Many Ways to Explore the Data

Visualizations let you dive into the financials of the farm sector

Tailored financial reports

Forecast analysis webinars

Current and archived comprehensive datasets
QUESTIONS?

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