



United States Department of Agriculture

# 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+

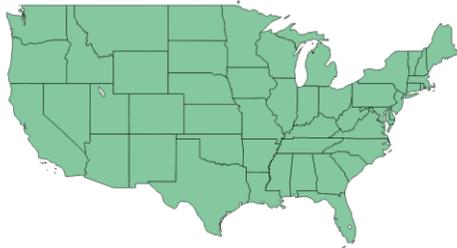
million people living  
in farm households

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

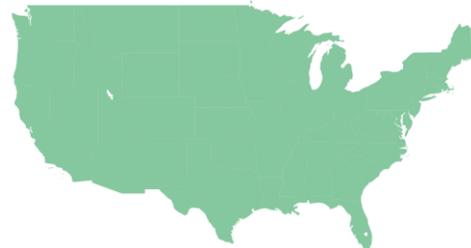


# Data and Analysis

## Farm Sector Income and Wealth Statistics



Historical State Estimates



Historical National Estimates

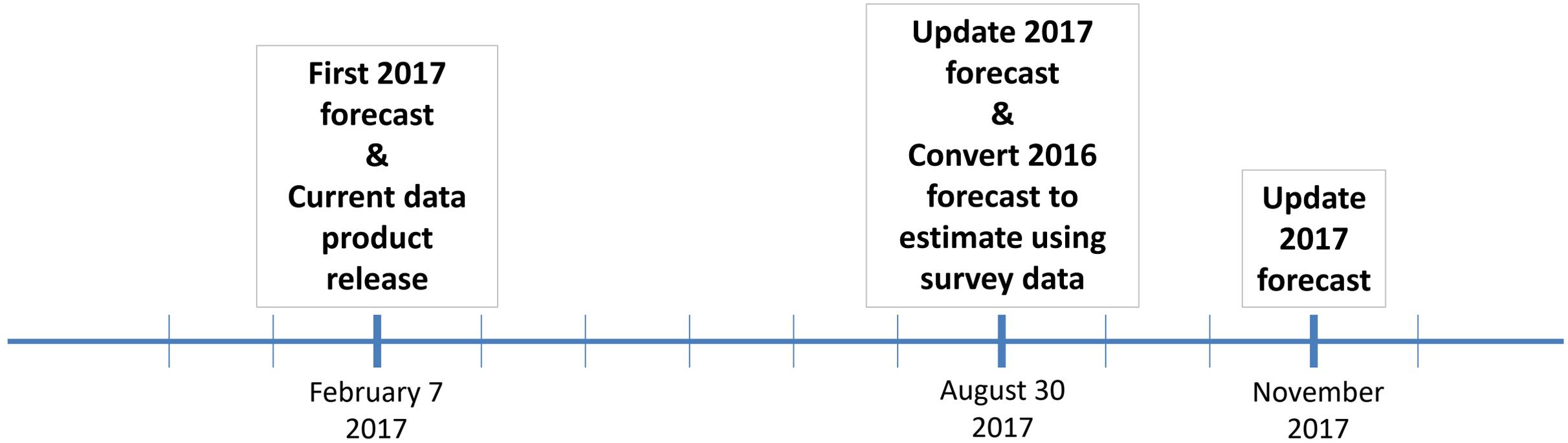


National Forecasts

Reports: <http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics>



# Farm Sector Income and Wealth Statistics Timeline



Data product updated 3 times per year

Recent Release: **February 7, 2017**

Next Release: **August 30, 2017**



# Farm sector metrics

## Profitability

Net cash income and Net farm income

2017 forecast: Mixed

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.

## Solvency

Debt-to-asset ratio

2017 forecast: Weaken

Prior 5-year trend: Weaken

Key insights:

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

## Liquidity

Working capital and Current ratio

2017 forecast: Weaken

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Key insights:

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



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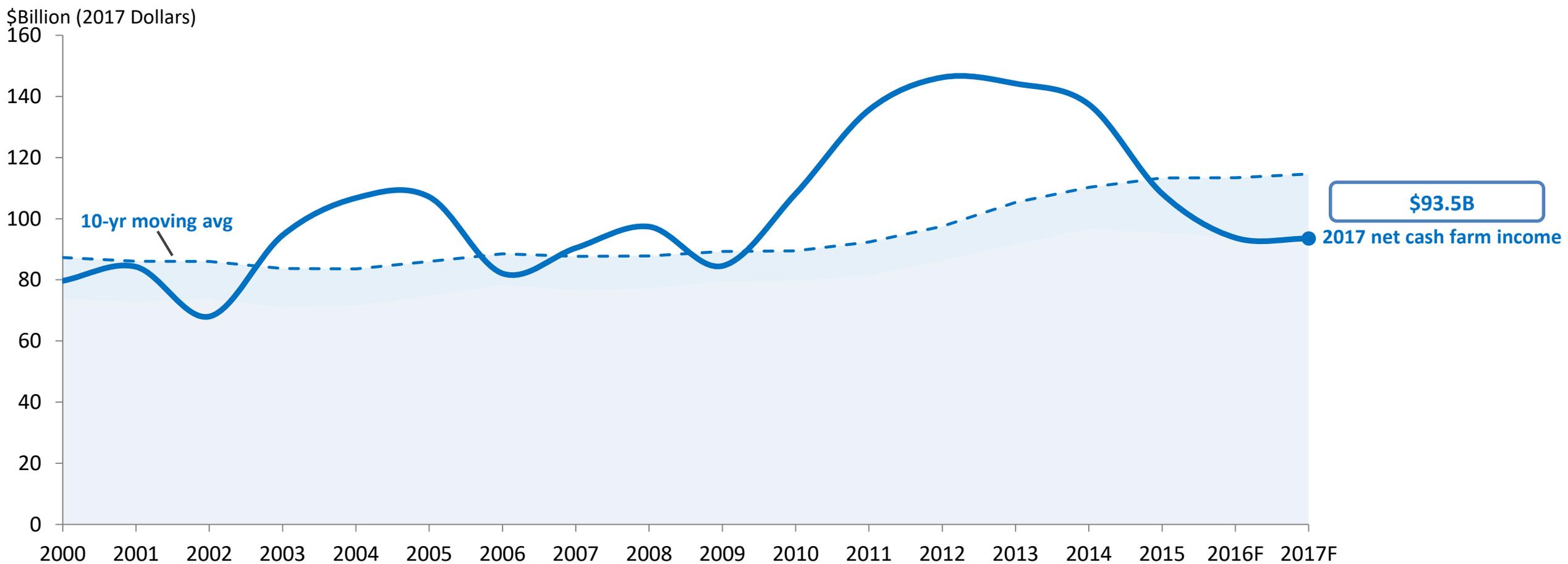
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# Net cash farm income forecast to fall below 10-year moving average



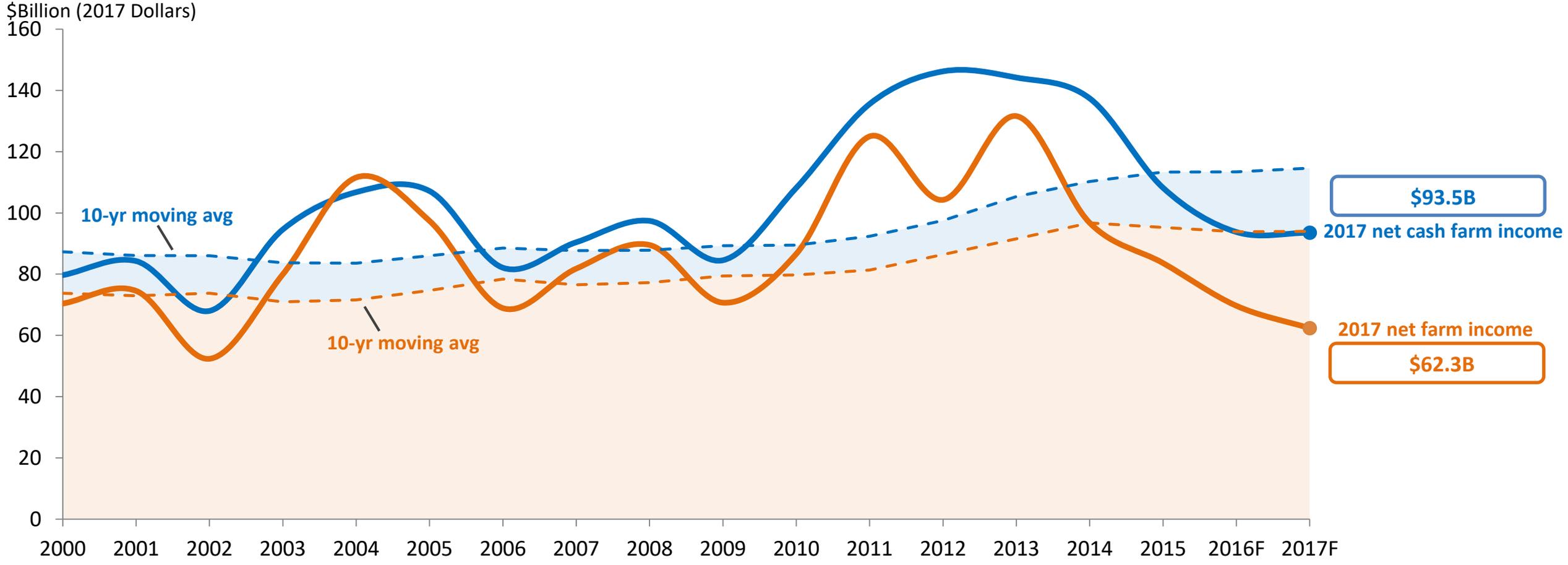
F=forecast

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

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 7, 2017.



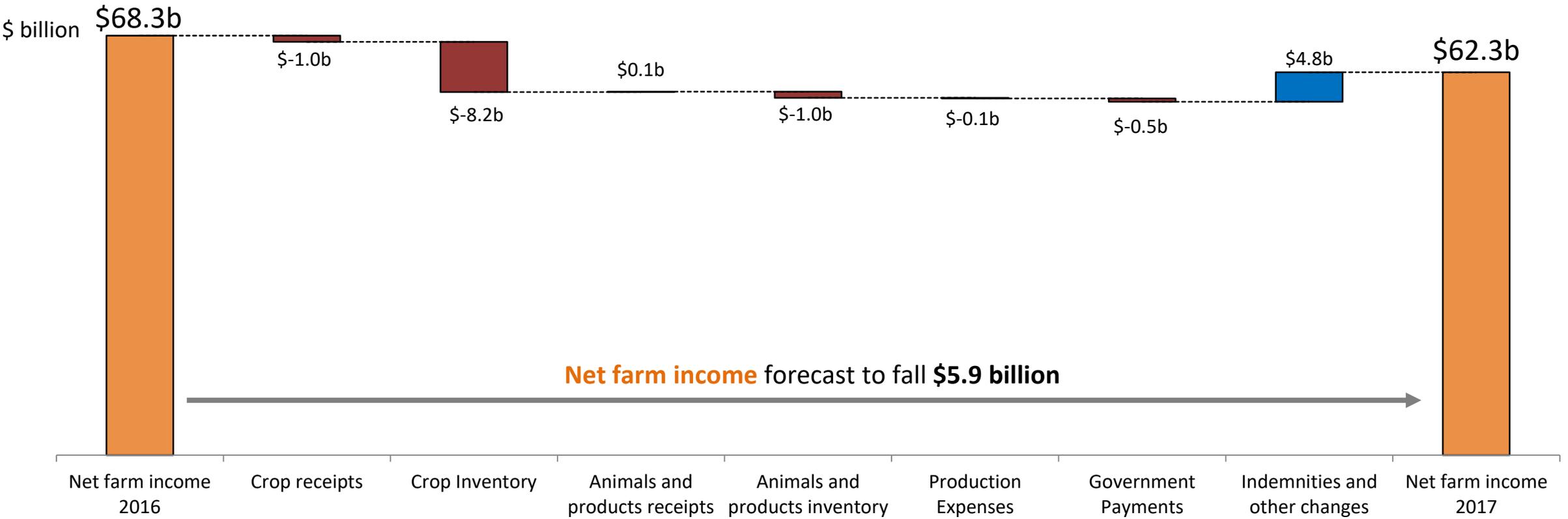
# Net cash farm income and net farm income forecast to fall below their 10-year moving averages



F=forecast  
 Values are adjusted using the chain-type GDP deflator, base year=2017.  
 Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 7, 2017.



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

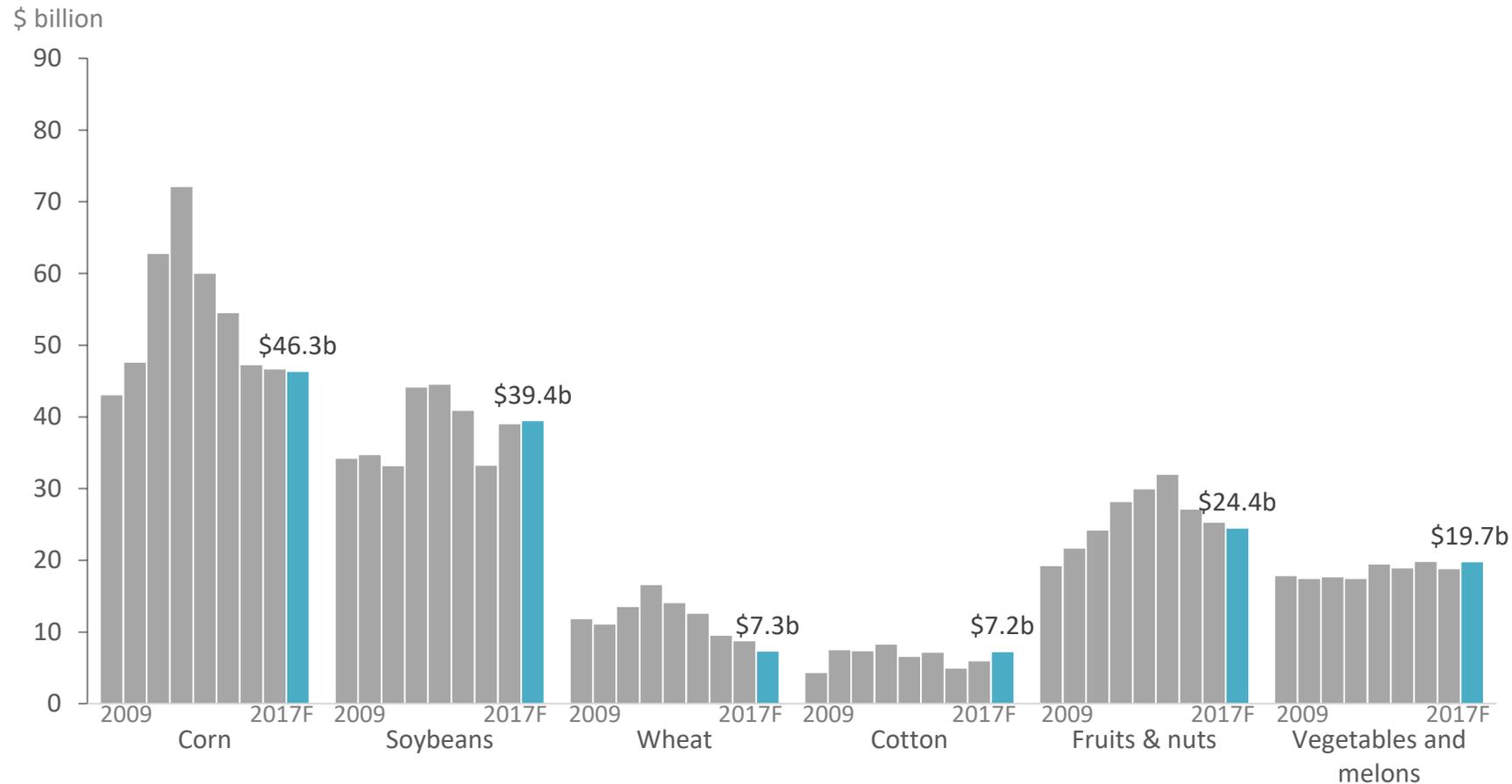


**Net farm income** forecast to fall **\$5.9 billion**

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



F= Forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics

Data as of February 7, 2017

**Crop** cash receipts forecast **flat**.

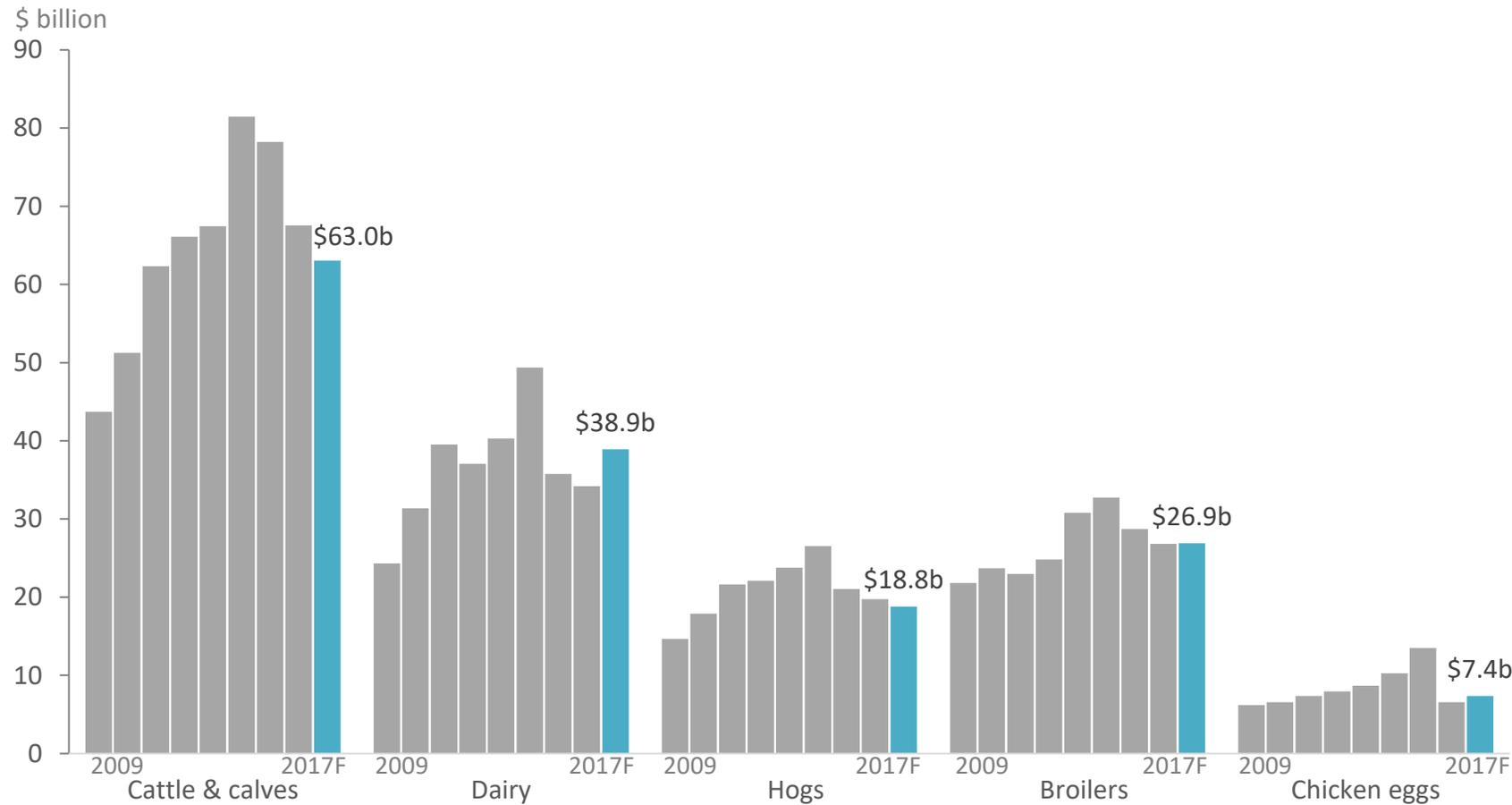
**Corn** and soybeans cash receipts also forecast steady.

**Cotton** receipts expected to grow **21.5%** on higher prices and production.

**Wheat** receipts forecast to **16.6%** decline on lower prices and production.



# Cattle/calves and dairy cash receipts expected to move in opposite directions in 2017



Animal/product cash receipts forecast stable in 2017.

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

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

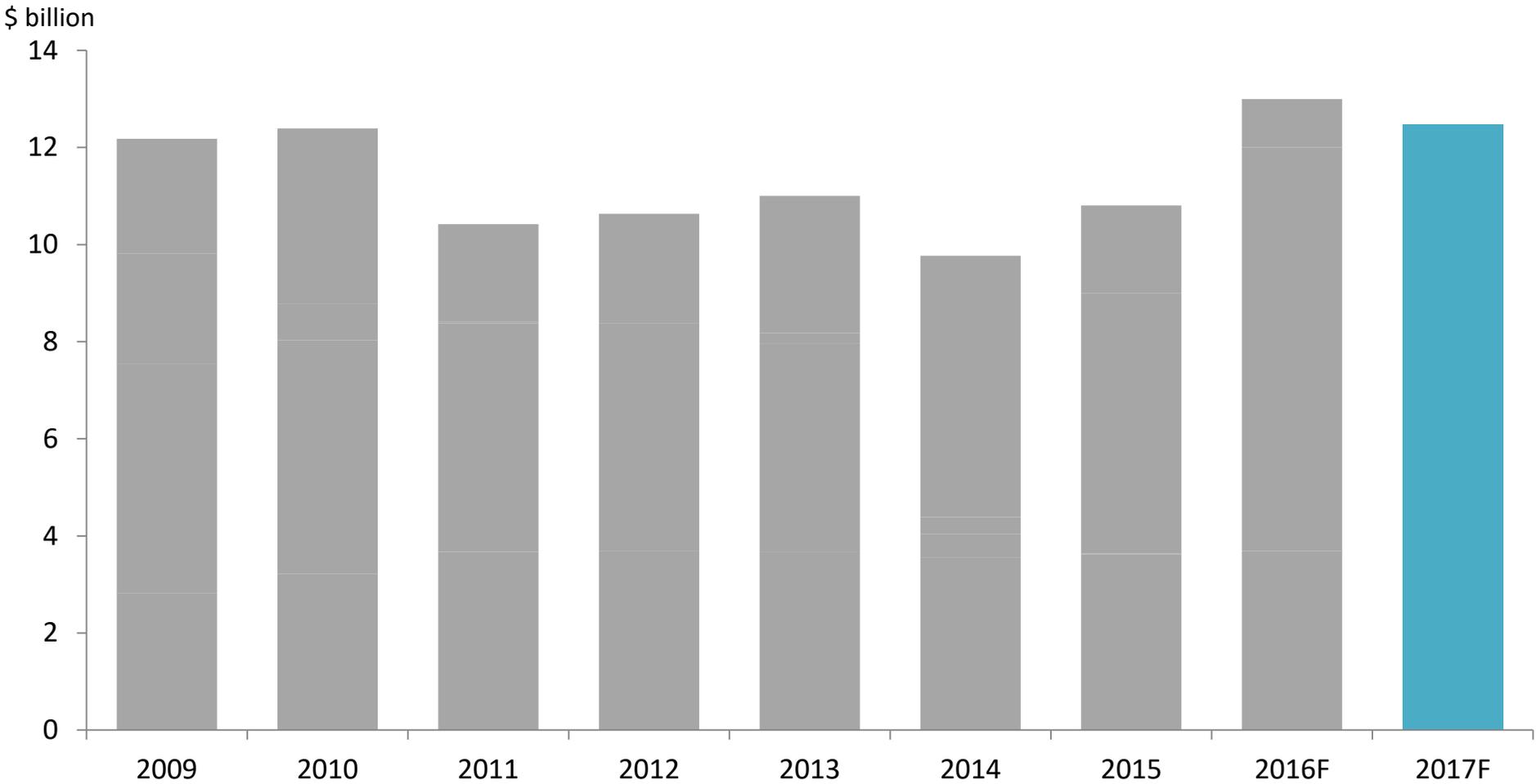
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Data as of February 7, 2017



# Federal Government payments forecast to decrease 4 percent to \$12.5 billion in 2017



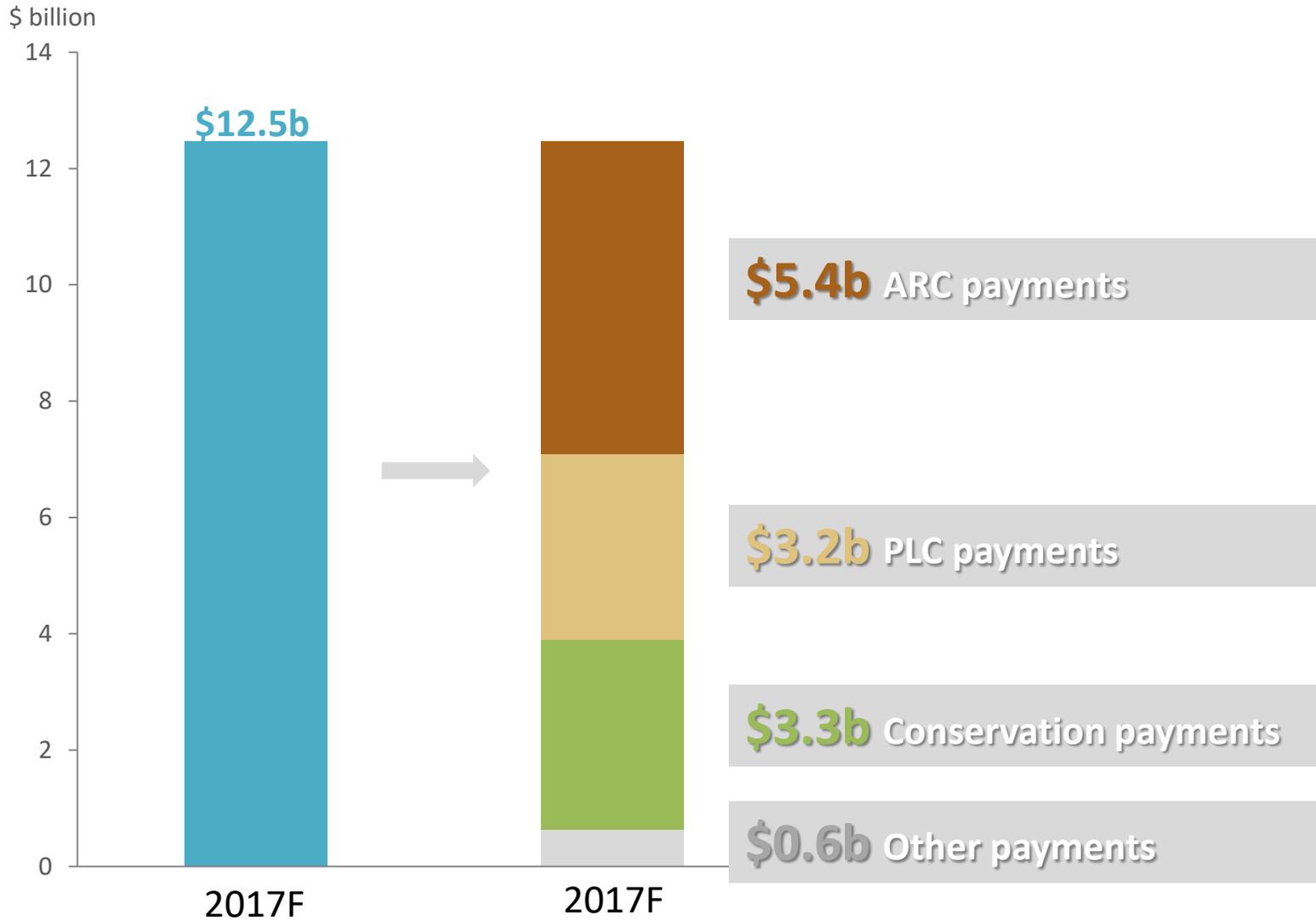
This would be the second highest **Federal Government payments** to farmers in **10** years.

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

F= Forecast.  
 Source: USDA, Economic Research Service, Farm Income and Wealth Statistics using FSA, NRCS, and CCC data. Data as of February 7, 2017.



# Agriculture Risk Coverage payments forecast to makeup largest share of payments in 2017



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

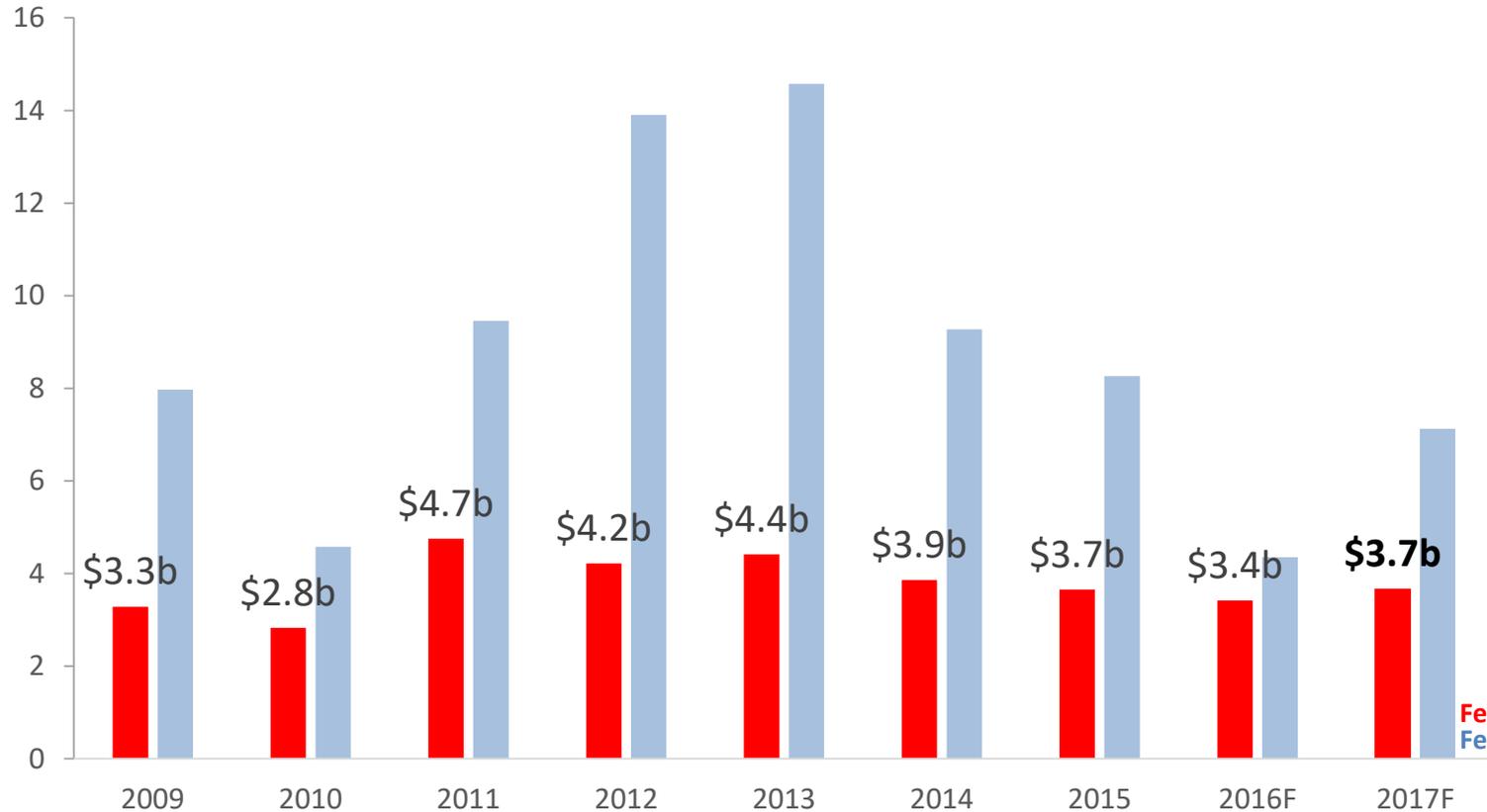
Majority of **PLC** payments expected for:  
Wheat  
Long-grain rice  
Peanuts

F= Forecast.  
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics using FSA, NRCS, and CCC data. Data as of February 7, 2017.



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

\$ billion



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

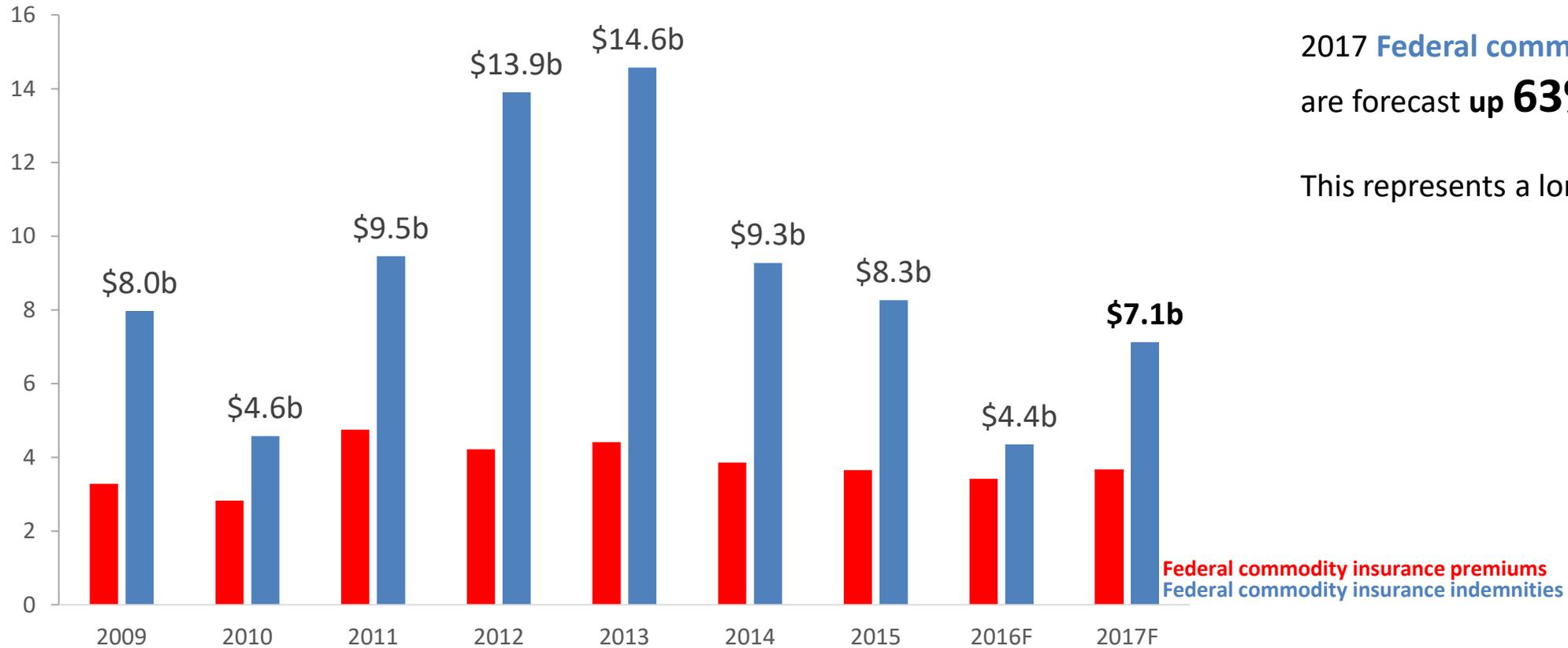
Federal commodity insurance premiums  
Federal commodity insurance indemnities

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

\$ billion



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

This represents a long-run 20-year average.

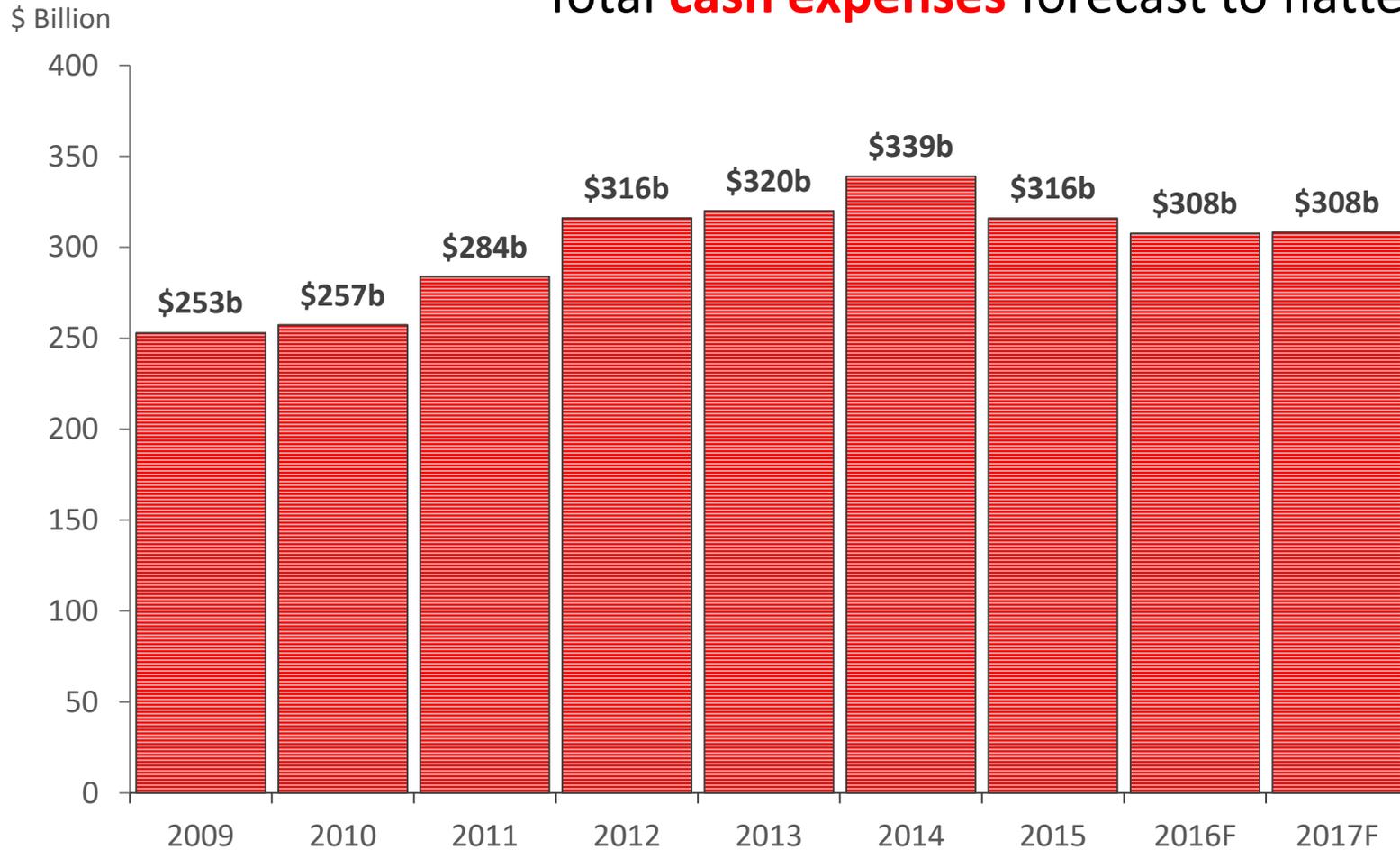
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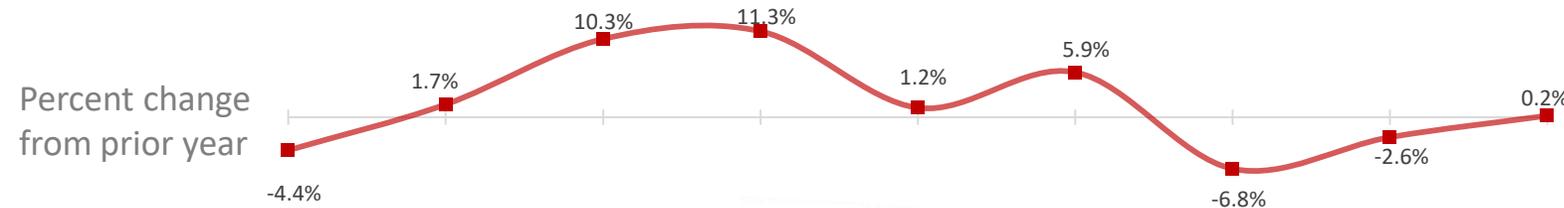


# Total **cash expenses** forecast to flatten in 2017



**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.

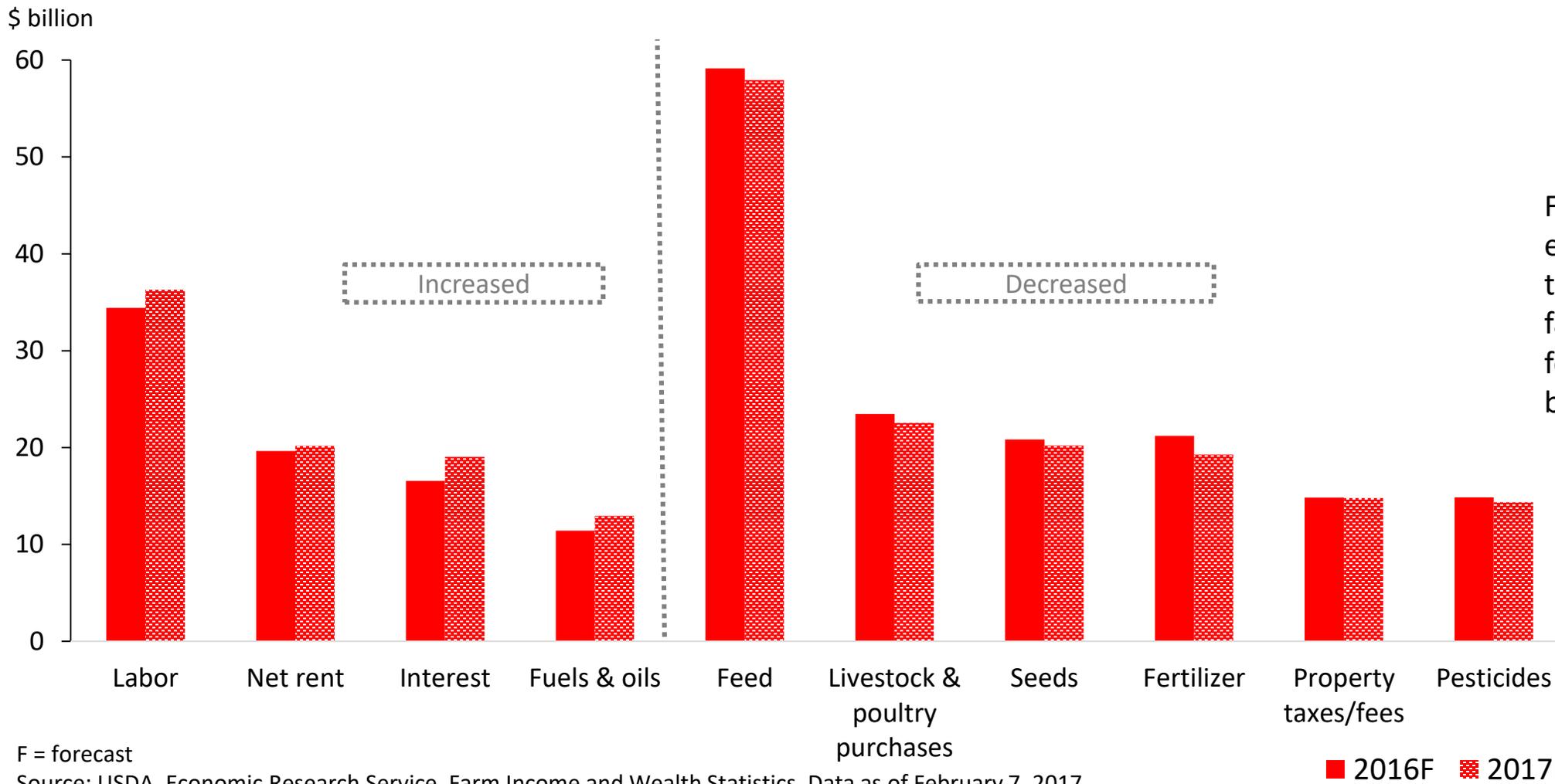


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Source: USDA, Economic Research Service, Farm Income and Wealth Statistics Data as of February 7, 2017



# 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.



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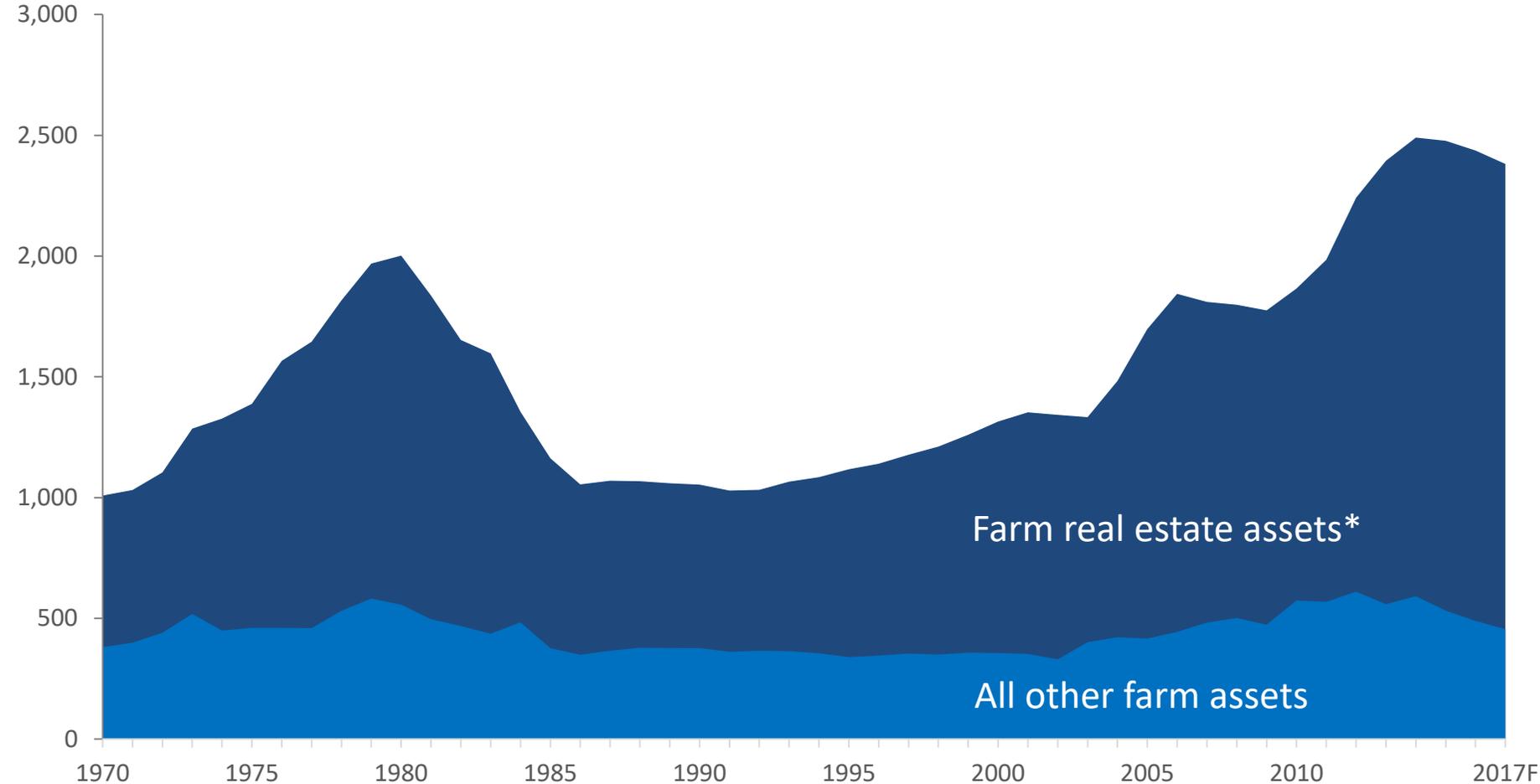
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# Farm real estate assets\* represent the majority of the sector's assets

\$ Billion (2017 Dollars)



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.

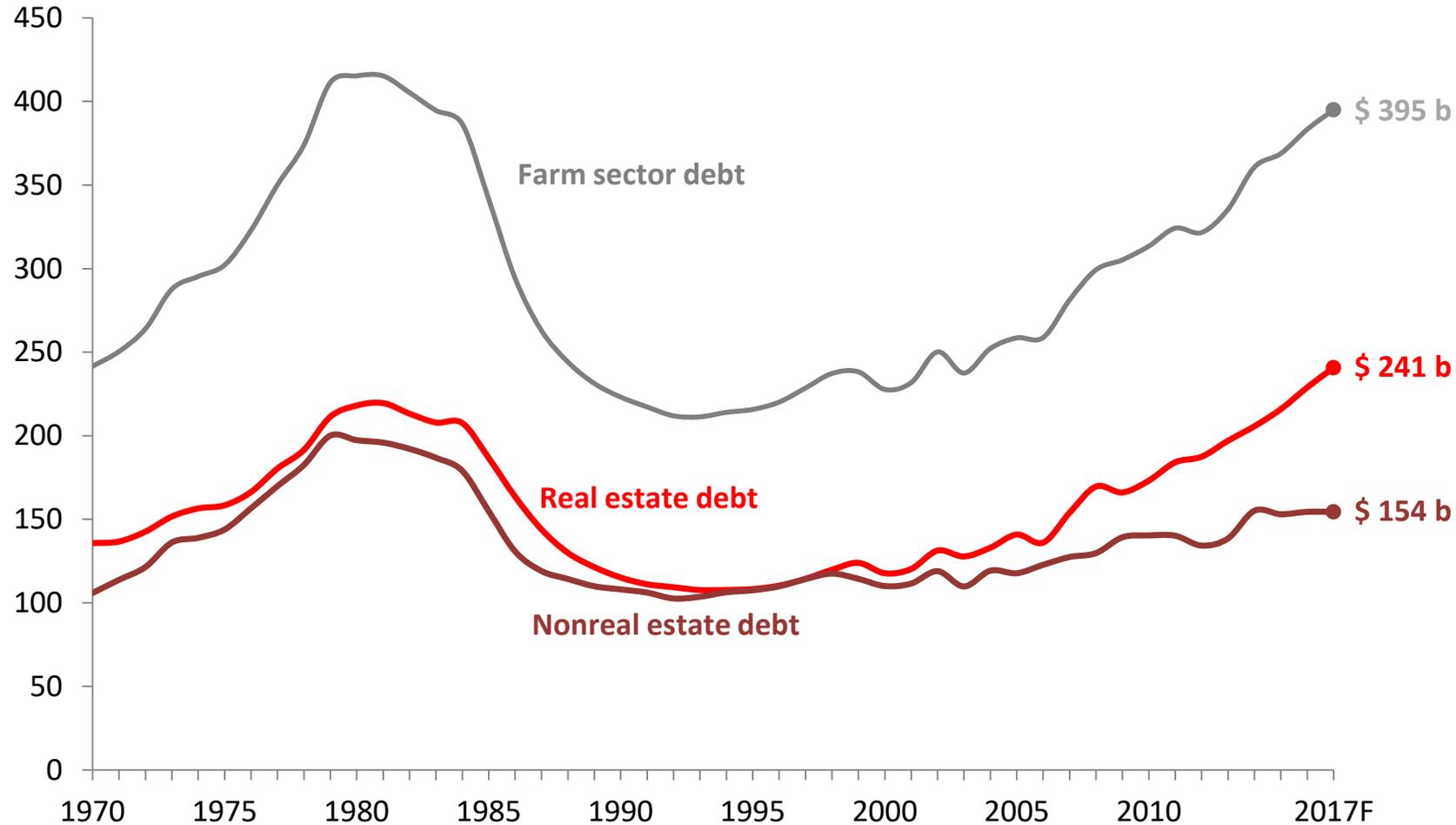
\*Real estate includes the value of land and buildings

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 7, 2017.



# 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.

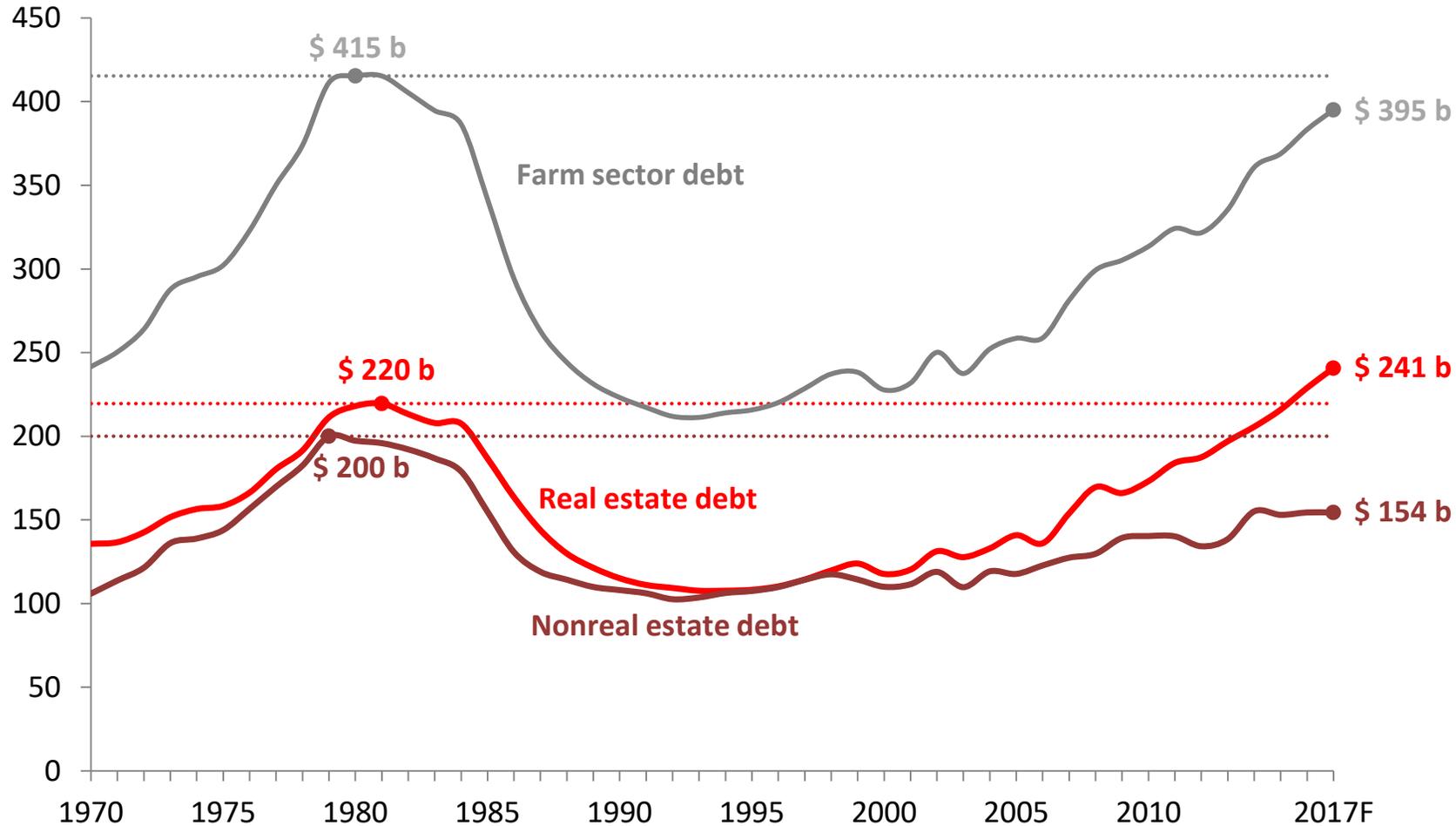
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# Farm **real estate debt** forecast above 1980's peak

\$ billion (2017 Dollars)



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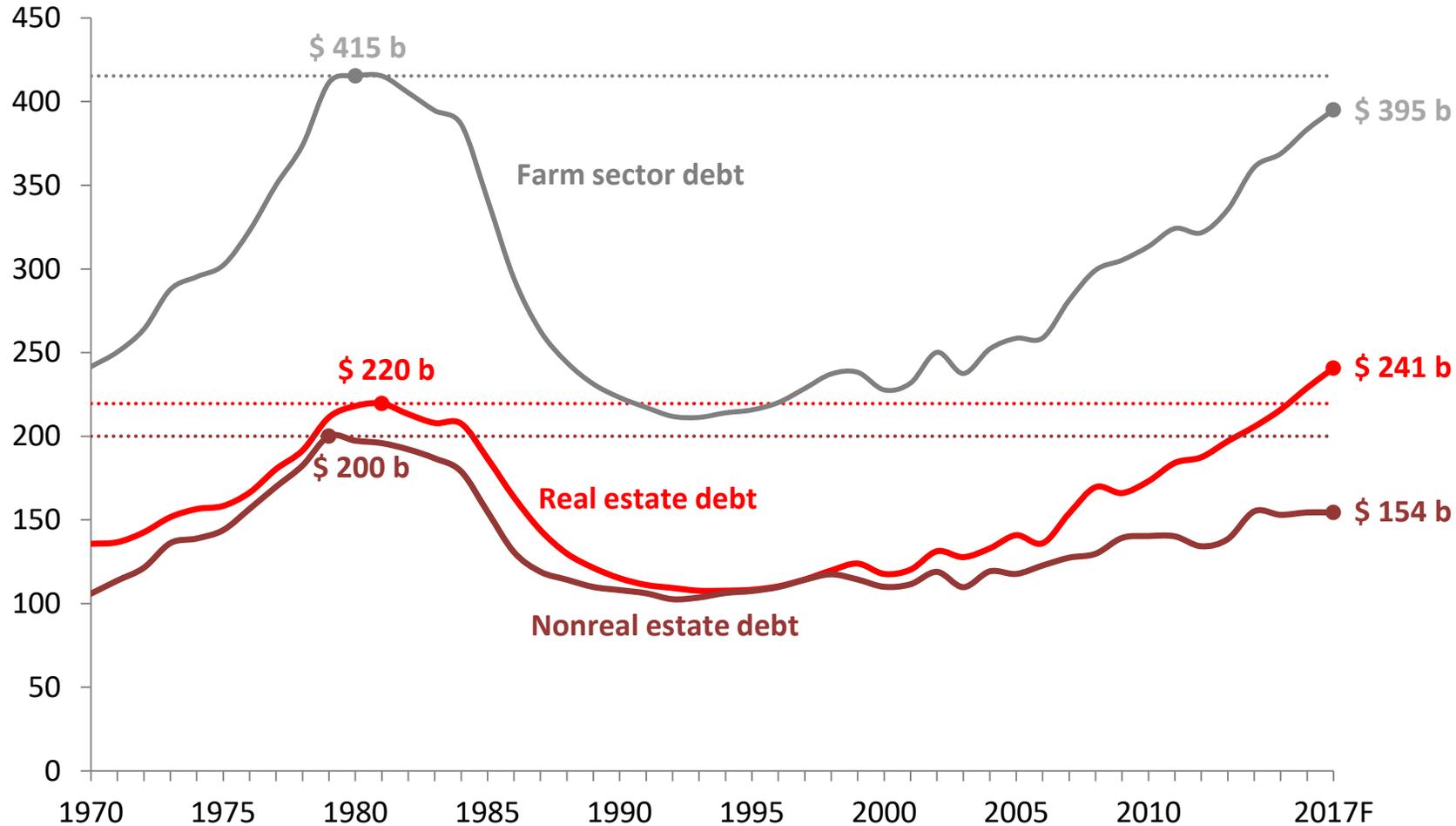
F= Forecast. Values are adjusted using the chain-type GDP deflator, 2009=100.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 7, 2017.



# Farm **real estate debt** forecast above 1980's peak

\$ billion (2017 Dollars)



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

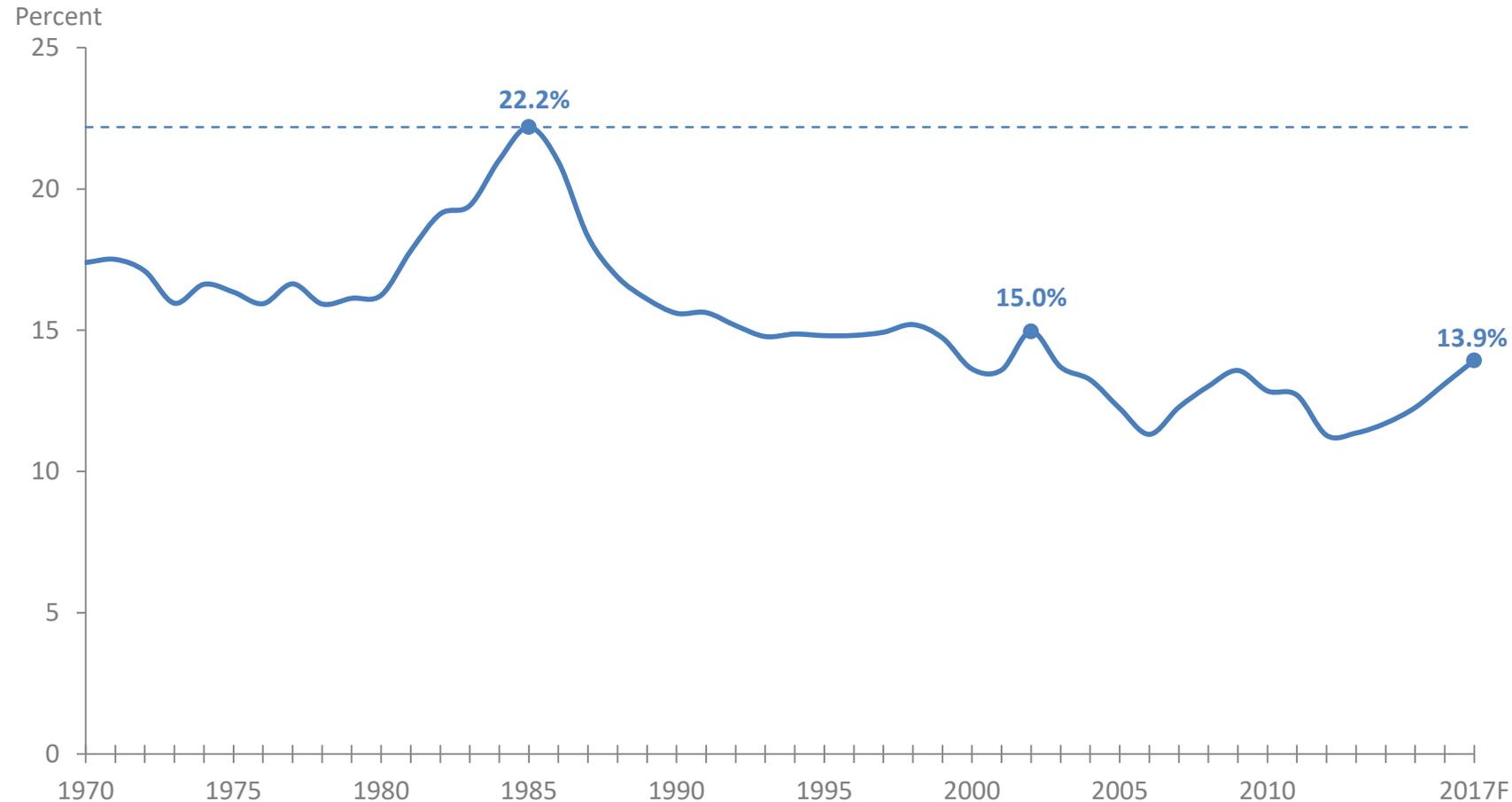
	1981	2017F
Total debt	11.2%	4.8%
Real estate	9.4%	4.9%
Nonreal estate	13.3%	4.6%

F= Forecast. Values are adjusted using the chain-type GDP deflator, 2009=100.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 7, 2017.



# 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).

F= Forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 7, 2017



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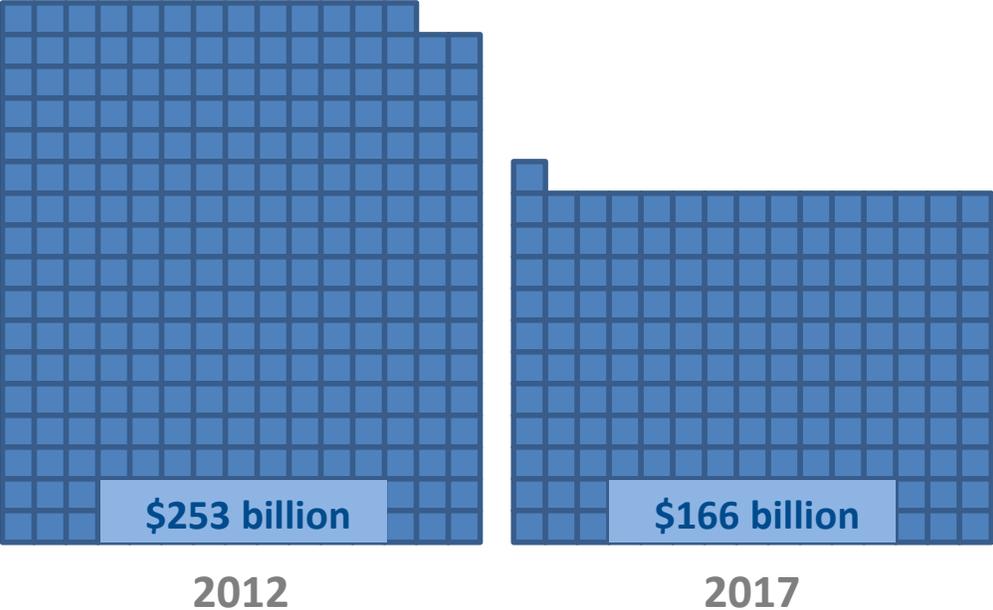
Prior 5-year trend: Weaken

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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

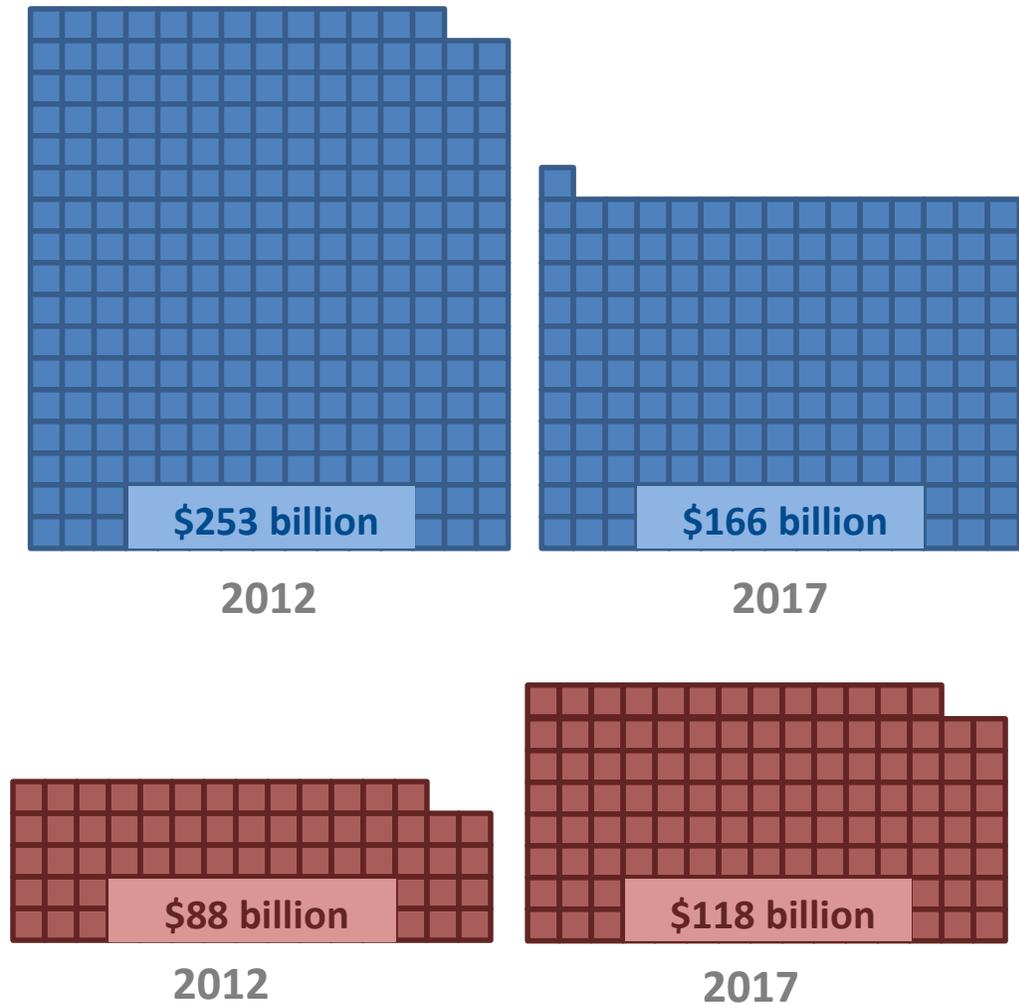
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 7, 2017.

□ = \$1 billion

Liquidity



# 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

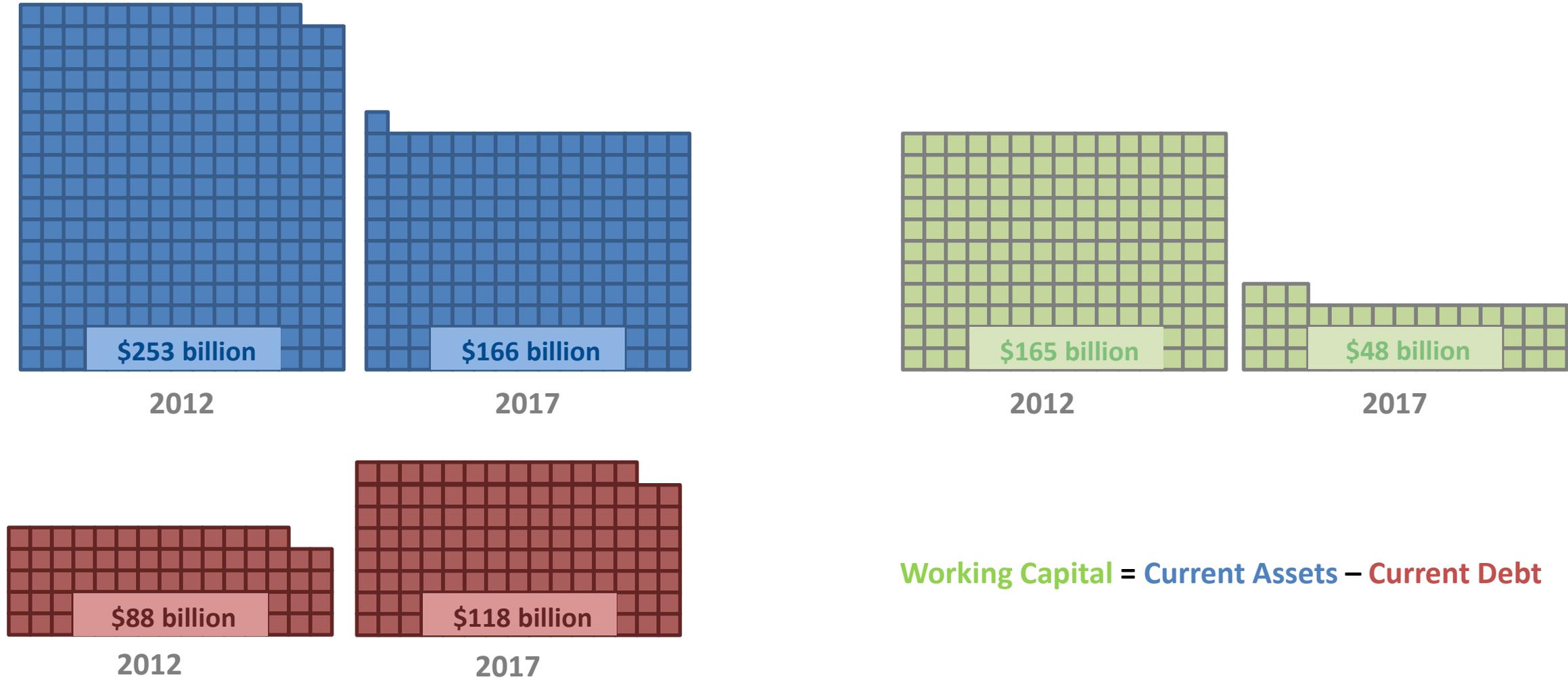
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 7, 2017.

□ = \$1 billion

Liquidity



# Working capital forecast to shrink between 2012 and 2017



**Working Capital = Current Assets – Current Debt**

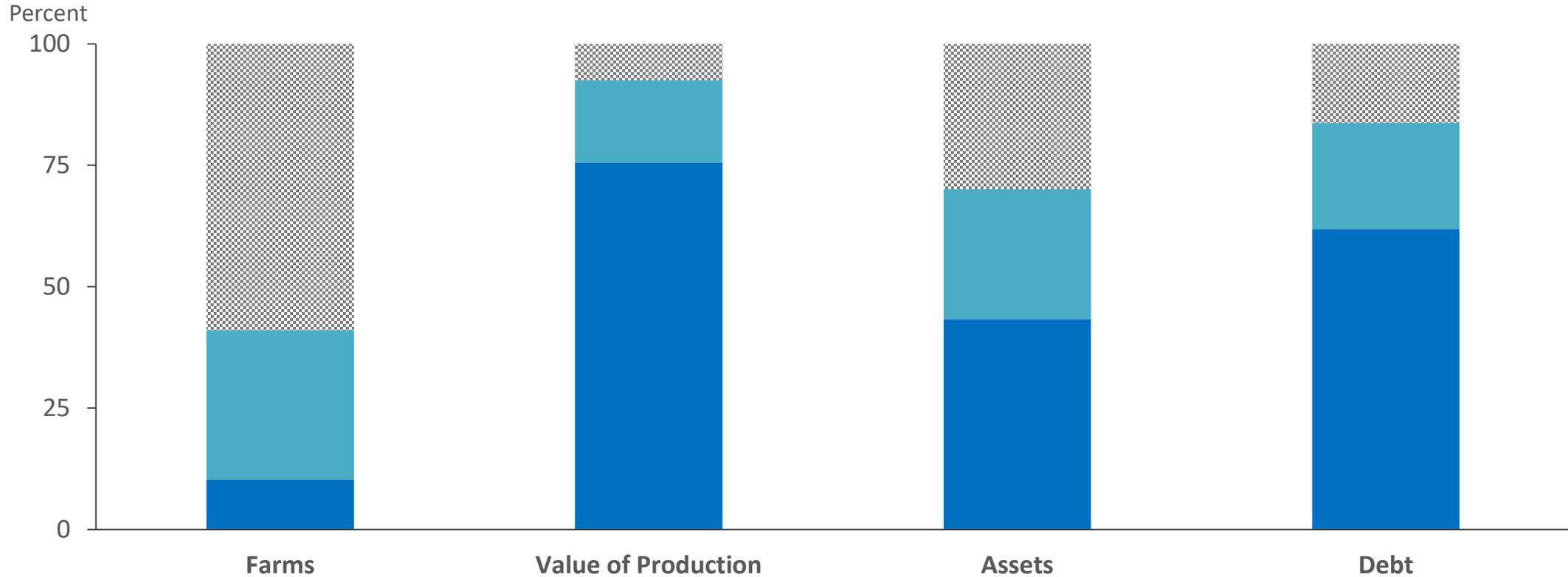
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 7, 2017.

□ = \$1 billion

Liquidity



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

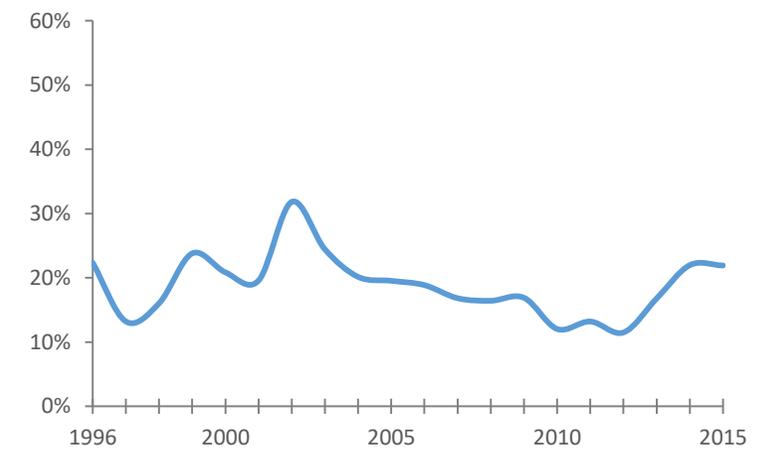
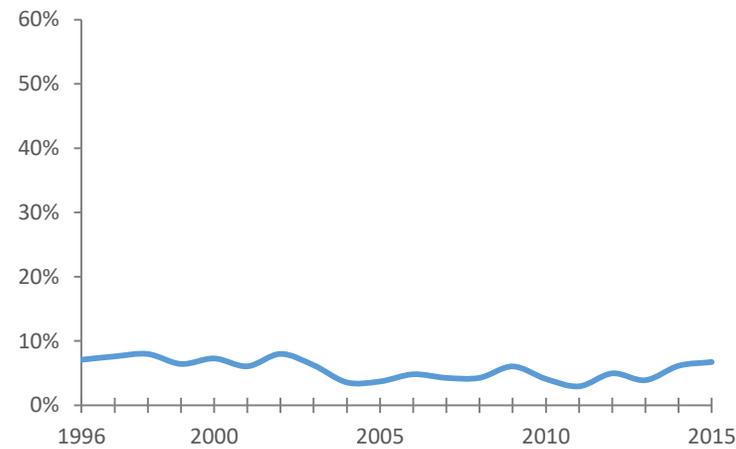
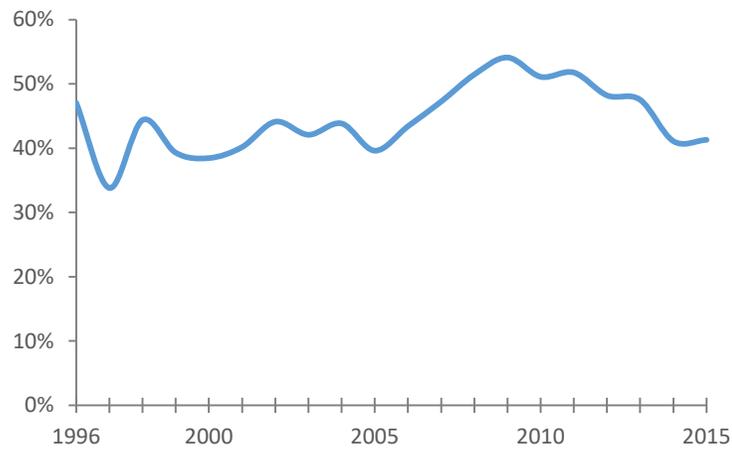
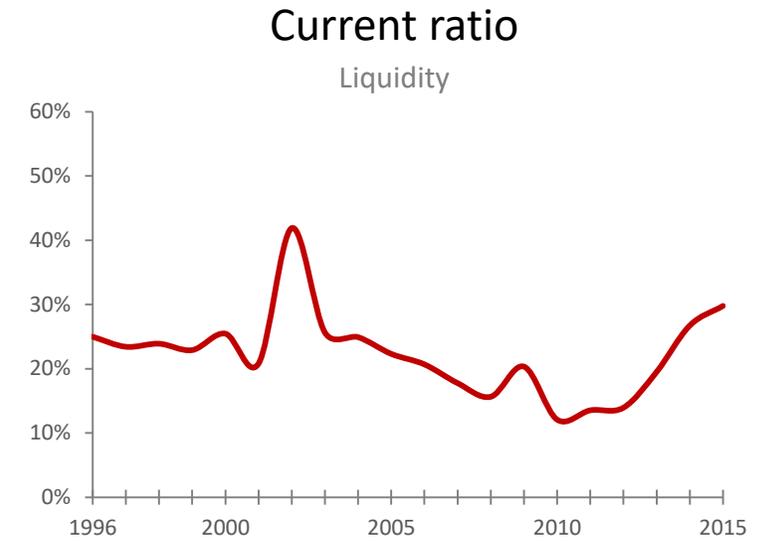
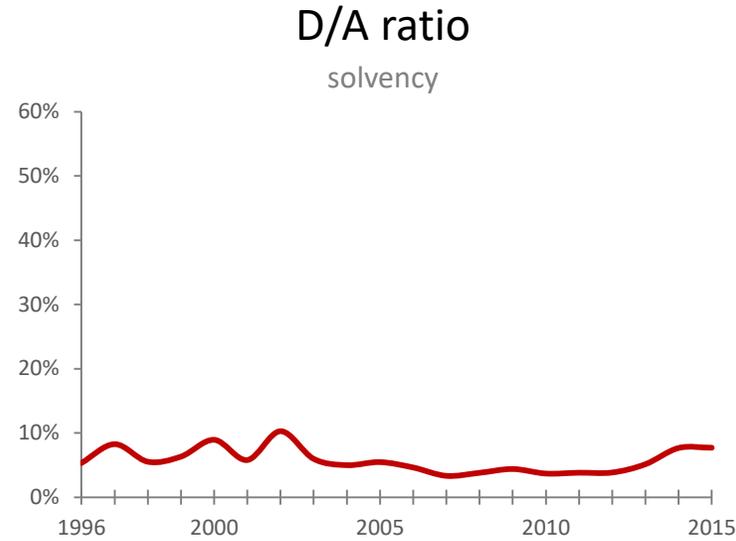
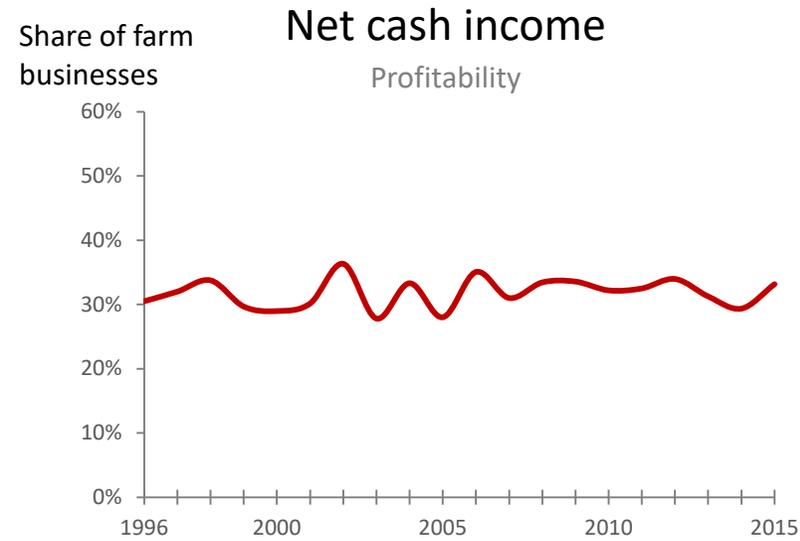


			Farm Businesses	
Residence			Intermediate	Commercial
Operators report they are retired or have a major occupation other than farming.			Gross cash farm income less than \$350,000 and operators report farming as their major occupation.	Gross cash farm income greater than \$350,000 or farms organized as nonfamily corporations or cooperatives.

Source: 2015 Agricultural Resource Management Survey (ARMS)



# Financial ratios weaken for an increasing share of **crop** and **livestock** farm businesses



— Negative net cash income

— D/A greater than 50%

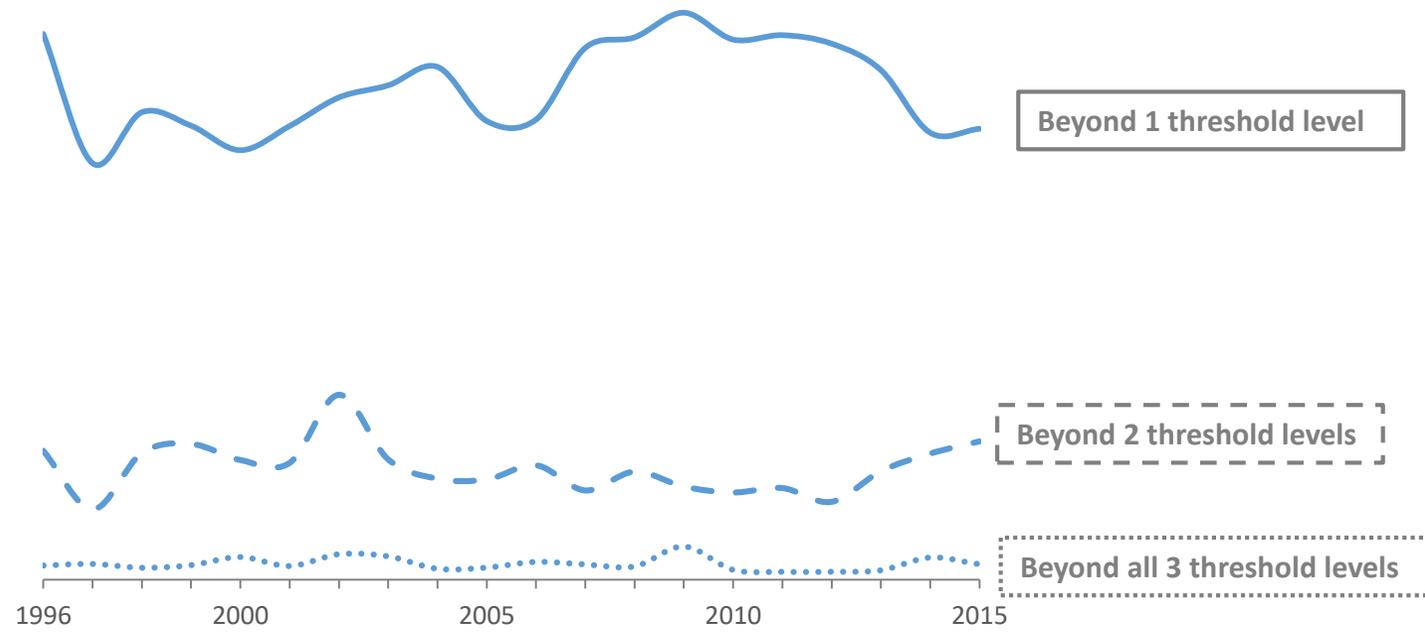
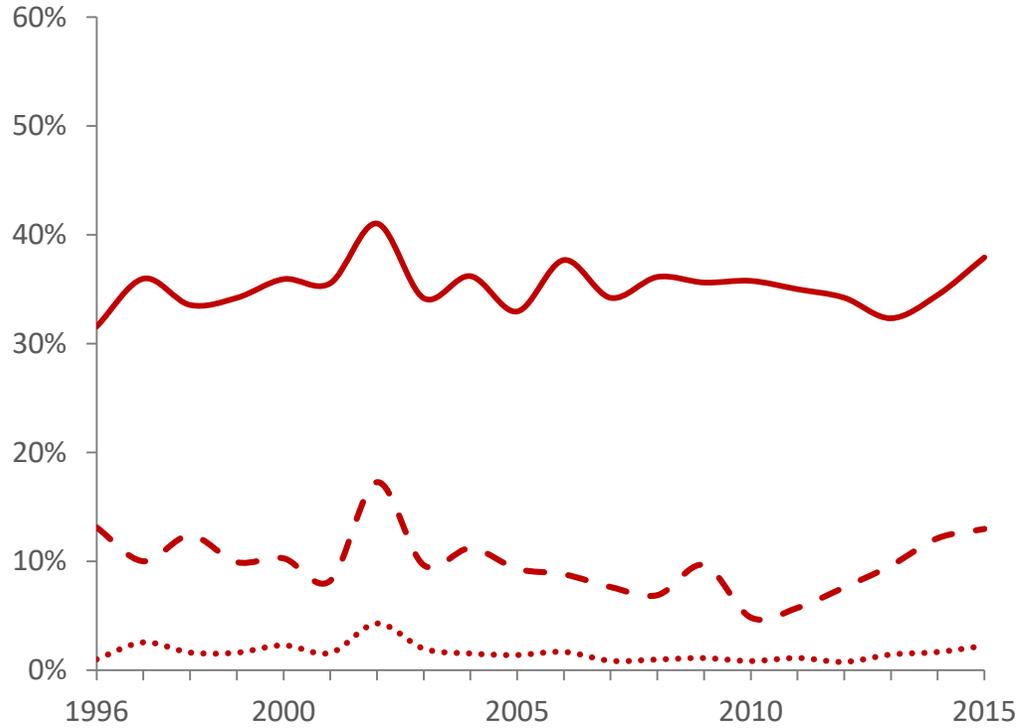
— Current ratio less than 1

Source: 1996-2015 Agricultural Resource Management Survey (ARMS)



# Financial ratios weaken for an increasing share of **crop** and **livestock** farm businesses

Share of farm businesses



D/A ratio  
solvency

Current ratio  
Liquidity

Net cash income  
Profitability

Threshold level:

**Greater than 0.5**

**Less than 1**

**negative**

Source: 1996-2015 Agricultural Resource Management Survey (ARMS)





QUESTIONS?

## Farm Income Team

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