Farm Sector Income & Finances 2015 Outlook

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The GDP chain-type price index used to convert the current-dollar statistics to real (inflation adjusted) amounts (2009=100)
Crop and livestock receipt forecasts driving major changes to net farm income from 2014F to 2015F

2014F-2015F change ($ billions)  
-$34.4 billion

Crop receipts are expected to fall for all major crops in 2015

F=Forecast
Total livestock and products receipts are forecast down 5 percent in 2015

F=Forecast
1/ Includes direct payments (through 2013), cotton transition payments (2013-2014). Payment rates are fixed by legislation.
2/ Includes counter-cyclical payments, average crop revenue election (ACRE) payments, loan deficiency payments, marketing loan gains, certificate exchange gains (ended after making payments for 2009 crop year), Price Loss Coverage (PLC), and Agricultural Risk Coverage (ARC).
3/ All other payments include disaster relief payments, tobacco transition payments, and dairy program payments.

F=Forecast

Real cash expenses expected to decline for the first time since 2009

F=Forecast
The GDP chain-type price index is used to convert current-dollar amounts to real (inflation adjusted) amounts (2009 = 100).
Despite lower fuel costs, production expenses forecast to rise 2.5 billion

F=Forecast
Farm Businesses Account for over 90% of farm production and 930,000 farms

Source: 2013 Agricultural Resource Management Survey (ARMS)
Average net cash income forecast lower for farm businesses¹ specializing in crop production

¹ Farm level forecasts derived from partial budget modeling on the 2013 Agricultural Resource Management Survey (ARMS) using the sector forecasts. The model is static and therefore does not account for changes in crop rotation, weather, and other local production impacts that occurred after the base year.

F = forecast

Average net cash income also forecast to fall for farm businesses\(^1\) specializing in livestock, dairy and poultry

\(^1\) Farm level forecasts derived from partial budget modeling on the 2013 Agricultural Resource Management Survey (ARMS) using the sector forecasts. The model is static and therefore does not account for changes in crop rotation, weather, and other local production impacts that occurred after the base year.

F = forecast

2015 average farm business net cash income forecast compared with 2010-11 average

Note: Commodity specialization is determined by the crop or livestock item that accounts for 50 percent or more of the total value of farm production.
2015 average farm business net cash income forecast compared with 2010-11 average

Note: The farm level forecasts are derived from partial budget modeling based on the 2013 ARMS using parameters from the sector forecasts. The model is static and therefore does not account for changes in crop rotation, weather, and other local production impacts that occurred after the base year. Farm businesses are defined as commercial (gross cash farm income greater than $350,000) and intermediate (primary occupation of farming and gross cash farm income below $350,000) farms, including non-family farms.
Real estate debt growth forecast to slow in 2015

Nonreal estate debt forecast to grow faster in 2015

2014 and 2015 data are forecasts
Note: Adjusted for inflation using the BEA chain-type implicit GDP deflator.
Farm real estate accounts for the majority of the sector’s assets and equity

Assets

<table>
<thead>
<tr>
<th>Type</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate debt</td>
<td>$186.4</td>
</tr>
<tr>
<td>Nonreal estate debt</td>
<td>$141.0</td>
</tr>
<tr>
<td>Equity</td>
<td>$2,677.7</td>
</tr>
</tbody>
</table>

Equity

- Real estate equity: 84%
- Nonreal estate equity: 16%

An expected small decline in farm real estate values leads to slower asset and equity growth

Percent change from previous year

- 0.8 percent decline in farm real estate assets

F = forecast

Sector leverage remains historically low despite debt being forecast to grow faster than assets in 2015

F = forecast
Share of highly leveraged farm businesses forecast to increase in 2015F

Share of farm businesses

The rate of return on farm assets expected to fall in 2015

- Decomposing the rate of return on farm assets (ROA)

\[ \text{ROA} = \frac{\text{Value of production}}{\text{Profit margin on value of production}} = \text{Asset Turnover Ratio} \times \text{Profit Margin Ratio} \]

F = forecast


Sector financial ratio documentation:
The rate of return on farm assets expected to fall

F = forecast
Farm Real Estate Outlook
2014 and 2015 data are forecasts
Note: Returns per acre are calculated as net cash income plus rental and real estate interest expenses.
Increases in December 31\textsuperscript{st} farm real estate values were greatest in corn producing regions from 2012 to 2013

December 31st farm real estate values have grown unevenly across regions since 2009.

Note: Farm real estate includes land and buildings.
Returns to farm real estate have also grown unevenly across regions since 2009.

Note: Returns per acre are calculated as net cash income plus rental and real estate interest expenses. Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
December 31st farm real estate values and returns
Regions with highest real appreciation since 2009

2014 and 2015 data forecast using partial budget model
Note: Returns per acre are calculated as net cash income plus rental and real estate interest expenses.
December 31st land values and capitalized returns in the Corn Belt

2014 and 2015 data are forecasts
Note: Returns per acre are calculated as net cash income plus rental and real estate interest expenses.
Capitalized 5 year moving average returns under different 2015 interest rate scenarios in the Corn Belt

2014 and 2015 data are forecasts
Note: Returns per acre are calculated as net cash income plus rental and real estate interest expenses.
Additional Analysis and Data

Farm Sector Income & Finances
Analysis coinciding with each of the ERS farm income group data release.

Farm Sector Income and Wealth Statistics

Charts and Maps of U.S. Farm Balance Sheet Data
Lets users visualize farm balance sheet data series and generate maps of farm real estate values for different years.
Amber Waves:

Presents current ERS economic and policy research on agriculture, food, rural America, and the environment for policymakers, academics and the public.

• Via web connection or mobile app

http://www.ers.usda.gov/AmberWaves/
Chart of Note:

Daily chart and short analysis on current ERS economic and policy research on agriculture, food, rural America, and the environment for policymakers, academics and the public.

http://www.ers.usda.gov/ChartsOfNote

![Graph showing farm sector assets, debt, equity (wealth), and debt-to-asset ratio, 1970-2015](image)

Note: F = Forecast. Data for 2014 and 2015 are forecasts. The gross domestic product (GDP) chain-type price index is used to convert the nominal (current-dollar) statistics to real (inflation-adjusted) amounts (2009=100).


Farm income Chart of Note from March 2\(^{nd}\), 2015.
QUESTIONS?

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