

# Agricultural Income and Finance Situation and Outlook: 2021 Edition

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## What Is the Issue?

The U.S. farm economy experienced a wide range of financial conditions through 2009–2019, including a rise of real net cash farm income in 2012–14 to levels not seen since the mid-1970s, followed by a decline and leveling off of sector income. The U.S. Department of Agriculture (USDA) farm income estimates for 2020 and forecasts for 2021, released September 2, 2021, showed sector net cash income well below its 2012 peak but above its average since 1970 after adjusting for inflation (see appendix A). The Agricultural Income and Finance Situation and Outlook reports—which have been produced intermittently since 1984—compile analysis by the Economic Research Service’s (ERS) Farm Income Team and other researchers on pressing agricultural finance issues facing the sector’s farming operations as well as farm households. For the most recent financial forecast for the farm sector and farm households, see the farm sector income and wealth topic page on the ERS website. This edition

assesses major recent financial trends over the last decade using the most recent survey data through 2019, thereby complementing the short-term, frequently updated farm financial forecasts. It presents research on three major farm income and finance topics: (1) trends and drivers behind the major income and expense components of net cash farm income; (2) the changing distribution in direct Government payments from farm programs under three different Federal farm bills; and (3) trends in Chapter 12 bankruptcy filings at the State and national levels.

## What Did the Study Find?

In aggregate and real terms, net cash farm income for all farm operations from 2009 through 2019 endured a series of multi-year swings not seen since the 1970s. In particular:

- the swings were driven largely by fluctuations in cash receipts for animals and animal products, with smaller contributions from crop cash receipts;
- incomes mostly varied with commodity prices rather than from variation in production levels, highlighting the importance of domestic and foreign demand for agricultural commodities;
- except for labor, cash expenses for the sector fluctuated closely with cash receipts—signifying stakeholders who supply inputs to production agriculture also experienced volatility, while payments to labor remained relatively stable despite increases in wage rates;



ERS is a primary source of economic research and analysis from the U.S. Department of Agriculture, providing timely information on economic and policy issues related to agriculture, food, the environment, and rural America.

- landowners saw net rents fluctuate with net cash farm income throughout the period, while land values initially rose then held steady; and
- Government payments averaged \$12.8 billion per year from 2009 to 2018, deviating no more than \$2.1 billion from the average in any year. However, 2019 Government payments were \$22.7 billion, largely due to payments from the Market Facilitation Program (MFP) that provided assistance to farmers impacted by trade disruptions.

While most of the period experienced stable direct Government payments at the sector level until 2019, the composition of payments shifted from primarily fixed (regardless of market outcomes) to counter-cyclical payments beginning in 2015. As programs changed, the composition of recipients changed as well to include greater participation among nonfamily farms and less participation among all sizes of family farms. In particular:

- the share of all farms receiving Government payments declined from 35 to 29 percent between 2010 to 2018. The share receiving commodity program payments declined from 21 percent in 2010 to 9 percent of all farms in 2018;
- an uptick in payment receipts occurred in 2019, corresponding to an increase in the scope of coverage of the MFP relative to 2018. MFP payments were distributed to 7 percent of farms in 2018 and 13 percent in 2019;
- Government payments accounted for between 2 and 5 percent of the total income among farm households. Simulating their removal—but not accounting for any adjustments in production decisions—found that Government payments increased the share of farm households that earned positive farm income by at most 3 to 5 percent; and
- because most farm households did not receive payments and farm income is generally a small share of total household income, Government payments affected total household income very little—between 1 to 5 percent—except for those households at the very bottom of the distribution of total household income.

Chapter 12—or family farm—bankruptcies started rising in 2014, and by 2019 were at their highest levels in almost a decade. Bankruptcy rates in 2019 were still below rates during the late 1980s, 2003, and 2010. However, national bankruptcy rates can mask substantial variation in economic conditions at the local level. To examine trends by State, we compared the number of bankruptcies to the number of farms eligible for Chapter 12 protection and found:

- for the 15 main agricultural States, the aggregate bankruptcy rate in 2019 was 6.7 per 10,000 farms eligible for Chapter 12 bankruptcy protection, compared with 3.4 per 10,000 farms, when considering all farms in the United States;
- among the 15 main agricultural States, only California and Florida had lower bankruptcy rates in 2019 than their respective averages over the previous 10 years; and
- 5 of the 7 largest agricultural States—Iowa, Minnesota, Nebraska, Illinois, and Kansas—had higher bankruptcy rates in 2019 than any year since at least 2005.

## How Was the Study Conducted?

The USDA, Economic Research Service's Farm Income and Wealth Statistics data product published on December 2, 2020, was used to explore drivers and trends in the sector's net cash farm income since 2009. This product is compiled from a broad range of survey and administrative data. Underlying data are updated three times a year. The study of the structure, receipt, and distribution of Government payments was conducted using data from the 2010–19 Agricultural Resources and Management Survey (ARMS). ARMS is USDA's primary source of information on the production practices, resource use, and economic well-being of America's farms and ranches. In addition, we obtained program payment totals from the Farm Income and Wealth Statistics data product. Finally, this report used U.S. Bankruptcy Courts' Chapter 12 bankruptcy filings data—in conjunction with ARMS—to study farm bankruptcies.