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State's Net Farm Income Levels Tell Quite A Story

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Market Report	Yr Ago	4 Wks Ago	8/18/00
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt.	$65.45	$67.10	$65.33
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt.	79.00	95.50	84.00
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg.	*	106.52	105.92
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt.	102.76	105.28	101.41
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt.	36.00	*	44.50
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd.	*	46.61	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	105.94	134.00	120.70
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt.	85.38	86.50	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt.	182.00	187.50	168.00
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu.	2.76	2.87	2.82
Corn, No. 2, Yellow Omaha, bu.	1.60	1.49	1.47
Soybeans, No. 1, Yellow Omaha, bu.	4.24	4.44	4.36
Grain Sorghum, No. 2, Yellow Kansas City, cwt.	3.06	2.67	2.75
Oats, No. 2, Heavy Sioux City, IA , bu.	1.11	1.27	1.18
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton.	86.00	117.50	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton.	*	80.00	77.50
Prairie, Sm. Square, Good Northeast Nebraska, ton.	57.50	72.50	77.50

* No market.

Nebraska's 1999 net farm income levels document what people in the industry already knew – 1999 was not a good year for the agricultural economy. According to the recently released 1999 USDA net farm income statistics, Nebraska's 1999 aggregate net farm income was estimated at **$1.66 billion**. This total falls 10 percent below the 1998 figure and nearly 18 percent below the annual average of the 1990's (Table 1).

Despite a return to some profitability in the livestock sector (particularly beef) in 1999, the nearly $300 million turnaround in animal output from 1998 to 1999 simply could not compensate for the $750 million downturn in the value of Nebraska's 1999 crop output. This, in combination with rising production expenses of nearly $300 million, led to a situation of serious economic consequences buffered only by government program payments.

These government payments are indeed an important part of this financial story. The USDA calculated a record **$1.32 billion** of direct government payments flowing into Nebraska's farm sector in 1999. This amount was more than twice the annual average of government payments for the 1990s. Even more sobering is that those payments constituted the equivalent of 80 percent of Nebraska's total net farm income – a proportion that has not been remotely approached since the depth of the 1980s farm crisis. Nebraska is not unique in terms of 1999 payment levels. In seven other states, including several Corn Belt States, their 1999 direct government payments actually **exceeded** their 1999 aggregate net farm income levels.

As for 2000, major crop commodity prices have not rebounded. In fact, prices have worsened from a year ago due to high production volumes forecasted for 2000. Recent Farm Service Agency projections suggest payments coming into Nebraska's farm sector this year of more than $1.7 billion, of which nearly half will be in the form of loan deficiency payments (LDPs). Given weather-reduced yield levels in Nebraska, and significant increases in farm expenses for energy and interest payments on short-term debt, we may easily see a situation for 2000 in which total direct government payments may constitute the equivalent of 95 percent or more of Nebraska's aggregate net farm income. As one Nebraska crop producer remarked recently, "the program payment is the only margin left."

What can we make of these aggregate income accounts that have shown such pronounced shifts in recent years? There are a number of observations that can be made.

First, we must realize that these aggregate financial indicators do not accurately reflect the economic situations for all Nebraska producers. As initially noted, livestock producers experienced some return to profit in 1999, and that has generally continued into this year (if not confounded by drought). There are also some cash-crop producers who (by good management and/or good fortune) are positioned to see reasonable income levels for this year. At the same time, many producers are being challenged by weather and other factors while seeing commodity prices at historic lows. For these producers, the direct government program payments they receive will be insufficient to cover the economic shortfalls. This is a difficult economic time for many agricultural producers and the effects will ripple across the rural economies of the state.

Second, we need to reflect on these financial accounts and realize how economically dependent and vulnerable Nebraska is to the political forces that shape farm policy at the federal level. Production agriculture is by nature a high-risk business; and we have conventionally presumed that federal farm programs represent a form of economic safety-net to buffer some of that risk. However, given the current dependency levels revealed and the political winds that are blowing, one wonders if, in fact, farm program policy has only compounded the economic risk exposure of Nebraska agricultural producers.

Third, one needs to ask the following question: What is sustainable in the longer run? With the end of the current Freedom to Farm Act in 2002 and the initial spirit of that legislation which intended to remove government intervention and allow market forces to work, now is certainly not the time for a "business-as-usual" attitude. Uncertainty abounds over future policy. In recent years, the global competition on the supply side of the market has only intensified in combination with rather modest world demand increases. This has led to lower and lower market-clearing prices for the major crop commodities. In essence, the U.S. farm sector is moving into uncharted waters where future farm policy must be carefully crafted within the parameters of global market forces. This may lead to significant economic adjustments for U.S. production agriculture, including some recapitalization of assets (lower land values and rents), to a level where we can again see U.S. producers competing in a sustainable range global market equilibrium.

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Table 1. Net Farm Income and Direct Government Payment Series for Nebraska, 1990-1999.

Year	Direct Government Payments ($1,000)	Net Farm Income ($1,000)	Government Payments as % of Net Farm Income
1990	$624,646	$2,506,179	25.0%
1991	$490,659	$2,293,807	21.4%
1992	$478,729	$2,512,118	19.1%
1993	$806,273	$1,984,643	40.7%
1994	$348,246	$2,111,457	16.5%
1995	$507,302	$1,611,434	31.5%
1996	$388,738	$3,426,814	11.3%
1997	$454,549	$2,063,421	22.0%
1998	$796,933	$1,847,139	43.1%
1999	$1,322,091	$1,663,931	79.5%
Ave. 1990-99	**$621,817**	**$2,020,380**	**30.8%**

Source: USDA - Economic Research Service