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USDA Forecasts Lower 2023 Net Farm Income

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The U.S. Department of Agriculture (USDA) updated its agricultural sector's profitability forecast on August 31, 2023. The preliminary estimates from February are based on an economic model forecast of the agriculture sector. This update incorporates crop and livestock production estimates from the August WASDE, market prices received for the first six months of the calendar year and updated production costs. The estimates are based on a calendar year and include revenue from the 2022 crops held for storage and sold in 2023.

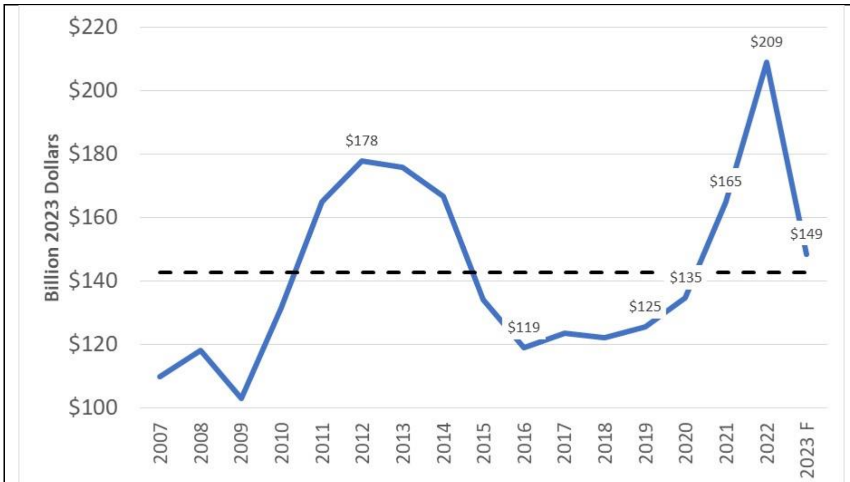

Table 1. Net Cash Farm Income for the Agricultural Sector from 2007 to 2023 (F) in 2023 Billion Dollars.

Net Cash Farm Income (NCFI) for the Agricultural Sector from 2007 to 2023 (Forecasted) is displayed in Table 1. The blue line is NCFI, while the black line represents the 2007 to 2022 average NCFI of $143 billion in 2023 dollars.

NCFI for 2022 is a record $209 billion and exceeds the second largest NCFI of $178 billion set in 2012 by $31 billion.

Table 1 clearly shows the cyclical nature of commodity prices and profitability. The sector's Net Cash Farm Income (NCFI) increased in consecutive years starting in 2009 as the sector enjoyed increased profitability led by crops. The increase in demand for biofuel and exports was a rising tide that lifted crop revenues and, eventually, livestock revenue. The peak NCFI of this cycle occurred in 2012, with an NCFI of $178 billion in 2023 dollars (Table 1). NCFI then declined to $119 billion in 2016, a total decline of $59 billion (33%) from the 2012 peak (Table 1).

Another period of above-average NCFI began in 2019 as the sector experienced three consecutive years of 7.3%, 22.7% and 26.6% increase in profitability. USDA pegs the 2022 sector NCFI to be a record $209 billion (in 2023 dollars). The total increase in NCFI from 2019 to 2022 was $83.6 billion or 66.7% (Table 1).

The sector's NCFI is projected to decline to $148.6 billion, a $60.5 billion decline from 2022 and a 28.9% decrease. This reduction in NCFI is like the sector's profitability loss from the 2012 peak. The difference is that this loss would occur in one year instead of over four years. The 2007-2022 average NCFI is $143 billion, so the 2023 NCFI is still above the long-term average sector profit.

The 2022 NCFI was a record due to above average or record commodity prices. When digging into the numbers, USDA forecasts 2023 corn revenue to fall by $11.6 billion from $91.6 billion in 2022 to $80 billion in 2023. Similarly, soybean revenue is projected to be $7.5 billion less than the $64.5 billion in 2022. This revenue loss is due entirely to lower projected corn and soybean prices.

Another component that has supported agriculture's NCFI has been direct government payments. The sector received a large influx of direct government payments in 2020 through supplemental and ad hoc disaster payments. Direct payments from the government totaled $52.7 billion (in 2023 dollars) in 2020. As these programs ended, total direct government payments declined by $24 billion in 2021 and an additional $12.6 billion in 2022. USDA forecasts that total direct government payments will be $12.6 billion. The reduction in government payments contributes to the lower NCFI for 2023.

While USDA forecasts higher production costs across the board, USDA forecasts the amount farmers are spending on interest payments are expected to be at the highest amounts (in 2023 dollars) since 1987. This increase reflects the higher interest rates as the Federal Reserve tries to curb inflation. USDA projects that the sector will spend $33.3 billion in interest payments in 2023, a 34% increase from last year and a 55% increase over the $21.5 billion spent on interest in 2021.

What does this mean for managers?

The revised forecast adds to the discussion as policymakers work to finish a new farm bill. The sector enjoyed record NCFI in 2022, but the sharp decrease in 2023 reminds us that commodity agriculture is cyclical and margins are tightening. The Farm Program safety net, excluding crop insurance, is tied to marketing-year average prices, and is forecasted to make little to no payments as revenue declines below profitable levels for some farmers.

The safety net remains using crop insurance with market risk-management tools to manage revenue risk. This report highlights the impact of higher interest rates on profitability, and farmers will have to continue to manage interest expense until the Federal Reserve conquers inflation. Interest and inflation will continue to impact investment decisions in purchasing equipment, expanding the business, and investing in new buildings.

The sector-level forecasts imply that the working capital cushion building since 2020 is eroding. The challenge for managers is to preserve their farm's working capital as that financial cushion remains the farm business's safety net.