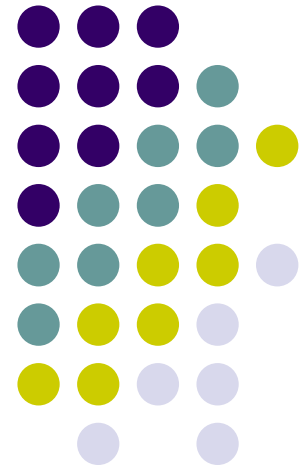


Situation and Trends in Agriculture

Mary Ahearn,
Economic Research Service, USDA

Presentation at the Federal Reserve
Bank of Chicago Perspectives on the
Future of Agriculture in the Midwest,
December 1, 2009



Organization of presentation

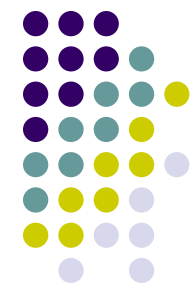


- Mega trends in structure of agriculture
- Latest financial picture for agricultural sector
- Off-farm employment opportunities

Long-run structural trends across U.S. agriculture

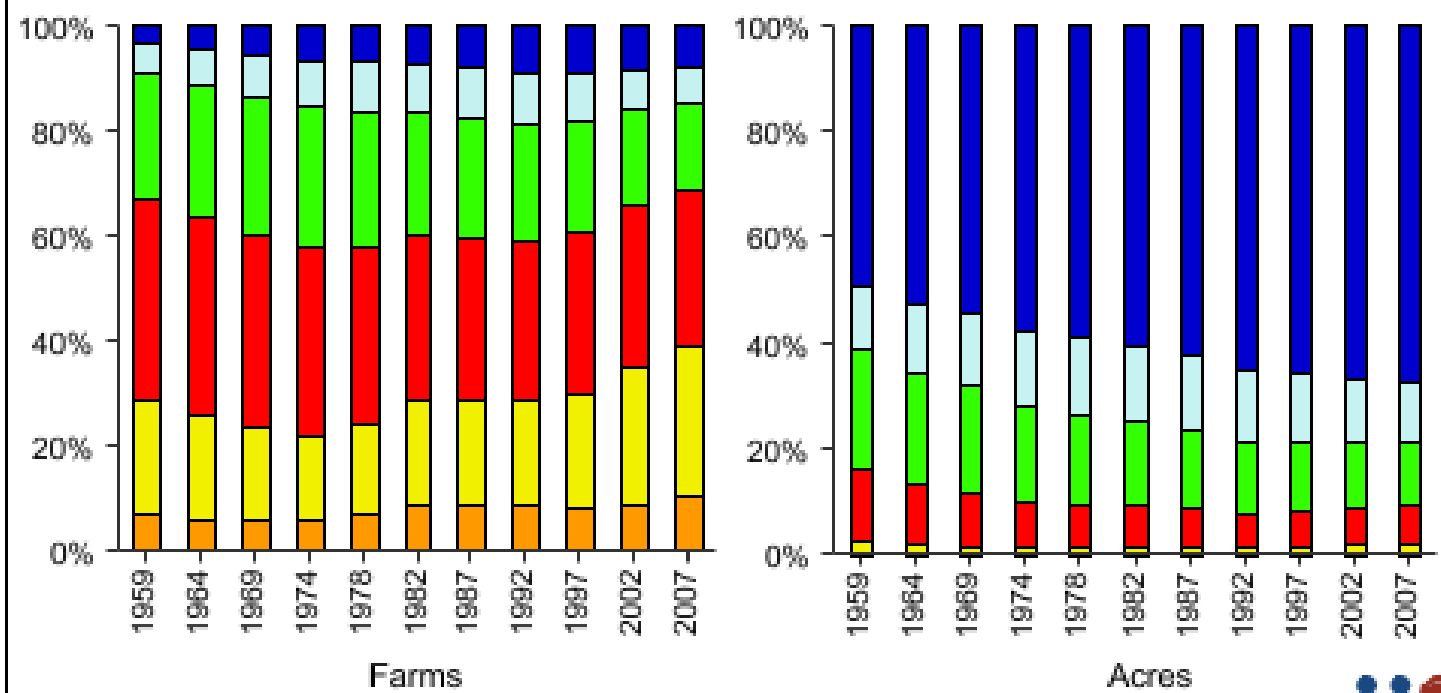


- Increasingly strong financial position of farm families relative to other U.S. families
- Dependence of most farm households on off-farm sources of income
- Strength of farm land values and increasing ownership by nonoperators
- The distribution of government payments largely following production of certain row crops
- Increasing use of production and marketing contracts since the 1950s
- Increasing concentration in the production of agriculture
- Increase in the absolute number of small farms



Share of farms and total farm acres by acreage class, 1959-2007

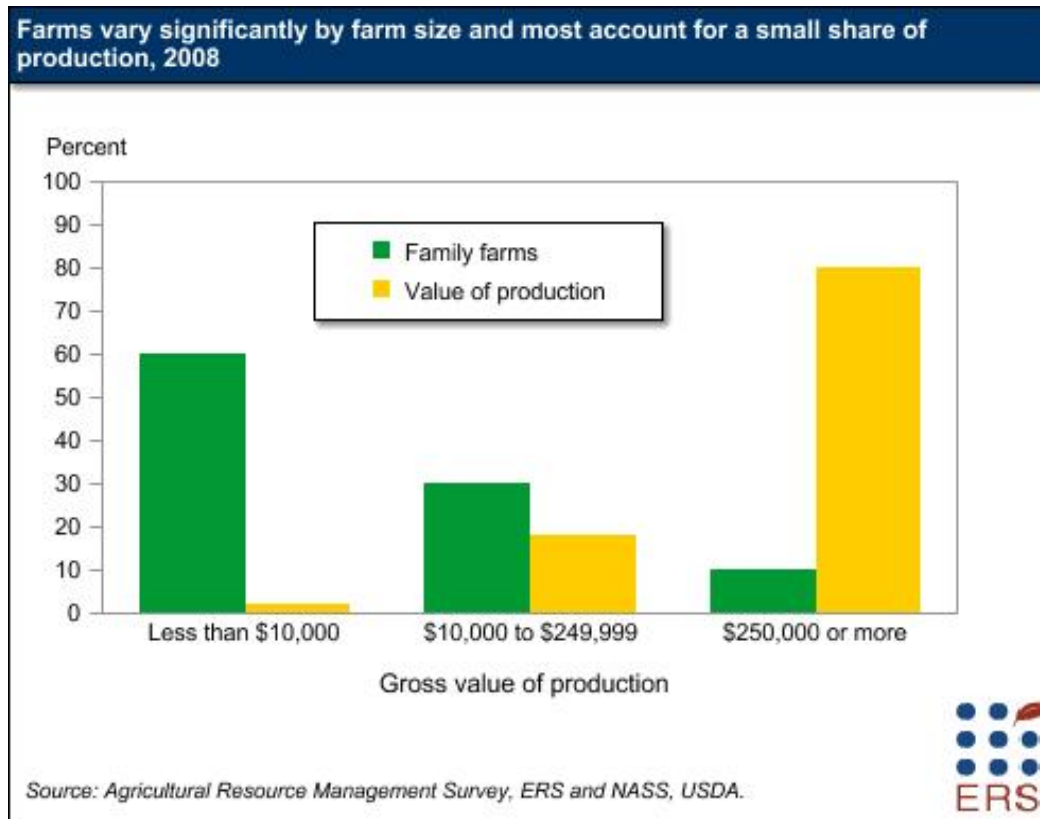
- 1000 or more
- 500 to 999
- 180 to 499
- 50 to 179
- 10 to 49
- Under 10



Source: Census of Agriculture.



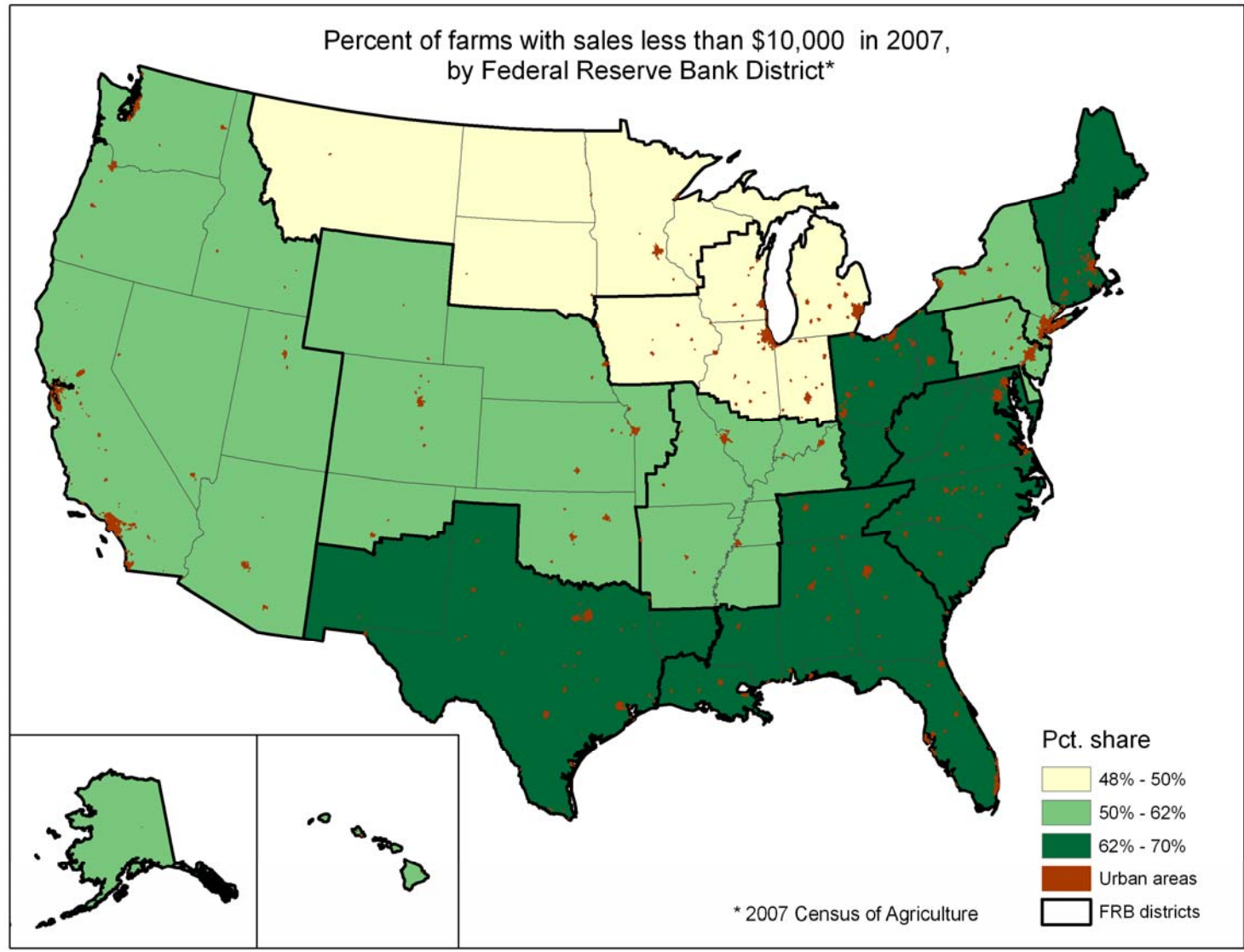
Farm size is often based on gross sales class



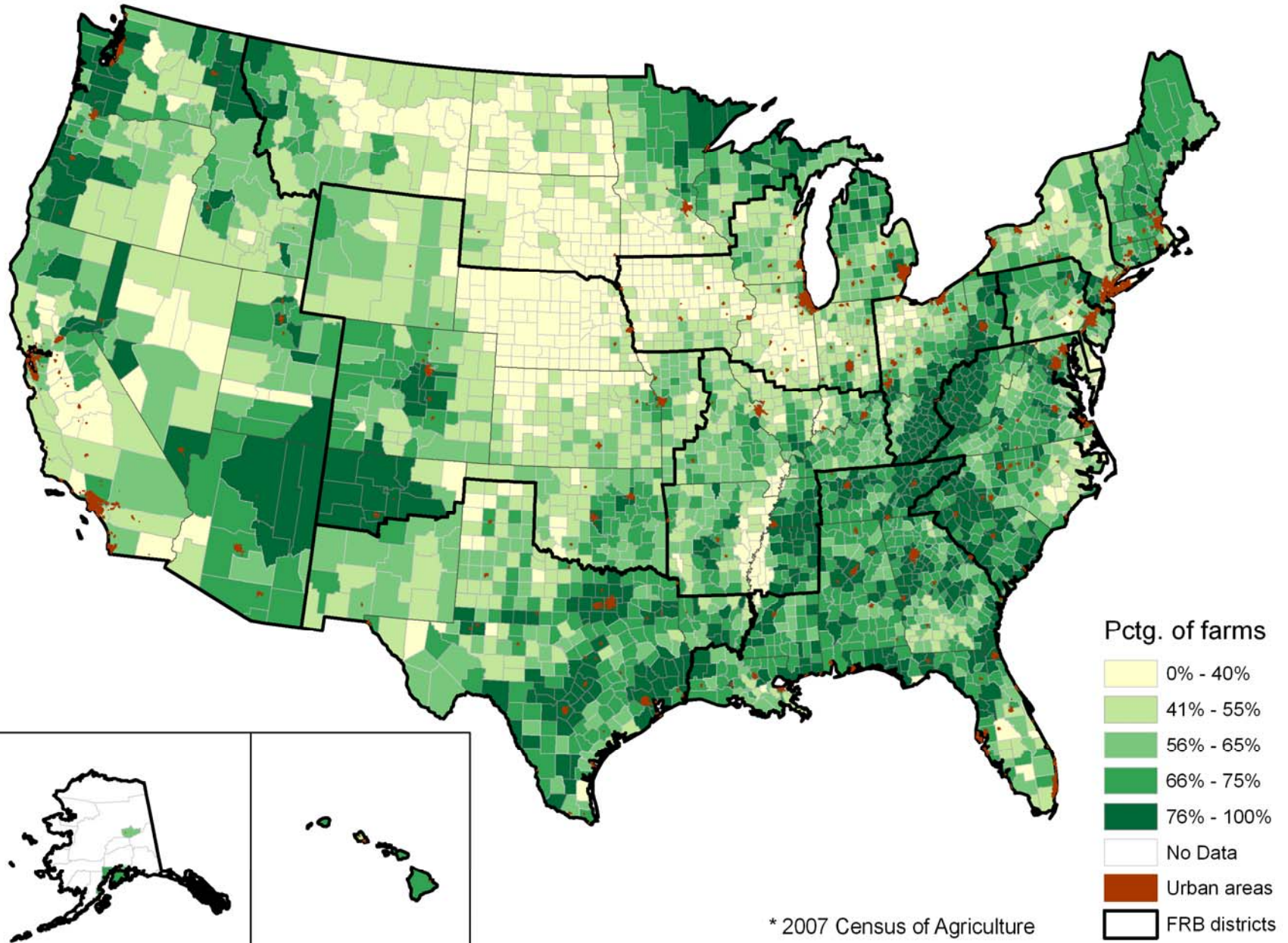
...and size distribution varies across the 12 districts,
Changes occurred in between the last two censuses



Percent of farms with sales less than \$10,000 in 2007,
by Federal Reserve Bank District*

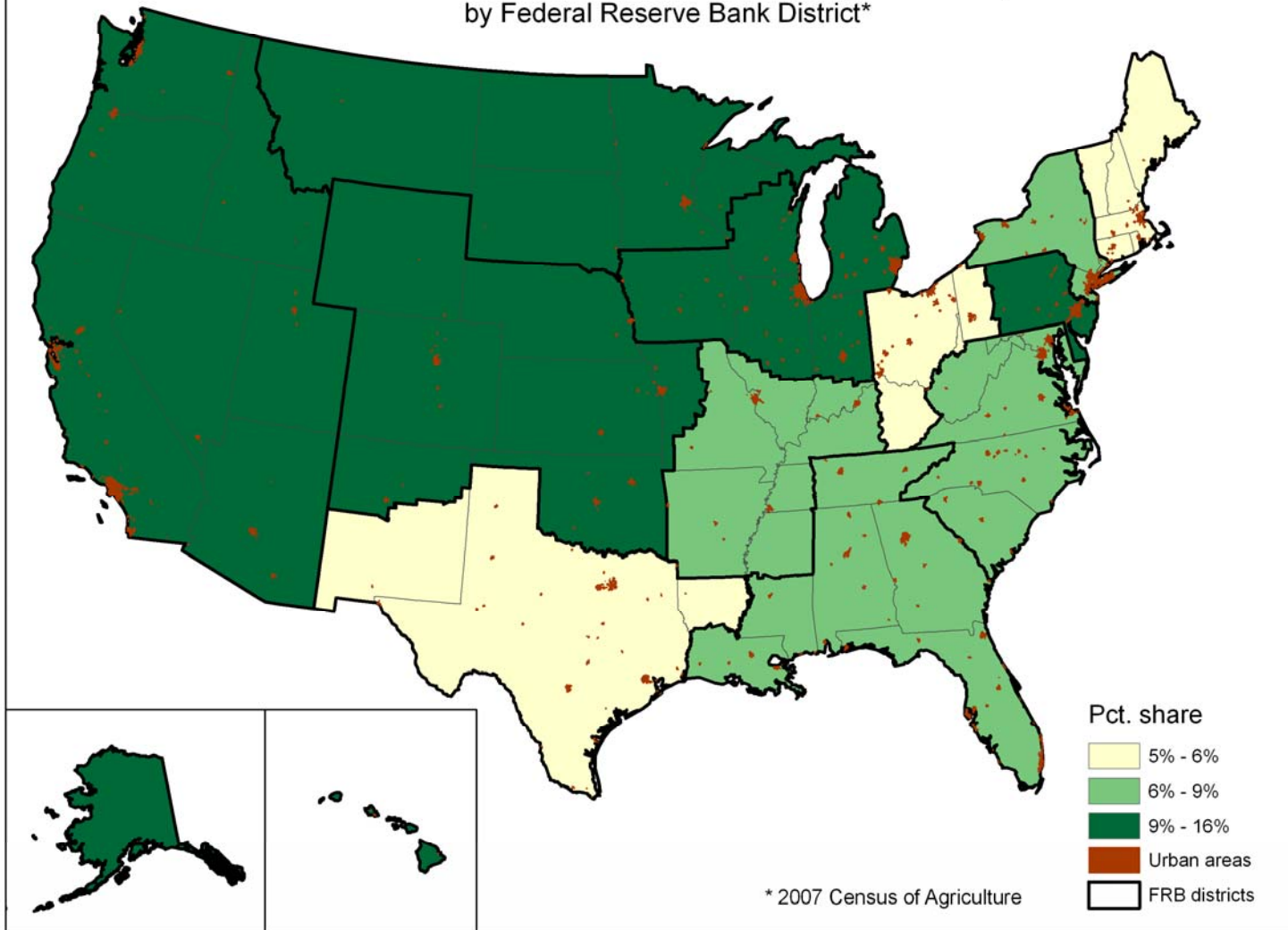


Percentage of farms with sales less than \$10,000 in 2007, by county*

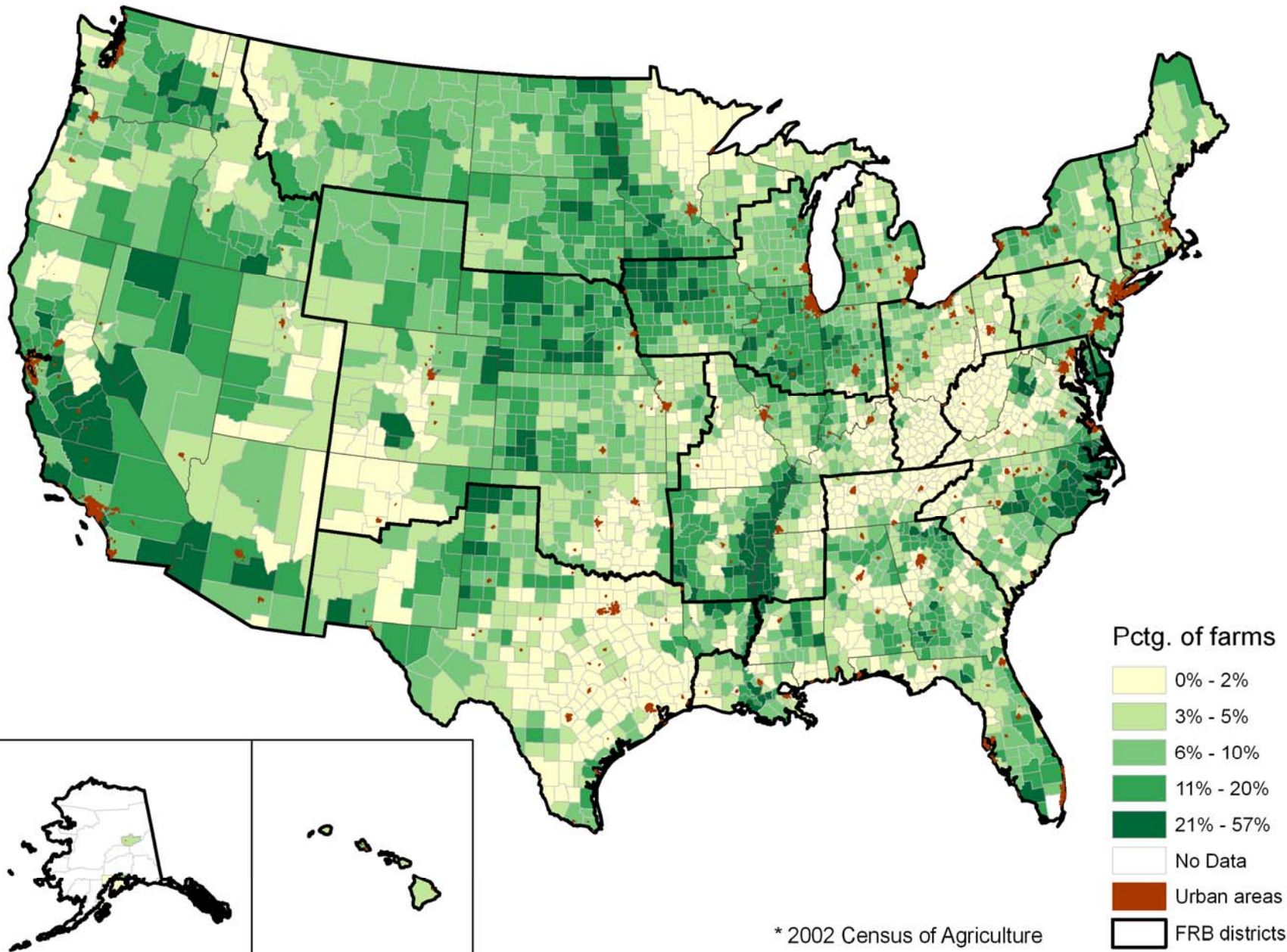




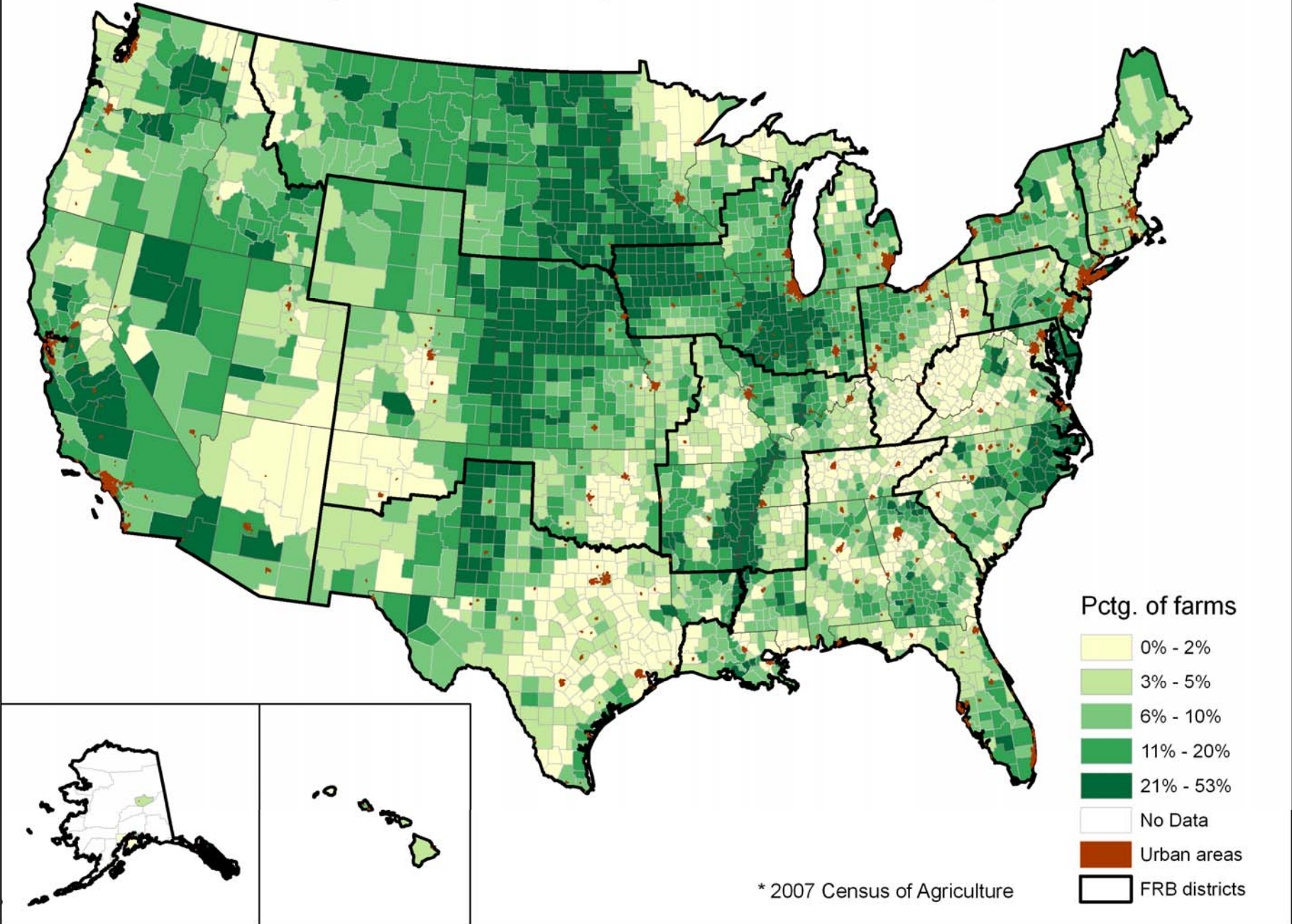
Percent of farms with sales more than \$250,000 in 2007,
by Federal Reserve Bank District*

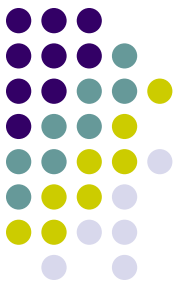


Percentage of farms with sales greater than \$250,000 in 2002, by county*



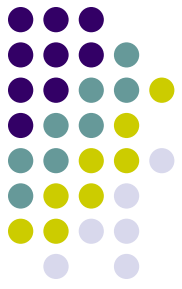
Percentage of farms with sales greater than \$250,000 in 2007, by county*





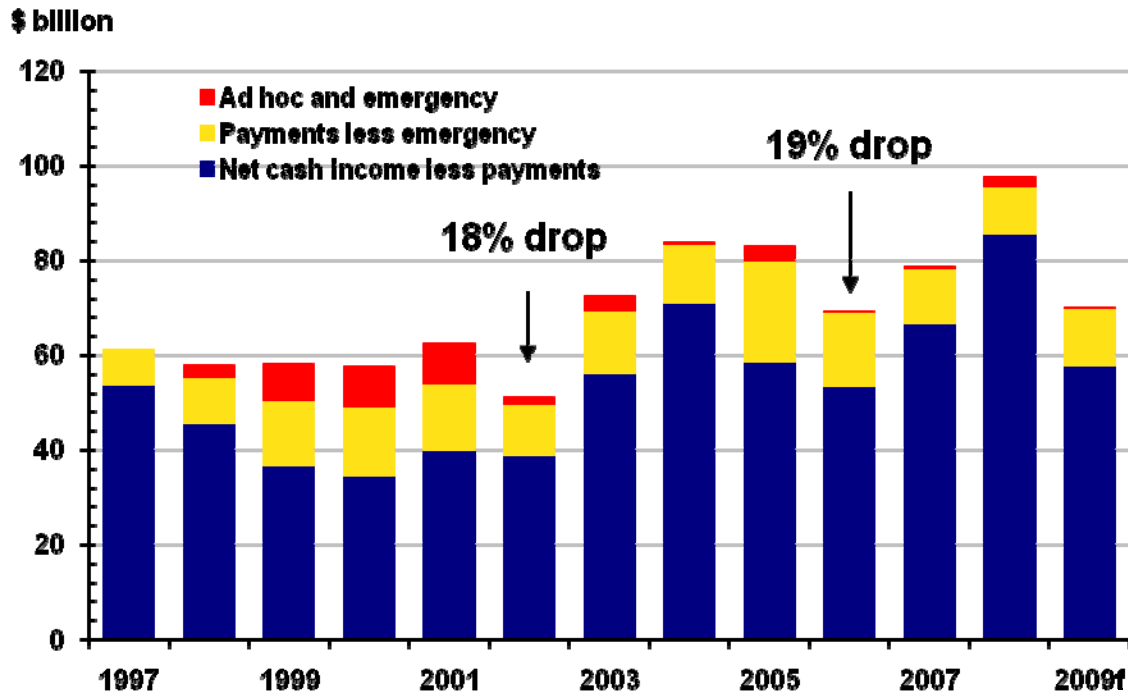
Latest financial picture

- All standard measures of farm sector and farm household financial performance indicators are projected to decline from 2008 to 2009:
 - Sector income
 - Farm household income from farm and off-farm sources and health insurance coverage
 - Farm land values and net worth
- Nevertheless, debt-to-asset ratio is relatively low and farm household financial indicators are strong relative to other US households



Net cash income forecast to decline by 28 percent in 2009

Net cash Income and farm payments, 1997-2009f

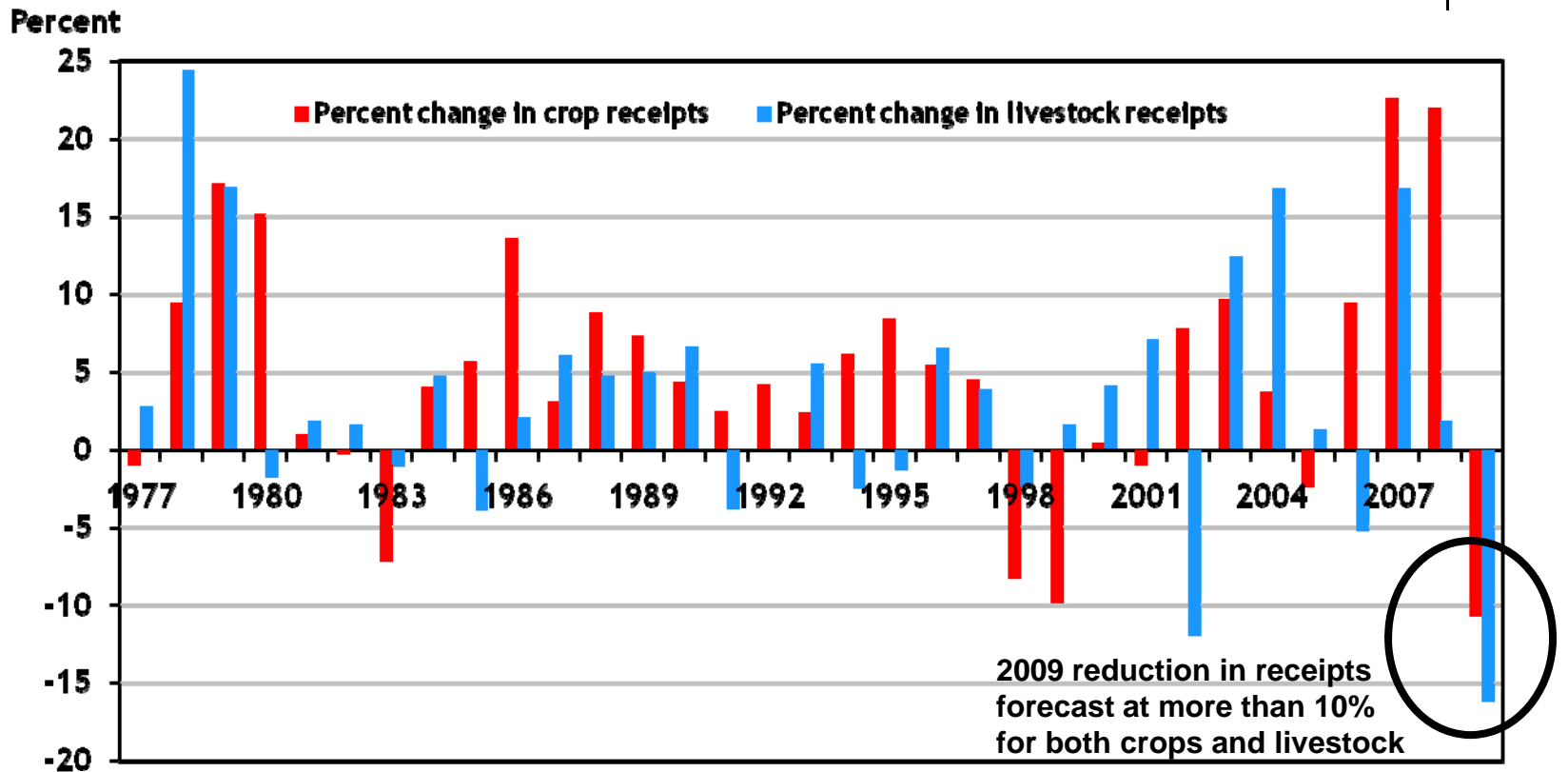


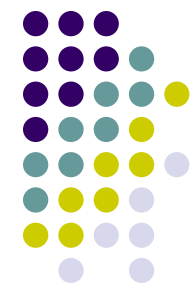
Net cash income* is forecast at \$69.8 billion in 2009, down 28 percent from 2008's nominal record \$97.5 billion.

Government payments will make a slightly larger contribution to the incomes of farmers and ranchers in 2009, accounting for about 18% of net cash income, up from 13% in 2008. Payments represented 40 percent of net cash income in 2000.

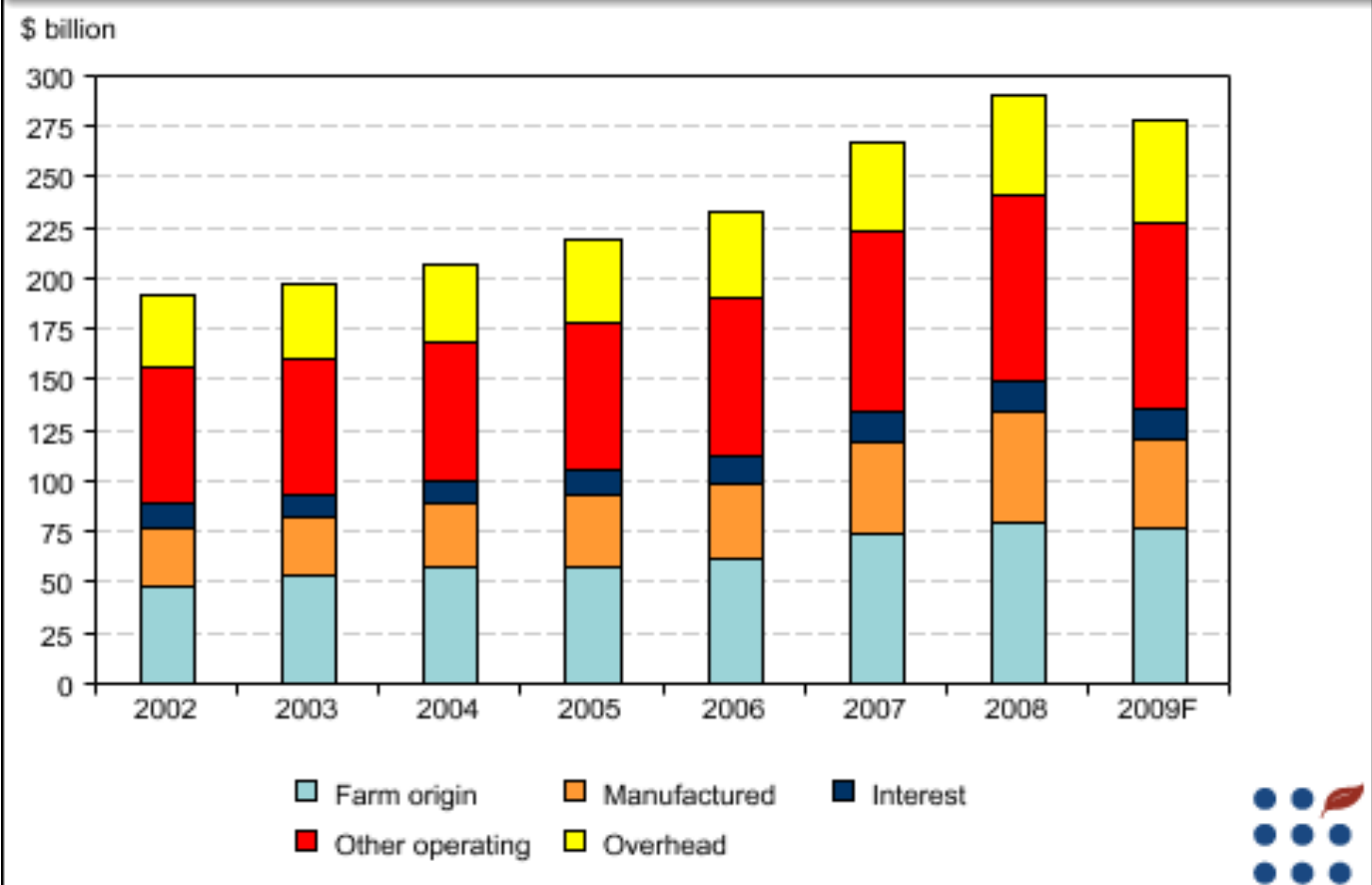
* Net cash income is a measure of cash available to farmers to meet expenditures, pay taxes, and service debt.

First decline in both crop and livestock receipts in the same calendar year since 1998; only the second time since 1983



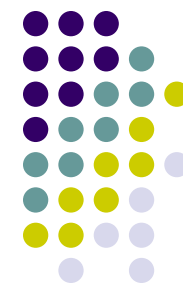


After rising \$99 billion from 2002 to 2008, total farm expenses are forecast to fall \$12 billion in 2009.

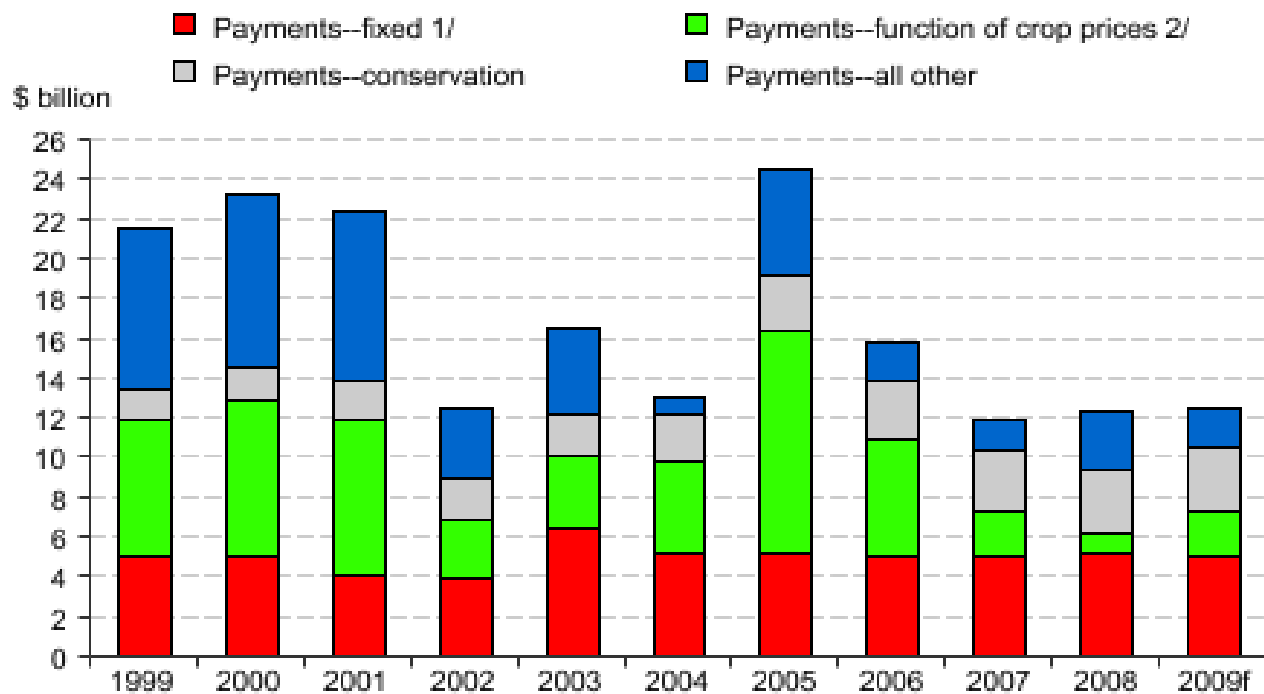


Source: Economic Research Service, USDA.





Government payments, 1999-2009f



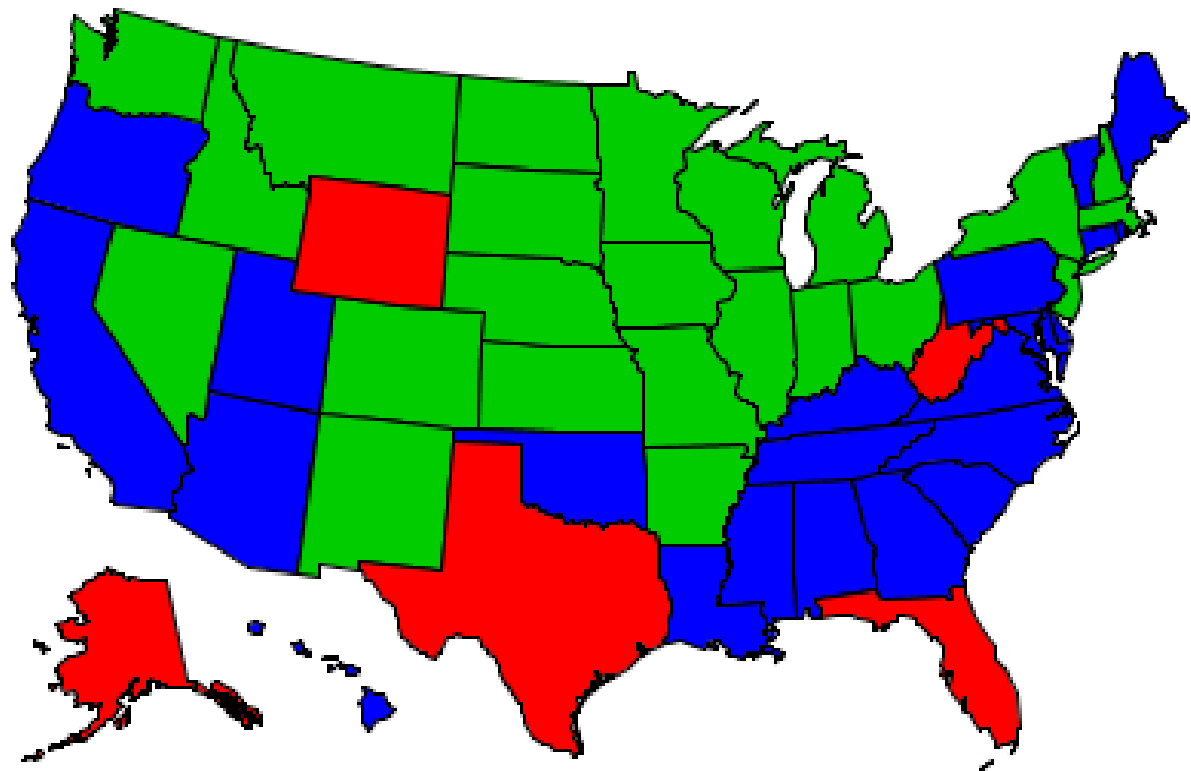
1/ Production flexibility contract payments and direct payments whereby payment rates are fixed by legislation.

2/ Countercyclical payments, loan deficiency payments, marketing loan gains, and certificate exchange gains whereby commodity payment rates vary with market prices.

Source: FSA, NRCS, and CCC, p – preliminary; f – forecast.



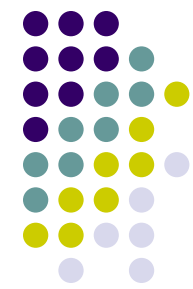
States ranked by 2008 net farm income as percent of 10-year (1998-2007) average



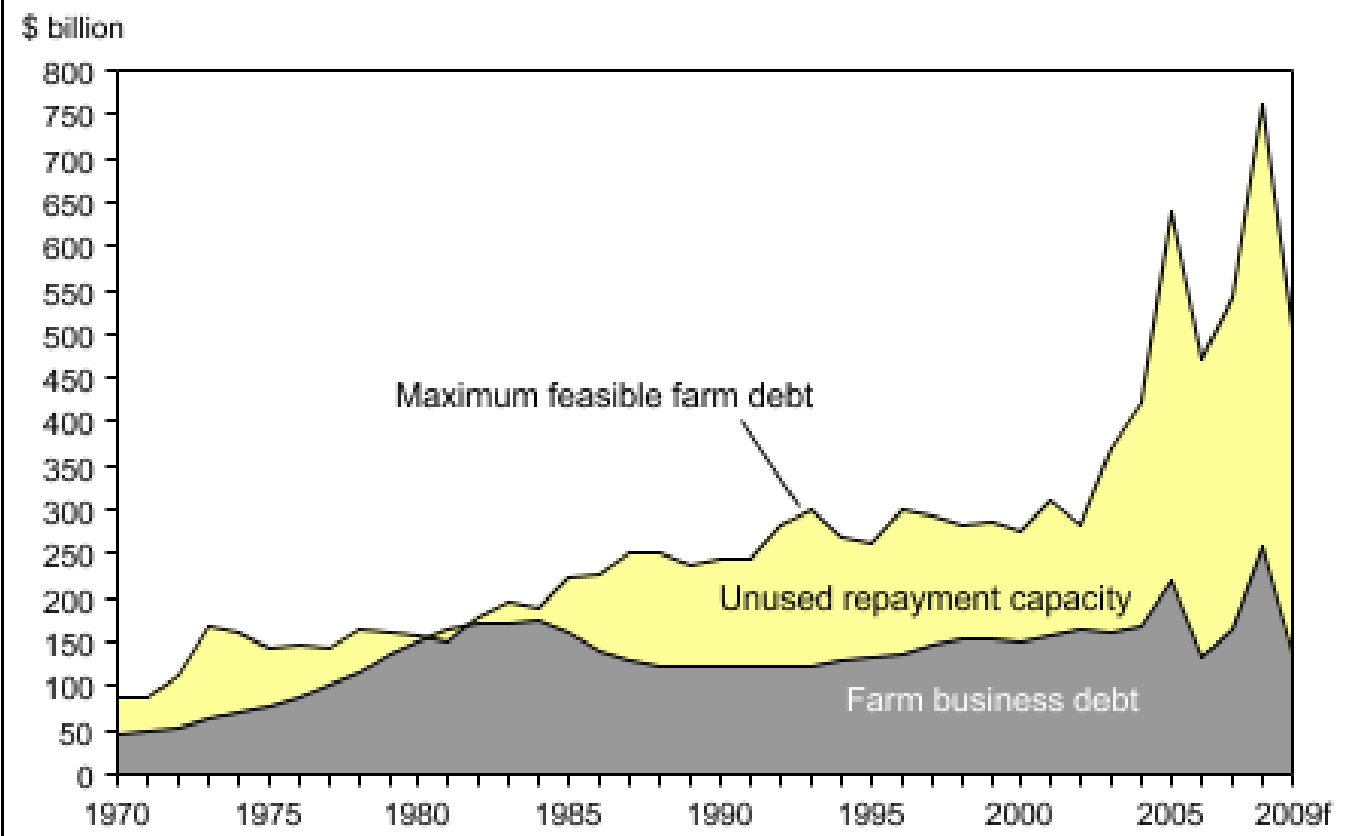
- Green: 20% or more above 10-year average
- Blue: Within 20% of average
- Red: 20% or more below average

Source: Economic Research Service, USDA.





Farm sector debt and repayment capacity, 1970-2009f

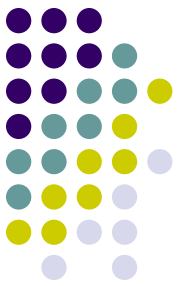


f = forecast.
Note: 2008 and 2009 are forecasts

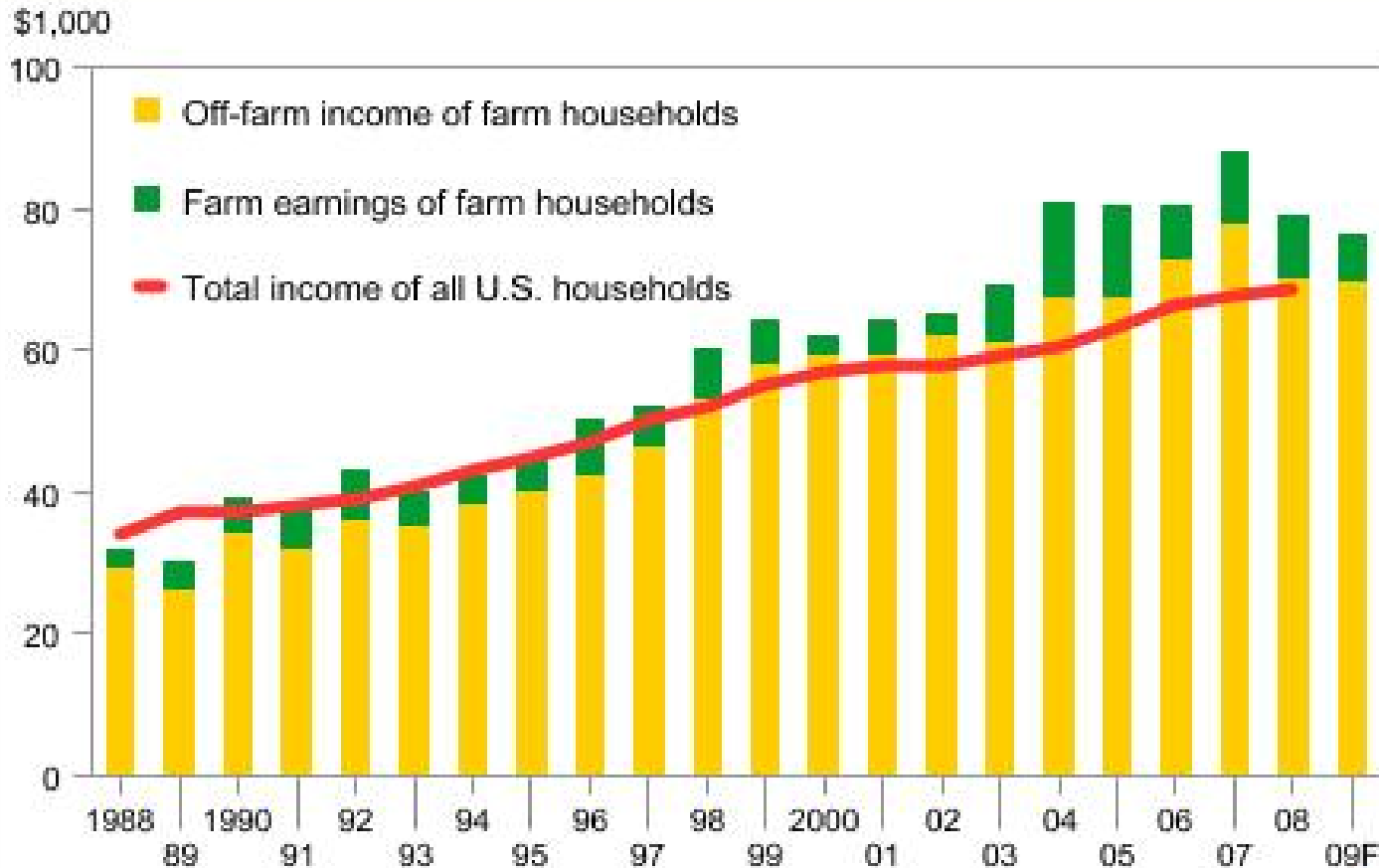
Source: Economic Research Service, USDA.



From a sector perspective, to a family farm perspective, the latest story is similar

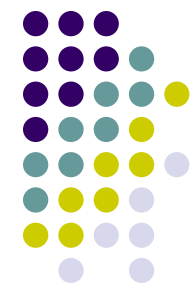


Average farm operator household income, by source, compared with U.S. household income, 1988-2009F

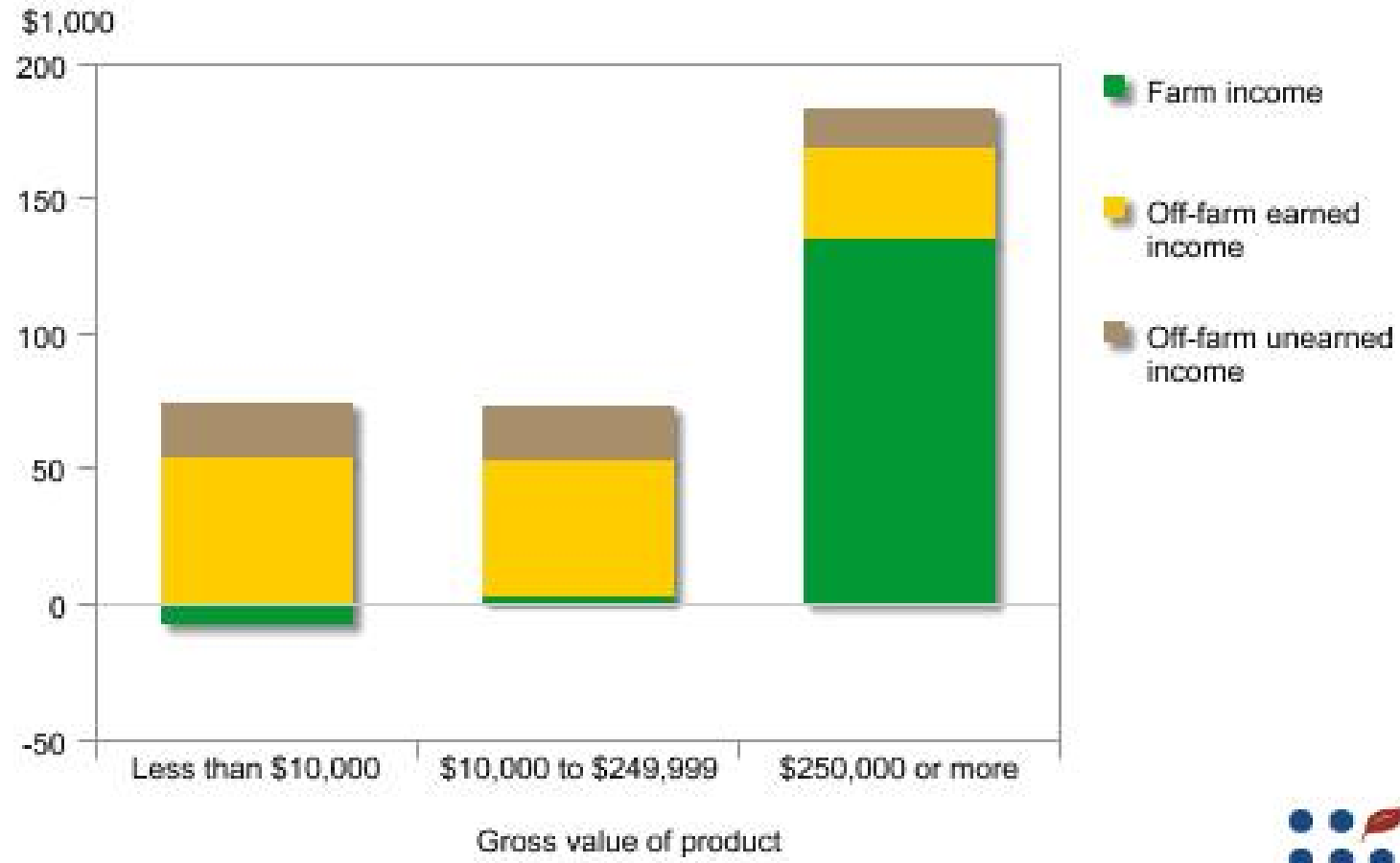


Source: *Agricultural Resource Management Survey, ERS and NASS, USDA and the Current Population Survey, U.S. Bureau of the Census.*



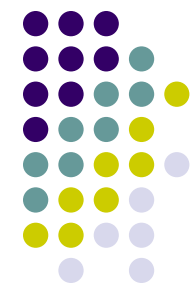


Farm operator household income, by size of farm, 2008

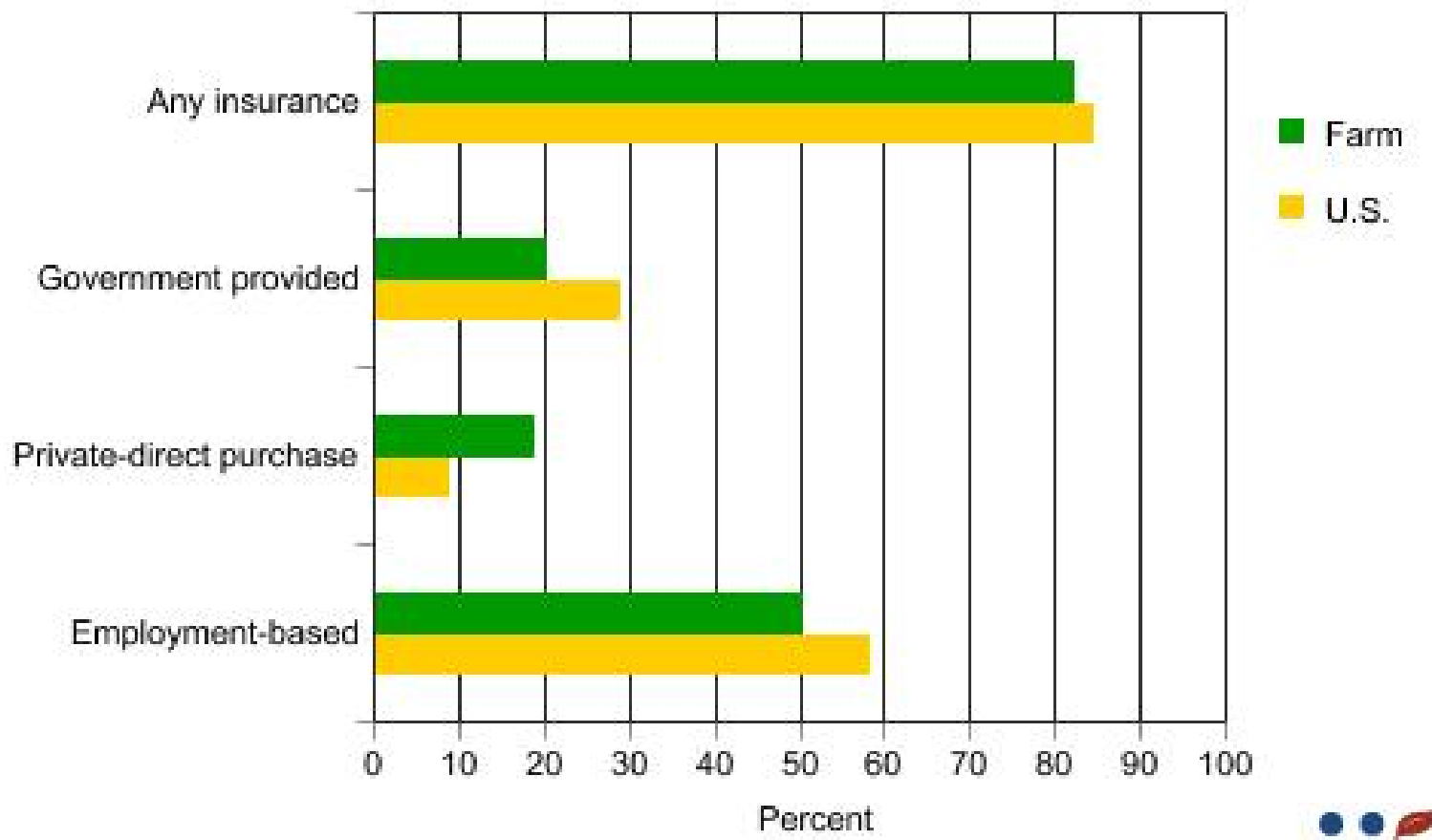


Source: Agricultural Resource Management Survey, ERS and NASS, USDA.





Source of health insurance coverage for farm and U.S. persons, 2008

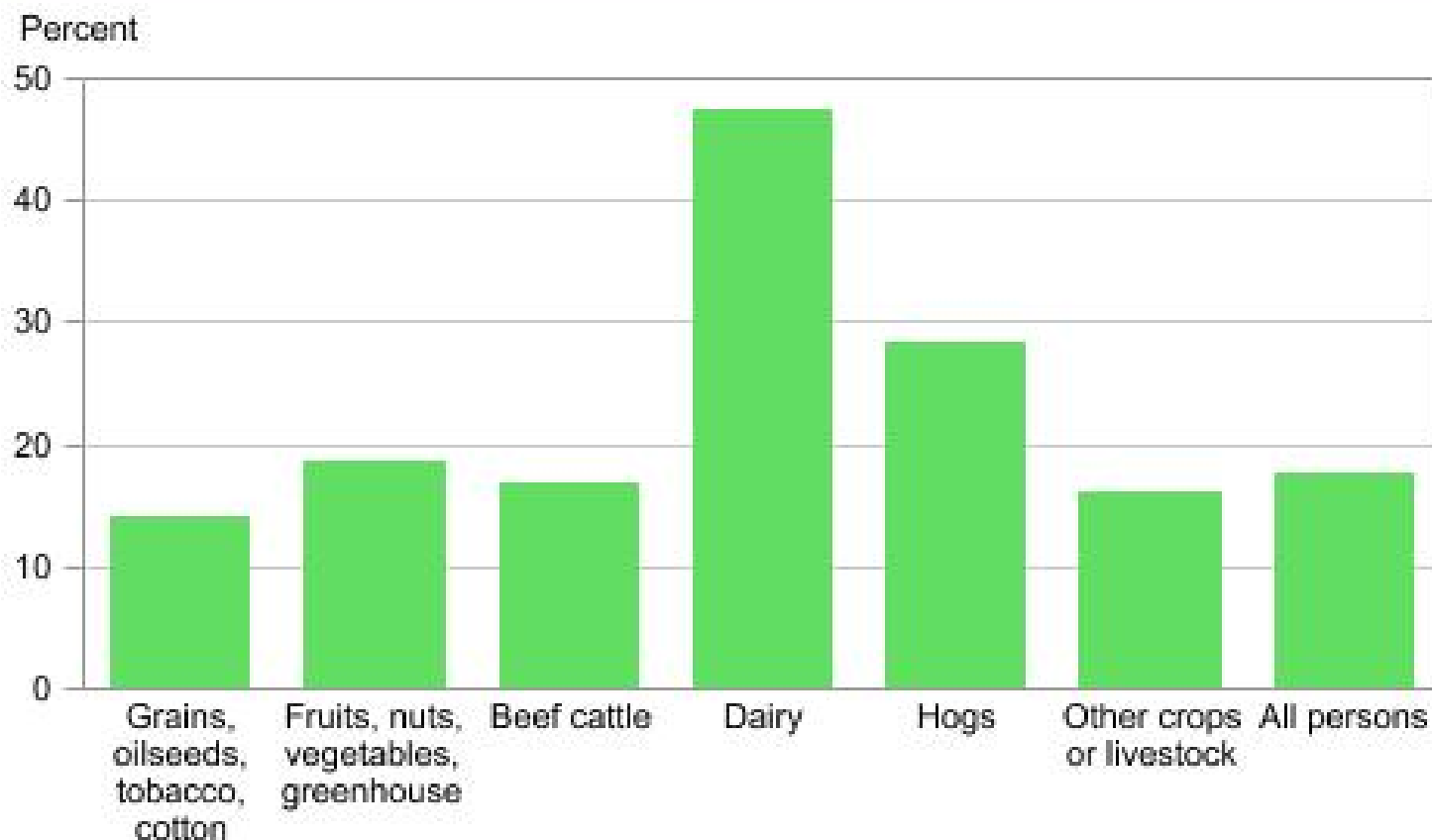


Source: Agricultural Resource Management Survey, ERS and NASS, USDA and the U.S. Census Bureau, Current Population Survey.



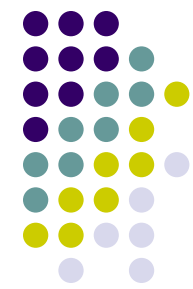


Share of farm persons uninsured, by commodity specialization, 2008

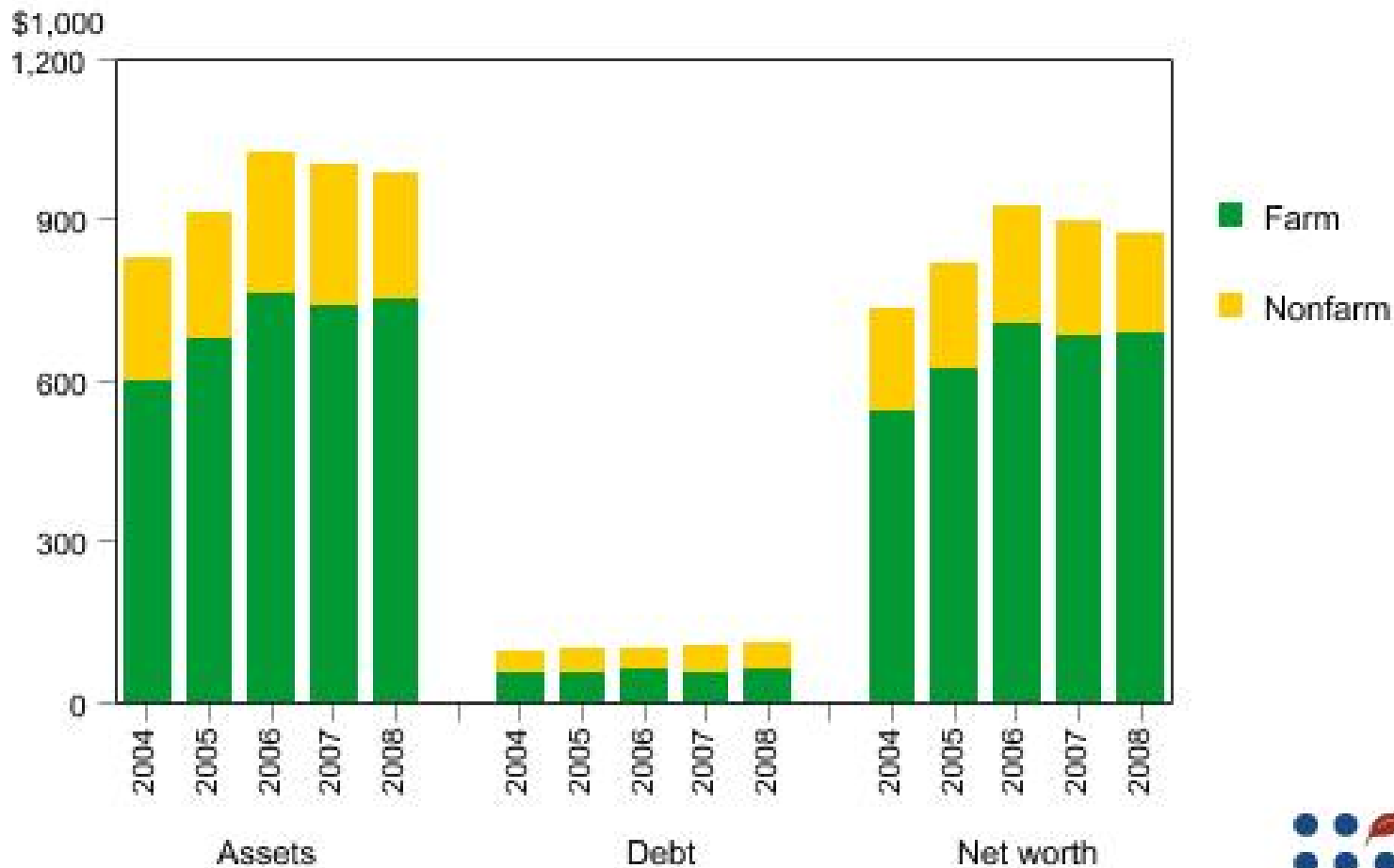


Source: Agricultural Resource Management Survey, ERS and NASS, USDA.





Average farm household assets, debt, and net worth, 2004-2008

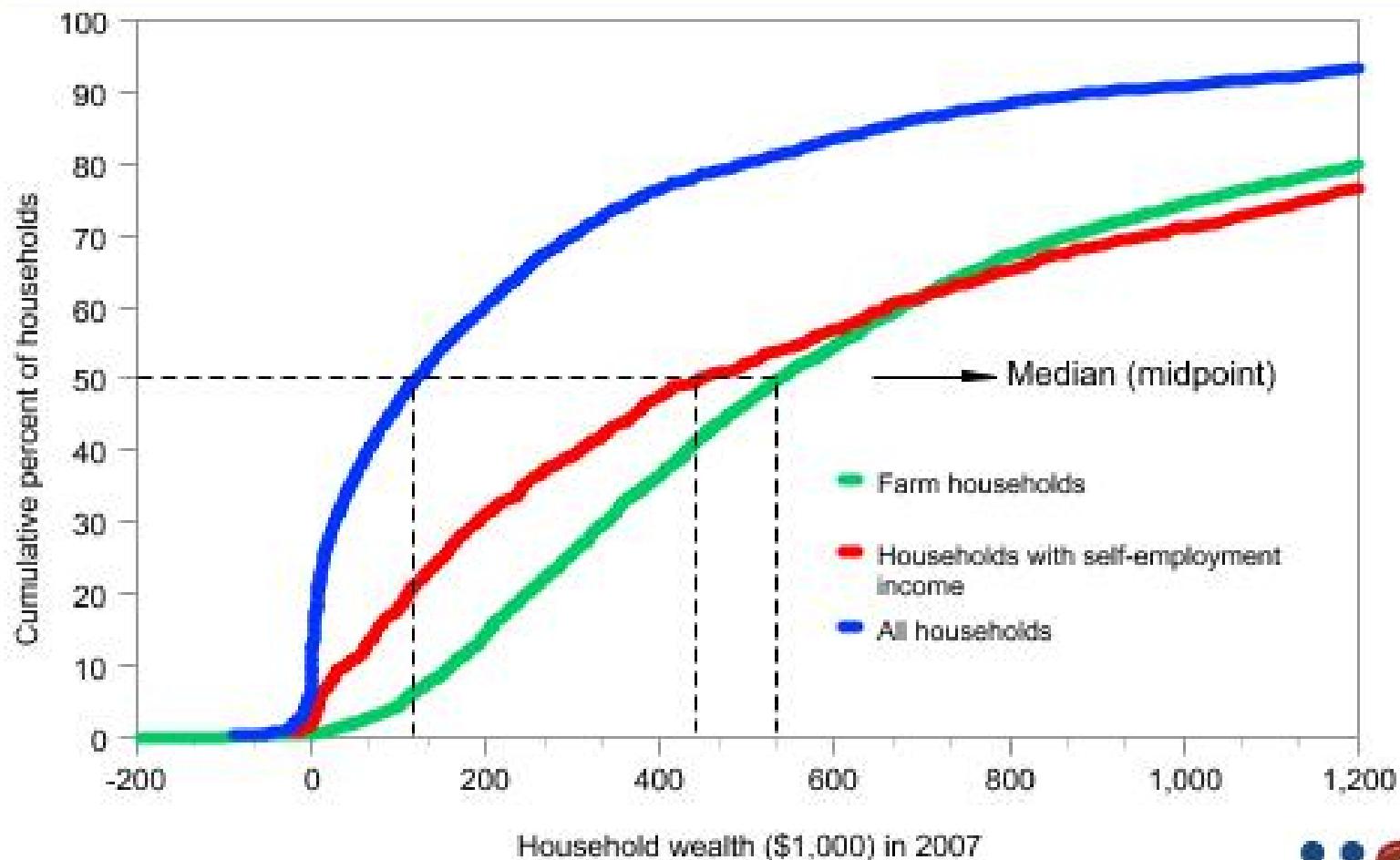


Source: Agricultural Resource Management Survey, ERS and NASS, USDA.



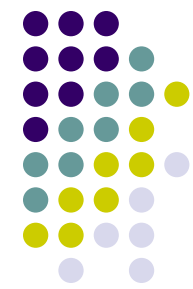


Cumulative distribution of wealth among households, 2007

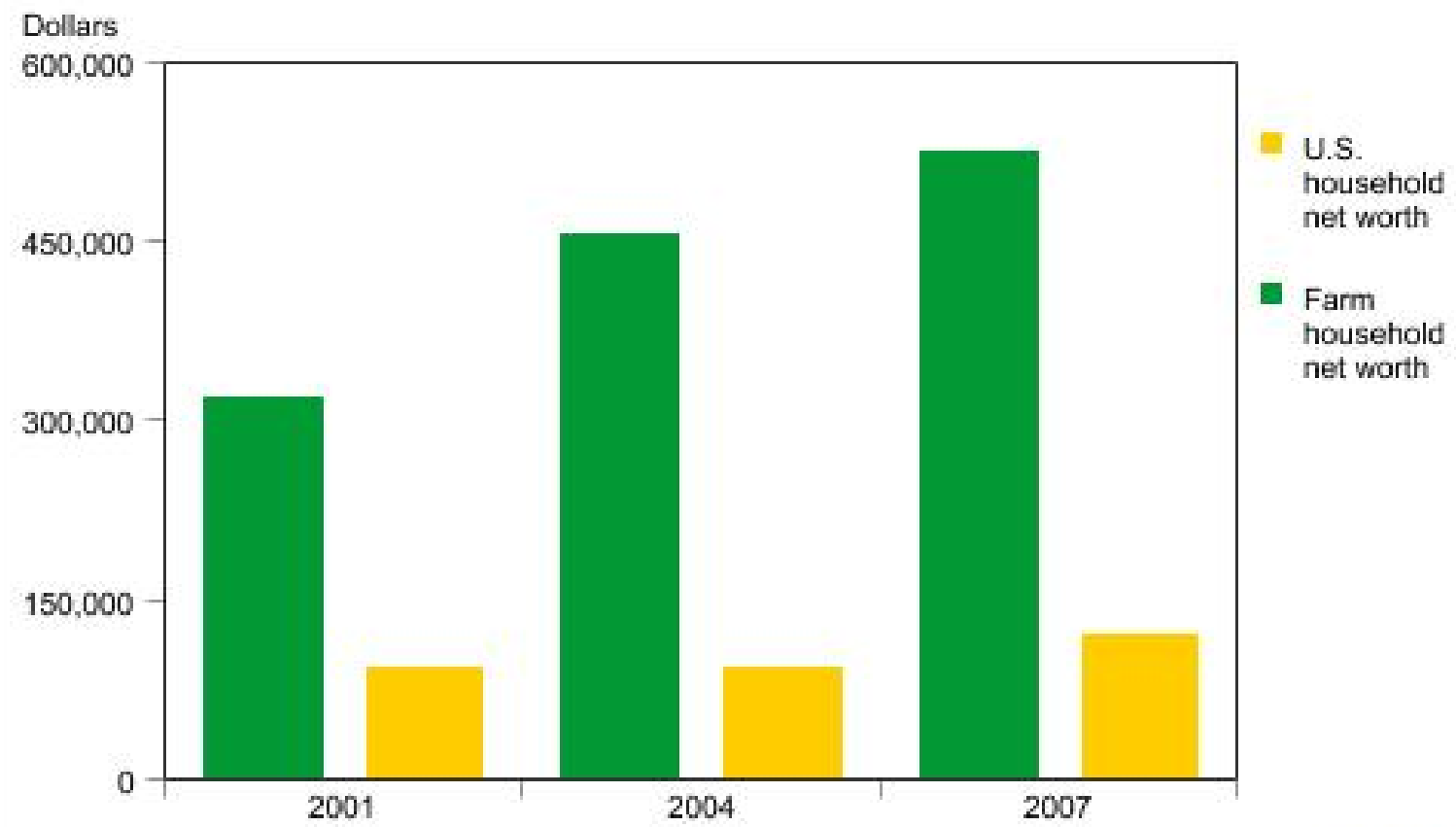


Source: Agricultural Resource Management Survey, ERS and NASS, USDA and the Federal Reserve Board's Survey of Consumer Finances, 2007.



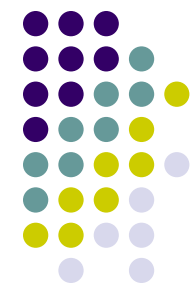


U.S. household and farm operator household median net worth, 2001, 2004 and 2007

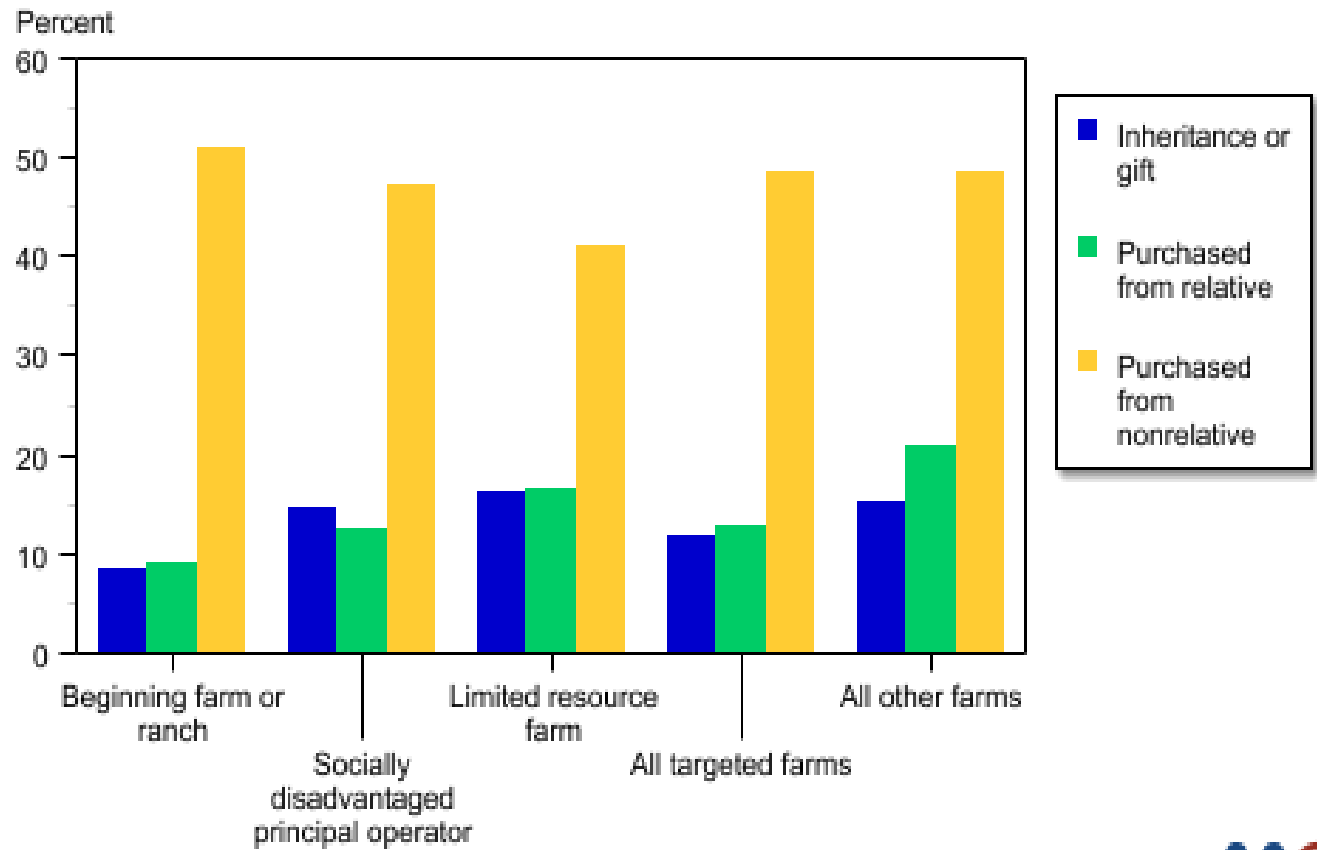


Source: Agricultural Resource Management Survey, ERS and NASS, USDA and Federal Reserve Board, Survey of Consumer Finance.



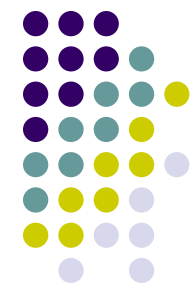


Method of acquiring land in operation, 2008

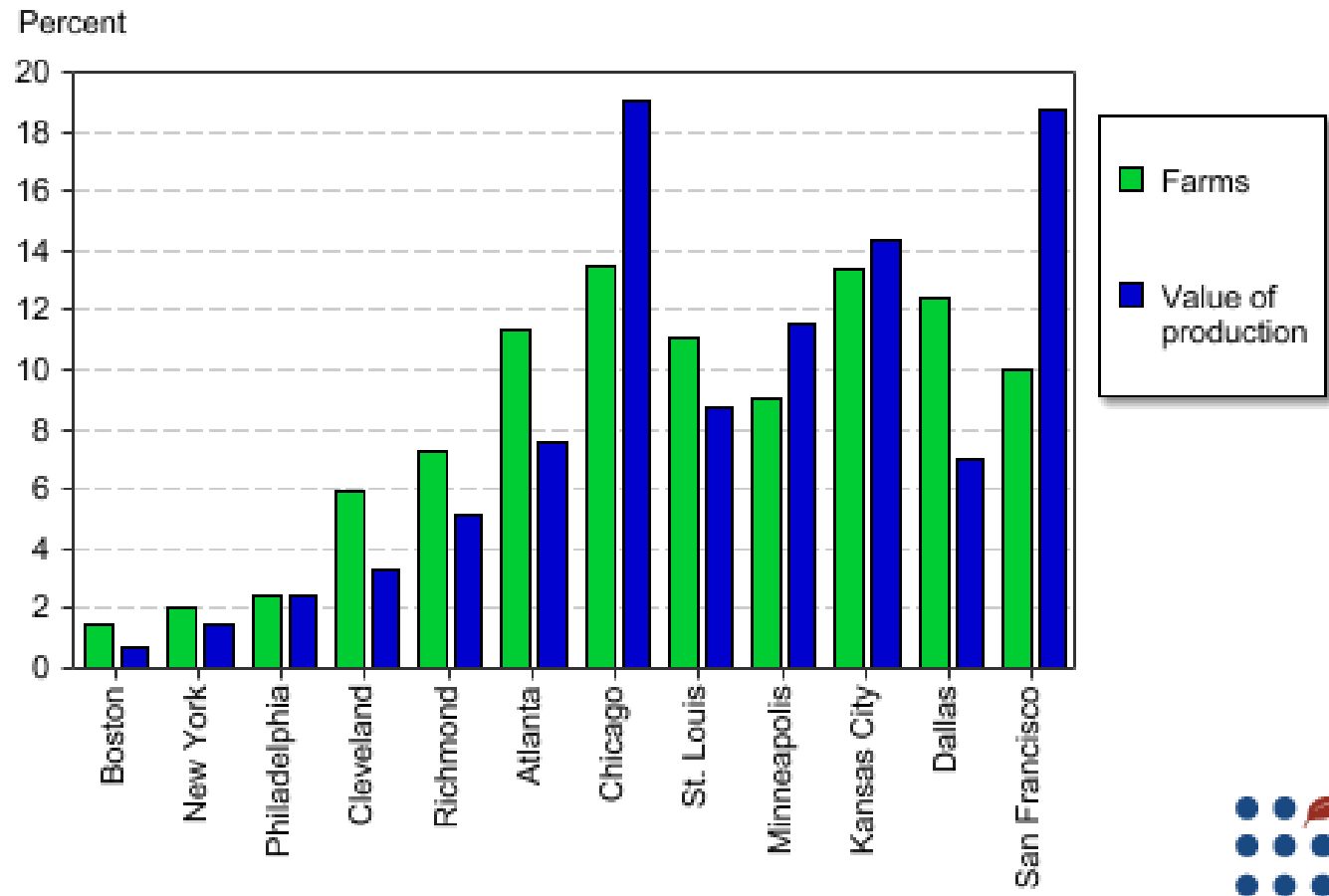


Source: Agricultural Resource Management Survey, ERS and NASS, USDA.



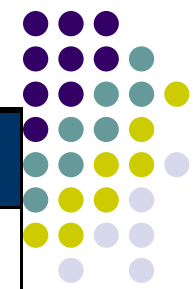


Distribution of farms and value of production, 2008, by FRB district

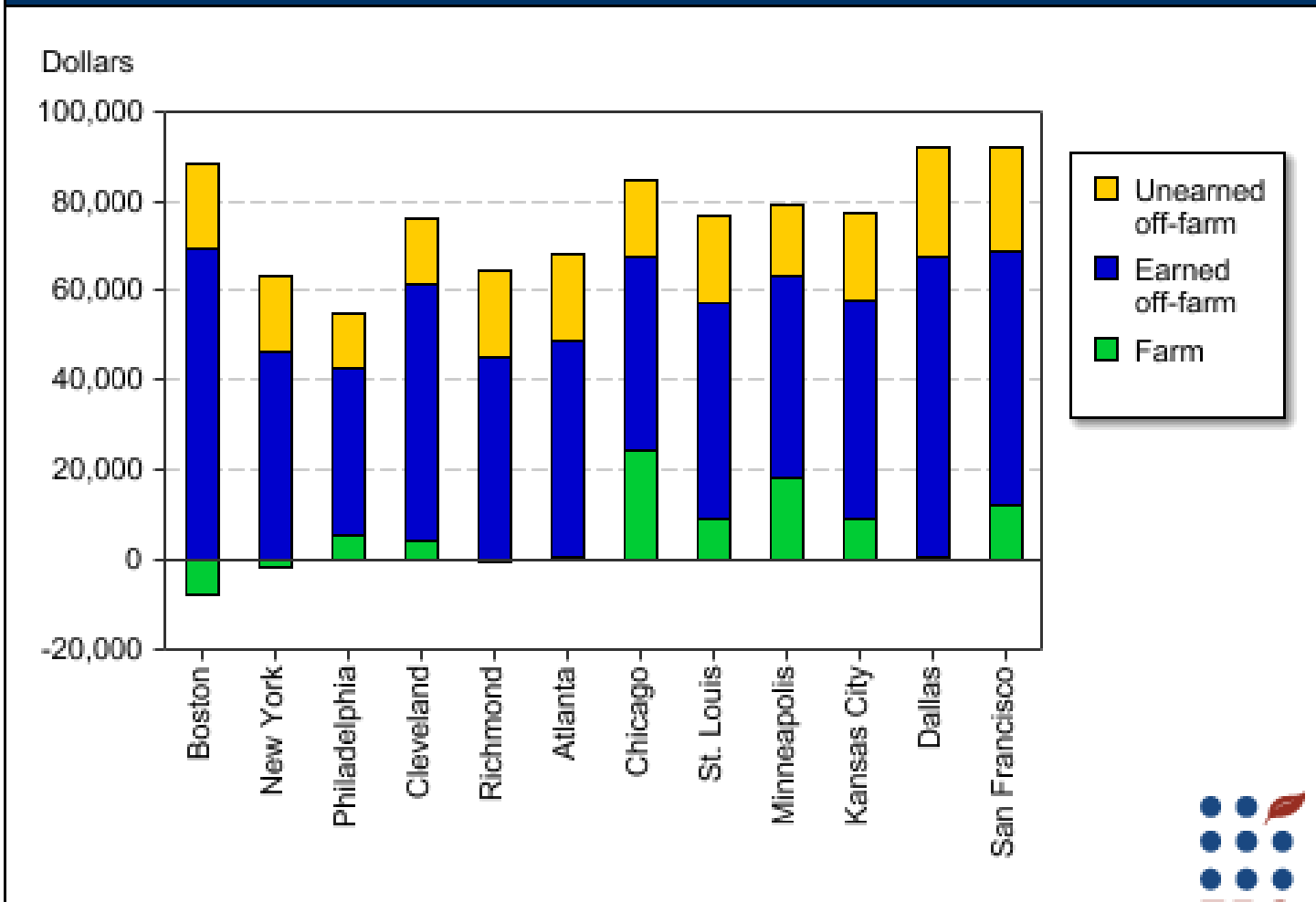


Source: Agricultural Resource Management Survey, ERS and NASS, USDA.





Family farm income sources, 2008, by FRB district



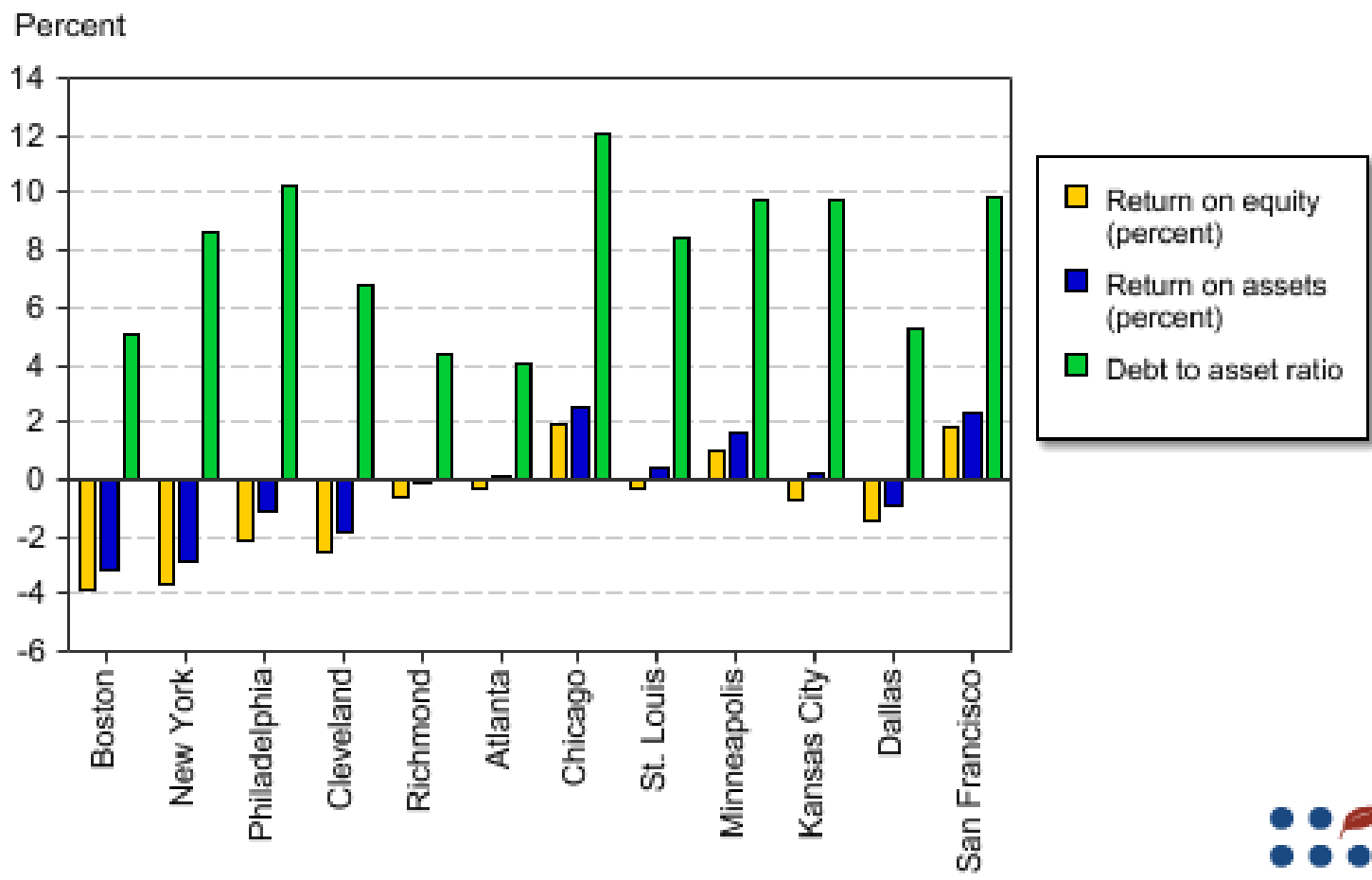
- Unearned off-farm
- Earned off-farm
- Farm

Source: Agricultural Resource Management Survey, ERS and NASS, USDA.





Farm financial ratios, 2008



Source: Agricultural Resource Management Survey, ERS and NASS, USDA.

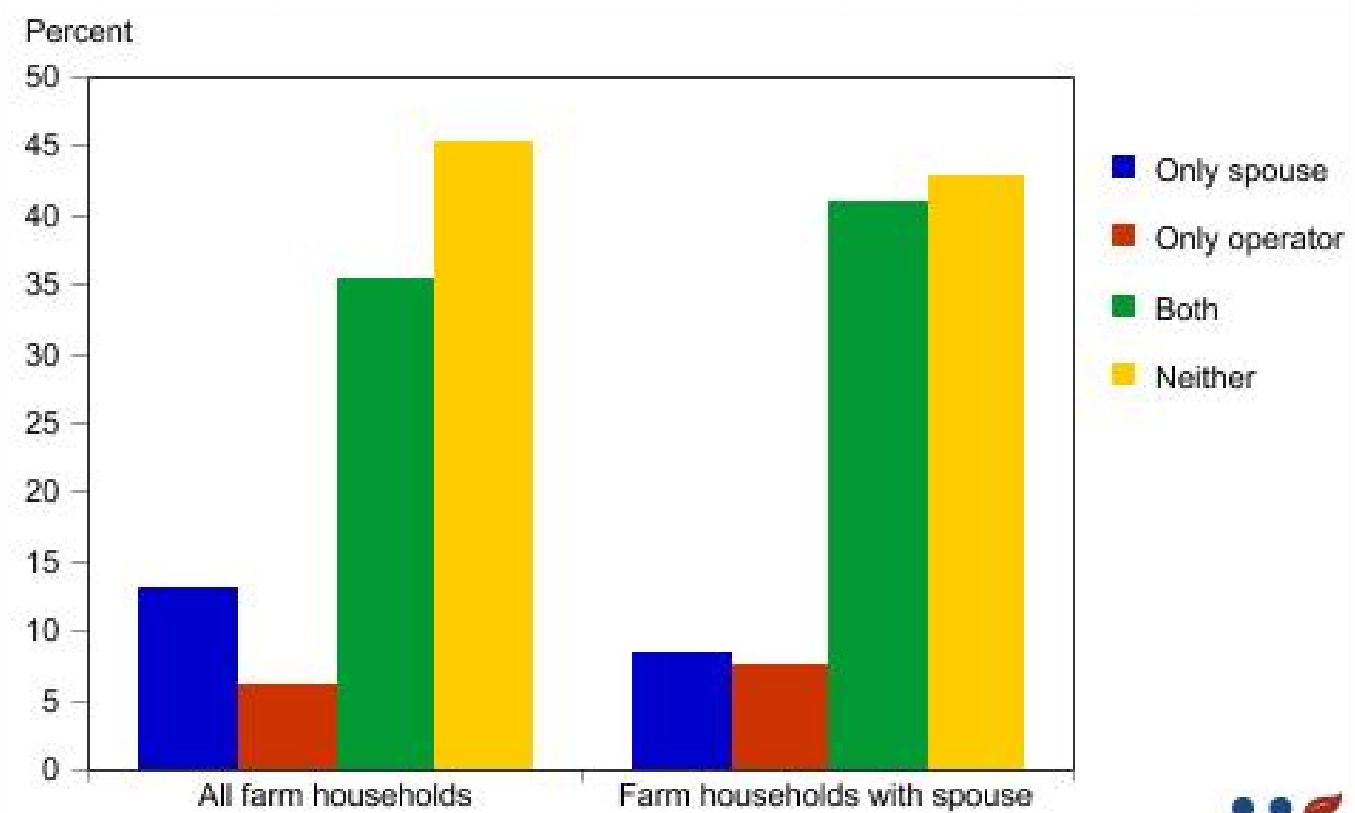


Off-farm employment potential





Off-farm work of farm operators and spouses, 2008



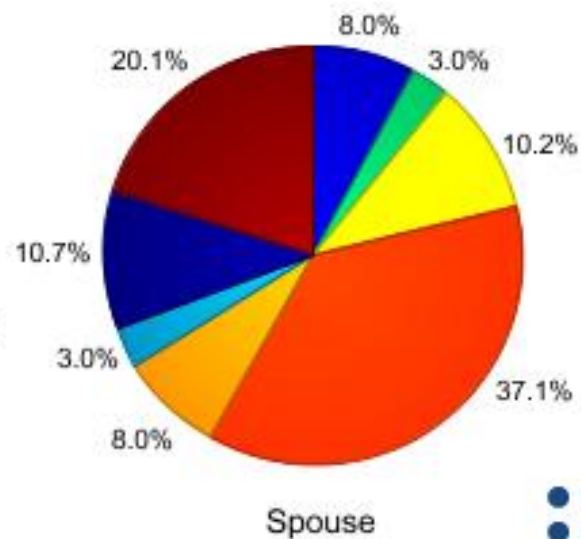
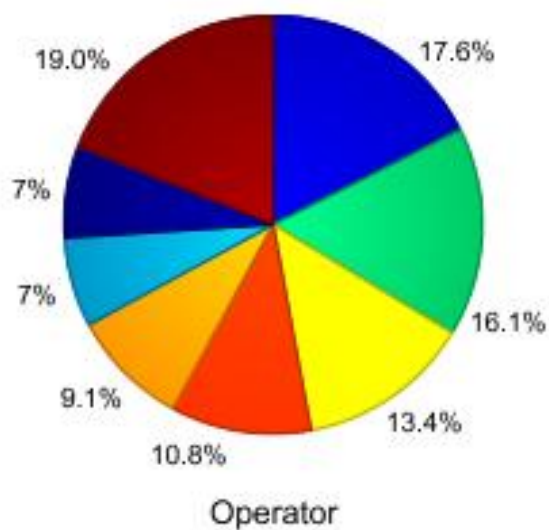
Source: Agricultural Resource Management Survey, ERS and NASS, USDA.





Industry of wage and salary jobs, operator and spouse, 2008

- Agriculture, forestry, fishing, hunting, or mining
- Manufacturing
- Other government services
- Finance, insurance, real estate and other professional services
- Construction
- Education and health care
- Wholesale, utilities, and transportation
- Retail and other services



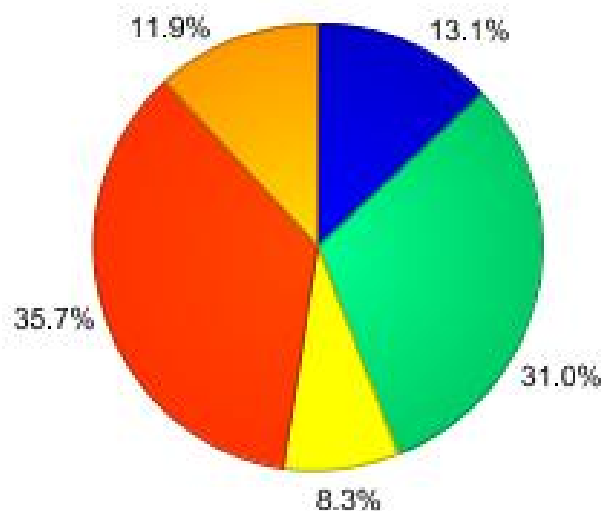
Source: Agricultural Resource Management Survey, ERS and NASS, USDA.



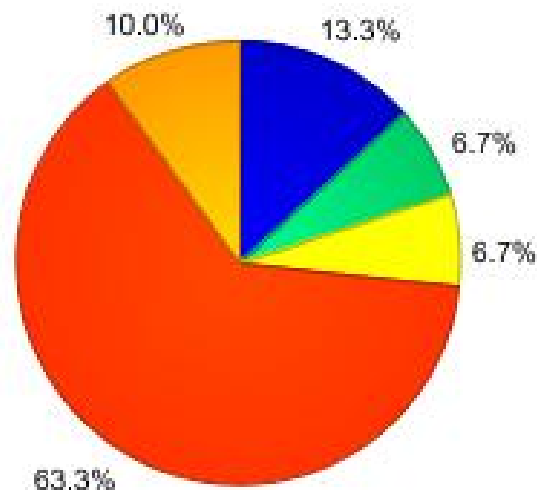


Industry of nonfarm businesses, operator and spouse, 2008

- Agriculture, forestry, fishing, hunting, or mining
- Construction
- Finance, insurance, real estate, and other professional services
- Retail and other services
- All other



Operator

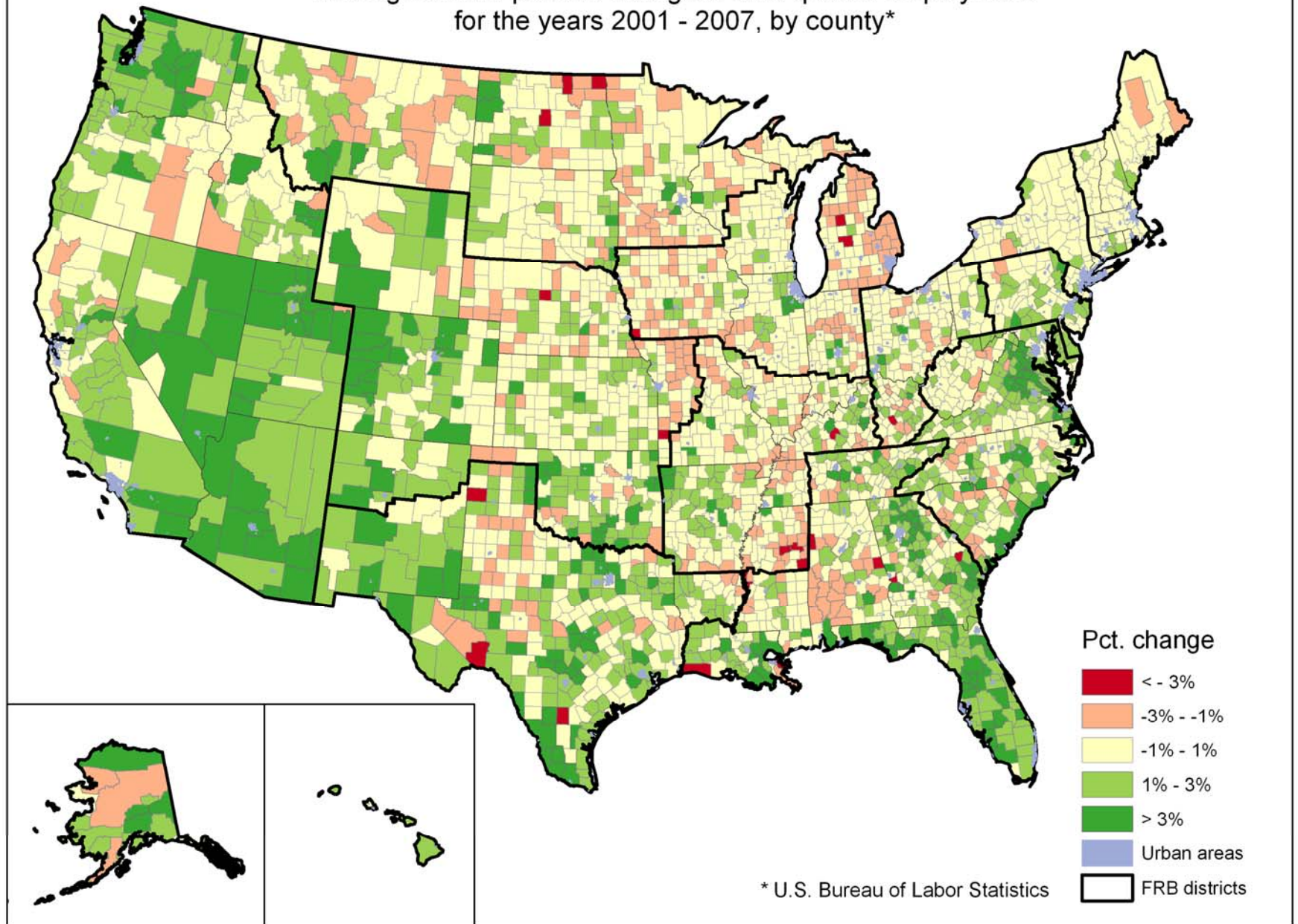


Spouse

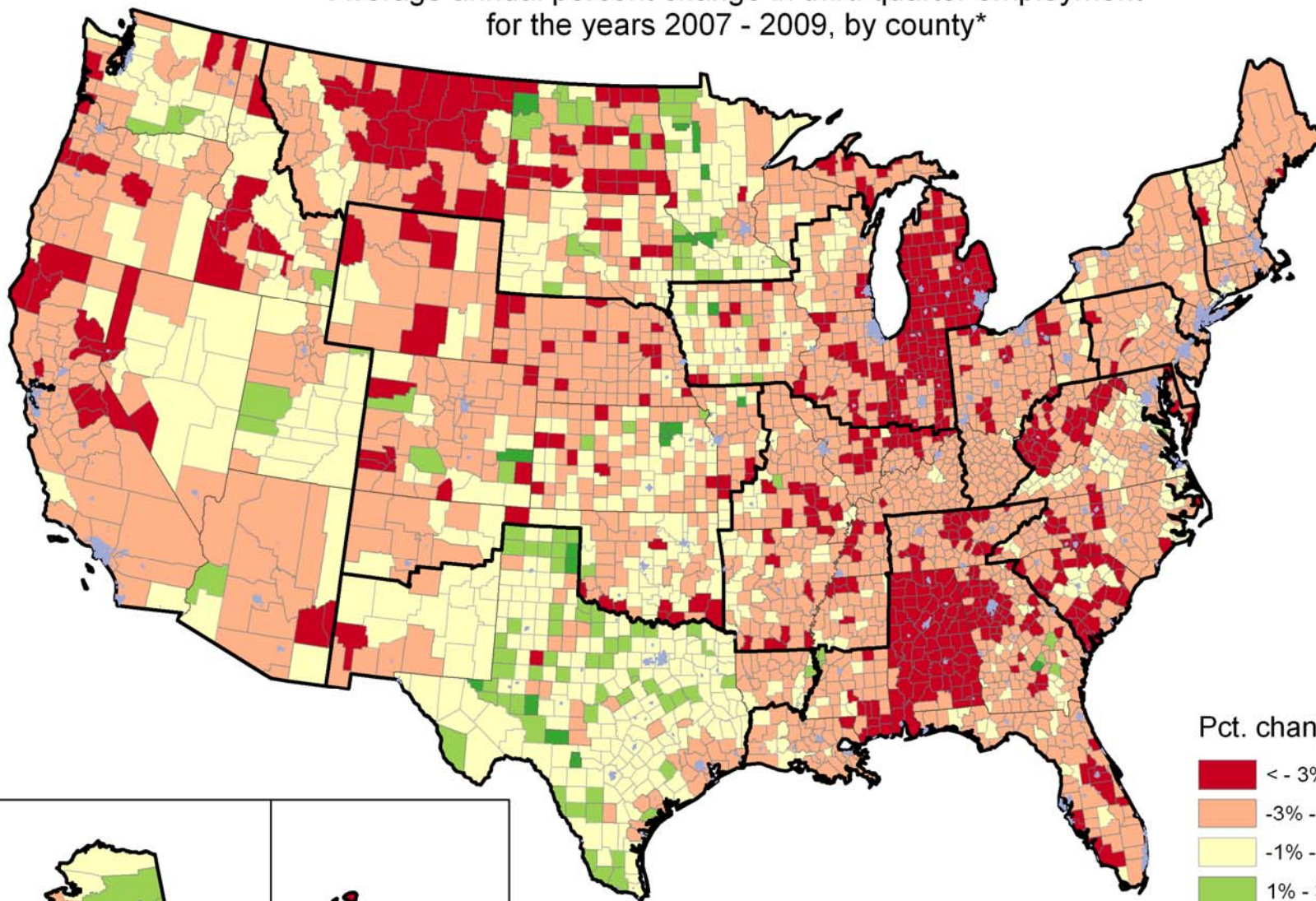
Source: Agricultural Resource Management Survey, ERS and NASS, USDA.



Average annual percent change in third quarter employment
for the years 2001 - 2007, by county*



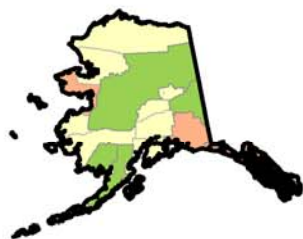
Average annual percent change in third quarter employment
for the years 2007 - 2009, by county*



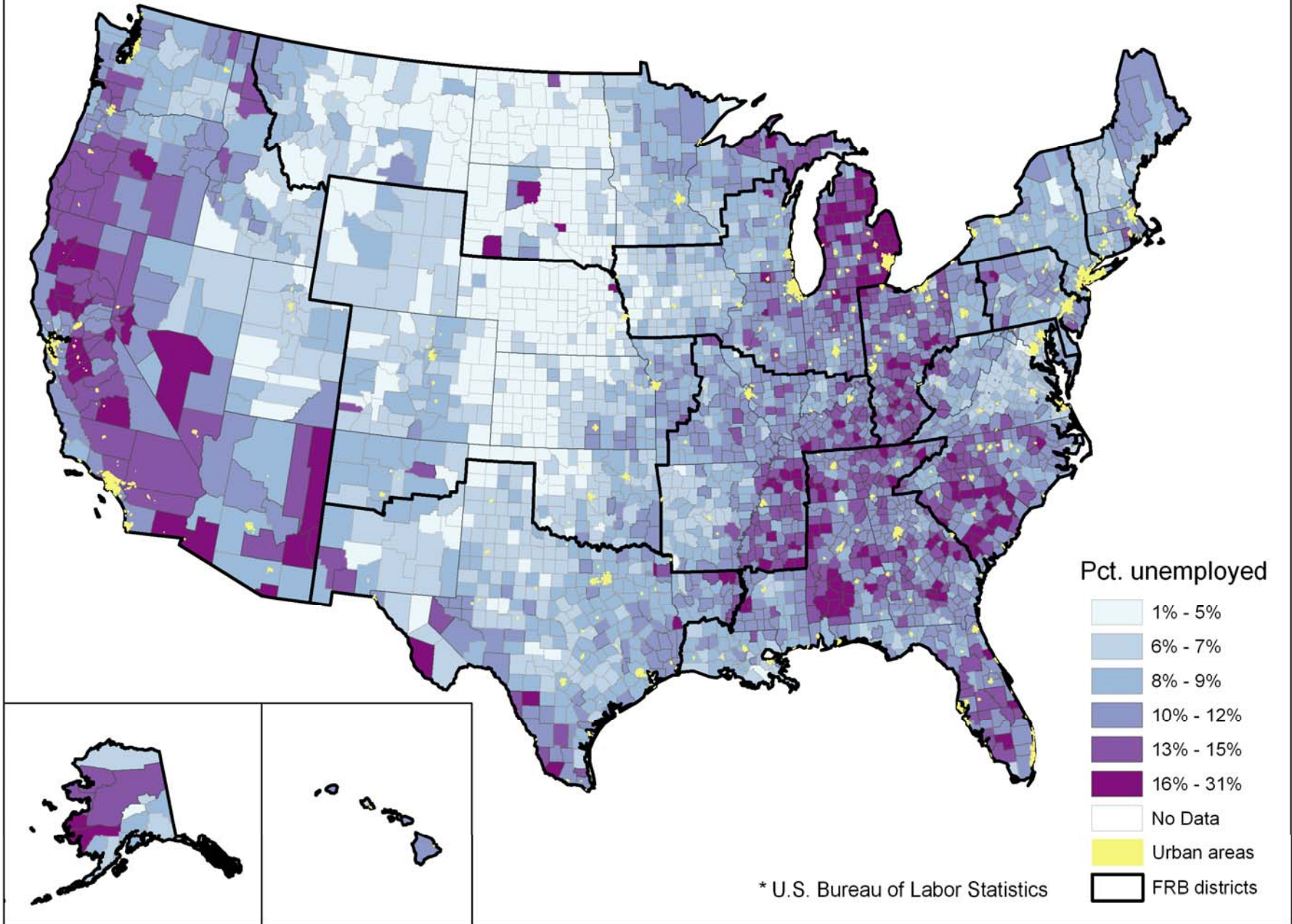
Pct. change

- < - 3%
- 3% - -1%
- 1% - 1%
- 1% - 3%
- > 3%
- Urban areas
- FRB districts

* U.S. Bureau of Labor Statistics



Unemployment rate in 2009, third quarter, by county*



Concluding comments: Looming issues



- Employment growth during recovery
- Impacts of biofuel production on structure and prices
- Questions about the magnitude and impact of the consumer interest in local foods, safer foods, and organic foods
- Implementation of climate change mitigation strategies
- Sustainability of the agricultural policy environment, consumer biotech acceptance abroad, and biotech industry concentration, given renewed interest in addressing world hunger