

February 24, 2021

U.S. Farm Income Outlook: February 2021 Forecast

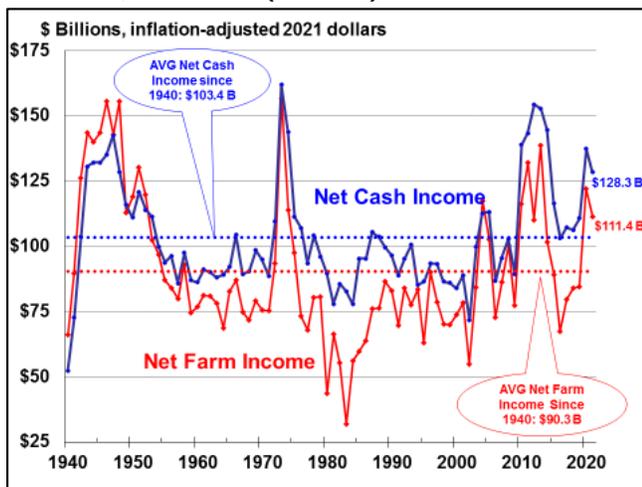
USDA Projects Lower Farm Income in 2021

Two major indicators of U.S. farm well-being are net farm income and net cash income. The U.S. Department of Agriculture (USDA) projects both indicators to be lower (by 8.1% and 5.8%, respectively) in 2021 than in 2020 despite an outlook for substantially higher farm prices and earnings from commodity sales.

According to USDA's Economic Research Service (ERS), two principal reasons for the projected decline in the farm income measures in 2021 are a decline of \$21 billion (-45.3%) in government direct payments from the record \$46.3 billion paid out in 2020 and a projected increase of \$8.0 billion (+2.6%) in farm production expenses in 2021. Cash receipts from sales of crops and livestock are forecast to increase by a combined \$20.3 billion (+5.5%) in 2021.

In inflation-adjusted dollars, both farm income measures are above their historic long-run averages (**Figure 1**). In inflation-adjusted dollars, the 2021 net farm income projection of \$111.4 billion, if realized, would be the sixth-highest level in the past 47 years—that is, since 1974.

Figure 1. U.S. Farm Sector Inflation-Adjusted Income Measures, 1940-2021 (forecast)



Source: CRS using data from USDA, ERS, “2021 Farm Income Forecast,” February 5, 2021. All values are adjusted for inflation using the Bureau of Economic Analysis (BEA) chain-type GDP deflator, where 2021 = 100. Values for 2021 are forecasts.

The farm income forecast by ERS on February 5, 2021, is the first of three ERS forecasts for 2021. The second farm income forecast is expected on September 2, 2021, and the third is expected in December 2021. For a review of the 2020 U.S. farm income situation, see CRS Report R46676, *U.S. Farm Income Outlook: December 2020 Forecast*.

Table 1. U.S. Farm Income Measures, 2019 to 2021 (forecast), \$ Billions

Item	2019	2020	2021	2020-2021 % Change
Cash Income	426.5	450.8	451.0	0.0%
+ Crops	193.3	203.9	215.7	5.8%
+ Livestock	176.0	166.5	175.0	5.2%
+ Govt Outlays	22.4	46.3	25.3	-45.3%
+ Farm-Related ^a	34.7	34.2	34.9	2.2%
Cash Expenses	317.5	314.6	322.6	2.6%
Net Cash Income	109.0	136.2	128.3	-5.8%
Gross Income	431.9	466.3	465.1	-0.3%
+ Gross Cash	426.5	450.8	451.0	0.0%
+ Nonmoney ^a	18.4	19.7	21.2	7.2%
+ Inventory Adj.	-13.0	-4.2	-7.0	66.8%
Total Expenses ^c	348.7	345.2	353.7	2.5%
Net Farm Income	83.1	121.1	111.4	-8.1%

Source: ERS, “2021 Farm Income Forecast,” February 5, 2021.

Notes: 2021 is forecast.

- Includes crop insurance indemnities, custom work, machine hire, agritourism, forest product sales, and other farm sources.
- Includes home consumption of farm produce and imputed rental value of farm buildings.
- Includes depreciation of capital assets.

Net Farm Income Projected Down in 2021

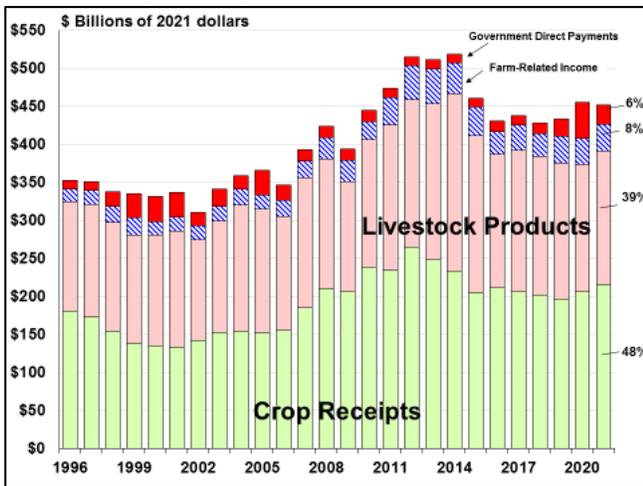
National net farm income is projected at \$111.4 billion in 2021, down \$9.7 billion (-8.1%) from 2020 (**Table 1**). Net farm income represents an accrual of the value of all goods and services produced on the farm during the year—similar in concept to gross domestic product. For example, crop production is recorded as net farm income immediately after harvest, whether sold or stored on farm. It also includes the imputed rental value of farm dwellings (\$20.6 billion in 2021) as revenue but subtracts the depreciation on equipment (\$28.7 billion in 2021) as an expense—both of these factors are excluded from net cash income.

National net cash income is projected at \$128.3 billion, down \$7.9 billion (-5.8%) from 2020 (**Table 1**). Net cash income uses a cash-flow concept to measure farm well-being—only cash transactions for the year are included. Thus, net cash income records a crop's value only after it has been sold in the marketplace. Sales of \$7 billion from on-farm crop inventories from previous crop harvests in 2021 are a major factor contributing to the higher net cash income projection relative to net farm income. Net cash income tends to be more stable than net farm income because farmers are able to control the flow of farm cash sales and purchases.

Gross Cash Receipts Down Marginally

Total gross cash receipts—which combine sales from crop and livestock production, other farm-related income, and government direct payments—are projected at \$451.0 billion in 2021, down marginally from 2020 (Figure 2).

Figure 2. Farm Gross Cash Receipts by Source, 1996-2021 (forecast)

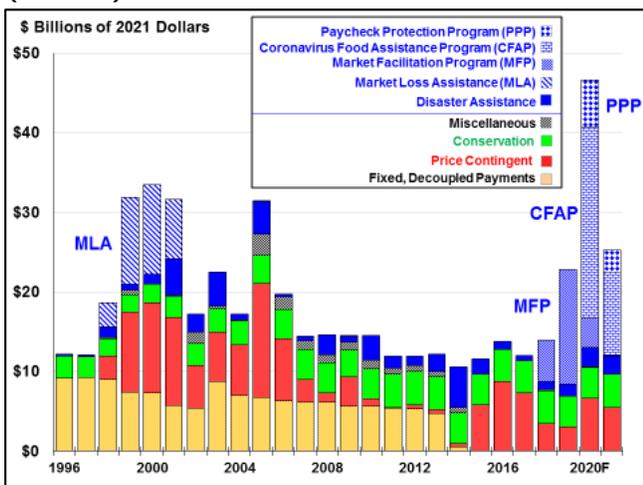


Source: CRS using data from USDA, ERS, “2021 Farm Income Forecast,” February 5, 2021. All values are adjusted for inflation with the BEA chained GDP deflator, where 2021 = 100. Values for 2021 are forecasts.

Note: Other farm income includes custom farm work, machine hire, agritourism, forest product sales, crop insurance indemnities, and cooperative patronage dividends.

Higher prices for crops and livestock products are expected to raise cash receipts from farm production to \$390.7 billion in 2021, up 5.5% from 2020 and the highest since 2015 in inflation-adjusted dollars. Together, crop and livestock receipts are projected to account for a combined 87% of farm revenue while other farm-related income (8%) and government direct payments (6%) make up the balance.

Figure 3. U.S. Government Farm Support, 1996-2021 (forecast)



Source: CRS using data from USDA, ERS, “2021 Farm Income Forecast,” February 5, 2021. All values adjusted for inflation with the BEA chained GDP deflator, where 2021 = 100.

Note: For details on the program categories, see CRS Report R46676, U.S. Farm Income Outlook: December 2020 Forecast.

Government Payments Projected Sharply Lower

Government direct payments to farmers are projected at \$25.3 billion in 2021, a 45% decline from their record level in 2020 (Figure 3). Typically, most farm program payments are authorized under farm bill programs. However, since 2018, USDA has implemented several ad hoc payment programs in response to the impact on the U.S. agricultural sector of trade retaliation and the Coronavirus Disease 2019 (COVID-19) pandemic. Payments under ad hoc programs are expected to decline substantially in 2021 as market and trade conditions improve.

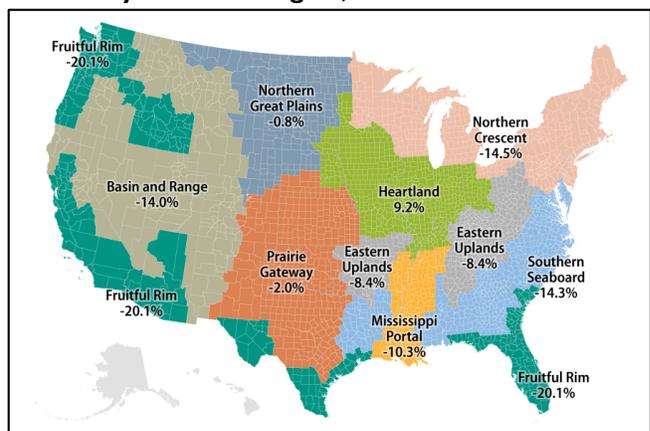
Farm Production Expenses Projected Up 2.6%

Farm sector production expenses are forecast to increase by \$8.6 billion (+2.5%) to \$353.7 billion in 2021. The increase in 2021 production expenses is expected to be spread across several expense categories, with the largest dollar increases for feed and labor. Expenses for seeds and net rent are forecast to decline.

Outlook for Farm Businesses

Average net cash farm income for farm businesses—the subset of farms that produce the majority of U.S. agricultural commodities—is forecast to decline by 6.2% in 2021. Farm businesses in all regions, except the Heartland, are expected to see declines in average net cash farm income in 2021 (Figure 4).

Figure 4. Farm Business Average Net Cash Farm Income by Resource Region, 2020 vs. 2021



Source: USDA, ERS, “2021 Farm Income Forecast,” February 5, 2021.

Issues for Congress

As the 117th Congress considers spending measures, such as through reconciliation, the health of the U.S. farm economy may be a part of the debate. In particular, Congress may consider the increased role in recent years of large government payments in supporting farm income. Is such intervention sustainable? In addition, is it neutral to the farm decisionmaking process, or does it confer any regional or commodity-specific advantages that might conflict with market forces?

Randy Schnepf, Specialist in Agricultural Policy
Stephanie Rosch, Analyst in Agriculture Policy

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.