OFF THE CUFF

BY: Ron Kern

Week of January 6

It's that time of year where I start fielding calls from landlords curious about what cash rent for farmland should be. There's no magic formula as coming to a cash rent is a negotiation. However when looking at the economic impact of grain farming last year I would caution those landlords that cash rents may be decreasing, particularly if you want to keep a good tenant on the farm. A mindset of less is more may be appropriate.

Let's look at AFBF economic outlook for agriculture and you will see what I mean.

USDA's December 2024 farm income forecast confirms just how tough a year it's been for American agriculture, with slightly revised projections offering little relief to farmers, who are losing nearly a quarter of their income in two years. Net farm income is now projected at $140.7 billion for 2024, down $6 billion (4.1%) from 2023 and $41.2 billion (22.6%) from the $181.9 billion peak in 2022. The December revision does little to alleviate concerns about the financial pressures farmers face heading into 2025, and the overall figure masks the dramatic decline in returns for crop farmers.

When adjusted for inflation, the drop in net farm income becomes more pronounced, with a projected decline of $9.5 billion (6.3%) from 2023. Although the updated 2024 figure remains above the 20-year average, the metrics paint a challenging picture, particularly for crop producers, who face substantial revenue declines. While some sectors, most predominantly livestock, are seeing stronger receipts, the December forecast underscores that agriculture remains in the red.

Crop producers will continue to bear the brunt of the economic downturn. Total crop receipts for 2024 are now projected to decline by $25 billion (9.2%) from 2023 to $246.2 billion. This marks the second straight year of significant declines in crop cash receipts, reflecting weaker global demand, falling prices and increased competition from international markets.

Corn receipts are expected to fall $16.6 billion (20.8%). Soybean receipts are likewise forecast to fall $6.9 billion (12.3%).

Livestock producers are faring comparatively better, with total receipts for animal and animal products expected to grow by $21 billion (8.4%) to $270.6 billion in 2024. Cattle and calf receipts, bolstered by higher prices, are projected to rise by $7.3 billion (7.2%), exceeding earlier predictions. Milk receipts are expected to grow by $5.3 billion (11.5%), also outpacing the 9.4% increase forecast in September. Pork producers are projected to see receipts increase modestly by $1.5 billion (5.7%), driven by both higher prices and quantities sold.

Egg producers, who initially faced grim projections earlier in the year, continue to see significant gains, with receipts now expected to rise by $7 billion (39.4%), reflecting higher prices and increased demand.

USDA's metric, Farm Business Average Net Cash Income by Commodity Specialization, offers valuable insights into the financial performance of farm businesses based on their primary commodity focus.

Farm businesses specializing in soybean production experienced a significant 44% decline in net cash income, while those focused on wheat saw a 43% decline, and corn-focused operations experienced a 42% decline. In stark contrast, farm businesses specializing in cattle and calves achieved a remarkable 154% increase, while those focused on poultry saw substantial growth, with net cash income rising by 31%. Income for dairies dropped starkly between 2022 and 2023 but rose dramatically in 2024 – up 19% over 2022. These trends illustrate the dramatic variability in financial outcomes across commodity sectors, influenced by shifts in market conditions, input costs and revenue streams over the observed timeframe.

Farmers are expected to spend slightly less on production in 2024, with total production expenses forecast to decline by $8 billion (1.7%) to $453.9 billion. Lower costs for feed, fertilizer and fuel contribute to this reduction, with feed expenses projected to fall $10.5 billion (13.2%), fertilizer expenses down $3 billion (8.4%) and fuel costs declining by $2 billion (11.3%). Given low crop prices, drops in expenses most closely associated with crop production are not unexpected.

Rising costs in key categories like labor and interest continue to offset these savings. Labor expenses are expected to rise by $3 billion (6.1%), while interest expenses climb $1.8 billion (4.1%), reflecting higher debt levels and sustained high interest rates. These rising costs add to the financial strain on farmers, who are already grappling with shrinking margins and limited liquidity.

Despite declining net farm income, USDA projects farm sector equity — the difference between assets and debt — to rise by 5.2% to $3.68 trillion in 2024, reflecting growth in real estate values. Total farm sector assets are expected to increase by 5.1% to $4.22 trillion, with real estate comprising 84% of this total. Meanwhile, farm sector debt is forecast to climb 4.5% to a record $542.5 billion, with increases in both real estate and non-real estate debt. While solvency metrics such as the debt-to-asset ratio are expected to improve slightly, reduced liquidity — indicated by a 6.9% decline in working capital — points to ongoing financial strain, particularly as debt levels continue to grow.

USDA’s December report underscores the volatility of the U.S. farm economy as farmers face their second consecutive year of declining income. Net farm income in 2024 remains nearly 25% below its 2022 peak, and the minimal upward revisions since September offer little reprieve from the financial pressures farmers are enduring.

Crop producers, in particular, face dramatic declines in cash receipts, with little hope for immediate relief as global supply chain disruptions continue and prices for key commodities remain depressed. Livestock producers enjoy higher prices at the moment, but gains in this sector are uneven. Rising production costs threaten to erode profitability across the board. With government payments shrinking and the income safety net failing to keep pace with the realities of modern agriculture, farmers are left to navigate an increasingly precarious financial landscape. As policymakers continue overdue farm bill discussions, these figures serve as a reminder that the targeted reforms that could address our farmers' unique challenges remain stuck in the legislative process.
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The first lesson of economics is scarcity: there is never enough of anything to fully satisfy all

those who want it. The first lesson of politics is to disregard the first lesson of economics.

Thomas Sowell