



Still Waiting for the Farm Boom

Family Farmers Worse Off Despite High Prices

By Timothy A. Wise*

To listen to the headlines, the boom times roll on for U.S. farmers. Crop prices are up again, resuming a price surge that began in late 2006. U.S. Department of Agriculture (USDA) officials feed the euphoria with each revised estimate of the farm sector's economic indicators. The most recent projects a record \$99 billion in net cash farm income for the sector this year. "In five of the last eight years, we've seen the highest net cash farm income numbers since the nineteen-seventies, even adjusting for inflation," said Joe Glauber, USDA's Chief Economist, at the agency's annual Agricultural Outlook Forum in late February.

Are things really so rosy? Not for family farmers. In an earlier policy brief on the farm economy, "Boom for Whom?" we asked whether family farmers were really benefiting from the new high prices. It is time to ask the same question again, examining the readily available data on how small-to-mid-scale family farmers fared during the recent high-price years. Those data show that the boom has largely passed them by. High prices for their products have been gobbled up by rising expenses; government payments have fallen; and more recently, the recession has significantly contracted the off-farm income that these farm families depend on to make ends meet.

In 2009, real household income for these farmers fell by 28% from its 2007 levels, perhaps not surprising since prices dropped considerably in 2009. But in 2009, their household income was still 21% below the average for 2000-6, when crop prices were significantly lower. In fact, even taking into account the two previous high-price years, real household income was 5% lower for the three-year period of 2007-9 than the average for the previous seven years, 2000-6. This policy brief explores why family farmers are not necessarily prospering from high crop prices.

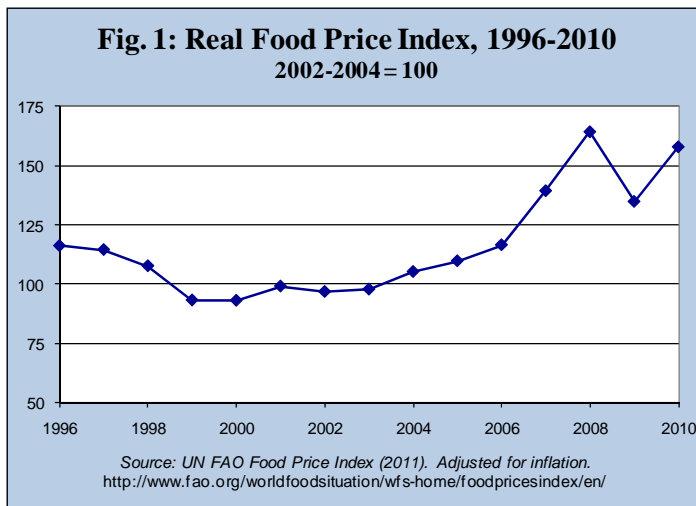
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Boom for whom? Not family farmers

Aggregate statistics for the farm sector are routinely presented in misleading ways, by the media and by the USDA itself. Many of the misconceptions stem from the inclusion of so-called “residential/lifestyle” and “retirement” farms in such reports. These make up roughly two-thirds of the entities categorized as farms, but their owners are not farming as their primary occupations, not trying to earn a living from farming, and they get virtually all their income from off-farm sources. This renders many statistics about the farm sector as a whole misleading.¹

In 2009, 47% of the “farm household income” included in the USDA’s widely reported totals for the farm sector accrued to “residential/lifestyle” farmers. Most run so-called “hobby farms,” which on average in 2009 lost money on farming but earned nearly \$100,000 in off-farm income.² Including such “farmers” and their substantial non-farming income in reports on the economic health of farm households contributes to pervasive misunderstandings about how real farm families are faring.

Fortunately, the USDA’s annual ARMS survey provides an economic snapshot of the kind of farmers most people in the United States probably picture when they read such reports: a farm family that is trying to make a living running its own operation, primarily through the family members’ own labor. The USDA’s category of “Farming Occupation-Higher Sales” farms is a good approximation of small-to-mid-scale farmers. These farms report gross sales (not net income) between \$100,000 and \$250,000 on farms for which the head of household reports that his or her primary occupation is farming.³



As Figure 1 shows, there is no question farm prices have risen considerably, spiking in 2008 and again more recently after several years of relatively low prices. The question is: Are family farmers significantly better off?

As Table 1 shows, the average farmer in this group has not fared much better since agricultural commodity prices began rising in late 2006. The table presents both farm household income and farm business income for “Farming Occupation-Higher Sales”

¹ For a detailed discussion of these issues, see “Understanding the Farm Problem: Six Common Errors in Presenting Farm Statistics,” by Timothy A. Wise, GDAE Working Paper No. 05-02, March 2005: <http://www.ase.tufts.edu/gdae/Pubs/wp/05-02TWiseFarmStatistics.pdf>.

² USDA/ERS, Farm Operator Household Income Statement, for Farm Operator Households, by Farm Typology, 1996-2009, from ARMS; USDA/ERS.

³ See USDA Agricultural Resource Management Survey <http://www.ers.usda.gov/Briefing/ARMS/>. We use this sales class as a proxy for small-to-mid-scale family farms because, unlike lower sales categories, they are earning a significant share of their income from farming. Some farms in the next class up, “large commercial farms” with gross sales \$250,000-\$500,000, would certainly qualify as small-to-mid-scale farms, but not all. Obviously the “very large commercial farms” in the top ARMS category would not meet our definition.

Table 1: Family Farm Income, 2000-2009
For Farming Occupation-Higher Sales Farmers (Sales \$100,000-\$249,999)

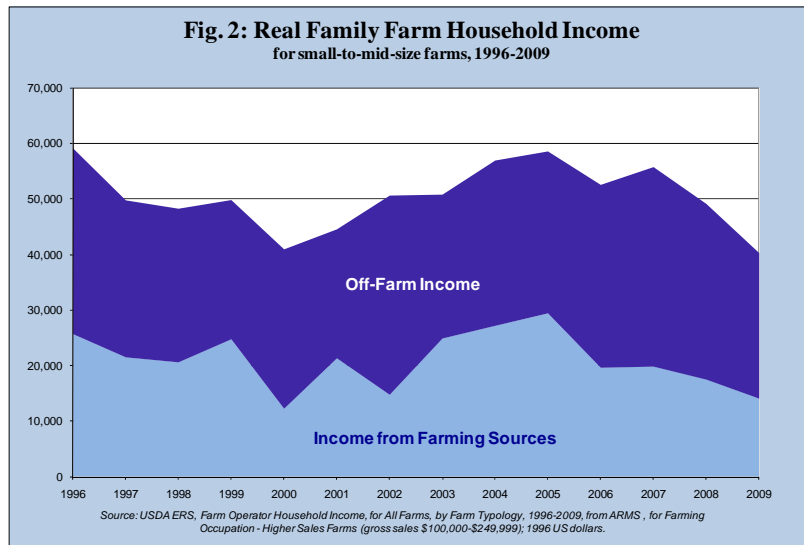
	2000-6 Average	2007	2008	2009	Change, 2009/2000-6
Number of Farms	147,013	111,389	109,505	110,034	-25.2%
Average Acreage Per Farm (1)	1,104	980	965	1,106	0.2%
Farm Household Income (2)					
Average Operator Household Income					
From Farming Sources	25,504	26,254	24,085	19,274	-24.4%
From Off-Farm Sources	34,808	47,485	43,395	35,859	3.0%
Total Household Income	60,312	73,739	67,480	55,133	-8.6%
Percent of U.S. Avg. Income	99%	109%	99%	81%	-18.1%
Farm Business Income (3)					
Cash Farm Income					
Farm Sales (4)	130,005	145,134	146,421	142,851	9.9%
Government payments	17,366	8,662	8,605	9,141	-47.4%
Other farm-related income	23,394	15,892	25,353	22,341	-4.5%
Gross Cash Income	170,766	169,687	180,379	174,334	2.1%
Cash Farm Expenses	130,628	134,111	141,709	141,517	8.3%
Net Cash Farm Income	40,137	35,576	38,669	32,816	-18.2%
<i>all income and expenses in current dollars</i>					
<small>Sources: 1) USDA/ERS, Structural Characteristics Statement, for All Farms by Farm Typology, 1996-2009, from ARMS; USDA/ERS, 2) USDA/ERS, Farm Operator Household Income Statement, for Farm Operator Households, by Farm Typology, 1996-2009, from ARMS; USDA/ERS, 3) Farm Business Income Statement, for All Farms, by Farm Typology, 1996-2009, from ARMS 4) Combined sales from crop and livestock sources in Farm Business Income Statement</small>					

farms, comparing the average for what we refer to as the relatively “low price years” 2000-6 with incomes in more recent years when prices were higher.⁴

The top part of the table, on household income, shows just how misleading the prevailing image of the wealthy farmer is. In 2009, the average farm household in this group farmed 1,104 acres, but earned just \$19,274 from farming, including government payments. This is down more than 20% from the high-price years of 2007-8, but it is also lower than their average income during the relatively low-price years of 2000-6. Income from off-farm sources, most often paid work by one or more family members, provided nearly twice as much support as farm-

related income in all three recent years. But the recession reduced their off-farm income in 2009 by 24% from its 2007 level.

This left average household income for these farm families at just \$55,133, down 24% from the 2000-6 average even before adjusting for inflation. (See Figure 2 for inflation-adjusted figures.) That is just 81% of the U.S. average for household income, a far cry from the 114% generally reported for the farm sector as a whole. Again, the national figure is misleading because it includes “residential-lifestyle” farms that



⁴ At the time of this writing, data for 2010 was not available, and we recognize that commodity prices in 2009 saw a dip from the highs of the previous two years. Still, the three years 2007-9 saw higher prices relative to prior years. The data is presented with an important caveat. Because the survey categories are defined by gross sales, high prices will tend to push some farmers up to a higher category. The 25% decline in the number of farms in this category from the 2000-6 period is likely an indicator of this shift rather than a loss of farms. This means that over time the composition of the “higher sales” group will not remain constant, and this renders comparisons with earlier periods somewhat unreliable.

generally have much higher incomes from non-farming sources.

The second part of Table 1 looks at farm businesses (as opposed to households) for this same sales class from a survey that offers more detail on the sources of income and expenses on the farm. It shows that income from farm sales indeed went up with the higher prices from 2007-9.

In 2009, farm sales were up about 10% over their 2000-6 average, even after falling from 2007 and 2008 levels. But that gain of about \$13,000 was offset by a drop of about \$8,000 in government payments compared to the 2000-6 period, a result of higher prices eliminating or reducing payments under the government programs tied to price. Taking these together, in 2009 gross cash income for the farm businesses in this farming category was up only about \$3,600 over its 2000-6 average.

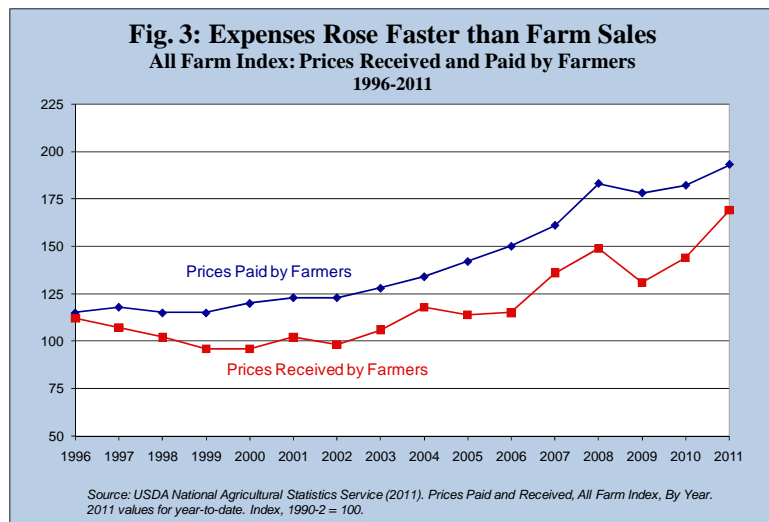
Rising Prices for Farm Inputs

As any farmer knows, those small gains were obliterated by higher costs, as prices for fertilizers, chemicals, seeds, feed, fuel, and other inputs followed the same upward curve as crop prices. Average expenses in 2009 were on par with 2008 expenses; crop prices had fallen considerably, but input prices did not. As a result, expenses in 2009 were nearly \$11,000 higher than they were in the 2000-6 period. As Figure 3 shows, the prices paid by farmers since 1996 have increased faster than the prices they received.

The bottom line? Even without adjusting for inflation, net cash farm income was lower in all three higher-price years (2007-9) than it was in 2000-6. In 2009 it was down by about \$7,000, or 19%.

So much for a boom for family farmers. In effect, high crop prices brought higher revenues, but the same commodity price surge that raised crop prices also increased input prices and expenses, eliminating most of the gain from sales. A drop in farm payments, triggered by the rise in prices, left family farmers worse off than they were before the price spikes.

It is worth noting just how important government payments remain for these small-to-mid-size family farms. In previous years characterized by low crop prices, government payments often provided a majority of net cash income. In 2009, government payments averaged just \$9,141 for this group, down from more than \$20,000 in some earlier years in the decade. Still, this represented 28% of the average farm's net cash income. These are primarily direct payments not dependent on prices, and they remain a lifeline for farm families. This reality is often ignored by those campaigning to eliminate or reduce commodity payments.⁵



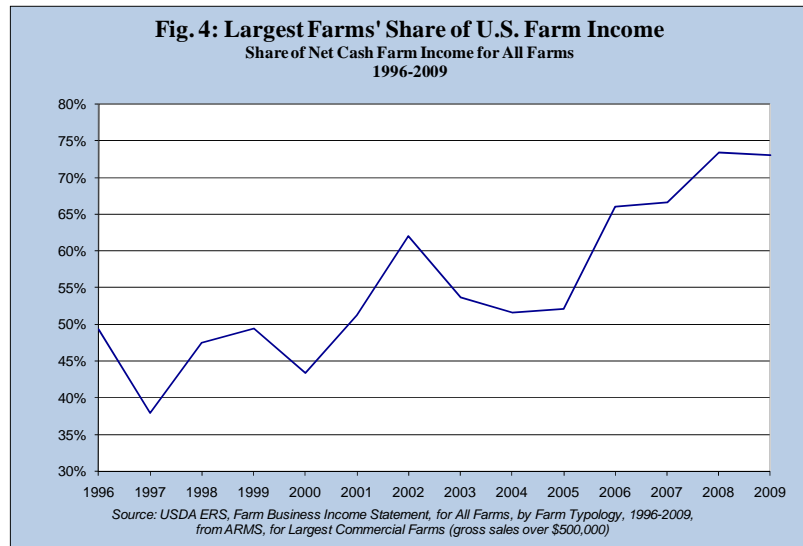
⁵ See, for example: "Farm Income Data Debunks Subsidy Myths," by the Environmental Working Group, May 2010: <http://www.ewg.org/agmag/2010/05/farm-income-data-debunks-subsidy-myths/>

Who saw the boom?

Not surprisingly, for the farmers in the category below the higher sales class—the “lower sales” farms that brought in up to \$100,000 in gross sales—the boom years were complete busts. In 2007, 2008 and 2009, these farms saw losses in their net cash farm income.⁶

Even for farms in the next sales class up—the “large commercial farms” with gross sales between \$250,000 and \$500,000—the good years weren’t great. They did see modest increases in their gross sales during the “boom” years—between 3% and 7% depending on the year. And while their net cash farm income in 2007 and 2008 also increased over the 2000-6 average (by about 6% and 5%, respectively), in 2009 their net cash farm income dropped below the seven-year average by 4%, even counting the \$17,000 they received on average in government payments. In 2009, this left farm households with just \$52,000 in income from farming sources—hardly boom times. To the extent they were better off, it was largely due to a rise in off-farm income, not farm sales.⁷

The big winners, of course, were the “very large commercial farms”—those making more than \$500,000 in gross sales. These 115,000 farms average more than one million dollars in gross sales each year and in 2009 saw an average net cash farm income of \$264,000. This relatively small group of the largest-scale farms accounted for a remarkable 73% of the net cash farm income reported for U.S. farms as a whole in 2009. That share has risen steadily, from less than 50% in the late 1990s (See Figure 4). Combine those with “non-family farms” – a small but diverse group of incorporated farms that tend to be larger – and they account for 88% of all U.S. net cash farm income.



Getting beyond generalities

Statistics, no matter how disaggregated, cannot fully capture the economic health or distress of family farmers. These are no different. Within the diverse array of what we call small-to-mid-scale family farms are farmers who have benefited from higher crop prices as well as those who have seen little gain. In general, crop farmers have fared better than livestock farmers in the high-price environment, as livestock feed costs have compounded the strain from rising prices for other inputs.

⁶ USDA/ERS, Farm Business Income Statement, for Farm All Farms, by Farm Typology, 1996-2009, from ARMS; USDA/ERS.

⁷ Ibid.

In fact, dairy farmers have been particularly hard hit. Dairy prices fell during the early years of the commodity price boom, rising only in the last year. USDA recently forecast that milk prices will average \$17.70-\$18.40 per cwt (hundredweight) this year, compared to \$16.29 in 2010 and just \$12.93 in 2009, well below costs of production.⁸ Combined with plummeting farm-gate prices in 2009, high input prices rocked the balance sheets of dairy farms nationwide and put thousands of family dairy farms out of business. It is estimated that dairy farmers lost one-third of their equity in 2009 alone, with hundreds and even thousands of dollars being lost per cow. The recent increases in milk prices may allow some farmers to return to profitability. But input prices remain high and margins remain low, particularly for small-to-mid-scale dairy farmers, and it could be years before they recover what they lost.

For dairy farmers and other farm families, high commodity prices do not necessarily mean boom times in the heartland. The largest-scale farms may be booming, but most U.S. farmers remain perilously close to going bust. Compounded by a contraction in credit markets spurred by the country's recession, farmers now find it more difficult to secure the credit they need to operate their farms.⁹ Their reality needs to be heard through the clamor over high crop prices, and their needs should be addressed when Congress writes the next Farm Bill in 2012.

For more on the institute's work on the subject, see the web page for GDAE's work on "Beyond Agricultural Subsidies": http://www.ase.tufts.edu/gdae/policy_research/USAgPolicy.html.

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⁸ Glauber, Joseph W. "Prospects for the U.S. Farm Economy in 2011." Presentation at the 2011 USDA Agricultural Outlook Forum. February 24, 2011.

⁹ "Don't Bank on It: Farmers Face Significant Barriers to Credit Access During Economic Downturn." (March 2011). Farm Aid, Food & Water Watch, National Family Farm Coalition and The Rural Advancement Foundation-International.