



January 5, 2022

WHAT YOU NEED TO KNOW ABOUT The Farm Economy

PRO POINTS

- **The Department of Agriculture is estimating that farm incomes in 2021 will rise to their highest levels in close to a decade.**
- **Increasing commodity prices are helping even as federal subsidies farmers received in 2021 decreased significantly.**
- **Still, a majority of lawmakers on the House and Senate Agriculture committees say they are wary of dialing back much federal assistance in the upcoming farm bill because of continued inflation and supply chain pressures on producers.**

HOW WE GOT HERE

Farm incomes plunged in the 1980s to their lowest point in recent decades. The crisis was the worst to hit the U.S. agriculture sector since the Great Depression.

Bankruptcies and foreclosures rippled through rural economies across the country. Doubled with inflation, farm incomes remained low for most of the 1980s and stayed relatively flat for years after.

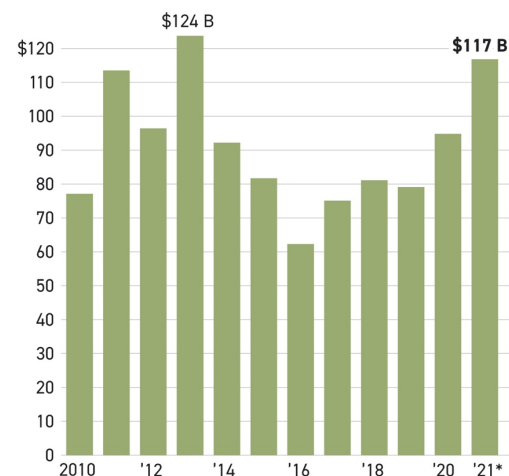
Net farm incomes — which USDA defines as a broad measure of profits — spiked in 2013 and then dropped off again, but have risen over the past few years amid increased federal subsidies to farmers. Former President Donald Trump spent \$28 billion on direct payments to farmers to soften the blow of his trade war with China, which disproportionately targeted the U.S. agricultural sector.

The federal government also approved billions in pandemic aid relief for farmers after Covid-19 disrupted food supply chains. Producers, at times, had to dump milk and cull, or kill, tens of thousands of animals that couldn't make it to processing plants.

Over recent years, government subsidies have made up a larger share of what farms took in. They were up to 48 percent — or nearly half — of net farm incomes in 2020.

Net farm income highest since 2013

NET FARM INCOME IN BILLIONS OF DOLLARS, ADJUSTED FOR INFLATION

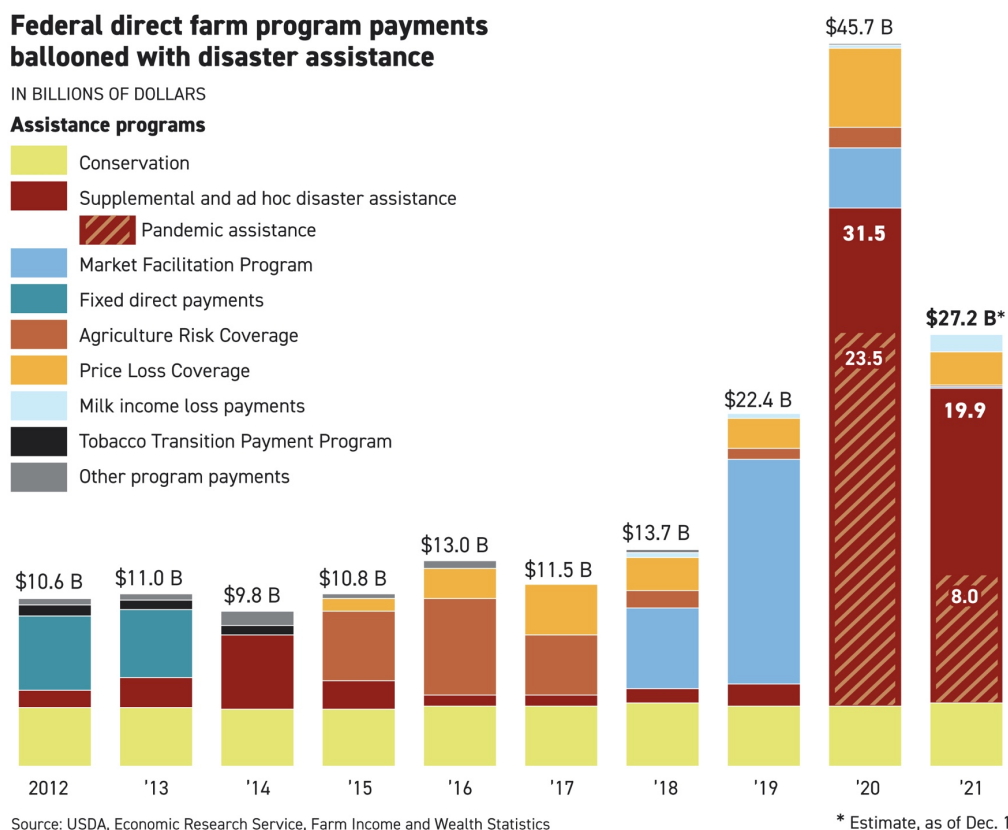


*Data as of Dec. 1, 2021

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics



Now, after the federal boost through the pandemic and amid rising commodity prices, 2021 net farm incomes are projected to hit \$116.8 billion. That's the highest since 2013 and a 23 percent jump from 2020 levels, according to USDA, even as federal subsidies fell.



Producers are expected to benefit from higher sale prices for crops and market animals. Prices for both categories are up about 18 percent from 2020, amid surging prices for corn, soybeans, wheat, cattle, calves, and hogs.

But USDA forecasts predict household incomes for individual farm operators are expected to stay flat amid rising costs. Farm households often receive income from a mix of farm and off-farm work. Extreme weather also led to widespread losses across parts of the West, South and East Coast last year.

WHAT'S NEXT

Rising costs and weather damage are expected to continue to strain producers in 2022. Decreasing supply chain bottlenecks will help ease some pressure, but U.S. agricultural exporters are still facing hurdles as they try to ship their products overseas.

USDA projected last fall that crop prices would drop in 2022 as production catches up with demand. The department also said it expected federal interest rates to rise a bit, which would push up the cost of farm operating loans from their current lows.

A breakthrough on trade talks with China could provide a boost if Beijing follows through on its commitments to buy more U.S. agricultural goods.



Lingering challenges from the pandemic mean most lawmakers in Congress are not eager to decrease federal assistance in the upcoming 2023 farm bill. The House Agriculture Committee is planning to begin those talks later on in January.

Complicating farm bill negotiations: Billions for climate-related agriculture programs, nutrition assistance and rural development funding are still up in the air after Sen. Joe Manchin (D-W.Va.) said he would not vote for Democrats' \$1.7 trillion climate and social spending bill.

Republicans argue Democrats' spending bill, which contains more than \$80 billion in funding for agriculture-related programs, undermines the farm bill negotiations and sets new funding levels for major programs without input from Republican lawmakers.

Disagreements over the massive piece of legislation have also led to intense acrimony between Republicans and Democrats on the committee. Some lawmakers are describing the tensions as the lowest point for bipartisan relations on the panel in years.

POWER PLAYERS

- **Rep. David Scott:** He chairs the House Agriculture Committee and will shape early farm bill talks that will decide federal farm assistance levels. He's interested in boosting climate-related agriculture programs and tackling issues around funding disaster relief.
- **Rep. G.T. Thompson:** He is the ranking member on the House Agriculture Committee. Thompson is likely to take over the chair position as Republicans are poised to win a majority in the House in the midterm elections this fall.
- **Sen. Debbie Stabenow:** She chairs the Senate Agriculture Committee. If Democrats maintain control of the Senate majority, she'll be the most powerful person on the panel when lawmakers draft the 2023 farm bill.
- **Sen. John Boozman:** He is the ranking member on the Senate Agriculture Committee. If he defeats a primary challenge in 2022, he will be poised to lead the panel should Republicans flip the chamber. He is sometimes critical of USDA taking on a bigger role in fighting climate change and often is at odds with Democrats over how much money to spend on programs that pay farmers to adopt greener practices.
- **Adrienne Wojciechowski:** She is the assistant secretary of congressional relations at USDA. Wojciechowski, a former Senate staffer, will be a critical voice for USDA on Capitol Hill as more than \$80 billion in agriculture-related funding from Democrats' climate and social spending bill is stalled in Congress. She'll also play a major role in the farm bill process and will work to ensure USDA priorities make it into the legislation.