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Farm Income and the Safety Net in 2021

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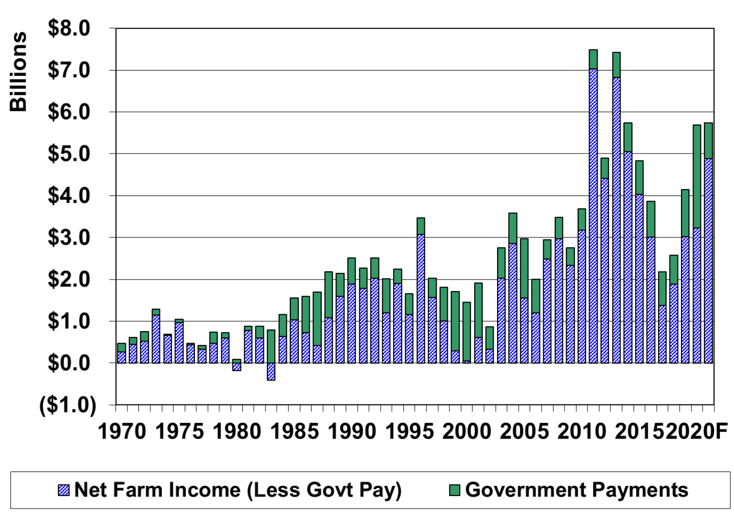
Farm income expectations have been rising along with commodity market price levels over the past several months. Estimates prepared earlier this spring in March for the University of Nebraska-Lincoln's Bureau of Business Research report *Business in Nebraska* projected Nebraska farm income for 2021 at a little over $5.7 billion. The projection for 2021 does not even account for the continued commodity price increases of the past two months, but is more than double the recent low of just $2.2 billion in 2017.

Current farm income prospects have grown with the rebound in market prices for most commodities, but have also been substantially boosted by recent ad hoc government assistance for losses from agricultural weather disasters, trade conflicts, and most recently COVID-19 pandemic market price and supply chain disruptions. A brief analysis of farm income and federal farm income safety net programs provides some insight on current conditions and on potential future directions for ag policy and farm economics.

Farm Income

Using official state-level farm income data published by USDA's Economic Research Service through 2019 and this author's projections for 2020-2021 based on relative changes in national projections, net farm income in Nebraska is projected to be $5.75 billion in 2021, a slight rise from the current level of $5.68 billion projected for 2020 (Figure 1). The two years in a row of more than $5.5 billion is in sharp contrast to the preceding five years from 2015-2019, which averaged just $3.5 billion, punctuated by the low of $2.2 billion in 2017.

Figure 1. Net Farm Income in Nebraska



Source: USDA-ERS and author calculations.

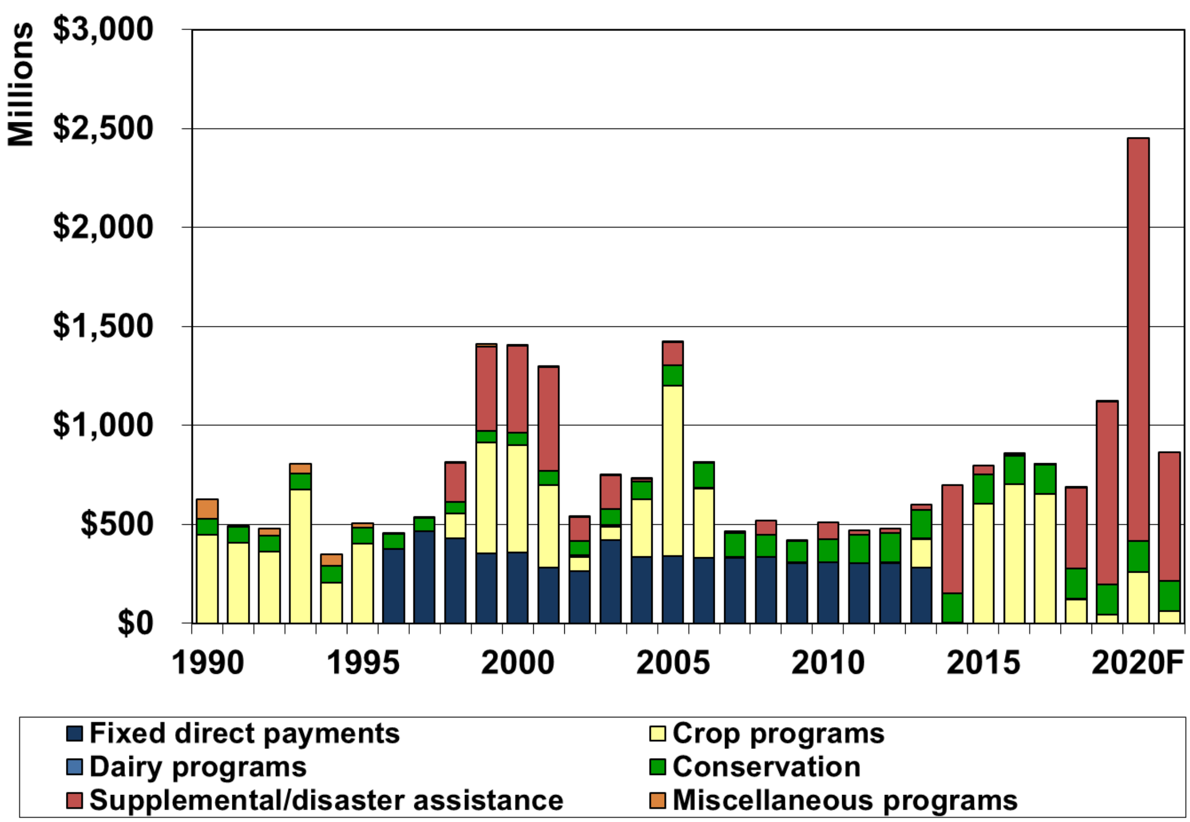
A sustained recovery in commodity receipts over the past four years has helped farm income rebound, with crop receipts climbing from $8.9 billion in 2017 to a projected $11.1 billion in 2021 (again, based on estimates prepared in March 2021). In contrast, livestock receipts were largely flat during that time, climbing from $11.5 billion in 2017 to a projected $12.1 billion only in 2021 after falling as low as $11.1 billion amid the COVID-19 disruptions of 2020.

Safety Net

Projected net farm income gains to more than $5.5 billion in Nebraska would rank behind only 2011, 2013, and 2014 for all-time highs (not adjusted for inflation). The fact that Nebraska farm income has recovered to such strong levels in spite of agricultural disasters, trade conflicts, and COVID-19 disruptions to markets and food systems is in large measure a result of record-high levels of federal government payments (shown in the green bars in Figure 1), with most of those coming from unprecedented levels of ad hoc government assistance. Figure 1 shows Nebraska net farm income levels since 1970, disaggregating the total into net market returns and government payments.

An analysis of government payments since 1990 shows the dramatic shift in payments in both magnitude and program over the past four years (Figure 2).

Figure 2. Government Payments in Nebraska



Source: USDA-ERS and author calculations.

Fixed, guaranteed direct payments of $300-400 million/year implemented through the 1996 Farm Bill were a primary component of the safety net mix until they were eliminated in the 2014 Farm Bill.

Conservation payments have slowly and steadily increased over time to a little more than $150 million/year (although these would not necessarily be considered "safety net" payments). Dairy program payments exist in Nebraska but generally don't show in the graph given the relatively small size of the overall industry in the state. Crop price safety net payments were prominent prior to 1996 and then reappeared in lower-price years in the late 1990s and the mid-2000s before being replaced with optional revenue and price safety nets in the 2008 Farm Bill. Those payments ballooned in 2015-2017 as crop prices fell from 2013 highs, but are now projected to be minimal in 2021 as crop prices have rallied.

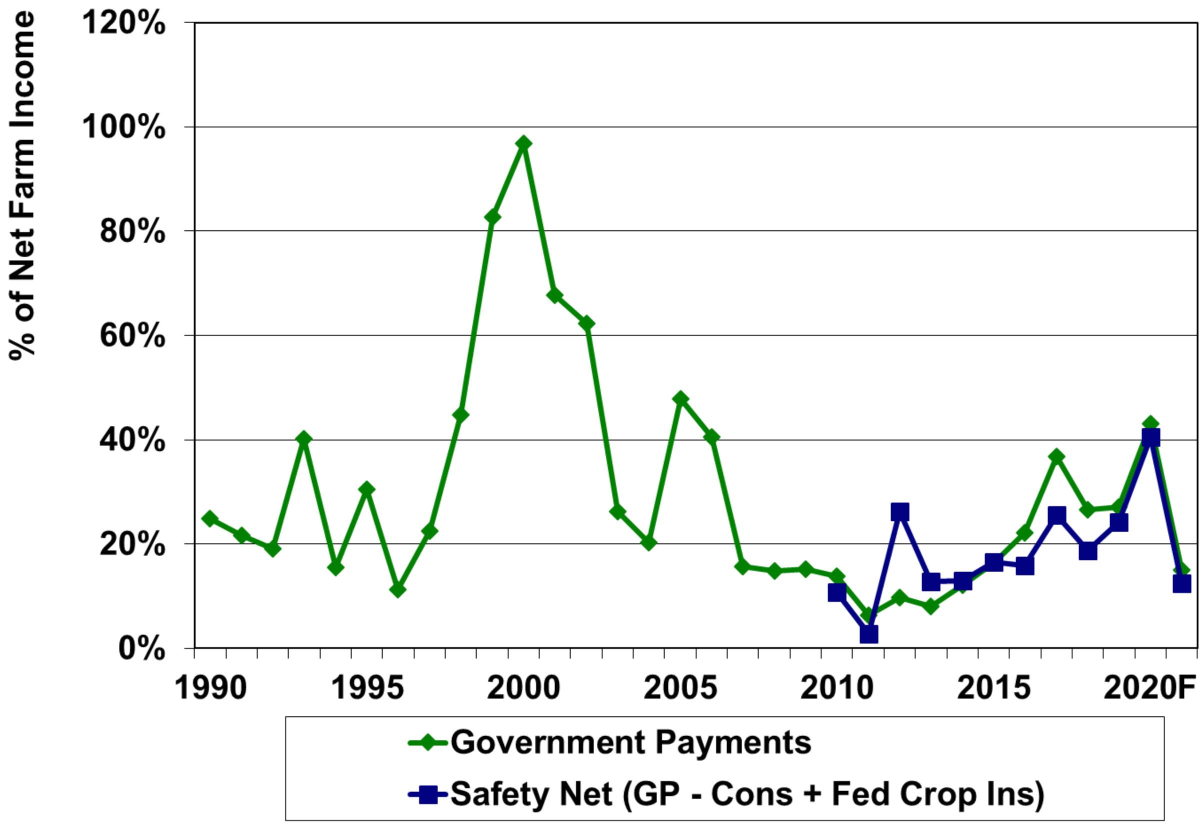
Ad hoc assistance (included in miscellaneous payments prior to 1998) has been a regular component of the safety net over time as political pressure to provide ag disaster relief or economic relief rose and fell. In the late 1990s and early 2000s, substantial ad hoc payments were made in the midst of combined production losses due to drought and other disasters as well as market losses due to global economic and monetary shocks that reduced export demand. The 2008 Farm Bill ushered in what was to be end of ad hoc ag disaster relief with a permanent standing ag disaster program. The permanent reauthorization of standing disaster assistance authority in the 2014 Farm Bill and the continued growth of crop insurance helped policymakers maintain a hands off approach to ad hoc relief at the time (large assistance payments in 2014 covered a backlog of drought losses from 2012 that were not covered until the delayed farm bill was finally passed).

The hands off approach to ad hoc assistance has not lasted however. During the past five years, Congress has authorized assistance through the Wildfire and Hurricanes Indemnity Program (WHIP) in 2018 for 2017 losses and then additional assistance in 2019 through what was called WHIP+ to cover 2018 and 2019 ag losses beyond just wildfires and hurricanes. Then, USDA used administrative authority through the Commodity Credit Corporation in 2018 and again in 2019 to deliver assistance for market price losses due to on-going trade conflicts. The largest share of trade assistance was rolled out through the Market Facilitation Program, accounting for more than $1.5 billion in payments to Nebraska producers from late 2018 through early 2020.

Finally, the COVID-19 pandemic and the accompanying consumer demand shocks and supply chain disruptions led to further ag losses and multiple rounds of ad hoc agricultural assistance. More than $1.5 billion was estimated to have been paid out to producers in 2020 through various assistance programs including the Coronavirus Food Assistance Program, the Paycheck Protection Program, and others. An additional $500 million or more is expected to be paid in 2021 under program revisions and expanded eligibility guidelines recently announced by USDA.

As a result of the supplemental assistance, mostly delivered through ad hoc programs, government payments as a percent of farm income have jumped dramatically in recent years (Figure 3). After averaging less than 15% in the four year period of 2013-2016, government payments averaged more than 33% in the four-year period of 2017-2020, including the peak of 43% in 2020. Importantly, not all of the government payments really reflect income support. As noted before, conservation payments are included in the government payment total, but do not primarily serve as an income support tool. Another adjustment is made for crop insurance, which is supported by the federal government, but does not show up in direct government payments since any indemnities are paid from insurance companies. Considering both indemnities paid to producers and producer premiums paid to insurance providers, the net indemnity will vary year to year based on production and price results. On average, indemnities and producer premiums paid in Nebraska have nearly offset each other, with net indemnities ranging from -4.5% to 6.6% during the 2014-2020 period, averaging less than 1% of net farm income.

Figure 3. Relative Importance of Government Payments and the Safety Net



Source: USDA-ERS and author calculations.

A comparison of either government payments or the adjusted safety net shows the increasing role of the safety net since the early 2010s. The safety net blip up in 2012 reflects the large crop insurance indemnities paid out during the 2012 drought.

Future Directions

The large ad hoc government assistance is not expected to continue indefinitely into the future. With the strong market rally in most agricultural commodities at present, there is little call for additional general economic assistance for agriculture. There was additional support included in the most recent American Rescue Plan Act of 2021 passed in March, but the agricultural support in that legislation was primarily focused on assistance for socially disadvantaged producers as well as some further COVID assistance for food system and supply chain issues. If the ad hoc assistance quickly winds down as projected for 2021 and the commodity program payments are minimal given current market price projections, the government payment equation for the coming years could look very small except for some of the standing ag disaster assistance programs (e.g. Livestock Forage Disaster Program for drought losses) and the conservation portfolio.

In fact, a potential major component of the government portfolio in the coming years and the coming farm bill could be conservation payments, particularly if current policy initiatives for climate and resource management are ultimately implemented. In the meantime, producers will be managing for improved market prospects, but reduced government support and will face production, price, and financial risk management decisions influenced much more by market factors than by policy decisions.

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