By Daryll E. Ray

2002 net farm income falls to 15 year low

According to figures released in September by USDA, 2002 net farm income came in at $35.3 billion, the lowest since 1986. This represents a 30 percent drop from the previous year's $50.6 billion. The decline is the result both of lower direct government payments and lower market net income.

Direct government payments dropped nearly half from $20.7 billion in 2001 to $11 billion in 2002. The emergency payments that had boosted net farm income since 1998 ended with the adoption of the 2002 Farm Bill. They were rolled into counter-cyclical payments that would be paid to farmers in low-price years. The problem for corn farmers, in particular, was a drought-shortened crop. As a result, corn prices rose and no counter-cyclical payments were made. In addition, because of budgetary and political issues, disaster aid was not approved by congress.

Market net income (that is cash receipts minus production expenses) at $24.4 billion was also down from the 2001 level of $29.8 billion. Market net income for 2000 was nearly as bad, coming in at $24.9 billion, but in that year government payments totaled $22.9 billion. In fact, one has to go back to 1987 to find a market net income lower than the 2002 figure. As we know, however, national averages don't tell the whole story. The income drop was not felt evenly throughout the agricultural sector.

In addition, some areas of the country did far better than others. Net farm income for producers in states with a relatively large number of horticultural producers was higher than it was over the prior ten years. This included producers in Arizona, Idaho, Alaska, New Mexico, Nevada, Florida, Hawaii, and New York.

For farmers in the central corn-belt states of Illinois, Ohio and Indiana, net farm income was, respectively, 39%, 22% and 12% of the prior ten-year average. In Indiana, even though direct government payments were down by 64% from 2001, payments accounted for 309% of net farm income. That means that Indiana farmers used two-thirds of their government payments to pay production expenses.

One of the goals legislators had in establishing a counter-cyclical payment program in the 2002 Farm Bill was to reduce the use of emergency and disaster payments. The counter-cyclical payments work well when all commodity producers have average or better yields and prices are in the tank. However, when some areas like Indiana, Ohio and Illinois experience drought-shortened production and market prices are such that the counter-cyclical payments do not kick in, the promised safety net disappears for producers in those areas.

With the change in farm bills, it is important to point out that some of the payments that ordinarily would have been made in late 2002 might have been delayed to 2003. However, the USDA's projected net farm income for 2003 is only $2 billion above the 2001 level. Much of the increase in 2003 projected income comes as direct government payments return back to the $20 billion level seen in 1999-2001. This suggests that the timing of payments was not the dominant cause of the low farm income number for 2002.

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