Export values up, net income down: Which is more important?

Does it seem to you that some reports from the United States Department of Agriculture receive more media attention than others?

Granted, some reports or estimates are more critical to the overall economic well-being of the agricultural sector than others. Months of dry, hot weather in major agricultural areas in the U.S. and weather problems in competing export countries have appropriately focused considerable attention on USDA's weekly Crop Condition Reports and USDA's monthly World Agricultural Supply and Demand Estimates reports. Numbers in these reports directly affect farmers' pocketbooks.

Just lately, USDA's report on August export projections has been receiving a lot of attention. The 7.5 percent increase in total export value in fiscal 2003 compared to fiscal 2002 makes for a good read and good PR. But the report also projects a decline in shipments of bulk commodities such as grains and oilseeds during fiscal 2003. Much of the dollar tally of U.S. agricultural exports now consist of value that is added after raw commodities have passed-by the farm gate and increased exports of non-program commodities. So, unless the weather damaged crops around the world smash the projection of reduced bulk commodity exports, this really is a ho hum report that reveals little about most farmers' bottom line.

But the USDA report that virtually predicts farmers' bottom line has received little attention in the media or by governmental officials. The August 20, 2002 report on Farm Income and Costs forecasts a drop in calendar year 2002 net farm income of 23 percent from the 2001 level. The forecast for 2002 net farm income is $35.2 billion, the lowest level since 1986. In terms of constant 1996 dollars, calendar year 2002 real net farm income ranks third lowest in the last sixty-eight years, that's right six-eight.

Crop receipts are projected to increase marginally by $2.3 billion, largely due to the increased prices of late. Livestock receipts takes a big hit showing a decline of $9.4 billion. And livestock receipts have been the bright spot in net farm income over the last several years as the crop sector has become increasingly dependent on government payments for net farm income.

The other area showing a significant decline compared to last year is government payments which, with lower LDPs and the possibility of no counter-cyclical payments, shows a decline in forecast 2002 income of $4.5 billion.

The talk about high prices and a couple of trade deals may sound good in the press, but the reality is that agriculture's price/income problems remain for calendar 2002. And for those who lost crops to this summer's hot weather, next calendar year's income doesn't look so great either. They will miss out on the weather-generated high prices and with the switch from emergency payments to counter-cyclical payments, there will be nothing there for them either.

Over the past several years it appears that the politically acceptable minimum net farm income is in the low $40 billion range. The predicted drop in net farm income to $35.2 billion (along with the fact that, in a rising market, the counter-cyclical payments provide no benefits to producers who have a crop failure) probably provides adequate political justification for the $5-6 billion farm disaster bills that are being bandied about in the halls of Congress.

However, and it is a big however, the administration has indicated that it will not accept any bill with farm disaster payments in it unless the additional cost is offset by savings elsewhere in the budget. Proponents of the disaster relief argue that they can fund the aid from unexpended funds in the LDP and counter-cyclical programs. Meanwhile, the administration has vacillated on whether the savings can come from the Farm Bill or whether they need to come from elsewhere in the budget. Stay tuned to see how this one plays out.

The other issue will be the means of distributing the payments. Over the last several years, the payments have been distributed by increasing the AMTA payment. But with some farmers enjoying good crops and higher prices and other farmers with few crops to sell, that payment distribution system will not work well this year. An additional question is how funds will be distributed to the livestock sector which is facing a $9.1 billion drop in the value of its production. But these are political issues and I am betting that where there's a political will, there's a political way.

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