Nebraska Farm Income and Farm Policy Directions

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Projections prepared earlier this fall and published in December as part of the University of Nebraska-Lincoln's Bureau of Business Research report, "Business in Nebraska," pegged Nebraska farm income for 2021 at a little over $8 billion. That would be a record in nominal terms, surpassing the previous highs of around $7.5 billion in 2011 and in 2013.

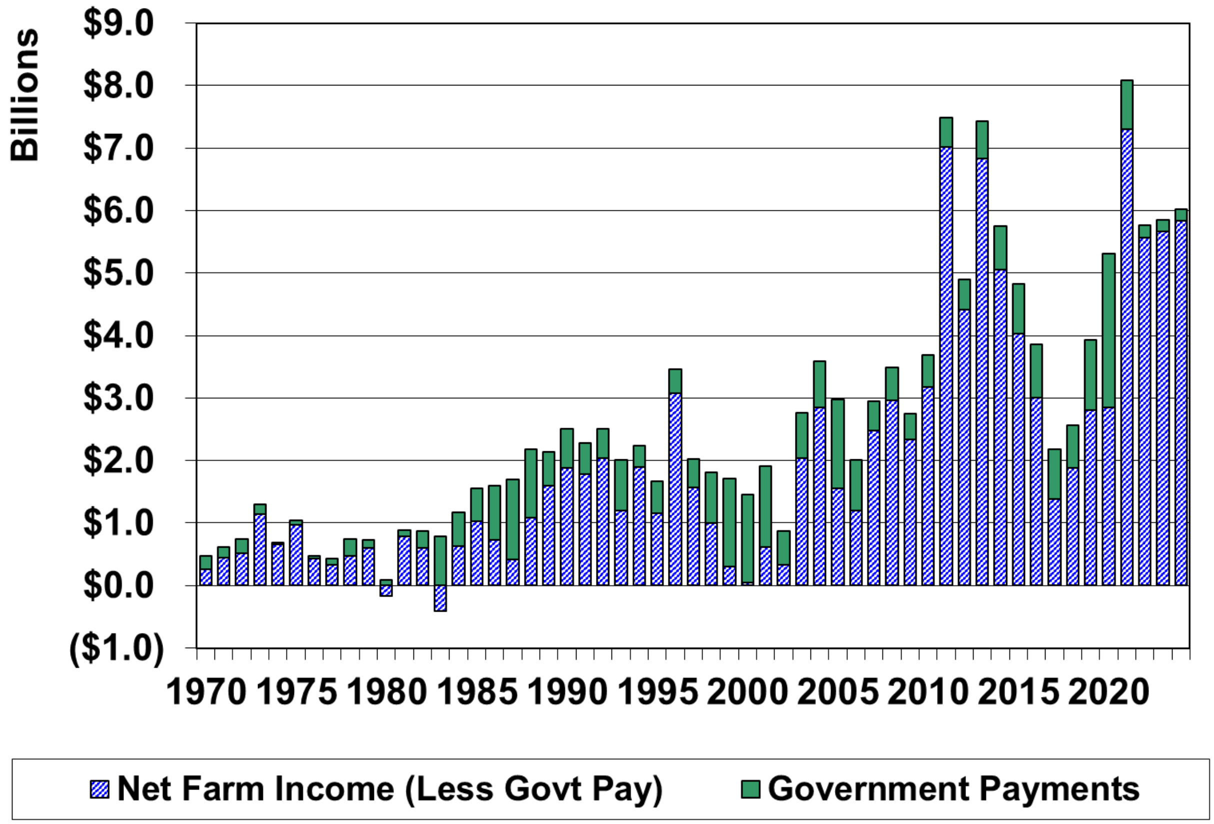
While the results for 2021 are built on good production and strong prices for most commodities along with reduced, but still substantial government payments, the expectations going forward are quickly tempered by an expected pullback in commodity prices, rising costs, and reduced government supports. 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 programs.

Farm Income

Using official state-level farm income data published by USDA's Economic Research Service through 2020 and my projections for 2021-2024, net farm income in Nebraska is currently projected to be $8.1 billion in 2021, a sharp rise from the $5.3 billion estimate for 2020, which itself was up substantially from the $3.5 billion average over the 2015-2019 downturn (see Figure 1). Stronger commodity prices since late 2020 coupled with reduced, but still substantial government payments led to the record income estimates. (Additional discussion is available in a story written for the *Nebraska Farmer* magazine available at https://www.farmprogress.com/farm-policy/net-farm-income-uncertainty-horizon or linked via the Center for Agricultural Profitability at https://cap.unl.edu/policy-legal/net-farm-income-uncertainty-horizon).

The record farm income levels may not last however, as forecasts through 2024 based on longer-term baseline projections from USDA and the Food and Agricultural Policy Center (FAPRI) at the University of Missouri pull Nebraska farm income back to the $5 billion to $6 billion range. An expected pullback in some commodity prices, a sharp rise in input costs, and a dramatic decline in government payments account for the drop in projected farm income.

Figure 1. Net Farm Income in Nebraska



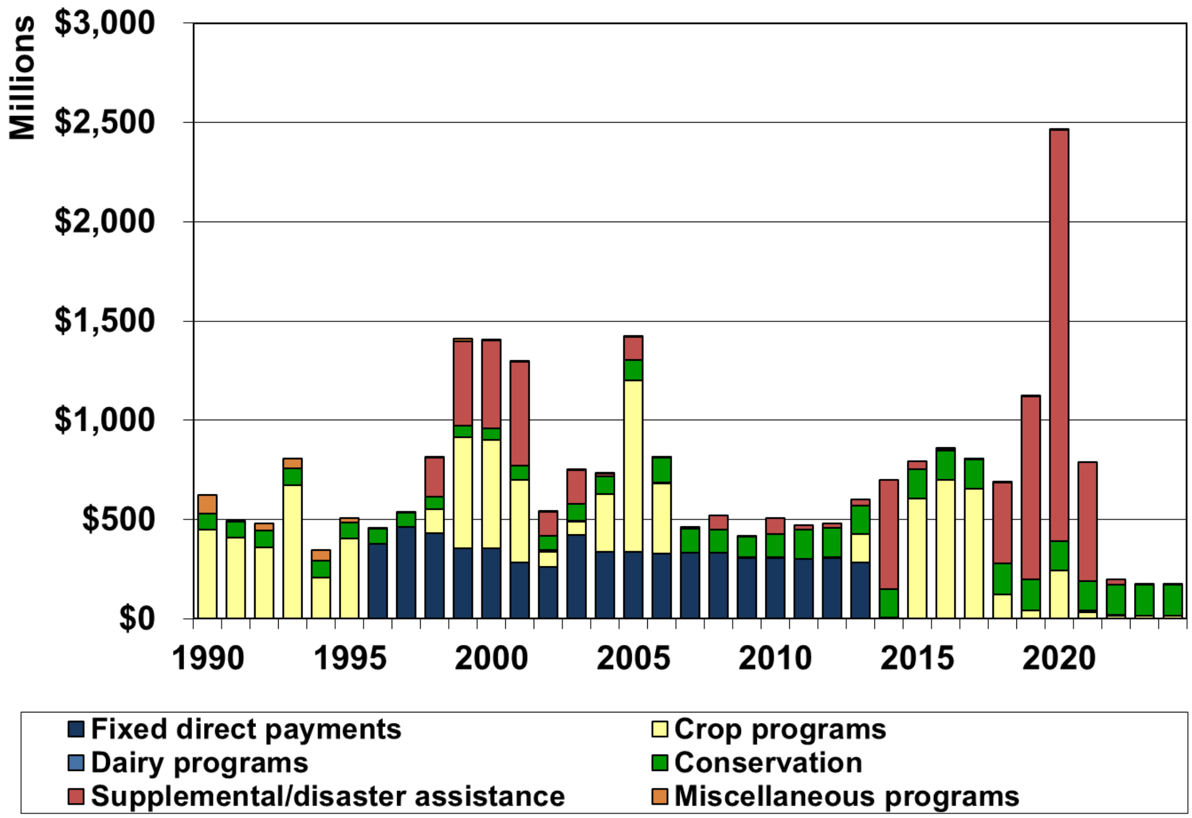
Source: USDA-ERS and author calculations.

Safety Net

Looking closer at government payments provides insight on the role of the federal safety net as well as management decisions ahead for producers. Relying again on data from USDA's Economic Research Service through 2020 and my projections for 2021-2024, the analysis shows government payments dropping from unprecedented levels in 2020 to minimal levels over the coming years (see Figure 2).

Government payments in Nebraska peaked at nearly $2.5 billion in 2020 as ad hoc COVID-19 relief rolled out primarily in the form of Paycheck Projection Program support and Coronavirus Food Assistance Program payments. That was more than double the payments of 2019, which itself was high due to the ad hoc relief in the form of Market Facilitation Program payments to combat losses related to on-going trade conflicts. Government payments dropped dramatically in 2021 as COVID-19 relief scaled back and they look to virtually disappear by 2022 except for the stable, predictable conservation payments of around $150 million per year.

Figure 2. Government Payments in Nebraska



Source: USDA-ERS and author calculations.

Amid the massive ad hoc payments over the past four years (trade assistance payments in 2018-2020 and COVID-19 relief payments in 2020-2021), the core part of the farm income safety net, namely commodity programs, have largely disappeared in relevance.

Commodity program payments were substantial in 2015-2017 as Nebraska producers received more than $600 million per year in Agriculture Risk Coverage payments for the 2014-2016 crop years. Those payments were based on moving average revenue guarantees that were built on strong prices prior to the 2014 Farm Bill sign-up that encouraged enrollment in ARC. As market prices fell, ARC payments were substantial, but the drop in market prices also meant the moving average guarantees also fell over time. By the 2017 crop year, the moving averages had fallen to the point that the guarantees were smaller and paid little to producers even as market prices remained lower.

Under the 2018 Farm Bill, producers had an opportunity to change their enrollment for 2019 and beyond and largely shifted toward PLC given the price projections at the time and the relative support of the ARC program versus the Price Loss Coverage (PLC) program. ARC and PLC payments in 2020 for the 2019 crop were substantial at more than $240 million (almost all PLC) but have dropped to around $50 million for 2021 and are projected at minimal levels going forward given current price levels and projections.

Future Directions

The future for farm programs will be impacted by the strength and stamina of the current commodity price cycle as well as the 2023 Farm Bill debate expected to begin in earnest in 2022. The debate will begin with baseline forecasts for commodity prices and farm program spending that will be updated in early 2022. Recent projections from FAPRI still show commodity program spending in the coming years. While my projections for farm program payments going forward are based on higher point estimates for market prices that would translate into little to no commodity program payments, FAPRI's baseline estimates and those of the Congressional Budget Office that are used to estimate the cost of legislation both rely on stochastic or probability-based analysis, meaning that, despite higher projected prices, there could also be outcomes with lower prices and, thus, government payments. After simulating hundreds of possible scenarios and averaging the results, the analysis will show projected payments even as it also shows average projected prices above the program trigger levels.

Thus, the baseline for farm program spending doesn't completely disappear even as it appears to be a fraction of what it was in previous farm bill cycles. That raises the possibility that farm programs could simply be extended in the next farm bill, given the baseline budget exists to pay for them, but is large enough to make substantial changes. There could be a push to strengthen the safety net and there have been calls for expanding the standing authority for disaster assistance programs such as the WHIP and WHIP+ programs (Wildfire and Hurricanes Indemnity Program) of the past few years. There will also likely be calls to reform or reduce spending on the commodity program and the broader safety net, including the federally subsidized crop insurance program. While not discussed here, the crop insurance program is considered the top safety net priority in many ag circles and is the largest component of the federal safety net at present given the higher market prices and reduced commodity program spending.

There will also be other competing priorities for farm bill spending, either limiting the amount of funding available for safety net priorities or challenging the current support for the safety net (with crop insurance as a primary target). Conservation spending has grown steadily over time before leveling off in the 2018 Farm Bill. The proposed Build Back Better legislation now mired in Congress would add billions to conservation spending targeted to climate practices and incentives. If the bill were to proceed through Congress in some form, the proposed conservation spending could effectively double the size of the conservation programs. If the current bill were to fail, the same ideas would likely be priorities for new or reshuffled farm bill spending during the overall farm bill debate. Add a continued focus on food assistance, rural development and broadband, and equity and socially disadvantaged producers, and there will be ample priorities battling for attention and funding during the coming debate.

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