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Downturn in Nebraska Net Farm Income Expected for 2005

Market Report	Yr Ago	4 Wks Ago	10/7/05
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$83.58	\$82.36	\$88.13
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	125.21	129.43	133.78
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	110.85	121.55	120.04
Choice Boxed Beef, 600-750 lb. Carcass	132.99	134.89	141.68
Western Corn Belt Base Hog Price Carcass, Negotiated	71.23	64.25	65.91
Feeder Pigs, National Direct 45 lbs, FOB	45.72	49.94	55.87
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	74.29	73.32	70.48
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	89.00	93.00	94.37
National Carcass Lamb Cutout, FOB	219.84	245.18	*
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Omaha, bu	3.16	*	*
Corn, No. 2, Yellow Omaha, bu	1.79	1.64	1.49
Soybeans, No. 1, Yellow Omaha, bu	4.88	5.54	5.06
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.80	2.63	2.39
Oats, No. 2, Heavy Minneapolis, MN, bu	1.61	1.71	1.88
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	117.50	117.50
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	37.50	37.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	52.50	52.50
* No market.			

What is obvious to most observers of the state's agricultural sector is that this year's income levels will not match those of a year ago. And in some cases, they won't even come close. However, we need to remember that 2004 represented a truly unique set of circumstances, where both the crop and the livestock sectors were enjoying phenomenal conditions. So, even though down from 2004, the 2005 net farm income forecast still looks relatively strong in the context of the past 10 years.

Using the recently released Economic Research Service, U. S. Department of Agriculture's revised income estimates for the years up through 2004, we can quickly gain some appreciation for the year-to-year variability that the state's agricultural production sector faces (Figure 1 and Table 1). Ranging from less than \$1 billion in 2002 to nearly \$3.5 billion in 1996 and again in 2004, Nebraska's aggregate farm income experiences swings that by comparison, would make this state's abrupt weather shifts look mild! In fact, many non-farm households would be economically devastated by such "feast-to-famine" income flows from one year to the next. The fact that this state's agricultural producers continue on from year to year in this highly volatile economy is a tribute to their managerial abilities and resolve.

Looking more specifically at 2005, the preliminary net farm income forecast is about 20 percent below the near-record 2004 income level, coming in at \$2.75 billion. But, while this represents a considerable drop from the previous year, it still is a level more than 30 percent above the previous 10-year average.

The downward shift in 2005 income over the previous year is most largely being felt in the crop side of the industry. Crop yields are lower this year for many areas of the state, while major crop commodity prices have plunged for all producers. The result is that the value of total crop

output projected for 2005 is 15 percent lower than 2004. Compounding the effect has been recent jumps in crop production input costs, primarily in the form of higher energy and fertilizer costs. Direct government payments will compensate partially for lower crop prices, approaching nearly \$1 billion for Nebraska. And the fledgling, but rapidly growing ethanol industry in the state will also provide some economic support.

By contrast, the state’s livestock sector remains in a more robust economic situation this year, and will enjoy favorable net annual earnings. Lower feed-grain costs have benefitted the livestock producers, which represents a counter-cyclical aggregate income effect to the lower crop prices received by crop producers. For this year at least, the livestock component of the industry will buoy up the aggregate net farm income levels. But here also, the ever-changing patterns of domestic and international demand for meat products create elements of economic uncertainty down the road.

Overall, it appears we are in a very dynamic period in which a broad set of structural forces are influencing the future profitability levels of this state’s agricultural pro-

duction sector. The likelihood of continuing energy price increases will ripple throughout our petroleum-dependent agricultural production sector; and income levels will be pushed downward by sharp upturns in key input costs. However, this state’s bio-fuel industry may be one positive aspect of this new emerging economy. Upcoming negotiations on a new federal farm program will face serious budget constraints that may seriously erode the safety-net features of the current program. And finally, the growing volatility of international markets for agricultural products on both the supply and demand sides of those markets will compound risks for producers. Combined with the ongoing weather and cyclical patterns, these forces create a complex “soup” of future scenarios that seem to suggest more muted and volatile income flows for Nebraska’s agricultural production sector in the years ahead.

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Table 1. Net Farm Income Series for Nebraska, 1995-2005

Year	Ag Sector Output			Direct Government Payments	Net Farm Income
	Crops	Livestock	Total		
----- Million Dollars -----					
1995	3,141	5,328	9,078	507	1,662
1996	5,187	5,393	11,233	389	3,466
1997	4,207	5,624	10,507	455	2,023
1998	3,875	5,095	9,783	815	1,816
1999	3,080	5,359	9,281	1,412	1,707
2000	2,794	5,889	9,503	1,407	1,398
2001	3,490	5,946	10,334	1,298	1,851
2002	3,129	5,710	9,713	539	814
2003	4,120	6,907	12,117	726	2,807
2004	4,746	7,429	13,378	828	3,459
1995-2004					
Average	3,777	5,868	10,493	837	2,100
2005					
Forecast	3,995	7,650	12,900	960	2,750

Source: For years 1995-2004, ERS/USDA Briefing Room - <http://www.ers.usda.gov/data/farmincome/finfidmv.htm>
 Forecasted 2005 based on mid-year national and state conditions and short-run expectations.

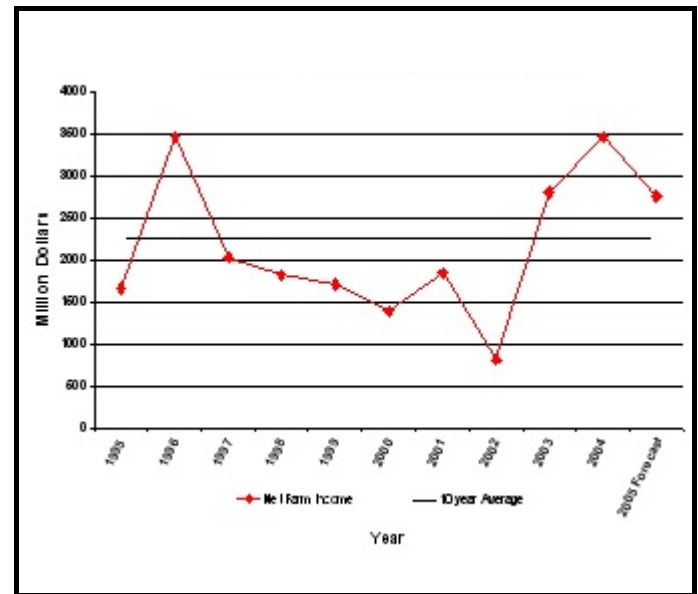


Figure 1. Net Farm Income for Nebraska, 1995-2005