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The Nebraska Net Farm Income: Patterns and Trends

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CORNHUSKER ECONOMICS

The Nebraska Net Farm Income: Patterns and Trends

Market Report	Yr Ago	4 Wks Ago	6/8/07
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$80.60	\$96.51	\$90.89
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	130.48	129.80	122.36
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	113.13	113.82	123.95
Choice Boxed Beef, 600-750 lb. Carcass	154.27	160.08	152.72
Western Corn Belt Base Hog Price Carcass, Negotiated	73.14	69.46	70.34
Feeder Pigs, National Direct 50 lbs, FOB	49.16	69.38	59.00
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	72.23	76.93	73.38
Slaughter Lambs, Ch. & Pr., Heavy, Woolled, South Dakota, Direct	80.00	*	101.75
National Carcass Lamb Cutout, FOB	212.17	245.82	254.91
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu	4.34	4.51	5.08
Corn, No. 2, Yellow Omaha, bu	2.05	3.41	3.93
Soybeans, No. 1, Yellow Omaha, bu	5.56	7.11	7.70
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.98	5.38	6.54
Oats, No. 2, Heavy Minneapolis, MN, bu	2.15	2.65	3.03
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	130.00	135.00	136.00
Alfalfa, Large Rounds, Good Platte Valley, ton	65.00	92.50	*
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	55.00	90.00	*
* No market.			

Historical Perspective: The past decade of net farm income is one of considerable year-to-year volatility. According to recently revised United States Department of Agriculture (USDA) estimates, Nebraska's aggregate income levels have ranged from \$814 million in 2002, to a historical record high of over \$3.5 billion in 2004 (Table 1 on next page). However, for the past four years, the annual totals have been considerably above the decade average, largely the result of a considerable surge in the dollar value of crop and livestock output.

In 2006, total dollar receipts from crops and livestock were nearly \$13.4 billion, the highest on record and about 20 percent above the most recent ten year average. A late year surge in major crop prices contributed in part to this value run-up. Yet a considerable portion of crop sales was forward contracted, or had already occurred before these crop price shifts occurred.

This fact contributed to a more modest impact on aggregate net farm income than what may have been perceived when harvest-time crop price levels shot up rapidly. However, the 2006 income level was influenced far more by the considerable reduction in direct farm program payments flowing into Nebraska's agricultural sector in 2006. As noted in Table 1, that decline was more than \$600 million from the 2005 contribution, and the overall level was about 15 percent below the decade average. One interesting implication of this change is that direct government payments constituted only 30 percent of the 2006 aggregate net farm income, as compared with an average of 45 percent for the decade 1997-2006. In short, profitability in the agricultural sector in 2006 was more a function of market forces than political forces operating through federal farm programs—a healthy change.

Forecasted 2007 Nebraska Net Farm Income

On the current wave of dramatic expansion of the ethanol production in America's heartland, farm sector income in Nebraska is expected to increase markedly in 2007, but not without ongoing adjustments and profit variations across sub-sectors. Aggregate net farm income is forecasted to approach the previous record high, totaling nearly \$3.5 billion, a 27 percent increase over the 2006 income level. Expanded crop production, particularly corn acreage, combined with higher crop price levels

can be expected to increase crop receipts by 35 percent over 2006 levels. And while livestock receipts will likely remain close to 2006 levels, the combination of crop and livestock receipts will likely push the state's agricultural sector's total output to a record \$14.5 billion—more than 30 percent above the annual average of the previous decade.

Weather conditions, a perennial unknown for a state like Nebraska, have improved somewhat going into the heart of the crop season. Drought effects have dissipated across much of the state, although full recovery from multi-year drought has not, and will not happen this year for western areas of the state. This, in combination with irrigation water limitations in some regions, will still be problematic for crop production in parts of the state. Nevertheless, 2007 income prospects at mid-year look particularly strong for the crop sector.

For the livestock sector, the associated countervailing effect of higher feed input costs will reduce 2007 profit margins somewhat. However, the impacts will vary by livestock group.

The cattle industry will continue to transition as cattle feeders adjust to a heavier reliance on distiller's grains (from ethanol production) in livestock rations. Interestingly, the local availability of this ethanol by-product, and hence, lower transportation costs, gives the state a distinct competitive advantage over the other major cattle feeding states. The early 2007 cattle-on-feed numbers suggest that Nebraska placements are growing, while these other states were showing some declines. This may well be an early indication of some geographic shift of cattle production into Nebraska, and with it an expanding agricultural industry.

The state's hog and poultry sub-sectors are not nearly as large as the state's cattle industry; and are not as adept at using the ethanol by-products. For them, 2007 could represent some sizable reduction in profit margins. But nevertheless, there will be profit potential even with high feed input costs, as the domestic economy and export markets remain strong. Moreover, the rising demand for meat products worldwide may bode well for the entire livestock sector of the state.

Longer Term Income Outlook

Economic conditions are such that agricultural income forecasts beyond the current year are basically only an opinion based on rather incomplete analysis and a host of unknowns that could dramatically alter the economic outcomes. That said, however, there is no question that the ethanol phenomenon impact has caught the U.S. farm sector by storm, and Nebraska lays in the very center of that storm. Its strong prominence in corn production (ranking third in the nation) combined with the

Table 1. Net Farm Income Series for Nebraska

Year	Ag Sector Output			Direct Government Payments	Net Farm Income
	Crops	Livestock	Total		
----- Million Dollars -----					
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	1,408	1,440
2001	3,490	5,946	10,334	1,298	1,894
2002	3,125	5,710	9,756	539	857
2003	4,057	6,907	12,088	726	2,785
2004	4,698	7,428	13,374	729	3,542
2005	3,942	7,697	12,928	1,421	2,667
2006 Preliminary	4,152	7,843	13,383	812	2,700
1997-2006 Average	3,742	6,350	11,094	962	2,143
2007 Forecast	5,600	7,800	14,500	600	3,450

Source: For years 1997-2006, ERS/USDA Briefing Room - <http://www.ers.usda.gov/data/farmincome/finfidmv.htm>
Forecasted 2007 based on early-year national and state conditions and short-run expectations.

complement of being a major cattle feeding state (ranking second in the nation) to effectively utilize the ethanol by-product, makes this state ideally situated to capture the economic opportunities of this rapidly developing industry.

For the immediate future, three to five years, this will provide a strong economic undercurrent to this state's agricultural sector that could very well lift agricultural incomes to new highs. Despite expected reductions in direct government payments in the new 2008 Federal Farm Bill (now being drafted), Nebraska's agricultural income levels may well move into a succession of record high levels for the next few years, barring unforeseen economic shocks. Given USDA forecasted crop commodity price levels, production of the state's major crops should remain profitable. The livestock industry will continue to make adjustments as higher production costs are passed on to the final consumer in the form of somewhat higher meat prices. Moreover, it is quite possible that the state's cattle industry could even experience some future production expansion as the economic synergism of corn-based ethanol production, interfaced with by-product use in cattle production, gives Nebraska a regional comparative advantage. In the process, the relative economic importance of Direct Federal Farm Program payments will continue to decrease – perhaps falling below 10 percent of total aggregate net farm income.

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