Center for Farm Financial Management
UNIVERSITY OF MINNESOTA

Testimony of

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On behalf of the

Center for Farm Financial Management
University of Minnesota

On the

A 2022 Review of the Farm Bill: Economic Perspectives on Title 1 Commodities and Title 11 Crop Insurance

Before the

House Agriculture General Farm Commodities and Risk Management Subcommittee

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Introduction

Chairwoman Busta, Ranking Member Scott, and members of the subcommittee, thank you for the opportunity to speak with you today. I am Bob Craven, Extension Economist and Associate Director of the Center for Farm Financial Management at the University of Minnesota. The Center has a long history of providing decision support tools and training to agricultural producers and the professionals that support them. One of our major efforts is farm benchmarking to help producers better understand their financial performance and make better decisions. We collaborate with farm business management programs in over 20 states to provide tools and educational support. These programs work with individual producers on their record keeping, planning, and analysis of those records. Currently, the analyses from producers in 12 of these states are then loaded anonymously into the FINBIN database (finbin.umn.edu) -- the largest public searchable database of farm financial information in the U.S. There are currently over 3,300 producers in the database with data that spans over 20 years. The FINBIN data is the basis for my presentation today. Please note we do not have 2021 data from all the states yet, so much of what you will see for 2021 is from Minnesota farms.

Farm Income

Chart 1. Median Net Farm Income Trend

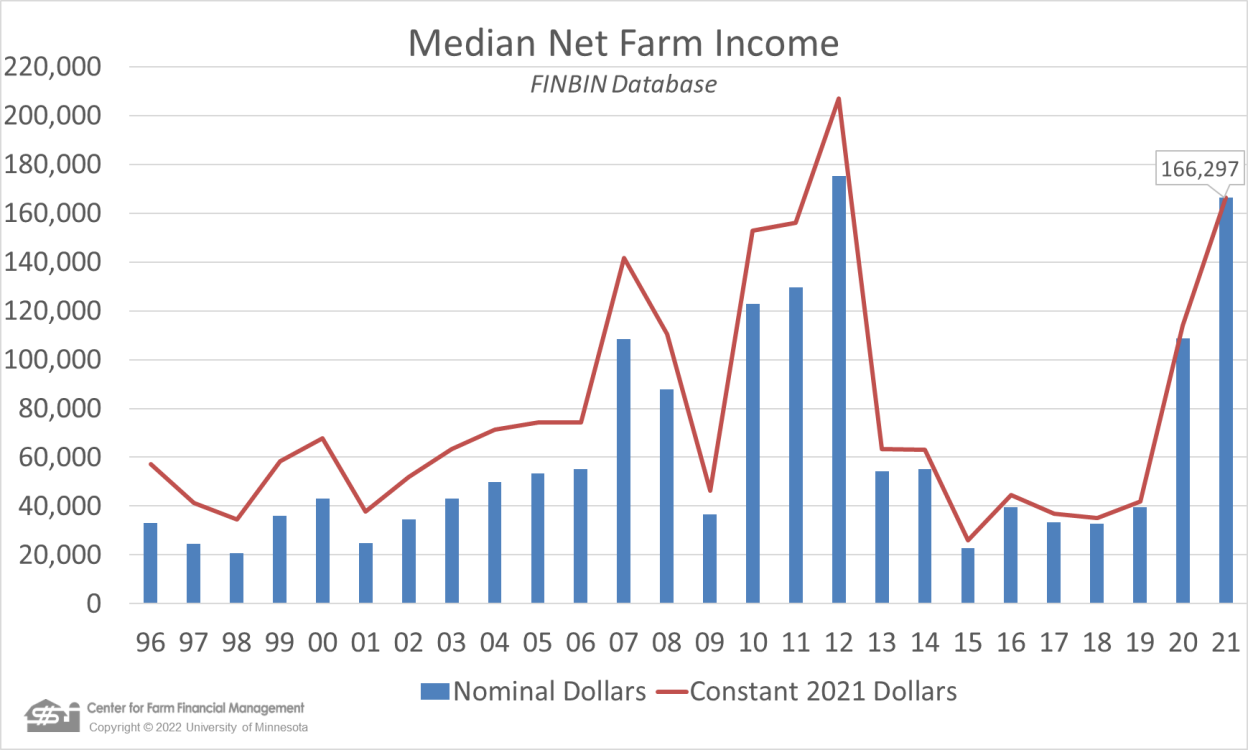

Chart 1 shows the median net farm income over the past 26 years. Net farm income is the amount available for family living, taxes, and net worth growth. 2013 through 2019 represented a period of low net farm income. The average rate of return on assets (ROA) during that period was 2.5%. Under 4% is considered a weak ROA. 2020 and 2021 saw a significant improvement in profitability. The median income in 2021 was $166,297, up from $108,781 in 2020. The ROA in 2021 was much improved at 11%.

Chart 2. Net Farm by Farm Type

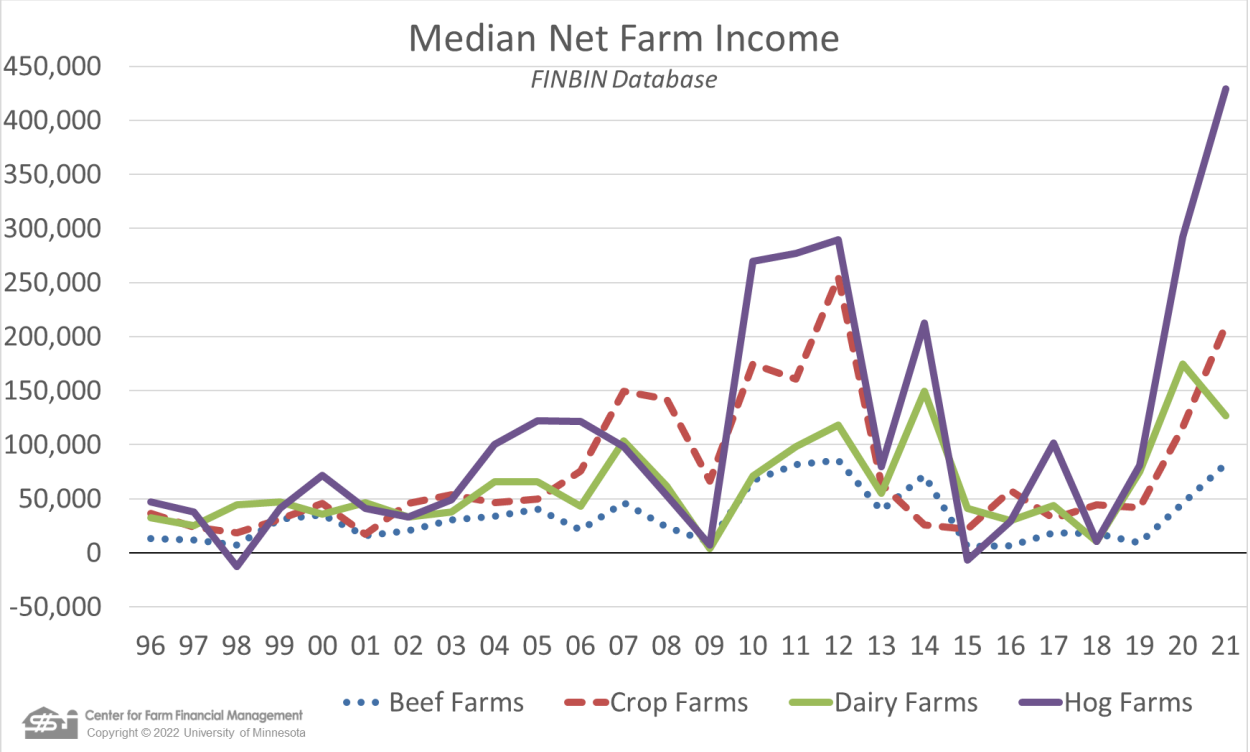

Chart 2 provides the net farm income by different farm types. As you can see, hog farms had an excellent year in 2021. Crop and beef farms also had increased profitability over the past two years but the beef farms in our database always struggle with profitability. Dairy farms did well in 2020, but their net income declined slightly in 2021.

Liquidity

Chart 3. Working Capital as a Percent of Gross Income

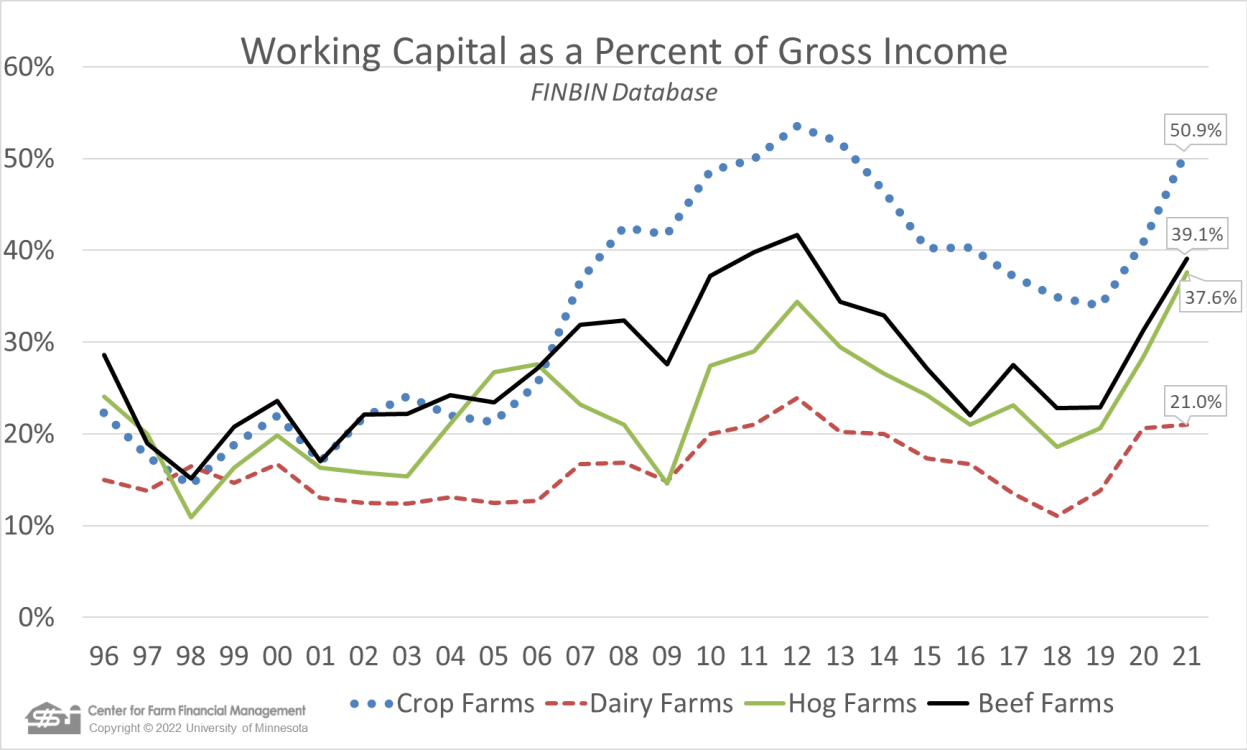

Chart 3 shows working capital as a percent of gross income. This is a measure of the liquidity or the ability of the business to meet short term financial obligations. It is the first line of financial defense in low income years. The higher the percentage, the better. For this measure, over 30% would be considered a strong working capital position. Crop, beef and hog farms all improved their liquidity position substantially over the past two years. Dairy farms showed only a slight increase in 2021 but are in a much stronger position than they were at the end of 2018.

Government Payments

Chart 4. Government Payments versus Average Net Farm Income

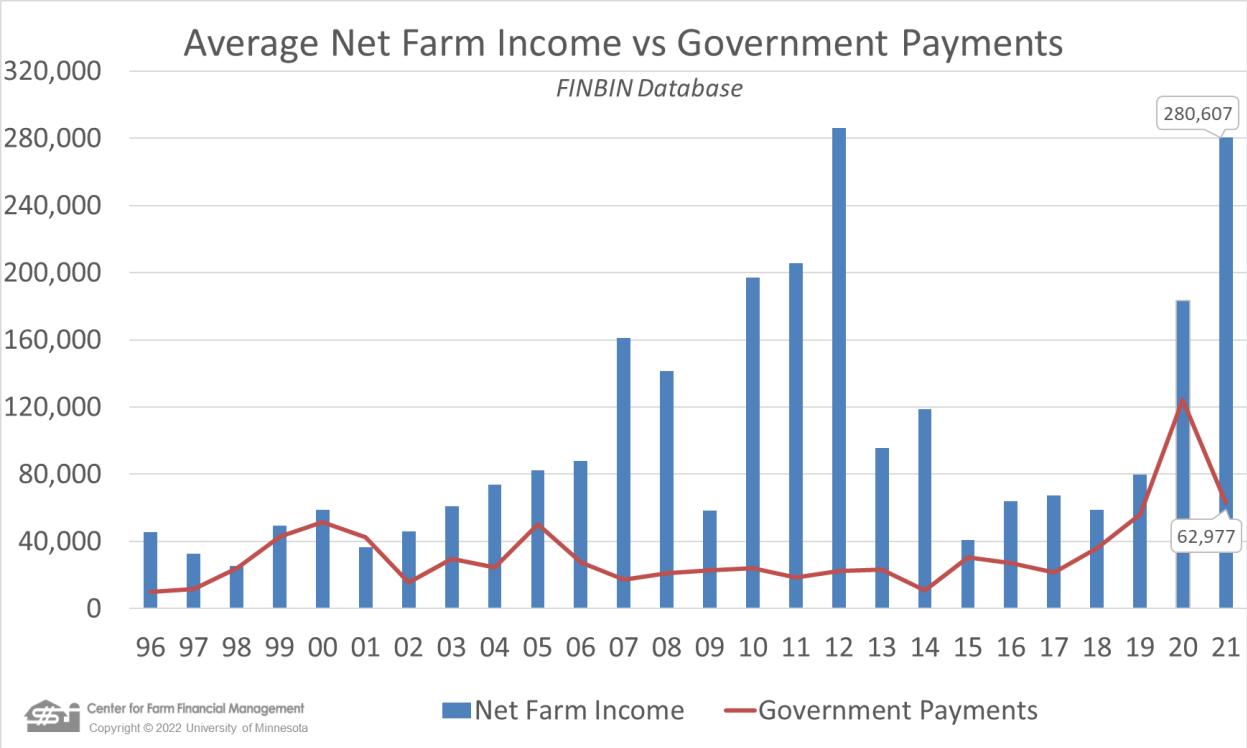

Chart 4 shows average net farm income displayed by the blue bars in the figure. We are using averages here. Median values were provided in the charts above. Government payments are displayed by the red line. We have included PPP loan forgiveness in government payments which has had a significant impact on the payments for 2020 and 2021. From 2007 to 2013 there was little variability in government payments. Many of the government payments at that time were from direct programs. ARC and PLC were first introduced in 2014. 2015 through 2019 were very low income years for Midwest farmers, so in those years government payments made up a substantial percent of net farm income. This chart shows that 2020 would have also been a low income year had it not been for Covid related ad-hoc payments.

Chart 5. Government Payments by Program Type

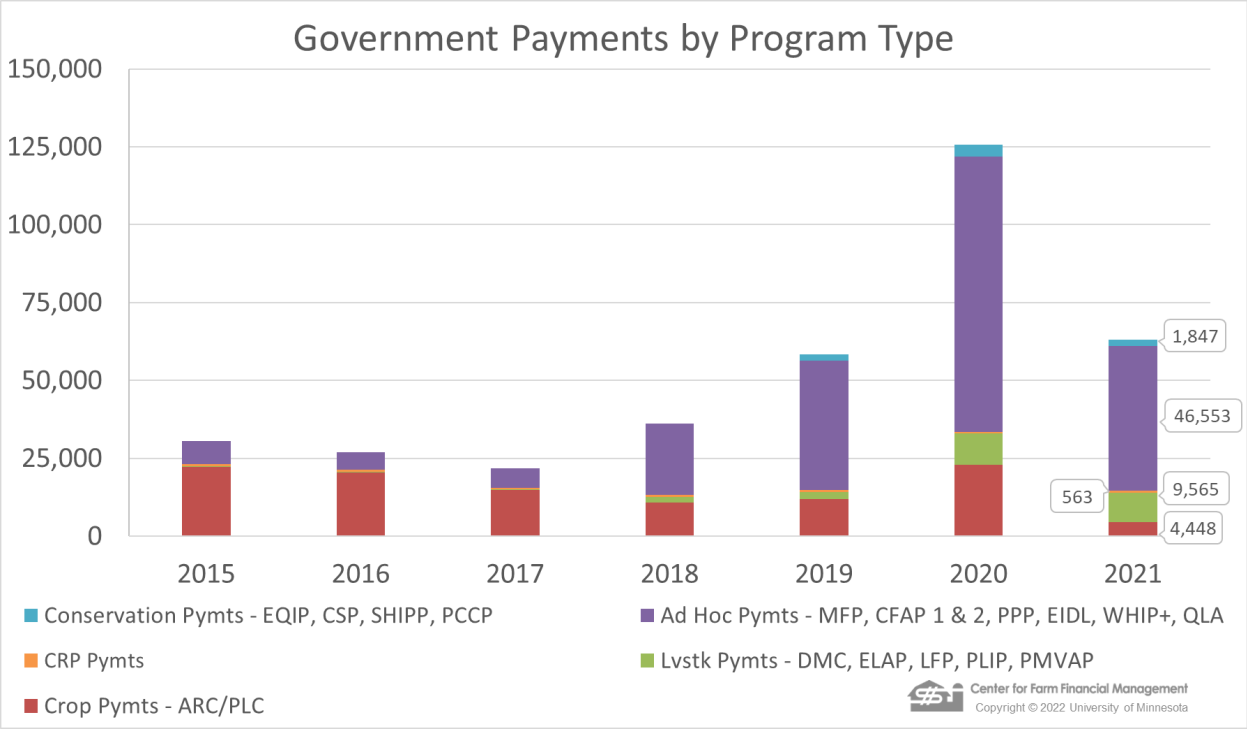

Chart 5 shows a breakdown of government payments by type. The maroon portion of the bars represent ARC and PLC payments. These payments lag a year from the data they are based on. The purple bar represents what I have termed Ad Hoc government payments. In 2020 and 2021 this includes PPP loan forgiveness. Prior to 2018 this category also included the conservation payments. Certainly, ad hoc payments and PPP were a significant portion of support from 2018 through 2021. The low ARC/PLC payments in 2021 reflect good yields and commodity prices in 2020. It was a year of excellent profits and ARC and PLC payments were not triggered for most of these producers.

Chart 6. Government Payments by Size of Farm

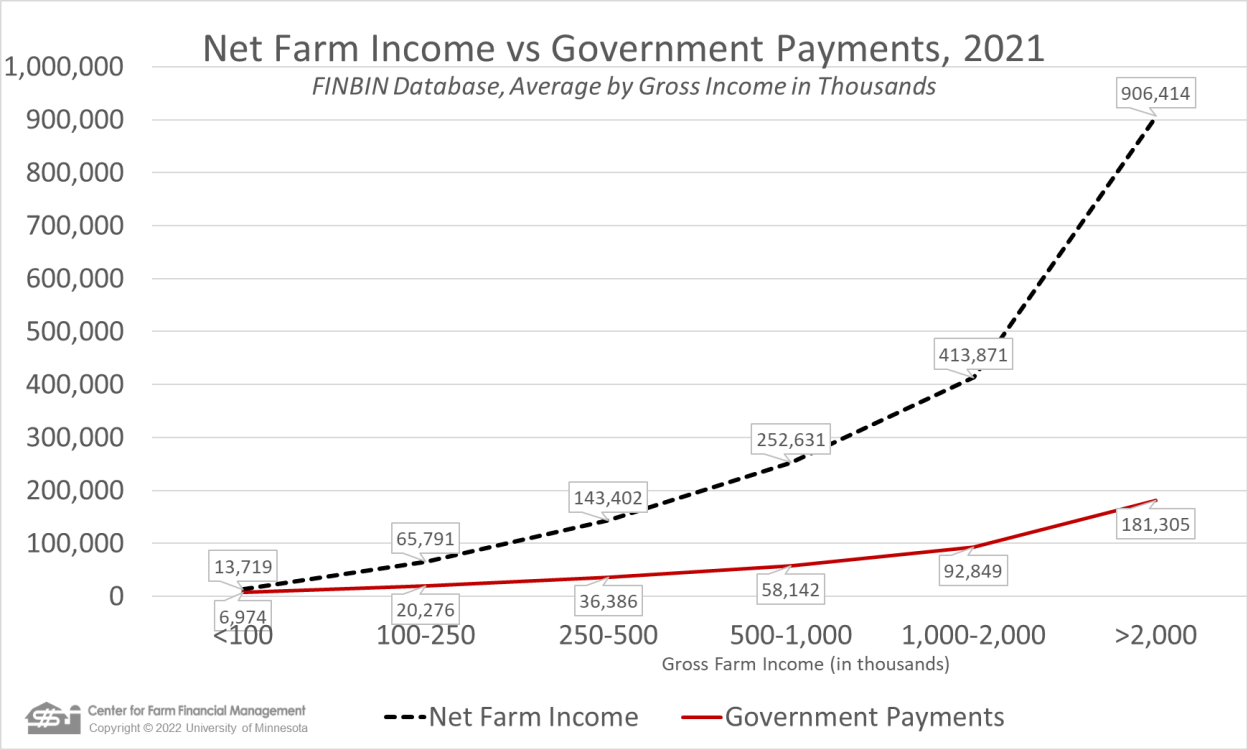

Chart 6 shows net farm income and government payments by different farm size. The lower axis is gross farm income in thousands. The government payments increase as farm size increases, but as a proportion of net farm income it decreases. In 2021, for a farm that grossed $100-250,000, government payments comprised 31% of net farm income. For operations grossing over $2,000,000 it is only 20%.

Conclusion

Our data illustrates that traditional commodity programs have not provided the major part of the support to react to shocks that have hit commodity agriculture in recent years. Ad Hoc programs filled in the gaps. In recent years both Title 1 Commodity and ad hoc programs have been an important safety net for agricultural producers.

If you have additional questions about the data in FINBIN, don't hesitate to reach out to me at rcraven@umn.edu. Thank you for your attention.