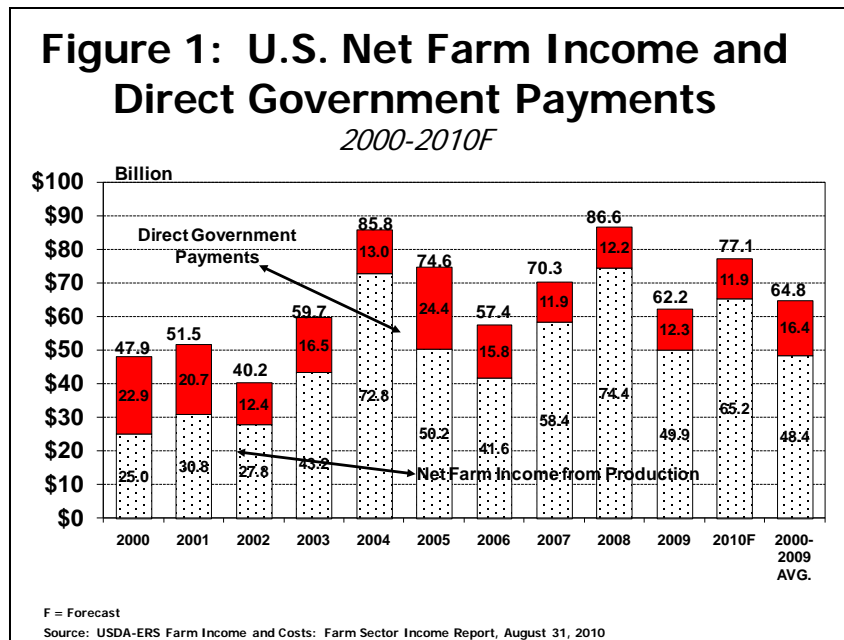


**U.S. Net Farm Income Forecast for 2010, Up 24 Percent
Production Costs Up Slightly from 2009**
Jose G. Peña, Professor and Extension Economist-Management

After last year's financially difficult year, USDA's August estimate of U.S. net farm income for 2010 at \$77.1 billion is up \$14.9 billion (24 percent) from 2009, but down \$9.5 billion (10.9 percent) from 2008's record high of \$86.6 billion. The 2010 forecast is \$12.3 billion above the average of \$64.8 billion in net farm income during the past 10 years (2000-2009) (See Figure 1).

If realized, the \$77.1 billion forecast for 2010 will be the third largest farm income earned during the last 10 years. Farm income exceeded \$80 billion in 2004 and 2008 and topped \$70 billion in 2005 and 2007. The drop in 2009 was influenced by a significant drop in



commodity prices after record or near record highs in 2008. Increased input production costs carried over from 2008s highs also eroded earnings in 2009. Commodity prices have improved since then. Input costs in 2010 increased just slightly over 2009, but improved commodity prices, especially during the 2nd half of 2010, improved at a higher rate than input costs.

According to USDA's August 2010 estimate, after declining more than 20 percent in 2009, all three measures of farm sector earnings are forecast to rise in 2010. Net cash income is expected to rise about 24 percent, to a level above its previous 10-year average; net value added, at \$127.3 billion, is expected to be up \$15.2 billion from 2009 and remain 17.7 percent above its 10-year average; and net farm income, while forecast to be \$9.5 billion below 2008's record, shows a rebound from 2009, a year in which demand for agricultural products fell worldwide due to the global recession.

In 2008, prices for both farm commodities and farm production inputs spiked in the first half of the year, plunged in the latter half, but remained high by historic standards. Increased demand for corn for ethanol production moved commodity prices higher and a relatively weak dollar attracted increased exports. Ending stocks of many commodities dropped, but commodity prices trended downward late in 2008 as national and world economies softened. High input costs and weakened markets extended into 2009, but the situation in the agricultural economy showed a significant improvement in 2010.

Crop prices have improved after weakening in 2009. Price strength stems from increased export demand as the global economy recovers and global supply concerns in grains and cotton. Table 1 provides a comparative summary of U.S. price estimates for selected commodities.

Commodity	2008 calendar average	2009 calendar average	January 2010 WASDE	September 2010 WASDE
Corn, \$/bu.	4.78	3.74	3.40-4.00	4.00-4.80
Cotton, c/lb.	60.79	48.88	57.0-64.0	63.0-77.0
Soybeans, \$/bu.	11.31	10.05	8.90-10.40	9.15-10.65
Wheat, \$/bu.	8.02	5.30	4.70-5.00	4.95-5.65
Hogs, \$/cwt	47.65	41.98	44.00-48.00	55.00-56.00
Steers, \$/cwt	92.27	83.25	86.00-93.00	93.00-95.00
Milk, \$/cwt	18.33	12.83	16.20-17.09	15.85-16.85

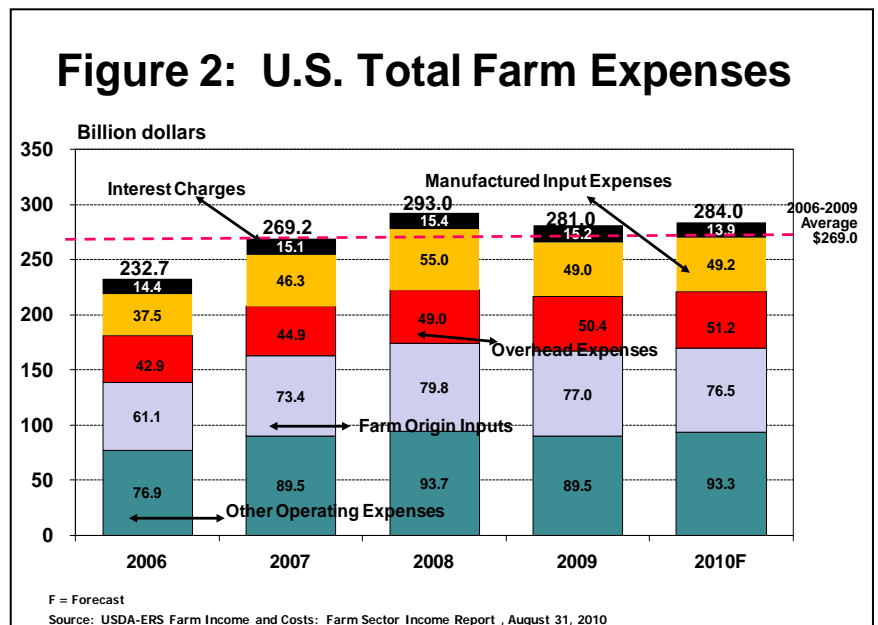
Source: World Agricultural Supply and Demand Estimates (WASDE)

There are indications that the U.S. and global economies are gradually recovering from the worst recession since the Great Depression. A specific beneficiary of improving economic conditions is the livestock sector. While corn prices are up and may remain strong as a result of continued strong demand for ethanol production and exports, cattle numbers are down. Increased exports, growing domestic demand, and smaller supplies provide underlying support for higher cattle prices. Even with higher corn prices, feed costs remain manageable in relation to current cattle prices.

Production Costs Up One Percent

USDA's August estimate of production expenses in 2010 estimates an increase of about \$4.0 billion (1.0 percent) from 2009, but down 3.0 percent from 2008's record high of \$293.0 billion (See Figure 2). The increase in gross income will be larger than the increase in costs leaving all measures of income and output above 2009.

According to USDA, crop receipts are forecast to increase a modest 0.4 percent with soybean and cotton receipts



expected to show large gains while corn receipts record the largest annual decline.

Livestock receipts are expected to increase \$17.7 billion in 2010, led by a 26-percent surge in cash receipts for dairy.

Increased Financial Risk

Meanwhile, direct government payments are expected to total \$11.9 billion in 2010, down 3.2 percent from the \$12.3 billion in 2009, but 27.4 percent below the 10-year average (2000-2009) of \$16.4 billion.

Direct and Counter-Cyclical Program (DCP) payments and the Average Crop Revenue Election (ACRE) program are forecast at \$4.81 billion for 2010, about a four percent decrease from the average of the previous five years. Countercyclical payments are forecast to decrease by 79 percent in 2010, from \$1.17 billion in 2009 to \$243 million in 2010. Strong cotton prices are responsible for this projected decrease. Only upland cotton and peanuts are projected to receive countercyclical payments in 2010.

The decrease in total direct government payments indicates that the farm sector is carrying more financial risk, even with the modest market increase in commodity prices relative to higher input costs.

Appreciation is expressed to Dr. James Welch, Extension Economist for his contribution to review of this article.