Federal Reserve: Farm Income May Drop in 2013

OMAHA, Neb. (AP) — The Federal Reserve predicts U.S. farm income could decline in 2013, but it depends upon how long the drought continues.

Roughly two-thirds of the nation has been in a severe drought since last summer. The Federal Reserve Bank of Kansas City, Mo., said Thursday that if it continues, prices of corn and other crops would remain volatile because of tight supplies. But if normal weather conditions return, crop prices would decline and lead to lower farm incomes.

The USDA predicted net farm income in 2012 would reach $114 billion because of the combination of high crop prices and significant crop insurance payments because of the drought. That total would be the third-highest farm income on record even though it's 5 percent lower than the previous year.

The Federal Reserve's report looks at numerous factors that will influence farmers' financial health and how much farmers will make in 2013.

The consequences of the drought go beyond dollars and cents. Many farmers have said they would prefer to be able to grow and harvest their crops even if it means lower net income.

The 10th Federal Reserve District covers Kansas, Nebraska, Oklahoma, Wyoming, Colorado, northern New Mexico and western Missouri.

The Federal Reserve said farm profits may wind up lower this year, but that would help livestock producers because their feed costs would be lower. In the past two years, livestock producers have struggled to earn a profit because of high feed costs and the drought.

Current market prices suggest corn and soybean prices could be 10 to 15 percent lower by next fall. That would happen if weather conditions improve and farmers harvest a strong corn crop.

Corn prices have been high for several years because supplies remain tight amid strong demand from the ethanol industry, livestock producers and international buyers.

But the U.S. Drought Mitigation Center says the drought has shown few signs of easing. The latest weekly update shows that most of the central and western United States remains in drought.

The National Weather Service predicts that the drought is likely to continue in Plains and Western states at least through the end of April. And climatologists have said an abnormally large amount of snow would have to fall across the region to end the drought this winter.

The Federal Reserve said that if the drought continues into this year's growing season, farm income will likely be strong again. In drought, crop supplies would remain tight, so prices would be high.

Most farms are in good financial shape to withstand the drought because they have little debt and farmland values have increased.

The Federal Reserve said the current debt-to-asset ratio for farmers is 11.7 percent. That's much better than in the 1970s when that ratio was 20 percent. The higher debt levels in the past contributed to the farm crisis of the 1980s.

But the Fed cautioned that much of today's farm debt may be concentrated at a small number of farms, so farms with high debt could still have problems. For instance, about 6 percent of Kansas farms had amassed debt equal to 70 percent of their assets.