Home > Farm-income losses hurting Midwestern states' budgets; no turnaround for sector in sight

Carolyn Orr

The U.S. Department of Commerce reported that real gross domestic product increased 2.3 percent nationally between 2016 and 2017, but agriculture subtracted from overall economic growth in every state in the Midwest — most notably Iowa, Nebraska and South Dakota.

It’s a big deal in Nebraska when our farmers are hurting,” says Tony Fulton, the state’s tax commissioner and a former state legislator. Last year, Nebraska had to close a nearly $1 billion shortfall for the biennium that began July 1, and lagging tax collections opened an additional $200 million shortfall.

In neighboring Iowa, Rep. Pat Grassley, chair of the House Appropriations Committee, says his state’s current fiscal challenges are the result of a downturn in the farm economy and its ripple effects. “It isn’t just your corn and soybeans and your hogs and cattle and your chickens,” Grassley says. “It’s the fact then you have a plant that makes a tractor. If [the plant] lays off people, those layoffs impact you as well.”

David Roederer, the state’s budget director, provides the eye-catching numbers behind the dip in economic activity: “The average total net farm income in Iowa from 2006 through 2010 was $3.7 billion. From 2011 through 2014 it averaged $7.6 billion, and has since dropped below $2.5 billion.”

Ernie Goss, an economics professor at Creighton University, says net farm income in the Midwest has been falling since 2013 and, for many states, contributed to less-than-expected sales tax revenues. “Farmers are just not purchasing,” he adds, “and that shows up in the economy.”

A turnaround doesn’t appear in sight, at least over the near term: U.S. Department of Agriculture deputy secretary Stephen Censky reports that, nationally, farm income is expected to fall 6.8 percent in 2018 (income levels have dropped nearly 50 percent since 2013).

Why is the Midwest’s farm economy struggling? For starters, commodity prices have fallen due to record production and a glut of corn, wheat and soybeans on the global market. At the same time, the costs of production (fuel, loan interest, labor, etc.) have risen. In response, farmers have reduced spending on inputs while also tapping savings, using off-farm income, and/or borrowing more.

Farm debt has increased by 22 percent since 2013 and has reached levels not seen since the 1980s.

Nathan Kauffman, assistant vice president of the Federal Reserve Bank of Kansas City, notes that agricultural lenders continued to have high demand for loans, even as repayment rates have deteriorated. Given all these challenges, he says, farm spending has fallen at an accelerated pace.

States whose agricultural economies are tied more to dairy haven’t had as many highs and lows over the past decade, says Mark Stephenson, an economist with the University of Wisconsin. Still, the dairy industry is clearly facing struggles as well. Federal court data shows the Western District of Wisconsin, which covers more than half the geographic area of the state, had 28 Chapter 12 (family farm) bankruptcy filings in 2017, the highest number in the country. The Eastern District of Wisconsin had 17 cases and the Minnesota District had 19.

Farmers are trying various ways to make it through this difficult period — for example, planting more niche and organic crops, accepting wind turbines on their property, relying on off-farm income, or raising chickens or hogs on contract (this latter strategy, though, requires taking out loans of up to $1 million). According to Jay Rempe, an economist for the Nebraska Farm Bureau, a growth in livestock processing also should help stabilize the agriculture
sector.

Even with these efforts, the stagnant farm economy doesn't bode well for the region's state economies for the next few years.

By:
Monday, March 26, 2018 at 12:02 PM

Attachment

Stateline Midwest: March 2018  2.88 MB

Tags:
- Iowa
- Nebraska
- South Dakota
- farm economy
- farming

Policy Area
- Economics and Finance
- Economic Development and Trade
- Rural Development

Source URL:
http://knowledgecenter.csg.org/kc/content/farm-income-losses-hurting-midwestern-states-budgets-no-turnaround-sector-sight

Links
[3] https://bea.gov/iTable/iTable.cfm?reqid=51&step=51&isuri=1&amp;5114=a&amp;5102=1#reqid=51&amp;step=51&amp;isuri=1&amp;5114=a&amp;5102=1
[12]