

Contribution of Agriculture to Wisconsin

Trends in Wisconsin Agriculture Farm Financials

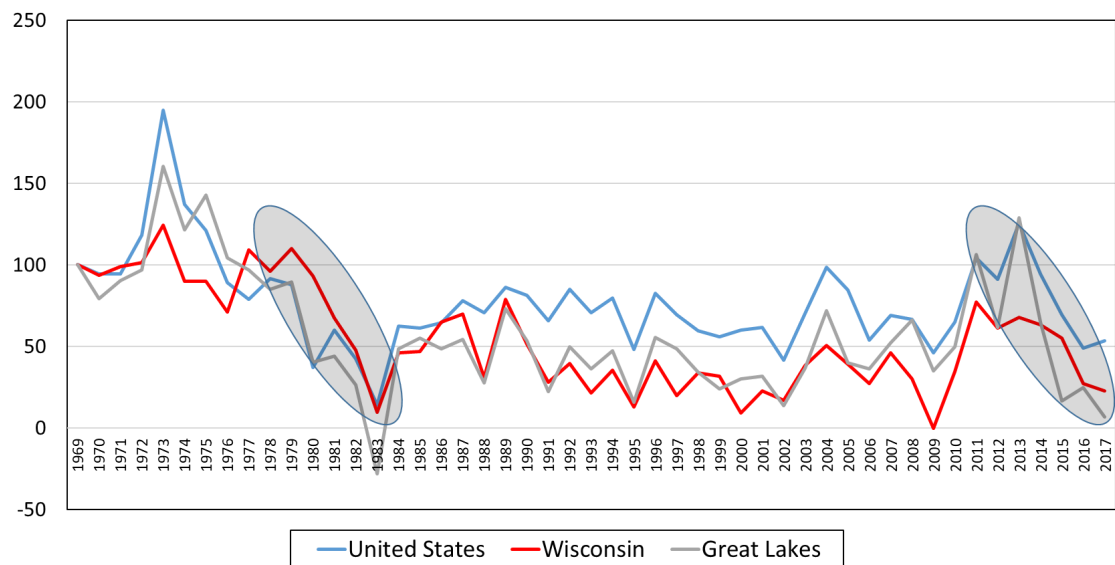
The accelerating rate of Wisconsin farm bankruptcies has spurred renewed interest in the financial health of farms not only in Wisconsin but across the U.S. While there are many ways to measure the financial health of farms (or any business), such as debt to asset ratios, a common measure is to track net farm income over long periods of time to look for patterns. Using data from IRS Form F data the rate of growth in *net farm income* (adjusted to 2017 dollars, thus removing the effects of inflation) for Wisconsin, the Great Lake States and the United States is plotted in Figure 1. As a complement to net farm income the growth index for *farm earnings* in Figure 2. The growth index starts in 1969 and goes through 2017, the most current year of available data.

There are three general observations: (1) growth in net farm income has been flat for the past 40 years, (2) the inherent instability in net farm income is readily apparent, and (3) most “down” years are followed by an “up” year. This latter point is particularly important for understanding the current condition of farming in Wisconsin. Given the tendency of “down” years to be followed by a recovery year, most farmers are positioned to plan for and adapt to these generally year to year swings in net farm income. But there are two periods of sustained “down” years, the period leading to the farm crisis of the early 1980s and most recently (for Wisconsin 2013 to 2017).

Net farm earnings is defined as total revenues from all sources minus total expenditures.

Farm earnings is defined as wages, salaries, proprietor income and retained profits flowing to workers including the farmer.

Figure 1: Net Farm Income (Revenues-Expenses) Growth Index
(Real 2017 Dollars)

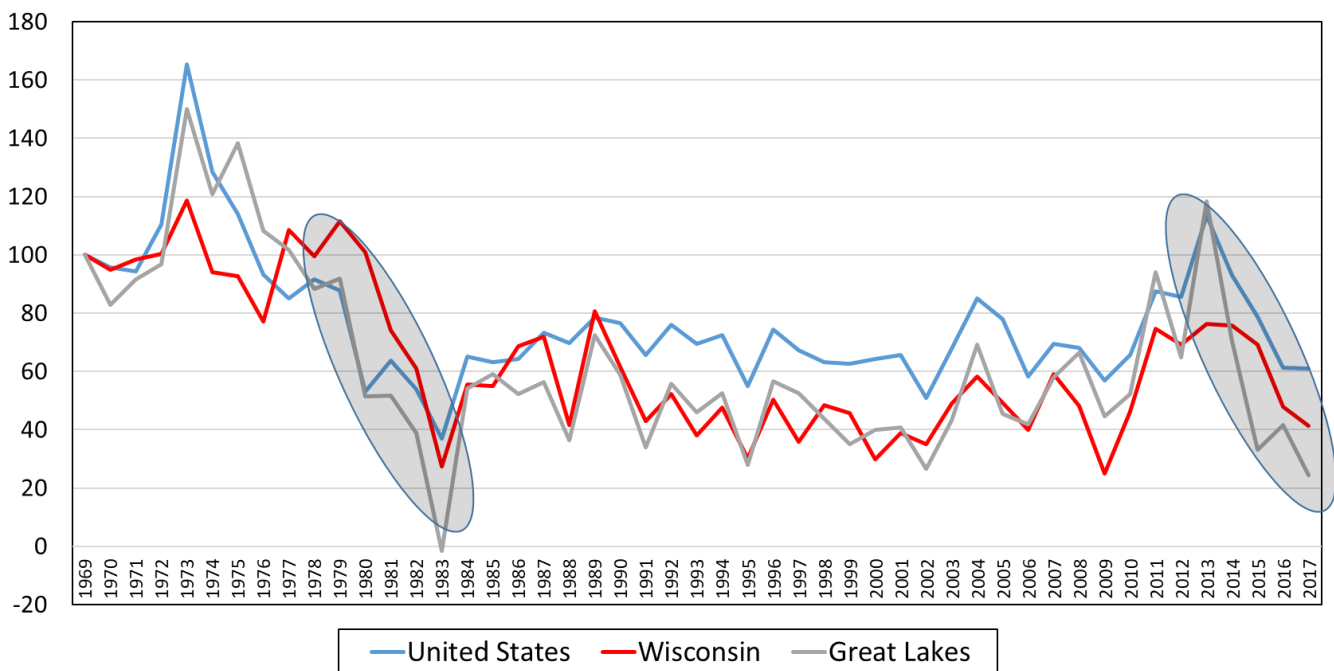


The successive “down” years is the primary cause for the current fiscal stress facing many Wisconsin farms. Without an “up” year to rebuild assets (e.g., cash reserves) farmers are forced into dramatically reducing income to the farm household/family and/or accept higher levels of debt. The reduction in earnings flowing to the farmer (family/household) and workers (Figure 2) creates an unsustainable fiscal situation for the farm family and the rising of farm debt can overleverage the farm enterprise.

Increasingly, farmers are finding that they can no longer “cash flow” their operations and are looking to: (1) cease operations, (2) incur higher levels of debt, or (3) fundamentally restructure the operations of the farm to reduce operating costs. For example, a growing number of dairy farmers are shifting from dairy to beef operations. Here they can maintain their connections to livestock, but significantly reduce their day-to-day costs. When we consider comparable trends in farm employment and contribution to gross state product, it is clear that the Wisconsin on-farm economy is struggling.

Historically, down years tend to be followed by an up year allowing farmers to financially recover. Wisconsin farmers are currently facing several down years. One must go back to the farm crisis of the early 1980s to see a similar period of continuously down years.

Figure 2: Farm Earnings Growth Index (Real 2017 Dollars)



These data are available from the USDA ERS [Farm Income and Wealth Statistics](#) program as well as the BEA Regional Economic Information System ([BEA REIS](#)). The USDA data is drawn from the ARMS survey and the BEA REIS data is drawn primarily from IRS data. While there are technical differences across the two sources in definitions and measurements, at the level of trend analysis reported

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