

Farm Household Profit Performance

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The Bottom Line

Agricultural profits are being squeezed:

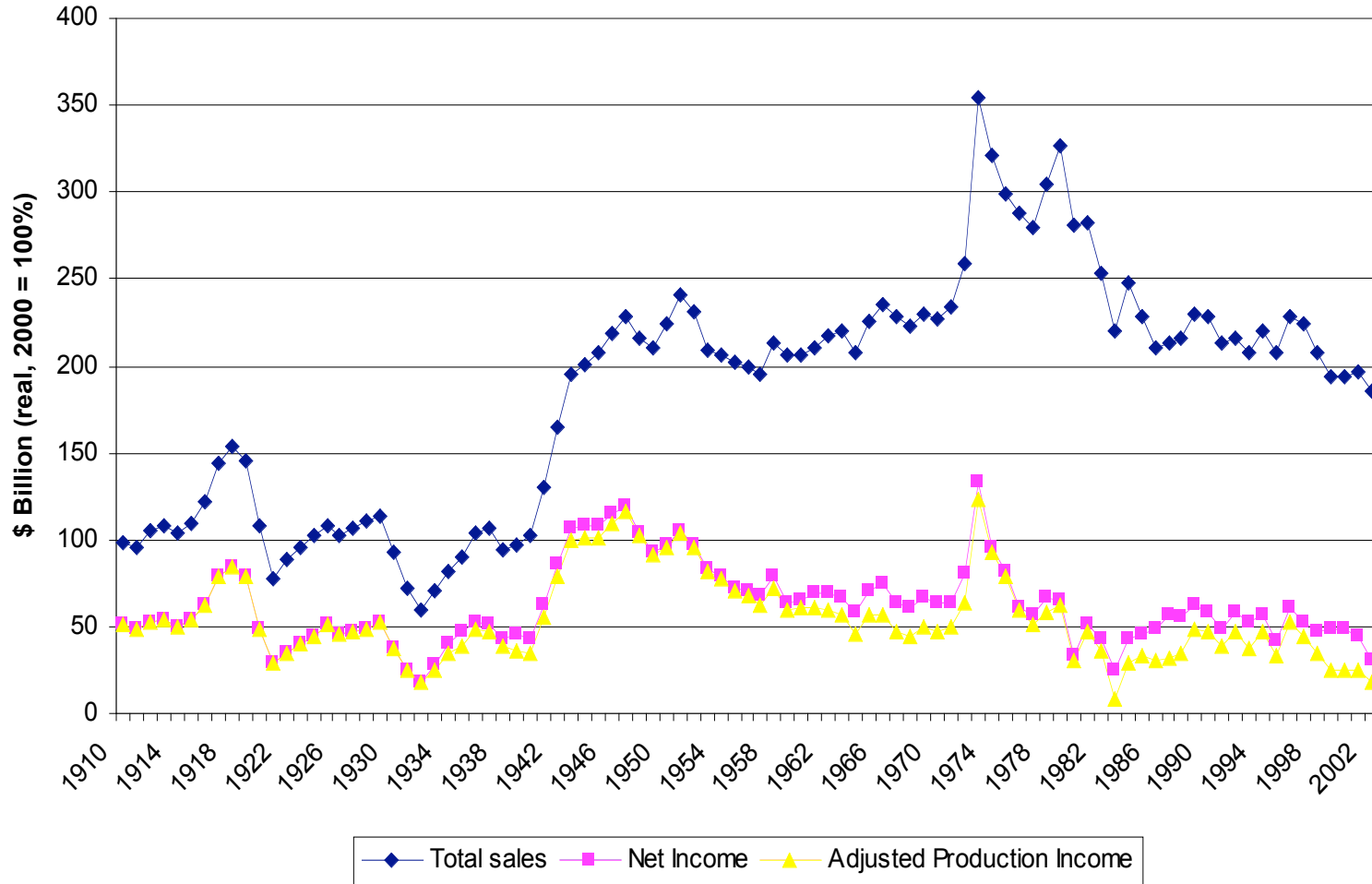
- Commodity price is **global**
- Production cost is **local**

Profit Squeeze

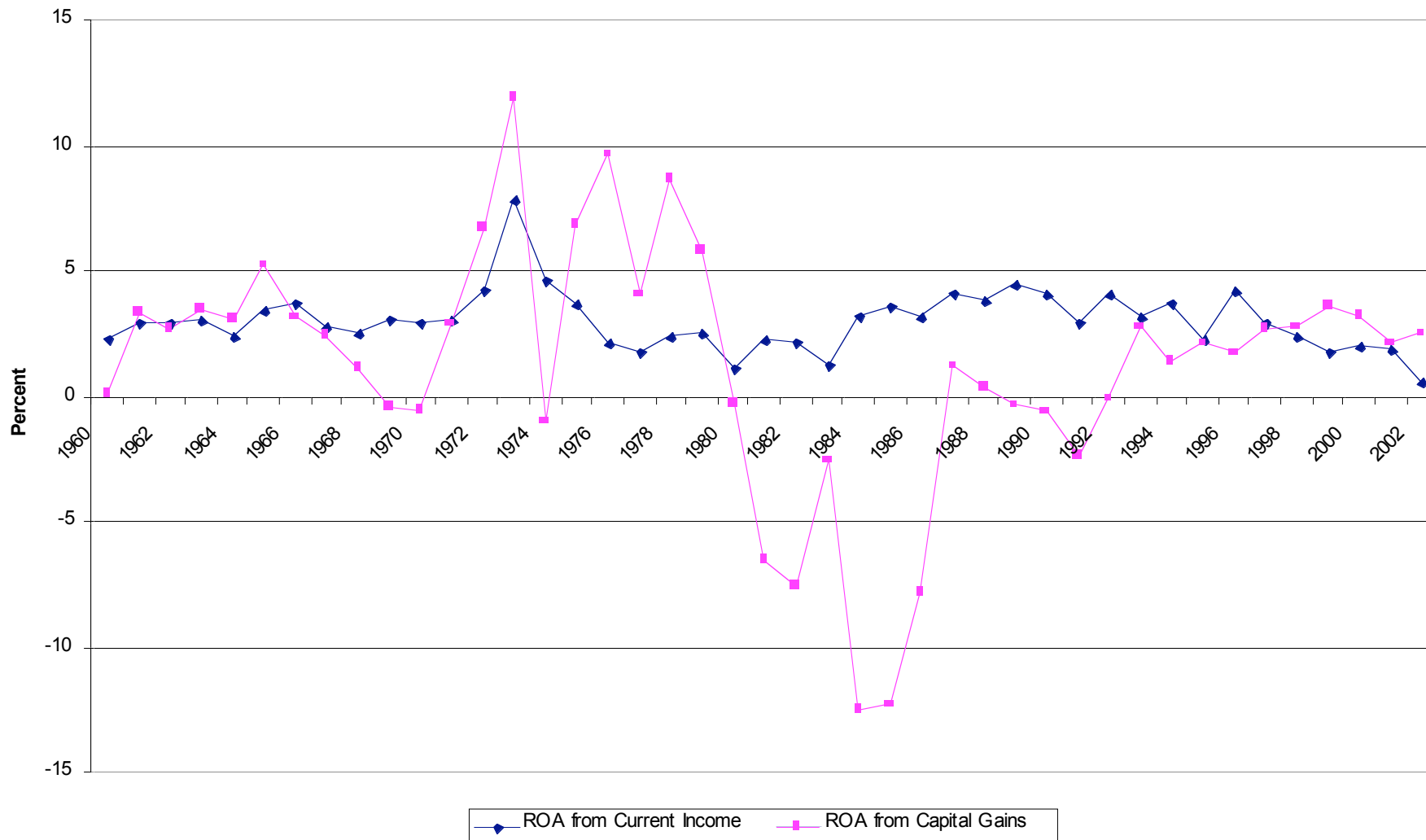
- Falling prices received for outputs
- Rising costs of inputs

- Profit margins are falling, making commodity production less profitable over time – a less attractive investment for family farm owners/operators

Real U.S. Agricultural Sales and Income, 1910-2002



U.S. Agriculture's Returns on Assets, 1960-2002



Strategies to Raise Profits

■ Price strategies:

- Add value to commodity (process, etc.)
- Strategic alliances/or integration of producers and processors (cooperative, contracts, etc.)

■ Cost strategies:

- Reduce cost/unit by increasing the scale of operations
- Reduce cost/unit with technological advances in production, harvest methods and machines

Strategies to Stabilize Income

- Diversify across agricultural products
- Diversify across income sources
 - Agricultural commodities
 - Processed agricultural products
 - Non-agricultural enterprises
- Off-farm income

Agricultural Profits and Farm Household Wealth

- Assessing the sustainability of agriculture:
 - which groups are more or less profitable?
 - is farmers' well-being due to farm income?
- Farmers are making production decisions based on total household wealth, not just on farm production profitability
- There are profitability, wealth differences across farmers and ranchers when accounting for locations, farm sizes, or commodities

My Research Results

- Wealth comes primarily from **capital gains**, not income, for all farm sizes
- **Non-farm income** is increasingly important for small and mid-sized farms
- Changes in farm and non-farm capital indicate incentives for shifting resources out of agriculture in all regions

Conclusions

- Farm profits still vary widely by farm type, size, location, and commodity produced
- Farm size influences both farm wealth and profits
- The relationship of “farm size” with other variables varies across regions, indicating differences in profitability across the different commodities produced in each region