



Statement of the American Farm Bureau Federation

**TO THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION &
FORESTRY; SUBCOMMITTEE ON COMMODITIES, RISK
MANAGEMENT, AND TRADE**

**Commodity Programs, Credit, and Crop Insurance – Part 1: Producer
Perspectives on the Farm Safety Net**

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Madam Chairwoman and members of the Committee, my name is Zippy Duvall. I am a third-generation farmer and president of the American Farm Bureau Federation, and I am pleased to offer this testimony on behalf of the American Farm Bureau Federation and Farm Bureau members across this country.

There are certainly plenty of challenges for American agriculture. Beginning with losses experienced from the trade war with China, pandemic lockdowns, supply chain disruptions, and record-high input costs, farmers and ranchers have been facing unprecedented volatility in recent years. While there are challenges, I remain optimistic for the future of American agriculture. Through science, technology and innovation and the get-it-done attitude of rural Americans, no challenge has been too great. But we also must make sure that farmers and ranchers have the tools necessary to succeed, including support from good public policy and strong markets both domestically and abroad.

USDA's most recent [Farm Sector Income Forecast](#), released Feb. 7, sees a decrease in net farm income in 2023. U.S. net farm income, a broad measure of farm profitability, is currently forecast at \$136.9 billion, down 15.9% from 2022's \$162.7 billion. This \$25.9 billion decline erases the \$21.9 billion increase that was forecast between 2021 and 2022. Adjusted for inflation, 2023 net farm income is expected to decrease even more: \$30.5 billion (18.2%). The report expects farm and ranch production expenses to continue to increase by \$18.2 billion (4.1%) in 2023 to \$459.5 billion, following a record increase of \$70 billion in production expenses in 2022.

Weather and climate conditions will have strong impacts on the true outcome of this year's price outlook. Extreme drought that has pushed up hay and wheat prices could subside marginally after a winter of strong Western precipitation and snow. Record corn and soybean production in exporting countries like Brazil and Argentina are competition for U.S. crops overseas, particularly in the China market. Uncertainty related to Mexico's commitment to ban GMO corn for human consumption and the ongoing [Ukraine-Russia](#) conflict remains.

On the cost side, production expenses are forecast to increase for a sixth consecutive year, growing in 2023 by \$18.2 billion, or 4.1%, to reach a record \$459.5 billion. And while it's little consolation, some major input items such as cumulative feed costs, fertilizers, fuels and oil

are expected to decline from record highs. Feed costs, which represent the largest single expense category, are expected to decline \$3.92 billion to \$72.66 billion (-5%). Fertilizers, lime and soil conditioners are expected to decrease \$1.25 billion, or 3%, from \$43.42 billion to \$42.17 billion. Typically, fertilizers represent about 15% of a crop farmer's costs and any increase, regardless of magnitude, can be crushing for some producers, especially in times of declining revenue. Fuels and oils are expected to experience the largest percent decline – 17% – from 2022, moving from \$20.25 billion to \$17.1 billion. These drops, however, are easily outpaced by increases in other expense categories including marketing, storage and transportation, which are forecast to increase 11%. Labor costs are expected to increase across all subcategories, with cash labor forecast to move from \$39.2 billion to \$42.08 billion (+7%). Inflation remains a source of uncertainty and is eroding asset values; and interest expenses have increased as the Federal Reserve Bank attempts to bring inflation under control through higher rates. Between 2022 and 2023, interest expenses, including operator dwellings, are expected to jump 22%, going from \$27.6 billion to \$33.84 billion, making it more difficult for farmers and ranchers to acquire lines of credit to purchase inputs and equipment this year. Livestock, seed, electricity, repair and maintenance are among the other categories expected to increase in price.

USDA's Farm Sector Income Forecast also provides expectations of farm financial indicators that provide insight into the overall financial health of the farm economy. During 2023, U.S. farm sector debt is projected to increase \$31.19 billion, or 6.2%, to a record \$535 billion in nominal terms. Nearly 70% of farm debt is in the form of real estate debt, for the land to grow crops and raise livestock. Real estate debt is projected to increase \$26.79 billion to a record-high \$375.8 billion, largely due to an [increase in land values](#) across the country. Non-real estate debt, or debt for purchases of things like equipment, machinery, feed and livestock, is projected to increase by \$4.4 billion to a record \$159.1 billion. The value of assets regularly being purchased with debt is rising, which means it will continue to be important for farmers and ranchers to pay down debt and cover interest to maintain a healthy balance sheet, an endeavor that will be even more cumbersome within a high interest environment.

Based on 2023 debt and asset levels, USDA expects the debt-to-asset ratio to be 13.22% for 2023, which sits marginally below the prior five-year average (13.5%), meaning farmers are expected to hold steady on borrowing to finance the purchase of assets. Higher interest rates will

likely act as a barrier for farmers to finance new assets and will then likely drive down the value of these assets over the next couple of years.

Working capital, which takes into consideration current assets and liabilities, is the amount of cash and cash-convertible assets minus amounts due to creditors within 12 months. In 2023, working capital is projected to fall by \$14.9 billion, or 8.9%, to \$118 billion, which is the first decline since 2016, and sits at \$2.5 billion below 2014 levels, when farmers and ranchers held \$121 billion in working capital. Lower levels of working capital often suggest that many U.S. farmers have just enough capital to service their short-term expenses and debt, which becomes more difficult as interest rates rise.

Short- and long-term interest rates are also high and rising. In recent years, interest expense has been about 5% of farm cash production expenses. Farmers will be facing interest rates double and triple what they were just a few years ago, with corresponding increases in interest expense; high interest rates, caused by both high inflation and the Fed's steps to address inflation, led to the farm debt crisis in the 1980s. A doubling or tripling of interest expenses now could cause similar pressures, especially for any farmer already committed to new investments, beginning farmers or farmers forced to borrow for succession. If history is a guide, it could take years for long-term interest rates to come back down to where they were for the last decade.

Higher interest rates tend to lower property values, including farmland values, which would make worse the debt trap of higher interest rates and lower farm returns. Rising interest rates will raise the cost of all debt, including government debt, which will ultimately cost the taxpayer and limit the government's flexibility to provide assistance in a debt crisis. Inflation is slashing the purchasing power of American consumers, and weakening the economy, which both undercuts demand for farm products and lowers prices. Inflation undermines the real value of USDA programs, including the value of reference prices and budgets for most commodity programs.

The aggressive interest rate increases by the Fed are making the dollar attractive to foreign investors and strengthening the dollar, which undermines U.S. agricultural export competitiveness. A Fed-driven recession in the U.S. is bad for the global economy, which will also undermine U.S. agricultural exports.

As such, much uncertainty remains related to the ability of farmers and ranchers to cost-effectively access inputs and deal with regional regulatory and weather-related challenges. With an early expectation of revenue declines, which more than erase gains made during 2022, it becomes all the more important for producers to have clarity on rules that impact their businesses' ability to operate, for producers to have access to comprehensive risk management options and for producers to be given a resounding voice during formulation of vital legislation such as the farm bill, which can either complicate or streamline farmers' and ranchers' ability to contribute to a reliable and resilient U.S. food supply sustainably.

The farm bill is a critical tool for ensuring our nation's food supply remains secure. No one buys insurance for the good times, and similarly, farm bill programs provide critical tools to help farmers and ranchers manage risk. Most farmers don't have the luxury of setting the price for their products, as most other small business owners do. Farmers accept the market rate, which fluctuates significantly, making financial planning a challenge. Add the unpredictability of weather and you see how farmers face intense volatility. It's a good thing most farmers see their livelihoods as a calling more than a job.

Farm programs are written to provide a basic level of protection to help offset bad economic times and severe weather. The 2018 farm bill brought certainty to farm and ranch families through crop insurance, improved risk management programs and support for beginning farmers and ranchers, while also providing much-needed funding for trade development and ag research.

Title I commodity programs are designed to be critically important for farmers in the event of a sudden decline in commodity prices or farm revenue. Current policies were developed in the 2014 Farm Bill utilizing 2012 cost of production data. But according to the House Committee on Agriculture, in a recent letter to the House Committee on Budget, the combination of spiking input costs and this outdated policy has rendered the commodity title ineffective. Considering the four crops that represent the largest acreage in the U.S.: corn, soybeans, wheat, and cotton, the forecast season average farm price of each commodity would need to fall by roughly 23, 30, 21, and 52 percent, respectively in 2023 to trigger any support under current law. If left unchanged, with challenging production costs, many producers would be bankrupt before Title I support provides assistance.

And to put projected farm bill spending in perspective, for the 10-year budget window starting in fiscal year 2024, all federal spending contained within the 12 titles of the farm bill is projected to account for less than two percent of the entire federal budget. When broken down further, the farm safety net (commodity programs and crop insurance combined), is projected to account for only two-tenths of one percent of federal spending. In return for this investment, the farm bill supports the food and agriculture sectors, which in 2022 accounted for direct, indirect, and induced output of more than 43 million jobs, \$2.3 trillion in wages, \$718 billion in tax revenue, \$183 billion in exports, and \$7.4 trillion in economic activity. The farm bill impacts every family in America by helping to put food on tables across our great country.

Farming is a difficult and risky business, yet critical to the well-being of our country. It's often stated that food security is national security. Russia's war on Ukraine vividly illustrates how the two are interrelated and there are countless other examples. Few pieces of legislation are more significant than the farm bill when it comes to ensuring our food system is secure. Farmers have America's back. The farm bill is how our country has farmers' backs. We urge Senators to recognize this significance as they consider updating and improving the farm bill.

Farm Bureau supports the following principles to guide development of programs in the next farm bill:

- Increase baseline funding commitments to farm programs;
- Maintain a unified farm bill that includes nutrition programs and farm programs together;
- Changes to current farm legislation must be an amendment to the Agricultural Adjustment Act of 1938 or the Agricultural Act of 1949;
- Prioritize funding for risk management tools, which include both federal crop insurance and Title I commodity programs; and
- Ensure adequate USDA staffing capacity and technical assistance.

The farm bill has been a bipartisan effort in the past. The 2023 farm bill presents an important opportunity for lawmakers to rise above partisanship and work together again to pass legislation that protects food security for all Americans and the future success of our farmers and

ranchers. And while time does not allow me to dig into the weeds of this very important and complex legislation, I invite members of this subcommittee to view the [more than 60 recommendations for the next Farm Bill available on our website](#).

Farm Bureau will continue to work to ensure that farm families maintain their ability to feed, fuel and clothe the world and defeat public policy that threatens the long-term resiliency of our rural communities. Congress must protect American agriculture and production practices from undue burden, and respect farmers' and ranchers' ability to innovate and solve problems.

American farm families want to leave the land better than when it was first entrusted to our care. That is the story of my family's farm in Georgia and the story of millions of farms across this country. We want to protect the planet, feed and clothe people, and promote vibrant communities. Working with our partners, land-grant universities, policymakers, and the farmers and ranchers we represent, Farm Bureau is committed to finding solutions for the challenges of the future and seizing the opportunities ahead for agriculture and our rural communities.

Madam Chairwoman, I commend you for convening this hearing and for all your hard work on behalf of agriculture across the country. I will be pleased to respond to questions.