



Impact of MN's farming economy on the economy of Greater MN: Preliminary findings

House Committee on Agriculture and Food

Feb. 13, 2020



About us

In 1997, a group of rural Minnesota advocates came together to create a rural policy “think tank” that would provide policy makers, rural advocates and concerned citizens with an objective, unbiased and politically unspun examination of today’s rural issues.

- Based in Greater Minnesota, serving Greater Minnesota.
- A non-partisan, non-profit policy research organization.
- Dedicated to providing Minnesota’s policy makers with an unbiased evaluation of issues from a rural perspective.
- 17 Board members
- 3 Staff members in home offices



The research question

- What are the implications of the current downturn in the agricultural economy for rural communities and their economy?

Goals

- Examine the data, dispel some myths.
- How does the agriculture economy affect MN's overall rural economy?
- What policy might be needed and would be helpful for MN's farmers?



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What we looked at

Farm economy:

Economic activity derived directly from crop and animal production on the farm.

Ag-related industries economy:

The industries that use agricultural products as raw materials or provide services, supplies & equipment to farmers.

Rural economy:

The total economy of Greater Minnesota (all of Minnesota excluding the seven-county Twin Cities metro area).

What we looked at

Revenues and earnings:

Net income of sole proprietors, partners, and hired laborers (Bureau of Economic Analysis)

Wages:

Total wages based on QCEW data (DEED).

Employment:

Number of jobs based on QCEW data (DEED).

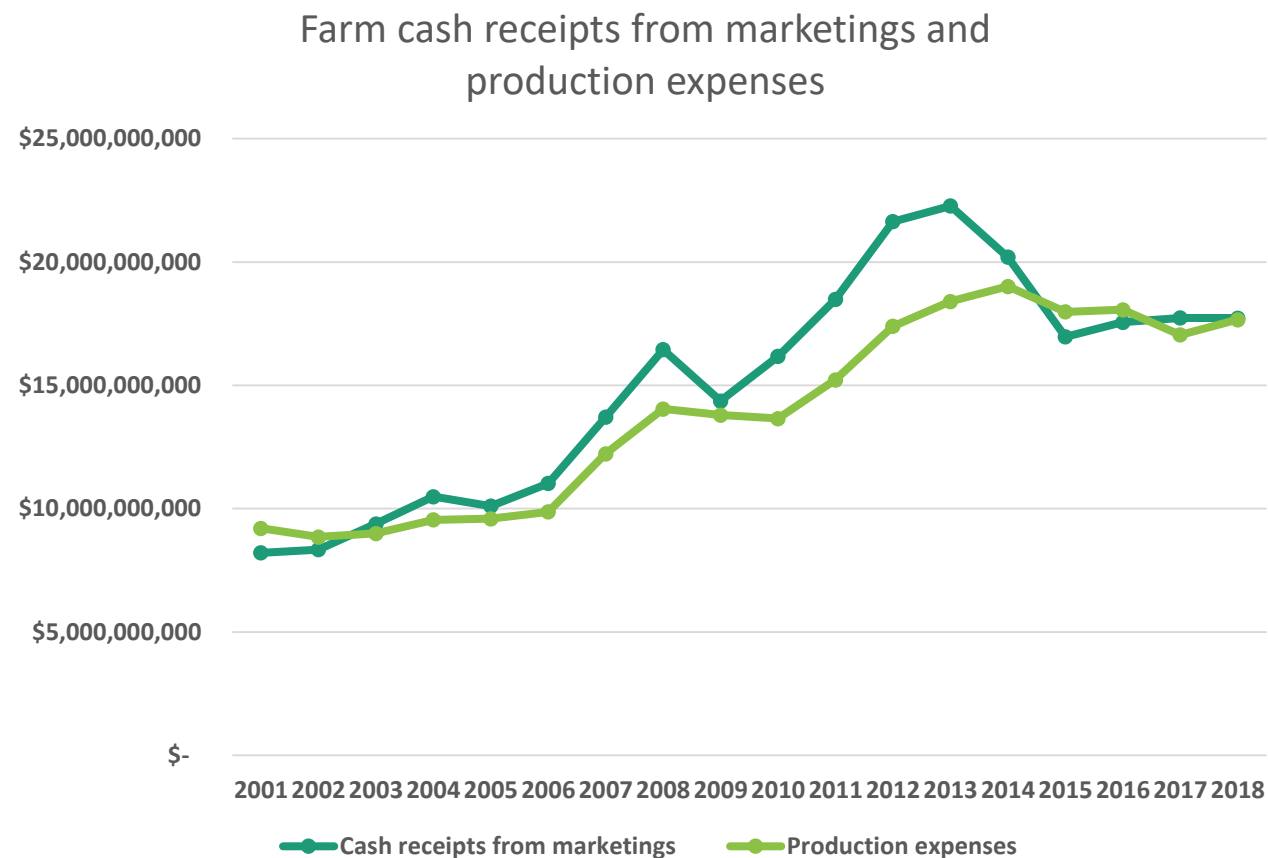
Farm Economy

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The farm economy: Peaks and valleys

- From 2013 to 2018 (latest data available), farm revenues from production dropped 20%.
- 2018: \$500 million below peak (2013)
- Cash receipts from marketings do not include government payments.

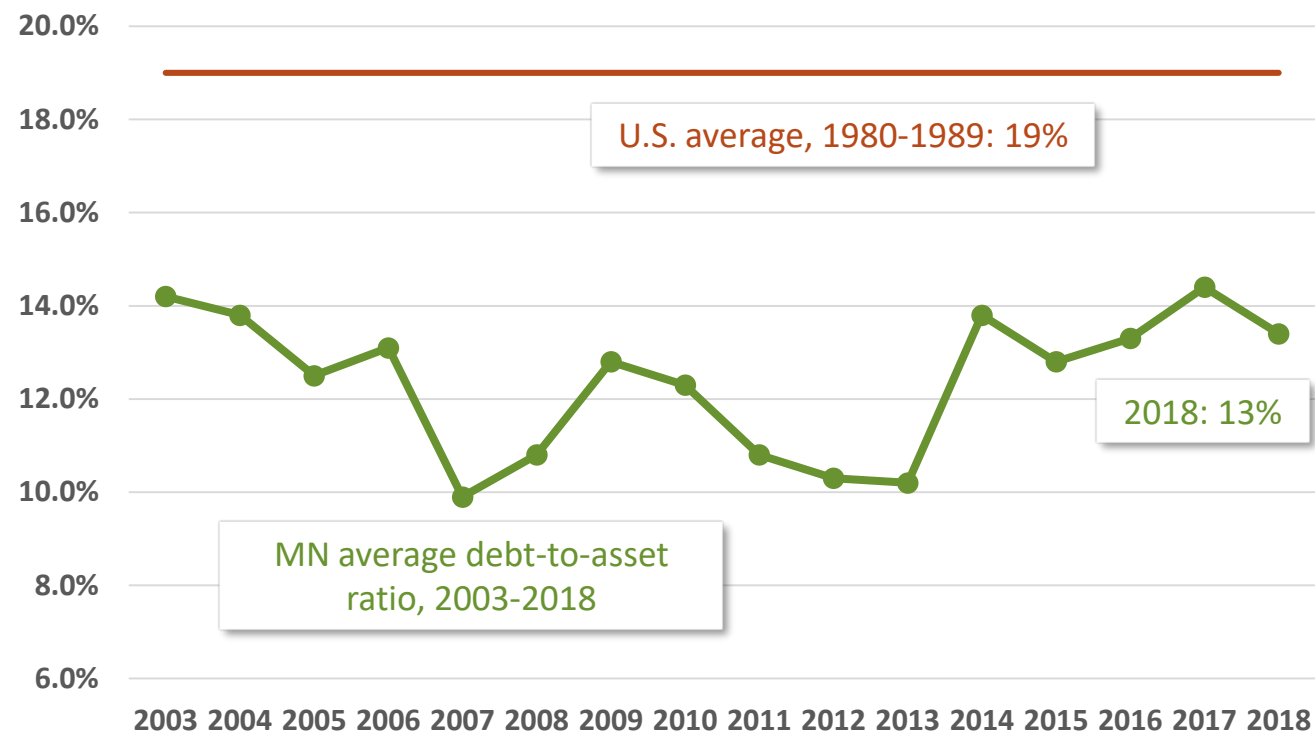


Data source: U.S. Bureau of Economic Analysis

The farm economy: Debt-to-asset ratio

- A higher ratio of debt to assets indicates higher financial risk.
- Debts averaged 13% of assets 2014-2018.
- This is higher than the 10% average during the boom in 2013, but also lower than the U.S. average of 19% during the 1980s.

Debt-to-asset ratio per farm in MN

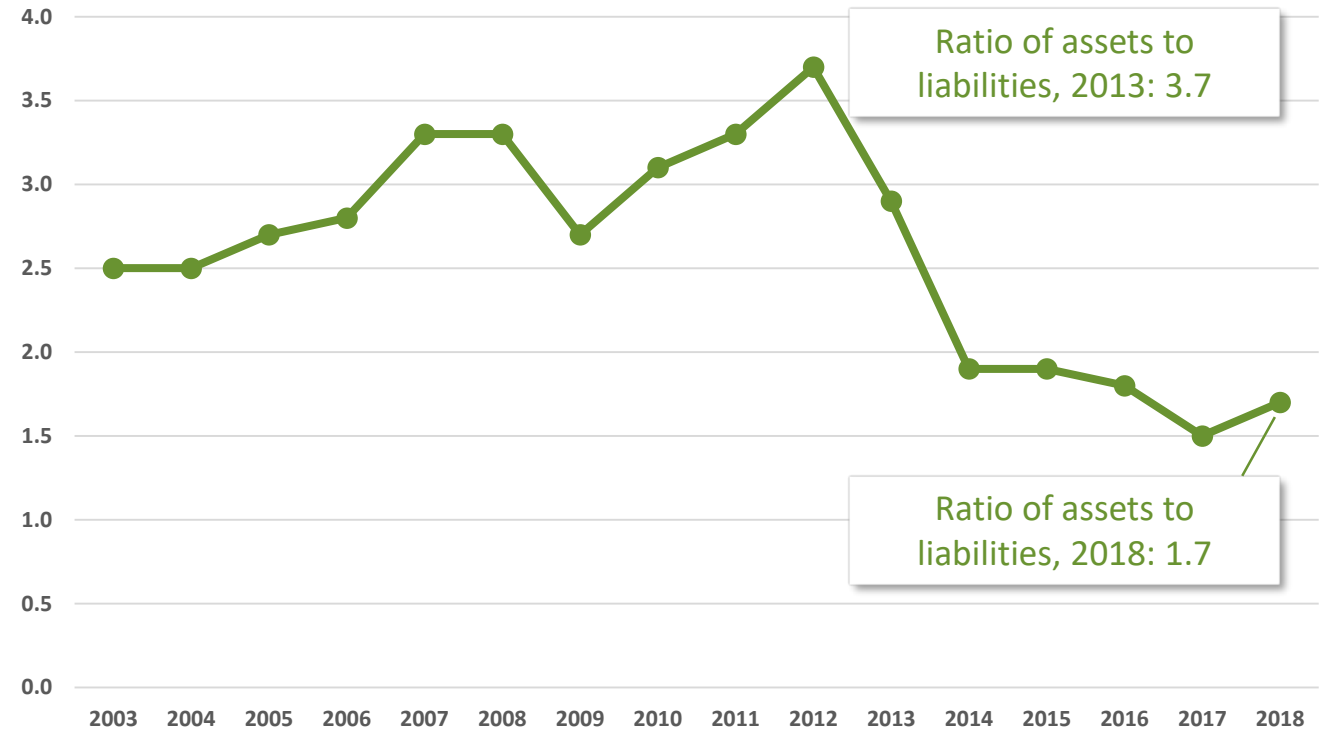


Data source: USDA Economic Research Service

The farm economy: Current Ratio

- Current Ratio shows the ability to cover liabilities with assets on hand.
- In 2018, it stood at 1.7, or \$1.70 in assets for every \$1.00 of liabilities, much lower than before 2013.
- The concern: Farmers are burning through assets to maintain payments on liabilities.

Current Ratio per MN farm

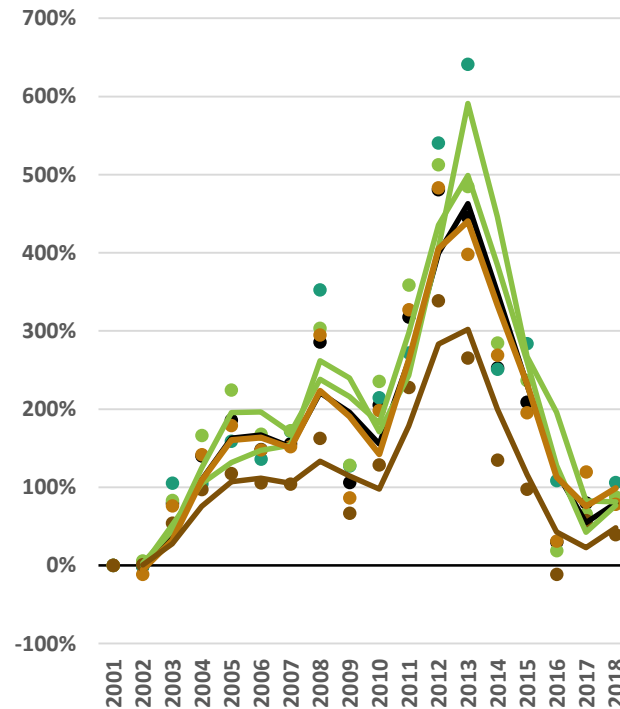


Data source: USDA Economic Research Service

The farm economy's impact: Location's earnings

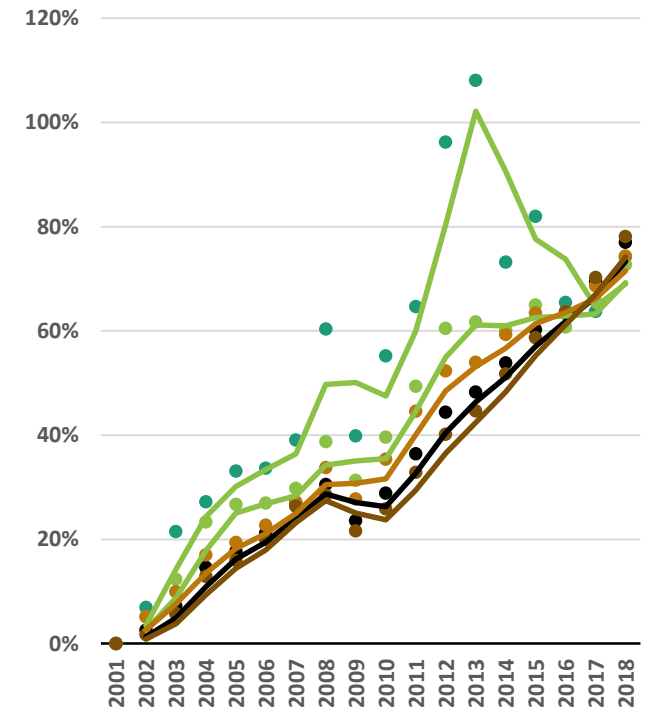
- However...
- The impact of the downturn in the farm economy varies depending on location.
- While farm earnings have dropped everywhere statewide, only the entirely rural counties group has shown a similar drop in total wages.

Growth in farm earnings, indexed to 2001



Entirely rural
Urban/town/rural mix
Minnesota

Total earnings indexed to 2001 levels



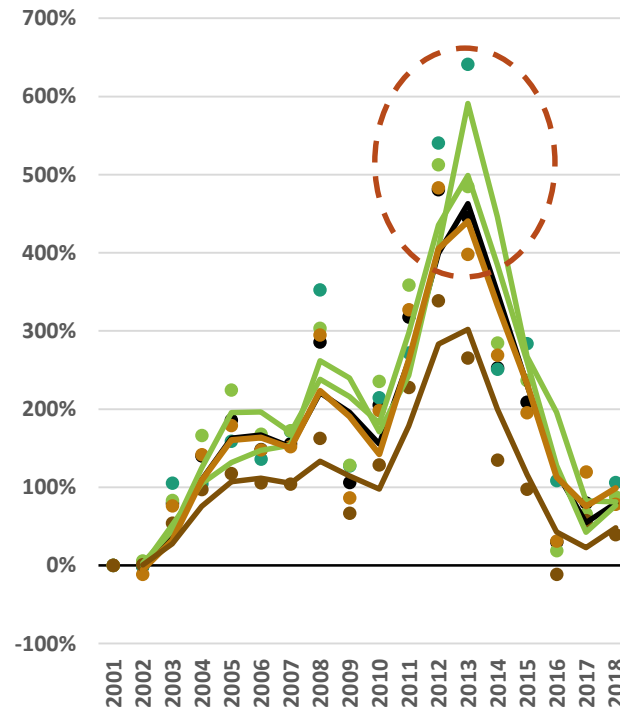
Town/rural mix
Entirely urban

Data source: U.S. Bureau of Economic Analysis

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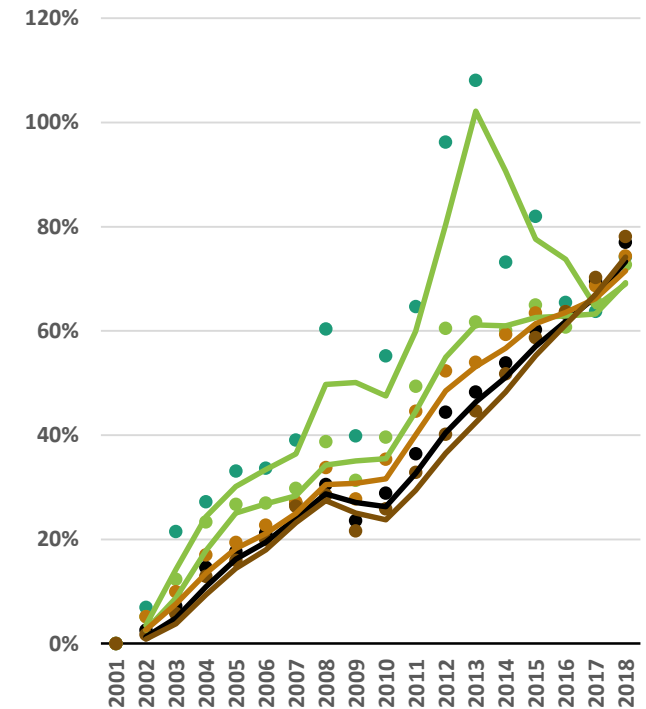
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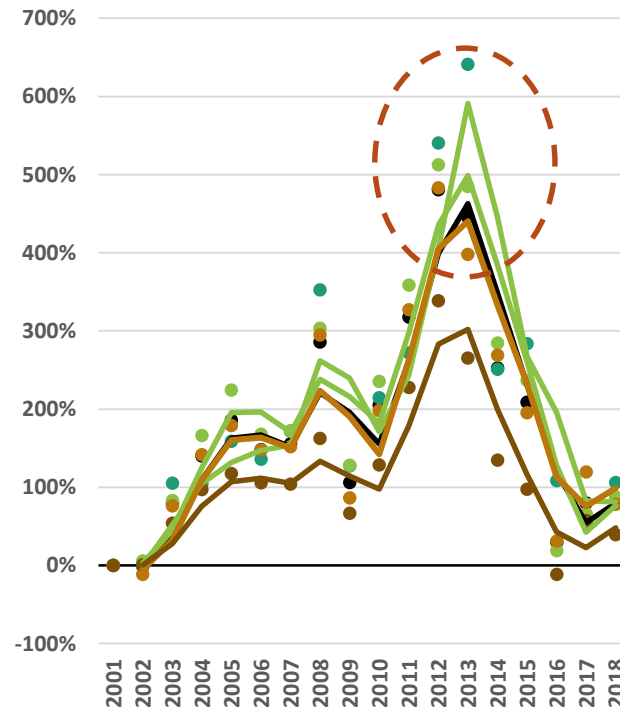
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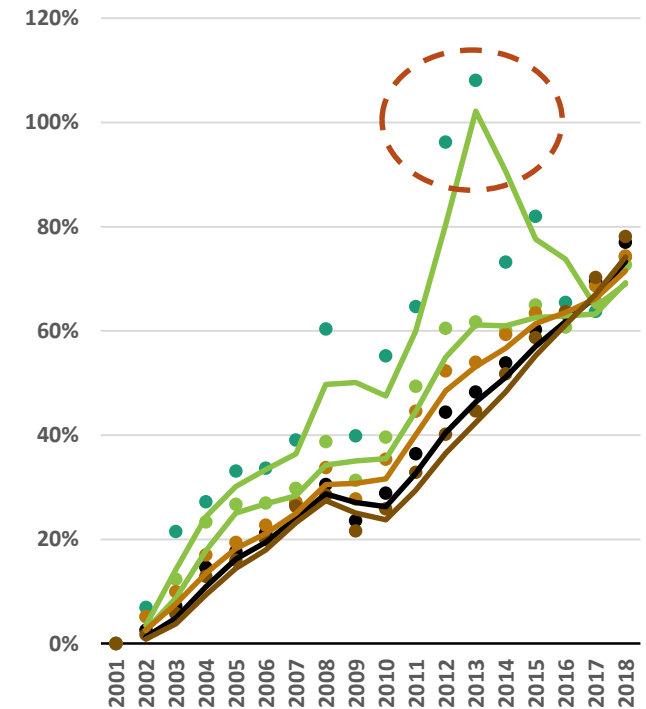
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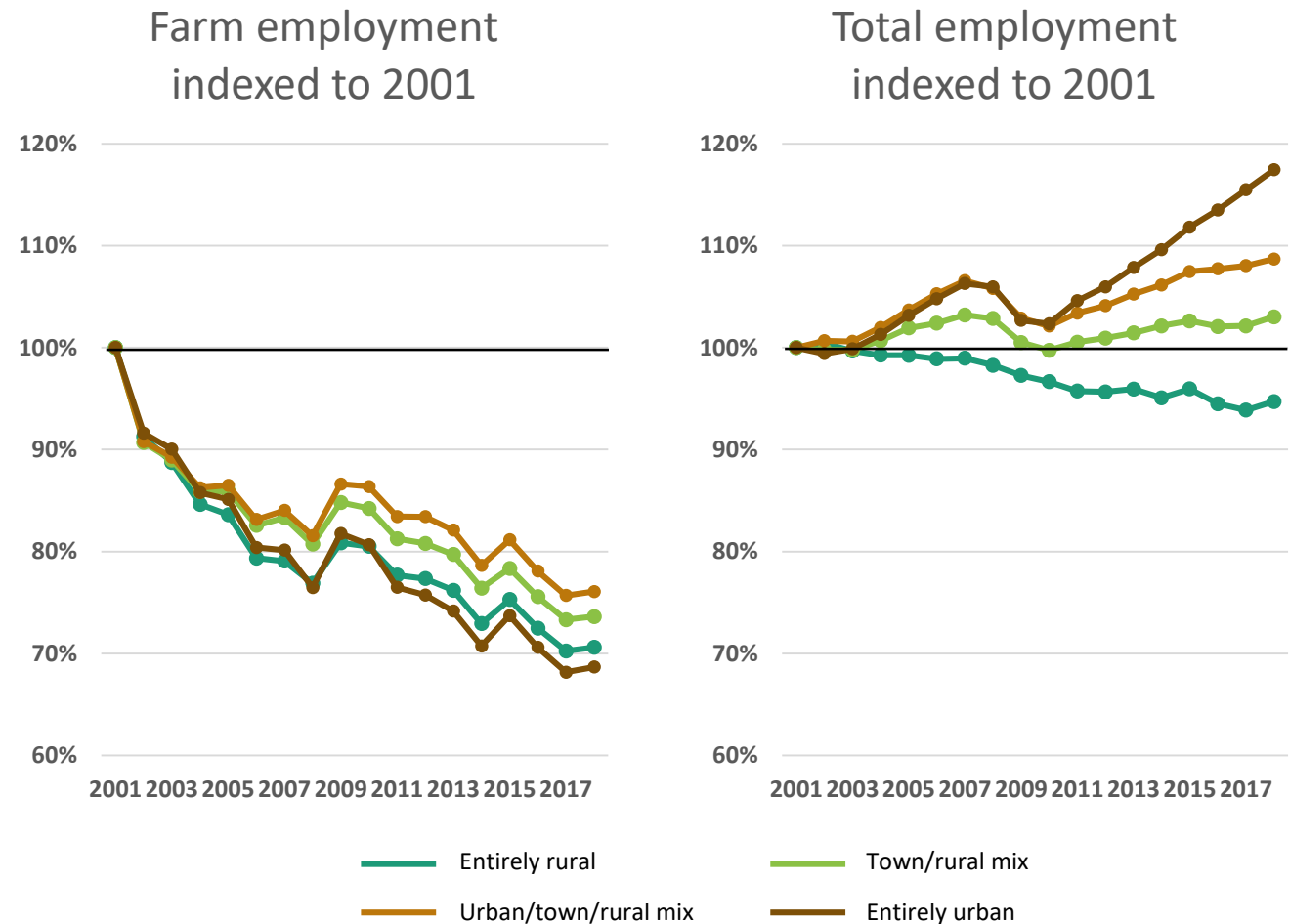


Town/rural mix
Entirely urban

Data source: U.S. Bureau of Economic Analysis

The farm economy's impact: Location's employment

- **Employment**
- The impact of the downturn on employment is less clear.
- Employment in rural areas has been dropping for years due to retirements, advancements in technology and automation and out-migration.
- The greatest problem facing the rural economy today is the worker shortage.

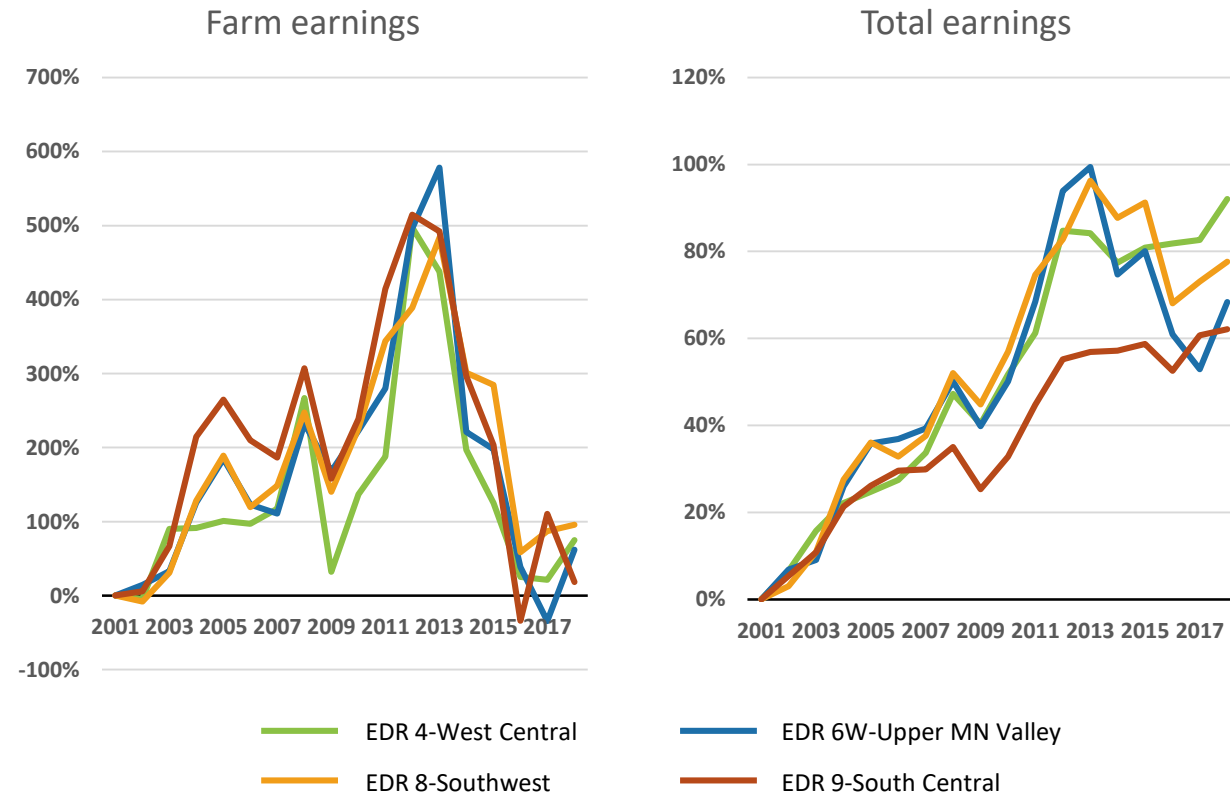


Data source: U.S. Bureau of Economic Analysis

The farm economy's impact: Location

- **In specific regions**
- Total earnings and employment in Economic Development Regions 4, 6W and 8 are most affected by the farm economy.
- Total earnings: EDRs 4, 8 and especially 6W saw a similar decline in total earnings.
- EDR 9 was included for comparison.

Farm earnings and total earnings in EDRs 4, 6W, 8 & 9

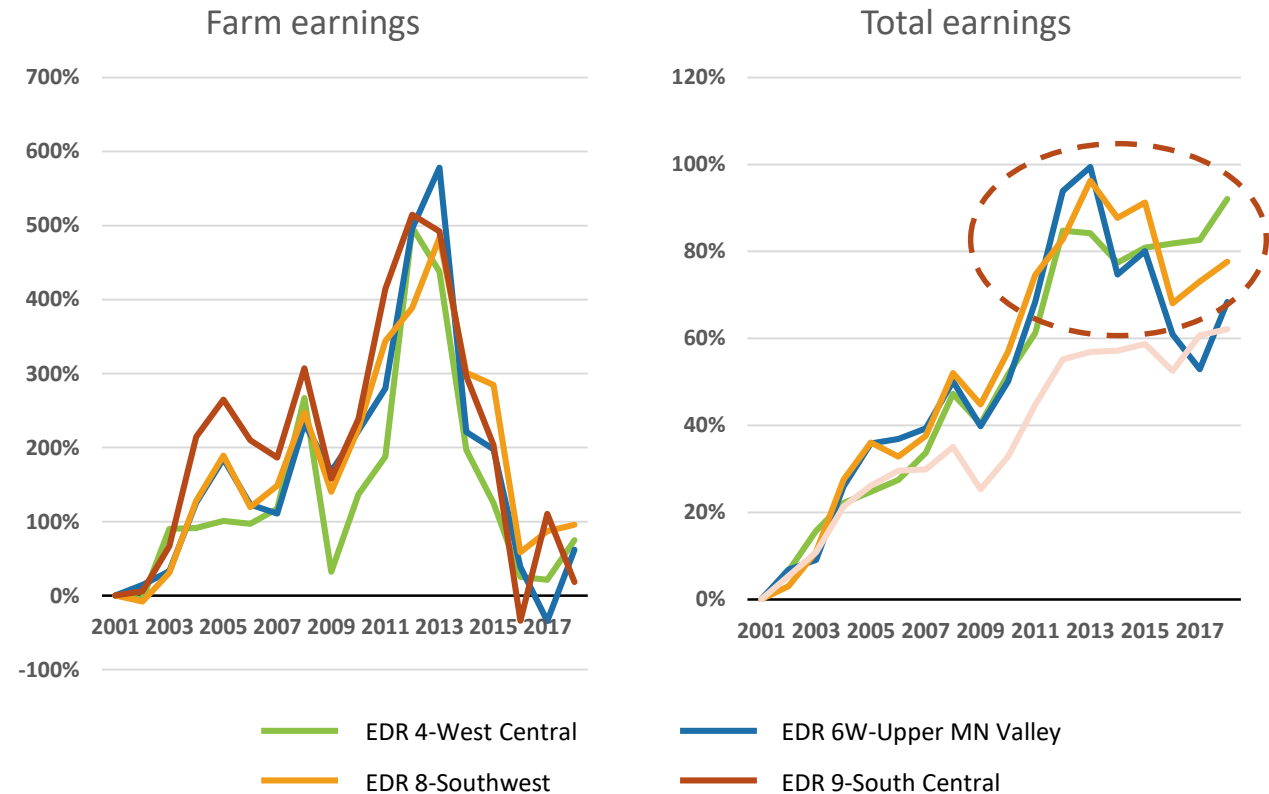


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Data source: U.S. Bureau of Economic Analysis

Farm economy impact on ag-related industries

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Potentially impacted industries



Farm machinery purchases



Building purchases and/or improvements



Cropland rental payments

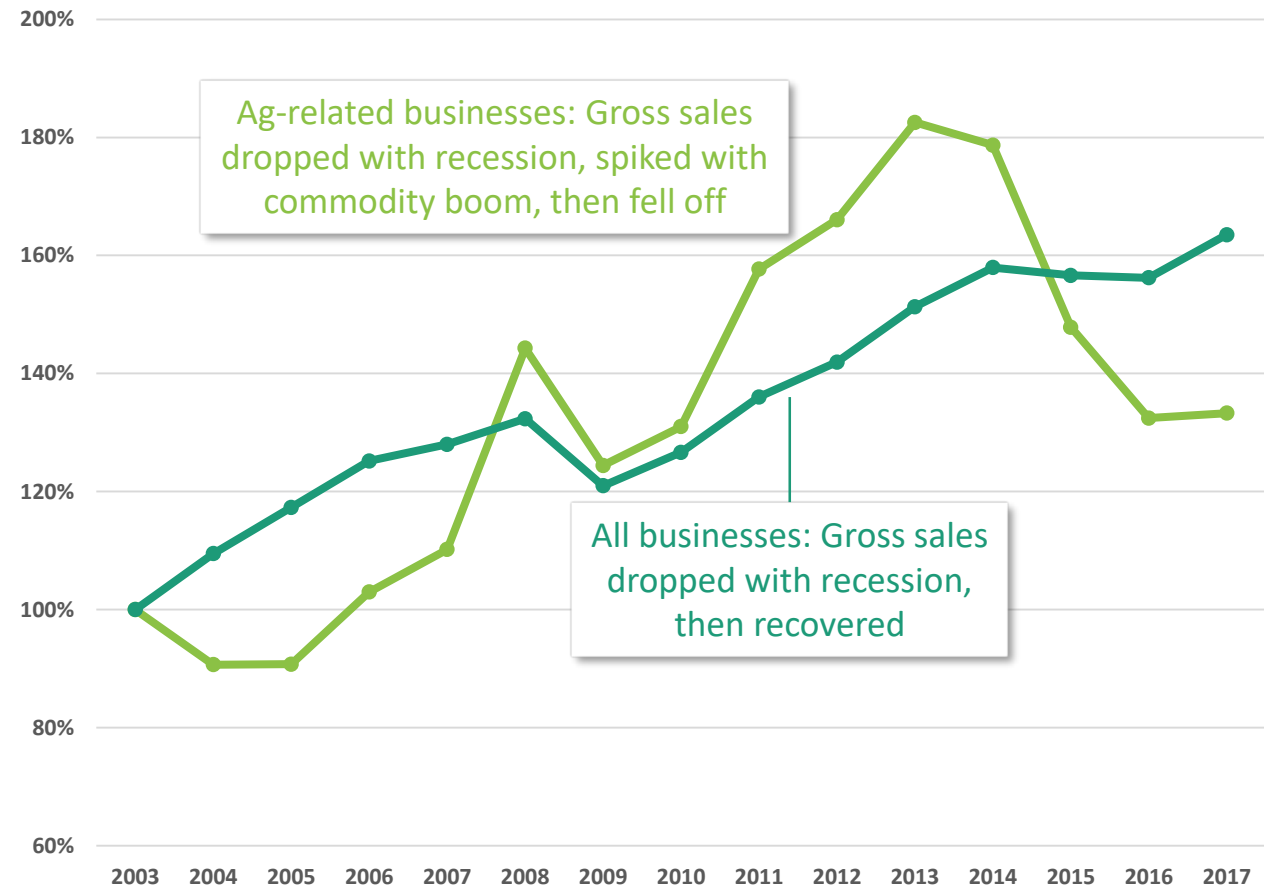


Fertilizer purchases.

The farm economy's impact: Ag-related industries

- **In specific sectors**
- Gross sales for ag-related industries mirrored the ag boom, peaking in 2013.
- Yet the number of businesses has increased.
- The 2019 data will probably show a continuing decline in revenue as farmers continued to withhold spending.

Gross sales from ag-related businesses and all businesses, indexed to 2003

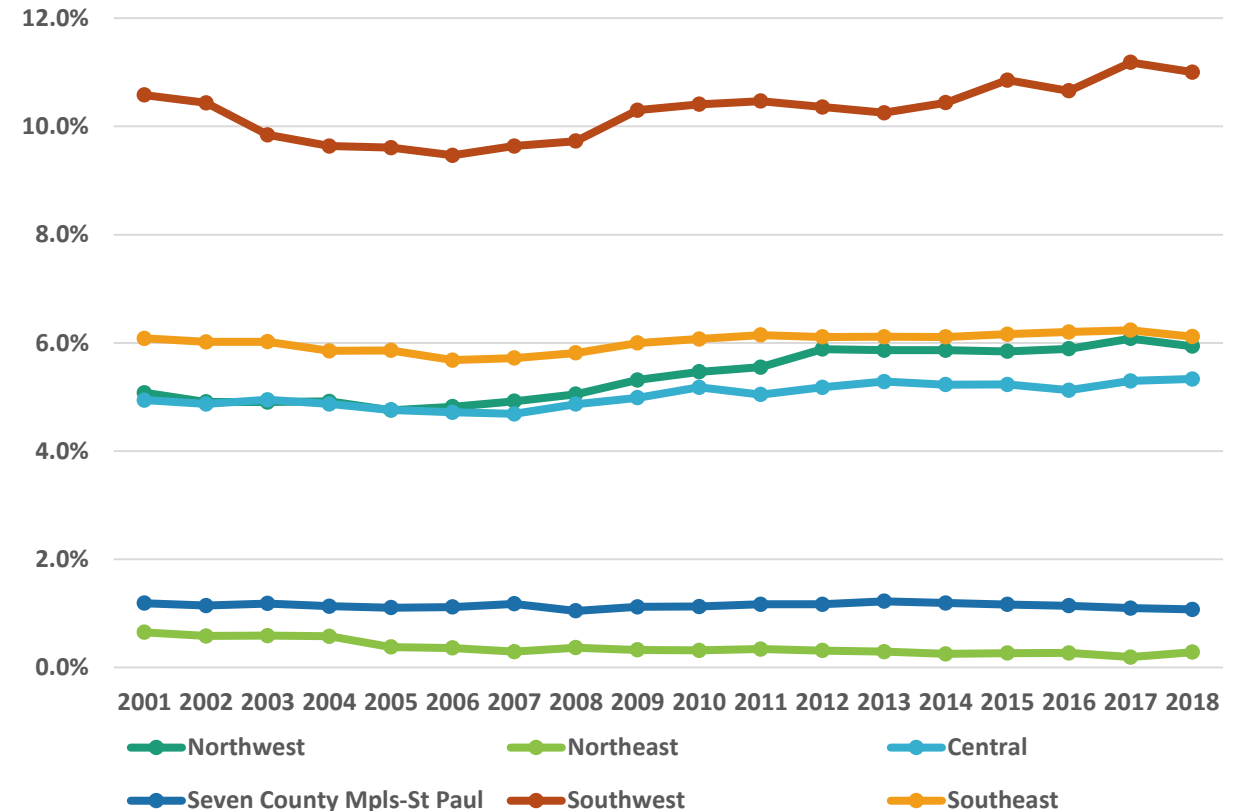


Data source: U.S. Bureau of Economic Analysis

Ag-related industries: Jobs

- In 2018, 156,000 Minnesota jobs depended on farming.
- Employment in ag-related industries was highest in the Southwest planning region in 2018, at 11%.
- Employment in these sectors has stayed relatively flat despite the boom and bust.

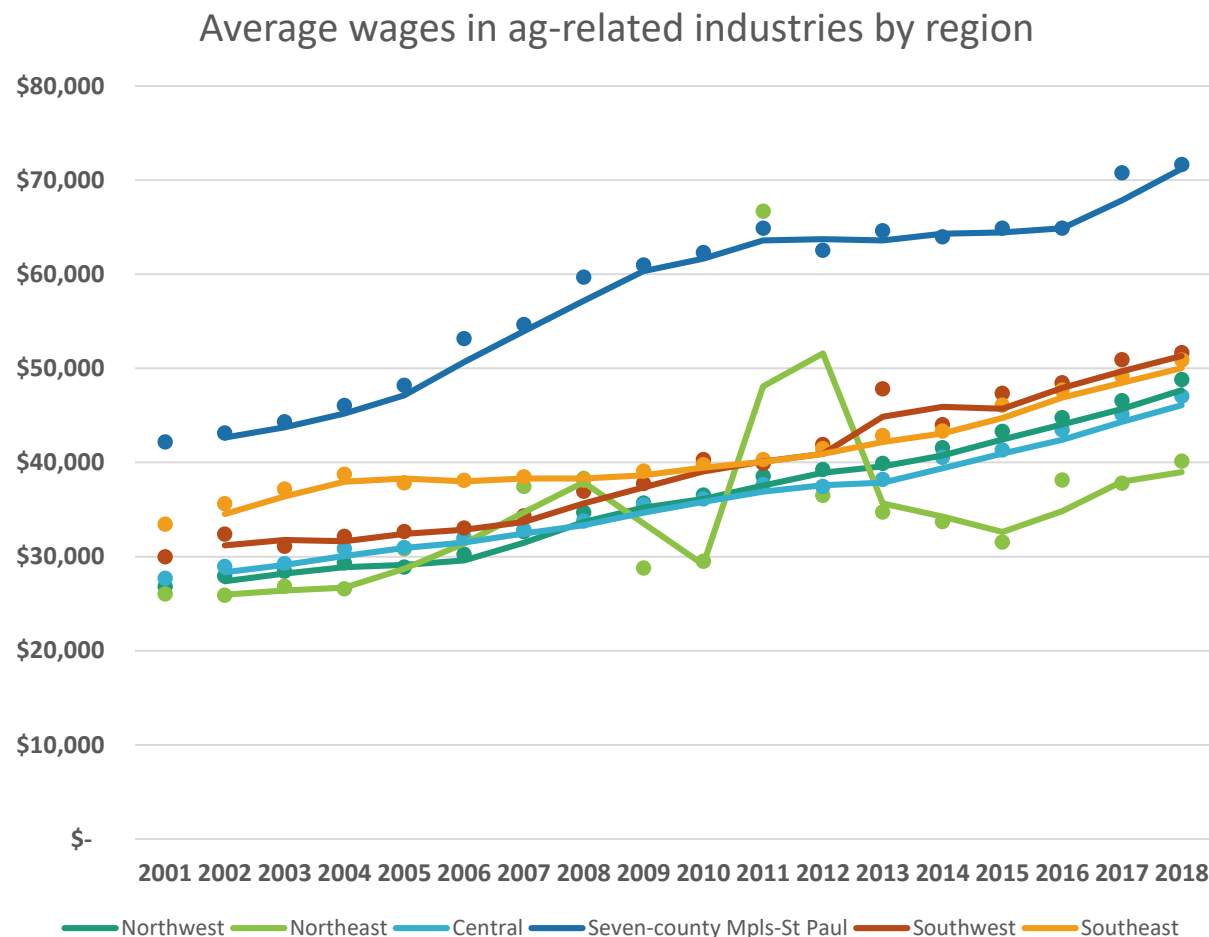
Employment in ag-related industries by region,
percentage of total employment



Data source: MN DEED Quarterly Census of Employment & Wages

Ag-related industries: Jobs

- In 2018, ag-related industries employed more than 81,000 workers in Minnesota.
- Of these, nearly one quarter, 18,885, were employed in the Twin Cities, where they earned \$1.3 billion.
- The average pay for metro-area jobs was \$72,000 compared to the next highest of \$52,000 in Southwest Minnesota.

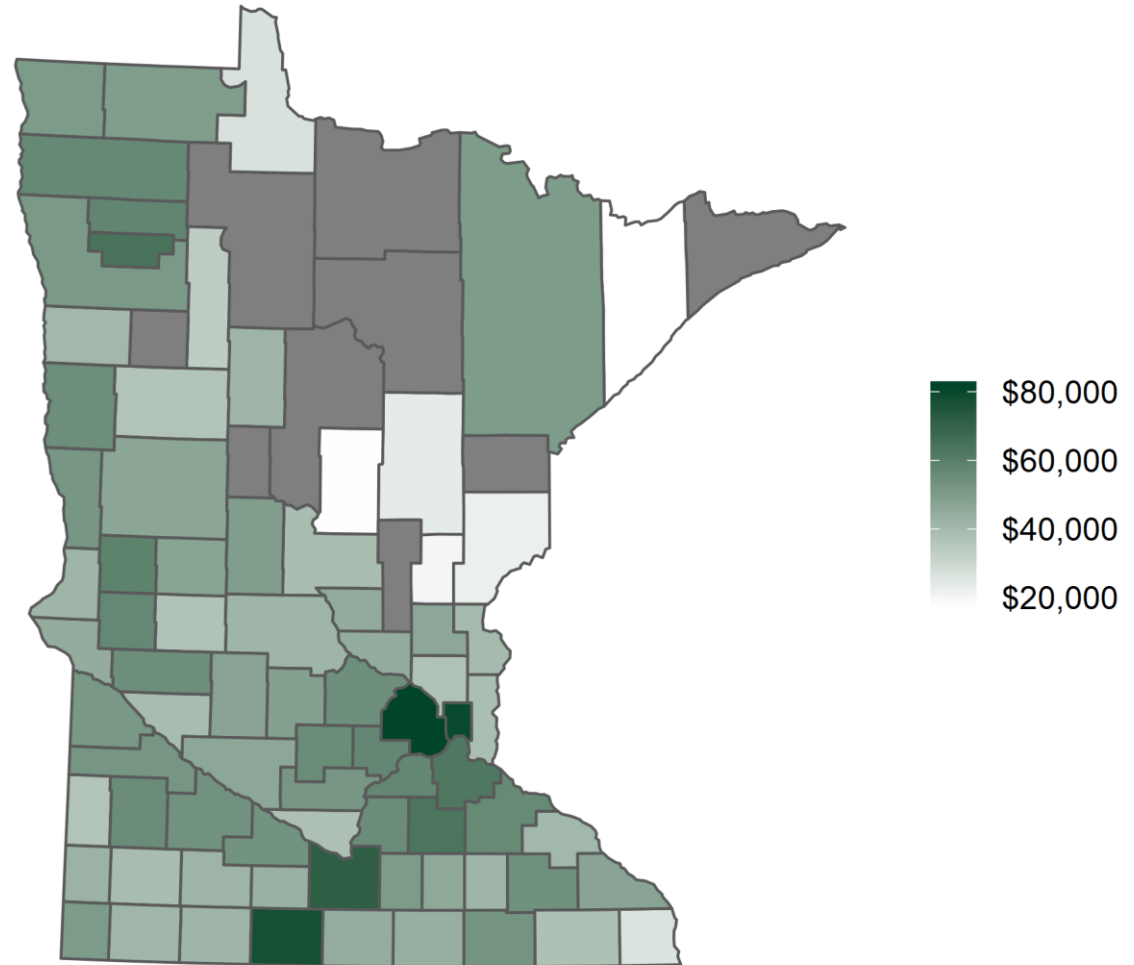


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2018 ag-related industry wages per employment



Data source: MN DEED Quarterly Census of Employment & Wages

Ag-related industries: Specific sectors

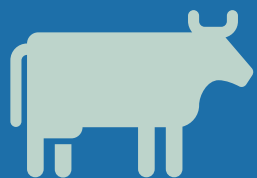
- Three sectors make up more than one half of ag-related industry gross sales.
- Food manufacturing and farm product raw material merchant wholesalers appear to be particularly disrupted in the last ten years.
- Dairy product manufacturing sales remained flat.



Food manufacturing: 19%



Farm product raw material
merchant wholesalers: 19%



Dairy product
manufacturing: 15%

Data source:

Food manufacturing

From peak in 2012 to 2017:

- Gross sales dropped 60%.
- Number of establishments dropped from a peak of 111 in 2012 to 74 in 2017.
- However, employment rose statewide by 7%.
- The decrease in the number of establishments but growth in jobs may be due to a large number of mergers and acquisitions around 2015.

Food manufacturing, gross sales, 2003-2017



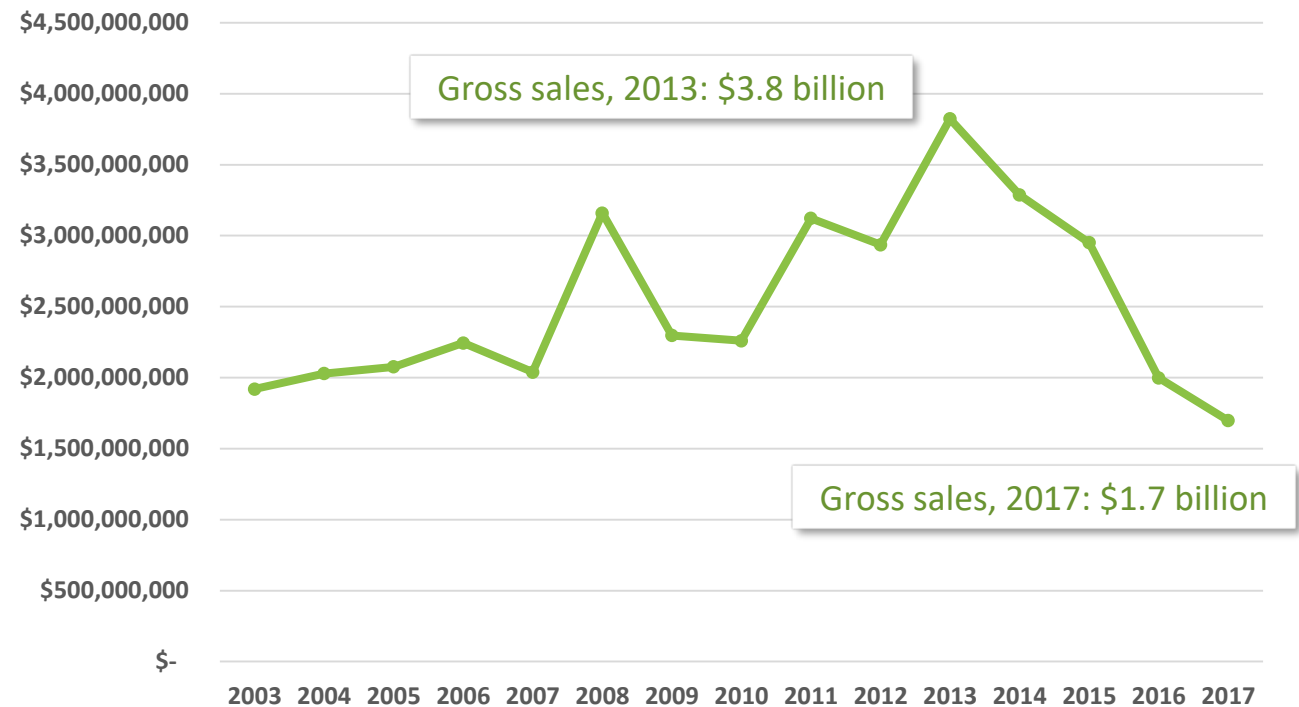
Data source: MN Department of Revenue

Farm product raw material merchant wholesalers

From peak in 2013 to 2017:

- Gross sales fell by 55%.
- Number of establishments rose from 138 in 2003 to 152 in 2013 and fell back to 140 by 2017.
- Employment fell 14%.

Farm Product Raw Material Merchant Wholesalers,
gross sales, 2003-2017



Data source: MN Department of Revenue

Why aren't we seeing bigger impacts?

- Farmers are shouldering the downturn and taking on more debt.
- Farmers invest when times are good.
- The rural economy is more diverse than people think.

Further research



More nuanced impacts in our most rural counties in EDRs 4, 6W, and 8



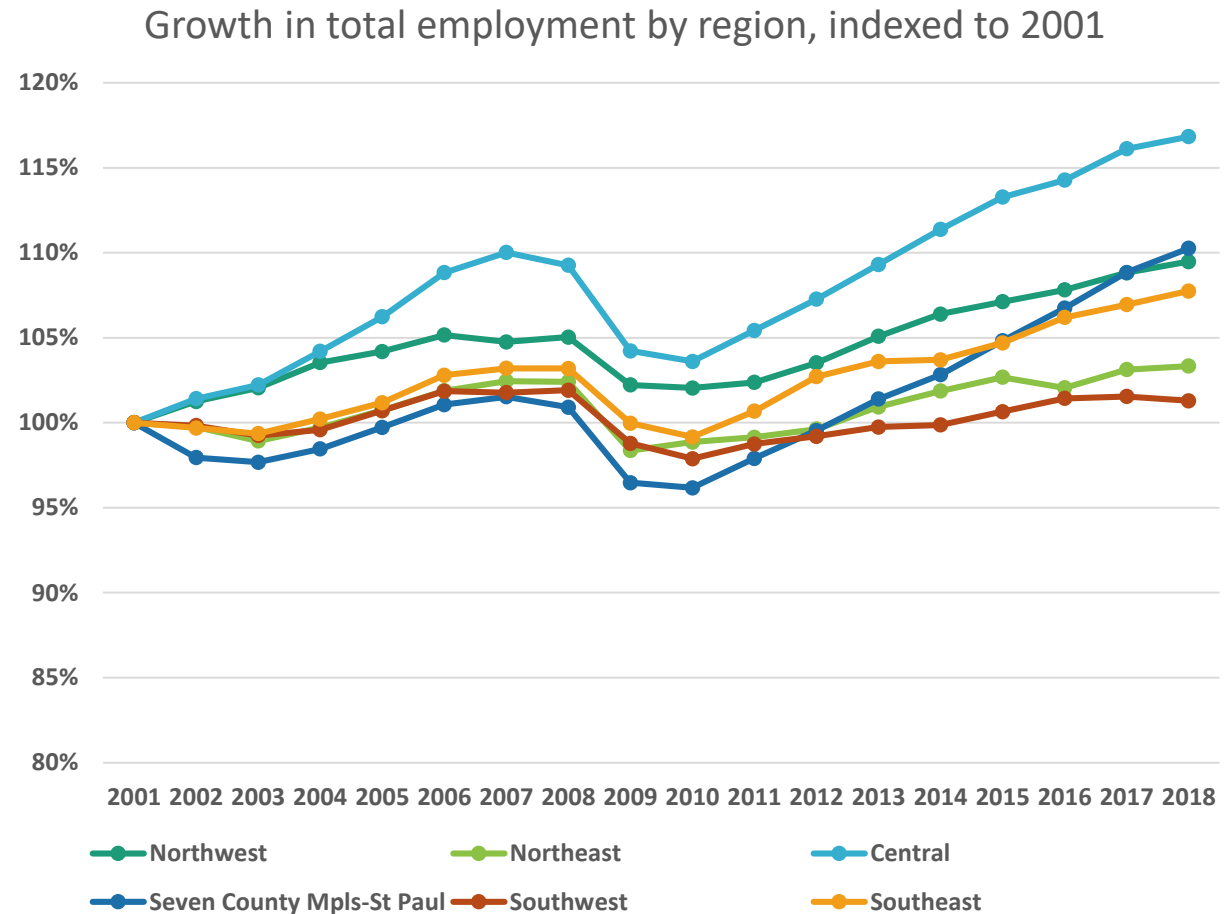
How much longer can farmers hold on?



How might a drop in agricultural land values impact property tax dependent programs?

The good news

- Greater Minnesota's economy overall is resilient and diversified.
- Greatest challenge is finding workers.
- Largest barriers: lack of housing and child care.



Data source: MN DEED Quarterly Census of Employment & Wages



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