Startup Costs for New Farmers and Ranchers

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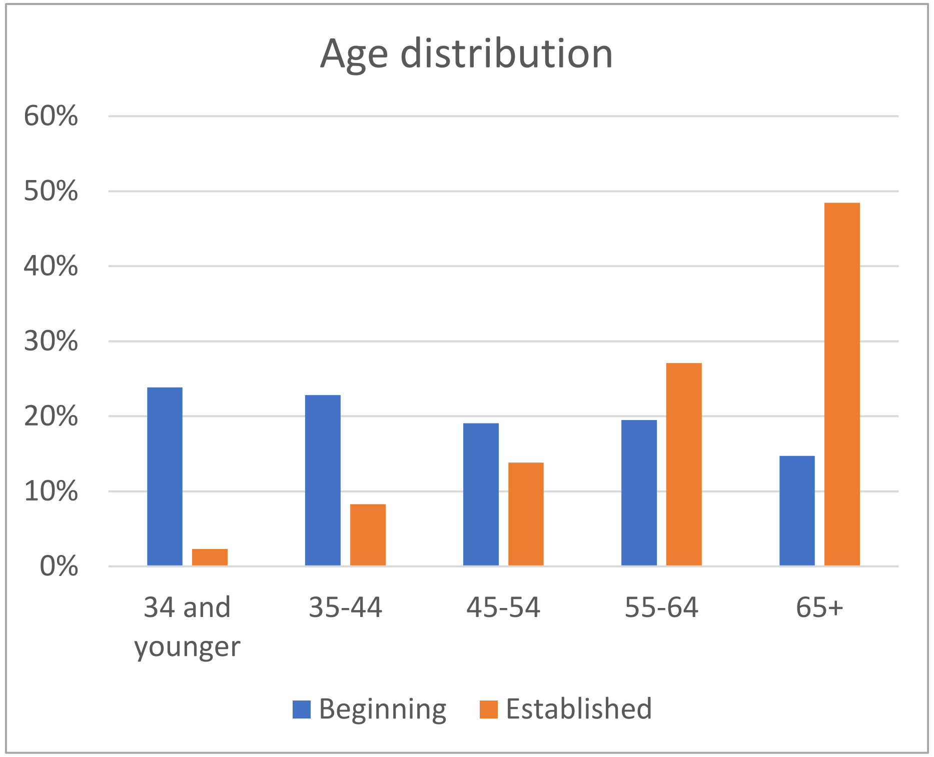
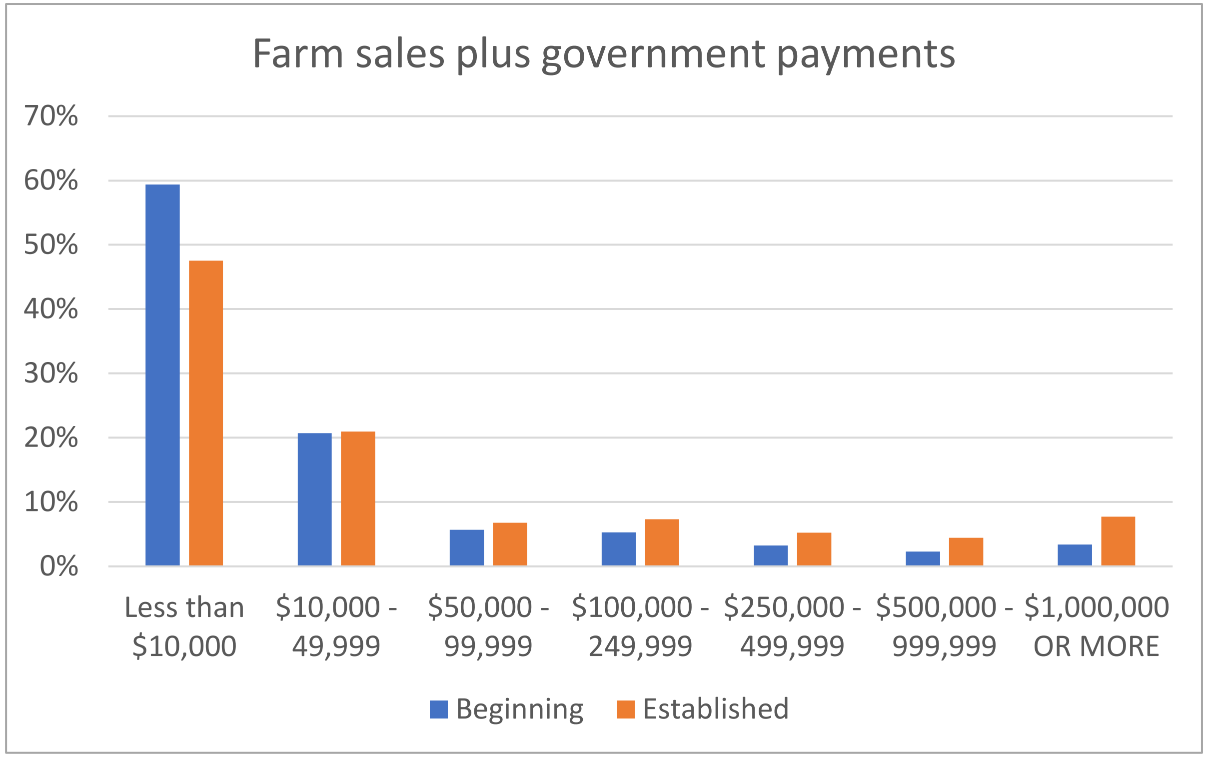
Intro

- The Farm Credit System has a mandate and a mission to serve young, beginning, and small (YBS) producers.
- New producers face additional startup costs, effectively serving as financial barriers to entry.
  - Scale and scope of outlays
  - Land and other major purchases or leases (e.g., equipment)
  - Cost of and access to capital
- Insights inform policy discussions going forward.

Age and farm size distribution of beginning producers

- 24% of beginning producers are young*, but 81% of young producers are beginning.
- Beginning producers are younger on average than producers overall.
- Most operations are small but beginning producers are more concentrated in very small (< $10,000) operations: 59% of beginning producers vs. 48% of established.

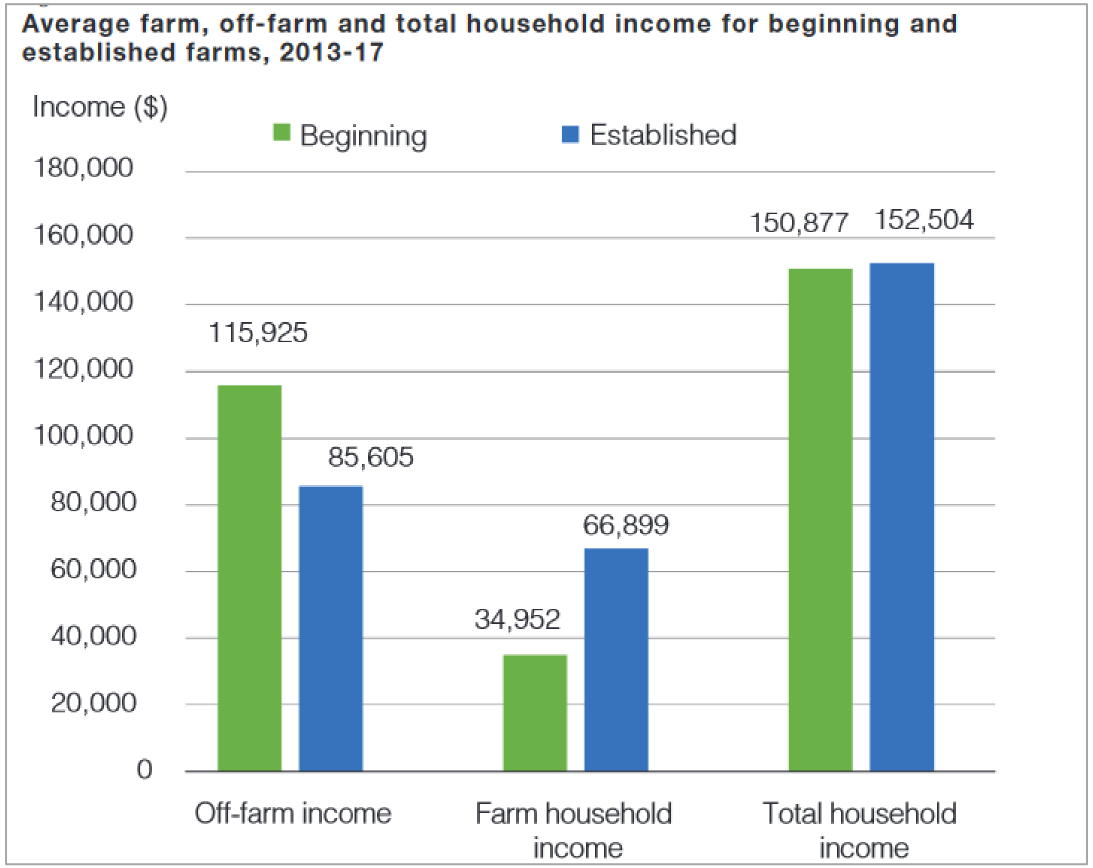




*In the 2022 Census of Agriculture public data, the available age group is under 35 rather than FCA's 35 and under.
Source: 2022 Census of Agriculture, USDA National Agricultural Statistics Service

Farm household income and wealth

- Household income is similar for beginning and established producers, with off-farm income representing a larger share for beginning producer households.
    - However, beginning producer households only have about half as much net worth as established producer households.
- Both beginning producers and their spouses are more likely to have off-farm employment.



Source: Key, Nigel and Greg Lyons. An Overview of Beginning Farms and Farmers, EB-29, U.S. Department of Agriculture, Economic Research Service, September 2019

Beginning producers: commodity distribution

- Almost half of beginning producers are concentrated in cattle and other crops (tobacco, cotton, sugarcane, hay, and other crops).

Commodity	Beginning producers	Established producers
Beef Cattle Ranching and Farming	25.6%	28.4%
Other Crop Farming	22.0%	23.3%
Oilseed and Grain Farming	12.6%	18.7%
Aquaculture and Other Animal Production	10.7%	9.9%
Specialty Crops	9.7%	7.1%
Poultry and Egg Production	6.6%	3.1%
Sheep and Goat Farming	5.9%	3.5%
Greenhouse, Nursery, and Floriculture Production	3.8%	2.6%
Hog and Pig Farming	1.7%	1.0%
Dairy Cattle and Milk Production	1.0%	1.7%
Cattle Feedlots	0.4%	0.7%

Source: 2022 Census of Agriculture, USDA National Agricultural Statistics Service

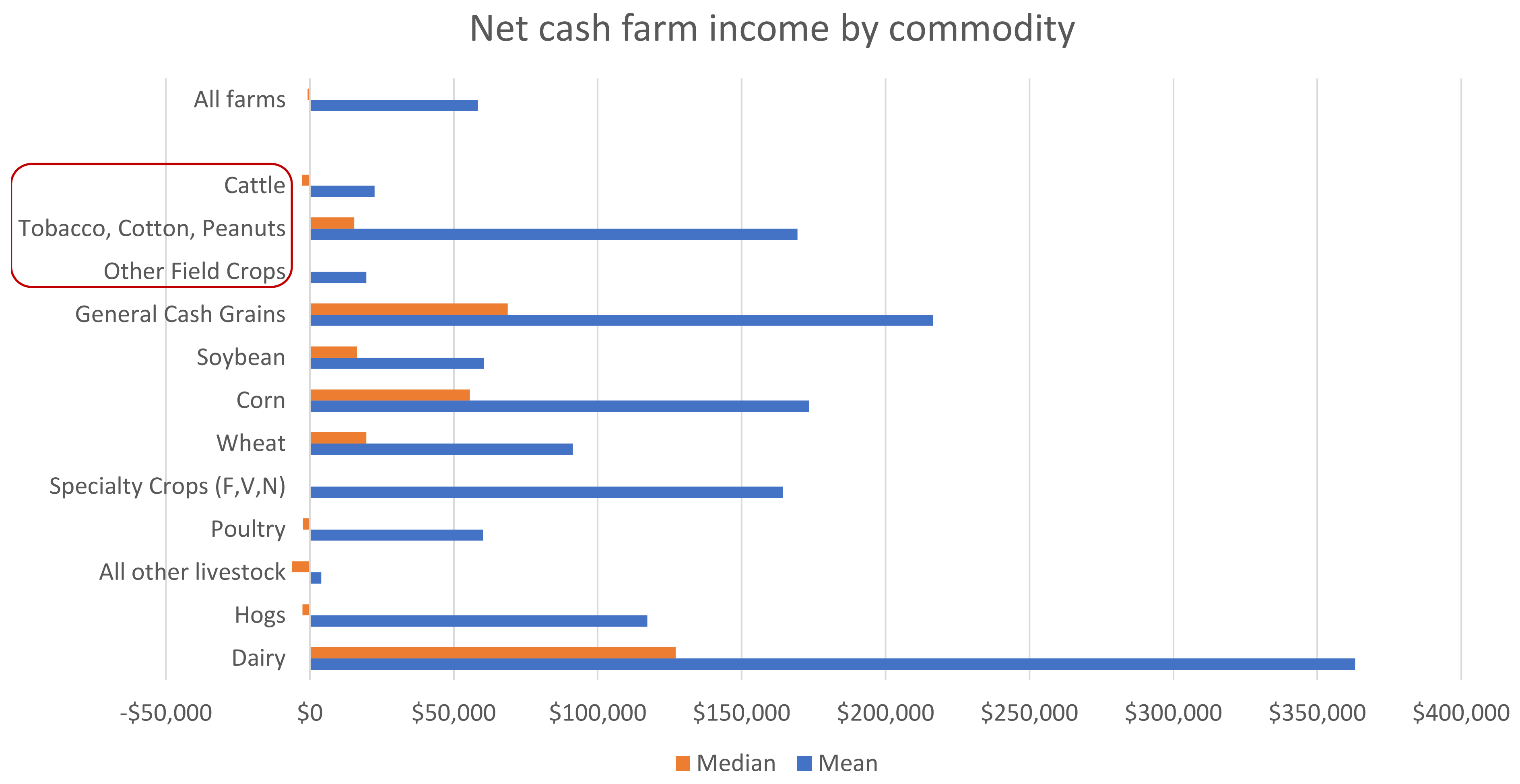
Narrow margins

- Margins are narrow and are likely even narrower for new producers who have greater outlays for startup expenses.

- All operations: average (mean) net cash farm income was $58,345 in 2023. Median net cash farm income was -$836.
  - Likely overstating the margins since they do not include the major outlays that new producers are especially faced with, or the principal component of loan payments.

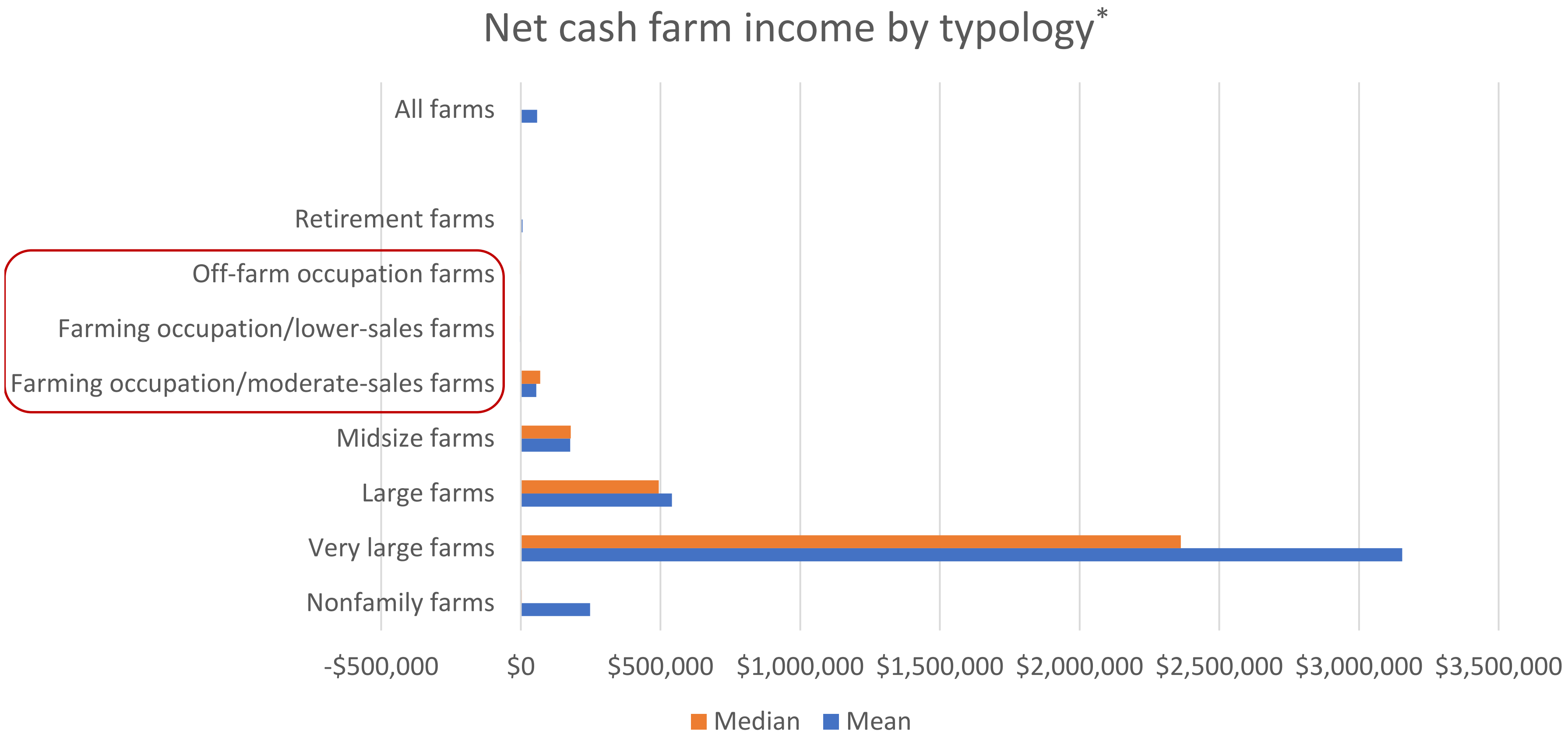
- Next slides break it out by commodity and farm/ranch size.

Narrow margins in commodities accounting for almost half of beginning producers



Source: 2023 Agricultural Resource Management Survey, USDA Economic Research Service and National Agricultural Statistics Service

Margins especially narrow for small farms, which account for majority of beginning producers



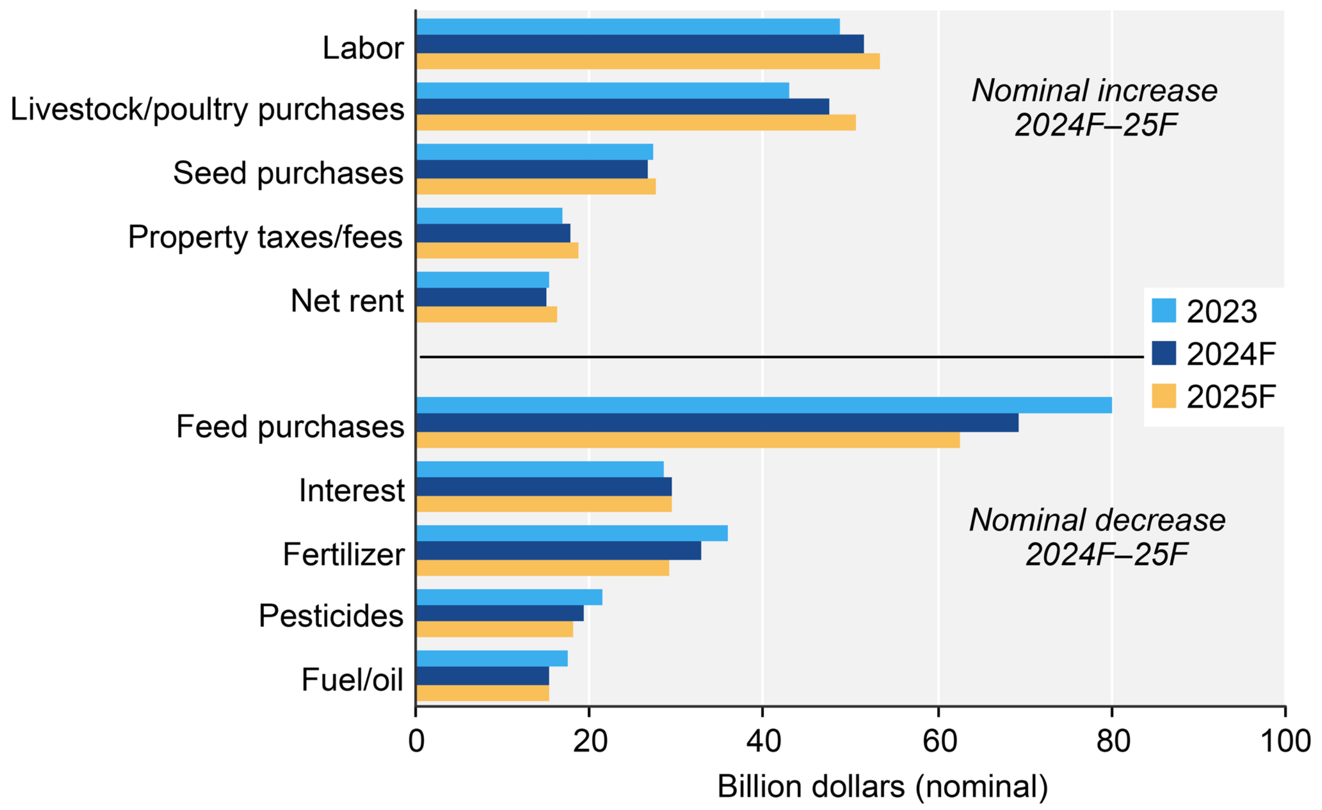
*Typologies are based on gross cash farm income (GCFI). The three circled typologies and retirement farms have GCFI less than $350,000. Farming occupation/lower-sales farms' GCFI is less than $150,000. Farming occupation/moderate-sales farms have GCFI $150,000 – $350,000. Midsize farms: $350,000 – $1 million. Large farms: $1 – 5 million. Very large farms: over $5 million.

Source: 2023 Agricultural Resource Management Survey, USDA Economic Research Service and National Agricultural Statistics Service

Production expenses

- Largest costs: labor, livestock purchases, feed, seed, fertilizer.
- Interest expenses forecast to hold steady.
- Composition of expenses depend on commodity.
- Major startup expenses not shown here: land and buildings, equipment.

Selected U.S. farm production expenses, 2023–25F

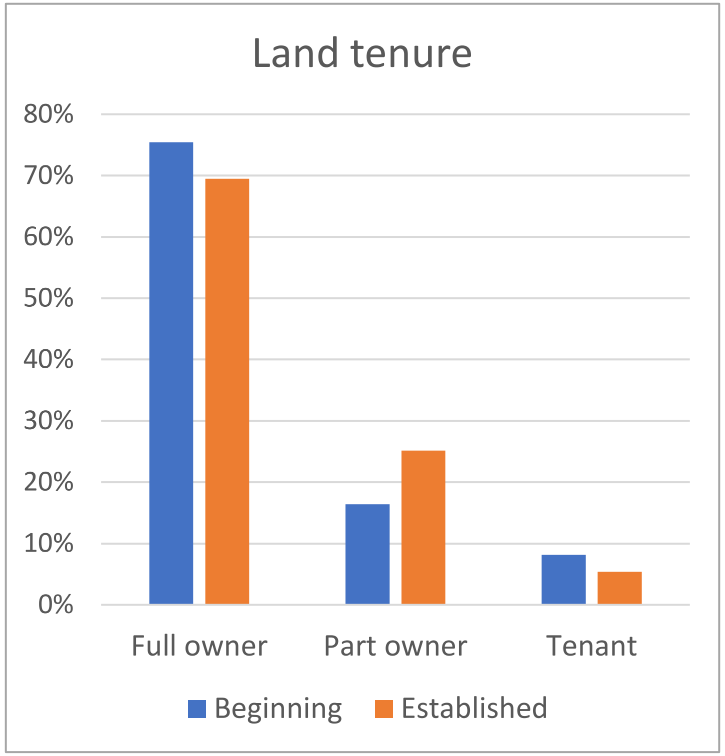


Note: F = forecast.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of February 6, 2025.

Source: Farm Income and Wealth Statistics, USDA Economic Research Service

Land: acreage and ownership

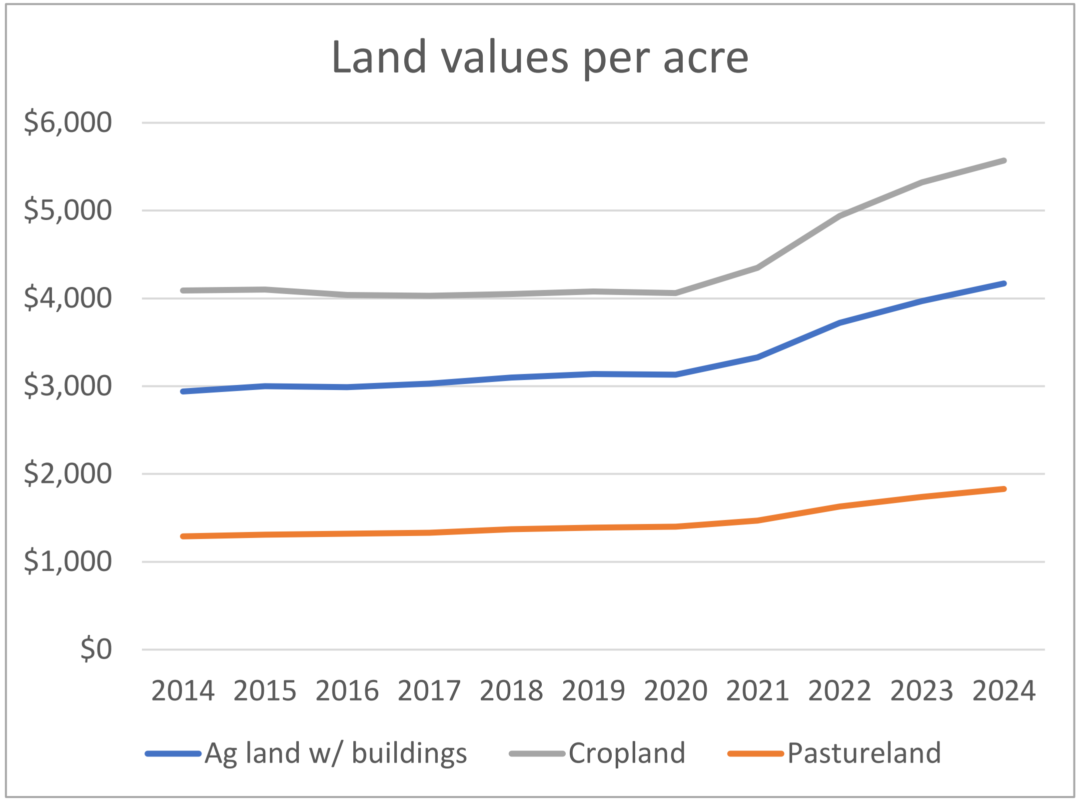
- Beginning producers are more heavily concentrated in very small-acreage farms and are more likely to be full owners or tenants and less likely to be part-owners.



Source: 2022 Census of Agriculture, USDA National Agricultural Statistics Service

Cost of land

- Increases in land values make starting out more expensive. Agricultural land values (national average) have risen approx. 39% between 2014 and 2024.
  - Cropland 36%, pastureland 40%.
  - Especially large increases starting in 2021.
- Rent increased 13% for cropland and 30% for pastureland during this same period.



Source: June Area Survey, USDA National Agricultural Statistics Service

Equipment

- Equipment can cost tens or hundreds of thousands of dollars.
- New producers are faced with buying or leasing everything upfront, whereas established producers may need to replace fewer pieces of equipment in a given year.
- Leasing lowers the initial outlay, but beginning producers may face more challenges in accessing credit.

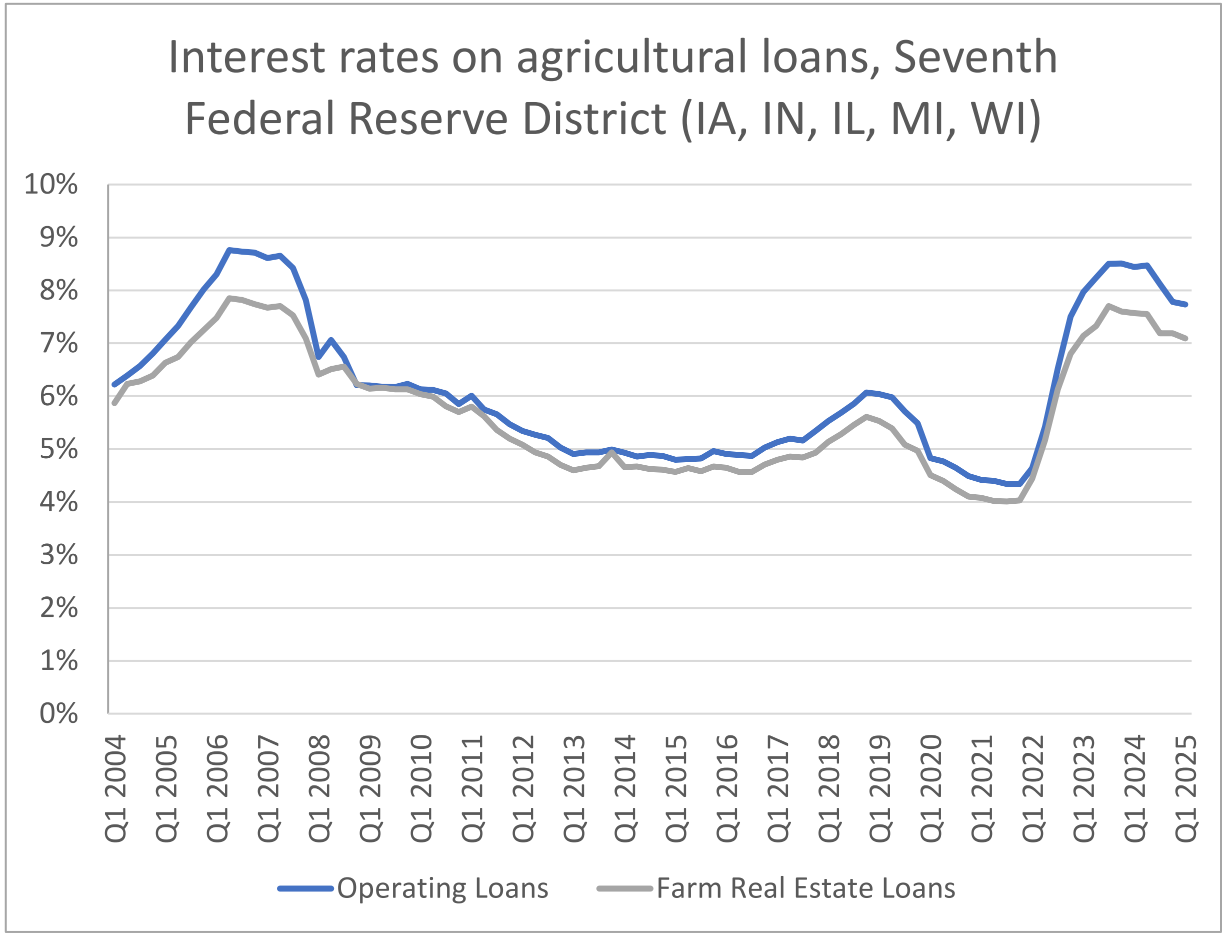
Credit

- Beginning producers are more likely to face challenges accessing credit because they tend to have less net worth, collateral, and working capital and a shorter business record.
- Beginning producers on average are more likely to have debt (56% vs. 48%) and those with debt are more highly leveraged, with debt-to-asset ratios of 29% vs. 18%.*

*Key, Nigel and Greg Lyons. An Overview of Beginning Farms and Farmers, EB-29, U.S. Department of Agriculture, Economic Research Service, September 2019.

Interest expense

- In addition to increasing land values, the cost of borrowing has also risen.
  - Rates are at levels last seen in 2007.
- Interest rates for beginning producers are often higher than for established producers.*



*Kauffman, N.S. 2013. “Credit Markets and Land Ownership for Young and Beginning Farmers,” *Choices*. Quarter 2.

Source: Federal Reserve Bank of Chicago

Regulatory compliance costs

- Regulatory compliance costs span labor, food safety, water and air quality, pesticides, etc.
  - Composition depends on factors including State, commodity, and size.
- Small farms are more likely to be price takers and have less ability to pass on regulatory cost increases.
- McCullough and Hamilton (2021) surveyed a variety of crop farms in the San Joaquin Valley (California) and found that total regulatory costs increased by 265% between 2012-2018 while total production costs increased 22%.
  - Hamilton and McCullough (2024) focused on lettuce growers, found that regulatory costs increased by 1,366% between 2006-2024 while total production costs rose 44%.

Resources for beginning producers

- Farm Credit System YBS programs
  - Lending programs
    - ✓ Flexible credit standards
    - ✓ Interest rate concessions and fee reductions
    - ✓ Specialized programs
    - ✓ Partnering with third parties (e.g., FSA’s Preferred Lender Program)
  - Non-lending programs
    - ✓ Non-lending capital commitments
    - ✓ Educational support
    - ✓ Scholarships
    - ✓ Related Services
    - ✓ Grants
    - ✓ Marketing and Outreach
- FSA direct loans, guaranteed loans, and down payment program
- Farm Link and similar programs (link to list of programs)

Conclusion

- Starting out in agriculture usually involves large initial outlays, which further cuts into agriculture’s already narrow margins.
- Rising land values and rents increase the barriers to entry.
- High interest rates have increased the cost of borrowing, and new producers may also face additional challenges in obtaining credit.
- There are resources for new farmers from the Farm Credit System’s Young, Beginning, and Small programs as well as Federal and State governments.
- Insight into the hurdles faced by new producers informs policy discussions going forward.