

Steady Outlook for U.S. Farm Economy Despite _____

Nate Kauffman, Federal Reserve Bank of Kansas City

March 1, 2023

The views expressed here are those of the speaker and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.



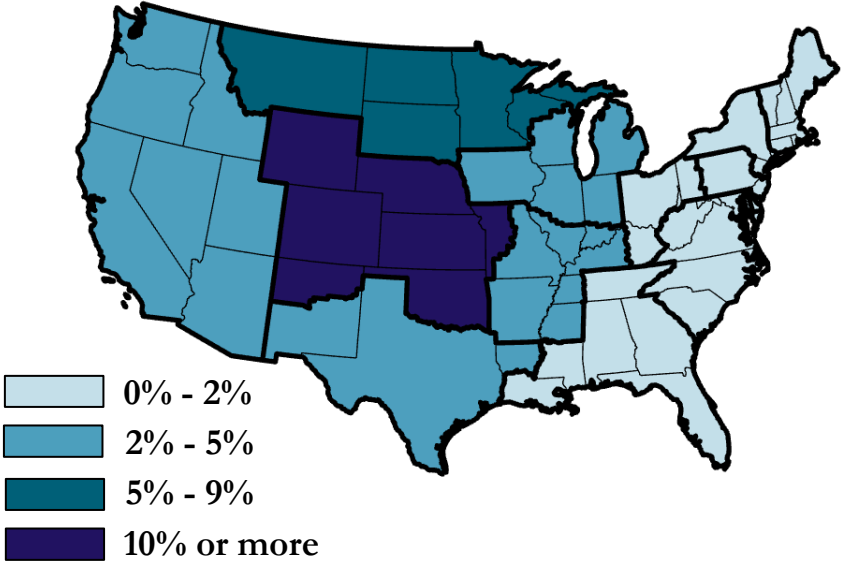
Outlook Themes

- Despite numerous risks and recent signs of softening, U.S. agriculture is poised for a solid year in 2023.
- Persistent inflation, limited economic growth and adjustments to higher interest rates will be ongoing challenges.

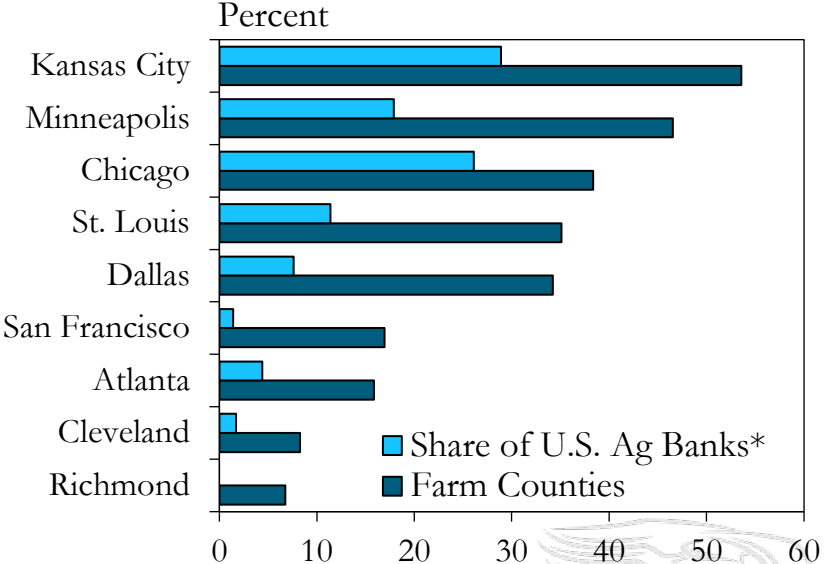


The Federal Reserve regularly incorporates ag perspectives in its policy deliberations.

Farm Income as a Share of Total Personal Income (2010-2020)



Agricultural Banks and Farm Dependent Counties

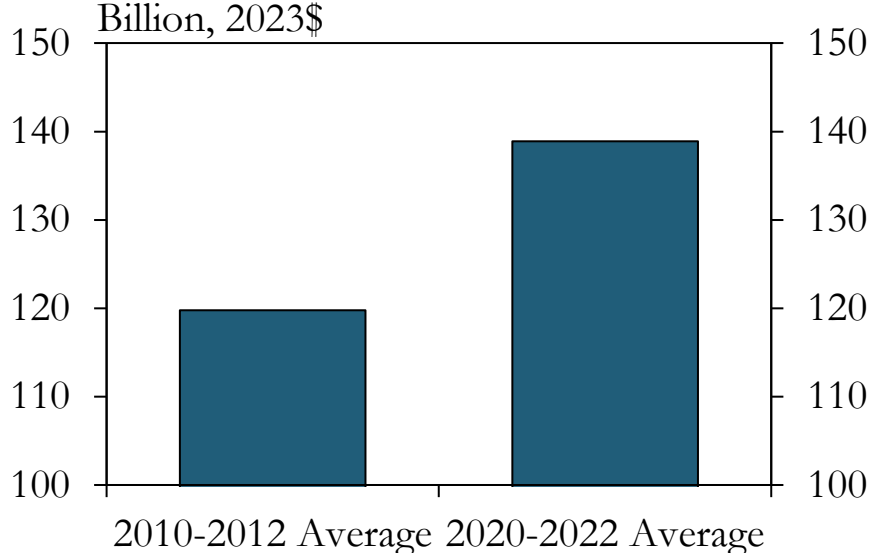


Note: Farm income is shown as a share of total personal income, averaged across all counties in each respective Fed District.
 Sources: BEA, USDA, Federal Reserve Bank of Kansas City and staff calculations

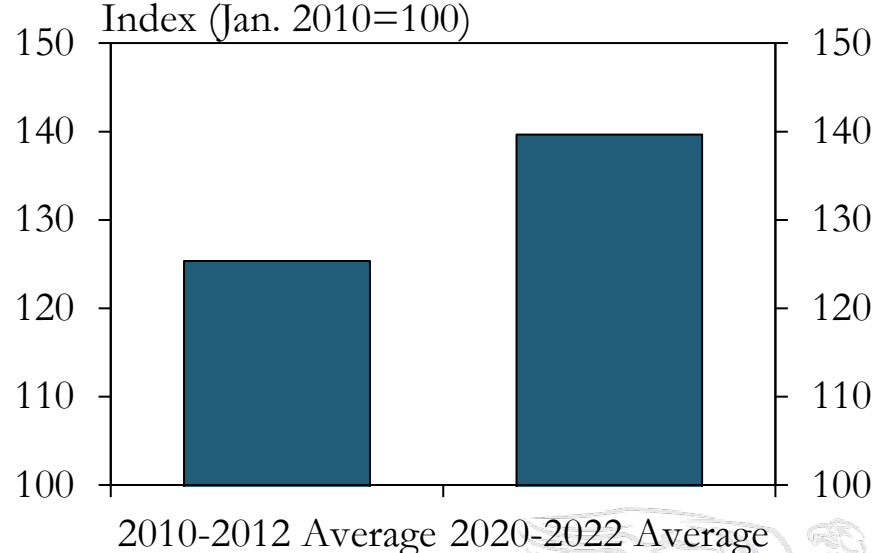


Since 2020, economic conditions in U.S. agriculture have been remarkably strong.

U.S. Net Farm Income



U.S. Ag Commodity Prices

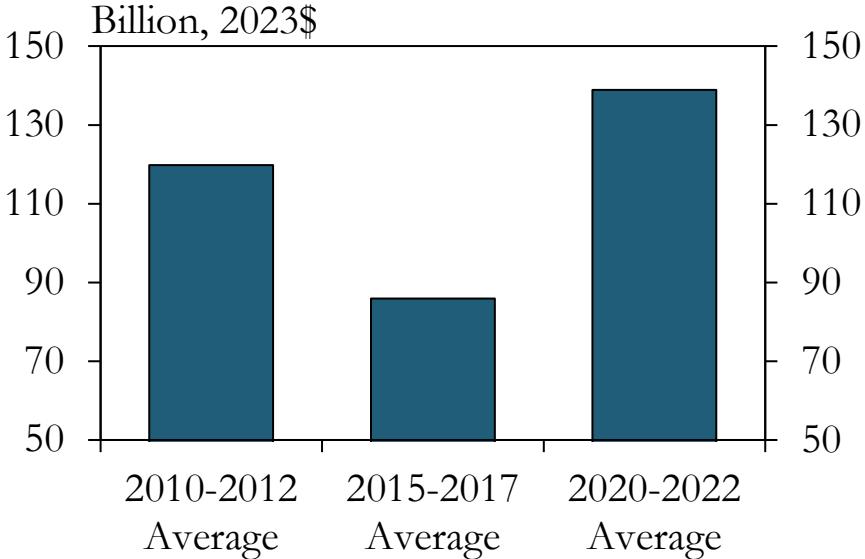


Sources: USDA and staff calculations

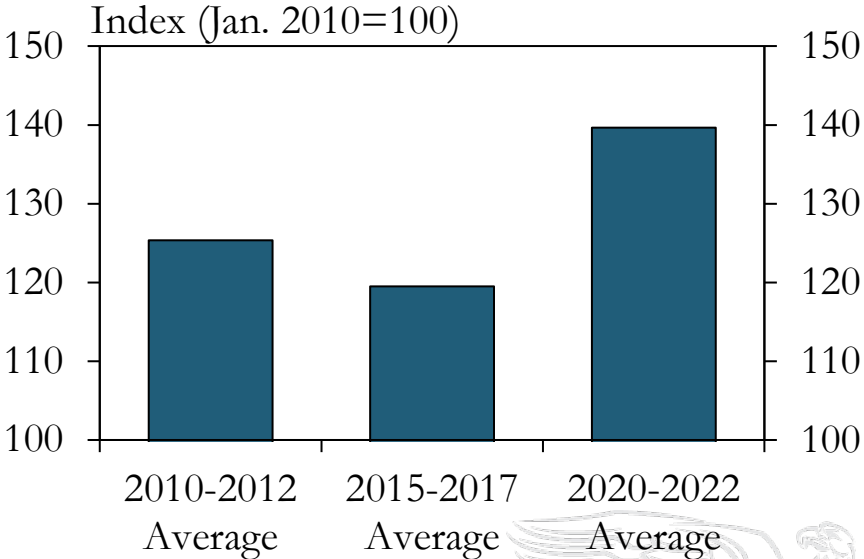


There has been notable disruption, however, between these periods of strength.

U.S. Net Farm Income



U.S. Ag Commodity Prices

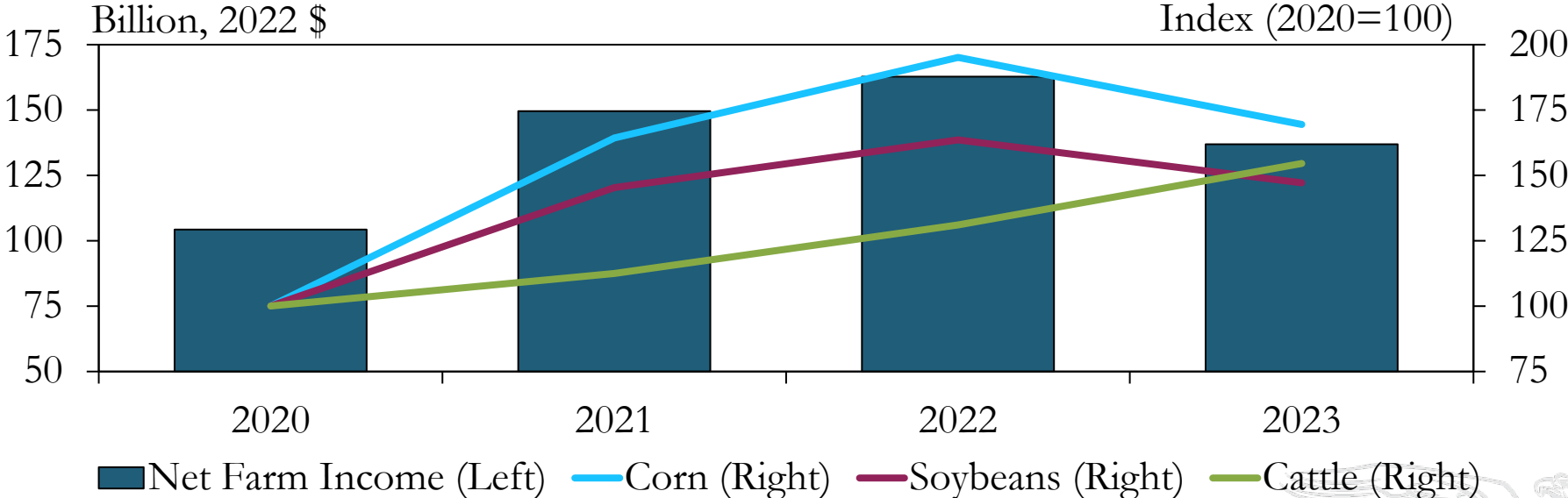


Sources: USDA and staff calculations



The outlook appears likely to remain steady in 2023.

U.S. Farm Income and Agricultural Commodity Prices

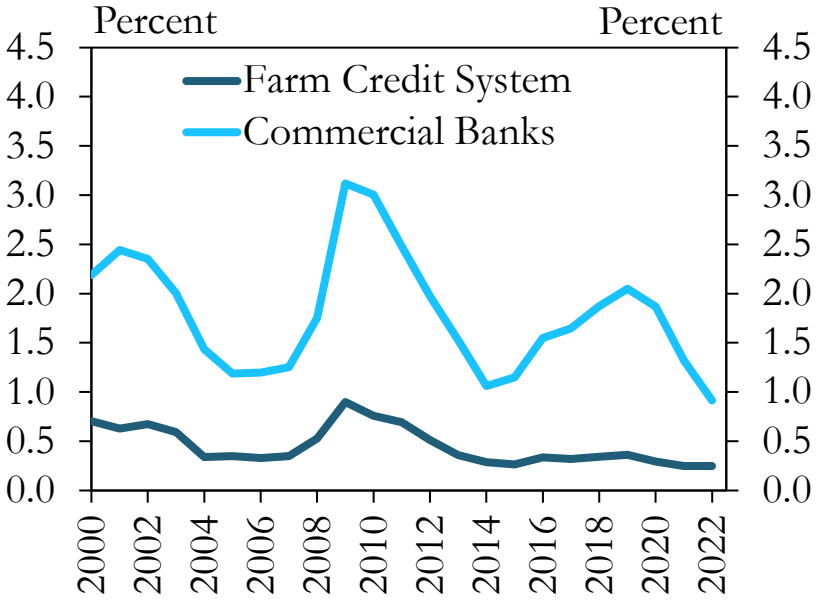


Note: USDA Agricultural Projections as of February 2023 and December/November 2023 futures prices.
Sources: USDA, *Wall Street Journal*, CME, and staff calculations

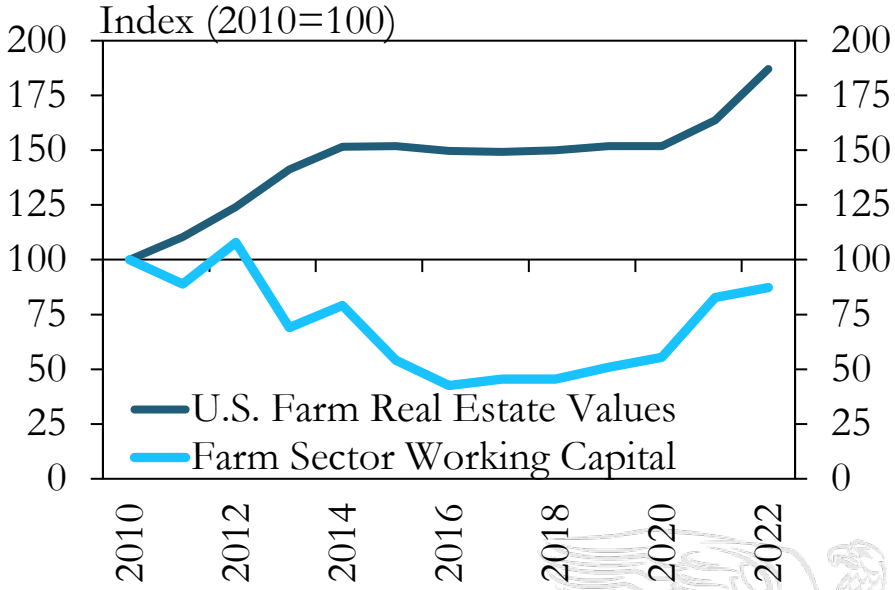


Farm finances were strong through 2022 and are likely to remain solid in 2023.

Farm Loan Delinquency Rates, Q4*



Farm Real Estate Values and Working Capital



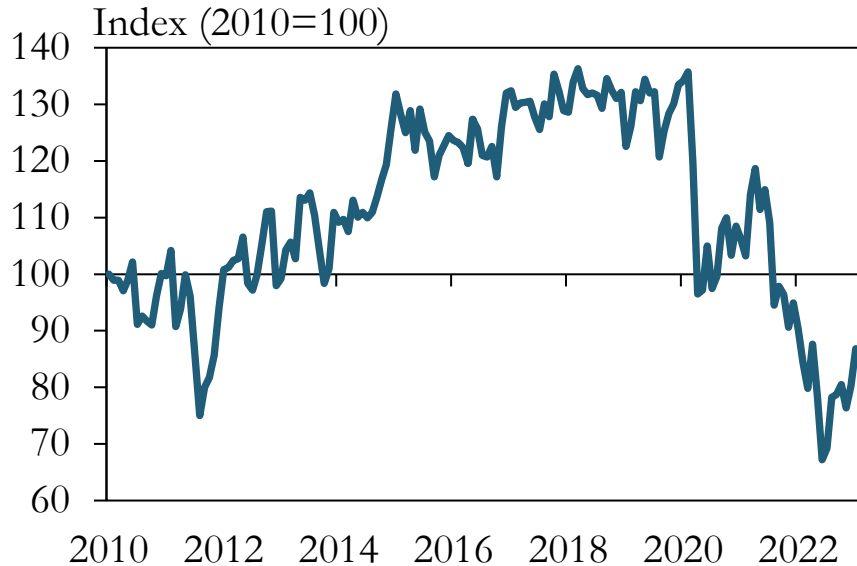
*Q4 2022 data is not yet available for Farm Credit System and is displayed as the delinquency rate as of Q3 2022.

Sources: USDA, Federal Reserve Board of Governors and Farm Credit Administration

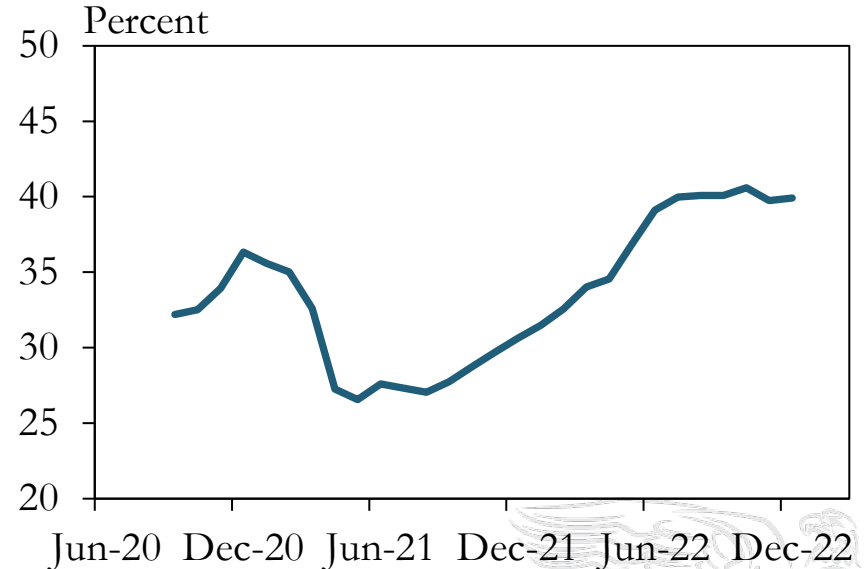


The strength in agriculture contrasts households' more pessimistic view of general economic conditions.

U.S. Consumer Sentiment Index

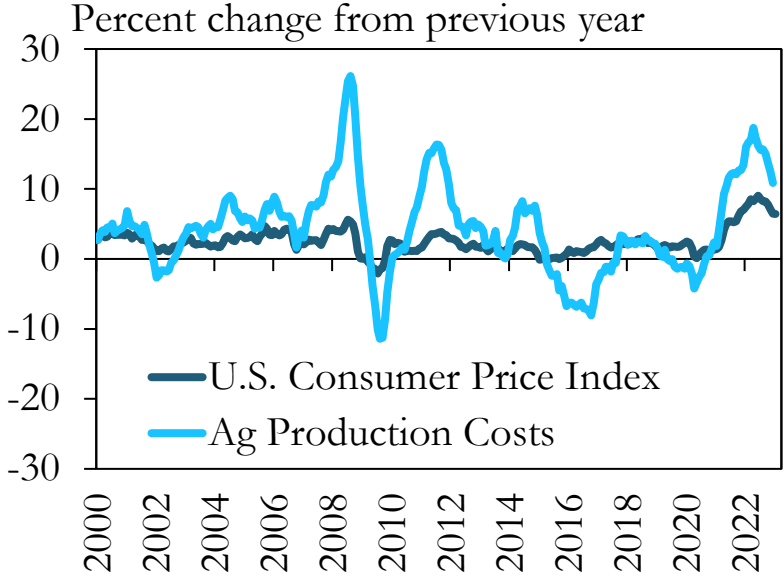


Share of Adults Reporting Difficulty Paying Expenses

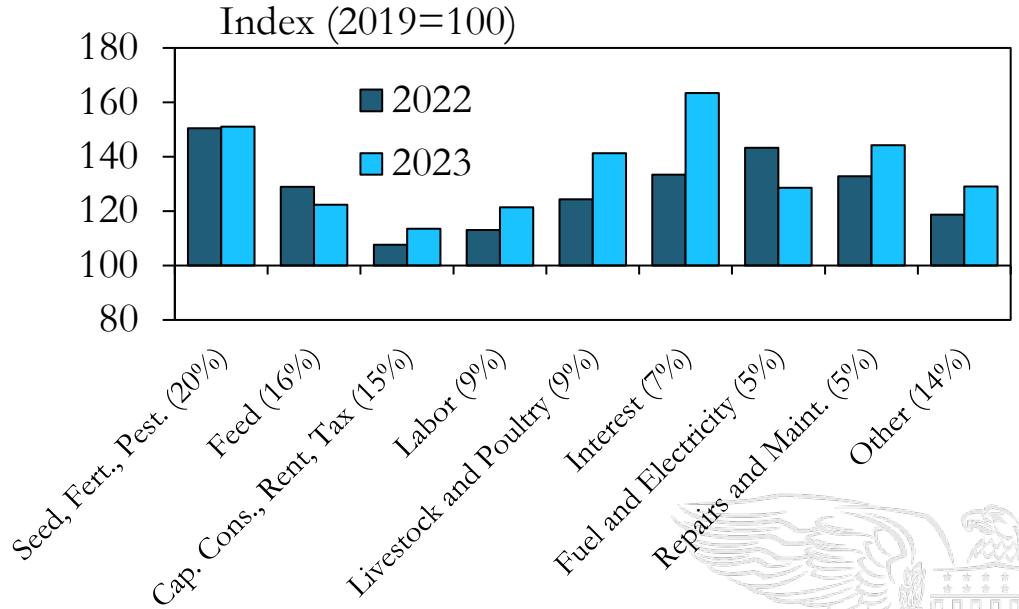


Inflation has been a significant headwind for households and businesses, including in the ag sector.

Consumer Prices and Ag Inputs



U.S. Agriculture – Input Costs

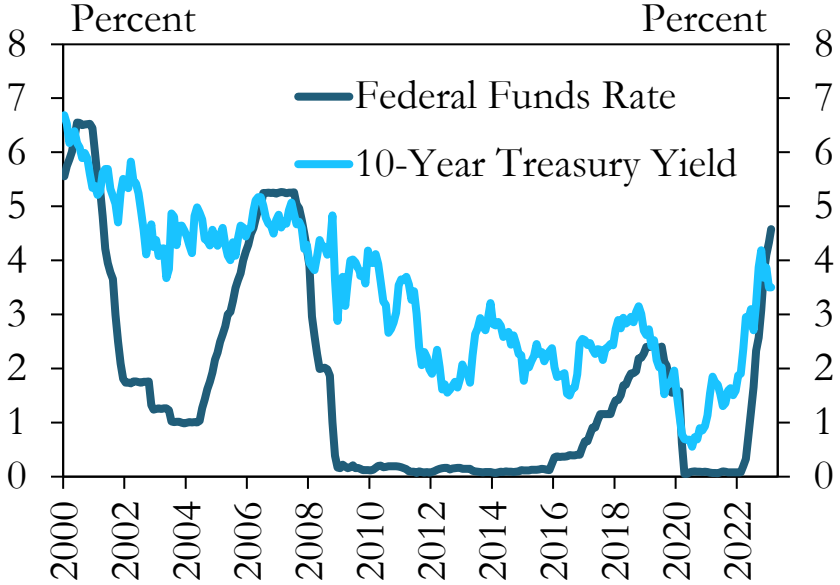


Sources: Bureau of Labor Statistics, USDA and Haver Analytics

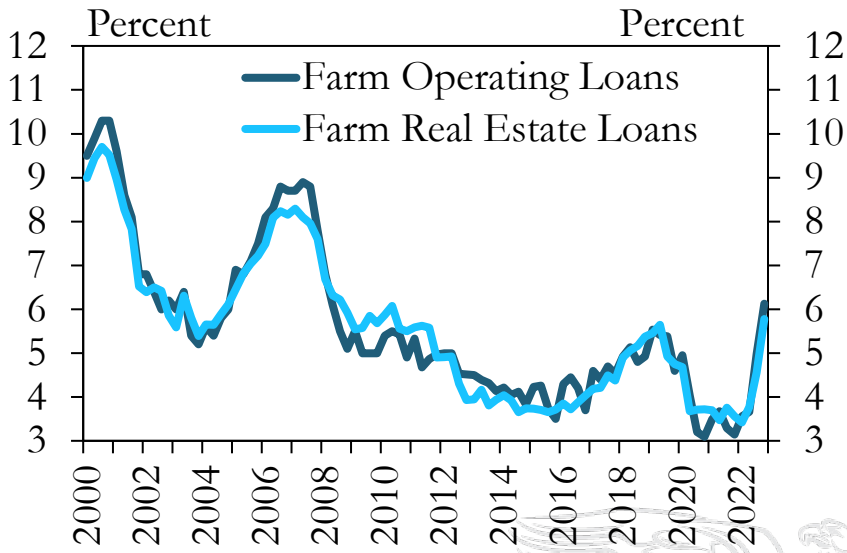


Interest rates have risen sharply, leading to significant increases in farm borrowing costs.

U.S. Interest Rates



Average Interest Rates on Agricultural Loans

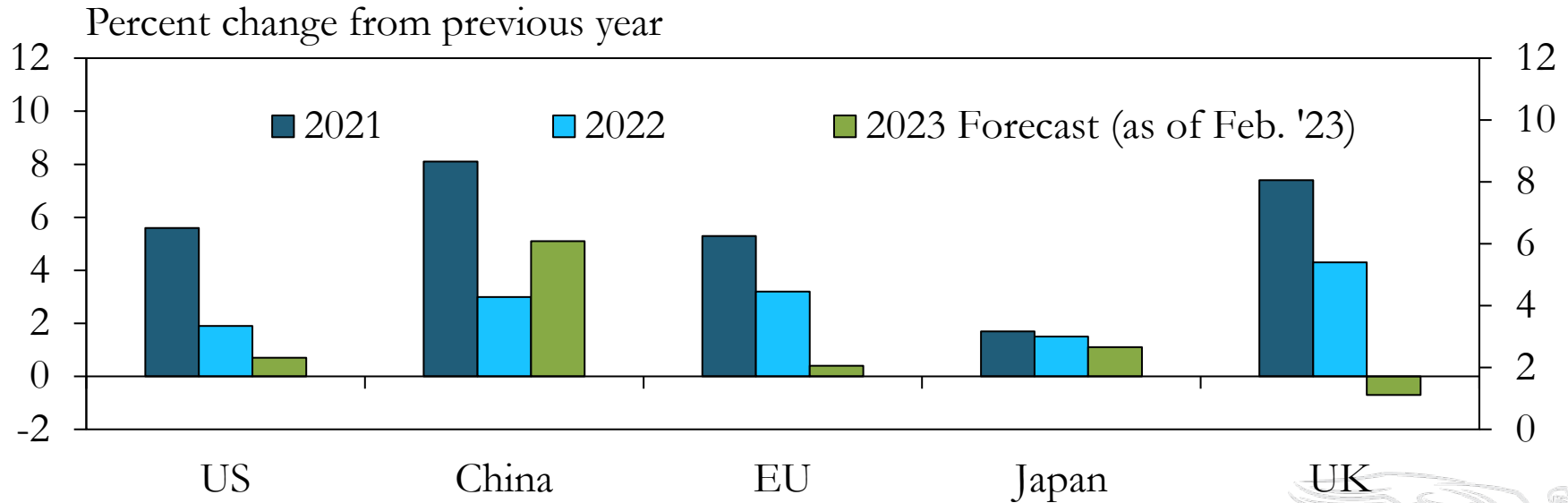


Sources: Federal Reserve Board of Governors, Survey of Terms of Lending to Farmers and Haver Analytics



Prospects for global economic growth have softened as central banks look to contain inflationary pressures.

Real GDP Growth

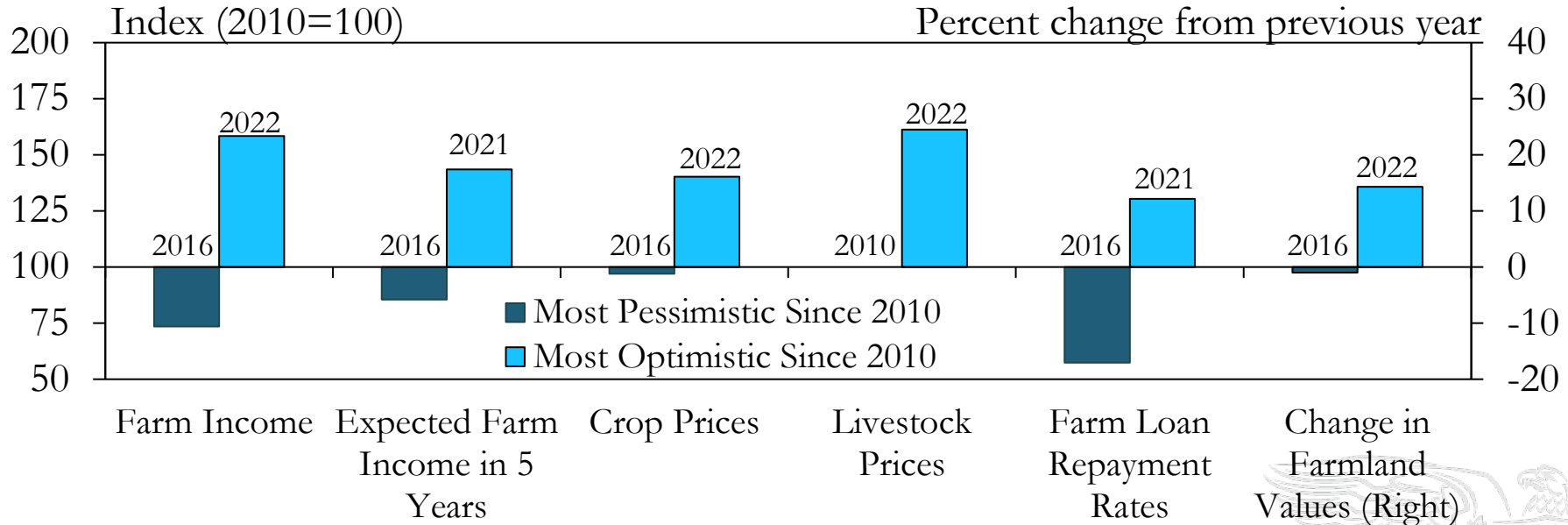


Sources: Bureau of Labor Statistics, BEA, Wolters Kluwer, Statistical Office of the European Communities, Cabinet Office of Japan, Office of National Statistics, China National Bureau of Statistics, and Haver Analytics



Economic conditions in ag are likely to settle somewhere between the extremes of the past decade.

Indicators of the U.S. Ag Economy



Concluding Thoughts

- The U.S. ag economy remains well positioned in 2023 despite a prevalence of macroeconomic risks.
- Profit margins will likely be thinner in 2023 alongside elevated costs and more subdued commodity prices.
- Land values will be pressured by higher interest rates and reduced profits, but there may still be longer-term optimism.



