

Modest Economic Growth Amid Growing Credit Risks

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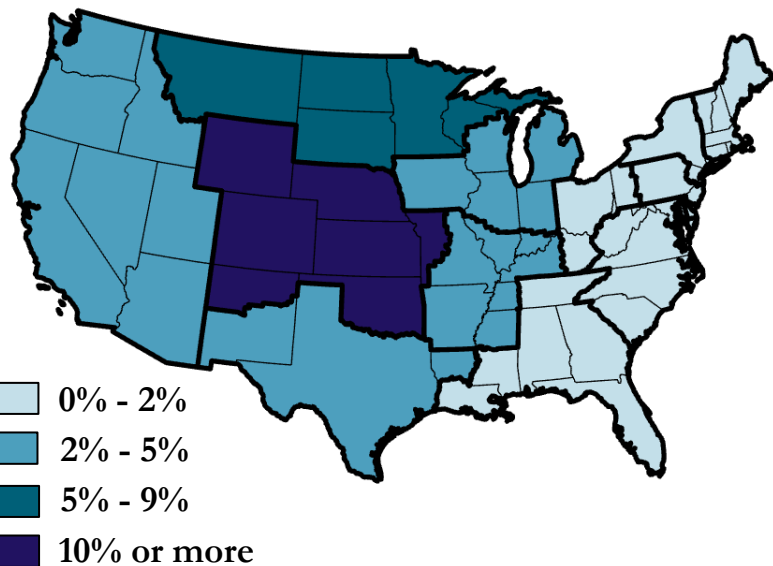
April 19, 2023

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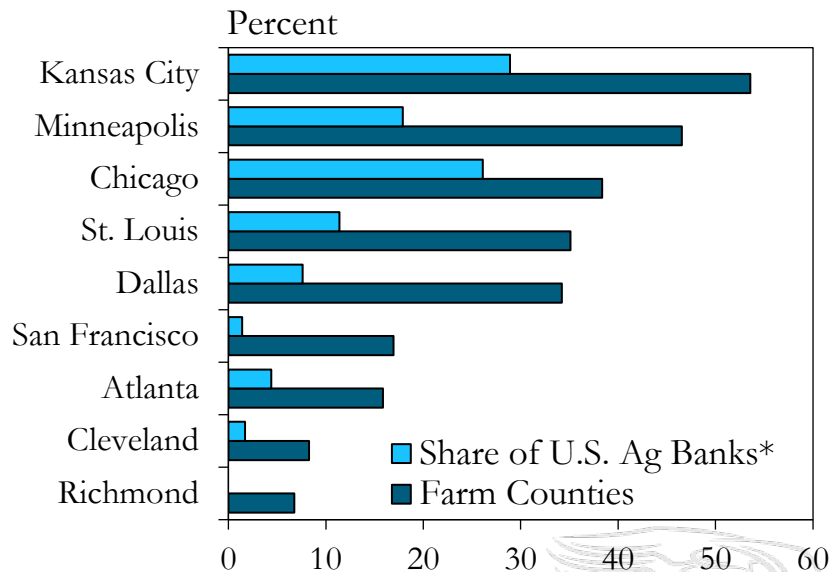


The Federal Reserve regularly incorporates ag perspectives in its policy deliberations.

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



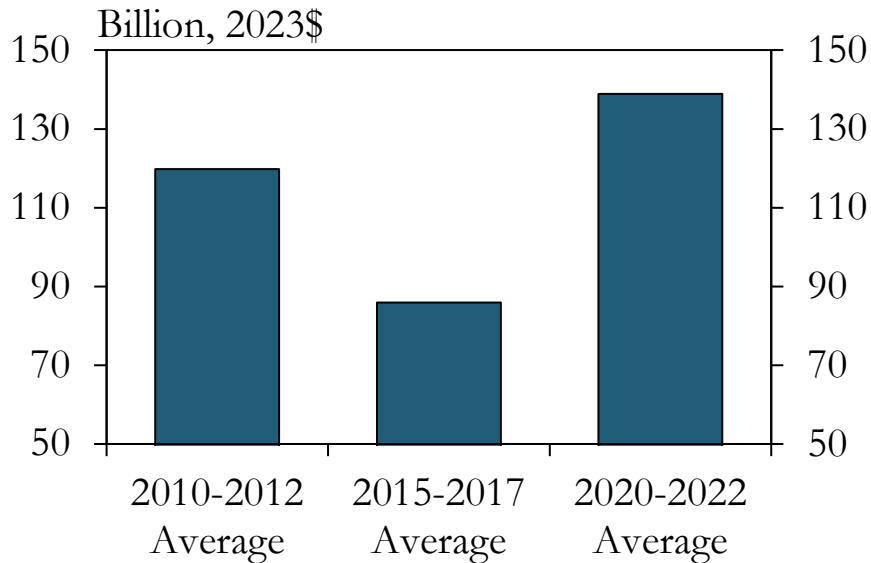
Outlook Themes

- Economic growth has slowed over the past year and is expected to be rather modest in the year ahead.
- Despite sharp increases in interest rates, and the potential for tighter credit conditions, U.S. agriculture has remained in a strong financial position.

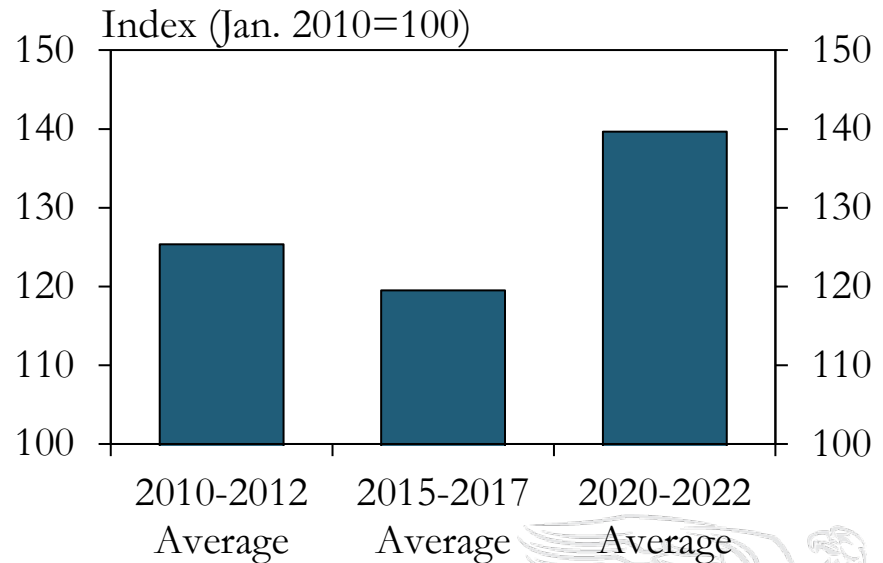


The U.S. agricultural economy has been strong the past few years.

U.S. Net Farm Income

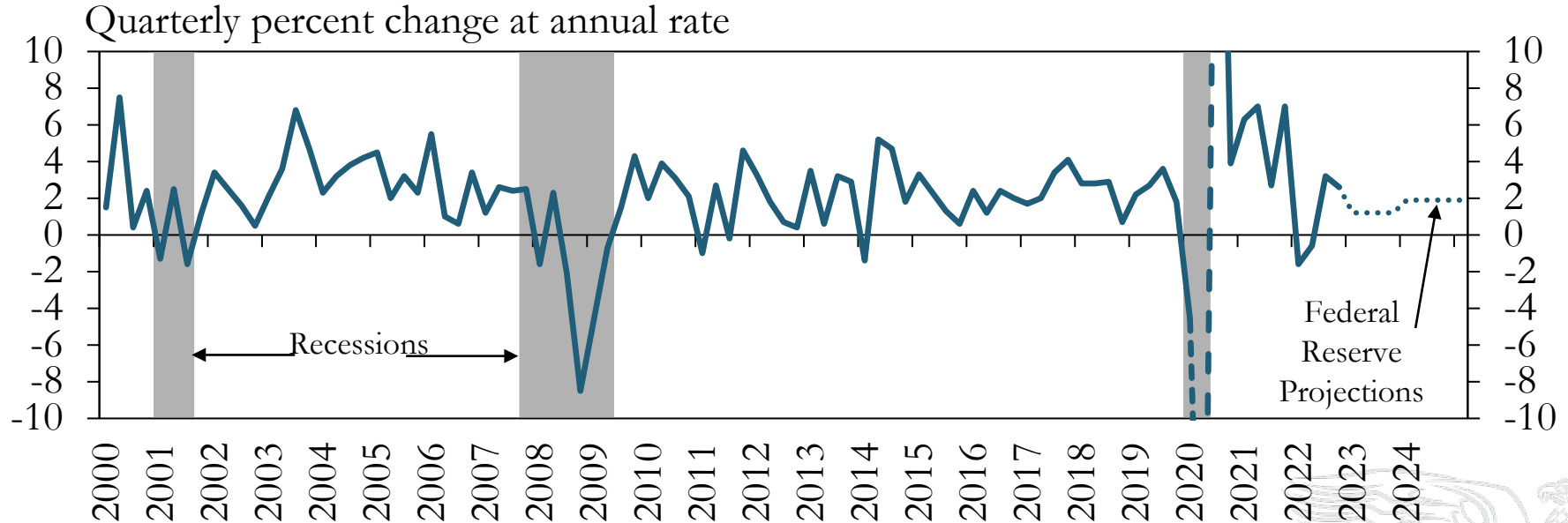


U.S. Ag Commodity Prices



More generally, U.S. economic growth is expected to be modest through 2024.

U.S Real GDP Growth



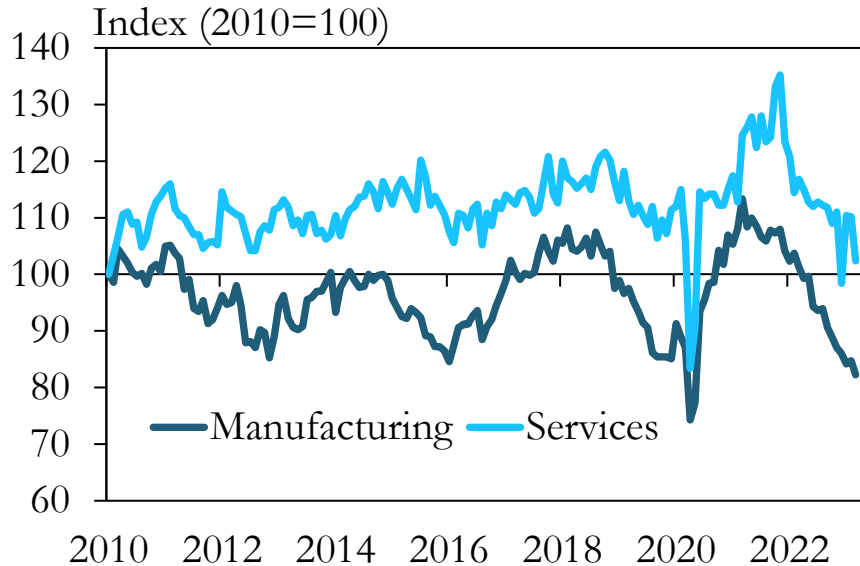
Note: Figures for Q1 2020 (-30%) and Q2 2020 (+35%) are not visible. The scale is limited for better visual representation of data.

Sources: U.S. Census Bureau and Haver Analytics

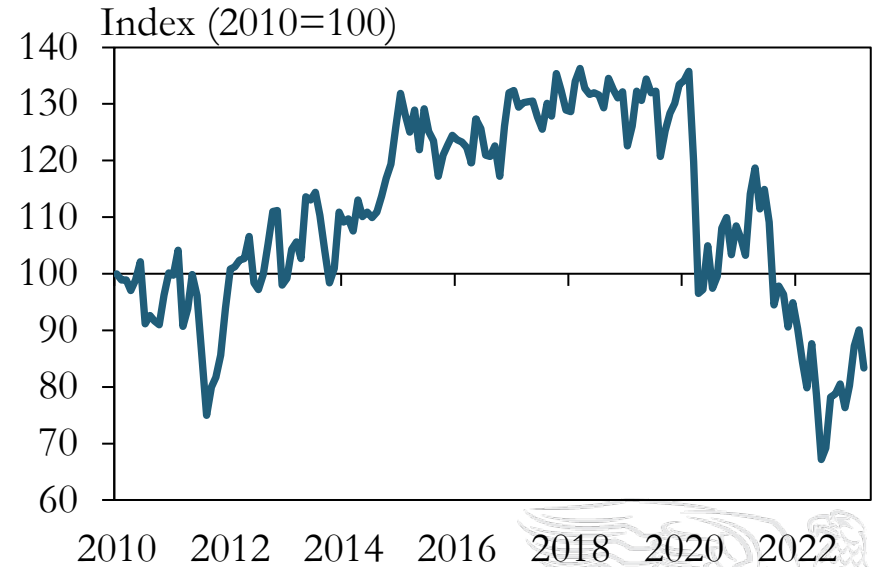


Other measures of U.S. economic activity also point to slowing.

U.S. Manufacturing and Services Activity

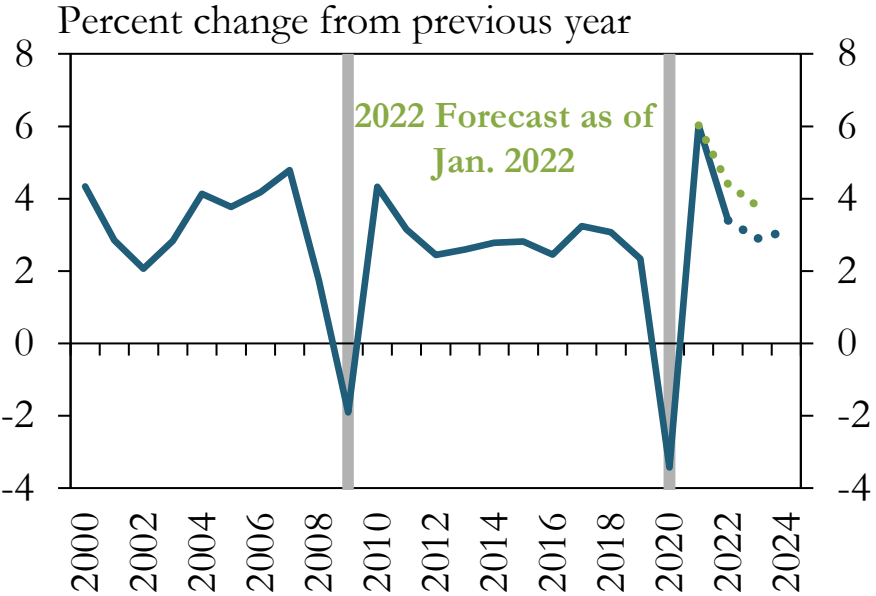


U.S. Consumer Sentiment Index

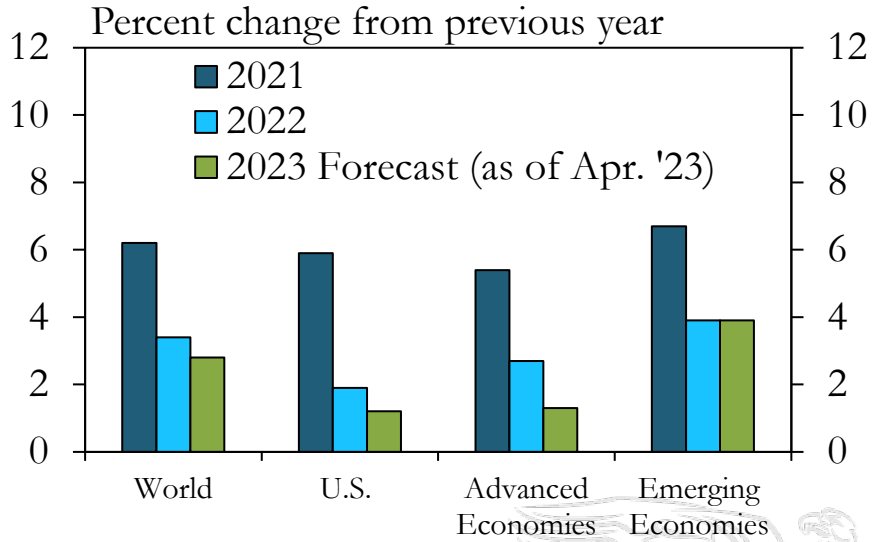


Globally, economic growth is expected to be slower than what was anticipated at the beginning of 2022.

Global Real GDP Growth



Real GDP Growth by Country

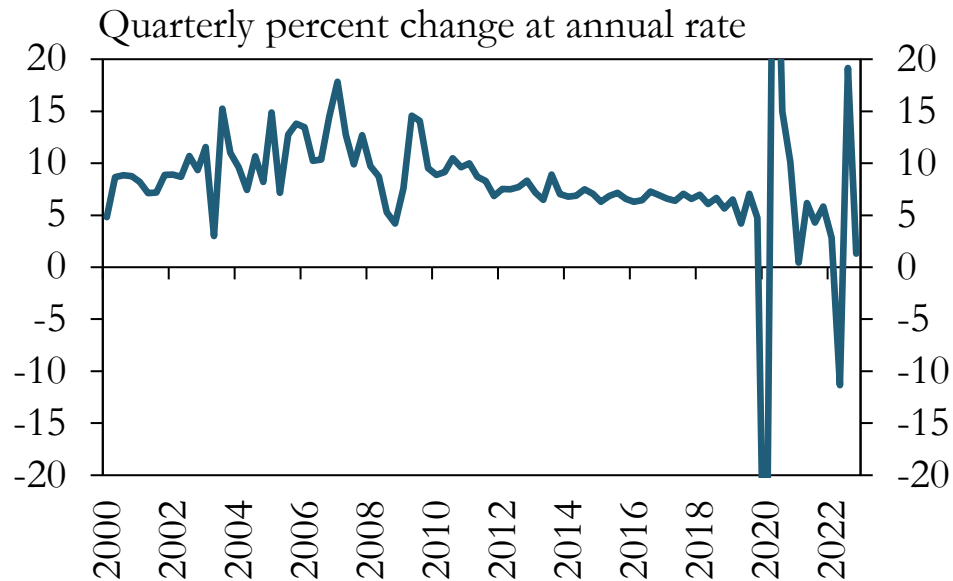


Sources: International Monetary Fund and Haver Analytics

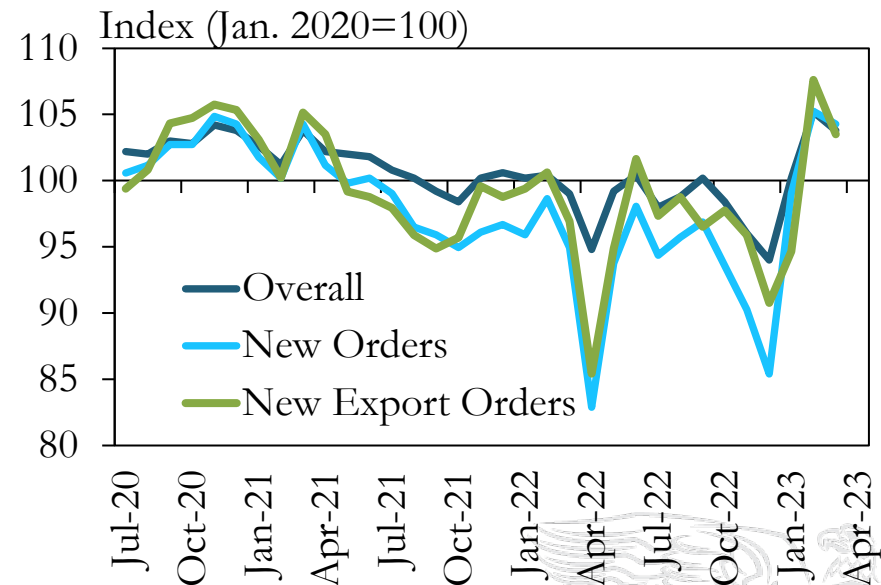


China's reversal from zero-covid has led to renewed growth, amid global economic risks.

China Real GDP Growth



China Manufacturing Activity



Note: Figures for Q1 2020 (-42%) and Q2 2020 (+46%) are not visible. The scale is limited for better visual representation of data.

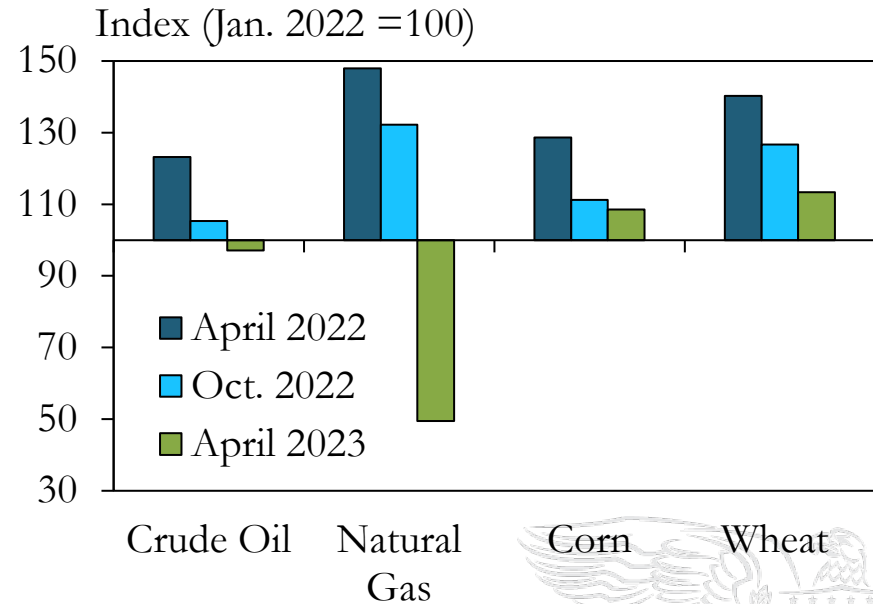
Sources: China Federation of Logistics & Purchasing, CNBS, China National Bureau of Statistics, and Haver Analytics

The war in Ukraine remains a source of uncertainty, but commodity prices have been relatively stable.

Russian Occupation of Ukraine – April 10, 2023

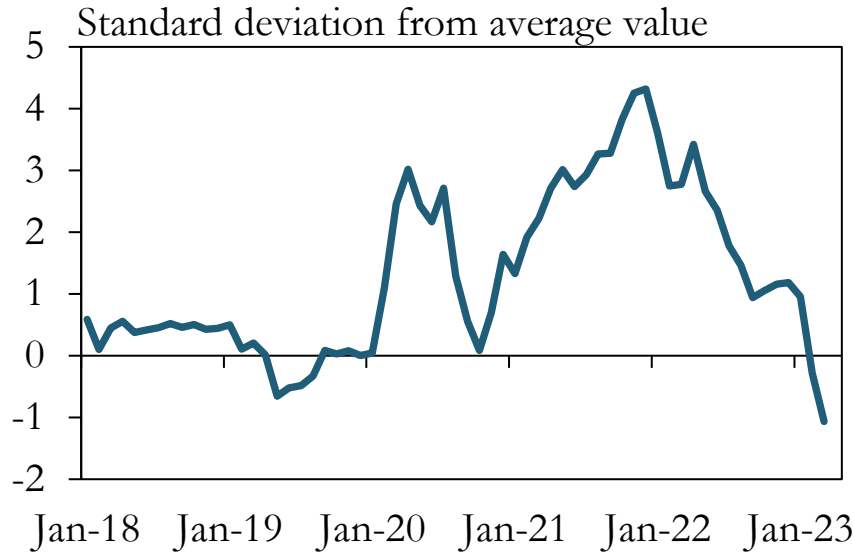


Commodity Prices

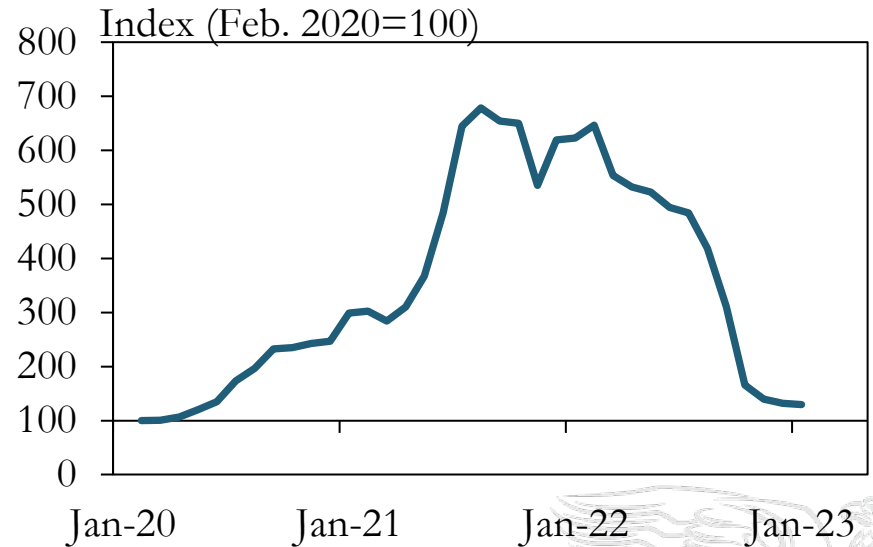


Costs associated with supply chain disruptions have also dropped sharply.

Global Supply Chain Pressure Index



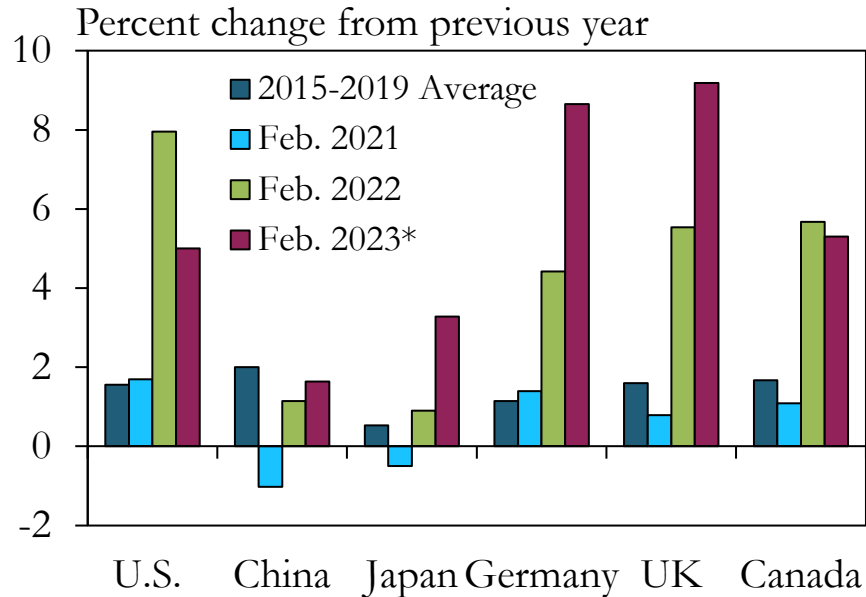
Freight Rates for 40ft Ocean Container: Shanghai to LA



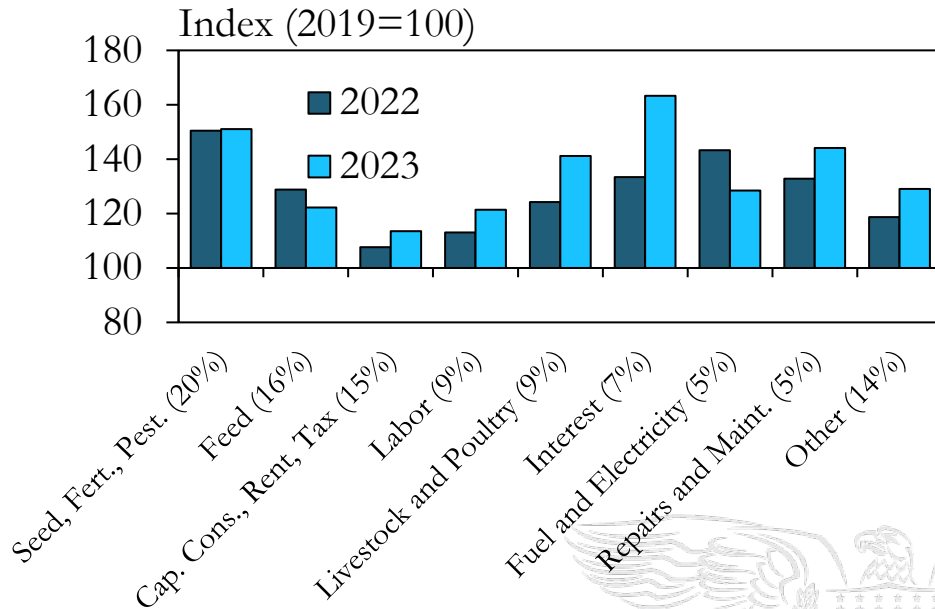
Sources: Federal Reserve Bank of New York, BLS, Federal Reserve Bank of St. Louis, U.S. Department of Agriculture, Agricultural Market Service, Container Ocean Freight Rates from Drewry Supply Chain Advisors' Container Freight Rate Insight and Haver Analytics.

Although some price pressures have eased, inflation remains extremely high.

Consumer Prices



U.S. Agriculture – Input Costs



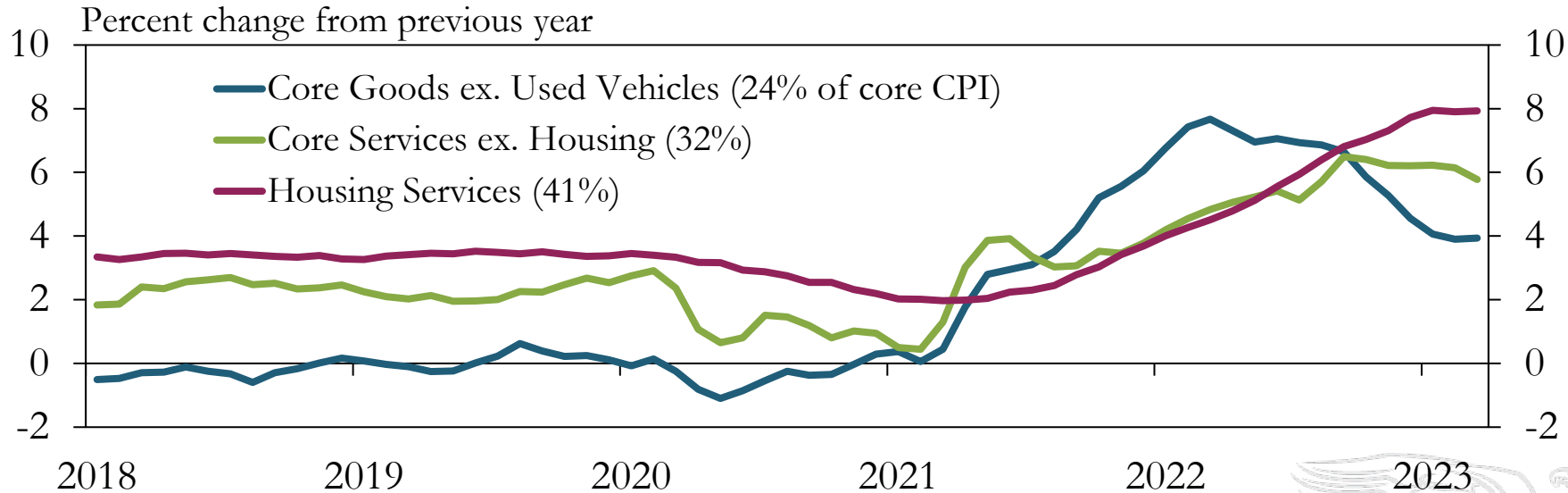
*U.S. is as of March 2023, all others are as of February 2023.

Sources: Bureau of Labor Statistics, USDA and Haver Analytics



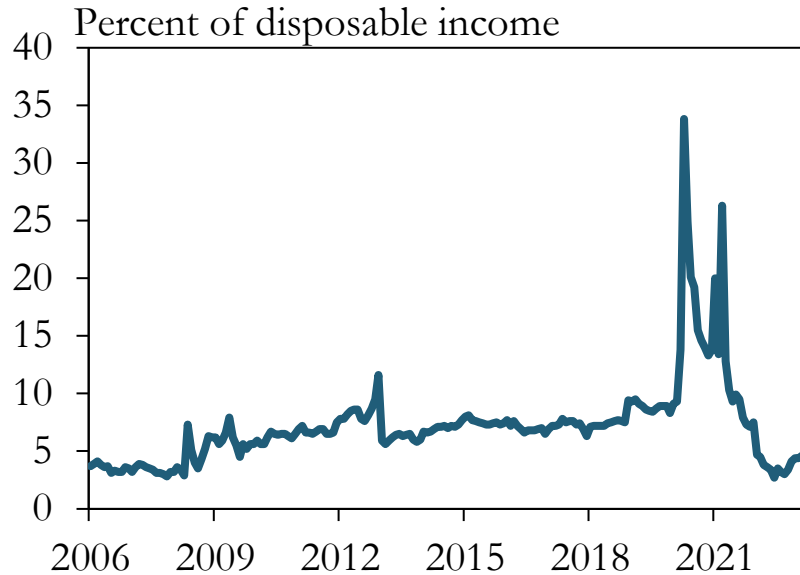
Contributions to inflation have shifted in recent months.

Components of Core CPI Inflation

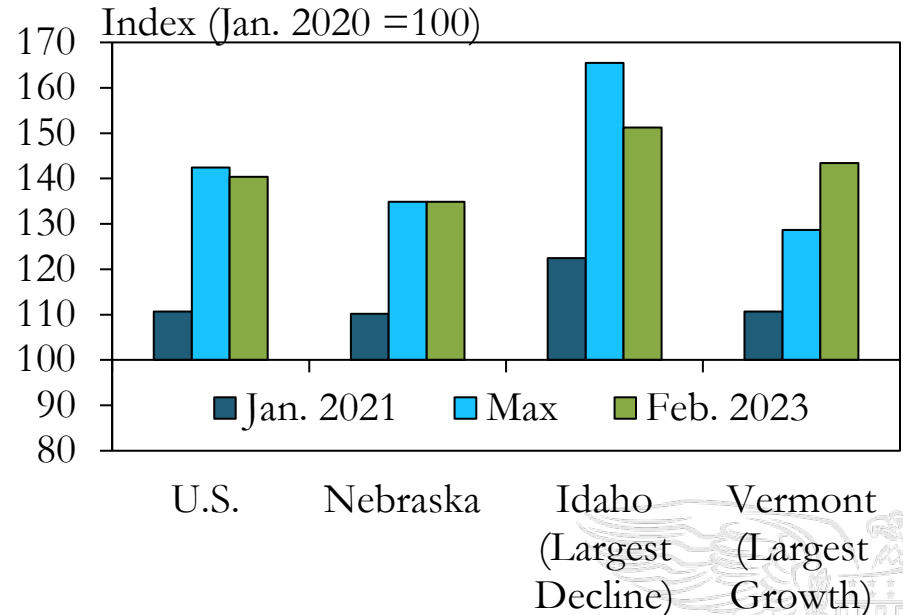


U.S. household savings have declined, but housing prices have only decreased modestly.

U.S. Household Savings



Median Home Prices

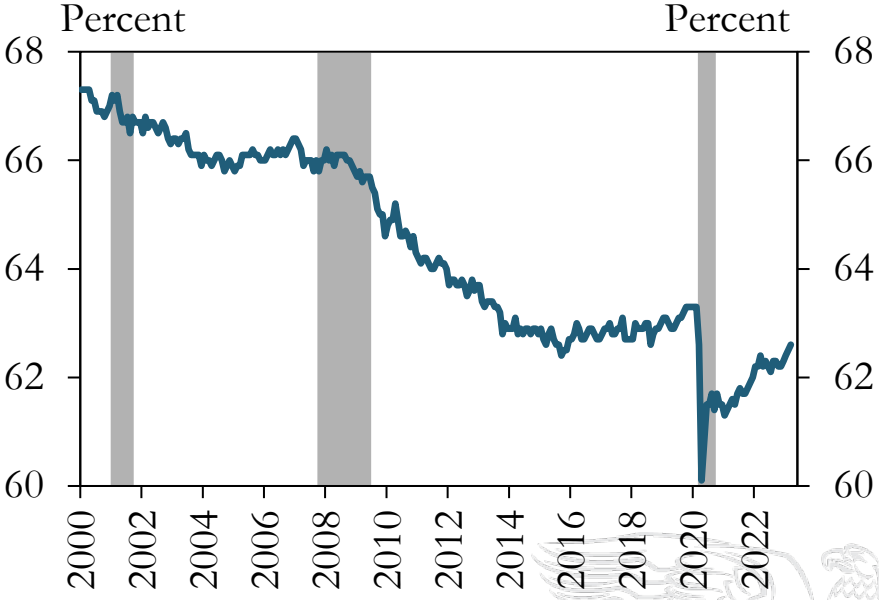


Consumer spending has been somewhat resilient due to a labor market that has remained strong.

Unemployment Rate & Job Openings



Labor Force Participation Rate



Sources: Census Bureau, Haver Analytics, BEA, Federal Reserve Bank of St. Louis.

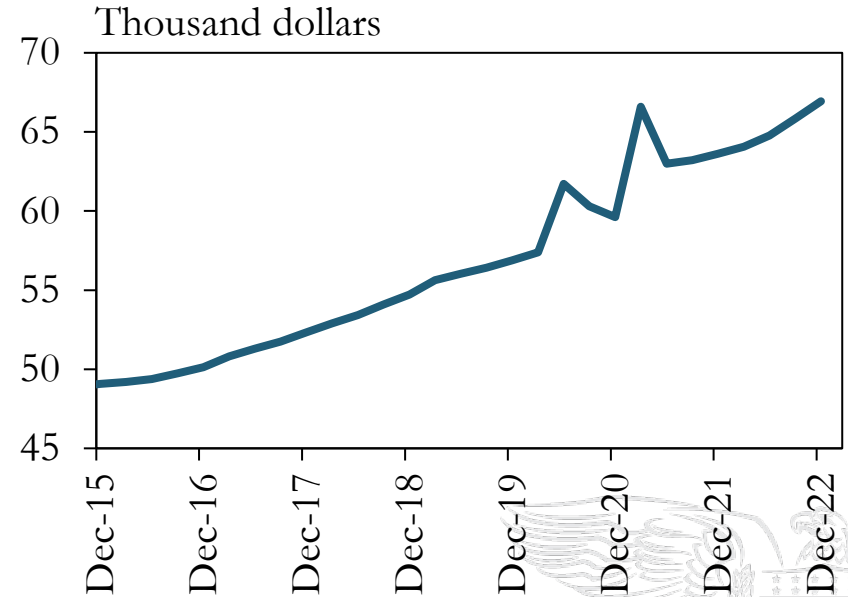


Wage pressures appear to be subsiding somewhat, but the gains remain higher than before the pandemic.

U.S. Average Hourly Earnings

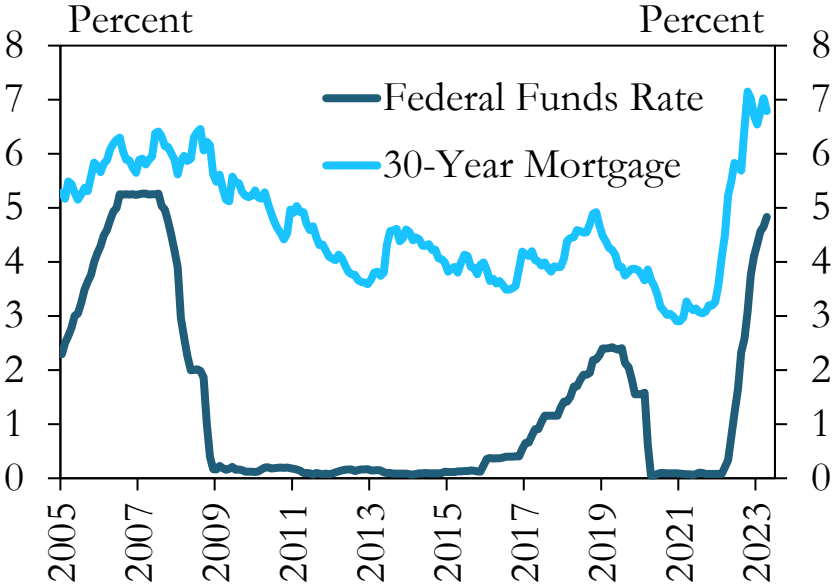


U.S. Per Capita Income

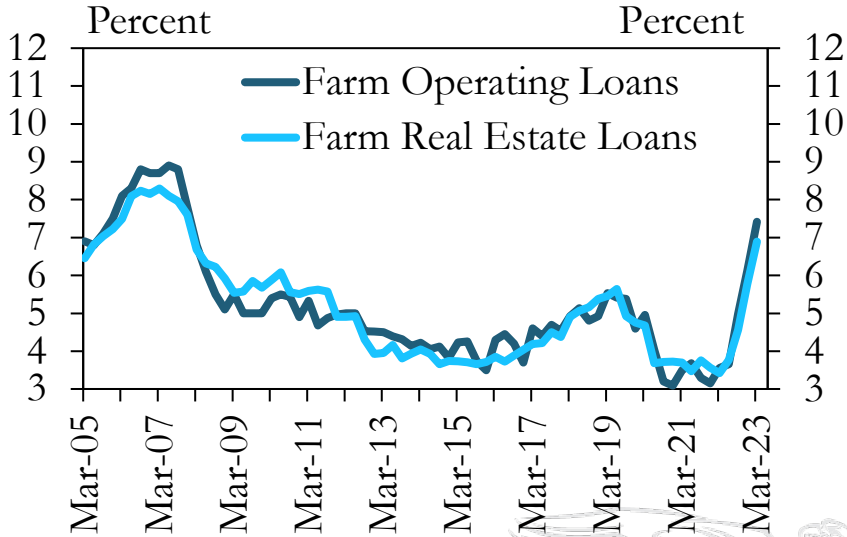


Sharp increases in interest rates have been a growing concern among households and businesses.

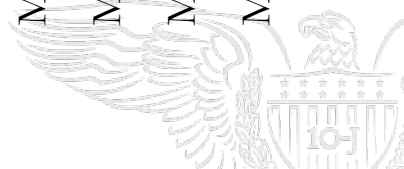
U.S. Interest Rates



Average Interest Rates on Agricultural Loans*

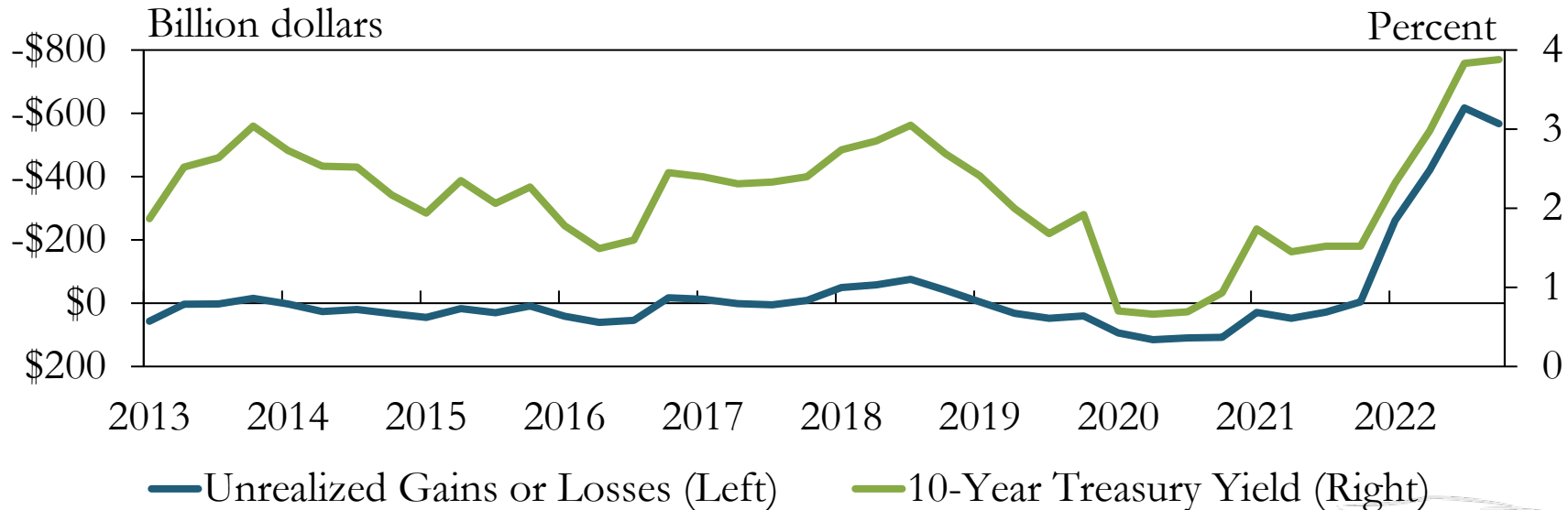


Sources: Federal Reserve Board of Governors, Survey of Terms of Lending to Farmers and Haver Analytics



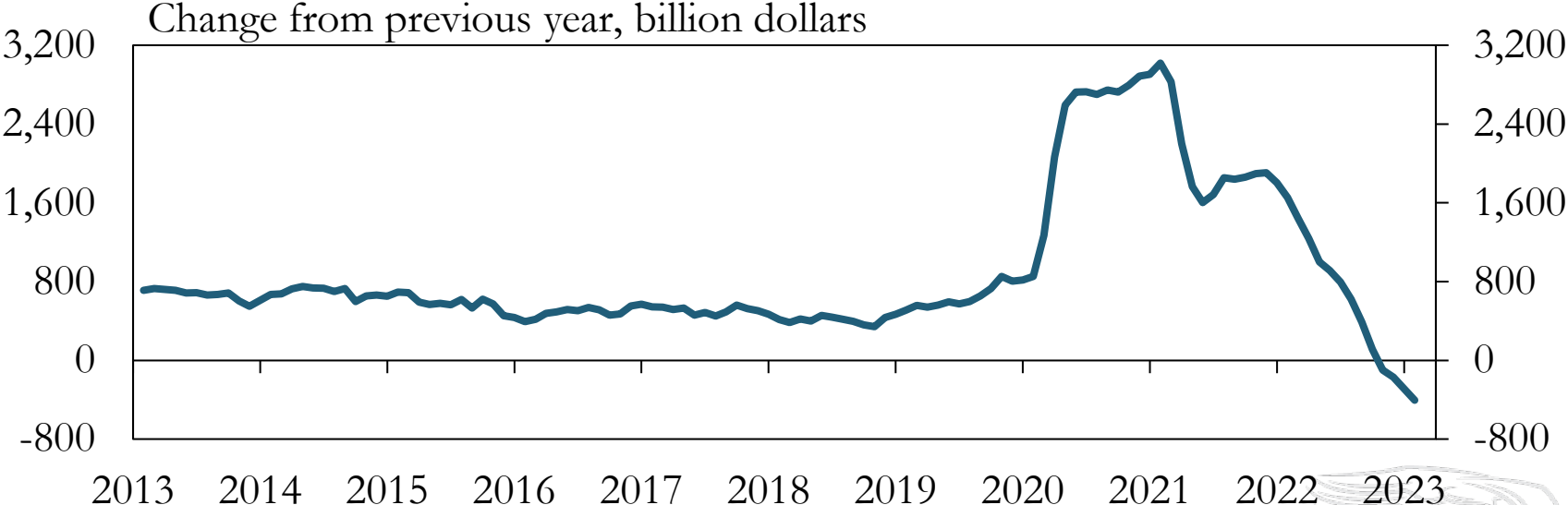
Unrealized losses at commercial banks surged in 2022.

Unrealized Gains or Losses



Through 2022, however, deposits at commercial banks began to decline.

Commercial Bank Deposits

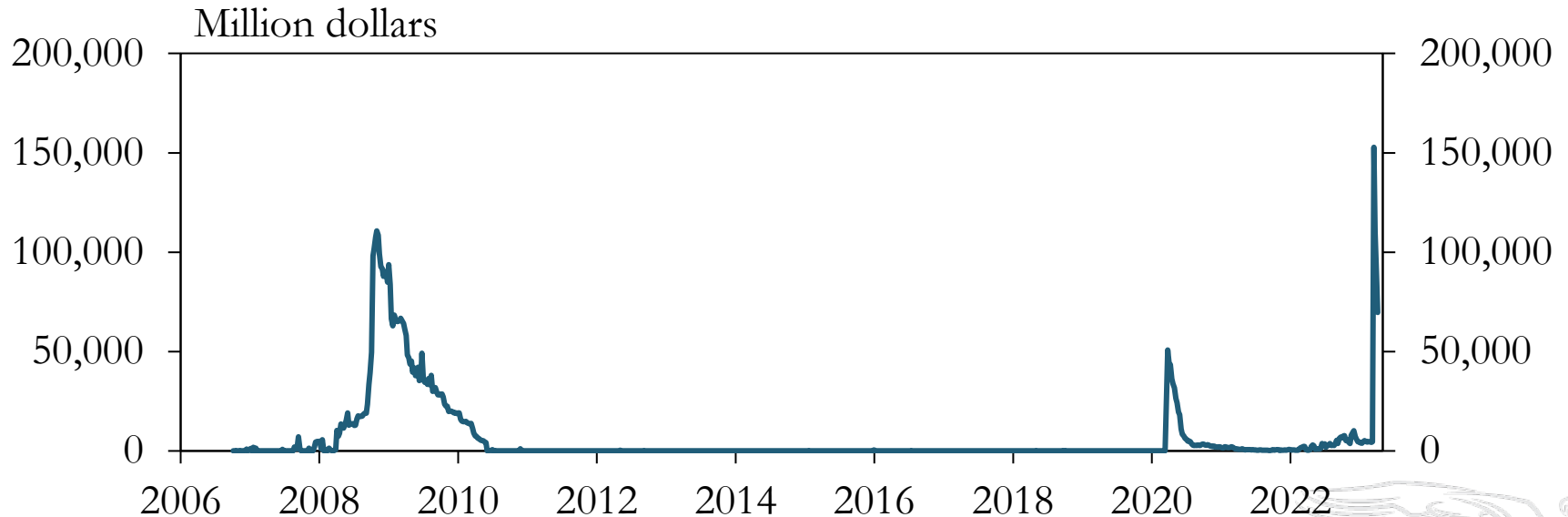


Sources: Federal Reserve Board of Governors and Federal Reserve Board of Governors



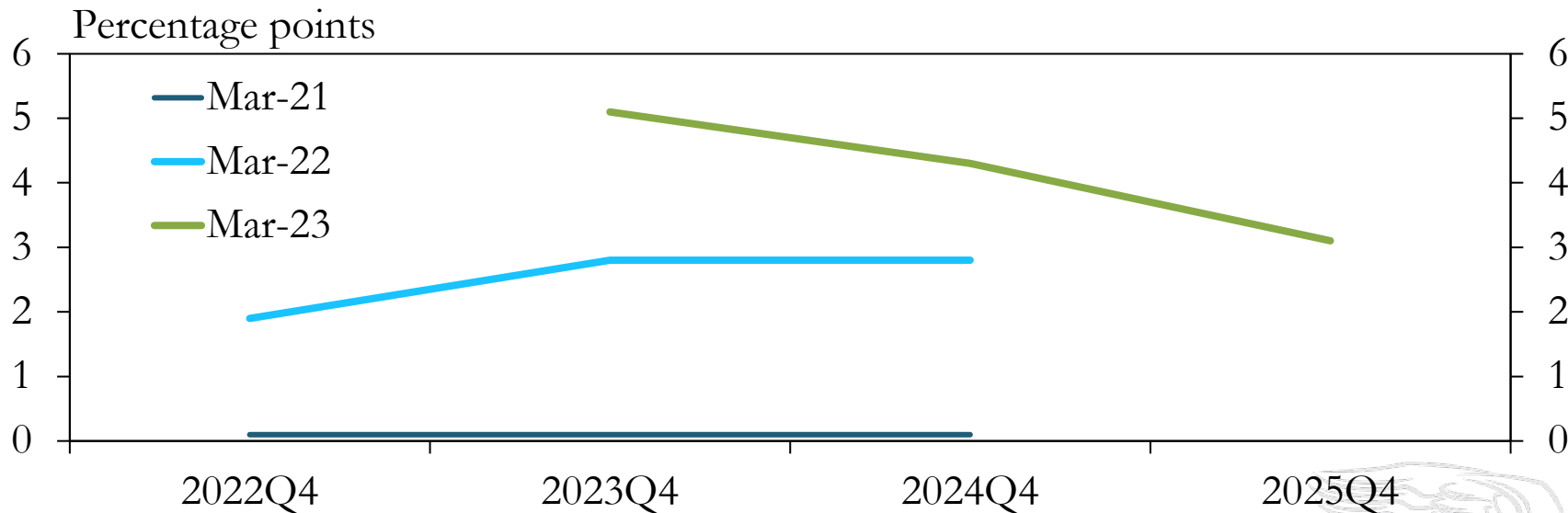
Following SVB's failure, borrowing from the Federal Reserve's Discount Window increased rapidly.

Discount Window Primary Credit



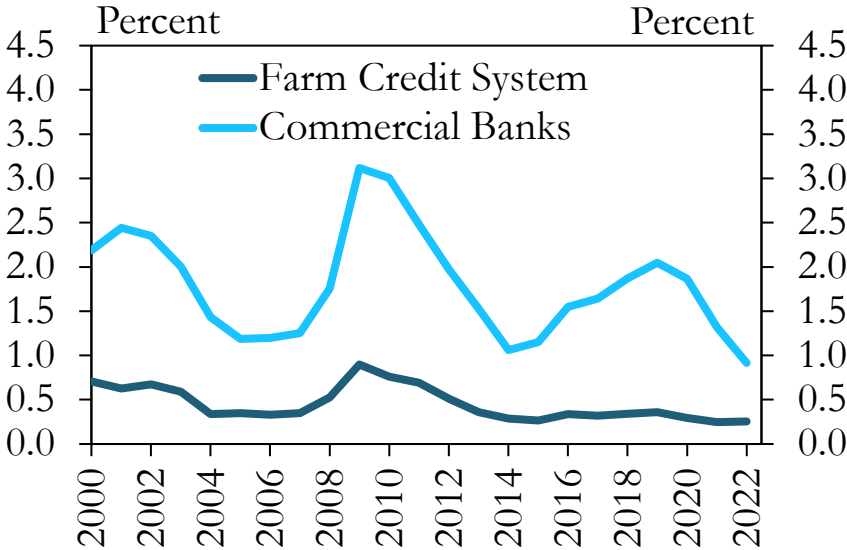
The path of interest rates will depend on many factors: economic activity, inflation, and credit conditions.

FOMC Federal Funds Rate Projections

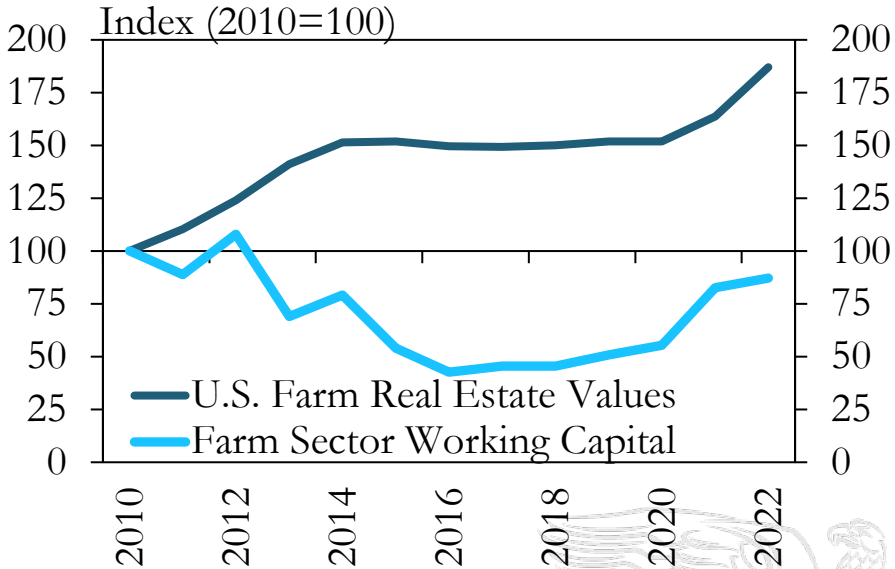


Despite growing concerns about interest rates, most farm borrowers have remained in a strong financial position.

Farm Loan Delinquency Rates, Q4



Farm Real Estate Values and Working Capital



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



Concluding Thoughts

- Inflationary pressures have been a primary driver of economic developments the past year, and changes in those pressures will be important to consider going forward.
- Strength in the labor market has mitigated some concerns about economic weakness and/or recession.
- Signs of tightening credit conditions will be particularly important to monitor in the coming months.



Questions and Discussion

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