

Agricultural Economic Outlook

Nate Kauffman

June 22, 2023



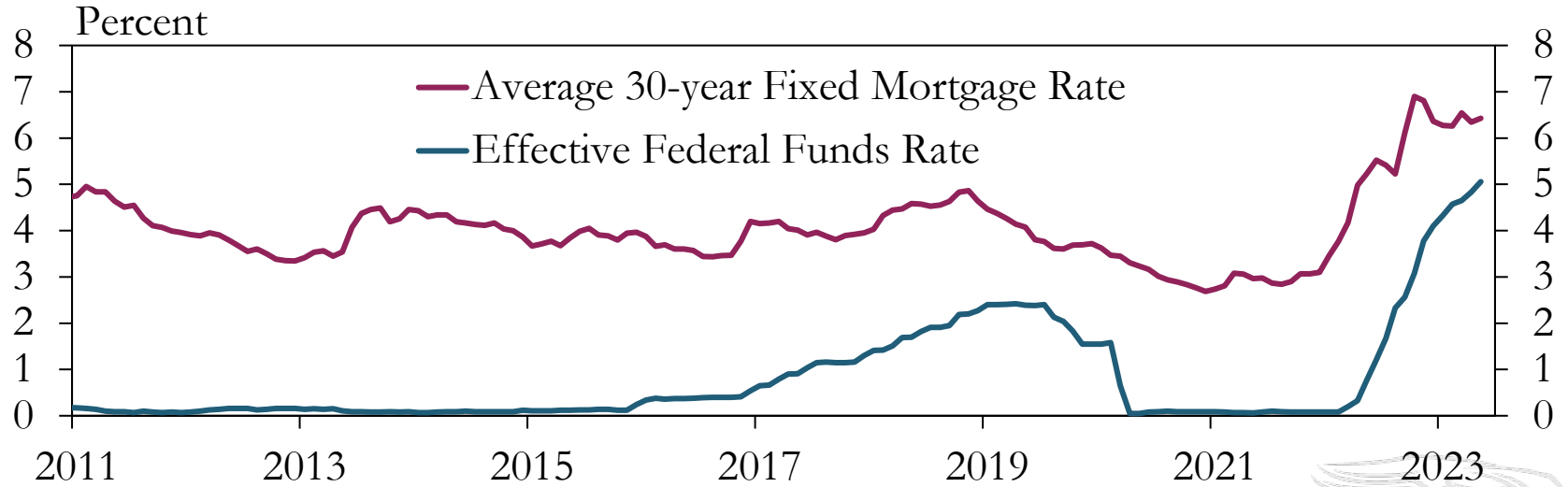
Outlook Themes

- Following sharp gains in 2021 and early 2022, economic growth has slowed alongside increases in interest rates and ongoing inflationary pressure.
- The ag economy has been strong in recent years despite slower economic growth and reduced profits in recent months.



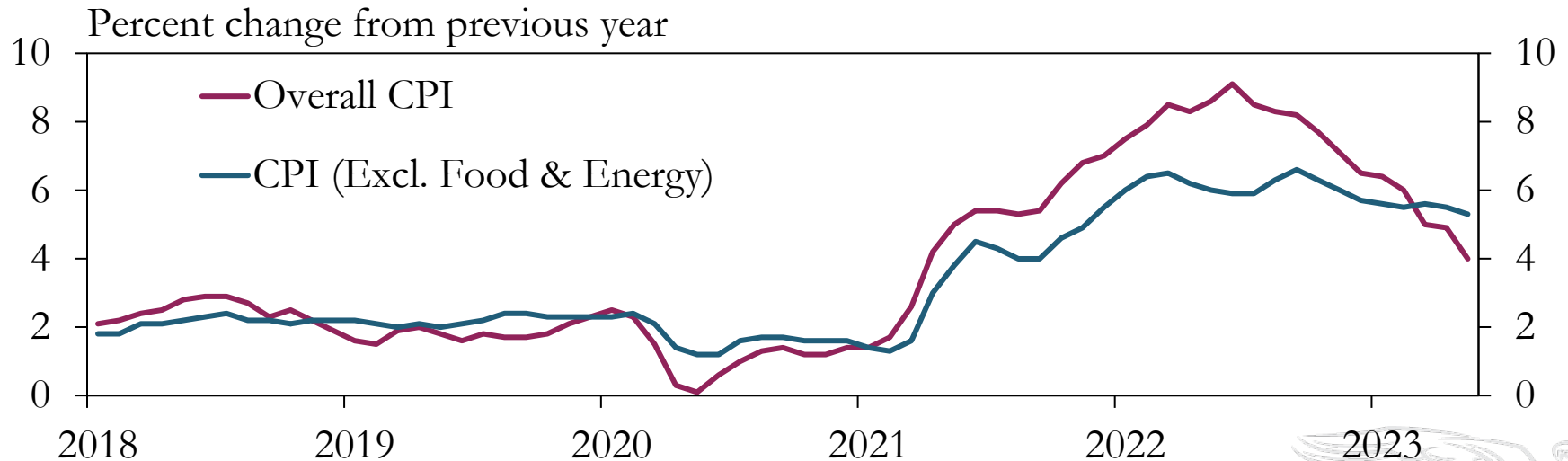
Interest rates have increased sharply over the past year and a half.

Interest Rates



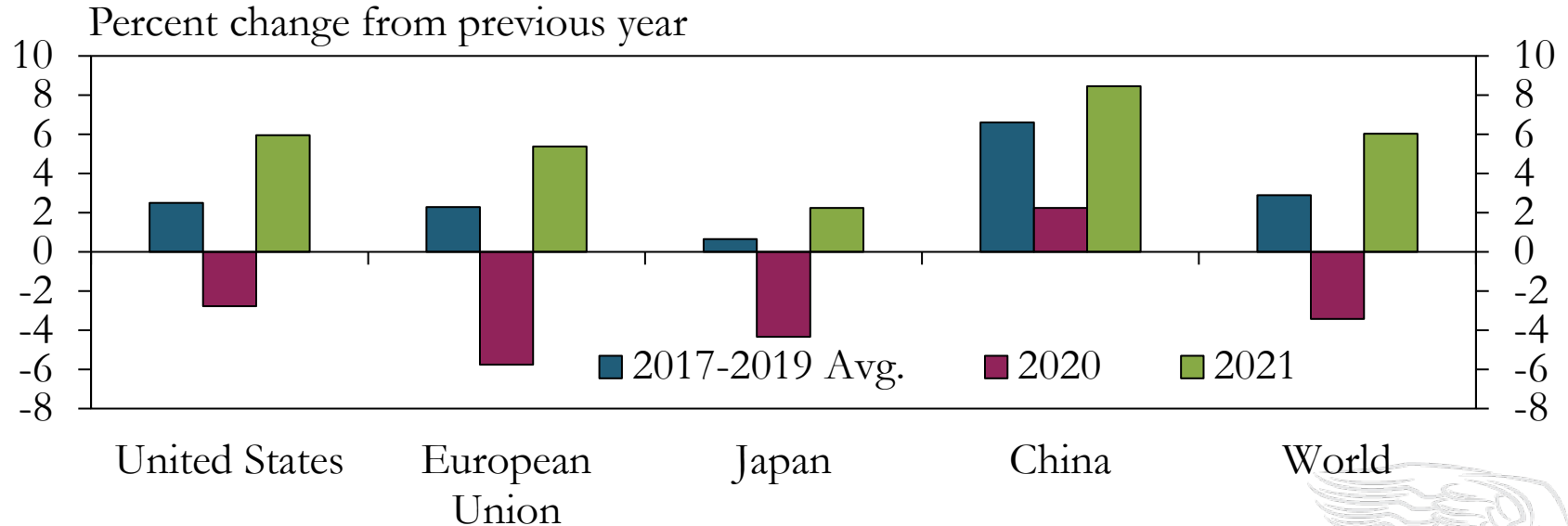
The primary goal of higher interest rates has been to reduce inflationary pressure that began to intensify last year.

Consumer Price Index



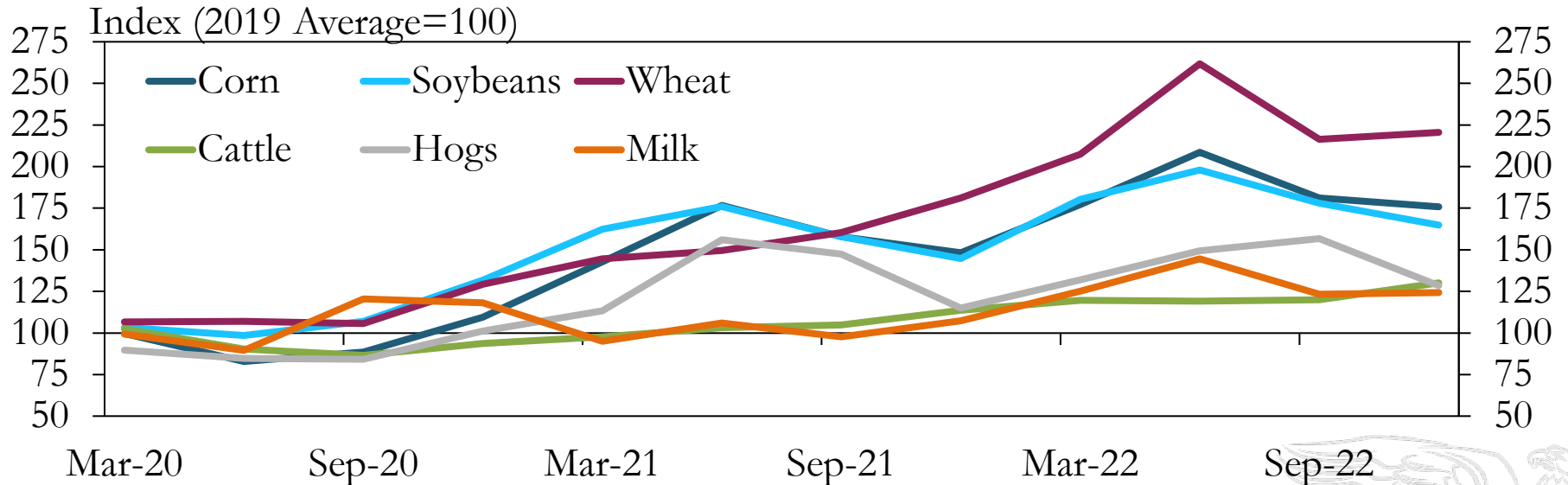
Inflation increased significantly in the wake of the pandemic due, in part, to a surge in economic activity.

Real Gross Domestic Product



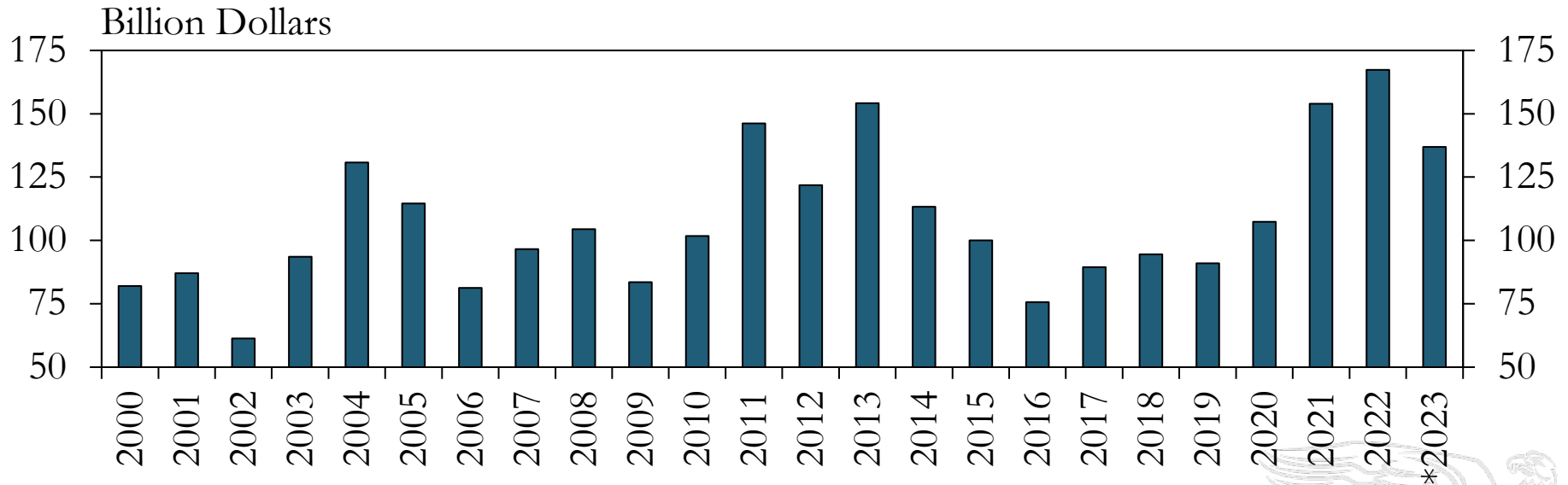
Ag commodity prices accelerated in 2020, but continued to rise through early 2022 alongside the invasion of Ukraine.

Agricultural Commodity Prices



U.S. farm income increased sharply with the increase in commodity prices and government payments.

U.S. Real Net Farm Income



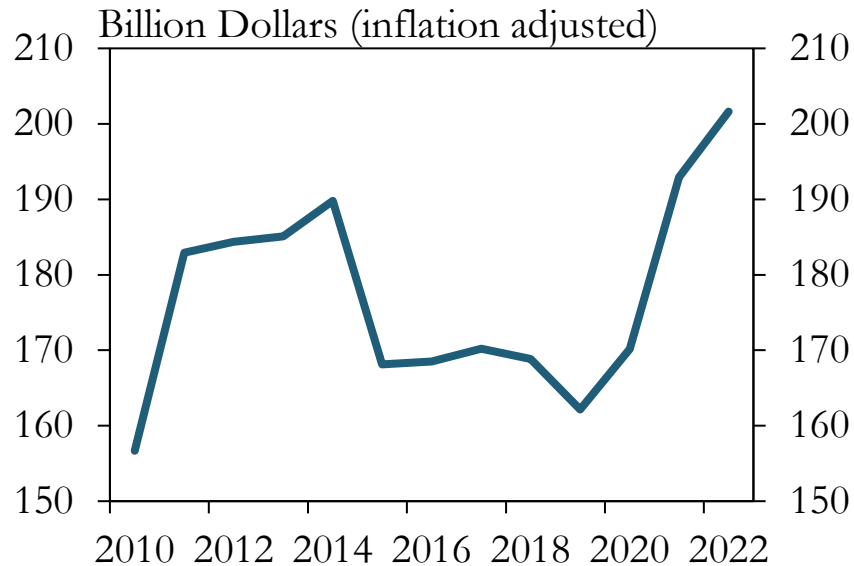
*2023 forecast as of February 7, 2023

Source: USDA

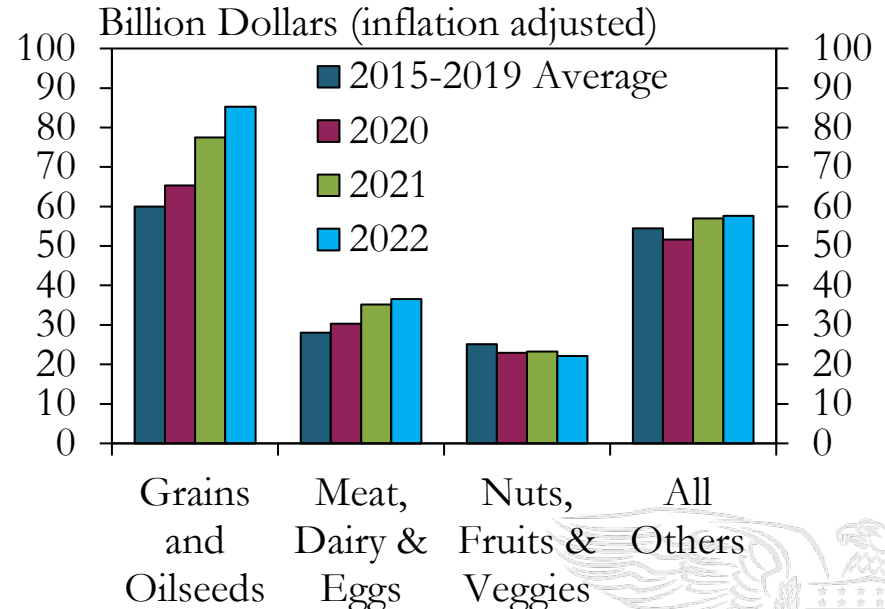


Export activity also rebounded quickly and continued to strengthen through 2022.

U.S. Ag Exports

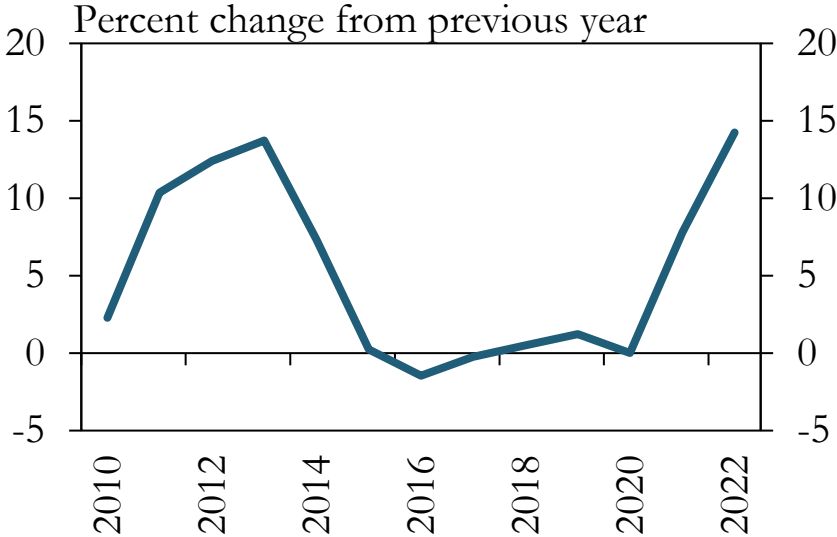


U.S. Ag Exports by Product

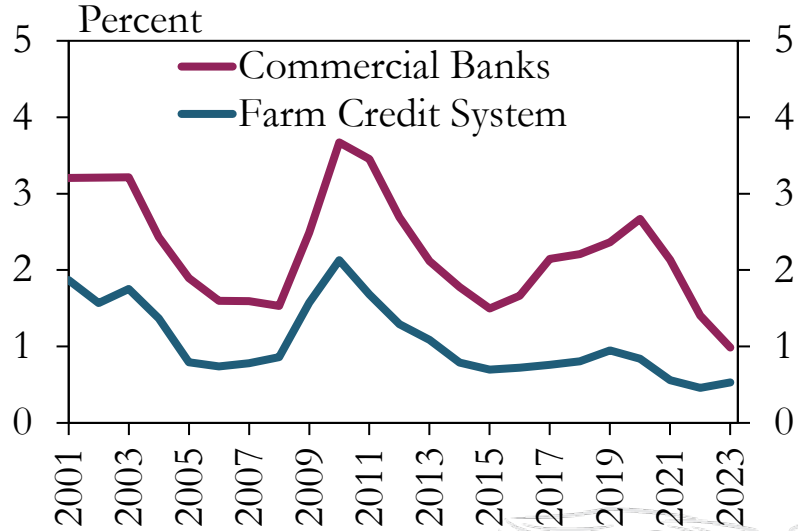


Increases in farm income and commodity prices led to sharp gains in land values and low levels of financial stress.

Farm Real Estate Values



Farm Loan Delinquency Rates, Q1

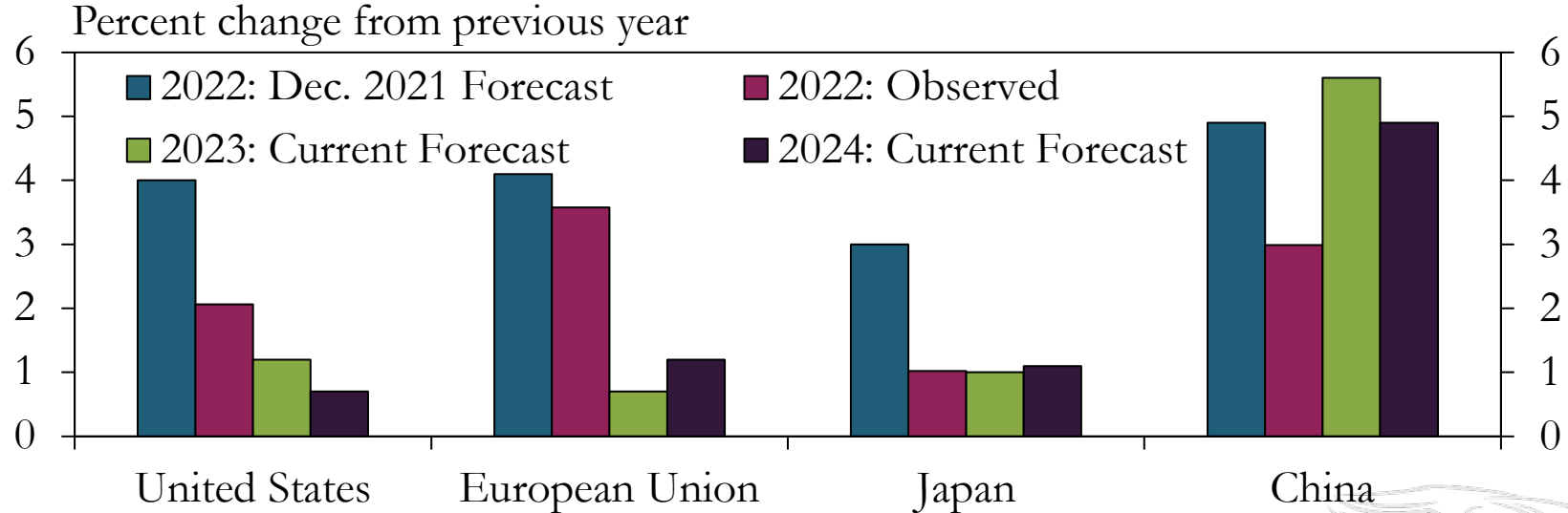


Sources: USDA, Federal Reserve Board of Governors and Farm Credit Administration



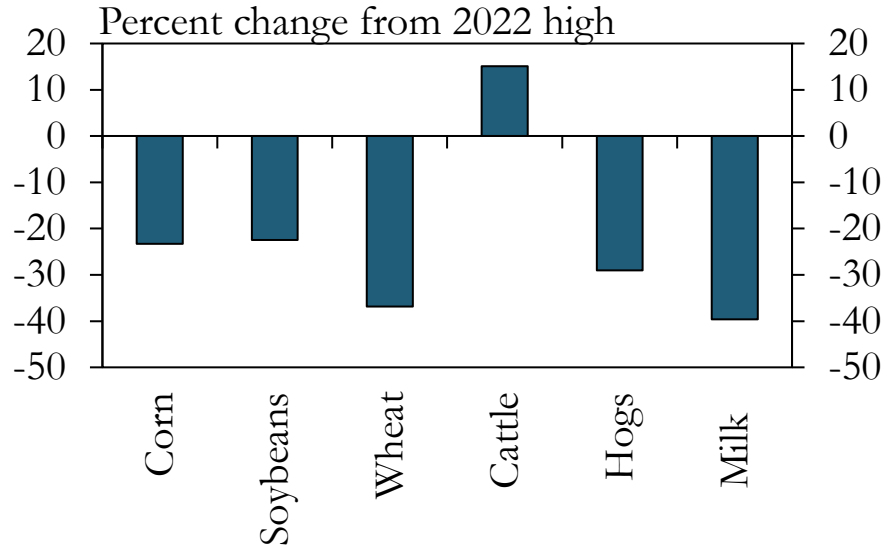
Following rapid economic growth in 2021, activity has slowed, both in the U.S. and globally.

Real Gross Domestic Product

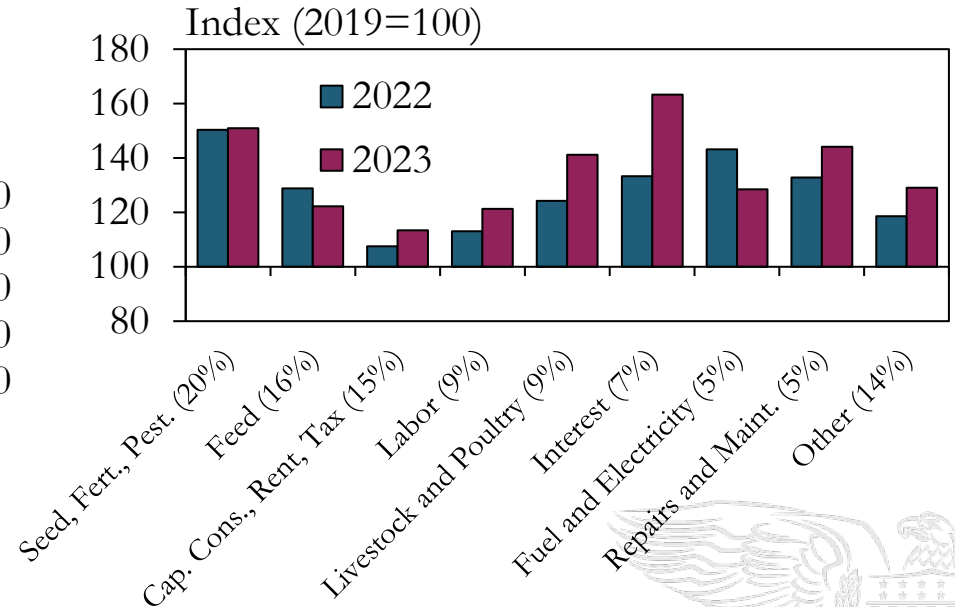


Most commodity prices have fallen from 2022 highs, and elevated costs have pressured profit margins.

Agricultural Commodity Prices: June 2023

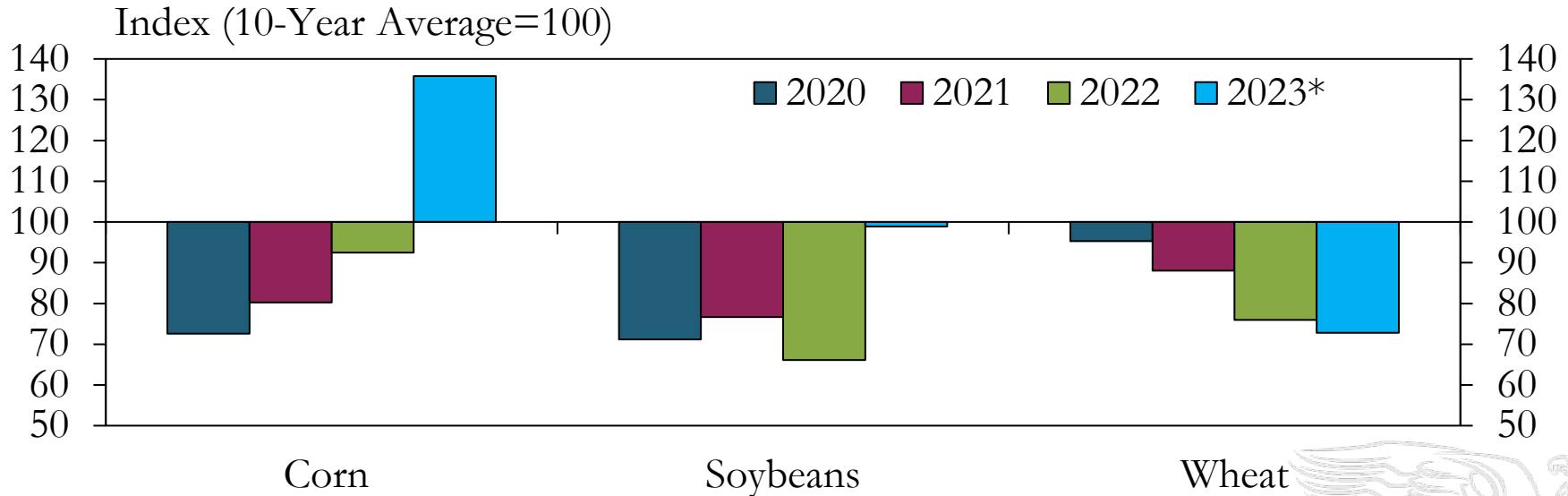


U.S. Agriculture – Input Costs



Corn and soybean prices have declined as recent growth in production has outpaced demand.

U.S. Crop Inventories: Stocks-to-Use Ratio



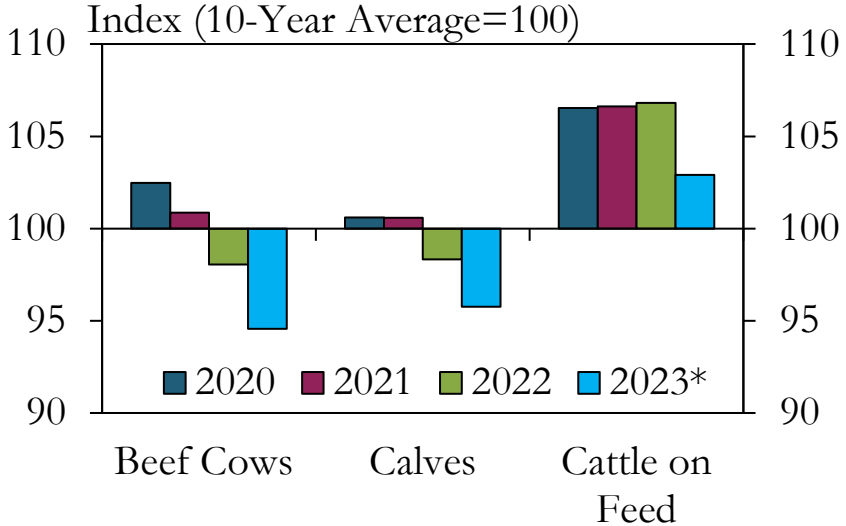
*2023 Forecast as of June 9, 2023

Source: USDA

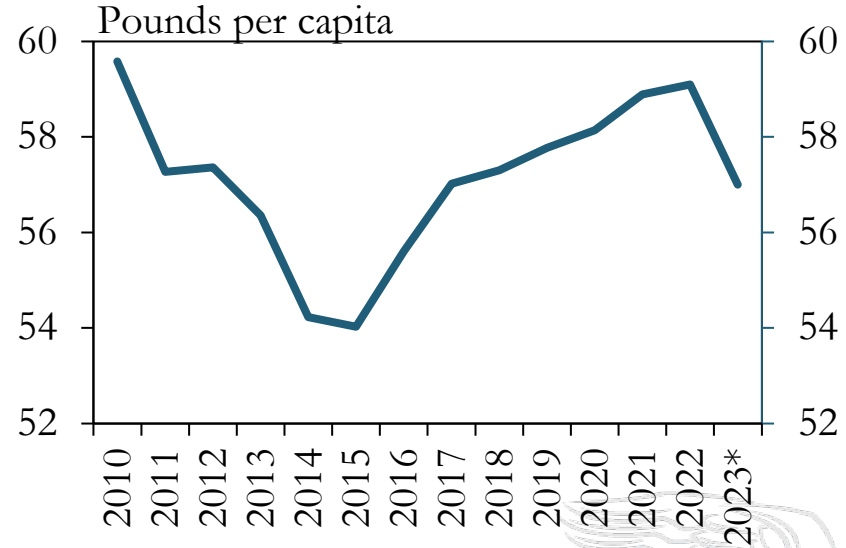


Cattle prices have remained high due to drought-induced herd liquidation of the past few years.

U.S. Cattle Inventories



U.S. Beef Consumption

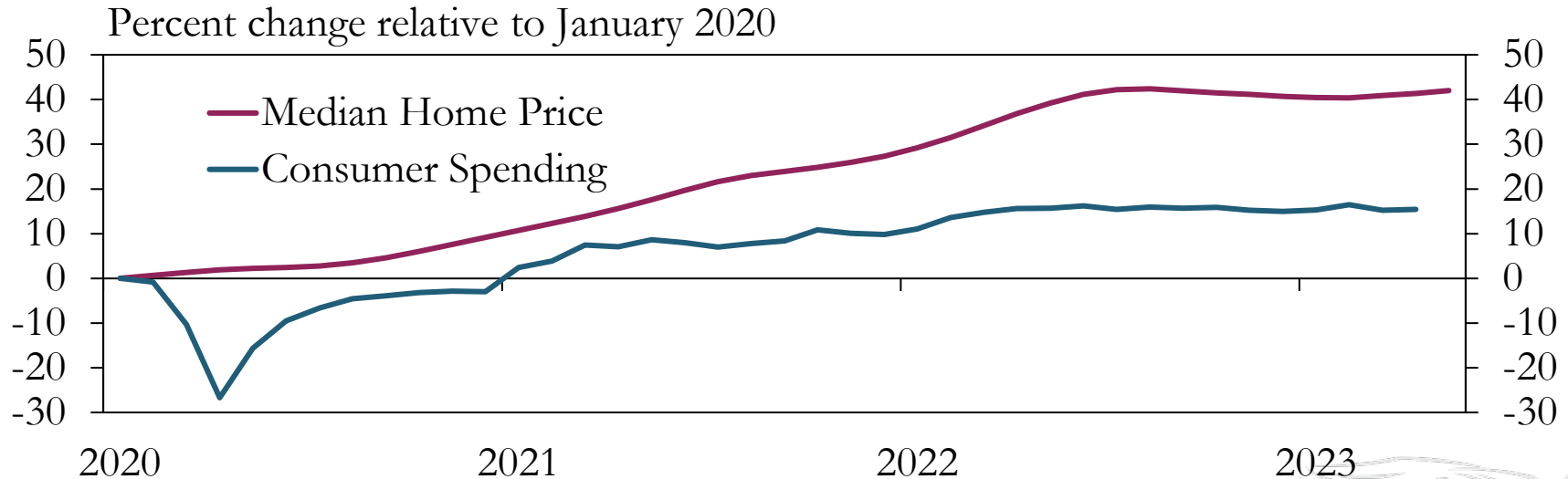


*Cattle Inventories as of January 31, 2023 and Beef Consumption as of May 18, 2023
Source: USDA



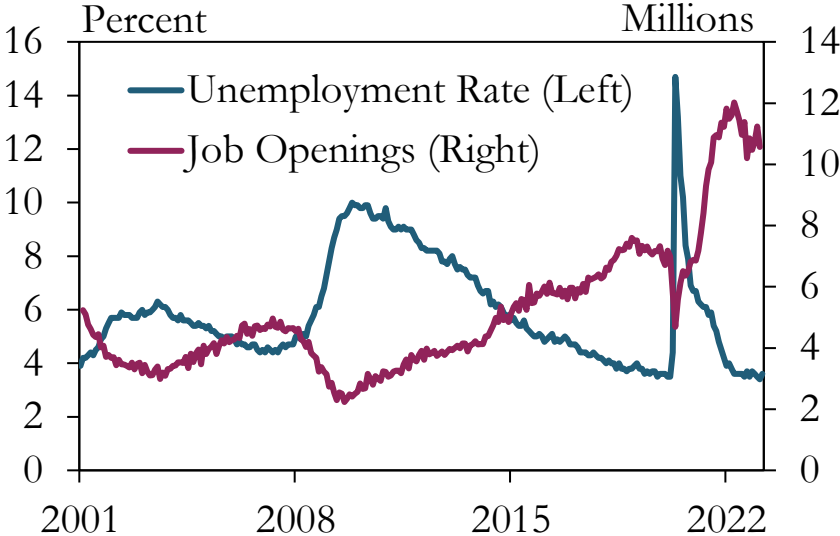
Consumer spending and household wealth has remained high, but the pace of growth has softened considerably.

Consumer Spending & Home Prices

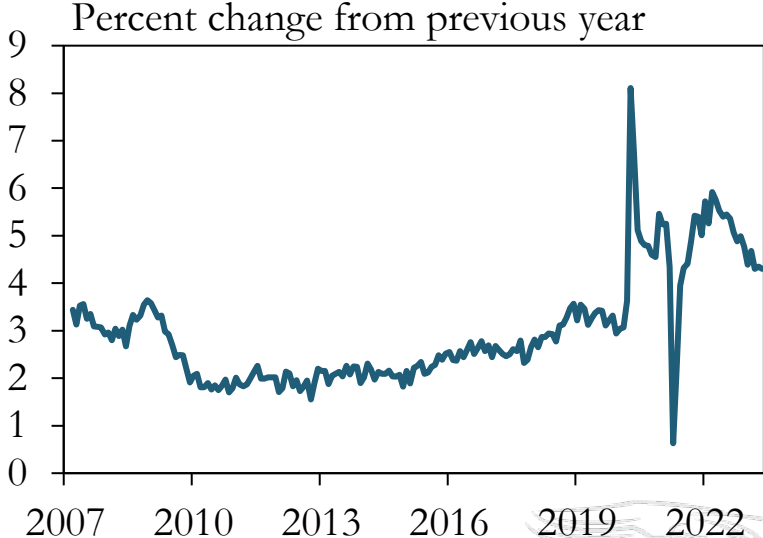


Strength in the labor market has supported consumer spending, and wage gains have remained elevated.

Unemployment Rate & Job Openings



Average Hourly Earnings

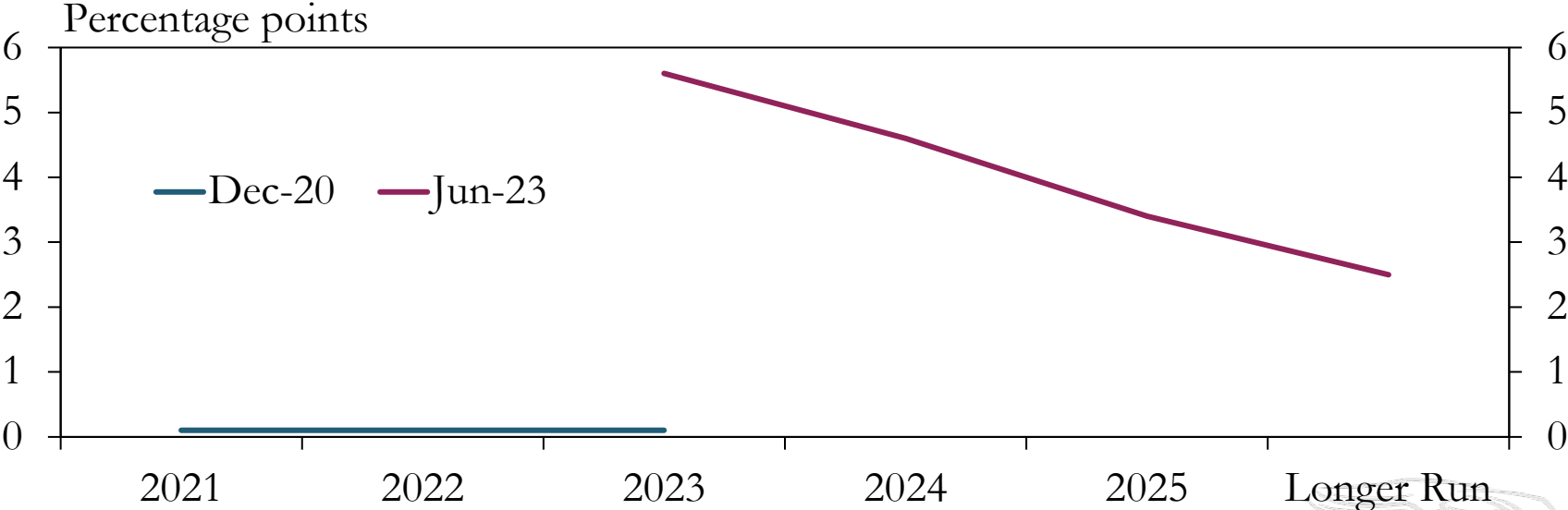


Sources: BLS, Haver Analytics.



Looking ahead, the pace of economic activity will be affected by the path of inflation and interest rates.

Federal Funds Rate Projections



Source: Federal Reserve Board of Governors – Median of the Summary of Economic Projections



Concluding Thoughts

- Profit margins in agriculture are likely to be thinner in the months ahead as the strength in commodity prices fades and costs are still elevated.
- Overall, financial stress in ag is likely to remain limited, but some industries face significant pressure.
- Labor markets appear likely to remain strong and provide support for household spending, but interest rates and inflation will be ongoing challenges.

