

U.S. Agricultural Economic Outlook

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February 15, 2024

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.



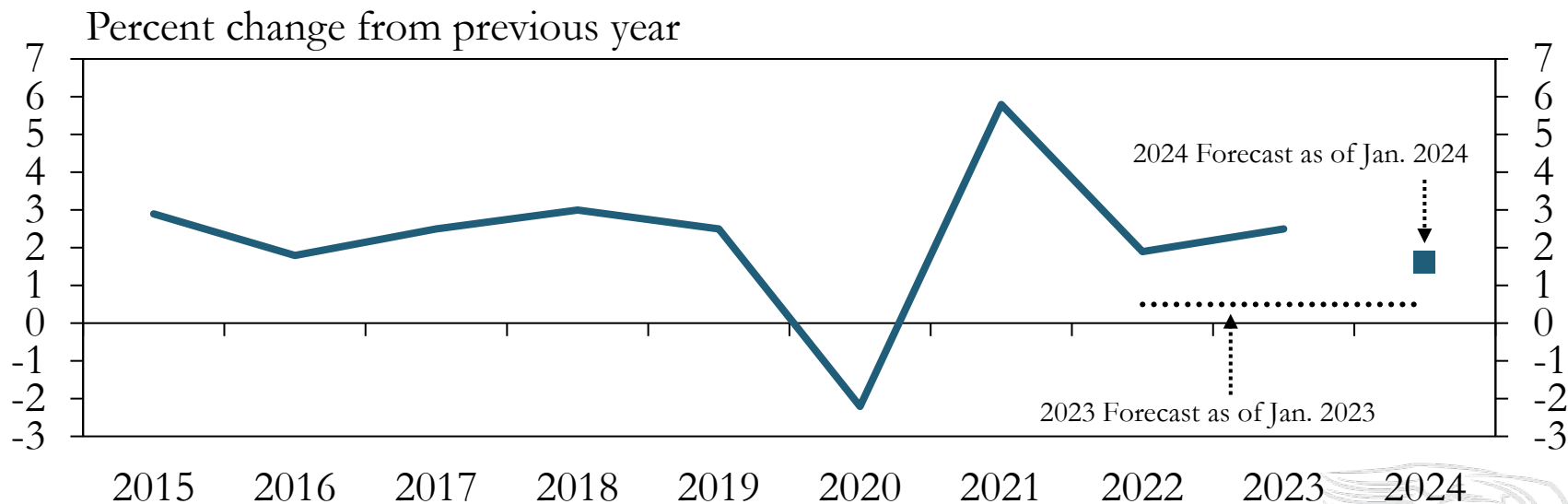
Outlook Themes

- Economic conditions in U.S. agriculture have softened notably from a year ago alongside much higher financing costs.
- Profit margins are likely to be thinner this year, but the strength of recent years will provide support for credit conditions through 2024.



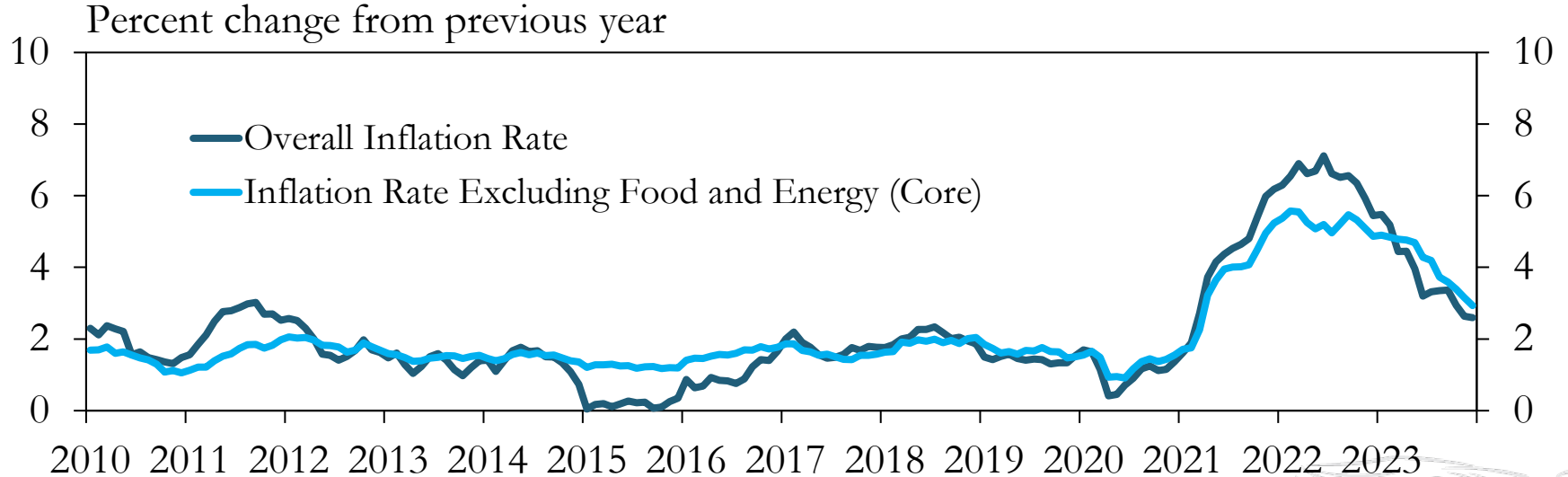
The U.S. economy was surprisingly resilient in 2023.

U.S. Real GDP



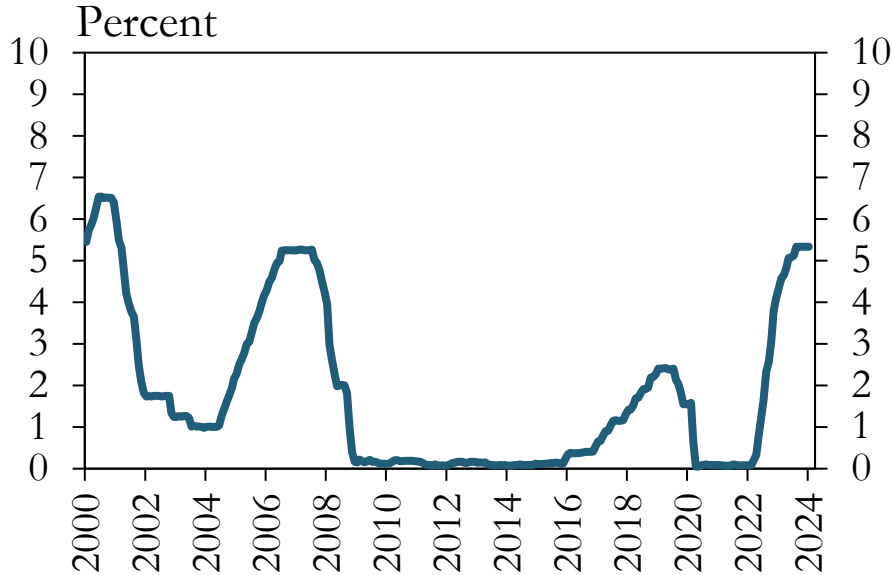
Inflation remains elevated, but substantial progress has been made toward the Fed's 2% goal.

U.S. Consumer Prices

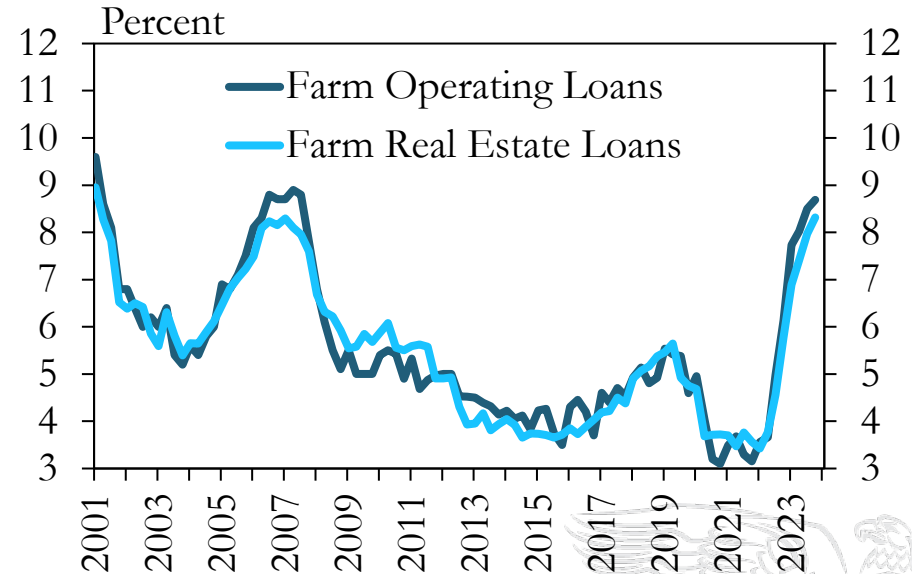


Interest rates increased sharply through 2023 in response to inflationary pressures.

Effective Federal Funds Rate

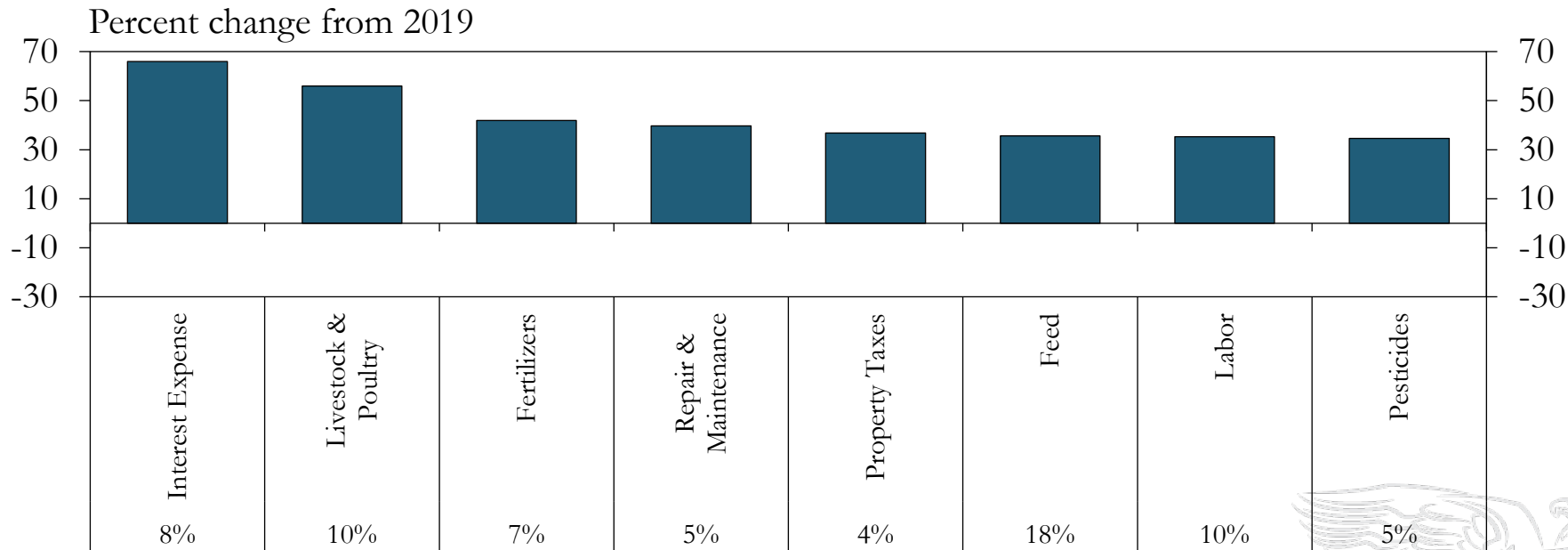


Average Interest Rates on Ag Loans



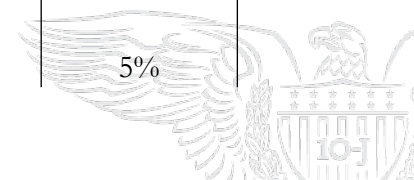
Interest expenses account for a modest share of farm costs, but the increase has been significant.

2024 U.S. Farm Sector Expenses



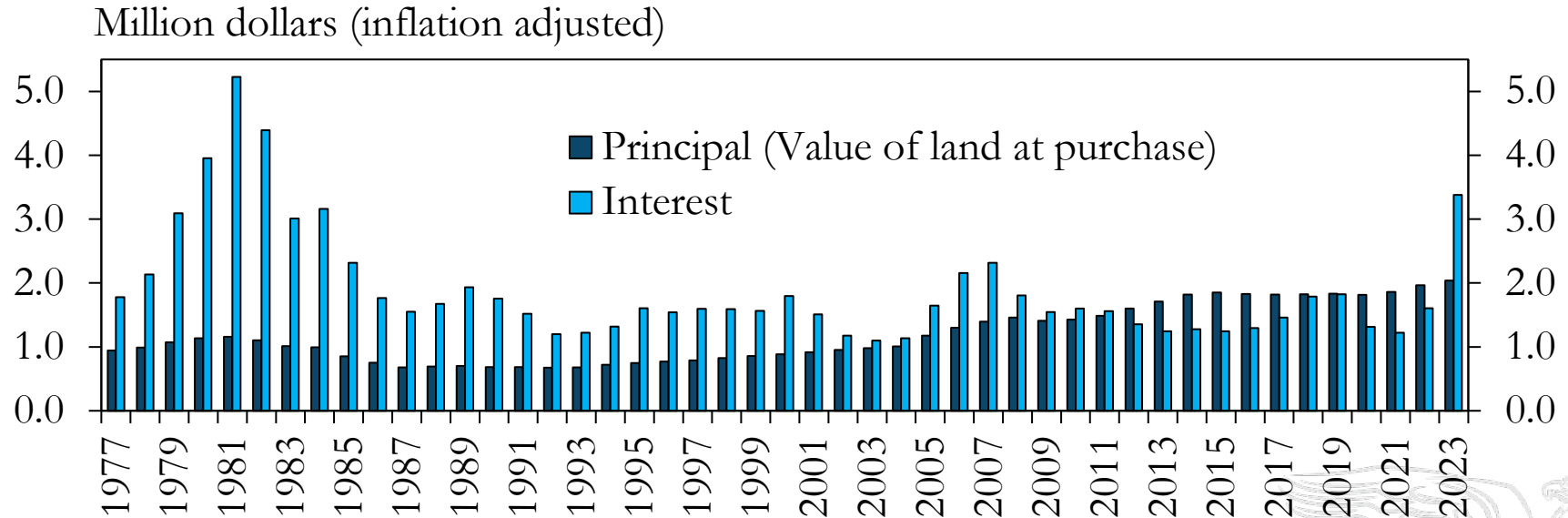
Note: U.S. Forecast as February 7, 2024. Numbers on the horizontal axis denote the share of total expenses.

Source: USDA



Operations with new financing on large purchases could face very high interest costs.

Principal and Interest on 500 Acres of Farmland: 30-Year Fixed Loan



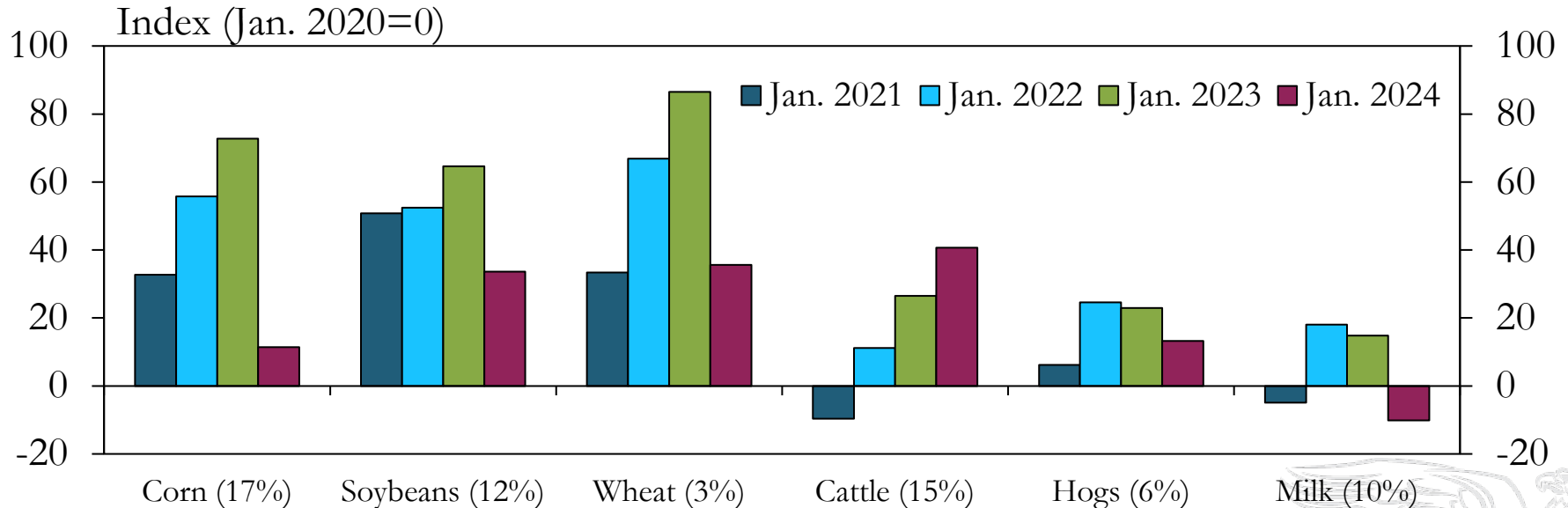
Note: Based on national average value of agricultural land (including buildings)

Sources: USDA, Survey of Terms of Lending to Farmers and staff calculations



In addition, most ag commodity prices have declined substantially.

Agricultural Commodity Prices



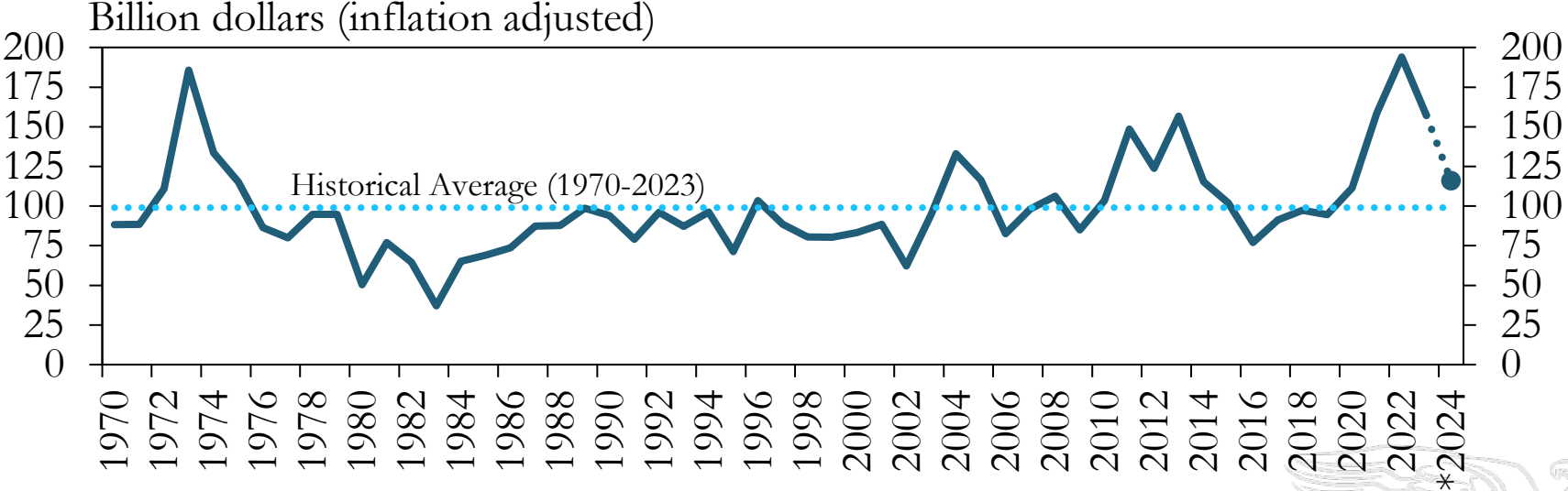
Note: Numbers in parentheses denote the share of total U.S. farm cash receipts

Sources: The *Wall Street Journal*, USDA and staff calculations



Farm income declined from exceptional levels in 2023 and early forecasts point to more softening in 2024.

U.S. Net Farm Income



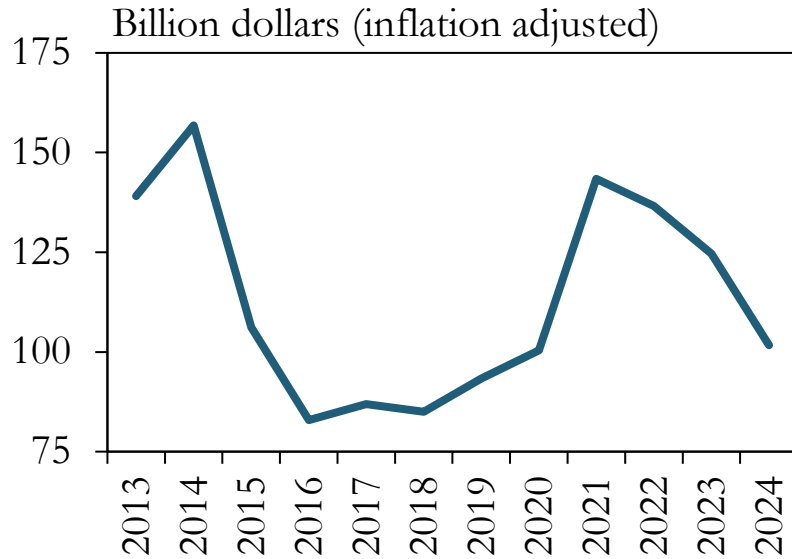
*U.S. Forecast as February 7, 2024.

Source: USDA

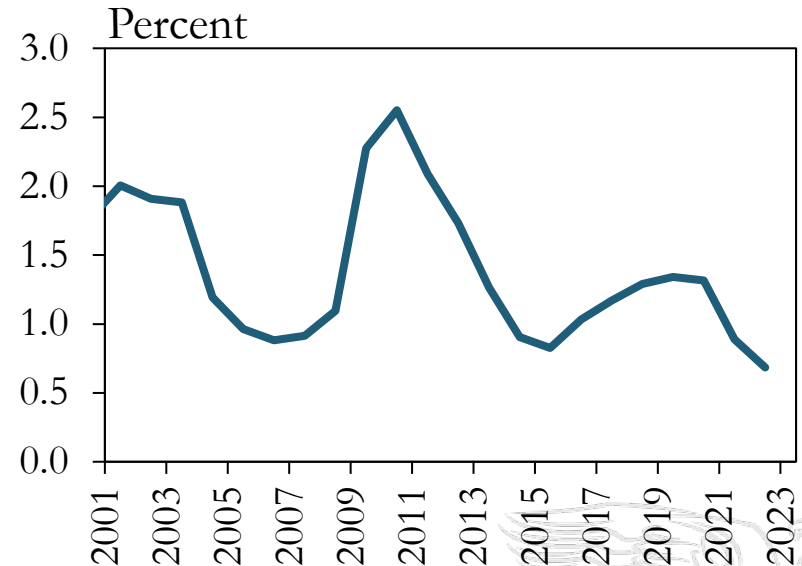


Still, many ag producers remain in a strong financial position due to recent years' incomes.

U.S. Farm Sector Working Capital

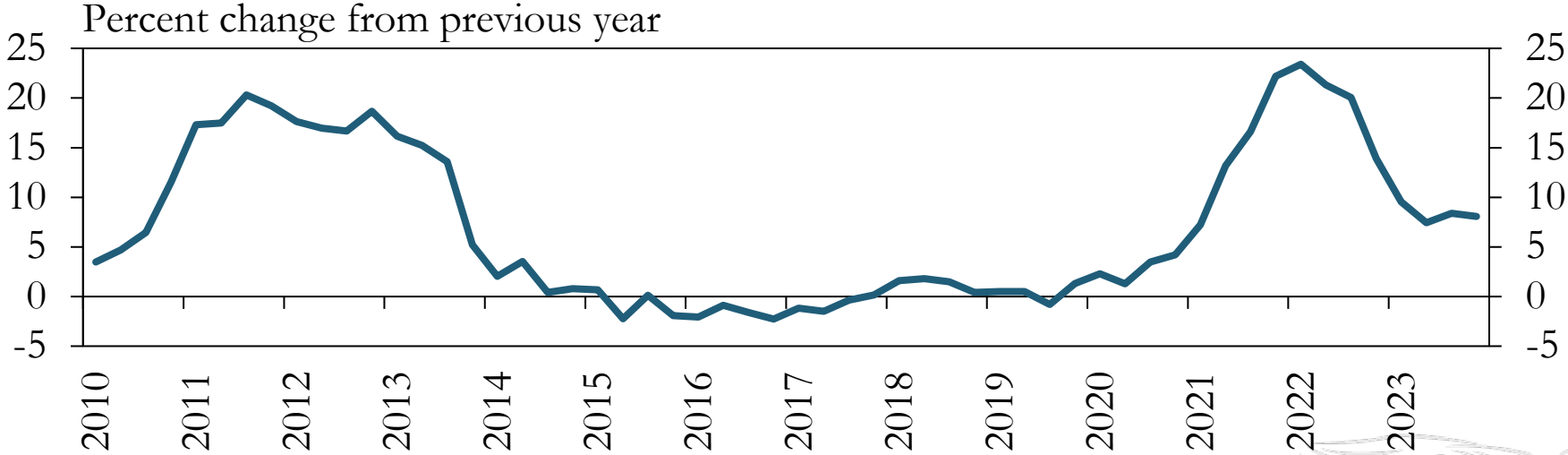


Farm Loan Delinquency Rates, Q3



The value of farmland has remained strong and continued to rise in 2023 despite higher interest rates.

Farm Real Estate Values



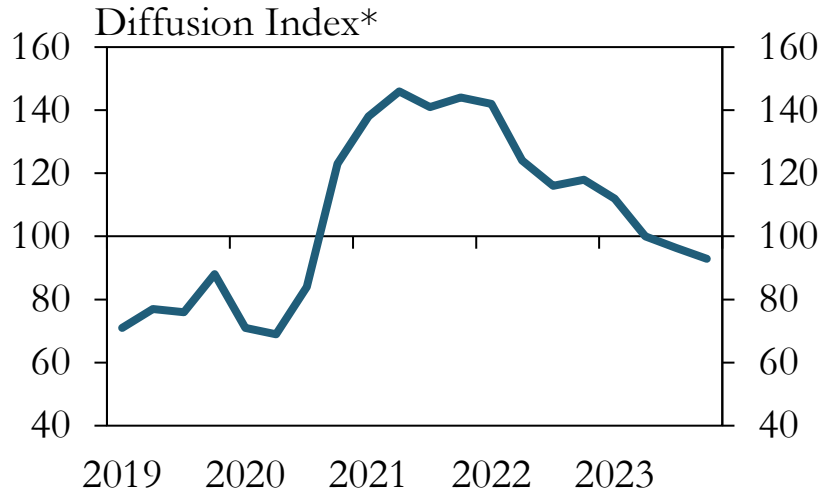
Note: Average of Chicago, Dallas, Kansas City and Minneapolis Federal Reserve Districts

Sources: Federal Reserve Surveys of Agricultural Credit Conditions

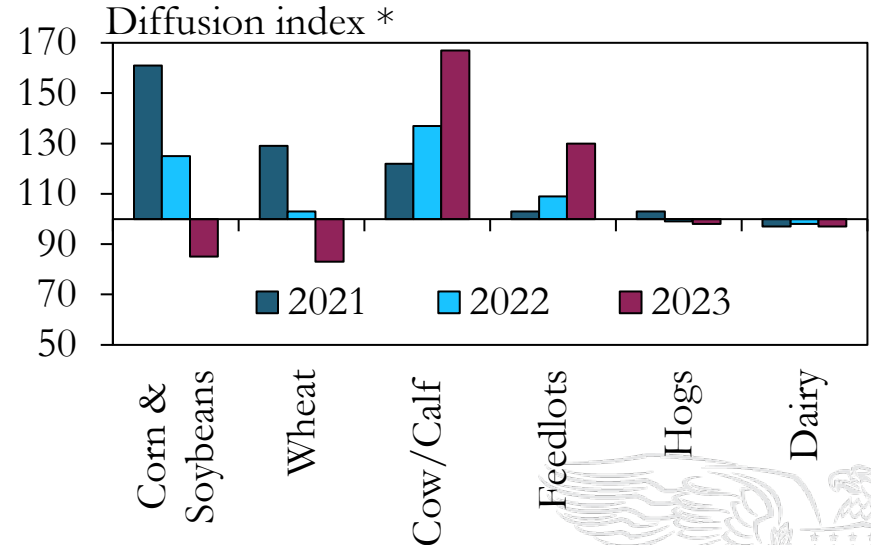


However, recent data show that financial conditions in ag have begun to tighten somewhat.

KC Fed District
Farm Loan Repayment Rates



Expected Change in Loan Repayment Rates by Operation Type, Q3



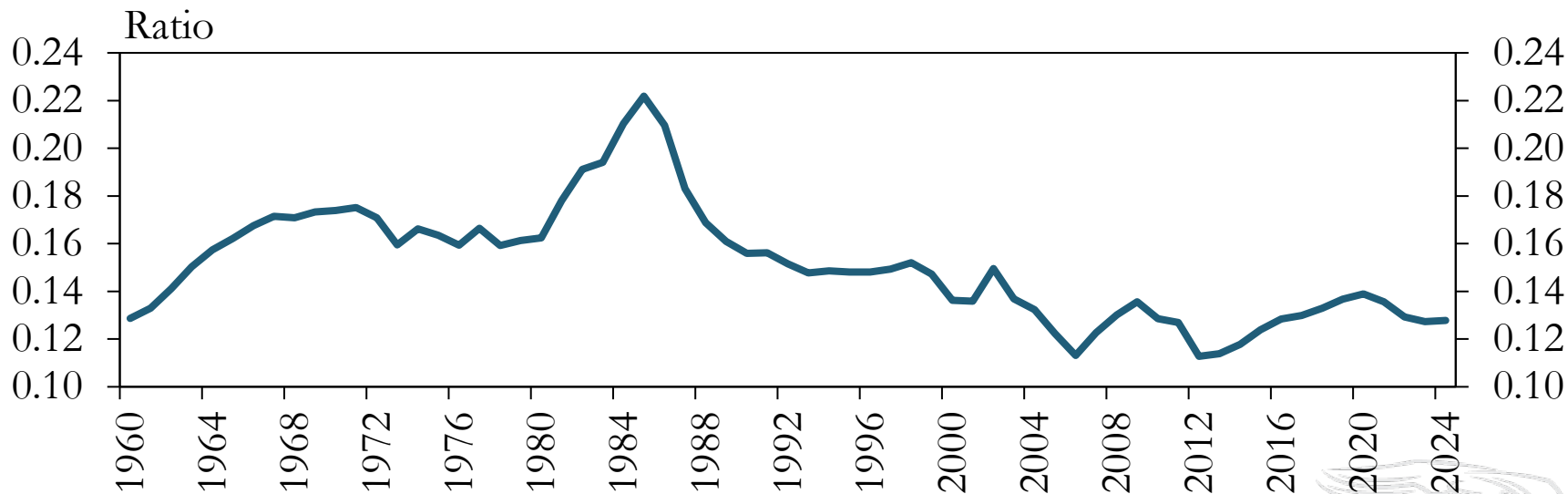
*The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

Source: Federal Reserve Bank of Kansas City Survey of Agricultural Credit Conditions



Despite recent tightening, the strength of the farm economy is likely to provide support through 2024.

U.S. Farm Sector Leverage: Debt-to-Assets



Concluding Thoughts

- In the near-term, financial stress in ag is likely to remain limited due to the economic strength of the past few years.
 - But conditions have tightened notably since last year.
- Interest expenses are an ongoing headwind, with some risk associated with loan repricing.

