

Economic Recovery in U.S. Agriculture

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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.



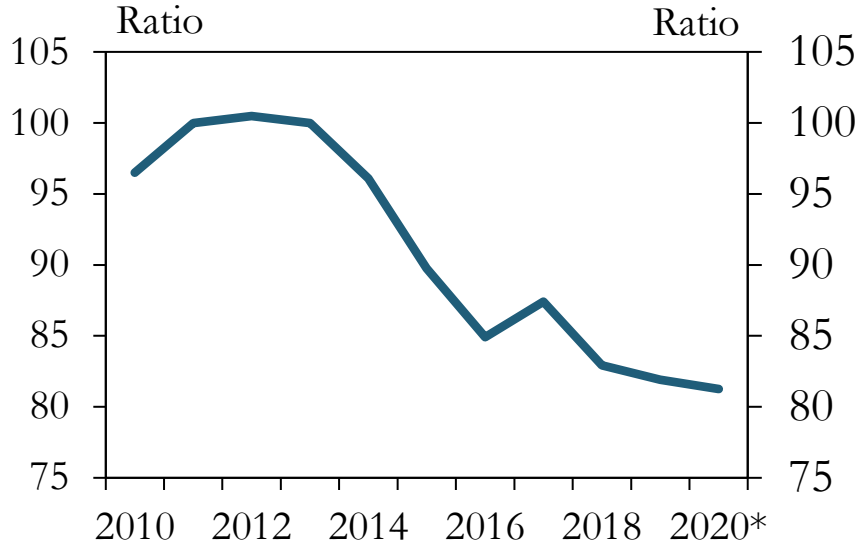
Outlook Themes

- A rapid increase in corn and soybean prices has fueled a strong recovery in agriculture.
- Despite a strong near-term outlook, some industries are positioned better than others, and there are still significant risks.

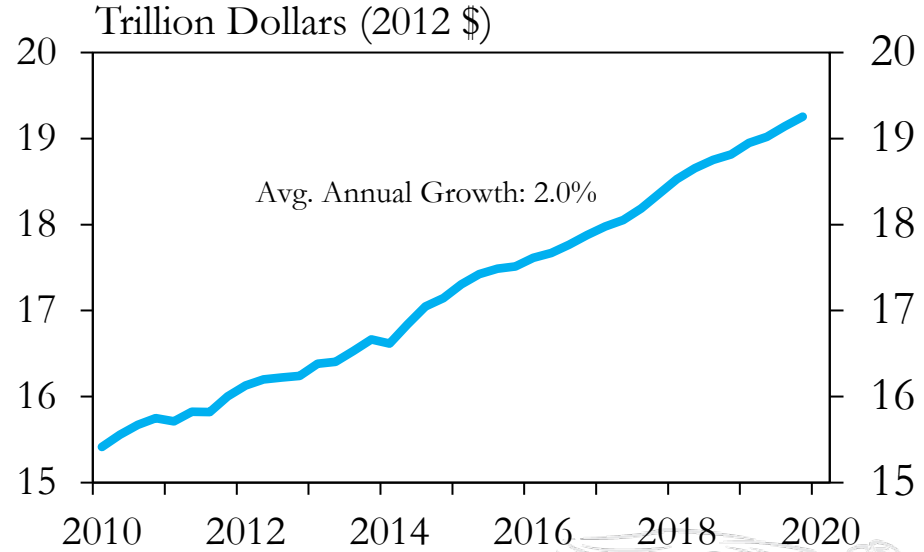


At the beginning of 2020, U.S. ag was in a prolonged downturn in contrast to the broader economy.

Ag Prices Received-to-Prices Paid



U.S. Real GDP

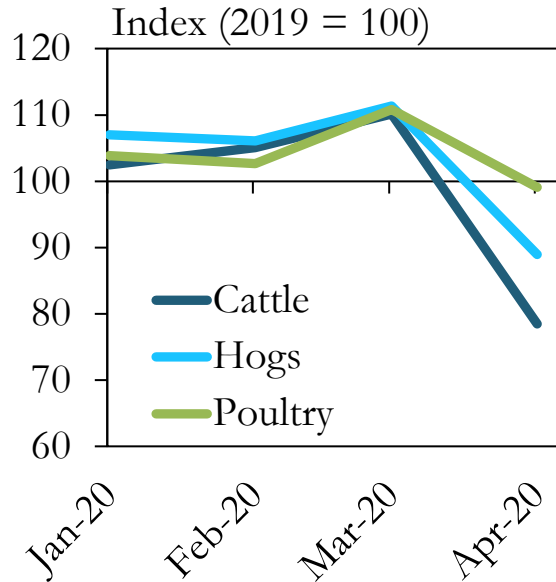


*Forecast as of January 2020
Sources: USDA and Haver Analytics.

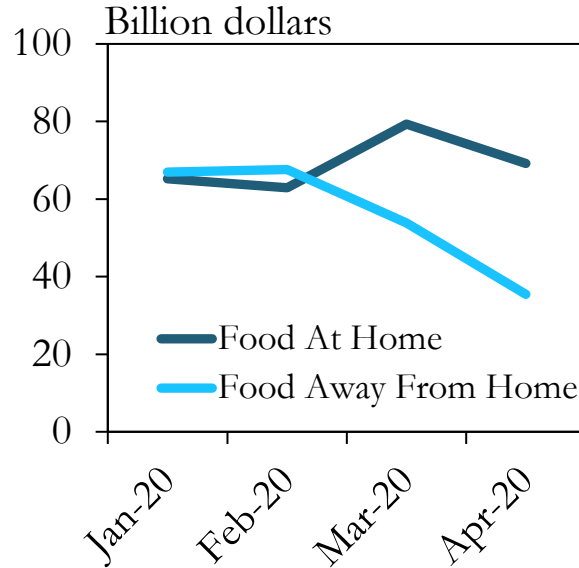


The ensuing pandemic disrupted agricultural markets in several key ways.

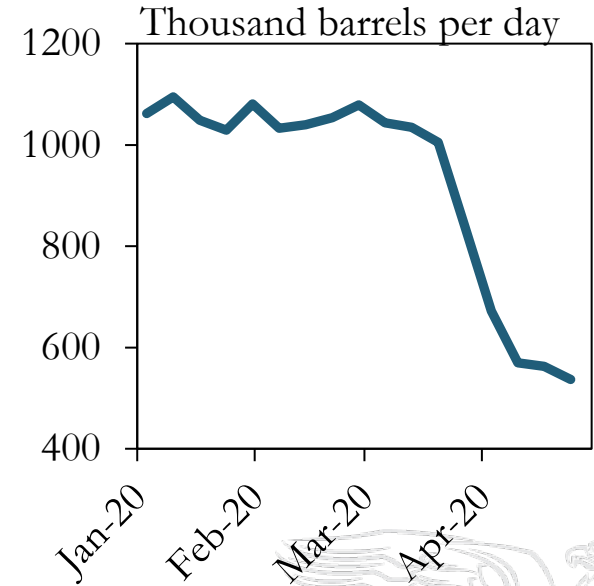
U.S. Meat Production



U.S. Food Expenditures



U.S. Ethanol Production

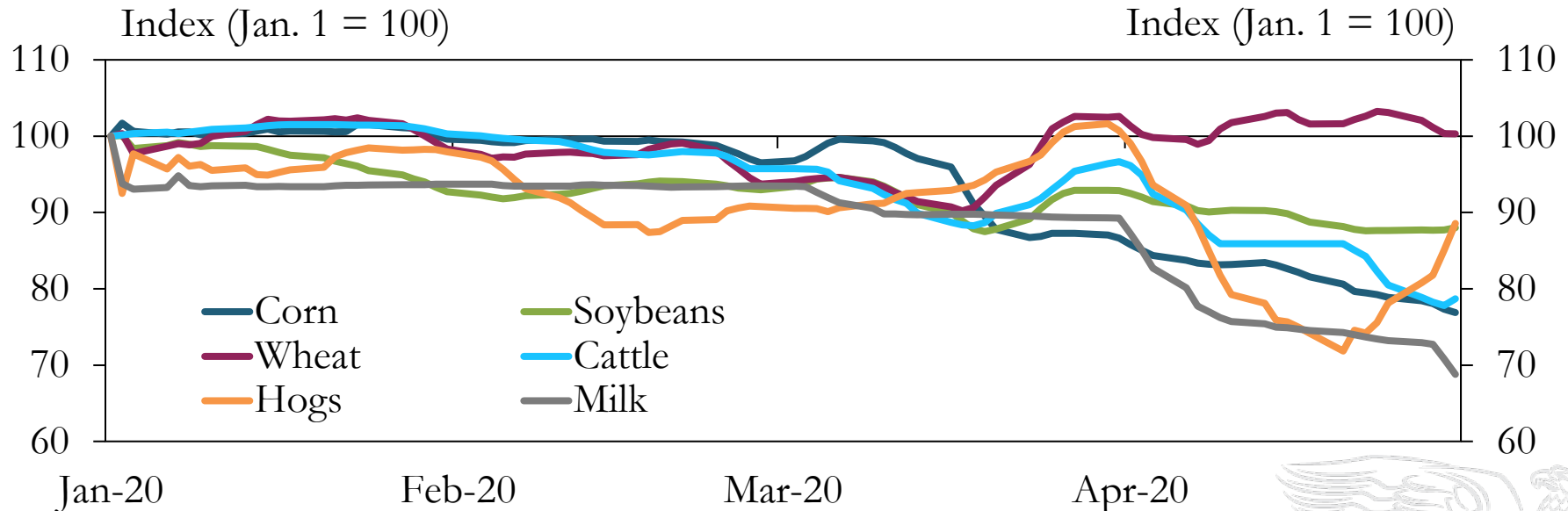


Sources: USDA, EIA and staff calculations.



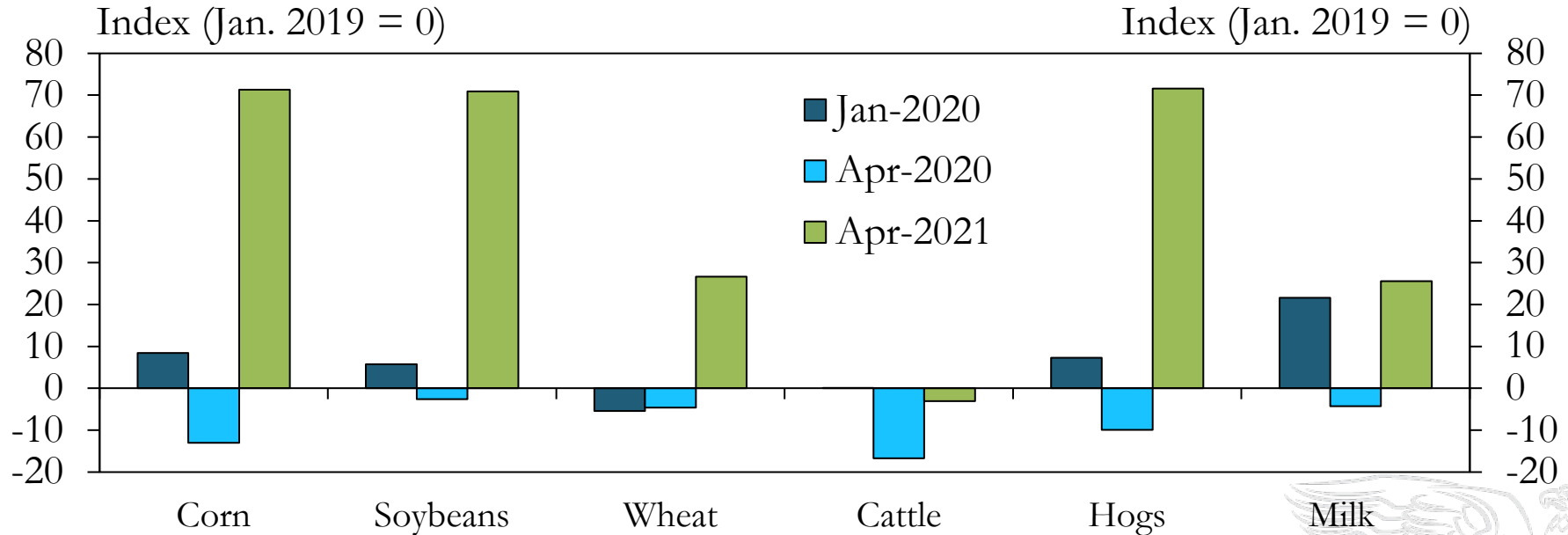
Agricultural prices dropped sharply as the pandemic and associated disruptions intensified.

Agricultural Commodity Prices



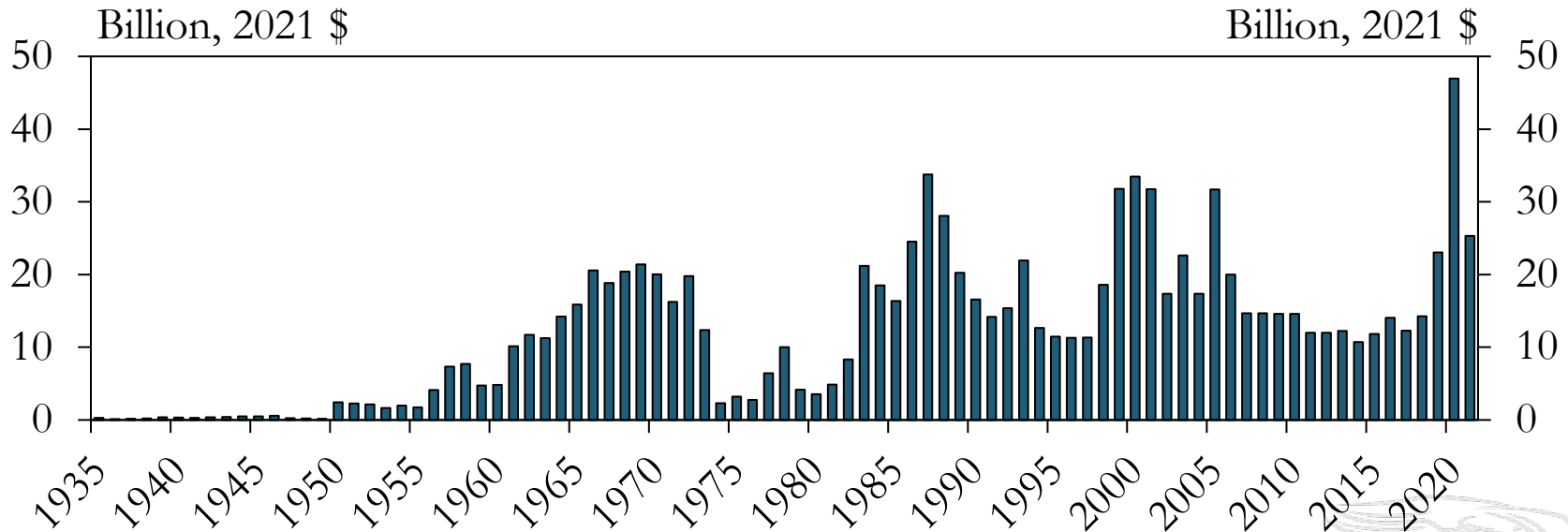
In recent months, however, ag commodity prices have rebounded sharply.

Agricultural Commodity Prices



Government aid programs also provided significant assistance to the U.S. farm sector in 2020.

Direct Government Payments to U.S. Farm Sector



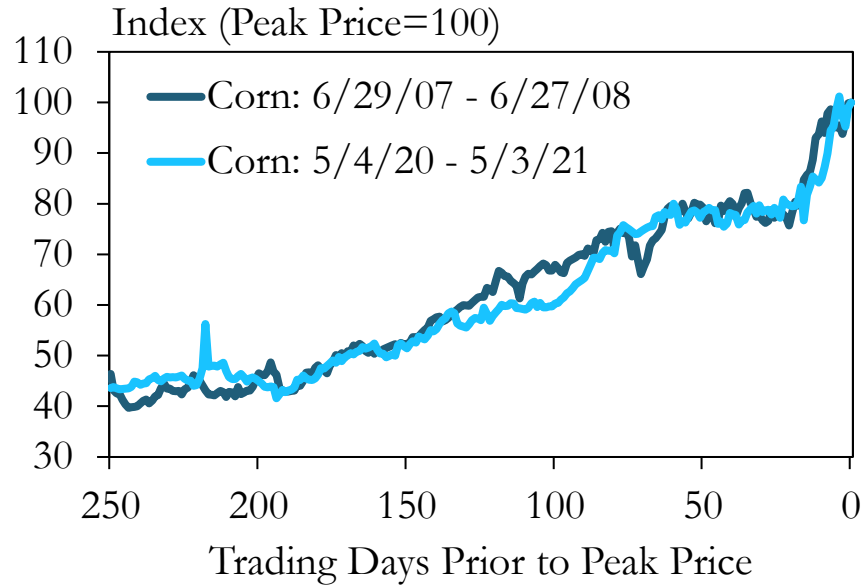
Note: 2020 Estimate and 2021 Forecast as of February 5, 2021.

Source: USDA.

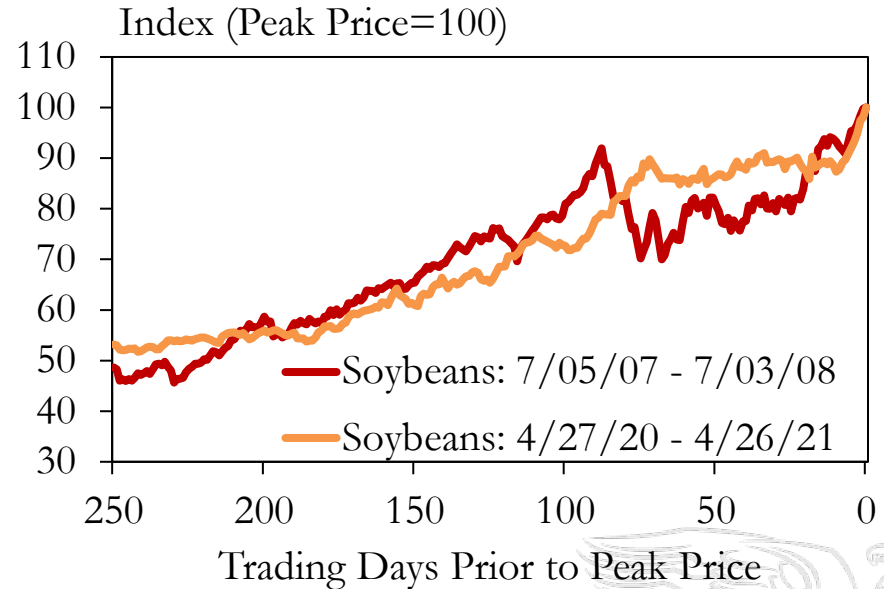


The recent surge in crop prices resembles the previously unprecedented gains in 2007-2008.

U.S. Corn Prices



U.S. Soybean Prices

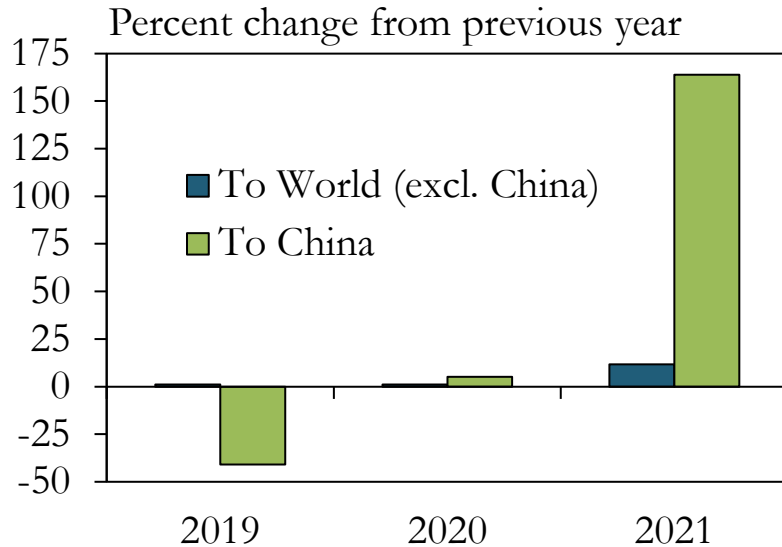


Sources: WSJ and staff calculations.

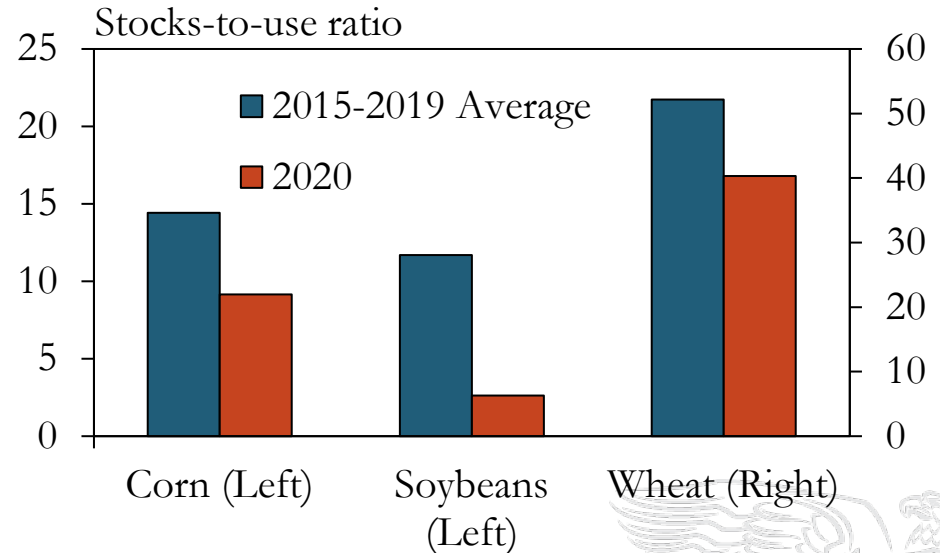


Exports to China have provided a major boost to demand alongside limited supplies.

U.S. Ag Exports (Through March)

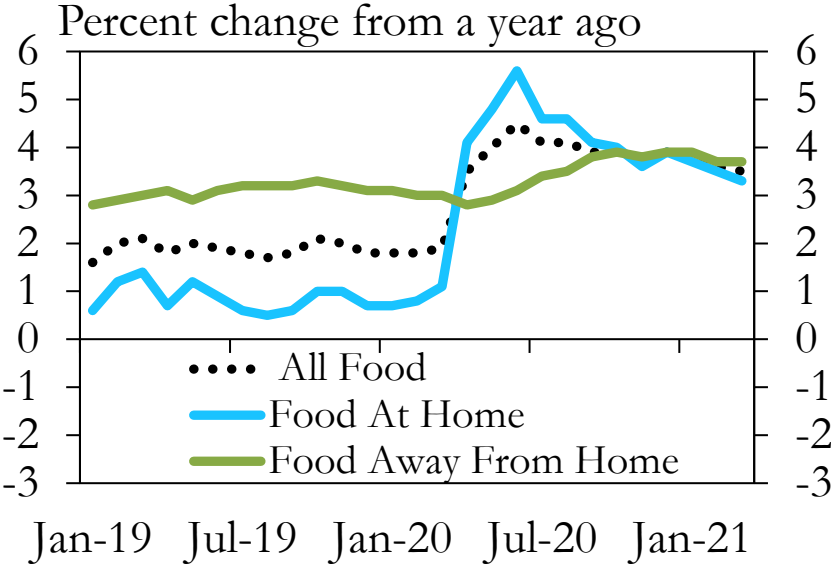


U.S. Crop Inventories

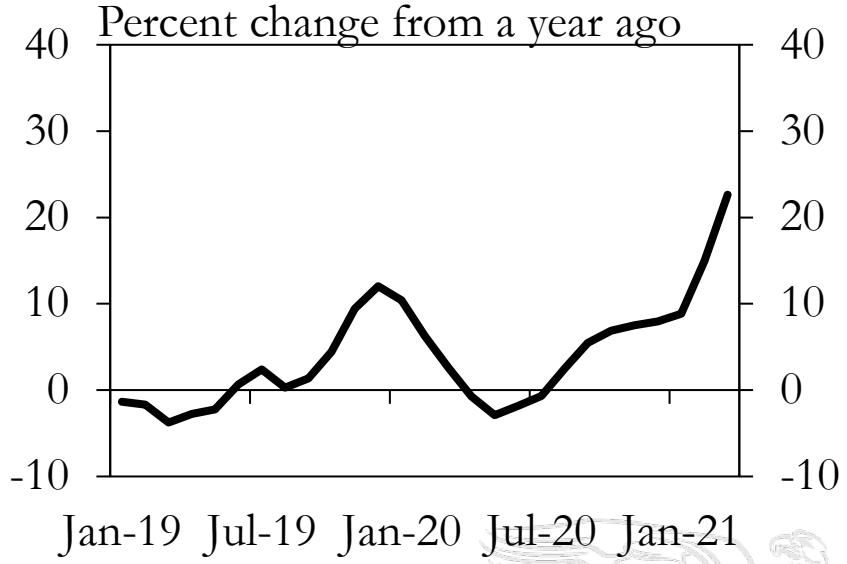


U.S. food price inflation has moderated but remains slightly elevated. Globally, food prices have surged.

U.S. Food Price Inflation



Global Food Price Inflation

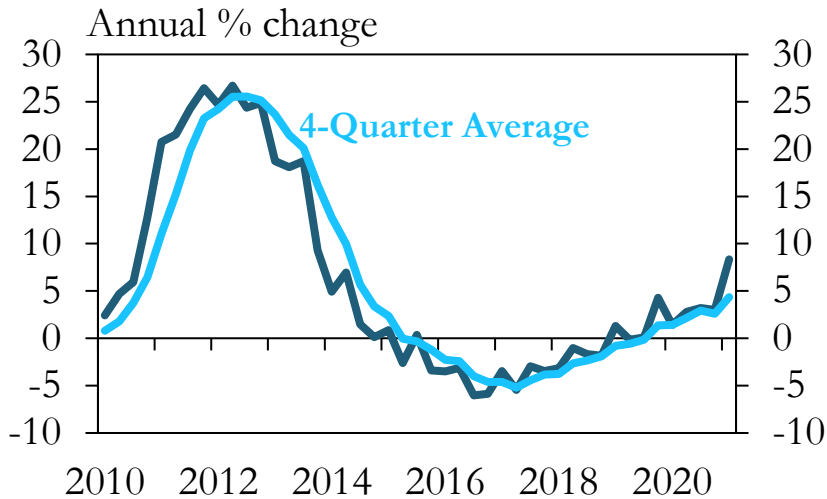


Sources: BLS, FAO and Haver Analytics.

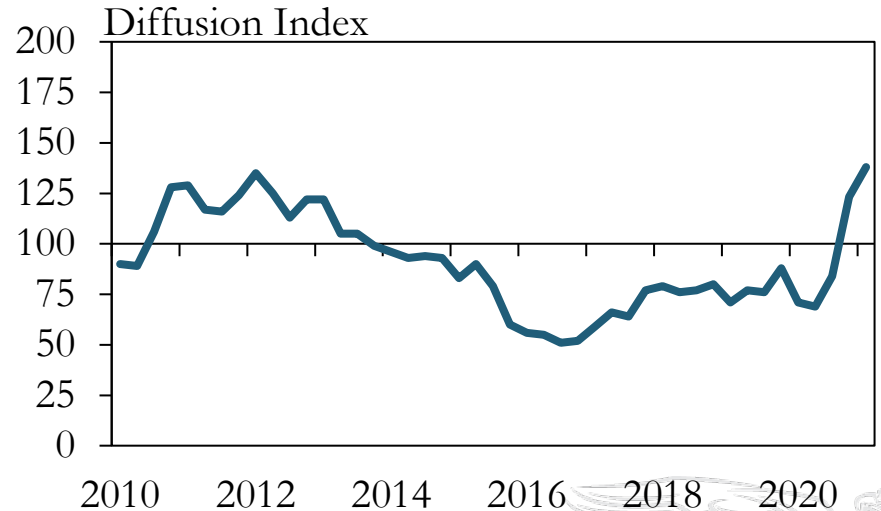


Agricultural credit conditions have continued to improve, and farmland values are moving higher.

Value of Non-irrigated Farmland Kansas City Fed District



Farm Loan Repayment Rates Kansas City Fed District



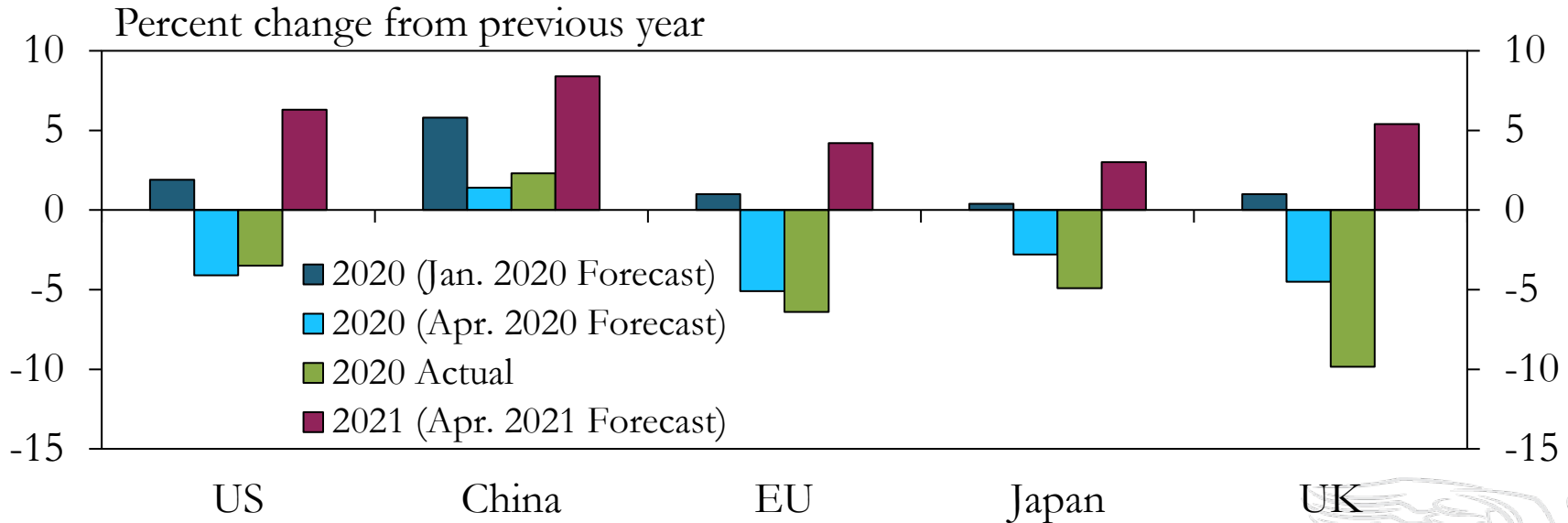
Note: Q1 2021 data not available for Chicago. Data for Kansas City, Minneapolis and St. Louis are preliminary. Survey for St. Louis District began Q2 2012.

Sources: Federal Reserve District Surveys of Agricultural Credit Conditions



The course of the pandemic, and associated economic activity, remains key to the outlook.

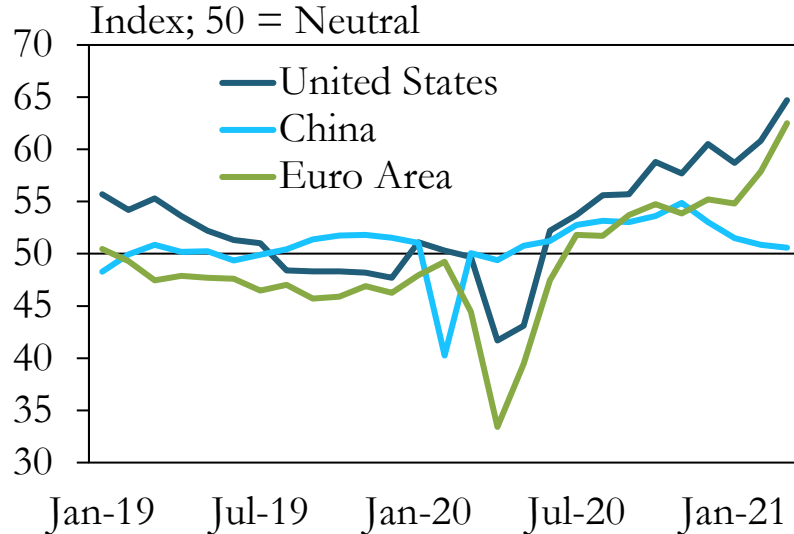
Real GDP



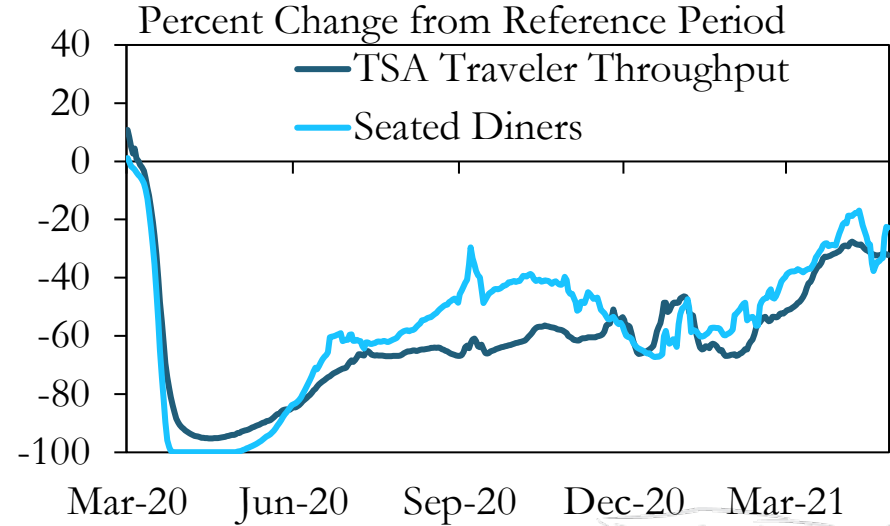
Sources: BEA, Wolters Kluwer, Statistical Office of the European Communities, Cabinet Office of Japan, Office of National Statistics, China National Bureau of Statistics, and Haver Analytics.

Manufacturing activity has surged in recent months and travel has been recovering.

Manufacturing Indices



Air Travel and Restaurant Traffic



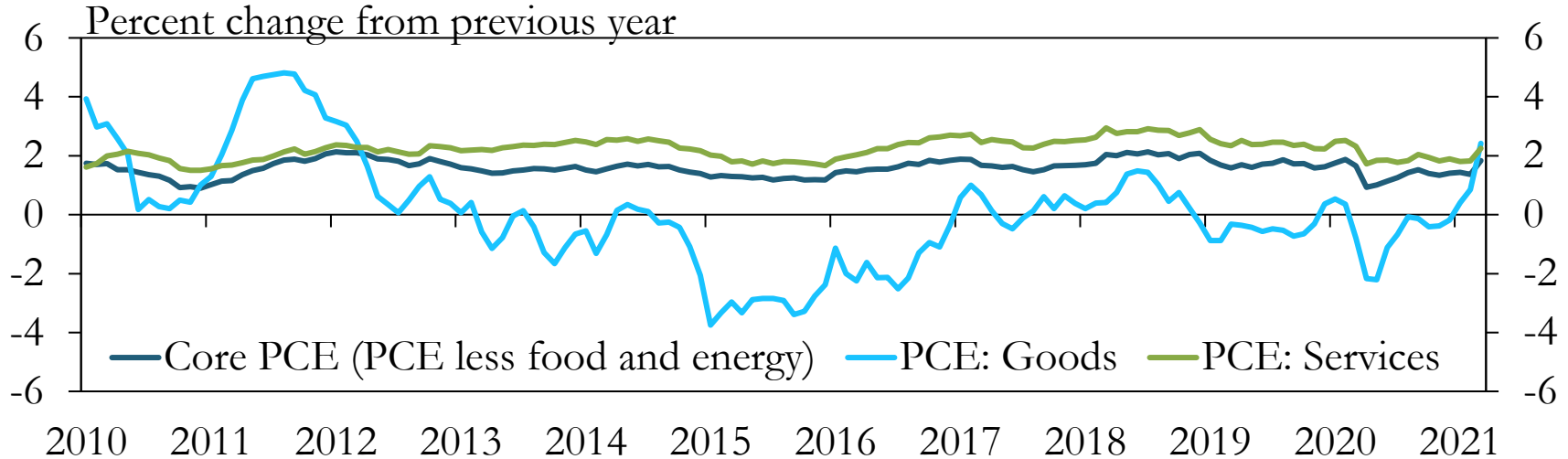
Note: TSA traveler reference period is January 2020 daily average. Open Table seated diners reference period is the same day in 2019.

Sources: ISM, Caixin, IHS Markit, Haver Analytics, TSA, Open Table.



Inflation has remained relatively subdued, although the prices of some materials have increased sharply.

Inflation

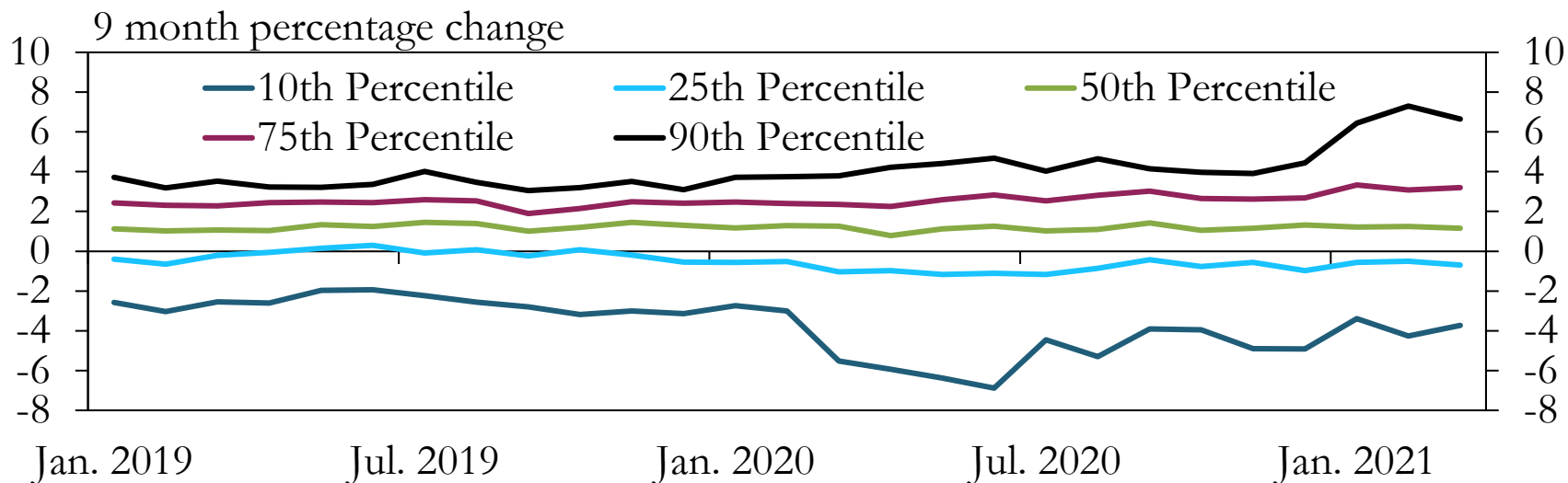


Source: BEA, Haver Analytics.



The current variability of inflation is much higher than before the pandemic.

Dispersion of PCE Inflation Rate



Sources: BEA, staff calculations, Haver Analytics.



Concluding Thoughts

- Despite severe pressure a year ago from the intensifying pandemic, the near-term outlook for agriculture is very strong.
- However, notable risks remain—
 - Pandemic uncertainty, economic activity and disruptions
 - Livestock industry
 - Policy
 - Longer-term economics



