U.S. Agricultural Economic Outlook

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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

- 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

Percent change from previous year

Sources: BEA, Wolters Kluwer, and Haver Analytics
Inflation remains elevated, but substantial progress has been made toward the Fed’s 2% goal.

Sources: BLS, Haver Analytics
Interest rates increased sharply through 2023 in response to inflationary pressures.

Sources: Federal Reserve Board of Governors, Survey of Terms of Lending to Farmers, BLS and Haver Analytics
Interest expenses account for a modest share of farm costs, but the increase has been significant.

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**

Index (Jan. 2020=0)

- Corn (17%)
- Soybeans (12%)
- Wheat (3%)
- Cattle (15%)
- Hogs (6%)
- Milk (10%)

**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

Billion dollars (inflation adjusted)

Historical Average (1970-2023)

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

Source: USDA
Still, many ag producers remain in a strong financial position due to recent years’ incomes.

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

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

**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

Sources: USDA and staff calculations
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.