

U.S. Agricultural Economic Update

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November 19, 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.



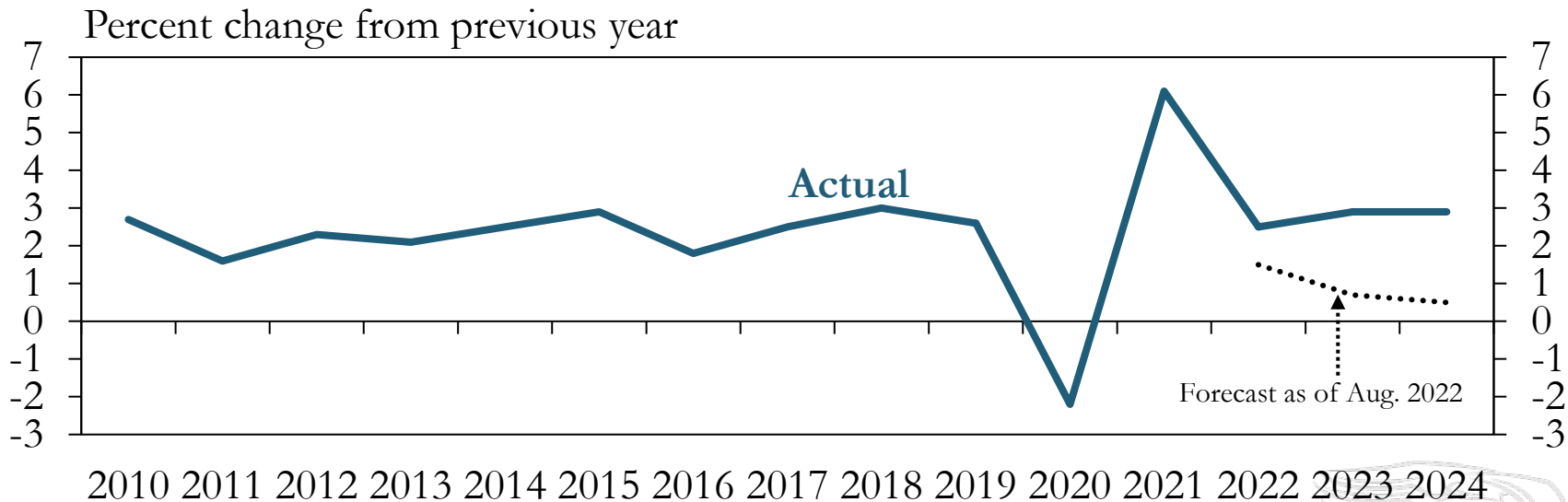
Outlook Themes

- Economic conditions in agriculture have weakened alongside an ongoing decline in commodity prices.
- Financial pressure in agriculture has been limited, but could intensify in the year ahead.
- The resilience of the U.S. economy has provided broad support for agriculture, and other goods-based industries.



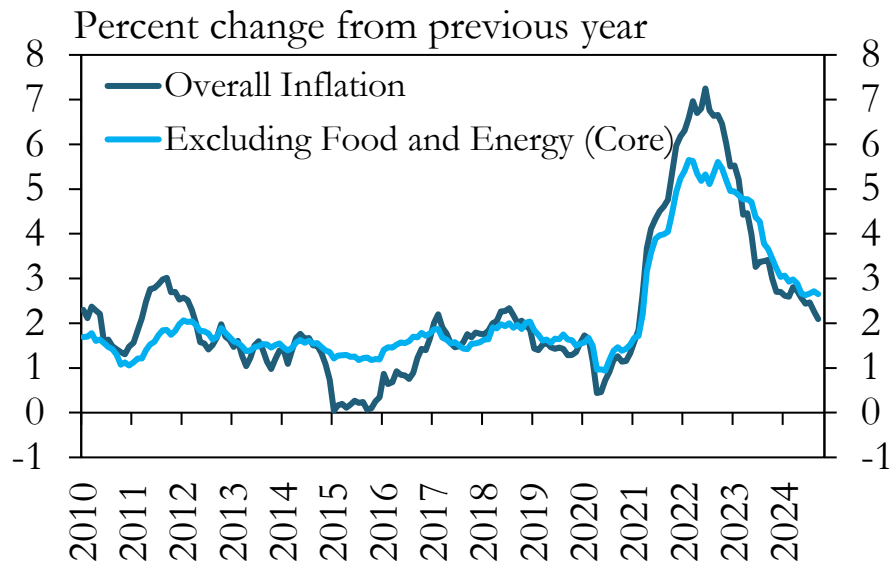
Despite concerns about a post-recovery slowdown in recent years, the U.S. economy has been resilient.

U.S. Real GDP

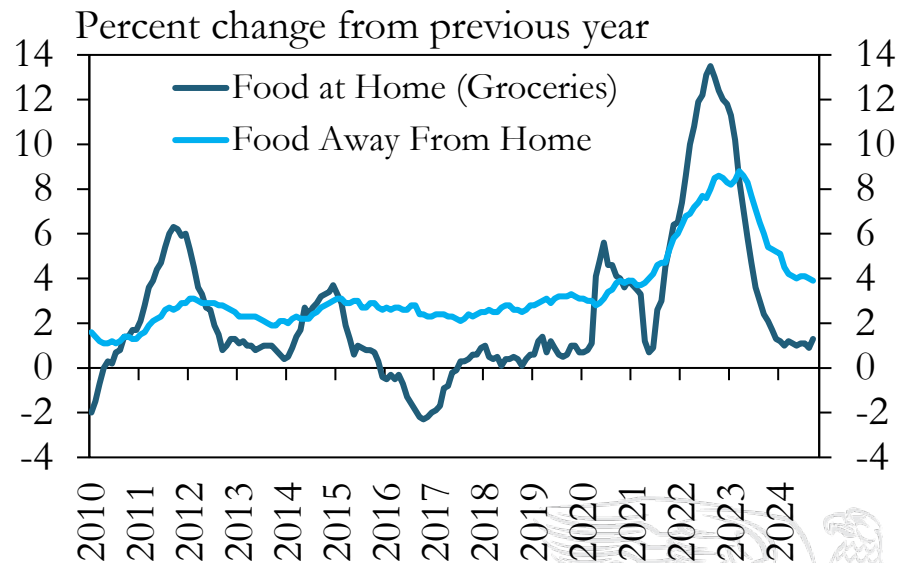


Inflation has moved closer to the Fed's long-term target.

U.S. Consumer Prices

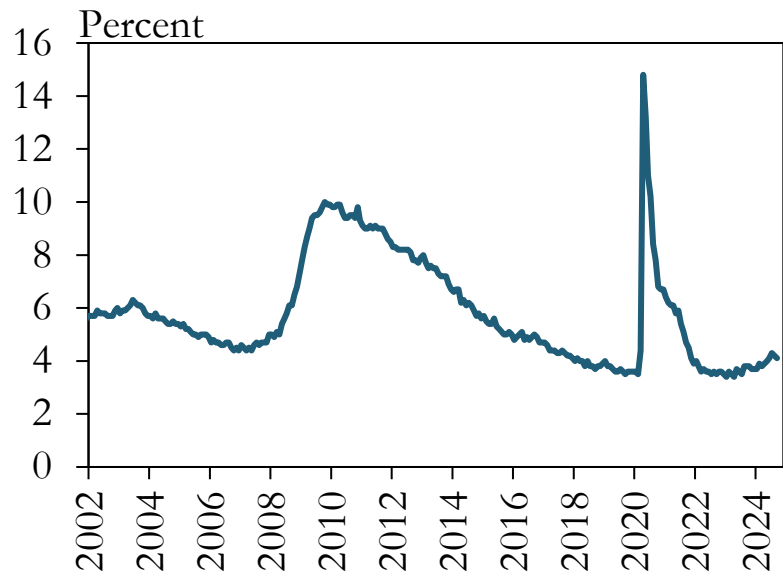


U.S. Consumer Food Prices

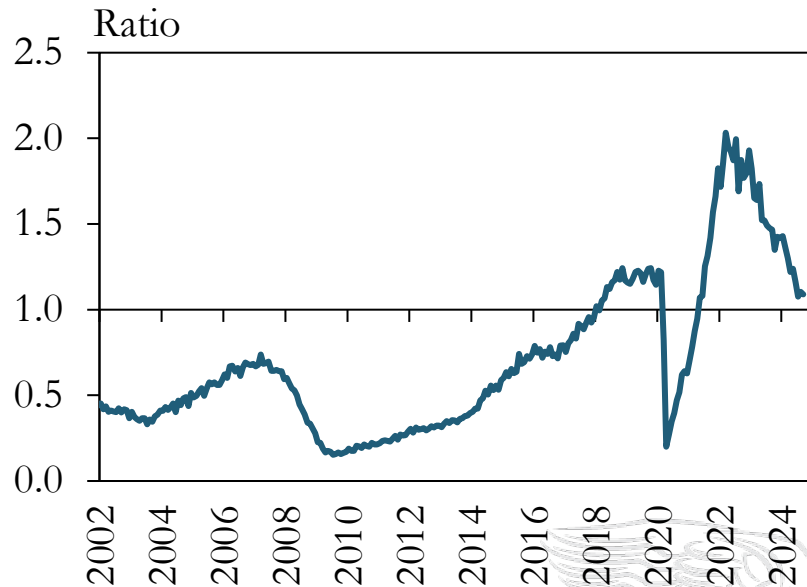


Unemployment remains historically low, but labor markets have cooled noticeably from a year ago.

U.S. Unemployment Rates

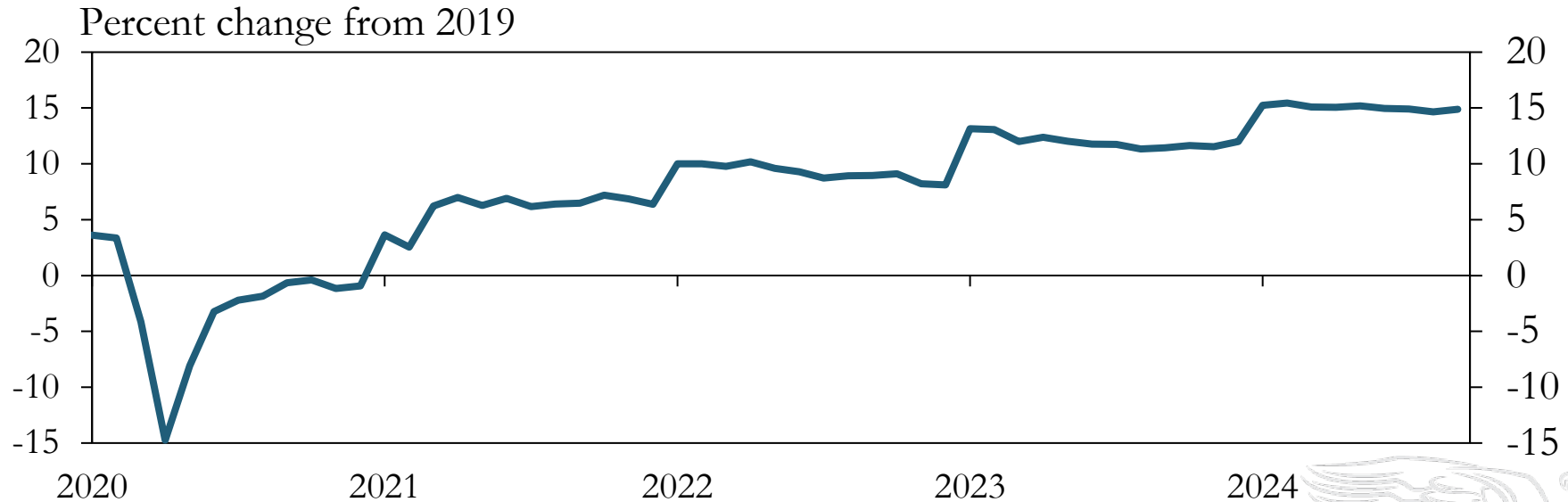


Job Openings-to-Unemployed



Consumer spending has generally continued to increase, and remains substantially higher than before the pandemic.

U.S. Real Personal Consumption Expenditures

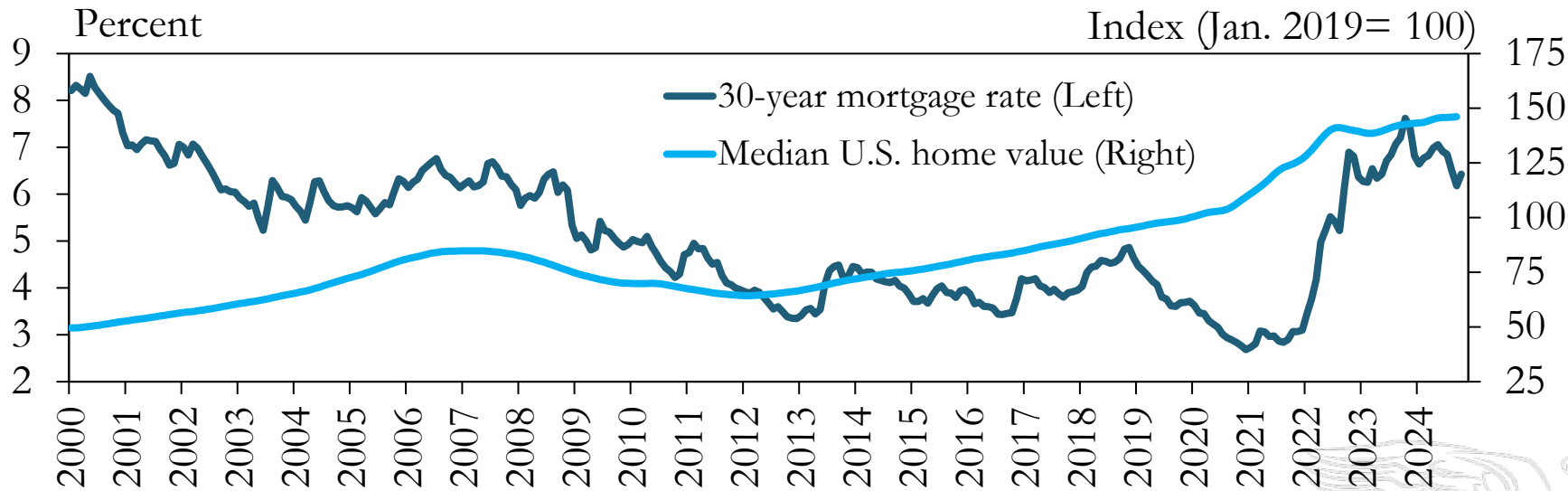


Source: U.S. Bureau of Economic Analysis



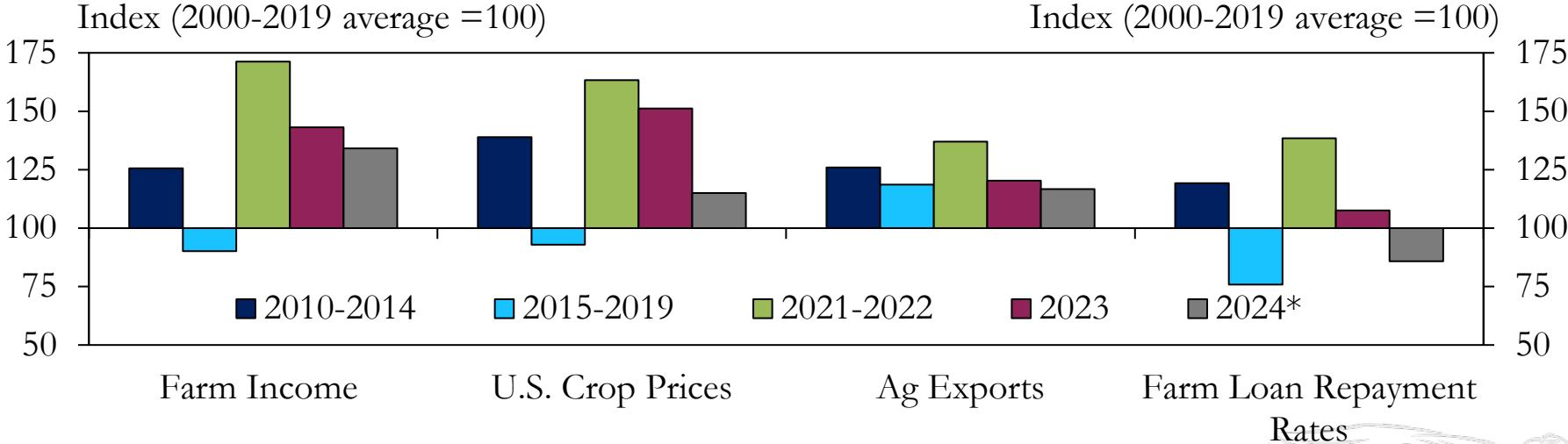
Home prices have remained elevated even with sharply higher mortgage rates.

U.S. Home Values and Mortgage Rates



Economic conditions in U.S. agriculture, however, have softened.

Indicators of the U.S. Ag Economy

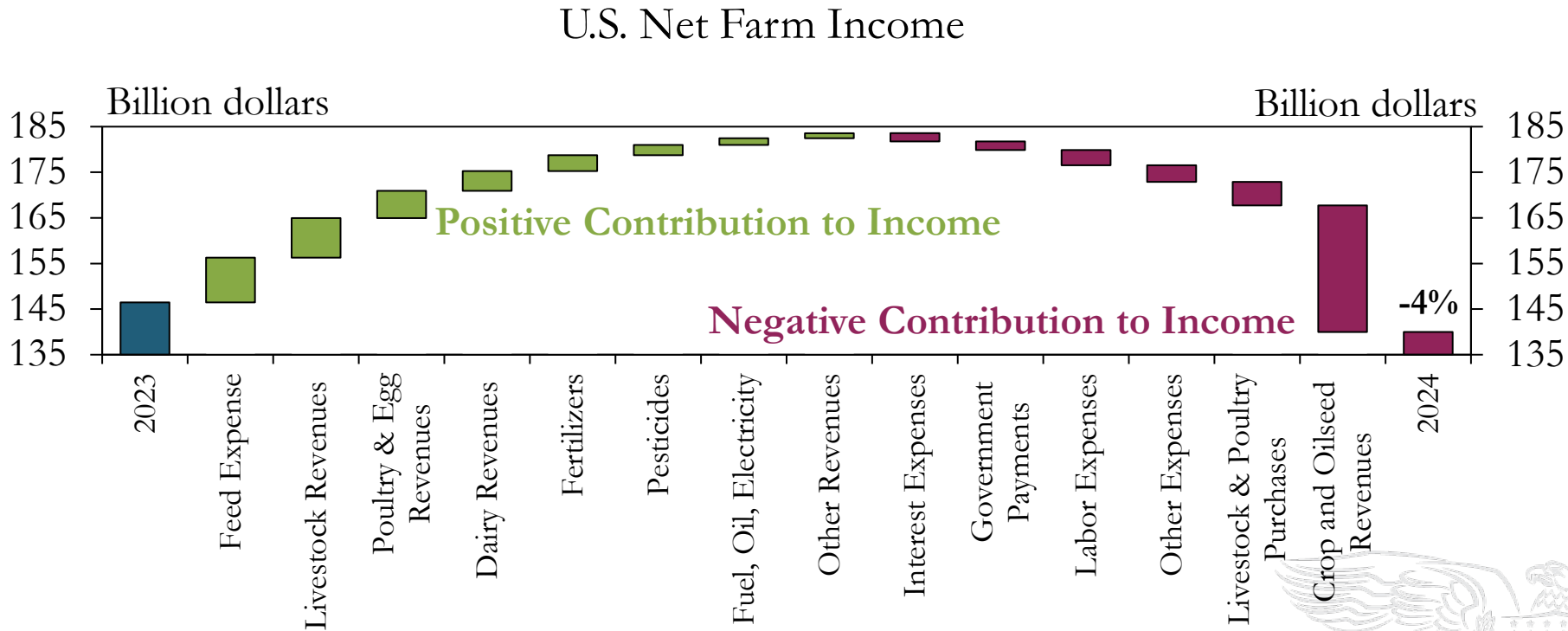


*2024 farm income and farm sector interest expenses are USDA forecasts and 2024 commodity prices, ag exports, farm loan repayment rates, and farmland values are staff estimates based on year-to-date conditions.

Sources: USDA , Federal Reserve Surveys of Agricultural Credit Conditions and staff calculations

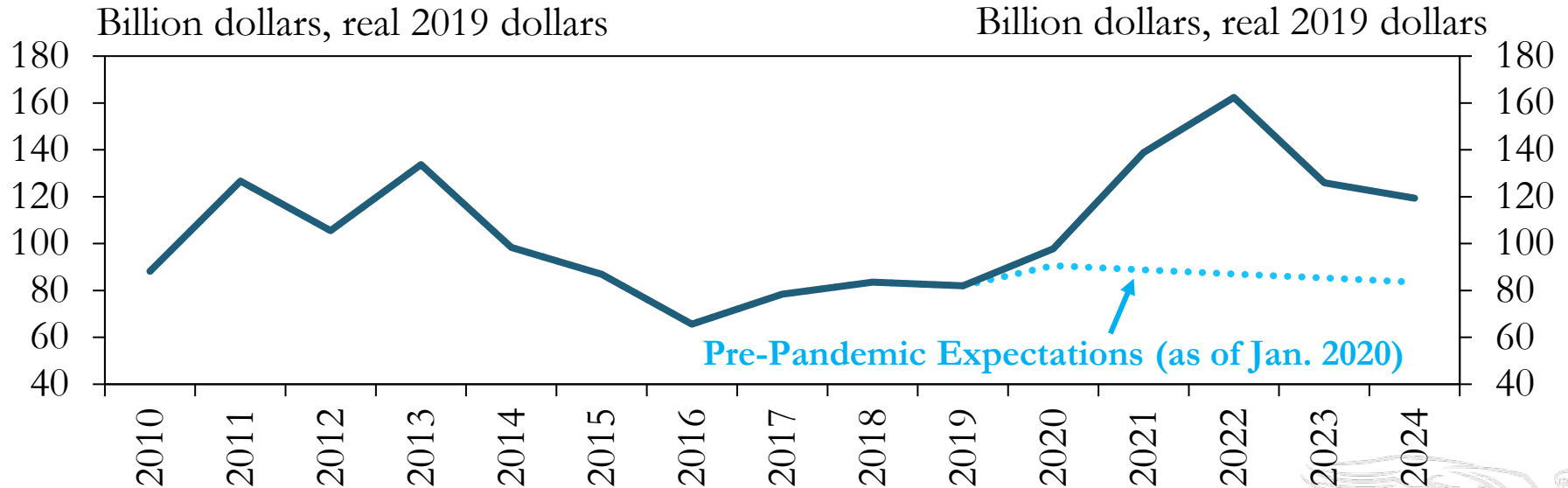


Farm incomes are expected to be lower due to reduced commodity prices and elevated production costs.



Farm income has dropped sharply, but the strength of the post-pandemic years was remarkable.

U.S. Real Net Farm Income



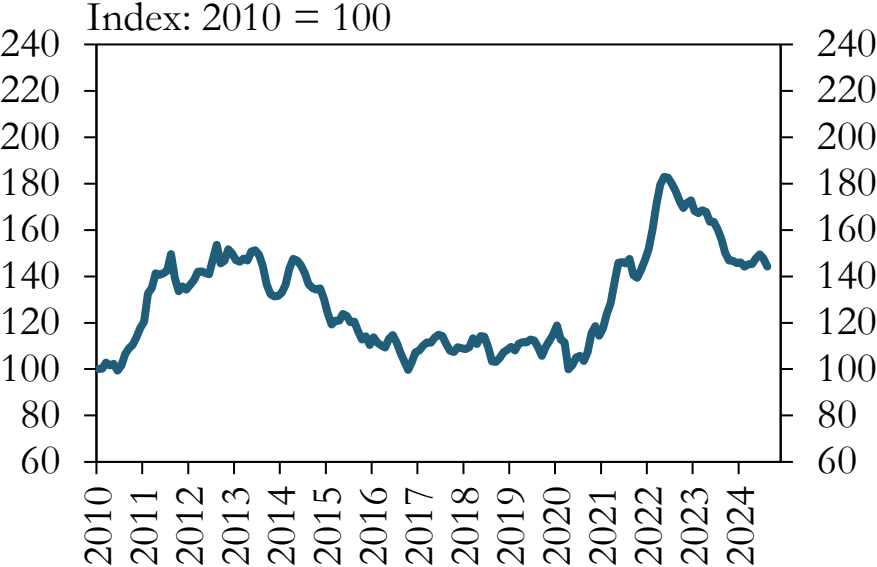
Note: USDA forecasts as of September 5, 2024

Sources: USDA and staff calculations

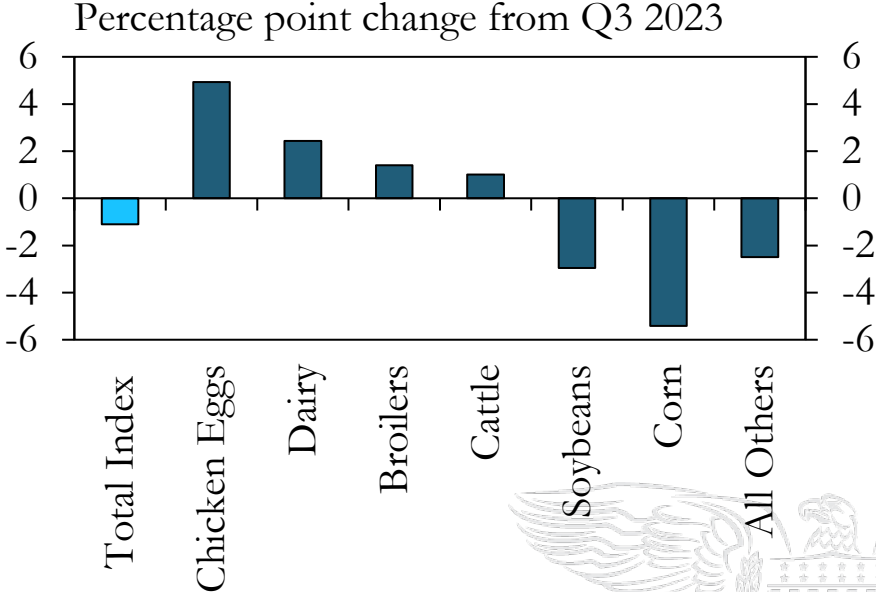


Animal and dairy markets have supported agriculture through 2024, but crops have been a drag.

U.S. Ag Price Index



Contribution to Change in Price Index

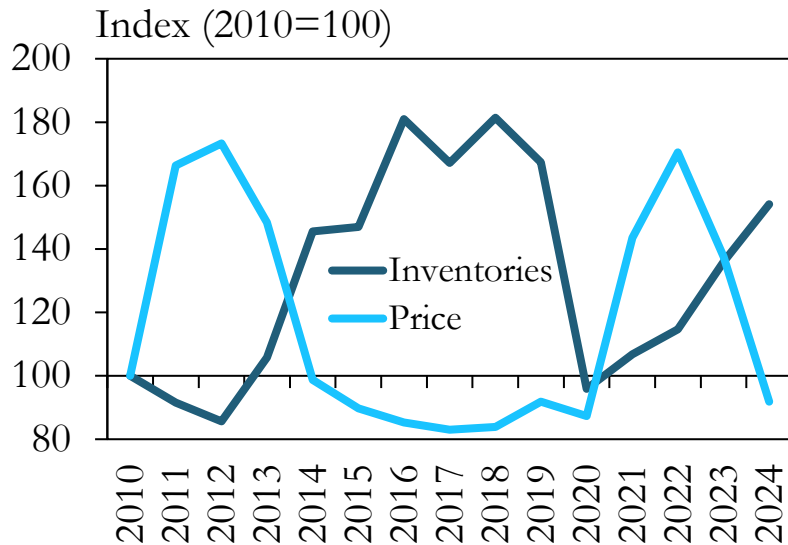


Source: USDA, Haver Analytics, and author's calculations

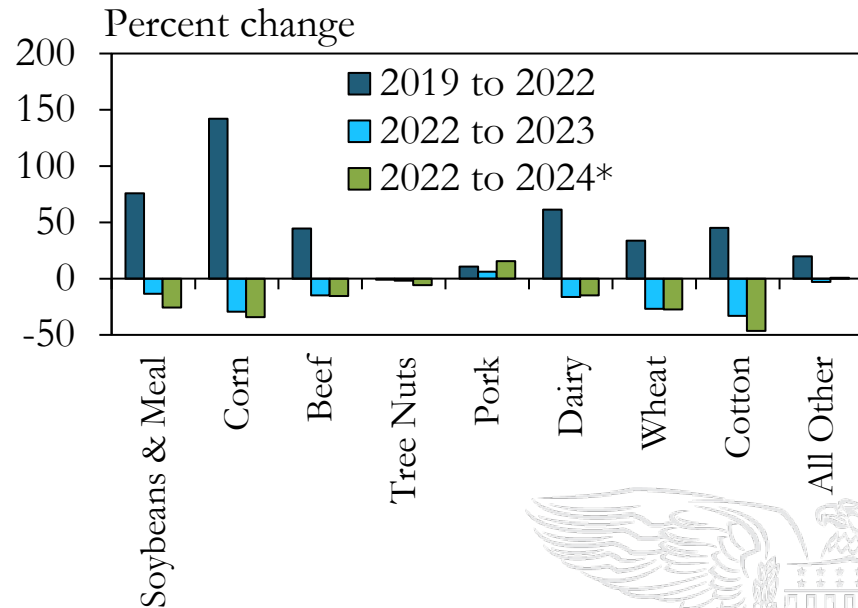


Crop prices have been pressured by reduced demand and a rebuilding of supplies.

U.S. Corn



Value of U.S. Exports



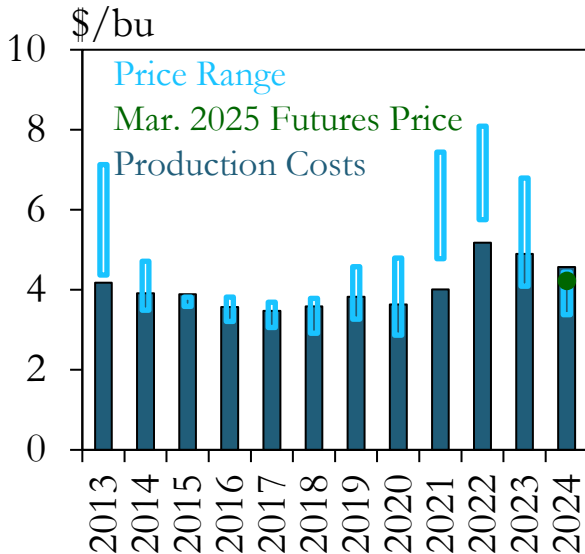
*Year-to-day as of August.

Sources: USDA, Haver Analytics and staff calculations

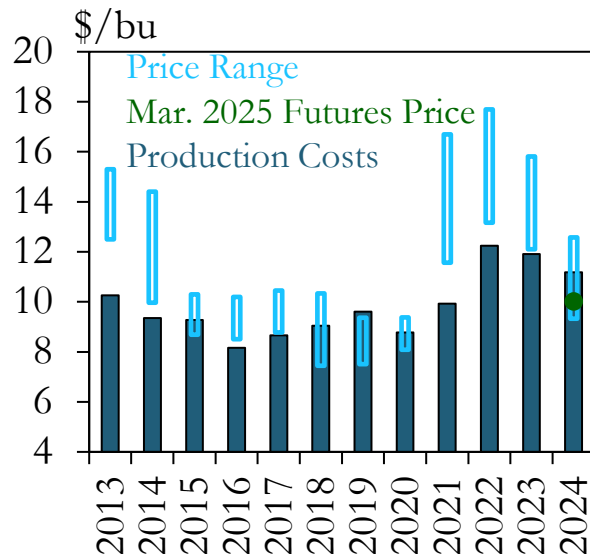


And profit opportunities for crop producers have contracted considerably.

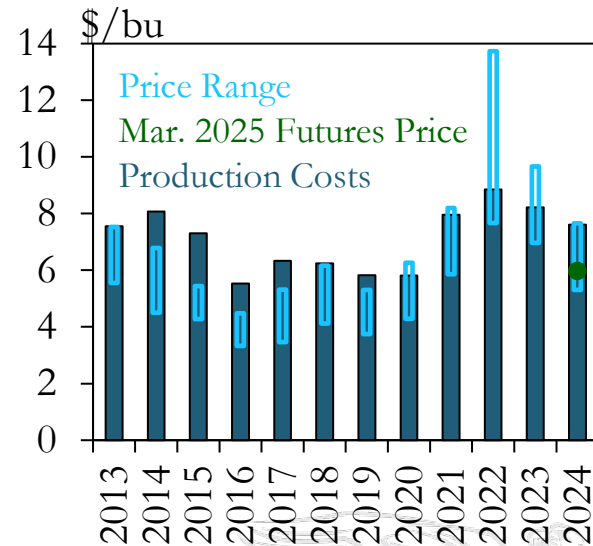
Corn Profit Margin



Soybean Profit Margin



Wheat Profit Margin



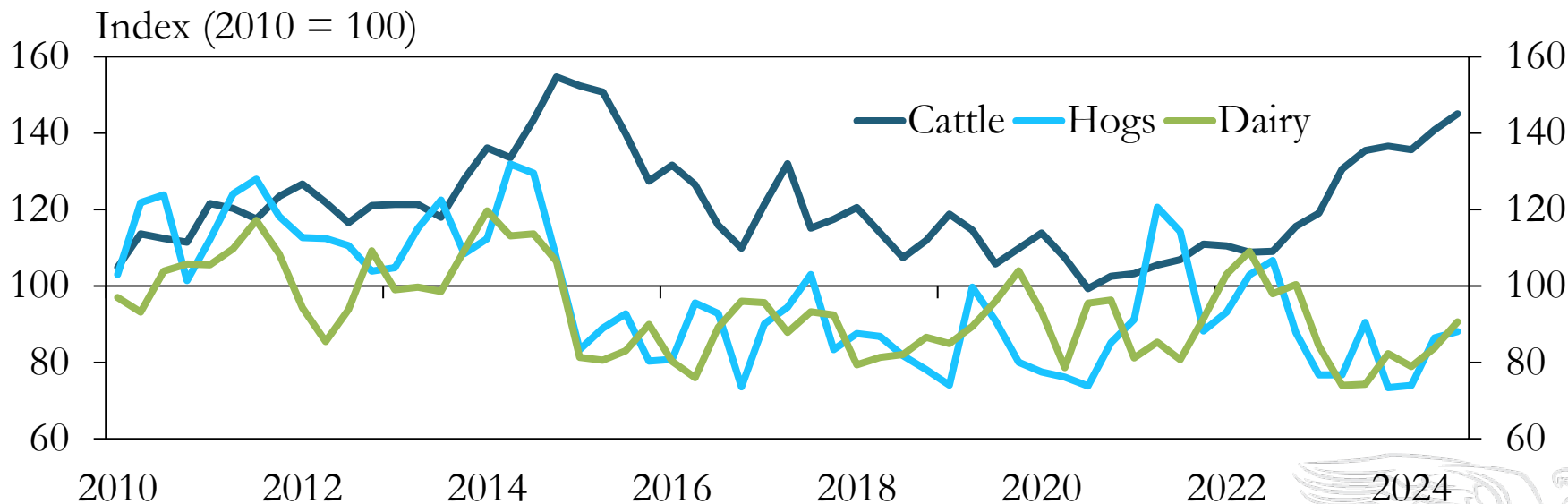
Note: Production costs are calculated from USDA annual estimates and forecasts.

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



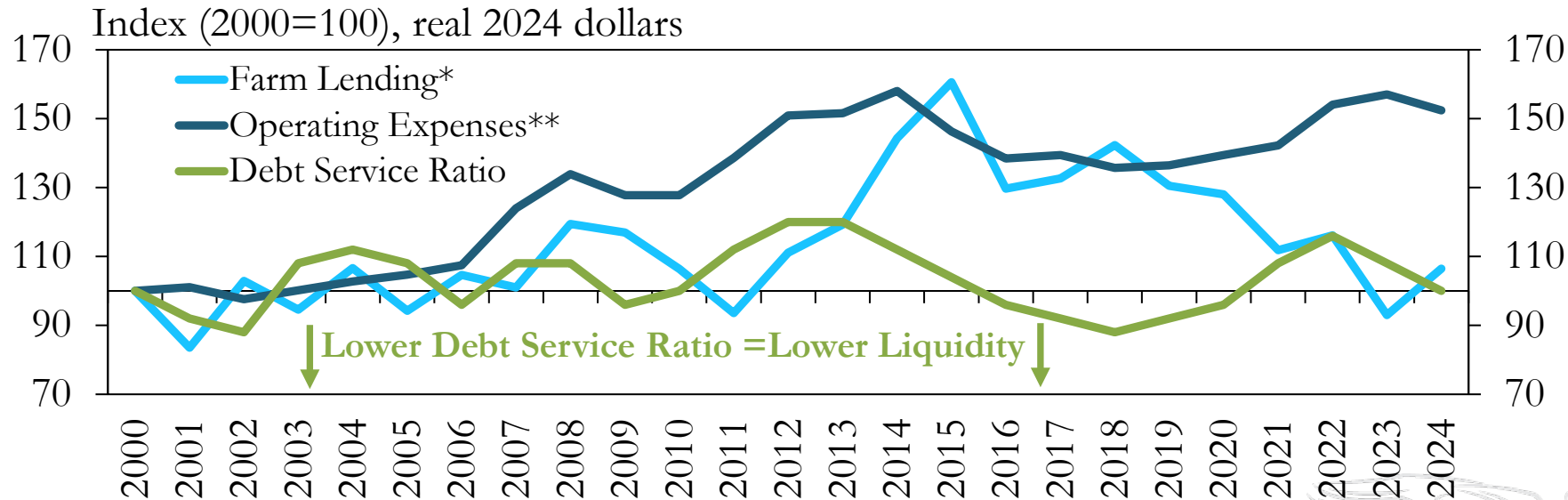
While some challenges in the livestock industry remain, profits in the cattle industry have been strong.

Ratio of Prices Received-to-Total Production Expenses



Demand for financing has increased alongside elevated expenses and reduced liquidity in the farm sector.

Farm Lending and Liquidity



*Average annual volume of loans for current operating expenses and livestock loans estimated in the Survey of Terms of Lending to Farmers.

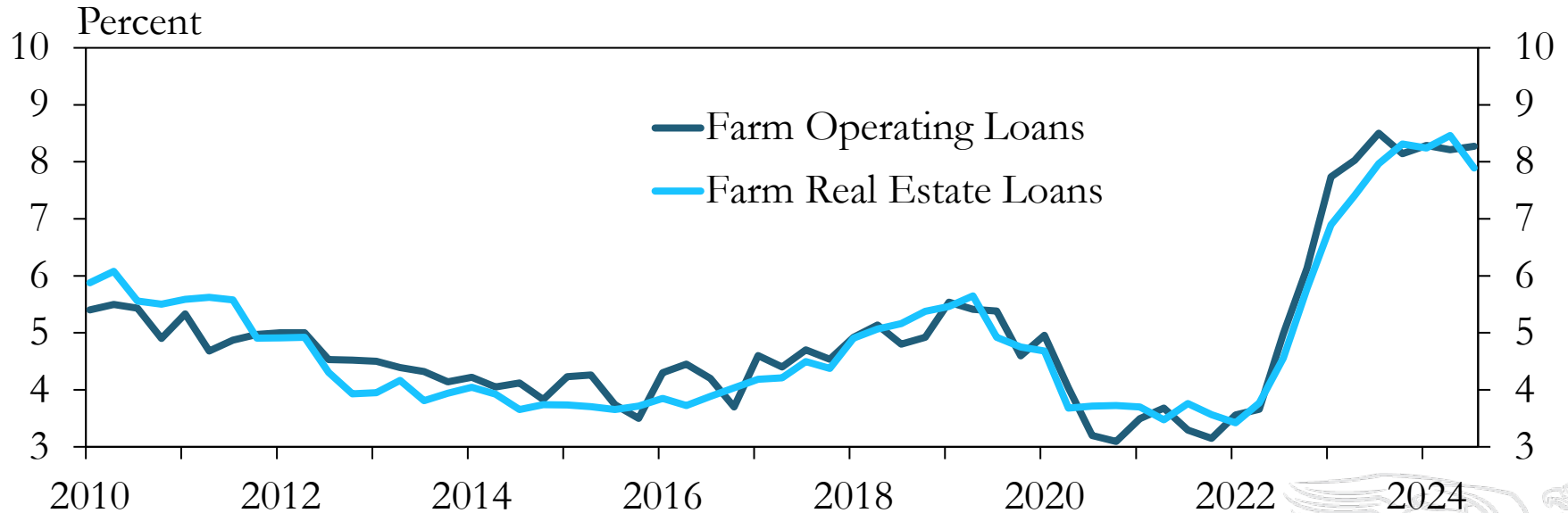
**Total U.S. farm sector production expenses less interest expenses and capital expenditures.

Sources: USDA, Survey of Terms of Lending to Farmers, and Federal Reserve Bank of Kansas City



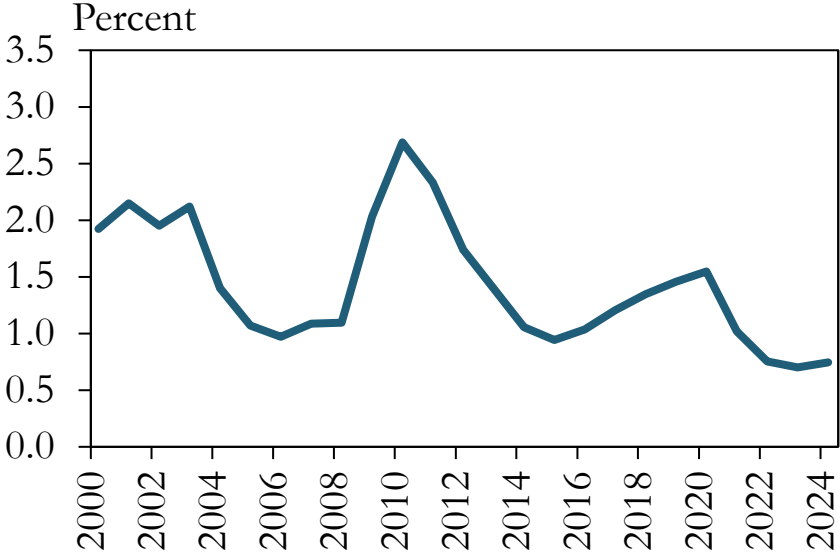
Interest rates have increased sharply over the past two years, potentially exacerbating financial challenges.

Average Interest Rates on Agricultural Loans

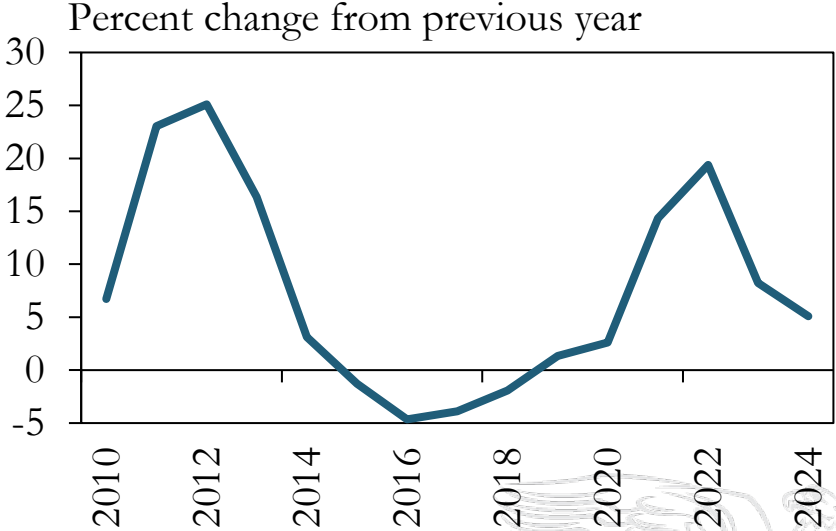


And yet, delinquency rates on farm loans remain near all time lows, and farm real estate values have been firm.

Farm Loan Delinquency Rates, Q2



Farm Real Estate Values: Kansas City Fed Region

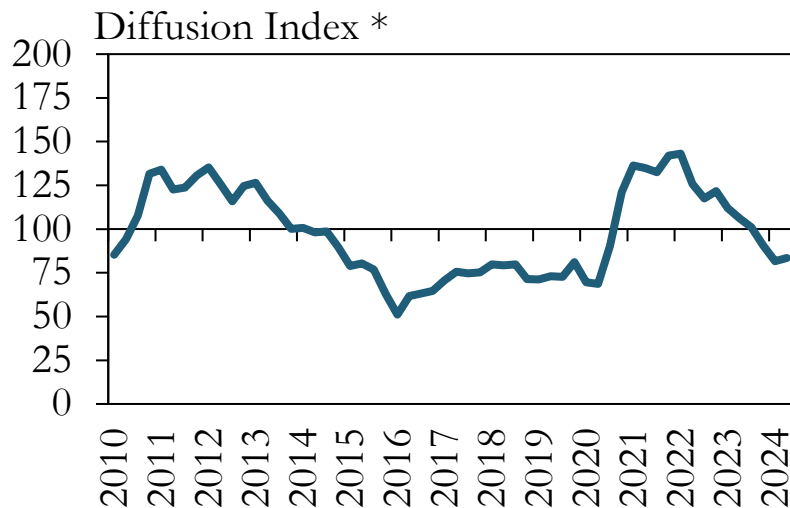


Sources: Reports of Condition and Income, Federal Reserve Board of Governors, Farm Credit Administration, USDA and staff calculations

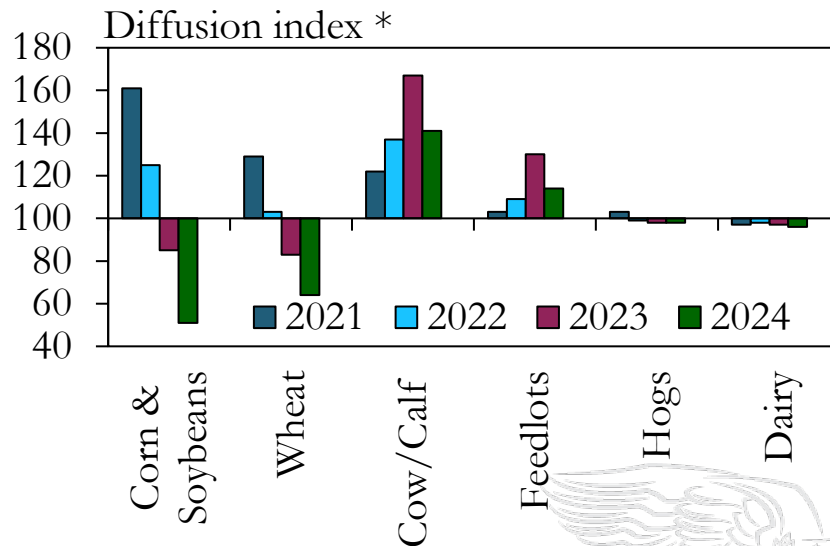


But recent Federal Reserve surveys show that some signs of farm financial stress have emerged.

Loan Repayment Rates
Federal Reserve Districts



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 Surveys of Agricultural Credit Conditions



Summary

- Economic and financial conditions in agriculture may tighten further in the year ahead, but finances have been stable, and supported by strength in the broader economy.
- Global economic activity will be important to monitor and, specifically, developments with respect to trade and supply chains.



AGRICULTURE AND THE ECONOMY

The Kansas City Fed is a leader on topics related to the agricultural economy within the Federal Reserve System. Our work provides insights on agricultural and rural economies for our seven-state region of the Tenth Federal Reserve District and nationally.



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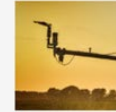
Ag Finance Updates

Find articles summarizing recent developments in agricultural finance and lending.



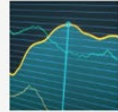
Ag Credit Survey

The quarterly Ag Credit Survey provides current indicators of the financial performance of Tenth District agriculture.



Ag Outlooks

Review the latest Ag Bulletin for a summary of ag conditions and additional outlook articles on the ag economy.



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