UPDATE ON U.S. ECONOMY AND AGRICULTURE

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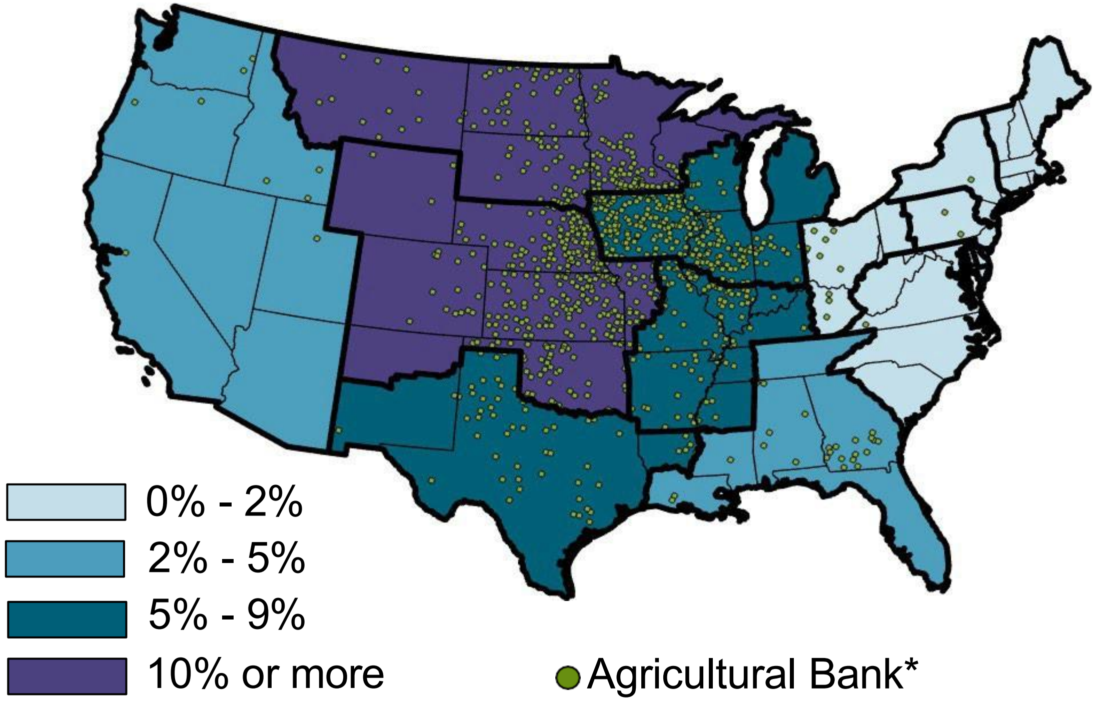
The Federal Reserve regularly incorporates perspectives from agriculture in its policy deliberations.

Farm Income as a Share of Total Income



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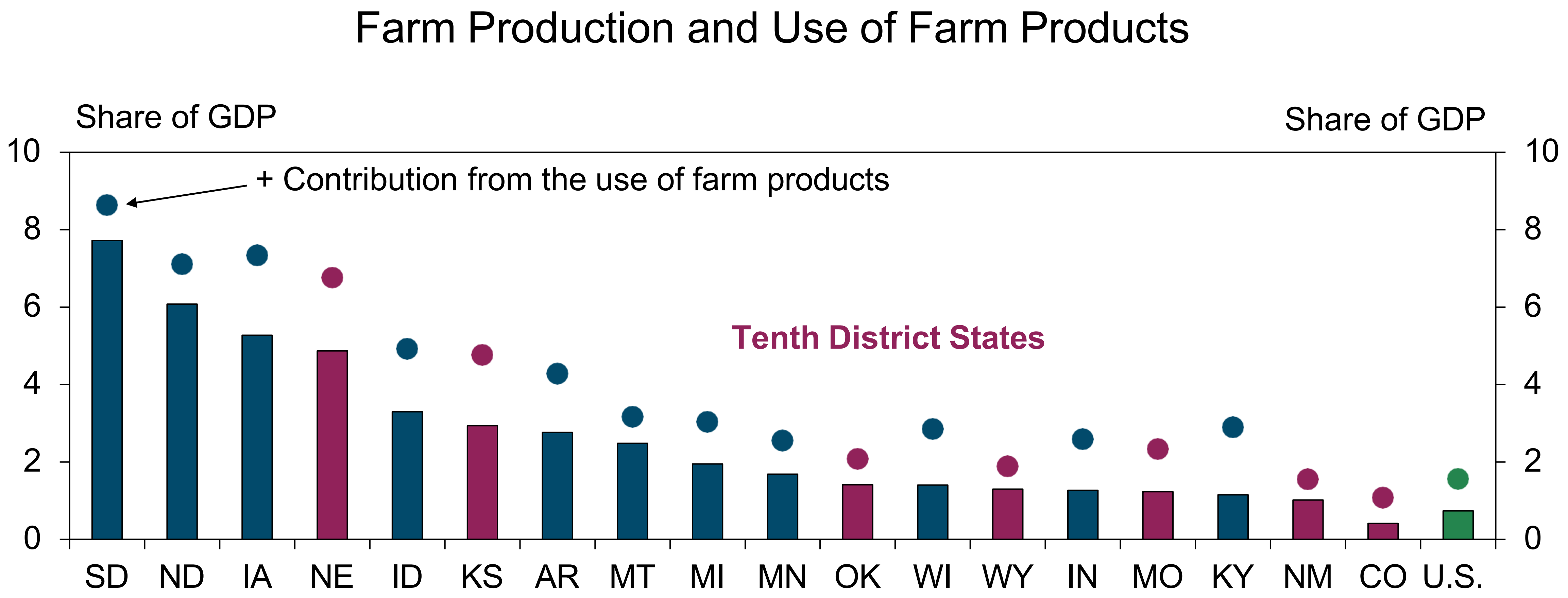
Leveraging expertise from the Kansas City Fed, the Center provides timely analysis of industry developments and conducts ongoing research on the agricultural economy.

*Agricultural banks are commercial banks with combined agricultural production and farmland loans totaling at least 25 percent of total loans.
Note: Farm income as a share of total income is shown as the average across all counties in each Federal Reserve District and computed using 2023 farm earnings as a share of total earnings.
Sources: Bureau of Economic Analysis, Reports of Condition and Income, and Federal Reserve Bank of Kansas City staff calculations

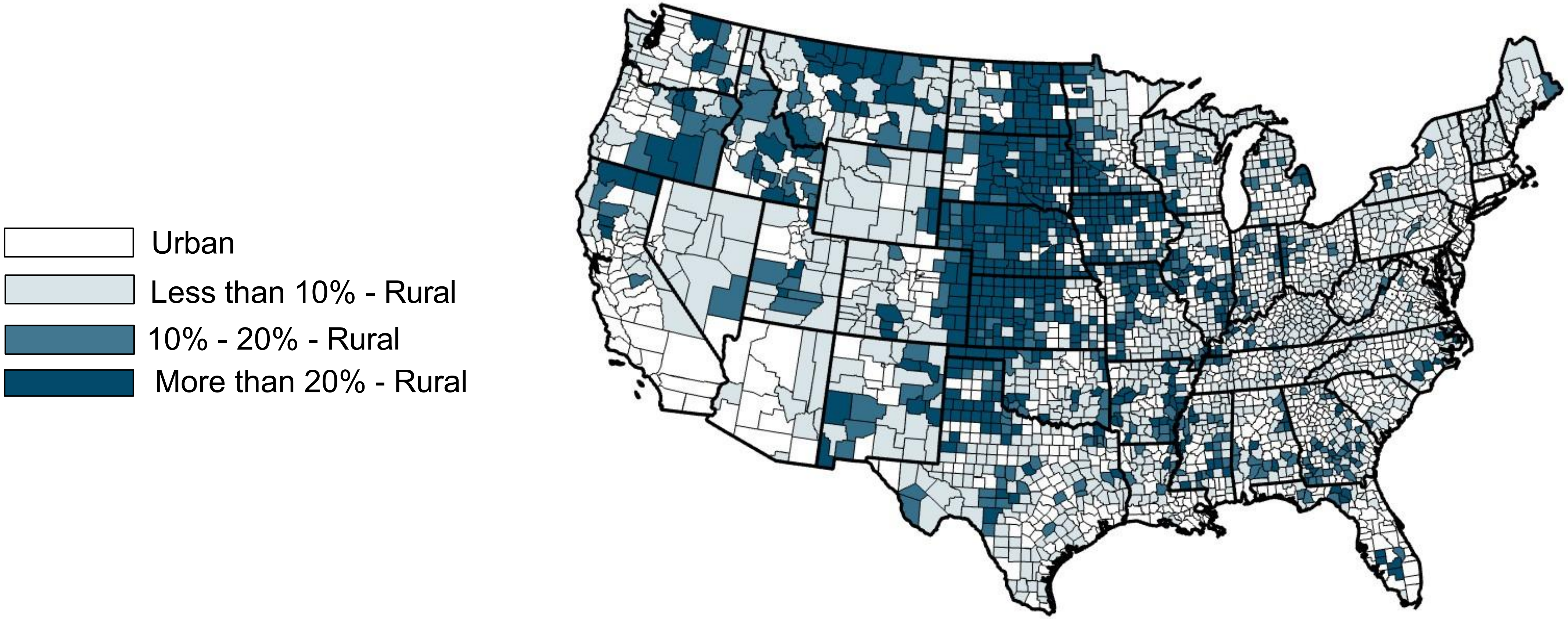
While farm production accounts for a relatively small share of U.S. economic output...



Note: The contributions from the use of farm products are calculated using national industry input tables and include the share of output from all other industries that can be attributed to farm production.
Sources: BEA and Federal Reserve Bank of Kansas City staff calculations

... A significant portion of the nation is rural and tied to agriculture.

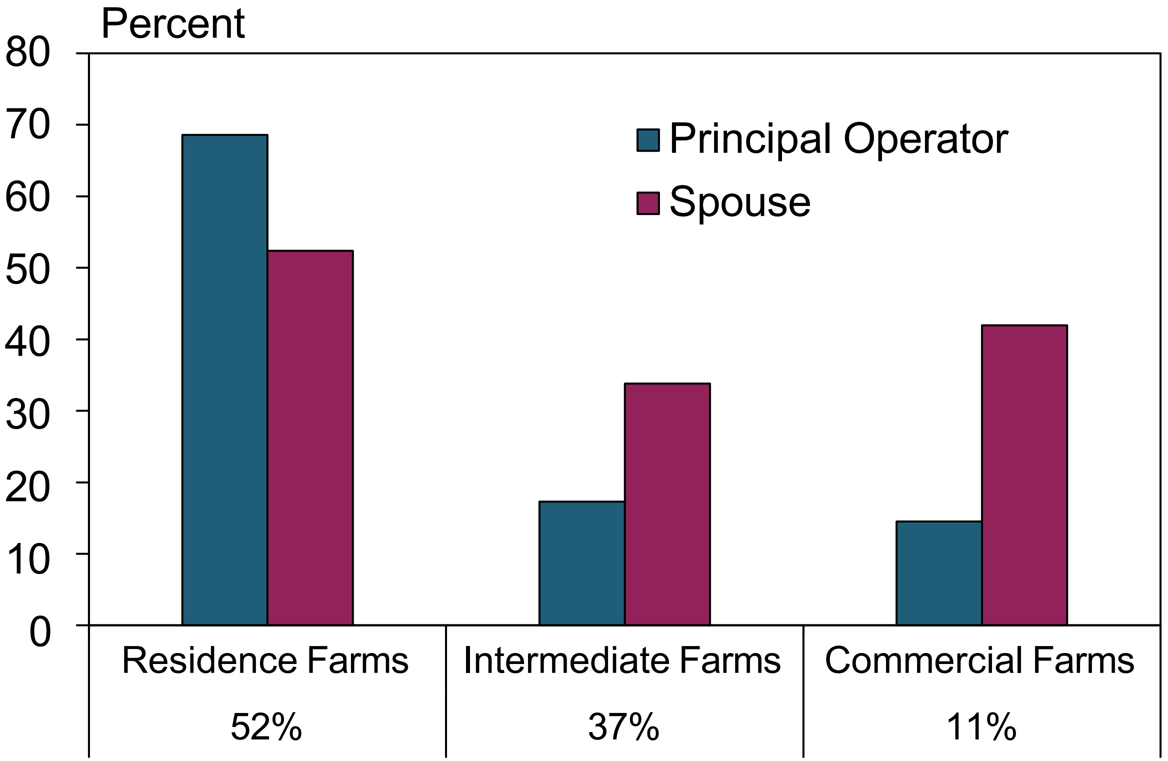
Farm Production and Use of Farm Products as a Share GDP



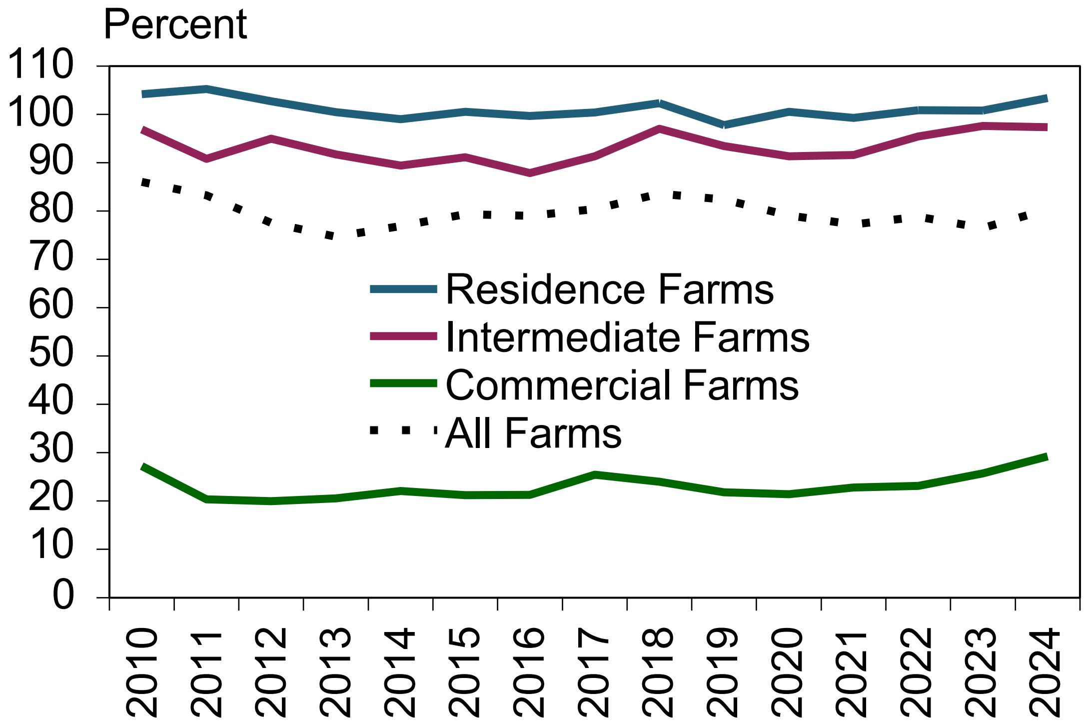
Note: The figures in the map are calculated using national industry input tables and include the share of output from all other industries that can be attributed to farm production.
Sources: BEA and Federal Reserve Bank of Kansas City staff calculations

The prevalence of off-farm employment further connects the farm sector to the broader economy.

Share of Farms With Off-Farm Employment

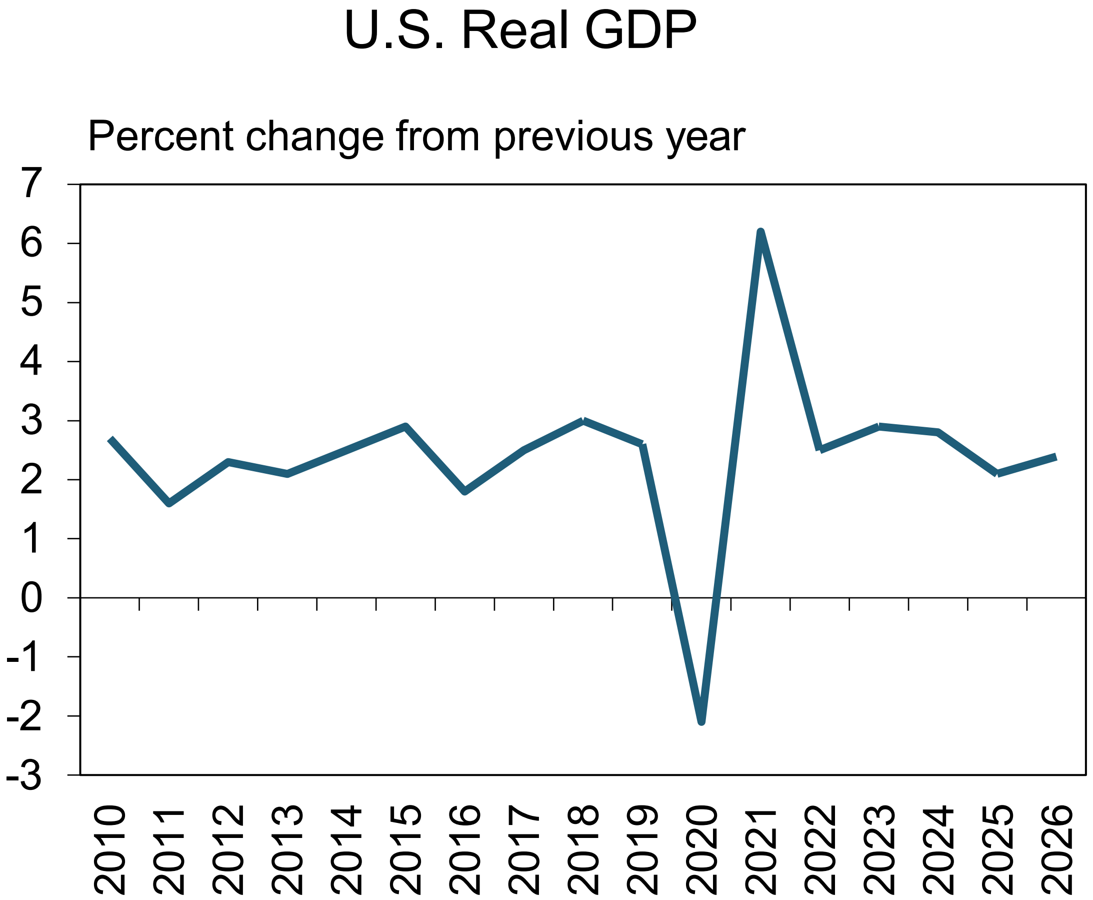


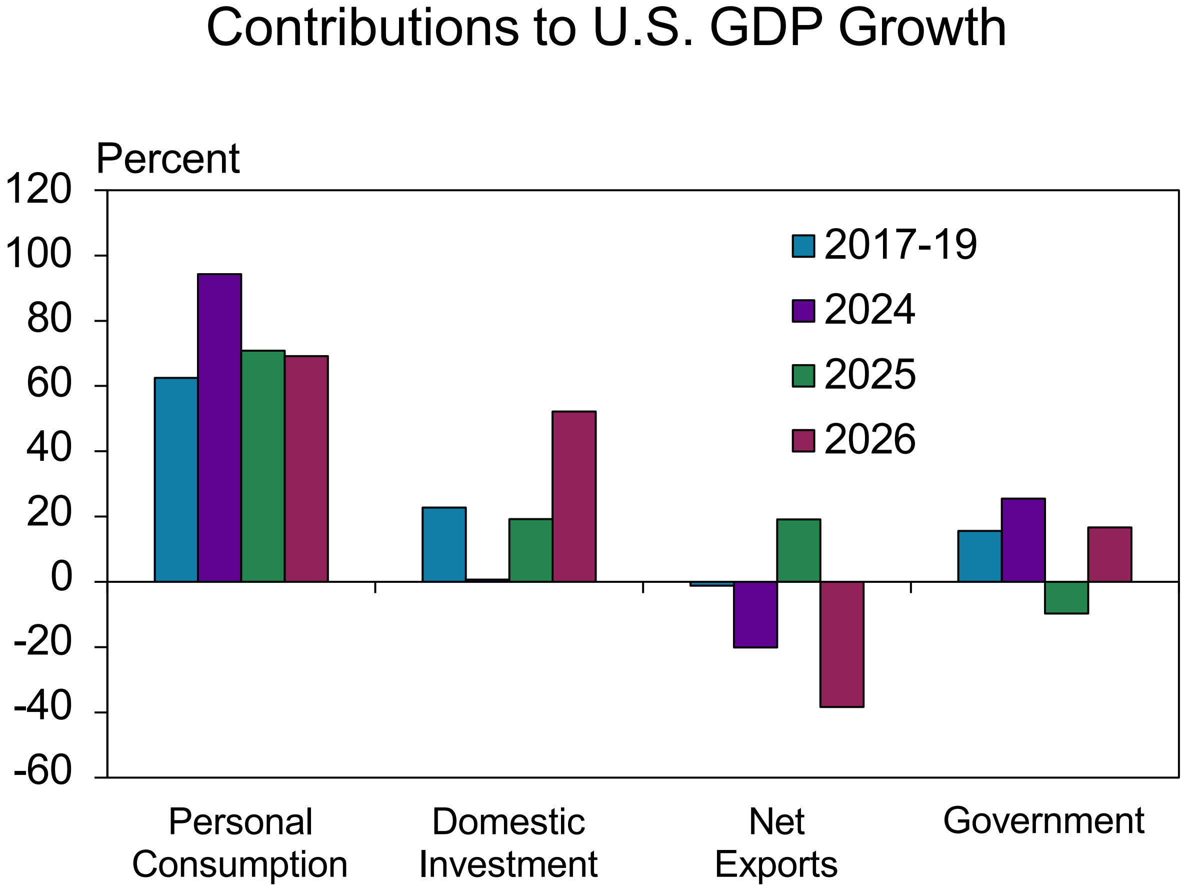
Average Share of Farm Household Income From Off-Farm Sources



Note: The numbers below each expense category denote the share of all farms in that category.
Sources: USDA and Federal Reserve Bank of Kansas City staff calculations

Despite numerous risks and uncertainties, U.S. economic growth has been resilient.

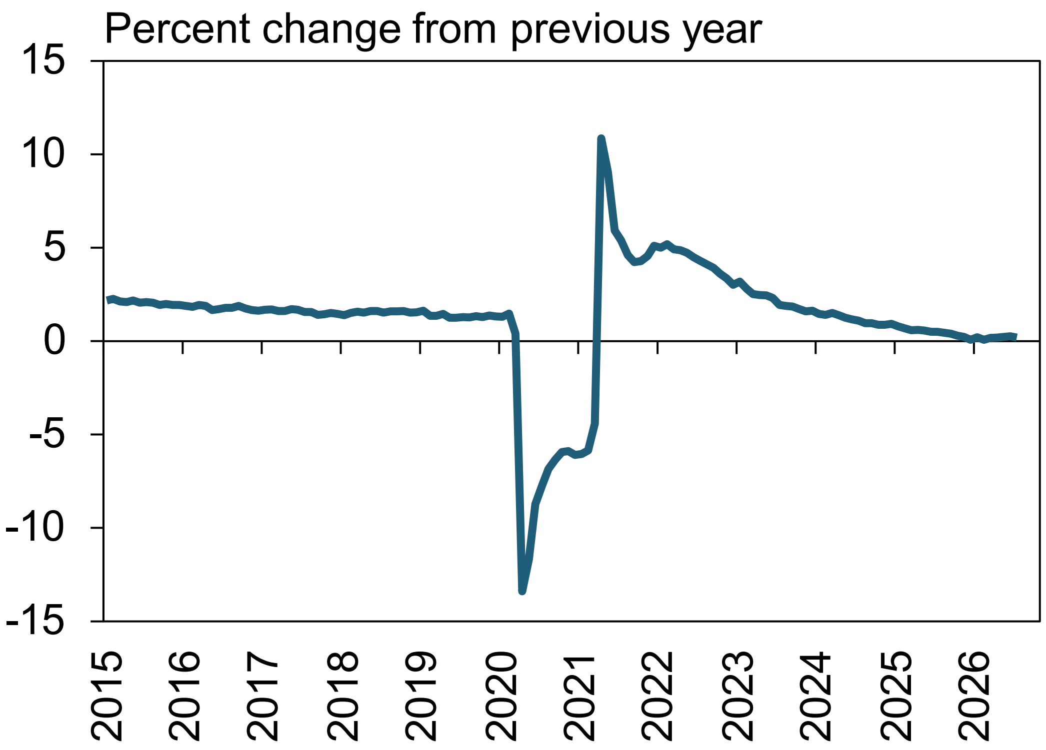




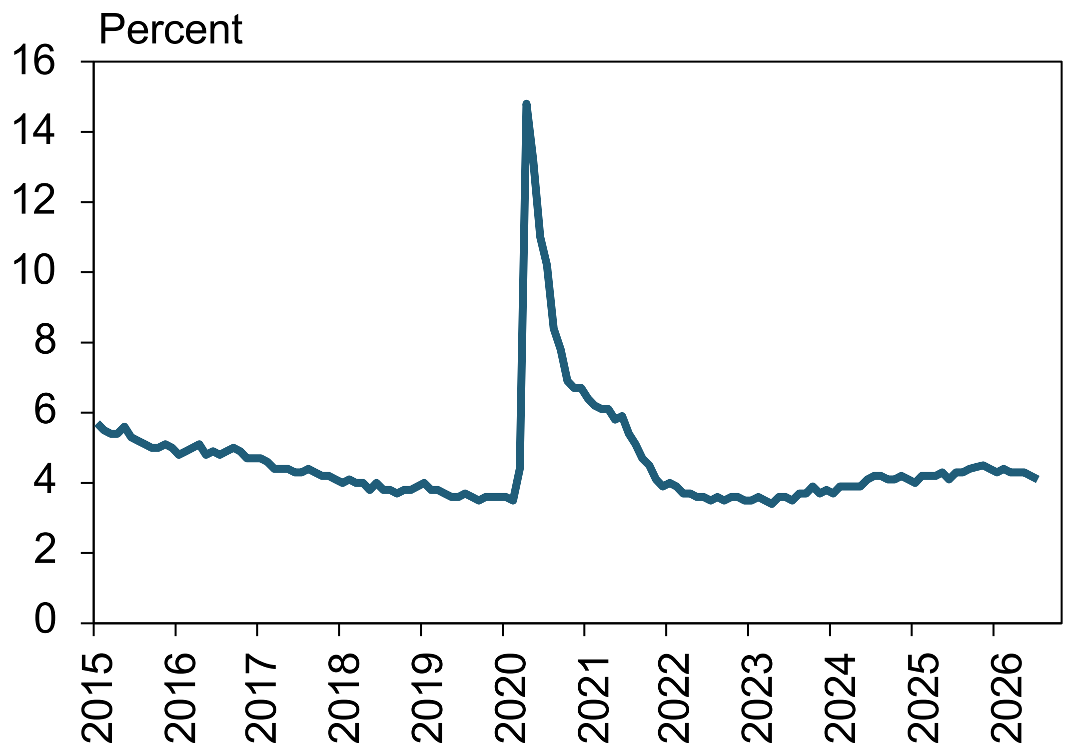
Note: The 2026 GDP figure is as of June 30.
Sources: BEA, Haver Analytics and Federal Reserve Bank of Kansas City staff calculations

Job growth has slowed, but unemployment remains low and relatively stable.

U.S. Job Growth

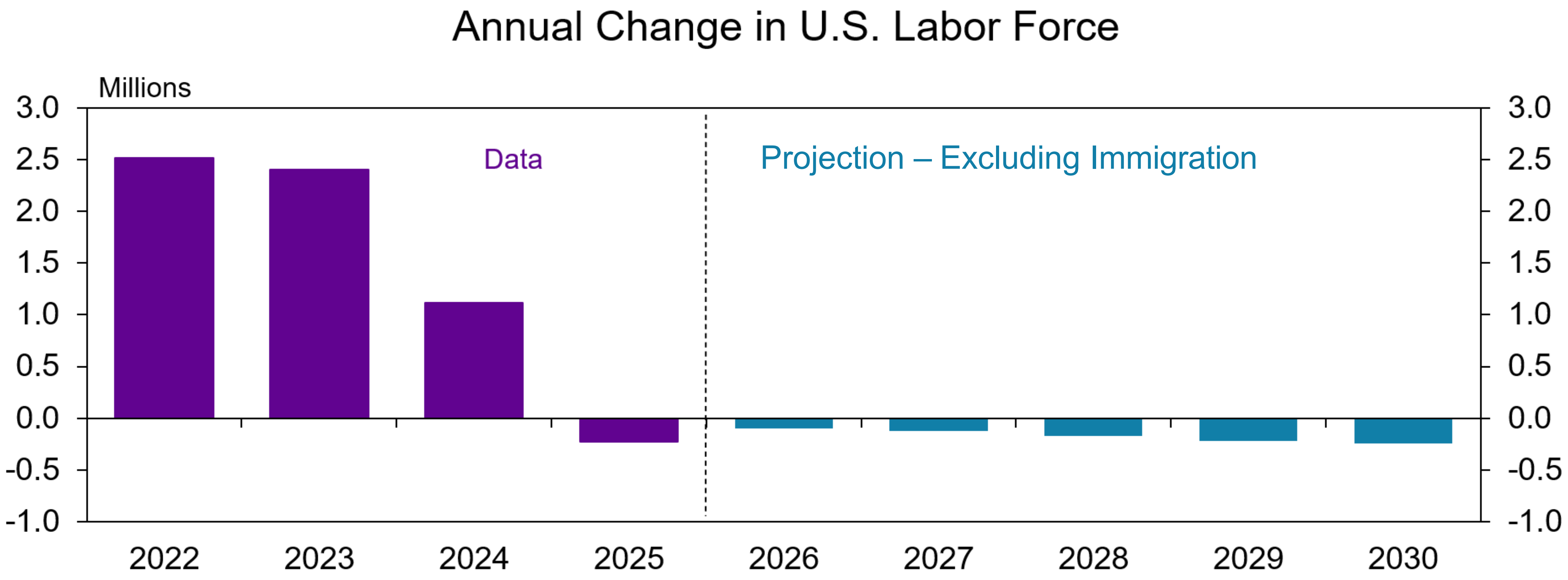


U.S. Unemployment Rate



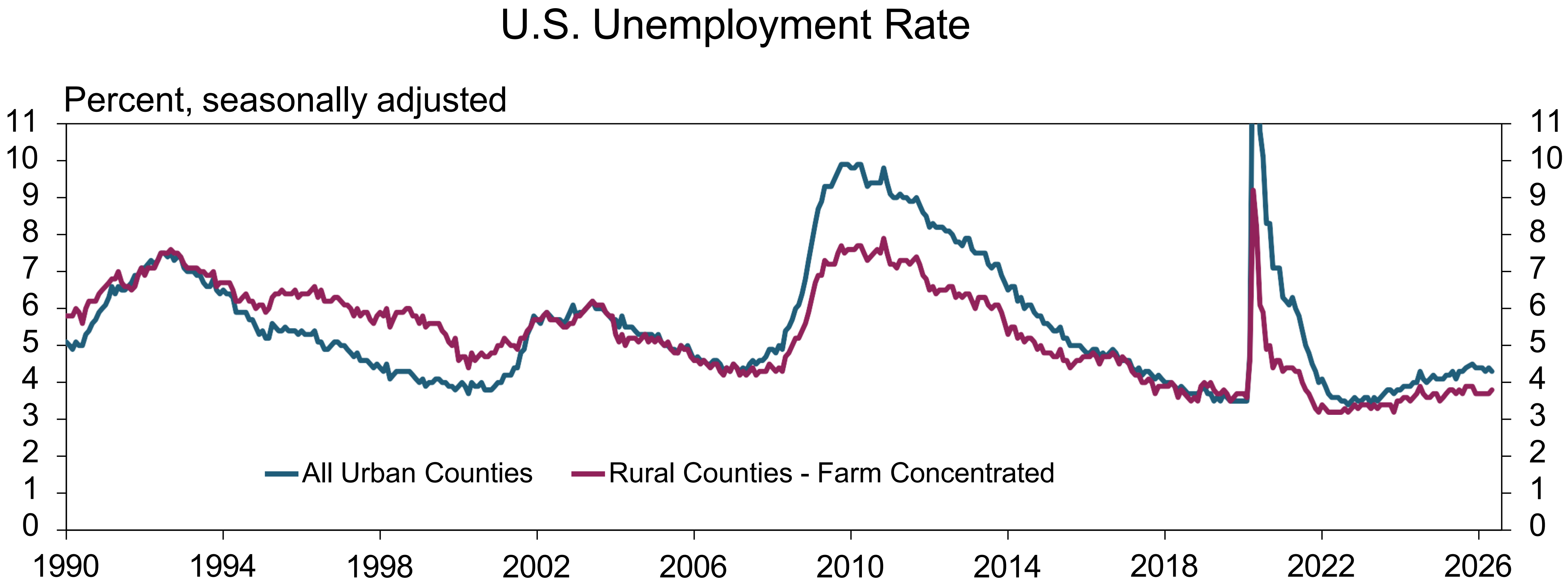
Sources: BLS and Haver Analytics

Despite slower job growth, fewer new jobs may be needed to maintain full employment.



Note: Labor force projections allow the 2025 population to age according to estimates for births and deaths but assumes no immigration. Labor force participation rates are assumed to remain at 2025 levels for each age cohort.
Sources: BLS and Federal Reserve Bank of Kansas City staff calculations (Is the U.S. Labor Force Nearing Its Peak?)

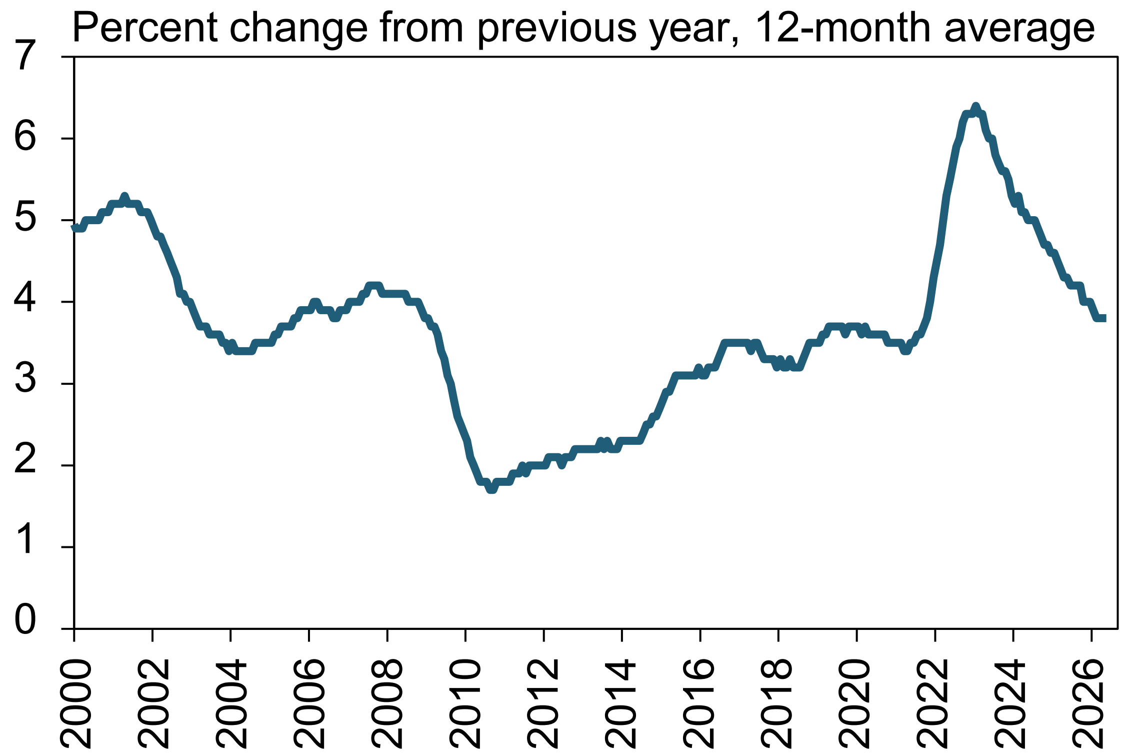
Demographics have likely contributed to particularly low unemployment in rural farm counties.



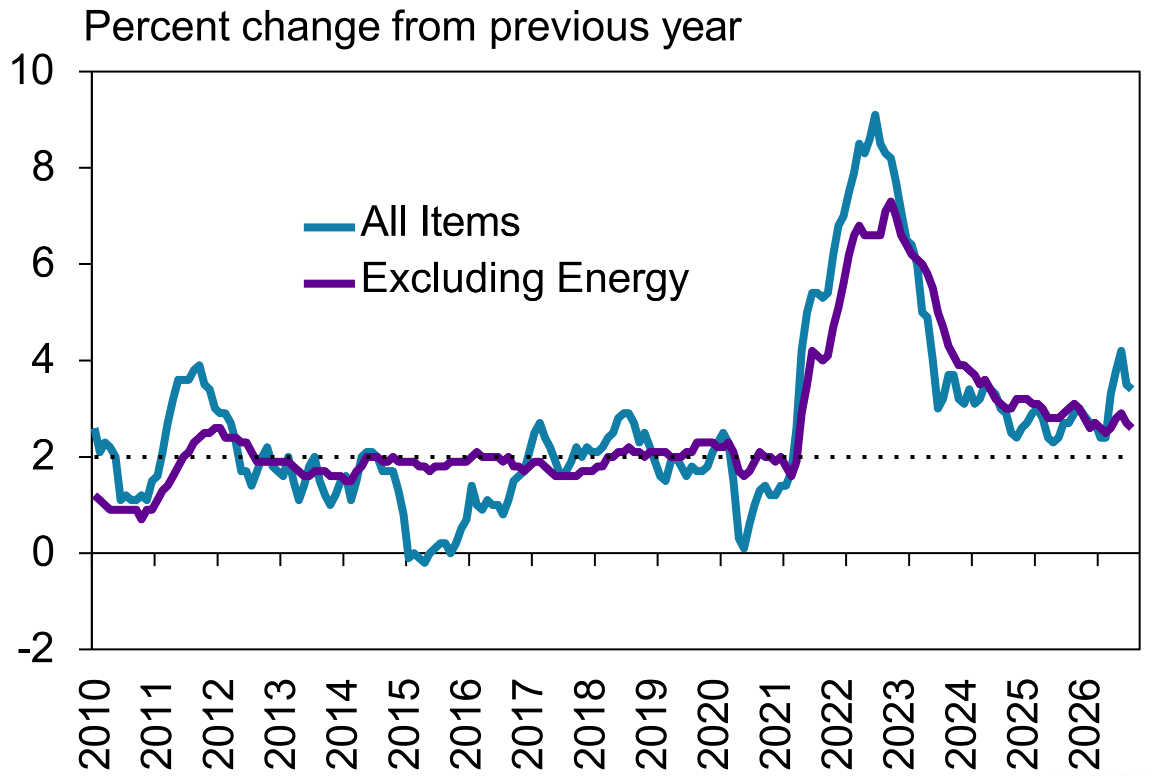
Notes: The rural and urban county distinction is based on USDA Rural-Urban Continuum Codes for metro and non-metro counties and the farm concentration distinction is based on the high farming-concentration USDA Economic Typology Code.
Sources: BLS, USDA, and Federal Reserve Bank of Kansas City Staff Calculations.

Steady wage growth has supported consumer demand, but inflation also remains elevated.

Wage Growth by Wage Level



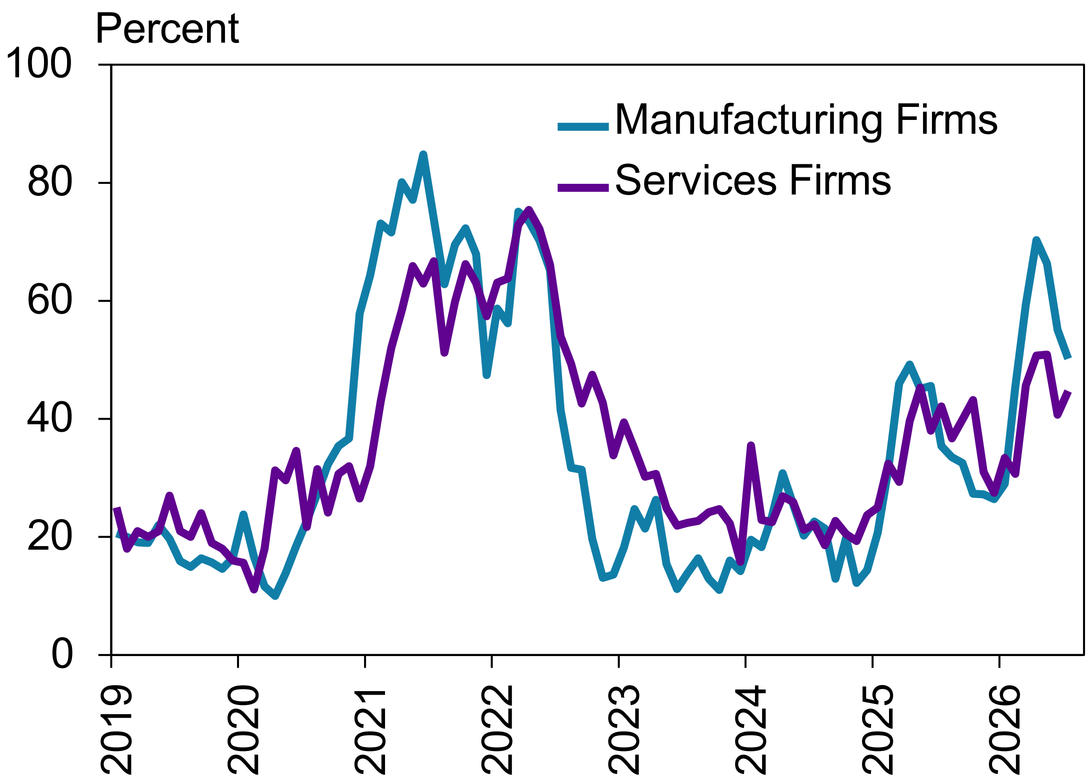
U.S. Inflation



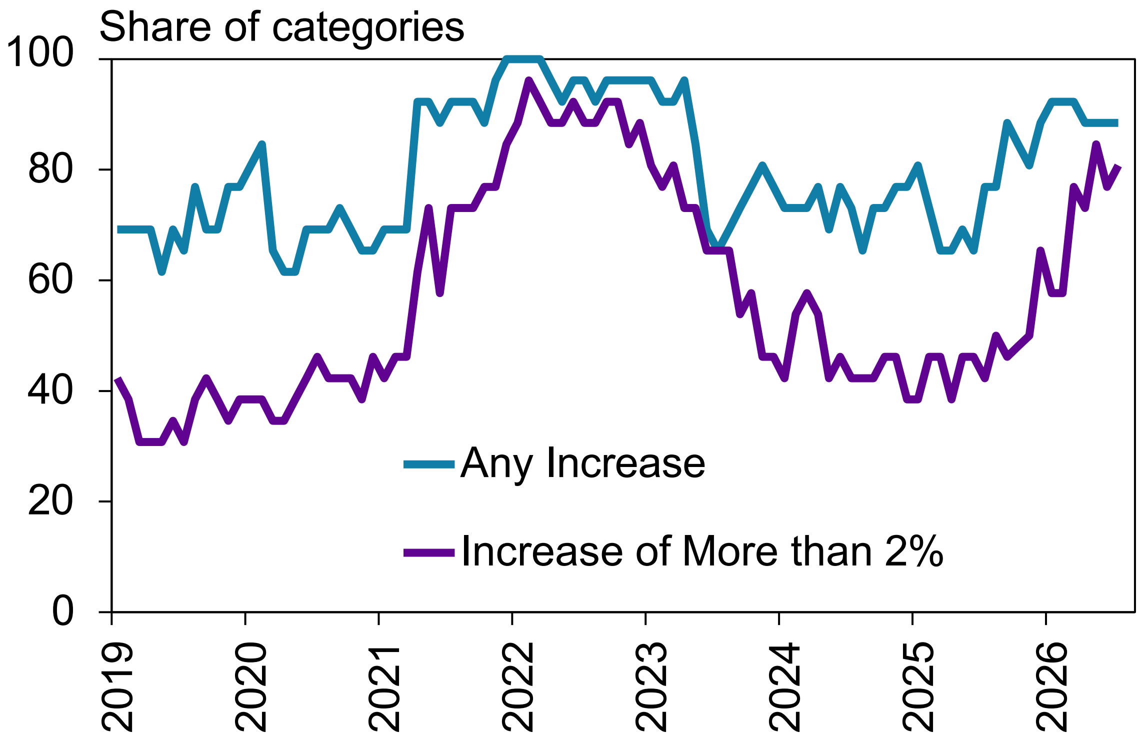
Sources: BLS, Federal Reserve Bank of Atlanta Wage Growth Tracker, and Haver Analytics

Inflation appears to be broad-based, and firms are reporting lingering cost pressures.

Survey Respondents Reporting Increasing Input Prices



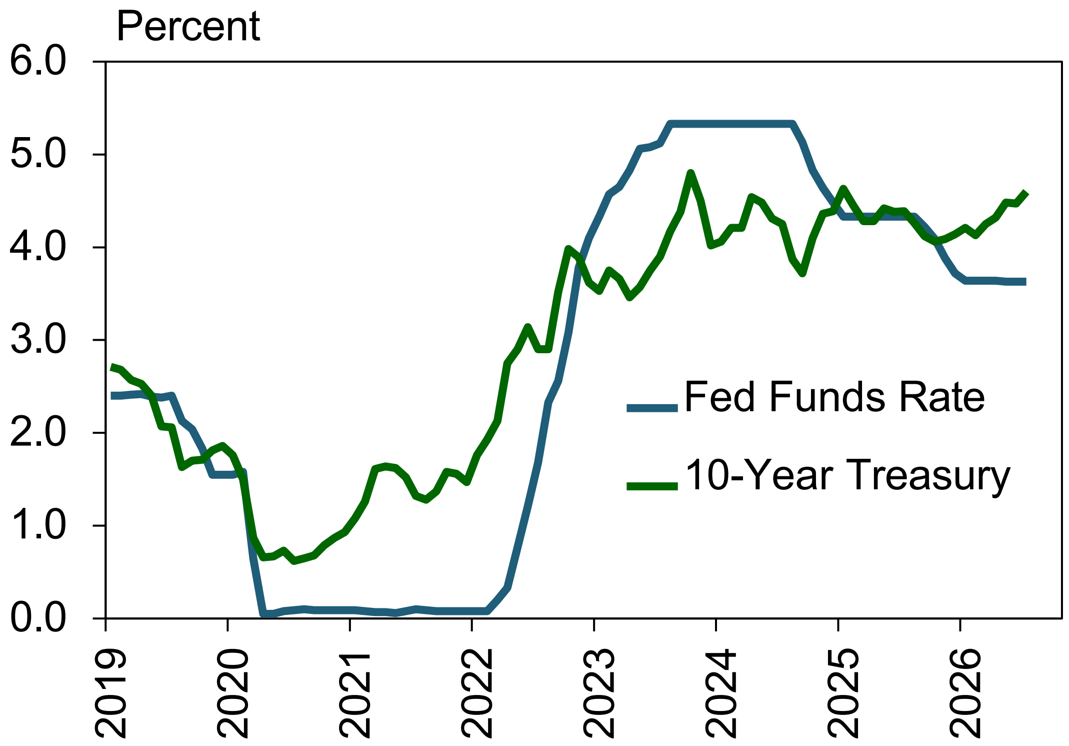
Major CPI Categories with Price Increases Over Previous Year



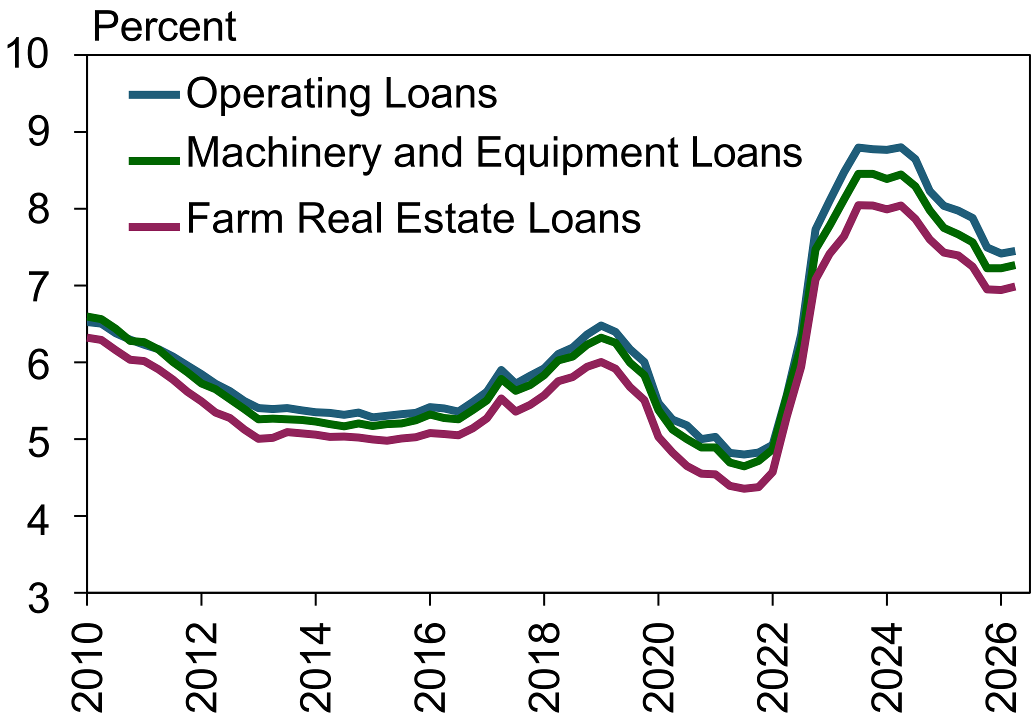
Sources: BLS, Federal Reserve Bank of Atlanta Wage Growth Tracker, and Haver Analytics

Interest rates on farm loans have declined but remain a somewhat persistent headwind.

Federal Funds Rate and 10-Year Treasury Yield



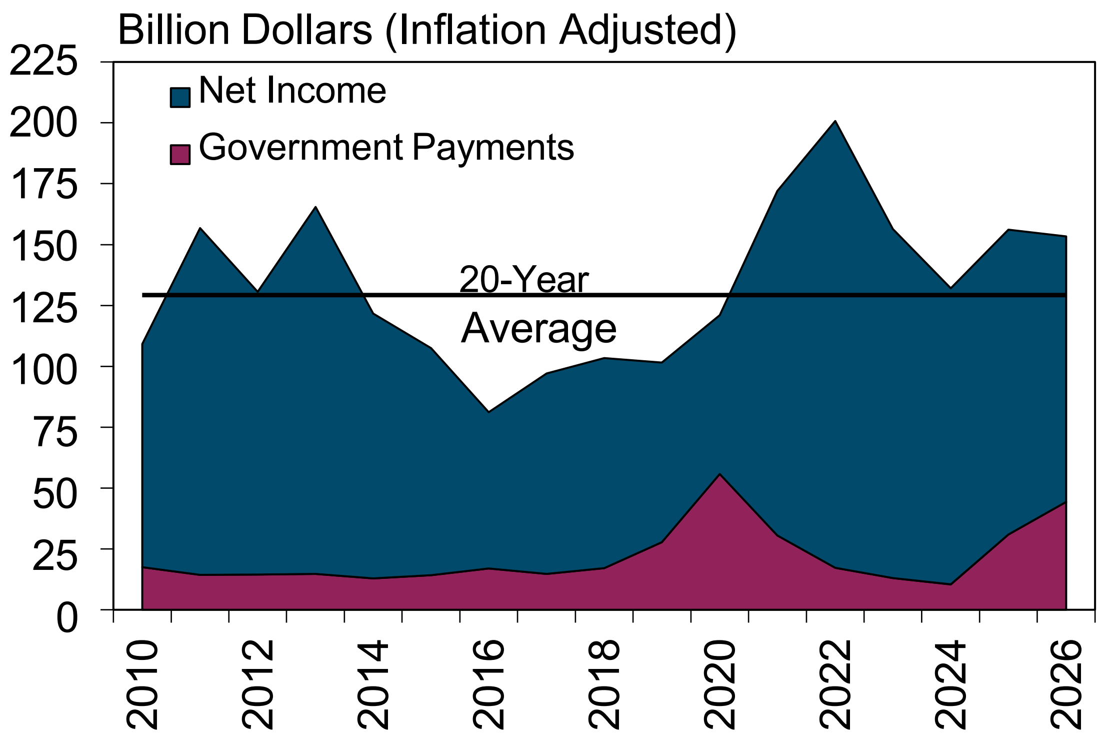
Average Interest Rates on Farm Loans



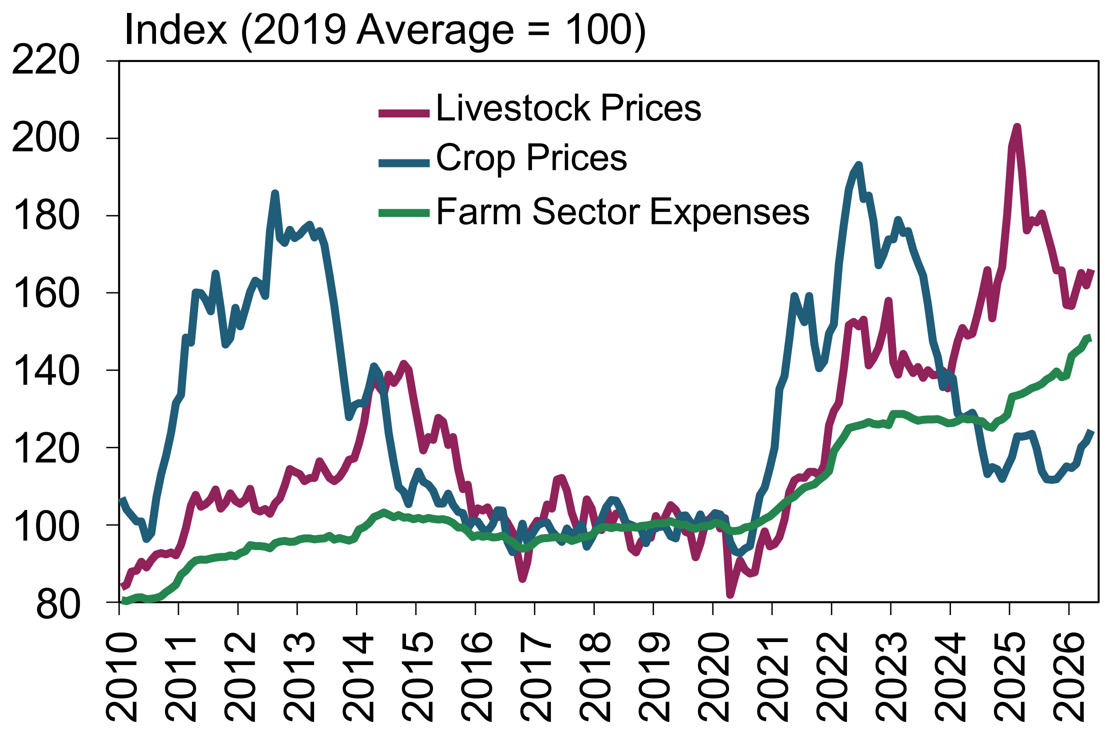
Sources: Federal Reserve Board of Governors and Federal Reserve Bank of Kansas City Survey of Agricultural Credit Conditions

The outlook for farm income in 2026 appears strong but is complicated by notable disparities and risks.

U.S. Net Farm Income

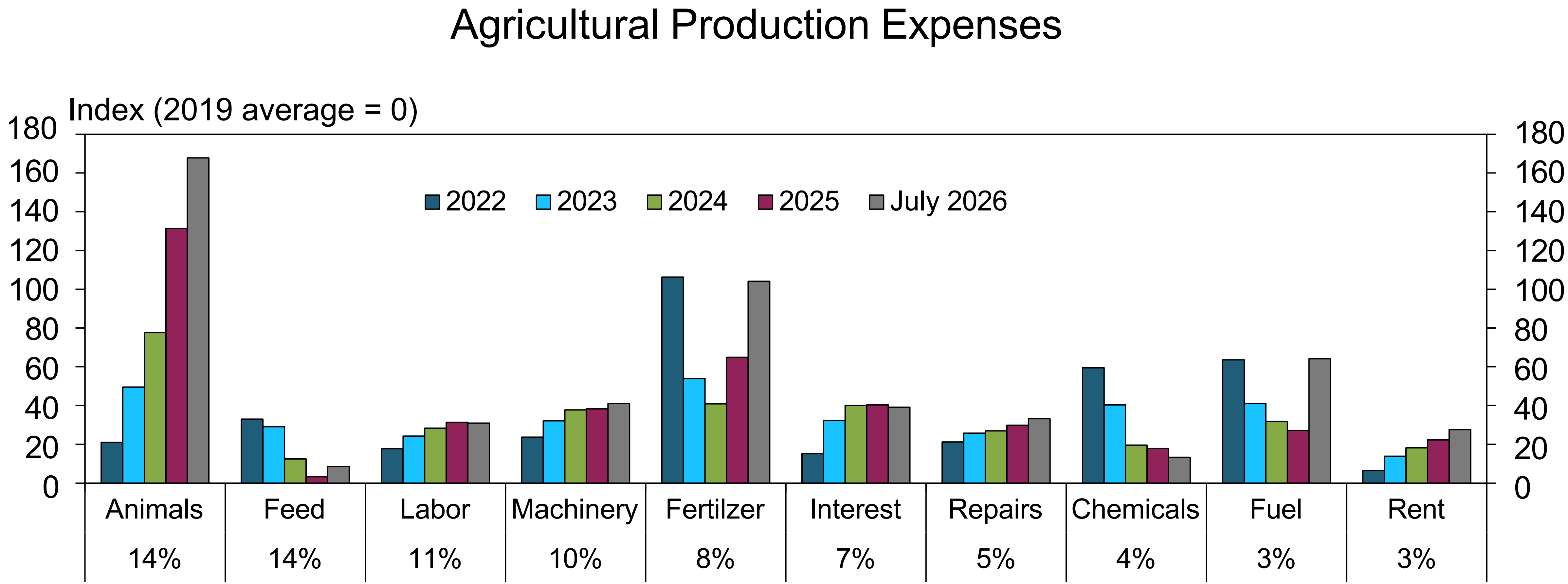


U.S. Ag Commodity Prices and Expenses



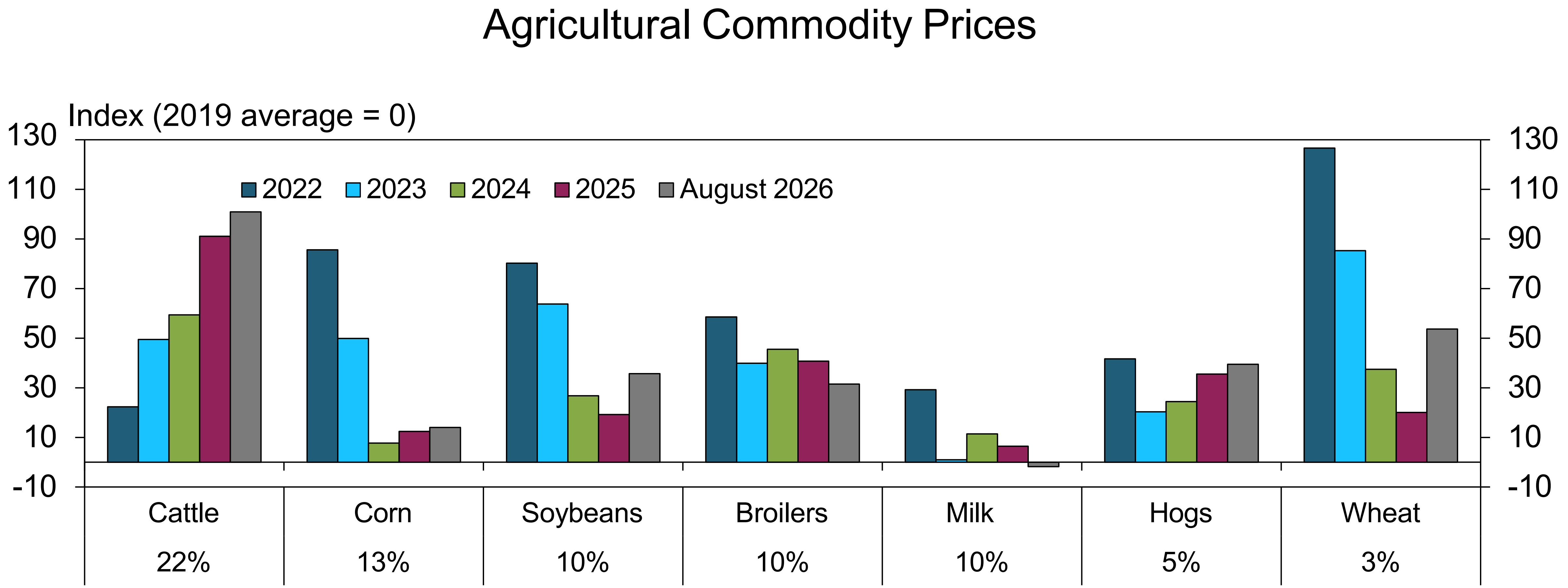
Notes: Net farm income and government payments are the USDA forecast as of February 5, 2026.
Sources: USDA, and Federal Reserve Bank of Kansas City staff calculations

Broad cost pressures and recent fertilizer and fuel price spikes are keeping production expenses elevated.



Note: The numbers below each expense category denote the average share of U.S. farm production expenses attributed to each category.
Sources: USDA and Federal Reserve Bank of Kansas City staff calculations

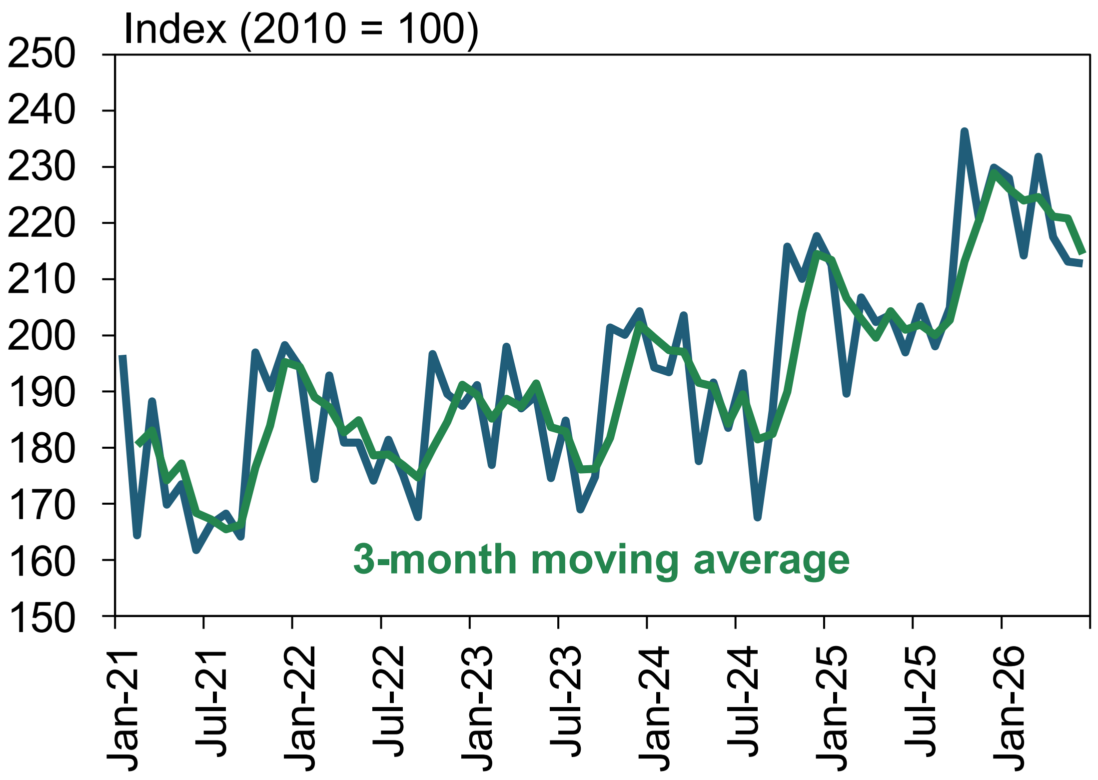
Cattle prices are exceptionally strong. Crop prices are relatively low but have increased in recent months.



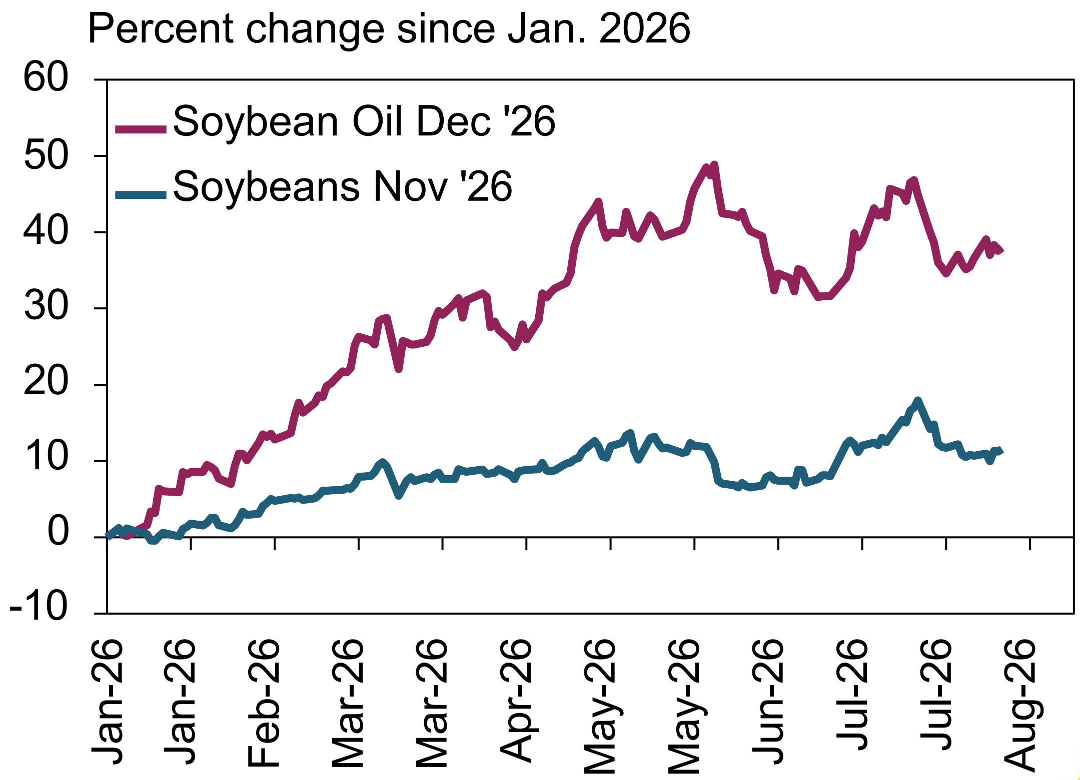
Note: The numbers below each commodity denote the average share of U.S. farm cash receipts attributed to each commodity.
Sources: The Wall Street Journal, USDA, and Federal Reserve Bank of Kansas City staff calculations

Policy supporting biodiesel production has accelerated soybean crush and will likely boost demand.

U.S. Soybean Crush



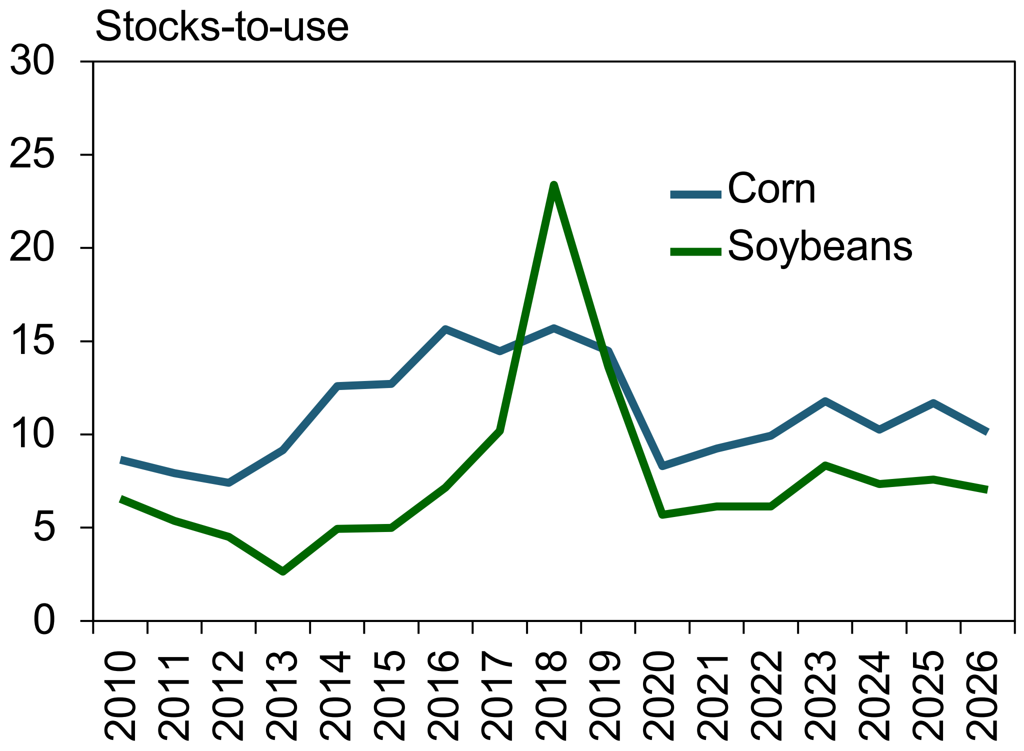
Soybean and Soybean Oil Futures Prices



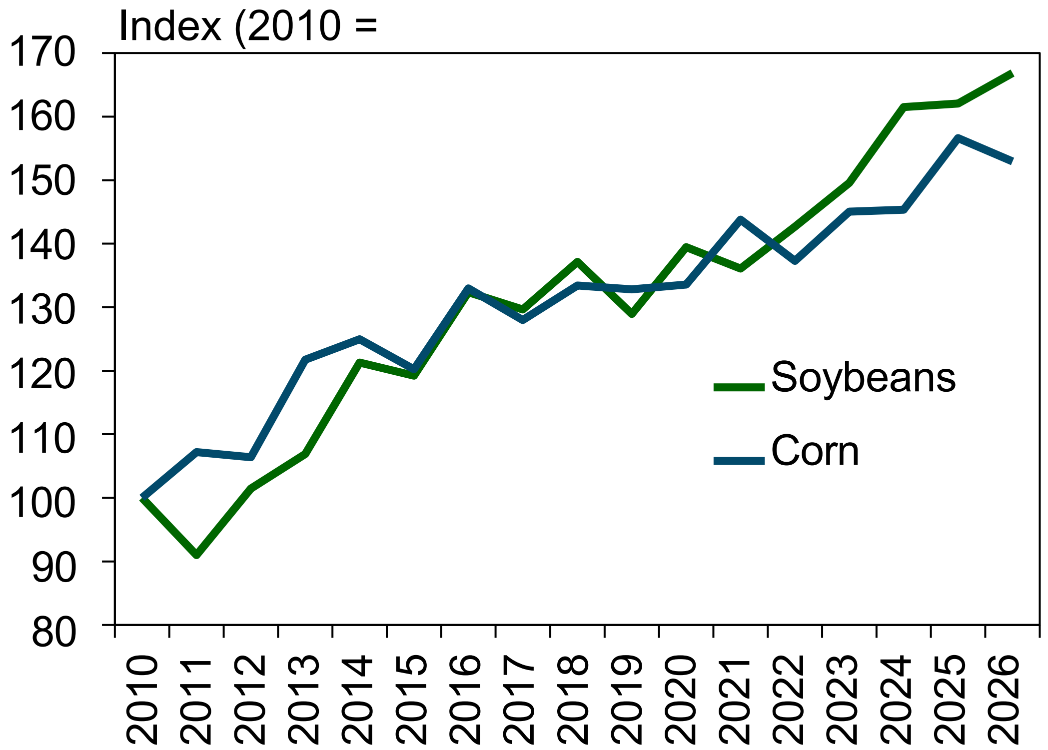
Note: The right panel shows the percent change in the daily price from January 2, 2026 for November soybean and December soybean oil futures.
Sources: USDA, Barchart.com, and Federal Reserve Bank of Kansas City staff calculations

But elevated U.S. supplies and strong global production are likely to continue weighing on crop prices.

U.S. Crop Inventories

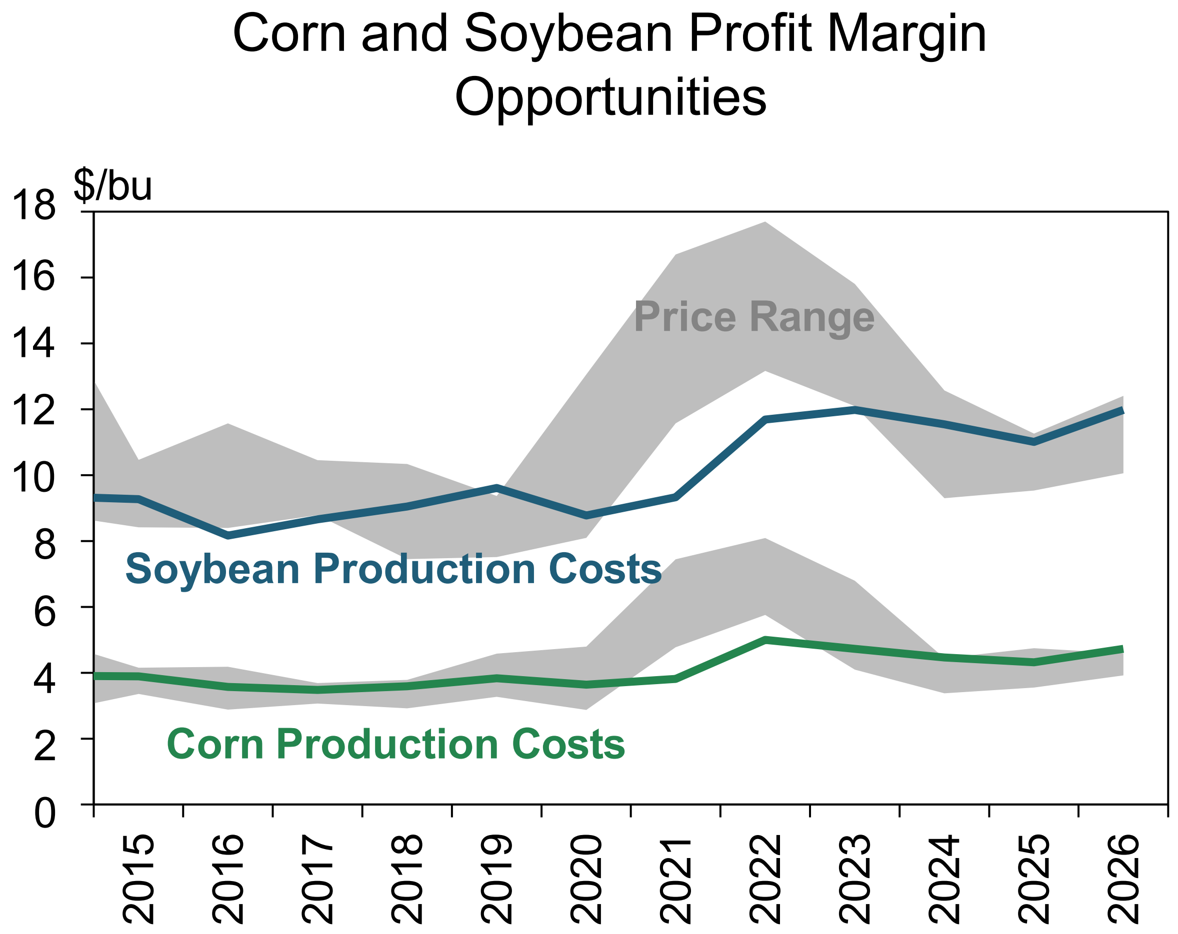


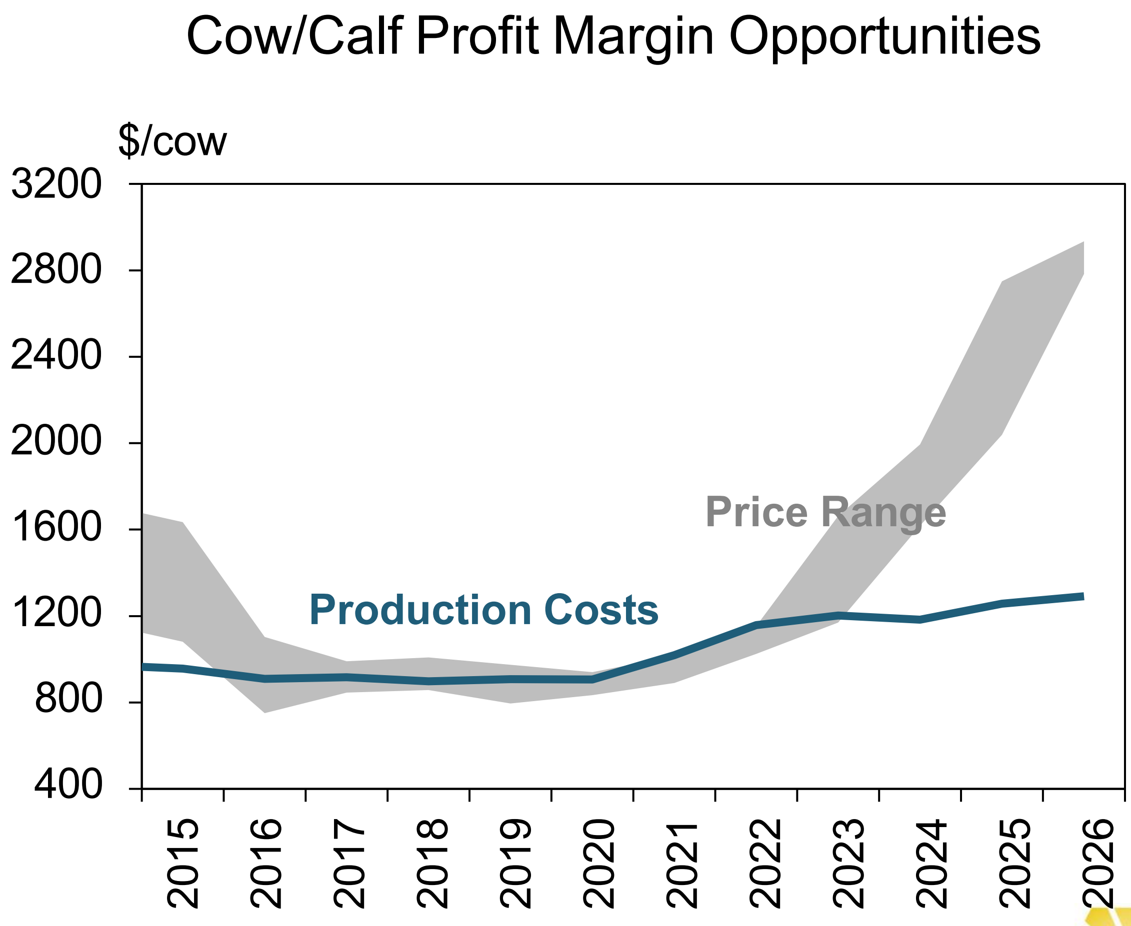
Global Crop Production



Sources: USDA; Federal Reserve Bank of Kansas City staff calculations

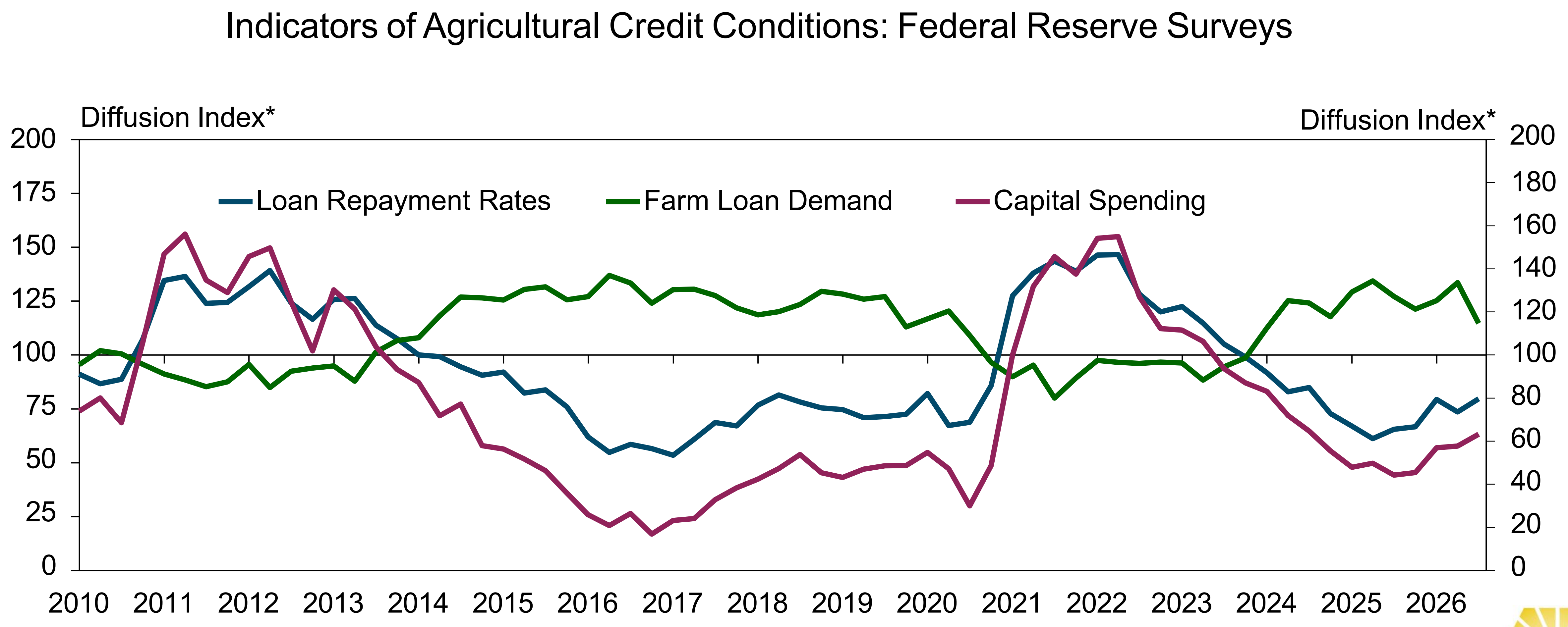
Crop profits are limited alongside elevated costs while opportunities for cattle producers are strong.





Note: Production costs are estimated using the USDA cost and return estimates and forecasts with national average yields and prices. The cost of production excludes the opportunity costs of unpaid labor. Figures for 2026 are forecasts.
Sources: USDA; CME Group; Haver Analytics; Federal Reserve Bank of Kansas City staff calculations

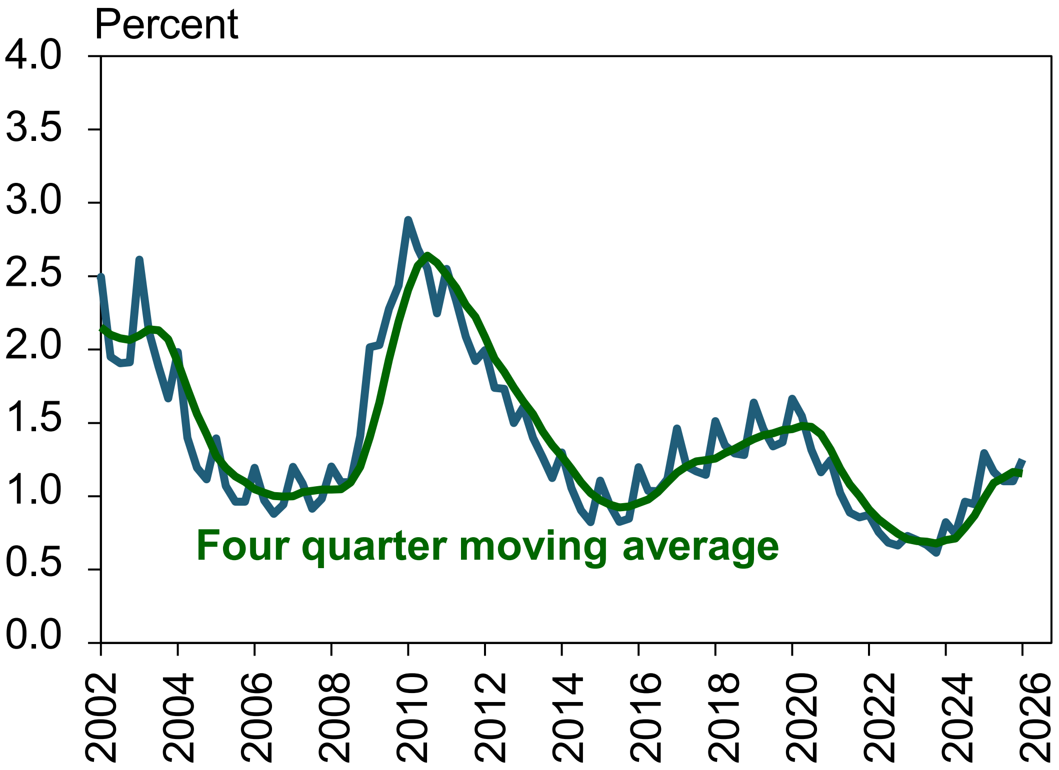
Agricultural credit conditions have tightened alongside ongoing challenges in the crop sector.



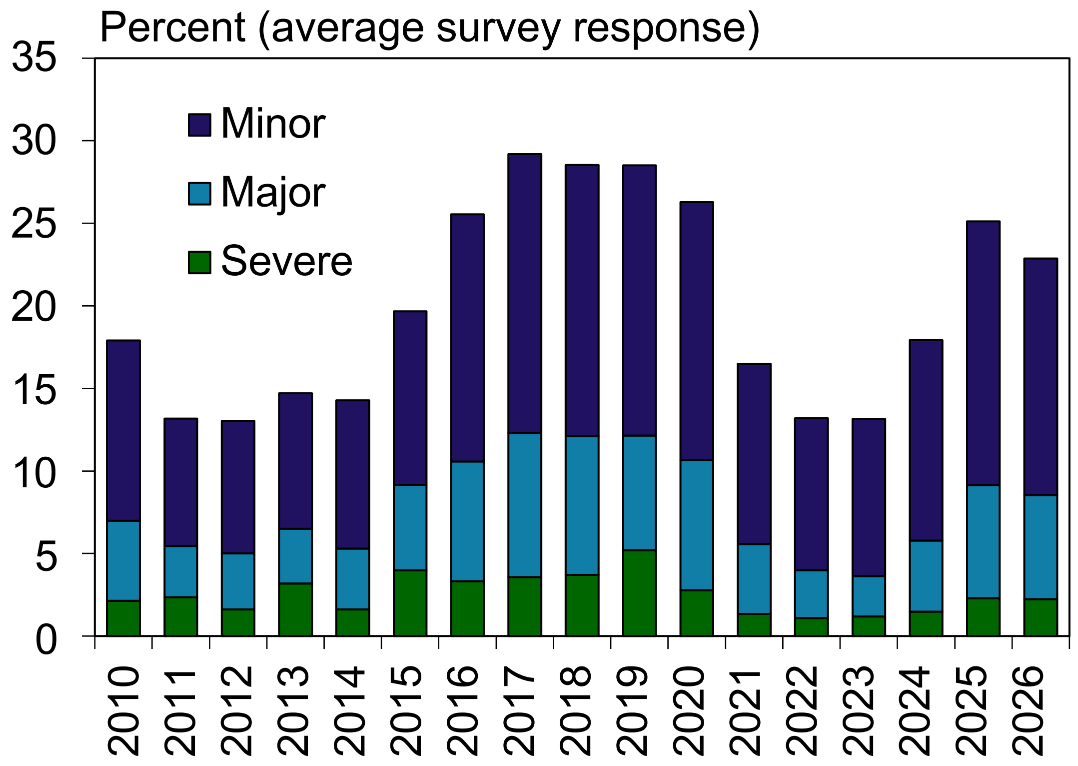
*The index numbers are computed by subtracting the percentage of lenders who responded "lower" from the percentage who responded "higher" and adding 100.
Source: Federal Reserve Bank of Kansas City Survey of Agricultural Credit Conditions

Overall, however, deterioration of financial conditions in the U.S. farm sector has been modest.

U.S. Farm Loan Delinquency Rates



Degree of Farm Loan Repayment Issues*

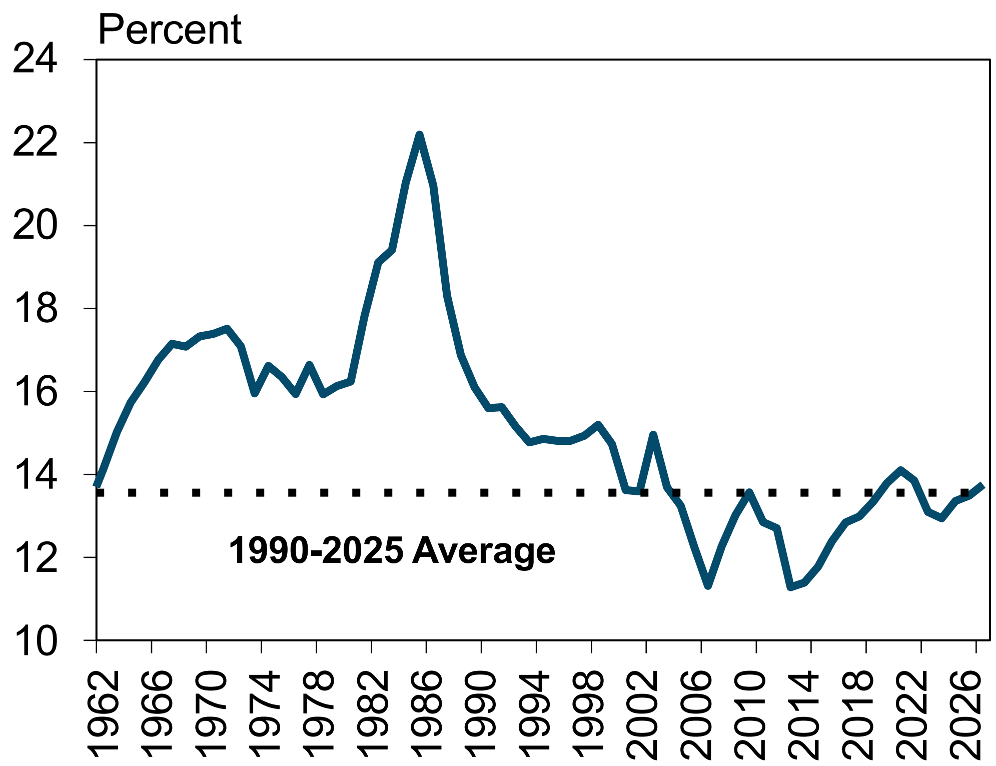


*Agricultural lenders answered the following question: Please indicate the percentage of the dollar amount of your bank's farm loan portfolio that currently falls within each of the following repayment classifications (none, minor, major or severe).

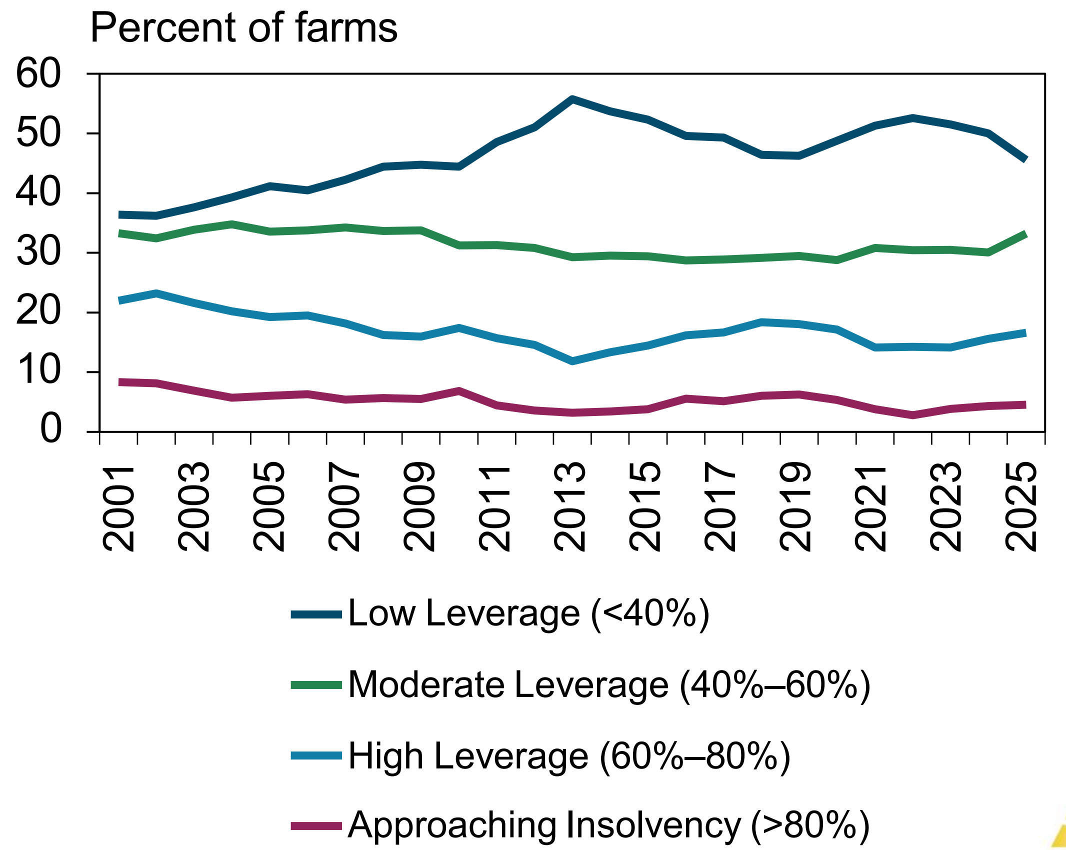
Sources: Commercial Bank Reports of Condition and Income, Farm Credit Administration, and Federal Reserve Bank of Kanas City Survey of Agricultural Credit Conditions

Farm solvency is near historic norms with many operations maintaining a strong financial position.

Farm Sector Debt-to-Asset Ratio



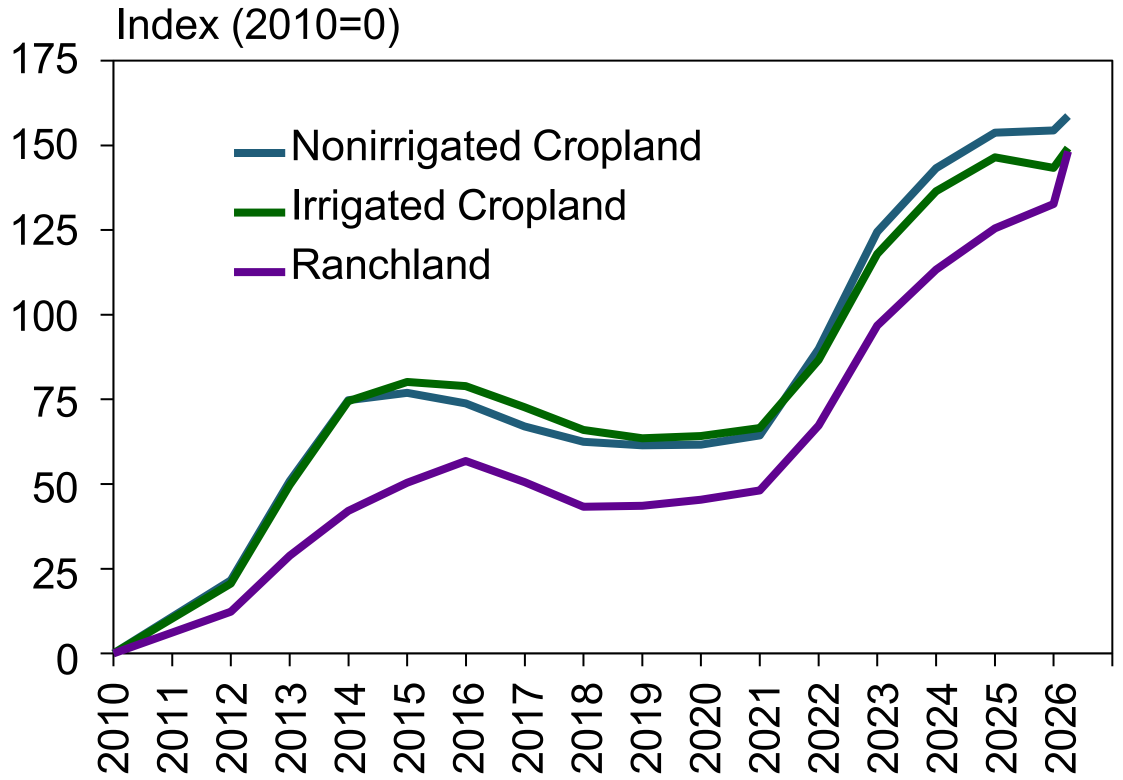
Share of Farms by Debt-to-Asset Ratio



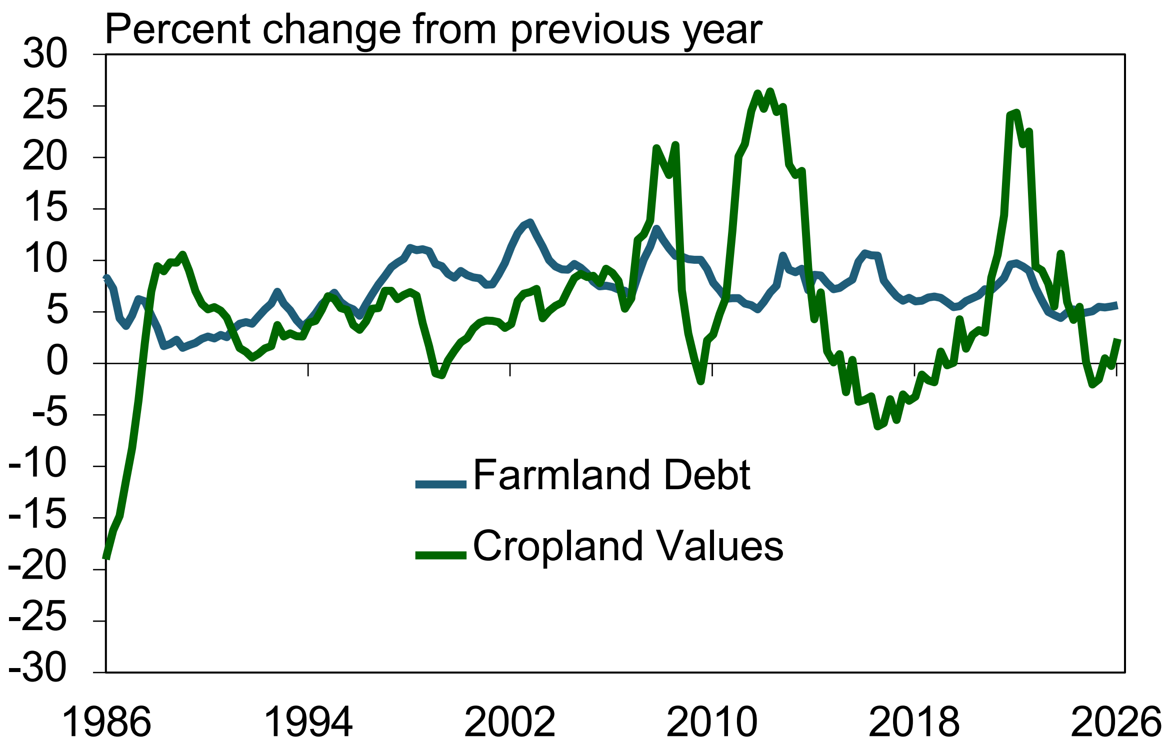
Sources: USDA, FINBIN, Center for Farm Financial Management, University of Minnesota, and Federal Reserve Bank of Kansas City staff calculations

Farmland values have been resilient and debt accumulation continues to signal gradual deterioration in financial conditions.

Farm Real Estate Values



Farmland Debt and Cropland Values



Sources: Federal Reserve Bank of Kanas City Survey of Agricultural Credit Conditions, Reports of Conditions and Income, Farm Credit Administration, and Federal Reserve Bank of Kansas City staff calculations

Summary

- Profit margins among crop producers have been narrow in 2026, but government payments have limited losses, and strength of recent years continues to provide support.
- Profitability among livestock operations has boosted incomes in many regions, and herd rebuilding in the cattle industry remains slow.
- Financial stress has increased slightly for crop producers, but many are in a stable position.
- Uncertainty surrounding weather, trade and geopolitics could keep volatility in commodity markets elevated.

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