

U.S. Economy in High Gear, but Ag Stuck in Neutral

Nate Kauffman, Federal Reserve Bank of Kansas City

August 23, 2018



Outlook Themes

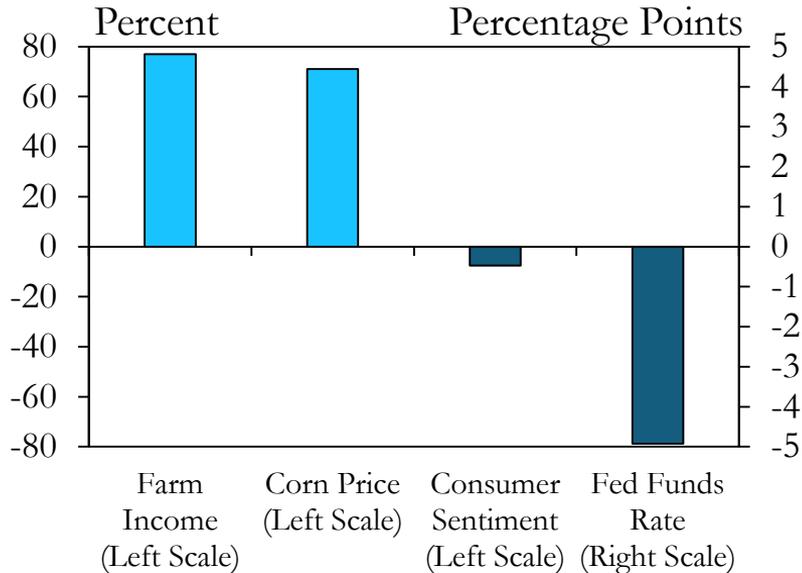
- Momentum in the national economy has persisted, but the agricultural economy has remained in a prolonged downturn.
- Agricultural credit conditions have continued to deteriorate, although the value of farm real estate has remained a relative bright spot.
- Signs of stabilization in agriculture earlier in the year have become more questionable with ongoing trade disputes.



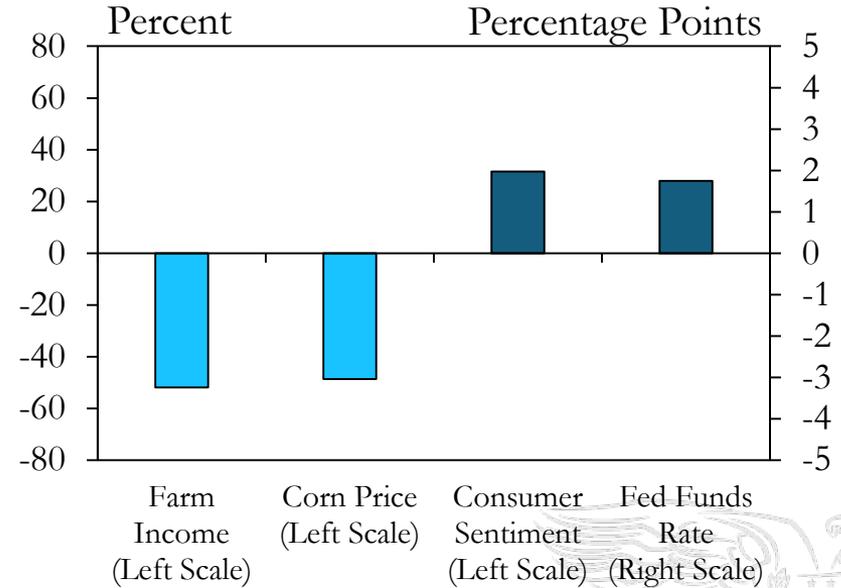
The outlooks for agriculture and the U.S. economy have reversed since 2013.

Indicators for Ag Economy and Broader U.S. Economy

Change from 2007–2013



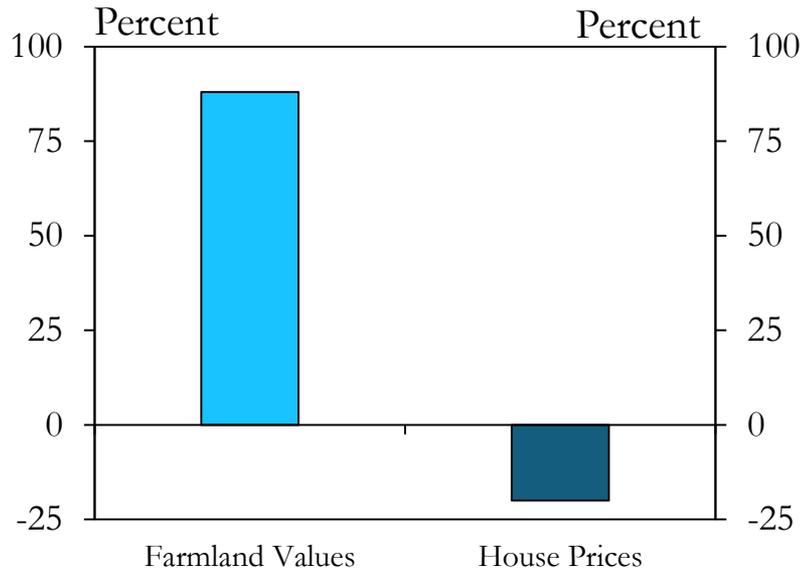
Change from 2013–2018



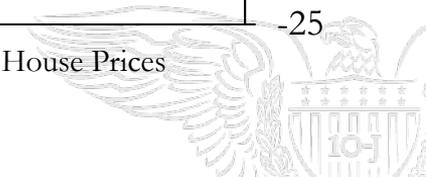
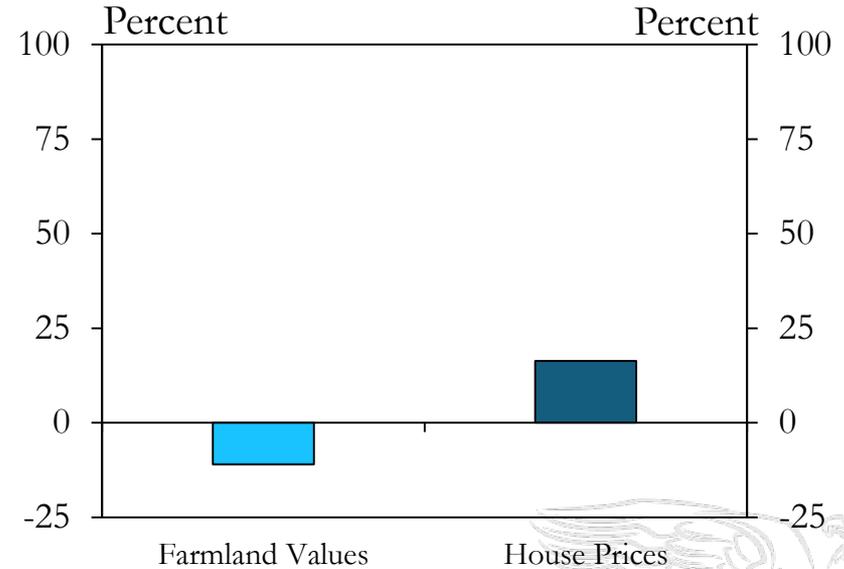
Residential real estate markets have also picked up while farmland markets have cooled.

House Prices and Farmland Values

Change from 2007–2013

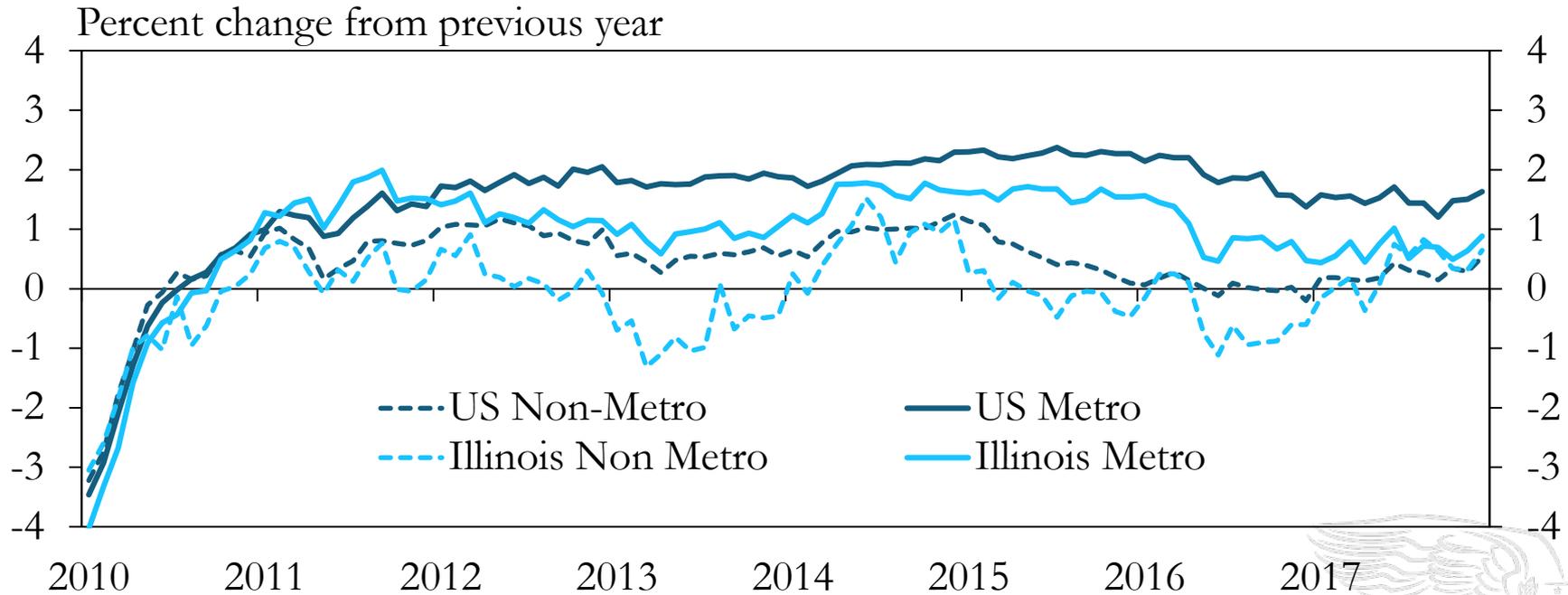


Change from 2013–2018



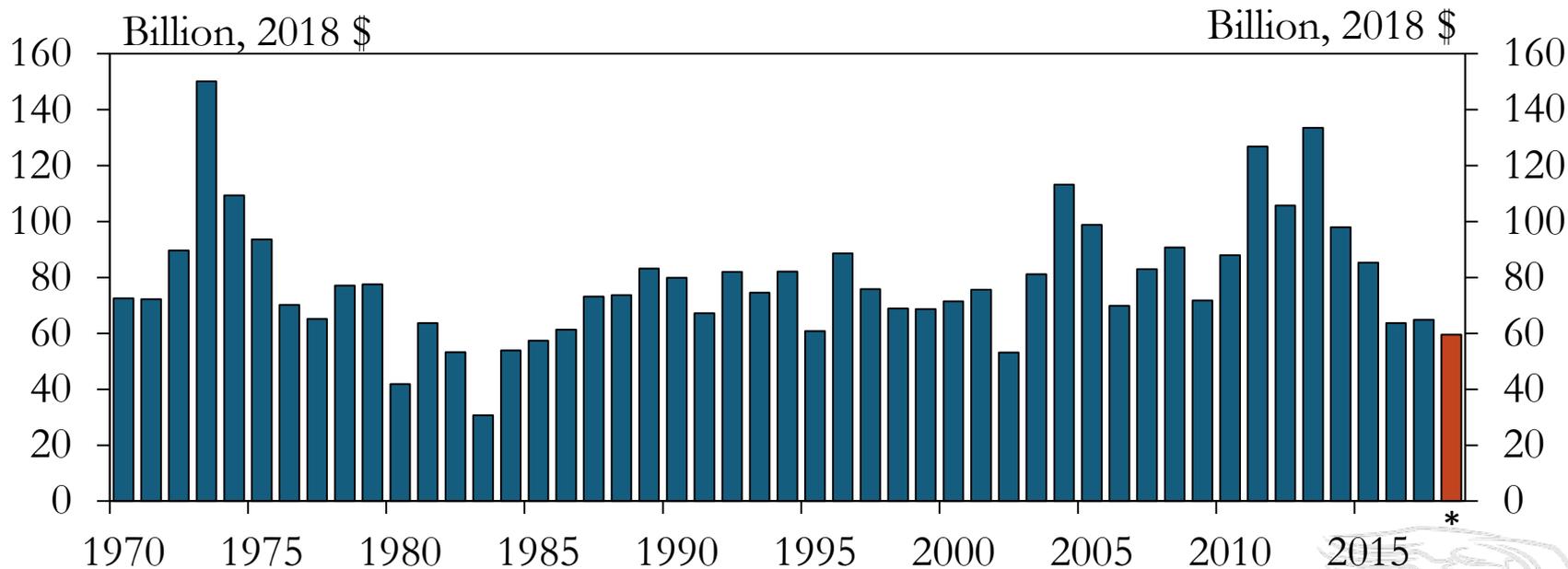
Job growth in metro areas has outpaced growth in rural areas the past several years.

Employment Growth



And farm income has remained less than half of its recent peak.

U.S. Net Farm Income



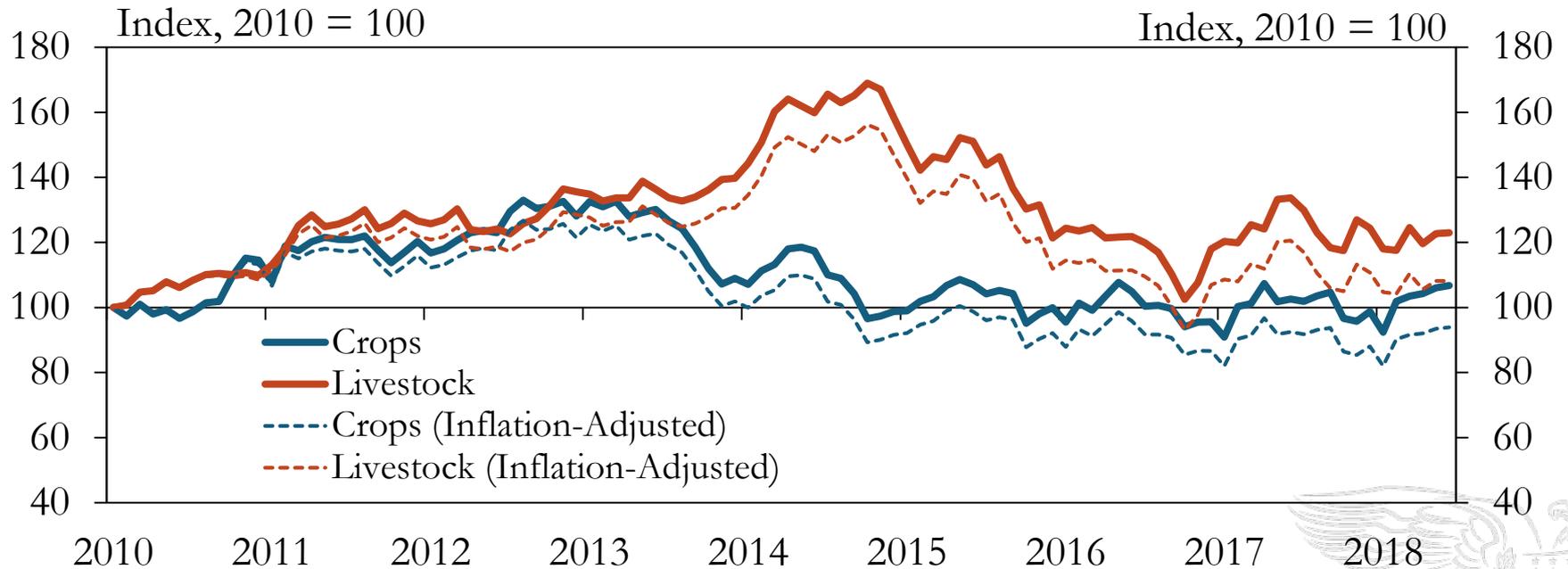
* 2018 Forecast

Source: USDA



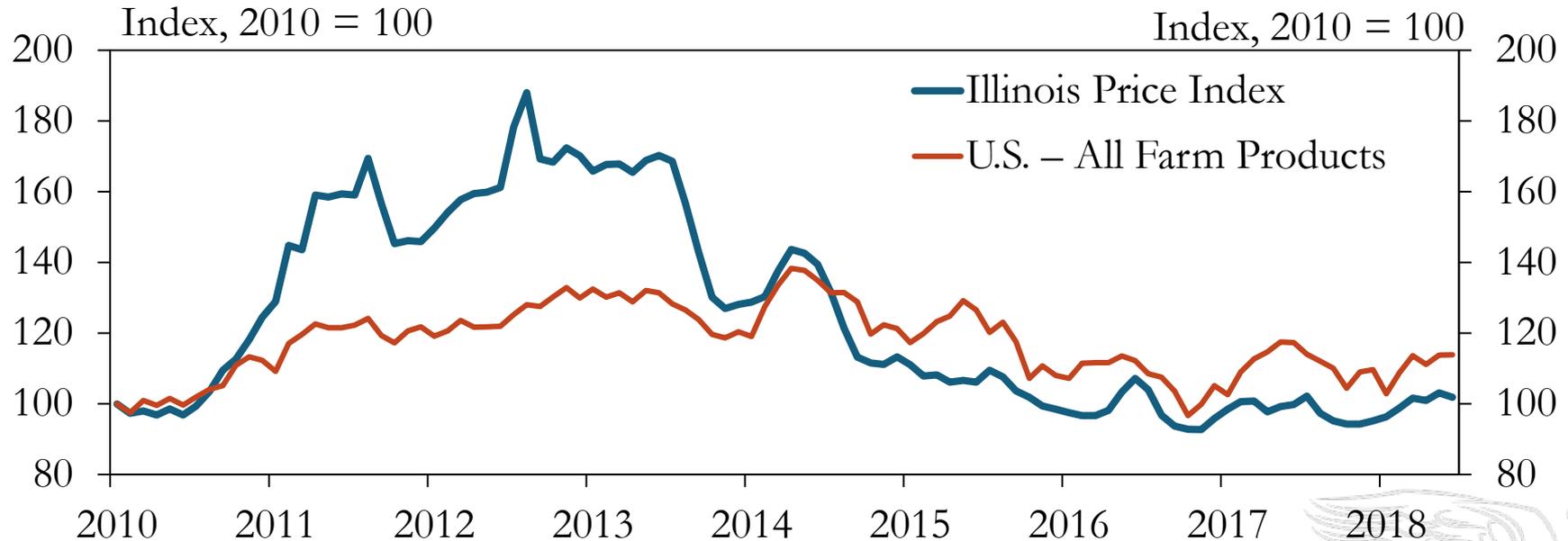
Lower commodity prices have been a primary driver of the sustained weakness.

U.S. Agricultural Prices



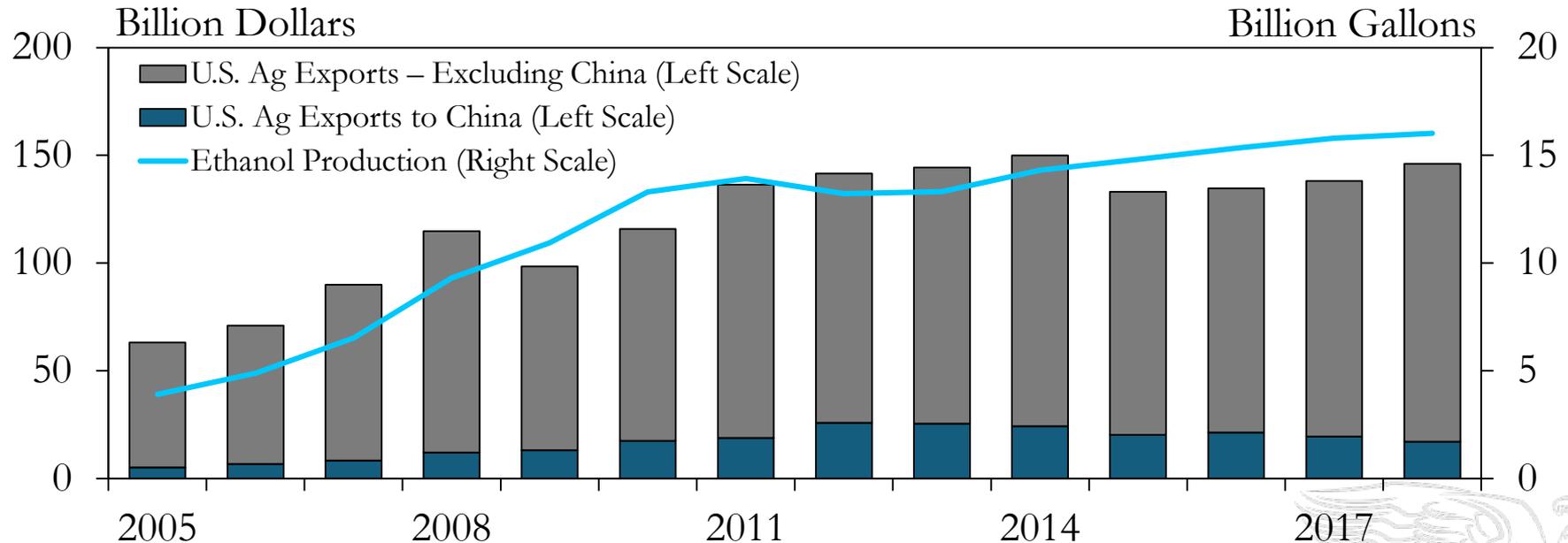
Commodity prices in Illinois have generally remained flat for the past two years.

Ag Price Indices



Despite reduced exports to China, key sources of demand for ag products have been steady.

U.S. Ag Exports and Ethanol Production



Note: 2018 estimated based on changes year-to-date through June compared with the previous year.

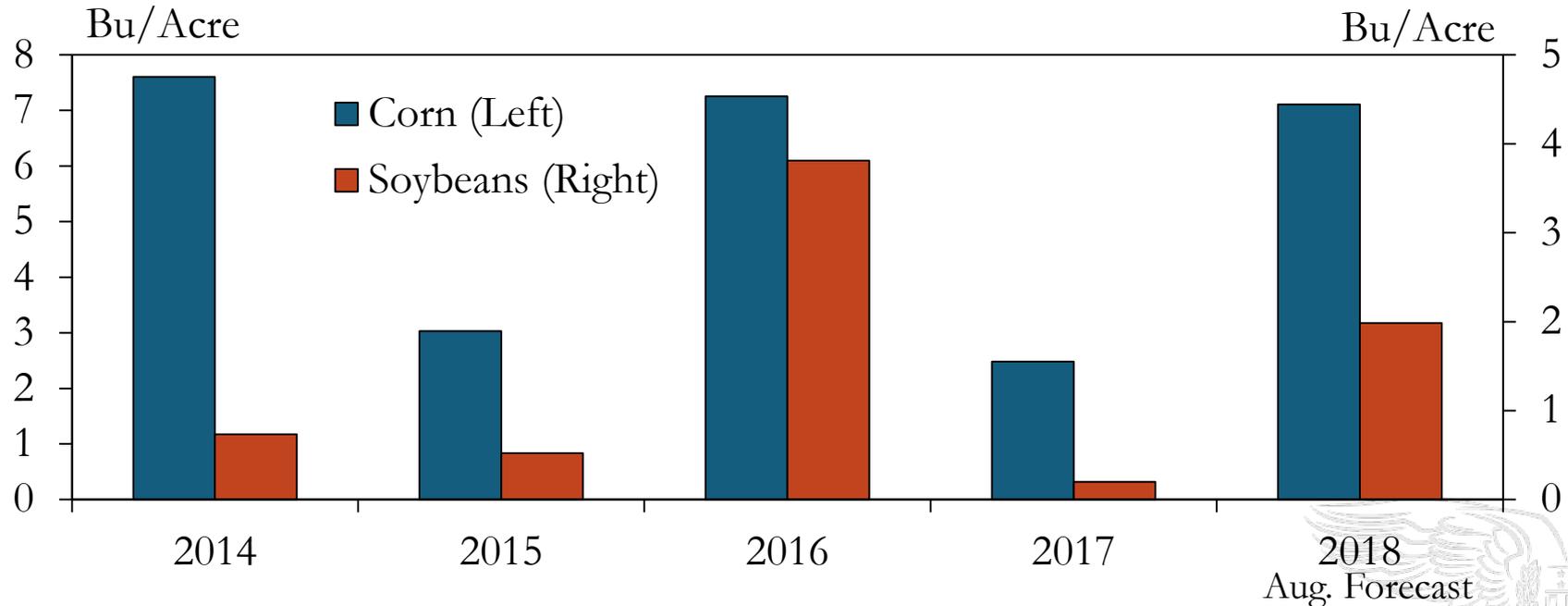
Source: USDA, U.S. EIA, and Renewable Fuels Association.



Demand has remained strong, but higher-than-expected crop production has weighed on prices.

U.S. Corn and Soybean Yields

Deviation from Trend

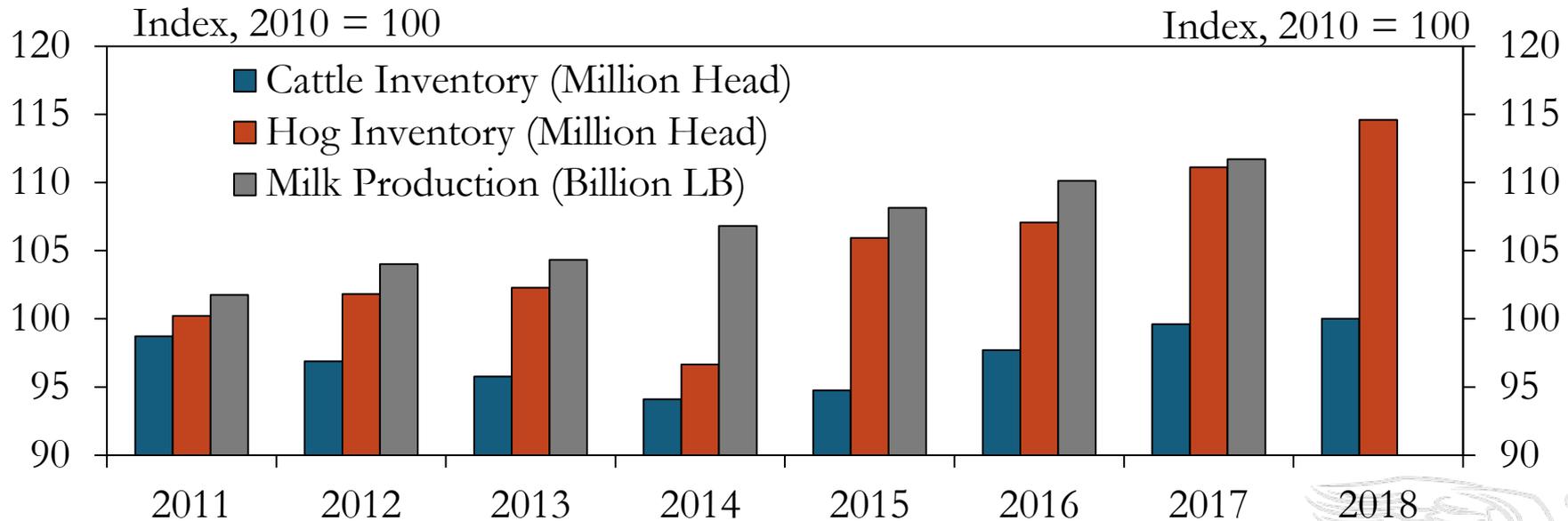


Source: USDA and staff calculations.



Production of other ag commodities has also increased notably.

U.S. Commodity Production and Inventories



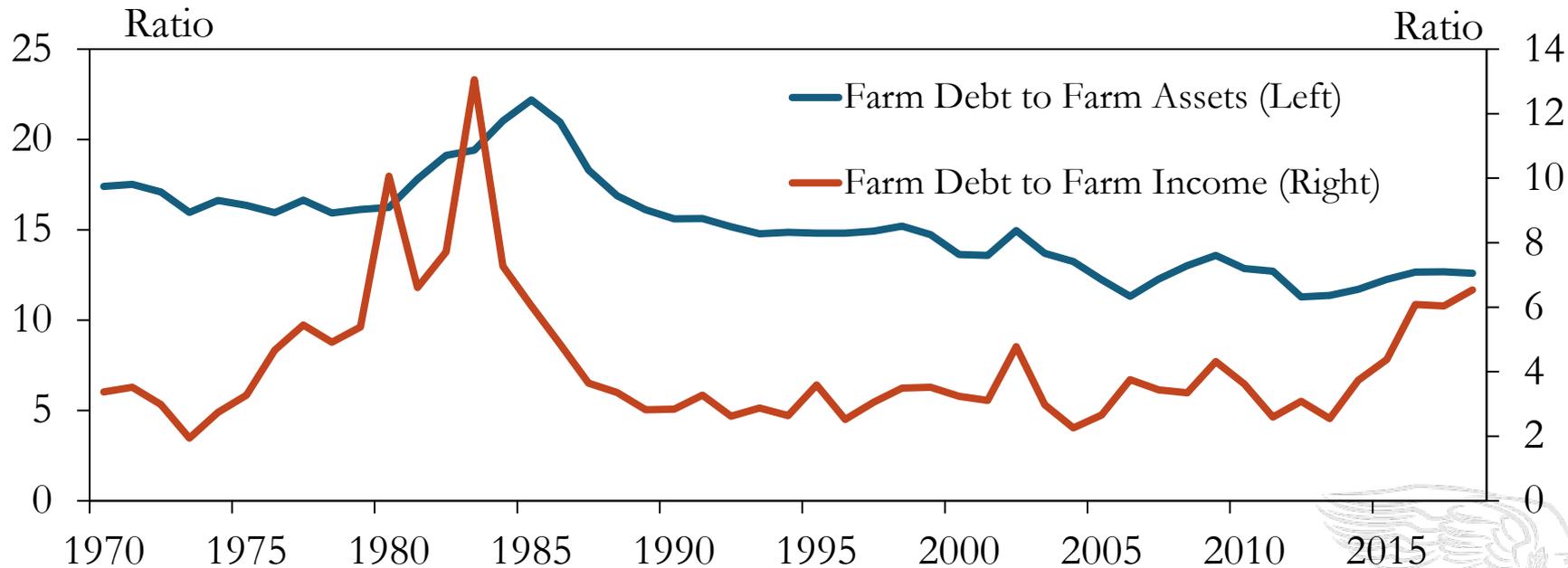
Note: Annual milk production data available through 2017.

Source: USDA.

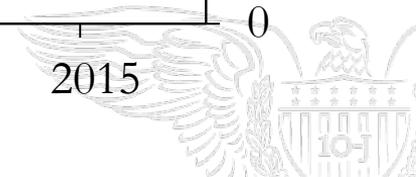


With lower prices, liquidity has deteriorated, but measures of solvency have remained strong.

U.S. Farm Sector Solvency and Liquidity Metrics

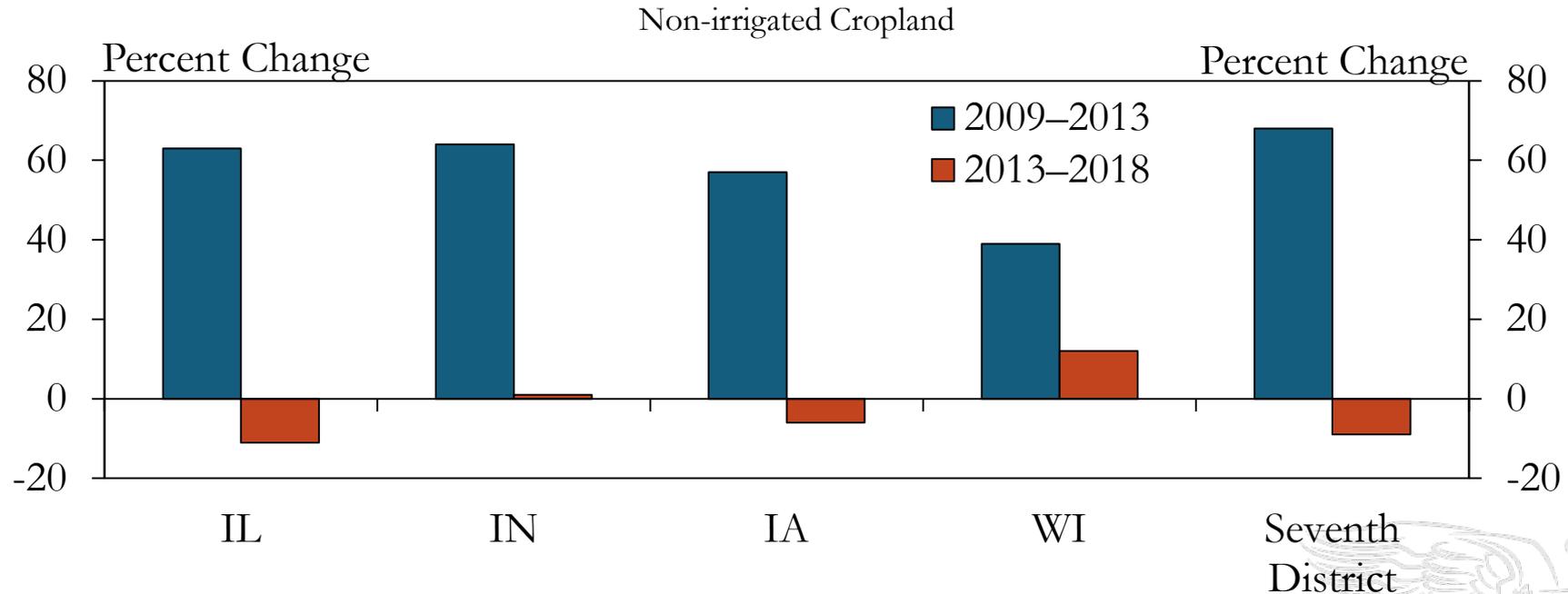


Source: USDA.



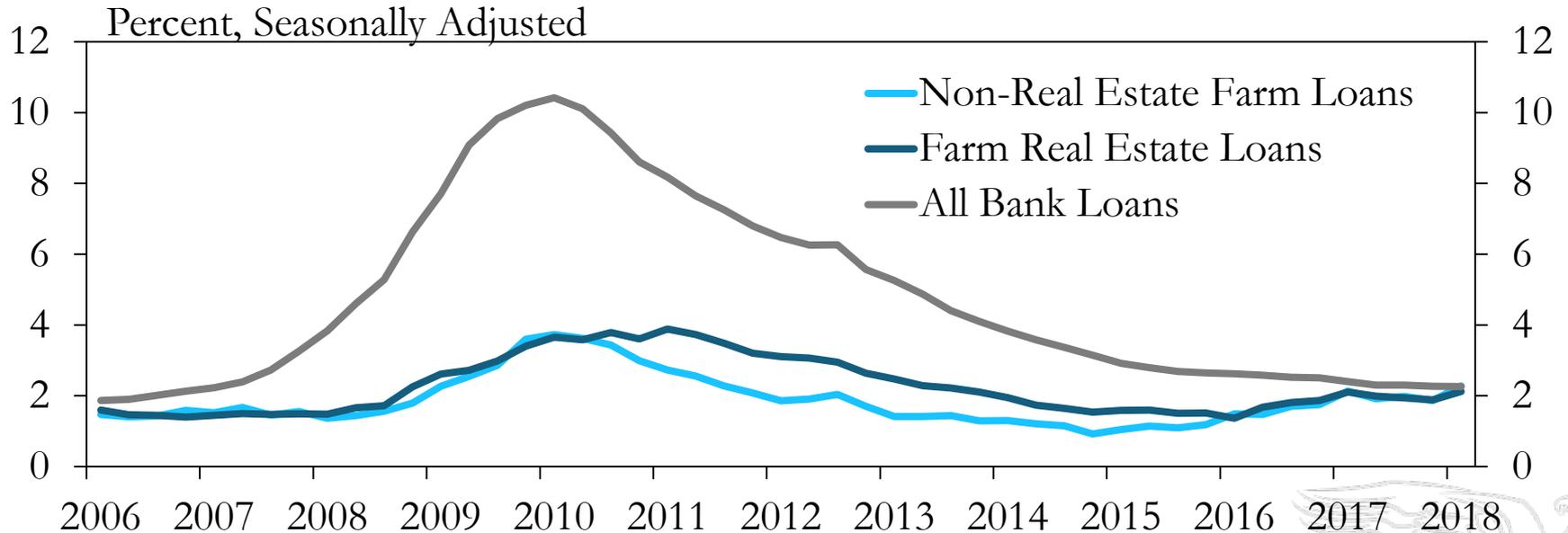
Although farmland values have declined in most states, the decreases have been quite modest.

Seventh District Farmland Values



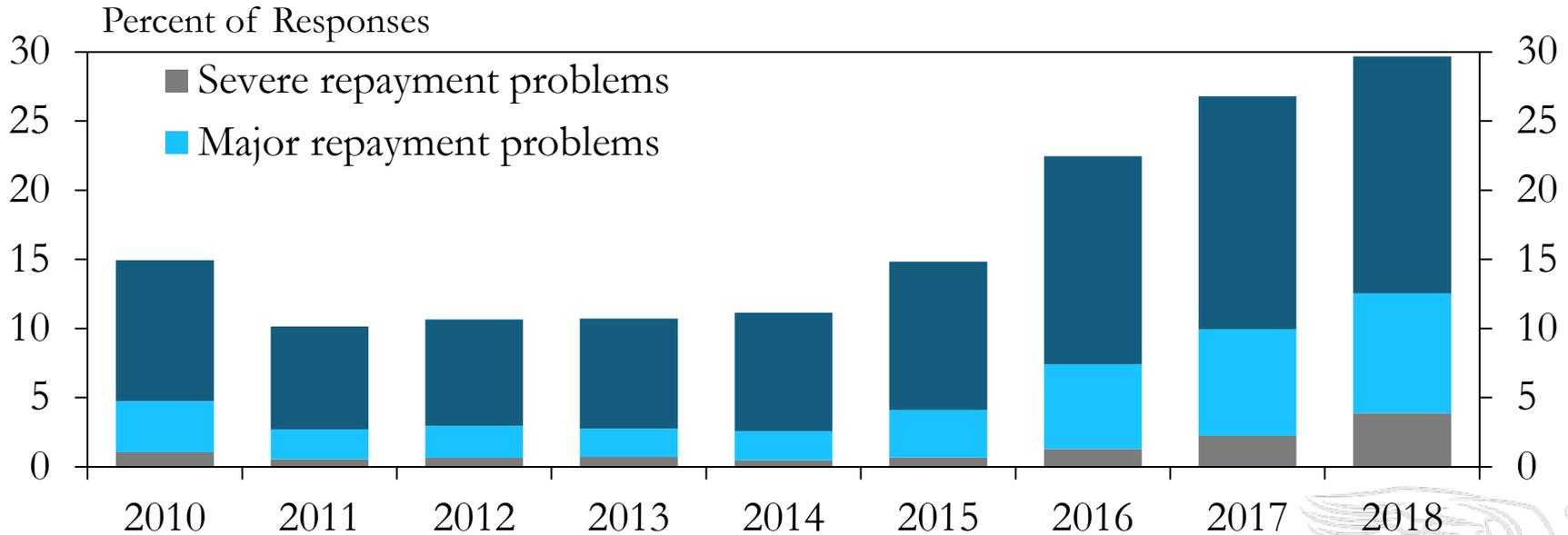
And although repayment challenges have increased over the past few years, delinquencies remain low.

Commercial Bank Delinquencies



Still, loan repayment problems in the farm sector have continued to build.

Tenth District Loan Repayment Problems

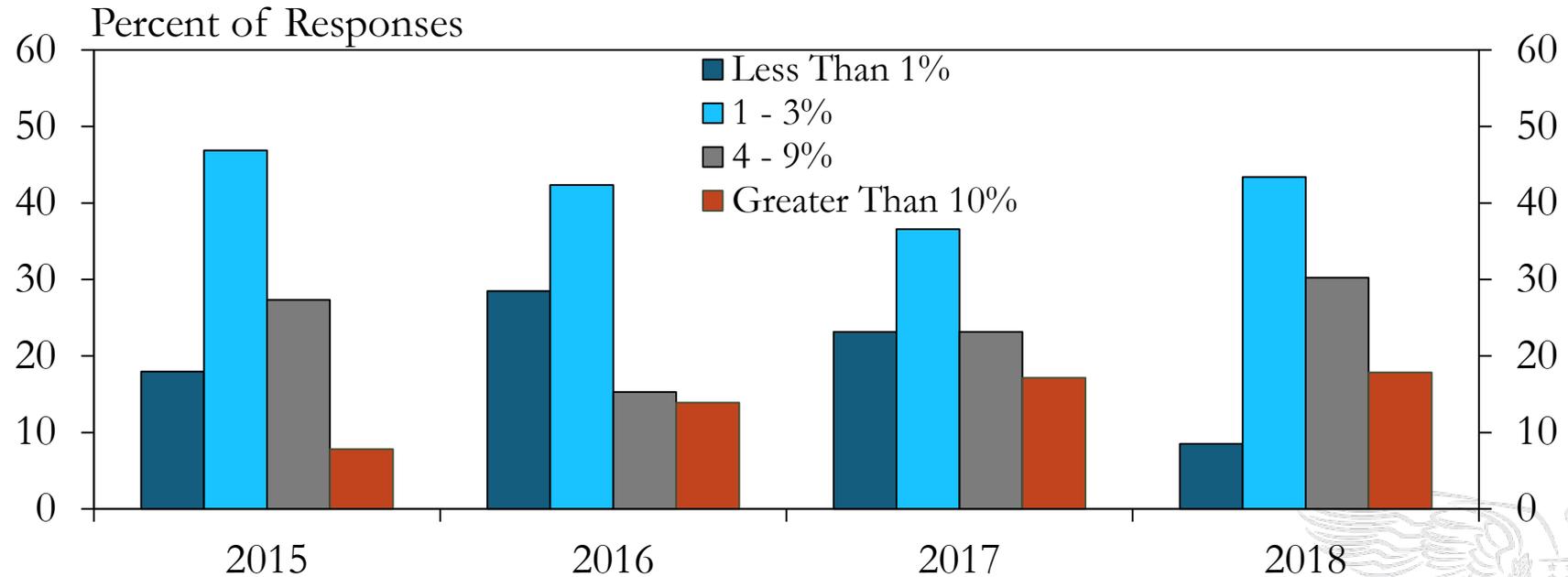


Source: Federal Reserve Bank of Kansas City, Survey of Agricultural Credit Conditions.



And an increasing number of applications for farm operating loans has been denied at agricultural banks.

Denials of Farm Operating Loan Applications

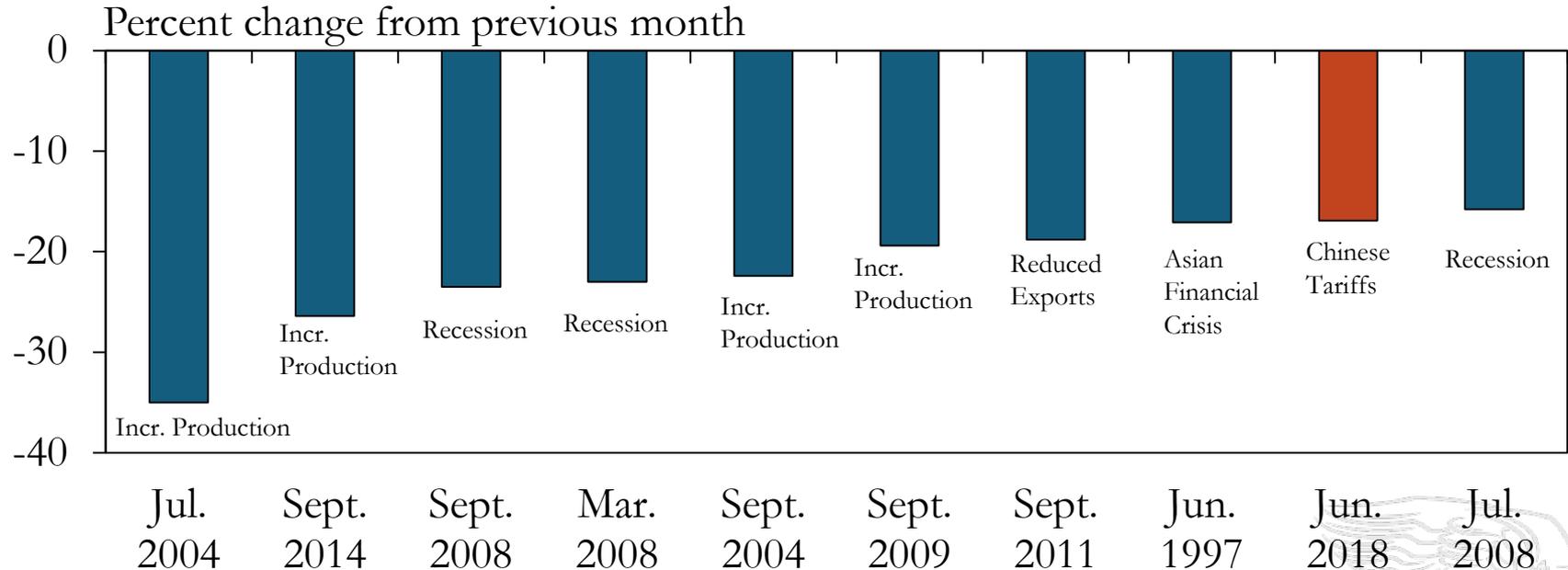


Source: Federal Reserve Bank of Kansas City, Survey of Agricultural Credit Conditions.



Recently, trade disputes have elevated the risk to agricultural producers and cash flow.

Largest One Month Declines in Soybean Prices since 1988

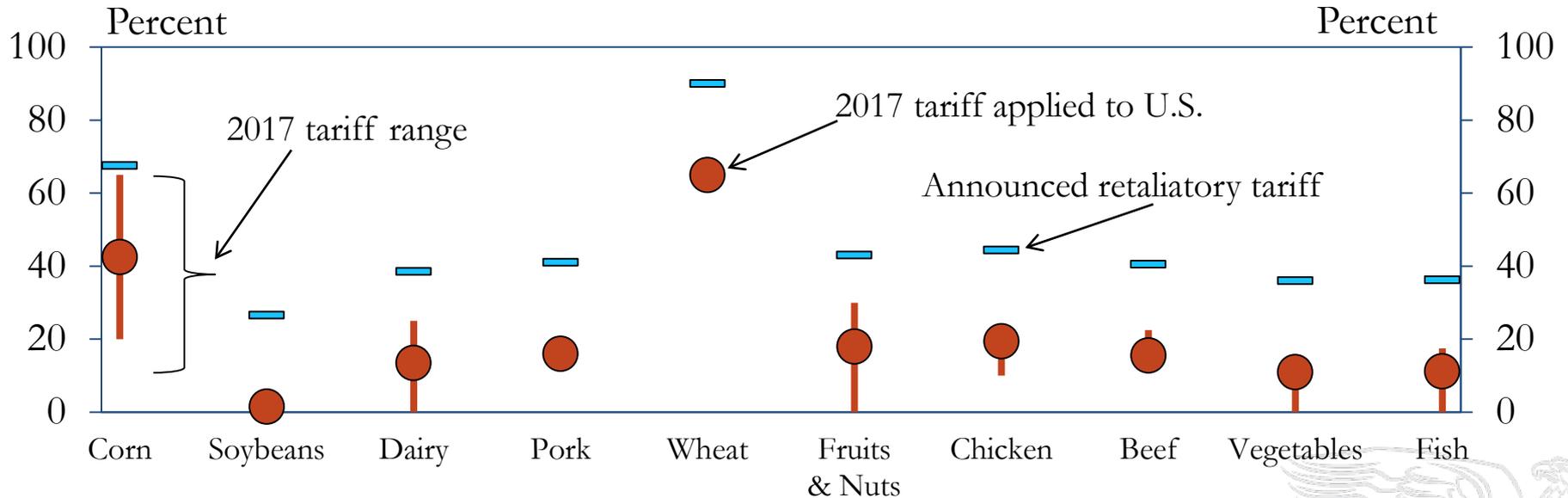


Source: *Wall Street Journal* and Haver Analytics.



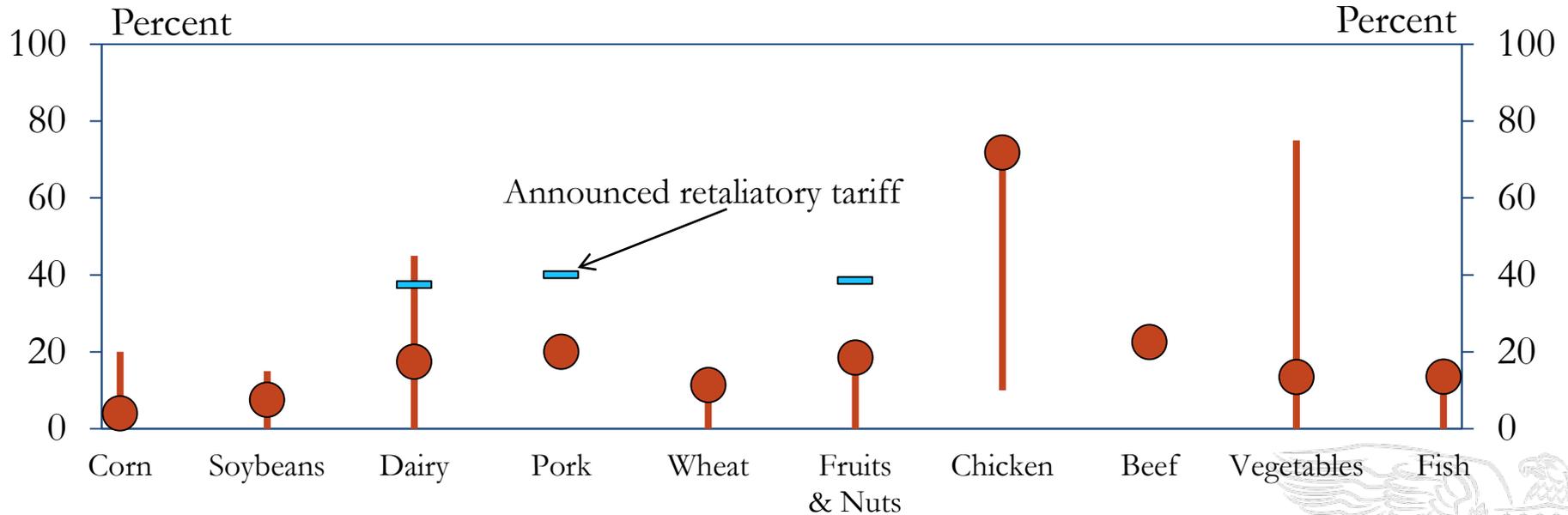
China has announced increases in tariffs across a range of agricultural products.

Most-Favored Nation Tariff Rates: China

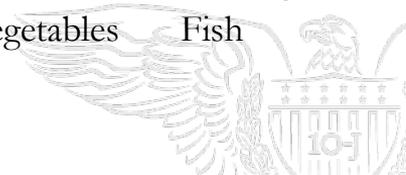


Trade policy uncertainty also remains with respect to NAFTA, particularly as it relates to Mexico.

Most-Favored Nation Tariff Rates: Mexico

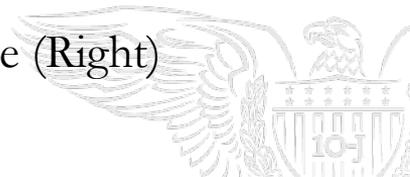
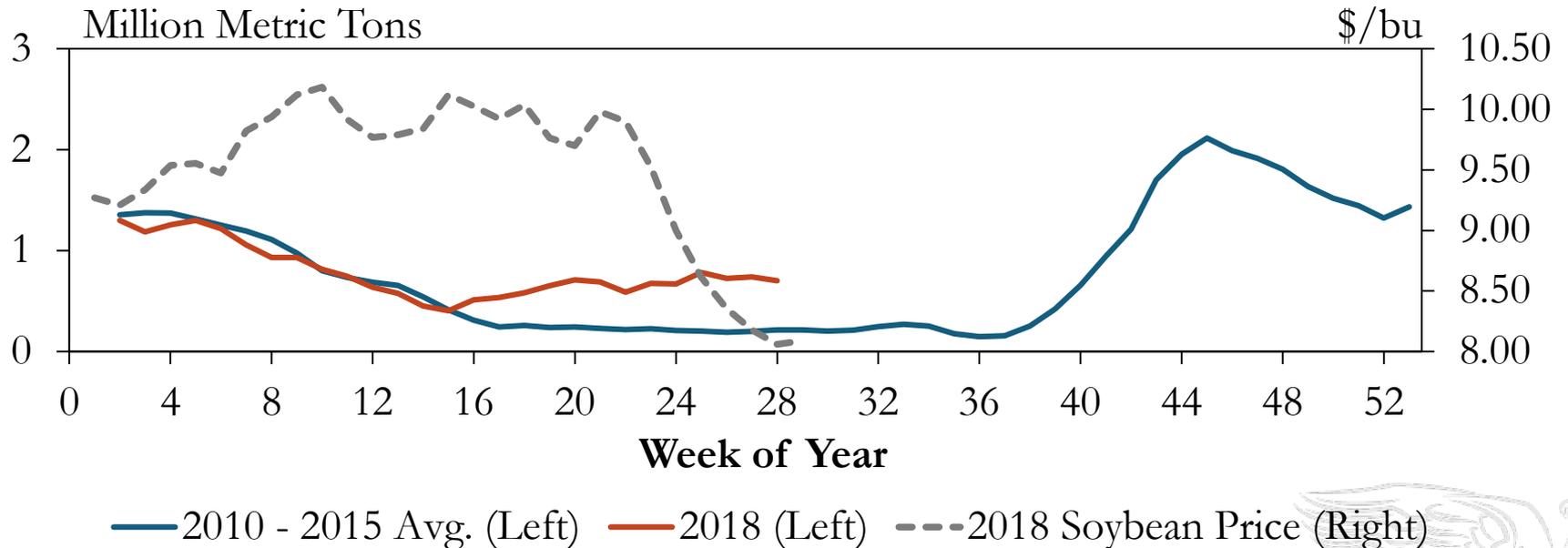


Source: WTO



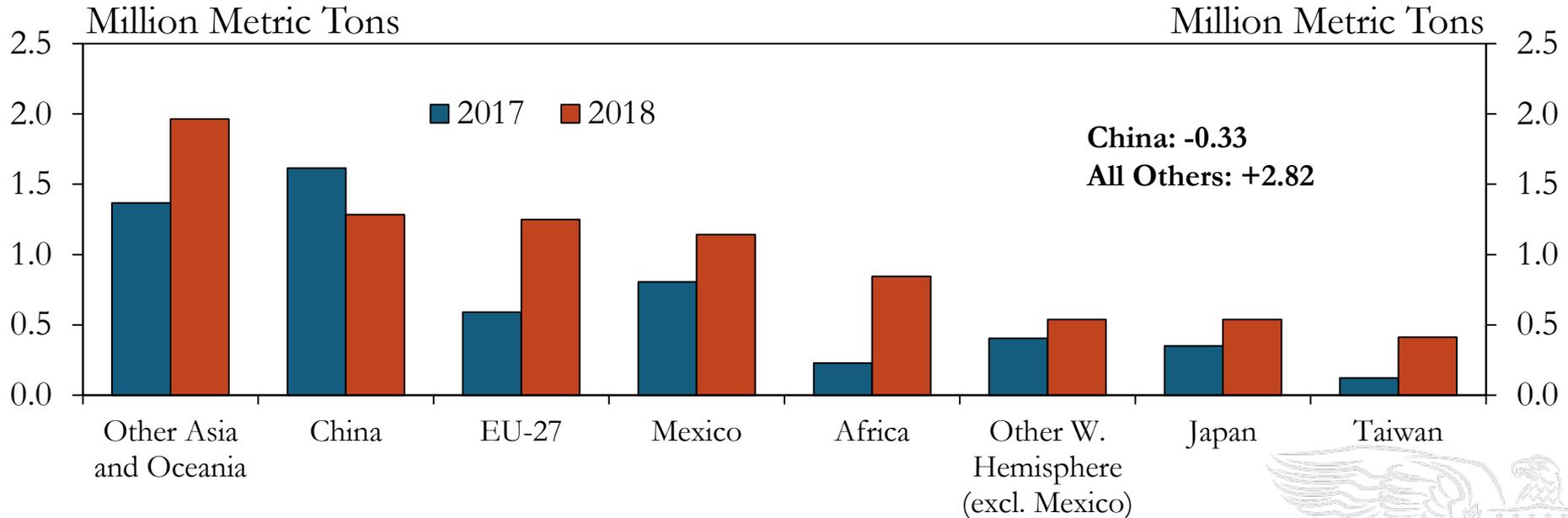
Soybean prices declined sharply in June despite a significant increase in exports.

U.S. Soybean Exports and Prices



Export strength was driven by demand from regions outside of China.

U.S. Soybean Exports, Q2



Concluding Remarks

- National economic indicators remain relatively strong, driven by growth in metro areas, consumer spending, and the services sector.
- The agricultural sector remains one of the weakest in the region as commodity prices have dropped recently alongside trade disputes.
- The near-term test for U.S. agriculture will come in Q4, after the fall harvest. Risks will mount if prices remain low, trade disputes remain unresolved, and planting in South America rebounds.
 - Uncertainty around the next Farm Bill also remains.



Questions?

Nate Kauffman

Omaha Branch Executive and Economist
Federal Reserve Bank of Kansas City – Omaha Branch

