Economic Recovery in U.S. Agriculture

Nate Kauffman, Federal Reserve Bank of Kansas City
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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.

*Forecast as of January 2020

Sources: USDA and Haver Analytics.
The ensuing pandemic disrupted agricultural markets in several key ways.

**U.S. Meat Production**

Index (2019 = 100)

**U.S. Food Expenditures**

Billion dollars

**U.S. Ethanol Production**

Thousand barrels per day

Sources: USDA, EIA and staff calculations.
Agricultural prices dropped sharply as the pandemic and associated disruptions intensified.

Sources: WSJ and Haver Analytics.
In recent months, however, ag commodity prices have rebounded sharply.

**Agricultural Commodity Prices**

Index (Jan. 2019 = 0)

- **Corn**
- **Soybeans**
- **Wheat**
- **Cattle**
- **Hogs**
- **Milk**

Sources: WSJ and Haver Analytics.
Government aid programs also provided significant assistance to the U.S. farm sector in 2020.

Direct Government Payments to U.S. Farm Sector

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

Sources: WSJ and staff calculations.
Exports to China have provided a major boost to demand alongside limited supplies.

Source: USDA.
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**

Percent change from previous year

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

Percent change from previous year

Source: BEA, Haver Analytics.
The current variability of inflation is much higher than before the pandemic.

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