

Rebound in Agriculture Facing Pressure

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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.



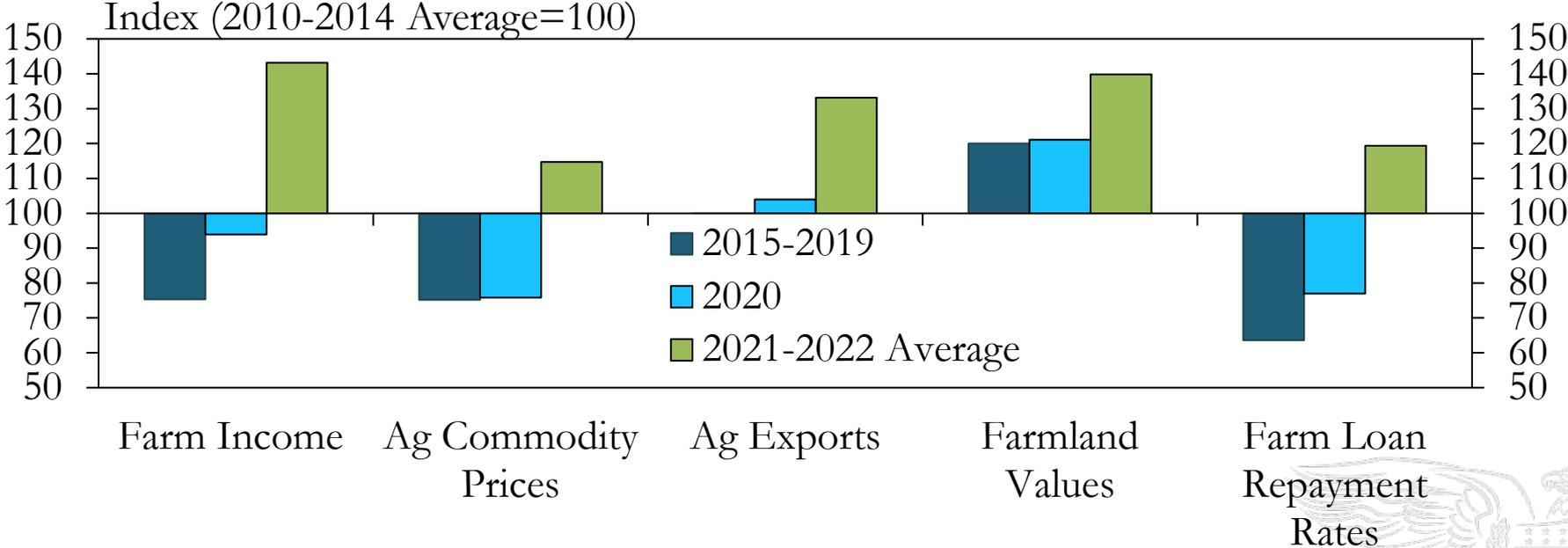
Outlook Themes

- Economic and financial conditions in agriculture are much better than what was expected before the pandemic.
- However, pressures have increased in recent months alongside growing economic risks, which will shape the outlook for ag in the year ahead.



Economic conditions in U.S. agriculture have rebounded dramatically the past two years.

Indicators of the U.S. Ag Economy

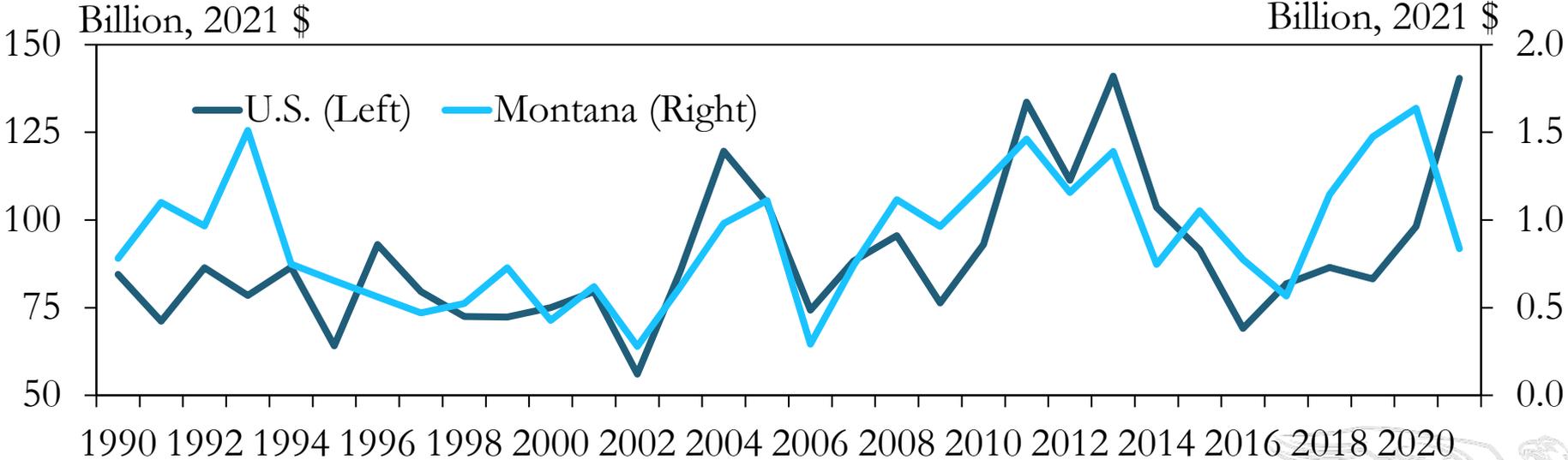


Source: USDA, *Wall Street Journal* and Federal Reserve Surveys of Agricultural Credit Conditions.



Farm income in Montana has generally been strong, but has declined slightly since 2019.

Net Farm Income

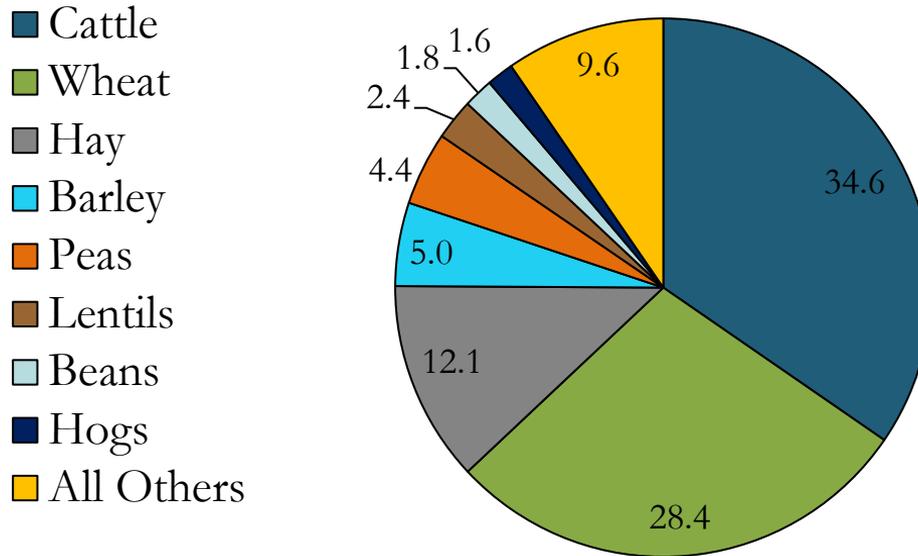


Source: USDA



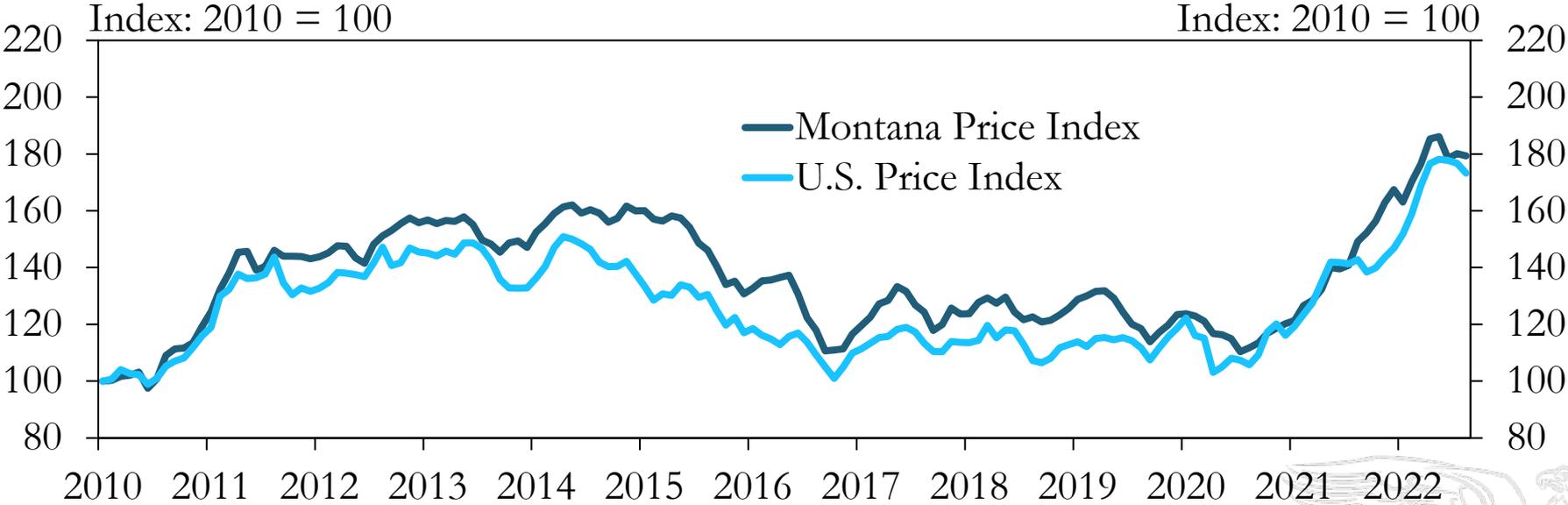
Montana's agricultural sector is highly concentrated in wheat and cattle.

Montana: Ag Commodity Concentrations (Percent)



The rebound in ag economic conditions has been supported by large increases in commodity prices.

Ag Price Indices

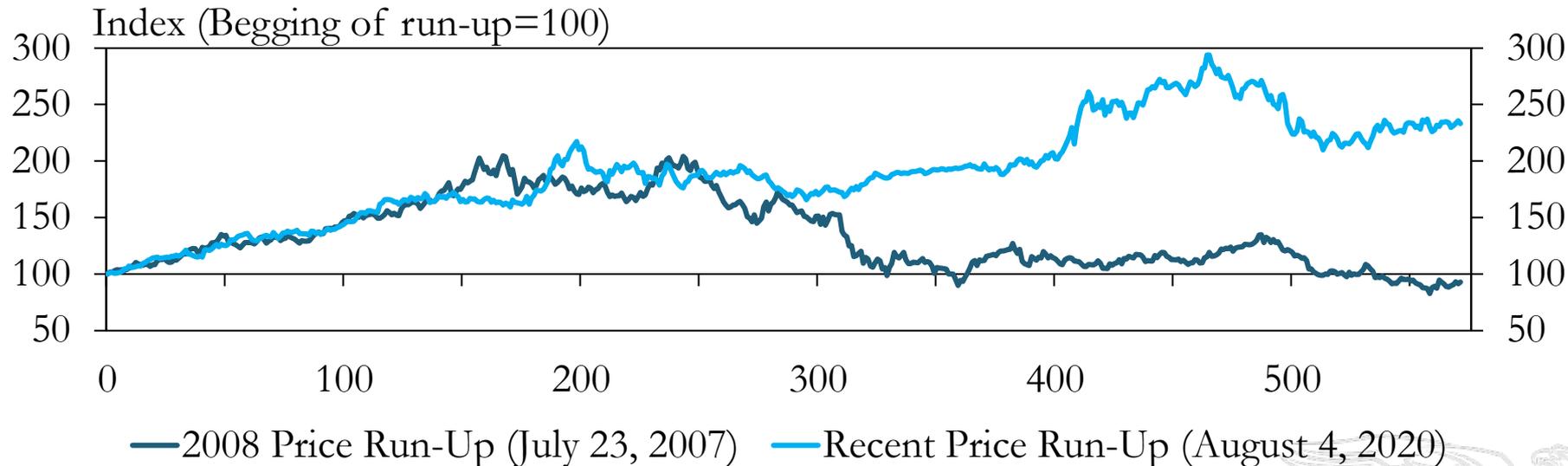


Source: USDA, Haver Analytics, and author's calculations



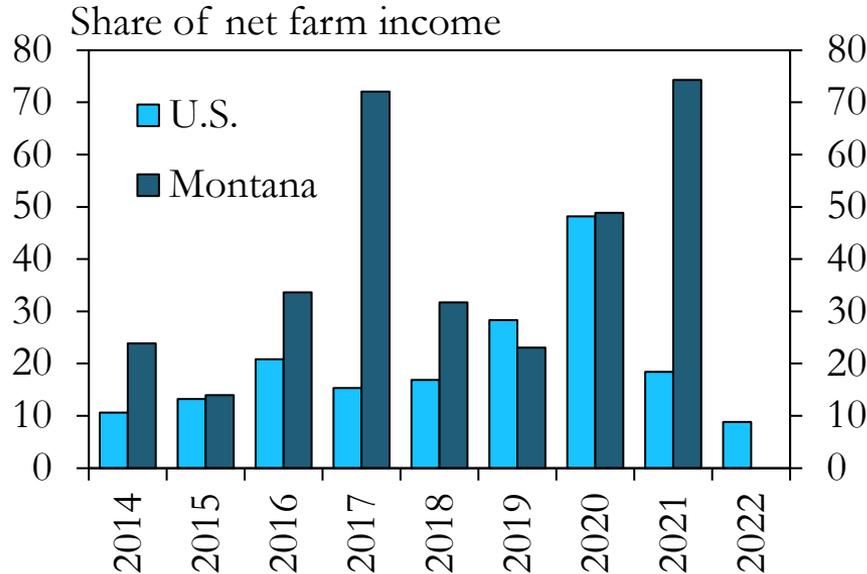
The surge in ag prices has far exceeded the run-up in 2007-2008.

Corn and Wheat Prices

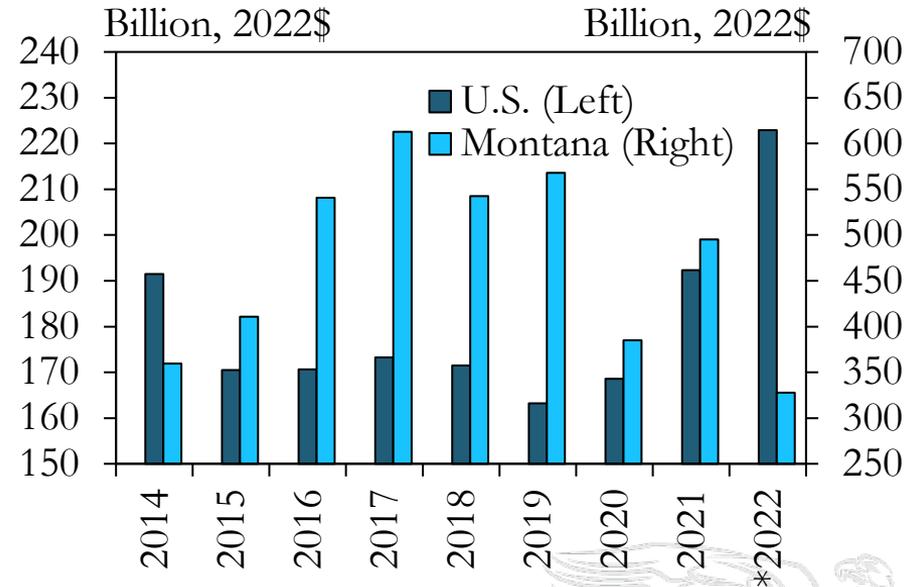


While government payments provided significant income support, exports have also been strong.

Government Payments



U.S. Ag Exports



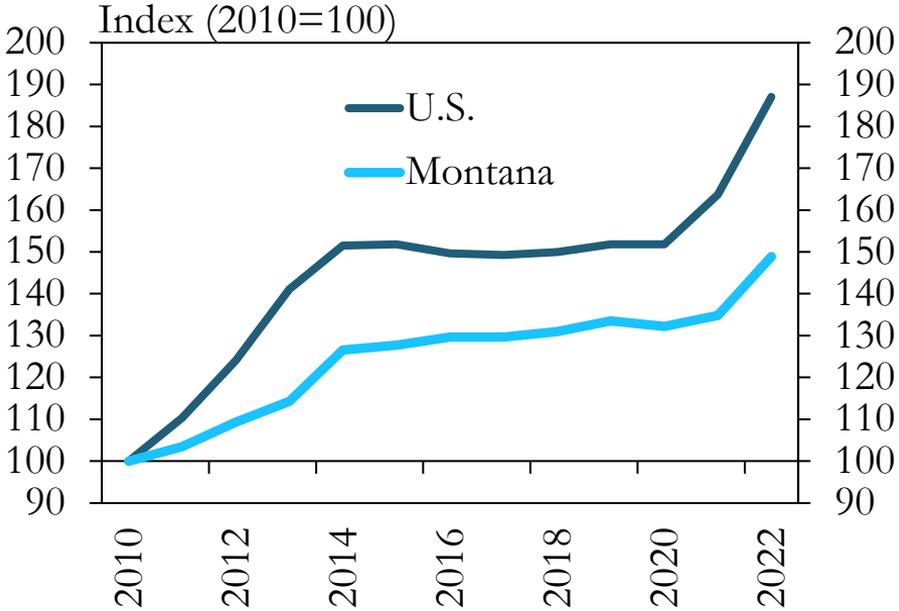
Note: 2022 Government Payments as a Share of Net Farm Income is the USDA forecast as of September 1, 2022. Forecast not available for individual states

Source: USDA

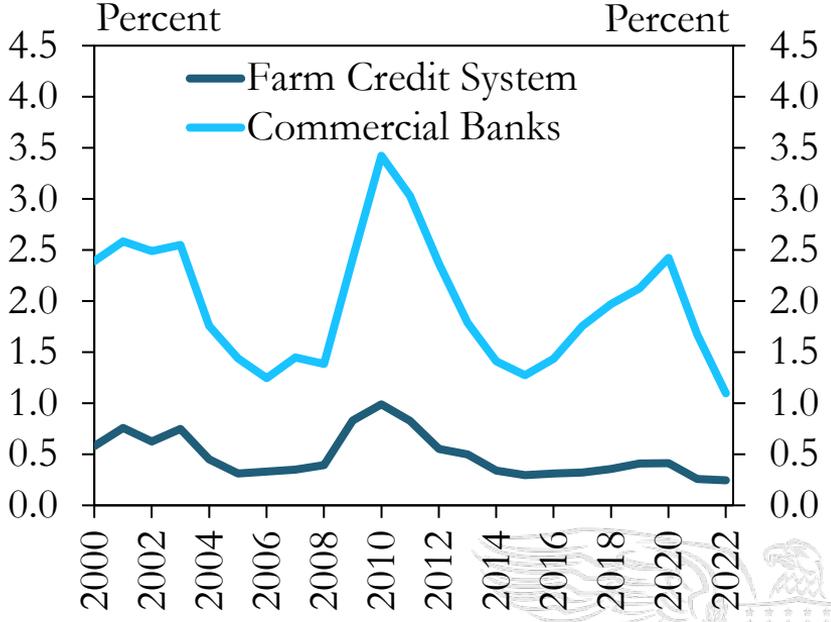


Measures of farm finances have also improved substantially.

Farm Real Estate Values



Farm Loan Delinquency Rates

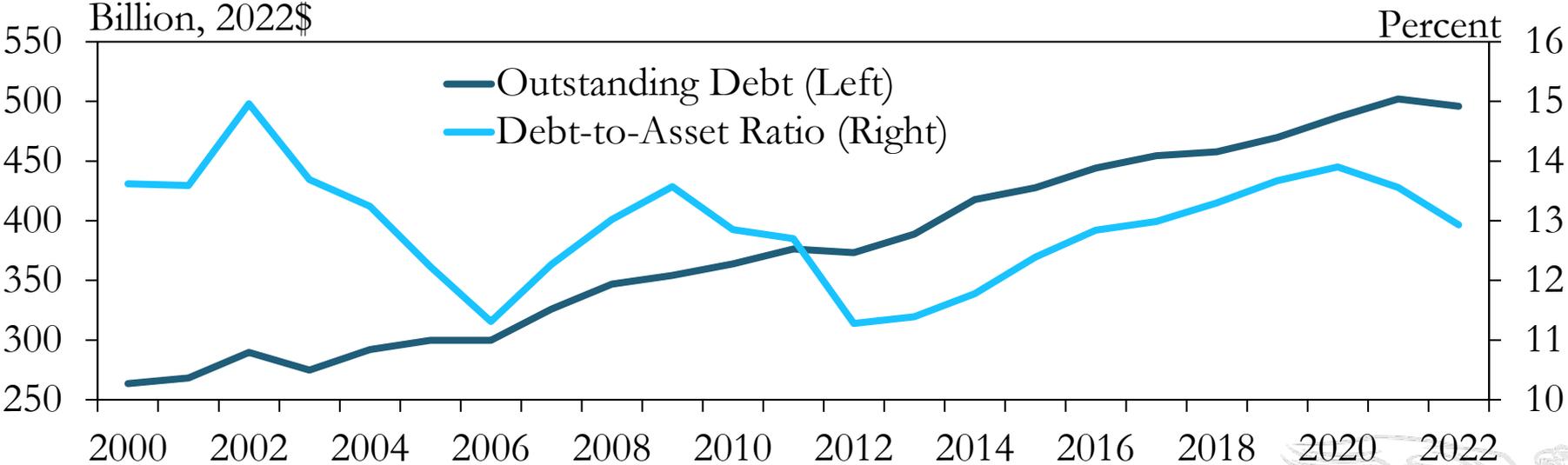


Sources: USDA, Federal Reserve Board of Governors and Farm Credit Administration



Despite increases in debt, leverage has remained low.

U.S. Farm Debt and Leverage



Source: USDA

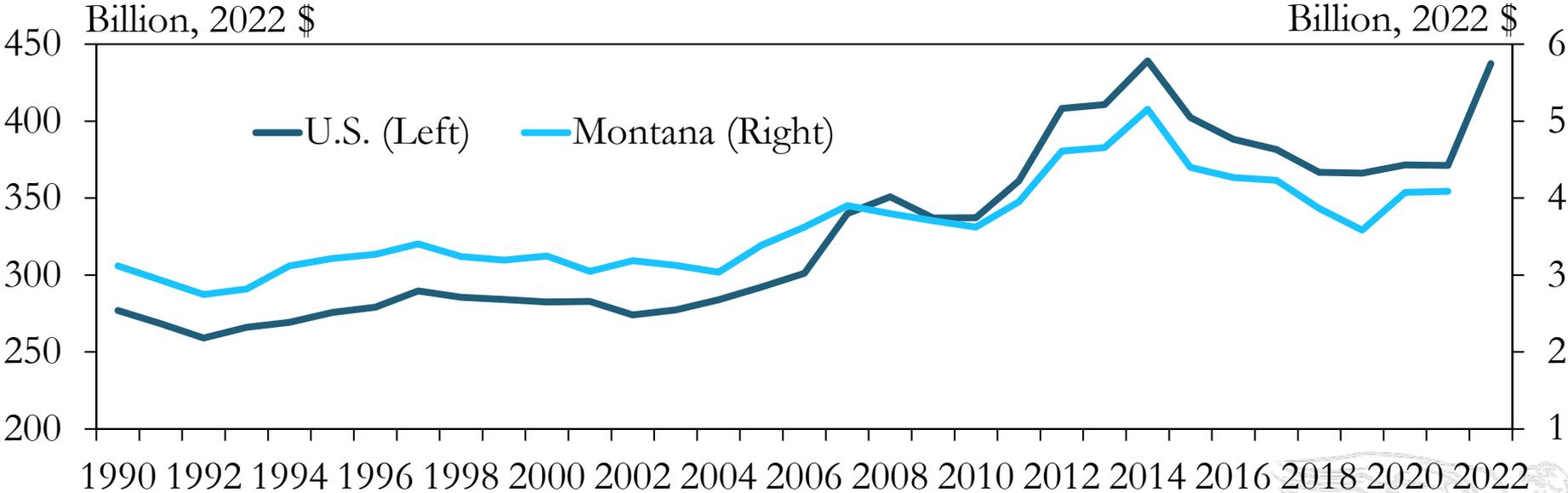


**Ag economic conditions are strong,
but risks are growing.**



Production costs have risen sharply over the past year.

Ag Production Expenses

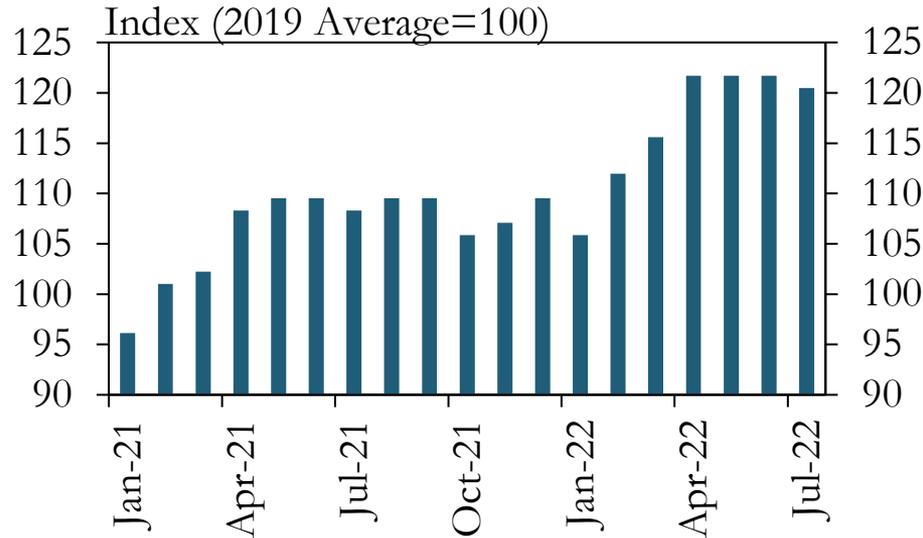


Source: USDA

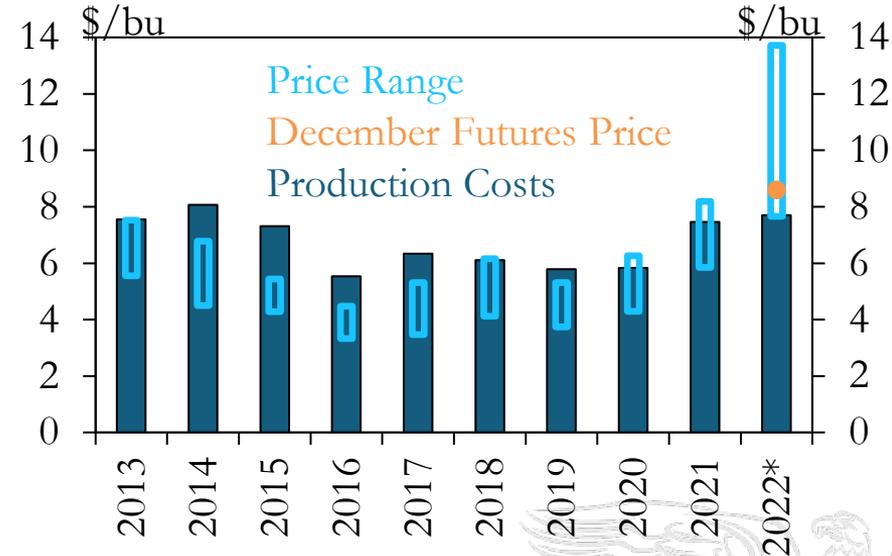


Profit margins are likely to be more subdued in the year ahead.

Farm Prices Received -to-Prices Paid



Wheat Profit Margin



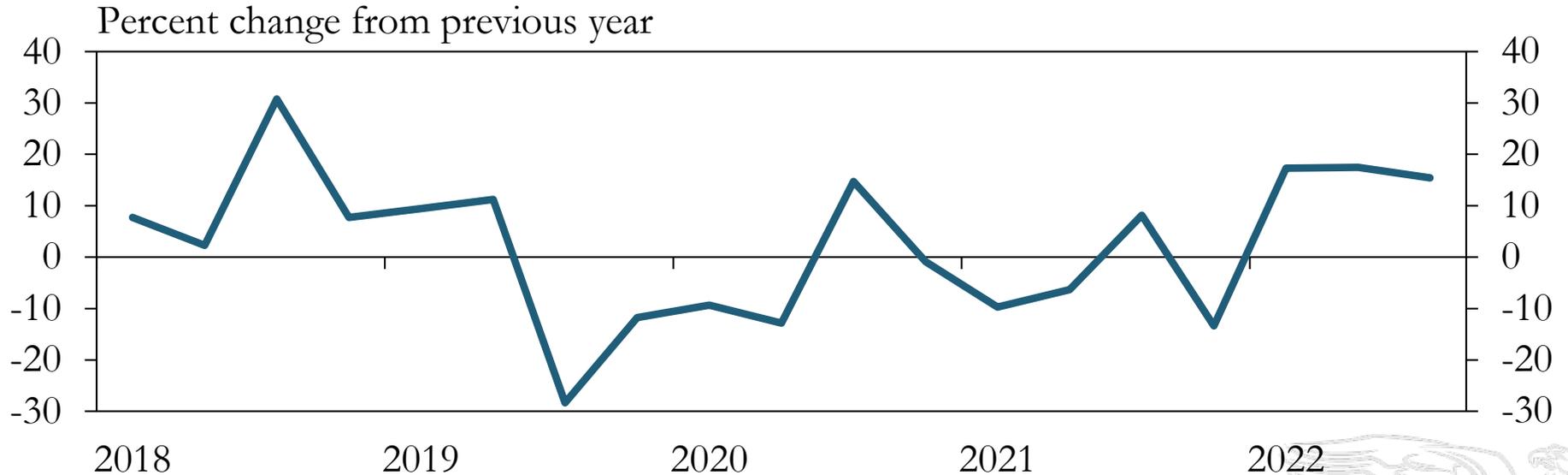
*USDA Forecast

Source: USDA and staff calculations



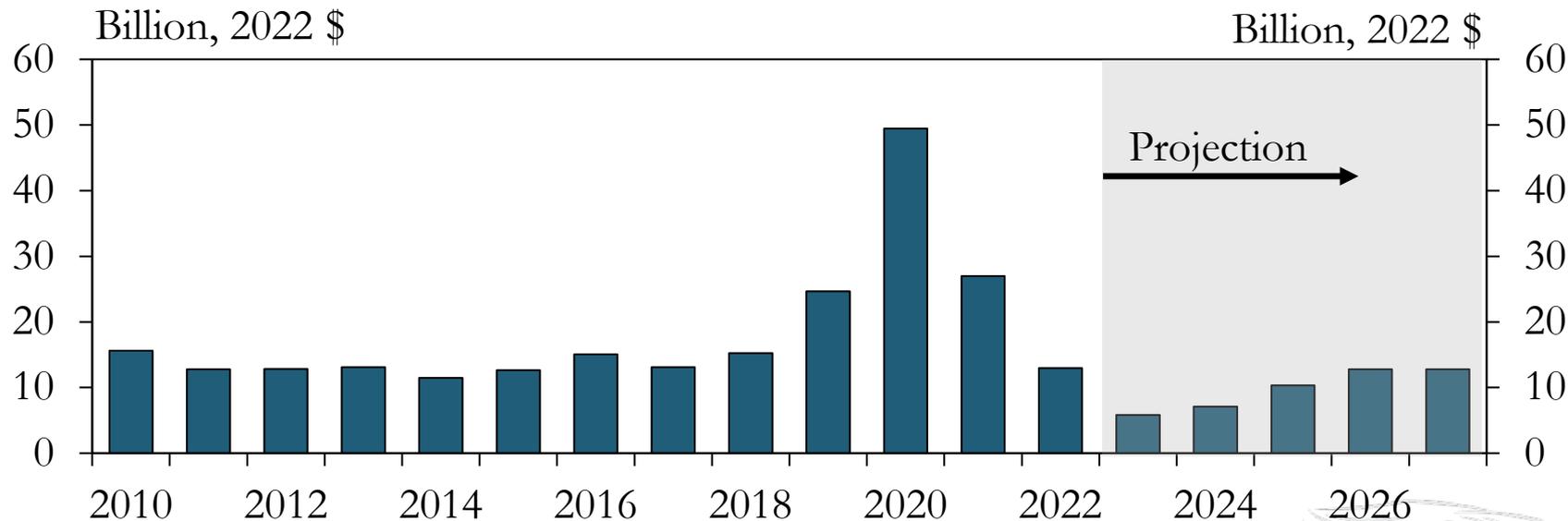
Ag lending has picked up in recent months alongside increases in costs.

Volume of Non-Real Estate Farm Lending at Commercial Banks



Government payments do not appear likely to provide large support as in recent years.

Direct Government Payments



Note: 2018-2022 data are obtained from USDA Farm Income and Wealth Statistics. 2023-2027 forecasts are obtained from FAPRI Baseline Projection as of September 12, 2022.

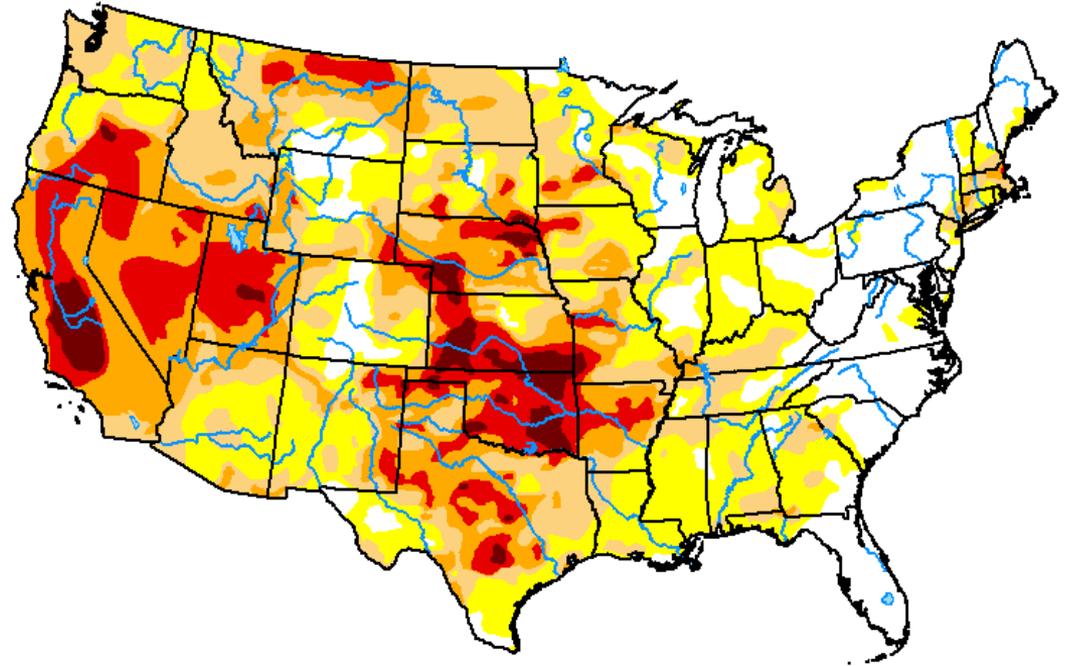
Sources: USDA and University of Missouri - Food and Agricultural Policy Research Institute (FAPRI)



Drought remains an ongoing challenge in large parts of the country, particularly for the livestock sector.

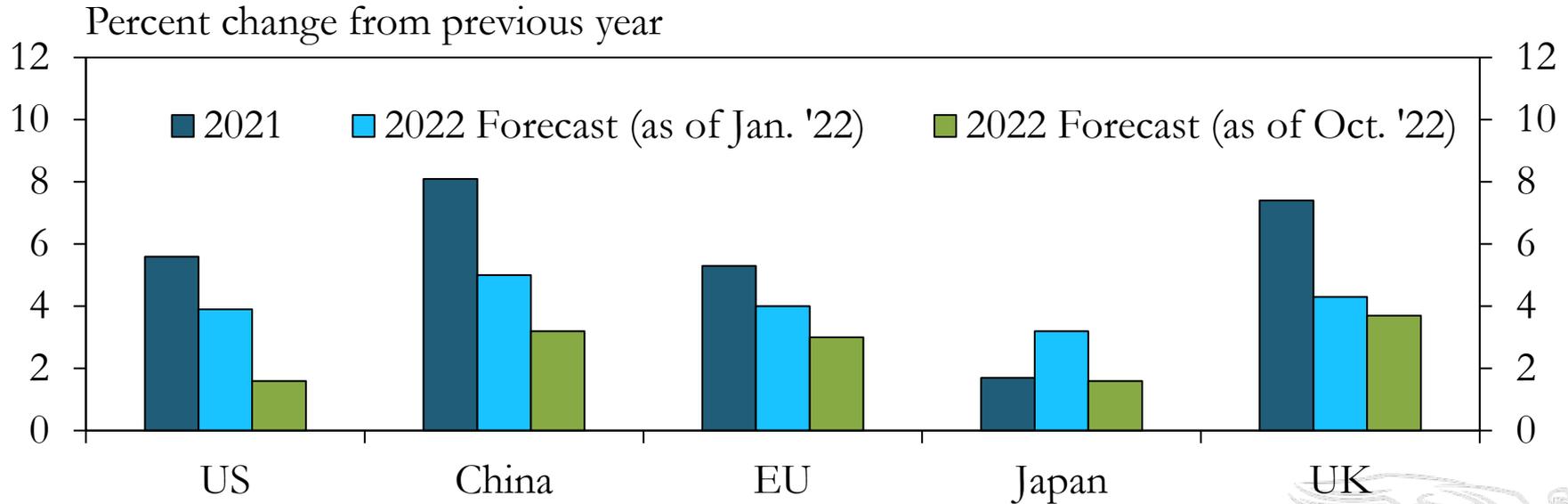
U.S. Drought Conditions – October 11, 2022

Intensity and Impacts



Broad measures of economic growth have weakened throughout the year.

Real GDP Growth

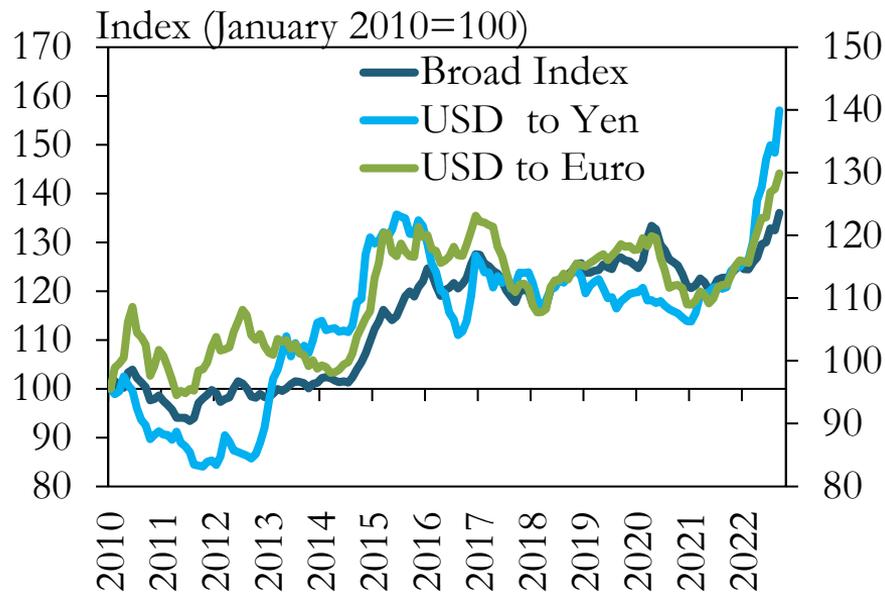


Sources: Bureau of Labor Statistics, BEA, Wolters Kluwer, Statistical Office of the European Communities, Cabinet Office of Japan, Office of National Statistics, China National Bureau of Statistics, and Haver Analytics.

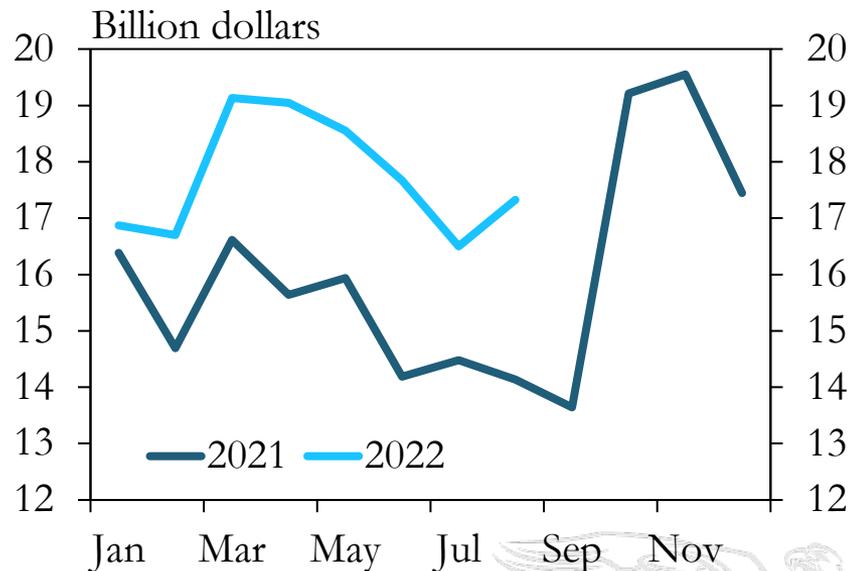


A stronger dollar could put pressure on industries dependent on exports.

Exchange Value of U.S. Dollar



U.S. Ag Exports

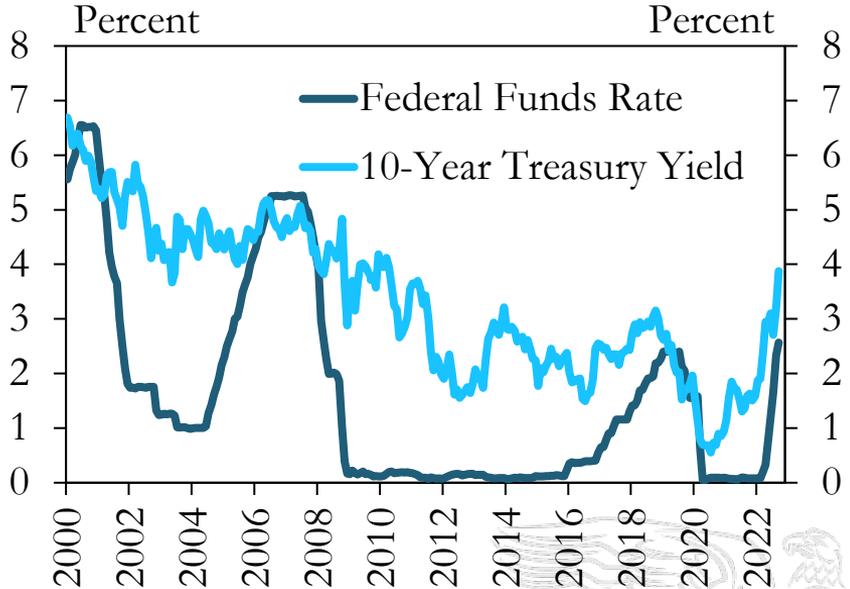


Persistent inflationary pressures have led to a notable increase in interest rates.

U.S. Consumer Price Index



U.S. Interest Rates



Sources: Federal Reserve Board of Governors, USDA, and Haver Analytics



Despite these risks, however, there are reasons to be optimistic about the long-term potential for U.S. ag.

- Demand for food and fuel is still growing, and the U.S. is a comparatively reliable and stable supplier.
- Technological innovations have supported ongoing gains in productivity in both commodity production and value-added agriculture.
- There are regional concerns about water availability in the U.S., but the U.S. is also positioned better than some other ag producing countries.



Yet, some important structural questions are likely to remain.

- With ag productivity rising, will new demand sources be enough to support prices if global growing conditions stabilize?
- How will consolidation and supply chain management affect producers and agribusinesses?
- How will producers and businesses make important long-term decisions in the face of elevated near-term uncertainty?



Concluding Thoughts

- Economic conditions in agriculture will likely remain on solid footing into 2023 alongside a strong price environment.
- Further ahead, a rising cost environment could put more pressure on farm finances.
- Developments in the macroeconomy are likely to have an outsized impact on agriculture through 2023.



