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.

Source: USDA
Montana’s agricultural sector is highly concentrated in wheat and cattle.

Montana: Ag Commodity Concentrations (Percent)

- Cattle: 34.6%
- Wheat: 28.4%
- Hay: 12.1%
- Barley: 9.6%
- Peas: 7.0%
- Lentils: 5.0%
- Beans: 4.4%
- Hogs: 2.4%
- All Others: 4.4%

Source: USDA and staff calculations
The rebound in ag economic conditions has been supported by large increases in commodity prices.

Source: USDA, Haver Analytics, and author’s calculations
The surge in ag prices has far exceeded the run-up in 2007-2008.

Sources: Wall Street Journal, Haver Analytics, and author’s calculations
While government payments provided significant income support, exports have also been strong.

**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.
Ag economic conditions are strong, but risks are growing.
Production costs have risen sharply over the past year.
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

Percent change from previous year

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

Source: University of Nebraska Lincoln
Broad measures of economic growth have weakened throughout the year.

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

**Exchange Value of U.S. Dollar**

**U.S. Ag Exports**

Sources: Federal Reserve Board of Governors, USDA, and Haver Analytics
Persistent inflationary pressures have led to a notable increase in 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.