Rebound in Agriculture Facing Pressure

Nate Kauffman, Federal Reserve Bank of Kansas City
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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 Georgia has likely also been strong through 2022, following several weaker years.

*U.S. Forecast as September 1, 2022.

Source: USDA
Georgia’s agricultural sector is highly concentrated in poultry and various row crops.

**Georgia: Ag Commodity Concentrations (Percent)**

- **Broilers**: 38.0%
- **Cotton**: 20.5%
- **Chicken Eggs**: 10.8%
- **Peanuts**: 7.5%
- **Pecans**: 4.2%
- **Corn**: 3.9%
- **Cattle**: 4.5%
- **Dairy**: 2.4%
- **All Others**: 8.1%

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

**Government Payments**

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Georgia</th>
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<tbody>
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<td>15</td>
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<td>50</td>
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<td>2022</td>
<td>50</td>
<td>55</td>
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</table>

**U.S. Ag Exports**

<table>
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<th>Year</th>
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<th>Georgia (Right)</th>
</tr>
</thead>
<tbody>
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<tr>
<td>2022</td>
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<td>310</td>
</tr>
</tbody>
</table>

*U.S. is estimated based on year-to-date percent change through August. Georgia is estimated based on year-to-date percent change through July.

**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**

- Index (2010=100)

- U.S.
- Georgia

**Farm Loan Delinquency Rates**

- Percent

**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.

*U.S. Forecast as September 1, 2022.

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

*The number of pounds of broiler grower feed equal in value to 1 pound of broiler, live weight. The methodology utilizes major raw feed component prices from Agricultural Prices, published by USDA's National Agricultural Statistics Service. The major feed components of corn and soybeans account for 83-91 percent of the total ingredients in the rations.

Source: USDA and staff calculations
Ag lending has picked up in recent months alongside increases in costs.

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.
Broad measures of economic growth have weakened throughout the year.

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