Modest Economic Growth Amid Growing Credit Risks

Nate Kauffman, Federal Reserve Bank of Kansas City
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The Federal Reserve regularly incorporates ag perspectives in its policy deliberations.

**Farm Income as a Share of Total Personal Income (2010-2020)**

The Federal Reserve regularly incorporates agricultural perspectives in its policy deliberations.

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**Sources:** BEA, USDA, Federal Reserve Bank of Kansas City and staff calculations.

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Note: Farm income is shown as a share of total personal income, averaged across all counties in each respective Fed District.

**Sources:** BEA, USDA, Federal Reserve Bank of Kansas City and staff calculations.
Outlook Themes

- Economic growth has slowed over the past year and is expected to be rather modest in the year ahead.

- Despite sharp increases in interest rates, and the potential for tighter credit conditions, U.S. agriculture has remained in a strong financial position.
The U.S. agricultural economy has been strong the past few years.

**U.S. Net Farm Income**

<table>
<thead>
<tr>
<th>Period</th>
<th>Average (Billion, 2023$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-2012</td>
<td>110</td>
</tr>
<tr>
<td>2015-2017</td>
<td>90</td>
</tr>
<tr>
<td>2020-2022</td>
<td>130</td>
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**U.S. Ag Commodity Prices**

<table>
<thead>
<tr>
<th>Period</th>
<th>Average (Index Jan. 2010=100)</th>
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<tbody>
<tr>
<td>2010-2012</td>
<td>120</td>
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<td>2015-2017</td>
<td>110</td>
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<tr>
<td>2020-2022</td>
<td>140</td>
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</tbody>
</table>

**Sources:** USDA and staff calculations
More generally, U.S. economic growth is expected to be modest through 2024.

U.S Real GDP Growth

Quarterly percent change at annual rate

Note: Figures for Q1 2020 (-30%) and Q2 2020 (+35%) are not visible. The scale is limited for better visual representation of data.

Sources: U.S. Census Bureau and Haver Analytics
Other measures of U.S. economic activity also point to slowing.

Sources: University of Michigan, Institute for Supply Management, and Haver Analytics
Globally, economic growth is expected to be slower than what was anticipated at the beginning of 2022.

Sources: International Monetary Fund and Haver Analytics
China’s reversal from zero-covid has led to renewed growth, amid global economic risks.

**China Real GDP Growth**

Quarterly percent change at annual rate

**China Manufacturing Activity**

Index (Jan. 2020=100)

**Note:** Figures for Q1 2020 (-42%) and Q2 2020 (+46%) are not visible. The scale is limited for better visual representation of data.

**Sources:** China Federation of Logistics & Purchasing, CNBS, China National Bureau of Statistics, and Haver Analytics
The war in Ukraine remains a source of uncertainty, but commodity prices have been relatively stable.

Sources: 2023 Institute for the Study of War and AEI's Critical Threats Project and Haver Analytics
Costs associated with supply chain disruptions have also dropped sharply.

**Global Supply Chain Pressure Index**

Standard deviation from average value

<table>
<thead>
<tr>
<th>Jan-18</th>
<th>Jan-19</th>
<th>Jan-20</th>
<th>Jan-21</th>
<th>Jan-22</th>
<th>Jan-23</th>
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**Freight Rates for 40ft Ocean Container:**

Shanghai to LA

Index (Feb. 2020=100)

Although some price pressures have eased, inflation remains extremely high.

*U.S. is as of March 2023, all others are as of February 2023.

Sources: Bureau of Labor Statistics, USDA and Haver Analytics
Contributions to inflation have shifted in recent months.

Components of Core CPI Inflation

Sources: Bureau of Labor Statistics, staff calculations, and Haver Analytics
U.S. household savings have declined, but housing prices have only decreased modestly.

**U.S. Household Savings**

**Median Home Prices**

Sources: Bureau of Economic Analysis, Zillow, and Haver Analytics
Consumer spending has been somewhat resilient due to a labor market that has remained strong.

Sources: Census Bureau, Haver Analytics, BEA, Federal Reserve Bank of St. Louis.
Wage pressures appear to be subsiding somewhat, but the gains remain higher than before the pandemic.

**Sources:** Bureau of Economic Analysis and Haver Analytics
Sharp increases in interest rates have been a growing concern among households and businesses.

Sources: Federal Reserve Board of Governors, Survey of Terms of Lending to Farmers and Haver Analytics
Unrealized losses at commercial banks surged in 2022.

Unrealized Gains or Losses

Sources: Reports of Condition and Income, Federal Reserve Board of Governors, Haver Analytics
Through 2022, however, deposits at commercial banks began to decline.

Sources: Federal Reserve Board of Governors and Federal Reserve Board of Governors
Following SVB’s failure, borrowing from the Federal Reserve’s Discount Window increased rapidly.

**Source:** Federal Reserve Board of Governors
The path of interest rates will depend on many factors: economic activity, inflation, and credit conditions.

**FOMC Federal Funds Rate Projections**

*Sources:* Federal Reserve Board of Governors, Summary of Economic Projections.
Despite growing concerns about interest rates, most farm borrowers have remained in a strong financial position.

**Farm Loan Delinquency Rates, Q4**

- **Percent**
  - Farm Credit System
  - Commercial Banks

**Farm Real Estate Values and Working Capital**

- **Index (2010=100)**
  - U.S. Farm Real Estate Values
  - Farm Sector Working Capital

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

• Inflationary pressures have been a primary driver of economic developments the past year, and changes in those pressures will be important to consider going forward.

• Strength in the labor market has mitigated some concerns about economic weakness and/or recession.

• Signs of tightening credit conditions will be particularly important to monitor in the coming months.
Questions and Discussion

Nate Kauffman
Senior Vice President and Omaha Branch Executive
Federal Reserve Bank of Kansas City
Nathan.Kauffman@kc.frb.org
Twitter: @N_Kauffman, @KansasCityFed