Agricultural Economic Outlook

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Outlook Themes

• Following sharp gains in 2021 and early 2022, economic growth has slowed alongside increases in interest rates and ongoing inflationary pressure.

• The ag economy has been strong in recent years despite slower economic growth and reduced profits in recent months.
Interest rates have increased sharply over the past year and a half.

![Interest Rates Graph](image)

Sources: Board of Governors, FHLMC, Federal Reserve Bank of St. Louis.
The primary goal of higher interest rates has been to reduce inflationary pressure that began to intensify last year.

**Consumer Price Index**

- Overall CPI
- CPI (Excl. Food & Energy)

Sources: BLS, Haver Analytics.
Inflation increased significantly in the wake of the pandemic due, in part, to a surge in economic activity.

Real Gross Domestic Product

Percent change from previous year

United States  European Union  Japan  China  World

Ag commodity prices accelerated in 2020, but continued to rise through early 2022 alongside the invasion of Ukraine.

Sources: WSJ and Haver Analytics
U.S. farm income increased sharply with the increase in commodity prices and government payments.

*2023 forecast as of February 7, 2023
Source: USDA
Export activity also rebounded quickly and continued to strengthen through 2022.

Source: USDA
Increases in farm income and commodity prices led to sharp gains in land values and low levels of financial stress.

Sources: USDA, Federal Reserve Board of Governors and Farm Credit Administration
Following rapid economic growth in 2021, activity has slowed, both in the U.S. and globally.

Real Gross Domestic Product

Percent change from previous year


Most commodity prices have fallen from 2022 highs, and elevated costs have pressured profit margins.

Sources: USDA and Haver Analytics

### Agricultural Commodity Prices: June 2023

- **Percent change from 2022 high**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>-2.5%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>-3.0%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Wheat</td>
<td>-7.0%</td>
<td>-7.5%</td>
</tr>
<tr>
<td>Cattle</td>
<td>+10%</td>
<td>+12%</td>
</tr>
<tr>
<td>Hogs</td>
<td>-5%</td>
<td>-6%</td>
</tr>
<tr>
<td>Milk</td>
<td>-8%</td>
<td>-9%</td>
</tr>
</tbody>
</table>

### U.S. Agriculture – Input Costs

- **Index (2019=100)**

<table>
<thead>
<tr>
<th>Category</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed, Fert., Pest.</td>
<td>105%</td>
<td>107%</td>
</tr>
<tr>
<td>Feed</td>
<td>112%</td>
<td>113%</td>
</tr>
<tr>
<td>Labor</td>
<td>105%</td>
<td>106%</td>
</tr>
<tr>
<td>Livestock and Poultry</td>
<td>120%</td>
<td>122%</td>
</tr>
<tr>
<td>Interest (7%)</td>
<td>108%</td>
<td>110%</td>
</tr>
<tr>
<td>Fuel and Electricity</td>
<td>111%</td>
<td>113%</td>
</tr>
<tr>
<td>Repairs and Maint.</td>
<td>103%</td>
<td>104%</td>
</tr>
<tr>
<td>Other (14%)</td>
<td>108%</td>
<td>110%</td>
</tr>
</tbody>
</table>
Corn and soybean prices have declined as recent growth in production has outpaced demand.

U.S. Crop Inventories: Stocks-to-Use Ratio

Index (10-Year Average=100)

*2023 Forecast as of June 9, 2023
Source: USDA
Cattle prices have remained high due to drought-induced herd liquidation of the past few years.

*Cattle Inventories as of January 31, 2023 and Beef Consumption as of May 18, 2023
Source: USDA
Consumer spending and household wealth has remained high, but the pace of growth has softened considerably.

**Consumer Spending & Home Prices**

Percent change relative to January 2020

- **Median Home Price**
- **Consumer Spending**

Sources: Affinity, tracktherecovery.org, Zillow, Haver Analytics.
Strength in the labor market has supported consumer spending, and wage gains have remained elevated.
Looking ahead, the pace of economic activity will be affected by the path of inflation and interest rates.
Concluding Thoughts

• Profit margins in agriculture are likely to be thinner in the months ahead as the strength in commodity prices fades and costs are still elevated.

• Overall, financial stress in ag is likely to remain limited, but some industries face significant pressure.

• Labor markets appear likely to remain strong and provide support for household spending, but interest rates and inflation will be ongoing challenges.