

Outlook for the U.S. and U.S. Agriculture

August 2025

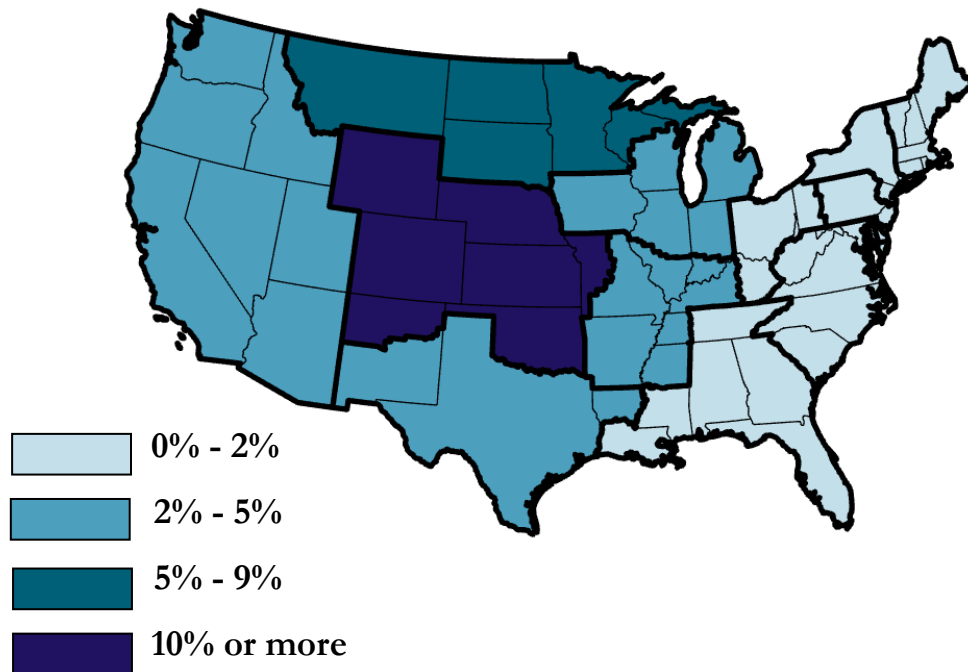
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Economist

The views herein are of the presenter and do not necessarily reflect those of the Federal Reserve Bank of Kansas City and the Federal Reserve System

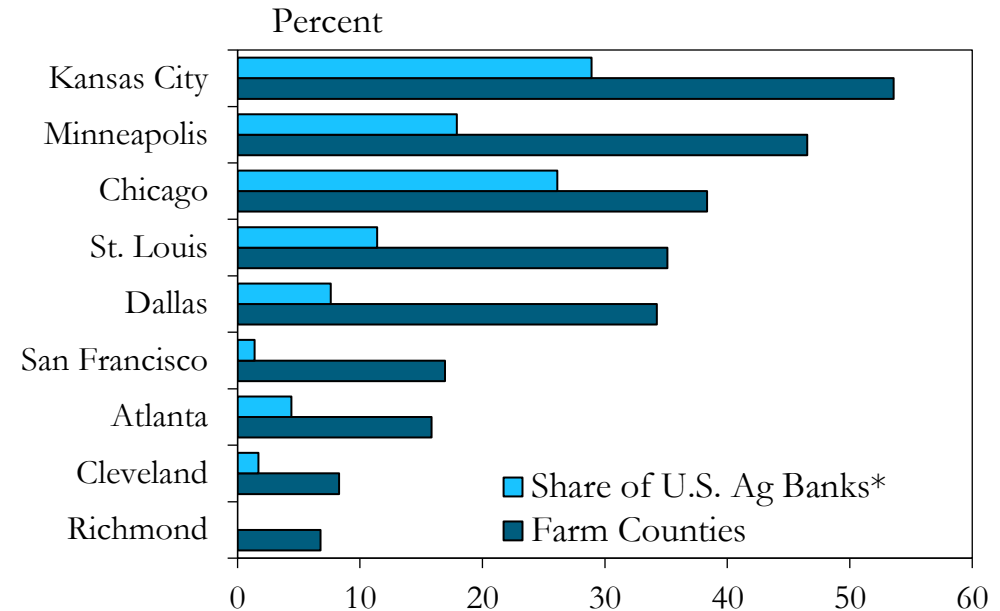


The Federal Reserve regularly incorporates agricultural perspectives in policy deliberations.

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



Agricultural Banks and Farm Dependent Counties



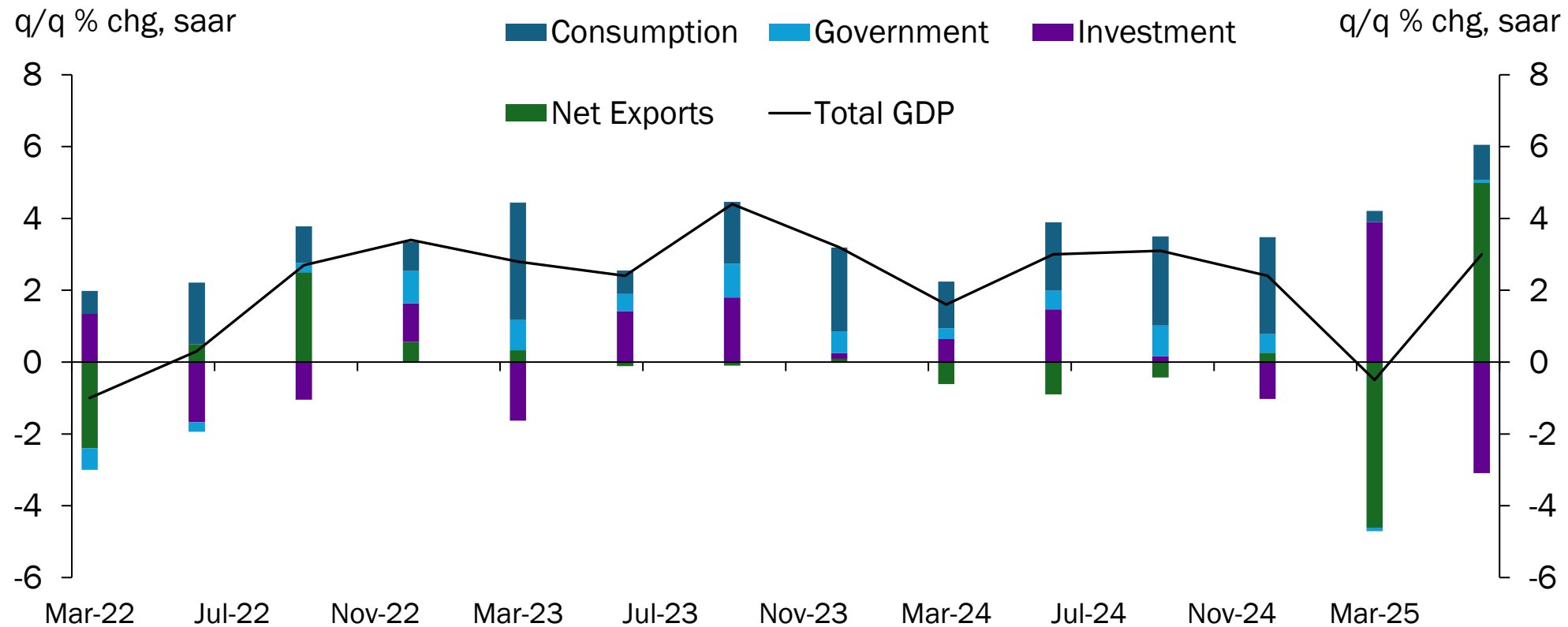
Note: Farm income is shown as a share of total personal income, averaged across all counties in each respective Fed District.

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

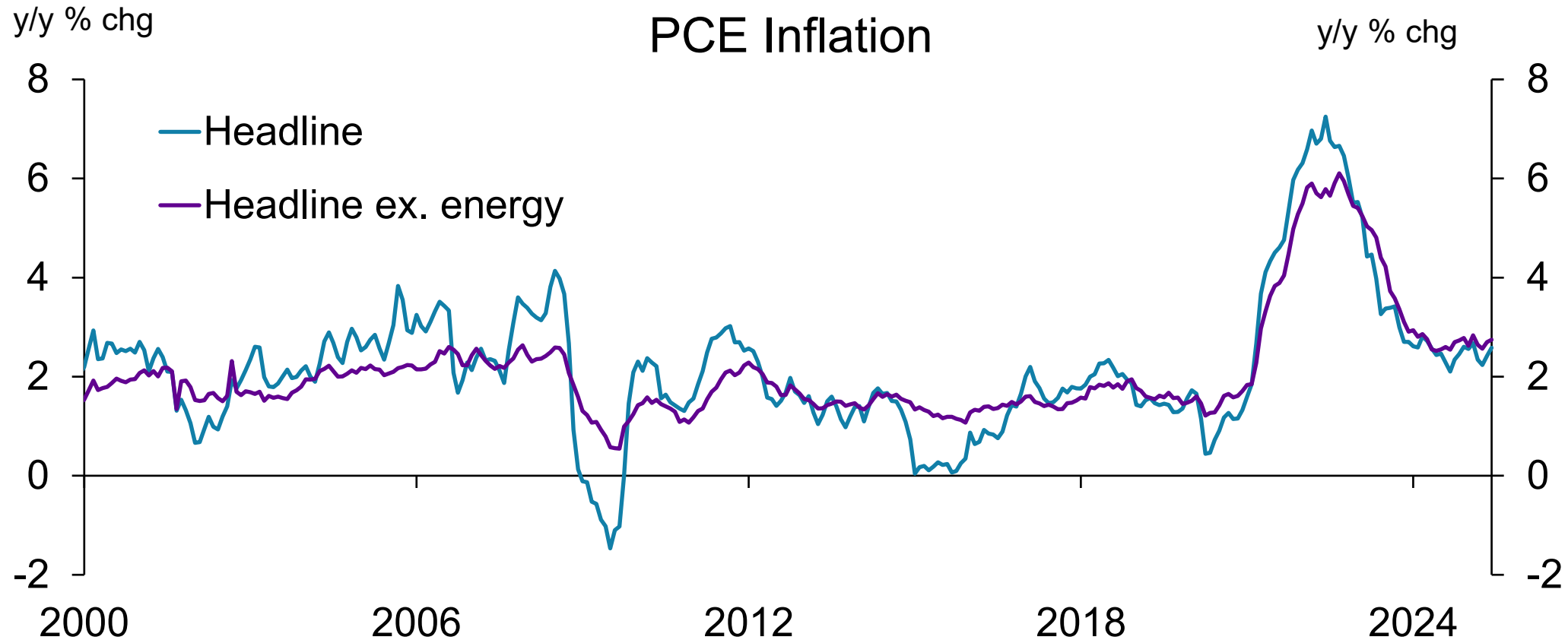
Themes

- U.S. economic growth remains strong, employment is close to sustainable levels, and inflation close to target despite mixed data and uncertain outlook.
- The U.S. ag economy remains bifurcated with weak conditions for crop producers and strong outlook for livestock producers, particularly cattle.
- Farm finances have moderated but credit stress remains contained.
- Absent any downward corrections in supplies, U.S. crop producers will have to find new sources of demand in the coming years.

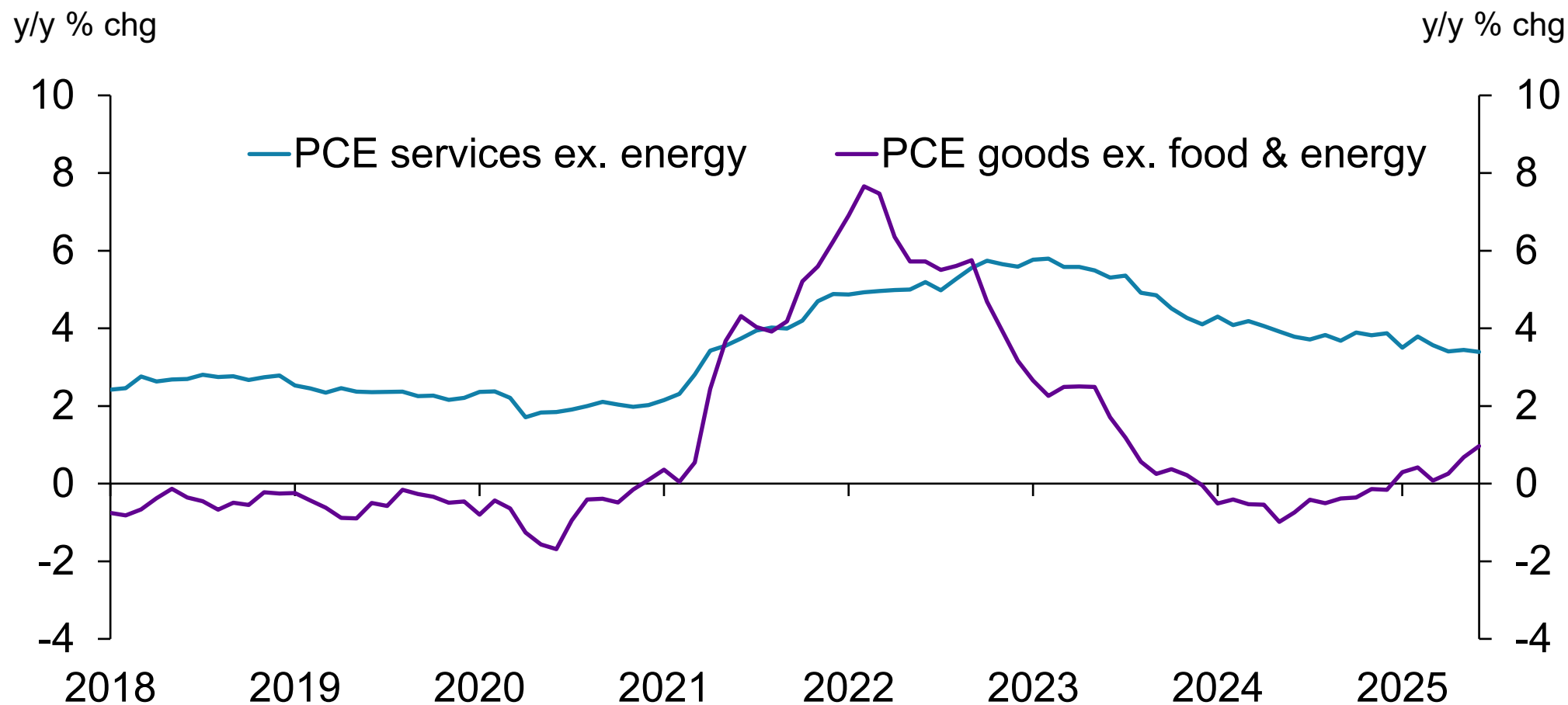
U.S. economic growth remains strong.



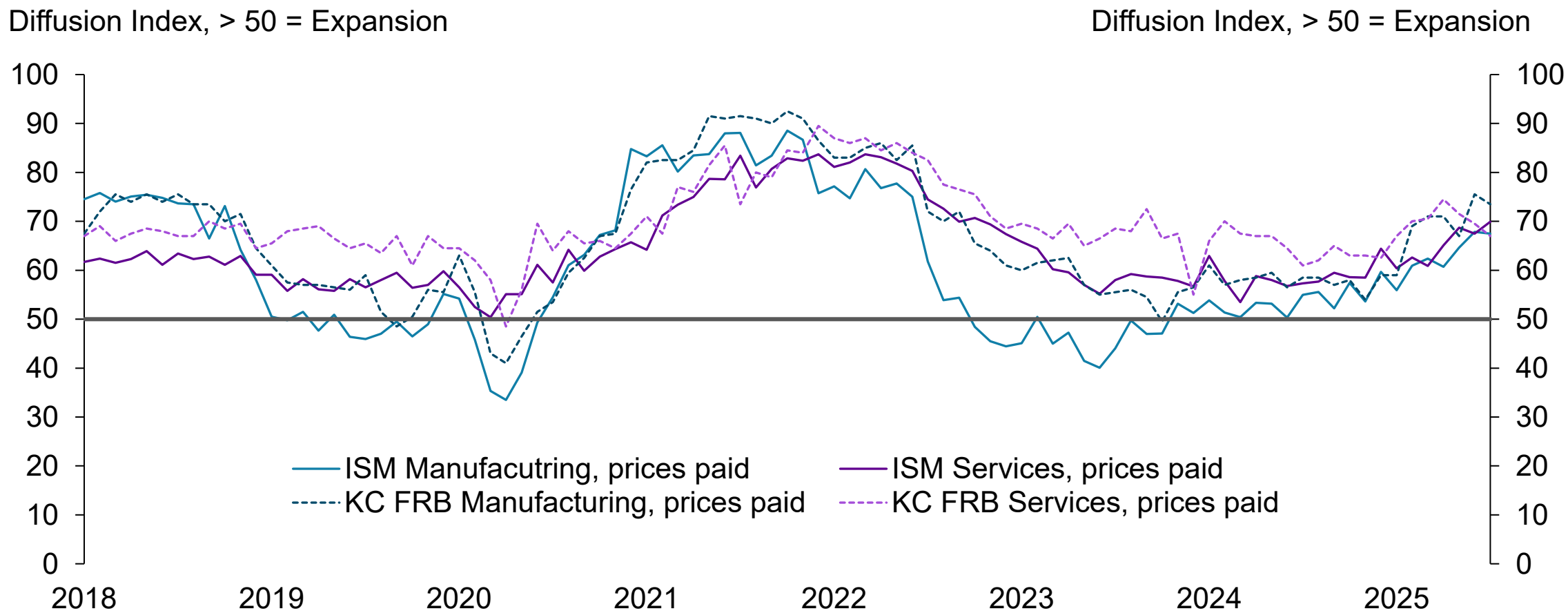
Inflation has moderated but remains above the Fed's 2 percent target.



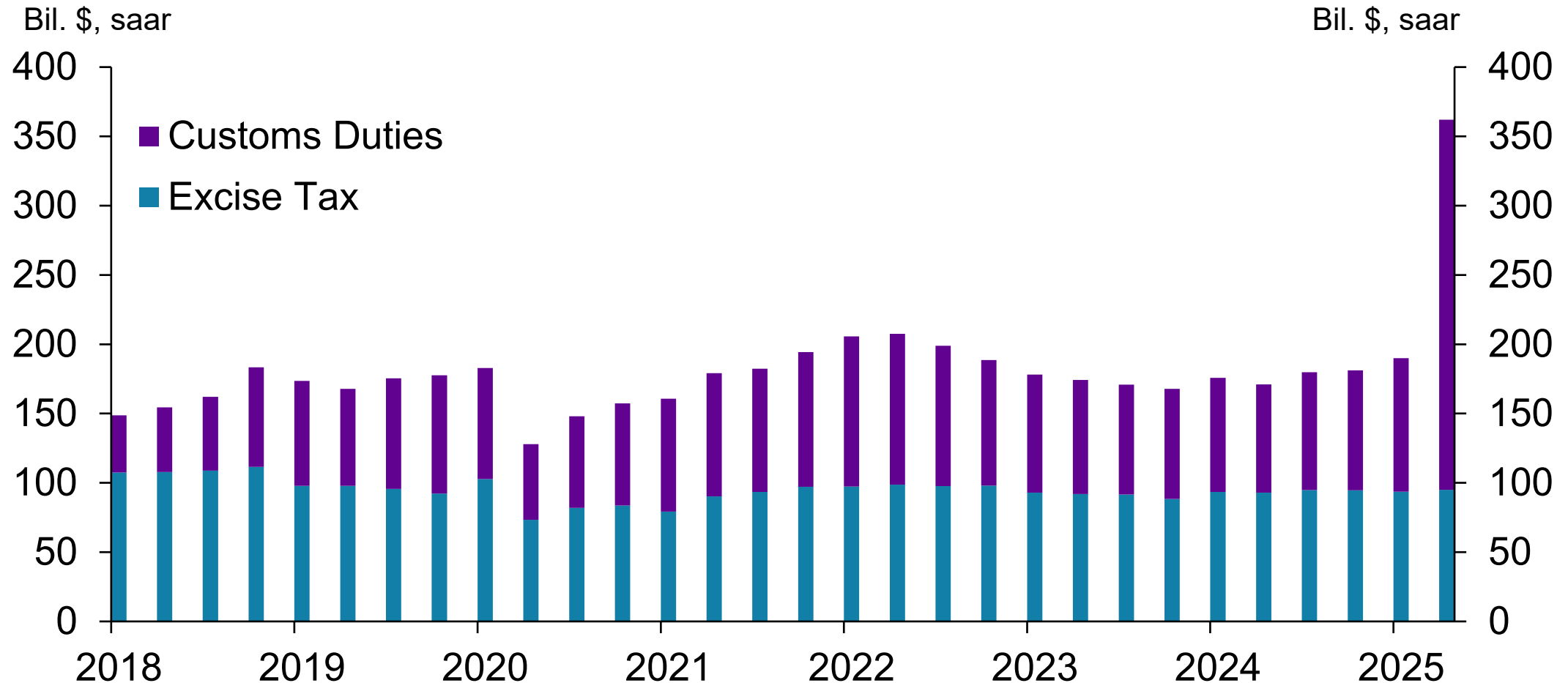
Goods inflation increased slightly while services inflation continued to moderate.



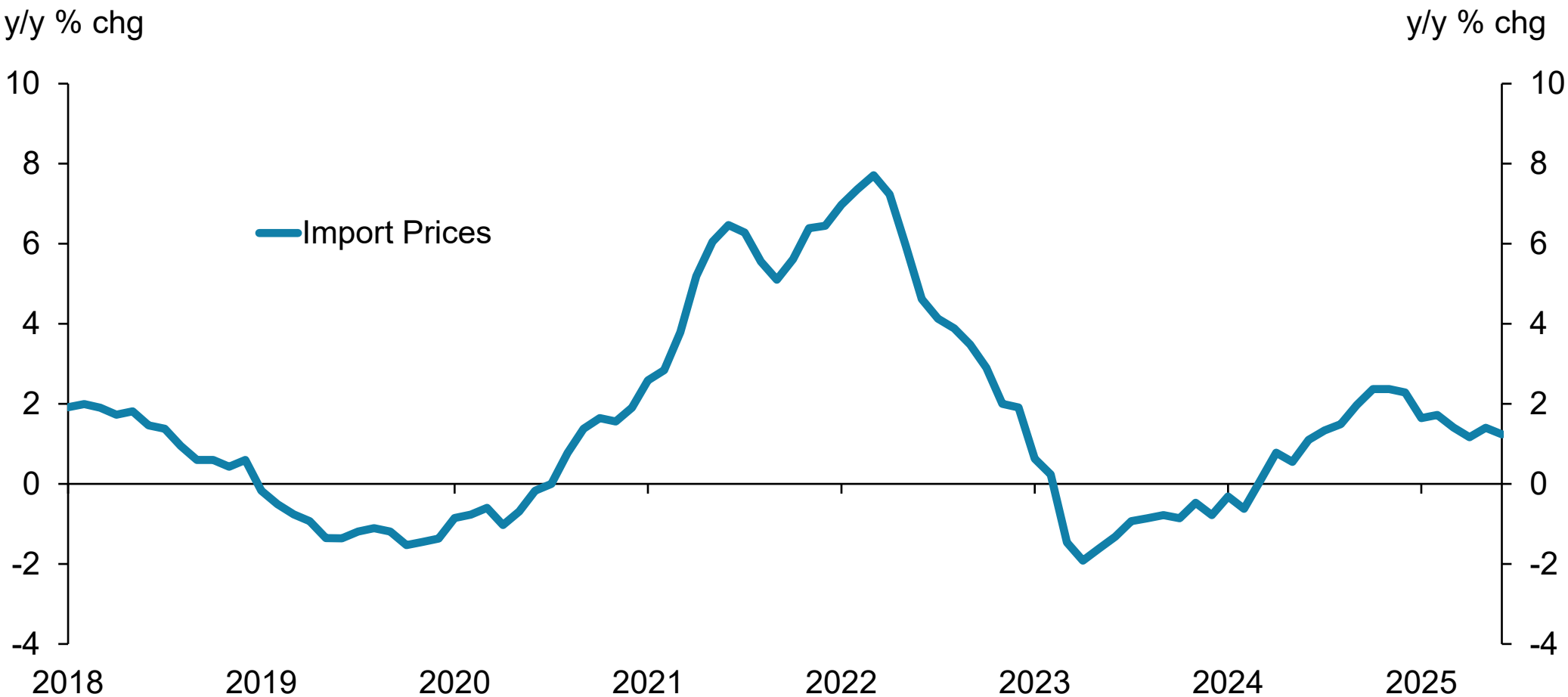
U.S. businesses have reported increases in prices paid for inputs in 2025.



The costs of tariffs are being realized.

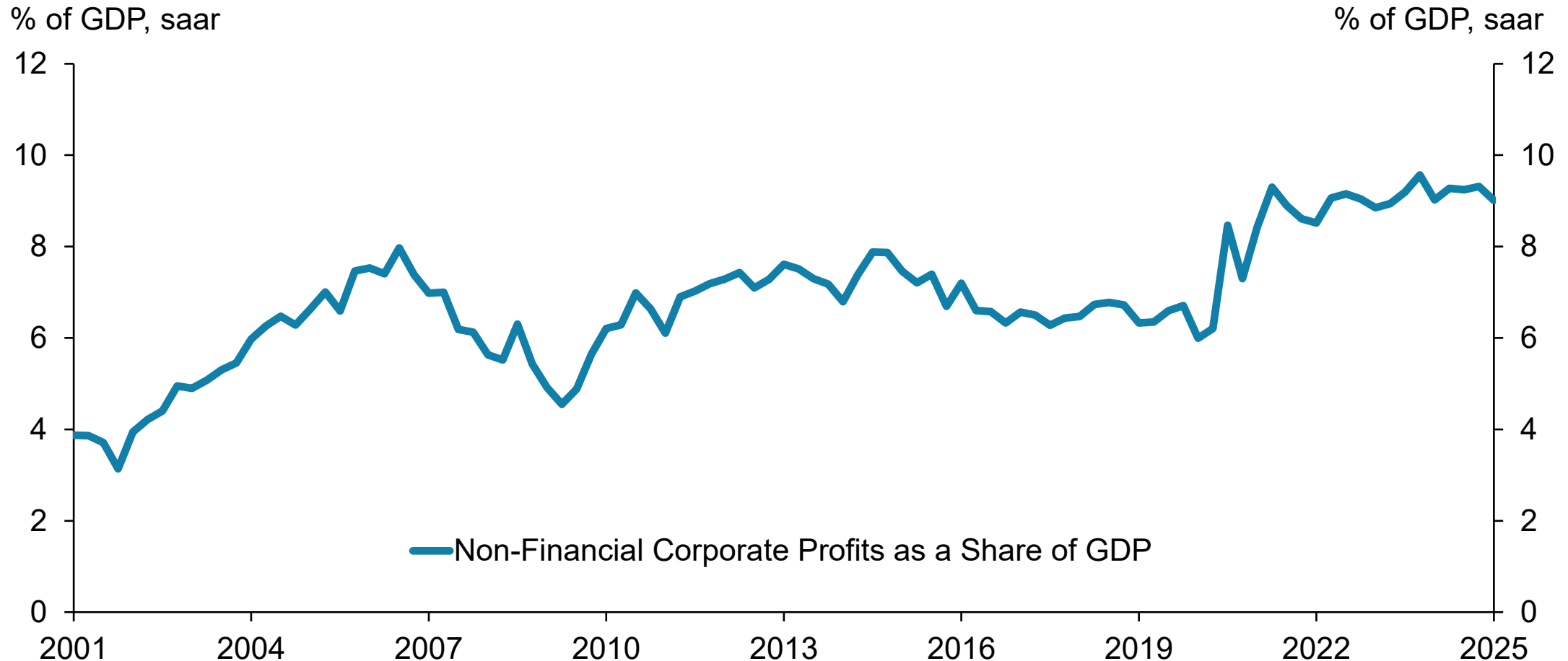


Import prices remained firm.

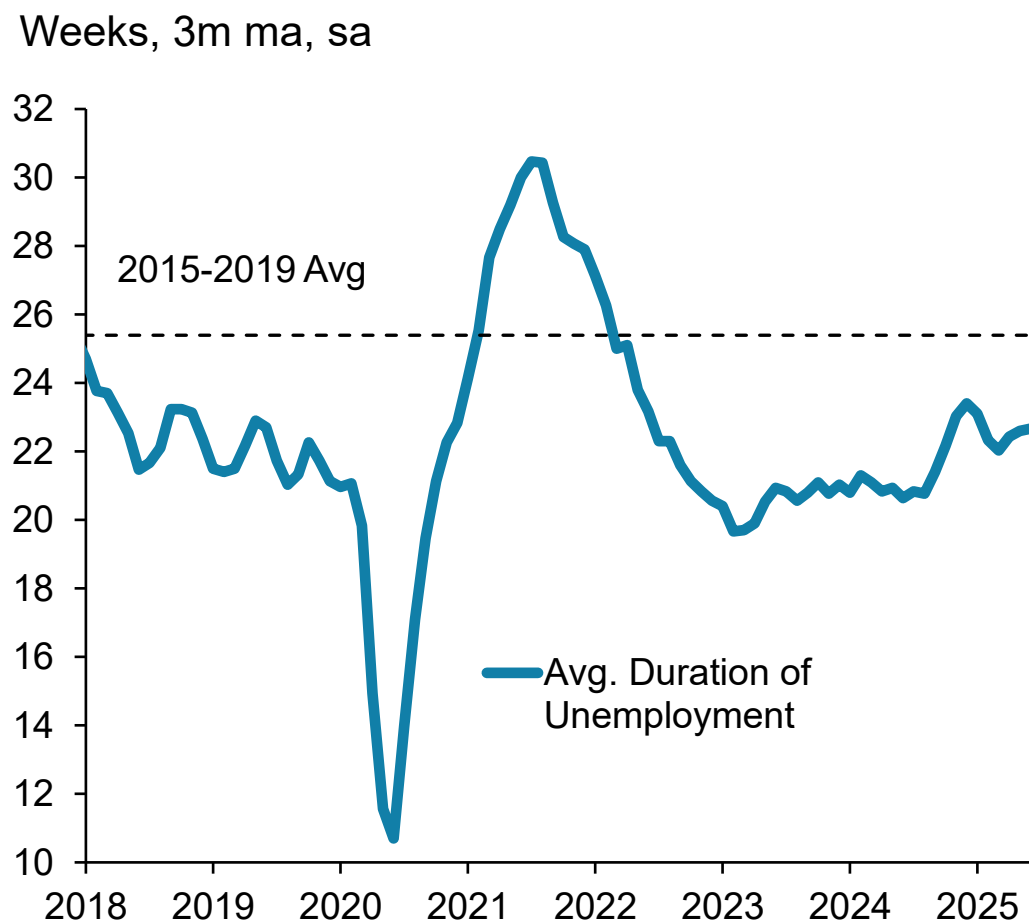
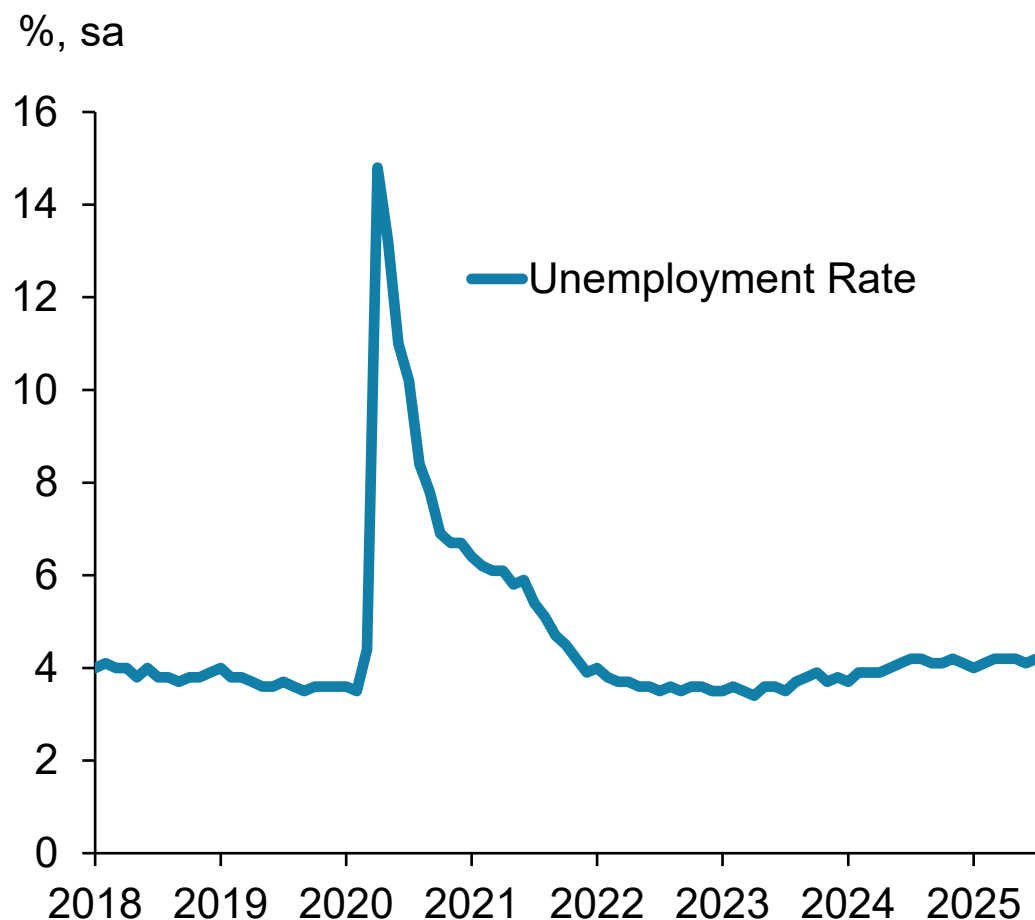


Sources: BLS, Haver Analytics

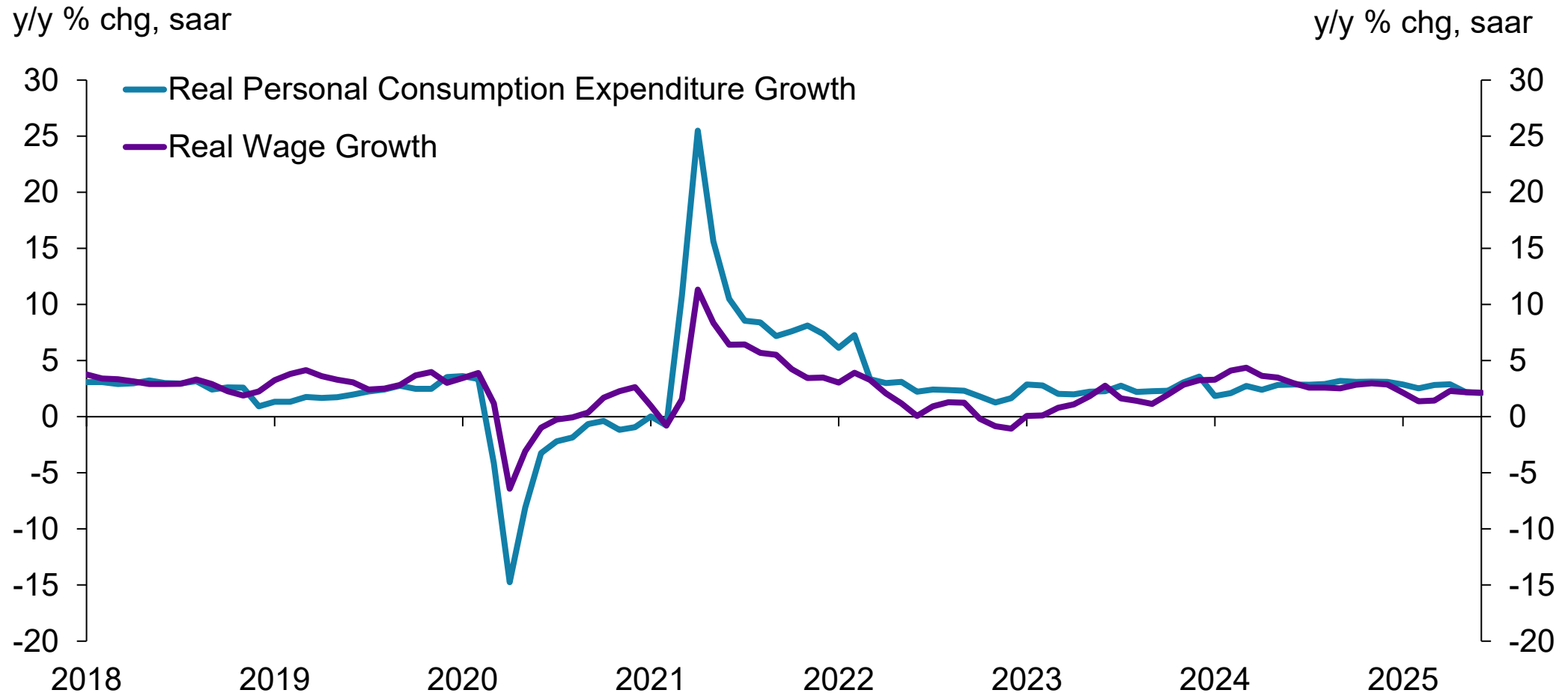
Elevated profit margins likely have offered a cushion to absorb tariff costs.



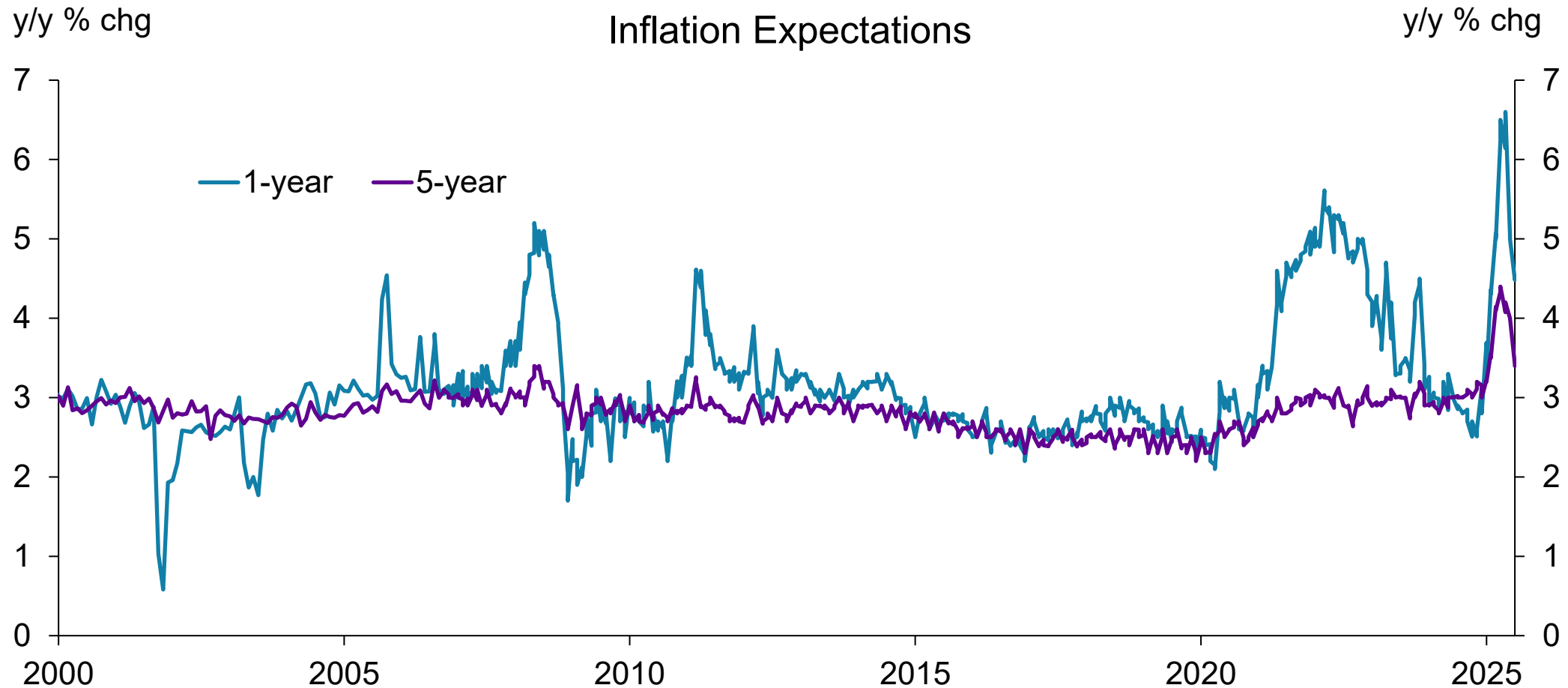
Unemployment rate is likely close to sustainable long-term levels, but pace of hiring has moderated.



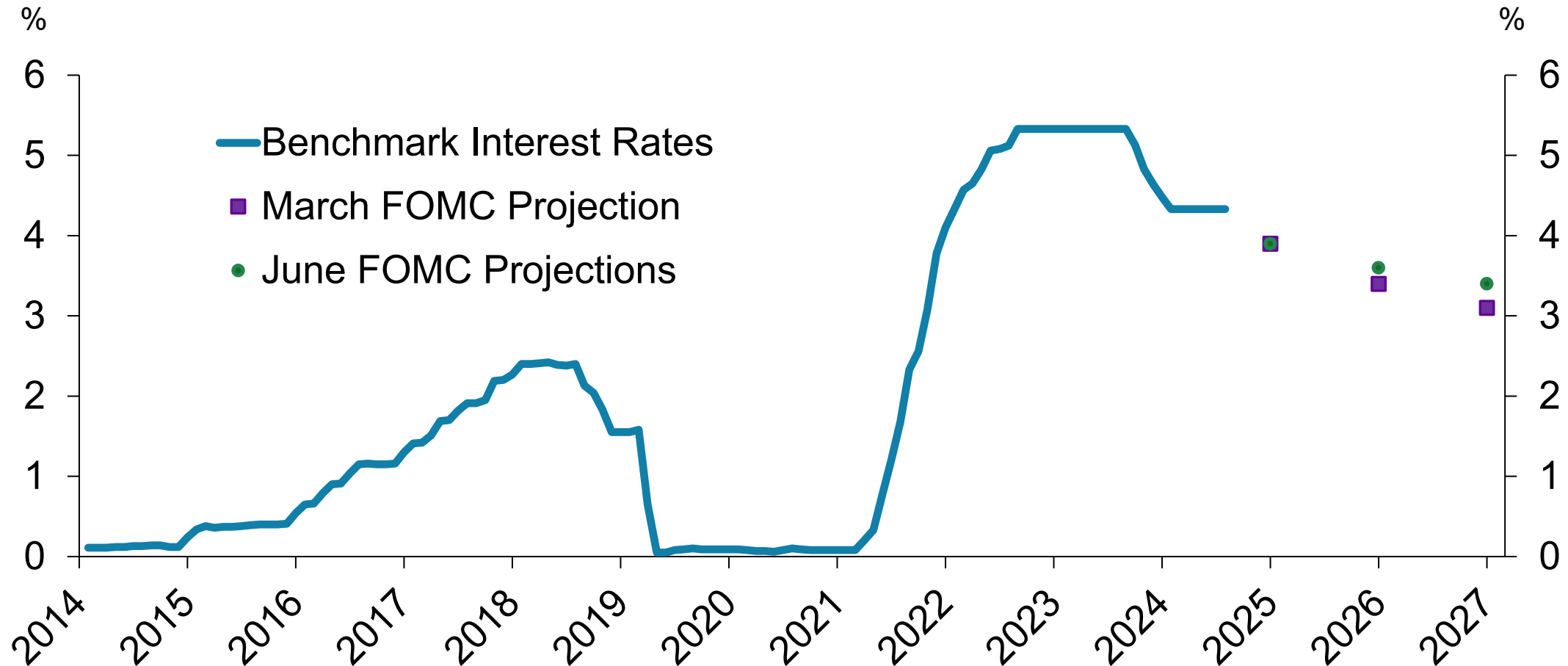
Consumption growth has softened.



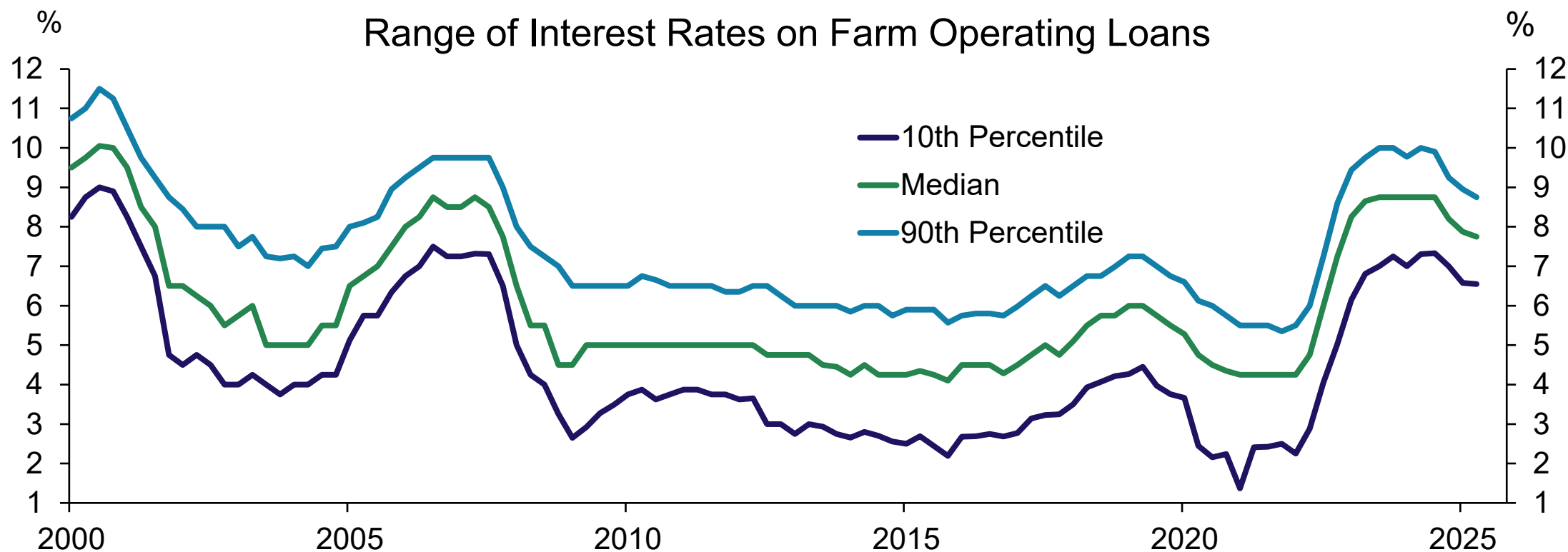
Inflation expectations have moderated from the first quarter of 2025.



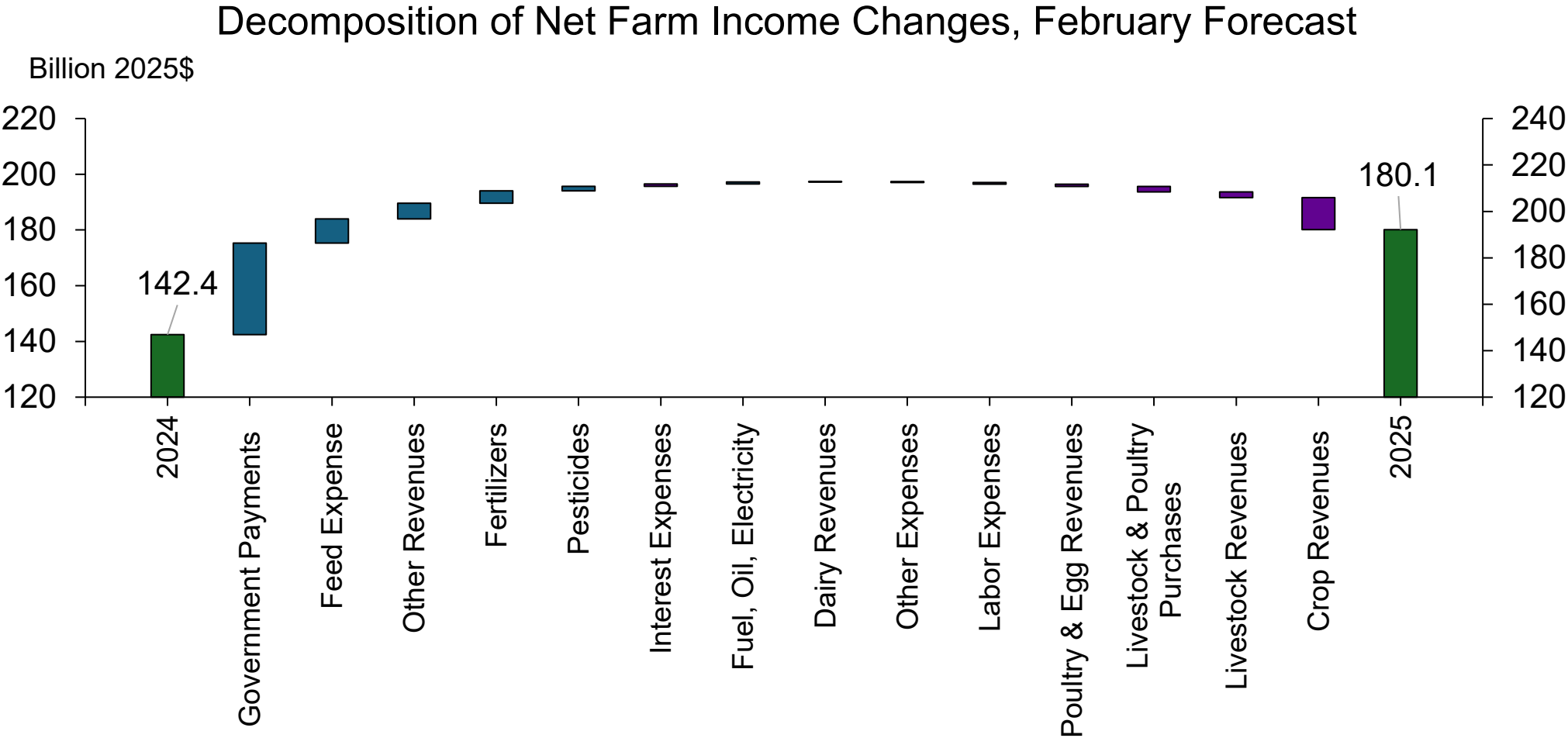
Summary of economic projections.



Interest rates on farm loans ticked down but remain elevated.

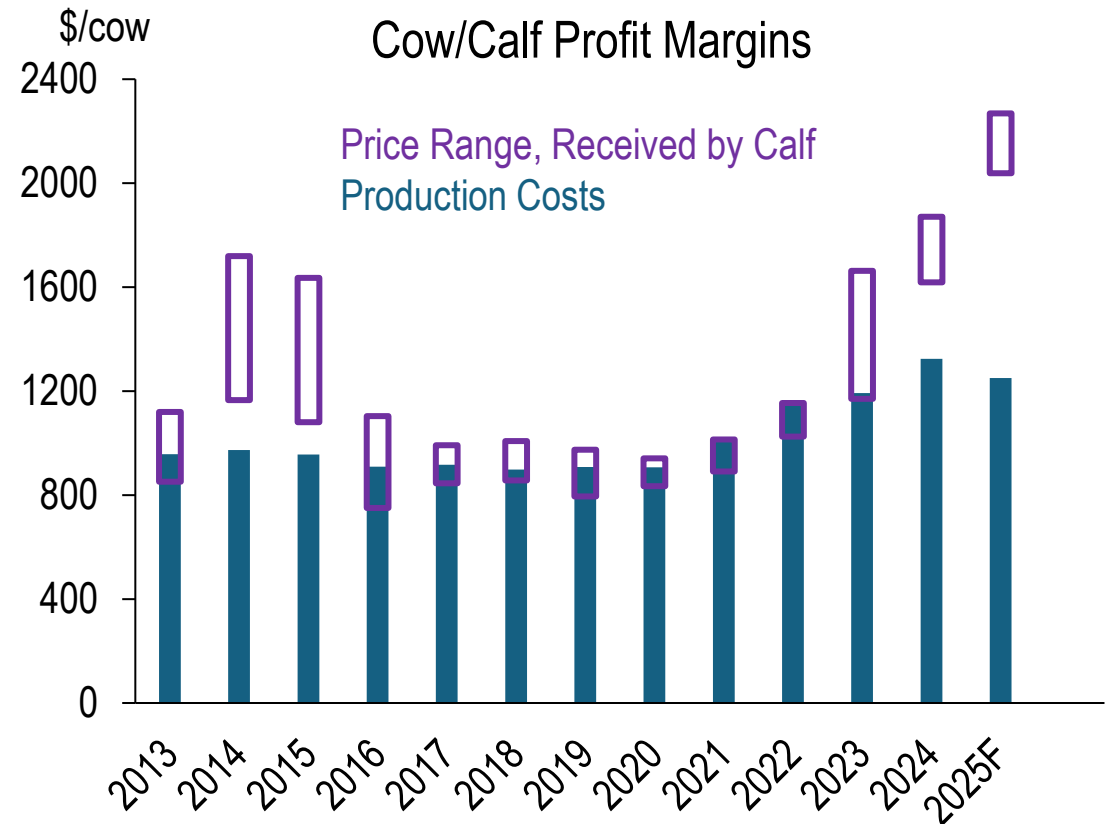
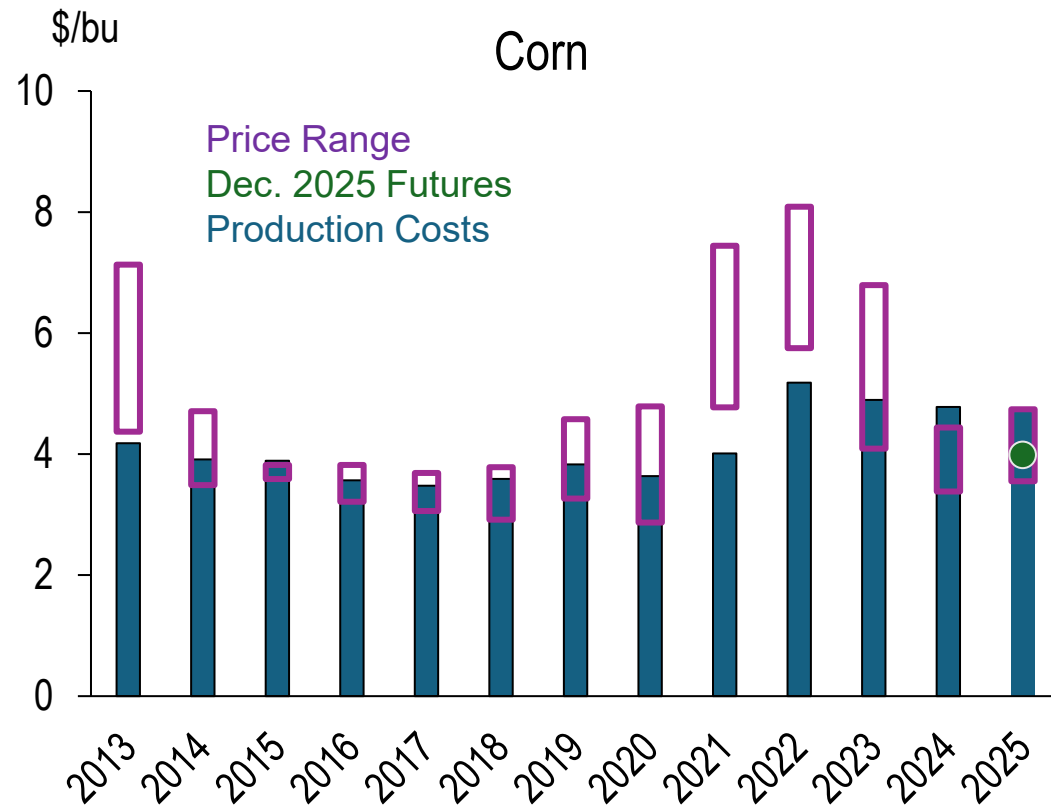


Government transfers will likely be the biggest contributor to the increase in net farm income in 2025.

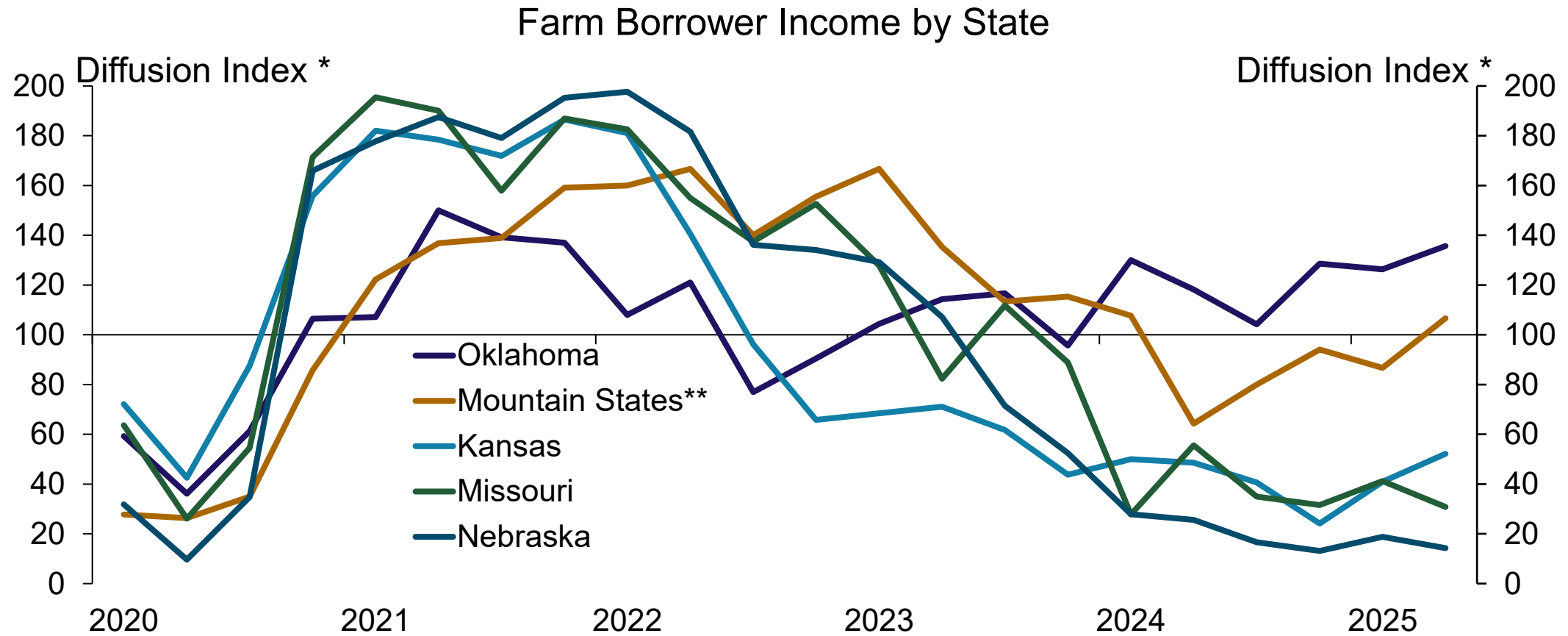


Sources: USDA and author's calculations

The farm economy remains bifurcated.

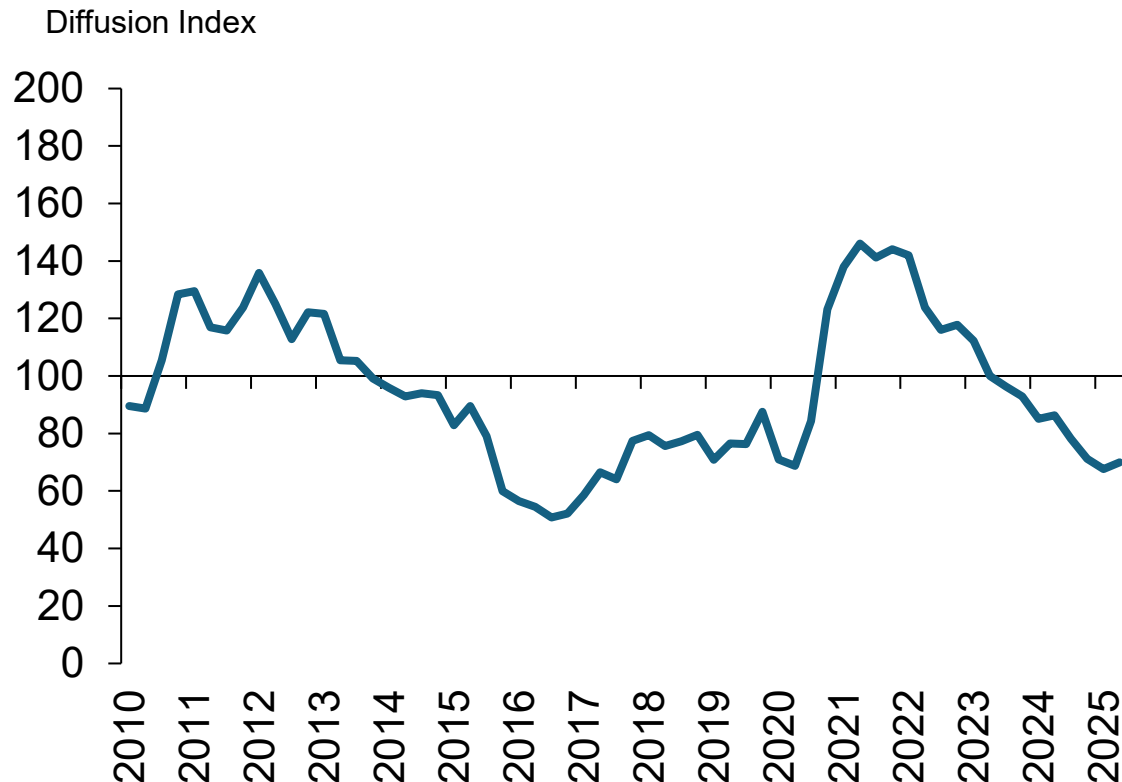


Crop-producing states will likely be more challenged in the coming years.

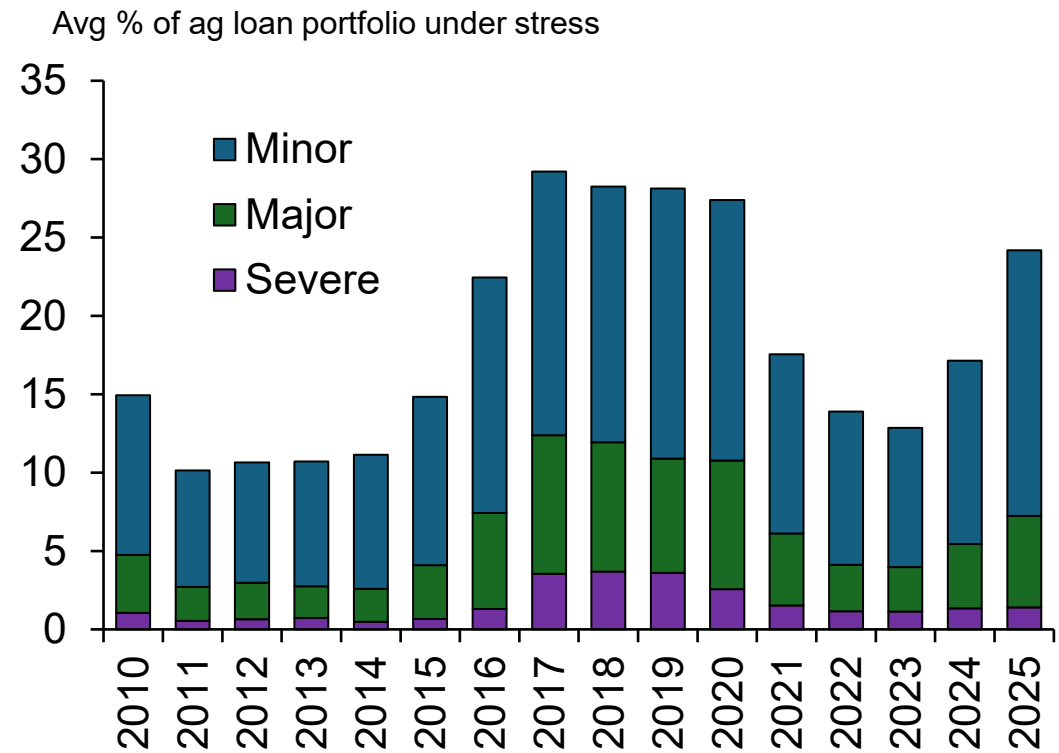


Despite softening in the loan repayment rate, ag loan portfolio stress remains contained for ag banks.

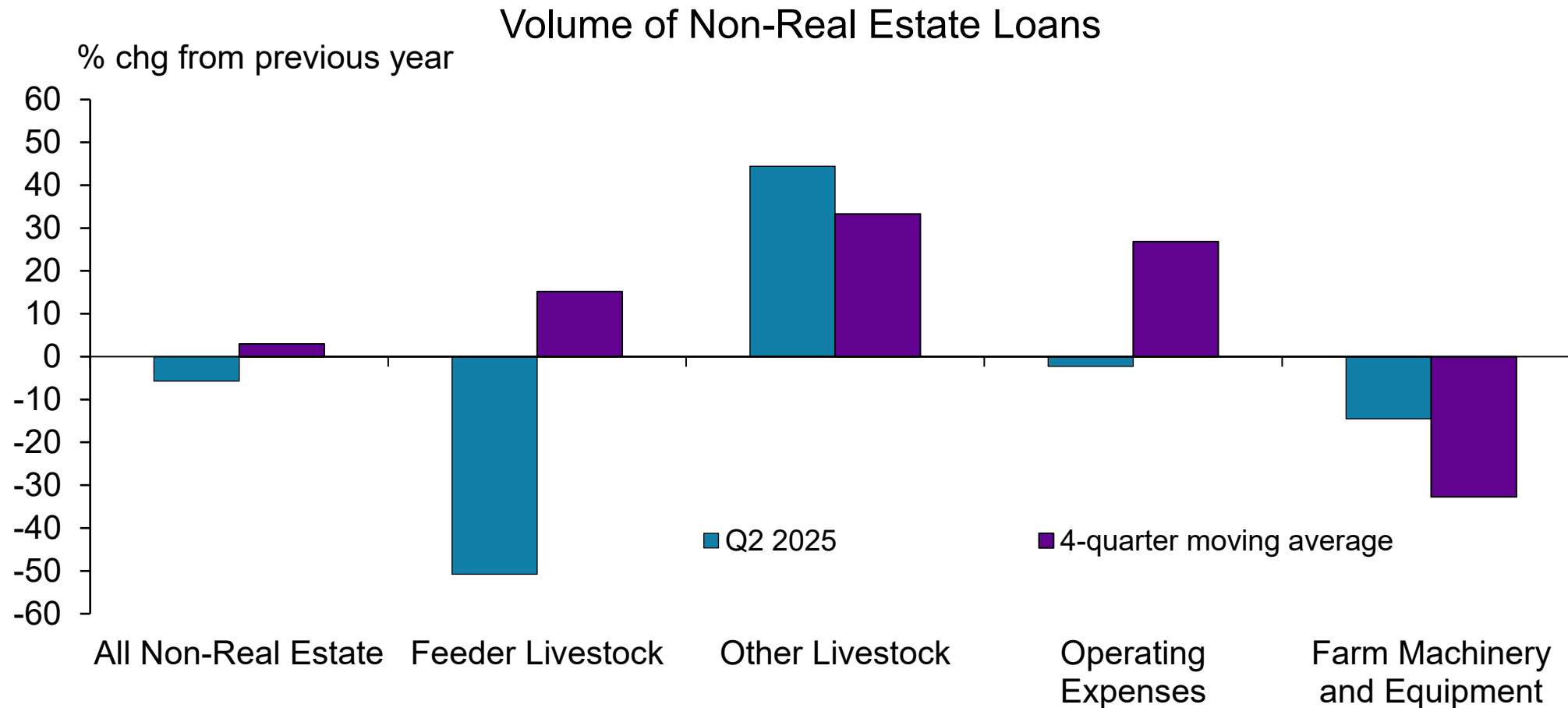
Loan Repayment Rates in the KC Fed Region



Degree of Farm Loan Repayment Problem in the KC Fed Region

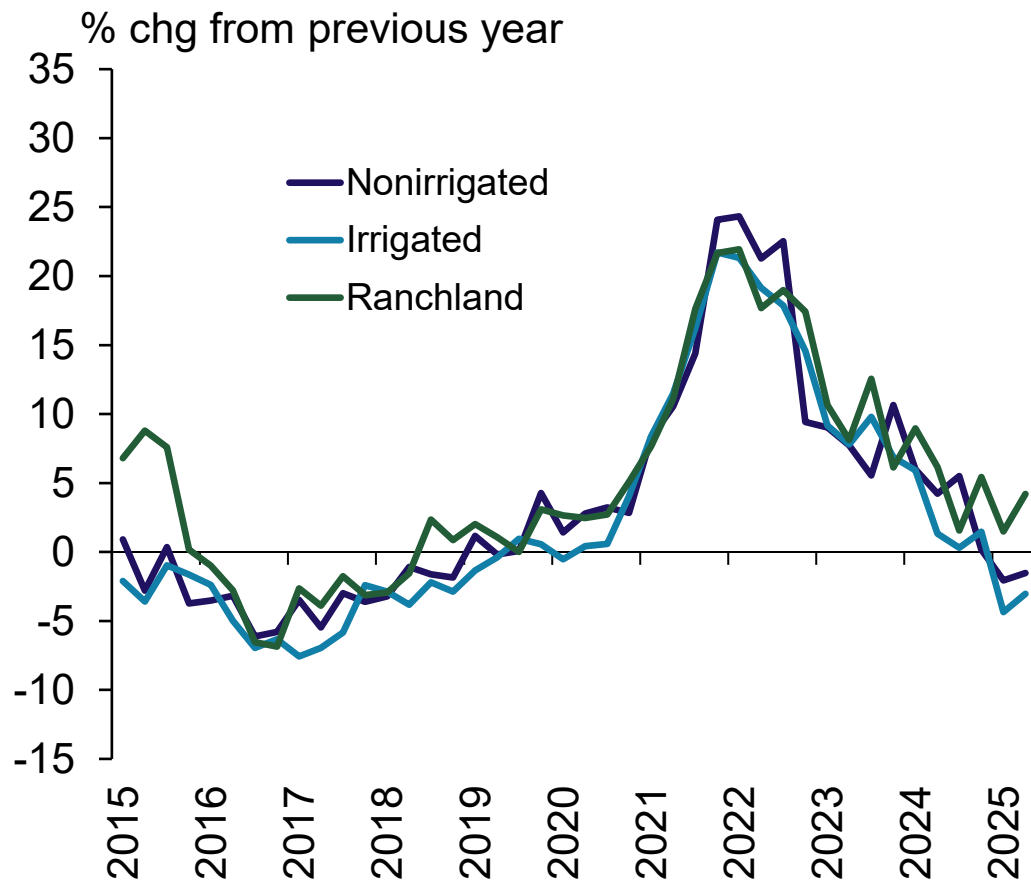


Farm machinery and equipment loan volume has declined from a year ago in commercial banks.



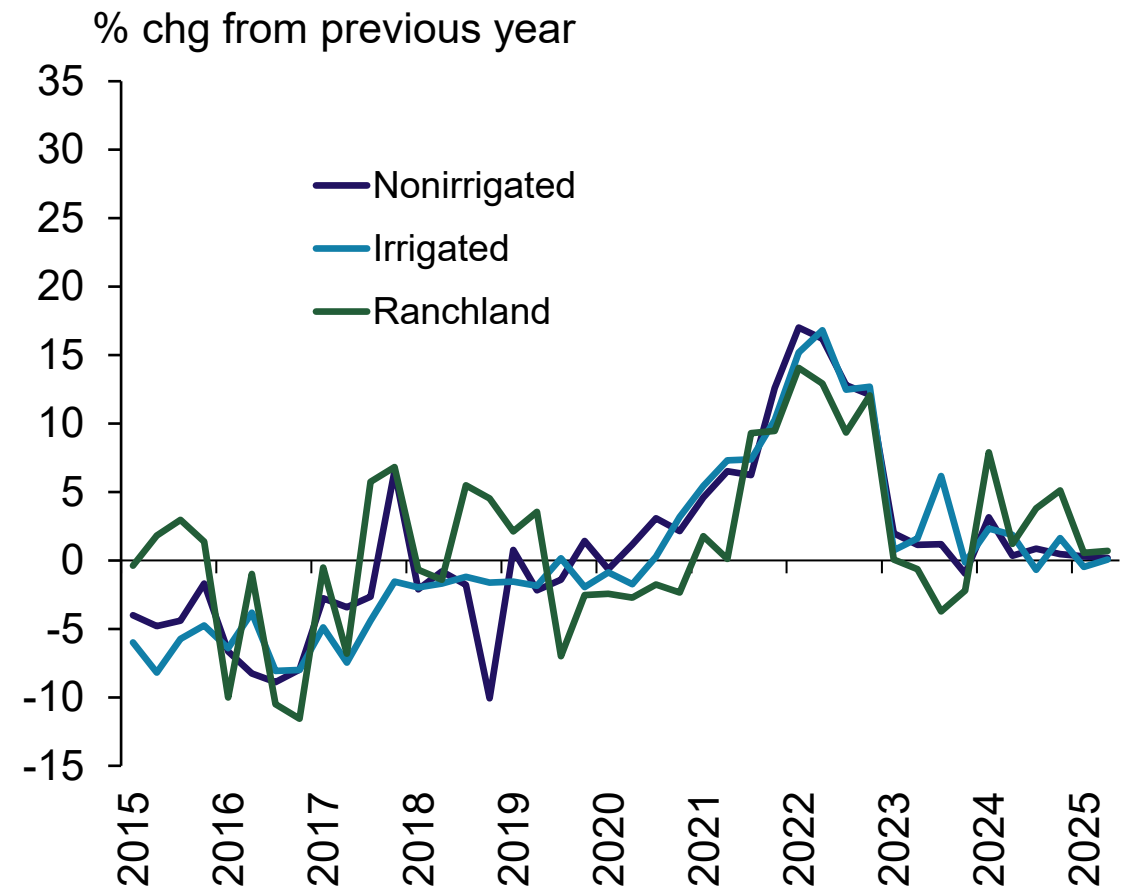
Farmland prices and cash rents remained mostly stable from one year ago.

KC Fed Region Farmland Values

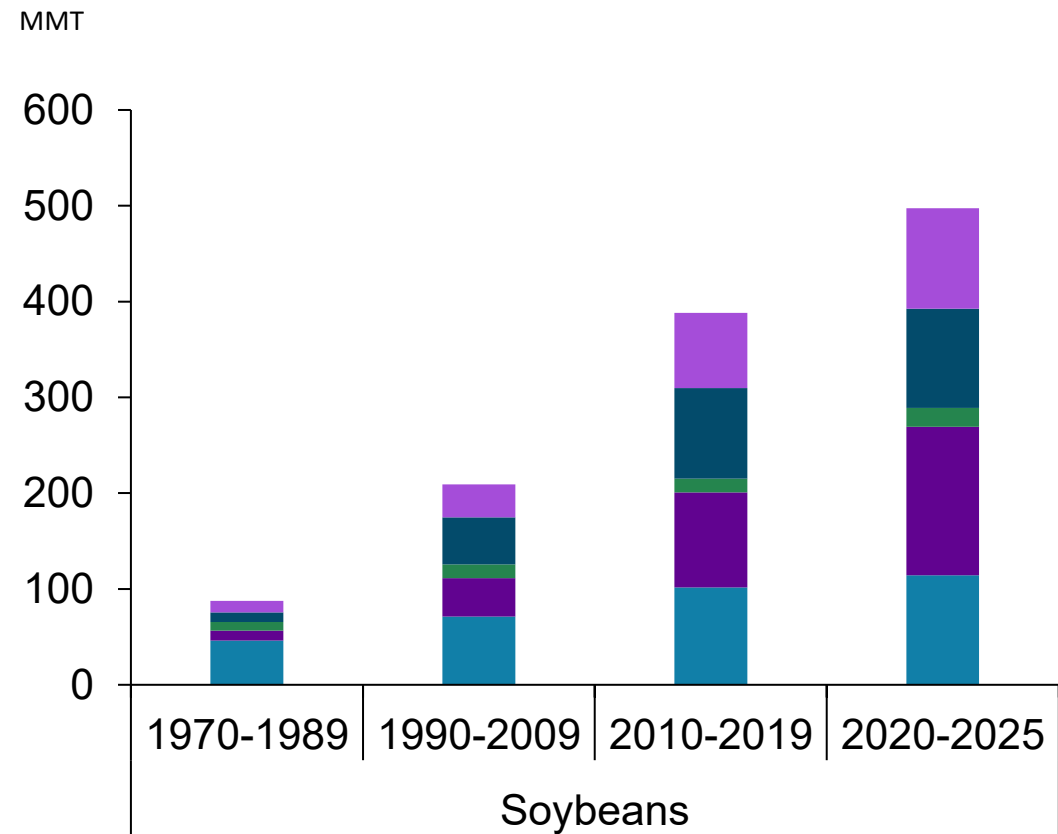
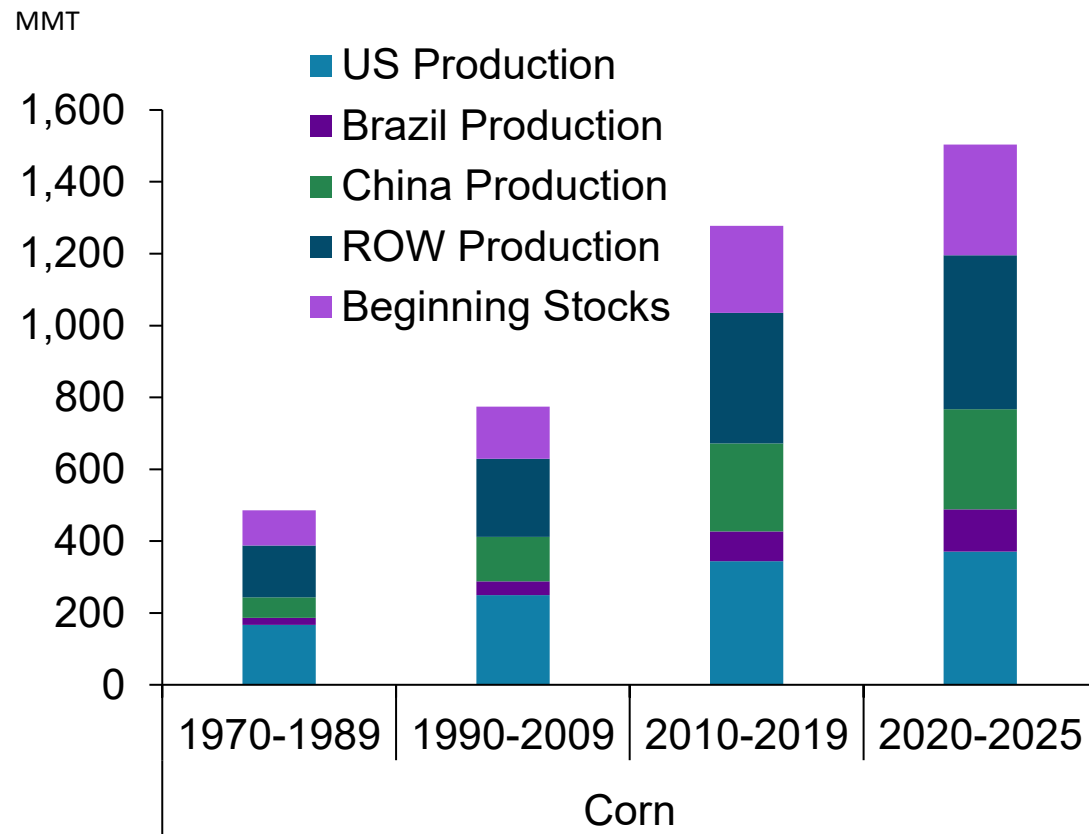


Sources: KC Fed Surveys

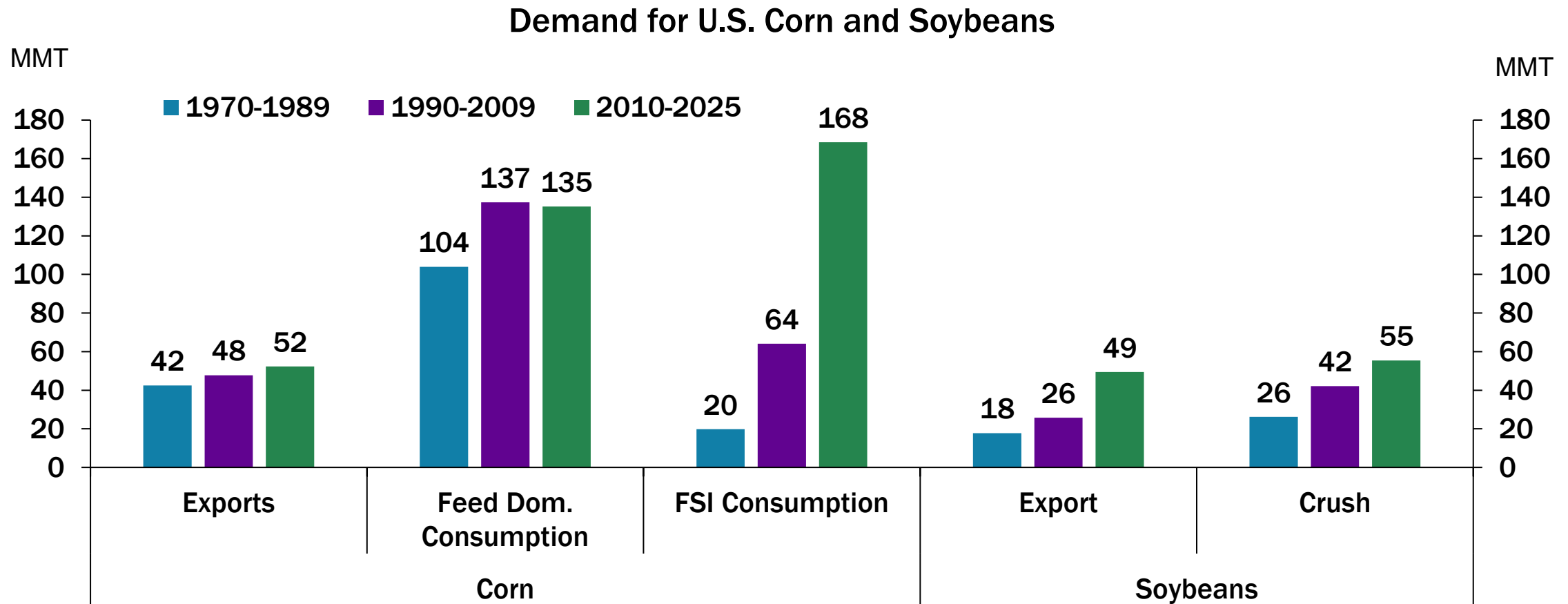
KC Fed Region Cash Rents



Supplies of crops have increased over the years.



U.S. exports and biofuel demand have absorbed part of the increase in supplies.



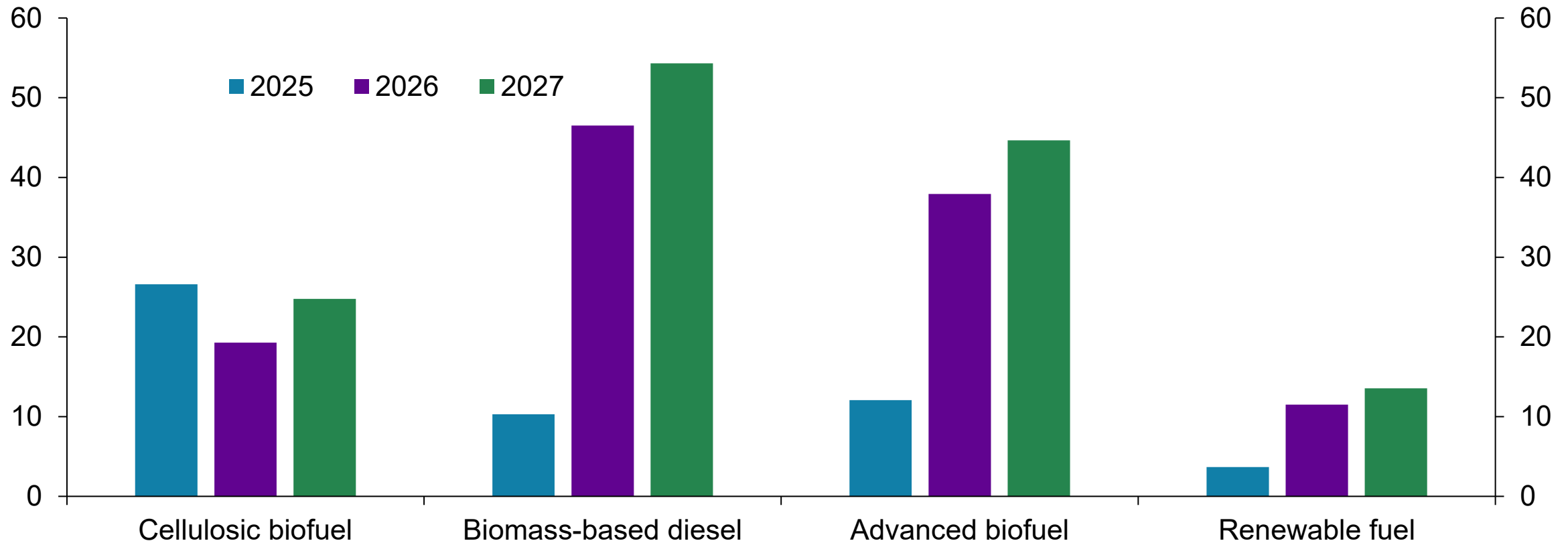
It is unlikely that exports increases will further absorb U.S. products in the coming years.

Corn				
Importer	Total Imports (MMT)		U.S. Share	
	2005	2023	2005	2023
China	0.10	26.25	57%	27%
Mexico	5.74	18.50	100%	95%
Japan	16.66	14.88	94%	45%
ROW	46.75	55.60	45%	22%
Soybeans				
Importer	Total Imports (MMT)		U.S. Share	
	2005	2023	2005	2023
China	26.62	103.40	41%	26%
E.U.	15.94	15.30	20%	37%
ROW	23.62	38.72	56%	31%

Biofuel policies will have to drive demand expansion in the absence of supply correction.

% chg from 2024 mandates

% chg from 2024 mandates



Conclusion

- The U.S. economy's growth has been robust.
- However, there are upside risks to inflation and downside risks to labor markets.
- The U.S. farm sector is under pressure, but credit stress has remained minimal at commercial banks.
- Absent supply corrections, demand from biofuel policies will become increasingly central for U.S. crop production.

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