

U.S. Agricultural Economic Update

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August 8, 2024

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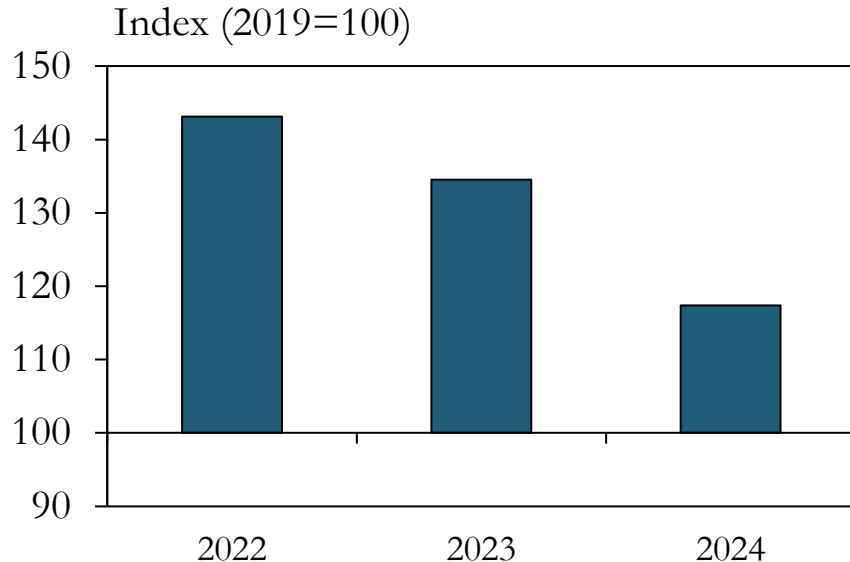
Outlook Themes

- Economic conditions in agriculture have weakened in recent months alongside an ongoing decline in commodity prices.
- Financial pressure in agriculture has been limited, but could intensify in the year ahead.
- The resilience of the U.S. economy has provided broad support for agriculture, and other goods-based industries.

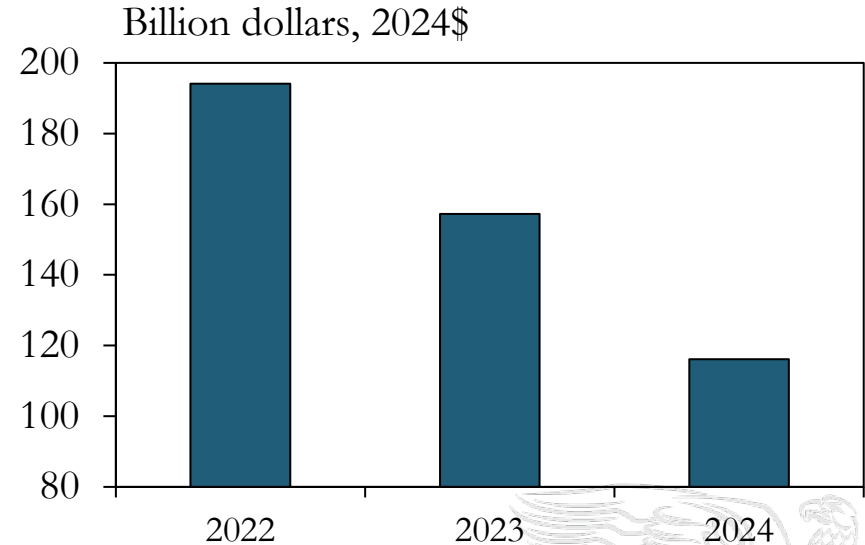


Compared with the past two years, crop prices and farm income have dropped sharply.

Crop Prices

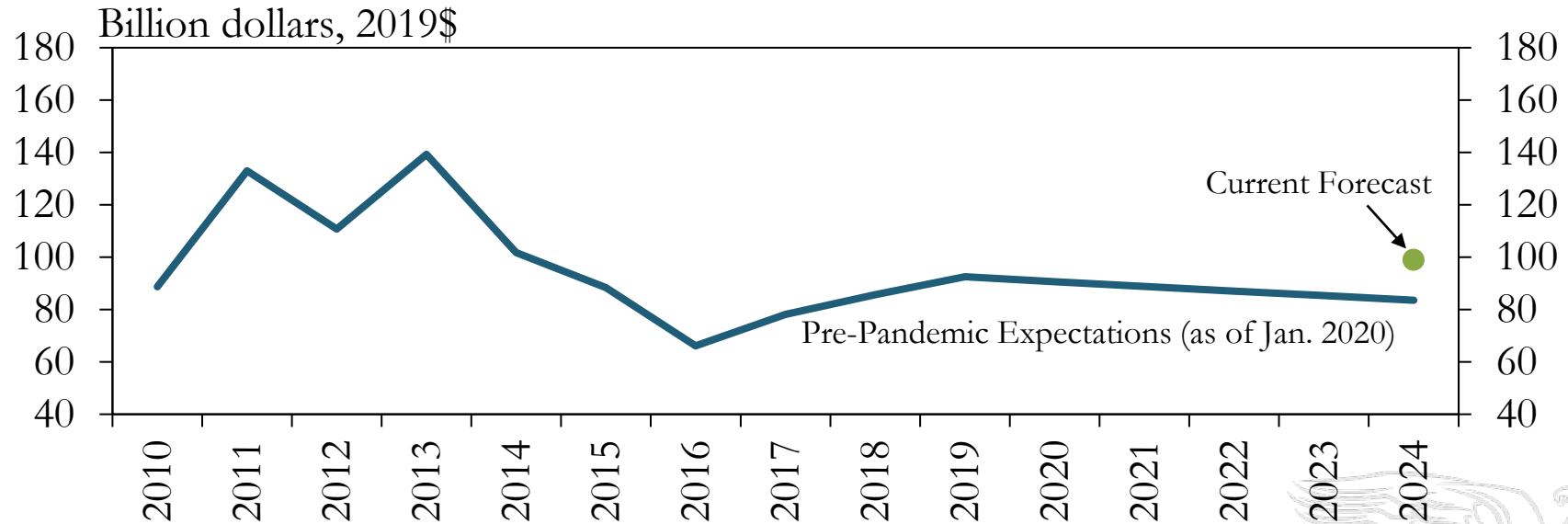


Real Net Farm Income



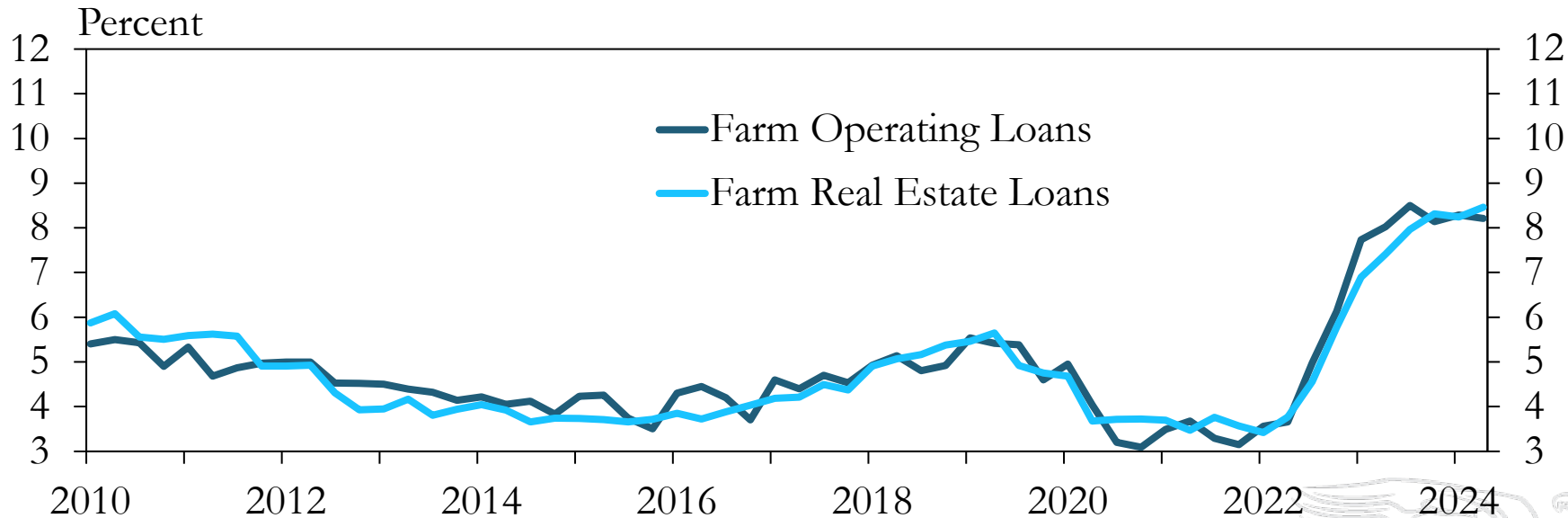
Moreover, farm income this year is expected to be only slightly higher than what was expected before the pandemic.

Real Net Farm Income



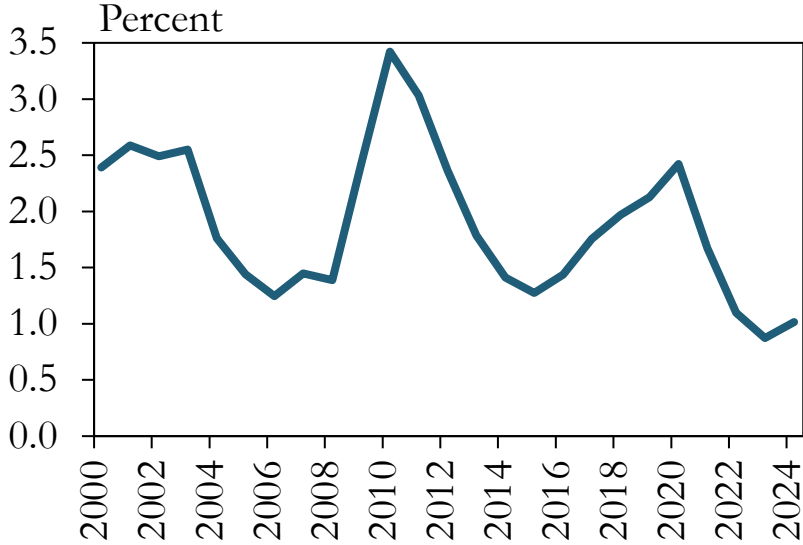
Interest rates have increased sharply over the past two years, potentially exacerbating financial challenges.

Average Interest Rates on Agricultural Loans

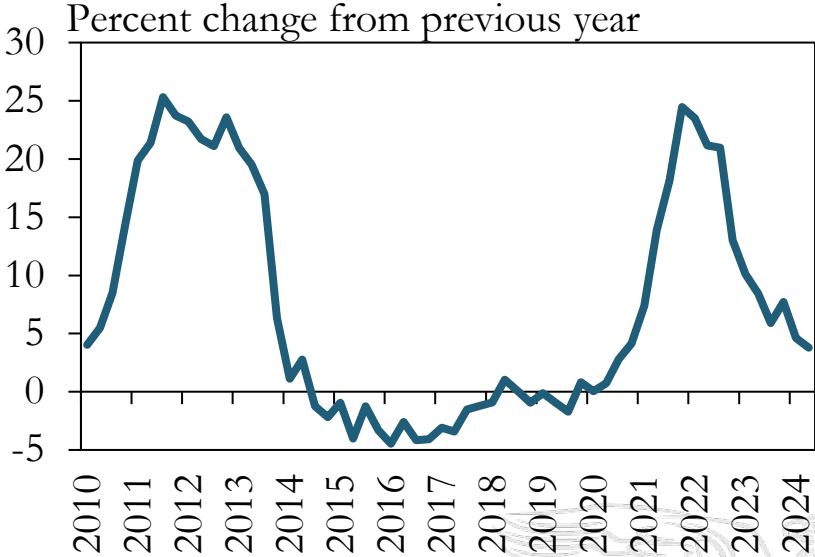


And yet, delinquency rates on farm loans remain near all time lows, and farm real estate values have been firm.

Farm Loan Delinquency Rates at Commercial Banks, Q2



Farm Real Estate Values



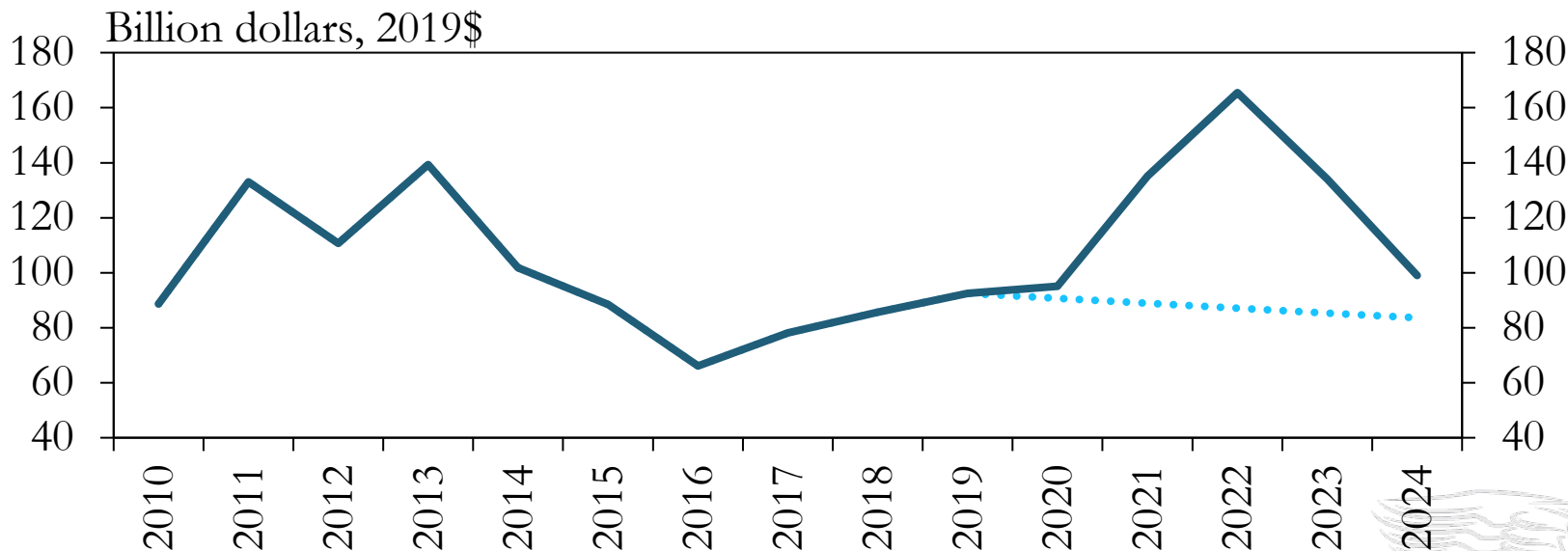
Note: The right chart is the average of the Chicago, Kansas City and Minneapolis Federal Reserve Districts. Q2 results for both charts are preliminary.

Sources: Reports of Income and Conditions and Federal Reserve Surveys of Ag Credit Conditions



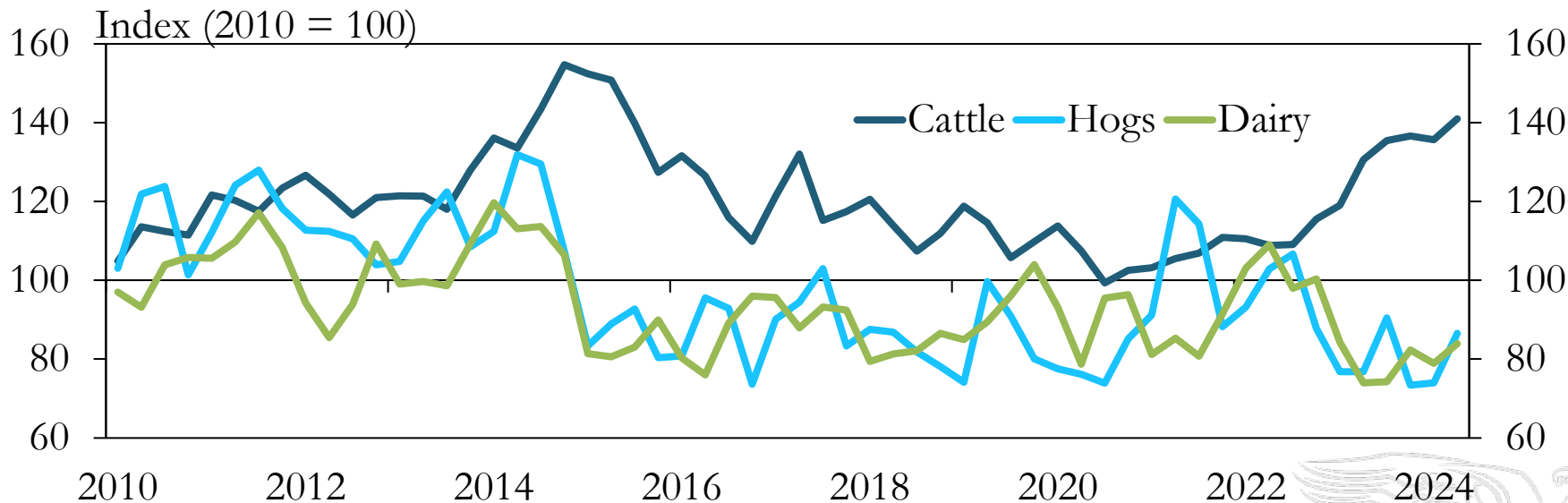
Farm income has dropped sharply, but the strength of the post-pandemic years was remarkable.

Real Net Farm Income



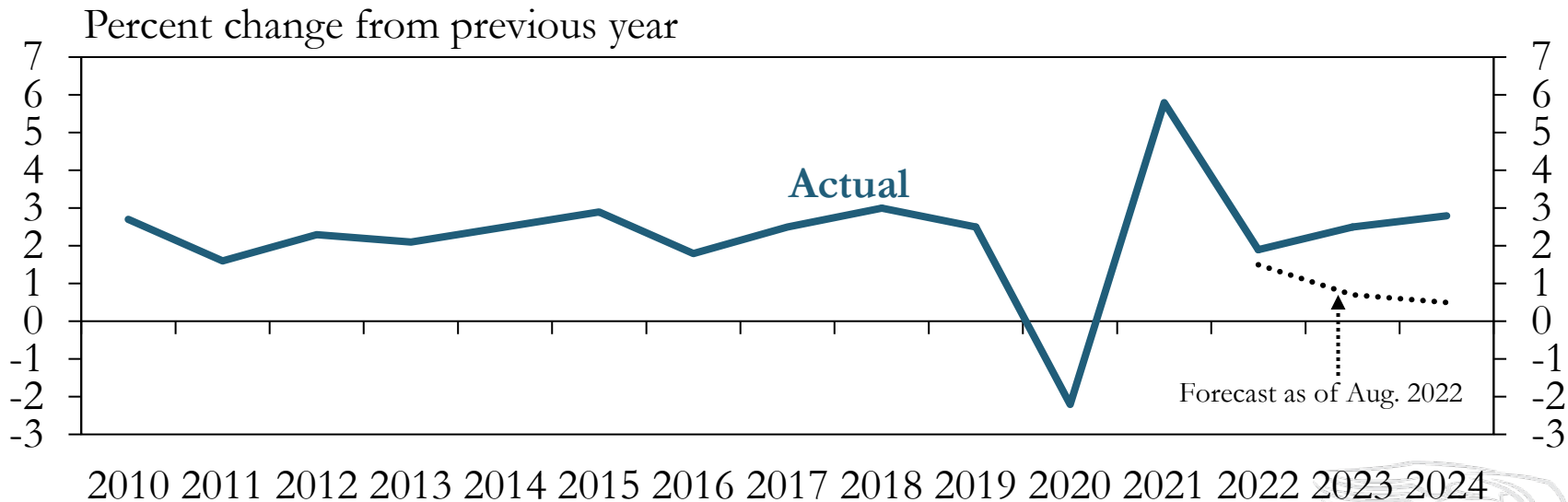
While some challenges in the livestock industry remain, profits in the cattle industry have been strong.

Ratio of Prices Received-to-Total Production Expenses



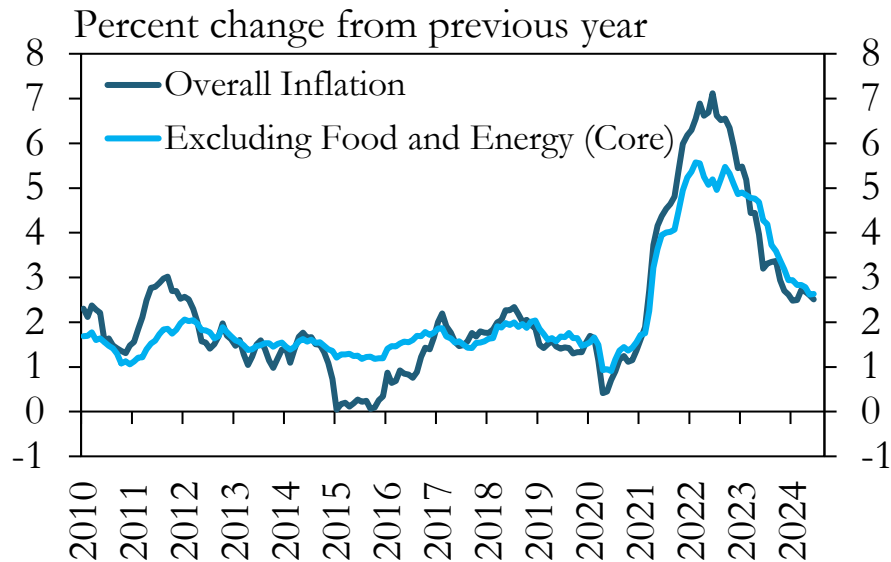
Despite concerns about a post-recovery slowdown in recent years, the U.S. economy has been resilient.

U.S. Real GDP

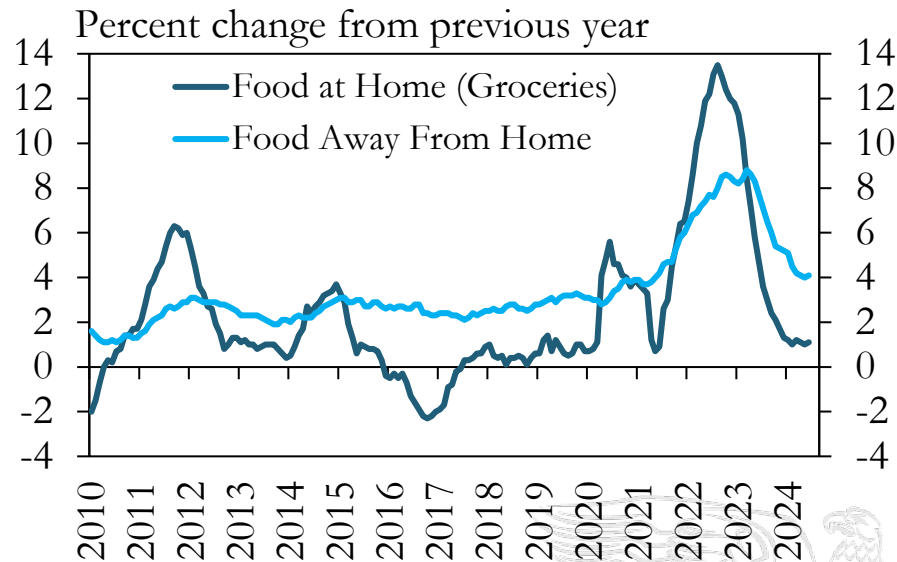


Inflation has moved closer to the Fed's long-term target.

U.S. Consumer Prices

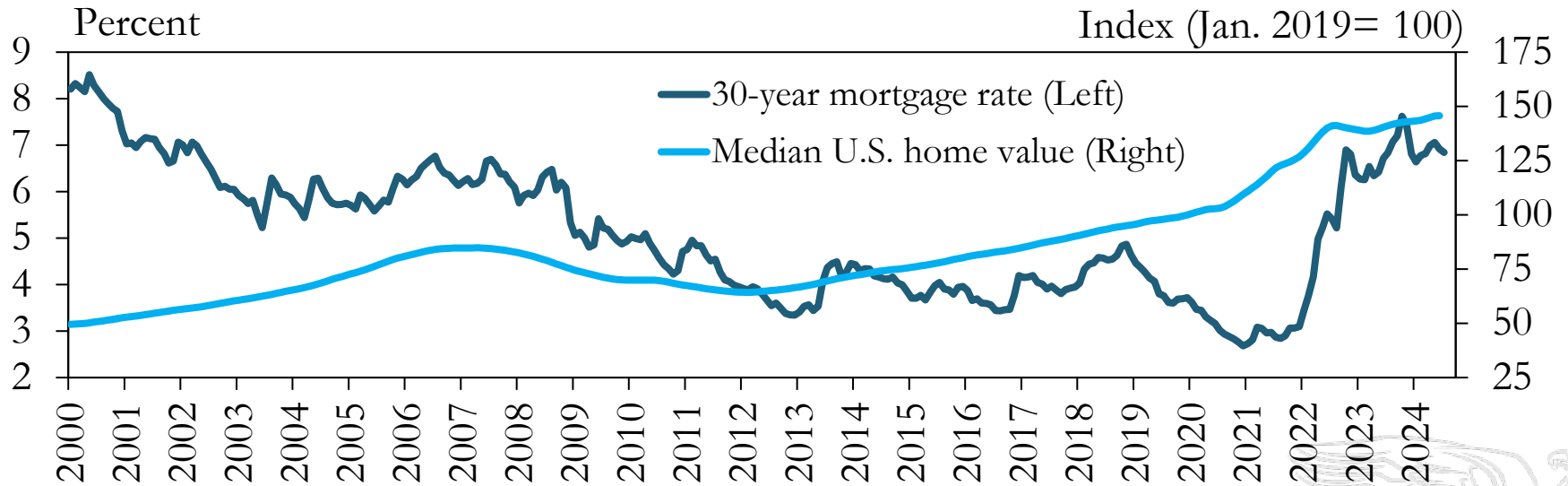


U.S. Consumer Food Prices



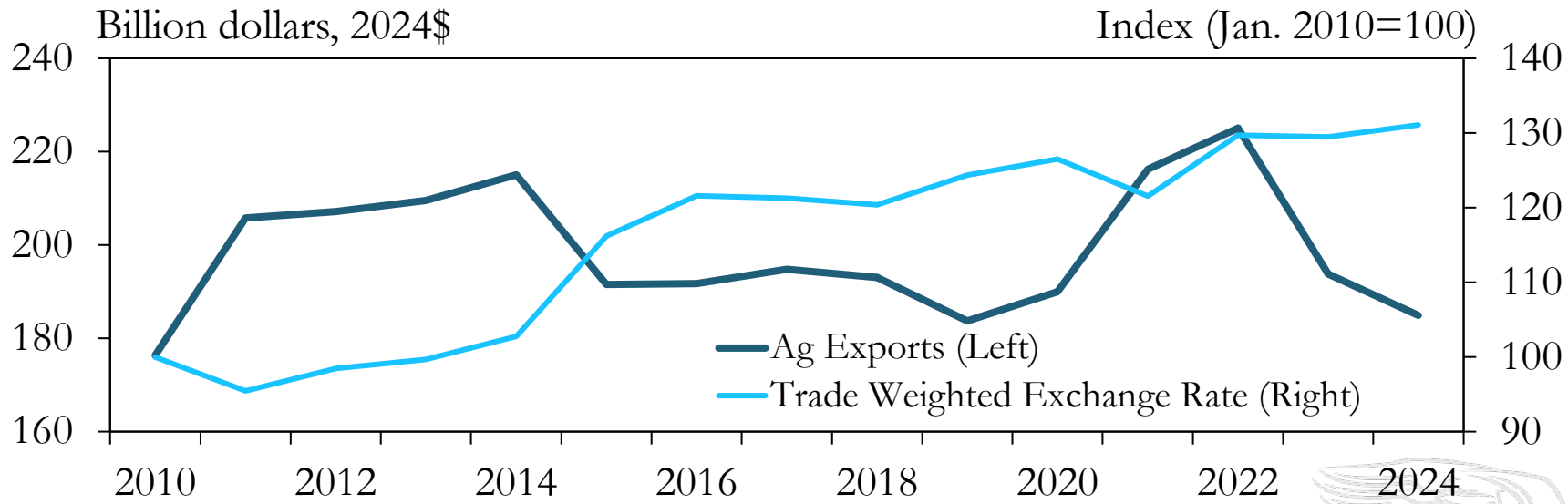
Home prices have remained elevated even with sharply higher mortgage rates.

U.S. Home Values and Mortgage Rates



A strong U.S. dollar has supported the purchase of foreign products, but has weighed on U.S. ag exports.

U.S. Ag Exports and Value of U.S. Dollar

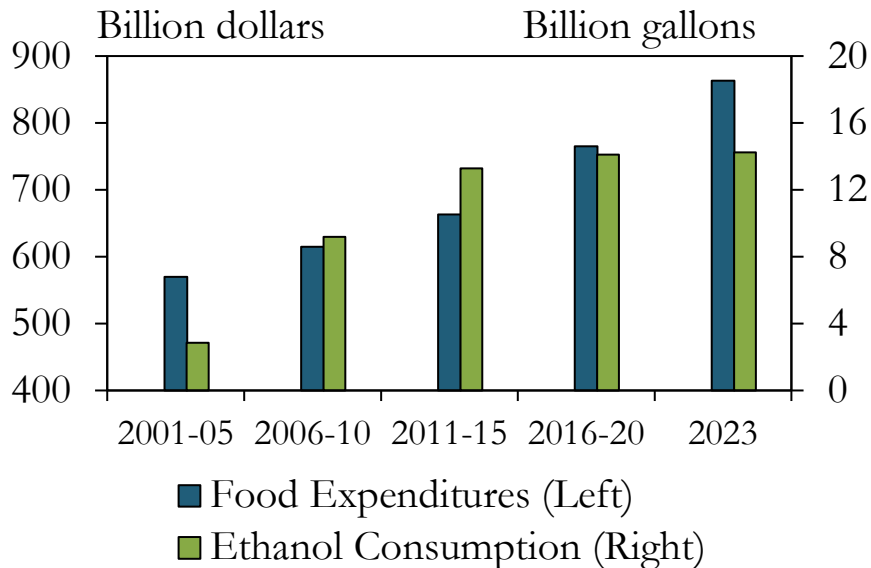


Sources: Federal Reserve Board of Governors, USDA, and Haver Analytics

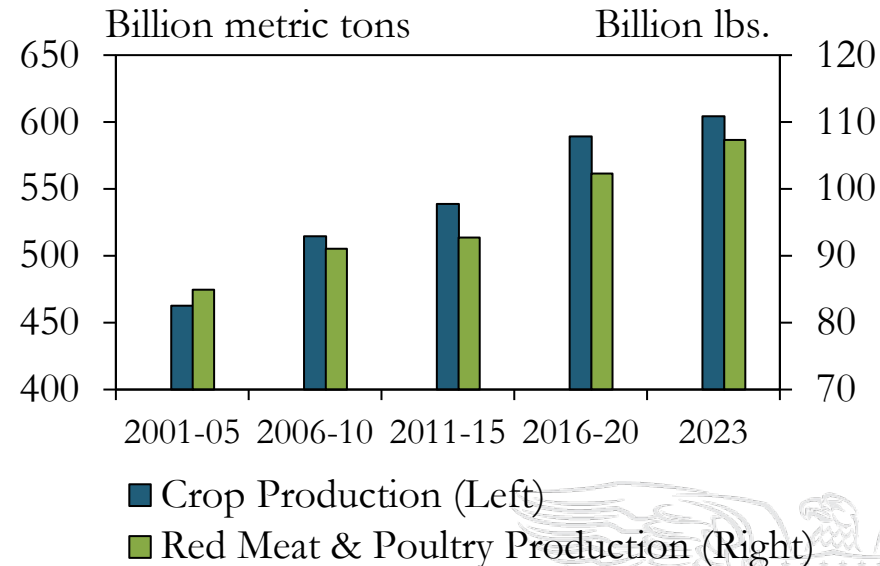


Overall production of U.S. ag products, however, has continued to rise alongside demand for food and fuel.

Real U.S. Food Expenditures & Ethanol Consumption

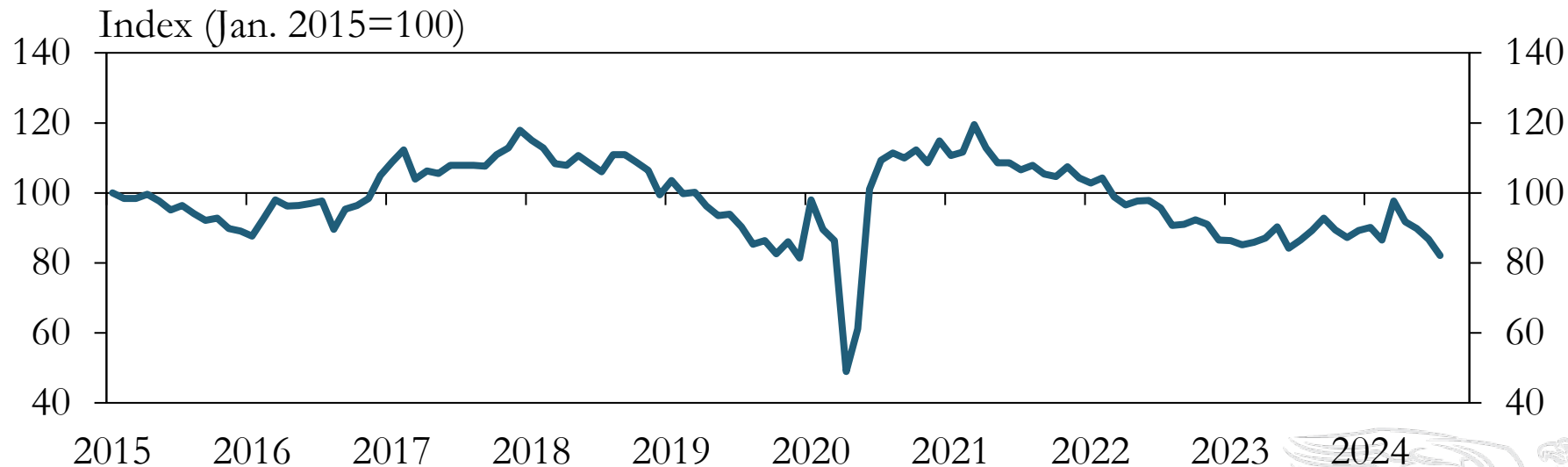


U.S. Crop and Meat Production



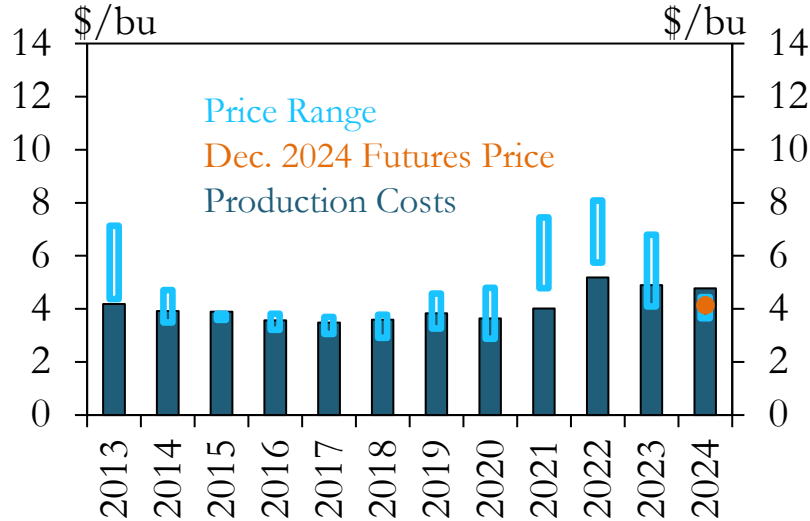
Although manufacturing activity has weakened over the past year, the declines have been from exceptional levels.

Index of Manufacturing Activity

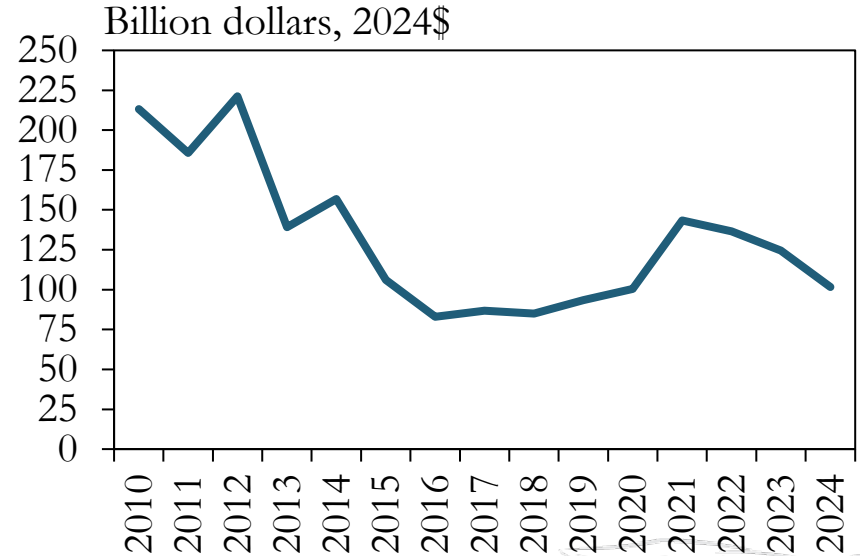


The U.S. ag economy entered the year in a strong position, but weaker profits may lead to some financial pressure.

Corn Profit Margins

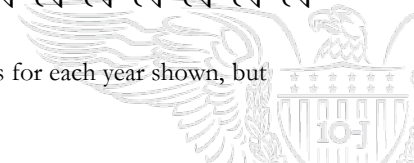


U.S. Farm Sector Working Capital



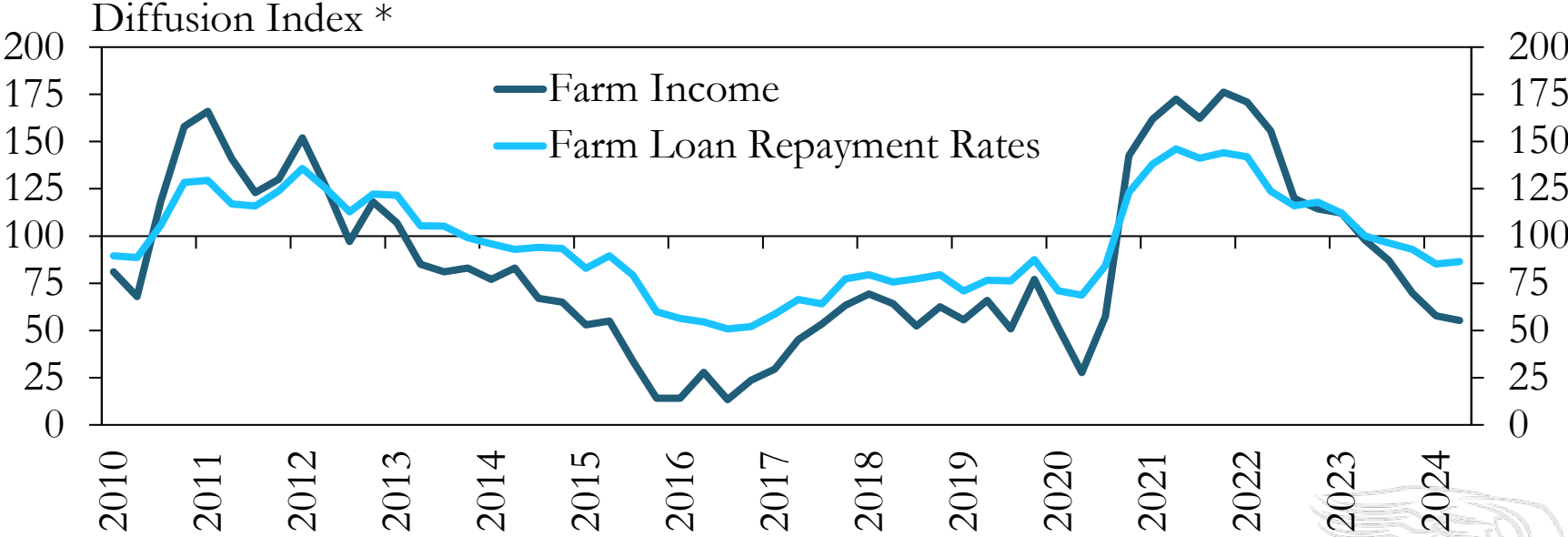
Notes: Production costs are calculated from USDA's Economic Research Service (Commodity Costs and Returns) and national yield averages for each year shown, but exclude the opportunity cost of unpaid labor from the calculation. 2024 costs are forecasts.

Source: USDA, Haver Analytics and CME



Recent Federal Reserve surveys show that farm financial stress has increased slightly with reduced incomes.

Loan Repayment Rates and Loan Demand– KC Fed District



*The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

Source: Federal Reserve Bank of Kansas City Survey of Agricultural Credit Conditions



Summary

- Financial pressure appears to be growing in U.S. agriculture, particularly among row crop producers in the Midwest.
- A shift in consumption from goods to services has been accompanied by a shift back to spending on food “away from home”.
- The strength and resilience of the U.S. economy, particularly the labor market and consumer spending, will be a significant factor shaping food and ag markets in the months ahead.



AGRICULTURE AND THE ECONOMY

The Kansas City Fed is a leader on topics related to the agricultural economy within the Federal Reserve System. Our work provides insights on agricultural and rural economies for our seven-state region of the Tenth Federal Reserve District and nationally.



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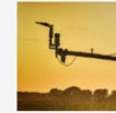
Ag Finance Updates

Find articles summarizing recent developments in agricultural finance and lending.



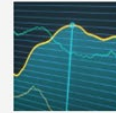
Ag Credit Survey

The quarterly Ag Credit Survey provides current indicators of the financial performance of Tenth District agriculture.



Ag Outlooks

Review the latest Ag Bulletin for a summary of ag conditions and additional outlook articles on the ag economy.



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