

Agricultural Market Update

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April 5, 2022

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.



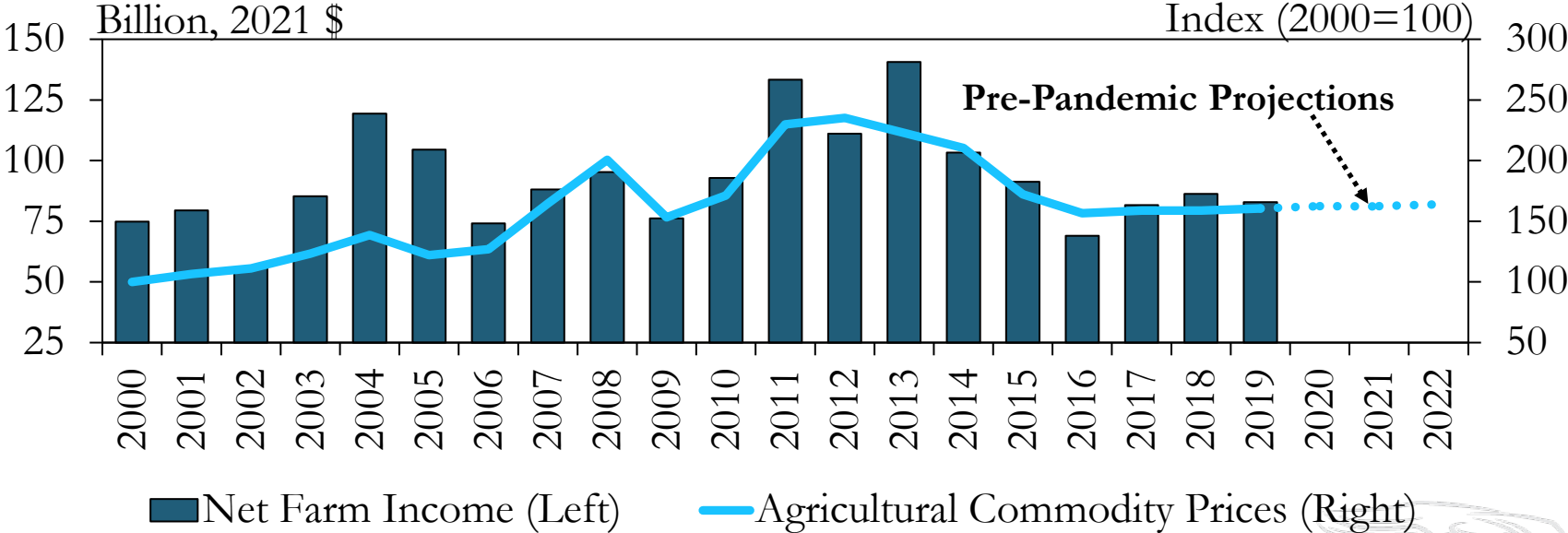
Outlook Themes

- Economic conditions in U.S. agriculture rebounded sharply in 2021 and in advance of the crisis in Ukraine.
- Commodity prices have surged further in recent weeks, along with the costs of some key inputs.
- Despite significant risks, ag economic conditions likely will remain strong in 2022.



Prior to the pandemic, the U.S. ag economy had been mired in a prolonged downturn.

U.S. Farm Income and Agricultural Commodity Prices



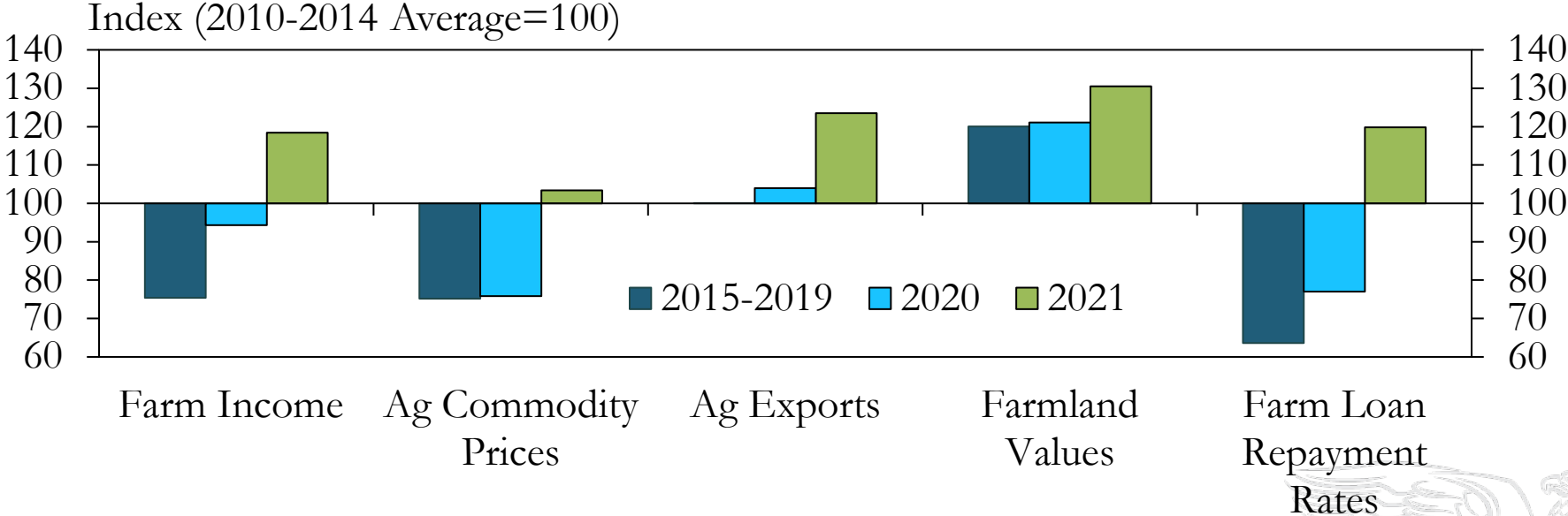
Note: Agricultural Commodity Prices calculated as average of individual indices for corn, soybeans, wheat, cattle, hogs and milk. Actual spot prices from 2000-2019 and projected price from University of Missouri - FAPRI as of August 28, 2019 from 2020-2022.

Sources: USDA, CME, *Wall Street Journal*, University of Missouri - FAPRI and Haver Analytics



Through the pandemic, however, economic conditions in agriculture recovered dramatically.

Indicators of the U.S. Ag Economy

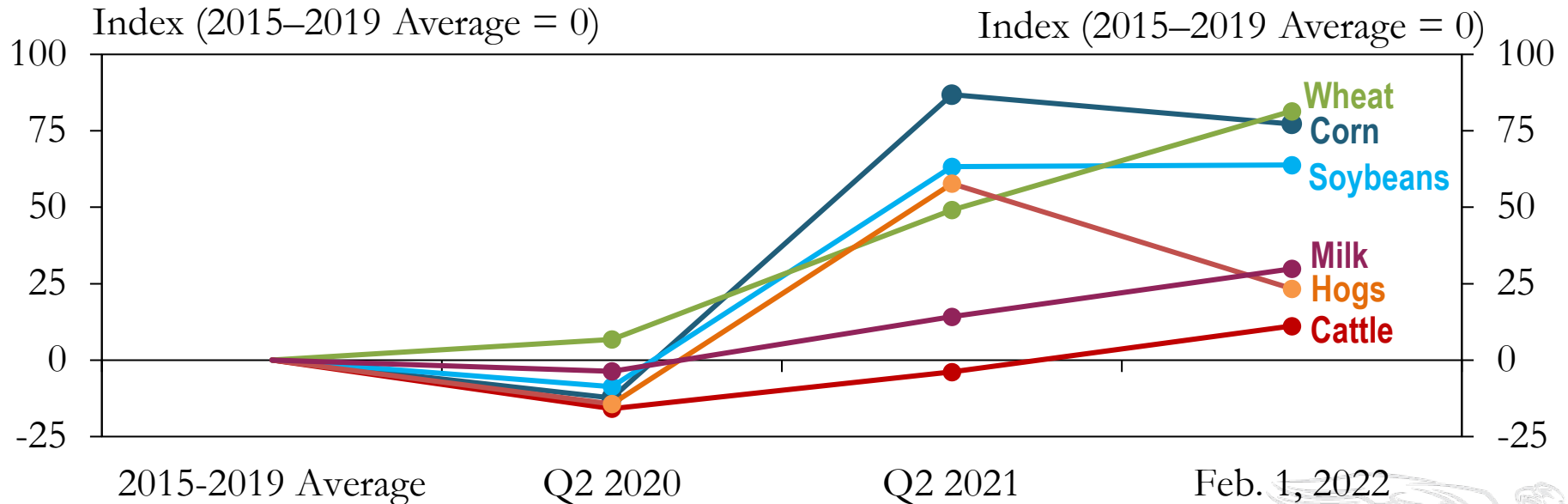


Source: USDA, Wall Street Journal and Federal Reserve Surveys of Agricultural Credit Conditions.



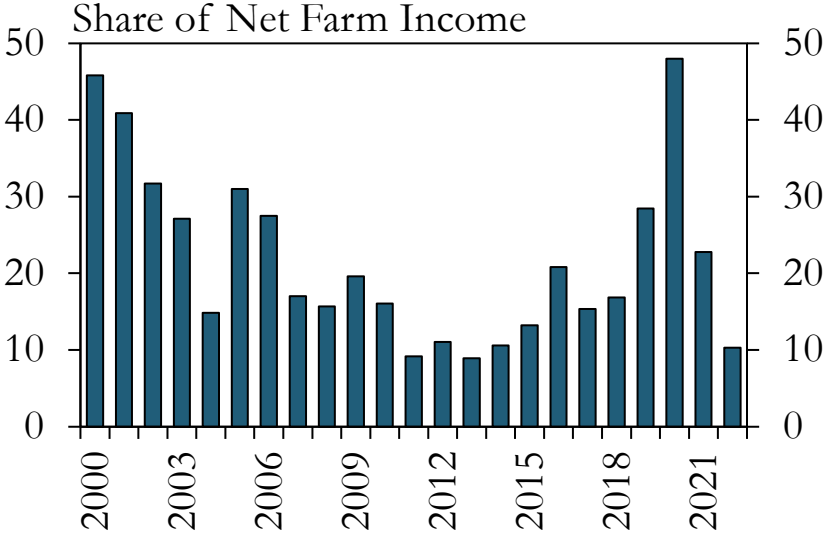
Ag prices surged in 2021 and remained elevated even prior to the Russian invasion of Ukraine.

Ag Commodity Prices

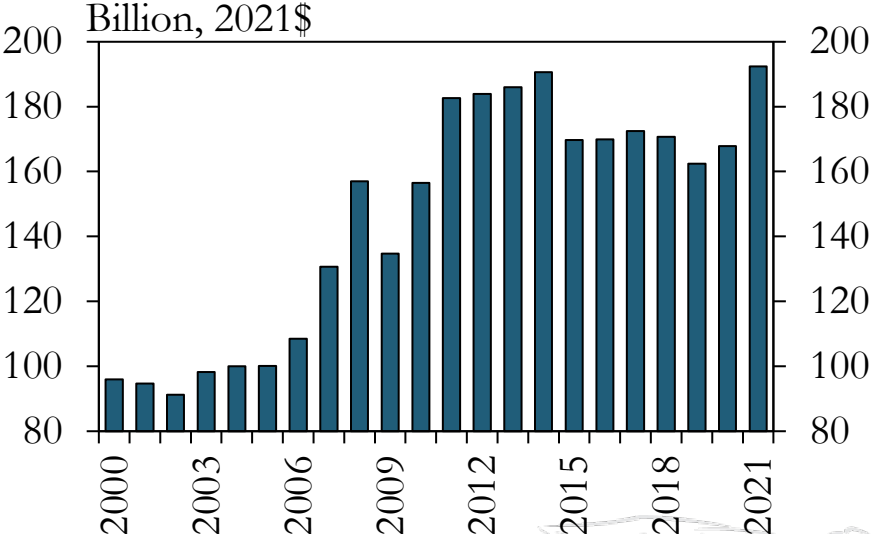


Government payments provided income support, but increased foreign demand has also bolstered prices.

Government Payments



U.S. Agricultural Exports



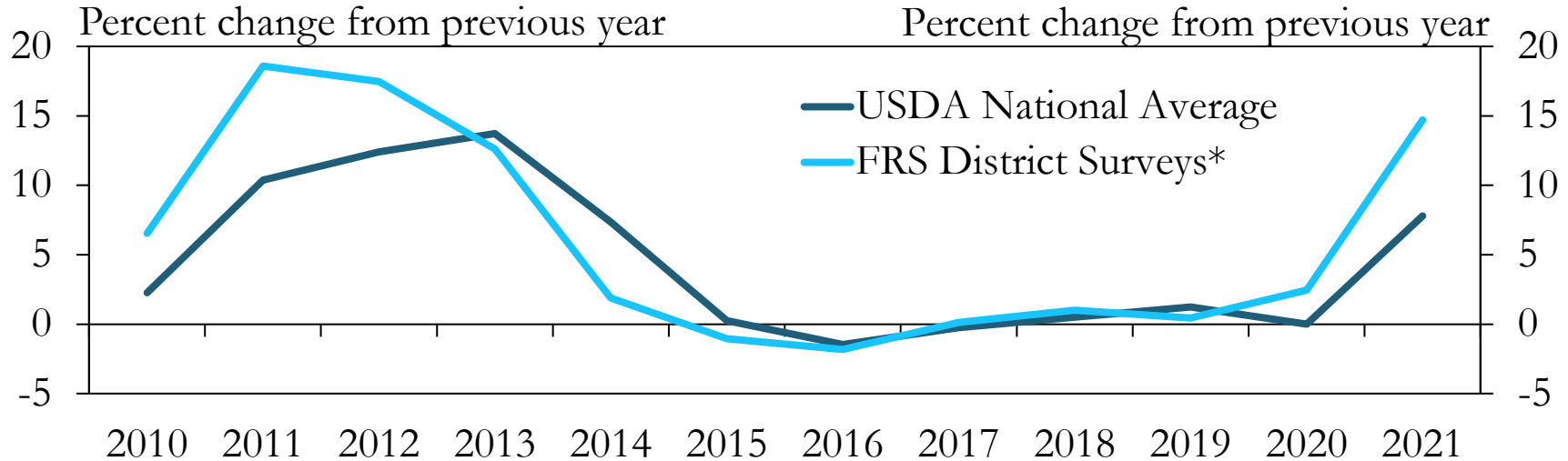
Note: 2021 Government Payments as a Share of Net Farm Income is the USDA forecast as of February 4, 2022.

Source: USDA



Farmland values have surged, following a period of limited growth.

U.S. Farm Real Estate Values



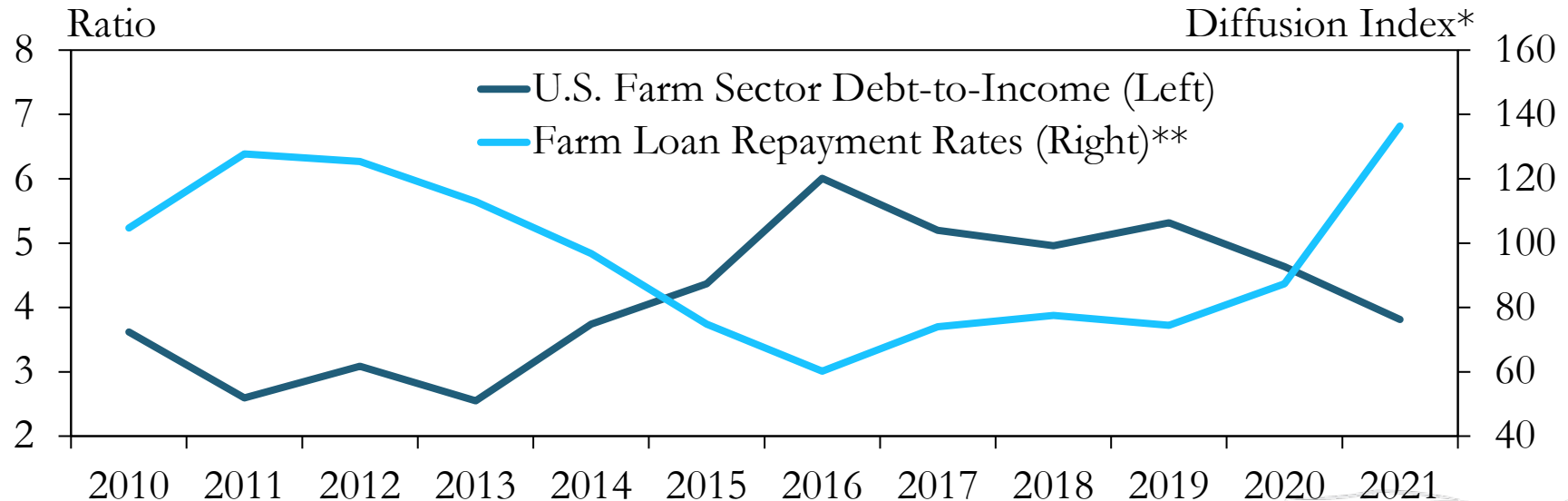
*The average quarterly percent change for participating Federal Reserve Districts (Dallas, Chicago, Kansas City, Minneapolis and St. Louis).

Source: USDA, Federal Reserve District Surveys of Agricultural Credit Conditions.



The financial position of farm borrowers has also improved dramatically.

U.S. Farm Finances



*Percent of survey respondents that responded "lower" minus the percent that responded "higher" plus 100.

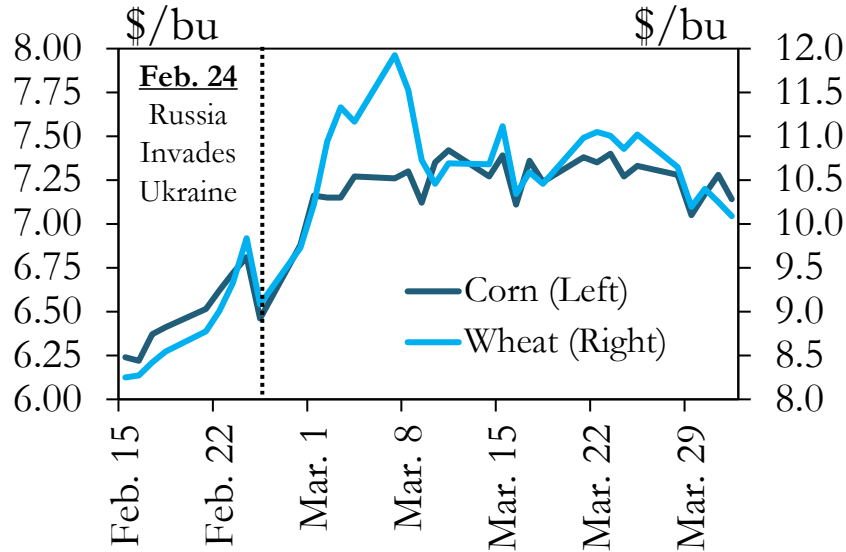
**The average quarterly index for participating Federal Reserve Districts (Dallas, Chicago, Kansas City, Minneapolis and St. Louis).

Source: USDA and Federal Reserve District Surveys of Agricultural Credit Conditions.

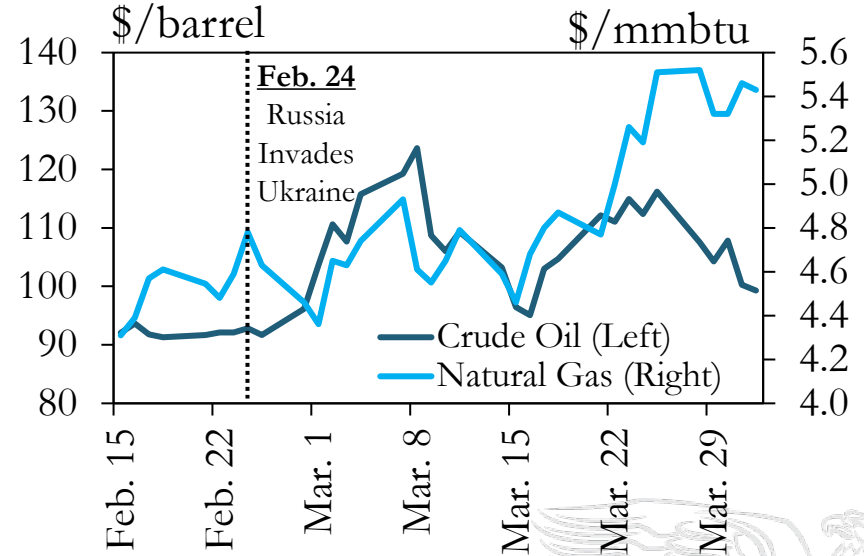


More recently, developments in Ukraine have led to turmoil in key commodity markets.

Crop Prices

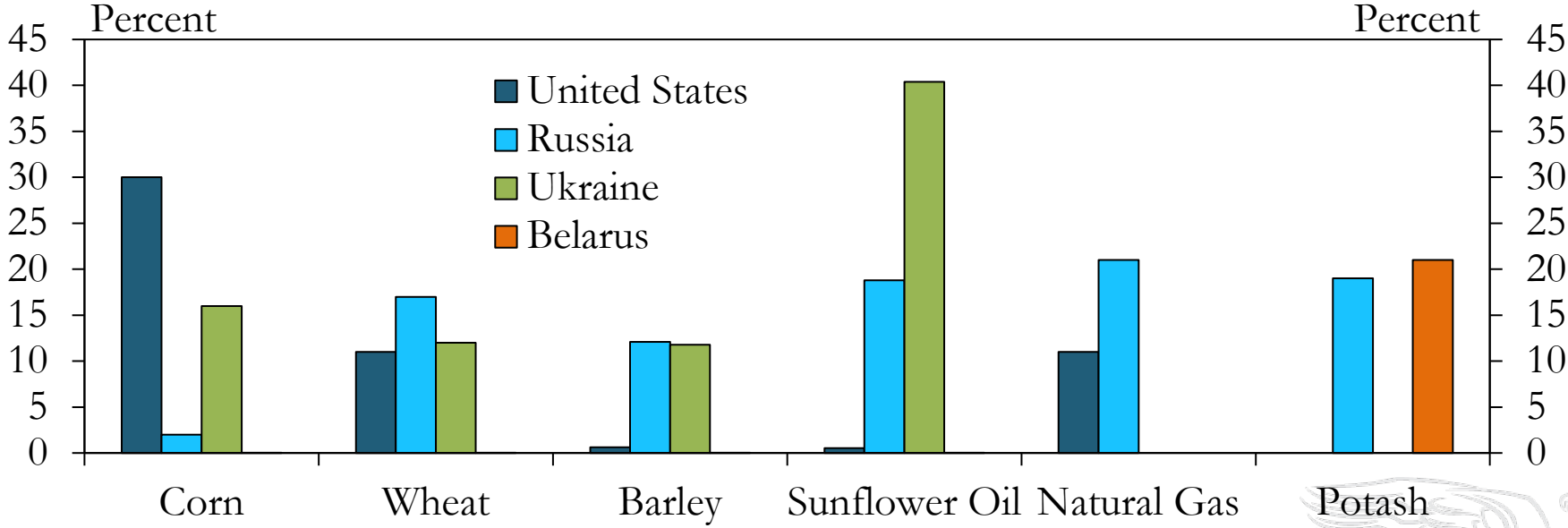


Energy Prices



Russia and Ukraine account for a large global share of key ag commodities and inputs.

Share of World Exports of Select Commodities

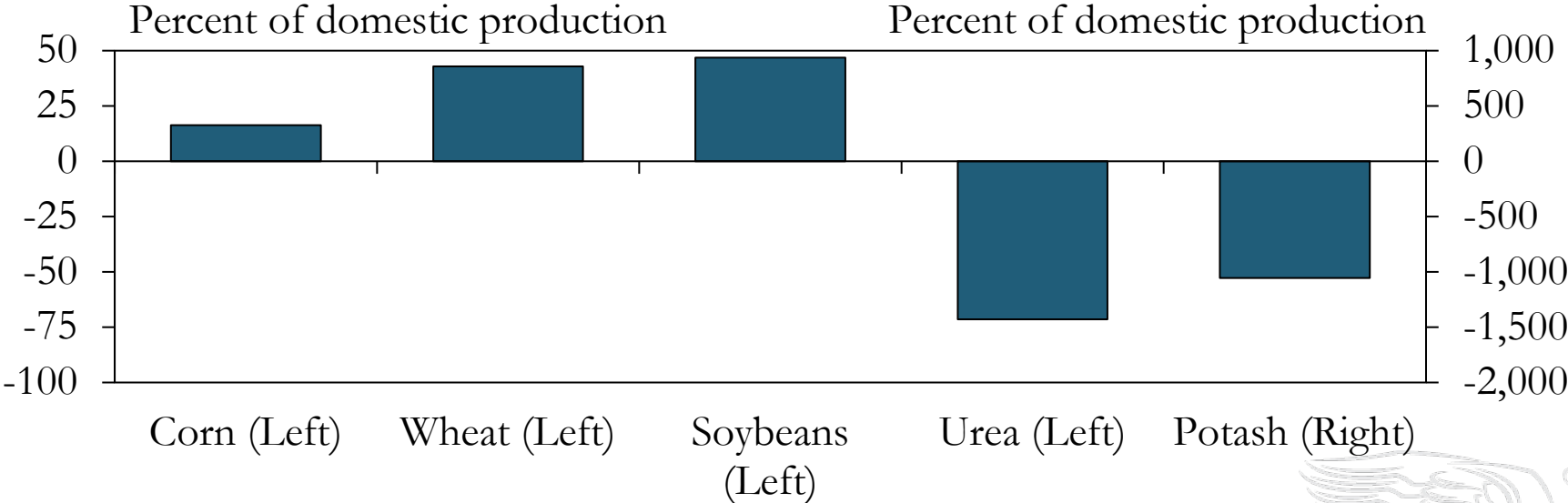


Sources: U.S. Department of Agriculture, Government of Canada, and U.S. Energy Information Administration.



In most ag commodity markets, the U.S. is a net exporter, but not for certain inputs.

U.S. Net Exports of Select Commodities

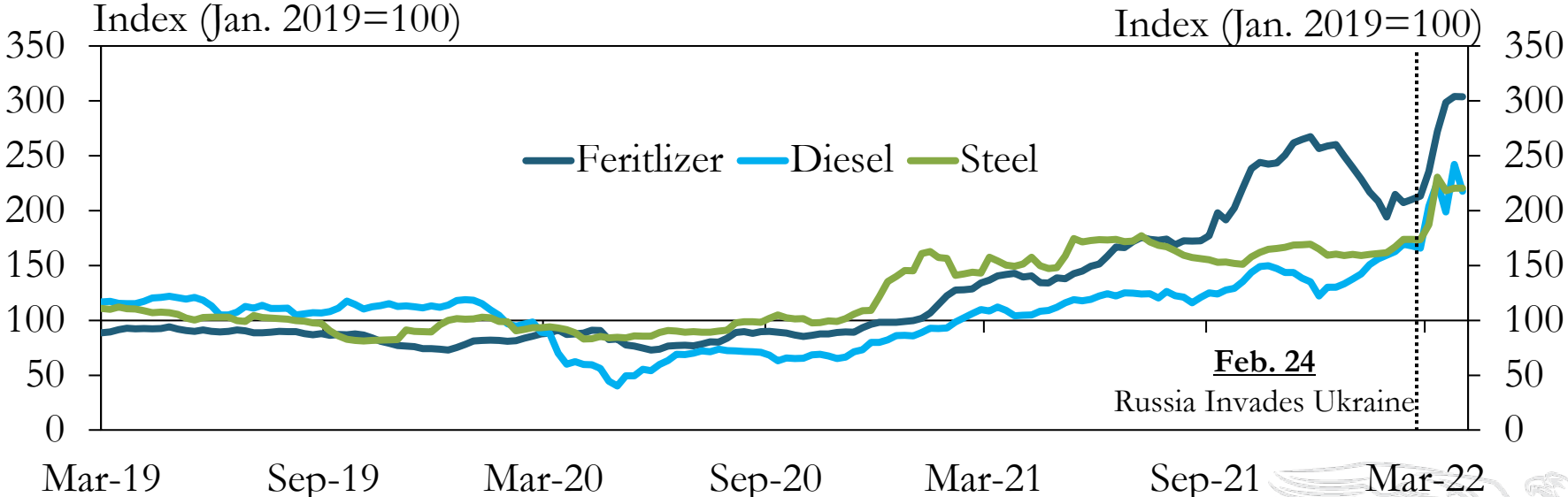


Sources: USDA, U.S. Geological Survey and Knoema.



Input costs have spiked again, leading to some concern about acquiring necessary products.

Price of Select Agricultural Inputs

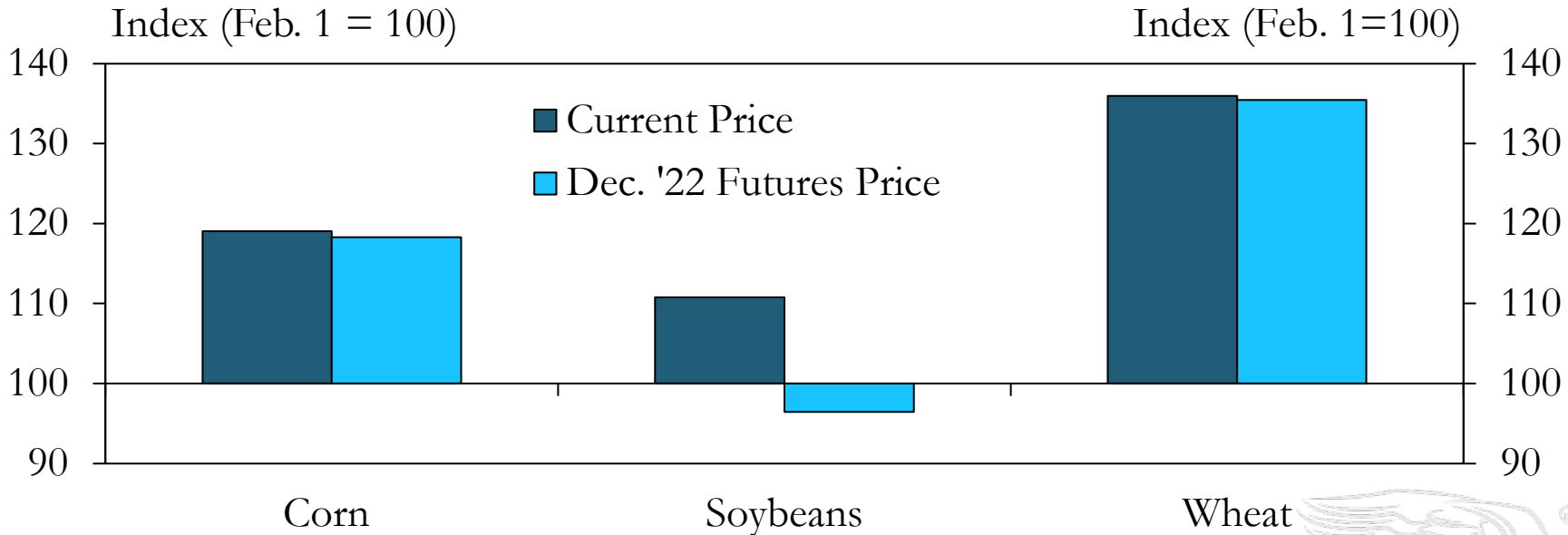


Sources: Bloomberg, Foundation for International Business & Economic Research, EIA and Haver Analytics



Futures markets indicate that ag prices could remain high through the end of the year.

U.S. Crop Prices

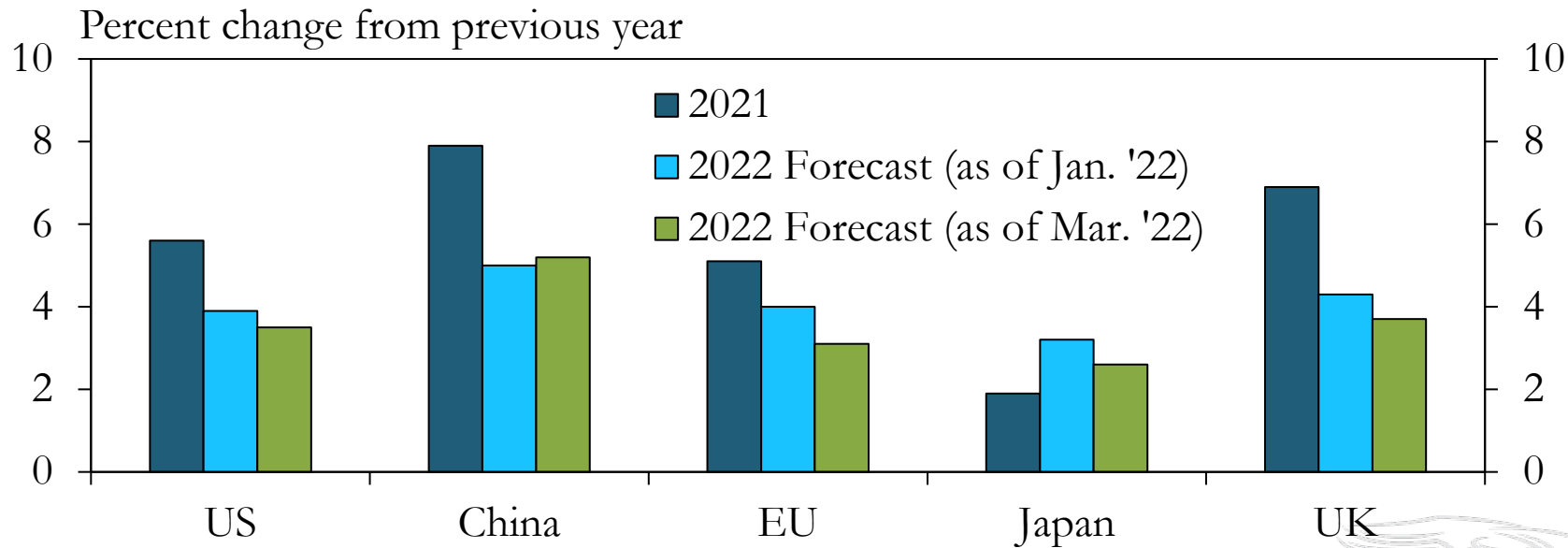


Sources: Wall Street Journal, CME and Haver Analytics.



However, prospects for global economic growth have been revised lower alongside the crisis.

Real GDP Growth

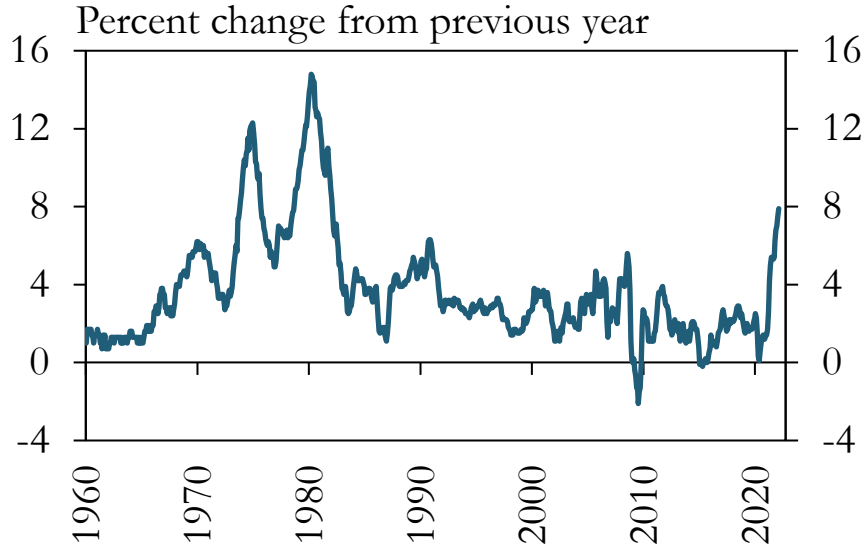


Sources: BEA, Wolters Kluwer, Statistical Office of the European Communities, Cabinet Office of Japan, Office of National Statistics, China National Bureau of Statistics, and Haver Analytics.

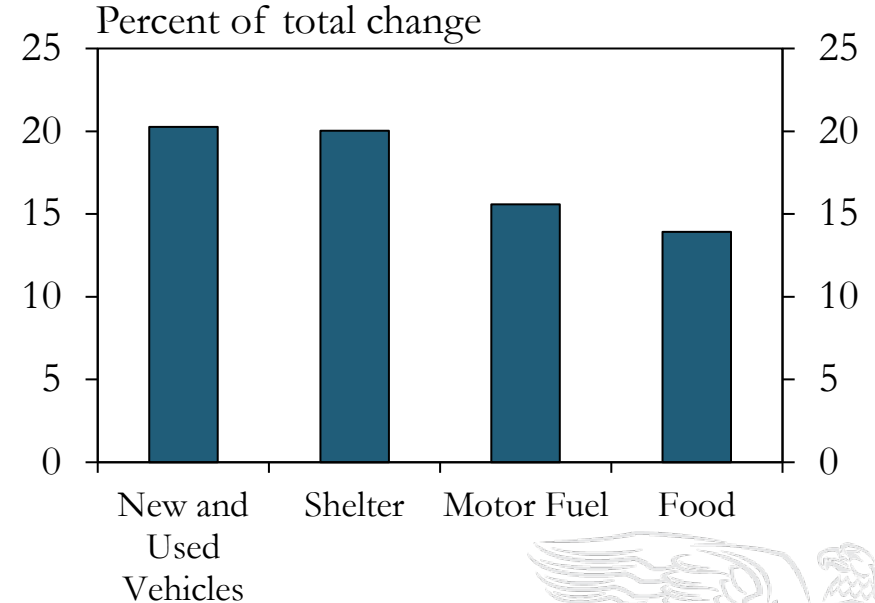


Inflationary pressures have also persisted.

U.S. Consumer Price Index

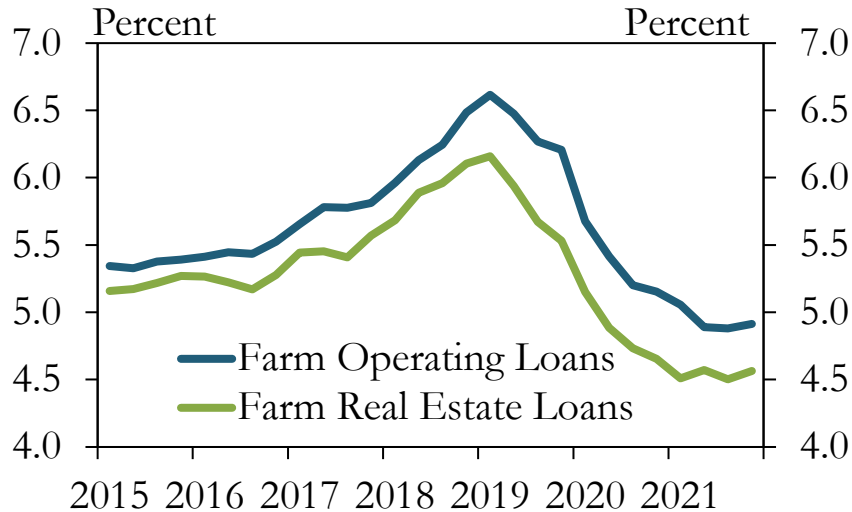


Contribution to CPI Change – Feb. 2022

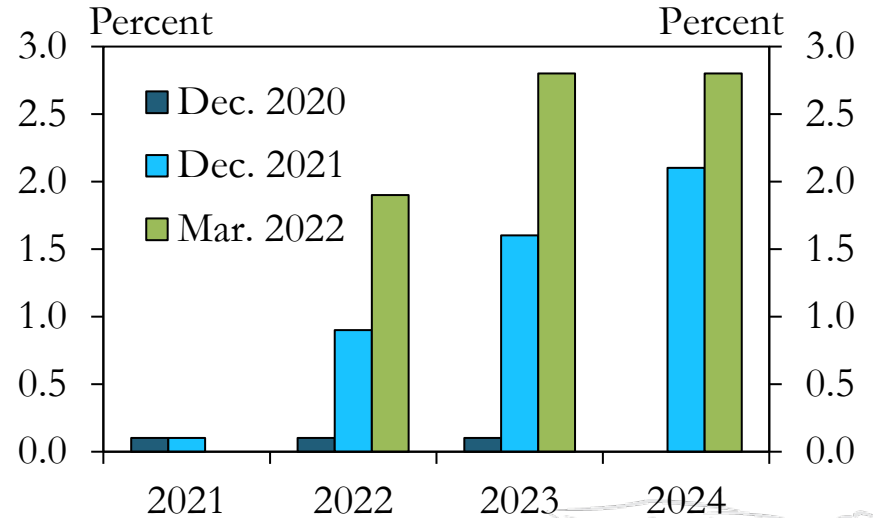


Interest rates have remained low, but could increase in the months ahead.

Average Interest Rates on Agricultural Loans*

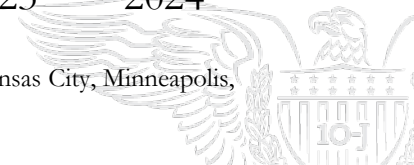


Median FOMC Federal Funds Rate Projections



*Average fixed interest rates on intermediate operating loans and farm real estate loans reported by agricultural bankers in Chicago, Dallas, Kansas City, Minneapolis, Richmond and St. Louis Federal Reserve Districts.

Sources: Federal Survey District Surveys of Agricultural Credit Conditions and Federal Reserve Board of Governors.



Concluding Thoughts

- Despite extreme uncertainty in commodity markets, the U.S. ag economy appears likely to remain strong in 2022.
- Financial stress among producers (and lenders) is far less than in 2019 and land values have continued to rise.
- Inflationary pressures may lead to challenges and longer-term questions about profitability.



