

Agriculture Update

Kansas Economic Outlook Conference

October 7, 2021



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.

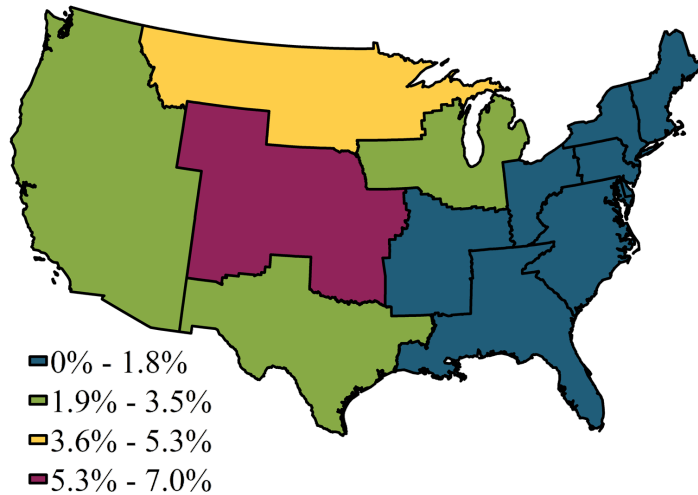
Cortney Cowley



The Kansas City Fed has a high concentration of agriculture and monitors conditions closely.

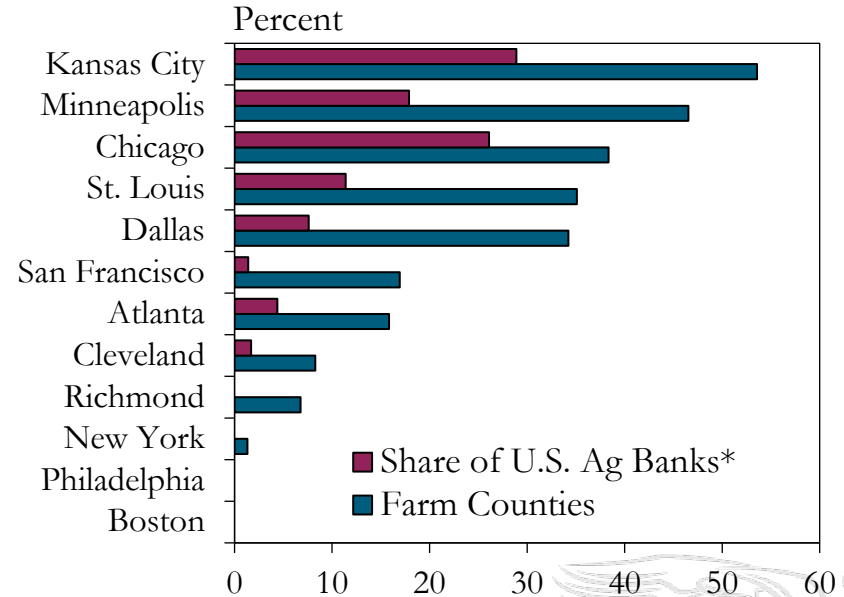
Average Farm Income as a Share of Total Personal Income

Average Across Counties by Fed District, 2015-2017



Source: BEA and staff.

Proportion of “Farm Dependent” Counties and Agricultural Banks



Source: BEA, USDA, Ag Finance Databook and staff

*Agricultural banks are defined as banks with farm production and farm real estate loans equaling approximately 18 percent or more of total loans.

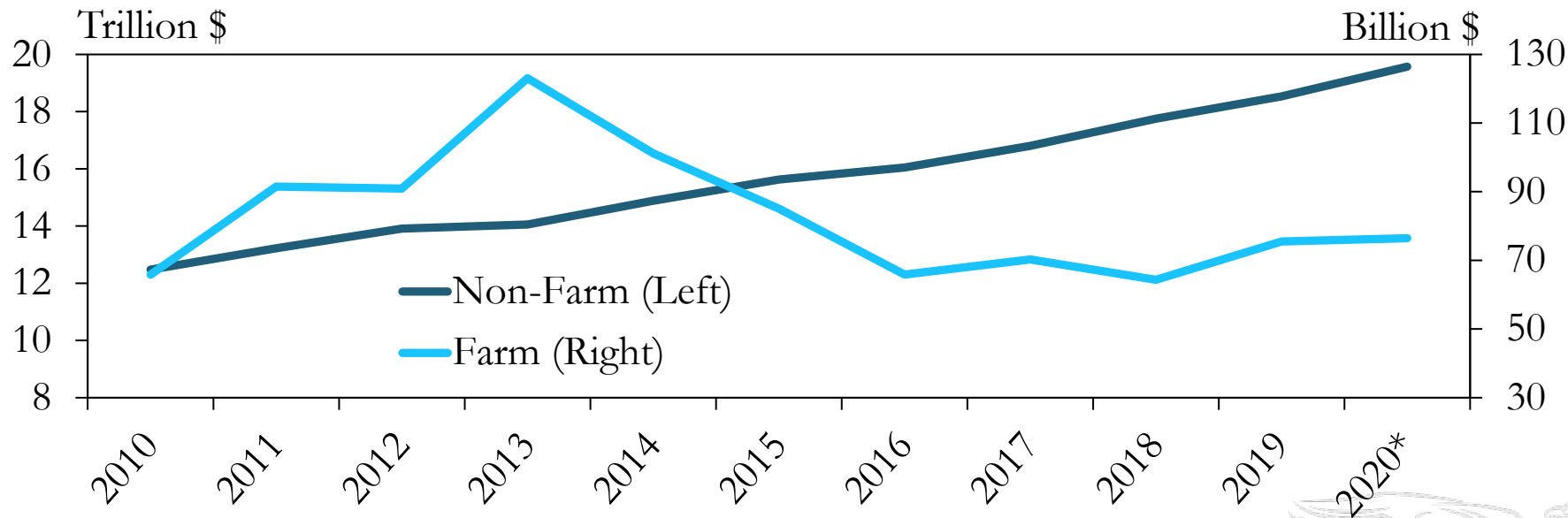
Ag Update Themes

- The outlook for the agricultural economy in Kansas and the United States remains solid, despite some slight declines in commodity prices recently.
- Agricultural credit conditions remain strong and have been supported by high commodity prices and carryover from government programs.
- However, ag lenders continue to express concerns related to weak loan demand, increasing input costs, and severe drought.



The U.S. agricultural economy had been in a prolonged downturn prior to COVID-19.

U.S. Personal Income

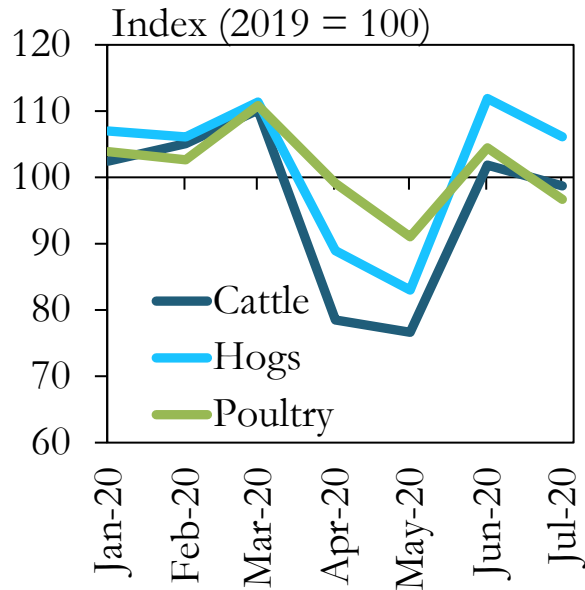


Sources: U.S. Bureau of Economic Analysis and Haver Analytics.

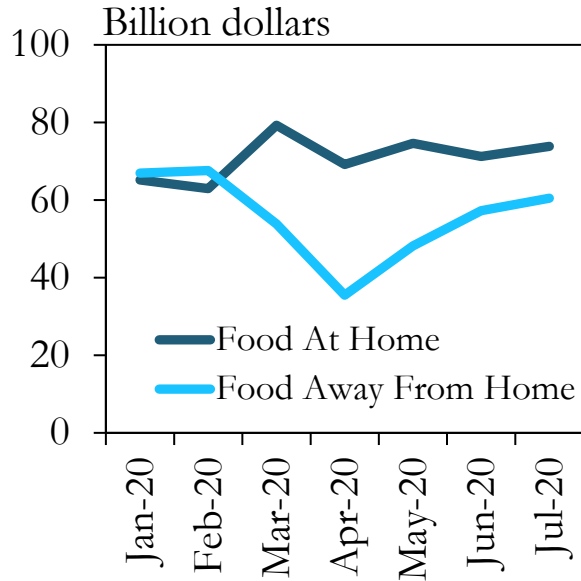


Early last year, the pandemic disrupted nearly all segments of the food and ag sector.

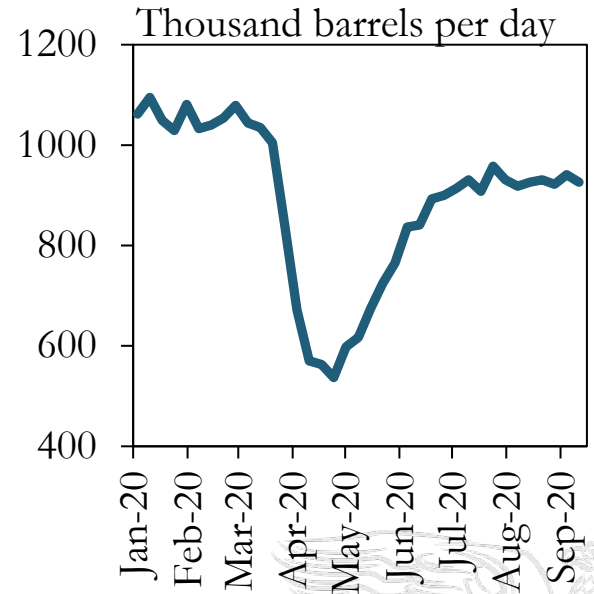
U.S. Meat Production



U.S. Food Expenditures



U.S. Ethanol Production

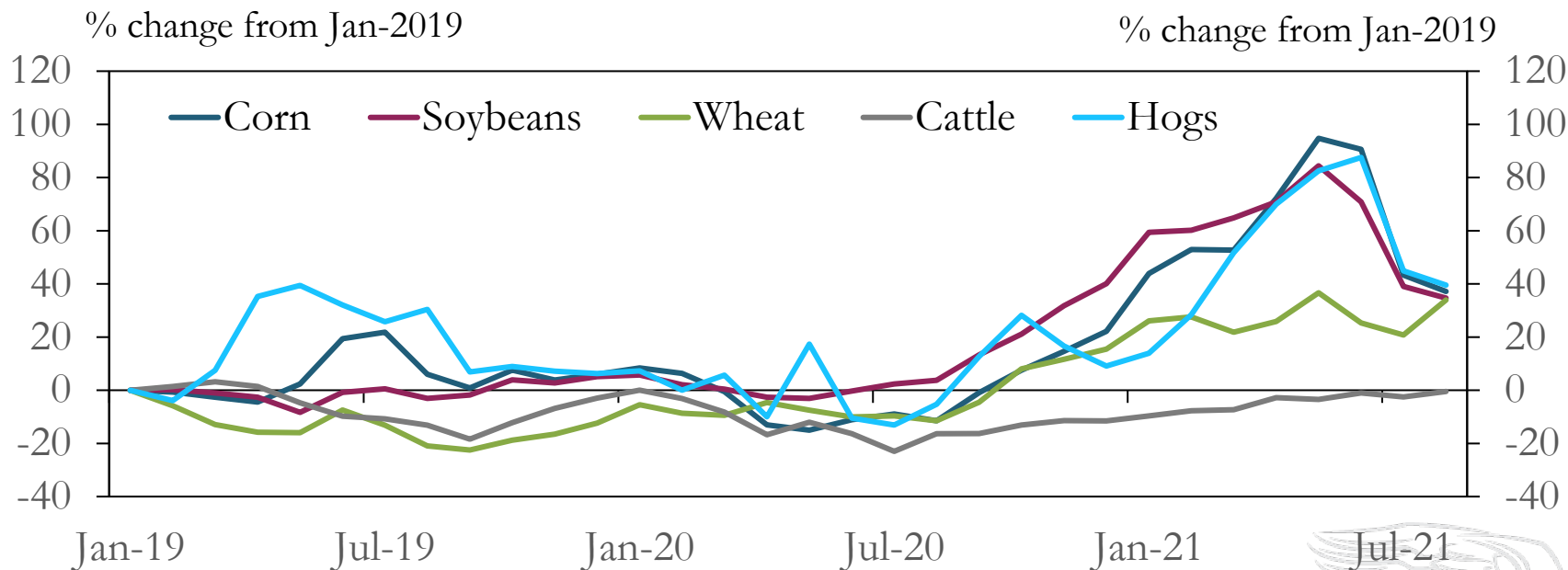


Sources: USDA, EIA and staff calculations.



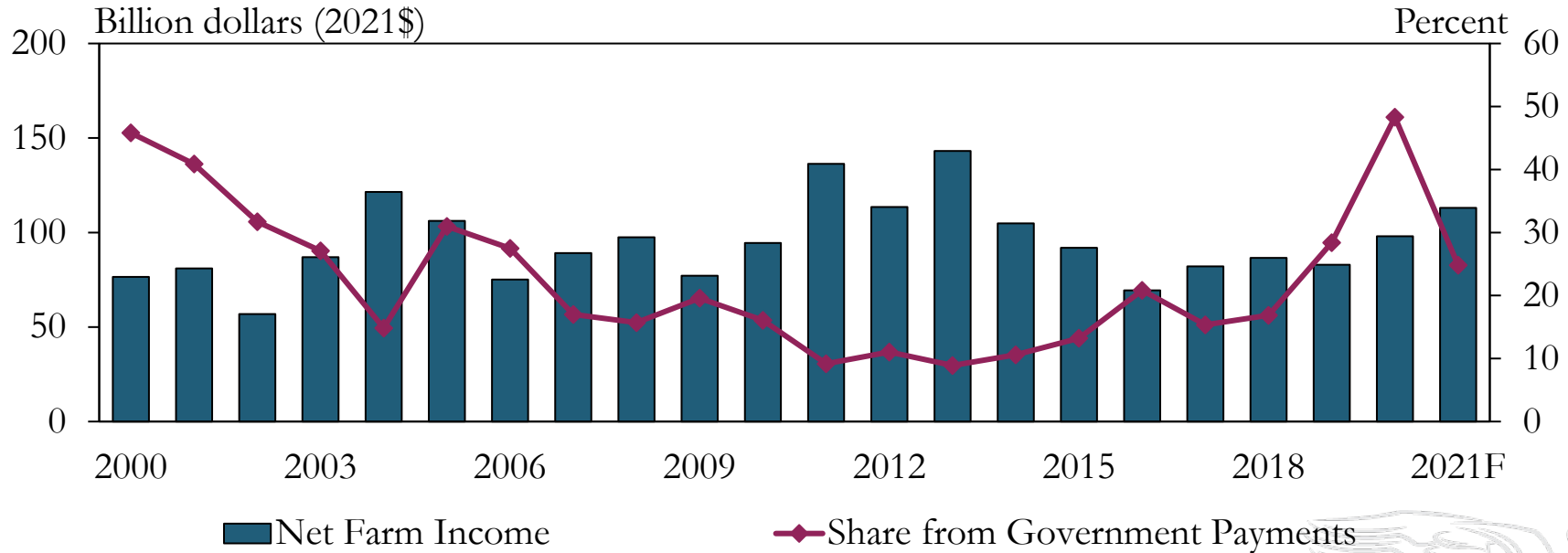
These disruptions caused declines in prices for most ag commodities, but prices have since rebounded and remain strong.

Agricultural Commodity Prices



In 2021, farm income is expected to be the highest in 8 years, but government payments still account for 25%.

U.S. Farm Income



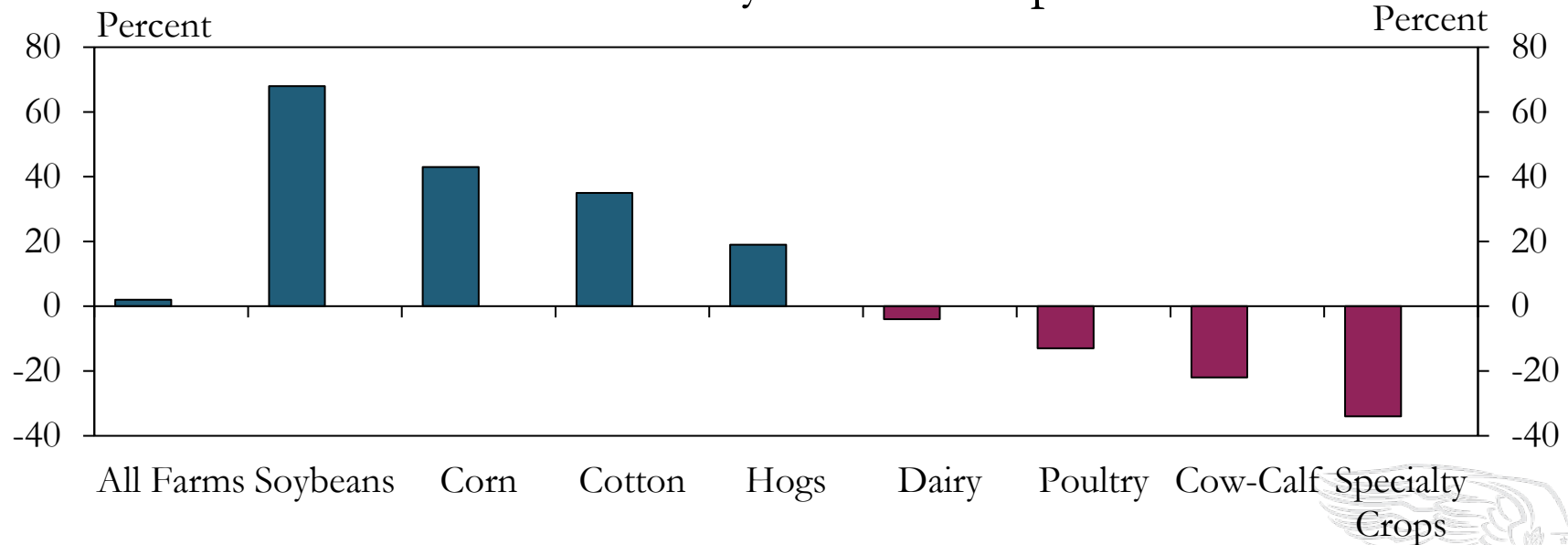
Note: Forecast for 2021.

Sources: USDA.



Higher income expectations were driven by increases for crops and hogs, while cattle and specialty crops are still lagging.

Change in 2021 Farm Income for Selected
Commodities: February 2021 vs. September 2021

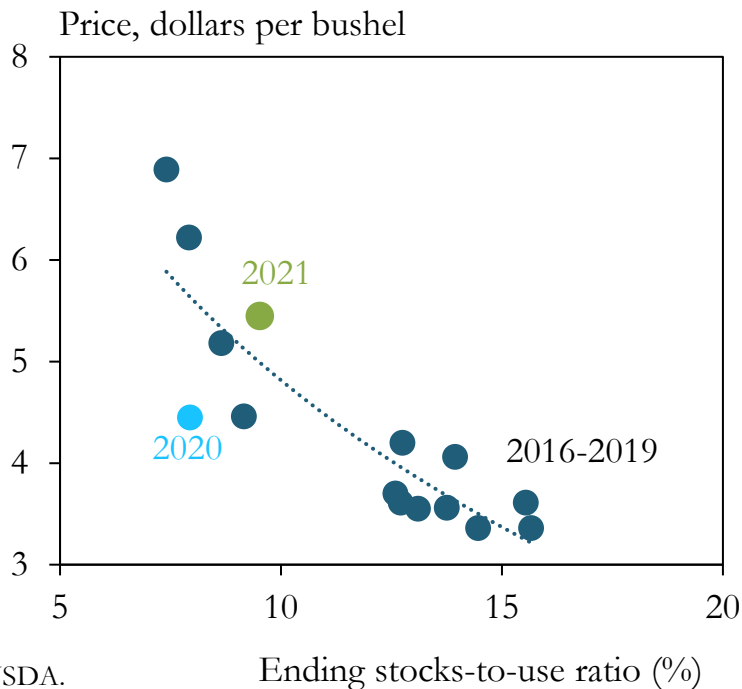


Source: USDA.



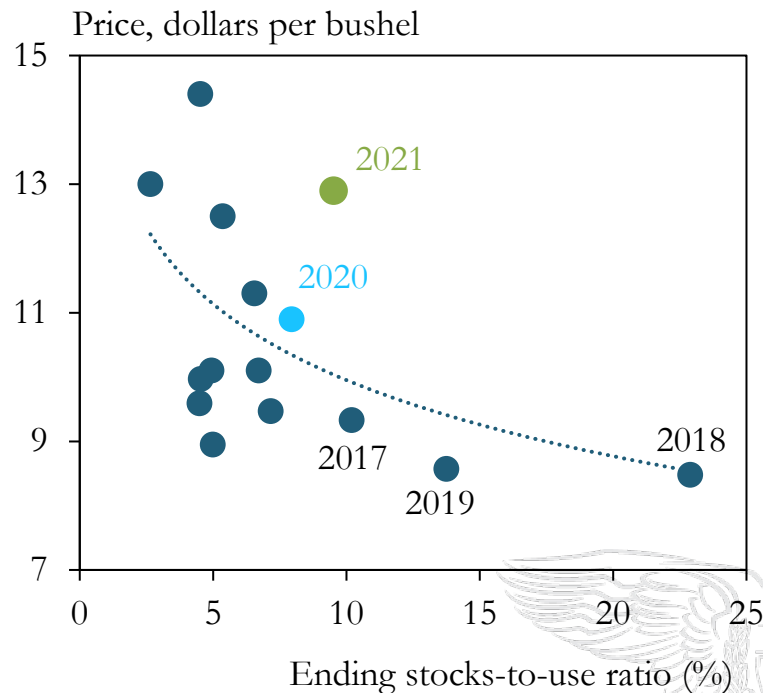
Overall, supply and demand developments have boosted corn and soybean prices in late 2020 and 2021.

Corn Prices and Inventories



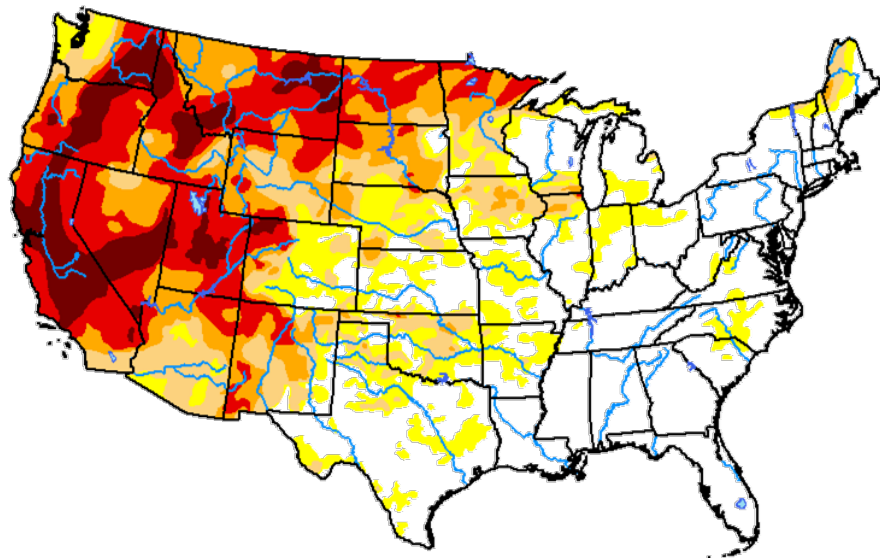
Source: USDA.

Soybean Prices and Inventories

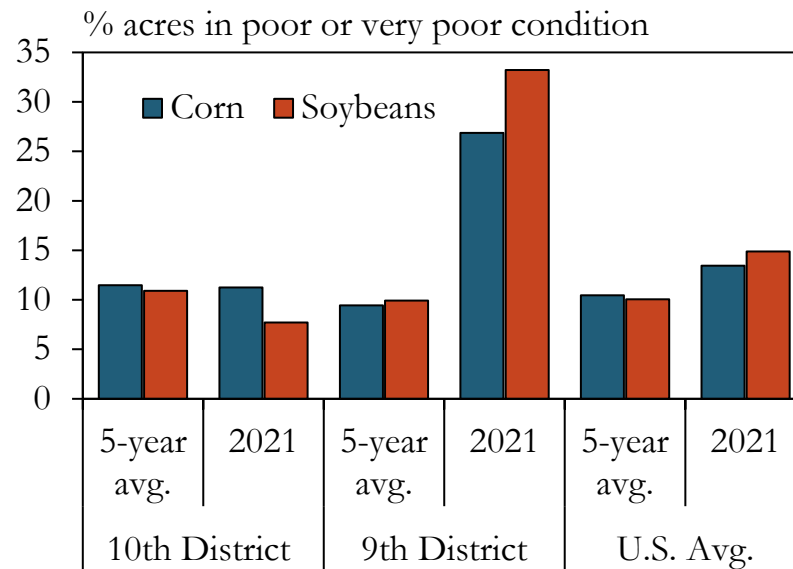


Drought has become a greater concern in the West and Northern Plains.

Drought Conditions as of
September 23, 2021

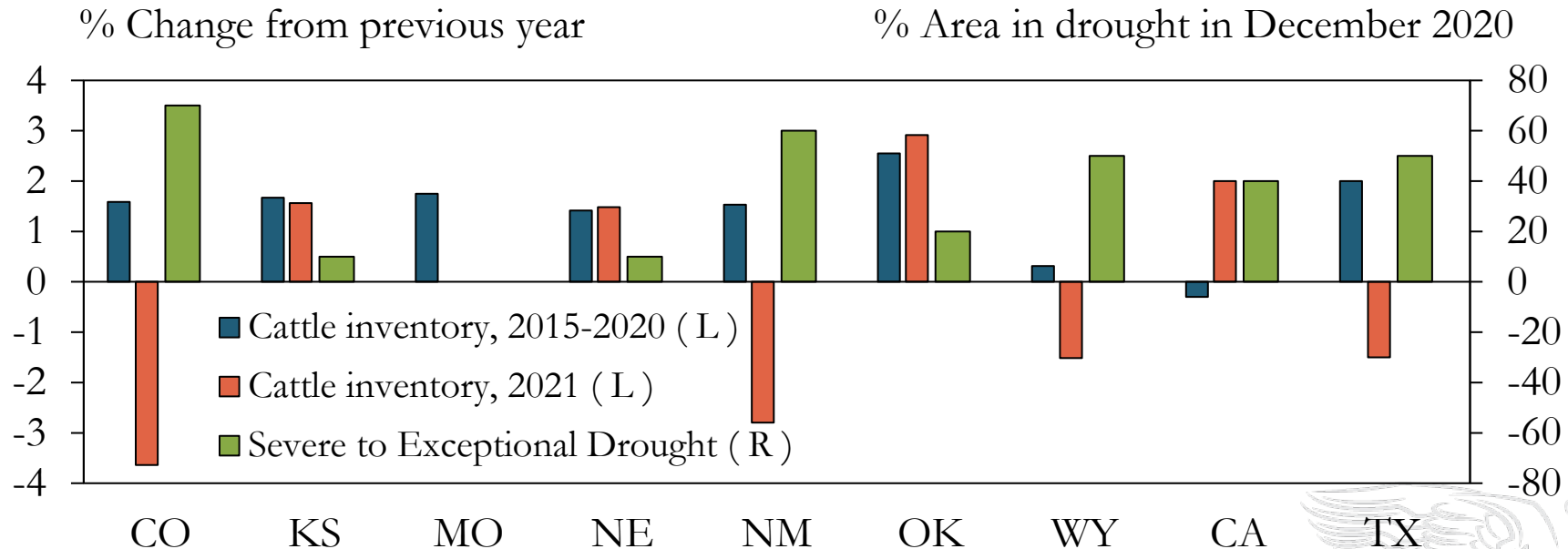


Crop Conditions, Mid-August



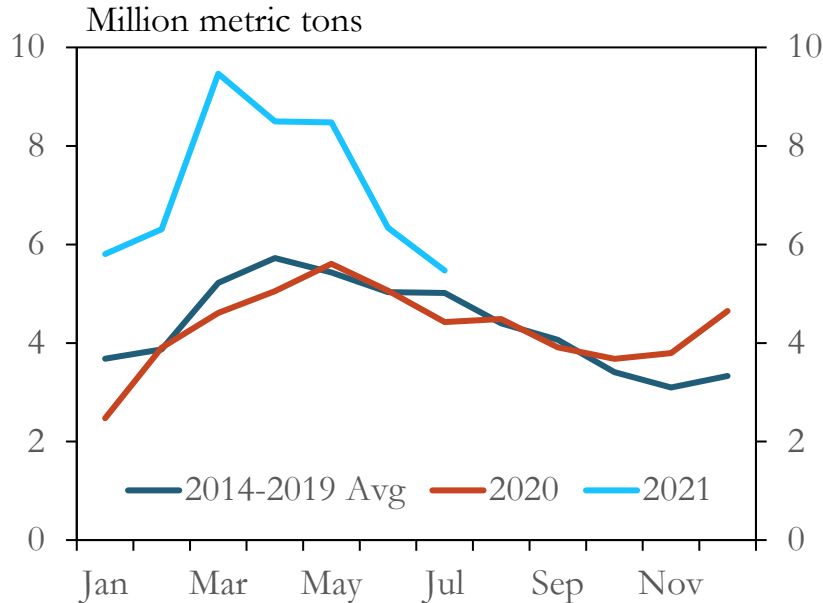
Drought has also impacted the cattle industry, and herds have declined in states where dry conditions are severe and widespread.

Drought and Change in Cattle Inventories



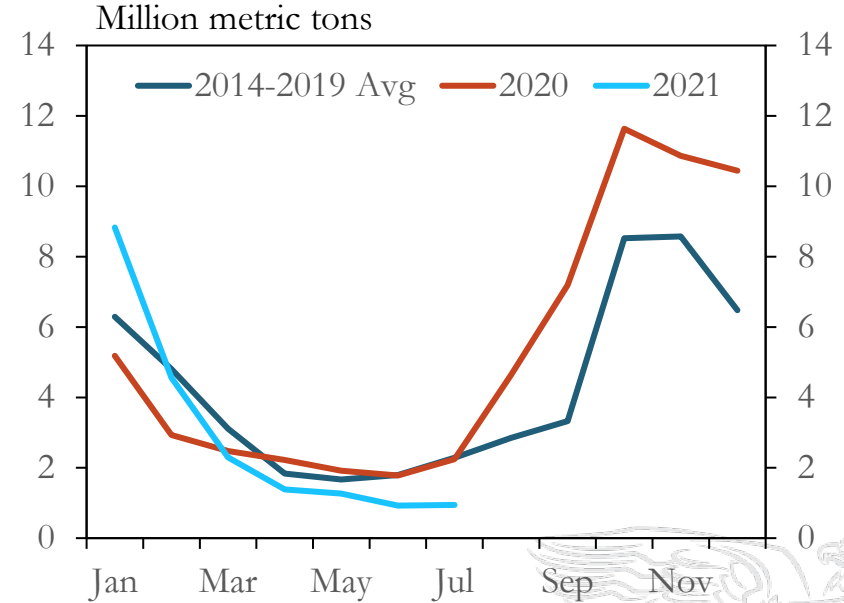
Parts of the U.S. have seen reduced productivity, but exports have soared.

Corn Exports

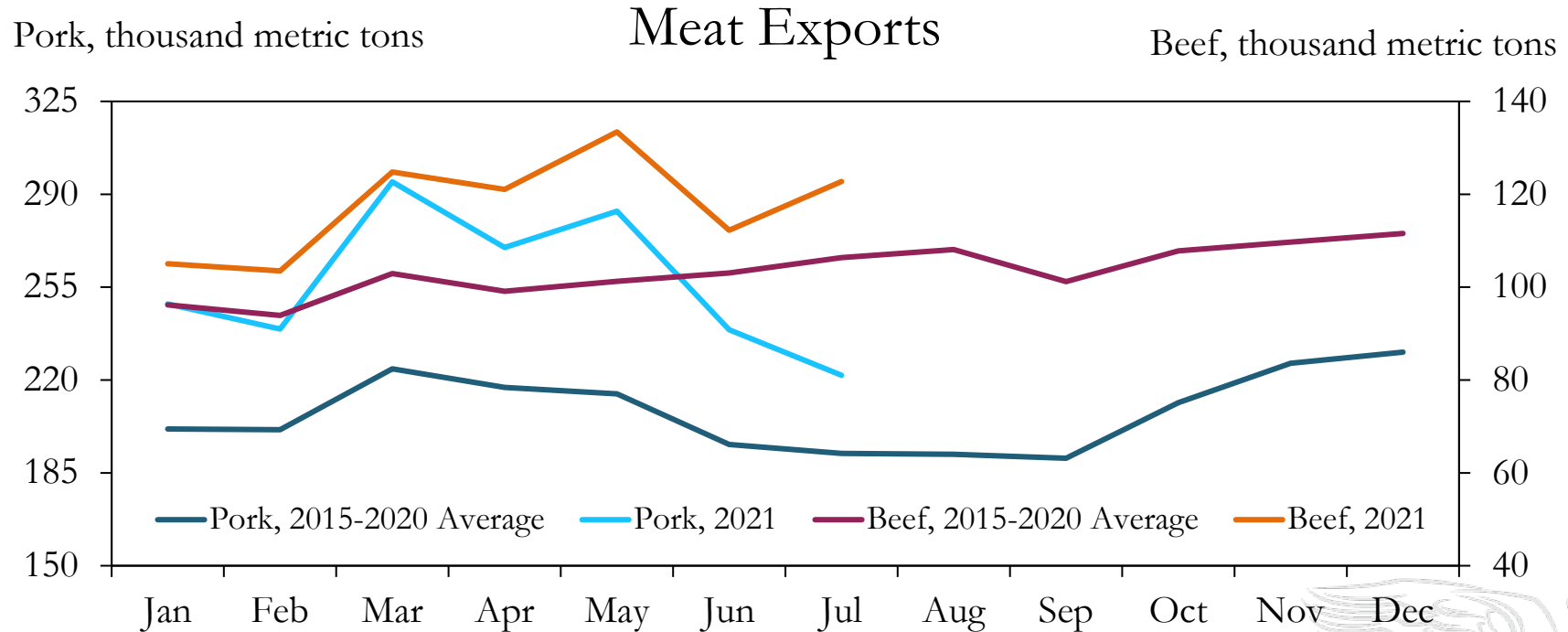


Sources: USDA, NOAA, and UNL Drought Monitor

Soybean Exports

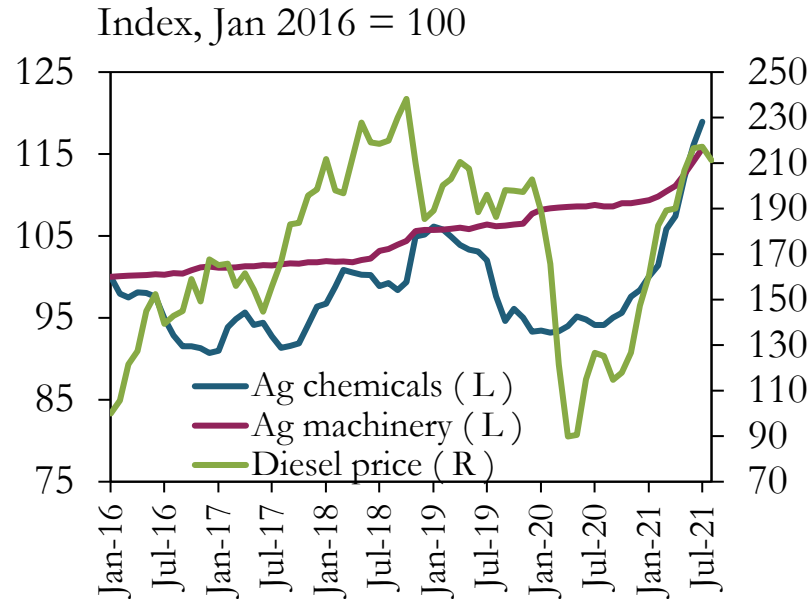


Meat exports also have been very strong in 2021, reaching record levels in recent months.

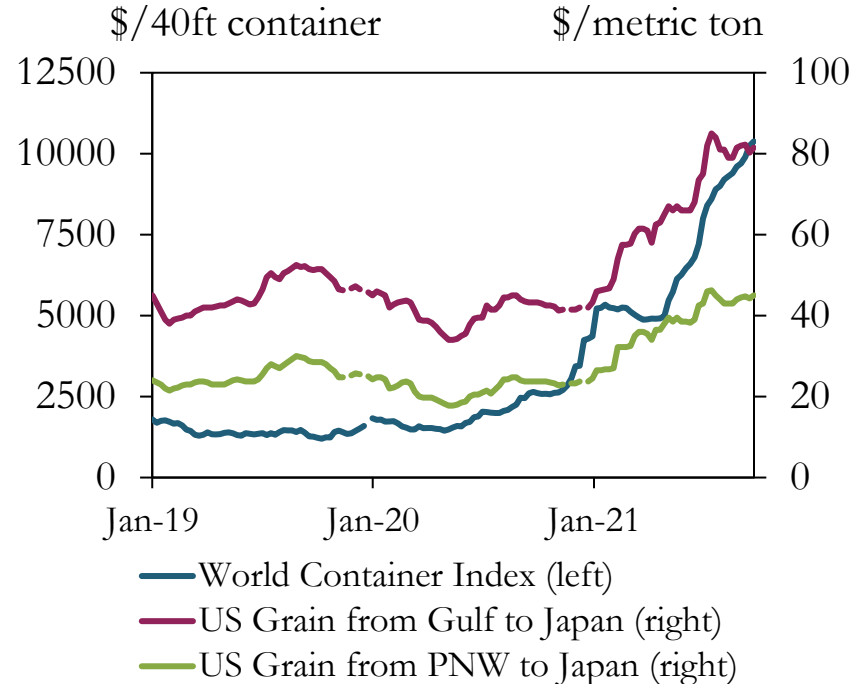


Production and transportation costs have increased and could remain elevated.

Farm Production and Machinery Costs



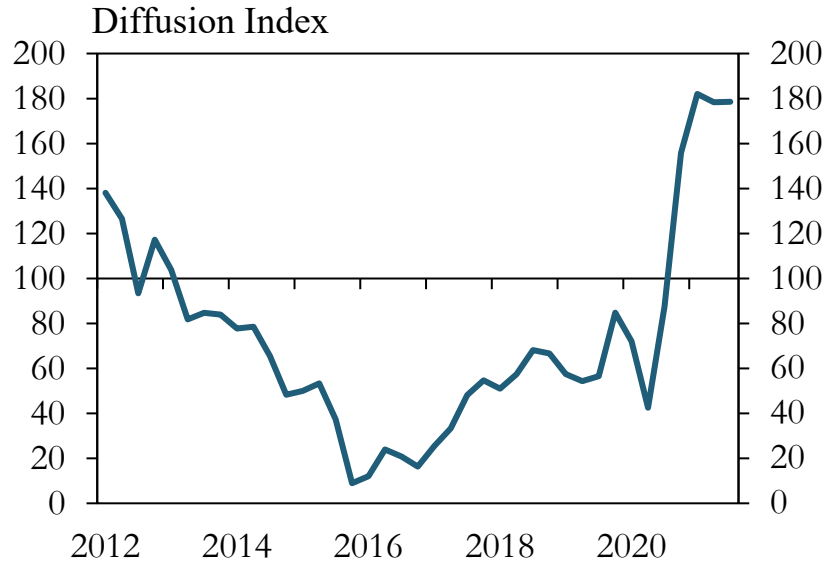
Ocean Freight Rates



Sources: USDA, Drewry (Bloomberg), and FRB St. Louis (FRED)

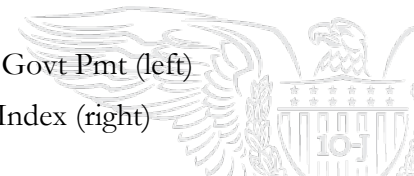
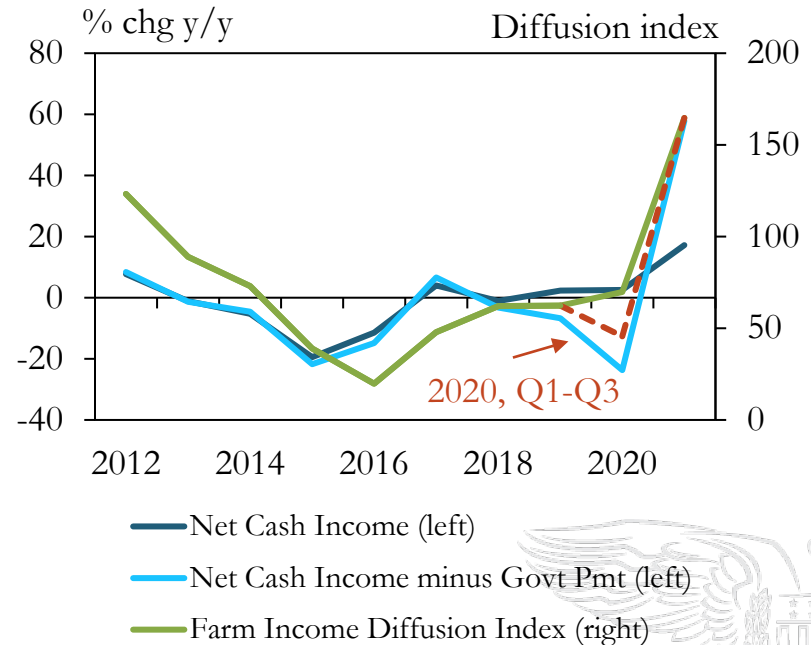
In Kansas, the pace of increase in farm income stabilized somewhat in the 2nd quarter.

Kansas Farm Income



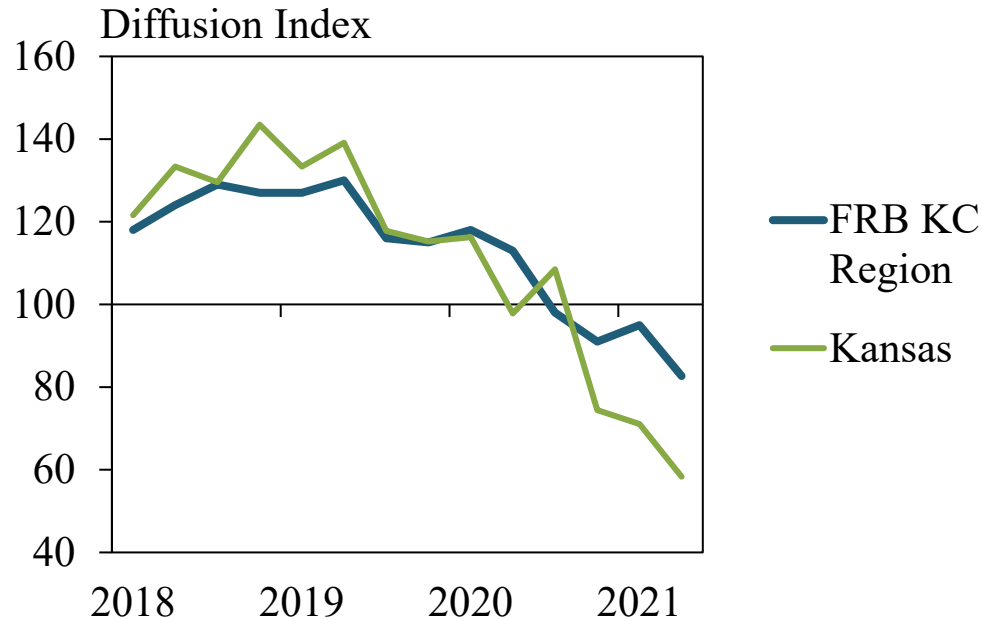
Source: Federal Reserve Bank of Kansas City.

Farm Income: USDA and FRB KC

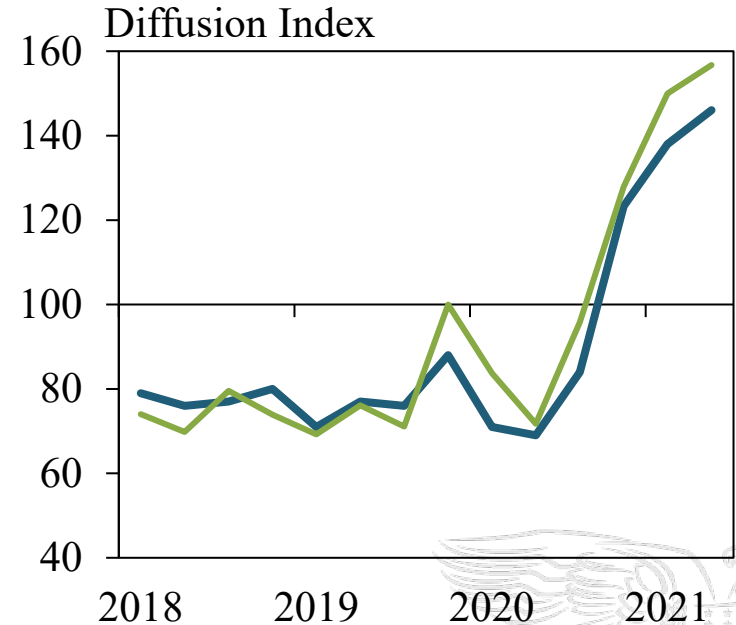


Agricultural credit conditions remain strong, but demand for farm loans has declined notably.

Farm Loan Demand



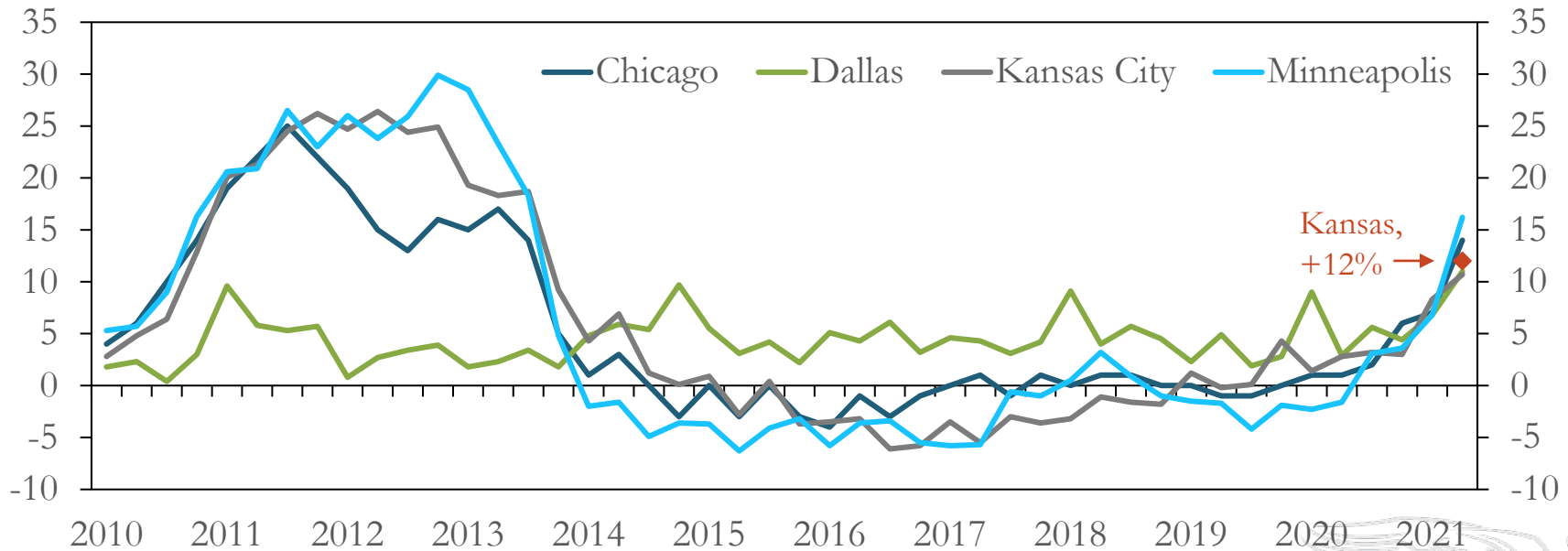
Farm Loan Repayment Rates



Source: Federal Reserve Bank of Kansas City.

Farmland values have reached record levels in some areas following sharp increases in recent quarters.

Nonirrigated Cropland Values

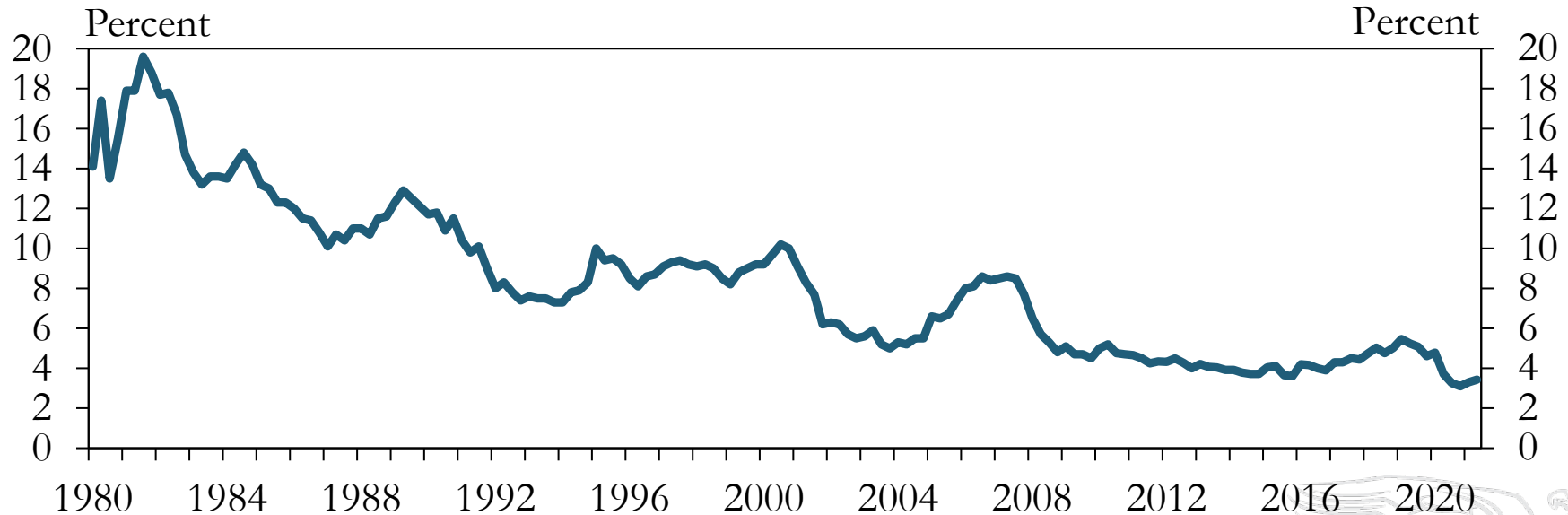


Sources: Federal Reserve Banks of Chicago, Dallas, Kansas City, Minneapolis, and St. Louis.



Historically low interest rates also have supported farm finances and farmland values.

Interest Rates on Non-Real Estate Farm Loans

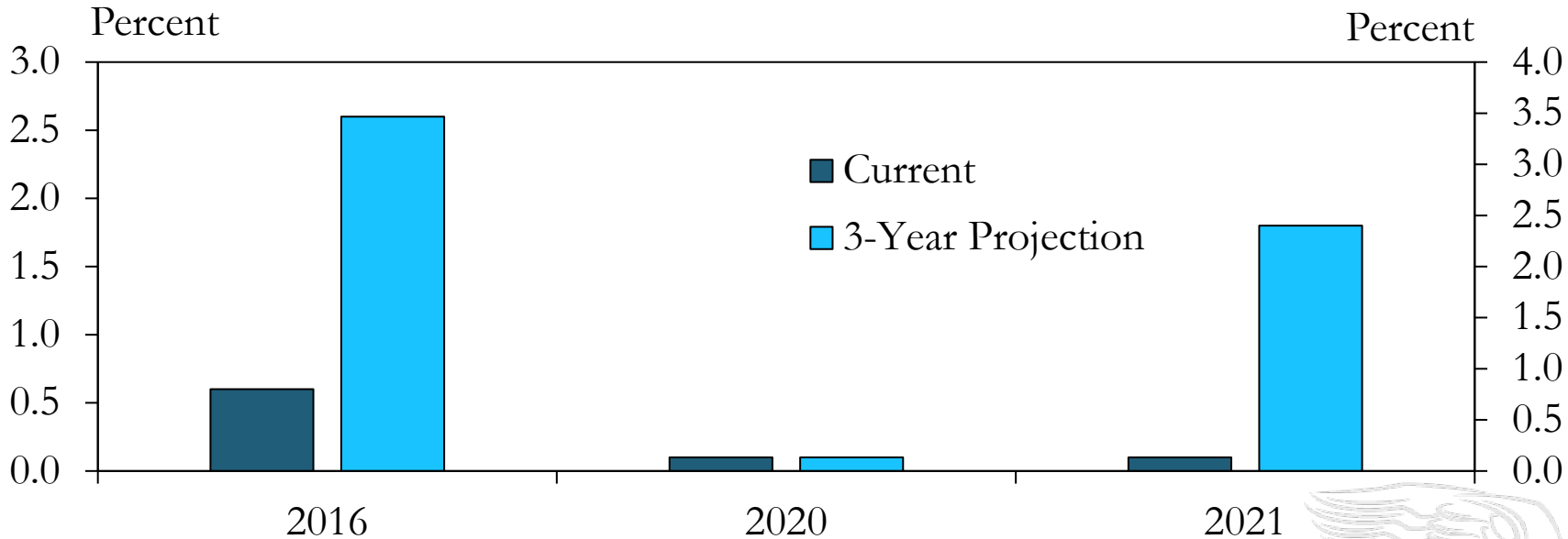


Sources: Federal Reserve Bank of Kansas City.



Expectations of long-term interest rates declined in the aftermath of the pandemic but have risen in 2021.

Median Federal Funds Rate, September



Source: Federal Open Market Committee Summary of Economic Projections (Board of Governors).



Concluding Thoughts

- The outlook for agricultural economy remains strong.
 - High commodity prices
 - Government support
 - Low interest rates
- Risks to the outlook for farm finances include drought and higher costs of production.
- The combination of low demand for farm loans and historically low interest rates has contributed to compressed interest margins for many agricultural lenders, but several factors have provided support to bank financial performance.
 - Government lending programs, such as PPP
 - Stronger financial conditions for borrowers
 - Demand for non-agricultural loans



Questions?

Cortney Cowley

Senior Economist

Federal Reserve Bank of Kansas City

Cortney.Cowley@kc.frb.org

Twitter: @CortneyCowley

For more information:

<https://www.kansascityfed.org/research/agriculture>



