

Agricultural Finance Update

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September 24, 2020

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.



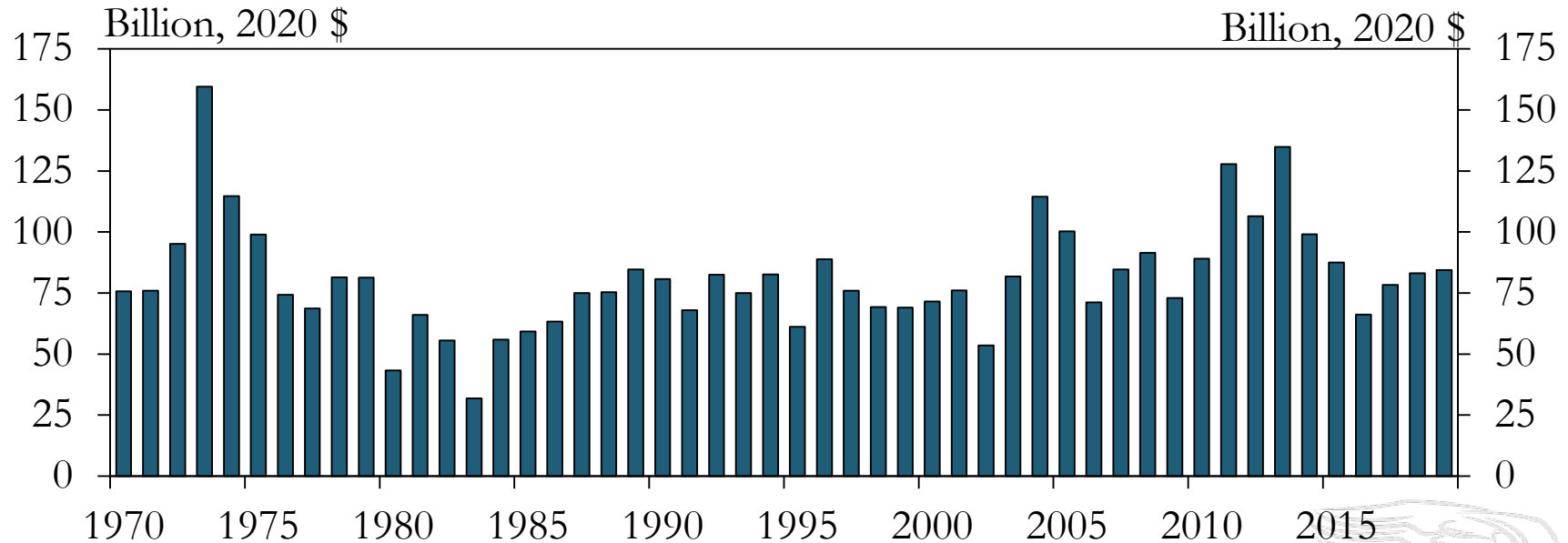
Outlook Themes

- In contrast to the broader economy, U.S. agriculture had been in a prolonged downturn even before the pandemic.
- Economic conditions in agriculture have improved since April, but due in large part to government payments.
- Agricultural credit conditions have remained weak, but farm real estate markets have provided support.



The U.S. ag economy had been weak prior to 2020, despite modest increases in farm income.

U.S. Net Farm Income

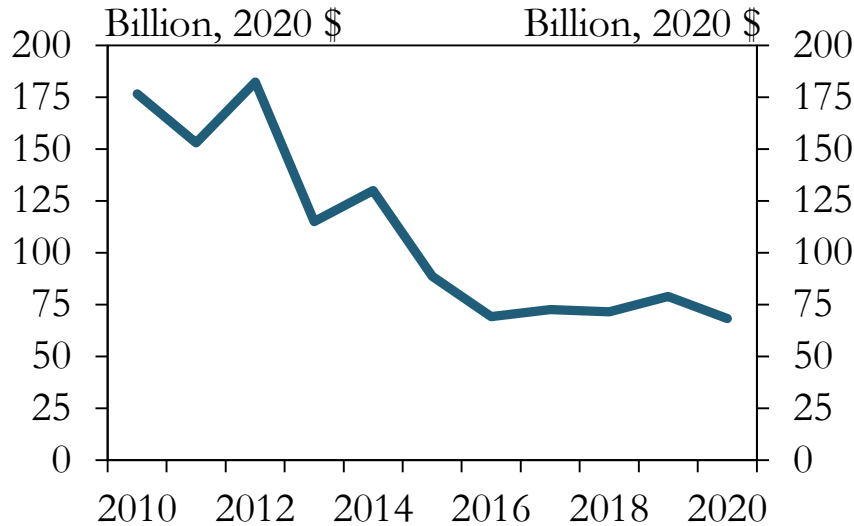


Source: USDA.

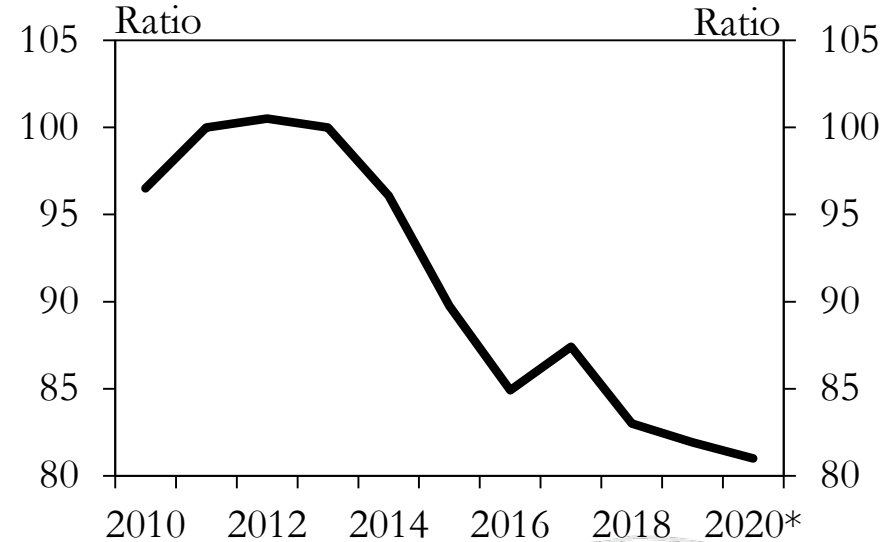


Even before the pandemic, liquidity was expected to deteriorate alongside low profit margins.

U.S. Farm Sector Working Capital



Ag Prices Received-to-Prices Paid



*Annual average through July 2020

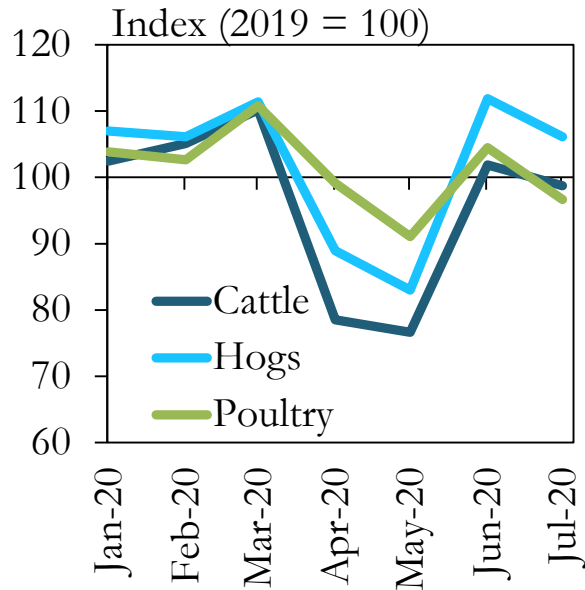
Note: Working capital for 2020 is USDA forecast as of September 2, 2020.

Sources: USDA and Haver Analytics.

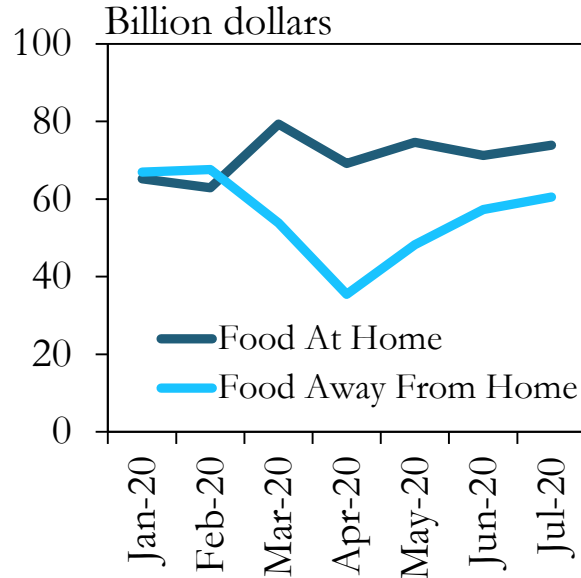


The pandemic disrupted agricultural markets in several key ways.

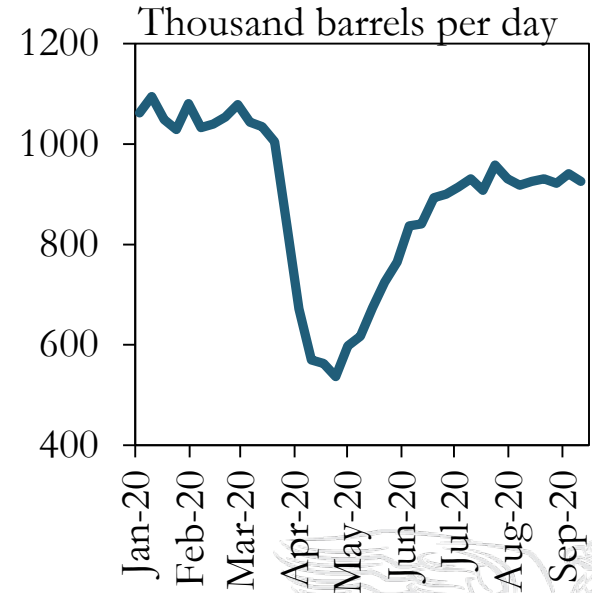
U.S. Meat Production



U.S. Food Expenditures



U.S. Ethanol Production

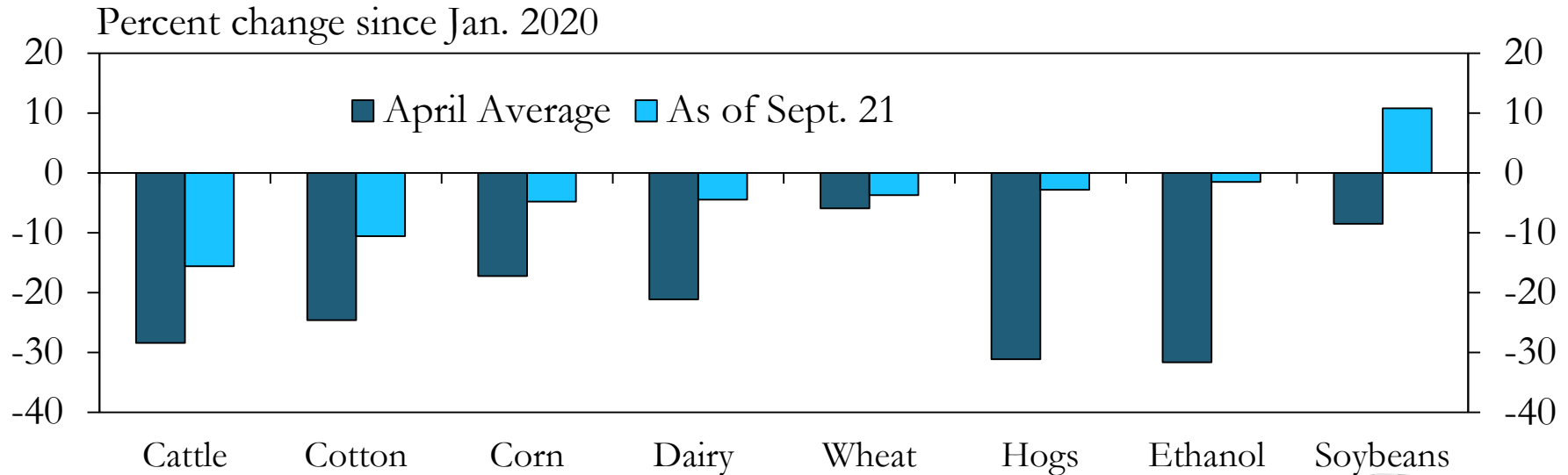


Sources: USDA, EIA and staff calculations.



Since April, the prices of some ag commodities have improved slightly, but most remain low.

Agricultural Commodity Prices

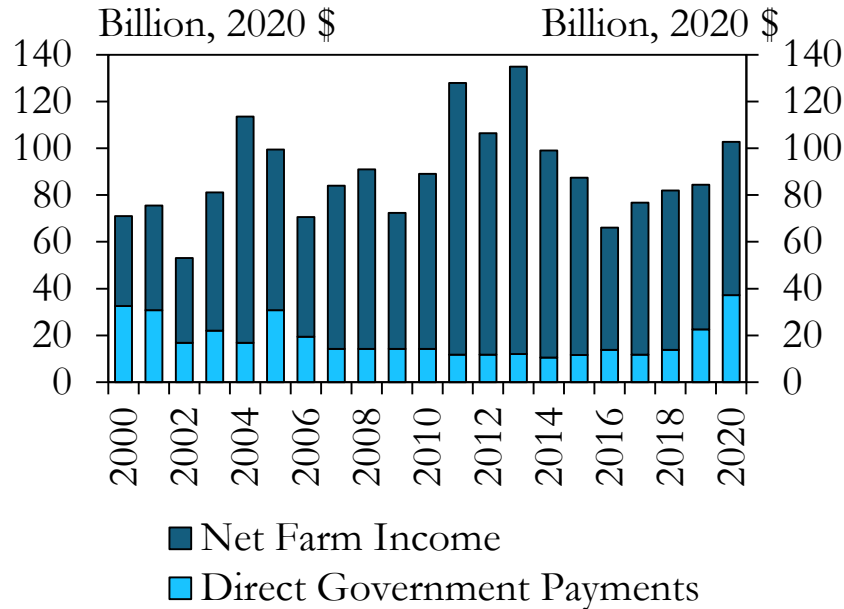


Sources: CME, WSJ and Haver Analytics.

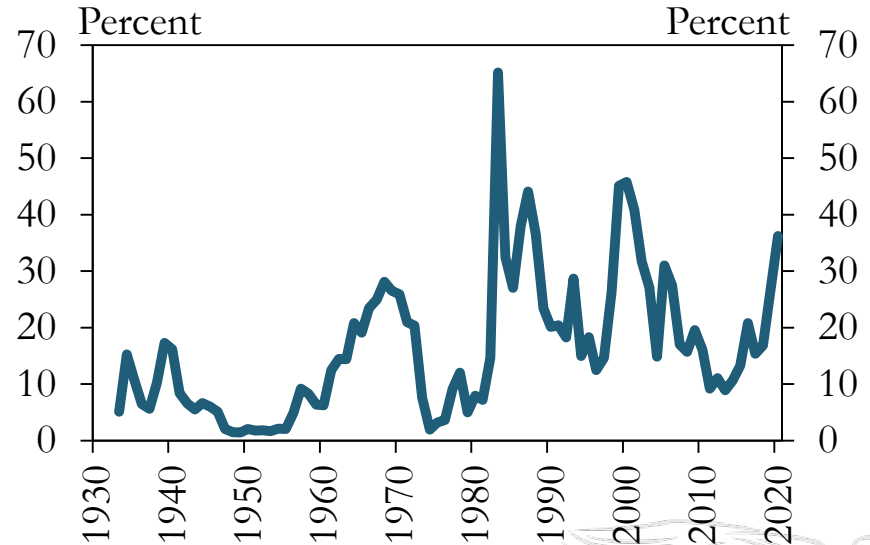


Farm income is now expected to be much higher than a year ago due to ad hoc government payments.

U.S. Net Farm Income



Direct Government Payments as a Share of Farm Income

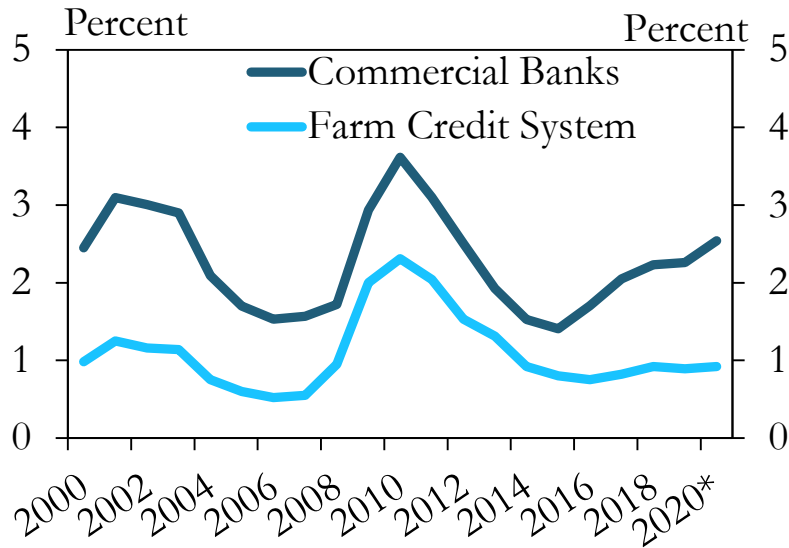


Source: USDA.



Delinquency rates on farm loans have trended higher, but the increases have been modest.

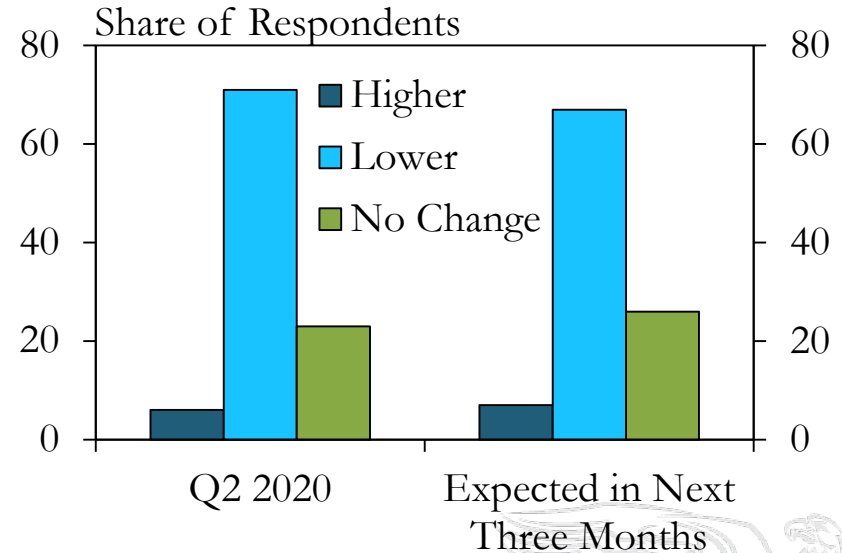
Farm Loan Delinquency Rates



*As of Q2 2020

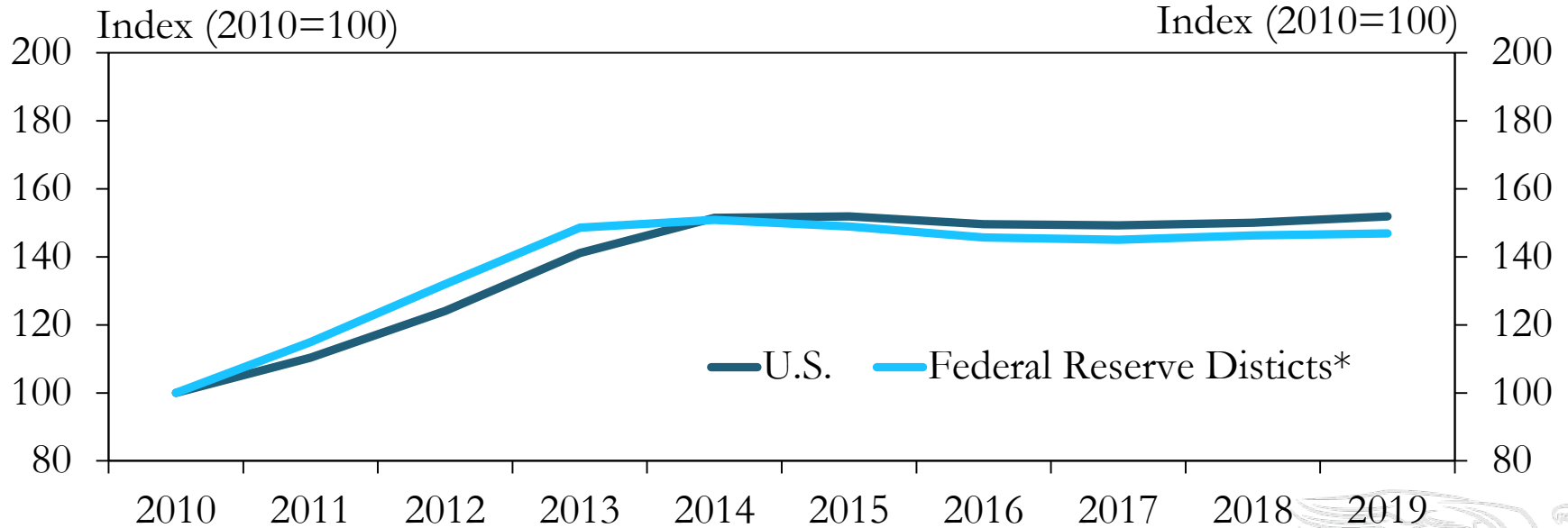
Sources: Board of Governors, Farm Credit Administration, and Survey of Agricultural Credit Conditions.

Change in Farm Borrower Liquidity KC Fed District: Q2, 2020



The strength of farmland markets has supported ag credit conditions and farm balance sheets.

Farm Real Estate Values



*Average of indices for each participating District – Chicago, Kansas City, Minneapolis, St. Louis, and Dallas.

Sources: USDA, Federal Reserve Surveys of Agricultural Credit Conditions and staff calculations.



Concluding Thoughts

- The potential for severe difficulties in agriculture associated with the pandemic has lessened, for now.
- Concerns appear likely to reemerge in 2021, however, as low agricultural commodity prices weigh on producer finances.



