



## Agricultural Economic Outlook

Women Managing the Farm  
Feb. 11, 2022



Proud Member of the Farm Credit System



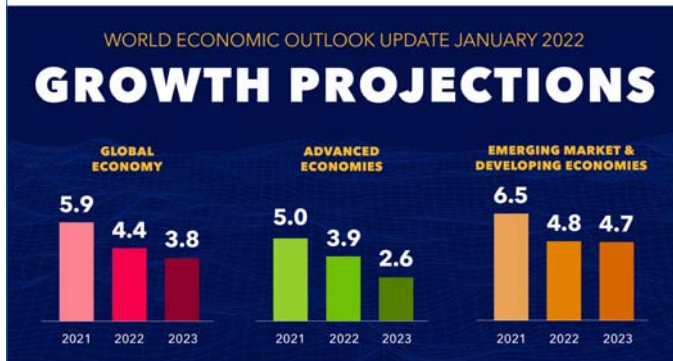
## Macro Economy



## Global Economic Recovery is Slowing

### Stalling the Recovery

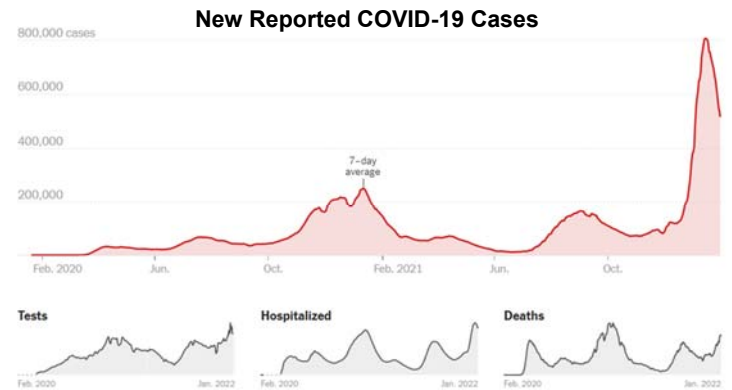
- Omicron variant
- Rising energy prices
- Supply chain disruptions
- China's real estate sector
- Withdrawal of monetary accommodation



Source: International Monetary Fund



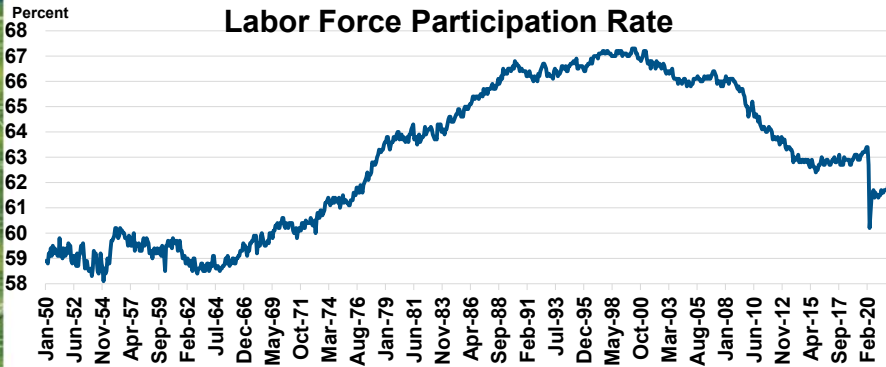
## COVID-19 Remains a Headwind on U.S. and World Economies



Source: The New York Times; CDC

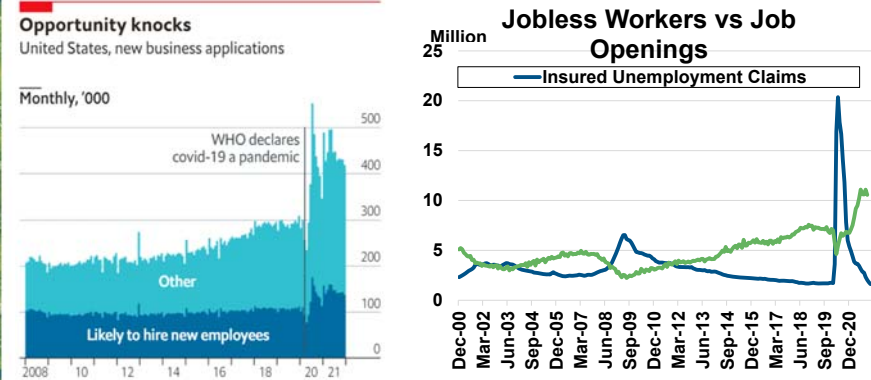


## Record Numbers of Workers have Dropped Out of the Workforce



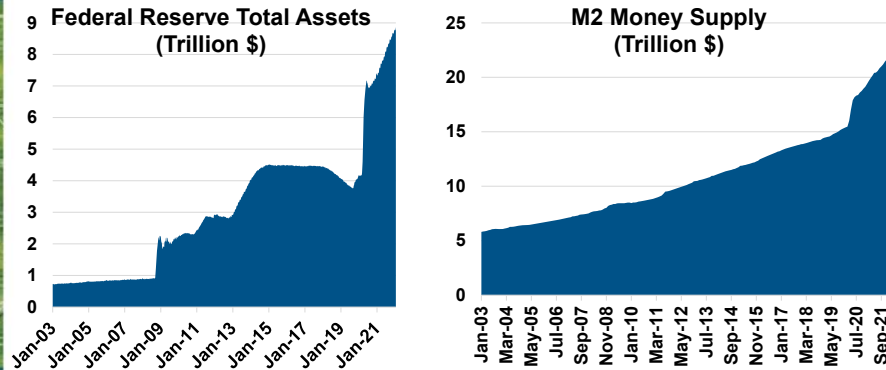
Source: FRED

## “The Great Resignation”: Why are So Many Jobs Unfilled?



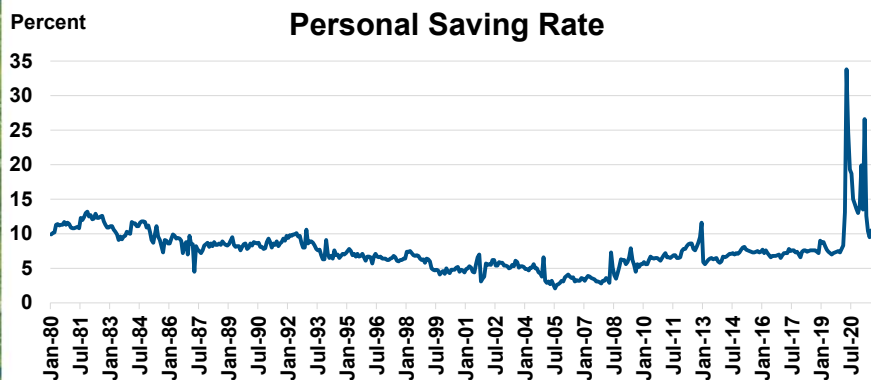
Source: The Economist; FRED

## The Fed has Printed Trillions of Dollars via Bond and Treasury Purchases



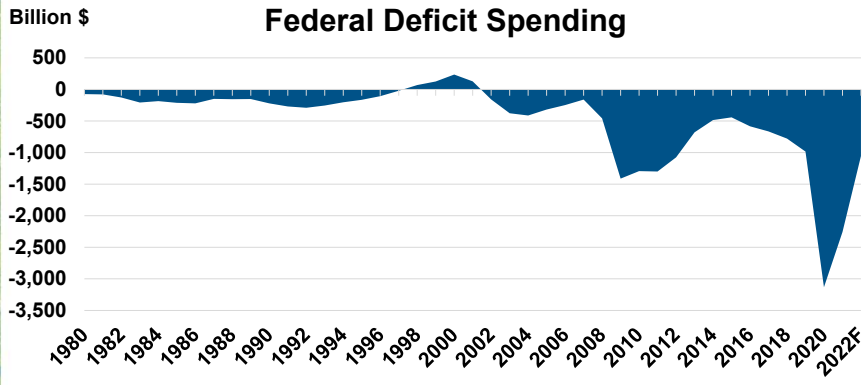
Source: FRED

## Consumers Saved Money Throughout Pandemic and are Now Spending It



Source: FRED

Federal Stimulus in Pandemic Injected Trillions of Dollars into the U.S. Economy



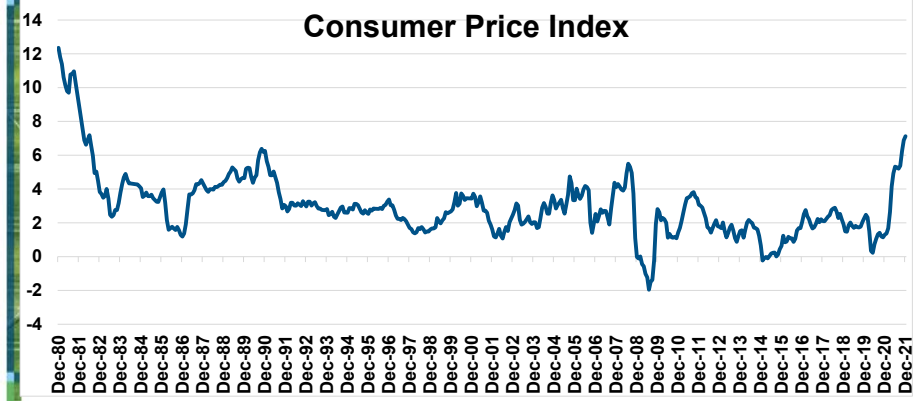
Source: CBO

U.S. GDP Growth in Q4-2021 Was the Strongest Q4 in Four Decades



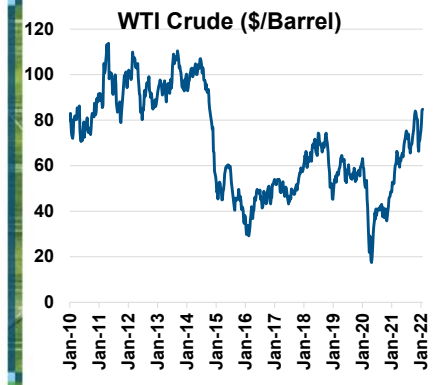
Source: The Federal Reserve Bank of Richmond

Inflation: Too Many Dollars Chasing Too Few Assets

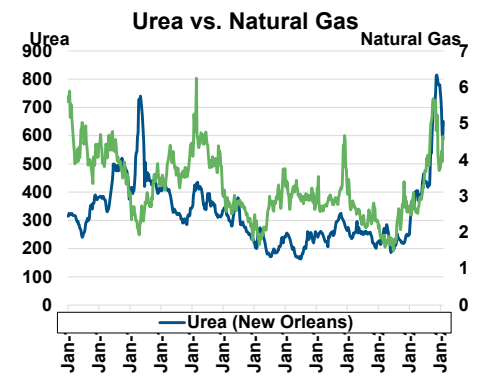


Source: FRED

Inflation in Energy Prices Affects Other Commodity Prices



Source: Bloomberg



## Armed Conflict with Russia Could Cause Spike in Energy Markets

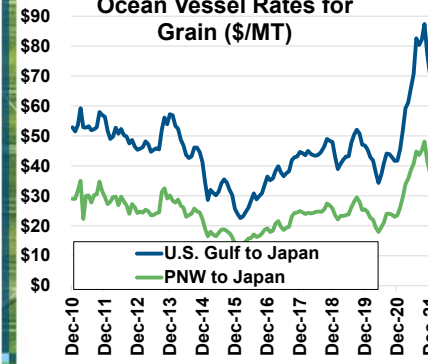
### Russian Oil & Gas Pipelines



Source: National Geographic

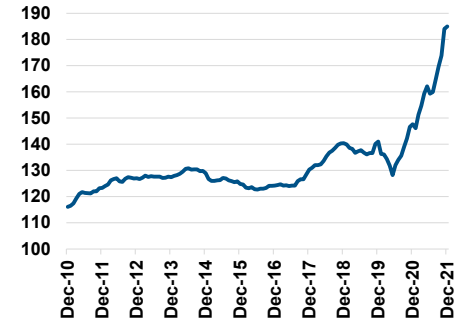
## Transportation Costs Rising on Surging Demand, Fuel, and Lack of Truckers

### Ocean Vessel Rates for Grain (\$/MT)

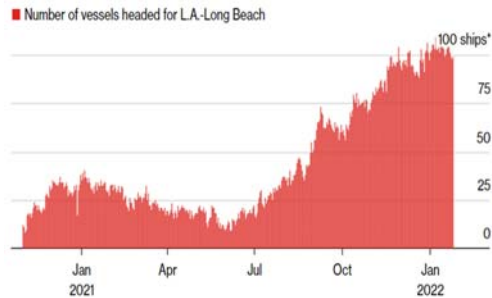


Source: USDA-AMS; FRED

### Long-Distance Freight Trucking Index



## Supply Chain Constraints Continue to Add Wait Times and Costs

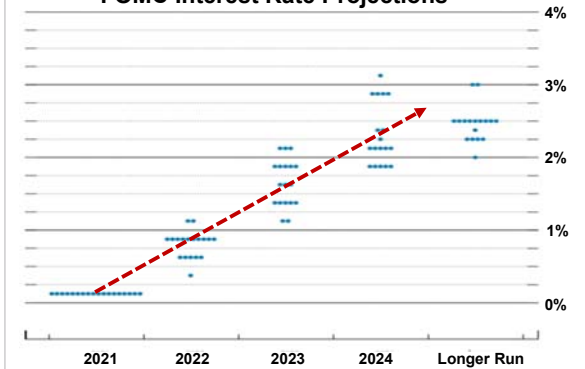


Source: Marine Exchange of Southern California & Vessel Traffic Service L.A./Long Beach; Bloomberg

## How Much Impact Can The Fed Have on Inflation?

- The Federal Reserve is expected to raise rates 3-5 times in 2022, starting in March.
- However, the Fed has no influence on major factors behind inflation:
  - Shipping and logistics congestion
  - Trucker shortage
  - China shutting down ports and cities because of COVID-19 outbreaks
  - Potential military conflict with Russia

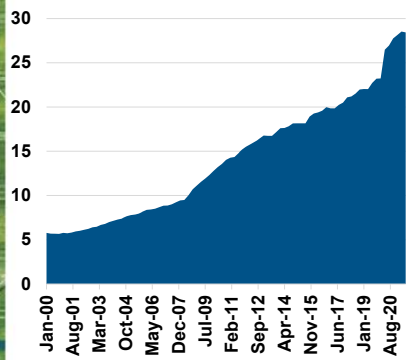
### FOMC Interest Rate Projections



Source: The Federal Reserve System

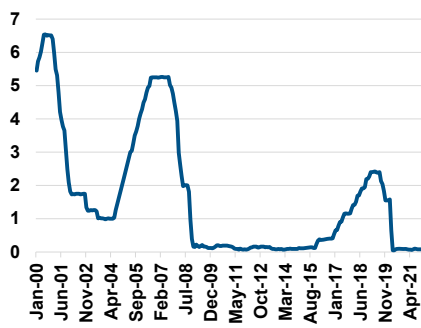
### Record Federal Debt Limits How High The Fed Can Raise Interest Rates

Trillion \$ **Federal Debt**



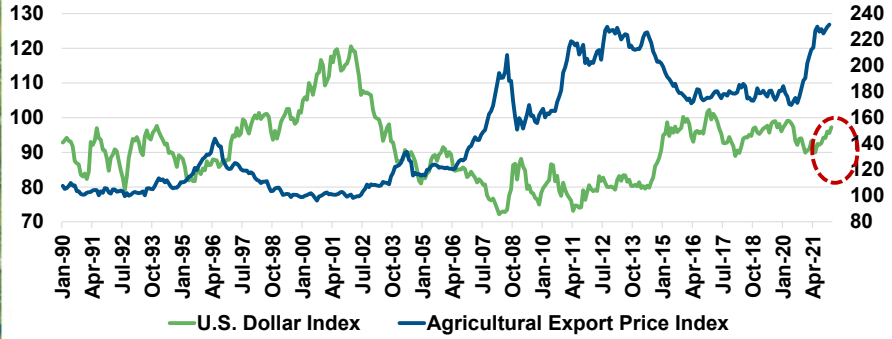
Source: FRED

Percent **Federal Funds Effective Rate**



### Tighter Money Supply Drives up Value of U.S. Dollar – A Headwind to Ag Exports

U.S. Dollar vs Ag Export Prices



Source: Barchart.com; FRED

### Value of U.S. Agricultural Exports Currently Expected to Climb in 2022

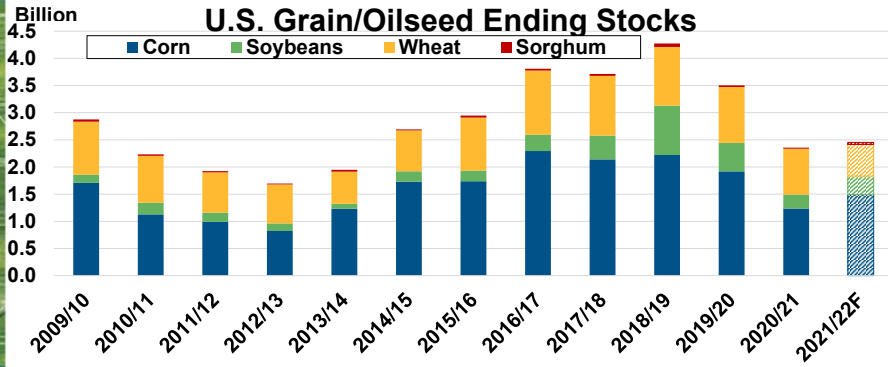
U.S. Agricultural Trade



Source: USDA-ERS

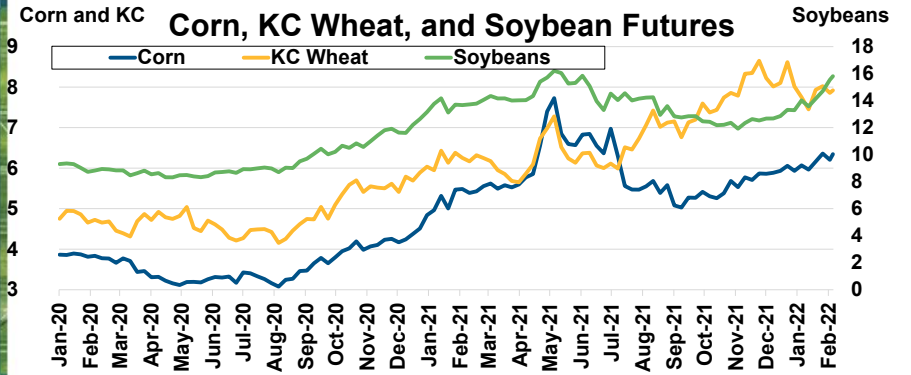
### Agricultural Markets

### Grain/Oilseed Inventories Are Higher YoY, but Are Still Tight



Source: USDA-ERS

### Ukraine Concerns, South American Drought are Lifting Grain/Oilseed Prices



Source: CME Group

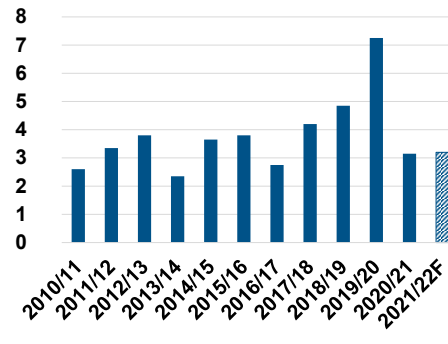
### Cotton Prices Accelerating on Recovery in Global Demand, Tight U.S. Supplies

Cotton Futures (Cents/Lb.)



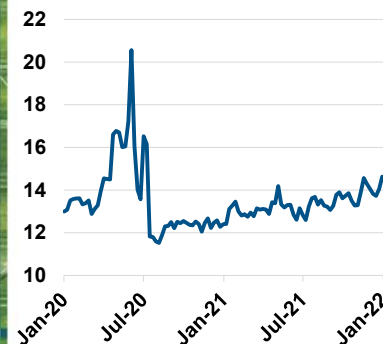
Source: NYMEX; USDA-ERS

U.S. Cotton Ending Stocks (Million Bales)



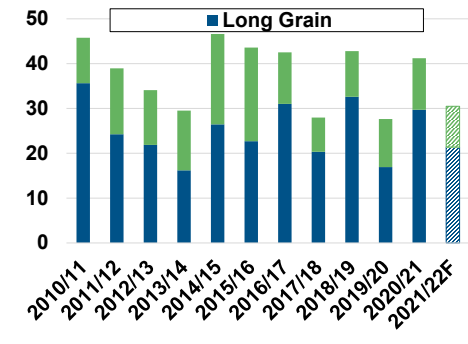
### Rice Prices Recovering Slowly, But Held Down by Ample Global Supplies

Rice Futures (\$/cwt)

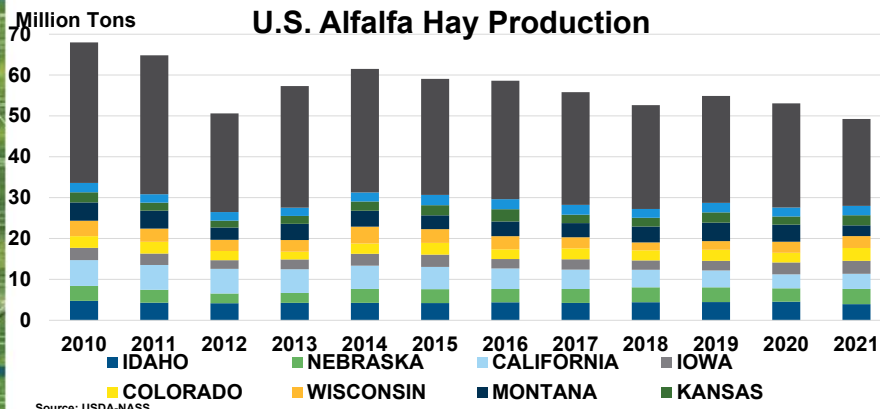


Source: CME Group; USDA-ERS

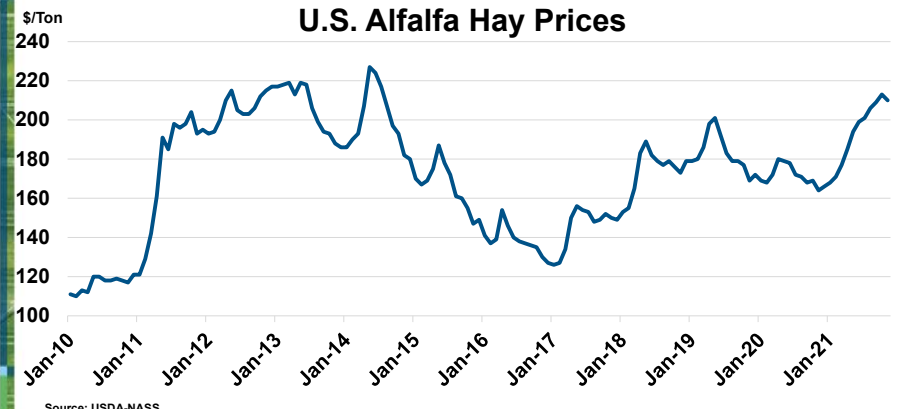
U.S. Rice Ending Stocks (Million Cwt.)



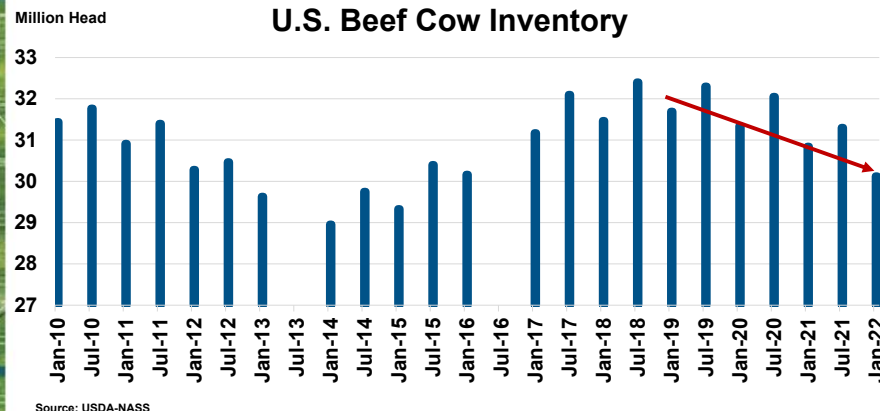
Hay Production has Fallen to Historical Lows on Drought, Extreme Heat



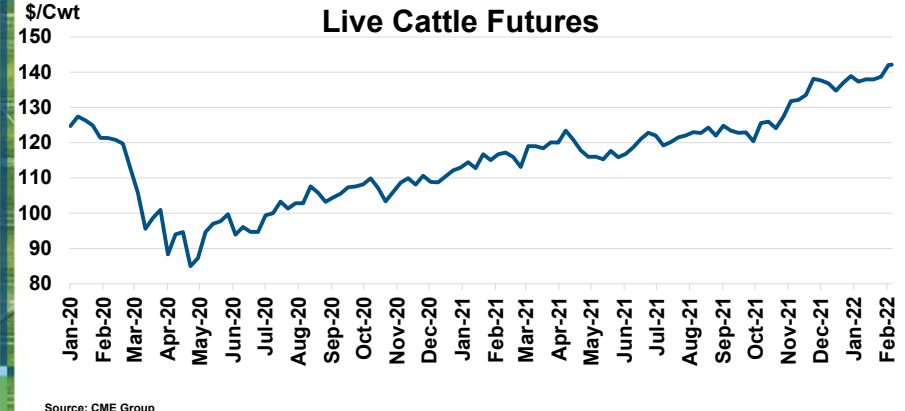
Hay Prices Continue to Climb to New Highs. Will Higher Prices Maintain Acreage?



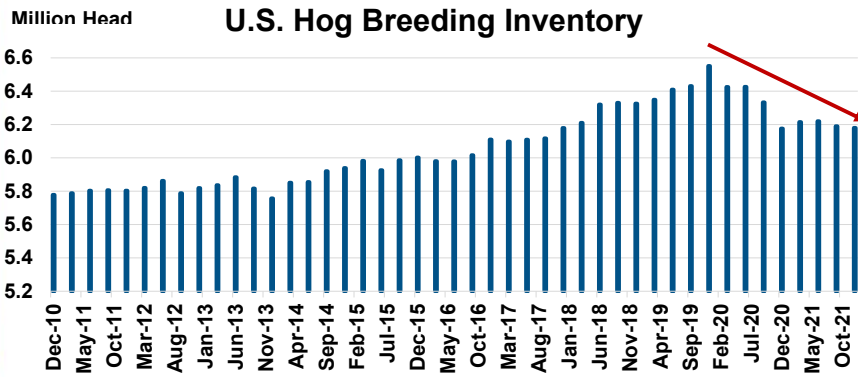
Beef Cow Numbers are at Multi-Year Lows, Implying Further Tightness in 2022



Beef Cattle Prices Lifted by Strong Packer Margins, Resilient Consumer Demand

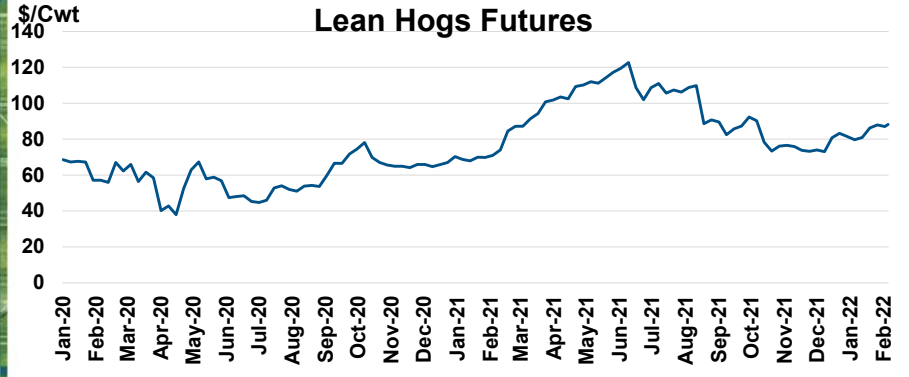


### Contraction of U.S. Hog Breeding Herd May Be Over



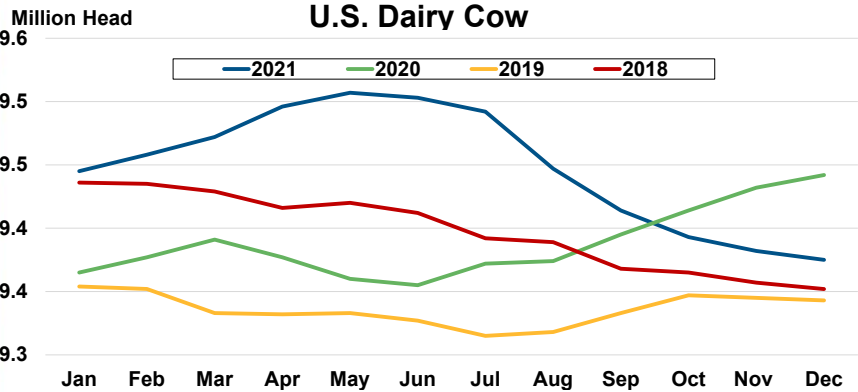
Source: USDA-NASS

### Hog Prices Down on Steep Losses in Chinese/Hong Kong Demand



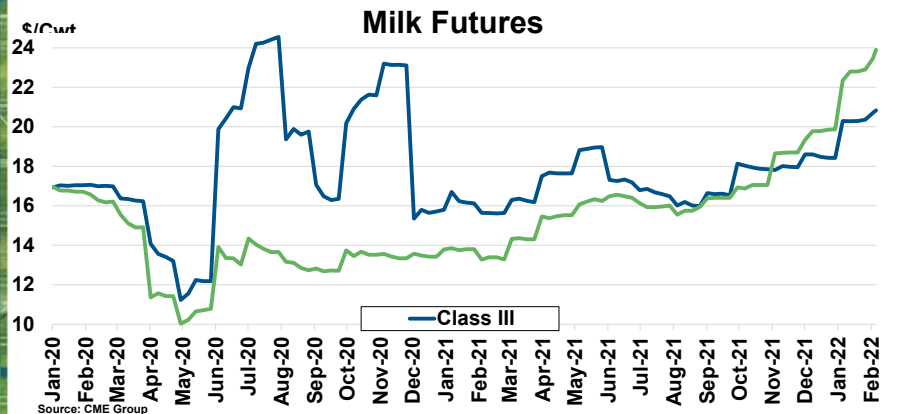
Source: CME Group

### U.S. Milk Collections are Falling as the U.S. Dairy Cow Herd Shrinks



Source: USDA-NASS

### Milk Prices Responding to Tight Supplies, Resilient Global Demand



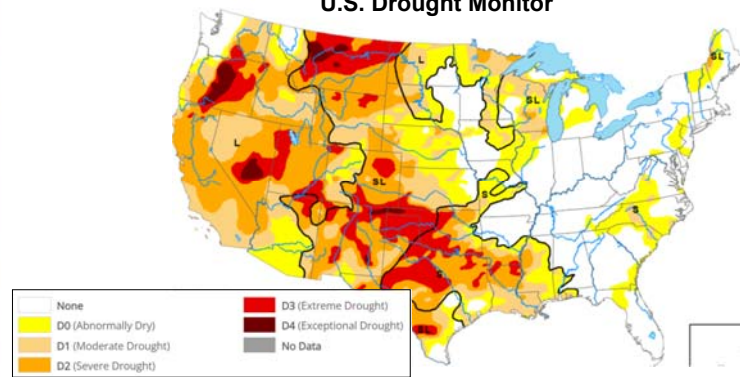
Source: CME Group



## Agricultural Economy

## Western Drought Has Diminished in Intensity, Raising Optimism for 2022

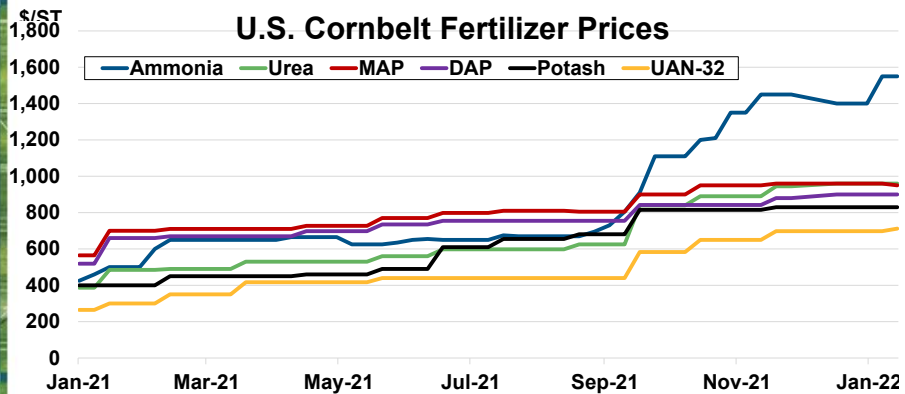
### U.S. Drought Monitor



Source: U.S. Drought Monitor, Feb. 4, 2022

## How will Fertilizer Prices Impact Acreage This Spring?

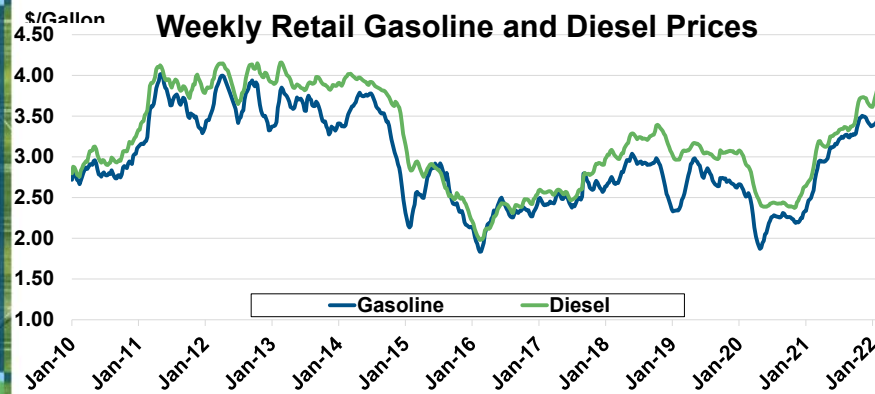
### U.S. Cornbelt Fertilizer Prices



Source: Bloomberg

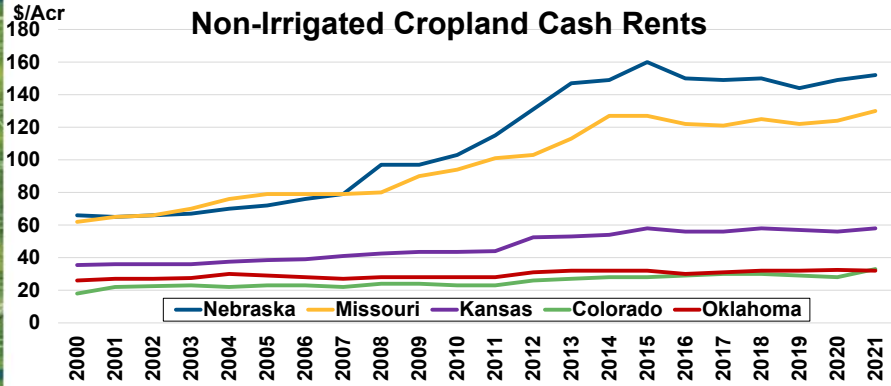
## Fuel Costs Are Rising. Ukraine-Russia Conflict May Accelerate Price Rise.

### Weekly Retail Gasoline and Diesel Prices



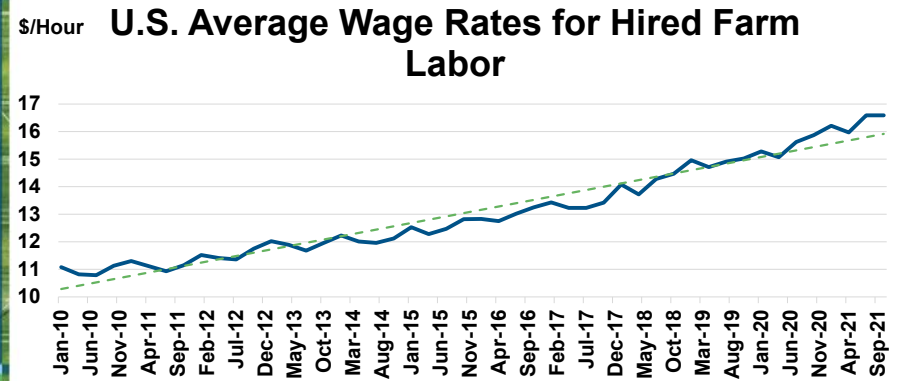
Source: EIA

### Farmland Cash Rents are at or Near Record Highs



Source: USDA-NASS

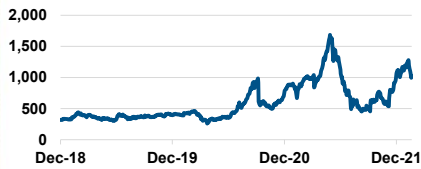
### Farm Labor Expense Continues to Rise Nationally, and Is Accelerating



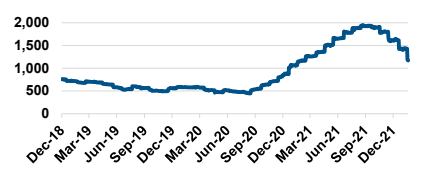
Source: USDA-NASS

### Construction Costs Remain Elevated or are Rising

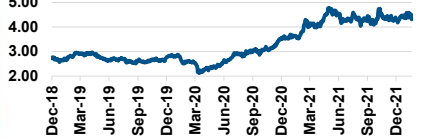
Lumber (\$/1,000 Board Ft.)



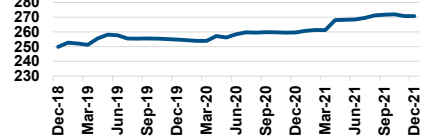
Hot-Rolled Coil Steel (\$/Ton)



Copper (\$/Lb.)



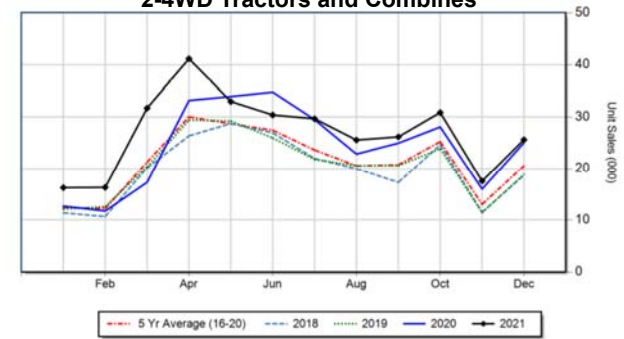
Cement (US PPI Cement Manufacturing)



Source: Bloomberg

### Ag Machinery Sales have Been Resilient, but Wait Times are Long

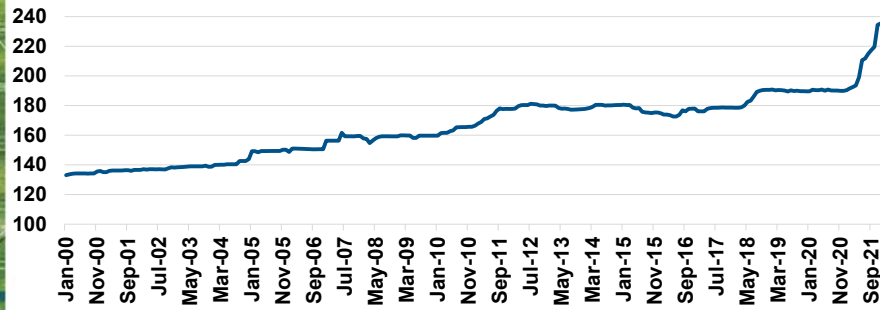
U.S. Retail Sales  
2-4WD Tractors and Combines



Source: Association of Equipment Manufacturers

Prices for Farm Machinery and Parts are Accelerating

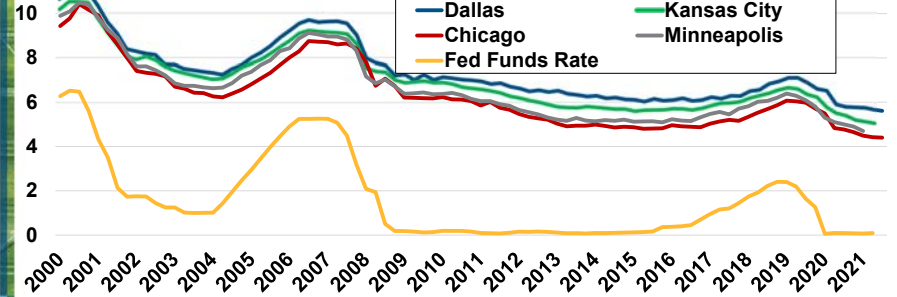
Farm Machinery and Equipment Manufacturing PPI



Source: Federal Reserve Bank of St. Louis

Farm Interest Expense will Increase as The Fed Raises Rates

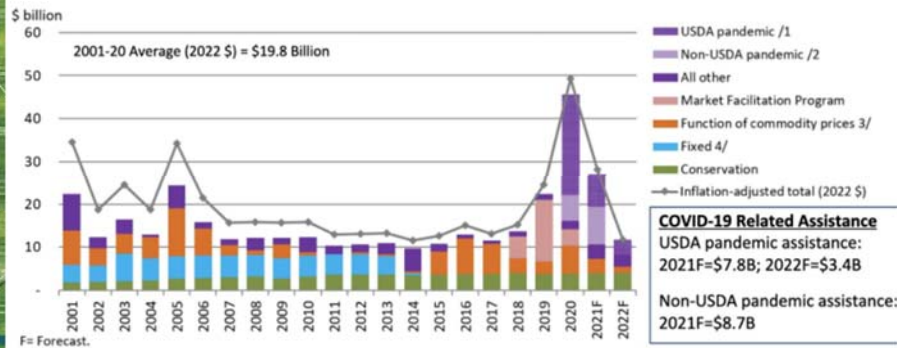
Farm Operating Loan Rates by Fed Districts vs Fed Funds Rate



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

Government Payments to Farmers Expected to Fall in 2022

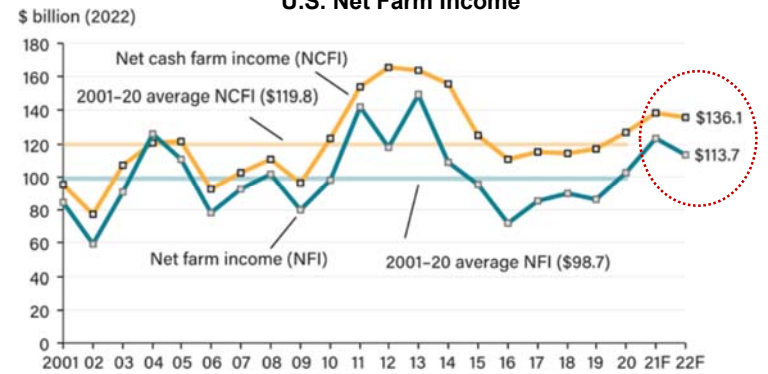
U.S. Government Direct Payments to Farmers



Source: USDA-ERS

Net Farm Income Rose in Recent Years. Will Production Costs Lower it in 2022?

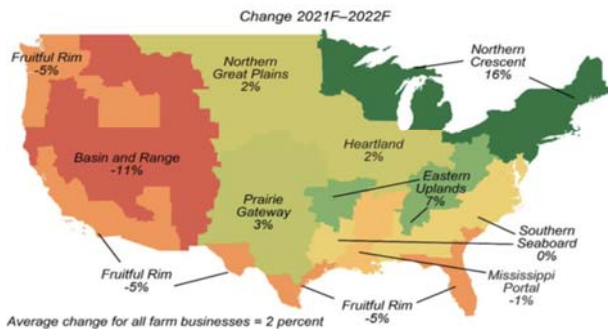
U.S. Net Farm Income



Source: USDA-ERS

## Change in U.S. Farm Net Cash Income Will Change by Region

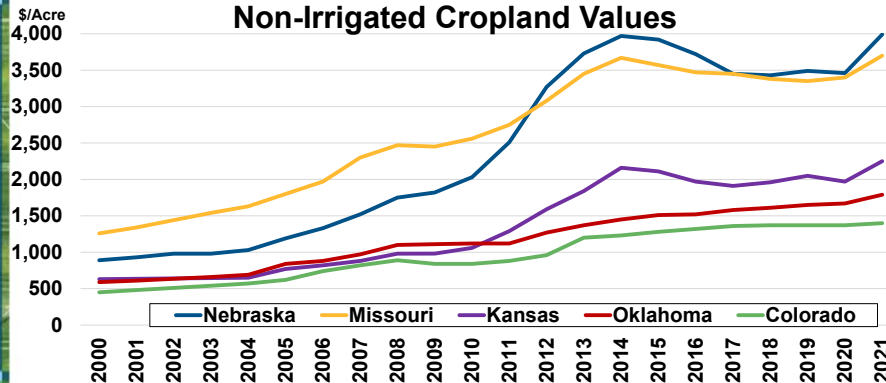
Farm businesses in 5 out of 9 regions expected to see higher average net cash income in 2022



Source: USDA-ERS

## Have Farmland Values Peaked?

### Non-Irrigated Cropland Values

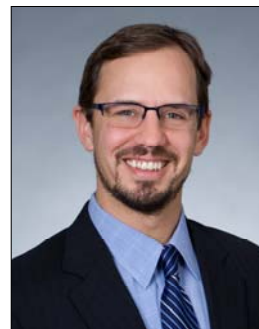


Source: USDA-NASS

## Summary

1. The Federal Reserve's strategy on interest rates depends on inflation.
2. Market anticipates 3-5 rate hikes of .25 point each in 2022.
3. Commodity prices across agriculture have improved.
4. Cost inflation erodes profitability of crop/livestock/dairy production.
5. Increase in ag commodity production may be muted or delayed.
6. Weakening of drought is necessary for a rebound in crop/livestock production
7. Farmland values may have peaked as interest rates rise and if net farm income drops.
8. Water policy may greatly affect land/water values in local markets with premiums paid for land with reliable water.

## Contact Information



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