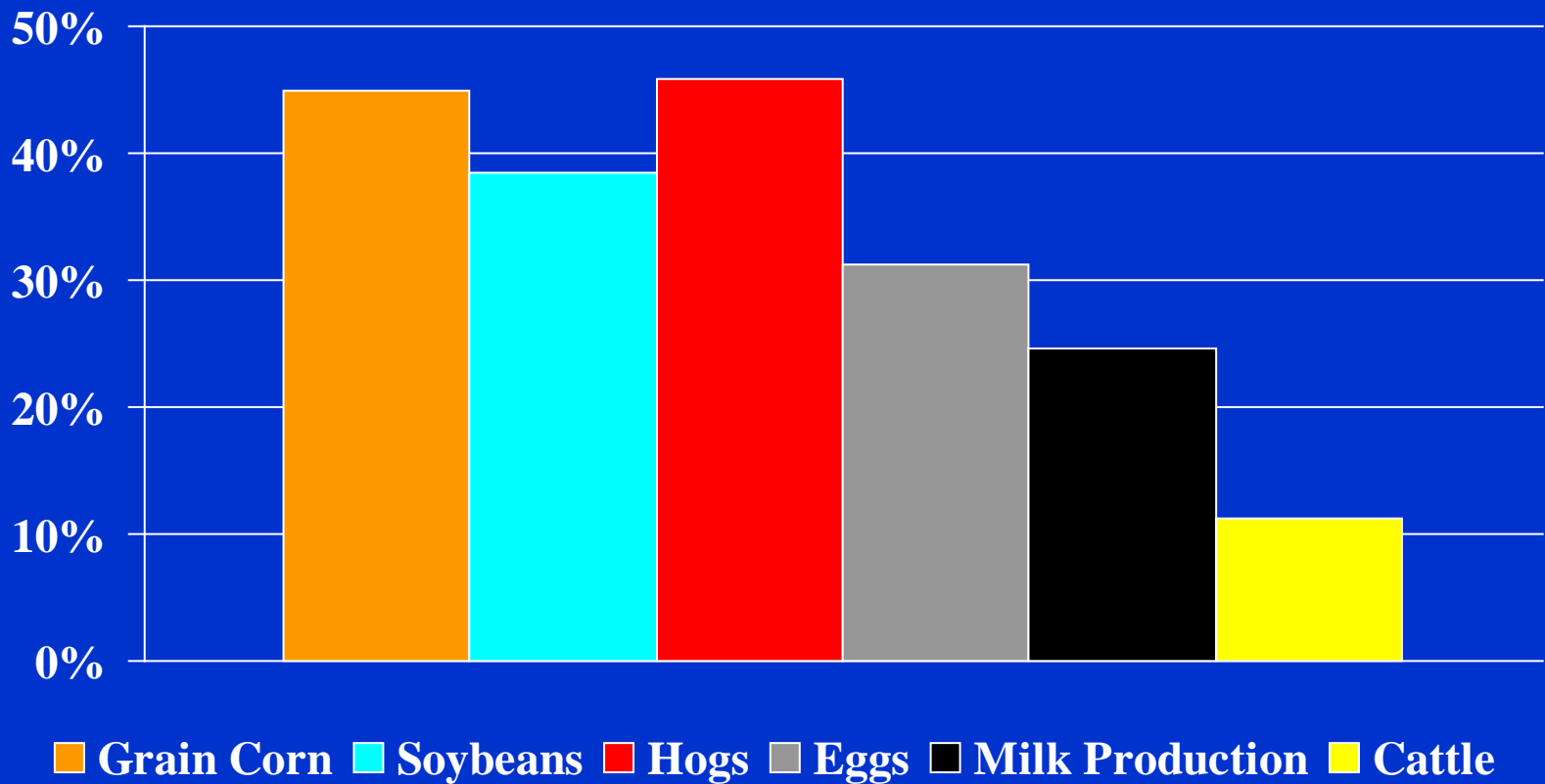

An Update on the Agricultural Economy

February 20, 2018
Federal Reserve Bank
of Chicago

David Oppedahl
Senior Business Economist
312-322-6122
david.oppedahl@chi.frb.org

7th District Agriculture Products

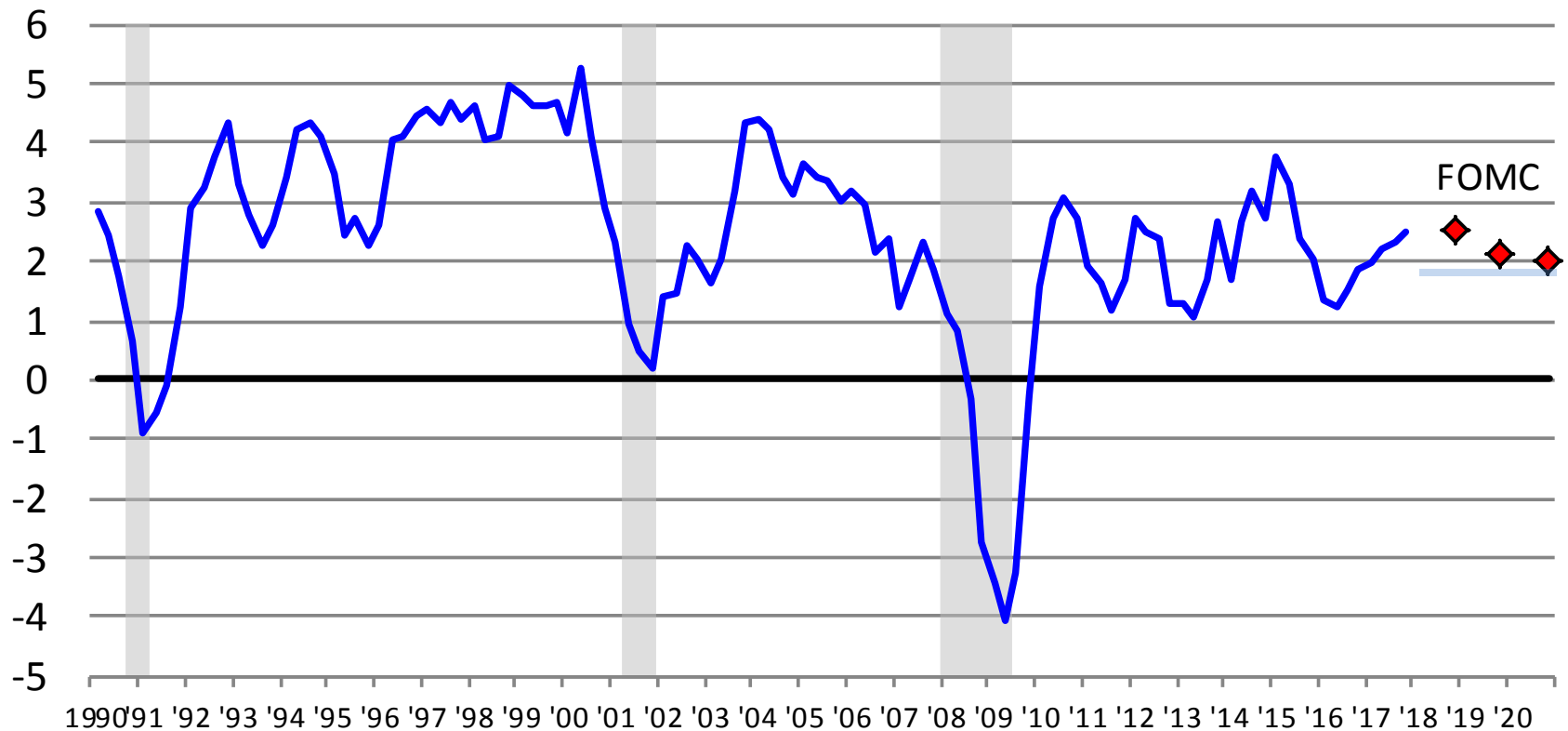
(as % of U.S. total, 2017)



The FOMC consensus outlook has output growth rising above trend this year before easing

Real gross domestic product

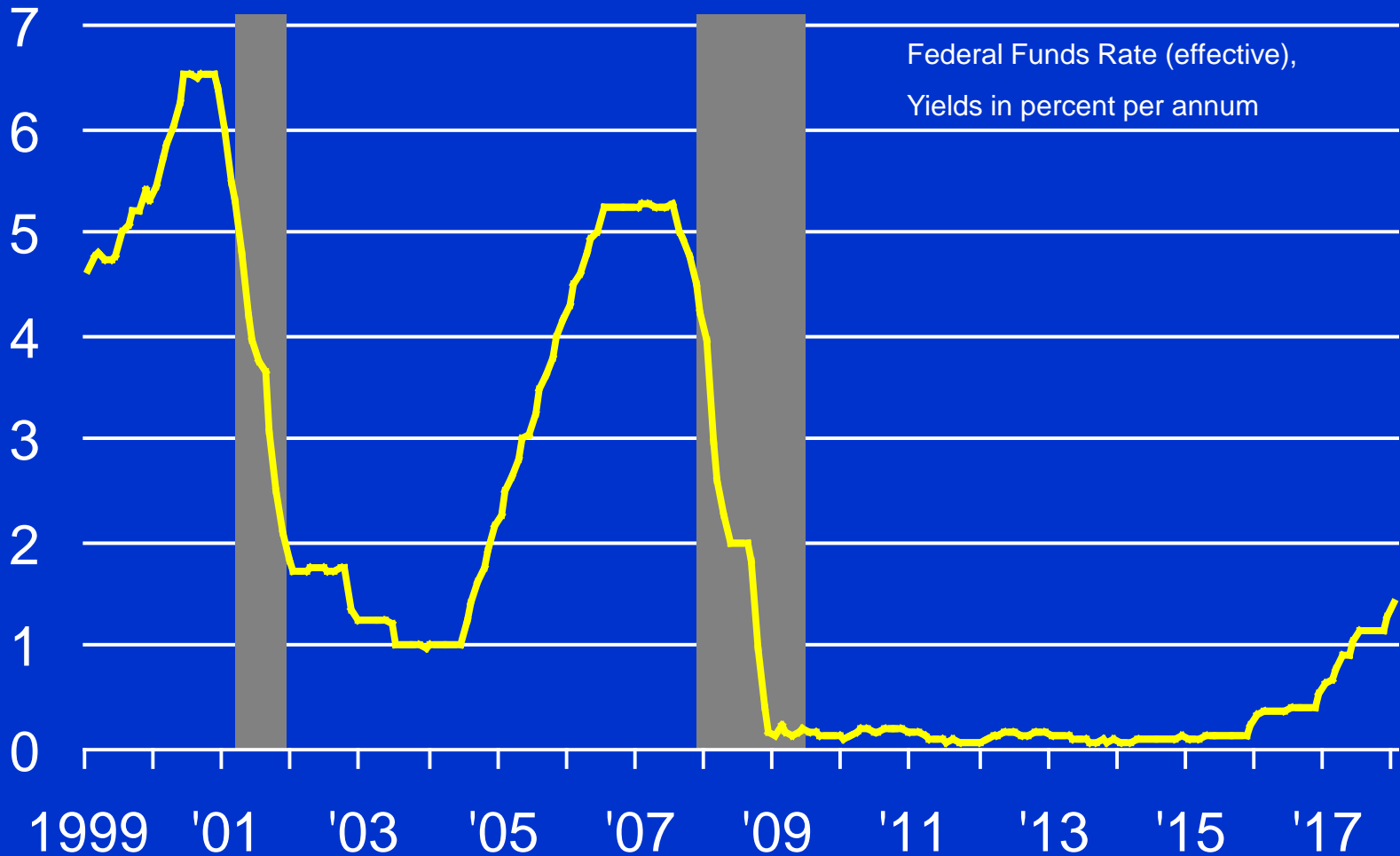
percent change from a year earlier



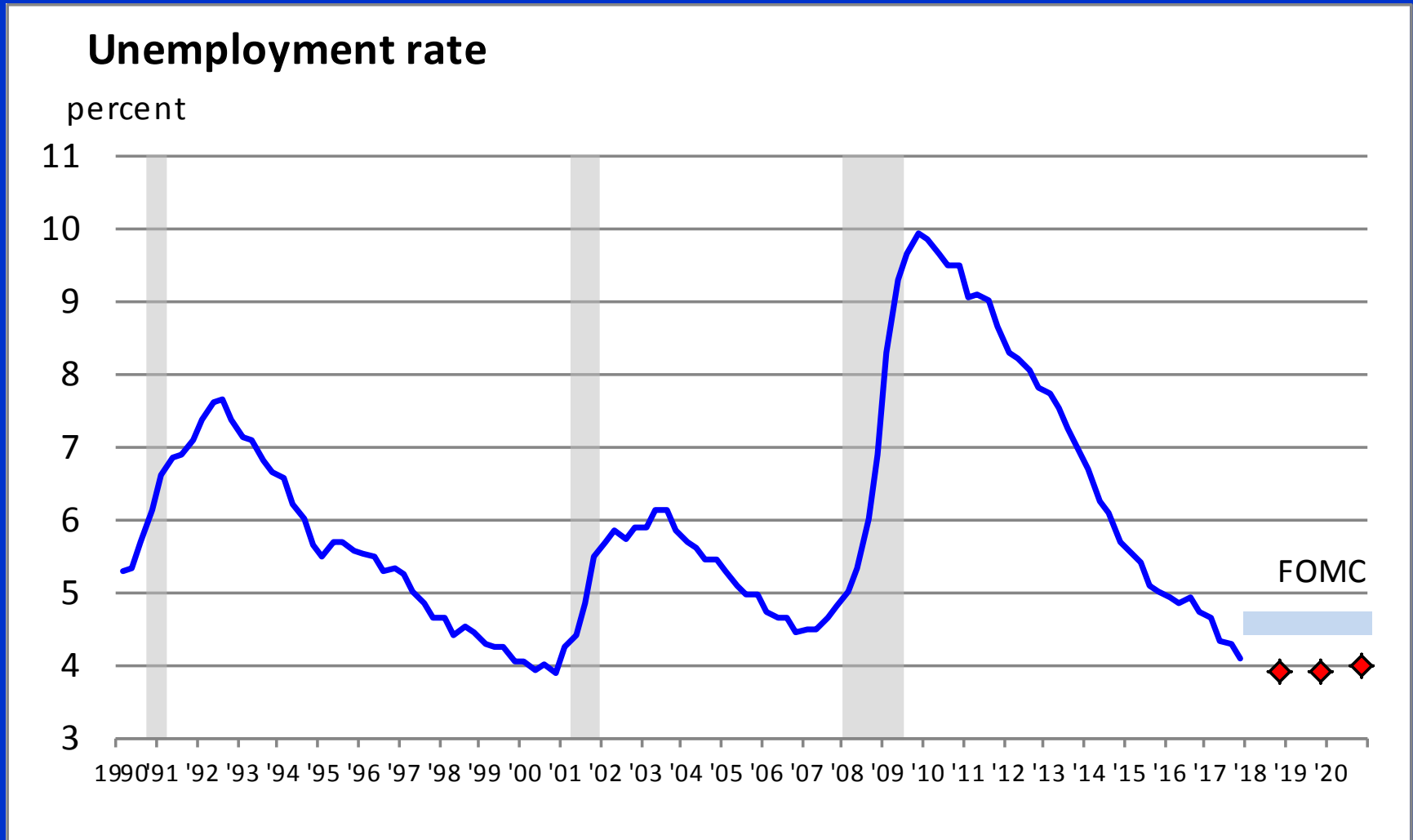
Recent Monetary Policy Actions

- No additional asset purchases after November 2014, while continuing to reinvest assets as they mature.
- In October 2017 began to reinvest less than 100% of matured assets to gradually reduce balance sheet.
- In December of 2015 & 2016 and March, June & December of 2017, raised the targeted range of the Fed Funds Rate by 0.25% points each time
- The FOMC will monitor economic conditions to tailor future actions to meet objectives of maximum employment and 2% inflation

In December 2017, the FOMC raised the Fed Funds rate target to a range from 1.25% to 1.50%

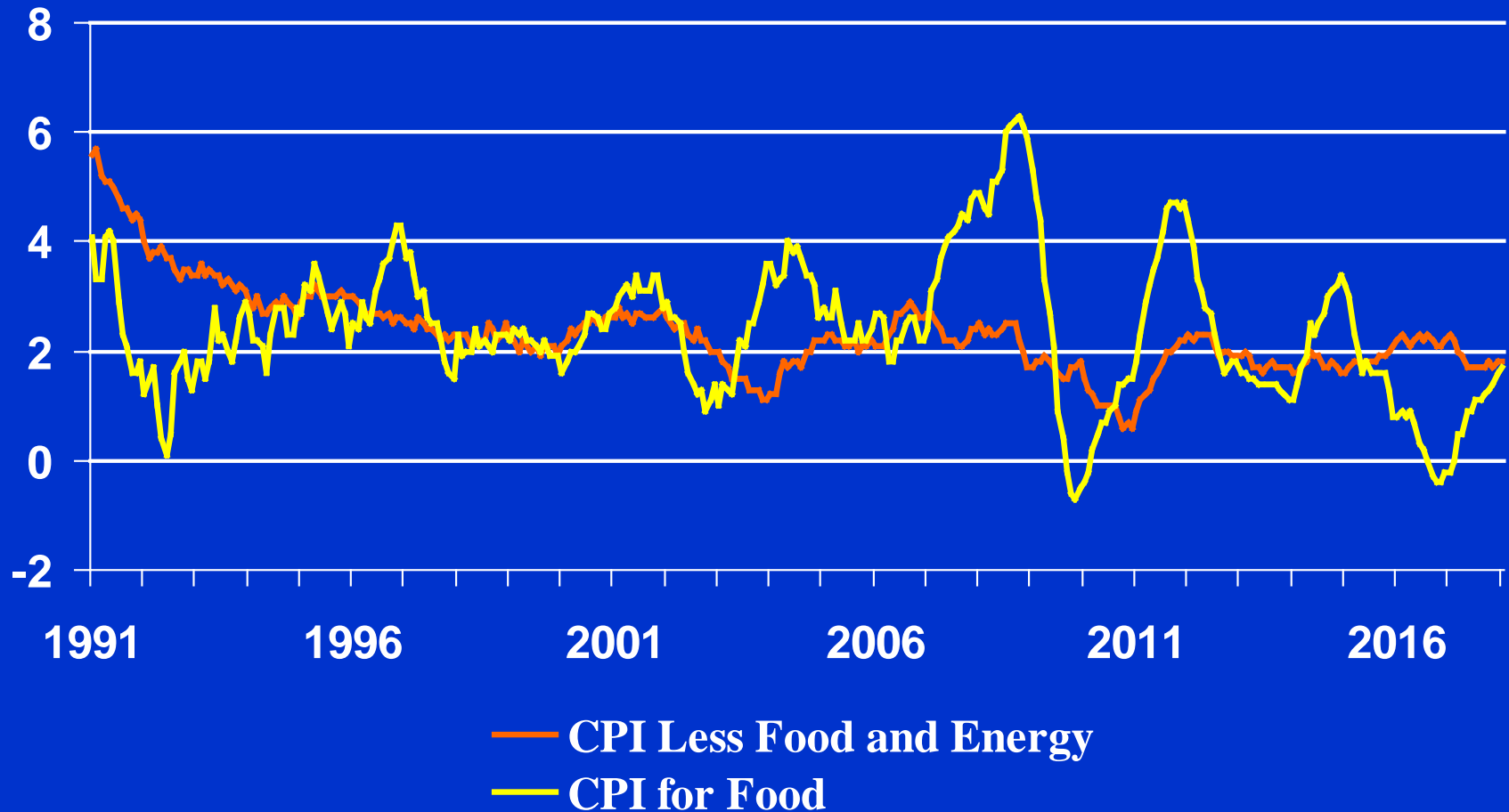


The FOMC forecasts that the unemployment rate will be below the natural rate through 2020



Food price changes still below core inflation (less food and energy)

(Consumer Price Index, percent change from year ago)



Oil prices plummeted and lower gas prices boosted consumer saving/spending

(2010 \$/barrel)

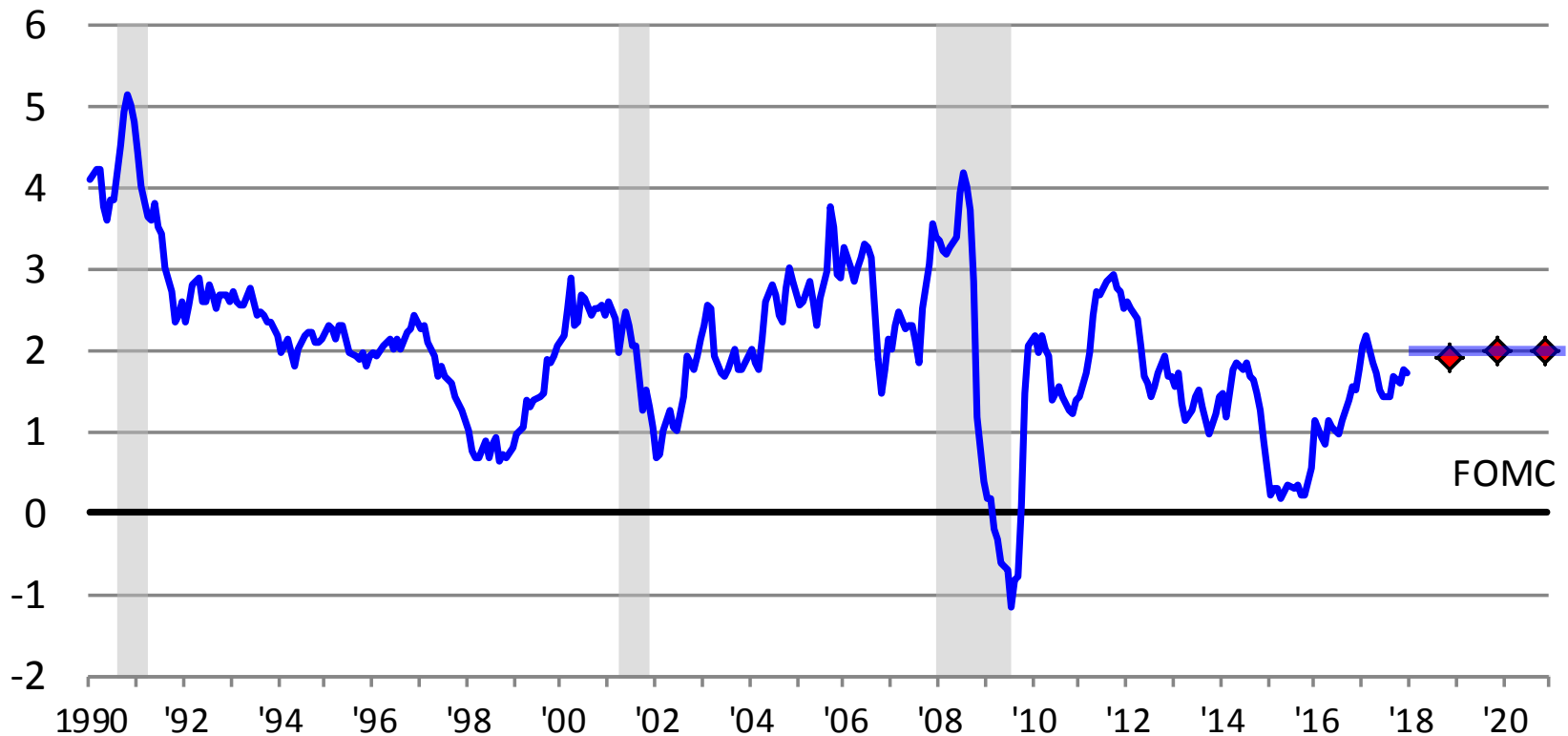


Sources: CME Group and U.S. Bureau of Labor Statistics

The FOMC anticipates that PCE inflation will be near the two percent target from 2018 forward

Personal consumption expenditure - chain price index

percent change from a year earlier

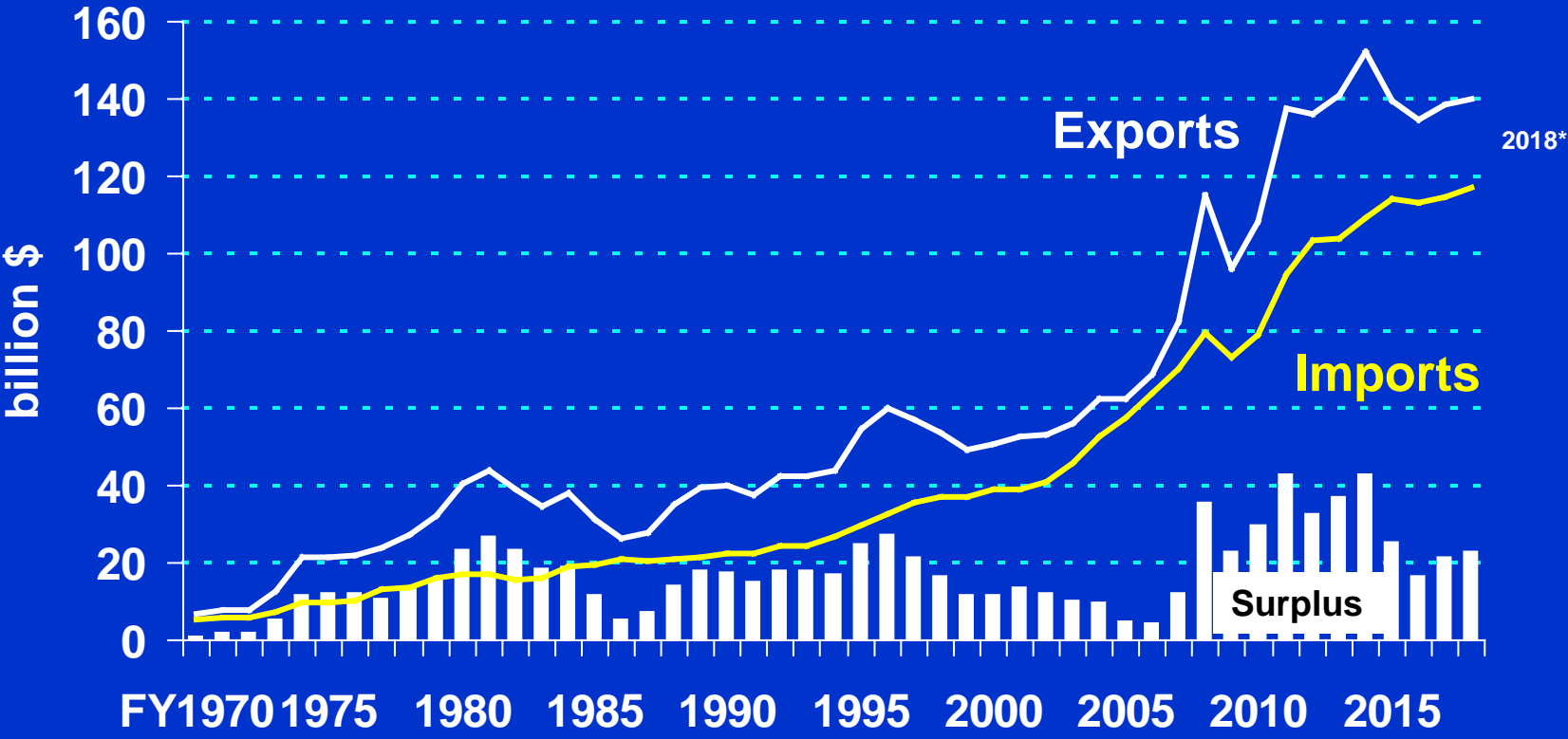


The dollar's exchange value has dipped since the start of 2017, boosting exports

(Real Broad Trade-Weighted Exchange Value of the US\$)
{March 1973=100}

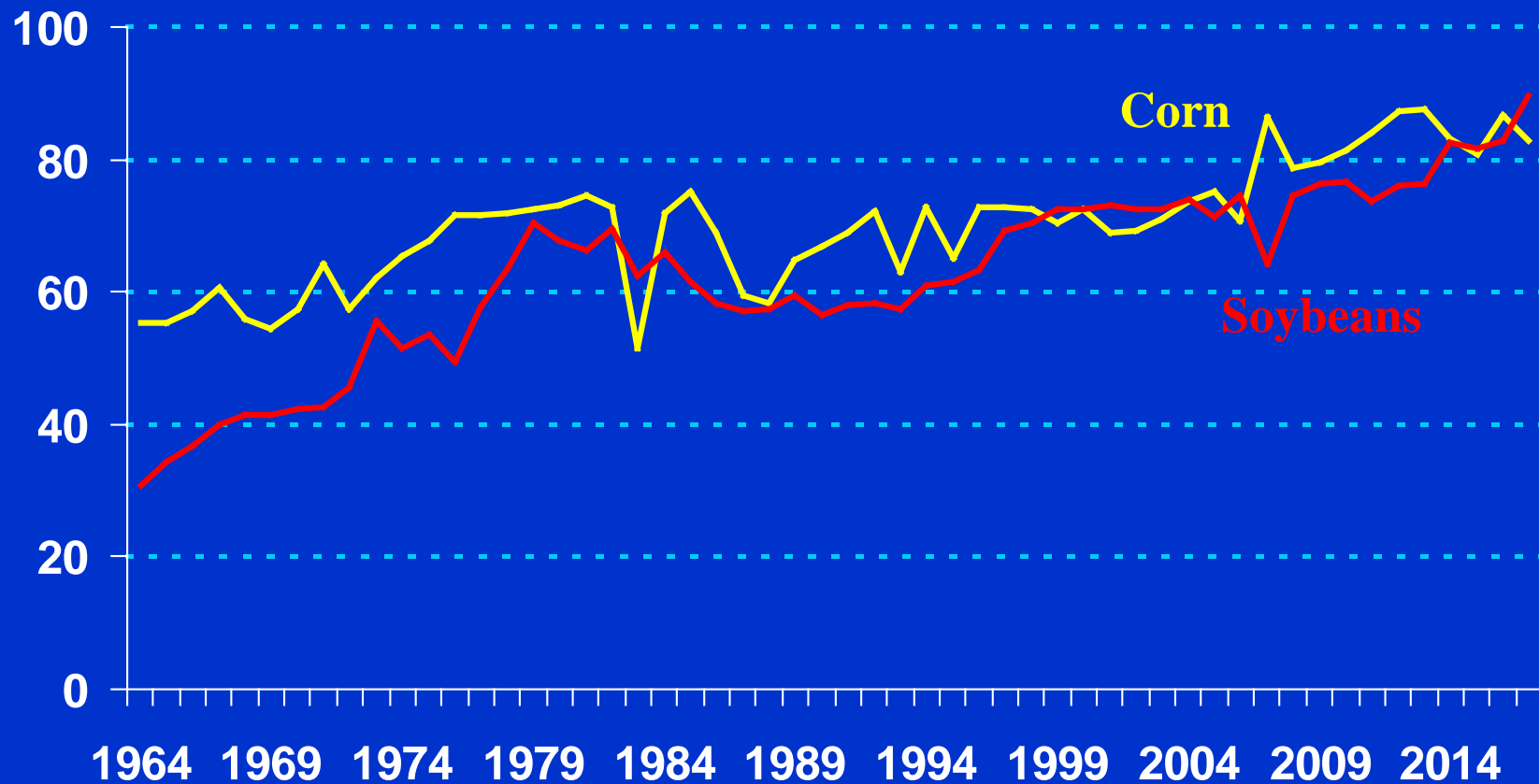


Value of agricultural exports rose in 2017, but expected to be about the same in 2018



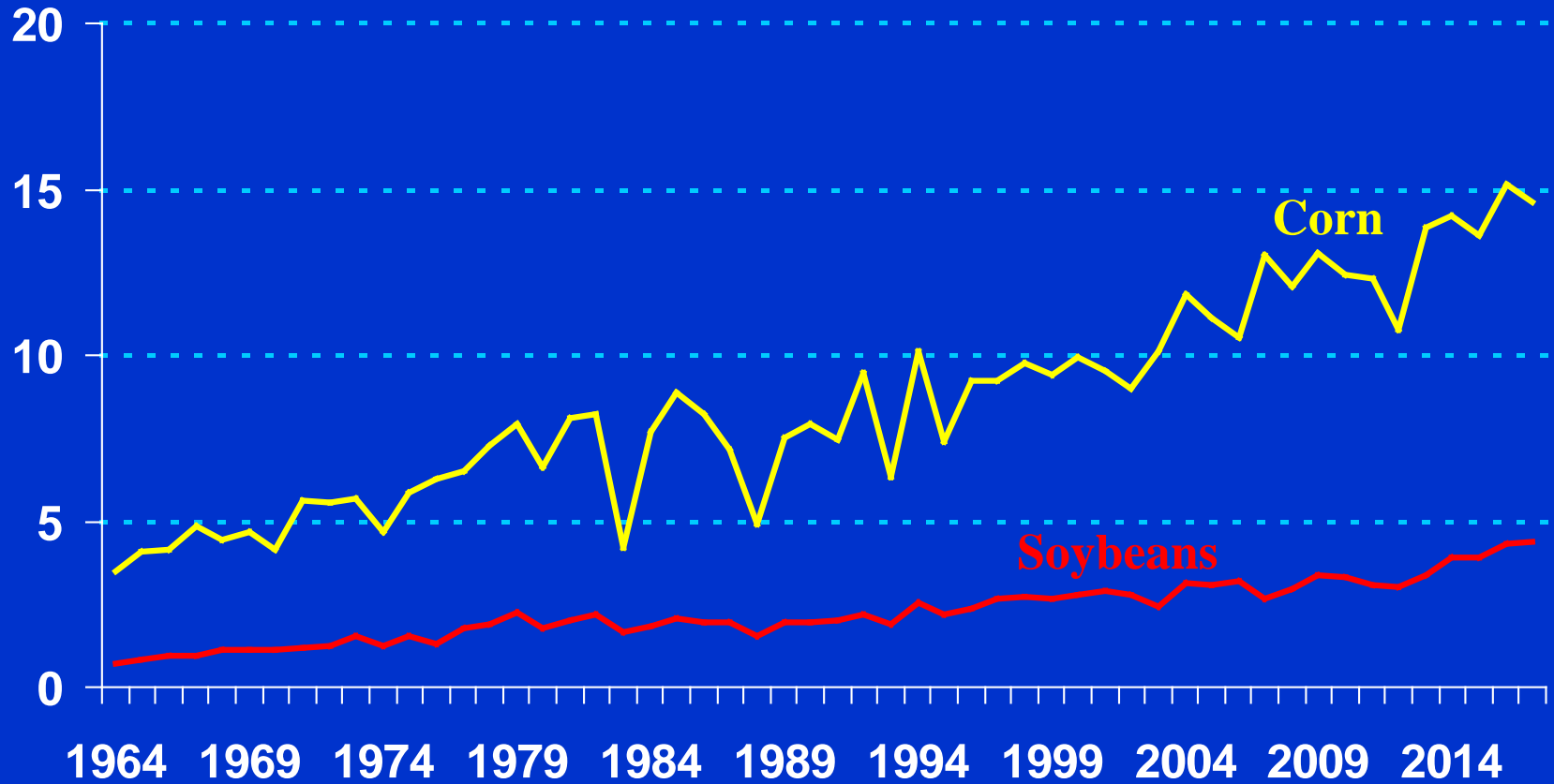
*USDA projection

More soybean acres harvested than corn in 2017 (million acres)



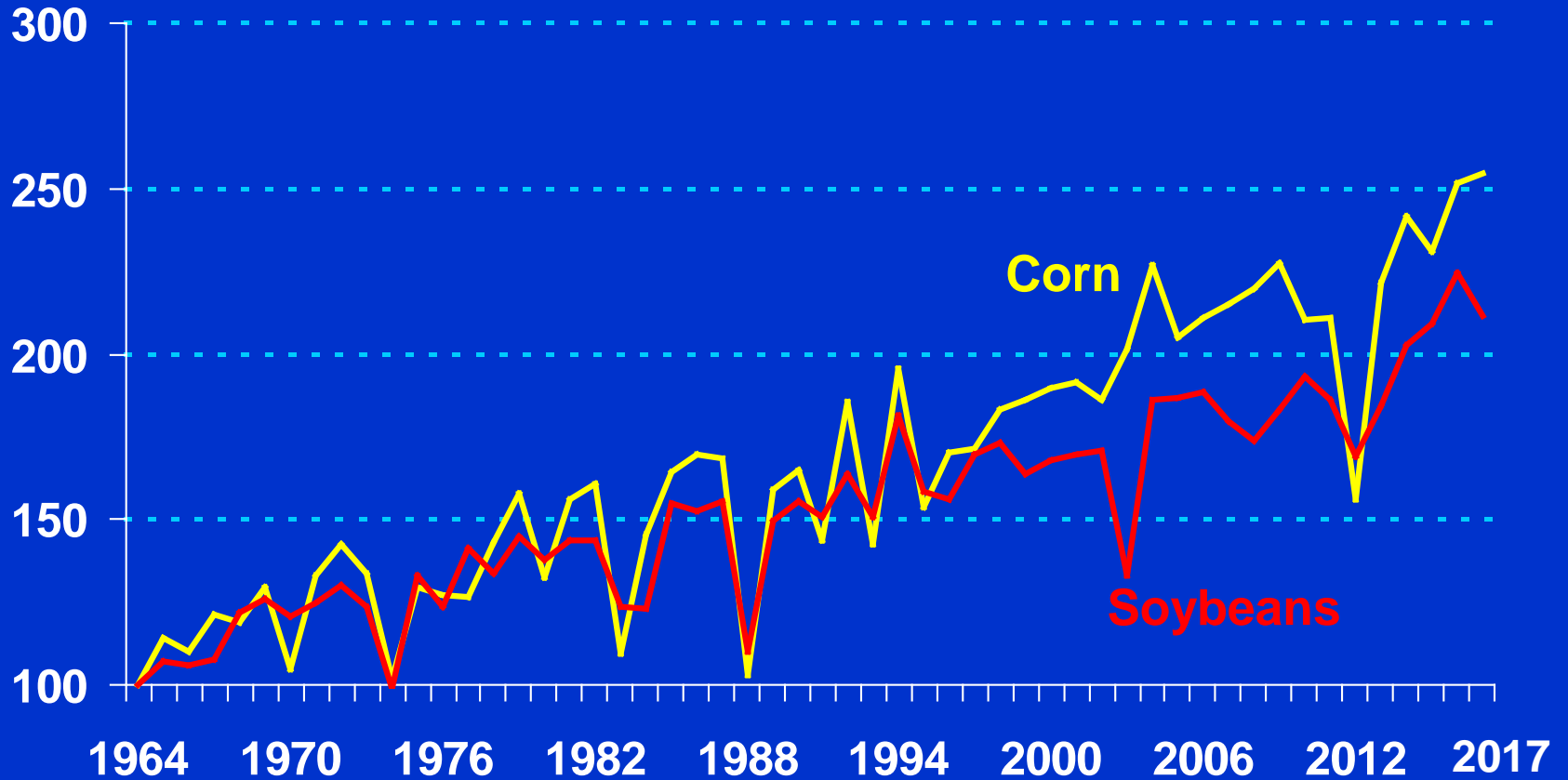
U.S. Corn and Soybean Production

(billion bushels)



Source: USDA, National Agricultural Statistics Service

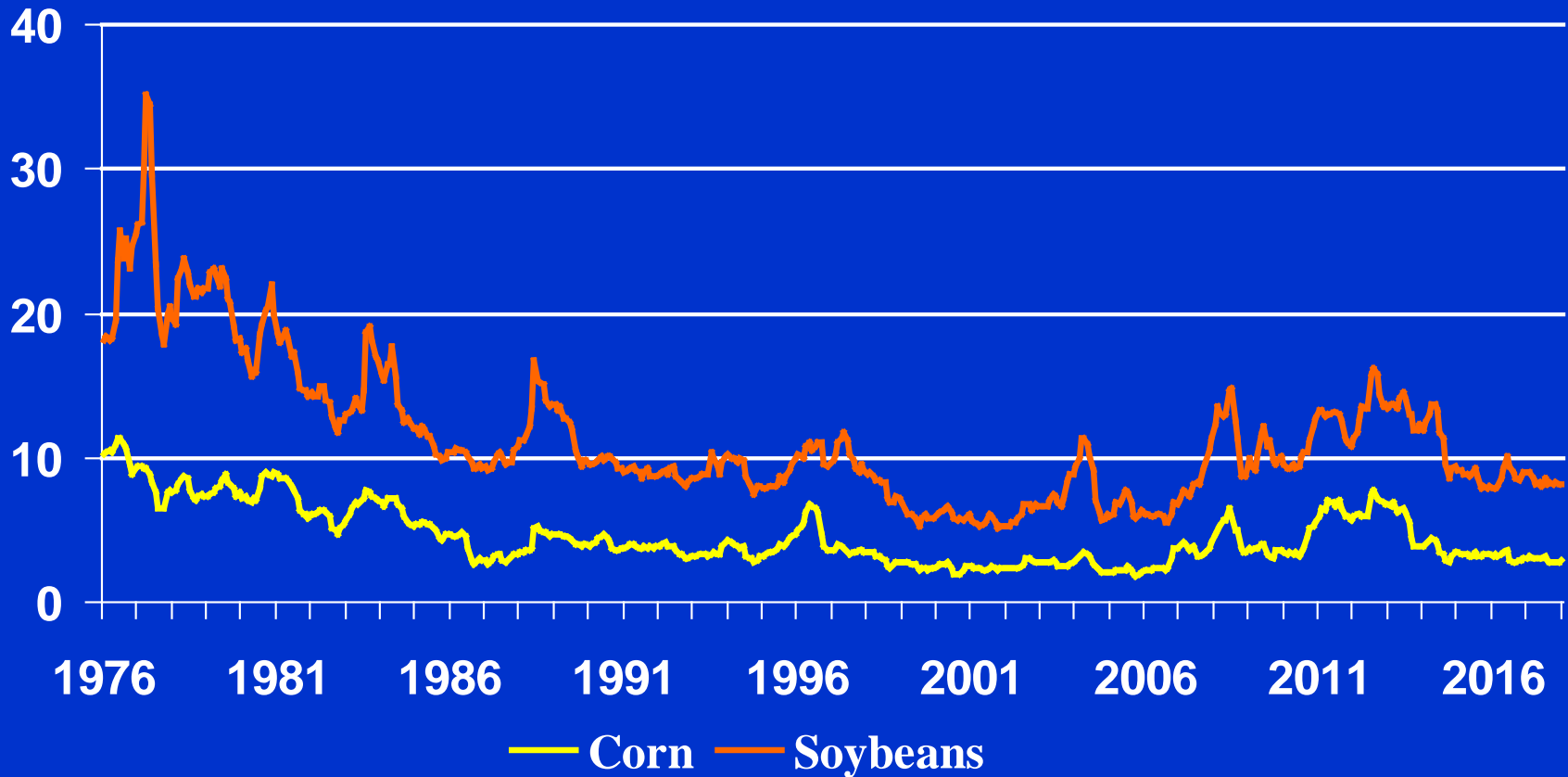
7th District Crop Yield Indexes (1964=100)



Source: USDA, National Agricultural Statistics Service

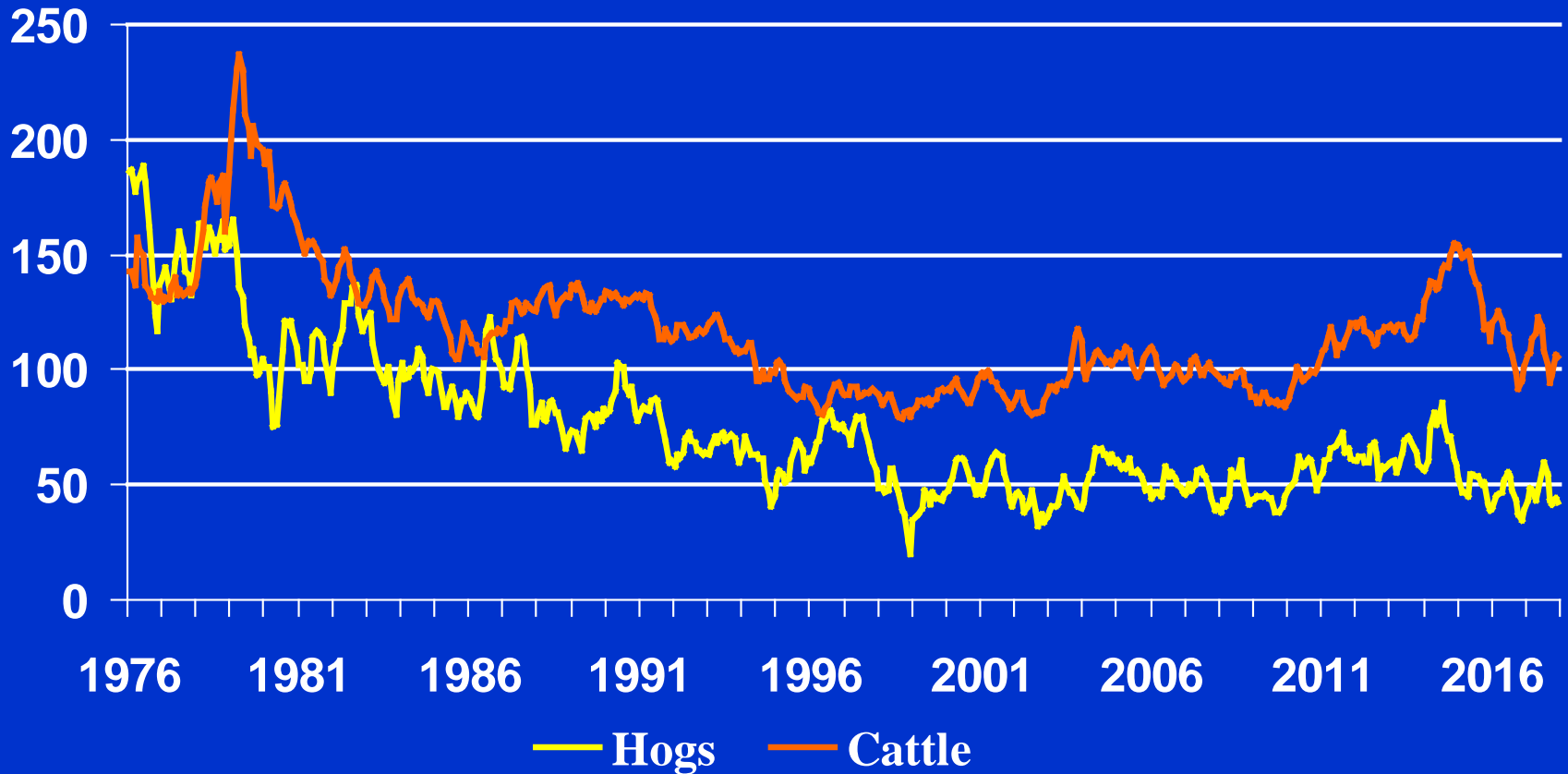
Real Cash Crop Prices

(\$/bushel for Central IL, adjusted by CPI-U for January 2010)



Real USDA Livestock Prices

(\$/hundredweight, adjusted by CPI-U for January 2010)

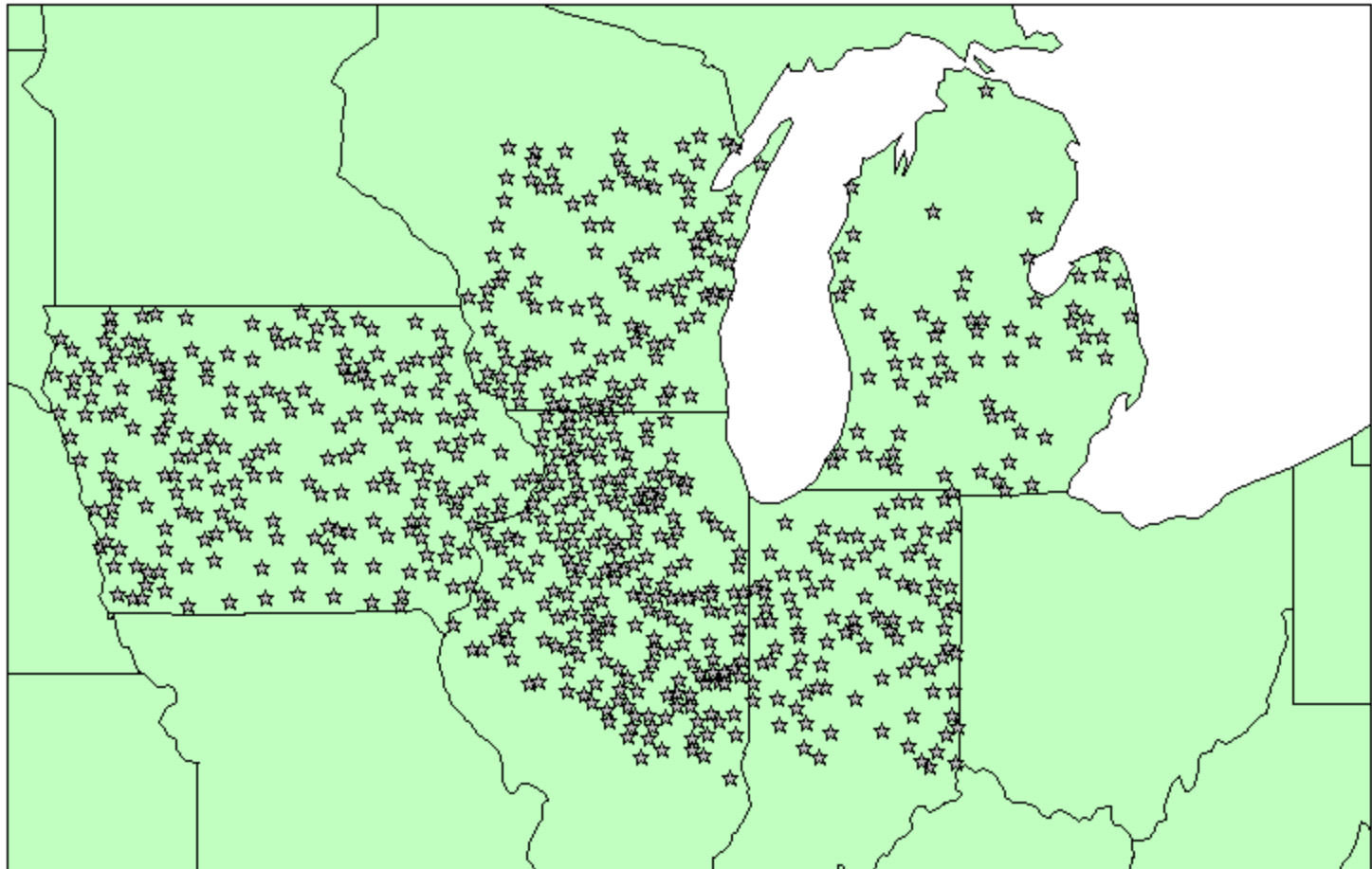


Dairy exports and milk prices

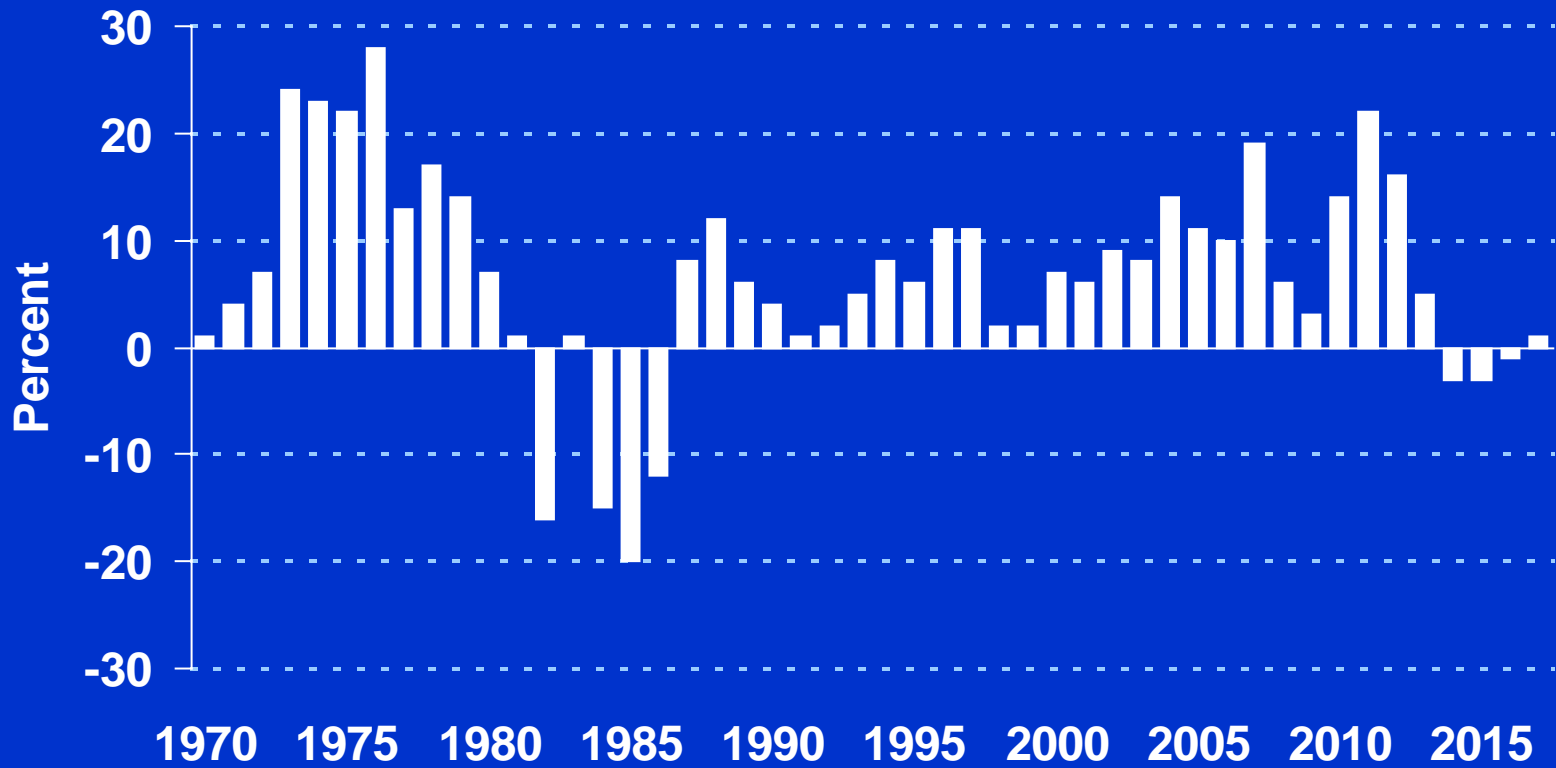


* 2018 USDA forecast

Banks in 7th District Land Values and Credit Conditions Survey

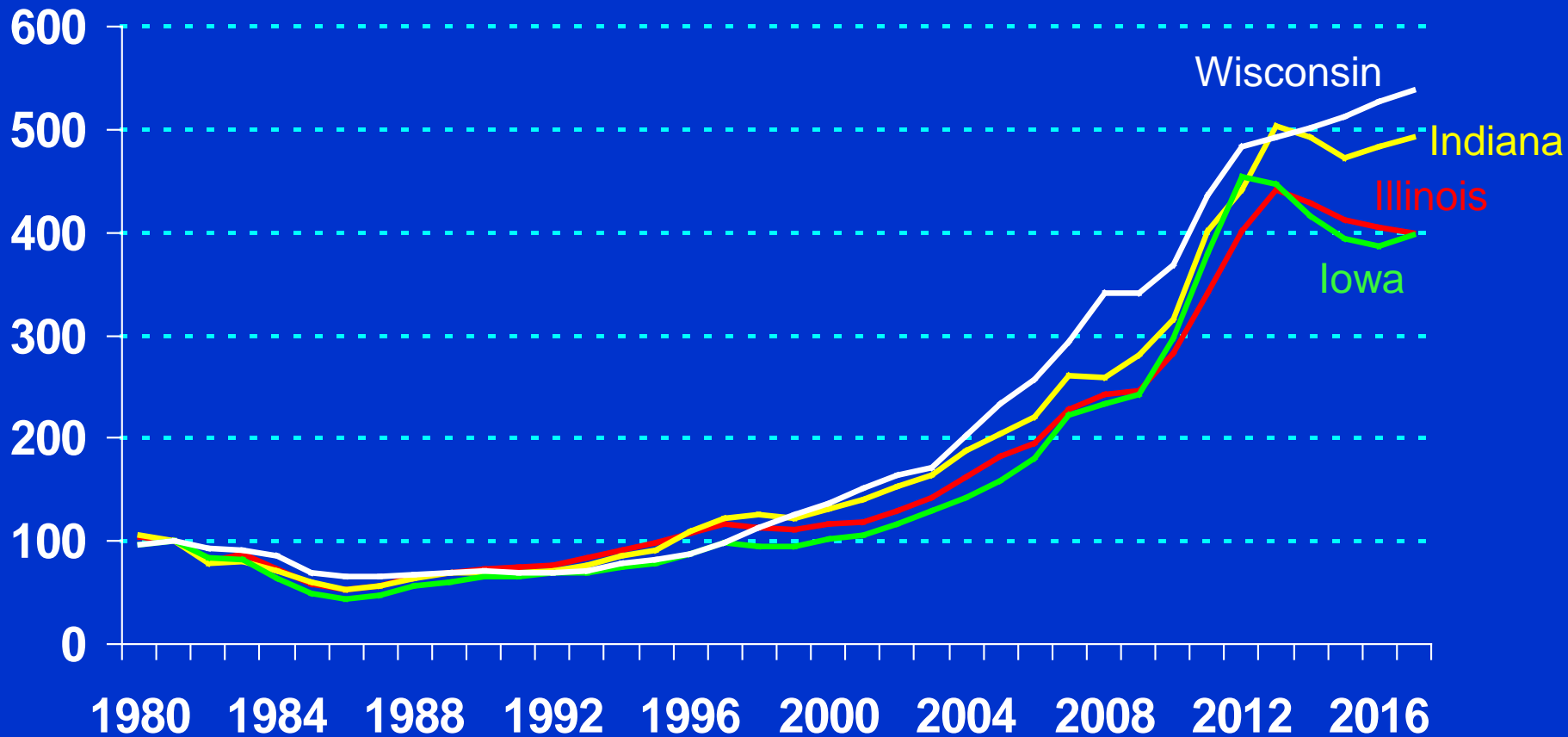


Annual change in farmland values in 7th Federal Reserve District



Source: Federal Reserve Bank of Chicago

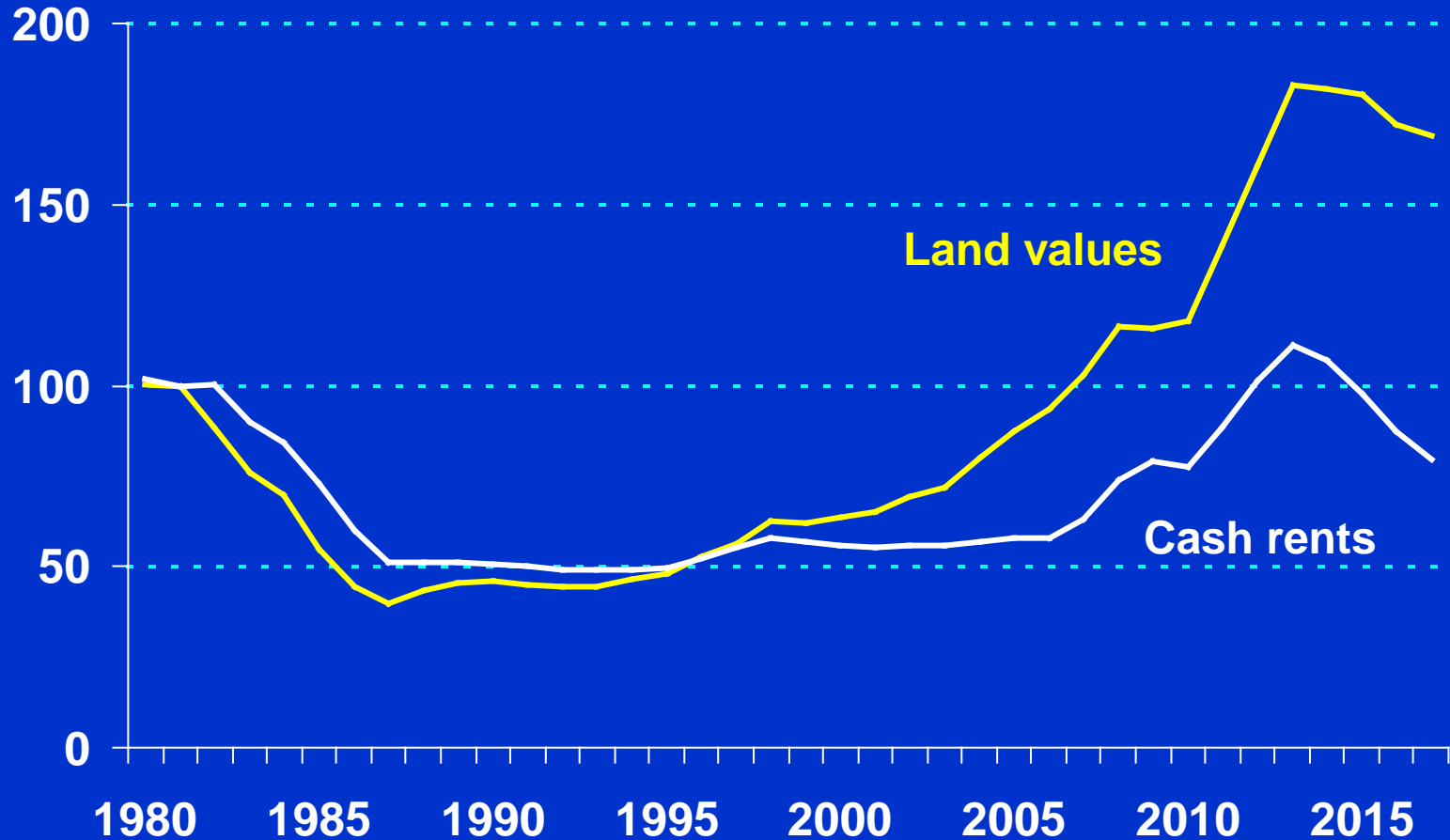
Farmland Value Indexes for 7th District States (1981=100)



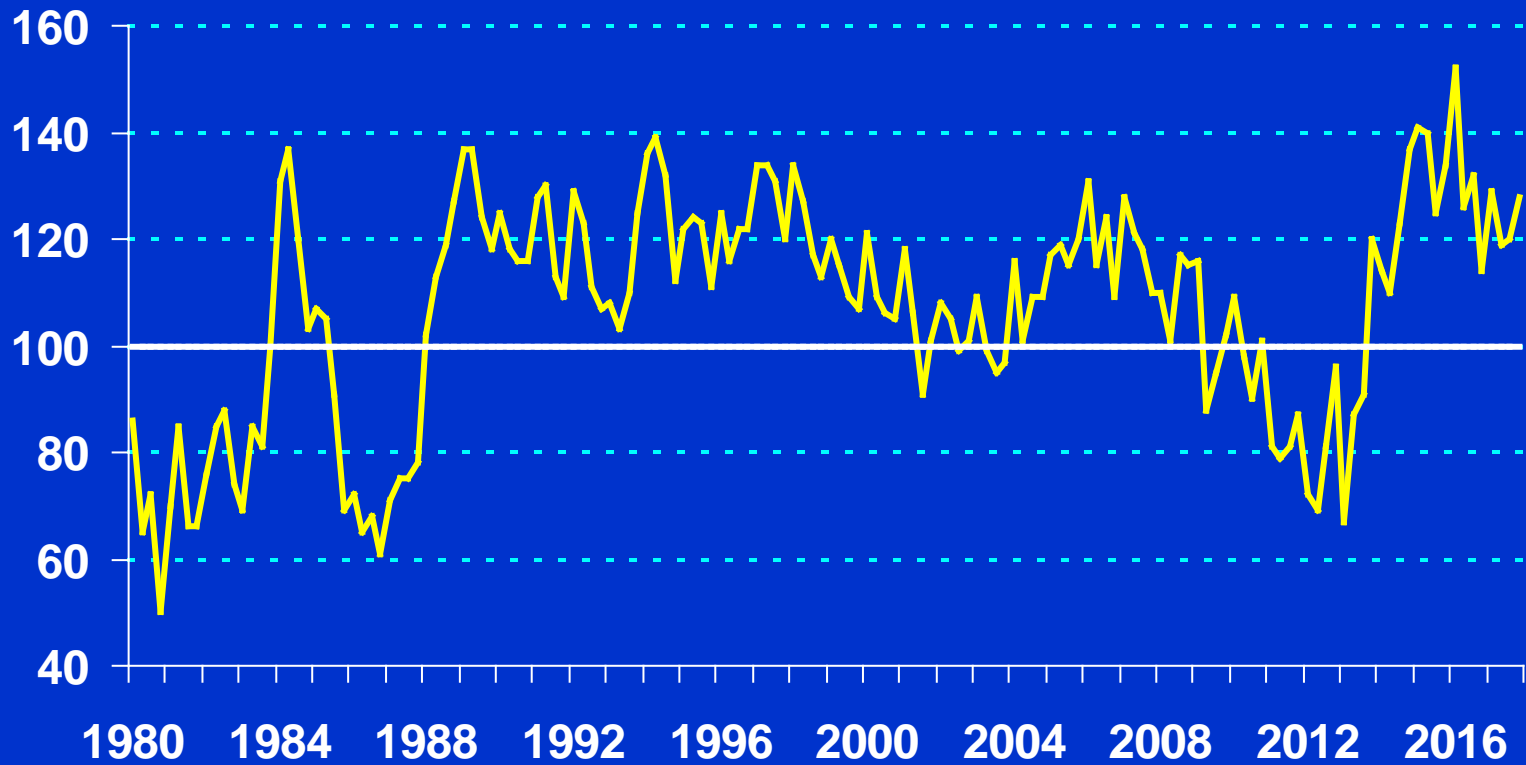
Source: Federal Reserve Bank of Chicago

Indexes of 7th District Farmland Values vs. Cash Rents

(Inflation Adjusted, 1981=100)

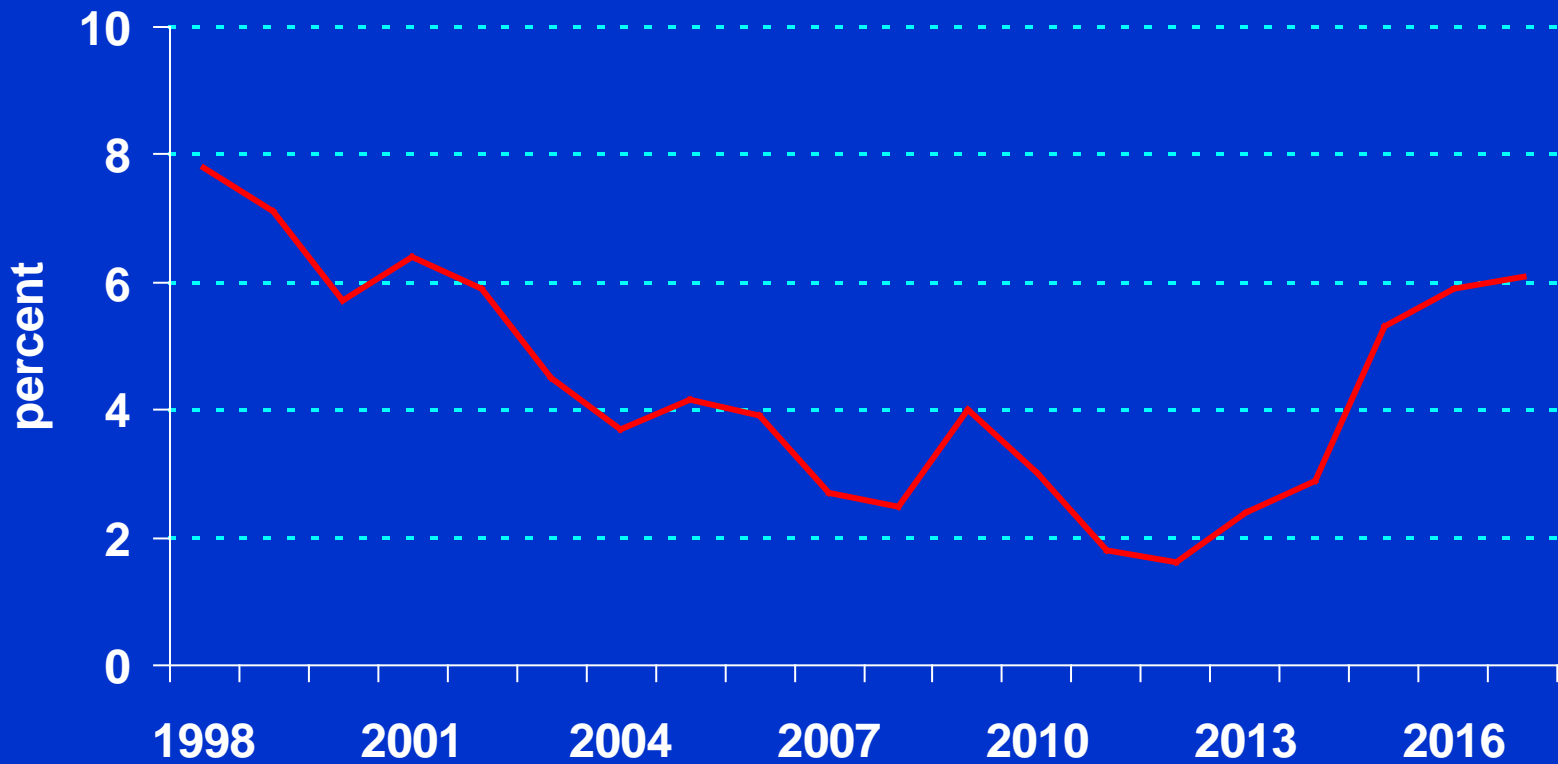


Index of agricultural loan demand for the 7th Federal Reserve District *(excluding real estate)*



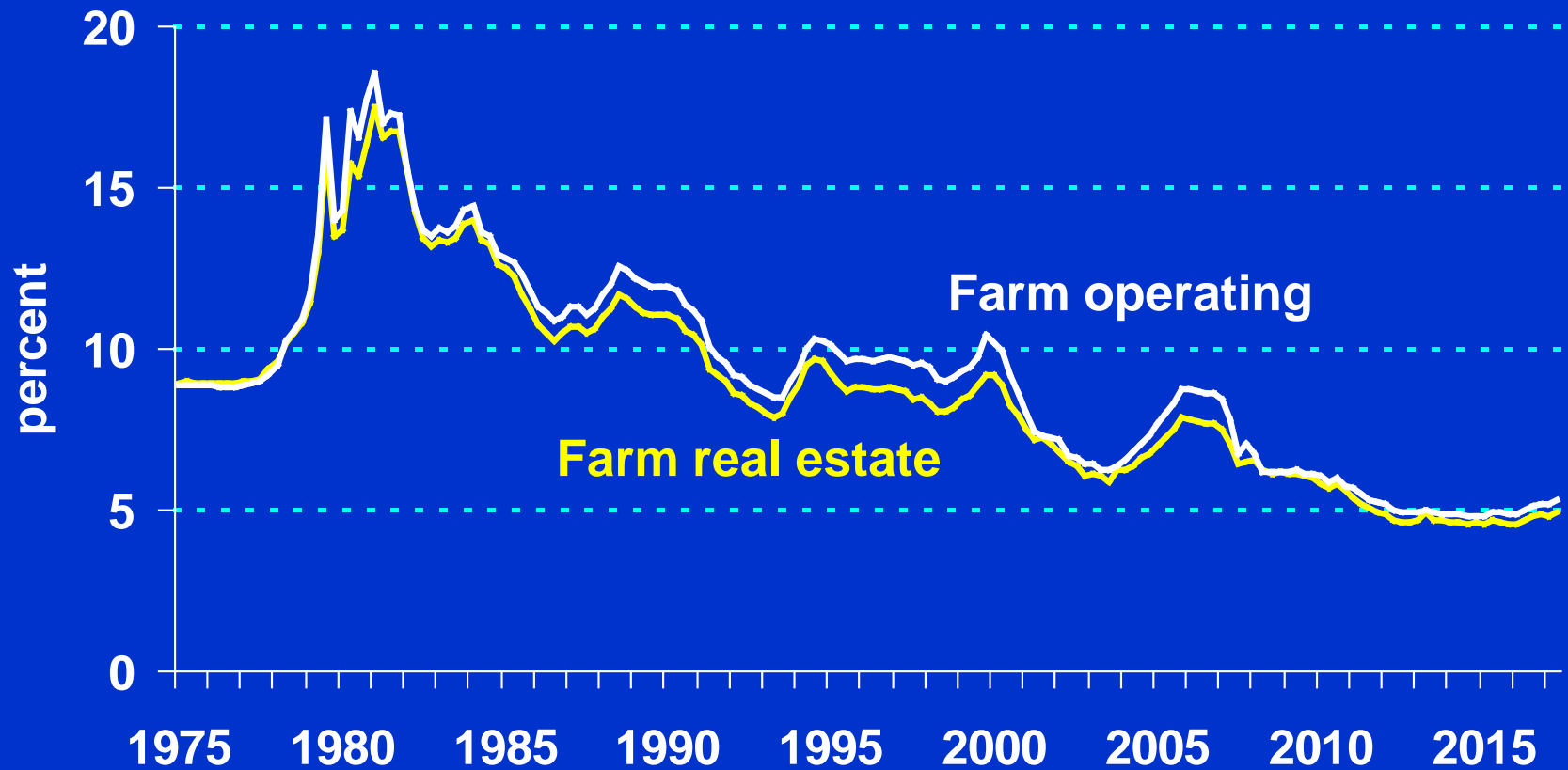
Source: Federal Reserve Bank of Chicago

Farm loan volume with “major” or “severe” repayment problems in 7th Federal Reserve District (fourth quarter of year)



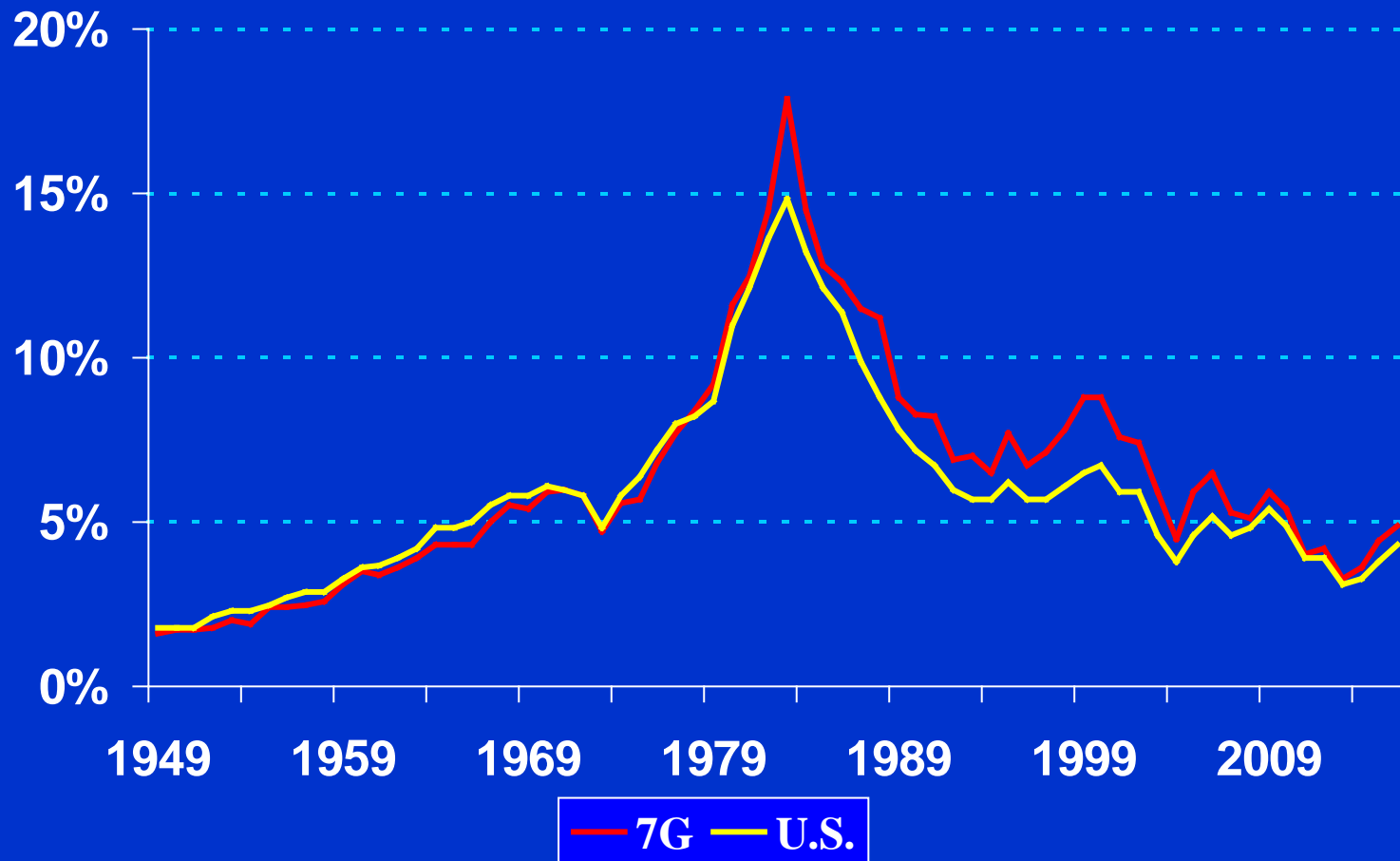
Source: Federal Reserve Bank of Chicago

Interest rates charged on new farm loans in the 7th Federal Reserve District



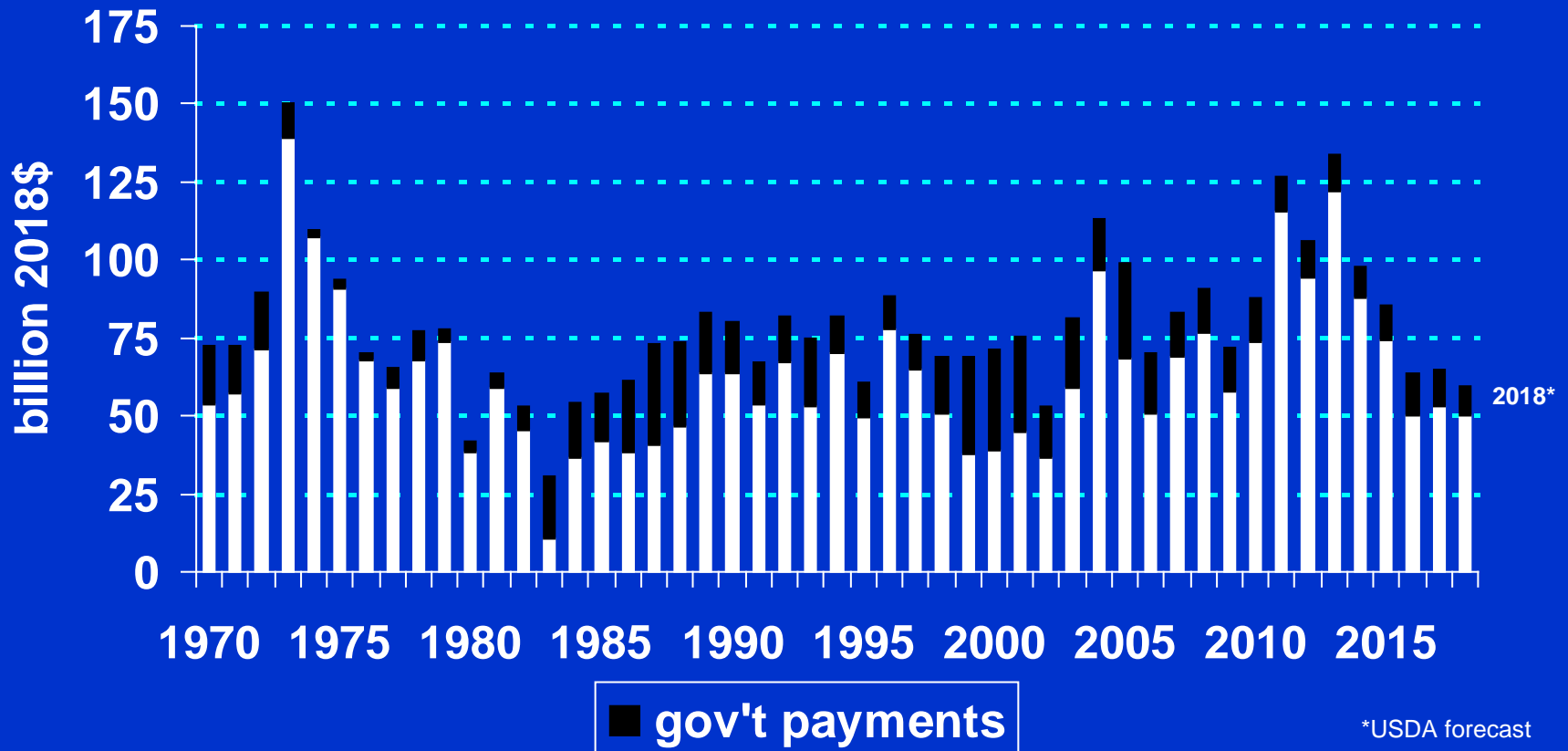
Source: Federal Reserve Bank of Chicago

Interest expenses as share of agricultural value of production (% of total)

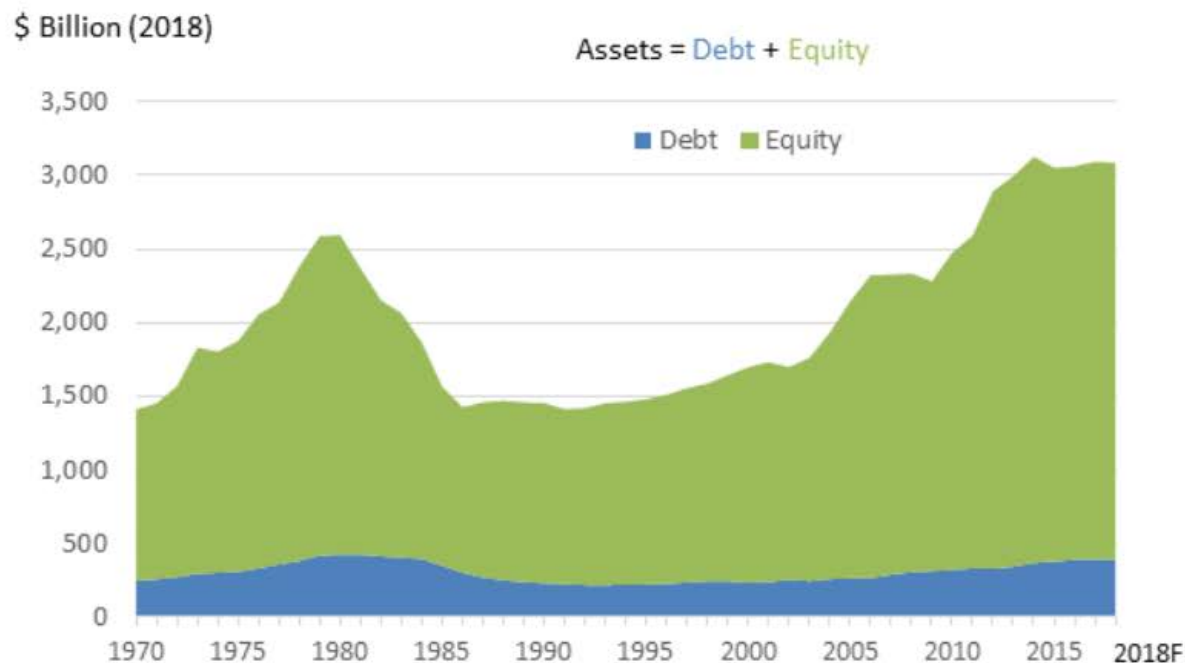


Source: USDA, Economic Research Service

Real net farm income edged up in 2017, but is expected to be down in 2018



2018 balance sheet forecast relatively unchanged from 2017



Overall debt forecast to fall 0.8% (inflation adjusted), with decreases in both real estate and non-real estate debt.

Value of farm sector assets forecast to decline by 0.2% (inflation adjusted), following a 8.2% decrease in farm sector inventories.

Farm equity to fall 0.1%.

F= Forecast. Values are adjusted using the chain-type GDP deflator, 2018=100
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics
Data as of February 7, 2018.

www.chicagofed.org

