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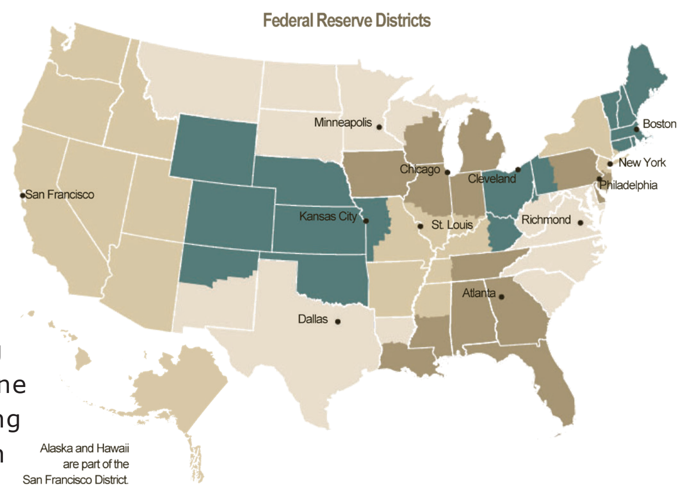
Federal Reserve Beige Book: Summary on the Ag Sector

The Beige Book is a Federal Reserve System publication covering current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources.



National Summary

On balance, economic activity was little changed in nearly all Districts since early September, though two Districts reported modest growth. Most Districts reported declining manufacturing activity. Activity in the banking sector was generally steady to up slightly, and loan demand was mixed, with some Districts noting an improvement in the outlook due to the decline in interest rates. Reports on consumer spending were mixed, with some Districts noting shifts in the composition of purchases, mostly toward less expensive alternatives. Housing market activity has generally held up: inventory continued to expand in much of the nation, and home values largely held steady or rose slightly. Still, uncertainty about the path of mortgage rates kept some buyers on the sidelines, and the lack of affordable housing remained a persistent problem in many communities. Commercial real estate markets were generally flat, although data center and infrastructure projects boosted activity in a few Districts. The short-lived dockworkers strike caused only minor temporary disruptions. Hurricane damage impacted crops and prompted pauses in business activity and tourism in the Southeast. ***Agricultural activity was flat to down modestly, with some crop prices remaining unprofitably low.*** Energy activity was also unchanged or down modestly, and lower energy prices reportedly compressed producers' margins. Despite elevated uncertainty, contacts were somewhat more optimistic about the longer-term outlook

Chicago - *Iowa; 68 counties of northern Indiana; 50 counties of northern Illinois; 68 counties of southern Michigan; and 46 counties of southern Wisconsin.*

Farm income expectations for the District were stable over the reporting period despite prospects for above-average corn and soybean harvests. Dry weather helped reduce crop drying costs but also led to lower crop weights, cutting into potential revenue. Corn and soybean prices increased slightly, and farmers were maximizing crop storage in hopes of selling later at higher prices. Cattle prices increased as the inventory of cattle continued to fall, reaching its lowest point since the 1950s. Dairy prices rose some, while egg prices ticked down. Hog prices were steady. Agriculture transportation faced several logistical disruptions, including constrained rail traffic to Mexico and barge slowdowns from low water levels on the Mississippi River. There were reports of agriculture equipment and input sellers offering low- and even zero-interest loans to spur sales.

St. Louis - *Arkansas; 44 counties in southern Illinois; 24 counties in southern Indiana; 64 counties in western Kentucky; 39 counties in northern Mississippi; 71 counties in central and eastern Missouri; the city of St. Louis; and 21 counties in western Tennessee.*

Agriculture production has been stable since our previous report; however, overall sector conditions have weakened. Contacts from Mississippi reported that, even with very good yields, most farmers will struggle to break even this year. Across the District, crops were healthy and yields were high; however, input prices remained high and commodity prices were low. The decrease in feed prices has been positive for protein producers, yet it failed to offset other cost increases. Contacts also noted a minimal effect of recent hurricanes, and they expected the cotton harvest to be strong despite the rains, although crops' milling quality has been negatively impacted in Arkansas.

Minneapolis - *Minnesota, Montana, North Dakota, and South Dakota; the Upper Peninsula of Michigan; and 26 counties in northern Wisconsin.*

Agricultural conditions in the District were stable at low levels. Preliminary estimates suggested that corn production in District states will decrease modestly from a year ago and soybean production will increase moderately. Wheat production in District states increased significantly from last year. A decline in Montana was more than offset by increases in other states. District oil and gas exploration activity was unchanged since the previous report.

Kansas City - *Colorado, Kansas, Nebraska, Oklahoma, and Wyoming; 43 counties in western Missouri; and 14 counties in northern New Mexico.*

Activity in the agricultural sector within the Tenth District continued to decline at a moderate pace as crop prices remained weak. As activity slowed, farm lenders still reported increased loan demand driven by higher operating costs and living expenses. Agricultural lenders reported lower farm incomes and a slight decline in farm loan repayment rates during the most recent survey period. Deterioration in farm borrower liquidity and income was more pronounced in states most heavily concentrated in crop production. Financial conditions were more stable in areas most concentrated in cattle production as profit opportunities for cow/calf producers remained strong. Although contacts indicated slight declines in repayment rates and borrower liquidity, overall loan quality remained sound and farm real estate values held firm.

Dallas - *Texas; 26 parishes in northern Louisiana; and 18 counties in southern New Mexico.*

Drought conditions emerged in more parts of the state over the reporting period, straining crops. Contacts continued to report tough financial conditions for row crop farmers this year, as both cotton and grain prices are at unprofitable levels for many producers. Above-average production is needed for producers to cover costs, and that largely hasn't materialized due to dryness in some areas and hurricane damage in others. One contact emphasized needing to get the new farm bill passed to provide more beneficial safety net programs. On the cattle side, deteriorating grazing conditions are a key concern, though calf and cattle prices remain high and profitable.

San Francisco - *Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington—plus American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands*

Conditions in the agriculture and resource-related industries were largely unchanged. Exports remained subdued, particularly to Asian markets, despite a slightly weaker U.S. dollar relative to the last reporting period. Domestic demand was stable overall, but sales reportedly fell at the retail level for some produce, such as apples. The supply of produce, including tree fruit and nuts, remained solid, largely owing to healthy harvest yields and stored inventory from the prior harvest. Materials and agricultural inputs were readily available. While demand for logs remained low, demand for forested land for investment and conservation purposes was robust.

For more information:

For more information on other sectors of the U.S. economy or to access the complete Federal Reserve Beige Book summary, see: https://www.federalreserve.gov/monetarypolicy/publications/beige-book-default.htm.