

Statement of

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Before the

House Committee on Agriculture

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Good morning Chairman Scott, Ranking Member Thompson, and other members of the committee. Thank you for the opportunity to testify today. My name is Nate Kauffman, and I serve as a Vice President and Economist with the Federal Reserve Bank of Kansas City. In my role, I lead several Federal Reserve System efforts to track economic conditions in U.S. agriculture, with a focus on farm finances and agricultural credit conditions. Because the industry is vital to the region we serve, the Kansas City Fed is committed to understanding developments in agriculture and including perspectives from rural America in discussions on the national economy. I am here today to share an overview of credit conditions in the U.S. farm sector. Before I begin, let me emphasize that my statement represents my views only and is not necessarily that of the Federal Reserve System or any of its representatives.

Agricultural credit conditions have improved significantly the past two years alongside a rebound in farm commodity prices that began in late 2020. Prior to the pandemic, the U.S. farm economy had been in a prolonged downturn. From 2013 to 2016 farm income dropped by 50% alongside sharp declines in commodity prices and elevated input costs. Although farm income increased modestly from 2016 to 2019, profits generally remained low. Measures of agricultural credit indicated that financial stress was building at a gradual pace through 2019, with increases in loan delinquencies and farm bankruptcies during that time.

Despite disruptions associated with the pandemic, economic conditions in agriculture have recovered dramatically since 2019. In the initial months of the pandemic in 2020, agricultural prices had continued declining, but many of those prices began to recover later that year and remained elevated even in advance of Russia's invasion of Ukraine. By February of this year, the price of corn, for example, was 65% higher than two years earlier. The prices of other major crops also increased sharply alongside strengthening economic activity and reduced production in several key growing areas. In addition to higher commodity prices, robust government aid programs administered during 2020 and 2021 also provided substantial financial support for many producers.

The recent rebound in farm incomes has eased much of the financial stress that had been building prior to the pandemic. Through 2020, working capital increased substantially, and borrowers remained in a strong financial position through 2021. By the end of last year, the rate of delinquent farm loans held at commercial banks dropped to 1.3%, following steady increases in prior years. The average value of farm real estate, a key indicator of financial health in the

U.S. farm sector, increased by nearly 30% from the end of 2019 to the end of 2021 across the midwestern U.S.

Although agricultural prices have surged in recent years, input costs were also increasing significantly even before the war. Prior to the invasion of Ukraine, U.S. farm production expenses were expected to be 18% higher in 2022 than in 2019. The average cost of fertilizer was expected to be 43% higher. Since the invasion in February, many of these costs have continued to increase, highlighting a potential need for increased financing amid global concerns about food shortages and food price inflation. In recent months, a modest increase in farm loan interest rates has also contributed to higher production expenses, albeit to a lesser extent.

Despite growing concerns about intensifying cost pressures, agricultural credit conditions have generally remained strong in recent months. Since the beginning of this year, the value of farmland in the Kansas City Fed region has increased by an additional 5% through June. Most lenders indicate that loan repayment rates have continued to rise, problem loans have remained sparse, and credit is readily available to meet borrowers' financing needs.

Although economic conditions in agriculture have recovered the past two years, and credit conditions have remained solid, the pace of improvement may be slowing. Through 2021, demand for farm operating loans declined steadily as profits expanded and producers required less financial support from lenders. In the first quarter of 2022, however, lending activity at commercial banks accelerated due to a significant increase in the size of operating loans. Looking ahead, demand for farm loans in the Kansas City Fed District is expected to rise notably and capital spending is expected to decline in the coming months for the first time since 2020. Numerous contacts have pointed to large increases in costs associated with fertilizer, fuel, and labor as primary drivers of higher expenses and a less favorable industry outlook.

To briefly summarize, uncertainty about the outlook for the U.S. agricultural economy is high, and will depend significantly on global factors, particularly the war in Ukraine and the strength of global economic activity. Overall, the U.S. farm sector appears to be well positioned financially for the remainder of 2022, but some measures do appear to have softened in recent weeks. While the strength of farm incomes these past two years is likely to sustain credit conditions in agriculture for some time, some borrowers may face heightened financial stress in the year ahead if costs continue to rise and commodity prices ease further.

This concludes my formal remarks and I would be happy to answer questions at the appropriate time. Thank you.



FEDERAL RESERVE BANK *of* KANSAS CITY

## **Nate Kauffman**

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Nate Kauffman is vice president and Omaha Branch executive with the Federal Reserve Bank of Kansas City and is the Kansas City Fed's principal expert in agricultural economics. He is a leading voice on the agricultural economy throughout the seven states of the Tenth Federal Reserve District and the broader Federal Reserve System. Nate oversees several Bank and Federal Reserve efforts to track economic and financial conditions for agriculture and hosts the Kansas City Fed's Agricultural Symposium. He also speaks regularly on the agricultural economy to industry audiences and the news media, including providing testimonies at both U.S. Senate and U.S. House Agriculture Committee hearings.

In his role as the Bank's lead economist and representative in the state of Nebraska, Nate provides strategic direction and oversight for the Omaha Branch, regional research, and economic outreach throughout the state. He serves as a local connection to the nation's central bank and is responsible for briefing the Kansas City Fed's president – a member of the Federal Open Market Committee – on regional economic and business activity.

Nate joined the Federal Reserve in 2012. He received his Ph.D. in economics from Iowa State University. Prior to receiving his Ph.D., Nate spent three years in Bosnia and Herzegovina coordinating agricultural economic development projects.

Nate lives in Omaha with his wife and four children.

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In accordance with Rule XI, clause 2(g)(5)\* of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

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**Witness Name:** \_\_\_\_\_

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- I have attached a written statement of proposed testimony.
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\* Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.

(B) In the case of a witness appearing in a non-governmental capacity, a written statement of proposed testimony shall include— (i) a curriculum vitae; (ii) a disclosure of any Federal grants or contracts, or contracts, grants, or payments originating with a foreign government, received during the past 36 months by the witness or by an entity represented by the witness and related to the subject matter of the hearing; and (iii) a disclosure of whether the witness is a fiduciary (including, but not limited to, a director, officer, advisor, or resident agent) of any organization or entity that has an interest in the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B)(iii) shall include— (i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form 24 hours before the witness appears to the extent practicable, but not later than one day after the witness appears.