

Macroeconomic Implications for Agriculture

Risk and Profit Conference

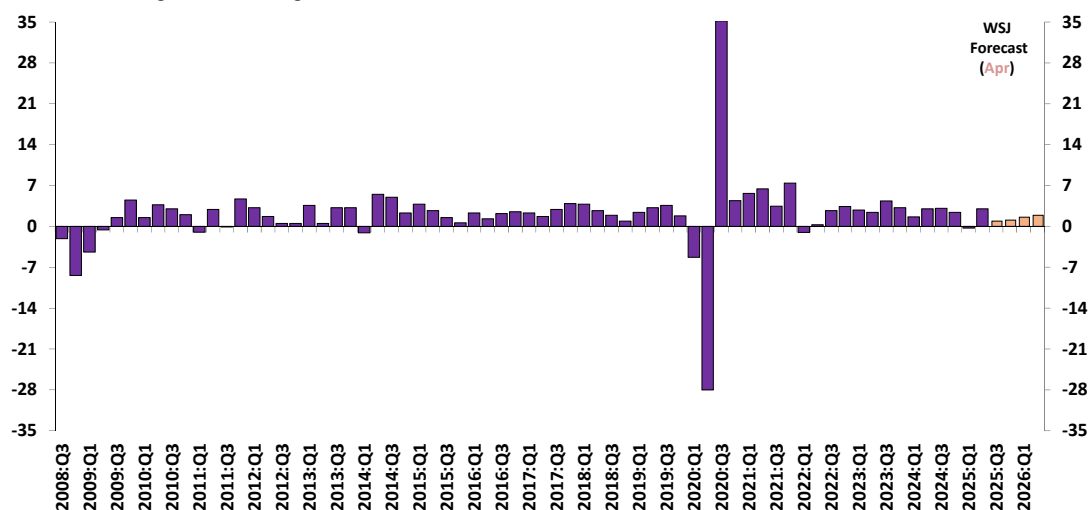
Brian C. Briggeman, Ph.D.
Professor and Director

August 21st and 22nd, 2025

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

U.S. economic growth shot up to 3% in 2025 Q2...

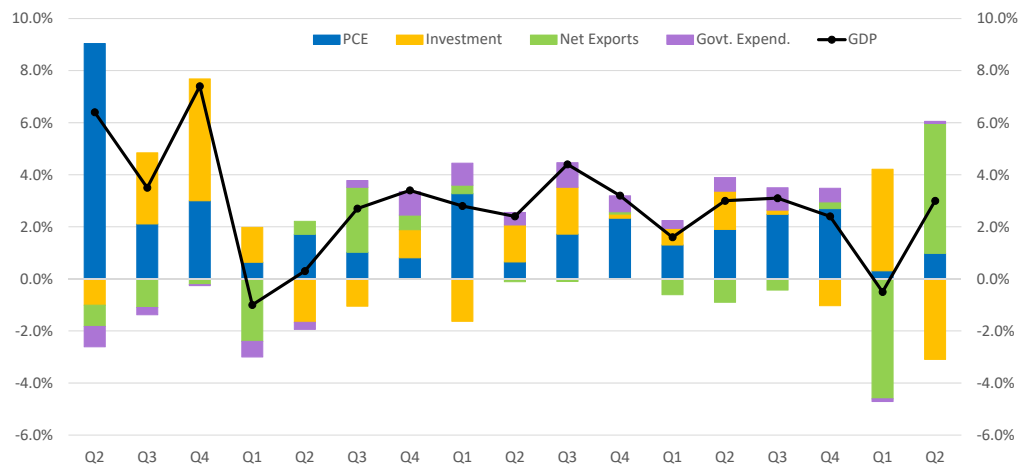
Real GDP Percent Change from Preceding Quarter



Source: Bureau of Economic Analysis and Wall Street Journal (WSJ) April 2025 Forecast Survey (Average)

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

...but the growth was driven by a sharp reduction in imports.



Source: Bureau of Economic Analysis

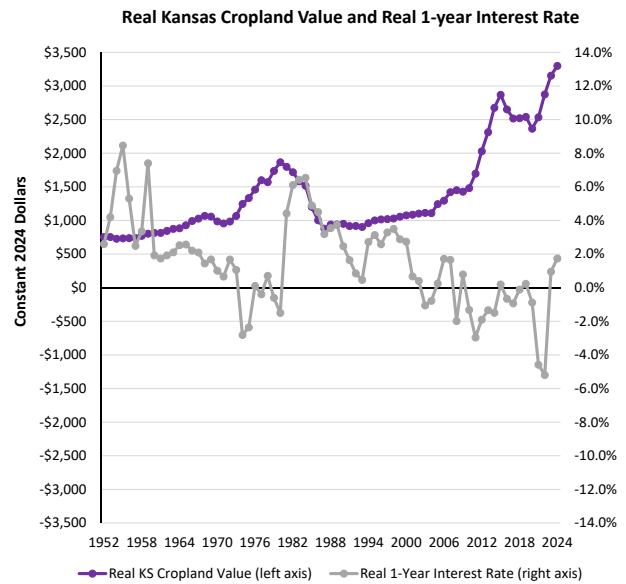
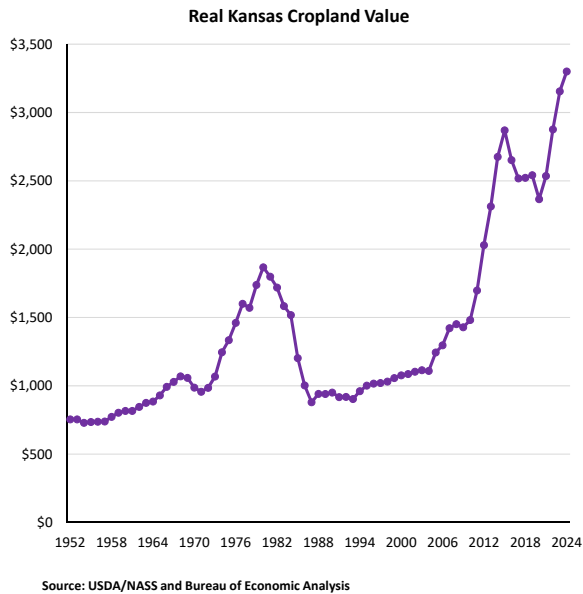
KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

What is the future path of interest rates?

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

Real interest rates have a relationship to farmland values.

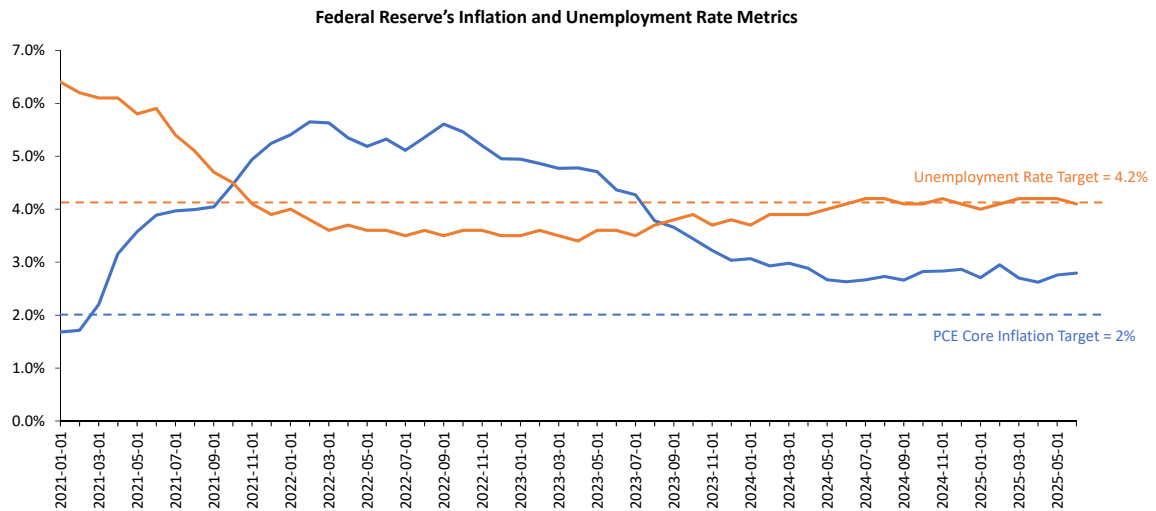
Constant 2024 Dollars



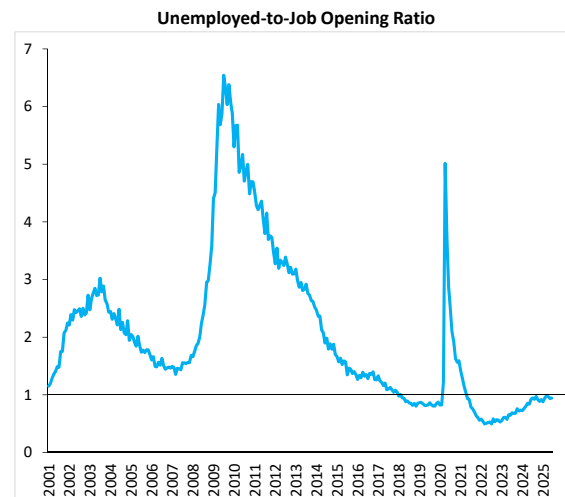
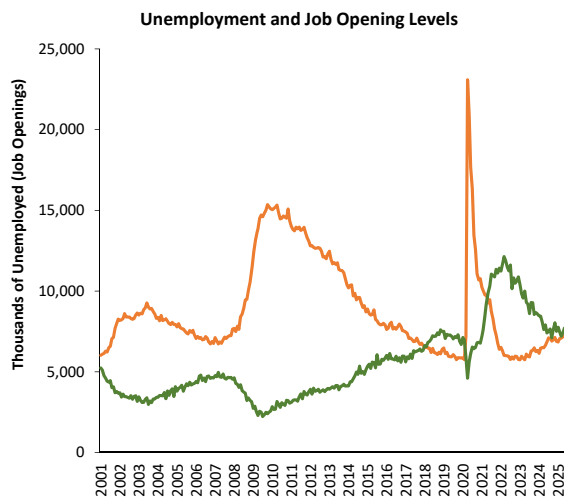
Factors impacting the Fed's decision on interest rates

- Labor market
 - Softening?
- Inflation
 - Sticky?
- Economic growth
 - Sustainable?
- Tariffs
 - Will they raise prices?
- Market expectations
 - CME 87% chance rate cut in September

The Federal Reserve's dual mandate is at target level for full employment, but above the target for stable prices.

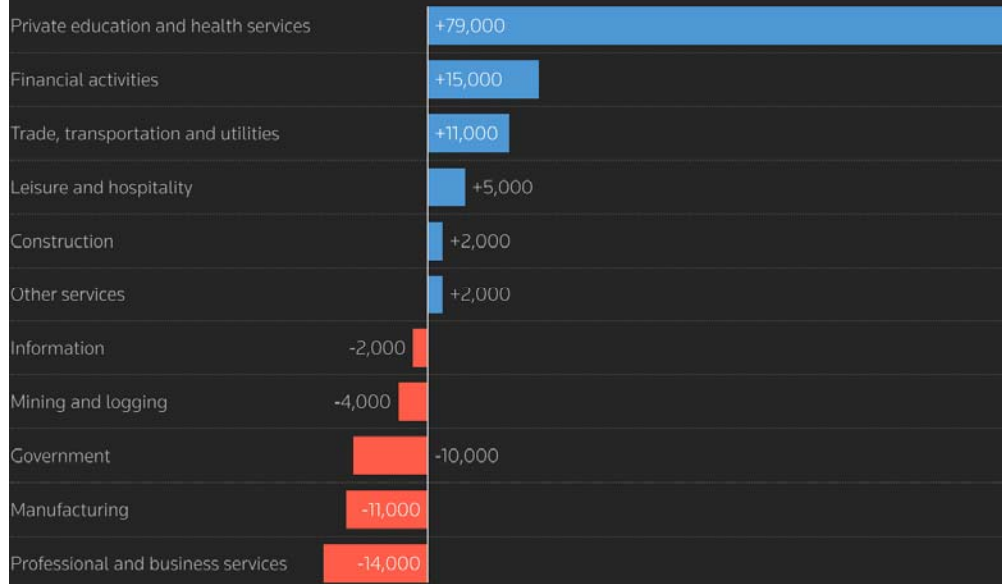


The labor market is more balanced. So, why are some saying a weaker July 2025 jobs report?



Monthly change in US jobs by sector

Employment gains and losses in July

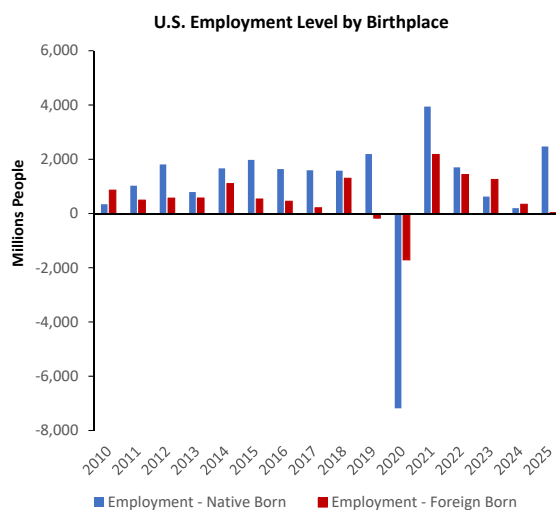


Data are seasonally adjusted.

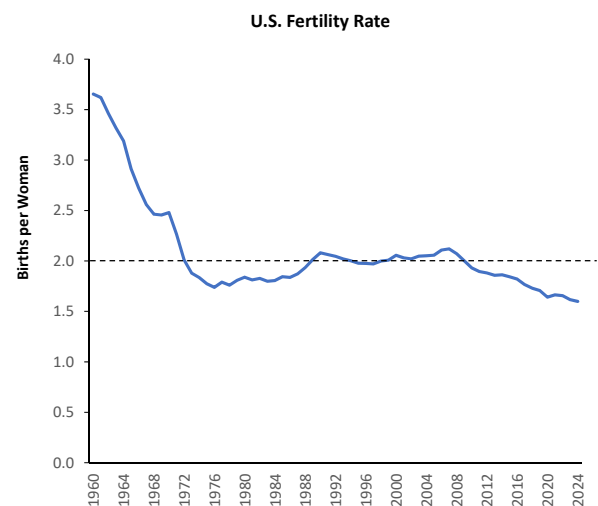
Source: Bureau of Labor Statistics | Reuters

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

Employment levels of foreign born workers is shrinking along with U.S. fertility rates.

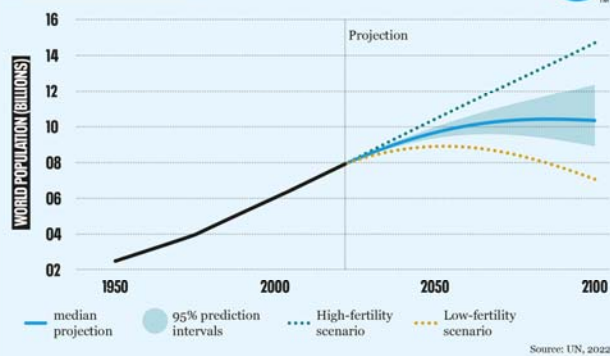


Source: Bureau of Labor Statistics and World Bank



KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

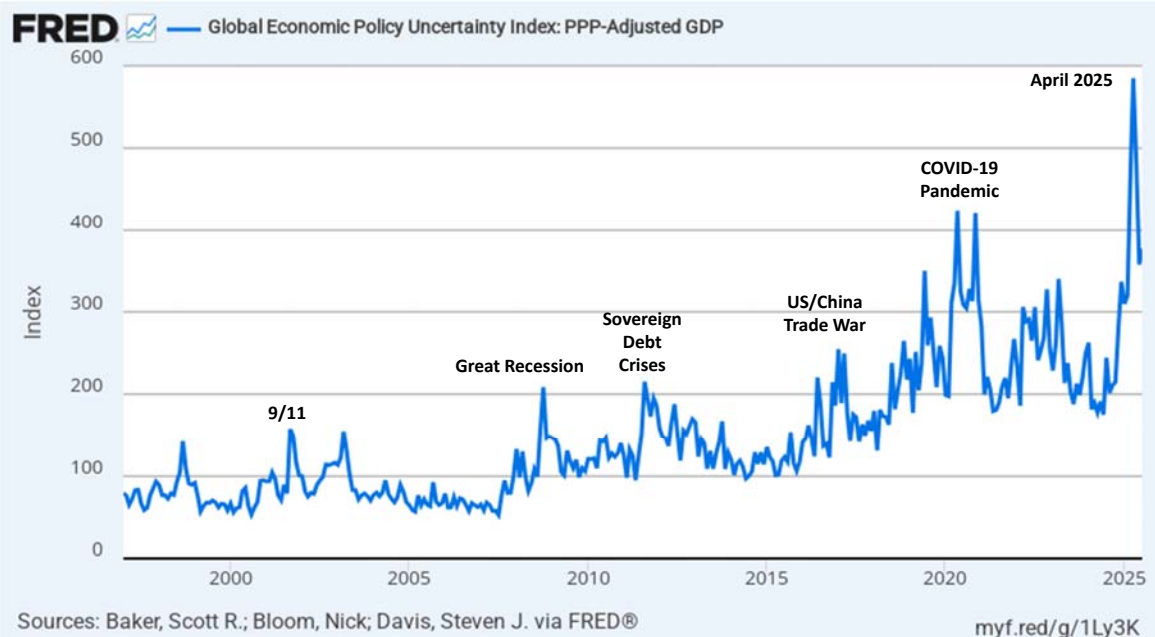
UNITED NATIONS POPULATION TO 2100: 95% CERTAINTY RANGE



Peak Is Just Around the Corner



Global Economic Policy Uncertainty is elevated



Announced Tariff Rates

UK	10%
EU	15%
Japan	15%
S. Korea	15%
Indonesia	19%
Philippines	19%
Vietnam	20%
Canada	35%
India	50%
Brazil	50%

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

What about stagflation of the 1970s? Could it rear its ugly head?

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

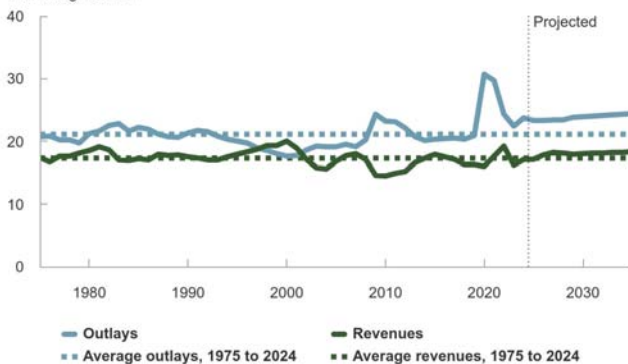
What led up to the stagflation of the 1970s? Why the drop in interest rates and then massive increase?

- Government budget deficits
 - Today: Yes

In 2024, U.S. federal deficit spending was projected to continue, and federal debt is expected to rise...

Total Outlays and Revenues

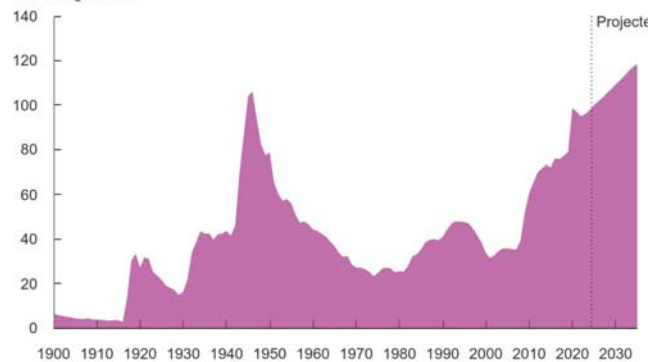
Percentage of GDP



Source: Congressional Budget Office

Federal Debt Held by the Public

Percentage of GDP



...but what will be the impact of the One Big Beautiful Bill Act (OB3)?

• Congressional Budget Office

- 0.5% GDP increase on average for 10 years
- Reduce OB3's cost by \$124B
- Deficit spending increasing causing interest payments to increase by \$441B
- Public Debt-to-GDP ratio to increase to 124%

• Council of Economic Advisors

- 4.6% to 4.9% GDP increase next 4 years and then 2.4% to 2.7% by 2034
- Reduce deficits by \$4.52T
- Public Debt-to-GDP ratio to increase to 100% (low GDP growth scenario of 2.5%)

10-year U.S. treasury yields are elevated (farm interest rates?)...



...term premiums on 10-year treasuries is rising (risk).



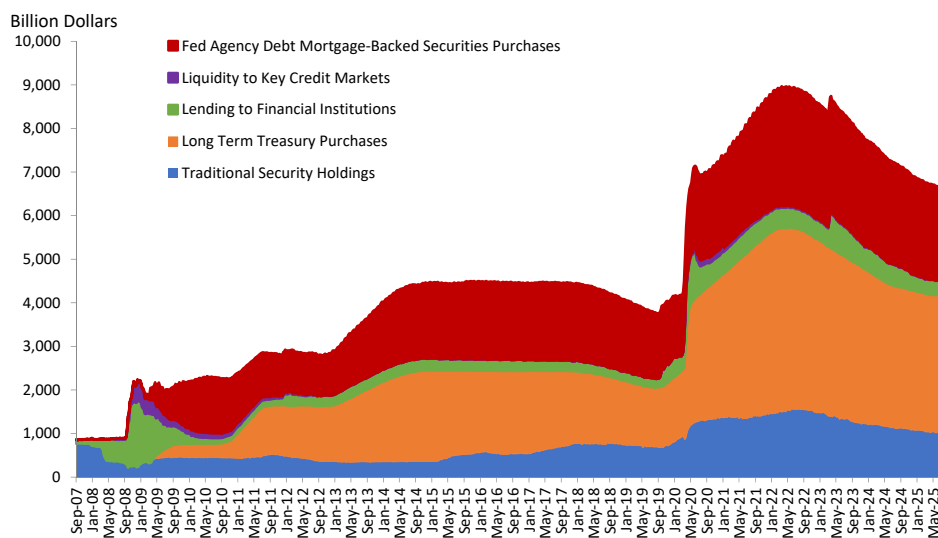
KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

What led up to the stagflation of the 1970s? Why the drop in interest rates and then massive increase?

- Government budget deficits
 - Today: Yes
- Repeal of Bretton Woods (“gold standard”)
 - Today: Zero bound interest rates and quantitative easing?

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

The Federal Reserve's balance sheet is shrinking...what does that mean for the economy?



Source: Federal Reserve Bank of Cleveland

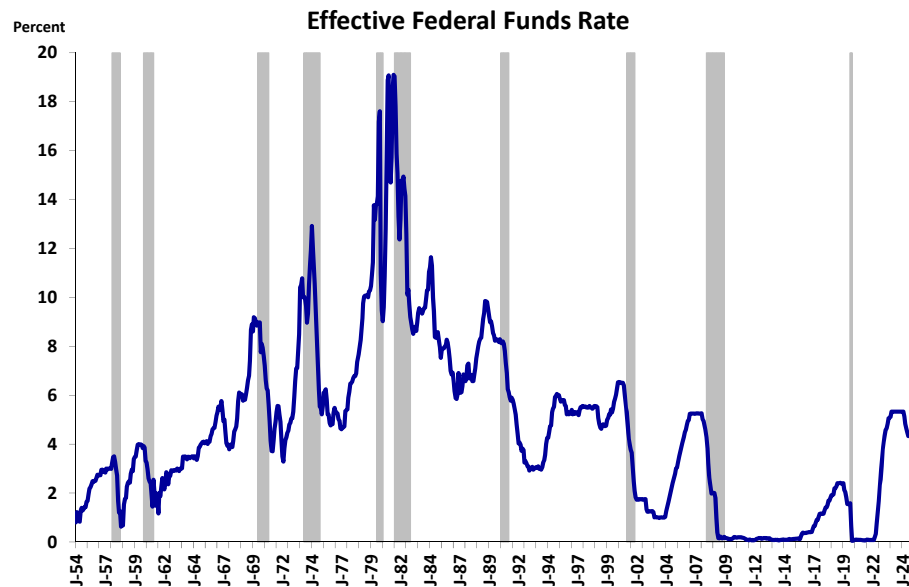
KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

What led up to the stagflation of the 1970s? Why the drop in interest rates and then massive increase?

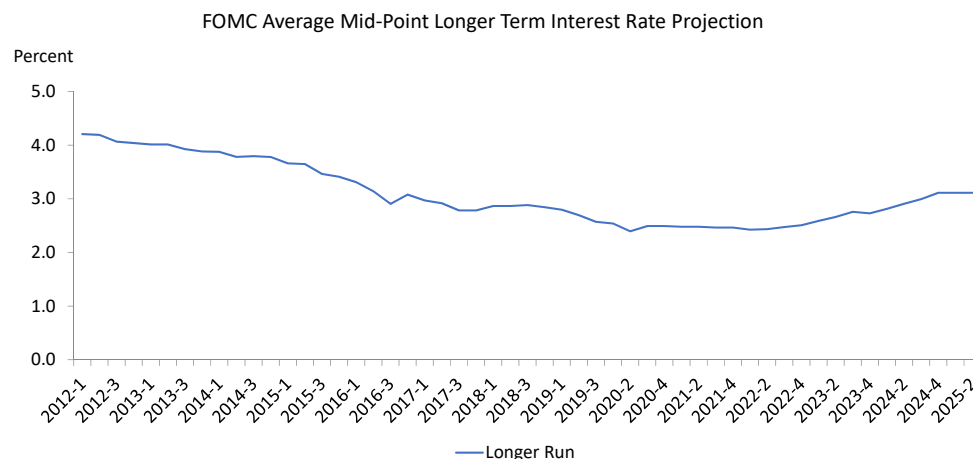
- Government budget deficits
 - Today: Yes
- Repeal of Bretton Woods ("gold standard")
 - Today: Zero bound interest rates and quantitative easing?
- Crude oil prices surged
 - Today: Not really
- US embargoed oil from Iran
 - Today: Trade wars?
- Confidence in the Fed waned and inflation expectations were no longer well anchored
 - Today: Not at the moment
- Wage-cost spiral
 - Today: No spiral but saw the beginning

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

After a period of exceptionally low interest rates, the Fed quickly raised interest rates, lowered rates, and now is 'wait and see'



However, will the Federal Open Market Committee (FOMC) maintain higher interest rates into the future?



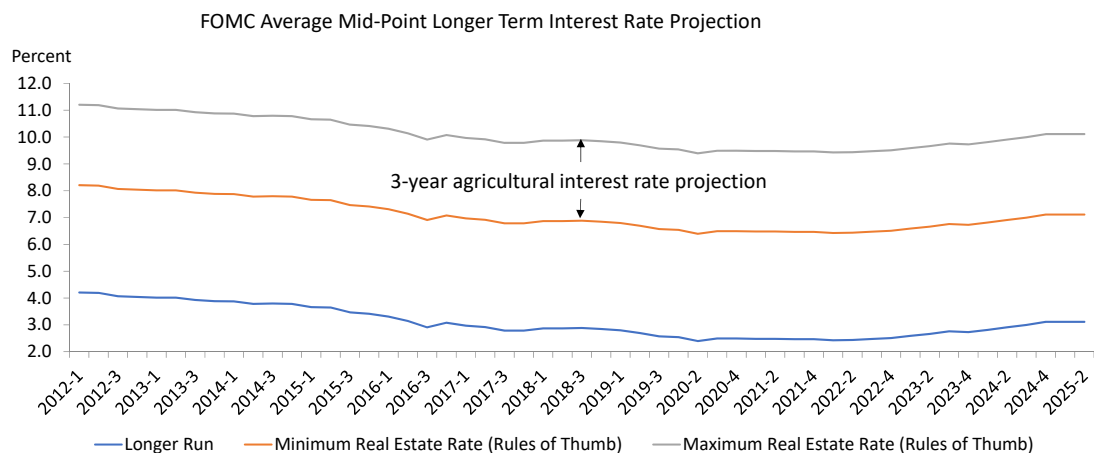
Source: Federal Open Market Committee (FOMC) Projections materials

Implications of FOMC mid-point longer term interest rate projections for agricultural producers

- Traditional interest rate setting rules of thumb
- Projected mid-point: $\approx 2.5\%$
- Prime rate: $\approx 5.5\%$
- Loan/borrower adjustment: 1% to 4%
 - Borrower default risk
 - Industry risk
 - Loan size
- Longer term agricultural interest rates range from 7% to 10%

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

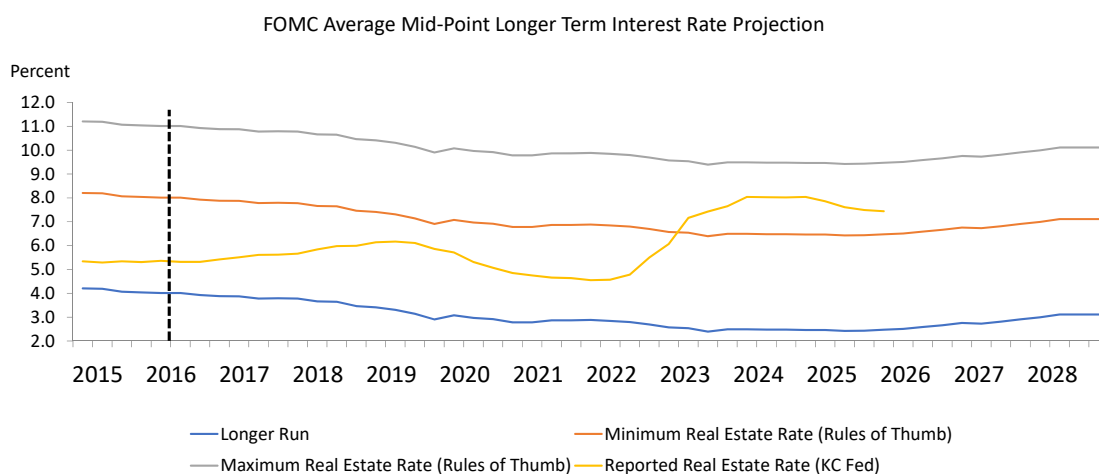
Using the FOMC projection for future agricultural interest rates



Source: Federal Open Market Committee (FOMC) Projections materials and author's calculations

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

How well does the FOMC projection predict future agricultural interest rates?



Source: Federal Open Market Committee (FOMC) Projections materials, Federal Reserve Bank of Kansas City's Agricultural Credit Survey, and author's calculations

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

Other topics of interest

- Agricultural policy
 - Section 199a
 - Farm Bill
 - Tariffs
 - Era of Ad Hoc Farm Payments?
- Agricultural trade
 - Outlook for exports?
- Future path of commodity prices and net farm income
- Technology development and adoption

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

Key takeaways

- High real interest rates tend to hold land values flat
- The Fed decreased interest rates to “normalize” them
 - The Fed has paused more rate declines...implications?
- Will farm real estate interest rates rise along with potential increases in 10-year U.S. Treasury Yields or hold steady?
- Interest rate movements are outside of your control. So, what can you do?

How should farms and agribusinesses respond?

- Create a budget and stress test it
- Build your balance sheet
 - Increase liquidity
 - Use debt wisely
- Be extremely efficient
 - Pore over your operation to increase efficiency
 - Control costs
 - Know your breakevens
- Still look for opportunities to expand or improve your operation
 - Opportunities will emerge



Thank You and Questions

Risk and Profit Conference

Brian C. Briggeman, Ph.D.
Professor and Director

August 21st and 22nd, 2025

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center