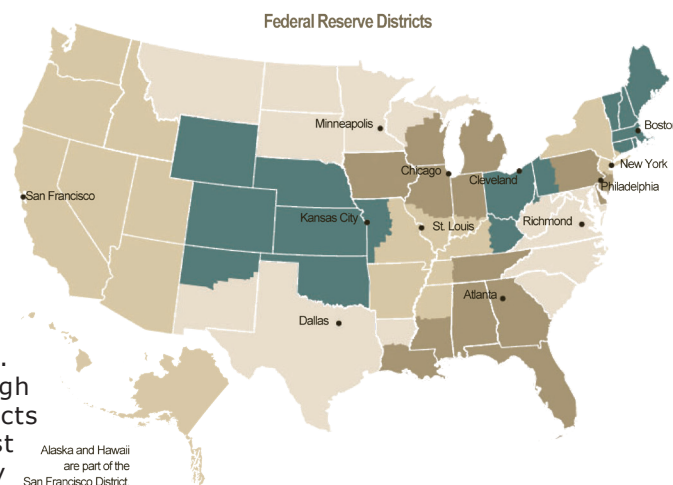


Federal Reserve Beige Book: Summary on the Ag Sector

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

Overall economic activity increased slightly in early 2023. Six Districts reported little or no change in economic activity since the last report, while six indicated economic activity expanded at a modest pace. On balance, supply chain disruptions continued to ease. Consumer spending generally held steady, though a few Districts reported moderate to strong growth in retail sales during what is typically a slow period. Auto sales were little changed, on balance, though inventory levels continued to improve. Several Districts indicated that high inflation and higher interest rates continued to reduce consumers' discretionary income and purchasing power, and some concern was expressed about rising credit card debt. Travel and tourism activity remained fairly strong in most Districts. Manufacturing activity stabilized following a period of contraction. While housing markets remained subdued, restrained by exceptionally low inventory, an unexpected uptick in activity beyond the seasonal norm was seen in some Districts along the eastern seaboard. Commercial real estate activity was steady, with some growth in the industrial market but ongoing weakness in the office market. Demand for nonfinancial services was steady overall but picked up in a few Districts. On balance, loan demand declined, credit standards tightened, and delinquency rates edged up. Energy activity was flat to down slightly, and **agricultural conditions were mixed**. Amid heightened uncertainty, contacts did not expect economic conditions to improve much in the months ahead.



Atlanta - Alabama, Florida, and Georgia; 74 counties in the eastern two-thirds of Tennessee; 38 parishes of southern Louisiana; and 43 counties of southern Mississippi.

Agricultural conditions remained mixed. Demand for beef increased, especially for calves, following the downsizing of Texas herds during the recent drought. Demand for milk declined amid reduced exports of powdered milk to China, and demand for butter fell from high levels. Cotton demand remained weak. While Florida's production of citrus fruits was limited by tree damage, demand remained strong. The Avian flu continued to limit the supply of eggs, which are generally sold domestically, and to drive prices upward. However, Avian flu-related restrictions on exports substantially softened global demand for poultry meat, thus increasing domestic supply; poultry companies reported losing money amid high costs and falling prices.



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

Contacts' forecasts for District agricultural income for 2023 were mostly for near average returns, down from an above average 2022. Wheat prices were up, in part because of longer Russian inspection times for Ukrainian grain shipments and buyers' greater reluctance to enter purchase agreements given uncertainty about whether the shipping deal with Russia would continue. Corn and soybean prices were also higher, spurred by uncertainty about the size of South American harvests. Contacts noted that lower costs for some inputs would help farm incomes but rising feed costs were a continuing concern for livestock producers. Egg prices dropped from extremely high levels, and dairy prices were generally lower. There were reports of closures of smaller dairy operations, for which higher interest rates on loans were making it more expensive to expand to a more profitable scale. Cattle and hog prices moved higher during the reporting period.



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.

District agriculture conditions have declined moderately since our previous report. The number of acres of winter wheat planted in the District this season has increased by 27 percent compared with this period a year ago. These increases range from 15-55 percent across District states with the lone exception of Arkansas, which saw a moderate decrease of 14 percent. District contacts are no longer optimistic on the outlook for the rest of the year, due to concern about the increased cost of inputs, especially labor. Additionally, contacts noted sales were either at or below expectations, and some contacts expressed concern that higher interest rates were putting additional strain on their balance sheets.



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

District agricultural conditions remained strong heading into the end of winter. According to the Minneapolis Fed's fourth quarter (January) agricultural credit conditions survey, nearly three-quarters of lenders reported farm incomes increased from October through December compared with the same period a year earlier. Farm household spending, capital spending, and loan repayment rates also increased on balance, while demand for loans fell.



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

The farm economy in the Tenth District remained strong, but risks to the outlook lingered. In the livestock sector, cattle prices increased slightly in February and reached multi-year highs alongside lower inventories. In the crop sector, prices of corn, soybeans and wheat remained high and continued to support profitability. Despite strong market conditions, District contacts reported that elevated production costs, higher interest rates, and ongoing drought in some areas have put downward pressures on profit margins for many producers. Cost pressures have been particularly challenging for livestock operations, with several reports of early calf sales and herd liquidation as a result of intense drought and high feed costs, which could reduce revenues going forward.



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

Agricultural conditions improved slightly over the reporting period. Though much of the district remained in some level of drought, the winter wheat crop was faring better this year than last. Spring row crop planting was on the horizon, and contacts expect an increase in grain acres and a decrease in cotton acreage in 2023. Agricultural commodity prices were relatively high, and some improvement was seen in input costs, particularly fertilizer. Cattle prices rose amid solid beef demand, while egg prices have declined after surging at the beginning of the year.



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 agriculture and resource-related sectors softened slightly. While international transportation bottlenecks eased further, demand from abroad continued to be hampered by the strong dollar. One contact observed that producers continued to shift sales to domestic markets, and another commented that domestic demand has been high enough to largely absorb available supply. However, demand for produce from retailers and food services providers was reportedly either stable or down in recent weeks. Contacts continued to report low crop yields due to drought conditions, while a contact in Alaska noted continued stability in some major seafood stocks. Input costs, such as labor, energy, water, and fertilizer, increased, though one contact in the Pacific Northwest noted that food transportation costs fell substantially.



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/files/BeigeBook_20230308.pdf.