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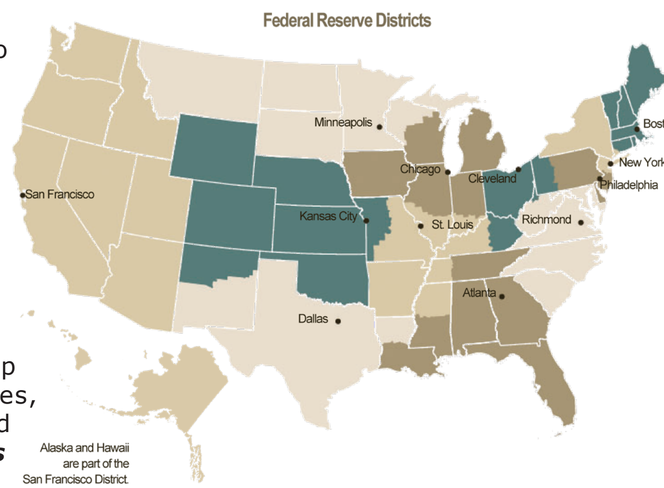
Federal Reserve Beige Book: Summary on the Agricultural Sector

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.



ECONOMIC activity increased at a slight to moderate pace in eleven of twelve Federal Reserve Districts in late May and June, while one District reported no change. The pace of growth was quite close to that of last period, when activity expanded in ten Districts, was flat in one, and down in one. Consumer spending edged up as higher prices, particularly for fuel, dampened sales in other categories. Several Districts noted declines in spending on discretionary items or trading down to more affordable varieties. Tourism was up, with some Districts receiving a boost from World Cup visitors. Auto dealers reported little change in sales, but spending on repairs grew as consumers held onto vehicles for longer. ***Agricultural conditions deteriorated due to lower commodity prices, higher input costs, and tighter credit.*** In the energy sector, oil and gas drilling increased. Manufacturing production grew modestly to moderately in most Districts, led by stronger orders from the data center, machinery, and defense sectors. Manufacturers in several Districts said supply chain issues were more common. Construction and real estate activity increased slightly overall, with several Districts noting growth in data center building. Financial conditions were stable on net, and commercial and consumer loan volumes were both up modestly. Commercial loan quality was stable, but consumer loan quality ticked down. Transportation activity increased modestly amidst ongoing supply chain changes related to higher tariffs and the conflict in the Middle East. Overall, activity in other service industries also was up modestly, with Districts highlighting growth in health care and professional services. Social service providers were adjusting to funding declines while demand for basic supports—housing, food, health care—remained high. Contacts generally expected the economy to continue to expand in the coming months, but several Districts noted elevated uncertainty in the outlook for fuel costs.

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

Expectations for 2026 District farm income deteriorated some in late May and June as crop prices faltered and most livestock prices were flat. Corn, soybean and wheat prices all declined. Egg and hog prices were flat overall, while cattle prices decreased some from elevated levels. Dairy prices were down on balance. Contacts noted that cheese production increased, in part because of rising demand for whey protein, a cheese biproduct. Corn and soybean crops were progressing well across most of the District. Production of new farm equipment slowed, spurring sales of used equipment and helping to reduce elevated used inventories. Contacts reported that farm equipment repair activity was much higher this year as a consequence of aging equipment fleets. Prices for fertilizer and fuel purchases dropped as transportation blockages eased in the Middle East, although it is not a major season for farm purchases of these items.

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 conditions remain largely unchanged from our previous report. A banker reported that farm operations are holding steady, with no significant uptick in loan delinquencies. In contrast, a rural lender in Northwest Arkansas noted that drought and reductions in federal funding have sharply reduced farm productivity and revenue. A lumber producer described favorable weather and said they have expanded work hours to meet their supply commitments. Meanwhile, an agribusiness contact expressed pessimism about the outlook for row-crop farming—particularly rice—observing that several farmers are uncertain whether they will be able to continue operating. Credit conditions remain tight for some growers, as certain financial institutions have become more hesitant to partner or share risk on farm loans.

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

Though crop progress and conditions were generally good, District agricultural conditions worsened slightly since the last report. Corn and soybean progress was on par with their averages in District states, and most crops were in good or excellent condition, but wheat in Montana and South Dakota was mostly in fair or worse condition. Contacts reported that a recent sell-off in commodities was having a depressing effect on already-low crop prices; "Farmers [are] selling out due to poor markets and [inability] to get operating loans," commented a Minnesota farm operator. Oil and gas exploration activity in the District 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.*

Strength in the cattle sector continued to support the Tenth District farm economy but ongoing weakness in the crop sector weighed on conditions in many areas. Cattle prices stayed near record highs and contacts in many parts of the region reported that strong calf revenues were supporting farm finances and credit conditions. Profit opportunities for crops remained limited and lenders noted the outlook for the sector was an ongoing concern. Drought also intensified in the southern and western portion of the region and was mentioned as a key risk for crop and livestock producers. Despite ongoing challenges for many operations, deterioration in agricultural credit conditions and loan performance was modest during the most recent survey period and farmland values were stable.

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

Widespread rainfall improved soil moisture conditions across much of the District, though some areas of drought remain, particularly in the Texas Panhandle. Crop production prospects generally improved thanks to the rain, though elevated input costs continue to create financial stress for farmers. On the livestock side, the New World screwworm remains a key concern, particularly since the first U.S. case was identified in South Texas in early June. More cases have since been identified in Texas and New Mexico, prompting cattle producers in the region to dedicate resources to inspecting their herds.

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 remained weak and largely unchanged from the prior reporting period. Farmers across the District were challenged by elevated production costs and low commodity crop prices. Acute drought conditions were reported throughout the Mountain West and parts of Oregon. Exports of cherries, apples, hay, and grains to Asian markets reportedly declined. A Mountain West contact described the agricultural sector in the region as undergoing a recession, with many farmers experiencing their second or third consecutive year of operational losses. In contrast, conditions in livestock markets were solid, similar to prior reporting periods.

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.