

# Macroeconomic Implications for Agriculture

Ag Lenders Conference

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September 30<sup>th</sup> and October 1<sup>st</sup>, 2025

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

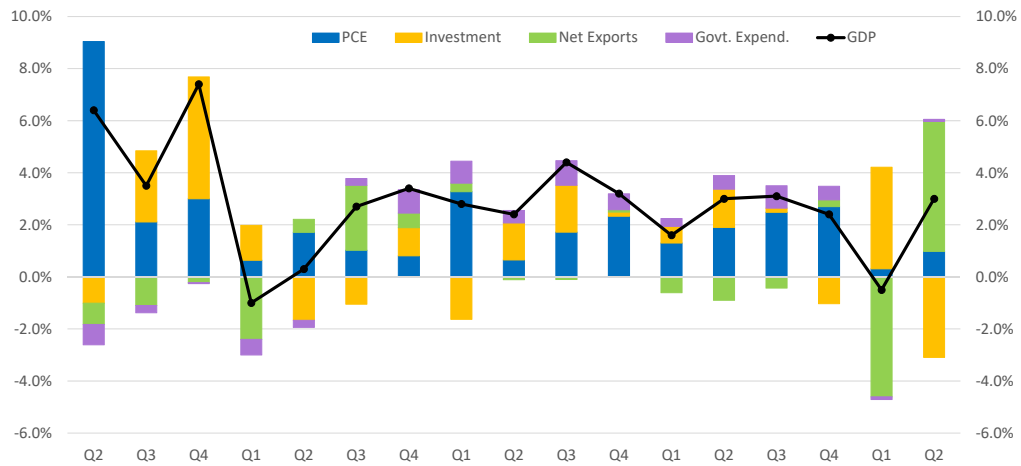
Real GDP Percent Change from Preceding Quarter



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

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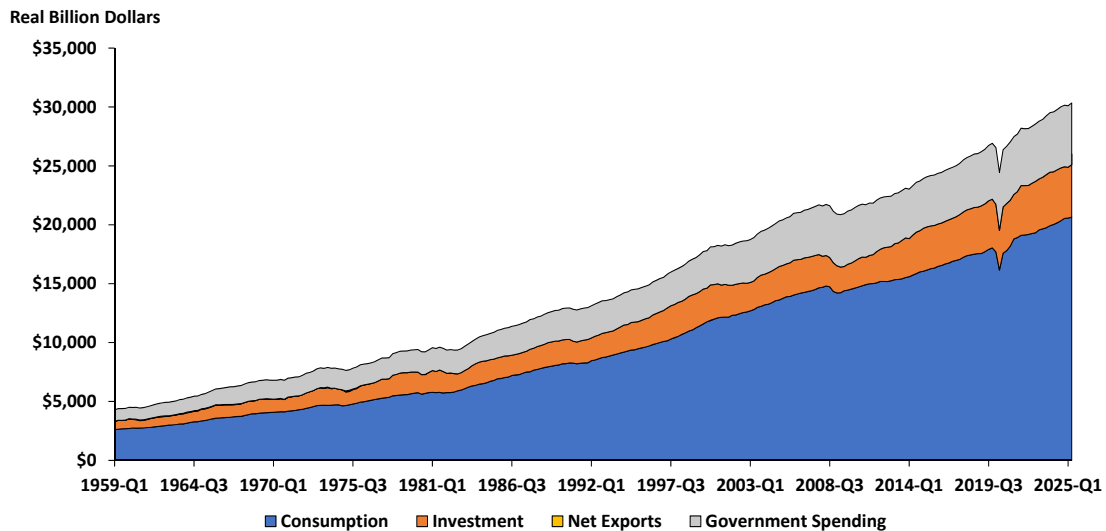
...but the growth was driven by a sharp reduction in imports.



Source: Bureau of Economic Analysis

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Consumption is the largest GDP component, and Moody's estimates that today about half of all consumption comes from households that earn more than \$200,000 per year.



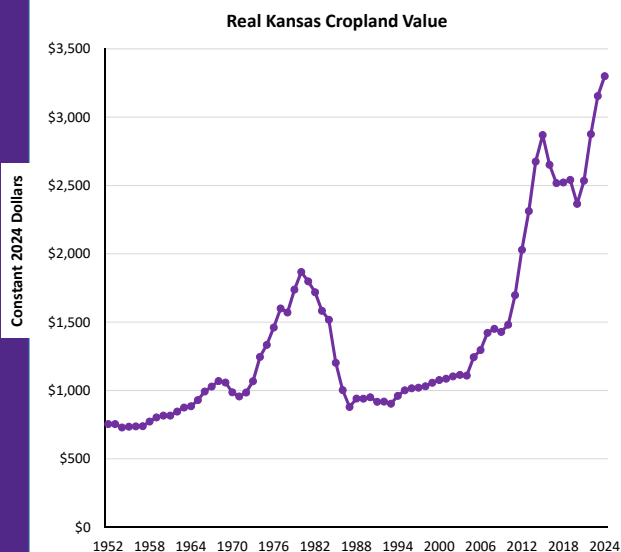
Source: Bureau of Economic Analysis

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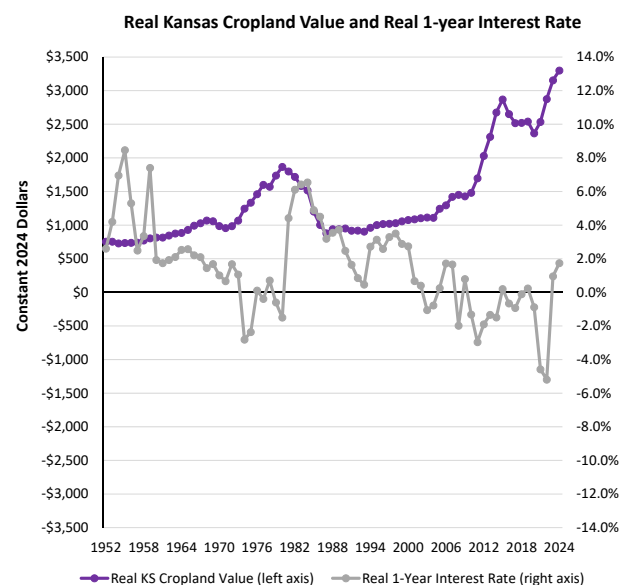
# What is the future path of interest rates?

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Real interest rates have a relationship to farmland values.



Source: USDA/NASS and Bureau of Economic Analysis

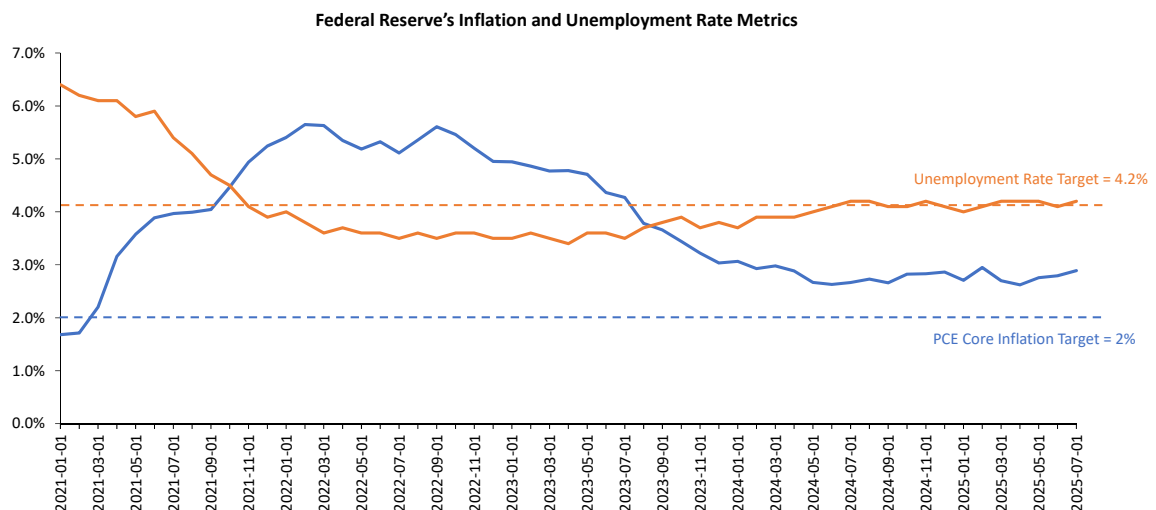


## Factors impacting the Fed's decision on interest rates

- Labor market
  - Softening?
- Inflation
  - Sticky?
- Economic growth
  - Sustainable?
- Tariffs
  - Will they raise prices?
- Market expectations
  - CME 91.9% chance rate cut in October
  - 5-year Inflation Expectations at 2.5%

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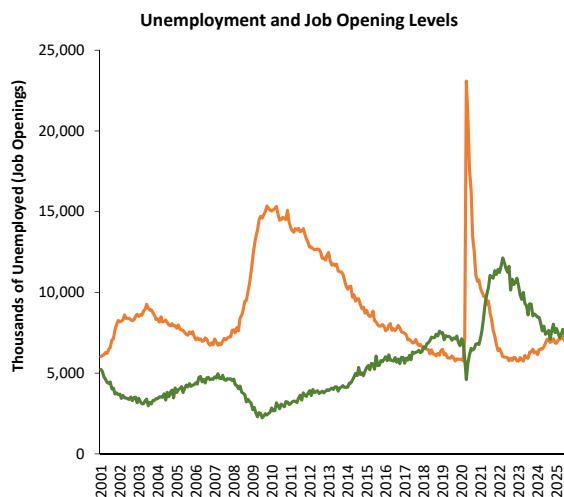
The Federal Reserve's dual mandate is at target level for full employment, but above the target for stable prices.



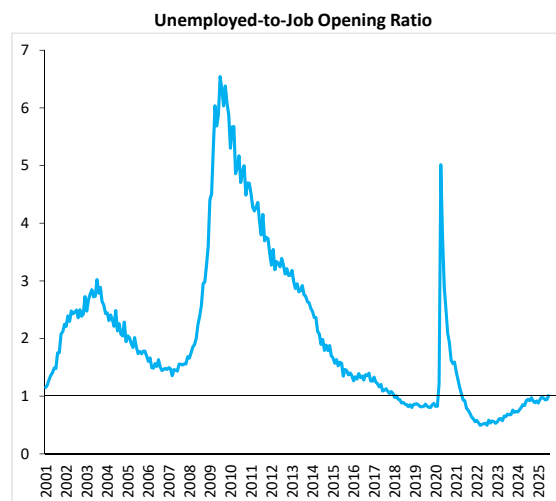
Source: Bureau of Economic Analysis and Bureau of Labor Statistics

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While the labor market is more balanced, the weak August 2025 jobs report points to pending issues.

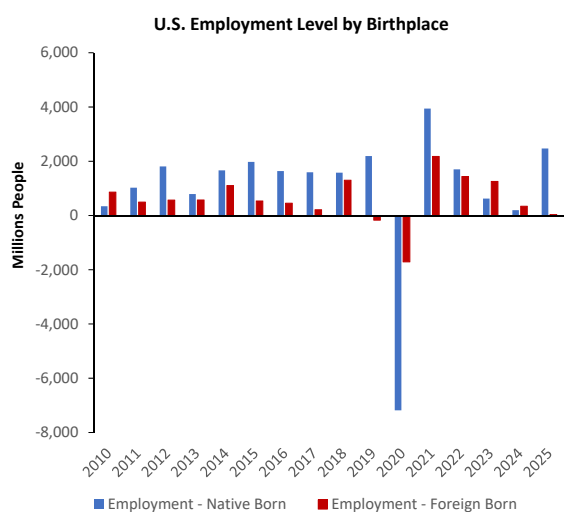


Source: Bureau of Labor Statistics

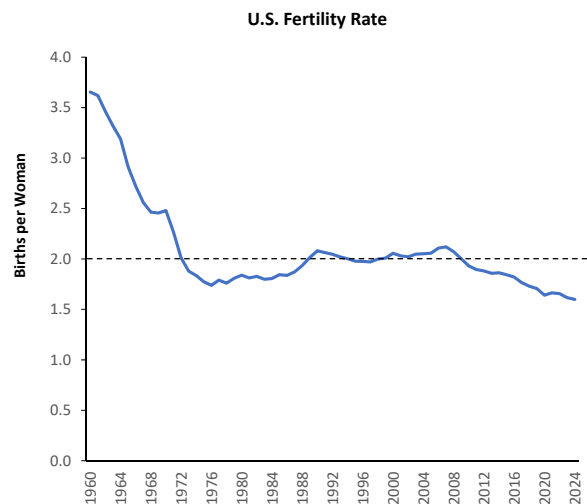


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Employment levels of foreign-born workers is shrinking along with U.S. fertility rates.

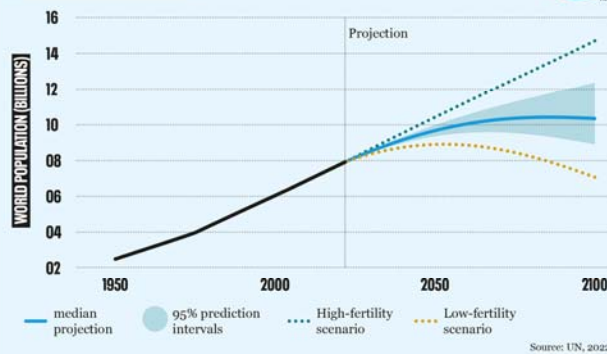


Source: Bureau of Labor Statistics and World Bank

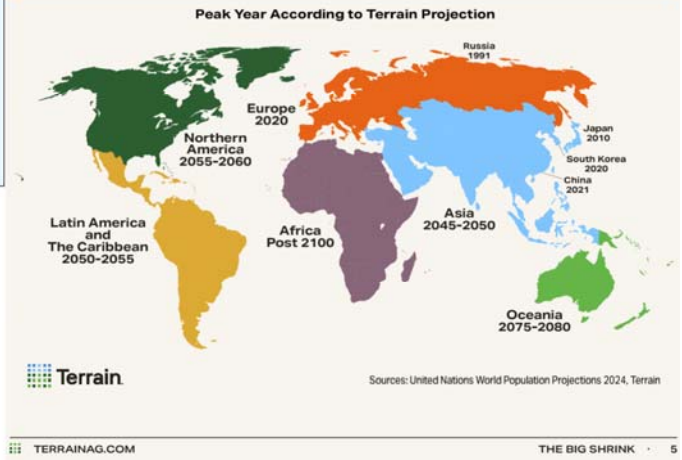


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# **UNITED NATIONS POPULATION TO 2100: 95% CERTAINTY RANGE**



## ■ Peak Is Just Around the Corner

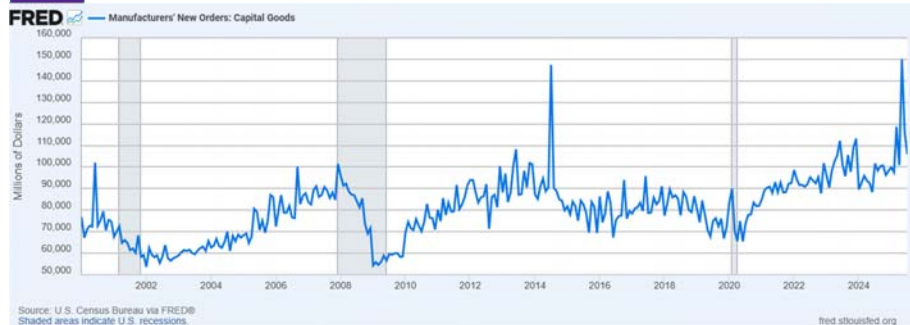


## **Announced Tariff Rates**

UK	10%
EU	15%
Japan	15%
S. Korea	15%
Indonesia	19%
Philippines	19%
Vietnam	20%
Canada	25%
China	25%
India	50%
Brazil	50%

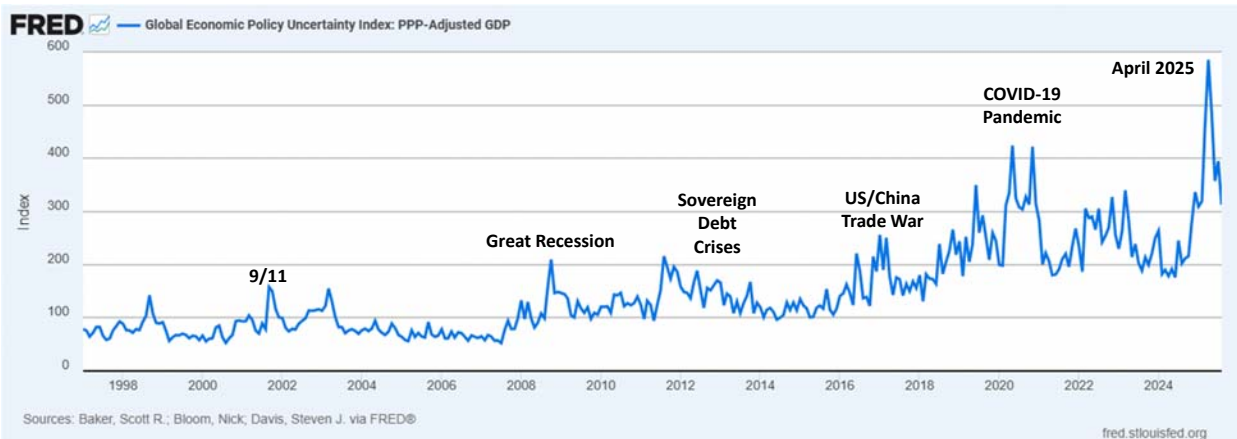


Manufacturers are reporting paying higher prices and capital orders are down



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## Global Economic Policy Uncertainty is elevated



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

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

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- Government budget deficits
  - Today: Yes

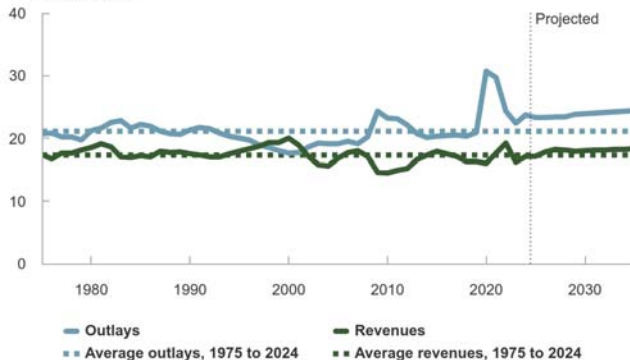
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In 2024, U.S. federal deficit spending was projected to continue, and federal debt is expected to rise...

**Total Outlays and Revenues**

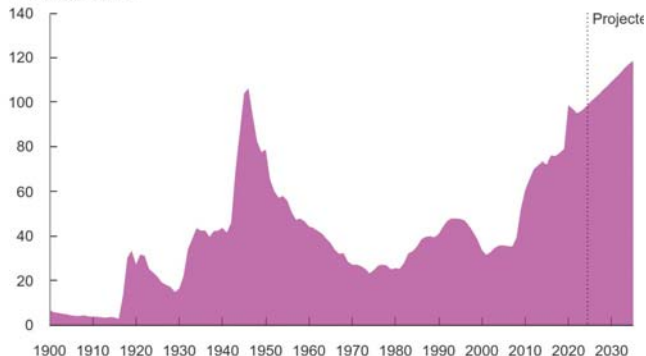
Percentage of GDP



Source: Congressional Budget Office

**Federal Debt Held by the Public**

Percentage of GDP



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## ...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%)

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



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

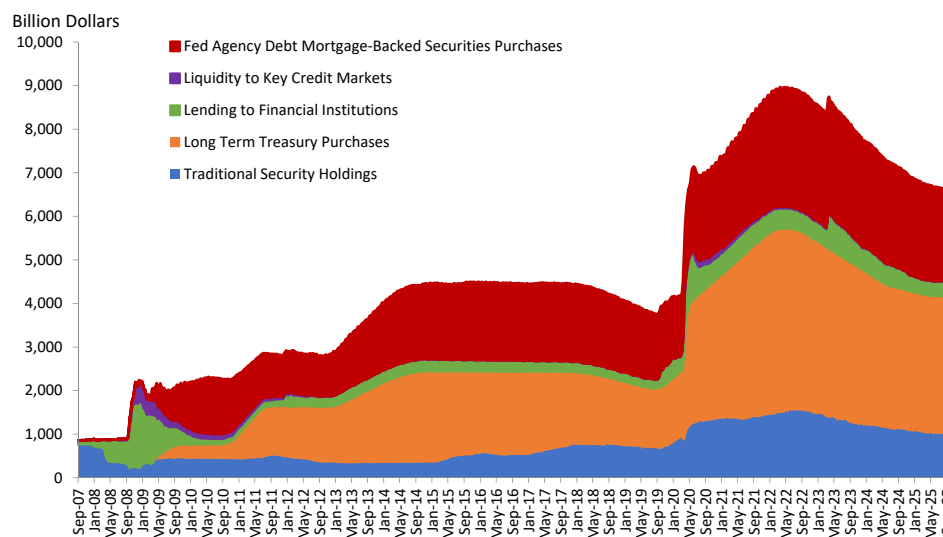


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## What led up to the stagflation of the 1970s? Why the drop in interest rates and then massive increase?

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

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



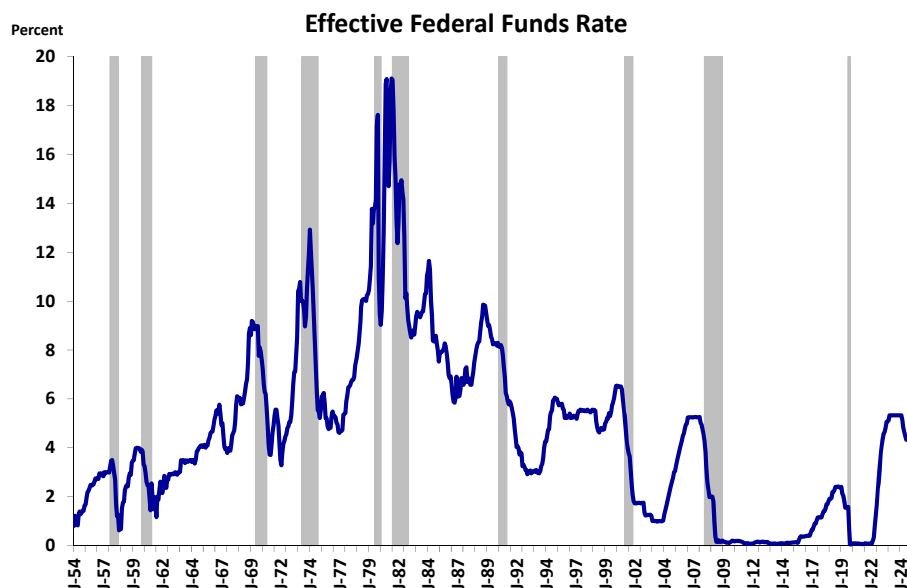
Source: Federal Reserve Bank of Cleveland

## 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

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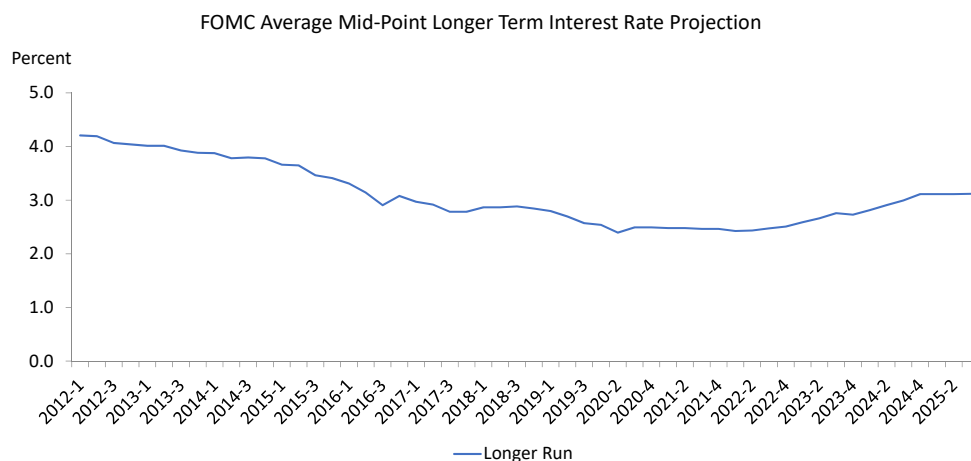
After raising rates rapidly to fight inflation, the Fed lowered rates and in September 2025 voted to lower them again.



Source: Federal Reserve Board of Governors

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## What is the “target” Fed Funds rate for the Federal Open Market Committee (FOMC)?



Source: Federal Open Market Committee (FOMC) Projections materials

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## Key takeaways

- High real interest rates tend to hold land values flat
  - Collapsing farm incomes historically lead to land value declines...will this happen today?
- The Fed has started lowering interest rates
  - Is a recession coming?
- 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?

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## How should farms and agribusinesses respond?

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- 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

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## Thank You and Questions

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