

SEPTEMBER INTEREST RATE, INFLATION, AND COSTS OF PRODUCTION UPDATE

SEPTEMBER, 2022

Brady Brewer, Associate Professor of Ag. Economics

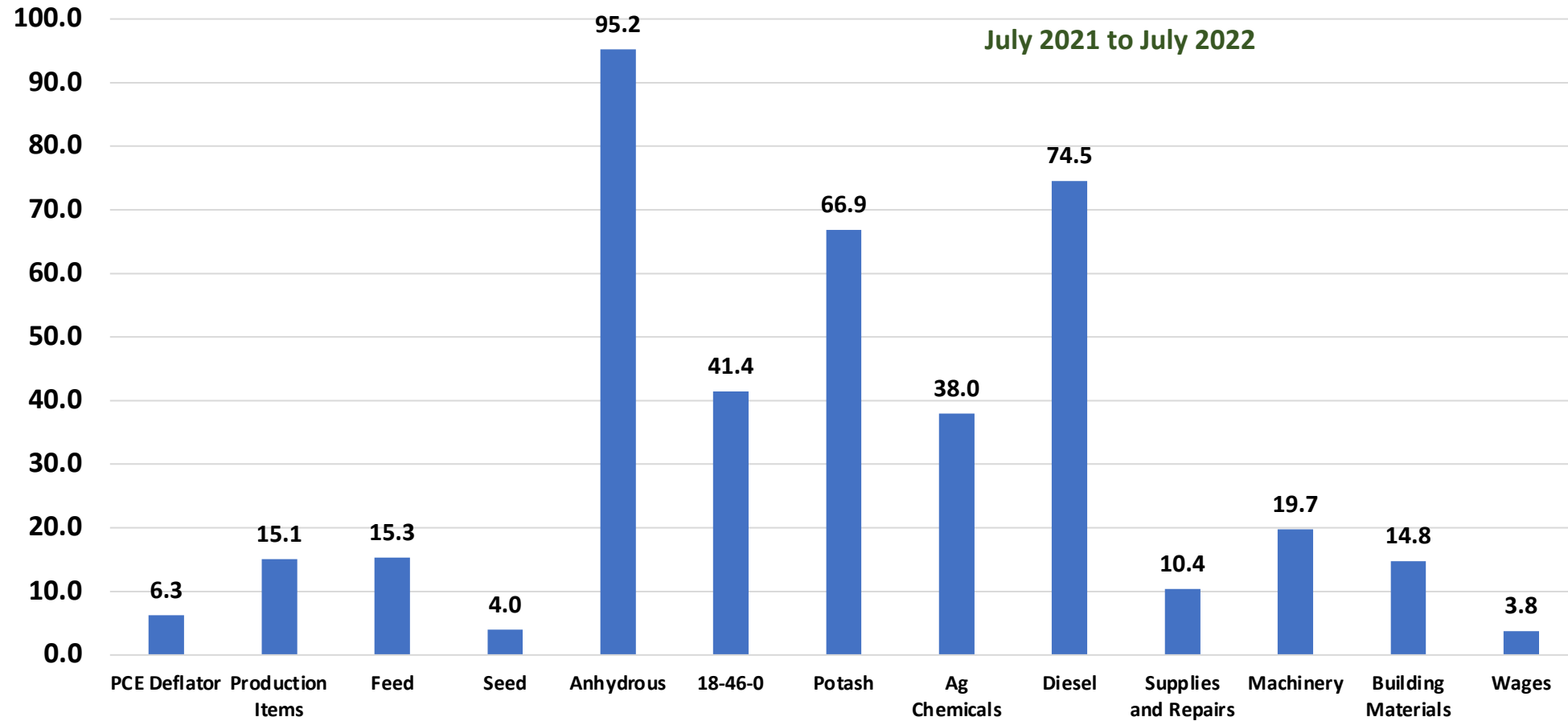
Michael Langemeier, Professor & Associate Director, Center for Commercial Agriculture



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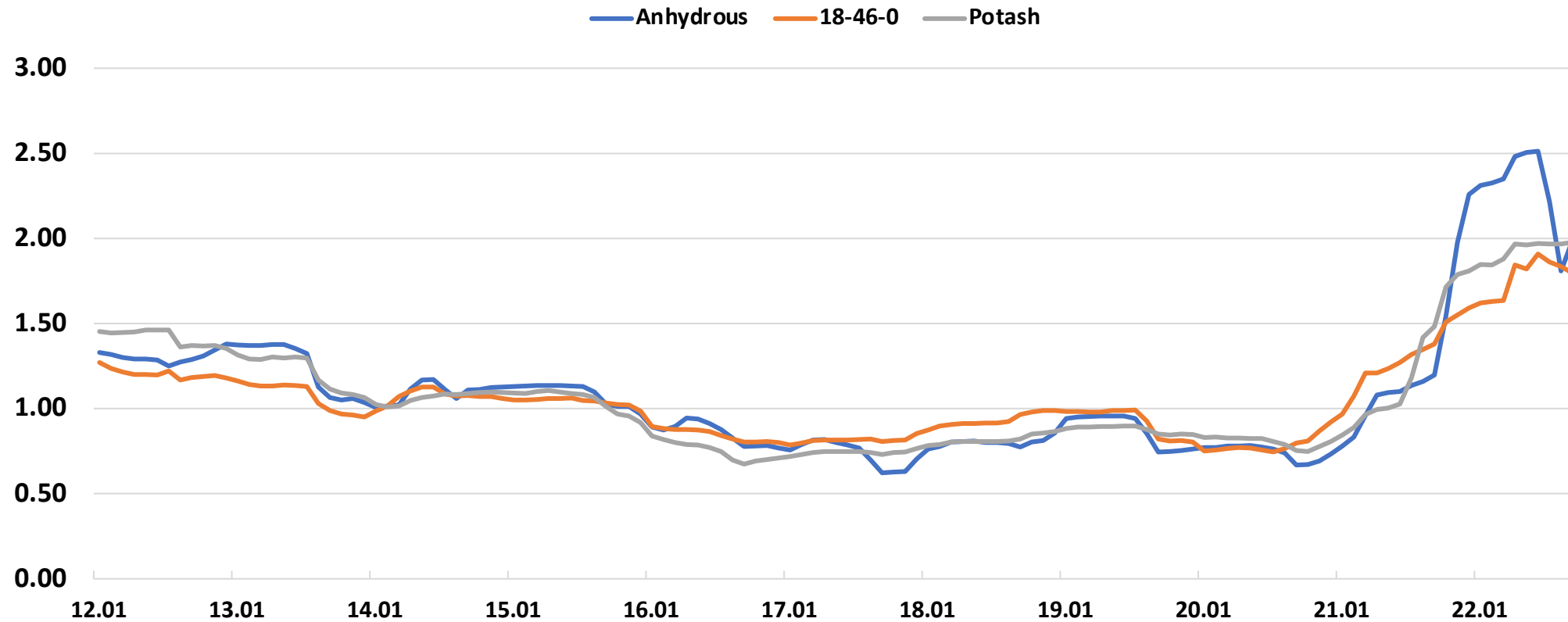
Surge in Farm Input Prices

Percentage Change in Inflation and Farm Input Prices in the Last 12 Months



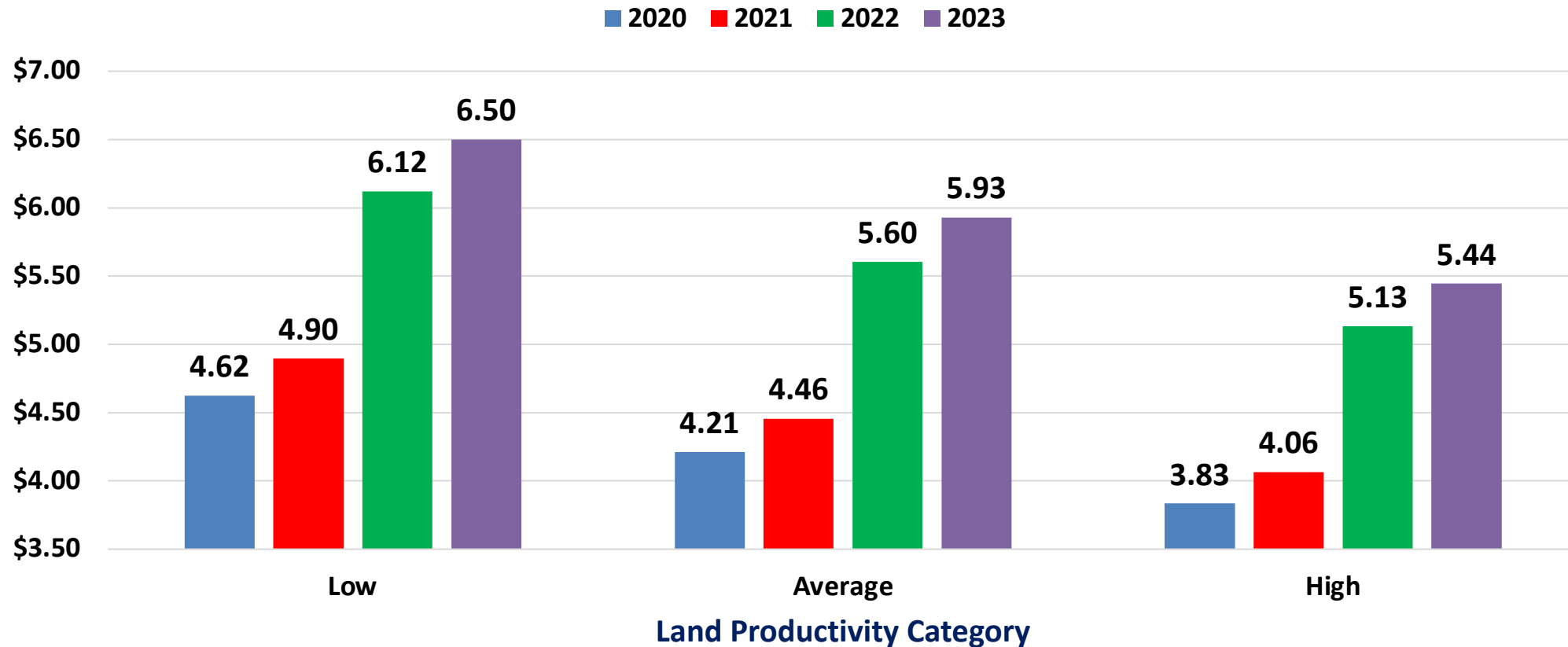
Current Nitrogen Price is Lower than Prices in Early 2022

Fertilizer Price Indices for Illinois, 2012 to 2022
Note: Index = 1.00; Ten-Year Average (2012 to 2021)



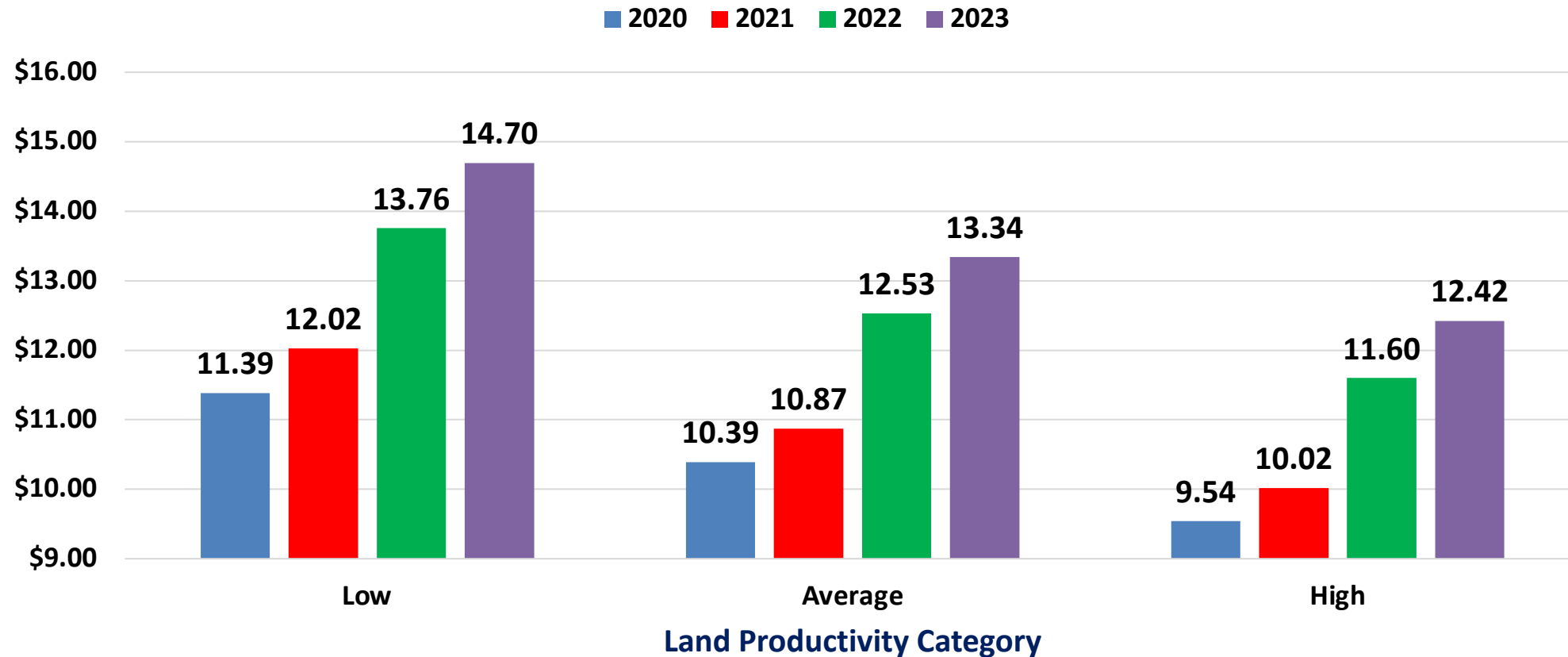
Change in Breakeven Prices for Corn since 2020

Breakeven Prices for Rotation Corn in Indiana



Change in Breakeven Prices for Soybeans since 2020

Breakeven Prices for Rotation Soybeans in Indiana



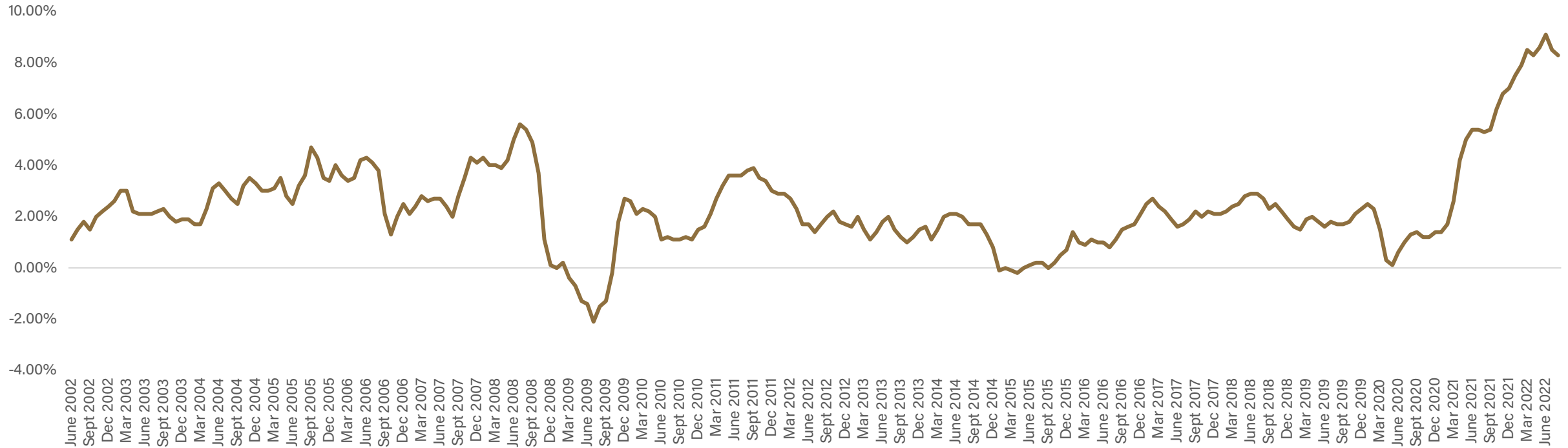
Inflation

Consumer Price Index

Consumer Price Index All items

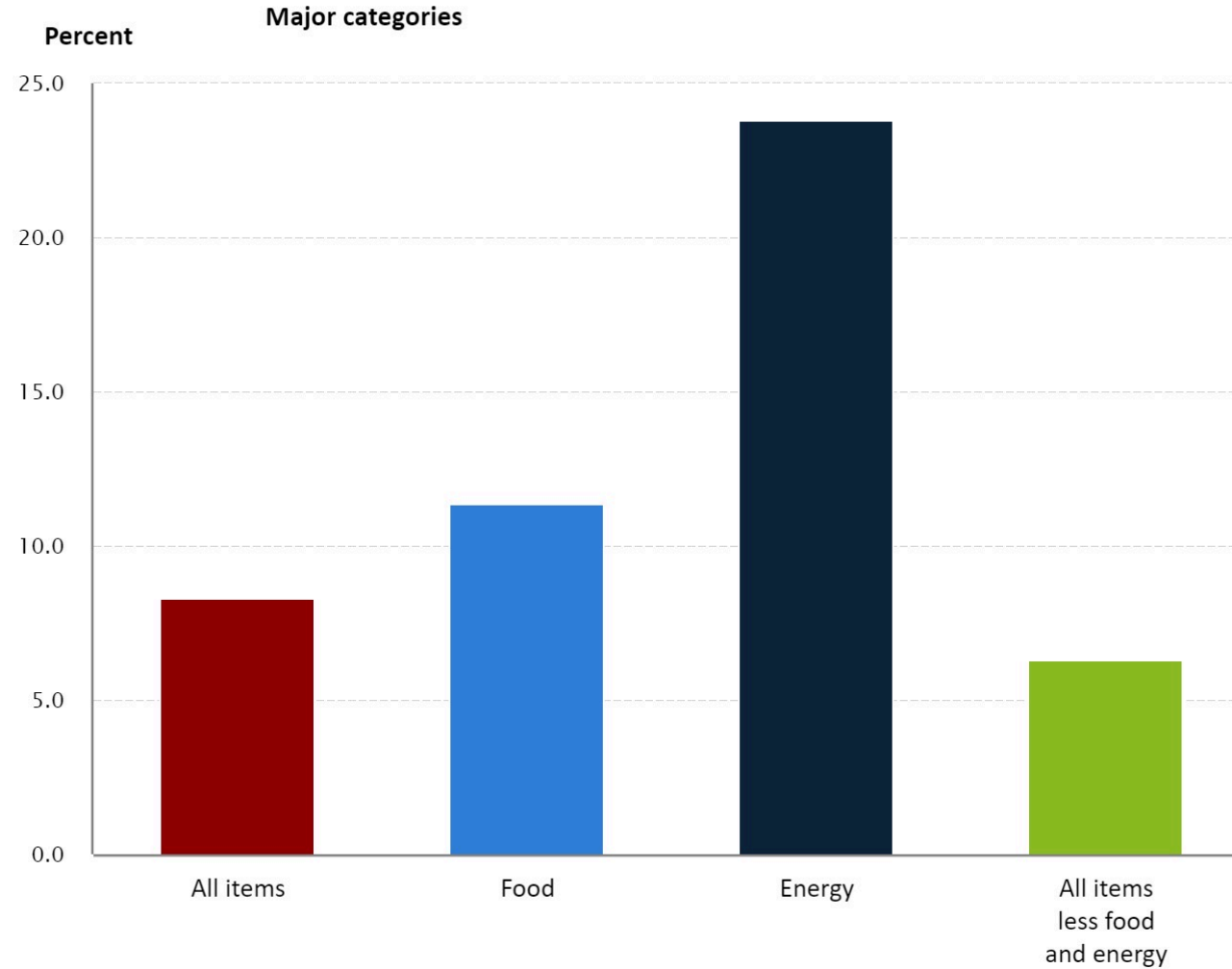
June 2002 To August 2022
Source: Bureau of Labor Statistics

June 2022 Inflation: 9.1%
July 2022 Inflation: 8.5%
August 2022 Inflation: 8.3%



12-month percentage change, Consumer Price Index, selected categories, August 2022, not seasonally adjusted

[Click on columns to drill down](#)



Source: U.S. Bureau of Labor Statistics.

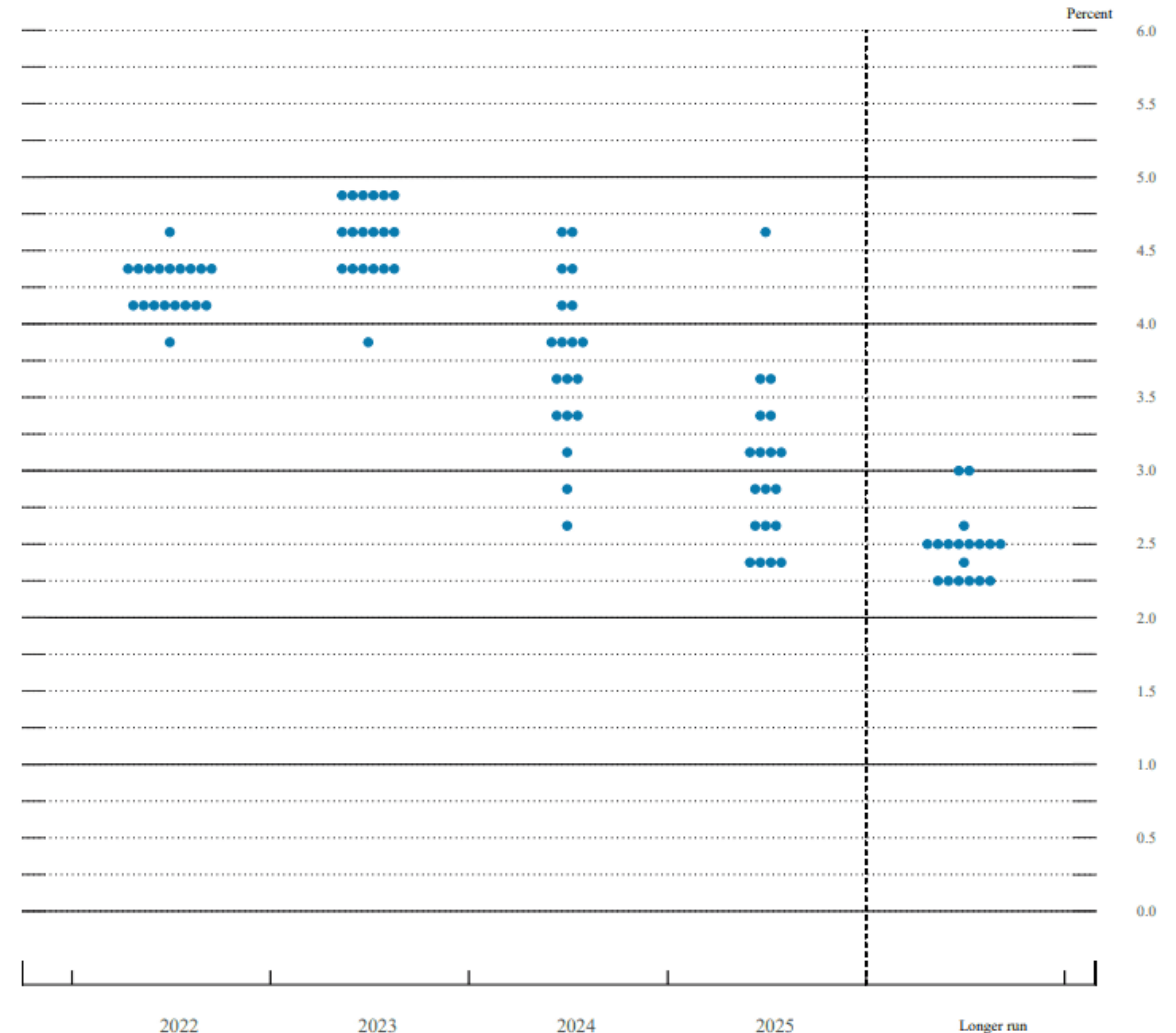


The Fed Funds Rate

FOMC "Dot Plot"

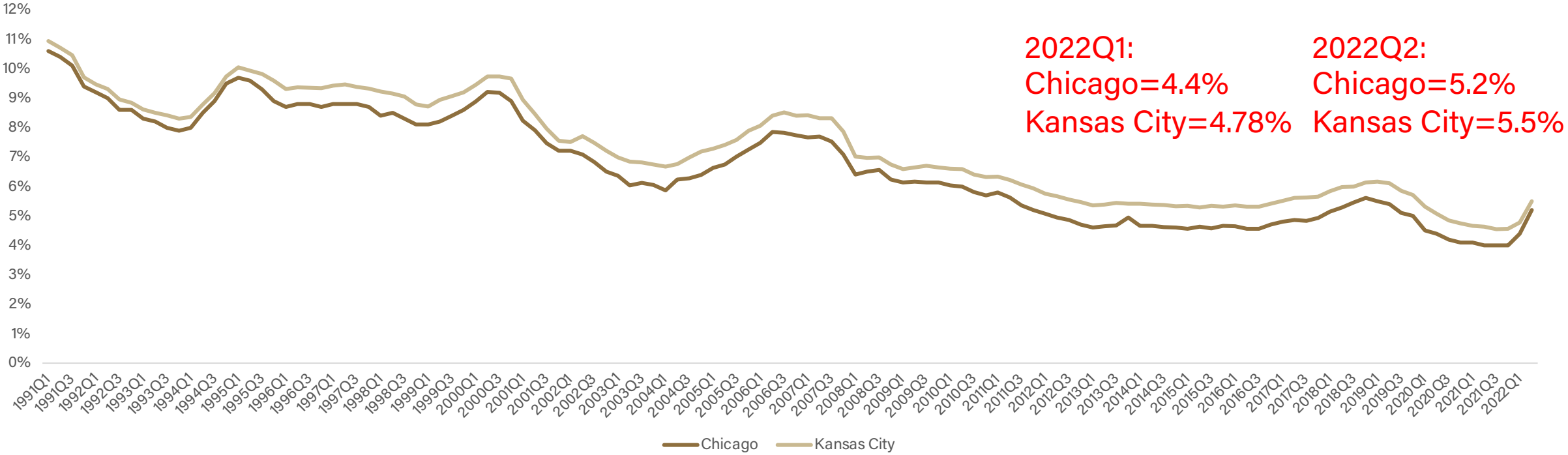
- From latest September 2022 FOMC meeting
 - Raised fed funds rate by 75 basis points
 - 3 straight 75 basis point increases
 - Target range is currently 3% to 3.25%
 - Median for fed funds rate is around 4.4% for end of 2022. (was 3.4% back in June)
 - Would need two more rates hikes of 75 basis points in 2022 to reach its target
 - FOMC expects fed funds to go above 4.5% in 2023

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Average Fixed Farm Real Estate Interest Rate

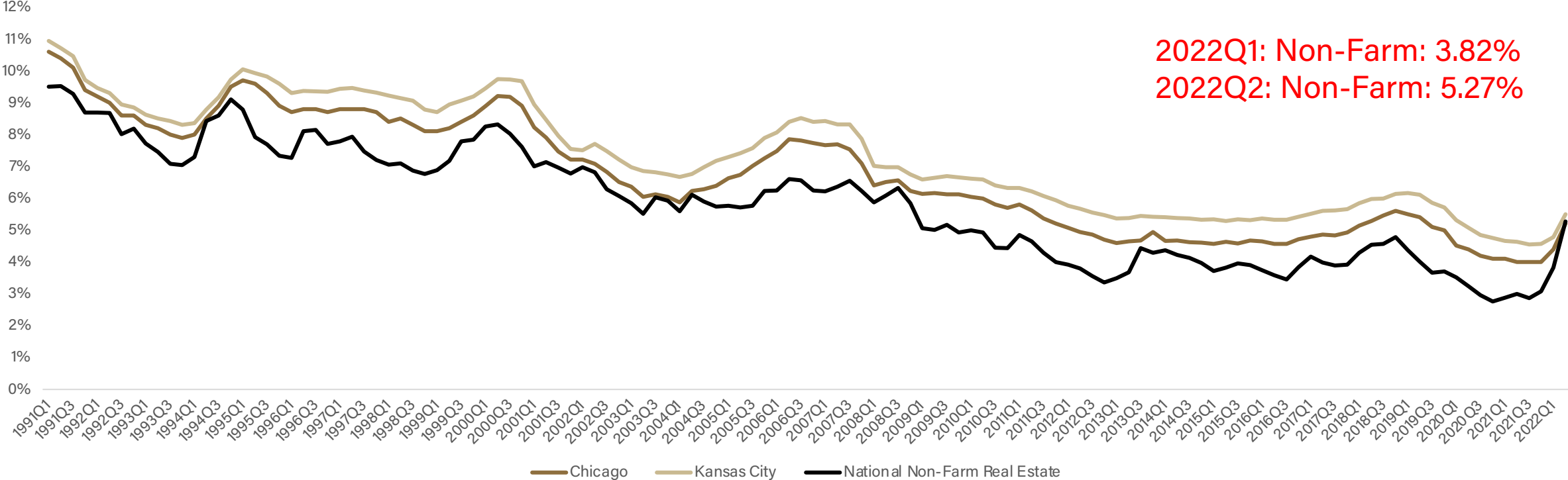
Average Fixed Farm Real Estate Interest Rate
 By Federal Reserve District
 1991Q1-2022Q2
 Federal Reserve Ag Credit Survey



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Average Fixed Farm Real Estate Interest Rate Vs Non-Farm Real Estate Interest Rate

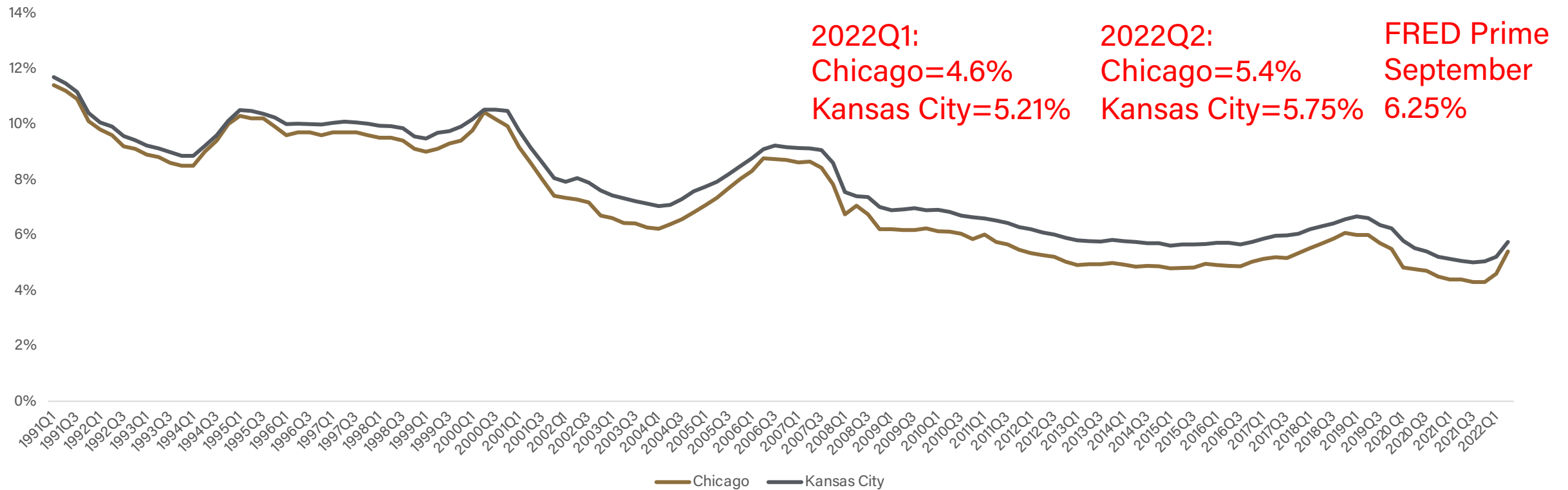
Average Fixed Farm Real Estate Interest Rate Vs Non-Farm Fixed Real Estate Interest Rate
 1991Q1-2022Q2
 Federal Reserve Ag Credit Survey & US Bank Call Report Data



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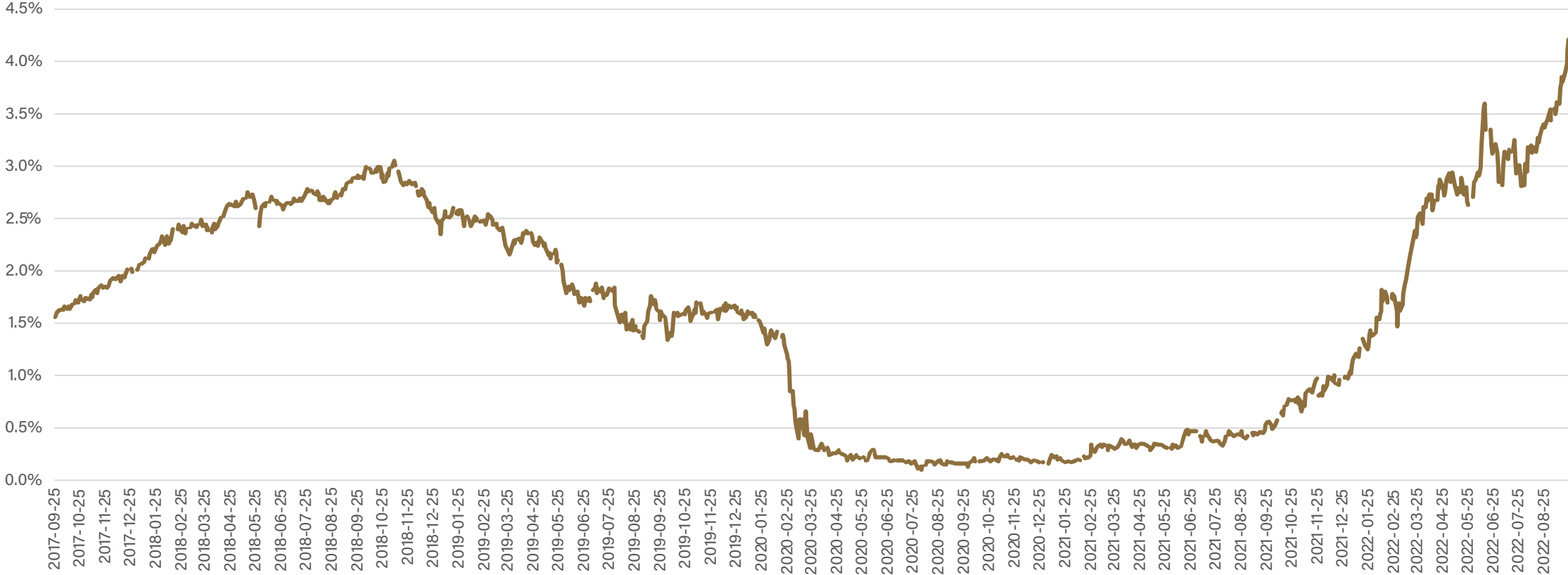
Average Fixed Operating Loan Interest Rate

Average Fixed Operating Loan Interest Rate
By Federal Reserve District
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Federal Reserve Ag Credit Survey



3-Year US Treasury

Market Yield on U.S. Treasury Securities at 3-Year Constant Maturity
Source: Board of Governors of the Federal Reserve System (US)



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In summary—Inflation and Interest Rates

What are the implications from the inflation

- Where is inflation headed?
- Where are interest rates headed?
 - Farm interest rates haven't increased as much as non-farm interest rates
- Choices a farmer may have to make
 - Variable vs Fixed Rate loans

Net Farm Income Prospects for 2023 are Considerably Lower than NFI in 2021 and 2022

Net Farm Income, Corn/Soybean Rotation (\$ per Acre)
West Central Indiana Case Farm

■ Annual — Average, 2007 to 2021

