Agriculture, the Economy, and the Kansas City Fed

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The Business of Agriculture Amid Structural Change
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Good evening. It’s my pleasure to welcome you to Omaha for the Federal Reserve Bank of Kansas City’s annual Agricultural Economic Summit. Whether you are attending this event for the first time, or have connected with us before, I want to thank you for joining us this evening and participating in the program.

The Kansas City Fed’s Connection to Agriculture

Let me begin with a brief introduction of the Federal Reserve Bank of Kansas City and our deep ties to agriculture. The Kansas City Fed is one of 12 Regional Reserve Banks that, together with the Board of Governors in Washington, D.C., comprises the Federal Reserve System. In addition to our head office in Kansas City, we have Branch offices in Denver, Oklahoma City, and of course here in Omaha. Here, we have a staff of approximately 110 individuals contributing to the three core functions of the Federal Reserve, which include conducting monetary policy, supervising and regulating financial institutions, and providing essential financial services to banks and the U.S. government.

As a regional Reserve Bank, we are responsible for representing a seven-state district that includes Nebraska, as well as much of the nation’s Central Plains and Mountain West. Across each of our mission areas it is important that we understand and represent the views of this region, its unique characteristics and, particularly, the industries that define its economy and culture. Agriculture is an industry that plays a major role in defining the uniqueness of this region, and understanding agriculture is important in representing the region in the national monetary policy discussion.

Our Federal Reserve District accounts for approximately 20 percent of total U.S. production of corn, soybeans, and wheat, three commodities that, in turn, account for a large portion of our country’s agricultural sector. In addition, our region contains about 30 percent of the country’s supply of cattle. The region is also home to more than 650 community banks, many of which have a heavy connection to agriculture and serve as an anchor in the rural communities that shape this region.

The Center for Agriculture and the Economy

Against this backdrop, the Kansas City Fed, and the Federal Reserve more generally, has a long history with agriculture. In fact, the Agriculture Secretary at the time of the Fed's creation played an important role in determining the boundaries of the Federal Reserve Districts. As remains the case today, agriculture has historically been a credit-intensive industry.

When the Fed was established more than a century ago, farmers and the agricultural economy were early supporters. They appreciated the Fed's role in providing liquidity and seasonal credit that helped tamp down some of the volatility in interest rates that had pre-dated the system.

The agricultural sector has, of course, evolved dramatically over the past century, but its connection to this region is as relevant as ever.

Last fall, we launched the Center for Agriculture and the Economy. The Center builds on the Kansas City Fed's long-standing connection to agriculture and serves as a key resource within the Federal Reserve System on topics related to agriculture and rural communities. The primary purpose of the Center is to ensure that the voice of agriculture is well-represented at the Kansas City Fed and within the Federal Reserve System.

In pursuing this objective, the Center for Agriculture and the Economy seeks to promote understanding of topics connected to agriculture through a portfolio of research and outreach activities, including events such as this one. Kansas City Fed staff conduct research on a variety of agricultural and rural topics, but also rely heavily on input and insights that come from all of you as industry leaders.

It is for this reason that we are especially pleased to host you for a discussion that will focus on important long-term developments in agriculture, developments that we need to understand in order to represent our region well. As Nate mentioned earlier this evening, we are especially grateful for the 10 individuals who have offered to serve on our newly formed Advisory Council, which will help guide the work of our Center.

Agricultural Economic Developments

Before I describe the focus of this year's Summit, I would like to offer a few observations about recent developments in agriculture. As I will describe a bit later, some of these observations have parallels to the broader economy that extend beyond agriculture, and even beyond our District at the Kansas City Fed.

The first observation, and I hear this regularly throughout the District, is that some parts of the industry are facing significant pressure, even as conditions in other segments are extremely positive. Among producers of row crops, a combination of low prices and persistent cost pressures have continued to limit profit opportunities and raise questions about the longer-term trajectory for farm operations and broader supply chains. At the same time, however, a record-setting increase in cattle prices over the past few years, supported by resilient consumer demand for beef, has positioned operations in that industry for significant gains.

As we have seen throughout history, sharp changes such as these, whether in a position of significant weakness, or one of strength, often precipitate broader changes in the years ahead as markets look to adapt.

A second observation, and related to the first, is that the variation in these economic conditions has coincided with tremendous variation in financial outcomes. As I talk to lenders, they describe an environment that has become increasingly complex and uncertain. Some borrowers may be considering selling their farm or even filing for bankruptcy because of ongoing economic pressure. At the same time, the market for farm real estate appears nearly as strong as ever and productivity gains in the industry continue to lead to expanded production of food and agricultural products.

These developments of the past few years play an important role in the state of our District economy. The issues, however, stand alongside a third observation that relates to the focus of this year's program: Structural changes are gradually reshaping the industry, with important implications for monetary policy. Technology is perhaps at the forefront of structural change, as the potential for increased long-term productivity gains intersects with questions about costs.

The future structure of costs represents one side of the Fed's congressionally determined dual mandate, known as price stability. The other side of the mandate relates to labor, through a goal of maximum employment. Understanding long-term trends that shape our population and workforce, for example, will have an outsized impact on agriculture, but also on our economy more generally. This was a topic we explored last year at our Jackson Hole Monetary Policy

Symposium, and it is important we continue to extend the conversation in programs such as these.

The Economic Outlook and Monetary Policy

Now I would like to step back from agriculture and offer a few thoughts on the overall economy and monetary policy. Last week I attended a meeting of the Federal Open Market Committee (FOMC) in Washington, D.C., but I stress that the views I share with you today are my own.

In looking at the economy, my focus is squarely on inflation that remains too high. The Fed has defined price stability as an inflation rate of 2 percent. Why 2 percent? This pace seems to be about right for inflation that does not meaningfully impact the day-to-day decisions of households and businesses. It could be said that the Fed aims to keep inflation low enough that it can safely be ignored, while also avoiding deflation, or falling prices, which can be difficult for businesses and borrowers. A steady and low rate of inflation allows households and businesses to better plan for the future and to concentrate on growing the real economy rather than managing inflation risk.

This is not where we are now. Inflation has been too high for too long. Though the most recent inflation data for June showed an encouraging deceleration, it would be premature to put too much weight on a single data point relative to recent trends. Volatile oil prices have both pushed inflation up in prior months and contributed importantly to the fallback in June. With the price of oil once again rising, it is uncertain how persistent any relief on energy will be. This issue is well-known to many in this room given the important role of energy in farm production.

However, our inflation problem is not only about energy. Measures of inflation that exclude energy are still running solidly above 2 percent, revealing an underlying trend in the data. This trend has not been our friend. Inflation excluding energy has run above the monthly pace needed to reach our inflation target in the six months before June. Over the previous 12 months, inflation ex-energy was 3.2 percent, about ½ percentage point higher than where it stood in June of last year. Inflation has been too high across a broad-based and growing cross-section of goods and services.

Inflation: Supply Shocks

There are many factors contributing to the run-up in inflation. Reading the economic commentary, there has been a recent focus on supply shocks. Included among these shocks are negative supply developments related to shipping disruptions, oil, and tariffs, all of which have pushed up prices. I approach this commentary with a good deal of caution and would argue against the temptation to attribute our inflation problem to supply shocks alone. While supply is certainly an issue for some commodities, inflation is always the result of both supply and demand, and the balance between the two.

An enduring lesson of the run-up in prices during the pandemic is that inflation results from an imbalance between supply and demand. A supply shock has a far different effect on inflation when demand is strong than when demand is weak. It is strong demand that creates the necessary backdrop for a supply disruption to lead to large price increases. For example, if demand were weak, importers would have likely had a more difficult time passing through tariffs into the prices they charged domestic customers. Similarly, and relevant for this region, it is unlikely that low cattle inventories would have resulted in such pronounced price increases if beef consumption wasn't also running almost 10 percent above its 20-year average. This is to say that even when supply seems to be the proximate cause of inflation, demand also always plays a role. Inflation reflects the balance of supply and demand, and inflation above target implies that there is an imbalance between the two. The Fed, through its influence on demand, always has a role to play when it comes to keeping inflation in check, no matter the proximate cause of that inflation.

More generally, a focus on supply shocks often represents an implicit assumption that the factors pushing up inflation are temporary or transitory. I am uncomfortable ever assuming that a burst of inflation will be temporary. Inflation shocks are not intrinsically transitory. How persistent a spike in inflation is ultimately depends importantly on how the Fed reacts or is expected to react. To this point, recent work by Kansas City staff suggests that although energy shocks have historically only had a temporary effect on inflation and inflation expectations, this is because the Fed has reacted to such price pressures in the past.[1]

[1] Andrew Glover. "In Recent Years, Inflation Expectations Increased After Oil Shocks and Stabilized Only Once Monetary Policy Tightened". Kansas City Fed Economic Bulletin. July, 2026.

Inflation: Relative Price Changes

Another factor contributing to inflation has been the pace of the current AI buildout, which has increased prices for chips and computer hardware, building materials, and construction more generally.

These higher prices reflect an increase in the relative demand for investment in AI infrastructure. It has been asked if the Fed should respond the same to aggregate inflation that results from an increase in relative prices. I think so. In my view, monetary policy works best when policymakers remain focused on aggregate price indexes and largely ignore the distribution of relative price changes occurring beneath the surface.

Relative prices are always changing. And they should. Some prices go up, and others go down. Movement in relative prices is the way that a market economy works. The miracle of the market is that a single price allows thousands, or even millions, of individual producers and consumers to coordinate on where the economy should be directing resources. The efficiency of this system is part of the reason why a market economy will always outperform a centrally planned economy. The Fed should not interfere with the market and should not try to influence relative prices by either discounting price increases in particular sectors or directing special attention toward price increases in others.

The Fed's role is not to affect the price of any one good or service, but rather to maintain the aggregate purchasing power of the dollar relative to all goods and services in the economy. An aggregate price index, such as the PCE index, is the best measure of this purchasing power and should be the target of Fed policy.

Output and Labor Markets

What about the other side of the Fed's dual mandate: the labor market and economic activity? Lately, the word I hear most often is "resilience."

Despite elevated uncertainty and some notable disruptions to global trade and energy markets, most economic indicators suggest continued steady growth. Although overall growth dipped a bit in the second quarter, this was mostly due to swings in trade and inventories as underlying consumption and investment remained very strong.

The labor market also appears to be roughly in balance. The most recent data for June had the unemployment rate at 4.2 percent, about in line with what most economists estimate is consistent with a labor market that is neither too tight nor too loose. The recent pace of job gains has been on the low side, with the economy adding only 500,000 net new jobs over the past year, but this slow pace is not surprising against the backdrop of a labor force that is barely growing.

In summary, the economy appears to be performing well with the notable exception of inflation. Inflation is too high. Given that price stability is the Fed's responsibility and within the Fed's control, this is worrisome. With the labor market in balance and growth resilient, my primary concern is inflation. Given the strength of demand and investment, I do not see the current stance of monetary policy as restrictive. As such, I believe that bringing inflation down to the Fed's 2 percent objective will require tighter policy.