Michelle W Bowman: Welcoming remarks - National Agricultural Credit Conference

Welcoming remarks by Ms Michelle W Bowman, Member of the Board of Governors of the Federal Reserve System, at the National Agricultural Credit Conference, Washington DC, 25 March 2019.

* * *

Good afternoon. It is a great pleasure for me to join the Federal Reserve Bank of Kansas City in welcoming you to the Federal Reserve Board for the 2019 National Agricultural Credit Conference. For nearly 80 years, these meetings have been at the forefront of important discussions for those with a stake in agricultural lending, with the first National Agricultural Credit meeting held in 1941. At that time and with war looming, there was a clear need to ensure that our nation's farmers had the resources and capability to support the nation in the wake of the great depression, deflation, and the dust bowl. This meeting provided a vital forum for candid conversation, to exchange information, and to forge relationships that would enable lenders to take steps to ensure a sound future for agriculture—a future supported by the efficient and effective provision of credit.

In the decades since that first meeting, this conference has seen a number of boom and bust cycles in agriculture, most often the result of volatile swings in commodity prices, land price valuations, and borrowing costs for agricultural business owners. Through all of these challenges, this conference has provided an important opportunity to promote a greater understanding of emerging issues in agricultural finance. Further, the success of these meetings largely depends on the interactions of everyone here today, so I want to thank you for attending and for participating. I am honored to welcome you to the first conference meeting to be held at the Federal Reserve Board. And I'm pleased to support this group's mission to foster discussion on issues pertaining to ag finance, and I look forward to meeting with you and learning from the discussion.

Today and tomorrow, we will discuss recent developments in agricultural credit markets. We will also hear from presenters on topics that connect in various ways to the agricultural sector. I am especially pleased to see there is a special focus on rural communities at this year's meeting. As many of you know, this topic holds a special place in my heart. My family has deep roots in rural Kansas and a long history in farming, ranching, and ag banking. I have spent much of my life and career living, working, and raising a family in a rural area.

Rural communities are critical for our nation for many reasons including food production and processing, manufacturing, and leading innovation in these industries. According to the U.S. Census Bureau, 97 percent of the country's land mass is rural, and about 60 million Americans call a rural community their home.[1] To put that number in perspective, the rural population of the United States is larger than the combined populations of the New York, Los Angeles, and Chicago metro areas. If we were talking about the economies of those great cities, we'd stress their regional differences, the complexities of demographic change, and the distinct challenges each city faces to remain vibrant and innovative. When the focus shifts to the rural economy, however, the discussion tends to be overly broad and simplistic. The diversity and complexity of our vast rural communities too often gets lost—and I think that needs to change.

There are challenges in rural communities. We know them all too well. There is a notable gap in access to broadband. As of 2016, 31 percent of Americans in rural areas were not able to access broadband compared to just 2 percent of Americans in urban areas.[2] This can have a significant business impact on ag producers—for example, limiting access to internet-based cattle auctions or inhibiting the ability of dairies to leverage technology to remotely access animal nutritionists to formulate feed to maximize milk production.

Many rural schools struggle to attract and keep qualified teachers who can teach STEM and advanced math classes. These subjects are vital to preparing our children for the opportunities and challenges of a more competitive and technological workplace.[3]

One in five people in rural areas have a bachelor's degree, compared to one in three in urban areas.[4] This educational disparity helps explain why the employment-to-population and labor force participation rates in rural areas are lower than in many urban areas.[5] Another contributing factor to low rural labor force participation is the opioid crisis, which the entire nation is struggling to overcome.

Policymakers need to be aware of and be willing to confront these issues. But let me be clear: I am optimistic about the future of rural America. The narrative of rural decline is too sweeping and brushes aside the diversity of the rural experience. Just as many cities thrive while others struggle, there are deteriorating rural communities and rural communities that are thriving and growing.

So let's build on these successes and highlight a few of the positives.

Following six years of steady population losses, up through 2016, the rural population appears to have stabilized. And while employment is growing more slowly in rural areas than in urban areas, rural unemployment has recovered and is now 1 percentage point below pre-recession levels.[6] The rate of poverty in rural areas is also falling. From a peak in 2013, the rural poverty rate has fallen 2 percentage points to 16.4 percent in 2017.

There are also many creative and innovative rural communities. In manufacturing, innovation rates are similar for urban and rural manufacturers, although the services sector in rural areas lags its urban counterparts.[7] And, I am greatly encouraged to see younger generations choosing to live in and return to their roots in rural communities, just as my family and I chose to do. These younger generations are often seeking a rural lifestyle and a deeper connection to a smaller community—a community where they can have a lasting impact. They are bringing with them the same innovative spirit they bring to so many industries. For example, some of these young entrepreneurs and farmers are capitalizing on the recent trend for broader access to locally produced and sourced food.

Which brings us back to our focus today: agriculture is the foundation for many rural economies and it is the central topic for this conference. Current conditions in agriculture appear to be stable, though at a low level of income, following sharp declines for several years from the peak in 2013. The prices of major agricultural commodities have also remained low in early 2019. For example, today, the price of corn is about 40 percent less than it was from 2010 to 2013.

As noted in the Federal Reserve's latest *Financial Stability Report*, farmland values are at exceptionally high levels, though down from their 2016 peak. And price-to-rent ratios are at historic highs. At the same time, equity levels at many farms are higher than in the past. We also see above-trend yields are helping to support many operators, though working capital at many farms has fallen along with incomes. Although the increase in problem loans associated with lower incomes has been modest, the Federal Reserve is monitoring the risk that has emerged in recent years.

One risk that we are actively monitoring is the recent and devastating flooding in the Midwest and its effect on both agriculture and rural communities across the region. Our thoughts and prayers are with all those who live in the areas affected by this disaster. I would be especially interested to hear your thoughts on how the flooding may affect agricultural operations and how lenders are currently responding.

The topics you are discussing today are integral to my role as governor. On Thursday, I will be visiting with and speaking to farmers and community bankers in Deming, New Mexico. An important part of my job is to hear directly from leaders like you and others across this country to better understand current challenges facing your communities, your companies, and your industry. My goal is to bring back the knowledge I gain from these discussions to inform and improve our work to support both the financial sector engaged in agricultural lending and our mission as the central bank of the United States.

I hope that conferences like this will help generate a richer discussion about the challenges and unique advantages in rural America so we can develop more creative, effective and direct policy responses. A deeper debate that, for example, distinguishes between low-density and higher-density rural areas, between rural communities that are relatively isolated and those that are connected and close to thriving cities, will help us develop more durable solutions.

Before I close, I want to thank you again, as well as the many people at the Federal Reserve Bank of Kansas City and from the Federal Reserve Board who helped organize this year's conference. Thanks to all of you for your work to ensure continued success for American agriculture.

---

1 U.S. Census Bureau, *America Counts: Stories Behind the Numbers*, "What Is Rural America?" August 9, 2017. Return to text

2 Federal Communications Commission (FCC), *2018 Broadband Deployment Report* (Washington: FCC, February 2, 2018). Return to text

3 Megan Lavalley, *Out of the Loop* (PDF) (Alexandria, VA: Center for Public Education, January 2018). Return to text

4 U.S. Census Bureau, "New Census Data Show Differences between Urban and Rural Populations," news release, December 8, 2016. Return to text

5 Board of Governors of the Federal Reserve System, *Monetary Policy Report* (PDF) (Washington: Board of Governors, February 22, 2019), 10–12. Return to text

6 Board of Governors, *Monetary Policy Report*, 10–12. Return to text

7 Tim Wojan and Timothy Parker, *Innovation in the Rural Nonfarm Economy: Its Effect on Job and Earnings Growth, 2010–14* (PDF) (Washington: USDA, September 2017). Return to text