

AGRICULTURE LANDSCAPE

November 2023

While food inflation continues to slow down from prior years, it remains elevated from historical levels. Major changes in weather conditions with the arrival of El Niño may disrupt production across the United States and the world's main producing regions. Higher cost of capital and availability of financing could raise challenges for some farmers as commodity prices weaken and costs remain elevated. In our latest commentary, we explore some of the latest developments in the sector.

Food Inflation

The **Consumer Price Index (CPI)** report published by the Bureau of Labor Statistics in September 2023 showed the CPI rising 3.7% from one year ago. The food category rose at the same rate of 3.7%. CPI food at home was 3.4% compared with 6.0% for CPI food away from home. Although the postpandemic acceleration of food prices appears to be slowing down, food prices remain elevated compared with historical levels.

The CPI for All Urban Consumers for food at home reached 303.4 in September, on a basis of 100 during 1982–84. The index was at 245 in March 2020, when the pandemic began, and 183 in January 2004. In the past 3.5 years, the index has grown as much as the growth experienced during 2004–20. On the other hand, the CPI for All Urban Consumers for food away from home reached 357.4 in September 2023. Also, during this 3.5-year period, the CPI for All Urban Consumers has increased as much as the growth observed in the 11-year period beginning in January 2009 (Index: 220) to March 2020 (Index: 290).¹

Trade and Legislation

Ukraine and Russia's grain deal agreement, which Russia canceled in July 2023, has the potential to exacerbate a food crisis in some developing countries as prices rise in poorer economies. Russia has argued that shipments have been allowed for Ukraine but not for Russia because Western sanctions continue against the latter. The agreement, which had been facilitated by the United Nations and Türkiye, was intended to allow Ukrainian vessels to carry grain products across the Black Sea.

With regard to global exports, Russia was forecast to account for 2% of corn, 20% of wheat, 15% of sunflower oilseed, 19% of barley, and 4% of oats in 2023. On the other hand, Ukraine was forecast to export 11% of corn, 6% of wheat, 45% of sunflower oilseed, 8% of barley and less than 1% of oats.

The **Fertilizer Production Expansion Program**, an initiative created by the current Administration and funded by the U.S. Department of Agriculture's (USDA's) Commodity Credit Corporation, seeks to increase the manufacture and processing of fertilizer products in the United States and its territories to offset the rising prices of fertilizers mainly as a result of the Ukraine–Russia. The \$900-million grant program awarded an estimated \$121 million after the second round of proposals. An estimated request amount of \$3 billion in applications has been received for the first two rounds of this grant program.²

The volume of **Ag Imports** for the 2023/24 marketing year (October 2022–August 2023) compared with the same period last season has declined for a wide variety of products, according to the USDA. Lower volumes of product include cocoa products (–9.1%), wine (–9.1%), coffee products (–8.1%), prepared or preserved fruits (–6.6%), processed grains (–4.6%) and sugar and related products (–2.3%). However, higher volumes of imports have been observed for vegetable oils (+22%), dairy products (+9.8%), cattle and calves (+6.3%), fresh and frozen vegetables (+4%) and fresh or frozen fruit (+3%).

Imports of fruits and vegetables into the United States continue to rise. According to the Economic Research Service of the USDA, the volume of imported vegetables increased by an estimated 35% during the past decade—from 8.9 million metric tons to 12.1 million metric tons at the end of 2022. In addition, the volume of fruits (excluding fruit juices) increased by 29% during the same period—from 11.8 million metric tons to 15.3 million metric tons. Several domestic grower groups remain concerned that cheaper fruits and vegetables grown abroad (e.g., in Mexico) may continue negatively affecting their margins and the long-term viability of their operations.

The **farm bill** expired on its September 30 deadline as a result of lawmakers' disagreements about (1) several programs within the bill such as the Supplemental Nutrition Assistance Program (SNAP), (2) the 2024 government's fiscal budget, (3) the projected all-time-high cost of government of approximately \$1.5 trillion during the next decade, and (4) the ongoing political battle in Congress, which recently resulted in an ousted Speaker of the House. The farm bill is intended to set policies that support, enhance and protect domestic agriculture through safety nets (i.e., crop insurance), nutrition, conservation and forestry. Although the bill has been extended in the past, it may create funding challenges for some programs, which could cease to exist until the bill gets reauthorized. SNAP, which is projected to benefit an estimated 40 million Americans, is forecast to account for an estimated 80% of the total farm bill.³

Weather Conditions

The weather pattern of **El Niño** is expected to present more challenges to various agricultural producers and regions across the United States and around the world. This natural climatic phenomenon, which is expected to be stronger than in past cycles, was last recorded in 2015–16. Every two to seven years, El Niño raises global temperatures, redistributes moisture across the global atmosphere, and brings excessive rains to some regions while fueling droughts in parts of the world. In the United States, wetter conditions are expected in the Southern regions of the country as well as in some states in the South Central region. Drier and warmer weather is expected in areas of the Northern states.

Across the globe, drier conditions are expected in South Asian countries like Cambodia, India, Myanmar and Thailand, as well as Australia and Oceania, South Africa, northern areas of South America and western regions of Central America. On the other hand, above-average precipitation is forecast in some southern regions of South America and countries east of the Caspian Sea.⁴

The **Mississippi River**, one of the longest rivers in the United States and one of the largest in the world, has been reported to have the lowest water levels in decades in areas like Memphis, Tennessee, as a result of drought conditions that have affected the South Central region of the United States. This river is a key transportation option for moving bulk grain products, but the timing of the low water levels has already disrupted the grain export season as the season gets under way. Freight costs have also been reported to be reaching very high levels, putting pressure on farmers' margins.

Mergers and Acquisitions

Major **retail, grower and shipper consolidation** continues taking place across the United States. Recent retail mergers have been those of Aldi's acquisition of Winn-Dixie and Harveys Supermarkets.

More than 15 mergers have taken place in the past decade, and more such consolidation can be expected in the future as new specialty grocers try to gain more market share through a hybrid retail strategy taken from the largest players in the marketplace.

Today five retailers account for 58.1% of the total retail market share. According to data from business development firm Golden Sun Insights and newsletter *Winsight Grocery Business*, Walmart continues to lead the way, with a 25.2% share forecast for 2023, followed by Kroger (10.7%), Costco (9.9%), Albertsons (7.2%) and Sam's Club (5.1%).

With food inflation having grown in past years, shoppers continue finding alternatives to traditional grocers and are spending more for fresh foods across multiple retailers, which has benefited mass-market retailers, supercenters and specialty shops. Macrofulfillment centers are also expected to continue gaining ground, as more and more shoppers find online shopping more convenient and as the implementation of artificial intelligence by some grocers facilitates the shopping experience.

Ag Finance

Higher **interest rates** continue to slow down farm lending activity for real estate and non-real-estate loans. According to the Federal Reserve Bank of Kansas, smaller operating loans had the largest drop in volume as of the end of the third quarter of 2023 because commodity prices have been weaker, and higher expenses have eroded some farm operating margins.⁵

While farm real estate values have been relatively stable and farm balance sheets remain strong, higher cost of capital could threaten the expansion of the ag sector.⁵

REFERENCES

1. CPI Food. [CPI Home: U.S. Bureau of Labor Statistics \(bls.gov\)](https://www.bls.gov/home.htm).
2. USDA. [USDA Highlights Progress in Partnering with Farmers to Increase Innovative Domestic Fertilizer Production, Expand Double Cropping through Investing in America Agenda | USDA](https://www.usda.gov/press/releases/2023/08/23-082).
3. [Farm Bill Scoring Baseline. Minority Analysis: The May 2023 Farm Bil... | Senate Committee on Agriculture, Nutrition, and Forestry](https://www.senate.gov/committees/committees_a-z/agriculture-nutrition-and-forestry/).
4. [El Niño and global warming are mixing in alarming ways. *El Niño and global warming are mixing in alarming ways* \(economist.com\)](https://www.economist.com/finance-and-economics/2023/08/23/el-nino-and-global-warming-are-mixing-in-alarming-ways).
5. [Smaller Operating Loans Slow Lending Activity - Federal Reserve Bank of Kansas City \(kansascityfed.org\)](https://www.kansascityfed.org/news-announcements/press-releases/2023/08/23-smaller-operating-loans-slow-lending-activity/).

© 2023 PGIM Real Estate is the real estate investment management business of PGIM, the principal asset management business of Prudential Financial, Inc. ("PFI"), a company incorporated and with its principal place of business in the United States. PGIM is a trading name of PGIM, Inc. and its global subsidiaries. PGIM, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (the "SEC"). Registration with the SEC does not imply a certain level of skill or training. PFI of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom. Prudential, PGIM, their respective logos and the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide. In the United Kingdom, information is issued by PGIM Real Estate (UK) Limited with registered office: Grand Buildings, 1-3 Strand, Trafalgar Square, London, WC2N 5HR. PGIM Real Estate (UK) Limited is authorized and regulated by the Financial Conduct Authority ("FCA") of the United Kingdom (Firm Reference Number 181389). These materials are issued by PGIM Real Estate (UK) Limited to persons who are professional clients as defined under the rules of the FCA. In the European Economic Area ("EEA"), information is issued by PGIM Luxembourg S.A. with registered office: 2, boulevard de la Foire, L1528 Luxembourg. PGIM Luxembourg S.A. is authorized and regulated by the Commission de Surveillance du Secteur Financier in Luxembourg (registration number A00001218) and operating on the basis of a European passport. In certain EEA countries, this information, where permitted, is presented by PGIM Limited in reliance of provisions, exemptions, or licenses available to PGIM Limited under the temporary permission arrangements following the exit of the United Kingdom from the European Union. PGIM Limited has its registered office: Grand Buildings, 1-3 Strand, Trafalgar Square, London WC2N 5HR. PGIM Limited is authorized and regulated by the Financial Conduct Authority ("FCA") of the United Kingdom (Firm Reference Number: 193418). These materials are issued by PGIM Luxembourg S.A. and/or PGIM Limited to persons who are professional clients as defined in the relevant local implementation of Directive 2014/65/EU (MiFID II) and/or to persons who are professional clients as defined under the rules of the FCA. PGIM operates in various jurisdictions worldwide and distributes materials and/or products to qualified professional investors through its registered affiliates including, but not limited to: PGIM Real Estate (Japan) Ltd. in Japan; PGIM (Hong Kong) Limited in Hong Kong; PGIM (Singapore) Pte. Ltd. in Singapore; PGIM (Australia) Pty Ltd in Australia; PGIM Luxembourg S.A., and PGIM Real Estate Germany AG in Germany. For more information, please visit pgimrealestate.com.

GENERAL/CONFLICTS OF INTEREST

These materials represent the views, opinions and recommendations of the author(s) regarding the economic conditions, asset classes, securities, issuers or financial instruments referenced herein. Distribution of this information to any person other than the person to whom it was originally delivered and to such person's advisers is unauthorized, and any reproduction of these materials, in whole or in part, or the divulgence of any of the contents hereof, without prior consent of PGIM Real Estate is prohibited. Certain information contained herein has been obtained from sources that PGIM Real Estate believes to be reliable as of the date presented; however, PGIM Real Estate cannot guarantee the accuracy of such information, assure its completeness, or warrant such information will not be changed. The information contained herein is current as of the date of issuance (or such earlier date as referenced herein) and is subject to change without notice. PGIM Real Estate has no obligation to update any or all of such information; nor do we make any express or implied warranties or representations as to the completeness or accuracy or accept responsibility for errors.

These materials are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial instrument or any investment management services and should not be used as the basis for any investment decision. Past performance is no guarantee or reliable indicator of future results. No liability whatsoever is accepted for any loss (whether direct, indirect, or consequential) that may arise from any use of the information contained in or derived from this report. PGIM Real Estate and its affiliates may make investment decisions that are inconsistent with the recommendations or views expressed herein, including for proprietary accounts of PGIM Real Estate or its affiliates.

The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients or prospects. No determination has been made regarding the suitability of any securities, financial instruments or strategies for particular clients or prospects. For any securities or financial instruments mentioned herein, the recipient(s) of this report must make its own independent decisions.

Conflicts of Interest: Key research team staff may be participating voting members of certain PGIM Real Estate fund and/or product investment committees with respect to decisions made on underlying investments or transactions. In addition, research personnel may receive incentive compensation based upon the overall performance of the organization itself and certain investment funds or products. At the date of issue, PGIM Real Estate and/or affiliates may be buying, selling, or holding significant positions in real estate, including publicly traded real estate securities. PGIM Real Estate affiliates may develop and publish research that is independent of, and different than, the recommendations contained herein. PGIM Real Estate personnel other than the author(s), such as sales, marketing and trading personnel, may provide oral or written market commentary or ideas to PGIM Real Estate's clients or prospects or proprietary investment ideas that differ from the views expressed herein. Additional information regarding actual and potential conflicts of interest is available in Part 2 of PGIM's Form ADV.

INFORMATIONAL PURPOSES

These materials are for informational or educational purposes. In providing these materials, PGIM (i) is not acting as your fiduciary and is not giving advice in a fiduciary capacity and (ii) is not undertaking to provide impartial investment advice as PGIM will receive compensation for its investment management services.

These materials do not take into account the investment objectives or financial situation of any client or prospective clients. Clients seeking information regarding their particular investment needs should contact their financial professional.

The information contained herein is provided on the basis and subject to the explanations, caveats and warnings set out in this notice and elsewhere herein. Any discussion of risk management is intended to describe PGIM Real Estate's efforts to monitor and manage risk but does not imply low risk.

These materials do not purport to provide any legal, tax or accounting advice. These materials are not intended for distribution to or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation.

REF:010727

LEARN MORE | pgimrealestate.com



JAMIE SHEN

Chief Investment Officer & Head of
Agricultural Equity Investments
jamie.shen@pgim.com



JUAN DAVID CASTRO-ANZOLA

Director of Agriculture Underwriting
Research & Agricultural Technology
juan.castroanzola@pgim.com