

Farm Financial Outlook Improves Federal Reserve - Bank of Kansas City Ag Credit Survey

The outlook for agricultural credit conditions in the Tenth District improved in the third quarter alongside increases in commodity prices and the announcement of additional government aid. After dropping sharply in the second quarter due to disruptions associated with the COVID-19 pandemic, the prices of most agricultural commodities began to recover in the summer months.

Strengthening demand supported additional increases in crop prices through the third quarter and into October, expanding profit opportunities for many producers heading into harvest. As a result, credit conditions deteriorated at a notably slower pace and the share of bankers reporting declines in farm income and loan repayment rates dropped from the previous quarter.

kcFED Ag Credit SURVEY

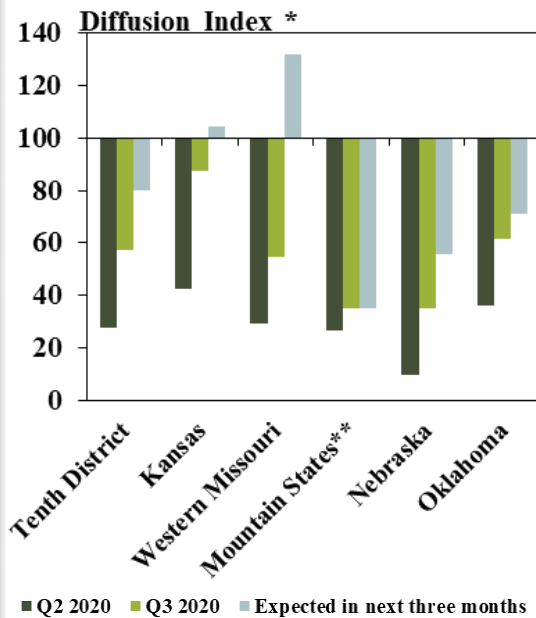


Farm Income and Lending Activity

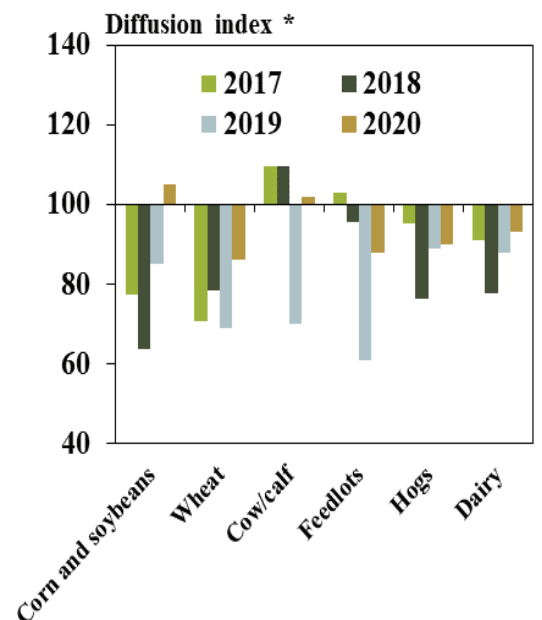
A sharp decline in *farm income* in the previous quarter abated somewhat in the third quarter. *Increases in prices* for the region's major commodities late in the third quarter, in addition to *direct government payments*, supported farm incomes in the Tenth District. About 55 percent of agricultural bankers throughout the District reported lower incomes than a year ago, compared with 75 percent in the second quarter. Recent developments also led to more optimistic expectations about changes in farm income through the end of the year.

Following years of steady growth, *demand for farm loans* appeared to soften. About 25 percent of bankers reported that loan demand was lower than a year ago, the highest share since 2013. The third quarter also was the first time more bankers reported a decline in loan demand than an increase since 2013. Alongside flat loan demand, the availability of funding increased for the fourth consecutive quarter. Looking forward, increases in funding were expected to continue, but loan demand was expected to rebound.

Farm Income



Expected Change in Loan Repayment Rates by Operation Type, Q3



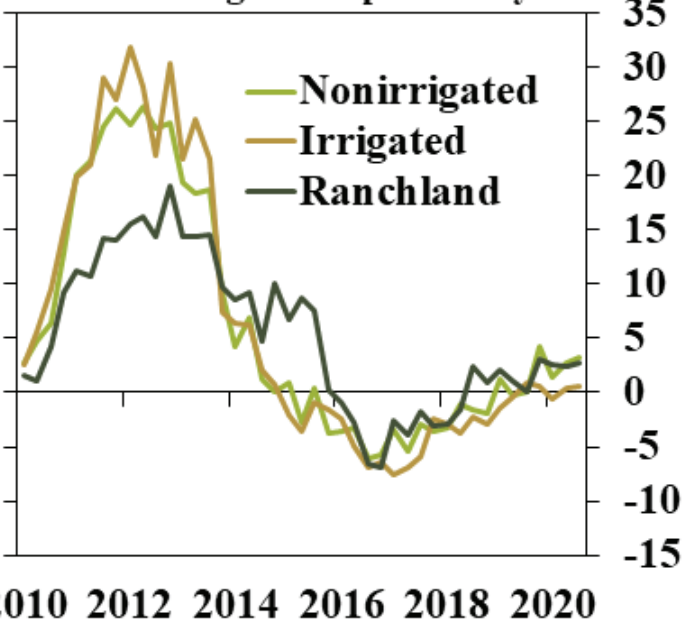
Credit Conditions

Alongside a better outlook for farm income in 2020, most measures of *credit conditions* also deteriorated at a more gradual pace in the third quarter. About 20 percent of respondents reported a decline in *loan repayment rates*, compared with about 35 percent in the

How Much Risk is Right for You?

Farmland Values

Percent change from previous year*



previous two quarters and 30 percent the same time a year ago. Repayment challenges were expected to ease across all types of farm operations in the next three months and improve slightly among row crop farmers and cattle producers.

With an improved financial outlook from recent months, *problem loan rates* in the third quarter also dropped. Respondents indicated the average share of farm loans monitored for potential problems or exhibiting weaknesses throughout the area reached the lowest level in five years. The share of loans placed on a *watch list* declined from a year ago in all states except Nebraska and Oklahoma and the *classification rate* of farm loans reported was lower in every state in the District.

Interest Rates and Farmland Values

Interest rates on agricultural loans continued to decline in the third quarter and *farmland values* increased slightly throughout the District. Variable rates on operating loans and fixed rates on farm real estate loans reached historically low levels and provided support to farmland values. The value of nonirrigated cropland and ranchland increased 3 percent from a year ago and nonirrigated farmland also increased slightly for the second straight quarter.

Conclusion

Better profit opportunities for both crop and livestock producers, as well as additional government support across the sector, created more favorable conditions for farm finances in 2020 than earlier in the year. Farm income and credit conditions remained weak, but the pace of deterioration slowed from the last quarter and demand for farm loans was more subdued. Amid improvement to cash flows and repayment capacity, bankers were monitoring a smaller share of loans for problems. Bankers continued to express concerns, however, about the potential for renewed pressure in the months ahead, depending on the path of agricultural commodity prices and government support programs.

Table: Tenth District Farmland Values by State, Third Quarter 2020

Percent change from previous year *

	Nonirrigated	Irrigated	Ranchland
Kansas	-1	2	1
Western Missouri	6	n/a **	9
Mountain States***	6	-4	11
Nebraska	3	0	-4
Oklahoma	6	13	5
Tenth District	3	1	3

For more information:

To access the complete Federal Reserve Credit Survey, see:

<https://www.kansascityfed.org/en/research/indicatorsdata/agcreditsurvey/articles/2020/11-12-2020/farm-financial-outlook-improves>.

For past Policy insights from the Kansas City Fed | Agriculture, see:

[https://www.kansascityfed.org/research/mainstreetviews?category=Agriculture&keyword=.](https://www.kansascityfed.org/research/mainstreetviews?category=Agriculture&keyword=)

To access the Federal Reserve System, see: <https://www.federalreserve.gov>.