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Farm Credit Conditions Show Additional Strength

FEDERAL RESERVE BANK of KANSAS CITY

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Agricultural credit conditions in the Tenth District continued to strengthen in the first quarter of 2021. After a sharp rebound at the end of 2020, conditions in the broad agricultural economy continued to improve alongside additional increases in crop prices. Stronger profit potential for farm borrowers supported a second consecutive quarter of significant increases in farm income, loan repayment rates and farmland values.

Overall, farm borrowers in the District were in a better financial position than at the beginning of 2020, but the pace of improvement was notably slower for livestock producers and for producers in areas affected by severe drought. Cattle prices remained below pre-pandemic levels in the first quarter, and the scope and severity of drought was a major concern in western states. However, government programs continued to provide support amid these challenges and the prolonged buildup of financial pressure in recent years appears to have eased considerably.

Credit Conditions

Repayment rates for farm loans in the first quarter improved significantly throughout the region. The rate of loan repayment increased rapidly for the second consecutive quarter in nearly all states. Following multiple years of weakness, 40 percent of all respondents reported an increase in repayment rates, the highest since 2012.

Loan demand, on average, was soft throughout the District, but varied across states. Bankers indicated demand decreased at a modest pace in Nebraska and Kansas and increased at a modest rate across all other states. Compared with the previous quarter, more respondents reported that loan demand had declined from a year ago in Nebraska and Kansas, but fewer lenders in Oklahoma and Missouri reported lower loan demand.

Farm income also strengthened, but at a slower pace in areas most concentrated in cattle production and exposed to intensifying drought. About two-thirds of all banks throughout the region reported that farm income was higher than a year ago, the largest share since 2011. The share reporting an increase was 80 percent or more in Kansas, Missouri and Nebraska, but about 40 percent and 20 percent, respectively, in the Mountain States and Oklahoma.

Financial Condition of Farm Borrowers

Financial conditions for farm borrowers improved at a majority of banks across the region, but less so for livestock producers and producers affected by drought. Nearly 75 percent of banks reported modest or significant improvement in conditions for crop producers relative to a year ago, but only half indicated that conditions for livestock producers had improved (Chart 1). Improvement was notably slower in Oklahoma and the Mountain States, where corn and soybeans account for a

Chart 1: Respondents Reporting Improved Financial Conditions by Type of Borrower, First Quarter

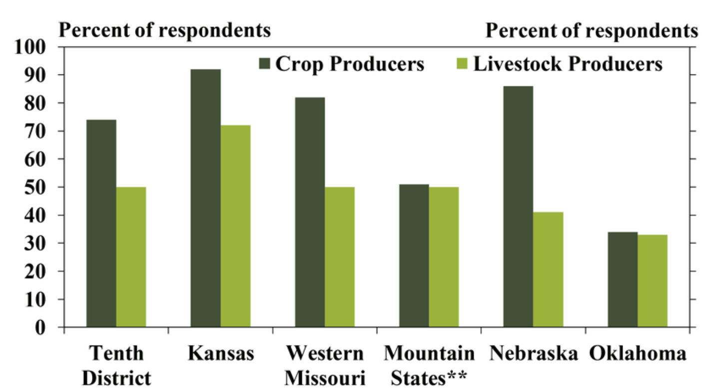
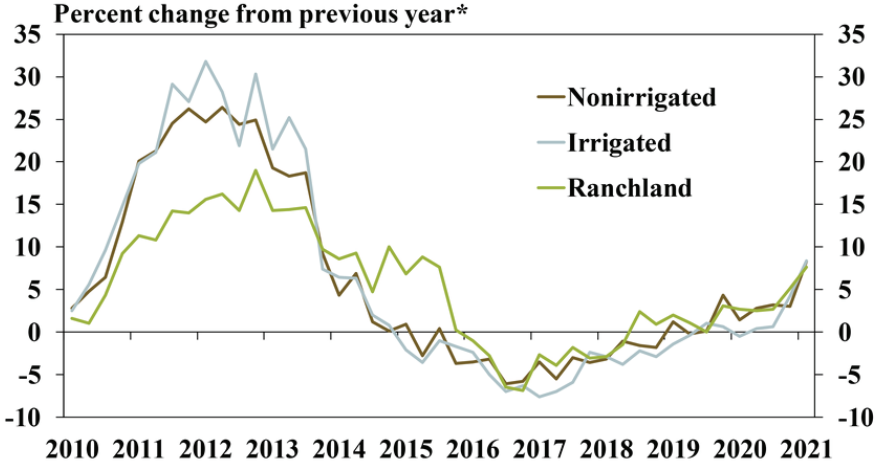


Chart 2: Tenth District Farm Real Estate Values



smaller share of farm revenues and where drought has been more severe and widespread.

Better financial conditions also led to far less credit stress across the District. Instances of restructuring to meet liquidity needs and carryover debt declined substantially from recent years. The reprieve from mounting strain on borrowers generally was consistent across all states, but the shift was slightly less pronounced in Oklahoma and the Mountain States.

Similarly, lenders also denied a much smaller share of farm loans than previous years. In fact, less than 2 percent of loan requests were denied because of cash flow shortages at responding banks. The low number of denials on farm loan applications was consistent across all states in the region and was a stark contrast to the prior five years.

A recent release by USDA, Economic Research Service (ERS) provides estimates, forecasts, and projections for net cash farm income and net farm income—two major profitability indicators of the financial health of the U.S. agricultural sector. The reports suggest U.S. farm profit projections remain mixed through 2030. In 2021, ERS projects direct government payments to fall, pushing down both profitability indicators. Further projections estimate these profitability indicators to rise in 2022, then level off through 2030 because of a projected increase in production expenses. In 2030, both measures of farm income are projected to be lower than their 2020 forecasts. Net farm income is projected to remain slightly higher than the recent 20-year average, but net farm cash income is projected to be lower for 2021-30.

Table: Tenth District Farmland Value by State, First Quarter 2021

Percent change from previous year *

	Nonirrigated	Irrigated	Ranchland
Kansas	8	13	11
Western Missouri	12	n/a **	13
Mountain States***	0	-2	0
Nebraska	8	9	1
Oklahoma	5	7	4
Tenth District	8	8	8

Farmland Values and Interest Rates

Providing additional support for farm finances, interest rates on farm loans fell further to historically low levels. After reaching near-term highs in the first quarter of 2019, interest rates on all types of farm loans have fallen 1.5 percentage points since then. Reduced interest rates have lowered borrowing costs and likely have provided some support for asset values for many farm borrowers. However, for agricultural banks, low interest rates have put downward pressure on earnings.

With support from a stronger farm economy and historically low interest rates, farm real estate values increased throughout the District. All types of farmland rose 8 percent in value in the first quarter (Chart 2). For cropland, this was the largest annual increase for the first quarter since 2013, while ranchland values rose at the fastest pace since 2015.

Farm real estate markets were especially strong in states less impacted by drought. Values for nonirrigated cropland rose at least 8 percent in Kansas, Missouri and Nebraska (Table). In contrast, cropland values remained unchanged in the Mountain States, where more than 70 percent of the land area was in severe to exceptional drought in the first quarter.

For more information:

To access the complete Federal Reserve Agriculture Ag Credit Survey report, see:
https://www.kansascityfed.org/agriculture/ag-credit-survey/farm-credit-conditions-show-additional-strength/

Ag Finance Updates from the Tenth District
https://kansascityfed.org/agriculture/agfinance-updates/

Drought data, maps and classifications can be found at: https://droughtmonitor.unl.edu

Economic Research Service, USDA. Farm Income and Wealth Statistics. U.S. and State Farm Income and Wealth Statistics.
https://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics