

Larger Livestock Loans Boost Farm Lending

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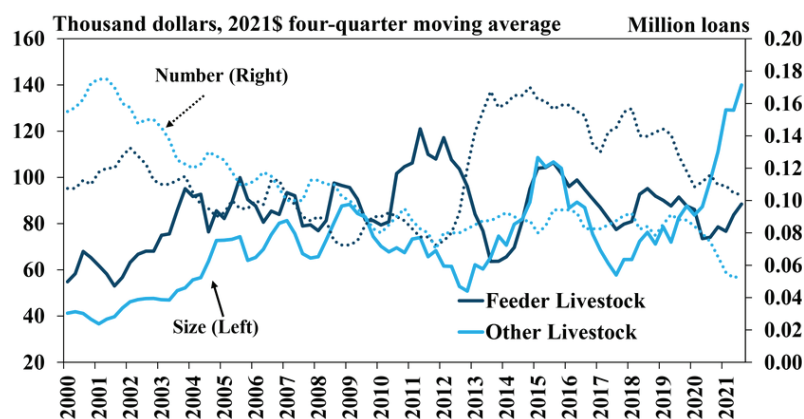
The U.S. agricultural economy generally remained strong as elevated commodity prices continued to support farm incomes. Prices of most major crops were at multi-year highs moving into fall harvest and supported farm revenue prospects. Weakness in the cattle industry persisted, however, as low cattle prices continued to limit profit margins for producers. In addition, concerns about drought and higher input costs continued to intensify and likely contributed to an increase in producers' financing needs in the livestock sector.

Third Quarter National Survey of Terms of Lending to Farmers

The volume of non-real estate farm loans increased in the third quarter, but some types of lending remained limited. Total non-real estate lending was about 8 percent higher than a year ago but has declined at an average pace of about 2 percent over the last four quarters. A large share of the increase during the quarter was due to an increase in loans used to finance feeder livestock and other livestock, which grew by about 20 percent and more than 50 percent, respectively. In contrast, operating loan volumes declined by about 5 percent.

With sharp increases from a year ago, lending for livestock purchases continued to trend above the recent historical average for the third quarter. The volume of loans for poultry and livestock other than feeders (other livestock) was nearly double the inflation adjusted average during the same quarter from 2010-2019. Feeder livestock loans were also slightly greater than the recent average while operating loans were slightly less.

Figure 1. Number and Size of Livestock Loans, Kansas City District.



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City.

The increase in livestock loan volumes was driven by larger loan sizes. The average size of loans for other livestock continued a sharp upward trend, increasing about 30 percent in the third quarter and reaching an all-time high (Figure 1). The number of other livestock loans was also higher than a year ago but remained historically low. Similarly, the average size of feeder livestock loans has also increased steadily over the past year, but the number of loans declined for the fourth straight quarter.

For more information:

To access the complete Federal Reserve Ag Finance Update, see: <https://www.kansascityfed.org/agriculture/agfinance-updates/>

How Much Risk is Right for You?

