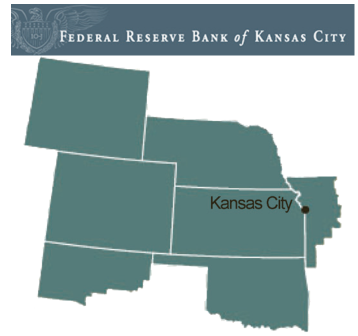
17 November 2021 – Laramie, WY

Farmland Values Surge Alongside Strength in Agriculture



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Agricultural credit conditions in the Tenth District remained strong in the third quarter and farm real estate values increased sharply. Farm income and loan repayment rates continued to increase at a steady pace and contributed to multi-year lows in problem loans and asset liquidation. While conditions have improved substantially from recent years throughout the region, the pace of increase in farm income and loan repayment rates was slower in areas most significantly impacted by drought. Alongside a strong agricultural economy and historically low interest rates, the value of all types of farmland was about 15 percent higher than a year ago.

Most lenders have remained optimistic about the outlook for agriculture in the District but have expressed concerns about rising input costs. Despite rising costs, however, elevated commodity prices have continued to support farm finances, particularly for crop producers. Though many risks remain, the agricultural sector will be well positioned heading into 2022 alongside the persistent strength in commodity prices and double-digit gains in land values.

Farm Income and Credit Conditions

A strong agricultural economy continued to support increases in farm income and spending through the third quarter. More than half of banks in the District reported income was higher than a year ago for the fourth consecutive quarter. Farm income was higher across all states, but the rate of increase remained slower in Oklahoma and the Mountain States.

The improvement in farm finances drove further increases in loan repayment rates. About 40 percent of banks reported that farm loan repayment rates were higher than a year ago for the third consecutive quarter. Similar to farm income, repayment also improved in all states; but the pace of increase was slightly slower in the Mountain States.

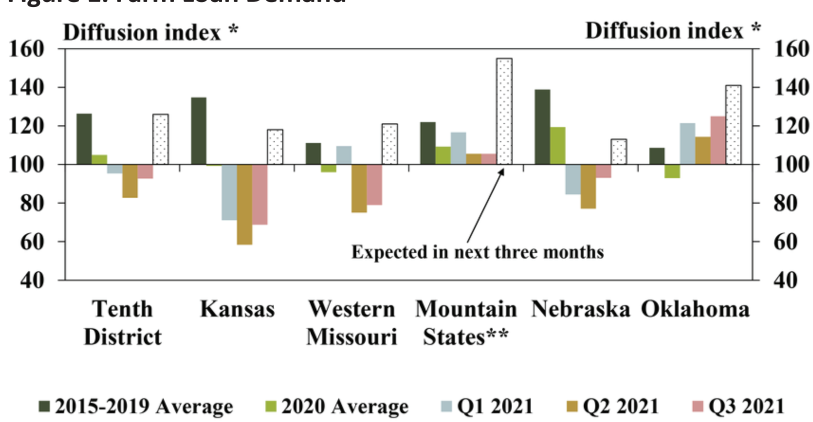
Alongside broad improvement in loan performance, problem loan rates remained at multi-year lows throughout the region. The average share of farm loans on internal watch lists declined for the second year in a row in all states. The portion of loans considered classified also remained well below the average of recent years and declined in most states from a year ago.

Stronger farm borrower financials also drove a sharp reduction in asset liquidation. More than half of respondents expected none of their farm borrowers to sell assets to improve working capital. Another third of lenders reported that less than 5 percent of borrowers planned to sell assets. The low prevalence of liquidation among borrowers was a swift turnaround from recent years when a small, but notable, number of borrowers had begun to sell assets to improve liquidity.

Credit demand remained subdued alongside recent strength in farm income, but was expected to grow in coming months. Demand for farm loans was less than a year ago in most states, but was slightly higher in Oklahoma and the Mountain States (Figure 1). Respondents continued to comment about rises in input costs that could increase credit needs and loan demand was expected to increase across all District states in the coming months.

Despite the outlook for higher production costs, lending standards stabilized alongside ample funding and stronger credit conditions. Following several years of tightening,

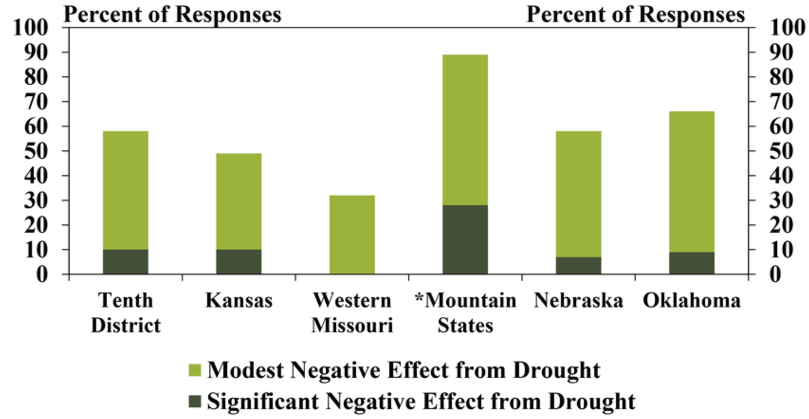
Figure 1. Farm Loan Demand



*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than or the same as in the year-earlier pe
The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 1
** Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.

only about 5 percent of banks indicated that collateral requirements were higher than a year ago. While no banks reported loosening of standards, tightening has eased over the past year in all states throughout the District.

Figure 2. Impact of Drought on Financial Conditions of Farm Operations, Q3



Note: Respondents were asked to indicate what has been the impact of drought on financial conditions of farm operations in their lending area.
*Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.

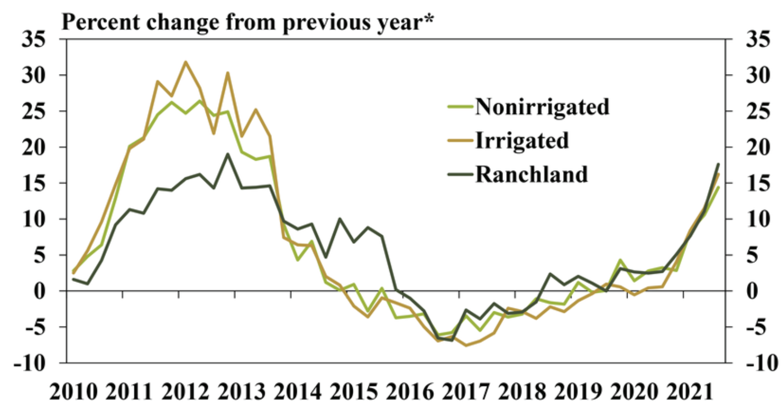
Drought and Credit Conditions

The financial impact of drought remained a key concern for banks in some portions of the District. In fact, the ongoing drought had a negative impact on financial conditions for borrowers at nearly 60 percent of banks (Figure 2). The effect was most severe in the Mountains states, where a large majority reported a negative impact and about 30 percent described the pressure on farm finances as significant.

Lenders in areas most impacted by drought reported slower improvement in farm income and credit conditions. Only about 30 percent of banks that described the impact of drought as significant reported farm income and loan repayment rates were higher than a year ago. In comparison, about 70 percent of all other banks reported an increase in farm income and about 45 percent reported higher repayment rates.

In addition to weaker conditions in areas affected by drought, credit conditions for livestock and dairy producers throughout the region also were expected to improve at a slower pace through the end of 2021. About 60 percent of respondents expected repayment rates for corn and soybean operations to increase in the next quarter. Only about half as many respondents anticipated improvement for wheat and cow-calf producers and even fewer thought conditions would improve for feedlot, hog and dairy operations.

Figure 3. Tenth District Farmland Values



*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarters.

Farmland Values and Interest Rates

Interest rates on farm loans remained historically low alongside benchmark rates. The average fixed rate on all loan types edged slightly lower than the previous quarter and reached another all-time low. While the change was modest, average variable rates on all loan types also declined from the previous quarter and remained at all-time lows.

With support from a strong farm economy and historically low interest rates, farmland values in the region increased sharply. Nonirrigated cropland values were about 15 percent higher than a year ago, the largest increase since 2013 (Figure 3). Irrigated cropland and ranchland values increased slightly more than 15 percent, which was also the largest increase since 2013.

The strength in farm real estate values was consistent across all states in the District. Nonirrigated cropland increased more than 15 percent in western Missouri and Nebraska and slightly less than 10 percent in all other states (Table 1). The appreciation of Ranchland was also most pronounced in western Missouri and Nebraska, while irrigated land values increased at the fastest pace in Kansas and Nebraska.

Table 1. Tenth District Farmland Value by State, Third Quarter 2021

Percent change from previous year *

	Nonirrigated	Irrigated	Ranchland
Kansas	9	20	14
Western Missouri	18	n/a **	25
Mountain States***	9	9	9
Nebraska	16	19	21
Oklahoma	9	n/a **	9
Tenth District	14	16	17

*** Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each

For more information:

To access the complete Kansas City Federal Reserve Ag Credit Survey, see:
https://www.kansascityfed.org/agriculture/ag-credit-survey/farmland-values-surge-alongside-strength-in-agriculture/