

Credit Conditions Remain Strong, but Outlook Softens

Farm real estate values continued to climb and agricultural credit conditions remain strong. Agricultural credit conditions improved in the first quarter, and farm real estate values continued to increase alongside strength in the U.S. farm economy.

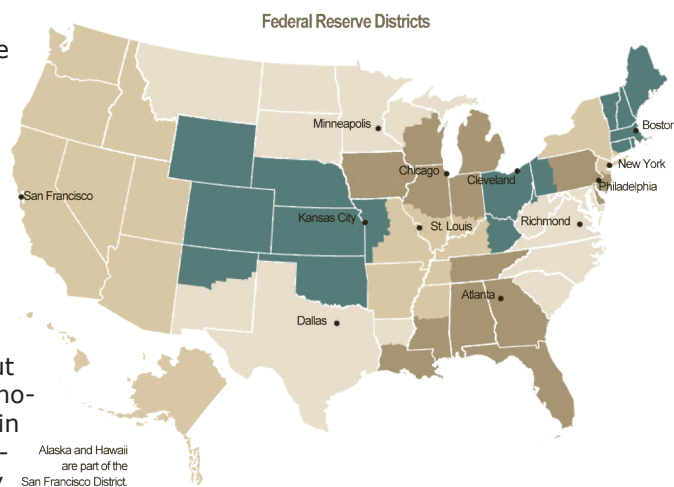
Farmland values continued to increase at a rapid pace through the end of 2021. Alongside sustained strength in farm income and credit conditions, the value of all types of farmland in the Tenth District was more than 20% higher than a year ago. The recent strength in agricultural real estate markets has been supported by strong demand, historically low interest rates and vastly improved conditions in the farm economy.

Lenders reported a mostly favorable outlook for agriculture in the District but cited the rise in input costs as a risk to the sector. Even with uncertainty around input costs, lenders expected favorable conditions in the economy to support farm finances and lead to further gains in farmland values in 2022. The possibility of weaker agricultural income and higher interest rates in the economy remain as risks for farmland markets. Despite the risks, the agricultural sector appears to be well positioned for the year ahead, supported by strong balance sheets, high agricultural commodity prices and sharp gains in farmland values.

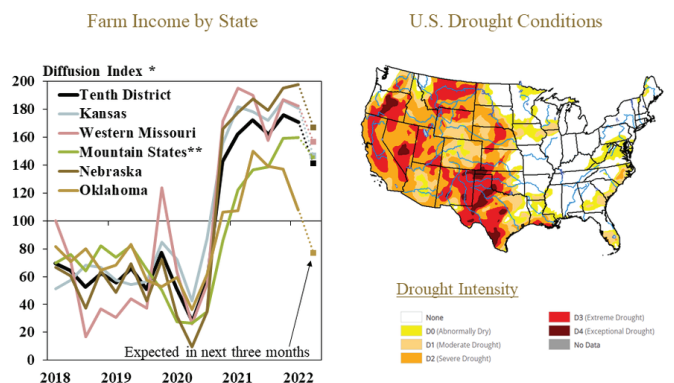
Farm income continued to improve alongside elevated commodity prices, but was expected to soften in coming months. About 75% of bankers reported that farm income was higher than a year ago during the first quarter, but less than 60% expected an increase during the next three months. Conditions were expected to deteriorate during the next quarter in Oklahoma, where extreme drought continued to affect large portions of cattle and livestock production areas.

Agricultural credit conditions improved in the first quarter, and farm real estate values continued to increase alongside strength in the U.S. farm economy. Following a year of accelerating increases, the value nonirrigated cropland across much of the U.S. has soared in 2022 through March. The sharp growth in land values persisted despite a slight increase in farm loan interest rates. With broad strength in farm finances, farm loan repayment rates continued to increase and credit conditions remained strong.

The outlook for agricultural credit conditions remained optimistic alongside persistently strong commodity prices. However, many lenders expected conditions to soften in coming months alongside the pressures to profit margins from higher input costs and harsh drought conditions in large portions of the country. Farm real estate markets also remained strong, but reduced profit margins or higher interest rates could limit gains in land values in the year ahead.



Farm Income and Drought Conditions



*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 period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.
 ** Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.
 Source: National Drought Mitigation Center - University of Nebraska-Lincoln.

For more information:

- <https://www.kansascityfed.org/agriculture/ag-credit-survey/credit-conditions-remain-strong-outlook-softens/>
- <https://www.kansascityfed.org/agriculture/agfinance-updates/strong-farm-economy-continues-support-credit-conditions/>