Volume 10, Issue 5

May 2022

RightRisk™

# RightRisk News



### Dates to Remember

**(Spring-planted crops)**
**- county specific deadlines**

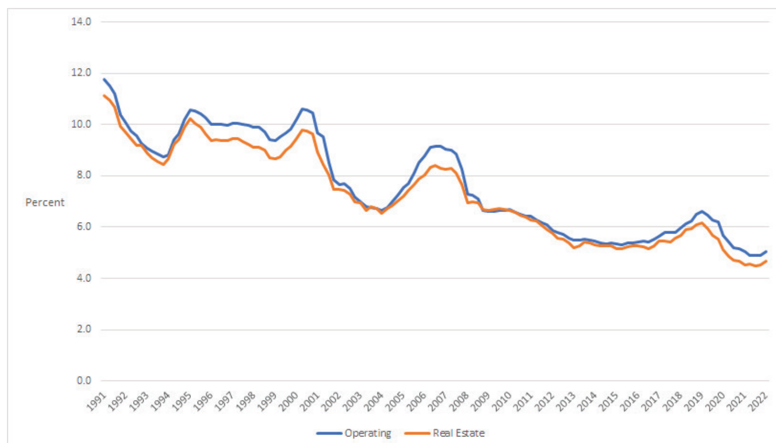
**Spring crop acreage reporting deadline**
- July 15

*For more information see:*
**https://www.rma.usda.gov**
**https://www.fsa.usda.gov**

## Rising interest rates: What are the implications for farm decisions?

In early May, the United States Federal Reserve raised the target range for the fed funds interest rate by half a point to 0.75 to 1 percent. This rate hike received considerable attention because it was the second consecutive rate hike by the Federal Reserve and the largest one-time increase since 2000. Furthermore, Federal Reserve Chairman Jerome Powell indicated "we won't hesitate" to make ongoing rate increases to tighten monetary policy appropriately until inflation begins to fall in a convincing way.

**Figure 1: Average Fixed Interest Rates on Agricultural Loans.**




**Source: Federal Reserve District Surveys of Agricultural Credit Conditions.**

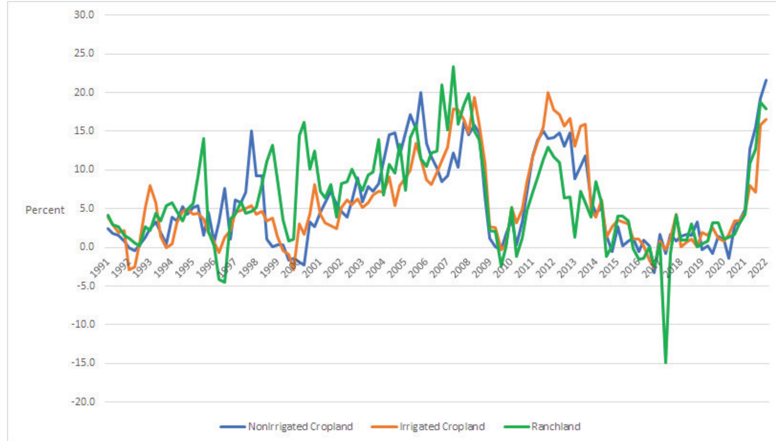
### Low inflation

Most economists believe that low, stable inflation is good for the economy. However, zero inflation is not the goal because it creates the risk of the economy slipping into a deflationary situation where prices are falling. Deflation is bad for the economy because consumers delay purchases thinking prices will decrease even further in the future. This can create a downward spiral of economic activity. The ability to borrow money at low interest rates, increases the money supply available to make purchases, stimulating economic activity and avoiding deflation.

### Rising interest rates

The opposite is also true. High interest rates decrease the ability to borrow and spend, leading to a decrease in economic activity and downward pressure on inflation. The recent increases in the U.S. inflation rate have pushed it well above the 2 percent level targeted by Federal Reserve monetary policy, thus, the Federal Reserve is increasing interest rates to bring economic activity back into a balance that results in a return to inflation rates near the 2 percent target.

**Figure 2: Average Annual Percentage Changes in Farmland Values.**

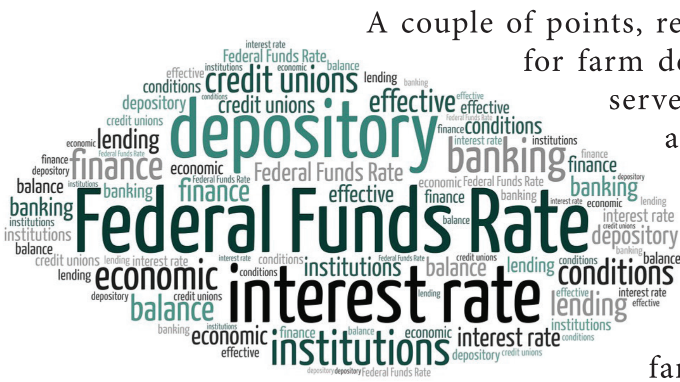



**Source: Federal Reserve District Surveys of Agricultural Credit Conditions.**

Whenever the U.S. Federal Reserve raises interest rates, it trickles down to affect the interest rates paid by consumers and businesses. This includes the agricultural sector, farmers and ranchers. An interest rate chart updated in mid-March 2022 by the Federal Reserve District Surveys of Agricultural Credit Conditions (Figure 1) shows an average interest rate increase in the first quarter of 2022 of 0.2 percent, reflecting the rate increase of one quarter point by the Federal Reserve. Expect this upward trend to continue, with speculation that the federal funds rate will rise to 2.75 to 3.00 percent by the end of 2022.

**Agriculture and inflation**

Agriculture has experienced boom and bust cycles that are quickly reflected in real estate values. Figure 2 contains a chart of average annual change in farm real estate values from 1991 to present. High commodity prices, low interest rates and increased money supply have push farm real estate dramatically higher over the last 12 months. This increase has been particularly sharp in the Great Plains and Mountain States, where farm real estate values are 25 to 30 percent higher than one year ago. The questions are how quickly farmers will produce themselves out of high commodity prices like they did in the period from 2011 to 2015 and/or how quickly will diminished economic activity bring down demand for farm real estate like it did in the period from 2007 to 2009.




A couple of points, readily apparent in Figures 1 and 2, have implications for farm decisions. In Figure 1, it is apparent that Federal Reserve monetary policy over the last 30 years has produced a downward trend in fixed interest rates. Any increases in interest rates were temporary followed by a resumption of the trend toward lower interest rates to stimulate economic activity. In Figure 2 it is apparent that changes in farmland values are not negative for extended periods of time. Peak increases in farmland value are followed rather quickly by a return to modest or no increases in value but seldom correct with multiple years of negative changes in value.

**Management decisions in uncertainty**

What implications does this have for farmers and ranchers making decisions in the coming months? While it is uncertain how long the current rise in interest rates will last or high it will go, we know the policy preference is for low interest rates that stimulate economic activity while keeping inflation rates at or near the 2 percent target level.

As a result, now is not the time to purchase depreciable assets at inflated prices using credit that includes exposure to interest rates significantly above 5 percent for an extended period. Increases in interest rates drive up the cost of production for everyone, including people potentially purchasing farm outputs. This negative pressure on the economy is the desired effect that Federal Reserve monetary policy is seeking in order to curb large inflationary price increases. Awareness of these intended effects and limiting exposure to interest rate risk can create decision opportunities that keep business moving forward in a positive direction.

Farm real estate assets are experiencing historical increases in year over year value, putting them in the inflated price category. However, real estate tends not to lose value over multi-year periods like a depreciable asset. Real estate purchases could be a good use of excess cash if the purchased property will cash flow and the exposure to high interest rates is limited. On the other hand, now could be a good time to focus on putting excess cash toward paying down debt that is exposed to potential increases in interest rates.

Understanding cash flow needs and exposure to variable interest rates should receive careful management attention in the current environment, as well as in the months ahead.


## ~ Other RightRisk News ~

### News Release - May 2 | RightRisk

**Livestock Risk Protection Changes Effective for the 2023 and Succeeding Crop Years**

The Federal Crop Insurance Corporation's Board of Directors (Board) approved revisions to the Livestock Risk Protection (LRP) plans of insurance, under section 508(h) of the Federal Crop Insurance Act, on August 25, 2021, November 19, 2021, and February 17, 2022. The revisions are applicable for the 2023 and succeeding crop years . . .

### News Release - May 20 | RightRisk

**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 . . .

**For more see: RightRisk.org\News**

## Highlighted Recording:
## *Evaluating Risk Alternatives: RightRisk Analytics*

Evaluating risk management alternatives can be challenging, especially without the right tools. The RightRisk Team has been working for nearly 20 years to develop the right tools to assist managers of agricultural operations to make the best decisions, even when the information at hand is incomplete or difficult to interpret. The RightRisk Team has built numerous tools to assist managers to sift through the data and alternative management strategies to identify those that have the best chance of moving them and their operation towards their goals.

To read more or to access the text, see:
**RightRisk.org > Resources > Recorded Presentations**

---

**April 5 | Social Media Post**
*Understanding Risk In Agriculture*

**April 7 | Social Media Post**
*RightRisk Analytics | RightRisk*

**April 12 | Social Media Post**
*Code of Conduct What is It, Who Needs One?*

**April 14 | Social Media Post**
*Estimating Custom Rates and Machinery Costs*

**April 19 | Social Media Post**
*¿Cuáles son los requisitos para conseguir visa de Estados Unidos para trabajadores agrícolas?*

**April 21 | Social Media Post**
*Online Publications | RightRisk*

**April 26 | Social Media Post**
*S Corporation*

**April 28 | Social Media Post**
*Estimating Your Cost of Production*

*Check our newest series - a post every Wednesday covering ag labor management from ~*

***AG HELP WANTED: Guidelines for Managing Agricultural Labor***

**Follow us on:**

Click here to see current:
RightRisk.org\news

**Follow us on:**

RIGHTRISK™

- *Education*
- *Coaching*
- *Research*

***RightRisk helps decision-makers discover innovative and effective risk management solutions***


RightRisk News is brought to you by the RightRisk Team

**Contributing authors:**

John Hewlett, Ranch/Farm Management Specialist - University of Wyoming, hewlett@uwyo.edu
Jay Parsons, Risk Management Specialist - University of Nebraska-Lincoln, jparsons4@unl.edu
Jeff Tranel, Ag and Business Management Specialist - Colorado State University, Jeffrey.Tranel@ColoState.edu

**Editing and Layout:** John Hewlett, hewlett@uwyo.edu


*Past issues of RightRisk News are available at: RightRisk.org/News*
*To subscribe/unsubscribe, email information@RightRisk.org subject line "Subscribe/Unsubscribe RR News"*

E-mail: information@RightRisk.org
Web: www.RightRisk.org

*How much risk is right for you and your operation?*

N EXTENSION
COLORADO STATE UNIVERSITY EXTENSION
UW Extension