21 May 2024 – Laramie, WY

AG CREDIT SURVEY
Thinner Crop Profits and Tighter Credit Conditions

Farm incomes retracted at a sharp pace, farm loan repayment rates declined and loan demand rose in the first quarter.

Federal Reserve Bank of Kansas City

Farm income and credit conditions in the Tenth Federal Reserve District tightened in the first quarter of 2024. According to the Survey of Agricultural Credit Conditions, farm incomes retracted at a sharp pace, farm loan repayment rates declined at a modest pace and loan demand rose notably. Conditions tightened comparatively more in states with greater reliance on crop revenues and less in more cattle heavy areas. As lenders entered the renewal period for annual operating lines, loan denials were very limited but many reported an uptick in carryover debt and loan restructuring to meet liquidity needs.

Conditions in the U.S. farm economy have tightened alongside lower prices for many key products and higher financing costs. Many lenders highlighted growing concerns about deterioration in working capital as a result of low prices, particularly for crop producers. Strength in cattle prices, however, has supported incomes for many cow/calf producers. A larger share of banks also reported higher loan demand following multiple years of subdued credit utilization, a sign that strength in farm finances built up in recent years has moderated. A continuation of subdued crop prices throughout 2024 would likely drive further tightening in agricultural credit conditions and elevated interest expenses could put additional pressure on farm borrowers.

Farm Income and Credit Conditions

The pace of decline in farm income in the Tenth District continued to accelerate in the early months of 2024. The share of lenders reporting that farm income was less than a year ago reached 60 percent, the highest since early 2020 (Chart 1). Strong cattle prices supported profits for cow/calf producers in recent months, but a steep decline in prices of many key crops weighed on farm incomes over the past year.

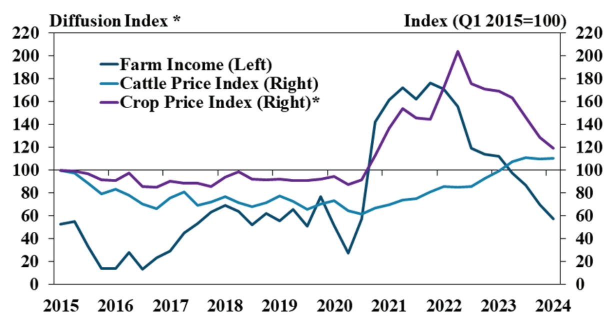
The pace of decline in farm income was notably faster in states with more reliance on crop revenues. More than 70 percent of lenders reported lower farm income than a year ago in Kansas, Missouri and Nebraska, states with higher share of revenue from crop production (Chart 2). In the other District states where cattle account for higher shares of revenue, less than a third of banks responded that incomes were down from a year ago.

Non-real estate farm loan demand picked up considerably as profits thinned. Similar to farm income, the share of banks reporting that demand for non-real estate farm loans was higher than a year ago rose to the highest level since 2019 and neared 40 percent (Chart 3). As loan demand increased, availability of funds declined at a modest pace throughout the region.

Other key measures of agricultural credit conditions showed signs of modest deterioration. Farm loan repayments rates declined in the District at the fastest pace since early 2020 (Chart 4). At the same time, renewals and extensions increased at the fastest pace since 2020 and collateral requirements tightened at a modest pace.

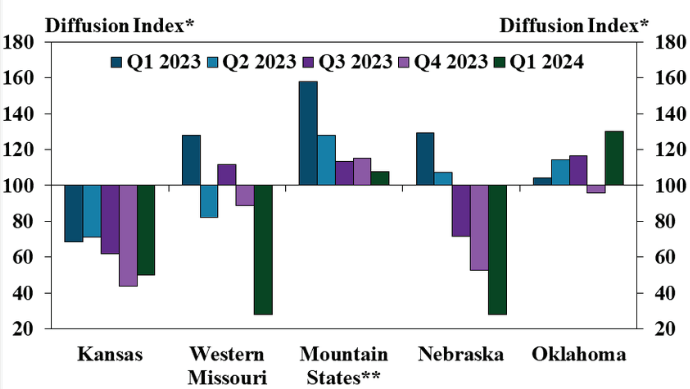
Instances of carryover debt rose slightly alongside thinner profit margins during the past year. About 15 percent of farm borrowers, on average, had an increase in the amount of debt not covered by profits compared with the same time a year ago. Instances of carryover debt grew in all states in the region, but were particularly pronounced in Missouri. Cases of restructuring to meet

Chart 1: Tenth District Farm Income and U.S. Agricultural Commiodity Prices



*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.
*Average of individual indices for spot prices of corn, soybeans, and wheat
Sources: *Wall Street Journal*, Haver Analytics and staff calculations

Chart 2: Farm Income by State



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

Chart 3: Tenth District Non-Real Estate Loan Demand and Fund Availability

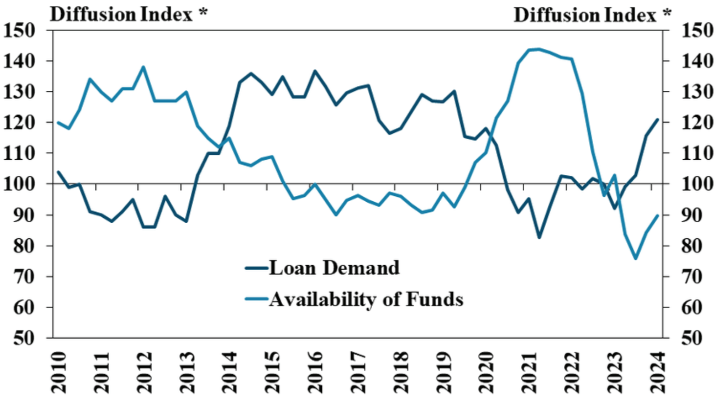

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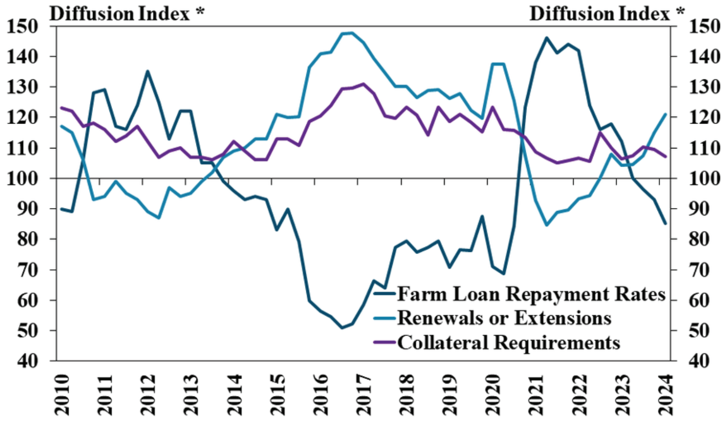
Chart 4: Select Tenth District Credit Conditions



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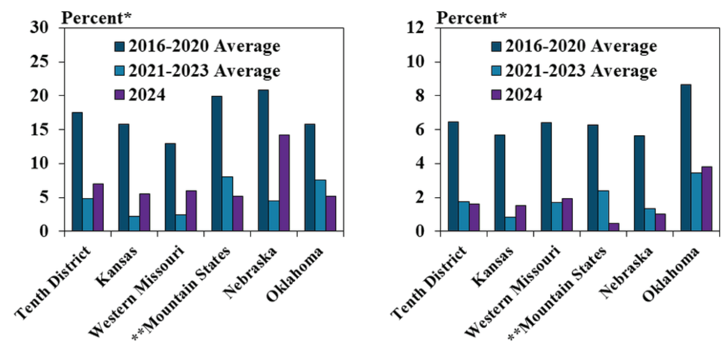
liquidity needs were also higher, but loan denials remained limited for most lenders. About 5 percent of farm loans in the District, on average, involved restructuring to meet liquidity needs which was slightly higher than previous years but well below the levels of 2016-2020 (Chart 5, left panel). Loan denials remained minimal, staying below 2 percent on average throughout the region.

Interest Rates and Farmland Values

While credit conditions softened and loan demand picked up, farm loan interest rates remained slightly above historical averages. Alongside relatively steady benchmark interest rates, average rates on all types of farm loans were largely unchanged from the previous quarter. Interest charges on agricultural loans remained slightly above the 30-year average, however, keeping financing costs elevated for agricultural producers reliant on financing. Alongside relatively steady benchmark interest rates, average rates on all types of farm loans were largely unchanged from the previous quarter. Interest charges on agricultural loans remained slightly above the 30-year average.

Chart 5: Loan Restructuring and Denials, Q1

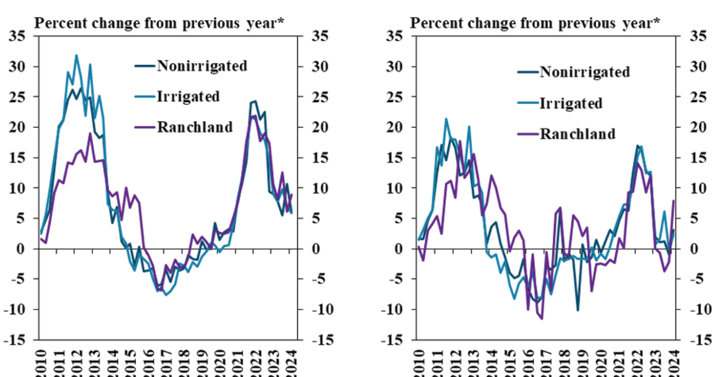


* Average of survey responses
** Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.
Note: Respondents answered the following questions: In the last three months, what percent of agricultural loans originated or renewed have involved restructuring debt to meet short term liquidity needs? In the last three months, what percent of total farm loan requests has your bank denied due to customer cash flow shortages?

Despite broad moderation in the farm economy and higher interest rates, growth in farmland values remained firm. The value of all types of farmland, on average, grew by 5 percent or more from a year ago throughout the District (Chart 6). Following tepid growth throughout 2023, cash rents on all types of land rose modestly in the first quarter. The value of all types of farmland, on average, grew by 5 percent or more from a year ago throughout the District. Following tepid growth throughout 2023, cash rents on all types of land rose modestly in the first quarter.

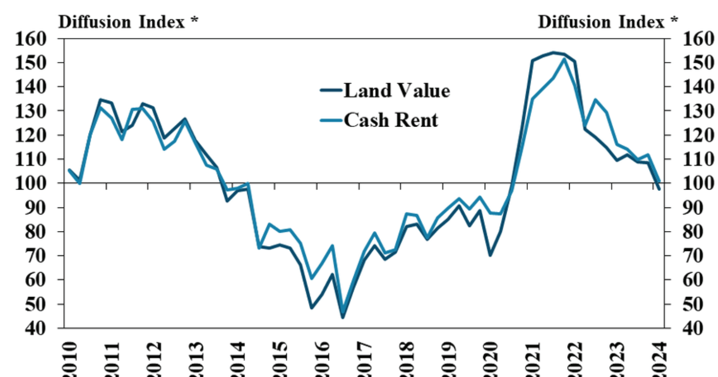
Lenders in the region expected both farmland values and cash rents to be flat going forward. Looking ahead to the next three months, 75 percent of respondents expected the value of nonirrigated farmland to be unchanged compared with a year ago and 85 percent expected cash rents to be unchanged (Chart 7). Equal shares of the remaining respondents anticipated increases and decreases in the coming months, highlighting expectations of generally stable conditions for farmland markets.

Chart 6: Tenth District Farmland Values and Cash Rents



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

Chart 7: Expected Change in Nonirrigated Farmland Values and Cash Rents



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For more information:

For more information on the Tenth District agricultural economy or to access the complete Ag Credit Survey, see: https://www.kansascityfed.org/agriculture/ag-credit-survey/thinner-crop-profits-and-tighter-credit-conditions/.