RightRisk™
https://RightRisk.org
How Much Risk is Right for You?

20 November 2024 – Laramie, WY

AG CREDIT SURVEY
Credit Conditions Tighten Gradually

Agricultural credit conditions in the Tenth District continued to deteriorate at a gradual pace in the third quarter.

Federal Reserve Bank of Kansas City

Agricultural credit conditions in the Tenth District continued to deteriorate at a gradual pace in the third quarter. According to responses from the Survey of Agricultural Credit Conditions, farm income in the region was sharply lower, loan repayment was slightly slower and problem loan rates grew slightly. Loan demand increased as working capital declined and lenders reported an increase in asset liquidation. Despite the moderation in credit conditions and interest rates remaining at multi-decade highs, farm real estate values remained firm.

The outlook for the farm sector nearing the end of 2024 remained subdued alongside weak crop prices. Farm income and credit conditions continued to weaken more in areas most concentrated in crop production while the strength of cattle prices provided some support to other portions of the region. The considerable reduction in profits for crop producers has weakened farm balance sheets, increased demand for financing and could put further pressure on agricultural credit conditions in the months ahead.

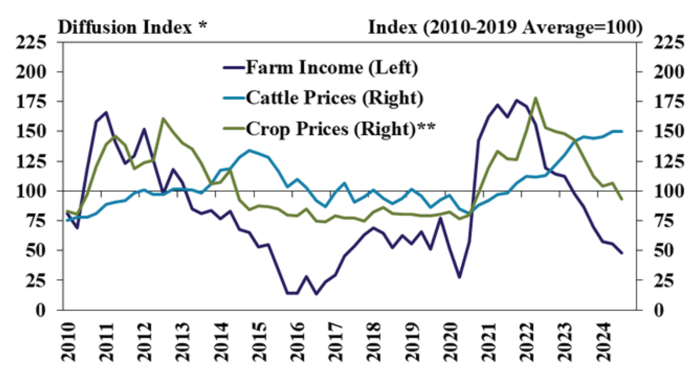
Farm Finances and Credit Conditions

The pace of decline in farm income intensified as crop prices remained weak. About 60 percent of respondents reported that farm income was lower than a year ago and only 10 percent reported an increase, which was the lowest share since 2020 (Chart 1). Despite strong cattle prices, incomes in the region have contracted alongside sharply lower crop prices.

Farm incomes were comparably weaker in areas more concentrated in crop production. According to respondents, incomes weakened the most in Kansas, Missouri and Nebraska (Chart 2). In Oklahoma, conditions were largely stable, with 30 percent of lenders reporting incomes that were lower than a year ago and another 30 percent reporting that incomes were higher.

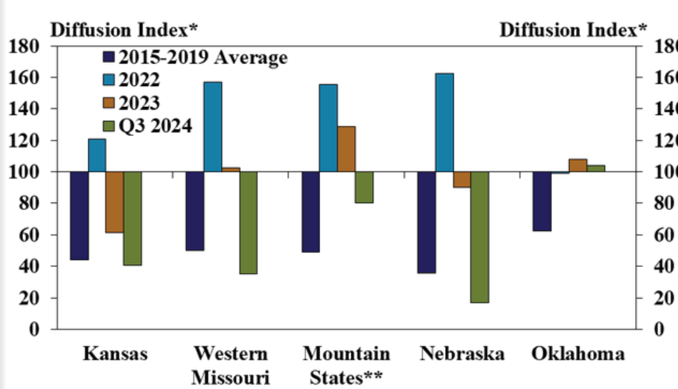
As farm finances softened further, the pace of decline in loan repayment rates picked up gradually. About 25 percent of respondents reported that farm loan repayment rates were lower than a year ago and less than 5 percent reported an increase. Looking ahead to the next three months, nearly 40 percent expected rates of repayment to decline.

Chart 1: Tenth District Farm Income and U.S. Commodity 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.
**Crop prices index is calculated as the average of individual indices for spot prices of corn, soybeans and wheat.
Sources: *Wall Street Journal* and Haver Analytics

Chart 2: Farm Income by State

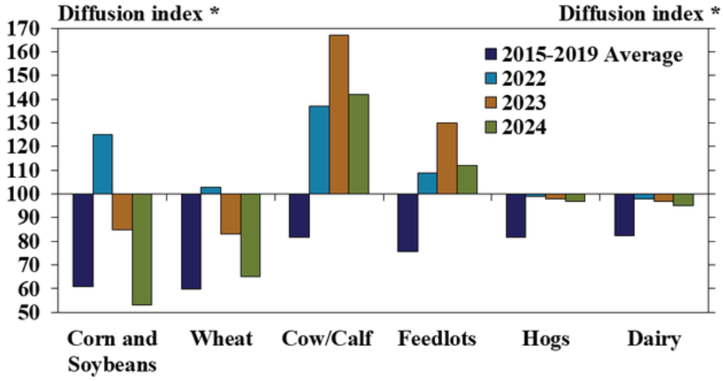


*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.
**Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.

Deterioration in repayment was expected to be particularly notable for crop operations in the coming months. Respondents anticipated a considerable deterioration in repayment rates for corn, soybean and wheat producers but expected conditions for ranchers and feedlots to improve (Chart 3). For lenders with hog and dairy customers, loan repayment was expected to decline slightly in the coming months.

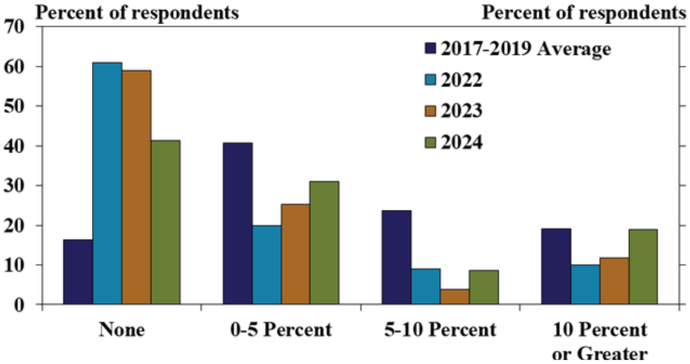
Alongside tighter repayment capacity, loan quality weakened slightly across the region. On average, about 6 percent and 3 percent of responding banks' loan portfolios were on the watch and classified lists, respectively.

Chart 3: Expected Change in Loan Repayment Rates by Operation Type, Q3



*Bankers responded by indicating whether conditions during the next quarter were expected to be 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.
Note: Respondents were asked the following question: For the following farm operations, how are loan repayment rates expected to change over the next three months?

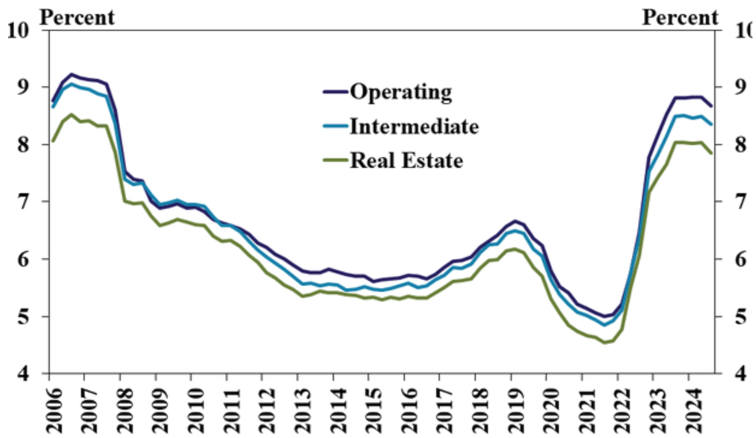
Chart 4: Share of Borrowers Planning to Sell Mid- to Long-Term Assets, Q3



Note: Respondents were asked the following question: What percent of farm borrowers plan to sell mid-to-long term assets before the end of the year in an effort to improve available working capital or make loan payments?

Lenders in nearly all states reported a slight increase in problem loan rates following historically strong loan quality in recent years. Asset liquidation also increased notably from recent years. About 60 percent of responding banks reported that at least a fraction of farm borrowers planned to sell assets in the coming months to improve working capital or make loan payments (Chart 4). About a fifth of respondents reported that more than 10 percent of borrowers had liquidation plans.

Chart 5: Average Tenth District Interest Rates

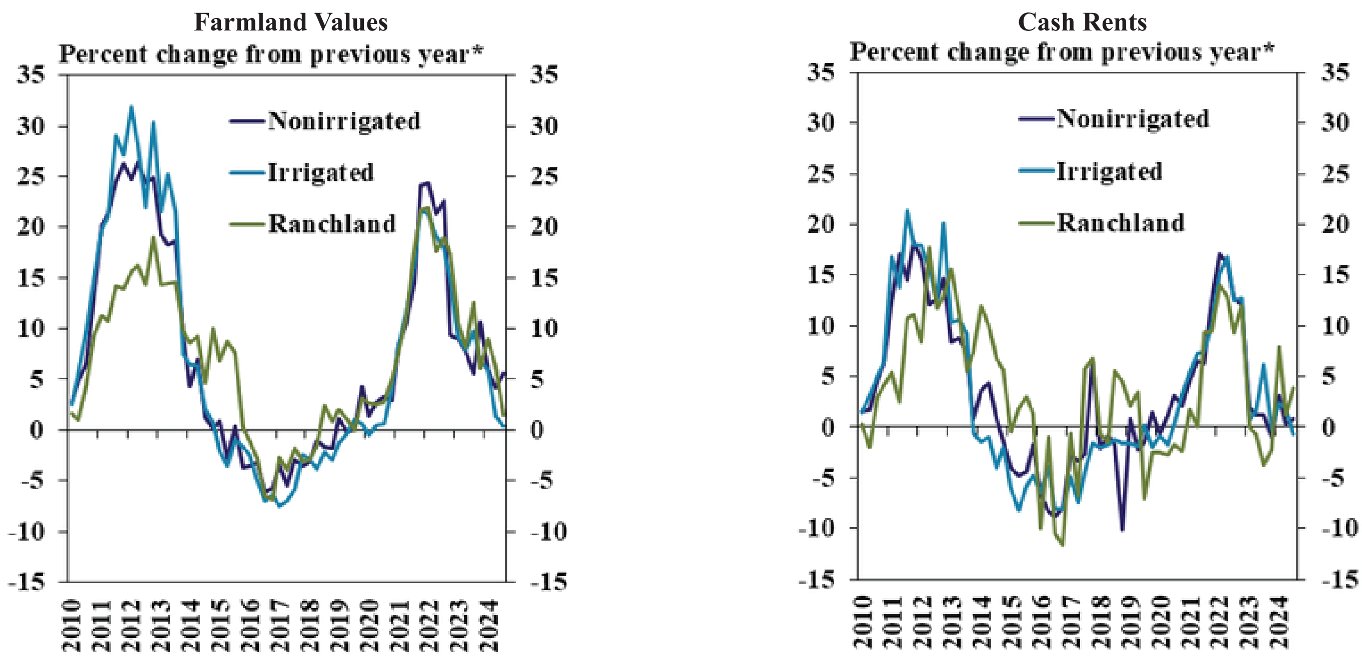


Interest Rates, Lending Activity and Farmland Values

Interest rates on farm loans inched lower alongside recent cuts in benchmark interest rates. Lenders reported a modest 15 basis point decrease in average interest rates for ag loans, following two quarters of virtually no change (Chart 5). The spread between rates on operating loans and farm real estate reached 81 basis point, about twice as high as the average observed after 2010.

Despite fewer opportunities for profits in the crop sector, agricultural real estate values held firm. The value of nonirrigated cropland was 5 percent higher than one year ago in the third quarter (Chart 6). Irrigated cropland and ranchland values also increased from a year ago but at a more modest pace of 0.3 percent and 1.6 percent, respectively. Cash rents on irrigated and nonirrigated cropland were nearly unchanged from a year ago, while rents on ranchland increased about 4 percent and have been more volatile in recent periods.

Chart 6: Tenth District Farmland Values and Cash Rents

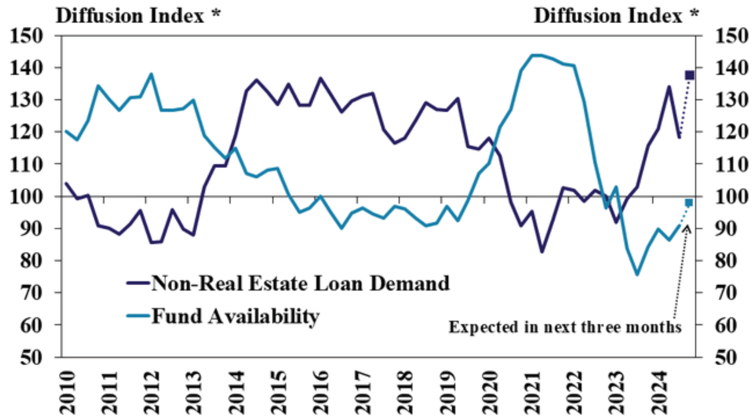


*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

Farm loan demand remained high, while fund availability continued to moderate. A higher share of lenders reported an increase in demand for non-real estate ag loans from a year ago, and an even higher share expected growth in demand for loans in the coming months (Chart 7). While more respondents reported a decline than an increase in fund availability, expectations for the coming months were more balanced.

Competition for deposits also remained high but less fierce than a year ago. More than 60 percent of respondents reported higher competition for deposits this year, down from the more than 80 percent in 2023. Almost 75 percent of banks in Western Missouri indicated stronger competition for deposits, the highest among the states in the region, while a little more than half of contacts in the Mountain States and Oklahoma indicated more competition for deposits.

Chart 7: Tenth District Loan Demand and Fund Availability



*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.

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/credit-conditions-tighten-gradually/.