

Agricultural Credit Conditions Update

Nate Kauffman, Federal Reserve Bank of Kansas City

February 2021

The views expressed here are those of the speaker and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.



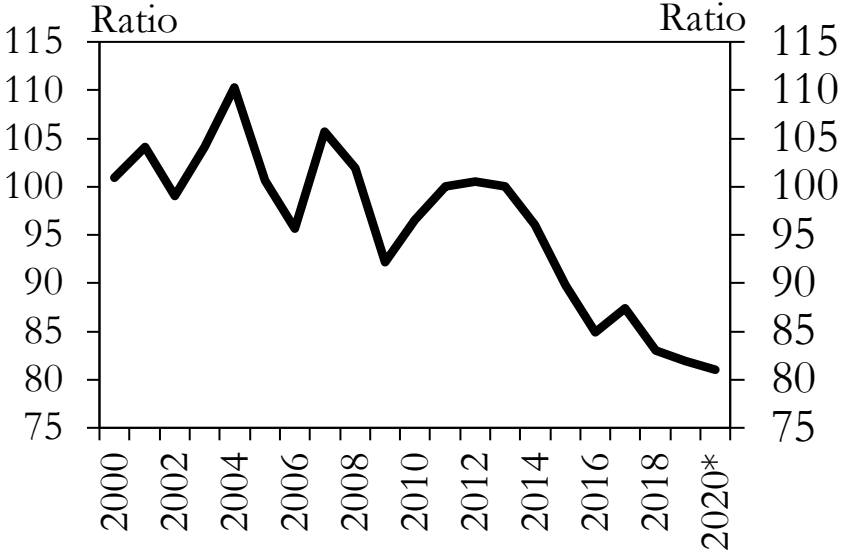
Outlook Themes

- The U.S. ag economy has entered the year with the strongest financial outlook in years.
- Some industries are positioned better than others, and there are still significant risks.
- Almost all measures of credit conditions have improved sharply in recent months.

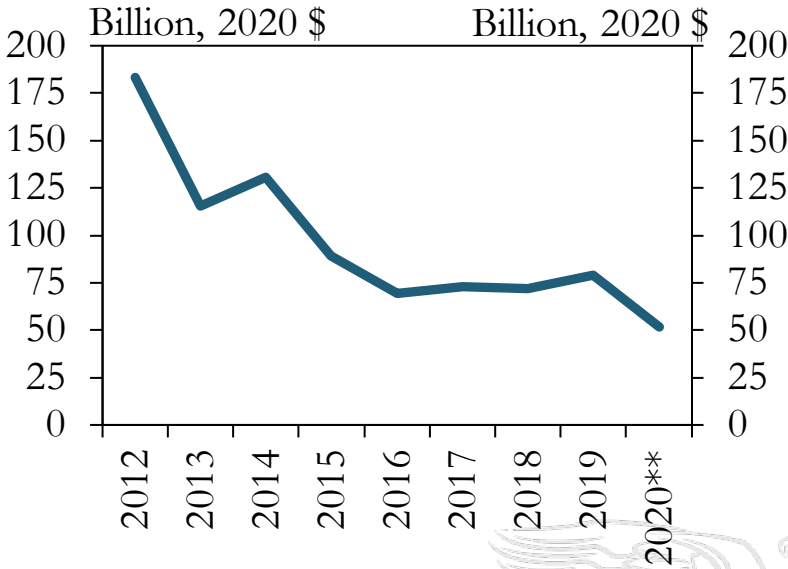


A year ago, the U.S. ag economy appeared to be entering another year of decline.

Ag Prices Received-to-Prices Paid



U.S. Farm Sector Working Capital



*Q1 2020.

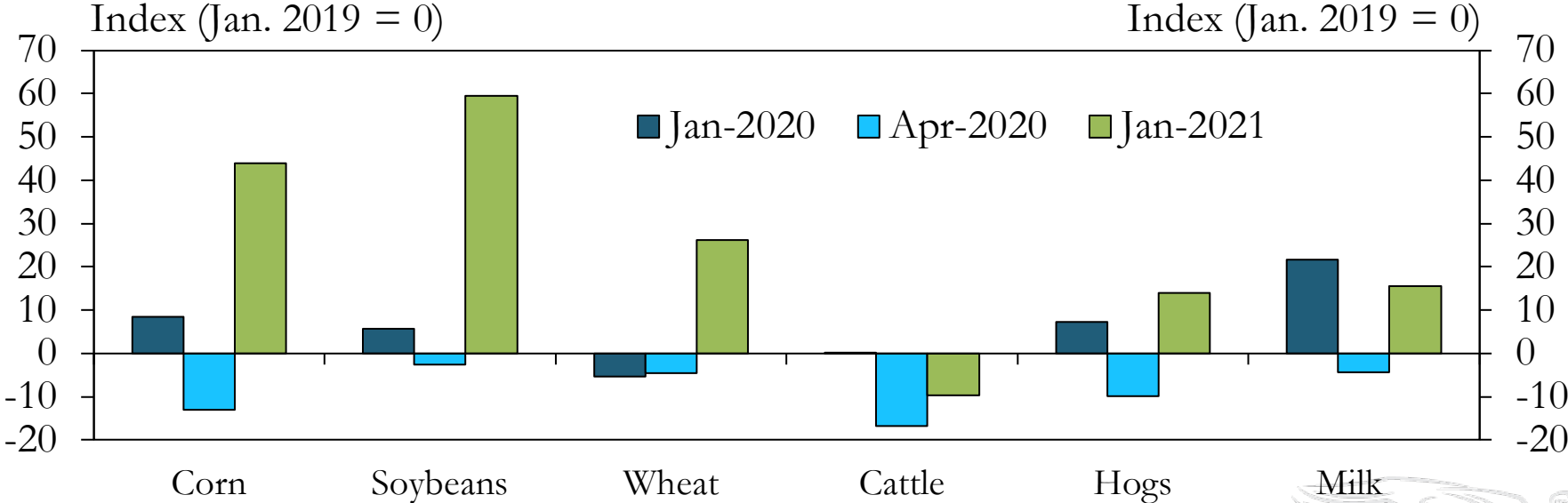
**As of February 5, 2020

Sources: USDA and Haver Analytics.



Ag commodity prices have rebounded sharply, however, following a plunge in the early months of the pandemic.

Agricultural Commodity Prices

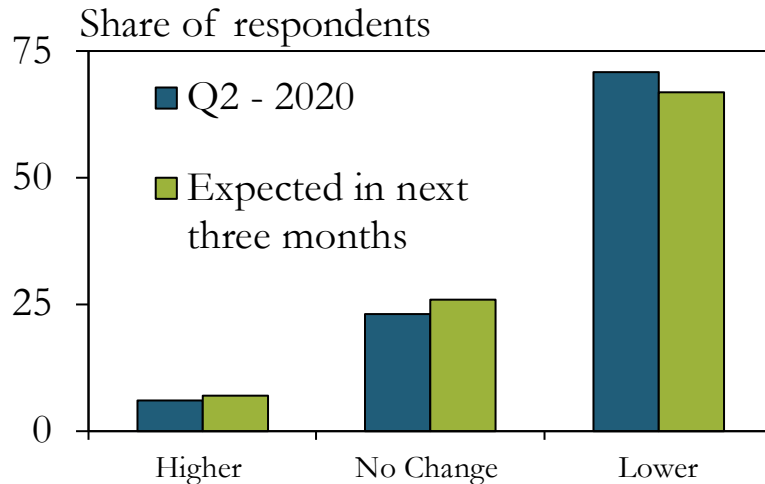


Sources: CME, WSJ and Haver Analytics.

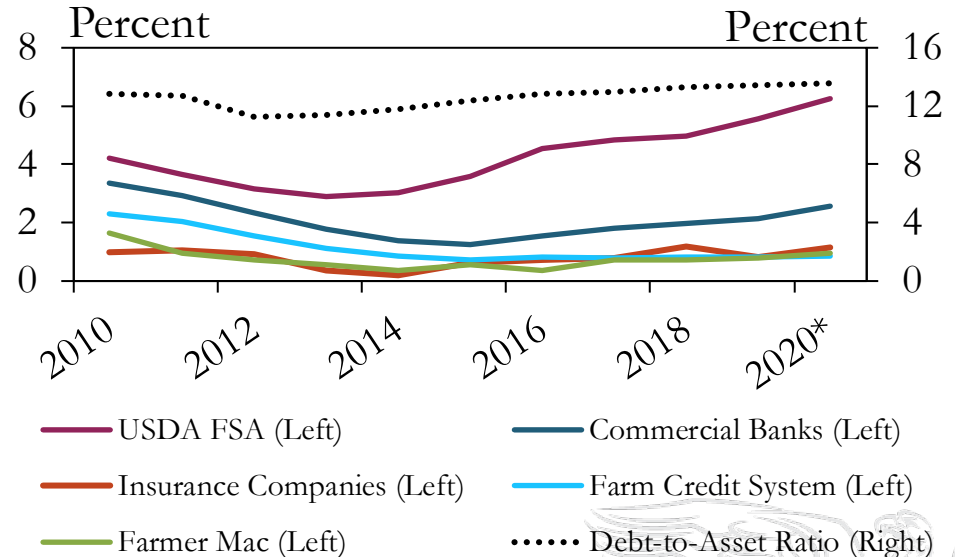


Last spring, it appeared that financial challenges could intensify quickly.

Changes in Farm Borrower Liquidity Kansas City Fed Region



Farm Loan Delinquency Rates and Farm Sector Leverage

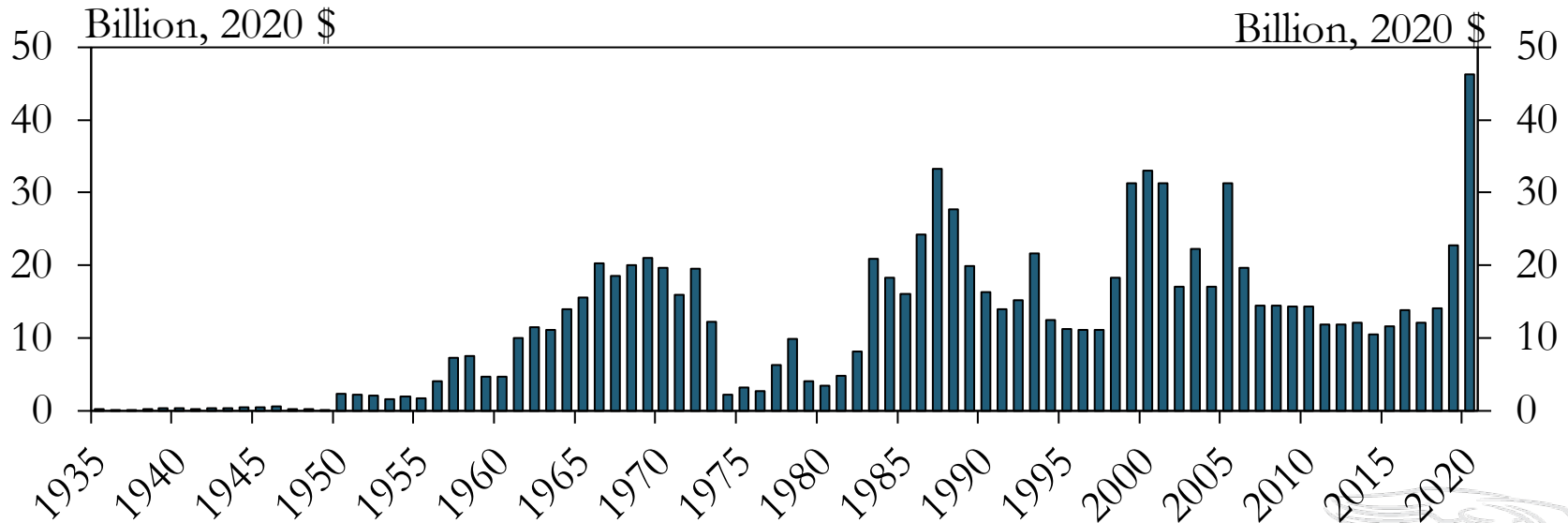


*Delinquency Rates As of Q2 2020. Debt-to-Asset Ratio as of February 5, 2020 USDA forecast.

Sources: Federal Reserve Bank of Kansas City Survey of Agricultural Credit Conditions, Farm Credit Administration, Farm Service Agency, Farmer Mac, MetLife Investment Management, Equitable Agrifinance and PGIM.

Government aid programs provided significant assistance to the U.S. farm sector.

Direct Government Payments to U.S. Farm Sector

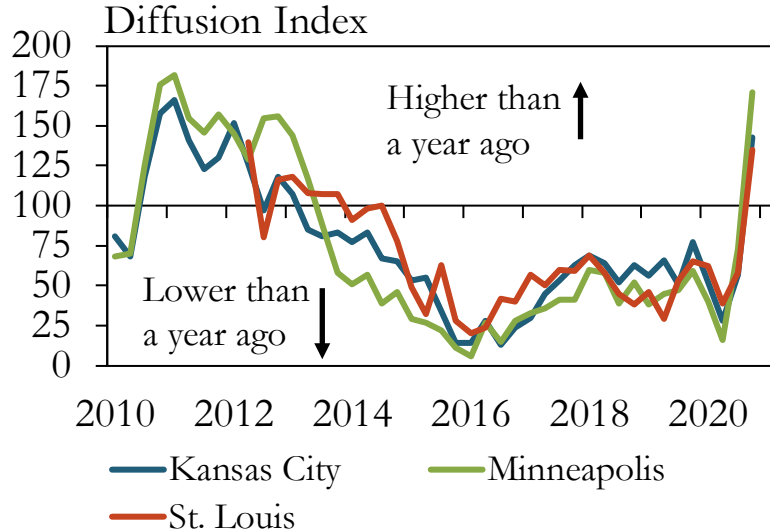


Source: USDA Farm Income and Wealth Statistics as of February 5, 2021.

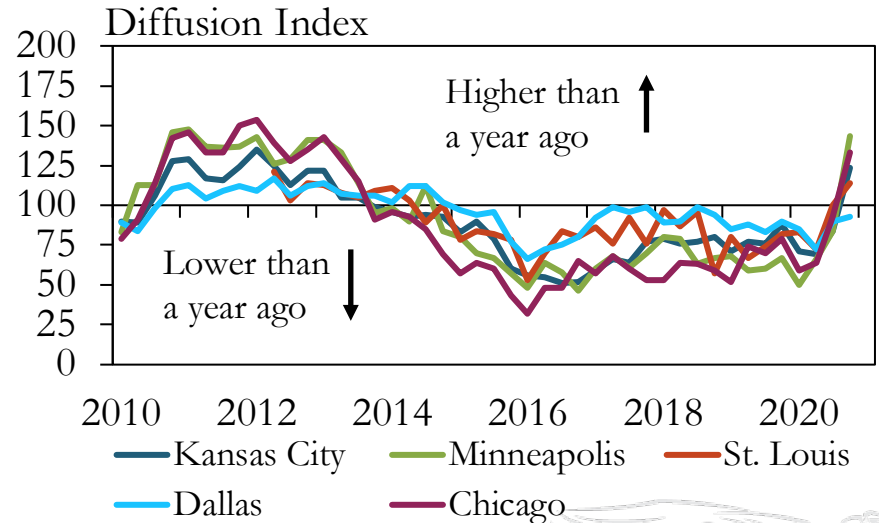


By the end of the year, farm income and credit conditions had improved dramatically.

Farm Income
Federal Reserve Districts



Farm Loan Repayment Rates
Federal Reserve Districts



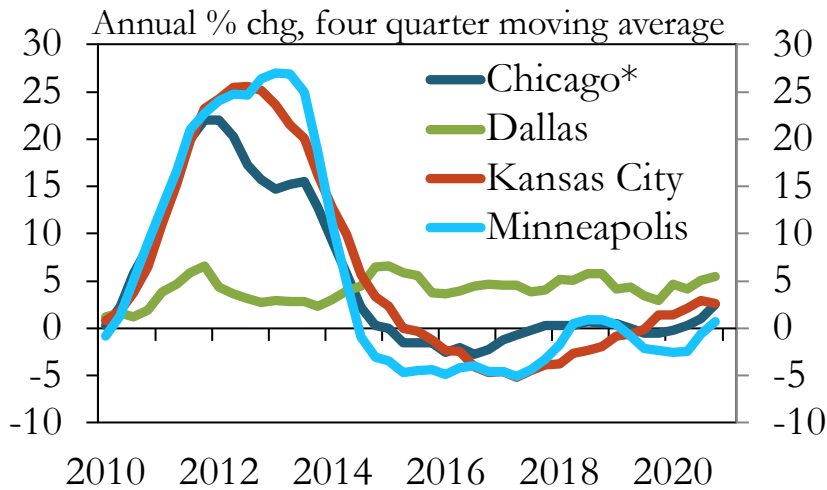
Note: Farm Income includes only Districts that collect information related to changes in farm income and spending. Survey for St. Louis District began Q2 2012.

Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

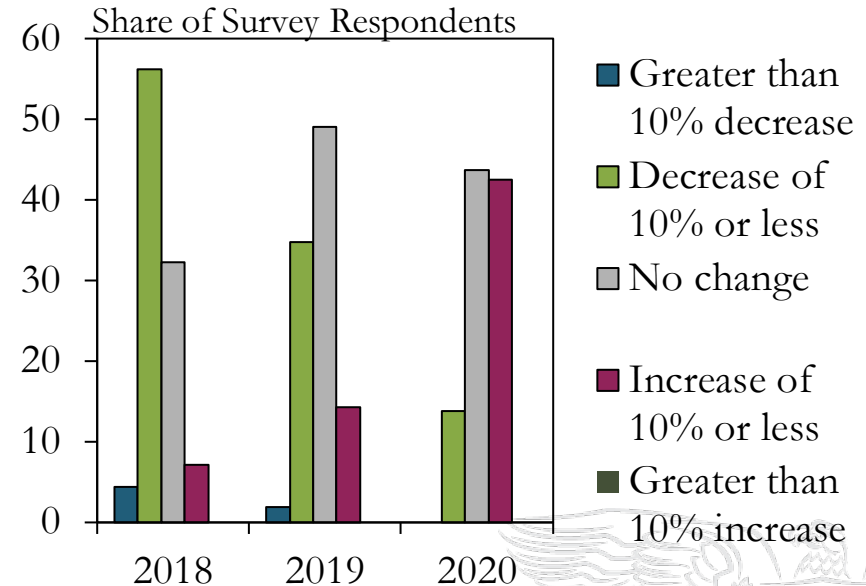


Farm real estate markets strengthened through 2020 and values may increase further in 2021.

Value of Non-irrigated Farmland -
by Federal Reserve District



Expectations For Nonirrigated
Farmland – KC District

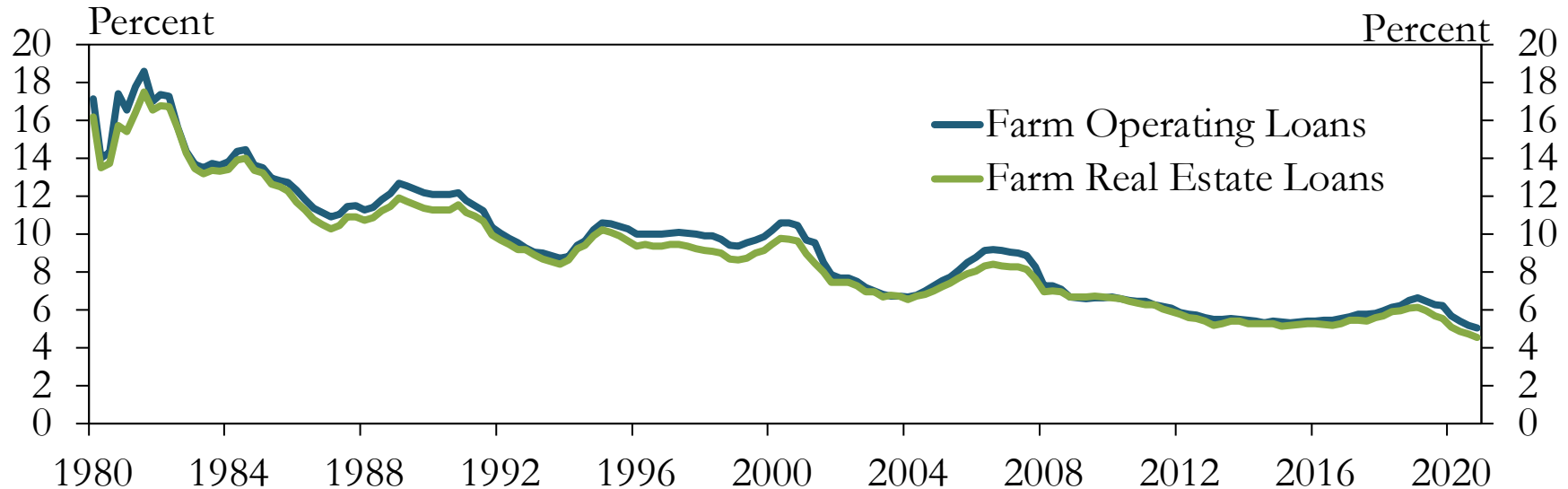


Sources: Federal Reserve District Surveys of Agricultural Credit Conditions



Historically low interest rates have provided additional support for farm finances.

Average Interest Rates on Agricultural Loans



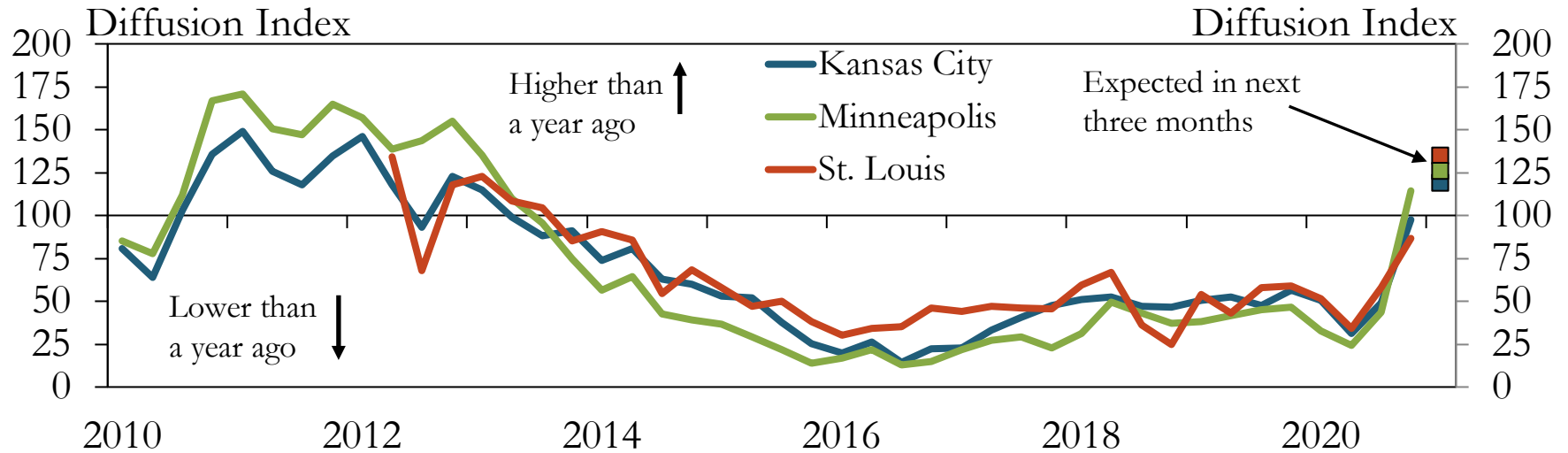
Note: Average fixed interest rates on intermediate operating loans and farm real estate loans reported by agricultural bankers in the Chicago, Dallas, Kansas City, Minneapolis, Richmond and St. Louis Federal Reserve Districts.

Sources: Federal Survey District Surveys of Agricultural Credit Conditions.



Capital spending plans strengthened at year-end and could increase further in coming months.

Farm Borrower Capital Spending – Federal Reserve Districts



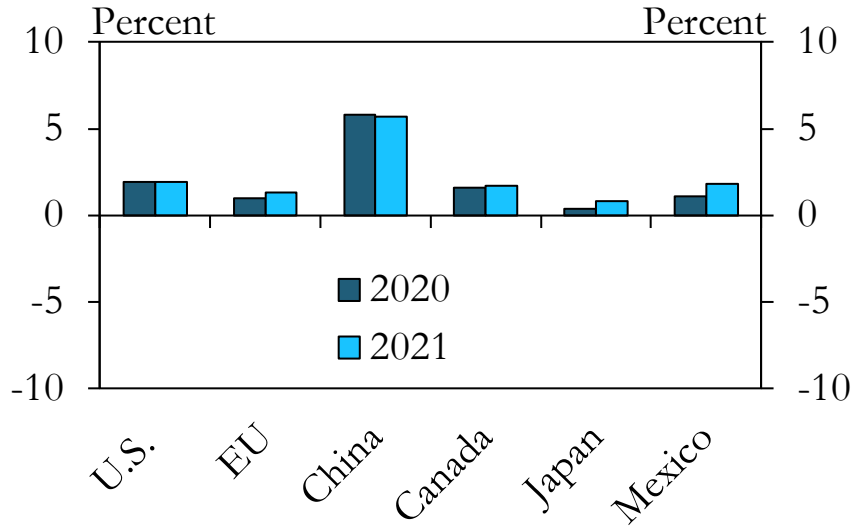
Note: Includes only Districts that collect information related to changes in farm income and spending. Survey for St. Louis District began Q2 2012.

Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

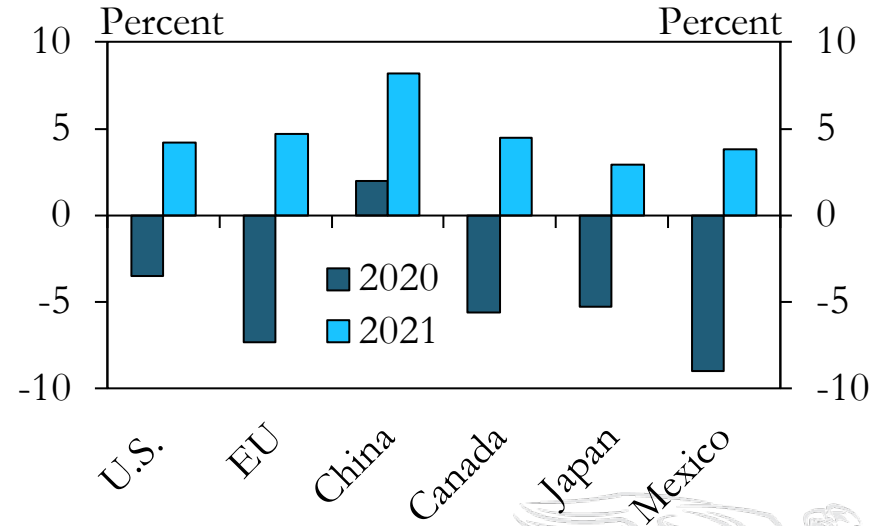


Looking ahead, macroeconomic growth prospects will shape broader ag market conditions.

Real GDP Growth Forecasts –
As of January 2020

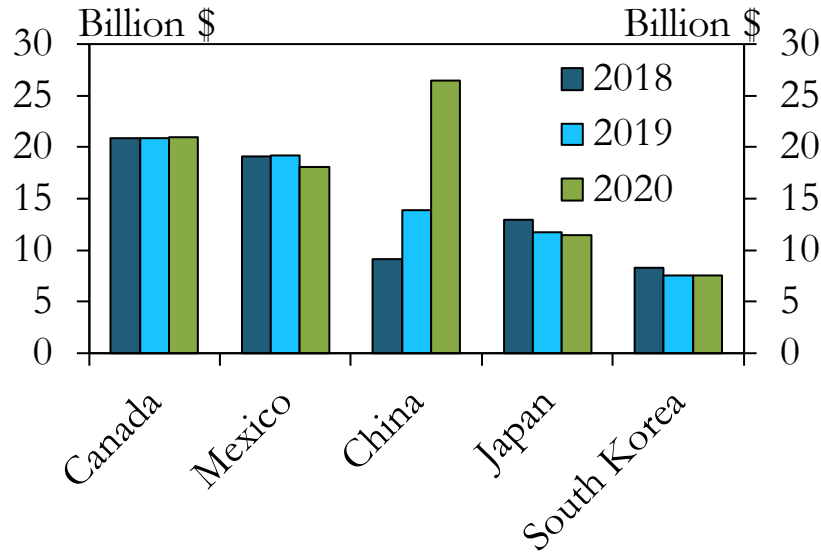


Real GDP Growth Forecasts –
As of January 2021

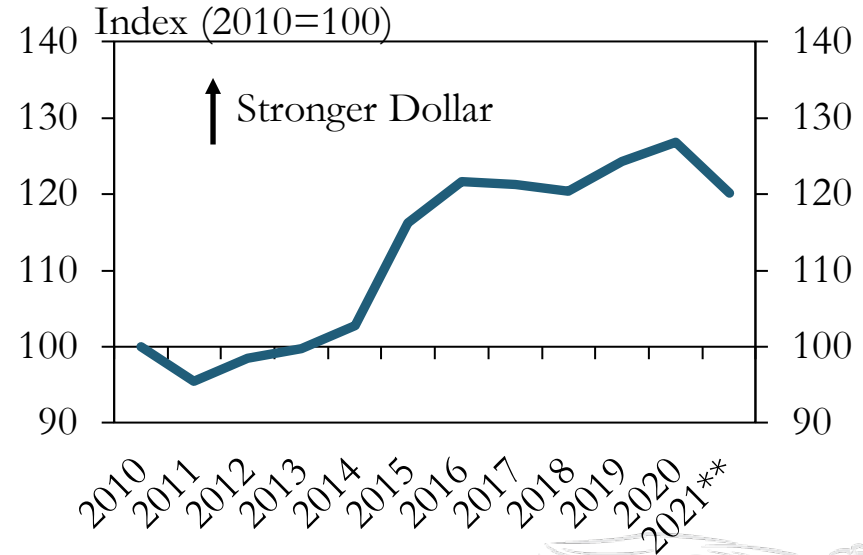


Exports to China will be an important determinant of the strength in ag markets.

U.S. Ag Exports by Partner



Value of U.S. Dollar*



*Nominal, broad, trade-weighted exchange value of the U.S. Dollar

**As of January 2021

Sources: Federal Reserve Board, WSJ, USDA, World Bank and Haver Analytics.



U.S. ag producers appear to be in a relatively strong financial position, but there are still near-term risks.

- Macroeconomic effects associated with the pandemic
- Household finances and off-farm income
- Government payments in 2021 and beyond?
- Policy uncertainty
- Financial decisions amid uncertainty: marketing, risk management, and investment
- Livestock sector

