

# Agricultural Credit Conditions Update

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April 9, 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

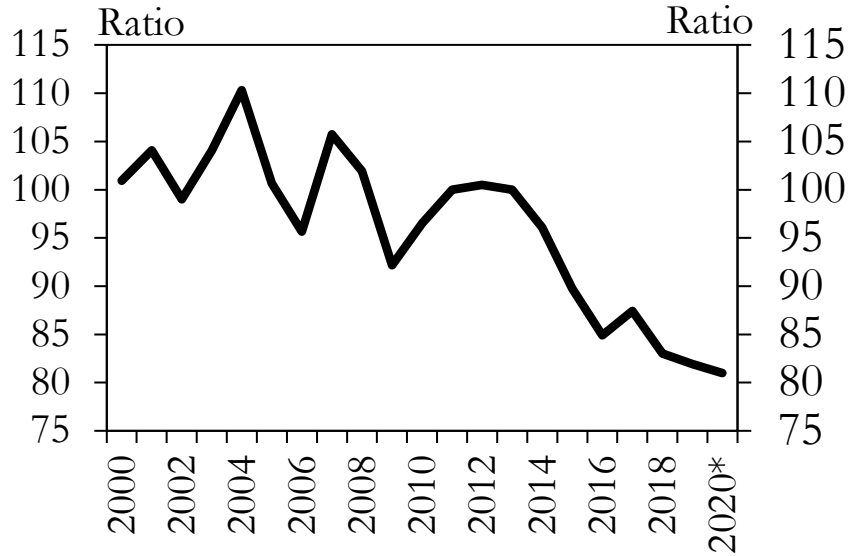
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- The U.S. ag economy entered 2021 with the strongest financial outlook in years.
- Some industries are positioned better than others, and there are still significant risks.
- Almost all measures of credit conditions have improved sharply in recent months.

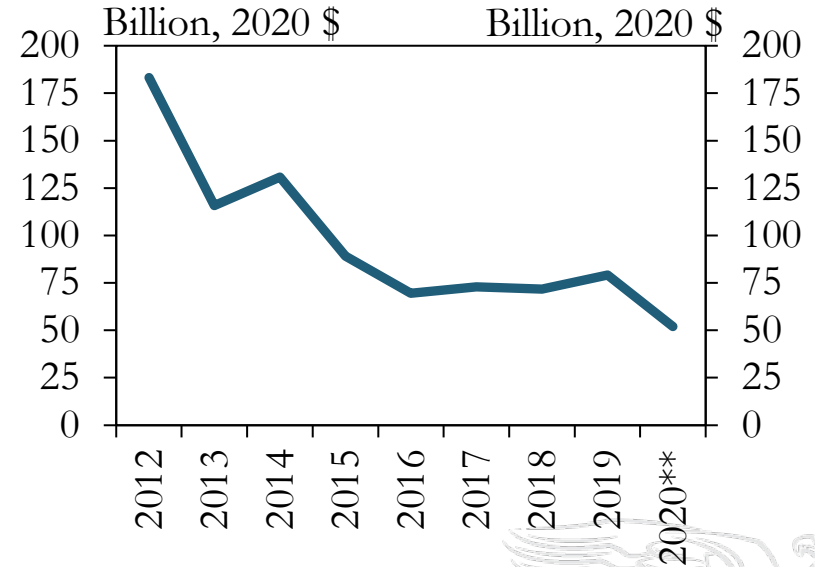


# A year ago, the U.S. ag economy appeared to be entering another year of decline.

## Ag Prices Received-to-Prices Paid



## U.S. Farm Sector Working Capital



\*Q1 2020.

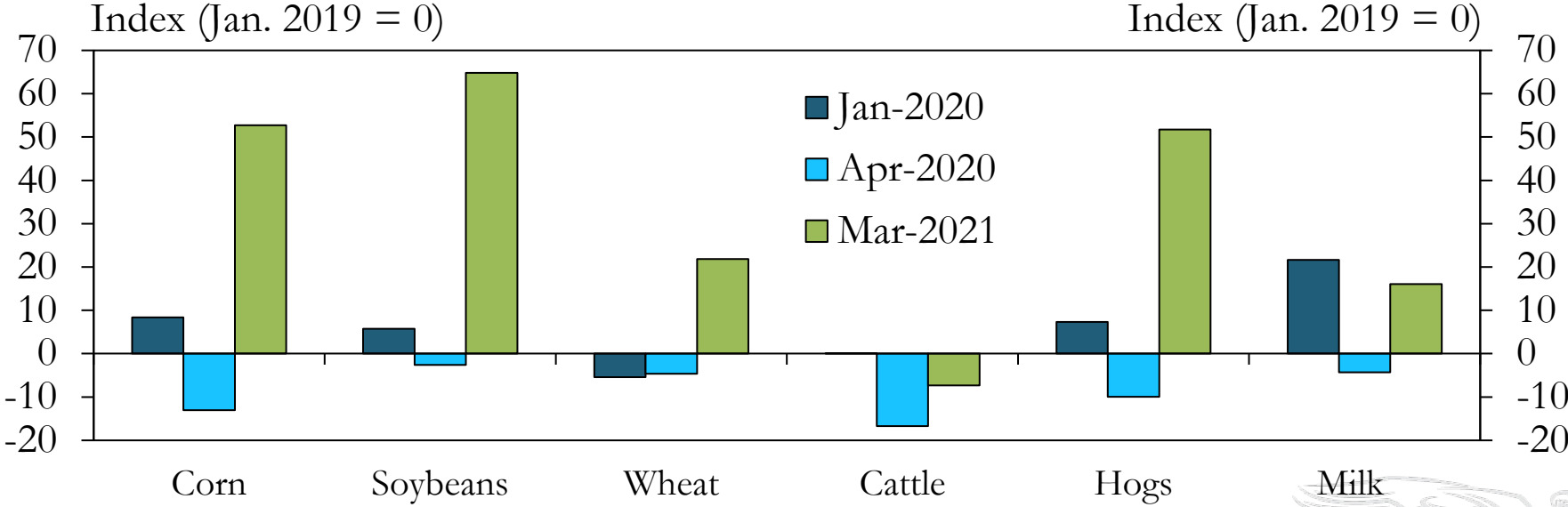
\*\*As of February 5, 2020

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

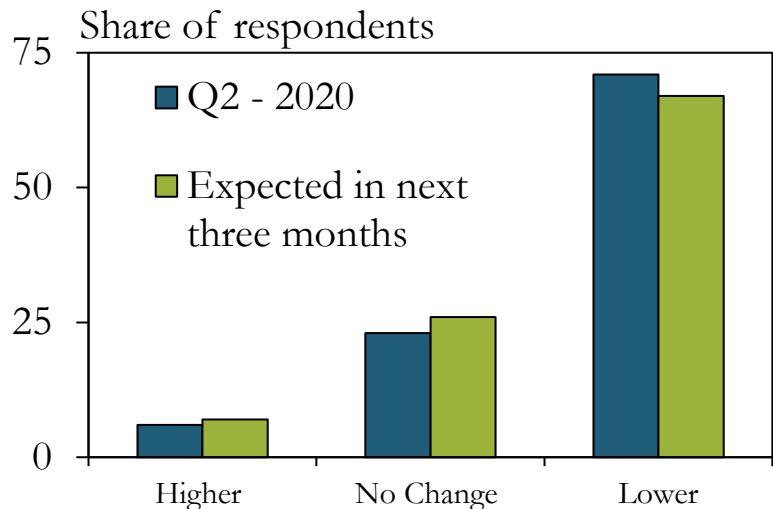


Sources: CME, WSJ and Haver Analytics.

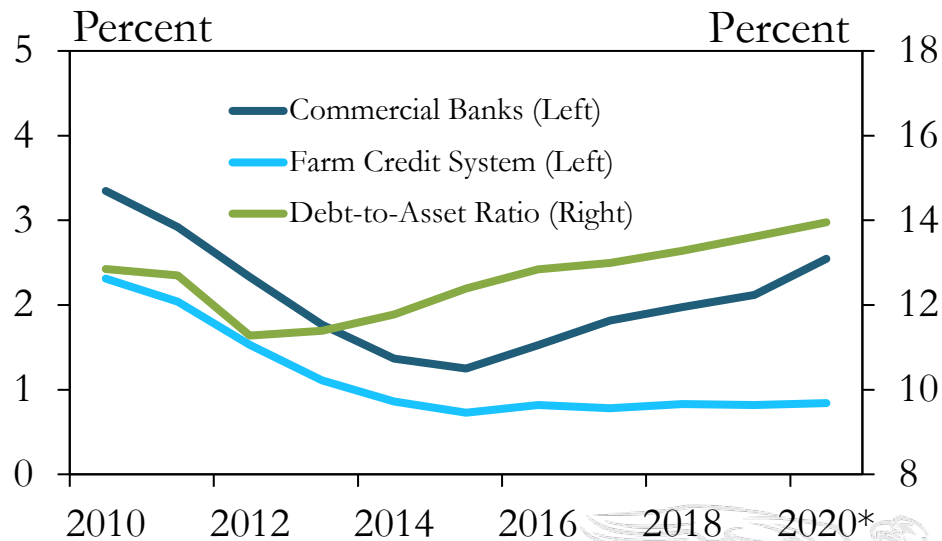


# Last spring, it appeared that financial challenges could intensify quickly.

## Changes in Farm Borrower Liquidity Kansas City Fed Region



## Farm Loan Delinquency Rates and Farm Sector Leverage



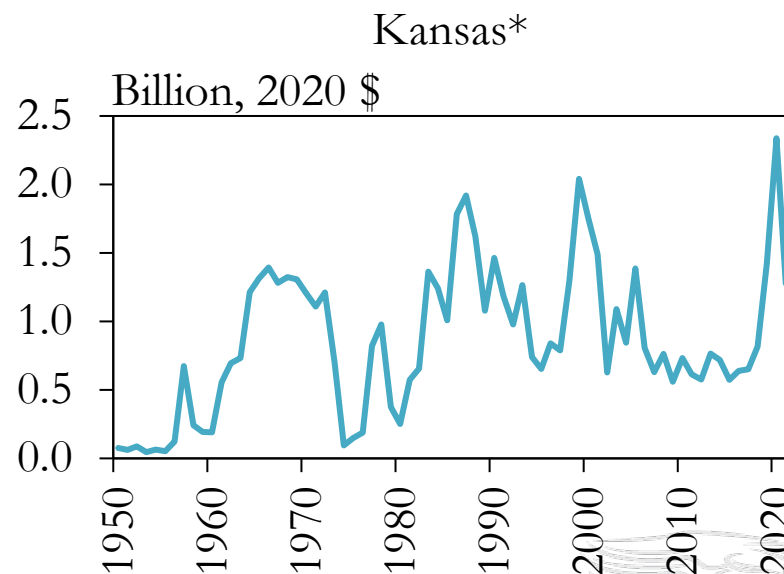
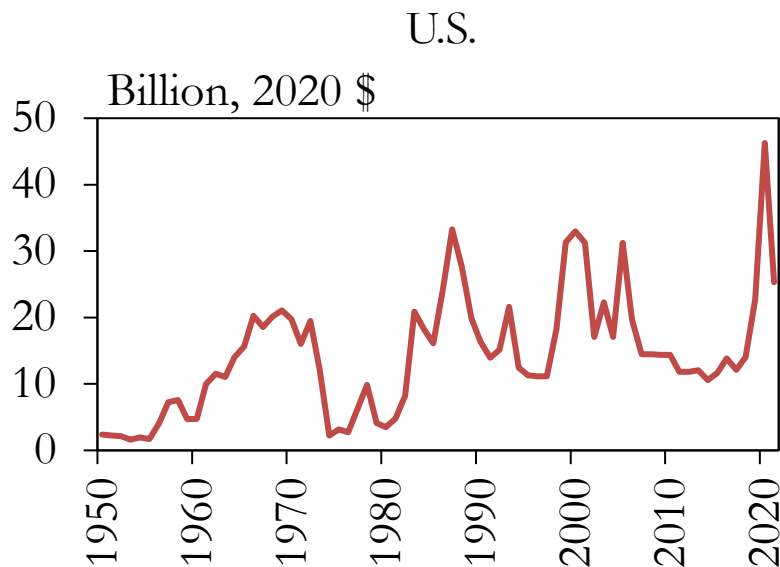
\*As of Q2 2020

Sources: Federal Reserve Bank of Kansas City Survey of Agricultural Credit Conditions, USDA and Farm Credit Administration.



# Government aid programs provided significant assistance to the U.S. farm sector in 2020.

## Direct Government Payments to Farm Sector



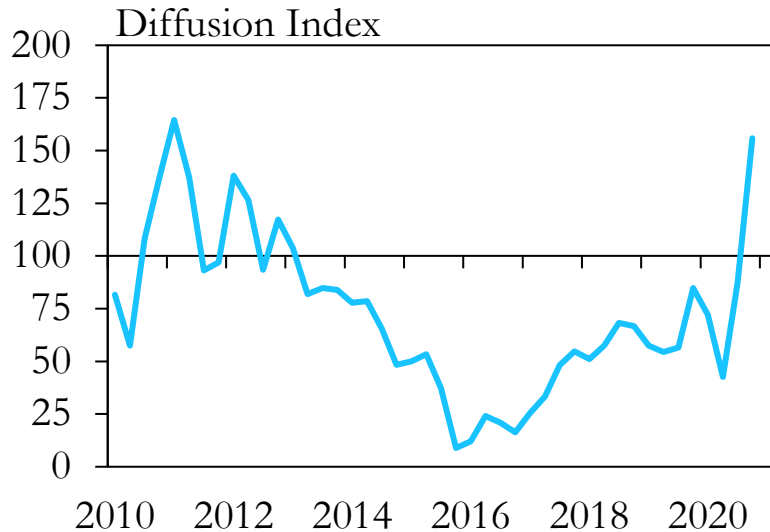
\*State level data not currently available for 2020 and 2021. Payments made to Kansas for those years are estimated based on the average share of total payments allocated to Kansas in the previous 20 years.

Source: USDA and staff calculations.

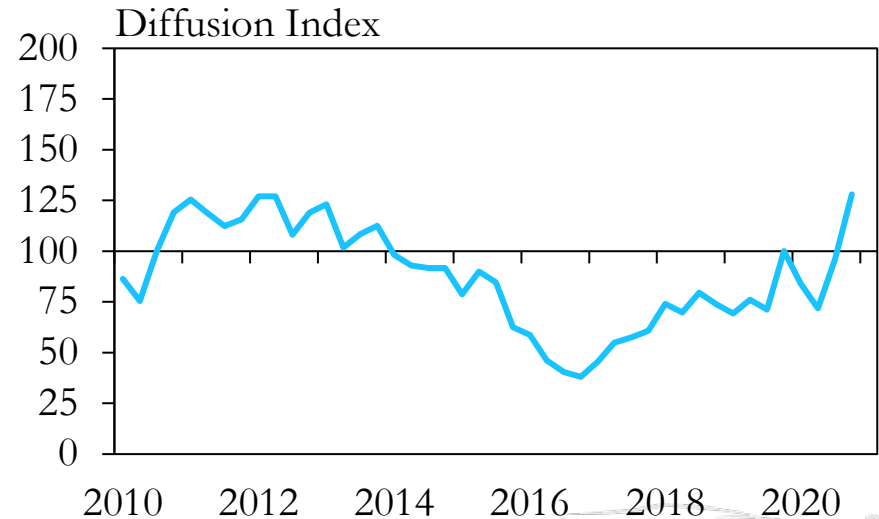


# By the end of the year, farm income and credit conditions had improved dramatically.

Kansas Farm Income  
(KC Fed - Bank Survey)

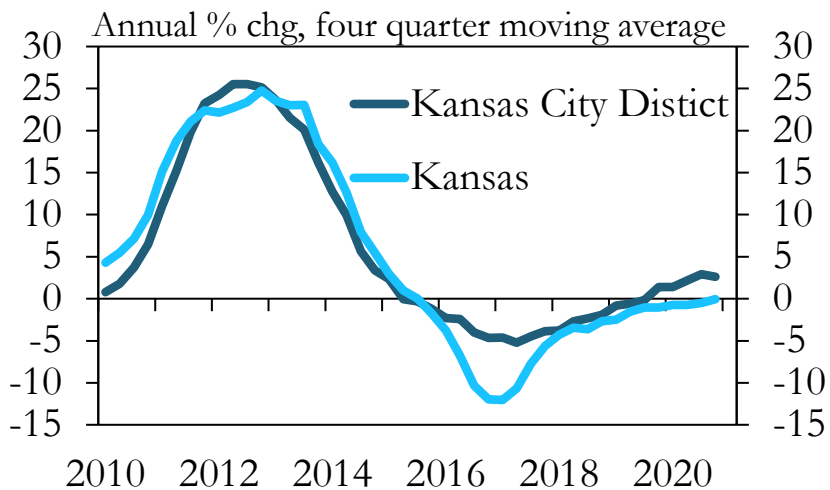


Kansas Farm Loan Repayment Rate



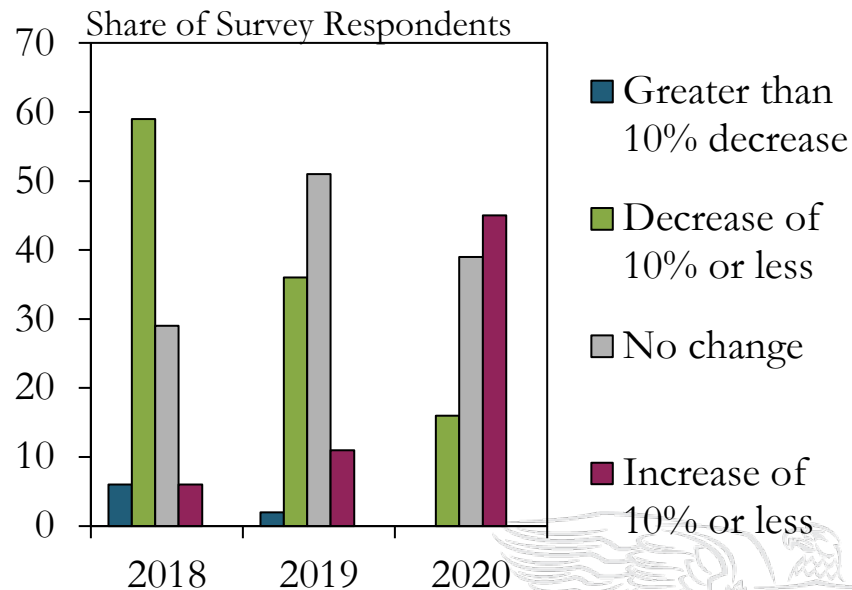
# Farm real estate markets strengthened through 2020 and values may increase further in 2021.

Value of Non-irrigated Farmland  
(KC Fed – Bank Survey)



Banker Expectations

Non-irrigated Farmland – Kansas



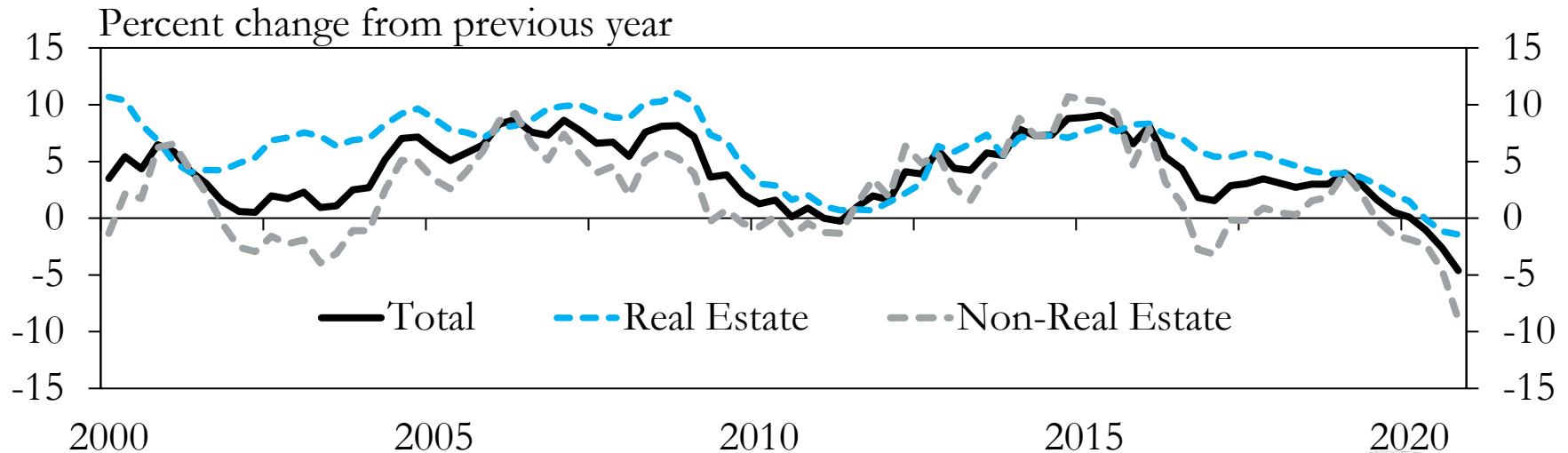
Sources: Federal Reserve District Surveys of Agricultural Credit Conditions





# Farm lending at commercial banks declined in at the end of 2020.

## Farm Debt Outstanding at Commercial Banks



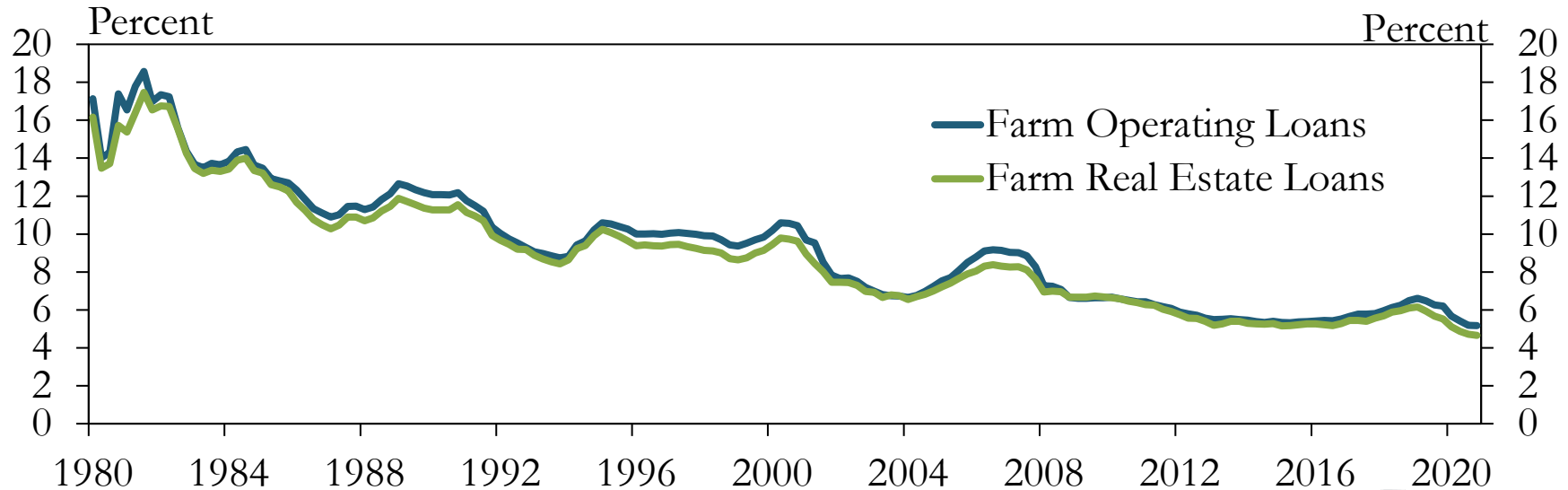
Note: Annual changes from September 30, 2019 to June 30, 2020 are adjusted to account for changes due to exclusion of Rabobank, N.A. from commercial bank Call Report data beginning September 30, 2019.

Sources: Reports of Condition and Income and Federal Reserve Board of Governors.



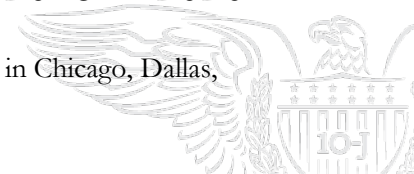
# Historically low interest rates have provided additional support for farm finances.

## Average Interest Rates on Agricultural Loans



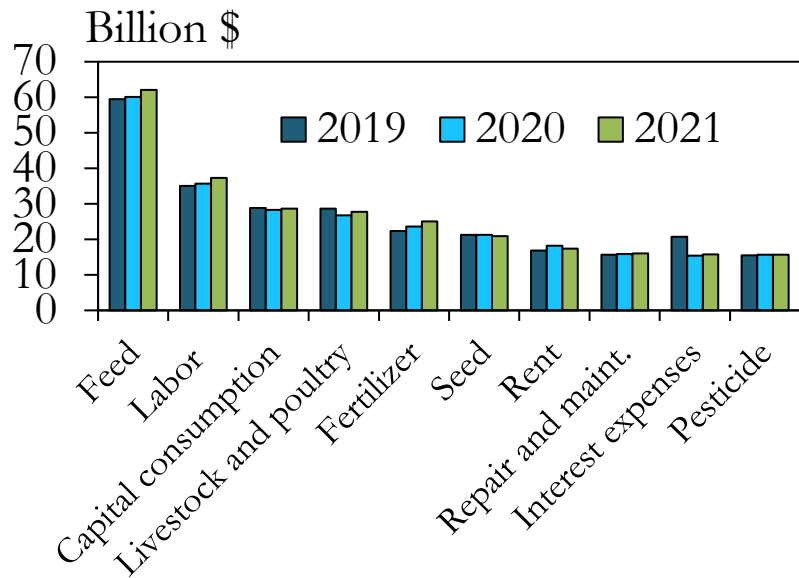
Note: Average fixed interest rates on intermediate operating loans and farm real estate loans reported by agricultural bankers in Chicago, Dallas, Kansas City, Minneapolis, Richmond and St. Louis Federal Reserve Districts.

Sources: Federal Survey District Surveys of Agricultural Credit Conditions.

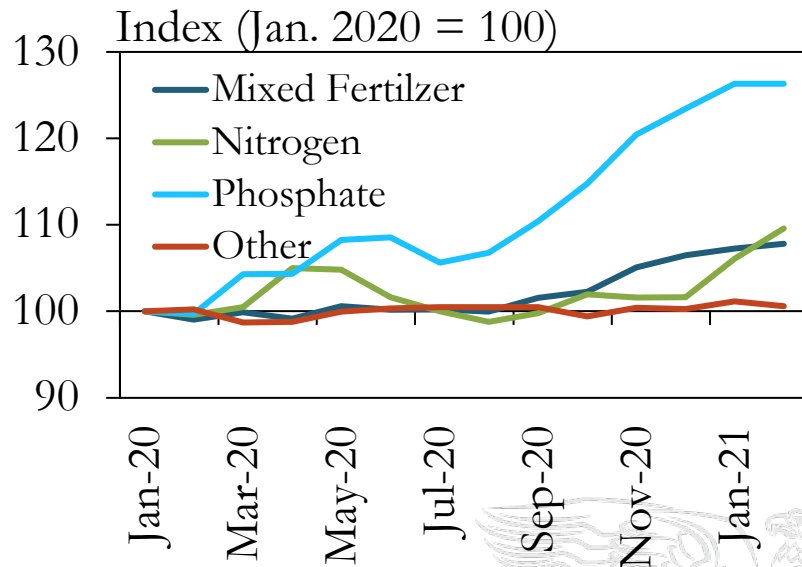


# Cost pressures appear likely to weigh on profit margins, as some prices have increased significantly.

## Top U.S. Farm Expenses - 2021



## U.S. Fertilizer Prices



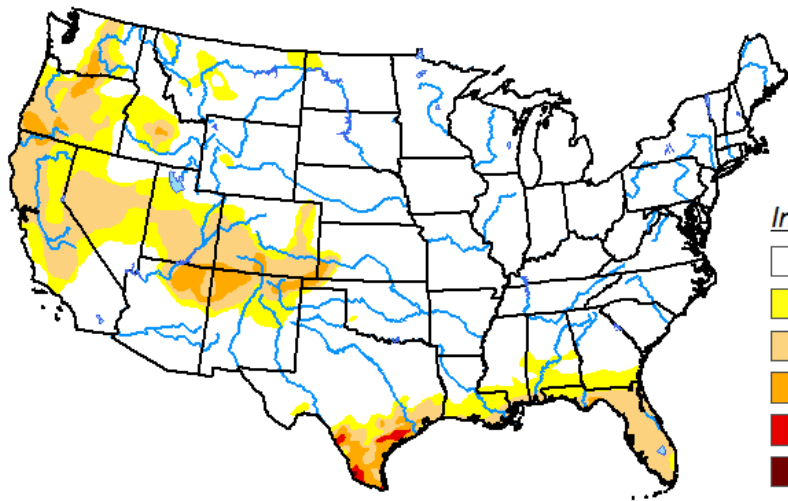
Source: USDA and Bureau of Labor Statistics.



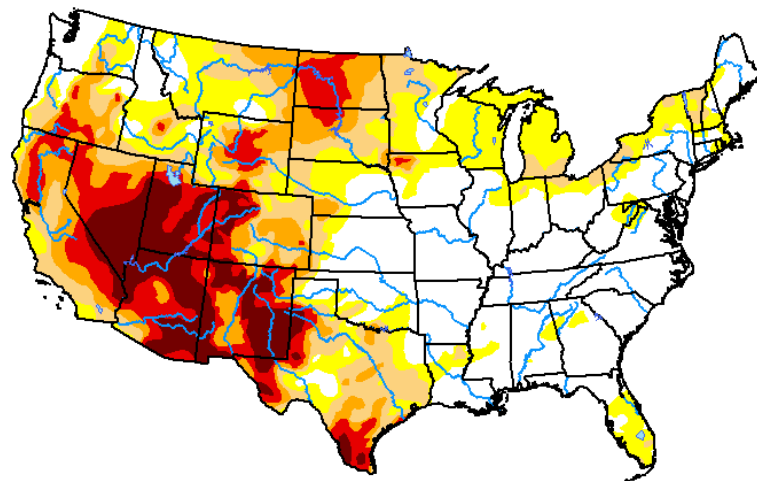
# Drought is a major factor in the southwest as an additional risk to the livestock sector.

## U.S. Drought Conditions







April 2020



April 2021



### Intensity:

-  None
-  D0 Abnormally Dry
-  D1 Moderate Drought
-  D2 Severe Drought
-  D3 Extreme Drought
-  D4 Exceptional Drought

**Sources:** National Drought Mitigation Center at the University of Nebraska-Lincoln, the United States Department of Agriculture, and the National Oceanic and Atmospheric Administration.



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

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- 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



