

# Ag Banking and Credit Outlook

Cortney Cowley

AAEA Annual Meeting – August 2, 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.



# Ag Credit Outlook Themes

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- The outlook for the U.S. agricultural economy remains solid, despite some slight declines in commodity prices recently.
- Agricultural credit conditions remain strong and have been supported by high commodity prices and carryover from government programs.
- However, ag lenders continue to express concerns related to weak loan demand, increasing input costs, and severe drought in the West and Northern Plains.



# Ag banker anecdotes show continued concerns related to loan demand, input costs, and drought.

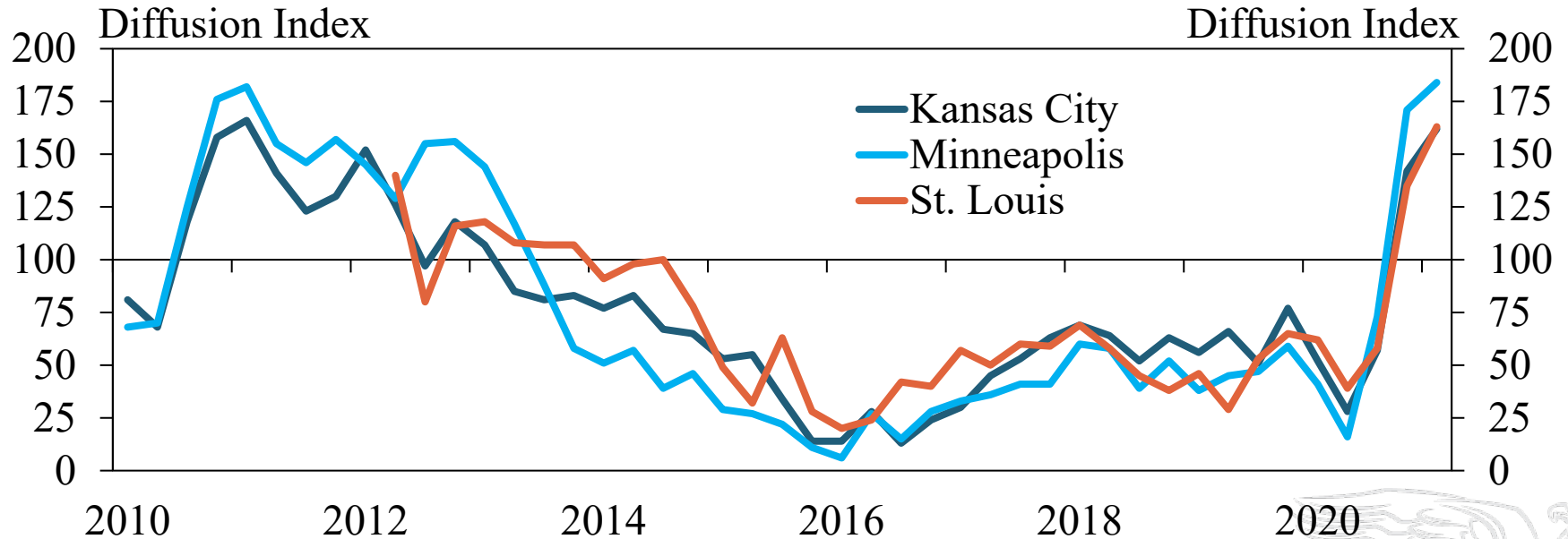
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- Home loan refinance and PPP program income has been the significant source of bank income. Interest income and loan demand in ag and commercial is significantly decreased. – Nebraska
- Our non-PPP loan demand is down significantly due to government payments. Interest margin has been tough to maintain due to lots of liquidity, investments repricing, lower loan demand, and significant competition for loans. – Minnesota
- The rising costs of many products that farmers utilize are of major concern, from fertilizer to latex gloves. – Wisconsin
- Lack of supply has pushed expenses higher. Lack of availability of equipment will slow capital spending. – Kansas
- This region will experience a tough year in agriculture due to drought conditions. – Colorado, Wyoming, and North Dakota
- Severe drought conditions forcing the sale of breeding stock at a current lower rate. – Montana



# Farm income has increased sharply in recent quarters.

## Farm Income

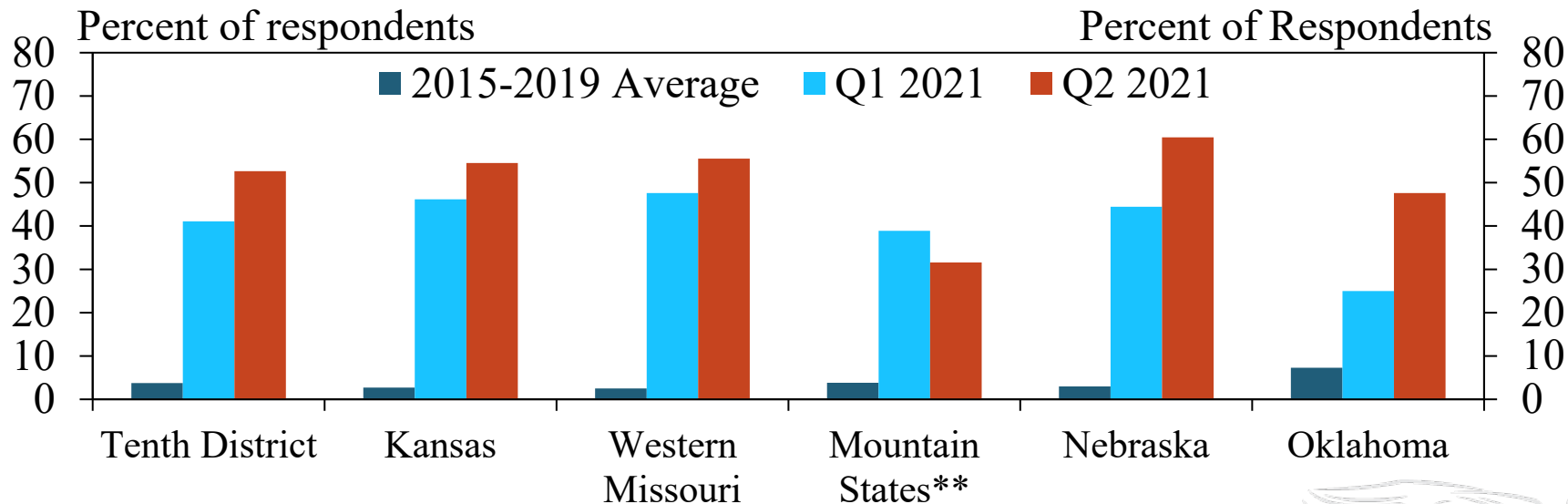


Source: Federal Reserve Bank of Kansas City, Minneapolis, and St. Louis.



# Amid increases in farm prices and income, farmers are spending again.

## Share of Banks Reporting Higher Farm Capital Spending



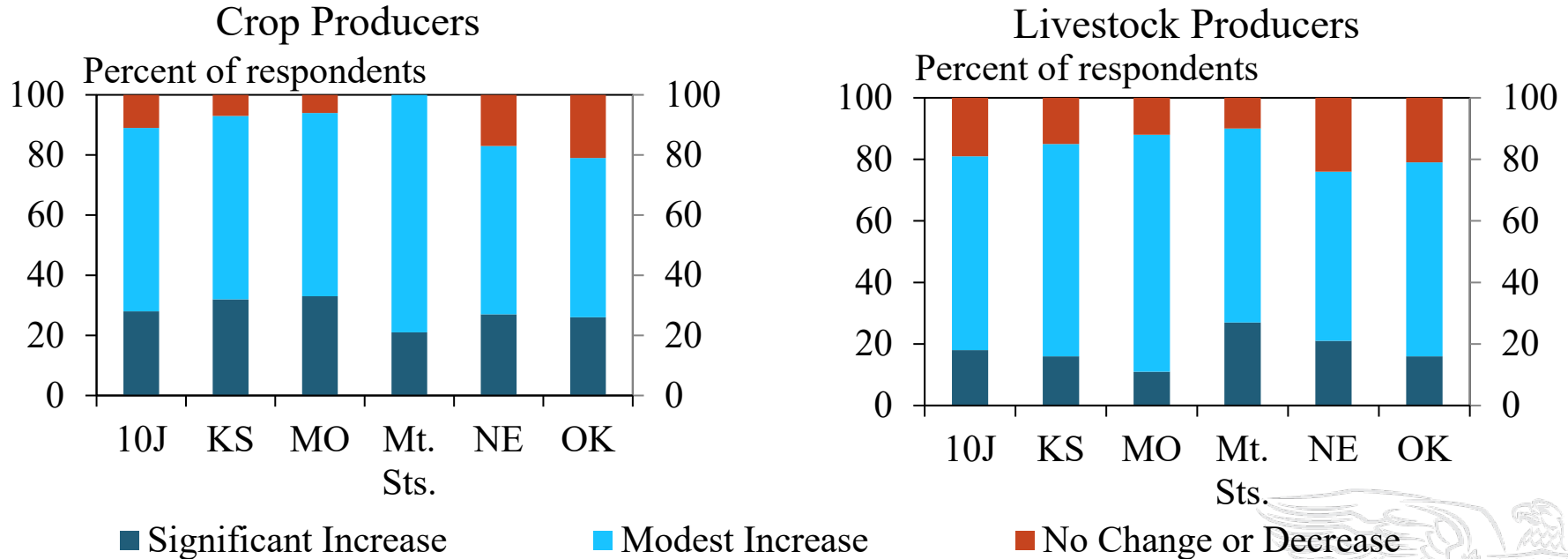
\*\* Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.

Source: Federal Reserve Bank of Kansas City



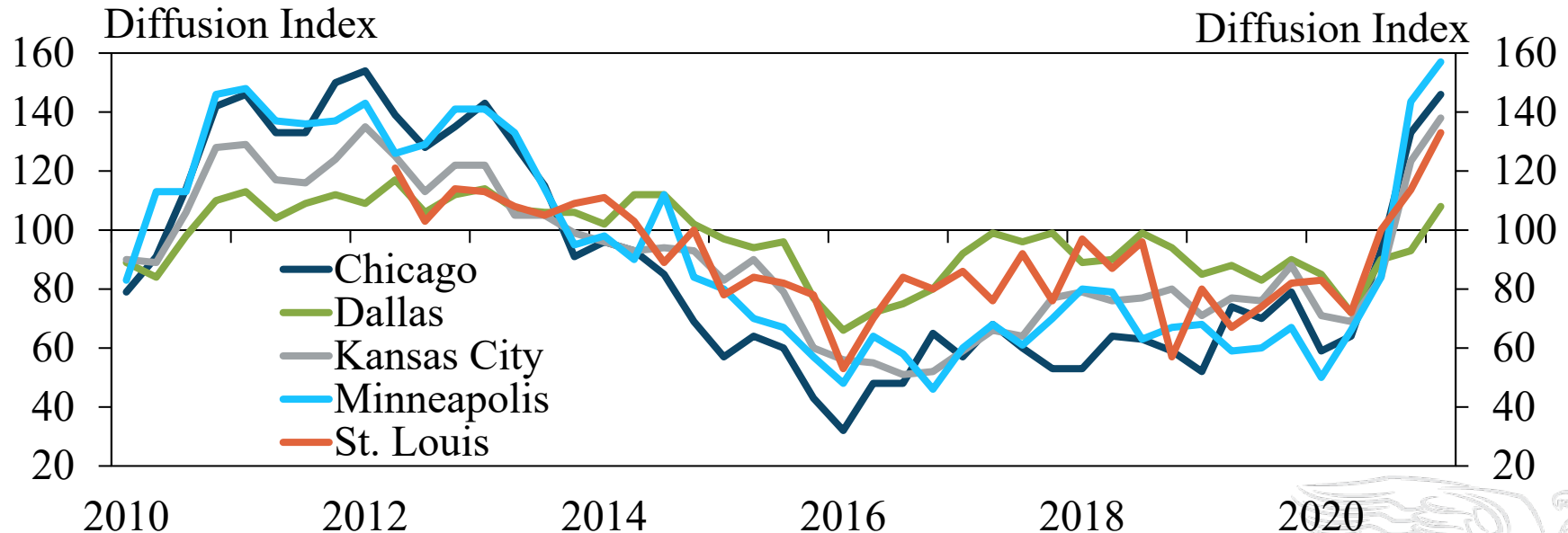
# Incomes have increased despite higher production expenses, which are a concern moving forward.

## Change in Production Expenses From Prior Year



# We also are seeing broad improvement in repayment rates.

## Farm Loan Repayment Rates

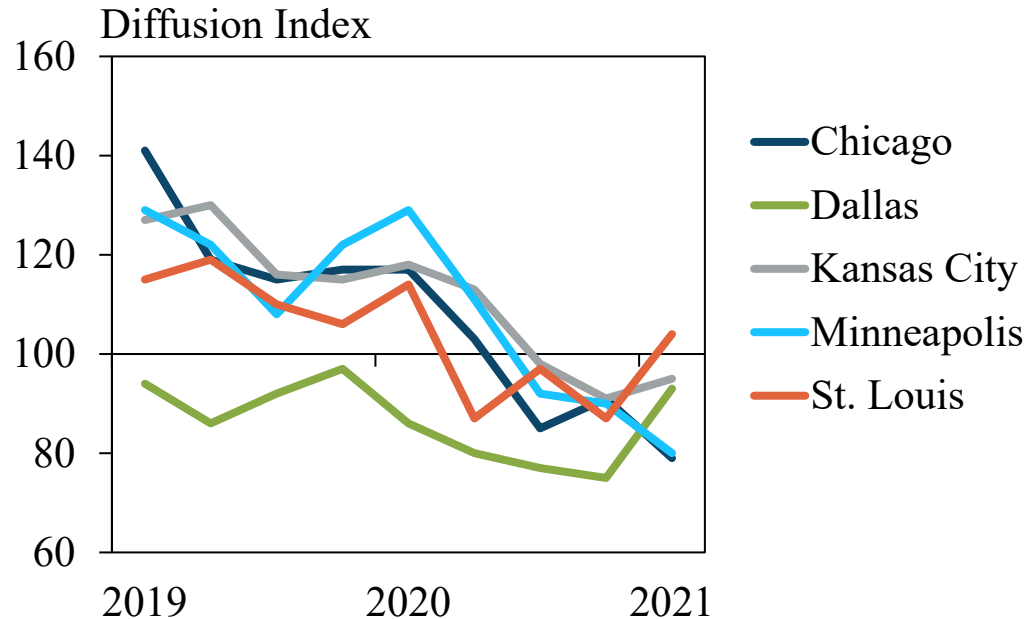


Source: Federal Reserve Banks of Chicago, Dallas, Kansas City, Minneapolis, and St. Louis.

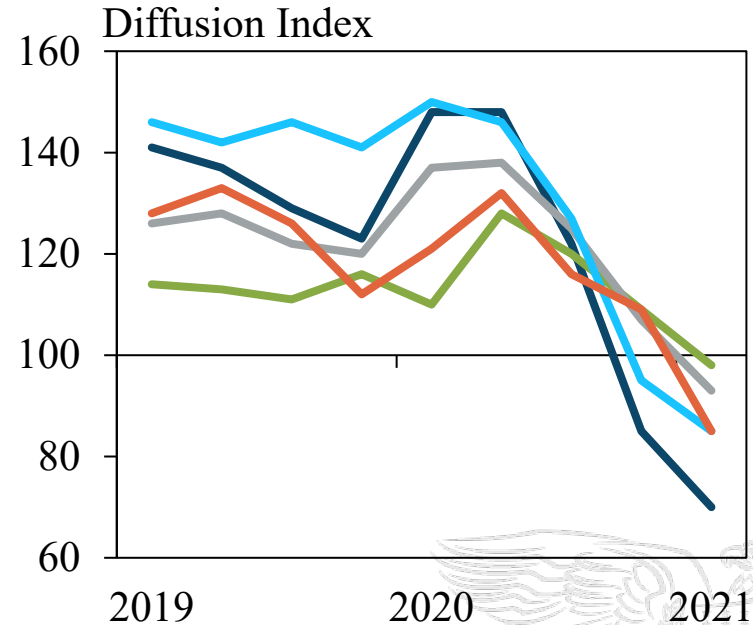


# Demand has declined for new loans and for renewals and extensions on existing loans.

## Farm Loan Demand



## Renewals or Extensions



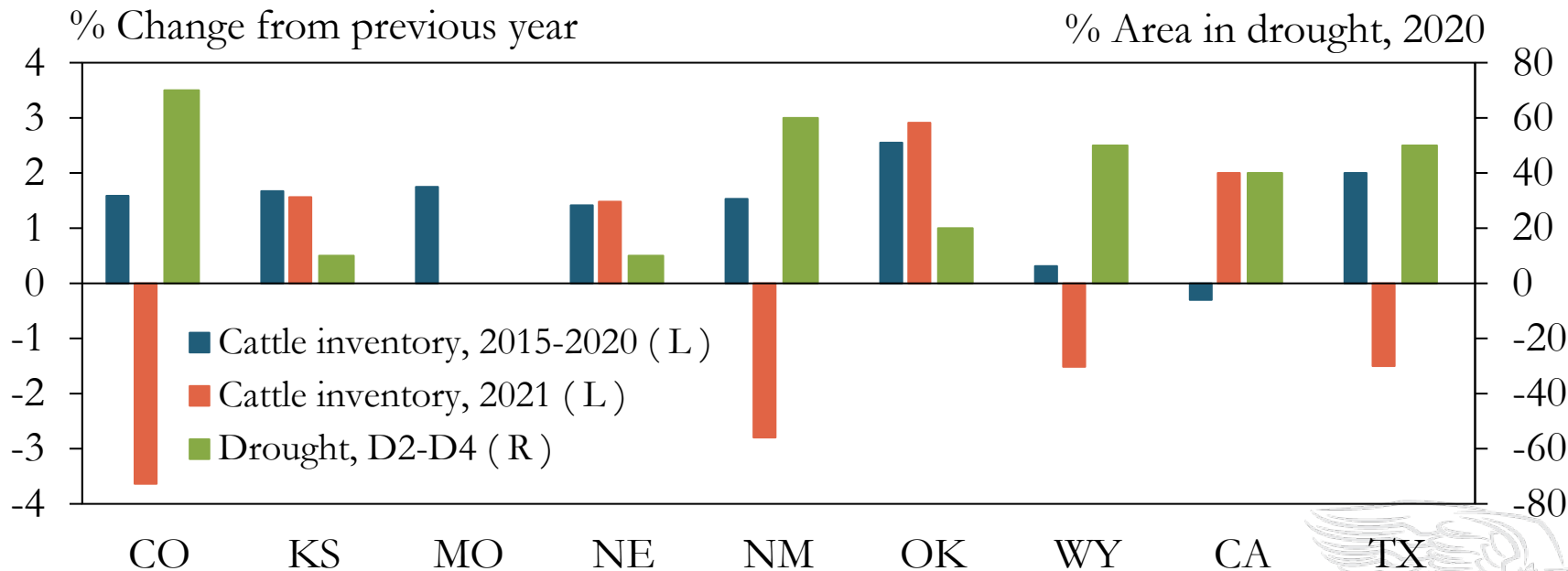
Source: Federal Reserve Banks of Chicago, Dallas, Kansas City, Minneapolis, and St. Louis.



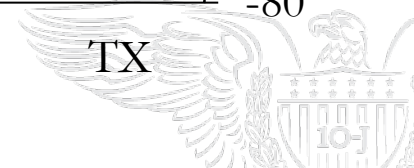


# Drought has become a greater concern in the West and Northern Plains.

## Drought and Change in Cattle Inventories

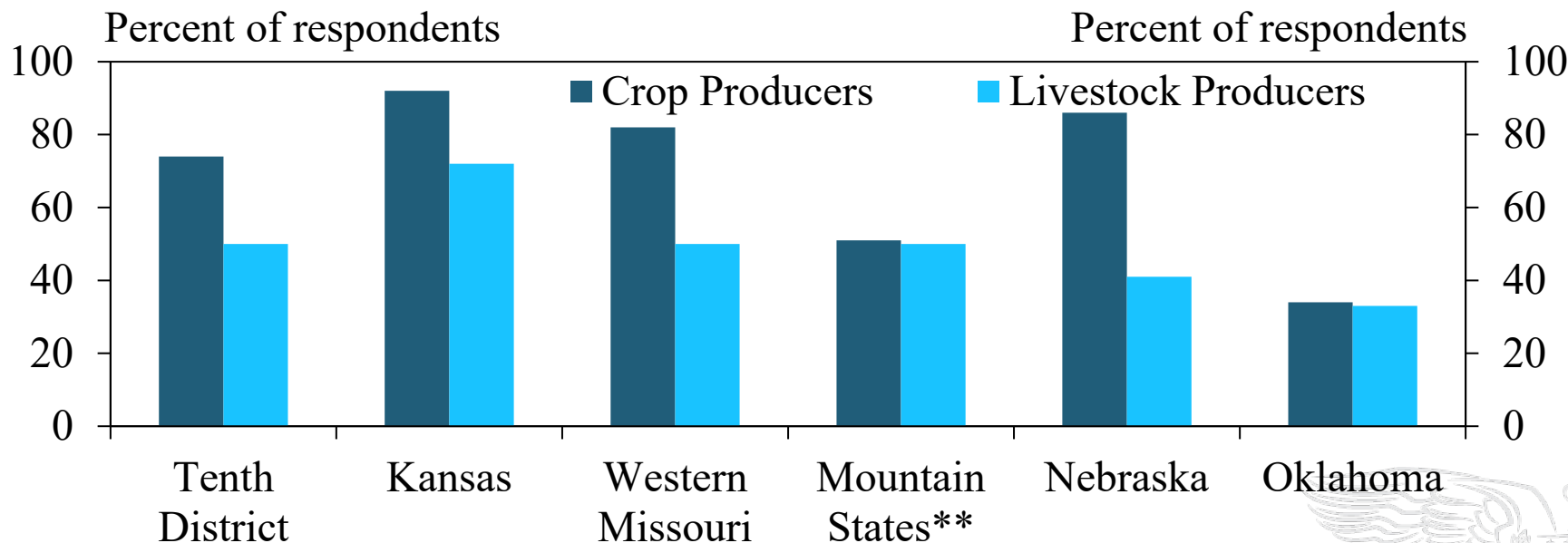


Source: USDA, NOAA, UNL Drought Monitor



# Financial conditions improved more rapidly in areas less impacted by drought.

## Respondents Reporting Improved Financial Conditions by Type of Borrower, Q1 2021

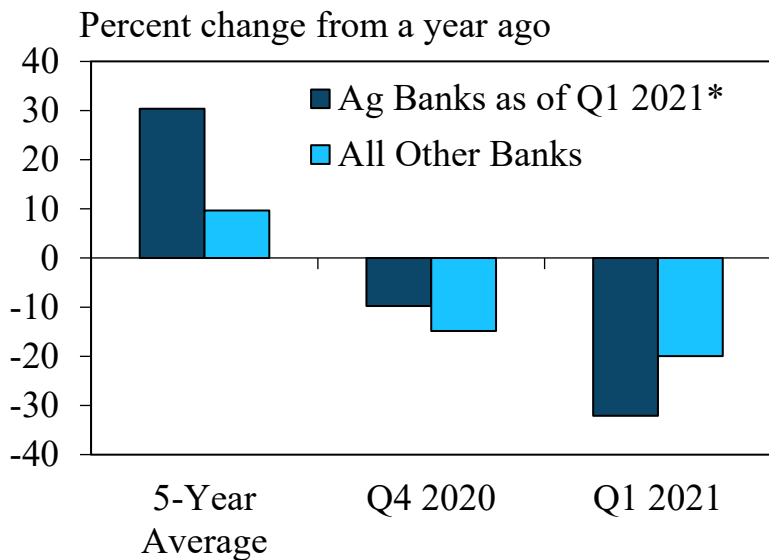


Source: Federal Reserve Bank of Kansas City

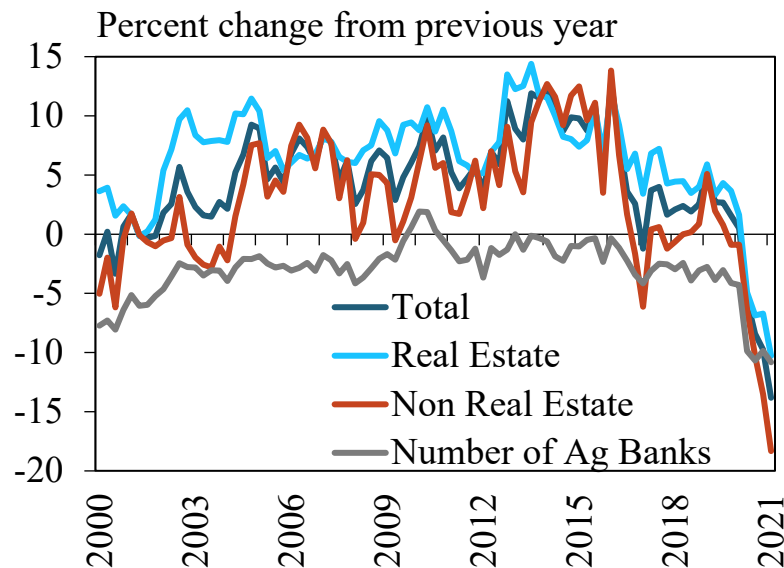


# Farm financial conditions have improved, but farm debt held at agricultural banks has dropped substantially.

## Volume of Delinquent Farm Loans



## Farm Debt Outstanding at Agricultural Banks\*



\*Includes all banks with agricultural loans comprising at least 25% of total loans.

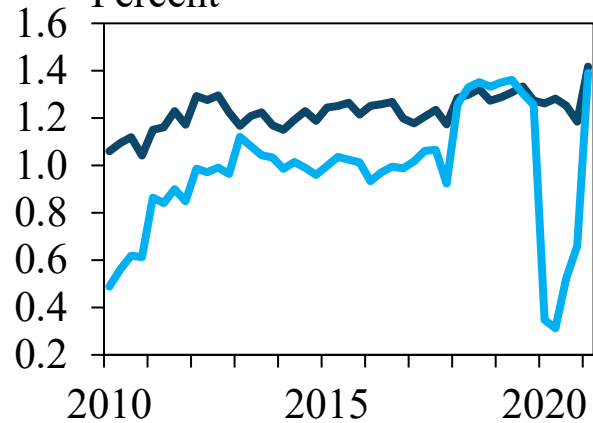
Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

# Despite narrowing NIMs, profitability at agricultural banks has strengthened considerably.

## Select Financial Indicators at Commercial Banks

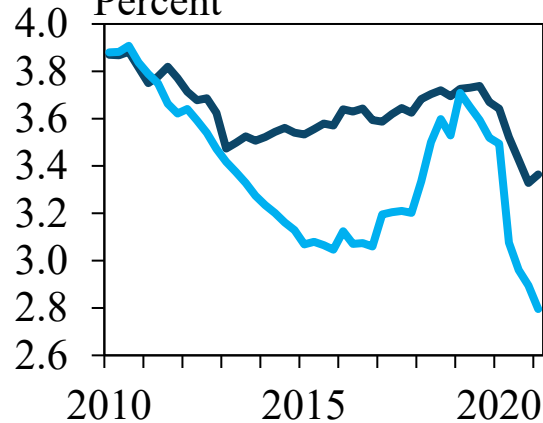
### Return on Average Assets

Percent



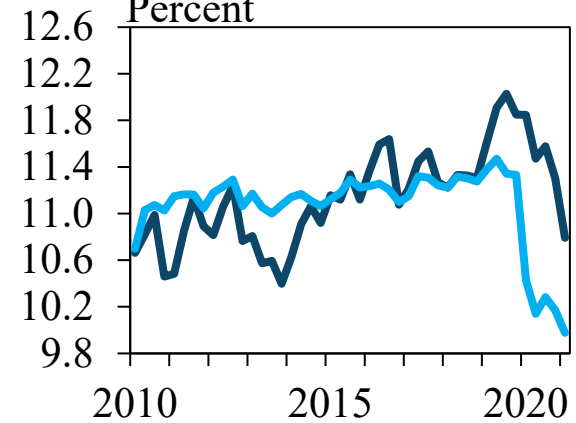
### Net Interest Margin

Percent



### Equity Capital Ratio

Percent



— Banks classified as “agricultural banks” in every quarter from 2010 to 2021\*  
— All Other Banks

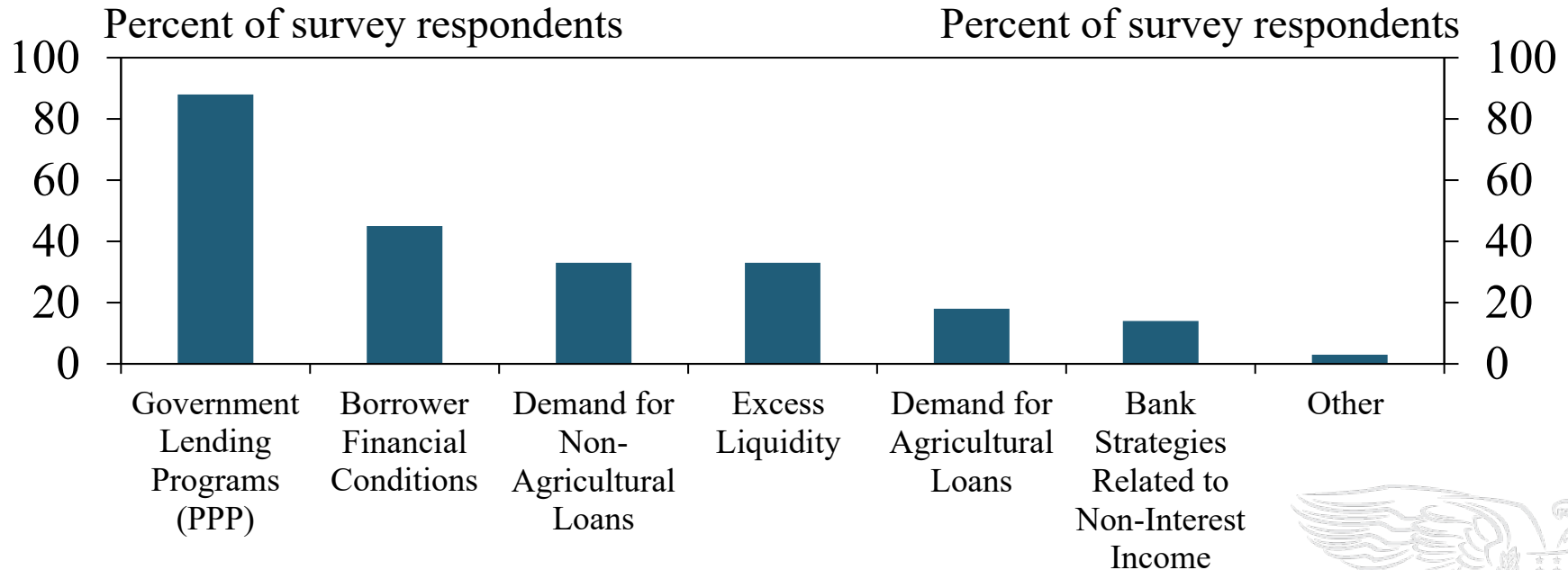
\*Commercial banks with agricultural loans comprising at least 25% of total loans as of 3/31/2021.

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



# Fees generated from PPP loans have supported incomes at agricultural banks.

## Factors Providing Support to Bank Financial Performance

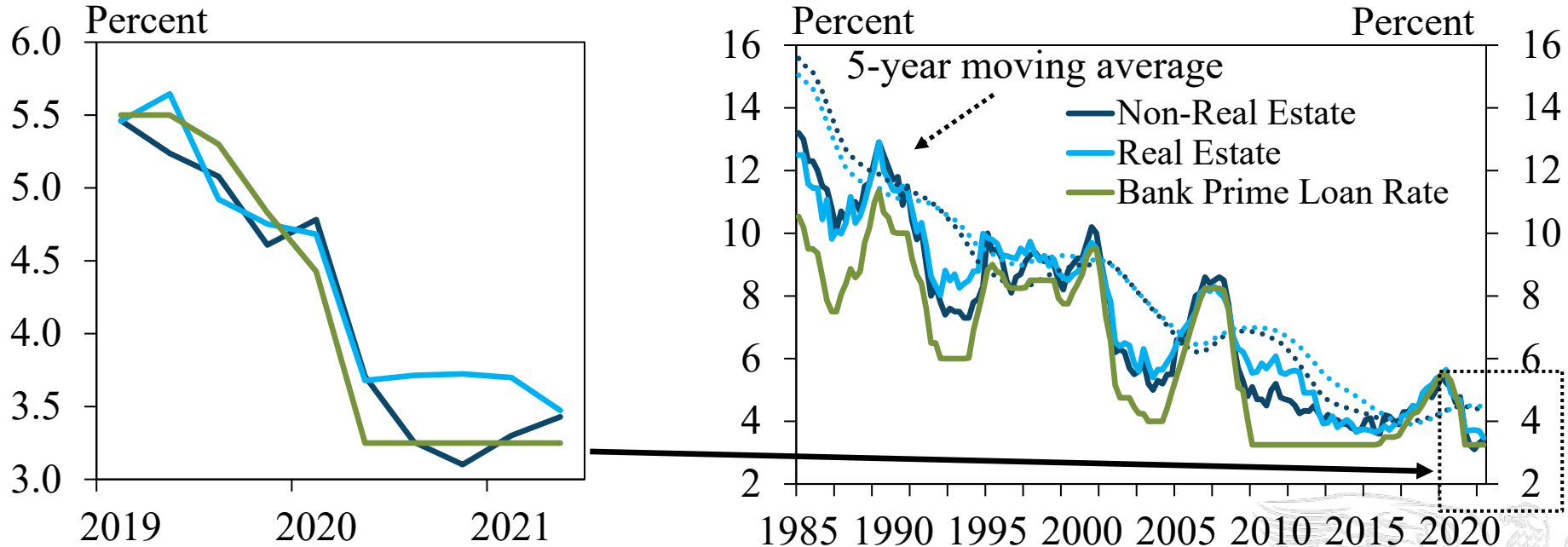


Source: Federal Reserve Bank of Kansas City



In Q1 2021, the average rate on non-real estate farm loans increased from the all-time low at the end of 2020.

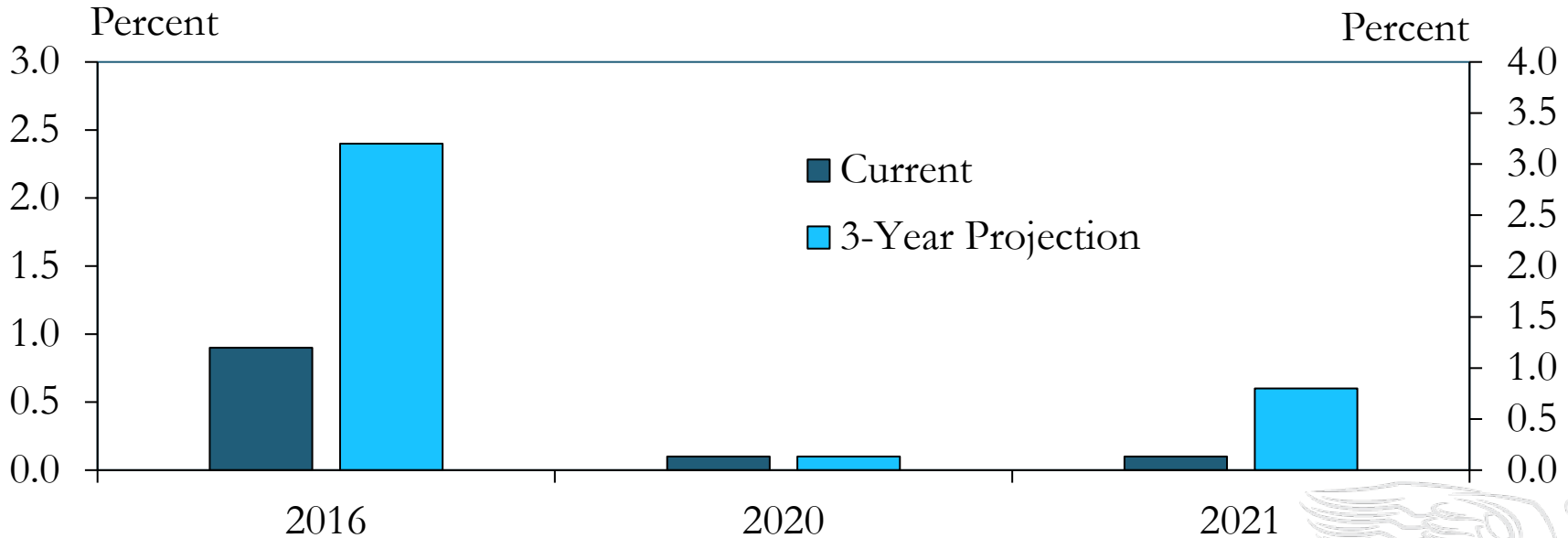
## Average Interest Rates on Agricultural Loans



Sources: Survey of Terms of Lending to Farmers, Federal Reserve Bank of Kansas City and Federal Reserve Board of Governors.

# Expectations of long-term interest rates have declined in the aftermath of the pandemic.

## Median Federal Funds Rate, June



Source: Board of Governors.



# Concluding Thoughts

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- The outlook for agricultural credit conditions remains strong.
  - High commodity prices
  - Government support
  - Low interest rates
- Risks to the outlook for farm finances include drought in the West and Northern Plains and higher costs of production.
- The combination of low demand for farm loans and historically low interest rates has contributed to compressed interest margins for many agricultural lenders, but several factors have provided support to bank financial performance.
  - Government lending programs, such as PPP
  - Stronger financial conditions for borrowers
  - Demand for non-agricultural loans





# Questions?

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**Cortney Cowley**

Senior Economist

Federal Reserve Bank of Kansas City

[Cortney.Cowley@kc.frb.org](mailto:Cortney.Cowley@kc.frb.org)

Twitter: @CortneyCowley

For more information:

<https://www.kansascityfed.org/research/agriculture>

