Ag Finance Update

Farm Loan Interest Rates Rise Sharply

by: Nate Kauffman and Ty Kreitman

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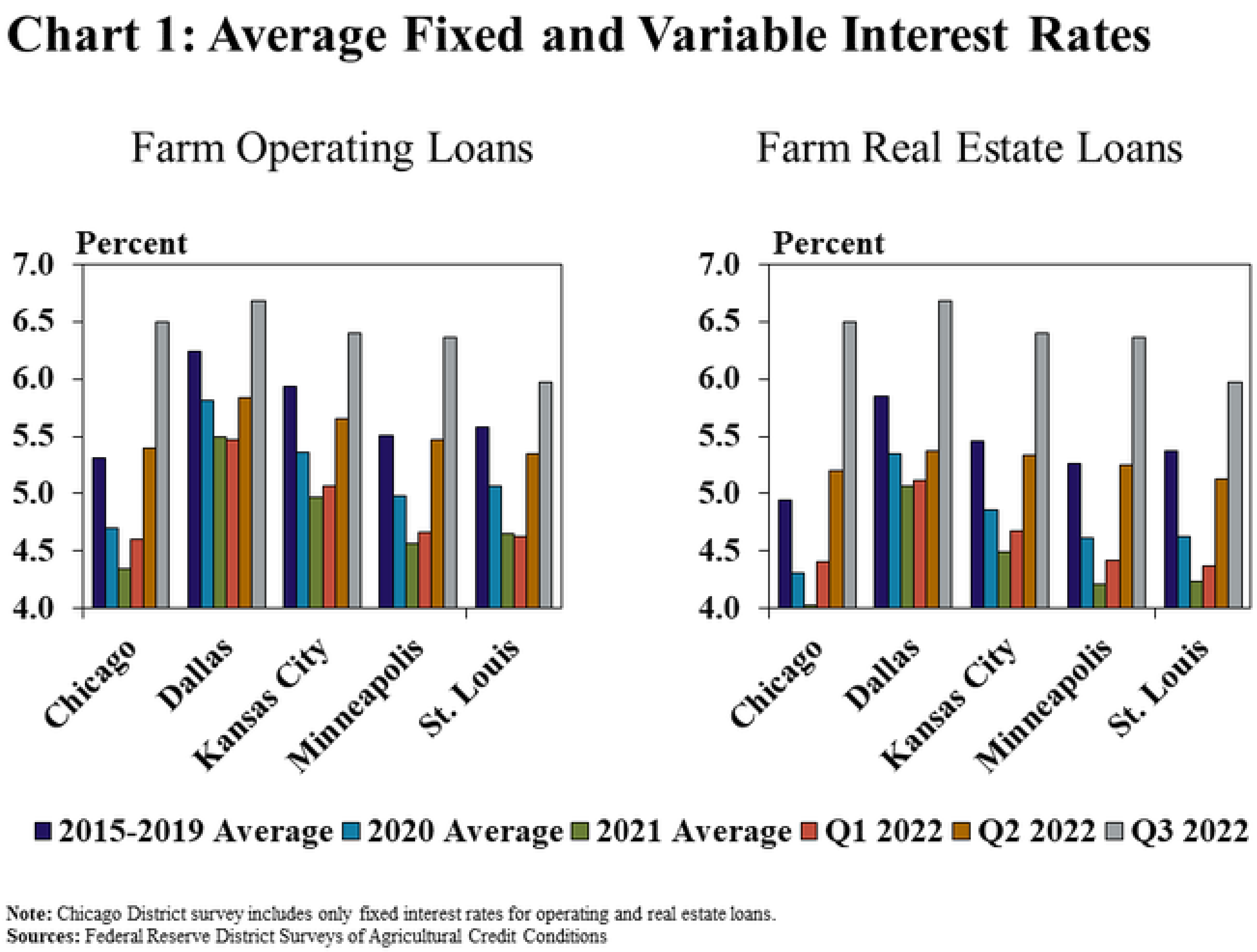
Interest rates on farm loans increased sharply in the third quarter. Despite the higher borrowing costs, farm real estate values continued to increase, but the acceleration eased somewhat. Following consistently higher increases earlier in 2022, the value of farmland in most Districts grew at a slightly slower pace in the third quarter. Farm income and credit conditions also remained strong, but improvement was more limited. With higher production expenses, broad inflation and an uptick in financing costs, growth in household spending by farm borrowers began to outpace capital spending more noticeably.

Strength in farm finances continued to support a generally positive outlook for agricultural credit conditions through the remainder of 2022, but some pressures have continued to intensify. Volatility in crop markets, higher expenses and drought are key risks, but profit opportunities remained favorable alongside strong commodity prices. Despite more measured improvement in recent quarters, farm finances remained solid following especially strong incomes across the sector the past two years.

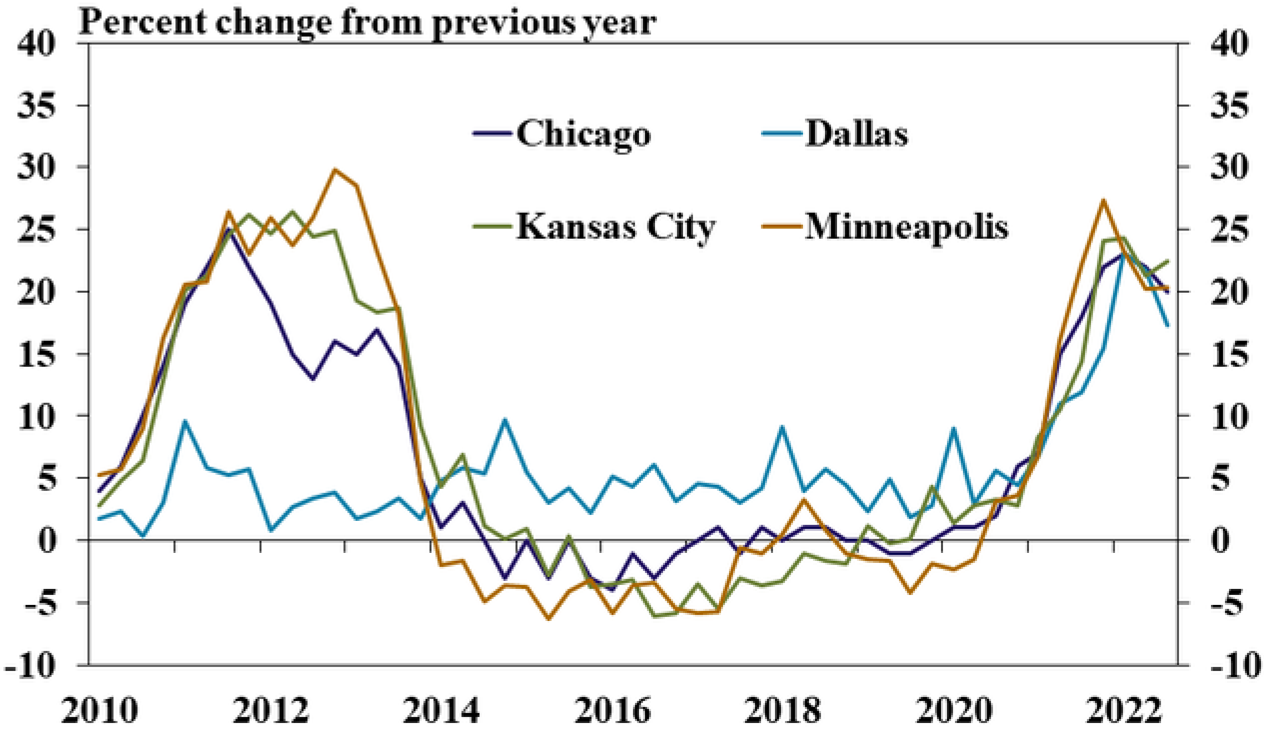
Third Quarter Federal Reserve District Ag Credit Surveys

Farm loan interest rates rose rapidly in the third quarter alongside increases in benchmark interest rates. The typical rate charged on farm operating and real estate loans across all Districts administering a survey of ag credit conditions increased by an average of 85 and 110 basis points from last quarter, respectively (Chart 1). The quick rise pushed financing rates above the average from 2015-2019 in all regions.



Farmland values increased further in the third quarter despite the recent increases in interest rates, but at a slower pace than the rapid gains a year ago. The value of nonirrigated cropland was an average of 20% higher than the same time a year ago across all Districts, which was the slowest pace of growth since early 2021 (Chart 2). Demand for farmland has remained strong alongside broad strength in the farm economy, but the acceleration in values over the past year has shown signs of easing in recent quarters.

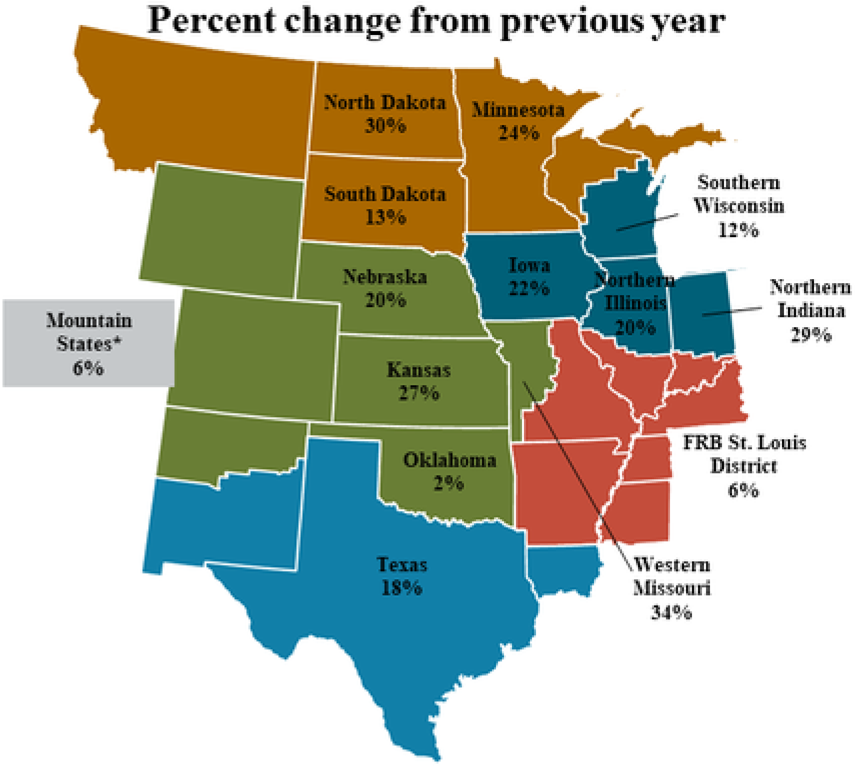
Chart 2: Nonirrigated Cropland Values



Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

The rise in farmland values over the past year has been notable across nearly all states. The value of nonirrigated cropland grew by at least 20% in the majority of states, but increased at a comparatively slower rate in some areas (Map). Gains were generally highest in areas with the highest quality farmland, while values in Oklahoma increased only slightly as conditions in the state have diverged from most others.

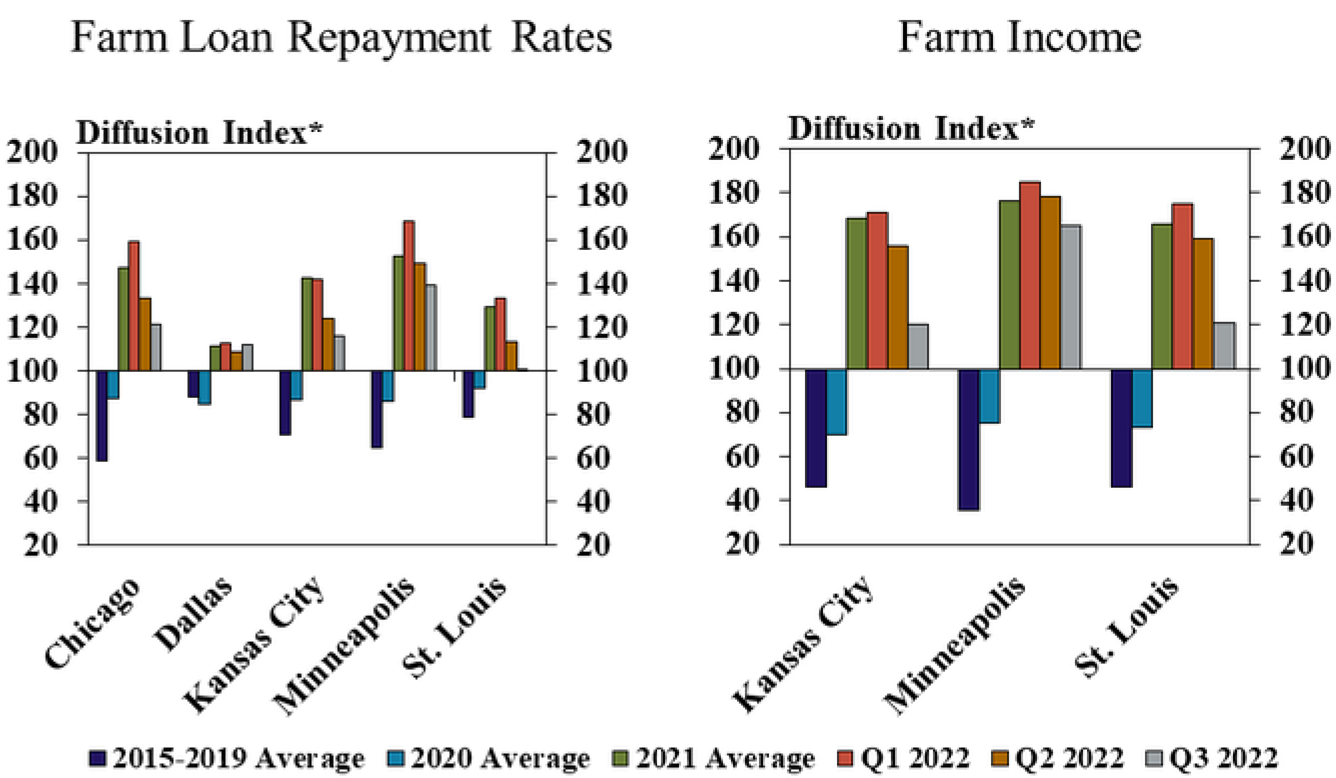
Map: Nonirrigated Cropland Values, Third Quarter 2022



*Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.
Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

Credit conditions remained strong, but the pace of improvement has slowed alongside sharp increases in interest rates and a rise in production expenses. Farm loan repayment rates increased at the slowest pace since early 2020 in all Districts except Dallas (Chart 3). Similarly, the pace of increase in farm income also was the slowest in two years in all reporting Districts.

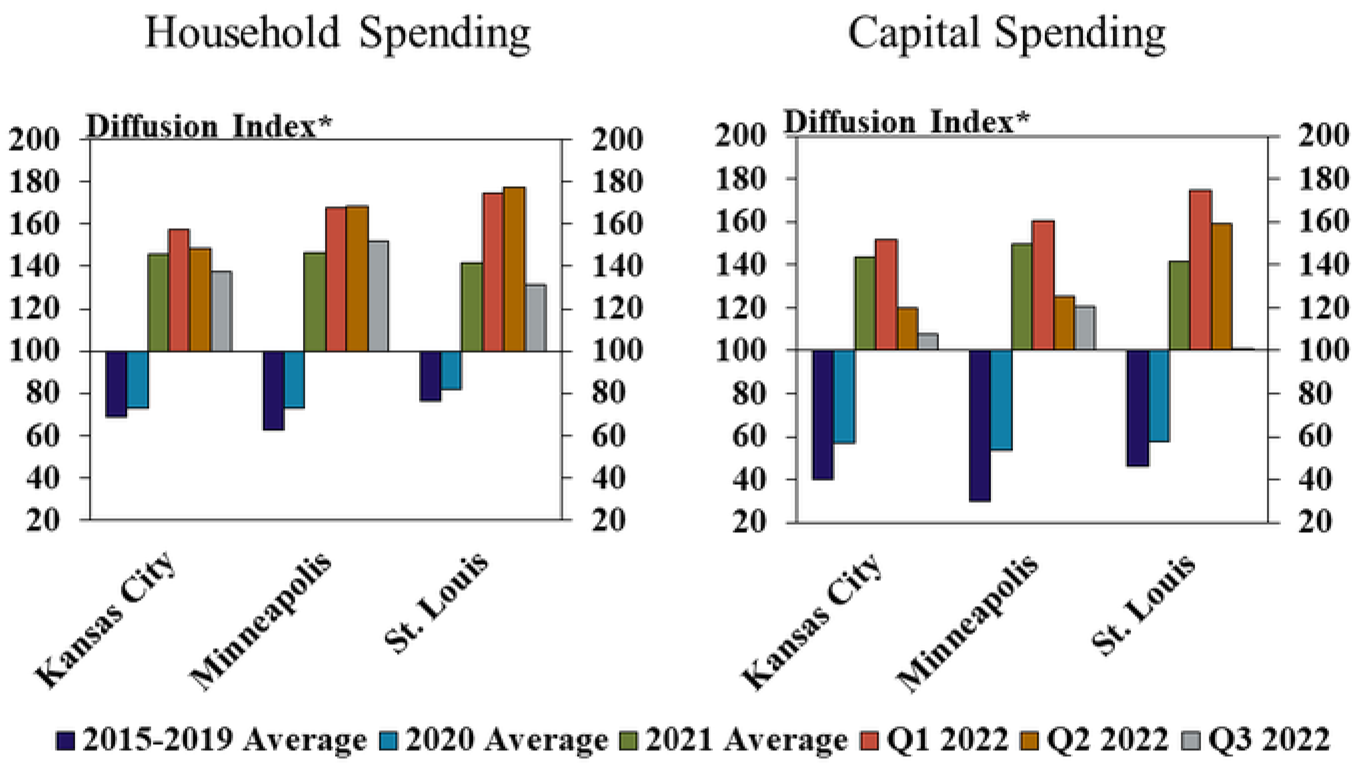
Chart 3: Farm Income and Loan Repayment Rates



*Bankers responded by indicating whether conditions during the current quarter was 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: Information about farm income and borrower spending only collected for above Districts.
Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

Household spending rose more steadily than capital spending alongside broad inflationary pressures and higher financing costs. The pace of increase in household spending across participating Districts was only modestly slower than the average over the past year (Chart 4, left panel). In contrast, the pace of increase in capital spending slowed notably from recent quarters (Chart 4, right panel).

Chart 4: Farm Borrower Spending



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Note: Information about farm income and borrower spending only collected for above Districts.
Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

Data and Information

Federal Reserve Ag Credit Surveys Historical Data

Federal Reserve Ag Credit Surveys Tables

About the Federal Reserve Ag Credit Surveys

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Nate Kauffman is Senior Vice President and Omaha Branch Executive at the Federal Reserve Bank of Kansas City. In his role as the Kansas City Fed's lead economist and representative in the state of Nebraska, Nate provides strategic direction and oversight for the Omaha Branch, regional research, and economic outreach throughout the state. He serves as a local connection to the nation's central bank and is responsible for briefing the Kansas City Fed's president – a member of the Federal Open Market Committee – on regional economic and business activity.In addition, Nate is the Kansas City Fed's principal expert in agricultural economics. He is a leading voice on the agricultural economy throughout the seven states of the Tenth Federal Reserve District and the broader Federal Reserve System. Nate oversees several Bank and Federal Reserve efforts to track agricultural economic and financial conditions and hosts the Kansas City Fed's annual Agricultural Symposium. He also speaks regularly on the agricultural economy to industry audiences and the news media, including providing testimonies at both U.S. Senate and U.S. House Agriculture Committee hearings.Nate joined the Federal Reserve in 2012. He received his Ph.D. in economics from Iowa State University. Prior to receiving his Ph.D., Nate spent three years in Bosnia and Herzegovina coordinating agricultural economic development projects.Nate lives in Omaha with his wife and four children.

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Ty Kreitman is an assistant economist in the Regional Affairs Department at the Omaha Branch of the Federal Reserve Bank of Kansas City. In this role, he primarily supports the Federal Reserve Bank of Kansas City and the Federal Reserve System efforts surrounding agricultural economics research, analysis and outreach. His responsibilities include co-authoring the *Tenth District Survey of Agricultural Credit Conditions* and *Agricultural Finance Updates.*Ty joined the Bank in 2015 as an assistant bank examiner in the Examinations & Inspections Department at the Omaha Branch and transferred to his current position in 2018. He holds a B.A. degree in Economics and Finance from the University of Nebraska-Lincoln and a M.A. degree in Financial Economics from Youngstown State University.