Agricultural Finance Update

Interest Rates Rise and Farm Lending Softens

by: Nate Kauffman and Ty Kreitman

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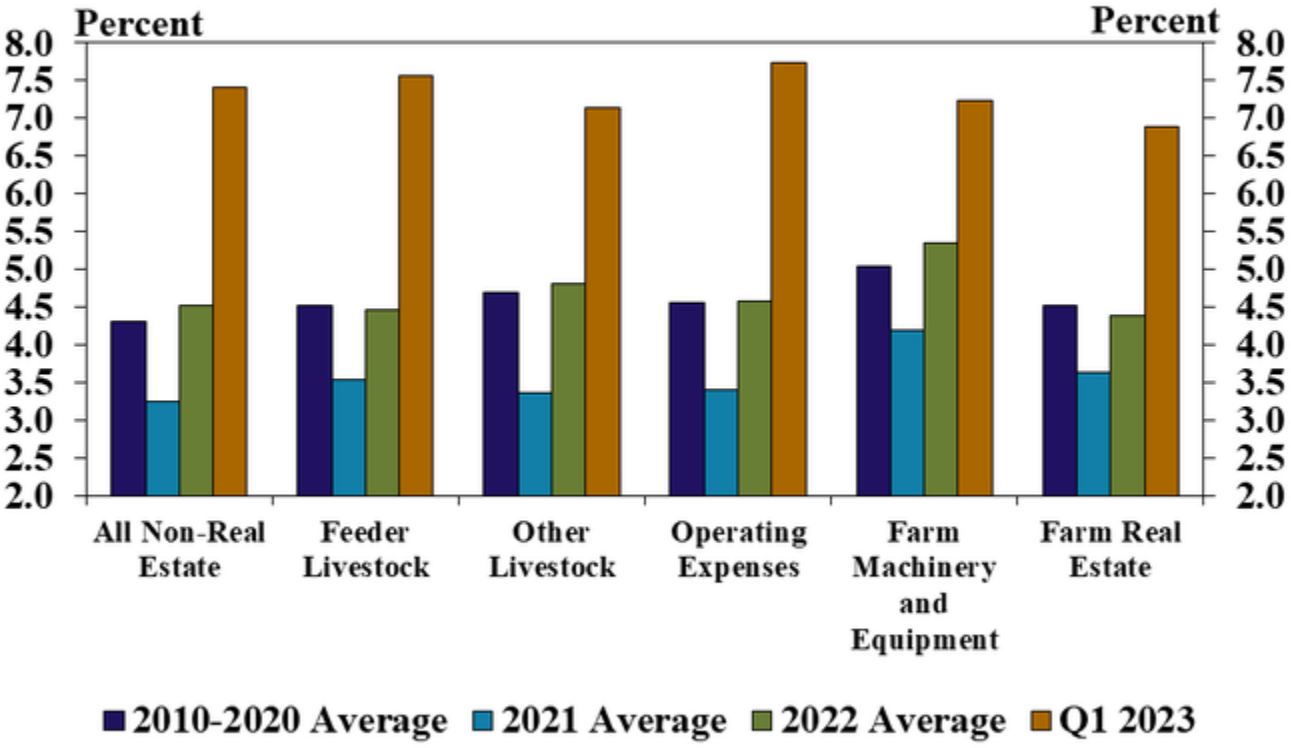
Growth in farm lending activity at commercial banks was limited in the first quarter of 2023 as interest rates climbed higher. Alongside additional increases in the federal funds rates, interest rates on farm loans rose sharply. The rapid rise has shifted the range of rates offered to borrowers upward considerably. Non-real estate farm loan volumes decreased about 10% from the previous year in the first quarter of 2023, following average growth of 15% in 2022. Lending activity was pushed down by fewer new loans and smaller-sized operating loans.

The outlook for farm finances remained favorable alongside elevated commodity prices, but higher interest rates, increased production costs and drought remained key ongoing concerns. Remarkably strong farm income during recent years has bolstered liquidity for many producers and supported historically strong farm loan performance. The availability of credit at agricultural banks remained ample and while higher expenses could increase borrowing needs for some operations, substantially higher interest costs could also put downward pressure on demand for credit.

First Quarter National Survey of Terms of Lending to Farmers

Interest rates on agricultural loans rose alongside further increases in benchmark rates. The average rate charged on all types of farm loans increased for the fifth consecutive quarter and reached the highest level since 2007 (Chart 1). Rates on both non-real estate and real estate loans have risen quickly and were nearly 4.5 and 3.5 percentage points higher than the end of 2021, respectively.

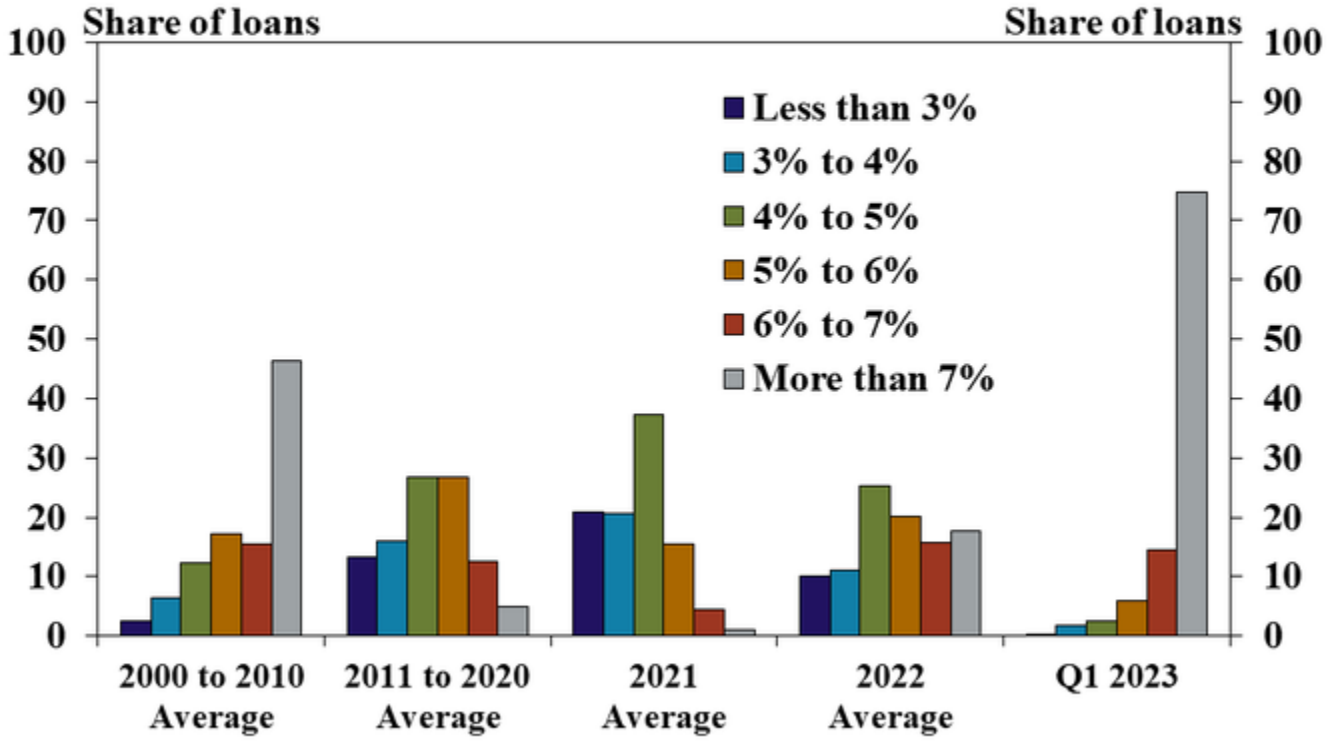
Chart 1: Average Interest Rates by Loan Type



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City

The range of interest rates available to borrowers has also shifted rapidly. In contrast to the average over the past two decades, three fourths of new loans in the first quarter had an interest rate above 7% (Chart 2). In comparison, more than half of farm loans had rates below 5% on average from 2011 through 2020.

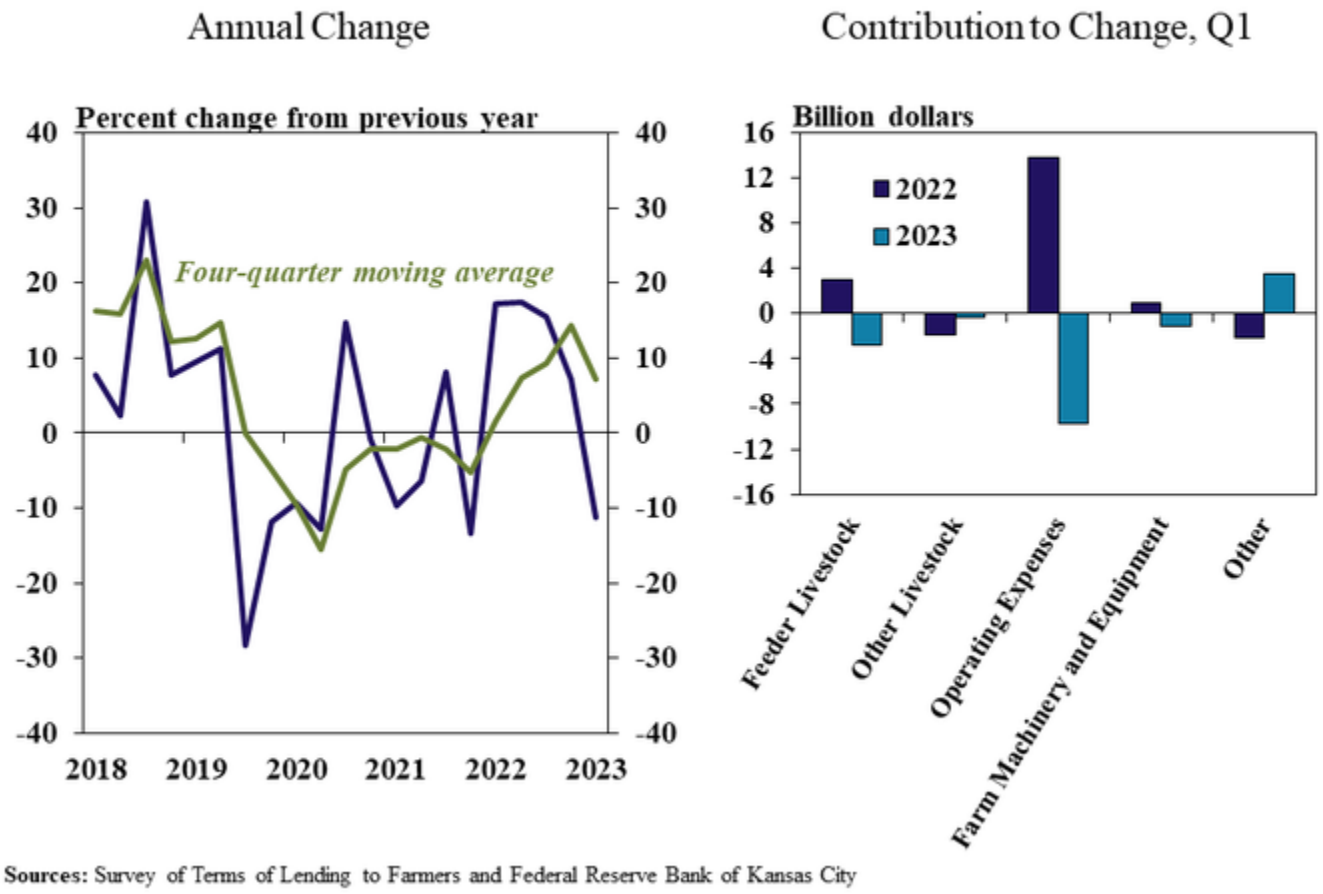
Chart 2: Distribution of Interest Rates on Farm Loans



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City

As interest rates increased, non-real estate farm lending at commercial banks declined in the first quarter of 2023 according to the Survey of Terms of Lending to Farmers. The volume of non-real estate farm loans decreased about 10% in the first quarter and most of the decline was attributed to operating loans (Chart 3). While costs for farmers remained elevated, the price of some key inputs such as fertilizer and fuel were notably lower than a year ago and likely reduced credit needs for some producers.

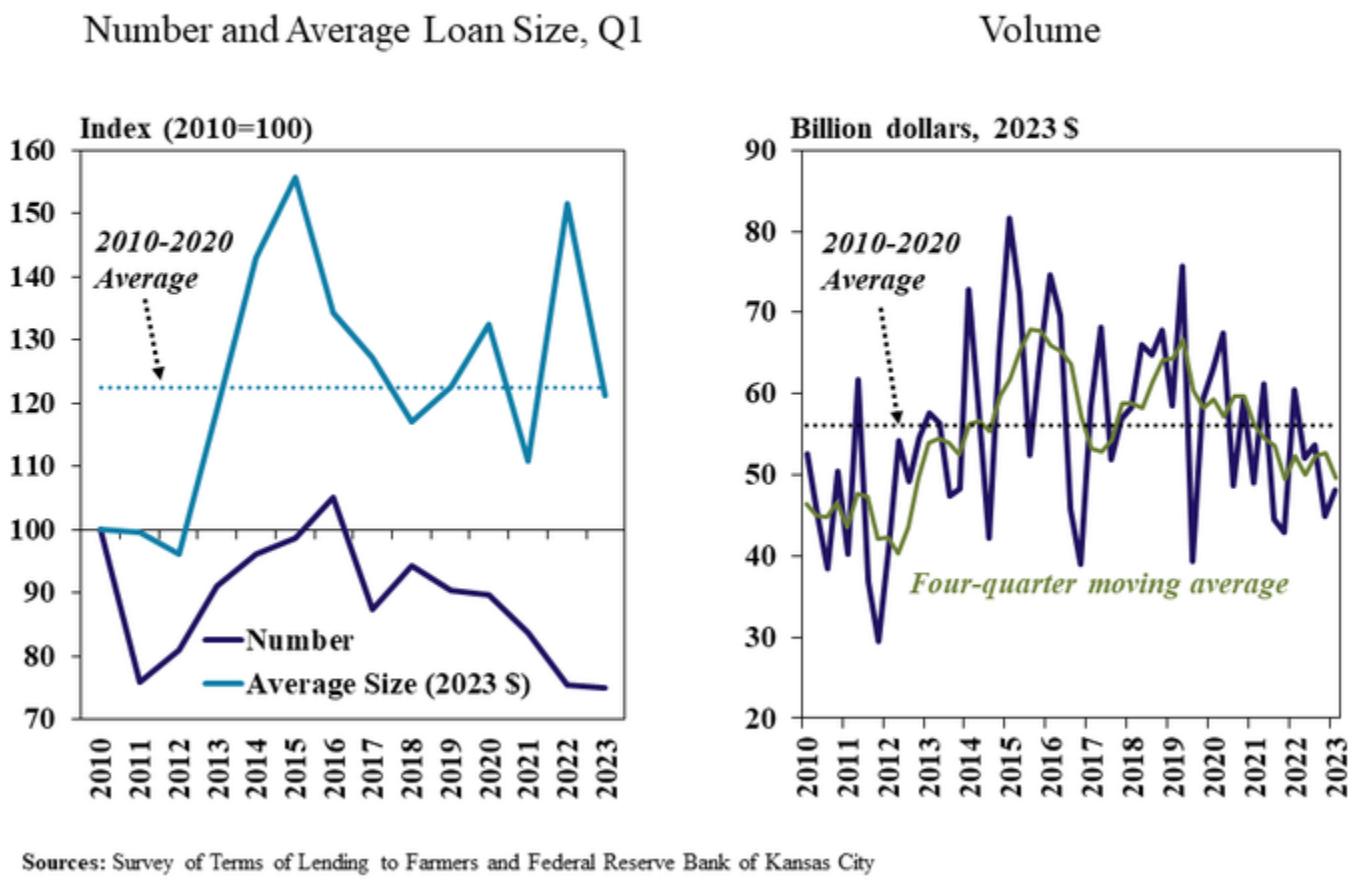
Chart 3: Volume of Non-Real Estate Farm Loans



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City

A fewer number of loans and a lower average size reduced lending for operating expenses. The average size of operating loans decreased from a year ago and was near the recent average while the number of loans remained at a historic low (Chart 4). The softening in lending activity kept total operating loan volumes about 15% below the average over the past decade.

Chart 4: Farm Operating Loans



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City

Data and Information National Survey of Terms of Lending to Farmers Historical Data
National Survey of Terms of Lending to Farmers Tables
About the National Survey of Terms of Lending to Farmers

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Nate Kauffman is senior vice president and Omaha Branch executive with the Federal Reserve Bank of Kansas City. In this role, he provides strategic leadership for the Omaha Branch and oversees the Bank's regional research and economic outreach in Nebraska. Nate works closely with the Omaha Branch Board of Directors and regularly connects with businesses and communities across the state to gain real-time perspectives on economic conditions that help inform the Kansas City Fed's understanding of the economy.Nate also serves as Executive Director of the Kansas City Fed's Center for Agriculture and the Economy, leading efforts to strengthen the Federal Reserve's connection to agriculture and the rural regions where agricultural production is concentrated. He engages with agribusiness leaders, producers, and policymakers nationwide to discuss current and emerging trends in agriculture and related sectors. Nate also oversees the Center's research and outreach to deliver clear, objective analysis of developments in the agricultural sector, and he frequently shares insights with industry audiences and the news media.Nate joined the Federal Reserve in 2012. He received his Ph.D. in economics from Iowa State University. Prior to receiving his Ph.D., he spent three years in Bosnia and Herzegovina coordinating agricultural economic development projects.Nate has spent many years coaching youth sports, most recently baseball, and demonstrates the same commitment to service through volunteer work with several Omaha-area organizations. He lives in Omaha with his wife and four children.



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Ty Kreitman is an associate economist in the Regional Affairs Department at the Omaha Branch of the Federal Reserve Bank of Kansas City. In this role, Ty is a key contributor to the Center for Agriculture and the Economy, an initiative at the Kansas City Fed focused on strengthening the Federal Reserve's ties to agriculture and rural communities through research, data, and industry engagement. Ty's responsibilities include 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 before moving to Regional Affairs in 2018. He holds a B.A. in Economics and Finance from the University of Nebraska-Lincoln and an M.A. in Financial Economics from Youngstown State University.His passion for agricultural economics is shaped by his experience growing up in a rural farming and ranching community in the western Nebraska panhandle. Ty lives in Omaha with his husband.