



## Ag Credit Survey

# Thinner Crop Profits and Tighter Credit Conditions

by: Nate Kauffman and Ty Kreitman

May 09, 2024

Farm incomes retracted at a sharp pace, farm loan repayment rates declined and loan demand rose in the first quarter.

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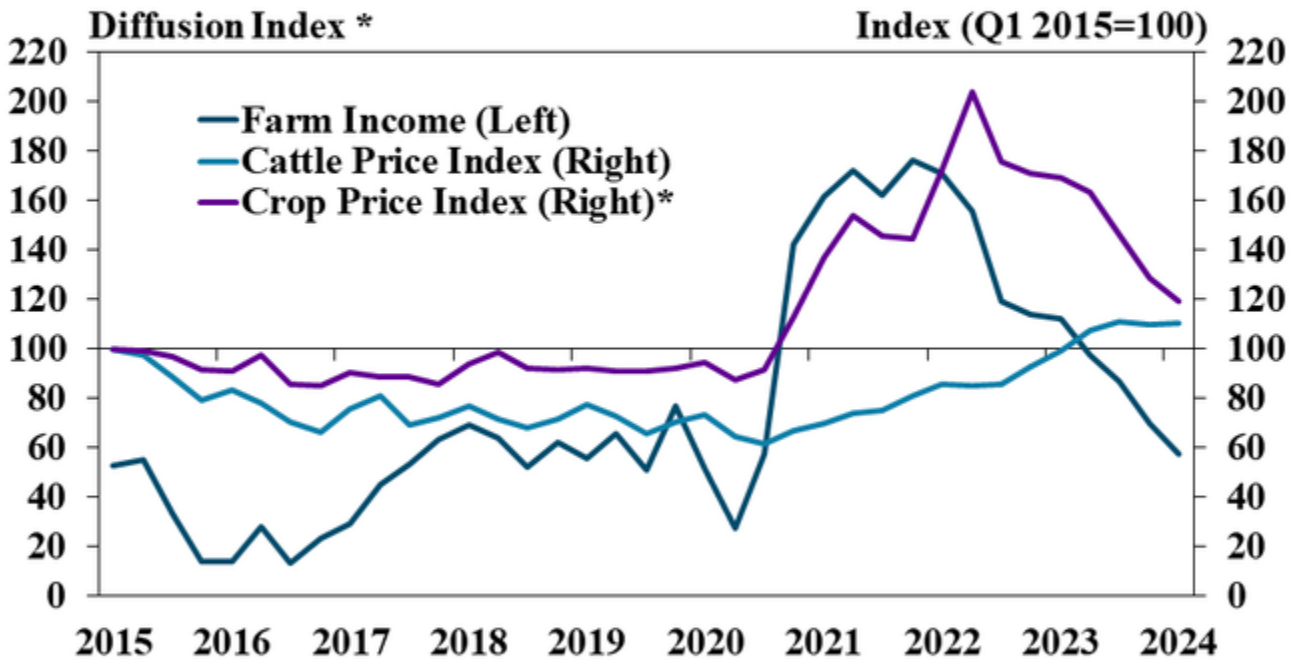
Farm income and credit conditions in the Tenth Federal Reserve District tightened in the first quarter of 2024. According to the Survey of Agricultural Credit Conditions, farm incomes retracted at a sharp pace, farm loan repayment rates declined at a modest pace and loan demand rose notably. Conditions tightened comparatively more in states with greater reliance on crop revenues and less in more cattle heavy areas. As lenders entered the renewal period for annual operating lines, loan denials were very limited but many reported an uptick in carryover debt and loan restructuring to meet liquidity needs.

Conditions in the U.S. farm economy have tightened alongside lower prices for many key products and higher financing costs. Many lenders highlighted growing concerns about deterioration in working capital as a result of low prices, particularly for crop producers. Strength in cattle prices, however, has supported incomes for many cow/calf producers. A larger share of banks also reported higher loan demand following multiple years of subdued credit utilization, a sign that strength in farm finances built up in recent years has moderated. A continuation of subdued crop prices throughout 2024 would likely drive further tightening in agricultural credit conditions and elevated interest expenses could put additional pressure on farm borrowers.

## Section 1: Farm Income and Credit Conditions

The pace of decline in farm income in the Tenth District continued to accelerate in the early months of 2024. The share of lenders reporting that farm income was less than a year ago reached 60%, the highest since early 2020 (Chart 1). Strong cattle prices supported profits for cow/calf producers in recent months, but a steep decline in prices of many key crops weighed on farm incomes over the past year.

## Chart 1: Tenth District Farm Income and U.S. Agricultural Commodity Prices



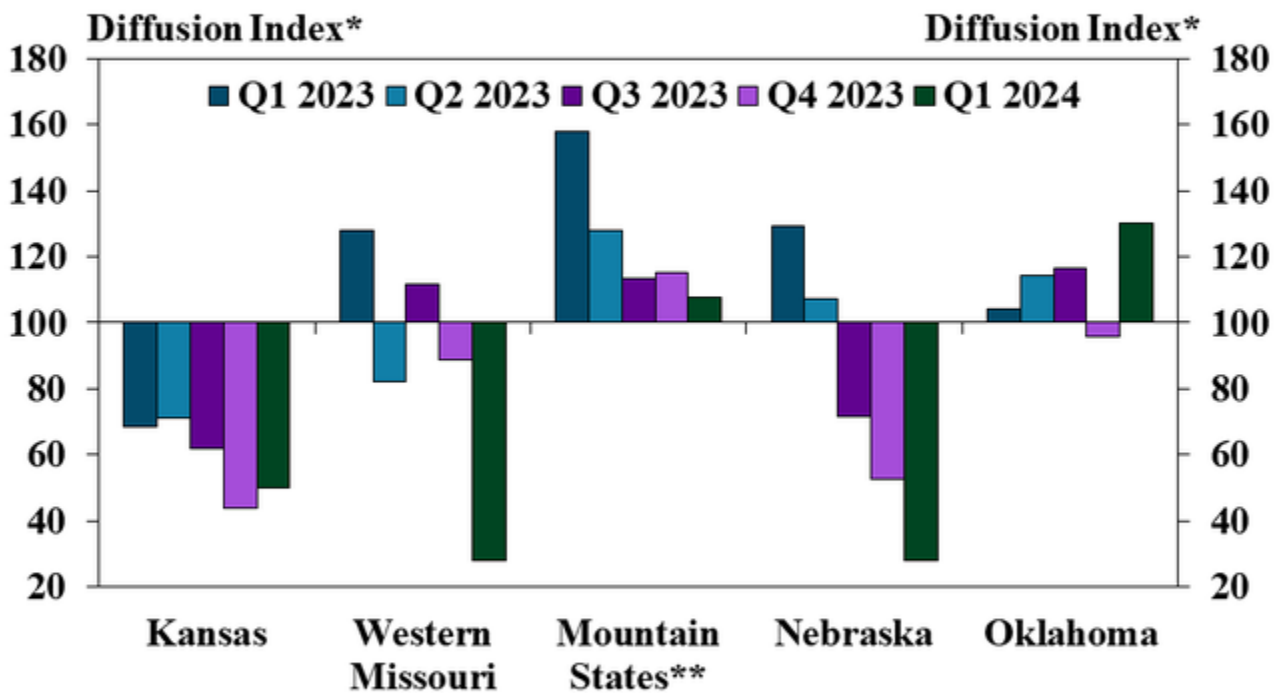
\*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

\*Average of individual indices for spot prices of corn, soybeans, and wheat

Sources: *Wall Street Journal*, Haver Analytics and staff calculations

The pace of decline in farm income was notably faster in states with more reliance on crop revenues. More than 70% of lenders reported lower farm income than a year ago in Kansas, Missouri and Nebraska, states with higher share of revenue from crop production (Chart 2). In the other District states where cattle account for higher shares of revenue, less than a third of banks responded that incomes were down from a year ago.

## Chart 2: Farm Income by State

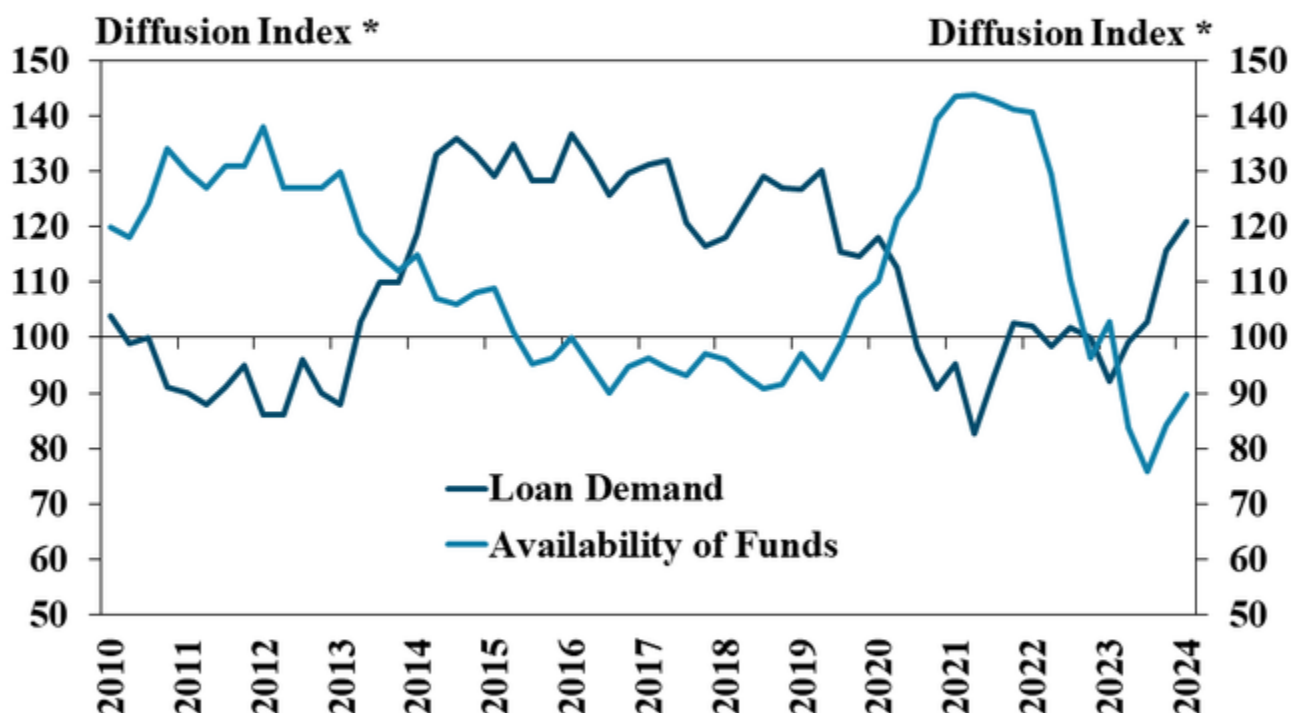


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\*\*Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.

Non-real estate farm loan demand picked up considerably as profits thinned. Similar to farm income, the share of banks reporting that demand for non-real estate farm loans was higher than a year ago rose to the highest level since 2019 and neared 40% (Chart 3). As loan demand increased, availability of funds declined at a modest pace throughout the region.

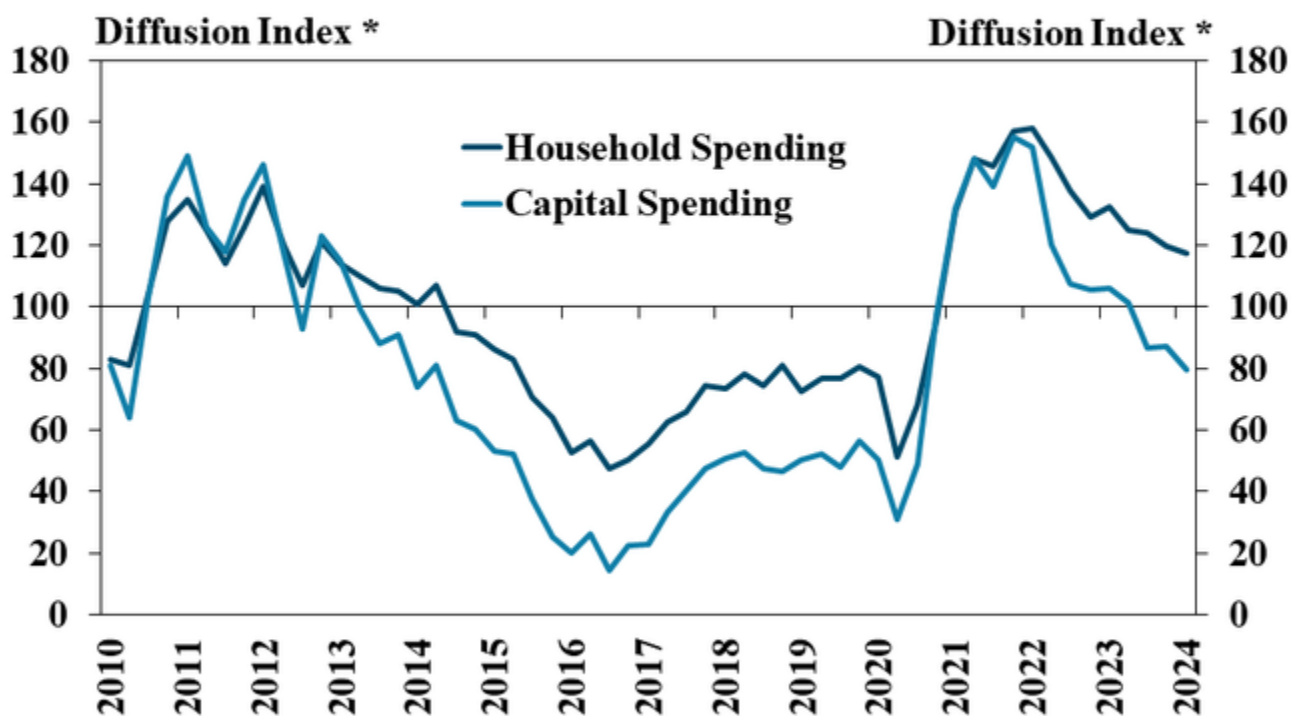
# Chart 3: Tenth District Non-Real Estate Loan Demand and Fund Availability



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Capital spending slowed at a modest pace alongside lower incomes, but growth in household spending held firm. Capital spending by farm borrowers decreased at a gradually faster pace in the first quarter, typical during periods of lower farm income (Chart 4). Household spending however, continued to rise at a steady pace alongside broad inflationary pressure.

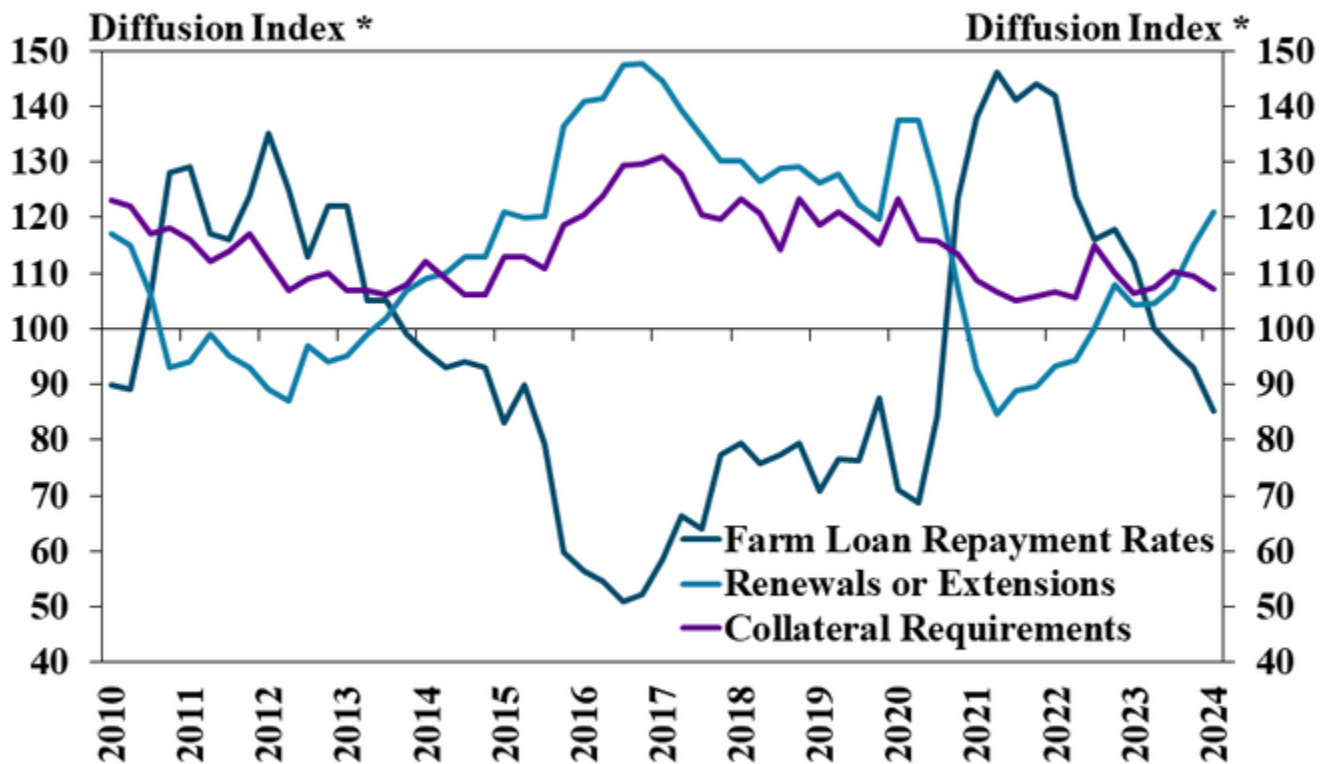
## Chart 4: Tenth District Farm Borrower Spending



\*Bankers responded to each item by indicating whether conditions during the current quarter were 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.

Other key measures of agricultural credit conditions showed signs of modest deterioration. Farm loan repayments rates declined in the District at the fastest pace since early 2020 (Chart 5). At the same time, renewals and extensions increased at the fastest pace since 2020 and collateral requirements tightened at a modest pace.

## Chart 5: Select Tenth District Credit Conditions



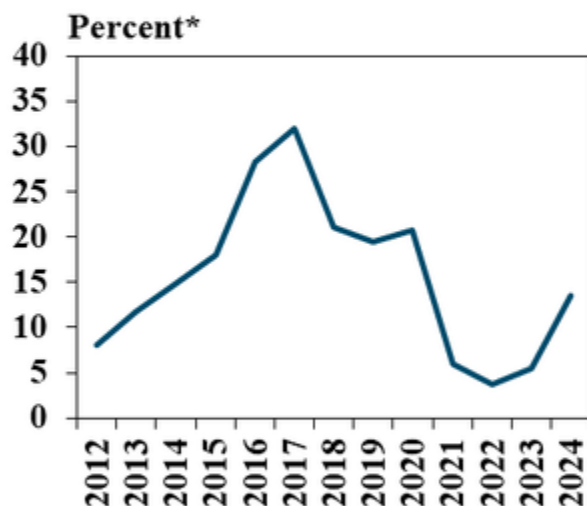
\*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

Instances of carryover debt rose slightly alongside thinner profit margins during the past year. About 15% of farm borrowers, on average, had an increase in the amount of debt not covered by profits compared with the same time a year ago (Charts 6).

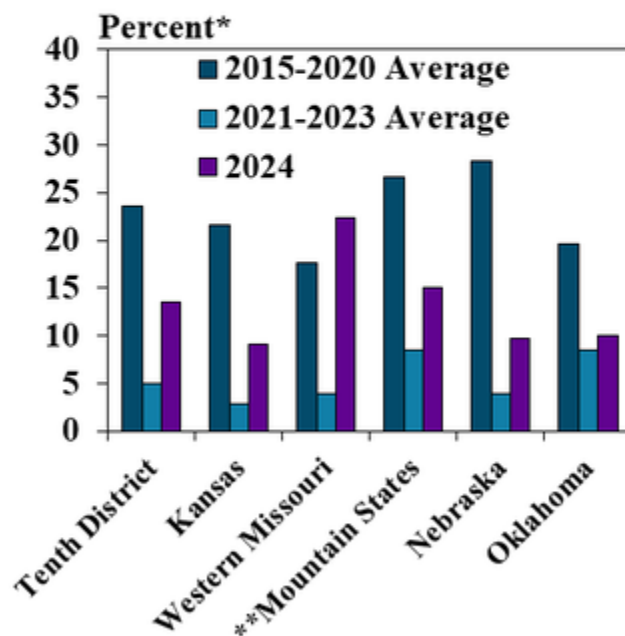
Instances of carryover debt grew in all states in the region, but were particularly pronounced in Missouri.

## Chart 6: Farm Borrowers with an Increase in Carryover Debt, Q1

Tenth District



By State



\*Average of survey responses

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

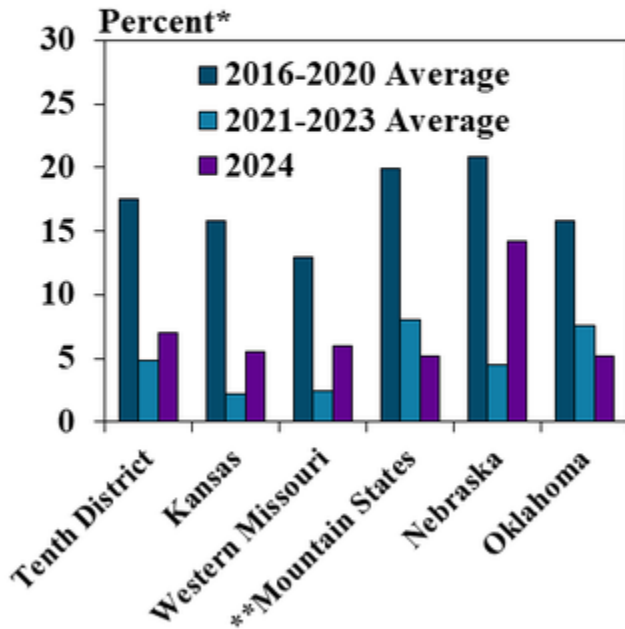
Note: Respondents answered the following questions: In the last three months, what percent of agricultural loans originated or renewed have involved restructuring debt to meet short term liquidity needs? What percent of your farm borrowers had an increase in carryover debt this year versus last year?

Cases of restructuring to meet liquidity needs were also higher, but loan denials remained limited for most lenders. About 5% of farm loans in the District, on average, involved restructuring to meet liquidity needs which was slightly higher than previous years but well below the levels of 2016-2020 (Chart 7, left panel). Loan denials remained minimal, staying below 2% on average throughout the region.

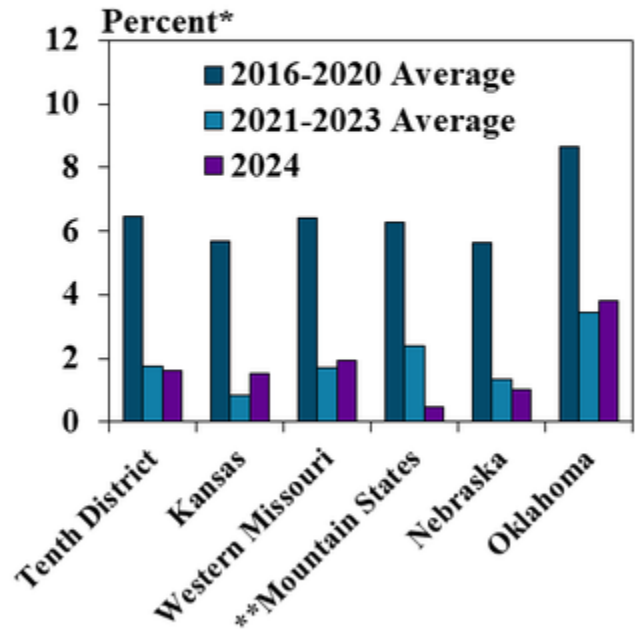


## Chart 7: Loan Restructuring and Denials, Q1

New Loans Involving Restructuring to Meet Liquidity Needs



Share of Loan Requests Denied Due to Cash Flow Shortages



\* Average of survey responses

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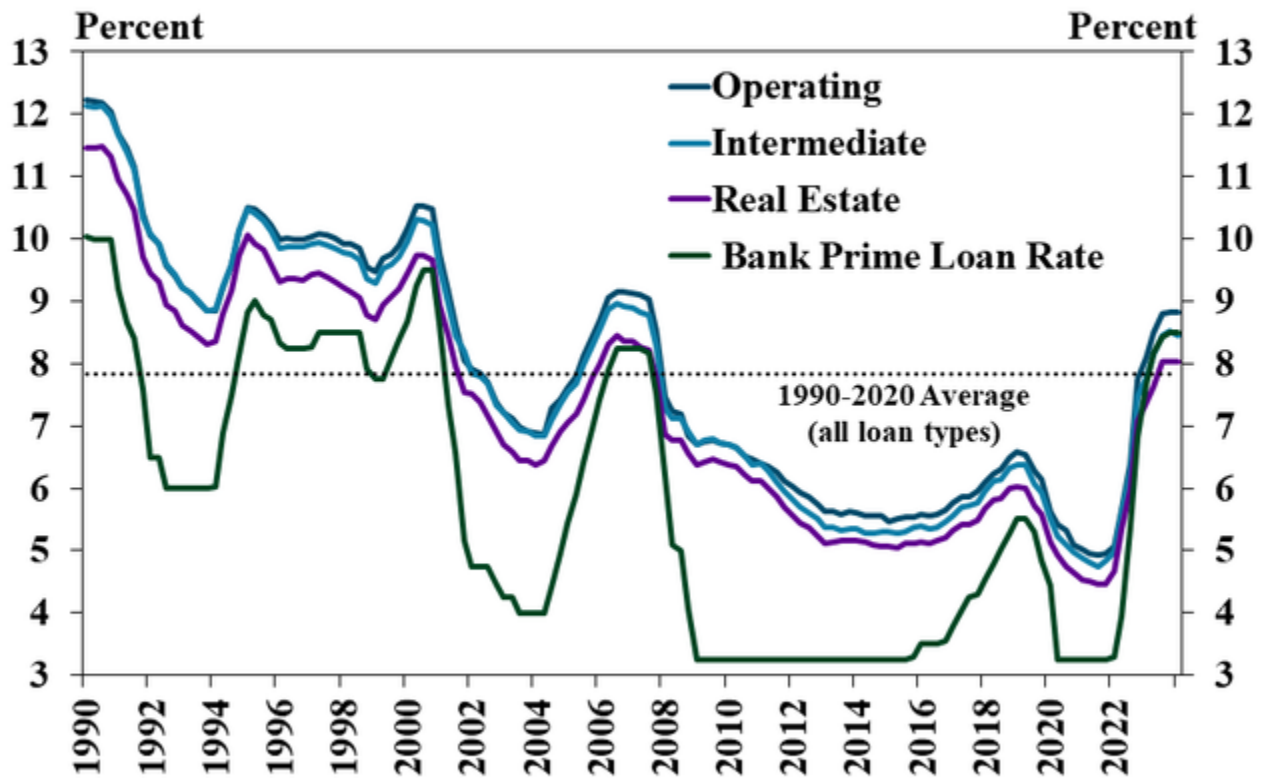
Note: Respondents answered the following questions: In the last three months, what percent of agricultural loans originated or renewed have involved restructuring debt to meet short term liquidity needs? In the last three months, what percent of total farm loan requests has your bank denied due to customer cash flow shortages?

## Section 2: Interest Rates and Farmland Values

While credit conditions softened and loan demand picked up, farm loan interest rates remained slightly above historical averages. Alongside relatively steady benchmark interest rates, average rates on all types of farm loans were largely unchanged from the previous quarter (Chart 8). Interest charges on agricultural loans remained slightly above the 30-year average, however, keeping financing costs elevated for agricultural producers reliant on financing.



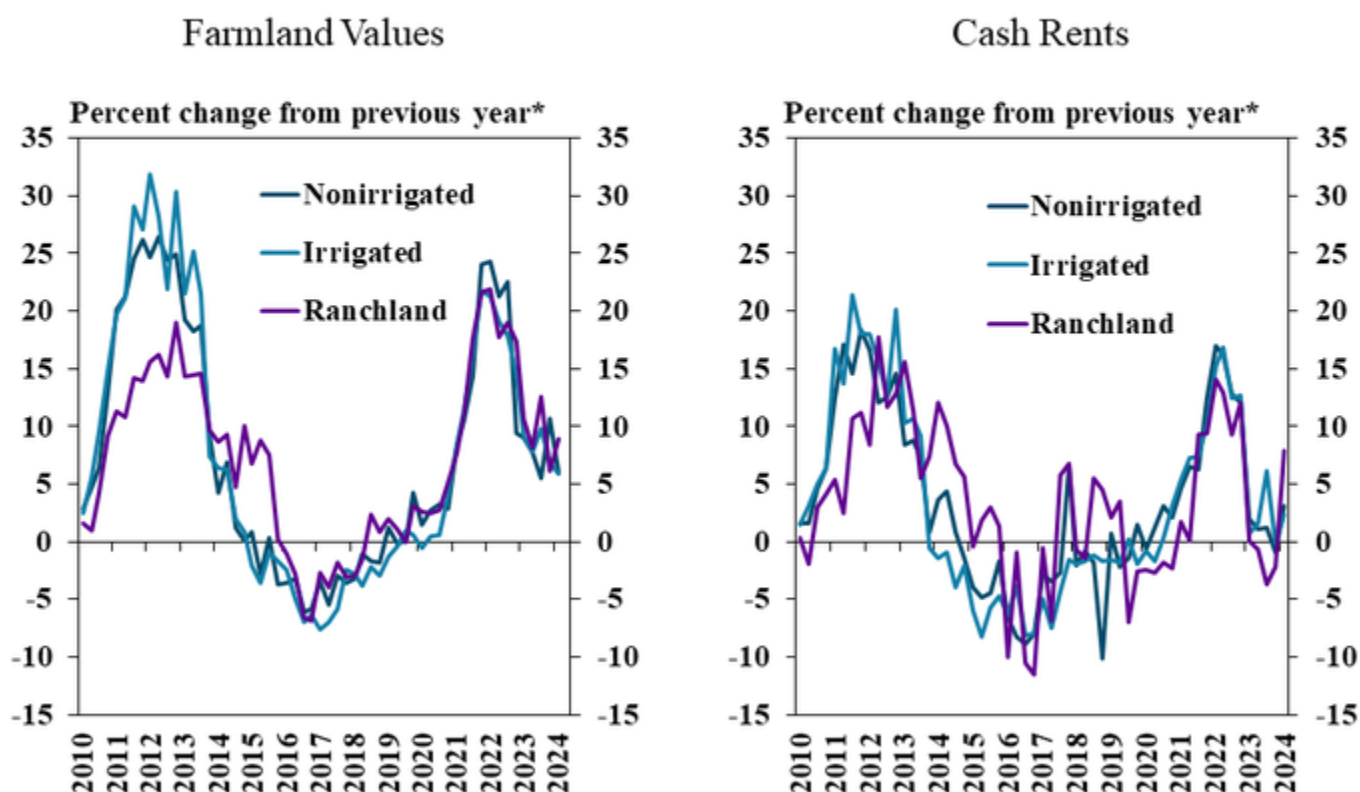
## Chart 8: Tenth District Average Interest Rates



Note: Average rates are calculated as the average of fixed and variable rates for each loan category.  
Sources: Federal Reserve Board and Haver Analytics

Despite broad moderation in the farm economy and higher interest rates, growth in farmland values remained firm. The value of all types of farmland, on average, grew by 5% or more from a year ago throughout the District (Chart 9). Following tepid growth throughout 2023, cash rents on all types of land rose modestly in the first quarter.

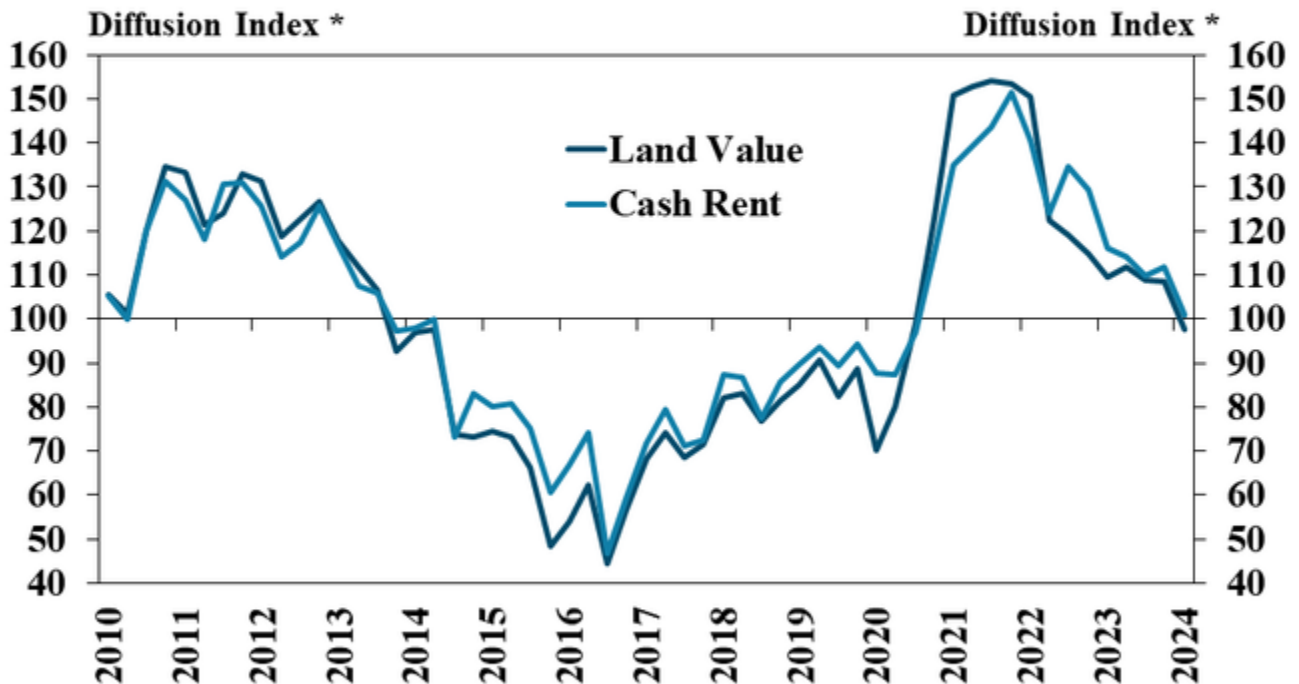
## Chart 9: Tenth District Farmland Values and Cash Rents



\*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarters.

Lenders in the region expected both farmland values and cash rents to be flat going forward. Looking ahead to the next three months, 75% of respondents expected the value of nonirrigated farmland to be unchanged compared with a year ago and 85% expected cash rents to be unchanged (Chart 10). Equal shares of the remaining respondents anticipated increases and decreases in the coming months, highlighting expectations of generally stable conditions for farmland markets.

## Chart 10: Expected Change in Nonirrigated Farmland Values and Cash Rents



\*Bankers responded to each item by indicating whether conditions during the next three months were expected to be 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.

### Banker Comments Q1 2024

"Higher interest rates have slowed down capital purchases, but have not stopped strong customers from keeping to yearly routines, while customers with less liquidity are struggling." – Northwest Kansas

"A dry August 2023 resulted in poor soybean yields locally and the lost income will ultimately add some financial strain to 2024." – Central Kansas

"Low crop prices will be a struggle for our producers. Producers will need to do an exceptional job of marketing their crops to have a successful year." – Southwest Kansas

"Lower commodity prices are currently impacting farmers along with dry conditions." – Central Missouri

“Operations with high intermediate term debt service with struggle mightily with reduced commodity prices and profit margins.” – Northwest Missouri

“There is a fair amount of anxiety about stagnant to falling commodity prices when compared to steady to rising inputs.” – Western Missouri

“Our primary concerns are lower commodity prices, dry conditions, and higher living costs.” – Northeast Nebraska

“A large majority of our farm borrowers had good working capital to absorb the losses that occurred in 2023, but 2024 year will be the deciding factor of how many of our borrowers end up with negative working capital at the end of the year.” – Northeast Nebraska

“2024 cash flow projections are tight due to low commodity prices and higher input expenses and there is a large amount of unpriced 2023 grain in the storage bins or in the elevators in our area.” – Southcentral Nebraska

“In our area lower commodity prices are being partially offset by higher beef prices and more accommodating weather conditions for winter wheat.” – Northwest Oklahoma

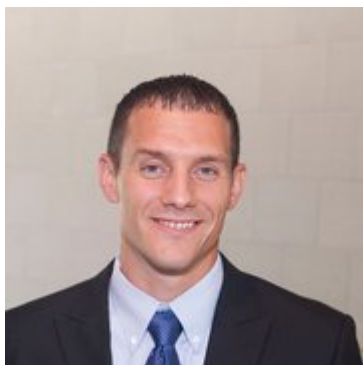
“Farm income in our area is up due to cattle prices, but increased costs for stockers presents concern going forward.” – Southern Oklahoma

“Lower grain prices are causing cash flow shortages.” – Western Oklahoma

“Mild drought conditions over the winter may be concerning.” – Northern Wyoming

**Data: Credit Conditions | Fixed Interest Rates | Variable Interest Rates | Land Values** A total of 129 banks responded to the First Quarter Survey of Agricultural Credit Conditions in the Tenth Federal Reserve District—an area that includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico and the western third of Missouri. Please refer questions to Nathan Kauffman or Ty Kreitman at 1-800-333-1040.

## Authors



### Nate Kauffman

#### Senior Vice President, Economist, and Omaha Branch Executive

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. 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.



### Ty Kreitman

#### Associate Economist

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, 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.