



Agricultural Finance Update

Subdued Farm Economy Begins Weighing on Credit Conditions

by: Nate Kauffman and Ty Kreitman

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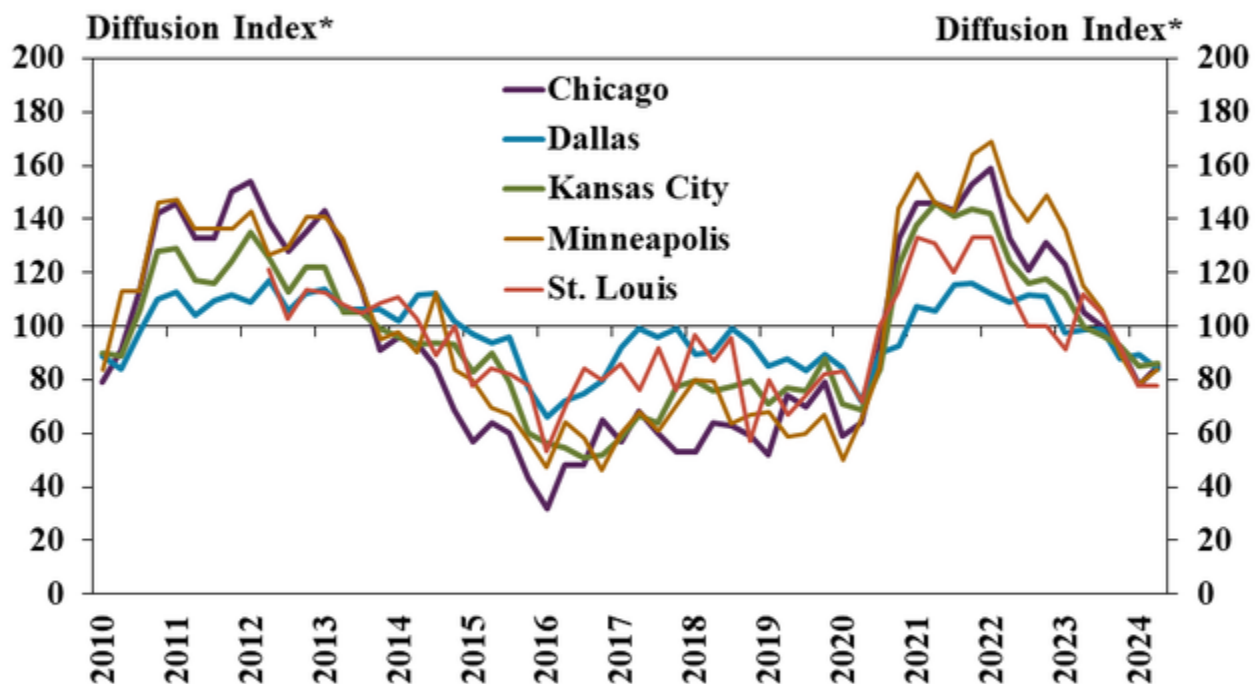
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Agricultural credit conditions continued to tighten in the second quarter and growth in farmland values slowed. The pace of decline in farm loan repayment rates picked up gradually through mid-year alongside considerable softening in farm income. Elevated production costs and lower prices for key commodities, particularly major row crops, have reduced liquidity in the sector and spurred a rise in non-real estate loan demand. Interest rates on farm loans also remained at multi-decade highs, keeping financing costs high. Growth in farm real estate values tempered further during recent months, but valuations held firm in most regions.

Second Quarter Federal Reserve District Ag Credit Surveys

Credit conditions deteriorated gradually as the farm economy remained subdued. According to Federal Reserve Surveys, farm loan repayment rates slowed across all participating Districts in the second quarter (Chart 1). On average, about 20% of respondents reported that repayment rates were lower than a year ago while roughly 75% indicated repayment had not changed.

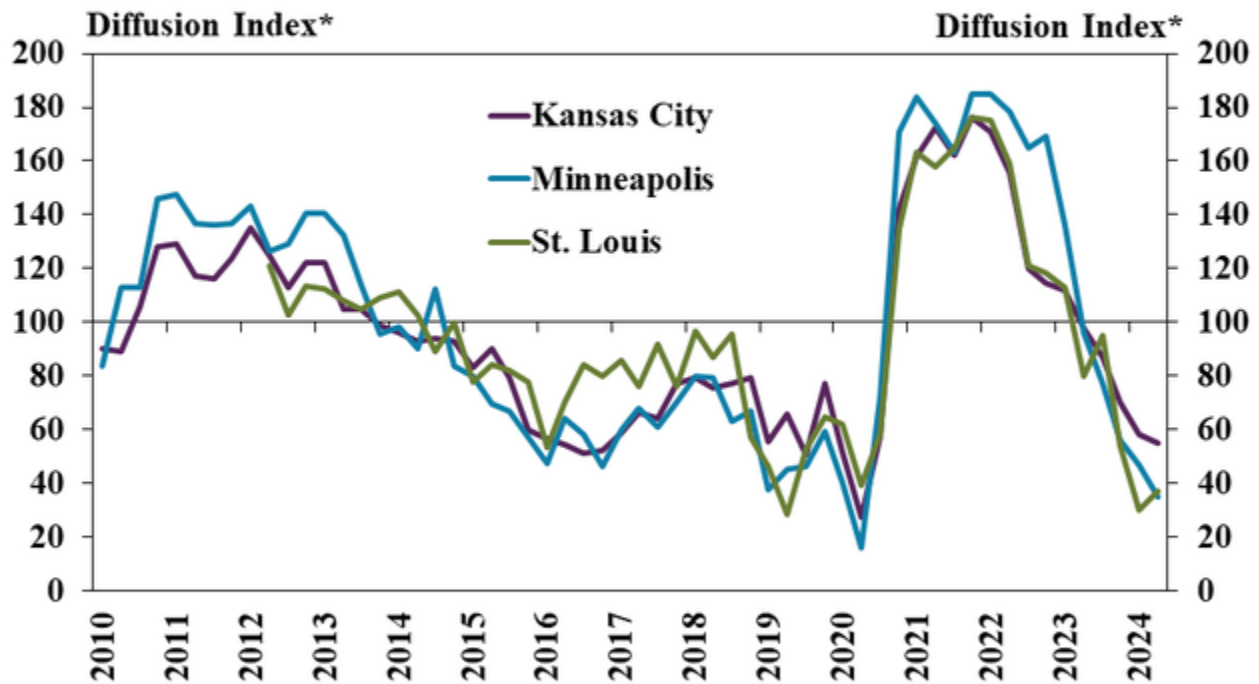
Chart 1: Farm Loan Repayment Rates



*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: St. Louis survey began Q2 2012.
Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

Credit conditions moderated as farm income weakened at a rapid pace. Farm income continued to decrease from exceptional levels in all participating regions (Chart 2). The pace of decline was slightly less pronounced in the Kansas City District, where greater reliance on cattle revenues has limited the drop in farm incomes.

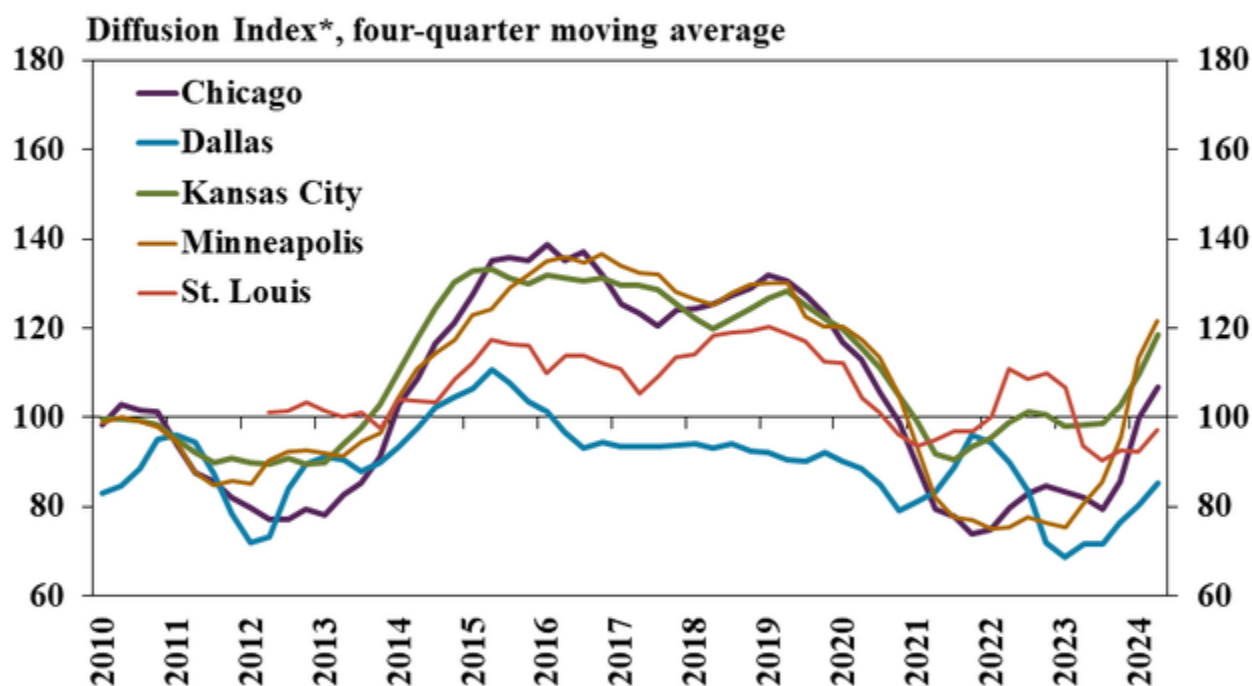
Chart 2: Farm Income



*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 is only collected for above Districts and St. Louis survey began Q2 2012. **Sources:** Federal Reserve District Surveys of Agricultural Credit Conditions

Demand for non-real estate farm loans in most areas continued to grow as income and liquidity tightened. The pace of increase in loan demand continued to rise in most regions (Chart 3). Demand stayed subdued in the Dallas and St. Louis Districts, but the share of lenders reporting lower demand decreased from previous quarters.

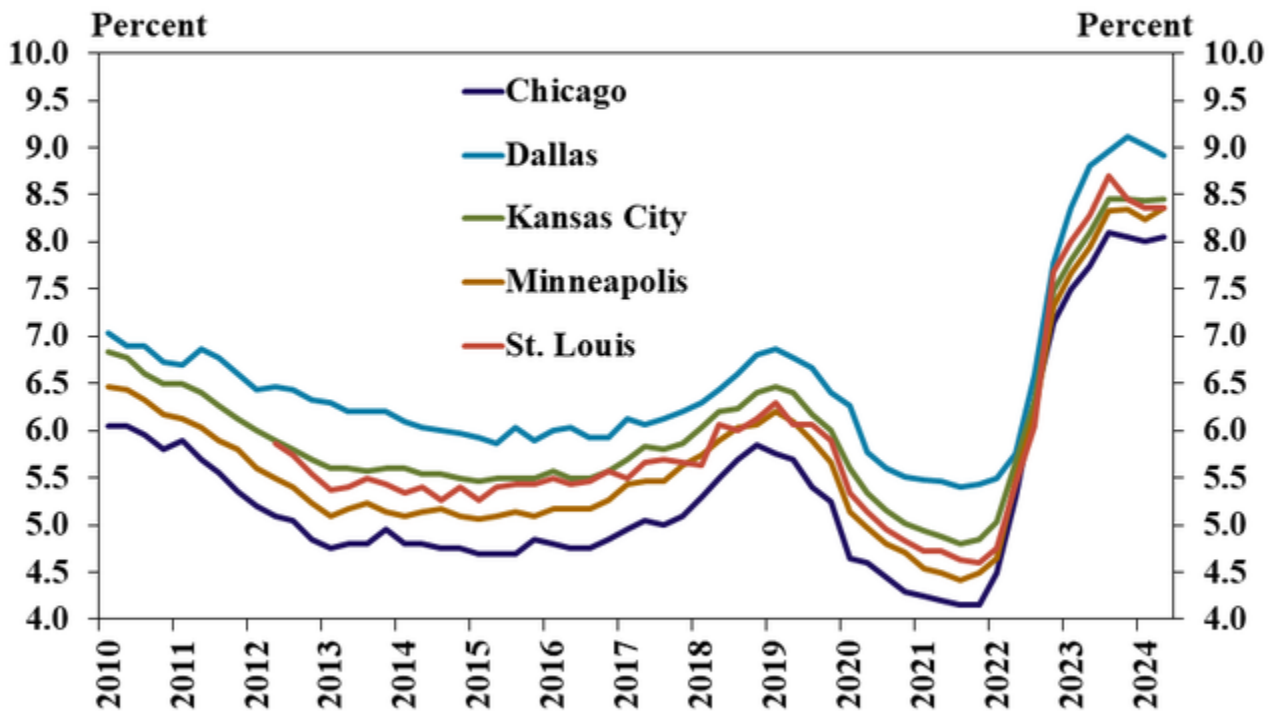
Chart 3: Non-Real Estate Farm Loan Demand



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 Note: The St. Louis survey began Q2 2012.
 Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

Lending has also increased as interest rates have remained at multi-decade highs. The average rate charged on farm loans was generally steady in most Districts as benchmark rates were unchanged (Chart 4). Farm loan interest rates have been well above the average of the past decade for almost two years and interest expense for producers has risen considerably.

Chart 4: Average Fixed Interest Rates*



*Average of fixed rates on agricultural loans of all types – operating, intermediate and real estate

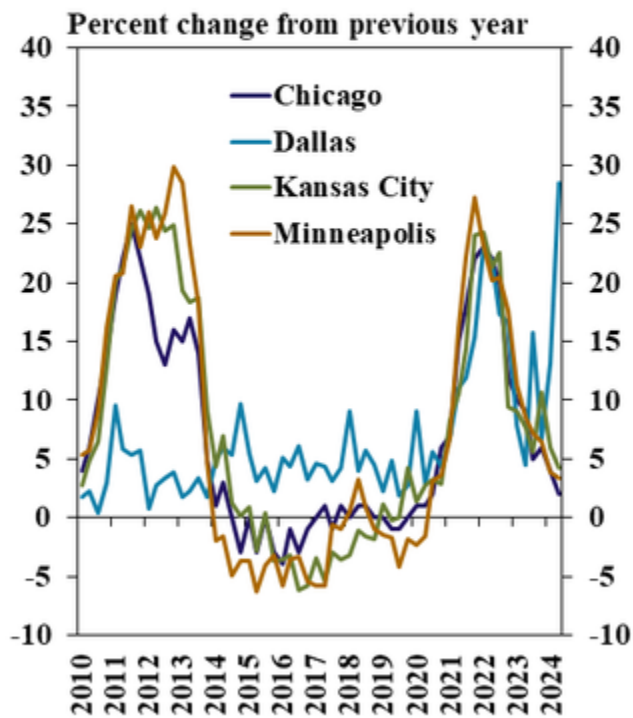
Note: The St. Louis survey began Q2 2012.

Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

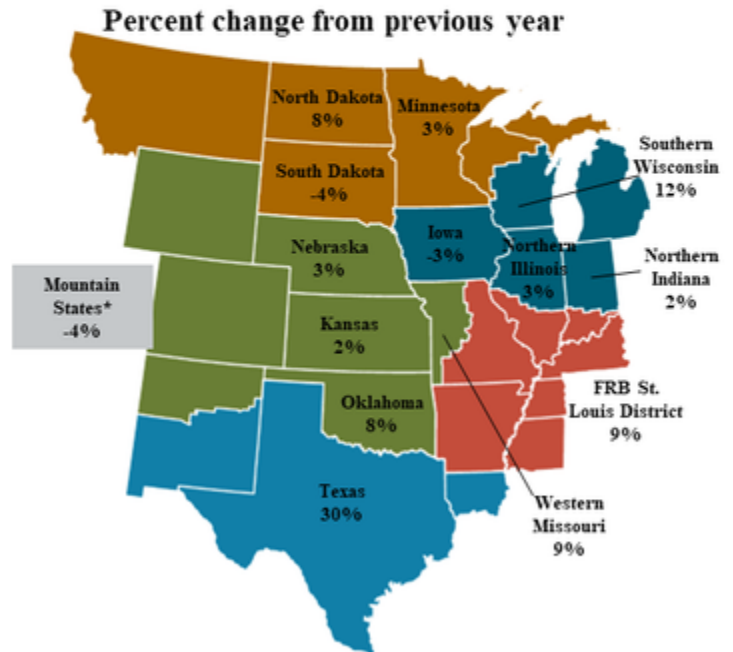
Farmland values remained firm, but growth slowed in most regions. The value of nonirrigated cropland increased by less than 5% in nearly all participating Districts (Chart 5). In contrast to other areas, land values in Texas increased considerably with contacts in some areas of the state citing strong recreational and investor demand.

Chart 5: Nonirrigated Cropland Values

Nonirrigated Cropland Values



Nonirrigated Cropland Values, Q2 2024



*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

[Federal Reserve Ag Credit Surveys Historical Data](#)

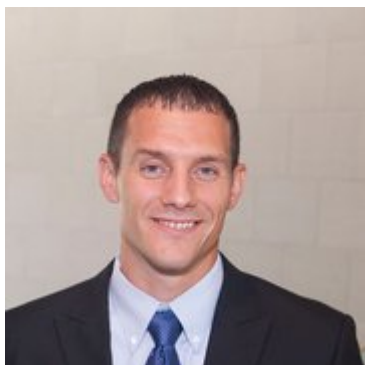
[Federal Reserve Ag Credit Surveys Tables](#)

[About the Federal Reserve Ag Credit Surveys](#)

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<https://www.kansascityfed.org/agriculture/agfinance-updates/subdued-farm-economy-begins-weighing-on-credit-conditions/>

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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 serves as Executive Director of the Bank's Center for Agriculture and the Economy. 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.



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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, 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.