

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY
DENVER • OKLAHOMA CITY • OMAHA

One Memorial Drive • Kansas City, MO 64198 • Phone: 816.881.2683

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Contact: Erin Redemske
402-221-5608
erin.redemske@kc.frb.org

FARM DEBT ACCUMULATING ACCORDING TO AGRICULTURAL CREDIT SURVEY

Further increases in farm debt pointed to growing concerns about the Tenth District's agricultural economy. Loan demand continued to rise, repayment rates continued to weaken, and almost all District bankers in the seven-state region reported that farm income declined in the first quarter of 2016, according to the Kansas City Fed's quarterly Survey of Agricultural Credit Conditions.

Bankers noted that poor cash flow prevented many borrowers from paying off loans from the previous year, causing them to carry outstanding debt into the first quarter. Moreover, bankers specified that more than 18 percent of loans made in the first quarter involved restructuring existing debt to meet short-term liquidity needs. To mitigate their exposure to risk in this environment, District bankers raised collateral requirements somewhat and increased their use of government guaranteed loan programs.

The ongoing decline in farm income remained the primary driver of weakening credit conditions and modified loan terms. In the first quarter, 86 percent of survey respondents reported a drop in farm income from a year ago. Capital spending softened alongside the declines in farm income, and more bankers also cited lower household spending. In fact, 50 percent of bankers indicated that household spending fell in the first quarter, up sharply from 25 percent a year ago. More than half of bankers surveyed expected farm income, capital spending and household spending all would decline in the next three months.

Although most costs associated with agricultural production have held firm, cash rents declined for all farmland types. Similar to cash rents, nonirrigated and irrigated cropland values continued to moderate. Moving forward, about half of District bankers indicated they expect further declines in nonirrigated and irrigated farmland values.

Read the complete survey at www.kansascityfed.org/research/indicatorsdata/agcreditsurvey.

As the regional headquarters of the nation's central bank, the Federal Reserve Bank of Kansas City and its branches in Denver, Oklahoma City and Omaha serve the seven states of the Tenth Federal Reserve District: Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri.

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