Ag Finance Update

Steady Growth in Farmland Values Continues

by: Nate Kauffman and Ty Kreitman

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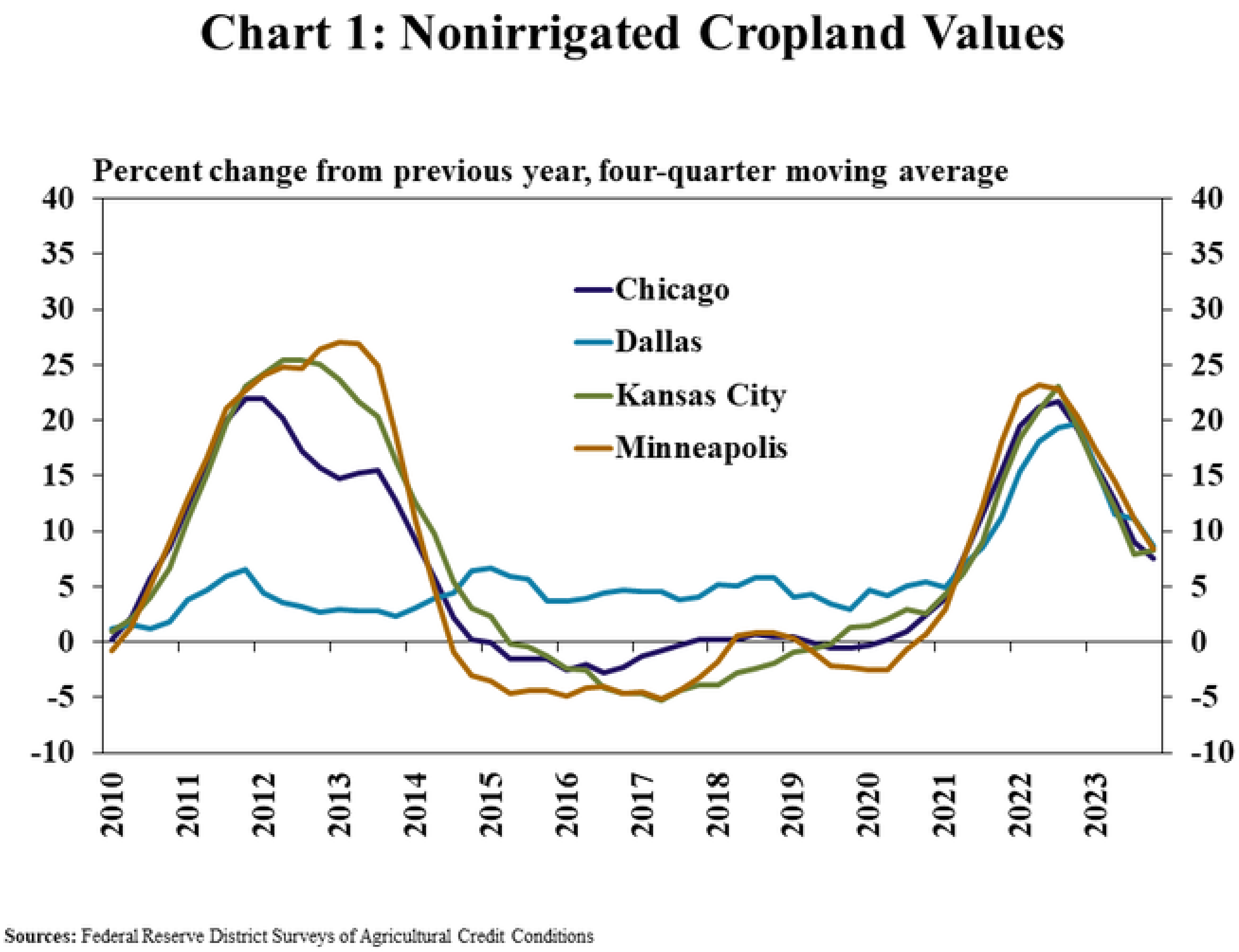
Agricultural real estate values remained strong through the end of 2023 despite a moderation in the farm economy and higher interest rates. According to Federal Reserve District Surveys of Agricultural Credit Conditions, the value of nonirrgiated cropland increased by as much as 10% from a year ago in some regions. The sharp rise in financing costs over the past year and thinner profit margins for many key commodities has the potential to weigh on farmland values, but coming into 2024 those factors have not materially tempered land markets.

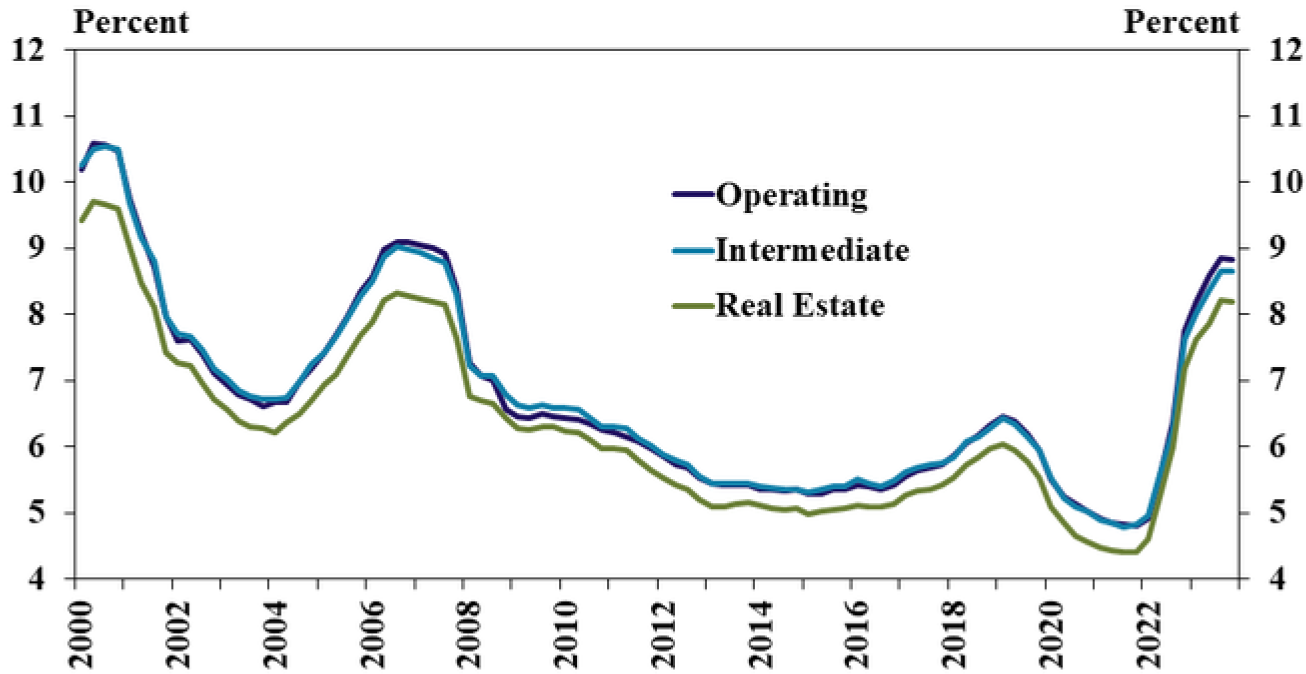
Fourth Quarter Federal Reserve District Ag Credit Surveys

Agricultural real estate values remained firm through the end of 2023. The value of nonirrigated cropland increased by an average of nearly 10% over the past year throughout Districts participating in the survey (Chart 1). The growth in farmland values was markedly lower than the previous two years, but remained strong.



Agricultural real estate values remained solid despite higher interest rates. Average interest rates charged on all types of farm loans were largely flat compared with the previous quarter, but remained at the highest level in more a decade (Chart 2). Higher interest rates have increased financing costs considerably for farm borrowers and could be particularly challenging for producers with large amounts of debt.

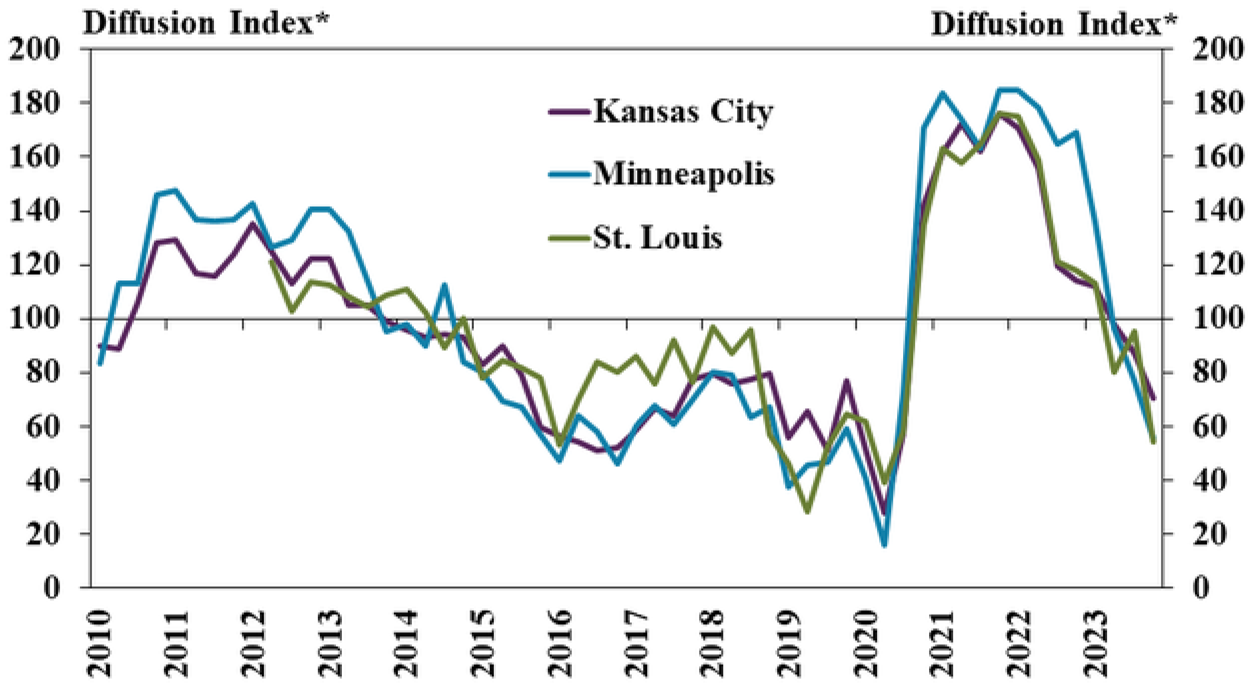
Chart 2: Average Farm Loan Interest Rates



Note: Includes the average interest rate on fixed and variable rate loans in the Chicago, Dallas, Kansas City, Minneapolis, and St. Louis Districts.
Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

Farmland values have also remained firm despite a moderation in farm financial conditions. Farm income decreased from a year ago according to survey respondents in participating Districts (Chart 3). Profit margins for many producers have thinned over the past year alongside lower prices of key commodities and the share of banks reporting that incomes were lower than a year ago has increased gradually in recent survey periods.

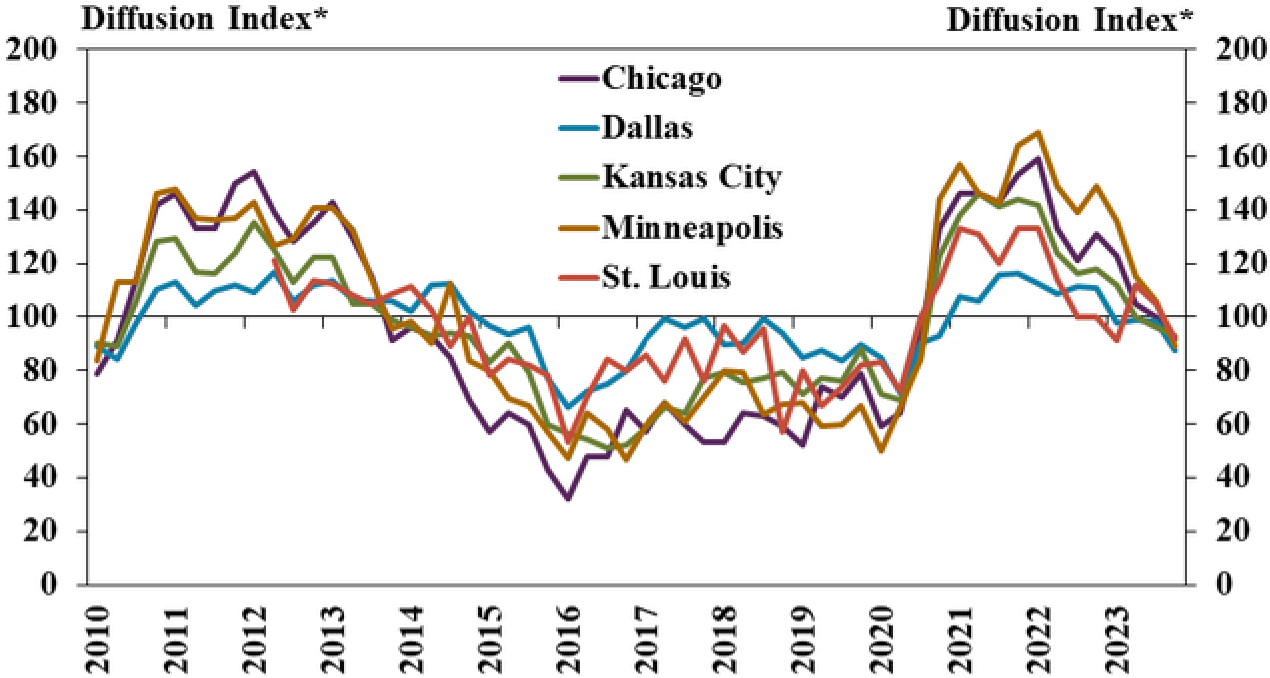
Chart 3: Farm Income



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

Softening in farm finances put some downward pressure on agricultural credit conditions, but stress remained low. Farm loan repayment rates slowed slightly compared with a year ago in all participating regions (Chart 4). Despite some moderation in rates of repayment over the past year, delinquency rates on farm loans at commercial banks have remained low in recent months.

Chart 4: Farm Loan Repayment Rates



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

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