Agricultural Credit Survey Webinar

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The views expressed here are those of the speaker and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Survey Summary

Respondents to the Kansas City Fed’s third quarter survey of ag credit conditions reported, in aggregate:

- General, but notable improvements in the outlook for farm financial conditions.
- A more favorable outlook for loan repayment capacity.
- Modest increases in farmland values.
A sharp decline in farm income in the previous quarter abated somewhat in the third quarter.

Tenth District Farm Income and 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 corn, soybeans, wheat, cattle and hogs.

Sources: Wall Street Journal, Haver Analytics and staff calculations.
All District states showed improvement in assessments of farm income and liquidity.

**Tenth District Farm Income**

- **Diffusion Index** *

- Q2 2020
- Q3 2020
- Expected in next three months

**Tenth District Farm Borrower Liquidity**

- **Diffusion Index** *

- Q2 2020
- Q3 2020
- Expected in next three months

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**Mountain States** include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.
Following years of steady growth, demand for farm loans appeared to soften.

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Most measures of credit conditions also deteriorated at a more gradual pace in the third quarter.

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Weakness in loan repayment also moderated across states in the Kansas City Fed District.

Farm Loan Repayment Rates by State

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With an improved financial outlook, problem loan rates dropped in the third quarter.

**Tenth District Watch List, Q3***

**Tenth District Classified List, Q3***

*For purposes of this article, a “Watch List” loan is interpreted as a qualifying credit but is being closely monitored for potential problems (deterioration in borrower financial conditions, management changes, etc.). A “Classified List” loan is a loan with a defined weakness (inadequate debt service, insolvent collateral position, etc.) that requires specific documentation and potential bank reserve adjustments.

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The pace of renewals or extensions for existing borrowers remained elevated, but rates of asset liquidation slowed.

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**Bankers responded by indicating what percent of farm borrowers plan to sell mid- to long-term assets (such as machinery or land) before the end of the year in an effort to improve available working capital or make loan payments.**

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**Bankers responded by indicating what percent of farm borrowers plan to sell mid-to-long term assets (such as machinery or land) before the end of the year in an effort to improve available working capital or make loan payments."
Interest rates on ag loans continued to decline, and farmland values increased slightly throughout the District.

Tenth District Average Interest Rates

- Variable Rates on Operating Loans
- Fixed Rates on Real Estate Loans

Tenth District Farmland Values

- Nonirrigated
- Irrigated
- Ranchland

* Percent changes are calculated using responses only from those banks reporting in both the past and the current quarters
The stability of farm real estate values was consistent across all types of land.

### Tenth District Farmland Values by State, Third Quarter 2020

<table>
<thead>
<tr>
<th></th>
<th>Nonirrigated</th>
<th>Irrigated</th>
<th>Ranchland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kansas</td>
<td>-1</td>
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<td>1</td>
</tr>
<tr>
<td>Western Missouri</td>
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<td>n/a **</td>
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</tr>
<tr>
<td>Mountain States***</td>
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</tr>
<tr>
<td>Tenth District</td>
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<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

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** Not reported due to small sample size.

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Concluding Remarks

- The outlook for the farm economy has turned considerably less pessimistic than in the initial months of the pandemic.

- Stronger commodity prices and sizable government payments have provided significant support and factor heavily into the outlook for 2021.