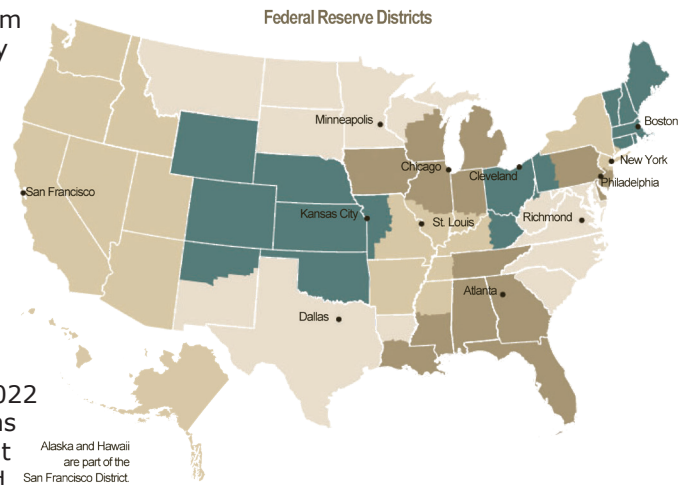


## Solid Farm Economy, but Signs of Slowing

**F**inancial conditions in the Tenth District farm economy remained solid in the second quarter, but survey contacts reported signs of slower growth that appeared likely to continue in the coming months.

Financial conditions in the Tenth District (Kansas City) farm economy remained solid in the second quarter, but survey contacts reported signs of slower growth that appeared likely to continue in the coming months. Following rapid gains in farm real estate values in recent quarters, valuations moderated in the second quarter alongside recent declines in agricultural commodity prices. Farm income remained stronger than a year ago, but an increase in farm loan interest rates, drought, higher input costs, and the pullback in commodity prices likely contributed to a slightly less optimistic outlook on the farm economy than in the previous quarter.



While the outlook for the District agricultural sector in 2022 has remained positive, lenders reported growing concerns about 2023. A larger share of lenders reported significant increases in production expenses for producers compared to last year. In addition, several respondents commented that severe drought has reduced hay and forage for livestock and contributed to higher feed costs. Despite these concerns, farm loan repayment problems declined to the lowest level in more than 7 years, and more than half of survey respondents expected farm income to increase or remain unchanged in 2023, highlighting continued strength in the financial position of farm borrowers.

Farm finances across the District remained strong alongside elevated commodity prices, but the pace of increase softened. Farm income continued to improve overall, but the share of banks reporting higher incomes than a year ago dropped slightly (See chart). Expectations about the coming months were notably less optimistic, with fewer than half of all respondents anticipating higher farm incomes.

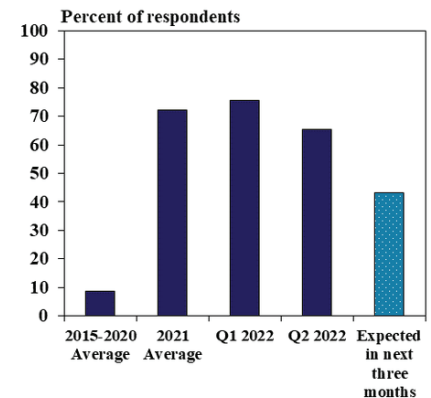
The softer outlook for farm income has followed a notable increase in production expenses. The share of banks reporting an increase in expenses for producers was similar to a year ago, but far more respondents indicated the rise in costs was more substantial. Nearly 90 percent and 60 percent of respondents noticed a significant increase in input costs for crop and livestock producers, respectively; triple the share that reported significant increases a year ago.

### Tenth District Farm Income

Farm Income



Share of Banks Reporting Higher Farm Income



\*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.

**For more information:**

<https://www.kansascityfed.org/agriculture/ag-credit-survey/>

How Much Risk is Right for You?