

AG FINANCE UPDATE

Farm Real Estate Values were Steady in 2024

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Agricultural real estate values in the Midwest and plains states were flat through the end of 2024. According to Federal Reserve Surveys of Agricultural Credit Conditions, the value of nonirrigated cropland was generally unchanged from a year ago in most participating Districts. Land markets cooled alongside tightening farm financial conditions and elevated farm loan interest rates. Agricultural credit conditions also deteriorated slightly into the fourth quarter, but financial stress remained limited. The outlook for the farm sector in the year ahead remained relatively subdued alongside narrow profit opportunities for crop producers. However, modest increases in corn prices more recently and pending ad hoc government assistance related to the American Relief Act could support the sector in early 2025.

Fourth Quarter Federal Reserve District Ag Credit Surveys

Agricultural real estate values were flat in most regions through the end of 2023. The value of nonirrigated cropland changed by less than 1 percent over the past year in nearly all Districts participating in the survey (Chart 1). Reports of land values in the Dallas District were volatile over the past year, with contacts in some areas of the state citing strong recreational and investor demand.

Agricultural real estate markets have softened as interest rates remained at multi-decade highs. Average farm loan interest rates in all Districts declined slightly over the past year, but remained about the average over the past 20 years (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.

Farmland values have also flattened alongside weaker farm financial conditions. The share of survey respondents reporting that farm income was lower than a year ago continued growing into the fourth quarter in all participating Districts (Chart 3). Profit margins for crop producers were weak through the end of 2024 and finances tightened considerably throughout the year in areas most heavily concentrated in crop production.

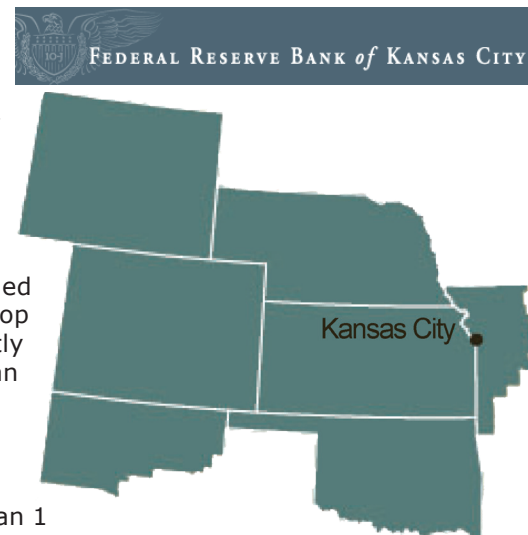
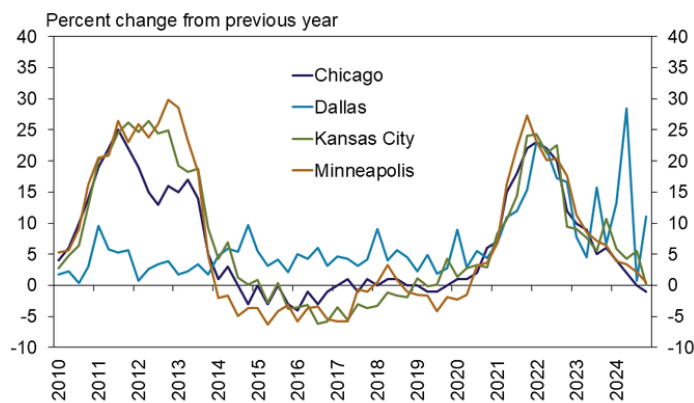
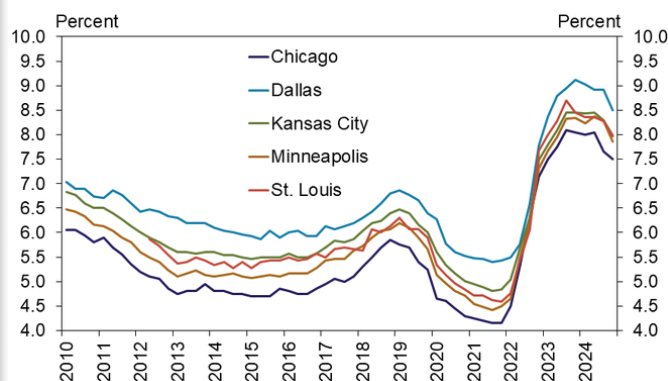


Chart 1: Nonirrigated Cropland Values



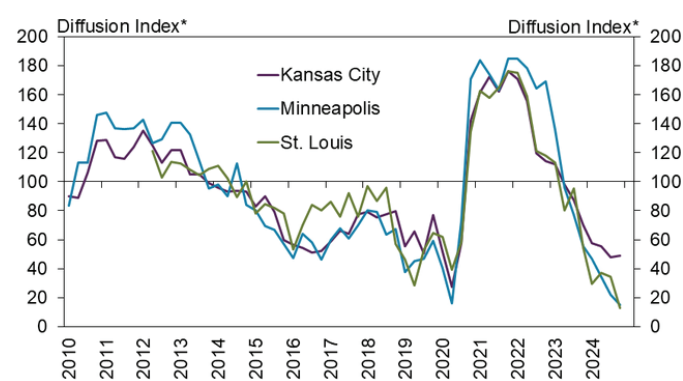
Source: Federal Reserve Surveys of Agricultural Credit Conditions

Chart 2: Average Farm Loan Interest Rates



Note: Average fixed rates on agricultural loans of all types – operating, intermediate and real estate
Source: Federal Reserve Surveys of Agricultural Credit Conditions

Chart 3: Farm Income



Note: Average fixed rates on agricultural loans of all types – operating, intermediate and real estate
Source: Federal Reserve Surveys of Agricultural Credit Conditions

Softening farm finances also put gradual downward pressure on agricultural credit conditions. The share of respondents reporting lower farm loan repayment rates continued increasing in all Districts during the fourth quarter (Chart 4). Despite signs of modest deterioration in credit conditions, financial stress in the farm sector remained limited through the end of the year.

Tenth District Farmland Markets

Cash rents for farmland generally remained unchanged throughout 2024. Similar to land values, rental rates charged on farmland in the District increased by less than 2 percent (Chart 5). Also following a similar path, ranchland cash rents increased by about 5 percent from the previous year.

Changes in values varied across states and types of land. The value of nonirrigated land declined slightly in western Missouri

Chart 4: Farm Loan Repayment Rates

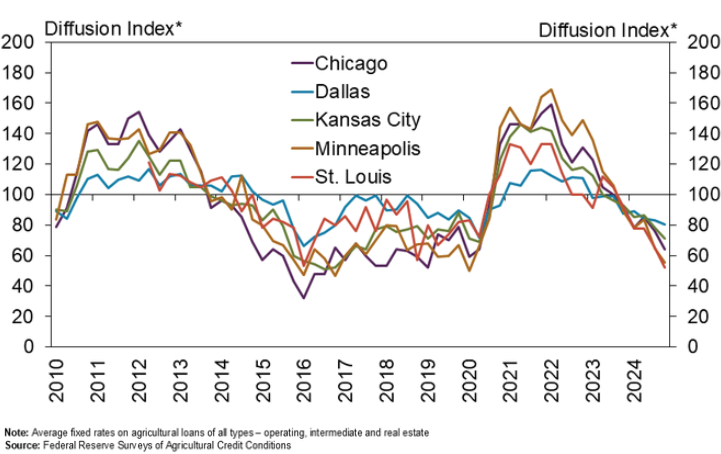


Chart 5: Tenth District Farmland Cash Rents

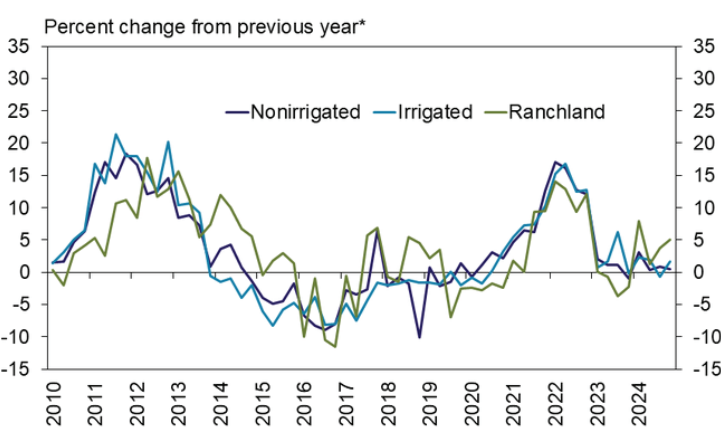


Table: Tenth District Farmland Values by State, Q4 2024

	Nonirrigated	Irrigated	Ranchland
Kansas	3	2	9
Western Missouri	-3	n/a **	4
Mountain States***	8	n/a **	9
Nebraska	-1	-1	5
Oklahoma	4	10	5
Tenth District	0	2	5

*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarters.
**Not reported due to small sample size
***Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.

and Nebraska but increased modestly in other states (Table). Ranchland values grew at least modestly in all states with slightly stronger growth in Kansas and the Mountain States.

Farmland markets cooled alongside lower sale volumes and steady demand from farmers. The volume of farmland sales in the region was less than a year ago according to lenders. Similar to recent years, respondents on average reported that about 75 percent of all land purchases were made by farmers.

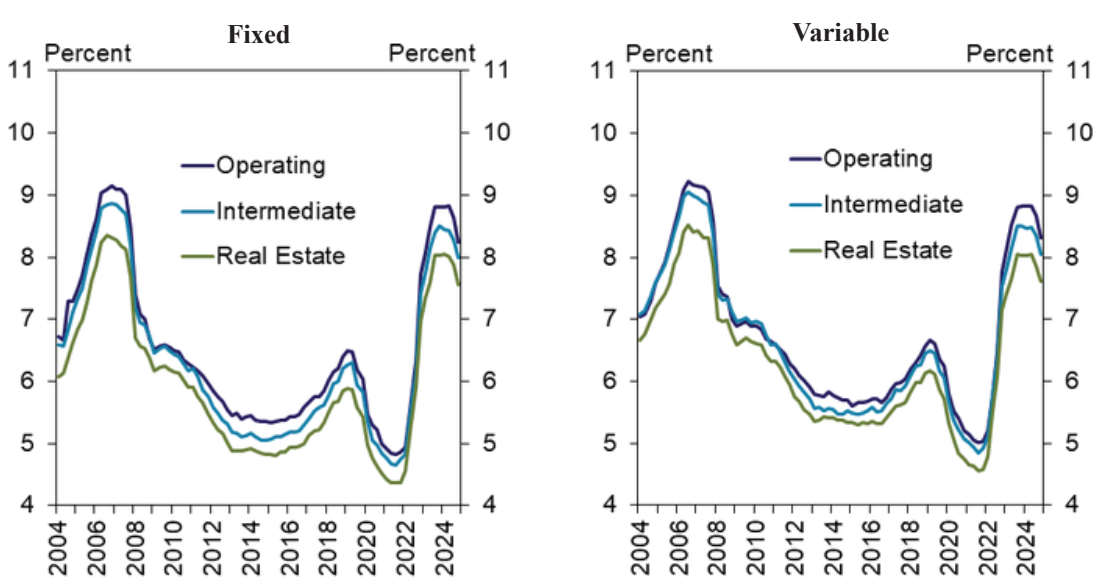
Tenth District Economic and Credit Conditions

Fixed and variable rates on all types of agricultural loans declined about 30 basis points from the previous quarter and were around 50 basis points less than the beginning of 2024 (Chart 6). Rates fell alongside lower benchmark rates, but remained above the average over the past 20 years.

The more pessimistic outlook for agricultural land values coincided with tightening in farm financial conditions throughout the year. Farm income and liquidity in the region continued to decline at a sharp pace (Chart 7). Compared with the fourth quarter of 2023, the share of lenders reporting that income and liquidity were lower than the same time a year ago increased in all states except Oklahoma.

With lower farm income and liquidity, credit conditions deteriorated steadily. Farm loan repayment rates in the region declined at the fastest pace since early 2020 (Chart 8). The share of lenders indicating that

Chart 6: Tenth District Average Farm Loan Interest Rates



repayment rates were lower than a year ago grew in all states over the past year.

The reduction in cash on farmer balance sheets also contributed to growing demand for financing. Demand for non-real estate farm loans continued to increase at a moderate pace across the region. The share of lenders reporting higher loan demand grew considerably in the Mountain States, but dropped notably in Missouri.

Farm borrowers cut back on capital spending in response to tighter finances, but pressure on household budgets persisted. Similar to the trend over the past year, the pace of decline in capital spending grew steadily while household spending continued to increase modestly. Producers appear to have quickly reduced spending on equipment and other investments alongside lower incomes, but broad inflationary pressures have likely limited the capacity to cut household expenses.

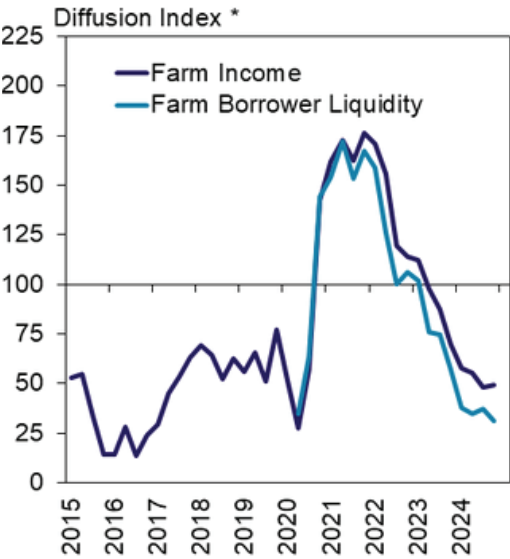
For more information:

For more information on the Tenth District agricultural economy or to access the complete Ag Finance Update, see: <https://www.kansascityfed.org/agriculture/ag-credit-survey/farm-real-estate-values-were-steady-in-2024/>.

For more information on the Tenth District agricultural economy or to access the complete Ag Credit Survey, see: <https://www.kansascityfed.org/agriculture/ag-credit-survey/farmland-values-flattened-amid-modest-deterioration-in-credit-conditions/>.

Chart 7: Tenth District Farm Income and Borrower Liquidity

Farm Income and Liquidity



*The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

Share of Banks Reporting Lower Farm Income by State, Q4

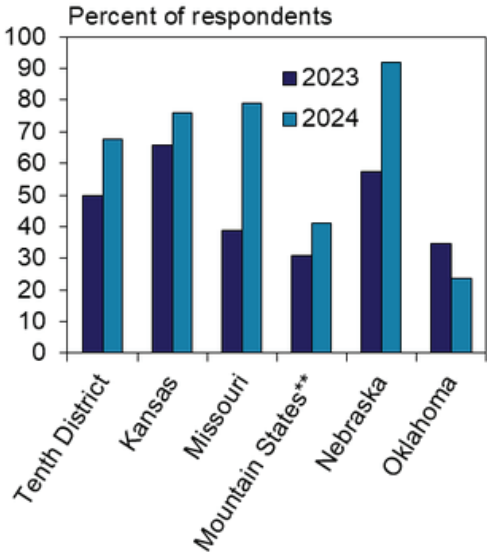
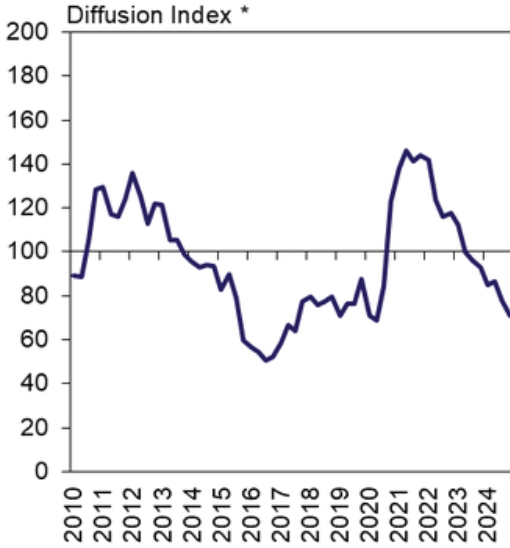


Chart 8: Tenth District Farm Loan Repayment Rates

Farm Loan Repayment Rates



*The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

Share of Banks Reporting Lower Repayment Rates by State, Q4

