



Chicago Fed Insights, February 2024

AgLetter Insights: 2024 Seen as Tougher Year for Agriculture Sector

By Chicago Fed Staff Writer

Agriculture Regional Economy

Gains in farmland values slowed, crop prices were down, and some ag sector banks were tightening their credit terms. Yet historically, the picture for Midwest agriculture was still fairly strong in the final quarter of 2023. In this Q&A about the [February 2024 issue](#) of the Chicago Fed's *AgLetter*, which covers last year's fourth quarter, David Oppedahl, *AgLetter* author and policy advisor at the Chicago Fed, talks about the prudence of bankers, drought and crop yields, and value and scarcity in Wisconsin farmland.

Q: As usual, I'll start by asking you what is happening to farmland valuation?

A: The farmland values in the Seventh District seem to be slowing down from the double-digit increases of the last couple of years to, now, a mid-single-digit annual increase of 6%. There's certainly some pent-up demand from the past that's kind of kept these land values strong. But at the same time, there haven't been so many farms available to buy.

And with the drop in farm incomes this past year—from very, very strong levels to just strong levels—it seems like there's been a little slower growth. This is particularly true of Iowa; having had its ag land values run up earlier than those of other District states, Iowa has seen its farmland values come back to earth a little faster.

Q: But, still, in the longer term would an annual increase of 6% be a good story?

A: Especially in the past decade it would be decent. After the increases in the 2007 through 2013 period, we had a real slowdown in farmland value increases. And there were actually real declines in farmland values in many of those years between 2013 and 2020, when farmland values started to climb again.

Q: You mentioned Iowa. Are there any other conditions in District states—also including Illinois, Indiana, Michigan, and Wisconsin—that were striking to you this time around?

A: It was a little surprising how Wisconsin farmland values remained stronger. That seems to be tied to the nature of agriculture there, which is much more diversified. So you have more of a demand for the large dairies to keep growing their footprint for land because they need a land base to spread manure. And then also there are some development pressures. And there's an increase in demand for ground for solar panels. And also mentioned was just a lack of acreage available to purchase up there.

Q: You also, in the new *AgLetter*, chronicle a weakening of credit conditions. You write, "reversals in agricultural credit trends for the District were a dominant theme at the end of 2023." What's going on there?

A: It really relates to the decline in farm income on a net basis, where corn and soybean prices are down and a lot of livestock prices are down. So farms just aren't generating the cash flow that would help credit conditions get stronger like they had been in the past couple of years.

Even though they're in a relatively strong position in terms of their cash and working capital right now, the anticipation would be that we would see a little bit of a giveback there, as farmers aren't able to keep things moving forward in the same way they have been. There's going to have to be some adjustments.

Q: What kind of adjustments are you anticipating?

A: There should be some reassessments of inputs: how much they're going to spend on things like fertilizer and other products, making do maybe with a little bit less this year, or changing the mix of crops possibly.

The other adjustment that I should mention is that with higher interest rates, there's less incentive to buy new equipment and to invest right now. A lot of farmers recently did purchase new equipment. So they are probably kind of in a period where they don't need to update some of their equipment and buildings and different things in their farm operations.

Q: So, potentially, a slowing of the whole sort of related economy is expected?

A: Which could have some impacts for the surrounding communities. And so there are lots of different possible scenarios that come out of this.

Q: One more thing on the credit conditions. You noted that about a quarter of the banks you surveyed had tightened credit terms at the end of 2023. Is that a significant proportion?

A: Well, it's enough of an increase that it's noticeable, but it's not necessarily such a significant portion, because many of them already have tightened credit standards. So just normally, as part of business, the banks are trying to help their customers but at the same time making sure their customers are able to manage what they're taking on in terms of the loans.

Q: Okay, you have final figures for crop yields for last year. What do they tell you?

A: Well, the corn yields were strong. We had the drought last year, and the feeling going into the summer was that 2023 could be a really tough year. In 2012, we had a major drought, and there was a big drop in yields that year. But this past year, the drought didn't seem to impact yields as dramatically.

There was a slight decrease in corn yields, but just less than 1% from 2022. And soybean yields were actually a little bit better for the District states than a year ago. So it was one of those years where the rains were timely. And there was kind of a surprise nationally that we had the largest corn crop in history.

Q: Interesting. And prices did not hold up, correct?

A: Right. There was a deterioration in prices for corn and soybeans over most of the past eight months or so. One of the impacts of the drought ended up being that farmers didn't anticipate as big a crop, so they didn't sell forward as much as they normally would have. And so they lost out on an opportunity to lock in some of that production at a higher price.

Q: You say corn and soybean revenues fell from 2022 for the District states. Livestock prices were down, too. So are these declines in part due to the cooling of inflation?

A: Commodity prices generally have come down from the peaks that occurred in '21, '22 after Covid—and the dramatic growth in the U.S. economy and the big jump in demand around the world after having everything crash.

So it was just those tough dynamics of the supply chain issues combined with the surge in food demand, and that all kind of filtered through the economy, and we had very high food price increases. But now, those have been slowing as well. There's a lot of different ways to look at it. But certainly, it fits into the inflation picture.

Q: Interesting. And then, looking forward, you quote a banker in the *AgLetter* warning of “tough times ahead.” So what do you anticipate seeing in 2024 for the agriculture sector in the Seventh District?

A: It seems that we've entered kind of a new phase where credit conditions are tighter than they had been. Cash flows of operations seem a little bit more challenging now. So you would anticipate a bigger demand for operating loans, which was indicated by the survey responses.

At the same time, we're moving into this next phase where farmland values probably won't be increasing at even the rate they were this year. They could be flattening out. The vast majority of the bankers expected farmland values not to increase, but there weren't a lot that felt they were going to decrease either.

So we'll see going forward if we're able to continue to have stable farmland values or not. But it'll still likely be tougher than it's been in a while.

Opinions expressed in this article are those of the author(s) and do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Federal Reserve System.