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AgLetter Insights: 2024 Begins with Gathering Headwinds for Regional Agriculture

By Chicago Fed Staff Writer

Agriculture Regional Economy

Gains in farmland values continued to slow in the Chicago Fed's five-state district, and credit to the agricultural sector has been tightening. In this Q&A about the May 2024 issue of the Chicago Fed's AgLetter, which covers this year's first quarter, David Oppedahl, AgLetter author and policy advisor at the Chicago Fed, talks about some changing patterns in the region's ag economy, seemingly different forecasts about land values from the same set of bankers, and what makes Michigan agriculture different.

Q: What's the news in Seventh District agriculture in the first quarter of '24?

A: The first quarter of 2024 had an increase in farmland values of around 4% from a year ago and up 2% from a quarter ago. So that's somewhat slower growth yet still upward momentum for farmland values. Agricultural credit conditions seemed to weaken a bit. For instance, the loan repayment rates and the extensions and renewals of operating loans were all moving in the direction that would indicate credit conditions for agriculture were not as strong as a year ago.

Notably, the demand for non-real-estate farm loans was up from a year earlier. Yet, the amount of available funds to lend by banks was down from a year ago. So when you combine those together, you end up with a higher level for the current loan-to-deposit ratio. That jumped up from the previous quarter, indicating that there was a surge in loan demand. Those are the quick highlights.

Q: What is a non-real-estate farm loan?

A: Those are primarily operating loans. But they're also loans for machinery; for cattle, both dairy and beef; and for storage units, structures, things like that. Those are the kinds of things that would be categorized as "non-real-estate" in the farm credit context.

Q: And if those are on the upswing, does that mean people are not as liquid as they used to be?

A: Yes, the cash flows from last year are tighter, and so working capital is being used up. And then farmers need extra liquidity. But not all those categories are rising. I mentioned in the AgLetter's final section that we can anticipate higher volumes of operating loans, cattle loans, and loans that are guaranteed by the FSA, or the Farm Service Agency, relative to a year ago. Loan volumes for things like storage construction and machinery are actually anticipated to be lower. So it's different stories for different categories. But the operating loans are the ones that are driving the overall increase in volume for that non-real-estate category. Meanwhile, the volume of real estate loans is expected to decrease.

Q: Did you see any state-by-state differences this quarter?

A: Well, there are differences in the increases in farmland values. For instance, Illinois's and Wisconsin's farmland values were up from a year ago. Iowa's farmland values were actually the same as a year ago in the first quarter, but that was a little improvement from their fourth quarter result. Indiana's farmland values seemed to be down from a year ago, but there weren't enough survey responses from that state to report a numerical change for these land values. Michigan and Wisconsin tend to be a little different than the "I" states of Illinois, Indiana, and Iowa.

Q: What makes the "I" states different?

A: Well, the agriculture in those states is highly concentrated in corn and soybean production—and some in animal, especially in Iowa. Farming in the “I” states is not nearly as diverse as it is in Wisconsin and Michigan, with Wisconsin being a little more focused on dairy production. Even though there is a lot of corn and soybeans grown in those states as well, they’re just not the main commodities.

Q: My layperson’s view is that Michigan has a lot of fruit and other interesting things. Not that soybeans aren’t interesting.

A: Michigan’s much more diverse because you have one section like the thumb, where it’s more focused on sugar production, with beet sugar extraction. And then the western edge of the state has a lot of fruit of various kinds. And so then, of course, just the agritourism angle is much bigger there, with some wine production as well as cider and other alcoholic beverages.

Q: And there’s still a shortage of land for sale? Is that across the District?

A: Pretty much. There were a few comments from our respondents that the farmland values might have fallen, except that there just isn’t much land available for sale. So the land values are holding stronger because of that.

Q: Credit conditions, you write, were weaker overall as reflected by high farm interest rates. What does that tell us?

A: It’s a little more challenging time for the cash flow of farms. And the ability to pay back loans is a little tougher when you have high interest rates. And then you have less liquidity to be able to keep your operation in shape.

And so that makes it a little more challenging. So you want to ask for more loans. But at the same time, you’re a little less likely to get them, given that there was a small movement up in terms of the collateral required. But most farm operations are still in good enough shape to qualify for borrowing at this point.

Q: And then looking forward, you quoted an Iowa banker saying projections for 2024 see most farmers breaking even or going backwards in equity and working capital. Is that throughout the District?

A: I think it applies District-wide. The one caveat to that is the best-performing farms would possibly be able to keep their profits positive this year if they had been astute in their plans for selling grain. You could have sold it a couple of years ahead and be sitting in a good position, whereas those that are sitting on the corn and soybeans they harvested last fall because they didn’t sell anything ahead, they’re seeing a lot of decline in their incomes from what’s been in storage over the winter. It’s not going to be the kind of situation like in the past few years, where if you waited and sold later, you would see the increase in prices. The prices are moving against them now.

Q: And in your concluding paragraphs, you found something interesting about perceptions of farmland values.

A: The *AgLetter* says that a lot of the bankers are seeing the current valuation of farmland as above where it should be. And that’s 59% of them. Now, 40% see it appropriately valued, and just 1% see it undervalued. So that would go along with the thinking that it’s more likely that farmland values in the first half of this year would be going down rather than up. And yet the majority, 76% of the same surveyed bankers, see farmland values as being stable over the next quarter. We’ll have to see what the results in three months’ time show about various factors affecting these two seemingly different sets of perceptions about farmland valuation among survey participants.

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