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IFES 2016: Agricultural Credit Market Update

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This is a presentation summary from the 2016 Illinois Farm Economics Summit (IFES) which occurred December 12-16, 2016. A complete collection of presentations including PowerPoint Slides (PPT) and printable summaries (PDF) are available here.

The continued "margin squeeze" faced by crop producers across the Midwest has led to a drastic reduction in working capital buffers. As a result, many grain farmers may seek additional debt capital to carry out marketing and production plans, to finance their capital base, or to provide short-run liquidity. From the lender's perspective, the continued margin squeeze also signals increasing risk for farm loan repayment, and as a result, farms should expect increased scrutiny in securing new or renewed lines of credit.

Agricultural credit market data provide modest signals of increasing credit risk. Farm loan data provided by the Federal Reserve indicate that farm loan delinquencies have increased in recent quarters from recent record lows. In addition, overall risk ratings for agricultural loans are also on the rise. Surveys of agricultural bankers conducted by the two Federal Reserve Districts that serve Illinois, Chicago and St. Louis, both demonstrate deteriorating credit conditions over the last few years. A growing share of lenders report increasing loan repayment concerns coupled with an increase in requests for loan renegotiations. In addition, the surveys also suggest agricultural bankers are facing increased agricultural loan demands. Finally, both Federal Reserve banks report modest increases in the cost of borrowing for both operating and real estate farm loans.

In addition, the Federal Reserve continues to signal a likely interest rate increase in the near term. While inflation remains below the Fed's long run policy target of 2%, unemployment is currently at or near target levels. Finally, many macroeconomists fear that the current low interest rate environment severely limits the Fed's ability to respond to a potential economic recession in the future. In sum, the current economic climate suggests that interest rates are likely to increase in the near future. This would have direct repercussions for farm borrowing, as agricultural interest rates are highly correlated with the federal funds rate.

Additional Resources

The slides for this presentation can be found at:

http://www.farmdoc.illinois.edu/presentations/IFES_2016

For current outlook information, see:

http://www.farmdoc.illinois.edu/marketing/newsletters.html

http://www.farmdocdaily.illinois.edu/

http://www.agmanager.info/

http://www.agecon.purdue.edu/extension/prices/index.asp

http://cattlemarketanalysis.org/