Department of Agricultural, Environmental, and Development Economics

Boom or Bust: Where are Ohio Farms Financially?

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September 28, 2022

This report is written based on a presentation given by the authors at Ask the Expert at the Farm Science Review organized by the Ohio State University on September 20, 2022. This report summarizes the outlook on farm income, land values, agricultural credit conditions, and farm financial stress.

Farm Income

U.S. net farm income will be up more than 50% from the 2020's much slimmer $94.5 billion, and twice as high as five years ago. Net farm income is expected to increase in 2022, up 5.2% from last year, mostly due to higher cash receipts which are offset by lower government payments and higher production expenses (ERS-USDA). Contributing factors also include the war in Ukraine and record-large agricultural exports to China, which are expected to drive U.S. net farm income higher this year. High commodity prices are expected to more than buffer the largest-ever year-to-year increase in production expenses. However, farm income is projected to decline in 2023 and 2024 as commodity prices are expected to soften, and then hold steady through 2027 (USDA, Baselines).

Land Values

Flush with cash, farmers and investors have driven up cropland values this year — a 13.4% increase nationwide and 11% in Ohio. The demand for farmland has surged this year due to higher farm income and high farm liquidity. Uncertainties grew from disruptions in input supply chains and the world food and grain trade. With the return to normal supply of cropland for sale, farmers who have experienced several years of high grain prices have continued to strongly bid for land. Individual investors have also entered the land market as farmland is considered a safe, long-term inflation-hedging investment. This combined heightened demand propelled land prices higher in 2022. This year's high inflation rate at 8.5% is another leading contributor to buoyant land values, yet high interest rates have counteracted it.

Ag Credit Conditions

In line with high farm income, agricultural credit conditions have also remained strong in 2022, but the pace of improvement has slowed, with higher repayment rates and lower demand for agricultural loans (Federal Reserve Bank of Kansas City). In the past couple of years, the total agricultural loan volume has declined, mostly because of higher farm incomes resulting in fewer production loans. The demand for non-real estate farm loans remained relatively low as strong farm finances provided ongoing support to working capital. The trends for Ohio farms have followed those for US farms, although the reduction in production loans has not been as large for Ohio. The rise in interest rates (currently about 3% and expected to increase more) to the levels seen in 2018 and 2019 are a major factor contributing to lower loan demand. Overall, an economy with an inflation rate at about 8.5%, which boosts land values but also increases farm production expenses, and a higher interest rate, will dampen the farmer's ability to service debt.

Farm Financial Stress

Farm financial performance has improved in 2022 as the agricultural economy has been recovering from the pandemic. Agricultural loan delinquency rates have remained low this year, at 1.9% as of the end of the second quarter of 2022, compared to as much as 4% in 2012 (FDIC). For Ohio, the delinquency rate was even lower at 1.5%, with a total of two Chapter 12 bankruptcies in 2022 so far (FDIC and US Courts). Farm balance sheets are stronger this year than 2021 with an inflation-adjusted increase in assets and equity of about 4% each and a decrease in inflation-adjusted debt by 1.2% (ERS-USDA). The increase in farm income is associated with the first decline in total debt since 2012 and the bankruptcy rate being at its lowest level since 2004.

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