Survey of Agricultural Credit Conditions

By Kendall McDaniel and Russell Lamb

Agricultural credit conditions in the Tenth District improved modestly in the fourth quarter of 1997, according to a survey of 317 district agricultural bankers. An excellent fall harvest and last year's recovery in cattle prices lifted farmland values. Demand for farm loans remained strong at the end of the year despite slower loan repayment rates. The availability of funds at district agricultural banks increased as the year ended, while farm interest rates edged down and loan-deposit ratios remained high.

Farmland values rise

District farmland values rose broadly in the fourth quarter of 1997. The biggest gains were in cropland values, where both irrigated and nonirrigated cropland values rose roughly 2.0 percent. Kansas, Nebraska, and Missouri posted the largest gains, likely reflecting good corn and soybean harvests. Ranchland values gained 1.5 percent in the fourth quarter, with Kansas showing the sharpest increase.

District farmland values posted large gains over a year ago, especially in ranchland values. After two years of losses, the cattle sector improved in 1997, boosting ranchland values 8.1 percent for the year. Nebraska ranchland values jumped 11 percent in 1997, ending the year only 3 percent below their market high set in 1981. In 1997, the district harvested the largest wheat crop since 1990 and produced a record soybean crop; both of these positive outcomes lifted cropland values. Nonirrigated cropland values rose 6.7 percent, while irrigated cropland values rose 6.1 percent. Missouri nonirrigated cropland values jumped 9.2 percent, and Kansas irrigated cropland values rose 8.9 percent

Table 1
Farm Real Estate Values
December 31, 1997
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$594	$906	$331
Missouri	917	1,188	548
Nebraska	830	1,400	325
Oklahoma	501	700	336
Mountain states*	320	1,041	169
Tenth District	$655	$1,115	$333
Percent change from:			
Last quarter+	2.0	2.1	1.5
Year ago+	6.7	6.1	8.1
Market high	-22.4	-22.6	-18.1
Market low	65.4	64.0	99.2

* Colorado, New Mexico, and Wyoming combined.
\+ Percentage changes are calculated using responses only from those banks reporting in both the past and the current quarter.
Source: Federal Reserve Bank of Kansas City.

Table 2
Selected Measures of Credit Conditions at Tenth District Agricultural Banks

	Loan demand	Fund availability	Loan repayment rates	Loan renewals or extensions	Average rate on operating loans	Average loan-deposit ratio*	Banks with loan-deposit ratio above desired level*	District farm commodity price index
	(index)+	(index)+	(index)+	(index)+	(percent)	(percent)	(percent of banks)	(1980=100)
1993								
Jan.-Mar.	107	120	105	96	9.23	53.2	11	108.3
Apr.-June	114	115	103	97	9.12	55.3	15	106.6
July-Sept.	110	105	96	105	8.99	56.6	17	104.1
Oct.-Dec.	116	108	90	106	8.85	55.9	15	106.1
1994								
Jan.-Mar.	124	109	92	109	8.85	56.2	17	107.2
Apr.-June	127	94	89	107	9.21	59.2	23	97.0
July-Sept.	132	81	90	106	9.59	60.9	27	92.8
Oct.-Dec.	126	82	85	112	10.12	60.2	31	95.2
1995								
Jan.-Mar.	130	89	77	119	10.50	60.7	30	95.8
Apr.-June	121	96	69	125	10.47	62.1	28	95.2
July-Sept.	116	94	73	123	10.37	63.3	27	96.9
Oct.-Dec.	112	106	61	136	10.23	61.4	27	102.0
1996								
Jan.-Mar.	108	112	53	140	10.00	60.4	21	101.5
Apr.-June	115	103	66	131	10.01	62.4	24	109.6
July-Sept.	111	100	91	112	10.00	63.8	29	104.1
Oct.-Dec.	115	105	105	103	9.98	62.6	26	98.2
1997								
Jan.-Mar.	120	110	110	94	10.04	62.1	25	102.8
Apr.-June	125	95	104	96	10.09	65.0	30	103.1
July-Sept.	127	91	110	92	10.05	65.5	34	100.2
Oct.-Dec.	127	97	99	103	10.01	66.5	34	97.5

* At the end of period.

+ Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded “lower” from the percent that responded “higher” and adding 100.

Source: Federal Reserve Bank of Kansas City.

in 1997. Overall, in 1997 district farmland values posted their biggest gains in nearly a decade.

Farm loan demand stays healthy

Demand for agricultural loans remained healthy in the fourth quarter. The index for loan demand was unchanged and the loan-deposit ratio increased slightly. Loan demand may be outstripping the availability of funds, however, as the number of banks refusing loans inched up and loan repayment rates slowed for the first time in two years. Nevertheless, three-fourths of district agricultural banks reported they are actively seeking new loans.

Farm interest rates edge down

Farm interest rates edged down during the fourth quarter of 1997. At the end of the year, interest rates on new loans in the district averaged 9.32 on real estate loans, 9.87 on feeder cattle loans, 10.01 on operating loans, and 9.84 on intermediate loans. Farm loan rates could fall further in coming months since farm rates generally follow trends in national money market rates, which have trended down since December.

Commodity prices fall

Agricultural commodity prices declined in the fourth quarter of 1997. The district commodity price index fell 2.7 percent. Corn and soybean prices were stable to somewhat lower in the fourth quarter, while prices for hogs, wheat, and feeder cattle all fell. Fed cattle prices were the only district commodity price that rose in the fourth quarter.

Since year end, all agricultural prices have trended downward. Corn and soybean prices fell on reports of large worldwide supplies. Winter wheat prices have edged down in recent weeks but could rebound if bad weather threatens yields on this year's low planted acreage. Feeder cattle prices continue to trend downward as losses in the fed cattle industry dampen demand for feeder calves. Still, a small calf crop in 1998 should support feeder cattle prices later in the year. On the other hand, hog prices have plummeted creating concern for producers who have expanded or relocated into the district.

Farm production expands

Output of both crop and livestock producers generally expanded in 1997. Corn and soybean production expanded and low inventories supported prices throughout the year, but slower export growth may hold prices in check. However, U.S. producers shifted winter wheat acreage to soybeans, corn, milo, and pasture, leading to the lowest acreage planted to winter wheat in 25 years. In part, the shift in wheat acreage reflects greater planting flexibility under the 1996 farm bill. In the livestock sector, supplies of both slaughter cattle and hogs have been well above year-ago levels. While the large supply of fed cattle in recent months seems to be subsiding, it will take some time before feedlot operators return to profitability. Likewise, hog producers are faced with large supplies and low prices; and the industry continues to expand, indicating that hog producers could lose money throughout 1998.

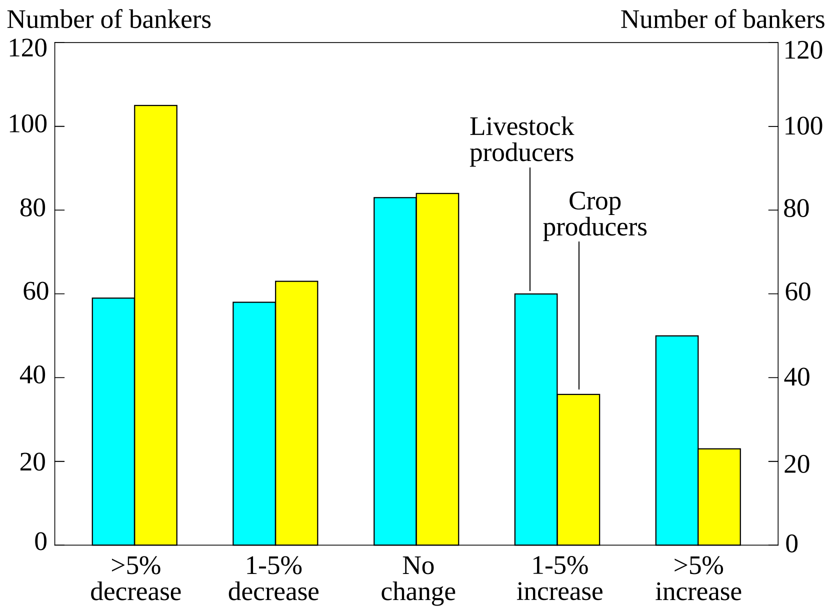
Farm income falls in 1998

District agricultural bankers, responding to a special survey question in the fourth quarter, said they expected farm income to fall in 1998 (Chart 1). The majority of bankers expect crop incomes to be down as much as 10 percent, while livestock incomes are expected to be unchanged in 1998. Reduced winter wheat plantings and large worldwide supplies of corn and soybeans appear to be the cause for concern. In the livestock sector, losses by fed cattle and hog producers are expected to offset gains by ranchers. The largest declines in 1998 farm incomes are expected in Nebraska, Kansas, and Missouri.

Outlook

The outlook for district agricultural producers remains positive, although farm incomes will likely slip in 1998. Large crop supplies and slower export growth may dampen crop prices. In particular, lower winter wheat prices, along with fewer planted acreage will likely limit profits for district wheat producers. Any gains in fed cattle and hog

Chart 1
1998 Expected Farm Income



prices over the next few months may be small, although ranchers should continue to see moderate profits as feeder cattle prices remain strong. Overall, farm incomes are likely to fall from the previous two years' levels. District farmers should still see modest profits, however, helping district agricultural credit conditions to remain healthy.

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