Survey of Agricultural Credit Conditions

By Scott Ryckman and Russell L. Lamb

Agricultural credit conditions in the Tenth Federal Reserve District improved significantly during the first quarter of 1997, according to a survey of 344 agricultural bankers. Rising farmland values, higher cattle prices, and increased plantings all indicated strong market conditions for farm producers. In turn, producers took their confidence to the bank: loan repayment rates improved and loan demand strengthened, both conditions pointing to marked improvement in district farm finances.

Farmland values gain strength

District farmland values jumped sharply during the first quarter, led by a surge in the value of ranchland (Table 1). A positive agricultural outlook and higher cattle prices are boosting demand for district farmland. Ranchland values, which were held down last year by losses in the cattle industry, jumped 3.4 percent during the first quarter as the outlook for district ranchers brightened. Nonirrigated cropland value rose a solid 2.3 percent during the quarter, continuing the strong growth seen much of last year. Irrigated cropland value rose a respectable 1.4 percent.

Compared with a year earlier, all three land classes recorded strong increases. Ranchland values jumped 7.8 percent, nonirrigated cropland values rose 7.0 percent, and irrigated cropland values were up 6.4 percent. Nebraska, which harvested a good crop in 1996 and has benefited from rising cattle prices, reported the strongest price increase in all three land classes during the past year. Oklahoma, which was hit hard by the 1996 drought, recorded the smallest land value increases over the past year.

Commodity prices rise

The district index of farm commodity prices rose during the first quarter, led by rising cattle prices (Table 2). Despite the large number of cattle on feed, the supply of market-ready cattle was limited during the first quarter, boosting fed cattle

Table 1

Farm Real Estate Values

March 31, 1997

(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$572	$854	$317
Missouri	864	1,065	531
Nebraska	797	1,344	310
Oklahoma	486	700	318
Mountain states*	330	1,063	174
Tenth District	$630	$1,078	$321
Percent change from:			
Last quarter+	2.3	1.4	3.4
Year ago+	7.0	6.4	7.8
Market high	-25.3	-25.1	-21.0
Market low	59.2	58.5	92.1

* Colorado, New Mexico, and Wyoming combined.

+ Growth rates calculated from the reported series on average values per acre may not match the percentages shown in this table. This difference arises in part because 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

* 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.

prices. Calf prices also increased during the quarter due to an improved outlook for feedlot profits. Hog prices fell during the quarter as export demand faded. Tight world inventories lifted the price of soybeans significantly in the first quarter. Corn and sorghum prices also rose, reflecting strong demand from livestock producers. Wheat prices continued to decline, reflecting an excellent outlook for this year's winter wheat crop.

Farm commodity prices since the end of the first quarter have been mixed. Hog prices soared after foot-and-mouth disease ended pork exports from Taiwan, a major supplier of Japanese pork imports. Soybean prices continued rising, as usage rates exceeded sustainable levels given the limited supply. But feedgrain prices slipped recently, as bigger plantings this spring and excellent growing conditions have led most analysts to raise their forecasts of the fall harvest. While wheat prices jumped temporarily in April after a hard freeze damaged the district wheat crop, they have since resumed their downward trend, as market participants revised downward their estimate of the extent of the frost damage.

Farm production expands

Higher commodity prices and greater planting flexibility under the new farm bill are prompting district farmers to boost their corn and soybean production in 1997. Under the new farm bill, farmers are free to make planting decisions based on the fundamentals of supply and demand in the marketplace. With fewer acres committed to winter wheat production this year, district farmers have more acres to allocate to spring crops. Bankers in all district states report that acres planted to soybeans should increase over last year, most likely a result of recent price increases. Corn acres are also expected to increase this year. Although corn prices have moderated from the record levels of last year, supplies are still quite lean and the price remains higher than in much of the 1990s. With farmers committing more acres to corn and soybeans, bankers predict fewer acres will be planted to sorghum this year.

District farmers also plan to increase their production of livestock in 1997, according to the agricultural bankers surveyed. Most bankers expect the size of the district cattle herd to increase this year, bringing to an end the herd downsizing of the past two years. Bankers also project hog numbers in the district to increase by the end of the year, owing mainly to the continued expansion in Oklahoma.

Farm loan repayments improve

Higher commodity prices have strengthened the ability of district farmers to repay their loans. The district index of farm loan repayments rose to 110, suggesting that conditions were better than a year ago. The index has been above 100 the past two quarters, signaling an end to the three-year slide in farm repayment rates. In addition, the index of loan renewals and extensions fell below 100 for the first time in nearly four years, indicating an improvement in the health of agricultural loan portfolios in district banks.

Farm loan demand strengthens

The pickup in production this year was reflected in a rise in farm loan demand in the first quarter. The index of farm loan demand jumped to 120 during the quarter, indicating growing demand for farm loans. Despite this growth in demand, funds remain readily available, and more than three-fourths of local bankers report they were actively seeking new farm loans. Loan-to-deposit ratios at district agricultural banks dropped seasonally but remained at the highest first-quarter level in 17 years.

Farm interest rates hold steady

Farm interest rates in the district held steady during the first quarter. Interest rates on new loans averaged 9.4 percent on farm real estate loans, 9.9 percent on feeder cattle loans, 10.0 percent on farm operating loans, and 9.9 percent on intermediate loans.

While farm interest rates have remained in a very narrow range for the past four quarters, they may trend higher during the second quarter of 1997. Farm interest rates generally follow interest rate changes in national money markets. An increase in money market rates late in the first quarter suggests farm interest rates may trend higher.

Outlook

The outlook for the district farm economy is bright. District farm income is expected to post a solid gain in 1997. Profits are returning to the cattle industry, and crop prices, especially for soybeans, remain strong. Producers are expanding their crop acreage, and the frost damaged winter wheat crop will still likely be larger than last year's winter crop. This positive outlook is reflected in rising farmland values. The expected gain in district farm income this year could boost farmland values even further.

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