Survey of Agricultural Credit Conditions

By Scott Ryckman and Alan Barkema

Agricultural credit conditions in the Tenth Federal Reserve District improved during the second quarter of 1996, according to a survey of 352 agricultural bankers. Rising farmland values, surging grain prices, and improving demand for farm loans signaled a stronger farm economy. Other signs, however, cast a shadow on the district farm outlook. Losses continued for district cattle feedlots and ranches, and many winter wheat producers harvested a disappointing crop. As a result, repayment rates on farm loans remained weak, despite some modest improvement.

Farmland values rise

District farmland values recorded solid gains during the second quarter (Table 1). Pulled up by record crop prices, irrigated cropland values rose 1.2 percent, the biggest increase of the three classes of land monitored in the survey. Ranchland values rose the least, held down by continued losses in the cattle industry. Land buyers were most aggressive in Nebraska, bidding up land values an average of 2.1 percent. In contrast, average land values were flat in Oklahoma and Missouri.

During the past year, gains in district cropland values easily outpaced the lackluster rise in ranchland values. The surge in crop prices lifted nonirrigated cropland values 4.1 percent, while continued losses in the cattle industry limited ranchland values to a 1.7 percent gain. The mountain states and Kansas led the district with land value gains averaging about 4 percent. Oklahoma trailed the other district states with a slight drop in average values in all three land classes, as the state's poor wheat crop and continued losses in the cattle industry weakened investor interest in farmland.

Commodity prices climb

Most farm commodity prices rose during the second quarter, lifting the district index of farm commodity prices nearly 8 percentage points to 108.7 (Table 2). Corn, wheat, soybean, and hog prices all recorded strong gains, while sorghum and cattle prices remained flat. At the end of the second quarter, the index was up 14 percentage points from the year before and stood at the highest level since early 1991.

Table 1
Farm Real Estate Values
June 30, 1996
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$550	$841	$288
Missouri	809	1,037	488
Nebraska	762	1,256	285
Oklahoma	473	667	313
Mountain states*	352	1,065	167
Tenth District	$604	$1,031	$297
Percent change from:			
Last quarter+	1.0	1.2	.9
Year ago+	4.1	3.8	1.7
Market high	-28.4	-28.4	-26.8
Market low	52.6	51.6	77.9

* 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.

Table 2

Selected Measures of Credit Conditions at Tenth District Agricultural Banks

	Loan demand	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)
1992								
Jan.-Mar.	115	122	78	117	10.06	51.5	12	106.9
Apr.-June	109	113	84	111	9.91	53.2	13	104.5
July-Sept.	107	114	91	99	9.56	54.6	15	101.8
Oct.-Dec.	112	121	106	96	9.41	53.8	14	103.8
1993								
Jan.-Mar.	107	120	105	96	9.23	53.2	11	108.2
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	107.6
Apr.-June	127	94	89	107	9.21	59.2	23	97.2
July-Sept.	132	81	90	106	9.59	60.9	27	93.0
Oct.-Dec.	126	82	85	112	10.12	60.2	31	95.5
1995								
Jan.-Mar.	130	89	77	119	10.50	60.7	30	96.0
Apr.-June	121	96	69	125	10.47	62.1	28	95.1
July-Sept.	116	94	73	123	10.37	63.3	27	96.7
Oct.-Dec.	112	106	61	136	10.23	61.4	27	101.6
1996								
Jan.-Mar.	108	112	53	140	10.00	60.4	21	100.8
Apr.-June	115	103	66	131	10.01	62.4	24	108.7

* 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.

Since the end of the second quarter, an improved crop outlook has pushed down grain prices from record levels. Ideal summer growing conditions have brightened prospects that this autumn's harvest could at least partly refill the nation's empty grain bins. Until the harvest is in, however, crop prices are likely to remain much higher and more variable than in recent years. District cattle feeders and ranchers remain trapped between high feed costs and weak cattle prices. With losses accumulating, district feedlots are operating well below capacity, and ranchers have begun trimming their herds. The smaller beef herd will eventually trim beef supplies and boost prices. Until then, the increased cow slaughter will add to beef supplies and delay significant improvement in cattle prices.

Farm interest rates bottom

The year-long slide in farm interest rates came to a halt in the second quarter, with rates rising a mere two basis points on average. Despite the slight second quarter rise, farm interest rates in the district averaged 50 basis points lower than the year before. At the end of the second quarter, interest rates on new loans in the district averaged 9.37 percent on farm real estate loans, 9.87 percent on feeder cattle loans, 10.01 percent on farm operating loans, and 9.87 percent on intermediate loans.

Farm loan demand strengthens

Demand for farm loans in the district picked up during the second quarter, ending the gradual decline of the previous year. The district index of farm loan demand rose seven percentage points during the quarter and remained well above the 100 benchmark, indicating stronger demand for farm loans than a year earlier. With increased demand for farm loans, the average loan-deposit ratio at respondent banks climbed two percentage points to 62.4 percent. Such an increase in loan-deposit ratios is normal at district agricultural banks during the second quarter, when farmers typically need more operating capital. The percentage of banks refusing new farm loans due to a shortage of funds rose slightly, but remained relatively small at just under 4 percent. Nearly three-forths of the bankers surveyed were actively seeking new farm loans, suggesting plenty of funds remained available for farm lending.

Farm loan repayment improves

The rate of repayment on farm loans strengthened during the quarter, with the district index of farm loan repayment climbing 13 percentage points. Nevertheless, the index stayed well below the 100 benchmark, indicating that the percentage of bankers reporting weaker repayment rates remained larger than the percentage reporting improvement. During the past two years, large losses in the cattle industry pushed the repayment index to the lowest level in more than a decade. The recent jump in the repayment index, though, may indicate repayment rates have bottomed.

Despite a weak rate of loan repayment, bankers report that most farm loans remain sound. Responses to a special question in the second quarter survey indicate that only 9 percent of farm loans at district agricultural banks had serious repayment problems. Farm loan portfolios were strongest in Missouri, where banks report serious repayment problems on an average of 5 percent of their farm loans. Farm loan portfolios were weakest in Oklahoma, where farm incomes have been battered by a poor wheat crop and low cattle prices. Oklahoma bankers report serious repayment problems on 14 percent of their farm loans.

Outlook

Most financial indicators point to modest improvement in the district farm economy during the second quarter. Farmland values rose, grain prices climbed, and farm loan demand picked up. Nevertheless, losses accumulated for district cattle feedlots and ranches, and drought seared the wheat crop and pastures in much of Oklahoma and Kansas. As a result, the rate of repayment on farm loans remained weak in much of the district, despite some recent improvement. On balance, 1996 could produce modest financial gains in district agriculture, as a profit surge for many grain producers offsets continued losses in the cattle industry.

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