Survey of Agricultural Credit Conditions

By Michelle Beshear and Russell Lamb

Agricultural credit conditions in the Tenth District weakened in the second quarter of 1998, according to a survey of 316 district agricultural bankers. Farmland values rose more slowly than in past quarters, reflecting a more pessimistic outlook for farm conditions. The loan-deposit ratio edged up slightly from the previous quarter and is at an all-time high. Demand for farm loans rose and loan repayment rates continued to slide. The availability of funds at district agricultural banks declined in the second quarter, while farm interest rates remained relatively stable.

Farmland values continue to climb

The rate of increase in district farmland values slowed in the second quarter of 1998. Cropland values edged up slightly with both irrigated and nonirrigated cropland values climbing less than 1 percent. The largest increase was seen in ranchland values, which gained 2.6 percent. Expectations of low prices for farm commodities this fall have helped slow the rise in farmland values. Ranchland values for the district may experience slower growth in the third quarter due to drought conditions in Oklahoma.

In spite of much slower growth in the second quarter, all three land classes were substantially higher compared with a year ago. Ranchland values were roughly 9 percent above year-earlier levels. Cropland values also posted healthy gains: irrigated cropland values were 7.2 percent higher, while nonirrigated cropland values were 6.4 percent above the previous year. Kansas and Missouri showed the largest year-over-year growth in cropland values, while Oklahoma and Nebraska experienced the largest growth in ranchland values.

Farm loan demand jumps

A weakening in agricultural conditions may have contributed to a rise in loan demand for district banks. Demand for agricultural loans jumped 8.5 percent in the second quarter. Loan repayment rates continued to slow, and the loan-deposit ratio

Table 1
Farm Real Estate Values
June 30, 1998
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$612	$945	$344
Missouri	947	1,217	583
Nebraska	857	1,450	354
Oklahoma	501	700	336
Mountain states*	328	1,071	191
Tenth District	$672	$1,150	$353
Percent change from:			
Last quarter+	.44	.68	2.6
Year ago+	6.4	7.2	9.4
Market high	-20.4	-20.1	-13.0
Market low	69.7	69.2	111.5

*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.

increased slightly from the previous quarter, to a record level of 68 percent. Nonetheless, the number of banks refusing loans remained stable from last quarter, and nearly 75 percent of district agricultural banks are actively seeking new loans. Despite slowing loan repayment rates, reports of significant repayment problems remain isolated. In response to a special question for the second quarter, over 90 percent of district bankers indicated that they are experiencing little to no repayment problems.

Farm interest rates remain stable

After falling for several consecutive quarters, farm interest rates were essentially unchanged during the second quarter of 1998. At the end of the second quarter, interest rates on new loans in the district averaged 9.15 percent on real estate loans, 9.78 percent on feeder cattle loans, 9.92 percent on operating loans, and 9.75 percent on intermediate loans.

Corrected Table 1 - First Quarter 1998

Table 1
Farm Real Estate Values
March 31, 1998
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$608	$938	$338
Missouri	949	1,221	565
Nebraska	864	1,445	346
Oklahoma	501	734	342
Mountain states*	329	1,077	185
Tenth District	$669	$1,149	$343
Percent change from:			
Last quarter+	2.8	3.1	3.3
Year ago+	6.9	7.5	7.8
Market high	-20.7	-20.2	-15.5
Market low	69.1	68.9	105.5

*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.

Commodity prices decline

The index of district farm commodity prices declined by 1.8 percent in the second quarter of 1998. Prices for all major crops produced in the district declined. Wheat prices dropped in response to a large crop. In the livestock sector, fed cattle and hogs rebounded slightly, increasing 3 percent in the second quarter. Feeder cattle prices fell 10 percent in the second quarter.

Farm commodity prices have continued to decline since the second quarter of 1998. Wheat prices have plummeted in response to large wheat supplies in the U.S. and globally. Soybean prices have fallen further due to record plantings and good yield prospects. Corn prices have also continued to fall due to projections of a big crop this year and stocks that are at relatively high levels. Prices for fed cattle and hogs remain low, and large supplies of meat are expected to keep downward pressure on livestock prices into the fall. Feeder cattle prices are beginning to see sharper declines as producers in drought-stricken areas of the district are marketing cattle earlier than usual.

Looking forward, cattle prices may be expected to improve by 1999. Drought conditions have led to a reduction in cattle inventories due to deteriorating forage conditions. This will result in fewer calves being produced this fall. The USDA is projecting that the 1998 calf crop will be the smallest in over 40 years. A smaller calf crop should lead to higher cattle prices this fall or early next year after the excess supply of cattle are moved out of the market.

Farm production expands

District farmers expanded their production of crops in response to expectations of relatively high prices. The district had a large winter wheat crop due mainly to good yields. District producers planted record acreage in soybeans this spring and roughly the same acreage in corn as last year. Hog production in the district continued to expand, although at a much slower pace than over the past year. Cattle production is also tapering off from

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)
1994								
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
1998								
Jan.-Mar.	120	108	93	108	9.93	66.0	30	95.8
Apr.-June	123	100	78	118	9.92	68.0	33	92.7

*At 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.

year. Cattle production is also tapering off from relatively high levels of output a year ago and expansion in the industry has halted for the present time.

Outlook

The outlook for the district farm economy has weakened somewhat. A large wheat crop and expectations of large corn and soybean crops, combined with high inventory levels, are pushing crop prices down. Large supplies of both beef and pork are resulting in continued low prices. Moreover, prices for cattle and hogs are likely to remain low for the remainder of the year. Drought conditions in some areas of the district are expected to result in a lack of forage this fall, contributing to large numbers of cattle being liquidated. While farm financial conditions remain healthy overall, the increase in loan demand and further weakness in loan repayments point to concern about conditions later this year.

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