Survey of Agricultural Credit Conditions

By Scott Ryckman and Alan Barkema

Agricultural credit conditions in the Tenth Federal Reserve District strengthened during the fourth quarter of 1994. A survey of 318 agricultural bankers shows improvement in the district farm economy with solid gains in farmland values and rising commodity prices. But an expected decline in farm incomes and weak loan repayment rates sound a note of caution in the farm outlook.

Farmland values jump

The average value of district farmland rose 1.5 percent during the fourth quarter and jumped 5.9 percent during the year, more than double the rate of general price inflation. All three land classes recorded fourth quarter gains, with nonirrigated cropland easily outpacing irrigated cropland and ranchland (Table 1).

The pace of farmland appreciation in the district quickened in 1994, despite sharp drops in commodity prices and livestock incomes. The strength in farmland values suggests that record output and strong profits for district crop producers overshadowed a gloomy year in the livestock industry.

Lower farm incomes expected

Because land values depend on farm incomes, the current pace of district farmland appreciation may not continue in 1995. Nearly 60 percent of the bankers surveyed expect farm income in 1995 to drop below 1994 levels. Bankers anticipate that livestock producers will shoulder most of the drop in farm income, as they did in 1994 (Chart 1). Bankers are less pessimistic about the prospects for district crop producers. Only 46 percent of the bankers expect a fall in crop incomes in 1995, while 31 percent expect an increase.

Farm commodity prices gain

District bankers seem to have based their 1995 farm income projections on the trend in commodity prices during 1994. The district index of farm commodity prices fell 9.9 percent during the year. Nev-

Table 1

Farm Real Estate Values

December 31, 1994

(Average value per acre by reporting banks)

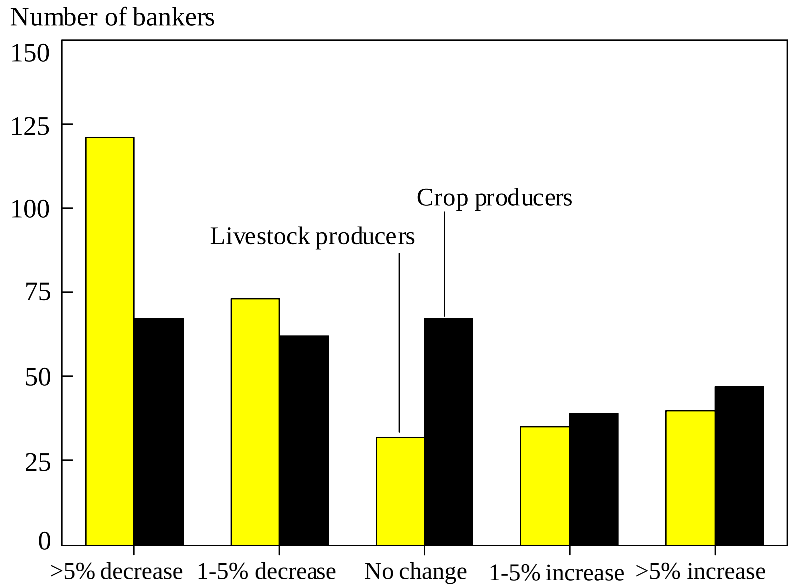
	Nonirrigated	Irrigated	Ranchland
Kansas	$529	$806	$271
Missouri	740	944	482
Nebraska	734	1221	270
Oklahoma	477	678	304
Mountain states*	341	1045	150
Tenth District	$583	$1006	$279
Percent change from:			
Last quarter+	2.2	1.1	1.2
Year ago+	6.4	4.6	6.9
Market high	-30.9	-30.1	-31.3
Market low	47.3	47.9	67.0

* 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.

Chart 1
Expected Farm Income



ertheless, the index gained 2.6 percent in the fourth quarter, due mainly to a rebound in livestock prices. Commodity prices continued improving during the first weeks of 1995, as both cattle and hog prices rose.

In 1994, cattle prices, hovering well below breakeven levels during the second and third quarters, rebounded to profitable levels by the end of the year. Hog prices dropped critically low during the fourth quarter before bouncing back to near breakeven levels during the final weeks of the year. Record crop production in 1994 replenished inventory levels and drove most crop prices lower. Crop prices recovered somewhat during the fourth quarter as the harvest ended and domestic and foreign demand strengthened.

The year ahead promises limited improvement in commodity prices. Ample supplies from last year's huge harvest point to limited gains in crop prices. Further gains in livestock prices may be held in check by expanding supplies of red meat and poultry.

Farm interest rates climb

Farm interest rates climbed an average of 53 basis points during the fourth quarter, up 1.31 basis points over a year earlier. At the end of 1994, farm interest rates in the district averaged 9.73 percent on farm real estate loans, 9.95 percent on feeder cattle loans, and 10.12 percent on both farm operating and intermediate loans.

Farm loan demand remains strong

Despite rising interest rates, the demand for farm loans remained strong during the fourth quarter. The district index of farm loan demand dipped slightly but remained well above the 100 benchmark at 126. Persistent strength in loan demand held the average loan-deposit ratio over 60 percent for the second straight quarter. Nearly a third of the banks reported loan-deposit ratios above desired levels, more than twice as many as a year ago. High loan-deposit ratios are beginning to limit the funds available for farm lending. While only 4.4 percent of banks reduced or denied loans due to a shortage of funds, the percentage more than doubled in the past year.

The underlying cause of rising farm loan demand may have shifted. During the past ten years, the rising trend in loan demand mirrored the strengthening financial position of district farms. As farm

Table 2

Selected Measures of Credit Conditions at Tenth District Agricultural Banks

	Loan demand (index)+	Availability (index)+	Loan repayment rates (index)+	Loan renewals or extensions (index)+	Average rate on operating loans (percent)	Average loan-deposit ratio* (percent)	Banks with loan-deposit ratio above desired level* (percent of banks)	District farm commodity price index (1980=100)
1990								
Jan.-Mar.	112	123	106	96	12.23	51.1	14	109.4
Apr.-June	115	123	114	86	12.20	51.6	14	112.6
July-Sept.	114	116	102	98	12.19	52.7	15	108.6
Oct.-Dec.	117	123	99	100	12.05	52.0	14	109.1
1991								
Jan.-Mar.	116	122	98	103	11.69	51.8	12	111.0
Apr.-June	111	122	96	105	11.46	52.3	12	107.7
July-Sept.	103	120	87	108	11.16	53.0	14	101.8
Oct.-Dec.	103	123	77	121	10.40	52.4	14	100.1
1992								
Jan.-Mar.	115	122	78	117	10.06	51.5	12	107.1
Apr.-June	109	113	84	111	9.91	53.2	13	104.8
July-Sept.	107	114	91	99	9.56	54.6	15	102.1
Oct.-Dec.	112	121	106	96	9.41	53.8	14	104.1
1993								
Jan.-Mar.	107	120	105	96	9.23	53.2	11	109.1
Apr.-June	114	115	103	97	9.12	55.3	15	107.5
July-Sept.	110	105	96	105	8.99	56.6	17	104.8
Oct.-Dec.	116	108	90	106	8.85	55.9	15	106.3
1994								
Jan.-Mar.	124	109	92	109	8.85	56.2	17	108.0
Apr.-June	127	94	89	107	9.21	59.2	23	97.3
July-Sept.	132	81	90	106	9.59	60.9	27	93.4
Oct.-Dec.	126	82	85	112	10.12	60.2	31	95.8

*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.

financial prospects brightened, the demand for farm loans increased. More recently, however, a downturn in farm incomes also appears to have boosted farm loan demand. In 1994, as livestock incomes sank, loan renewals and extensions gradually expanded, adding to the demand for agricultural funding.

Farm loan repayments weaken

Increasing loan extensions and renewals in the fourth quarter coincided with falling repayment rates on farm loans. The index of loan repayment rates fell to its lowest level in more than two years. Repayment rates continued to improve in Missouri, where a strong rebound in crop production boosted farm incomes despite lower crop prices. But repayment rates weakened in Nebraska, Oklahoma, and the mountain states, probably due to the livestock industry's big losses in 1994.

Outlook

Most financial indicators signal improvement in the district farm economy during the fourth quarter. Farmland prices continued rising at a brisk pace, and commodity prices rebounded somewhat. Nevertheless, a widely expected decline in farm incomes and weak repayments on farm loans cloud the outlook for 1995. The biggest question in the farm financial outlook is how long recent gains in livestock prices will persist in the face of bigger meat supplies. As district bankers fear, another downturn in livestock prices could further weaken farm incomes.

Scott Ryckman is a research associate at the Federal Reserve Bank of Kansas City. Alan Barkema is an assistant vice president and economist at the bank.