Survey of Agricultural Credit Conditions

By Scott Ryckman and Alan Barkema

The district farm economy strengthened during the fourth quarter of 1995, according to a survey of 288 agricultural bankers. Moderate gains in district farmland values, soaring grain prices, and lower farm interest rates all point to a stronger farm economy. But a sharp drop in loan repayment rates and prospects for continued weak profits in the cattle industry sound a note of caution in the agricultural outlook.

Farmland values rise

The value of district farmland increased during the fourth quarter, with almost uniform gains in all three land classes. The average value of district cropland rose 0.7 percent, just outpacing a 0.6 percent gain in district ranchland values (Table 1). Missouri land values led the district in the fourth quarter with average gains of 1.3 percent. Trailing the other district states, average land values in Oklahoma fell 0.8 percent in the fourth quarter. Overall, district farmland values rose 3.3 percent in 1995, down from a 5.9 percent gain in 1994.

Farm commodity prices climb

The district index of farm commodity prices rose 5 percent during the fourth quarter, boosted by sharp gains in corn, wheat, and soybean prices and a modest improvement in cattle prices (Table 2). During 1995 the farm price index rose 6 percent, not quite regaining the 10 percent loss the previous year.

Dwindling grain reserves and bulging supplies of cattle and hogs governed commodity prices in the fourth quarter. At the end of the year, corn and wheat prices were near record highs to ration the smallest grain supplies in over 20 years. Although rising grain prices increased livestock feeding costs, the district fed cattle industry remained profitable throughout the fourth quarter, aided by a $3.00-per-hundredweight increase in the price of fed cattle. District ranchers were less fortunate. Faced with rising feed costs, feedlots bid down the price of feeder cattle, pushing down profits for district ranchers.

Since the end of the fourth quarter, corn and wheat prices have climbed higher while cattle prices have edged down. With brisk export demand and dry

Table 1

Farm Real Estate Values

December 31, 1995

(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$555	$835	$287
Missouri	800	952	501
Nebraska	789	1,283	276
Oklahoma	473	692	308
Mountain states*	354	1,032	169
Tenth District	$613	$1,043	$293
Percent change from:			
Last quarter+	.7	.7	.6
Year ago+	3.7	3.0	3.1
Market high	-27.4	-27.6	-28.0
Market low	54.8	53.3	75.2

* 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

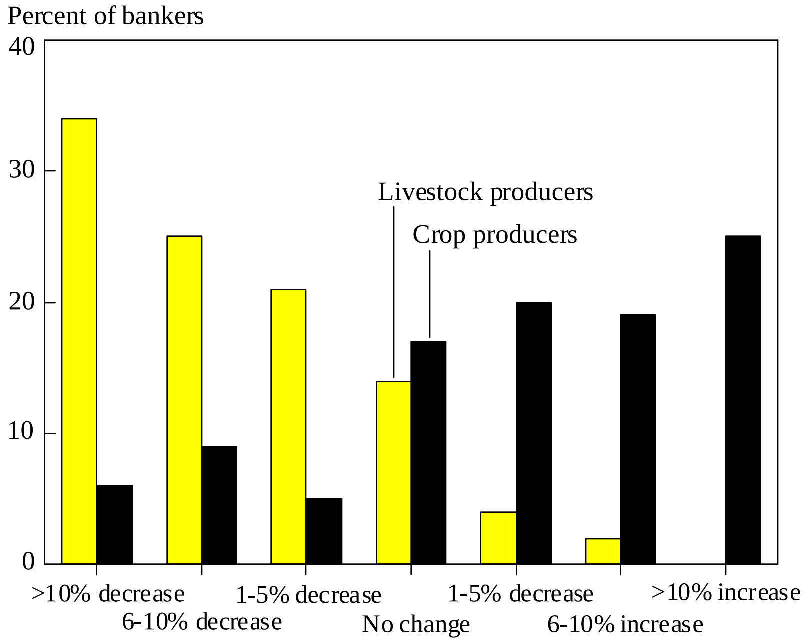
	Loan demand	Availability	Loan repayment rates	Loan renewals or extensions	Average rate on operating loans	Average loan-deposit ratio*	Banks with loan-deposit ratio above desired level*	District farm commodity price index
	(index)+	(index)+	(index)+	(index)+	(percent)	(percent)	(percent of banks)	(1980=100)
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	106.8
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	103.7
1993								
Jan.-Mar.	107	120	105	96	9.23	53.2	11	108.7
Apr.-June	114	115	103	97	9.12	55.3	15	107.1
July-Sept.	110	105	96	105	8.99	56.6	17	104.5
Oct.-Dec.	116	108	90	106	8.85	55.9	15	106.2
1994								
Jan.-Mar.	124	109	92	109	8.85	56.2	17	107.8
Apr.-June	127	94	89	107	9.21	59.2	23	97.2
July-Sept.	132	81	90	106	9.59	60.9	27	93.2
Oct.-Dec.	126	82	85	112	10.12	60.2	31	95.6
1995								
Jan.-Mar.	130	89	77	119	10.50	60.7	30	96.2
Apr.-June	121	96	69	125	10.47	62.1	28	95.1
July-Sept.	116	94	73	123	10.37	63.3	27	96.6
Oct.-Dec.	112	106	61	136	10.23	61.4	27	101.3

* 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.

Chart 1
Expected Farm Income, 1996 vs. 1995



weather threatening the district winter wheat crop, grain prices are likely to remain strong. Nevertheless, big supplies of beef and competing meats will probably hold down cattle prices.

Interest rates decline

Farm interest rates fell an average of 17 basis points during the fourth quarter, settling to a level only three basis points higher than a year earlier. As of the end of 1995, interest rates on new loans in the district averaged 9.59 percent on farm real estate loans, 10.09 percent on feeder cattle loans, 10.23 percent on farm operating loans, and 10.13 percent on intermediate loans.

Further decreases in farm interest rates may be on the horizon. Farm interest rates generally follow interest rate changes in national money markets. If the pattern continues, a decline in money market rates since the end of 1995 suggests farm interest rates could decline during the first quarter of 1996.

Loan demand eases

Demand for farm loans in the district eased during the fourth quarter. The district index of farm loan demand slipped four points during the quarter but remained above the 100 benchmark, indicating that demand for farm loans continued to grow, but at a slower pace. At the same time, the loan availability index rose above 100 for the first time in nearly two years, indicating more money is available for farm loans than a year ago. With loan demand down and fund availability up, the average loan-deposit ratio declined, as it usually does at yearend. Nevertheless, loan-deposit ratios remained relatively high. The fourth-quarter average loan-deposit ratio of 61.4 percent is the highest yearend ratio recorded since 1979.

With loanable funds up, the percentage of bankers declining farm loan requests due to a shortage of funds fell to less than 4 percent from the recent high of nearly 6 percent just two quarters ago. Nearly three-fourths of the bankers indicated they were actively seeking new farm loan accounts to absorb their loanable funds, up almost four percentage points from the previous quarter.

Loan repayments weak

The rate of repayment on farm loans weakened further during the fourth quarter. The district index of farm loan repayment dropped to 61, the lowest level in more than ten years. A corresponding increase in the index of loan renewals and extensions suggests bankers are stretching out loan repayment schedules for many farm and ranch loans. Persistent weak prices and profits in the district cattle industry are probably the primary causes of the slowdown in loan repayments. In addition, some grain farmers may be waiting for still higher grain prices before they sell their 1995 crops and repay their annual operating loans.

Weak cattle profits expected

Bankers foresee starkly different income forecasts for district crop producers and livestock producers in 1996 (Chart 1). With a return to normal crop yields and strong prices, district crop producers could realize significant income gains. Two out of three bankers predict higher incomes for crop producers, with a quarter expecting an increase of more than 10 percent from the previous year. Livestock producers, on the other hand, face another year of weak profits, according to district bankers. Four out of five bankers expect incomes for livestock producers to decline in 1996, with a third of the bankers forecasting a decline of more than 10 percent. Overall, bankers expect district farm income in 1996 to be slightly lower than in 1995.

Outlook

Most financial indicators suggest the district farm economy closed out 1995 on a strong note. During the fourth quarter, farmland values rose, grain prices climbed, interest rates on farm loans declined, and credit supplies remained ample for farm borrowers. Nevertheless, the cattle industry remained a soft spot in the district farm economy, dragging down repayments on farm loans. Thus, at the turn of the year the outlook for 1996 suggests a wide range of financial gains among district farmers and ranchers. Crop producers look forward to solid gains, buoyed by the recent surge in crop prices. Cattle producers, on the other hand, contemplate another year of weak earnings, pinched between high feed costs and low cattle prices. Overall, little improvement in district farm income appears likely in 1996.

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