Survey of Agricultural Credit Conditions

By Alan Barkema

The district farm economy weakened during the second quarter of 1994, according to a survey of 321 agricultural bankers. Further gains in district farmland values and strong farm loan demand indicate the industry remains in solid financial condition overall. But rising farm interest rates, weak repayments on farm loans, and a steep slide in farm commodity prices suggest the industry's financial prospects eroded somewhat during the second quarter.

Farmland values edge up

The average value of district farmland edged up 0.9 percent during the second quarter of 1994 (Table 1). Land values dipped slightly in Oklahoma but rose in the other district states. With the modest second-quarter gain, district land values were 5 percent higher than a year ago and 50 percent higher than the market low at yearend 1986.

Gains in ranchland values during the quarter slightly outpaced gains in irrigated and nonirrigated cropland values, continuing the pattern during much of the past eight years. Since the rebound in farmland values began in 1987, the average value of district ranchland has climbed 63 percent, outpacing gains of 41 percent for nonirrigated cropland and 46 percent for irrigated cropland. Strong ranching profits have anchored the sizable gain in district ranchland values in recent years. But the recent downturn in the district cattle industry has hurt ranching profits and may signal slower gains in ranchland values in the months ahead.

Farm loan demand grows

Farm loan demand strengthened further during the second quarter. The number of bankers reporting stronger loan demand was nearly four times the number reporting weaker demand. As a result, the district index of farm loan demand edged up to 127, the highest level in 15 years. Strong farm loan demand outpaced deposit growth at district banks, pushing up loan-deposit ratios. The average loan-deposit ratio for reporting banks was 59.2, the highest in a decade. Nearly a fourth of the bankers indicated their loan-

Table 1
Farm Real Estate Values
June 30, 1994
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$512	$786	$266
Missouri	705	910	459
Nebraska	706	1,214	266
Oklahoma	446	668	298
Mountain states*	329	980	150
Tenth District	$559	$990	$272
Percent change from:			
Last quarter+	.6	.9	1.2
Year ago+	4.1	3.8	7.1
Market high	-33.8	-31.3	-33.0
Market low	41.2	45.6	62.9

* 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.
Source: Federal Reserve Bank of Kansas City.

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	97.4

*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.

deposit ratios were higher than desired. But the remaining three-fourths of bankers continued to seek new farm loan accounts.

With loan-deposit ratios up, the bankers reported a tightening supply of funds available for farm lending. While the district index of fund availability slipped below the 100 benchmark for the first time since 1980, the tighter supply of funds available for lending had little impact on farmers' access to credit. Less than 2 percent of farm loan requests were reduced or denied due to a shortage of funds.

Interest rates climb

Farm interest rates rose sharply during the second quarter, rising 38 basis points on average. Combined with a slight increase in the first quarter, the recent run-up marks the end of the five-year decline in farm interest rates. At the end of the second quarter, interest rates in the district averaged 8.79 percent on farm real estate loans, 9.05 percent on feeder cattle loans, 9.21 percent on farm operating loans, and 9.24 percent on intermediate loans.

Loan repayments remain weak

The rate of repayment on farm loans in the district remained weak during the second quarter. At 89, the district index of farm loan repayment stayed well below the 100 benchmark, indicating that repayment rates remained weaker than a year ago.

Repayment rates on farm loans have been weak since mid-1993, when wet weather caused heavy crop losses in the eastern part of the district. More recently, large losses in the district cattle industry held down loan repayments. But prospects for a bumper harvest and a gradual return to profitability in cattle feeding suggest repayments may strengthen in the months ahead.

Commodity prices slide

Plummeting cattle prices and weaker crop prices during the second quarter drove down the district index of farm commodity prices. The farm price index plunged 9.8 percent during the quarter to a level 9.4 percent lower than a year ago. Adjusted for inflation, the index fell 11.6 percent in the past year.

A sharp decline in cattle prices in the second quarter triggered the biggest losses in the district cattle industry since the mid-1980s. Since the end of the second quarter, however, cattle prices have recovered somewhat, brightening the industry's outlook. Still, large supplies of red meat and poultry moving to market in the months ahead point to slimmer profits in the district cattle industry than in recent years.

Crop prices soared briefly during the second quarter, fueled by small crop inventories and the periodic threat of dry weather. But since the end of the quarter, favorable weather has bolstered crop prospects and shoved down corn and soybean prices to the lowest levels in well over a year. If the weather remains favorable, prices are likely to remain weak through harvest.

Outlook

Further gains in farmland values and healthy demand for farm loans underscore the underlying financial strength of district agriculture. But higher farm interest rates, weak repayments on farm loans, and lower farm commodity prices suggest that prospects for farm income in 1994 eroded during the second quarter. Since the end of the quarter, prospects for large crops and a gradual return to profitability in the district cattle industry have brightened the outlook. Still, 1994 is shaping up as a year of only modest financial gains for district agriculture.

Alan Barkema is an assistant vice president and economist at the Federal Reserve Bank of Kansas City.