Survey of Agricultural Credit Conditions

By Scott Ryckman and Alan Barkema

Agricultural credit conditions in the Tenth Federal Reserve District improved modestly during the third quarter of 1995, according to a survey of 293 agricultural banks. The improvement was marked by an uptick in farmland values, higher commodity prices, and lower interest rates on farm loans. Still, an expected decline in farm income and continued slow repayments on farm loans signaled underlying weakness in the district farm economy.

Farmland values rise

The average value of district farmland increased modestly during the third quarter after stalling the quarter before. On average, nonirrigated cropland values rose 0.8 percent, outpacing a 0.3 percent gain in irrigated cropland values. Ranchland values were flat (Table 1). Kansas led the district with an average gain of 0.8 percent, while land values fell an average 0.1 percent in the mountain states. Overall, district farmland values were up 4.1 percent from the third quarter a year ago.

Recent trends in district farmland values reflect a mixed outlook for the district's crop and livestock sectors. Soaring grain prices, which have bolstered income prospects for crop producers, may have kindled investor interest in cropland. A weak profit outlook for the cattle industry, however, most likely accounts for the stall in ranchland values, which remained flat for the second consecutive quarter after a string of solid quarterly gains.

Farm commodity prices climb

Reflecting the recent strength in agricultural commodity markets, the district index of farm commodity prices rose 1.5 percentage points during the third quarter (Table 2). Gains in corn, wheat, and soybean prices anchored the surge in commodity prices. Cattle prices held steady, while hog prices picked up slightly.

With small crops in the United States and other parts of the world, crop prices have shot up to ration the smaller grain supplies. Since the end of the third quarter, corn prices have soared to a 10-year high and wheat prices to a 20-year high. While the surge in crop prices brightens next year's income prospects for district crop producers, the higher prices will

Table 1
Farm Real Estate Values
September 30, 1995
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$550	$837	$282
Missouri	785	1,002	491
Nebraska	771	1,241	279
Oklahoma	483	707	309
Mountain states*	320	1,023	166
Tenth District	$605	$1,035	$290
Percent change from:			
Last quarter+	.8	.3	.0
Year ago+	5.2	3.3	3.7
Market high	-28.3	-28.2	-28.7
Market low	52.9	51.2	73.4

* 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

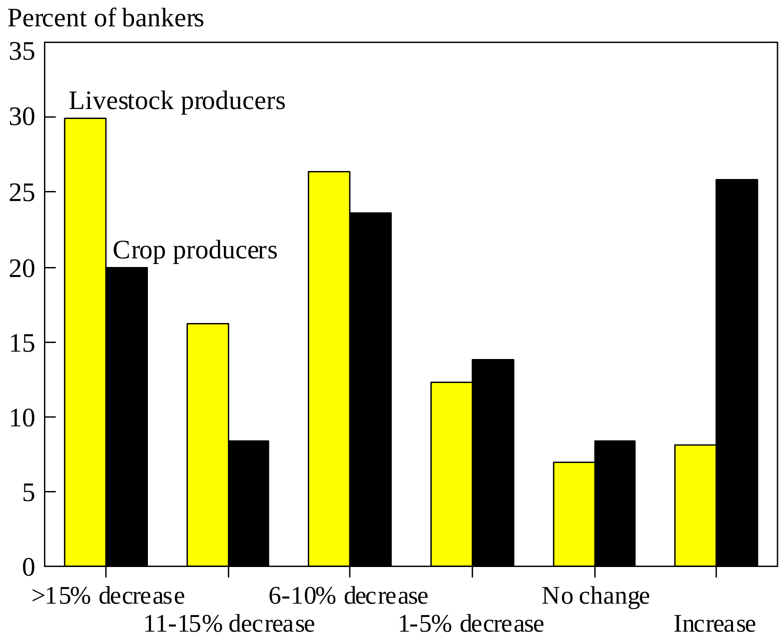
	Loan demand	Availability	Loan repayment rates	Loan renewals or extensions	Average rate on operating loans	Average loan-deposit ratio*	Banks with loan-deposit ratio above desired level*	District farm commodity price index
	(index)+	(index)+	(index)+	(index)+	(percent)	(percent)	(percent of banks)	(1980=100)
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	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
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

* 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, 1995 vs. 1994



likely drive up feed costs and worsen the profit outlook for livestock producers. A seasonal decline in fed cattle supplies and strong meat exports recently boosted cattle prices above breakeven levels for the first time in six months. In the year ahead, however, big meat supplies may limit further gains in cattle prices, while higher feed costs may shrink the cattle industry's newfound profits.

Loan demand stays strong

Demand for farm loans in the district eased somewhat but remained strong overall. The district index of farm loan demand edged down five percentage points but remained well above the 100 benchmark, indicating stronger demand than a year ago. With farm loan demand still strong, the average loan-deposit ratio at district agricultural banks climbed to 63 percent, the highest in 15 years.

The gradual rise in loan-deposit ratios at agricultural banks during the past two years signals somewhat tighter liquidity at agricultural banks. Still, most banks hold adequate supplies of loanable funds to meet the credit needs of their farm borrowers. For example, the percentage of bankers actively seeking new farm loan accounts has shrunk about five percentage points but remains a relatively high 70 percent. Moreover, the percentage of bankers denying farm loan requests due to a shortage of funds has risen about three percentage points but remains a relatively low 5 percent.

Farm interest rates decline

Interest rates on farm loans declined slightly during the third quarter, falling an average of ten basis points. The slight third-quarter drop was the second consecutive quarterly decline, lowering farm interest rates a total of 16 basis points from the most recent high. At the end of the third quarter, interest rates on new loans in the district averaged 9.82 percent on farm real estate loans, 10.22 percent on feeder cattle loans, 10.37 percent on farm operating loans, and 10.30 percent on intermediate loans.

Weak farm income expected

While most indicators pointed to modest improvement in the district farm economy during the third quarter, bankers generally remain convinced that farm income in 1995 will be weak. Responding to a special question in the third-quarter survey, four out of five bankers indicate farm income in 1995 will be less than in 1994, with two out of five bankers expecting a decline of more than 10 percent.

The bankers note that the drop in farm income is affecting both crop and livestock producers, with livestock producers absorbing the bigger decline (Chart 1). Almost 85 percent of the bankers expect incomes for livestock producers to fall in 1995, and nearly half of the bankers expect a drop of more than 10 percent. The weak incomes for livestock producers reflect generally weak cattle prices and rising feed costs during the year.

Even though crop prices have risen substantially in 1995, most bankers expect incomes for crop producers to decline in 1995. Nearly two-thirds of the bankers expect crop incomes to fall and more than a fourth expect a decline of more than 10 percent. Crop prices at the end of the third quarter had apparently not risen enough to offset substantial crop losses caused by late planting and early frost in much of the district. Compared with the big 1994 harvest, for example, the Missouri corn crop was down by half, and the Kansas wheat crop and the Nebraska soybean crop were down about a third. In the mountain states, however, farmers harvested one of the biggest wheat crops on record and, with wheat prices high, are expected to reap bigger incomes in 1995 than the previous year.

Loan repayments remain weak

Further losses in the cattle industry during the third quarter and disappointing crops in much of the district caused repayment of farm loans to remain weak. The district index of farm loan repayment strengthened slightly but stayed well below the 100 benchmark, indicating repayments remained weaker than a year ago. Farm borrowers appear to be delaying payment on farm loans, with the index of loan renewals and extensions remaining well above 100.

Outlook

The district farm economy strengthened modestly during the third quarter, with an uptick in farmland values, higher commodity prices, and a slight decline in farm interest rates. Still, other indicators point to lingering weakness in district agriculture. District bankers expect a sharp decline in farm incomes this year, especially among livestock producers, and repayment rates on farm loans remain weak. While soaring crop prices have bolstered the outlook for district crop producers, rising feed costs may quickly squeeze the cattle industry's modest profits in the months ahead. On balance, prospects for district agriculture have brightened a little.

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