Survey of Agricultural Credit Conditions

By Scott Ryckman and Russell L. Lamb

Agricultural credit conditions in the Tenth Federal Reserve District improved during the fourth quarter of 1996, according to a survey of 348 agricultural bankers. The conditions reflect continued strength in returns for crop producers and slightly improved conditions for cattle feeders. Land values continued to increase, loan demand strengthened, and loan repayment rates improved. However, most commodity prices fell during the quarter, limiting otherwise strong farm income gains for the year.

Farmland values rise

District farmland values increased during the fourth quarter (Table 1). The value of nonirrigated and irrigated cropland rose moderately, likely reflecting an excellent fall harvest and a healthy outlook for farm commodity prices. Ranchland values rose more modestly during the quarter as district ranchers recorded their second straight year of losses. Land value gains were strongest in Missouri, which receives a larger share of farm income from crop production than other states in the district. Increases were weaker in Kansas, Nebraska, Oklahoma, and the mountain states of Colorado, New Mexico, and Wyoming. All six of these states depend on a large share of farm income from the ailing cattle industry. Overall, district farmland values rose more than 5 percent in 1996, over two percentage points faster than in 1995.

Farm loan demand strengthened

The district index of farm loan demand rose four percentage points in the fourth quarter to 115, indicating stronger loan demand than a year ago (Table 2). Moreover, the pickup in the index indicates that farm loan demand grew more quickly than in the third quarter. Overall, however, the growth in farm loan demand moderated in 1996 from the rapid pace set in 1994 and early 1995.

The supply of funds at district agricultural banks outpaced the strong demand for farm loans, and the average loan-deposit ratio fell more than one percentage point during the quarter. More than

Table 1

Farm Real Estate Values

December 31, 1996

(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$564	$850	$305
Missouri	842	1,064	515
Nebraska	800	1,322	291
Oklahoma	487	700	318
Mountain states*	324	1,038	177
Tenth District	$624	$1,062	$309
Percent change from:			
Last quarter+	1.3	1.3	.8
Year ago+	5.4	5.9	5.5
Market high	-26.1	-26.3	-23.8
Market low	57.6	56.1	85.3

* 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

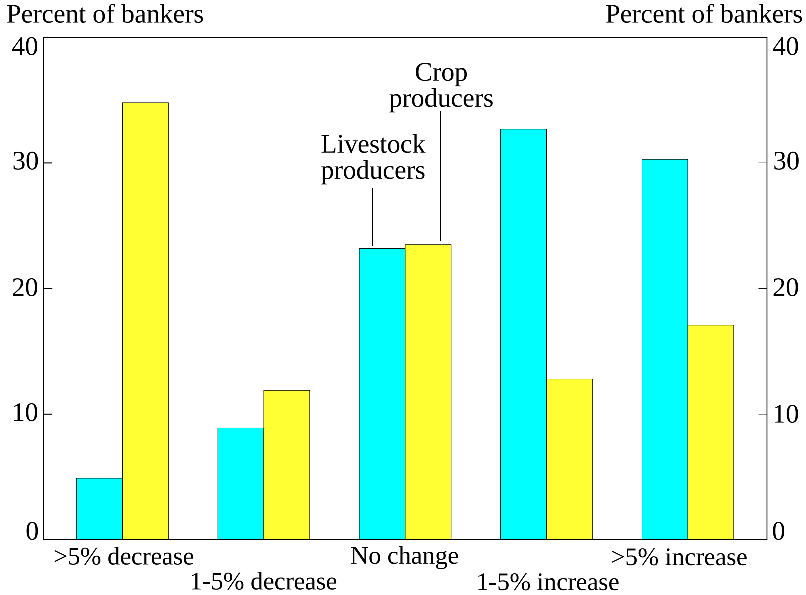
	Loan demand (index)+	Fund availability (index)+	Loan repayment rates (index)+	Loan renewals or extensions (index)+	Average rate on operating loans (percent)	Average loan-deposit ratio* (percent)	Banks with loan-deposit ratio above desired level* (percent of banks)	District farm commodity price index (1980=100)
1992								
Jan.-Mar.	115	122	78	117	10.06	51.5	12	106.9
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	103.8
1993								
Jan.-Mar.	107	120	105	96	9.23	53.2	11	108.2
Apr.-June	114	115	103	97	9.12	55.3	15	106.6
July-Sept.	110	105	96	105	8.99	56.6	17	104.1
Oct.-Dec.	116	108	90	106	8.85	55.9	15	106.1
1994								
Jan.-Mar.	124	109	92	109	8.85	56.2	17	107.6
Apr.-June	127	94	89	107	9.21	59.2	23	97.2
July-Sept.	132	81	90	106	9.59	60.9	27	93.0
Oct.-Dec.	126	82	85	112	10.12	60.2	31	95.5
1995								
Jan.-Mar.	130	89	77	119	10.50	60.7	30	96.0
Apr.-June	121	96	69	125	10.47	62.1	28	95.1
July-Sept.	116	94	73	123	10.37	63.3	27	96.7
Oct.-Dec.	112	106	61	136	10.23	61.4	27	101.6
1996								
Jan.-Mar.	108	112	53	140	10.00	60.4	21	100.8
Apr.-June	115	103	66	131	10.01	62.4	24	108.7
July-Sept.	111	100	91	112	10.00	63.8	29	103.9
Oct.-Dec.	115	105	105	103	9.98	62.6	26	98.0

* 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
1997 Farm Income Forecast, Tenth District



three-fourths of the banks surveyed were actively seeking new farm loans, and less than 2 percent of the banks refused or reduced farm loans due to a shortage of funds.

Farm loan repayments improve

The repayment rate on existing farm loans continued to improve during the fourth quarter, rising above 100 for the first time in over three years. The large fall harvest in the district and strong fourth-quarter profits for cattle feeders appeared to have strengthened the ability of district farmers to make timely loan payments.

Farm interest rates hold steady

At yearend, interest rates on farm loans in the district were unchanged from the third quarter, but were 25 basis points below the year-earlier level. At the end of 1996, interest rates on new loans in the district averaged 9.34 percent on farm real estate loans, 9.83 percent on feeder cattle loans, 9.98 percent on farm operating loans, and 9.87 percent on intermediate loans.

Commodity prices fall

The district index of farm commodity prices fell during the fourth quarter and ended the year more than ten percentage points below the peak reached last summer. A large fall harvest replenished grain stocks in the United States and pushed feed grain and soybean prices down from last summer's record highs. Fed cattle prices also fell at the end of the year while staying above the depressed levels that held throughout midyear. Feedlots filled quickly during the late summer and early fall as profitability returned. The replenished beef supplies pushed cattle prices lower by December. Wheat and hog prices held steady during the quarter. Lower feed costs and strong feedlot profits encouraged cattle feeders to bid up the price of feeder calves in the fourth quarter.

Since the end of the quarter, corn and hog prices have held steady, but wheat prices have fallen, owing to slower export activity. Cattle prices have continued falling as the supply of market-ready cattle has increased. Nevertheless, strong demand and extremely low carryover stocks have combined to send soybean prices sharply higher since the end of last year.

Farm income expected to rise slightly

The recent decline in most commodity prices suggests that district farm income may rise more slowly in 1997 than in 1996. District agricultural bankers confirmed this outlook in response to a special question in the fourth-quarter survey. Overall, the bankers predict district farm income will rise less than 1 percent in 1997.

According to the bankers surveyed, stronger profits for livestock producers will more than offset lower profits for crop producers (Chart 1). With less concern about wheat and feedgrain stocks, grain prices have returned to price levels within the ranges seen in recent years, which will likely push down profits for district crop producers from the high levels in 1996. In fact, one-third of the bankers expect crop incomes to fall more than 5 percent in 1997. However, bankers in Oklahoma, which lost much of its wheat crop to drought in 1996, predict an increase in income for crop producers in their state. Lower feedgrain prices mean higher profits for district livestock producers, and nearly two-thirds of the bankers expect higher livestock incomes in 1997.

Outlook

The outlook for district agriculture appears mixed in 1997. With normal yields, crop prices are likely to remain well below 1996 peak levels, and thus profits for crop producers will probably decline from last year's highs. The cattle industry has significantly reduced the size of the cattle herd, and further reductions this year should begin to reduce the supply of beef by the end of 1997, thereby boosting prices. With lower feed costs and higher cattle prices, cattle feeders should anticipate strong income gains in 1997. Feeder cattle prices are likely to continue rebounding in 1997, which should boost rancher profits this year. Overall, district farm income may rise only slightly in 1997.

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