# Survey of Agricultural Credit Conditions

By Michelle Beshear and Russell L. Lamb

Agricultural credit conditions in the Tenth District weakened somewhat in the fourth quarter of 1998, according to a survey of 314 district agricultural bankers. Government payments approved late in the year supported many producers' balance sheets and softened the affect of poor prices on farm income. District farmland values fell again, though less than the previous quarter. Farm interest rates continued to fall, and farm loan demand continued to weaken. The loan-deposit ratio fell from last quarter's all-time high. Loan repayment rates continued to slide, but the availability of funds at district agricultural banks increased slightly.

## *Farmland values fall*

District farmland values posted declines for the second consecutive quarter, although the declines this quarter were modest compared with the previous quarter. Irrigated cropland values dropped nearly 0.5 percent with nonirrigated cropland falling by the same amount. Ranchland values posted smaller declines than cropland values, falling just 0.2 percent. Nebraska farmland again showed the greatest declines in the district, with nonirrigated cropland values falling 1.2 percent and irrigated cropland values declining 1.4 percent. Ranchland values posted the largest declines in Missouri, falling 2.6 percent. The continued slide in farmland values likely reflects the weakness in the farm sector at yearend.

Despite edging down the past two quarters, district farmland values remain higher than a year ago. Ranchland values were roughly 4.6 percent above year-ago levels, while nonirrigated and irrigated cropland values were both 1.7 percent above the previous year.

## *Loan repayment rates continue to slide*

Loan repayment rates continued to slide in the fourth quarter. The repayment index for the district dropped 5 percent from the previous quarter and 44 percent from a year ago. Despite the slowing loan repayment rates, district bankers do not appear to be experiencing significant repayment problems. In

Table 1
**Farm Real Estate Values**
December 31, 1998
(Average value per acre by reporting banks)

| | Nonirrigated | Irrigated | Ranchland |
|---|---|---|---|
| Kansas | $598 | $945 | $340 |
| Missouri | 963 | 1,219 | 565 |
| Nebraska | 837 | 1,406 | 338 |
| Oklahoma | 506 | 733 | 355 |
| Mountain states* | 328 | 1,063 | 194 |
| Tenth District | $662 | $1,131 | $348 |
| Percent change from: | | | |
| Last quarter+ | -.48 | -.49 | -.19 |
| Year ago+ | 1.73 | 1.73 | 4.57 |
| Market high | -21.58 | -21.46 | -14.37 |
| Market low | 67.15 | 66.31 | 108.19 |

*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 | Fund 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) |
| **1994** | | | | | | | | |
| Oct.-Dec. | 126 | 82 | 85 | 112 | 10.12 | 60.2 | 31 | 95.2 |
| **1995** | | | | | | | | |
| Jan.-Mar. | 130 | 89 | 77 | 119 | 10.50 | 60.7 | 30 | 95.8 |
| Apr.-June | 121 | 96 | 69 | 125 | 10.47 | 62.1 | 28 | 95.2 |
| July-Sept. | 116 | 94 | 73 | 123 | 10.37 | 63.3 | 27 | 96.9 |
| Oct.-Dec. | 112 | 106 | 61 | 136 | 10.23 | 61.4 | 27 | 102.0 |
| **1996** | | | | | | | | |
| Jan.-Mar. | 108 | 112 | 53 | 140 | 10.00 | 60.4 | 21 | 101.5 |
| Apr.-June | 115 | 103 | 66 | 131 | 10.01 | 62.4 | 24 | 109.6 |
| July-Sept. | 111 | 100 | 91 | 112 | 10.00 | 63.8 | 29 | 104.1 |
| Oct.-Dec. | 115 | 105 | 105 | 103 | 9.98 | 62.6 | 26 | 98.2 |
| **1997** | | | | | | | | |
| Jan.-Mar. | 120 | 110 | 110 | 94 | 10.04 | 62.1 | 25 | 102.8 |
| Apr.-June | 125 | 95 | 104 | 96 | 10.09 | 65.0 | 30 | 103.1 |
| July-Sept. | 127 | 91 | 110 | 92 | 10.05 | 65.5 | 34 | 100.2 |
| Oct.-Dec. | 127 | 97 | 99 | 103 | 10.01 | 66.5 | 34 | 97.5 |
| **1998** | | | | | | | | |
| Jan.-Mar. | 120 | 108 | 93 | 108 | 9.93 | 66.0 | 30 | 95.8 |
| Apr.-June | 123 | 100 | 78 | 118 | 9.92 | 68.0 | 33 | 92.7 |
| July-Sept. | 112 | 99 | 58 | 136 | 9.84 | 68.4 | 34 | 80.2 |
| Oct.-Dec. | 107 | 108 | 55 | 138 | 9.55 | 66.9 | 28 | 82.6 |

*At 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.

response to a special question, approximately 91 percent of district bankers surveyed in the fourth quarter indicated they are having few or no repayment problems. Only 2 percent of responding bankers reported having severe repayment problems.

Meanwhile, bankers reported that the loan deposit ratio declined 2 percent in the fourth quarter to an average of 67 percent, after climbing to record levels earlier in the year. Nearly 60 percent of district bankers indicated their actual loan deposit ratio was lower than desired. The availability of funds for farm loans increased in the fourth quarter, and the number of banks actively seeking new loans increased to 71 percent, somewhat higher than in the third quarter. The demand for farm loans in the fourth quarter declined 4 percent from the previous quarter.

### *Farm interest rates fall*

Farm interest rates continued to fall in the fourth quarter, after stagnating a bit earlier in the year. At the end of the fourth quarter, interest rates on new loans in the district averaged 8.77 percent on real estate loans, 9.43 percent on feeder cattle loans, 9.55 percent on operating loans and 9.36 on intermediate loans. The interest rates on farm loans were the lowest since early 1994.

### *Commodity prices rebound slightly*

The index of district farm commodity prices increased 3 percent in the fourth quarter of 1998. Crop prices improved significantly from the previous quarter while livestock prices were mixed. Prices for the district's primary crops: corn, soybeans, and wheat all posted healthy gains ranging from 11 to 18 percent. Cattle prices experienced more modest improvements, while hog prices plummeted further at yearend. Feeder cattle prices increased 4 percent, while fed cattle prices edged up 2.5 percent. Hog prices continued to plummet in the fourth quarter, falling nearly 50 percent from the previous quarter's low levels. Much of the weakness in livestock prices has been due to relatively high levels of production. At yearend, the number of cattle on feed declined by 5 percent, while the number of hogs and pigs produced continued to grow another 2 percent.

Prices for most district commodities have weakened slightly since yearend. Crop prices have edged down after a strong fourth quarter but remain well above third quarter levels. Prices for fed cattle prices also edged down slightly from the fourth quarter. However, prices for both hogs and feeder cattle have seen a significant improvement in 1999. Hog prices jumped over 70 percent after falling to phenomenally low levels in the fourth quarter. Feeder cattle prices have edged up a slight 3 percent since year-end.

### *Outlook*

Overall, the outlook for the district farm economy improved slightly in the fourth quarter. Prices of most district commodities rebounded slightly. Loan repayment rates continued to slide but at a much slower pace than earlier in the year. Farmland values also saw smaller declines than the previous quarter. The availability of funds increased and the number of bankers seeking new agricultural loans edged up slightly. USDA reports that net income is expected to decline slightly in 1999, but remain near the 1990-98 average, and that the U.S. farm balance sheet remains strong.

Crop prices should remain low in 1999 due to continued high production levels and weakened export demand. However, the lower prices are expected to be offset somewhat by lower production expenses, mainly low input prices and lower interest rates. The livestock markets will likely continue to experience mixed prices, as cattle prices are expected to continue to improve with reductions in herd size and production, and hog prices will likely remain low. Hog prices are expected to rebound somewhat from the record low prices experienced at yearend but are likely to remain below breakeven for some time.

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