Survey of Agricultural Credit Conditions

By Scott Ryckman and Alan Barkema

Agricultural credit conditions in the Tenth Federal Reserve District weakened during the first quarter of 1996, according to a survey of 348 agricultural bankers. Further gains in farmland values and soaring crop prices remained notable bright spots in the district farm economy. But a severe drought in the district's major wheat-growing region, accumulating losses in the cattle industry, and weak repayments on farm loans pointed to some erosion in the industry's financial health.

Farmland values climb

The average value of district farmland climbed modestly during the first quarter, after three quarters of lackluster gains. Nonirrigated cropland values rose 1.4 percent, slightly outpacing gains in irrigated cropland and ranchland values (Table 1). The recent pickup in cropland values is likely due to soaring crop prices, which may have piqued investor interest in farmland. Rising forage prices helped strengthen ranchland values, despite weak cattle prices. During the year ended March 31, gains in district farmland values averaged 3.3 percent for nonirrigated cropland, 2.5 percent for irrigated cropland, and 2.0 percent for ranchland.

Cattle prices slump as crop prices soar

The district index of farm commodity prices fell slightly in the first quarter, due mainly to falling cattle prices (Table 2). Prices rose for five of the commodities included in the index—hogs, wheat, corn, soybeans, and sorghum—but a sharp drop in prices for both fed cattle and feeder cattle pulled the index down 0.8 points during the quarter.

Crop prices soared as the driest winter in a century eroded prospects for the district's winter wheat crop. Ample rains in the district since the end of the first quarter probably came too late to rescue the wheat crop. Still, some wheat farmers may be able to replant failed winter wheat fields with sorghum or some other spring crop, taking some of the sting out of their wheat losses. Even as farmers switch to other crops, however, the leanest crop reserves in decades will likely keep crop prices well above last year's level.

Table 1

Farm Real Estate Values

March 31, 1996

(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$548	$828	$293
Missouri	806	1,033	499
Nebraska	755	1,239	274
Oklahoma	480	684	311
Mountain states*	358	1,032	155
Tenth District	$603	$1,020	$295
Percent change from:			
Last quarter+	1.4	1.0	1.1
Year ago+	3.3	2.5	2.0
Market high	-28.6	-29.2	-27.3
Market low	52.2	50.0	77.9

* 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

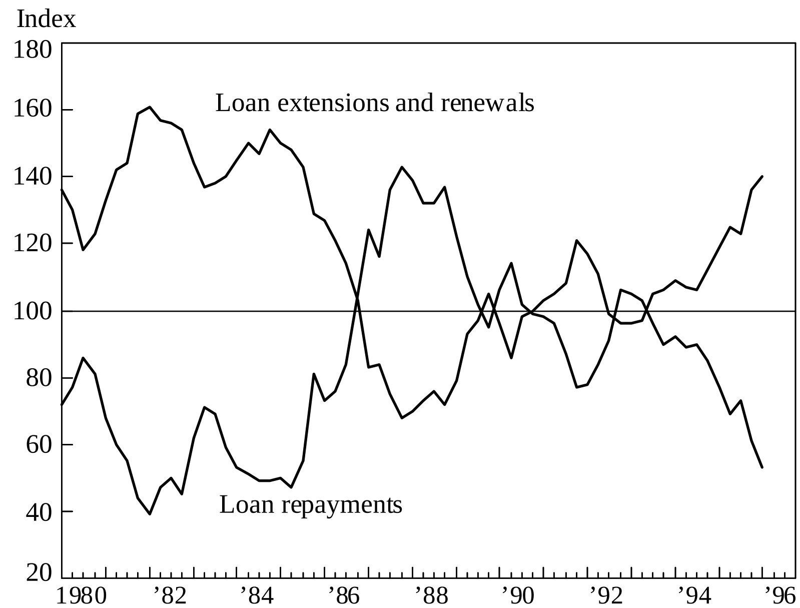
	Loan demand	Availability	Loan repayment rates	Loan renewals or extensions	Average rate on operating loans	Average loan-deposit ratio*	Banks with loan-deposit ratio above desired level*	District farm commodity price index
	(index)+	(index)+	(index)+	(index)+	(percent)	(percent)	(percent of banks)	(1980=100)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

* 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
Farm Loan Repayments and Extensions



Rising crop prices pushed up feed costs for district cattle producers during the first quarter. At the same time, expanding supplies of red meat and poultry pushed down the price of fed cattle. Trapped between high feed costs and low cattle prices, district feedlots bid less for young feeder cattle, eroding incomes on district ranches.

With profits down, district ranchers are likely to cull breeding herds more aggressively in the months ahead, temporarily boosting meat supplies and holding down cattle prices. According to a special question in the first-quarter survey, nearly three-fourths of the bankers expect the district’s cattle herd to drop in size by the end of 1996, with nearly half the bankers expecting the herd to shrink more than 5 percent. After the liquidation has run its course, beef supplies should shrink, prompting a rebound in cattle prices.

Interest rates decline

Interest rates on farm loans fell an average of 25 basis points during the first quarter, resulting in a cumulative decline of 58 basis points during the previous four quarters. At the end of the first quarter, interest rates on new loans in the district averaged 9.31 percent on farm real estate loans, 9.85 percent on feeder cattle loans, 10.00 percent on farm operating loans, and 9.86 percent on intermediate loans.

Loan demand remains strong

Demand for farm loans in the district remained strong during the first quarter. The district index of farm loan demand remained above the 100 benchmark, indicating stronger demand for farm loans than a year ago (Table 2). But a four-percentage-point decline in the index during the quarter suggests slower growth in loan demand. The continued strength in loan demand held the average loan-deposit ratio at district agricultural banks above 60 percent for the seventh consecutive quarter. Despite persistently high loan-deposit ratios, however, bankers report they have ample funds for additional farm lending. Nearly three-fourths of the bankers surveyed were actively seeking new farm loans. Less than 3 percent refused or reduced loans during the quarter due to a lack of loanable funds.

Loan repayments fall

The rate of repayment on farm loans weakened further during the first quarter (Table 2). With losses accumulating in the district cattle industry, the district index of farm loan repayment dropped to its lowest level in more than a decade (Chart 1). An increase in the index of loan renewals and extensions mirrored the drop in loan repayments. Thus, district bankers appear to be providing flexible repayment schedules to enable farm and ranch borrowers to repay loans when better times return to district agriculture.

Outlook

The district farm economy was hurt during the first quarter by weak cattle prices and a searing drought in its main wheat growing region. The recent run-up in crop prices offers little solace to wheat growers with parched fields, and higher crop prices have boosted feed costs and deepened losses in the cattle industry. Still, soaring crop prices have created a potential financial windfall for farmers who harvest normal crops this year, and the stronger crop earnings may have rekindled capital gains in the farmland market. Overall, continued losses in the cattle industry probably will offset gains by many crop producers, keeping district farm income flat in 1996.

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