Survey of Agricultural Credit Conditions

By Michelle Beshear and Russell L. Lamb

Agricultural credit conditions in the Tenth District improved modestly in the first quarter of 1998, according to a survey of 314 district agricultural bankers. An optimistic outlook for 1998, coupled with continued strength in feeder cattle prices, lifted farmland values in the district. Demand for farm loans fell and loan repayment rates continued to slide. The availability of funds at district agricultural banks increased in the first quarter, while farm interest rates edged down further. The loan-deposit ratio remained high but edged down slightly from the previous quarter.

Farmland values continue to climb

District farmland values continued to trend higher in the first quarter of 1998. The largest increase was seen in ranchland values, which gained 3.3 percent. Cropland values also rose, with both irrigated and nonirrigated cropland values climbing by roughly 3 percent. The mountain states posted the largest gains in ranchland values, likely owing to a strong feeder cattle market. All district states showed modest increases in cropland values, reflecting last fall's favorable harvest and expectations for a profitable year in 1998.

Compared with the previous year, all three land classes posted substantial increases. Ranchland values rose nearly 8 percent. Cropland values also posted healthy gains as irrigated cropland values increased 7.5 percent, while nonirrigated cropland values posted a 6.9 percent increase. These large gains were consistent with the strong upward trend of farmland values evident in recent years.

Farm loan demand falls slightly

Demand for agricultural loans edged down slightly in the first quarter. The index of loan demand declined 6 percent from the previous quarter but was essentially unchanged from last year's level. The loan-deposit ratio at agricultural banks in the district remained high, but was slightly lower than the previous quarter. The number of banks refusing loans remained stable from last quarter, while loan repayment rates continued to slow. Despite slowing loan repayment rates, the availability of funds continued to increase, and nearly 80

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

	Nonirrigated	Irrigated	Ranchland
Kansas	$594	$906	$331
Missouri	917	1,188	548
Nebraska	830	1,400	325
Oklahoma	501	700	336
Mountain states*	320	1,041	169
Tenth District	$669	$1,149	$343
Percent change from:			
Last quarter+	2.8	3.1	3.3
Year ago+	6.9	7.5	7.8
Market high	-20.7	-20.2	-15.5
Market low	69.1	68.9	105.5

*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)
1994								
Jan.-Mar.	124	109	92	109	8.85	56.2	17	107.2
Apr.-June	127	94	89	107	9.21	59.2	23	97.0
July-Sept.	132	81	90	106	9.59	60.9	27	92.8
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

*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.

percent of district agricultural banks were actively seeking new loans.

Farm interest rates edge down

Farm interest rates continued to edge down during the first quarter of 1998. At the end of the first quarter, interest rates on new loans in the district averaged 9.22 percent on real estate loans, 9.79 percent on feeder cattle loans, 9.93 percent on operating loans, and 9.78 percent on intermediate loans.

Commodity prices fall

The index of district farm commodity prices declined by 1.8 percent in the first quarter of 1998. Corn prices increased a bit, while prices for wheat and soybeans fell further. In the livestock sector, feeder cattle prices rose in the first quarter, reflecting declining feed costs for cattle feeders and fewer feeder calves. Prices for fed cattle and hogs both declined significantly as the market continued to work off large supplies of red meat.

Farm commodity prices since the first quarter of 1998 have been mixed. Wheat prices have fallen further since the first quarter, reflecting a favorable outlook for this year's wheat crop and expectations of a large crop in South America. Soybean prices have fallen due to increased plantings. Large supplies of fed cattle and hogs have continued to keep market prices low. An easing of fed cattle numbers is expected to help support prices later in the year, while hog prices are likely remain low for the remainder of 1998. A smaller calf crop has helped feeder cattle prices remain at profitable levels for district producers.

Farm production expands

Livestock and crop production continues to expand in 1998. Soybean plantings for the year are expected to be at record levels and corn plantings should reach the highest levels since 1985. Winter wheat acreage is at the lowest levels in 10 years. Low wheat prices have led farmers to plant more soybeans and grain sorghum, and less wheat.

In response to a special survey question in the first quarter, district agricultural bankers indicated that nearly one-third of producers expect to increase their corn and soybean acreage. In contrast, nearly one-third of district hog producers expect to reduce their herd size. Most district ranchers do not expected to substantially change their current herd size.

Outlook

The outlook for the district farm economy remains generally positive, although some signs of weakness are emerging. Strong feeder cattle prices will provide modest profits for district ranchers, and record corn and soybean plantings point to a large crop this year. The positive outlook is reflected in a continued rise in farmland values. The weak notes in the farm economy are wheat and livestock production. Wheat prices are low and some district producers may suffer losses this year. Cattle feeders and hog producers are likely to continue to lose money until large supplies of red meat move through the production stream. Overall, district producers should expect marginal profits in 1998.

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