News Release

Federal Reserve Bank of Kansas City

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FOR IMMEDIATE RELEASE

The farm economy in the Midwest and the mountain states remained weak in the first quarter of 1999, according to the Federal Reserve Bank of Kansas City's quarterly agricultural credit survey. Overall, the outlook for the district farm economy remains guarded.

Reported in the Bank's *Regional Economic Digest*, the survey summarizes responses from 316 agricultural bankers in the Tenth Federal Reserve District, which includes all or parts of Colorado, Kansas, Missouri, Nebraska, New Mexico, Oklahoma, and Wyoming.

Author, Russell Lamb, senior economist, said farmland values declined for the third consecutive quarter, although the declines tended to be modest. The loan-deposit ratio declined 1.2 percent in the first quarter, after climbing to record levels. Demand for farm loans declined from the previous quarter and loan repayment rates continued to slide. The availability of funds at district agricultural banks increased in the first quarter, while farm interest rates continued to fall.

District farmland values are now below their year-earlier levels for the fist time in three years, nonirrigated cropland values were 1 percent lower than at the same time last year, and nonirrigated farmland values were 1.3 percent lower. Ranchland values remained above year-ago levels, although the year-over-year gains were modest.

Demand for agricultural loans fell 2 percent in the first quarter. Loan repayment rates remained weak, and the loan-deposit ratio decreased slightly from the previous quarter, to an average of 66 percent.

Farm interest rates continued to fall in the first quarter, building on a string of declines. Interest rates on new loans averaged 8.68 percent on farm real estate loans, 9.36 percent on feeder cattle loans, 9.30 percent on intermediate loans, and 9.50 percent on operating loans.

The agricultural credit survey, along with other articles and data from the *Regional Economic Digest*, can be obtained in electronic form from the Federal Reserve Bank of Kansas City's Web site: *http://www.kc.frb.org*.

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06/29/99

Survey of Agricultural Credit Conditions

By Russell L. Lamb

Agricultural credit conditions in the Tenth District remained weak at the beginning of 1999, according to a survey of 316 district agricultural bankers. Commodity prices were mixed, with crop prices falling and livestock prices rising. District farmland values edged down again and were lower than year-earlier levels. The survey suggested that farmers were exercising caution in borrowing decisions: Farm loan demand fell, the availability of funds increased, and the loan-deposit ratio fell. Loan repayment rates continued to slide.

Farmland values fall

District farmland values posted declines for the third consecutive quarter, although the declines tended to be modest. A weaker outlook for farm income dampened enthusiasm for farmland and likely contributed to the fall. Irrigated cropland values eased about 0.1 percent while nonirrigated cropland values fell roughly 0.4 percent. Ranchland values fell a moderate 0.4 percent, likely reflecting the improved picture for feeder cattle prices. Nebraska farmland again showed the greatest declines in the district, with nonirrigated cropland values falling 0.8 percent and irrigated cropland values declining 1.8 percent. Ranchland values in Nebraska dropped 1.5 percent.

After declining for the past three quarters, district farmland values are now below their year-earlier levels for the first time in three years. Nonirrigated cropland values were roughly 1 percent lower than at the same time last year, and nonirrigated farmland values were 1.3 percent lower. Ranchland values remained above year-ago levels, although the year-over-year gains were modest.

Loan demand weak in the first quarter

Farmers appear to be exercising considerable caution in their credit decisions, perhaps reflecting

Table 1
Farm Real Estate Values
March 31, 1999
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$600	$974	$338
Missouri	967	1,215	568
Nebraska	841	1,385	342
Oklahoma	505	740	351
Mountain states*	324	1,075	192
Tenth District	$664	$1,132	$347
Percent change from:			
Last quarter +	-.1	-.4	-.4
Year ago +	-1.0	-1.3	.8
Market high	-21.4	-21.4	-14.6
Market low	67.6	66.5	107.6

*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)
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
1999								
Jan.-Mar.	105	113	56	143	9.50	65.7	28	88.4

*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.

the current weakness in the farm situation. The demand for farm loans in the first quarter of 1999 declined 2 percent from the previous quarter to 105, the lowest reading in 8 years. Bankers also reported that the loan-deposit ratio dropped 1.2 percentage points in the first quarter, to 65.7 percent, after climbing to record levels earlier in the year. Funds appear to be readily available for agricultural loans. The index of fund availability jumped 5 percentage points in the first quarter to 113, the highest level since 1993, and only about 28 percent of bankers indicated that their loan-deposit ratio was above desired levels, the lowest reading in two years.

Loan repayment rates remained weak in the first quarter of 1999. The repayment index for the district edged up 1 percentage point from the previous quarter to 56, but remained about 37 percent below a year ago.

Farm interest rates fall

Farm interest rates continued to fall in the first quarter, building on a string of declines. At the end of the first quarter, interest rates on new loans in the district averaged 8.68 percent on real estate loans, 9.36 percent on feeder cattle loans, 9.50 percent on operating loans, and 9.30 percent on intermediate loans. The interest rates on farm loans were the lowest since early 1994. These declines likely reflect the movement in broader market interest rates that occurred late last year and early this year. Since the first quarter, many market interest rates have moved up, suggesting that farm interest rates could rise in coming months.

Commodity prices rebound slightly

The index of district farm commodity prices jumped roughly 6 percentage points in the first quarter of 1999, reflecting higher prices for livestock components of the index. Both cattle and hog prices rose substantially in the first quarter, with hog prices almost doubling. Feeder cattle prices jumped 7 percent, reflecting an improved profit outlook for cattle feeders. Fed cattle prices rose sharply as well, perhaps reflecting tighter supplies of beef and pork on the market. Hog prices recovered much of the ground they lost during the fourth quarter of last year, as seasonal declines in the number of hogs marketed took the pressure off packing house kill lines, raising packer bids for hogs. District crop prices were mixed in the first quarter. Corn prices rose over 1 percent, while wheat prices dropped sharply, falling by about 8 percent.

Prices for most district commodities have weakened slightly since the first quarter. Wheat prices slid as the outlook for a healthy wheat crop brightened. Soybean prices also slid further as market participants became more pessimistic about the export outlook and domestic demand this year. Prices for fed cattle have also declined from the first quarter, reflecting seasonal weakness. However, hog prices have strengthened further since the first quarter.

Outlook

Overall, the outlook for the district farm economy remains guarded. Most livestock prices have strengthened somewhat, but crop prices have weakened. Loan repayment rates continue to fall. Farmland values have fallen further and are now showing year-over-year declines. Farmers appear to be exercising caution in their credit decisions, which should help keep balance sheets healthy in the year ahead. Nonetheless, crop prices are likely to remain weak in 1999 due to projections for large crops and weakened export demand. Livestock markets may strengthen, as supplies come into closer alignment with demand. Given this market outlook, government payments are likely to be a major factor shaping farm income in 1999.

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