Survey of Agricultural Credit Conditions

By Kendall McDaniel and Russell Lamb

Agricultural credit conditions in the Tenth District continued to improve during the second quarter of 1997, according to a survey of 344 agricultural bankers. A large wheat harvest and a positive outlook for corn and soybeans lifted farmland values and fueled demand for farm loans. Loan repayment rates were down seasonally, while interest rates edged up, reflecting the movement in money market rates.

Farmland values rise

Land values rose throughout Tenth District states. Ranchland values gained the most, rising 1.3 percent from the previous quarter, with all states showing gains. Over the past year, district ranchland values have risen 8.2 percent as the rebound in feeder cattle prices has pushed up values. Increases in cropland values likely reflect optimism about prospects for crop returns this year. Cropland values rose most noticeably in Missouri, gaining 2 percent, somewhat higher than the 1.3 percent increase in Kansas. States more heavily dependent on the cattle industry, such as Oklahoma and the mountain states, had the smallest gains in overall land values.

Farm loan demand stays strong

The demand for farm loans outstripped the availability of funds in the second quarter, pushing up loan-deposit ratios at banks in the district. The index for farm loan demand jumped again in the second quarter due to the demand for seasonal credit related to springtime planting by district producers. The average loan-deposit ratio jumped to 65 percent, the highest since the survey began in 1976. The rise in loan-deposit ratios resulted in somewhat more banks refusing farm loans due to a shortage of funds.

Farm production expands

District farmers expanded their crop production in response to expectations of relatively high prices. The district winter wheat harvest was the

Table 1

Farm Real Estate Values

June 30, 1997

(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$579	$881	$318
Missouri	881	1,109	541
Nebraska	803	1,353	314
Oklahoma	490	706	318
Mountain states*	333	1,070	174
Tenth District	$636	$1,092	$323
Percent change from:			
Last quarter+	1.1	1.0	1.3
Year ago+	7.1	6.5	8.2
Market high	-24.6	-24.1	-20.5
Market low	60.7	60.6	93.4

* 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)
1993								
Jan.-Mar.	107	120	105	96	9.23	53.2	11	108.3
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	107.2
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

* 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.

largest since 1990, rebounding sharply from a late spring freeze. District producers planted more acres in soybeans this spring than last year, and about the same acreage in corn. Livestock production expanded in the second quarter as well. District feedlots have been full in recent months, resulting in large inventories of fed cattle and strong meat production. A smaller cow herd will likely reduce the supply of feeder cattle this fall and throughout the next year. Meanwhile, increased export opportunities have encouraged many large hog operations to locate in the district and have prompted several current operations to expand.

Commodity prices edge up

The district commodity price index edged up in the second quarter but remained below year-ago levels. Increases in prices of feeder cattle, hogs, and soybeans offset declines in prices of fed cattle, wheat, corn, and sorghum. Forecasts for a large corn crop and a better than expected wheat crop resulted in falling prices during most of the second quarter. Prospects for a smaller calf crop this fall have pushed feeder cattle prices up. Booming pork exports have supported hog prices in spite of growing supplies.

Since the end of the second quarter, corn prices have rebounded. Hot weather in August led most market participants to revise downward their expectations of this year's crop. Soybean prices have fallen on expectations of record world output, but strong export demand should keep prices at profitable levels. Wheat prices have also declined seasonally after a record harvest. Prices of both feeder cattle and fed cattle have climbed in recent months, while hog prices have moved down.

Farm loan repayments fall

The farm loan repayment rate fell in the second quarter after rising the past two quarters. The loan extension index rose slightly but remains below 100 for only the second time in almost four years. Still, more than 80 percent of district bankers report no significant problems in loan repayment rates. And with record soybean plantings, a large winter wheat harvest, and higher feeder cattle prices, district producers should have no problem repaying their operating loans this fall.

Farm interest rates climb

Farm interest rates edged up during the second quarter. At the end of the quarter, interest rates on new loans in the district averaged 9.46 percent on farm real estate loans, 9.93 percent on feeder cattle loans, 10.09 percent on farm operating loans, and 9.94 percent on intermediate loans. The rise in interest rates reflects a delayed response to an increase in money market rates in March. One-year treasury rates have moved up since July, and thus farm interest rates could trend somewhat higher.

Outlook

The outlook for district agriculture is bright. Feeder cattle producers should enjoy higher prices and strong profits after enduring two difficult years. However, higher prices for feeder cattle and corn will continue to squeeze feedlot profit margins. Large soybean and wheat production will dampen prices somewhat, but producers will still make money this year. District corn producers should also enjoy moderate profits this year, barring an early frost. Higher farm incomes for district producers could boost farmland values further in the coming year and help maintain a healthy demand for loans at district agricultural banks.

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