Survey of Agricultural Credit Conditions: The Downturn Eases

By Kendall McDaniel

Agricultural credit conditions in the Tenth District improved slightly in the second quarter of 1999, according to a survey of 313 district agricultural bankers. Farmland values in the district edged up in the quarter but remained below year-ago levels. After declining for a year, demand for farm loans edged up in the second quarter. Survey respondents indicated fewer loan renewals or extensions and a slight improvement in repayment rates. Still, the outlook for the farm economy remains guarded as commodity prices remain low, and several indicators of credit conditions in the district are below year-ago levels.

Farmland values edge up

District farmland values rose in the second quarter, but a weak farm outlook limited gains. Nonirrigated and irrigated cropland values edged up 0.5 and 1.0 percent, respectively, while ranchland values climbed 0.8 percent in the quarter. Kansas posted the largest gains in nonirrigated cropland values at 2.2 percent over the prior quarter, while the Mountain states posted the largest gains in irrigated cropland values at 3.5 percent. Ranchland values in Nebraska jumped 2.2 percent in the second quarter, the largest gain in the district. When compared with the prior year, however, farmland values fell for all land types due to uncertainty over low commodity prices and slim producer profit margins.

Lending conditions stabilize

Indicators of farm lending conditions stabilized in the second quarter, following a yearlong downward trend. District bankers reported fewer renewals or extensions of farm loans and a slight improvement in farm loan repayment rates this quarter. The index for farm loan demand edged higher two percentage points, nudging the loan-deposit ratio at district banks up 0.8 percentage point to 66.5 percent. Nevertheless, bankers indicated funds were readily available for farm lending. Only 27 percent of district bankers report a loan-deposit ratio above their desired level, and 75 percent of district agricultural bankers were actively seeking new farm loans.

Table 1
Farm Real Estate Values
June 30, 1999
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$609	$949	$342
Missouri	935	1,167	563
Nebraska	842	1,413	348
Oklahoma	504	738	347
Mountain states*	327	1,113	194
Tenth District	$664	$1,143	$348
Percent change from:			
Last quarter +	.54	.98	.80
Year ago +	-1.09	-.83	-.91
Market high	-21.33	-20.61	-14.38
Market low	67.66	68.12	108.14

*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	95.1
Apr.-June	121	96	69	125	10.47	62.1	28	95.5
July-Sept.	116	94	73	123	10.37	63.3	27	97.2
Oct.-Dec.	112	106	61	136	10.23	61.4	27	103.0
1996								
Jan.-Mar.	108	112	53	140	10.00	60.4	21	104.4
Apr.-June	115	103	66	131	10.01	62.4	24	114.1
July-Sept.	111	100	91	112	10.00	63.8	29	105.6
Oct.-Dec.	115	105	105	103	9.98	62.6	26	98.6
1997								
Jan.-Mar.	120	110	110	94	10.04	62.1	25	103.3
Apr.-June	125	95	104	96	10.09	65.0	30	103.8
July-Sept.	127	91	110	92	10.05	65.5	34	99.8
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	94.2
Apr.-June	123	100	78	118	9.92	68.0	33	92.0
July-Sept.	112	99	58	136	9.84	68.4	34	78.4
Oct.-Dec.	107	108	55	138	9.55	66.9	28	80.5
1999								
Jan.-Mar.	105	113	56	143	9.50	65.7	28	85.7
Apr.-June	107	107	71	127	9.93	66.5	27	87.4

*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.

Despite improvement in the second quarter, most farm lending indicators remained weaker than a year ago. Loan renewals or extensions of farm loans are at their highest levels this decade, and farm loan repayment rates are near two-year lows. The average loan-deposit ratio in the district slipped 1.5 percentage points from the previous year, and the index for farm loan demand is near its eight-year low.

Farm interest rise

Farm interest rates rose 33 basis points on average in the second quarter of 1999 after declining for two years. At the end of the quarter, interest rates for new loans in the district averaged 8.94 percent on real estate loans, 9.78 percent on feeder cattle loans, 9.93 percent on operating loans, and 9.52 percent on intermediate loans. Since the end of the second quarter, interest rates in national money markets have moved up, suggesting that farm interest rates may continue to rise.

Weak commodity prices despite rising cattle prices

The index of district farm commodity prices rose 2.1 percent in the second quarter as rising cattle prices offset declining prices for wheat, corn, soybeans, and hogs. Compared to a year ago, the district farm commodity price index fell 4.9 percent. Although reduced winter wheat plantings trimmed district production roughly 10 percent this summer from last year, large worldwide supplies pushed prices down. In addition, soybean and corn prices have declined as forecasts call for a record soybean harvest and the third-largest corn harvest this fall. Crop prices will remain under pressure throughout the year barring a significant change in weather patterns. In the livestock sector, producers reduced output by liquidating hogs and selling heifers in the first half of 1999. To date, both feeder and fed cattle prices have responded favorably, but hog prices continue to slide. Hog prices will remain under pressure throughout the year, but a smaller calf crop will likely boost feeder cattle prices in the fall. Looking ahead, the demand for U.S. agricultural exports is slowly recovering and should help reduce excess crop and livestock supplies next year.

Outlook

Most farm financial indicators improved in the second quarter. Farmland values edged up, while indicators of lending conditions improved for the first time in a year. Thus, district farmers appear to be exercising caution in their credit decisions, which should help keep farm balance sheets healthy. Rising cattle prices and low feed costs have helped district cattle producers return to profitability, and Congress is debating legislation that would raise government payments to farmers, boosting cash flow positions. Still, most indicators suggest farm financial strength has weakened overall during the past year, and low hog and crop prices promise to limit financial gains in the months ahead. On balance, agriculture's second-quarter improvement is a welcome sign, but the industry's overall outlook remains guarded.

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