Survey of Agricultural Credit Conditions

By Scott Ryckman

Agricultural credit conditions in the Tenth Federal Reserve District improved during the third quarter of 1996, according to a survey of 350 agricultural bankers. Boosting the district farm economy were rising farmland values, profitable cattle prices, a big fall harvest, and strong farm loan demand. The positive outlook was tempered somewhat by falling grain prices and persistently weak farm loan repayments.

Farmland values rise

The average value of district farmland rose significantly during the third quarter (Table 1). Cropland, boosted by record crop prices this summer and an excellent fall harvest, rose 2.3 percent during the quarter. Ranchland values rose 2.0 percent, reflecting stronger cattle prices. Nebraska, raising its biggest corn and soybean crops in the past decade, recorded the largest increase in land values, led by a 3.3 percent jump in the value of nonirrigated land. Land values advanced the least in Missouri, where irrigated cropland values held steady.

District farmland values over the past year have also risen significantly. The advance has been led by irrigated land values, which are up 5.9 percent over the past year. All of the district states enjoyed strong year-over-year increases in land value except Oklahoma, where severe drought and large losses in the cattle industry caused all three land classes to lose value.

Commodity prices fall

The district index of farm commodity prices fell during the third quarter as sharp declines in grain prices offset a jump in cattle prices (Table 2). Corn, sorghum, and wheat prices all dropped sharply as the fall harvest approached and the expected size of the crops increased. Fed cattle prices shot up nearly $10 per hundredweight during the quarter due to a temporary reduction in supply. Hog prices fell modestly during the quarter, while prices for soybeans and feeder cattle picked up slightly. Overall, the district index of commodity prices fell nearly four percentage points during

Table 1
Farm Real Estate Values
September 30, 1996
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$563	$851	$301
Missouri	815	1,028	500
Nebraska	787	1,297	289
Oklahoma	478	688	316
Mountain states*	326	1,034	171
Tenth District	$616	$1,047	$305
Percent change from:			
Last quarter+	2.3	2.3	2.0
Year ago+	5.3	5.9	3.8
Market high	-27.0	-27.3	-24.8
Market low	55.7	54.0	82.7

* 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

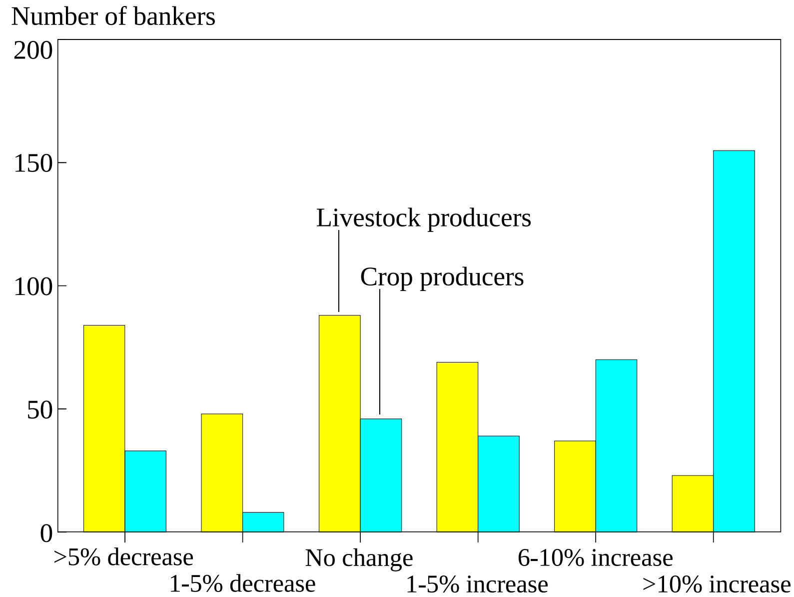
	Loan demand	Fund availability	Loan repayment rates	Loan renewals or extensions	Average rate on operating loans	Average loan-deposit ratio*	Banks with loan-deposit ratio above desired level*	District farm commodity price index
	(index)+	(index)+	(index)+	(index)+	(percent)	(percent)	(percent of banks)	(1980=100)
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
Apr.-June	115	103	66	131	10.01	62.4	24	108.7
July-Sept.	111	100	91	112	10.00	63.8	29	103.9

* 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
1996 Expected Farm Income



the quarter but remained seven percentage points above its year-earlier level.

Since the end of the third quarter, crop prices have continued falling due to good reports about the size of the fall harvest. Fed cattle prices have held steady in recent weeks, staying well above the breakeven level.

Farm income expected to rise

District agricultural bankers generally expect farm incomes in 1996 to improve sharply from 1995 levels. Responding to a special question in the third-quarter survey, two of every three bankers expect total farm income in the district to increase in 1996, with nearly a third predicting an increase of greater than 10 percent. Among district states, Missouri bankers were the most optimistic, predicting an average increase in 1996 farm income of nearly 14 percent. Oklahoma bankers were the least optimistic in the district, expecting no change compared with a year ago, due to its poor wheat crop and sizable losses in its cattle industry.

A large increase in district farm income from crop production should offset a slight loss in the livestock industry, according to district agricultural bankers (Chart 1). Crop incomes are expected to rise more than 10 percent in the district. Not surprisingly, bankers in the district's three largest corn producing states—Kansas, Missouri, and Nebraska—predict the strongest rise in crop incomes. In contrast, livestock incomes are expected to fall slightly below the disappointing levels of 1995. Bankers in all district states agree that livestock income will fall in 1996, with one-fourth of the bankers predicting a drop of at least 5 percent below 1995 levels.

Farm loan demand remains strong

Demand for farm loans in the district remained strong during the third quarter. The district index of farm loan demand slipped four percentage points but remained above the benchmark of 100, indicating that loan demand remains stronger than a year earlier. The persistent strength in demand for farm loans outpaced the supply of funds at respondent banks, lifting the average loan-deposit ratio to 63.8 percent, the highest level since the survey began in 1976. The high crop prices in 1996 appear to be spurring additional capital spending by farmers. Despite historically high loan-deposit ratios, plenty of funds were available to meet the demand for additional farm lending. Less than 3 percent of the responding banks refused new farm loans due to a shortage of funds, and three-fourths of the banks were actively seeking new farm loans.

Farm loan repayments improved

Farm loan repayment rates improved substantially during the third quarter but remain weak overall. The district index of farm loan repayment jumped 25 percentage points, reflecting a recent improvement in the financial position of district farmers. The index remained below the benchmark of 100, however, indicating repayment rates are still weaker than a year ago. The record crop prices posted in the third quarter appear to have boosted the index, which sagged earlier in the year due to large losses in the cattle industry.

Farm interest rates hold steady

Interest rates on farm loans held steady during the third quarter at a level 40 basis points below a year earlier. At the end of the third quarter, interest rates on new loans in the district averaged 9.36 percent on farm real estate loans, 9.87 percent on feeder cattle loans, 10.00 percent on farm operating loans, and 9.88 percent on intermediate loans.

Outlook

The outlook for district agriculture appears bright. District farmers harvested excellent fall crops and the winter wheat crop is in prime condition. In the coming year, district crop producers should earn respectable returns as crop prices remain relatively strong. While grain stocks are increasing due to this fall's harvest, stocks are still low by historical standards. Returns for cattle producers should improve in 1997 as cattle prices generally remain higher than in 1996 and as feed costs remain moderate.

Scott Ryckman is an assistant economist at the Federal Reserve Bank of Kansas City.