Survey of Agricultural Credit Conditions

By Kendall McDaniel and Russell L. Lamb

Agricultural credit conditions continued to improve in the third quarter of 1997, according to a survey of 337 agricultural bankers. Continued improvement in the cattle sector combined with increased crop production to lift farmland values. Demand for operating loans at district banks remained strong, while repayment rates improved and interest rates edged down. Overall, district agricultural bankers expect 1997 farm incomes to edge up due to continued recovery in the livestock sector.

Farmland values rise

District land values rose in the third quarter of 1997. A recovering cattle sector lifted ranchland values 2.0 percent over the previous quarter and 7.8 percent over year-ago levels. Gains were greatest in Oklahoma, although most district states saw increases. Strong wheat, corn, and soybean production combined with favorable prices to lift district cropland values. Irrigated cropland values gained 1.4 percent over last quarter and were 5.4 percent above year-ago levels. Nonirrigated cropland values rose 1.3 percent in the quarter and 6.2 percent over the past year. Nebraska, Kansas, and Oklahoma posted the largest increases in cropland values. All other states showed modest gains.

Farm loan demand strengthens

The average loan-deposit ratio in the district edged up in the third quarter. The ratio stood at 65.5 percent, the highest level since the survey began in 1976. Slightly more than a third of bankers surveyed indicate their loan-deposit ratio was greater than desired, but less than 2 percent refused loans due to a shortage of funds. The index for fund availability was below 100, indicating fewer funds were available than a year ago. There is

Table 1

Farm Real Estate Values

September 30, 1997

(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$584	$886	$326
Missouri	888	1,120	556
Nebraska	817	1,373	326
Oklahoma	490	707	324
Mountain states*	331	1,093	175
Tenth District	$644	$1,106	$331
Percent change from:			
Last quarter+	1.3	1.4	2.0
Year ago+	6.2	5.4	7.8
Market high	-23.7	-23.2	-18.4
Market low	62.6	62.6	98.4

* 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	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)
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
July-Sept.	127	91	110	92	10.05	65.5	34	100.2

* 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.

some concern among bankers that slower growth in deposits could lead to some liquidity pressures. However, a large fall harvest and a recovering cattle sector should lead to healthy loan repayments, helping mitigate liquidity pressures.

Farm loan repayments climb

Farm loan repayment rates in the district rose in the third quarter. A better than expected winter wheat harvest and higher feeder cattle prices helped producers repay their loans at a faster pace than a year ago. Likewise, the index for loan renewals or extensions fell to the lowest level since 1990, indicating that fewer producers needed additional time to pay off loans.

Farm interest rates edge down

Farm interest rates edged down during the third quarter. At the end of the quarter, interest rates on new loans in the district averaged 9.38 percent on real estate loans, 9.91 percent on feeder cattle loans, 10.05 percent on operating loans, and 9.90 percent on intermediate loans. The easing of farm interest rates is not surprising since farm interest rates generally follow trends in national money markets. While interest rates on one-year treasury securities edged down during the third quarter, they have remained stable in recent weeks. As a result, farm interest rates are also likely to remain stable entering the new year.

Commodity prices fall

The district commodity-price index fell 2.8 percent in the third quarter to a level 3.8 percent below a year earlier. Lower prices for hogs, corn, wheat, and soybeans offset moderate gains in both feeder cattle and fed cattle prices in the third quarter. Soybeans registered the biggest decline amid continued reports of record production. Still, strong export demand and low stock levels will likely support commodity prices heading into 1998. Since September, corn and soybean prices have risen. A large corn and soybean harvest this fall limited price gains that were otherwise supported by strong export demand and low stock levels. Winter wheat prices have weakened since September, and reports of record worldwide winter wheat production will likely depress prices further as the U.S. crop heads into the dormant stage of production. Large pork supplies and weaker than expected exports have pushed hog prices lower. Feeder cattle prices have edged down since July, while fed cattle prices have remained steady.

Farm production expands in 1997

Overall, production of crops and livestock in the district rose in 1997 as expectations of higher prices encouraged district crop producers to expand production. The 1996 winter wheat crop in the district was the largest since 1990, and producers planted more acres in the fall of 1997 than in the fall of 1996. In addition, corn production and soybean production were near record levels. In the livestock sector, large meat supplies continue to dampen meat prices. A large cattle slaughter, combined with heavier cattle weights, has boosted beef production. The district continues to see significant expansion in the hog industry, leading to large pork supplies.

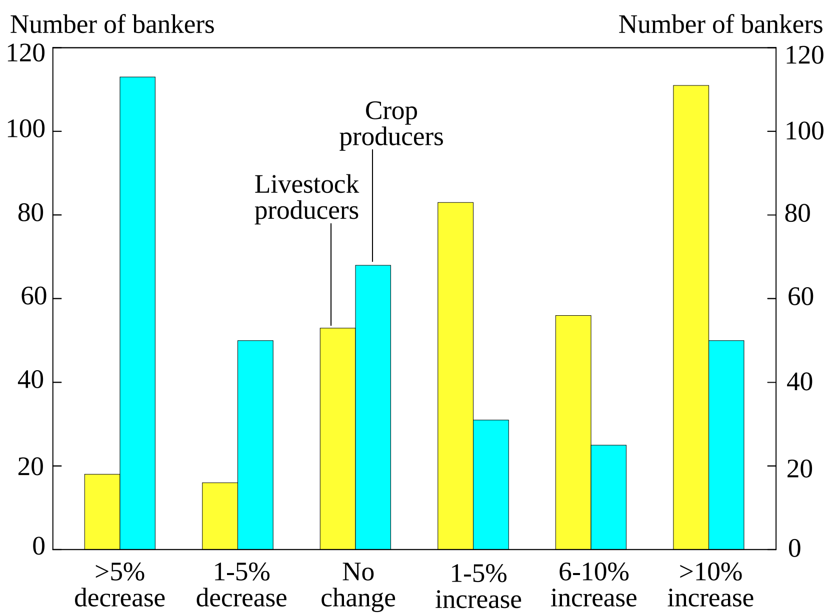
Farm income expected to rise in 1997

In responding to a special survey question, district agricultural bankers report that they expect farm income to edge up in 1997. Encouraged by a recovering cattle sector and continued profitability of hog producers, district bankers expect much higher livestock returns in 1997 (Chart 1). Not surprisingly, bankers in states more heavily dependent upon livestock—Oklahoma, Nebraska, and Kansas—expect the largest increases. District bankers expect 1997 crop incomes to edge down from 1996 highs, as lower prices offset bigger output.

Outlook

The outlook for the district agricultural economy remains solid as producers head into the new year. The winter wheat crop is in above average condition as producers head into the winter. While winter wheat prices are low, they have likely bottomed out and could rise in the coming months. Low world stocks should support prices for grains and oilseeds in 1998, although profits are not likely to reach the levels of the previous two years.

Chart 1
1997 Expected Farm Income



District livestock producers should have a mixed year in 1998. A smaller 1997 calf crop reduced the supply of fed cattle coming into 1998 and should lift cattle prices throughout the year. Increased pork production nationally, however, could erode profits for pork producers later in the year.

Kendall McDaniel is a research associate and Russell L. Lamb is an economist at the Federal Reserve Bank of Kansas City.